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NEW YORK CITY TEACHERS RETIREMENT SYSTEM
INVESTMENT MEETING
Held on
Thursday, September 8, 2011
at
55 Water Street,
New York, New York

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ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
LARRY SCHLOSS, Comptroller's Office, Trustee
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
JAMIE SMARR, Office of Management and Budget
JANICE EMERY, Office of Management and Budget
LISETTE NIEVES, Office of Management and Budget
MARTIN GANTZ, Comptroller's Office
SEEMA HINGORANI, Comptroller's Office
MARC KATZ, Teachers' Retirement System
YVONNE NELSON, Comptroller's Office
SUSAN STANG, Teachers' Retirement System
MICHAEL KOENIG, Hamilton Lane
ROBIN PELLISH, Rocaton
MICHAEL FULVIO, Rocaton

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P R O C E E D I N G S

(9:29 a.m.)

MR. KATZ: Good morning, folks. And welcome to the investment meeting of the Teachers' Retirement Board. Today's date is September 8, 2011. I am going to begin by calling the roll.

Melvyn Aaronson?

MR. AARONSON: Here.

MR. KATZ: Jamie Smarr?

MR. SMARR: Present.

MR. KATZ: Sandra March?

MS. MARCH: Here.

MR. KATZ: Janice Emery?

MS. EMERY: Present.

MR. KATZ: Lisette Nieves? Not here.

Mona Romain?

MS. ROMAIN: Here.

MR. KATZ: And Larry Schloss?

MR. SCHLOSS: Here.

MR. KATZ: Okay. We have a quorum. I am going to turn it over to the chairman.

MR. AARONSON: Thank you very much. And we are going to go into the public agenda part of the meeting first. And the first part of

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the public agenda is going to be Robin Pellish who will be doing the variable funds.

MS. PELLISH: Thank you. Actually, Mike Fulvio to my right is going to walk us through the performance very briefly through the quarterly report because that does seem like ancient history, and then through the July numbers, and finally an estimated update through August.

MR. FULVIO: Okay. Could you please turn to page 3 of the green quarterly performance update. I will be starting with the Diversified Equity Fund performance for the quarter.

The second quarter of 2011, the Variable A Fund outperformed the Russell 3000 by approximately 60 basis points. This was due in part to strong relative performance by the international equity composite as well as the defensive strategies composite. Most notably, there was a few strategies the TAA strategy and the two low-volatility U.S. equity strategies that were introduced to the program earlier in 2011 that contributed to that strong performance. For the 12-month period

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ending June 30th, 2011 the fund returned 30-1/2 percent. This slightly trailed the Russell 3000 which is the stated benchmark for the Variable A Fund. However, this did slightly outperform the hybrid benchmark which, as you might recall, reflect the fund's targeted weights rebalanced monthly for the plan.

If there is no questions on the Variable A Fund, we would like to flip ahead to tab 3.

Just quickly note, the assets invested in the Variable B Fund at the end of the second quarter were approximately $418 million. Assets were invested with strategies at NISA investment managers and BNY Mellon.

If there is no questions, I will flip ahead to tab 4 to review Variable C, D and E.

Variable C, otherwise known as the International Equity Fund, was approximately $78 million at the end of the second quarter. The fund outperformed by roughly 25 basis points for the second quarter, outperforming the EAFE benchmark. And since inception, which now is a full three years through the end of the TRS fiscal year June 30th, was

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ahead by about 5 percent.

The Inflation Protection Fund, otherwise known as Variable D, had assets of $22 million at the end of the second quarter of 2011. This fund trailed by approximately 140 basis points and I think we wouldn't expect over short-term time periods that this fund will closely track its Barclays Capital TIPS benchmark. However, relative to the CPI plus 5 percent return, which is more of a stated objective for this fund, to sort of outperform inflation over time with a bit of a premium is more in line with the performance of this fund. And since inception the fund has added 271 basis points of out-performance. That's the three-year period since the fund was incepted.

The Socially Responsive Equity Fund at the end of the second quarter was approximately $23 million. For the quarter the fund slightly trailed its S&P 500 benchmark. However, since this fund's inception, which is also the three-year period ending June 30, 2011, the fund has added approximately 430 basis points.

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If there is any questions, I would be happy to take them. Otherwise, we can move ahead to July.

For the month of July the Variable A Fund ended with approximately $10 billion of assets, slightly down from the end of June. The monthly rebalancing process has served to keep the target weights roughly in line or, I should say, the plan roughly in line with those target weights on a monthly basis.

For the month, the U.S. passive composite continues to track its benchmark, the Russell 3000, rather closely. We saw some notable downside protection by the defensive strategies composite. As you might recall, July was a slightly more volatile month than the months earlier in the year and we saw that the two low-volatility equity strategies as well as the TAA strategy certainly served their purpose by protecting on the downside. The active management composite slightly trailed the Russell 3000 for the month. However, we would like to note that for the year-to-date period, it's still ahead by about 1 percent on a relative basis.

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The international stocks within the Variable A Fund outperformed by approximately 45 basis points for the month due to some strong relative performers by some of the managers there. And that, along with the defensive strategies composite, contributed to a positive relative month for the fund versus its Russell 3000 benchmark performing down approximately 2 percent versus the benchmark, which is down approximately 2.3 percent.

If there is no questions there, we will flip over to Variable C, D and E.

The Variable C Fund at the end of the second quarter was approximately $78 million. Again, this fund outperformed its benchmark by roughly 40 basis points for the month and year to date is also ahead by roughly 80 basis points.

The Variable D Fund was approximately $23.3 million at the end of July. The fund trailed the Barclays U.S. TIPS one-to-ten year index for the month. However, it's worth noting that the fund did outperform its CPI plus 5 percent benchmark for the month. Also, on a year-to-date basis the fund is ahead of

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CPI as well.

The Socially Responsible Equity Fund at the end of July was approximately $24 million and slightly trailed for the month through July 31st. However, for the year through July 31st was also slightly behind.

Are there any questions?

MS. PELLISH: So we have the August performances, as you can see, and very difficult month during August for the stock market. The Russell 3000 was down 6 percent. And the EAFE Index in the U.S. dollar-based perspective was down even more, 9 percent. The only offsetting asset class was the fixed income market, the Barclays aggregate. Index was up 1-1/2 percent and the long treasury index was up almost 9 percent.

So our estimate is that for the month of August, the Variable A Fund was down a little over 5-1/2 percent and that would lead to a calendar year-to-date return of a little -- a little worse than 1-1/2 percent for the eight months. You can see the other fund performances with PIMCO, all asset fund is down for the month. Although, for the

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calendar year to date that fund is up about 3-1/2 percent.

And the Neuberger Berman Socially Responsive Fund has lagged the S&P 500 Index a little bit for the month as well as for the three months ending August. And the calendar year to date although over a longer period has done very, very well relative to the index.

So very difficult month and the performance of Variable A reflects that performance.

Any questions?

Okay. So that is the public agenda for the Variable A Funds.

MR. AARONSON: Thank you very much. May we announce that Ms. Lisette Nieves has arrived and is here. And I hope you solved all our problems in Washington and got us all jobs.

MS. NIEVES: I at least solved getting a first-grader to his first day of school.

MR. AARONSON: We will now move to the public session on the pension fund.

MR. SCHLOSS: Perfect. We are going to start with the quarterly review. Everybody

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should have one of these like that. Very nice. And Martin will walk us through this.

MR. GANTZ: Yes, thank you.

So we are here to talk about the June fiscal year as well as the quarter ending June. The quarter ending June ended flat roughly for equities and we will talk about that in a little moment. Fixed income was up about 3 percent for the quarter, but more importantly for the year ending June 30th, if you turn to page 9, the results are quite impressive.

For the Teachers' Retirement System the returns for the year ending June 30th was 23.28. My understanding is that's one of the highest returns we have seen in decades for fiscal year, so congratulations on that. The high returns that you saw for the quarter brought the market value up to $42.8 billion. In addition, it also brought up the returns for the 5, 7, 10 and 15-year results that had embedded in them the core results for 2008 as well as the downturn that we saw in 2001 and 2002. So we are now positive for all of those returns and the year, 5 percent for 3-to-5

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year and above that out to 10-to-15 year.

So the short answer to how did we do, we did very well on an absolute basis.

And if you turn -- skipping around a little bit.

MS. MARCH: Before you continue, I would just like to take the opportunity to thank our investment advisor at the controller's office and our consultant for working together, and for all the help that they have given each other for us to have had these marvelous returns.

MR. SCHLOSS: Thank you. Been a pleasure.

MR. GANTZ: For a moment, I am going to skip to page 15 which shows how Teachers did compared to other large plans defined as $10 billion.

If you look at the end of the page toward the right, it shows the year ending June 23rd percent puts you right smack squarely in the top quartile. In addition, this is the second consecutive fiscal year that you are in the top quartile, so back to back in the top quartile.

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And if you turn the page to see how you did on an annualized basis, as you might expect for the one and three-year periods you are in the top quartile, very good results. And that brought the four, five and seven-year numbers back to median numbers, around the 50 percentile. But recently, the last two years, the results have been exceptionally strong, especially compared to other large funds with similar asset sizes as the Teachers' Retirement Systems.

We go back to page 10 which shows the asset allocation and where the assets were as of June 30th. The pie chart of course is getting a little busier and that's of course because of the diversification that we have underway, but clearly the largest exposure is the slice of the pie towards the right and that's U.S. equities. If you look at the overweight and underweights on the bottom, this is towards the old asset allocation. You will recall in June the board adopted a new asset allocation. So when Larry in a few moments is going to go through the July results, we are going to show what the

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allocation looks like versus the old as well as the new, because we are in the process of moving from the old to the new. But for this chart we are showing it versus the old policy because that's what we are invested in at that time, but going forward we will to show both. We were overweight U.S. equities, underweight real estate, slightly underweight in EAFE, and we have been selling some high yields so we are underweight in high yield according to this, as well as in core plus 5.

Next few pages goes through attribution of returns. The summary of the management effects are on page 14.

We already went run through how you compare to other large public funds so unless you have some questions, Seema is going to go into some specifics about the equity portfolio.

MS. HINGORANI: Thanks, Martin.

So if you turn to page 19, this just goes through how your assets are split among domestic equities. And I will just point you to a couple of columns. There have been some standouts in the quarter.

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If you go to the column of the index returns, the actual returns, and then the difference, you will notice that the standout here is small cap active outperforming by 450 basis points roughly. And if you scroll down a little bit more, you see the U.S. activist environmental up over 200 basis points relative to the benchmark. The standouts there are really brown, which is one of your developing managers, Addx 1 of your emerging managers. And then Walden, which is the environmental, manages which up about 80 basis points in the quarter. So clearly some stocks did go up and some, even in this environment, did well for us.

So now if you turn to page 26, just go directly to the international allocation. We can just see how it's split among the active and passive and then the growth, emerging markets, value core and then non-U.S. activist and environmental.

The next page on page 27 shows you the return for the EAFE managers that we have. You could see we have outperformed in the quarter and, really, that was a function of

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Walter Scott which had a very good quarter. They were up 450 basis point in the quarter relative to the benchmark.

And that's it for equities.

MR. GANTZ: Not quite, because I want to mention about REITS.

MS. HINGORANI: Oh, sorry.

MR. GANTZ: On page 28, the real estate investment trust composite did very well versus the benchmark over the long periods of time as well as for the fiscal year to date. Very strong absolute levels of return. U.S. equities was up over 30 percent, as you just heard. Non-U.S. a little bit less, but REITS continued strong returns at over 35 percent for the year, also slightly beating the benchmark for the quarter. Also strong on an absolute basis. Over 3-1/2 percent, slightly behind the benchmark.

But, most importantly, if you look out to the longer time periods since this program was incepted back at the end of '02, it is your highest return asset class. And the returns that we show here for eight years, not only are they higher on an absolute basis but

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on a relative basis have beaten the benchmark. So active management has worked in this case and the program is all actively managed.

Unless you have any questions, I am going to start talking about fixed income.

Page 31 shows a 31 percent of the fund as of June 30th was invested in fixed income. That's $13.3 billion. Clearly the largest allocation is in green. More than half of the allocation is in the investment grade core plus 5 program. That program is further broken down on page 2 between three sectors; the government sector, treasury agency and mortgage sector, and the investment grade credit sector.

If you look at the column over/underweight, we have been underweight and have been for several year quarters in the government sector and overweight in the mortgage sector. The returns were strongly -- not strongly, but on a relative basis strongly positive for fixed income because interest rates went down. They started the quarter in mid-3's, ended the quarter at about 3 percent. Since then, as

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Larry will go through a little bit, rates have gone down even further, but this benefited the fixed income portfolio. The managers on the difference column trailed the benchmark on a modest amount, about 5 to 15 basis points.

The returns are shown for the program on page 33. Again, 16 percent of the total fund and for the quarter 2.41 percent, 16 basis points behind for the quarter. But for the year, which we want to talk about, was over 5 percent and well ahead of the benchmark by over a 100 basis points. The returns for the longer time periods are well into the 6 and 7 percent range with volatility on the bottom in the 4 to 5 percent range, which is generally a good combination.

TIPS on the next page had good returns on an absolute basis because they are government securities. Behind the benchmark slightly by 23 basis points for the quarter, but returned a good number on an absolute basis for the year returning almost 7 percent, also behind the benchmark by 57 basis points. Longer terms since inception since 2005 the program has returned 5 or 6 percent, slightly

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ahead of the benchmark.

High yield is really where we saw outstanding performance and that was because as we have been talking every quarter in the interim months, investors during the past year given the low level of rates were searching for yield. While the quarter was a modest return of less than 1 percent, for the year ending June was a very strong 14.49 following the prior year's strong returns. And while it was 11 basis points behind the benchmark, looking out for longer time periods the program has added value above the benchmark and was strong on an absolute basis.

I also want to make a note that the three-year number the blue bar, which is the actual composite, returned 10.58. This fully incorporates the downturn in '08 and '09. So in the high yield market as of June 30th, the market had completely turned around and made up those losses and not only that, returned at 10 percent and beaten the benchmark.

Convertible bonds are shown on page 6. Slightly negative returns, minus 70 for the quarter. Returning high returns on an

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absolute basis for the year 18.90 was behind the benchmark, which is shown in yellow. That is mislabelled at the top. It's the Bank of America benchmark that we were behind by over 300 basis points.

What we show you here, because this has come up before, we have discussed about the under-performance of the program to the benchmark. And as we have been talking about, each of the managers really manage different benchmarks. But the program benchmark is a separate benchmark. So what we show here is, because this has come up before, if each of the managers are outperforming, how can we be underperforming the whole program. So what we did was create the purple bar which takes the management's performance versus their individual benchmarks, weights them based on what the market value weight was, and sure enough we have shown the managers have outperformed their combined benchmarks as a whole.

I want to show you we now have a three-year number and that three-year number, having said that we are underperforming, shows

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a much closer performance to the overall benchmark, 7.37 versus 7.61. And that's because the managers -- as we observed in the compressed market cycle from 2008, the convertible bond managers do very well in a flat to down market. They did extraordinarily well in the down market in '08. They trailed in the roaring bull market, so we would expect them to be -- July and certainly the August numbers that we will see next month, that they would have outperformed their benchmark.

Lastly, fixed income on the next page is Opportunistic Fixed Income. We have the new benchmark that was incorporated here. It was adopted in June at the board. Ten percent return as well as the secondary benchmark of the high-yield global benchmark plus a premium. Returns for the quarter were very strong on an absolute relative basis for the year returning 17.89, so we are very pleased with this. Of course we will be talking later about this program as well.

Unless you have any questions, Cathy Martino is here with some comments on the ETI program.

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MS. MARTINO: Good morning.

The ETI -- well, it underperformed for three months. It did outperform both its custom and the Barclays for all periods, which is how we expect this portfolio. It's doing exactly what it should be doing.

Your collateral benefits report is on page 8 in the big packet. And I just want to give you one highlight from that, and that is the AFL-CIO Housing Investment Trust made a $134 million investment for Penn South Cooperative, which is the complex on the West Side. It's a huge complex that was developed by the Ladies' Garment Workers' Union back in the '50s and it ensures that this will remain an affordable limited co-op for at least three years. I thought you would like to hear that.

MS. MARCH: Absolutely, Cathy. Thank you for telling us.

MS. MARTINO: Any other questions?

MR. AARONSON: I will give you a little history.

When that project opened, President Kennedy came to New York and was there at the opening ceremonies. That's how important that

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project was at the time, and continues to be.

MS. MARTINO: Really very affordable, okay.

MS. NELSON: Good morning.

Before we push forward with the highlights of first quarter of 2011, just want to give you a recap of what happened in the TRS real estate portfolio and the real estate at large for the fiscal year ending June 30th. With all that's been said about what's going on in the world economy, particularly here at home, we face headwinds. However, in terms of commercial real estate over the past 12 months, there have been some encouraging signs.

First, in terms of transaction volume properties are trading and continues to increase. $170 billion worth of deals over the past 12 months and that's 139 percent increase over what happened the year before, which was about $71 billion. Transactions of course have been facilitated by the low interest rate environment, some easing of the debt. Although, there is more stringent underwriting being utilized by lenders today.

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And in terms of whose providing that debt, the traditional lenders are still in place; the insurance companies and commercial banks. However, senior loans which were once given up to 75 percent of loan-to-value are now only given to about 50 to 60 percent of loan-to-value, so they are much safer loans. And in terms of CMBS, which at the high point in 2007 was yielding about $225 billion, it's kind of sputtering along.

There have been some deals for 2011. This year is expected to be about $50 billion. However, there have been some issuances this year already that have had some troubles in terms of their ratings. So in terms of where investors are buying, we have talked about this before. They are looking for high quality, stable income coastal markets. That's still going on. And you have eight managers in your portfolio right now that are pursuing those kinds of deals. There is also premiums that are achieved in the marketplace today for managers that have the skill set to be able to reposition, redevelop and you have about 18 noncore managers that are doing that.

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In terms of property fundamentals across the property types, office, industrial, retail, there is some absorption. There is vacancies that are declining because, quite frankly, no one is building anything. So there is very limited supply going on and there is a slight bit of demand. And that combination has added some positive momentum to what we are seeing in real estate. Multifamily still remains the strongest sector. You have a rate of household formation that's increasing. Unfortunately, we know the rate of home ownership is going downwards and what that means for investor's real estate is that there is a growing population of renters.

So, you know, kind of thinking about that big wall of debt that everyone keeps talking about the $1.2 trillion, what's happening with that. Well, actually, this year there has been some thawing there. There has been some purchases of some major portfolios. Wells Fargo was the successful bidder for the two separate portfolios, a 1.4 billion portfolio from the Bank of Ireland and

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9.5 billion portfolio from the Anglo Irish banks. So it does appear that there are some banks, you know, whether they are forced to or not or whether or not you know, they are at that point where they are ready to let it go that there are such portfolios coming into the market, and you certainly do have managers in place that can take advantage of that.

In terms of how all of that has kind of come down to performance for the TRS portfolio, if you kind of look at the 12-month period -- and, as you know, we have this lag in real estate private equity, so I am talking about 12 months from 3/31/11 -- the TRS portfolio has delivered a return of 25.3 percent, which is 630 basis points above its benchmark which is ODCE, and that's after-fee basis. And, in fact, for the past four quarters the TRS real estate portfolio has outpaced that ODCE benchmark. And if I identified some of the value drivers, which one of your managers contributed to that out-performance, it would be BlackStone, Citi Investment Fund and Tischman. And I just want to point out they are also among your top five

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managers in terms of market value. So what happens in these funds, they definitely kind of move it.

And just to kind of end by giving you some basic stats on your quarter, so for the quarter ending March 31, 2011 the TRS portfolio had a quarterly performance of 4.0. That's 20 basis points above the ODCE, which was 3.8. The market value of the portfolio is close to 600 million at 597 million. There is unfunded of approximately 410. So all together that's $1 billion of that. So just wanted to give you a sense of what's happening in the quarter.

Also since there was a discussion about asset classes about what's happening for the fiscal year and since we are talking about 630, just wanted spend a minute on that. So the silver lining here is that there is diminishing supply going on in real estate, a tint of moderate demand lower vacancy rates and lower interest rates. All bodes well.

MR. AARONSON: Thank you, Yvonne.

Does anybody have any questions?

MR. MILLER: With that we are going to

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move into private equity, give you a local overview about what's been going on in the marketplace today. And with that, go down to the Teachers' portfolio, talk a little bit about that.

So if you want look at the overall market year end 2010, a little over $410 billion in dry powder. So that was money to be invested. If you look at it, if you roll forward to today to June 30th, that number has dropped to 390 billion. So there is less dry powder in the marketplace. There is more deal activity. There has clearly been an increase in larger deals. If you look at what's what happened over the past year, 50 percent of the deals that were done were greater than a billion dollars. So much larger transaction going on in the marketplace. One of the drivers for that, which has clearly changed over the past few months, has been the availability of high-yield debt, the ability to leverage transactions. And with leverage, gives the ability for buyers to pay higher prices.

If you look at fundraising in the

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private market, it's kind of a large number. But 1,650 funds are in the market today, so that's an incredibly large amount of funds. It's the highest number of looking to raise money. Looking to raise a little over $650 billion in commitments. And, again, just put that in perspective with the $400 billion in dry powder, what's interesting about that number, and I think time will tell, is that the good news is not all those funds are going to get raised. There is clearly a bifurcation of the market today that didn't exist three or four years ago, which was three or four years ago anybody could raise money. They might not raise as much money as they wanted to raise, but they could raise a fund. Today the good funds are raising capital; it's still taking time. They are probably not raising as much money as they hoped to do, but it's being raised. And other funds just fail, and that's okay because it's the whole supply demand imbalance.

If we look at what the global fundraising was for 2010, it's about 110 billion. 2007 kind of the peak number was 560

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billion, to kind of put it in perspective. If you look at the pacing number for 2011, we think it will be roughly 150 billion. So fundraising is increasing. We are not nearly at the level we were in 2007, which is probably a good thing, but again would be probably 30 to 40 percent greater in 2010.

Now for the more interesting statistics which is the exit activity, and that's what people are looking for. As people talk about it's, easy to invest money. You buy a company and kind of see it happens, but the real proof is getting money back which is exit activity. And if we look at it today, exit activity remains incredibly strong. And if we go over some of the statistics for the Teachers' portfolio, we will talk about a little bit about the kind of trend and where we are in the first quarter and you will see that's actually working in the overall portfolio. You know, what's happening now with all the investments that were made in 2005 to 2007, we are starting to see how assets mature. We are starting to see liquidity and we are starting to see good liquidity. Some pretty attractive

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prices.

If you look at the IPO markets, some of the large deals that went off, HCA raised almost 4 billion through an IPO. Kinder Morgan raised almost 3 billion through an IPO. So those are pretty good stats. Kind of the counter to that has been as people read the paper in the morning, the enormous amount of volatility in the stock market. So clearly while IPOS only represent about 15 percent of the exit route, a lot of GPs take the opinion it's good, but you have to hit it when it's there. And when it's not there, the IPO market is just closed.

If we look at the overall portfolio for Teachers, you know, kind of a trade sale of note which was Nycomed, which is in Vista 2 and 3. This has been publicly announced was sold to Takeda Pharmaceuticals for 13-1/2 billion. And as we will talk about in a later session, it's distributed some great money to the Teachers' portfolio.

Now let's talk about the Teachers' portfolio. With regards to where they are or where you are with private equity, currently

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about 4.6 percent. Allocation in the 2011 strategic plan was 4 percent with a change in the asset allocation that's gone to 6 percent. So again right in line with where the plan is today.

With regards to returns, it's really two stories. The returns for the year, about 17 percent. That's a good number. Portfolio overall continues to be running at about 8.8 percent, so again moving in the right direction. As I mentioned before, consider seeing more liquidity. The challenge right now in the portfolio, which is the challenge of private equity in the asset class, is that the portfolio is underperforming the benchmarks. And we can talk about the median, we can talk about the mean, we can talk about the Russell. Unfortunately, it doesn't matter which one we are talking about, the portfolio is underperforming. And that's something we talked about a plan to implement a change and we are in the process of repositioning the portfolio, but it does take time.

The second part I would mention is, and we have touched on this before, some of the

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new commitments that the systems have made. Top quartile managers, these have been managers that performed extremely well over the past 10 to 15 years but, again, with primary commitments. And we have touched upon this before, it's a commitment. So the money can only perform once it's been drawn down. And these are relatively new commitments that have drawn down nominal amounts of money, but we are starting to again see, especially on the secondary side, that we are moving in the right direction.

With regards to distribution, I think this is an important one. Forgetting about fiscal years and calendar years, look at quarters. So if we look at the 2010, look at it as an annual year, contributions outpaced distributions almost 2 to 1. And that's not that unexpected because the portfolio -- while the Teachers have been in private equity for a long time, they are still a relatively immature portfolio. If you look at the market value versus the total size of the portfolio, it's still roughly 66 percent funded. So about a third of the capital still to go into

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the ground. But as we look at it today, as the portfolio begins to mature for the first quarter of 2011, the portfolio distributions outpace contributions almost 1-1/4 to 1.

So moving in the right direction when you look at the returns moving in the right direction but, again, it's going to take time. Our expectation is the portfolio will continue to mature, the IRR will continue to grow, but there is still going to be a gap. And when we make these reports to you every quarter annually probably for the next few quarter, you are still going to see that gap. But as we talked about before there is a plan to not only bridge the gap but, as we look at the benchmarks, to really exceed those benchmarks.

The last thing I would mention to everyone today is, you know, with these new commitments, they have closed $280 million. So $280 million of commitments based on roughly a $3 billion portfolio is 10 percent of the portfolio. That's how the retirement system is going to start to beat or to, bear minimum, bridge the gap short term of the overall benchmarks. Top quartile managers,

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buyout managers, and focus on the best of breed that's out there.

And with that, I leave it to you if there are any questions.

MR. AARONSON: Anybody have a question?

Thank you very much, Barry.

MR. SCHLOSS: So that's the review of the year. Great year. Now we start at zero which is a bummer, but you got to start.

So everyone has one of these for July. July was an all right month. A little down, August was a mess. And here we are in September, so what I would like to do in the July is kind of get catch everybody up to speed on the economy which is driving everything, have a quick conversation about that and how it affects our asset allocation and what the plan is for the year, and then we will quickly go through the results. And we have a couple of new slides. Try these out on you, see what you think.

On page 2, try to figure out how to have more than one chart shows the economy. So on page 2, this is GDP. So you see GDP growth is slowing down. It's -- I don't know -- 1 to 2

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percent, but the chart on the right sort of shows you the components. The top three components are consumer related. If you take the red and offset it with the blue, you basically find it's about zero. Business is all positive, which is good. The government spending is negative. And when you add it all up, you get to about 1 to 2 percent growth. Again, the trend on the left-hand side is the problem. Sorry for the way the numbers look, but those are quarters. And you can see the economy is clearly slowing down, right? Everyone reads about that in the paper, but here you can see it.

The next page is new and I think it's a kind of cool chart. It's a little busy, but we will kind of keep watching it. This is the growth of GDPs coming out of the bottoms of recessions. So the blue one is the current eight quarter line coming off the bottom of a recession and you see it's all right. It sort of fits in with the rest. It's not the worst, but what I think we are going to see as we roll this forward two or three year quarters, we are going to slow down, the other ones are

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going to increasing. So this is going to be a bad chart to watch but, again, I think it's a nice comparative way to look at history.

These are the last 30 years' worth of economic recoveries on these lines. If you look on page 4, you are going to see capacity utilization picked up a little bit. Still the good news is it's picked up off the bottom. The bad news is it's not going anywhere.

Page 5 is a depressing chart. It's the manufacturing index. It's a little more forward-looking. 50 is not expanding. 50 is the trigger point between expanding and not expanding. And this line is headed straight below 50, so I would expect to see contracting next time we look at this.

Page 6 is unemployment claims; they are going nowhere. As everybody knows, the unemployment rate on the next page is stuck at 9.5 percent. I kind of expected it to go up from here, which is not good.

Interesting chart on page 8. It's the same thing. It's coming out of recessions. How do we compare again with the blue line? So you see our blue line basically has gone

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nowhere since we have come out of the recession. Whereas if you look at other ones, the one I think personally is most similar is -- I think it's brown. It's the 1991 recession. It's when the FDIC and the housing boom crashed. And we are all sort of old enough to remember that. You can see the brown. I have got older ones, if you want to go back.

MS. MARCH: No, that was bad enough.

MR. SCHLOSS: But you can see the brown one which was, again, the last really big housing bust. The payroll started climbing right about now. And, again, when you roll this forward, you are going to find most of the other recoveries kind of started having job growth and I am afraid we are not. But interesting chart to see how it could have been in other recoveries.

Next page is a depressing chart, consumer sentiment. It's headed nowhere but down. And we will talk about that in a minute.

The next page, if you recall, we have architectural buildings. Which is before

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industries or the government build anything, they hire a architect. And you can see buildings have fallen off. It's fallen off for last three or four months. This means that there won't be a lot of construction for the next 12 months, so this is bad.

The next page shows you housing prices. This is just bad.

Next page. Next page is 12, shows you home sales. Also declining, also not good. New home constructions -- if existing home sales aren't selling, there is no need to build a new one, so that's just sort of flat line. And retail sales, consumers are spending a little money but not really enough to get the machine moving. Auto sales picked up a little bit recently but, again, not a very good level. The leading indicators are somehow pointing up. I haven't really looked at as to why you get some math to make this go up. I don't think it's going up.

Page 17, inflation. Inflation has kind of gone up, but I think it's about to start coming back down. So food prices is going up. Oil is going up. Oil is coming down in the

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six to eight weeks, so my guess is this won't be a problem anymore and I think the Fed is going to stop worrying about it.

So if you look at the next page, which is page 19, we used to have a chart which is really just the next page which is really the U.S. dollar versus the euro, but I kind of got tired of looking at it. It didn't move very much. They are both lousy currencies right about now. This is more representative of the problem we have as a pension fund, which is we do everything in dollars. But make no mistake, the dollar has been going down for the last decade. And you can see it. Particularly in the last year, the dollar is probably down -- I think it looks like 5 percent. And that will be a topic of further board discussion another time.

Here you can see on page 20 what I talked about before, the dollar versus the euro bounces around. I have no idea why the euro stays where it is. But, again, compared to the dollar, it's a question of which dog do you like better. So they both kind of look about the same, but at some point the euro is

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going to go down. This is the problem that we are going to have next month when we look at the numbers in August since we only have July numbers.

This is the VIX. This is the volatility while we were all away on vacation. The markets were very ugly in August. They are very volatile now. I presume they will be volatile between now and the presidential election at least, so this is going to be a terrible investment year in my opinion. Terrible because every month we get together, they are either going to be up or down. No idea which way to average it, but it's just not going to be like last year. Last year -- we should put that in a bottle and look at it regularly and feel good, because this is going to be a very, very bumpy ride because the U.S. government has issues, the euro has issues. Everybody is looking to China and China can't bail everybody out so it's just a lot of very hairy, complicated things, which we can't look at daily, minute to minute can't deal with, and doesn't know whether we should happy or sad. And that's

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the VIX.

If you look back at the VIX and try to remember how it was last spring or actually it was last -- I guess it was '09. You see how it looked back here, the end of '09. But clearly it's not as bad as it was in '08 when all hell was breaking loose, but that's not to say all hell won't break loose again coming out of the Europe. It might very well break loose. But it's very hard to get your head around what could happen, so we will go back to what we have done to try to protect ourselves. But these are very dangerous times to invest.

The next page, 22, the white line is the current treasury curve. You can see the collapse at the short end. You know, the five-year note is now 1 percent. Who in their right mind wants to own a five-year treasury for 1 percent. Makes no sense. People want it because they feel at least they know what they are going to get in five years. That's just not what you are supposed to have longer term. But we have a very strong short-term problem, we have the Feds trying to take care

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of stuff while the federal government tries to deal with its issues. More on this but, again, if you did a time sequence of this for the last 18 months or so, this has done nothing but go down and it's even gone down at the long end. Again, if you look at the 30-year bond, the 30-year blond is now 3.3 percent. Just it's great if you are a borrower. It's terrible if you are someone trying to make 8 percent if the 30-year bond is 3.3 percent. It's a problem for us as investors.

MR. AARONSON: It's a problem for retirement.

MR. SMARR: The investment policy of the Educational Construction Fund, which I run, says it has to be treasury in T-bills. That's the only thing we can invest in, so that's nothing. Some months we can't invest at all because they are negative returns.

MR. SCHLOSS: You might revisit your rules, but I didn't tell you that. Change the rules if they don't work.

So if you look at page 23, you can see that the volatility in the VIX caused a lot by

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what's going on in Europe. And the negotiations of the debt ceiling in the summer caused everyone to panic and panic is buying ten-year treasuries. So the ten-year treasury is now -- I don't know -- 2 percent. On a good day, 2 percent. Yesterday it was below 2 percent. Also makes no sense to lend anybody long term ten years for 2 percent. But what they are telling you is We are petrified, we are not going to pay you short, we are not going to pay for ten years; we just want to make sure we get our money back.

So the good news is Martin is making a lot of money because we own a lot of stuff because rates go down, prices go up. But at some point we are stuck. We are just stuck and it's going to be the reverse. And we are going to get back to that in a second. But, again, if you look at this ten year and you put your finger all across, it's where it was at the bottom of '08. So some markets -- the bond market is telling us this feels like '08 again. The stock market is not quite sure. That's why you got this volatility. But sure as hell, this U.S. bond

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market is telling you you are afraid.

The next page is page 24. So if they are afraid of everything they are afraid of high-yield bonds also, so you can see the spreads spiked up. Good news is we sold our high-yield bonds perfectly, in my opinion. I wish we sold more, but that's life. So now we are losing money a little bit on our high-yield bond portfolio as risk premiums increase.

Next page is a little bit of a silver lining and the silver lining is corporations continue to make a lot of money, so there is something not right or it's right. The good news is companies are making money, so we are going to get back in a second what that means. But if you recall those other charts where we had coming out of a recession, they all were pretty lousy. This blue line is good. This is corporate profits are really, really back. The bad news is corporate profits are up because they fired a lot of people. Bad for unemployment, good for corporate profits.

Somewhere along the way corporate profits means stocks go up, so for long-term

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investors you get to the next page which starts to show you that stocks are getting cheap, right? They are volatile, but you got to think long term every now and then. But stocks have been getting very, very cheap. Even emerging market stocks, the bottom of this page, PE is 10. Before PE is less than 10. These are pretty compelling. At some point they are compelling. At some point we will come back to what we are supposed to do about that. But if bonds aren't compelling, maybe stocks are compelling.

Next page, on page 28, you can see large, median, small cap. The cheapest things on here is large cap, so big global companies with big fat dividends are pretty cheap right about now. That's a good thing.

Next page is a bad thing. They are cheap because they fell out of bed. So if you look on page 29, you can see the returns. If you look from -- again, we would have to figure out how to get these dates better. But if you can see August, it just fell. Markets are down about 10 percent with a lot of volatility. They tend to go up 3 percent,

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down 3 percent day to day. So these are very choppy times. But, again, if you believe long term, things sort themselves out. Things are getting pretty cheap.

Next page is M&A activity. Again, corporations have high profits. They have got a lot of cash in their balance sheet, starting to buy each other. That's ultimately a support for equity markets because they buy things with premiums. So what does that mean for us?

On page 31, you know, we had this great year. But in the month of July we lost 2.4 percent. My guess is in the month of August we probably lost 5 percent, but -- actually, I take it back. We are probably down about 5 percent from yearend. So we made money in bonds; we lost money in equities.

The good news is we have cash, which if you go on the next page, if you go to page 33, this is the portfolio allocation. I draw your attention to the gray number in the pie chart, the 5.7 percent. So we have $2.4 billion of pension fund in cash or short-term stuff which was us selling high-yield bond, which was good

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and us selling equities, which was also good when we sold it. And to be honest, we are not really in any rush to go put that to work anywhere because there is a lot of volatility. You have to change the asset mix, which is the next page.

MR. AARONSON: Before you go on. Net cash was earning zip?

MR. SCHLOSS: Zip, but not losing any money.

MR. AARONSON: They are not charging us?

MR. SCHLOSS: No, we make an itty-bitty bit of money. But if you can't figure out where to put it, why put it in the stock market just to have it bounce around every day. So I feel safer having it in cash.

MR. SMARR: How much is paid out each year for benefits?

MR. AARONSON: $3 billion we pay out.

MR. SMARR: So you have enough?

MR. SCHLOSS: Yes, we have a lot of benefits. Typically we take benefits by selling something.

But if you go from page 33 to 34, you see the homework assignment, since I am in

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Teachers. This is the new asset allocation. So we are out of whack. We came up with a new asset allocation. We are going to get into the new allocation over time, so we are not in a rush. So we are switching basically over time from page 33 to page 34. So 33 we are all doing some interesting tactical stuff in the old allocation. 34 we have three or four homework assignments.

The first homework assignment is to reduce our U.S. equity exposure and increase our emerging market equity exposure. Again, over time, no rush. Not going to do this all in the afternoon. And, again, we have cash now to start doing it when we think it's right, but no rush. So that's the homework assignment, number one.

Homework assignment number two is probably the -- I think it's pink. Although, my wife says I can't tell colors -- 4 percent under allocation in Opportunistic Fixed Income, which we are going to talk about later today which I think we will be well underway to take care of that one. Emerging market debt we will get to next year because it's a

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new asset class for us. Again, that's way under where it's supposed to be because it's zero. And then we have private real estate, which again takes time. So that one will heal slowly as we make commitments and as the commitments ultimately get invested. And, again, the black also is underweight private equity, and that takes time.

So the big things are, we are going to be moving money from U.S. equities into international equities over time, no rush. And we have cash perhaps to be opportunistic if we think it's a good time to buy something, like public equities. And the fixed income is pretty much in line with where it's supposed to be, but much more on this in the future.

But I wanted to show you, again, we are moving from page 33 to 34 and the easiest way to look at it is in these two pictures. 35 is just the same set of numbers. 36 is how we are doing making money. The far chart on the left is the month of July. We lost about 70 basis points. And, again, if you look where it was, it was the top 2 which are equities. We made money in fixed income. The net effect

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is we lost 69 basis points. The rest is all pretty self-explanatory. Again, the rest is all manager by manager.

Is there anything, Seema, that you want to talk about in the managers?

MS. HINGORANI: No.

MR. SCHLOSS: Martin?

MR. GANTZ: Not at this point.

MR. SCHLOSS: Nothing in private equity or real estate, so the first month is not so bad. New definition of "not so bad" in this market is not losing a lot of money. August is a bad month, so next month will be a bad month. And we are living September.

But, again, if I look at the whole year, this is going to be a very complicated year. And it won't be clear where to be a lot, so I think its going to be very bumpy. So if we see opportunities to take money out, I think we will take it out. So, for instance, if government bonds are what look like very, very overpriced long-term levels, we should take some money out of there because we know long term we have a lot of reallocating to do. And you might as well just store it while you are

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going to do it as opposed to let markets dictate what you do. So I think it's a good time to be very, very conservative because there is an awful lot of risks out there that are very big risks. You can see in the VIX, you can see in the ten-year treasury, you can watch it every night on the news; it's just a complicated time. So that's the review of July.

If anyone has any questions about how we are doing in July or how we did in July, that ends the public session.

MR. AARONSON: Okay. At this time, Ms. March.

MS. MARCH: I move pursuant to Public Officers Law Section 105 and Section 5 of the TRS bylaws to enter into executive session to discuss the matters set forth in Public Officers Law Section 105, subsections (f) and (h), including the proposed acquisition sale and exchange of real property and securities.

MR. AARONSON: Do I hear a second?

MS. EMERY: Second.

MR. AARONSON: Ready for a vote?

All those in favor, aye.

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MR. SCHLOSS: Aye.

MR. SMARR: Aye.

MS. MARCH: Aye.

MS. ROMAIN: Aye.

MS. EMERY: Aye.

MS. NIEVES: Aye.

MR. AARONSON: Any against?

We are now in executive session.

(At this time the meeting went into executive session.)

MS. ROMAIN: I move to go out of executive session, back into public session.

MR. AARONSON: Is there a second?

MS. EMERY: Second.

MR. AARONSON: Any discussion?

All those in favor?

MS. ROMAIN: Aye.

MS. EMERY: Aye.

MR. SCHLOSS: Aye.

MR. AARONSON: We are out.

MS. STANG: In the executive session of the variable funds, a manager update and update on our management search was discussed. In the executive session for the pension funds there was a detailed review of fiscal 2011 was presented. There was a discussion of one investment, which is on the watch list. A presentation on the minority women business broker program was received. Consensus was reached on expanding the list of eligible

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brokers, which will be announced at the appropriate time. There was a discussion in the structure of the program and the managers within the REIT investment program. A consensus was reached which will be announced at the appropriate time.

There were presentations of three opportunistic fixed income managers. Consensus was reached which will be announced at the appropriate time. We heard presentations from two private equity investment firms. Consensus was reached which was will be announced at the appropriate time. There was a discussion about the structure of one private equity investment. Consensus was reached which will be announced at the appropriate time.

And, finally, there was a yearly review of the private equity portfolio and the strategy for the coming year.

MR. AARONSON: Great.

Any questions about that?
Okay. So, do I hear a motion to adjourn?
MR. SCHLOSS: So moved.
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MR. AARONSON: Do I hear a second?
MS. ROMAIN: Second.
MR. AARONSON: Is there any discussion?
Hearing none, we are adjourned.
[Time noted: 4:13 p.m.]

C E R T I F I C A T E

STATE OF NEW YORK)
: ss.
COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public within and for the State of New York, do hereby certify that the foregoing record of proceedings is a full and correct transcript of the stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of ____________, 2011.

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YAFFA KAPLAN