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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
held on Thursday, October 2, 2014
at
55 Water Street
New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee, TRS
THOMAS BROWN, Trustee, TRS
SANDRA MARCH, Trustee, TRS
PATRICIA REILLY, Executive Director, TRS
THADDEUS McTIGUE, Deputy Executive Director, TRS
SUSANNAH VICKERS, Trustee, Comptroller's Office
JOHN DORSA, Trustee, Comptroller's Office
CHARLOTTE BEYER, Trustee, Finance
JUSTIN HOLT, Trustee, Finance
CAROLYN WOLPERT, Trustee, Finance
VALERIE BUDZIK, TRS
SCOTT EVANS, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
YVONNE NELSON, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
DAVID MORRIS, Comptroller's Office
CHRISTOPHER PAK, Comptroller's Office
JAMES DEL GAUDIO, Comptroller's Office
EVAN NAHNSEN, Comptroller's Office
PETYA NIKOLOVA, Comptroller's Office
TATIANA POHOTSKY, Comptroller's Office
LIZ SANCHEZ, TRS
RENEE PEARCE, TRS
SUSAN STANG, TRS
ROBERT C. NORTH, JR., Actuary
CHRIS LYON, Rocaton
MICHAEL FULVIO, Rocaton
ROBIN PELISH, Rocaton
DAVID LEVINE, Groome Law Group
MIKE KOENIG, Hamilton Lane
COREY ENGLISH, Hamilton Lane

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P R O C E E D I N G S

(Time noted: 10:04 a.m.)

MS. REILLY: Good morning. Welcome to the October 2, 2014 investment meeting of the Teachers' Retirement System of the City of New York. I will start by calling the roll.

Mel Aaronson?

CHAIRPERSON AARONSON: Here.

MS. REILLY: Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Thomas Brown?

MR. BROWN: Present.

MS. REILLY: Scott Evans?

MR. EVANS: Present.

MS. REILLY: Carolyn Wolpert?

MS. WOLPERT: Here.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: We do have a quorum.

I'll turn it over to the Chair.

CHAIRPERSON AARONSON: We have a quorum, and we have discussed the order of business for the

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day; and the order of business is going to be the public session for Passport funds, and then the public session on pensions, then the executive session on the Passport funds and the executive session on pensions.

So we're ready for the public session on Passport funds. Chris?

MR. LYON: Good morning. I'll give a brief update for the public session on the Passport funds. We're going to go through each of the investment options and their allocation and performance briefly. And we'll be covering materials that we sent out in advance. And so, mostly in the form of a couple of highlights and seeing what questions there may be.

The first thing I'd like to cover is the diversified equity fund. And this information is through August 31. You can see that the investment option had $11.7 million approximately at the end of August. And you can see the overall allocations by manager and by the composite; and in general, composites were relatively close to their targets, with the largest over/underweight being underweight to the international composite of 12.3 percent.

If you flip ahead two pages to page 3, you can see the performance, which is net of fees, of the

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option in total, in the largest row in the middle. During the month of August we had strong performance from the fund, and the total fund returned 3.2 percent, bringing the calendar year to date returns to over 7.7 percent. And this is slightly behind the hybrid benchmark and further behind just the U.S. Equity market, given that this portfolio has a meaningful allocation to non-U.S. Equities, which trailed the month and year to date period.

Right above the total fund performance you can see that international was close to flat during August, and had less than half the returns on a year to date basis. And another factor, back up to page 2, that impacted more for the month and year to date period is the defensive composite. So they're intentionally, for risk control. During the month of August that composite was up 2.3 percent. And over the year to date period had similar performance of the total fund.

CHAIRPERSON AARONSON: Any questions about August?

MR. LYON: The second handout covers the other Passport fund options besides the fixed option. And the first page of the second handout, and all this is still through August 31, covers the bond fund,

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which had under $350 million at the end of August. You can see additional information on the allocations and performance for the month. The bond fund, the total option is the bolded row, the middle box, returned 0.34 percent, which is within a few basis points of benchmark, bringing a year to date return to a little over 1 percent, which is a net of fees number, and 0.18 behind its benchmark.

And in general, this is a very conservative, low duration, high quality portfolio. In this environment you do have a low expected return from this kind of strategy. It's in line with the expectations.

CHAIRPERSON AARONSON: Any questions?

MR. LYON: If you flip to page 2, you can see more of the Passport Fund options, the international equity, inflation protection, and the socially responsive equity funds, which have 107.43 and $86 million respectively. And you can see the performance for each. The international equity option had just 12 basis points of performance as positive. That was ahead of the benchmark for the month, and similar performance of course to the international equity composite and the diversified equity fund, they're unitized. This year to date return was about

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2.6 percent, slightly behind the the benchmark.

Then the inflation protection option, we had positive 1.23 percent return during the month, and this is an option that we don't expect to closely track over short time periods, the benchmarks. But during the month and year to date period it has outperformed, with the year to date resulting in about 7 and a half percent, and one of the benchmarks being closer to 4 percent.

And then lastly, the socially responsive equity fund had 3.4 percent return during the month, a little behind its benchmark for the year to date period, but still generated a 6 percent return. And if you look back over the two year time period, you can see there had been some recent period of overperformance factored into this. This is a fairly active concentrated strategy over short time periods. This performance is within the range of reasonable expectations.

Any questions?

We also passed out a preview of performance through September 30 for some of the underlying mutual fund options and few of the investments, as well as the markets for major indices. And what you can see in general is, during the month

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of September there were small negative to moderately negative returns across the board.

And I'll stop there to see if there are any questions?

(No response.)

That's everything we have for the public agenda for the Passport funds.

CHAIRPERSON AARONSON: Okay. Public agenda for the pension funds.

MR. EVANS: The essential fund returns are on page 43 of the big memorandum. 2.48 percent for the month of August, much better than the previous year. Martin's going to take you quickly through the ins and outs of the market. We're now in positive territory, you see it predicted for the year, and I will come back and talk a little about asset allocations.

MR. GANTZ: Thank you, Scott.

This book, here (indicating), with the color charts. It's also black and white in the larger books, as well.

We've been talking about for several months going back -- looking at page 15 -- talking about the slow economic recovery; but nevertheless, recovery compared to other areas of the world such as

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developed markets, Europe. And the U.S. has been tapering their bond buying program, which at the maximum for several years was up to $85 billion a month. It's expected to end in a few weeks at the next meeting in October. The balance sheet is about $4 trillion. The next market expectation questions will be, When do they start raising short term rates? The consensus right now is sometime in 2015, probably mid to late year.

And also, what to do with $4 trillion? Do they then sell the securities? Do they let them roll off and mature? Right now they're reinvesting them, so it's actually a form of easing, it's not tightening at all. So there are several aspects.

One of the big questions about what's going on in the market is the dollar had not strengthened. Typically, all things being equal, currency is very complex, a wide array of currency trades, one premium discount to another, versus prior history.

Typically, all things, taking out other aspects, which you can't take out -- but if you have an economy that's stronger than another economy, and that economy has expectations of rising rates, that currency should be stronger than the other currency.

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So it's been a bit of a conundrum, given that the U.S. was ahead of Europe while the euro had held up as a strong currency versus the dollar.

If you take a look at page 15, this is a dollar index versus the largest, it's about 10 countries. As you see over the past few months there has been significant uptick. This is actually a form of tightening, because things ultimately become more expensive for U.S. consumers as the U.S. currency goes up for imports.

If you take a look at the next page, a big part of the explanation, part of it is Japan, which we don't know, but part of it is Europe, and recently the euro has finally started to decline versus the dollar, as you see there. Which makes sense, because Europe is several years behind now. They're starting to talk about a formal QE program, which we expect them to implement.

So it had been a bit of a conundrum why it hadn't gone down before, but as you see, equilibrium usually comes out at some point, and here it started to come out. I want to point that out to you.

The ten year Treasuries on page 20, at the time of printing of this book it was 255, I can tell you it's lower than that. There was a bump up on

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Friday because of the PIMCO news and hedge funds and other fast money, trying to get ahead of supposed selling. Fact is, the Treasury market is very liquid and very efficient, and whatever losses the Treasuries had on Friday were undone the very next day on Monday and the rest of the week. So yields are now in the 2.4 range, back to where they were prior to the PIMCO announcement.

I want to fast forward to remind you what equity market returns looked like for the past year, turn to page 25. Three major markets are shown here. White is the U.S., Russell 3000; orange and yellow would be developed markets and emerging markets; and you see the U.S. has significantly outperformed the non-U.S. markets for the reasons I just described, or some of the reasons.

Part of reason for the negative returns for EAFE recently is not necessarily because of this problem with the companies, but it's currency related. So if we own unhedged and the indices are unhedged, companies, even if those company prices go up, if the decline in the currency exceeds the amount of the share increases, your ultimate return in U.S. dollars will decline. And that's partially reflected. Actually much of that is explained by the currency.

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So what happened in August? You remember last month, July, we did not start off with a very good month, we started with negative returns. So if you turn to page 27 and 28, you'll see what returns were for August. The returns were really, really, really good. And not only were they good, but they offset the bad returns or negative returns for July, such that at the end of August the fiscal year to date was up 1.4 percent.

So if you look at the first set of numbers in the first chart, the Russell 3000. What do I mean by really good? 4.2 percent, one month. Move two columns over, fiscal year to date is now up over 2 percent.

EAFE in the second column was down fractionally. That is not again, like I described, necessarily company-wide issues, but mostly currency related. And fiscal year is down as well.

Emerging markets were up, and fiscal year to date up as well.

Core+5 was up, that's the last set of numbers on page 27; 1.3 percent, primarily because interest rates went down and spreads continued to tighten up, and fiscal year to date.

On the next page the high yield, Citigroup

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BB was up 1.68 percent, putting fiscal year to date in positive territory. Bank loans were up, TIPS were up, convertibles were up, REITs were up. It was a good month.

So if you turn to the next page, on the left, bar charts, the one month return was nearly just shy of 2.5 percent, bringing the total return for the two months to 1.4 percent.

I can give you a hint as to what to expect for September. September was a repeat of July. And so, we had bad, good, and then bad again in the markets. I don't have a positive number on the page for fixed income or equities. Interest rates went up again. I just told you in the last few days they went back down, so that's positive for the fixed income markets.

But equity markets had a rough go of it.

So the Russell 3000 was down 2.1 percent. Both EAFE and emerging markets were down, emerging markets down 7 percent, a fairly big number. Core+5 was down less than 1 percent, but all the numbers were negative. High yield was down 1.9 percent. Even bank loans were down half a percent. TIPS were down 2.7 percent, convertibles were down 3 percent, REITs were down 5.8 percent. REITs are tied to interest rates and other

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expectations.

So, given the down September -- this is a rough estimate, we don't have the official numbers -- we expect overall, we have to calculate the numbers officially, we're probably below flat line once the quarter comes in for the quarter; but on the order of roughly 1 percent.

We will have the number --

MS. MARCH: Better than it started out.

MR. GANTZ: Yes; very much so.

MR. EVANS: Theyre asking for a prediction.

(Laughter.)

MR. GANTZ: As you know, September is historically the worst month for equity performance. That's not why the markets went down because it was September. October just happens to be the second worst month. As you know, most big crashes happen in October, so excuse the numbers. A lot of that has to do with expectations for the following year, because people start looking at next year, what's going on, instead of this year what's going on now.

But there are various reasons why markets go down September and October. There were a lot of macroeconomic events that occurred in September, as

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you know, and also concerns about interest rates and the rising dollar. So there are a host of reasons. We'll go through that next month when we have better numbers.

The next important page is page 30, which shows where we're allocated. And I'll turn it over to Scott.

MR. EVANS: Martin is describing market behavior, which is a lot of chattering going on. One month it's up, one month it's down. The period of time where the Federal Reserve was consistently putting wind at the back of the markets, particularly the stock market, is coming to an end. And it's less clear that the fund would benefit from a higher than normal exposure to equities.

And so, as I indicated the last time we met, we have begun the process of rebalancing. And you can see that on page 30, the green bar, the U.S. Equity exposure. We're still above zero, but less above zero than we were last month, even though the markets outperformed, the stock market outperformed.

MR. GANTZ: For context, we're near the maximum of 6 percent.

MR. EVANS: So, because we sold equities during this period, to bring the overweight equities

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down towards zero, still 3.3 percent overweight. It's approaching the middle of the range. It will chatter around as the market goes over the next couple of months. Our policy is going be around zero. We're not trying to tilt the portfolio one way or another, relative to the long term policy that you all have set.

If we're exactly on the long term policy, these lines all stay zero. So you can see we're a little over in equities, a little under -- in fact, almost maximum under in long term bonds, in blue.

We partially offset that underweight in long term bonds by holding some short term bonds. You can see that in gray. We call that cash, but actually anything up to four years is cash in our world, and most of the rest of the world that's intermediate term bonds.

And so, what we've done is overweight the short term bonds, it will be less affected as the Federal Reserve takes off stimulus and interest rates start to rise. They will be less affected negatively than long term bonds.

We're underweight long term bonds, we made less underweight long term bonds as we rebalance over the next couple months, take money out of equities and

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whatever else is overweight. You can expect this chatter with essential tendency of zero across asset classes. I would expect a slight preference of the grey bar, the short term bonds, over the blue bar, while we're still in an abnormally low level of interest rates. That gives you a sense of what are we doing to tweak the portfolio relative to the overall long term asset allocation that we review with you periodically.

With that, I'll turn it back to Martin, unless there are questions.

CHAIRPERSON AARONSON: A question about cash. We pay out, I don't know, $300 million a month or something like that.

MR. EVANS: Benefits; yes.

CHAIRPERSON AARONSON: Up to now, have we, between our dividends and interest, had enough to pay for these benefits every month, or have we had to sell anything?

MR. EVANS: Has the inflows made up for the benefit outflows?

MR. GANTZ: The answer is yes. A combination of the City contributions and the fact that while we haven't -- Scott's talking about a larger rebalancing to take down the overweight in

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equity, the reality is, because we were at the maximum, we had to do several smaller rebalancings as we were reaching the 6 plus, 6 percent. So we were using the fund benefits as well. But for the most part the City contributions plus the overweight to equity has been used to fund.

MR. EVANS: System-wide, it's not quite balanced. We're taking money out of the pension fund each year, periodically. I'm not sure about Teachers.

MR. GANTZ: Teachers is actually less cash flow negative than any other system.

MR. EVANS: I was speaking system wide. Even system wide, it's pretty close to.

CHAIRPERSON AARONSON: What if -- think about this -- if we built up a cash balance enough to pay for our payments every month, our outflows every month, instead of having to do any rebalancing, slight rebalancing. Have we thought about whether that might be an advantage, to keep the money in cash so we always have in cash -- not in your definition of cash, up to four years, I'm talking about.

MR. GANTZ: Overnight.

MR. EVANS: We always make sure that we have money. We forecast the cash needs, Mel, to make sure we have money available. The rebalancing is

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actually healthy for the portfolio. Rebalancing is the highest form of tactical asset allocation. When you rebalance you're selling stuff that's gone up and buying things that have gone down.

So periodically going in and rebalancing the fund benefits, it's actually a healthy thing to do. What I'm talking about is rebalancing a little beyond that, to make sure --

CHAIRPERSON AARONSON: I understand the rebalancing.

MR. GANTZ: What I would suggest is, that's a really good idea and something we take into consideration, because rebalancing or selling assets if we needed to pay benefits in any particular month incurs some costs. So the fact is, having some cash on hand, even though it's not in the policy, while Scott's talking about having cash, and he's defining cash as not overnight, but a little bit longer, is to have less pain when eventually interest rates go up, it will be less pain. And by the way, that's when we'll be covering the underweight.

But what you are talking about makes perfect sense because, number 1, it reduces the trends, the cost of moving money around. And number 2, it makes sense from what Scott's -- so the two

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ideas merge together.

CHAIRPERSON AARONSON: Think about it.

MS. MARCH: I have a question. If the market is doing well, and nobody knows when the market is doing well; if you have all that cash, and we're saving that cash to pay benefits, are we losing money, because at that moment in time the market is doing so well?

MR. GANTZ: In that time, the answer is yes.

MR. EVANS: Sandy, we don't hold much cash. We forecast what the needs are going to be, and we have cash available to do it. And as Martin says, we're smart about it, we don't set ourselves up where we have too much transactions.

But the policy of the fund is to hold very little cash as a matter of policy. Because of the way we define cash, including bonds up to four years, that actually, we have some stuff that's longer term bonds but we're earning an interest rate, as low as interest rates are today, that are getting caught up in this gray box.

But you're absolutely right, that when the market is up, holding any other asset class is usually a cost in a relative sense. And that's why on balance

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we hold 60, I think in Teachers 63 percent of our money in stocks, because you can't predict these things ahead of time. Over long periods of time the stocks are going to pay off.

MR. GANTZ: Ultimately, the reason we haven't put money directly in the Core+5 to cover that underweight is, when rates go up, because of the duration, you are guaranteed a loss. The cash that we're talking about moving in here is going out a little bit longer.

If you remember, our government sector portfolio, the index removes the 1 to 5 year Treasuries. So, what we're doing is, we're putting some of the cash into those 1 to 5 year Treasuries that other investors consider to be in core fixed income, but we don't.

(Talking over each other.)

MR. GANTZ: We're adding over zero percent cash that you would ordinarily, earn, but we're reducing the pain that will ultimately come when rates go up. And we then have the dry powder, the liquid stuff that we're owning, not illiquid, will be able to move that and cover the underweight at that point.

CHAIRPERSON AARONSON: My point is that, before you know that you will need money, that money

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should always be in cash.

MR. GANTZ: Right.

CHAIRPERSON AARONSON: And if know we're going to need 300 or whatever the need is every month, I think we should look into whether we should hold that amount in cash, so we don't have to worry about it.

MR. GANTZ: Part of my job is rebalancing. I have a discussion at least once a month, usually multiple times a month, with our head of cash. She knows when the money is coming in from the City, she knows from the Teachers' accountants what the benefits will be. She knows how much is coming in and how much is going out. So we have discussions that project, and therefore help our behavior as to what we need for cash.

MR. EVANS: Your instints are right on, Mel. One of our most important jobs is to understand the timing of the benefit calls that we have, and you can play that a number of different ways. We're very careful of forecasting benefits.

You can take it to the extreme. Some of the European funds will forecast out their benefit payment needs for years and years, and they will buy securities whose cash flows exactly match those

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benefits. It's called liability matching, and it's a very effective way to take no risk.

However, the problem with that is, when you look at your assumed rates of return, because you're taking a risk, you're assuming rate of returns come down quite a bit. And it's a tradeoff. And we want to make sure we're forecasting the short term needs, but we want to have the bulk of our assets taking risks so that we can have a higher assumed rate of return, and in fact deliver a higher rate of return.

MR. GANTZ: In 2008 we had discussions about how much, because when the market was going to hell in a hand basket, do we have enough liquidity to pay benefits? Liquid assets, because illiquid assets were not -- it was not a good idea to be selling illiquid assets. And even liquid assets, even U.S. Equities, it was difficult. Even fixed income assets, like investment grade credit, you couldn't find another counterparty to take a hit to sell, which normally you would --

So we've gone through this exercise before, it's part of our DNA and part of my job to review and oversee this and work with our cash manager group and Teachers' staff that feeds us the cash money

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that's coming in, and OMB that feeds us the cash money

coming in from the City.
CHAIRPERSON AARONSON: Thank you.
MR. GANTZ: So, the next page, 32, starts basically three pages that show what I described, what Scott described, those pages with the bar charts in numbers and percent. We're in balance with all of the policies.
I will turn to page 35. 35 and 36 show what the trend in assets has been. So through August, so 35 is the one year; $59.2 billion is the new record high, just shy of $60 billion as of August 31, so congratulations.
On page 36 it shows going back to 2006, the ten year returns, the dots there are fiscal year end market values. So the fiscal year end was 58.257. 59.2, obviously is nearly a billion dollars above that already.
So, on the bottom I also want to point out that the ten year return -- I don't see Bob North here -- the ten year return through August 31 was 7.8 percent.
CHAIRPERSON AARONSON: I was going to point that out to the Chief Actuary.
MR. GANTZ: He can watch the tape.
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CHAIRPERSON AARONSON: He called to excuse himself.
MR. GANTZ: Page 37 is a summary of each of the asset classes and returns. And starting on page 38 is every single separate account versus their benchmark, showing red and green, plus or minus their benchmark for the various time periods, long as well as short time periods.
And then we have some summaries for all your private equity and all your real estate holdings, as well as charts of inflow and outflows, the capital calls and redemptions and return capital.
So that's all I have, unless you have any questions. Thank you.
CHAIRPERSON AARONSON: Questions?
Thank you very much, Martin.
MR. EVANS: You want to move into executive session?
MR. GANTZ: That completes our public agenda.
MR. EVANS: We have such a long agenda with the annual plans, that we didn't want to elaborate too much.
CHAIRPERSON AARONSON: Do I hear a motion to move into executive session?
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MS. MARCH: I make a motion that we move into executive session for purposes of discussing sales and securities.

CHAIRPERSON AARONSON: Do I hear a second?

MS. BEYER: Second.

CHAIRPERSON AARONSON: Any discussion? All in favor?

(A chorus of "Ayes.")

Any opposed?

(No response.)

We're now in executive session.

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MS. VICKERS: I make a motion to move back into public session.

CHAIRPERSON AARONSON: I have a motion to go into public session.

MS. MARCH: Second.

CHAIRPERSON AARONSON: All in favor?

(A chorus of "Ayes.")

Any opposed?

(No response.)

We're now in public session.

(Whereupon, the Board returned to public session.)

CHAIRPERSON AARONSON: Susan?

MS. STANG: In the executive session of the variable fund, one manager update was presented and discussed. A presentation by this manager was received and discussed. A decision was reached, which will be announced at the appropriate time.

A presentation by a manager was received and discussed. A decision was reached, which will be announced at the appropriate time.

In the executive session of the pension fund, one manager update was presented and discussed. No recommendation was made at this time.

Secondly, one manager update was presented

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and discussed.

There was a presentation by a private equity manager which was received and discussed. Consensus was reached, which will be announced at the appropriate time.

There was a presentation by an opportunistic fixed income manager which was received and discussed. Consensus was reached, which will be announced at the appropriate time.

The annual plan for the opportunistic fixed income program was received and discussed and accepted.

The annual plan for private equity was received, discussed and accepted.

The annual plan for real estate and infrastructure was received, discussed and accepted with minor modification.

And a real estate investment was presented and discussed. Consensus was reached, which will be announced at the appropriate time.

CHAIRPERSON AARONSON: That's the report.
We need a motion to adjourn.

MS. VICKERS: So moved.

MS. MARCH: Second.

CHAIRPERSON AARONSON: All in favor?

(A chorus of "Ayes.")

Any opposed?
We're adjourned.

(Time noted: 5:10 p.m.)

C E R T I F I C A T I O N

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, October 2, 2014, at the offices of the NEW YORK CITY TEACHERS RETIREMENT SYSTEM, 55 Water Street, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of October, 2014.

JEFFREY SHAPIRO