NEW YORK CITY TEACHERS RETIREMENT SYSTEM

INVESTMENT MEETING

Held on

Thursday, October 6, 2011

at

55 Water Street

New York, New York

ATTENDEES:

MELVYN AARONSON, Chairperson, Trustee
NELSON SERRANO, Teachers Retirement System
LARRY SCHLOSS, Comptroller's Office, Trustee
RANJI NAGASWAMI, Office of Management and Budget
SANDRA MARCH, Trustee
MONA ROMAIN, Trustee
THAD McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
YVONNE NELSON, Comptroller's Office
MARC KATZ, Teachers' Retirement System
JOEL GILLER, Teachers' Retirement System
SUSAN STANG, Teachers' Retirement System
ROBERTA UFFORD, Teachers' Retirement System
RENEE PEARCE, Teachers' Retirement System
ROBERT C. NORTH, JR., Actuary
INGA VAN EYSDEN, Corporation Counsel
ROBIN PELLISH, Rocaton
MICHAEL FULVIO, Rocaton
PAUL RAUCCI

P R O C E E D I N G S

(9:59 a.m.)

CHAIRMAN AARONSON: Mr. Serrano, please call the role.

MR. SERRANO: We will begin the Investment Committee Meeting of the Teachers' Retirement System by calling the roll.

Chairman Aaronson?

CHAIRMAN AARONSON: Here.

MR. SERRANO: Kathleen Grimm?

She is not present at this time.

MR. SERRANO: Sandra March?

MS. MARCH: Present.

MR. SERRANO: Ranji Nagaswami?

MS. NAGASWAMI: Present.

MR. SERRANO: Lisette Nieves?

I understand she is not available today.

Mona Romain?

MS. ROMAIN: Present.

MR. SERRANO: Larry Schloss?

MR. SCHLOSS: Present.

MR. SERRANO: We do have a quorum and you may proceed.

CHAIRMAN AARONSON: Before we go

into any formal business, I just want to express the condolences of the Board to Ranji, since you have your loss. We are very, very sorry. Please accept our deep condolences and sympathy as a Board.

So now we are ready for the first part of the public session, which will be the report on the variable program.

MS. PELLISH: I think everyone should have the August report. We are going to talk about performance for the past quarter and Michael Fulvio will talk about performance.

MR. FULVIO: We will begin with the August 31st Performance Flash Report. You will note down towards the bottom of the page, the total assets at the end of the month of August were roughly 9.3 billion dollars, down from nearly 10 billion dollars at the beginning of the month. The rebalancing process has served to keep the composite generally in line with their targets during the month.

One other item I would like to note, the BlackRock MSCI EAFE Index line item under international, there is 428 million dollars reflected in fixed income assets, which is incorrect. It should be reflected as equity assets. I just wanted to call that to your attention.

If you please flip to page 2, and actually towards the bottom of page 3, you will find the total fund return for the equity fund for August, which is down six percent, roughly in line with the Russell 3000 Index. The strategy had performed roughly in line with that benchmark and is still slightly ahead for the calendar year to date, and it is ahead 7.13 percent for 12 months trailing at the end of August.

A few items to note. The diversified equity fund has targets to what we are refer to as defense strategies and these serve to protect the fund in down market periods. You will note for the month of August, the defensive strategies composite was down two and a half percent versus the broad U.S. Equity market, which was done six percent. And over the year to date period, defensive strategy has added over three and a half percent, versus the Russell 3000 which was down nearly two and a half percent, so it is certainly serving the purpose of providing that down market protection.

The main reason for what might otherwise be a little bit stronger performance in the equity fund was some weakness in the non-U.S. Equity market. As you will recall, the fund does have an allocation in non-U.S. Equity, and the non-U.S. Equity market which is measured by the MSCI EAFE Index, was down roughly nine percent, versus the U.S. at six percent for the month. So that has detracted to a certain degree.

MS. NAGASWAMI: Mike, just as a reminder, the managers are fully invested.

MR. FULVIO: That's correct. They purchase all equities in a low beta style, and in doing so for the month have actually served their purpose and significantly outperformed their benchmark, the Russell 1000 Index and they have added roughly over five percent for each of them.

Now, if there are no questions, I will move on to Variable C, D and E, the other

Performance Flash.

Starting with Variable C, the International Equity Fund, at the end of the month of August approximately 71 million dollars in assets. The fund for the month was down roughly 9 percent, in line with its benchmark. Although it is worth pointing out that for the one-year period ending August 31st, the fund is still up 11.25 percent.

Again, I want to point out one other item. The BlackRock MSCI EAFE Index Fund, was funding during the month of August.

If you will please flip to the section on the Inflation Protection Fund, Variable D, roughly 23.5 million dollars at the end of August. The fund was down roughly two percent for the month of August, though still up approximately 7.8 percent for the month.

The Socially Responsive Equity Fund, Variable E, approximately 24 million dollars at the end of August. And though it was down five and a half percent roughly for the month, it is still up 20 percent for the one-year period ending August 31.

Are there any questions.

MS. PELLISH: I just want to call everyone's attention to a topic we are going to be discussing in more detail in executive session, and to ask everyone, on page 2, to look at manager performance since inception and look at the AllianceBernstein International Value product, which has lagged its benchmark since the inception of this account by over five percent at one point on an annualized basis. We will turn back to this topic in executive section.

MR. FULVIO: With that, if there are no questions, we will move on to quickly review the September Preliminary Summary Performance Report.

The first thing worth noting is the Russell 3000 Index which serves as a representation for the broad U.S. equity market was down roughly seven and three-quarters for the month of September. That brings the calendar year-to-date return down to approximately 10 percent.

In contrast, the Barclays Aggregate Index, which reflects the broad U.S. fixed income market, was up approximately three-quarters of a percent.  For the year-to-date, it is up nearly six and three-quarters percent.

The MSCI EAFE Index, which is a representation of the non-U.S. developed equities market is down approximately nine and a half percent for the month of September and year-to-date is down nearly fourteen and a half percent.

The Diversified Equity Fund Hybrid Benchmark which roughly reflects the target weight of the Diversified Equity Funds, is down approximately seven percent for the month.

The PIMCO All Asset Fund has trailed its TIPS benchmark, though not necessarily the stated objective of the fund.  The fund does continue to slightly outperform CPI.

The Neuberger Berman Socially Responsive Fund slightly underperformed its benchmark, the S&P 500 Index Fund, and you can see for the one-year period trailing September was roughly flat.

MS. NAGASWAMI:   Robin, given the

increase in equity volatility assumptions, do you have any thoughts on the 70, 15, 15, the weights within the diversified clients, should the defensive component be reconsidered, given that all is now restructuring is a little bit higher? Is that something to think about?

MS. PELLISH: Yes. Periodically we review that target allocation. At one point years ago, this was at 25 percent. It was moved down because we decided we wanted closer to one beta in the portfolio. But I think those kinds of issues are always worth considering, particularly in this kind of environment.

CHAIRMAN AARONSON: Any other questions?

(No response.)

CHAIRMAN AARONSON: Does that complete your report?

MS. PELLISH: Yes, it does.

CHAIRMAN AARONSON: So we can now move to the public portion of the pension fund, please, Larry.

MR. SCHLOSS: Does everyone have the monthly performance review?

If I sound like I am yelling, my ears are stuffed from an airplane ride, so I might sound loud but I don't hear any of you, so yell at me. If I keep talking, it is not personal.

I will go through the economic stuff pretty quickly. As everyone knows, we seem to have hit an air pocket here in the U.S. economy with unemployment stubbornly high. And I draw your attention to page 8.

Page 8 is sort of a new addition to the slide packet and it shows recovery since 1980, and we are the blue line, which is since June '09, and you see the blue line is not going anywhere. And that's our jobs problem. And the fact that it lags all these other recoveries means we really do have a problem. And as much as Washington says they are working on it, they actually need to really work on it, otherwise, there is only so much the fed can do. But this is the number one problem with the economy.

And if you go to page 9, you can see it is weighing on the consumer, so consumer confidence is collapsing, which is sort of self-fulfilling, it is a very viscous circle.

Similarly, if you go to page 11, again, I draw your attention to the blue line. Usually in recoveries, housing recovers and construction recovers, and we see here housing prices here continue to go down because of the overhang because of mortgages, so we are really in a very precarious place in the economy.

I think the ball now is clearly in Washington's court. You have the budget deficit and the deficit reduction plans and the downgrades that happened during the summer, so the U.S. is kind of in a bad place. Europe, as we know, is also in a very, very bad place. Unlike the U.S. Government, that at least back in '08 could deal with things over a weekend and come back and try something different, 17 countries just don't get together in a meeting, and this drag is very much weighing on the Euro, the markets in Europe, it has a still-back effect on markets in the United States.

The problem with the banks in Europe, because the sovereigns are bad and they all own sovereigns, and that's also bad. And I will get back to you in a second on what we have done about that, but if you quickly look on page 19, it is all the way at the end, but slowly, as much as this is a very bad dollar decline over time and we have to do things in our portfolio to deal with that, over time the dollar has gotten stronger, there has been a huge flight to quality.

You can see it more graphically on page 20. You can see the Euro was stubbornly sticking at 136, 137. It is now at about 133 and it is working its way down.

One of the most important charts is on page 21, the VIX. You can see it is back to where it was.

MS. ROMAIN: Larry, just one moment. I can't find it.

MR. SCHLOSS: Sorry, it is these numbers.

It just the big number. Page 21, the VIX. Volatility is back because the markets are getting whipsawed between what goes on in Washington and what doesn't go on in Europe, and the combination is humongous anxiety, and anxiety is not a good thing for any market, particularly volatile things like equity markets.

If you look on page 22, recently the fed came out with Operation Twist. The design of Twist is to get long rates down. They managed through QE-2 to get the shorter rates down, the relevant line is the white line. So if you look at the white line out 20 to 30 years, it is above the worst of the worst in '08. The feds are going to try to recycle the shorter term money and buy longer term bonds and bring that back down. The theory is pretty straightforward, if bring down those rates, people can refinance mortgages. Investors don't like low rates, they are going to look for more risk, and ultimately it will cycle back putting risk into the stock market.

The stock market didn't like it very much, the stock market went down five percent, so it was a little lost in the translation, but I think the stock market is much more reactive on a speech-by-speech basis on what is going on in Europe.

It has had, however, the desired

effect. If you look on page 23, the ten-year rate collapsed, it is now about 1.85, which is an absurdly low rate if you think about it as to what it really means. But, again, the market is being led by what the fed does and there is no reason to fight the fed.

That said, if you look on 24, risk is off, people are afraid as to what the European action really means, so the spreads have widened on risky things. You can see the high yield market is completely backed up. It is good that we sold high yield bonds earlier in the year but the risk premiums are expanding again, in addition to the volatility, which is a pretty wicked combination.

Having said that, if you go to page 26, Corporate America, which is again the blue line here, is making a lot of money, so it is not like it was at the end of the '80s. So they have a lot of cash, they are making a lot of money. All is good. They are just anxious because it is not clear what comes out of Washington for a deficit reduction package, and as a result, they are not quite sure what to invest in because the tax rates are now uncertain. So they are sitting on cash, which is the bad news. The good news is at some point the cash gets reinvested, either in acquisitions or a productive capacity. When it finally gets invested in a productive capacity, it will create jobs. That's the theory.

If you look on page 27, you can see the equity markets are on a forward basis cheap, but, again, there is so much uncertainty, it is not, in our opinion, the right time to take advantage of that. Fear has overwhelmed cheapness. Again, it is all focused or predominantly focused on Europe.

If you look on 28, you can see U.S. market again are cheap, but I will tell you forward earnings are being revised downward. Again, if you go back to the beginning of the year, we are talking about three and a half percent growth and one-and-a-half percent growth, now people are talking about flat. All that is not in the projected EPS, so my guess earnings will go down in multiples and will come back up a little bit.

If you look on 29, you will September

was an awesomely bad month, and combined with August, once we get through some of these numbers, the equity markets have been very volatile and downwardly positioned.

How has that affected Teachers? If you look on page small number 31, you can see we have come off the high at the end of the year $40.8 billion, with $40 billion rolling forward to September. Again, still better than where we were a year ago. We are still up, but, again, getting whipsawed by the volatility.

Page 33, you can see the old asset allocation, and we are in the process of redoing everything. Switching from page 33 to page 34, you will see on page 33 we have a lot of cash. We have added to the cash in September. We are trying to get ahead of volatility, particularly since we are in the process of switching from pages 33 to 34. We think particularly because we have changed our asset allocation and we are developing a plan as they go from again the old asset allocation to the new asset allocation, that it was prudent in light of the volatility to not store our cash which we are going to move into equity markets, so we have built our cash.

In the future as we redo the IPSs or new asset allocation and for the new rebalancing ranges, which we will talk about later in the public session, we will redo the cash section of that. Although I think it is consistent with the spirit of the IPS. We will come back to that as we get to the new rebalancing ranges.

MS. NAGASWAMI: The range, though, now is less than one percent, so it is not -- you don't have a range in cash as you do for the others. But, in fact, the IPS says no more than one percent.

MR. SCHLOSS: That is not quite what it says. It says for liquidity purposes, it shouldn't be more than one percent. You are allowed to move within the rebalancing range, and you are allowed to be prudent in what you do to the extent you are reacting to the markets. The one percent limit is only for liquidity; it doesn't govern the spirit of the IPS.

MS. NAGASWAMI: We will talk about

that when we talk about rebalancing because that's not my reading.

MR. SCHLOSS: Okay, just so we are clear, we are going to redo the IPS for the new asset allocation, the new rebalancing ranges, and we will revisit exactly what it says about cash.

In any event, you can see that we have a lot of work to do when markets calm down. Going from page 33, asset allocation, to page 34, asset allocation. So I think having the excess cash, you can't make moves now with the markets as uncertain as they are because there is tremendous downside in the European situation. If you were to do a scan of the news, you would find word "depression" showing up every now and then. Not that I think we are going into a depression or we are going to get a depression, but there are moving parts of Europe that can get totally out of whack, which will be devastating on the portfolio. I don't think it will happen, but there is major uncertainty out there, so I am a believer in conservative prudence will make money in the long run. So having a little extra cash is a good thing.

If you go to page 36, you can see August we lost about 4 percent. All things considered, that actually wasn't so bad. Again, it was the green and yellow, so the equities, and they will continue to drag us down in September. Again, I think markets will be up and down until they sort out Europe, which we will see when that happens.

If you look on 37, you can see how bad the markets were. Halfway down six to eight percent in the United States, seven to almost ten percent in Europe. The high yield markets back up three or four percent, Treasuries went up.

I don't think we have any specific manager issues to talk about, Ranji.

Martin, do you have anything specific to managers to talk about?

MR. GANTZ: We will be talking about certain manager items in the executive session.

MR. SCHLOSS: Okay.

That's ends our discussion on the month of August. The month of August, again, is overwhelmed by the month of September, so we are starting the year with a first quarter behind us and down, so we have nine months to get back on track.

Any questions about that?

(No response.)

CHAIRMAN AARONSON: Seeing none, we will go on to the next item.

MR. SCHLOSS: The next item is rebalancing ranges. I guess I will hand it over to Robin.

MS. PELLISH: Thank you.

There are slides in the book that were sent out by the Bureau of Asset Management, and I think it starts on about page 56. And the rebalancing ranges, as Larry mentioned, are ranges that are necessary to enable BAM to implement asset allocation that was approved several months ago by the Board. And these will be included in the updated investment policies statement. So the purpose of a rebalancing range is to recognize that for a variety of reasons the fund will virtually never be exactly on target, whether it is because of market value moves, whether it is because of implementation, recently terminated a manager or about to invest in another manager, or because of a view on where you want to be within that range. So it is important to have explicit ranges around a target so that BAM can operate within the spirit and letter of the IPS, while recognizing that there virtually will never be exactly a target.

There are a variety of ways to develop rebalancing ranges. We use an algorithm, which takes into account three important factors. First, volatility; second, correlation; and, third, transaction cost. And these are described on page 2. I will spend a minute talking about how we think about each of those factors contribute to development of a rebalancing range.

The first, volatility, the more volatile an asset class is, the narrower the rebalancing range, and that is because the greater volatility that is associated with a particular asset class, stocks, for example, the greater impact that asset class can have on the performance of total fund. Therefore, the closer you want that risky asset to be to its target.

Secondly, correlation. The lower the correlation of an asset class, again, all else being constant, the narrower the rebalancing range. Again, if an asset class has significant diversification benefits because it has a lower correlation to other asset classes, you want to make sure that it doesn't get significantly below target. So we narrow the range around which rebalancing has to take place.

And then, finally, transaction cost. The higher the transaction cost for any given asset class, again, all things being constant, the wider the range, because you want to make fewer trades. So we take all these characteristics into consideration and we use out capital market assumptions, which are on page 4 of this handout and we develop rebalancing ranges for the public market asset class. And those are listed on page 3.

A couple of other important points. There are asset classes which are used as place holders for unfunded commitments to private market asset classes, such as real estate and private equity. And as those commitments are made and commitments are funded, you want to have a series of interim target allocations so that you can reflect movement towards the final target.

Then, finally, you will see we don't have rebalancing ranges for private asset classes such as equity and real estate and even opportunistic fixed income, because you can't really trade in and out of those asset classes, so you need to be mindful of how you are moving to target, you need to be mindful of where you are relative to the target, because to pretend that we can actually trade in and out of a rebalancing range for those asset classes, I think is misleading.

So on page 3, I will walk through some of these numbers. The largest target allocation is public U.S. equities. It is a long-term target allocation, 31 percent. And all of these rebalancing ranges are symmetrical, so what we are saying is the trigger point here is six percent so we will allow this asset class to drift above the target allocation by six percent and below the target allocation by six percent, which will give you a range 25 to 37 percent.

For non-U.S. equity, I don't need to read the numbers out loud to you. I don't know if there are any particular numbers you would like to focus on. We try to make this a science, but it is an art as well as a science, and a certain amount of judgment is brought to bear on our projections of risk and return for the asset classes, on our estimated transaction cost, as well as our estimate of correlation.

But I think these are reasonable ranges that allow some degree of flexibility, recognize that market values will move, and so, we will inevitably be somewhere around target, but constrain the portfolio to point where you are not so far away from the target allocation as to significantly change the risk and return characteristics of the portfolio. And that's the objective here.

MS. NAGASWAMI: So I guess one question, based on especially that last comment about this really being a reflection from the Board of our risk and return, what is striking is that we don't have in the current IPS, and I am delighted we will be updating those, a risk bucket range. In other words, the top bucket here that you have, equities are very similar within the bucket, but across equities, fixed income, and then obviously I would suggest a bucket for cash. Those are the big risk and return variations, much bigger across those rather than within those.

So do you think it makes sense to set ranges for those, and then actually allow, in my thinking, even greater discretion within the buckets because it doesn't change the overall risk as much?

MS. PELLISH: I think that is actually true. The point here is that if you drew a line under U.S. equities, non-U.S. equities, emerging equities and REITs, you would have a total of 51 percent in the target allocation. And those assets have a fairly high correlation and fairly similar risk characteristics. You could think of them as one risk bucket.

That would be very different from the

fixed income risk bucket, which in turn would be very different from cash. And then private, I am not quite sure, I guess you could either treat private separately or include it in cash -- include it in equity or fixed income, depending on the asset class. But I think there is a logic to that.

MS. NAGASWAMI: And I am not suggesting we will ever do that, but if you simply added the lower end of the ranges across those same four, you get to 35 and a half, which is actually massively different, but you could go there based on our policy today, which is not at all our intent.

MS. PELLISH: Yes.

MS. NAGASWAMI: So by sort of saying let's have an aggregated equity and fixed income and cash bucket and then have ranges across those, that's actually the much greater expression of risk management.

MS. PELLISH: That's the more important definition, I agree.

MR. SCHLOSS: Let me understand what you just said, Ranji. You said taking 35 which you said is the low range, I will trust you on the math, would you want all equity bucket higher than the sum of those?

MS. NAGASWAMI: Or it would say the 51 plus or minus three percent, so within it if you want to go to, take U.S. equity down to 25 and non-U.S. up to 13, it doesn't change the risk much. But changing the 51 to 35 is a huge shift in the risk of the portfolio.

MR. SCHLOSS: I am trying to understand which governs, the aggregate or the individual?

MS. NAGASWAMI: Actually both, but the aggregate would prevent us from moving the risk around massively.

MS. ROMAIN: Are we saying all of these things are shifting at the same time?

MS. NAGASWAMI: No. I was just hypothetically --

MS. ROMAIN: If so, I am trying to grasp it.

MS. NAGASWAMI: My bigger concern is the total 51 or the total of equities going down by a large amount that totally negates the risk return targets that the policy portfolio implies. I am not helping you.

Theoretically, yes, there could be a time when all of the risk in drawn down to the minimum, so that all of the equity buckets go down to 35 and a half, yes. And that is a huge shift in the risk of the portfolio.

Whereas, if you said have the ranges within highly correlated and similar volatility asset classes, but as a Board, set the limits for these risks buckets so that the nature of the portfolio doesn't change. It gives discretion while, without moving the risk around, so that it is almost like me doing an asset allocation.

MR. SCHLOSS: Again, if you take my 35, you said that's the math, if you put something above that, 45, every time you trip, the 45 is going to govern, not the 35.

MS. NAGASWAMI: Correct.

MR. SCHLOSS: Maybe that's what you want?

MS. NAGASWAMI: Yes, it is.

MR. SCHLOSS: You would be rebalancing a lot with the markets.

MS. NAGASWAMI: No. It is just an in total, so the individual mixes can move around and that's fine.

MR. SCHLOSS: What I am saying is the strength you just put on it, negated these others ones.

MS. NAGASWAMI: No, it is saying you can take any individual one. If you wanted to take risk, if the 51, you wanted to take down to 45 and you wanted to do it all in U.S., you can still go to the lower end of the U.S. range.

MR. SCHLOSS: But to do that you would have go to the high end of the other one.

MS. NAGASWAMI: No, you would just be in target.

MR. SCHLOSS: I would have to take a break to think about it.

MS. NAGASWAMI: No. Martin, our secret weapon?

MS. ROMAIN: What is the policy decision you are asking this Board to make in order -- if there is something that you can come back with as a proposal, as CIO, because I don't really understand the technical information of all this.

MR. SCHLOSS: I was trying to understands it as well.

MS. ROMAIN: I don't. Because I don't want to get into understanding the technical what is going to happen when we rebalance this range with something else, what will happen to another part of the portfolio. I am not that technical person.

So if there is a policy, we are dealing with policy in this section, so if there is a policy that we need to be looking at, Robin, If there is some policy decision that we as a Board would have to look at, rather than trying to get into the details about the low end, this bucket, what will happen if all of your equities are brought down to 35 percent, I am not that technical.

So if there is a policy that the CIO or consultant would like the Board's decision that this Board makes to give you the room to do what needs to be done, this is something that we want to hear.

MR. SCHLOSS: I will defer Robin.

MS. PELLISH: So I think that we can come back, in coordination with BAM, come back to the Board with different ranges, how they operate at the aggregate equity, fixed income and cash flow.

MS. ROMAIN: I am giving you discretion to do that.

MS. PELLISH: Which provides some discretion and also doesn't change the risk objectives of the Board.

MR. NORTH: If I may, I think part of the question that you are really addressing here is if equity-like assets have a lot correlation with each other and you have an overall policy that is 63/37, and all the assets move and you can end up 16 percent less than 63 percent in equities, would you want that in a quarterly report?

And the current rebalancing ranges theoretically could allow that, and where I think there should be good discretion, I think the comfort level of the aggregate, as Ranji has raised, is something that really goes to that high level overall policy of the Board that maybe could overlay to the information here. And I think what Ranji has suggested is maybe pooling the policy level equities versus other and seeing what that would produce in terms of where you end up.

MS. NAGASWAMI: The second thing I would ask is on the bottom of page 3, Robin, you have laid out some very clear thoughts on how uninvested commitments, unfunded commitments should be invested. We are not currently adhering to that, and I think that is something I am in complete agreement with what you have got here, Robin.

So I would just suggest that, Larry, we think about adhering to those.

MR. SCHLOSS: Yes, these are embedded in the rebalancing ranges, what you end up doing is you take your original rebalancing range and you add this mathematically to it, it shifts your rebalancing range.

So if you start 25/37, then you do, for instance, the uninvested private equity, you take the short fall, it recalibrates your rebalancing range. And I am pretty sure it is in the math we use.

Correct?

MR. GANTZ: Correct. And until the

new policy was adopted, we, in fact, did have that as an exhibit in the Board package. We are waiting for this to be adopted to reshow the new adjusted rebalancing ranges.

MR. SCHLOSS: So we will take these footnotes, multiply them by the target allocation, and pro forma them into these ranges. That's where you will see it. You won't see the math, it will be embedded in it once we approve these footnotes.

MS. NAGASWAMI: I am comfortable to make your lives easier, and I think it is true as I think about this too, that because we are in this transition where we end up having a lot of cash at the moment for the transition, if we just wanted to pull that out of the strategic weights and just show us how you are investing the unfunded commitments, I am fine with that. Whatever is easier for you guys.

It will get us to the same place as your pro forma, but it is just how you think about it, because I am not clear in my mind how much of the cash, and I understand you said on Bloomberg we are at eight and a half percent in cash. That's a big number.

MR. SCHLOSS: It is.

MS. NAGASWAMI: I am not comfortable, unless it is unfunded commitments, and then it should be invested in this way. But sitting on eight and half percent in cash, but I am assuming it is for, as you said, unfunded commitments.

MR. SCHLOSS: I would say that a chunk of it, call it half, it is about half the unfunded, things like opportunistic fixed income which are rolling out and rather than cash in the stock market.

MS. NAGASWAMI: Except we have a proposal here, so it would not be cash, it would be 50/50.

MR. SCHLOSS: It would be 50/50 but you have to be a little prudent when the markets are as volatile. You shouldn't store your cash in the most volatile thing like the market.

I wouldn't recommend it.

MS. NAGASWAMI: Where I agree with you completely is that it's a one-year type time horizon, and when you have a one-year type time horizon, you are not in equities.

That's the problem with unfunded commitments. But historically we park all our cash in equities, so this is pretty big shift from our historical policy.

So I would just love to understand how much of that cash is in unfunded commitments versus a tactical directional play, which I am actually not comfortable with at all.

MR. SCHLOSS: We don't do tactical plays.

MS. NAGASWAMI: But you said half the cash is unfunded, yes?

MR. SCHLOSS: Half is unfunded waiting to go into new assets allocations.

MS. NAGASWAMI: And the other half?

MR. SCHLOSS: The other half is prudence, taking it out of the stock market.

MS. ROMAIN: Again, since we make decisions on policy and we give the Comptroller's Office the authority to be the investment adviser, if there is a policy decision that the Board needs to make, since we are going to review and revise the IPS as we have been doing all along, then there should be some kind of proposal that is presented to the Board that would allow the Comptroller's Office to be able to move within whatever that is, guidelines, so that they can accomplish what they need to do, particularly, in these volatile markets.

We can go back and forth like this, and I am just not dealing with it.

MR. SCHLOSS: We will come back.

Robin, can I ask you a different question?. There are no ranges on private equity and private real estate, even though every day they bounce around. Should we just have a range?

We can't transact on it, but it helps us to figure out about where we are on any given day, to be committing more or committing less.

MS. PELLISH: Initially, as I said, we didn't include them because you are not going to rebalance --

MR. SCHLOSS: You don't really rebalance, but you know if you have too much. If all of a sudden private equity went to nine percent. I mean, they Are difficult things but I think it would be useful for BAM to at least have some little range we can look at and say the pacing models are interesting but we should slow it down.

MS. PELLISH: Right. Although it seems a little bit like a semantics argument, it is not really a rebalancing because you are not going to rebalance, so there may be some --

MS. NAGASWAMI: Volatility range.

MS. PELLISH: -- or some maximum. And you have to be appropriately skeptical. So let's think about that, about how to term that, I would rather not call it a rebalancing range because that implies you are actually going to rebalance, and you are not, you may slow down the pace. So it may be a maximum level at which you take a pause, a new commitment, something like that.

MR. SCHLOSS: Or discuss with the Board, when you get to this number, some yellow light is supposed to go on.

MS. PELLISH: So I agree that there should be some discussion at what point we are uncomfortably far away from the target, but not as a rebalancing range.

MR. SCHLOSS: I agree with that.

MS. NAGASWAMI: The other subject you have introduced which makes a lot of sense to me is you have separated the investments into core and non-core real estate in different buckets. That makes a lot of sense.

MR. SCHLOSS: Yes, I agree.

MS. PELLISH: That concludes our comments on this topic.

CHAIRMAN AARONSON: Anybody with any questions or comments?

(No response.)

CHAIRMAN AARONSON: Thank you for that report.

What are we up to next?

MR. SCHLOSS: That concludes the agenda for the public session.

CHAIRMAN AARONSON: Ms. March?

MS. MARCH: I move that pursuant to Public Officer Law Section 105, we go into executive session to discuss the proposed acquisition, sale or exchanges of securities held by the Teachers' Retirement System and to discuss the proposed pending or current litigation.

CHAIRMAN AARONSON: Do I hear a second?

MS. ROMAIN: Second.

CHAIRMAN AARONSON: Any opposition?

(No response.)

CHAIRMAN AARONSON: Seeing none, Larry, we are now in executive session.

(Whereupon, at this time, the meeting was conducted in executive session.)

CHAIRMAN AARONSON: Seeing no further business before us in executive session, can I have a motion?

MR. SCHLOSS: I make a motion to go out of executive session.

MS. NAGASWAMI: Second.

CHAIRMAN AARONSON: Any objection?

(No response.)

(Whereupon, at this time, the meeting was conducted in public session.)

CHAIRMAN AARONSON: We are now out of executive session and we would like a report on what we did in executive session.

MS. STANG: Absolutely.

In the executive session of the variable funds, two presentations from investment managers were received, consensus was developed which will be announced at the appropriate time.

In the executive session of the pension fund, there was a discussion of three managers on the watch list, there was discussion of a contract for a service provider. Consensus was developed which will be announced at the appropriate time.

A presentation from one investment manager within the opportunistic fixed income sector was received. Consensus was developed which will be announced at the appropriate time.

Further details about a potential private equity investment were discussed, and a brief update on several legal issues was provided.

MR. McTIGUE: Off the record.

(Recess taken.)

CHAIRMAN AARONSON: Back on the record.

MS. STANG: I'm sorry, further details of a potential it was a fixed investment.

Thank you.

CHAIRMAN AARONSON: Anything else?

(No response.)

CHAIRMAN AARONSON: Do I have a motion to adjourn?

MR. SCHLOSS: Motion.

MS. ROMAIN: Second.

CHAIRMAN AARONSON: Any objection to adjourning?

We are adjourned.

(Time noted: 1:30 p.m.)

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

I, Margaret Eustace, 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 6, 2011, at 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 _____ day of _______________, 2011.

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MARGARET EUSTACE