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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
Held on Thursday, December 4, 2014
at
55 Water Street, New York, New York
10:02 a.m.

ATTENDEES:
MELVYN AARONSON, Chairman, Trustee
SANDRA MARCH, Trustee
THOMAS BROWN, Trustee
SCOTT EVANS, Trustee
CAROLYN WOLPERT, Trustee
SUSANNAH VICKERS, Trustee
CHARLOTTE BEYER, Trustee
JAMES DEL GAUDIO, Comptroller's Office
PATRICIA REILLY, Teachers' Retirement System
THAD McTIGUE, Comptroller's Office
MARTIN GANTZ, Comptroller's Office
RAFIQUE DeCASTRO, Comptroller's Office

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ATTENDEES (Continued):
MICHAEL KOENIG, Hamilton Lane
CORI ENGLISH, Hamilton Lane
SUSAN STANG, Teachers' Retirement System
MICHAEL DORSA, Rocaton
MICHAEL FULVIO, Rocaton
CHRIS LYON, Rocaton
DAVID LEVINE
VALERIE BUDZIK, Teachers' Retirement System
PAUL RAUCCI
RENEE PEARCE
PETCHA NIKALOVA, Comptroller's Office
CHRIS PAK, Comptroller's Office
TATIANA POHOTSKY, Comptroller's Office
ALEX DONE, Comptroller's Office
YVONNE NELSON, Comptroller's Office
JOHN MERSEBURG, Comptroller's Office
LIZ SANCHEZ, Teachers' Retirement System

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Proceedings

MR. AARONSON: Okay, I don't know if you heard the announcement. We will be on camera, but we will not be on sound and the stenographer will be taking our words down very carefully. So, Mr. McTigue...
MR. McTIGUE: Thank you, Mr. Chairman. Good morning, Mr. Chairman, and members of the board. Welcome to the December 4, 2014 investment meeting of the Teachers' Retirement System of the City of New York. I will start by calling the roll.
Mr. Aaronson?
MR. AARONSON: Present.
MR. McTIGUE: Ms. Beyer?
MS. BEYER: Here.
MR. McTIGUE: Mr. Brown?
MR. BROWN: Here.
MR. McTIGUE: Ms. March?
MS. MARCH: I don't know if I want to be present or here. Is there an in-between word?
MR. McTIGUE: Well, it's always a pleasure to see you.
Ms. Vickers?
MS. VICKERS: Here.
MR. McTIGUE: And Ms. Wolpert?

MS. WOLPERT: Here.
MR. McTIGUE: We have a quorum and can begin the meeting, sir.
MR. AARONSON: Thank you very much. Today's meeting is going to take the following path:
We are going to hear on the Passport Funds for the public agenda, then we are going to hear the Passport Funds on the executive agenda, and then we will reach the comptroller's report on the Pension Fund for the public and executive. And it's my understanding that we have an executive session at the end.
MS. BUDZIK: An executive session, the law department is planning to come for an attorney-client meeting.
MR. AARONSON: So that will be after our regular business.
Okay, Mike.
MR. FULVIO: Good morning, everyone. With that, we will dive in. The Passport Funds' quarterly performance report for the third quarter was shared electronically ahead of time with everyone, but if there is any

questions we would be happy to address those for you now. And we previously reviewed the performance in this report at prior meetings.

MR. AARONSON: So anybody have any questions?

MR. FULVIO: I don't hear any, so I will move ahead then to October.

We will start with the Diversified Equity Fund flash report. As of October 31st, you could see on the first page of this report at the end of the month, the fund had 11.35 billion in assets. And the only other comment I have on this page is that the rebalancing process for this strategy has continued to serve the fund well in keeping the composite target allocations relatively close to their target.

So we will flip ahead then to page 3 and we will -- in the middle of the page here, the line item for Teachers' total, the total return for this fund for the various time periods shown. For the month of October, the Diversified Equity Fund was up 1.94 percent. That compared to the broad U.S. equity market benchmark, the line item below that at 2.75

percent for the month of October. And then a couple of lines below that the hybrid benchmark which is the passive representation of the underlying composite benchmarks in this fund, that was up 1.96 percent.

So really what drove the results for this quarter and lagging the broad U.S. equity markets, again it was the -- it was the 15 percent allocation to non-U.S. equity markets which I will draw your attention to the few rows down under the benchmarks. The MSCI EAFE Index, you can see non-U.S. developed markets for the quarter were down about 1.5 percent relative to that U.S. equity market return of about 2.75 percent. So the non-U.S. developing markets lagging throughout October, we see throughout the year to date. So that had a big impact on the total return of this strategy, given that allocation.

The other thing and you can see this on page 2, the prior page toward the middle of the page, there is a line item for the defensive strategies composite. There is a 15 percent allocation to that composite. That composite was up 1.7 percent relative to that

2.75 for the broad U.S. equity market. And we would expect that to lag in up markets and protect it in down markets so that did serve in that capacity this month, but again that did -- that did draw back from some of the performance for the month.

So I will just make reference then to the year-to-date performance through October for this fund. The fund was up 7.2 percent and that compares to 9.9 percent for the broad U.S. equity market and 7.75 percent for the hybrid benchmark. And for the same reasons that I mentioned the month lagged, the fund also lagged for the year to date. So the other thing that we wanted to mention was that based on the feedback from last month's investment meeting, we were in the process of doing some work to make this report a little more user-friendly and easier to follow. Not only in these discussions, but as you are just reviewing performance. So we will come back in the coming months with a proposed report to help that process.

If there is no other questions on the Diversified Equity Fund, we will flip ahead to

the Bond Fund. So at the end of October the Bond Fund was about $341 million in assets. And you can see that for the month of October the fund came 42 basis points relative to its benchmark of 46 basis points. So right in line as we would expect. And then for the year-to-date period, this fund is up 1.26 percent relative to the benchmark of about 1.5 percent.

If there is no question on the Bond Fund, we will move ahead then to the International Equity Fund on the next page. In the top left you can see the assets for the International Fund is about -- at the end of the October we are about $102 million. This fund was down about 1.5 percent, just about in line with that MSCI EAFE index. That developed market benchmark, you can see that right below. For the year-to date time period, this fund was down about 2.95 percent and that lagged the EAFE benchmark by about half percent.

Moving ahead to the Inflation Protection Fund, you can see towards the top of the page that fund was about $43 million in assets.

For the month of October the fund returned positive 55 basis points, so about half percent. That return is slightly ahead and in line with the benchmarks below the TIPS one-year to 10-year benchmark and the CPI benchmarks. For the year-to date time period the fund was up about 4.3 percent. That put it ahead of the TIPS benchmark and slightly behind that CPI plus benchmark.

On the Socially Responsive Equity Fund, the assets at the end of the month were about $87 million. And for the month of the October, the performance of the fund, the fund returned 1.8 percent trailing the S&P 500 benchmark by about 2.4 percent. For the year-to date time period that fund was up 7 percent relative to the S&P by about 11 percent.

Were there any questions on the performance for the Passport Funds for October?

So we will maybe then move ahead to the performance for November. You can see on this report that the Russell 3000 Index, that's again the measure of the broad U.S. equity

markets. In November they were up about 2.4 percent, so another positive month for the U.S. market. Just below that, the EP Index up about 1.4 percent. So again still some lagging by the markets outside the U.S. And then a couple of lines below that, the Diversified Equity Fund hybrid benchmark about 2.2 percent, which we would expect to somewhat closely track the performance of the Diversified Equity Fund. And then you can see below it similar benchmarks for the other strategies. I already mentioned the EAFE index about 1.4 percent. And then very down at the bottom, the performance for the underlying strategies in Variables D and E.

MS. BYER: Mr. Chairman, just a quick question. Not that anyone would have the answer, but it's interesting to me that the dispersion between five years and fifteen years is 1,100 basis points, just an index.

And my question would be: Have we ever seen this in recent history or -- it just seems like a really big number.

MR. AARONSON: That's a comment. Is there any response to the comment?

MS. BEYER: It wasn't really a question. It was just a comment.

MR. LYON: So we have certainly looked at rolling time periods and it's hard to without data answer precisely, but this seems to be one of the larger dispersions that we have witnessed. And what that means, though, is that our forward-looking expectations for U.S. versus non-U.S. markets. And these are long term, not near term, but are also much wider than they have ever been in our history of forecasting long-term capital markets returns because we take into account current valuations and the recent performance of markets as a starting point. It's one of the inputs to our long-term expectations.

MR. AARONSON: Doesn't the 15-year include 2000, 2001, 2002 and 2008?

MR. LYON: Yes.

MS. MARCH: It has two cataclysmic events not caused by the market, but caused by individuals.

MS. BEYER: That's why I am raising it. Because if it is an anomaly of just two wild events, it would be nice to know that.

Because when you look at it just like this, you would think -- you know.

MR. AARONSON: It was only the second time in the history of the stock market that the stock market went down three years in a row in 2000, 2001, and 2002. And then we had that huge 2008 and so...

MS. BEYER: So it might be that entirely. The statisticians would know that. Thank you.

MR. LYON: My response to you was in regard to the difference between U.S. and international markets which is also of a somewhat similar magnitude over five years, but just to clarify for the record.

MR. AARONSON: Thank you for your comment.

Thank you for your response.

MR. FULVIO: Unless there is any other questions, that concludes our comments for the Passport Funds.

MR. AARONSON: Anybody else? So that concludes your public agenda.

And we could move -- Liz, if you take us off the TV now, we could move to the executive agenda of the Passport.

MR. McTIGUE: Should we make a motion to go into the executive motion?

MS. MARCH: I move that pursuant to Public Officers Law's Section 105 to go into executive session with discussions regarding the purchase of sales of securities and updates of specific investment managers.

MS. VICKERS: Second.

MR. AARONSON: Any discussion?

Ready for a vote. All those in favor say aye.

MS. BEYER: Aye.

MR. BROWN: Aye.

MS. MARCH: Aye.

MS. VICKERS: Aye.

MS. WOLPERT: Aye.

MR. AARONSON: We are now in executive session.

(Whereupon, the meeting went into executive session)

MS. BUDZIK: Yes. If you are going back into public --

MR. AARONSON: Do I hear a motion to go back into public?

MS. MARCH: I move that we go back into public session.

MS. BEYER: Second.

MR. AARONSON: The motion has been made. The motion has been seconded. Any discussion?

We are now -- when we go back on TV, we will be in public session and first there will be a report.

Okay, we are now back on TV. We are back in public session. We heard a report. Will you please give us a summary of the report.

MS. STANG: In the executive session of the variable fund there was an update on various transitions taking place within the variable funds.

MR. AARONSON: Okay, noted. And now we are ready to move on to the Pension Fund. And, Scott, will you --

MR. EVANS: Thank you, Mr. Chairman. We are going to start with the quarterly reports and I am going to give a quick overview and have the asset class heads go through the performance for the various classes. We are going to go through it in a crisper manner than we did last quarter so we can get you through it, but we will be happy to entertain any questions you have.

If you go to your quarterly book and go to page 3, you can see a quick snapshot of the markets in action. Sort of in olive is the quarter you can see Russell 3000 was flat. International equity was down 6 percent and continues to be a very difficult environment in Europe with a lot of fears of deflation. Long-term bonds were flat-ish and high yield and real estate gave back some grounds as risk premiums came back in the market. Since the folks from Rocaton covered this market environment in their remarks, I am not going to repeat it here. Just set the backdrop for our performance.

If you turn to page 7, you can see that the Teachers' Pension Fund was down 1.06 percent during the quarter in the same environment I talked about versus the benchmark return of 0.68.

Now if we are to break down, I am going to skip pages 8 and 9 which have the asset allocation because we will talk about a more updated version of that when we talk about the October results.

If you go straight to page 10, we can break down that 106 basis point negative total plan return and you can see the total plan return of 106, the policy return of 68, and then breaking out the difference. So we had a negative excess return of 38 basis points. 32 or the bulk of that came from manager underperformance. There was a slight trace element of underperformance in the allocation effect, but basically a wash.

And so to look at where it came from within the managers, we have to go to page 13 where we break down the components of the allocation effect and that was basically a wash. So that's, more or less, noise. If we go to the selection effect on the bottom, you can see during the quarter where the negative selection came from and it came from domestic equity at minus 14 basis points, private equity minus 16 basis points. Everyone else was flat. So when you hear reports from those managers, those were the two places during the quarter that we felt the negative returns.

If we go to page 14, we can see how we did versus other large pension funds. On this page we show State Street's universe of pension funds greater than $10 billion. So this is indeed the right class for us to look at. We are the black dot. You are familiar with these charts which shows the full spectrum. The lines show the quartile breaks. So you can see during the quarter we are in the 63 percentile versus the benchmark in the 41 percentile. Over the past year and three years we are, you know, in the top third about 40 percent and trailing the benchmark slightly.

I think that's all I have in terms of the overall impacts. It sort of sets the stage to hear from the asset classes. So if you don't have any questions on the overall allocation, we can turn to the asset class heads.

MR. AARONSON: Any questions?

MR. EVANS: Hearing none, why don't I turn to John Merseburg to talk about equity.

MR. MERSEBURG: If you please direct your attention to page 19, you can see the U.S. stock market as measured by the Russell 3000 Index was flat for the quarter at plus

0.01 percent, basically flat. Teachers' total domestic equity composite underperformed the Russell 3000 by 37 basis points for the quarter and this was primarily driven by the portfolio's overweights to mid and small cap stocks.

If you turn to page 20, we will see that small cap Russell 2000 Index was down 7.36 percent for the quarter, but that the Teachers' small cap composite outperformed that benchmark by 116 basis points. And this was driven by the strong relative performance of the one active manager in the composite.

Moving on to page 21, you see that the mid cap composite was down 3.71 percent and while this was behind the Russell mid cap index it was ahead of the S&P 400 mid cap index.

Next on page 22, we see that the Russell 1000 composite was slightly ahead of its benchmark by 19 basis points.

And moving on to page 23, we see that the Russell 3000 passive composite closely tracks the index over time.

And then finally for U.S. equity on page

24, we see that the U.S. manager of manager's composite was ahead of the small cap Russell 2000 benchmark by 110 basis points for the quarter.

Are there any questions on the U.S. equity portion of the report?

MR. AARONSON: Seeing none.

MR. MERSEBERG: If not, I will turn it over to Tatiana.

MS. POHOTSKY: Can I have you all turn to page 26, please. 26 gives you an overall look at your performance on your total developed markets. Performance is flat with the EAFE index. Active management was essentially flat. Passive was dragged down a bit by the fact that small cap underperformed large cap.

In terms of your managers, the value style outperformed growth. If you look at page 27 so your total developed growth, overall the growth was flat with the overall EAFE index, but slightly behind the EAFE growth index. I want to point out that Walter Scott -- so, you know, last year they had been having some issues in terms of

underperformance and they have turned the corner and for this quarter they were actually up 162 basis points. If you look at page --

MR. AARONSON: Have you looked into the reasons for their performance?

MS. POHOTSKY: We had talked about it in the past meeting. It was just more in terms what their style was, in terms of the high-quality names they had in the past. And as the market is changing and looking for quality, you are seeing improvements.

MR. EVANS: So this is a great example of our rebalancing policy paying dividends for us. Walter Scott had a bad quarter right at the beginning of the summer. We took a look at it and it just looked like their style was out of favor. We were underweight Walter Scott because of their bad performance, so we actually gave them more money after their bad performance and they turned around and their performance came back right. That's actually fairly typical. You can't predict it every time but on average if you have a manager basically going through the bumps in the market, keep them at an even weight you are actually going to give them money when they have the highest probability of gaining. So this is a perfect case of how rebalancing is working in our favor.

MS. POHOTSKY: If you turn to page 28, you see that our value outperformed the balance index by about 81 basis points and about 50 basis points versus the overall EAFE index. The strong point here was Causeway. They outperformed by 206 basis points.

If you look at page 29, this is your developed small cap active. It was slightly below the index which had declined 7.2 percent.

Page 30 is our total passive global and that's slightly ahead of the index.

Turn to page 31, it gives you an overall breakdown of performance in emerging markets. As you can see, it underperformed the index by about 55 basis points. In terms of your managers, Baillie Gifford was slightly underperformed, Eaton Vance was the outperformer of the group up 85 basis points, and DFA trailed by about 2.7 percent

underperformance.

Are there any questions?

MR. AARONSON: Anybody?

Thank you very much.

MR. EVANS: That does it for equity.

MR. GANTZ: We have REITS.

MS. NELSON: Just REITS on page 32. This will be very brief, but just to acknowledge that the REITS portfolio is consistently performing well over the benchmark over extended periods and we will talk a little bit more about REITS in executive session. Just something to update you on and that's it.

MR. GANTZ: And that's actually a very good segue for fixed income. The reason REITS did well primarily is because it's tied to interest rates. As interest rates went down, the denominator used to calculate the REITS portfolio values, the property values went up and so they were -- because it's leveraged, it was a very large contributor to performance on the positive side.

So turning to page 34, that is a chart that shows where the fixed income allocation lies. You will see in dark blue that half of the portfolio in what's labelled "Structure" which is the Core Plus 5 program with the three sectors. If you turn the page, that program is broken down further into its three components which is governments, mortgages and credits. It's about 20, 40, 40. The 20 percent being the government sector, the others are the credit and mortgage sector.

We are -- as you see if you look at the "Under/Overweight" column in the middle, we have been and we are underweight the treasury agency, government sector in this quarter where interest rates went down and spreads actually were volatile and wild a little bit, but ended up tightening as you will see later on. And when we go through the month of October, the highest return was in the government sector that we underweighted.

And, in fact, managers on top of that underperformed by a very modest amount, 16 basis points as you will see in the difference. However, of the fifteen managers that we have in the program, eleven outperformed. Of the four managers that

underperformed, if you take a look at the appendix it was really only by a few basis points. So the program has done well. And in fact when you go out three years, of the fourteen managers only one of them underperformed and that was again a government manager only by a few basis points. So the program has done very well as you see on the next page. So even with the most underweighted asset class doing the best, the program on the left performed to the tune of 23 basis points which was actually one basis point ahead of the benchmark. And that's because of all the managers taken together doing very well with the exception of very few to a small degree.

And if you look at the 12-month numbers, still remarkable for such a low number on a relative basis -- sorry, absolute basis, 581 outperforming by 69 basis points. That's really showing the managers have navigated the markets very, very well and those numbers continue out. In fact, look at the three-year number outperforming by over 80 basis points, five-year number outperforming by 80 basis points. And if you look at the ten and fifteen year numbers while the outperformance is more modest at 20 basis points, if you remember back in 2008 we were underperforming. This outperformance has now undone the underperformance and overcome the underperformance and then some. So we are definitely back on track.

Last thing I want to point out is on the very bottom, the standard deviation which is the volatility performance. So we are earning 5, 6 percent for the past year on through the 4 percent volatility which is a pretty good tradeoff.

Next page shows progress fixed income. This is your emerging manager of manager. Has a little over a year record, about a two-year record and the record is actually quite good. For the quarter, it's flat. For the one year number the return is 101 basis points above the benchmark. So the program has done very well and emerging managers have shown they are able to compete with the big boys, at least in fixed income.

For TIPS, as you know on the next page

we are doing a TIPS search and hope to bring you those results next month. Contracts are expiring. We do have a record. It doesn't show it here. It goes out to five years plus standardized reporting, but we do have a record that goes out nine-and-a-half years. Nine-and-a-half years' record of outperformance is about the order of 20, 25 basis points. We are 25 percent passively invested. State Street has very low tracking error and matches the benchmark very well because over-replication. For the quarter the return was negative 205 right on top of the benchmark of minus 204. And you see the returns for the other time periods have very, very close to the overall benchmark returns and the universe of returns, which may give you a hint what our potential recommendations are going to be, part of it at least, for next month for TIPS.

For high yield on page 39, spreads contracted and were volatile for the month and that's why you see negative returns of minus 203. Of the eight managers, only one outperformed and the other managers that came close to outperforming or were the least underperformers were the defensive managers as we would have expected. And, in fact, if you break down further -- you don't see it in the quarter but if you break down the months, so the month of September the most effective manager you have which is Schenken which -- had been underperforming for five years because they are a defensive manager in a bull market. So of course as we expected and hoped in a defensive manager's market where the market went down and spreads widened, they were our best performer.

So the program has worked as expected. Longer-term results are good. The three and five-year numbers are slightly behind the benchmark and that's because some of the managers, if you recall, went away in 2012 when we redid the program. But the long-term numbers have done nicely. And, in fact, the three-year number on an absolute basis is 10 percent, which is remarkable for high yield.

Bank loans is a diversifier for high yield which is on the next page. So you see on the page before we underperformed by 2

percent. Bank loans showed its worth by being diversifier within high yield. So for the quarter while the return was flat, it was 33 basis points ahead. And of the five managers, four beat the benchmark. The most aggressive aggressive manager did not, so it shows over this time why we have it in the portfolio. And for the one-year period which we now have, the performance was 54 basis points ahead of the benchmark. The returns are lower on an absolute basis because the risk is lower, but that's part of the diversification and why we have it in the portfolio.

Convertible bonds are on page 41. These are most high-yield equities. So with volatility in the equity markets and the fixed income markets, you had negative returns. So in dark blue, the returns of minus 113 which were 32 basis points behind the custom benchmark. And the custom benchmark is simply the -- each manager have a separate benchmark. It's a weighted average of their individual benchmarks.

One thing I want to point out: If you look at the longer-term periods where the numbers are strongly positive on an absolute basis, we have been talking about this for quite a number of years, in a bull market they are going to be underperforming because the benchmark is flawed because it contains issues in a bull market that can go up to 10 percent or even more. And no manager is going to own 10 percent of anything but those securities that go up and up as the managers are cutting back and doing recruiting portfolio manager techniques in their portfolio, the index keeps having to weight higher and higher.

On the flip side: When the market went down as you see for the quarter ending September, this turned around and the managers outperformed that benchmark. So over a full cycle, we expect the managers to outperform. Unfortunately for five years we have had a bull market. I am not wishing that the market goes down, but this is an illustration of what we have been talking about over the last few years.

Opportunistic fixed income continues to be the star of fixed income performance and the portfolio on page 42. The returns were

positive even in a very difficult time, returning over the 10 percent benchmark, 86 basis points. And the gray shows the high-risk benchmark, which is showing for risk purposes. And for the longer times periods the returns are in the teens doing exactly what we expect them to do. The fund is about 2.1 percent in opportunistic fixed income.

And unless you have questions, I am going to turn it over to Chris for ETI.

MR. PAK: Good morning. If you turn to page 43, you can see a breakdown of the Teachers' ETI portfolio. During the third quarter, the Teachers' ETI portfolio returned 31 basis points beating its present benchmark by 10 basis points. But if you look over the past 12 months, the Teachers' ETI portfolio actually beat its benchmark by 296 basis points.

We do have one correction for you in the weeds of this book on page 63. Our performance updated our numbers last week after the book went to print. So if you look on page 63 for Access RBC, the one-year number which is printed at 3.96 is just 3.91, the three-year number 2.77 is adjusted to 2.5, and the five-year number is from 3.90 adjusted to 3.89.

Now if you look to the big board book and if you turn to page 7, we have a detailed breakdown of the investments that took place in the ETI portfolio. On page 7 we have the PPAR portfolio which beat its benchmark which 28 basis points in the third quarter. The Teachers' ETI portfolio purchased roughly $17.7 million of loans to preserve 635 units. And in addition, during the third quarter the Teachers' ETI portfolio extended an additional $3.5 million in gridlock commitments for 97 units.

Now if you flip to page 9, we have our AFL-CIO HIT multifamily program. This portfolio was right on top of its benchmark, but over the last 12 months outperformed its benchmarks for 45 basis points.

On page 10 we have the AFL-CIO HIT workforce housing initiative and this portfolio actually made an additional $5 million investment for in Bronx Mitchell-Lama buildings impacting 776 units.

And on page 11 we covered the Access Capital strategy portfolio where it -- this portfolio outperformed its benchmark by 26 basis points and the Teachers' Access portfolio invested roughly half a million dollars to extend loans to eight single-family homes.

And unless there are any other questions, I would like to turn it over to private equity.

MR. DEL GAUDIO: Good morning, everyone. So now we are back to the -- we are starting in the large agenda book on page 23. Give you one second to get there.

So on page 23 you will see that as of June 30th, private equity represented 4.5 percent of total Teachers' planned assets relative to 6 percent target, with a market value of 2.6 billion. Looking at the portfolio summary table in the middle of the page you can see that as of June 30th, Teachers had approximately 5.4 billion in active commitments across 91 managers, 141 funds with a market value of 2.6 billion, unfunded commitments of 2.2 billion resulting in a total exposure of approximately 4.8 billion to the asset class. The portfolio since inception net IRR increased slightly to 9.59 percent from the prior quarter end with the TVM or total value multiple holding steadily at 1.3 times.

If you turn with me to the next page, page 24, you will look at a summary of your recent commitments. And you can see that the program closed on three commitments during the first two quarters of 2014, committing 400 million to three high-conviction managers and at the bottom of the page lists your subsequent commitments to -- subsequent to quarter end. Teachers closed on an additional 167 million in commitments to three partnerships.

Moving ahead to performance, on page 26 please, you can see your portfolio's return presented over various time periods against various benchmarks. Since inception the portfolio generated a 9.95 percent IRR, lagging the program's benchmarks. On a one-year basis the portfolio generated a 15.54 percent net IRR. And while this is very

strong on an absolute basis, this did however trail the program's benchmark due to the continued strong performance of public markets during the quarter. It's worth mentioning that this 16.5 percent figure represents 608 basis point increase when compared to the portfolio's one-year return a year prior as of June, 2013 which was 9.5 percent. So we have seen some uplift in the one-year number year over year.

On page 28 --

MR. AARONSON: Before you go to page 28, the bottom bar in the comparisons on page 26, the bottom bar is the Russell 3000?

MR. DEL GAUDIO: The bottom of the four bars is the Russell 3000 plus 300 basis points.

MR. AARONSON: Plus 300?

MR. DEL GAUDIO: Yes.

MR. EVANS: Public market equivalent. You need extra 300 basis points to compensate for the extra risk.

MR. DEL GAUDIO: If there are no more questions there, on page 28 I just wanted to draw your attention quickly. You will see the portfolio's performance broken out by strategy and sub-strategy. You can see that special situations at 18.75 percent net IRR, large buyout at 17.02 percent net IRR, secondaries at 14.46 percent net IRR, and growth equity at 13.92 net IRR. These strategies continue to perform very well for Teachers.

The next page just lays out your returns on a vintage year basis and a couple of takeaways here. You noticed that the system posted very strong year returns in the 2001 to 2003 vintage years as compared to the benchmark median and public market equivalents. This was largely driven by strong performance from some of your early commitment to large buyout and secondary managers. Then looking down the chart you will see though that the 2004 to 2009 commitments, however, did generally underperform the benchmarks and this is largely due to an over diversification of commitments to noncore managers and inconsistent pacing. The good news though is that if you continue to look down that chart, you are starting to see some of your recent

commitments to the 2011, 2012 vintage years posting very strong results. Beyond 2012 is probably not meaningful at this point. It's very -- still very young in the gestational phase for the funds.

So those are some key takeaways on the vintage year performance. Just a couple more remarks before I am done.

On page 30 we wanted to highlight quarterly cash flows. This actually goes through September, 2014 and you will notice that the portfolio has been cash-flow positive to Teachers three out of the last five years quarters.

And then just lastly on page 31, we will look at some of your portfolio's exposures and you will see on the left the portfolio remains diversified by strategy with buyouts consisting the largest exposure of 57 percent total compared to 85 percent target. And in terms of geography, on the right at the portfolio company level North America represents the largest exposure at 81 percent, Western Europe at 15 percent with 4 percent rest of the world.

So that concludes my prepared remarks and if there aren't questions, I think real assets are up next.

MR. AARONSON: Can we in the future get a report on this page, the exposure of New York State and New York City?

MR. DEL GAUDIO: Sure. We will definitely make a note of that and come back to you. Thank you.

MS. NELSON: Good morning.

MR. AARONSON: Again.

MS. NELSON: So -- yes, but for the first time for me.

The big board book we are going to continue on page 45. We are going to start the review of the performance highlights for real assets. I am going to speak on real estate and I guess the key takeaway for my comments today is that I commented that realistic recovery was underway, probably strongest and definitely strongest in the U.S. And we are starting to see signs that the recovery is really taking hold and perhaps in the U.S. reaching an expansion stage, so I am going to tell you some of the things that we

have been seeing.

So domestically here, real estate in the U.S. we have been benefiting of course from the low interest rate environment. An interesting positive change, however, is the better access to financing for people seeking to invest in real estate which has driven a higher level of transaction volume which the consultants are commenting on on page 45. So globally, there is estimate of about $700 billion in volume expected by yearend which would constitute about a 20 percent increase over the level of transactions that we have seen worldwide over last year. So this strong interest in real estate is pushing up pricing, driving down yields especially in the gateway cities here in the U.S. like New York City, Boston, San Francisco and D.C. But with that low-cost financing that I talked about what investors are doing is that they are stretching for yields, they are pursuing deals at other cities that folks call secondary markets but you probably consider them quite big and that would be Austin, Miami, Houston and other cities like that.

Another interesting signal is that vacancies across commercial real estate is decreasing. Demand is increasing and continuing to outpace supply so a very, very good market dynamic there.

The next thing which indicates expansion is that there is actually rental growth being observed across commercial real estate in all property types. So what does that mean for the Teachers' portfolio, right? Well, first of all, your values are moving up. The market value as of second quarter is 1.3 billion, which reflects a yearly increase of about 18 percent over where you were second quarter 2013. So if we even look at the performance on page 45 in the lower right-hand side, you will see a bar graph that depicts the performance of Teachers versus its benchmark. The benchmark is in the lighter bar. TRS is in the darker bar. The benchmark for real estate is the ODCE Index, plus 100 basis points premium in recognition of the fact that our portfolio is comprised of both core plus properties and opportunistic noncore properties. And as you can see here that for

the near term and for extended periods, the performance of the Teachers' real estate portfolio is quite strong. Only for the three year you are like maybe 10 basis points behind the benchmark, but other than that clearly outperformance in every time period that's being depicted here.

Real estate is a long-term asset class, so I think what's really important is to look at the ten year. The ten year is the time period that we highlight in our IPS as to whether or not we are performing or not performing. And as you can see, at least in this snapshot, we are ahead -- significantly at 370 basis points ahead of the benchmark at the ten year.

So now that we have talked about where the performance of the portfolio is and general market conditions, let me continue to give an overview of your portfolio. There is a 6 percent allocation to real assets, as you know. And as of second quarter '14, we talked about the market value being at 1.3 billion. We also have commitments that are unfunded at another billion and so our exposure to the real estate asset class is 2.3 billion and that's being executed by about 35 managers. We have about 45 investments as of this particular point.

MR. AARONSON: Excuse me a second. The real estate unfunded commitment is $1 billion?

MS. NELSON: $1 billion.

MR. AARONSON: Are we paying a fee to the managers on that uncommitted?

MS. NELSON: In some instances, yes and some instances, no. So it depends, so yes.

MR. AARONSON: We are paying a fee?

MS. NELSON: We are paying a fee on committed in some of the deals. In some of the deals we are not.

MR. EVANS: When you say -- is it true, Yvonne, that in the real estate asset class we have a little bit better negotiating leverage on this point than we do in the private equity class just because of the practice in the industry?

MS. NELSON: Yes. So in instances where we are paying on committed, it's definitely lower than what we have seen in the past. So you are right. LPs are able to kind of exert

some pressure and we have seen, you know, commitment fees go down, trending down for the most part.

MR. AARONSON: I have said it many times over the years --

MS. NELSON: I know.

MR. AARONSON: -- paying fees on committed money is -- I think a very, very unreasonable expense. It's not -- I always go back to depending on the fees.

The average teacher's pension in New York City is about 45 to $50,000. If we are paying fees on money that is not earning anything, then I don't know how much the fees total but I am sure it's many, many, many, many teachers' retirement pensions. And we would like even greater efforts, if we can, to reduce that both here and in the private equity.

And if you have in your mind, like I have in my mind, all that money is money that goes to pay teachers' pensions. Think about it. Think back to your little elementary school teacher who is now collecting her pension or his pension. And by giving the money to these people instead of keeping it and using it for the pensions, we are hurting our members. So think of it as it affects the members of the system like I do and I think maybe -- maybe a greater reason to try to cut that back.

MS. NELSON: Yes, and we do very much understand and respect that position. And, you know, fortunately the performances is, you know, positive and working and positive direction despite fees.

MR. AARONSON: But if you have positive and you pay less fees, then the positives is even greater.

MS. NELSON: Oh, absolutely. Absolutely and we hammer them as much as we can.

MR. EVANS: Now, you have our assurances that not just paying uncommitted but paying for anything, any fees that we pay is -- know any dollar fees that we pay is a dollar less in pensions to the teachers. We are very cognizant of that, so we always look to get maximum value from any fees that we pay.

And we agree with you, we far prefer a structure where we pay only fees on invested

capital rather than on committed, but we also prefer to have managers that can add value. So it's a tradeoff.

MR. AARONSON: Never mind paying for value. Talk about that after, yes.

Anybody else besides my big mouth? Okay.

MS. NELSON: The last thing I want to mention is that subsequent to the quarter, we have committed and closed on the Almanac Realty Securities VII commitment on behalf of TRS and other systems. For TRS it's $65 million, so thank you. And that concludes the real estate presentation.

MR. AARONSON: Are we going to get to the geographic?

MS. NELSON: Actually, we can. I thought we were going for the abbreviated version, but the following pages of this report show how we try to mitigate risk in terms of diversification, the geography, geographic diversification, property type diversification, and manager diversification.

So on the geography, if we look at the page number on the bottom it will be page 5, right, and so that shows a geographic diversification for the portfolio. And, you know, for the most part it is, you know, 88 percent domestic portfolio, 12 percent ex-U.S.

MR. AARONSON: Go back to geographic diversification again. How much of our portfolio is in New York City, New York State and can you break that out for us in the next report?

MS. NELSON: Yes, we certainly will.

MS. MARCH: I would like to request, can we please take a look at the AFL-CIO HIT not because the first three letters are AFL-CIO, but because historically they have been good performers. And when you look at what happened in '08, '07, they were the only institution that we dealt with in real estate that had absolutely no problem with their mortgages. So we should reward the low-fee payers and the good result-makers. So we have looked at them, but I would like to -- I would like to see if they have any other products that we could invest in.

MS. NELSON: Okay.

MR. EVANS: Infrastructure then is next.

MS. VICKERS: Oh, wait. Did Chris want to say something about HIT?

MR. PAK: Yes. So we have the AFL-CIO in the ETI portfolio and it's certainly --

MS. MARCH: Oh, we know that. We want you to have more of it in our portfolio because of the fact that they have performed so well. They have always done the correct thing from the fiduciary perspective and they have always brought us good earnings.

MR. PAK: Absolutely. And we are -- you know, we are in constant communication with them. And if they do -- they sometimes bring us, you know, investment ideas that may fill capital gaps and we, you know, investigate fully. So if there are further investment opportunities, we will be sure to --

MS. MARCH: Thank you.

MR. AARONSON: Yvonne, are you finished?

MS. NELSON: So we will move on to Petcha to talk about infrastructure.

MS. NIKALOVA: Good morning.

MR. AARONSON: Good morning, Petcha. How are you?

MS. NIKALOVA: Good. How are you? I will be very brief and the reason for that is it's still a developing portfolio. It's a new portfolio. We added one manager in the second quarter so the current exposure right now for Teachers is 370 million and one of our managers is actively invested, so today 36.2 million had been invested. The partnerships that we have invested in are all in the core strategies as defined by the IPS, so this includes core and value add. And again it's a new portfolio, it's a developing portfolio so the results are still not very meaningful but relative to the benchmark which is CPI Class 4 percent and -- for the last quarter this was 6.1 percent. We are doing well. The net IRR is paying on 6, so again not very meaningful just because it's early. And of the three partnerships, one is actively investing but it's moving in the right direction.

With that --

MR. AARONSON: That's your report?

MS. NIKALOVA: Pardon me?

MR. AARONSON: That's your report?

MS. NIKALOVA: That's the report.

MR. AARONSON: So the only thing I want to add, can we move it in the right direction more speedily?

MS. NIKALOVA: Yes.

MR. AARONSON: Thank you.

MS. NIKALOVA: We are working on it. Thank you.

MR. EVANS: That concludes our quarterly report for the first quarter of the quarter ending September 30th, first quarter of the fiscal year. And I will now turn it over to Martin to give you a brief update on October and sort of a peek at November market conditions and then we will go to executive session.

MR. GANTZ: Thank you, Scott. And I suppose the most important word you mentioned earlier was "brief."

Good morning, Mr. Chairman.

MR. AARONSON: Good morning, Mr. Gantz.

MR. GANTZ: Good morning and trustees, good morning.

Looking at this book, we have extra copies, this is the results for October as well as a hint of November. So I am going to take you through just a few charts to go through about what's going on.

We hinted before bad month, good month, bad month. October was pretty much the height of this volatility. The first half was dreadful continuing September and then it turned around on a dime. Right around the time that one of the fed chairmen mentioned -- even though the QE program is over and at that point was about to be over, one of the fed chairman mentioned that it may not be over and we can always bring it back. So that -- that seems to have been the trigger-point for the market to calm down. No one really knows what exactly the trigger-point is, but it coincided with that.

And -- but if you take a look at page 15 and page 16 which are currency charts, page 15 shows the U.S. dollar versus a basket of the largest currencies out there. U.S. economy is ahead of most other economies in terms of growth and in terms of the fact that we ended QE and interest rates were likely to go higher, certain short-term rates and therefore long-terms rates to follow by. Based on

supply and demand, we expect it to go higher. So it's been a mystery as to why the dollar has not been strengthening ahead of that. Well, sure enough, it is now strengthening as you see on page 15. That's logical because investors, if our 10-year rates are in the 2s, we will go through that in a moment, and Germany and France are at record lows below 1 percent, logic says if investors are comfortable with the credit of both they would put the money where the highest return is expected. And that's one of the reasons the dollar is appreciating finally.

And if you look at the next chart which is just isolating the dollar versus the euro, the euro is finally depreciating meaningfully against the dollar and there is a lot of expectations that it can go towards a parity effect. So it's taken a while, but it's finally moving. This is bad for exporters in the U.S. because it ultimately causes their prices to be higher overseas, but ultimately it makes imports much cheaper and inflation under control.

If you take a look on page 18, the

volatility index, this was a really wild ride all the way over to the right. September and October we mentioned volatility. We really see that here. It went from a low of low teens to mid-to-upper twenties and now we are back down to 13. So September and October was very volatile and this is a picture that really shows it. And we are back down to the market being calmer and, sure enough, we are at record highs.

Take a look at page 20 where 10-year treasury rates were. It doesn't show on the chart because it's intraday, but when we ran this a week ago it was 231. We are approximately there now, but that little dip here about a month ago in October sort of the crescendo of the volatility panicking. There was a day the 10-year treasury started the day at about 1,015 and few hours later was 185 and ended the day back at 215. So it was a panic move and things at that point have calmed down considerably since then. That was pretty much the panic for now and that was mid-October.

The next page shows investment grade and high-yield spreads. High-yield spreads are in

red and have during the panic crept up. It only looked like a blip, but it did creep up intraday to 500 basis points which meant things were on sale at higher yields and our high-yield managers were able to take advantage of that. Right now it's 415. Investment grade is still high quality and, therefore, not moving much at 112 because the credit rating is much higher.

On page 25 it's just shows a pictorial summary of three major developed markets in white. This is a one-year chart. White is U.S. for one year period ending when we did this a week ago, yellow is emerging markets, and orange is EAFE. As you can see, the two non-U.S. are basically flat for the year and U.S. is well ahead, up 15 percent. So that's why we think it's an opportunity in the non-U.S. equity versus U.S. based on valuations and also based on performance, as Scott will probably mention in a couple of minutes.

So how did we do in October? On page 27 and 28 we show what the results were and I have a hint for November as well. So if you take a look at the first set of numbers, the column the Russell 3000 as John Merseburg mentioned was flat for the quarter 0.01 while earning 2.75 percent the fiscal year to date now 2.76. So it was a very good month for the month of October hitting back up to the record highs. And now past that, past the old record highs, the next set of numbers shows EAFE was down 145. Not because there were problems with the companies, but because the euro as shown in the prior charts is depreciating against the dollar and that outweighed the increase in the stock prices. So as a dollar investor, you need to know what the stock price is doing as well. For -- emerging markets, because it's tied mostly to the dollar, had a very good month of 118. All the way at the bottom of the page, core plus 5 was up. That is because of interest rates, as you saw. The next page, high yield, did well at 1-1/2 percent. Bank loans did well as diversifier at 29 basis points. Basically everything did well. And the real star was REITS over 10 percent and that's because, as I was mentioning when Yvonne was talking about

it, REITS are very tied to interest rates. And so it's a leverage instrument, so you have better results there.

So what happened in November? Well, if you go back to the Russell 3000 that added 275, added now another 242. EAFE was down actually added 142, positive manager. Emerging markets was down 1 percent, but the other numbers were mostly up with the exception of high yield because rates keep going down and spreads tighten again after they widened. Bank loans were up. High yield was down 83 basis points as spreads widened a bit. But convertible bonds, REITS, TIPS, they were all up.

So putting it all together on the next page, page 29, the one-month return for October, take a look at the left bar, was 156. It's just a weirdness of how the calculations worked. It's not a typo. The three-month number was also 156 and the fiscal year to date was about one-half of 1 percent. I can tell you we ran the numbers just as recently as of a couple of days ago, actually two days ago, and the numbers are now approaching 2

percent positive. It's in the high ones, so next month this time we will have the November numbers for you. These are our estimates, not the official numbers. We will have the official numbers for you, but they are now obviously better than one-half of 1 percent. So we did very well.

So how are we positioned? That's shown on page 30 and I will turn it over to Scott.

MR. EVANS: Sure. This is the chart that I comment on every month if you have zeros across all the asset classes, we are exactly on plan on our long-term allocation. With the fed easing largely behind us, we are in a more uncertain environment. The market is fairly directionless. You have seen this over the past couple of months. And without being paid a tremendous amount to take risk in any one sector, we stayed pretty neutral. We look a little different than the benchmark.

As you can see here, we are still overweight U.S. equities and this is primarily due to the fact that U.S. equities keeps outperforming so we are selling it down. And if you take a snapshot today you will see that

you are looking back to October 31st, but as of today the U.S. equity is much lower and we have put money into Europe and the emerging markets, sort of equal over exposure. You can't see it here, but I am just telling you the moves that we have made in our focus is to continue to stay close to zero.

You will see us be underweight long-term bonds in blue and overweight short-term bonds in gray until markets resume at the normal liquidity premium in the bond markets. That is something we are not expecting to change real soon, but when it does it will probably change quickly and in an unpredictable way and we want to make sure we are not sitting with very long overweight in very long-term bonds.

So not much has changed. We continue to work the rates down. And when you see the snapshot next month, the markets stay relatively flat where they are. You will see the U.S. equities is lower and the international equities is a little higher.

MR. GANTZ: In fact, it should be less than 1 percent now.

MR. EVANS: Correct. Okay, Martin,

anything else here?

MR. GANTZ: Unless you have questions, we have obviously the same chart on page 32, all the numbers percentages and policies.

The last chart I want to show, the charts on page 35 and page 36 which are the market values. So October was a good month, so we are back up to $58.5 billion. I ran the numbers. The all-time high was 59.2 billion back in August. We are pretty much at an -- it's hard to say because it's my estimate. We don't have the official numbers from the custodian for November yet, but based on my numbers we are on either side of that 59.2. So we are either a new record high or just shy of it. So back to where we were at the record high and the 10-year number is 7.36 percent.

MR. EVANS: With that, Mr. Chairman, we conclude our public comments and would be happy to take questions or move to executive session, if you desire.

MR. AARONSON: Anybody with questions? No questions, so we can move.

MS. MARCH: I move pursuant to Public

0058

Officers Law Section 105(a) that we go into executive session for the purpose of discussing the purchase and sale of securities and updates on specific managers.

MR. AARONSON: Do I hear a second?

MS. BEYER: Second.

MR. AARONSON: Any discussion? Those in favor say aye.

MS. BEYER: Aye.

MR. BROWN: Aye.

MS. MARCH: Aye.

MS. VICKERS: Aye.

MS. WOLPERT: Aye.

MR. AARONSON: We are now back in executive session.

(Whereupon, the meeting went into executive session.)

MS. MARCH: I move that we move out of executive session.

MS. WOLPERT: Second.

MR. AARONSON: Do I hear a second?

MS. WOLPERT: Second.

MR. AARONSON: Is there any discussion? Seeing none, those in favor say aye. Aye

MS. BEYER: Aye.

MR. BROWN: Aye.

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MS. MARCH: Aye.

MS. VICKERS: Aye.
MS. WOLPERT: Aye.
MR. AARONSON: We are now out of executive session and on TV. And could we get a summary of what we did in executive session?
MS. STANG: Certainly. In the executive session of the pension funds, a report on various portfolios transitions was received and discussed. Two reinvestments in two separate private equity partnerships was presented and discussed. Consensus was reached which will be announced at the appropriate time. Questions about performance reporting, trustee education, and the mix of active and passive investments were raised and discussed.
MR. AARONSON: Thank you very much. Is there -- oh, we are waiting for --
MS. BUDZIK: The law department is here. There will be an attorney-client session meeting.
MS. MARCH: I have to move us into attorney-client?
MS. BUDZIK: The attorney-client meeting

will take place after the meeting. I can state for the record there will be a decision made by the board at the meeting relating to a securities litigation matter. Obviously it's a privileged decision. It will not be reported in the minutes, but there will be a board action at the meeting.
MR. AARONSON: Okay. So we just have to adjourn the public meeting?
MS. BUDZIK: Yes.
MR. AARONSON: Okay. Do I hear a motion to adjourn?
MS. MARCH: So moved.
MR. AARONSON: Second?
MS. VICKERS: Second.
MR. AARONSON: Any discussion? All those in favor of adjourning say aye.
MS. BEYER: Aye.
MR. BROWN: Aye.
MS. MARCH: Aye.
MS. VICKERS: Aye.
MS. WOLPERT: Aye.
MR. AARONSON: We are adjourned.
[Time noted: 12:40 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 7th day of December, 2014.

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YAFFA KAPLAN