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Chief Investment Officer

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**MEMORANDUM**

**TO:** Trustees  
Teachers' Retirement System of the City of New York

**FROM:** Larry Schloss

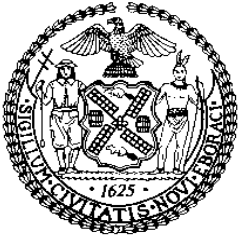
**DATE:** February 25, 2010

**RE:** **Teachers' Retirement System of the City of New York Investment Meeting  
March 4, 2010**

Attached is the public agenda for the March 4, 2010 Investment Meeting to be held at 55 Water Street, 16th Floor Conference Room beginning at 9:30 a.m.

Please remember to bring your quarterly book with you to this meeting.

If you have any questions about any agenda item, please give me a call at 212-669-8318.



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, N.Y. 10007-2341

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John C. Liu  
COMPTROLLER

# **TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK**

## **INVESTMENT MEETING**

**MARCH 4, 2010**

# **TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK**

## **INVESTMENT MEETING**

**MARCH 4, 2010**

### **PUBLIC AGENDA**

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|--|-------------|
| I. Performance Reviews: (45 Minutes)                             |             |
| • Flash Report (Handout)   | --          |
| • Quarterly Reports:   |             |
| ➤ Overall Performance – December 31, 2009<br>(To be distributed) |             |
| ➤ ETI Quarterly Report – December 31, 2009                       | 6           |
| ➤ Real Estate Quarterly Report – September 30, 2009              | 13          |
| ➤ Private Equity Quarterly Report – September 30, 2009           | 21          |

## **PUBLIC AGENDA**

## I. Performance Reviews

## **ETI QUARTERLY REPORT**

## Public/Private Apartment Rehabilitation Program (PPAR)

| Lender*  | CPC                 |              | NHS              |           | CCD                |            | CCB              |           | NCBCI              |            | LIIF               |            | All Lender Totals   |              |
|--|---------------------|--------------|------------------|-----------|--------------------|------------|------------------|-----------|--------------------|------------|--------------------|------------|---------------------|--------------|
|  | Dollars             | Units        | Dollars          | Units     | Dollars            | Units      | Dollars          | Units     | Dollars            | Units      | Dollars            | Units      | Dollars             | Units        |
| Contractual Commitments                        | \$235,000,000       | n/a          | \$5,000,000      | n/a       | \$13,200,000       | n/a        | \$49,500,000     | n/a       | \$8,250,000        | n/a        | \$8,250,000        | n/a        | \$319,200,000       | n/a          |
| Current Market Value                           | \$54,642,798        | n/a          | \$412,058        | n/a       | \$1,660,844        | n/a        | \$792,760        | n/a       | \$196,269          | n/a        | \$1,786,082        | n/a        | \$59,490,811        | n/a          |
| Forward Rate Locks                             | \$95,552,949        | 4,256        | \$180,213        | 5         | \$8,497,163        | 388        | \$0              | 0         | \$1,979,742        | 191        | \$387,750          | 23         | \$106,597,817       | 4,863        |
| <b>Total Rate Locks - Detail</b>               |                     |              |                  |           |                    |            |                  |           |                    |            |                    |            |                     |              |
| Bronx  | \$17,075,599        | 1,139        | \$0              | 0         | \$882,750          | 76         | \$0              | 0         | \$0                | 0          | \$0                | 0          | \$17,958,349        | 1,215        |
| Brooklyn                                       | 50,293,929          | 1,729        | 180,213          | 5         | 5,398,407          | 65         | 0                | 0         | 0                  | 0          | 0                  | 0          | 55,872,548          | 1,799        |
| Manhattan                                      | 16,885,762          | 1,135        | 0                | 0         | 1,333,257          | 171        | 0                | 0         | 1,979,742          | 191        | 387,750            | 23         | 20,586,511          | 1,520        |
| Queens   | 3,117,514           | 65           | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 3,117,514           | 65           |
| Staten Island                                  | 0                   | 0            | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 0                   | 0            |
| <b>Total</b>                                   | <b>\$95,552,949</b> | <b>4,256</b> | <b>\$180,213</b> | <b>5</b>  | <b>\$8,497,163</b> | <b>388</b> | <b>\$0</b>       | <b>0</b>  | <b>\$1,979,742</b> | <b>191</b> | <b>\$387,750</b>   | <b>23</b>  | <b>\$97,534,922</b> | <b>4,599</b> |
| <b>Rate Locks 4Q 09</b><br>(Included in above) |                     |              |                  |           |                    |            |                  |           |                    |            |                    |            |                     |              |
| Bronx  | \$1,286,053         | 50           | \$0              | 0         | \$882,750          | 76         | \$0              | 0         | \$0                | 0          | \$0                | 0          | \$2,168,803         | 126          |
| Brooklyn                                       | 6,516,250           | 130          | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 6,516,250           | 130          |
| Manhattan                                      | 377,843             | 8            | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 387,750            | 23         | 765,593             | 31           |
| Queens   | 0                   | 0            | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 0                   | 0            |
| Staten Island                                  | 0                   | 0            | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 0                   | 0            |
| <b>Total</b>                                   | <b>\$8,180,145</b>  | <b>188</b>   | <b>\$0</b>       | <b>0</b>  | <b>\$882,750</b>   | <b>76</b>  | <b>\$0</b>       | <b>0</b>  | <b>\$0</b>         | <b>0</b>   | <b>\$387,750</b>   | <b>23</b>  | <b>\$9,450,645</b>  | <b>287</b>   |
| <b>Historical Investments</b>                  |                     |              |                  |           |                    |            |                  |           |                    |            |                    |            |                     |              |
| Bronx  | \$22,994,415        | 1,496        | \$0              | 0         | \$0                | 0          | \$0              | 0         | \$0                | 0          | \$0                | 0          | \$22,994,415        | 1,496        |
| Brooklyn                                       | 27,504,652          | 1,202        | 150,000          | 2         | 1,230,570          | 113        | 0                | 0         | 0                  | 0          | 1,785,452          | 174        | 30,670,674          | 1,491        |
| Manhattan                                      | 20,423,626          | 1,020        | 252,445          | 15        | 375,120            | 33         | 780,290          | 87        | 197,959            | 13         | 0                  | 0          | 22,029,440          | 1,168        |
| Queens   | 19,957,325          | 826          | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 19,957,325          | 826          |
| Staten Island                                  | 0                   | 0            | 0                | 0         | 0                  | 0          | 0                | 0         | 0                  | 0          | 0                  | 0          | 0                   | 0            |
| <b>Total</b>                                   | <b>\$90,880,018</b> | <b>4,544</b> | <b>\$402,445</b> | <b>17</b> | <b>\$1,605,690</b> | <b>146</b> | <b>\$780,290</b> | <b>87</b> | <b>\$197,959</b>   | <b>13</b>  | <b>\$1,785,452</b> | <b>174</b> | <b>\$95,651,854</b> | <b>4,981</b> |

\*Lender CPC = The Community Preservation Corporation

\*Lender NHS = Neighborhood Housing Services of NYC

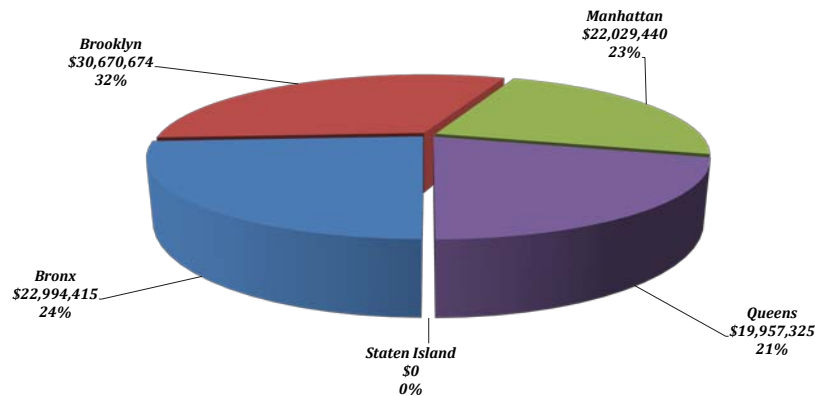
\*Lender CCD = Citibank Community Development

\*Lender CCB = Community Capital Bank

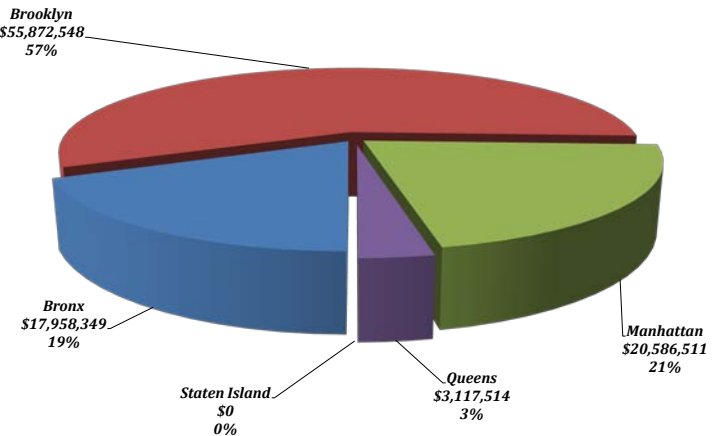
\*Lender NCBCI = NCBC Capital Impact

\*Lender LIIF = Low Income Investment Fund

Historical Investments Since Inception All PPAR Lenders



Current Commitments All PPAR Lenders



**AFL-CIO Housing Investment Trust (HIT)**  
**Market Value \$141.0 million**  
**NYC Community Investment Initiative (NYCCII)**

**NYCCII PHASE II 2006-2012**

**Multifamily Investments Detail**

| <u>Borough</u> | <u>Dollars</u>       | <u>Units</u> |
|----------------|----------------------|--------------|
| Bronx          | \$52,827,900         | 802          |
| Brooklyn       | 0                    | 0            |
| Manhattan      | 44,075,200           | 436          |
| Queens         | 17,760,000           | 1,260        |
| Staten Island  | 0                    | 0            |
| <b>Total</b>   | <b>\$114,663,100</b> | <b>2,498</b> |

**Single Family Investments Detail**

|               | <u>Home Loans</u>      | <u>Transactions</u> | <u>Member Loans</u> | <u>Total All NYC PF's</u> |
|---------------|------------------------|---------------------|---------------------|---------------------------|
| Bronx         | \$82,763,781           | 376                 | 81                  | 146                       |
| Brooklyn      | 380,063,614            | 1345                | 296                 | 545                       |
| Manhattan     | 57,599,162             | 208                 | 71                  | 81                        |
| Queens        | 451,333,993            | 1781                | 334                 | 585                       |
| Staten Island | 131,325,464            | 467                 | 80                  | 164                       |
| <b>Total</b>  | <b>\$1,103,086,014</b> | <b>4,177</b>        | <b>862</b>          | <b>1,521</b>              |

**Grand Total NYCCII Phase II**      **\$1,217,749,114**

\*Interest is reinvested

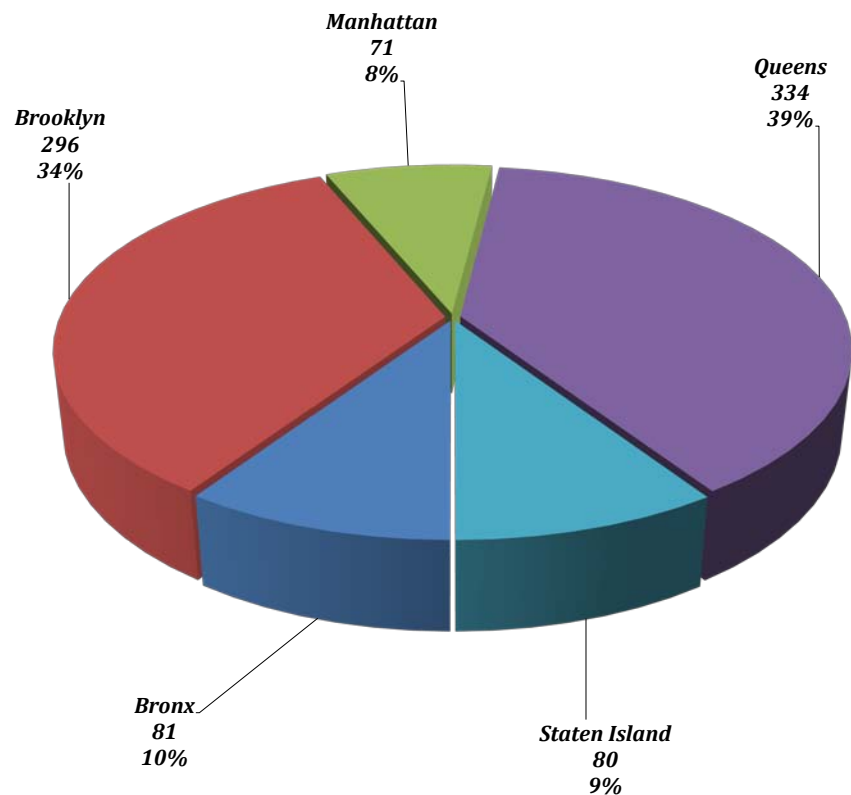
**NYCCI Phase I 2002 - 2005**

|                             |                      | <u>Units</u>  | <u>Member Loans</u> | <u>Total All NYC PF's</u> |
|-----------------------------|----------------------|---------------|---------------------|---------------------------|
| Multifamily Investments     | \$249,123,500        | 12,337        | n/a                 | na                        |
| Single Family Investments   | 348,300,563          | n/a           | 133                 | 446                       |
| <b>Total NYCCII Phase I</b> | <b>\$597,424,063</b> | <b>12,337</b> | <b>133</b>          | <b>446</b>                |

**NYCCI Phases I & II**

|   |                        | <u>Units</u>  | <u>Member Loans</u> | <u>Total All NYC PF's</u> |
|---|------------------------|---------------|---------------------|---------------------------|
| Multifamily Investments                     | \$363,786,600          | 14,835        | n/a                 | na                        |
| Single Family Investments                   | 1,451,386,577          | n/a           | 995                 | 1,967                     |
| <b>Grand Total NYCCII Phases I &amp; II</b> | <b>\$1,815,173,177</b> | <b>14,835</b> | <b>995</b>          | <b>1,967</b>              |

**HIT Home Loan To TRS Members Phase II**





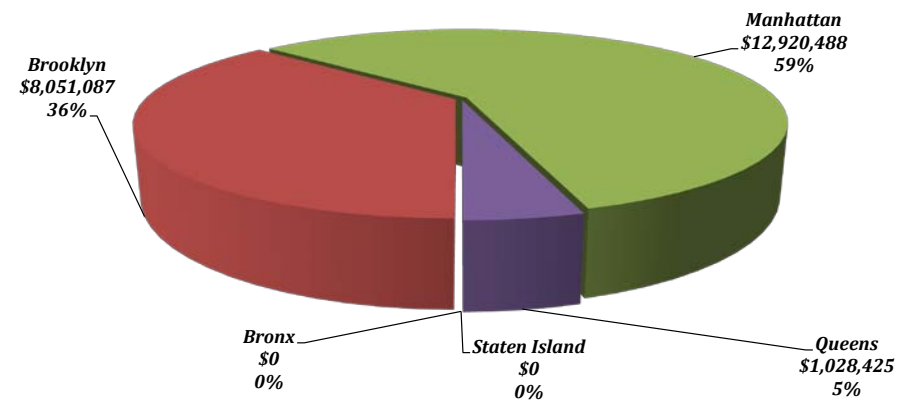
AFL- CIO Housing Investment Trust (HIT)  
NYC Workforce Housing Initiative 2009-2014

Investments Through 12/31/2009

Workforce Investment Detail

| <u>Borough</u> | <u>Dollars</u>      | <u>Units</u> |
|----------------|---------------------|--------------|
| Bronx          | \$0                 | 0            |
| Brooklyn       | 8,051,087           | 422          |
| Manhattan      | 12,920,488          | 1,615        |
| Queens         | 1,028,425           | 208          |
| Staten Island  | 0                   |              |
| <b>Total</b>   | <b>\$22,000,000</b> | <b>2,245</b> |

*Hit Workforce Housing Initiative*

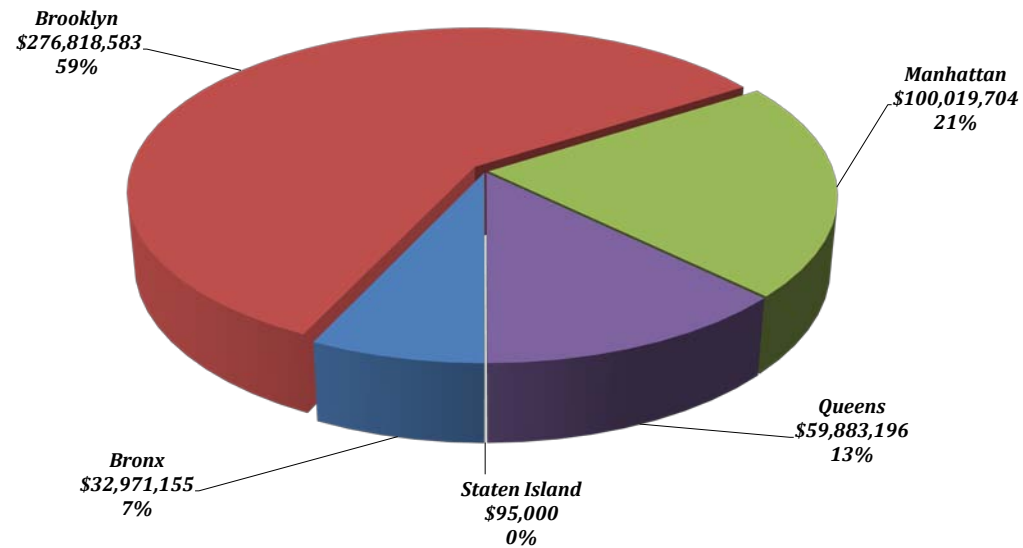


## CPC Revolver

|                              |               |
|------------------------------|---------------|
| Revolver Current Commitments | \$469,787,638 |
| TRS Commitment Share         | \$25,000,000  |
| TRS Current Market Value*    | \$19,026,186  |

|   | <u># Loans</u> | <u>\$ Committed</u>  | <u># Units<br/>Residential</u> | <u># Units<br/>Commercial</u> |
|---|----------------|----------------------|--------------------------------|-------------------------------|
| Bronx   | 36             | \$32,971,155         | 1,220                          | 31                            |
| Brooklyn  | 105            | 276,818,583          | 3,257                          | 60                            |
| Manhattan   | 59             | 100,019,704          | 1,571                          | 43                            |
| Queens  | 18             | 59,883,196           | 531                            | 22                            |
| Staten Island   | 1              | 95,000               | 3                              | 0                             |
| <b>Grand Total NYC</b>                                    | <b>219</b>     | <b>\$469,787,638</b> | <b>6,582</b>                   | <b>156</b>                    |
| Other NY State  | 89             | \$219,219,402        | 2,979                          | 75                            |
| * Equals the amount drawn down. Interest is paid monthly. |                |                      |                                |                               |

CPC Revolver NYC Commitments



## ACCESS CAPITAL STRATEGIES (Since Inception 2/1/07)

Allocated Amount \$33 million (33% of total account)  
Market Value \$38.3 million

**Multifamily Investments Detail**

|   | TRS<br>Investment   | Total<br>Units | # of LMI*<br>Units |
|---|---------------------|----------------|--------------------|
| Borough                                 |                     |                |                    |
| Bronx                                   | \$5,775,000         | 508            | 508                |
| Brooklyn                                | 4,356,000           | 404            | 404                |
| Manhattan                               | 18,579,603          | 2,815          | 1,677              |
| Queens                                  | 3,844,500           | 762            | 762                |
| Staten Island                           | 0                   | 0              | 0                  |
| <b>Total TRS Multifamily Investment</b> | <b>\$32,555,103</b> | <b>4,489</b>   | <b>3,351</b>       |
| <b>MultifamilyTotal All Systems</b>     | <b>\$98,651,826</b> | <b>4,489</b>   | <b>3,351</b>       |

**Single Family Investments Detail**

|  | TRS<br>Investment   | Total<br>Units | # of LMI*<br>Units |
|--|---------------------|----------------|--------------------|
| Bronx                                      | \$2,873,265         | 43             | 43                 |
| Brooklyn                                   | 6,916,540           | 98             | 98                 |
| Manhattan                                  | 485,112             | 9              | 9                  |
| Queens                                     | 7,628,710           | 113            | 113                |
| Staten Island                              | 3,956,184           | 53             | 53                 |
| <b>Total TRS Single Family Investments</b> | <b>\$21,859,811</b> | <b>316</b>     | <b>316</b>         |
| <b>Single Family Total All Systems</b>     | <b>\$66,241,853</b> | <b>316</b>     | <b>316</b>         |

**Other Investments Detail**

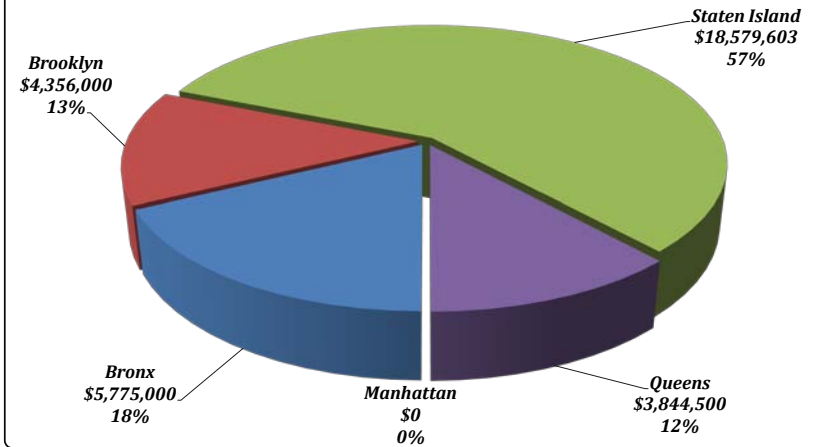
|   | TRS<br>Investment  | # of Loans |
|---|--------------------|------------|
| Bronx                                     | \$0                | 0          |
| Brooklyn                                  | 919,826            | 5          |
| Manhattan                                 | 216,139            | 3          |
| Queens                                    | 179,333            | 3          |
| Staten Island                             | 0                  | 0          |
| <b>Total TRS Other Investments</b>        | <b>\$1,315,298</b> | <b>11</b>  |
| <b>Other InvestmentsTotal All Systems</b> | <b>\$3,985,750</b> | <b>11</b>  |

**Grand Total TRS** **\$55,730,212**

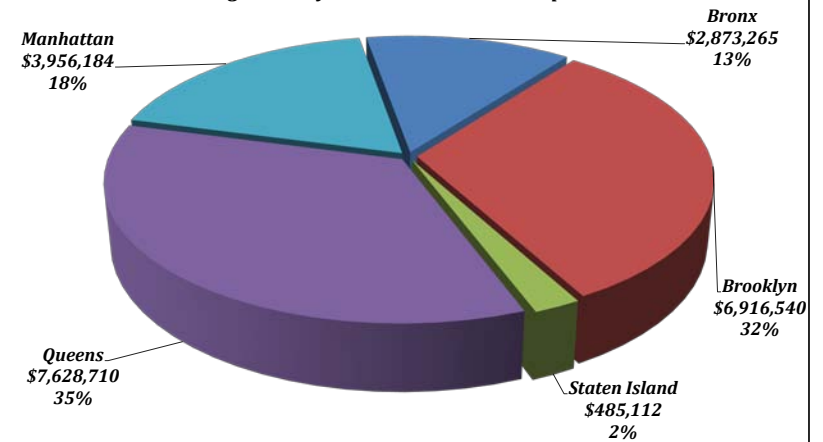
**Grand Total All Systems** **\$168,879,429**

\* LMI = Low or Moderate Income

Access Multifamily Investments Since Inception TRS



Access Single Family Investments Since Inception TRS



|   | Assets<br>(\$MM) | Trailing<br>1 Month | Trailing<br>3 Months | 6/30/2007<br>12/31/2009 | Year<br>To Date | Trailing<br>1 Year | Trailing*<br>3 Years | Trailing*<br>5 Years | Trailing*<br>7 Years | Trailing*<br>9 Years | Trailing*<br>10 Years | Trailing*<br>11 Years | Trailing*<br>15 Years | Since<br>Inception | Data Start<br>Date |
|---|------------------|---------------------|----------------------|-------------------------|-----------------|--------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|--------------------|--------------------|
| <b>TEACHERS</b>                                 |                  |                     |                      |                         |                 |                    |                      |                      |                      |                      |                       |                       |                       |                    |                    |
| GNMA  | 0.27             | 0.12                | 2.01                 | 4.57                    | 5.00            | 5.00               | 7.75                 | 7.35                 | 6.66                 | ****                 | ****                  | ****                  | ****                  | 6.97               | 10/31/01           |
| CPC -PPAR                                       | 54.64            | -0.17               | 2.42                 | 5.22                    | 10.14           | 10.14              | 9.22                 | 8.22                 | 8.00                 | ****                 | ****                  | ****                  | ****                  | 8.19               | 10/31/01           |
| CCB-PPAR  | 0.79             | -0.17               | 2.24                 | 4.45                    | 9.82            | 9.82               | 7.48                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 7.07               | 09/30/06           |
| CCD-PPAR  | 1.66             | -0.60               | 1.84                 | 4.69                    | 12.48           | 12.48              | 8.73                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 8.63               | 11/30/06           |
| LIIF  | 1.79             | -1.53               | 2.28                 | ****                    | ****            | ****               | ****                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 3.73               | 07/31/09           |
| NCBCI   | 0.20             | -0.25               | 2.29                 | ****                    | ****            | ****               | ****                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 2.77               | 07/31/09           |
| NHS-PPAR  | 0.41             | 2.37                | 4.57                 | 10.72                   | 14.83           | 14.83              | ****                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 9.39               | 09/30/07           |
| SHORT TERM INVESTMENTS                          | 0.20             | 0.01                | 0.04                 | 0.12                    | 0.45            | 0.45               | 2.53                 | 3.24                 | 2.75                 | ****                 | ****                  | ****                  | ****                  | 3.43               | 10/31/01           |
| CPC - REVOLVER                                  | 19.03            | 0.19                | 0.54                 | 1.07                    | 2.19            | 2.19               | 4.78                 | 5.34                 | ****                 | ****                 | ****                  | ****                  | ****                  | 5.16               | 03/31/04           |
| AFL-CIO HOUSING INV TRUST*                      | 141.09           | -1.55               | 0.07                 | 2.72                    | 6.28            | 6.28               | 6.07                 | 5.10                 | 4.78                 | ****                 | ****                  | ****                  | ****                  | 4.85               | 09/30/02           |
| ACCESS VOYAGEUR*                                | 38.25            | -1.46               | -0.28                | 3.86                    | 10.70           | 10.70              | ****                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | 7.75               | 02/28/07           |
| ERASMUS   | 16.31            | ****                | ****                 | ****                    | ****            | ****               | ****                 | ****                 | ****                 | ****                 | ****                  | ****                  | ****                  | ****               | 10/31/05           |
| <b>TOTAL TEACHERS TARGETED (w/cash)**</b>       | 258.35           | -1.09               | 0.58                 | 3.36                    | 7.62            | 7.62               | 6.75                 | 5.86                 | 5.57                 | 6.53                 | 6.77                  | 6.51                  | 7.90                  | 10.40              | 9/30/1981          |
| <b>TOTAL TEACHERS TARGETED (w/o cash)**</b>     | 258.13           | -1.09               | 0.59                 | 3.38                    | 7.64            | 7.64               | 6.74                 | 5.86                 | 5.59                 | 6.51                 | 6.84                  | 6.56                  | 7.45                  | 9.12               | 11/30/1984         |
| <b>TEACHERS CUSTOM BENCHMARK (no cash)</b>      |                  | -1.44               | 0.28                 | 3.34                    | 5.12            | 5.12               | 6.20                 | 5.25                 | 4.99                 | 5.91                 | 6.50                  | 6.14                  | 7.23                  |                    |                    |
| <b>BARCLAYS CAPITAL US AGGREGATE BOND INDEX</b> |                  | -1.56               | 0.20                 | 3.96                    | 5.93            | 5.93               | 6.04                 | 4.97                 | 4.75                 | 5.76                 | 6.33                  | 5.66                  | 6.80                  |                    |                    |

\*Returns are net of fees

\*\*Time periods greater than one year are annualized. Excludes Erasmus.

Historical returns prior to April 2004 provided by Citigroup

## **REAL ESTATE QUARTERLY REPORT**

## Teachers' Retirement System of the City of New York

### Performance Measurement Report Third Quarter 2009

The Townsend Group

Cleveland, OH   Denver, CO   San Francisco, CA   London, UK

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|      | Glossary of Terms         | Exhibit B |
|      | Market Overview           | Exhibit C |

# The Townsend Group

## Performance Measurement Report

### TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

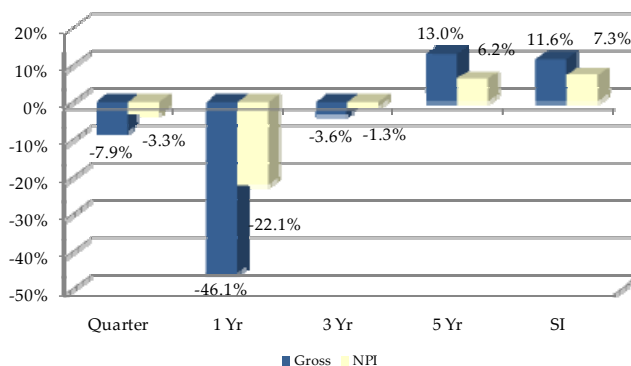
#### THIRD QUARTER 2009

#### I. Performance Summary

At the end of the Third Quarter 2009, ("Quarter") The Teachers' Retirement System of the City of New York ("NYCTRS") Real Estate Portfolio ("Portfolio") had a cumulative market value of \$364 million. Total market value plus unfunded commitments was \$731 million, or 43.0% of the real estate allocation. During the Quarter, the Portfolio achieved a total gross return of (7.9)% which was comprised of 0.2% income and (8.1)% appreciation. The NCREIF Property Index ("NPI") reported a total gross return of (3.3)%. In addition, the Portfolio achieved a total net return of (8.3)%.

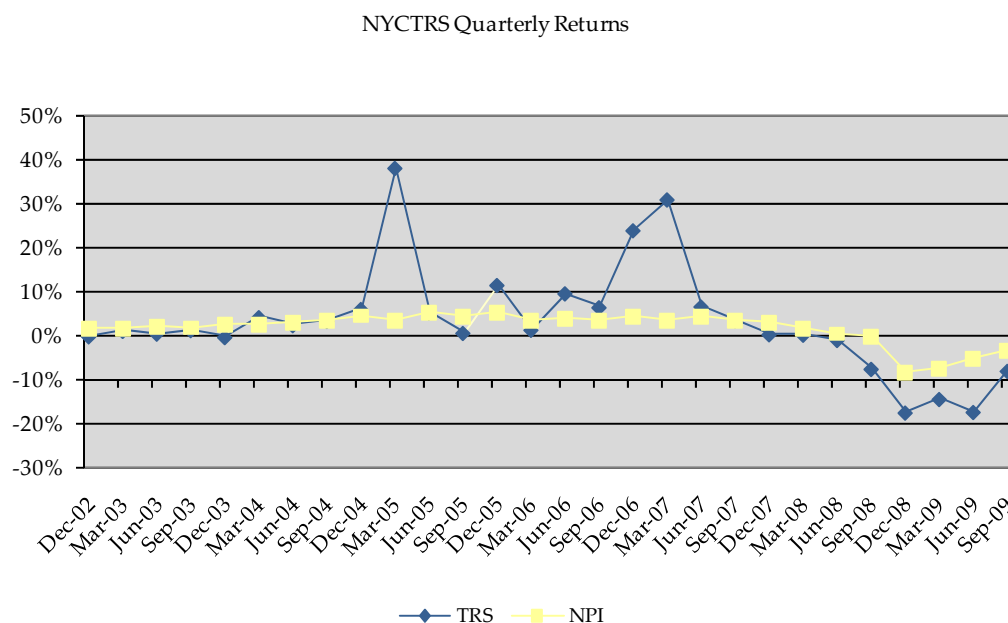
The following chart reflects the total gross returns for the NYCTRS' Portfolio compared to the NPI. The weakened economy continues to affect real estate fundamentals on a global basis. Net operating income is likely to fall in 2010 as vacancy rates increase across property sectors and market rents continue to slip. Although the US economy is emerging from recession, the recovery in the commercial real estate market will lag and fundamentals will be challenged over the next 24-month period. Some early positive signs of improvement in commercial real estate are present and include the following: (i) the number of development projects has thinned dramatically since late 2008, (ii) fewer banks are tightening lending standards on commercial real estate than at any point during the past year, and (iii) while still negative, appreciation returns moderated throughout 2009. Discussions with Core fund managers indicate the worst of the write-downs are over. Preliminary indications are that total returns for the Core funds will be flat to slightly negative over the next few Quarters. We expect Non-Core funds to take some additional write-downs at year-end as appraisals and valuations are typically performed in the Fourth Quarter. In all, the recent market correction has been unprecedented in terms of its speed and severity with gross asset values declining by approximately 40% over five quarters. While there may be a few more bumps before the private markets stabilize and recover, it does appear the worst is now behind us. Historical data suggests that periods following major downturns are opportune times to pursue new investments on a selective basis. The benchmark established for the Portfolio is the NPI plus 100 basis points over rolling five-year periods.

The New York City Teachers' Retirement System





The graph below shows the total gross returns for the Portfolio by quarter since inception. NPI total gross return performance is also included. It is important to note the effects of the "J-curve" whereby fees on committed capital exceed distributions to the Portfolio due to minimal invested capital and the early stages of the value-added/opportunistic process in the underlying investments.



The table below reflects the returns for the Portfolio and the NPI during pertinent time periods and segments these returns by their components: income, appreciation, and total return. The Portfolio's objective is to generate a total gross return that exceeds the NPI total gross return by 100 basis points, measured over rolling five-year periods.

|  | Quarter |       |       |       | 1 Year |        |        |        | 3 Year |       | 5 Year |      | Inception |      |
|--|---------|-------|-------|-------|--------|--------|--------|--------|--------|-------|--------|------|-----------|------|
|  | INC     | APP   | TGRS  | TNET  | INC    | APP    | TGRS   | TNET   | TGRS   | TNET  | TGRS   | TNET | TGRS      | TNET |
| New York City Teachers Retirement System | 0.2%    | -8.1% | -7.9% | -8.3% | 2.2%   | -47.5% | -46.1% | -45.4% | -3.6%  | -6.2% | 13.0%  | 8.6% | 11.6%     | 5.8% |
| NPI                                      | 1.6%    | -4.9% | -3.3% |       | 5.8%   | -26.7% | -22.1% |        | -1.3%  |       | 6.2%   |      | 7.3%      |      |

**II. Portfolio Composition**

| New York City Teachers Retirement System |                                |    |        |
|--|--------------------------------|----|--------|
| Total Plan Assets                        | 09/30/09                       | \$ | 33,991 |
| Real Estate Allocation (%)               |                                |    | 5.0%   |
| Real Estate Allocation (\$)              |                                | \$ | 1,700  |
| Style Sector Allocation                  |                                |    |        |
| Core/Core Plus                           | 40%                            | \$ | 680    |
| Non Core                                 | 55%                            | \$ | 935    |
| Non Core Emerging Manager                | greater of \$85 million, or 5% | \$ | 85     |
| Uncommitted Core                         |                                | \$ | 463    |
| Uncommitted Non Core                     |                                | \$ | 460    |
| Uncommitted Non Core Emerging Manager    |                                | \$ | 45     |
| Funded and Committed Statistics          |                                |    |        |
| Core/Core Plus                           |                                |    | 29.6%  |
| Non Core                                 |                                |    | 65.0%  |
| Non Core Emerging Manager                |                                |    | 5.4%   |
| \$ Committed                             |                                | \$ | 731    |
| % Committed on Real Estate Allocation    |                                |    | 43.0%  |
| % Committed on Total Plan Assets         |                                |    | 2.2%   |
| Funded Statistics                        |                                |    |        |
| % Funded of Total Plan Assets            |                                |    | 1.1%   |
| % Funded of Total Real Estate Allocation |                                |    | 21.4%  |

| Teachers                     |         |          |
|------------------------------|---------|----------|
| Investment Cash Flow Summary |         |          |
|                              | Quarter | To Date  |
| Contributions                | \$24.7  | \$694.8  |
| Distributions                | -\$1.3  | -\$248.7 |
| Withdrawals                  | -\$4.2  | -\$48.1  |

Contributions: Includes actual cash funded to the investment for acquisition and capital items during the quarter.

Distributions: Includes actual cash returned during the quarter from the investments which represents distributions of income from operations and profit.

Withdrawals: Includes cash returned from the investment as a result of return of capital.

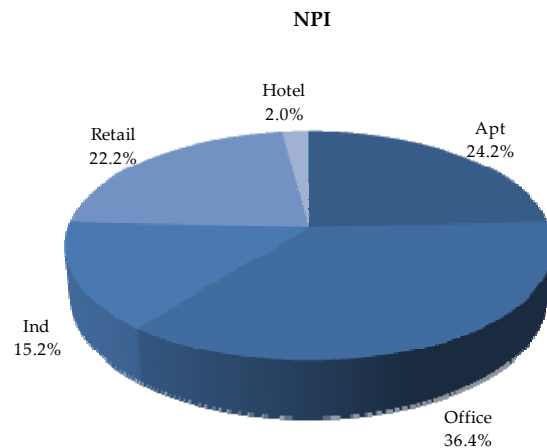
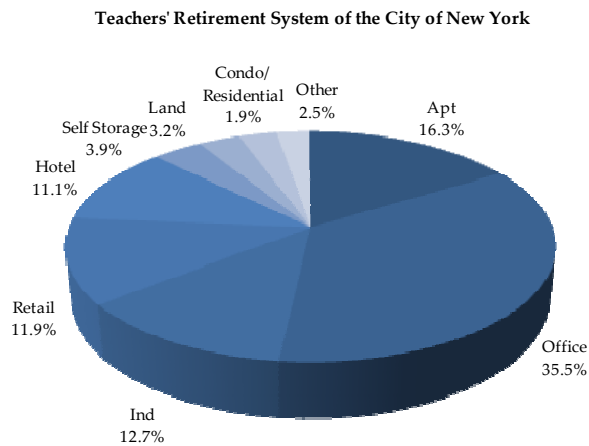
**III. Portfolio Compliance**

| Category               | Requirement   | Portfolio Status  |
|------------------------|---|---|
| Benchmark              | NPI+100 (gross) over rolling five-year periods  | <i>Portfolio returns in excess of benchmark.</i>  |
| Portfolio Composition  | Core/Core Plus (minimum of 40%)<br><br>Non Core (minimum of 40%)<br><br>Non Core Emerging (greater of \$85 million or 5% of the total real estate allocation) | <i>The portfolio is committed at 43.0% of real estate allocation with a portfolio composition of 29.6% core, 65.0% non-core, and 5.4% emerging (strictly on commitments to date).</i> |
| Real Estate Allocation | Target of 5.0%<br><br>Currently Funded at 1.1%  | <i>Funded and committed dollars place the portfolio at 2.2% of total plan assets.</i>   |
| Diversification        | $\pm 30\%$ of NPI<br><br>Other property type (0%-15%)   | <i>All property types and geographic locations are in compliance.</i>   |
| LTV                    | 50%   | <i>Portfolio is in early stages of funding, but is out of compliance (61.1%).</i>   |
| Manager Exposure       | 0%-25% of real estate allocation  | <i>Manager exposure is within compliance ranges.</i>  |

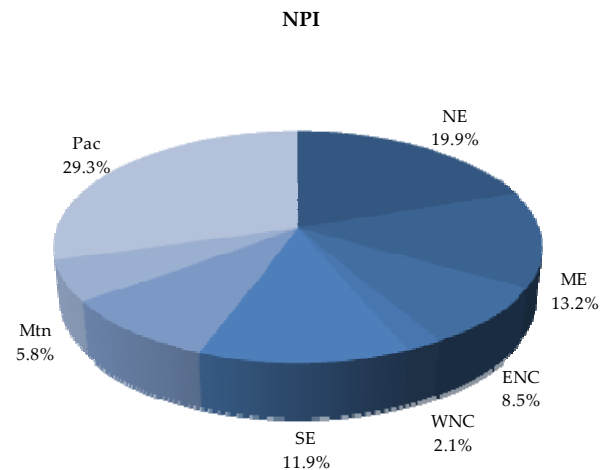
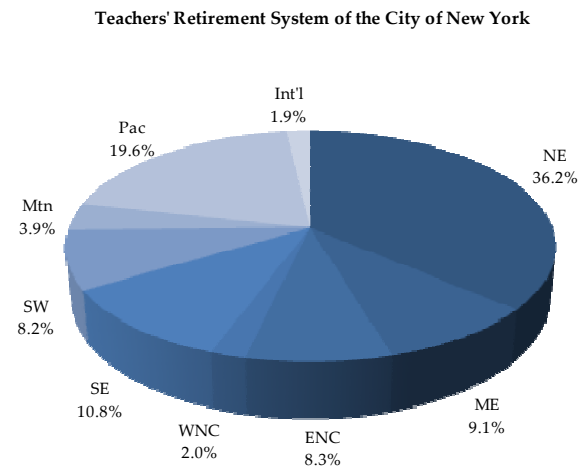
#### IV. Portfolio Diversification

The Investment Policy Statement (IPS) establishes ranges for diversification by property type and geographic region. These ranges are broad based and allow for investment in all major property types and all geographic regions. The diversification of the current portfolio by property type and geographic region is shown below and compared to diversification of the NPI at the end of the Quarter.

##### Property Type Diversification



##### Geographic Diversification



## **PRIVATE EQUITY QUARTERLY REPORT**

# TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

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## ALTERNATIVE INVESTMENT PROGRAM

Review For The Period Ended  
September 30, 2009

Prepared by

PCG ASSET MANAGEMENT, LLC



*This report contains information provided to PCG Asset Management, LLC ("PCG AM") solely for the purpose of evaluating the Teachers' Retirement System of the City of New York ("TRS") private equity portfolio.*

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## I. EXECUTIVE SUMMARY: TRS Alternative Investment Program (the "Program")

The following summarizes TRS Program:

- Private Equity Portfolio:** The Program was established on January 1, 1997 on behalf of its beneficiaries to participate in attractive long-term investment opportunities and to provide diversification to its overall pension investment portfolio.
- Performance Objective:** The Program's objective is to create significant long-term net returns to TRS. As of September 30, 2009, the total Program has achieved a return of 4.4% since inception. TRS' private equity portfolio is young with a weighted average age of commitments of 3.12 years.
- Investment Pacing:** The 2009 Annual Plan calls for annual private equity commitments of \$400-\$700 million per year over the next four years (2009-2012). TRS' current allocation to private equity is 4.1%, which slightly exceeds its target exposure to private equity. Due to the denominator effect caused by the decline in TRS' remaining assets, PCG AM projects that TRS' private equity allocation has the potential to continue to exceed its target of 4.0% in future years.
- Return Benchmark:** The Program's performance is measured against two benchmarks: 1) a dollar-weighted public benchmark, which produces the return that would have been earned if TRS' private equity cash flows were invested in the Russell 3000® Index\* plus a 500 basis points liquidity premium (*the Opportunity Cost Benchmark*); and 2) The Venture Economics Median Return (*the Relative Benchmark*). The results of these benchmarks as of September 30, 2009 are provided in the table below:

\*Data is a dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000® index. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

\*\*Venture Economics data reflects *All US Private Equity Funds* Median Quartile IRR at September 30, 2009 for funds with vintage years from 1999 to 2009. Note: Data is continuously updated and is therefore subject to change.

Portfolio Allocation:

| Investment Sector | Original Policy Target | FMV         | Unfunded    | Total       |
|-------------------|------------------------|-------------|-------------|-------------|
| Corporate Finance | 60-80%                 | 71.6%       | 68.2%       | 69.7%       |
| Venture Capital   | 10-20%                 | 11.2%       | 10.6%       | 10.9%       |
| Other             | 10-20%                 | 17.2%       | 21.2%       | 19.4%       |
| <b>Total*</b>     |                        | <b>100%</b> | <b>100%</b> | <b>100%</b> |

\*Numbers may not add due to rounding.

**Program Developments:** Subsequent to quarter end, the TRS Board did not approve any additional commitments.



## II. INTRODUCTION

TRS, or the “System,” established the Alternative Investment Program (the “Program”) on January 1, 1997 on behalf of its beneficiaries to participate in attractive long-term investment opportunities and to provide diversification to its overall pension investment portfolio. During the third quarter of 2003, TRS established a separate real estate allocation. As of January 1, 2005, the System’s real estate investments are the responsibility of Townsend.

This Quarterly Review (the “Review”) has been prepared by PCG AM to cover the significant events that occurred during the period with respect to the Program’s portfolio of partnership investments. To complete PCG AM’s independent analysis, information was requested and obtained from TRS’ representatives, Bank of New York (the custodian for TRS) and the general partners of the individual partnerships; while PCG AM has reconciled the information across various sources, it relies on the data provided by the aforementioned parties. PCG AM has endeavored to reflect the information received in its independent analysis of the Program’s performance and current portfolio valuation accurately. Individual partnerships are subject to an annual audit and PCG AM reviews each general partner’s valuation methodology. Subsequent monitoring reports will reflect future developments, as well as refine the analysis of past activities as information is received.

The portfolio’s performance is summarized primarily using three methods: an internal rate of return (“IRR”), a total value multiple and a performance assessment. The IRR takes into account the timing of an investment’s cash flows. Calculating a fund’s IRR since inception, given the long-term nature of alternative equity investments (generally ten to twelve years), is one of the most appropriate means of measurement. The total value multiple reflects the total capital generated compared to total capital invested. This measurement is a simplified means of measuring the value created by a fund, without consideration for time. The performance assessment method of measurement, developed by PCG AM, takes into account a broader spectrum of data when calculating the performance of an investment, including: age of investment, peer comparisons, total value multiple and IRR. Based on this data, each investment is assigned a rating by PCG AM on an annual basis indicating whether the investment is performing at, above or below expectations. Investments less than 24 months old are considered too early to be meaningful.

For purposes of this report, 1.0 Euro is equal to 1.4640 US Dollars and 1.0 Canadian Dollar is equal to 0.9351 US Dollars as of September 30, 2009. Cash flows are converted to US Dollars at the spot conversion rate on that date and subsequently reconciled with the custodial bank to reflect the actual conversion rate.

Exhibit I, *Market Overview*, offers a synopsis of recent fundraising and investment activity. Exhibit II, *Portfolio Status Report*, sets forth in detail all the investments constituting the portfolio, capital commitments and other return information. Exhibit III, *Vintage Year Report*, sets forth in detail all of the investments by vintage year. Exhibit IV, *Annual Contributions, Distributions and Net Cash Flows*, presents a graphical picture of annual contributions, distributions and net cash flows. Exhibit V, *Appendices to the Executive Summary*, describes recent significant events, top portfolio company holdings and pending investments. Exhibit VI, *Watch List and Below Expectations Report*, provides detail on each of the current investments with watch or below expectations with concern ratings. Exhibit VII, *Definitions*, provides definitions for different metrics throughout the report. Exhibit VIII, *Investment Summaries*, provides detail on each of the current investments.

### III. PORTFOLIO REVIEW

- ❖ **New Commitments** - During the quarter, TRS did not close on any commitments to new partnerships. (See Activity Detail, Page 4.)
- ❖ **Program IRR** - The IRR of the Program since inception increased by 180 basis points from 2.6% at June 30, 2009 to 4.4% at September 30, 2009. It should be noted that partnership investments held less than two years generally tend to have low or negative returns, which are not meaningful, due to the fact that management fees and other costs have not been offset by capital gains typically generated by more mature portfolio investments (this is termed the J-Curve effect). Due to significant new commitments and drawdowns associated with new funds, the J-Curve effect is being magnified.
- ❖ **Contributions Decreased** - Contributions decreased from \$78 million in the second quarter of 2009 to \$76 million in the third quarter of 2009.
- ❖ **Distributions Increased** - Distributions increased from \$12 million in second quarter of 2009 to \$22 million in the third quarter of 2009.
- ❖ **Weighted Average Age** - TRS' private equity program is young with a weighted average age of commitments as of September 30, 2009 of 3.12 years.

The following table highlights recent investment activity:

| (\$ in millions)            | 2008    |         | 2009    |         |         |
|-----------------------------|---------|---------|---------|---------|---------|
|                             | Q3      | Q4      | Q1      | Q2      | Q3      |
| Starting Valuation          | \$1,149 | \$1,171 | \$1,167 | \$1,186 | \$1,271 |
| Contributions               | 147     | 154     | 53      | 78      | 76      |
| Distributions               | (35)    | (15)    | (5)     | (12)    | (22)    |
| Appreciation/(Depreciation) | (90)    | (143)   | (29)    | 19      | 75      |
| Ending Valuation*           | \$1,171 | \$1,167 | \$1,186 | \$1,271 | \$1,399 |
| Unfunded Commitments        | 1,749   | 1,823   | 1,799   | 1,718   | 1,660   |
| Total*                      | \$2,919 | \$2,990 | \$2,984 | \$2,989 | \$3,059 |
| IRR Since Inception         | 9.2%    | 3.6%    | 2.3%    | 2.6%    | 4.4%    |

\*Numbers may not add due to rounding.

The following table summarizes the Program's performance:

#### Portfolio Summary

| (\$ in millions)                         | June 30, 2009 | September 30, 2009 |
|--|---------------|--------------------|
| Total Pension Assets                     | \$30,088      | \$33,991           |
| Allocation to Private Equity (4% Target) | 4.2%          | 4.1%               |
| # of Partnerships                        | 125           | 125                |
| Capital Committed                        | \$3,383       | \$3,383            |
| Capital Contributed                      | \$1,873       | \$1,949            |
| Capital Distributed                      | \$685         | \$706              |
| FMV                                      | \$1,271       | \$1,399            |
| Total Value*                             | \$1,955       | \$2,105            |
| Total Value Multiple                     | 1.04x         | 1.08x              |
| IRR                                      | 2.6%          | 4.4%               |

\*Numbers may not add due to rounding.

As of September 30, 2009, TRS had contributed approximately \$1.9 billion to private equity partnership investments, or approximately 58% of total capital committed. Approximately \$1.7 billion of capital commitments were outstanding and approximately \$0.7 billion had been distributed to TRS. Many of the Program's partnership investments are still early in their investment cycles as evidenced by the weighted average age of 3.12 years (only 68 funds have drawn more than 50% of committed capital). However, some are starting to show asset appreciation (43 funds have a total value multiple higher than 1.0x).

#### IV. ACTIVITY DETAIL

##### Actions & Events

The following table summarizes recent investment activity (Please see Appendix C of Exhibit V for detail on TRS' pending commitments):

Recent Investment Activity

| Investment Name                          | Month Authorized | Date Closed | Amount Committed |
|--|------------------|-------------|------------------|
| <u>Closed During Current Quarter:</u>    |                  |             |                  |
| N/A                                      |                  |             |                  |
| <u>Closed Subsequent to Quarter End:</u> |                  |             |                  |
| N/A                                      |                  |             |                  |

Significant events during the second quarter include the following (Note that appreciation/depreciation amounts refer specifically to TRS' share of fund capital). Please see Appendix A of Exhibit V for additional detail.

- ❖ Overall, the portfolio appreciated by \$74.5 million during the third quarter.
- ❖ Net of cash flows, 51 funds reported losses totaling \$9.8 million compared to 69 funds reporting appreciation of \$84.3 million. Three funds had not drawn capital as of September 30, 2009, and two funds had no activity during the third quarter.
- ❖ During the quarter, contributions totaled \$75.5 million and distributions totaled \$21.6 million. The chart in Exhibit IV depicts annual contributions, distributions and net cash flows.

## Performance

As an overview, the following table compares investments by vintage year (i.e., by initial investment date of the fund), delineating the commitments, total value multiple, IRR and Venture Economics median multiple and return benchmarks. Returns are generally not calculated for investments held less than twenty-four months, although their performance is considered as part of the overall return. The total value multiple measures the performance of a fund, based on the total distributions received and the estimated value remaining in a fund, as compared to the total dollars invested. As a fund matures, liquidates investments and makes distributions to its investors, this multiple is expected to increase.

### Vintage Year Review

| Vintage Year | Commitment<br>(\$ in millions)* | Multiple     | IRR**       | Venture<br>Economics<br>Median Multiple*** | Venture<br>Economics<br>Median IRR*** |
|--------------|---------------------------------|--------------|-------------|--|---------------------------------------|
| 1999         | \$95                            | 1.27x        | 7.1%        | 0.90x                                      | (1.9%)                                |
| 2000         | 83                              | 1.15x        | 3.6%        | 0.93x                                      | (1.0%)                                |
| 2001         | 80                              | 1.55x        | 21.6%       | 1.06x                                      | 1.7%                                  |
| 2002         | 150                             | 1.31x        | 15.7%       | 1.08x                                      | 1.5%                                  |
| 2003         | 85                              | 1.69x        | 24.8%       | 1.19x                                      | 5.2%                                  |
| 2004         | 266                             | 1.05x        | 2.3%        | 1.04x                                      | 2.2%                                  |
| 2005         | 344                             | 1.00x        | 0.1%        | 1.01x                                      | 0.7%                                  |
| 2006         | 635                             | 0.87x        | (8.0%)      | 0.90x                                      | (5.4%)                                |
| 2007         | 628                             | 0.90x        | (8.5%)      | 0.87x                                      | (11.0%)                               |
| 2008         | 851                             | 1.07x        | NM          | 0.88x                                      | NM                                    |
| 2009         | 165                             | 0.18x        | NM          | 0.81x                                      | NM                                    |
| <b>Total</b> | <b>\$3,383</b>                  | <b>1.08x</b> | <b>4.4%</b> | <b>0.97x</b>                               | <b>(0.8%)</b>                         |

\*Numbers may not add due to rounding.

\*\*NM - IRRs are generally not meaningful during the early years of a fund's life. PCG AM classifies the IRRs of all funds as NM for the first two years.

\*\*\*Venture Economics data reflects *All US Private Equity Funds* Median Quartile TVPI & IRRs at September 30, 2009. Note: Data is continuously updated and is therefore subject to change.

The following table compares periodic returns versus the Russell 3000® index.

| As of 9/30/2009          | 1 year | 3 year | 5 year | Since<br>Inception |
|--------------------------|--------|--------|--------|--------------------|
| Portfolio IRR            | -5.8%  | 0.9%   | 4.6%   | 4.4%               |
| Russell 3000®*           | -0.1%  | -4.3%  | -1.2%  | -0.5%              |
| Russell 3000® + 500 bps* | 3.9%   | 0.3%   | 4.0%   | 4.7%               |
| Difference               | -9.7%  | 0.6%   | 0.6%   | -0.3%              |

\* Data is a dollar-weighted Long-Nickels calculation of quarterly changes in the Russell 3000® index.

Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

## Allocation

Each of the portfolio investments is allocated to an investment sector based on its primary investment strategy. The sectors include the following: corporate finance (small, medium and large sized), venture capital and other (distressed, mezzanine, co-investments, secondaries, and fund-of-funds). The following table summarizes the aggregate portfolio allocation as of quarter end:

**Portfolio Allocation**  
As of September 30, 2009  
(in millions)

| Investment Sector              | Original Policy Target | FMV              | %*            | Unfunded Deal Commitment | %*            | Total Potential Exposure | %*            |
|--------------------------------|------------------------|------------------|---------------|--------------------------|---------------|--------------------------|---------------|
| <b>Corporate Finance</b>       | <b>60-80%</b>          | <b>\$1,001.2</b> | <b>71.6%</b>  | <b>\$1,131.8</b>         | <b>68.2%</b>  | <b>\$2,133.0</b>         | <b>69.7%</b>  |
| Lrg Corp.                      |                        | 288.2            | 20.6%         | 408.7                    | 24.6%         | 696.9                    | 22.8%         |
| Med Corp.                      |                        | 683.8            | 48.9%         | 651.7                    | 39.3%         | 1,335.5                  | 43.7%         |
| Small Corp.                    |                        | 29.1             | 2.1%          | 71.5                     | 4.3%          | 100.6                    | 3.3%          |
| <b>Venture Capital</b>         | <b>10-20%</b>          | <b>\$157.1</b>   | <b>11.2%</b>  | <b>\$176.5</b>           | <b>10.6%</b>  | <b>\$333.6</b>           | <b>10.9%</b>  |
| <b>Other</b>                   | <b>10-20%</b>          | <b>\$240.8</b>   | <b>17.2%</b>  | <b>\$351.5</b>           | <b>21.2%</b>  | <b>\$592.3</b>           | <b>19.4%</b>  |
| Co-Investments                 |                        | 27.2             | 1.9%          | 43.1                     | 2.6%          | 70.3                     | 2.3%          |
| Distressed                     |                        | 95.4             | 6.8%          | 37.8                     | 2.3%          | 133.2                    | 4.4%          |
| Fund-of-Funds                  |                        | 51.5             | 3.7%          | 166.2                    | 10.0%         | 217.8                    | 7.1%          |
| Mezzanine                      |                        | 29.0             | 2.1%          | 18.9                     | 1.1%          | 47.9                     | 1.6%          |
| Secondaries                    |                        | 35.3             | 2.5%          | 59.5                     | 3.6%          | 94.8                     | 3.1%          |
| Other                          |                        | 2.4              | 0.2%          | 26.0                     | 1.6%          | 28.3                     | 0.9%          |
| <b>Investment Type Total:</b>  |                        | <b>\$1,399.1</b> | <b>100.0%</b> | <b>\$1,659.8</b>         | <b>100.0%</b> | <b>\$3,058.9</b>         | <b>100.0%</b> |
| <b>USA and Canada</b>          | <b>70-100%</b>         | <b>\$1,244.7</b> | <b>89.0%</b>  | <b>\$1,441.2</b>         | <b>86.8%</b>  | <b>\$2,685.9</b>         | <b>87.8%</b>  |
| <b>International</b>           | <b>0-30%</b>           | <b>\$154.4</b>   | <b>11.0%</b>  | <b>\$218.6</b>           | <b>13.2%</b>  | <b>\$373.0</b>           | <b>12.2%</b>  |
| <b>Geographic Focus Total:</b> |                        | <b>\$1,399.1</b> | <b>100.0%</b> | <b>\$1,659.8</b>         | <b>100.0%</b> | <b>\$3,058.9</b>         | <b>100.0%</b> |

\*Numbers may not add due to rounding.

**Allocation by Investment Strategy**  
**Based on Fair Market Value**

**Allocation by Industry**  
**Based on Fair Market Value of Portfolio Companies\***

**Allocation by Geography**  
**Based on Fair Market Value of Portfolio Companies\*\***

*\*Please note that a small percentage of the portfolio's fair market value as reported by the general partners is presented without industry information. Such data has been excluded from these allocations. Fund-of-funds and secondaries have also been excluded from this allocation.*

*\*\*Please note that a small percentage of the portfolio's fair market value as reported by the general partners is presented without geographic information. Such data has been excluded from these allocations.*