

Minority and Women-Owned Business
Enterprises (MWBE) Asset Management
and Financial Institution Strategy Report
for the 2010-11 Fiscal Year

Submitted September 1, 2011
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Table of Contents

	Page
Financial Highlights.....	2
Introduction.....	3
New York’s MWBE Asset Management and Financial Institution Strategy.....	6
NYSTRS 2011 MWBE Conference.....	7
Advancement of MWBE Goals.....	9
MWBE Participation by Asset Class.....	10
Conclusion and Next Steps.....	14
NYSTRS 2011 MWBE Conference Agenda.....	Appendix A
NYSTRS MWBE Asset Management and Financial Institution Guidelines.....	Appendix B

Financial Highlights

All figures as of June 30, 2011

- **Total assets under management***: \$87,622,426,206
- **Total assets internally managed**: \$60,960,455,245 (69%)
- **Total assets externally managed – active***: \$15,525,737,382 (18%)
- **Total assets externally managed – passive**: \$11,136,233,579 (13%)
- **Total MWBE assets under external management***: \$2,317,100,000 (2.64%)
- **Total fees paid to external firms****: \$102,633,256
- **Total fees paid to MWBE firms****: \$6,698,262 (6.53%)

Breakdown of Fees by Category

Asset Management

- **Total fees paid to all firms****: \$97,604,867
- **Total fees paid to MWBE firms****: \$5,841,859 (5.99%)

Financial Institutions

- **Total fees paid to all financial institutions**: \$4,598,157
- **Total fees paid to MWBE financial institutions**: \$856,403 (18.62%)

Professional Service Providers

- **Total fees for professional services**: \$430,232 (100% non-MWBE participation)

Breakdown of Private Equity Committed Capital by Category

Private Equity Firms and Committed Capital

- **Total number of firms and committed capital**: 64 firms, or \$13,360,466,735
- **Total number of MWBE firms and committed capital**: 6 firms, or \$1,984,253,390 (14.85%)

MWBE Assets under External Management (by Asset Class)

- Public Equity: \$833,000,000 (0.95%)
- Fixed Income: \$0.00 (0.00%)
- Real Estate*: \$368,700,000 (0.42%)
- Private Equity*: \$1,115,400,000 (1.27%)

* - Assets under management are based on preliminary numbers as of June 30, 2011, and are subject to change based on market value adjustments.

** - Excludes asset management firms managing private equity holdings.

Introduction

System Overview

The New York State Teachers' Retirement System ("NYSTRS" or the "System") administers the fund from which the State's public school teachers and administrators (excluding those in New York City) receive retirement benefits, as well as death and disability coverage. NYSTRS is the second-largest public retirement system in New York and one of the 10 largest systems in the nation. It is among the country's best funded plans.

A 10-member Board of Trustees representing various constituents manages the System. By law, the Board's composition is as follows:

- Three teacher members are elected from the membership, one each year, by delegates at an annual meeting held in the fall.
- One NYSTRS retiree is elected by a mail vote of all retired members.
- Two school administrators are appointed by the Commissioner of the State Education Department.
- Two present or former school board members, experienced in the fields of finance and investment, are elected by the Board of Regents from recommendations of the New York State School Boards Association. At least one must have experience as an executive of an insurance company.
- One present or former bank executive is elected by the Board of Regents.
- The State Comptroller or designee.

Board members are elected/appointed to three-year terms (except the Comptroller or his designee) and serve without compensation.

The current composition of the Board is as follows:

Retirement Board Trustees *(as of 9/1/2011)*

R. Michael Kraus <i>President</i>	Insurance Executive elected by Board of Regents <i>Trustee since 1992</i>	David P. Keefe <i>Vice President</i>	Retired Teacher Member elected by NYSTRS retirees <i>Trustee since 2004</i>
Paul Farfaglia	Teacher Member elected by NYSTRS delegates <i>Trustee since 2009</i>	Michael J. Masse	Bank Executive elected by Board of Regents <i>Trustee since 2009</i>
Dr. Phyllis Harrington	Administrator appointed by Commissioner of Education <i>Trustee since 2010</i>	Dr. L. Oliver Robinson	Administrator appointed by Commissioner of Education <i>Trustee since 2010</i>
Daniel J. Hogarty, Jr.	Bank Executive elected by Board of Regents <i>Trustee since 2005</i>	Nicholas Smirensky	State Comptroller's representative <i>Trustee since 2007</i>
Karen E. Magee	Teacher Member appointed by Commissioner of Education <i>Trustee since 2011</i>	Timothy Southerton	Teacher Member appointed by Commissioner of Education <i>Trustee since 2011</i>

Financials

Members of the NYSTRS Board are responsible as fiduciaries to protect the long-term value of the System's investment portfolio and provide benefit security for NYSTRS members, retirees and beneficiaries. The Board receives counsel from staff, advisory committees and investment consultants to help formulate its investment policy. Board members are entrusted to invest funds at the highest possible long-term rate of return consistent with appropriate levels of diversity and risk. The funds must be invested with the care, skill and diligence that a prudent person familiar with such matters would use to ensure that sufficient assets are on hand to pay promised benefits when they come due. This must be accomplished at the lowest possible cost to participating employers.

As of June 30, 2011, System net assets totaled more than \$89.4 billion. During the fiscal year ended June 30, 2011, the System's annual benefit payroll for its more than 146,000 retirees was approximately \$5.6 billion. About 80% of this total, or \$4.5 billion, is paid to retired members and beneficiaries living in New York State. These payments serve as an important economic stimulus.

The benefits provided by the Retirement System are funded by the annual contributions of participating employers and active members, as well as the investment earnings on those contributions. Over the past 20 years, investment returns have accounted for 87% of all NYSTRS income.

Both internal and external checks and balances exist in order to ensure complete and transparent adherence to all applicable laws, regulations, and accounting requirements. Financial information and internal controls are subject to regular audit by the New York State Insurance Department and the System's Internal Audit Department. KPMG LLP, an independent certified public accountant firm, audits the System's financial statements annually. Buck Consultants, an actuarial consulting firm, recently completed a detailed audit of the System's actuarial methods and assumptions. The System consistently receives clean audits from all sources.

Investments

The System's assets are invested in the most prudent manner possible in order to achieve optimum long-term total returns with an appropriate level of risk. The allocation of assets within the portfolio, as well as the fund's overall structure, are continuously reviewed and adjusted to achieve these goals.

The long-term objective of the investment policy is to achieve returns that exceed those of comparable asset class benchmarks, but are, in aggregate, not less than the actuarial assumption, which is currently 8.0% per annum. Additionally, each external investment manager is expected to outperform, over a market cycle, the appropriate benchmark.

NYSTRS is committed to a disciplined, risk-controlled investment approach that focuses on thoughtful diversification of assets across a broad spectrum of capital market segments. This approach has served members and the State's taxpayers well since the System was founded in 1921. Assets are invested in order to maximize investment income while limiting risk. This approach has allowed the System to maintain a relatively low employer contribution rate (22 consecutive years of single digits through the 2010-11 school year).

Approximately 70% of the System's investments are managed in-house by the System's own investment professionals. These investments primarily consist of index-matching domestic equity funds, and fixed income instruments. In-house management allows the System to control fees and helps reduce the System's cost of operation. NYSTRS administers the plan at a very low cost in comparison to the value of the assets managed.

NYSTRS invests the System's funds in several diverse classes of assets, including equities, bonds and real estate. This diversification helps us earn the highest possible long-term rate of return within appropriate risk levels. In turn, this enables us to pay guaranteed benefits to members and their beneficiaries at the lowest possible cost to participating employers and the taxpayers that fund them.

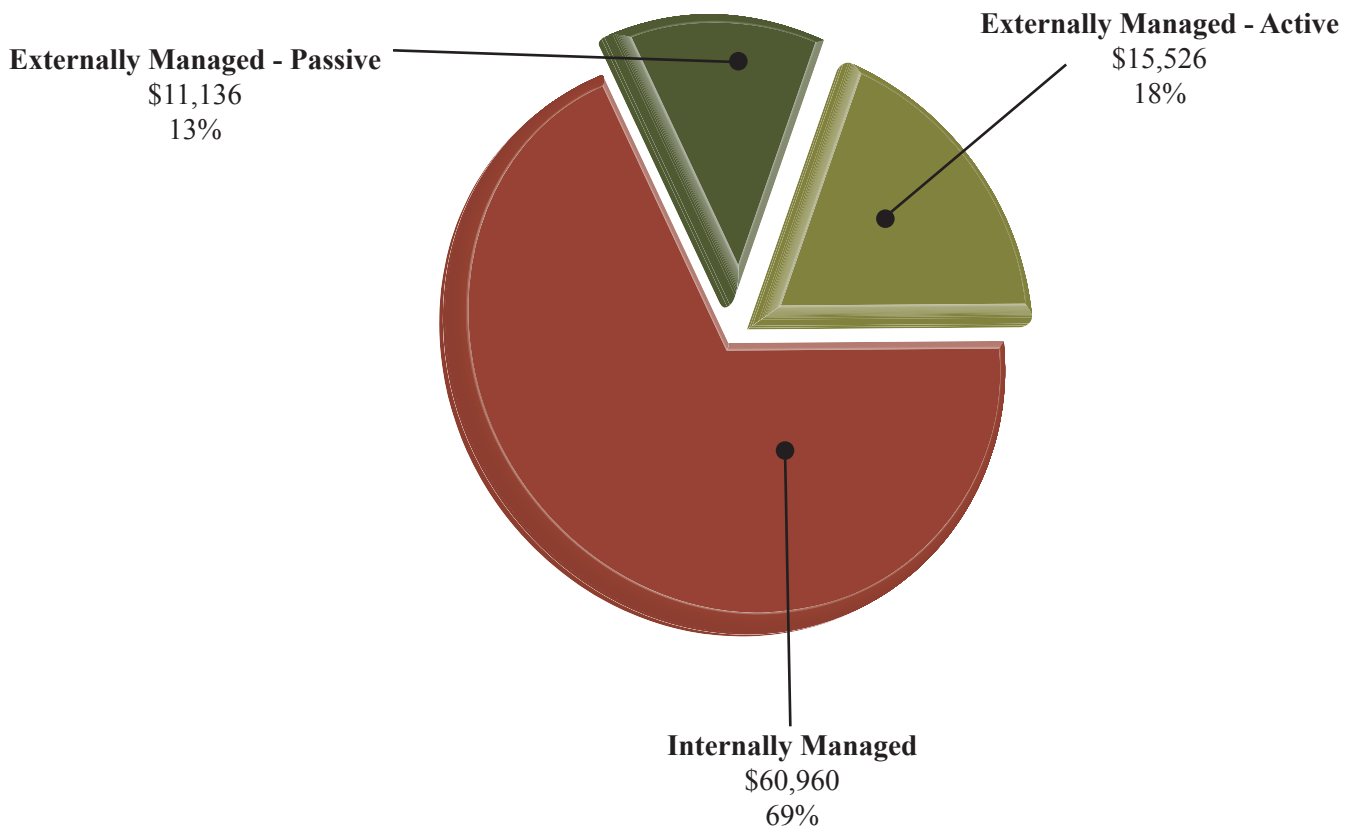
For the fiscal year ended June 30, 2011, the total portfolio returned approximately 23%, or almost three times the assumed rate of return of 8.0%. The strong performance followed a 12.1% increase in the 2009-10 fiscal year, which itself represented a greater than 30% turnaround from the previous year – a year in which the United States suffered its worst financial meltdown since the Great Depression of the 1930s.

Asset classes in which NYSTRS invests include:

- Domestic equity
- International equity
- Domestic fixed income
- Real estate
- Private equity

Management Style Distribution of Invested Assets - June 30, 2011

\$87,622 (Millions)



New York's MWBE Asset Management and Financial Institution Strategy

Chapter 171 of the Laws of 2010 authorizes NYSTRS, along with the Common Retirement Fund under the sole trusteeship of the State Comptroller, the State Insurance Fund, and the State Deferred Compensation Plan, to implement a strategy to encourage greater utilization of the services of minority and women-owned business enterprises ("MWBEs"). Any actions taken by NYSTRS must be consistent with its overriding fiduciary responsibilities to NYSTRS members, retirees and beneficiaries.

Among other things, Chapter 171 authorizes NYSTRS:

- To periodically advertise the existence of the MWBE strategy to make MWBEs aware of possible opportunities to do business with NYSTRS
- To make a report to the Governor, Legislature and the State Chief Diversity Officer on MWBE provision of services to NYSTRS within 60 days after the close of NYSTRS' fiscal year
- To work with the State Comptroller, State Insurance Fund and the State Deferred Compensation Plan in creating a database of MWBEs utilized by the respective parties
- To hold an annual conference promoting the strategy in conjunction with the State Comptroller, State Insurance Fund and the State Deferred Compensation Plan

NYSTRS' staff took immediate steps to implement Chapter 171 following its enactment. A steering committee was established and an MWBE conference was held at NYSTRS in February of this year. An overview of the MWBE conference and a discussion of NYSTRS' MWBE initiatives follow.

NYSTRS 2011 MWBE Conference

The System's first annual MWBE Investments Conference titled "Expanding Access, Increasing Opportunities" was held February 17, 2011, and was filled to capacity. The goal was to introduce minority and women-owned business enterprise investment managers and brokers to NYSTRS and its investment staff. The sessions focused on: fixed income; public equities (asset managers); public equities (brokers); private equity; and, real estate. Registrants left with a greater understanding of the System's portfolio and investment needs, as well as the abilities and qualifications NYSTRS expects of its managers and brokers.

Planning

In October 2010 the NYSTRS Steering Committee met with Dr. Celia Gonzalez, the Deputy Comptroller for the Division of Diversity Services for the Office of the State Comptroller (OSC), who organized a conference of this type on behalf of OSC for the past three years. Information offered by OSC provided the NYSTRS Steering Committee with a sound basis for the planning and execution of its conference.

As OSC was planning its fourth annual emerging managers conference for Friday, February 18, 2011, and because the annual conference of the New York State Association of Black and Puerto Rican Legislators Inc. was scheduled for that same weekend, NYSTRS decided it was prudent to schedule its conference within the same time frame.

Outreach

A "save the date" notice was posted on the NYSTRS Web site in December 2010. Additionally, NYSTRS reached out to approximately 650 individuals who had registered to attend the 2010 emerging manager conferences sponsored by OSC and the Dormitory Authority of the State of New York. Both agencies graciously provided us with their contact lists.

Additional outreach was done at an MWBE Coalition meeting held after the Governor's State of the State Address in January. At this reception NYSTRS was able to make contact with persons associated with the following organizations:

- National Association of Investment Companies (NAIC)
- National Association of Investment Professionals (NAIP)
- Council of Urban Professionals (CUP)
- Association of Asian American Investment Managers (AAAIM)
- Real Estate Executive Council (REEC)

Conference Registration

Registration for NYSTRS' February 2011 conference began on January 2, 2011. On this date, an e-mail was sent to the 650 contacts announcing the start of on-line registration. Word of our conference spread as the System received dozens of inquiries about the event from individuals not contained in our initial database.

In all, 244 people registered online for the NYSTRS conference, with registrant interest broken down by asset class as follows:

- Public Equities (Asset managers): 94 (38.5%)
- Public Equities (Brokers): 43 (17.6%)
- Private Equity: 57 (23.4%)
- Fixed Income: 32 (13.1%)
- Real Estate: 18 (7.4%)

A total of 215 people attended the February 17, 2011 conference.

Conference Format

Based on the volume of outreach, as well as the System's physical and staff capacities, two half-day sessions were offered, with the expectation that approximately 100 people would attend each session. A conference agenda is attached to this report as Appendix A.

Each session consisted of a plenary session that included remarks by Executive Director Thomas K. Lee and a panel presentation by six of our current fund managers/partners:

- Progress Investment Management
- Parish Capital
- Fairview Capital
- Leading Edge Investment Advisors
- Williams Capital Group
- Hewitt EnnisKnupp

The morning session also included remarks by Senator Ruth Hassell-Thompson, leading sponsor for the MWBE legislation.

The plenary sessions were followed by one-hour workshops led by Managing Directors and current managers/partners in each asset class. General information shared at each workshop included the following:

- Almost 10% of externally managed assets are managed by minority and women-owned investment firms.
- Over the past 10 years, up to 15% of commissions and over 25% of fees paid to external asset managers went to minority and women-owned firms.
- All managers hired by NYSTRS, either directly or indirectly, must employ key professionals that (1) have a significant amount of relevant industry experience and (2) have worked together for a meaningful period of time.
- NYSTRS' allocation to a manager may not represent more than 50% of that firm's total assets under management.
- Brokerage firms must meet the following minimum qualifications:
 - Good financial standing.
 - Appropriate regulatory controls over trades and business practices consistent with SEC and FINRA regulations.
 - Trading experience for the types of securities to be traded.
- In order to preclude the possibility of any monies or other consideration being paid to or for the benefit of any NYSTRS Retirement Board Member, employee or advisor in the guise of placement, finders or similar fees, NYSTRS bans contact with placement agents, finders and similar intermediaries for the purpose of introducing a fund or external investment manager to NYSTRS or securing an investment by NYSTRS.

Conference Survey

An on-line, post-conference survey was sent to all attendees. A total of 81 responses were received. Questions pertaining to conference organization, plenary session speakers, NYSTRS staff, and workshop presentations were asked. The responses received were overwhelmingly favorable.

Advancement of MWBE Goals

NYSTRS has taken several steps to advance efforts to identify, engage and invest with qualified MWBE firms.

NYSTRS met repeatedly with representatives of OSC and the State Insurance Fund to share ideas on the implementation of Chapter 171 of the Laws of 2010, particularly with respect to the development of processes to certify MWBEs. As part of those discussions, OSC sought comments on drafts of proposed guidelines for the certification of MWBEs doing business with that entity.

As an outgrowth of those discussions, NYSTRS ultimately adopted guidelines similar to OSC guidelines. The NYSTRS guidelines include a statement of purpose, definitions which largely track the statutory definitions in Chapter 171, a discussion of the NYSTRS' certification process, the reporting obligation, and provision for cooperation with the other parties subject to Chapter 171.

The heart of the guidelines relates to the process for certifying those firms doing business with NYSTRS as MWBEs for reporting purposes. For the purposes of Chapter 171 and these guidelines, an MWBE is a firm which meets at least one of the following alternative criteria:

- At least 51% minority owned;
- At least 51% women owned; or,
- Substantially owned or operated by minorities and/or women.

Under the third alternative as interpreted in the guidelines, a firm would be considered “substantially owned or operated” by women and/or minority group members where women and/or minority group members have at least thirty-three percent of the ownership or operational responsibility. Under all the alternatives, ownership or operational responsibility must be real, continuing and substantial.

The NYSTRS Board at its April 28, 2011 meeting adopted a resolution formalizing the System's MWBE guidelines. A copy of the guidelines (“New York State Teachers' Retirement System Minority and Women-Owned Business Enterprises (MWBE) Asset Management and Financial Institution Guidelines for Certification, Reporting and Cooperation With Other Fiduciary-Controlled Entities”) is attached to this report as Appendix B. The guidelines are posted on the NYSTRS Web site at www.nystrs.org.

In addition to the annual MWBE conference, NYSTRS will continue throughout its fiscal year to meet with and explore investment opportunities with MWBE firms across all asset classes, enabling the System to carry out its broad-based investment strategies.

MWBE Participation by Asset Class

The following summarizes, by asset class, the status of MWBE relationships at NYSTRS.

Domestic and International Equities (58.9% of all invested assets at 6/30/11)

External Portfolio Management

Progress Investment Management Company, an MWBE firm, serves as a manager-of-managers for a NYSTRS program focused on U.S. equities. A number of MWBE sub-managers are also found in the portfolio managed by Progress.

An additional MWBE manager-of-managers, Leading Edge Investment Advisors, was hired by NYSTRS during the recently completed fiscal year. An initial investment of \$250 million was approved for Leading Edge to invest in an all cap strategy. The NYSTRS portfolio managed by Leading Edge also includes a number of MWBE sub-managers.

At June 30, 2011 Progress managed \$554 million and Leading Edge managed \$279 million of NYSTRS' assets (\$833 million in total). The MWBE sub-managers, within their portfolios, include the following:

- Mar Vista Investment Partners
- Herndon Capital Management
- Nicholas Investment Partners
- Nichols Asset Management
- Lombardia Capital Partners
- Phocas Financial Corporation
- Holland Capital Management
- John Hsu Capital Group
- Profit Investment Management

Brokers

During the fiscal period NYSTRS continued to add MWBE brokers to our approved list of brokers. Currently 21 of our 54 approved brokers are MWBE qualified and \$739,000 of a total of \$2.5 million commission dollars were paid to MWBE brokers. A comparison of the last two fiscal years follows.

New York State Teachers' Retirement System
Analysis of NYSTRS Domestic Equity Commissions
(Percent Paid to MWBE Firms)

	7/1/10-6/30/11	7/1/09 - 6/30/10
Total Commissions (,000s)	\$2,561	\$3,631
Paid to MWBE (,000s)	\$739	\$685
Total MWBE %	28.9%	18.9%
Total # of Brokers	54	36
Total # of MWBE Brokers	21	4

Total MWBE %	38.89%	11.11%
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MWBE Brokers

Blaylock Partners	CL King
Bley Investments	Montrose Securities
Cabrera Capital	Pacific American
CastleOak	Williams Capital
Cheevers	
Chicago Analytics	
CL King	
Divine Capital	
Haven Financial	
Ivy Securities	
Loop Capital	
M.R. Beal	
Mischler Financial	
Montrose Securities	
Muriel Siebert	
North South Capital	
Pacific American	
Samuel Ramirez	
Telsey Advisory	
Williams Capital	
WM Smith	

Fixed Income (17.5% of all invested assets at 6/30/11)

Fixed Income staff, leveraging the earlier due diligence efforts of Equities and Internal Audit, examined the fixed income capabilities and resources of Equity-approved MWBE organizations. As a result, staff identified opportunities to increase short term bond transactions with certain MWBE counterparties. Further analysis is under way to determine if the same potential exists in the long term bond arena. However, within the fiscal year NYSTRS did complete successful long term bond transactions with MFR Securities Inc., Loop Capital Markets and Williams Capital Group, L.P.

Also resulting from due diligence efforts were the addition of the following MWBE Fixed Income counterparties:

- CL King
- CastleOak
- Montrose Securities International
- Muriel Siebert & Co., Inc.
- Samuel A. Ramirez & Co.

Fixed Income staff also met some potential counterparties at the February 2011 MWBE conference. As a result of these interactions, staff sent a redesigned and more user-friendly broker dealer survey to these three managers:

- Great Pacific Securities
- Grigsby & Associates
- Toussaint Capital Partners

In addition to the new and/or potential MWBE fixed income counterparties, NYSTRS also has long-standing relationships with the following MWBE firms:

- Blaylock & Co. Inc.
- Guzman & Co.
- Loop Capital Markets
- MFR Securities Inc.
- Williams Capital Group, LP

As the following chart indicates, total commissions paid to MWBE firms in both the short- and long-term categories more than doubled in the fiscal year ended June 30, 2011 in comparison to the previous fiscal year.

Analysis of NYSTRS Fixed Income Commissions			
<u>Fiscal Year</u>	<u>Description</u>	<u>Short term bonds</u>	<u>Long-term bonds</u>
2010-11	Total Commissions – MWBE Firms	\$66,209.00	\$51,194.00
2009-10	Total Commissions – MWBE Firms	\$31,295.00	\$24,379.00

For the recently completed fiscal year, commissions paid to MWBE firms represented 9.9% of all commissions paid in the short term bond category and 4.1% of all commissions in the long term bond category.

Real Estate (including Mortgages) (15.7% of all invested assets at 6/30/11)

Existing MWBE asset manager relationships include Adelante Capital Management, managing \$308 million in public market securities in Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs) for NYSTRS, and Capri Partners, managing \$10.7 million in structured real estate debt as of March 31, 2011.

The System committed \$50 million in March 2011 to an opportunistic real estate fund managed by Artemis Real Estate Partners, an MWBE firm.

Private Equity (7.9% of all invested assets at 6/30/11)

System investments in this asset class are managed externally. In line with its fiduciary obligations to members, the System targets top quartile performance funds for investment.

As of June 30, 2011, private equity investments accounted for approximately \$13.4 billion in committed capital. Of this total, the System has committed approximately \$2.0 billion to 23 private equity funds which are managed by 6 minority and women-owned firms.

Following NYSTRS' February 17, 2011 MWBE conference, introductory meetings were held with 12 MWBE firms. Private Equity is currently in active due diligence with several managers and commitments with two of them were approved.

Staff has been actively attending and participating in various industry events such as the Robert Toigo Foundation 10th Annual Gala on June 9, 2011 in NYC; the Toigo/NAIC Limited Partner Forum on April 20, 2011 in NYC, where two staff members participated as panelists; and, the Private Equity Women Investor Network (PE WIN) event on June 29, 2011 in NYC, where one staff member participated as a panelist.

Conclusion and Next Steps

As one of the largest and best-funded public pension systems in the nation, NYSTRS is committed to a disciplined, risk-controlled investment approach that focuses on prudent diversification of assets across a broad spectrum of capital market segments. NYSTRS will continue to seek sound investment opportunities that will contribute to the stability of our portfolio in all our asset classes.

At the conclusion of the 2011-2012 fiscal year, NYSTRS will report to the Governor, Legislature and the Chief Diversity Officer of the State of New York on our participation of MWBE Asset Managers, MWBE Financial Institutions and MWBE Professional Service Providers. This report will highlight the progress and success of efforts undertaken during the 2011-2012 fiscal year in pursuit of NYSTRS' MWBE guidelines.

In February of 2012 NYSTRS plans to host the 2nd Annual MWBE conference and NYSTRS anticipates the possibility of additional MWBE investments as a result of this important event. NYSTRS also plans to host a separate MWBE conference which will highlight expanding opportunities at the System for MWBE providers of professional and financial services.

Additionally, NYSTRS will continue its efforts to work in unison with the New York State Common Retirement Fund and the New York State Insurance Fund to pursue the certification of MWBEs. As of this writing, the New York State Common Retirement Fund has executed an agreement with Altura Capital Group LLC ("Altura"), dated June 15, 2011, to assist with the certification of MWBE firms. Pursuant to this agreement, NYSTRS will engage Altura along with the Common Retirement Fund and the State Insurance Fund to assist with the certification of the MWBE firms providing investment-related functions to NYSTRS as well as to create and maintain a database in accordance with NYSTRS' Asset Management and Financial Institution Guidelines.

NYSTRS is pleased to provide emerging businesses and MWBE managers the means and opportunities to carry out our investment strategies. It is the diversity of NYSTRS' asset classes and the inclusion of the highly talented pool of minority- and women-owned firms that has contributed to its success as a public pension plan.

"Expanding Access, Increasing Opportunities"

CONFERENCE AGENDA



MORNING SESSION

8:30 AM - 9:00 AM	Registration & Continental Breakfast
9:00 AM - 10:00 AM	Welcome & NYSTRS Overview Tom Lee – Executive Director <u>Panel Presentation</u> <ol style="list-style-type: none">1. Tracy Harris – Parish Capital2. JoAnn H. Price – Fairview Capital3. Clayton Jue – Leading Edge Investment Advisors4. Francois Otieno – Hewitt EnnisKnupp5. Christopher Williams – Williams Capital Group6. Thurman White – Progress Investment Management Comp.
10:00 AM - 10:15 AM	Questions & Answers
10:15 AM - 10:30 AM	Break
10:30 AM - 11:30 AM	Investment Workshops by Asset Class <ul style="list-style-type: none">• Public Equities (Asset Managers)• Public Equities (Brokers)• Private Equity• Fixed Income• Real Estate
11:30 AM - 12:00 PM	Closing Remarks/Business Exchange

AFTERNOON SESSION

12:30 PM - 1:00 PM	Registration
1:00 PM - 2:00 PM	Welcome & NYSTRS Overview Tom Lee – Executive Director <u>Panel Presentation</u> <ol style="list-style-type: none">1. Tracy Harris – Parish Capital2. JoAnn H. Price – Fairview Capital3. Clayton Jue – Leading Edge Investment Advisors4. Francois Otieno – Hewitt EnnisKnupp5. Christopher Williams – Williams Capital Group6. Mona Williams – Progress Investment Management Comp.
2:00PM - 2:15 PM	Questions & Answers
2:15 PM - 2:30 PM	Break
2:30 PM - 3:30 PM	Investment Workshops by Asset Class <ul style="list-style-type: none">• Public Equities (Asset Managers)• Public Equities (Brokers)• Private Equity• Fixed Income• Real Estate
3:30 PM - 4:00 PM	Closing Remarks/Business Exchange

Appendix B

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM MINORITY AND WOMEN-OWNED BUSINESS ENTERPRISES ("MWBE") ASSET MANAGEMENT AND FINANCIAL INSTITUTION GUIDELINES FOR CERTIFICATION, REPORTING AND COOPERATION WITH OTHER FIDUCIARY-CONTROLLED ENTITIES

- I. PURPOSE. In accordance with subdivisions 4, 5, 6, 7, 8 and 9 of section 176 of the Retirement and Social Security Law and section 508-a of the Education Law, the Retirement Board, acting as trustees of the New York State Teachers' Retirement System ("NYSTRS"), establishes these guidelines for the purpose of increasing the utilization of MWBE Asset Managers, MWBE Financial Institutions and MWBE Financial and Professional Service Firms.

These guidelines shall be implemented in accordance with, and subject to, the Retirement Board's fiduciary duties and obligations as trustees of NYSTRS to the members, retirees and beneficiaries of NYSTRS and in accordance with, and subject to, such other investment limitations as may be prescribed by the Education Law, the Retirement and Social Security Law and any other law or rule as may be applicable, including but not limited to the regulations of the Commissioner of Insurance.

These guidelines shall relate to the following activities:

- A. Contracting with MWBE Asset Managers to invest assets of NYSTRS;
- B. Subject to Best Execution:
 - 1. Conducting trades of public equity securities with MWBE Financial Institutions; and
 - 2. Conducting trades of fixed-income securities with MWBE Financial Institutions;
- C. Allocating investments of assets of NYSTRS either:
 - 1. Directly through investments in the equities and debt securities of MWBEs; or
 - 2. Indirectly through programs involving MWBE Asset Managers; and
- D. Awarding contracts for accounting, banking, financial advisory, insurance, legal, research, valuation and other financial and professional services to MWBE Financial Institutions and other MWBE Professional Service Firms.

- II. DEFINITIONS. For the purposes of these guidelines, the following terms are defined as follows:
- A. The terms “Asset Manager” and “Asset Management” shall mean the person, or activity by such person, who provides a comprehensive and structured approach to short-term and long-term management of funds of NYSTRS.
 - B. The term “Best Execution” shall refer to the obligation of Broker or Broker Dealer to ensure the optimal mix of price improvement (getting a better price than is currently quoted), speed and likelihood of execution.
 - C. The terms “Broker” and “Broker Dealer” shall mean an individual or firm, registered in accord with state or federal law, who acts as an intermediary between a buyer and seller.
 - D. The term “Business Enterprise” may include, without limitation:
 - 1. A sole proprietorship;
 - 2. A partnership;
 - 3. A limited partnership;
 - 4. A limited liability partnership;
 - 5. A limited liability company;
 - 6. A corporation; or
 - 7. Another similar entity whether domestic or foreign.
 - E. The term "MWBE Asset Manager" may include, without limitation:
 - 1. An Asset Manager in any of the following asset classes:
 - a. Public Equity or Fixed Income Securities;
 - b. Hedge Funds;
 - c. Fund of Hedge Funds;
 - d. Private Equity (including Venture Capital);
 - e. Fund of Private Equity funds;
 - f. Real estate investment funds;
 - g. Fund of real estate funds; or
 - h. Any other asset class for which NYSTRS might engage external asset managers; and
 - 2. An Asset Manager that is:
 - a. An MWBE;

- b. A registered Investment Advisor or an Investment Advisor exempt from such registration; and
 - c. Certified in a manner consistent with subdivision 3 of section 423-c of the Retirement and Social Security Law.
- F. The term "Minority Group Member" shall mean a United States citizen or permanent resident alien who is and can demonstrate membership in one of the following groups:
 1. Black persons having origins in any of the Black African racial groups;
 2. Hispanic persons of Mexican, Puerto Rican, Dominican, Cuban, Central or South American of either Indian or Hispanic origin, regardless of race;
 3. Native American or Alaskan native persons having origins in any of the original peoples of North America; or
 4. Asian and Pacific Islander persons having origins in any of the Far East Countries, South East Asia, the Indian Subcontinent or the Pacific Islands.
- G. The term "MWBE" for the purpose of engaging in business with NYSTRS shall mean:
 1. A Business Enterprise:
 - a. That is at least fifty-one percent owned by one or more minority group members, or at least fifty-one percent owned by one or more women, who, in each case, have significant experience in asset management, brokerage, other financial services or related professional services such as accounting, valuation or legal services; or
 - b. That is substantially owned and/or operated by women or minority group members who have significant experience in asset management, brokerage, other financial services or related professional services such as accounting, valuation or legal services; and
 2. A Business Enterprise:
 - a. In which such minority or women ownership or operation is real, substantial and continuing;
 - b. In which such minority or women ownership or operation has and exercises the authority to control independently the day-to-day business decisions of the enterprise;
 - c. Authorized to do business in this State; and
 - d. Certified in a manner consistent with subdivision 3 of section 423-c of the Retirement and Social Security Law.
- H. The term "Financial and Professional Services" shall include, but not be limited to:
 1. Banking;
 2. Financial Advisory;

3. Financial Research;
4. Insurance;
5. Law; and
6. Valuation.

I. The term "MWBE Financial Institution" shall mean:

1. As it relates to brokerage services, a Broker or Broker Dealer that is an MWBE certified in a manner consistent with subdivision 3 of section 423-c of the Retirement and Social Security Law; and
2. As it relates to any other financial services, a Business Enterprise that is an MWBE certified in a manner consistent with subdivision 3 of section 423-c of the Retirement and Social Security Law that provides banking, financial advisory, insurance, financial research, valuation or other financial services.

J. The term "Other Fiduciary-Controlled Entities" shall mean:

1. The New York State Common Retirement Fund;
2. The New York State Insurance Fund; and
3. The New York State Deferred Compensation Plan.

III. CERTIFICATION. The Retirement Board hereby establishes and adopts the following certification process for the purpose of identifying and reporting on MWBE firms providing asset management, brokerage or other financial or professional services with or for NYSTRS:

A. Business Enterprises providing asset management, brokerage or other financial or professional services with or for NYSTRS shall be invited to provide the following information:

1. A copy of financial form(s), if any, filed with the federal Securities and Exchange Commission, including, but not limited to, the uniform application for investment advisor registration (ADV) and the uniform application for broker-dealer registration (BD);
2. A copy of application forms and supporting documentation, if any, filed with the Division of Minority and Women-Owned Business Development ("DMWBD") within the New York State Department of Economic Development and any subsequent certification issued by DMWBD of MWBE status;
3. A copy of any form(s) filed with any other state or federal entity for the purpose of seeking certification by such entity as an MWBE, along with any certification issued by such governmental entity of MWBE status, if any;
4. Any registration form as the Retirement Board or the Executive Director of NYSTRS, within his or her discretion, may require; and
5. Such other information as any such Business Enterprise may deem relevant to or of assistance in determining whether such Business Enterprise is an MWBE within the meaning of these guidelines.

B. Additionally, Business Enterprises providing asset management, brokerage or other financial or professional services with or for NYSTRS are invited to provide the Retirement Board, the following information relating to any position (held by an owner, officer, manager or employee of the Business Enterprise) that the Retirement Board or the Executive Director of NYSTRS, within his or her discretion, may determine necessary, including, but not limited to, with respect to any managing director, managing principal, principal, operating principal, chief financial officer, operating vice-president, vice-president, partner and owner, or equivalent positions, for the accurate identification of a Business Enterprise as an MWBE:

1. 51%-Owned by Minority Group Members or by Women:

- a. Title;
- b. Position;
- c. Ownership percentage;
- d. History of ownership;
- e. History of ownership percentage;
- f. Ethnicity;
- g. Gender; and
- h. Length of service.

2. MWBEs Substantially Owned or Operated by Minorities or Women:

- a. Title;
- b. Position;
- c. Ownership percentage;
- d. History of ownership;
- e. History of ownership percentage;
- f. Ethnicity;
- g. Gender;
- h. Length of service; and
- i. The role of individual employees and whether such individual will be performing services with or for NYSTRS and if so, to what extent such performance will occur.

C. Documentation. All information and documentation shall be provided on a form developed by NYSTRS and, pursuant to these guidelines, shall be certified as to accuracy by an Owner or Officer of the Business Enterprise, authorized by the business to make the representations contained thereon. If a Business Enterprise seeks confidential treatment of proprietary business information, such information must be clearly labeled as confidential, and denial of release thereof will occur in accordance with and to the

extent permitted by applicable law. The Retirement Board or the Executive Director of NYSTRS, or their designees, may make such inquiries as he, she or they may deem appropriate to determine the accuracy of the information provided, including, but not limited to, in his, her or their discretion, field visits and/or other means of substantiation.

- D. Certification of MWBE status. Separate determinations of MWBE status shall be made for Business Enterprises pursuant to subdivisions 1 and 2 of this Paragraph.
1. In determining that a Business Enterprise is at least fifty-one percent owned by one or more minority group members, or at least fifty-one percent owned by one or more women, NYSTRS may rely on bona-fide determinations of state or federal government entities or of the Other Fiduciary-Controlled Entities, or on certified filings with the Federal Securities and Exchange Commission, in addition to the responses submitted by the Business Enterprise.
 2. In determining that a Business Enterprise is substantially owned and/or operated by women or minority group members, these guidelines interpret the term “substantially” as meaning at least thirty-three percent (ownership and/or operation); however based on information developed upon further inquiry, “substantially” may be differently interpreted.
- E. Decertification. Any Business Enterprise previously certified as an MWBE which no longer meets the applicable certification criteria shall be decertified. All Business Enterprises certified as MWBEs must promptly inform the Retirement Board or the Executive Director of NYSTRS, or his or her designee, of any changes in ownership, management and/or control that could impact the entity’s MWBE certification.
- F. Documentation of determination. In all cases, NYSTRS shall maintain a written record of the reason(s) for its determination and subsequent certification or decertification of an entity’s MWBE status.
- G. Finality of determination. All determinations relating to MWBE status made under these guidelines are made solely for the purposes of identification and reporting and for no other purpose. All determinations shall be final and not appealable. However, any Business Enterprise that believes it should be certified as an MWBE is welcome to submit information demonstrating that it is eligible for certification as an MWBE.

H. Submission of false information. Any individual who submits false information on behalf of a Business Enterprise, and/or any Business Enterprise that submits false information, may be barred from doing business with NYSTRS for a period of time based on the nature and extent of the false information. False submissions shall also be reported to appropriate law enforcement entities.

IV. REPORTING. Within 60 days of the end of each fiscal year commencing with the July 1, 2010-June 30, 2011 fiscal year, NYSTRS shall report to the Governor, Legislature and the Chief Diversity Officer of the State of New York on the participation of MWBE firms providing asset management, brokerage or other financial or professional services for NYSTRS.

A. Such Report shall include:

1. A comparative analysis of such activity relative to such activity with all asset managers, financial institutions and professional service providers for the relevant period; and
2. The progress and success of the efforts undertaken during the plan fiscal year in pursuit of these guidelines.

B. Such Report shall be simultaneously published on the NYSTRS Web site for not less than 60 days following its release to the Governor, Legislature and the Chief Diversity Officer of the State of New York.

C. Such Report shall separately document the utilization of:

1. Entities that are at least fifty-one percent owned by one or more minority group members or at least fifty-one percent owned by one or more women; and
2. Entities that are substantially owned and/or operated by women or minority group members.

V. COOPERATION WITH OTHER FIDUCIARY-CONTROLLED ENTITIES.

In implementing these guidelines, NYSTRS may, in its discretion, utilize or participate in any MWBE certification process established by any Other Fiduciary-Controlled Entity for the purpose of identifying and reporting on MWBE firms providing Asset Management, Brokerage, or other Financial or Professional Services.

A. NYSTRS shall work with the Other Fiduciary-Controlled Entities to create a Database of Business Enterprises certified as MWBEs pursuant to or in a manner consistent with subdivision 3 of section 423-c of the Retirement and Social Security Law.

B. In addition to such advertising as NYSTRS shall implement so that MWBE Asset Managers, MWBE Financial Institutions and other MWBE Professional Service Firms are made aware of the opportunities with NYSTRS, NYSTRS shall periodically, but not less than annually, hold a conference to promote the utilization of MWBE Asset Managers, MWBE Financial Institutions and MWBE Financial and Professional Service Firms. Such conference shall be scheduled and coordinated to the extent reasonably practicable with Other Fiduciary-Controlled Entities.

NYSTRS shall meet periodically with the Other Fiduciary-Controlled Entities to discuss best practices and to consider such changes to these guidelines as may be appropriate or advisable.