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Proceedings

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM  
INVESTMENT MEETING

Held on Thursday, February 1, 2018, at 55 Water  
Street, New York, New York

ATTENDEES:

- JOHN ADLER, Chairman, Trustee
- THOMAS BROWN, Trustee
- DEBRA PENNY, Trustee
- SUSANNAH VICKERS, Trustee, Comptroller's Office
- DAVID KAZANSKY, Trustee
- RAYMOND ORLANDO, Trustee
- PATRICIA REILLY, Teachers' Retirement System
- CYNTHIA COLLINS, Mayor's Office
- JOHN DORSA, Comptroller's Office

REPORTED BY:  
YAFFA KAPLAN  
JOB NO. 0611051

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## 2 ATTENDEES (Continued):

3 SUSAN STANG, Teachers' Retirement System

4 RON SWINGLE, Teachers' Retirement System

5 MICHAEL FULVIO, Rocaton

6 MATT MALERI, Rocaton

7 PAUL RAUCCI, Teachers' Retirement System

8 THAD McTIGUE, Teachers' Retirement System

9 VALERIE BUDZIK, Teachers' Retirement System

10 LIZ SANCHEZ, Teachers' Retirement System

11 SHERRY CHAN, Office of the Actuary

12 DAVID LEVINE, Groom Law Group

13 SANFORD RICH

14 MELVYN AARONSON

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2 MR. ADLER: Good morning, everyone.

3 Sorry for the slight delay this morning.

4 Welcome to the Teachers' Retirement System of  
5 the City of the New York investment meeting  
6 for February 1, 2018, and welcome to the month  
7 of February. Let's hope it's better than the  
8 month of January.

9 MS. CHAN: Warmer.

10 MR. ADLER: Yes. Okay. Let's start  
11 with calling the roll.

12 MS. REILLY: John Adler?

13 MR. ADLER: I am here.

14 MS. REILLY: Thomas Brown?

15 MR. BROWN: Here.

16 MS. REILLY: David Kazansky?

17 MR. KAZANSKY: Present.

18 MS. REILLY: Debra Penny?

19 MS. PENNY: Here.

20 MS. REILLY: Raymond Orlando?

21 MR. ORLANDO: Here.

22 MS. REILLY: Susannah Vickers?

23 MR. DORSA: John Dorsa for the  
24 Comptroller's Office.

25 MR. ADLER: Good to go?

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2 MS. REILLY: We have a quorum.

3 MR. ADLER: Thank you so much. Okay.

4 Turn it over to our friends from Rocatton to do  
5 our performance reviews.

6 MR. FULVIO: Great. Good morning,  
7 everyone, and I think we are off to a good  
8 start given that there is no snow at least in  
9 today's forecast. That might change tonight I  
10 heard but -- so maybe we will begin by  
11 reviewing the 2017 performance for the  
12 variable funds. I apologize that once you go  
13 past the first page the printing is a little  
14 shrunken on each page. So happy to refer to  
15 any numbers if you have questions, but I will  
16 focus my comments on page 1.

17 Last year the Diversified Equity Fund  
18 ended the year with about 15.8 billion dollars  
19 in assets. The calendar year return for 2017  
20 was 21.1 percent, roughly in line with that of  
21 the Russell 3000 Index so the broad measure of  
22 US equity markets. The fund itself, while in  
23 line with the Russell 3000, lagged somewhat  
24 the hybrid benchmark, which you will recall  
25 represents the passively invested targets of

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the Diversified Equity Fund. And when we look down and drill into those numbers a little bit, in a market that's been up over 20 percent both the US and abroad, last year the defensive composite was a bit of a drag in performance in absolute terms, so the defensive composite as a whole you will see was up about 13.8 percent. Again, we don't always expect this composite to keep up with quickly rising equity markets, and that was certainly the case last year. So we saw some -- some lagging with regard to that composite relative to the broad equity markets.

What we also saw last year was a notable positive contribution from the nonUS allocation within the fund relative to the US. So nonUS markets and how they were invested in this fund, that composite was up about 27.3 percent. That was also the product of some relatively strong active management in that composite. So wanted to note that.

And then with regard to the actively managed US composite, some negative tracking due to active management to the tune of about

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2 130 basis points there. So net/net when you  
3 compare the Diversified Equity Fund to the  
4 Russell 3000 benchmark, the fund did match the  
5 return of that benchmark. Some of the  
6 drawbacks in asset -- in active management  
7 rather, were offset by the nonUS allocation  
8 and that you can see show up in the hybrid  
9 benchmark numbers.

10 So before I jump to the other funds, I  
11 will pause there and see if there are any  
12 questions.

13 MR. ADLER: Any questions for Mike?  
14 Okay.

15 MR. FULVIO: So the other options -- we  
16 will round those out, and this is the last  
17 time I will be reporting on the performance of  
18 the Bond Fund. The Bond Fund ended the year  
19 with about 387 million dollars in assets. The  
20 return for last year was 1.23 percent, roughly  
21 in line with its 1-to-5-year gov credit  
22 benchmark, and then at the very end of last  
23 year, this fund transitioned beginning 1/1 to  
24 the Balanced Fund. So going forward we will  
25 be reporting on that.

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2 The International Equity Fund ended last  
3 year with about 149 million dollars in assets.  
4 I mentioned before the strength of the nonUS  
5 assets relative to the US, and you can see  
6 that in the returns here. That fund was up  
7 about 26.8 percent, again, a little bit ahead  
8 of its international composite benchmark,  
9 which includes developed and emerging markets.

10 The inflation up about 59 percent.  
11 There you can see -- I'm sorry. Let me  
12 clarify. The Inflation Protection Fund.  
13 Inflation has not been that high for quite  
14 some time. The Inflation Protection Fund had  
15 assets of about 59 million dollars. The fund  
16 last year was up just over 4 percent, which  
17 was enough to outpace inflation by a couple  
18 percent. The Socially Responsive Equity Fund  
19 with assets of about 184 million dollars, that  
20 fund was up about 18.3 percent, lagging the S  
21 & P, which was up about 21.8.

22 So I will pause there. Happy to dig  
23 into each these numbers a little bit, and at  
24 the next meeting we will close out the year,  
25 the year's performance with a quick review

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2 again of these numbers as part of the  
3 quarterly update.

4 MR. ADLER: Any questions? I just have  
5 one question --

6 MR. FULVIO: Sure.

7 MR. ADLER: -- which I think I know the  
8 answer to. So in the Diversified in variable  
9 A, we have international which is, you know, a  
10 not insubstantial amount of money, right?  
11 It's 3 billion dollars. And then we have a  
12 separate International Equity Fund, which is  
13 just 150 million dollars. Are those funds  
14 managed by the same managers?

15 MR. FULVIO: They are. So the portion  
16 of those funds that's invested is the same. I  
17 say it that way because there is additional  
18 cash allocation within the International  
19 Equity Fund to help manage the cash flows from  
20 one option to the other.

21 MR. ADLER: The International Equity  
22 Fund meaning the separate -- it's variable C?

23 MR. FULVIO: That's right. So there is  
24 an additional allocation to cash just to help  
25 manage liquidity within the Passport Funds,



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2 and then if you are comparing performance  
3 between those, you will note that the total --  
4 the total performance for the Passport Funds,  
5 each of them on their own includes the  
6 additional impact of administrative expenses,  
7 which is not included for the composite line  
8 item of the international equity composite  
9 within the Diversified Equity Fund.

10 MR. ADLER: So let me just throw out  
11 something which I am sure is, you know, not  
12 practicable, but 150 million dollars out of,  
13 you know, whatever we have, 16.something in  
14 the variable fund is 16.something billion,  
15 right, in the variable fund? The members are  
16 kind of voting with their feet with regard to  
17 the International Fund, and they get a  
18 substantial amount of international exposure  
19 by being in variable A. Does it make sense to  
20 have a separate variable C fund? There. I  
21 have said it.

22 MR. FULVIO: I want to say I planted the  
23 question with you before the meeting, but it's  
24 funny you bring that up because one of the  
25 items on the work plan, which we will also

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2 discuss in today's public agenda, is a review  
3 of the options that participants are offered  
4 and we take -- the hope is we could take a  
5 little bit of a deeper dive to see, you know,  
6 what's behind the data. So you know, which  
7 participants are allocating to some of the  
8 newer options, who is still in the Diversified  
9 Equity Fund, look a little about how  
10 participants are using the options. Maybe  
11 even compare the offerings here to other  
12 systems' offerings and do a little bit of that  
13 work to kind of review the offerings, make any  
14 possible -- big possible decisions about what  
15 changes might be warranted, is there a need to  
16 add new options down the road, is that  
17 something the Board will want to consider.  
18 That has not been done since variable C, D,  
19 and E were added back in 2008, but these are  
20 all questions -- and your question importantly  
21 -- is something we could take up as part of a  
22 broader review of the Passport Funds which we  
23 proposed maybe coming back to the Board in  
24 September with.

25 MR. ADLER: Okay. Thank you.

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2 MR. FULVIO: And I think your comments  
3 are also -- you know, you could say that the  
4 Inflation Protection Fund and the Socially  
5 Responsive Fund, those options haven't I think  
6 garnered the assets that maybe we were  
7 expecting when they were launched, but you  
8 could argue certainly that those options play  
9 a more unique role.

10 MR. ADLER: Yes. They don't have very  
11 much -- they don't have very many assets in  
12 them, and yet they do fulfill something that  
13 you can't get in variable A.

14 MR. FULVIO: Absolutely.

15 MR. ADLER: So there may be more of a  
16 reason to keep them in the line-up than  
17 strikes me that there may be for keeping the  
18 International Fund but I agree. Let's do it  
19 as part of a comprehensive review. I think  
20 that's a terrific answer so thank you.

21 MR. FULVIO: Okay.

22 MR. ADLER: Any other questions  
23 regarding the performance review through  
24 year-end 2017? Okay and let's just note for  
25 the record that Ms. Vickers has arrived.

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2 Thank you. Okay. So do you want to then --

3 MR. FULVIO: I will give a quick update  
4 on markets so far year to date, and I will say  
5 year to date -- actually just through Tuesday,  
6 but the comment I will make about yesterday  
7 which is that roughly markets were up across  
8 the board here, and then we have seen the  
9 front end of the yield curve sell off a little  
10 bit. So with regard to the equity markets  
11 from Tuesday, you will see the US market was  
12 up about 5.3 percent. The developed markets  
13 was also up about 5.3 percent and emerging  
14 markets up about 4.1 percent.

15 So with regard to equities, again we  
16 have continued to see a pretty notable run,  
17 and I think through yesterday we probably  
18 added another half a percent to a percent  
19 depending on which market you are looking at.  
20 So if you are trying to gauge that, that's  
21 where we are. If you are looking at fiscal  
22 year to date through Tuesday, very, very  
23 strong double-digit returns, ranging anywhere  
24 from 15 to 20 percent. So again, very strong  
25 market environment.

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2 When we look further and take a peek at  
3 the performance for the underlying components  
4 of the Inflection Protection Fund, that you  
5 can see had a modestly negative return during  
6 January. And the underlying strategy for the  
7 Socially Responsive Equity Fund is up about  
8 5.8 percent, just ahead of the S & P, so we  
9 will be reporting on the final options for  
10 each of the Passport Fund options at the next  
11 meeting, but this is in the neighborhood of  
12 what we would expect.

13 MR. ADLER: So you anticipate that this  
14 performance will continue, we are looking at  
15 60 percent annual returns?

16 MR. FULVIO: You might as well  
17 extrapolate -- no, it's remarkable. We were  
18 talking earlier, the 22 out of the last 23  
19 months for the S & P have been positive.

20 MR. MALERI: That's right and last year  
21 was the only calendar year in 150 calendar  
22 years to date that the S & P was up every  
23 month, so let that sink in for a little bit.

24 MR. ADLER: Let's do some attribution  
25 analysis now. Okay. Thank you.

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2 So now you are going to move on to the  
3 work plan?

4 MR. FULVIO: Yes, absolutely. So we  
5 have outlined a few work items here, and I  
6 don't think this is meant to be an exhaustive  
7 list of the projects that are going on, things  
8 we are planning to take up, and certainly it's  
9 meant to be open for the feedback of the  
10 Board, and to the extent you would like to  
11 help us further prioritizing these items,  
12 please help us share that feedback.

13 The ongoing discussions with regard to  
14 the investment policy, I think today later in  
15 the agenda there is a discussion of the  
16 divestment policy, which is an important  
17 component of the investment policy overall.  
18 So we will continue to make progress with  
19 that. The hope was that we make some progress  
20 and bring that back to the Board at the March  
21 meeting. I don't want to make any promises,  
22 but we will discuss that further.

23 We have been doing some work with regard  
24 to the current country screens for investing  
25 across TRS abroad in emerging markets. We are

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planning to come back to the Board with an update on that process in April. We thought it would be helpful this year to do a more in-depth fee review. We have made a lot of progress over the years in driving down the investment expenses, but we think from time to time it makes sense to sort of take stock and inventory where we are, where we think we could do better, but I think you have been very successful in doing that. Nonetheless, we would like to present a review to the Board on that topic.

We have talked about within the Passport Funds drilling into the international composite, John, that you mentioned earlier, looking at the composition of active and passive and identifying where there might be potential need for active managers, is there a reason to change any of the managers. Doing something -- doing a little bit of a deep dive there and bringing a recommendation back to the Board with regard to that.

I mentioned earlier a broader review of the Passport Fund offerings. That's a project

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2 that needs I think quite a bit in terms of --  
3 in terms of work going on in the background,  
4 so we will ramp that up and bring it back to  
5 the Board; we are targeting roughly September.

6 And then finally what we have been  
7 talking about for on and off over the last  
8 couple of years and as we continue to identify  
9 compelling active managers, we will bring  
10 those forward to the Board for the US equity  
11 composite if there is none, but TRS is  
12 constantly meeting with managers that we  
13 consider for potential roles in the plan, and  
14 given that the change to the active composite  
15 mandate to be up to 15 percent, we said we  
16 don't want to always be there if we don't have  
17 opportunities that we think are compelling,  
18 but when we find them, we will bring those to  
19 you, so that's more of an ongoing process.

20 And I will pause there and see if there  
21 is any feedback on these items or other items  
22 that you would like us to focus on.

23 MR. ADLER: Questions or comments?

24 MS. VICKERS: I just have a process  
25 question. With some of these things that I



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2 think are probably for the TDA as well as the  
3 QPP like the country screen, I was just  
4 wondering what the process is because I know  
5 BAM has been thinking a lot about this too,  
6 and how do we sort of work together to come to  
7 a good policy for --

8 MR. FULVIO: Yes. I think we just need  
9 to make sure we are having conversations as we  
10 progress on individual items well in advance  
11 of whenever we are claiming to come back.

12 MS. VICKERS: Well, just like I think we  
13 are doing pretty good on the IPS working  
14 together, feel free to talk to me or John or  
15 reach out to us for conversations regarding  
16 that.

17 MR. FULVIO: Great.

18 MS. VICKERS: Thanks.

19 MR. ADLER: Any other questions or  
20 comments for Mike on the work plan? Okay.  
21 Thank you.

22 Okay. Next item on the agenda is the  
23 divestment policy, so I will note that last  
24 week or maybe early this week we got a draft  
25 from --

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2 MS. REILLY: The original we got in  
3 December.

4 MR. ADLER: So this is the same draft  
5 that we got in December?

6 MS. BUDZIK: Correct.

7 MR. ADLER: And then we got a red-line  
8 version from BAM yesterday or BAM's red  
9 version we got.

10 MS. VICKERS: Right and you got the  
11 policy that BAM drafted last year as well. I  
12 don't know, and this is just taking some of  
13 those items that are a little bit different or  
14 in different places than the TRS draft. It  
15 was then synthesized together to one version.

16 MR. ADLER: So honestly, I really didn't  
17 have a chance to review the red-line version  
18 since we just got it yesterday. I don't know  
19 if other folks are prepared to discuss it or  
20 comment on it today.

21 MS. PENNY: I think we would like to  
22 wait as well. We will look it over together.

23 MR. KAZANSKY: There seems to be some  
24 changes that are merely formatting and  
25 pleasing to the eye let's say but others that

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2 are more substantial.

3 MS. VICKERS: Can we table it now to the  
4 agenda next month?

5 MR. KAZANSKY: I think that makes  
6 perfect sense.

7 MR. BROWN: I agree.

8 MR. ADLER: Okay. So we will do that.  
9 Put it on the agenda for the next investment  
10 meeting, the -- I mean, the whole policy but  
11 especially the revisions from BAM, okay?

12 Okay. Next we have the fossil fuel  
13 divestment resolution, which was recently  
14 introduced at the CIM, and now there is a  
15 somewhat amended version that folks got and  
16 that is in our packet. So any -- so that's --  
17 I mean, I think formally what has to happen is  
18 there -- but let's have a discussion and then  
19 we will figure out our process.

20 So any discussion on the resolution  
21 that's in front of us? Any subsequent  
22 comments? Okay. So I think formally what  
23 would have to happen is the maker of the  
24 motion, which I think is the Comptroller would  
25 have to -- it's definitely the Comptroller

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2 because you did it at the public session at  
3 the CIM -- would have to accept the revised  
4 version that's in front of you now. So to the  
5 Comptroller, do you accept the revised version  
6 that's in front of you now?

7 MS. VICKERS: Yes, I do.

8 MR. ADLER: Okay. So -- and I wasn't at  
9 the caucus. Was the resolution that was made,  
10 was it seconded at the caucus, at the CIM  
11 caucus?

12 MS. BUDZIK: It was.

13 MR. ADLER: Okay, great. We have a  
14 motion made and seconded, and we have an  
15 amended version accepted by the maker of the  
16 motion and I don't think we need another  
17 second, right? Can we just make sure there is  
18 consensus on this and then we are good to go?

19 MS. BUDZIK: Consensus and then they  
20 typically go back to the board meeting.

21 MR. ADLER: Okay but that would be  
22 moving forward.

23 MS. BUDZIK: Yes.

24 MR. ADLER: So do we have consensus to  
25 accept the amended resolution made by the

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Comptroller to approve this divestment?

MS. PENNY: Yes.

MR. BROWN: We do.

MS. VICKERS: Yes.

MR. ADLER: So we will put it on the agenda for formal adoption. I think I guess it goes in the executive director's report for the board meeting this month?

MS. REILLY: Yes.

MR. ADLER: Okay, great. And then the last item for the public agenda is the Mercer report and next steps. So I think this is an open discussion. Taking out my Mercer report. So does anybody want to kick off? And I open this up to staff as well as trustees for what we would do as next steps with regard to the Mercer report.

MS. STANG: Well, I think you --

MR. ADLER: Yes, Ms. Stang.

MS. STANG: I think you queued it up just as perfectly. We have this Mercer report. Let's have a discussion of what the next steps are.

MR. ADLER: Thoughts? Mr. Kazansky?

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2 MR. KAZANSKY: So just moments ago,  
3 right, we decided on divestment as a  
4 move-forward and so I think what makes sense  
5 is while that process is playing out that we  
6 take some of the actionable items that are  
7 reasonable, doable in the Mercer report, and  
8 start figuring out how we are going to move  
9 forward on that.

10 MS. VICKERS: I think that's a great  
11 idea, and I would just say from BAM's  
12 perspective, I think it's nice that TRS and  
13 NYCERS and BERS, you know, the funds that are  
14 actively looking at the divestment question  
15 may be thinking about these actionable steps  
16 that we can do. I was at a UN conference  
17 yesterday on sustainability and investment,  
18 and a lot of sort of leading-edge funds from  
19 Europe and other places talked a lot about  
20 building climate change into everything they  
21 do. So a lot of the Mercer recommendations  
22 have to do with investment beliefs and others  
23 of governance type things that, you know, BAM  
24 would encourage the Board to take a look at  
25 while at the same time this more complicated

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2 open-ended question around divestment takes  
3 place.

4 MR. ADLER: So concretely what I have  
5 heard both of you say for one thing is that we  
6 should work on investment beliefs and  
7 adopting -- working on adopting an investment  
8 beliefs statement that I think would become  
9 part of the IPS and -- you know, which is a  
10 process and I know another fund -- Susan knows  
11 this too -- we created an investment beliefs  
12 subcommittee that has been working on drafting  
13 investment beliefs to then submit to the whole  
14 board for discussion for eventual adoption and  
15 we have an IPS subcommittee, right? Who is on  
16 that? I know Antonio from our office is on  
17 that. Who else is?

18 MS. VICKERS: I am.

19 MR. FULVIO: Robin.

20 MR. ADLER: And then who from Teachers?

21 MR. KAZANSKY: All three of us.

22 MR. ADLER: So I don't know if that  
23 committee, which is probably basically a  
24 committee as a whole -- you know, my office is  
25 represented, Mr. Orlando is not I guess.

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2 MR. ORLANDO: I am delighted to both be  
3 and/or not be.

4 MR. ADLER: That is the question.

5 MR. ORLANDO: Indeed. In so many  
6 contexts.

7 MR. ADLER: So whether we want to  
8 incorporate an investment beliefs process into  
9 that mandate for the investment beliefs  
10 committee -- excuse me, for the investment  
11 policy statement committee or whether we want  
12 to create a separate process, I don't see the  
13 need for that but -- Dave?

14 MR. KAZANSKY: Well, built into the  
15 resolution that we just spoke about was this  
16 concept of doing an RFI. And so since the  
17 resolution kind of talks about not only  
18 divestment but a grander climate risk  
19 strategy, would it make sense to build into  
20 that RFI some work where either we bring  
21 somebody in to help us implement the things  
22 that are actionable in the Mercer report so  
23 help us with the belief statement, help us to  
24 determine a low carbon index, things like  
25 that, whatever the steps we determine we would



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2 want to move forward, I think it's good to  
3 have an outside independent consultant or  
4 entity kind of help us with that, and I think  
5 that could be kind of built into the RFI that  
6 goes forward.

7 MS. VICKERS: I think that's a very good  
8 idea, but I would point out a couple of  
9 questions about, you know, sort of doing a  
10 large RFI. You know, I think that the  
11 question around divestment is so sort of  
12 central and difficult. The RFI that I think  
13 the Comptroller is envisioning wanted to focus  
14 on gathering the widest possible input around  
15 the divestment, yes, because basically no one  
16 has ever successfully been able to carry out a  
17 divestment, you know, looking at fiduciary  
18 issues of a fund our size. So I am a little  
19 bit worried about adding other stuff. Maybe  
20 we could talk about parallel tracks or  
21 something, but if we are adding, you know,  
22 sort of governance and other issues to the RFI  
23 on divestment, I am a little concerned that  
24 it's going to make the process around  
25 divestment less clear. So I think we should

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2 just talk about how to best focus.

3 MR. ADLER: So it seems to me hearing  
4 what Susannah said that maybe what she should  
5 do is delegate this to the committee and the  
6 committee starts the discussion about  
7 investment beliefs, and I think with the  
8 permission of the other fund, I think we could  
9 share what the other fund has done as an  
10 example, which is not to say that NYCERS --  
11 excuse me, that Teachers would adopt that  
12 policy, you know, verbatim and then if the  
13 committee recommends that we hire some outside  
14 help, that we do that, and frankly, I think  
15 that could be done quickly without having to  
16 go through a whole RFP. I think it would be a  
17 very -- a one-off sort of thing.

18 Valerie, would you agree with that  
19 statement if the committee wanted to hire some  
20 outside help to assist with the investment  
21 beliefs process, and it could be that Rocaton  
22 could assist us in that as well?

23 MS. VICKERS: For example, I think this  
24 other fund, at some point we are having a  
25 facilitated discussion around investment

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2 beliefs, which we are all looking forward to.

3 MS. PENNY: We have been speaking about  
4 it, and I think we feel more comfortable with  
5 an outside source, not knowing enough about  
6 this, I think to guide us and look at all the  
7 other possible belief statements to kind of  
8 incorporate it. I don't want to take up  
9 everyone's time putting it together without  
10 having someone who really specializes in this.

11 MR. ADLER: So honestly, I am not sure  
12 there is anyone who really specializes in  
13 this.

14 MS. PENNY: Who can at least bring us  
15 all different ideas.

16 MR. ADLER: Our office actually  
17 assembled this as part of the conference we  
18 organized last year because remember we talked  
19 a lot about investment beliefs at that  
20 conference so we actually -- we can provide  
21 all the investment -- not all but a whole  
22 collection of investment belief statements  
23 that other pension funds have adopted that are  
24 out. But then, you know, again, I agree that  
25 some kind of at least facilitator who may not

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2 be an expert in investment beliefs but can at  
3 least help guide us through the process.

4 MS. VICKERS: And I don't think -- I  
5 don't have the Mercer report in front of me,  
6 but there might be things in addition to  
7 investment beliefs that we might want to start  
8 working on, so before we decide this is the  
9 way we are going on investment beliefs, maybe  
10 we should take a comprehensive look at the  
11 entire list, and that facilitator person might  
12 be able to help us with more than one item.

13 MR. ADLER: Well, I just point out in  
14 support of that point and something that Dave  
15 said in his earlier comments, we already  
16 started looking at low carbon index providers.  
17 So one thing we could do is say if we wanted  
18 to say is let's actually do a search. That  
19 was informational but let's say we want to put  
20 X percent and I actually forget what the final  
21 recommendation from Mercer was. Was it 2  
22 percent?

23 MS. STANG: On the pension side it was  
24 -- yes, 2 and then on the TDA is a little  
25 trickier. So John, if we --

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2 MR. FULVIO: I was just going to state  
3 for the record that Rocaton is more than happy  
4 to help facilitate a process to help draw up  
5 the Board's views and create a belief  
6 statement as well as facilitate the work we  
7 have done and even with TRS to this point  
8 about reviewing low carbon indices and  
9 thinking about potential implementation  
10 considerations for that.

11 MR. ADLER: So maybe what we should  
12 do -- again I am just ad-libbing and  
13 freelancing here, but maybe what we should do  
14 is, okay, first of all, I think on investment  
15 beliefs we should ask the committee to look at  
16 this. Rocaton is already on the committee so  
17 they could help us.

18 MR. FULVIO: Is this the committee  
19 currently charged with reviewing the  
20 investment policy?

21 MR. ADLER: Yes.

22 MR. FULVIO: I just want to make sure  
23 that's the same committee.

24 MR. ADLER: I keep misspeaking.

25 MR. FULVIO: No, I am just clarifying.

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2 MR. ADLER: Thank you for clarifying,  
3 but then on the low carbon index maybe it  
4 sounds like what you just described would be  
5 coming back to the Board with a sort of set of  
6 options and perhaps recommendations on  
7 implementation for the QPP. Because it's -- I  
8 mean, maybe we need a separate discussion  
9 about TDA, but I think low carbon index with  
10 the TDA as I think indicated earlier is a  
11 little bit more complicated. Though we could  
12 certainly examine it, so maybe you want to  
13 come back with something on both. And then we  
14 as the Board review those options and say  
15 okay, this is what we want to do and then do a  
16 search if, in fact, we want to go forward with  
17 selecting a low carbon index provider for some  
18 percentage of the assets at least in the QPP,  
19 if not in the TDA. How does that sound?

20 MS. VICKERS: Can I make a question or  
21 clarification?

22 MR. ADLER: Yes, of course, you can.

23 MS. VICKERS: There were other  
24 recommendatios I think in the Mercer report,  
25 and I don't know if we want -- before we kind

1 Proceedings  
2 of pick those two as things we want to move  
3 forward on directly, and they may be our top  
4 two. I just didn't know if we wanted to just  
5 kind of go through each one of the  
6 recommendations and have -- you know, and try  
7 to make a plan. Whether that's having a  
8 consultant, you know, come in and sort of  
9 facilitate how that plan would work or -- but  
10 I just -- I just want to make sure we are kind  
11 of doing that up front stuff before we dive  
12 into those other things, and that could be  
13 just the Mercer next step subcommittee having  
14 a quick discussion about, you know, our order  
15 of preference or priority.

16 MR. ADLER: Comments?

17 MS. VICKERS: I have a cheat sheet back  
18 at the office that lays out -- I mean, I think  
19 it's in the executive summary what each one of  
20 the points are but go through that.

21 MS. BUDZIK: I just wanted to clarify.  
22 It's a process, yes, so my understanding is  
23 the RFI that the Comptroller's office is  
24 preparing will gather information to assist  
25 you in preparing an RFP and you could have the

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2 RFI focused on the complicated divestment  
3 piece, but an RFP could be broader to cover  
4 other areas, and proposers could propose on  
5 any combination of services you might want and  
6 just because it's in an RFP that when you  
7 actually have to hire someone to do it what  
8 you don't want to have to do is multiple RFPs.

9 MS. VICKERS: Right. The procurement  
10 process is something definitely to consider  
11 when looking at all of this and just so  
12 everybody -- and I am glad Sandy Rich is here  
13 as well. The idea is to have a scope drafted  
14 pretty soon and circulate it to the trustees  
15 of the funds that want to move forward on  
16 participating in this divestment discussion.  
17 So you know, the scope is going to go to  
18 everyone before anything is made public, and  
19 we should all kind of get our heads together  
20 on how we think things should proceed.

21 MR. KAZANSKY: Would that be with the  
22 RFI as well as the RFP?

23 MS. VICKERS: I was just talking about  
24 the RFI.

25 MS. BUDZIK: How long will have you the



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2 RFI on the street so to speak?

3 MS. VICKERS: I don't think that long.  
4 You know, we haven't discussed that but I  
5 would think, you know, a minimum -- you know,  
6 a time period that is enough that everybody  
7 who might be interested could, you know, sort  
8 of come in and then not open-ended. So I  
9 think some of the ideas were to have a  
10 solicitation of ideas and then some kind of  
11 way to review those ideas and if something  
12 seems interesting maybe have a follow-up with  
13 certain -- like in an RFP, certain proposers  
14 are invited to present to the group. And that  
15 would obviously be a group that would take all  
16 the funds as well as BAM and other interested  
17 parties.

18 MS. REILLY: Does each board have their  
19 own RFP?

20 MR. ADLER: What we were thinking is one  
21 RFP for the boards that have participated in  
22 this but first the RFI.

23 MS. REILLY: Right.

24 MR. ADLER: So as I read the Mercer  
25 report, it seems to me that the immediate

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actionable item are the investment beliefs process and I think the low carbon index because we could do the low carbon index without affecting our overall asset allocation, and you guys heard me in December recommend that we do a review of our asset allocation in the first half of this year because we are in that 18-to-24-month period since we adopted the asset allocation in June of 2016, and you know, the markets have changed considerably since then and have not been behaved exactly as anticipated for the first time in history.

MR. KAZANSKY: So strange that that

would ever happen.

MS. VICKERS: I think everyone is in

agreement with that, and the process is going to unfold in the next few months.

MR. ADLER: Right and I hope I think not

just begin but actually begin and end because I don't want to take a year and a half to do the next asset allocation the way it took us to do the last one. I know that's a terrible thing that I want, but I also thought we could

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2 incorporate the discussion of some of the  
3 broader Mercer recommendations like the  
4 allocation to sustainability investments on  
5 the private sector which might affect other  
6 asset allocation as part of the asset  
7 allocation discussion because the idea behind  
8 the low carbon index -- and correct me if I am  
9 wrong, Susan or Mike, is that you do it --  
10 these products have minimal tracking error.  
11 Minimized. Minimized not minimal but they  
12 seek to minimize tracking error that we seem  
13 to index to so it wouldn't affect our overall  
14 asset allocation, right? Isn't that the idea?

15 MR. FULVIO: That's correct. It would  
16 already fit within what's already been  
17 approved by the Board.

18 MR. ADLER: So I would like to see us  
19 get started on that, even simultaneously with  
20 the investment beliefs process and the asset  
21 allocation review. That's my thinking and  
22 then the other stuff in the recommendation I  
23 think is longer term, and part of it at least  
24 would be incorporated in the asset allocation.

25 MS. VICKERS: What are some of the other

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2 things?

3 MR. ADLER: So it talked about making  
4 allocation to climate related sustainability  
5 themes, for example. This is on page 8 of the  
6 Mercer report under the chart. So it says  
7 "Allocate to" -- "Client was unsustainable in  
8 ability to e.g. renewable energy, energy  
9 efficiency, water, waste, agriculture".

10 MR. KAZANSKY: To some extent we do that  
11 already with our infrastructure allocation.

12 MR. ADLER: But it's not explicit.

13 MS. VICKERS: It's not an explicit  
14 mandate.

15 MR. ADLER: Exactly. So the question is  
16 whether we make it an explicit mandate to  
17 sustainable infrastructure. This was  
18 discussed. I don't know if it was discussed  
19 in this version, but it was discussed in  
20 earlier versions. I think it was discussed in  
21 here as well, in earlier versions or earlier  
22 drafts that we discussed whether we wanted to  
23 make an explicit mandate or allocation within  
24 infrastructure and/or private equity and/or  
25 real estate I think to, you know, climate

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2 related investments, climate solutions. I  
3 don't know what the broadest term is but  
4 something like that and then I think the  
5 question about incorporating climate/ESG  
6 analysis into our entire portfolio. You know,  
7 when I say "our entire portfolio", it's really  
8 about the active management because, you know,  
9 indexing is indexing. I think it's something  
10 to discuss as part of investment beliefs  
11 process and then would be incorporated, and  
12 you know, I think the engagement stuff, we are  
13 already very engaged on climate issues with  
14 our responsible investment active shareholder  
15 engagement program. If you remember, climate  
16 is one of the main criteria that we use for  
17 determining which companies to include in our  
18 board member project.

19 MS. VICKERS: And we are also very  
20 involved on behalf of the funds with the  
21 Climate 100 action.

22 MR. ADLER: And the Taskforce on the  
23 Climate -- what's it called? The Taskforce on  
24 Climate Exposure?

25 MS. STANG: TCFD.

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2 MS. VICKERS: Yes. We are really into  
3 that.

4 MR. ADLER: And there is another one  
5 too. I think the funds are involved in  
6 another --

7 MR. DORSA: NPRI. Founder member of.

8 MR. ADLER: And there is a host of  
9 organizations that we participate in.

10 MS. VICKERS: I think it's a great  
11 opportunity right now to kind of bring all  
12 these disparate things that we are doing  
13 together to really kind of announce what TRS  
14 is doing on climate.

15 MR. ADLER: So let me ask this: It  
16 seems like the recommendation is for sort of  
17 actionable next steps. Number one, investment  
18 meetings which we are adding to the mandate of  
19 the investment policy statement committee.  
20 And number two, along the lines that Michael  
21 described earlier, ask Rocaton to come to us  
22 with a plan for implementing on the low carbon  
23 index idea. And then pursue a search once we  
24 have agreed on the implementation plan and  
25 then --

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2 MR. KAZANSKY: Maybe at that point -- I  
3 mean, since those two are relatively simple --  
4 well --

5 MR. ADLER: Straightforward.

6 MR. KAZANSKY: Straightforward, the  
7 first steps to maybe Susannah's point then  
8 kind of strategize on a plan for some of the  
9 other items that are on there that are --

10 MR. ADLER: And I would just add to  
11 that. I agree with that and would add that I  
12 think that some of the investment themes we  
13 can review as part of our broader asset  
14 allocation process that's going to go on in  
15 the coming months, particularly on  
16 sustainability investment side. Now, I think  
17 that's all QPP related and then the question  
18 about implementation on the TDA side --

19 MS. VICKERS: Before we move to TDA, I'm  
20 sorry. Can I just ask a question? Just a  
21 clarification on the low carbon index. If we  
22 are asking Rocaton to come back and BAM to  
23 come back with a plan, are we agreeing that 2  
24 percent is the number that we want Rocaton to  
25 look at?

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2 MR. FULVIO: I think that's what we have  
3 to coordinate with John and Tatiana.

4 MS. VICKERS: So it's not we decided on  
5 2 percent and Rocaton has to figure out how to  
6 do it? Rocaton has this recommendation; what  
7 do you think, how can we move forward?

8 MR. FULVIO: Yes.

9 MS. VICKERS: Okay. Great.

10 MR. ADLER: And that would be this  
11 implementation proposal or options that  
12 Rocaton comes back with.

13 MR. FULVIO: And I think, John, you  
14 mentioned earlier there are additional  
15 considerations for the TDA that we need to  
16 take into account.

17 MR. ADLER: Right. So that was my  
18 question because TDA -- I don't know if it's  
19 the same document, same discussion, but to  
20 charge TRS and Rocaton with figuring out how  
21 do we do this with the TDA, which is more  
22 complicated.

23 MR. FULVIO: Participant-directed  
24 assets.

25 MR. ADLER: Participant-directed assets,



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the manager structure is different than it is with QPP and -- and I think this is -- you know, this discussion about how we -- you know, even in the indexed side of US index of the Diversified Equity Fund, how do we feel about, you know, putting participant-directed assets into a low carbon index in that fund.

MR. BROWN: That's a future discussion.

MR. ADLER: Future discussion, right.

MR. KAZANSKY: And I think to that point I think -- bless you -- one of the reasons -- and I will pitch for this when this whole process is moving through -- for us to have our own RFP let's say that, you know, because we have the variable funds that we are considering, that's a different, you know, set of asks that we might have that wouldn't be in an RFP for some of the other systems. So I think it would make sense down the road once the RFI is done and then we decide where we want to go, I think it's something we should definitely consider as to whether we have to have our -- own separate and apart from the other systems, our own RFP, however that

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works, because we still have that whole slate of things to think about. And as far as the RFI is concerned, I know the Comptroller really wants that RFI to focus on divestment only, but this is a whole -- right? Nothing exists in a vacuum that we are doing here, and so I do believe that it makes sense at least somewhere within the RFI for just a piece of it to help -- to give us information so that we can use it to move forward with some of the Mercer stuff that we want to move forward. Not relying on it solely but something that I think will be able to give us information so that we can make smart decisions.

MS. VICKERS: Okay.

MR. ADLER: Just to keep in mind that BAM is going to draft a scope of the RFI which all the boards including TRS board will have a chance to weigh in on.

MS. VICKERS: Yes, absolutely and it should definitely be a joint process. We want everyone to get what they need from this because this is uncharted territory.

MS. PENNY: How soon will that be?

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2 MS. VICKERS: I mean, we are hoping to  
3 maybe discuss it at the next CIM, which is not  
4 in February. The next CIM is March 2nd, just  
5 to confuse everybody.

6 MR. ADLER: A month from tomorrow or  
7 four weeks from tomorrow.

8 Okay. So I think we are satisfied with  
9 how this discussion has resolved itself.  
10 Folks know what the next steps are? Okay.  
11 Anything else on the next steps on the Mercer  
12 report? Great. Okay. So I believe that  
13 concludes our public agenda for today. So is  
14 there a motion to exit public session and  
15 enter executive session?

16 MS. PENNY: I move pursuant to Public  
17 Officers Law Section 105 to go into executive  
18 session for discussion regarding specific  
19 investment matters.

20 MR. ADLER: Thank you. Is there a  
21 second?

22 MS. VICKERS: Second.

23 MR. ADLER: Thank you. Any discussion?  
24 All in favor of the motion, please say aye.  
25 Aye.

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2 MS. VICKERS: Aye.

3 MR. ORLANDO: Aye.

4 MR. BROWN: Aye.

5 MR. KAZANSKY: Aye.

6 MS. PENNY: Aye.

7 MR. ADLER: All opposed, please say nay.

8 Any abstentions? Okay. Motion carries.

9 Okay. We are in executive session. I would  
10 like to take a brief break. I think it would  
11 be very brief.

12 (Recess taken.)

13 MR. ADLER: And TRS as well. Thank you.

14 Okay. So I think that concludes our executive  
15 session agenda for today. So a motion to  
16 return to public session and report out would  
17 be in order.

18 MR. BROWN: So moved.

19 MR. ADLER: Thank you, Tom. Is there a  
20 second?

21 MS. PENNY: Second.

22 MR. ADLER: Great. Any discussion? All  
23 in favor of the motion, please say aye. Aye.

24 MS. VICKERS: Aye.

25 MR. BROWN: Aye.

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2 MR. KAZANSKY: Aye.

3 MS. PENNY: Aye.

4 MR. ADLER: All opposed, please say nay.

5 Any abstentions? Okay. Motion carries.

6 So as soon as Liz is ready, we will go  
7 back into public session, and I am assuming we  
8 are prepared for a report out.

9 Okay. We are back in public session.  
10 Susan, will you please report out of executive  
11 session?

12 MS. STANG: Certainly. In executive  
13 session we received a presentation from a  
14 convertible manager. Consensus was reached  
15 which will be announced at the appropriate  
16 time.

17 MR. ADLER: Great. Thank you very much.  
18 I think that concludes our business for today.  
19 Is there a motion to adjourn?

20 MR. BROWN: So moved.

21 MR. ADLER: Is there a second?

22 MS. VICKERS: Second.

23 MR. ADLER: Any discussion? All in  
24 favor of the motion to adjourn, please say  
25 aye. Aye.

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MS. VICKERS: Aye.

MR. BROWN: Aye.

MR. KAZANSKY: Aye.

MS. PENNY: Aye.

MR. ADLER: All opposed, please say nay.

Any abstentions? Motion carries. Meeting is  
adjourned.

(Time noted: 12:34 p.m.)

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C E R T I F I C A T E

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I, YAFFA KAPLAN, a Notary Public  
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by me therein.

IN WITNESS WHEREOF, I have hereunto  
set my hand this 13th day of February,  
2018.

\_\_\_\_\_

YAFFA KAPLAN