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2 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

3 INVESTMENT MEETING

4 Held on Thursday, March 4, 2021

5 Via

6 Zoom Videoconference

7

8 ATTENDEES:

9 DEBRA PENNY, Chairperson, Trustee, TRS

10 THOMAS BROWN, Trustee, TRS

11 DAVID KAZANSKY, Trustee, TRS

12 JOHN ADLER, Trustee, Mayor's Office

13 CYNTHIA COLLINS, Trustee, Mayor's Office

14 JOHN DORSA, Trustee, Comptroller's Office

15 SUZANNE VICKERS, Trustee, Comptroller's Office

16 NATALIE GREEN GILES, Trustee

17 PATRICIA REILLY, TRS, Executive Director

18 THADDEUS MCTIGUE, TRS, Deputy Executive Director

19 VALERIE BUDZIK, TRS

20 LIZ SANCHEZ, TRS

21 SUSAN STANG, TRS

22 SHERRY CHAN, Chief Actuary

23 STEVE YUAN, Mayor's Office

24 ISAAC GLOVINSKY, TRS

25 CRAIG MILLER, Comptroller's Office

1 ATTENDEES (Cont'd)

2 RONALD SWINGLE, TRS

3 SHERRY CHAN, Chief Actuary

4 SUMANTA RAY, Mayor's Office

5 ROBIN PELLISH, Rocaton

6 MICHAEL FULVIO, Rocaton

7 KATIE PIRO, Rocaton

8 ALEX DONE, Comptroller's Office

9 DAVID LEVINE, Groom Law Group

10 ARISTEA AFTOUSMIS, TRS

11 KOMIL ATAEV, TRS

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1 P R O C E E D I N G S

2 (Time noted: 10:07 a.m.)

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4 MS. REILLY: Good morning. Welcome
5 to the March 4, 2021 Teachers Retirement
6 System investment meeting.

7 I'm going to start by calling the
8 roll.

9 John Adler?

10 MR. ADLER: I'm here.

11 MS. REILLY: Thomas Brown?

12 MR. BROWN: I'm here. Good morning.

13 MS. REILLY: Natalie Green Giles?

14 MS. GREEN GILES: Here.

15 MS. REILLY: David Kazansky?

16 MR. KAZANSKY: Present.

17 MS. REILLY: Rusell Buckley?

18 (No response.)

19 Debra Penny?

20 CHAIRPERSON PENNY: Good morning.

21 I'm here.

22 MS. REILLY: Susannah Vickers?

23 MS. VICKERS: Here.

24 MS. REILLY: We do have a quorum.

25 I'll turn it over to the Chair.

1 CHAIRPERSON PENNY: Excellent; thank
2 you.

3 So, we'll start with the first thing
4 on our agenda, public funds for the 4th
5 quarter, 2020 performance review.

6 Robin or Mike, who wants to take
7 that on?

8 MR. FULVIO: I'll start.

9 Good morning, everyone. I know we
10 covered off the performance of the
11 Passport funds in more detail at the last
12 meeting as it relates to 2020. We did
13 circulate this report ahead of time, so
14 I'm happy to address any specific
15 questions folks might have.

16 Otherwise I'll restate that at a
17 high level last year, 2020, in spite of
18 all the challenges faced, the returns of
19 the Passport funds were quite strong from
20 an absolute return standpoint. The
21 diversified equity fund returned in
22 excess of 18 percent; the balanced fund
23 up about 8.7 percent; the internation
24 equity fund up 14 and a half percent.

25 Quite strong numbers from the

1 sustainable equity fund, up 38 percent.
2 And the international and U.S. equity
3 funds both up, about 30 percent for
4 international and 40 percent for the U.S.
5 index.

6 Again, really strong absolute
7 returns. Happy to go into more detail,
8 but I'll pause there, recognizing we've
9 already done that at the last meeting.

10 CHAIRPERSON PENNY: Questions for
11 Michael?

12 (No response.)

13 Okay. We can continue.

14 MR. FULVIO: You'll all recall we
15 spoke at a high level at what market
16 returns were at the February meeting in
17 terms of what we saw during January.

18 And I will start again at a high
19 level. The U.S. as a whole in January
20 was down about 44 basis points, so not a
21 lot in the way of notable returns here in
22 the U.S.

23 The EAFE index was down about 100
24 basis points, so all the developed
25 countries outside the U.S. down about 1

1 percent. Emerging markets stood out
2 during January as a good place to be as
3 an investor, up 300 basis points.

4 And what we saw during January as
5 well with respect to fixed income
6 markets, started to see a modest increase
7 in interest rates, and that certainly
8 picked up since the end of January, so
9 we'll talk more about that as we get into
10 February.

11 But as you can see for the
12 performance report for February, the
13 funds pretty much followed suit with
14 respect to what we saw with market
15 return. The diversified equity fund was
16 roughly flat for the month, very slightly
17 positive, up about 3 basis points for
18 January. Nothing to write home about.

19 On a relative basis that was good
20 enough to outpace the hybrid benchmark,
21 which was down about a quarter percent,
22 and the Russell 3000 down half of a
23 percent.

24 What really supported the returns of
25 the diversified equity fund you can see

1 below that, the defensive composite, the
2 active composite for U.S. equity
3 strategies and the international equity
4 composite. All put together, positive
5 returns and positive relative results for
6 the month of January. So a good start
7 for the year from that standpoint.

8 The balanced fund had a modestly
9 negative return, negative 13 basis points
10 in line with its benchmark. The
11 international equity fund up about 13
12 basis points, ahead of its benchmark.

13 The sustainable equity fund got out
14 of the gate a little bit slow this year,
15 down 2 percent, lagging its benchmark for
16 January. Quickly, year to date, they
17 recovered some of those relative results
18 through February, so that was good to
19 see.

20 The U.S. equity index fund was down
21 about 50 basis points, and the
22 international fund down about a quarter
23 of a percent.

24 I will pause there and see if there
25 are any questions on the results for the

1 Passport funds in January.

2 CHAIRPERSON PENNY: Questions for
3 Mike? January Passport funds?

4 You're doing an awesome job, Mike.

5 MR. FULVIO: I'll push forward to
6 February. There there's maybe a little
7 more to talk about. You know, we had, I
8 think, spoken in February about
9 expectations for continued monetary and
10 fiscal stimulus in the U.S., and the
11 expectation of above average global
12 growth, increasing inflation.

13 That's all playing into what we saw
14 happen in February. In some respects
15 February was an interesting month,
16 because how the month started was not
17 necessarily how the month ended. I think
18 I said the same thing about February
19 2020, for unfortunate reasons.

20 For the month as a whole, you can
21 see the U.S. equity market was up about 3
22 percent; developed markets up about 2.2
23 percent, and emerging markets up 75 basis
24 points.

25 So a performance dynamic between

1 developed markets and EM markets flipped
2 from what we saw in January.

3 What was really interesting was what
4 we had happen in the last week of
5 February. So, we saw a pretty sharp rise
6 in Treasury yields on the long end. In
7 the last week of February the 10 year
8 rose quite a bit to almost -- actually it
9 passed one and a half percent in the last
10 week of February. And you will recall,
11 we started the year at just below one
12 percent.

13 So a pretty notable rate rise or
14 yield move, if you will. That move in
15 the last month of February spooked equity
16 markets. And it still ended up as a
17 pretty strong month. Equity markets did
18 take a pretty notable sell-off during the
19 last week of February.

20 Actually, the Russell 1000 growth
21 index alone was down 5 percent in the
22 last week of February, so that was
23 something that certainly stood out.

24 In general, and I think this is a
25 good thing, we're starting to see more

1 dispersion, if you will, among stocks;
2 which hopefully, given everything we
3 talked about with respect to active
4 management, hopefully that's a good
5 environment for active managers to pick
6 stocks.

7 I saw an interesting stat this
8 morning. Through yesterday, the S&P is
9 up about 2 and change percent. You
10 recall the S&P index is capitalization
11 weighted, so the biggest stocks have the
12 biggest weight in the index. And as
13 such, how those stocks perform tends to
14 drive the performance of what we see for
15 the S&P.

16 If we took all the stocks in the S&P
17 index and equal weighted them, rather
18 than being up 2 percent for the S&P you'd
19 be up 6 and a half percent so far year to
20 date.

21 So definitely more dispersion among
22 stocks, and we will see what that means
23 as we continue looking at active manager
24 returns so far. But so far this year
25 active management is contributing to the

1 funds' performance. So I'm happy to
2 report that.

3 I'll pause there for questions.

4 (No response.)

5 MR. KAZANSKY: I guess my question
6 is, the dispersion that you were talking
7 about, I know that for a relatively long
8 period last year everything was driven by
9 the FANG stuff.

10 So, do you see this dispersion as, I
11 guess, the expectation or the hope -- is
12 the expectation it's a short term kind of
13 anomaly? Or do you think that the big
14 tech stocks are just kind of moving more
15 into the background and are going to
16 drive the market less, now that we're on
17 this side of the pandemic?

18 MR. FULVIO: Whether or not the
19 level of dispersion that we've seen so
20 far year to date persists, I don't want
21 to say too much there, because it would
22 probably be intellectually dishonest if I
23 thought I knew what was going to persist
24 from that standpoint.

25 But I think the general feeling is

1 that stock dispersion among all the
2 stocks is good, and it would usually
3 imply that stocks are trading more with
4 regard to their underlying fundamentals,
5 which, if you're talking to active
6 managers, I think the most frustrating
7 thing we hear from active managers is,
8 when they see all stocks trading the
9 same, it makes it really hard to pick
10 stocks based on factors that matter or
11 that should matter.

12 And it's not the case that in every
13 market those factors are going to matter,
14 and I think active managers will
15 recognize that.

16 But when stocks do start trading on
17 earnings and on fundamentals and there's
18 more differentiation between stocks for
19 that reason, that's something we think is
20 really helpful for active management in
21 general.

22 But it still doesn't mean every
23 active manager is going to be correct,
24 but we saw some positive earnings in the
25 first quarter so far. There is the

1 expectation that stocks that do well in a
2 pro-cyclical environment. So when the
3 economy picks up and demand returns to
4 the market and if the vaccine rollout
5 continues to go well, there's this
6 expectation that there's a lot of pent-up
7 demand in the system.

8 And if that drives positive earnings
9 this year and we continue to see stocks
10 trading on that, that momentum, earnings
11 momentum, the hope is that the market
12 will continue to do well and that
13 dispersion should be helpful for stock
14 pickers who are picking stocks based on
15 factors that, earnings factors or quality
16 factors, things that you would expect to
17 matter to the market.

18 If the FANG stocks continue to do
19 well and have strong earnings from that
20 standpoint, they should continue to do
21 well too. I guess the question is, how
22 much of that might already be priced in
23 today? Or the question could be: Did
24 those stocks do really, really well last
25 year in a period where it was hard to

1 justify their performance? And you know,
2 does that mean they don't necessarily
3 keep up with the market this year,
4 because maybe last year they outperformed
5 what folks might otherwise have expected.

6 So I will pause there and see if
7 there's any reactions to that.

8 MS. PELLISH: I will jump in.

9 One of the resources that the
10 Rocaton team now has is the investment
11 research group in Goldman Sachs. And so,
12 I can share with you some of their
13 thoughts, because now Mike and I have the
14 opportunity to listen to those calls with
15 those folks, not from the perspective of
16 us managing portfolios, but just from
17 understanding that team's view on the
18 markets.

19 And there is heightened expectations
20 for smaller cap stocks to do better. And
21 as Mike just referred to, cyclical stocks
22 to do better. And this is all based on a
23 recognition that the FANG stocks have
24 done very, very well. They may continue
25 to do well. They certainly dominate

1 their markets. No one is anticipating a
2 slowdown in technological innovation.

3 But there is, on the part of, at
4 least the Goldman Sachs asset management
5 research team, higher expectations during
6 2021 for smaller cap and cyclical stocks.

7 So that would argue that those
8 sectors perhaps should do better than the
9 FANG stocks which have done so well over
10 the last five years.

11 MR. KAZANSKY: Thank you both.

12 CHAIRPERSON PENNY: Is there
13 anything else for public session?

14 Michael, anything else you want to
15 add, or Robin?

16 Seeing none, do I have a motion to go
17 into executive session?

18 MS. VICKERS: So moved.

19 MR. BROWN: Second.

20 CHAIRPERSON PENNY: All those in
21 favor please say "Aye."

22 (A chorus of "Ayes.")

23 Any opposed?

24 (No response.)

25 We're going into executive session.

1 (Whereupon, the Board entered
2 executive session.)

3 (Whereupon, the Board returned to
4 public session.)

5 CHAIRPERSON PENNY: Welcome back to
6 the public agenda.

7 Ms. Stang, would you please report
8 out?

9 MS. STANG: Certainly.

10 In executive session we had a
11 discussion about a provision within
12 private equity investments in the pension
13 fund.

14 We discussed the implementation of
15 an emerging markets policy and other next
16 steps with respect to that policy.

17 And two manager updates were
18 provided.

19 CHAIRPERSON PENNY: Thank you.

20 Do we have anything else for public
21 agenda?

22 (No response.)

23 Hearing none, do I hear a motion to
24 adjourn?

25 MR. ADLER: So moved.

1 CHAIRPERSON PENNY: Do I have a
2 second?

3 MS. VICKERS: Second.

4 CHAIRPERSON PENNY: All those in
5 favor please say "Aye."

6 (A chorus of "Ayes.")

7 Any opposed?

8 Any discussion?

9 (No response.)

10 We stand adjourned. Be well,
11 everyone.

12 (Whereupon, at 11:50 a.m., the
13 meeting was concluded.)

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

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3 I, Jeffrey Shapiro, a Stenographic
4 Reporter and Notary Public, within and for the
5 State of New York, do hereby certify that I
6 reported the proceedings in the within-entitled
7 matter, on Thursday, March 4, 2021, and that
8 this is an accurate transcription of these
9 proceedings.

10 IN WITNESS WHEREOF, I have hereunto
11 set my hand this 5th day of March, 2021.

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16 JEFFREY SHAPIRO

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