

0001

1 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM  
2 INVESTMENT MEETING  
3 Held on Thursday, March 5, 2020  
4 at  
5 55 Water Street  
6 New York, New York  
7

8 ATTENDEES:

9 DEBRA PENNY, Chairperson, Trustee, TRS  
10 THOMAS BROWN, Trustee, TRS  
11 DAVID KAZANSKY, Trustee, TRS  
12 PATRICIA REILLY, TRS, Executive Director  
13 THADDEUS MCTIGUE, TRS, Deputy Executive Director  
14 JOHN ADLER, Trustee, Mayor's Office  
15 JOHN DORSA, Trustee, Comptroller's Office  
16 SUZANNE VICKERS, Trustee, Comptroller's Office  
17 NATALIE GREENE GILES, Trustee  
18 CHRISTOPHER BUCKLEY, Trustee  
19 VALERIE BUDZIK, TRS  
20 LIZ SANCHEZ, TRS  
21 SUSAN STANG, TRS  
22 ROBERT RAUCCI, TRS  
23 ALEX DONE, Comptroller's Office  
24 SHERRY CHAN, Chief Actuary  
25

0002

1 Attendees (Cont'd)  
2 ROBERT BETHELMI, TRS  
3 MICHAEL HADDAD, Comptroller's Office  
4 MICHAEL FULVIO, Rocaton  
5 SANFORD RICH, BERS  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

0003

1 P R O C E E D I N G S  
2 (Time noted: 10:16 a.m.)

3

4 CHAIRPERSON PENNY: Good morning.

5 Welcome to the Teachers' Retirement

6 System investment meeting. Today is

7 March 5, 2020.

8 Patricia, please call the roll.

9 MS. REILLY: John Adler?

10 MR. ADLER: I am here.

11 MS. REILLY: Thomas Brown?

12 MR. BROWN: Present.

13 MS. REILLY: Natalie Greene Giles?

14 MS. GREENE GILES: Present.

15 MS. REILLY: David Kazansky?

16 MR. KAZANSKY: Present.

17 MS. REILLY: Lindsay Oates?

18 MR. BUCKLEY: Russell Buckley for

19 Lindsay Oates, present.

20 MS. REILLY: Debra Penny?

21 CHAIRPERSON PENNY: Present.

22 MS. REILLY: Susannah Vickers?

23 MR. DORSA: John Dorsa for Susannah

24 Vickers, present.

25 MS. REILLY: We have a quorum.

0004

1 CHAIRPERSON PENNY: Thank you very  
2 much.

3 We'll start with the Passport funds,  
4 we'll go to Mike Fulvio.

5 MR. FULVIO: We did distribute the  
6 quarterly reports for the Passport funds  
7 in advance of the meeting. We weren't  
8 planning to go through that in any great  
9 detail, given that we discussed  
10 performance for those funds at the last  
11 meeting.

12 However, I'm happy to answer any  
13 questions on the report. And if the  
14 Board would find it helpful, I can  
15 quickly note again for the record the  
16 returns for perhaps what was a really  
17 strong fourth quarter and strong calendar  
18 year for the markets and the funds.

19 So, at the end of last year, the  
20 first private equity funds did about  
21 \$16.2 billion in assets. Again, I noted  
22 it was a strong year for U.S. equity  
23 markets, up over 31 percent.

24 It was also a strong environment for  
25 the diversified equity fund, up about 28

0005

1 percent.

2 And again, what really bolstered  
3 returns there was the performance in U.S.  
4 equity markets, although non-U.S. equity  
5 markets across the board were quite  
6 positive, with the international equity  
7 composite of Variable A and the  
8 international equity fund up over 22  
9 percent.

10 (Ms. Vickers entered the room.)

11 MR. FULVIO: The defensive  
12 strategies composite, which you'll note  
13 is a 10 percent component of the  
14 diversified equity fund, that was also up  
15 over 21 percent last year. So positive  
16 contributions across the board from  
17 different components of the diversified  
18 equity fund.

19 And as you would expect, the  
20 defensive did not keep up with the U.S.  
21 equity markets or global equity markets;  
22 but again, hopefully as we look forward  
23 to 2020 and see some more volatility in  
24 the defensive composite -- on its intent  
25 providing downside protection.

0006

1 The balanced fund had assets of  
2 about \$420 million. That fund was up  
3 just shy of 11 percent last year. The  
4 international equity funds, as noted  
5 earlier, was up over 22 percent, with  
6 assets of \$184 million.

7 The inflation protection fund had  
8 assets of \$75 million at year end. That  
9 fund was up just over 10 1/2 percent.  
10 And the sustainable equity fund last year  
11 had a return of about 24 percent, assets  
12 of about \$255 million.

13 If there are no questions on  
14 quarterly, we can move into January.

15 You'll recall at the last meeting we  
16 talked a little bit of a high level about  
17 what went on in January with respect to  
18 capital market performance, in particular  
19 the equity markets, which represents the  
20 vast majority of the underlying assets in  
21 the Passport funds.

22 The U.S. equity market in January  
23 was roughly flat, down about 11 basis  
24 points. And the diversified equity fund  
25 for the month was down 84 basis points,

0007

1 about 40 basis points behind the hybrid  
2 benchmark. Though we saw U.S. roughly  
3 flat, non U.S. equity markets were down  
4 about 2 1/2 percent during January. So  
5 that led to, as you see, it detracted  
6 from the absolute returns of the  
7 diversified equity fund in the first  
8 month of the year.

9 The defensive strategy composite was  
10 up just over half of a percent during  
11 January, providing diversification among  
12 the assets within the diversified equity  
13 fund. And the active composite had a  
14 tough month for the active managers in  
15 that composite, which, as you recall, do  
16 represent in a big way value-oriented  
17 strategies, which lagged quite notably  
18 during January.

19 The balanced fund had assets of \$422  
20 million at the end of January. That fund  
21 for the month was up 16 basis points.

22 The international equity fund had  
23 assets of \$180 million. As noted before,  
24 that fund, like the international equity  
25 composite, was down 2 1/2 percent,

0008

1 roughly in line with the benchmark.

2 The inflation protection fund had  
3 assets of \$74 million. That fund was  
4 down about 80 basis points, also roughly  
5 in line with its benchmark.

6 And the sustainable equity fund with  
7 assets of \$260 million had a positive  
8 return to the tune of about 2 percent,  
9 about a quarter of a percent behind its  
10 benchmark.

11 You'll also note that the two new  
12 funds which were launched January 1,  
13 2020, the U.S. equity index fund, that  
14 fund returned negative 90 basis points  
15 for the month. And the international  
16 equity index fund was down about 4  
17 percent to start the year.

18 MR. ADLER: Question. These are  
19 index funds, so why are they lagging?  
20 Obviously there's very little money in  
21 them, but why are they lagging the  
22 indices?

23 MR. FULVIO: In the unit value  
24 returns, you might recall, we chatted  
25 about this; it's been some time, but in

0009

1 the past at the Board. The unit values  
2 do take into account things like the  
3 timing of cash flows, everything down to  
4 trading, administrative fees and  
5 expenses. So it rolls up not only the  
6 underlying performance of the mutual  
7 funds, but also additional factors and  
8 different things in -- return.

9 And actually, if you wouldn't mind  
10 flipping ahead (indicating) to slide 9,  
11 what you can see, including at the bottom  
12 of the page, for the U.S. equity index  
13 fund, are the published and full fund  
14 returns for the underlying strategies  
15 within those two funds, John.

16 And you can see that the total  
17 market index fund did perform for the  
18 month in line. And then within the total  
19 international index fund there is still  
20 some tracking there, you can see the  
21 negative 330 versus negative 2 3/4.

22 So the difference in the  
23 international fund actually, between the  
24 published mutual fund results and the  
25 index is due to fair value pricing,

0010

1 investment managers who more commonly are  
2 investing in international equities have  
3 a fair value pricing policy; so that, as  
4 investors in the U.S. see that, once  
5 international markets have closed, U.S.  
6 markets continue to be open for some  
7 time.

8 And if you see a sell-off, for  
9 example, in the U.S., like you saw on the  
10 last day of January, managers like  
11 Fidelity are actually making fair value  
12 adjustments to the marks on the non-U.S.  
13 securities in their portfolio, for how  
14 the implied returns would have been if  
15 the non U.S. markets were open for the  
16 exact same trading hours as the U.S.  
17 market.

18 So, as you will recall, in a mutual  
19 fund all participants transact at the end  
20 of the day. As a result, you will see  
21 these point in time deviations between  
22 the fair value evaluation on the mutual  
23 funds, which impacts sometimes the point  
24 in time performance, and what the index  
25 is showing; because the index shows

0011

1 performance up to the point at which  
2 those markets are closing. The mutual  
3 funds are more of a fair value  
4 representation of how those markets are  
5 trading.

6 What we have seen is, over the long  
7 term, these valuation differences will  
8 sort of wash out over time. But on a  
9 month to month basis, you'll see some  
10 deviations, particularly in months where  
11 there's a lot of trading late in the day,  
12 as we've seen in the last couple of  
13 months.

14 MR. ADLER: Okay. Thank you for the  
15 information.

16 MR. FULVIO: We could also, if  
17 there's more questions, go into more  
18 detail in executive session.

19 That concluded the update for  
20 January. I'll let everyone take a deep  
21 breath before we look at February.

22 (Laughter.)

23 I handed out the February report.  
24 I'm not going to spend as much time on it  
25 as talking a little about the year to

0012

1 date numbers through yesterday's close;  
2 largely in part because the numbers are a  
3 lot better.

4 (Laughter.)

5 Maybe we'll chat a little about the  
6 markets and volatility we're seeing.  
7 Alex might jump in as well.

8 So you can see through February the  
9 U.S. equity market, at the top of the  
10 page, was down over 8 percent for the  
11 month; and about the same return for the  
12 calendar year to date. If you roll that  
13 forward through yesterday's close, the  
14 U.S. market was down 3 percent, 3.1 year  
15 to date; so notably better in the last  
16 week or so, as we've seen March start  
17 out. It's just as volatile, but a few  
18 updates that were meaningful.

19 In non-U.S. markets, the numbers  
20 were not quite as strong as the U.S., but  
21 a little better than what you see for  
22 February. So the developed markets  
23 represented by the EAFE index through  
24 yesterday's close are still down 8 1/2  
25 percent. Emerging markets down about 6.8

0013

1 percent. Surprisingly, through Tuesday's  
2 close, which I know was roughly flat --  
3 which is interesting, thinking about the  
4 dynamics we're seeing.

5       There hasn't been much economic data  
6 coming out of China, so a lot of what's  
7 been out there is speculation, sentiment  
8 related. But it should be about mid  
9 March before we start seeing more  
10 information out of China with respect to  
11 production.

12       The expectation there is that there  
13 will be a notable economic impact, not  
14 only on China, but globally. I'll talk a  
15 little more about that.

16       Nun U.S. small caps were down a  
17 little over 10 percent, so that's driving  
18 some of the more negative numbers you're  
19 seeing from the international composite  
20 benchmark.

21       And the defensive composite year to  
22 date through yesterday's close was down  
23 about 1.6 percent. So you can expect  
24 with the diversification of that  
25 composite, use the convertibles and other

0014

1 diversified strategies, downside  
2 protection, we're estimating the hybrid  
3 composite was down 3 percent through  
4 yesterday's close.

5       So those are the numbers, where we  
6 are today. There continues to be a lot  
7 of uncertainty around the Corona virus,  
8 what that means, not only from a social  
9 standpoint, but the economic impacts of  
10 that. There's likely to be continued  
11 disruption in global trade and global  
12 supply chains, which everyone agrees  
13 there will be some impact to global  
14 economic growth.

15       As I noted earlier, there's not a  
16 lot of data out of China, we should see  
17 something in mid March. But there were  
18 some expectations put out yesterday about  
19 potentially a 6 percent contraction  
20 quarter over quarter for China.

21       And the last number I saw was on a  
22 global scale, that the previously  
23 forecasted global growth number was about  
24 3 percent, and we're revising that down  
25 to a 2 percent baseline.

0015

1           So we shall see, there will  
2 certainly be more information out there.  
3 The markets over the last couple of days  
4 have not only been reacting to what the  
5 Fed has done and continued news about the  
6 Corona virus, but there is also more  
7 discussion about what we're seeing in the  
8 U.S. with respect to the election. And  
9 there's a lot of discussion around how  
10 the primaries have driven some of the  
11 market returns that we've seen.

12           Perhaps some of that was matched by  
13 the headlines around the Corona virus  
14 we've seen since Super Tuesday, some  
15 market strength in the last couple of  
16 days.

17           So it will be interesting to see how  
18 that continues to shake out. But  
19 definitely never a dull moment.

20           (Laughter.)

21           CHAIRPERSON PENNY: Is there  
22 anything else?

23           (No response.)

24           Do I hear a motion to go into  
25 executive session?

0016

1           MR. BROWN: I move, pursuant to  
2 Public Officer Law 105, to go into  
3 executive session for discussions on  
4 specific investment matters.

5           CHAIRPERSON PENNY: Thank you, Mr.  
6 Brown.

7           Do I hear a second?

8           MR. DORSA: Second.

9           CHAIRPERSON PENNY: All those in  
10 favor?

11           (A chorus of "Ayes.")

12           Any opposed say "Nay."

13           (No response.)

14           Okay. We are in executive session.

15           (Whereupon, the Board entered  
16 executive session.)

17           CHAIRPERSON PENNY: Alex, Mike, is  
18 there anything else to share?

19           Okay. Then, do I have a motion to  
20 move back into public session?

21           MR. ADLER: So moved.

22           CHAIRPERSON PENNY: Thank you.

23           MR. BROWN: Second.

24           CHAIRPERSON PENNY: All those in  
25 favor?

0017

1 (A chorus of "Ayes.")  
2 Any opposed?  
3 Any Abstentions?  
4 (No response.)  
5 We're moving out.  
6 (Whereupon, the Board returned to  
7 public session.)  
8 CHAIRPERSON PENNY: We're back in  
9 public session.  
10 Susan, would you report out, please?  
11 MS. STANG: In executive session  
12 there was a discussion about  
13 implementation issues on the pension plan  
14 side.  
15 CHAIRPERSON PENNY: Thank you.  
16 Does anyone else have anything to  
17 say?  
18 (No response.)  
19 Do I have a motion to adjourn?  
20 MR. KAZANSKY: So moved.  
21 MS. VICKERS: Second.  
22 CHAIRPERSON PENNY: All in favor?  
23 (A chorus of "Ayes.")  
24 Any opposed?  
25

0018

1 (No response.)  
2 We are adjourned.  
3 (Whereupon, at 10:54 a.m. the matter  
4 was concluded.)  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

0019

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, March 5, 2020, at the offices of the NEW YORK CITY TEACHERS RETIREMENT SYSTEM, 55 Water Street, New York, New York, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this 8th day of March, 2020.

JEFFREY SHAPIRO