TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT MEETING

March 6, 2025
10:09 a.m.

Teachers' Retirement System of NYC
55 Water Street, 16th Floor
New York, New York 10041

William Montague
Digital Reporter
Notary Commission No. 01MO0009174

APPEARANCES:

PATRICIA REILLY, EXECUTIVE DIRECTOR
THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
BRYAN BERGE, MAYOR'S OFFICE, TRUSTEE
JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE
VICTORIA LEE, TRUSTEE
CHRISTINA MCGRATH, TRUSTEE
ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES, TRUSTEE

Also Present:
VALERIE BUDZIK, TRS
LIZ SANCHEZ, TRS
PRISCILLA BAILEY, TRS
ARISTEA AFTOUSMIS, TRS
LOREN PERRY, TRS
KOMIL ATAEV, TRS
RON SWINGLE, TRS
ANDREW ROSEN, TRS
ISAAC GLOVINSKY, ESQUIRE, TRS
KEVIN LIU, OFFICE OF THE MAYOR
NADIA FAZHULINA, OFFICE OF THE MAYOR
JOHN GLUSZAK, OFFICE OF THE COMPTROLLER
STEVE MEIER, BUREAU OF ASSET MANAGEMENT
KATE VISCONTI, BUREAU OF ASSET MANAGEMENT

ENEASZ KADZIELA, BUREAU OF ASSET MANAGEMENT
WILFREDO SUAREZ, BUREAU OF ASSET MANAGEMENT
VALERIE RED-HORSE MOHL, BUREAU OF ASSET MANAGEMENT
TINA SUO, BUREAU OF ASSET MANAGEMENT
GRACE JUHN, BUREAU OF ASSET MANAGEMENT
PETYA NIKOLOVA, BUREAU OF ASSET MANAGEMENT
JONATHAN HUM, BUREAU OF ASSET MANAGEMENT
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STEVE PAK, BUREAU OF ASSET MANAGEMENT
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DAVID LEVINE, GROOM LAW GROUP
MICHAEL FULVIO, ROCATON/GOLDMAN SACHS
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
GINA TARANTINO, GOLDMAN SACHS
NICO HART-PALLAVICINI, STEPSTONE
MARC RIVITZ, STEPSTONE
JUSTIN THIBAULT, STEPSTONE
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JUSTIN JAUME
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RICHARD CADIGAN, BASIS INVESTMENT GROUP
BRIAN KINGSTON, BROOKFIELD
BEN BROWN, BROOKFIELD
LOUIS COLOSIMO, ICG
JEROME SOUSSELIER, ICG
LAURA BEREZAY, ICG

(The proceedings commenced at 10:09 a.m.)

MS. REILLY: Good morning. Welcome to the Investment Meeting of the Teachers' Retirement Board for March 6th, 2025.

I'll start by calling the roll. Bryan Berge?

MR. BERGE: Bryan Berge representing Mayor Adams, present.

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good morning, Patricia. Present.

MS. REILLY: Good morning.

Gregory Faulkner?

John Dorsa?

MR. DORSA: John Dorsa, designee for Comptroller Brad Lander, present.

MS. REILLY: Victoria Lee?

MS. LEE: Present.

MS. REILLY: Christina McGrath?

MS. MCGRATH: Good morning, Patricia, present.

MS. REILLY: We have a quorum and I'll hand it over to the Chair.

CHAIRMAN BROWN: Thank you, Patricia.

Good morning, everybody.

First thing on the agenda today, Passport Funds, January 2025, and I guess Goldman Sachs will take

that over.

MS. JANUSZ: Thanks, Tom.

So I think Gina from our team will pull up the January flash. Just wanted to call out, we did also share to Convene the fourth quarter quarterly report. I won't get into it. I know we talked about December results at the last meeting, but I think the takeaway there is that, you know, despite a little bit of volatility right at the tail-end of the close of the year, overall results for calendar year '24 were very strong across the funds.

CHAIRMAN BROWN: Great. So you can do the January 2025 and the fourth quarter summary, I guess, together?

MS. JANUSZ: Yeah.

CHAIRMAN BROWN: Great, thank you.

MS. JANUSZ: So in terms of January, start of the year, fairly strong, positive results across equities and fixed income to start the year. No real surprises in January from the major central banks, including the US Fed, which kept rates unchanged, which was widely anticipated.

We did see a little bit of a selloff at the end of January. If you recall the headlines around DeepSeek that caused NVIDIA shares to drop right around

17 percent. So you do see weaker results a little bit from more of the growth-oriented stocks that did have more tech allocation.

We also, on the very last day of January, did see the Trump administration discussed implementing tariffs for Canada, Mexico, China. That ultimately was deferred on the 1st of February, but overall, for the month of January, if you look down sort of that one-month column for the Variable Funds, looking at essentially 3 to 4 percent returns for US and non-US equities.

Your Balance Fund, which is predominantly passive fixed income, returned about 1.3 percent, and the Variable Funds, as a whole, ended the month at around $21.9 billion in total assets, the majority of which, over $19 billion, is in that diversified equity option.

And then, if there's no questions on January, Gina, do you mind flipping to the February benchmark report?

So we, of course, don't have official results yet for the Variable Funds, but wanted to share just general benchmark results as proxy for February, and what we saw in February is a little more mixed results. So while non-US equities and fixed income were modestly

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positive on the month, US equities definitely did give back some of the gains from January, and the dominant factor driving markets in February definitely was a lot of the ongoing discourse around both trade and fiscal policy. So tariffs being one of the key drivers of uncertainty, which we expect to continue.

So in terms of our forward-looking expectations, we have modestly reduced our growth outlook for 2025 and have widened our tails. So more uncertainty, I would say, on both the upside and downside outcomes there for 2025.

MR. FULVIO: I'm sure Steve will talk more about this too, but since the S&P hit a high on February 19th, we have seen a lot of volatility, the S&P is down 6 percent since that.

CHAIRMAN BROWN: When did it hit the high mark?

MR. FULVIO: February 19th.

CHAIRMAN BROWN: February 19th.

MR. FULVIO: So a lot of volatility, particularly in the last week-and-a-half.

MR. MEIER: The good news is Europe is on a tear.

MR. FULVIO: Yes.

MR. MEIER: European stocks are up 20

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percent --

MR. FULVIO: Yeah.

MR. MEIER: -- is up, in US dollar terms, over 20 percent.

MR. FULVIO: It's been a while since we have seen such a difference in both direction in the markets that looks like this. Usually, in the last few years, we have seen the US run on a hot tear compared to Europe, and now we're seeing them --

CHAIRMAN BROWN: How long have they been up for, since February 19th, or?

MR. MEIER: Actually --

MR. FULVIO: Year-to-date was kind of --

MR. MEIER: -- year-to-date --

CHAIRMAN BROWN: Year-to-date.

MR. MEIER: -- was high teens, low 20s returns in Europe, and the expectation is they're going to reduce their -- or maybe abandon aspects of the fiscal discipline, spend more money on defense, more money on infrastructure, so it will be good for the local economies.

Germany has been in a recession --

CHAIRMAN BROWN: It might get them out of a recession.

MR. MEIER: -- for growth. So their bond

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yields, the 10-year yields have the effect of I think almost 30 basis points in two days. A lot of this has to do with the rhetoric that's coming in from the new administration, concerns about tariffs, stepping away from the strategic alliance, the NATO alliance. I know there was a very significant vote at the UN where the US apparently voted alongside of Russia and North Korea, and at a point when even China abstained from that vote. So some of this may be posturing but the world is disrupted.

Mike and I were commenting on that earlier, and it's nothing humorous about it, but it's impacting not just what's going on in the market, saying how it's being priced in, it's affecting business confidence, consumer confidence, investor confidence, spending patterns, and now the -- keep saying the two words, stagflation, concerns about stagnant growth and high inflation, and talks about a recession.

The markets, I think the Fed Fund Futures contracts are start -- pricing in almost four cuts this year because they think that the current administration is going to push the economy into a recession. I'm not so sure I'm there yet.

I know, Amanda, you said you guys actually ratcheted down your outlook a little bit for growth

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plans, but -- what's your outlook for growth? Sorry, I mean to put you on the spot. It's probably closer to 2 percent.

MS. JANUSZ: Yeah.

MR. FULVIO: 2 percent. It's still slightly above trend but lower than it was coming into the year with, and you mentioned with wider tails, sort of the extremes.

MR. MEIER: That all makes sense. I have got a 54-page deck I'm happy to dive into.

(Laughter.)

MR. MEIER: I really do.

CHAIRMAN BROWN: Steve, we have plenty of time.

MR. MEIER: We have five deals today, so I got the lecture coming over that I need to be --

CHAIRMAN BROWN: Plenty of time.

MR. MEIER: -- brief.

CHAIRMAN BROWN: We can order dinner.

(Laughter.)

CHAIRMAN BROWN: Great, thank you. Thank you, Amanda.

Any more questions for -- any questions for Mike or Amanda? Thank you so much.

And that leads into our professor. Steve?

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Thank you.

MR. MEIER: Thank you for that. Thank you for that, Mr. Chair.

I will say just a couple things on the back of or discussion a moment ago. You have a broadly diversified portfolio in public assets and private assets, US and non-US, again dominated by US holdings, but the portfolio is actually designed to withstand a high degree of volatility in different markets, so, and I'm still very confident in terms of how you're positioned.

I think that we'll probably experience some volatility. I don't think you can expect to see the US -- the US equity returns that we have seen the last couple of years at plus 25 percent.

CHAIRMAN BROWN: But the man in the White House seems to be pushing back.

MR. MEIER: Yeah.

CHAIRMAN BROWN: Just pushed back on no tariffs now for a month in the auto industry.

MR. MEIER: So there are some concerns about the current administration's policies as it applies to tariff and tariffs around being inflationary, deportations being inflationary, but there are also elements that have been discussed about more of a

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pro-business agenda, a lighter regulatory touch that may support some mergers and acquisitions that would hopefully spur more activity in your private equity book.

So right now, we see, hopefully, we think we see different directions, private -- public equity under some pressure, but we do get the benefits of a lighter touch, more pro-business administration. That will certainly help both public and private, but particularly private.

MR. FULVIO: Yeah, I think the only distinction there is where we have seen very loud discussion and some more action has been on the tariff policies. We haven't yet seen action. A lot of discussion but not a lot of action on the other policies that might be more pro-business, which could help fuel or offset some of the, I'll say recessionary burdens of the other actions.

CHAIRMAN BROWN: How does the inconsistency play a role in all this? I mean, a month ago, he said yes for tariffs, and then he said no for another month, and now he's saying yes, and now he's saying no. He seems not to have a plan laid out well, and then, once it's out there, and then he understands the ramifications, then he pulls back.

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Does that all have an impact on consumer confidence?

MR. MEIER: Absolutely.

MR. FULVIO: Business confidence, consumer confidence.

MR. MEIER: The mere fact that, yesterday, no, tomorrow -- the inconsistency.

I have got some slides that show the spike in uncertainty and how it's impacting people's spending decisions, and again, that doesn't really bode well for economic growth longer term. I'd like to think that there is a game plan here. I'm not so sure --

CHAIRMAN BROWN: I'm glad -- comforting words, comforting words from you when you said that our portfolio can withstand the ups and downs, and it was created for --

MR. MEIER: Yes.

CHAIRMAN BROWN: -- for exactly this, unpredictable times, so that's comforting.

MR. MEIER: Maybe just go through a couple slides.

CHAIRMAN BROWN: Sure, go for it. Thank you.

MR. MEIER: Wilfredo or Donald, can you go ahead one slide, please, Donald?

So just a quick look. We talked a little bit

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about inflation. Inflation fears and actually inflation being above trend -- or above expectations, the Fed's target is 2 percent, inflation is still around 3 percent and perhaps trending higher. Also, inflation expectations are up, so the Fed is on hold, they have been pretty clear about that, notwithstanding my comments earlier about the potential for rate cuts if there is a recession at some point down the road.

On the next slide, just to look at where inflation is. As I said, CPI on the far right-hand side, 3 percent. That's up from as low as 2.7 percent, so it's trending in the wrong way, and then the core PCE deflator in yellow up almost to 2.8 percent. So inflation has been sticky. The expectations is inflation is going to continue to be sticky here, and perhaps rise well above that 3 percent level.

And on the next slide, you can see that this isn't just in the States, that inflation is kind of -- the ECB, the Fed, and the Bank of England all have a 2 percent inflation target. You can see that inflation has been moving higher above that. So sticking between 2 and 3 percent with potential concerns about going even higher and causing a change of monetary policy.

There was an interest rate cut today by the ECB of 25 basis points, indications that they're really

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concerned about the tariffs and the impact on inflation and growth and the economy there. They are probably towards the end of their rate cutting cycle because of that, but again, just a positive downward movement in official rates in Europe.

On the next slide, again, that S came back, stagflation, again, stagnant growth coupled with high inflation. It's really an unfavorable condition for the monetary policy to potentially possibly impact the outcomes. We saw this last in the 1970s, certainly a very different environment when you had the oil price shocks of '73, '78, '79, but something to continue to watch.

On the next slide, a look at the unemployment level. Unemployment in 2024, in the United States, averaged around 4 percent, where it is right now. That's actually indicative of a pretty strong labor market. You can also see the participant rate, yellow at the top, pretty steady at 62.6 percent. It really hasn't gotten above or at the same level it was pre-pandemic, but again, that may have more to do with demographic changes and the number of people that are hitting 65 or somewhere close to that, retiring.

On the next slide, just a look at the impact that tariffs could potentially have on economic growth.

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Many in the markets today are concerned that the initiatives may stifle growth domestically and abroad, and again, coupled with inflation. The new administration policies I talked about earlier have a negative impact on, again, consumer sentiment confidence, business sentiment confidence, and a willingness to spend as well as investor confidence, which is showing up in an increase in volatility and uncertainty.

On the next slide, just a quick look. This is a familiar slide on the far right-hand side. What I think is interesting here is, again, some of my comments earlier about Europe and the acknowledgement on the part of the Europeans that they need to provide for their own defense, that the US is a less reliable business partner, to take off some of the guardrails they have around deficit spending or fiscal spending, will probably boost the Eurozone's post-domestic products, which is probably a favorable thing, at least in the short run.

Next slide, a quick look at Fed minutes, as I said, reflected earlier that they're on hold for now after 100 basis points cuts last year, and again, they have cited, in their official statements, their concerns about US trade policy and its potential impact on

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inflation.

Next slide, just a quick look at the 30-year history of some of the largest of central banks in the world. As I mentioned, in green today, the ECB is now at 2-and-a-half percent, cutting rates probably for the last time, if not close to the last time their rate cutting cycle.

Next page, client -- sorry, credit market spreads continue to be relatively tight. There are concerns that perhaps lenders, investors as well that lend into these facilities, are too optimistic about growth, inflation, and default rates. We'll see how that plays out over time, but again, I would not be surprised to see credit spreads start to widen out and back up if the specter of a recession is priced in.

On the next slide, this is a new slide that really kind of addresses some of the issues that we talked about in terms of the US government's deficit spending. You can see up top, if we had a balanced budget, what the spending would look like. And below that, we actually came in with a little over 7 percent as a percentage of gross domestic product in the US, a $2.1 trillion deficit last year.

I know that the current administration, through the DOGE initiatives, are focused on reducing

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expenses for the government. I'm not so sure whether, how successful that will ultimately be, but again, $2.1 trillion is a lot to work off.

You can see on the chart below, we currently have $36.2 trillion in outstanding debt, $29 trillion of that is held by the public. A couple of interesting facts about that level of debt: The interest expense in 2024, just to service our debt, was $882 billion. That's a lot. Typically, when you look at that relative to defense spending, which is one of the largest, if not the largest defense -- discretionary item on the budget at $874 billion, so that interest burden and the interest expense associated with servicing that is incredibly high.

On the next slide, just a quick look, a

familiar slide, credit spreads. This is the extra yield you earn taking from on either investment grade risk or below investment grade risk. Investment grade risk, in white, you receive an extra 87 basis points these days. We'd like to see that closer to 110, 120 basis points of extra yield. And in high yield, in yellow or orange up top, it's 280 basis points, whereas if you look historically, it's probably closer to the 3, the 320 basis point levels. So things are tight. We expect to see those widen out at some point.

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Next slide, just a quick look at the yield curve. A little bit of a positive message here. Your fixed income portfolio is now generating more income. The bar, the red bar up top is the yield curve as of a couple of weeks ago. If you look at that relative to where it was in, say, 2021, in blue, you're earning another 300 basis points in carry or income associated with those holdings. So it's been a painful process of having rates back up and bond prices move down as yields move higher, but again, you're at a level where your fixed income portfolios become a more reliable source of income and balance for the portfolio.

Next slide, just a look at US Treasury 10-year and two-years relative to one another. In green, US Treasury 10-year yields, actually, this morning, are 428. They're jumping around a lot. And two-year yields are at 395. We have actually seen a contraction of the 2-10 spreads and then a widening out. Again, concerns about it. We do have a condition of stagflation. There's a potential for short rates to remain lower for a little bit longer, as the Fed may be reluctant to raise rates for weakness, but inflation will affect the longer term rates more dramatically.

See the next slide, this is just a look at that 2/10 spreads. It was 18 basis points a week ago.

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It's 32 basis points this morning, and widening.

Next slide. Actually, this slide talks about US stocks and bonds. We're really looking at public and private equity markets here. As we talked about earlier, US stocks have come under some pressure recently. US stocks are significantly lower, while European stocks are significantly higher. Again, as looking at the prints this morning, local currency terms, they're in the upward and high teens. If you convert that back to US dollars, they're over 20 percent returns. And again, that's year-to-date through the first week of -- some of the first week of March.

CHAIRMAN BROWN: And what was our year-to-date, the US?

MR. MEIER: The US, the S&P 500 was probably down about 1 percent.

CHAIRMAN BROWN: Wow, so that's a big --

MR. MEIER: Yeah, yeah, it's a few hundred basis points, and that's, again, the benefit of diversification. You're a US dollar based investor. Your liabilities are dollar based, so you're going to hone more dollar assets, but in this instance, your benefit is you've got international diversification and non-dollar holdings.

CHAIRMAN BROWN: Yeah.

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MR. MEIER: And I would say, as a general matter, if you look at your portfolio, your international exposure is -- can be thought of as balanced, when we have problems here domestically at home. Infrastructure is probably an outlier, fully 45 percent of those holdings are non-US. Again, a lot of infrastructure products, a lot of data center products, projects are in your portfolio.

Private equity, I think it's probably close to 15 to 20 percent outside the States. Real estate is almost exclusively domestically, and then your alternative credit book, probably 15 percent of those holdings are non-US. So again, you have some diversification, and you're a US dollar investor with US dollar liabilities and a US dollar bias, but again, some benefits to diversification.

I'd say the second point I would make is towards the bottom of the slide. We talked about the return of animal spirits, a pro-growth administration, perhaps less of a regulatory touch on mergers and acquisitions, and that should hopefully spur more mergers and acquisitions that would also feed investment, initial public offerings, and maybe start to see more distributions and activity from the private equity holdings.

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Private equity, the last couple of years, has been disappointing in the performance relative to, historically, it's done so well. I still think it's a great time to be putting money to work in private equity, given the fact that I think these vintage years of '23, '24, '25 are going to be very positive for your portfolio in the next three, five, seven, and 10 years. So even though it's a little disappointing in terms of the performance recently, I still think it's a great long-term hold.

Let's see, on the next slide, as we talked about, not to beat a dead horse, the fourth quarter was good for US stocks, bad for non-US, and that's reversed itself. We can see that in the fourth quarter numbers.

Just a reminder, and I continue to remind myself, the expected returns, on average, over the next 10 years, and again, this is not just Rocaton's assessment, it's actually an average of the five general consultants, but I think it's pretty representative of where we think things will wind up. Again, you had years of back to back 25 percent returns in the Russell 3000, S&P 500, versus an expectation of returns around 6.7 percent. So again, there is benefit associated with being a diverse, owning a diverse portfolio.

Let's see, next slide. Not to beat a dead

horse, but we have seen over 20 percent drawdowns in the global financial crisis and at the start of the interest rate hikes in 2022. I wouldn't be surprised to see if some percent is correction.

Mike, correct me if I'm wrong, but typically, S&P 500 corrects about 10 percent every two years?

MR. FULVIO: Yeah, I don't have the number, but it's surprisingly -- it happens more frequently than you would think. That's the -- that's the headline.

MR. MEIER: No reason to panic. It is more unusual on the right-hand side on fixed income. Again, that's a long-term chart, but a fixed income drawdown of the magnitude that we saw in 2022 was unusual. Again, we're in a better place, a better starting place with the higher base rates now. It's not to say they can't go higher.

The next slide really just touches on uncertainty. Markets hate uncertainty, consumers and businesses hate uncertainty, and that's been reflected in prices and in increased volatility.

Next slide, this is actually one of my favorite slides. No disrespect to Goldman Sachs/Rocaton, but I love this slide.

MR. FULVIO: We have our version, too.

MR. MEIER: You do, okay, we'll get your

version.

MR. FULVIO: Everyone has a version.

(Laughter.)

MR. MEIER: This is just a cool way of looking at returns over 20 years in the public market space.

CHAIRMAN BROWN: You'll always have to explain this, every time I see this.

MR. MEIER: Yeah, yeah. So if I can just point, this is great. In 2024, what this is telling you, this is called a periodic table of returns. So if you look at last year's returns, large cap equity, S&P 500, up 25 percent. Small cap equity up 11.5 percent. High yield up 8.19 percent. Emerging markets up 7-and-a-half percent.

These are the returns and how they rank relative to each other, high to low, global XUS, fixed income down 4.2, and that real estate barely breaking a little above 1. But what's interesting is you can look for patterns. Two years of back to back 25 percent-plus returns for large cap equity, which is unusual.

And I'd say the takeaway here is you can try to look for patterns, but I really don't see any patterns. What this tells me is you never know which asset class is going to outperform the others, and that's why you have a diversified portfolio.

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It's also, what I find interesting is some of the extreme levels of returns, like when there's a selloff. Emerging markets tends to be incredibly volatile, emerging market stocks. I'm looking for an example here.

MR. DORSA: And Steve, this is just based on the passive return, an index of those very baskets, meaning that, my point being if we select the top quartile managers in private equity or real estate, or any asset class, or the best active managers in strategies where we're active, our returns might -- you know what I mean? Might even be better than this, right? So the point being that --

MR. FULVIO: The only exception is within large cap, US large cap growth, where, over the last 10 years, only 9 percent of active managers have outperformed the benchmark.

MR. DORSA: Yeah. So I'm just making the point that, you know, this is just based on the thing. In private markets, we tend to pick the better manager, not necessarily --

MR. MEIER: So in 2022, which was a really tough year, your top performing assets is cash. You didn't have an allocation, but you always had some level of holdings, and cash came in 1.46. Everything else was

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negative. High yield down 11 percent, US fixed income down 13 percent, again, a painful year. Developed XUS equity down 14, large cap equity US down 18, and so on.

But I think this is a kind of a fun chart to just --

MR. DORSA: That would be a nice wall hanging.

MR. MEIER: It is, and I have it in my office. I have -- yeah, there are different versions. It's also private market returns as well, which --

MS. JANUSZ: Yeah, this is why you diversify.

MR. MEIER: Yeah, exactly.

MR. BERGE: Steve, is that risk adjusted? Like if you were just glancing at that by color, you'd be like, I should just be only in small cap equity, because by and large, it is in the top portion of that.

MR. MEIER: It's not risk adjusted. Those are just returns. It's not the potential for volatility.

MR. BERGE: All right. Yeah, that's what I thought.

CHAIRMAN BROWN: I'm sure there's a chart for that, too.

MR. MEIER: Mike said he can arrange it, which I'm sure you can.

All right. I'm going to move it on. Maybe go ahead a couple slides, Donald, if you would?

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Just in terms of the contribution of personal consumption expenditures for GDP, even though we had a rising rate environment from '22, on, from March of '22, on, you can see that the consumer has been pretty resilient. That may be coming up off of COVID with a pent up demand for services and events and just spending, generally. But last year, December 2024, you can see that the year over year expenditures for consumption was 28 percent, so a pretty strong consumer through the end of last year.

On the next slide, again, notwithstanding the fact that we had rising rates, the economy has held up really well. When we talk about trend portfolio, and I'll ask Mike or Amanda to correct me, trend is typically, what, 2 percent, 2.1 percent, the average return of the economy. So we have been above trend for a while, even last year, as things kind of tailed off at the end of the year, coming in at just 2.3 percent, it's still above trend and quite solid. We'll see where the current quarter winds up.

You'll see on the next slide -- let's skip the next slide, Donald.

Maybe talk about some of the tailwinds to inflation. Tailwinds to inflation are not necessarily good, and you could read this on your own when you have

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time, but just the top. Tariffs increase prices and that's going to push inflation higher. There's a number of other things in terms of tariff fears are putting -- pulling some of the orders forward, creating some short-term inflationary activity as well, but more to come on that.

Let's skip ahead a couple of slides to Slide 31. Just in terms of inflation expectations, so inflation expectations, oftentimes, there's a self-fulfilling prophecy.

Sorry, on Slide 31? One more ahead. Sorry, two more back. There you go. There you go.

CHAIRMAN BROWN: Well, you know your slides.

MR. MEIER: No, no, I think -- oh, he's got the old ones. All right. Sorry. Okay. It's not the same deck I have.

Trade war, obviously, we have had trade wars in the past and this has created a lot of uncertainty. This is the US Economic Policy Uncertainty Index. You can see it spiked in 2018 and '19 when the trade war started and tariffs were being imposed, and again, early on in the new administration, a significant spike. So a lot of uncertainty in the marketplace.

Let's skip ahead a couple slides. One back, please.

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This is interesting. This is actually really interesting. China actually joined the World Trade Organization in December of 2001, and at the time, in dark blue, you can see all the countries that the US was the -- the principal or the highest trading partner with those countries.

The next slide is actually, is a snapshot of 2020. So 20 years later, you can see it's dominated clearly by red with the exceptions of Mexico and Canada, who are our two primary trading partners still today. What's interesting is that, today, there are over 120 countries around the world that has China as their largest single trading partner. So things have really changed quite dramatically in 20 years, which is why it's a risky strategy that the current administration is pursuing in terms of potentially igniting a global trade war.

Why don't we skip ahead to your performance, Donald?

MR. DORSA: Hey, Steve, I've just got a question on that slide.

MR. MEIER: Sure.

MR. DORSA: At what point does -- like how close in number two is China in Mexico and Canada? Meaning that, like, if you fast-forward it to 2025, and

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the current administration and the policies on tariffs, is there a potential that those two also go, and -- you know, is it close enough that that --

MR. MEIER: That's an excellent question. So there is a slide -- one forward, Donald. That slide.

MR. DORSA: Okay.

MR. MEIER: I think this might answer you. Actually, John --

MR. DORSA: I think you were going to skip it.

MR. MEIER: Canada and Mexico make up 43 percent of US imports and 40 percent of our exports, and you can see how it's stacked at the bottom. Canada in green, China in dark blue, and Mexico and light blue. So picking a trade war with Canada, China, and Mexico is not without significant risks. These are our largest trading partners.

CHAIRMAN BROWN: What's the country I see in blue, if you go back to that.

MR. MEIER: What's that?

MR. DORSA: Going one back?

CHAIRMAN BROWN: Yeah, go back. Yeah. See that blue country right to the northwest of India? The blue.

MR. DE ROSA: I believe it's Afghanistan.

MR. BERGE: Oh yeah, that checks out. It's

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like a residual -- residual aid measure, yeah.

MR. DORSA: Thank you, Donald, voice from beyond.

CHAIRMAN BROWN: Thank you, Donald.

MR. MEIER: Why don't we jump ahead to performance, Donald?

This is actually Teachers' net plan returns through December 31st, the fourth quarter of last year. You can see that the quarterly update on the far left, the three months, is negative. Obviously, we have had some challenges in that, and that includes private markets as well. This had more to do with the selloff at the end of the year, the selloff in non-US stocks and the backup in yields. I believe, at one point, US Treasury 10-year yields was as high as 480, which prices -- yields are up, prices are down. But more importantly, if you focus out long-term, you have hit your 7 percent actuarily assumed rate of return, your return target of 7 percent.

The next slide is just a fancy way of showing that. I think this is a great chart to look at consistently, but that blue line is what your portfolio would be valued at, the 7 percent annual return compounded, and you can see you're right at that level.

On the next slide, a look at your net public

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market returns to the fourth quarter, and on the left, you can also see the assets under management. So you have got a significant holding in US equity, a little over $28 billion, which generated, again, given the strength, particularly in December, a 2.9 percent return. And if you look all the way out the curve, it has actually delivered public market returns of 12.6 percent. Again, strong equity performance following the global financial crisis, and then some.

US -- non-US equities didn't fare as well, as we talked about earlier. Again, fixed income with a backup in yields in the fourth quarter was a little bit challenging.

One slide ahead, please, Donald?

Just a look at your excess returns and basis points. This is the alpha that's been generated through active management. We continue to see some struggle in the development market XUS, although, again, we have to remind ourselves, if we look out long term, again, five years isn't really long, 10 years, it still delivered positive alpha over time. The one outlier there is your custom fixed income, which is benchmarked to a slightly higher duration exposure, just a little bit of a drag.

On the next slide, just a different way, a more fancy way of looking at your returns over those

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periods of times, three years, five years, and 10 years. Your portfolio is actually the darker portfolio. At the top, you see dark, dark blue, dark orange, and dark green. That's actually your portfolio return relative to your benchmarks. And if you look kind of down across the bottom, you can see US equities underperformed a little bit more recently in three years, pretty much met the benchmark in five and 10 years. World XUS underperformed in three years, but outperformed in both five and 10 years. And on down, you can see, actually, high yield has been a strong performer, outperforming your benchmark consistently, as has cash.

On the next slide, this is an enhanced slide. So now, we have annualized this. On the right-hand side, those are the average fees you pay for public market management, and your total fees that we pay is $104 million on an annual basis, per year. This is a great slide. It's a snapshot, and I'm working with Dan Haas, who's our interim chief risk officer and head of reporting, to develop better analytics. We need to be able to show you, over time, and demonstrate, what are we doing to reduce the fees. So we'll have a little bit of that I think in Executive Session in terms of a manager update, where we were able to successfully renegotiate fees as well, but we're proactively doing

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that with a lot of vigor right now.

MR. FULVIO: I'll just add for verbal overlay, the, I want to say 10 or 15 years ago, that 12 basis points was probably closer to 15, 16.

MR. MEIER: The average spread --

MR. FULVIO: The average, yeah.

MR. MEIER: -- strategies, yeah. But we need to provide them. We can and we will do a much better job providing more insight into public markets and private. What are we doing to move down the fees both in action and what are the results? What does that trend look like?

Let's see. Net private market returns on the next slide. Again, real estate suffered a little bit with higher interest rates, delivering a negative 2.9 percent return last year, or year over year, to December -- actually, that's through September, yeah, sorry. More important, if you look at your private assets, your net performance has all been positive and then quite some.

I like to focus, I think, on infrastructure, which is a more recent private asset that you have developed. You have been in it for a while with great outcome, but it's still a developing portion of the market, but steady at one year, 13.8 percent, three

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years, 11.75 years, five years, 12 percent, 10 years, 12.1 percent returns. That's significantly above your benchmark, and I would love to take credit for this, but this really has to do with Petya Nikolova, who I think is exceptional. I think she's probably one of the very best infrastructure investors in the marketplace. She's very thoughtful. And as we scale up that business, we hope we can continue to maintain this really quite strong outperformance.

Why don't we skip ahead a couple of slides and maybe just look at your different returns for private markets in that summary page. So again, here it is, your portfolio is in dark blue, dark orange, and dark green, and you can see, just to my point about infrastructure, it has significantly outperformed your benchmark, historically, over three, five, and 10 years, as has alternative credit. Again, great outcome.

Private equity has been a really strong performer. It has been great for your portfolio, generating returns on average over the last 10 years close to 13 percent. It's been the highest single performing asset. The problem is, relative to its benchmark, it has a 300 basis point illiquidity premium in addition to the Russell 3000. And to be honest, Russell 3000, the last couple of years, has been on a

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tear. It's been over 20, 25 percent return, so it's kind of hard for any asset class to keep up, but we continue to maintain a high level of confidence in our private equity capabilities and holdings.

MR. FULVIO: These are the time weighted returns.

MR. MEIER: Exactly, yes.

With that, I'll open up to any questions.

CHAIRMAN BROWN: Thank you, Steve. Great job.

Any questions for Steve?

MR. MEIER: Mr. Chair, we were also going to go through a risk review, which we're going to suspend today, only because there's no material changes in risk right now. I think they'll be developing over the course of time. But we also have, because we have got five deals to go through, I thought we would just hold that off until next quarter.

CHAIRMAN BROWN: Sure, great.

Any questions for Steve? Great.

Let the record show that Anthony Giordano is present.

And I think that concludes our business in the Public agenda.

And again, thank you, Steve. Well done.

Is there a motion to go into Executive

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Session?

MR. DORSA: So moved.

CHAIRMAN BROWN: It's been moved. Is there a second?

MS. LEE: Second.

CHAIRMAN BROWN: Thank you. It's been seconded. All those -- any discussion, first?

All those in favor of going into Executive Session, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay. Any abstentions?

We're now in Executive Session. Thank you.

(Exit Public Session; enter Executive Session.)

(Exit Executive Session; enter Public Session.)

CHAIRMAN BROWN: Thank you. Welcome back to Public Session. At this time, we will have a readout from our own Priscilla.

MS. BAILEY: Thank you, Mr. Chair. I think I get a second shine, okay.

In the Executive Session of the Passport Fund, there was -- there were two manager updates.

In the Executive Session of the Pension Fund,

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there was an update on preliminary performance. There were no manager updates.

There were two alternative credit presentations. Consensus was reached on both.

There was an infrastructure presentation. Consensus was reached.

And in the tail end of the meeting, there were two real estate presentations. Consensus was reached on both.

Details to be made available at the appropriate time.

CHAIRMAN BROWN: What a great way to end this meeting. Perfect. Well done. Thank you, Priscilla.

MR. DORSA: So I'll make a motion to adjourn.

CHAIRMAN BROWN: Well, before we make the motion to adjourn, are there any questions, comments, concerns?

MR. DORSA: Would you like to thank anybody before we end?

CHAIRMAN BROWN: Absolutely.

MR. DORSA: I will hold back my --

CHAIRMAN BROWN: Thank you. I would like to thank publicly Adrian Lasaro (phonetic), our TRS tech, and our recorder, Will Montague. As always, appreciated.

Now at this time, if there's anyone who would

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like to make a motion to adjourn the meeting, you may do so.

MR. DORSA: So moved.

CHAIRMAN BROWN: It has been moved by John. Thank you, John.

MS. LEE: Second.

CHAIRMAN BROWN: And it's been seconded by Victoria.

Are there any questions, comments?
Those in favor of adjourning, please say aye?
(Ayes were heard.)
CHAIRMAN BROWN: Those opposed, say nay? Any abstentions?
And thank you, everybody, we are officially adjourned.
(The proceedings concluded at 1:59 p.m.)

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