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INVESTMENT MEETING

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Remote Proceeding

New York, New York

William Montague
Digital Reporter
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APPEARANCES:

PATRICIA REILLY, EXECUTIVE DIRECTOR
THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
KEVIN LIU, MAYOR'S OFFICE, TRUSTEE
BRYAN BERGE, MAYOR'S OFFICE, TRUSTEE
JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE
ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE
DAVID KAZANSKY, TRUSTEE
VICTORIA LEE, TRUSTEE
CHRISTINA MCGRATH, TRUSTEE

Also Present:

VALERIE BUDZIK, TRS
LIZ SANCHEZ, TRS
PRISCILLA BAILEY, TRS
ARISTEA AFTOUSMIS, TRS
WILFREDO SUAREZ, TRS
ISAAC GLOVINSKY, TRS
KOMIL ATAEV, TRS
KEVIN BALAOD, TRS
STEVE MEIER, BUREAU OF ASSET MANAGEMENT
JENNIFER GAO, BUREAU OF ASSET MANAGEMENT
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MORAIMA PARES, BUREAU OF ASSET MANAGEMENT
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SEAN BARBER, HAMILTON LANE
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CAYLA RAMOS
SUN YU
MUSKAN ARORA
GREG STENTO, HARBOURVEST
MIKE PUGATCH, HARBOURVEST

(The proceedings commenced at 10:26 a.m.)

MS. REILLY: Good morning. Welcome to the June 6th, 2024 Investment Meeting of the Teachers' Retirement Board. I'll start by calling the roll.

Tom -- I'm sorry. Kevin Liu.

MR. LIU: Kevin Liu for Mayor Adams, present.

MS. REILLY: Thomas Brown?

CHAIR BROWN: Good morning, Patricia. Present.

MS. REILLY: Anthony Giordano?

MR. GIORDANO: (Indiscernible) Greg Faulkner.

MS. REILLY: Alison Hirsh?

MS. HIRSH: Alison Hirsh on behalf of Comptroller Brad Lander.

MS. REILLY: Victoria Lee.

MS. LEE: Here.

MS. REILLY: Christina McGrath.

MS. MCGRATH: Good morning. Present.

MS. REILLY: Good morning. We have a quorum. I'll turn it over to the chair.

CHAIR BROWN: Great. Good morning, everybody. And I'd like to welcome Christina McGrath, first time at the TRS --

MS. MCGRATH: Thank you.

CHAIR BROWN: -- member trustee, so welcome.

MS. MCGRATH: Thank you.

CHAIR BROWN: Pleasure.

So first on the agenda, Passport Funds First Quarter 2024 Performance Review, and we'll go to Rocaton, Mike or Amanda.

MS. JANUSZ: Yeah, so we -- the first quarterly report is posted to Convene. We did review it in the last monthly meeting, the March results. So unless there's questions on March, I think we'll skip to April.

Starting with April results -- this full screen here.

Okay. So after a very strong start to the year in the first quarter, we did see, in April, a pullback in both equity markets and bond markets after really, especially for the S&P, five very strong months of gains. And in April we saw, you know, a bit of a dip in investor confidence, particularly because we had seen three months in a row of inflation that surprised to the upside. So a bit of concern about what that means for the Fed beginning to cut rates, the timing of one that will begin, and also the amount of rates we may see between now and the end of the year. So that caused a bit of a performance challenge for both equities and fixed income markets during April.

If you look at the returns for the month, in this first column, first performance column, you can see for the Diversified Equity Fund where the bulk of your assets sit in the Passport Funds, you were down just shy of 4 percent for the month of April, but still up 4-and-a-half percent year-to-date through the end of April.

And looking at the month, so your US equity component of the Diversified Equity Fund was down between 4 and 5 percent, whether it's the active or the passive sleeve. The international equity sleeve fared a bit better, and that was really buoyed by the emerging markets component, which was one of the only positive areas during the month of April, which really benefited from a rebound in China.

The Sustainable Equity Fund, about two-thirds of the way down the page, was the worst performing option for the month, down about 5-and-a-half percent. Tech was one of the hardest hit sectors during the month, and that sort of large cap growth asset classes were dominated by tech stocks, but that fund has been one of your strongest performers, and continues to be. It's up close to 5 percent year-to-date and up over 28 percent on the one-year period.

So with that, are there any questions on

April? If not, we can switch over to some preliminary results for May.

So the good news is that May results were better. So we did have a little bit of a rebound in May, after a disappointing month of April. Some of the things that helped in May, we saw CPI prints that were in line with expectations after those three that surprised to the upside, right? So that gives us a little confidence that we are headed in the right path in terms of inflation and expected Fed activity for later this year. We also saw strong Q1 earnings here in the US and a bit of relief in terms of US wage growth.

So in terms of market results for May, the Russell 3000 index, which, you know, represents all cap US equities, was up close to 5 percent for the month, 4.7, and on a calendar year-to-date basis, through the end of May, is up over 10 percent.

And then international markets have not fared quite as well as US. You have the MSCI EFA index, which represents developed non-US markets up just shy of 4 percent in May and up 7 percent year-to-date. And then emerging markets, which did better in April, didn't quite keep pace in May, up around a half a percent for the month and about 3-and-a-half percent year to date. So encouraging results across the board for May after a week or month of April, and I think puts us kind of back on track in terms of expectations again for the Fed to begin decreasing rates later this year. Although, as we approach the election cycle, I think there is, you know, more uncertainty about whether that begins before or after the election.

CHAIR BROWN: Questions for Amanda or Mike? Great, thank you.

We move on to the Pension Fund Performance Update Quarterly Presentation. Steve, with 16 days to go, what do you have for us?

MR. MEIER: It's a little more than 16 two days, it's 42 days, and then we have a holiday on Juneteenth, trading days. So I do have those statistics, and I do --

(Crosstalk.)

MR. MEIER: Sorry?

CHAIR BROWN: It's fewer than 16 days.

MR. MEIER: Well, the last day of the quarter is the June 28th, which is Friday. So yeah, so that's what we're working towards, but the numbers are pretty good. So I'm actually going to give you a little bit of a history lesson, which I'll try to spice up with some comments about April and May --

CHAIR BROWN: We'll take it.

MR. MEIER: -- as well. So before we get into the presentation, maybe just a couple of reminders. As long-term investors, we are flawed in terms of looking at these performances on a monthly or quarterly basis. We should be thinking more along the lines of 10 years, and when I think of 10 years, we're not a thematic investment, but there are some big macro themes out there. I refer to them as the five Ds.

Those are demographic changes in terms of an aging population and the impact on labor force dynamics. Deglobalization and the move to address supply chain issues and move a lot of production, hopefully onshore nearshore, to various countries, including certainly the United States. Also the issues around decarbonization of our economy and transition to cleaner sources of energy. A new one or one that I've talked about in the past is debt sustainability on the sovereign level. We have about a $28 trillion size economy. We have a little over $27 trillion in outstanding debt. So we're getting very close to that 100 percent of debt to GDP. I don't expect anything, the wheels necessarily to come up, but it's certainly something worth watching. We have seen some sloppy Treasury auctions last week, twos, fives, and sevens, and those are just indications that there is either a flaw in the process of primary dealerships in terms of how we distribute paper, maybe the market is just getting full up and there's been less appetite for Treasuries, but that is something we should continue to watch.

The other D would be, I'm sort of cheating here, I call it digitalization, which really the transformation technologies and artificial intelligence in particular. And these five Ds are all wrapped around geopolitical risks as well, which we're very sensitive to.

I have had a number of conversations with folks recently, I had one yesterday, a meeting where someone actually reflected, from a Washington think tank, that the risks we see right now parallel what we saw in 1913, 1939, And 1954. So these are dangerous times in terms of we have a ground war in Europe, we have an alliance between Russia and China and Iran, we have got obviously disruptions in the Middle East, and continued saber rattling on the part of China as it applies to Taiwan. So more to think about.

These mega trends that I'm talking about, we always look to see how these impact growth, inflation, and productivity long-term, and the impact on government spending, and last, but certainly not least, private investments. So that's why we look at these things.

With that statement, maybe move to the next slide.

Just real quick and I'm going to try to keep a pace that surpasses our recent corporate challenge days last week, but inflation is coming down. We have a disinflationary trend that's still intact. It's slowed here, and it's slow a little bit abroad, but again, you still continue to see inflation move lower.

To Amanda's point earlier, we did have a little bit of a surprise early in the year, so January CPI, just as a reminder, was 3.1 percent. February CPI was 3.2 percent. March CPI was 3.5 percent. Again moving, in the wrong direction. So to Amanda's point earlier, there was relief when we saw April's numbers come at just 3.4 percent. So a little bit of challenges there.

On the next slide, just a quick look at those charts. So you can see on the top, in white, a little cut off, but it's 3.4 percent for CPI and core PCE, fixed preferred measure are about 2.8. That actually rounds up, you can't see the 5 on the side.

On the next slide, just an example of how this trend in terms of the rapid increase in inflation following the pandemic, tightening higher interest rate policy driving inflation down again. But you can see on the far right-hand side, those declines have stalled a little bit. The US is in red. You can see how we kind of went sideways and up a little bit, but again, the Fed has confidence that the level of inflation will continue to come down. And again, this is a 20-year chart that also includes the global financial crisis, so just from a historical perspective.

On the next slide, US labor market remains really quite strong. We get a non-farm payroll report from May tomorrow morning at 8:30. Expectations are that we'll probably see another 185,000 jobs created and a stable rate of unemployment about 3.9 percent, but it is something certainly worth watching.

On the next slide, just a look at that. I think the other important takeaway here is you can look at the labor force participation rate in yellow. It's still about one percentage point below where was pre-pandemic, and I think that has something to do with demographic issues, about people nearing retirement, and I think the pandemic probably pushed a number of people into early retirement associated with those disruptions. So we haven't really gotten back to that high watermark.

And on the bottom, you can see on the far right-hand side, 3.9 percent unemployment, which we have expect to see again for the month of May.

Is it possible to shrink the chart on the right so we can -- yeah, thank you very much. Great.

On the next slide, US economic growth, as I said, has been slowing but still moderately okay. We have seen some slow down in existing home sales associated with higher mortgage rates, and actually relatively high housing prices, and consumer spending and retail sales has slowed down for a number of the cohorts, particularly the bottom half of those on the income bracket.

On the next slide, a 10-year chart of GDP growth around the world. You can see it's the massive disruptions associated with the pandemic and the recovery, but we're really kind of getting back to normalcy now. We had preliminary GDP reports for the first quarter of the US at less than 1 percent. It's actually been revised up to 1.2 percent, so still within shouting distance of trend for growth year.

On the next slide, in terms of official interest rate policies, they have been quite steady. However, today, we did have the ECB cut rates 25 basis points. They're the second central bank to cut rates in two days. Bank of Canada reduced rates as well, 25 basis points yesterday. So the interest rate cutting cycle has actually begun.

Right now, Fed fund futures contracts are pricing in about 42 basis points of cuts in the United States, and that basically is a fancy way of saying it's cutting in one full 25 percent, 25 basis point cut. As Amanda said, probably September is the best estimate now, but it may be right after the election, the November 7th. Actually, the Fed meeting that week is a day later. It's a date late because of the election. And we'll continue to watch that. We have a fed meeting next week and there's no expectation of rate changes then.

On the next slide, just a look in terms of where we are. So as I said, for the first quarter of this year, very stable rates, with one major exception, and it's a little nuance. In the bottom, actually the Bank of Japan raised rates, raised official rates for the first time since 2016. They had a negative 10 basis point rate. Now they have a range of zero to 10. So again, that's a return, I would say, to more normal conditions, as they were the last large central bank to maintain negative rates.

On the next slide, just in terms of long-term government interest rates, they have been pretty volatile, as I know Ed will talk about a little bit during his presentation of risk, but they have actually been generally higher. The US Treasury 10-year yields started out the year at around 385. This morning, they were at about 432. They have been as high as 470. So volatile and higher and higher bond yields means lower bond prices, and you'll see that in some of the performance numbers in a moment.

On the next slide, just a look at the inverted yield curve. That's a fancy way of saying that short rates are higher than long rates, and typically, when you invest out on the longer time horizon, you expect to get some kind of premium for taking on an additional risk. On the bottom, in that blue line, you can actually see that was actually the yield curve, which is positive, and normally slows positive and moving higher out to maturities. That was right before the Fed started cutting rates in 2021 (indiscernible) the year. Right now, we're where the red line is up top. So we still have T-bill rates around 530, and as I said earlier, 10-year Treasuries around 432 and two-year Treasuries around 475. So again, short rates are still higher than longer rates, which is unusual.

This has actually been the longest inverted yield curve in the history of the Treasury markets. It's not necessarily the highest level of inversion. We're still about 44 basis points, and at its peak in the 1980s, it was about 190 basis points inverted.

Maybe skip the next slide, it's just more interest rate stuff.

This is actually more interesting, credit spreads. So credit spreads, this is a fancy way of saying credit spread, so look at the orange line up top. It's at 296 basis points, let's say that's 3 percent. That's actually the spread that an investor earns for taking a high yield bond, it's a spread above what Treasury's yield, comparable maturities, and as credit spreads come down, bond prices actually go up, and this has occurred in both high yield, in yellow, and investment grade, in white. I don't necessarily believe these levels are necessarily compelling, these spread levels are, but they're the result of two things.

Firstly, a stretch for absolute yield. These yields look attractive because base rates have moved up, so investors are putting more money to work in bonds now. It's also expectations of a soft landing. If the Fed is able to pull off a slowing of the economy and getting inflation down, without tipping the country into recession, that will mean, hopefully, less defaults, which means less credit risk, and that's why spread credit spreads are tight.

On the next slide, just a couple of comments.

US stock markets have been significantly higher this year. Amanda was absolutely dead on, a little bit of volatility in April, but May was just an extraordinary month in terms of returns. And non-US developed markets have also moved higher as well.

A couple things of note, just yesterday NVIDIA passed the $3 trillion market cap level, which is phenomenal in terms of the runup in terms of the value of that company. There are two other companies that currently have that moniker of $3 trillion and more of capital, of market cap, and those are Apple and Microsoft. This is the first chips company ever to make that level of market capitalization.

We were also looking at this last week in terms of the Mag seven. (Indiscernible) took out Tesla because of the poor performance. And in aggregate across the five public pension plans, and I should get you your own stats, but we have over $15 billion worth of holdings just in six companies, Amazon, Alphabet or Google, Apple, Microsoft, Meta, and NVIDIA at this point. So significant runup and a big portion of the portfolios, for the Teachers' Retirement System as well.

On the next slide, just a look at those returns. So in the one-year period, again ending the first quarter of this year, for one year on top, Russell

3000, and I'm picking on this for a reason, note the fact that the one-year returns just for the Russell 3000 were 29.3 percent. I'll talk about that a little bit when I talk about performance and spreads in a moment.

You can see again, anything with duration has still struggled because interest rates have moved up, yields have moved higher, bond prices moved down, and in the first quarter of the year, certainly no change there. It was down 2.2 percent. Three years, a little bit more painful with the significant backup in rates, again following the Fed's rate hiking cycle in 2022. And with the Treasury and ADC plus five, meaning final maturity plus five years down 5, over 5 percent.

Skip the next slide line.

This is interesting. It's interesting to me. These are 10-year sovereign bond yields across the curve. So up top, you see the United States. That's our US Treasury 10-year yield. It is 53 basis points higher than where it started the year. Again, it's a little stale because markets have moved quite substantially since this print a couple of weeks ago. But what's interesting is all the yields on the far right-hand side for all the sovereign 1o-years is up. Bond prices are generally lower, and the cost of borrowing and interest rates for sovereigns for government entities is higher. One exception is China at the very, very bottom, and their yields have come down because the economy has been quite weak.

Skip the next slide, Wilfredo? Yep. Yep.

Private equity distributions or exits has still been relatively low, certainly relative to where they were in 2021. Eneasz can speak more intelligently about that in a few moments. As well as the private -- public and private credit spreads have actually all tightened in, again a stretch for yield and expectations of a soft landing again to decrease the levels of falls.

On the next page, some food for thought, and here, we're really trying to talk about the importance of private companies, and by extension private equity, to the importance of the US economy. Here, you can see that 87 percent of companies, firms within the United States with revenues greater than a hundred million are private.

Remember, we had Robert Smith from Vista in here and he talked about the fact that 98 percent of all software companies are private, and those are some substantial companies. So again, just underscoring the fact that the public companies that are traded on the stock exchange are only a small portion of the US economy.

On the next slide, also job creations, why private companies are so important to the US economy. Almost 80 percent of all job openings today are in companies that have between one and 250 employees.

On the next slide, a look at employment for the S&P 500 companies, some of the biggest companies in the world, it's just little more than 18 percent of the aggregate of employers in private sector in the United States.

Maybe skip the next two slides.

And really, speak a little bit more to corporate, corporate profits. So half of all US corporate profits come from non S&P 500 companies. Again, so a substantial number of smaller companies that may be still listed but on the S&P 500, but more of that's driven by private companies in the blue up top.

Maybe skip ahead two slides. Again, I'm trying to keep it spicy.

This is actually really interesting in terms of where we have come from an interest rate standpoint. We're trying to throw some different slides at you. What's interesting about this slide is it does show that the market is pricing in higher interest rates for a longer period of time. It was actually one of the warnings that the Bank of Canada's chair gave yesterday when they cut rates 25 basis points, he said don't expect interest rates to move back to levels where they were pre-pandemic, and that's sort of an indication of what's expected being priced in here.

On the next slide, under food for thought, just to look at yields, this is where we are across various types of debt, and you can see where the levels are approximately now in those blue diamonds relative to where they have been on average over the last 10 years in those gray bars. So a substantial increase in the level of yields. This is important for investors because your fixed income investments will be kicking off a little bit more return from a yield standpoint, cash flows from a yield standpoint.

On the next slide, food for thought, just in terms of private credit, we have a significant amount of obligations in both in high yield and leveraged loans coming due over the next four years, about $1.6 trillion. It's called a maturity wall. And I think this will be great opportunities for private credit and investors to put money to work.

Maybe two slides ahead?

We talked a little bit about the soft landing in the context of corporate bond spreads. Defaults are up. You can see that on the far right-hand side where the Fed started raising rates. The default rates have moved higher in both loans and high yield bonds, but again, not to levels that are necessary of concern, but something worth watching.

On the next slide, this may sound arrogant, but it's referred to as US exceptionalism, and it actually looks at the S&P 500 market cap, market capitalization, added all 500 companies together. The valuation has gone from, you can see back in the global financial crisis, from a low of about 23 percent to upwards of 38, almost 40 percent of global market cap for all stocks around the world is now in the S&P 500. And again, a lot of that has to do with the Microsoft, the Apple, and the NVIDIAs of the world that are worth over $3 trillion at this point.

On the next slide, touching again on one of the themes we talked about earlier, one of the drivers for potential stagnation and growth is the demographic changes. And this is actually a very long-term chart that looks out to 2,100, 2,100 year in terms of where we are on a forecast basis of working age population. So right now, we're at about 65 percent of working age population, a little less than that, in terms of labor force participation rate in the States, and that is looking to decline to levels below 55 percent over the course of time. So those dynamics, the aging global population will have an impact on labor force pricing and cost of wages.

On the next slide, again just to emphasize again what the market is pricing in, in terms of when rates start to move down, even out until 2030, it's not pricing in rates going bare bones where they were pre-pandemic, and I think this is right. Some of this has to do with the level of sovereign debt we have outstanding. We now have an interest expense to finance our $27 trillion in outstanding US Government Treasury debt that exceeds our Defense budget. It's over $1 trillion a year just to pay the interest on that gap, which takes a bite out of the budget.

On the next slide, just in terms of interest rates -- oops. Yeah, this is it. Share of mortgage free homes. So almost 40 percent of US homes don't have a mortgage, which I think is obviously a very positive trend, which means that the interest rate hikes that the Feds put in place has been somewhat less impactful on the economy because some of these homes, again associated with an aging population, are outright owned.

On the next slide, kind of a different spin on the same theme, almost 57 percent by volume of mortgages outstanding now have fixed interest rates below 4 percent. That means those debts, there's still debts, but they certainly feel like assets, given the fact that private mortgages are a little over 7 percent. So just something to think about in terms of why people may be less likely to sell their existing homes and what that may do to housing prices over time.

Let's see, just wrapping up on the next slide, house price expectations. So on the far right-hand side, investors that own homes still expect them to do quite well. Right now, the expectation for homeowners is to see increases on average of around 4-and-a-half percent, which would be an interesting outcome if that actually holds true.

All right. Now, shifting over to Teachers' Performance reporting. So on the -- two slides forward. Yep. One more. Yep.

So this is the slide that reflects where your performance has been for the last year. You can see on the far left-hand side, in the one-month area, your portfolio, your total plan is actually in the mustardy orangey yellow on the far left. And you can see how that stacks up relative to your new strategic asset allocation policy returns relative to a public market equivalent of 65/35. And again, some of that has to do with the tremendous runup in equity prices more recently. But again, if you focus out further out the curve, you look out five years, what's nice is you see all green on the screen, but out five years, your total plans produce a return of 8.2 percent, consistent with your policy benchmark, a little bit below public markets. Again, I think that has more to do with some of the recent mark to markets and exposure perhaps to real estate.

On the next slide, this slide actually looks at if you were to invest a thousand dollars over the last 10 years with a 7 percent return expectation, where would you be? And your portfolio value reflects that you're above that 7 percent level, which is your actuarily, a certain rate of return is 7 percent. So having that orange line above the blue line in this chart is positive.

On the next slide, a look at net public market returns. And again, not to be too focused on short-term, but in the three-month area, US equities have had a really nice run, and that's actually just through the end of March. But more importantly, in the one-year space, that US equity number, again 29.8 percent of returns as measured by the Russell 3000, is not to be expected every year, but certainly has helped power the returns in the portfolio coming off of a very challenging 2022 and early 2023. Focusing on the long-term, though, if you look on the far right-hand side, the returns have been consistently decent, notwithstanding the fact that we had a tough 2022.

On the next slide, a look at public market excess returns, or the returns above the benchmarks. And here, you can see, in terms of equities, we have actually underperformed recently in the one-year area, a little bit more positive. In developed market XUS, on the second line down, it's been a little more challenging, and those are some of the issues we talked about in terms of Bailey Gifford and one or two others in that space have underperformed. Emerging markets have performed quite well and somewhat consistently over time. And again, it looks like a pretty good outcome overall.

On the next slide, one of the things we're trying to do is provide you with a little bit more insight and transparency into the fees that you pay for your managers. So this is in public markets only, active and passive. So here, you can see there's 27-and-a-half million dollars in fees paid, again just from public markets, fixed income and equities, in the fourth quarter of last year. Actually, I beg your point, I think that's misleading. I think that should be first quarter this year. I might be wrong there. Again, it's just, so if you take that times four, you're paying well over a hundred million dollars in annual fees for public market management. And this is the breakdown. You can see a little over, what, 72, 73 percent are in equities, the balance being in fixed income.

But again, this is something we want to provide you Trustees with consistently over time. We're trying to do more in terms of charting this. We're trying to actually come up with a methodology to reflect, I know Ed has given this a lot of thought, I don't want to steal his thunder and overpromise, but to try to come up with an evaluation of alpha or excess return that's driven by each basis point of fee. It's probably -- it's hard enough to do in the public markets, it's even more challenging to do in the private asset sector, but we're trying to get those analytics to you, again to be more open and transparent around fees and what we're doing to reduce fees throughout the year every year.

I'd say the last takeaway on the bottom of this chart, as you can see, for public market management, again, passive and active, your total fees average, across your assets, about 14 basis points, and that's in the dark gray on the bottom.

On the next slide, excuse me, a look at after fee returns in the private assets. You can see, obviously, in the one-year space, core and non-core real estate struggled a little bit. A lot of that has to do with office space and retail space selling off a bit. But consistently, if you look at 10 years, the after fee returns have been quite healthy kind of across the board.

On the next slide, a look at your performance relative to your benchmarks. So private equity up top. I mentioned, in the one-year area, you have underperformed your benchmark of Russell 3000 plus 300 basis points by 2,152 basis points. That looks bad. It's really not. Again, you have to put that in the context that the Russell 3000 was up 29.5 percent over that period of time. So again, it's a tough compare to a public market benchmark right now. And again, if you look out across the curve, the performance has been pretty consistent and generally positive across most asset classes.

On the next slide, a look at, again, trying to increase transparency into your private assets. These are commitments. So in the blue pie chart or the pie charts, the blue is actually the assets that you have in the ground now. Capital has been called and deployed into your general partners that you have approved. You also have another, say, let's look at private equity on the far left, you have another $4 billion, $4.5 billion worth of assets that have not yet been called but have been approved by the Trustees, and again, will be put to work over time.

And again, we have the same theme kind of across the board. Opportunistic fixed income, you see the unfunded slice is a little less, 70 percent of your exposure in OFI or private credit is in separately managed accounts. We typically are able to ramp those up or move quicker in terms of the allocations there. So again, you have more money that's in the ground, notwithstanding the fact that that's a relatively new asset class somewhat to, say, infrastructure.

And lastly, we have actually been rebalancing to your new strategic asset allocations consistently, first thing, first quarter as well is we're just about completing it in the second quarter. But just a couple of things to note. So your public equity allocations in aggregate, we're going from 44.5 percent down to just 41 percent, and that's reflected here in terms of some of the emerging markets selling, you see up top, and your fixed income allocation is going from 32.5 percent down to 29.5 percent. And again, that's reflective of the increased exposure on a strategic asset allocation basis into private assets.

I'd say the other two takeaways here is your TIPS. We sold $202,445,000 in TIPS. We have actually gotten out of that asset class, and we redeployed it into credit and mortgage product in terms of more fixed income.

And last but not least on this slide, perhaps most important is the cash position at $320 million. That was used to make certain capital calls, but most importantly, to pay benefits to your beneficiaries.

And with that, any questions? I know we kind of covered a lot.

CHAIR BROWN: Any questions? So where were we again, fiscal year-to-date?

MR. MEIER: Fiscal year-to-date, well, actually, I can give you the preliminary in Executive, yeah, I have those stats. No, that's okay. That's okay.

UNIDENTIFIED SPEAKER: Inquiring minds.

MR. MEIER: But it is 22 days until it's the 28th of June, and I don't know if the stock markets are closed on Juneteenth, and the 19th.

CHAIR BROWN: Thank you. Interesting. Great, thank you.

We move on now to --

UNIDENTIFIED SPEAKER: Are we doing risk?

MR. MEIER: The risk, yeah.

CHAIR BROWN: Quarterly risk update, and I guess Steve is going to --

MR. MEIER: Actually --

CHAIR BROWN: -- turn that over to Dr. Berman.

MR. MEIER: Ed Berman.

CHAIR BROWN: Thank you.

MR. BERMAN: Thank you. It's always tough to go after Amanda and Steve, but here we are.

So obviously, a very strong quarter from a perspective, you know, these talk about soft lending. I know (indiscernible) is not but definitely feels this way. Inflation is down by any measure. CPI is 3.4. GCE, which is the (indiscernible) preferred measure, two-and-three-quarters. (Indiscernible) looks great, nothing can ever go wrong. All public markets through the roof. Europe did well, Asia did well, US did accelerated well. The S&P is up 11 percent, 11 percent risk. That's a sharp ratio of 2.0. This is really as good as it gets. And I wish I could tell you that this is good times for all along, this is the expectation. So we don't celebrate success, it's a focus on the negatives. It's a negative presentation by definition.

So when we think about risk -- we'll go to the next page, please.

And as good as everything looks, the world is very unpredictable, a lot of dangers, which Steve talked about. But generally speaking, I get to look through the changes in the market levels, the important to keep in focus your portfolio is long (indiscernible), it's structural position for long time. So it will experience shorter volatility, and I think we need to be comfortable with that.

But what's important to understand the risk level, really just two factors. There's two things need to keep in mind. The first one is the volatility. And by that, I mean just how fast prices change in markets. That's what you see on the screen right now. So on the left-hand side, you see the VIX index, which is a measure of equity volatility. It's split by quarters. And the way this chart is presented, the bottom of the chart is like 10 points of VIX, as good as it gets, that's as low as it gets, and 40 points it's about close to the upper end of the range. So you can see immediately that whatever the market is telling you that nothing will go ever wrong, all is good, VIX for this quarter, for Q1, averaged at certain 13.7, so it's close to all time low.

In fixed income, on the right-hand side, is this MOVE index, things a little bit less rosy. So you see it's closer to the middle of the range, so things are not out of the woods, but still the fact is things are getting better. So the MOVE index average to 105 (phonetic) this quarter, the trend is down. So all is looking for nothing to worry about.

The second thing you need to think about, about risks -- next page, please -- and that's the stock-bond correlation. And what I mean by that is just the relationship in direction of movement different stocks and bonds. When correlation is positive, stocks move up and bonds move up, they move together.

Your portfolio has an explicit assumption that the stock-bond correlation is negative. And by that, I mean that we expect the bonds to be an actual hedge to equities, maybe reduce the risk, reduce the drawdown, to ensure a smoother ride. And why we assume it's negative, quite simply because that's the way it has been for a very long time.

So you look at the Chart Number 1, this is for the 21st century since year 2000, and you can see that the correlations, stock-bond correlation was negative all along, except for the recent times. Right now, it's positive. And we talked last quarter about in the last presentation this explicit linkage to inflation. So show inflation on the right-hand side, pre-GFC inflation was little bit high, 3.5 percent. The stock-bond correlation was minus 20 percent. After GFC, or the global financial crisis, inflation moves structurally down 2 percent or below and the stock-bond correlation dip to minus 36 percent. Excellent.

Macro moved higher -- I'm sorry, inflation is up, it's averaged about 5.7 percent, and yes, stock-bond correlation positive. What's interesting here, what I want to highlight for this quarter, if you look at this chart on the left, you see the spike, the small spike up at the very right chart, the end of this chart, and the stock-bond correlation stands at 52 percent, which is a very high level.

And here, I want to repeat the chart we looked at last time. Go to the next page, please.

It's hard to update this chart because, here, it's a long-term perspective from the beginning of the 20th century, will take us long time to change that. But the message here is yes, the stock-bond correlation is negative, it has been in the 21st century, but in the century before the stock-bond correlation was positive. So it's not something unusual. 0.5 is really pushing against the upper range of this stock-bond correlation. So it's probably not unreasonably to expect correlations come down. That's probably one of the key risks to your portfolio.

And when I say that, look at the next page, there are real consequences to your portfolio from a stock-bond correlation. That's why keeping it false [sic]. So what you see here is the efficient frontier, just a fancy way of saying it's a chart of expected returns versus risks.

At the top of this chart is the pure S&P 500. The risk is the (indiscernible) but most risk. And the bottom of this chart is just 5 percent US 10-year Treasury, lowest risk but also lowest return. Everything in between are multi-asset blends, and you can see how this yellow line, which assume the correlation of minus 30 percent, that's very nicely. And this band, which is the most efficient allocation, it's about 70 percent equity, 30 percent fixed income, this is a sweet spot.

And this vertical -- I'm sorry, horizontal line, it shows a 7 percent return objective. This is what we're trying to achieve in your portfolio. So the 7 percent return objective with the assumption of negative correlation can be achieved at a 5 percent risk. But if stock-bond correlation goes positive, plus 30 percent, that's the red line. What you see, that at 7 percent return comes with a 7 percent (indiscernible).

What are the consequences? A positive stock-bond correlation would require us to think about trade-offs. We can either keep the same level of risk, meaning we're avoiding drawdowns, it's a smoother ride, but the returns will be much lower, or we can solve for the same level of returns, 7 percent, but then we need to increase the equity allocation, meaning the risk will be much higher.

So it's something we address through the security (indiscernible) allocation, these natural entry of portfolio, the classic diversified, and that's private assets. So private assets provide a source of uncorrelated returns. We saw through the performance this quarter, public markets as well, private assets less well. This diversification is real but it's important to keep in mind these diversification plays out in a shorter time scale. So it works on a scale of months and quarters.

But if you take a step back from like a high vantage point on the perspective of years, three, five years, public markets tend to get more closely aligned. Public and private markets tend to get close aligned.

So what can be done?

There are certain solutions probably will not be acceptable, such as gold, for example. I'm not advocating for that, it's a classic (indiscernible) stock-bond correlation. Macro catch funds, again, I'm not advocating for them, but it's something that is usually mentioned in this context.

The other choice is the trend following strategies, and it's something we discuss, was proposed by Rocaton, and we supported, but for a number of reasons didn't come to be. But again, something that, if this positive stock-bond environment sticks around, something that we may evaluate and reassess. So we do have some options available to us that we can contrast this risk. But again, I just want to highlight it's one of the key risks to your portfolio, and that was the (indiscernible).

So what's happening today, this is for more of a hypothetical future, the next page, and again, much like before, we'll talk about risks in the context of the past, how it played out in this quarter, and also in terms of the future. We'll talk about forward looking adjustments.

Just to remind you, we talk about risks, we'll frame risks in terms of expected performance. There's a lot of technical jargon, we'll talk about risk management, risk volatility. The way to think about it, it just the expected return at the one-year price.

And there are two dimensions of returns. There is total return, which is just what markets give us within strategic asset allocation, and this is captured by the total risk, which is volatility of your portfolio.

There is also another dimension, which is the skill of your managers. So it's enormous effort within investment process for investment active managers, both in public markets and private markets, are all active by definition. So active risk is a measure of access. And again, think of it, we show the numbers, so you can see on this table, active risk was 1.9 percent. This is the expected excess return that your managers will deliver.

And I'll move fast here because there's really nothing new, and I will say that boring is good, you don't want excitement in the risk presentation. So let's keep it boring. And this page is boring but it's important because your portfolio is complicated. It's $103 billion of assets, it's over 500 managers. A lot of things happening under the hood. So we can talk for hours and days, but all days will not be (indiscernible).

But this is the highest level summary, the statement on your portfolio. I can say it is look boring. It's aligned with markets. And I said that, in Column 1, we show market portfolio, just a simple glance, 60/40, 60 percent of public markets, 40 percent fixed income. And you can see that the risk for this portfolio, 10 percent, total risk, down about 50 basis points, consistent with everything we just talked about. Risk levels come down, risk of market portfolio comes down.

Your portfolio benchmark, Column Number 2, the strategic location, it's like a high equity level but this level is coming down versus markets. So, it's 9.5 -- I'm sorry, 9.6, and that's a reflection of diversification of asset allocation. It's a positive outcome, again its information via pure, asset allocation is working.

And finally, your portfolio, Column Number 3, 10.5 percent of total risk, down 40 basis point, consistent with markets, nothing unusual is going on. And within your managers actively is the 1.9 percent, almost unchanged, again, it's consistent with the biggest quarters, and is confirmed by the charts on the right-hand side. Everything is turning down, everything is consistent. Again, this is a very broad measure but it sends you some message of comfort that's a good outcome.

So we also want to dive a little bit more into these numbers, starting with the total risk, which is a measure of your total return, the next page, and here again, we show two views of your asset allocation. On the left-hand side, it's your asset allocation, the way we usually think about in terms of market values. This is the last time I have shown with the old asset allocation in 2019, next quarter will be the new asset allocation, which fully implemented it. Hopefully, no surprise, you saw this page many times, and it's about 63 percent allocation to equities.

The way your portfolio actually performs, the way risks are aligned is captured on the right-hand side, which we call risk allocation, which is the forecast of the total return of your portfolio. And here, you see that the equity exposure is much higher. It's not 63 percent you would expect, but it's actually 84 percent, and it simply reflects on the fact that equity is a much risk asset class that comes with high expected return levels, but yes, comes with risk.

You can see that the blue band, public equity seemed wider. The black band, which is alternatives, is also wider, will shrinks, public fixed income. So no surprises here. And it's important to connect performance with risk because I keep saying risk is performance. So a look, take it together.

So next page, thank you, shows the outcome for the quarter, and the way you read this page, the vertical bars show the risk forecasts, the forecast for performance, the triangle shows the realized outcome, so what we expect the realized outcome to be within the forecast, and that tells you that things are as expected. And broadly speaking, yes, things are as expected. Again, it's a good boring, there's nothing wrong with that.

Starting with Chart Number 1 in the upper left corner, the first bar labeled TRS, that's your overall portfolio. You can see that the return rate portfolio well captured by the risk forecast. This model works, the performance is expected, nothing unusual is happening.

Public equities are the next part, clearly delivered an outstanding performance. We'll look at the breakdown later. Alternatives, I hope nobody is surprised, this was somewhat disappointing quarter. But again, need to be very careful thinking about alternatives on the quarter-by-quarter basis. It sends a very misleading message. We have it here for completeness, but it's obviously a much longer asset class we need to think about on the scale of years, rather than single quarters.

But dedicated details starting with public equities, Chart Number 3, again, nothing unusual is going on. We just talked about US markets delivering an outstanding performance of (indiscernible) 2.0. You can see that performance is slightly above the risk forecast, completely consistent with the markets, nothing unusual.

In fixed income, Chart Number 2, public fixed income, there's a bit of a push-pull effect. So rates went up by about 70 basis points, which is negative. Spreads went down from about 370 to 340, high yield. So spreads coming down. It's positive for the performance. So you can see core fixed income, negative, high yield positive, while in the forecast. So again, your managers do what they're supposed to do, they capture the market exposure and deal the results, again, say check, check, check.

Switching gears to your managers, next page, please. And here, we talk about active risk, which again is a measure of all expected excess returns from the managers. So active risk in your portfolio runs at 1.9 percent, and this shows you both the time evolution of your active risk and also the composition. And you can see that this 1.9 percent, the vast majority of it comes from private equity, which is not surprising. We have benchmark private equity to the Russell 3000, at the same time we realize it's not the same market portfolio types of sector composition, market capitalization, the Russell 3000 capture Amazon, we do not hold Amazon private equity. So risk is high. So it's not surprising, which I highlight last quarter, I mentioned again, was a little bit more surprising that the contribution from public equity is fairly low. The contribution of fixed income is also, tends to be on the lower side. It's the subject of ongoing projects within BAM. Work closely with your consultants, with Amanda and Mike.

I would say the public equity project is much further developed. At some point, we'll be talking to the Board about it. They are both making progress on the public fixed income side, so it's something to keep in focus and something we'll be discussing with the Board.

What does it mean for performance? Go to the next page, please.

The same presentation as before. So the vertical box represent the risk forecast, meaning our expectation for their performance. This yellow band will show the realized outcome, and we are looking for the realized outcome to be aligned with the forecast. If it's not, it may be an indication of something unusual in your portfolio, something unusual that your managers do. Of course, internally, we look in much more detail. We look at the manager level. We cannot show these 500 managers here.

So again, starting with Chart Number 1, you see the first part labeled TRS, which is your overall portfolio. Everything is within the expectations. It's a high level check. Public equities, as I mentioned before, the risk level is low and the excess return is low as well, but it's well within the range.

Alternatives kind of sends a little bit misleading message. Steve talked about it. It's not that private equity performs poorly, private equity performs fine, it's just in public markets (indiscernible) and private market is not keep it up. But again, I would caution against thinking of private equity (indiscernible). So it's always been a much longer asset class.

But then, you get to public assets, Chart Number 3 shows public equities. Developed XUS, which is the bar in the middle. So you can see the performance was a little disappointing, and it's actually surprising enough, all of the managers will deliver big, consistent performance. People are the technical -- this is due to (indiscernible) factor. Markets were very strong. They kind of did one wave, and your managers didn't quite catch this wave. But again, longer term, the performance tends to be good.

And in the public, the same thing, again the messaging is, the risk level is somewhat muted, which comes with a muted performance, but everything is within the range. It's a check, check, check. Again, it's a good boring. So I'm glad to say there's no excitement here. Yes, no excitement. That's not what you want.

So we talked about the last quarter, but of course the most important thing is the future. So the past is down, it's 400 page. We need to work about the next quarter, next year. And the markets are so multinational, I cannot capture everything within the presentation.

So here, first of all, we capture the main three dimensions of the world economy and the world markets. That's equities, rates, and commodities, but of course, you have no exposure to commodities. But commodities is everything, all manufacturing, everything provides some commodities to support people.

And we use our risk system (indiscernible) to identify what will be the worst possible monthly move for the next year. That's exactly what this chart show you. So the black line shows the history of each market, and then it show the range up for that. And I was not going to read you all these tables, but I want to highlight a couple issues in charts here that kind of indicate a source of potential problem in the future.

So first of all, Chart Number 7, bottom left corner, copper. So copper is important because copper goes into anything. So copper is one of the best, leading indicators of the state of economy and the state of manufacturing overall. So copper is closely associated with China, or was in the past, because China is actually manufacturing giant, China is one of the largest consumers of copper, but also with the green (indiscernible). The EVs, electronics require copper. AI cannot work without copper. Copper goes into anything. So anything you -- all the buzzwords you hear down under, they require copper.

And the interesting thing about copper, if you compare Chart 7 with Chart 9, Chart 9 is inflation, is a (indiscernible). Copper is the leading indicator of inflation. Copper may spell problems. And if you look at this chart, so when we have produced this chart end of the quarter, copper prices were about 400, and we show that the worst possible outcome is 514. Surprise, surprise, middle May, copper reaches 512, which speaks well for our risk system, we capture the possible outcomes, but it potentially indicates a problem down the line. So copper accelerating so fast may spell out overheating in the marketplace, and it may make the Federal Reserve more reluctant to cut rates.

So we saw the ECB, European Central Bank, cut rates, the Bank of Canada cut rates. If you look at these charts, it may create like a longer pause for the Federal Reserve to cut high rates.

Why is it important? And we go to the next page. Thank you.

So the simple answer is the debt, and we tend to focus on the government debt. There's a lot of talk that US Treasuries now about hundred percent of GDP. It's an important question, cannot go on forever. But personally, I tend to disregard somewhat the level of government debt for very simple reason. We borrowing dollars, we can always manufacture as many dollars as we need. That's not the real problem.

The real problem is the private debt. By definition, the private sector cannot manufacture dollars. Private sector is constrained. And the problem is not local. The problem is not just United States, the problem is global. So look at the Chart Number 1 that comes from the IMF. It's a very clear track, the debt level goes higher, higher, higher, globally. Government debt transpires, but also the household debt (indiscernible), is expanding at alarming rate. And the private debt in the corporate sector, at the bottom band, is also growing higher.

Why is it important? If you think about the global financial crisis, it started in 2004. In 2004, the Federal Reserve started hiking rates, and took them about three years to get to the point when the two-year was at 4.3 percent. Before the global financial crisis in 2007, the global debt level sat at 193 percent GDP. Almost 200 percent of GDP in that 4.3 percent of yield level.

Where we're at, where we're right now, the debt stands at 226 percent of GDP, materially higher. But also the rates are higher as well at 4.6 percent. So this became problem in 2007. I'm not saying that was the only agent for that. That's definitely (indiscernible). The global financial crisis is significantly more complex and complicated. But this level of debt, combined with higher cost of servicing debt, spells troubles, not just in the United States, spells troubles globally.

To make it worse, the dollar is extraordinarily strong. The same level of, where dollar stands right now, last time we saw was 1984. That creates problems internationally. So the IMF estimates that 70 countries globally at the risk of default. Just think about it, almost half of the countries globally at the edge of default. There is clearly very strong human angle to that. When a country goes into the default, people suffer. There's also a financial aspect to it.

I should have mentioned that (indiscernible) equities and markets are overall.

MS. HIRSH: Pause for a second. Kate just texted saying the Zoom froze.

MS. SANCHEZ: Yep. Okay, so it's back on. I was just coming to let you know --

MR. MEIER: We have had trouble in our building the last two days. Can we start over Ed's presentation?

MR. BERMAN: It will go by slower.

UNIDENTIFIED SPEAKER: Just say exactly what you said the first time.

CHAIR BROWN: I think we're good.

MS. SANCHEZ: We're back.

MR. BERMAN: Okay. Can we go to the next

page, please? The next page?

MS. SANCHEZ: Hey, Daniel, I don't -- I'm sorry. Excuse me.

Daniel, I don't have camera from the boardroom. I have no video. I can see the screen share, but I can't see the cameras in the boardroom.

UNIDENTIFIED SPEAKER: So you can't see it, but it is on here. Let me -- can I rejoin the meeting, Liz?

CHAIR BROWN: Almost got the --

MS. SANCHEZ: Yeah, I don't see any camera. I have no video.

Daniel, we're good. Thank you. Yes, we're good.

MR. BERMAN: Can I please have the page before? Thank you.

So given all this uncertainty, and the world is always uncertain, so there's nothing new really here, how can it frame your expectations for the future? How will your portfolio perform? So that's captured on this table you see on the screen.

So what you see here, the same feedback as we just talked about, equity rates, commodities, and you see the level of shock, which is the projected sale over gain in the market. The important point keep in mind, all these shocks are equally likely. So the way you think about these outcomes, the likelihood of them is exactly the same.

So focus on Column Number 1, which is total returns, a few things stand out here. First of all, clearly equities is your biggest risk, and I'm not breaking any new grounds here, we just talked about equity being your largest exposure, and US equities is your largest exposure of them all.

Your portfolio is positioned for risk, and why I say that, I look, first of all, at your exposure to inflation, you benefit from an increase in inflation. Exposure to copper, you benefit from increase in copper. Exposure to the dollar, which is Line N 6, you benefit from a selloff in dollar, which is usually associated with a cyclical exposure, and you also benefit from the cut in the interest rate, which is Line 4 and Line 5, which altogether tells me that you control is (indiscernible) risk, meaning performance in the expanded market. It will not do so well when markets go down.

The other thing that stands out for me from Column Number 1 is what we call convexity. And what I mean by this is asymmetry of returns. So you'll notice that your portfolio, from data, if the risk is on, then the risk gone, and that's exactly what we want. We want the selloffs to be less pronounced and the gains to be stronger. This is the result of the asset allocation. It's exactly what we want. It's an affirmation, it's a good outcome.

The second thing I want to mention on your excess returns, which is Column Number 2, which comes through the skill of your managers, and that you see the same convexity or asymmetry of returns. The returns are high on the way up and the loss on the way down. It's good, it's a good outcome. But you also see that the risk on, meaning markets rally, your returns are positive. When the risk off, the returns are negative.

So your expectation is that your portfolio will outperform the benchmark in the rallying markets and they also underperform when the market sell off. So this just broad outcome of the analysis, and it's good intuition to keep in mind when we think about markets and markets always go up and down.

So I'll pause there, if there are any questions.

MR. MEIER: And maybe just one other comment, we're going into an election year as well. We're in an election year, so there may be some volatility associated with either consistent regime or a change in administration here in the States.

CHAIR BROWN: Anthony had a question.

MR. GIORDANO: Yeah. I (indiscernible) your presentation, so I caught something about 10 minutes ago that I wanted to grab onto.

You said you had the toolkit for mitigating the risk and there was various things that we could utilize, including commodities, but it was the correlation of stock to bonds that was the potential risk? I just wanted to --

MR. BERMAN: Yes, the main is the stock-bond correlation, meaning if stocks and bonds move together, or the opposite of each other, the implicit assumption in your portfolio that they move in the opposite direction, meaning negative stock-bond correlation, which hasn't been the case for the past several quarters.

We expect it to normalize all the time, as inflation comes down. What may prevent it from normalizing, obviously the inflation, but also the uncertainty. So stock-bond correlation, not just by the level of inflation but by the uncertainty about the level of GDP growth and inflation outlook.

So the issue is a bit more complicated and it certainly may come from geopolitical. Steve just mentioned elections. Absolutely. There's several wars happening in the world. Everything is good right now. Unfortunately, history tells us good times never last. So we keeping in focus, and something we will bring to the Board.

Commodities will not necessarily be a good (indiscernible) of the stock-bond correlation, all risks, I'm not advocating, (indiscernible) means other issues, but it's something connection. In lieu of the (indiscernible) one of the best ways to address that, something we talked about.

MR. MEIER: I also think the fact that we have had a painful few years as a bond investor, as rates have normalized, we came off of artificially low rates that have been pushed down following the global financial crisis, and then again after the pandemic, you know, 10-year Treasury, 70 basis points, that's not really sustainable. So I think we're at a healthier level, although it's been painful to get there.

I think you'll have the base rates, the higher base rates will help support and power the yield --

MR. GIORDANO: That should continue. We have the toolkit, essentially, to mitigate. Is that the thesis?

MR. MEIER: Well, we're long only investors.

The hope and expectation is, again, Ed talks about that correlation normalizing, that's the normal situation where they don't necessarily move in sync, right? So one is down, one is up, and it's a little more stable.

MR. GIORDANO: (Indiscernible) to do with that.

MR. MEIER: No, but again, Ed talked about inflation, but it's also just the low level of rates after that 35 year secular decline in rates, got to a point where it was just extreme.

MR. GIORDANO: Yeah, and I think you touched on a point that I smell coming. I think the next bubble to burst is on the low end of the private credit spectrum. I get calls, I get five calls a day asking for, you know, offering me money on private credit, basically just some signature of money, and there's going to be a ton of defaults, I think at some point, not at the high end, not where we are dealing with our part, but at the low end where there's business to business lows.

MR. MEIER: There's a lot of new players.

MR. GIORDANO: It's the new chop shop, it really is, and I see it coming. I'm trying to figure out how to position myself personally, but it's going to be a bigger issue overall.

MR. BERMAN: It could be, and there's a lot of concern about private credit, but they just one of the concerns. I guarantee you there will be a crisis. I guarantee there will be a recession. I have no idea when, but we will be (indiscernible) ahead of us.

MR. MEIER: But actually, Tony, to your point, which is a very good one, is the old kill advisors, the Ares, the Apollos that you have invested with in private credit, they're extraordinary managers with great insights into the markets. A lot of those are multi-strategies as well, so they can kind of move in and out of where they think the opportunities are, and 2030-plus year of track records.

MR. GIORDANO: Agreed.

CHAIR BROWN: Thank you. Well done, Ed, appreciate it.

Any questions or concerns?

Oh, I'm sorry. Ephy, are you sitting at the table?

(Crosstalk.)

CHAIR BROWN: I don't think so. It's all -- to ask a question if he's not sitting at the table?

MS. BUDZIK: We usually have one representative from --

CHAIR BROWN: Tony, do you want to switch?

No, maybe you want to tell him -- why don't you tell him your question? Because that's against the rules.

MR. GIORDANO: It's a question regarding how the models are created and how -- are they static? Have they (indiscernible) under the same tables before. I guess the question is generally, how are the models created and how are they kind of fixed in real time, or are they fixed in real time?

MR. BERMAN: No, the models are not fixed in real time. So we use Borrow One (phonetic), which is considered the leading provider of -- leading vendor of risk technology. So the models so-called factor-based and the model identifies the fundamental factors driving the markets. It's used about four-and-a-half-thousand different factors globally, and the factors can be, for example, equities, will be value momentum, growth, country exposure, and the model maps the entire, all global markets to sort of four-and-a-half-thousand factors. These factors updated daily, and it's a fairly sophisticated model to make sure that the factors are aligned was the correlation. So it's a big machinery.

Borrow One is part of MSCL. It's one of the largest corporations in the world, part of S&P 500. And one or two of them is comparable to MSCI, but nobody is (indiscernible), still a sophisticated model. We can

talk more about it. I think we both (indiscernible).
So we can do it on the side.

CHAIR BROWN: Great. Thank you. Any questions?

Thank you, Ed, much appreciated.

MR. BERMAN: Thank you.

CHAIR BROWN: Any questions before we go into Executive Session? Great.

I think this is about to move in to Executive Session. Do I hear a motion moved?

MS. LEE: So moved.

CHAIR BROWN: It has been moved. Is there a second?

MS. HIRSH: Second.

CHAIR BROWN: Thank you. Any questions, comments? All those in favor of going into Executive Session, please say aye.

(Ayes were heard.)

CHAIR BROWN: Those opposed, say nay? Any abstentions? We are now in Executive Session.

(Exit Public Session; enter Executive Session.)

(Exit Executive Session; enter Public Session.)

CHAIR BROWN: So at this time, we're back into

Public Session, for the record. And now, we will have a readout from Ron Swingle.

MR. SWINGLE: Thank you. In Executive Session, of the Passport Funds, we provided a list of contracts up for renewal.

In Executive Session of the Pension Fund, we received preliminary performance data, we received one manager update, and we received a private equity presentation in which consensus was reached.

CHAIR BROWN: Thank you.

I think we have concluded our business for today. Any questions or comments before we adjourn?

Great. Is there a motion to adjourn?

MS. MCGRATH: So moved.

CHAIR BROWN: Thank you. Is there a second?

MS. LEE: Second.

CHAIR BROWN: Great. All those in favor to adjourn, please say aye.

(Ayes were heard.)

CHAIR BROWN: Those opposed, say nay? Abstentions? We are adjourned. Thank you for coming, everybody.

(The proceedings concluded at 12:26 p.m.)

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I, WILLIAM MONTAGUE, a Digital Reporter and Notary Public within and for the State of New York, do hereby certify:

That the foregoing proceeding is accurately captured with annotations by me during the proceeding in the above-titled matter, all to the best of my skills and ability.

I further certify that I am not related to any of the parties to this action by blood or marriage and that I am in no way interested in the outcome of this matter.

IN WITNESS THEREOF, I have hereunto set my hand this 17th day of June 2024.

____
William Montague, Digital Reporter
Commission No.: 01MO0009174
Expiration Date: June 7, 2027

CERTIFICATE OF TRANSCRIPTIONIST

I, NANCY KRAKOWER, Legal Transcriptionist, do hereby certify:

That the foregoing is a complete and true transcription of the original digital audio recording of the testimony and proceedings captured in the above-entitled matter. As the transcriptionist, I have reviewed and transcribed the entirety of the original digital audio recording of the proceeding to ensure a verbatim record to the best of my ability.

I further certify that I am neither attorney for nor a relative or employee of any of the parties to the action; further, that I am not a relative or employee of any attorney employed by the parties hereto, nor financially or otherwise interested in the outcome of this matter.

IN WITNESS THEREOF, I have hereunto set my hand this 17th day of June 2024.

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Nancy Krakower, Transcriptionist