

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

Proceedings

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING

Held on Thursday, June 7, 2018, at 55 Water Street,
New York, New York

ATTENDEES:

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

REPORTED BY:
YAFFA KAPLAN
JOB NO. 0611109

1 Proceedings

2 ATTENDEES (Continued):

3 PAUL RAUCCI, Teachers' Retirement System

4 SUSAN STANG, Teachers' Retirement System

5 RON SWINGLE, Teachers' Retirement System

6 ROBIN PELLISH, Rocaton

7 THAD McTIGUE, Teachers' Retirement System

8 VALERIE BUDZIK, Teachers' Retirement System

9 LIZ SANCHEZ, Teachers' Retirement System

10 MICHAEL SAMET, Office of the Actuary

11 DAVID LEVINE, Groom Law Group

12 SANFORD RICH

13

14

15

16

17

18

19

20

21

22

23

24

25

1 Proceedings

2 MR. ADLER: Good morning, everyone.
3 Welcome to the Teachers' Retirement System
4 investment meeting for June 7, 2018.
5 Patricia, will you please call the roll?

6 MS. REILLY: John Adler?

7 MR. ADLER: Present.

8 MS. REILLY: Thomas Brown?

9 MR. BROWN: Here.

10 MS. REILLY: David Kazansky?

11 MR. KAZANSKY: Present.

12 MS. REILLY: Debra Penny?

13 MS. PENNY: Here.

14 MS. REILLY: Raymond Orlando?

15 MR. ORLANDO: I am here.

16 MS. REILLY: Susannah Vickers?

17 MS. VICKERS: Here.

18 MS. REILLY: We do have a quorum.

19 MR. ADLER: Very good. Thank you.

20 So Robin, we turn it over to you for our
21 agenda.

22 MS. PELLISH: Thank you. So in the
23 public agenda, the first item is the quarterly
24 performance report which everyone has received
25 beforehand. We have gone through the numbers

1 Proceedings

2 previously when we talked about the March
3 performance at the last investment meeting, so
4 I am not sure there is a need to go through it
5 unless anyone has specific questions.

6 MR. ADLER: Anybody have any questions
7 for Robin about the March quarterly?
8 Apparently not.

9 MS. PELLISH: Okay. With that, perhaps
10 we can turn to the April report you received.
11 If we start with the Diversified Equity Fund,
12 we can see that at the end of April, the
13 Diversified Equity Fund totalled almost \$15.4
14 billion for the month. Total performance of
15 that fund was almost 60 basis points. We saw
16 modest positive returns in the US equity
17 market and a difficult month of performance
18 for the active managed composite which
19 underperformed the Russell 3000 for the month.
20 For the year to date, the total performance of
21 the Diversified Equity Fund is slightly
22 negative. Negative 20 basis points, and if we
23 turn to the defensive strategies on the next
24 page, we can take a look at that sector
25 performance.

1 Proceedings

2 So the sector has also lagged its
3 benchmark slightly for both the month and on a
4 year-to-date basis. So for the month, the
5 sector was flat and detracted somewhat from
6 the total fund returns. If we look at the
7 performance for the International Equity
8 Composite farther down the page on page 4, we
9 can see that having an international equity
10 allocation added significantly in terms of
11 relative returns. The performance for the
12 month for the International Equity Composite
13 was up almost 2 percent, lagging that
14 benchmark slightly. For the year to date
15 similarly, the International Equity Composite
16 has added to returns because its benchmark and
17 composite outperformed the US equity market.
18 So for the year to date, again the Diversified
19 Equity Fund, slight negative performance.

20 Let's turn to -- a little lost without
21 Mike. If we turn to page 9, we can take a
22 look at performance for other funds offered in
23 the Passport suite of funds. You can see for
24 the month of April, the Balanced Fund was
25 virtually flat, down 10 basis points and the

1 Proceedings
2 Balanced Fund composite benchmark was up 10
3 basis points. For the year to date, the
4 Balanced Fund was down about 70 basis points.
5 So this theme of returns for both the month
6 and year-to-date period hovering around zero
7 either slightly negative or slightly positive.
8 When we just looked at the International
9 Equity Composite within the Diversified Equity
10 Fund, the International Equity Fund, of
11 course, same managers, same allocations, had
12 similar returns. Up almost 2 percent for the
13 month or for the year-to-date period positive
14 by 64 basis points. The Inflation Protection
15 Fund up by almost a percent for the month and
16 for the year-to-date period slightly negative
17 and the Socially Responsible Fund again up
18 slightly for the month and for the year to
19 date up by about 100 basis points. So very
20 muted returns for both the month and
21 year-to-date period. Although, of course,
22 there has been a lot of volatility during that
23 period of time and these muted returns don't
24 reflect that volatility and we have seen a lot
25 of intraday and intramonth volatility.

1 Proceedings

2 Any questions on the April period? If
3 not, we can move forward to May. Less muted
4 returns during the month of May. So if you
5 will look at the Russell 3000 return for the
6 month, up almost 3 percent. And the
7 international composite benchmark down almost
8 2 and a half percent. So less -- certainly
9 less muted for the month. Defensive
10 strategies benchmark up by about 200 basis
11 points for the month as well. And so our
12 estimate is that the Diversified Equity Fund
13 will have earned about 170 basis points for
14 the month, which gives us a calendar
15 year-to-date return of just about that, 170
16 basis points. So we entered May basically
17 flat and earned 170 basis points we think
18 during the month. The Balanced Fund benchmark
19 is up by about 50 basis points and you see
20 that the International Equity Fund down about
21 250 basis points during the month, driven
22 primarily by the allocation to emerging
23 markets, which had a significantly negative
24 month in May, down over 600 basis points.

25 If we look at the Inflation Protection

1 Proceedings

2 Fund, we expect 100 -- about 113 basis points
3 positive return for the month and the
4 Neuberger Berman Socially Responsive Equity
5 Fund closer to the Russell 3000 return about
6 240 basis points. So much better returns for
7 the US equity market during the month of May.
8 Significantly negative returns from emerging
9 markets for the month of May. Any questions?
10 Comments?

11 MR. ORLANDO: I have a question. Robin,
12 can you talk a little bit about what's going
13 on with the international equities?

14 MS. PELLISH: In terms of?

15 MR. ORLANDO: In terms of why they are
16 down.

17 MS. PELLISH: Why they are down. Well,
18 some of that is currency. A large component
19 of that is currency. So dollar strength and
20 then some significant concerns, again currency
21 based in the emerging markets, particularly
22 Brazil, has been significantly impaired. So I
23 think a lot of it is currency weakness, and in
24 our view, the prospects for total returns --
25 and no one, including us, can predict

1 Proceedings

2 short-term or maybe even long-term currency
3 moves, but in terms of relative valuations, we
4 still think the nonUS markets offer greater
5 opportunity, particularly the emerging
6 markets. But also greater volatility. So we
7 are not surprised by this month-to-month
8 volatility and would not change this point of
9 view on the outlook for those markets based on
10 a relative valuation.

11 MR. ORLANDO: Sure. And then can you
12 talk a little bit about the outlook for Europe
13 or --

14 MS. PELLISH: I think it's -- that's a
15 complex question but a good question. You
16 know, I think there has been a lot of talk
17 about the ECB not -- not going as far as US
18 has gone but certainly slowing down the
19 purchases of bonds, and at this point they are
20 going to continue to reinvest their interest
21 income from those bonds so they are not going
22 to decrease their balance sheet exposure as
23 the US is doing. So less pressure on
24 liquidity in Europe which they still seem
25 willing to do whatever is necessary to support

1 Proceedings

2 those markets, and we are seeing positive
3 inflation so less worries about deflation so
4 things seem to be trending in terms of growth
5 in terms of stability positive direction.
6 Italy is a wild card, and of course, everyone
7 has been reading about Italy. So still a lot
8 of uncertainty, but again based on relative
9 market evaluations, we see a lot of volatility
10 but still see greater opportunity outside of
11 the US, including Europe, than in the US
12 equity market. Just because the US equity
13 market has performed so well.

14 MR. ORLANDO: I have grave returns about
15 the global risk in Europe as well as the
16 banking risk, there continuing to be a
17 functional banking center going forward.
18 Anyway, thanks.

19 MS. PELLISH: Do you want to elaborate
20 on that if you think that's relevant?

21 MR. ORLANDO: You know, the disfunction
22 that's occurring in Europe on the political
23 side seems to be spreading. I think it -- you
24 know, the idea that, you know, large banks in
25 Italy, even in Germany for that matter, much

1 Proceedings

2 less France, can those banks continue to be
3 solvent if the country itself isn't in some
4 ways? And the intertwining of all of the
5 countries from a financial perspective is
6 scary. You know, it strikes me that the
7 German banks can go under if the Italians go
8 off the rails. They are so interlinked.

9 MS. PELLISH: Yes, by definition.

10 MR. ORLANDO: If we are losing the
11 promise of political union, that has not had
12 an effect on the actual operations of
13 businesses and banking sector in that entire
14 region.

15 MS. PELLISH: You are talking about the
16 threat of populism?

17 MR. ORLANDO: Pretty much.

18 MS. PELLISH: And that's certainly a
19 threat.

20 MS. VICKERS: We are living it right
21 now.

22 MS. PELLISH: Not a lot of political
23 certainty, I agree, and therefore volatility.

24 MR. ORLANDO: Thanks.

25 MS. PELLISH: So the next item on the

1 Proceedings

2 public agenda is a discussion of internal
3 rebalancing for the funds that I believe is
4 going to be led by the Actuary's office.

5 MR. SAMET: Good morning. So as you
6 know, the Administrative Code of the City of
7 New York requires that these funds get
8 rebalanced every year and basically what that
9 means is we want to make sure for each fund
10 that for those members who have not yet
11 annuitized their balances that the amount of
12 assets in their funds equal their balances
13 that they have. So if someone has a \$100,000
14 in variable A, there should be \$100,000 of
15 variable A assets in that fund for that
16 individual. For those who had annuitized
17 their benefits, we make sure there's enough
18 assets that are equal to the actuarial
19 liability or to the estimated amount needed to
20 cover that annuity that those individuals are
21 eligible to receive. We have been doing this,
22 as you know, for the last few years.

23 The numbers this year are relatively
24 small just like they were last year, and
25 that's because we did the major rebalancing

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

Proceedings

two years before that which was really a catch-up from prior years so -- and so again, the numbers are shown in Appendix A-1 and A-2, the amounts for each fund that will need to be rebalanced or shifted within the plans, and the main reason for these balances to become out of balance and the need to do this rebalancing each year is really two things: One is for those who have annuitized, obviously we set aside the amount that is the actuarial value or our estimate of how much would need to be set aside. Sometimes people live longer. Sometimes people live shorter. So obviously on an annual basis we need to shift assets around to adjust for that, and then for the members who have not annuitized who have balances, it's mostly due to timing differences where there are certain transactions that occur that may not be -- that are -- the transactions may not be based on the unit value that's in effect at the date that the transfer is made.

So in other words, somebody might transfer assets in the middle of a period but

1 Proceedings

2 it may -- that transfer may be based on their
3 unit value as of the past -- March 31st or
4 June 30th or the past quarter. And that's
5 again going to be a mismatch between what
6 their balances really were to how much they
7 are shifting out. So that's really -- it's
8 again just our annual reporting of this
9 rebalancing. Any questions?

10 MR. ADLER: Yes, Mike, question. So on
11 Appendix A-2 it says the funded status is
12 \$32.7 million so that the assets exceed the
13 liabilities by that amount, right?

14 MR. SAMET: Correct.

15 MR. ADLER: So that \$32.7 million is
16 being transferred from where to where?

17 MR. SAMET: That money -- because the
18 plans are co-mingled, that money will really
19 be attributed to the QPP.

20 MR. ADLER: And where is it now?

21 MR. SAMET: Right now it's designated as
22 TDA assets.

23 MR. ADLER: I mean, last time when we
24 did the big transfer -- not last time. Two
25 years ago we moved a big sum of money from the

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

Proceedings

QPP to the TDA. Is this 32.7 million actually being moved? And obviously most of it is variable A's or was last time, so is it being moved from one to the other or not and from which one to which other?

MR. SAMET: If this money should be moved from the TDA?

MR. ADLER: To the QPP.

MR. SAMET: To the QPP.

MR. ADLER: So it's the reverse of what we did. That's what I was wondering. So now we are moving 32.7 from the various variables -- well, really just from the only one that has a positive is variable A. So from the variable A to the QPP.

MR. SAMET: Right.

MR. ADLER: And then just another question so I understand. No, actually fixed return -- oh, yes. That's 2.1 but the ones that's showing negative funded status, B, C, D, and E so they get money moved into them, right?

MR. SAMET: Correct.

MR. ADLER: Effectively will we move the

1 Proceedings

2 money? And this might be a question for
3 Susan. I am not sure. Will we move that
4 portion of the money from variable A to B, C,
5 D, and E and take the remainder and move it
6 over to QPP or how does that work?

7 MS. STANG: I am getting a little
8 confused myself from all the different things,
9 but we did have a meeting with accounting.
10 Net net this can happen with our monthly
11 rebalancing. It's such a small amount net net
12 between A, B, C, and D that if I try to do
13 this off the top of my head, I am going to get
14 it wrong.

15 MS. REILLY: Do you think Paul could
16 help you?

17 MR. RAUCCI: What happens is that the
18 pension reserve fund really is the true-up
19 vehicle. So what happens is that to the
20 extent that any of the individual funds need
21 to be rebalanced, the offset is always the
22 pension reserve fund. So to the extent that
23 the variable A is overstated, it's more money
24 that's needed, that money goes back to the
25 reserve fund. So the reserve fund sits on the

1 Proceedings

2 QPP side of the house. So on the page before
3 that appendix --

4 MS. VICKERS: Can I interrupt, Paul?
5 When you said that the balance in the variable
6 A goes into the pension reserve fund, is it
7 the full \$32,352,816 or is it minus the
8 variable B, C, D, and E?

9 MR. RAUCCI: It's the net. The reserve
10 will be net of what's actually needed and each
11 one will be made whole, and on the QPP side
12 the same thing occurs but it has the opposite
13 effect whereas variable A there is understated
14 because the asset basis is 6 billion 58
15 million whereas the liability is 6 billion
16 169. So there is a shortage on the QPP side
17 where the QPP variable A has to be increased
18 by the 110 million, and that will come from
19 the city reserve.

20 MR. ADLER: From the pension reserve.

21 MR. RAUCCI: From the pension reserve
22 fund.

23 MR. ADLER: So the pension reserve fund
24 is sort of like the liquidity pool?

25 MR. RAUCCI: Yes, by legislation.

1 Proceedings

2 MR. ADLER: Do we know how much is in
3 the pension reserve fund? Does that show up
4 anywhere?

5 MR. RAUCCI: I don't have it off the top
6 of my head.

7 MR. ADLER: Okay. Just curious.

8 MS. VICKERS: Is it possible -- just
9 because I would like to just review this with
10 David and BAM staff because I don't see them
11 cc'ed on this, just to get a list -- I don't
12 know if it's Mike or Paul -- of all the
13 transactions, this amount goes from this fund
14 to that fund, this amount goes from this fund
15 to that fund. It's probably here but if
16 somebody could summarize it, that would be
17 awesome.

18 MR. RAUCCI: And you got to remember
19 these are the member-directed funds in each --
20 in the QPP side so it's not -- the member
21 directed, so on the QPP side, it would be
22 variable annuity funds and ITHP funds.

23 MS. VICKERS: So BAM isn't involved in
24 the transactions like we were two years ago.

25 MR. RAUCCI: No, you are. You are. But

1 Proceedings

2 I am just saying when they talk about --
3 because you can see the different variables.
4 That's where that's coming from. They have
5 that so it's only a Tier I and Tier II issue
6 on the QPP side and at some point that will go
7 away.

8 MS. VICKERS: Thanks.

9 MR. BROWN: Paul, could you review right
10 from the beginning -- I once understood this
11 about two years ago -- when all the money went
12 into a particular account for 20 years and
13 stayed there? And then we had to move it
14 after a 20-year period.

15 MS. REILLY: Two years ago.

16 MR. RAUCCI: What had happened was the
17 rebalancing in the legislation, that's
18 supposed to occur every year. The last time
19 it occurred I believe -- well, not the last
20 time but --

21 MR. ADLER: Two times ago.

22 MR. RAUCCI: Two times ago I believe was
23 1993.

24 MR. ADLER: Oh, before that.

25 MR. BROWN: Can you talk where that

1 Proceedings

2 money went to and why we need to get it out
3 just to refresh my memory? Why we need to do
4 a rebalancing?

5 MR. RAUCCI: The reason we need to do a
6 rebalancing is the fact that then we did the
7 actual calculation to determine what's needed
8 to pay the future benefits, okay, it's based
9 upon the life expectancy of the participants,
10 and what happens is that every year that gets
11 reevaluated, so each of the buckets needs to
12 be adjusted, and although we always adjusted
13 the liability, we never actually moved the
14 underlying funds until two years ago, and
15 that's why you had such a large number because
16 it was for 20-something years and then now
17 since then annually you can see the numbers
18 are less. The numbers were always smaller on
19 the TDA side because on the TDA side, it's
20 predominantly the timing issue because you got
21 to remember the way that the nonannuitized
22 accounts work, all transactions that happened
23 during the course of a month happen at a unit
24 value that's based upon the previous month's
25 market value. So although the monies are

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

Proceedings

QPP going to TDA. It's the reserve fund funding the assets. Because you got to remember, all the assets sit under the QPP umbrella, and it's really a variable versus a pick, not a TDA versus the QPP. It's just these accounts just happen to sit within each of the plans. But the rebalancing is actually the member invested funds versus the city reserve account.

MR. ADLER: Okay. Crystal clear?

MR. ORLANDO: I thought it was pretty clear. Thank you, Paul. I appreciated that.

MR. ADLER: If folks really want to dive deep here, if you look at the last two pages of the document from Appendix C and take a gander. I took my glasses off.

MR. SAMET: Did you check to see that it adds?

MR. ADLER: No, I didn't. I am going to do that later.

MS. VICKERS: Ask Antonio to do it.

MR. ADLER: Okay. Any further questions on the internal rebalancing? Thank you to all of you for explaining it to us as well as you

1 Proceedings

2 did.

3 Okay, Robin, do you want to introduce
4 the next item?

5 MS. PELLISH: Sure. So we have two
6 individuals from a firm called Sustainalytics
7 that are waiting outside to come in and talk
8 to the board about what they do and how they
9 might be helpful in the emerging markets
10 country screening process that we are trying
11 to reconsider, and Sustainalytics is one of
12 really two firms -- the other being MSCI --
13 that have significant and that have developed
14 significant capabilities in terms of
15 evaluating companies across the global in
16 terms of a variety of ESG considerations. And
17 so that kind of data, much of which was not
18 available or available at this level five or
19 seven years ago will be an important component
20 I think in any future emerging markets
21 screening process, and I am not sure country
22 screening process is the right word to be
23 using at this point, but in any way in which
24 the boards choose to monitor its investments
25 in emerging markets to confirm they are

1 Proceedings

2 consistent with our values and priorities.

3 So we brought in Verite last month you
4 may recall to talk about the work that they
5 have been doing in emerging markets around
6 this -- around the topic of evaluating company
7 work in terms of labor practices, governance
8 practices, et cetera, and Sustainalytics is
9 really an organization that's very focused on
10 data that I think might be very useful in the
11 future process that we use to again confirm
12 that our emerging markets portfolio are
13 consistent with the investments that we are --
14 are consistent with the values and priorities
15 of the board.

16 MS. PENNY: How will that work? So we
17 will listen to them today, and then you will
18 come up with a recommendation and proposal?

19 MS. PELLISH: Well, I do think that we
20 may be at a point where my sense is there is
21 some consensus on the part of the board to
22 move in this direction and to move beyond the
23 process that we are using now to a process
24 that almost didn't require us to eliminate
25 entire markets. So perhaps the next step

1 Proceedings

2 could be for Rocaton to collaborate with TRS
3 staff and with BAM as well to come back to the
4 board in the fall with a recommendation.

5 MR. DORSA: So speaking with our
6 colleagues at BAM regarding this issue, one of
7 the things that came up is they are actually
8 in the middle of doing a search for emerging
9 market managers, and one of the unique things
10 that has come out of that is a discussion with
11 investment managers about country screens and
12 excluded markets, and they are finding that
13 some -- some managers have indicated there be
14 a difficulty managing to certain benchmarks if
15 there were exclusions in the portfolio, and
16 that's one of the concerns that BAM has
17 whenever they are doing an evaluation is
18 making sure that they can provide
19 recommendations that are the best to the
20 board. And some managers have indicated just
21 right off the bat that they have some
22 hesitation about competing for business
23 whether it be certain exclusions that they
24 don't think they would be able to put forth a
25 product that really represents how they

1 Proceedings

2 focused their investments and that's one of
3 the concerns that BAM has, so I just wanted to
4 make you aware of that. Mike Fulvio has been
5 talking to the BAM staff. I know Mike is not
6 here today but he has had conversations.

7 MR. ADLER: I just want to ask another
8 question before Sustainalytics comes in, and I
9 think we need to have this discussion after
10 they come in as well. You mentioned that
11 there is basically two companies that do this,
12 MSCI and Sustainalytics. And this is really a
13 question both for Robin and for BAM. My
14 understanding is that MSCI produces this ESG
15 data which we get through the BarraOne
16 platform so we have -- we have the MSCI data.
17 That's not to say -- I just want to confirm --

18 MS. VICKERS: And I thought of that as
19 well, but I thought we could hear what
20 Sustainalytics has to say and what type of
21 data they have and have the discussion whether
22 that's duplicative of what we are getting
23 through BarraOne.

24 MR. ADLER: The other thing I was
25 thinking was that again, depending on how this

1 Proceedings

2 goes, we might want to have MSCI come in and
3 explain to us what they offer as well.

4 MS. VICKERS: Yes but the TRS board
5 along with the other four systems has already
6 paid for the MSCI data that we have.

7 MR. ADLER: I know we already get it so
8 we don't have to pay extra for it, whereas we
9 have to pay for Sustainalytics. I think the
10 question is in terms of a recommendation, in
11 other words, we might be able to use existing
12 platforms versus --

13 MS. PELLISH: Absolutely and we will
14 look into that.

15 MR. ADLER: Versus procuring a new
16 platform.

17 MS. PELLISH: So what's not clear to me
18 is the level and breadth of ESG data that we
19 are getting on emerging market companies. It
20 might be entirely adequate for this purpose.
21 It might be a more limited data set, so I
22 don't know the answer to that but we would
23 seek to minimize things where possible.

24 MS. VICKERS: I think the prudent thing
25 to do is hear what this group has to say, and

1 Proceedings

2 we can go back to the people at BAM who are
3 actually deep learning how to use the MSCI
4 system because the learning curve has been
5 pretty big. There is a lot of data in there
6 and they started to be able to create the
7 types of reports that we, you know, have when
8 we have questions that are in the ESG sphere,
9 they now are able to run some of those
10 reports. So I think that it definitely -- to
11 your point, we need to take further
12 conversation around what we have with MSCI
13 currently.

14 MR. KAZANSKY: So is my understanding
15 correct then that whether it's MSCI or
16 Sustainalytics or perhaps a combination of the
17 two that they are just providing the data and
18 that we would require someone like Veritas who
19 was here previously to work with BAM to go
20 over that data?

21 MS. VICKERS: My understanding is that
22 Verite has -- their specific focus is on
23 governance and labor and the other ESG factors
24 that exist in MSCI or maybe Sustainalytics is
25 different. I think Verite is a little bit

1 Proceedings

2 more limited focus. I think that maybe the
3 investment advisory services that BAM provides
4 to the boards might be able to be the ones who
5 sort of run the numbers and then report back
6 to board members. Interpreting the data,
7 coming up with a recommendation sort of based
8 upon the questions asked. But it is raw data
9 that somebody has to do something about.

10 MR. ADLER: Well, I think Sustainalytics
11 does something, but let's hear what they do,
12 but let me just say I actually think Verite is
13 just labor. I don't think it's governance.

14 MS. PELLISH: They do some governance.
15 They do some labor. They do some other things
16 as well. They are trying to broaden out to
17 things other than labor but they have a
18 significant focus on labor, but they also --
19 because they have people on the ground in
20 those markets, I think they may and this is
21 really a may, but they or someone else may
22 have a role to play in periodically coming to
23 the board and talking about what's going on in
24 these markets, what are the trends, what are
25 the issues that you may not have even

1 Proceedings

2 you know, completely separate from whatever
3 market they are traded in or based in, right,
4 so that you can even have a US company,
5 US-based or US trading company that gets
6 excluded based on the metrics. You know, like
7 so we sort of talked about US-based companies
8 that have extensive operations in Asia and --

9 MS. PELLISH: You have supply chain
10 issues.

11 MR. ADLER: Major supply chain issues.
12 Anyway, I am very interested in hearing
13 Sustainalytics presentation and then like I
14 said I think we should have some discussion
15 afterwards and then hopefully agree on some
16 direction for Rocaton to come back with.

17 MS. PELLISH: That would be great. So
18 whatever input the board could provide about
19 the direction we should be going in and I
20 think this will be -- to some extent we are
21 creating something new so it will be an
22 iterant process. But I just want to respond
23 to one point you raised about this kind of
24 process consideration could be applicable to
25 US-based companies. So that is obviously

1 Proceedings

2 correct. And it could also be applicable at
3 some point to private equity, right, and so I
4 think it may be important to draw a circle
5 around what we are trying to accomplish here
6 and then use this as a learning process. And
7 by "circle around this", I mean circle around
8 the emerging market portfolios and then use
9 the process we developed for that asset class
10 and think about how we might want to apply it
11 to other parts of the portfolio.

12 MR. ADLER: Completely agree. That
13 makes more sense. Let me ask one more
14 question. Are emerging market managers, are
15 they permitted to invest in frontier markets
16 to a limited percent or not?

17 MS. PELLISH: I have to look into that.

18 MR. ADLER: You know, the reason I asked
19 the question is because you know, so what we
20 have done is right now we exclude certain
21 countries from emerging markets from the
22 universe of emerging markets managers, and
23 again I am just thinking that if we allow them
24 to invest in some frontier market, and I am
25 not sure if we do or not. You know, we maybe

1 Proceedings

2 could think about that as well, but if we are
3 doing a whole company, then that would take
4 care of itself as if it were. Anyway so I do
5 think this is --

6 MS. PELLISH: Yes.

7 MR. ADLER: I completely agree with what
8 you just said. Let's look at what this means
9 for the emerging markets portfolio, and then
10 if we arrive at some successful approach that
11 we have consensus on, we can think about
12 applying to other asset classes.

13 MS. PELLISH: Great. So I will bring
14 them in.

15 MS. SOLOVIEVA: Good morning. Hello
16 everyone. Thank you everyone for the
17 opportunity to introduce you to our research
18 and to speak a little bit further about how we
19 see investors investing in emerging markets
20 and some of the tools that are available from
21 an ESG perspective to help give you the
22 opportunity to monitor certain issues as they
23 pertain potentially to human rights or
24 environmental issues as well.

25 So just as a brief introduction, my name

1 Proceedings

2 is Anya Solovieva. I am the associate
3 director of our client relations team. This
4 is my colleague.

5 MR. TIANT: Lazaro Tiant, also manager
6 of the client relations team.

7 MS. SOLOVIEVA: Super. So I included an
8 agenda at the start of the presentation, and
9 really the three main things that I would like
10 to discuss today is really first provide you
11 with an introduction to Sustainalytics. I am
12 not sure how many of you are familiar with ESG
13 research firms, tell you a little bit about
14 how we work and what we do and where we add
15 value in the investment process. Also speak a
16 little bit about the recent emerging markets
17 developments in terms of what we are seeing
18 that's helping increase disclosure from
19 companies in emerging markets, but then also
20 from ESG research perspectives some of the
21 steps that we have taken that helps us
22 actually to calculate an ESG score that's
23 fully comparable across companies in developed
24 markets as well and then also speak about ESG
25 integration in emerging markets in particular

1 Proceedings

2 and speak to three particular signals that
3 investors use in terms of evaluating companies
4 in emerging markets.

5 I would welcome any questions. I am
6 happy to have more of a dialogue, so if there
7 is anything that isn't clear or anything
8 specific that you want me to touch on, I am
9 very happy to do that.

10 MR. ADLER: Great. Sounds good.

11 MS. SOLOVIEVA: Super. So in terms of
12 Sustainalytics, we celebrated our 25th year
13 anniversary last year, so we have really been
14 in this marketplace since the beginning.
15 Sustainalytics, as it is now known today, is
16 actually a merger between a Canadian and a
17 Dutch firm, so our headquarters is in
18 Amsterdam. However, our CEO, Michael Jantzi,
19 has been the CEO since the start and he is
20 based in Toronto. We do now have over 400
21 staff globally, and we are located in 13
22 locations around the world. The reason I
23 mentioned that in particular, I think in
24 particular from an emerging markets
25 perspective, it's valuable to have our

1 Proceedings

2 that they can take into consideration in their
3 investment process. We currently do provide
4 research on 11,000 global companies. And so
5 that is across developed, emerging, and some
6 frontier markets as well.

7 Great. I think maybe just one thing to
8 note in terms of how we work -- and I think
9 this is one of the big differentiators between
10 us and some of the other ESG providers -- is
11 that when we work with companies and
12 investors, we really take a partnership
13 approach. So we really want to make sure that
14 you know how to incorporate the research and
15 really understand it. So we really do take a
16 partnership perspective, and maybe from some
17 of the other partnerships that we have, maybe
18 two to note that might be particular in trust
19 is Morningstar is one. So I am not sure if
20 you are familiar with the Morningstar
21 sustainability fund ratings. So Morningstar
22 does use our company level data as the main
23 input into the calculation of sustainability
24 fund ratings. At the start of May,
25 Morningstar also launched a carbon portfolio

1 Proceedings

2 risk score also utilizing our company level
3 data. I think it's also interesting to note
4 that we had a partnership with Morningstar for
5 the last two years, but they did purchase 40
6 percent stake of us last summer so that helped
7 solidify the relationship.

8 And then another partnership that may be
9 of interest is Glass Lewis. So they are one
10 of the large proxy advisor firms. Last proxy
11 season was the first time that Glass Lewis
12 included some ESG considerations in the proxy
13 advice statements. And now our research is
14 also integrated into their platform to help
15 companies from an engagement perspective. If
16 you have any questions about that before I can
17 dive into our research and help introduce some
18 of the main signals that investors are using?
19 Okay, great.

20 So in terms of the research that we
21 provide, what I am going to touch -- we
22 provide numerous products, so everything from
23 ESG research which is an overall ESG score
24 which talks about the environmental, social,
25 and governance performance of a company. We

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

Proceedings

also do have research that focuses on product involvement, so essentially tracking revenue from negative sources such as gambling, alcohol, tobacco to help investors identify companies that may be going against their values and be able to screen a portfolio on those, but today I do just want to speak to our ESG research and particularly the controversy aspect which I think from an emerging markets perspective can be particularly useful in helping identify any issues within the supply chain, et cetera. So in terms of our company ESG research and approach, we focus on three main aspects. So we want to ensure materiality. So we want to focus in on the most material ESG issues as they pertain to a company. We also do provide forward-looking assessments and that's with the trends that we provide for a controversy assessment, and also one of the key differentiators between us and the other providers is the full transparency that we provide in our ESG research. So as an investor looking at the research, you are

1 Proceedings

2 really able to see how we come up with our
3 conclusions and how we come up with the ESG
4 scores.

5 And if you look at page 11, so that
6 highlights the first two pages of a sample
7 company report, and it touches on the three
8 main signals that investors use as a starting
9 point. So first we have ESG rating, which is
10 essentially score from zero to 100 that's
11 broken down into the three pillars, and there
12 in order to come up with the score, we measure
13 60 to 80 indicators. We focus on three
14 buckets of indicators. So we look at
15 preparedness. So the types of policies and
16 management systems that the company has in
17 place in order to be able to address these
18 environmental and social issues. I think it's
19 particularly important that we are not simply
20 looking to see if a company, for example, has
21 an environmental policy in place, but we are
22 really looking to make sure that we are
23 looking at the quality of those policies and
24 how do they compare to best practice. I also
25 will note that we evaluate companies from a

1 Proceedings

2 peer group perspective. So we have 42
3 industry peer groups, so therefore companies
4 in emerging markets are also going to be
5 evaluated to the same level and essentially
6 measure the same indicators as their peers in
7 developed markets as well.

8 Then the second signal that we utilize
9 which I think in emerging markets particularly
10 is quite important and that's the controversy
11 assessment. So maybe just to quickly touch on
12 how we come up with the controversy
13 assessments and the level of transparency
14 that's available to you. So on a daily basis,
15 we do utilize machine learning technology to
16 look at over 55,000 new sources so we capture
17 any negative environmental, social, and
18 governance issues from companies around the
19 world. We then have a team of analysts that
20 will evaluate each incident from a
21 sustainability and business risk perspective,
22 and then if incidents relate to a single event
23 are assigned a controversy score, which is on
24 the hurricane scale of 1 to 5, and as I will
25 touch on when we speak about ESG integration,

1 Proceedings

2 that's one of the main signals that you can
3 focus in particularly on emerging markets to
4 identify any potential issues to maybe human
5 rights, supply chain, governance issues, maybe
6 around bribery, corruption, taxation, et
7 cetera.

8 And then the third key signal that I
9 just want to touch on is for every company and
10 for every industry, we identify the most
11 material ESG issues, and for the company our
12 analysts will speak to the key three main ones
13 and be able to provide that additional insight
14 to investors.

15 MR. ADLER: I'm sorry. The three key
16 ones which you identify or your clients
17 identify?

18 MS. SOLOVIEVA: So we identify. So
19 that's -- so it's a starting point for
20 guidance to clients saying when you are
21 starting to look at the ESG performance of a
22 company, we suggest that you start with these
23 three key issues.

24 MR. ADLER: That's the same for all
25 companies or it varies for all markets?

1 Proceedings

2 MS. SOLOVIEVA: It will vary. So for
3 every industry there would be five to seven
4 that are identified, and then for each company
5 the company will highlight the three most
6 material to that company.

7 MS. VICKERS: To follow up on that, if
8 we have a particular criteria that -- let's
9 say it's something like, you know, there have
10 to be over 50 percent women on the board of
11 directors, how would a criteria like that
12 become a signal that would be applicable to
13 every company report?

14 MS. SOLOVIEVA: So something like board
15 diversity is an indicator that we measure and
16 there we have a set standard.

17 MS. VICKERS: But if your standard is
18 different than our standard, if our standard
19 is 50 percent and your standard is 30 percent,
20 can that be tweaked?

21 MS. SOLOVIEVA: So in terms of from an
22 ESG perspective it cannot because it's an
23 evaluation on that specific factor. We do
24 have a separate corporate governance research
25 offering that actually provides transparency

1 Proceedings

2 on what the board diversity is, and so
3 therefore you could use that to dive deeper
4 and understand if that company meets your
5 standards or not. So there is that level of
6 transparency within the corporate governance
7 research offering.

8 MS. VICKERS: So it's customizable in
9 terms of what you offer; it's not customizable
10 in terms of creating specific signals?

11 MS. SOLOVIEVA: I am trying to think of
12 the best way to answer that. So it's
13 customizable in terms of how you interpret the
14 signals, but the signals that we offer are
15 going to be consistent if that makes sense, so
16 for every company there are 60 to 80
17 indicators that we measure. So -- but how you
18 use those indicators is up to you as an
19 investor.

20 MR. ADLER: So just following up, I am
21 just trying to understand this. So you guys
22 do your score based on your criteria, but if
23 -- following up on Susannah's point, if we
24 wanted to take a look at the companies that
25 had less than 50 percent diversity on the

1 Proceedings

2 board, can we access your product to deliver a
3 list of those companies or not?

4 MS. SOLOVIEVA: So on the 50 percent
5 board diversity, that's just something I have
6 to clarify exactly for that specific
7 indicator.

8 MR. ADLER: But that's not the point.
9 The point is whatever criteria we choose.

10 MS. SOLOVIEVA: Yes. You have that
11 level of transparency that you can look into
12 it and you can actually screen a portfolio on
13 certain indicators. So let's say board
14 diversity was the indicator. The thing I need
15 to confirm is exactly what standard we use.

16 MS. VICKERS: What definition because if
17 you define board diversity one way and our
18 investment believes or our IPS we define board
19 diversity a different way, then you know,
20 getting a good score on your definition
21 doesn't necessarily match.

22 MS. SOLOVIEVA: Yes. So the benefit
23 with what our research will provide is the
24 full transparency on our definition and then
25 what our analysts are actually looking for to

1 Proceedings

2 get to that, and in the corporate governance
3 research offering, they will actually say how
4 many women are on the board. So that's
5 information that's provided.

6 MR. ADLER: But that's purchasing the
7 ESG. That's separate than purchasing
8 corporate governance.

9 MS. SOLOVIEVA: Oftentimes we can bundle
10 them together to provide you with both
11 signals.

12 MS. PELLISH: So I guess the real
13 question is could a client use the raw data
14 that you gathered to build a particular signal
15 and use that data to develop a different
16 signal?

17 MS. SOLOVIEVA: So you have that
18 transparency in the way that we evaluate it,
19 so we have the underlying information that's
20 there. The raw data itself right now so let's
21 say the number -- the actual number of
22 environmental finds a company made. So that
23 data is available as an explanation data
24 point. You can't actually screen on it, but
25 you can look at a portfolio to see does it

1 Proceedings

2 match your criteria or not if that makes
3 sense.

4 MS. PELLISH: So limited flexibility.
5 There is an ability to see the data, but you
6 can't manipulate the data to use it to create
7 your own signal?

8 MS. SOLOVIEVA: So at the raw data --
9 the challenge is at the raw data at the moment
10 that's not possible. However, what you will
11 find is that this -- the indicators themselves
12 do allow you to drill into a signal and
13 make --

14 MS. VICKERS: Just pulling the thread
15 all the way through, you know, we would have
16 to have an analyst go through company by
17 company digging into that available data
18 instead of just doing like a screen or a sort
19 meaning being able to manipulate and use the
20 raw data. This is not a criticism. This is a
21 learning enterprise for all of us, so we are
22 just trying to understand what's out there and
23 how we can, based on what's available, craft
24 our policies internally.

25 MS. SOLOVIEVA: Absolutely.

1 Proceedings

2 MR. ADLER: Let me ask this another way.
3 So for example, we have another fund in New
4 York City which Susannah and I sit on that
5 also does emerging markets screening, and
6 there we have a score. So let's just say we
7 use your scoring, and you know, I have no idea
8 what the universe is but let's just say that
9 the scoring is we don't want to invest in
10 companies that score below 30. I am just
11 throwing that out as a number. However, there
12 is a particular set of criteria that are very
13 important to us. Let me just throw out, by
14 way of example, labor.

15 MS. SOLOVIEVA: Yes.

16 MR. ADLER: And so I don't know, you
17 know, the labor, like I don't know how that
18 scoring works, but let's just say we don't
19 want to invest in companies that score below
20 30 or companies that may score above 30 but
21 have terrible labor, right? Is that something
22 we can pull out?

23 MS. SOLOVIEVA: Absolutely. So there
24 you can actually set up a screening report
25 with those specific criteria. So labor --

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

Proceedings

there is different ways you can think about it and our client advisors can help you pick what part of the research you want to add as an additional signal. So therefore, in labor rights do they have controversies in terms of maybe severe suits with their employees or maybe there are certain other labor rights in terms of policies that don't allow for freedom of association, for example, so there is all those different elements that you can look for and screen based on your value.

MS. VICKERS: But we couldn't say -- we could say we don't want to invest with someone who is below 30, but we couldn't say we don't want to invest with someone who was convicted of a labor violation in the past four months.

MR. ADLER: I think she is saying that we could. If that's one of their things. Everyone below 30 plus everyone who was convicted of a labor wage.

MS. VICKERS: But if convicted of a labor wage isn't one of their signals --

MR. ADLER: I think she is saying --

MS. VICKERS: This was the same question

1 Proceedings

2 that I asked on the board diversity.

3 MR. ADLER: We have to look at what
4 their list of labor --

5 MS. SOLOVIEVA: What the factors are.
6 So as I mentioned there are 60 to 80
7 indicators that we measure so they will fall
8 across the social, environmental, and
9 governance buckets. So something like labor
10 issues, that is something that's commonly
11 screened out by pension funds, and we know
12 that and what they use is any controversy that
13 is a 4 or 5 on the labor risk. We provide a
14 level of transparency that the first signal
15 you would screen out any 4s or 5s and then on
16 the 4s and 5s, if there is one thing tht's
17 important to you, if they actually have these
18 lawsuits in the past four months, you can look
19 at only those 4s and 5s to see if the issue
20 was around lawsuits or if it's another issue
21 and then make a determination there. So that
22 level of transparency would be there, but it
23 would require additional evaluation at that
24 point once you have made the first original
25 screen on labor issues.

1 Proceedings

2 MR. ADLER: So it's really a question of
3 what those labor -- among the 60 to 80, what
4 is a labor --

5 MS. VICKERS: And what we want to look
6 at.

7 MR. KAZANSKY: You just have to see what
8 they are looking for and what we are looking
9 for align.

10 MS. SOLOVIEVA: Exactly, yes, and we can
11 also help kind of have that discussion in
12 terms of you can say this is what we are
13 looking for and then we can look at our
14 research and say this is where it aligns, this
15 is where it doesn't, but this is where there
16 is a gap.

17 MR. ADLER: Or we can do the thing Anya
18 was just talking about where we can say okay,
19 anyone below 30 plus anybody who is a 4 or 5
20 on labor controversy stuff. Something like
21 that. That would be another option.

22 MS. SOLOVIEVA: And you could have
23 multiple signals in that. So I know, for
24 example, human rights supply chain issues was
25 a big one for pension funds, and our research

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

Proceedings

is so granular that, for example, Berkshire Hathaway is flagged because one of their affiliates bought tennis balls from a firm that utilized child labor. So it's -- of course, at the Berkshire Hathaway level it's not a huge controversy because they didn't necessarily have the control, but it's something that we feel that's important for investors to at least have the transparency of. We also will then -- once that issue was resolved, we actually do provide a summary of that saying that this is the issue. However, that affiliate terminated their contract with that company, but we still need you to be aware that this did happen in case that is something that's important to you. So that level of transparency is available. Does that answer the question? Super. Of course --

MS. VICKERS: Sorry to interrupt.

MS. SOLOVIEVA: No, no, please. I want to be able to answer these types of questions for you. So maybe just the other thing that we didn't touch on so as the issue ratings, so we are looking at policy and programs. We

1 Proceedings

2 will look at a series of disclosure
3 indicators. I think they do have the least
4 impact on the issue of scoring that we look
5 at. Do they disclose their carbon emissions
6 to the CDP, things like that, and then of
7 course, performance is, of course, the most
8 important piece of the puzzle, and there we
9 look at quantitative performance metrics. So
10 things such as the number of environmental
11 finds, the number of workplace fatalities,
12 these type of metrics, water and carbon
13 intensity trends, and then our qualitative
14 performance is what we call our controversy
15 assessments which I spoke to. There are ten
16 overarching controversy indicators that then
17 have subcategories as well. So subtagging.

18 So I think maybe just in the interest of
19 time, I will speak -- maybe just briefly speak
20 to some of the developments we are seeing in
21 emerging markets which has helped increase
22 transparency of the amount of information that
23 companies are disclosing. I think the two
24 examples I provided were China and India, but
25 I think there are a number of companies around

1 Proceedings

2 the world that are taking regulatory steps
3 particularly on environmental, social, and
4 governance issues.

5 Then the other development from
6 Sustainalytics perspective which has allowed
7 us to come up with a comparable ESG score to
8 companies in developed markets taking into
9 account there is oftentimes limited
10 transparency for many companies in emerging
11 markets, and there what we have done is our
12 research team essentially uses a regression
13 analysis and a number of different studies to
14 come up with the 30 key metrics that have the
15 greatest impact on the overall ESG score. So
16 for those companies of limited transparency,
17 we will measure the 30 key metrics. So
18 therefore, the ESG score that you will come up
19 with is fully comparable because the key there
20 is if we measured to 60 to 80 metrics, there
21 would be a lot of zeros across the board. So
22 therefore the scoring that would come up
23 wouldn't be a very useful signal. So that's
24 definitely helped increase our coverage of
25 companies in emerging markets, and I think

1 Proceedings

2 also important to note from a controversy
3 perspective the evaluation and the rigor
4 that's included is to the same level no matter
5 if it's a company in developed or emerging
6 markets.

7 MS. PELLISH: So the Sustainalytics has
8 been in business for 25 years, and it occurs
9 to me that the level of transparency and
10 information that's been available has been on
11 a pretty steep climb. What did this look like
12 ten years ago?

13 MS. SOLOVIEVA: So there wasn't coverage
14 of emerging market companies. I think that's
15 the reality.

16 MR. ADLER: When did you start doing
17 emerging markets?

18 MS. SOLOVIEVA: So large cap we have had
19 for a number of years, so I probably say some
20 -- at least seven years. For some of the
21 smaller companies, it would really be since
22 2015 so really three years of history since we
23 have developed this methodology.

24 MR. ADLER: All right. Sorry. Just one
25 other question on your process. You mentioned

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

Proceedings

that you use machine learning to screen 50,000 news sources globally and then the machine learning spits out articles and you have people who read the articles to do assessments.

MS. SOLOVIEVA: Correct. So they will read each individual tagged incident and evaluate it looking at the sustainability impact and business risk. So that's first on a scale of 1 to 10 and then incidents related to the same event are then rolled up and they are actually provided -- given to the company analysts and he or she is the one that provides the company score which is 1 to 5.

MR. ADLER: So each of these 11,000 companies have an analyst cover in the company?

MS. SOLOVIEVA: Yes.

MR. ADLER: In emerging markets, how many companies on average does an analyst cover? Do you know?

MS. SOLOVIEVA: I will actually need to get back to you in terms of emerging markets specifically. In terms of just general

1 Proceedings

2 to get approval to sign their score, and I
3 will note they meet every two weeks. Not
4 everything gets approved. So there is very
5 strict criteria and also companies that will
6 fall out of that so maybe companies have
7 improved and maybe the analyst says we are
8 going to drop them down to a 3, they also have
9 to defend that.

10 MS. VICKERS: That's going to be one of
11 my other questions just about the timeliness
12 of your data. So is it sort of continuous if
13 we are running reports and taking a look at
14 this annually? How fresh is the data that we
15 are looking at?

16 MS. SOLOVIEVA: That's a great question
17 and thank you for bringing it up. So the full
18 company reports are evaluated on an annual
19 basis, the policies and management systems.
20 However, the controversies are captured on a
21 daily basis and are evaluated continuously.
22 They are updated in the reports every two
23 weeks, and part of that reason is because we
24 want to ensure the analysts have all the
25 information when they are actually coming up

1 Proceedings
2 with the controversy score. However, in the
3 cases of black swan events: Equifax,
4 Facebook, et cetera, in those cases we will
5 make every effort to provide guidance within
6 48 hours and update the reports, and in those
7 situations, in addition to the full assessment
8 that the analysts provide kind of as part of
9 the standard reports, they will issue
10 additional guidance speaking to the
11 environmental and social and governance risks
12 in particular.

13 MS. VICKERS: When something happens and
14 you change the reports, do we get a
15 notification?

16 MS. SOLOVIEVA: So our online system
17 does have the ability to upload a portfolio
18 and set bi-weekly alerts on controversies, so
19 if there are any controversies you will get an
20 alert. And you can set it on a portfolio or
21 investable universe or up to you, and then in
22 the black swan events, the additional guidance
23 will actually go to all of our clients.

24 And so then very conscious of your time,
25 so I just want to make sure that the other

1 Proceedings

2 just aspect that I just wanted to cover was
3 ESG integration in emerging markets, and I
4 think we spoke to a number of these issues
5 already. So the first signal in terms of ESG
6 score percentile, so maybe any time a company
7 is below the 50 percentile for its industry
8 group that will automatically set a flag for
9 additional due diligence in terms of what are
10 those issues associated with the company, and
11 then of course, we discussed the controversy
12 exposure. I think in particular there has
13 been a number of studies done by some of our
14 clients that have shown that excluding
15 companies with extreme controversial behavior
16 can actually help improve the terms of the
17 portfolio and I think in emerging markets in
18 particular it's a very useful signal.

19 And then the other potential tool you
20 can utilize is the UN global compact
21 compliance, so there it's updated on a
22 quarterly basis. We have a dedicated research
23 team that evaluates companies looking at their
24 compliance with the UN global compact
25 principles and those principles are on human

1 Proceedings

2 rights and labor, et cetera, and so I think
3 any time a company is maybe on a watchlist or
4 noncompliant, that can be an additional screen
5 you can use.

6 And then the last case study that I
7 could outline here was a large Canadian
8 pension plan, and here I just wanted to just
9 highlight two things. So one, in terms of the
10 quantitative and fundamental analysis is done
11 exactly the same way as developed markets, so
12 they do look at controversies and the overall
13 ESG scores and flag companies for additional
14 due diligence, but then also that in 2009,
15 they started engagement activities and from
16 the feedback that they provided, some of those
17 have been quite successful. And particularly
18 they focus on companies in China from a real
19 estate perspective so really ensuring that
20 they are flagging environmental and social
21 considerations when actually building new
22 buildings. And then also one of the things
23 that they note that has been successful and
24 has helped them feel comfortable investing in
25 emerging markets is participating in

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

Proceedings

organizations such as the Asian Corporate Governance Association. So really there they are provided with additional research that's helping them inform their voting decisions, particularly in China.

I think that's kind of the main things that I wanted to highlight today. And maybe just an important point of differentiator between us and some of our other providers is the level of transparency but then also the depth of the controversy assessment. I think from what we see in the market, we are the only ones that go to the depth that we do in that respect to really provide you with the most up-to-date timely information and to help you set up the screens in order to ensure that your investments align with your values or your investment considerations.

MR. ADLER: I have a question.

MS. SOLOVIEVA: Sure.

MR. ADLER: So you have this 1 to 100 rating, so presumably, you know, the lowest scored companies are the ones that, you know, you assess at the highest ESG risk and then

1 Proceedings

2 future issues to come.

3 MR. ADLER: I have a question. Do you
4 have just a fixed pricing? In other words,
5 you subscribe or whatever one price. I mean,
6 assuming you just do the ESG service, not the
7 corporate governance service -- you talked
8 about the corporate governance service. I am
9 not sure I can ask what the price is. That
10 might not be permissible but I am curious in
11 terms of the structured price.

12 MS. SOLOVIEVA: So the way we determine
13 price is based on the research universe
14 primarily, so are you just looking at US
15 companies, emerging markets, developed,
16 whatever, and then we are looking at the
17 access point. I think for your purposes it's
18 probably our online portal which actually
19 allows you to build reports on certain
20 criteria and screen and also has all the
21 qualitative information and then we are
22 looking at the use case, so for asset owners
23 such as yourselves, it's a lower price point
24 than for an asset manager, for example,
25 because really your purpose is to monitor your

1 Proceedings

2 portfolios, right?

3 MR. ADLER: Yes.

4 MS. SOLOVIEVA: For the most part. So
5 that's really kind of what determines the
6 price.

7 MR. ADLER: Okay.

8 MS. SOLOVIEVA: And we also do have the
9 ability to split out the ESG and just provide
10 you with controversy screening as well if that
11 was something that was of interest and at a
12 significantly lower price point.

13 MR. ADLER: So that then you just get
14 the controversy thing, not the whole ESG?

15 MS. SOLOVIEVA: Correct.

16 MR. ADLER: Got it.

17 MS. SOLOVIEVA: But I know sometimes
18 that's a good starting point. Any other
19 questions?

20 MR. RICH: Can I ask do you have an
21 analysis as to how your algorithm has changed
22 over time, and then also is there a lot of in
23 the database as you look at this -- at the
24 distribution of all these companies you
25 follow, is there a significant shifting within

1 Proceedings

2 call it cohorts, you know, the at-risk
3 cohorts, the bad cohorts, good cohorts, is
4 there any significant shifting over time?

5 MS. SOLOVIEVA: So that's also a really
6 good question. I think what you are asking
7 about is how potentially our methodology has
8 changed over time in terms of the indicators
9 we are measuring. Was that your question? So
10 I think for the most part we try to keep --
11 the methodology has for the most part been
12 consistent in terms of the large theoretical
13 framework. However, there are certain cases
14 where we have added or subtracted indicators
15 based on reality and what our clients find to
16 be important. So for example, we previously
17 had an indicator that indicated the
18 philanthropic activities of companies. That
19 no longer is included because that's no longer
20 relevant. An indicator we have added is
21 looking at companies, Pamlo policies because
22 that's only come to light about seven years
23 ago where that became important to evaluate so
24 we added that indicator.

25 So we do have historical data going back

1 Proceedings

2 to 2009. We have increased coverage every
3 year so we don't backfill history, but we do
4 have general trends and we do have and can
5 provide you some examples of trends maybe.
6 For example, we just published a log looking
7 at Chinese companies, one where they have
8 improved in their environmental scores but
9 they haven't done so well in governance scores
10 in terms of improvements, so that's something
11 that we have been able to show and look at.
12 So we have done a number of those studies
13 across the board.

14 MR. RICH: But you can specifically say
15 in this cohort which you consider unacceptable
16 currently there is some probability they can
17 be acceptable over time based on history?

18 MS. SOLOVIEVA: Exactly. You can look
19 at that in the history absolutely and we do --
20 asset managers before they become clients,
21 they will take our historical data sets and do
22 back-testing on different elements and that's
23 available to the indicator level.

24 MR. ADLER: Other questions? Great.

25 Thank you very much --

1 Proceedings

2 MS. SOLOVIEVA: Absolutely.

3 MR. ADLER: -- for your interesting
4 presentation.

5 MS. SOLOVIEVA: Absolutely and if there
6 are any follow-up questions, I am happy to
7 answer those.

8 MR. ADLER: Thanks.

9 Okay. So discussion?

10 MS. PELLISH: Of course.

11 MR. ADLER: Anybody want to make any
12 comments?

13 MR. RICH: Can I ask a question?

14 MR. ADLER: A really good question.

15 MR. RICH: How would you bake this into
16 a money management contract such that it
17 changed over time and the manager couldn't
18 predict where it would go? I mean, I can tell
19 you as a money manager who negotiated these
20 things, we wouldn't manage money for someone
21 like that because you couldn't tell where it
22 would go.

23 MS. PELLISH: I am not sure I follow the
24 question.

25 MR. RICH: You have uncertain criteria

1 Proceedings

2 which varies over time which cannot explicitly
3 be predicted because the algorithm changes
4 over time and is driven in some part by call
5 it an individual's interpretation of existing
6 facts which can also change over time, and
7 then how do you put it in the contract?

8 MR. ADLER: The way I would put is look,
9 you are going to have a universe of companies
10 that you would exclude, right, and that
11 universe could change every so often. Could
12 change every year.

13 MS. PELLISH: Are you talking about the
14 money manager's perspective now?

15 MR. RICH: Yes.

16 MS. PELLISH: I don't think money
17 managers use this to make portfolio exclusion
18 or investment decisions. I think it's just a
19 data input. I think that money managers are
20 trying to be more sensitive, and I am not
21 talking about ESG-specific mandates. I am
22 talking about general money managers who are
23 trying to be able to say in a sincere and
24 honest way we are aware of ESG issues. We
25 think we can -- we integrate those into our

1 Proceedings
2 fundamental research process. And they need a
3 source of data for that, and so they use
4 either MSCI or Sustainalytics as a source of
5 data in addition to their own company analysts
6 to just as a data input. So I think it's -- I
7 think it's -- I would be actually sort of --
8 it's interesting you have that sort of
9 reaction because I had the almost the opposite
10 reaction that this is such a nascent
11 art/science that if their methodology wasn't
12 about evolving, I would be concerned because I
13 think the data sources and the data quality is
14 changing so significantly that they are in a
15 learning mode much as we are too so I think
16 differently.

17 MR. RICH: I am not questioning whether
18 a money manager can use this tool. I would
19 ask the question is the Canadian example, is
20 that someone who actually manages money --

21 MS. VICKERS: Sandy, is your point more
22 that the pension funds would be disadvantaged
23 in hiring and dealing with managers if the
24 managers had reservations about having these
25 standards that might change over time? And if

1 Proceedings

2 I could just say I think that you know, we are
3 currently dealing with that. Different funds
4 have different standards and different
5 limitations that the money managers have to
6 adhere to, and you know, we have currently
7 heard from some of them that they are having,
8 you know, questions about getting our business
9 basically because of the exclusions. So I
10 think Sandy's point is well-taken and the
11 board has to decide what is more important.
12 You know, our values and our belief that these
13 represent risks that we don't want to have to
14 deal with, or you know, hearing from money
15 managers that they want to be able to do
16 things free reign without different
17 limitations.

18 MS. PELLISH: And to add to that, I did
19 not envision that we would use this data or
20 MSCI data to create rules for money managers.
21 Rather, it would be a tool. So this is one
22 way to approach it. This would be a tool to
23 periodically look at our portfolio and say is
24 there anything that we should be talking with
25 the money managers about? Is there anything

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

Proceedings

that was so extreme in its score or level of controversy that we should be considering excluding, and I think that would be sort of a tail of it, right, and I think it's a way of migrating from a policy now where we exclude almost a third of the emerging markets benchmark to a policy where the board, rather than just saying we are okay with anything to say we are going to periodically -- we are going to have a methodology for reviewing and evaluating our portfolio just to make sure we have a level of comfort that there isn't anything in that portfolio that conflicts significantly with our priorities.

MS. VICKERS: I had thought we would use a sort of -- you know, a little bit higher level to kind of look at the universe, look at the potentialities with regard to the portfolio and set some sort of bottom line standard. So now our standard is there are certain countries we can't invest in and now we are trying to look at it perhaps from a company level, but there could be certain standards at a company level like basic ESG

1

Proceedings

2

standards we will not want our managers to

3

invest in companies that flagrantly ruin the

4

environment. We just don't. And maybe we

5

would hope that the people we choose to invest

6

our money wouldn't want to invest with those

7

companies either, but I think as a reflection

8

of the board's values, we might want to

9

explicitly state basic things and not too

10

detailed.

11

MS. PELLISH: Yes. So short answer is

12

yes, absolutely. The question is how do you

13

implement that. So one way you could

14

implement that is to have a set of explicitly

15

stated investment beliefs. We don't think

16

that -- we think there are externalities and

17

costs to being a significant pollutor to

18

violating, you know, sustainability and

19

environmental standards and we don't -- we

20

wish to not be invested in those kind of

21

companies and then you communicate those to

22

your managers, make certain that those are

23

standards that they also believe in, and then

24

periodically evaluate the portfolio to make

25

sure that there are no outliers with respect

1 Proceedings

2 to those beliefs. That's one way to do it.

3 The other way to do it is say here is a
4 score. Don't invest anything below that
5 score. That's a little more rigid and that
6 gets to the score is a number and do you
7 really want to use a single number to guide
8 decisions?

9 MS. VICKERS: Yes. I think we have to
10 keep -- I am not advocating one or the other,
11 but I know it's complicated. We have to
12 figure it out because we don't want to say,
13 you know, only if you have over 50 percent of
14 the numbers. Then that's limiting things.
15 How can we be a little bit more nuanced?

16 MR. KAZANSKY: Earlier we were talking
17 about MSCI data and so I guess my question at
18 this point is is the data that BAM gets now --
19 and you won't have this information here but
20 it's just for me to say out loud. I think
21 it's not only about whether or not do we have
22 the data, but does BAM have the staff to
23 analyze it the way Sustainalytics is analyzing
24 it because the data may be exactly the same
25 and we may not have the staff at BAM to make

1 Proceedings

2 sense of it and reiterate it in a way to us.

3 MS. VICKERS: That's my sense as well.
4 When we think about implementation and we
5 think about, you know, what kind of
6 information does the board want to receive,
7 and if it is going, you know, to a package
8 report like this, that's not something that,
9 you know, BAM is currently set up to do using
10 MSCI data. So you know, first as we discuss
11 what we want, then we can figure out who the
12 different options are, and I don't know if you
13 want to bring MSCI in to talk about, we can --
14 BAM staff here, what they can do that's
15 similar to this because it's probably not the
16 product that BAM has or maybe it's an add-on
17 to the product. I think there was a per
18 search cost that MSCI has, so if we wanted a
19 report like this they can do it but it's an
20 upscale of price.

21 MR. ADLER: I think we do get the ESG
22 scoring. She made a big point about
23 transparency being provided, so maybe we get
24 the scoring but we maybe don't get the same
25 degree of transparency from MSCI but I think

1 Proceedings

2 that's worth exploring and I also remember
3 that we have a manager in this year -- I
4 believe it was this year who used -- did ESG
5 assessments themselves and used the MSCI data
6 to do that assessment. So it's sort of using
7 the MSCI data to do their own version of this
8 thing. They showed us their whole ESG risk
9 assessment thing.

10 MS. VICKERS: But I think David's point
11 is someone has to do that.

12 MR. ADLER: No, I understand and truth
13 be told, we are again just throwing out ideas,
14 my guess is if we do get the data from MSCI,
15 it would be cheaper. It might not be as
16 effective for us to hire or for BAM to hire an
17 analyst to use that data to create what we
18 want as opposed to hiring a whole company to
19 do it. Again, we might not get enough, but
20 might be something worth its while depending
21 on what we do get from MSCI.

22 MR. KAZANSKY: It sounds to me that
23 might be something we have to build from
24 scratch.

25 MR. ADLER: Potentially but maybe MSCI

1 Proceedings

2 provides enough that you don't have to -- I
3 think it's worth exploring. I don't know.

4 MS. PELLISH: So one idea to follow up
5 on this is because, you know, the permutations
6 are endless because we are creating a little
7 bit different than what's existed that my
8 suggestion would be that Rocaton, in
9 collaboration with BAM and TRS staff, try to
10 think about what do we really want to get and
11 sit down. And the good news is there is
12 really only two people. You have to talk to
13 Sustainalytics and MSCI and say this is where
14 we think we are going. Tell us what you can
15 do for us about how much it would cost just to
16 get orders of magnitude and incorporate the
17 existing relationship so that we get a sense
18 of what is the incremental cost of doing that.

19 MR. ADLER: Right. I completely concur.
20 I think that makes a lot of sense. I also
21 think -- this is the thing I am struggling
22 with right here is that when we initially had
23 this discussion and we said maybe what we
24 should do is like right now we exclude these
25 entire markets. And that I know maybe the

1 Proceedings

2 time has come to revisit that because there
3 may be companies in those markets that are
4 actually very good, right? And there may be
5 other companies that are not so good. So what
6 we talked about is shifting from a
7 country-based screen to a company-based
8 screen. Now this -- the direction that this
9 discussion is taking is not a -- and I am not
10 sure -- I don't know what I believe. I just
11 want to point this out. It's evolving from a
12 discussion about a country-based screen to a
13 company scoring thing but not necessarily a
14 screening thing. You know what I mean?

15 So I think there is a question about
16 whether right now we give direction for EM
17 managers that says don't invest in these
18 countries or like the way I imagined it, but I
19 couldn't really imagine it to be honest. I
20 had trouble with it to tell these companies,
21 excuse me, managers, telling the managers,
22 okay, here are this set of companies that we
23 are excluding from our portfolio because they
24 are, you know, outliers as far as ESG and we
25 don't want -- we don't want our assets -- we

1 Proceedings

2 believe it's too risky to invest our assets.
3 But what we may feel like -- first of all,
4 that would -- that list of companies is going
5 to change from time to time, and it's very
6 hard to say to a company manager oh, this year
7 you can invest in XYZ but a year from now oh,
8 XYZ has dropped, we don't want you to invest.

9 MS. VICKERS: Can I interrupt for just
10 one second? Because I think this is what my
11 question led Robin to try to tease out. That
12 there are every different ways of using that.

13 MR. ADLER: I understand that.

14 MS. VICKERS: Because Sandy's question
15 was will managers want to work for us if we
16 say you can't invest in these companies and
17 this list is going to change. Maybe it's
18 going to change in two weeks. Maybe it will
19 change in a year. But what Robin described --
20 I don't know if she wants to say it again.

21 MS. PELLISH: Always happy to repeat
22 myself. So that's right. So I think what we
23 are moving away from is this screening
24 concept. Not only -- I think it's consistent
25 with the discussion we have had about the

1 Proceedings
2 investment policy which is we want to focus
3 more on engagement and rather than divestment
4 and so this gives us the opportunity to again
5 espouse these principles to our managers m,ake
6 sure they understand it. Monitor the
7 portfolios, make sure the portfolios are
8 consistent with thse principles and where they
9 are not to evaluate those specific instances
10 to see if engagement is possible. If
11 engagement is not possible, is divestment the
12 right move. So this is not abandoning the
13 board's prerogative to exclude companies at
14 all. It's just saying we are not going to do
15 it ex ante.

16 MR. KAZANSKY: And the old screen that
17 we or at least the one that I saw that NYCERS
18 has, that was based on scoring as well?

19 MR. ADLER: Annual scoring and in fact,
20 those do change.

21 MR. KAZANSKY: So the scoring has to
22 factor into it so that you know who to cut off
23 and where, and I think my question would be I
24 understand that companies may move up and down
25 off that list or their score may change. My

1 Proceedings

2 assumption is that a company isn't going to go
3 from a 25 to an 85 in the span of a year or
4 two, right?

5 MR. ADLER: Unless some controversy
6 evolves.

7 MR. KAZANSKY: Unless some major
8 controversy happens in which case we should
9 know about that and get the hell out of there
10 while we still can. So what I am looking at
11 is if we have some sort of belief system where
12 we say this is around the cut-off point where
13 we are going to get concerned about a
14 particular investment or particular company,
15 if a money manager is looking into making
16 investments in a specific company and that
17 company is hovering around that area, chances
18 are they are either going to steer clear of it
19 because it can dip below or they going to at
20 least go into it with open eyes and say we
21 think this company is on the uptick and is not
22 going to dip down. So it's going to provide
23 those managers with a way of knowing where we
24 are and what companies they should be really
25 looking at, or you know, this company has been

1 Proceedings

2 on a downslide for a few years now and any day
3 or any week it's going to dip below where TRS
4 is comfortable with. We need to stay away
5 from it. So I think it's very instructive for
6 the money managers, you know, if they are
7 utilizing the tool and we are utilizing it
8 correctly.

9 MS. PENNY: And that was the purpose. I
10 think that's why we started this. Rather than
11 companies that we stay away from and that's
12 it. We wanted to look at companies and we
13 wanted to score them and we wanted to see, as
14 Robin said, how we can engage with them, and
15 so I think that's kind of good that it's fluid
16 that you know what, we have our money with
17 you, and now you are doing something that's
18 not right. So let's see how we can change
19 that around.

20 MS. VICKERS: I think that was my
21 initial thinking too, and I just want to
22 mention the excluded company list that, you
23 know, is being developed through the different
24 divestment policies, so you know, we kind of
25 have a list of companies that, you know, MSCI

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

Proceedings

data tells us either are not compliant with some of the board prerogatives but I think it's interesting to think about instead of just having this hard and fast list of that. So I don't know if I am contradicting myself is just that, you know, as we are doing this, we are also talking about -- talked about starting a process for beliefs -- a beliefs statement.

MR. ADLER: We have not started that here. We have had a broad discussion but we haven't done it concretely.

MR. KAZANSKY: We believe in belief statements.

MS. VICKERS: That, you know, sort of starting with those big concepts and making sure that they are telegraphed at every level of what we do, a tool like this could be very useful in helping us kind of monitor as opposed to just having this kind of list that's based on, you know, like a number or things come up and come down, and then we -- you know, so I don't know which I prefer. I think we have to, if this is an implementation

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

Proceedings

issue that we have to keep talking about and -- but I think it's cool that, you know, the available resources out there are going to allow us to be more thoughtful and ultimately I think it will be much more beneficial to the portfolio and to all of our beneficiaries that we are able to have a more nuanced view while at the same time really addressing the inherent risks that are out there when you invest in individual companies.

MS. PENNY: And easier for us to make thoughtful decisions rather than no, you know, we don't invest in this company or we don't invest in this company. This is why. Talking about beliefs statements, this is what we feel. And that list that you are referring to, is there movement on that list?

MR. ADLER: NYCERS?

MS. VICKERS: No. It's for everybody. The list that I referred to is the excluded company list and that comes from any divestment actions that the board has taken. So TRS has, you know, an excluded company list based on the divestment and so our clients

1 Proceedings

2 unit monitors your portfolio to make sure a
3 manager doesn't inadvertently buy a spinoff of
4 some company that changed its name, and all of
5 a sudden it's firearms or tobacco or whatever.

6 MR. ADLER: Just one other point or at
7 least I just wanted to make one other point
8 which is this could also be a hybrid. So
9 there may be a country or more than one
10 country that we still think we shouldn't be
11 investing in. So just by way of example, not
12 to say that this is the country per se, but we
13 might decide that Russia under the current
14 regime is just beyond the pale so to speak.
15 So inside joke there. So given the nature of
16 the regime in Russia, we might decide -- and
17 it could be borne out by the scoring by the
18 way that we really don't have confidence or
19 believe that Russia is worth the risk of
20 investing. It could be some other country too
21 or may not be Russia. I am just saying that
22 as an example but we could still say Russia,
23 we still don't want to invest. We want to
24 exclude that but then other companies do.

25 MS. VICKERS: I am picturing somebody

1 Proceedings

2 watching and your e-mails all of a sudden
3 being hacked.

4 MR. ADLER: That might be exhibit A
5 right there.

6 MR. BROWN: You might have come up with
7 some type of criteria not to come up with a
8 particular country.

9 MR. ADLER: We can do that. As
10 trustees, I am saying we can do that if we
11 decide to.

12 MS. PELLISH: I think you are saying
13 changing the process doesn't eliminate any
14 prerogatives to give anything going forward,
15 but to that point, although you may not
16 anticipate and this whole movement is to get
17 away from excluding entire markets, bringing
18 in someone annually to talk about countries
19 and markets, might -- I think actually would
20 be valuable because it would give the board
21 some comfort there isn't any broad market
22 level issue or set of issues that should lead
23 them to consider excluding a particular
24 market.

25 MR. ADLER: Right or should. So for

1 Proceedings
2 example, just to give another example, you
3 know, Egypt underwent tremendous political
4 change in, you know, during the Arab Spring
5 and then subsequent to the Arab Spring, and so
6 if you have tremendous change in the economics
7 or politics of a company, you might then
8 decide oh, this is a country that we
9 previously excluded that we want to invest in
10 and/or vice versa. And that could be true of
11 a company too by the way. Companies undergo
12 dramatic change. So there still may be,
13 especially on a country level, I think grounds
14 for evaluating either exclusion or inclusion
15 based on events that go on with that company.
16 That's all I am saying.

17 MR. BROWN: We would be able to get
18 briefed by whichever company we choose since
19 it's an ongoing process.

20 MR. ADLER: Not the company.

21 MS. VICKERS: He means the analyst.

22 MS. PELLISH: Yes. We would have a
23 variety of sources.

24 MR. BROWN: Come in and recommend to us
25 one of these companies and that's it. It's an

1 Proceedings

2 ongoing process.

3 MS. PELLISH: Absolutely.

4 MR. BROWN: Because everything is
5 changing so dramatically.

6 MR. ADLER: I think you made a very good
7 point, Robin, about how there is this very
8 steep curve where information is becoming more
9 and more available and there is more and more
10 disclosure going on. You know, the fact that
11 this product has only existed since 2015.

12 MS. PELLISH: And the last thing that I
13 would like to say, I am happy to respond to
14 questions that this data -- I have some
15 reservations about applying a specific score
16 threshold because this data, while much better
17 than the data of three years ago, still has a
18 lot of holes and I have occasionally sat at
19 corporate board or committee meetings where
20 they are talking about their ESG scores and
21 complaining bitterly because they think the
22 data is inaccurate and includes zeros because
23 the data -- they just didn't bother gathering
24 the data. So there is still a lot of
25 imperfection in the process. So great. So we

1 Proceedings

2 will proceed.

3 MR. ORLANDO: I have a question.

4 MR. ADLER: Mr. Orlando.

5 MR. ORLANDO: I feel like I have to say
6 that because Mr. Adler always prefaces
7 everything he says with "I have a question".

8 MR. ADLER: Who are you?

9 MR. ORLANDO: Who am I? So building off
10 that point, I found the sort of forecast
11 nature of some of the scoring to be
12 terrifying. I am not sure how much
13 transparency there is on that predictive
14 progressive regression analysis. Assign a
15 score. Yes, there are 60 to 80 indicators,
16 but it sounds like some folks have 7
17 indicators and 53 forecasts projected. I
18 don't love paying for a model so much myself.
19 So I am not sure. I think we want to know a
20 lot more about what that looks like.

21 MS. PELLISH: How many zeros they are
22 trying to solve for.

23 MR. ORLANDO: Just globally and as a
24 product.

25 MS. PELLISH: Yes.

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

Proceedings

MR. ORLANDO: Historically emerging markets have been largely concentrated, right? There have been a few big companies who make up 50 percent or more of countries' sort of stock market so -- and then there is a bunch of other folks who are along for the ride. I gather that's changing over time. But it does lead me to feel like excluding countries is not the worst idea we have because if there is three or four big companies in an economy or country that are sort of entire wealth of the country or tied up in that, I am not sure that picking among them is any better than excluding them because I imagine any big companies are either all good or all bad depending on the country frankly, and I am not sure how our defining rod is going to be able to determine that you are the brother of the president, you are the sister of the president, your company is the electronics company and your company is the water company, you know, one is better than the other.

So concentration in the markets kind of leads me towards feeling more biased toward

1 Proceedings

2 the country screening than individual company
3 screening, and then I think there is just the
4 800-pound elephant in the room which is where
5 is the bandwidth for this board or the BAM
6 staff or Rocaton or even this nice company to
7 look at hundreds of thousands of companies.

8 MR. ADLER: Not hundreds of thousands.
9 Eleven thousand.

10 MR. RICH: Tens of thousands.

11 MR. ORLANDO: Tens of thousands today.

12 MR. ADLER: They just added 50 people in
13 the past month.

14 MR. ORLANDO: Where? What are they
15 doing? Are they filling in the zeros? I find
16 the investment decisions that we make are
17 largely based on the recommendations of BAM
18 and our consultants, and those tend to be in
19 the broadest IPS categories, buckets. And
20 that individual company decisions are
21 typically made by the folks we hire. The
22 noise that we are sort of reactive to is
23 usually quite loud and quite public. And we
24 do have the ability to act when that occurs,
25 but the infrastructure that we are proposing

1

Proceedings

2

to build to do down the road the work that we

3

are all desiring to do strikes me as expensive

4

and challenging. And I am just not sure where

5

the bandwidth is going to come up from even if

6

all of that infrastructure gets built

7

underneath us, and then what does that look

8

like when it comes to the board for decision

9

making?

10

MS. PELLISH: So just a couple of

11

thoughts in response. So yes, we don't want

12

to build. We want a pragmatic solution that

13

doesn't require a lot of expensive or

14

time-consuming infrastructure, which is why I

15

think using third parties and not hiring

16

people to do it ourselves is probably the

17

right thing to do but we have to examine the

18

cost of that and then the second thing about

19

concentration. Absolutely true. The markets,

20

emerging market, many emerging markets are

21

dominated by largest cap company, but we don't

22

index the emerging markets long term. We are

23

not indexing. I think you may have some

24

interim indexing, index holdings as we hire

25

managers, but the plan is to have only active

1 Proceedings

2 managers in that asset class, and they are
3 building much more diversified portfolios so
4 not normally weighted towards larger cap
5 companies, but let's come back in the fall and
6 take a look at the potential sort of costs
7 before we -- not, you know, just in round
8 numbers. We are not getting bids but just in
9 round numbers and how complex the process is
10 and what kind of additional opportunity it
11 provides the board and the members.

12 MR. ORLANDO: My final thought is just
13 hiring a third party to do this means to some
14 degree that we are relying on the information
15 provided to us by the third party with a
16 relatively opaque view to the operations.

17 MS. PELLISH: Yes.

18 MR. ORLANDO: And that for the board to
19 rely on the third party could create
20 uncomfortable situations from any number of
21 perspectives.

22 MS. VICKERS: I mean, I would just
23 counter -- I mean, it's a point well-taken,
24 but you know, what we are trying to do now is
25 evaluate, you know, the efficacy of the data

1 Proceedings

2 opposed to the broader goals that we all have
3 as a messaging statement.

4 MS. PELLISH: And we can -- we always
5 have the option to continue doing what we are
6 doing. The question is nothing -- to state
7 the obvious, nothing is going to be perfect,
8 but is using this data to get access to the
9 third of the emerging markets that we are
10 currently excluded from a better tool. That's
11 the question. So we will have the opportunity
12 to evaluate that hopefully.

13 MR. KAZANSKY: And if ultimately we have
14 some data from MSCI inhouse, we can certainly
15 cross-check and see if the information we are
16 getting and the information they are providing
17 seemed to be at least trending together or
18 whether or not we are getting disparate
19 results.

20 MS. VICKERS: Yes, I was thinking of
21 that too.

22 MR. ADLER: One more point. Which is
23 that throughout this conversation and others,
24 this idea of developing an investment belief
25 statement has come up, and so I think that we

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

Proceedings

as a board may want to engage in a process to move towards that. It came up in the discussion about climate change. And also it's been coming up in this process so not necessarily for today, but we may want to agendize a discussion about a process for arriving at an investment beliefs statement.

MR. KAZANSKY: That makes sense.

MR. ADLER: Okay. Anything else on this item?

Let me just say, Robin, thank you for, you know, engaging in this process so far and it should continue to move forward and I thought that was a really interesting presentation.

MS. PELLISH: Thank you. I think that's it for the public agenda.

MR. ADLER: Okay. So unless anybody has anything to bring to the public agenda, I think a motion would be in order to move into executive session.

MS. PENNY: I move pursuant to Public Officers Law Section 105 to go into executive session for discussions on specific investment

1 Proceedings

2 matters.

3 MR. ADLER: Okay. Thank you for that
4 motion. Is there a second?

5 MR. KAZANSKY: Second.

6 MR. ADLER: Thank you. Any discussion?
7 All in favor of the motion to enter executive
8 session, please say aye. Aye.

9 MR. ORLANDO: Aye.

10 MR. KAZANSKY. Aye.

11 MS. VICKERS. Aye.

12 MR. BROWN. Aye.

13 MS. PENNY: Aye.

14 MR. ADLER: All opposed, please say nay.
15 Any abstentions? Motion carries.

16 Unless there are objections, let's go
17 move right into executive session.

18 (Whereupon, the meeting went into Executive Session.)

19 MR. ADLER: We are back in public session.
20 Susan, will you report out of executive session?

21 MS. STANG: In executive session, one
22 manager update was presented. One update on a
23 service provider was presented and a list of
24 contract renewals within variable A was
25 discussed.

1 Proceedings

2 MR. ADLER: Thank you. Before we accept
3 a motion for adjournment, I just want to
4 inform the board that Antonio Rodriguez who is
5 a member of the Mayor's Office of Pensions and
6 Investments' designated trustee here is
7 leaving our office and moving to the Board of
8 Education Retirement System. So this will be
9 his last investment meeting at TRS. I think
10 we all know that Antonio has been an
11 incredibly valuable member of our team and I
12 think with his analysis of the investment
13 meetings each month has provided huge services
14 to the trustees and we are going to miss him
15 enormously, but it's good to know that he will
16 still be serving the City of New York at BERS.
17 So just wanted to thank Antonio.

18 (Applause.)

19 MR. KAZANSKY: You are still going to do
20 the reports, right?

21 MR. ADLER: We will have to find someone
22 else to do the reports, a major task. Okay.
23 So with that, a motion to adjourn would be in
24 order.

25 MR. ORLANDO: So moved.

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

Proceedings

MR. ADLER: Is there a second?

MR. BROWN: Second.

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

MR. ORLANDO: Aye.

MR. KAZANSKY. Aye.

MS. VICKERS. Aye.

MR. BROWN. Aye.

MS. PENNY: Aye.

MR. ADLER: All opposed, please say nay. Any abstentions? Meeting is adjourned.

(Time noted: 12:13 p.m.)

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

Proceedings

C E R T I F I C A T E

STATE OF NEW YORK)

: ss.

COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public
within and for the State of New York, do
hereby certify that the foregoing record of
proceedings is a full and correct
transcript of the stenographic notes taken
by me therein.

IN WITNESS WHEREOF, I have hereunto
set my hand this 18th day of June, 2018.

YAFFA KAPLAN