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TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT MEETING

September 5, 2024
9:59 a.m.

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

William Montague
Digital Reporter
Notary Commission No. 01MO0009174

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APPEARANCES:

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THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
BRYAN BERGE, MAYOR'S OFFICE, TRUSTEE
ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE
JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE
DAVID KAZANSKY, TRUSTEE
VICTORIA LEE, TRUSTEE
ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES, TRUSTEE
NADIA FAZHULINA, TRUSTEE
CHRISTINA MCGRATH, TRUSTEE

Also Present:
VALERIE BUDZIK, TRS
LIZ SANCHEZ, TRS
PRISCILLA BAILEY, TRS
ARISTEA AFTOUSMIS, TRS
LOREN PERRY, TRS
RON SWINGLE, TRS
ISAAC GLOVINSKY, TRS
KOMIL ATAEV, TRS
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STEVE MEIER, BUREAU OF ASSET MANAGEMENT
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JOHN MERSEBURG, BUREAU OF ASSET MANAGEMENT
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SEAN BARBER, HAMILTON LANE
GINA TARANTINO, GOLDMAN SACHS
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YING LIN, STEPSTONE
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JONATHAN SOKOLOFF, LEONARD GREEN & PARTNERS
ANNA SCHNEIDER, LEONARD GREEN & PARTNERS
DAVID FOX, LEONARD GREEN & PARTNERS
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MARYANNE HANCOCK, TPG
BRUNO MOGUEL, TPG
JIMMY CALLINAN, TPG
ALFREDO CROOKS, PEI MEDIA

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(The proceedings commenced at 9:59 a.m.)

MS. REILLY: Good morning. Welcome to the special -- well, I think just the Investment Meeting of the Teachers' Retirement Board, September 5th, 2024.

I'll start by calling the roll.

Bryan Berge?

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

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Here. Good morning, Patricia.

MS. REILLY: Good morning.

I don't know who -- Karine Apollon?

Gregory Faulkner?

Anthony Giordano?

And Manny Tavares?

Alison Hirsh?

MS. HIRSH: Present on behalf of Comptroller Brad Lander.

I may have to step out if we go late this afternoon, and in which case John Dorsa will replace me.

MS. REILLY: Thank you.

Victoria Lee?

MS. LEE: Present.

MS. REILLY: Christina McGrath?

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MS. MCGRATH: Good morning. Present.

MS. REILLY: Good morning.

We have a quorum. I'll turn it over to the Chair.

CHAIRMAN BROWN: Great. Good morning, everybody. Welcome back. Hope everyone had a good summer. Great to see everybody. Welcome.

So we'll start our meeting, our public agenda with the Market Outlook Presentation.

And Mike Fulvio, do you want to present the speaker, David Kelly?

MR. FULVIO: Yeah, I'll turn it over to our friends from J.P. Morgan, Blake Johnson and Dr. Kelly.

Blake, did you want to kick it off?

MS. JOHNSON: Yeah, I'll just do quick introductions, Mike, thank you so much.

Blake Johnson. Wonderful to meet you all. I work with the Bureau of Asset Management on a day-to-day basis to lend J.P. Morgan's support and resources to the Teachers' Retirement System and its fellow pension funds here in the city.

I am pleased this morning to be joined by Dr. David Kelly, J.P. Morgan's Chief Market Strategist. In the spirit of TRS, I will say that Dr. Kelly is perhaps our best educator and storyteller on the markets and the

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economy today.

And we are going to offer just a quick, but hopefully comprehensive, view of where we think the economy and markets stand as we begin September. But if there is any follow-up analysis or commentary or questions that the board would like us to explore before you move on to other critical board matters, I will take that away with your team from Goldman and BAM and we will make sure to get that done.

Dr. Kelly has planned maybe 10-to-15 minutes of remarks and certainly welcomes your questions. Hopefully, each of the board members have some of our reference materials and charts, but let us know if you'd like us to share screen because we're always glad to do that as well.

CHAIRMAN BROWN: Thank you, Kelly.

DR. KELLY: First of all, thank you very much for having me here.

Blake, do we -- so I have -- or do we just have 15 minutes, or do we have a little bit more time if our --

CHAIRMAN BROWN: We have --

MS. JOHNSON: Only if the board permits us.

CHAIRMAN BROWN: Yeah, we have time.

MS. JOHNSON: Okay.

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DR. KELLY: Okay. Because I'm not sure I can quite do justice with all the complex nature of our economy today in 15 minutes.

Also, perhaps, Blake, could you share -- I think we sent over a paper presentation.

MS. JOHNSON: I would be glad to.

DR. KELLY: I think perhaps -- we spent a lot of time putting together a chart to try to make things clear and vivid, and it's always a challenge, but having done so, we'd like to -- like to use them.

Anyway, while Blake has that going here, just as backdrop, I entitled this presentation, "A Longer, Wider Runway for the Soft Landing," and I think the right way to think about this is, if you go back 18 months ago, a lot of people thought we'd be in recession right now. And I think to understand where the economy is and where it may be going from here, the first important thing is to understand, well, why aren't we in a recession right now? What happened to allow the economy to continue to grow, even as inflation came down? So I want to -- so maybe I want talk about the -- great, super, thank you, Blake.

So we move to the next page here. I want to talk about the soft landing and I want to talk about investment opportunities. So first of all, on the issue

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of a soft landing, it's not whether we're going to have one or not have one. You know, the plane actually never pulls up to the gate. It is always landing. So eventually, there's going to be a problem, but so far, I would say we have been in a soft landing for quite some time.

But interestingly, if you go back to the spring of 2023, when people thought the economy was going to slow down, it didn't. And in fact, if you look at this chart here, the long-term growth rate of the US economy since the start of this century been 2.1 percent. And if you look at the second quarter of 2024, the economy grew 3.1 percent year over year. So not only did it not slow down, it actually accelerated. And to understand why, I think you have to look at both demand and supply.

So looking at the demand side of the economy on the right-hand side, the American economy is, more than any other country in the world, dependent upon consumers. We have got the most wonderful consumers in the world. We do not stop at the limits of prudence, we stop at the limits of credit. We are more willing to spend money that we don't have on stuff we don't need than anybody else in the world, and that does allow the economy to generate a lot of momentum because it is

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mostly a closed economy. You know, by spending beyond our means, we, in many ways, create the means by which we spent.

And so what happened was, you know, going back 18 months ago, all the pandemic aid had been spent, credit card debt was rising 15 percent year over year, the saving rate is very low. It looked like consumers have to pull back, but they really didn't, in aggregate.

What we saw was, and what we're still seeing is, there has been a pullback in the spending by lower and middle income households. They are getting squeezed. There are about 60 percent of households, today, who state they live paycheck to paycheck, and they are getting squeezed. And you're seeing that in food spending and you're seeing it in clothing spending, and other basic items, where demand is pretty sluggish.

But overall consumer spending is doing fine, and the reason it's doing fine is because the top decile, or the top quintile of the income distribution are doing very well, and the top 10 percent of households in America get -- receive more than 50 percent of the pre-tax income. So if the first 10, 20, 30 percent of the income distribution are doing pretty well, then the spending, the overall consumer spending will rise.

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So just looking at data from the -- from TSA, who look, who track the number of people going through their checkpoints every day, and we're still running about 5-and-a-half percent of year over year, over the last 30 days, in terms of airline travel, and that will make this year by far a record high in terms of total airline travel.

If you look at people booking tables on opentable.com, but again, it's kind of an upper income kind of thing, those are looking very good for the month of August. They accelerated relative to July.

We are seeing some slowdown in light vehicle sales, with 15.1 million units in August, so there's a little bit of slowdown there, but overall, it looks like consumer spending is continuing to grow. And so what's -- where do we go from here?

First of all, you have got huge increases in wealth because of what the stock market has done over the last two years. That is going to fuel the spending of our upper income households.

Second of all, we have now had 17 straight months, and I think we'll discover tomorrow that we have had 18 straight months, of wages growing faster than inflation. And so we are seeing real wage income gains, we're seeing some employment gains, they're slow, we're

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still seeing them, and that is generating wage and salary income, which is also keeping consumer spending going. So I do think consumer spending will grow more slowly, but I see no evidence that it's about to collapse.

The second big part of this is, higher, you know, on the right-hand side, if you look at investment outside of housing, that's about 14 percent of demand. Again, that was supposed to get hurt by higher interest rates, but because of the CHIPS act, because of the Inflation Reduction Act, which is really a green energy transition act, because of a lot of corporate spending on AI, investment spending is holding in okay.

And so we put -- and those are the big pieces. I mean, housing can't fall very much more because we're chronically short of houses in this country. So housing activity is relatively low, but I don't expect it to fall much.

Overall government spending, I think we're seeing state level governments being able to find workers they weren't able to find before, is growing okay. So overall, I think the economy is going to slow down to about a 2 percent pace for the rest of this year and into next year, but at the moment, I don't see a collapse. That's on the demand side.

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If you look at the next page, just briefly, on the supply side, what we show on the supply side is a slow down in the growth in payroll and employment, but it's still been very strong over the last year. Now, we did get a benchmark revision in the last few weeks, which suggested that the payroll growth had been a little bit slower between March '23 and March '24 than originally estimated, but we're still -- we're still adding, you know, 1.8 million, or say 1-point -- you know, 1.7 million workers over the last 12 months, which is substantial, given that there is supposed to be no growth of the working age population at all.

But we are seeing, on the bottom right of this chart, the blue line shows the labor force participation rate of people aged 18 to 64. So there is -- there's this notion out there that people are sitting on the couch, they're not willing to work. This is not true. We have actually hit a 15-year high in terms of labor force participation in the working age group.

The second thing that's very important, and even more important, is up on the top. In the last three years, most of the job growth in America has come from people who were not born in this country. And while the immigration situation of the southern border is chaotic and we are in desperate need of comprehensive

bipartisan immigration reform, the reality is that this influx of immigrants is filling out these jobs. And we had all the, you know, we had -- job openings are coming down but at those high levels. But we have built a lot of jobs, particularly in retail, in leisure and hospitality and restaurant jobs, and daycare. We have got a lot of lower paid jobs that are being filled by immigrants, and that is allowing the economy to keep on growing.

And if you flip to the next page, the other thing that it's doing, which is really interesting is it's also allowing wage growth to decelerate. So if you look at this chart here, this chart we put together many years ago, was to show an obvious inverse relationship. The unemployment rate is high, which is the gray line, wage growth is low, which is the blue line. But if you look at since March of 2022, now that's two-and-a-half years, this thing has gone -- this thing has gone completely haywire, because what we have seen is unemployment staying at or below 4 percent, it moved up a little bit to 4.3 percent in July, but I still argue that it's very close to full employment, and yet, wage growth has consistently come down.

And part of that is a surge of immigrants into lower wage occupations, which is simply because of a

mixed shift pushing down wage growth. But a bigger part of it, and a really important story, is American workers just don't feel that they have the power to ask for a wage increase. Only 6 percent of private sector workers are members of a union. The other 94 percent are on their own. When businesses tell them they can't have a pay increase, they aren't striking large numbers for those pay increase. We're not seeing a lot of industrial action to push up wage growth.

And if you have wage growth at 3.8 percent year over year, then that is actually consistent with stable inflation, because if you have got 2 percent productivity growth, you have got 2 percent growth of output prices, that actually means you could afford to push up wages by 4 percent. It's basically what we're doing. So we're sort of at an equilibrium in terms of wage growth here, and I don't see upward wage pressure pushing up inflation.

And if we move to the next page on this thing here, which looks a bit like a stegosaurus with all the pointing spikes up the back there, we have seen inflation come down. And if you look at the details, you can see why we think it's going to continue to fall.

So this US economy is not an inflation prone economy. We had 40 years in which inflation was

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falling, and then suddenly, because of the pandemic, the policy response, and Ukraine, we had this spike in inflation in 2022, and by June of 2022, everything was going wrong. Energy prices were up, core goods prices were up, dining, recreation, other services prices were up, food and home prices were up, everything was up.

If you look at where we are right now on the far right, the inflation rate is 2.9 percent year over year, but more than 2 percentage points of that is just auto insurance and shelter costs. And we know these are being measured, mismeasured, I would argue, by the government, but certainly measured with a lag. We know the inflation in these areas is going to continue to fall. And when we look elsewhere, there just isn't any inflation pressure.

And so we feel very confident in saying that, barring some extraordinary shock, the inflationary will continue to come down. I believe the Fed has a target of 2.0 percent inflation for the consumption -- headline consumption inflation. I think we have got a chance of meeting -- of hitting that target in September, and I think overall inflation is all going to be in the 2s and low 2s as we go into next year.

And that brings me, and I don't want to prolong this because I do want to get on to asset

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classes and that, but also your questions, if we move to the next page, and just looking at the Fed. So the Fed meets later on this month. They would like -- first of all, they have said, and I think J. Powell said this in Jacksonville very clearly, they are ready to start cutting interest rates.

So the only question is do they cut by 25 basis points or 50 basis points when they meet in the middle of September? I think they would like to cut by 25 basis points. I think they would like to take rates down slowly, and if they don't have the nerve, I think that's what they will do. But it is -- it's tricky because we are seeing mixed economic data, I will -- tomorrow's employment is very important.

What I'm seeing is manufacturing is weak, we know that it's weak globally, but services are very strong, and overall, the economy is still growing. It's just growing more slowly. In that environment, the Fed could take its time, and I think they ought to. And so what I think they would like to do is cut in September, skip the November meeting, cut in December and cut in March, June, September, and December of next year. So six or eight cuts in the space of 15 months, getting us down to 3-and-three-quarters to 4 percent. I think that's what they'd like to do.

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There is a danger that they get bullied into doing something faster, and let me -- I think this is the principle danger the economy faces right now because what the Fed doesn't know or won't recognize or won't state is that, if they cut interest rates by 50 basis points in September, they are more likely to do harm than good.

The Federal Reserve often talks about long and variable lags, how long it takes for interest rates to affect the economy. The reason they do that, or the reason it does that, is because there's actually a J-curve effect. When the Federal Reserve cuts interest rates, if it were to pick up by 50 basis points, it's going to -- it would scare people into believing, well, what does the Fed know? Maybe we're headed for recession year. Maybe I ought to hold off on expanding a plant or hiring workers or putting out a new product.

When the Fed cuts by 50 basis points, people say, well, are they done, or are they going to do some more? They're going to do some more. Of course they're going to cut some more. So do I want to borrow money now, or do I want to wait a while? Oh, I'll wait a while, won't I? So you wait to borrow. That slows the economy down. And then when the Fed cuts aggressively, it also cuts interest income.

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Now, eventually, those effects fade in significance and the fact that rates are simply lower and cheaper has a positive impact on the economy, but that comes later. So I think the biggest risk to the economy right now is the Fed gets bullied into cutting too aggressively and that actually causes the economy to slow down too much, the Fed cuts more aggressively again, and so you end up in a mild recession. That's not our baseline scenario. Our baseline scenario is that we have an extended slow down, but that's where we see things are right now.

And I want to leave time for questions, so I just want to talk about one more thing to move forward, and then, just generally, in asset classes, and I'm happy to try to address each of them.

This chart here, we use to try to describe valuations in terms of, you know, across apples and oranges and bananas here in financial markets. So at the bottom, you can see, for each of these asset classes, for Treasuries or high yield or US large cap stocks, we look at what's the most popular and most important valuation measures. So for large cap stocks, it's for PE ratio, for Treasuries, it's yield to worst.

And the horizontal line shows a -- is a 25-year average of that valuation ratio. And the dark

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gray shaded area is one standard deviation above or below. It's sort of a Z score. And then the light gray area is two standard deviations above or below. And so when you look at the chart, what you can see is, okay, US large cap stocks are expensive, value stocks are expensive, growth stocks are expensive, but international stocks are not particularly expensive here, and fixed income is actually looking relatively cheap compared to the last 25 years.

I think, you know, I don't want to -- as I said, I'd rather open up for questions now, but I -- and we can go through each of these asset classes. But overall, I think the economy is healthy, and I think the economy justifies a certain degree of optimism.

The question I think we have got to ask ourselves, though, is, there has been a lot built on top of this in terms of valuations, particularly in the US equity market, particularly in mega cap stocks. And so, we see some concentration risk. There's too much concentration in mega cap stocks and in US markets, there's too much concentration in US equities relative to global equities. US has 65 percent of the global equity market. And I think there's probably too much money invested in equities relative to fixed income.

And so there's a lot of imbalances out there,

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and I think one of the challenges is we can see a relatively smooth path forward, but the more -- the more times we get reassurance on a soft landing, the more unbalanced the market gets. So I think the challenge for all investors here is to try to maintain balance, not because they're terrified of what could go wrong in terms of the economy, and something, of course, could go wrong, but the outlook looks relatively okay, but also because their portfolios are drifting out of balance and markets are drifting out of balance relative to fundamentals. And that's what I think people need to focus on right now.

So those are the main points I want to make, and I'd love to open up for any questions.

CHAIRMAN BROWN: Any questions?

MR. MCTIGUE: Tom?

CHAIRMAN BROWN: Go ahead.

MR. MCTIGUE: I don't know if the trustees have any questions, but I'd just be curious.

Your thoughts on, say, China and the rest of the world and how that will impact our economy?

DR. KELLY: Yeah. So there is a -- I think the Chinese economy is in pretty fragile condition. We get data from China, the PMI indices came out this morning. They claim their composite PMI number is still

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above 50 and stable, but I am very suspicious of all the Chinese economic numbers.

What we know is they have got some major overlapping problems. One of them is they have got rotten demographics. The population is shrinking, and the birth rate is collapsing because the Chinese people don't trust the Chinese government.

Second, we have got, much more so in the United than in the United States, the Chinese, the wealth of Chinese households is embedded property.

One of the advantages the United States has over many other countries, and I don't think other countries realize, I don't think we realize it, is so much of our wealth is in the stock market, which has a -- which doesn't get -- is not as prone to economic problems as the housing market. But in China, they're way overbuilt. The property is way too expensive. The vacancy rate is enormous.

We know that home prices have to come down, particularly negative demographics, and that is undermining wealth among Chinese consumers and further making them negative, and it's causing them to save more. And so Xi Jinping would like them to spend more and do -- and do more consumer spending. They just don't want to do it.

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A third problem they have is, more generally, the level of control that Xi Jinping is imposing upon the economy. There had been a very steady opening up of China in all the years after Chairman Mao, particularly under Deng Xiaoping, but other Chinese years, all the way up to President Xi, and that opening up had I think encouraged the spirit of enterprise and entrepreneurialism among the Chinese people.

The fact that the government is being more aggressive in imposing its view on, say, private education or on information technology, on the Chinese people, make the consumers less willing to be aggressive and indeed makes small businesses less willing to be aggressive. I mean, Chinese people, in my experience, visiting their also Chinese relations, is they, you know, they tend to -- they're not always going to say exactly what's on their mind, they can't in China, but they can speak rather loudly with what they spend money on or don't.

I think the Chinese consumers are nervous. I think also the aftermath of COVID has made a Chinese relationship with the rest of the world even more difficult. So I think China's facing a lot of problems here.

I don't think it's a -- I think the Chinese

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government has every interest in keeping things afloat. I think that the problems of China, basically, economically, actually reduce the risk of any foreign venture like Taiwan or anything like that. I think the Chinese leadership does understand the importance of trying to cool tensions with the rest of the world and try to help their economy expand and help their export markets.

So I don't expect any foreign policy adventures from the Chinese government, and I hope I'm right in that, but I do think that they're going to have a difficult time.

So long as China doesn't collapse, if it just grows slowly, then the slowness of Chinese growth is enough to, I think, hold down global commodity prices. We're seeing oil prices have backed off a bit, partly because of the weakness of the Chinese economy, but I also don't think it's enough to put the global economy in recession.

We're seeing a lot of reshoring out of China towards countries, particularly India, Southeast Asia, Mexico. So there are other developed countries -- or developing countries who are taking up the slack for China. The overall global economy, I think, will continue to grow, but I think China really has to

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recommit itself to the path that Deng Xiaoping put it on before China can really begin to work through its problems.

MR. MCTIGUE: Thank you.

CHAIRMAN BROWN: Anthony has a question.

DR. KELLY: I promise a shorter answer to the next question.

(Laughter.)

MR. GIORDANO: Yeah. I stared at that last chart you had, the valuation chart of the asset classes. I stared at it this morning at about 1:00 a.m. for about 10 minutes, and I was fascinated by it, and I just didn't get it. So I was hoping you could maybe just give a one-minute synopsis on that chart and what -- how to kind of draw conclusions, you know, and what do we pull out of it as fiduciaries and trustees.

DR. KELLY: Okay. Blake, can you pull that back up? Super. Thank you.

We do -- so what we did here is the -- one of the things that, one of the problems I think that we have, or that a lot of investors have, is, you know, they'll talk to me about individual asset classes on their own, but what we want to do here is show valuations across asset classes.

And obviously, there are different valuation

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measures, but all of them can be reduced to a Z score. So, you know, if you look at, for example, over to the far right, the four PE ratio, well, if you assume the PE ratios are normally distributed, then that dark gray area represents the area in which about two-thirds of the PE ratios have been over the last 25 years, and the light gray range looks at the range that PE ratios have been within about 95 percent of the time.

So when we're at 1.58 on the -- the green dots are where we are right now, that means that the PE ratio on large cap stocks is higher than it's been probably about 85 to 90 percent of the time over the last 25 years, in terms of price to forward earnings.

But then the beauty of this approach, since we reduce everything to a Z score, just where has this valuation measure been relative to the last -- last 25 years, is you can then look at that relative to Treasuries. So Treasuries are cheaper than they have been, so it's, you know, not quite -- it's not quite down to one standard deviation. So they have probably been cheaper than they have been, say, 60 percent of the time or 70 percent of the time over the last 25 years. And what we mean by that is, you know, the yield worse has been higher. So they have got higher rates because we have been in this period of rate suppression.

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So the way I interpret that is it's not that Treasuries are particularly cheap or a huge bargain or you're going to get great returns of them. It's just that they were a lousy bargain for most of the last 25 years, and now, that is not the case.

And then if you also look at EM equity and DM equity, you can see that those are, one of them look at price to book and the other one look at price to equity, but both of them are at or below their averages.

And you know, if you flip forward a few pages, we can just, you know, briefly, here we -- so, you know, on this page here, we look at the equity market and look at PE ratios in the equity market. So you can see the top 10 stocks are much more expensive than everything else.

You know, on fixed income, if you flip back a page, and I'm almost done here, then you can see that those blue diamonds suggests that yields are actually better than they have been on average over the last 10 years.

And if you go forward again -- just want to go forward one more. Yeah, we'll stop here.

And then if you look at this here, what we show here is the way we look at international stocks. We could look at it on just a valuation basis, but I

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like the chart on the right because it just shows just how big the US share of global equity markets have become.

But anyway, the first chart that we were talking about, we just look at it as a way of comparing apples and oranges and bananas across different asset classes.

MR. GIORDANO: Thank you very much.

CHAIRMAN BROWN: Thank you. Any other questions?

Thank you so much for coming, Dr. Kelly, and presenting to us.

DR. KELLY: You're very welcome. And if you do have any other questions, as Blake said, just shoot them over to her and we'll try to address them very quickly.

CHAIRMAN BROWN: Thank you, well done. Thank you. Thank you, Blake. Thank you, Blake.

Great. Now, we move on to the Passport Funds, Second Quarter 2024 Performance Review, and I guess Rocaton will take that.

MS. JANUSZ: Yeah. Thanks, Tom.

Gina, are you able to pull up our June report?

MS. TARANTINO: Yes, do you see it?

MS. JANUSZ: Yes, thank you. Can we just hide

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that one that was covering?

So for the Passport Funds, since we last met just before the end of the fiscal year, we just wanted to spend our first minute or two here on the results through the end of fiscal '24. So looking at this quarter report here -- and Gina, maybe you can blow it up a little bit, so it's easier for people to read.

I just want to focus on that one-year column. It's going to show us the fiscal year results. And the great news is it was an extremely strong year across the board, really double digit returns for each year of Passport Funds, with the exception of the Balanced Fund, that was pretty close at a 9 percent return for the year.

And really closing out that fiscal year, the second quarter of this year, we saw equity markets hitting all time highs, thanks in part to those magnificent seven, the big tech stocks, some continued signs of improvement in terms of manufacturing, in terms of labor market numbers, certainly strong earnings growth, and expectation of the beginning of monetary easing, all of which were really supportive to our risk assets. So a strong close to the fiscal year. For the

Diversified Equity Fund, up of over 20 percent closing out the year.

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And unless there's any questions on June, I'll flip over to share some July members.

Gina, if you want to switch over to the July flash? Thank you.

So July was a little bit more mixed, certainly after a strong first half of the year. We saw, in the month of July, positive numbers coming out of the US and emerging markets, but a little bit of modest losses, I would say, in both the Eurozone and Japan.

There was a bit of a small cap rally during July really in response to this expected start to the involuntary easing cycle. The Fed did meet in July and chose to leave rates unchanged but signaled that they could begin cutting rates, as David talked about, as early as the next meeting, which is here in September.

We also, in July, saw a little bit of a shakeup in terms of the US presidential election with President Biden stepping out of the race and Kamala Harris becoming the presumptive nominee during July. So despite some of that uncertainty, we still saw positive results across the Passport Funds, with the exception of the Sustainable Equity Fund, which does have a bit of a large cap growth tilt and is more impacted by some of those big tech stocks that did see a little bit of a pullback. So slightly negative, 1 -- negative 1 percent

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return for the month, still a very positive territory calendar year-to-date, over 12 percent return for the Sustainable Equity Fund.

And your Diversified Equity Fund, where the bulk of the assets sit, close to $19 billion in the Diversified Equity Fund, at the end of July, had a positive about 2 percent return for the month and up over 13 percent year-to-date.

CHAIRMAN BROWN: Great.

MS. JANUSZ: And the last thing we'll touch on is just a benchmark report for August. We don't yet have official numbers on the Passport Funds. We just wanted to share index returns here for the month. And really, in early August, we saw volatility pick up after what has been a relatively subdued market, and particularly in that first week of August, we saw a little bit of investor panic when we saw some worse than expected employment numbers. Thankfully, that market shock was short-lived, we saw some better releases later in the week, and markets recovered.

We also, as Dr. Kelly mentioned, had Chair Powell make, again, very supportive comments in his comments in August around expectation that we are at an inflection point with regard to interest rates and moving towards rate cuts later in the year.

So again, despite that volatility that we saw in the beginning of the month, we saw positive returns really across asset classes here in the month of August, ranging from 1 percent for your short-term bond exposure that's part of the Balance Fund to 3-and-a-quarter percent for developed international equities, the MSCI EAFE index. So despite a little bit of noise, we ended in positive territory for August.

CHAIRMAN BROWN: Great. Thank you, Amanda.

Any questions for Amanda?

Thank you, Michael. Thank you, Amanda.

We move on to the Pension Fund Performance Update Quarterly Presentation, and I think Steve is going to take that.

MR. MEIER: Terrific, great. Thank you, Tom.

CHAIRMAN BROWN: Thank you, Steve.

MR. MEIER: Good morning, Trustees.

CHAIRMAN BROWN: Good morning.

MR. MEIER: I'm a little overwhelmed with Dave's presentation, Dr. Kelly. I have actually worked with J.P. Morgan in the past, I think very highly of them. So you covered most of what I have on my presentation, but I'll try to get through it.

Kate, I'm going to have to ask you be on top of your game and keep up because I'm going to skip some

slides, but maybe just go to the first slide, Kate.

And just reiterate the point that the US and global inflation has moved significantly lower. It appears that that inflation dragging that we have so dreaded has been slayed, and now we're focused more on the Fed, on full employment and accomplishing their soft landing for the dual mandate.

On the next slide, just a quick look at the normal chart you have seen.

Actually, we can maybe shrink the photographs on the far right-hand side. We can't see the punchline. Great, thank you. Thanks.

You can see that core PCE is at 2.62 percent, and CPI, the most recent print, is under 3 percent, a little less than 290. So again, inflation has certainly moved down from the record high, recent record high of June of 2022, 9.1 percent, and the Fed has declared success in that area.

On the next slide, you can see that it's not just a US phenomenon, it's a global phenomenon, and that inflation has come down even more significantly in the UK and the Eurozone. You can see on the far right-hand side.

On the next slide, just a look, concerns about whether the Fed was behind the curve. They have

actually shifted. I know Amanda talked about a change in direction on the Fed. We call it the Jackson Hole Central Max Symposium Pivot, where he's actually declared, and I'm quoting him, that "The time has come for policies to adjust."

Fed Powell also clearly stated that inflation has declined significantly, the labor market is no longer overheated, and finally, again, quoting him again, "With an appropriate dialing back of policy restraint, there's a highlight we'll be able to achieve a 2 percent inflation target over time and a strong labor market." Again, that soft landing.

On the next slide, just a look at where we are in really unemployment. Obviously, we're still below where we were at the peak before the global pandemic, in terms of the size of the labor force and participation rate, you can see in the yellow. But more important, on the far right-hand side, you can see unemployment has ticked up a little bit. It's about 4 percent now, 4.3 percent.

As Amanda, and I think Dave Kelly mentioned, we have a big non-farm payroll report tomorrow for August. Expectations are for that print to be around 165,000 jobs created, versus the prior month of just 114,000 jobs created, and unemployment is expected to go

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down from 4.3 to 4.2 percent, but we'll see.

On the next slide, again, echoing what David said, US GDP has actually been quite solid in the second quarter. It is starting to slow. The economy is cooling, not collapsing. We had 3.1 percent growth in the second quarter year over year, versus 2.9 percent. And again, expectations are for the middle of, say, the 2 percent range for the current quarter.

On the next slide, just a look at economic growth, and you can see again the disruption in growth associated with the pandemic, but more importantly, on the far right-hand side, you can see that, really when you look at the UK and the Eurozone, growth is actually flattish. So it really hasn't picked up. The recovery has been slower there. Again, they were also fighting the inflation drag, and I'll talk about it in a moment, though. Those, both those central banks, the ECB and the Bank of England, have already begun cutting rates and are widely expected to continue that later this month.

Again, the other takeaway was, would be the green line. Again, as Dr. Kelly reflected, China is struggling. Their economy seems to be slowing quite dramatically there, and that certainly has implications for their stock and bond markets as well.

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On the next slide, global interest rates, rate cuts are coming, as I said, it's already occurred abroad. ECB, Bank of England, Bank of Canada, and others, have cut rates. We have the next Fed meeting on September 18th, later this month. Again, the market is fully pricing in 25 basis point rate cut, and a 30 to 31 percent chance of a 50 basis point rate cut. That's just a fancy way of saying the market, right now, in terms of Fed fund futures contracts, pricing in about a 33 basis point decline in rates at September 18th.

On the next slide, this is one of my favorite slides. You can see that the central banks, as I mentioned earlier, the Bank of England in yellow, and the EEC in green, both cut rates once and are intending -- actually telegraphically they intend to do so again. We have been flat. Again, rates are expected to move down in a couple of weeks.

And lastly, kind of going the other way here, the Bank of Japan has actually increased rates twice, which gave rise to some disruption early August, as the yen carried trade unwind dramatically impacted global markets. I'll talk about that in a moment.

On the next slide, just a view that, as rates are expected to start moving lower, official rates are start -- coming down. That also means money market

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yields, the yields you're getting in T-bills, the yields you're getting in your money fund, and where you keep your cash, those rates are going to start moving lower. They have already half started moving lower, as the market is pricing in cuts. But that move here reflects a jump into bonds and notes. Again, expecting that as short rates come down, the yield curve will normalize. You have heard me talk about this.

Maybe on the next slide, Kate.

Again, I find this fascinating. This has been the longest inverted yield curve in the history of US bond market, not necessarily the most abrupt. At its peak, the yield curve had inverted in the US about 110 basis points this time around in 2022. It was as inverted as 190 basis points in the mid to late 1980s. But it's never gone on for a period of years like it has on an inverted basis, meaning short rates, a fancy way of saying short rates are higher than long rates.

Typically, when you buy, say, a 10-year Treasury note, you expect to get paid a premium from taking on additional risk out 10 years versus, say, three or six months. That hasn't been the case. And again, that's reflected here.

On the next slide, when we talk about the yield curve inversion, we're really talking -- when I

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talk about, I'm comparing two-year yields to 10-year yields. Two-year yields have been pretty remarkably, consistently higher than 10s, again for the better part of two-plus years. Here, you can see, as of this print yesterday, the yield on the two-year Treasury and the yield on the 10-year Treasury notes are both 3.78 percent, again flat, and you can see as that's unwinding on the next slide.

This shows the inversion -- on the next slide, Kate.

That red line is flat where it would be, above that, it would be a positive sloping yield curve up into the right over time, over the maturity spectrum. And here, you can see it was less than 1 basis point of inversion when this was cut on, I think September, early in the morning on September 4th.

Maybe next slide.

Spreads, so spreads have actually come in quite a bit. Remember, they have widened out substantially at the outset of the pandemic. They have been kind of bouncing around, somewhat concerned about the potential for not a soft land, but a hard landing, meaning recession. Right now, they're at levels that are not particularly thrilling. You typically want to invest in investment grade above 150 basis points. It's

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at 97 now. And high yield, you probably really prefer to buy it above say 500, opportunistically.

But what's interesting is, on the far right-hand side, I talked about the unwinding in the yen carry trade in early August. So August 5th, the market has really melted down and had a dramatic sell off in stocks and bonds, and that blip just reflects it. Yields and spreads have moved out, and then come in subsequently, within a matter of days. So again, a disruptive August, again, starting on August 5th, but a good ending.

On the next slide, in terms of what's going on in the marketplace, so summer vacation is over, we got back to work. We had the stock market sell off on the 3rd, we had bonds rally on the 4th, and energy actually sold off 8 percent yesterday on concerns about GDP growth and growth associated with -- well, the decline in manufacturing here, but also the stagnant growth and stagnating growth in China and less demand for oil.

On the next slide, just a look at benchmark returns through the end of June. You can see Russell 3000 on a year -- one-year basis, again, quarter to quarter at the end of June to the end of June '24, actually performed really well. You have Russell 3000 up fully 23 percent. This is not normal. This has been

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great for your returns, which I'll talk about in a moment. I'll give you a heads up. It was actually quite a good year, but again, you can't really rely on these types of returns.

That far right-hand column where it says expected within assets, that that is the average of the five general consultant expectations for returns across asset sectors over a 10-year period. And I don't mean to dismiss Rocaton or Goldman Sachs in any way. I mean, they have a great forecast. We just thought this was an interesting way of showing it, that it's, on average, the five general consultants expect to see annual returns of the Russell 3000 at 6.7 percent.

CHAIRMAN BROWN: What was the 10 years before? I mean, to compare that with another 10 years --

MR. MEIER: Actually, the US has been pretty healthy. We have been coming out of the global financial crisis, and then we actually, performance --

MR. FULVIO: Over 12 percent.

MR. MEIER: Yeah.

MR. FULVIO: For the 10 years.

MR. MEIER: Yeah, it's been a really good driver. So John Merseburg is actually the hero within the Bureau of Asset Management because of the performance of the public equities. We have many

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heroes, though, also in the private sector, but again, that's not to be expected longer term.

Maybe let's skip the next two sides, Kate. Those are just, you know, stocks are up and bond yields are all over the place, depending on how you look at it.

This slide just reflects, again, where we are over the last, it's a 20-year slide. Just focus on the far right-hand side. That's fixed income. That's public market, fixed income, and as you can see, generally, fixed income delivers a positive return. And again, I -- working with Dan Haas at -- he circled the decline in bond performance, which is unusual and it was fairly significant again in 2022/2023, and then a quick rebound. So we're back in positive territory again.

Dr. Kelly reflected that bonds look cheap relative to where they were historically. There's actually a lot of noise when you look back in time over the last 25 years. It really hasn't been a normal time, and my forecast is the next 25 won't be normal either, but you look at where we were 25 years ago, we had the dot come crash, we had the global financial crisis that was extraordinary, we had a meltdown of European sovereign debt, we had banking issues, we had a pandemic, we had currency challenges as well, so -- and we also had inflation spike associated coming out --

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with the pandemic and a ground war in Europe. So not necessarily normal times.

We talked about this, Dr. Berman and I, I have to call him Dr. Berman now, but we debated this last night just in terms of what reasonable expectations are. The only thing we know with certainty is the future will be different than the past, but we use this as the guide because it's the best source of information we have. We try to make judgments around that in terms of how we make recommendations for the portfolios.

Maybe skip the next slide. Well, actually the next slide, Kate, I'm sorry, one back.

Yeah, you can see this, just focus on the far upper left-hand side, what's sell off. Again, I think Amanda covered this well in terms of that dramatic dislocation in the marketplace in early August. It really appeared peaking on August 5th.

And then the next slide, you'll actually see that all of it was reversed out from an equity perspective. Stocks in the NASDAQ was down over 8 percent at one point, but you could see that's just for the month of August. Everything ended up in positive territory. So again, it was a volatile August. Typically, they're quieter. That may have had something to do with the lack of liquidity. I think it had

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something to do with the rhetoric out of Japan, the Bank of Japan, and their potential intent to continue to raise rates, which means the yen carry, trading and borrowing yen, and investing in other currency, assets generally, to pick up a yield spread and differential is probably no longer as viable as it had been.

Maybe skip ahead two slides, Kate.

Food for thought. This is great. So we have had some debate internally, and there may not be consensus, but I think this is worth watching, and I'm sure I'll be right at some point.

(Laughter.)

MR. MEIER: It's like the broken clock that's right twice a day. But this is a concern, the fact that the US Treasury market -- so just read through a couple of the highlights. Well, first, the first one aren't really necessarily because given the timeframe.

Currently, we have government debt, the GDP ratio of a little -- it's 98, 97, 98. It's almost a hundred percent now. It is moving higher. The one thing we do know with some degree of certainty is, irrespective of who is the next US president, that we will be running deficits, and we're running deficits, we anticipate running deficits for at least a trillion dollars a year for the next 10 years. We have had $9

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trillion of government debt maturing or will mature in the next 12 months. There's a lot more issuance coming out.

We have seen less rigorous demand on the part of foreign buyers. And if you look at the Point Number 5, China has actually lowered its holdings in Treasuries from 1.2 trillion in 2015 to just $800 billion today. The weighted average maturity of the debt is six years. And again, we're coming off of the time, out of the global financial crisis and out of the pandemic, where rates were very, very low. And as rates have moved higher and the Treasury continues to recycle its debt and reissue new debt to replace what is maturing, the cost of that debt is increasing pretty significantly.

Point Number 7 is worth noting as well. Typically, you have between 11 and 12 percent of issuance in T-bills. It's actually currently at 22 percent. Now, that's kind of counterintuitive, in that, why would you be issuing, in an inverted yield curve, at the short end of the curve when it's the most expensive? But because there was so much demand and so much liquidity in the system, the Fed was taking advantage of that and mopping some of that up through T-bill issuance.

Treasury auction sizes are expected to

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increase in 2024, and they have an increase by 27 percent. So there's a lot more product coming into a market with potentially diminished demand on the part of non-US buyers.

And the last point here, I'll give you an update on the last point in the next day -- in the next slide, interest payments pre-pandemic were about a billion dollars a day, a billion dollars a day.

Maybe skip to the next slide, Kate.

They are now over $3 billion a day. The interest expense has gone up significantly. And again, when you look at where we think bonds are, you look at some of the market technicals associated with Treasuries and more supply coming, a lot more supply, potentially diminished demand by foreign buyers, you can make an argument that it will have an -- it will have an upward biased impact on yields going forward, long and short, which I believe will be the case. So again, it's worth watching. We're not in an area where we're not going to be able to continue to finance our deficits, but it is clearly becoming much more expensive to do so.

Maybe next slide to talk a little bit about debt.

This is actually a look at the investment grade issuance and how it's increased from about $3

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trillion outstanding in 2010 to over 9 trillion today. This has to do with bank regulatory reform following the global financial crisis and disintermediation of banks. A lot of these banks, typically, if I were to issue bonds, I'm a corporate issuer, I would go to a bank, I would borrow, or if I were to issue in the marketplace, they would actually support my debt through secondary support. They're really not doing that now.

So a lot of the issuers in the investment grade space are kind of going, and non-investment grade space, are kind of going their own way, but again, a significant increase in investment grades debt outstanding.

Maybe skip the next slide, next few slides, Kate.

This is just food for thought. This is an interesting slide. It looks at the number of data centers. Again, data centers process and store information. They actually fuel the fuel by the increased usage of artificial intelligence, which is having an impact on what's required, the amount and scale that's required, but also just good old-fashioned cloud technology. And this looks at the number of data centers combined in each country. And you can see on the far left-hand side, the United States is basically

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about 10 times the size of everyone else, even though its economy may not be 10 times the size of all the others, it may or may not be, depends. It just, for me, it tells me that there's been a lot of infrastructure investment. Again, it's reflected in, say, demand for NVIDIA technology, as an example.

We are an investor in data centers. We invest in data centers primarily through our infrastructure private holdings as well as some real estate. And I think we have -- Eneasz, correct me if I'm wrong -- we have some residual data centers in private equity?

MR. KADZIELA: Very minor.

MR. MEIER: Minor? Very minor. But it is interesting, and this either tells me that it's gotten overdone in the States or there's going to be increased demand for building more data centers in Europe. And I would defer to Petya to maybe give you an update on that at some point, given the fact that her book is more than 50 percent outside the United States.

Maybe skip ahead, Kate, a couple slides.

Touch on one thing. Thad, I know you asked the question about China. Just some food for thoughts, some more bullet points.

Maybe one more, Kate. One more slide. There we go.

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So it is pretty extraordinary the population growth in China has actually turned negative, and I have a slide that follows, that shows that. The fertility rate in China is just 1 percent versus 1.6 percent here in the States and 1.2 percent in Japan.

Remember, we talked about the capital market assumptions and the themes that we think will impact returns in your portfolio, different asset classes over a longer time horizon. We talked about demographic changes that are reflected here, deglobalization. We talked about the sustainability of debt, which has to do with the level of Treasury issuance and the cost of that debt. We talked about decarbonization in the economy. There's a number of these things that we think will dramatically impact the portfolio. These are things that are worth sitting up for and paying attention to.

The population in China is currently about a billion. It's expected to decline about a hundred million people each decade and expected to be in the mid-600 million by 2100. That's a significant decline at an external rate.

I was watching a commentary over the holiday, the Bloomberg show on the weekend, and the possible solution they reflected here is robotics. Robots replace people as the demographics shift and as the

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decline and --

CHAIRMAN BROWN: Do they still have that policy of limiting the number of children?

MR. MEIER: They don't, but it's been hard because it's gotten so expensive, and you have an aging population, you have a lot people in their late forties, fifties, and sixties, really aren't looking to have a second or third child. But yeah, they have eliminated that policy, but it kind of stuck in people's mind, and again, it's become a problem for them.

We have the same problems here in the States. Again, I think our replacement rate is probably 2.1. It's only 1.6 percent in terms of fertility. We have the benefit of immigration. And I recently read a book that talked about the immigration changes and growth longer term, and it reflected the fact that countries and economies may be competing for individuals and immigration over time, as this becomes more of a worldwide phenomenon.

The only area, the only area of real population growth in the world is Africa, and it's growing at a pretty significant clip. A lot of those areas are also arid and climate change will exacerbate those issues. So you may see more immigration out of those areas of the parts of the world, which would be

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welcome, I think.

Next slide, Kate.

Population growth. Again, to David Kelly's point, on the far right-hand side, you can see the population growth is now negative 2-and-a-half percent in China. And again, pretty dramatic change over the course of time.

Maybe skip ahead two slides to 35, Kate.

This is just -- I thought this was a cool slide because we talked about the decarbonization of the economy, and this just looks at primary energy consumption by sources of renewable energy. You can see Norway is the stand out, the darker the better. I don't know why Brazil is also so dark. That could be a combination of hydro, solar, and wind. I think, in Norway, it would probably be mostly wind. And we're kind of middling relative to some of the other large global economies around the world. But again, a work in process we will continue to monitor.

CHAIRMAN BROWN: I heard Norway is running out of oil in the next couple --

MR. MEIER: Maybe, out of the North -- the Brent Sea crude is probably being depleted.

CHAIRMAN BROWN: Right.

MR. MEIER: So I mean, they have a huge

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sovereign wealth fund that -- it's about 1.6 trillion in size. I had the privilege of sitting on a panel with one of women, the folks from that --

CHAIRMAN BROWN: And they are able to use like 3 percent of it for infrastructure.

MR. MEIER: Yeah, they have been really smart, Tom. They have actually been, for years, they have been siphoning off some and taxing the oil exports and putting it in the sovereign wealth fund. So a relatively small economy.

CHAIRMAN BROWN: Unlike the UK, I think.

MR. MEIER: Yeah, well, both, but Norway in particular has got a $1.6 trillion sovereign wealth fund and a small population.

CHAIRMAN BROWN: Like about 9 million, I think.

MR. MEIER: Listen, I know Tom covered a lot of this. I don't have any -- I mean, I have got some things that I'd be really interested to talk about.

But why don't we skip ahead, Kate, to Slide 40?

And that's the money slide. That's the performance slide. And again, it's very dangerous for anyone to come here and pound their chest and say, look at the one-year fiscal returns. You have a benchmark of

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7 you achieved 10 percent. That's really great. That's a great outcome. But as we have seen with the uptick in equity prices, a significant outperformance relative to normality and relative expectations. It's not to be expected to continue, necessarily. We're hoping that infrastructure and PE and some of the other private asset classes will pick up the slack, and we expect they will.

CHAIRMAN BROWN: You can leave the slide up there for a little longer.

MR. MEIER: Yeah, yeah. Well, it's interesting too, and you look at this and you say, well, I have been the CIO for two years, this is a great outcome. This really has a little to do with the CIO that's sitting in the chair today. This has to do with people and decisions and a process that was put in place over time. This is such a -- your fund is over a hundred billion dollars. It's enormous. And it takes a long time to change, but as long as we're committed, I think it's called Kiatsu, which is continuous self-improvement over time, that's what we're doing.

And I try to use the football analogy. As everyone touches the ball, as long as we move it forward, we'll have good results. So I know we have talked about storm, we're going to talk about this at

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BAM University, but the idea is, how do we constantly improve everything we do and how we do it to make marginal increases, as opposed to really dramatic increases that can impact something short-term. This is -- the long-term investors, we have to remind ourselves that your plan, all of us will be gone, and your plan will still be here. It'll still be generating money and paying benefits to retirees, and we need to have that mindset. But a good outcome.

Kate has advanced the slide, which tells me that she wants me to -- sorry, Kate.

The next slide is a little disconcerting for me because remember last time I reflected this slide, the average portfolio value, this is if you invested, say, a dollar back in 2014 at 7 percent. That's what that black line shows we invested. Your performance is actually the yellow line. We were actually above that black line the last time I presented this, but because certain periods of time will fall out and new come in, even though the performance has been strong, it's kind of counterintuitive. You just had a 10 percent annual fiscal year return, but we're still a little behind the benchmarking and over that period of time. So our work isn't done.

On the next slide, just to look at net public

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market returns. Again, these are your benchmark returns, not necessarily your specific returns. Actually, I beg your pardon --

CHAIRMAN BROWN: But we're close, right?

MR. MEIER: These are your are -- yeah --

CHAIRMAN BROWN: These are?

MR. MEIER: Yep, TRS returns. And you can see, again, I don't like the focus on the quarter results really in one year. As we talked about earlier, the Russell 3000, US equities up 23.4 percent, a very, very good outcome.

CHAIRMAN BROWN: So that's 13.9 percent over five fiscal years, right?

MR. MEIER: Yes, yes. It's annualized over five years, is the return, yes, so a good outcome. Obviously, world, developed market world XUS equities have been a little challenged.

Again, we have talked about Bailey Gifford, I know John Merseburg and team have been addressing those issues as well. But again, a pretty good outcome.

On the next side, a look, just a look at your excess returns relative to public markets. So a little behind in the Russell 3000 for short-term, one-year. The excess return is 25 basis points.

Again, developed market XUS has had a little

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bit more of a challenging time, really with the dramatic sell off in '22 and '23 and some recovery in the last year.

Emerging markets have done quite well, pretty consistently, relative to the benchmark. Again, a good outcome there.

And then if you look at fixed income, that structured index is a minimum of five-year maturity. It's got a little longer duration, but a pretty good outcome there as well in high yield.

On the next slide, just a different way of reflecting. So this is kind of a work in process, this is the scorecard [sic] that Dan Haas has been working on to try to present things in a different format that may be more digestible. So this is a public market AUM on the left-hand side for your fund, and then the performance over those same periods of time relative to your benchmark. So I don't know if you find any value in this. I actually thought this was really interesting, and when we talked about some specific sectors, it becomes increasingly interesting, but again, more of the same information I have already covered in a different format.

On the next slide, a look at fees. Again, we are continuing to try to work down fees in both the

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public and, again, the private assets in your portfolio, and we're going to be probably more focused on the public market sector, going forward, as we change how we negotiate contracts that we get our own ACCO within the Bureau of Asset Management, and we have our own legal resources, we anticipate being more nimble, and again, being more aggressive in terms of reducing your fees consistently over time.

So this just looks, again, your fourth quarter fees for public markets were just under $27 million in fees. The bulk of those fees are in World XUS, 6.8, emerging markets, 6.3, and US, because it's mostly passive, even though it's a lion's share of your assets, $4 million in fees. And you can look at across on the right-hand side and see that --

MR. MCTIGUE: Steve, can I just interrupt you for one second? We're getting a little reverberation. I think somebody who's online needs to go on mute. So if you just check that.

CHAIRMAN BROWN: They listened. Well, that worked.

MR. MEIER: Great. I'd say the last takeaway is the far right-hand side, the lower portion, all strategies combined, 13 basis points in fees, and we intend to hold ourselves accountable for doing better

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and reducing those fees now over time.

On the next slide, a look at your private manager returns by strategy. Again, for the one-year sector, private equity, again, still recovering from, really, a lack of exits, mergers and acquisitions come in lower, valuations are down a little bit, but still a healthy return.

If you look across the curve and see where you are in private equity in its 10-year annual returns, really quite significant at 13 percent. Again, that's on average each year over 13 years.

Private real estate, again, negative 6.7 percent. That has to do more with office, and I'll show in the next slide, John Gluszak is -- we're actually fairly well positioned. We're underweight in office, which is the one area that's really been challenged.

CHAIRMAN BROWN: What do you mean by the lack of office?

MR. MEIER: Well, office, office buildings.

CHAIRMAN BROWN: Right.

MR. MEIER: So in commercial real estate, it's office, it's retail, it's data centers. In some respects it's multifamily, a whole bunch of different --

CHAIRMAN BROWN: You don't think the office real estate will improve any?

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MR. MEIER: I think it'll improve, Tom. It's a matter of timing. In the last year, it didn't improve and continued to decline. Defaults were up at the margin as well in commercial mortgage backed mostly for office space. We're still wrestling with that whole remote work thing, return to the office. And again, the question is, you know, how much space do you need, and the space you do need, is it fit for purpose. So again, we still wrestle with that here in New York, and in many cities here, less around the world. Japan, for example, is a hundred percent back to work full-time. They don't have remote work. So a challenge we have here still.

I have to call out the infrastructure performance again, which I thought was extraordinary, 10.8 percent. We hope to provide some insights into infrastructure over time, but that's one of the strongest asset classes that we have had. Certainly, a close second to, say, private equity, and then public equity in the public space. But again, a really good outcome there.

Lastly, alternative credit, given the backup in yields and base rates and the widening of spreads, it's subsequently tight, a good result there.

Net excess returns and basis points -- and I want to ask, is Dan Haas on the line?

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If you look at private equity --

MR. HAAS: I am. I'm phoning in.

MR. MEIER: Good, good, Dan. I may need to call a friend on this because I'm unclear on something.

So if you look at the private equity returns, it's the Russell 3000, again, which delivered 23.1 percent, plus 300 basis points, takes you to 26 percent. You take out the 5 percent that we have delivered in positive returns in the prior slide for private equity, and it looks like we have underperformed the benchmark more -- is this, Dan, is the Russell 3000, is that lagged three months?

MR. HAAS: That's right. So the Russell 3000 lags three months, and that's a PME, if I remember correctly (indiscernible) Lane provided that for us.

MR. MEIER: Got it, got it. I spent a half hour trying to figure this out this morning, in the wee hours.

CHAIRMAN BROWN: When you put it in basis points, it looks worse than percentage, right?

MR. MEIER: Yeah. Again, it has to do with the significant outperformance of public equity and a little bit of a challenge in private equity. I think this will -- all the private equity and the equity investments we're making today will benefit from the

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challenges that we're seeing in the marketplace today. It's still a good time to put money to work.

If you look across other asset classes, excess return, as I mentioned, real estate, because we're slightly underweight office, we're slightly overweight multifamily, we're slightly overweight industrial logistics. There was outperformance there in the one-year sector. And infrastructure, consistently, over the 10 years since inception, delivered material outperformance, and alternative credit positioned the portfolio very well.

I'm trying to wrap this. I do want to share one more slide with you, if you would. In the next slide, because I talked about a different way of presenting things, these are assets under management in your portfolio as of the end of June.

What I find really interesting here is, on the right-hand side, and I don't mean to steal Petya's thunder, but if you look at infrastructure, so this is your -- your year-end returns are actually darker and the benchmark returns in lighter, that's significant outperformance over one year, three year, five year 10 year.

It's kind of a confusing chart. It takes a little bit of time to sift through it, but actually

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really good outcomes. Similarly, we have actually had a strong performance pretty much across asset classes, but just a different way of looking at and presenting where we're relative to your established benchmarks.

CHAIRMAN BROWN: So it looks like we beat the benchmark in each of those categories?

MR. MEIER: Yes, yes.

CHAIRMAN BROWN: Between the dark and the lighter.

MR. MEIER: We were talking about this last night. Petya is too modest to say that she's going to be able to replicate this. She's embarrassed on bringing this up, but --

CHAIRMAN BROWN: Oh, Petya.

MR. MEIER: And she reminded me that half the allocation still has to be put to work, so -- but I have confidence.

I think that's it for today, for me, for just a quarterly update. So a good quarter, a good fiscal year, an interesting time. Again, summer is over. I know --

CHAIRMAN BROWN: Thanks for reminding us.

MR. MEIER: -- talked through the grapevine and we wanted to give you an update since we last met in June, what happened in July and August. So hopefully,

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we covered that.

CHAIRMAN BROWN: Thank you, Steve?

MR. MEIER: Are there any questions?

CHAIRMAN BROWN: Any questions for Steve?

MR. GIORDANO: Steve, I don't know if it was the November meeting or maybe it was the January meeting, one of the past meetings, we discussed, you were going to be looking at benchmarks, a deeper dive. I think. There was some concern that some benchmarks necessarily didn't match up with it.

So I just want to know, A, where we were that; and B, as I was looking, I was looking at the stuff at one o'clock in the morning, last night, so my eyes were a little bleary, and I noticed that, against the benchmarks or against the indexes, we were not always beating the indexes on, over the fiscal year.

So I just wondered, was there an aggregate number of how we did versus a composite of the index, versus where we could have been, or versus excess return, whatever the -- even an aggregate. Because it was up and down, and my eyes, it was flipping around.

MR. MEIER: Yeah, it depends how you compare, who you compare yourself to. So we had one of the earlier slides shows a bunch of different comparisons relative to, say, your strategic asset allocation

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weights, if we were there, where we are today.

Again, there are challenges associated with being such a significantly sizable fund, that we're not quite as nimble as we perhaps would like to be.

I'd also answer your question this way, Tony, that we're spending a lot of time trying to incorporate a quantitative rigor to everything we do and how we do it. We're trying to have -- yeah, you're right, but we're trying to put much more science around what we -- and obviously, you can have good insights and fundamental views on markets. We want to couple those with a strong understanding of what the numbers tell us, what do we know with certainty and where we can build on from there.

So we have got a number of projects we'd be happy to talk to you about over time, but things that are trying to, again, look at where we are from benchmarks, and actually, Dan Haas is involved in that as well from a financial reporting standpoint and from a risk standpoint as well, so more to come.

CHAIRMAN BROWN: Thank you.

Any more questions for Steve?

Thank you, Steve. If you get to call Ed Dr. Berman, can we call you -- can we call you Professor Meier?

MR. MEIER: That would be great.

CHAIRMAN BROWN: That is excellent. Very well done. Thank you so much.

So I think that concludes our work in the public agenda. So is there a motion to go into Executive Session?

MS. LEE: So moved.

MS. MCGRATH: Second.

CHAIRMAN BROWN: And it's been seconded.

MS. MCGRATH: Seconded.

CHAIRMAN BROWN: And it's been seconded. All those in favor of going into Executive Session, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay.

And we are now in Executive Session. Liz will let us know when it's good to go, but why don't we take this opportunity to take a five-minute break and we'll get back by 11:20, seven minutes, seven minutes break, and then we'll start the Executive Session. Thank you.

(Recess from 11:12 a.m. to 11:22 a.m.)

(Exit Public Session; enter Executive Session.)

CHAIRMAN BROWN: Any opposed, say nay?

 We are back in Public Session.

Liz, you'll let me know when we're ready?

(Exit Executive Session; enter Public Session.)

CHAIRMAN BROWN: Great. We are back in Public Session.

And Priscilla Bailey, great to see you live, in person, will be doing the readout today.
Thank you, Priscilla.
MS. BAILEY: Thank you, Mr. Chair.
In the Executive Session of the Passport Fund, there was a manager update. No action was taken.
In the Executive Session of the Pension Fund, there was an update on preliminary -- preliminary performance data.
The board received a number of manager updates.
There were two private equity presentations. Consensus was reached on all two.
There were two infrastructure presentations. Consensus was reached on all two.
There was an alternative credit presentation. Consensus was reached.
Details to be made available at the appropriate time.
CHAIRMAN BROWN: Great, thank you, Priscilla.

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And I think we have concluded our business in Public Session. Before we adjourn, I just want to thank our recorder, Will, who did a fantastic job today, and Daniel, our TRS IT person, for assisting. So much appreciated, guys. Thank you very much.
And is there a motion to adjourn?
MR. DORSA: So moved.
CHAIRMAN BROWN: And is there a second?
MS. MCGRATH: Second.
CHAIRMAN BROWN: And is there any discussion? Hearing no discussions, all those in favor of adjourning, please say aye?
(Ayes were heard.)
CHAIRMAN BROWN: All those opposed, say nay?
We are adjourned. Thank you.
(The proceedings concluded at 2:19 p.m.)

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