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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING
Held on Thursday, October 1, 2020
Via
Zoom Videoconference

ATTENDEES:
DEBRA PENNY, Chairperson, Trustee, TRS
THOMAS BROWN, Trustee, TRS
DAVID KAZANSKY, Trustee, TRS
JOHN ADLER, Trustee, Mayor's Office
CYNTHIA COLLINS, Trustee, Mayor's Office
JOHN DORSA, Trustee, Comptroller's Office
SUZANNE VICKERS, Trustee, Comptroller's Office
NATALIE GREEN GILES, Trustee
PATRICIA REILLY, TRS, Executive Director
THADDEUS MCTIGUE, TRS, Deputy Executive Director
VALERIE BUDZIK, TRS
LIZ SANCHEZ, TRS
SUSAN STANG, TRS
RON SWINGLE, TRS
SANFORD RICH
SHERRY CHAN, Chief Actuary
STEVE YUAN, Mayor's Office

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ATTENDEES (Cont'd)
SUMANTA RAY, Mayor's Office
ARISTEA AFTOUSMIS, TRS
DAVID LEVINE, Groom Law Group
ISAAC GLOVINSKY, TRS
ROBIN PELLISH, Rocaton
EMMA O'BRIEN, Rocaton
JULIE MOORE, Rocaton
KATIE PIRO, Rocaton

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P R O C E E D I N G S

(Time noted: 10:04 a.m.)

MS. REILLY: Good morning. Welcome to the October 1, 2020 TRS Teachers meeting. I'm going to start by calling the roll.

John Adler?

CHAIRPERSON ADLER: Here.

MS. REILLY: Thomas Brown?

MR. BROWN: Here.

MS. REILLY: Natalie Green Giles?

MS. GREEN GILES: Here.

MS. REILLY: David Kazansky?

MR. KAZANSKY: Present.

MS. REILLY: Russell Buckley?

MR. ADLER: Russ is not going to be able to make it today.

MS. REILLY: Debra Penny?

CHAIRPERSON PENNY: Present.

MS. REILLY: Susannah Vickers?

MS. VICKERS: I'm here.

MS. REILLY: We have a quorum.

I'll turn it over to the Chair.

CHAIRPERSON PENNY: Thank you very

much.

We'll start with the first thing, the public funds August 2020 performance.

And Emma, I believe you're taking that over for us?

MS. O'BRIEN: Yes. Good morning, everybody. Robin will be joining around 10:15. So I will get started with the review for the August performance report. I'm also joined by my colleagues Katie Piro and Julie Moore from the equity team.

MS. REILLY: Before you start. You all received the documents that were mailed to you, e-mailed to you, that Rocaton will be going over. So you should refer to those documents. If you didn't receive the documents, you can just e-mail Liz right now. She put her e-mail address in the Chat, and she'll forward you all the documents.

Thank you.

MS. O'BRIEN: Before we get into performance for the Passport funds, I thought I'd spend a minute on what

happened in the markets during the month of August. We saw another strong month for equity markets, particularly U.S.

equities. Looking at the S&P 500, this was up 7 percent for the month of August, which is the best August on record since 1986.

August also marked the fifth straight month with positive gains within the S&P 500. The index gained 35 percent during the period, which is the largest five month gain since 1938. So really what we've seen is a pretty incredible bounce since the lows in the market back in March.

We continue to see two stories play out within the equity market, particularly the U.S. equity market. One is the performance dispersion between large cap stocks and small cap stocks. So if you look at the year to date period through August, U.S. large cap stocks were up 10 1/2 percent. U.S. small cap stocks were down 5 1/12 percent. That's about a 16 percent dispersion that's

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happened year to date for the first eight months of the year.

Even more notable is the disparity between growth and value stocks. Year to date growth stocks are up 30 1/2 percent. Value stocks are down 9.4 percent. That's a 40 percent difference between growth and value, just in an eight-month period.

This is the trend that we've seen really over the last decade, that growth has consistently outperformed value. But it's been really more amplified so far in 2020. And it's really been driven by a few large cap tech stocks. So, if you think of Amazon, which was up 87 percent year to date; Apple was up 77 percent year to date; FaceBook and Microsoft, up about 44 percent year to date.

These four stocks are really the driving force behind the growth market as well as the broader U.S. equity market.

Looking at international markets, they did rally in August, returning 5.2 percent; still down about 4 1/2 percent

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year to date, but started to see a rebound in August.

Emerging markets equity up 2.2 percent in August, and now in positive territory year to date.

Finally, fixed income markets flat to slightly negative, as we saw yields move modestly off of their historically low levels during the month.

If we think about how this translates into performance for the Passport funds. If you look at the August flash I'm going to focus on the first page of this (indicating).

Starting with the diversified equity fund, assets were $16.4 billion as of the end of August. The fund returned 6.1 percent versus 6.6 percent for the hybrid benchmark, and 7.2 for the Russell 3000.

If we look at the underlying composites that make up Variable A, the passive equity composite, which is about 60 percent currently, tracked the benchmark for both August as well as longer trailing periods.

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The defensive strategy composite was up 4.2 percent for the month of August, trailing the benchmark return of 6 percent. This has really been driven by the low vol strategy within the composite, as they have struggled to keep pace over the year-to-date period. Their value style has really been a headwind over this period.

Looking at the actively managed U.S. equity composite, this was up 5.3 percent versus 7.2 percent for the Russell 3000. Over the year-to-date period, this composite is down 5 percent versus 9.4 for the Russell 3000.

Our next discussion topic is actually -- review of this composite, so I don't want to spend too much time on the performance drivers. But there's really two key points to make here.

One, there's a small cap bias in the portfolio. And two, there's a value bias in the portfolio, which has hurt performance year-to-date.

If you look at performance for the

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individual manager level, it's actually been quite strong when benchmarking to their individual benchmarks.
Furthermore, each manager's benchmark has actually underperformed the Russell 3000 for the year-to-date period; again, because of the small cap bias and the

value bias within the portfolio.

Back to the comments I had made on Apple, Amazon, FaceBook and Microsoft really being the drivers of the performance within the U.S. equity market. These four stocks make up 14 percent of the Russell 3000, and it's only one and a half percent of the active U.S. equity composite. So that alone is a pretty significant driver of performance dispersion.

And then finally, the international equity composite very modestly lagged the benchmark for the month of August and is still outperforming by over 2 1/2 percent year-to-date.

Moving on to the balanced fund. As of the end August, about $511 million in

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assets, in line with the benchmark for both August and longer trailing periods.

The international equity fund, total assets of $188 million. As I mentioned, very modestly lagged for the month of August and is outperforming for the year-to-date period.

Looking at the sustainable equity fund, it's had about $341 million in assets; returned 4.9 percent for the month of August and trailed the benchmark return of 10.3 percent.

There's one manager within this fund, Brown large cap growth. They showed very strong performance within the first half of 2020 and have seen some performance challenges through July and August.

The benchmark for this strategy is the Russell 1000 growth, where we've seen an increased concentration in these tech related mega-stocks. Apple, as an example, makes up 12 percent of the Russell 1000 growth. Microsoft makes up 10 percent. And as a result, this fund

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does have exposure to those names. Due to their risk control, they're capped at 5 percent. So they have a pretty big underweight to these mega-cap tech stocks, which has really driven the performance in July and August.

And then finally we look at the two newly added index funds, the U.S. equity index fund and international equity index fund. The U.S. equity index fund has a market value of $20.1 million as of the end of August; international has $3.1 million as of the end of August.

Both were tracking in the month of August. If you look at the year-to-date period, more significant tracking, and that's as a result of the cash flows that occurred at the end of March. If you look at the underlying mutual fund performance, it's in line with the benchmark.

I'll pause there and see if there are any questions.

MR. KAZANSKY: Emma, my question really is around value and growth. So,

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is value just dead? Is the expectation that its day is gone, it's never going to outpace growth as far as returns are concerned? And does that generally mean that we should be rethinking it, or is this something that Rocaton views as a temporary thing, even though temporary has been ten plus years?

MS. O'BRIEN: So, when we think about styles, they do go in and out of favor. What we've seen with growth has been pretty extraordinary given the time period growth has been in favor. So we would expect at some point that value will come back in favor. It's really hard to know when, particularly with what the drivers of growth have been.

Julie from our equity team, as I mentioned, has joined. I don't know if you have any additional views.

MS. MOORE: What we've seen with value managers is the importance of value managers continuing to evolve. So I think some of the value managers that were historically fixated on just buying

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low PE stocks and thinking that was the whole value story, and that if you just buy low PE stocks, that will be enough.

And what we've seen is that the value managers that have done a little bit better and that will probably fare better as value comes back, will be the people that are a little more open-minded about the value spectrum and that are thinking about this evolution that we've seen within the industry, and are thinking about how companies are evolving and thinking about what this world of Amazon and delivery and working from home and what this will all mean; as opposed to just looking back at ten years of history and saying "Let's just buy the cheap stocks, they were cheap, they will come back."

We still think there is a role for value, that value is not dead, and that if you were to go all into growth now and ignore value, you would be leaving, potentially leaving some money on the table, but also potentially piling into

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growth at a very expensive time and perhaps at the wrong time and miss the opportunity for value.

The challenge is when value will come back. We thought value will come back for many years with the rest of the industry, we thought it would be coming back. And so we never would expect that the IT sector would represent 40 percent of the growth benchmark like it did in '99. But if you think about what happened after '99, then we had 2000.

So you do have this market that will continue to evolve. If you think about how the indices have evolved, health care used to represent a growth sector. Now health care is more of a value sector.

So it's making sure you have value managers that can be a little more flexible in how they're thinking about value and thinking about different factors. So we found those have been the value managers that have been more successful, as opposed to some of the ones that have been sort of much more

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strict about, it must be just about PE.

MR. RICH: Can I offer a view on this, please?

CHAIRPERSON PENNY: Mr. Adler?

MR. ADLER: I'd like to hear Sandy, because my question is about a different topic.

MR. RICH: So, I'm expressing a view, I'm not asking a question. I believe the foundational problem is that our lack of performance is related to our belief that we can actually predict when value is better than growth, when growth is better than value, when any individual stock is better than the index.

We have systematically failed to meet what is basically an unmanaged index exposure, which could have been implemented at far less expense. This is the root of the issues that I have brought to my Trustees to deliver to this committee.

There is a foundational belief in our Trustees at BERS and in our staff, in our strategy department and in our

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consultants Siegel and Aksia, that there is no demonstrable ability of any individual to determine these things. Index exposure is better, long term exposure to index is far better; drive down expenses and do not believe that you can --

CHAIRPERSON PENNY: I have to stop you there, Mr. Rich, because that's your opinion and we certainly will make decisions the way we see fit. But I thank you for your opinion.

Mr. Adler, you had something else to add?

MR. ADLER: I have two questions about the fund report here. The first is concerning the balanced fund. I note that -- and this is probably for Susan Stang -- that the assets in the balanced fund are up to $510 million now. And when we switched to Variable B from a bond fund to a balanced fund about a year ago if I remember correctly, the assets were down below $400 million.

So I believe that the increase --

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it's just interesting to me, I don't know if you have any insight into the increase. I guess the balanced fund is more appealing to folks than the bond fund? Is that what you would say?

CHAIRPERSON PENNY: Susan, we can't hear you. You are on mute.

(Talking over each other.)

MS. STANG: The balanced fund. I think when we changed it from the bond fund to the balanced fund it was probably about $400 million. So I think you can't really conclude much going from 400 to $500 million, because a third, 30 percent of that is growth in the international markets, which there has been some; right? And there probably has been some inflows to the balance fund.

Ron probably could -- I don't have the exact numbers, but it's been a couple million bucks a month; right? And I think we changed from the bond fund to the balanced fund greater than 12 months ago.

So I wouldn't read too much into the

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difference between 400 and 500, actually. I don't think that --

MR. ADLER: Okay; that's fine. Thank you.

My second question is about the sustainable equity fund.

So, Emma, you mentioned that one of the reasons for the underperformance, even though it's a large cap growth oriented strategy, is the limits on the holdings of individual securities.

My question is, given where the market is, are those limits we should think about?

MS. O'BRIEN: Typically we like to see managers that have risk controls in place stick to their guns, even in periods where we are right now, where we've seen notable and amplified performance from tech managers.

So I think of it differently, where the fact that Brown has kept to their 5 percent max to an individual security as actually a positive.

MS. PELLISH: I'm jumping in; sorry.

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I don't think we're necessarily imposing, although these are guidelines for the mandate, I don't think we're imposing them on Brown in a way that alters the way they would typically invest their portfolio.

So, I think most active managers want to be reasonably diversified and recognize that over some period of time they will not participate in these very strong momentum driven markets.

The absolute returns of course are very good, but it's been impossible keeping up with the large cap growth index. And I don't think we want to see managers alter their investment style, particularly one which has generated pretty good relative returns over long periods of time.

MR. ADLER: Got it. Thank you for answering those questions.

CHAIRPERSON PENNY: Any more questions about that?

(No response.)

So we're ready for the next topic.

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So the next topic is the diversified equity fund. We're going to talk about the U.S. equity composite review.

Robin, are you going to do that?

MS. PELLISH: Yes, I will take that.

CHAIRPERSON PENNY: Terrific.

MS. PELLISH: So, let me just give everyone some context, remind everyone what we're trying to accomplish here.

From time to time over the many years that the Variable A fund has incorporated an allocation to actively managed U.S. equity mandates, the topic of whether this is an appropriate allocation within the diversified fund, that discussion has taken place at the board level. And this is a repeat of that discussion; not a repeat of that discussion, but this is the kind of discussion we should have periodically. Is the investment structure within Variable A, does it continue to be appropriate given how capital markets evolved, potentially how other offerings in the Passport funds have evolved and

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how participants evolved?

So this discussion is very much in the mode of the kind of review of various segments of Variable A that we have had in the past, that we will continue to have going forward.

And you may recall that we had detailed discussions of the international component of Variable A, probably over a year ago, made some changes to that portion of the program. And following the review of this section of Variable A, we'll turn to the defensive sector in subsequent meetings.

So, we try to lay out in this deck the various questions that have been raised by TRS, by Rocaton and by the Board about using active U.S. managers within Variable A. And I encourage people to ask questions and make comments as we go through. This is a fairly long deck, we tried to be really thorough.

And I think you will note we didn't end the deck with a recommendation, because there are a number of different

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paths we could go down in terms of this composite, and there are issues and advantages associated with each one of the paths, and we try lay those out.

So with that, let me launch in on Slide 2 (indicating). What you will see is an introduction to this discussion. We know here that this discussion is particularly timely because there have certainly been performance challenges of this composite relative to the broad U.S. equity market, as measured by the Russell 3000 index.

We note that the performance challenges have been particularly notable over the last five years.

So, with that, let's turn to Slide 4 if we can (indicating), and look back a little bit. How did we get to where we are today in terms of this composite?

So, the entire Passport fund structure has evolved over many years in which it's been offered to members. And Variable A's structure has certainly evolved over the years. For many years

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the composite represented about 20 percent of Variable A. And during that period of time, the composite included two components; three quarters of this composite was compromised of risk control or enhanced index strategies. They were primarily large cap, in some cases small cap. And the focus of those strategies was to generate modest alpha and to have very minimal tracking relative to the benchmark.

And then a quarter of this composite was compromised of what we call eclectic managers. These are very style-specific managers which made larger bets relative to their benchmarks, had larger tracking error relative to their benchmarks; and in aggregate took much more active risk in the hopes of generating incremental active return.

So, in the years leading up to 2014

there was a lot of discussion about whether this is the right structure for this particular composite within Variable A. And a couple of changes were made to

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this composite beginning in 2014.

First, it was decided that the use of enhanced index and risk controlled managers wasn't optimal; that we had a very large index allocation and that if we used active managers we really wanted them to take more risk relative to the benchmarks in hopes of generating higher incremental returns.

And so, that led to the elimination of the risk control mandates, and we targeted a higher tracking error versus the broad market.

It was also determined that we would reduce the size of this allocation and focus on the highest conviction managers and not worry about whether this composite itself, because it was going to be a smaller component of Variable A -- not worry whether it was diversified by style and cap size; but really focused on finding the managers that we have the highest conviction in, in terms of adding incremental returns relative to the manager's specific benchmark.

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And so, today, we have a composite which has a target of up to 15 percent of Variable A, but not a mandate to be at 15 percent. And, in fact, today this composite is about 10 percent of Variable A, has seven managers. And because we have focussed on managers, we take relatively high tracking error to the benchmarks. And we haven't been focused in having a diversified composite within this 10 percent.

We have ended up having a value style bias and a smaller cap bias relative to the Russell 3000 index.

That's the composite as it stands today.

So, we can turn to Slide 5. I presume folks will interrupt if there are questions. I will not pause for questions, but happy to answer any that are generated.

So, if we turn to Slide 5, we're looking now at manager changes over time.

And Rocaton was founded in 2002, so we only have in our database information

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going back to 2002. That's why we're using that as a starting point.

If you start in 2002, there were nine managers in the composite in 2002 calendar year end. Of the original nine managers only one is left, and that is Sound Shore, and they've been in place since the 1980s, a very long tenure in Variable A.

Over the past 18 years we've hired 17 managers for this composite and terminated 19 managers. So manager changes have occurred for two primary reasons.

One, we lost faith in their ability to generate the kind of incremental returns the composite was targeting. And two, because of the structural changes that we imposed, as I just discussed.

We eliminated a handful of risk control enhanced index managers, INTECH and PIMCO stock plus and Wellington and Martindale and T. Rowe Price. The bars highlighted in green are managers that were terminated primarily because we

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decided to focus on higher tracking error managers.

The managers that are highlighted in this yellow-ish or orange-ish color are managers that were terminated because of underperformance or because of organizational issues that we thought would lead to underperformance. And then the blue bars represent managers that are currently in the portfolio.

So, this is sort of a timeline of how we got from 2002 to the current manager composite.

So, with that, maybe we'll talk about performance, start to talk about performance on Slide 6 (indicating).

So, we've noted that we have in the composite today pretty styled focused managers. So they're focusing not on tracking the benchmark closely, but on exploiting a particular sector, opportunities within a particular sector of the U.S. equity market.

So, if we look at the list of managers on the bottom half of Slide 6, you can see that each one of these managers is either value or growth managers that, the majority of managers are value managers; and that we have four smaller cap managers, one all cap manager and two larger cap managers.

So, this roster gives you a visual of the fact that we have, relative to the Russell 3000, we have a bias towards smaller cap stocks and value stocks.

MS. MOORE: I wanted to add one thing. Before you joined the call, there was a question about whether this current composite was reflective of a Rocaton view, that we were trying to take a style bet or trying to take a cap bet.

And it really is not. The decision was made to, as you said, the decision was made to have, not to worry about diversification within this portfolio and really to focus on the highest conviction ideas.

So this is not taking any kind of a -- Rocaton doesn't know when value is going to come back. Rocaton doesn't know

when small cap is going to come back. And we're not trying to take any kind of timing bet in here.

This is purely a reflection of the highest conviction managers relative to their individual benchmarks, which may not be relative to the Russell 3000 that I know you're going to talk about. I just wanted to make that point clear.

MS. PELLISH: Thanks, Julie.

So, we have the 831 market values for each one of these mandates. And then we have some performance information. This is very summary, over the past five years, excess return for each one of these mandates relative to their specific benchmark. And they each have a benchmark that's targeted toward their specific style.

And then we have their since-inception excess return and we have the inception date of all of these mandates. And you can see, with the exception of the Wasatch micro path, which was added in 2019, they've all been

in place for at least six years, and

Sound Shore of course goes back to 1981.

Over the past five years we've seen underperformance from three of these managers to the tune of about 100 basis points, and outperformance of -- one of the managers hasn't been in place for five years, but the other three managers have outperformed by significantly more than 100 basis points.

And since inception, all of these managers have outperformed their specific benchmark.

And I know the Board is aware of this, but every time we talk about a performance number relative to a specific manager, this is after their investment management fees.

MS. GREEN GILES: Robin, that was going to be my question. Do we have those fees? Do you have those handy?

MS. PELLISH: Actually, you have them. I can tell you them, but you have them in your performance report which I don't have right in front of me.

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Emma -- would you like us to note them? We didn't put them in because this is sort of the public record and we don't provide those in the public record. But I'm happy to talk to them, if you would like.

MS. GREEN GILES: That would be helpful, I think.

MS. PELLISH: Sure.

Emma, can you mention those?

MS. O'BRIEN: Sure.

Do you want to know the specifics or the range of fees?

MS. PELLISH: Why don't we go through the specifics, it's just seven numbers.

MS. O'BRIEN: So, NewSouth is 45 basis points, 0.45 percent; Diamond Hill is a performance based fee, the estimated annual fee is 10 basis points; Sound Shore, 20 basis points; Wasatch small cap growth, 81 basis points; Cardinal small cap value, 70 basis points; Shapiro small cap value, 90 basis points; and the new Wasatch micro cap, 100 basis points.

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MS. PELLISH: Thanks, Emma.

So the smaller cap managers are between 70 and 100 basis points. The larger cap managers are between 10 and 45 basis points.

MR. ADLER: These numbers on this slide are net? Just to confirm.

MS. PELLISH: Yes; they are net of asset management fees paid by Variable A.

MR. ADLER: Thank you.

MS. PELLISH: Sure.

If there are no more questions on this slide, let's turn to the next slide. The next slide is very colorful (indicating). China presents information in a user friendly way. Let me describe what we're trying to illustrate with this graph.

We're trying to talk about the market environment over, particularly over the last five years, but I think it extends beyond five years.

And what we're showing on this chart is the relative performance of value versus growth and small cap versus large

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cap, and how the active manager composite has performed in this environment.

So first, let me point to the green line that hovers around, that has been hovering around the zero line for most of this period of time; and then has descended into negative territory, particularly over the past five years.

That is the rolling three year excess return of this composite. So it is the net return -- and again, every time we show you the composite return or the manager return, this is after all of investment management fees.

So, this is the return of the composite relative to the Russell 3000 on a rolling three year basis.

We've compared that, then, to the market performance of value and growth stocks. That is shown in the yellow line, where you can see the relative performance of growth stocks in the U.S. equity market versus value stocks. And every time that yellow line dips below the zero line, that means that value

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stocks are outperforming. Every time it goes into positive territory, above the zero line, that means that growth stocks are outperforming.

And so, you can see that, exactly as

you would expect, there are periods of time historically when growth outperforms, there are periods of time historically that value outperforms. It's pretty cyclical and it's impossible to predict with any degree of precision.

What you can see is something we all know, and we've mentioned quite a few times already this morning, that growth stocks outperformed significantly, very significantly for a fairly long period of time. And you can see that by the vertical ascent of the yellow line into territory where growth stocks are outperforming significantly.

The orange line shows the same, provides the same information. But instead of growth versus value, we're looking at large versus small.

And so, again, you can see there are

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periods in which large cap stocks outperformed, and that's shown in the reddish orange, is above the zero line. And you can see there are periods of time when small cap outperformed, and that is shown when this reddish line dips below zero.

And what you can see as we get to the end of the time period here, is that large cap stocks have had a sustained outperformance.

So, net takeaway here is that the composites underperform and had significant underperformance relative to the Russell 3000 over the recent years. It's coincident with the sustained outperformance of large cap and growth stocks.

If there are no questions on this slide, maybe we'll turn to some other performance data on Slide 8 (indicating).

So, this slide is focused on the U.S. active composite from a number of perspectives. First, let me turn your attention to the bottom half of this

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slide, where we're looking at the U.S. active composite return; again, after investment management fees, over the past three years and over the past five years.

You can see, these happen to be periods of time ending in July, I think, when we ran this data, end of July. But over the past three years the U.S. active equity composite has generated an average annual return of about 4.1 percent; over the past five years, about 5.1 percent.

You can see the Russell 3000 index return. That compares to double digit returns over the past three and five year periods.

What we've been saying is the Russell 3000 is not a particular apt benchmark for this composite because of the nature of the managers being used in this composite over this time period.

So what we did was, we took the individual benchmarks from each one of these managers and we weighted it, we re-weighted those benchmarks every quarter going back over the past five

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years, based on the weighting to those managers over the past five years.

So we created a custom benchmark which is comprised of the individual managers' benchmarks, whether it's the Russell 1000 value, the Russell 2000 growth, whatever the individual manager's benchmarks were, we added them together weighted by that particular manager's allocation within this composite. And we created that custom benchmark in the U.S. equity composite.

We've never shown this in any reports. But this is what it would look like if we'd shown it quarter by quarter. And that benchmark looks much more like the active manager performance because it actually reflects the value and small cap bias that is reflective in that composite of seven active managers.

So you can see that over the past three years the active managers in aggregate have outperformed this composite benchmark, and over the past five years they've trailed by about 110

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basis points.

So, I think this is just another illustration of how different the composite is today versus the Russell 3000. That difference is depicted in the top half of the page. In the right hand side you can see how tracking error has increased. And that, again, was a deliberate effort. We wanted to increase tracking error relative to the Russell 3000, and we have.

And on the left-hand side of this page you can see, this is just another way to look at the style of the composite, which is the green square versus the style characteristic of the Russell 3000, which today is larger cap and more growth oriented than the composite.

So this information, all of this information are just different ways in which to illustrate the risk characteristics of the composite today versus the Russell 3000.

Any questions on this page?

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Hearing none. I feel like I'm beating a dead horse a little bit on Slide 9. We do this on a holdings basis, we show you what the top ten holdings are of the portfolio in 2017.

And let me -- we compare that to the next slide, which is in 2020. And I think, I'll point you to one number, a dizzying array of numbers. But if you look at this slide, Slide 9. In 2017 the percentage of the aggregate holdings of these managers -- we downloaded each one of the manager's portfolio holdings -- if you added them all together, about a third, 32.5 percent, you can see this number on the bottom left hand corner of the slide -- about a third of this portfolio had a market cap of less than $10 billion.

At the same time, the Russell 3000 had about 18 percent of its market cap, less than $10 billion.

If you go to the next -- so 33 percent versus 18. If you go to the next slide, fast forward three years to 2020,

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that 33 percent of holdings with market cap less than $10 billion went up to 52 percent in this composite, became even smaller bias, and the Russell 3000's allocation to small cap stock actually went down from 18 to 15 percent.

So we've moved, we were smaller cap in 2017 in the Russell 3000 and we've increased that gap over the ensuing three years.

I'd like to move from the specifics

of the characteristics of performance of the U.S. equity composite to widen our perspective, to look at active management in U.S. equities more broadly.

But before I do that, any questions, comments?

(No response.)

Can you still hear me online?

MR. MCTIGUE: We can hear you.

(Laughter.)

MS. PELLISH: I have a nightmare that I continue to talk for hours and no one is there. (Laughter.)

So we turn to Slide 12. This is

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Rocaton's general philosophy about active management. And we acknowledge that active investing is a zero sum gain. You can't all win. For every winner there's a loser.

And actually, in aggregate, the entire pool probably is a net loser because there's trading costs involved and asset management costs. So it's very much, at best a zero sum gain. So it's a hard game to play and there are both winners and losers.

And there are lots of reasons to invest actively and there are a lot of reasons not to invest actively. And we talk about some of the criteria that we think should be considered when deciding whether you want to be an active investor; and that includes whether there are good passive investments.

For example, in high yield, there really isn't an investable high yield index. But in public market equities there are very good investable indices.

How efficient the market is, which

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simply put means the likelihood that you can identify the misvalued securities, that are misvalued by a margin large enough to allow for trading costs, and that allows you to generate an incremental return relative to the benchmark.

Your time horizon, you really have to be a long term investor to be an active investor, because the market is so cyclical, and even great managers underperform for sustained periods of time.

And finally, how much time and effort you want to put into this exercise; because whatever market you're investing in, if you invest actively it requires a commitment of resources both from the staff perspective of identifying and reviewing these managers, as well as the board level of having these kind of discussions.

So we note here that the U.S. equity market has been a challenging market for active investors and is generally thought

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to be one of the more efficient asset classes; again, identifying misvalued stocks is particularly difficult, because of the availability of information and the number of well-informed investors who are trying to buy most mispriced securities.

So, now what we're going to do -- that's our philosophy, that this is a tough game to play, a particularly tough game to play in the U.S. equity market.

Let's look at the actual experience of active managers. I will -- there's a lot of words on Slide 13, so let's turn to Slide 14 where I think it's much more usefully presented, same information.

Now we're talking about the universe of active managers. And we use a database, the investment database, which is a manager database that's used by most of the large consulting firms. It's a very good database, because it's not promoted or managed by any one consultant. It doesn't reflect the biases. It's a database that virtually

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every institutional manager provides data to. It's a pretty good database.

And what we're looking at here is the performance of active managers in that database, and here we're looking gross of fees. So this is pre-asset management fees, because that's the way the data is provided, because fees, even for a given manager, fees will vary based on the size of the mandate and the particular portfolio, et cetera. So this is all gross of fees.

And what we're looking at here is both total returns and excess returns after the benchmark. So, on the top half of page 14 we're looking at the median manager, so the 50th percentile manager total returns. We're not looking at after benchmark returns, we're looking at total returns. We're looking at specific peer groups within this database. We're looking at large cap growth, large cap value, small cap growth and small cap value. So there's four quadrants.

And we're looking at two time

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periods; the three years ending June 30 and the five years ending June 30.

On the top, let's focus on, for example, on the top left hand box. So, over the three years ending June 30, 2020, the median -- again, 50th percentile manager over this time period -- in the large cap growth manager peer group, did by far the best; okay? Ad nauseam, large cap growth has outperformed everything else in the U.S. equity market, and actually globally, but particularly in the U.S. equity market. So, no surprise, the median manager in this peer group generated a return of almost 18 percent on on average annual basis over the past three years.

And even if you slide over to the right, that same peer group generated an average annual return of over 14 percent through the last five years, very much the place to be, if you could predict these cycles.

If you look at large cap value managers, they generated total return

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over the past three years, on average, of 3.3 percent. This is again the median manager. The median manager earned 3.3 percent pre-fee over the past three years and a little better over the last five years, 5.6 percent average over the last five years.

If you look at small cap value, worse place to be, combines the onus of small cap and the onus of value. And so over the last three years the median manager lost 3 percent a year over the last three years.

And if you held that median manager over the last five years, you did a little better, positive returns of less than 2 percent.

So, these are the total returns gross of fees.

Now we look at how the median active manager in each one of these peer groups did in terms of excess return relative to their specific benchmark. So, again, relative to Russell 1000 growth, Russell 2000 value, the appropriate benchmark for

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that peer group.

So, we saw that over the past three and five years, large cap growth managers had the best performance. But that was only true in total return. In fact, you were better off if you held the Russell 1000 growth index over those two periods of time; because what the bottom half of the page shows on the left-hand side, is that the median large cap growth manager actually underperformed the Russell 1000 growth index by over 100 basis points over the last three years, and by slightly more than that over the past five years.

The best place to be in terms of relative returns over the last three and five years was in small cap growth. So, even if you assume you're paying your small cap growth manager about 100 basis points, which is true for Variable A, you were rewarded for investing actively in small cap growth as if it were passively.

In the other three quadrants that really hasn't been true over the past

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three and five years, particularly over the past five years. In large cap you had negative returns gross of fees. In large cap value the Variable A has very good large cap value fees, about 20 basis points. So you would have been rewarded by 70 basis points. The average investor would not have been.

And in small cap value, after fees, the median manager generated negative returns.

So you can see, not a great picture for active management over the past three and five years, particularly for large cap growth managers, but similarly true for value managers as well. The only place where active management was particularly strong over the past three and five years was small cap growth.

Any questions on this page?

(No response.)

The next question that arises, I think naturally from Slide 14 is: That's how the median manager did, but can you even identify the median manager with any

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accuracy?

So, the way we try to answer that question is, we use the same database and the same peer groups. And we have a page for each peer group in this deck. But now we're looking at the large cap growth peer group. And we're looking at this characteristic known as persistence. And performance persistence simply refers to the probability that a manager that has done well over a time period A will continue doing well over time period B.

Do good performing managers tend to stay good performing managers, and the bad performing managers tend to stay bad performing managers? Or is there a lot of movement within the peer group? We know there's movement in terms of relative and total returns across peer groups. So sometimes value is strong, sometimes growth is strong. But even within a peer group managers move around a lot.

So the way we look at this is to take the five year period that ends June

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30, 2015. And then we look at the separate five year period that ends June 30, 2020. So there's no overlap in the two time periods. And we're looking at the same peer group, large cap growth managers.

So we look at the large cap growth manager peer group for the first five year period, and we look at the top quartile managers, and we isolate the top 25 percent of managers in that peer group. That's the bar on the far left of the slide.

And then we look at where those individual managers fell in that large cap growth peer group for the next five years. So, what this bar on the left-hand of Slide 15 tells you is that, of the top quartile managers for the first five year period, about 30 percent were once again top quartile managers in the second five year period. Those are good managers, they had a great ten year run.

About a quarter of them fall into

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the second quartile. So about 56 percent of top quartile managers are above median for the subsequent five year period. But about 43 or 44 percent of that top quartile manager peer group falls below median for the next five years.

If we look at the managers who are second quartile for the first five year period, we see slightly better outcomes, about 36 percent were in the top quartile. But again, a substantial percentage, in this case 41 percent, fell below median. And about, almost a quarter of those second quartile managers fell to the bottom quartile in the next five years.

And as we flip through the next three slides which go through large cap value, small cap growth, small cap value, we can see a consistent pattern. And we've done these analyses almost every year at Rocaton. And the fact is, although the numbers change a little, the theme is the same; which is that there is relatively little performance persistence

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among U.S. active equity managers.

And what the importance of that is, is that it makes historical performance of a given manager a criteria that should be considered certainly, and considered heavily; but it's not necessarily very useful as predictor of future performance, because there isn't a lot of performance persistence among U.S. active equity managers.

Any questions on this data?

MS. GREEN GILES: I just want to say that this is an extraordinary analysis, hugely, hugely helpful to understand. Because I guess the knee-jerk would be, of course we should be investing and not in active management.

But now I say that based on everything you have told me. I say that with huge conviction. And I really, I think this is extraordinary. I just want to go on the record saying that.

MS. PELLISH: Well, thank you.

I will say that it highlights, as you've just pointed out, it highlights

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the difficulty of selecting strong performers in the U.S. equity space. But it does say it's not an impossible task. There are some, there's a substantial minority of managers who have shown performance persistence. It's not an impossible task, but certainly a very difficult task.

So I'm not going to go through the next three pages, because they show the same level of lack of persistence for the other peer groups.

Any other questions about this data or comments before I go to the concluding pages?

(No response.)

So, if we turn to Slide 20, I'm trying to wrap this up. Hopefully we've made clear a couple of important points. The first is that there are very significant style biases within the current composite, and have been for a number of years; which makes benchmarking to the Russell 3000 problematic. So it's simply not a useful benchmark. And I

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take responsibility for this. We persistently included the Russell 3000 benchmark for this composite. I think everyone would have been better served if we had used a more custom benchmark which reflected the actual characteristics of the composite. We would have seen that the composite underperformed the Russell 3000, but would have also had more information about how the managers had been doing relative to their own specific benchmarks.

I think we've also highlighted the challenges associated with selecting active U.S. equity managers due to the issues associated with performance persistence.

And finally, the fact that there's been significant turnover of the managers within the composite; but that all of the managers currently in the composite have added value to their benchmarks over the period since their relationship with Variable A began.

So they've all added return relative

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to their benchmark since inception and all of them are highly rated by Rocaton.

So this is a good group of managers. I don't think we have significant issues with any one of these managers. But the reality is that, in aggregate, the fact that they're smaller in value, value-oriented, has detracted from the overall returns of the fund, which is benchmarked to the Russell 3000.

So, on the following slide we try to lay out a couple of, three different alternatives that the Board might consider as we discuss the question of whether we should consider modifications of the current composite.

So the first alternative we lay out is to maintain the composite but make it more cap in style, neutral to the Russell 2000. So go back to the period of time before 2014 when we consciously strove to be very diversified within this composite. And the benefits obviously would be lower tracking error relative to the Russell 3000.

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And since we would have to add managers to this composite to make it more diversified, I know that one of the initiatives that Rocaton shares with the Board is the interest in considering and evaluating more diverse managers for the Passport funds in general, the opportunity to add managers certainly gives the opportunity to consider diverse factors.

There are issues associated with moving to this more diversified approach. We've talked about the challenges associated with outperforming in the U.S. equity market, adding more managers, consciously going towards an objective of lower tracking error I think increases the challenge of adding value after fees.

And then, we would have to undergo a significant time and effort associated with identifying more mandates. And Rocaton's happy to do that, that's part of our responsibility. But that would obviously also closely involve the TRS staff, and the Board would have to spend

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time and effort on this.

The second approach we outline here is to maintain an approach similar to what we're doing today, and, in fact, what we're doing in the pension fund, which is primarily employ index strategies. So the bulk of U.S. equities in Variable A is indexed, the bulk of U.S. equities in the Teachers pension funds are indexed.

But we could selectively add managers with the highest conviction level. And this group of managers would be benchmarked not against the Russell 3000, but against a custom benchmark which is much more useful in evaluating the ability of this group of managers to add value, given their particular styles and strategies.

So the benefits of this approach include the ability to allow us to continue to use high conviction managers. It creates an opportunity for incremental returns for the total fund. Although we recognize that, since this is a

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relatively modest allocation within Variable A, the net impact on the total fund's results would be modest. But it's a very large fund, billions of dollars, so every basis point of real dollars that we can provide for our members.

And then finally, we do have, as I mentioned, the managers currently in the composite have added value relative to their benchmarks since inception, and most of them over recent periods of time, and they're high conviction managers.

And so, changing our approach significantly would mean terminating high conviction managers. If we pursued Alternative 2 we would not have to terminate high conviction managers.

Of course, there are issues with every approach. The issue associated with Alternative 2 highlighted here are that we can't guarantee there won't be performance challenges going forward. And even though these are high conviction managers who added value relative to the benchmark, if the current phenomenon of

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large cap growth outperforming everything else in sight continues, this composite will likely continue to underperform the broad U.S. equity benchmark.

And then, to the extent that we have a very specific style bias within this portion of Variable A, there is a possibility that we would have to adjust the indexing approach that we use today. So, for example, in the extreme, if every manager in this composite was small cap, we would probably want to reduce, modify the way we're indexing U.S. equities to avoid an overweight to U.S. small cap in aggregate throughout the portfolio.

Today that's not a particularly big issue because we're not entirely small cap. But if we had a total small cap or total value bias we would have to adjust the way in which we index. And that in fact has been done in the pension fund. They divided it up into so large cap indices and small cap indices. So the retention of active managers could be reflected in changed weights within the

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index strategy.

And then, finally, we added a third alternative path, which is to de-emphasize the role of actively managed U.S. equities and eventually eliminate this composite from Variable A. So, we highlighted the benefits.

There's a fee benefit because fees, active managers certainly charge higher fees than the index strategy, which is very, very low. But you have negotiated very -- the staff has done a particularly good job of negotiating very low fees in these strategies. And I think, given the size of the composite, this has very modest impact on the total fund. But there would be a modest reduction of fees.

We reduced the opportunity to outperform, but we also reduced the risk of underperformance.

And finally, it does eliminate some of the time and effort associated with this part of the program for the staff and Board. But there also are issues

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associated with Alternative 3. We've eliminated the risk of underperformance, we eliminate the potential for outperformance. We reduced the opportunity to add diverse managers to the total fund. We would have to terminate some managers who are very good managers and have actually outperformed their benchmarks, some by very substantial margins.

And then, finally, I do want to note that over recent periods we added a U.S. equity index option to Passport funds, that's Variable F. And so, it could be argued that fully indexing U.S. equities within Variable A is somewhat redundant because we've already offered that option to participants in Variable F.

And so, happy to answer any questions, but that concludes the information and analysis I wanted to bring to the Board. And I would be interested in hearing feedback, questions, input from the Board as well as TRS.

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CHAIRPERSON PENNY: First, Robin, I want to thank you for laying this out, an incredible amount of work and a lot of information, certainly a lot for us to think about.

And I also want to stress, since this is public session, this represents 10 percent of our Variable A?

MS. PELLISH: Yes.

CHAIRPERSON PENNY: I want everyone to be clear on that.

So do we have any questions from the Trustees for Robin? We'll certainly be talking about this in the future. Questions?

MR. KAZANSKY: I'd like to -- again, this information is fantastic. And I think, and Robin, I appreciate the fact that you stole a little bit of my thunder. Because my argument for diversified equity was, it was really the only option for our members to get access to the equity market. That would one of them.

But we have this new U.S. index

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which is really truly just a passive attempt.

But I guess my question is regarding the benchmarking. Is the strategy to move forward with benchmarking to bring to the Board ideas on how the benchmarking could be, for lack of a better word, more appropriate for this particular sector? Or is that something that Rocaton is going to analyze, do and put in place? Or is that something that comes to us for analysis, or both?

MS. PELLISH: I would want the Board to approve. I don't know if the right word is "approve." But I would certainly want to present any change in benchmarking. That's an important part of the work we do with the TRS staff. So we would come to the Board with a proposal about how to change the benchmarking for this composite, and how that might be reflected in the total fund benchmark. Because using the Russell 3000 in the current composite is just not meaningful.

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So I would, to the extent this composite is retained in any way, shape or form, we'd want to re-examine benchmarking and bring specific recommendations back to the Board.

MR. KAZANSKY: Do you have a time frame on that, by any chance?

MS. PELLISH: Depending on the decision of the Board, we could come back next month. It's not going to look very different from what we already presented to you. So we would, really what you want is, you want a benchmark to answer the question of: Has this group of, individual manager group of managers, added value relative to the indexing of alternatives?

And the indexing alternative for this composite is the composite of the indices against which individual managers are evaluated.

So we would bring to you a weighted composite of those benchmarks. So it would look very similar to what you've already seen, but we would provide more

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substance and detail mostly about how that would affect the total fund benchmark.

MR. KAZANSKY: Great; thanks.

MR. ADLER: Let me echo my appreciation to Rocaton for the work that you did for this deck. I think it's fantastic. And personally, I think it makes a very compelling case against using active management. Because the thing about, if we just changed the benchmarking is, I think the slides demonstrate that the individual benchmarks against which the active managers are measured, even if you weight them together, persistently underperform the Russell 3000; because not only is active management persistence hard to come by, but cap and style choices are hard to come by in terms of persistence, in terms of outperformance.

So I feel like, with the active management composite, we are not getting compensated for the risk that we're taking.

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And while you mention that -- you lose the opportunity for outperformance. I feel like the theory is that, much more, but there's a risk of underperformance both from the cap and style choices as well as the active managers themselves.

And truthfully, I'm less interested, we can have a high conviction manager who outperforms the managers, the individual benchmark, and still -- I think that one chart with the different boxes on the page demonstrated that the best outperforming managers still underperform the overall benchmark.

And my view is, that's taking money out of the pockets of the members.

And let me ask the question also of the Teachers, not just of Rocaton, which is: There is a point in the deck where it talked about time horizons and the long term time horizon. And obviously, the pension fund has a very, very long term time horizon as far as our liabilities -- where basically we have

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risk sharing, risk pooling, longevity risk.

It's actually on Slide 12, I think, where it says a longer investment horizon is necessary. And then it says, "If investors are unwilling to have a long time horizon, successfully investing in institutional active management becomes more challenging."

So my question to the Teachers is, these are your members. I don't think that anybody -- not that everybody has a long term investment horizon, because it varies according to the age of the member and their own plans for their money and so on.

So personally, I'm a little reluctant, but I would appreciate your input, as to say, okay, we're doing this for this longer time horizon where not all the members are in a tax-deferred annuity and individual account have a longer time horizon.

What is your thoughts on that, Teacher members?

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CHAIRPERSON PENNY: I think that's what members take into consideration. We're trying to remind members as soon as they start, sometimes in their 20s, to start investing in the TDA. A lot of them think, because they're so young they go with the variable, they go with something a little riskier because over time it's going to make money.

And in the past we found that people when they're getting ready to retire they were going more towards a fixed.

But it depends. Certainly what we always say is, this is long term, this is for the long haul.

I don't know. David or Tom?

MR. BROWN: I echo what you say, Debbie. Our members know that investing in TDAs is definitely for the long term, and they know the advantages of long term investment and accrual of interest.

So, I echo what you say.

MS. VICKERS: Aren't we giving them, it's their choice, and we're giving them, our job is to create a variety of choices

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and give them the best choice with the most information as possible. But which fund they choose to invest in is up to them.

MR. ADLER: Let me point out one thing about that, which is, not all the members of TRS have the choice to invest in any of the variable funds beyond Variable A; that some had the choice of Variable A, I believe, but don't have the choice to invest in B through F, or however many letters you go.

MS. GREEN GILES: Unless I'm

mistaken, all BERS members do not have a choice in the Variable A; is that correct?

MR. KAZANSKY: That's right. Only TRS members have the option currently for all of the options.

MS. GREEN GILES: So John's point is very well taken.

MR. ADLER: I want to make one other point, which is that, we adopted investment beliefs as a board exactly two years ago, October 2018. And one of the

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beliefs, "We favor the use of indexing to implement public market investment strategies, except in those cases in which a compelling case can be made that active management can reap incremental benefits for the funds."

And I believe this deck does to make the case that active management can reap incremental benefits for the funds. And I'm totally open to having more discussion about that. But I'm not convinced, and I think that our position should be that our default is indexing, and that we have to be convinced that active management reaps incremental benefits.

And I think what has happened historically is that it has reaped incremental losses for the fund's active members.

MR. BROWN: I understand that all members in TRS cannot invest in the other Passport funds. But actually, what percentage of TRS members who are eligible to invest in the other Passport

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funds other than diversified actually do invest in those funds?

Would you know that, Susan?

CHAIRPERSON PENNY: All members in TRS can invest in all those funds. I think we're getting confused and we have to be very clear. This is not a BERS meeting, this is a TRS meeting. And I don't want anyone in the public to think they cannot. All Teachers' Retirement System members can invest in all of the choices.

I'm sorry, go ahead, continue.

MR. BROWN: What percentage of our members actually do invest in funds other than Variable A? Not the fixed, but the other funds, other than fixed and Variable A and diversified. Do a large percentage of our member invest in funds other than the fixed and diversified?

MS. STANG: I can't give you the numbers exactly; but the answer is a large percentage of people have money, a little bit of money in a lot of different funds; what you see when you go to the

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participants.

MR. BROWN: Thank you for that.

CHAIRPERSON PENNY: Again, Robin, thank you so much. The purpose of this was for you to explain it, and you laid it out very clearly. Certainly a lot to think about and a big decision to be made.

If we're done with that topic we'll go on to the next one, which is the emerging markets equity screening project.

MR. ADLER: One more question. What is our process now for making decisions about the active management sleeve in the Variable A?

CHAIRPERSON PENNY: If the Teachers want to talk about it a little bit more amongst ourselves, then what would we do, Robin?

MS. PELLISH: Sorry?

CHAIRPERSON PENNY: If the Teachers members want to talk a little more amongst ourselves, what will the process be?

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MS. PELLISH: I think we can certainly -- this is a lot of information on an important topic, and I did not expect the Board to make a decision today. But I'm happy first to take away any additional requests or questions that the Board wants clarification on. And we can revisit this topic next month if the Board members think that makes sense, and maybe reach a decision at that time after everybody had an opportunity to digest this information.

CHAIRPERSON PENNY: So does anyone need Robin to do any further digging on any of these?

MR. KAZANSKY: It doesn't sound to me -- I would say from the vibe in the room, but we're not in a room -- that keeping things as they are is probably not where we're at, and that there seems to be some desire amongst the group to either explore a bit deeper into choices 2 and 3 on your kind of --

So, is there kind of a more detailed explanation and information that you can

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give to us as selecting option 2, which is kind of scaling back active as opposed to selection 3, which is just slowly getting rid of it?

MS. PELLISH: I can provide some detail around impact on fees, and it might require going into executive session for that discussion of the impact of fees for both approaches; and additional detail on how you might implement alternatives 2 and 3.

CHAIRPERSON PENNY: Great; okay.

Any other questions on this topic?

Robin, so that's what you will work on next?

MS. PELLISH: Yes.

CHAIRPERSON PENNY: Thank you.

I guess we're ready for the emerging markets equity screen.

Robin, you'll do that again?

MS. PELLISH: Yes. That's a very brief discussion. I just wanted to add this to the agenda just to make sure that no one thought we had forgotten about this process. You recall a number of

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months ago the Board agreed on at least a preliminary process for evaluating screening emerging market equities using a couple of criteria, and using both the MSCI and Sustainalytics databases. The Bureau of Asset Management now has both those databases. I've gotten some preliminary screens.

Susannah, I don't know if you want to comment on this. We had some conversations about this. And the plan is to come back to the Board at the November meeting, present the results of that screening. And I think the kinds of questions we want to answer at this point is: How many companies would be screened using this criteria, using these databases? Are these companies actually held in the active manager portfolios within the pension fund, the variable fund?

And if so, what are the active manager comments on the fact that we raised red flags about these companies?

So we wanted to provide a fairly

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detailed level of information to the Board about what would arise from using the screening process we outlined several months ago. We're now in a position to do that.

So that concludes, unless, Susannah, you have anything to add to this?

MS. VICKERS: Not really. Somebody might ask, I'll just remind everybody, that in addition to that screening discussion of our own process, we will be before the end of the year receiving our first annual screening report from Sustainalytics.

CHAIRPERSON PENNY: Great.

Any questions or any other comments?

(No response.)

I guess we are ready for a motion to go into executive session.

Do I hear a motion?

MR. BROWN: So moved.

MS. VICKERS: Second.

CHAIRPERSON PENNY: All in favor please say "Aye."

(A chorus of "Ayes.")

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All opposed?

(No response.)

We are moving into executive session.

(Brief discussion off the record.)

(Whereupon, the Board moved into executive session.)

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CHAIRPERSON PENNY: So we're ready to go back into public session. Do I hear a motion to go back to public session?

MR. BROWN: So moved.

CHAIRPERSON PENNY: Is there a second?

MS. GREEN GILES: Second.

CHAIRPERSON PENNY: All those in favor of going back in?

(A chorus of "Ayes.")

We are going back in.

(Whereupon the Board returned to public session.)

CHAIRPERSON PENNY: Susan, you want to report out?

MS. STANG: In executive session we received one manager presentation. Consensus was reached on a path forward and a vote was taken, which will be announced at the appropriate time.

We also received one manager update.

CHAIRPERSON PENNY: Thank you.

Is there anything else we have to do in public session?

(No response.)

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Then do I hear a motion to adjourn?

MR. KAZANSKY: So moved.

MR. BROWN: Second.

CHAIRPERSON PENNY: All in favor of adjourning, please say "Aye."

(A chorus of "Ayes.")

Any discussion?

(No response.)

We stand adjourned.

(Whereupon, at 11:44 a.m. the meeting was concluded.)

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

I, Jeffrey Shapiro, a Shorthand Reporter and Notary Public, within and for the State of New York, do hereby certify that I reported the proceedings in the within-entitled matter, on Thursday, October 1, 2020, and that this is an accurate transcription of these proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this 4th day of October, 2020.

JEFFREY SHAPIRO