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Proceedings

NEW YORK CITY Teachers' Retirement System
INVESTMENT MEETING

Held on Thursday, October 4, 2018, at 55 Water
Street, New York, New York

ATTENDEES:

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

REPORTED BY:

YAFFA KAPLAN
JOB NO. 2467123

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ATTENDEES (Continued):

- SUSAN STANG, Teachers' Retirement System
- RON SWINGLE, Teachers' Retirement System
- ROBIN PELLISH, Rocaton
- THAD McTIGUE, Teachers' Retirement System
- VALERIE BUDZIK, Teachers' Retirement System
- LIZ SANCHEZ, Teachers' Retirement System
- SAM RUMLEY, Office of the Actuary
- DAVID LEVINE, Groom Law Group
- CYNTHIA COLLINS, Mayor's Office
- PAUL RAUCCI, Teachers' Retirement System

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MR. ADLER: Good morning, everyone.

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Welcome to the Teachers' Retirement System of
the City of New York investment meeting for
October 4, 2018.

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Pat, will you please call the roll?

7

MS. REILLY: John Adler?

8

MR. ADLER: I am here.

9

MS. REILLY: Thomas Brown?

10

MR. BROWN: Here.

11

MS. REILLY: David Kazansky?

12

MR. KAZANSKY: Present.

13

MS. REILLY: Lindsey Oates? Debra

14

Penny?

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MS. PENNY: Here.

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MS. REILLY: Susannah Vickers?

17

MS. VICKERS: Here.

18

MS. REILLY: We do have a quorum.

19

MR. ADLER: Great. Thank you. Okay.

20

With that, we will proceed with our public
agenda and turn it over to Robin to walk us
through the performance reviews.

23

MS. PELLISH: Thank you. The first item

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on the public agenda is the August performance

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of the Passport Funds, and I believe that

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everyone should have a copy of the August
report because this is the same report that
was e-mailed in advance.

5

So August continued to be a strong month
for US equities. You see that the Russell
3000 Index was up 3 and a half percent for the
month. So year-to-date the Russell Index is
up 10.4 percent. The Diversified Equity Fund,
which is diversified into international as
well as defensive strategies, underperformed
the Russell and very slightly underperformed
the hybrid benchmark due primarily to the
allocations to international and defensive
strategies which underperformed the very
strongly performing US equity market.

17

The Balanced Fund rose about 60 basis

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points for the month, so year to date that is

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up about 1 percent. The International Equity

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Fund, as we mentioned, was a negative period

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for international equities, and so in contrast

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to the year-to-date performance of over 10

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percent for the US equity market, the

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international composite benchmark, which is a

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combination of developed markets and emerging

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2 markets year-to-date period is actually
3 negative, so that's both local market
4 performance as well as the impact of the very
5 strong dollar hurting, negatively impacting
6 US-dollar-based investors and nonUS equities.

7 The Inflation Protection Fund was up 33
8 basis points for the month and is a little
9 over 1 percent for the year-to-date period,
10 and the Socially Responsive Fund lagged its S
11 & P 500 Index benchmark. Was up about 2.7
12 percent for the month, and year-to-date is up
13 close to 9.9 percent, very close to the S & P
14 500 return.

15 So there is a lot more detail in the
16 subsequent pages about individual manager
17 performance. I would say that the active
18 managers are lagging in general. Particularly
19 in US equity composite, so small lags for the
20 month and quarter, but the year to date we are
21 behind about 200 basis points. Still very
22 strong return for year to date. In absolute
23 numbers, 8.3 percent for the first eight
24 months of the year. Pretty big number. But
25 nonetheless, the portfolio value strategies

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2 have underperformed the broad equity market.
3 It's been very -- a very -- it's an equity
4 market dominated by growth stocks. So the
5 largest growth stocks -- you heard about the
6 FAN stocks, so I think we have a
7 diversification across value in both
8 companies, but we don't have momentum growth
9 strongly represented in this portfolio and
10 that's what really worked this year.

11 So that is at least a partial
12 explanation of the lag. So I am happy to talk
13 about anything specific with regard to the
14 August.

15 MR. ADLER: Just looking at one manager,
16 Wasatch, I mean, those numbers are like off
17 the charts.

18 MS. PELLISH: They are off the charts.

19 MR. ADLER: I mean, the one-month number
20 of 11.4 and then a year-to-date of 30 percent.
21 I mean, oh, my God. So --

22 MR. KAZANSKY: I hope they are watching.

23 MS. PELLISH: I will get back to the
24 Board on that. I don't know what specific
25 holdings they have. The interesting thing is

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2 that if you look at those very notable
3 figures, but then you look at the longer term

4 performance, longer term performance over
5 three years has been very good. So they are
6 outperforming by 200 basis points, and if you
7 go out to five years, they are lagging by 200
8 basis points. We will get the specific
9 securities, but I think this is just the case
10 of they had underperformed for a period of
11 time and now the names are finally coming
12 back.

13 MR. ADLER: Okay. Any other questions
14 for Robin on the August report? Okay. Move
15 on to September.

16 MS. PELLISH: So we have a preliminary
17 report for September and a more modest month
18 in September but still positive. Seventeen
19 basis points for the Russell 3000. The
20 developed markets did relatively well during
21 the month of September, so the composite
22 benchmark, which again is a mixture of
23 developed and emerging markets was positive by
24 70 basis points. So for the calendar year to
25 date for the international composite

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2 benchmarks, slightly less negative. The
3 defensive strategies of the benchmark were
4 flat, and for Variable A on the diversified
5 equity fund, we think that the benchmark will
6 be up a little over 25 basis points. So for
7 the calendar year for the Diversified Equity
8 Fund year to date through September, we see a
9 return of 70.8 percent. For the one-year
10 number, 14 percent, and for the three-year
11 number, an average annual return for that
12 benchmark of over 15 percent. So very robust
13 numbers.

14 For the Balanced Fund benchmark because
15 bonds, this is primarily -- it's 70 percent
16 bonds so bonds were affected so slight loss
17 from 7 basis points for the Balanced Fund
18 benchmark. We mentioned that -- I mentioned
19 that developed markets had a positive return
20 -- developed nonUS equity markets had a
21 positive return for the month. When you
22 combine that with emerging markets, which
23 actually have a US-dollar-base investor
24 perspective lost money.

25 The international composite benchmark

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2 was up about 70 basis points. The Inflation
3 Protection Fund we know was up 11 basis points
4 for the month, and the Socially Responsive
5 Equity Fund actually had a small loss of 80

6 basis points for the month. So much more
7 muted returns for September.
8 MR. ADLER: Questions for Robin for the
9 month of September? I just have a question,
10 which is that I read a little snippet on my
11 way in this morning that the ten-year T-bill
12 yesterday is up to its highest rate in I don't
13 know how long.

14 MS. PELLISH: Many years, yes. Yes.

15 MR. ADLER: So can you just give a --

16 MS. PELLISH: Yes. I think that was a
17 response to expectations of continued growth,
18 and more importantly, continued Fed
19 tightening, so implications from the Fed have
20 been that they think that it will be
21 reasonable to continue tightening. The
22 markets will continue tightening, and you
23 know, I think the unemployment rate is the
24 lowest it's been since many years as well, so
25 these expectations of rising inflation so I

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2 think exceptions of the Fed tightening and
3 inflation led to the ten-year jumping in
4 yield.

5 MR. ADLER: So just from obviously a
6 very short term but just from the very narrow
7 perspective of the fund's expected returns,
8 this is good news, right? I mean, in other
9 words --

10 MS. PELLISH: For the Passport Funds or
11 pension fund or in total?

12 MR. ADLER: I guess I was thinking about
13 either one but distinguish it for me. I mean,
14 it just seems like we have been in this low
15 interest rate environment for a very long time
16 and now it's apparently starting to revert
17 perhaps and I would think that would be a good
18 thing for -- I guess I am really thinking
19 about from the Passport Fund perspective more
20 than anything.

21 MS. PELLISH: Well, certainly you want
22 yields to rise if you are a bond investor.
23 Short-term pain, long-term gain. You want to
24 be realizing higher yields and the only way to
25 do is through live through a period of rising

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2 interest rates. For the equity market, the
3 news may not be as benign, and one of the
4 reasons I emphasize this 15 percent average
5 annual return for the past three years and 12
6 percent for the past five year for the
7 Diversified Equity Fund type of benchmark. If

8 you go up really -- let's look at the Russell
9 3000 for the past five years. We have had
10 average annual returns over 13 percent. So --

11 MR. ADLER: Seven years. It's almost 17
12 percent. It's crazy.

13 MS. PELLISH: Yes. So to put it in the
14 simplest possible terms, this feels like we
15 are borrowing from future returns. And this
16 is certainly above the expectation, well above
17 long-term averages, and so it reflects lots of
18 things including lots of liquidity sloshing
19 around in the market. Very little competition
20 from interest-bearing instruments, so to the
21 extent -- there are so many factors and so
22 many variables feed into this, but the extent
23 the yields rise, that's not necessarily a good
24 harbinger for the equity market, and the
25 unexpectedly and amazing returns we have

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2 gotten over the last three, five, seven years
3 in US equity market also I think raise some
4 concerns about what we might expect from that
5 market over the next term. On the other hand,
6 I have been saying this for years. At some
7 point like a stopped clock I will be right,
8 but I do think rising yields is good
9 eventually for long-term bond holders, not so
10 good for intermediate investors.

11 MR. KAZANSKY: So my understanding --
12 and I very well may be wrong -- was that in
13 the weeks or so before we have seen this kind
14 of yield go up, there is a lot of talk about
15 whether or not it was going to flatten out or
16 even invert and that that was going to be a
17 symbol or a sign that a recession might be
18 coming, but now you are saying that yields
19 going up also may be a harbinger of problems
20 in the equity market?

21 MS. PELLISH: Well, not necessarily
22 because of recession and necessarily economic
23 growth, but it makes borrowing for corporate
24 entities more expensive, and it also provides
25 incentives for investors to move out of equity

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2 markets into fixed income instruments. So in
3 generalizing yield -- there are so many
4 factors that drive equity market returns, but
5 rising yields are not necessarily -- not
6 typically a positive force in equity
7 valuations, right, because stocks should be
8 discounted cash flows into those companies.
9 If you are discounting them at higher rates,

10 the current value, the present value of that
11 entity is lower, of that corporation is lower.
12 So all else equal, rising rates aren't good
13 for the market.

14 MR. ADLER: Other questions for Robin?
15 So let's move to the next item which is a
16 discussion of the investment beliefs.

17 MS. PELLISH: All right. So thank you.
18 So we have circulated and there have been a
19 couple of additions to this, so we have handed
20 out the most recent version that you received
21 by e-mail, both the clean copy and the
22 redlined copy. And the statement of
23 investment beliefs really reflects --
24 actually, you know what? I want to make sure
25 that you got the most recent one. Okay, good.

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2 Thank you.

3 So there aren't significant changes.
4 There are some changes in the wording, most
5 particularly around the last and next-to-last
6 sub-bullet points, but I don't think the
7 substance of anything has changed from the
8 last time the Board has reviewed this
9 statement.

10 MR. ADLER: So any discussion of this
11 draft?

12 MS. VICKERS: No. I mean, I will say
13 that I think the edits were helpful and
14 strengthening some of the thoughts expressed
15 in the statement, and you know, from my
16 perspective it looks good.

17 MS. PENNY: And it's one page.

18 MS. PELLISH: If you manage the font
19 carefully.

20 MR. ADLER: So if there is no further
21 discussion, I think what we do is we say we
22 have consensus over this statement, and we
23 formally adopt it at the next board meeting,
24 right? So do we have consensus over the draft
25 statement of investment beliefs?

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2 MR. KAZANSKY: Yes, we do.

3 MR. ADLER: Okay.

4 MS. PELLISH: And just for the benefit
5 of the board members who aren't aware of this,
6 this is going to be inserted into the IPS as
7 the very first section, and it will also be
8 used as we work through the process of
9 thinking about the emerging market --
10 replacing the country screening process for
11 the emerging markets investments for both the

12 pension fund and the Passport Fund because
13 this document will be used as the basis for
14 more detailed discussion about how we evaluate
15 portfolio company holdings in those emerging
16 market portfolios.

17 MR. ADLER: Okay. Great.

18 Next we have the discussion of the IPS
19 review, next steps.

20 MS. PELLISH: So this was put on the
21 agenda simply to reinvigorate the process.
22 There was a lot of time spent earlier this
23 year, last year on trying to spring on you
24 IPS, update it, and make it a more
25 user-friendly document and it is not yet

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2 complete but there continues to be work on it.
3 And Susannah, I don't know if you wanted to
4 make some comments.

5 MS. VICKERS: Yes. Just to -- and it
6 took me a little bit of time to kind of get
7 refocused on where we are, so I just wanted to
8 share that with everybody. What we have is a
9 full draft of the entire IPS at this point
10 with all sections sort of the -- what we call
11 the Robin sections and the BAM sections. All
12 of those have been combined into one document
13 that has made a couple of turns in the spring
14 and over the summer. Right now, BAM, our
15 interim CIO has been handed off comments from
16 our previous CIO, and those comments have been
17 checked with the asset classes. So I expect
18 the final comments will be done in the coming
19 weeks, and we underscored for them the
20 importance of doing that quickly. And in the
21 meantime, I am going to show Robin what we
22 have so far from an investment perspective and
23 then we are hoping to do a conference call to
24 go over the draft with our little subcommittee
25 in the coming weeks and then be able to

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2 present to the full board before the end of
3 the year.

4 MS. REILLY: You are going to distribute
5 it to the subcommittee before the conference
6 call?

7 MS. VICKERS: Yes.

8 MS. PELLISH: I think the conference
9 call will be in -- I will schedule something
10 for November, so we can be more sure we have
11 -- early November so we can be sure we have
12 the version from the Mayor's office and BAM in
13 advance.

14 MS. VICKERS: Then we can give BAM staff
15 an end of October deadline to get all the
16 comments back.

17 MS. STANG: You might need a week to
18 review it because it's been a while and it's
19 not short and it's dense.

20 MS. VICKERS: End of October for the
21 November call, but I think it's in very good
22 shape.

23 MR. ADLER: Okay.

24 MR. KAZANSKY: Sounds good.

25 MS. BUDZIK: I would actually say we

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2 need more than a week to review it.

3 MR. ADLER: I was thinking that too.

4 MS. PELLISH: So mid-November, we will
5 get the version back by end of October, and I
6 will circulate some dates and see if that
7 works for the group.

8 MR. ADLER: Sounds good. Okay. So I
9 think that concludes our public agenda for
10 today. We have some executive agenda items as
11 well, so a motion will be in order in order to
12 exit public session and enter executive
13 session.

14 MS. PENNY: I move pursuant to Public
15 Officers Law Section 105 to go into executive
16 session for discussion of specific investment
17 meters.

18 MR. ADLER: Thank you, Debra. Is there
19 a second?

20 MS. VICKERS: Second.

21 MR. ADLER: Thank you, Susannah. Any
22 discussion? All in fair of the motion, please
23 say aye. Aye.

24 MS. VICKERS: Aye.

25 MS. PENNY: Aye.

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2 MR. BROWN: Aye.

3 MR. KAZANSKY: Aye.

4 MR. ADLER: Any opposed, please say nay.
5 Any abstentions? Motion carries. We will go
6 into executive session.
7 (Whereupon, the meeting went into Executive Session.)

8 MR. ADLER: Folks, I think that
9 concludes our executive agenda. So a motion
10 to reenter public session will be in order.

11 MS. VICKERS: So moved.

12 MR. ADLER: Thank you, Ms. Vickers. Is
13 there a second?

14 MR. KAZANSKY: Second.

15 MR. ADLER: Thank you, Mr. Kazansky.

16 Any discussion? All in favor of the motion to
17 go back into public session, please say aye.
18 Aye.
19 MS. VICKERS: Aye.
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21 MS. PENNY: Aye.
22 MR. BROWN: Aye.
23 MR. KAZANSKY: Aye.
24 MR. ADLER: All opposed, please say nay.
25 Any abstentions? Okay. Motion carries.

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2 We are back in public session. Susan,
3 will you please report out of executive
4 session.
5 MS. STANG: Certainly. In executive
6 session we received one manager update, and we
7 also received a presentation and had a
8 spirited discussion on defined contribution
9 plan options.
10 MR. ADLER: So I believe that concludes
11 our business for today. Is there a motion to
12 adjourn?
13 MR. BROWN: So moved.
14 MR. ADLER: Thank you, Mr. Brown. Is
15 there a second?
16 MS. PENNY: Second.
17 MR. ADLER: Thank you, Ms. Penny. Any
18 discussion? All in favor of the motion to
19 adjourn, please say aye. Aye.
20 MS. VICKERS: Aye.
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22 MS. PENNY: Aye.
23 MR. BROWN: Aye.
24 MR. KAZANSKY: Aye.
25 MR. ADLER: All opposed, please say nay.

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2 The motion carries. The meeting is
3 adjourned.
4 (Time noted: 12:13 p.m.)
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