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NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT MEETING
Held on Monday, October 5, 2015
at
55 Water Street
New York, New York 10041
10:00 a.m.

ATTENDEES:
JOHN ADLER, Chairperson, Trustee
SANDRA MARCH, Trustee
THOMAS BROWN, Trustee
DAVID KAZANSKY, Trustee
SCOTT EVANS, Trustee
SUSANNAH VICKERS, Trustee
CHARLOTTE BEYER, Trustee
MICHAEL SOHN, Alternate Trustee
PATRICIA REILLY, TRS
THAD McTIGUE, TRS

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ATTENDEES:
RONALD SWINGLE, TRS
SUSAN STANG, TRS
DAVID LEVINE, Groom Law Group
JOHN DORSA
MICHAEL FULVIO
ROBIN PELISH
VALERIE BUDZIK, TRS
PAUL RAUCCI, TRS
SHERRY CHAN, Actuary
LIZ SANCHEZ

PRESENTERS:
KURT REIMAN
TATIANA POHOTSKY
YVONNE NELSON
ROBERT FENG
ALEX DONE
JOHN PAPADOULIAS
STEPHEN BURNS
ISHIKA BANSAL
STEVEN NOVICK
PAUL KAZILIONIS

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PRESENTERS:
SUSH TORGALKAR
JOHN GLUSZAK
MARIA BASCETTA
THOMAS O'SHEA
STEPHEN OLSTEIN

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Proceedings

MR. ADLER: Good morning, everyone. Welcome to the October 5, 2015 Investment Meeting of the Teachers'

Retirement System of the City of New York. Would you please call the rollcall.

MS. REILLY: I will.

Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Thomas Brown?

MR. BROWN: Here.

MS. REILLY: David Kazansky?

MR. KAZANSKY: Here.

MS. REILLY: Sandra March?

MS. MARCH: Present.

MS. REILLY: Raymond Orlando?

MR. SOHN: Michael Sohn sitting in for Mr. Orlando.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MR. ADLER: Okay. Very good. Let's turn it over to Mr. Evans.

MR. EVANS: Thanks very much.

Go to the flip book monthly report



for August. The less said about August the better. It was a tough month. If we go to page 27, we can see how tough it was. If you remember, August was the period of time that the Chinese cut their currency rate and there was a lot of uncertainty in the market. Particularly a couple of light trading days towards the end of the month. You can see that on page 27 the U.S. market was down about 6 percent. If you look through the top panel, with EAFE down a little bit more, that's developed world and emerging markets down 9 percent. That's during -- that's the month, not the quarter. So the fiscal year to date which at this point is just two months, you've got EAFE up 15 percent. Okay, that's a big drawdown. And that's expressing a lot of angst in the market.

We saw that, if you remember, you saw little signs of this in July with emerging markets selling off in high yield, beginning to sell off. And then



it really hit a crescendo in August.

Just turning quickly to page 18, you can see the angst in the market. Volatility Index which is looking at the uncertainty expressed in futures and options in applied volatility which was, you know, in the low teens level for a long time since the crisis in 2011 was the last year of pickup. You can see August it spiked up to 40. That's extremely high. It began to settle down as the Chinese begin to be a little bit more clear about the consistency of their policy and so forth, but there's still a great deal of uncertainty about the numbers that are coming out of China.

China is, you know, the marginal growth engine for the global economy. They are trying to make a transition from an industrial export-based economy to consumption-based economy focused on internal demand. That is a really tough change to make and to make it seamlessly



is almost unthinkable. We felt some of the after-drafts of that in August. So it is important to pay attention how our portfolio is doing across the board, you know, or the defensive parts of the portfolio working. We don't know when, you know, when the market is going to get anxious like this again. We are in an environment where it is highly likely to be anxious from time to time.

Growth is very slow in Europe. It was looking good in the U.S. I did some recent readings last Friday. I was reading it was a little slower than people were thinking in terms of the employment outload. People are quick to get jumpy. The long-term treasury went under 2 percent at one point on Friday. That's jumping. That's people just going towards the safe asset. This is not all bad news when this happens. I mentioned this a little bit last time.

You can see in some of the PE stuff -- well, let's just look on page



21. You know, we have to take risk in order to get returns above what we get in the government bond, 2 percent or so. We have a 7 percent assumed rate of return. We've got to take risks, but in order to earn that return we've got to get paid for taking risks. We were

getting to the point where we were getting paid very little for taking risks. You can see that in the high yield spread from 2011 on down. The high yield spreads were narrowing to very low levels. It popped back up in the mid 500s which is a reasonable price for variety of bonds. Even the corporate bonds, the investment grade bonds have begun to go north. They are not quite at the levels we like to see going forward, but they are reasonable. We are getting paid something for taking risks.

Turn to page 23 and 24. I'm not going to go into great detail on this. This is various indexes, what do the PEs



look like. These are raw PEs. They are not as good as Rocaton does. I think Rocaton has one of the better evaluation yardsticks out there. I'm thinking of ways to work this into our book. The only problem is Rocaton is only on one of our boards, but they have one of the better graphics on this. We are back in modest levels for PEs, you have 14 times on the -- what is it, the Russell 3000 on the top. And then as you go into smaller cap on the bottom you are getting lower.

I'm sorry, I'm looking at the wrong thing. This is Russell 3000 on the top, International EAFE. So you are getting a little cheaper prices, therefore EAFE. And then you can see emerging markets down at under nine times, getting into the value range. They should be trading lower because there is a lot more risk, but we are now getting to the point where we are getting paid for taking risks.



On page 25 there is a nice graphic to what's happened to these various markets. The Russell 3000, orange is EAFE and yellow is emerging markets. Here you can see emerging markets beginning to lose altitude in June and then really beginning to pick up steam in July and then finally a strong sell off in August accompanied by the other markets as well. But emerging markets have fallen off quite substantially relative to the rest of the world.

So what's this mean for us? Well, looking at returns if we go to page 37 we can see that on a fully-winded basis at the bottom Teachers' portfolio, and this is the pre-expense number, down 364 basis points. So not nearly as much as the market because we are invested in stocks and bonds and have a diversified portfolio and we actually did not go down quite as much as the market. And you can see the detail, which is not quite as interesting underneath we did,



there is a lot of green there, developed markets. We did particularly better than the index as well as some small cap active. Both of those areas we had been underperforming recently so we got some back.

If we look at our asset allocation mix, you can see this is on page 30. Remember that on the left we are sticking to the long-term asset allocation and we are rebalancing to keep up close to that range. That means when something goes down, proportionately we buy more. When it goes down, we sell it. You can see things went down so quickly in emerging markets in August of, on page -- in August on page 30 we are actually underweight. If you took a picture today, you would see we are closer to equal weight.

So what's happening is all hell is breaking loose and we are out there buying. Well, if we had been doing



everything on an active basis and were considering and had to make a pitch, that's a hell of a time to have to do that. But when you have a policy that keeps you to a long-term asset allocation, you are actually out there buying at exactly the right time and selling at exactly the right time. Every once in a while, we'll sit down and say do we really want this much in emerging markets, do we want this much in private equity or do we want this much in real estate. And that's the time to think about it, when you are in the mood to look at long-lens allocations.

Both Rob and I will talk about that a little later, but on a tactical basis we are driving an aircraft carrier here. It gets caught a little off-course. We just want to make a slight adjustment, no sudden movements. And that's what we are doing. On the fixed income side we are exactly where you'd expect us to be,



underweight the long-term bonds and overweight in the short-term bonds. And that's to engineer an overall neutral exposure to the interest rates' sensitivity of the bond market is measured by the Barclay's aggregate. I can go into details, but I go into that every month.

MR. ADLER: And the question is underweight on convertibles the same as emerging markets, it crashed in August and we're since then have bought in to bringing it back up -- or what's going on with that, do you know?

MR. EVANS: I don't know. I haven't been focused on that. I'll take a look, John.

MR. ADLER: Okay.

MR. EVANS: When we went to rebalance which was not on this date, convertible did not stick out.

MR. ADLER: I did see convertibles did take a big hit.

MR. EVANS: Yes, they would take a



hit with equity. I can look into it. I know when we did do the rebalancing which was not on this date, convertibles were not sticking out like this. So we'll get back to you on that.

MR. ADLER: All right.

MR. EVANS: Okay. If there are no other questions on the quick monthly update we can turn to page 2, our economic report we have as you requested. And I think the timing is excellent. We have some folks from BlackRock coming in. Kurt Reiman is here as well as some other folks and we'll let them in.

(Whereupon, Mr. Reiman enters the conference room.)

MR. ADLER: Welcome to the Teachers' Retirement System. If you would introduce yourself for the record and welcome. Thank you for coming in.

MR. REIMAN: My name is Kurt Reiman. I'm a Global Investment Strategist with BlackRock. I was with



UBS for 15 years as their head of research. I live in Glen Rock, New Jersey, send my kids to Glen Rock public schools.

MS. MARCH: That's good.

MR. REIMAN: So what I wanted to do is -- can everybody hear me? I'll channel myself as my days in high school in drama club to project around the room.

What strikes me today looking at global economy and especially thinking about it through the lens of the U.S. economy which is the one that's mostly relevant to all of us, it reminds me of a time not too long ago back in June when my family went down to the Outer Banks for our summer vacation. We were there for a week. There were 17 of my family members in one house for a week. You almost have to go down for a whole week in order to make it worthwhile because of the long drive involved.

But it wasn't so much the 17 family



members that I was living with; it was the really big near-term problem. As you can imagine there's a reason why you leave home, but it was that thirty miles south of Duck, North Carolina there were people getting literally eaten by sharks and so when you went to the beach and you basically, you have -- I have a seven-year-old and ten-year-old and we had a bunch of kids. And when you went to the beach, you suddenly forgot to worry about the undertow, right, or sunblock. It was things like looking at the crest coming over the waves and seeing if there was a shark fin or not.

So we had this rule which was there had to be an adult out further than the children when they were playing. Because you are on vacation, the weather is nice, you are going to go into the water, but there had to be somebody bigger and taller than you further out, meaning that you don't have to outrun a bear, meaning you have to just be able



to outrun your friend which was the mindset we had.

So I don't want to paint the picture that there's no risk. I don't want to paint the picture that there is all sunny skies, but when I think about the global economy and the global investment environment today, I do think there are risks for us to worry about. But it seems that the things we are really worried about are pretty far afield, right. So thirty miles south in the same analogy with the sharks.

China's weakness, for example, I think is one of the things we are all really worried about and I think we should be. But I don't think yet we are at the point where we have to be worried about a global recession. I think we want to monitor it, but I don't think the risks are so large as to think this is our base case or high-probability outcome. We want to go in the water. We just have to be mindful of what the



real risks are. I think in this case, you know, having some sunscreen is probably more important than worrying about being bitten by a shark. So let me walk you through some of this.

Why are we worried about China? Well, because over the past month they have meddled, the past two months they've meddled with their equity markets. It became -- it came to a point where we would have considered what the Chinese were doing was rather desperate in trying to restore order to their equity market. It became an -- I would say, an opportunity at one point that then gave way to a mania in terms of the rise in equity prices in Chinese stocks, so to the point where some of the tech companies and social media companies in China were trading at 80 times forward earnings. Doesn't sound too dissimilar from ours 16 years ago, but it came unglued rather quickly. And that's where the desperation came in,



talking about the desperation about China, only two weeks later to see a negative number on exports and the Chinese devalued their currency by 3 percent, which by the way, a devaluation of China's currency by 3 percent is not a big move. But over a one-day period it is, so it was extreme. And I think that the Chinese found themselves reviewing their currency policy at the time that was inappropriate. It was rather tin-eared to look to their currency when they had a bad export number and their equity market was spitting up blood. Everyone assumed this was another desperate move to shore up their economy.

Looking at China, thinking about what's going on there, I would argue is what they did with their currency was trying to get it more in line with where the spot market where the currency was trading, which is what the IMF told them they should be focused on when they came



and visited China in early August.

So the fact that they let their currency weaken was a response to working to get their currency as part of the strategic drawing rights, the drawing rights that the Chinese have been working towards. And it is not likely. It is hard to predict, but in November there is a chance that they want to become part of the special drawing rights. This is a bigger issue and I don't think the Chinese devalued their currency as an export-oriented move to reshape the currency and the economy towards boosting exports. The Chinese economy doesn't respond to moves in the currency that quickly. So in our sense this was more of a geopolitical move. It was part of China becoming more of the international financial system, liberalizing their systems, trying to reorient their economy more towards the consumer and away from investment, trying to get their property




market to be more orderly. I would say the efforts to crack down on corruption, all of these things are part of a Chinese economy that is reorienting itself more towards markets and away from a state-owned dominance.

So what we are looking at is a Chinese economy that is slowing down very clearly. I think everybody would have said this was likely. Economy -- China if it grew at 13 percent every year since 2009 would have an economy that is 75 percent the size of the U.S. economy by 2020 if it continued at that pace and we know that is not likely to happen. And that is in per capita terms, 75 percent of the U.S. economy.

So let's acknowledge that China does represent a risk because it is now a larger share of global economic production. There are pathways for the Chinese economy to come to a screeching halt and for social instability to emerge.




There are 23 percent more boys than girls, more men than women in China. Use your own imagination.

Chinese people now have more income. They have more access to the outside world. They want to express themselves. They want to have freedom of thought, freedom of expression. All of this is a potential for social instability if they are not given that outlet. But as --

MS. VICKERS: I didn't get your point on what the impact of them having a higher population of males to females.

MR. REIMAN: That there is a lot of excess testosterone, is the way I would put it. Okay so, I mean, it is the outcome of the one-child policy. Sometimes these distortions for social objectives lead to unintended consequences. So we have to be mindful of that. Is it the banking system is going to become unstable and insolvent because of nonperforming loans or



because of an overheating property market. This I doubt because in the U.S. when we had an overheating property market and a credit bubble, what happened was that the public sector debt became larger because the government bailed out the banks. And I think the same thing could happen in China. And that means that I think the risk of China upsetting the apple cart and tipping over the global economy I think is still a remote risk.

And let's not just focus on the bad news. Today we got good news of the Trans-Pacific Partnership. That's making progress. That will be beneficial to a number of economies within Asia, China is not a part of that. But if it becomes beneficial to Vietnam or Singapore, China may be encouraged to take part.

Europe went through its own problems this past summer with Greece and multiple referendums in Greece and



the possibility that Greece would leave the Euro zone. Now things have seemingly quieted down. I don't think it's been fully solved. This is an unstable equilibrium that has been reached. Greece still has too high of a debt load in order to be -- in order to manage its economy. With this high of a debt stock means a sustained either slow economic growth path or recession.

So there are still strains within Europe pulling apart at the common currency. I don't think that's been resolved. But I think that the fire wall or the protections that were put in place to limit Greece's debt problem for becoming systemic within Europe or even globally, I think those fire walls are pretty strong.

We look at Spain, Portugal, Italy, France, manufacturing surveys are all above 50 which is a sign of economic expansion. The retail sales figures are coming in strong. There is a bit of a

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slowing down of the growth rate, but it is still positive. And I think what you are seeing is the efforts that the ECB took to buy bonds, expand the balance sheet, weaken the currency are all starting to play through. You've got a more competitive environment in Europe and that's been positive. To say nothing to say money supply is positive, banks are lending, people are taking out loans. And in Europe bank lending is a far more important ingredient to economic outcomes. There is a much smaller share of debt. Financing in Europe is more the banks. The stress test that took place in losing track of time, in 2013 coming into 2014 those are all resilient enough to show that Europe's banking system is now strong enough in a period of even slow economic growth to generate a better economic outcome.

Now, what is better? Well, it means 1-1/2 to 2 percent growth. This

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is not stellar, by any stretch. It is still less than what we are seeing in the U.S., which again is also not great. I mean, sort of moving around crossing the Atlantic, I mean, we are talking about a lot of economies, but the U.S. economy has been growing at a 2 and 2-1/2 percent rate. It is definitively the slowest. If you are the Fed and you see labor markets having tightened somewhat or improved and you're seeing some expansion in the consumer investment spending, you are starting to think that raising rates may be a good idea. But then at every stage of the discussion of raising interest rates something comes along. The data disappoints or the dollar strengthens or China's economy starts to look weak.

The way I describe this is kind of like you are in the airport, you've gotten to the airport at 9:30 for an 11 o'clock flight. At 10:30 they say your 11 o'clock flight is going to take off

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11:15. And then it is 11:30 because they had problems with maintenance and then it is 12 a clock because of an incoming storm, so you have to wait that out. And eventually you start thinking to yourself, waiting for that eventual liftoff, maybe today is not the day that I want to fly. Maybe I don't want to be in the air today. I think that's what the Fed is wrestling with.

And we are all also trying to understand what it means for the U.S. to be lifting interest rates with China slowing down, but representing a much larger share of the global economy. Back when the Fed raised interest rates ten years ago, the U.S. economy was the dominant in the world. Euro was just in diapers. China's economy was less than 10 percent of global GEP. Now we have a more even split between the U.S., Euro zone and China. And if these foreign economies slip, it becomes more difficult for the Fed and Yellen hasn't



established herself as the only voice that market participants should listen to. And we listen to every single Fed speaker and then we get Friday's unemployment report, which isn't abysmal. It was pretty bad on most counts, but you would anticipate that after a tightening of labor markets where you have 250,000 jobs. Eventually job growth is going too slow. So they missed their window of opportunity to raise interest rates and it may be March until they raise interest rates and it may be two times next year and two times the following year.

MR. ADLER: "Two times" meaning?

MR. REIMAN: Yes, in 2016 and 2017. That means that what we are doing is we are investing in a time of high debt, low nominal GDP growth, very little inflation with asset markets that are not cheap anymore and with much more limited earnings growth. The run-up in the U.S. stock market came because the



market was cheap. This is going back to

2009, market was exceptionally cheap and we had a lot of earnings growth. It was from different sources. You cut your interest cost, you cut your wage cost, you off-shored some of your tax expense to other countries, other jurisdictions, screwed in energy-efficient light bulbs. It all came from the bottom line.

But now we are at a point where it is more difficult to get bottom-line reductions in costs and then earnings growth as a result. Revenues are pretty punked. Energy sector has leveraged this year because of the decline in oil prices. You have a 60 percent drop in energy sector earnings. It is down 4 percent, but most of it for materials, industrials and energy companies which are in that commodity complex or end of the commodity super cycle because that's over. And it is seemingly pretty deep that it is cutting through all of the commodity sensitive parts of the



investment universe. So it is not just energy sectors that are down, but high yield has widened out because that is energy and materials.

Emerging markets are down. Reason for that, a lot of emerging markets had weakened economies. If you look at Brazil, Russia, the Middle East, large producers of commodities, that's been the large drive in EM. Look at EM. It hasn't been China. It hasn't been South Africa. It hasn't been Indonesia that has been pulling down EM; it is Russia and Brazil. So here we are with really cheap assets in the commodities space. Most portfolio managers are underweight, but they are looking at the cheapness and they don't have conviction anymore. So it is consensus underweight with no conviction and everyone is worried if you get stabilization in the global economy and you don't get deflation and you get Japan and the ECB perhaps expanding their remit and increasing the



amount of bonds that they are buying and expanding their balance sheet and the Fed delays their lift-off, so we get back into this crazy environment is bad news, is good news just like we got on Friday, S&P is up, bond yields are down. Everything is back to that weird science of monetary policy. Then what you risk is your risk is not being exposed to the parts of the market that are cheap because they may rally. And if you are underweight, then you'll underperform. So what we've been doing is our advice to investors is first and foremost try to manage the volatility. We are bouncing around here. You need airbags in our portfolio. You didn't for two years. You -- when the beta of the market just rose straight up without a setback, without a correction, think about that window of time that just passed, that window of time of excess returns and almost no volatility. If I came here in 2013 and said that we would



have the vision at '10 and the market was up 33 percent, would you invite me back next year with the fiscal cliff and Greece and China, all of the things we are talking about today. But the market was cheap then, profits were growing then. Economic recovery was still taking hold. Economies were beating the estimates. So we were -- we forgave a lot of bad news. Fed was still buying bonds, keeping rates at zero. We are talking about rising interest rates then. But just like that would have been a window, that was really hard to predict and a very high outcome.

All of that, a black swan. Everyone here is familiar with black swans, right? What is a black swan? Low probability/high-impact event. But this one was over here on the normal distribution positive. It is not the tech bubble bursting or the financial crisis or the '87 stock market crash or the Asian financial crisis, right?



Black swan is supposed to be a 1 in 100-year event. I just listed four and there's probably more. What we don't want to do is manage our portfolio to the beta over here, this positive one any more than we want to have our portfolio exposed to the negative ones.

So get the insurance wrapper, minimize volatility. How can you do that? One example is by international markets, have an overweight there. They are already braced for bad news. Japan has been an out-performer, so has Europe. They are also braced for bad news. They have better profit growth, their economies are declining better than estimated results. Profits are growing, the market is cheap. That's ballasted. Minimal volatility approaches which you can now see or smart beta, if you will. Diversification, making sure you have enough fixed income, raising cash. These are all solution sets. They are



relevant because I don't think this volatility is going away. I think we have to manage it.

Also if you are really underweight EM or energy or commodities, it may be time to building that back in in intelligent ways. We are focused on Asia with emerging markets. We are focused with metals and mining. We like drillers, super majors within the energy sector. I'm going to leave it there.

That's about all I can -- I had to be superficial in order to cover the world in 20 minutes. I apologize, but what's on your minds? I want to be able to address your questions and I don't want to overstay my welcome.

MR. ADLER: Questions? Scott.

MR. EVANS: I want to make sure the trustees don't have questions.

MR. ADLER: Go ahead.

MR. EVANS: So you lay out an environment where we can expect a continuation of the path towards modest



global growth with higher volatility.

MR. REIMAN: That's right.

MR. EVANS: And I'm wondering, what indicators are you looking at to make sure that those dots on the horizon aren't a school of sharks swimming north, you know, towards wherever you were saying?

MR. REIMAN: Thank you for building my metaphor back in. That's perfect.

Right, so first point, these things will only guide you for the next three to six months. They won't help you with this question will we be in a recession at the end of 2016. We don't know is the answer to that. Anybody who says that they know is peering off into the horizon looking for shark fins.

The Chicago Fed National Index is the best forward indicator of the economy over the next three to six months. We just had a big negative print in August. That's not good. But if you look at the sort of three-month





moving average of that, it is saying that we'll have slow modest growth, not a recession. Yield curve, another great leading indicator. If it is flat or negative, that would indicate a recession. Right now it is pretty substantially positively sloped, but we all know the Fed's keeping rates at zero.

So what if interest rates were higher? John Taylor created this thing called the Taylor rule. That's been a useful guidepost for monetary policy. His rule would say the Fed should be at one and we are at ten-year note rules. Just, is it steep? If you base it off the Taylor rule is it steep? So nobody knows. So that is not a good indicator, even though it may have been in the past. New orders, part of the institute for supply and management, that number is still above 50 as is the service numbers, as the manufacturing overall surveys. So that's come down. They are





not accelerating anymore, but they are still over that 50-line which indicates an expansion. Those would be the three primary guideposts. High-yield bond spreads are another one. High-yield bond spreads were 320 basis points last June. They are now 600 or so basis points, so they've doubled.

The good news is high yield is high

yield again and the bad news is they are telling you something more sinister about the economy. But the good thing, here's the important, I think, thing to know is not that they've widened out, because there's a lot of things going on. The healthcare issuers and the consumer issuers are doing much better. It is the energy and materials issuers that are pulling the bond spreads wider. And I would argue, yeah, parts of the U.S. economy, North Dakota, Texas will be impaired because of declining crude oil prices. I wouldn't translate that to the overall co-economy. Energy



employment is also less than 1 percent of overall U.S. employment, so it is not as big a deal as we have $2 at the pump at most places. That is a big deal; that is a big positive.

MR. ADLER: When do we think of North Dakota as a driving economy?

MR. REIMAN: At the beginning of the year everybody was saying we have a $175 billion windfall to U.S. consumers as a result of lower oil prices and spending less at the pump. But that money didn't go into consumption; it went to savings and went to paying down debt, very healthy. And also the way I think about it, you save $20 every week or so. And then after eight or nine or ten months, you've paid down your credit card. You are coming into the holiday shopping season, your balance sheet feels a little better, you get a delayed response and so all -- a snapback in global GEP growth in the second half seems unlikely based on all of the



things we were just enumerating, but something better than we saw in the first and second quarter. And trending in about a 2-1/2 percent growth rate is likely as opposed to a temporary shallow or deep prolonged recession. Those are the things we are handicapping now.

If I'm an investor and I have high volatility and asset markets that aren't really cheap anymore, I'll continue to stay favorable towards risk assets as long as the economy is trending at 2-1/4 or 2-1/2 percent. If I get the recession, that's when I'm going to be thinking about cash and ballast and lots of the foundations of my portfolio that really brace for bad news.

This is going to be an ongoing discussion point. Three to six months is all we've got and we have to continually monitor this.

MS. MARCH: Yeah. But, you know, if what happens is the normal ups and downs of the market, we'll survive that



as long as the manipulators are not helping the market to go down more than it does under normal circumstances.

MR. REIMAN: Right, and the manipulators here, are you referring to the Fed or --

MS. MARCH: No, I am not referring to the Fed at all. I am referring to the individuals who have the ability because of their knowledge to know how to manipulate the market and cause the great recessions to happen or to cause the bank loans to go bad in the early 2000s.

MR. REIMAN: And that's a great -- this is another interesting point. If you look around, if you look in the equity market, you look at the level of debt in the economy, in the consumer economy, in the business economy, they are all indicating a rather conservative stance relative to where we were pre-financial crisis and before the tech bubble burst. So I'm seeing a much more



even playing field in terms of how our investors position -- for example, coming into the financial crisis something on the order of 55 percent of American households had exposure to stocks. After the financial crisis, that came down below 40 percent and those households haven't come back in even with the recovery in financial markets. Everyone talked about this exodus out of the market and it never happened. We keep seeing --

MS. MARCH: They are keeping their

money in their mattress because even though it is not earning what it could have earned, they feel they are secure.

MR. REIMAN: That's right. So you hear from a lot of clients, they say how happy they were that they haven't gotten a 1099 from their bank in the last four years, they don't have to write a check to Uncle Sam, but they haven't earned any interest income. One of the arguments that we have been thinking



about with this whole notion of does the Fed raise rates or not.

You have $10 trillion in the U.S. economy in the form of cash and you have a lot of people moving out of their working ages into their retirement years. And if you are a retiree, are you a saver on balance or are you a debtor, chances are you are a saver. Zero interest rates is a policy to reward borrowers. People have taken out too much debt, keep rates at zero, keep interest rates down. But if you have $10 trillion in cash and raise interest rates to 1 percent, that's $100 billion in stimulus coming into the economy. Is it all going to be spent, no, just like the surplus from the oil prices weren't spent, but it could be. And saying it is out of the emergency zone, could we raise interest rates, that could also be a stimulative as insensitive. People are thinking in this mind set of, you know, where is the shark fin, not isn't



this a nice day.

MS. MARCH: The average person is thinking that way.

MR. REIMAN: That's right.

MS. MARCH: The person who has the capital truly and honestly is just continuing to bank it and earn more money on their money. But the average individual out there who is struggling with great difficulty, they are the ones who are not spending the money. And, in addition, you have the individuals who have the money who are really not spending the money, so there is a real problem.

MR. REIMAN: I think what this gets to is instead of coming out of a recovery, out of a recession, the recovery in the past would have seen the U.S. expanding at a 3-1/2 percent clip. I think the world we are living in now is a more low 2 percent economic growth environment. And we are going to be trending closer to the recession line

now than we were in the past. And we are going to have to -- as investors when the market is not cheap, we are going to have to be more astute and tactical at evaluating these risks.

MR. EVANS: Okay.

MR. ADLER: Any other questions?

MR. REIMAN: Any other questions from around the room?

MR. ADLER: Thank you very much. It was very illuminating.

(Whereupon, Mr. Reiman exited the conference room.)

MR. EVANS: Mr. Chairman, that concludes our comments too for the public agenda.

MR. ADLER: We will move into the Passport Fund. Do we need a vote to do that?

MS. REILLY: No.

MR. FULVIO: Good morning, everyone. We will start with the performance of the Passport Fund for the month of August. Scott already went

into the gory details of the August markets, so we won't spend too much time there.

The fund was down in line with the markets for the month of August. That's the Diversified Equity Fund down about 6 percent. Both benchmarks Russell 3 and Hybrid Benchmark were 6 percent. Absolute perspective was additive this month protecting on the downside with the return of negative 3.08 percent.

That was ahead of again the Russell 3, which was down 6 percent and also ahead of its custom proxy or custom benchmark at about 2.2 percent -- I'm sorry, that's 1.2 percent.

So the actively -- modestly

underperformed this month with the return of 7 percent and the international S&P Composite was down 7 percent.

So what we saw for the month was contribution and absolute terms from the Defensive Composite. Although on the



other side of things, the International Equity Composite and Active Composite brought the fund down a bit. But all in all, it performed with its benchmark.

Year to date we saw similar dynamic in terms of the underlying pieces. The fund was down about 2.3 percent. That was ahead of the Russell 3 Index, but by about 30 basis points and so right between the two. The Defensive Composite was also a contributor in absolute terms protecting, on the downside was down about 1.2 percent. The actively managed composite was roughly in line with the Russell 3000 with a return of negative 7 percent. And International was modestly negative, down about 25 basis points and lagging the EP index which returned .1 percent. So you can see the volatility in the market certainly having an impact on this fund, although the fund does seem to be tracking its benchmarks pretty notably in this.



The bond fund, $300 million at the end of August, is down about 9 basis points for the month. Roughly in line with its benchmark and year to date up to shy of 1 percent. International Equity Fund was approximately $103 million. At the end of the month was down about 6.9 percent ahead of the EAFE index. Year to date that fund is negative by about 60 basis points and is trailing the EAFE index benchmark by about 70 basis points.

Inflation Protection Fund approximately $43 million dollars was down 1.5 percent for the month. That was lagging the inflation protection about 1.3 percent and again behind CPI which was modestly flat for the month. Year to date, that's down 3.7 percent versus CPI which was up about 75 basis points.

The Socially-Responsive Equity Fund at the end of August was about $106 million. The fund for the month was



down about 5.6 percent, ahead of S&P benchmark which was down 6 percent. Year-to-date fund is down about 3.5 percent, trailing S&P which was down about 2.9 percent.

So any questions on the Passport Funds?

So maybe we'll jump ahead then and talk a little about September. Unfortunately a down month for the equity markets. You can see the U.S. was down about 2.9 percent for the month with bringing the calendar year to date to negative 5 percent. Developed non-U.S. equity was down 5 percent bringing the calendar year-to-date return to about negative 5 percent.

Defensive Composite was down about 2.2 percent, year to date about 3.7 percent.

And the Diversified Equity Fund Hybrid Benchmark which you all recall is a decent proxy how you would expect is the fund and year to date about 5



percent. We expect that to be a little ahead of where the U.S. equity markets are this year. The bond fund benchmark was up about 50 basis point for the month bringing year to date to about 1.6 percent positive.

I commented earlier about the EAFE benchmark and you can see the underlying strategies for the Inflation Protection Fund and the Socially Responsive there below the underlying potential fund down 80 protection points. And the Neuberger, sorry, down about 2.1 percent versus the S&P negative 2.5.

Any questions on that performance? I'm sorry the numbers don't look better.

MR. ADLER: If you combine this report with what we just heard from BlackRock, you would say that the prospects for us achieving our assumed interest rate for this fiscal year doesn't look great. Would you agree with that statement?



MS. PELISH: Yes.
MS. MARCH: Magic is going to happen.
MR. ADLER: Okay, Sandy is going to wave her magic wand. Thank you.
Is that it?
MR. FULVIO: Yes.
MR. ADLER: I think a motion would be in order to move out of public session and into executive session.
MS. MARCH: I move pursuant to public officer Section 105 to go into executive session for the purpose of discussing sales and securities and the retention of specific investment managers.
MR. ADLER: Is there a second?
MS. BEYER: Second.
MR. ADLER: All in favor of the motion say aye.
MS. MARCH: Aye.
MS. VICKERS: Aye.
MR. BROWN: Aye.
MR. KAZANSKY: Aye.



MR. ADLER: Any opposed?
(No response.)
MR. ADLER: Motion carries.
That concludes public session and we are in executive.
(Where the meeting went into Executive Session)
MR. ADLER: Is there a motion to go out of executive session and back into public session?
MS. MARCH: So moved.
MR. ADLER: Is there a second?
MR. KAZANSKY: Second.
MR. ADLER: All in favor please say aye.
MS. MARCH: Aye.
MS. VICKERS: Aye.
MR. KAZANSKY: Aye.
MR. BROWN: Aye.
MR. ADLER: Motion carries.
Susan.
MS. STANG: In executive session of the variable fund, one manager update was received.

In the executive session for the pension fund, several manager updates were received.

A real estate investment was presented. Consensus was received, which will be announced at the appropriate time.

Update on a current real estate investment was presented.

Update on the timeline for the asset allocation was presented.

A presentation on expected returns in the general state of the private equity market was received.

Changes to the language in the IPS were discussed.

MR. ADLER: Thank you. Is there a motion to adjourn?

MS. MARCH: So moved.

MR. ADLER: Second?

MS. VICKERS: Second.

MR. ADLER: Any discussion? All in favor please say eye.

MS. MARCH: Aye.



MS. VICKERS: Aye.

MR. BROWN: Aye.

MR. KAZANSKY: Aye.

MR. ADLER: Any opposed? Thank you.
Meeting is adjourned.

(Time noted 3:00 p.m.)

C E R T I F I C A T E

STATE OF NEW YORK )
: ss.
COUNTY OF KINGS )

I, CHARISSE ROMEO, a Notary Public within and for the State of New York, do hereby certify:

That the above proceedings are a true record.

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

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of _________, 2015.

_____________________
CHARISSE ROMEO