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Proceedings

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM  
INVESTMENT MEETING

Held on Thursday, November 1, 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
- THAD McTIGUE, Teachers' Retirement System
- MELVYN AARONSON, Teachers' Retirement System
- JOHN DORSA, Comptroller's Office

REPORTED BY:

YAFFA KAPLAN  
JOB NO. 2467345

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ATTENDEES (Continued):

- SUSAN STANG, Teachers' Retirement System
- RON SWINGLE, Teachers' Retirement System
- ROBIN PELLISH, Rocaton
- MICHAEL FULVIO, 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
- SUMANTE RAY, Mayor's Office
- PAUL RAUCCI, Teachers' Retirement System
- SANFORD RICH

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MR. ADLER: Good morning, everyone.  
MR. KAZANSKY: Good morning.  
MR. ADLER: Thank you. Welcome to the Teachers' Retirement System of the City of New York investment meeting on the first Thursday of November, November 1, 2018.  
Thad, will you please call the roll?  
MR. McTIGUE: John Adler?  
MR. ADLER: I am here.  
MR. McTIGUE: Thomas Brown?  
MR. BROWN: Here.  
MR. McTIGUE: David Kazansky?  
MR. KAZANSKY: Present.  
MR. McTIGUE: Lindsey Oates? Debra Penny?  
MS. PENNY: Here.  
MR. McTIGUE: Susannah Vickers?  
MS. VICKERS: Here.  
MR. McTIGUE: We have a quorum.  
MR. ADLER: Thank you, Thad, and with that we will turn it over to Rocaton to take us away on our public agenda.  
MR. FULVIO: Great. Good morning, everyone. So we will begin with September and

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talk through a little bit on a high level what the markets did, what that translated in terms of performance of the Passport Funds.  
Obviously, at the end of September, we started seeing a little bit more volatility in the markets and that's persisted into October, -- through October I should say. At the end of -- I should say for the month of September, you will recall the US equity markets had a modest positive return for about positive 20 basis points. In developed markets outside the US, we saw actually a stronger environment, returns just shy of 1 percent there, positive 1 percent, and then in emerging markets continued weakness as we have seen throughout the year. The emerging markets proxy for the system was down about 70 basis points during the month of September.  
So all told, as you will note, the performance figure, the Diversified Equity Fund actually kept pace with the equity market. It had a return about positive .2 percent relative to the hybrid benchmark that was pretty much in line as well. Year to

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2 date, that brought the Diversified Equity  
3 Fund's return -- calendar year to date that  
4 is -- to positive 7.3 percent, and for the  
5 same time period, the broad US equity market  
6 was up about 10.6 percent and the hybrid  
7 benchmark up about 7.7 percent. Really again,  
8 what drove returns during the month of  
9 September was, you know, modestly more  
10 positive performance from nonUS.

11               And then as far as the other parts of  
12 the program, you know, year to date, the  
13 defensive composite up about 4.4 percent nonUS  
14 markets, as a whole slightly negative, and in  
15 absolute returns performance from obviously  
16 passive and the actively managed US equity  
17 composite, you know, more in line with the  
18 broad US equity markets. There are some  
19 relative underperformance from the active US  
20 sleeve in the fund.

21               For the Balanced Fund for the month,  
22 during September that fund was down about 9  
23 basis points roughly in line with its  
24 benchmark. That brought the calendar  
25 year-to-date return for that fund to about

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2 positive 90 basis points. The International  
3 Equity Fund with positive returns of about 60  
4 basis points for the month, the calendar  
5 year-to-date return for there was down about  
6 1.7 percent roughly in line with its  
7 benchmark.

8               The Inflation Protection Fund, the  
9 return for September was positive to the tune  
10 of about 10 basis points. Year to date that  
11 fund is up about 1.3 percent, and the Socially  
12 Responsive Fund having a tough month in  
13 September, down about 80 basis points versus  
14 the S & P, which was up by about half of a  
15 percent. The year-to-date return for that  
16 option is plus 9 percent versus the S & P at  
17 about plus 10.6 percent.

18               So I will pause there and see if there  
19 are any questions on September.

20               MR. ADLER: Any questions for Mike?

21               Okay.

22               MR. FULVIO: So I noted the increased  
23 volatility in the month of October.

24               MR. KAZANSKY: We noticed.

25               MS. STANG: Skip to the resolved.

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1 Proceedings

2 MR. FULVIO: You know what? I wish we  
3 had more at this point but unfortunately we  
4 don't with it just being the first day after  
5 the month was how active management did more  
6 broadly during the month, and generally  
7 speaking, hopefully the volatility helps  
8 managers differentiate themselves, active  
9 managers differentiate themselves versus the  
10 broad market, and we will certainly report  
11 back on that as we get more information, but  
12 in the US, you can see through Tuesday the US  
13 equity market measured by the Russell 3 was  
14 down by about 8.4 percent.

15 Yesterday was a positive day in the  
16 markets to the tune of about 1.45 percent, so  
17 that number should be a little bit better for  
18 the month but calendar year to date through  
19 October 30th, the US equity markets were only  
20 up 1.3 percent, so October as you will note  
21 erased a lot of strong numbers we saw so far  
22 during 2018.

23 The International Composite Benchmark,  
24 that was down about 9.3 percent, and what  
25 drove returns there was pretty consistent

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1 Proceedings

2 underperformance or negative numbers, if you  
3 will, across developed and emerging markets.  
4 And then in the small cap space, small cap was  
5 down a little bit more than the broad market  
6 there. Small cap down in nonUS about 11  
7 percent. The underlying benchmark for the  
8 defensive strategies composite, you can see  
9 there down by about 6.6 percent, so we would  
10 expect to see some downside protection as we  
11 would have hoped from that part of the  
12 program. Calendar year to date, that  
13 composite is up about half of a percent versus  
14 the broad US up about 1 -- about 3 percent.

15 The Balanced Fund benchmark we will  
16 expect to see down about 2.6 percent for the  
17 month. And then as we look at the other  
18 options, the Inflation Protection Fund's  
19 underlying strategy was down about 1.3 percent  
20 probably with a flat calendar year-to-date  
21 return for that fund. The Socially Responsive  
22 Equity Fund's underlying strategy down about  
23 8.3 percent and probably looking at a zero  
24 year-to-date return for that strategy.

25 So I will pause there.

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MR. ADLER: Any questions about October?

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Any answers about October?

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MR. FULVIO: No answers.

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MR. ADLER: Okay.

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MR. FULVIO: So the next item on the

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agenda is verbal update with respect to the

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review of the screens for emerging markets.

9

At this point in the process, we have talked

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to three providers out there that we think

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could partner -- serve as partners with the

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System to structure a process that allows the

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System to review and evaluate the portfolios

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so that you can ensure that the belief

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statements statement is, you know, filtering

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into the portfolio so that there aren't any I

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would say significant positions in the

18

portfolios that are notably contrary to what

19

you would like to see given those beliefs.

20

So at this point we have actually gotten

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proposals from two of those three providers,

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and I think, you know, we will continue to

23

work with them to refine, but what stands out

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I think being a very key part of this process

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is leaning on that provider to sit around the

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table with us and provide insight as to how

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they would envision synthesizing the beliefs

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-- the thoughts and the beliefs statement into

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points of evaluation and scoring the

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underlying portfolio holdings. So think of

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these providers as having all the data metrics

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and scoring metrics to track portfolio or

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holdings if you will on a variety of different

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factors. What are the factors and at what

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weight do we need to create a process so that

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the lens with which you review the portfolio

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is structured around the beliefs statement?

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So I think that's going to be an iterative

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process, and we look forward to helping these

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providers refine their proposals a little bit

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more further but also working with the Board

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to provide some of the insight on how we

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refine that process and construct that

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process, and then I think another key input

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will be, you know, how we define the review

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working with the managers so that they can

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understand, you know, given the TRS beliefs

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what are we seeing in their portfolios today

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that might otherwise lie outside, you know, of

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1                               Proceedings  
2 where we want to be. And allowing managers to  
3 understand that process I think is very  
4 important.

5               So in our minds, the next step is we are  
6 hoping to get a proposal from the third  
7 provider as well, and then what we will do is  
8 talk through with the Board the different  
9 proposals. At this point the cost seems it's  
10 more modest and minimal and we wouldn't expect  
11 this to be, you know, something that would be  
12 of significant cost to the System, but looking  
13 at the proposals, understanding how they  
14 intend to work with the Board and maybe  
15 informing them better as to how, you know, we  
16 can get the beliefs statement into their  
17 process for evaluating the portfolios. So --

18               MS. VICKERS: I'm sorry if we had  
19 already decided this, but I don't recall how  
20 we thought we would address the passive  
21 portfolio because this kind of scenario would  
22 work for active managers. And then in terms  
23 of the index providers, did we talk --

24               MS. PELLISH: We did not. I think it's  
25 an interesting and an important question, but

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2 it has not been addressed yet. We have been  
3 focusing on the active managers, but that's  
4 clearly something that should be addressed.

5               MS. VICKERS: So maybe once we have our  
6 active strategy more thought out, then maybe  
7 we do passive.

8               MS. PELLISH: Yes.

9               MR. KAZANSKY: So one thing that I was  
10 noticing as we have been having this  
11 discussion over the past however many  
12 investment meetings was the concern that we  
13 have of making sure that whatever this company  
14 is going to do on our behalf and do for us is  
15 going to truly represent the thoughts and  
16 feelings of this board, so I think maybe it  
17 would be a good idea to have like a working  
18 group put together to kind of define what the  
19 process is going to be and make sure that we  
20 are all comfortable with what this screen is  
21 actually going to look like and how it's going  
22 to operate, and then we can bring that back to  
23 the Board for discussion and consideration.

24               MS. PELLISH: I think that would be  
25 helpful to us because it would give us a group

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1 Proceedings  
2 that we could bounce ideas off of rather than  
3 having to right now. Otherwise, the Board  
4 ends up being the working group, so I think  
5 that would be helpful to us as we work through  
6 the process.

7 MR. ADLER: Should we -- I am looking  
8 down here, but the trustees are all down here  
9 today. Anyone disagree with the idea of  
10 creating a working group? Okay. So should we  
11 create the working group right now? Should we  
12 decide who is on it?

13 MR. BROWN: Yes.

14 MR. ADLER: I would like to volunteer to  
15 be on it. Would anybody else like to  
16 volunteer to be on it or should I pick  
17 volunteers? That's a joke.

18 MS. VICKERS: I will volunteer.

19 MR. ADLER: One of you guys. Mr.  
20 Kazansky?

21 MR. KAZANSKY: I volunteer.

22 MR. ADLER: So the working group will be  
23 Dave Kazansky, Susannah Vickers, and John  
24 Adler. Okay.

25 MR. FULVIO: So we will coordinate maybe

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1 Proceedings  
2 at the next step discussion, maybe again we  
3 will also have the third proposal, and we  
4 could review those together and at some point  
5 even bring the providers in to speak with the  
6 working group.

7 MS. VICKERS: I will bring this up to  
8 the working group, but just to let everyone  
9 else know, I would like to somehow involve BAM  
10 emerging markets staff, Tatiana and John  
11 Merseburg, thinking about this with the other  
12 boards, so they can be ad hoc observers or  
13 something.

14 MR. ADLER: Great.

15 MS. PELLISH: Thank you.

16 MR. ADLER: Excellent. Okay. Anything  
17 else on emerging markets? I think you guys  
18 have another item on our public agenda.

19 MR. FULVIO: This is an informational  
20 update, and it's something that I know we have  
21 spoken about with the Board in the past. But  
22 we think it's helpful to periodically provide  
23 an update and a refresher just in terms of,  
24 you know, what's going on in the background  
25 from a process standpoint when it comes to

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2 reviewing the managers, ensuring when we are  
3 staying on top of them and understanding not  
4 only what's going on with respect to their  
5 firms but what's going on with respect to  
6 their portfolio. It's helpful to their  
7 outlooks over time, and then as exceptions  
8 have come up in the past or updates have come  
9 up, we brought them up to the Board but we try  
10 to keep that on a more of an exception basis,  
11 so this is focused more on the Passport Funds  
12 as BAM has a separate process that we  
13 coordinate with them on, and so this is the  
14 process that Rocaton and TRS has worked on  
15 together with respect to the Passport Funds,  
16 and there is two things that sort of happen in  
17 an ongoing way.

18

19 We have an annual manager -- a more  
20 formal sitdown with each manager where TRS  
21 staff and Rocaton, we run through a roster --  
22 the roster of managers on an annual basis, and  
23 then there is also ad hoc meetings that happen  
24 between Rocaton's research group and the  
25 managers directly and TRS staff sort of off  
cycle, but we wanted to talk a little bit more

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2 about this annual touchpoint that we don't  
3 have a stated policy, but it's become the  
4 process that we have honored for --  
5 MS. PELLISH: -- many years.  
6 MR. FULVIO: Many years.  
7 MS. STANG: A decade at least.  
8 MR. FULVIO: At least. So you know, as  
9 part of that process, as I mentioned it's not  
10 just talking to the firms about what's going  
11 on, but also leveraging some of the  
12 quantitative analysis that we produced at  
13 Rocaton and talking through that with TRS to  
14 understand what's going on in the portfolio  
15 and framing the performance and the holdings  
16 in terms of is this what we would expect from  
17 a manager, and if there is something that  
18 appears to be outside the range of  
19 expectations as we go through sort of a punch  
20 list of things we want to cover off with the  
21 managers. So there is a lot of words on page  
22 2 that I think explain that.

23

24 Slide 3 provides a little bit more  
25 detail in more words that try to outline what  
it is we are looking for with respect to the



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2 managers. So for example, when there is  
3 active managers whose performance has been  
4 poor on a relative basis, you know, using the  
5 analytics to try and identify what's going on  
6 with the performance but also using that as a  
7 tool to talk to the managers and helping us  
8 understand why or why not they are performing  
9 in line with our expectations and their  
10 expectations, and so I think that allows us to  
11 have a more robust discussion with the  
12 managers and using attribution and different  
13 ways of measuring risk to evaluate what's  
14 going on, and I think where we had, you know,  
15 really notable discussions in the past has led  
16 to us bringing recommendations back to the  
17 Board.

18 I think maybe the most significant  
19 outcome of these discussions in recent years  
20 was the move to performance-based fees and so  
21 that's an example. We made countless manager  
22 changes over the years as a result of these  
23 regular discussions, and I think I would be  
24 remiss if I didn't say that, you know, if we  
25 bring something to the Board that stands out

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1 Proceedings  
2 as being an exception when a manager then --  
3 we don't have a formal watch list for the  
4 Passport Funds but when a manager is something  
5 that we are, you know, trying to focus on and  
6 the performance has been particularly  
7 disappointing, we will have a lot more  
8 touchpoints with them and sort of run through  
9 this process on a more regular basis to  
10 monitor for change.

11 So I didn't want to sit here and read  
12 word for word on the page, but we wanted to  
13 provide just a reminder that this process is  
14 ongoing. So far this year we met with I want  
15 to say every manager except those in the  
16 defensive composite. As you will recall, we  
17 were in the process of making structural  
18 changes to that composite. We are planning to  
19 meet with the rest of those managers later  
20 this year.

21 Susan, anything you want to add?  
22 MS. BUDZIK: I would just say the  
23 context on the QPP side hiring managers, it's  
24 governed by the City's procurement rules. The  
25 specific statutory exemption for the TDA

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2 managers from the PPB rules, so what Mike is  
3 describing is the process used by Rocaton to  
4 hire and monitor managers, and we do have a  
5 fair number of managers whose contracts are  
6 coming up for renewal. So that we thought it  
7 was a good idea to remind the Board of the  
8 review process and monitoring process for our  
9 managers.

10 MR. ADLER: Can I ask a question just  
11 about the contract renewals? Presumably there  
12 are some managers that have reached -- and  
13 maybe this doesn't happen in TDA. This is  
14 really my question. With QPP we have like a  
15 certain number of renewals, and then we have  
16 to do a new search; is that true with TDA too,  
17 or can we just renew them indefinitely?

18 MS. STANG: Valerie should probably  
19 answer this, but no, since we are not subject  
20 to, I mean, the same procurement rules. We  
21 don't have to do a new search for a certain  
22 group of managers every nine years.

23 MS. PELLISH: They are evergreen  
24 contracts.

25 MS. STANG: Well, they are three-year

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2 contracts that can be renewed without having  
3 to go through --

4 MS. BUDZIK: We can enter a new contract  
5 without having to go through a formal  
6 procurement process.

7 MS. STANG: Yes and so that's why the  
8 review process and the fact that it's not just  
9 we renewed a contract without thinking about  
10 it. We think about these managers all the  
11 time, like once a year formally with Rocaton.  
12 Rocaton meets with them separately, we meet  
13 with them separately, and you know, depending  
14 on how well they are doing or not well they  
15 are doing, they may hear from us more  
16 regularly.

17 MR. ADLER: Understood and just on the  
18 three-year contract expirations, do those  
19 renewals -- are they subject to Board approval  
20 or does the staff do that on its own?

21 MS. STANG: We bring the manager  
22 renewals to the Board. Like in executive  
23 session, there will be three manager renewals,  
24 those three that will come up between now and  
25 the end of the year and so it's yes.

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MR. ADLER: Understood. I just wanted to clarify. Thank you.

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That's the end of your presentation, Mike? Any further questions for Rocaton or for the staff on this review process? Okay. Good. Thanks.

5

6

So that concludes our public agenda for today; am I correct?

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8

MS. PELLISH: Yes.

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MR. ADLER: Very good so I think a motion to go into executive session would be in order.

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

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

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MR. KAZANSKY: Second.

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MR. ADLER: Thank you, Dave. Any discussion?

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All in favor of the motion to exit public session and enter executive session, please say aye. Aye.

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MS. VICKERS: Aye.

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MS. PENNY: Aye.

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MR. KAZANSKY: Aye.

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MR. BROWN: Aye.

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MR. ADLER: All opposed, please say nay.

7

Any abstentions? The motion carries.

8

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MR. ADLER: All right. We are in executive session.

10

(Whereupon, the meeting went into Executive Session.)

11

12

MR. ADLER: Very good. Any discussion?

13

All in favor of the motion to exit executive session and go back into public session,

14

please say aye. Aye.

15

MS. VICKERS: Aye.

16

MS. PENNY: Aye.

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MR. KAZANSKY: Aye.

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MR. BROWN: Aye.

19

MR. ADLER: All opposed, please say nay.

20

Any abstentions? Motion carries.

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We are back in public session. Susan,

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will you report out of executive session?

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MS. STANG: Certainly. In executive session, a manager update was presented and several contract renewals were discussed.

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MR. ADLER: Thank you. I believe that concludes our business for today. Is there a motion to adjourn?

MS. VICKERS: So moved.

MR. ADLER: Is there a second?

MR. KAZANSKY: Second.

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

MS. VICKERS: Aye.

MS. PENNY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MR. ADLER: It is unanimous. The meeting is adjourned.

(Time noted: 10:44 a.m.)

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C E R T I F I C A T E

STATE OF NEW YORK )

: ss.

COUNTY OF QUEENS )

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

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of November, 2018.

\_\_\_\_\_  
YAFFA KAPLAN