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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

3

INVESTMENT MEETING

4

Held on Thursday, December 2, 2021

5

Via

6

Zoom Videoconference

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ATTENDEES:

9

DEBRA PENNY, Chairperson, Trustee, TRS

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THOMAS BROWN, Trustee, TRS

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DAVID KAZANSKY, Trustee, TRS

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JOHN ADLER, Trustee, Mayor's Office

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SUSANNAH VICKERS, Trustee, Comptroller's Office

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JOHN DORSA, Trustee, Comptroller's Office

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RUSSELL BUCKLEY, Trustee

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NATALIE GREEN GILES, Trustee

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CYNTHIA COLLINS, Trustee, Mayor's Office

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PATRICIA REILLY, TRS, Executive Director

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THADDEUS MCTIGUE, TRS, Deputy Executive Director

20

VALERIE BUDZIK, TRS

21

LIZ SANCHEZ, TRS

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SUSAN STANG, TRS

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STEVE YUAN, Mayor's Office

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DEVON ALEXANDER, Rocaton

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MICHAEL FULVIO, Rocaton

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ATTENDEES (Cont'd)

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ROBIN PELLISH, Rocaton

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SUMANTA RAY, Mayor's Office

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DAVID LEVINE, Groom Law Group

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RONALD SWINGLE

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SANFORD RICH

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WESLEY PULISIC, Comptroller's Office

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ISAAC GLOVINSKY

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W. FRAZER

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ARISTEA AFTOUSMIS, TRS

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KOMIL ATAEV

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TOM O'HARA

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P R O C E E D I N G S

2 (Time noted: 10:08 a.m.)

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4 MS. REILLY: Good morning. Welcome
5 to the December 2, 2021 investment
6 meeting of the Teachers' Retirement
7 Board. I'm going to start by calling the
8 roll.

9 John Adler?

10 MR. ADLER: I'm here.

11 MS. REILLY: Thomas Brown?

12 MR. BROWN: I'm here. Good morning.

13 MS. REILLY: Natalie Green Giles?

14 MS. GREEN GILES: Present.

15 MS. REILLY: David Kazansky?

16 MR. KAZANSKY: Present.

17 MS. REILLY: Russell Buckley?

18 MR. BUCKLEY: Present.

19 MS. REILLY: Debra Penny?

20 CHAIRPERSON PENNY: Good morning.

21 I'm here.

22 MS. REILLY: Susannah Vickers?

23 MS. VICKERS: Good morning. I'm
24 here.

25 MS. REILLY: We have a quorum.

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1 I'll turn it over to the Chair.

2 CHAIRPERSON PENNY: Good morning.

3 So the first thing on our agenda is the
4 Passport funds quarterly report.

5 Take it away, Mike Fulvio.

6 MR. FULVIO: Good morning. Thank
7 you. I'm going to pass it to my
8 colleague Devon Alexander.

9 Actually, I apologize. I'll start
10 off with the quarterly and then I'll pass
11 it to Devon for the presentation on
12 October performance and the November
13 benchmark report.

14 We did circulate the quarterly a
15 couple days ahead of time. So I'm not
16 sure if folks had adequate time to flip
17 through it completely. But I might just
18 cover a few quick highlights in the
19 interest of time.

20 So slide 24, if folks have that
21 document available, has the summary of
22 performance through September 30 for the
23 Passport funds. We did cover this in the
24 last meeting, but I will note that at a
25 high level it was a quarter that we did

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1 see a little more volatility, especially
2 during the month of September. And so
3 for THE quarter we saw the diversified

4 equity fund down about 77 basis points,
5 roughly in line with the hybrid benchmark
6 and slightly behind the global market
7 composite.

8 We saw some relative outperformance
9 from the actively managed equity
10 strategies and some relative
11 underperformance from the defensive
12 strategy composite.

13 And then, in other parts of the
14 Passport funds program you can see the
15 balanced fund was down about half of a
16 percent. The international equity fund
17 down 2.4 percent; and the sustainable
18 equity fund with a positive return of
19 about 5 percent, with some notable value
20 add relative to its benchmark for the
21 first three months of the fiscal year.

22 And then, lastly, the U.S. equity
23 index fund had a positive return of about
24 33 basis points. And the international
25 equity index returned negative 2.7

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1 percent.

2 The only other thing we were going
3 to touch upon in the quarterly, given
4 some of the prior discussions, is the
5 active manager scorecard that we've
6 discussed in these quarterly meetings,
7 oriented towards discussing quarterly
8 performance.

9 That begins on slide 38, and for
10 your benefit there you can see the color
11 coding or conditional formatting used to
12 flag any relative results that are above
13 or below or, more significantly, I should
14 say, above or below the tolerance bands
15 or expectations that we have for
16 managers.

17 On slide 38 there's only one manager
18 tripping a negative relative performance
19 flag. This is a manager that I think you
20 will recall is in the process of having
21 just been wrapped up, a transition within
22 the Passport funds, which we could speak
23 a little more about during executive
24 session.

25 And then on slide 39 there is one

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1 other manager flagged here for relative
2 underperformance, and that's Templeton.
3 That's a manager that Roca-ton and TRS
4 staff actually just met with in recent
5 weeks. And I think just coming out of

6 that discussion, there's no concerns with
7 respect to the relative results, and we
8 were comfortable with the discussion that
9 we had.

10 So no notable follow-ups as a result
11 of the scorecard from this quarter, but
12 wanted to note it nonetheless.

13 CHAIRPERSON PENNY: Thank you.

14 MR. FULVIO: Not hearing any
15 questions, I will pass it over to Devon
16 to provide the update on performance for
17 the funds through October.

18 MR. ALEXANDER: Thanks, Mike.

19 I apologize as well, because this is
20 the first of hopefully better
21 presentations to come from my end. But
22 here goes, a bit rusty here.

23 So for the month of October the
24 Russell diversified equity fund had an
25 absolute return of 5 percent. That was

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1 partially due to strong performance from
2 the sustainable equity fund which
3 generated about 9.26 percent for the
4 month of October, and also a strong
5 performance from the U.S. equity index
6 fund as well.

7 That was slightly mitigated by the
8 -- oops, I screwed that one up; sorry.

9 The diversified equity fund had an
10 absolute return of 5.3 percent, which was
11 partly due to relatively strong
12 performance from active managed U.S.
13 equity composite, and also from the
14 passive equity composite as well.

15 That was slightly mitigated by the
16 defensive strategy composite, which had
17 2.7 percent return, which sort of has
18 been fairly consistently underperforming
19 its benchmark.

20 But the news got slightly better for
21 the other funds. The balanced fund
22 outperformed its benchmark, and so did
23 the international equity fund,
24 sustainable equity fund and international
25 equity fund.

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1 The U.S. equity index fund was
2 fairly up to its index, its benchmark,
3 but slight underperformance there.

4 MR. FULVIO: I will add, just for
5 the record, in a year to date we've seen
6 some pretty strong relative performance
7 from the actively managed equity

8 strategies across U.S. and non U.S. And
9 so, that is showing up in the performance
10 across the funds, which is good to see.

11 And where we have seen some relative
12 underperformance has been within the
13 defensive strategies composite. And
14 again, that's another part of the program
15 that's undergoing a transition, which
16 Susan will provide an update on in
17 executive session.

18 MR. ALEXANDER: Thanks, Mike.

19 Any questions regarding October
20 performances?

21 (No response.)

22 CHAIRPERSON PENNY: We have
23 November?

24 MR. ALEXANDER: Move on to November
25 preliminary monthly benchmark reports.

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1 Again, the diversified equity benchmark,
2 we saw negative performance for the month
3 of November here, 2.13 percent. And
4 again, negative performance in the
5 benchmark fund as well, which is about
6 .85 percent. International composite and
7 sustainable equity fund as well also
8 negative.

9 On a relative basis, the diversified
10 equity fund was slightly better
11 performing. The global market composite
12 benchmark was slightly better performing
13 than the actual diversified equity fund
14 hybrid benchmark, which resulted in 2.33
15 percent for the month of November.

16 We also can highlight here that the
17 results for the international composite
18 benchmark was slightly aligned with the
19 MSCI EAFE for the month of November.

20 MR. FULVIO: I will add a little bit
21 of brief commentary. Obviously it was a
22 challenging month again like September
23 was for absolute returns across equity
24 markets. Notably increased concerns
25 around inflation and the Fed beginning

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1 its process to change course in terms of
2 the monetary stimulus and beginning to
3 taper that, as well as other potential
4 discussion around inflation becoming less
5 transitory than how many in the
6 marketplace were expecting it to be.

7 And then the other thing, as
8 everyone is aware, coming into the last
9 couple of days of the month, earlier this

10 week and late last week, the discussions
11 around the new variant and potential
12 concerns around whether vaccines would be
13 effective or as effective compared to the
14 other variants that we've seen.

15 So there's certainly more concern,
16 more jitters in the marketplace, and
17 we're seeing that volatility has
18 continued. And we'll keep an eye on it,
19 but that's obviously something we expect
20 to show up in the returns for the funds
21 this month based on what we're seeing in
22 the market.

23 We can pause there and see if anyone
24 has any questions.

25 MR. ADLER: I have a question. The
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1 other sort of fairly new development here
2 is the notion that we may be facing
3 persistent inflation for the first time
4 in decades, really. And I just wonder if
5 you guys could comment on that, in
6 particular with regard to the effect it
7 may have on our fixed income portfolios.

8 MS. PELLISH: Mike, do you want me
9 to jump in?

10 MR. FULVIO: I'm happy to start.

11 We continue to be, I think, more of
12 the mind that the inflation prints that
13 we're seeing are still somewhat
14 transitory. That's not to say that these
15 pressures are going to abate anytime
16 quickly. I think we do see that some of
17 the supply chain issues, we were seeing
18 labor shortages, especially if we
19 continue to see more variants.

20 I think we should be expecting that
21 this could persist longer than a matter
22 of months or quarters. So that certainly
23 lends itself to increased uncertainty
24 around inflation.

25 I think where we are today is, what
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1 we're seeing is while some of the big
2 price gains have begun to moderate, you
3 know, there's still a likelihood that
4 we're going to see it persist for a
5 little bit longer, and that we'll see
6 inflation more broadly come down over
7 time to a more moderate or more
8 normalized level of what we have seen.

9 But it's going to take some time,
10 it's not necessarily going to shift
11 overnight, and there will continue to be

12 pressure as a result of what we're seeing
13 with new variants and concerns around
14 that.

15 Robin, did you want to add to that?

16 MS. PELLISH: The only thing I would
17 add is to be responsive to John's comment
18 about what might this mean for a fixed
19 income portfolio.

20 Certainly we have been expecting
21 this with many other folks. We've been
22 expecting rates to rise, when I say this.
23 We've been expecting rates to rise for
24 quite some time, and rates have been
25 lower for longer than anyone expected.

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1 I would say, over the intermediate
2 to long term horizon, the best thing that
3 can happen to a fixed income portfolio is
4 for nominal and real rates to rise so
5 that we can start generating reasonable
6 levels of return.

7 Right now we forecast levels of
8 return for the fixed income portfolios
9 based on current yields. The ten years,
10 the most recent number I heard was 1.4
11 percent. The portfolio simply can't
12 generate the kinds of returns we need
13 them to generate to get to a 7 percent
14 total return without rates rising.

15 So we continue to expect rates to
16 rise modestly. We continue to expect
17 inflation to return to somewhere between
18 the 2 and 3 percent level starting late
19 2022. But I do think, given the
20 statements by the Fed, we should expect
21 rates to start trending upwards. Over
22 time that will be a positive thing for
23 our portfolio.

24 MR. ADLER: Thank you.

25 CHAIRPERSON PENNY: Anything else?

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1 So the last thing on our agenda is a
2 brief discussion of IPS. So John had
3 forwarded some possible changes in the
4 IPS, and we certainly appreciate them.
5 They're some good ideas.

6 My thinking, and we can certainly
7 talk about it is, we did a lot for the
8 IPS this year. And while those
9 suggestions are great, maybe we wait and
10 we ask TRS and Rocaton to go through it.

11 When are we scheduled, Robin, to
12 look at the IPS again? Can we schedule
13 something and look at these changes at

14 that time, maybe March or April?
15 MS. BUDZIK: The IPS contemplates a
16 review at least once every three years.
17 We last updated it in 2019; which isn't
18 to say we have to wait three years.
19 CHAIRPERSON PENNY: Maybe we do
20 that. Especially there's going to be a
21 change in leadership. Maybe with that,
22 as well as us, we don't change the IPS
23 right now. Certainly we can discuss it,
24 but rather keep those notes, go through
25 them, and see if we can do it in March or
0016 April if that works.
2 Does that sound like a plan?
3 Robin, do you agree with that?
4 MS. PELLISH: Yes. Absolutely doing
5 a holistic review, incorporating John's
6 suggestion is, if the Board directs us to
7 do that we're happy to do that. 2022
8 seems to be an appropriate time at which
9 to do that. We've had sufficient time
10 passing since the last time we looked at
11 it.
12 Hopefully, given the amount of time
13 and change that was involved in the most
14 recent IPS review, this review will be
15 more expeditious. And so, if the Board
16 would like us to review that in Q1 2022,
17 we're happy to do that.
18 CHAIRPERSON PENNY: That's good for
19 me.
20 Any discussion to talk about it?
21 (No response.)
22 Yes. We would ask you to do that.
23 That would be great.
24 And thank you, John, for those
25 points.
0017 Do we have anything else in public
2 agenda?
3 (No response.)
4 Hearing none, do I have a motion to
5 go into executive session?
6 MR. BROWN: So moved.
7 CHAIRPERSON PENNY: Do I have a
8 second?
9 MS. VICKERS: Second.
10 CHAIRPERSON PENNY: Thank you.
11 Any discussion?
12 (No response.)
13 All those in favor please say "Aye."
14 (A chorus of "Ayes.")
15 Any opposed?

16 (No response.)
17 (Whereupon, the Board entered
18 executive session.)
19 (Whereupon, the Board returned to
20 public session.)
21 CHAIRPERSON PENNY: We're back to
22 public session.
23 Ms. Stang, would you like to report
24 out?
25 MS. STANG: Certainly.

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1 In executive session we discussed a
2 secondary benchmark within one asset
3 class.
4 We received an update on a contract
5 matter.
6 And we received updates on portfolio
7 transactions that have occurred within
8 the Passport funds, those completed and
9 those that are ongoing.
10 CHAIRPERSON PENNY: Thank you.
11 Is there anything else for public
12 session?
13 (No response.)
14 Hearing none, do I have a motion to
15 adjourn?
16 MR. BROWN: So moved.
17 CHAIRPERSON PENNY: Do I hear a
18 second?
19 MR. BUCKLEY: Second.
20 CHAIRPERSON PENNY: Discussion?
21 (No response.)
22 All those in favor of adjourning
23 please say "Aye."
24 (A chorus of "Ayes.")
25 Any opposed?

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1 (No response.)
2 We stand adjourned.
3 (Whereupon, at 10:45 a.m., the
4 matter was concluded.)
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I, Jeffrey Shapiro, a Stenographic
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, December 2, 2021, and that
this is an accurate transcription of these
proceedings.

IN WITNESS WHEREOF, I have hereunto
set my hand this 4th day of December, 2021.

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JEFFREY SHAPIRO