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TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT MEETING

December 12, 2024
10:07 a.m.

Teachers' Retirement System of NYC
55 Water Street, 16th Floor
New York, New York 10041

Sophian DeFrance
Digital Reporter
Notary Commission No. 01DE0006274

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APPEARANCES:

PATRICIA REILLY, EXECUTIVE DIRECTOR
THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
KEVIN LIU, MAYOR'S OFFICE, TRUSTEE
ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE
VICTORIA LEE, TRUSTEE
CHRISTINA MCGRATH, TRUSTEE
KARINE APOLLON, TRUSTEE

Also Present:
NADIA FAZHULINA, MAYOR'S OFFICE
ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES
VALERIE BUDZIK, TRS
LIZ SANCHEZ, TRS
PRISCILLA BAILEY, TRS
ARISTEA AFTOUSMIS, TRS
WILFREDO SUAREZ, TRS
RICHARD SANTANA, TRS
KARINE APOLLON, TRS

STEVE MEIER, BUREAU OF ASSET MANAGEMENT
HARRY TYQUIN, BUREAU OF ASSET MANAGEMENT
KATE VISCONTI, BUREAU OF ASSET MANAGEMENT
ENEASZ KADZIELA, BUREAU OF ASSET MANAGEMENT

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JOHN GLUSZAK, BUREAU OF ASSET MANAGEMENT
JOHN MERSEBURG, BUREAU OF ASSET MANAGEMENT
DANIEL HAAS, BUREAU OF ASSET MANAGEMENT
MITCH FIELDING, BUREAU OF ASSET MANAGEMENT
KIM BOSTON, BUREAU OF ASSET MANAGEMENT
TINA SUO, BUREAU OF ASSET MANAGEMENT
PETYA NIKOLOVA, BUREAU OF ASSET MANAGEMENT
GEORGE ZELUN GU, BUREAU OF ASSET MANAGEMENT
GRACE JUHN, BUREAU OF ASSET MANAGEMENT
JANET LONDONO-VALLE, BUREAU OF ASSET MANAGEMENT
MINJOO NA, BUREAU OF ASSET MANAGEMENT
JOHN DORSA, OFFICE OF THE COMPTROLLER
DONALD DE ROSA, OFFICE OF THE COMPTROLLER
RICKY DECOSTA, OFFICE OF THE COMPTROLLER
JOHN ADLER, OFFICE OF THE COMPTROLLER
TOM O'HARA, OFFICE OF THE ACTUARY
DAVID LEVINE, GROOM LAW GROUP
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
GINA TARANTINO, ROCATON/GOLDMAN SACHS
SEAN BARBER, HAMILTON LANE
JAMES MAINA, STEPSTONE
NICK HART, STEPSTONE
YING LIN, STEPSTONE
TOM BROSNAN, LBA
MIKE MEMOLY, LBA

ALAN GOLDBERG, LINDSAY GOLDBERG
MICHAEL DEES, LINDSAY GOLDBERG
EPHRAIM MERNICK, LINDSAY GOLDBERG
CATHLEEN ELSWORTH, LINDSAY GOLDBERG
ORLANDO BRAVO, THOMA BRAVO
JENNIFER JAMES, THOMA BRAVO
RAHEL AYALEW, THOMA BRAVO
ROBERG RIGGS, CPC
DANNY WHEELER, CPC

(The proceedings commenced at 10:07 a.m.)

MS. REILLY: Good morning. Welcome to the

Special Investment Meeting of the Teachers' Retirement Board for December 12th, 2024.
I'll start by calling the roll.
Kevin Liu?
MR. LIU: Kevin Liu for Mayor Adams. Present.
MS. REILLY: Let's go --
MS. LEE: I think somebody has to mute.
MS. REILLY: Thomas Brown?
CHAIRMAN BROWN: Present. Good morning, Patricia.
MS. REILLY: Good morning.
Karine Apollon?
Alison Hirsh?
MS. HIRSH: Present on behalf Comptroller Brad Lander. I'm also joined by our two new Trustees, Ricky DeCosta and Donald DeRosa, who are standing in the back.
MS. REILLY: Have we received the --
MS. HIRSH: It was filed with the clerk yesterday morning.
MS. REILLY: You have to send the designation.
MS. HIRSH: You should have sent -- I thought it was sent over.
MS. REILLY: I didn't get it.

MS. HIRSH: You didn't get it? Okay. We'll send it over right now.
MS. REILLY: It's supposed to come to me. But I don't think you got it either, Valerie, right?
MS. BUDZIK: No, we had -- no.
MS. HIRSH: Well, I'll send it, forward it over to you right now. Apologies.
MS. REILLY: Thank you.
MS. HIRSH: You're welcome.
MS. REILLY: Victoria Lee?
MS. LEE: Good morning, present.
MS. REILLY: Christina McGrath?
MS. MCGRATH: Good morning, Patricia. Present.
MS. REILLY: We have a quorum. I'll turn it over to the Chair.
CHAIRMAN BROWN: Thank you, Patricia.
Good morning, everybody. We'll start with Passport Funds Third Quarter 2024 Performance Review, Goldman Sachs. Mike, Amanda?
MS. JANUSZ: Thanks, Tom.
CHAIRMAN BROWN: Good morning, Amanda.
MS. JANUSZ: Good morning. I'm going to have Gina from my team pull up the report on Zoom.
Can you flip, Gina, to Page 22?

Okay. So just quickly, a recap of the third quarter Passport Fund results. As of the end of third quarter, assets in the Passport Funds were around $21.5 billion, 19-and-a-half of that sits in the Diversified

Equity Fund.

And the third quarter actually did have some market volatility. You wouldn't necessarily know it to look at the returns of the third quarter here on the page. Across the board, positive results for each of your Passport Funds, but we did, in early August, see a bit of a selloff in response to some unexpected, or less than expected employment news.

We did, subsequent to that, see more favorable news coming out in the following days and some calming comments from Fed Chair Jerome Powell, all but committing to beginning to cut rates in September, so -- which ultimately did happen. In September, we did see the Fed cut rates by 50 basis points, which was the first cut since March of 2020, and so we did end the quarter in positive territory across the board.

The Diversified Equity Fund for the quarter of over 6 percent, and calendar year-to-date through 9/30 up of over 18 percent for the Diversified Fund, and your strongest performing fund year-to-date being the US Equity Index up close to 20 percent, year to date.

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Unless there's questions, I'll jump forward for a quick October update as well.

CHAIRMAN BROWN: Any questions for Amanda? Great.

MS. JANUSZ: Gina, can you flip to the October flash?

CHAIRMAN BROWN: October 2024 Performance Review?

MS. JANUSZ: Great. So after closing out the third quarter in strong territory, we did have a little bit of negative market results in October, really two drivers of that, one being primarily uncertainty around what would be the upcoming US elections. We also had, particularly in international markets, a bit of a pullback, especially in some of the emerging market countries, so India and China, that were more drag on returns.

So you can see, looking at the month of October, so Diversified Equity Fund down to 1.76 percent on the month, but still on a year-to-date basis through October, up over 16 percent. And the active managers within the Diversified Equity Fund did help provide a little bit of downside protection there during the month, but certainly, the international piece was the key drive on performance for October.

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And lastly, I'll just have Gina flip, and we can do a quick November update as well.

CHAIRMAN BROWN: Great.

MS. JANUSZ: Thanks, Gina.

So for the month of November, as you all are very aware, we did see the Republican Party end up winning not just the White House but also both houses in Congress, and so the markets did react positively to that. A couple reasons for that, one being that this administration is expected to implement tariffs to re-up the tax -- tax cuts and Jobs Act, and also be I think more accommodative to US oil and gas production. So all of those things really are expected to boost domestic growth and be, I think, more favorable to financial markets.

And so that coupled with the fact that we did see the Fed also cut rates by another 25 basis points in November led to a positive month for US markets. You can see the Russell 3000 Index up 6.6 percent for the month of November.

We did, again, see negative results from emerging markets, in part due to the expected negative impact of this tariffs program on specifically China and Mexico. So you can see the Emerging Markets Index about halfway down the page, down about 3.6 percent for the

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month.

CHAIRMAN BROWN: Thank you, Amanda.

Any questions for Amanda? Great.

Then we move on to our Pension Fund Performance Update.

Steve, take it away.

MR. MEIER: Great. Thank you, Mr. Chair. Good morning. Good morning every, morning.

Actually, I'm going to give you a quarterly update, just kind of an update on some of the issues that Amanda touched on earlier. Really just a brief update on the economy, what's going on in the market, and then the food for thought in terms of how it's impacting your portfolio, and then performance for you through the end of September.

Maybe if you go to the first slide, Kate?

As we usually do, we look at inflation and the headlines around inflation, obviously, with the election of Donald Trump in November, in terms are about an uptick in inflation in 2025 and beyond, again, as Amanda talked about, potentially, tariffs, tax cuts, and immigration policies will certainly be drivers of inflation.

On the next slide, a quick look at where we are in inflation. This is actually a little bit

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delayed. We had a CPI come out yesterday which moved up from 2.6 percent, you can see it there in the white, to 2.7 percent. So inflation's been a little bit on the sticky side, and there you have got Core PCE still at 2.8 percent, CPI, excluding energy, or Core CPI is still at 3.3 percent, so certainly moving very slowly down towards that 2 percent target that the Fed has but in a very slow fashion.

On the next slide, just a look at the progress on inflation here and abroad. So in addition to the US in red, we have got the UK in light blue or aqua blue, and the Eurozone in darker blue. You can see that inflation has come down nicely towards the 2 percent level for all central banks.

On the next slide, a look at employment. We had somewhat of a reprieve or an increase in job growth in the month of November that was reported on December 3rd, with coming in plus 227,000 jobs created. That was off a very low 12,000 jobs created in October. It was impacted negatively by the Boeing strike, perhaps more importantly by two major hurricanes hitting the eastern seaboard. So employment is slowing but still relatively solid.

And you can see on the next slide the unemployment rate, although moved up a little bit in the

month of November from 4.1 percent, October to 4.2 percent, it's still relatively low, and we are still not yet back to where we were in terms of the participation rate pre-pandemic, but still about a little bit there around 62-and-a-half percent of the working population.

On the next slide, a look at economic growth and the expectations going forward. So obviously, the impact of tariffs depends on our trading partners' responses and how much of that is absorbed by the companies, and that will certainly drive inflation.

And I think the second quote there is important because Amanda touched on it as well. It's the response we get from our trading partners that potentially really make an impact in global growth opportunities and inflation, depending upon the response. So there was some rhetoric, at least early on, about potential for pushback on the part of Mexico, and we'll see where that winds up.

On the next slide, from an microeconomic growth standpoint, we have actually enhanced the slide with the help of Dan Haas, behind me. US GDP growth is still solid at 2.8 percent year over year. Eurozone a little less than 1 percent, struggling somewhat. UK just about 1 percent. Japan, a little less than 1 percent. And China up 4.6 percent. Amanda also

mentioned that as well in terms of growth slowing down, they have a 5 percent targets with the Chinese government, 4.6 percent isn't really driven -- from a global comparative basis, but still quite strong.

On the next slide, in terms of Fed rate cuts, Powell has said he certainly supported rate cuts. The market's pricing a little over an 80 percent chance of another 25 basis point rate hike -- sorry, rate cut on December 18th, next week.

As Amanda said, we had a 50 percent rate cut in September, followed by a 25 basis point rate cut in early November, and again, expectations are an additional rate cut coming up, but the Fed has also reflected that they're not in such a hurry to reduce rates.

Given the change in administration, given the stickiness of inflation, given the strength of employment and growth, the Fed can take its time and will probably move at a very deliberate pace in terms of rate cuts in 2025.

The market's actually priced out two rate cuts, it's pricing in right now another 50 basis points of rate cuts in 2025, assuming we get another 25 next week. But again, a gradual move down to rates around 4 percent of the shortening of the curve.

On the next slide, just a look at where we are across the Central Banks. As I said, we're expecting a rate cut again next week by the US Fed. Bank of England is at 475. The ECB, the European Central Bank, actually cut rates 25 basis points today to 3 percent. Japan is actually moving the other way, raising rates, but coming off of a period where they hadn't raised rates in quite some time, and it reflected more of an inflation kicked up a little bit more in that economy.

We had a couple other developments yesterday. The Bank of Canada actually cut rates 50 basis points. It's two back to back more aggressive rate cuts, and this morning, we had the Swiss National Bank also cut rates 50 basis points, really focused more on their currency being too strong.

On the next slide, a look at lower official rates as the Fed cuts rates, but volatility and higher long-term yields further out the curve. If you look back to where we were in terms of 10-year US Treasury yields at the beginning of the year, they're around 288 -- sorry 388. Today, they're around 430. We have actually seen an increase in term premium based on a number of factors we'll talk about in a few minutes in the long run of the curve.

On the next slide, a quick look to see where

we are. We basically dis-inverted the curve at twos to tens and not by much towards -- today, it's about 12 basis points. On the next slide, I'll show you -- shows just a 1 basis point differential.

You can see where we are most recently in red towards the top. It's a pretty flat yield curve with a slight premium for investing at the curve, slight but not yet compelling, and again, the expectation is for short rates to continue to move down in terms of T-bills, three, six and 12-month issuance, and levels as the Fed continues to reduce rates.

On the next slide, just a look at where we have been. We have, now, a positive slope yield curve. You can see two-year yields at the time of the snapshot, at the end of November at 426, and 10-year yields at 427, so not much of a curve but a slight premium, but certainly dis-inverted. And as I said today, this morning, that yield curve is positive by about 12 basis points.

Let's skip the next slide and maybe talk a little bit about credit spreads. You can see credit spreads are actually very, very tight. High yield in orange is about 258, 260 basis points above comparable US Treasuries. Not necessarily compelling but reflective of a strong economy and a decline in default

rates. And in the investment grade space, you can see that in white credit, the spreads are only about 78 basis points. So constructive, again, reflective of a solid economy, attractive total yields relative to where there were a couple years back, and modest to low default rates.

On the next slide, some headlines that we saw, certainly more recently. "The Trump trade marches on with the election of Donald Trump," and as Amanda talked about, a sweep of the House and Senate, or actually, I should say control of the Republican -- of the House and Senate, not necessarily a sweep. There is expectations for him to implement policies and changes that could potentially be constructed or business friendly. We have seen a return of animal spirits in terms of prices of risk assets are moving higher, volatility around rates somewhat of a relief rally towards the end of November with the selection by president-elect Trump on Bessent as his US Treasury Secretary, and again, more of a relief rally.

The last point is also interesting too in terms of private equity. I think this is a recognition of a couple things. Firstly, the free money is no longer available. We have higher terminal Fed funds rates. We think it'll be around 3-and-a-half to 4

percent, probably close to 4 percent, and higher long-term rates, given a number of things, the number of -- the amount of deficits we're running, the amount of issuance we're going to see as we go into the curve, and again, an increase in term premium associated with, potentially, expectations for higher inflation over time.

It also means that there's lower expected multiple expansion, and your private equity managers. When they come, they always talk about value creation. They're going to have to do more to deliver on operational efficiencies and strategic vision for their underlying companies.

On the next slide, a look at benchmark

returns, focused on the public markets. You can see there's a lot of green on the screen, so it's been a pretty good outcome, certainly short-term, and driving some of those longer term numbers into the green. The exception here is US governments. Obviously, we had quite a back up in yields. At its low point pre-pandemic, US Treasury 10-years. And into the pandemic, touched I think about 67 basis points in yield. Again, they're around 430 today, so significant backup in yields, higher yields, lower prices, and you can see that evident in, say, three years, that dramatic

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backup in yields. Everything else is green.

I think another important part about this slide is, if you look on the far right-hand side, those are the expected 10-year annualized returns across, it's the average of the five different general consultants for the five different New York City retirement systems, and you can see expectations are for equities returns say 6.7 percent on average, US equity 6.7 percent.

If you look at that relative to where we are in the one-year space, we have delivered a 35 percent return in the Russell 3000 through the end of September. On year-to-date, I looked this morning, the Russell 3000 calendar year-to-date is up fully 28 percent. So really, quite a return and something certainly not to be expected on an annual basis, though we have had two pretty solid back-to-back years coming off of a very challenging 2022.

Next slide -- why don't we skip the next slide and move one more slide.

So again, the big news of the day is we have got a change of administration with a change in policies coming in, and you can see that President-elect Trump is pretty, I guess, reasonable economically in place to help navigate that aspect of the economy, of his mandate.

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On the next slide, just some food for thought in terms of growth. Growth has been very resilient despite significant rate hikes. If you look on the left-hand side, in March of '22 is when the Fed started its rate hiking cycle, and notwithstanding the fact that rates were moving up, US real GDP world was actually positive and pretty consistently positive, again, coming off of the pandemic, and throughout the pandemic, but actually quite strong results through September 2024. As I mentioned earlier, annual GDP growth rate for third quarter is 2.8 percent. The trend is around 2 to 2.2 percent, so it's above trend and very resilient.

On the next slide, consumers have also been resilient. You can look at this and see, you can see the personal consumption expenditures relative to GDP and the contribution. Clearly, consumers have been spending, notwithstanding the rate hikes as well.

On the next slide, we'll look at inflation and questions as to whether it's coming back, and here, this actually is an interesting slide. It looks at CPI relative to where it is today, relative to where it was in the 1970s to the '80s, and you can see the dual humps there in dark blue. That's the '73 oil crisis and price shocks, and especially inflation, and we saw the same in 1979.

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If you look where the green ends, sort of to the -- slightly to the right of the middle, it reflects where we are now, and the question is are we going to see a resurgence of inflation, and the market still questioning that, and given the statements of inflation and the current expectations around policies for the new administration.

Skip the next slide, two slides, maybe Slide 25, Kate.

Default rates are declining. As I mentioned earlier, credit spreads are incredibly tight, high yields around 260, and investment grade in the 70 basis point range, and you can see that's evidenced by the fact that we have a strong economy, a resilient economy, low and steady inflation, and declining default rates total relatively to -- for fixed income.

On the next slide, I think this is an important slide also. We see 5.6 million new people immigrated to the United States since the pandemic. That's certainly helped fuel the availability of employment or workers and served to keep wages a little bit lower than they normally would have been. There are questions of whether that trend continues or under the Trump administration, if this will revert.

Corporate profits on the next slide, you can

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see they're relatively strong coming in about 13 percent. On the following slide, you can also see expectations of projected profitability are also record high, just sliding in under 14 percent. So it's a very good backdrop for US equities, and again, with expectations of, potentially, a more regulatory friendly administration coming in, there might be a return of animal spirit, more acquisition activity and, again, sustained growth.

Maybe move two slides ahead?

I talked about investment grade credit spreads being tight. You can see in the far left-hand side of the slide where they stack up from a yield and spread basis on the bottom, and historically, they typically have been wider, you know, averaging 100 to 120 basis points above comparable Treasuries. Where they are right now at around 78 or 80 basis points, again, is at a historical low. Some good reasons for that, but you have to question as to whether that will widen out over time. Typically, it's a constant pool.

On the next slide, just a look at the deposits that are still -- or investments, I should say, that are still in money market funds, that's 6-and-a-half trillion dollars. That's a lot of dry powder. Those rates are typically, money market rates are typically

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driven by Fed policy. As the Fed continues to cut rates, the expectation is for money market yields to continue to move lower, and potentially, at some point, investors start to move out and buy longer duration of bonds or corporate bonds to pick up a little bit of yield.

Let's see, why don't we skip ahead, Kate, to Slide 34, please?

Just a look at US fiscal policy. This is one of the thematic themes that we think will drive -- will be a consideration for rates longer term, and potentially, for the market. So there's a few things that are of concern in terms of the level of deficit spending that we have been experiencing in the US for the last several years. Those questions are constructed by the potential for US Treasury, US Treasury debt downgrade. Right now, it remains AAA rated by Moody's, S&P and Fitch rated AA+, but Moody's does have us on credit watch as of November of last year, given the amount of fiscal deficits that we're running.

We also have Treasury options. I will show in a moment we have over $9 trillion of new issuance into the market next year. Again, maturing is being recycled and new funds that need to be raised again to meet our deficit spending, but we continue to watch US

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treasuries.

As I mentioned, term premium is starting to widen that a little bit around 20 or 30 basis points to 10 years. And the question is, at some point, could the level of deficit spending start to impact the valuation of the dollar relative to its peer competitors?

On the next slide, just a look at where we are in terms of debt outstanding. At this point, our Treasury debt obligations outstanding are about 100 percent of GDP, slightly under $28 trillion, and the estimates are for that to continue to grow quite dramatically and quickly unless there's been a change in the profile and the pace of spending that we have by the federal government.

But again, if you look back historically, we're almost at a high where we were at the end or during World War II, where deficit spending was just very, very significant to, again, for the war effort.

On the next slide, you can look on the far right-hand side in blue, those are expected or projected deficits for the next several years. Again, not insignificant in terms of the size and impact on the economy and rates. Deficit spending oftentimes is very good for the economy because it puts even more economic activity and money into the marketplace.

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Let's skip the next couple of slides just to maybe Slide 39, Kate. Yep, one more. There we go.

As I mentioned earlier, you can see US Treasury is expected to issue around $9 trillion in new debt this year in green. Again, that's at a record high, certainly the last 25 years.

Skip ahead a couple slides, Kate.

Ten-year Treasury premium, and here, you can see I mentioned earlier, the term premium is starting to wide now. It's reflected in the yields that we pay, or the US Treasury pays for long term debt obligations.

And now, let's shift over to Teachers' Retirement Systems performance reporting through the third quarter, through September 30th. You can see on here, it's a great screen. It's a wonderful outcome for the quarter. You can see those, your total plan, including private assets, mark to market, through June are 5.3 percent. That's a great outcome, not to be expected every quarter, but a really good outcome in the short run.

CHAIRMAN BROWN: We'll take it.

MR. MEIER: Yeah, yeah.

I think more important, I look at it 10 years to look at where we are and what we have been relative to the other benchmarks. The policy return which would

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be expected if we were at policy rates, we're moving towards that with the pacing plans, and it's good to see a lot of green on the screen, regardless.

On the next slide, just a different way of presenting where we are relative to that 7 percent target return rate we have for your portfolio. And you can see that black line is the 7 percent target rate over a prolonged period, and you can see, based on where the performance has been above and below, right now, you're above that return expectation, which is good. So you want to stay about the dotted line.

On the next slide, a look at net public market returns by asset class, and again, it's been a little bit of a whirlwind coming off the pandemic, and given the resiliency of the economy, and that's reflected in the market returns. These are Teachers' net public market returns by strategy. Again, a lot of positive things on the screen.

Again, the exception has been for fixed income, which has struggled a little bit with the significant factor, very, very low levels of yields in 2022 to today. But otherwise, it's been a really, kind of a wonderful outcome. US equities, your public market returns by equities in the one-year space is fully 35 percent, which is, again, phenomenal and not to be

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anticipated or expected every year.

On the next slide, a look at your public market excess returns, and here, you can see that we have -- it's kind a mixed back. We're focusing on 10-year excess returns. A little bit more negative than we'd like to see. We'd like to see a lot of green out there. And we're looking at ways improve our performance across all public asset mandates going forward.

On the next slide, just a different way of looking at your public market returns and holdings. You can see the holdings in terms of assets on the left, around the pie chart. What I would focus on here is I look at the purple. The dark purple is actually your portfolio. The light purple is relative to the benchmark. So looking at longer term, you have had pretty much performance on par with the benchmark in US Treasuries out 10 years -- sorry, US equities out 10 years.

World XUS, we have outperformed slightly, which is great. Pretty much flat around emerging markets in 10-years. A slight underperformance for fixed income. High yield is about flat to the benchmark, so a good outcome. And cash is slightly up relative to the recent index and Treasury goals.

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On the next slide, a look at public market total annual fees. Your fees, again, this is just for the third quarter of 2024 fiscal year, you can see -- sorry, calendar year, your fees you paid were $26 million, a little over $100 million dollars on an annual basis just for public market management. We continue to focus on this. We're going to try to put together more metrics to give you more insights into the fees you're paying, and we're putting ourselves in a position where we can better negotiate fees down, and we can talk about that in Executive Session and how we're doing that. We have got some wonderful technologies and insights that certainly support that moving forward.

On the right-hand side, you get to see the breakdown. Overall, your public market fees on average trending about 12 basis points. And again, we continue to work that lower, and our expectations for Trustees to hold us accountable for moving that level down over time.

On the next slide, a look at TRS's net private market returns by asset class. Again, a fairly positive story, some headwinds still with private real estate with the back up in rates, concerns around retail and office, which you're technically underweight, but a very strong outcome. I think the most important thing off of

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this slide, again, looking at longer term, 10 years since inception, even though private equities, for the one-year through the end of September delivered 4.4 percent return, it's important to remember that, since inception, that return level has been over 11 percent and pretty consistent across the last several years, and five and 10 years as well.

Infrastructure. Infrastructure should be highlighted. Petya, Blair, and her team should be commended. Look at the return stream and how steady it is at 10 percent plus for 10 years, over 11 percent, close to 12 percent returns, outperforming the benchmark consistently by about 200 basis points.

On the next slide, this looks negative because if you look at private equity, it looks like we have had just a terrible outcome in terms of underperforming by 2100 basis points. But remember, the Russell 3000 is up 28 percent year to date. There's a 300 basis point liquidity premium on top of that. And again, I don't think that's reflected with the value of private equity in your portfolio. It's noteworthy because it is -- it has actually occurred, but again, it's being skewed by the last two years of significant performance of the Russell 3000. Private equity has been more in a (indiscernible) period.

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On the next slide, just a look at your net private manager returns a little differently. You can see the assets under management on the left in the pie chart, and then the performance relative to those benchmarks long return. Again, we think that's the right way to look at it.

Again, I pointed earlier about the outperformance and the really significant steady performance in infrastructure. You can see in one-year, three-year, five-year, 10-year, and since inception, our portfolio, or I should say your infrastructure portfolio has actually outperformed its benchmark significantly, which is a great outcome.

Let's skip the next slide for the sake of timing, and a look at some of the rebalancing activities for the third quarter of calendar year 2024. Again, we were selling our winners, US Treasuries had rallied significantly. So we're rebalancing the portfolio to sell some of those overweight positions and buy some of the underweight positions, which are World XUS or non-US equities. We also were raising cash in certain areas to make equity payments and capital calls for private assets. You can see that raised by the cash desk. On the right-hand side, you can see where we actually rebalance the portfolio for fixed income as well. And

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that includes the elimination -- no longer part of strategic asset allocation.

And with that, I'll open it up to any questions. I know we kind of threw a lot at you, I apologize. I have 15 minutes to do a 40-minute presentation. When Dan and I started working on the slides together, we just can't help ourselves, we get carried away.

CHAIRMAN BROWN: Well done. I can speak for --

MR. MEIER: Thank you. Thank you for saying that.

CHAIRMAN BROWN: Yeah, very well done. Thank you.

MR. MEIER: If it's okay, we'd like to -- Dan Haas is actually our interim chief risk officer, as Ed has moved on to a position of head of public markets, and we have integrated our public market teams, John Merseburg's team, Robert Feng's team, with our quantitative experts, to really get better outcomes.

We can talk a lot about that at the appropriate time, but Dan has moved into the role as the interim chief risk officer and we will be interviewing for the risk officer position, although he has been functioning in that role for a while now. So with that,

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Dan, I'll turn it over to you.

CHAIRMAN BROWN: Good morning, Dan.

MR. HAAS: Well, good morning.

Well, thank you for your time and it's great to be standing in front of you again today. I kind of served in this capacity before, you know, during COVID, until we were able to bring ED on board, and pretty happy to be here today kind of extending some of the conversation that he's been developing over the last couple of years.

Importantly, you know, Ed kind of extended a few concepts I'd like to lean into, and that's what we're going to do over the next couple of slides. It will actually be a pretty brief conversation today.

MR. MEIER: Yeah, Dan, I'm sorry to interrupt again, I apologize.

But again, the idea is to have Dan function as the chief risk officer as well as head of reporting, so we can have a better suite of analytical capabilities and more insights that can be delivered to the Trustees through, again, a combination of reporting and risk management. So we're trying to build on the good work that's been done before Ed got here, while Ed has been here, it's been great, and continue on with that. So I work very closely with Dan on a weekly basis on this.

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MR. HAAS: Yeah, and I suppose the corollary to that is, when you see something weird on these slides, my fingerprints are all over it, so --

CHAIRMAN BROWN: We'll let you know.

(Laughter.)

MR. HAAS: So as I was saying, you know, Ed, I think, developed a couple of great concepts that I hope to lean into as we continue our conversation over the next several quarters and hopefully years, for risk.

He introduced the idea that portfolio risk is akin to expected return, and it's great to learn about it because, otherwise, it really sort of makes the concepts more concrete. He also introduced the concept that we have on a slide here where he's decomposing the drivers of risk among a couple of different factors. You know, we are looking at market risk, that's that market portfolio kind of section of the main table there. We look at your allocation decisions, that's the policy benchmark section in green. And then we look at the actual portfolio as it's invested, which is the orange sections.

So if we kind of start with this slide, the plan is summary, you know, the markets are described by this market portfolio, which is simply a 65/35 line of equities and public fixed income. The allocation

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decisions, again, and those are described by the policy benchmarks, so that's the strategic asset allocation improved over the last year, put into weights by the individual strategy decisions that we made over the last year or so. And then of course, we have got the portfolio that's in draft.

So we look at that market portfolio, see that the mix implies a certain sensitivity of rates. We have a rate duration of 2.1 years, and a spread duration of 1.2 years. That's pretty consistent with what we have seen in the past. And then when we model the volatility of the portfolio, you can see that we arrive at portfolio volatility of 10.2 percent there. So that's actually a change from the last quarter.

We also measure the portfolio beta to the S&P 500. You can see that's 0.63, which are, again, consistent with what we have seen in prior quarters. So again, this gives you sort of a baseline of what you can expect, you know, were we to simply go passive and create that sort of baseline mix of investments.

When we move on to the policy benchmark, you can see that, at the center, we have allocated slightly less to equity, 64 percent, and we're targeting less rate exposure than we see in the market portfolio. And, that results in a lower overall predicted risk of 9.3

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percent and a lower beta to the S&P, at 0.55. It was 1.63. Again, these are pretty consistent with what we saw last quarter, and even as you look back, you know, these numbers don't change a whole lot.

And then, finally, when we came to turn our attention to the actual portfolio, this includes the impact of the actual manager selection we had in the mix, and also we incorporated the parking place adjustments that we made for the alternative investments here, as we had to allocate more relatively to certain strategies as we ramp up to our target investments for alternatives.

Here, you see that remodeling at 9.8 percent overall risk and a 1.8 percent active risk. The active risk, again, is really just the amount of variability we have expected in the excess returns portfolio. We have a portfolio beta of 0.59. So we're seeing a little bit more risk here than would be implied by the benchmark, but it's consistent with what we have seen in the past.

So the main takeaway from this page, it's the most important summary of risks in the portfolio. They're kind of two things you can draw from that. The risks of the portfolio are closely aligned with the benchmark, which is what we intend them to be, and the portfolio is running a slightly higher level of risk,

meaning that we expect it to outperform in a risk on environment, in a bull market, but it would underperform a bit more and see more volatility in a bear market.

Expected performance, the portfolio really is driven by market factors, more so than our allocation decisions, but I think that's again to be expected.

And then, finally, I'll draw your attention to the charts on the right where the total risk and the active risk over each of the last 12 months. Again, market volatility is trending lower, and you can see that both in the portfolio and the benchmark ones are following that blue dotted line, the market volatility. Again, it's just another indicator that market factors are really driving overall risk in the portfolio.

The bottom one, the active risk there, again, that's constrained in a fairly narrowly bound -- bound, what's called (indiscernible) 95 percent. A little blip there in April where it trends down, that's probably more due to technical factors as we kind of cut over to the new policy benchmark waves, you know, as we think about the asset allocation.

If you go to the next slide, please, Kate? Thanks.

So this one, I'll be pretty quick with this one. Again, we've seen it before and we have been kind

of talking about COVID. These are your allocation slides, and here, we're comparing your asset allocation by strategy to how risk is allocated among the portfolio. And you know, as in the past, you can pretty clearly see the public equity, even though it's a little less than half of the portfolio allocation, consumes two-thirds of your risk. And that's, again, to be expected just because those asset classes are -- you see a similar trend there for private equity where it consumes an outside portion of the risk relative to how we're actually invested there.

The takeaway here is that it really has to do with the importance of the dynamic rebalancing. If we were to leave the portfolio alone and not rebalance, you'd see that the actual allocations would trend toward the risk allocation, and that would leave the portfolio exposed to more drawdown risk and more overall volatility. So it sort of underlines the point that, you know, pay a lot of attention to how the equity asset classes are diversified and being a little bit more careful about positions we take. And again, that's something that Ed and the team are really focusing in on now as he kind of takes his new role.

Go to the last slide there, Kate? Thanks.

Okay. This one is actually one of my favorite

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slides. What it does is it compares the volatility of, you know, your investment strategy selections and the portfolio as a whole there to the results that we saw last quarter. We scaled volatility down from sort of an annual measure with how we normally report it, down to a quarterly horizon, and then we just plot in those triangles, you know, the actual results that you saw in the third quarter.

And the next thing about this is it gives you a sense of what's normal, right? We would expect, most of the time, that the results would plot somewhere inside of those bars and then in rare occurrences, 15 percent of the time, you know, to the upper end, and say 15 percent of the time to the lower end of distribution, you know, they fall somewhere outside of that.

The nice thing about this is it gives you a sense of which asset classes really kind of outperformed how we expected them to perform, and you know, we had great results in the third quarter across the board, but you can really see that public fixed income there performed much better than normal, we'd normally expect. That was driven really to where rates play there, saw interest rates come in a bit, so yields declined, prices went up.

If you look at the two-year rate, you know, it

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was down to 100 basis points, the tens were 70 basis points for the quarter, and that really drove a lot of performance in the fixed income portfolio, and it kind of shows you those results.

I'll stop there. Happy to take any questions, if you like.

CHAIRMAN BROWN: Any questions for Dan?

Thank you.

MR. HAAS: Thank you.
CHAIRMAN BROWN: Thank you so much.
So I think that wraps up our business in the Public Agenda. Is there a motion to move into Executive Session?
MS. LEE: So moved.
CHAIRMAN BROWN: And is there a second?
MS. MCGRATH: Second.
CHAIRMAN BROWN: Any discussion?
UNIDENTIFIED SPEAKER: Were you noted on the record?
CHAIRMAN BROWN: Oh, for the record -- let the record --
MR. GIORDANO: I think she was trying to check who was the second. Who made the motion and who seconded.
MS. MCGRATH: Victoria. I'm second.

CHAIRMAN BROWN: No, no, I'm just saying let the record show that Anthony Giordano is present as well.
THE REPORTER: I did.
CHAIRMAN BROWN: You got that? Thank you, Sophian.
So it has been a motioned, motioned and seconded. Any discussion? All those in favor of going into Executive Session, please say aye?
(Ayes were heard.)
CHAIRMAN BROWN: Those opposed, say nay? Any abstentions? We're in Executive Session. Thank you.
(Exit Public Session; enter Executive Session.)
(Exit Executive Session; enter Public Session.)
CHAIRMAN BROWN: Welcome back to Public Session. We'll have a readout now from Ron Swingle.
MR. SWINGLE: In Executive Session of the Passport Funds, there was one manager update.
In Executive Session of the Pension Fund, there was an update on preliminary performance data. There was an ETI presentation. Consensus was reached. There was a real estate presentation. Consensus was reached. There were two private equity presentations.

Consensus was reached on both. There were presentations for four different asset classes. Consensus was reached for all four.
And lastly, a public equity search recommendation, a holdover from a previous meeting, was presented and consensus was reached.
CHAIRMAN BROWN: Thank you so much. And this Board would like to thank Sophian, our recorder, much appreciated.
And our own IT tech person, Richard Santana,

thank you so much for all your work.
Any other business in Public Session?
MR. DORSA: No, I'd like to make a motion to adjourn, though.
CHAIRMAN BROWN: And your motion has been accepted and acknowledged.
Is there a second?
MS. LEE: Second.
CHAIRMAN BROWN: Any discussion? All those in favor of adjourning, please say aye?
(Ayes were heard.)
CHAIRMAN BROWN: All those opposed, say nay? Any abstentions? Let the record show that we are adjourned. Thank you.
(The proceedings concluded at 2:00 p.m.)

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That the foregoing proceeding is accurately captured with annotations by me during the proceeding in the above-titled matter, all to the best of my skills and ability.

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IN WITNESS THEREOF, I have hereunto set my hand this 27th day of December 2024.

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