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1 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
2 INVESTMENT MEETING
3 Held on Thursday, March 5, 2020
4 at
5 55 Water Street
6 New York, New York
7
8 ATTENDEES:
9 DEBRA PENNY, Chairperson, Trustee, TRS
10 THOMAS BROWN, Trustee, TRS
11 DAVID KAZANSKY, Trustee, TRS
12 PATRICIA REILLY, TRS, Executive Director
13 THADDEUS MCTIGUE, TRS, Deputy Executive Director
14 JOHN ADLER, Trustee, Mayor's Office
15 JOHN DORSA, Trustee, Comptroller's Office
16 SUZANNE VICKERS, Trustee, Comptroller's Office
17 NATALIE GREENE GILES, Trustee
18 CHRISTOPHER BUCKLEY, Trustee
19 VALERIE BUDZIK, TRS
20 LIZ SANCHEZ, TRS
21 SUSAN STANG, TRS
22 ROBERT RAUCCI, TRS
23 ALEX DONE, Comptroller's Office
24 SHERRY CHAN, Chief Actuary
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1 Attendees (Cont'd)
2 ROBERT BETHELMY, TRS
3 MICHAEL HADDAD, Comptroller's Office
4 MICHAEL FULVIO, Rocaton
5 SANFORD RICH, BERS
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1 P R O C E E D I N G S
2 (Time noted: 10:16 a.m.)
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4 CHAIRPERSON PENNY: Good morning.
5 Welcome to the Teachers' Retirement
6 System investment meeting. Today is
7 March 5, 2020.

8 Patricia, please call the roll.

9 MS. REILLY: John Adler?

10 MR. ADLER: I am here.

11 MS. REILLY: Thomas Brown?

12 MR. BROWN: Present.

13 MS. REILLY: Natalie Greene Giles?

14 MS. GREENE GILES: Present.

15 MS. REILLY: David Kazansky?

16 MR. KAZANSKY: Present.

17 MS. REILLY: Lindsay Oates?

18 MR. BUCKLEY: Russell Buckley for

19 Lindsay Oates, present.

20 MS. REILLY: Debra Penny?

21 CHAIRPERSON PENNY: Present.

22 MS. REILLY: Susannah Vickers?

23 MR. DORSA: John Dorsa for Susannah
24 Vickers, present.

25 MS. REILLY: We have a quorum.

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1 CHAIRPERSON PENNY: Thank you very
2 much.

3 We'll start with the Passport funds,
4 we'll go to Mike Fulvio.

5 MR. FULVIO: We did distribute the
6 quarterly reports for the Passport funds
7 in advance of the meeting. We weren't
8 planning to go through that in any great
9 detail, given that we discussed
10 performance for those funds at the last
11 meeting.

12 However, I'm happy to answer any
13 questions on the report. And if the
14 Board would find it helpful, I can
15 quickly note again for the record the
16 returns for perhaps what was a really
17 strong fourth quarter and strong calendar
18 year for the markets and the funds.

19 So, at the end of last year, the
20 first private equity funds did about
21 \$16.2 billion in assets. Again, I noted
22 it was a strong year for U.S. equity
23 markets, up over 31 percent.

24 It was also a strong environment for
25 the diversified equity fund, up about 28

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1 percent.

2 And again, what really bolstered
3 returns there was the performance in U.S.
4 equity markets, although non-U.S. equity
5 markets across the board were quite
6 positive, with the international equity
7 composite of Variable A and the
8 international equity fund up over 22
9 percent.

10 (Ms. Vickers entered the room.)

11 MR. FULVIO: The defensive
12 strategies composite, which you'll note
13 is a 10 percent component of the
14 diversified equity fund, that was also up
15 over 21 percent last year. So positive
16 contributions across the board from
17 different components of the diversified
18 equity fund.

19 And as you would expect, the
20 defensive did not keep up with the U.S.
21 equity markets or global equity markets;
22 but again, hopefully as we look forward
23 to 2020 and see some more volatility in
24 the defensive composite -- on its intent
25 providing downside protection.

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1 The balanced fund had assets of
2 about \$420 million. That fund was up
3 just shy of 11 percent last year. The
4 international equity funds, as noted
5 earlier, was up over 22 percent, with
6 assets of \$184 million.

7 The inflation protection fund had
8 assets of \$75 million at year end. That
9 fund was up just over 10 1/2 percent.
10 And the sustainable equity fund last year
11 had a return of about 24 percent, assets
12 of about \$255 million.

13 If there are no questions on
14 quarterly, we can move into January.

15 You'll recall at the last meeting we
16 talked a little bit of a high level about
17 what went on in January with respect to
18 capital market performance, in particular
19 the equity markets, which represents the
20 vast majority of the underlying assets in
21 the Passport funds.

22 The U.S. equity market in January
23 was roughly flat, down about 11 basis
24 points. And the diversified equity fund
25 for the month was down 84 basis points,

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1 about 40 basis points behind the hybrid
2 benchmark. Though we saw U.S. roughly
3 flat, non U.S. equity markets were down
4 about 2 1/2 percent during January. So
5 that led to, as you see, it detracted
6 from the absolute returns of the
7 diversified equity fund in the first
8 month of the year.

9 The defensive strategy composite was
10 up just over half of a percent during
11 January, providing diversification among
12 the assets within the diversified equity
13 fund. And the active composite had a
14 tough month for the active managers in
15 that composite, which, as you recall, do
16 represent in a big way value-oriented
17 strategies, which lagged quite notably
18 during January.

19 The balanced fund had assets of \$422
20 million at the end of January. That fund
21 for the month was up 16 basis points.

22 The international equity fund had
23 assets of \$180 million. As noted before,
24 that fund, like the international equity
25 composite, was down 2 1/2 percent,

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1 roughly in line with the benchmark.

2 The inflation protection fund had
3 assets of \$74 million. That fund was
4 down about 80 basis points, also roughly
5 in line with its benchmark.

6 And the sustainable equity fund with
7 assets of \$260 million had a positive
8 return to the tune of about 2 percent,
9 about a quarter of a percent behind its
10 benchmark.

11 You'll also note that the two new
12 funds which were launched January 1,
13 2020, the U.S. equity index fund, that
14 fund returned negative 90 basis points
15 for the month. And the international
16 equity index fund was down about 4
17 percent to start the year.

18 MR. ADLER: Question. These are
19 index funds, so why are they lagging?
20 Obviously there's very little money in
21 them, but why are they lagging the
22 indices?

23 MR. FULVIO: In the unit value
24 returns, you might recall, we chatted
25 about this; it's been some time, but in

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1 the past at the Board. The unit values
2 do take into account things like the
3 timing of cash flows, everything down to
4 trading, administrative fees and
5 expenses. So it rolls up not only the
6 underlying performance of the mutual
7 funds, but also additional factors and
8 different things in -- return.

9 And actually, if you wouldn't mind
10 flipping ahead (indicating) to slide 9,
11 what you can see, including at the bottom
12 of the page, for the U.S. equity index
13 fund, are the published and full fund
14 returns for the underlying strategies
15 within those two funds, John.

16 And you can see that the total
17 market index fund did perform for the
18 month in line. And then within the total
19 international index fund there is still
20 some tracking there, you can see the
21 negative 330 versus negative 2 3/4.

22 So the difference in the
23 international fund actually, between the
24 published mutual fund results and the
25 index is due to fair value pricing,

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1 investment managers who more commonly are
2 investing in international equities have
3 a fair value pricing policy; so that, as
4 investors in the U.S. see that, once
5 international markets have closed, U.S.
6 markets continue to be open for some
7 time.

8 And if you see a sell-off, for
9 example, in the U.S., like you saw on the
10 last day of January, managers like
11 Fidelity are actually making fair value
12 adjustments to the marks on the non-U.S.
13 securities in their portfolio, for how
14 the implied returns would have been if
15 the non U.S. markets were open for the
16 exact same trading hours as the U.S.
17 market.

18 So, as you will recall, in a mutual
19 fund all participants transact at the end
20 of the day. As a result, you will see
21 these point in time deviations between
22 the fair value evaluation on the mutual
23 funds, which impacts sometimes the point
24 in time performance, and what the index
25 is showing; because the index shows

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1 performance up to the point at which
2 those markets are closing. The mutual
3 funds are more of a fair value
4 representation of how those markets are
5 trading.

6 What we have seen is, over the long
7 term, these valuation differences will
8 sort of wash out over time. But on a
9 month to month basis, you'll see some
10 deviations, particularly in months where
11 there's a lot of trading late in the day,
12 as we've seen in the last couple of
13 months.

14 MR. ADLER: Okay. Thank you for the
15 information.

16 MR. FULVIO: We could also, if
17 there's more questions, go into more
18 detail in executive session.

19 That concluded the update for
20 January. I'll let everyone take a deep
21 breath before we look at February.

22 (Laughter.)

23 I handed out the February report.
24 I'm not going to spend as much time on it
25 as talking a little about the year to

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1 date numbers through yesterday's close;
2 largely in part because the numbers are a
3 lot better.

4 (Laughter.)

5 Maybe we'll chat a little about the
6 markets and volatility we're seeing.
7 Alex might jump in as well.

8 So you can see through February the
9 U.S. equity market, at the top of the
10 page, was down over 8 percent for the
11 month; and about the same return for the
12 calendar year to date. If you roll that
13 forward through yesterday's close, the
14 U.S. market was down 3 percent, 3.1 year
15 to date; so notably better in the last
16 week or so, as we've seen March start
17 out. It's just as volatile, but a few
18 updates that were meaningful.

19 In non-U.S. markets, the numbers
20 were not quite as strong as the U.S., but
21 a little better than what you see for
22 February. So the developed markets
23 represented by the EAFE index through
24 yesterday's close are still down 8 1/2
25 percent. Emerging markets down about 6.8

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1 percent. Surprisingly, through Tuesday's
2 close, which I know was roughly flat --
3 which is interesting, thinking about the
4 dynamics we're seeing.

5 There hasn't been much economic data
6 coming out of China, so a lot of what's
7 been out there is speculation, sentiment
8 related. But it should be about mid
9 March before we start seeing more
10 information out of China with respect to
11 production.

12 The expectation there is that there
13 will be a notable economic impact, not
14 only on China, but globally. I'll talk a
15 little more about that.

16 Nun U.S. small caps were down a
17 little over 10 percent, so that's driving
18 some of the more negative numbers you're
19 seeing from the international composite
20 benchmark.

21 And the defensive composite year to
22 date through yesterday's close was down
23 about 1.6 percent. So you can expect
24 with the diversification of that
25 composite, use the convertibles and other

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1 diversified strategies, downside
2 protection, we're estimating the hybrid
3 composite was down 3 percent through
4 yesterday's close.

5 So those are the numbers, where we
6 are today. There continues to be a lot
7 of uncertainty around the Corona virus,
8 what that means, not only from a social
9 standpoint, but the economic impacts of
10 that. There's likely to be continued
11 disruption in global trade and global
12 supply chains, which everyone agrees
13 there will be some impact to global
14 economic growth.

15 As I noted earlier, there's not a
16 lot of data out of China, we should see
17 something in mid March. But there were
18 some expectations put out yesterday about
19 potentially a 6 percent contraction
20 quarter over quarter for China.

21 And the last number I saw was on a
22 global scale, that the previously
23 forecasted global growth number was about
24 3 percent, and we're revising that down
25 to a 2 percent baseline.

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1 So we shall see, there will
2 certainly be more information out there.
3 The markets over the last couple of days
4 have not only been reacting to what the
5 Fed has done and continued news about the
6 Corona virus, but there is also more
7 discussion about what we're seeing in the
8 U.S. with respect to the election. And
9 there's a lot of discussion around how
10 the primaries have driven some of the
11 market returns that we've seen.

12 Perhaps some of that was matched by
13 the headlines around the Corona virus
14 we've seen since Super Tuesday, some
15 market strength in the last couple of
16 days.

17 So it will be interesting to see how
18 that continues to shake out. But
19 definitely never a dull moment.

20 (Laughter.)

21 CHAIRPERSON PENNY: Is there
22 anything else?

23 (No response.)

24 Do I hear a motion to go into
25 executive session?

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1 MR. BROWN: I move, pursuant to
2 Public Officer Law 105, to go into
3 executive session for discussions on
4 specific investment matters.

5 CHAIRPERSON PENNY: Thank you, Mr.
6 Brown.

7 Do I hear a second?

8 MR. DORSA: Second.

9 CHAIRPERSON PENNY: All those in
10 favor?

11 (A chorus of "Ayes.")

12 Any opposed say "Nay."

13 (No response.)

14 Okay. We are in executive session.

15 (Whereupon, the Board entered
16 executive session.)

17 CHAIRPERSON PENNY: Alex, Mike, is
18 there anything else to share?

19 Okay. Then, do I have a motion to
20 move back into public session?

21 MR. ADLER: So moved.

22 CHAIRPERSON PENNY: Thank you.

23 MR. BROWN: Second.

24 CHAIRPERSON PENNY: All those in
25 favor?

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1 (A chorus of "Ayes.")
2 Any opposed?
3 Any Abstentions?
4 (No response.)
5 We're moving out.
6 (Whereupon, the Board returned to
7 public session.)
8 CHAIRPERSON PENNY: We're back in
9 public session.
10 Susan, would you report out, please?
11 MS. STANG: In executive session
12 there was a discussion about
13 implementation issues on the pension plan
14 side.
15 CHAIRPERSON PENNY: Thank you.
16 Does anyone else have anything to
17 say?
18 (No response.)
19 Do I have a motion to adjourn?
20 MR. KAZANSKY: So moved.
21 MS. VICKERS: Second.
22 CHAIRPERSON PENNY: All in favor?
23 (A chorus of "Ayes.")
24 Any opposed?
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1 (No response.)
2 We are adjourned.
3 (Whereupon, at 10:54 a.m. the matter
4 was concluded.)
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I, Jeffrey Shapiro, a Shorthand
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, March 5, 2020, at the
offices of the NEW YORK CITY TEACHERS RETIREMENT
SYSTEM, 55 Water Street, New York, New York, and
that this is an accurate transcription of these
proceedings.

IN WITNESS WHEREOF, I have hereunto
set my hand this 8th day of March, 2020.

JEFFREY SHAPIRO