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Proceedings

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING

Held on Thursday, June 6, 2019, at 55 Water Street,
New York, New York

ATTENDEES:

- DEBRA PENNY, Chairman, Trustee
- THOMAS BROWN, Trustee
- JOHN ADLER, Trustee, Mayor's Office
- NATALIE GREEN GILES, Trustee
- SUSANNAH VICKERS, Trustee, Comptroller's Office
- JOHN DORSA, Trustee, Comptroller's Office
- DAVID KAZANSKY, Trustee
- PATRICIA REILLY, Teachers' Retirement System

REPORTED BY:

YAFFA KAPLAN
JOB NO. 2467353

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ATTENDEES (Continued):

- SUSAN STANG, Teachers' Retirement System
- RON SWINGLE, Teachers' Retirement System
- KOMILJON ATAEV, Teachers' Retirement System
- JULIE MOORE, Rocaton
- MICHAEL FULVIO, Rocaton
- VALERIE BUDZIK, Teachers' Retirement System
- LIZ SANCHEZ, Teachers' Retirement System
- SHERRY CHAN, Office of the Actuary
- DAVID LEVINE, Groom Law Group
- CYNTHIA COLLINS, Mayor's Office
- SUMANTE RAY, Mayor's Office
- SANFORD RICH, BERS

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2 MS. PENNY: Good morning and welcome to
3 Teachers' Retirement System of the City of New
4 York Investment Meeting, June 6, 2019.
5 Patricia, will you call the roll,
6 please?
7 MS. REILLY: Sure.
8 John Adler?
9 MR. ADLER: I am here.
10 MS. REILLY: Thomas Brown?
11 MR. BROWN: Here.
12 MS. REILLY: Natalie Green Giles?
13 MS. GREEN GILES: Here.
14 MS. REILLY: David Kazansky?
15 MR. KAZANSKY: Present.
16 MS. REILLY: Lindsey Oates?
17 Debra Penny?
18 MS. PENNY: Here.
19 MS. REILLY: Susannah Vickers?
20 MR. DORSA: John Dorsa for Susannah
21 Vickers.
22 MS. REILLY: We do have a quorum.
23 MS. PENNY: Okay, thank you.
24 And we will start with the discussion of
25 the Passport Funds with Mike Fulvio from

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2 Rocaton.
3 MR. FULVIO: Great.
4 Good morning, everyone. I would just
5 like to introduce my colleague Julie Moore
6 from Rocaton. Many of you have met her over
7 the years, but we were chatting that it seemed
8 a little while since she has been at one of
9 these meetings.
10 MS. MOORE: Quite a few years.
11 MR. FULVIO: She is going to be
12 presenting during executive session today and
13 will interject during the public.
14 The first item on the agenda today was a
15 performance review for the first quarter of
16 2019 for the Passport Funds, which I know we
17 did review in more detail at the last meeting.
18 We did distribute this report in advance so
19 happy to answer any questions, but we weren't
20 planning to flip pages in that report.
21 So if there is no questions, maybe then
22 we can flip ahead to April where I would say
23 the good news in terms of strong capital
24 markets returns continued from the first
25 quarter. So April was a strong month,

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2 particularly in U.S. equity markets where the
3 U.S. market as a whole was up 4 percent. And
4 then in broad we did see positive returns as
5 well, not quite as strong as we saw in the
6 U.S. the developed markets were up about 3
7 percent and emerging markets up about 2
8 percent. So that all translated into a strong
9 month in absolute returns for the options that
10 were more equity-oriented in the Passport
11 Funds.

12 The Diversified Equity Fund with assets
13 of about 15.7 billion at the end of April were
14 up about 3.76 percent, slightly ahead of the
15 hybrid benchmark. That brought the calendar
16 year-to-date return for the fund to positive
17 just shy 17 percent, right in line with the
18 hybrid benchmark. What was driving the
19 results there for the month in absolute terms
20 really was strong performance by the
21 actively-managed composite up about 4.9
22 percent and year to date that composite is up
23 about 18.4 percent. With the international
24 composite, kept pace with the benchmark this
25 month. The return was about 2.8 percent.

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2 That composite is up about 13 year to date.
3 The defensive composite, which did lag the
4 broad equity market as you might expect, was
5 up about 2.8 percent. And that compares to
6 the composite benchmark for that, for the
7 defensive of about 2.9 percent. So the
8 defensive composite, it's been a really strong
9 equity market of up 18.6 percent so far year
10 to date. The defensive composite is up about
11 13.3 percent, so we got about 70 percent of
12 the upside from the defensive composite.

13 In terms of the Balanced Fund, that fund
14 with assets of about 398 million at the end of
15 the month, that had a positive return of about
16 1.1 percent for April. Year to date that fund
17 is up about 5.7 percent. The International
18 Equity Fund roughly in line with the
19 international composite within Variable A.
20 That fund was up about 2.8 percent, roughly in
21 line with its benchmark, and year to date the
22 return there is positive to the tune of about
23 12.9 percent.

24 The Inflation Protection Fund with
25 assets of about 69 million, that fund had a

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2 modest positive return of about .5, slightly,
3 slightly ahead of the Inflation Protection

4 Fund's composite benchmark. Year to date that
5 fund was up about 6.8 percent, roughly in line
6 with the benchmark.

7 And then the Socially Responsive Fund
8 with assets of about 230 million, there is a
9 positive return there of about 3 percent which
10 unfortunately lagged the S&P which was up
11 about 4 percent during April. Year to date
12 that fund has returned 14.8 percent versus the
13 S&P at 18.25.

14 So I will pause there to see if there is
15 any questions.

16 So maybe we will talk a little bit about
17 May, which unfortunately, unfortunately -- so
18 it's been in all the headlines that the
19 market, we did reverse April and then some.
20 We saw May -- May's market was driven quite a
21 bit by headlines and tweets. There was a lot
22 of -- in addition to the news about potential
23 trade wars, there was some mixed economic data
24 which also had an impact on the markets and
25 day-to-day things were moving around quite a

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2 bit. Even the news this week so far in early
3 June was that, you know, there is potential
4 that the Fed may take moves to -- you know, to
5 try and keep the economy of ahead of whatever
6 potential impact there may be from prolonged
7 trade wars, if you will.

8 So we continue to see a little bit more
9 volatility into June and -- but with May, we
10 saw in the U.S. equity market that the Russell
11 3000 was down about 6-1/2 percent for the
12 month. Developed non-U.S. markets were down a
13 little less, down about 4.6 percent, 4.7
14 percent. And the emerging markets, the custom
15 index, they're down about 4.9 percent. So
16 it's interesting that in spite of the talk
17 about trade wars and the potential larger
18 impact that those could have on China and
19 emerging markets, here and even with the broad
20 EM Index held up pretty well against the U.S.
21 And I think obviously the custom benchmark
22 here reflecting performance without China put
23 that ahead of the U.S. for the month.

24 Calendar year to date the U.S. is still
25 up quite strong, about 10.9 percent. And the

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2 fiscal year-to-date return through May still
3 positive for the U.S., almost 2 percent. The
4 hybrid benchmark up for that time period up 10
5 percent year to date, calendar year to date.

6 And fiscal year to date, the hybrid benchmark
7 up about 80 basis points. So with that, the
8 Balanced Fund's benchmark during May down
9 about 1.1, during May still positive calendar
10 fiscal year-to-date returns there. The
11 underlying strategy for the Inflation
12 Protection Fund, that was down about 84 basis
13 points for the month. Still positive returns
14 calendar and fiscal year to date for that
15 fund. And the underlying strategy for the
16 Socially Responsive Fund down about 6.6
17 percent. Positives returns calendar year to
18 date for that fund, about 7.6 percent, but
19 fiscal year-to-date return of about negative
20 2.5 percent.

21 So certainly more to report back on in
22 May at some point in the not too distant
23 future, but wanted to spend a little bit more
24 time on that given we won't report out much on
25 the second quarter until the board reconvenes

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2 in September on that.

3 So any questions?

4 MS. PENNY: All right, great.

5 Next is the discussion of the Retirement
6 and Social Security Law. John Dorsa, are you
7 going to lead that discussion?

8 MR. DORSA: Yes, sure.

9 So I think that the board is aware that
10 one of the other city funds passed a
11 resolution regarding a potential change to
12 Section 177 of the RS L, which is the
13 Retirement and Social Security Law which
14 governs certain investments that the city
15 pension funds as well as the state pension
16 funds can make. So one of the other
17 retirement systems passed a resolution that
18 would effectively support a bill that's going
19 in Albany and I think, I believe, the bill
20 numbers are in front of you. One is Senate
21 Bill 5414 and the other is Assembly Bill 7904.
22 The one in the Senate was introduced by
23 Senator Gounardes, who in a previous life
24 actually served on the NYCERS board so that
25 may be some indication as to how he was aware

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2 of the issue, and Assemblyman Peter Abbate
3 introduced the same bill in the assembly.

4 Effectively what the bill would do, if
5 passed, would change the allowable exposure to
6 non-U.S. or, I should say, foreign securities.
7 Right now when you look at how the state RSSL

8 looks at the eligible investment list, they
9 cap exposure to foreign securities at 10
10 percent. Which might have made sense when
11 that was first introduced in the '90s, but
12 today the world is a much different place. So
13 in essence the way that it would work is if
14 you had 15 percent in foreign securities, 5
15 percent would account towards the basket. So
16 what that would effectively do, this bill, is
17 raise that 10 percent to 30 percent. So that
18 would give some relief for foreign
19 investments. If you were to look today at the
20 MSCI All Country Index, approximately 45
21 percent of that index is benchmarked to
22 non-U.S. securities. So the times have
23 changed. That number, that 45 or so percent,
24 crept up from, you know, the 30s about a
25 decade ago. Fortunately Julie Moore is here,
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2 so she can explain a lot more about the
3 indices than I certainly can. But it's a bill
4 that I think helps to change what -- is
5 helping to change with the times and
6 recognizes that the world is a different
7 place.

8 So as I said in my opening sentence, you
9 know, one of the other retirement systems has
10 passed a resolution to share their support and
11 send a letter to Albany. We wanted to make
12 folks aware that that happened in another
13 retirement system and, you know, would
14 welcome if TRS wanted to support that as well.
15 It's not an initiative from our office, to be
16 clear; it's an initiative that another board
17 took. So I will leave that to the hands of
18 the trustees on how they would like to
19 proceed.

20 MS. BUDZIK: So the trustees are aware,
21 we actually drafted a letter. It's in your
22 material in front of you marked "Draft." We
23 could send around an electronic version for
24 any comments that you wanted to make if the
25 resolution were to pass.

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2 MS. CHAN: So is this essentially
3 changing the basket clause?

4 MR. DORSA: It's a component, it's a
5 component thereof. It's not specifically
6 addressing the basket clause, which is capped
7 at 25 percent. The intention is not to ask
8 for a change of the 25 percent.

9 MS. VICKERS: Sherry, there is an

10 allowable investment list within our RSSL
11 which is in a separate section of the basket
12 and this is just increasing the amount that
13 would be allowable to go to foreign securities
14 without it going into the basket?

15 MR. DORSA: They are connected, but they
16 are not.

17 MS. CHAN: So if you increase this, does
18 it decrease allocation to something else?

19 MS. VICKERS: No. It means currently we
20 have a, you know, foreign equity exposure
21 above the 10 percent limit and that excess is
22 going into the basket. And so this
23 legislation or, yes, the bill would allow us
24 to do the prudent investment in foreign
25 security without it counting against the

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2 basket.

3 MR. DORSA: And it's also, from a
4 timing standpoint, convenient that the boards
5 are undertaking a review of their asset
6 allocation at the same year effectively that
7 this legislation is -- these bills have been
8 introduced. So from a timing standpoint it's
9 actually convenient, which rarely happens when
10 you think about Albany and pension funds. But
11 this is convenient.

12 MR. ADLER: Although, let me just point
13 out, it's our hope that this bill is passed in
14 the legislation session which ends on June
15 19th. But if it is passed, the governor has
16 until the end of the year to sign it. So it
17 may not actually interact while we are doing
18 our asset allocation.

19 MR. DORSA: Fair point, Mr. Adler. I am
20 an optimist, though.

21 MR. ADLER: That's good. So am I. I am
22 just pointing out.

23 MS. REILLY: So there is a resolution.
24 All right, so in support of an amendment to
25 RSSL Section 177.

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2 MR. KAZANSKY: Please skip to the
3 resolved.

4 MS. REILLY: Resolved that the board
5 adopt a resolution supporting the bill above
6 and convey said support to the appropriate
7 legislative bodies and executive agencies and,
8 therefore, be it resolved that the chair or in
9 her absence the executive director or in her
10 absence the deputy executive director is
11 hereby authorized and directed to issue

12 instructions and take any action as may be
13 necessary to implement this resolution.
14 MS. PENNY: Is there a motion to accept
15 the support of the amendment to RSSL Section
16 177?
17 MR. KAZANSKY: So moved.
18 MS. PENNY: Is there a second?
19 MR. ADLER: Second.
20 MS. PENNY: Thank you, Mr. Adler.
21 Any discussion?
22 Okay, all in favor?
23 Aye.
24 MR. ADLER: Aye.
25 MR. BROWN: Aye.

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2 MR. KAZANSKY: Aye.
3 MR. DORSA: Aye.
4 MS. GILES GREEN: Aye.
5 MS. PENNY: Great. Any opposed?
6 Okay, then the motion carries.
7 MS. BUDZIK: So we will e-mail the
8 letter around to the trustees. Do the
9 trustees want an opportunity to review and
10 comment on the letter or are you okay with it?
11 Okay, so done.
12 MS. PENNY: Then we are finished with
13 public agenda.
14 Do I hear a motion to move into
15 executive session?
16 MR. BROWN: I move pursuant to Public
17 Officers Law Section 105 to go into executive
18 session for discussion on specific investment
19 matters.
20 MS. PENNY: Okay.
21 Do I hear a second?
22 MR. DORSA: Second.
23 MS. PENNY: Thank you, both of you. We
24 are now in executive session.
25 (Discussion off the record.)

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1 MS. PENNY: Okay, then do I hear a
2 motion to exit executive session?
3 MR. KAZANSKY: So moved.
4 MS. PENNY: Do I have a second?
5 MS. VICKERS: Second.
6 MS. PENNY: All in favor?
7 MR. ADLER: Aye.
8 MR. BROWN: Aye.
9 MR. KAZANSKY: Aye.
10 MR. DORSA: Aye.
11 MS. GILES GREEN: Aye.
12 MS. PENNY: Welcome back. We are back
13 into public session.

14 Susan, will you please report out?
15 MS. STANG: Certainly. In executive
16 session we received presentations from three
17 managers, consensus was reached which will be
18 announced at the appropriate time. We also
19 discussed a policy matter, consensus was
20 reached which will be announced at the
21 appropriate time.
22 MS. PENNY: Okay. If that is all, do I
23 have a motion to adjourn this meeting?
24 MR. DORSA: So moved.
25 MS. PENNY: Thank you.

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1 Do I have a second?
2 MR. BROWN: Second.
3 MS. PENNY: Okay, all in favor?
4 Aye.
5 MR. ADLER: Aye.
6 MR. BROWN: Aye.
7 MR. KAZANSKY: Aye.
8 MR. DORSA: Aye.
9 MS. GILES GREEN: Aye.
10 MS. PENNY: Any opposed? We are
11 adjourned.
12 [Time noted: 1:14 p.m.]
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3 C E R T I F I C A T E
4 STATE OF NEW YORK)
5 : ss.
6 COUNTY OF QUEENS)
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8 I, YAFFA KAPLAN, a Notary Public
9 within and for the State of New York, do
10 hereby certify that the foregoing record of
11 proceedings is a full and correct
12 transcript of the stenographic notes taken
13 by me therein.
14 IN WITNESS WHEREOF, I have hereunto
15 set my hand this 17th day of June, 2019.

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YAFFA KAPLAN