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INVESTMENT MEETING

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Sophian DeFrance
Digital Reporter
Notary Commission No. 01DE0006274

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APPEARANCES:

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THAD MCTIGUE, TRS DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE
KEVIN LIU, MAYOR'S OFFICE, TRUSTEE
DAVID KAZANSKY, TRUSTEE
VICTORIA LEE, TRUSTEE

Also Present:

LIZ SANCHEZ, EXECUTIVE ASSISTANT
MAREK TYSZKIEWICZ, CHIEF ACTUARY
PRISCILLA BAILEY, TRS
MICHAEL FLUVIO, ROCATON/GOLDMAN SACHS
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
STEVE MEIER, BUREAU OF ASSET MANAGEMENT
RON SWINGLE, TRS
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(The proceedings commenced at 10:12 a.m.)
CHAIRMAN BROWN: Today is November 7th, 2023. I'll start by calling the roll.
Kevin Liu?
MR. LIU: Present, representing Mayor Adams.
MS. REILLY: Thomas Brown.
CHAIRMAN BROWN: Present, Patricia. Good morning.
MS. REILLY: Good morning.
Gregory Faulkner or Anthony Giordano?
Alison Hirsh?
MS. HIRSH: Present, representing Comptroller Brad Lander.
MS. REILLY: David Kazansky?
MR. KAZANSKY: Present.
MS. REILLY: Victoria Lee?
MS. LEE: Present.
MS. REILLY: We have a quorum. I'll turn it over to the Chair.
CHAIRMAN BROWN: Great, thank you.
Good morning, everybody. Good morning. I guess we'll start off with the Passport Funds Third Quarter 2023 Performance Review by Rocaton.
MR. FULVIO: Great. I'm going to attempt to share my screen. As I'm pulling that up, but for anyone

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following along in the material, I'm going to ask you to flip ahead to Slide 26.

So I think, as everyone will recall from last meeting, we did discuss what was more challenged quarter from a market performance standpoint during the third quarter, and what we did want to just very briefly recap were the returns for the Passport Funds during that time period, which I now have up on the screen. So you can see that, for the quarter, markets sold off a little over 3 percent here in the US and abroad, equity markets that is, and the Diversified Equity Fund was also down about 3-and-a-half percent.

But what we also saw with the strong market environment coming into the first half of this year, fairly strong, still, year-to-date returns for the calendar year-to-date time period through September. So the Diversified Equity Fund up over 10 percent.

And then if you look over the trailing 12-month period, again, with that strong market rebound coming out of the COVID period, markets up over 20 percent, with some value-add over the trailing one and three-year time period for the Diversified Equity Fund. You can see a lot of that contribution is coming, as you would expect, from the active manager component of the US equity composite as well as the international equity

composite. Over the trailing three years, about 1 percent outperformance from the active manager composite and about 60 basis points of net outperformance for the international composite. So I think, after a number of changes made to that fund, or within that fund, a few years ago, we're starting to see the benefits of those changes play out in the relative performance.

For the Balanced Fund, again, a down quarter but fairly strong returns, fairly strong for that fund, when we look to the year-to-date. Up nearly 4 percent, and on trailing one-year and three-year time periods, up over 7 percent and 1 percent respectively.

The International Equity Fund down about 4.7 percent for the third quarter. Again, very strong long-term returns with international markets also up over 29 percent, this fund was up over 22 percent, so we will definitely take that.

The Sustainable Equity Fund, following growth stocks, which are down about 3 percent during the month, you can see that fund is down about 2-and-a-half percent, so it's relative outperformance there. Longer term, a little bit more underperformance for that one-year time period, and up over 7 percent over three years.

And then for the Index Funds, as you'd expect,

those funds track their benchmarks very closely.

So we just wanted to recap that for everyone. Would you like us to move to October?

CHAIRMAN BROWN: Any questions, first, for

Mike or Amanda? Great. We can move to the Passport Funds for October of 2023 Performance Review. Good month, right? Oh no --

MS. JANUSZ: You've got to wait for November, better numbers, yeah.

CHAIRMAN BROWN: Wait a whole month.

MS. JANUSZ: So the month of October, unfortunately, was negative pretty much across the board. Within equities, we saw US equities faring a little bit better than non-US, and certainly better than emerging markets, which were the more challenged area of the equity markets. More defensive areas like utilities fared better than energy, which was one of the worst performing sectors for the month of October.

On the fixed income side of things, we have seen most of the major central banks at or near peak -- peak rates and only likely to raise further if we see a surprise on the upside in terms of either growth or inflation numbers.

We also saw Treasury yields continuing to rise. The 10-year popped up above 5 percent for the

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first time since 2007, during the month of October.

In terms of the Passport Funds, the Diversified Equity Fund, which does have over $15 billion in assets, had a return of negative 3 percent for the month of October, and within that, the passive US equity at negative 2.6 percent was the best performing segment of the Diversified Equity Fund, with the active and international composites down around 3-and-a-half and negative 4 percent for the month.

The Balanced Fund was your best performing option for the market. It is more conservatively allocated, which was down around 1 percent for the month of October.

And that International Equity Fund, as we talked about, was the more challenged area of the -- of the equity markets during October, down a little over 4 percent and trailing that benchmark by just around 15 basis points.

The Sustainable Equity Fund is a growth oriented fund, did trail a little bit versus its benchmark for the month. Given some of that growth orientation, we have continued to see very style driven markets either in favor of growth or value throughout 2023, and so that fund was a little bit challenged relative to the benchmark, based on style.

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The Passive Funds at the bottom of the page are tracking their benchmarks, as we would expect. A little bit of tracking here for the International Fund, partly due to timing of cash flows.

I'll pause there to see if there's any questions on October results.

CHAIRMAN BROWN: Any questions for Amanda?
Thank you, Amanda.
Now we move to November -- the highlight.
(Crosstalk.)
MR. FULVIO: I think I heard November described as quite a year for the market. So we'll take what we can get, and all the unfortunate numbers we looked at for the third quarter, from a negative perspective, were completely reversed in the month of November. So the equity markets in the US were over 9 percent. I think what I heard was that might have been the third strongest month for equity markets in the US since the global financial crisis.
We saw the 10-year Treasury field move down by about 60 basis points in the month. That was the largest monthly move since July 2021, and in all (indiscernible), we have continued to see a lot of volatility in Treasury yields this year, so it was a fairly impressive month across markets.
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You can see on this page, if you look down the page for the month, very strong. I noted the 9 percent return for US equity markets, non-US equity markets also did quite well. Emerging markets standing out as maybe, I'll say the laggard, still up 8 percent for the month. So it was very strong across the board.
If you're looking at the global market composite at the top of the page for the Diversified Equity Fund, you can see that benchmark was up about 9.3 percent for the month. That brought the fiscal year return back to positive, right around 2-and-a-half percent, calendar year to date, that benchmark is up over 17 percent. So we will -- we will take the exuberance that came with comments from the FO -- some FOMC members around the moderation in inflation that they're seeing, moderation in wage growth as well.
CHAIRMAN BROWN: I'm sorry, you said the year-to-date or fiscal year-to-date was 1.2?
MR. FULVIO: 2.5 percent.
MS. REILLY: 2.5.
MR. FULVIO: For the Diversified Equity Funds benchmark.
CHAIRMAN BROWN: And the year-to-date?
MR. FULVIO: Calendar year-to-date. 17.3 percent.
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CHAIRMAN BROWN: Thank you.
MR. FULVIO: And again, I think a lot of the market performance we saw, really being driven by the comments we heard from the Fed, acknowledging moderation, legislation, wage growth, all of that leading to investors being a little bit more exuberant around the potential for interest rate cuts in 2024.
The market, I think last I saw this week, this

pricing cuts as early as second quarter may. Yeah, we're saying probably later in the year, in terms of our outlook. We also do think there is still, albeit modest, but still a chance of recession, if you look out over the next year.

But again, probably still shallow, if that, but that again is really centered around the possibility for shocks related to if we do see, you know, kind of reversals in inflation, that would probably cause the Fed to maybe not cut rates at this point. It doesn't feel like there's a likelihood that they'll increase rates, but if we start to see some of the numbers which can drive a very data dependent Fed at this point change the story, we could see a little bit more stress. We are seeing earnings slowing a little bit as well. So something else we're thinking about looking out into 2024. I'm sure Steve has comments that he'll make as

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well, so I don't want to belabor it, but it was a good month, and we'll take it.

And so far, December is off to a more kind of flat look for equity, which you know, five days. Yeah, I don't even want to make annual predictions, let alone -- let alone monthly.

CHAIRMAN BROWN: Great, thank you, Mike.

Any questions for Rocaton, Michael or Amanda? Great.

Let record show that we have Ephry Zakry who just joined us. Thank you. Welcome, Ephry.

MR. ZAKRY: Thank you. Good morning.

CHAIRMAN BROWN: Good morning. So we move on to the Pension Fund Performance Update Quarterly Presentation. Steve --

MR. MEIER: Terrific.

CHAIRMAN BROWN: -- take that one?

MR. MEIER: Yes.

CHAIRMAN BROWN: Thank you.

MR. MEIER: Thank you, Mr. Chair.

So I have been a little under the weather lately, but I feel on top of my game today, and I told Kate to try to keep up, so it says 30 minutes for the update. It won't be 30 minutes, but there is a lot to talk about.

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UNIDENTIFIED SPEAKER: An hour-and-a-half.

MR. MEIER: It'll feel like an hour-and-a-half, it'll be 15 minutes.

Kate, go to the first slide, please.

Obviously, everyone has been focused, laser focus, on inflation in the last year-and-a-half. US and global inflation rates have obviously declined. This decline has caused markets to price in or assume that rate hikes are done. That's both here and abroad. And bond prices have significantly rallied more recently, as

Mike and Amanda talked about, and yields have come down commensurately, and I'll talk a little bit more about where we are today from a rate environment.

On the next slide, inflation, you can see as a reminder, CPI in white actually peaked at 9.1 percent in June of 2022. It's now at about 3-and-a-quarter percent, so it's really come down significantly. Core PCE deflated has been a little more sticky in the mid 3s, but expectations are for them to continue to move lower.

On the next slide, actually the European Union surprisingly on the downside with inflation. Their most recent chart showed inflation coming in around 2-and-a-half percent, which is below the estimate of 3.8 percent, so some good news there. But again, a general

decline in inflation levels around the world.

I should also say that this has been a really unusual time. A lot of people look back at history and say, where are we in the market cycle? Market cycle analysis kind of goes out the window because we're coming off of a pandemic, which is a very unusual time, and I think that is evidence of where we are.

On the next slide, from an employment standpoint, employment growth has slowed in line with Fed expectations recently here in the states. If you remember, last year, we had growth in employment of, you know, close to 300,000 jobs per month. It's actually slowed nicely now in the last month in October came in at around 150,000 jobs created. The unemployment rate in the States is 3.9 percent, still below 4 percent, which is quite remarkable, given the amount of tightening we have seen. And this week, tomorrow, we actually have a non-form payroll report (phonetic) for November and the market consensus is for 180,000 jobs created. Some of that has to do with the strike and the settlement of the strike, which is higher than we saw in October, but again, expecting 3.9 percent --

UNIDENTIFIED SPEAKER: Tomorrow?

MR. MEIER: Tomorrow, yeah, at 8:30 in the morning, yeah. We'll be watching.

On the next slide is, again, sort of representation, where we are. Came down a little bit in terms of a labor force participation rate. We're still not where we were pre-pandemic, but again, it's a good story all around, and again, slowing commensurately with Fed expectations that should hopefully keep them on pause from rate hike cycles.

On the next slide, a quick look at where we are, where we have come, and what the expectations are. The consensus forecasts are for us to continue to see a decline in employment growth in the States. Again, inflate -- the interest rate hikes that operate with a long and variable lag, and that is expected to be reflected in the coming months, as the employment rate slows down.

Next slide, US economic growth. Third quarter US economic growth was actually fairly robust, came in close to 5 percent, actually was forecasted to come in as high as 5.8 percent by the Atlanta Fed, so those are really remarkable numbers, and the US is outperforming expectations for growth relative to China.

On the next slide, a look at where we are, and you can see on the far right-hand side where the green line, which is China, and the red line, which is US, touch and converge around 5 percent. Growth has

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actually been really challenging in China. I'll talk a little bit more about that in a moment, but it's been really quite robust in the States, again. Perhaps, potentially -- specifically given where we are in the hiking cycle.

On the next slide, as Mike and Amanda talked about, a lot of this has to do with interest rates. So the US, the UK, the ECB, and Japan, and I'll qualify that in a moment, rates have all been on hold recently. Expectations are for the next move to potentially be lower, as Mike said. I believe there's an 83 percent chance for cutting price in for May. I agree with Mike. I do think that's premature.

And the expectations are that perhaps you'll see the ECB cut rates even earlier and the market starting to price and decline. There are five rate cuts in 2024 to begin in April. Again, I think that's probably perhaps too optimistic.

There was news overnight about Japan. So Japan is still the one holdout where they continue to have negative official rates. The next slide, you can see that on the bottom. They still have negative 10 basis points, official rates, but there was some commentary overnight that they may actually adjust their rate policy when they meet on the 18th and 19th of this

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month.

The Fed meets next Wednesday, and the expectation is for no change in interest rates, but you can see where we have got the Federal Reserve, the Bank of England, and ECV. Again, the staircases on the far right show those rate hikes that we have had since, really, March of 2022, and Japan has been kind of an outlier, but they have made some tweaks to their yield curve control, and again, perhaps they will raise rates at some point later this month.

On the next slide, just a look at where we were in November. November, bond prices increases, increase in yields came down significantly. We saw significant retail flows into corporate debt, both high yield and investment grade, driving spreads lower. I'll show you a slide on that in a moment. And we have had huge flows in investor interest in private credit, which I think is certainly consistent with our view in terms of the value that private credit options present these days.

Can you skip the next slide, Kate, and go right to the US Treasury yield history.

You can see where we are, far right-hand side and white, 478 is where we were on November 27th on two-year yields. As of last night, they were actually,

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twos were at 460. And in green, we see the 10-year yields at 435. They actually touched 410 yesterday. Again, Mike talked about 60 basis points decline through November, which is correct, but where we are now is they're at almost fully 90 percent and the peak is slightly over 5 percent, earlier this year. So a huge decline in a lot of volatility in bond prices and yields.

On the next slide, a quick look at spreads. On the top, you can see high yield spreads, and then white below that, investment grade spreads. They're both trading below their median, which represents perhaps a less compelling argument to reallocate money into those areas right now. Again, we continue to expect volatility around those spreads. But a lot of that has to do with retail flows into investment grade and non-investment grade product, as well as typical insurance company inflows into the sector.

On the next slide, recently, both stocks and bonds have rallied, which you heard that recurring theme, and Mike had the privilege of going through November. For November, the public market 60/40 split, the portfolio actually achieved a 7.6 percent return, and to echo Mike's comment, you know, it's a great year in one month, great returns for the year in one month.

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But over the last year, for the full year 2023, the 60/40 portfolios generated a return of 11 percent, which is significant.

On the next slide, not to beat a dead horse here, but yeah, obviously, third quarter returns in public sectors were challenged. I like to highlight high yield, which has half the duration exposure of investment grade corporates and wider credit spread, so there's more carry, more coupon, and you can see that reflected in the fact that there was a positive, albeit a small positive, performance for a challenging quarter.

And the next slide, a look at world equity markets. The Russell 3000 year-to-date has delivered almost 18 percent returns, 17.7 percent, but you can see all manner of index on the upper side. Dow is up 7 percent S&P 500 up 18, almost 19 percent, and NASDAQ fully 36 percent. I'll comment a little bit more on that in a moment.

European -- European stocks have actually performed very, very strongly coming off of a challenging 2022, as well, year-to-date. Asia has been a little more challenged, particularly given the weakness we have seen in China, but we should note that Japan is a little bit of an outlier in terms of their significant outperformance of 28 percent up

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year-to-date.

The bottom, on the last line, and the bottom of the 41, that's the Bloomberg World Index. That comprises fully 85 percent of the market capitalization around the world, and that's up 14 percent year-to-date.

On the next slide, world bond markets, sovereign yields in the US and Asia are higher. You can see that on the far right-hand side. US, at the time of the snapshot, we had a 434 10-year yield. It started the year at 3.88 percent. That's to say you're up 486 basis points for the year.

Europe has seen more of a rally. Again, it has to do more with the sluggishness of economic growth there. And Japan and Asia, we have seen higher yields associated with growth in those markets, not withstanding the fact that China, on the very, very bottom, has seen a contraction in sovereign 10-year yields.

If you skip ahead to recent news, Kate?

A couple of things I talked about in China, Chinese economy. It has been very challenged, particularly by the property market there. The shadow banking system, I don't know if you read the Wall Street Journal, there was an article yesterday that it is significantly struggling with off balance sheets or

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non-bank debt of anywhere between 7 and $11 trillion. Again, a lot of that's tied to the property market. Moody's actually placed China on negative credit watch on Tuesday, and the expectation being that the banks will likely -- sorry, the Chinese government will likely step in to provide some level of support for government, local government debt that's been issued and the number is in the trillions.

A couple other things of note. Sam Bankman Fried is heading the prison, who is the former grandchild behind FX Connect. Sorry about that. As is the former chairman, CEO of finance.

And lastly, we have seen some disruption in OpenAI. I don't know if you followed the shenanigans in the boardroom last week, or the drama, but Sam Altman had left. He was going to Microsoft, and came back. They restructured the board where they put, actually -- Larry Summers is actually now one of the new board members, which I think is remarkable, and in a positive way.

And yesterday, Elon Musk announced the fact that he was coming out with his own AI solution. A lot of people don't remember or realize, OpenAI was actually initially co-founded by Elon Musk with a billion dollar commitment of his own money, and there's a lot of

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movement there in terms of what they're doing at SpaceX, automated cars, Tesla and New Orleans --

CHAIRMAN BROWN: He's been quiet.

MR. MEIER: Yeah.

CHAIRMAN BROWN: I just finished his book, obviously, so you just got the snapshot.

MR. MEIER: Which, frankly, I don't think I'd ever read a history book about someone that's 10 years younger than I am, still alive, but Walter Isaacson is one of my favorite author, and it's just a really interesting book in terms of -- I'm not a big Elon Musk fan, but it was a worthwhile read.

On the next slide, food for thought, and I actually love this segment, and you can see over the course of time where we have actually seen asset class bubbles develop starting with gold back in the 1970s. I had to get on ChatGPT this morning and figure out what was the peak of gold, back in the '70s, which was $850 a Troy ounce. It's over almost $2,000 a Troy ounce now.

A huge runup in Japanese stocks. I remember they peaked in 1989. The Russian Finon as well after the Cold War, where those prices ran up and it came straight back down. The tech bubble we saw in 1998, '99, which crashed 2000, 2001. Obviously, very challenging time there, but that market recovered, and

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the internet is the real thing. And you can look all the way to the far right-hand side where it actually has AI. I still think AI is very much a transformational technology that we all should keep our eyes on, but prices have really kind of run up in certain of those stocks, and I'll touch on that.

Actually the next slide, Kate?

The next slide actually distinguishes the S&P 500 returns relative to -- well, the top seven stocks relative to the other 493. This is referred to as the magnificent seven, which has really dominated S&P 500 performance with average returns of slightly over 80 percent year-to-date, which is really extraordinary.

And for those, just as a reminder, those stocks, those seven stocks are Apple, Microsoft, NVIDIA, which is the chip maker behind AI, Amazon, Meta or formerly known as Facebook, Tesla and Alphabet or Google. So interesting.

UNIDENTIFIED SPEAKER: Tesla?

MR. MEIER: Yeah. More food for thought on the next slide, perhaps a little more negative. The default cycle has started. You can see on the far right-hand side where default rates have kind of moved up in terms of loans and high yield bonds. They're not at extraordinary levels, but they are inching higher.

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On the next slide, we also see credit card delinquency rates are rising, and the cohorts there by age group, groups, as people have kind spent through their COVID dollars and starting to put more on their credit cards. These are serious delinquencies that are beyond 90 days.

Similar story in the next slide regarding car loans. Serious delinquencies, again, are edging higher, so not all is well in the economy, and that's another reason why we expect to see low slow earnings perhaps be a little more challenged in the first part of next year.

On the next slide, also rapid decline in bank lending. You can see on the far right-hand side, bank lending is now contracted. A lot of this has to do with the regional bank challenges we saw in March, April and May, and the pullback associated with protection of balance sheets and less of an ability or willingness to lend on the part of regional banks. This rapid decline in bank lending will constrain US economy growth. Again, another reason why we expect the economy to slow, and at some point, the Fed to start reducing rates. Probably in the second half, Mike, of 2024?

I'd say the other thing meaningful about this slide is that non-bank lenders have stepped in and sort of being much more relevant in terms of filling that gap

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of lending, as the banks have pulled back.

On the next slide, and I have done a little homework, I found this interesting, this is the growth of public markets and private markets over the past decade. The global fixed income market outstanding today is about 136 trillion, 42 trillion of that has grown, issuance has grown over the last 10 years. That's about a 44 percent increase. Public equities, about $110 trillion of outstandings, which is up about 46 percent from where it was 10 years ago. I don't have good data on the banking sector, I'm afraid, but more importantly, I think, for me, on the far right-hand side, you can see that there's been additional $8 trillion in growth about standings in the private capital markets, and that's up -- that's now about 40 trillion-plus outstanding, which is about a 25 percent increase. So I still think it's very prudent to continue reallocating money from public markets in privates.

Next slide. This is really interesting to me because it started to be more of an awareness. The market was very focused on macro trends in the economy and the Fed policy. There was a little bit of a pivot in October, when bonds pulled off really quite significantly before the rally in November. It had more

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to do with fiscal concerns and the amount of debt that we're issuing. And I have said, I think at prior meetings, that we have saw -- we're expecting to see an average option for US Treasury debt to increase 24 percent in 2024 loans. So the question is, who will the marginal buyers be?

And what this slide indicates is that perhaps it will not be China, it likely won't be Japan either, given the currency hedge, the cost of the currency hedge, but again, this reflects, since 2021, a $300 billion reduction in terms of holdings by Chinese entities. So again, some concerns about market technicals as issuance goes up and perhaps demand is weakened by central banks abroad, but again, more eyes will be, I believe, on fiscal as well as macro concerns in the future.

And I think the last thought I have in terms of food for thought, and again, not to beat a dead horse here, but it gets back to China and the Chinese consumer confidence being -- next slide, Kate, please. Thanks, Kate.

On the far right-hand side, you can see that consumer confidence has really plunged recently in China, as they have come out of COVID. It hasn't been as robust a recovery as it would have been expected.

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This is constraining growth in the world's second largest economy. Again, it's hard to draw a parallel between the Chinese economy and the US, the US being larger, is a more developed economy. The average earnings in the US, I believe it's about $76,000 per annum per household, versus in China, it's around 13,000. So kind of an apples to orange comparison, but China is an engine for growth for the global economy, and the fact that it is weakened and not performing to expectation has implications for global growth.

MR. FULVIO: We have seen this, too. We've been looking at household deposits, so customers, the money they're holding in their savings accounts within China has been -- the trend has been significantly increasing in recent years, indicating low consumer confidence in China as well.

(Crosstalk.)

CHAIRMAN BROWN: Is going up?

MR. FULVIO: They're keeping more money in the bank.

MR. MEIER: There was an article in the Journal today that actually talked about they're putting it into one of the non-bank, the shadow banking entities that somehow have attractive return streams that are

tied to the property market. There's been two defaults
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in the last two months in China, which is something that the Chinese government are very concerned about, because the shadow banking system in China is just enormous and it's unregulated, and I even saw in the article the words "Lehman moment" came up, so. I don't -- I wouldn't be that dramatic, but it is something that there's --

CHAIRMAN BROWN: Steve, I'm sorry, did you say the average salary in the United States was $76,000?

MR. MEIER: Yeah.

CHAIRMAN BROWN: Or is that the median.

MR. MEIER: Sorry, it's the median, and in China it's 13,000, so a little bit of an apples to --

MS. HIRSH: The median salary is $13,000?

MR. MEIER: Yep.

MS. HIRSH: For a family, for a two family -- two worker household?

MR. MEIER: I believe so, yeah. I think the average per individual is closer to something less than 50.

MS. HIRSH: I was going to say.

MR. MEIER: Getting to performance, perhaps more importantly, so Dan Haas, who is actually on both the Risk Team and reports also into Lynn Fleischman, chief operating officer, has been doing some great work.
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Dan's chart, we're trying to provide more of an analytical rigor and to do some wonderful things on reporting. So Dan has been quite creative. The first two slides are things that he put together.

Kate, if you wouldn't mind going one more slide, please? Yep.

So this is kind of a different look at performance. Again, for the third quarter of this year, it was very challenging. Total plan return, which includes private assets, down 2.4 percent. Most of that largely driven by the selloff that Amanda very appropriately and accurately talked about in the third quarter. So some challenging times, but again, tend to focus on longer term results. Longer term, I don't think is five years, probably 10, 15, 20 years.

MS. HIRSH: Can I ask you a question about this one?

MR. MEIER: Sure.

MS. HIRSH: The TRS policy return is like the benchmark return?

MR. MEIER: That's the strategic asset allocation.

MS. HIRSH: Like what we anticipate the return should be?

MR. MEIER: Yeah.
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MS. HIRSH: Or like, why is the plan return and the policy return different?

MR. MEIER: Well, the policy return should be 7 percent, but this, we're not at all --

MS. HIRSH: Oh, it's --

MR. MEIER: Yeah, it has to do with strategic asset allocation.

MS. HIRSH: Oh, I guess I'm confused. I guess it looks like --

CHAIRMAN BROWN: I think that's the benchmark.

MS. HIRSH: It's the benchmark, not the policy, because we're not -- it's at over -- it's like at 10-and-a-half.

MR. MEIER: Yes. That's not --

(Crosstalk.)

CHAIRMAN BROWN: This doesn't have November.

MR. MEIER: This doesn't have November.

MS. HIRSH: It only goes to September.

(Crosstalk.)

MS. HIRSH: And the median fund, sorry, median fund tax is like median other public --

MR. MEIER: Yeah, and there's a significantly higher allocation, typically --

MS. HIRSH: To private.

MR. MEIER: -- to private assets.

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MS. HIRSH: Yeah. So, the three-year and five-year, we're doing great.

MR. MEIER: Yeah, one-year, three-year, five-year, again, positive returns pretty much across the board, but again, you have a 7 percent (indiscernible) rate, so I think if you look at longer, you can see that. And actually --

CHAIRMAN BROWN: I think that 7 percent, if you go back --

MR. MEIER: Yeah, we do. I think we get to that in a few minutes.

CHAIRMAN BROWN: It's coming.

(Crosstalk.)

MR. MEIER: Yeah, yeah.

On the next slide, Kate, if you would?

Another Dan Haas production, just looking at a thousand dollars invested in the TRS portfolio versus a 7 percent return target, which is compounded. So that black line is the 7 percent target. It reflects where we are, particularly shows the selloff we saw in 2022 and the repair that we saw up through middle part of the summer, and the selloff again in the latter part of Q3, and this slide will be more meaningful as time progresses.

On the next slide, a look at the Teachers' net

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public market returns by strategy. Again, tough market for three months. You see both equity and fixed income sold off. Again, high yield being a wonderful story with half the duration exposure is investment grade and coupon, as I mentioned. Cash is also getting those three month returns. If you annualize them, probably closer to 6 percent, it probably should be 560 right at, 530, 530 right now. But again, just an interesting way to look at things, and again, focusing on the long term. I think I have some longer term notes. I do, I do in a moment.

On the next slide, a look at Teachers' public market excess returns. Here, a couple things stand out to me. Firstly, the world XUS, that's developed market XUS, underperformed, generated a negative return of a little over 3 percent, 307 basis points, relative to its benchmark. That was driven mostly by two of the managers that tend to be a little bit more aggressive and thoughtful in the stock selection. Again, it was a challenging quarter, but Bailey Gifford and Walter Scott actually underperformed the benchmarks anywhere between 900 basis points and 600 basis points. Again, that's why that reflects a negative performance there and pull down in terms of overall returns.

On the next slide, a look at Teachers' net

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private manager returns, which is, I think, a better story. On the far left-hand side, you can see, in one year pretty, much green across the board, private real estate core being the exception. Those are June to June mark to markets. And again, that sector, the core investment has been a little more challenged. But again, if you look at, to your point, Tom, about longer term performance, this is just private markets, but again, it does focus on 10-year and since inception returns that are all positive.

CHAIRMAN BROWN: Oh, good.

MR. MEIER: Yeah. On the next slide, a look at Teachers' private market excess returns, and this is -- you know, I pushed back a little bit because I know private equity has been a little bit challenging in terms of exits and some valuation issues, but the one-year excess returns, so apples to apples, even though it says as of June 30th, those are June to June returns for our private equity book as well as the Russell 3000.

The private equity book, actually, the positions actually returned a positive return to 6.4 basis points, and again to talk more about where Russell 3000 was in the first half of the year was up fully 18.9 percent, so about a 1,200 basis point underperformance

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relative to its public market equivalent. Other than that, a fairly positive story. Opportunistic fixed income, the marks are more apparent through September, and that I think is more reflective of credit spread tightening in high yield relative to where we are in opportunistic income.

MR. KAZANSKY: Steve, quick question just on a reporting aspect of things. So in our new asset allocation, we have moved everything in real estate kind of into one lump sum?

MR. MEIER: Yes.

MR. KAZANSKY: Will we continue to see, in future reporting, breakouts that separate core and non-core opportunistic in real estate, or is it all going to just be listed --

MR. MEIER: We can do it either way. That's a really good question. We can do it -- do you prefer to see both?

MR. KAZANSKY: Yeah, I think it would be --

MR. GLUSZAK: Yeah, we'll be able to -- we'll be able to continue to provide you guys that breakout.

MR. MEIER: That's John Gluszak.

CHAIRMAN BROWN: I'm sure Dan --

(Crosstalk.)

CHAIRMAN BROWN: Thank you, John.

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MR. GLUSZAK: Actually, the Real Estate Team is in the infirmary, so I've got a bummed knee and Jackie is out with COVID, so we'll see you next year, but Janet is there to take care of everything for us.

CHAIRMAN BROWN: All right, John, thank you.

MR. MEIER: And the last slide comes the quarterly update, just to look at where we are from a rebalancing standpoint. So as -- again, this is, obviously, we raised cash, you can see we raised $200 million, and that was for benefit payments for private market capital calls. We have heard that, you said that many times.

But as equity sold off, bonds sold off less -- or sorry, bonds actually sold off more than equities, which is why we actually rebalanced, we sold equities and bought into fixed income, again, to get closer to your target weights under the strategic asset allocation.

MS. HIRSH: (Indiscernible.)

MR. MEIER: This is, yeah, it's been around a little bit but I think Dan changed a little bit of the format, the color.

And again, I'll talk more, so we actually had a new asset allocation targets incorporated for the preliminary performance review, which I'll do in

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Executive Session.

CHAIRMAN BROWN: Great.

MR. MEIER: But with that, any questions about anything I covered, didn't cover?

MR. ZAKRY: Can I ask a question?

MR. MEIER: Sure.

MR. ZAKRY: How do you pick the benchmarks and how often do you change the benchmarks?

MR. MEIER: I think the benchmarks should be reviewed, to be honest, and that's a project for 2024, for both private and public assets.

MR. ZAKRY: When was the last time they were reviewed?

MR. MEIER: It predates me. I have been here 17 months-plus months, so yeah.

MS. HIRSH: I don't know the last time the benchmarks were reviewed, but the benchmarks are, tell me if I'm wrong, benchmarks are part of the IPS statement and voted on by trustees, so it's not -- BAM doesn't pick the benchmarks. BAM would --

CHAIRMAN BROWN: Yeah, make recommendations.

MS. HIRSH: Make recommendations and bring it to the trustees to assess and decide.

MR. MEIER: To be candid, I think that the benchmarks were probably determined on more of a

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fundamental basis, meaning what we thought would make sense, and I'd like to put more of a quantitative rigor around how we analyze that, and really what the performance has been and what more tightly resembles performance of the underlying strategies relative to perhaps different benchmarks. But again, to Alison's point, you have decision rights on that. We would actually take a look at it and come back to the Board.

These are a few of the things that I have asked Chief Risk Officer Ed Bergman to focus on.

MR. KAZANSKY: I have a question just about the defaults and delinquencies, so what -- because there's always that fear that one particular aspect of that, whether it's funnel loans or something that's going to get to a point where the default rate gets so high that it becomes severely problematic for the economy.

Do you see that happening in any particular sector there, or do you think it's just, you know, all the money that people saved over COVID is now all spent and they realize they're in a hole?

MR. MEIER: I think the defaults, as a general matter, in terms of credit card defaults, and auto loan defaults, even bond defaults, were at historical low levels. They're really compressed by COVID. I think

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what you're seeing is probably going back to something that's more normal. We'll continue to watch that. Defaults in high yield between 2 and 4 percent is typical, and that is impacted in the yield you get typically in the coupons that want to compensate for that.

But it's something that bears watching, and it will have an impact on the economy as people fill up their credit cards, their propensity to spend hopefully will be lower, and if not, you'll probably see that as an economic strain.

MR. KAZANSKY: Thank you.

CHAIRMAN BROWN: Thank you. Any more questions for Steve? A lot of work into the report today. Much appreciated.

MR. MEIER: Thank you. Yeah, I enjoy doing this. This is what we do.

CHAIRMAN BROWN: So thank your entire team, especially Dan Haas for putting those slides --

MR. MEIER: Dan does -- so Dan does a lot of work, Kate and her team as well, in the headlines. So yeah, it takes a village, but Dan, Dan really does so much, so thank you for the time.

CHAIRMAN BROWN: Appreciate it. Very well done.

Any more questions?

Great. This is the time, I guess I'll entertain a motion to go into Executive Session.

MR. KAZANSKY: So moved.

CHAIRMAN BROWN: Second?

MS. LEE: Second.

CHAIRMAN BROWN: Questions? All those in favor of going into Executive Session, please say aye.

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay. Any abstentions? We are now in Executive Session.

(Off the record from 10:57 a.m. to 1:06 p.m.)

MR. SWINGLE: There was an update on preliminary performance data.

There was a real estate presentation. Consensus was reached.

There was a presentation on a private equity program. Approval was given.

There was an overview and update on a private equity partnership.

And there were two infrastructure presentations in which consensus was reached on both.

CHAIRMAN BROWN: Thank you, Ron.

That's all for the Public Session. Do I hear a motion to adjourn?

MR. KAZANSKY: So moved.

CHAIRMAN BROWN: Is there a second?

MS. LEE: Second.

CHAIRMAN BROWN: The motion has been seconded. All those in favor of adjourning, say aye.

(Ayes were heard.)

CHAIRMAN BROWN: All those opposed, say nay? Any abstentions? We are now adjourned.

(The proceedings were concluded at 1:07 p.m.)

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