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TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT MEETING

PUBLIC SESSION

January 4, 2024
10:09 a.m.

Remote Proceeding
New York, New York

William Montague
Digital Reporter
Notary Commission No. 01MO0009174

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APPEARANCES:

PATRICIA REILLY, TRS EXECUTIVE DIRECTOR
THAD MCTIGUE, TRS DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
BRYAN BERGE, MAYOR'S OFFICE, TRUSTEE
ALISON HIRSH, OFFICE OF THE COMPTROLLER
ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES
DAVID KAZANSKY, TRUSTEE
VICTORIA LEE, TRUSTEE

Also Present:
LIZ SANCHEZ, TRS
MAREK TYSZKIEWICZ, CHIEF ACTUARY
PRISCILLA BAILEY, TRS
RON SWINGLE, TRS
VALERIE BUDZIK, TRS
ISAAC GLOVINSKY, AGENCY ATTORNEY
DAVID LEVINE, GROOM LAW GROUP
MICHAEL FLUVIO, ROCATON/GOLDMAN SACHS
KATE VISCONTI, TRS
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
ARISTEA AFTOUSMI
MARC RIVITZ, STEPSTONE
SEAN BARBER, HAMILTON LANE
PETYA NIKOLOVA, BUREAU OF ASSET MANAGEMENT

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STEVE MEIER, BUREAU OF ASSET MANAGEMENT
KEVIN BALAOD, TRS
ALEXANDRA WILSON-ELIZONDO, GOLDMAN SACHS
ZELUN GU, BUREAU OF ASSET MANAGEMENT
LOREN PERRY, TRS
JENNIFER GAO, TRS
TODD LAPENNA, STEPSTONE
ENEASZ KADZIELA, CHIEF ACTUARY
JOHN MERSEBURG, OFFICE OF THE COMPTROLLER
STEVE PAK, OFFICE OF THE COMPTROLLER
TINA SUO, OFFICE OF THE COMPTROLLER
STEVE PULLITZ
KIM BOSTON, BUREAU OF ASSET MANAGEMENT
HARRY TYQUIN, BUREAU OF ASSET MANAGEMENT
MITCH FIELDING, BUREAU OF ASSET MANAGEMENT
WILFREDO SANCHEZ, TRS
MORAIMA PARES, BUREAU OF ASSET MANAGEMENT
SANYA COWAN, BUREAU OF ASSET MANAGEMENT
MINJOO NA, BUREAU OF ASSET MANAGEMENT
DAVID WALLA, ARES
TOM VOSBEEK, ARES
JOEL HOLSINGER, ARES
KEITH ASHTON, ARES
ANTHONY PAWLOWSKI, ARES
JEFF ARONSON, CENTERBRIDGE CAPITAL PARTNERS

STEVE SILVER, CENTERBRIDGE CAPITAL PARTNERS
MATT KABAKER, CENTERBRIDGE CAPITAL PARTNERS
JUSTIN THIBAULT, STEPSTONE

(The proceedings commenced at 10:09 a.m.)

MS. REILLY: Good morning. Welcome to the

Investment Meeting of the Teachers' Retirement Board for January 4th, 2024. I'll start by calling the roll.

Bryan Berge?

MR. BERGE: Bryan Berge representing Mayor Eric Adams, present.

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good morning, Patricia. Present.

MS. REILLY: Good morning.

Anthony Giordano? He'll be coming a little late.

MS. HIRSH: Alison Hirsh on behalf of Comptroller Brad Lander.

MS. REILLY: David Kazansky?

MR. KAZANSKY: Present.

MS. REILLY: Victoria Lee?

MS. LEE: Present.

MS. REILLY: We have a quorum. All right, Tony Giordano.

MR. GIORDANO: Here.

MS. REILLY: Okay. We have a quorum. And I'll turn it over to the Chair.

CHAIRMAN BROWN: Thank you, Patricia.

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Happy New Year, everybody. Welcome. Thank you. We'll start with the Passport Funds November 2023 Performance Review. And Rocaton, take it away. Thank you.

MS. JANUSZ: Thanks, Tom.

CHAIRMAN BROWN: Thanks, Amanda.

MS. JANUSZ: Just let me share my screen here.

Okay. So for the month of November, just to go through the results of the Passport Funds, we, thankfully, did have a very strong month after a slower start to the quarter in October, a lot of it driven by more encouraging results on the inflation front, very optimistic sentiment around expectation for the Fed starting to reduce rates in 2024. So we saw very strong equity markets across the board and also fairly strong fixed income markets. The Barclays Agg, for example, was up 4-and-a-half percent in the month of November, and that's their strongest monthly gain in close to 40 years.

For the Passport Funds, the Diversified Equity Fund being your largest fund in the program at over 16 billion was up 9-and-a-half percent for the month of November and up over 17 percent year-to-date through 11/30. And you can see pretty strong results, pretty equivalent results between both the US and non-US equity

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components, so strength across the board. And we did see a bit of added value from active management within both the US and international equity components.

The Balance Fund is your most conservative option in the program, so on an absolute basis was the lowest performing fund at around 4 percent for November and up 7 percent year-to-date through 11/30.

The Sustainable Equity Fund, on the flip side, being the strongest performer for the month at over 12 percent through November and also up over 32 percent year-to-date through 11/30, and that's really on the strength of what we have seen across growth stocks. So that fund didn't quite keep pace with that growth index. That was very highly driven by a lot of those big tech names that you have heard a lot about throughout the year, but hard to knock a 32 percent return year-to-date, certainly, so very strong results there.

And your passive funds, both US and international, have been tracking their indices, as we would expect, a little bit of tracking error related to timing of cash flows, but very strong month and strong year-to-date overall here for the Passport Funds.

CHAIRMAN BROWN: Any questions for Amanda? Thank you.

So we move on to the December 2023 Market

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Performance Update.

MR. FULVIO: Thanks, Tom. Happy New Year, everyone.

CHAIRMAN BROWN: Happy New Year. Hopefully as good, or --

MR. FULVIO: December -- yeah, December was another strong month. Amanda is going to pull up some of the numbers, but I will basically sum it up in just a few words or maybe a few numbers, which is, the theme for December was 5 percent, at least 5 percent between 5 and 6 percent returns from assets across the globe on the equity side. So the US equity market was up about 5.3 percent, non-US equity markets, if you're looking at just the developed portion of it, up about 5.3 percent. Emerging markets trailed with about positive 4 percent return, but fairly strong results in the 5 to 6 percent range for each of the benchmarks we look at for the Passport Funds.

That, on the trail of what Amanda was saying for the month of November, led to all polled positive equity market returns for the year. For the US, for example, up 26 percent last year for the Russell 3000. The EFI Index of developed markets outside the US accounted for an 18 percent return. Emerging markets up just shy of 10 percent. So a very strong calendar year,

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when all is said and told.

If you looked at interest rates, the 10-year Treasury, as you will recall, it was quite a wild ride for the year, but the 10-year yield ended the year largely unchanged from where it was at the beginning of the year at about 3.9 percent. So it was quite the year, quite the ride.

What does that all mean for next year? And that was the next topic on today's agenda. If there's no questions on December, I can turn it over to my colleague who is going to present on our outlook for 2024. Any questions before I do that?

MS. GAO: Questions for Mike? Great, so we move on to the market outlook discussion, then.

MR. FULVIO: Great. So I'm excited to introduce Amanda and my colleague Alexandra Wilson-Elizondo, who's the CO CIO of GSAM's Multi-Asset Solutions team, where we sit within the organization. Alexandra is part of the team who puts together our outlook and helps guide our investment thinking and how we're helping clients, both when we're advising them on making decisions with respect to their investment portfolios and helping to lead the decision-making around the portfolios where we have discretion to make those decisions on behalf of clients.

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And so with that, Amanda is going to share the deck, and I'm excited to turn it over to Alexandra.

MS. WILSON-ELIZONDO: Well, thank you very much, Michael, for that kind introduction.

And good morning. It's very nice to speak with you. We do have some prepared slides that Amanda is going to be so kind to click through as I deliver the presentation on our 2024 outlook.

However, I think one of the most important things to do before you begin to speak about where you think you're going is to reflect on where you have been. And 2023, both Amanda and Michael highlighted in November and December, were just, it was an extraordinary year, a year where, paradoxically, we were discussing both an economy that's overheating and an imminent recession.

The markets began the year with most forecasters predicting a recession citing Q3 of '23 as a result of an extraordinary policy response. Positioning was light and sentiment was very negative at the beginning of the year. However, the global economy continued to heal.

And I'm sorry Amanda, do you mind just moving on to the next slide, which gives a nice overview of where we think we're going in terms of bigger picture

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for '24? Great, we'll use that as the background slide.

You know, but the global economy continued to heal and has very much surprised, to the upside, with strong fiscal support and, you know, robust policy really driving consumption, which we know is about two-thirds of GDP. And we saw the third quarter of GDP in fact bring nothing like a recession. We saw prints above, you know, 5 percent, and that was the fastest pace in nearly two years.

And that growth print happened while meaningful progress was being made on inflation. In fact, we collapsed from a high of 6-and-a-half percent to about the tune of three, and the markets responded in kind, and that is exactly what we saw in November and December with the S&P closing up about 24.2 percent in '23.

But there's some very material differences and nuances under the hood of that return, being that the Magnificent Seven was up about 76 percent with the Equal Weighted index only about 12. So again, the top seven stocks in the S&P 500 really driving and dominating outperformance on the back of the AI theme as well as them being very duration sensitive assets and the collapse in yields continue to support a breakout of multiples.

So given this backdrop, one can argue that we're heading into a Goldilocks period of steady growth, moderate inflation, and easy monetary policy. In fact, the OAS market or the forward rate curve is pricing about six cuts in 2024, which runs well ahead of the three in the median Fed dot plot which they believe would achieve avoiding recession.

And our own view, and you can see some of the main themes here of how we're thinking about the world for next year, and in fact, if you go one more page, Amanda, forward, there's a little bit more detail in terms of policy, market outlook, and pricing. And I'll go into some more details as we go through the slides themselves.

But our own view is that the risk of recession is higher than the average. The average is around 15 percent, 10 to 15 percent over a historical look-back. We do believe it's closer to 20 to 40 percent, and that really reflects the strength in the economy and spot data, but additionally, the very high variability that comes with the lag in monetary policy. And while our base case is that we do believe we avoid recession as that median outcome, we expect some below trend growth in the beginning of '24, which I'll walk through shortly, and that just has to do with disinflation

endogenously driving tighter real yields. So as inflation comes down, the policy rate stays the same, you get more and more restrictive, and that, ultimately, the combination of that and slightly tighter credit conditions will cause growth to come down to a more moderate level, but that the real disposable income, so the reverse of the tighter real yield, meaning, as inflation comes down, income and wages stay relatively stable, your ability to buy and purchase will actually increase. And that should offset some of the negative effects, and collectively, which we'll run through some of the rationale why, that will lead to, you know, nothing stellar but still about trend growth of about 2 percent.

So, Amanda, if you don't mind turning over to Slide 6, I'll just highlight some of that in more specifics.

And so here you can see the GDP global growth outlook, both what our colleagues in the Global Investment Research Center have called for, which is the purplish bar, what they had called for in '23, so again, that importance of looking back, and then where the Bloomberg consensus is. And so you can see we are slightly higher than Bloomberg consensus. We have been, for some time, just driven by our view that the consumer

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is still quite robust. These still have some of the policy tailwinds, whether it's the IRH or the CHIPS Act, some of that has yet to be deployed and that that will continue to support a declining consumer but still a quite robust consumer, in addition to a very strong job market, as we saw today, actually, through some of the data we have received.

And so, you know, we do clearly believe that the peak growth of, you know, north of 5 percent is well behind us and that that just means that we're moving for -- to a slowing down from a clearly overheating environment. And so if you could describe 2023 as being less bust than the market had trajectory priced in, we believe 2024 will be more moderation from boom levels and we just expect more moderation throughout the year, but still some pretty strong economic data, in particular in the US continuing to outperform Europe, just given the broader impacts of war and differentiated fiscal policies post-COVID.

And so, I'll just highlight briefly on Slide 7 that we note that growth is moderating again from that high peak level in both the official and nonofficial data, but there are some levels of signs of, you know, leveling out or improvement, whether you're looking at PMIs, ISMs, some of this data we received yesterday

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which came in better than expected.

The housing market had actually taken somewhat of a dip and has increased and started to turn around, which is something we are slightly concerned about as it relates to inflation and, you know, the broader narrative about this disinflation being, you know, an easy glide path throughout this year. We do expect it to be bumpy, which we'll go through in a bit, but, you know we do see some signs of consumer weakness, which I mentioned. We're not concerned, but there are signs of slowing. So whether you look at auto loan delinquencies, you know, this is relating to the tightening of credit conditions, which, as you can see at the bottom left, we're getting closer to 2000-and-late levels, credit card delinquency rates at about 20 percent, and interest rates on these credit cards have actually increased materially. So whether the auto rate is about 8-and-a-half percent, credit card rates 22 percent, respectively, this means that the margin for error is tighter, and that's why we do have that recession probability above average.

And then the markets have run up, as we saw in November/December, which Adam and Michael really highlighted -- I'm sorry, Amanda and Michael highlighted, and that leaves us, you know, for less

cushion in terms of what markets are pricing in terms of that soft landing.

So if you don't mind moving forward one more slide, please?

But really critical to the broader disinflation narrative has to do with the consumer, and that supply/demand imbalance in the labor market continues to improve and comes into materially better balance. We have seen, you know, employment moderating. The unemployment rate still remains fairly low with the U-3 measure coming in about a 3.8 percent, but the JOLTS, which we received yesterday, or the jobs openings and quits rates, are back to pre-pandemic levels, and that means that there's a lot less pressure on, you know, wage inflation, which can cause inflation to continue to spiral out. But the openings to seekers is high but came in at about job 8 -- openings was 8.7 versus what had been expected about 8.8., so it's declining. We have seen payrolls come down from that high print of last year about 600K to close to 150K, so much more normal market.

And while wage growth has come down, it's still a little bit high at about 5 percent, and those that have been leaving for new roles, the increase in their wages is only at about a plus-8 percent. So that

basis has really declined. And so that does give us some room to really believe that the higher level of interest is playing through to the job market, but the job market, it's still very healthy, it's just in better balance.

That's really in particularly important as it relates back to the consumer. And if we move forward one slide, I mentioned earlier that the consumer drives two-thirds of GDP. They were extraordinarily resilient, and that combination of labor strength and real disposable income will really help with the fact that we have been draining out on excess savings, which has declined about 60 percent since its peak. And so pulling that all together, you end up getting towards somewhat of that soft landing, which means growth moderating, but still healthy, with inflation coming down.

And then I'll just, in the interest of time, because I'm sure there's plenty of questions, I'll fast-forward to Slide 12, Amanda.

So what does this mean for monetary policy? If you pull everything we discussed together, declining growth and inflation should keep the Fed on pause and open the door to cuts. We believe that those cuts will be more of insurance cuts, rather than cuts because they

believe inflation has come to their level much faster than expected or because growth takes a sudden dramatic change to the downside, and so they should be moderate. Our expectation is for about four insurance-like cuts to begin at the second half of this year.

We do differ with the market's current pricing, which had a 70 percent probability of March getting priced in, and that -- we believe the market is just really starting to price in the improvement in the momentum, but the outright level still remains the most critical component for the Fed. In fact, they want to make sure that it's a sustained improvement in just inflation levels and not something that could turn around and go to the upside. Again, housing is 40 percent of the inflation basket, and this is one of the key themes we're focused on because the housing market is starting to turn around with the decline in interest rates and with the continued robustness of the labor market. So we don't think that we're in the all-clear camp quite yet.

We also did get some Fed minutes released yesterday. There is a continued focus on, you know, a dovish tone. They're -- they do not want to overstay their welcome at high levels of policy rates, but there has been an emphasis on a focus on trend to potential,

which highlights some willingness to observe short-term negative growth trends until we see that sustained evidence. So we do think that their reaction function has pivoted, but it's not as aggressive as the market is expecting.

And so lastly, I'll just highlight that, on 13 and 14, this chart is, in particular, quite compelling. This just goes through some of the imbalances that we look for on our way to recession, and you can see there's very little red on this page. And so even if we did have a recession as a result of, you know, decline in growth because of how much policy has adjusted, we would expect it to be very mild because of the lack of imbalance.

And we do go out of our way to remind people that recessions don't just happen because of the passage of time. They happen because of imbalances within the marketplace. So this also does give us comfort in our broader thesis on where we view the world to go.

Now, there are some very big events happening this year that could lead to some left tail type outcomes, which we need to be very cognizant of, and those are one out of every two adults in the globe will be voting this year. It is a very large election year, one of the most important ones is coming up in short

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order, which is the election Taiwan. We'll be focused on seeing if the administration is maintained, and that will be very important as it relates to the semiconductors, as they're one of the largest chip manufacturers in the globe.

The other is we have seen some continued escalation with the Middle East, and that will be very important for oil outcomes. So if we see any sort of broadening, we could see oil continue to rise and we do know that that has material implications for broader inflation.

So these are some of the things that we are focused on, but broadly speaking, we do believe that portfolios should be invested in risk assets as well as duration, in line with our longer term strategic asset allocation because this environment should prove very good for both fixed income and equities in the medium term.

So with that, I know I spoke for quite some time, and there's very many things going on in the markets, happy to answer any questions.

CHAIRMAN BROWN: Thank you, Alexandra.

Any questions for Alexandra?

MR. FULVIO: I have one question. Alexandra, you spoke a little bit about the election and maybe

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geopolitical risk, which could impact asset prices and have a knock-on effect. Any other risks to our outlook that could also impact asset owners beyond those two?

MS. WILSON-ELIZONDO: Yeah, I think one of the things that has surprised -- people look for, you know, pockets of leverage when they're looking for what could turn markets quickly. What we experienced in terms of vol and the rate market the second half of the year could continue actually throughout this year, and that is the most leverage sits with the US government. Right now, the deficit sits at about 1.7 trillion. That's the highest level since World War II. We are expected to see more issuance.

You're going to see Japan, which is a very large player in the US Treasury market, eventually raise their own level of interest, and that could lead to, you know, some tainting of global duration as you start to see some of the players move around. So, you know,

we'll be very focused on broader volatility within the US rate market, as it seems like both sentiment and consensus is very deep in the rates are the place to be this year. So we'll be very quick to assess any sort of disruptions from that angle.
MR. FULVIO: Thank you.
CHAIRMAN BROWN: Thank you, Alexandra.

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MS. WILSON-ELIZONDO: Thank you very much.
CHAIRMAN BROWN: So now we move on.
Steve, anything with the pension fund?
MR. MEIER: I think it's just preliminary returns, Tom, for Executive Session?
CHAIRMAN BROWN: Sure. That's for Executive Session. Okay. I see nothing else in Public Agenda. Do I hear a motion to move into Executive Session?
MR. GIORDANO: So moved.
CHAIRMAN BROWN: It's been moved. Is there a second?
MS. LEE: Second.
CHAIRMAN BROWN: Thank you, Victoria.
All those in favor of going into Executive Session, say aye.
(Ayes were heard.)
CHAIRMAN BROWN: Those opposed, say nay? Any abstentions? And we are now in Executive Session. Thank you.
(Off the record from 10:35 a.m. to 12:51 p.m.)
CHAIRMAN BROWN: Thank you. Welcome back. We are now back in Public Session. And we will have a readout from Ron Swingle.
MR. SWINGLE: Thank you.
CHAIRMAN BROWN: Thank you, Ron.

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MR. SWINGLE: In Executive Session of the Passport Funds, there were two manager updates.
In Executive session of the Pension Fund, there was an update on preliminary performance data.
There were presentations on annual plans for four different asset classes. Consensus was reached on all four.
There was an alternative credit presentation. Consensus was reached.
And there was a private equity presentation, in which consensus was reached.
CHAIRMAN BROWN: Thank you. That's all the business we have today. Before we have a motion to adjourn, I wish everyone a very Happy New Year and a healthy one. Thank you.
And is there a motion to adjourn?
MR. KAZANSKY: So moved.
CHAIRMAN BROWN: Is there a second?
MS. LEE: Second.
CHAIRMAN BROWN: It has been motioned and

seconded do I -- all those in favor of adjourning, please say aye.

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? Any abstain? And we are adjourned. Thank you very much.

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(The proceedings concluded at 12:51 p.m.)

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CERTIFICATE OF DIGITAL REPORTER

I, WILLIAM MONTAGUE, a Digital Reporter and Notary Public within and for the State of New York, do hereby certify:

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I further certify that I am not related to any of the parties to this action by blood or marriage and that I am in no way interested in the outcome of this matter.

IN WITNESS THEREOF, I have hereunto set my hand this 17th day of January 2024.

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William Montague, Digital Reporter

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Expiration Date: June 7, 2027

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