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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
INVESTMENT MEETING

Held on Thursday, January 5, 2017, at 55 Water Street, New York, New York

ATTENDEES:

JOHN ADLER, Chairman, Trustee

DEBRA PENNY, Trustee

THOMAS BROWN, Trustee

SUSANNAH VICKERS, Trustee, Comptroller's Office

CHARLOTTE BEYER, Trustee

DAVID KAZANSKY, Trustee

RAYMOND ORLANDO, Trustee

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ATTENDEES (Continued):

SUSAN STANG, Teachers' Retirement System

DAVID MORTON, Rocaton

MICHAEL FULVIO, Rocaton

PATRICIA REILLY, Teachers' Retirement System

VALERIE BUDZIK, Teachers' Retirement System

LIZ SANCHEZ, Teachers' Retirement System

SHERRY CHAN, Office of the Actuary

THAD McTIGUE, Teachers' Retirement System

ANTONIO RODRIGUEZ, Mayor's Office

RON SWINGLE, Teachers' Retirement System

DAVID LEVINE, Groom Law Group

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MR. ADLER: Good morning. Welcome to the Teachers' Retirement System investment meeting for January 5, 2017. Happy New Year, everyone.

Patricia, will you please call the roll?

MS. REILLY: Yes. John Adler?

MR. ADLER: I am here.

MS. REILLY: Thomas Brown?

MR. BROWN: Here.

MS. REILLY: David Kazansky?

MR. KAZANKSY: Here.

MS. REILLY: Debra Penny?

MS. PENNY: Here.

MS. REILLY: Charlotte Beyer?

MS. BEYER: Here.

MS. REILLY: Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: We do have a quorum.

MR. ADLER: Thank you very much. So Mr. Fulvio, shall I turn it over to you?

MR. FULVIO: Great and Happy New Year, everyone. Before I dive in, I want to introduce, just for those of who you don't know him, David Morton is here with me today.

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He is Rocaton's chief market strategist, and later on in the agenda he will be presenting a capital market outlook for 2017.

With that, I am going to dive into some ancient history: November 2016. That's the report for the Passport Funds. Should be right behind your agenda. I will just paint a very quick backdrop. You will recall that with the election results in November, there was a strong rally in equity markets in the US. The Russell 3000 Index was up about 4 and a half percent. Abroad we saw somewhat different results. Developed nonUS markets, as measured by the EAFE Index, was down about 2 percent, and the EM proxy that you have, which excludes Russia and China and Pakistan, was down about 6.4 percent. So we saw certainly some increased action in the markets, especially the US markets.

As with fixed income markets in the US, we saw treasuries sell off quite a bit. The 10-year rose about 60 basis points alone in the month of November. So the rate rise that everyone was calling for or looking for,

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certainly we saw rates moving and perhaps this is the beginning of a longer term rise, but I will let David speak a little bit about that.

So as we look back at the Passport Fund performance during the month of November, you will note that the Diversified Equity Fund was up about 3 percent against the Russell 3000 Index of about 4 and a half. The return of the Diversified Equity Fund, however, was in line with the hybrid benchmark which measures the passive representation of the market exposures in the fund, and what really drove the returns for the month of November was the somewhat negative return for the nonUS exposure within the fund.

As I mentioned earlier, the nonUS markets were down anywhere from a couple to 6 percent for EM. Your benchmark, the composite of the international benchmarks was down about 2.9 percent and your managers kept pace there. The active composite added value to the tune of about 50 basis points during the month for the US, exceeding the return of 3, returned about 5 percent, and the Defensive Strategies

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Composite, though positive, couldn't exactly keep pace with the Russell 3, up about 1.3 percent. So the year-to-date through November, we saw a return for the Diversified Equity Fund about 8 percent. That trailed the Russell 3, which was up about 10.6 percent year-to-date. Again with softer returns abroad, holding back some of the absolute returns of the Diversified Equity Fund as well as the Defensive Composite not keeping pace with the broad US equity market which again ended November year-to-date up about 10.6 percent.

And we will speak a little bit more about performance through the end of December, but we saw continued run in equity markets in December. The Bond Fund at the end of November was about 324 million dollars in assets. That fund was down about 1 percent for the month, bringing the year-to-date return to about 1.7 percent, just ahead of its 1 to 5 years of credit benchmark. The International Equity Fund was down about 2.9 percent during November in line with its

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benchmark, adding very slightly to the outperformance year to date for that fund, which was up about 1.7 percent through November versus the broad market which was 1 percent. The Inflation Protection Fund was about 47 million dollars of assets, at the end of the month was relatively flat. I should say pretty flat on an absolute return basis up about a tenth of a percent. That was ahead of its benchmark, which was down about 50 basis points. The year-to-date return for that fund is up just shy of about 8 percent. It's 7.9 percent, ahead of its custom benchmark as well as ahead of CPI which we saw through November to be up about 1.8 percent year-to-date. The Socially Responsive Equity Fund at about 136 million dollars at the end of the month was up about 3.7 percent in line with the S & P. That fund was up about 8 and a half percent year-to-date just trailing the S & P by about a little bit more than a percent.

Were there any questions on November's performance for the Passport Funds? Okay. So I will make a very quick brief comment on

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December and how we ended the year and then David will dive into our 2017 outlook. The Russell 3 finished December up about 2 percent, bringing the year-to-date return for the broad US market to about 12.7 percent. Abroad, we saw a strong month for developed nonUS markets with the EAFE Index about 3.4 percent. We also saw some positive numbers across emerging markets in December. That custom benchmark TRS was up about 1 and a quarter percent. That brought the year-to-date return for that custom benchmark to positive 13 percent for emerging, positive 1 and a half percent for nonUS developed markets, and the International Composite benchmark all in total was up about 4 percent last year. The underlying strategy for the Inflation Protection Fund you will see during December was up about 1 and a quarter percent, bringing the year-to-date to positive 9 percent, and the underlying strategy for the Socially Responsive Equity Fund was also up in the month of December about 1 and 3/4 percent and the year-to-date for that fund is about

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10.4 percent versus the S & P with a return of about 12 percent. So with that, if there is no questions, we will look forward. Okay.

MR. MORTON: Good morning, everyone. I have the unenviable task of trying to make sense where we are today over this calendar year. The election is over. So I know many of you might feel like holding hands and commiserating, but it's done with at this point and we have the inauguration to look forward to relatively soon and we have a lot of different things to think about as far as politics, financial markets, economic growth, both here and overseas, and you know, even though this says our 2017 outlook, I would tell you that my crystal ball dropped on the way here so I have no idea what's actually going to happen. But we put quite a bit of thought throughout the year into where we are in the marketplace, what we might expect, what might be rational to think about in the marketplace, what the marketplace is pricing in to financial markets and we do this on an ongoing basis, and I think we try to sort of evaluate where perhaps the consensus might be wrong.

So for example, this time last year, we would have told you we didn't expect interest rates to go up for 2016, and for most of the year that was the correct statement. In fact, despite the run-off rates at the end of the year, they pretty much ended exactly where they are at the beginning of the year if you look at the 10-year treasury rate. So we try to be contrarian if we see there is a reason to be contrarian, but we don't have to be contrarian. So if we look perhaps -- we handed out these slides, and we can talk through all of these slides, none of these slides, and I am happy to just answer questions that any of you might have also. So we can go in any direction you really want to. I am thinking that we probably should start here, and we may not get beyond this page.

The very first point, I apologize. It's not really meant to be tongue-in-cheek, but political uncertainty is something that we certainly have to deal with in 2017 and just

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step away from the US for a second -- these books actually work really well if you push them all the way flat. Then they actually stay open instead of having to fight it for the next 20 minutes or so. I sit for a lot of meetings where people try to do this.

If we just step away from the US, come back to the US in a couple of minutes. Elsewhere in the world, we clearly have a lot of problems in the Middle East. We have the whole Syria issues and sort of US and allied nations facing Russia, and then you also have the Sunni-Shiite sort of rising tensions across the entire region there. You have rising political polarity in Europe. We saw that last year with Brexit. We are seeing it with France right now. We see sort of the pressures with Germany. There is a German election later this year. Actually, this says it's coming up next month. It's not; it's August to October sometime. The German election is much further out this year, but we have the German election.

Perhaps if Brexit and the US election

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were the both most important political events of 2016, the German election is probably the most important political event in 2017. Certainly as far as schedule goes because should it happen that Angela Merkel not win the German election, that really opens up the question of -- if you would like, a Pandora's box of what the political range of outcomes might be in Europe gets wider. You will see increasing pressures on the euro. You will see increasing pressures on the periphery of Europe so we will see perhaps sort of Europe will come back to the agenda in ways it hasn't been for years since 2011, 2012. It wouldn't be our prediction at this point that that's necessarily going to happen. Just that we might get there and there is going to be a lot of question marks. Germans have a lot of issues to deal with. Most countries in the world outside of the Middle East complain about the influx of immigrants. Germany accepted 800,000. That's huge. Far, far in excess than any country in the world having to deal with, again, outside of the Middle East, and that's going to have ramifications. Already has ramifications. Will continue to do so.

So Germany aside, effects in the US. What's going to happen here. Who knows? I can't tell you that we have a really strong view of -- you know, so we have Steve Mnuchin going to enter the Treasury if he gets approved obviously, confirmed. He will become the Treasury Secretary. We are not exactly sure of what the mandate will be. We know some things about how he is going to run the Treasury. We don't know too much.

Rex Tillerson running the State Department. Who knows anything about Rex Tillerson other than he ran the world's largest oil company for a long period of time relatively successfully. We don't know anything about his foreign policy views, his degree of understanding of international relations. We know he got along with Putin reasonably well, and that was good for Exxon. That doesn't tell us really how he is going to run the diplomatic service or international foreign relations. I can tell you from a personal point of view, I am really glad it's not John Bolton who is running the State Department. I did have some nightmares about that sort of over the holidays.

But all of these things are sort of really big range of outcomes just to how this is all going to work out, and that's not mentioning Donald Trump himself. Which Donald is it? Is it the Donald Trump that tweets, and he tweets some extreme things at times and some things you shake your head at and maybe you shake your head at everything he tweets. Is it the Donald Trump who stepped away from John Bolton and went to somebody like Rex Tillerson? As much as he is an unknown to us, maybe he is a much more moderate and sensible choice. We don't know yet.

Steve Mnuchin was his fundraiser. Does Steve Mnuchin have a lot of understanding of how to run the Treasury Department? Steve Mnuchin was a successful Goldman Sachs partner, less successful when he formed a hedge fund and made a lot of money in OneWest.

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What does he know about running the Treasury Department? We don't really know in that regard. How is Congress going to deal with Trump? Well, we sort of saw a little bit the other day. Congress went in one direction. It was their first opening gambit of the year. How everybody feels about what they tried to do as far as ethics, slightly insulting that they start to feel that way but they quickly changed, quickly reversed direction in response to a Trump tweet.

You know, so there is a conversation I walked in about sort of tweets and it is a negative. Well, it might be but it's just a tool for communication. So it's really what you are communicating through tweets, the matter. So these are -- I told my kids -- they are 17 and 14 -- to keep watching the nightly news on PBS because this is going to be fascinating.

From a purely intellectual point of view, this is going to be fascinating because we have never seen it before. I don't think we ever saw this before, this degree about the

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uncertainty of what the agenda is going to be, how things are going to get done, how this particular person is going to lead the country. Is he going to lead the whole country? Is he going to lead a small part of the country? Really difficult to understand and appreciate what's going to happen. But again, it's going to be somewhat historic. Good or bad. Quite different from what we experienced before. Certainly from the Obama administration but quite different what we experienced the previous eight years from the Bush administration as well. So watch this face. We will see what happens. So unless there is any questions --

MR. ADLER: I want to ask a question.

MS. STANG: You thought you were going to get away with it.

MR. ADLER: So as you know, in our asset allocation that we did last year, we had -- at Rocaton's strong suggestion, we increased the duration of our fixed income portfolio which is not implemented or completely implemented yet, but you know, looking at the market outlook here on the first page of page 2, where you say, you know, you are basically looking at faster economic growth in the US and you think there is still room for the equity markets to increase. What do you think about that duration -- you know, again, I don't want to call it a bet but that duration direction of our fixed income portfolio and you still think it's a good idea?

MR. MORTON: Yes because I think you are taking off interest rate risk. You are taking interest rate risk off the table partly by adding duration versus your liabilities. And also I think you are hedging some of the equity risk. You have a lot of equity risk in the portfolio, and I think having a long duration exposure is probably the best thing that you can do and the size you need to do it to hedge that equity risk.

So I think implying the question of what you think is going to happen with interest rates -- so let me just go straight there. We continue to -- we continue to think that interest rates, the rise that we have just

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seen, we think -- just scan a lot of news that we have already appreciated in the last sort of two months, we had a big increase in deals since the election. We don't see that that increase in yields necessarily follows through to further increases in yield going forward into this year. Now, it might. The only way it might is if we get surprised on the inflation side. So right now we have rising inflation expectations, but those can plateau from here and not keep rising, and if they don't keep rising, we would expect that interest rates not only don't rise but it's somewhat more likely that they could even fall if we don't see a rise in inflation expectations.

If we have much faster growth and there is pressure on prices, that could lead to higher interest rates. But just before the holidays and post-election, I was on the West Coast. I visited three large fixed income firms who all spend a lot of time thinking about interest rates and what's likely to happen. A couple of them have a very good record. Doesn't mean that anybody is right. We don't actually believe it's possible to consistently predict interest rates, but I believe DoubleLine, PIMCO, Guggenheim, all three of which have very good thinking long term about interest rates, where they might go, not one of them felt like interest rates were going to continue to rise from where we are today. In fact, Guggenheim has gone on saying and has written in public that they think the terminal yield for the 30-year -- not for the 10-year but the 30-year is around 3 percent. So post-economic expansion peak interest rates for the cycle, 3 percent, which is where we already are at. So they think long term from here, three, five years out into the future, the 30-year rate is not going any higher than from here. Ten-year rate may rise a little bit but not that much more from here. So that's their view.

Both PIMCO and DoubleLine saw interest rates as having moved a lot and likely not going to continue to do that in short term. Longer term some pressure may be to increase

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rates from these levels, but again, not materially from where we have already risen to.

So they could all be wrong, right, entirely, and that wouldn't be anything new in the bond market, for bond managers to have gotten interest rates wrong. I think it's very, very difficult to predict interest rates. I think we come back to what's different today versus previous cycles is there is so much debt. Massive amounts. More debt today than there was pre-credit crisis both here and globally. The global economic system could not stand much higher interest rates and continue to grow rapidly. So you have got this great big -- you mentioned a great, big, heavy blanket pushing down on the global economy, stopping it from getting too excited. The amount of debt that we have here in the US is significantly greater and you know, treasury debt. A lot of short terms so you will see higher interest rate there. In Europe, even greater amount of debt. In Japan, massive amounts of debt, rising debt

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level, and emerging markets in general and big increase in debt in the last few years in China. All of that, when you see interest rates rise, it's going to take money out of the pockets of consumer businesses, governments, and be suppressive of growth at some point. So we see reasons why there would be outward pressure on rates and a lot of reasons why once they have risen, there is going to be big pressure that is going to put a lid on it. Doesn't mean rates won't push through it but need a lot of economic positive news and growth in order to keep pushing rates higher. Yes.

MS. BEYER: I have a couple of questions and one I am not sure is fair to ask you, but in your improving global growth prospects, if you could defend that in light of saying that simply a change in perception of global growth can trigger things, how much weight do you put on the whole market psychology? This last six weeks or eight weeks, whatever it is is phenomenal, the way everybody is so excited, and you watch CNBC and everybody is jumping

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around. How much of it is psychology, and how hard a fall can you anticipate coming from that?

MR. MORTON: So I think a huge amount of economics is psychology. I think, you know, there is a entire field of behavioral finance that looks at sort of individual decisions, and it's understood that people aren't actually all that rational when making economic decisions. There is lot of failures about that. But what we are talking about here is the total economy, not talking about the individual. Talk about the collective. I think a massive amount is psychology, and you know -- and I want to be careful in how I phrase this because I woke up the next morning after the election feeling like I had woken up in a Game of Thrones episode where all the characters that I previously loved and gotten attached to had just been murdered. So --

MR. ORLANDO: Spoiler alert, those of you who are still on Season One. Or have never seen it.

MR. MORTON: So I want to be very

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careful with how I phrase this. So if you don't listen to any of the pundits that they get on CNBC or the actual people who present on CNBC, but if you listen to people who own a business, whether that be a CEO of a business or people who own their own small business, their psychology has changed. And I can't tell you I know exactly why that is but everybody that I have seen or heard or talked to has changed in their psychology about their outlook for their business, and I think that's really powerful. It's really powerful because it means that they are going to invest more, they are going to borrow more, they might be more willing to hire people. So just in and of itself, it's a psychological change that can make a big difference in the economy, and I would suggest to you perhaps the lack of growth over the last eight years, despite everything that the Federal Reserve has done, zero interest rates, massive amount of multiple times, none of that ever touched confidence, and the psychology never really sort of improved during that period of time.

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And yet here we are in sort of a few weeks' time, and we have seen a material change.

And now I would say that it's also -- if it can change for positive that quickly, it can change for the negative that quickly also. So you know bad trade policy or a Twitter war with China or pick your favorite sort of fear of the new administration. There is lots of ways that you can harm that, but right at this moment in time, there seems like a lot of positive psychology.

MS. BEYER: So part 2 which follows on what you just said is if the CEOs of companies, small and large, have a much more confident outlook, and yet the labor participation is low, lowest and Macy's, you know, laying off 10,000 people, which dwarfs the jobs created by people changing their mind about offshoring and robotics and all that coming in and how many jobs really will there be, so can you weigh those factors into your forecast because could it not be that we really -- when all this money comes back to our shores, will they really do that versus

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share buybacks and all the other things?

MR. MORTON: So there is a couple of different questions in that.

MS. BEYER: I know. Sorry.

MR. MORTON: So I heard somebody say on the radio yesterday there was a big positive for the economy if they change the tax rules and all the corporations, all the tax money comes back, that's a big positive. I think that's completely false because they can borrow at virtually nothing for the last seven, eight, nine years --

MS. BEYER: -- and haven't done it.

MR. ADLER: Except for share buybacks.

MR. MORTON: Except for share buybacks. But you can borrow all day long to buy shares back for the last seven, eight years, so I think this money coming back is completely false in that regard. What I do think changes things materially, however, is an infrastructure plan and a material one. I have been here many, many years ago talking about infrastructure, and it's -- you know, you only have to drive to work or take a train

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to work in New York. You know, the greatest city in the world as we like to say, probably the worst roads in the developed world of any major city. We have a lot of work to do on infrastructure. That's going to be a really fascinating sort of battle between the new administration and Congress because there is lots of fiscal hawks in Congress that don't want to increase the debt load to the extent that Trump I think would likely want to increase the debt load in order to invest in infrastructure.

If we get a material infrastructure program, I think that really changes things from an employment picture. Not only in the direct impact is a lot of more construction jobs and then lots more jobs serving the construction industry, but all of those people who go then to work in construction, which is relatively highly compensated for blue-collar workers, all those people who go to work in construction have to be replaced in the jobs that they previously had. So you get sort of a multiplier effect I think from doing that.

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So I think that can certainly change the jobs picture. I think it would be interesting to see what happens, the rising minimum wages that we are seeing as of the first business day of the year. You know, your average economist will tell you that's a really bad idea. And your average economist missed the greatest credit crisis almost entirely so they could be wrong, and I would say every economist that you talk to or writes in Financial Times or Wall Street Journal says the US economy is supposed to be weakening and it's not post-Brexit. So take economists with a grain of salt I guess.

So I would say to you that offsetting the rising cost of those workers who now have a much higher pay packet each week is their spending ability, and I think that one of the really negative things about polarization in wealth that the people who spend all of their income, the lower income people, who spend all of their income and more have had less to play with and -- or to live on I should say, and with a rising sort of wage rate for them, I

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think that is a positive for consumption in the economy and again has a more positive multiplier effect than the tax cut for the wealthy does. Much higher multiplier effect.

MS. BEYER: Thank you.

MR. MORTON: So I didn't get very far. But so just staying with the global growth theme, so I am sure investment managers have been in here in the last 12 months and told you that Japan was still in possession and things of that nature. They are not anymore. They have got some growth. I don't know if they managed to keep that going. I don't know. To be quite honest, we don't spend a lot of time predicting Japanese growth. European growth, though, has picked up from recession levels. US growth picked up last year. Started the year very weak and then ended the year reasonable, and today as we talked about already, we have some rising confidence.

Emerging markets are still growing. China appears to be growing at a reasonable clip. You know, I would tell you there is sort of rising warning signs about China. Both their debt level that I mentioned earlier, their currency has been falling up until sort of the last 24 hours when I think they made some administrative measures to get it to turn around, and it turned around a couple of percents. So I think those rising sort of pressures in that regard, but generally the growth picture is better today than it was 12 months ago with some I wouldn't say -- call it wind at the back. More sort of a gentle breeze perhaps here in the US and maybe in Europe.

There is a lot of problems in Europe. We touched on just one of them, immigration issue. If you look at the euro, euro has fallen a lot and that's really good for their growth, not bad. It's good for their growth prospectively. So I would sort of focus on that as being sort of an early warning signal that their prospects should actually be better, and also the UK's currency has fallen materially after Brexit and continues to be under pressure. It's also positive for

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successful growth and maybe what the economists have been saying in that regard.

So what could sort of get in the way of these positive signs or maybe come along with this is this issue of inflation. We have seen no inflation for a long period of time. Maybe somebody as young as Mike has never seen inflation in his entire lifetime.

MR. ADLER: Poor Mike.

MR. MORTON: So we don't -- and clearly the Federal Reservists tried to create inflation. The Japanese Central Bank tried to create inflation, and ECV tried to create inflation, which hasn't worked yet, so I think one of the things we are hyperfocused on this year is watching all signs of inflation and all of them have ticked up and that's -- I wouldn't say that's anything to worry about. I think it's consistent with sort of a moderate increase in growth, but it's something that we are very focused on because I think that could change sort of the relative value of asset classes. It's the one reason why you would be concerned about extending your duration to the extent that you have the prospect for interest rates, but I think we need to see a material increase in interest rates to be worried about the long duration.

Equity market uncertainty is sort of -- again, it's not tongue-in-cheek. We are always concerned what happens in the equity market. I think what we mean, what the research team at Rocaton means is that we have very high valuations. The US stock market has only been this expensive twice before, so that to us is we shouldn't get excited about the stock market looking forward into 2017. However, if we have deregulation for the banks, we have rising confidence and some, you know, fiscal infrastructure plan, it's hard to be -- it's hard to be that negative about the prospects of the stock market in the face of those things, and I think it would be foolish for us to say that 2017 isn't going to be a good year for the stock market. All those previously -- if you look back at history, all those things have been positive for stock market over time. Yet we are still at really elevated valuation levels, so we really need profits to rise to support these valuation levels that we have going forward from here.

Then one sector within the stock market has really responded post-election. We expect will continue to respond for a number of years here, and that's not necessarily focused on the stock price increasing but the level of profitability for banks. I think this probably is a complete regime change for the banking system, and I don't know that that means we get back to the excesses and abuses of the pre-credit crisis period, but I think it means that a major part of the US economy, which is a highly levered economy, demands and needs an efficient, well-oiled banking system in order to grow.

I think the unshackling the banks to a degree -- and it's only to a degree. Even if we do away with Dodd-Frank, there is still a lot of things that are different about the banking system today that are different than ten years ago that feel like a positive growth for the banks, but it feels like a positive for economic growth. If consumer businesses can get financing more efficiently and effectively from the banking system, again that supports economic growth, it supports confidence, it leads to higher bank profits, it leads to more bank lending and more bank employment and so on and so forth. So for us that might be, you know, one of the elements that supports the -- this improvement in psychology and increase in confidence as we go forward.

So I covered all the themes that we want to talk about. I want to just pause for a second and see if there are any questions on anything or anything that I haven't covered. There is lot of things that we didn't put into here for issues of brevity that I haven't talked about but I am happy to talk about.

MR. KAZANSKY: So do you believe I guess the mantra that these repeals for regulation in the banking industry are going to actually help the smaller banking institutions as worded? Do you think that might or might not happen?

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MR. MORTON: So I made a presentation about a month ago to a client. I had -- it's a big audience similar to this, and one of the audience members was CEO of a community bank who lambasted me because I said I wasn't sure that Dodd-Frank would get repealed. I got lambasted after that by all of the things that Dodd-Frank had done to the community banking system and been negative for the community banking system and no banker would ever trust the regulators ever again and I was like okay. So I think so. It's -- I think it's a big positive for the small bank, the medium-size bank, the large bank out there, and I don't think that that's negative for all of us. You know, clearly we went through, you know, unique -- I think a unique period in financial history with banking excesses and consumer finance excesses of the pre-credit crisis period.

Today the banks and this isn't going -- -- I don't believe this is going away. There is a reason why this could go away, but the amount of capital that they have got to have is not a Dodd-Frank issue; it's a Basel III issue. Completely different regulation.

So the amount of capital they have to have, the safety of the system is sort of enshrined in having that higher capital base, so I don't see that, you know, consumers are going to be on the hook at any point for, you know, maybe a generation if they have to hold on to that amount of capital. So to me it seems more likely that it's a significant positive to us. We are trying to see where there might be a negative of the banks being pushed out of so many businesses. So far I haven't really seen it.

You know, one of the things that -- you know, one of the things that Dodd-Frank, you know, stopped banks from doing is trading in bonds and other securities and those are -- that has an impact on your portfolio. That's not a positive impact. It's harder to get -- certainly the size the entire -- both the New York City Teachers' pension and other pensions in the system, it's hard to buy bonds and trade bonds as a result of Dodd-Frank, and that has a material cost over time as well. So you know, will that come back? Will banks be able to trade? We will see. I think there is -- I think it's more likely eventually might just take some time in order to do it.

MR. ADLER: Antonio has a question.

MR. RODRIGUEZ: So on that note, another thing recommended within our asset allocation was increasing allocations or finishing our allocation to private debt, and in many ways a lot of the private debt managers talked about an opportunity, regulatory opportunities that are taking place because of regulations on banks. If Dodd-Frank were to be repealed or there is some type of regulatory changes, what are the feeling on those opportunities, kind of those opportunistic opportunities disappearing for a lot of those?

MR. MORTON: It's a really good question. I think those opportunities eventually will change, but I think it would take years to repeal Dodd-Frank to change the banks back to doing all the things that the investment management industry is trying to

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take over from them, and so I think for the next three, five years I think there is going to be plenty of opportunities for those types. Looking further out, I think we would have to see, you know, there is still the -- the banks still have this big significant capital requirement that they need to maintain which is going to stop them from doing a lot of the things that they used to do.

So perhaps the banks will originate the loan, but they might sell to your OFI managers the junior piece of that so that they maintain -- they keep the origination fees and maintain that business, but they don't have to have quite the same capital set aside for that particular business. So maybe there is a role for the banks to do more, get more involved in the economy but for this junior slice of risk to still sit in private investment management industry.

MR. ADLER: Other questions?

MR. FULVIO: Be mindful of time. Obviously people have questions but --

MR. ADLER: Okay, David. Thank you very

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much for your informative and provacative presentation.

MR. FULVIO: So that concluded the agenda that we have for the public session.

MR. ADLER: Okay. Anyone have anything else for the public session? All right. I think a motion would be in order to exit public session. Is there such a motion?

MS. PENNY: I move pursuant to Public Officers Law Section 105 to go into executive session for discussion regarding specific investment matters.

MR. ADLER: Is there a second?

MS. VICKERS: Second.

MR. ADLER: Okay. Motion made and seconded. Any discussion? All in favor of the motion to exit public session, please say aye. Aye.

MR. BROWN: Aye.

MR. KAZANKSY: Aye.

MS. PENNY: Aye.

MS. BEYER: Aye.

MS. VICKERS: Aye.

MR. ADLER: All opposed, please say nay.

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Any abstentions? Good. That concludes our public session and let's just wait a moment.

(Whereupon, the meeting went into executive session.)

MR. ADLER: So do we have a motion to exit executive session and go back into public?

MR. BROWN: So moved.

MR. ADLER: Is there a second?

MS. PENNY: Second.

MR. ADLER: Motion made and seconded. Any discussion? All in favor of the motion to exit executive session and go back into public session, please say aye. Aye.

MR. BROWN: Aye.

MR. KAZANKSY: Aye.

MS. PENNY: Aye.

MS. BEYER: Aye.

MS. VICKERS: Aye.

MR. ADLER: Any opposed, please say nay. Any abstentions? So when Liz tells us we are back in public session, and Susan, you are ready to do your report.

Okay. Back in public session. Susan?

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MS. STANG: Okay. In executive session a manager update was presented, and a policy matter with respect to investment issues and guidelines was discussed.

MR. ADLER: Thank you very much. I think that concludes our business for today. Can we have a motion to adjourn?

MR. KAZANSKY: So moved.

MR. ADLER: Is there a second?

MS. BEYER: Second.

MR. ADLER: Motion made and seconded. Any discussion? All in favor of the motion to adjourn, please say aye. Aye.

MR. BROWN: Aye.

MR. KAZANKSY: Aye.

MS. PENNY: Aye.

MS. BEYER: Aye.

MS. VICKERS: Aye.

MR. ADLER:. All opposed, please say nay. Any abstentions? Motion carries. The meeting is adjourned.

(Time noted: 11:37 a.m.)

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C E R T I F I C A T E

STATE OF NEW YORK)

: ss.

COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public within and for the State of New York, do hereby certify that the foregoing record of proceedings is a full and correct transcript of the stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto set my hand this 17th day of January, 2017.

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YAFFA KAPLAN