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INVESTMENT MEETING

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Sophian DeFrance
Digital Reporter
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APPEARANCES:

THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR
THOMAS BROWN, CHAIR, TRUSTEE
KEVIN LIU, MAYOR'S OFFICE, TRUSTEE
JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE
DAVID KAZANSKY, TRUSTEE
VICTORIA LEE, TRUSTEE
ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES
Also Present:
LIZ SANCHEZ, TRS
ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE
PRISCILLA BAILEY, TRS
RON SWINGLE, TRS
VALERIE BUDZIK, TRS
STEVE MEIER, BUREAU OF ASSET MANAGEMENT
ED BERMAN, BUREAU OF ASSET MANAGEMENT
JOHN GLUSZAK, BUREAU OF ASSET MANAGEMENT
SANYA COWAN, BUREAN OF ASSET MANAGEMENT
ROBERT FENG, BUREAU OF ASSET MANAGEMENT
GRACE JUHN, BUREAU OF ASSET MANAGEMENT
JINA MOON, CHARLESBANK CAPITAL PARTNERS
SANDOR HAU, CHARLESBANK CAPITAL PARTNERS
MATHEW JACOBSON, CHARLESBANK CAPITAL PARTNERS
MICHAEL FULVIO, ROCATON/GOLDMAN SACHS
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS

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KATE VISCONTI, BUREAU OF ASSET MANAGEMENT
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ALASDAIR CRIPPS, MESIROW INSTITUTIONAL REAL ESTATE DIRECT INVESTMENTS
KEVIN PRICE, MESIROW INSTITUTIONAL REAL ESTATE DIRECT INVESTMENTS
BRIAN GRANT, SR VP & HEAD OF DISPOSITIONS
JOHN YOUHANAIE, MESIROW INSTITUTIONAL REAL ESTATE DIRECT INVESTMENTS
JEAN SALATA, EQT
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(The proceedings commenced at 10:10 a.m.)

MR. MCTIGUE: Good morning, everyone. Welcome to the March 7th, 2024 Investment Meeting of the Teachers' Retirement Board. We'll take the roll now.

Kevin Liu?

MR. LIU: Kevin Liu for the Mayor's Office, present.

MR. MCTIGUE: Thomas Brown?

CHAIRMAN BROWN: Good morning, present.

MR. MCTIGUE: Anthony Giordano?

MR. GIORDANO: Present, representing PEP Chair Gregory Faulkner.

MR. MCTIGUE: Alison Hirsh?

MS. HIRSH: Present, representing Comptroller Brad Lander.

MR. MCTIGUE: David Kazansky?

MR. KAZANSKY: Present.

MR. MCTIGUE: Victoria Lee?

MS. LEE: Present.

MR. MCTIGUE: Mr. Chair, we have a quorum.

CHAIRMAN BROWN: Great, thank you.

Good morning, everybody. We'll start off with the Passport Funds 4th Quarter 2023 Performance Review.

MR. FULVIO: Great.

CHAIRMAN BROWN: Rocaton? Thank you, Michael.

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MR. FULVIO: Thanks, Tom. I'll start, and Amanda will chime in as well.

We were going to speak to the January performance, given that was more recent. We previously reviewed the 4th quarter, but the report was in there and I wanted to offer to answer any questions, if there were any, on the 4th quarter.

Great. So, Amanda, I'll turn it over to you to just cover January.

MS. JANUSZ: Sure. So January results were more mixed, following a very, very strong 4th quarter and closeout to 2023. We continued to see disinflation globally, and here, within the US, more favorable macro data, including easing labor costs pressure as well as continued strength of GDP growth.

So with that as our backdrop, in terms of your specific Passport Fund results for the month of January, the Diversified Equity Fund where the bulk of your assets sit today, over $17 billion, had a return of 63 basis points for the month. Although, if you look out for the trailing one-year, over 16 percent return for the Diversified Equity Fund. And within January, we see, you know, consistent trends with what we saw across markets during the month. So more positive results for your US equity managers versus international,

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particularly the EM portion of your international, dragged down those international results a bit. But overall, slightly positive results for most of the active funds within your program.

The Balanced Fund, as you all know, more conservative allocation, very slightly positive for January, 22 basis points, but up close to 7 percent, if we look out over the trailing one-year period.

And to call out the Sustainable Equity Fund, down, two-thirds of the way down the page, had a return of over 3 percent for the month of January and up over 30 percent on the trailing year. And that fund, over the longer period, certainly is benefiting from more of a growth orientation, which was in favor throughout most of 2023.

And I'll leave it there unless there's any questions on January.

CHAIRMAN BROWN: Thank you, Amanda.

Any questions? Great.

MR. FULVIO: So the last item was just a very brief update on February preliminary performance, where we look at the markets, and -- great.

As you can see here, it was a relatively stronger month in February for US markets. Amanda also commented on negative returns for EM during January. We

saw that rebound in February. EM was up over four-and-a-half percent. So we saw continued strength in the US, some positive numbers across non-US equity markets.

And I think, in terms of the overall sense or feel of the markets, February was a month where we saw a number of key inflation metrics where it became a little bit more obvious that inflation had not necessarily cooled as much as many coming into the year were expecting at this point. That resulted in what I would say are a bit more hawkish tones from some members of the FOMC around mid-month, and a broader acknowledgement maybe in the markets during February, that the rate cuts that had been priced in, coming into 2024, likely would not come to fruition in the first half of the year, as the markets were expecting. So a little bit more in line with our outlook coming into the year.

It seems like, you know, rate cuts, if at all, will come much later in 2024, not until 2025. And although yesterday, I think it was yesterday or the day before, Fed Chair Powell did acknowledge that the Fed continues to be sort of at a posture where they don't see interest rates needing to rise beyond here. And I think his comments also supported their continued dependence on data to help drive and inform their

decision making. So yeah, I think we've seen sort of a market that's maybe not overreactive, but staying very

close to what we're hearing coming out of the Fed.
Is that fair, Steve?
MR. MEIER: I'm smiling because you always steal all my thunder. After you and Amanda, I have nothing to say now.
MR. FULVIO: We're going to stop in the middle of Performance and compare notes.
MR. MEIER: It's interesting how, and just to add to Mike's comments, we came in the year with the market pricing in seven rate cuts this year. The Fed's summary of economic projections, the dot plot, were calling for three. Now, they've actually come down to three. The market is starting to expect three.
But yesterday, we had Neel Kashkari, who's the Minneapolis Fed Chair, come out present and say that he thinks that you'll see one or two. So people have been kind of reducing the expectation about cuts.
We're supposed to see the first cut in March, the beginning of the year, so it's March 20th, week after next, and now the market is starting to anticipate a cut probably June, June 12th.
MR. FULVIO: Yeah, May or June, May 1st or June 12th.

CHAIRMAN BROWN: Thank you, Steven. Thank you, Michael. Appreciate it.
Pension Fund Performance Update. Steve?
MR. MEIER: Great. Actually, is this the quarterly?
CHAIRMAN BROWN: Yes.
MR. MEIER: Great. All right.
CHAIRMAN BROWN: Quarterly Presentation.
MR. MEIER: I'll try to be brief, but it is very challenging for me to do so. But maybe take a step back, and I'm joking when I say Amanda and Devin, and then Mike now, usually steal my thunder, because it's great to see that there is a similar outlook in terms of our interpretation of the data and market trends out there.
But before I go into my more formal slide presentation, this is a reminder, there are a few things. We're not thematic investors, but we do look at certain -- certain trends that we think, and we work with Rocaton as well, that we think will drive performance over the next 10 years. And some of this, these trends, actually informed our outlook in terms of the strategic asset allocation process we went through. But just as a reminder, the things that we need to keep focused on are the big things, decarbonization and

climate change and the impact on a real economy and on markets, shifting demographics and the impact on labor force dynamics both here, in Europe, in China, in Japan, all the developed markets. China is developing, but still, they have significant aging population and low birth rates. So another thing to be watching on, as I said here and abroad.

Deglobalization and the focus on supply chain robustness, onshoring, nearshoring, friendshoring, that will affect investment and capital flows. Sovereign debt sustainability and the impact on the cost of capital.

One of the things that I'll talk about, and I'm sure Robert will talk about as well, are base rates being higher, and we think that that's probably something that will persist, notwithstanding the fact that if we didn't have an economic emergency or crisis, I'm hoping that the Fed stays off of the zero interest rate policy.

And I think, because of just the level of indebtedness and the level of debt that will be raised by the Treasury in coming years, you'll see base rates higher, which will certainly help the performance of the portfolio over time.

We also have an altered geopolitical

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conditions, which have the potential to impact global trade, strategic trading alliances, and defense spending, to be more direct.

And lastly, transformational technological developments. Here, we're talking about artificial intelligence, and I have a couple interesting slides on that that we'll share in a moment.

But we look at these six major trends with the expectation that they'll have a significant impact on those key building blocks for economic performance and investment returns, and those being economic growth here and abroad, inflation, productivity, public spending, and then private investment.

So with that, Kate, can you go one side ahead please?

Just a look at where we are from an inflationary standpoint, the clear trend here and abroad is for lower levels of inflation. The disinflationary trend is well intact, notwithstanding Mike's comment, which is accurate that inflation still has been a little stickier than probably the Fed would have preferred, and again, I think the markets would have expected an earlier cut cycle, but still trending in the right direction.

On the next slide, just to look at inflation

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domestically. You can see, again, just as a reminder, we peaked at over 9 percent CPI in June of 2022. We're now slightly above 3 percent. The Fed's preferred measure, the Core PCE, or Personal Consumption Expenditure Deflator, is about 2.8. That's the little scale in the yellow line. So it's certainly coming down towards the Fed's 2 percent target.

On the next slide, inflation around the world, similarly looking at it's coming down nicely. There is to the US, the Eurozone, and the UK. What I find interesting about this slide is, if you were to highlight zero to 2 percent, we've actually got an extended period of time where all three of these economies were experiencing inflation right in that strike zone, right around 2 percent. And again, so the spike we saw in 2021 and 2022, after COVID, and then the recovery has been sort of an anomaly that we hadn't seen in many years.

On the next slide, employment. The employment market here in the States has been very, very robust, supporting a resilient US economy, and I think it increases the potential and the possibility, the probability of the Fed achieving a soft landing. I think the chair was asked yesterday if he sees a recession in site, and he said certainly not -- not

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currently in the data. So I think that's probably a good outcome, one that candidly, I -- you know, I've been in front of the -- you trustees for the last year-and-a-half, and I have to admit that I was probably wrong. With 40 years of experience, every time I saw a rate hiking cycle to the extent we saw from the Fed, the level and quickness of those hikes, something would always break in the market. We would always -- something would happen, and typically, you'd go into a recession.

It's just a reminder that what we're experiencing now is not a normal cycle. It's very much post-pandemic. We really don't have a lot of history on, other than 1918. So again, different times, but we're trending in the right direction for that soft landing.

On the next slide, a look at unemployment levels. Unemployment levels, as I said, have come down, certainly less than 4 percent, which is very low relative to where they've been historically. The participation rate in yellow up top is still about 1 percent below where it was pre-pandemic, and this may have to do with a number of individuals taking early retirement, but it does have an impact on the amount of available labor in the marketplace that is perhaps

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keeping unemployment low and wage inflation perhaps a littler on the high side.

On the next slide, a look at economic growth here and abroad. It's held up very well, surprising many economists and investor -- investment professionals, given again the dramatic rise in official rates here and abroad in 2022 and 20 -- in that first half of 2023.

The notable exception here is Japan. Japan actually has not raised rates, they haven't changed rates since 2016. They still have negative official rates of negative 10 basis points. They actually haven't raised interest rates, official interest rates since 2006. That's 18 years. So the expectation at some point is they'll get off the negative official rates as that economy recovers.

I'll talk about this in a moment, but actually the Japanese, the NIKKEI has actually done really quite well. It is the strongest performing developed equity market this year at up over 18 percent in local yen terms.

CHAIRMAN BROWN: We just -- they got back to their high, previously not seen since 1989.

MR. MEIER: '89, 34 years. So actually, one of the trustees at another board asked me a question,

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well, if stocks are expected to outperform long term, why wouldn't you just leave all the money in stocks? And we point to Japan? That's why, because you had a draw down that was just so extensive, it took 34 years to get back to that high watermark of the late 1980s.

On the next slide, look at economic growth graphic -- graphically. I would say the two lines that we focus on here are the green and the red, red being US growth, which has held up quite well, and then China in green. They've actually, just this week, announced an ambitious target of 5 percent.

Anyway, China just announced an ambitious growth target for this year of 5 percent. The Chinese economy has actually been struggling a bit. They have a significant property market slump. They're experiencing deflation over the last two quarters. They have demographics in terms of an aging population, low birth rates, that are challenging for them from an employment standpoint. They have an over-leveraged shadow banking system, and last but not least, they have declining exports to many of the Western countries. Perhaps some of that has to do with onshoring or deglobalization to address supply chain issues, and perhaps some of those are intentionally political.

On the next slide, a quick look at Fed

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official interest rates. At one point, as I mentioned, the Fed was pricing -- the market was pricing in seven, the Fed was pricing in three. It looks like the Fed is winning out on that. Again, economic resiliency and placing still above that target of 2 percent has pushed off the first rate cut. As I said, right now, it's priced in for June, but we'll see where that pans at this year.

It is an election year. I think the Fed will be careful in terms of when they change interest rates to not impact the outcome of the election. And just as a reminder, the meeting dates for the rest of this year are March 20th, again probably on hold, May 1st, June 12th, July 31st, and then you kind of get into the area where you're probably pretty close to the election in September 18th, and then November 7th will be right after the election.

And the next slide is a look at where we've been. As I mentioned the top three, we've been on hold from an interest rate change perspective in the US, England and the ECV. Japan again has been sticky, negative 10 basis points for quite some time now.

On the next slide, a look at credit spreads and yields. Credit spreads are actually quite tight in high yield and investment grade, and even private

credit. They've come in fairly significantly, and I've got a slide that will demonstrate that in a few moments. US Treasury 10-year yields have actually been a little more volatile last year in 2023. They traded in a range as low as 330, from a yield standpoint, up to 5 percent. They started out and ended the year exactly the same spot at 389, which is where they started this year. Current yields right now are 4, 410, 410 this morning. So a little bit of sell up in bonds, prices have gone down, a little bit of yields move higher.

On the next slide, a look at the inverted yield curve. That's a fancy way of saying that short rates are above long rates. Typically, when you invest your money out, say, 10 years, you expect to get a premium, a maturity premium. But again, given where short rates are and the expectation for those rates to come down, they're still elevated, it's still possible to invest in US Treasury T-bills, inside of three months, that yield over 5.2 percent, and if you were to invest in a one-year T-bill today, I think you'd earn about a 470, again expecting rate cuts at some point down the road.

Next slide, just a representation. The green line is the 10-year yields, the white line is the three-year yields, and you can see on the left-hand

side, historically, tens were above twos, and more recently, we still have that inverted yield curve about 40 basis points. And those numbers are a little bit stale. I think, today, twos were trading around 453, and as I said, tens at around 410.

And the next slide, a look at credit spreads, and I mentioned earlier, you can see on the upper part in orange, those are the credit spreads for high yield. That darker orange line is the average, which is slightly above 400 basis points above comparable US Treasury, comparable maturity US Treasuries. So that's the spread you earn above investing in US Treasury security. And you can see on the far right-hand side, they've actually rallied, meaning the spreads have tightened and prices are higher. I don't necessarily think that high yield right now, as an entry point, is compelling. And similarly, with investment grade at the bottom portion, when you're below the average, you still want to hold onto those assets because absolute yields are higher, base rates, the Treasuries are higher even though the spreads are tighter. So I think a lot of that has to do with retail flows into high yield and investment grade bonds, at this point.

Mike, I don't know if you'd agree with that, but it does seem as there's more than -- it is pricing a

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soft landing, it's pricing out an increase in defaults.

And again, I think if you look at it strictly from an absolute standpoint, the yields were attractive relative to where they were two years ago.

MR. FULVIO: Yeah, and I think a year-and-a-half ago, going into the SA review, we discussed likely being a little bit later in the economic cycle, which could impact credit, in particular, and given that spreads have continued to narrow since that time, this is sort of implying to us that there's still more room to go in the credit cycle.

MR. MEIER: Yeah. On the next slide, just a look at stocks and bonds. The returns for the 4th quarter, I think Mike and Amanda really touched on all these issues. Bonds are back, base rates are higher. There's a more significant yield being delivered from bonds in your portfolio these days, and we believe that will continue. And again, the absolute yields are significantly higher, and stocks have really performed quite well, notwithstanding the fact that bond yields are higher. In fact, you've got many of the indices near at record highs right now, so more to watch there.

On the next slide, a look at 4th quarter returns. It's really nice to see green on the screen. So 4th quarter of 2023, you can see equities through the

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Russell 3000 was up 12 percent alone in that one quarter. I believe, since the lows of October of last year, the market is up about 26 percent, so not a bad outcome.

A little bit of pain, if you look to the three years, we see red in the middle. You know, Mike and Amanda talked about emerging markets, you know, recovering earlier this year. A lot of that has to do with those challenges I talked about in China that have limited the upside for emerging markets. And then the other two, obviously, are governments with final maturities beyond five years, with the duration of 11. Anything with duration has gotten hurt because, as yields move higher, those prices come down. Investment grade corporates, even though credit spreads have tightened, with yields being higher, the investment grade typically has twice the duration exposure as high yield. High yield is bigger. Coupons, they pay down faster, and have a lower duration. So that's why there's a little bit of a difference in terms of the yield, the returns for investment grade versus high yield.

On the next slide, just a look towards the bottom, you can see the NIKKEI. Again, this is a slightly older slide, but it's up to about 18 percent

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year-to-date with a PE of 26. But most developed markets are up year-to-date. So equity prices continue to rally both here and abroad.

And the next slide, world bond markets, again, the stickiness of inflation here and abroad has caused 10-year yields to kind of back up a little bit. This slide is a little dated from I think the end of February, but you can see, on the far right-hand side, the year-to-date yield changes are all positive with one exception, and that exception being China. At the very bottom, you can see the 10-year sovereign yields in China has come down by 18 basis points on expectations of cuts.

Maybe skip ahead two slides, Kate. Yeah, that's perfect, yeah.

This is interesting. I know we had Torsten Slok present from Apollo at one of our recent Thought Leadership Speaker series on Friday. He's one of my favorite economists. I love his slide decks. He actually came out last week with a proclamation that he thinks the Fed will not cut rates in 2024, based on what he sees in the markets and the economy, in terms of a resilient economy and a little bit sticky inflation.

My last comment on this slide is there has been a couple of very prominent individuals, Torsten

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Slok slot being one of them, at Apollo, saying no rate cuts. I actually don't think that's -- I think that's -- well, I could be wrong. I mean, Powell, I have to listen to the Fed chair, and he did reiterate yesterday that they're all looking data dependent, but he expects to see rate cuts later in the year.

I mentioned Neel Kashkari earlier, from the Minneapolis Fed, thought that there may be one or two but certainly less than the three that had been forecasted. We also had former US Treasury Secretary Larry Summers come out about a month ago and say that there's a possibility or a probability that the Fed may raise rates, the next move may be a hike instead of a cut, and he attached a 15 percent probability to that, at that time.

On the next slide, I talk about sovereign debt levels as being a key theme because this is something that I really think we need to pay attention to. Here, you see the developed market economies and how they've increased the level of debt relative to GDP outstanding. The only exception is Germany, where they've actually reduced their debt relative to GDP. This is total outstanding debt. In the US, our public market debt now is about 97 percent of annual GDP, and it's forecasted to go I think as high as 116 percent by 2030, which is,

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you know, I think going to be a challenge at some point in terms of our ability to continue to issue debt and roll debt. But that remains to be seen. So something, certainly, to keep an eye on.

I should also mention that, this year, the US Treasury auctions are expected to increase on average 24 percent. We've got the largest single auction of five-year Treasuries coming in April. I think that's a 70 or $71 billion offering. So you want to make sure that the paper continues to get distributed, and there might be some challenges there.

On the next slide, another food for thought in terms of just optimism about individuals' financial situations. I think the takeaway for me on the far right-hand side, you can see where the Fed pivoted and actually are now talking about cuts versus hikes. On the far right-hand side, you can see that optimism on the part of investors has actually gone up, in terms of how their financial situations are feeling going into the new year. So we'll see whether that spills over into consumer sentiment and continues to fuel consumer spending.

On the next slide, just another look at the fact that we've got $8.9 trillion of government debt to roll over this year, and as I mentioned, our debt levels

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are becoming a little more challenging, and the reason why we focus on this is because we're going to see an increased supply. The one thing we know is, irrespective of who is elected as the next president, we'll continue to see a deficit spending budget. We had a deficit of, last year, 1.6 to 1.7 trillion. And again, the level of indebtedness, public indebtedness is now 34 trillion across the economy.

On the next slide, another reason why I think we need to be a little concerned just in terms of the level of debt, the level of Treasuries that we're over. We can see that the demand for our public debt abroad to foreign buyers has actually come down quite a bit. Japan continues to be the single largest owner of US treasuries, but again, the demand at the margin is now coming from domestic buyers.

Next slide, just a look at what -- what's referred to as an AI bubble here relative to where we were in 2000 with the internet stocks. I don't really believe that there's an internet -- that there's an artificial intelligence bubble, although there certainly is a halo. This actually looks at the S&P 500 and the concentration of where the price earning, forward price running ratios for the top 10 stocks. You can see on the far right-hand side, the PEs expected this year are

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about 30, per earnings, this year, about 30. So a concentrated rally in the stock market.

The only other comment I would make here is that, and the reason why I think it's different than the internet stocks is that you've got companies like NVIDIA that are certainly, and the Magnificent Seven, that actually just announced within the last two weeks, 4th quarter earnings, net earnings of $12.89 billion. So there's a company that's actually generating an incredible amount of cash flow. The question is, does it really justify a $2 trillion market capitalization for that stock?

On the next slide, I mentioned I was going to talk about Greek mythology this morning on the walk over. Actually, we had a meeting with an artificial intelligence expert, one of your primary private equity managers, and I asked the gentleman, I said, how real do you think artificial intelligence is? Now, obviously, that's his expertise, and he's very, very focused on that, and he gave me the quote, he said, he likened it to when the Titan Prometheus stole fire from Olympus and gave it to man, in terms of its exact dramatic impact on the technology, on our economy, and our lives over time. So the question is, how long will that take to actually materialize? But it's coming, and it is something that

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we really want to watch.

And in terms of its impact, I'll give you a couple of examples. We talk about those trends and how we try to figure out what's the impact on growth. We think that artificial intelligence will be pro-growth, disinflationary, and increase productivity. So those are some of the things we look at in terms of how it will impact the economy.

Two more slides, last slide, the next slide, Kate?

Just a look at, again, food for thought, the Magnificent Seven. They've actually decoupled, they're not all going in the same direction. The forward expectations in terms of earning have kind of flatlined, and green on the top. You can see that the other 493 S&P 500 stocks, the expectations for forward earnings have come down a little bit, but there's a little bit of an uptick on both ends on the right.

The Magnificent Seven, just as a reminder, Apple, Alphabet, Meta or Facebook, Microsoft, Tesla, NVIDIA, and Amazon, they were all -- they all benefited a little bit last year, in some cases a lot, from the AI halo. Again, they have decoupled a little bit, but in 2023 the average Magnificent Seven stock was up 111 percent. The collective gain across the entire S&P 500,

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they contributed 75 percent of the increase, and at the end of 2023, they comprised 33 percent the total S&P 500 market capitalization. So again, very concentrated rally, which we hope will broaden out in coming months.

Last slide, food for thought. This is an interesting slide and really speaks to the potential private equity, and perhaps being a better business model, maybe being less transparent, moral opaque, less regulated. But this looks at the number of publicly listed stocks on the far left. You can see, in December 1996, there was a little over 8,000 publicly traded companies. Now there's less than 4,500. A lot of those have been taken private and consolidated through private equity investors.

With that, maybe just a quick look at your net returns for the 4th quarter of the year.

Next slide please, Kate.

So Dan has actually been putting a lot of work into enhancing our slides, and we're happy to show you a couple of new slides today, this being one of them. The takeaway here is you can look at the three-month returns, your 4th quarter returns, your total plan returns, 7.3 percent. If you were at full policy, if you were at your new strategic asset allocation, it would have returned 7.1 percent. Again, we're still

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putting that money to work over time. You look at it relative, the 65/35 portfolio where you've had public markets rally significantly in the 4th quarter, outstripping the returns in private assets. Again, it was priced with a lag. I think the more important things are to look at your five-year returns. At 8.2 percent, your return is certainly above your 7 percent actuarily assumed rate of return and a pretty good outcome so far.

On the next slide, just an enhanced way of looking at that 7 percent actuarily assumed rate of return, and what Dan has put together here is a 10-year look-back. Assuming that, if you invested a dollar, I think it's a hundred dollars, yeah, it's a thousand dollars, how it would roll over 10 years. So you're almost at that 7 percent annual return compounded over that period of time, which is probably, we'd like to see it above the black line, but really close to what we expect to see occur in your portfolio.

On the next slide, a look at your net public market returns by strategy. And here you can see it's, as I mentioned, 4th quarter, strong across the board in public markets and in the one-year space as well. And again, looking out five years, which is probably, and the longer you can look at it, the more beneficial for a

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long-term investor, and you can see the returns are all in green, and US equity is delivering a 15 percent return.

On the next slide, a look at your public market excess returns and basis points. And here, you can see that you've outperformed US equity by 51 basis points relative to the Russell 3000. Developed market XUS, 143 basis points above. Even emerging markets of 35 basis points. Anything with a duration component, it's gotten hurt a little bit because of the volatility backup in Treasury yields, and that applies to core, fixed income, TIPS, high yield, and ETI, notwithstanding the fact that you've seen credit spreads tightening.

On the next slide, this is a different look at your fees. So we're trying to give you a little more transparency on a quarterly basis. So here, these are your public market fees. We're actually still trying to put together working on a slide that will talk about your private market fees. But here, you can see, for the quarter, for the 4th quarter of 2023, you paid out about $24-and-a-half million in fees. And if you look at that over the course of a year, it's close to a hundred million dollars in annual fees for public markets. And you can see the breakdown of those fees to the right-hand side. Obviously, US equity dominates in

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terms of size, but I know the way John Merseburg and Rocaton had that structured is a heavy slope of passive, so the fees are actually much lower on average. You can see, going out, what we've got, say other public equity being global and emerging manager, slightly more expensive. High yield, 30 basis points in average fees, and all the way down. So we'll continue to work on enhancing your visibility into your fees. And then more importantly, what are we doing about reducing fees over time?

Next slide, Kate.

This is a look at your private market returns. It says manager, I apologize, but market returns. You can see for the year, private equity held up well. Core/non-core real estate off a little bit. Again, some of those have been challenged by declines in prices in office and retail space. Infrastructure up 11 percent for the full year. Again, priced with a lag to September. And opportunistic fixed income through the end of December generating a 10.5 percent return. More importantly, a look further out, you know, five, 10 years since inception, your private assets have actually retained quite strongly.

The head scratcher here might be, if you look at opportunistic fixed income, it's a more nascent

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strategy for the portfolios. And since inception, you still delivered 5.9 percent, but that's also indicative of the fact that, for the last 10 years, you've had very, very low short-term rates, and a lot of these are floating rate product that trades off of what used to be three month LIBOR, now it's this three-month SOFR.

Next page, a look at your excess returns and basis points. And looking at private equity up top, it underperformed significantly, Russell 3000, in the last year. There's a reason for that. The Russell 3000 was up fully 26 percent. And again, there's some differences in terms of pricing and how these are mark to market, but looking out further, certainly a good outcome for your portfolios over time.

And one more slide -- two more slides, if you bear with me. Actually, this is a really important slide. What we're trying to do is provide a lot more visibility into your private market exposure. So what Dan Haas has actually pulled together, which I think is terrific, is, if you look in the middle where it says your assets under management, this $20 billion is the money you actually have in the ground across private equity, core/non-core real estate, infrastructure, and opportunistic or alternative --

MR. HAAS: This was the one without a

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number -- it's not numbered. It's the one before this, Kate.

CHAIRMAN BROWN: Page 37?

MR. MEIER: Well, I've got this wonderful slide in front of me that apparently didn't make the deck. Is it there? There we go. All right, my bad.

Well, let's just focus on this, and then I'll wrap up. This actually shows you the money you have in the ground of $20 billion that are currently working for you across the strategies. It also shows you your uncommitted, unfunded commitments that you've already put to work, what will be called over time. Again, private equity, for example, even though you've got an unfunded commitment of $12 billion, you've got a mature portfolio. So the expectation, what you have invested now continue to generate returns and kickoff distributions over time. There's a 5 percent assumed rate of return growth over time as well. So this is, really, very carefully how these portfolios are constructed, but it gives you a sense for, you've got 20 in the ground now, but all the good work you've done is actually a further commitment of another 22-and-a-half billion, for total commitment over time, again, not right now, but over time, you've committed to $44 billion in private assets. Again, we'll try to provide

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more insight and context into these things, fees, public and private, and then again how you're allocated here.

So with that, I am afraid I've been long-winded, longer than I thought, but I'll open up to any questions, anything that I covered or didn't cover that you have questions on?

CHAIRMAN BROWN: Well done. Any questions for Mr. Steve? David?

MR. KAZANSKY: I've got -- I've got two, basically two kind of federal things that are happening that will affect us in one way or another.

So first, the SEC's private funds rule and what conversations are being had with folks now that are providing us -- are we expecting much more transparency than we're getting now from private asset classes?

And the other being the Tuesday hearing or inquiry by the DOJ and FTC and Health and Human Services on private equity and corporate ownership of health (indiscernible)?

MR. MEIER: Well, both great questions. So I do think that the more transparency is positive, and if you remember that slide I showed you where we had 8,000 public companies, and now it's a little less than 4,500? That's an example of that shifting from private to public, from public to private. And I think, as you do

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that, you know, there's a reason for that. You can make an argument, and I would adhere to the argument that perhaps it's a better business model. It's easier for a public -- for a private equity fund to actually align the interests with the management and the outcomes for investors. But it is also, it's less transparent, a little more opaque, a little less regulated. So I do think that the benefit of Sunshine will actually improve things over time. It gives you more a look into these strategies.

We have a competitive advantage really because of the money we have the privilege of working with in terms of managing. You have over a hundred billion dollars in assets. In aggregate across the five plans, it's $265 billion. We have size, we have representation across all the private asset classes on the LPACs, the limited partner advisory committees. So we have more transparency.

The question is, and I believe it's a legitimate question, is, is that fair? Is that fair to other investors? Does that really help us accomplish our collective goals? Are there risks being built up in the system that may not be as visible? So I do think that more transparency is a positive thing.

MR. KAZANSKY: I know one of the things around

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that is that other funds get to see kind of -- well, try to level the playing field around here. And so, when we used to thump our chest that we're the biggest, baddest in the room, and that got us some better outcomes as far as fees are concerned, you know.

MR. MEIER: Yeah.

MR. KAZANSKY: Do you feel that -- do you feel that, let's say private equity funds that are going to come to us now are going to elevate fees across the board to account for the fact that they're not going to pull in maybe higher fees down the road from smaller funds, or how do -- or they will react differently?

MR. MEIER: I think it's more around the disclosure of the fee arrangements versus in the visibility into the fee arrangements. I don't think we'll be at any less of a competitive advantage now than after these are imposed. We actually do a really, and I mean this sincerely, I think we do a great job negotiating fees and arrangements through co-investments, through sidecars, through preferred rates of return. We do a really good job within the Bureau of Asset Management. We do a poor job of presenting that to trustees, and that's one of the initiatives for this year. And again, Dan Haas, Lynn, Eneasz, Petya are working on how can we provide more

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visibility.

You get an investment recommendation memo from us, and within it, we always detail the fees, but what we need to do is, on a consistent and ongoing basis, to say what have we done for every single investment to get lower fees? What have we done for -- across asset classes to reduce fees? Because again, I think that's a competitive advantage.

That's the reason why, listen, $102 billion, you're a big enough fund, you're going to get attention and access to great managers and discounted fees. But across the five plans, I mean, that's really the buying power is significant and the way we go about managing, again, co-investments -- co-investments, no fee, no carry. So it really helps average down, and we're being more and more disciplined in terms of, how do we make sure that you promised me one for one co-investment, am I really getting it? And what does that do to the portfolio? Does it change the risks of the portfolio?

And again, I think we've got a really good team. I think Eneasz and Petya are really just very strong in those areas. I'm very confident in our ability to continue to navigate that.

MS. HIRSH: Can I just add one thing?

MR. MEIER: Sure.

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MS. HIRSH: Also about the private rule in particular, specifically, which is that I think, when it was first, the draft rule was first introduced, we submitted a letter with our -- with the components we supported and the concerns. And then in December, when the updated private rule was introduced by the SEC, our internal counsel within the Comptroller's Office drafted a memo that laid out what the rule means that -- what it might change about how we do business or what we would have to actually disclose about our side letters that we haven't in the past. And I, you know, haven't read it since December 8th, so I don't remember what it says, but we can, like, share it and talk more about it --

MR. MEIER: Irena is the --

MS. HIRSH: -- with anybody. Yeah, Irena, who -- she manages and deals with all of the outside counsel and private contracts, et cetera, private market contracts. And so she went line by line with the SEC rule and laid out how it would impact the five funds.

MR. MEIER: Right, yeah. It's also within the Comptroller's Office of Legal Affairs -- what's it called?

MS. HIRSH: Office of General Counsel.

MR. MEIER: Thank you, General Counsel. But Irena works exclusively in private deals. She's got a

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team of I think three going to five. They are outstanding. They really do a great job.

So the one concern we might have with the rule change, David, to answer your question a little differently, is we're concerned -- we do a great job of negotiating side letters. We do a really good job of protecting your interests and the interests of the plans. And the question, and I think it's still an open question, whether the new rules will give -- will diminish our ability in any way to continue to get those -- those representations.

But again, you know, we rarely talk about our legal support, but they are the unsung heros. Every deal that has to get done, the paper, it takes a long time to get those done because we're dogged in terms of how we negotiate the fees. Even on a deal, I won't say which -- share with which one in Public Session, but we have a deal now that we've got -- we're at an impasse in terms of fiduciary standards. And at some point, and I know this has happened in the past, you approve a deal, it's contingent upon us being able to make sure your legal rights are protected, and if they're not, we'll come back and say, listen, we -- just to inform, we were unable to implement and execute on this deal because of, you know, unsatisfying legal fees. So these take months

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to get done, and we're in the process of, again, we work very closely with the legal team, and if we can't get where we need to go, we escalate and elevate that within our GP partners to try to get better terms.

MR. KAZANSKY: And just the healthcare thing, is there any -- have you heard, or --

MR. MEIER: I'm not familiar with that.

MR. KAZANSKY: So it -- yeah, there's a -- and there's actually a report that I'll forward to the trustees and to you, you know, that an advocacy group has put out. But it kind of talks about whether or not profits are being put ahead of patient care when private equity moves into the healthcare space. And so --

MR. MEIER: I'd love to see it.

MR. KAZANSKY: Yeah, I'll share it.

MR. MEIER: Yeah, thanks. I try to read everything but that one got by me.

MR. KAZANSKY: All right, great. Thanks.

CHAIRMAN BROWN: Thank you, Steve. Well done.

Any more questions for Steve?

MS. HIRSH: The second half of Steve is Ed, which is we often, because it's part of the quarterly report, ends up not being a separate item.

MR. MEIER: Ed will give us a reader's digest version of the risk. It's actually, it's really well

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done.

(Crosstalk.)

CHAIRMAN BROWN: Thank you. Thank you, Ed.

MR. BERMAN: Good morning, everyone. Thank you.

So if I were to summarize everything we're trying to do is to deliver the best risk adjusted returns, and there are two parts of the story.

One part is the returns. Steve did a wonderful job covering it. In many ways, I feel he has an easier task because the returns are easy to visualize. Risks are more complicated. I mean, intuitively, we understand what it is, but I think if I will tell you about all the issues you're facing, we'll spend many hours here.

Your portfolio is about $101 billion. You have close to a hundred public managers, close to 400 private funds. And I don't know how many thousand people make decisions and touch your portfolio on a daily basis. You are subject to markets, to geopolitics, to everything that's happening in the world. So just for the purpose of this discussion, when I talk about risks, I'll be talking about the forecasted returns, and that's what we actually cover, probably the most exposure you have, and much like Steve was talking

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about, the total returns and excess returns, both important, they are highly different parts of your portfolio. I'll be talking about total risk, which is just the forecasted return over the next 12 months, and I'll be talking about active risk, which is just forecasted excess return over the next 12 months.

But your portfolio, it's a (indiscernible) portfolio, and probably what attracts you the most are markets. And we talk about markets, there really are two things you need to keep in mind just to distill it to the essence of it.

So the first factor is volatility. What I mean by volatility, it's simply how fast prices go up and down. The way it usually works out, high volatility typically associated with plunging prices, markets dip down but move up much slower. So you look at the screen, we show here the volatility all for the main markets, equities and fixed income.

Starting with chart number one, it's the volatility of the so called VIX Index, which is the volatility of S&P 500, and here, we show last five quarters of volatility in the markets. The way this chart is calibrated, it showed the typical range of volatilities, and you can see that, over the last five quarters, volatility of equities has been steady

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decline. So if anything, I would call it more of a normal margin. The volatility picked up slightly in Q4, but it's definitely in a normal to low range.

The story is quite different (indiscernible). So on the right-hand side you see the MOVE Index, which (indiscernible) of Treasuries and swaps, and you can see that, if we were to pick a word for it, it's average. We're not in a crisis environment anymore, but we are definitely not at the lowest, which typically is associated with a steady market. So to summarize, equitable, normal fixed (indiscernible) utility still elevated.

The second factor you need to keep in mind -- we'll go to the next page, please, thank you -- is a stock bond correlation. And what I mean by this, it's a fancy way of saying what is the relationship between stock and bond prices. The assumption that baked into your portfolio is a negative stock bond correlation, which means, when stock prices go up, bond prices move down.

In this sense, bond prices assume to have like a natural hedge to provide diversification stock prices. When I say your portfolio, reality is all multi-asset portfolio, all pension systems are structured the same way. And what is, so you can see on the charts on the

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screen.

So first of all, starting with Chart Number 1, we show the last 20 years of a stock/bond correlation, and you can see that the correlation usually tends to stay negative, but as of recently, it moved up, it became positive. And why is it important? Give an idea, when the stock/bond correlation moves from minus 0.5 to plus 0.5, it applies about a 20 percent jump in the risk of your portfolio, which means that the environment of (indiscernible) stock/bond correlation will be need to reduce the equity allocation to keep the same risk profile. Low equity allocation is lower returns. This is one of the key inputs in your portfolio construction for the key inputs into the risk levels.

So what determines this level of stock/bond correlation? And like a simple answer is inflation. So on left-hand side, we show the inflation during the same period. You can see there are three very distinct regimes. So the first regime before the global financial crisis, the four-year 2008, where inflation tends to be around 3 percent.

In the post-GFC environment, inflation will structurally down, not just in the US, globally, just as Steve covered that. You can see that, after global

financial crisis, inflation stayed at around 2 percent. That's about the time in 2012 when the Federal Reserve adopted a formal target, explicit targeting a 2 percent inflation level.

And then finally, the COVID period. After year 2020, you can see inflation move structurally higher, and you can see how these three distinctive regimes translate into the stock/bond correlation. And that's why we think it's to be more of a temporary phenomena, the positive stock/bond correlation. You can clearly see the inflation rolled over, it's turning down, and I would say it's a consensus, and actually just common sense for inflation to continue turning down and to normalize. And that's what we expect the stock/bond relation to revert to the negative level.

But let's take maybe a little bit longer term perspective. Let's step back in time, and can we come to the next page please? Thank you.

And here's a chart from a recent academic paper that shows the stock/bond correlation through the 20th century. So the first thing that kind of sticks out to me on this chart that, before, in the 20th century, the stock/bond correlation was actually positive. It was not unusual for this correlation to stay at 0.5, at the positive 0.5, and average about 0.2.

And if you think about the 20th century, a lot of things happened. The periods of high inflation, low inflation, many wars.

So what's happening here, why is such a change? And the answer is actually turns out, as everything in life, world is much more complicated. The simple answer of inflation doesn't really cut it. The answer is it's the uncertainty of inflation and then certainty about the economical growth that is actually driving the stock/bond correlation.

So what changed in the 21st century is the involvement of central banks, the Federal Reserve domestically, but also everywhere in the world. It's the impact of the central bank that reduce the uncertainty. And that's why I want to go back to our discussion about the capital market assumptions we talk about, about six months ago. One of the themes that Dan put forward is the theme of radical uncertainty, and that's why something we need to watch out for. We stay on top of this information, developments, and if stock/bond correlation were to move structurally higher to positive environment, there several parts in your portfolio that will cushion for it. Most of all the private assets, and clearly, with the incoming asset allocation, more towards a higher allocation to private

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assets. Because of the delayed response, lagging valuations, it provides a natural offset for the positive stock/bond correlation.

The other possible way for I want to highlight are the trend following strategies, and it's something we discussed previously. I think we had long discussions with Rocaton. These transform strategies may also provide a natural catch to this positive stock/bond correlation. Not discussion for today but something we keep in mind and something that we check.

So how does it all come together for your portfolio? Come ahead to the next page, please. Thank you.

So the risks for your -- the total risk for your portfolio, at the end of Q4, stood at 10.9 percent. You can see this number in the lower right-hand corner of the table. Just a reminder, what I mean by this, the 10.9 percent, it just the expected performance over the next four months, forecast from our risk system.

But let's put this number in a context. As I mentioned before, the main driver of this number are markets. So let's start with a very simple portfolio. It's in column one, which we call market portfolio. It's a very simple blend of public assets. It's a 60 percent, I may say ACWI, which is All Country World

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Index, it's the broadest measure of global equities, and 40 percent of Bloomberg Aggregate Index, which is the broadest measure of the domestic fixed income market.

So you can see in Column 1 that the total risk for this simple market portfolio is 10.5 percent. This is markets, it's very hard to scale it. Moving closer to your portfolio is your policy benchmark, Column Number 2. That's why we introduce the asset allocation. That's why we introduce the 11 asset classes. And you can see that the risk of your benchmark is slightly lower than the market portfolio, 10.1 percent, and this is partly because of the diversification that's exactly what you expect from the asset allocation, partly from low volatility assets, such as infrastructure, for example, which is benchmark to the CPI plus 4 percent. And then finally, we can put this novelty, this portfolio in the context, 10.9 is closely aligned with the benchmark and closely aligned with the markets.

So the main takeaway from this novelty is, first of all, your portfolio is consistent with the benchmark, which is what you want to see. And secondly is the returns of your portfolio are given mostly by the markets, and that's, again, not unexpected.

And here, also, want to mention this second measure of risk, active risk. And again, this is just

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the measure of expected future excess returns, which stands at 1.8, percent and we'll talk a lot about it. And that comes from your managers, primarily from private asset. Again, we'll spend a few more minutes on.

Lastly, just to bring your attention to right-hand side of this page, that's where we show the historical trends for your portfolio. Chart Number 1 shows the total risk, which is a (indiscernible) of total returns. And we show the three portfolio we mentioned, the market portfolio, the benchmark, and the portfolio itself. You can see that the relationship between these three portfolios have been consistent over the time. You can see that the relationship is consistent with markets as market fall coming down, the risk of your portfolio trending down as well.

And finally, active risk, a measure of excess returns, Chart Number 2, again, very steady. If anything, is trending down slightly, yet it's a reflection of low volatility in the markets.

So let's just dive into this number to see what these numbers are, just to say the risk of 10.9 percent doesn't give you much information. So can we turn next page, please?

So here, we talk about the composition of your

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total risk and total returns. On the left-hand side, you see your asset allocation. This is still your old asset allocation because we're talking about Q4. Hope not big surprises here, 45 percent public equities, 34 percent allocation public fixed income, the rest (indiscernible), no surprise.

On the right-hand side is what we call risk allocation or the forecast of total returns. So that tells you where your returns are coming from, and it tells you where your risks may be coming from. So the first thing that jumps at me is this blue band, which is public equities, is much wider. So the biggest driver of return for your portfolio, the biggest driver of risk to your portfolio is actually public equities. And I think we, all of us, like BAM is, partly, and us, we probably don't spend enough time talking about public assets, because even though private assets take significantly more effort, they consume a lot of our time, but we also need to focus on public markets. That's where most of your returns are, and that's also, unfortunately, where most of the risks are.

You also notice that the terms that you realize in your portfolio are not consistent with Chart Number 2. The answer to that, it's rebalancing. That's why one of the key activities within BAM, something we

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do religiously, is to rebalance your portfolio back to the benchmark. If you let it run, that's what your asset allocation will look like, Chart Number 2. That's not where you want to be. So rebalancing is a key part of your portfolio process.

And I keep saying that risk and returns are the same thing, which I think they are. So it's also important to connect the forecasted returns for risks to the realized defaults. Can I have next page, please? Thank you.

And that's why we show the forecasted returns, risks, that's a vertical (indiscernible), against the realized returns for the quarter, and that's this triangles that show the outcome. Starting with Chart Number 1, we show the highest level of your portfolio, TRS, obviously, the portfolio overall, and three main asset classes. And you can see that it was actually a very good quarter. If anything, the public asset classes exceeded expectation. Not a bad outcome. You can see Chart Number 2 will show equities. That three main sleeves, three main regional sleeves, the US equity, developed XUS, delivered a performance in excess of expectations. And that's not surprising, it connects very well with the themes in Steve's presentation. It went from the environment where the world was about to

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end, which the recession was a hundred percent certain, went to the environment of soft landing, and now we're talking about soft landing and takeoff. So the world turned out to be better than expected and it shows in the numbers.

It also shows in the numbers for fixed income. So everybody expected the Federal Reserve either keep steady or keep hiking. The result was different. Rates rallied tremendously. The 10-year Treasury rallied from 4.6 to 3.8 percent for the quarter. The spreads, credit spreads essentially collapsed. They went from 400 basis points to 350 basis points. We have Robert here, he'll give more eloquent talk about fixed income, but the result is that the (indiscernible) better than expectation, and it shows in this numbers. All public assets delivered outstanding performance in the excess of expectation. So there is no mystery here and nothing nefarious happening. So let's talk about the second part of your risks. We'll get to the next page. Thank you.

The excess returns or active risk. So these are your managers. It's the skills and how we combine it in the portfolio. So just to remind you, active risk in your portfolio asset 1.8 percent, meaning that you expect about 1.8 percent of excess returns in up or down

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for the next 12 months.

So here we show you the breakdown of this active risk, and probably the first thing that jumps at me here is the blue bands, the alternatives. So most of excess returns come from private equity, which not surprising with benchmark private equity against the Russell 3000. And we expect to get better returns. That's why we invest in private equity.

But probably the most interesting observation here is a fairly low contribution of public assets. I can see that public equity contributes about 10 basis points to the excess returns and attribution of public fixed income is fairly low. And I just want to highlight one of the ongoing projects within BAM. We're trying to understand the sources of excess returns and trying to think is this a better way to build portfolio to get better returns over the long term. And then again, we need to connect these risks with the performance. Turn the next page, please.

And it's important, just an academic exercise, it's not just to see, not just connect, it's actually check on your managers. It's probably one of the best ways to see if your managers do something unusual. And obviously, we're in the Public Session, I'm not going to mention any manager names. And within that, we'll look

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in much more detail, so these numbers, we look at every manager and we dive into these numbers.

But to highlight just few interesting points, starting with Chart Number 1, the highest level, that's the portfolio asset classes, you can see that, first of all, that the performance, the excess returns connects very well with the expectation. So if we expect low active risk, the outcome will be low as well. Fixed income is probably one of the outliers. You see that excess return was, unfortunately, negative and it was lower than the expectation, just dedicated to the asset classes.

Chart Number 3, equity managers, you can see that the equity managers delivered a slightly better outcome, and I wish I could tell you a story. There is no story here. Everything worked out well. It spread across multiple managers, it just worked.

Chart Number 4, fixed income, and that's where there is a broad story, and Robert can probably talk that about it. But broadly speaking, going back to what

I said about people expected more of a doom state alignment, recession was a hundred percent confident, (indiscernible), take off. So your managers were positioned with the consensus. It was not an unexpected positioning. They pulled back on maturity, so it took

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lower durations, we say, they probably position a little bit more defensively. So we didn't expect this fast recovery in the markets.

If you see in particular, high yield minus 86 basis points of excess returns was a little bit disappointing for the quarter. But again, the theme that Steve keep mentioning all the time, we're not one quarter investors, it's all about long-term (indiscernible).

So we talked about the outcomes for the past, but of course it's probably more important to look forward. What's done is done, the performance realized. We also need to think about the future. And the challenge here, of course, the future is unpredictable, and anybody who tells you otherwise is probably not -- not completely honest. But that said, we can make a very educated guess. So we can see how your portfolio is positioned, and the world is unpredictable, multidimensional. So to fit everything into -- fit in a conversation, we split the world into three buckets, and these buckets, obviously, equity, rates, and commodities. So you do not invest in commodities, but you do not escape commodities. Commodities is the bloodstream of the economy. Everything in the world comes from commodities.

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And within each of these bucket, we picked three main dimensions. With equity, it's obviously it will be the S&P US market, the measured markets, and developed XUS. And I'm not going to read you all these numbers, unless there any questions on this. I just want to highlight couple observations here. So if you look at the upper left corner, which is Chart Number 1, is the S&P, so we asked our risk system, bar one, what would be the worst monthly outcome for the next 12 months. And you can see that this project 22.9 percent range of uncertainty, it's a big number.

To give an idea, for example, you can see that, when we put this chart together was a few weeks ago, the S&P was at 4,900. Right now, it's at 5,100. Things move fast and change fast, and obviously we don't know if it will be a good months, bad months, with exact changes up and down.

And finally, track number nine at the bottom right, that's inflation. And again, we're talking about inflation falling, and we'll fully expect it to fall. I really see no reasons otherwise. But we just don't know. Like (indiscernible) just few days ago came forward with the thesis that the Fed needs to hike rates, inflation will accelerate, something we saw in the '80s, I don't think it will come back, but again, I

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don't know. And our risk system projects a fairly broad range of inflation. It can either accelerate to 5.5 percent or may collapse almost to close to deflation environment. So how will your portfolio perform in all these environments? Can we have the next page, please?

So we having the simulation focusing both on the total return and the excess return. So here, you see the same nine market factors. You see the shocks. And the way we calibrate it down, the probably (indiscernible) shocks is equal. It's the same likelihood. It's important because, looking at the response, looking at the stress loss, you can see where the risks of your portfolio are.

Focus on core Column 1, risk column. Clearly the main risk for your are equities, and I hope I don't break any grounds here. Probably what's more important here is that you're more exposed to the US equities. Again, not surprising, given that's one of your largest allocations, but notice how much exposure you have to the emerging markets and European equities. Everything in the world is connected. You cannot escape it. Just because emerging markets is a fairly small allocation, we still carry a fairly significant piece of emerging markets.

In the rates bucket, we talk about the Federal

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Reserve, and clearly is very important, but what your portfolio is most exposed to is the Euro/Dollar exchange rate. When the dollar is declining, your portfolio will benefit.

And finally, in the commodities bucket, it's the copper that drives today. Why copper? Copper is a prophecy for the global GDP growth. Copper goes into anything. Artificial intelligence is impossible without copper. Self driving cars impossible without copper. Power development, anything you touch needs copper. That's why you see it's one of the main factors of going in your portfolio. So higher pricing copper means high returns for your portfolio.

So to bring it all together, you benefit from equities, you benefit from the strength in the Euro/Dollar exchange rate, you benefit from copper prices. Your portfolio is positioned to benefit from the pickup in global growth, which is probably not the worst outcome. That's probably where you want to be.

And finally, the last point to make is probably --

MR. FULVIO: It's just worth clarifying, too, you don't have direct -- you don't have direct exposure to those commodities. It's through the underlying portfolio exposures, companies that you hold, that you

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have --

MR. BERMAN: Exactly. Good point, Mike. And that's, I think, the point of this analysis. You may not take exposure to certain factors. They're still there for you. It's important to be aware of that.

Now this, in my opinion, the next page -- thank you.

So here we show how these exposures changed over the time, and I told you that markets are normalizing, risks -- risks are coming down. You would expect your exposures to decline as well. And it's mostly true. If you look at Chart Number 1 where we take exposure to the equity factors, yes, your exposure is coming down as much as normal is, but look at Chart Number 2, exposure to the 10-year Treasuries. That's a contrarian time series. All of a sudden, exposure 10-year Treasuries picked up. And the answer to that, it's the shape of the curve that drove this.

The content of the curve getting moved but the belly of the curve rallied, and that's why I think the interesting point to me, we don't usually talk about the impact of the shape of the curve. Look at this chart. It can be important, because back to my thesis before, the risks are multidimensional, and I wish I could fit everything in 15 minutes, but I'll be honest with you, I

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don't.

But some people watch in the background. We more than happy talk in more details. As Steve always say, it's open door policy, and we happy to answer any questions now or later. So we'll just stop here.

CHAIRMAN BROWN: Thank you, Ed.

Any questions for Ed?

MR. GIORDANO: I always enjoy -- I learn so much from your presentations.

What about just the simplicity -- this is probably overly simple. But I'm hearing that, in the public markets, 75 percent of executions are done algorithmic at this point, and just by the nature of how the algorithm and the computers do their job, our bears (phonetic) don't last as long, and we kind of rebound back, and maybe we're in the new normal where these old correlations that we are used to aren't necessarily going to be a sticking point because they're going to act independently based on -- based on their algorithmic trading in their portfolio, their own individual type marketplace.

MR. BERMAN: I think you actually right. We're in the new normal, but I would say we're always in new normal. Markets evolve. It's a natural set of being, and people tend to get hung up on the previous

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experiences. Forget about it. The world is changing, and one of the key drivers in the world now are the capital flows from active strategy into passive strategy.

Focusing just on equities, for the past about 15 years, it's almost a steady line when a markets move from active strategies to passive. At the same time, markets move from public into private, something Steve talked about it.

So what kills the void? And there's a lot of concern about the end of capitalism, right? So you can hear about it. There's no active management --

(Crosstalk.)

MR. BERMAN: Yeah. So I think -- look, first of all, I'll be honest with you, nobody knows. There are a lot of academic papers, a lot of them very interesting, there's a lot of opinions. I give you my thinking about it. I think that the algorithm trading and developing thematic ETFs, thematic strategies, to that degree, fill this void. So it used to be active trading, people were trading stock, thinking they'll do better or worse. Now express with the themes, so now you try to express your views by investing in themes, that drives certain sectors, that drives that selection. So the market's changing.

What are the implications for that? It's hard to tell. They always change. That's why we keep talking about it. That's why I have these presentations. And it's important to stay on top of markets. It's important to stay on top of recent trends, and it's much more to discuss.

MR. MEIER: I also wonder, you know, with the increase in correlations that we saw in 2022/2023, if that doesn't have more to do with just a secular decline in interest rates to a point where the zero bound, you really couldn't go much lower, other than negative. And then the recovery. I mean, valuations and bonds have gotten to such a level where they didn't really make sense. You're investing in a 10-year Treasury at what, 87 basis points at one point, Robert? There's really, there's not a lot of upside there. So I think that was a big, probably part of it.

And I do think given the level of indebtedness, the amount of debt issuance, base rates will be higher, and you can look at that and say, well, the cost of capital has gone up, but it also provides more of a balance for your portfolio. Treasury is than 1 percent and 10-year (indiscernible), you know, 4, 420, it's more attractive.

CHAIRMAN BROWN: Thank you, Steve. Thank you,

Ed.

All right. We move on to the Responsible

Property Management Standards presentation.

MS. HIRSH: Sure. John, so I will -- and Monique is on, and I will let her introduce herself in a moment, but I'll start, I'll open it up, and then hand it over to Monique.

So, as many of the Trustees know, about a year-and-a-half ago, we embarked on a project in partnership with For the Long Term, which is a coalition of sorts, I guess, an organization of state treasurers, comptrollers, and other fiscal officers around the country, to see if -- to really try to identify and deal with the reputational and regulatory risks that are associated with our private markets, multifamily and single-family rental equity portfolios, the idea being, the concern being that, you know, as we all know, and this has come up at this board many times, and Trustees have raised concerns many times, that, you know, we are investors in large private real estate asset management firms that have had regulatory issues across the country, around tenant rights and how tenants have been treated, as well as some reputational issues around single-family rentals, in particular, and landlord practices.

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And so what we've done over the last year-and-a-half, and we've had about, I think, three different briefings with Trustees offline over the course of the project, in partnership with John, and John Gluszak is here, the Real Estate team, John Adler, myself, and really led within the Comptroller's Office by Kate Visconti, who we all know is amazing, worked with a consultant that For the Long Term, Monique King-Veihland, who will be presenting this in a moment, worked to develop a set of proposed standards that we could hopefully adopt as part of our investment policy statement, starting -- we're presenting this for the first time at this board. We'll be presenting it at the remaining New York City boards over the course of over the next month or so. And then, hopefully, if we get to agreement and a place where we think this is good and passed and are going to be -- Monique really will be sort of taking this around the country to other asset owners who are investors to see if this could become standard, standard investment asset owner policy. And so that is the genesis of the project, to, you know, try to navigate our potential reputational regulatory risk head on.

And then with that, unless John or John have anything to add, I can hand it over to Monique.

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UNIDENTIFIED SPEAKER: I think it's Monique's show now.

MS. HIRSH: Okay.

MS. KING-VEIHLAND: Good morning. Can we pull the PowerPoint slides back up, please? Thank you, Kate.

Good morning. Thank you, Chair Brown and the Trustees for inviting me to join you here today, or at least virtually join you here today, and for the opportunity to speak.

As Alison mentioned, Monique King-Veihland. I'm a consultant that has been working with the team on this project since last May. I also have had about two decades' worth of experience on the affordable housing, homelessness, community, and economic development side, largely in the public sector, but also in the nonprofit sector, on both the East and West Coast. So it's a pleasure to be here this morning.

Kate, can you go to the next slide?

We are probably facing some of the most challenging housing market dynamics. I've been in the world of affordable housing, homelessness, and housing justice, as I've said, for a little over two decades, and I have never seen a more complex set of converging circumstances. The high cost of housing and increases in homelessness are consistently ranked as top concerns

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in research in communities across the country. And insufficient supply has exacerbated affordable housing and homelessness challenges. Moreover, the rise of institutional scale, single-family rentals has elevated concerns about protecting tenants from abusive practices that increases the rate of housing instability and displacement.

The need to address those dynamics really shaped the initial thinking behind this work. The goals of the project are to enhance the long-term sustainability of the residential rental housing market by improving resident stability and wellbeing and to increase the social impact of rental housing investments.

And in addition to the context that Alison provided and the need to address the dynamics I just mentioned, there's also a strong business case driving this work as well. The work really focuses on improving long-term investment risk and return, maintaining and producing better housing quality at lower cost, aligning with the emerging regulatory environment, and reducing reputational risk.

Next slide, please.

A key outcome for this work was developing a set of standards that were both practical and impactful,

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and to do that, outreach and engagement were critical. Developing consensus among key industry stakeholders on a set of standard tenant protections and supports that could be adopted by diverse industry participants was a key outcome of this work. So we engaged in an extensive stakeholder engagement and outreach process to build the necessary consensus and buy-in, but also to tap into feedback and insights, to better position us to build an investment policy that is, again, as much as possible, both practical and impactful. And this graphic just gives you a snapshot of the various stakeholder groups we engaged and continue to engage with in this effort.

Next slide, please.

A core component of this process was sharing of the initial principles, standard, and best practices, and the disclosures with the asset managers, for feedback. Again, because the goal is the development of standards that really thread that needle of practicality and impact, it was essential to hold space for the asset managers to provide insights and feedback that helped us to further refine the standards. We hoped this approach would also build the collective buy-in that would better position the standards for successful implementation, should they be approved.

The initial groups were engaged, were

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developed in consultation with the real estate team, with a lens towards ensuring a diversity of perspectives. So for example, affordable versus blended portfolios, the number of total assets under management, those who were vertically integrated versus not, et cetera.

As of today, we met with eight asset managers shown here in individual introductory feedback sessions, and we hosted working group sessions for additional feedback and further refinement with a group of representatives from the various firms.

Next slide, please.

These meetings with the asset managers were incredibly fruitful and informative. Following these meetings, we asked for and received additional feedback from the managers in a variety of form, written, follow-up dialogue, et cetera. This slide summarizes some of the key learnings from those sessions. By and large, there was broad support and enthusiasm for the work and great appreciation, I think, for the engagement. I also think it's important to note here as well that we also engaged with the Office of General Counsel on fiduciary duty, and that engagement resulted in further adjustments that are also reflected in what you received and are seeing here today. We learned a

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lot, and we're confident that the insights and the feedbacks heard help shape stronger and more impactful standards that are also better positioned for collective buy-in and implementation.

Next slide, please.

The decision framework for the standards is designed to include specific property management policies and practices. The framework is grounded in research and policy, and as I noted previously, has been developed over the last year-plus in consultation with a variety of stakeholders, including the groups that I shared on the previous slides.

At the top level, there are overarching principles, and within each principle is a set of practices, standard practices, and, in most cases, also best practices. You could think of a standard practice as a common practice or norm commonly used to produce a desired outcome, whereas a best practice is a method or technique that has been generally accepted and proven to be more optimal or designed to produce even more optimal results.

Weaved into the principles and practices are a set of public disclosures. The disclosures are intended to enable tenants to make more informed choices, and investors may also use them to compare opportunities,

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but they would be in addition to any disclosures that might be provided in the normal course of the investor's due diligence.

And finally, the standards, principles, practices, and disclosures are the underpinning of the investment policy statement, and the IPS would detail reporting requirements.

Next slide, please.

There are seven principles, and you can see them here. Implement consistent and fair tenant screening and selection practices; offer clear and fair leases and reduce undue burdens of security deposits; maintain safe, quality, accessible housing; foster positive tenant-landlord relations; honor tenants' rights to free speech and free association; optimize tenant stability; and minimize evictions and other negative exits.

Again, under the principles are 26 standard practices and 22 best practices. And the overarching theme across the principles, standards, best practices, and disclosures is the focus on enhancing tenant protections and reducing housing instability.

Next slide, please.

As noted on the slide, the Bureau of Asset Management is recommending that Teachers' adopt the

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proposed Responsible Property Management Standards policy as part of your investment policy statement for real estate. The form and applicability of the Responsible Property Management Standards policy is modeled after the system's Responsible Contractor policy that has been in place for many years, and if approved, BAM will implement the Responsible Property Management Standards policy on behalf of the boards for all prospective private real estate equity funds as soon as practically feasible.

Next slide, please.

So I have talked a lot, and I'm going to stop there. I want to, again, thank you very much for your time, for your patience, and for your consideration, and with that, I and the BAM team can take any questions that you have.

MS. HIRSH: I believe we have asked StepStone to be on as well because I know John Gluszak has been --

CHAIRMAN BROWN: Yeah, John --

MS. HIRSH: -- if you have questions for StepStone, for Justin.

CHAIRMAN BROWN: Are they gone?

MS. HIRSH: They're not. I don't think (indiscernible) for questions, if any.

CHAIRMAN BROWN: Okay. Any questions? Thank

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you.

MR. KAZANSKY: Well, all right, yeah, let me -- damn it. Oh, I shouldn't say damn it. So --

MS. HIRSH: It's Public Session.

MR. KAZANSKY: Oh, it is Public Session. I apologize. I apologize to everyone out there. We have all the kids watching.

So KKR, Blackstone, folks like that -- like I know like Invitation Homes, for example, was a source of great consternation for us back in the day. So what were their specific, you know, or general kind of feedback on this? What -- you know, were they excited for something like this that allowed them to avoid some of that reputational risk that we are concerned about, or were they concerned that we're restricting their ability to do the things that they want do to get us to the returns?

(Crosstalk.)

MR. ADLER: So we had a lot of discussions with Blackstone, and frankly, you know, the notion of Invitation Homes, and others, single-family rental businesses, was part of the driving force here. They got a lot of reputational black eyes from those instances where they realized that they, you know, did not give tenants the experience that they promised in

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many of those properties.

So their biggest concern was that they didn't want their duty to maximize risk of (indiscernible) returns compromised by adopting these standards. And so what we did, and Monique alluded to this, is we worked with them and with our counsel to craft language in the policy that says, just like Responsible Contractor policy, this has to be consistent with fiduciary duty. So everything they do, they have to put fiduciary duty first and foremost, right, which is to generate the promised risk adjusted returns for the fund that they agree to when we invest with them, right?

So all of this is premised on that, and so they are essentially saying, we agree to this with the understanding that fiduciary duty is first and foremost, so we are going to -- first of all, most of these managers said, oh, we already do most of this already, to be honest, right? There's some of it that they say, well, we'll have to make some adjustments, but they basically have affirmed that they're willing to do this for you, provided that the fiduciary duty construct is part and parcel of it, which, you know, of course it has to be with everything that we do.

MS. HIRSH: Can I just add to that? I would say -- because I would say, and maybe, and Monique and

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Kate can jump in here, John, because they were in all of the conversations with the managers. I would say the conversations with managers were interesting because, on one hand, when we first started this project, Blackstone was like, this sounds great, but our standards are so high, we're worried that other people are going to weaken them and it's going to become a lowest common denominator. This was not a concern that we shared when we entered this process, but that was the concern that they raised.

Some of the -- what was interesting about the back and forth with the managers, there were some instances where, in the original consideration, I can't remember which principle this was, some of the managers were actually like this standard practice is actually too weak, we think, like it's best -- like it's much -- we could actually become much stronger in, I think it was leases or something, I can't remember which one, but some of them, the managers actually strengthened over the course of the conversations.

And then -- and I would say, to just add to what John said, I think the key, when we were discussing, like the -- obviously, fiduciary duty has to come first and foremost, and so -- but they're like, and so if Blackstone or Waterton or any of the managers say,

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you know what, because we think it's -- we -- one of the practices is no for existing tenants, you know, a rent increase should not be more than CPI plus 5 percent, right? Obviously, rent increases, you increase rent, that's a big way to get returns.

The majority of the managers, actually all of them agreed that, like, that is actually consistent with their general practice. They don't increase rent on existing tenants by more than that. However, if there is a situation in a specific market where they think it is incumbent upon them, as fiduciaries, to raise rents higher than that, then all we're asking for them to do is tell us, so that we have awareness that this is -- that this is what needs to happen. And that's, I think, important as trustees because, from a reputational perspective, right, we have to be able to understand why that -- like it's good for us to know like, oh yes, you have to raise rents more than that because of X, Y, Z. This is within the fiduciary construct.

So it was actually very -- they were, like, really thoughtful discussions with these managers.

MR. GLUSZAK: Yeah, I mean, part of the reason that we selected those managers, as Monique alluded to, they have different strategies and they have different volume, if you will, of these trades. So for the most

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part, they were all in agreement that, yeah, this is -- this is pretty good, we can work with this. It's not something that works in all situations, as Alison alluded to, I think. If, oddly enough, related to (indiscernible) here later, which is kind of ironic, but, you know, if there's like real opportunistic where you're buying something that's just junk and you're converting it and you're moving rent, that CI plus five isn't going to make sense, but giving people clear leases, letting them know how they're going to be treated, letting them know that they have the same person there month to month to talk to about issues in the apartments, you know, physical or whatever, that -- that was all, you know, important to them.

So I was actually, I wouldn't say pretty surprised, but quite pleased that we got that kind of feedback because, especially some of the larger ones, I didn't think we were going to make as much headwinds as we have.

The other thing I could add is John and I, the Pension Real Estate Association has conferences in the spring and in the fall. So in the fall, John and I brought this idea before the investors on the investor council, so we kind of planted the seed there. And then March 20th, Monique and I will be at the spring meeting,

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and PREA has -- they've been a real supporter as well, the association. PREA has set up a breakfast for us where we're going to be rolling this out to both LPs and GPs in between pop-ups, so.

MR. ADLER: So the idea is that, ideally, the New York City funds adopt this first, but then we roll it out across both limited partners, pension funds, and the GPs adopt it as well, so it becomes the industry standard.

MR. KAZANSKY: Right. That was actually the follow-up question I was going to ask because you had said they're more than willing to do this for us, so I just wanted to make sure that the expectation, down the road, is, is that, if this is adopted, that, you know, this becomes the standard going forward.

MR. ADLER: Exactly.

MR. KAZANSKY: I have one other question and then I'll sit on this. Is there anything in, and I don't recall, I know I looked through the memo, but I don't recall specifically anything about AI used as a tool for determining tenant interviews or application processes.

Is there anything that is in the policy that kind of at least questions the use of AI as a determining factor, you know, for approving

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applications?

MR. ADLER: Monique, do you want to address that? Because I think, isn't there something about bias?

MS. KING-VEIHLAND: Yes. There's actually one of the standards, and I actually don't have it up right in front of me right now, but speaks to the idea of AI being utilized for tenant screening practices, which is something that is happening a lot right now in the industry, and making sure that, if you're utilizing AI as part of your tenant screening practices, you are also utilizing bias mitigation techniques and that the AI has been screened through a bias mitigation technique process, if you're going to be using it as one of the best practices.

And Kate, it looked like you came off mute like you were going to add to that.

MS. VISCONTI: No, Monique characterized it perfectly, but I'll just read it out for folks in the room. So it's to prohibit use of proprietary screening algorithms that do not routinely utilize algorithmic bias detection to test for discriminatory bias, and as necessary, employment mitigation practices. So yes, that is very much in there as best practice.

MR. KAZANSKY: Excellent. Thank you both.

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CHAIRMAN BROWN: Justin, do you have any opinion about how possibly this would affect our portfolio in a negative way?

MR. THIBAULT: No, I mean, not in a negative way. I mean, I guess the big thing that we were focused on in kind of feedback is whether or not it would limit any, really the investable universe. And I think our overall view is we're supportive of the standards. You know, we think it should raise the bar for overall rental housing managers, and including, as well, the additional benefit is any additional insight into where their current practices could improve by looking at kind of those best practices as well. So that should help, you know, raise the bar for the industry.

And then, you know, lastly, I think the adoption of the standard should not hinder the investment opportunity, you know, given the fact that the policy has been shaped and structured by various, you know, institutional constituents as mentioned, you know, including BAM, us, you know, external consultants, residential managers, you know, all that. The fact that they've had the feedback, you know, that we've all helped shape, I don't think it should limit the investable universe either.

CHAIRMAN BROWN: Thank you, Justin.

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If one fund doesn't approve this, would it still go on the road show?

MS. HIRSH: Yes.

CHAIRMAN BROWN: Great. I think we just need some more time to review the memo and look into it, and --

MS. HIRSH: Yeah, no, this is not something that we expect we're moving on today, necessarily, but wanted to have the initial conversation, and you know, we'll continue dialogue.

CHAIRMAN BROWN: Great, thank you. Appreciate it.

MS. KING-VEIHLAND: Thank you.

CHAIRMAN BROWN: Thank you, thank you.

MR. ADLER: Thanks, everyone.

CHAIRMAN BROWN: I think that wraps up the Public agenda. Is there a motion to go into Executive Session?

MR. KAZANSKY: So moved.

CHAIRMAN BROWN: And is there a second?

MS. HIRSH: Second.

CHAIRMAN BROWN: Okay. All those in favor? Any questions, comments? All those in favor of going into Executive Session, please say aye.

(Ayes were heard.)

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CHAIRMAN BROWN: Those opposed, please say nay? Any abstain? Abstentions? Great. We are in Executive Session.

(Exit Public Session; enter Executive Session.)

(Exit Executive Session; enter Public Session.)

CHAIRMAN BROWN: Thank you. We're back in Public Session. Hello, everybody.

At this time, we will have a readout from our own Ron Swingle. Thank you. Thank you, Ron.

MR. SWINGLE: In Executive Session of the Passport Funds, there were two manager updates.

In Executive Session of the Pension Funds, there was an update on preliminary performance data.

There was a private equity presentation. Consensus was reached.

We received a presentation and an update on an investment policy issue.

There was a presentation on an annual plan.

Consensus was reached.

There were two alternative credit presentations. Consensus was reached on both.

And there were two real estate presentations, in which consensus was reached on both.

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CHAIRMAN BROWN: Great. Thank you.

Anything else in Public Session? Great. Do we hear a motion to adjourn this meeting?

MR. KAZANSKY: So moved.

CHAIRMAN BROWN: Thank you, David. Do I hear a second?

MS. LEE: Second.

CHAIRMAN BROWN: Thank you, Victoria.

All those in -- wait. Any discussion? All those in favor of adjourning, please say aye.

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? Any abstentions. Let the record show we are adjourned. Thank you, everybody.

(The proceedings concluded at 3:45 p.m.)

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