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 1   Proceedings
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 4   NEW YORK CITY TEACHERS' RETIREMENT SYSTEM
 5   INVESTMENT MEETING
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 8   Held on Thursday, May 3, 2018, at 55 Water Street,
 9   New York, New York
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11   ATTENDEES:
12   JOHN ADLER, Chairman, Trustee
13   THOMAS BROWN, Trustee
14   DEBRA PENNY, Trustee
15   ANTONIO RODRIGUEZ, Mayor's Office
16   SUSANNAH VICKERS, Trustee, Comptroller's Office
17   DAVID KAZANSKY, Trustee
18   RAYMOND ORLANDO, Trustee
19   PATRICIA REILLY, Teachers' Retirement System
20   MELVYN AARONSON, Teachers' Retirement System
21   JOHN DORSA, Comptroller's Office
22   MICHAEL HADDAD, Comptroller's Office
23
     REPORTED BY:
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 2   ATTENDEES (Continued):
 3   SUSAN STANG, Teachers' Retirement System
 4   RON SWINGLE, Teachers' Retirement System
 5   MICHAEL FULVIO, Rocaton
 6   MATT MALERI, Rocaton
 7   ROBIN PELLISH, Rocaton
 8   THAD McTIGUE, Teachers' Retirement System
 9   VALERIE BUDZIK, Teachers' Retirement System
10   LIZ SANCHEZ, Teachers' Retirement System
11   SHERRY CHAN, Office of the Actuary
12   DAVID LEVINE, Groom Law Group
13   SANFORD RICH
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2 MR. ADLER: Good morning. Welcome to
3 the Teachers' Retirement System of the City of
4 New York Investment Meeting for May 3, 2018.
5 Thad, will you place call the roll?
6 MR. McTIGUE: Thank you, Mr. Adler.
7 John Adler?
8 MR. ADLER: I am here.
9 MR. McTIGUE: Pleasure to see you.
10 MR. ADLER: Thank you. The pleasure is
11 mine.
12 MR. McTIGUE: Thomas Brown?
13 MR. BROWN: I am here as well.
14 MR. McTIGUE: David Kazansky?
15 MR. KAZANSKY: Present.
16 MR. McTIGUE: Debra Penny?
17 MS. PENNY: Here.
18 MR. McTIGUE: Raymond Orlando?
19 MR. ORLANDO: Here in my new seat.
20 MR. McTIGUE: We hope you are
21 comfortable.
22 MR. ORLANDO: I truly am. Love it.
23 Never leave it.
24 MR. McTIGUE: And Ms. Susannah Vickers?
25 MS. VICKERS: Here.
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2 MR. McTIGUE: We have a quorum, sir.
3 MR. ADLER: Thank you so much.
4 And with that, I will turn it over to
5 our friends at Rocaton to take us through the
6 public agenda.
7 MR. FULVIO: Good morning, everyone. I
8 would just like to start by quickly
9 apologizing for the delay in getting out some
10 handouts in advance and we will strive to do
11 that more quickly and more well in advance
12 than yesterday, but some of the materials were
13 delayed for a variety of reasons. But, in any
14 event, let me know if there is anything that
15 could be helpful on that.
16 We will start off with the performance
17 for the Passport Funds through the month of
18 March. The Diversified Equity Fund with about
19 $15.3 billion at the end of March was down
20 about 1.8 percent and really what drove
21 performance for that month was negative return
22 by about 2 percent for U.S. equity markets.
23 Abroad there was also some weakness in equity
24 markets with developed non-U.S. markets down
25 about 1.8 percent during the month and the
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2 custom proxy for emerging markets that we use
3 here was down about 1.1 percent. So you can
4 see that really drove the negative absolute
5 returns on. On the bright side, the defensive
6 composite did protect somewhat by posting a
7 less negative return to the tune of about
8 negative 60 basis points. So, you know, not
9 capturing all that downside. Year to date,
10 the Diversified Equity Fund has a return of
11 about negative 75 basis points, roughly in
12 line with both benchmarks that we use for
13 that. And the other composites are all
14 roughly in line with their respective proxies
15 as well.
16 The Balanced Fund at the end of March
17 was about $380 million. That fund had a
18 modest negative return of about 30 basis
19 points during the month that brought the
20 calendar year-to-date return to negative 60
21 basis points, not far from the Diversified
22 Equity Fund.
23 The International Equity Fund assets
24 were about $150 million at the end of the
25 month. That fund was down about 1.7 percent,

2 roughly in line with its benchmark, and year
3 to date that fund is down about 1-1/4 percent.
4 The Inflation Protection Fund with
5 assets of about $60 million, that added about
6 80 basis points return in during the month.
7 That brought the year-to-date return negative
8 73 basis points. And so far year to date,
9 what's been a little bit of a drag on the
10 performance there has been performance of
11 REITS and TIPS. And a lot of that has been
12 offset by the stronger performance we have
13 seen in commodities year to date.
14 On the Socially Responsible Equity Fund,
15 that fund had about $190 million in assets.
16 At the end of the quarter, return there was
17 negative 1.7 percent for the month as well
18 ahead of the S&P 500 Index which was the
19 benchmark for that strategy.
20 Year to date overall fund option is up
21 about 60 basis points, which is about 140
22 basis points ahead of the S&P.
23 So I will pause there and see if there
24 are any questions.
25 MR. ORLANDO: I have a question.

2 MR. ADLER: Mr. Orlando.
3 MR. ORLANDO: So I am looking at the

4 Diversified Equity Fund returns and they just
5 appear to be lagging by 80 to 100 basis points
6 over all periods. And that sort of -- this is
7 the first time I noticed that. I guess maybe
8 it's my new prescription on my eyeglasses, but
9 I am just wondering if there is any light you
10 can shed on that, because that seems not
11 significant but also not insignificant to me.
12 MS. PELLISH: Yes. So there are a
13 couple of sources. The primary source for
14 that is really the actively-managed U.S.
15 equity composite. And, if you recall, we
16 recalibrated our approach to that composite.
17 We reduced it in the recent past and we also
18 developed a perspective that we don't
19 necessarily have to fully implement that
20 target and that we will do so where we find
21 particularly compelling ideas. So that is
22 something that we have observed for quite some
23 time now, and particularly in the U.S. equity
24 markets it's been a very difficult market for
25 active managers to add value.

2 MR. ORLANDO: Not to ask you to take out
3 your crystal ball, but do you think over the
4 next year or three years the decision to not
5 maximize active management in the U.S. is
6 going to result in seeing -- is the ship going
7 to turn?
8 MS. PELLISH: Well, we have been waiting
9 for it to turn for a long time, so potentially
10 and actually if you look -- if you look at
11 very recent -- well, I can't say that. There
12 has been a gradual improvement in terms of
13 many -- if you look at just peer groups, the
14 median active U.S. equity manager relative to
15 benchmarks has been an improvement in relative
16 return. And what has been difficult for --
17 active managers really only can add value if
18 there is disparities in, you know, what they
19 call cross-sectional volatility. So stocks
20 behave very differently within the universe.
21 When you have a market where everything is
22 going up, it's difficult to add value by doing
23 research and distinguishing among securities.
24 So to the extent that volatility stays
25 at close to historical levels and there is

2 greater disparity among performance with
3 recognition of different stock valuations,
4 that's where active equity managers should add
5 value. So I do think there is potential for

6 active U.S. equity managers to add value going
7 forward and I think they should start doing
8 that very soon.
9 MR. ORLANDO: Given how long the current
10 growth period is and the forecast of rising
11 rates, can you opine on the likelihood that
12 there will be more volatility and therefore
13 some hope in this sort of ship turning?
14 MS. PELLISH: Yes, I think you have seen
15 an increase in volatility and we have long
16 thought that particularly once -- and Mike
17 will talk about this in his part of the agenda
18 -- with QE abating and what some terms of
19 artificial support for risk assets abating
20 that volatility should continue at closer than
21 historical levels.
22 So I do think there are reasons to think
23 that there will opportunities for managers to
24 add value by distinguishing among securities
25 within the U.S. equity market. I do think
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2 that is possible and that's largely the reason
3 why we have retained any active U.S. equity
4 management within this portfolio.
5 MR. ORLANDO: Thanks.
6 MR. ADLER: Other questions for Mike on
7 the -- are you done with your presentation?
8 MR. FULVIO: I was going to comment
9 briefly on April.
10 MR. ADLER: Oh, April. I meant on the
11 March. Any other questions on March for the
12 quarter?
13 Okay. Go for April, please.
14 MR. FULVIO: Great.
15 Well, U.S. equity markets in April were
16 modestly positive, just shy of about half of a
17 percent. The broad international composite
18 benchmark that we use for Variable C and
19 within the Diversified Equity Fund, that was
20 up about 2 percent with particular strength
21 from developed markets and developed small
22 cap, excluding U.S. emerging market had a
23 modest positive return to the tune of about a
24 quarter percent. The defensive was roughly
25 flat and all told we expected the Diversified
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2 Equity Fund, given its benchmark performance,
3 was up about 70 basis points during the month.
4 So calendar year to date, the fund should be
5 roughly flat in terms of absolute return.
6 The Balanced Fund during the month would
7 have been down about 30 basis points -- I'm

8   sorry, would have been flat also during the
9   month. There was obviously pullback within
10 short-duration fixed income markets given the
11 rising yields, but also the incremental
12 performance from global equity markets would
13 have served that fund well. Year to date that
14 fund was down by about half a percent.
15   I commented on international equity
16 markets during the month. The underlying
17 strategy for the Inflation Protection Fund
18 should have been about 80 basis points during
19 the month, bringing the year-to-date return
20 there to also about zero flat for the calendar
21 year-to-date period.
22   And the underlying strategy for the
23 Socially Responsive Equity Fund added about a
24 quarter of a percent, bringing the year to
25 date positive to the tune of roughly 70 basis

2   points.
3   MR. ADLER: Questions for Mike on April?
4   Okay. We will go on.
5   MS. PELLISH: You want to go on to the
6   next agenda item?
7   MR. ADLER: I think so, yes.
8   MS. PELLISH: Mike Haddad is here to
9   provide a further insight into some of the
10 topics that were addressed at the most recent
11 CIM. And he is really going to talk in detail
12 about the most significant aspects of the
13 asset allocation strategy within the Teachers'
14 Pension Fund going forward.
15   So Mike.
16   MR. HADDAD: So there are two handouts
17 coming your way, one titled "Asset Allocation
18 Review" and other entitled "Asset Allocation
19 Review Global Macro Update." The asset
20 allocation review are the slides you saw from
21 Scott on your portfolio as of 3/31. Same
22 slides we took off the other four systems and
23 it's just your system on there. So let's set
24 that aside to start. We will refer to that
25 later and dig into the global macro update

2   because that is, you know, what you heard me
3   rant about for a year now.
4   MR. ADLER: We don't have it down here
5   yet.
6   MR. HADDAD: The one thing I would say,
7   as you know, I have too many slides. I just
8   couldn't cut them out, so please stop me along
9   the way. Let's make this a dialogue rather

10   than a presentation. I think that would
11   better serve the purpose of what we are trying
12   to get to.
13   So on the first page, on page 2, on the
14   global macro review I tried to highlight how
15   unique the environment is that we are in right
16   now. I think interest rates are historically
17   low. Equity markets are historically rich.
18   And credit markets, which if we get to, I am
19   going to try to scare you at the end about
20   potential implications there.
21   And then within the rising rate
22   environment, the real funds rate is still
23   negative. And the real funds rate, reminder,
24   is the funds rate minus inflation. It's very
25   unusual to have a negative funds rate. It
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 2   usually has to get to plus 2 or something in a
 3   normal state and then even higher to slow down
 4   the economy. And despite 150 basis points of
 5   rate, it's still negative. That shows you how
 6   low we started with. Long-duration term
 7   premium which is a geeky bond thing, I have
 8   got a chart on that, that's negative.
 9   Large fiscal stimulus that we talked
10   about a little bit at the last CIM, it's
11   coming and it's coming at a point in the cycle
12   when the economy is running hot and the Fed is
13   engaged in I am now calling it quantitative
14   tightening. They are actually going from
15   easing to tightening and then -- this is all
16   theoretical and opinion, blah, blah, blah.
17   Let's get down to the concerns about
18   your portfolio and that is the impact of the
19   rising interest rates on the fixed income
20   portfolio. Could that impact of rising rates
21   be on the equity portfolio while it's
22   historically rich, and then let's talk about
23   the duration extension program that's in
24   place, and then again my scare thing at the
25   end about the credit markets if we get to
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 2   that.
 3   So I want to go back over page 3, this
 4   equity market slide, because this one to me
 5   highlights the richness of the equity market.
 6   And this is independent of what we think about
 7   the bond market. We went through this before,
 8   but again this is a valuation that was put
 9   together by Goldman Sachs Asset Management.
10   This isn't our genius thing. Five different
11   inputs into the model. The model goes back

12   over 70 years and the inputs are pretty
13   classical different types of valuation
14   techniques. One uses on the broad equity
15   market. I don't know how they are weighted,
16   but that's what the model spits out.
17   The graph shows you ten different
18   deciles, divides the time period -- the
19   valuations into ten different deciles with the
20   right side being the most expensive and the
21   left side being the least expensive. And then
22   what the blue bar shows is what the return has
23   been over a five-year horizon post each of
24   these decile valuation periods. And we are in
25   the tenth decile on valuations and

 2   historically -- history is only history, it
 3   doesn't necessarily predict forward -- returns
 4   have been terrible, .3 percent on average
 5   annualized. And the red dots shows you the
 6   number of observations within a given year
 7   when the equity market has been positive and
 8   you can see that red dot is somewhere around
 9   35 percent when we are in this valuation
10   period.
11   And the other takeaway from this is
12   outside of the far left or the far right,
13   returns are within norms, within expectations,
14   and not really something I think that would
15   consider us to rethink about the equity
16   portfolio. But we are on that right decile
17   and that's a big source of concern.
18   So let me pause there because this one
19   is a key part of the view.
20   MR. KAZANSKY: So where were we two
21   years ago if we were to look at this right?
22   Because two years ago when we did our assets
23   allocation study and we thought the bottom was
24   going to drop out of the market any day and it
25   didn't, where would we be on this chart?

 2   MR. HADDAD: I don't know the exact
 3   answer. I am going to guess 8 or 9.
 4   MS. PELLISH: So I don't know the exact
 5   answer either, but I think what you are
 6   pointing out is that this is not a new
 7   concern; this is not a new risk.
 8   MR. KAZANSKY: Yes.
 9   MS. PELLISH: And just as rising rates
10   aren't a new risk, right, we have been talking
11   about both of these things for a couple of
12   years now. At some point, we will be right.
13   I don't say that flippantly. I say that no

14   one who talks about these risks pretends they
15   can be precise as to timing.
16   MR. KAZANSKY: Right.
17   MR. HADDAD: And that gets into the
18   unprecedented. We never had quantitative ease
19   before, thus we never had quantitative
20   tightening before. Never seen it, so this
21   history has none of that. It has the easing
22   in it; it doesn't have the quantitative
23   tightening. We have had many Fed tightening
24   cycles, so that's incorporated in that. We
25   never had the removal of the quantitative
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2   easement before.
3   Any other questions before I try and get
4   through this?
5   Page 4, same chart. This speaks to
6   valuations between the three main sleeves we
7   have in your equity portfolio; U.S., EAFE and
8   EM. And the takeaway is U.S. is well above
9   its three-year average, EAFE is right on it,
10   and EM is below. So if we just allocate on
11   valuations alone and ignored the antiquated
12   basket clause, we want to shift into the other
13   markets but we are constrained because of the
14   basket clause.
15   So this slide I haven't shown you before
16   on 5 and this gets to my point that I am going
17   to try to get to here is how long rates are
18   historically low. So the white line is
19   nominal GDP. Nominal GDP, as a reminder, is
20   real GDP plus inflation. And the red line is
21   the ten-year yield. And one of these old
22   rules of thumbs is that ten-year yields should
23   approximately equal the nominal GDP. If you
24   look at this chart going back in time, it's
25   been above it and it's been below it, but it's
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2   kind of in that neighborhood. I encourage you
3   to ignore the downwards factor of the global
4   financial crisis. You know, it was a collapse
5   in GDP that came back. So if you smooth that
6   out, you will see that the lines are somewhat
7   similar. And post the financial crisis when
8   QE started, we had the ten-year note
9   significantly below nominal GDP and
10   quantitative easement stopped. It's being
11   reversed. It's being reversed at an
12   accelerated pace and you can see the gap
13   between the year and the ten-year note and
14   where the nominal GDP is. So that speaks to a
15   historical basis that the ten-year note is

16   very low in yield compared to where it has
17   been in the past.
18   The next slide on 6, this is one of the
19   geeky bond things. This is called U.S.
20   treasury term premium. And what term premium
21   means is the additional yield you get for
22   buying long-duration fixed income securities
23   as compared to buying a short-term duration
24   security and rolling that over for the same
25   period of time. So more specifically, this is
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2   the yield on the ten-year note as compared to
3   the yield on the three-month bill and rolling
4   that three-month bill 40 different times. So
5   said differently it's how much compensation
6   you are getting for the longer duration of
7   holding securities. And the takeaway, you can
8   see it's historically extraordinarily low.
9   There is also arguments as to why it should be
10   low and why it's not going to back to where it
11   is, but even if it goes to something like plus
12   1 percent it's going to be very different.
13   And then the orange line is the S&P. So one
14   of the takeaways from this is you can see in
15   the period in the early 2000s when you get
16   rising term premium, that's usually rising
17   rates and what happens to the equity market
18   during that time. And the other takeaway is
19   when we have collapsing term premium, you can
20   see the ramp-up in the equity market.
21   MR. ADLER: So this is like -- I mean, I
22   don't know what, you know, the metric, but
23   this is like crazy. I mean, you look at this,
24   talking unprecedented.
25   MR. HADDAD: I wasn't going to show the
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2   S&P because of that gap now and I wouldn't
3   focus on that. What I really want is the
4   takeaway on the term premium and how you are
5   not --
6   MR. ADLER: That's unprecedented.
7   MR. HADDAD: We are not getting
8   compensated, yes.
9   MR. ADLER: Except for like 1960.
10   MR. ORLANDO: But that's a flat yield
11   curve, right? I mean --
12   MR. HADDAD: Yes, it is partially flat
13   yield curve. It's also the total, the
14   absolute level as well. It's both of those
15   things.
16   MS. VICKERS: Okay. So the fact that
17   it's so low and we are not getting

18   compensated, we are taking a lot of money out
19   for a long period of time, what's the next
20   after that? Okay, so --
21   MR. HADDAD: This is going to be an
22   argument that yields are very low and unlikely
23   to go lower, probably higher. And it's also
24   going to tie into -- one of the questions
25   about TRS portfolio is what to do with the

 2   duration extension plan during this period
 3   where we are concerned about rising rates.
 4   And then I will tie that into correlations
 5   between the equity market and the bond market
 6   in a second.
 7   And then Slide 7, this is a shorter-term
 8   slide. This only goes from I guess May of
 9   last year to yesterday. And what I want to
10   highlight is what happened on February 2nd.
11   MR. ADLER: What happened on February --
12   MR. HADDAD: February 2nd.
13   MR. ORLANDO: The groundhog saw its
14   shadow.
15   MR. HADDAD: So as a reminder, we got
16   the tax plan in December. We had all sorts of
17   noise about it, so we had a period of time
18   leading up to February where the equity market
19   had an unprecedented January, rising yields
20   both going the same direction and the rising
21   yields were not bothering the equity market.
22   On February 2nd, in addition to the
23   Groundhog Day, we had the employment number.
24   And what was rattling to the markets about the
25   employment number were upward revisions to

 2   average hourly earnings as well as a very high
 3   average hourly earnings for that particular
 4   month. So the year-over-year number went from
 5   something, if memory serves, 23 to 29. And
 6   that did two things: It caused inflationary
 7   concerns that were beginning of the bond
 8   market to translate to the equity market and
 9   that's negative for equities, so that means
10   it's got to raise rates more than we otherwise
11   thought. And the second concern is if there
12   is rising wage inflation, that's going to eat
13   into profit margins. So it's a combination of
14   the two things.
15   And you can just see from the visual
16   here the break-in correlations. So we have
17   had yields going up, equities going up, and on
18   February 2nd yields continued higher at slower
19   pace and the equity market that began its 10

20   percent correction. And then -- oh, I'm
21   sorry. The blue line is the S&P and the white
22   line is the ten-year, the yield on the
23   ten-year and then just in terms of measurement
24   things. So if you measure from Q4 to
25   yesterday, the ten-year was up 62 basis points

 2   and equities were up 4.2. So positive
 3   correlation both moving the right way. If you
 4   measure from February 1st, do a three-month
 5   measurement, ten-year is up 18 basis points
 6   and the equity market minus 6.6 percent. So
 7   it kinds of depends where you measure these
 8   things on what the correlation looks like and,
 9   you know, which market moves in front of the
10   other, you know, because the equity and the
11   bond market are not always focused on the same
12   thing.
13   MS. VICKERS: Question. And I think
14   this shows you and I had conversations that
15   illuminates my misunderstanding of basic bond
16   math.
17   MR. HADDAD: Price and yield are
18   inversely related.
19   MS. VICKERS: That might be the answer,
20   but on page 6 the S&P which is orange and
21   which is going in one direction and the
22   treasury premium which I assume is similar to
23   the white line on 7, they are going on
24   opposite directions but on 7 they are going
25   the same.

 2   MR. HADDAD: This is a sixty-year chart
 3   and the other one is the seven-month chart, so
 4   it's a span. That will wiggle up; that's that
 5   wiggle.
 6   MR. ADLER: And you see the wiggle down.
 7   MS. PELLISH: So can I interject one
 8   thing. I just want to highlight the point
 9   Mike made because that is central to the
10   thesis about taking sort of a -- pausing the
11   long-duration investment plan.
12   If you believe that U.S. equities have a
13   risk of declining, if you believe that U.S.
14   interest rates are poised to rise, then what
15   you are really concerned about is the
16   correlation between those two phenomena. And
17   the arguments underlying, the primary
18   arguments underlying, the allocation to
19   long-duration bonds in your long-term asset
20   allocation strategy was that in periods of
21   equity market crisis, long bonds often act as

22 a very effective hedge against U.S. --
23 against equity market declines. And because
24 they -- and you can get protection against --
25 you can buy hedges in other formats, but the
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2 benefit of long Treasuries is that they
3 actually pay you while you are holding them.
4 And so the point that Mike just made
5 about correlations trending positive between
6 long bonds and equity markets mean that in a
7 scenario in going forward, there is a risk
8 that long bonds won't be an effective hedge
9 and, in fact, may -- may exacerbate the losses
10 that you realize in the U.S. equity market.
11 That is a really important point.
12 MR. HADDAD: Just to add on to what
13 Robin said, and in periods of equity stress we
14 have to decompose what's causing the equity
15 stress. If it's, you know, a global financial
16 crisis like what we experienced, and the
17 negative correlations existed was a fabulous
18 piece of protection. If it's a period of
19 rising inflation, then it kind of depends
20 where we are in the cycle. And I will show
21 you a graph on that.
22 If it's -- let's do some hypotheticals
23 going forward. You know, if war breaks out in
24 the Koreas, I am going to guess that the long
25 end is going to go down in yield. The
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2 negative correlation is going to come back.
3 MR. PELLISH: So long bonds will, in
4 that case, be a good hedge.
5 MR. HADDAD: Yes. But where it's not a
6 good hedge is in periods where the economy is
7 running at full steam and the Fed is raising
8 rates to slow down the economy, but they both
9 go down.
10 So that gets to page 8. This is --
11 MR. ORLANDO: I have a question.
12 MR. HADDAD: Yes.
13 MR. ORLANDO: My question is about wage
14 growth, which you noted was part of the
15 Groundhog Day incident. Is there some
16 expectation that wage growths will continue or
17 was it a one-off surprise I suppose, while I
18 keep asking crystal ball questions?
19 MR. HADDAD: The expectation.
20 MR. ORLANDO: I guess I am more likely
21 to believe wage growth in a different
22 political environment than the current one as
23 a long-term story even in an inflation

24   environment.
25   MR. HADDAD: You get to go back to geeky
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 2   economics, the slopes of the Phillips curve.
 3   As a reminder from your economic textbooks,
 4   the Phillips curve is the relationship between
 5   the unemployment rates and the wage growth.
 6   What we experienced up to now is a very flat
 7   slope of that line. So we have falling
 8   unemployment and relatively stable wage
 9   growth. It's up a little bit, but a little
10   bit. And it's -- the debate raging within the
11   Fed and the market participants is what is the
12   slope of the wage curve. And the economist
13   Fed staff would solidly argue it's an upwards
14   sloping relationship and it will exert itself.
15   The unemployment rate is 4.1, it's as
16   low as it's ever been just about. It's
17   projected to go lower. There is also
18   different unemployment rates. U3 is the most
19   commonly used. U6 is a broader one, which
20   incorporates people working part time for
21   economic reasons. People who are -- I forget
22   the different categories, but one that's not
23   in there is people not seeking work. That
24   rate, if memory serves, is mid 8s. But that's
25   back below pre-crisis levels so it's higher
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 2   than U3, but still indicates a labor force
 3   being tight.
 4   MR. ORLANDO: Aren't there fewer people
 5   in the labor force? Isn't one of the defining
 6   situations today is that the unemployment rate
 7   is not reflective of the fact that no one is
 8   actually working anymore?
 9   MR. ADLER: That was the point he made
10   about people not seeking work.
11   MR. HADDAD: The employment
12   participation rate is down.
13   MR. ORLANDO: There is the seeking and
14   also not seeking.
15   MR. HADDAD: The labor participation
16   rate is very low, so that's the number of
17   working adults in that. And that's fallen
18   from mid-60s to around 60. And a big cohort
19   of that is men like 40 to 60 or something and
20   it speaks to the opioid crisis.
21   MR. ORLANDO: I might suggest it speaks
22   to the Julius Wilson idea that when work
23   disappears, dysfunction shows up in
24   populations of any sort of comprehensive
25   nature.

2 MR. HADDAD: But you see that big
3 up-trend and if you decompose the labor
4 participation rate, the place that looks
5 really out of whack is that age component.
6 But back to your question: I think the
7 expectation is wages will rise with the
8 unemployments rate this low and the economy
9 still running reasonably strong and the
10 unprecedented fiscal stimulus that they get
11 with the economy running above trend.
12 MR. ORLANDO: Thank you. I now see the
13 argument a little clearer. Not sure I buy the
14 argument, but I see it a little clearer.
15 MR. HADDAD: So page 8 ties into what
16 Robin laid out. So I am going to do my best
17 to explain this one so, please, I know I am
18 not going to get it right.
19 The red line is the 40-week rolling
20 correlation between returns on the equity
21 market and the returns on the ten-year. The
22 scale on the right is the scale for the --
23 that rolling correlation and you can see zero
24 is about midway through. So when the number
25 is above that, the red line, it's a positive

2 correlation. When it's below, that negative
3 correlation. The blue line is the
4 unemployment rate and this is an attempt to
5 signal, you know, where the economy is; are we
6 late cycle, are we early cycle, are we at full
7 employment.
8 And what this chart suggests in the two
9 areas where the circles are is when the
10 unemployment rates is somewhere, you know, in
11 a declining trend and near below 5 approaching
12 4, we get shifts in correlations between the
13 returns from the two major asset classes from
14 negative correlation back to positive
15 correlation. And that happened, you know,
16 around the 2000s and that was with the labor
17 market very hot. The Fed had paused in
18 raising rates because of Y2K concerns and the
19 economy overheated and they had to raise
20 rates. At the same time we had the equity
21 market, the NASDAQ crash, all those other kind
22 of stuff. And the other time was in the '04
23 rate cycle and again you can see the
24 correlation shifted positive.
25 So brings us today where we are at the

2 far right-hand side of this chart and you can
3 see we know the decline in unemployment rate
4 has gone from 10 to 4 and correlations are
5 still running negative on a 40-week rolling
6 basis. And what I showed you from February
7 2nd has been a shift in correlations. Now,
8 that's three months. It's not -- you know,
9 it's not robust data; it's very small amount
10 of data. But if you follow my line of
11 argument that interest rates have to go
12 higher, that long rates are historically low,
13 and that the unemployment rate is very low and
14 that we are going to get a shift in
15 correlation, this would speak to those markets
16 moving together going forward. So that's my
17 source of concern on where we are in the cycle
18 and what's likely to happen to the rates and
19 the impact on the equity market.
20 MS. VICKERS: So you are saying the red
21 line is going to go up and be positive going
22 forward?
23 MR. HADDAD: Yes.
24 MS. VICKERS: And the blue line will
25 keep going down?

2 MR. HADDAD: Yes. And that the returns
3 in bond market are negative and if the
4 correlation shifts, the returns in the equity
5 market are going to go negative too. Then
6 layer that on top of the valuations where we
7 are in the equity market now and you can kind
8 of see what keeps us up at night is that that
9 probability -- that potential of rising
10 ratings and decline in the equity market.
11 MR. ORLANDO: I'm sorry, did you just
12 say you expect the blue line to go down --
13 MR. HADDAD: Yes, I do. You know --
14 MR. ORLANDO: -- below 4?
15 MR. HADDAD: Yes.
16 MR. ORLANDO: Okay.
17 MR. HADDAD: I do. What would change
18 that is if labor participation force goes up,
19 supply of labor goes up. You know,
20 immigration is restricting labor supply, the
21 change in immigration laws, so that's a
22 negative on supply of labor. Unless we shift
23 somehow to supplied labor, I expect that to go
24 down until the economy slows.
25 MR. ORLANDO: The great new world of new

2 natural unemployment rate.
3 MS. PELLISH: So one question that you

 4   may not be able to or willing to answer is how
 5   -- this is your point of view today, what do
 6   you think is the investment horizon of this
 7   perspective? Because if you look at the
 8   historical data, most of the time the
 9   correlation is negative and where there are
10   periods of positive correlation between the
11   ten-year and the equity market seem to be
12   pretty brief. So is this something you would
13   expect to revisit in a year?
14   MR. HADDAD: I don't know. Markets
15   move, you know, they move quickly. So I don't
16   know what the catalyst will be. I don't know
17   when it will happen, but I do -- I think it's
18   a short-term thing, not long-term thing. And
19   I think your point about these are short-term
20   movements in long-term periods, I agree with.
21   And this would tie into part of our
22   conversation is it time for a new strategic
23   asset allocation or is it time to put some
24   shorter-term tilts, whatever you want to call
25   them, on the portfolio in anticipation of a
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 2   drop in equity prices in which we can take
 3   advantage of, avoid some of the loss, and then
 4   reposition the portfolio back to the long-term
 5   targets. I think that kind of brings together
 6   what the -- what we are talking about today.
 7   MS. PELLISH: So just to make sure what
 8   you said is clear, in terms of moving within
 9   the rebalancing rate which is what was
10   outlined --
11   MR. HADDAD: Yes.
12   MS. PELLISH: -- you see this as likely
13   to be a short-term phenomenon or who knows? I
14   am not being flippant, but really who knows.
15   MR. HADDAD: Yes, who knows. The equity
16   fell 10 percent in how quickly, in two weeks
17   February. It's a big correction. And then we
18   recovered about half of it, so I don't know.
19   And what would change all of that is a
20   reasonable correction in the equity market and
21   then those valuation metrics shift. So you
22   are not so concerned, so -- but it's the
23   combination of the two that has the concerns.
24   So let me kind of pause there because I
25   threw a lot at you. And, you know, any
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 2   questions on any slides, you know, thoughts on
 3   what we should do, could do, strategic versus
 4   tilts, let's just kind of turn it over to you
 5   all.

6 MR. ADLER: So here is my question for
7 both you guys, which is that: Two years ago,
8 so that would have been, you know, 2016 when
9 we -- I think when we adopted the strategic
10 asset allocation we, you know, went in for the
11 long treasury, the extension duration on the
12 treasuries as a hedge, right, insurance. And
13 we had not fully implemented it because -- as
14 I understand because of the cost, the cost of
15 implementing it had gone up. And also what I
16 just heard you say, Mike, was that that hedge
17 worked in 2008 because the cause of the stock
18 market decline, the equity decline was global
19 financial crisis. It's not -- it's not -- it
20 doesn't appear right now that if there is a
21 further correction that it would be as a
22 result of a financial crisis.
23 So what I am really sort of asking for
24 is, you know, it seems to me that what's
25 incumbent upon us is to try to hedge the
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2 portfolio as much as we can against these
3 conditions that you just described, right, and
4 what is -- it sounds like, you know, again the
5 likelihood of a correction of some sort, you
6 know, based on the key charts that you showed
7 us. But if it's not caused by -- what I hear
8 you saying is that if it's not caused by
9 financial crisis, the long-duration treasuries
10 may not actually have the intended impact
11 because at least right now correlation, they
12 kind of more correlate with each other than
13 don't correlate.
14 So you had mentioned in passing earlier,
15 Mike, there are other ways to hedge against
16 that. What are those other ways and should we
17 consider them, implementing them as opposed to
18 either not -- I mean, so right now basically I
19 feel like we are sort of, you know, we are
20 like, you know, what you guys -- as I recall
21 at the meeting in April you talked about
22 essentially rather than going to a target of
23 eighteen years on the duration, sticking to
24 about thirteen years which sort of sounds to
25 me truthfully as betwixt, and between and not
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2 necessarily providing a hedge that we were
3 told two years ago that we would be doing when
4 we adopted the strategic asset allocation.
5 And sort of what I am saying is it
6 sounds to me like we need a hedge. So what
7 should that hedge be and what would be the

8 cost or what are the different options and
9 what are the costs of the different options?
10 MS. PELLISH: Go ahead.
11 MR. ORLANDO: And if I could just add to
12 John's point, it sounds like we need a
13 different hedge.
14 MR. ADLER: Well, do we need a different
15 hedge?
16 MR. HADDAD: If we buy the arguments.
17 MR. ORLANDO: There is the decision on
18 the treasury was designed two years ago, was
19 it not, to be partly a hedge and I think the
20 question that's being called is sort of do we
21 need a different hedge.
22 MS. VICKERS: Can I just bring back on
23 that also.
24 MR. ORLANDO: I could be wrong, but
25 that's what it sounds like to me.

2 MS. VICKERS: Because we are long-term
3 investors and not supposed to be market-timers
4 and react to the market as soon as things
5 happen, can you also when you answer those
6 questions speak to why we are designing the
7 portfolio to hedge at all and is that
8 something that we should decide, whether we
9 just want to ride it out or hedge?
10 MR. HADDAD: Half-hour is up. Next
11 agenda item.
12 So on the plan, we executed half of it
13 according to the schedule that we laid out
14 with the help of Rocaton. We wanted to get
15 half of it done quickly because we all bought
16 into the thesis of the plan and we all wanted
17 the protection in place. Even though we
18 recognized yields were very low and we are
19 likely to lose money, but that's okay. It's a
20 hedge and the other part of the stuff rocked,
21 so it worked.
22 Now what we are arguing, suggesting is
23 we are in an unprecedented time with risks to
24 both of the long -- long bond portfolio as
25 well as the equity portfolio. We still

2 believe in the long-term correlation being
3 negative and particularly on what's called
4 left tail events or really exogenous
5 unexpected things we can't predict. Those
6 things usually cause the bond market to move
7 differently than the equity market. And by
8 definition, we don't know what they are going
9 to be. We hypothesize about Korea, Middle

10   East impeachments, all sorts of different
11   things, but it's going to be something we
12   don't expect so we have half of it in place.
13   We have a chunk of the protection and
14   then with that anticipated shift in
15   correlations which started on February 1st --
16   which I want to argue and continue during the
17   Fed heightened cycle we don't want all that
18   protection -- so how do we protect ourselves
19   now. I would argue we reduce our equity
20   holdings.
21   And then the question is --
22   MS. PELLISH: U.S. equity.
23   MR. HADDAD: U.S. equity, yes, because
24   of the valuations. And where do you put that
25   money, because basically I am telling you

2   everything is kind of rich I would argue in
3   the front of the bond market. So the
4   riskiness of the front of the bond market is
5   1/16 on the long of the bond market, just bond
6   math. So we hide in one to two years
7   treasury, you can call it cash.
8   MR. ADLER: Let me ask you a simple
9   question about that. That makes some sense to
10   me that, you know, flight to quality, right,
11   go to cash. However, you are also talking
12   about inflation increasing, right? So if
13   inflation is increasing, if you are going to
14   into one to two-year treasuries, does that
15   actually provide you with the protection? I
16   am asking. I am not asserting; I am asking.
17   MR. HADDAD: Yes, because those
18   treasuries are going to go down in price, but
19   you are also earning 2-1/2 percent yield
20   because of where they are valued now and what
21   the Fed has done and they mature in a very
22   short period of time.
23   MR. ADLER: And when they expire?
24   That's not the right word.
25   MR. HADDAD: Mature, when they roll down

2   the curve a year from today, they are going to
3   be around the same price and you will earn the
4   yield.
5   MR. ADLER: And you earn the yield and
6   when you put the money back in you get a
7   higher rate?
8   MR. HADDAD: Yes. You reallocate that
9   money back into long duration or back into the
10   equity market, yes, so that's the kind of
11   protection.

12 MR. ADLER: Is that the idea? I think
13 what you said in April was that the idea there
14 is that whatever we have in long now we keep,
15 but the overall portfolio we are shortening
16 the duration by going into the shorter-term
17 treasuries.
18 MR. HADDAD: Yes, so I am not advocating
19 selling anything in the long end. We are
20 advocating holding, but we are going to add
21 that in the short end.
22 MR. ADLER: Robin, if you don't mind,
23 can you weigh in on what I said? I don't want
24 to put you on the spot.
25 MS. PELLISH: Yes, put me on the spot.

2 MR. ADLER: As I recall when we did the
3 strategic asset allocation two years ago, you
4 were a strong advocate for going the
5 long-duration treasuries in order to hedge
6 against the foreseen drop in the equity
7 markets. So what do you think about what Mike
8 said or what would you advocate as far as the
9 best hedge at this point in time?
10 MS. PENNY: Before you explain it, I had
11 come onboard just when they were doing this
12 reallocation. I remember it was a big debate,
13 5 percent, 10 percent, whatever. So when you
14 explained that originally we were supposed to
15 have 10 percent and you said you wanted to
16 stop at 5 percent, so when you explain that
17 why would you have an allocation set and stop
18 in the middle of it? That's what I don't
19 understand.
20 MS. PELLISH: Sure.
21 So to clarify one point you made, we --
22 and my partner Matt Maleri is here and he
23 knows infinitely more about this topic than I
24 do, so I am just going to make a few comments
25 and then have him weigh in because he is part

2 of the asset allocation and actually is the
3 architect for a lot of the work we have for
4 the asset allocation.
5 But the long bond allocation was a
6 recommendation by us not only because of where
7 the equity market valuation is, but we see it
8 as a long-term strategy target. And no matter
9 where the equity market is at any point in
10 time, we think it makes sense because -- and
11 this is a slight digression, but I think it's
12 relevant. In any portfolio -- you have -- the
13 best hedge against equity market risk is

14   diversification and you have a very
15   diversified portfolio. You are allocated
16   among the global capital markets, private and
17   public. But the fact is when you look at the
18   risk of your portfolio and any diversified
19   portfolio -- I don't know what the number is,
20   maybe 85 percent.
21   MR. FULVIO: 92 we just --
22   MS. PELLISH: You looked at it, so I
23   stand corrected -- 92 percent of the risk or
24   volatility of your portfolio is contributed by
25   the equity allocation, because equities are so
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2   much riskier than fixed income. And,
3   therefore, the long bond allocation is
4   intended to balance those risks out. And
5   historically, typically long bonds have been a
6   very powerful friend when equity markets have
7   suffered significant market downturns.
8   What Mike is asserting, and has provided
9   a lot of data in support of, is that this time
10   it's different for very real reasons because
11   of where we are in the market cycle, because
12   how long the equity market has generated very
13   significant positive returns, because we are
14   in unknown territory. We are going into this
15   what he called quantitative tightening and
16   because we passed this big tax bill, tax
17   reduction so -- you know, you could see in the
18   paper today we are issuing more and more debt.
19   So there is fiscal stimulus, there is Fed
20   tightening, and so we are in a little bit of
21   somewhat uncharted territory. And in that
22   territory -- I don't want to speak for Mike,
23   the arguments that Mike and others, he is
24   certainly not alone -- is that long bonds
25   actually may be a very expensive hedge that on
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2   average long term everybody still thinks they
3   are an effective tool, but in the near term
4   they may be a very expensive insurance policy.
5   So I can't -- and I don't think Matt
6   would contradict any of the facts laid out and
7   I think the logic underlying this point of
8   view is sound. This is -- it comes to a
9   judgment call about whether we want -- to go
10   back to the point that Susannah raised,
11   whether we want to ride this out, whether we
12   want to say over the long term we think these
13   allocations having long bonds as a hedge makes
14   sense. And we understand that there are sound
15   reasons to believe that over the next three,

16   maybe even five years might not work as we
17   expect, but we think over the next twenty
18   years it will work.
19   And we are a little -- this has been --
20   this has been the policy to date or I think
21   the perspective of the board to date; we think
22   it's too hard to forecast three to five-year
23   results and so, therefore, we are going to
24   ride it out. That would be the basis for I
25   guess rejecting this argument. That's really

2   the basis. It's too hard to predict three to
3   five-year results and I think the opposite --
4   I hate to say on one hand and the other hand,
5   but the counter to that is these are pretty
6   extreme market situations. And if we can --
7   if we believe that these are very extreme,
8   then it is prudent to step out of the way for
9   a little while.
10   MR. MALERI: I don't know if I would be
11   the arbiter here, but there may actually be a
12   compromise in some regards in the sense that,
13   Mike, you talked about actually lowering the
14   U.S. equity allocations given where valuations
15   are and maybe in my mind means maybe I don't
16   need as much protection. I am actually
17   lowering the U.S. equity allocation so you may
18   be able to accomplish both, which says I am
19   lowering my U.S. equity allocations therefore
20   I don't need as much protection from the long
21   bond which we are proponents of.
22   So that may actually be the compromise
23   in that scenario in that you can actually both
24   be right where you still own long bonds, they
25   still act as a hedge to the U.S. equities you

2   own, but at the same time you are recognizing
3   that valuations are expensive therefore I
4   should reduce some of that. And maybe the
5   placeholder is, you know, short-duration fixed
6   income to the extent that's allowable, but
7   that again sort of may marry the best of both
8   worlds here.
9   MR. HADDAD: I want to respond to your
10   question, Susannah, and speak to what Robin
11   said.
12   We have laid out a lot of rationale. We
13   have no idea what's going to happen. You
14   know, we are basing it on some historicals,
15   some market observations, you know, our
16   combined many years in the markets as
17   participants and the risks. And are we

18   getting compensated for the risks and I would
19   argue we are not in either U.S. equities or
20   long-duration fixed income and so that ties
21   into do we ride it out because we are
22   long-term investors. This pool of capital
23   exists for a hundred years serves your
24   beneficiaries. That would argue for not, but
25   again to argue for how unprecedented we are,

2   that would argue for some tweaks against the
3   margin and that begs the question when you are
4   doing that, when you are taking it off, and
5   when do you say you are wrong. So if we are
6   going to get onboard for this, you should hold
7   us accountable for answering those questions
8   for you.
9   MR. BROWN: Is it time to do a new
10   allocation study?
11   MR. ADLER: Well, that's what -- in a
12   way what we are discussing. We said we are
13   going to review it after 18 to 24 months,
14   which is right now.
15   MS. VICKERS: And, for the record, I was
16   asking a question and bringing up a discussion
17   point, not advocating for any position.
18   MR. ADLER: I heard you advocating, let
19   the record reflect. I just want to ask a
20   followup to Matt, if you don't mind.
21   What you said makes sense to me, Matt,
22   that by reducing the equity exposure you
23   reduce the need for the hedge, right? But I
24   think the question I have is: Are you talking
25   about reducing strategic equity exposure or

2   what Scott had told us in the meeting in April
3   was that -- and I am looking at the other --
4   the other deck, the thin deck, thank you,
5   where on page 2 on the growth, you know, the
6   target is 30.9 percent I guess and the range
7   goes down 5 percent from that, so Scott talked
8   about lowering the allocation within the
9   range. And then if you turn to page 4 he
10   talked about increasing the treasury
11   allocation within that range, which also has a
12   5 percent range.
13   So, I mean, in theory I guess you could
14   do dollar for dollar, but the other question
15   about that, I don't think that we have -- I
16   don't know, refresh my memory. It's not on
17   here. Do we have a duration range? In other
18   words, we had set a target duration point of
19   17.4. I remember it being 18 percent. I

20   guess it is 18 percent and the current
21   duration is 12.6; am I reading that right?
22   MR. HADDAD: Yes.
23   MR. ADLER: Is there a range on duration
24   around the target?
25   MS. PELLISH: No, I don't think that was
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2   defined. But I do want to make a point that I
3   should have made clear. Everything we are
4   talking about today is talking about operating
5   within the current IPS targets. There is no
6   change to the strategic allocation. This is
7   simply the BAM saying we want to move to the
8   edges of the rebalancing ranges.
9   MR. HADDAD: Or in that direction; maybe
10   to the edge, maybe to somewhere between
11   neutral and the edge.
12   MR. KAZANSKY: So when we did the asset
13   allocation work there were like Monte Carlo
14   scenarios, right, to see all the different
15   kinds of possible outcomes going forward. Is
16   there or was there any ever that stuff done
17   with this so that we could get a sense of is
18   it even -- I mean, you may be right, you may
19   be right, somebody else may be right and
20   ultimately it's a dollar difference here or
21   there and we are just expecting all this air
22   for not much of real difference down the road
23   in ten or twelve or twenty years as far as
24   where we are going to be.
25   So my concern is that I understand we
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2   are in uncharted territory, but tomorrow could
3   be completely different uncharted territory.
4   If we are not looking at all the different
5   scenarios, right, is this exercise even --
6   does it -- I know it has value. I am not
7   saying it doesn't have value. But is it -- is
8   there a point to it if down the road we are
9   really just going to be where we are, there is
10   really not going to be a monumental change in
11   the returns that we are looking for over the
12   long term? Maybe I am looking at it too
13   simplistically.
14   MR. HADDAD: I would argue there is a
15   big difference. So let's call the value of
16   the portfolio say a hundred dollars and that
17   some of the concerns that we have actualized
18   and we don't change anything. Let's say the
19   value of the portfolio falls to 92 over the
20   next two years and then it compounds at 7
21   percent for the next twenty years, so that's

22   example one. Example 2, you do a couple of
23   tactical shifts and the value of the portfolio
24   falls from 100 to let's call it 96 instead of
25   92. We are compounding at 96 now for the next
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2   twenty years versus compounding at 92. It's a
3   big difference.
4   MS. PELLISH: Mike, to get to that point
5   because that's an important question, this is
6   a battleship. Making this change doesn't
7   really turn the battleship.
8   So Mike just pointed out how the
9   compounding effect over time is really
10   important and any losses you avoid at this
11   point compound out over, you know, this
12   hundred-year horizon, which is really
13   important. We look -- we -- there is another
14   very simplistic way to look at this, just to
15   get a sense of the orders of magnitude, and
16   that's what Mike is passing out because this
17   is a question we asked ourselves and we shared
18   this with Mike. So if you go to page 4, I am
19   going to let Matt talk to what we have done
20   here.
21   MR. MALERI: Essentially what we have
22   done here is taken the two different
23   portfolios that are in those two different
24   scenarios that we are debating, do we hold
25   long duration or do we not, and try to frame
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2   out what the different outcomes might be for
3   those two portfolios.
4   So the current target which we labelled
5   there on the left side of the page is assuming
6   you were at your full long-duration portfolio
7   and then what we are calling the modified
8   target on the right-hand side of the page is a
9   portfolio that owns some long duration, but
10   also owns short-duration fixed income so much
11   more similar to what Mike had suggested. So
12   both these charts assume the same starting
13   portfolio market value.
14   MS. PELLISH: About 72 billion.
15   MR. MALERI: 72 billion. And on the Y
16   axis we plotted changes in the equity market,
17   which we are using as a broad proxy for all
18   the risk assets in the portfolio. And then
19   across the X axis we are showing changes in
20   interest rates, so changes in treasury yields
21   and essentially you can pick which scenarios
22   you think are most likely.
23   So the far upper left box, just to put

24   some numbers to it, has a 10 percent gain in
25   the equity market along with a hundred basis
0055
 1   Proceedings
 2   point decline in treasury yields, so that
 3   seems unlikely.
 4   MS. PELLISH: So that box says that in
 5   that environment with only long -- owning
 6   target allocations to long bonds and the
 7   target allocations for equities, if equity
 8   markets rose instantaneously 10 percent and
 9   interest rates fell a hundred basis points you
10   would make $6.6 billion. Okay, so that's a
11   great outcome and very unlikely. If -- so
12   keep going.
13   MR. MALERI: And, again, you can follow
14   through the rest of the scenario. We tried to
15   highlight a few here which really are at the
16   heart of this discussion and which we think
17   are much more likely.
18   So the first one that I would call your
19   attention which we have circled in the middle
20   of the page for both the boxes there is simply
21   looking at what happens if equity markets
22   don't change at all, but we get a large
23   increase in interest rates. And the outcome
24   should be apparent that owning a shorter
25   duration portfolio would be more beneficial.
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 1   Proceedings
 2   MS. PELLISH: By the tune of over a
 3   billion dollars, so it's real money.
 4   MR. ADLER: This is over what period of
 5   time?
 6   MS. PELLISH: This is, just to be
 7   simplistic, instantaneous just to give you a
 8   sense of orders of magnitude.
 9   MS. VICKERS: Did you say owning a
10   shorter duration?
11   MS. PELLISH: That's the modified
12   target. The modified target is owning half
13   long, half shorts because --
14   MS. VICKERS: Because you are losing
15   less.
16   MR. MALERI: So we could have circled
17   one more here. Which is really at the heart
18   of this debate are those bottom left chart,
19   bottom left corner, which is a significant
20   decline in the equity market along with the
21   significant fall in interest rates. And then
22   again the other one which we could have
23   circled would be the bottom far right, so a
24   significant decline in equity markets along
25   with a significant rise in interest rates. In

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 1 Proceedings
 2 this scenario where rates fall and equity
 3 markets fall we are looking at a savings if,
 4 you want to call it that, of somewhere on the
 5 order of 400 million.
 6 MS. PELLISH: So I want to emphasize
 7 that the reason it matters much less is
 8 because the equity market risk really just
 9 swamps, so we are talking about rates rising.
10 What you really care about is equity markets
11 falling and if you have a high conviction that
12 rates at the long end are going to rise
13 significantly, you want to get out of the way
14 of that, but what you are really worried about
15 is equity markets falling. And I think by
16 orders of magnitude the most important thing
17 that Mike has described here is reducing the
18 U.S. equity allocation. That's much more
19 important than in terms of a risk mitigator
20 than reducing duration.
21 I'm sorry, go ahead.
22 MR. MALERI: You know, just about at the
23 end of my formal comments which is: If you
24 look at the bottom far right column, again a
25 significant rise in interest rates and
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 1 Proceedings
 2 significant fall in equity markets. You can
 3 see if it's much more beneficial on the order
 4 of about 1.3 billion or so to own that shorter
 5 duration portfolio. So again you can -- the
 6 reason we have laid it out this way is such
 7 that you can decide or try to think about
 8 which scenarios are more likely or less likely
 9 and start to weigh the cost of that insurance,
10 if you will. Certainly it's natural that in a
11 falling equity market and falling rate
12 environment, you are going to want to own long
13 bonds. In the opposite scenario where equity
14 markets fall and rates rise again, naturally
15 you will want to own short duration. This
16 simply helps you think about what is the cost
17 impact and again which scenarios do I think
18 are more likely.
19 MS. VICKERS: Can I ask a question about
20 the chart, because I don't think I am reading
21 it correct or I am missing something. So if
22 the right-hand boxes are the modified target
23 with less equity, I would expect that you
24 would do better.
25 MR. MALERI: Same equity, the only thing
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 1 Proceedings

 2   we are toggling is the duration.
 3   MS. VICKERS: Okay, that's what I
 4   missed. Okay, but the modified -- oh, so it's
 5   just the target of the yield?
 6   MR. MALERI: Should have paused on page
 7   3 which actually shows the differences.
 8   MR. ADLER: What does page 3 show?
 9   MR. MALERI: It shows the actual
10   allocation. You could see the middle of the
11   page there we are showing the current target
12   as well as the modified target and the
13   differences.
14   MS. VICKERS: Because I think the two
15   options we have been talking about, the
16   modified option with different duration would
17   also have significantly different amount of
18   equities.
19   MS. PELLISH: Well, they would have a
20   lower allocation to equities. Just to be
21   clear, the total allocation to equities I
22   think declines by 1 percent maybe because we
23   are increasing the non-U.S.
24   MS. VICKERS: So would this scenario
25   still hold for what we were discussing?

 2   MS. PELLISH: Largely. What we are
 3   really trying to isolate is what happens with
 4   shortening duration and what scenarios do you
 5   really care about shortening duration.
 6   MS. VICKERS: But then if that's true,
 7   how come with the modified scenario when the
 8   equity markets go down you are losing more,
 9   15,486 versus 15,107?
10   MR. MALERI: That's -- again, the
11   duration difference plays in there as well so
12   that scenario has a hundred basis point fall
13   in rates. The one if you are just trying to
14   isolate the equity difference, it's looking at
15   that column which is zero for changes in rates
16   and following it all the way down to the bond
17   market they are almost the same. Again a
18   slight difference in the composition of the
19   portfolios, but you can see about $16.3
20   billion for the current target and 16.1 for
21   the modified.
22   MR. ADLER: What you guys did for the
23   modified, what I heard Mike saying, is the
24   idea of taking U.S. equities and not
25   redistribute it to international, but

 2   redistribute is it to short duration, right?
 3   MR. HADDAD: So let's go back to growth

4   on page 2 on the portfolio.
5   MS. VICKERS: The skinny one?
6   MR. HADDAD: The skinny one. So this is
7   a snapshot as of year-end and the first three
8   bars are your equity exposure U.S., EAFE, and
9   EM. If you total those three, it's roughly 53
10   percent. So as of these three and your
11   strategic allocation is 50, so what did we do
12   throughout '17? We let your EAFE run, we let
13   the gains accumulate, we let the gains in EM
14   accumulate and the rebalanced to U.S. to keep
15   it at target. So we rebalanced U.S. to fund
16   the long duration, we rebalanced the U.S. to
17   fund the private market allocations, and we
18   kept the U.S. right around on target but let
19   the other two run. So as of year-end, you
20   were overweight equities.
21   And what these arrows suggest is, the
22   inclination based on our analysis is, the
23   direction we want to tilt the portfolio is to
24   leave those overweights and foreign equities
25   there and take the U.S. component down. And
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2   that really speaks to the different valuations
3   in those two different markets. And then, you
4   know, with that, with what we will do with
5   those proceeds, we target the front of the
6   bond market as a place of safety. So that's
7   kind of the way we are.
8   MR. ADLER: And also you talked about
9   putting some in bank loans?
10   MR. HADDAD: Right.
11   MR. ADLER: What is that little green on
12   bank loans on page 3? Not just green arrow,
13   it's green shade box.
14   MR. HADDAD: That was just our APM
15   attempt to put this together and figure out
16   how to fix that.
17   MR. ADLER: I can totally identify with
18   that. Okay, so basically you are not talking
19   about adding new money to the non-U.S; you are
20   talking about just keeping it -- letting it
21   run but you are talking about taking -- taking
22   money out of the U.S. equity as well as high
23   yield it looks like and putting it into the
24   short end of the treasuries as well as some of
25   the bank loans?
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2   MR. HADDAD: Yes. The arrows are
3   strongly-held views on the direction of those
4   asset classes. And the treasury, we have an
5   up green arrow on that. But again for

6 everything we talked about, that's the front
7 of the bond market, not the long end of the
8 bond market.
9 MR. ADLER: So is there a target? I
10 think that might be -- so as of 12/31, the
11 duration on the treasuries is 12.6 years?
12 MR. HADDAD: Yes.
13 MR. ADLER: And so you don't have an
14 overall on your chart, Matt, so what would be
15 the target duration for the treasury
16 portfolio?
17 MR. HADDAD: So this is at the April CIM
18 we introduced another metric for you in fixed
19 income dollar value of a basis point and
20 that's on page 6. So there is a couple of
21 different ways to look at your treasury
22 portfolio. Duration is the one I think we are
23 all comfortable with. But in the environment
24 where we sell U.S. equities and buy short-end
25 treasuries, the duration of your portfolio is

2 going to shrink. Just because we are adding
3 assets which are shorter duration, the target
4 comes back down. But what's going to happen
5 is the dollar value of the basis point of your
6 portfolio, it's going to increase.
7 So this speaks to the difference between
8 the two year and third year. The dollar value
9 of a basis point is what helps you understand
10 the relative riskiness, so the longer
11 maturities are more risky. How do you measure
12 that? You measure it in duration or you
13 measure it in -- again the geeky bond math is
14 DV01, so the dollar value of a basis point for
15 the two note is -- if you guys can help me.
16 MR. MALERI: It's very small.
17 MR. HADDAD: Like $4 for basis, basis
18 point, and the bond is 16X that, so it's like
19 40-something. But when you are adding to your
20 notes, you are adding DV01 to your portfolio.
21 It's just not as powerful as 1. So looks like
22 that we shrinking duration, it looks like we
23 are going back on our plan, but we are not
24 going back on our plan. We are increasing our
25 exposure to the bond market. We just have to

2 measure it in a different way.
3 MR. ADLER: I'm sorry, can you explain?
4 MS. PELLISH: I can't believe you are
5 going into DV01.
6 MR. ADLER: I am professing my ignorance
7 as usual. I don't really understand this

8 measure because at the CIM it was variable for
9 Passport Funds and I was told that has to do
10 with the amount of assets, so can you explain?
11 MR. HADDAD: What I am trying to tie
12 together, that we want do increase our
13 exposure to treasuries but in the front end.
14 And when we do that the duration of your
15 portfolio is going to shrink, but your
16 exposure to the bond market goes up and how do
17 we capture that. And if you have a better way
18 of capturing, I am open to suggestions. But I
19 thought dollar value to basis point was a good
20 way to try.
21 MR. MALERI: We typically think about
22 it, and I think this is almost the literal
23 definition, is for every basis point. So for
24 ten-year it goes from 2.99 to 3, so 1 basis
25 point move you would lose 8.7 million in your
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2 bond portfolio. And it works the other way as
3 well. As well so ten-year goes from 3 to 2.99
4 that's a 1 basis point drop, you would gain
5 8.7 million.
6 MR. ADLER: So given we expect interest
7 rates to rise, we have this rising environment
8 and the Fed is signaling -- well, anyway given
9 that, why would we be wanting to increase the
10 amount that we lose per basis point increase
11 if that's a measure of how we are hedging, how
12 we are increasing our hedge?
13 MR. HADDAD: By increasing the 2s, we
14 are adding minimally to the dollar value of
15 the basis point. If we increase the 30s, we
16 would be adding significantly higher dollar
17 value of the basis point. And what this
18 captures is your whole portfolio across all
19 maturities and we are doing it on a small
20 basis. And I am not -- I think it's our
21 choice of asset classes that's going to get
22 hurt the worst in this scenario that we are
23 concerned about.
24 MR. ADLER: The choice of asset classes?
25 MR. FULVIO: Equities versus bonds.
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2 MS. PELLISH: So this is the target in
3 terms of percentage allocation?
4 MR. HADDAD: With a 10 percent
5 allocation, yes.
6 MS. PELLISH: With a 10 percent long?
7 MR. HADDAD: Yes. And this is where we
8 sit today. And, again, we are about 50
9 percent from where we started when we made the

10   strategic asset allocation. You all approved
11   that.
12   MR. ADLER: So what was the number when
13   we started the dollar value for basis points?
14   MR. HADDAD: It should be on the chart.
15   I am going to guess just ratchet it down, the
16   same difference between these two is 50
17   percent.
18   MR. ADLER: Difference percentage-wise
19   or dollar-wise? So, in other words, dollar
20   wise-would be about 3.4, so it would have been
21   8.7 minus 3.4?
22   MR. HADDAD: No, 12.1 minus 8.7 is 3.4,
23   so subtract 3.4 minus 8.7.
24   MR. ADLER: That's what I just did.
25   MR. HADDAD: I thought you meant AUM.

 2   MR. ORLANDO: Carry the 1.
 3   MR. HADDAD: DV01. Come on, John, get
 4   it right.
 5   MR. ADLER: You guys are way beyond my
 6   level here. I shouldn't be announcing that in
 7   public, but I am being honest.
 8   MR. LEVINE: You are a fiduciary with
 9   good outside experts.
10   MR. ADLER: So says one of our outside
11   experts.
12   MS. PELLISH: I think all Mike is trying
13   to point out is that we have talked about in
14   general the fixed income as a generic
15   homogenous and having a hundred dollars in
16   thirty-year bonds is very different in terms
17   of risks if rates rise then if you have a
18   hundred dollars in a two-year. And that's the
19   only point of this and it can make a real
20   difference in terms of dollars.
21   MR. ADLER: Okay. So in other words,
22   you are saying that by raising the dollar
23   value per basis point we are lowering the
24   risk; is that an accurate statement?
25   MS. PELLISH: No, you are not going to

 2   move -- so you are not moving, right?
 3   MR. ADLER: I thought he said --
 4   MR. HADDAD: 5 is duration and 6 is
 5   DV01.
 6   MR. ADLER: I am on page 6.
 7   MS. PELLISH: You told us to go to 6 so
 8   we are on 6. So this is where you are
 9   proposing to be with the two years?
10   MR. HADDAD: No, this is a snapshot.
11   MS. PELLISH: And then the 12.1 --

12 MR. HADDAD: -- is the target.
13 MR. ADLER: So your DV01 will move down?
14 MR. HADDAD: No. DV01 is going to go
15 up. When you buy two-year notes it's going to
16 go up small, but duration is going to go down
17 big.
18 MS. PELLISH: So what's missing here is
19 what happens when you reallocate to more than
20 two years, so this is where you were at
21 year-end. We are going to be in between 8.7
22 and 12.1 because he is suggesting putting more
23 dollars into the two-year, but this plan we
24 are not going to go all the way up to the
25 12.1.

2 MR. HADDAD: So at the June CIM when we
3 look at the Q1 portfolio and we have done the
4 things that we have talked about, if we do
5 them you are going to see the duration. And
6 what we will do is we will do this, we will do
7 D31 view and March 31st view. You will see
8 the duration will go down and you will see the
9 dollar value of the basis point will have gone
10 up.
11 MR. ADLER: But not all the way?
12 MR. HADDAD: Not all the way; barely.
13 MR. ADLER: I am going to call on
14 Antonio.
15 MR. RODRIGUEZ: Two questions with
16 regard to timeline and attribution. I will
17 start with the attribution question.
18 Given we have had scenarios before in
19 the past before you got here, Mike, where we
20 did have tilted a different direction in this
21 case -- well, I won't describe the title and
22 at the time, at least, our attribution
23 analysis wasn't robust enough to kind of
24 capture the effects of this change versus the
25 strategic portfolio. Do you believe that our

2 current risk system will be able to capture
3 that? Is there a way we could capture the
4 attribution for this decision?
5 And also given added onto that the
6 timeline, like how long or when do you think
7 this will be in effect and will we start
8 getting attribution on this fairly shortly.
9 MR. HADDAD: Yes. So we give you
10 attribution now on excess returns. We break
11 it into asset allocation on manager effect.
12 Yes, we will be able to -- if we implement
13 these tilts, we will be able to give you P&L

14 on those specific ones and we can break that
15 out for you.
16 When? I am trying to think whether it's
17 two months or six months, but it's in that
18 range. We are moving quickly with MSCI and
19 one of the work streams that we have in place
20 is how to capture this P&L, because we need to
21 have P&L on this which speaks to having an
22 objective on it and where we are wrong.
23 Because if we are wrong, we don't want to just
24 sit on it; we want to reverse it. So, yes, we
25 need those tools to be able to monitor that.

2 MS. VICKERS: I don't know if people are
3 done discussing.
4 MR. ORLANDO: Is it time for my question
5 yet?
6 MS. VICKERS: Oh, sorry.
7 MR. ADLER: Yes, go ahead.
8 MR. ORLANDO: Are you sure?
9 MR. ADLER: I apologize, I skipped you
10 over. One of my many --
11 MR. ORLANDO: New seat, same treatment.
12 So I am in the Rocaton deck, that looks
13 like this for those of you playing along at
14 home. So I would like to ask the panel of
15 experts and you can self-define that, so which
16 is the most likely scenario at the end of the
17 day? Thanks for circling those four boxes,
18 but it doesn't feel like those four boxes are
19 the most likely scenarios. So can you draw my
20 attention to what anyone considers the likely
21 scenario? Thanks. Don't all go at once.
22 MS. PELLISH: Well, so I think what we
23 are -- the temporary fall to the long bond
24 implementation is based on the belief that we
25 are going to realize some sort of decline in

2 equity markets accompanied by some sort of
3 rise in interest rates. And so I don't think
4 anyone on the panel of experts is going to
5 specify what level, but it would be, you know,
6 just to call your attention to something that
7 is let's say a hundred basis points rise in
8 rates and a 10 percent decline in equity
9 markets.
10 MR. ORLANDO: So in the southeast
11 quadrant of the boxes?
12 MS. PELLISH: Yes. And in that
13 particular box on the current target, that
14 would be a loss of 6.7 billion and in the
15 modified target in the same box you would save

16 about $600 million.
17 MR. ORLANDO: Okay. Anyone else want to
18 play bingo with me?
19 MR. ADLER: So in the southeast quadrant
20 which I was also thinking, then under any of
21 the scenarios we do better with a modified
22 than we do with the current, right?
23 MS. PELLISH: Right.
24 MR. ADLER: Whereas if we were in the
25 northwest, which I think none of us think is
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2 where we are heading, we would do better with
3 the current than with the modified, right?
4 MS. PELLISH: Right. And in the, you
5 know, southwest you would be worse off with
6 the modified. Any environment in which rates
7 fall further, you will want the full long bond
8 implementation. And this is -- and that's an
9 obvious statement, but this gives you some
10 orders of magnitude. It's hundreds of
11 millions of dollars under any likely scenario.
12 MR. ADLER: You know, I don't know if
13 this is possible but, you know, I always feel
14 like we sit here and make these decisions
15 about asset allocation and it's like okay and
16 you actually never go back and look at oh,
17 what would we -- suppose we had made a
18 different decision, how would we have done it.
19 And, you know, obviously 20/20 hindsight and
20 all that jazz. However, I think it is -- you
21 know, for example, capital markets
22 expectations never play out according to
23 expectations. They might be directionally
24 correct, but sometimes they are not.
25 MS. PELLISH: At best. At best.
0075

2 MR. ADLER: For example, nobody expected
3 two years ago that the equity markets would
4 have performed the way they did. The way they
5 have, right. And, you know, so we all expect
6 equity markets to decline as per the southeast
7 quadrant at this point and who knows, they
8 could -- they could, you know, not perform to
9 expectations again over the next two years,
10 four years, whatever.
11 MS. PELLISH: This is all probabilities.
12 MR. ADLER: It's probabilities. Anyway
13 in some ways, especially given that we are
14 doing this tactical reallocation, that's what
15 you are recommending. I think it would be
16 very interesting to sort of go back and review
17 how the bet has played out since we -- since.

18 You know, in other words, we are making
19 this -- assuming we are going forward here, we
20 are in the second quarter beginning to make
21 this play and then, you know, you have these
22 two likelihoods there. How did it actually
23 work, you know, looking at it in six months,
24 in a year, in two years, something like that.
25 I guess what I would do is ask BAM, if you
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2 could figure that out for us.
3 MR. HADDAD: Same thing Antonio asked or
4 --
5 MS. PELLISH: I think it's attribution,
6 that's what you are asking for.
7 MS. VICKERS: Can I make a suggestion.
8 MR. ORLANDO: Great minds think alike.
9 MR. ADLER: We spend too much time
10 together.
11 MS. VICKERS: Just in terms of concrete
12 next steps, I think the board has two
13 decisions to make. First to kind of --
14 whether we are comfortable with BAM
15 directionally tilting the portfolio to the
16 edges of some asset classes because of, you
17 know, everything that we have discussed today,
18 not changing anything that's -- you know,
19 targets that are in the IPS, just
20 understanding that we might go up to the limit
21 in certain asset classes and that is something
22 that's very short term and something that I
23 think, you know, we are kind of directionally
24 doing and my personal opinion is that we
25 should continue to do and that's something
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2 that I think they need our feedback on sooner
3 rather than later. You know, some of the
4 attribution and the further study might be a
5 decision that would play into an overall
6 decision and discussion about whether we want
7 to do another strategic asset allocation at
8 this point.
9 So I think that there is kind of a
10 shorts-term thing that we could do that I am
11 comfortable with sort of making the decision
12 without further study and then there is
13 further study that might play into whether we
14 want to do a strategic revisit of the
15 portfolio.
16 MR. ADLER: I just have a question. Did
17 we get your Rocaton's current capital markets
18 expectations, have you distributed that?
19 MS. PELLISH: We --

20 MR. FULVIO: Should have been
21 distributed last week. I think we sent that
22 to our clients last week, so you should have
23 received that. We can recirculate that on the
24 board mailing, if that's helpful.
25 MR. HADDAD: John, what we have asked

2 Rocaton to do and they've done is to update
3 the asset allocation that their revised
4 capital market assumption and I think you did
5 that for D/31, I don't think March 31st.
6 MS. PELLISH: Probably not.
7 MR. HADDAD: It's a mini-version of the
8 strategic asset allocation. And I don't
9 remember, I can't remember exactly where it
10 came out, but I think you might be 100 percent
11 in agreement with our directional arrows.
12 MS. PELLISH: Yes. So quarter to
13 quarter the numbers don't change very much,
14 but I think there is value going back and
15 looking at the assumptions that were built in
16 for the study several years ago saying what
17 has changed in those assumptions, what has
18 changed in the environment, is there anything,
19 or what has changed in our risk posture and
20 perspective. So I think there is value in
21 doing that, even though our capital market
22 assumptions don't change much over 90 days.
23 MR. HADDAD: I would ask you to share
24 your three to five-year capital market
25 assumption on the U.S. equities.

2 MS. PELLISH: I think it's something
3 less than 4 percent on average.
4 MR. ADLER: For U.S. equities?
5 MR. MALERI: It's actually zero for the
6 next three years.
7 MR. ADLER: Capital market expectation
8 is zero for the next three years?
9 MR. FULVIO: 2.8 percent for ten years.
10 MR. HADDAD: That speaks to the
11 valuation situation and what drives their
12 returns expectation valuation is a big part of
13 it.
14 MS. PELLISH: It dominates, yes.
15 MR. ADLER: What was it two years ago?
16 MR. MALERI: It was higher. Probably
17 closer to 4, 4-1/2 I would guess.
18 MS. PELLISH: So we did not see -- to be
19 very clear, we did not see what happened in
20 2017 and --
21 MR. MALERI: Only to defend myself:

22 When we do this work while we show you kind of
23 the expected case, we do build in a very wide
24 range of outcomes. So it was in there; it was
25 certainly at the upper end of those

2 expectations.
3 MS. PELLISH: We were much more
4 optimistic about non-U.S. equities and
5 emerging market equities, which actually did
6 play out.
7 MR. HADDAD: Well, in excess.
8 MR. ADLER: In response to your
9 question, Susannah, what I would suggest, what
10 I would ask, I don't think we should answer
11 the question about strategic asset allocation
12 today because I think we want to get
13 additional information and analyze it and so
14 on. But I think the first question you asked
15 is are we comfortable with this tactical
16 direction that BAM is proposing. You know, I
17 would ask the board is there comfort with that
18 as an immediate -- because actually we really
19 want to put this in effect, so I would ask if
20 there is --
21 MS. VICKERS: I think it is happening.
22 MR. ADLER: It is happening. So I guess
23 let me put it on the reverse. Is anybody
24 uncomfortable with saying to BAM, yes, that's
25 the right direction to go right now?

2 MR. KAZANSKY: Well, I guess my question
3 is is that -- when we voted on the asset
4 allocation and we voted on the rebalancing
5 ranges, the understanding was that it wouldn't
6 necessarily be needed for us to interject as
7 long as they were moving within those
8 rebalancing ranges. Were there any caveats to
9 that as far as a time period or rationale
10 behind it?
11 MS. VICKERS: No. And I just want to
12 jump in. I think the reason we are even
13 discussing it today is because we are at this
14 extraordinary point. And the mayor's office
15 had asked for a review of the strategic
16 allocation and so BAM's response to that was,
17 we are already kind of doing this strategic
18 tilt.
19 MR. ADLER: Tactical tilt.
20 MS. VICKERS: Strategic, sorry. It's
21 not strategic at all.
22 MR. ORLANDO: It's within the strategy.
23 MS. VICKERS: So we want to make sure

24   everybody is on the same page. What BAM is
25   doing is completely within the rebalancing
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 2   ranges that BAM has discretion, but we want to
 3   make sure everybody is comfortable and
 4   everybody is on the same page. So it's not an
 5   action item we have to vote on; it's just is
 6   everybody cool of it kind of.
 7   MR. ADLER: That's exactly what I was
 8   going to ask.
 9   MR. HADDAD: I think if I could channel
10   my inner Scott Evans, I think what he said I
11   am not going to tilt the portfolio, we are not
12   good at it, I don't believe in it, it's hard
13   to do, blah, blah. When I got him over the
14   hurdle, it is -- the high hurdle is we are at
15   extraordinary time periods, a point in time
16   and that argues for doing some within the
17   existing ranges, some of that. And as either
18   Susannah or John pointed out, these are
19   three-month snapshots. I am not going to
20   comment on what May 3rd snapshots look like.
21   I want to say they are different.
22   We want to be transparent, we want to be
23   informed, and we want to get your temperature
24   on whether this is okay or not. And if it's
25   not, then we will take appropriate action.
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 2   And if it is, we might do different
 3   appropriate actions. It's public session. I
 4   don't want to comment on what we are going to
 5   do, but -- you know.
 6   MR. ADLER: I just want to make one
 7   comment on this too, which is that in 2008
 8   virtually every pension fund got slammed.
 9   And, you know, that's a technical term but
10   the, you know, correlations went, you know,
11   everybody was correlated and so on. The one
12   exception that I am aware of, and Robin might
13   remember others, was the GM Pension Fund. And
14   they went -- they went to cash big time and so
15   they survived. I mean, when I say "they
16   survived," they didn't have the double-digit
17   drops that virtually every other pension fund
18   had. You can look at that and I was very
19   impressed they did that.
20   MS. PELLISH: Did they reinvest back
21   into the market?
22   MR. ADLER: Yes, after the crash.
23   That's my understanding.
24   MR. AARONSON: After the crash or after
25   the market was up?

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2 MR. ADLER: They went to cash when the
3 market was inflated and then the market
4 crashed. Then I believe -- I don't know if
5 they timed it perfectly, you know, because you
6 don't know when the bottom is. So they may
7 have done it on the way up, I am not sure.
8 But my understanding, they went to cash so
9 they survived much more so than every other
10 pension fund that I am aware of the drop.
11 Now, we are not obviously -- A, we can't
12 time it and, B, we are not going to take on
13 that kind of thing. But the fact is I
14 honestly found it very reassuring that what
15 you are basically telling us what we are going
16 to do is rebalancing into a greater cash
17 position, because I think that given this
18 description of the market conditions that we
19 are in that that is probably the safest place
20 to be in terms of trying to minimize the drop
21 that we anticipate through the equity decline
22 and interest rates rise. But I agree we don't
23 have to make any decision today. But I really
24 just wanted to see if as of today folks,
25 trustees are comfortable with the direction
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1 Proceedings
2 that BAM has laid out for us. Does anybody
3 like feel like no, we got to put the kibosh on
4 this? Okay.
5 MR. ORLANDO: I guess I feel like when
6 we made the decision two years ago to go into
7 the long duration, we made it at a point in
8 time. And we should recognize that as time
9 goes by, more data points appear, right,
10 things either go the way you expect them to
11 which never happens or, you know, other things
12 happen. And this action is us recognizing
13 that the world has changed a little bit. We
14 have got more information to make better
15 decisions with and so I am comfortable within
16 the strategic allocation that we already
17 decided on not to exceed with this decision to
18 move a little closer towards the high end of
19 the range, personally.
20 MR. ADLER: Great.
21 Okay. Let me just say thank you to Mike
22 and to the whole Rocaton team. I thought this
23 was a really good discussion and you are
24 illuminating things that, speaking for myself,
25 about which I need to be illuminated so I
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2 appreciate it.
3 Okay, so I think our next agenda item.
4 We are running very late, but so we have the
5 Verite presentation.
6 MS. PELLISH: So they are waiting
7 outside; we have their presentation. Just one
8 person.
9 MR. ADLER: Welcome. If you would,
10 please introduce yourself for the record and
11 then the floor is yours. And we really want
12 to try to keep this to thirty minutes total.
13 MR. FULVIO: Maybe I will just make a
14 quick introductory comment. So we would like
15 to welcome Shawn MacDonald from Verite.
16 You might recall at the last meeting we
17 discussed a broad review of the emerging
18 market equity country screens. As part of
19 that review, we are considering an alternative
20 approach to thinking about how we look at
21 different factors we previously have been
22 screening on and how under a new approach we
23 might think about that a little bit more
24 differently by expanding the opportunity set
25 from where we are today. And rather than

2 wholesale exclusions, thinking more about how
3 we engage based on the holdings and focusing
4 on the similar factors, but more a way of
5 using that information to engage with
6 companies in emerging markets.
7 So today we have invited one of the
8 experts we referred to at the last meeting who
9 is involved in the process that NYCERS
10 undergoes today, but that's only a very small
11 portion of what they do and the type of work
12 they work with clients. We will let Shawn
13 introduce Verite and speak more broadly about
14 how they work with other clients of theirs and
15 the work that they do which is very
16 interesting, but also talk a little bit about
17 some of the ideas they have based on the
18 broader view we shared with them about the
19 direction of the futures board.
20 So with that, I will turn it over to
21 Shawn.
22 MR. MacDONALD: Thank you, Mike and
23 Robin, for inviting me. It's a pleasure to
24 see you all. I know you have a short amount
25 of time, so I will try to be quick.

2 I am Shawn MacDonald. I am the CEO of
3 Verite. Verite is a nonprofit organization

4 that was founded more than twenty years ago to
5 promote fair safe legal work globally. We
6 work concretely on supply chain practices and
7 policies. Verite is quite unique in that we
8 work with all stakeholders in the labor space,
9 meaning we work directly with workers
10 themselves, with suppliers on factories and
11 farms, multinational corporations, investors,
12 unions, governments, the whole range which is
13 actually quite unusual in the labor space.
14 We were founded in 1995. We have a
15 footprint of about 100 people globally,
16 offices in places where you would expect there
17 is a lot of our kind of work; China, Southeast
18 Asia, South Asia, Latin America, with
19 headquarters of about 35 people in
20 Massachusetts. We do things ranging from
21 assessments and audits in supply chains to
22 policy advocacy work around supply chain
23 practices and policies as well as a lot of
24 training and consultations for businesses.
25 What I would like to do is really emphasis the

2 fact that much of our work focuses on risk
3 assessment.
4 If you take a look at page 4, I will try
5 to go through these quickly and I will let you
6 know once in a while when you should flip
7 pages, since it's not on the screen. A lot of
8 our work focuses on risk assessment because,
9 frankly, where a lot of investors and
10 companies are at the moment is still coming to
11 grips with their risks around the world. That
12 could be risks related to human trafficking to
13 unsafe workplaces to gender discrimination.
14 And so for many of our clients, we really help
15 them figure out what is their risk profile and
16 that can come in four major ways. Looking at
17 evaluating the country, commodity, or sector
18 risk, we do also a lot of work in combining
19 risk profiles where you are looking at how a
20 particular sector is actually operating in a
21 company, because obviously conditions can vary
22 a good deal between countries in the same
23 sector. We also do a lot of individual
24 company benchmarking. And the reason that's
25 important is because as more multinationals

2 are trying to understand what risks they face
3 in the suppliers they are choosing, they want
4 to be able to know how they could
5 differentiate between which supplier may be

6 presenting more risk to them than others. And
7 in our work with investors they want to have a
8 handle on how well the holdings they have,
9 those companies, are understanding the risks
10 and practically what are they doing to deal
11 with them. And then we do a great deal of our
12 work, more than half of our officer work,
13 within company engagement where the level of
14 risk analysis is much more practical and in
15 depth where we do audits and assessments,
16 self-assessments questionnaires, working with
17 grievance mechanisms to hear directly from
18 workers about what the status of the situation
19 is and then tailoring our trainings and
20 toolkits and consultation capacity building to
21 work to help that company deal with this risk
22 more appropriately.
23 On page 5, I wanted to give you now a
24 couple of examples of the kind of risk
25 assessment work we have done over time and be

2 able to give you some sense of how we may be
3 able to help you transition. Since 2000, we
4 have worked with retirement systems to
5 understand country level risk. So back in
6 2000, we worked with CalPERS and more than 25
7 countries. We provided an analysis of what
8 risks existed on labor matters, that was mixed
9 with other information about countries'
10 investment openness and transparency and
11 things like for CalPERS to decide whether they
12 would invest in a particular country. When
13 they moved away from that methodology, that's
14 why we no longer work with them. But since
15 2000, we have worked with NYCERS. And I think
16 the important thing to note, some of you are
17 familiar with the work we have done for
18 NYCERS, is that we have a really comprehensive
19 approach to how we do the analysis. And
20 what's really important is we don't just have
21 some kind of algorithm that says throw in some
22 information based on publicly available
23 sources, but every year have in-country
24 researchers update the situation across all
25 the national labor organizational corp labor

2 criteria as well as a lot of other
3 quantitative and qualitative factors. And
4 then that's all analyzed by experts in-country
5 as well as our headquarters so that we are
6 able to provide really valuable up-to-date
7 information. So that's what we provide for an

8 organization like NYCERS.
9 On the next page is another really
10 interesting example, particularly for those of
11 who you may still be in the classroom for your
12 teaching colleagues, where we created for the
13 U.S. government a website called the
14 Responsible Sourcing Tool where we were
15 helping the world's largest supply chain,
16 which is really the federal government, come
17 to grips with how to implement President
18 Obama's executive order that would require
19 federal contractors of a certain size to have
20 an antihuman trafficking plan in place. Our
21 policy team was actually very active with the
22 White House in crafting that executive order.
23 And then they asked us to do a full analysis
24 of 15 major sectors globally for which sectors
25 were most at risk for human trafficking as

2 well as analyzed more than 44 commodities and
3 then present sociopolitical and economic risk
4 information for more than 100 countries,
5 wrapped that altogether into that website
6 Responsible Sourcing Tool that other companies
7 can access to better understand where risks
8 may be and then create open source-compliance
9 tools to help those companies figure out how
10 to deal with this. So this was an example
11 where our policy company engagement as well as
12 research work all come together around a
13 particular type of risk, that is human
14 trafficking, for a wide variety of companies.
15 And then the next page you will see how
16 we took that concept and dug a little deeper
17 into Africa where we had a client. In this
18 case, it was the state department asked us to
19 go really deep onto trafficking risk in Africa
20 with particular criteria where they wanted us
21 to provide more in-depth information. I think
22 this is really important because all of our
23 efforts end up being tailored to the needs of
24 a particular client. They wanted us to really
25 focus not just on the typical indicators of

2 trafficking, but also what was the links to
3 environmental crises, political crises, that
4 sort of thing. And also there we worked very
5 closely with union affiliates in many of the
6 countries there to get really in-depth
7 information about things from a worker's
8 perspective.
9 On the next page you will see some

10   examples of how with individual's
11   socially-responsive investment firms or their
12   advisors or companies themselves were able to
13   do risk profile information. And this is
14   really based on -- it always ends up being
15   based on their willingness to share a certain
16   amount of data or their comfort with digging
17   in or getting information for companies. So,
18   for example, one client asked us to look at
19   whether -- the risks in the electronic sector
20   not just generally, but specifically focused
21   on foreign contract workers for example, or
22   how we could benchmark their holdings against
23   peer companies. Because, as you know, many
24   companies will try to tell you all the
25   wonderful things they are doing and a lot of

2   our investor clients really want to know how
3   can we really evaluate and judge the
4   information that they are giving us; are they
5   basically, you know, telling us a lovely
6   story, but how do they really compare against
7   their colleagues. So we also very often will
8   do risk assessment based on the spend and the
9   leverage of the company; where are they
10   putting most their money, where do they have
11   most leverage in terms of the size and
12   durability of the contracts they have.
13   On page 9, so just another quick example
14   focussed particularly on work we do when it's
15   just based for various reasons on public
16   sources of information. So along with
17   Sustainalytics and Business & Human Rights
18   Resource Center, we created this Know the
19   Chain that evaluates companies on their human
20   trafficking and forced-labor transparency
21   statements and efforts based on publicly
22   available information. And then I think it's
23   really particularly important to note that
24   when we focus specifically on SRI firms and
25   the information that they need, that we spend

2   a lot of time helping them weight how they
3   want us to evaluate the companies, so what
4   kind of scoring methodology is created.
5   On the next page, 10, this just gives
6   you a really brief overview when we work
7   directly with companies and that can be
8   companies at the headquarters level,
9   multinational headquarters level, or at the
10   major supplier level where we help them start
11   off essentially with mapping their exposure,

12 evaluating the levels of risk, figure out how
13 to build capacity, or provide the tools they
14 need to deal with these and really focus on
15 the root cause analysis and improving their
16 systems and processes.
17 On the next page -- I won't get into all
18 this, but you can see a lot of the larger
19 in-depth practical types of engagements that
20 we have with companies where we really help
21 them figure out how to improve their due
22 diligence systems, create management systems
23 approach. Because frankly no company deals
24 really well with labor issues, so it's a
25 journey for all of them. So really helping a
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2 company figure out in which particular supply
3 chains and which countries they should do
4 which steps at what robust pace is really the
5 kind of work that we are able to do based on
6 the experience we have working for more than
7 twenty years across different countries and
8 sectors. So that's a really brief overview of
9 the type of work that Verite does.
10 On page 12, I laid out just -- and 13 --
11 some basic options for the kind of engagement
12 that we had been brainstorming. Obviously
13 we're very eager to hear your questions and
14 comments, but we really thought if and when
15 you decide to transition away from a
16 country-level screening approach, that we
17 could advise based on our previous experience
18 how to facilitate that transition to looking
19 at a sector based or a commodity-based or
20 actually evaluating individual companies or
21 groups of companies. Obviously we would be
22 able to give a lot of in-depth analysis based
23 on particular sectors or commodities or
24 countries with that expectation that it would
25 be based not just on desk research or publicly
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2 available information, but in-depth expertise
3 on the ground in these countries. And also
4 potentially if you are trying to figure out
5 what is the right sort of methodology for how
6 you evaluate companies, what are the kind of
7 things like self-assessment questionnaires,
8 other forms of data-gathering, types of
9 engagement, types of questions to be asked,
10 processes, even building the capacity of your
11 team or your advisors team to interact with
12 companies to really better understand how to
13 benchmark them against their peers or, more

14   importantly, how to benchmark them against
15   what your expectations and goals are for them.
16   And I know that can be a difficult process,
17   but we really work with clients to say what is
18   your short and long-term goals for the
19   companies that you are invested in, are you
20   expecting them to be above average, how
21   important is it to you that you work with them
22   over many years and that you see continual
23   progress, how can you evaluate that progress,
24   that sort of thing, or are you going to take a
25   more indirect approach and just try to avoid
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2   particular sectors or try to benchmark your
3   holdings against a certain level of
4   performance for companies in a particular
5   industry. So those are the kinds of things.
6   On page 13, if and when you are
7   interested in more direct company engagement
8   obviously this is work, our bread and butter,
9   that we have done for many years and that way
10   we can help you benchmark, help you rank,
11   figure out the criteria, actually engage with
12   individual companies as appropriate or perhaps
13   build the capacity of you all to figure out
14   what kind of questions you want to ask, what
15   level of information you want to get from
16   them, what is the nature of the back and forth
17   of engagement that you want to have with them
18   and if necessary, possible, and desirable from
19   your perspective actually provide some
20   capacity-building or advice for the companies
21   that you invest in to actually improve their
22   performance. So that's actually a spectrum in
23   terms of how deeply involved you want to get
24   or if you want to help in developing the
25   journey, so to speak, for how you might pilot
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1   Proceedings
2   particular approaches for different sectors or
3   companies rather than necessarily jumping
4   right off a cliff into direct engagement with
5   individual companies on improving their
6   performance.
7   So there you have it, a couple of ideas
8   for how you may transition based on a lot of
9   experience that we have had doing this type of
10   thing. And I will hear whatever questions or
11   discussion you would like to have at the time,
12   I am available.
13   MR. ADLER: Questions for Shawn?
14   MS. PENNY: This sounds great. We
15   started this work because we had a list of

16 excluded countries and we were not really sure
17 should they still remain on the list and, you
18 know, what has changed. But this also gives
19 us the ability to make changes for some of the
20 countries that we feel -- so this sounds
21 wonderful. Thank you, very interesting.
22 MS. VICKERS: I will just say, I also
23 sit on the NYCERS board along with the mayor's
24 office. So we are very familiar with this and
25 had a great experience at NYCERS, but one
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2 question that we have been batting around a
3 little bit is: How fresh is the data? You
4 know, sort of we have a particular way of
5 doing things at NYCERS. With Callan's
6 involvement it sometimes seems like we might
7 be looking at research or information that
8 Verite did maybe not particularly in the most
9 recent past. So can you talk about timing a
10 little bit, how it works maybe, how it could
11 work or how it should work?
12 MR. MacDONALD: Yes. So our -- I can't
13 speak for Callan, although my sense is some of
14 the other types of information and analysis
15 they provide you is based on older
16 information. Our information is updated every
17 year and so it includes not just the freshest
18 desk research available, but in-country
19 experts who go out and do interviews with
20 relevant stakeholders. That would include
21 government people, union officials, civil
22 society activists, and so on as well as a
23 legal analysis of how laws have changed. So
24 our information is fresh every year. Of
25 course certain reports or information, legal
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2 analyses and things don't refresh every year.
3 Because of many things around legal statutes
4 and so on, changes don't happen every year.
5 But we provide an annual refresh of how
6 stakeholders in these countries are
7 understanding and forecasting what may happen.
8 So, for example, Freedom of Association
9 Laws rarely change so we would note there
10 hasn't been a change, but we would also note
11 that maybe the recent spate of strikes in that
12 country should be viewed in this way or in a
13 particular way. It can be seen as a positive
14 sign of more strength and growths of the union
15 sector or it can be seen, you know, usually in
16 a mixed way of course, but the bottom line is
17 that it's refreshed every year. I think some

18   of the other information about market
19   transparency and things that we don't do,
20   because we are only a small part of what
21   Callan provides, may be based on older
22   information.
23   MS. VICKERS: Thank you.
24   MR. ADLER: So I have a question. So
25   the way our emerging markets policy works is
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2   it's based on the country, where a company is
3   traded; have I got that right?
4   MS. VICKERS: Listed, yes.
5   MR. ADLER: So what you are talking
6   about here I think is more about, you know,
7   operations, particular supply chains. For
8   example, there is lots of companies that are
9   U.S.-traded companies, you know, Nike and
10   Apple and on and on, but where their supply
11   chain operations are in some of the countries
12   that are considered emerging markets. So
13   those are not considered emerging market
14   countries because they trade in the U.S., but
15   supply chain issues, you know, are all over
16   the world.
17   MR. MacDONALD: Of course, yes.
18   MR. ADLER: So part of my question is:
19   You know, if we are talking about moving from
20   a country screen to a company screen, are we
21   limiting that to companies that are actually
22   traded in these emerging markets and -- you
23   know what I mean?
24   MR. MacDONALD: Yes. I mean, obviously
25   I can't make that decision for you.
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2   MR. ADLER: But I would like your
3   reflection on that.
4   MR. MacDONALD: It seems quite
5   arbitrary. If you tend to lead with your
6   values and look at labor risks in particular
7   and other kind of social risks, then the
8   relatively arbitrary notion of where they are
9   traded or where their headquarters is is
10   really sending you off in the wrong direction.
11   Because that's where if you are saying, okay,
12   based on our holdings and the products supply
13   chains associated with, that's where you can
14   say, okay, we are really heavily invested in
15   electronics and then you say, okay, what are
16   the several countries where electronics are
17   mostly produced that would have a risk for us;
18   say Malaysia or Taiwan or China and go from
19   there. So it takes a little bit of data, but

20   it's not that difficult, you know, to leapfrog
21   to where your problem is.
22   MR. ADLER: I think that's a challenge
23   for us, because I don't disagree with you
24   that's sort of an arbitrary distinction. So
25   really I think are we limiting ourselves to
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2   examining, in your case, the labor practices
3   of companies that are traded in emerging
4   markets, on emerging market stock exchanges as
5   opposed to the country where operations or
6   supply chain, what have you, take place. I
7   mean, I think that's really a question for the
8   board as opposed to Verite because I
9   understand you could actually provide these
10   services for any country that's traded
11   anywhere, including much of the S&P 500.
12   MR. MacDONALD: Sure, or finding a way
13   to slice and dice the holdings and say we see
14   these top fifty companies, they are breaking
15   down in electronics, food and beverage,
16   apparel, construction, something like that.
17   And say of those, unless you have additional
18   information that would say otherwise, we would
19   be able to say the likely countries where
20   those things are being sourced would be these
21   ten. And then you can do an overlay to say
22   are you particularly interested in the country
23   risk, are you particularly interested in what
24   the sector is like in that country and how do
25   the risks stack up there. Because even
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2   countries right next door to each other can
3   present a quite different labor profile on
4   whether they are a sending or receiving
5   country for migrant workers or the situation
6   in China is quite different than the situation
7   in Taiwan, even though you are dealing in the
8   same Taiwanese-owned electronic companies.
9   So that's where with a little bit of
10   data based on the company, what they are
11   selling, what the shape of their supply chain
12   is or, as I said, other kind of ways of
13   cutting it where you say of a huge
14   multinational company like a Unilever or
15   something, you know, what are you spending
16   most on, or we can look at the top say twenty
17   commodities that they are associated with and
18   say, okay, here are the top five to be
19   concerned with. And then, importantly, that
20   can give you a sense of, depending on the
21   nature of the engagement, where do they rank

22   compared to their peers, how are they ranked
23   in terms of the existence or the effectiveness
24   of their compliance system. That's probably a
25   little bit further down the road in terms of
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 2   really understanding when they say they have
 3   compliance in place, how do you judge that.
 4   But I think country-level sectorial
 5   information and commodity-level information,
 6   there is a lot there that can be easily worked
 7   with that can give you a much more nuanced
 8   picture without too much difficulty and
 9   actually without too much sharing of really
10   in-depth proprietary information, because a
11   lot of these companies have that information
12   anyway.
13   So it's really about what level of
14   comfort and leverage you have in gaining that
15   kind of information from them. And that's
16   where I talk about being able to advise you
17   this is the information you have, these are
18   the sources of information you think you can
19   likely get from them based on the nature of
20   your relationship, based on your capacity of
21   your team to get that information, how much of
22   a hassle are they willing to go to nag the
23   companies, speaking frankly, to give you that
24   information and then say, okay, with that we
25   would be able to provide these kind of risk
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 2   profiles for you and once you have those risk
 3   profiles say, okay, what might you do with
 4   those because, this is the information we face
 5   with all sorts of people. You know, you can
 6   give more and more information, that doesn't
 7   mean it's easy for companies to then turn on a
 8   dime and begin to do things differently or an
 9   investor to say all right, wow, I didn't
10   realize things were that bad. Doesn't mean
11   you are going to sell off or should sell off
12   right away and it doesn't mean you have
13   terrific alternatives to buy into either, so
14   -- but it gives you kind of a picture of which
15   -- a better picture of what you are faced with
16   with these companies and then perhaps work
17   through and say, okay, what do you want to do
18   with this information, what do you want to try
19   out in the next year or two.
20   MS. PENNY: So how does this work? You
21   would give us a list of countries or you give
22   us reports on some of these or we would
23   contact you when there is an investment coming

24   up in a country that we didn't normally invest
25   in? Like how does that work or how does it
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2   work with NYCERS?
3   MR. MacDONALD: With NYCERS, for
4   example, we have a set of countries. They
5   changed a little bit over the years, but it's
6   25, sometimes 23 countries. So it's the
7   routine set. I think it really depends on,
8   you know, first determining what your goals
9   are, but certainly we are able to provide
10   country and levels, sectorial level, commodity
11   level. But it's based on the type of company
12   and the kind of information based on their
13   compliance profile. What I mean by that, what
14   are they doing or not doing to deal with these
15   company problems, what kind of confidence can
16   you have in the fact that they are moving in a
17   positive direction or not.
18   MS. PENNY: So it would be -- so if we
19   wanted to invest in one of those countries we
20   would say, okay, we are looking at this
21   country, has there been any change or --
22   MS. VICKERS: I don't think it's sort of
23   that one-off like we would have Verite consult
24   every time we are looking at a country. It
25   would be if we decide to kind of go, it seems
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2   like on page 12 there could be a discussion
3   about what kinds of things we want to look at
4   whether it's the sector level, the commodity
5   level. And once we get past that discussion,
6   then they would do like an annual report for
7   us that would help inform our guidelines. So
8   it's not on a case-by-case basis.
9   MS. PENNY: It would be there forever?
10   MS. VICKERS: It would probably be a
11   regular review.
12   MR. BROWN: I am impressed with your
13   presentation and with you. I have a question.
14   Thank you for coming, by the way.
15   You talked about foods and commodity,
16   food and beverage. Let's say we invest in a
17   company that transports food and beverage from
18   the U.S. into Mexico let's say through that
19   corridor between Ciudad Juarez and Mexico City
20   up to Yucatan and Acapulco. There are
21   criminals and there are bandits and there are
22   people in kidnapping truck drivers. You did
23   mention that you have in-depth expertise on
24   the ground, so other than the published
25   reports and a lot of crime -- what's happening

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 2   in Cancun now, a lot of the crime is just not
 3   reported. In Cancun terrible crime situation
 4   there, bombings, the ferries going in between
 5   Isla Mujeres and Cancun, and just we are just
 6   not hearing any of this. So when you mention
 7   you have in-depth expertise on the ground,
 8   what does that mean; how would you know about
 9   things that are happening locally?
10   MR. MacDONALD: Right. That is ironic
11   you mentioned that because that's a situation
12   we are facing right now with some of our
13   colleagues in Latin America, that we have to
14   change our protocols and people's public
15   profiles sometimes so that they don't get into
16   trouble as they are poking around on some of
17   these issues. So specifically we have people
18   from those countries who work with us as
19   consultants usually or as staff who have their
20   finger on what's happening there.
21   And so as an example, in a place like
22   Mexico we were hired by a company to do an
23   assessment of migrant workers from the
24   Northern Triangle countries, Guatemala, El
25   Salvador and Honduras, going into the coffee
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 2   sector in Mexico. So there we would have
 3   people, who spoke the indigenous language of
 4   Guatemala in particular, go into Mexico with
 5   people from Mexico who do work for us. They
 6   would go and assess this information and they
 7   would get information both at the community
 8   level by talking to church people and local
 9   nonprofits as well as the companies. So these
10   are people who are really in-depth experts on
11   labor issues. Now, some of those same people
12   may then spend the month of September and
13   October doing these interviews that then go
14   into our NYCERS report. So because of the
15   diversity of the engagements we have, our
16   people are exposed to conditions from a lot of
17   different sectors. And then, as I mentioned
18   before, they are interacting with workers one
19   day, with CEOs the next, or with government
20   people. Not all of them, some specialize, but
21   those are the type of people we have.
22   And in terms of the really specific
23   criminal gangs and so on, we had mentioned
24   that we tailor our work so that our people
25   aren't put into too much danger, but we
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 1   Proceedings

 2   certainly analyze the nature of those
 3   situations and then highlight the risk
 4   information to the company. But then also try
 5   to figure out what's an appropriate thing that
 6   can be done under those circumstances based on
 7   those -- based on those challenges, but also
 8   particularly from the angle of workers. We
 9   are not there to say ten-point plan on how you
10   deal with criminal gangs, but rather looking
11   at what does this mean for the workers, what
12   additional risks are they facing, what does
13   this mean for what usually-expecting company
14   should have to be dealing with there. Because
15   many companies throw up their hands and say
16   it's really bad, we don't know what to do.
17   And that would be a problem because it doesn't
18   mean they should have a solution necessarily,
19   but they should be trying things and having a
20   continuous improvement process.
21   MR. BROWN: You couldn't have answered
22   it better just knowing that in Southern
23   Mexico, a lot of counties in Mexico, so many
24   people are not Spanish. There are so many
25   indigenous languages and cultures, so your

 2   answer --
 3   MR. MacDONALD: Right. It's a really
 4   challenging situation because -- yes, because
 5   there is a lot of violence against people
 6   dealing with these kind of issues around the
 7   world, so you have to be really very careful.
 8   MR. BROWN: The fact that you said they
 9   to go in and get to know the local people
10   before making decisions, that's fine.
11   MR. KAZANSKY: So we also have a country
12   screen in our private market investments as
13   well. How would you be able or would you be
14   able to help us with that? For example, if
15   you were going to do some infrastructure
16   investment, you know, in Honduras or something
17   like that, currently we have one kind of setup
18   and we are interested in reevaluating that,
19   how or would you be able to help us?
20   MR. MacDONALD: Yes, definitely. The
21   issue of construction is one that's getting a
22   lot more attention in recent years because of
23   the dirty, dangerous, and difficult nature of
24   the work, and because very often there is a
25   link to trafficking because so many foreign

 2   contract workers are involved, whether it's
 3   construction here or in the Middle East or

4 elsewhere. And so without a doubt, we would
5 be able to mix that information about what we
6 know about the country with the particular,
7 you know, construction scenario in that
8 country and then also again, you know, look to
9 see what due diligence is in place, if
10 anything, for that. Some cases around
11 construction we even played an onsite role as
12 grievance advisors for really large
13 construction projects because of the nature of
14 the difficult situations.
15 MR. ADLER: Other questions for Shawn?
16 Okay, thank you so much for coming in
17 and you will be hearing from us probably at
18 some point in time. Thank you for your
19 patience this morning.
20 Okay, if I am not mistaken, that
21 concludes our public agenda. We do have a
22 couple of items for executive session, so a
23 motion would be in order to enter executive
24 session.
25 MR. BROWN: So moved.

2 MR. ADLER: I am not going to recognize
3 the motion.
4 MS. PENNY: I move pursuant to Public
5 Officers Law Section 105 to go into executive
6 session for discussion on particular
7 investment matters.
8 MR. ADLER: Thank you, Ms. Penny. Is
9 there a second?
10 MR. BROWN: Second.
11 MR. ADLER: Any discussion? All in
12 favor of the motion to enter executive
13 session, please say aye.
14 Aye.
15 MS. VICKERS: Aye.
16 MS. PENNY: Aye.
17 MR. ORLANDO: Aye.
18 MR. KAZANSKY: Aye.
19 MR. BROWN: Aye.
20 MR. ADLER: All opposed, please say nay.
21 Any abstentions? Motion carries. Okay, I
22 believe we are in executive session.
23 (Whereupon, the meeting went into executive session.)
24 MR. ADLER: Okay, we are back in public session.
25 Susan, would you please report out of executive session?

2 MS. STANG: Certainly. In executive
3 session there was a discussion on regulatory
4 matters. Consensus was reached which will be
5 announced at the appropriate time.

6 MR. ADLER: Thank you so much. With
7 that, I think we conclude our agenda for
8 today.
9 Is there a motion to adjourn?
10 MS. VICKERS: So moved.
11 MR. ADLER: Thank you. Is there a
12 second?
13 MS. PENNY: Second.
14 MR. ADLER: Thank you. Any discussion?
15 All in favor of the motion to adjourn, please
16 say aye.
17 Aye.
18 MS. VICKERS: Aye.
19 MS. PENNY: Aye.
20 MR. ORLANDO: Aye.
21 MR. KAZANSKY: Aye.
22 MR. BROWN: Aye.
23 MR. ADLER: All opposed, please say nay.
24 Any abstentions? The motion carries, the meeting is
25 adjourned. Thank you very much.

1 Proceedings
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3 [Time noted: 12:45 p.m.]
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4 : ss.
5 COUNTY OF QUEENS)
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7 I, YAFFA KAPLAN, a Notary Public

8 within and for the State of New York, do
9 hereby certify that the foregoing record of
10 proceedings is a full and correct
11 transcript of the stenographic notes taken
12 by me therein.
13 IN WITNESS WHEREOF, I have hereunto
14 set my hand this 14th day of May, 2018.
15
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17 ______________________
18 YAFFA KAPLAN
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