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NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

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INVESTMENT MEETING

4

Held on Thursday, May 5, 2022

5

Via

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Zoom Videoconference

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ATTENDEES:

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DEBRA PENNY, Chairperson, Trustee, TRS

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THOMAS BROWN, Trustee, TRS

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DAVID KAZANSKY, Trustee, TRS

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ALISON HIRSH, Trustee, Comptroller's Office

13

RUSSELL BUCKLEY, Trustee

14

DAMIAN LAUGHER, Trustee, Mayor's Office

15

PATRICIA REILLY, TRS, Executive Director

16

THADDEUS MCTIGUE, TRS, Deputy Executive Director

17

VALERIE BUDZIK, TRS

18

LIZ SANCHEZ, TRS

19

SUSAN STANG, TRS

20

PHILIP DUKES, Finance

21

MICHAEL HADDAD, Comptroller's Office

22

DEVON ALEXANDER, Rocaton

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ROBIN PELLISH, Rocaton

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GREGORY ZELIKOVSKY, Office of the Actuary

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SUMANTA RAY, Mayor's Office

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ATTENDEES (Cont'd)

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YING LIN, BAM

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PETYA NIKOLOVA, BAM

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DAVID LEVINE, Groom Law Group

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ARISTEA AFTOUSMIS, TRS

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ISAAC GLOVINSKY, TRS

7

JOHN GLUSZAK, Comptroller's Office

8

ENEASZ KADZIELA, Comptroller's Office

9

JENNIFER GAO, Comptroller's Office

10

BLAIR BARBERINO, BAM

11

JACKIE YE, BAM

12

HANS KUMAR, BAM

13

SANFORD RICH

14

SEAN BARBER, Hamilton Lane

15

JAMES MAINA

16

KOMIL ATAIEV, TRS

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MARC RIVITZ, StepStone

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BEN CARLIN

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MARINA BORSCH

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P R O C E E D I N G S

2 (Time noted: 10:21 a.m.)

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4 CHAIRPERSON PENNY: Good afternoon,
5 everyone. We're going start with the
6 Passport funds March 22 performance
7 review.

8 MS. PELLISH: Good morning,
9 everyone. So, I'm looking at the
10 Passport fund performance for the period
11 ending March 31. And I think we're going
12 to spend a lot of time on April
13 performance in a few minutes, which is
14 certainly much more disappointing than
15 March performance.

16 You can see in the numbers on the
17 first slide that developed equity markets
18 in the month of March were positive. The
19 Russell 3000 was up about 3 1/4 percent.
20 And the international equity composite
21 was positive as well. Emerging market
22 equity declined during the month of
23 March, as did fixed income.

24 For the month of March we can see
25 that the diversified equity fund was up

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1 2.3 percent. That leaves us with a year
2 to date return of negative 6.1 percent.
3 The return of the diversified equity fund
4 was slightly behind its benchmark. That
5 is largely due to performance of the
6 domestic equity managers during the
7 market quarter period.

8 If we look at the balance fund total
9 in the month of March, we can see it
10 declined 60 basis points again. And this
11 is due to the fact that 70 percent of
12 this fund is invested in relatively short
13 term investment grade bonds, which
14 experienced a negative period during the
15 the month of March.

16 For the year to date period again,
17 returns of the balanced fund option are
18 negative 4.3 percent.

19 The international equity fund
20 recorded a modestly positive return
21 during the month. The active managers in
22 that sector of the fund actually added
23 value over all.

24 If we look at the year to date
25 period for the international fund again,

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1 we see a negative number, like almost
2 negative 7 percent for the year to date
3 period. Remember, that is a composite of

4 not only developed markets but emerging
5 markets.

6 The sustainable equity fund, which
7 is a large growth fund that is focused on
8 businesses which are taking advantage of
9 opportunities in sustainable industries,
10 had a strong return of 2.6 percent,
11 slightly lagging the large cap growth
12 benchmark for the year to date period.
13 That fund has had negative double digit
14 returns, almost negative 13 percent.

15 Finally, we have the U.S. equity
16 index fund, up about 3 percent. The
17 international equity index was about
18 flat.

19 We can -- I think for the sake of
20 completeness we should look at slide 3,
21 which gives you some detail on the U.S.
22 equity managers. And those numbers have
23 generally been disappointing for the
24 month and the quarter.

25 We see particular underperformance
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1 among the growth managers, which is not
2 unusual in the broader manager universe.
3 If you look at the Morningstar peer
4 universes, you would see for the first
5 quarter of 2022 that less than a third of
6 of the large cap growth managers
7 outperformed their benchmark for that
8 period of time.

9 It was a very difficult period of
10 time for equity markets first quarter,
11 and a difficult time for active managers
12 in the U.S.

13 So, happy to answer questions.

14 CHAIRPERSON PENNY: Any questions
15 for Robin?

16 (No response.)

17 Okay. April 2022.

18 MR. ALEXANDER: Brace yourself for
19 this one. So preliminary monthly reports
20 for April, we did see a difficult month
21 across the broad equity markets. So high
22 single digit losses in developed markets
23 and mid to high in international markets.

24 Particularly -- was the large cap
25 growth funds in the U.S. as well. For
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1 the month we have seen 8 percent loss for
2 the month for the diversified equity
3 benchmark and -- expected to see about 50
4 percent loss as well.

5 There's a bright spot. On the

6 balanced fund we did see a slightly
7 better performance, and that's because
8 there's a lot of shorter term fixed
9 income in this, so we did see a loss of
10 just over 3 percent.

11 Again, on the international front we
12 did see slightly better performance,
13 although still at a loss of roughly 6
14 percent. We were expecting to see a loss
15 of about 12 percent calendar year to
16 date.

17 I think the best indication of the
18 actual month performance would be the
19 brown -- which is primarily on growth.
20 We did see a loss of 13 percent and for
21 the year 24 percent.

22 I don't know if I can end this with
23 any good news, but if there are any
24 questions, please feel free.

25 CHAIRPERSON PENNY: Any questions

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1 for Devon?

2 (No response.)

3 Okay. Seeing none, a capital market
4 update?

5 MS. PELLISH: So, we thought, given
6 volatility in capital markets, that it
7 might make sense, although painful, to
8 talk in more detail about what happened
9 during the month of April. I know Mike
10 Haddad and his team will be talking about
11 this as well when they discuss the
12 pension fund performance.

13 But we could look at the monthly
14 market review and take a look at the
15 performance --

16 Let's move to slide 3 (indicating).

17 And this is, I think this page is
18 useful in terms of large asset classes,
19 so equity and fixed, primarily asset
20 classes for the Passport funds, and the
21 pension fund invested.

22 And we can see them side by side.
23 So if we look at the top right hand
24 corner, the table there, again, we
25 mentioned that in April the broad U.S.

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1 equity markets, the Russell 2000 was down
2 almost 9 percent. That brings us to a
3 year to date loss of close to 14 percent.

4 I think it's worth noting, given the
5 very, very strong performance we had in
6 the prior ten years, that the three year
7 return to the Russell 3000 is still a

8 double digit average annual return of a
9 little over 13 percent -- including this
10 year. Because this is a three year
11 average annual return through April 2022.

12 THE SPEAKER: Focus on that.

13 (Laughter.)

14 MS. PELLISH: Yes, we have at this
15 table for many years talked about the
16 fact that returns were unsustainably
17 strong, and global equity markets,
18 particularly the U.S. equity market. And
19 at some point we were going to live
20 through some pain. And we're living
21 through that right now.

22 But I think, again, it's worth
23 noting that we're seeing on a 3, 5 and 10
24 year average annual basis, double digit
25 returns for the U.S. equity markets.

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1 For international equity markets you
2 can see on a year to date basis slightly
3 lower losses of 12 percent versus close
4 to 14 percent. But over the annualized
5 period of 3, 5 and 10 years, mid single
6 digit -- that to the U.S. equity market
7 was really the strongest capital market
8 among global --

9 If we look at fixed income for a
10 moment, the Bloomberg aggregate, you can
11 see that because of rising rates we're
12 experiencing losses even among high
13 quality bonds. So for the month of April
14 we see losses of close to 4 percent, and
15 almost 10 percent losses on a year to
16 date basis.

17 On an average annual basis over the
18 past two years, at the point where fixed
19 income again measured by the Bloomberg
20 aggregate, which is the universe of
21 investment grade fixed income in the
22 U.S., that return is basically flat over
23 the past five years -- less than 2
24 percent on an average annualized return.

25 That's not exclusively the result of

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1 losses during the year to date period,
2 it's really a function of having lived
3 through a period of very, very low
4 interest rates combined with losses on a
5 year to date basis.

6 We can see on the bottom left hand
7 corner on this slide (indicating), a
8 metric that helps to define and measure
9 volatility in the U.S. equity markets.

10 So this is the volatility index. On
11 average over long periods of time it's 18
12 or 20. We see the spike in April of
13 2020, and we see that volatility in the
14 U.S. equity market is currently much
15 higher than typical.

16 It's just a metric of what we all
17 are reading about and living through
18 every day.

19 If we turn to the following page,
20 this provides a little more perspective
21 on U.S. equity returns. We mentioned the
22 growth equities have been, on a global
23 basis, have been particularly hard hit.

24 If you look at the top right hand
25 corner of page 4, and look at the Russell

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1 1000 growth versus the large cap growth
2 in the U.S., you can see for the month of
3 April it's down 12 percent. For the year
4 to date basis it's down just about 20
5 percent.

6 If we compare that to the value
7 index, we can see that the same year to
8 date period, again through the first four
9 months of 2022, the Russell 1000 value is
10 down about 6 percent.

11 Again, there are many explanations.
12 One explanation of this very wide
13 disparity between large cap growth and
14 large cap value, which is actually the
15 largest disparity in over twenty years.
16 So large cap growth has not
17 underperformed large cap value to this
18 extent for the past 20 years.

19 And one, I think, valid explanation
20 is, as interest rates rise the rate at
21 which you're discounting future earnings
22 of these growth oriented companies rises
23 as well; and that brings the present
24 value of those future earnings down,
25 lowering the value of those stocks.

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1 So many reasons, but that is
2 certainly one factor in the
3 underperformance of growth.

4 You can see the small cap has also
5 been very hard hit, whether you're
6 talking -- across the board, but
7 particularly getting growth, Russell 2000
8 growth on a year to date basis is down --

9 I think it is also interesting to
10 look at slide 4 and look at the bottom
11 left-hand chart. What this chart tries

12 to do is give you a sense of the impact
13 of foreign exchange rate changes, being a
14 U.S. investor investing in non-U.S.
15 markets.

16 So if we look at the MSCI we see
17 that. Again, that's the developed market
18 index ex-North America. And when we talk
19 about returns in the EAFI index we're
20 talking about from the perspective of a
21 U.S. based investor. So we're taking
22 U.S. dollars, we're buying hard currency
23 and buying those securities.

24 So we have, when we look at returns,
25 we have to translate the impact, not only
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1 of the company's stock price changes, but
2 also any change in the exchange rate of
3 return.

4 And so, you can see, for example, in
5 the month of April for U.S. dollar based
6 investors, the return was about negative
7 6.4 percent. But the local currency
8 investors, someone who wasn't exchanging
9 dollars for foreign currency and then
10 back into dollars, the return was
11 negative 1.3 percent.

12 So that gives you a sense of how big
13 an impact the appreciation of the dollar
14 has had.

15 Does that make sense? Sort of?

16 So when you're buying foreign stocks
17 you're buying two things. You're buying
18 a hard company and you're buying foreign
19 currency, by definition; right? Because
20 you have to buy the company stock in a
21 currency at which its trading on that
22 local exchange.

23 THE SPEAKER: The increase in the
24 value of dollar has helped us?

25 MS. PELLISH: Has hurt the

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1 dollar-based investor, because we are
2 buying foreign currency and then
3 exchanging that foreign currency back
4 into dollars every time --

5 THE SPEAKER: So when you buy --

6 MS. PELLISH: Yes. If the dollar is
7 appreciating you are buying more
8 expensive dollar stocks. That's --

9 MR. KAZANSKY: Question.

10 I know a while ago we had had
11 conversations about hedging. And so, if
12 memory serves, we decided that it just
13 wasn't worth the time, the effort, the

14 risk, whatever the case may be.
15 Is this simply something that's
16 going to be temporary and doesn't require
17 reevaluating that decision, or is this
18 now an opportunity for us to decide
19 whether or not -- something we should
20 dive into, or at least look into?

21 MR. HADDAD: By definition we don't
22 know where -- are going. So we start --
23 You talk about diversification
24 across asset classes and diversification
25 across geographies. Geographies commonly

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1 march to different tunes, and you get
2 exposure to non-dollar currencies. In
3 this environment it has hurt us. And in
4 other environments it has helped.

5 If we looked at a 50 year chart of
6 the dollar you would see some swings over
7 time. And do we want to hedge that? It
8 is a very difficult question. We decided
9 I think, BAM, a few years ago, given the
10 complexities of it, given the hedge ratio
11 of that and concerned about all those
12 always different -- we thought it was not
13 a good idea -- at that time.

14 And then long term -- given the
15 events on January 6, given the exposure
16 of our deficit, given what us and Europe
17 did to the Russian central bank -- three
18 and a half billion dollars disappeared
19 from Russia's central bank -- diversified
20 -- if someone can do that to you, why
21 would you (unclear).

22 So I think long term we got less --
23 exposure to dollars. I would not --

24 (Unclear/inaudible conversation in
25 the board room.)

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1 PELLISH: Turning to the next slide
2 (indicating). This slide focuses on
3 fixed income markets. There is
4 relatively little fixed income in the
5 Passport funds, primarily in that
6 balanced fund which is 70 percent short
7 of an investment grade, fixed income.

8 But the movement of rates certainly
9 affects the Passport funds in general and
10 certainly has a very big impact on total
11 returns for the pension fund. So let's
12 spend a minute here.

13 The story of interest rates on a
14 year to date basis is really captured in
15 the bottom right-hand chart, which is the

16 current -- Treasury yield curve. And you
17 can see the top chart, the top line is
18 the yield curve as of the end of April;
19 and the bottom line are yield curves as
20 of the end of December, historical yield
21 curves.

22 What you can really see is the move
23 upwards of short term rates and then this
24 very flat yield curve at the longer end
25 of the yield curve.

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1 So that increase in interest rates
2 has led to losses in April and losses on
3 a year to date basis. We can see those
4 losses in the top right hand corner of
5 the same page.

6 Interestingly, if you look at high
7 yield bonds, so lower quality bonds, we
8 look at that on the bottom left hand
9 corner, you can see that U.S. high yield
10 bonds have actually done better than
11 investment grade bonds over this recent
12 period. Still negative.

13 And we're about to move to the only
14 slide with positive numbers, the year to
15 date period.

16 So the next page. You recall
17 virtually none of this in the Passport
18 funds. A little bit of this in the
19 pension fund. And -- real assets,
20 commodities and real estate. And the
21 notable story here, I think you all are
22 aware of this, is what happened in
23 commodities.

24 And we can see in the bottom right
25 hand chart on this page that, if we look

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1 at just the energy index, it was up
2 almost 9 percent for the month of April
3 and up almost 60 percent for the year to
4 date basis.

5 So we've all watched energy prices
6 go up and we know the sources, the
7 geopolitical sources for that as well as
8 the macro economic sources for the
9 increase in energy prices. We can see
10 that in the numbers on that slide at the
11 bottom right hand side.

12 And so, with that I'm happy to talk
13 about anything else, but wanted to give
14 you a little more deeper dive into the
15 global markets during the month of April.

16 Any questions?

17 CHAIRPERSON PENNY: Any questions

18 for Robin?
19 (No response.)
20 We're speechless. That's the last
21 agenda item for the public agenda today.
22 Does anyone else have anything for
23 the public agenda?
24 (No response.)
25 Seeing none, do I hear a motion to
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1 go into executive session?
2 MR. BROWN: So moved.
3 CHAIRPERSON PENNY: Thank you, Mr.
4 Brown.
5 Do I have a second?
6 MR. KAZANSKY: Second.
7 CHAIRPERSON PENNY: Thank you, Mr.
8 Kazansky.
9 Any questions?
10 (No response.)
11 All those in favor please say "Aye."
12 (A chorus of "Ayes.")
13 All opposed?
14 Any abstentions?
15 (No response.)
16 We are moving into executive
17 session.
18 (Whereupon, the Board entered
19 executive session.)
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1 (Whereupon, the Board returned to
2 public session.)
3 CHAIRPERSON PENNY: Welcome back to
4 Teachers' Retirement System public
5 session.
6 Susan, would you like to report out?
7 MS. STANG: In executive session we
8 received some preliminary unaudited
9 performance numbers for the pension fund
10 and a market update.
11 In executive session we also
12 discussed some Board administrative
13 matters.
14 We received a presentation on
15 infrastructure investment. Consensus was
16 reached.
17 We received a presentation on a
18 private equity investment. Consensus was

19 reached.
20 We received a presentation on a real
21 estate investment. Consensus was
22 reached.
23 CHAIRPERSON PENNY: Thank you so
24 much.
25 Does anyone have anything else?
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1 (No response.)
2 Hearing none, do I hear a motion to
3 adjourn?
4 MR. KAZANSKY: So moved.
5 CHAIRPERSON PENNY: Thank you.
6 Do I hear a second?
7 MS. HIRSH: Second.
8 CHAIRPERSON PENNY: Thank you.
9 Any discussion?
10 (No response.)
11 All in favor please say "Aye."
12 (A chorus of "ayes.")
13 Any opposed?
14 Any abstentions?
15 (No response.)
16 We stand adjourned.
17 Thank you, everyone.
18 (Whereupon, 12:27 p.m., the matter
19 was concluded.)
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1 C E R T I F I C A T I O N
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3 I, Jeffrey Shapiro, a Stenographic
4 Reporter and Notary Public, within and for the
5 State of New York, do hereby certify that I
6 reported the proceedings in the within-entitled
7 matter, on Thursday, May 5, 2022, and that this
8 is an accurate transcription of these
9 proceedings.
10 IN WITNESS WHEREOF, I have hereunto
11 set my hand this 11th day of May, 2022.
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16 JEFFREY SHAPIRO
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