

3 INVESTMENT MEETING

5

7 10:04 a.m.

9 Remote Proceeding

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22 William Montague
23 Digital Reporter
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1 APPEARANCES:

2 PATRICIA REILLY, EXECUTIVE DIRECTOR

3 THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR

4 THOMAS BROWN, CHAIR, TRUSTEE

5 KEVIN LIU, MAYOR'S OFFICE, TRUSTEE

6 ALISON HIRSH, OFFICE OF THE COMPTROLLER, TRUSTEE

7 DAVID KAZANSKY, TRUSTEE

8 VICTORIA LEE, TRUSTEE

9 EPHRAIM ZAKRY, TRUSTEE

10 ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES,
11 TRUSTEE

12 KARINE APOLLON, TRUSTEE

13 Also Present:

14 VALERIE BUDZIK, TRS

15 LIZ SANCHEZ, TRS

16 PRISCILLA BAILEY, TRS

17 ARISTEA AFTOUSMIS, TRS

18 WILFREDO SUAREZ, TRS

19 LOREN PERRY, TRS

20 RON SWINGLE, TRS

21 ISAAC GLOVINSKY, TRS

22 KOMIL ATAEV, TRS

23 AMEET CHAUDHURY, TRS

24 STEVE MEIER, BUREAU OF ASSET MANAGEMENT

25 JENNIFER GAO, BUREAU OF ASSET MANAGEMENT

1 HARRY TYQUIN, BUREAU OF ASSET MANAGEMENT
2 KATE VISCONTI, BUREAU OF ASSET MANAGEMENT
3 TINA SUO, BUREAU OF ASSET MANAGEMENT
4 STEVE PAK, BUREAU OF ASSET MANAGEMENT
5 MORAIMA PARES, BUREAU OF ASSET MANAGEMENT
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7 ENEASZ KADZIELA, BUREAU OF ASSET MANAGEMENT
8 GRACE JUHN, BUREAU OF ASSET MANAGEMENT
9 MAREK TYSZKIEWICZ, CHIEF ACTUARY
10 DAVID LEVINE, GROOM LAW GROUP
11 MICHAEL FULVIO, ROCATON/GOLDMAN SACHS
12 AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
13 SEAN BARBER, HAMILTON LANE
14 MARC RIVITZ, STEPSTONE
15 JUSTIN THIBAUT, STEPSTONE
16 LOUIS COLOSIMO, ICG
17 RICARDO LOMBARDI, ICG
18 GINA TARANTINO, GOLDMAN SACHS
19 OLIVER CHASE, OAK HILL ADVISORS
20 GLENN AUGUST, OAK HILL ADVISORS
21 ERIC STORCH, OAK HILL ADVISORS
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1 (The proceedings commenced at 10:04 a.m.)

2 MS. REILLY: Good morning. Welcome to the
3 Investment Meeting of the Teachers' Retirement Board for
4 May 9th, 2024. I'm going to start by calling the roll.

5 Kevin Liu?

6 MR. LIU: Kevin Liu for Mayor Adams. Present.

7 MS. REILLY: Thomas Brown?

8 CHAIRMAN BROWN: Good morning, Patricia.

9 MS. REILLY: Good morning.

10 Anthony Giordano?

11 Alison Hirsh?

12 MS. HIRSH: Present on behalf of Comptroller
13 Brad Lander.

14 MS. REILLY: David Kazansky?

15 MR. KAZANSKY: Present.

16 MS. REILLY: Victoria Lee?

17 MS. LEE: Present.

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

20 CHAIRMAN BROWN: Great. Good morning,
21 everybody.

22 And we'll start with the Passport Funds March
23 2024 Performance Review, and Rocaton. Thank you.

24 MS. JANUSZ: So on the screen, we have the
25 results of the Passport Funds through the end of March,

1 and the first quarter really was a continuation of the
2 very strong markets we saw at the end of 2023. So
3 within equities, we continued to see some of those big
4 tech stocks, the Magnificent Seven leading a lot of
5 those returns, particularly NVIDIA, that has benefited
6 from a lot of the continued optimism around AI and the
7 prospects around AI. We saw several equity indices
8 reaching all time highs during the first quarter.

9 And on the fixed income side, the Fed has
10 continued to keep rates flat and has continued to signal
11 expectation for beginning of rate decreases later this
12 year. Although, the timing of that is still debatable,
13 of course.

14 In terms of the results of your Passport
15 Funds, for the month of March, all positive across asset
16 classes, and kind of the lowest single digits across
17 both equities and fixed income. And I would highlight
18 in particular, for the three months ending March, as
19 well as the one-year, but very strong results for the
20 Diversified Equity Fund, for the one year, up over 25
21 percent, and we had particularly very strong results
22 from your active equity managers, both on the US and
23 international side, but particularly within the US,
24 where that active equity sleeve outperformed its
25 benchmark by more than 5 percent on the trailing one

1 year. So on the whole there, the Diversified Equity
2 Fund outperformed its benchmark by close to 40 basis
3 points there.

4 The strongest performing fund over the year
5 was the Sustainable Equity Fund, which was up over 34
6 percent, close to 35 percent on the year. It didn't
7 quite keep pace with that benchmark, which was up 39
8 percent. Although, that Russell 1000 Growth Index has
9 been incredibly hard to beat over the last year, given
10 how much exposure it has to some of those big tech names
11 that have been really driving some of the strongest
12 equity market results this year.

13 So I'll pause there on the Passport Funds for
14 March, unless there's any questions?

15 CHAIRMAN BROWN: Questions for Amanda? Okay.

16 Now, we move on to the April 2024 Market
17 Performance Update.

18 MR. FULVIO: Yeah, good news? No. The
19 numbers, I'll say the numbers are not good, but we took
20 a sort of different message in terms of the volatility
21 we saw in April. So at a high level, the US equity
22 market was down about 4.4 percent. The hybrid benchmark
23 for the Diversified Equity Fund was down about 3.8
24 percent, both benchmarks down about 3.8 percent. So we
25 saw still negative performance for the non-US equity

1 markets, but a little bit less negative than what we saw
2 in the US.

3 To us, when we look at the volatility we saw
4 in the month of April, it was really the markets
5 catching up to the likelihood that rate cuts would be
6 pushed out to be much later this year, if at all later
7 this year. And that is, we think, indicative of the
8 fact that the US economy has shown pretty good
9 resilience through the first quarter. We think, as we
10 look at the inflation prints that we've seen, which have
11 been a little bit higher than folks were expecting
12 coming into the first few months of this year, that that
13 inflation may actually be indicative of the fact that --
14 how resilient the US economy is.

15 So while we do expect inflation, or continued
16 disinflation, I should say, and sort of that continued
17 decline in above trend growth to more like trend growth,
18 so more like that long-term, kind of 2 percent trend for
19 the US economy, the markets are churning along quite
20 well, and this was, we think, the US markets, in
21 particular, catching up to the fact that, because the US
22 economy continues to be so resilient, rate cuts will be
23 pushed out, more so than we saw in terms of how markets
24 were pricing that likelihood at the beginning of this
25 year. And so this was a little bit of a correction, we

1 think, based on --

2 CHAIRMAN BROWN: That's better news than I
3 expected.

4 MR. FULVIO: Negative numbers, but again, we
5 think, really, the market's reaction to what's been a
6 strong economy.

7 CHAIRMAN BROWN: And in the month of May, it's
8 gone up a little bit? Did we make up for it?

9 MR. FULVIO: We have seen positive marks so
10 far on a day-to-day basis in May.

11 MR. MEIER: The stock market is up about 3.6
12 percent.

13 MR. FULVIO: Yep.

14 MR. MEIER: -- through Monday. Actually,
15 through last night. For the month.

16 CHAIRMAN BROWN: For the month?

17 MR. MEIER: Yeah, it's actually been a good
18 May.

19 MR. FULVIO: Almost back to even and just
20 (indiscernible).

21 MR. MEIER: But we have to caveat this. We
22 still have 52 days to go before June 30th, which is our
23 fiscal year end, so --

24 CHAIRMAN BROWN: But you're not counting.

25 MR. MEIER: No, I am counting.

1 MR. FULVIO: Before you count, before you even
2 count the rebound in May, the fiscal year to date return
3 for equities is still double digits through April, so a
4 very strong fiscal year period to this point, even
5 without that May rebound. That was through April.

6 CHAIRMAN BROWN: That was through April.

7 MR. FULVIO: For equities.

8 CHAIRMAN BROWN: Yeah.

9 MR. FULVIO: We've seen just as much
10 volatility on the interest rate side as well. So your
11 fixed income has sold off as interest rates have risen,
12 although credit spreads continue to be quite tight,
13 again, we think a testament to the strength of the
14 economy.

15 So as we continue to move through the year,
16 you know, we're still expecting, as I said before,
17 growth to likely moderate closer to trend. We would
18 expect to see inflation continue to come down a little
19 bit, and it's possible that, you know, any number of
20 risks in the broader economy, geopolitics, could lead to
21 things changing quickly. You could see, for example, a
22 lot more inflation around commodity prices, if we
23 continue to get more conflicts in the world, especially
24 when you look at what's going on in the Middle East and
25 in Ukraine. That could certainly put, you know,

1 further, further stress on economies as commodity prices
2 have risen substantially this year. But beyond that, I
3 think, you know, we'll continue to keep a close eye.
4 Steve will go into more detail as well.

5 CHAIRMAN BROWN: Great, thank you.

6 Questions for Michael and Amanda?

7 Thank you.

8 So we'll move on to our STAR recommendations.
9 Steve?

10 MR. MEIER: Great, terrific. Actually, Kate,
11 do you want to join us at the table?

12 CHAIRMAN BROWN: Thank you. Everyone knows
13 Kate?

14 MS. HIRSH: Why don't you introduce yourself
15 for the record?

16 MR. MEIER: Our chief of staff.

17 MS. VISCONTI: Okay. Hello. Good morning,
18 Trustees. I'm Kate Visconti, Chief of Staff for the
19 Bureau of Asset Management.

20 CHAIRMAN BROWN: Welcome to TRS.

21 MS. VISCONTI: Thank you.

22 CHAIRMAN BROWN: Pleasure.

23 MS. VISCONTI: I'm just going to pass out some
24 materials for this here.

25 MR. MEIER: Since my time at the Bureau of

1 Asset Management, I think this is Kate's first field
2 trip, where she's actually been let out of the office.

3 CHAIRMAN BROWN: I realize that. We're used
4 to staring at you. I said she must not have been here
5 before.

6 MS. HIRSH: So while -- while Kate is passing
7 around materials, I will start just with a little bit of
8 background and context, just as a sort of -- to set the
9 table for this conversation, and just as a reminder.

10 So if folks remember, about a year-and-a-half
11 ago, we brought to this Board, and the other boards as
12 well, a recommendation to move forward on what we call
13 the Strategic and Tactical Accountability Review of BAM
14 operations and how BAM is provided -- if and how BAM is
15 providing the support for Trustees across the five
16 systems that Trustees need and want.

17 And that process then, as part of that
18 process, each system appointed a liaison to the STAR
19 oversight committee to help guide BAM through that
20 process. There was one labor representative from each
21 of the five systems. I think first Deborah, then Tom,
22 represented TRS as well as Mayor's Office of Pension and
23 Investments sat on this oversight committee, that sort
24 of guided us through an RFP process to hire a consultant
25 to do this, to do a sort of deep dive into the BAM

1 operations and Trustee support that BAM provides.

2 The result of that process was to bring on
3 McKinsey to do a sort of deep dive and assessment. That
4 assessment began sort of beginning of October and
5 wrapped up the end of February. At the same time, there
6 was a -- the Comptroller's Office brought on Mercer to
7 do a comp study, a compensation study for BAM. The last
8 time there had been a compensation study was in 2014,
9 which led to increases for the investment staff, and
10 increase -- there have not been increases for many of
11 the titles since then, and so we wanted to do an updated
12 compensation study.

13 And at the same time, we brought on a
14 different consultant to do a review of our ETI program,
15 the Economically Targeted Investment Program, because
16 that program has also not really been updated in the
17 past 20 years. We run the same -- we do the same
18 investments as part of that program. We wanted to
19 assess, how do we bring that program into the 21st
20 century.

21 So we didn't want to bring haphazard -- the
22 ETI review ended first or ended around the same time as
23 the McKinsey review started, and Mercer ended about a
24 month-and-a-half after the McKinsey review ended. And
25 so rather than coming to the Trustees in a haphazard

1 here's ETI results, here's STAR, here's Mercer, we
2 decided to just like hold on everything to try to bring
3 one comprehensive set of recommendations to the boards
4 to see if we can get agreement on how we can update and
5 move forward on BAM operations, our ETI program, and
6 compensation.

7 So what we're bringing to you today is our
8 recommendations coming out of the results. I think many
9 of you heard directly from McKinsey and Mercer at the
10 beginning of April as well as from BAM on a call with
11 Trustees towards the end of April. And now, we want to
12 officially present recommendations for discussion and
13 hopefully action at next month's board meeting, but
14 we'll see.

15 MR. MEIER: And maybe just to provide a little
16 bit of historical context as well, in the past, around
17 2015, there was another study done called the Funston
18 Report, which was very much BAM-centric and it was very
19 much operational and best practices oriented.

20 This, the intent on the Strategic and Tactical
21 Accountability Review is very much focused on how we
22 support and service the Trustees, how we can improve our
23 capabilities, how we can expand and be able to do more
24 work on a customized basis but do it efficiently, and
25 the results of that analysis are what we're going to

1 share with you today.

2 MS. HIRSH: Okay. So if we go to the next
3 slide? Okay. Well, I did this one already. Sorry, can
4 we go to the next slide?

5 So today, what we want to talk through are
6 some of the outcomes.

7 MS. VISCONTI: Some of those slides are a
8 little -- Wilfredo, can you go to the next one?

9 MS. HIRSH: Oh, there we go. It just
10 didn't -- okay. I was like this is missing.

11 So what we want to talk through today is we
12 want to give you an update on some of the STAR
13 implementation work that is happening within the
14 Comptroller's Office that does not require Trustee
15 action, that we hope will provide benefit -- better
16 Trustee service but doesn't require the action of this
17 board. And then we want to walk through what we're
18 calling the Trustee Service Compact, which is what we
19 are recommending become an annual process at the boards
20 through which the boards and BAM can work together to
21 understand what the BAM work plan is each year, through
22 which the boards will have visibility and approval
23 rights over the corpus parts of the BAM budget, because
24 right now, the Board doesn't actually -- we do it sort
25 of retroactively, and then also talk about a joint --

1 our recommendations for joint manager meetings, and go
2 through what we're recommending for the corpus budget in
3 the coming year, and new and additional resources coming
4 out of these various reviews.

5 Can we go to the next slide?

6 So investment procurement, one of the issues
7 that came out of the McKinsey review that was
8 unsurprising is that both BAM staff and Trustees are
9 frustrated by the length of time it takes to execute any
10 procurement in the public markets. And so as McKinsey
11 was reviewing that process, what they found was, you
12 know, we follow the procurement policy board rules for
13 public market investments.

14 What we found were two things. One, that
15 actually the state PPB rules around what governs New
16 York common and New York State Teachers' is actually
17 different than the City rules and allows for expedited
18 procurement more similar to what we do in the private
19 markets. And so one outcome of this is the Office of
20 General Counsel is going to look into that and say, is
21 there a reason why New York cities have to be different
22 than the state, or can we move towards adopting the
23 state procurement policy board rules, thus expediting
24 the whole process. And that will be -- that is
25 something OGC, the Comptroller's Office of General

1 Counsel is starting to look into, to see what the
2 possibilities are.

3 In the meantime, what they found was that
4 there is a lot of duplication of work within the
5 Comptroller's Office that delays the process, even if we
6 have to -- we stick with the current PPB rules, and they
7 think that if we can get rid of some of that duplicative
8 work, we can probably cut the procurement timeline in
9 half. And so we've gotten an agreement from the
10 Comptroller and from the Deputy Comptroller for
11 Administration and the ACCO's office and the
12 Comptroller's Office to try to get rid of that
13 duplication and to have a BAM chief contracting officer
14 that is separate and apart from that, that is different
15 than the Comptroller's Office agency chief contracting
16 officer, so that we can have two parallel processes,
17 because one of the problems is we have a huge
18 contracting backlog in BAM, and then we get through it,
19 and then it sits in the contracting backlog in the
20 ACCO's Office. And so we're trying to get rid of that
21 duplication.

22 And so we've gotten agreement and permission
23 to hire a BAM specific ACCO and BAM specific legal
24 resources that -- resource, both of whom will be a
25 hundred percent dedicated to overseeing the procurement

1 team within BAM and expediting our procurement process.
2 So that is exciting, and like, to me, feels like a very
3 big bureaucratic win.

4 MR. MEIER: But also, it rolls up to the Chief
5 Investment Officer --

6 MS. HIRSH: Right.

7 MR. MEIER: -- so there's more accountability.
8 So for example, we have a dedicated team that works
9 within the General Counsel's Office within the
10 Comptroller's group that only focuses on private asset
11 deals for the five pension plans, are a hundred percent
12 dedicated to that.

13 I sit down about every other week with Irina
14 Tumova, who actually runs that group for us. We go
15 through all the contracts, what are the sticking points.
16 Then we as a team or I will reach out to our
17 counter-parties and say, can you work with your legal
18 folks? We're not making progress. We're kind of bogged
19 down in this issue. We do that to great effect.

20 And the reason we have a different process is
21 because private assets are not considered to be
22 something that needs to go through the normal
23 procurement process. So we've got great efficiency
24 there. Having the ACCO and the public market side roll
25 up into the CO gives us the same visibility, the same

1 accountability, and the same responsibility for pushing
2 things through. So for example, when you give us a
3 mandate, it shouldn't take two years for us to execute
4 and implement.

5 I know we have an issue right now, we're
6 delaying intentionally, and we owe you an answer on the
7 developed market XUS, that's kind of separate and apart.
8 But this gives us an opportunity, gives us more
9 visibility and more accountability to get on the phone
10 and call BlackRock, or whoever the counter-party is that
11 we're contracting with, to move things forward. So
12 again, we are hoping we can cut it down by at least
13 half.

14 MS. HIRSH: Great. Okay. And then just
15 moving forward to the next slide?

16 So then consultants, one of the things -- and
17 Steve, I don't know if you want to jump in here?

18 But one of the issues that came up is that the
19 way that -- the consultant dynamics across each of the
20 systems is varied and there are different expectations
21 of the consultants across the systems and it's just not
22 consistent.

23 And so, you know, TRS obviously does the
24 procurement for the TRS general consultant, I believe
25 BAM, on behalf of the system, does the procurement for

1 the specialty consultants, and we do the procurement for
2 specialty consultants and general consultants for most,
3 though not all, of the other systems. And so we just
4 want to work with the Trustees to regularize, like to
5 systemize expectations, reporting, et cetera, really
6 follow the lead of what Rocaton already does, and have
7 the specialty consultants sort of report up into the
8 general consultants in a more concrete way.

9 MR. MEIER: I think the benefit there is you
10 know, obviously, I think the relationship that the
11 Bureau of Asset Management has with the various
12 consultants is actually really good. It's quite good
13 here. It's actually improved. I think it's in a pretty
14 good state across the five plans.

15 The benefit of having the specialty
16 consultants work more closely with the general
17 consultants is you want the general consultants, just as
18 BAM has, you want someone to think and be looking at
19 your portfolios more holistically, and I think it's with
20 Mike and team and Rocaton, you have responsibility for
21 strategic asset allocation. Well, 20, 30 percent of
22 that, 25, 30 percent of that now is in alternative
23 assets. So I believe you need to have -- that there
24 needs to be more accountability on the part of the
25 specialty consultants into the general consultants.

1 This has really nothing to do with the Bureau of Asset
2 Management, it's just to try to get more brains in the
3 game and thinking more holistically about what we do and
4 how we do it.

5 MS. HIRSH: And this isn't something that
6 we're asking anybody to vote on now or engage on now.
7 This is for awareness that, in the coming year, as --
8 for the specialty consultant contracts are going to be
9 expiring in 2025, as are other general consulting
10 contracts, and we will be coming back to you with
11 changes in language, the RFP, et cetera, and you all
12 have to approve all RFP language to try to make some
13 updates to maximize the consultants.

14 Okay. So those are the quick updates. And
15 now, on to the Trustee Service Compact. We can go to
16 the next slide.

17 So basically, one of the sort of tropes that
18 kept coming up throughout the STAR process was a concern
19 by Trustees that, you know, the dynamic between BAM and
20 the systems and Trustees like changes with every
21 Comptroller, right, because personalities are involved,
22 priorities are changed, et cetera. And if we're going
23 to agree to changes now, how do we know the things that
24 we're setting up now will outlast Comptroller Brad
25 Lander's tenure? And one thing that we -- so one thing

1 that we sort of like wrestled with was how to do that.
2 And we realized that in any other service provider
3 relationship, there's a contract, there's an agreement
4 or an MOU and what is going to -- what services somebody
5 is going to provide on behalf of their client, and we
6 want to create that between BAM and the Trustees because
7 BAM is a service provider for the five systems.

8 And so what we're recommending is that every
9 June, BAM, it's June, right?

10 Every June, moving into the next fiscal
11 year -- Kate is really the mastermind mind behind
12 everything.

13 So every June, moving into the next fiscal
14 year, BAM would present to Trustees a draft work plan
15 for the next, following year that lays out what the
16 priorities are, what the work we're going to be doing,
17 and across every aspect of the work that BAM does, get
18 Trustee input in that, if there are things that, you
19 know what, we really want you to focus on this, not
20 that, have that conversation, wrestle with it, and have
21 it be something the Board votes on, as like this is the
22 compact, this is what you guys are going to be doing
23 over the course of next year.

24 Within that, we would also include if there
25 are any resource changes or add what we would include,

1 what the budget is, what the staffing is, et cetera,
2 because right now, again, there is no transparency,
3 actually, around BAM budget. We get an invoice after
4 money has been spent, and this would provide an avenue
5 to create that transparency.

6 So what you have before you, this is in
7 Convene, it was circulated the other day, and it's also
8 in paper, so what Kate handed out, is a draft of the FY
9 '25 service compact. In this document, and we'll go
10 into the details in a moment, we are including language
11 that would -- BAM mission statement, service aspiration
12 statement, and service commitments and broad strokes,
13 the BAM work plan, as well as a draft calendar for
14 investment meeting content, which we'll get into in a
15 bit, a proposal for a four-month pilot of a joint
16 manager meeting that, again, I'll get into in more
17 detail.

18 What we would recommend is that this become
19 related to the actual delegation, because that's the way
20 to actually hold us accountable, right, you have a legal
21 delegation, and so, with that, and then lastly the
22 annual corpus budget, and in this year's instance, the
23 results of the comp study and our recommendations for
24 additional resources coming out of STAR.

25 So I'm going to go through top lines of the

1 bolded points now because we need to discuss them. The
2 rest is really in this, and like our hope is that -- we
3 sent it around, I think yesterday or the day before. We
4 expect no action today, obviously. Our hope is that you
5 all take this, read it, we can have discussion, et
6 cetera, and then we can come back ideally next month,
7 and hopefully be ready then.

8 Next slide?

9 So essential component of the work coming out
10 of STAR, and we actually are in a much stronger place at
11 TRS, because we just updated the IPS statement, than
12 many of the other systems, is to make sure that there
13 are agreed upon codified investment beliefs that
14 everybody shares. I would say one of the things that
15 came out of the STAR review --

16 MS. VISCONTI: Everybody on this one board
17 shares not across the system.

18 MS. HIRSH: Yes, so everybody on the one
19 system, and this one board shares, thank you.

20 Coming out of the STAR study, there was a
21 survey done of Trustees and BAM staff, and 75 percent of
22 BAM staff said that they are confident they understand
23 the priorities and will of the Trustees, and 25 percent
24 of Trustees said that they were confident that the BAM
25 staff understood the priority and will of the Trustees,

1 so that's a problem.

2 And each of them -- while probably 90 percent
3 of the priorities and beliefs are consistent across the
4 five systems, that 10 percent that aren't are important
5 and we have to be able to understand how to customize.
6 And so we are, as part of this year's service, the work
7 plan for 2025, fiscal year 2025, is to actually like
8 make sure we understand the differences really between
9 the five systems' investment beliefs and that we are on
10 the same page with the Trustees all around.

11 You can go to the next slide.

12 MR. SWINGLE: Alison, before you move on, just
13 a quick question. I know when, I think in the previous
14 administration, we had had -- we had put together an
15 investment belief statement here at TRS.

16 MS. HIRSH: Yes.

17 MR. SWINGLE: So are you saying that we would
18 just be going through that and updating that from year
19 to year?

20 MS. HIRSH: Yes. Yes. And I just -- not even
21 updating, necessarily, just like doing a --

22 (Crosstalk.)

23 MR. SWINGLE: Right, yeah --

24 MS. HIRSH: We're still here, right?

25 MR. SWINGLE: Okay.

1 MS. VISCONTI: And also, included in
2 McKinsey's recommendation, so is asset class specific
3 investment beliefs. So you have fund level investment
4 beliefs that articulate your priorities, for example,
5 internal or external or passive management. Those could
6 be reviewed yearly and updated. But then also they
7 recommend that we make asset class specific investments,
8 so that piece would be new.

9 MR. SWINGLE: Oh.

10 MR. MEIER: And it will lead to more
11 customization. We want to make sure that, you know,
12 what's important to the Trustees of the various five
13 boards, that we're able to accommodate and understand,
14 and then work towards fulfilling those needs. So it's
15 more about, you know, getting on the same page and then
16 accountability on our part in terms of, you know,
17 executing and implementing to those beliefs and
18 preferences.

19 MR. SWINGLE: Great, thanks.

20 MS. HIRSH: Okay. Joint manager meeting. So
21 one of the other components that came out of STAR is
22 that we, as Trustees, are not necessarily spending our
23 board time as effectively as we could be. So I think
24 we've all been through the trainings and know that, you
25 know, people say 90 percent of our returns come from our

1 asset allocation and portfolio construction and 10
2 percent from manager selection. We currently spend, as
3 a board, 80-something percent of our time on manager
4 selection and like 10 to 15 percent of our time on those
5 kinds of strategic questions, and that doesn't really
6 make any sense.

7 So what we are recommending is that we
8 establish one monthly joint manager meeting across all
9 five systems, whereby we invite managers who are going
10 to be -- who are, you know, up for review, manager
11 recommendations that are up for review, to present to
12 everyone. Though it is not a voting meeting, no action
13 will be taken at that meeting, all of the BAM and
14 consultant memos, you will receive all the BAM and
15 consultant memos prior to that meeting, so you can ask
16 the managers questions, et cetera, listen, leave, and
17 then when we come to our regular investment meeting,
18 regularly scheduled investment meeting, that's where we
19 do anything we need to do on portfolio construction,
20 asset allocation, I know Steve wants to talk through
21 fees, like a whole bunch of strategic --

22 MR. MEIER: Yep, peer analysis.

23 MS. HIRSH: -- peer analysis, strategic
24 questions that we need to answer as a board. And at
25 those regular investment meetings, we will take action

1 on the manager recommendations that we heard from at the
2 joint manager meeting.

3 CHAIRMAN BROWN: Sounds like a SIM to me,
4 right?

5 MS. HIRSH: It's not a SIM, it's different
6 than a SIM because there's no voting or caucusing at the
7 joint manager meeting. It's just an opportunity to meet
8 the managers in person and hear from them.

9 CHAIRMAN BROWN: How many of the Trustees?

10 MS. HIRSH: It would be all five systems would
11 be in the room to hear from the managers and to ask
12 questions.

13 MR. MEIER: In the room and via Zoom.

14 MS. HIRSH: And via Zoom. In the room or via
15 Zoom. It would be hybrid.

16 MR. LIU: Question.

17 MS. HIRSH: Yeah.

18 MR. LIU: Do you have a plan to obligate
19 everyone to meet once a month?

20 MS. HIRSH: I think what we would do is we
21 would identify a day that, every month, that would be
22 consistent, in advance.

23 MR. LIU: Okay.

24 MS. HIRSH: Tony?

25 MR. GIORDANO: Just in terms of, as you guys

1 are really listening to the Trustees and like to
2 customize for the funds, so let's say a manager that
3 BERS and Fire are interested in, would they come to the
4 joint manager if they're not necessarily going to be in
5 the framework of TRS? Would that be independent or just
6 --

7 MS. HIRSH: What we would probably do is the
8 same thing we would do with hedge funds, right, because
9 TRS doesn't invest in hedge funds, is we'd like schedule
10 it so that, if there's a manager that only -- is only
11 coming before a few of the systems, we do it last, so
12 that everybody else can leave, and those who need to
13 stay can stay.

14 So there would be no action. So it would be
15 like, you know, an hour or two a month where everybody
16 is hearing from the managers, and then we come to our
17 regular meetings, our regular investment meetings on
18 Thursday for TRS, on the first Thursday or, in this
19 case, the second Thursday, but the first Thursday of the
20 month at 10:00 a.m. and do the business of TRS.

21 CHAIRMAN BROWN: I'm trying to figure out how
22 that would help us. I mean, the managers wouldn't be
23 here, we wouldn't have the interaction with the
24 manager/managers in this intimate session.

25 MS. HIRSH: It would be a less intimate

1 interaction. I think you could still pull a manager
2 aside and talk to them. I think it would benefit us
3 because it would provide us with the opportunity to
4 spend these days talking about -- and Steve, why don't
5 you talk a little bit about this?

6 MR. MEIER: Yeah, so there's a number of other
7 things that I believe, as Trustees, we need to provide
8 you with information on peer analysis, how does your
9 portfolio compare to say similar types of funds of your
10 same size in the public pension space, fees, value for
11 fees, alpha generated on a fee basis. There's so many
12 things that we need to present that we are actually
13 building the technology for and building the reporting
14 for. It's just a matter of, how do you want to use your
15 time efficiently?

16 CHAIRMAN BROWN: I understand that, but at the
17 expense of not having that intimate relationship, back
18 and forth questioning with managers, I feel, with lots
19 of managers and many of the funds, a lot of Trustees
20 speak all the time, and they speak and they speak, and
21 they like to speak maybe because they are told to speak
22 for whatever reason.

23 I just feel that -- and I understand. How
24 much time -- I remember we had three re-up managers come
25 in and it took 25 minutes. So how much time would we be

1 saving at the investment meeting for you to do all that
2 other stuff?

3 MS. HIRSH: So I think it's two parts. It's
4 time that we're saving in the investment meeting, and
5 then it's time that we're saving to be honest amongst
6 BAM investment staff and the managers. Because what
7 happens now is like, and Steve told this story the other
8 day to somebody, we'll have a manager, because of the
9 way the meetings are, the five separate meetings are set
10 up, who stays in a hotel in New York for 10 days in
11 order to be here to present to each manager in person,
12 each team in person, and that's time that they're not
13 doing what we need them to be doing.

14 MR. MEIER: Exactly.

15 MS. HIRSH: I don't know if you want to --

16 MR. MEIER: Yeah, no, that's exactly right.
17 We did have, actually, one of your managers come in who
18 was actually a manager for the other four plans as well,
19 and again, based on the cadence of the meetings, had to
20 be here for a full week in a hotel working, and then go
21 home to Atlanta for the weekend, and come back for a
22 Tuesday, Wednesday.

23 So just for the record, not one single manager
24 has ever complained about having to come spend time with
25 any of the five plans. That's not the issue.

1 What we do recognize, though, is there's an
2 increased allocation to alternative assets. There may
3 be more and more deals that we need to go through the
4 process reviewing, and if there's more customization, we
5 may have just a higher number of deals that may not
6 apply to all the plans. We're trying to figure out a
7 way, how can we do this efficiently.

8 Using technology, maybe we would use for
9 re-ups, we'd use Zoom technology. For new managers,
10 they would physically be in the room and people can
11 actually come and look them in the eye and ask
12 questions.

13 I understand the concerns, Tom, that you
14 raised, and I am sympathetic. We're really just trying
15 to figure out, how can we be more efficient in terms of
16 striking that balance between, you know, enabling and
17 supporting the Trustees need to do that due diligence
18 and look people in the eye and make smart decisions on
19 how you're allocating your money, but also recognize
20 that there is a number of other things that we should be
21 thinking about and looking at.

22 There are some efficiencies for BAM in terms
23 of the joint manager meeting. That shouldn't really
24 drive what we're doing here. It should be, is there a
25 better way we can support and service? And we're

1 open-minded. I think Allison was specific when she
2 said, we're asking for a four-month pilot. Let's see if
3 it works with an open mind, and if it doesn't work --

4 CHAIRMAN BROWN: I understand where you're
5 coming from about some type of efficiency, but you have
6 to understand where we're coming from. If I'm about to
7 approve or give to a manager \$329 million of TRS's
8 money, there is nothing like that intimate relationship
9 with a manager for all that money. They all have to
10 figure out going back and forth to Atlanta and staying
11 in hotel rooms, but -- and you did say they didn't have
12 a problem.

13 MR. MEIER: Not at all. And they're -- I
14 talked to the CEO, and he said, we're happy to do it.

15 CHAIRMAN BROWN: How much time would we
16 actually save where we could do those things, and how
17 long would that investment meeting be if we took away
18 all the managers? It would be a shorter investment
19 meeting, wouldn't it?

20 MR. MEIER: It would be a shorter investment
21 meeting, like this type of meeting, Tom, but there would
22 still be discussions and presentations. You still have
23 to vote in your own way, and we still would need to
24 present.

25 CHAIRMAN BROWN: So you go to that meeting.

1 MR. MEIER: Exactly, yep.

2 CHAIRMAN BROWN: And then you come back here
3 and you discuss it.

4 MR. MEIER: Exactly. And we're here --

5 CHAIRMAN BROWN: A week later, two weeks
6 later?

7 MS. HIRSH: Whatever the schedule is, you
8 know.

9 CHAIRMAN BROWN: And there's nothing like
10 discussing it -- in the SIM, we went from the group to
11 the caucus.

12 MS. HIRSH: No, there's nothing like -- that
13 is not --

14 CHAIRMAN BROWN: Where it's fresh in the mind.

15 MS. HIRSH: I mean, if you wanted to do that,
16 that's fine. I think the other difference between this
17 and what we're recommending here and the SIM is that my
18 understanding, having that said, was that the SIM, we --
19 there was no -- there was little to no opportunity to
20 discuss customized, individual, system specific strategy
21 issues and how TRS differs in needs and fees or
22 portfolio construction, et cetera, than Fire, right?

23 And so we don't want to go back to that
24 consolidated vehicle because each system is different
25 with different needs, et cetera. We want to create --

1 CHAIRMAN BROWN: We have specific needs here
2 at Teachers' Retirement.

3 MS. HIRSH: Exactly.

4 CHAIRMAN BROWN: And it is intimidating,
5 perhaps, or I'd be less likely to ask questions, when I
6 know everyone is talking. I just want to know how
7 this -- how this helps us as a board, taking away that
8 relationship with the manager. Yes, I can ask my
9 questions there, too, if I got a chance, you know, a
10 hand up. I just want to be --

11 MS. HIRSH: Yeah, I mean, look, we're not
12 asking for action right now. What I would, I guess I
13 would ask, having not been at the SIM, because the
14 one -- the one thing that is similar to the SIM is that
15 the managers came in front of all five systems at the
16 same time during that period of time.

17 And I guess the question I would ask is, did
18 you feel like you were able to have relationships and
19 ask the questions that you needed to ask with the
20 managers in that, in that room or not? And I don't know
21 the answer to that.

22 And again, what we're asking for is a pilot
23 that would then have to -- that would have to be renewed
24 after the pilot.

25 CHAIRMAN BROWN: How long would the pilot be?

1 MS. HIRSH: Our proposal is it would be from
2 September through December, so a four-month --

3 CHAIRMAN BROWN: This year? Starting this
4 year?

5 MS. HIRSH: Yeah, September of this year
6 through December. So a four-month pilot that would have
7 to then be voted on to continue.

8 CHAIRMAN BROWN: And would re-up managers be
9 present at this joint --

10 MS. HIRSH: So the original proposal that we
11 had floated and we started floating, spoke to one of the
12 boards, was that new managers, only new managers would
13 de facto be, but I think we heard you off -- I know we
14 had a conversation a few days ago. Yes, we would
15 include every manager coming before the Board, re-up,
16 new, what have you.

17 Dave, yes?

18 MR. KAZANSKY: So just to build on what Tom
19 was saying, I think there's a couple of concerns
20 regarding that model, and I understand the kind of
21 simplicity of it, right, we're having, and the ease of
22 it, to have the managers come in once, do their spiel
23 once, and have everybody be there.

24 I think the concerns that Tom and I had with
25 the SIM, as opposed -- and we were both on this board

1 prior to and now post, is the one thing that I felt, and
2 I think some of the other Trustees felt, was that, when
3 a manager steps into this room and looks at the
4 Teachers' Trustees, right, the six or seven of us that
5 are here on the Board, they understand that we are
6 the -- we are the Board, that they are pitching this
7 deal to us.

8 What it felt like at the SIM was more that
9 they were there for BAM, right, and that we just
10 happened to be 40, 50 people in the room, but really
11 that the goal was that the manager was there to kind of
12 keep BAM happy, and that we were secondary
13 considerations, even though they told -- you know, even
14 though they go up and they tell us how much they love
15 public workers and how their sister was a teacher and
16 blah blah blah, right? So all of that, I think it
17 really did feel to us like we weren't the main audience
18 in that room the way we're the main audience in this
19 room.

20 And I think the other thing that Tom was
21 mentioning that I agree with is that there is a dynamic
22 here or a comfort level here on this board to ask
23 questions or to bring things up that, in a room with
24 five boards, either may not get brought up because it's
25 more internal stuff that, you know, or an issue that we

1 have that maybe another board doesn't or, you know, six
2 people ask questions already, and now this particular
3 manager is getting grilled for 45 minutes and everybody
4 kind of want to keep moving on, and this other board
5 wants to ask another question.

6 And so there's these moments in that system,
7 in that setup where maybe the feeling was, is that we
8 weren't going to be feeling comfortable asking
9 particular questions or additional questions or
10 adding -- asking for more depth, that we would feel more
11 comfortable digging into here at this point.

12 So, you know, I just want those two issues to
13 be present in your minds as we move forward with
14 whatever the decision is.

15 MS. HIRSH: Sure.

16 CHAIRMAN BROWN: Would the meeting be for just
17 Trustees or staff as well would be coming with us to
18 these joint management meetings?

19 MS. HIRSH: I would defer to Trustees, so we
20 can assess.

21 CHAIRMAN BROWN: That might be a hardship for
22 staff. And there is a Zoom option?

23 MS. HIRSH: Yes. Yeah, it would be hybrid.
24 It would be.

25 So look, again, we're not asking anyone to

1 take any action today. So these are all worthy,
2 obviously, concerns, and I want to be clear, if any of
3 the five -- we're presenting this, and if any of the
4 systems say absolutely no, like this won't work, right,
5 this doesn't work, if like four systems say we're in and
6 one is like, no, you have to come to my own board,
7 because then everybody -- it doesn't make any sense.

8 So, you know, we should -- we should continue
9 the discussion, and I encourage you to talk to your
10 colleagues in labor across the systems to see if there
11 is something everyone can agree on or think about, and
12 then we can move on from there, and we'll assess.

13 MR. MEIER: I certainly, I hear the feedback,
14 I understand the feedback. I'm very sympathetic of the
15 position. And our objective here isn't to drive a wedge
16 between any of the Trustees and their managers. And if
17 this didn't work, we'll go back to the drawing board and
18 figure out how we can do things more efficiently in
19 another way.

20 But the idea isn't to disenfranchise the
21 Trustees or the boards from their asset managers. It's
22 to try to incorporate a bit more of efficiency because
23 we expect to see more and more deals and with
24 customization and a larger number of managers.

25 But I recognize fully who I work for and who

1 we support and service. And if it doesn't work, we're
2 happy to keep things as they are. We'll figure out
3 another way to --

4 CHAIRMAN BROWN: I'm sorry --

5 MR. MEIER: -- propose it.

6 CHAIRMAN BROWN: -- would the staff and the
7 consultants be there present as well?

8 MS. HIRSH: Yes.

9 MR. KAZANSKY: And maybe one other thing to
10 consider, if this goes forward, or at least to consider
11 in the pilot of it, is to at least to make sure that the
12 manager is available for this smaller meeting as well,
13 so that, once the presentation happens between that and
14 the Board actually voting, that if the Trustees have a
15 concern or something has popped up or something, we can
16 have them back to answer those questions. They don't
17 have to be in person, they can do that remotely if need
18 be, but just to have them available and the consultants
19 available at this second meeting where the voting is
20 happening to get any issues cleared up.

21 MR. MEIER: We were preparing to have, you
22 know, abbreviated summary memos as well to actually talk
23 to the Trustees at their own meetings. But those are
24 all valid points.

25 Again, it's -- this is a recommendation that,

1 you know, working with our consultants, that I think has
2 merit. Not all of them have to be accepted.

3 This is the one that I think is most
4 challenging, to be candid. As a former trustee, I
5 understand your concerns, and I'm completely
6 sympathetic. You're a hundred-plus billion dollar fund,
7 you've got hundreds of thousand dollars -- hundreds of
8 thousands of participants and beneficiaries, you have a
9 job to do, and if you think the best way to do your job
10 is having everyone come here physically, we'll do that.
11 If you think there's a hybrid physical via Zoom or if a
12 joint manager meeting makes sense -- we're not here, the
13 idea isn't to re-engineer your work. It's how can we
14 better support and service and be better business
15 partners. So I hear the feedback.

16 CHAIRMAN BROWN: But would we have enough to
17 talk about at those investment meetings, enough about
18 asset allocation --

19 MR. MEIER: There's a lot of --

20 CHAIRMAN BROWN: -- construction?

21 MR. MEIER: That's a great point, Tom, because
22 there's a lot more work. I don't think we do -- I don't
23 think we service the various plans and the Trustees to
24 the extent we should. There are things as Trustees you
25 need to know about. Who are your top 50, how do you pay

1 your fees, what are your fees by asset class, what are
2 your top 50 firms you pay fees to, how much value and
3 how much alpha are you generating for that, how are we
4 constructing the portfolios, and really kind of dig into
5 the small pieces, how do you stack up against your
6 peers?

7 There are other things just thematically, I'm
8 looking at Mike and Amanda, that just in terms of this
9 forum, to actually go through and present with the
10 general consultants or the specialty consultants, what's
11 going on, what are the dynamics in these different asset
12 classes, what are the other things you should be
13 thinking about?

14 CHAIRMAN BROWN: I think we used to have,
15 after in each investment meeting, an educational topic
16 of discussion after meeting the managers, going over the
17 charts that we have, one specific topic in education of
18 the -- Trustee education.

19 MR. MEIER: Yeah, we try to do that through
20 the Thought Leadership Speaker Series, but that's
21 exactly right. We would do that here as well in
22 different forms, customized to TRS for example.

23 By the way, I should just say I'm not
24 disappointed by any of the feedback. I have a
25 complete --

1 MR. KAZANSKY: Well, we'll try harder.

2 MR. MEIER: -- you know, how we could do a
3 better job here.

4 CHAIRMAN BROWN: It helps. Hearing those
5 words helps. Thank you.

6 MS. HIRSH: Okay. Can we move on? Sorry, I
7 had to run out. The younger child fell down the stairs.

8 CHAIRMAN BROWN: Hunger strike?

9 MS. HIRSH: No, no hunger strikes today, but
10 the younger child fell down the stairs. He's fine, he
11 just needed to speak to mommy.

12 Okay, next slide. Okay, we can keep going.
13 This is all joint manager meeting process. Okay, here
14 we go.

15 Kate, I'm going to hand this over to you to
16 lead us through this part of the presentation.

17 MS. VISCONTI: Okay, sure.

18 So, Trustees, before we get into what the
19 proposal is today, just a little setting on the current
20 state. So right now, there are 133 folks who are
21 currently budgeted for BAM. That includes both people
22 who are currently in position and also folks in the
23 pipeline that were vacancies, really. Seventy head
24 count slots of those 133 are currently on the corporate
25 side, so they're billed to the five systems, that's not

1 Teachers specific. That's total across the five
2 systems. And similarly, the budget that we currently
3 have in BAM is around \$11 million, and that's both
4 corpus and City funding.

5 We can go to the next slide.

6 So based on the recommendations, as Alison
7 said at the beginning, from both McKinsey, who did a
8 pretty rigorous analysis of our resourcing, so basically
9 our headcount numbers, and then also based on the
10 compensation analysis that Mercer did, we put together a
11 proposal. So that proposal would increase the
12 headcount, based on STAR recommendations, to 127. I
13 should say that's corpus specifically. For City plus
14 corpus, we would be looking at 163. So it's an overall
15 30-person increase in headcount.

16 So there are a few things that are considered
17 in that. The first one is the fact that the AUM --
18 what's wrong?

19 MR. KAZANSKY: Oh no, no, no, no, no. Sorry.
20 That was just a hand gesture.

21 MS. VISCONTI: Just a hand, okay.

22 So it's reflecting an increase in AUM. So for
23 example, when McKinsey did their analysis, they sort of
24 did a regression that said, okay, how, if you look at
25 peers, how are peers resourced? They adjusted for

1 things like internal or external management and all of
2 that, and said, okay, given your AUM, what would be the
3 size that we would expect your staff to be? And that
4 includes the fact that, with the new asset allocation,
5 there's an increase in AUM in the private market
6 specifically where there's more frequent due diligence
7 done. So that's one component, or two really, with the
8 new asset allocation. And then also readying ourselves
9 a little bit to be able to be a little bit more
10 customized for the system.

11 So basically, the proposal, overall, we're
12 putting together here would raise the corpus funding to
13 approximately one basis point, so 0.1 percent, 0.01
14 percent of AUM of the five combined systems. So we
15 would presumably be requesting from each system a pro
16 rata allocation of that based on a few, basically pro
17 rata, but with a few considerations. For example, you
18 would never pay for hedge funds, or if you go forward
19 with other types of customization, you would or wouldn't
20 pay for --

21 CHAIRMAN BROWN: Kate, raise the corpus budget
22 0.1 percent?

23 MS. HIRSH: 01, we would be raised to the 0.01
24 percent. We're not asking to raise it by 0.01 percent
25 but to 0.01.

1 CHAIRMAN BROWN: What would the difference be?

2 MS. VISCONTI: In percentage, I don't exactly,
3 off the top of my head --

4 CHAIRMAN BROWN: And the dollar amount?

5 MS. HIRSH: We're getting there.

6 MS. VISCONTI: We'll get there, we'll get
7 there in the next slides.

8 CHAIRMAN BROWN: So, it's raised to.

9 MS. VISCONTI: So it is low. Maybe, I
10 actually do know, it's right around 0.005.

11 MS. HIRSH: 0.005.

12 MR. MEIER: 0.006.

13 MS. VISCONTI: 0.006, right now. Yeah, so it
14 is growing. Go to the next slide.

15 Okay, this one's a little funny, a little bit,
16 but this is just a graphic representation of what we
17 just said. So again, if you allocate pro rata for
18 Teachers', that would be about 10.5. Again, that
19 doesn't -- million. That doesn't include, of course,
20 hedge funds or anything.

21 (Crosstalk.)

22 MS. VISCONTI: So the total BAM budget would
23 be closer to \$35 million. So that includes some from
24 City as well.

25 You can go to the next slide.

1 MR. MEIER: Kate, why don't you run through
2 this in terms of -- well, this is McKinsey's
3 recommendation, in order for us to be able to do better
4 things and more customization, and actually just
5 benchmarking us against our peers in terms of staffing.
6 That's what the representation is in the middle portion.
7 So we would be looking and asking to add an additional
8 14 people to the investment team, which is the bulk of
9 the increases, and then some to ETIs. As Alison
10 mentioned, we're trying to reimagine how we can be more
11 impactful in the ETI space, economically targeted
12 investment space.

13 Risk management, we would add two people. And
14 again, that's to work on a lot of special projects in
15 terms of better analytics and more insight into your
16 portfolio, how do we construct portfolios. We're doing
17 a lot of things in that front.

18 Similarly, financial reporting, as I've
19 mentioned in the past, Dan Haas has taken on a bigger
20 role, kind of a hybrid role reporting to operations,
21 chief operating officer Lynne Fleischman, as well as
22 continuing to report to Ed Berman, the chief risk
23 officer. So there, it's to develop better analytics
24 that we can provide more insight into portfolio.

25 And then lastly, just an additional resource

1 for DE&I and emerging manager strategies at the bottom.

2 Kate, do you want to talk a little bit about
3 the shift to corpus, or Alison?

4 MS. VISCONTI: Alison?

5 MS. HIRSH: Okay. So one of the things that
6 we did as we were looking through this is we tried to
7 rationalize how the corpus dollars versus City dollars
8 were being spent, and this is the org chart that we all,
9 we passed around. What we're recommending, like what's
10 a gray on here is City and what is blue is corpus.

11 One of the things we found was that there was
12 actually not a lot of rhyme or reason to why some people
13 were being paid for by City tax dollars as opposed to
14 corpus. And talking to David Jetter and others, a lot
15 of it was because of sort of historical practice. And
16 we are trying to use this process to just rationalize
17 and make sure the folks who are actually doing a hundred
18 percent of their work on behalf of pension funds are
19 paid for by corpus, as they should be.

20 And so in doing that, we are shifting some
21 folks who are currently being paid for by the City over
22 to corpus expense as part of this.

23 MR. KAZANSKY: So can I just get some
24 clarification on the expansion of the investment team?
25 So since the, at least from my vantage point, a lot of

1 the funds that are coming to us are re-ups, what
2 would -- what is the idea that -- what would this
3 investment, these additional 14 people be doing that the
4 current staff can't handle?

5 MR. MEIER: Well, we think, with more
6 customization, there'll be a broader range and different
7 sizes of mandates we're bringing in.

8 Also, it's important to remember, even though
9 it's a re-up, we still go through the exact same due
10 diligence process. We re-underwrite every new deal. It
11 goes through our green light process for approval, and
12 once that's approved, it goes for further analysis, due
13 diligence, and a formal vote at the investment committee
14 a couple -- a month or so later. Obviously, we think
15 that's an appropriate and important part of our
16 discipline.

17 So we would be looking at other deals, other
18 opportunities to do different things, and we are
19 constantly in the marketplace looking for new
20 opportunities for the plans, particularly with the
21 growth in assets overall and with the growth in or the
22 higher allocations to alternative investments.

23 MR. KAZANSKY: Great, thanks.

24 CHAIRMAN BROWN: I also need clarification.
25 You said that this recommendation is coming from -- the

1 recommendation from McKinsey, benchmarking against
2 other -- our peers.

3 MR. MEIER: Peer analysis.

4 CHAIRMAN BROWN: Is it the peers with the same
5 type of retirement, is it a public retirement system?

6 MS. HIRSH: Yes.

7 CHAIRMAN BROWN: So the same number of people?
8 Our peers, I can just think of a couple of -- CalPERS,
9 Counselors (phonetic), a couple of --

10 MS. HIRSH: Peer common.

11 MR. MEIER: Teachers'.

12 CHAIRMAN BROWN: -- in common. So you're
13 talking about peers, the same -- pensions?

14 MR. MEIER: Yes.

15 MS. HIRSH: So, Kate, do you want to walk
16 through the process that McKinsey went through?

17 MS. VISCONTI: Yeah, sure.

18 MS. HIRSH: We can circulate, again, the
19 McKinsey.

20 MS. VISCONTI: Yeah, so on this point,
21 McKinsey's analysis was pretty sophisticated, actually.
22 So they looked at a few different factors that determine
23 how large a team could be. So for example, whether
24 you're managing more money internally or externally, how
25 much you have in AUM, and all of other -- some other

1 considerations like that. And then they ran a
2 regression to say, okay, you basically, what is it worth
3 to have to run this much AUM? And then they sort of
4 built it back up. So they took all of our peers and
5 kind of got them down mathematically to something that
6 they could then scale up again.

7 We can recirculate --

8 MS. HIRSH: Yeah.

9 MR. LIU: What's the primary benchmark or
10 primary peers we compare with?

11 MS. VISCONTI: So this is something McKinsey
12 did. We have a list I think that we can share with you
13 in the -- you may actually even already have it in the
14 McKinsey proposal.

15 But it is originally, like Tom said, a set of
16 public pension peers, but then you can't just go apple
17 to apple. Some pensions are bigger or smaller. And so
18 that's why they did this sort of transformation.

19 MS. HIRSH: And also, some pension funds do
20 more in-house management of investments than we have.
21 And most pension funds have less complexity because
22 there is probably one board, as opposed to five, right,
23 and less customization. So they did a full analysis
24 from top, down.

25 CHAIRMAN BROWN: Is there any analysis, I'm

1 sure there is, a report that would tell us how this is
2 going to affect our retirees, how they get something for
3 it? I'm just thinking \$10.5 million per year, average
4 pension, how many pensions could we pay with this money
5 going forward with accrued interest on this money?
6 Thousands and thousands of -- literally thousands of our
7 pensioners, they're pensions for the rest of their
8 lives.

9 So is there anything written or a report on
10 how it's going to benefit our pensioners?

11 MR. MEIER: We could put something together,
12 Tom. It's going to be obviously assumption based, but
13 you're asking the absolute right question, because I
14 actually believe --

15 CHAIRMAN BROWN: That isn't put together yet?

16 MR. MEIER: Well, we've worked on it a number
17 of different -- there's a whole bunch of different
18 projects we're working on where we have expected
19 increases in terms of returns, but we believe, with the
20 right people and the right strategy, over three to five
21 years, we're talking, you know, at least a half a
22 percent increase in your performance.

23 CHAIRMAN BROWN: Which will benefit.

24 MR. MEIER: It pays -- we think the
25 incremental cost pays for itself a hundred times. And

1 frankly, these are --

2 CHAIRMAN BROWN: That's good to hear.

3 MR. MEIER: We'll be better resourced and
4 better able to execute on this with the right people,
5 with a diverse group of talent. People matter. We
6 really want be able to retain and attract the right
7 people that can make a difference here.

8 But you're absolutely right, Tom, there's got
9 to be -- how are you leveraging that additional --

10 CHAIRMAN BROWN: What's the value add?

11 MR. MEIER: Yeah, exactly. What's the value
12 proposition --

13 (Crosstalk.)

14 MR. MEIER: We're willing to do this --

15 CHAIRMAN BROWN: How is this going to affect
16 the fundability of our pension system and our retirees
17 that we have to face every single day?

18 MR. MEIER: Yeah, yeah. And Tom, also, it
19 helps us be a little more nimble. We're working on a
20 whole bunch of different projects right now. It's an
21 overwhelming amount of work on the current team, you
22 know, we're not fully staffed right now, in order to get
23 these things done.

24 MR. GIORDANO: Question.

25 MS. HIRSH: Yeah.

1 MR. GIORDANO: Just in terms of, I mean, this
2 is a question that I've had for a while. It seems that
3 a lot of time is spent on doing the manager due
4 diligence, which is super important. But we also
5 have -- I have two manager reports, one from BAM and one
6 from the consultants, that kind of were very, very, very
7 similar. It seems like they're always kind of
8 duplicative in that, and that takes up a lot of time.

9 Is there some way that, just within this
10 overall context, maybe instead of a full throttle
11 report, we have BAM to go over the consultant review of
12 the manager, we don't have to duplicate that work, that
13 would cut out a significant amount of time and open up a
14 lot of different opportunities for customization?

15 MR. MEIER: That's a fair -- no, honestly,
16 that's a fair question. It does seem like a
17 duplication. And sometimes, Tony, honestly, sometimes a
18 triplication of work, right, because there's more than
19 one specialty consultant.

20 I do think a couple things. Firstly, you want
21 to make sure that you're doing your independent
22 analysis. We're your advisor. We don't have any other
23 motivations. We don't have any other businesses
24 associated with these firms other than recommending them
25 for your portfolio. There's no other revenue stream,

1 such as an OCIO business that one of the consultants may
2 have. I don't mean to be disrespectful to consultants,
3 but just one of the things we'd work around.

4 You know, I think, also, if you go down that
5 path, you're going to have a portfolio that's going to
6 look like everybody else's. There will be no
7 differentiation because whatever the consultants
8 recommend, you're just going to take, and I do think
9 that you want to have something more unique. And by
10 having more people that can look at different deals,
11 differentiated deals, we think we'll get better
12 diversification, we'll get better performance in alpha
13 for the portfolios over time.

14 That's what this is really about is, you know,
15 we're staffing that not so it's easier for us to do our
16 work, but it's we're more effective in terms of driving
17 those returns in the portfolio. Everything we do should
18 be focused on that one critical goal, right? It's
19 returns.

20 MS. HIRSH: So in addition to the additional
21 headcount, as I mentioned as part of this process, we
22 had Mercer -- Mercer did a compensation survey.

23 And so, Kate, I don't want to talk over Kate.

24 MS. VISCONTI: Okay. So you all, I believe,
25 have seen the compensation study that they did. So

1 you'll remember they basically gave us 75th and 50th
2 percentiles for a few different sectors, government,
3 financial services, endowments, and foundations, but
4 most relevant, public pensions. So we've based the
5 recommendations on what they gave us from the public
6 pension world.

7 Mercer's feeling was that, given our AUM and
8 our structure and the fact that we don't have an
9 incentive program, we should probably be targeting
10 somewhere in the 75th percentile of their
11 recommendations.

12 If you go to the next slide, Wilfredo?

13 But basically, we wanted to be thoughtful and
14 not just go with exactly what they say. So we thought
15 of some principles that would guide how we basically
16 made a recommendation. The first one is, and Steve can
17 speak to this more, but just the idea that we want to
18 seek competitive compensation, in order to be able to
19 attract and retain talent. We have had some turnover at
20 BAM, and we've had some trouble hiring.

21 The next one is a flattened distribution. If
22 you look at the numbers from Mercer purely, their -- the
23 CIO is compensated tenfold higher than the lowest paid
24 employee. So we did some work to basically flatten that
25 distribution. So there's some sort of bringing down of

1 the top salary.

2 MR. MEIER: And really trying to force the
3 salary increases at the level that are most impactful.
4 And not to discount the CIO, whoever he or she is, but
5 focusing more on the asset class hits and the senior
6 investment officers. And again, it also then gives the
7 other folks on the team motivation to work and move up
8 over time, which we're very receptive of that as well.

9 MS. VISCONTI: Then the third thing is just
10 the reality of the context. We're very cognizant that
11 we're investing public pensions and that these are very
12 high salaries for the public sector. So just that is in
13 mind as we put forward the recommendations.

14 So on average, what we ended up with is 3
15 percent lower than Mercer's 50th percentile. We didn't
16 say, okay, let's target 3 percent lower, we came up with
17 salaries that made sense in relationship to each other
18 and that's kind of where it ended up.

19 CHAIRMAN BROWN: Did Mercer do the 3 percent,
20 or --

21 MS. VISCONTI: So Mercer gave us the numbers
22 at the 50th percentile, the 75th percentile, and we
23 looked at those and said, what feels reasonable, given
24 these principles, and that's where we landed.

25 MR. MEIER: We discussed them internally for

1 quite some time in terms of what we thought was
2 reasonable. Again, given the public sector context,
3 given the -- you know, the other thing I'll say, before
4 we get to the compensation slide, is I'm a firm believer
5 it's not all about money. There are a lot of other
6 reasons why people work, there's a lot of other reasons
7 why people work in the public sector, and the things
8 that we -- the other things that we've done kind of
9 behind the scenes, in terms of giving people voice,
10 giving them a career path, training, promoting from
11 within, recognizing talent, we think those are also
12 primary reasons why people want to work at the Bureau of
13 Asset Management.

14 The asset pool, the fact that we have, you
15 know, collectively, obviously, the largest pool, portion
16 of the pool, but \$270 billion in assets, we're relevant.
17 You get to look at a lot of different things. And I
18 think those are really important reasons why people come
19 to and stay at the Bureau of Asset Management.

20 CHAIRMAN BROWN: Also --

21 MS. REILLY: In addition to a defined benefit.

22 MR. MEIER: Yes. I also have to say I
23 recognize that, you know, people will have different
24 motivations. We may not be able to keep everybody
25 forever, but if they come and they work hard and they

1 make a difference and they can progress to a career
2 outside, I don't have a problem with that
3 philosophically. I think that that level of turnover
4 and bringing fresh blood in and new ideas I think is
5 healthy.

6 We should also mention, Kate, I don't know if
7 you've touched on it, but Mercer's recommendation was
8 for us, for a number of reasons, given our size,
9 complexity, location in New York, et cetera, to target
10 the 75th percentile, which again, we thought was,
11 collectively, we thought, and I thought, was too high.

12 MS. VISCONTI: Go to the next slide?

13 So this is just, very quickly, on the mapping
14 we did. So if you look at the compensation study,
15 you'll see 25 roles in there. We have more than 25
16 people on staff. So the idea was basically that we
17 would come up with 25 standard roles, and then everyone
18 else within the organization would be matched to those
19 roles. Kind of two reasons for that, one being just the
20 reality of the procurement, which still took two years,
21 even though we kept it small for a reason, which speaks
22 to why we need to make those procurement adjustments
23 that we spoke about earlier, but also just sort of to
24 keep the rules standard and more equitable across the
25 Bureau.

1 So that's all I have on this side, if you want
2 to go to the next one?

3 Steve, do you want to take this one?

4 MR. MEIER: Yeah, this is a slide with a
5 little more detail. So the proposed salary increases,
6 the new salary levels, rather, are in the middle in that
7 light green, that mid green portion.

8 The analysis to the right of that actually
9 shows where we compare to Mercer's 75th percentile, on
10 the far right, and the 50th percentile. So for example,
11 let's pick on the CIO role, the compensation that's been
12 proposed is 29 percent below the 50 percentile median
13 that Mercer has come up with, and fully 50 percent below
14 the 75th percentile recommendation.

15 Kate, can you also comment on the -- what does
16 this benchmark us to? What did Mercer -- actually, the
17 firms they looked at.

18 MS. VISCONTI: Yeah, sure.

19 MR. MEIER: This isn't looking at, say,
20 Goldman Sachs asset management. It's our peers.

21 MS. VISCONTI: Yeah, so there are kind of four
22 sectors that they looked at broadly. That's endowments,
23 financial services, public pensions most importantly,
24 and I'm forgetting the other one.

25 But basically, what we did was we said, okay,

1 we'll take the public pension recommendation for all of
2 them, except there were one or two exceptions, and then,
3 in those cases, where they didn't have a public pension
4 comparison, for whatever reason, in those very limited
5 cases, we took the lowest of the other one and made --
6 the other ones, and made the adjustments recommendation
7 based on that. But by and large, they're all based on
8 specifically public pension.

9 MR. MEIER: Kate, the individuals on the team
10 that aren't represented in your map?

11 MS. VISCONTI: Yeah, yeah, I spoke to that a
12 little bit, but so again, you'll see 25 roles here and
13 we have more staff than that. So those folks are all
14 mapped to one of these roles. And there's some folks on
15 here with asterisks, that's just to say that those folks
16 are currently and will continue to be paid by the City,
17 it's just on here for awareness, basically. It was done
18 as part of the study.

19 MR. GIORDANO: I have a question?

20 MS. VISCONTI: Yeah.

21 MR. GIORDANO: In terms of some of these, how
22 many of these types of civil service titles and what
23 would be the impact on the civil service?

24 MS. HIRSH: That's an excellent question. So
25 we are navigating that right now. Mostly, the civil

1 service titles are at the bottom of the range, and some
2 of them are currently, the recommended comp is currently
3 above the allowed civil service range, and we are
4 beginning conversations with our HR and admin folks to
5 navigate. I mean, we can't legally go above the civil
6 service range, right, so our recommended comp is what it
7 is, and we're starting the process to figure out if
8 there is a way to update civil service ranges, how we
9 can do that.

10 They're already in the process of being
11 updated because of the -- with the CBA executions and
12 the managerial raises, like titles are getting bumped.
13 And so the short answer is we don't really know how
14 we're going to execute toward the bottom levels, based
15 on if they are outside the civil service range. And
16 we're doing that analysis right now, and we'll be able
17 to come back to you with like a plan, but that is -- we
18 are aware of it.

19 MS. VISCONTI: So this is just the comparable
20 slide to the one with the headcount that just lays out
21 the cost. The total corpus cost.

22 MR. MEIER: And you can see the bulk of those,
23 the expenses, obviously, in the investment team were
24 attributed.

25 MS. VISCONTI: I think that's -- I think

1 that's it.

2 (Crosstalk.)

3 CHAIRMAN BROWN: Just verification to this,
4 increasing the corpus would be in addition to if you
5 have filled each of the 39 vacancies?

6 MS. HIRSH: What we're asking for, what we put
7 forward to you is total corpus. So the \$10 million
8 includes all the additions, our existing headcount, and
9 any -- and the vacancies that are filled. It assumes a
10 fully staffed budget, a fully staffed team. I have
11 never in my life worked with an organization that has a
12 fully staffed team.

13 CHAIRMAN BROWN: So what happens if, in the
14 next year or two or three, we give you the \$10 million
15 increase in corpus and you still have 39 vacancies --

16 MS. HIRSH: They're not -- so it's --

17 CHAIRMAN BROWN: -- that they're in blue,
18 which corpus is paid?

19 MS. HIRSH: Yes, so --

20 CHAIRMAN BROWN: So that's incorporated?

21 MS. HIRSH: Yes. So I want to be clear,
22 budget and cash flow are different, right? So it is
23 similar to when Patricia puts forward the budget. We
24 have a personnel budget of \$28 million across the five
25 systems, and then we only invoice for what is actually

1 spent, right? So if we are unable to hire and fill all
2 of the vacancies, you're only paying for what we
3 actually hire for and what we have, and then the rest is
4 not spent, right? So it's a budget max, it's not a --
5 it's not a grant that you're giving us in advance that
6 we do what we will with.

7 MR. KAZANSKY: Steve isn't going to buy a
8 yacht with the extra money.

9 MS. HIRSH: He's not there, so.

10 UNIDENTIFIED SPEAKER: He doesn't have a
11 yacht.

12 CHAIRMAN BROWN: We have plenty of time to
13 discuss it, I'm sure. Is that the end?

14 MS. HIRSH: Yeah, so I would just say, though,
15 the one -- this is the end of the presentation, and
16 again, I think our hope is that we can take action on
17 this next month, and -- so that we can begin the fiscal
18 year, and if we need to, you know, obviously, many
19 conversations between now and then, so that we can begin
20 the fiscal year and start executing and implementing the
21 hiring. We can't do any more hiring until we resolve
22 this.

23 MS. REILLY: Tom, can I let the record reflect
24 that Tony Giordano --

25 CHAIRMAN BROWN: Oh, sorry.

1 MS. REILLY: Anthony -- did you hear me?

2 CHAIRMAN BROWN: Let the record show that
3 Anthony Giordano is now present.

4 Are there any more questions for Steve or
5 Alison or Kate regarding the recommendations coming from
6 the STAR report?

7 Thank you. Seeing none, I think it's an
8 appropriate time to have a motion to go into Executive
9 Session.

10 MR. KAZANSKY: So moved.

11 CHAIRMAN BROWN: It's been moved. Do I hear a
12 second?

13 MS. LEE: Second.

14 CHAIRMAN BROWN: It's been seconded. All
15 those in favor -- any questions?

16 All those in favor of going into Executive
17 Session, please say aye?

18 (Ayes were heard.)

19 CHAIRMAN BROWN: All those opposed, say nay?
20 Abstentions?

21 We are now in Executive Session. We'll just
22 wait for Liz to give us the go-ahead.

23 (Exit Public Session; enter Executive
24 Session.)

01 (Exit Executive Session; enter Public
02 Session.)

03 CHAIRMAN BROWN: We're in Public Session,
04 everybody. We will now have a readout, and Thad McTigue
05 will be doing the readout today.

06 MR. MCTIGUE: Thank you, Mr. Chair.

07 During the Executive Session, the Board
08 received an update on performance. The Board also
09 received a manager update.

10 The Board heard presentations on a number of
11 investment opportunities, and consensus was reached on
12 the investment opportunities, details to be made public
13 at the appropriate time.

14 MS. HIRSH: Sorry, we were also supposed to --
15 we had discussed -- can we go off the record for a
16 moment?

17 CHAIRMAN BROWN: We're in Public Session.

18 Okay. So thank for the readout, and I think
19 we've concluded our business. Do I hear a motion to
20 adjourn?

21 MR. KAZANSKY: So moved.

22 CHAIRMAN BROWN: And is there a second?

23 MR. GIORDANO: Second.

24 CHAIRMAN BROWN: All those in favor of
25 adjourning, please say aye.

1 (Ayes were heard.)

2 CHAIRMAN BROWN: Those opposed, say nay?

3 Thank you, everybody, we are adjourned.

4 (The proceedings concluded at 12:46 p.m.)

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