TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

INVESTMENT MEETING

June 12, 2025

10:19 a.m.

Teachers' Retirement System of NYC

55 Water Street, 16th Floor

New York, New York 10041

William Montague
Digital Reporter
Notary Commission No. 01MO0009174

APPEARANCES:

PATRICIA REILLY, EXECUTIVE DIRECTOR

THOMAS BROWN, CHAIR, TRUSTEE

KEVIN LIU, MAYOR'S OFFICE, TRUSTEE

JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE

VICTORIA LEE, TRUSTEE

CHRISTINA MCGRATH, TRUSTEE

ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES, TRUSTEE

Also Present:

LIZ SANCHEZ, TRS

PRISCILLA BAILEY, TRS

ARISTEA AFTOUSMIS, TRS

LOREN PERRY, TRS

KOMIL ATAEV, TRS

KAVITA KANWAR, TRS

JIMMY YAN, TRS

JAMIE STATTER, TRS

JUSTINE JAUME, TRS

BRISCO ANDERSON, TRS

ISAAC GLOVINSKY, ESQUIRE, TRS

VALERIE BUDZIK, ESQUIRE, TRS

NADIA FAZHULINA, OFFICE OF THE MAYOR

ED BERMAN, BUREAU OF ASSET MANAGEMENT

VALERIE RED-HORSE MOHL, BUREAU OF ASSET MANAGEMENT

JOHN ADLER, BUREAU OF ASSET MANAGEMENT
GEORGE GU, BUREAU OF ASSET MANAGEMENT
PETYA NIKOLOVA, BUREAU OF ASSET MANAGEMENT
JONATHAN HUM, BUREAU OF ASSET MANAGEMENT
JOHN GLUSZAK, BUREAU OF ASSET MANAGEMENT
TAFFI AYODELE, BUREAU OF ASSET MANAGEMENT
WILFREDO SUAREZ, BUREAU OF ASSET MANAGEMENT
JANET LONDONO-VALLE, BUREAU OF ASSET MANAGEMENT
MINJOO NA, BUREAU OF ASSET MANAGEMENT
TINA SUO, BUREAU OF ASSET MANAGEMENT
KIM BOSTON, BUREAU OF ASSET MANAGEMENT
MAREK TYSZKIEWICZ, CHIEF ACTUARY
TOM O'HARA, OFFICE OF THE ACTUARY
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
GINA TARANTINO, GOLDMAN SACHS
NICO HART-PALLAVICINI, STEPSTONE
JUSTIN THIBAULT, STEPSTONE
YING LIN, STEPSTONE
JERRY MACDONALD, CAUSEWAY
CONOR MULDOON, CAUSEWAY
WIM BLAASSE, CVC DIF
TOMS LOKMANIS, CVC DIF
SCOTT KOTUSH, CVC DIF
SADEK WAHBA, ISQ GLOBAL
ANDREW KILLIAN, ISQ GLOBAL

MURPHY MCGORRY, ISQ GLOBAL
SEAN CONROY, GCM GROSVENOR
MARC IYER, GCM GROSVENOR
LAURA KOPCKE, GCM GROSVENOR

(The proceedings commenced at 10:19 a.m.)

MS. REILLY: Good morning. Welcome to the Investment Meeting of the Teachers' Retirement Board for June 12th, 2025. I'll start by calling the roll.

Bryan Berge -- I mean Kevin Liu?

MR. LIU: Kevin Liu for Mayor Adams, present.

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good morning, Patricia. Present.

MS. REILLY: Gregory Faulkner?

John Dorsa.

MR. DORSA: John Dorsa, present, designee for Comptroller Brad Lander.

MS. REILLY: Victoria Lee?

MS. LEE: Present.

MS. REILLY: Christina McGrath?

MS. MCGRATH: Good morning, Patricia. Present.

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

CHAIRMAN BROWN: Great. Good morning, everybody, and we'll start with the Passport Funds First Quarter 2025 Performance Review, and Amanda, Gina, Goldman Sachs.

MS. JANUSZ: Thanks, Tom.

CHAIRMAN BROWN: Thank you.

MS. JANUSZ: So I think Gina is pulling up the March update. We had previously shared the March monthly flash, but we have since finalized the quarterly report, so just wanted to spend a quick minute on first quarter results, which feels like ages ago now. A lot has happened since then.

But the first quarter actually was a little bit negative after what had been two incredibly strong calendar years in a row, both 2023 and 2024, where we saw, in '23, the Diversified Equity Fund up 24 percent, in 2024 up 18 percent. So in the first quarter, down 3 percent.

Really if you think back to where we were at the start of the year, we had, you know, change of administration, a lot of questions around what the initial objectives and priorities of the new administration would be, and continued questions and uncertainty around the path of interest rates and inflation.

We also had a notable event at the end of January with the release of the new Deep Seek AI model that really caused a dip in confidence around the sustainability of the valuations of companies like NVIDIA that have really dominated the AI space. And so we saw a real pullback in some of those big tech names that have dominated US markets.

So you see, looking at that three-month column, in terms of the Diversified Equity Fund, the US equity sleeves were more of a drag. The international sleeve actually did add positively to the Diversified Equity Fund over the quarter, although certainly in both US and international markets, the quarter was a little bit challenging for your active managers. So a little bit of underperformance there versus the benchmarks.

But overall, in terms of the quarter, as you can see, kind of mixed results, not surprisingly, the worst performing option being the Sustainable Equity Fund, which is a US large cap growth option and is, again, very impacted by that pullback in tech that we saw during the quarter.

I'll pause there and just see if there's any questions on 1Q.

CHAIRMAN BROWN: Any questions for Amanda? Great.

MS. JANUSZ: Okay. Do you want to flip over to April?

So in terms of April, we ended the month of April at $20.2 billion in total assets for the Passport Funds. $18.2 billion of that is in the diversified equity option. So just around 90 percent of the assets in that Diversified Equity option.

And if you were to look at that one-month column for April, you wouldn't necessarily know that it was an incredibly volatile month. Actually, most of the returns here on the month look pretty modest, muted, right, the Diversified Equity Fund up about 20 basis points for the month on the whole, but as you all I'm sure are very aware, we saw, on April 2nd, what the administration calls Liberation Day, with the announcement of pretty sweeping tariffs across trading partners.

And as we all sat here the morning of Thursday, April 3rd, at the Investment Meeting for April, markets reacted very negatively, both to the announcement of the tariffs and also some of the reactions and threats of retaliation. And so we did have a number of very negative market days following that, although, on April 9th, with the sort of rescinding of some of that initial tariff announcement, a pause on the policy, we had -- the S&P had one of its, I think third best days ever. It was up 9.5 percent on April 9th, and made back a lot of those losses from earlier in the month.

So certainly, interim month volatility was very elevated but we ended in pretty neutral space, again, the Diversified Equity Fund up 20 basis points for the month of April, and on year-to-date basis through April, down 3 percent.

So again the international components being the stronger performers for the month and year-to-date less impacted by, certainly, the volatility we saw in April around tariffs and earlier in the quarter around continuing concerns around US policy and relations.

So I'll just pause there on April.

CHAIRMAN BROWN: Any questions?

MS. JANUSZ: If there isn't any questions, the last update we wanted to is just our Benchmark Report for the month of May. We don't yet have official Passport Fund returns for May, but we can share benchmark index representative returns.

And in terms of global equities, we saw, really, continued momentum from what we saw in the back half of April in response to deescalation around some of this trade policy and tariff threats, which is moved [sic] positively in terms of growth prospects, and we also saw strong corporate earnings, pretty benign economic releases, all of which are positive in terms of market reactions.

So on a go-forward basis, certainly this story isn't over. You know, a lot of these, as we saw just yesterday, announcements around continued conversations with China, we also have the current tax bill that is working its way through the House and Congress, that can have an impact on outlook for US growth.

So I would say volatility is expected to continue here, but for the month of May, across the board, modestly positive, kind of single digit positive returns across the markets here the past few months.

CHAIRMAN BROWN: Thank you, Amanda, appreciate it.

We move on, now, to the Pension Fund Performance Update Quarterly Presentation. I guess Ed is going to do it.

MR. BERMAN: Yes.

CHAIRMAN BROWN: Thank you, Ed.

MR. BERMAN: Good morning.

CHAIRMAN BROWN: And welcome.

MR. BERMAN: Glad to be back.

CHAIRMAN BROWN: Great to see you.

MR. BERMAN: And I have, you say prepared for today's meeting. I gave myself a task not to talk about tariffs because I'm sure everybody is aware. I failed. There's just absolutely no way to get around it because it changes everything.

It creates enormous environment of uncertainty, and put in perspective, yes, it came maybe as a surprise to all of us. The tariffs currently, hard to tell exactly what they are, but probably around 18 percent. That's the level we last saw in the 1930s, almost 100 years ago. At least about consensus that that level of tariffs contributed materially towards global depression, like a kind of global negative outcome in the 1930s, created a lot of social instability.

And going even further back in time, we're talking about mid-19th century, when the American economy was mostly almost like the emerging market, developing, needed a lot of protection.

I also want to put a kind in perspective, so unique feature of American economy, two unique features, first of all, it's very complex with many degrees of freedom, and the other part, it's mostly self-sufficient. We actually import less than most other countries. It's about 12 percent of the GDP. So if we're talking about what we're currently thinking, like 10 percent base rate for tariffs at 12 percent imports, yeah, it's bad, it's about 1 percent hit. We can probably deal with this. It's then certainly, when it's 10 percent, 0 percent, 20 percent, whatever it is, that's what creates an issue, and it affects everything in the broad economy and in the markets and of course affects your portfolio. So that's what I want to talk about, starting with the most obvious, impact to the inflation.

Can we have the first slide, please?

And we just had the most recent inflation print yesterday, so it came slightly higher, 0.1 percent. Again, not the end of the world. So latest print is 2.3 percent.

What you see here, two lines, the golden line is the PCE, personal consumption. That's the measure by the Federal Reserve. The white line is CPI, which is more preferred by the markets, but probably speaking, you can see, they tell the same story. The difference really, a slight difference in components, mostly how the components are weighted. Less weight on energy, less weight on housing.

In PCE, you can see from this chart it shows last 10 years, PCE historically has been most slow to change and that's why Federal Reserve prefers it, but they probably tell the same story.

So inflation is still kind of pulling. You can see the trend where the golden line, white line, it's coming down slightly. I think that a positive trends. What pushes slightly higher are the core services and mostly shelter. So the price of housing stays high and continues to increase. It's moderately and slightly. The rent, in particular, 3.9 percent. Core services moved up 3.

6. Noteworthy change was the core goods, actually registered an increase of 0.3 percent, and that's unusual. It's a small change, I don't want to make too much out of it, but historically, the trend has been the goods trends toward disinflation and services towards inflation. And intuitively, when you think about it, think about your iPhone, it costs roughly the same like over the 10 years, but every year, it's more and more powerful, meaning more and more valuable. But the price is roughly similar, right? So that's disinflation.

We all know that healthcare is getting more and more expensive, tuition costs, they always go in one direction. Housing. So services will drive inflation. So this change of 0.3 percent is actually noteworthy and that's kind of the leading indicator of where tariffs may lead us.

But probably the most important takeaway for me personally from this inflation, that the actual print missed the expectation. So the broad consensus was at plus 0.2 percent. It came at 0.1 percent. This is actually the fourth month in the row when inflation missed the consensus expectation. And I think it's not exit -- I think it's an indication of things to come.

Like I mentioned before, the worst thing about tariffs is the uncertainty. We never really had, in the modern economy and environment, tariffs go to that high of a level, wouldn't know where it may end up.

And the economy, since the last tariff environment, 1930s, the economy has got much more complex, more interconnections, and they have more degrees of freedom. So there are more ways the economy may absorb basically shock, the price shock.

It can show through unemployment. It may show through wages. It may show through many different venues. And I think, when thinking about the economy, first of all, we have some of the economy that's follow when the economy start to sound more assertive than they actually are.

And there's also a question of data. So we'll collect a lot of data. We aren't looking at just the United States, but globally, but most of this data come with a strong clap. What we see being announced, it's usually an estimate and they usually being revised up to a year, year-and-a-half later. So the true picture of the economy comes much later. So whatever you see in the times here is whatever I'll tell you, my message is take it with grain of salt. It's an imperfect estimate, and I guarantee you that the real world outcome will be very different. But what we do understand are the broad counts [sic].

And can I go to the next page, please?

I mentioned before that the realized inflation was below expectation. That said, the risks are mostly to the upside, but these come mostly to the upside for the United States. And you see here the consensus estimate that actually fully supportive of. The red line is the inflation in the United States. The solid line is the realized. The dotted line, the expectation. And the blue line is European inflation.

Traditionally, Eurozone has inflation low in the United States, a reflection of more dynamic nature of American economy. But you can see they kind of moved lock step and step. Obviously, they're actually having more and more of an impact on Europe, but it's broad. It's expected to diverge and not in a good way.

Inflation in United States is likely to get higher. Inflation in Europe abroad, outside United States, is expected to be down. And we may think low inflation is a good thing, yes, but it's all about levels, right? When inflation gets very low, it's actually destabilizing for economies. Inflation is a great shock absorber as long as it stays moderate. Like that's why economists typically use 2 percent. It's kind of gold law in environment, right?

So for United States, inflation for the rest of the world, destruction of demand, nobody benefits, it just, it's a lose-lose on both sides, just a question of time before we see it filtering into the economy, into employment, into markets, and again, into Europe and further. Unfortunately, we cannot escape that.

So besides inflation, the next thing we think about is the employment.

Can I have the next page?

Because that's what the economy is all about, right? It's about people having jobs, earning salaries, and spending this money, and that's what makes the economy going. So employment is critical, and here, show two measures of employment.

My personal preferred measure is the golden line. It's prime age participation rate. The white line is more traditional unemployment rate. No matter what you use, it's strong. But if you squint, you begin to see some unfair trends.

So here, we show 10 years of data, called --

it was not helpful. But probably speaking, the orange line, labor force participation, 83.4 percent, it's high. It's trending higher. And the white line, 4.2, again, it's low. This is good, right? But let's like dive more into it.

First of all, the latest job report show that, which was recently made, that the economy added 139,000 jobs. The way to think about it, the neutral number for neutral growth for the economy, it's about 250,000, roughly. So 139, it's good but maybe not as good as it could be. More importantly, remember I mentioned that all these numbers are just estimates, the previous two months were slower by 90,000 jobs. That's a significant condition. This is not helpful.

Then we look under the hood, what we see is that the job growth is concentrated more in what we call defensive sectors, which are not as sensitive to manufacturing, economical cycle. So a lot of jobs came, a job growth, rather, came in education, healthcare, hospitality, it's all good.

But manufacturing, for example construction, of 8,000 jobs, which is, of course, a little bit ironic because the whole point of tariffs is to increase manufacturing.

So this is not a positive sign, right? It's, again, shows towards potential problems down the line.

You look at unemployment, again, 4.2 percent, this is good but maybe not as good as what we had in 2022 when our employment, the lowest point of unemployment was 3.4 percent. So beginning to see these pressures building up in the economy, and it just amount of time before they kind of had spill out and continue.

And again, keep in mind, this is one of the venues how tariffs may be absorbed in economy, not helpful, but that's the possible outcome.

And of course, the third dimension of the economy is the GDP.

Can we have the next page, please?

And that's what we think about when we think about economy, right? Rising tide lifts all boats. So the more, the better. And the last print of the GDP, again, is an estimate, we'll probably need to wait one to three years to get a solid number. So latest print was minus 0.2 percent. It's most definitely -- this was really driven by building up inventories by the importers to stay ahead of the entire game. Imports do not reduce the GDP. This is common misconception.

So probably thinking more in terms of annual growth, and the annual GDP market stands about 2.1 percent, which, again, it's a good number but it's getting close to the stall speed.

So the way to think about the GDP, there are probably two main factors driving the growth in the economy. One is just the growth of the population, right? Just economy naturally expansive with immigration, which, of course, is under pressure, or just natural more people entering job force. So the population growth, on average, is about 1 percent, right? So this is kind of the natural tailwinds of the economy growth, and also, it comes from the productivity growth.

So given this breakdown, 2 percent is roughly where the Federal Reserve and economists beginning to take notice, all right? This is close to the stall speed in that it's good but it's not as good as it could have been. And of course, we talk about tariffs and domestic political -- and politics, but the United States is the most major economy globally. It will impact everybody else.

So the World Bank just released their forecast. So again, everything needs to be taken with a grain of salt, but they forecast the GDP growth globally at 2.3 percent. That's a reduction from the late 2024 of 3.1 percent. Again, it may not seem like a huge division from 3.1, 2.3. It is big. It's huge, actually. It's not helpful, and unfortunately, where it will hit is mostly the developing economies, the emerging markets.

So some preliminary estimates is the GDP per capita in emerging markets like by 6 percent. It's a big number. 6 percent is actually, it's a lot. And I saw some estimate that may take up to 20 years for the emerging economies to dig out of this hole.

So again, think about --

CHAIRMAN BROWN: How many years?

MR. BERMAN: 20 years. Again, everything they say, take it with a grain of salt, but it's a big shock and it will be felt globally everywhere. But as things stand right now, if you look at these charts, and we're showing 10 years of history, COVID began, it was COVID, but you don't really see these pressures yet.

But putting it all together -- go to the next page, please -- inflation and the growth of GDP, these are two main dimensions of economy, and here, you see the forecast, basically, this consensus forecast, which rarely meets the reality, but the blue line at the top, that's inflation, PC. So the most likely outcome, inflation are going higher. The forecast for GDP, it's going down. It's probably the most likely outcome.

Put it all together, these diversions, these lines, this term rate holds inflation [sic]. Again, you need to be a little careful throwing these terms around because it's a scarier term. If you look at this magnitude of these numbers, they're not helpful, but it's not the end of the world.

We can deal with inflation moving to 3 percent. We can deal with GDP decline 1.5 percent. Anything beyond that will be a problem. And again, it's going back, what I said earlier, is the environment of certainty which presents most of the challenges, and it's everywhere. You see it in the consumer confidence. Consumer confidence is to the lowest level in the 21st century, putting aside the recession. It's not helpful.

If you look at the businesses and hiring managers, you see the softness everywhere. And until we work out this, until we know where we stand in this environment, this will continue as a filtering into the economy and into the markets.

So of course when I talk about the economy and markets, the first thing we think about the central banks, right? So obviously, it's catalyst economy, a few markets, but these markets are managed and they managed by the central banks.

Can I go the next page, please?

And here, you see the last 20 years of action, of changes for the four main central banks globally, United States, Europe, China, and Japan. A few things to point out here which is important in the context of this uncertainty, so first of all, the policy of the central banks historical have been highly coordinated. Here, these four lines, they kind of move around.

The other thing you'll notice, if you squint, that the line at the top, which is the Federal Reserve, they tend to be more aggressive. What I mean by that, they're usually leading the change. So the Federal Reserve usually the first to raise the rates and they first to cut rates, and that's through their own fault. And that's not an accident, it's just simply, first of all, this is the largest economy in the world, it's the largest consumer in the world, but also it is a reflection of the reserve status of the top.

And here, we see a divergence. So this time, yes, the Federal Reserve was first to start raising rates, but now it's slow cutting rates. And again, this is, remember the previous chart, the expectation is that inflation will be moving down globally, the economies will slow down, less so for us. But it is currently the rates, federal fund rates, stand 4, 5, 4.5 percent.

We're reading tea leaves about the future, but the current expectation is, which is changing every day, that there will be one to two cuts before the end of the year. Obviously, there's a fair amount of political pressure on Federal Reserve to cut rates, which, so far, they have been not taking into consideration. They remain data driven. And likely outcome that there may be about four cuts next year. So by the end of next year, the rates will move down out to 3, 3-and-a-quarter which will absorb a lot of shocks.

And of course, these are just, when we talk about fed fund rates, it's very obscure rates charged on the reserves, on the affected commercial banks. How it affects all of us, through the yield curve. That's what affects our economy.

Can we have the next page, please?

So here, you see the yield curve, and we show four yield curves. Let me just walk you through that because that's important to put in the context.

Static was the red line, the red line, which is June 2019. This is shortly before COVID. This is what kind of normal-ish yield curve, maybe not as much alpha slope as you expect, but this is good environment. We're going into COVID, that's the orange line. Of course, the Federal Reserve started to stimulate the economy, cutting rates. The front end of the curve collapses, nothing, exactly what expect.

And finally, the blue line. This is December of last year. This shortly before the Trump Administration took office. This is more curve normalizing. You still see the impact of COVID. People complain about the very curve, you heard about curve being too flat.

And now, we're moving towards the gray line, which is today. Well, two days ago. You look at it, say what's such a big problem, right? It looks almost the same, there's almost no change. The devil is in details. Even though only a few months separate to, these two dates, there was a lot of action in between. There's a lot of volatility, there's a lot moves in the rates.

We have settled, as of for today, you see that the front end of the curve, the gray line, it's dipped slightly lower, and this is here, the expectation of the market, like the two year rates is usually the reflection of market expectation, the fed fund policy. We just talked about fed funds coming down. So it's not surprising that two, three-year points were more involved, that's fine.

But what's more worrisome is the long end of the curve. Even though it doesn't look like a lot, the move about 30 or 40 basis points, it's highly significant, and it's actually not a domestic phenomenon, it's happening everywhere. Probably the most troublesome change was in Japan where, of course, the level of government debt is about 240 percent GDP. So small changes in interest rates means big changes of government, how much they pay in interest.

But what I technically would call ace premier, which is a fancy term, which is saying nobody knows what's going to happen. Well, nobody knows what's going to happen. You want more compensation for hirings, more returns, right? And that affects the economy globally and it affects economy on so many models that we don't fully understand it.

Just if you did like about a year ago, there's a lot of talk about banking crisis. If you remember, several mid level, midsize banks fail. Why they failed? Because of holding their strategies, and they were bought before the current turn up (phonetic) in the rates and they have a lot of unrealized losses in their books. Well, guess what? The same problem is still there.

We worked out that two or three banks, the other banks become under pressure. It will show up through mortgages, right? A lot of people holding mortgages, and will put the downward pressure on the housing activity.

It shows up in corporate borrowing. Like operations, mostly fund operations, through borrowing funds. So this is really where most of the actions is. That's the area to focus on. And again, this is not helpful. So far, we didn't see big impacts, but the direction of travel is not very encouraging. And why is that?

The next page?

We obviously talk mostly about the domestic economy because that's the most important economy and your portfolio is heavily weighted towards holding domestic assets. The reality is nobody's insulated. There's just one planet, everybody's connected, and the terms of your portfolio (indiscernible) is driven by the capital flows.

So look at these two lines, just to put it in perspective. The line at the bottom, the blue line, these are net holdings of domestic US investors, holdings abroad. This is how much domestic investors invested with capital outside the United States. You can see currently says 36 trillion.

The red line at the top, that's the investments of the foreigners into the United States.

Two things to know. First of all, look at the gap. $36 trillion to $62 trillion. That's what, $28 trillion. It's a huge number. So global GDP is about $170 trillion. It's a lot of capital. Why was it trending higher? It's very simple. You heard a lot about American exceptionalism and material issue period performance of American assets. The same reason why your portfolio is mostly invested in American assets. And also strong performance of the dollar, provided tailwind for foreign investors.

Just think about what's happening in the markets, in this trend in white. If we go back to where we were in 2014, that's a massive outflow from American markets, both in equities, in treasuries, in corporate bonds, in private assets. That will not be good for equity returns.

Again, everything is connected. There's just one planet, and I usually try not to focus one country because what affects one country affects the rest of the world.

Again, as of right now, we don't see that. Where we begin to see some tremors is the US dollar, and typically, the trend is high interest rates domestically mean the dollar moves higher, and that's very simple, right? So investors getting more compensated for higher rate in the United States, meaning dollars getting pushed higher.

That's not what we saw in the past few months. The dollar is actually moving lower. This is highly usual. Again, I'm not talking about huge changes. The dollar moved lower about 4 to 6 percent, depending on the day, but that's the dynamic we typically see in emerging markets. That's highly unusual for developed economy that issues that in some currency. We can always create as many dollars as we want. We will never fail on treasuries, we will never fail anywhere.

So this dynamic is indicative of growth on east globally with way the American economy is going, potential taxes on capital flows. And again this is not helpful, but we don't see it yet.

Can I have the next page?

Probably the most telling market is corporate strengths. And these are, if you think about equities, you invest in equities, all institution invest in equities, but a lot of it's driven by retail investors, which are more of a kind of sentiment flows. When you move to corporate market, it's all about institutions. That's where people can be more rational, longer term investors.

And here, we show you three lines. So first of all, the green line, you can show you before, this is the Policy Uncertainty Index. The level is not important. What's important is the track. You can see that the green line, yes, it spiked a little bit during the crisis periods, whereby today it is off the charts, like literally off the charts.

Normally, the uncertainty in the index will feed into credit spreads and high credit spreads mean that it's getting more difficult for corporations to borrow, which puts downward pressure on economic development. We don't feel this much happening right now, and that's a positive, encouraging development.

The red line, investment grade spread, it stands out 84 basis points. If you see any drama there, I don't. It's really, it's all good.

High yield tells a little bit different story. So high yield is slightly elevated at 300 basis points, but you need to be a little careful thinking about high yield. So here, we show you 10 years of history, but there was a really seismic change in the market structure, and the name of this change is private pay.

So high yield stands about 1.8, let's call it $2 trillion, total outstanding. Private trade actually happens at about the same. It's about $1.9 trillion. And with capital, in the past few years, a lot of more difficult length, more distressed borrowers, moved actually into the private pay. So the quality of high yield moved higher, it got stronger, and that's one of the reasons why you see the higher spreads slightly elevated, but again, we're not talking about significant pressures. And as far as your public market portfolio goes, it's a positive message.

So I'll pause here. We'll talk more about the portfolio later. But any questions? It's a very fast rally, again, global economy, it's a lot of things happening.

CHAIRMAN BROWN: A lot to take in, Ed. Thank you.

Any questions for Ed? Thank you so much for that.

Great. We move on, and let the record show that Anthony Giordano is present.

And now, we move on to the Net Zero Update.

I think John -- thank you, Ed.

Thank you, John. Welcome.

MR. ADLER: Good morning, everyone. Thank you so much.

CHAIRMAN BROWN: Good morning, John. Welcome back.

MR. ADLER: Jimmy Yan is online. If you could share the slides? And great, thank you so much.

So good morning. I'm John Adler. I'm Chief ESG Officer in the Bureau of asset Management. And today, I'm going to do a brief -- go back to the first slide, please.

Today, I'm going to do a brief review of the 2024 Net Zero Annual Report, which went out in April, and then go over two recommendations stemming from that report and the Net Zero work that has been happening for TRS.

So starting with the annual report -- sorry Jimmy, could you go back to --

MR. YAN: Sorry about that.

MR. ADLER: -- Slide 3? Okay, great. All right. We're starting on the annual report. That's fine. Slide 4.

So starting with the carbon footprint, for the Board, the good news is that the Scopes 1 and 2 carbon footprints for your public equity and corporate bonds portfolios in Fiscal Year '24 decreased. So as you can see in the slide, TRS Scopes 1 and 2 financed emissions intensity decreased by 20.3 percent year over year, which yields a total reduction of 39.5 percent, where you see the green vertical line.

Jimmy, if you have the cursor, yeah, point to that. Perfect.

From the baseline of December 31st, 2019. So TRS had set a goal of a 32 percent reduction in greenhouse gas emissions in the portfolio by 2025. You have actually, now, it's gone down by 39.5 percent as of the end of Fiscal Year '24. So you have exceeded, your portfolio has exceeded its goal for Scopes 1 and 2 for your public markets portfolio. So congratulations.

As you can see from the slide, the next interim goal is 59 percent from that same 2019 baseline, by 2030. That's where the dotted blue and orange lines converge at 41 percent right there. So that -- if you go down 59 percent, that means that you're 41 percent of your 2019 baseline. So that's where we're hopefully heading in the next five years, six years, really.

Okay. Next slide, please.

So this illustration shows you the timeline of emissions reductions in the portfolio and the primary reasons for the changes. So the divestment of fossil fuel reserve owners that you voted for in 2021 and completed in 2023 was the biggest driver of emissions reductions.

But in addition, the new asset allocation, which was implemented last year, and the increase in value in the top equity holdings, you know, what do they call it, the Magnificent 2, all the big tech companies generally have very low emissions. So if those go up, your portfolio emissions go down. So that also contributed.

You can see in the middle that red type is that -- that was the increase in emissions from companies stemming primarily from the post-COVID recovery, right? So emissions went down during COVID because economic activity went down, and then went up during that recovery. So that's really why, in the previous fiscal year, emissions went up but then did go down because of these changes I described in the last fiscal year.

Okay. Let's move on to the next slide.

So I'm going to share some high level results from the Annual ESG Questionnaire Dan sends to all of your managers each year. This is last year's questionnaire, which went out right at the end of Fiscal Year '24.

We asked the managers to report on whether they have adopted, or intend to do so in the next 18 months, at least for the assets they manage on your behalf, a net zero goal on the left -- sorry.

Okay. A net zero goal, whether they intend to adopt short-term emissions reduction targets, whether they have Paris aligned emissions targets. All of that is in -- whether they have done or intend to do so in the next 18 months.

And the blue bar is in terms of the number of funds. The orange is the AUM. So you see some of your managers manage more than one fund for you, so you see that distinction, and you could have a lot of funds doing something but that don't manage much assets. So that's why you have those distinctions.

The last bar, the last set of bars there on the right is that -- this is the number of funds and managers that said that they intend to submit a plan for decarbonization or net zero for you by the June 30th deadline that you set, for June 30th, 2025, so three weeks from now, for public markets managers. And you can see that it's about half that said they intend to meet that.

However, that was last year. I am happy to report that we have engaged with virtually all of your public markets managers and we now expect all, or virtually all of them, to submit plans by the end of this month. And we will assess those plans beginning this summer and plan to report back to you the results later this year.

Also, bear in mind that you set a deadline for private markets managers of a year from now, June 30th,

2026. So that's when those requirements will start to apply to your new public markets investments that you would invest in basically starting July 1st, 2026.

The annual report itself contains a lot more detailed results from this Annual ESG Questionnaire. And you also received, when we sent you that report, a detailed appendix with manager by manager answers to the questionnaire because that was in the net zero communication plan. It's a bear of a thing, but if you want to look at it, obviously, you have it.

Okay. Let's go to the next slide.

So this slide shows the percentage of Scopes 1 and 2 public equity and corporate bonds financed emissions of TRS that have adopted science-based targets as of June 30th, 2024.

As you can see, year over year, the financed emissions covered by validated SBTI targets as well as the amount committed to SBTI each went down by 1 percent. So essentially, SBTI adoption stagnated during Fiscal Year '24. So I have to say, you know, I'm giving you the good with the bad, we are not on track to achieve the goal that you set of 70 percent of your Scope 1 and 2 emissions covered by science-based targets by 2025. We may do a little bit more this year, but the reality is that this progress has stagnated.

SBTI, the Science-Based Targets Initiative itself, has had some challenges, including leadership and staff turnover, lack of protocols in some high emitting sectors, including energy and utilities. And they remain committed to very, very stringent standards, which a lot of industries are resistant. So we are working on identifying other target setting methodologies and metrics that would be both credible and useful for the goals that you have set. And I'm going to get into that now in the next slide, because this is around portfolio company engagement.

So these are some highlights of the portfolio company engagement on Net Zero that have taken place over the last year. We have now sent letters on your behalf to 100 of your portfolio companies in the highest emitting sectors, and we're engaging in substantive dialogue with many of them around these target setting protocols and methodologies, in addition to SBTI or as an alternative to SBTI.

Next, we continued our engagement with major banks this year, urging them to disclose their clean energy supply ratios. Last year, three banks agreed to this disclosure. This year, none of the four banks, the other four major banks that we filed shareholder proposals at, agreed to that disclosure.

All four of them tried to get the SEC to allow them to exclude the proposals. They failed in that. So all four proposals went to a vote, but in a sign of the times, the average vote on the proposals this year went down to 15.5 percent, whereas, last year, the proposals, the same proposal that went to a vote, got an average of 26 percent. And this is really an indication of what's happening with social, environmental shareholder proposals in the current era with the anti-ESG campaign and the powers that are ascending in Washington. I think everybody at the table knows what I'm talking about.

The last point here is just that we are serving on your behalf as the lead investor for Climate Action 100+ for science-based targets and are helping really to drive that work forward for asset owners and asset managers in that coalition.

Okay. Next slide, please.

Let me talk about utilities. You may remember that we have been focusing on science-based targets in utilities since 2023, as it's such a big chunk of TRS's Scope 1 and Scope 2 emissions. It's 25 percent as of 2024. We have been representing you on the stakeholder advisory group for the development of SMARTargets led by an industry group called the Electric Power Research

Institute.

Now, I'm just going to say we're not sure yet whether this methodology will result in utilities actually adopting science-based targets. The public comment period for this methodology begins in July. So we should know later this year whether this approach will help get utilities to be genuinely Paris aligned. I wish I could give you a more definitive answer today, but I can't. But we will know more later this year.

I'll just also note that we did file shareholder proposals this year on behalf of TRS and other systems at three utilities, requesting that their targets be evaluated by independent third parties. It's really a way of saying these are utilities that have adopted targets, but we're a little skeptical that they're really science-based or aligned, Paris aligned.

But again, continuing to trend, these proposals really did not do very well, receiving an average 9.3 percent vote. So the shareholder proposals, this season, have not really done very well, and that's the time we're in. So we're going to evaluate that going forward.

Okay. Next slide, please.

This concludes my overview of the annual report. I encourage you to read through the whole report, at least the executive summary, which is in your portal.

I'll take any questions now on the annual report, and then I'm going to go to one recommendation right now.

CHAIRMAN BROWN: Any questions for John?

MR. ADLER: Okay.

CHAIRMAN BROWN: Thank you, John.

MR. ADLER: So let's do the next slide, Jimmy.

So this slide is -- and I realize there's a lot of numbers on there. Here's your results in terms of your investments in climate solutions.

The good news is that your total investments in climate solutions are now up to $6.4 billion.

Jimmy, if you can point to it on the -- $6.4 billion.

That's your exposure as of year end 2024. So December 31st, 2024. And that amounts to 6 percent of your total portfolio. Investments have increased pretty much across asset classes. The highest actual amount is in public equity, which makes sense since that's your largest asset class, while the highest percentage in climate solutions is in infrastructure where nearly 25 percent of your allocation is invested in climate solutions, which is mostly renewables.

Now, you'll see -- okay, can we go to the next slide, please?

So this slide was actually duplicated from last year. So you have now exceeded your 2025 goal for climate solutions, which was $4.2 billion. The Board has not set a 2030 target. We have a 2035 target, which is $19 billion, but BAM is recommending that you set a 2030 target.

And the target that we're recommending is based on your updated strategic asset allocation and capital markets assumptions that come from Goldman Sachs, the updated actuarial projections for the system's assets under management, and then we used the same compounded annual growth rate that we used back in 2021 to generate the 2025 and 2035 targets when you adopted them.

So if you go to the next slide, please, Jimmy.

So the number that we're proposing is in highlighted green, $10.5 billion. And I think what's important, so you're currently at $6.4 billion, which is 6 percent, and we're proposing $10.5 billion at the 2030 target, which would be the projected 7.2 percent of your total AUM in 2030.

And again, this is the recommendation of the Bureau of Asset Management and we would propose that you consider that target when you vote.

Any questions on climate solutions?

CHAIRMAN BROWN: Any questions for John?

MR. ADLER: Okay. We're going to stop there for now.

CHAIRMAN BROWN: Okay. And we can settle that now. We would like to table that recommendation.

MR. ADLER: You table that for today?

CHAIRMAN BROWN: Yes.

MR. ADLER: Understood.

CHAIRMAN BROWN: Okay, thank you. Thank you, John.

Okay. So now, we'll move on. Thank you, John, much appreciated.

We'll move on to the new MWBE definitions memo. I think Taffi is going to do -- hi, Taffi, how are you?

MS. AYODELE: Hi, good morning, everyone. Good to see you.

CHAIRMAN BROWN: Good morning. How are you? Great.

MS. AYODELE: Okay. So I am going to just walk you through the memo that you should have in front of you and just quickly highlight some of the key definition changes and open up for any questions that you might have.

Our previous definition for MWBEs was 25 percent ownership. We are updating that threshold to 33 percent based on a survey of our peer public pension plans and just overall best practices in the industry.

All investments made before July 1st -- as you all know, are fiscal ends June 30. So all investments made before the end of the fiscal will retain legacy status under the 25 percent rule, and we just ask that all managers who are at that 25 percent threshold at least maintain 25 percent ownership by women and people of color.

The other key definition update that I will highlight is there's a new definition, if you notice. We want it to be very clear on the different types of definitions that we have.

In public markets, we have historically had 51 percent ownership for MWBE, but we noticed that a good number of our private markets firms also maintain 51 percent ownership. So we wanted to highlight and distinguish majority-owned MWBE managers versus what we're calling substantially-owned MWBE managers who will now be at that 33 percent.

There's a third category that we're adding called diverse economics MWBE managers. The decision to add this definition is in line with trying to create more of a pipeline of women and diverse managers in the industry. So if a firm, a private market firm has women and people of color retain at least 33 percent of the participation in the fund economics or carry, we will consider that fund a diverse economics -- diverse economics manager. So I hope that makes sense.

So this is broadening the aperture in hopes that some of our larger firms will elevate and promote the utilization of diverse members of their teams on their actual funds.

Lastly, I will highlight a new addition, which will be adding a 3 percent of AUM goal, aspirational goal for disabled veteran owned businesses. We thought that this was very important. Our veterans are a very important part of our country and our business community, and having a separate goal to try and capture more veteran-owned firms is something that we thought would be important to all of our boards.

This was presented to Police and Fire already. They have asked that we brought in the definition even further to include just veterans, that they don't have to be disabled, but they're also asking that the individuals would have been honorably discharged to be able to receive that designation.

So I would like to present that as well to Teachers' and really just open it up for any questions that you might have. Those are some of the key highlights of this memo.

CHAIRMAN BROWN: Thank you, Taffi.

Any questions? Anthony?

MR. GIORDANO: Just in terms of knowing the rule, do we need a disparity study to make change in terms of veterans?

MS. AYODELE: We don't necessarily need a disparity study. That 3 percent that we put as an aspirational goal, I noticed that some of our larger managers already report, Grosvenor and others already report on veterans, and it's usually like a 3 to 5 percent goal.

I figured if we put a lower number, we can at least start asking the question, collecting the data, and I can present that back to the boards, once we have a baseline from our 2025 fiscal year data.

MR. GIORDANO: And I know we're like-minded in this, does that potentially open the door for us to request similar aspirational goals for specific ethnic groups?

MS. AYODELE: I don't think we would necessarily have to do that. If you have taken a look at our report, our MWBE report, annually, you can see by demographic what the exposure is by asset class, by system.

If there are questions about that specifically, if anyone feels like there's more disparity with specific ethnic groups, I'm happy to talk about that some more. But we have been very transparent the past three years in terms of highlighting which demographic groups are allocated to in our portfolios.

MR. GIORDANO: Thank you.

CHAIRMAN BROWN: Thank you, Taffi, appreciate it.

Any more questions or concerns? We're all in agreement with this?

Okay, thank you.

MS. AYODELE: And just one question, did you all want to stick with veterans or disabled veterans? I just wanted to make sure, if we have this uniformity across all of the systems, or.

CHAIRMAN BROWN: Yeah, I would think veterans.

MS. AYODELE: Veterans broadly, okay.

MR. DORSA: Yeah, that's fine.

CHAIRMAN BROWN: You all agree with that? Great.

MR. DORSA: No objection.

CHAIRMAN BROWN: Great. Thank you, Taffi.

MS. AYODELE: Thank you all. Have a good day.

CHAIRMAN BROWN: Thank you very much.

And I think that concludes our work in the Public Agenda Session.

Do I hear a motion to move into Executive Session?

MS. LEE: So moved.

MR. DORSA: Second.

CHAIRMAN BROWN: Thank you, Valerie. Thank you, John.

MS. BUDZIK: Valerie.

CHAIRMAN BROWN: Valerie, Valerie. Victoria. Thank you, Victoria. Thank you, John.

And thank you, Valerie, for bringing it to my attention.

(Laughter.)

CHAIRMAN BROWN: Any comments or discussion? All those in favor of going into Executive Session, please say aye?

(Ayes were heard.)

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

We're now in Executive Session. Thank you.

(Exit Public Session; enter Executive

Session.)

(Exit Executive Session; enter Public Session.)

CHAIRMAN BROWN: And we are back in Public Session. Welcome, everybody.

At this time, I believe we'll have a readout from our own Priscilla Bailey. Thank you.

MS. BAILEY: Thank you, Mr. Chair, appreciate it.

In the Executive Session of the Passport Fund, there were two manager updates.

There was an update on investment manager contract extensions.

Finally, in that session, there was an international equity presentation. Consensus was reached.

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

There was an investment policy proposal. The matter was tabled.

There were two infrastructure presentations. Consensus was reached for both.

There was an alternative credit presentation. Consensus was reached.

There was a real estate presentation that was previously tabled from the May 2025 Investment Meeting. This matter was also tabled in this session.

Details to be made available at the appropriate time.

CHAIRMAN BROWN: Thank you, Priscilla.

MS. BAILEY: Thank you.

CHAIRMAN BROWN: Appreciate it.

And I believe that brings us the conclusion of our Public Session. And as always, before we ask for a motion to adjourn, I'd like to publicly thank our recorder, Will.

And our tech, TRS tech guy, Richard, much appreciated as always.

MR. DORSA: And I'd like to thank you, Chairman, for your stewardship of the fund.

CHAIRMAN BROWN: Thank you. Thank you, sir.

And I will ask for a motion to adjourn.

MR. GIORDANO: So moved.

CHAIRMAN BROWN: It's been moved.

MS. LEE: Second.

CHAIRMAN BROWN: Seconded. Any questions, concerns? All those in favor of adjourning, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay?

We are adjourned. Thank you.

(The proceedings concluded at 1:20 p.m.)

CERTIFICATE OF DIGITAL REPORTER

I, WILLIAM MONTAGUE, a Digital Reporter and Notary Public within and for the State of New York, do hereby certify:

That the foregoing proceeding is accurately captured with annotations by me during the proceeding in the above-titled matter, all to the best of my skills and ability.

I further certify that I am not related to any of the parties to this action by blood or marriage and that I am in no way interested in the outcome of this matter.

IN WITNESS THEREOF, I have hereunto set my hand this 24th day of June 2025.

____
William Montague, Digital Reporter
Commission No.: 01MO0009174
Expiration Date: June 7, 2027

CERTIFICATE OF TRANSCRIPTIONIST

I, NANCY KRAKOWER, Legal Transcriptionist, do hereby certify:

That the foregoing is a complete and true transcription of the original digital audio recording of the testimony and proceedings captured in the above-entitled matter. As the transcriptionist, I have reviewed and transcribed the entirety of the original digital audio recording of the proceeding to ensure a verbatim record to the best of my ability.

I further certify that I am neither attorney for nor a relative or employee of any of the parties to the action; further, that I am not a relative or employee of any attorney employed by the parties hereto, nor financially or otherwise interested in the outcome of this matter.

IN WITNESS THEREOF, I have hereunto set my hand this 24th day of June 2025.

____
Nancy Krakower, Transcriptionist