TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

SPECIAL INVESTMENT MEETING

June 23, 2025

10:10 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
THAD MCTIGUE, DEPUTY 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

Also Present:

LIZ SANCHEZ, TRS
PRISCILLA BAILEY, TRS
ARISTEA AFTOUSMIS, TRS
LOREN PERRY, TRS
KOMIL ATAEV, TRS
JUSTINE JAUME, TRS
VALERIE BUDZIK, ESQUIRE, TRS
ANDREW ROSEN, TRS
JIMMY YAN, OFFICE OF THE COMPTROLLER
DONALD DE ROSA, OFFICE OF THE COMPTROLLER
DAVID LEVINE, LEGAL DEPARTMENT
STEVE MEIER, BUREAU OF ASSET MANAGEMENT
VALERIE RED-HORSE MOHL, BUREAU OF ASSET MANAGEMENT
JOHN GLUSZAK, BUREAU OF ASSET MANAGEMENT
WILFREDO SUAREZ, BUREAU OF ASSET MANAGEMENT

JANET LONDONO-VALLE, BUREAU OF ASSET MANAGEMENT
MINJOO NA, BUREAU OF ASSET MANAGEMENT
KIM BOSTON, BUREAU OF ASSET MANAGEMENT
SANYA COWAN, BUREAU OF ASSET MANAGEMENT
KATHERINE JUSUF, BUREAU OF ASSET MANAGEMENT
EDGAR FLORES, BUREAU OF ASSET MANAGEMENT
MAREK TYSZKIEWICZ, CHIEF ACTUARY
AMANDA JANUSZ, ROCATON/GOLDMAN SACHS
MICHAEL FULVIO, ROCATON/GOLDMAN SACHS
GINA TARANTINO, GOLDMAN SACHS
JUSTIN THIBAULT, STEPSTONE
JAMES MAINA, STEPSTONE
MARC RIVITZ, STEPSTONE
SEAN KIRKPATRICK, OSMOSIS
RICHARD TATLOW, DFA
JOEL SCHNEIDER, DFA
MATTHEW MCMENAMY, VONTOBEL
PASCAL DUDLE, VONTOBEL
MARCO LENFERS, VONTOBEL
ANDREW HOLM, ARES
JOSEPH HILL, ARES
THOMAS MCGONAGLE, ARES
MELANIE SCHIFF, ARES
ISABEL KANG, ARES
SYDNEY MCGINNIS, ARES

ALOK GAUR, EQT
TORAL PATEL, EQT
MATTHEW BRODNIK, EQT
JOHN TOUKATLY, EQT

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

MS. REILLY: Good morning. Welcome to the Investment Meeting of the Teachers' Retirement Board for June 23rd, 2025.

I'll start by calling the roll.

Kevin Liu?

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

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good morning, Patricia.

MS. REILLY: Good morning.

Anthony Giordano? Gregory?

John Dorsa?

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

MS. REILLY: Victoria Lee?

MS. LEE: Present.

MS. REILLY: Christina McGrath?

MS. MCGRATH: Good morning, Patricia. Present.

MS. REILLY: Good morning.

We have a quorum and I'll hand it over to the Chair.

CHAIRMAN BROWN: Thank you, Patricia.

Good morning, everybody, and welcome to our last investment meeting of the school year.

We start with the Preliminary June Market Performance, Goldman Sachs. Give us some good news.

MS. JANUSZ: Thanks, Tom.

I think I'm actually going to start with the May Passport Fund splash.

CHAIRMAN BROWN: Okay.

MS. JANUSZ: Gina, are you able to pull that up?

So when we were here for the first June Investment Meeting, we shared just preliminary May market results. We didn't quite have official May Passport Fund results just yet, but in terms of the month of May, we saw, essentially, a continuation of the momentum that we had through the, really, back half of April, post a lot of the Liberation Day tariff related negative results where we saw, in the month of May, supportive things for assets. So strong corporate earnings, pretty benign economic releases, steady central banks, US included, and so overall positive results.

So we see the Diversified Equity Fund for the month of May up just over 6 percent, and the strongest sleeve of that being the active US equity managers, which were up over 7 percent and at a value above their benchmark. The active international sleeve also very slightly ahead of its index, and the Sustainable Equity Fund being your strongest performer for the month of May, up over 9 percent and ahead of its index. So strong recovery from a pretty down start to the year for that Sustainable Fund.

So you can see, on a year-to-date basis, that's your one Passport Fund that is still in very slightly negative territory down about 40 basis points year-to-date through May, and that's really due to the pullback we saw in the start of the year related to some of those big tech names.

So overall, despite some of the volatility we've seen so far this year, you are in a pretty strong spot year-to-date through May. So if we look at the Variable Funds overall, you're at $21.4 billion in assets as of May 31st, and that is up slightly from where we ended the year at $21.2 billion.

CHAIRMAN BROWN: Thanks, Amanda.

MS. JANUSZ: Any questions on May? Okay.

CHAIRMAN BROWN: For June?

MS. JANUSZ: So, for June, we don't have a one-pager to share just because we don't have the full month of results just yet for June. But to give you just a sense of the partial update in terms of market backdrop, again, a little bit of a mixed month.

So we saw continued negotiations around the tax bill working its way through the houses of congress. The Fed did meet last week and held rates flat again, although still is signaling two cuts for later this year and really being thoughtful about how to manage inflation, especially with the added wrinkle around the impact of tariffs.

And then, last week, we also saw the US get involved with an initial airstrike in Iran. So on a go-forward basis, certainly that will be a big question around what next steps looks like in the aftermath of that.

So in terms of markets, we saw a little bit of a mix. So the S&P up around 1 percent through Friday. Developed non-US markets, so the MSCI EFA index, down around 1 percent, and emerging markets up 3, so kind of a mix for June and a little bit of continued uncertainty going forward around, still, fiscal policy and trade policy.

CHAIRMAN BROWN: Thanks, Amanda. Great.

So we now move on to the Pension Fund Market Overview.

Steve?

MR. MEIER: Great. Thank you, Mr. Chair.

CHAIRMAN BROWN: Thank you. And welcome.

Hope you're feeling better.

MR. MEIER: Thank you. It's good to be here.

Maybe just one slide ahead.

I'm just going to give you a quick update in terms of where we are, coming through the first quarter of the year, from an economic perspective, Fed policy, and the impact on your investments.

So obviously, not to beat a dead horse, Amanda talked about a number of the initiatives coming out of the White House and out of Washington with the new administration. Obviously, concerns about some of the policies, their deportation of -- an immigration policy being somewhat inflationary as well as their increase in trade tariffs potentially being very inflationary, but on the inflation front, actually, no bad news is actually good news, and that's basically saying we really haven't seen the impacts of tariffs showing up in inflation numbers yet.

The May CPI came out 1/10th of 1 percent at just 2.4 percent with core unchanged at 2.8 percent. The Fed's preferred measure of core PCE is still at 2.5 percent. We'll get another look at that this Friday and we'll see where we're going from that perspective.

The core PCE inflation that is due at this Friday is supposed to reflect about a 3 percent level over time. The Fed had their summary of economic projections, they had a meeting last week, and in June, they update their summary of economic projections, the dot plots, and there, they reflected that the Fed, the full board considers a 3.1 percent of inflation for this year to be more likely and that's up from their prior estimate in March of just 2.8 percent, so well above the 2 percent Fed target.

On the next slide, just a look at inflation. You can see, in yellow, 2.5 percent. Again, that's the PCE Core Index, and you've got the other measure of CPI at just 2.4 percent rounded up from 2.35 percent.

The issue today really is the delay associated with the tariffs and the impact on inflation over time. And there are many in the markets that think. Including the Fed, that think that inflation is moving up to 3 percent later this year. So we'll continue to monitor and watch that. That's another reason why the Fed has been less inclined to cut rates if there's any economic weakness because of the potential for increase in inflation.

On the next slide, just a look at inflation around the world. On the far right-hand side, you can see again inflation has come down much closer to the 2 percent level that the Fed, the ECB, and the Bank of

England had as targets. You do notice, though, in the UK, on the far right-hand side, the dark gray, a little bit of a spike. Inflation actually moved up to about 3.4 percent there on higher food, beverage and energy prices. Again, well above the 2 percent target. They had a meeting last week, as did the Fed, and both the Fed and the Bank of England kept rates unchanged for now, again, given the higher levels of inflation.

On the next slide, a quick look at employment. We had non-farm payrolls for May early in June. It actually came in above the consensus of about 126,000 jobs created at a full 139,000 jobs created for the month, and unemployment actually held steady at 4.2 percent. This is actually quite solid. The unemployment picture -- the employment picture, I should say, looks pretty okay for now, but the unemployment rate is expected to move up to 4.5 percent, potentially higher. That will be more challenging for the Fed because they have a dual mandate of maintaining stable prices and full employment. In fact, in the June summary of economic projections just out last week, the Fed did reflect that they think the unemployment rate will be at 4.5 percent by year end 2025.

On the next slide, just a quick look at a couple of the other employment pictures. You can see unemployment in white at the bottom, steady Eddy, 4.2 percent. Again, that's quite solid. It's not a real cause for concern.

I'd say perhaps more importantly worth noting is that the labor force participation rate in yellow or orange, if you will, and you can see that's still below where it was pre-pandemic, and that has something to do certainly with demographics and aging population, baby boomers starting to retire as well as, during the pandemic, a lot of people did take early retirement options. So again, we're still not back to where we were. Something we'll continue to watch.

On the next slide, a quick look at GDP growth in the United States, and you can see the headline, "The GDP Drop Isn't as Bad as it Looks." The early estimate of GDP in the first quarter this year came in at a negative 3/10 of 1 percent. It was then subsequently revised up to negative 2/10 of 1 percent, but again, it has more to do with a reporting anomaly where GDP is reported net of exports, and we did have some front running of import activity associated with the expectation of tariffs going up even before Liberation Day on April 2nd.

We get our first look at the second quarter estimate of GDP later in the end of July, and the expectation is for employment, at least for -- for, sorry, growth in the second quarter to be as high as 3.5 percent. The Fed, again, in their recent dot plot estimate, came in with expectations of GDP growth for the full year 2025 of just 1.4 percent. That's below the 2 percent trend that we've seen on average over time.

On the next slide, just a quick look at growth, and you can see on the far right-hand side, again, that red is the US and it has trended down, again, with a negative number in front. Again, that has to do more with technical nuances in terms of how it's reported. We are expecting to see a bounce back in the second quarter, again, release at the end of July.

Employment in Europe, somewhat benign at 1.2 percent. UK GDP, same thing, around 1.3 percent. And Japan has actually seen some negative growth associated with that economy as well. China, however, comes in a robust 5.4 percent. You can see that in green on the bottom, and that is pretty much where they were expected to be.

On the next slide, just a quick look at where we are with official rates. The headline says, "Why the Fed isn't Ready to Join Other Central Banks in Cutting Rates." Well, it's because inflation is expected to move up, as I reflected earlier, to above 3 percent, and unemployment has been well-behaved, but again, expected to move slightly higher, which would support them cutting rates at some point, and the fact that growth is going to be impacted more substantially by tariffs later in the year. Again, we'll see it bounce back in the second quarter more for technical reasons at around 3 to 3.5 percent, but again, the outlook isn't so great for growth, given a number of conditions this year.

It's also worth noting that the June summary of economic projections actually expects two rate cuts by year end of 2025. At its peak, earlier this year, was expected to see four rate cuts equal to 100 basis points, but now the market is only pricing about 50 basis points of rate cuts.

It's also important to note that, of the 19 members that are forecasting various aspects of the economy through the summary of economic projections, seven of them, and we don't know who they are, are forecasting no change in rates this year. So more to come on that.

Next slide, a familiar slide, you can see where rates are at some of the top central banks around the world. As I said, the Fed, last Wednesday, remained rates at 4.25 to 4.5 percent. Bank of England, same thing, 4 to 4.25 percent unchanged. We did have an ECB rate cut last month down to 2.25 percent to spur economic growth in Europe. And again, the Bank of Japan and the Japanese economy somewhat of an anomaly in that rates have been negative for so long, that a negative 10 percent, negative 10 basis points, I should say official rate, and you can see they have raised rates in 2024, into 2025, and now it's just one-half of 1 percent.

On the next slide, just a quick look at where we are. US Treasuries, they've been all over the map. We've had a lot of uncertainty in the marketplace. We've had some concerns with the placement of our debt through our auction process. We've seen a little bit at the margin of pullback of non-US buyers or foreign investors in Treasuries.

You've also seen, given the uncertainty around inflation, that the term premia is starting to widen out a little bit at the further end of the curve, and this is all in the face of weaker demand but increasing supply of Treasuries. So a little bit of pressure, something certainly to watch. Good news, as investors, your base rates are higher, there's more income being generated by your fixed income assets now for your portfolio.

The other thing of note here is Japan. I mentioned Japan just in passing, but we've also seen a quite significant backup in rates there. Their 30-year, not their 40-year, but their 30-year JGBs, or Japanese government bonds, are a little under 3 percent now. A little bit of flight to quality buying this morning after the bombings over the weekend in Iran by the US and Israel. But again, still some concerns about their ability to place paper in the long in particular. A number of the life insurance companies are less robust buyers, notwithstanding the fact that rates are higher. And recently, the Bank of Japan reflected they're going to be cutting the size of their term debt issuance in the next 12 months.

On the next slide, let's not forget deficit spending and the impact on outstanding debt and expenses associated with servicing our budget deficits and our long-term Treasury obligations. Here, you can see that, in aggregate, both public and private markets, we have $36.2 trillion in government debt outstanding, again, either securities or other obligations from US government.

We're running now about a $2 trillion deficit per year. There are estimates that the big beautiful expense bill that prolongs or extends tax cuts will generate perhaps another $2.8 trillion in deficit spending by 2028. But again, those numbers -- that bill hasn't passed yet and those numbers still are being disputed by the White House.

On the next slide, a quick look at credit spreads. In orange on the top, you can see credit spreads have actually come in quite substantially. In orange, those are high yield, or below investment grade, credit spreads. If you remember, back when they peaked a little earlier after Liberation Day, they widened out to almost 470 basis points over comparable Treasuries. So Treasuries at 4, at the time, this credit spread would have brought them to, say, 8.7 percent, for example.

And in white, quite steady, investment grade or investment quality issuance at -- only credit spreads of about 85 basis points. Again, that's pretty tight to where they are historically. I'd say they're not really compelling. I'd also raise the question of whether the credit markets are being somewhat complacent, given what's going on in the world economy and world geopolitical developments.

On the next slide, just a quick look at yield curves over the course of time. In the top section, you can see in dark gray, that's the yield through June 2025, or during, into June 2025, most recently, and all the way back to the first print from December 2019 in red. And that reflects that, basically, from where we were coming out of the pandemic, to where we are today, 10-year Treasury yields, for example, are about 300 basis points above where they were. Again, so significant amount of increase in base rates and more yield coming up of your fixed income investments for your portfolio returns.

On the next slide, just a quick look at twos and 10s. Here, we can see that the 10-year Treasury yields that are at 436, 439 this morning, but in gray, 444 last week, and two-year Treasury yields just under 4 percent. Again, that's referred to as a positive sloping yield curve from twos out to 10s, and that's a normal condition where you expect to get a little bit more of a return premium or a maturity premium as you invest further out the curve.

On the next slide, just a look at the positive aspect of that curve. Remember, we had a negative, or an inverted yield curve, for a while, I talked about in 2022, '23, into the early part of 2024. That's actually reversed now. We have a positive yield curve. Twos out to 10s, you pick up an additional 48 basis points.

On the next slide, I guess this is a little stale at this point, but it really just underscores the fact that there's a lot of uncertainty in the marketplace, and at the time this headline came out, May 28th, US stocks had actually performed quite well and really rebounded on comments made out of the White House about positive progress in EU trade talks. Again, I think that the trade issues right now probably are a secondary consideration relative to what occurred over the weekend, but again, we'll continue to watch where tariffs wind up and what the impact will be on the real economy, and perhaps, even more importantly, on your investments in your portfolios.

On the next slide, just a quick look at benchmark returns. This is kind of a history lesson through the first quarter of this year. The Russell 3000, a broad measure of US stocks, were down 4.7 percent while the rest of the world in equity land was up 5.8 percent for developed market XUS and almost 3 percent for emerging markets. So not such a bad outcome, and again, it also reflects the fact that you have some level of geographic diversification. It also helps provide a little bit of a buffer when the US market sells off so dramatically.

The other thing of note I'd look here is the US Treasury government, the debt, where there's three year and five year, you can see negative returns.

Again, that's the painful process that we went through in terms of seeing the yields back up quite substantially in '23 and '24. Again, coming up with those very low, ultra low official rates and then term rates for US Treasuries. So again, it's been a painful process, but at this point, again, a little bit more yield and a little bit more carry coming out of your portfolio.

I'd say the last thing I would remind everybody, and Mike or Amanda may want to comment, but in dark gray on the far right-hand side, those are the expected returns by asset class. On average for the next 10 years -- actually, Mike, at this point, I guess it's 28 -- next eight years, since you did the analysis, but that's the average expected return across the five general consultants. We blended this just for informational value, but again, to get a sense for where we are and where we think the returns streams will be going forward.

On the next slide, just a quick look at your 12-month returns. This is really looking at over the past 20 years. You've seen this slide before. Equity is on the left, fixed income on the right. Again, on the right-hand side, first, that downdraft in terms of annual returns for fixed income, particularly in '22, '23, quite painful and a little bit unprecedented. Typically, you have more stable income in fixed income, although there have been periods of time where there's been negative returns quite substantially, look back on the 1970s and early '80s.

And in the equity land on the left-hand side, again, we see we've had a pretty decent recovery in US and non-US equities since the lows following the pandemic and the inflation spike around the world.

On the next slide, this is a rhetorical question. Trump's tariffs, where do we stand? We continue to see developments and information come out in terms of negotiated side deals with the UK, potentially with China, and a number of other countries. I still think that we're in a wait and see mode in terms of what actually comes down the pike. I think that also echoes the stance that the Fed has taken, that they're waiting to see more information to come out before they potentially change policy, if that's warranted.

On the next slide, there's a lot on here. Just food for thought in terms of what may come down the pike. So if you remember, my annual, right up at the end of the year, I did talk about the potential for a Moody's downgrade. They had a -- Moody's credit rating agency put US Treasury debt, US debt obligations on negative watch for potential downgrade last year. They actually followed through earlier this year and downgraded from the coveted AAA position to a Aa2. That's consistent with those ratings for Fitch and S&P. S&P changed the rating way back in 2012. So again, not that Moody's was late, but again, directionally, everyone feels that the credit quality of the US is a notch below the highest credit quality rating that it deserved and commanded previously.

And that has to do with the number of things, primarily our deficit spending, the level of asset and debt relative the GDP. We also have the potential negative impact of tariffs on corporate earnings, which are real, and we continue to see corporate earning estimates revised lower. The tariffs, again, a wait and see gain, but we don't know what the retaliation might be from some of our trading partners and where we wind up.

We have extremely high levels of uncertainty. There's high levels of uncertainty, given the policy changes out of Washington, which impacting business consumer and investment sentiment and confidence as well. Consumer spending has been slowing somewhat. We see evidence of that in the retail sector. Historically weak consumer confidence. We have new University of

Michigan sentiment indicators after this Friday. Lower tourism, which is going to slow US growth potentially a little bit. Student loan payments restarted last month. So some headwinds, some real headwinds here for the US economy.

On the next slide, just food for thought. This is a really interesting chart. This actually looks at data centers and the sources of energy that supports artificial intelligence through those data centers. And the expectation is for increased renewables, meaning wind, solar, battery, even nuclear power to be supporting those data centers. Right now, it's really dominated by gas, and to a lesser extent, coal. Renewables are, again, expected to increase quite significantly, which we think is good certainly for the environment and hopefully given how we're positioned for the portfolio as well.

A couple of things worth noting here. I don't know if you've read, but recently, a couple months back, Microsoft actually announced that they're reopening -- actually, I believe it was the end of 2024. Microsoft was entering into a contract to reopen Three Mile Island in Pennsylvania to be a sole source of energy for one of their data centers.

The issues around some of the renewables, again, wind, solar, battery to a less extent, and not really impacting nuclear, are the issues of latency. So again, we are significant investors in data center developments through your infrastructure portfolio. You also have exposure through your private real estate portfolio, but it's an exciting area of the world.

The other -- the last point I would make is I had the privilege of interviewing a gentleman who's a senior person at GIP, which is now part of BlackRock, at a conference last week, and he reflected that their expectation is for another $1.5 trillion in data center investments around the world by 2030. And I asked him, that seems high, is that realistic? He said, if anything, that number is conservative. So again, a lot more investments into infrastructure, data centers, and clean sources of energy going forward.

On the next slide, I talked a little bit about a weakening demand from the part of foreign buyers for US Treasury obligations. Here's just, for 30-year Treasury options, on the far right-hand side, you can see that the interest from non-US buyers, foreign buyers in particular, have really trailed off, and maybe that's -- some of that may have to do with political elements and other factors, but again, meaning potential for inflation. But again, that less than robust demand for Treasury obligations will probably put some upward pressure on the yields we need to pay to service our debt going forward.

On the next slide, just another food for thought slide, just a look at where the amount of US assets being held by foreign investors. So on the far left-hand side, you can see almost 18-and-a-half trillion dollars of equities, US equities are held outside the States. Another $7.2 trillion are held in Treasuries. And again $4.6 trillion is invested in US corporate markets. So if there is a buyer strike by foreign investors due to any number of reasons, either tariffs, concerns about the stability of the US government, concerns about the level of term premia in the marketplace, obviously, we continue to watch and monitor to see if there's a pullback or divestment from the US.

Again, food for thought, just a quick look at impact of tariffs. On the far left-hand side, these are areas, which are cable TV, that are really not going to be impacted by the tariffs, all the way out to the other extreme, which is consumer retail spending and goods, most of which are developed abroad or manufactured abroad and in China, are expected to see a significant impact over time.

On the next slide, a quick look at the tariffs and how firms are planning to pass tariff-related costs on to consumers, and this analysis actually reflects that, in the manufacturing sector, 76 percent of manufacturers expect to pass the increased costs associated with those tariffs to customers. Again, a reason why the Fed is concerned about inflation and expecting it to move higher.

And below that, you can see services, about a little less than half of those service companies are expected to pass any increase in tariffs along to their customers. So inflation expectations are higher and expected to continue, so given this look.

Food for thought, stagflation, we heard about that in the 1970s, remember '73, '74, '79, '80, it's really characterized by higher inflation and lower levels of growth. It's tough for the Fed to manage stagflation because they really can't cut rates aggressively to spur growth because of concerns about inflation and the need to be restrictive from a policy and monetary policy perspective. So certainly something to watch. That widening out the far right-hand side is worth noting.

Next slide, just a quick look at where we were. So obviously, we've had Trump 1.0, 2018, he increased, the average tariff on China went up between 2 and 3 percent. Today's tariffs, as they stand today, would amount to an 18 percent increase in tariffs, so substantially higher than it was in 2018. And again, we really need to see and expect there to be some meaningful impact on pricing, inflation growth, et cetera, associated with the increase in tariffs over time in Trump 2.0.

A quick look at corporate earnings, I mentioned earlier that expectations were deteriorating, that there were a lot of downward revisions for earning estimates, and you can see that on the far right-hand side. These are S&P 500 earning revisions. Most of them have been downward where the ratio of upgrades to downgrades is moving to the lower side, more downgrades than upgrades.

And the next slide, a quick look at investment grade spreads. As I mentioned earlier, they seem a little bit disconnected from reality. This is an interesting slide and it reflects the US Economy Policy Uncertainty Index, that's in the blue line and you can see the spike on the far right-hand side, and the corresponding green lines below are actually the US investment grade corporate spreads. And it does seem as though that the US corporate bond market is being somewhat complacent, given the level of policy uncertainty and the impact on the economy over time. So we'll keep you updated on developments there.

On the next slide, just a quick look at where we are. Obviously, coming into the new administration in January, there was an expectation you'd see an increase in business-friendly regulation and rhetoric out of the White House. Expectations were for the initial public offering, activity to increase, and more companies coming to the public markets to raise funding, and obviously, that really hasn't been the case. We've seen IPO activity still considerably lower than was expected and certainly lower than it had been back in 2021. Actually, that's not on this chart.

On the next slide, just a look at one of the things that feeds IPO activity, and PE activity, more importantly, is mergers and acquisitions. Here again, far right-hand side of the chart, US M&A activities way down. Again, that may reverse itself if the current administration takes a more pro-business stance, but again, the impact on private equity distributions and DPIs will be negative. So again, I think our portfolio is well positioned and I'm happy to talk about that. But again, the expectation is for PE, in general, to see less distributions, at least for the foreseeable future.

And another element of that, on the next page, is that M&A activity has been very weak at the moment. Again, you can see on the far right-hand side just another look at that in terms of M&A activity being down quite significantly in terms of deal count year-to-date.

Moving into really the meat of the presentation on Slide 35, just a look at your performance. This pinwheel on the left-hand side is a colorful chart that shows you how your assets are allocated. You can see here that you have a significant exposure of about 43, 44 percent in US equities, developed market XUS, and emerging markets in the public space. You've got another 33 percent-ish in fixed income in green, and light green is actually, should be a part of your high yield. You don't have exposure to convertible bonds. And then your private assets round out at private equity, private real estate, infrastructure, and alternative credit as well.

At the time of the snapshot, your assets under management were $107 billion. As of Friday, your assets under management were a little over $111 billion. So reflecting some increase in valuations over time, but again, unfortunately, we may see that number be even increasingly volatile, given what's gone on over the weekend, and ultimately, what plays out in global markets, geopolitical developments, and ultimately, asset pricing.

On the next slide, a quick look at your returns for the last -- well, really focused on the first quarter of 2025. You can see that your total plan had a 1/10th of 1 basis point return for the first three months versus other policy initiatives.

More importantly, this slide, I think you always look after to the far right-hand side, your 10-year returns are just a shade under the 7 percent actuarily assumed rate of return at 6.8 percent. I had some good news to talk to you about in Executive Session, but again, a lot of unknowns and uncertainty in terms of asset valuations and pricing today.

On the next slide, again, you see that dark blue line or dark black line is the 7 percent target over time for the last 10 years. You want to be above that target, and you're slightly at, maybe a little bit below that target right now, again, coming out of a volatile first quarter of 2025.

On the next slide, I believe this is a new slide we put together to reflect the fact that you do have geographic diversification across your holdings. In North America, you can see you have a 76 percent allocation. In Europe, you have a 14 percent allocation. Asia and Asia Pac, or Pacific, 8 percent, and lesser numbers in Central and South America, and Africa, it's just about 1 percent, a little less. So again, when the US dollar sells off, when US markets underperform non-US markets, you typically see some benefit associated with this diversification as well as lower levels of correlation risk. So again, we think these are certainly positive and certainly worth reflecting upon.

On the next slide, a look at Teachers' net public market returns by strategy. Here, you can see, as I said, the first quarter of the year, we had a negative return of the Russell 3000. You were slightly above that negative return at 4.8 percent, meaning more negative than the 4.7 percent I think that was reflected. Again, positive net returns for your developed market XUS and emerging markets. And in your core fixed income, again, continues to deliver carry and some capital appreciation, depending upon which day you look at it. And similar with high yield, and then your cash returns have been pretty steady as well. Again, here, focusing more on the long-term returns on the far right.

A quick look at your excess returns for public markets and basis points. Obviously, we have a little bit more work to do in the area of equities. We've seen some headwinds in terms of performance for our active managers in the developed market XUS recently, and that may be dominated by a couple of managers that we're preparing to make recommendations for. And then below that, you can see fixed income struggled a little bit more over the last three and five-year period, but again, generally positive more recently.

On the next slide, a look at your net private manager returns. Again, net private manager returns, private equity, again, 5.8 percent year over year through December 31st. Typically, we target a 15 percent net IRR on a 2 times multiple on those investments. So 5.8 percent is somewhat disappointing. And three years, you can see coming out of a very robust 2021, the return has only been 3.2 percent. That's somewhat out of what we've come to expect in private equity. As a result, I do think that the portfolio is very well positioned. You've been able to negotiate excellent terms with your PE managers, to be more focused on those managers we think can deliver value creation consistently over time at lower fees and higher allocations to co-investment, which really kind of drives down the cost associated with those investments.

And then real estate, again, a little bit of headwind there with higher rates. And again, back to office, remote work is still with us, even though the pandemic has been over for a while.

On the next slide, just a look at where we are with your private market excess returns, and again, not a great story for private equity. I think that has to do a lot with the fact that you had two back to back years, really, '24 and '23, and '22, for that matter, with not great returns in private equity, but quite substantial returns, above 20 percent, in '24 and '23 for the Russell 3000. So it's a hard benchmark to beat, particularly when there's a spread associated with that.

But we continue to look at this and we continue to be thoughtful and confident in our ability to deliver returns and private equity. And again, I think that has, in large part, to do with the decisions that the Trustees have made, a couple of them, firstly, to divest from some of your laggard holdings through your secondary sale, which was implemented and executed in March at your direction, but also the good trades that you've actually approved, again, better rate structures and a higher allocation to co-investment with no fee, no carry.

And you can see beyond that, real estate, infrastructure, alternative credit, all quite strong from a net return perspective, other than private equity.

And with that, I'll open up to any questions. That's all I have for the update.

MR. DORSA: Mr. Chair, I just want to point out, I think I have an error on my page. It said 10 minutes, so I just.

MR. MEIER: It's the quarterly update, John.

MR. DORSA: I'm updated now.

MR. MEIER: Sorry if I went over. But I do think, given the level of uncertainty and the volatility and what we're seeing in the markets, it probably does make sense to step back, take some time to digest and reflect on what's going on.

I'd like to tell you I have a clear sense of what's going to happen in the next few months, but I don't. The market is very volatile right now. And again, what occurred over the weekend in terms of the US taking out the nuclear facilities, development facilities in Iran, that adds a whole different element of risk and uncertainty in the marketplace.

CHAIRMAN BROWN: Thank you, Steve.

Any questions for Steve?

So do we have a risk update?

MR. MEIER: We're going to skip the risk

update, Mr. Chair, if that's okay.

CHAIRMAN BROWN: Okay. We'll skip the risk update. And we do, now, the update on economically targeted investments.

I think Valerie -- hi, Valerie, how are you?

MS. RED HORSE-MOHL: I'm great. Where would you like me?

MR. DORSA: The podium? The podium?

CHAIRMAN BROWN: Do you want to be at the podium? Yes, so we can all hear. Thank you.

MR. DORSA: Isn't that better from --

MS. RED HORSE-MOHL: It seems so far away.

CHAIRMAN BROWN: That's good, Valerie. That's good for the people on Zoom.

MS. RED HORSE-MOHL: Got it, okay.

Good morning.

CHAIRMAN BROWN: Good morning, Valerie. Yep, thank you.

MS. RED HORSE-MOHL: All right. Well, so I'm Valerie Red Horse-Mohl, and I joined here, I was very honored to join here about four months ago, on February 10th, 2025. And so, today, I wanted to give you a little bit of a recap of what I've been doing and some observations very much focused on ETIs, but on a few other things as well.

Just as a reminder, I am now responsible for ETIs, which stands for Economically Targeted Investments, the Diverse and Emerging Management Program, and John Adler's program that is involved with ESG and climate. I'm actually not going to talk about ESG and climate and what John's team is doing because I think they're doing a great job, and I'm going to focus a little bit more on some areas where I think we can add some opportunities and improvement going forward.

So what I've been doing is I completed a very intensive listening tour. I've met with people from, obviously, our own office at BAM, and I've met with some of the consultants. I've read through every IPS and also looked at greenlight and IC memos and did an especially deep dive on the Economically Targeted Investment program.

In looking at your ETIs, and just as a reminder, all five of the systems have economically targeted investments in your IPS statements, and this is supposed to be 2 percent of the overall allocation of the entire system's assets under management, and it is to be invested into financial vehicles that offer a risk adjusted return in line with your benchmarks, so nothing concessionary, but it's also designed to bring what we call collateral benefits, a positive strategy into specifically the New York area communities, which are defined in your IPS statements as the five boroughs and surrounding counties. So it's a pretty large footprint, but it's very specific.

What I found is, of the 2 percent target -- and by the way, this was initiated quite a while ago, I believe in the 1980s, I don't know the exact date, but certainly maybe not before John Dorsa was born, but certainly a while ago. And so far, to date, you have -- all systems have invested about $3.6 billion. And so, we're at about $2.1 billion dry powder, as we call it, that still has not been invested. And to date, it's been mostly invested into vehicles around affordable housing, which makes sense because that's a very urgent need you have in the New York area, but it's been pretty much the only sector.

And so, as we've learned in looking at other community developments, affordable housing is great, but it's not necessarily enough to elevate communities. You also need things like access to healthcare and job development and small business development and things like that.

And so what I was tasked with doing is sort of assessing why have we only done a portion of this and why just in one sector. And what I found is that, in your investment policy statements, ETIs are typically supposed to be included in annual or have their own annual pacing plans and it's even suggested to have their own consultant, and that just simply hasn't happened for a variety of reasons.

But now, I'm hoping to move forward with that and work with your consultants and also start looking at how we can create pacing plans going forward. I believe there are a lot of opportunities, so that's the good news.

One thing that's interesting that I also observed is, so we have what we call, with your ETIs, as designed in your IPS statements, a triple bottom line. So you have the financial return, you have the positive strategy, and you have what's called play space investing specifically into the New York area. So those are very specific.

And by the way, I think one of the reasons you all were so gracious to hire me is I have created these programs for other organizations with those specific details in mind. And what we find, you're not going to have a large investor or lender base when something is this specific and custom. And so we would anticipate that, in creating ETIs, similar to what has happened with your real estate programs, it's usually you -- when

I say you, it's all five systems, but it's NYCERS as a single limited partner or a single lender. You're not going to be in a pool of 20 or 200 other investors, like some of your larger investments.

But the good news that -- since I've started, I've actually been contacted by four other organizations who are based in the New York area who also want to do similar programs and are looking at you and us as sort of leaders and would be interested in learning about potential ETI opportunities to be additional investors. So that's sort of exciting and something we can continue to discuss.

Jimmy, are you with me? Let's go to the next slide. I think it's where it says, "Potential solutions." Perfect.

So some of the things that we've identified as being possible solutions so we can move forward with ETIs' is, first of all, we need to strengthen the responsible investing team. And this actually is pretty easy. We're already on our way. There were two positions that were open that were unfilled, not including me. And so we'll have a little bit bigger team, so we can actually work with your consultants, curate pacing plans, and potentially, actually write greenlight memos. I believe there are a couple that might be able to be presented to you in the fall this year, even, that we've already received proposals for, depending on everything that happens over the summer and if we're able to get those done.

But certainly, I'm hoping to work with your general consultants, and I don't think we're going to be getting an ETI consultant, but working with your general consultants to look at a pacing plan for 2026, so we can curate a pipeline.

And the other note is I believe, after looking at everything, these are not programs that will just happen. I believe they have to be highly curated. We have to target those managers that have a track record in the kinds of strategies you're looking for, that are willing to do something customized and nascent. So it is a little bit of work. It's not like just investing into an existing vehicle. We're actually curating these customized for the systems.

I also think, if we are able to do it, that the collateral benefits achieved by the ETIs should be included in some sort of annual report. You have some great annual reports now around diverse and emerging managers, as an example, and just in general, some of the other work that you do. And so I would love to see sort of a positive collateral benefit, a report alongside the financial returns, so you can actually see the work that's being done and maybe what zip codes have benefited and the kind of population benefit that you're looking for with ETIs.

And then the final thing on this page is a little more complicated, but I also think it's doable. I'm finding that most of your ETIs are not a single strategy. So many of them combine equity and debt or they might be part of a public fund and partly private. I mean, there's just all kinds of multi-strategies that are involved when you're doing something like an ETI. So they don't fit kind of squarely and nicely into your existing asset classes that are very specific with very specific benchmarks. And so I do think we might want to consider taking that 2 percent allocation, creating its own asset class, and then looking and curating at the benchmark that would be a multi-strategy benchmark.

And this is exactly what I did at the other two places where I created these programs because they tend to be a combination of strategies, and again, don't fit necessarily neatly and nicely into one of the larger investments that you often do with sort of the bulge bracket firms.

Next page, Jimmy.

So this is an extremely interesting

conversation. Prior to coming here, I was very involved with the foundation and endowment space, and so I'm familiar with something called program related investments, but I didn't think those two worlds would ever kind of meet here with pension funds. But a large foundation based in New York reached out to me and said that they, under their IRS parameters, can offer program-related investments as guarantees for more traditional investments if that helps with a strategy that is part of their foundation's mission. So improving communities and collateral benefits into things like housing and healthcare and climate and job creation are all part of their strategies. And so in order to give you a risk adjusted return with guarantees, they would actually be interested in having those conversations and what that looks like.

And just as an example, you already have what we call a risk adjusted investment into affordable housing. So some of the loans that you have invested into the New York area and your existing programs are guaranteed. And so for example on that, you might be getting a 5.5 percent return and you might think, well, that's kind of low, but when it's fully 100 percent guaranteed, that's actually a pretty good return with the guarantee.

So we're going to continue to talk to that foundation and others about how they might guarantee something like small business lending in the New York area, which could really add to the benefit and the benefit to you and the benefit to the community. So more to come on that.

Next page, Jimmy, please.

So just a little bit about the pipeline we're thinking about, and obviously, this is still very much in discussions and under curation, but we've received three proposals from managers who are interested in working in the New York area, that have already done strategies historically where they have a track record.

One of them is community healthcare, and this is a private equity and credit kind of combination. Another one is community banks and small business lending where a bank specialist manager is willing to curate lending into small business lending by lending into community banks, CDFIs, and credit unions in the New York area, in your defined area.

And then there's also a proposal we have in hand for startup funding a little bit more on the equity side, again, limited to New York businesses and New York fund managers. So we'll continue to talk with those managers and, like I said, we have those proposals in hand.

And then in development that will probably be more for a 2026 pacing plan, we have a team that's very experienced in real estate, working on a homes for city workers, which is the ability to create a vehicle that probably is an equity-debt mix, allowing people who live and work in the New York area to actually purchase homes in this area.

We have a proposal in discussion on private equity, not early stage capital, but growth capital for businesses in the New York area. And then also one around climate, and that could be many things, but especially on a day like today, I think we all know that air quality could be improved in New York City, and so there's decarbonization investments and solar energy, and so we're just looking and talking about that.

And then a little bit more still in the research phase, Comptroller Lander was very concerned, and I think many people are concerned, with what's happening in the federal government around the Department of Education and the concern about student loans and the ability for students in New York to be able to access student loans, whether they're attending university here or elsewhere. He has us researching that. We think it's a good idea, but there's still lot more research to be done in understanding if there's a state agency that might guarantee those loans, if you were to get involved with a program like that.

And then we have some re-up requests with your existing programs in real estate, and we're having those conversations, again, just trying to understand if it makes sense to put more money into some of the existing programs or look forward with some newer programs.

So that is my discussion on ETIs. I'm just going to very quickly hit on some observations around diverse and emerging managers. This is something I obviously get very excited about, but I do believe, in just looking at the program, Taffi has done a fantastic job, I think you all know Taffi, but she's sort of been the only one focused on it. So now, we have a bigger team, which is exciting, and I do believe there's an incredible opportunity to further curate outreach and identification and work with your partners.

And so I think there's an opportunity to work with your asset class heads in the core portfolio as well as the partners you have on the emerging and diverse manager programs.

And the next page, Jimmy.

So some of the opportunities I think can be implemented that are exciting and important, we've already actually launched a network that is called a peer-to-peer discussion of other pension fund CIOs and DCIOs and asset allocators, and we have an inaugural call scheduled for July 9th with the sole purpose to just compare best practices, what are you doing in your emerging and diverse manager program, how do you handle these things and what have been successful? And so we're excited to talk to our peers and just get a better sense of that. And that will be ongoing. That will be a quarterly call.

We're also looking at each of our fund to fund partners and how we can get a little more involved. We're not interfering, to be clear, it's still their program, but can we help them identify managers that maybe aren't on their radar and just sort of expand the program, so we can meet some of our aspirational goals.

And I'll just give you one quick example. I was talking to one of the partner managers the other day, and as you know, I'm Native American, I'm Cherokee, and I've worked with a lot of indigenous managers, and she told me she didn't know any indigenous managers, and I have a very deep list. And so I made some introductions, and I believe one of them is now in her pipeline. And so that's exciting to me, just to expand kind of the universe of how we identify and get to meet some of the managers that might be qualified.

And so I do think there's an opportunity for a little bit more collaboration. I think Taffi and I are going to ask to be included on pipeline calls with those programs and just, again, roll up our sleeves with that a little bit more so the universe is a little bit expanded.

And that is all I have for you today, and I'm happy to answer any questions.

And Jimmy, thank you so much for doing that for me.

I didn't have anyone to do my slides, and so Jimmy volunteered at the last minute.

CHAIRMAN BROWN: Any questions for Valerie?

MR. DORSA: So, Mr. Chair, I just want to make one --

CHAIRMAN BROWN: Sure, John.

MR. DORSA: I just want to clarify something for the Board.

CHAIRMAN BROWN: Regarding the year you were born?

MR. DORSA: No, not regarding the year I was born.

(Laughter.)

MR. DORSA: Regarding the hiring of staff for this program, and these programs, those are City funded, not corpus funded positions. I just wanted to highlight that because I know, from time to time, that question always pops up about where the funds are coming from. Those are City funded positions, so I just wanted to make that point.

MS. RED HORSE-MOHL: And John, thank you, John, they're not new positions. They were positions that were existing that had been vacated, yes.

CHAIRMAN BROWN: Thank you, Valerie. Well done.

Thanks, Jimmy.

Any questions? Appreciate it, thank you.

MS. RED HORSE-MOHL: Thank you.

CHAIRMAN BROWN: Well, that brings us to the conclusion of our Public Agenda. Do I hear a motion to move into Executive Session?

MS. LEE: So moved.

CHAIRMAN BROWN: It's been moved.

MR. DORSA: Second.

CHAIRMAN BROWN: And it's been seconded, thank you.

Any discussion? All those in favor of moving into Executive Session, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: 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: Great. We are back into Public Session. Hello, everybody, welcome back.

At this time, we will have a readout from Priscilla Bailey.

MS. BAILEY: Thank you, Mr. Chair.

In the Executive Session of the Passport Fund, the Board received an overview from its consultant and manager presentations on an investment recommendation.

We then jumped in, into the Executive Session of the Pension Fund, where there were four real estate presentations. Consensus was reached on three, and one of the real estate presentations was tabled.

Details to be made available to the public upon further action and at the appropriate time. Thank you.

CHAIRMAN BROWN: Thank you, Priscilla.

MS. BAILEY: Thank you.

CHAIRMAN BROWN: I think that concludes our business in Public Session.

And as always, before we adjourn, I'd like to publicly thank Adrian, our TRS tech person, without whom we couldn't do any of this. And Will Montague, thank you, for the record, much appreciated. TRS thanks you.

And with that, do I hear a motion --

MR. DORSA: So moved. Motion to adjourn.

CHAIRMAN BROWN: I didn't say that.

MR. DORSA: Oh, I'm sorry.

CHAIRMAN BROWN: Skipping ahead of me. Is there a motion to adjourn?

MR. DORSA: Yes.

CHAIRMAN BROWN: John --

MR. DORSA: So moved.

CHAIRMAN BROWN: John moved it. Thank you, John.

MS. MCGRATH: Second.

CHAIRMAN BROWN: And there is a second from Christina, thank you so much.

Any discussion? Great.

Those in favor of adjourning this meeting, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? Any abstentions?

And we are adjourned. Thank you everybody, appreciate it.

(The proceedings concluded at 1:58 p.m.)

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