

1

2 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

3 INVESTMENT MEETING

4 Held on Thursday, November 5, 2020

5 Via

6 Zoom Videoconference

7

8 ATTENDEES:

9 DEBRA PENNY, Chairperson, Trustee, TRS

10 THOMAS BROWN, Trustee, TRS

11 DAVID KAZANSKY, Trustee, TRS

12 JOHN ADLER, Trustee, Mayor's Office

13 CYNTHIA COLLINS, Trustee, Mayor's Office

14 JOHN DORSA, Trustee, Comptroller's Office

15 SUZANNE VICKERS, Trustee, Comptroller's Office

16 NATALIE GREEN GILES, Trustee

17 RUSSELL BUCKLEY, Trustee

18 PHILIP DUKES, Finance

19 PATRICIA REILLY, TRS, Executive Director

20 THADDEUS MCTIGUE, TRS, Deputy Executive Director

21 VALERIE BUDZIK, TRS

22 LIZ SANCHEZ, TRS

23 SUSAN STANG, TRS

24 RON SWINGLE, TRS

25 SANFORD RICH, BERS

1 ATTENDEES (Cont'd)

2 SHERRY CHAN, Chief Actuary

3 STEVE YUAN, Mayor's Office

4 SUMANTA RAY, Mayor's Office

5 ARISTEA AFTOUSMIS, TRS

6 DAVID LEVINE, Groom Law Group

7 ISAAC GLOVINSKY, TRS

8 ROBIN PELLISH, Rocaton

9 EMMA O'BRIEN, Rocaton

10 ANAE PETITO

11 NISA BIKRAM, Comptroller's Office

12 CARA SCHNAPER, Comptroller's Office

13 JIMMY YAN, Comptroller's Office

14 JOHN MERSEBURG, Comptroller's Office

15 DANIEL HAAS, Comptroller's Office

16 ROBERT FENG, Comptroller's Office

17 RONALD SWINGLE, TRS

18

19

20

21

22

23

24

25

1 P R O C E E D I N G S

2 (Time noted: 10:00 a.m.)

3

4 MS. REILLY: Good morning. Welcome
5 to the November 5, 2020 investment
6 meeting of the Teachers' Retirement
7 Board. I'll start by calling the roll.

8 John Adler?

9 MR. ADLER: Here.

10 MS. REILLY: Thomas Brown?

11 MR. BROWN: Here.

12 MS. REILLY: Natalie Green Giles?

13 MS. GREEN GILES: Here.

14 MS. REILLY: David Kazansky?

15 MR. KAZANSKY: Present.

16 MS. REILLY: Russell Buckley?

17 MR. BUCKLEY: Here.

18 MS. REILLY: Debra Penny?

19 CHAIRPERSON PENNY: Present.

20 MS. REILLY: Susannah Vickers?

21 MS. VICKERS: Present.

22 MS. REILLY: We have a quorum.

23 I'll turn it over to the Chair.

24 CHAIRPERSON PENNY: Good morning.

25 We'll start with the Passport funds,

1 performance review for September 2020.

2 Emma or Robin, who's going to start
3 us off?

4 MS. O'BRIEN: That would be me.

5 Good morning, everyone. Hope you're
6 doing well. We're going to start with
7 the review of the September performance
8 and then we're going to preview what
9 happened in the markets in October.

10 Real quick on markets and what we
11 saw in September. We did see a sell-off
12 in equity markets, still finishing the
13 third quarter in positive territory,
14 which was driven by the strong
15 performance we saw in July and August.

16 The S&P 500 was down 3.8 percent in
17 September, still up 5 1/2 percent year to
18 date. International developed markets
19 down 2.6 percent in September and down
20 about 7 percent year to date. Emerging
21 markets down 1.6 in September and down
22 about 1.1 percent year to date.

23 Over the last several months we've
24 highlighted two major themes that have
25 been happening in the market. Perhaps to

1 the point of sounding like a broken
2 record, in both of these we saw start to
3 reverse in September and that continued
4 in October.

5 So the first was the outperformance
6 of growth over value, which had been led
7 by a few large tech stocks. And the
8 second was continued outperformance of
9 large cap stocks over small cap stocks,
10 again driven by those few large cap tech
11 stocks.

12 As noted, we saw this start to
13 reverse in September. That continued
14 through October. The Russell 1000 growth
15 was down 4.7 percent in October versus
16 negative 2.5 percent for value stocks.
17 Growth still outperforming by about 35
18 percent year to date, but starting to
19 slowly see that dispersion close in.

20 The large cap stocks were down about
21 3.7 percent for September versus 3.3 for
22 small cap stocks, large cap stocks
23 outperforming by 15 percent year to date.

24 Within fixed income markets we saw
25 spreads tighten across most asset

1 classes, which led to substantial
2 rebounds in non-investment grade asset
3 classes during the third quarter. So
4 core fixed income markets were flat in
5 September, up about, just shy of 7
6 percent year to date. High yield
7 emerging market debt were up about single
8 digits in the third quarter, and
9 continued strong performance from
10 convertibles. These were up 14 percent
11 in the third quarter, and up about 22
12 percent year to date.

13 So, if we think about how that
14 translates to performance for the
15 Passport funds, so we have the September
16 performance report up. Starting with the
17 diversified equity fund, about 15.7
18 billion in assets as of the end of
19 September. The fund was down 3.06
20 percent for September versus a return of
21 negative 3.6 percent for the Russell
22 3000.

23 If we look at the underlying
24 components for that performance, the
25 passive equity composite was in line with

1 the benchmark. The defensive strategies
2 were down 2.23 percent, outperforming the
3 custom benchmark and the Russell 3000 for
4 the period.

5 The outperformance relative to the
6 benchmark was driven by active management
7 within your convertibles managers, as
8 well as within your tactical global
9 allocation managers.

10 Moving on to the active U.S. equity
11 composite. This was down 3 percent in
12 September, versus 3.64 for the Russell
13 3000. The small-cap value bias in the
14 portfolio that we had talked about at the
15 last meeting contributed to the
16 performance relative to the Russell 3000.
17 As I noted, both small cap and value
18 outperformed growth and large cap
19 counterparts during the month, which led
20 to the positive relative performance of
21 about 65 basis points.

22 And then, lastly, the international
23 equity composite, down about 12 1/2 for
24 the month, outperforming by about 70
25 basis points. And we continue to see

1 strong relative performance from your
2 international managers relative to the
3 benchmark on the year to date period.

4 Any questions on the diversified
5 equity fund?

6 (No response.)

7 Great.

8 Moving on to the balanced fund,
9 assets of about \$510 million as of the
10 end of September and in line with the
11 benchmark. As noted, international
12 equity fund, strong relative performance
13 as it's outperforming the benchmark by
14 about 70 basis points in September, and
15 by about 300 basis points year to date.
16 Assets in that fund totalled about \$183
17 million as of the end of September.

18 The sustainable equity fund, \$332
19 million as of September, down 1.7 percent
20 in the month versus the benchmark return
21 of negative 2.2 percent.

22 There's one underlying fund within
23 this fund, Brown Capital, and we had seen
24 some performance challenges in July and
25 August, as the benchmark for this

1 strategy is the Russell 1000 growth,
2 which has been pretty heavily
3 concentrated within a few tech stocks.
4 And as a result the manager was
5 underweight, which had caused them to lag
6 as the stocks had rallied in July and
7 August. We saw the strategy rebound in
8 September as there was a sell-off within
9 these particular stocks.

10 And then finally, the U.S. equity
11 index fund, international equity index
12 fund, total assets of \$28 million and \$4
13 million as of the end of September
14 respectively. There were two large cap
15 slows that occurred in late September in
16 both of these funds, which has led to
17 some tracking at the total fund level.
18 But if we look at the individual index
19 fund performance, they are tracking their
20 benchmarks.

21 Any questions on September
22 performance?

23 (No response.)

24 So, if you pull up the other
25 attachment we had sent on Monday, the

1 October benchmark report, I'll highlight
2 what's happened in markets in October and
3 some of the preliminary performance
4 numbers that we included.

5 October was an interesting month in
6 that in the first half we generally saw a
7 positive performance from equity markets.
8 And then we saw a sharp sell-off in the
9 second half of October. As we saw rising
10 Covid cases, hospitalization rates
11 increased, and we saw a statement of some
12 national lock-downs within Europe.

13 In the last week of October in
14 particular the S&P 500 had its worst week
15 since March, despite the fact that we saw
16 strong earnings come in and we also had
17 some modest positive economic results;
18 notably third quarter GDP had grown at an
19 annualized rate of about 33 percent,
20 which was above consensus expectations,
21 and was actually the best quarterly rise
22 since World War II.

23 U.S. equity markets, the S&P 500
24 down 2.7 percent in October, still up 2.8
25 percent year to date. We saw the

1 continued sell-off of growth stocks in
2 October. The Russell 1000 growth was
3 down 3.4 percent versus negative 1.3
4 percent for the Russell 1000 value.

5 Small cap continued to outperform
6 large cap. Small cap stocks were up 2
7 percent for the period. Large cap stocks
8 were down 2.4 percent for the period.

9 International equity markets lagged
10 U.S. markets due to some of the more
11 serious Covid concerns that we saw
12 spiking cases overseas. France and the
13 U.K. announced that they were going under
14 strict lock-downs. And as a result, we
15 saw international developed markets fall
16 by about 4 percent in October. And these
17 are down 10 1/2 percent year to date.

18 Emerging equities outperformed U.S.
19 markets and international developed
20 markets. Largely driven by Asia
21 performance, emerging markets were up
22 about 2 percent in October and they are
23 positive 1.2 percent year to date.

24 Lastly, fixed income markets
25 delivered relatively flat returns as we

1 saw yields increase. So, Core fixed
2 income down about 50 basis points for the
3 month of October. Non-Core investment
4 grade markets provided modestly better
5 performance as credit spreads tightened,
6 which offset some of the increase in
7 yields.

8 If we look at how that translates to
9 performance for the benchmarks within the
10 portfolio, the diversified equity fund,
11 the Russell 3000 was down 2.16 during the
12 month of October, and the hybrid
13 benchmark we developed was down 2.18
14 percent for the period.

15 The balanced fund fell by 70 basis
16 points. The international composite
17 benchmark down about 2 1/2 percent.
18 Notably, as I mentioned, continued strong
19 performance from Brown due to the fact
20 they're underweight to the large tech
21 stocks, down 60 basis points using the
22 mutual fund as the proxy for the month of
23 October versus the benchmark return of
24 negative 3.4 percent.

25 And then lastly, for the two index

1 funds, using the mutual funds as proxies,
2 these were down 2.13 percent and 2.29
3 percent, tracking their benchmarks for
4 the period.

5 Any questions?

6 (No response.)

7 CHAIRPERSON PENNY: Thank you so
8 much, Emma. That was great.

9 Do we have anything else for the
10 public agenda?

11 MS. PELLISH: Can I mention one
12 thing? I wanted to follow-up on the
13 recent discussion we had about active
14 U.S. equity. We had a discussion about
15 performance of active U.S. equity in
16 general and within Variable A
17 specifically. And there was a fair
18 amount of data presented that showed the
19 challenges that active U.S. equity has
20 had over the past decade, really.

21 And we thought it might be, before
22 the Board comes to a final decision, we
23 thought it might be of interest to the
24 Board to hear some arguments that might
25 support active equity and the opportunity

1 to add value going forward, based on a
2 variety of perhaps potentially changing
3 characteristics of the U.S. equity
4 market, including greater dispersion of
5 stock returns, et cetera.

6 So, we would like to propose
7 bringing in a speaker next month at the
8 investment meeting, to talk about active
9 equity management within the U.S. equity
10 market for the Board's consideration,
11 prior to a final decision on this matter.

12 CHAIRPERSON PENNY: That would be
13 great.

14 MS. GREEN GILES: Absolutely, that
15 would be great.

16 What is our time frame for
17 decision-making? Do we know?

18 MS. PELLISH: It's at the Board's
19 pleasure, of course. I think this is
20 really the final piece we had prepared,
21 expected to present to the Board. And
22 following that, I think it's a matter of
23 discussion by the Board and determination
24 of how you would like to proceed.

25 CHAIRPERSON PENNY: So at least

1 we'll hear from them next month. Sounds
2 good.

3 MS. PELLISH: Great.

4 CHAIRPERSON PENNY: Do I hear a
5 motion to move into executive session?

6 MR. BROWN: So moved.

7 CHAIRPERSON PENNY: A second?

8 MR. ADLER: Second.

9 CHAIRPERSON PENNY: Thank you.

10 All in favor of the motion please
11 say "Aye."

12 (A chorus of "Ayes.")

13 All opposed?

14 (No response.)

15 We're moving into executive session.

16 (Discussion off the record.)

17

18

19

20

21

22

23

24

25

12 CHAIRPERSON PENNY: Great.

13 So then, do I have a motion to come
14 out of executive session and go into
15 public session?

16 MR. BROWN: So moved.

17 CHAIRPERSON PENNY: A second?

18 MS. VICKERS: Second.

19 CHAIRPERSON PENNY: Thank you.

20 All in favor of the please say
21 "Aye."

22 (A chorus of "Ayes.")

23 Any opposed?

24 (No response.)

25 (Discussion off the record.)

1 (Whereupon, the Board returned to
2 public session.)

3 CHAIRPERSON PENNY: We are back in
4 public session.

5 Susan, would you like to report out?

6 MS. STANG: Certainly.

7 In executive session we received
8 presentations from two vendors, and two
9 short manager updates.

10 CHAIRPERSON PENNY: Thank you,
11 Susan.

12 I think we're ready to adjourn.
13 Do I have a motion to adjourn?
14 MR. KAZANSKY: So moved.
15 CHAIRPERSON PENNY: A second?
16 MS. VICKERS: Second.
17 CHAIRPERSON PENNY: All in favor of
18 adjourning please say "Aye."
19 (A chorus of "Ayes.")
20 Any opposed?
21 (No response.)
22 We stand adjourned.
23 (Whereupon, at 12:42 p.m. the
24 meeting was concluded.)
25

1 C E R T I F I C A T I O N

2

3 I, Jeffrey Shapiro, a Shorthand
4 Reporter and Notary Public, within and for the
5 State of New York, do hereby certify that I
6 reported the proceedings in the within-entitled
7 matter, on Thursday, November 5, 2020, and that
8 this is an accurate transcription of these
9 proceedings.

10 IN WITNESS WHEREOF, I have hereunto
11 set my hand this 6th day of November, 2020.

12

13

14

15

16

17 JEFFREY SHAPIRO

18

19

20

21

22

23

24

25