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3 NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

4 INVESTMENT MEETING

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7 Held on Thursday, November 7, 2019, at 55 Water

8 Street, New York, New York

9

10 ATTENDEES:

11 DAVID KAZANSKY, Interim Chairman, Trustee

12 THOMAS BROWN, Trustee

13 JOHN ADLER, Trustee, Mayor's Office

14 NATALIE GREEN-GILES, Trustee

15 SUSANNAH VICKERS, Trustee, Comptroller's Office

16 RUSS BUCKLEY, Trustee

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22 REPORTED BY:

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24 JOB NO. 4467681

25

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2 ATTENDEES (Continued):

3 THAD McTIGUE, Teachers' Retirement System

4 SUSAN STANG, Teachers' Retirement System

5 ROBIN PELLISH, Rocaton

6 MICHAEL FULVIO, Rocaton

7 VALERIE BUDZIK, Teachers' Retirement System

8 LIZ SANCHEZ, Teachers' Retirement System

9 SHERRY CHAN, Office of the Actuary

10 DAVID LEVINE, Groom Law Group

11 SUMANTE RAY, Mayor's Office

12 ALEX DONE, Comptroller's Office

13 MICHAEL HADDAD, Comptroller's Office

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2 MR. McTIGUE: Good morning, everyone.
3 Welcome to the November 7th Investment
4 Meeting.
5 And I will call the roll. John Adler?
6 MR. ADLER: I am here.
7 MR. McTIGUE: Thomas Brown?
8 MR. BROWN: Here.
9 MR. McTIGUE: Natalie Green-Giles?
10 MS. GREEN-GILES: Here.
11 MR. McTIGUE: David Kazansky?
12 MR. KAZANSKY: Present.
13 MR. McTIGUE: Russ Buckley?
14 MR. BUCKLEY: Here.
15 MR. McTIGUE: Debra Penny and Susannah
16 Vickers?
17 MS. VICKERS: Here.
18 MR. McTIGUE: We have a quorum.
19 I believe our first order of business
20 today is to elect a temporary chair. Do we
21 have nominations?
22 MR. BROWN: I would like to nominate
23 David Kazansky as chair today.
24 MR. ADLER: Second.
25 MR. McTIGUE: Second by Mr. Adler.

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2 All in favor?

3 MR. KAZANSKY: Aye.

4 MR. BROWN: Aye.

5 MR. BUCKLEY: Aye.

6 MR. ADLER: Aye.

7 MS. GREEN-GILES: Aye.

8 MR. KAZANSKY: Great.

9 All right, Rocaton, I guess you guys

10 could start with the Passport Fund's

11 performance review.

12 MR. FULVIO: Good morning, everyone.

13 So you recall from September when we

14 spoke in early October that it was a pretty

15 strong month across the board for equity

16 markets. The U.S. market actually lagged

17 non-U.S. markets for the month with the U.S.

18 -- the Russell 3000 had a return of positive

19 1.8 percent. And in lagging, other developed

20 -- other developed markets were up about 2.9

21 percent for the month and EM up 1.9 percent.

22 The results for the Diversified Equity

23 Fund with about $15 billion in assets at the

24 end of the month, the performance for

25 September was very much in line with the U.S.

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2 equity markets or actually slightly ahead,
3 rather. The fund was up 1.9 percent, which
4 brought the year-to-date return for the
5 Diversified Equity Fund to 17.75 percent.
6 Compared with the hybrid benchmark for the
7 month, that's very slightly ahead. And year
8 to date, the fund lags the hybrid benchmark by
9 about 46 basis points. What we saw from
10 within the fund was some negative relative
11 results from the International Composite which
12 was up about 2.4 percent versus the
13 International Composite benchmark of about 2.8
14 percent. Relatively stronger month for the
15 U.S. active strategies that they were up 2.3
16 versus the Russell 3000 up 1.8 and the
17 defensive strategies composite added about 70
18 basis points of absolute returns.
19 The balanced fund with assets of about
20 $400 million their first September, their fund
21 was up about 60 basis points bringing the
22 year-to-date result to positive 7.6 percent.
23 The International Equity Fund which tracks
24 very closely as you will note to the
25 International Equity Composite, that was up

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2 2.4 percent modestly lagging the International
3 Composite benchmark which was up 2.8 percent.
4 Year-to-date return for that fund is 12.5
5 percent. The Inflation Protection Fund with
6 about $74 million in assets, that had a
7 positive return of just shy of half a percent
8 for September. The year-to-date return there
9 is 8.7 percent. And the Socially Responsible
10 Equity Fund with assets of about $238 million,
11 that fund was up about 2.3 percent outpacing
12 S&P which was 1.9 percent. The year-to-date
13 return for that fund is 16.1 percent.
14 So I will pause there and see if there
15 is any questions on September.
16 For October, you will note again another
17 pretty strong month across the board. The
18 U.S. equity market as measured by the Russell
19 3000 was up just over 2 percent. That brought
20 the calendar year-to-date return for that
21 index to 22.7 percent. What we saw in
22 non-U.S. markets, you can see here. The EAFE
23 Index was up 3.6 percent and emerging markets
24 led the charge up 4.2 percent. So developed
25 markets outside the U.S. all told year to

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2 date, calendar year to date, that is up over
3 17 percent and emerging markets as a whole up
4 11 percent. Just below that you can see the
5 underlying strategy for the -- excuse me, for
6 the Inflation Protection Fund that had a
7 modest positive return of about 30 basis
8 points. Calendar year to date up about 9.1
9 percent and the new -- I should say the
10 renamed Variable E Fund, the sustainable
11 equity fund benchmark for the month of October
12 was up 2.8 percent.
13 MS. PELLISH: So that manager within
14 that option changed effective October 1st.
15 MR. ADLER: Just a question about that.
16 So the benchmark that is shown which is the
17 Russell 1000 growth, we had the S&P 500
18 before. So the benchmark numbers on there,
19 those are for the Russell 1000 growth?
20 MR. FULVIO: They are for the Russell
21 1000 growth. What we will do going forward to
22 your point, John, we will show the linked
23 return history of the Russell 1000 growth to
24 the prior benchmark for Variable B and the
25 S&P.

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2 MR. ADLER: Okay. But for the fund in
3 the actual report, that's going to be -- what
4 are we going to show in that?
5 MR. FULVIO: It will be the linked
6 benchmark for the fund.
7 MR. ADLER: But then the actual
8 performance will be the actual performance of
9 the Variable B, so the prior manager's
10 performance until October and then the new
11 manager from October forward?
12 MR. FULVIO: Yes.
13 MR. ADLER: Just one other note here --
14 what's interesting to me, I should say: When
15 you compare the October to September, is just
16 on the benchmark. You know, let's take
17 Russell 3. So for one year going as of
18 October 31st, the return is 13 and September
19 it's -- so obviously September was the crash
20 -- not crash, that's a bad word. But the
21 major correction last year knocked that out,
22 then all of a sudden we are doing great.
23 MR. FULVIO: It has a big impact, right.
24 MS. PELLISH: That's why we look to --
25 like to look at rolling periods at times,

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2 because it's so end-point specific.
3 MR. ADLER: Okay, thanks.
4 MR. FULVIO: So if there are no other
5 questions, that concluded the performance
6 update. And we will switch gears to the
7 strategic asset allocation.
8 MS. VICKERS: Can I just note for the
9 record that Alex Done, the CIO, is on the
10 line.
11 MR. HADDAD: Good morning, Alex.
12 MR. DONE: Good morning.
13 MR. HADDAD: So I put on the two stacks
14 of the PowerPoint that I have to discuss this
15 morning. So if we could kind of all take one,
16 pass it down, grab one. So what I would like
17 to do this morning is spend more time and
18 specifics on the strategic asset allocation
19 process, where we are, some realities of the
20 challenges. It's similar to what I spoke
21 about at the last CIM, but I know in front of
22 52 people there is less conversation, there is
23 less time for questions. So I would certainly
24 encourage you to probe and push and interrupt
25 along the way. So I think it would be much

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2 more beneficial to make this more interactive
3 than listening to me ramble on.
4 So let's start with the first page and
5 just talk about the challenges we face today
6 as we try to think about what the strategic
7 asset allocation should be for the next -- you
8 know, when we model this, we use ten-year
9 capital markets assumptions. But the reality
10 is we are going to visit this in, you know,
11 three-ish years. So that's what we did last
12 time; it's likely what we will do again. But
13 when you think about the current environment,
14 late cycle dynamics, so what do I mean by
15 that? It's the longest economic expansion in
16 history. That being said, it's been one of
17 the slowest economic expansions in history.
18 And this doesn't predict a recession; it's
19 just a fact that it's something that we have
20 to deal with and think about. Historically,
21 expensive public and private asset classes. I
22 showed some slides on this last time and one
23 that really stands out if you recall from the
24 Goldman Sachs Asset Management, that divides
25 the relative expensiveness of the equity

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2 market into ten deciles and we are in the

3 ninth decile. And over the last 70 years, we

4 were in the ninth decile with an average

5 return of 3 percent over the next 5 years.

6 So, again, historical doesn't predict the

7 future; something to keep in mind.

8 And when we -- with a combination of

9 those two factors when we think about what the

10 next strategic asset allocation, what are the

11 objectives? That's what gives to these next

12 few bullet points. We want to limit the

13 volatility of the portfolio, to the extent we

14 can. We have the reality of the basket clause

15 constraint which is really problematic for

16 what we do. You know, it's an arcane law that

17 existed back then for the right reasons and

18 right now it really limits what we can do and

19 where we can put our money. It is what it is

20 and we have to deal with it.

21 And then the other thing we want to do

22 is limit our portfolio drawdown risk. So what

23 do I mean by that? So very simply, let's say

24 your portfolio is worth $100 and we have a

25 drawdown in markets and that portfolio shrinks

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2 to $90 and then markets recover over the next
3 three years and how they do their thing, so
4 you start compounding over $90. If you can
5 limit that drawdown so say $93, then you
6 compound off a higher base and you are going
7 to make more money going forward. So limiting
8 that drawdown risk is very important to a long
9 series of cash flows. And then of course we
10 have the actuarial 7 percent return over a
11 long-time horizon. And I emphasize "over a
12 long-time horizon" both historically and
13 prospectively, because there is going to be
14 years where we exceed it and there is going to
15 be years where we underachieve it. So for any
16 given year, it's -- we are not trying to make
17 7 percent, but we are trying to make that over
18 long periods of time. And what we are really
19 trying to do is maximize risk-adjusted
20 returns. And there will be some volatility
21 year in, year out about how we do that, but
22 just important to -- another thing we have to
23 remember as we do this exercise.
24 So if you flip to the next page, I
25 shared this slide with you before and I wanted

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2 to share it again because this speaks to the
3 historical returns we have achieved as well
4 as the difficulty of the expensive asset
5 classes. This is a slide that I borrowed from
6 Bridgewater and it breaks down over the last
7 seventy years rolling ten-year periods of time
8 for a hypothetical 60 percent global equity,
9 40 percent U.S. fixed income portfolio. So
10 those -- all those gray squiggly lines are all
11 the different ten-year periods since 1970.
12 And the red line highlights the returns of
13 that hypothetical portfolio from '09 to '18.
14 The blue line is the average overall this time
15 period. So just highlights the very strong
16 returns we have seen in asset markets over the
17 last ten years, which leaves us with very
18 expensive asset markets as we seek to put
19 money to work now. And this is an important
20 one and it begs the question: Why? You know,
21 I would argue two simple points.
22 The starting point, as Robin alluded to,
23 is very important. The starting point of '09
24 was at or near the bottom of the markets, so
25 there is a little bit of bias in that. But

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2 these are all ten-year rolling period, so they
3 start and end at different ten-year periods.
4 So it captures that, but it's also the
5 extraordinary monetary combination that was
6 put in place by global central banks and that
7 leads us to interest rates today are the
8 lowest interest rates in the history of the
9 world and that's -- it's important. I know I
10 carry on about it but, you know, one way one
11 values assets is this kind of cash flow model.
12 So, you know, those cash flows are what all
13 our managers do for us and how you discount
14 them gets you to the net crescent value and
15 that discount rate is U.S. government rates.
16 So when you have a low discount rate, the NPV
17 of your cash flow is going to be higher.
18 That's just simple math. What interest rates
19 are going to be in the future, no one knows.
20 When you have a low interest rate but when you
21 think back in history, you think negative
22 rates. I am not optimistic rates are going to
23 stay this low in the next ten years.
24 All right. Continuing on, a lot of data
25 on this page. And again I shared this one

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2 with you before, but I think this is very
3 important to think about as we are in the
4 midst of trying to finalize the recommendation
5 for you. So the addition to this slide from
6 the CIM is the far right column, because what
7 you care about is Rocaton's capital markets
8 assumptions. You know, so I wanted to show
9 specifically what their -- what their
10 assumptions were and Mike corrected me on a
11 couple of things that I had wrong. But also
12 at the bottom of the page, I show your returns
13 over the past three of five years.
14 MR. ADLER: What's the as of date?
15 MR. HADDAD: This is all end of the
16 fiscal year.
17 And so what the key takeaways are on
18 here is if you look at -- let me pause for a
19 second.
20 Do people understand what a mean
21 variance optimization, the process? Three key
22 variables. Can I spend a minute on what that
23 is? Okay, three key variables; ten-year
24 expected returns, ten-year expected
25 volatilities, and ten-year expected

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2 correlations. So then the algorithm tries to
3 optimize the highest return for the asset
4 classes with those three key variables. So
5 you want to maximize the return for a given
6 level of risk. So the optimizer might want to
7 choose the highest return on there, but if it
8 has the highest volatility it doesn't
9 necessarily go to that. And what we -- you
10 know, we work together on this. So what we
11 try and do is maximize returns, but keep risk
12 within some kind of parameters. And the
13 correlation is important as well because that
14 adds to the total risk in the portfolio. So
15 things that are highly correlated, it's going
16 to add -- all things being equal, it's going
17 to add risk. Things that are not correlated
18 are going to detract from volatility. And
19 volatility is important because that's --
20 that's the measure that helps us understand
21 the size of the potential drawdown. Makes
22 sense?
23 MS. PELLISH: Can I add one point?
24 MR. HADDAD: Of course.
25 MS. PELLISH: This is a tool that's only

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2 one tool. When Mike says that we worked
3 together on this we, you know, all the
4 consultants use the same kind of tool. And we
5 think we bring an extraordinary amount of
6 judgment to that. Everyone who is working
7 with a board of this sophistication and size
8 uses this kind of tool and, you know, you have
9 to be very careful because it can operate on
10 the principle of, you know, garbage in,
11 garbage out. It's just a tool to stake some
12 expectations and run a lot of -- a lot of
13 scenarios off those expectations. So when we
14 look at this data, we are not coming up with a
15 portfolio because the model spits out a set of
16 numbers. We would never do that, because
17 there are all sorts of judgments and
18 qualitative decisions that you have to make
19 around that. And you have to have a very
20 healthy dose of skepticism when you consider
21 the expectations and they are just a set of
22 expectations based, hopefully, on a logic and
23 some experience with the markets. So whatever
24 solution is proposed to you by the
25 comptroller's office with the input of all the

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2 consultants, it will be a product of that

3 modeling exercise plus an awful lot of

4 judgment that's brought to the table.

5 MR. HADDAD: And then it could be a

6 joint recommendation by both of us. We are

7 both going to endorse it. We are

8 arm-wrestling over a few percentage points

9 here and there, but we are getting there.

10 So let me correct one of the things,

11 because this is important. On the

12 "Infrastructure" line, Mike, the number is

13 8.4. So if you scratch that one, Rocaton's

14 return expectations are 8.4. And the other

15 thing I would like you to scribble on the page

16 is under the row of "Private Real Estate," we

17 have combined both core real estate and

18 opportunistic real estate. And, Mike, I

19 believe it's 6.4 and 8.4 core and

20 opportunistic respectively.

21 MR. FULVIO: Our core expectation is 7.4

22 and our opportunistic is 8.4, I think.

23 MR. BUCKLEY: 7.4 and 8.4?

24 MR. HADDAD: Yes. So obviously my math

25 is wrong on that, but it's 7.9 if you assume

1 Proceedings
2 50/50. So apologies for that, but it's
3 important. We are going to come back to this
4 page so that you have the proper numbers.
5 And the other thing, I would just
6 highlight the three "Public Equity" rows at
7 the top of the page comprises 50 percent of
8 your portfolio. That's going to drive your
9 returns year in and year out. And you can --
10 and if you just look at your three-year total
11 portfolio returns of 9.4 percent, half of it
12 comes from those equity lines. It's kind of
13 okay, you know, we got a good starting point
14 with those three things. And then you look at
15 the five-year numbers and you can see the
16 equity returns are a lot lower and, thus, your
17 total returns are a lot lower. So the equity
18 market really is the core of your portfolio,
19 as it should be, because it's over time it
20 grows and so on and so forth, not in a
21 straight line. And valuations matter.
22 MS. VICKERS: What did you say the
23 percentage of equity overall is?
24 MR. HADDAD: Currently U.S. is 29, EAFE
25 is 12, and EM is 9.

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2 MS. PELLISH: Those are the targets?
3 MR. HADDAD: Yes, those are the targets.
4 MR. FULVIO: That's on the page?
5 MR. HADDAD: Yes.
6 MS. PELLISH: All those numbers are on
7 page 6?
8 MR. FULVIO: That's on page 6. You
9 committed it to memory?
10 MR. HADDAD: It's implanted in my head.
11 So what are the objectives; what are we
12 trying to achieve with the strategic asset
13 allocation? And I start with derisking the
14 portfolio given what we call the challenges,
15 which were on the first slide, and those
16 challenges are expensive markets. They run a
17 long way over since the financial crisis and,
18 by most measures, U.S. equity market is very
19 expensive on a forward PE basis. And
20 sometimes that -- you know, that doesn't
21 necessarily mean it's going down, but the
22 challenges continue to rally on there. So how
23 do we derisk the portfolio? We decrease
24 allocation to growth assets, the risky part of
25 your portfolio, and we want to increase them

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2 to the less risky part of the portfolio.

3 And what are the implications? I am

4 going to come back to all of this. What are

5 the implications of that? The key metrics are

6 at the bottom of the next page and that is

7 your expected return, your expected

8 volatility, and your expected Sharpe ratio.

9 And again these are driven by these capital

10 market assumptions, which is why I want to

11 highlight specifically what Rocaton's are and

12 not only what they are, but how they deviate

13 from the average of the five consultants that

14 the systems use.

15 So then this is a list of your current

16 asset classes. And a way that BAM likes to

17 look at them is divide them into three

18 categories; total growth, total volatility

19 hedging, and total inflation hedging. And

20 those expected return volatility numbers I

21 have included at the bottom. CMA stands for

22 capital market assumptions. And as of March

23 of '16 when we did this exercise, the expected

24 return -- and, again as Robin said, this is

25 not precise; this is -- there is a lot of --

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2 not subjectivity, just a lot of noise in
3 expected versus actual. So expected return
4 back then was 6.3 percent with volatility of
5 11.2 percent. I couldn't find the Sharpe
6 ratio. We might have that somewhere. And
7 then if we take the current capital market
8 assumptions, as of market of '19 and apply
9 those capital market assumptions on your
10 current portfolio, this is -- you know, so
11 it's not that similar -- it's not that
12 dissimilar. And I think if memory serves, you
13 guys didn't have a really robust equity market
14 three years ago.
15 MS. PELLISH: We have been consistent,
16 if that's a virtue.
17 MR. HADDAD: So --
18 MR. ADLER: One question. What's the
19 actual volatility in the three year and five
20 year, do you know, for the portfolio?
21 MR. HADDAD: The total portfolio, I
22 don't know off the top of my head.
23 MR. ADLER: Do you guys know?
24 MS. PELLISH: No. We could find it.
25 MR. FULVIO: Volatility has generally

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2 been muted.

3 MR. HADDAD: A lot lower than projected.

4 So what should you expect from a joint

5 recommendation on derisking the portfolio?

6 Growth assets are going to go down; that's the

7 riskiest part of your portfolio. And

8 volatility hedging, which is --

9 MR. FULVIO: I have that, actually. I'm

10 sorry. For the last three years it's about

11 5.9 percent and 7.2 for the last five years.

12 MR. ADLER: Wow, half.

13 MR. HADDAD: So let's go back to the

14 return page. And this kind of guides you the

15 direction that we are leaning, so growth

16 assets are coming down. What's on the page

17 with Rocaton's assumptions, you know, you

18 would kind of naturally lean to. What's the

19 very low return expectation for this is a

20 ten-year expected compounded return of 3.4.

21 Did I get it wrong?

22 MR. FULVIO: Yes. 3.5.

23 MS. PELLISH: So the 3.3 number should

24 just be 3.5.

25 MR. HADDAD: So with that return

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2 expectation, the optimizer is going to
3 recommend less U.S. equities, you know, simply
4 based on what that return is and they have a
5 very high volatility associated with them as
6 well. What it is going to be attracted to?
7 The things with the higher return. I didn't
8 list volatility here. I didn't want to put
9 too many data points on here, but it's going
10 to try to grab the things with higher returns.
11 So EM equities stands out. Infrastructure at
12 8.4 stands out. And private real estate,
13 particularly the opportunistic at 8.4, is
14 going to stand out. The baskets clause
15 constraint, those are all basket clause assets
16 so it's going to limit how much we can put
17 into those.
18 So my, you know, where we stand now is
19 -- and, again, we haven't finalized it yet --
20 your allocation to U.S. equities is likely
21 going to go down. And where do we so-called
22 hide core fixed income and that begs the
23 question: Do we want more long duration or
24 more short duration? And if you recall, the
25 long debate -- the lengthy debate about long

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2 duration, it serves as a risk mitigant to your
3 portfolio. And since we are derisking the
4 portfolio, we need less risk mitigant assets.
5 So we don't necessarily want to run the long
6 duration as well as, you know, we recognize
7 where long duration yields are and those
8 expected forward returns are not so --
9 MR. ADLER: But let me ask a question
10 because I didn't think that's what you were
11 going to say. Because if you are derisking
12 the portfolio, isn't one way to derisk it
13 increasing the long duration?
14 MR. HADDAD: Yes, you could do that.
15 MR. ADLER: And wouldn't that allow you
16 to -- I don't know, I am asking the question.
17 I am not making assertions. Wouldn't
18 increasing the duration allow you to derisk
19 the portfolio with fewer assets; like the
20 longer duration, the less you have to put into
21 it? No, am I wrong? I may be wrong.
22 MR. HADDAD: In theory, you are correct.
23 MR. ADLER: Oh, my God.
24 MR. HADDAD: But you are highly
25 dependent on that negative correlation and how

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2 confident are we and this is where we put a
3 little judgment in. It's worked, it's
4 benefited the portfolios over the past several
5 years for the wrong reasons.
6 MR. ADLER: Explain that.
7 MR. HADDAD: So both of them have gone
8 up. The total return of both the long
9 duration of treasuries and the growth assets
10 have both rallied, so why do I say the wrong
11 reasons? What we have -- when we think about
12 negative correlation, we think about risk-off
13 events; that's when long duration becomes more
14 attractive. So what I would argue is the
15 reason it rallies is because of extraordinary
16 monetary policy and specifically quantitative
17 easing. So that's what drove it, so now the
18 reaction to world events helped move that and
19 so that made the correlations positive, not
20 negative. But, you know, that -- we can
21 debate that.
22 MR. ADLER: But that -- and, again, I am
23 asking questions because I don't really know
24 what I am talking about today. But
25 quantitative easing is kind of a new tool in

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2 the toolbox that central banks use to drive
3 this long rally/long weak rally that we have
4 had?
5 MR. HADDAD: Absolutely.
6 MR. ADLER: And it seems like what they
7 have done now just in the last six months with
8 the sort of warning signs flashing on the
9 dashboard is they have lowered rates again,
10 but there is a limit to what they could do on
11 that. Isn't it possible that if, you know,
12 the warning signs continue that they might go
13 back into a QE regime? And in fact --well,
14 anyway, let me just leave it there.
15 MR. HADDAD: I will say yes, but. So
16 the "but" is the European Central Bank is
17 running out of bonds to buy. So they can only
18 buy -- I think about the seventeen countries
19 in the EU.
20 MR. ADLER: Including England or no?
21 MS. STANG: Sixteen, seventeen, who is
22 counting.
23 MR. HADDAD: They were never in the
24 monetary union so they have their own central
25 bank, their own monetary policy, their own

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2 currency. They can only buy bonds in
3 proportion to the GDP weights of the total
4 union. So what does that mean? They can only
5 buy Italian bonds in the total mix of the ECD
6 portfolio equivalent to what Italy's GDP is as
7 a function of the whole economy. So where do
8 they run out of bonds? In Germany. There are
9 very few German bonds left to buy, so the ECU
10 has to change the capital key. And there is
11 no way the Northern Europeans are going to go
12 for that because that would be monetization of
13 Southern European debts.
14 MR. ADLER: So that's a pretty good case
15 for the inability to use QE in Europe.
16 MR. HADDAD: In that country.
17 So let's talk about our country, because
18 that's where most of our assets is domiciled.
19 QE is controversial. Without a doubt, it's
20 lowered interest rates and driven up the
21 equity market. It's driven up the equity
22 market proportionally multitudes higher than
23 it's stimulated the economy. So it's designed
24 to stimulate the economy, but what it really
25 did was stimulate financial markets. One

1 Proceedings
2 could argue that this has added to the wealth
3 inequality in our country. One could argue
4 that it has led to misallocation of capital,
5 because capital got so cheap it flowed into
6 all sorts of riskier investments that it might
7 not have gone to otherwise. The poster child
8 for that, WeWork. On top of WeWork is the
9 poster child of the vision fund throwing
10 billions of dollars at really high valuations
11 into these companies that are not profitable.
12 And as the unicorn bubble bursts over the last
13 several weeks, you are seeing implications of
14 misallocation of capital. And that is one of
15 the -- one could argue would be one of the
16 criticisms by the historians of distortion of
17 quantitative easing.
18 So to get into John's point: If we do
19 get into a recession, will they implicate QE?
20 It's not so clear to me. They don't need
21 congress's approval to do it, but they would
22 be foolhardy to proceed without thinking about
23 the longer-term implications.
24 MR. ADLER: Foolhardy, that's not a word
25 that exists in today's politics.

1 Proceedings
2 MR. McTIGUE: And then in Japan they
3 virtually bought their own debt, so it's hard
4 for them to buy their own debt.
5 So that's another question: If we do
6 get the downturn and QE is a limited tool,
7 what else is in their tool kit? And what
8 people would argue is fiscal policy that
9 requires a lot of coordination that doesn't
10 seem reasonable these days in Washington, but
11 that would be -- you know, in many people's
12 opinions would be more direct stimulating of
13 the economy, would be allocation of capital to
14 more long-term beneficial projects in the
15 country rather than unicorn-type things. It
16 flows through into wages more directly and it
17 solves a lot of issues that we are facing day
18 in and day out.
19 MS. PELLISH: Mike, to clarify your
20 points in your comments: They could be
21 interpreted as saying you are looking at
22 reducing the longer duration portfolio to
23 zero.
24 MR. HADDAD: Fair enough, not arguing
25 that.

1 Proceedings

2 What I was saying was that when we think
3 about if we are going to reduce growth assets,
4 what are we going to increase? We are
5 constrained by the basket, so we can only go
6 so much into those higher-expected return
7 assets. But we also want to derisk, so we
8 want to go into the least risky assets and
9 that is by definition U.S. treasuries. But
10 then within treasuries, long duration is more
11 risky than short duration. So what we are
12 jointly contemplating is how should the long
13 duration portfolio be higher, lower, or
14 unchanged. And for argument's sake if it's
15 unchanged because we still like the risk
16 mitigation aspect of it, maybe we have an
17 allocation to short duration. Maybe we have a
18 strategic asset allocation to short duration
19 treasuries. Kind of think of it as cash. You
20 know, we are not going to -- you know, that
21 carries, you know, different connotations.
22 But it would be a place where there would be
23 very little risk, some return. Our short
24 rates are still positive unlike in Europe,
25 unlike in Switzerland, unlike in Japan. So

1 Proceedings
2 that's all positive return in place with very
3 low volatility, so...
4 MR. KAZANSKY: So what do you think the
5 reality is? I heard something of a new
6 twenty-year treasury being floated out. Is
7 that real and if it is real, would that be
8 something -- how would that benefit us or not
9 if that ever happened?
10 MR. HADDAD: Is it real? What's real is
11 the budget deficit has meaningfully increased
12 under this presidential regime, so we have to
13 find -- the treasury has to find ways to
14 finance the debt so they are looking at
15 different points on the curve. Where the
16 discussion first started, they issued a
17 hundred-year debt. And that again was a way
18 to issue more debt, but also time the market
19 from the treasury standpoint. And if you can
20 issue long debt at 250, isn't that a great
21 thing, isn't that a great way to borrow money?
22 So the president thinking like a real estate
23 developer thinks that way, but then when the
24 treasury gets feedback from the -- what's
25 called the borrowing committee who think of

1
2 big banks, big asset management companies,
3 they have simply no appetite for a
4 hundred-year debt; we are just not going to
5 buy it. The treasury's mandate is go to issue
6 debt in a predictable manner at a lower cost
7 over time to the taxpayer; that's their
8 mandate. The feedback they got was no
9 appetite for 100s, no appetite for 50s, so now
10 they are exploring 20s. It would have some
11 slight changes to the kink, if you will,
12 between 10s and 30s, but it wouldn't do much
13 to us. We have a lot in 30-year debt. You
14 know, I am not sure if it would.
15 MR. FULVIO: There is not that much more
16 incremental duration to issuing further out
17 past 30s. So for the people in the market who
18 are interested in buying that long-duration
19 asset, there is not that much incremental
20 duration protection to them by purchasing
21 anything longer than a 30 year.
22 MS. PELLISH: But the 20 would be just
23 another type of security you could buy in a
24 long-duration portfolio. Other than that --
25 MR. ADLER: Essentially what you are

1 Proceedings
2 doing is mixing and matching to get to your
3 desired duration, so you could -- you know,
4 two 20s versus four 10s or whatever.
5 MR. HADDAD: Correct.
6 MR. ADLER: Sort of like $20 bills.
7 I have a different question about
8 correlation. So I seem to recall that
9 correlations are becoming more and more in
10 sync and that it's harder to find something
11 that's negatively correlated. Do we think
12 that's something that's going to continue? I
13 mean, is it all part of globalization and just
14 -- is the expectation that things are going to
15 be more positively correlated going forward
16 and it's going to be harder to find something
17 that's negatively correlated?
18 MR. HADDAD: I would argue no. When you
19 had quantitative easing and you dropped the
20 level of interest rates, everything rallied,
21 you know, from '09 with the European crisis.
22 So things diverged in that period. But I
23 think going forward, things in the equity
24 market is not going to be correlated. This
25 goes back to valuations. And if you look at

1 Proceedings

2 Rocaton's expected returns, they show a very
3 different return profile for European equities
4 versus U.S. equities and that gets to the run
5 that U.S. has had versus the run EM has had.
6 So EM has lagged U.S. only certainly in the
7 ten-year period; I am not sure over twenty.
8 In the previous ten, we did very well and that
9 gets into China.

10 The China is the elephant in the room;
11 not only the size of it, but its impact on
12 other emerging markets. China has been in
13 this infrastructure boom for years, so huge
14 importer of commodities. A lot of
15 commodity-producing countries are emerging
16 market countries. Think about Brazil with
17 iron ore, Chile with copper; a whole host of
18 South American countries. So China has a big,
19 big footprint on how EM does as a whole, so a
20 lot of that is driven by one's view of China.
21 You know, China is on a long-term plan to
22 reduce exports as a percentage of their
23 economy and increase consumption as a
24 percentage of their economy and that's going
25 to have effects to all sorts of different

1 Proceedings

2 countries and all sorts of different

3 industries. I think one's ability to time

4 that, get their arms about how that's going to

5 unfold is very difficult, but that's kind of a

6 big picture trend.

7 So if you want -- if you believe that

8 China is fine going forward and -- I wouldn't

9 get caught up on the drop in the growth rate

10 from 9 percent to 6 percent. You know, when

11 you grow the baseline, of course it's growing

12 at a lower pace. It's what our country did as

13 well. But their composition of GDP is going

14 to change; it's going to be more consumption,

15 less exports. Makes sense. So I think EM is

16 going to be less correlated to the U.S. going

17 forward and I am not sure how your

18 correlations change.

19 MS. PELLISH: Our correlations haven't

20 changed dramatically. But the other point I

21 would say that's worth noting and Mike can

22 talk to this as well: You are really

23 concerned about correlations in a down market,

24 so we have this rising everything buoyed by

25 all this liquidity being pushed into the

1 Proceedings

2 marketplace. The whole point of long-duration
3 treasuries is the expectation that at the
4 worse time for your growth markets, you will
5 have negative correlation. That's when you
6 really care about it. So you don't have to
7 have consistently negative correlation. You
8 have to have negative correlation when equity
9 markets are really falling.

10 MR. KAZANSKY: But didn't that kind of
11 not happen in the GFC and that's what -- or am
12 I misunderstanding? I mean, I thought the GFC
13 was all of those hedges and we are supposed to
14 --

15 MS. PELLISH: No. Long treasuries did
16 well.

17 MR. HADDAD: But all the growth assets
18 always went down together.

19 MS. PELLISH: But we are really arguing
20 whether the correlation between U.S. equities
21 and emerging markets equities is .7 or .8. I
22 don't know and I would argue it really doesn't
23 matter.

24 What you really care about, really what
25 you really, really care about is will fixed

1 Proceedings
2 income help you when the equity market goes
3 down. The rationale for long-duration
4 treasuries is simply you are buying more
5 duration, long duration. So if there is a
6 flight to quality when everyone is worried
7 about the state of the world, you will really
8 make up a lot of the losses in the equity
9 market. That's the most important aspect of
10 the strategic asset allocation, from my
11 perspective. You want to put money in asset
12 classes that -- whose valuations look
13 attractive. Like we think infrastructure, we
14 think opportunistic real estate. And I think
15 the asset allocation will call for that, to
16 the extent you can accommodate it in the
17 basket clause.
18 The other important question that you
19 are going to face, that we are all facing: Is
20 what do you do with your fixed income holdings
21 and are you more worried about rising rates?
22 So you keep it short or are you more worried
23 about hedging a big market downturn?
24 MR. HADDAD: And that goes to all the
25 long duration discussions we have had. I'll

1 Proceedings

2 do my best to try to explain, but speaking of
3 the basket clause again: Scarce resource that
4 we have to deal with so, you know, not to move
5 too far forward, but bank loans is currently 2
6 percent of your portfolio. They are
7 considered a basket asset. They have a
8 moderate return expectation and a moderate
9 volatility expectation. So left to the
10 optimization process, there is still a place
11 for them in your portfolio. And the coupon on
12 bank debts is floating, so it changes along
13 with monetary policy. So that coupon has --
14 that interest income has come down as the feds
15 lowered rates, so it becomes a little bit less
16 attractive on a total return basis. But most
17 importantly it consumes, you know, 2 of the 25
18 of the basket. So it's going to be our
19 recommendation that we get rid of that and
20 then where we -- what do we do with those
21 extra, you know, 2, 200 basis points is really
22 key to how we did it. And again probably
23 going forward too quickly, but we really like
24 infrastructure as an asset class. So we are,
25 you know -- what we want to do is take bank

1 Proceedings
2 loans to zero and put that, to the extent we
3 can, in infrastructure. And we are quite
4 proud of our infrastructure program not just
5 as an asset class, but BAM's portfolio as
6 well. We think we have great managers and the
7 returns have been -- you can see three to
8 five-year returns have been outstanding. I
9 wouldn't expect those going forward. There
10 have been some one-offs that really boosted
11 those, but it speaks to how good our
12 infrastructure program has been.
13 Then the other thing, just to point out
14 to you again because we are -- your
15 recommendation is going to be based on that
16 final column which is Rocaton's expectations,
17 their private equity return expectation is a
18 derivative of their U.S. equity return
19 expectation. And that -- that is lower
20 compared to the rest of the consultants and,
21 you know, it's a couple of hundred basis
22 points lower. So while other systems might
23 have an increase in private equity, the
24 optimization process does not lean that way
25 with your -- with your asset allocation. And

1 Proceedings

2 then when you look at the actual three to
3 five-year returns, you can see our private
4 equity program has been fantastic over the
5 last several years. That's another place
6 where we have performed well in picking
7 high-quality managers and top-quartile
8 managers. So that's just something that we
9 are going to have to wrestle with.
10 MR. ADLER: Let me ask a question about
11 the private assets. So especially on real
12 estate, we have had a total allocation 9
13 percent since I think -- well, certainly since
14 the last asset allocation. I think it was
15 maybe 7 percent before that. I can't
16 remember, but we never -- I mean, our current
17 allocation is like 4.7. So we are barely at
18 half and it really hasn't moved in the last
19 three years.
20 So my question is: I know the optimizer
21 loves opportunistic real estate, but we can't
22 put the money to work? I mean, we could try.
23 We have been trying, but we haven't succeeded.
24 So the question is: Do you put 9 percent or
25 maybe 10 percent if we add the opportunistic

1 Proceedings
2 into the optimizer knowing that there is no
3 way you can actually pull that off and it does
4 take up basket space? Well, actually, no, it
5 doesn't take up -- does the private real
6 estate take up basket under 10 percent? I
7 forget.
8 MR. HADDAD: Over, real estate over 10
9 takes basket.
10 MR. ADLER: Okay. And the way we
11 calculate the basket, correct me if I am
12 wrong, is based on the strategic asset
13 allocation, not based on the actual number?
14 MR. FULVIO: I think it's based on the
15 actual.
16 MR. ADLER: So here is really the
17 question and it's about sort of like fooling
18 ourselves, right. So let's say you want to
19 put 2 more percent, the bank loan 2 percent
20 into infrastructure and put another percent or
21 two into opportunistic, so total real estate
22 plus infrastructure goes to say 14. And the
23 reality of the amount of money that we
24 currently have in there, is it about 6 maybe?
25 1.2 in infrastructure, 4.7 in real estate and

1 Proceedings
2 let's say we could get this up to -- let's
3 just say we are optimistic that we can get it
4 up to say 9 between the three asset classes,
5 are we really going to allocate 14 to it when
6 we know we can only do 9?
7 MR. HADDAD: So said differently: Can
8 we do a strategic asset allocation in excess
9 of the basket clause knowing we are going to
10 have parking place assets as we deploy capital
11 over the next three to five years in private
12 asset classes?
13 MR. ADLER: Okay, that's another way of
14 putting it. Go ahead. Why don't you answer
15 that.
16 MR. HADDAD: And the strategic asset
17 allocation group, which is kind of the
18 rebalancing committee as well, have concluded
19 that's not a good idea because of the
20 following scenarios: As we deploy capital and
21 we get closer to the baskets clause, we are
22 going to have to reduce other basket assets.
23 So let's say we allocated 30 percent and we
24 are actually at 22 and as we close the gap and
25 get up there, we are going to have to start

1 Proceedings
2 getting rid of basket clause assets. We are
3 highly reluctant to sell private market assets
4 just because the transaction costs are so
5 high. So what does that leave us in public
6 markets? International developed market and
7 emerging market equities and the risk of doing
8 what you described is we don't control the
9 timing of when we have to sell those markets
10 of those assets and we could be forced to sell
11 those at inopportune times.
12 MR. ADLER: I get that, but really it's
13 sort of I get the -- that's an implementation
14 issue. I am really talking about sort of the
15 pretense that we have an asset allocation that
16 has this risk and this return when we really
17 don't, because it's assuming that we are
18 actually investing 10 percent in real estate
19 and 4 percent in infrastructure when in
20 reality we are only investing half of that or
21 whatever. And so when you look at the risk
22 return through the model, it's saying 14
23 percent when in reality it's just, you know,
24 even optimistically say 9 percent. So we are
25 not really going to get even if all the

1 Proceedings
2 assumptions were right. And we know none --
3 the assumptions are never right, but you know
4 what I am saying. We are pretending our asset
5 allocation is something that it's really not
6 and that's my question.
7 MR. HADDAD: So, Alex, feel free to jump
8 in on this.
9 So we understand we have deployed real
10 estate capital at a slower pace than what both
11 the pacing plan is and, you know, to get to
12 where we should have gotten to. Why is that?
13 First and foremost, the plan keeps growing, so
14 it's hard to keep up with 9-1/2 percent return
15 over the last three years. It's an uptown
16 problem, but we have made two important
17 changes; we have made one and we are trying to
18 get the other one done. We have added the EM
19 program, the emerging manager program, so
20 that's a chunk of capital that's going to go
21 into places where we haven't gone before and
22 it's going to grow. We are going to get new
23 managers out of that there that we really like
24 and we are going to have capacity rights going
25 forward, so that's an important point.

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2 MR. DONE: And then co-invest program,
3 we are working on the co-invest program which
4 again allows us to deploy more capital at a
5 faster rate. So those are two kind of
6 structural changes that we are trying to get
7 into, you know, not just real estate but also
8 -- but private equity that will allows us to
9 deploy capital at a faster pace than we have
10 historically.
11 MS. PELLISH: Can you do that in
12 infrastructure as well?
13 MR. ADLER: We have done -- we have
14 already approved the co-invest and we are in
15 the process of doing the emerging managers.
16 MR. DONE: I was going to say, Mike, you
17 anticipated a comment I was going to make.
18 But for John, the other reason that we
19 have been slower in deploying capital in real
20 estate has been some conservatism on the part
21 of BAM in the allocation. When you think
22 about core real estate, there is some judgment
23 there with BAM and the specialty consultants
24 to Teachers that we are, you know, being
25 thoughtful about deploying a lot of capital

1 Proceedings
2 into core at this time given valuation. So I
3 think that has had an impact. And I think the
4 point that Mike made, if you think about
5 prospectively I think a big -- a big thing we
6 are adding to our tool kit if it gets your
7 approval is co-investments. And I think that
8 certainly will allow us to increase our
9 ability to allocate, particularly on the
10 noncore real estate side.
11 One other point that I would make, John,
12 to your question about returns I am given that
13 we are under-allocated to target, is that for
14 some of these private asset classes the
15 placeholders have performed well. So think
16 about PE. You know, when it's unallocated,
17 the unallocated capital has been primarily in
18 U.S. equities. So that's why one of the
19 reasons that we discussed we have
20 underperformed our benchmark. So the
21 underlying, you know, public equity markets
22 where they are being held as placeholders have
23 done well. Also in real estate part of the
24 placeholder, and correct me if I am wrong
25 here, Mike, is REITS. Our REITS portfolio

1 Proceedings
2 have done well, Mike?
3 MR. HADDAD: Yes, some parts REITS and
4 some part 60/40 index portfolio as well.
5 MR. DONE: In equities?
6 MR. HADDAD: Yes. Yes.
7 MR. ADLER: Just to be clear: The
8 placeholder money, the performance is rolled
9 into the actual asset that the placeholders
10 are in? In other words the U.S. equity for
11 placeholder is in U.S. equity, not in private
12 equity, right?
13 MS. PELLISH: Yes. Yes, right.
14 MR. ADLER: I mean, I hear the point you
15 guys are making and I am not -- I am just sort
16 of struggling with this, because if we are --
17 I just kind of feel like we are doing a little
18 bit of a song and dance by saying that we are
19 going to have 14 percent in real assets when
20 we know we are not and so I am not -- it's not
21 really a basket clause thing.
22 I am just saying, you know, you are
23 doing an asset allocation that says we are
24 doing this return and this risk based on these
25 correlations and this amount of assets in each

1 Proceedings
2 asset class, then that's not really what -- I
3 mean, look, the reality is, guys, how much for
4 Teachers, how much is in emerging -- the
5 emerging managers co-investment, and does it
6 actually make a material dent?
7 And I hear what you are saying, Mike,
8 is about getting more capacity through the
9 emerging managers, but the actual reality of
10 that is it's, you know, three, four, five six
11 years away before there is a manager that
12 comes through the farm system and is ready to
13 pitch in the major leagues. Pardon the sports
14 analogy; I can't help myself.
15 MR. KAZANSKY: That was football, right?
16 MR. ADLER: And, you know, I think of
17 this -- and maybe I am not thinking about
18 correctly and I would like Robin to weigh in
19 on this. I think the asset allocation that we
20 are going to adopt here is sort of for the
21 next roughly three years. Because the
22 practice is to revisit asset allocation, we
23 did our last one in 2016. I think best
24 practice is to do a strategic asset allocation
25 about every three years. Maybe two, three

1 Proceedings
2 whatever, but so that is how I am thinking
3 about this. And I really don't think that we
4 have any realistic expectation, except that
5 there's a huge public markets drop and because
6 private assets --
7 MS. PELLISH: The denominator effect?
8 MR. ADLER: The denominator effect of
9 actually getting to these asset allocations.
10 MS. VICKERS: Can I ask a question. Is
11 the expectation if we went -- we do this
12 strategic asset allocation, that it will be
13 implementable in the three years before the
14 next one?
15 MR. HADDAD: No. But you got to start
16 from somewhere to implement it, so let's take
17 infrastructure for example. You are going to
18 hear from Petya at the next CIM, her pacing
19 plan. It's based upon a 2 percent weighting
20 of your portfolio. If 4 percent is
21 recommended and if approved by this board,
22 then she has got to go back to the drawing
23 board and redo her pacing plan. So if that's
24 $10 and that's got to go to $20, she has got
25 to deploy at a faster pace. And that pacing

1 Proceedings

2 model is based on a five-year basis with a lot

3 of assumption in there about returns of the

4 various components, asset returns, and then

5 return of capital. A lot of variables in that

6 pacing plan, but it changes every year based

7 upon, you know, what actually took place in

8 that year. But we have to start from

9 someplace to start the point. So whatever

10 five -- so in '16 when we doubled real estate

11 for argument's sake, that pacing plan changed

12 dramatically and, you know, we put more money

13 to work than we would have otherwise. But it

14 was hard to keep up with the organic growth of

15 the portfolio, but you have to start somewhere

16 to start deploying more capital. You wouldn't

17 want to deploy it in the beginning because you

18 have --

19 MR. ADLER: I understand.

20 MS. PELLISH: So I think it's a very

21 reasonable question to say okay, you are

22 asking us to approve these targets, give us a

23 sense of how we move to those targets over the

24 next three years. And given -- and we are not

25 going to -- you know, if we significantly

1 Proceedings
2 recommend increasing infrastructure and
3 private real estate, we are not going to get
4 there in three years. So I think it's very
5 reasonable to ask: What is the actual
6 likelihood to look like over the next three
7 years and --
8 MR. ADLER: And is it reasonable then to
9 ask: So given that, what would be the
10 expected risk of return?
11 MS. PELLISH: Yes, given what we know
12 the parking places to be, what do we think the
13 decrement to returns will be over the next
14 three years. But I do think I agree with Mike
15 if we think the larger target is the right
16 thing to do, then even if we can't -- the
17 question, we can never get there in three
18 years. You know, if you were investing
19 directly rather than through partnerships,
20 your ability to do that would be facilitative.
21 But you invest in partnerships and so, you
22 know, the staff is working as hard as it can
23 to put money to work judiciously. So let's
24 understand what it means to approve a much
25 higher target, what does it mean in the

1 Proceedings
2 interim.
3 MR. ADLER: The other thing I would say:
4 What does it mean in terms of our
5 infrastructure? In other words, I don't mean
6 our infrastructure. I mean, do we need more
7 staff, do we need -- are there enough high
8 quality, you know, first-quartile funds that
9 will be in the market to get there? You know
10 what I mean, because we don't want to -- in
11 order to put more money to work we don't want
12 to diminish our standards just so we can fill
13 this bucket, right?
14 MR. HADDAD: And you would -- it would
15 be interesting for you to listen to our
16 investment community a few times on real
17 estate.
18 MR. ADLER: I would be happy to.
19 MS. PELLISH: Be careful what you offer.
20 MR. HADDAD: I said maybe, but Alex
21 pushes Yvonne, why can't you take that 250 and
22 make it 350? She is like, I can't, I am lucky
23 to get to 250, they gave me 200.
24 MR. ADLER: I understand that. So there
25 is an issue of allocation.

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2 MR. DONE: I was just going to add also,
3 I want to reiterate: Directionally while
4 absolutely there is likely to be a
5 recommendation or directionally we are moving
6 for recommendation to increase allocation to
7 infrastructure, I don't think that's the case
8 for real estate because in every conversation
9 we have with Rocaton and others we also
10 discuss the fact that real estate is uniquely
11 under-allocated to current target. So even
12 though the optimizers sort of graph toward
13 noncore real estate I think, I don't think
14 directionally we are looking to meaningfully
15 increase the target as noncore real estate.
16 MR. ADLER: I mean, fine, it's the same.
17 Honestly even if we left it the same, we are
18 only halfway towards the allocation so, I mean
19 --
20 MR. HADDAD: We are cognizant of that.
21 So while some of these exercises led to
22 increases, when you go back and drill into
23 where the portfolio is now you recognize to
24 take opportunistic real estate from 4 to 6
25 when we are really at 2. But that's even less

1 Proceedings

2 risk, so that's where we exercise judgments on
3 the joint recommendation. And this is one of
4 the places we're arm-wrestling.
5 MR. RAY: One of the issues would be you
6 would have a false expected return. That
7 would be one of the concerns, because you are
8 looking at a high allocation that in reality
9 you would never expect to get to. But the
10 optimizer and what it's spitting out for new
11 terms of your expected return is then
12 inflated.
13 MR. HADDAD: Yes, which is another
14 reason why these expected returns, they are
15 just so not precise. It is a tool to help
16 drive this asset allocation. To pretend that
17 we know what the ten-year compounded return of
18 any asset class is is insane; we don't know
19 that. It's best judgment based on historicals
20 and valuations and forward-looking views. But
21 to your point, that's another point where the
22 precision is faulty.
23 MS. PELLISH: So can you give a order of
24 magnitude, sense of timing of when you think
25 that we will be able to come back to the board

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2 with specific recommendations? What's your
3 hope on that?
4 MR. HADDAD: The hope was to get this
5 approved in 2019. We are running out of
6 meetings. We have two caucuses associated
7 with the November and December CIM where we
8 can spend as much time as we need to. I
9 believe that BAM and Rocaton, I think we are
10 virtually --
11 MS. PELLISH: -- very, very close.
12 MR. HADDAD: Yes. And is there one more
13 investment meeting?
14 MR. ADLER: Yes, December.
15 MR. HADDAD: So that kind of gives us
16 three meetings. I am trying to think whether
17 we could give them an actual proposal at the
18 November CIM.
19 MR. ADLER: There is also board
20 meetings, right? There is nothing that
21 prohibits us discussing these issues at a
22 regular board meeting.
23 MS. VICKERS: Well, can I ask: Is there
24 a rush, do we have to get it done?
25 Especially, we should think about

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2 implementation timelines.
3 MR. HADDAD: The sooner we get it done,
4 the sooner we can start changing things, you
5 know. And that's changing pacing plans that's
6 reducing our U.S. equities which, knock on
7 wood, were at an all-time high this morning.
8 And we want to reduce risk to the portfolio.
9 So there is not a timing rush but, you know, a
10 sense to get this done.
11 So the other thing that we have, BAM
12 internally has done, the proposed rebalancing
13 request was obviously a hot topic at the last
14 CIM. What we were going to recommend is that
15 the rebalancing range, placeholder policy,
16 that those are implementation policies after
17 the strategic asset allocation gets done. So
18 we are going to separate those. Alex and I
19 had a long discussion last night about this,
20 so we haven't gotten you current on this.
21 That's why you are hearing this the first
22 time. Those take place naturally after
23 strategic allocation is done. And one of
24 John's big points on the rebalancing range is
25 how can you come to one when you don't even

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2 know what your allocation is and he is
3 correct. So these are implementation policies
4 that will follow after the strategic asset
5 allocation. Just like when you get your --
6 you are going to get private market annual
7 plans at the next CIM which, you know,
8 hopefully you will approve. But if
9 allocations change, pacing plans change, and
10 the asset classes will have to come back in
11 front of you to get revised pacing plans
12 approved. So you can't stop the annual
13 plans; they have to continue. But if there is
14 amendments to them, then we will come to you
15 for your approval.
16 So, Susannah, by removing placeholder
17 and rebalancing potential changes, and I
18 emphasize the word "potential," into
19 implementation I think it makes strategic
20 asset allocation less complex.
21 MS. VICKERS: Sure.
22 MR. ADLER: I had just another asset
23 class question. So you are talking about
24 eliminating bank loans. Last time we
25 eliminated convertibles from the strategic

1 Proceedings

2 asset allocation. Have you guys given

3 consideration to the convertibles in the

4 portfolio?

5 MS. VICKERS: Can I just remind you we

6 are in public session.

7 MR. ADLER: It's a perfectly legitimate

8 discussion. We are talking about

9 convertibles.

10 MR. HADDAD: Yes, we looked at them and

11 they have their capital markets discussion.

12 It's an asset allocation conversation.

13 MR. McTIGUE: They did not merit an

14 asset allocation based on their capital market

15 discussion in your portfolio. They exist in

16 your portfolio today as a parking place for

17 unallocated high-yield capital. So depending

18 on what happens to high yield, and its

19 implementation will very much drive what that

20 placeholder -- what those placeholder assets

21 will -- what we will do with them.

22 MR. ADLER: Thank you.

23 MS. PELLISH: Okay.

24 MR. KAZANSKY: Any other questions for

25 Mike? Thank you, Mike.

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2 Okay, EM.
3 MS. PELLISH: Sure.
4 MR. FULVIO: I will start.
5 So we distributed in advance hardcopies
6 this morning of two documents related to the
7 emerging market review discussions, and we
8 don't have to rehash all the work over the
9 last year and a half or so. What you will
10 recall where we are today from the middle of
11 June, the board approved lifting the country
12 restrictions for Russia, China, and Pakistan.
13 There continue to be -- while there is ongoing
14 discussions about this topic, there continue
15 to be some companies which are not -- which
16 have not been designated for investment while
17 we continue to review this and the intent here
18 is to come back to the board with a proposed
19 policy appendix. I will call it appendix.
20 MS. PELLISH: Which would be part of the
21 IPS?
22 MR. FULVIO: Which would be part of the
23 IPS. That's what I was inferring would be
24 appendicized.
25 So the idea here is to describe the

1 Proceedings
2 review process that we have been discussing
3 or, I should say, describe the policy based on
4 the process that we have been discussing that
5 seeks to identify companies whose practices
6 are inconsistent with the beliefs of the
7 board. So we have tried to describe what we
8 would expect that policy to look like and how
9 we would actually carry out a process to
10 review on a periodic basis what's held in the
11 portfolio, what might be inconsistent with
12 those beliefs that the board has already
13 delineated in the statement of investment
14 beliefs, and sort of set out what's the path
15 for potential action if there is any. That
16 action could again be engagement with not only
17 your investment managers, it could be
18 engagement with the companies directly. It
19 could be working with BAM's office on
20 engagement. It could be working with your
21 investment managers on engagement. It could
22 be even working with an additional outside
23 vendor whose focus would be engagement. There
24 is a whole host of different paths that we can
25 take. We try to reference broadly speaking

1 Proceedings
2 what you can do here and then beyond that, as
3 I note earlier, there would be, you know, the
4 potential for saying okay, this is maybe
5 perhaps an opportunity for divestment in which
6 case this policy refers specifically to the
7 current divestment and exclusion policy of the
8 board for what that approach would be. But we
9 are not -- this in and of itself does not
10 change the previously approved approach to
11 divestment or potential exclusion of any
12 securities, so that's what I wanted -- how I
13 wanted to introduce the topic.
14 The second document is just we tried to
15 scope out what the process would look like in
16 practice. We don't think that needs to
17 specifically be in the policy because it's a
18 bit more prescriptive and obviously there's
19 still room for discussing what the thresholds
20 are, how we are categorizing different
21 companies for how bad they are if you will.
22 We don't think that that's necessarily
23 something that has to be in the policy because
24 we think over time that is something that will
25 evolve and we want the policy -- even though

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2 the policy can evolve over time, we want the
3 policy to be more governing the overall spirit
4 of what the board is trying to accomplish.
5 MS. PELLISH: So the policy is fairly
6 high level. The process is much more
7 specific. It will undoubtedly be added to as
8 we go through the actual implementation of the
9 policy, so there undoubtedly will be details
10 and steps added to the annual process. But
11 the policy is intended to be high level and
12 bridge the period between this periodic review
13 of the portfolio based on vendor data to, if
14 appropriate, implementation of the divestment
15 and exclusion policy.
16 MS. VICKERS: I think the policy as
17 drafted makes a lot of sense. It's sort of
18 that sweet spot of being detailed enough, but
19 high level enough that you can sort of
20 implement it as is and work out some of the
21 details as we go along. I would just say that
22 maybe BAM would work with Valerie just to find
23 a place within the IPS to mention this new
24 appendix and then sort of drop it in and this
25 could be appended to it.

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2 MR. ADLER: Okay, I would like to weigh
3 in. I don't think this policy is adequate. I
4 don't think it reflects this whole process
5 that we have been engaged in for a year and a
6 half. I am not ready to go with it. I think
7 it's way too vague and generic. And frankly
8 we have been delving into this, I don't
9 actually understand how it works it. If you
10 can explain to me given all the work that we
11 have until now with the two vendors, how that
12 comports with this, like what it would look
13 like, how it would work, where are we with
14 that list of companies, like how would this
15 get executed because I don't understand it.
16 And also I don't understand: There is
17 talk about investment managers, but we have
18 discussed in the past the fact that a chunk of
19 our assets are indexed. So how would it work
20 with regard to the index? We have a set of
21 the companies that we are currently excluded
22 from, another set that we are not excluded
23 from. So we are treating one set of companies
24 one way, another set of companies one way.
25 How would this work in terms of current

1 Proceedings
2 portfolio? If you could, explain it to me
3 because I don't get it.
4 MS. PELLISH: Sure. Thank you for
5 weighing in.
6 MR. ADLER: I tried to be --
7 MS. PELLISH: Be direct, that's helpful.
8 MR. ADLER: But I also tried to be
9 polite. I don't know if I succeeded.
10 MS. PELLISH: As will I.
11 MR. ADLER: Pull no punches, Robin,
12 please.
13 MS. PELLISH: So I will say: With all
14 due respect, we did actually try very hard to
15 go through all of our notes and reflect
16 board's conversations.
17 I would say I will start with the last
18 point, because I think it's the easiest and
19 you were most specific about that. The
20 current companies that were currently excluded
21 and I think -- how many are there -- 14, less
22 than 20. So there is some things a group of
23 companies, less than 20 that are currently
24 being excluded that was always intended to be
25 an interim measure. And so I don't think

1 Proceedings
2 there is -- I don't think it would make sense
3 to reference them in this policy.
4 MR. ADLER: I understand, but I don't
5 understand. Like it makes this reference to
6 divestment exclusion policy, but without
7 explaining it. And maybe I just need to hear
8 the explanation how that would actually work.
9 Like, okay, so we currently have 13 or
10 14 companies, a couple more because there are
11 some exclusions under other policies, but
12 let's just use the number 14. There are 14
13 companies that are excluded, but there is
14 other companies that emerge from this process
15 that are -- have actually, you know, call it
16 worse ratings than the 14 that are currently
17 excluded?
18 MS. PELLISH: Potentially, yes.
19 MR. ADLER: So how are we dealing with
20 those and the others?
21 MS. PELLISH: So I would say the
22 distinction between the companies that are
23 currently excluded based on this interim
24 measure, not talking about coal companies or
25 anything like that, those 14 or 15 companies

1 Proceedings
2 are currently excluded, that would become a
3 moot distinction. We would be applying this
4 -- my understanding, and please correct me if
5 anyone thinks it's wrong, the reason we don't
6 reference that group is because that's very
7 much an interim measure. So the distinction
8 between that 14 and the thousands of other
9 companies you own would become moot. We would
10 apply this analysis as described in the policy
11 and refer to in the process against the entire
12 universe of securities that you own.
13 MS. VICKERS: Right, because I think the
14 board wanted to have some --
15 MS. PELLISH: Or could own.
16 MS. VICKERS: The board wanted to have
17 something in place until we established a
18 policy and hired vendors. We are doing both
19 of those things. So once those are in effect
20 and we start going through the annual process,
21 then the interim list will naturally go away
22 because we hope it will be replaced by this
23 new process.
24 MR. ADLER: So let me just understand
25 this. So under the review process it says

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2 "The review identifies companies which are
3 associated with the following two bullet
4 points. Material violation of the United
5 Nations Global Impact and with material public
6 controversies, which may incur reputational
7 risks." Then it says "Input will also be
8 gathered from the board's active investment
9 managers." So then what happens? So, in
10 other words, right now we have this list of 81
11 companies which are not necessarily -- it's
12 based on old data. It's not necessarily up to
13 date and we have --
14 MS. PELLISH: -- 14 companies.
15 MR. ADLER: No, I had the list of
16 companies that meet these two bullets. A list
17 of 81 companies which are not necessarily up
18 to date, so let's just use that as an example.
19 So we have this list of 81 companies under
20 this company policy, what happens?
21 MR. FULVIO: So what would happen is
22 initially -- and I think we lay it out more in
23 the process. But the vision at least at this
24 point is staff and Rocaton or whoever the
25 consultant is who is focused on this would

1 Proceedings
2 interact with the vendors to review their
3 assessments.
4 MS. VICKERS: I need to interrupt
5 because I don't think that that list of 81
6 companies is at all relevant, so...
7 MR. ADLER: I am not saying a specific
8 company. I am understanding --
9 MS. VICKERS: But what the process is
10 going to be is we are going to secure a vendor
11 to do an annual review, right? So forget
12 about the list of 81 companies because that's
13 beside the point. Those companies can exist
14 or not exist. We are hiring someone to do an
15 annual review of our entire portfolio and they
16 are going to come back with a report that
17 includes ratings and then we will have a list
18 of a certain number of companies.
19 MR. ADLER: Okay. Call it 91 companies,
20 I don't care. So we have this list of the 91
21 companies --
22 MS. VICKERS: So there is a list of
23 companies that are identified by our vendor
24 through an annual process of having some kind
25 of issue?

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2 MR. ADLER: Yes, under these two
3 bullets.
4 MS. PELLISH: Or having an issue. We
5 have defined what an issue is.
6 MR. FULVIO: So what we are going --
7 MS. PELLISH: And it may be two vendors.
8 We have talked about having two vendors maybe.
9 MR. FULVIO: We are going to draw upon
10 their research and assessments. We are going
11 to draw upon whatever assessments the managers
12 have made. If the manager, for example,
13 decided to hold these companies in their
14 portfolio, we want their input on these issues
15 and these risks. So the board and staff will
16 coordinate with the vendors and managers to
17 bring all this information to the board to
18 review it and discuss it on a periodic basis.
19 And from there and I think it is --
20 unfortunately if it's a long list, it is a
21 very detailed process to understand at least
22 what the path or potential action items would
23 be with regard to each of those companies. So
24 I think we are going to try to create some
25 sort of forced ranking of how we prioritize

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2 working through that list, but there has got
3 to be an -- I think it's outlined here, this
4 crucial step where there is this discussion
5 and analysis among the board and all of the
6 parties that we have talked about to look at
7 the data and try to understand what's going on
8 with each of these companies that have been
9 flagged. And I think that's -- you know, the
10 spirit of that is what we have attempted -- we
11 have attempted to capture in the policy in the
12 last paragraph of the review process, because
13 again what we are saying would be appropriate
14 action if at all, is going to differ from
15 company to company. And if the action is, you
16 know, potential exclusion or divestment;
17 that's where the divestment and exclusion
18 policy comes into play. And if it's -- you
19 know, if it's engagement, that's where we need
20 to determine what's the most effective way of
21 engaging any of those companies.
22 MS. VICKERS: Just a quick point with
23 regard to the active managers. My
24 understanding is that, you know, again we will
25 hire this third-party to do the report and

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2 then once we get it, they will come and
3 present the report to BAM, Rocaton, and to the
4 board. And if there are holdings that have
5 been identified by this third-party as having,
6 you know, one of these issues and we know that
7 they are in our portfolio, that's when we
8 engage with the active manager.
9 MS. PELLISH: Right. And the purpose of
10 engaging with the active manager is simply to
11 get additional input. And they may come back
12 and indicate that the facts are wrong or that
13 corrective action has been taken, but you have
14 -- you are paying an asset manager who has
15 chosen to hold a particular security that's
16 been flagged. Let's at least hear from that
17 active manager about whether they agree or
18 disagree with the assessment. It's just
19 input.
20 MR. ADLER: Okay, I understand. So this
21 is different from what we had earlier
22 discussed, which is -- what we had earlier
23 discussed, and I am just flagging it, I don't
24 want to gloss over it, is we had said okay, we
25 identify this list of companies that we

1 Proceedings
2 believe are, you know, violative based on the
3 data that we received from the vendor or
4 vendors, that violate our -- let's just call
5 it our beliefs. And that if a manager holds
6 that company, the manager could appeal that
7 finding based on facts that the vendor got
8 wrong. So this is sort of -- like in some
9 ways it was putting the burden on the vendor
10 and now I feel it's the reverse. It's putting
11 the burden on the board to -- I see you are
12 shaking your head but, I think it puts the
13 burden on the board to say to the manager why
14 we think they should not hold this company,
15 instead of the manager saying why they think
16 the facts are wrong in the analysis that we
17 have paid for.
18 MS. PELLISH: I don't draw as a clear
19 distinction between those two descriptions.
20 And we may be using the wrong words, but the
21 spirit is really just to access information
22 that the active manager may have that may be
23 -- that may lead us to evaluate the data
24 provided by the vendor in a different way.
25 That's all it is, is to gather more

1 Proceedings
2 information from an expert.
3 MR. ADLER: But it also seems -- I mean,
4 correct me if I am wrong, but what I thought
5 we were going to do was land on a process that
6 was somewhat objective and this really seems
7 like a very subjective -- it's going to put
8 the board in a position to make subjective
9 decisions about individual securities.
10 MS. PELLISH: Can I just ask Valerie,
11 can you weigh in for a minute? Because we
12 have discussed this a lot.
13 MS. BUDZIK: We have. This policy -- if
14 you are saying an objective standard was if
15 you are on the list, we are out, we divest.
16 MR. ADLER: No, not necessarily. But if
17 you are on the list, we take some action. The
18 action might be engagement, the action might
19 be watch list, the action might be divestment;
20 what we have talked about in the past.
21 MS. BUDZIK: But I would actually say
22 that is what this policy does.
23 MR. ADLER: I don't see that, so maybe
24 you can spell it out more clearly.
25 MS. VICKERS: I think you are looking at

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2 the policy, but we do have to understand the
3 logistics. And maybe I am incorrect, but BAM
4 was asked at the last meeting or the previous
5 meeting to sort of move forward with contract
6 discussions with these outside vendors. And,
7 you know, one of the vendors that, you know,
8 came in and spoke to the board has an annual
9 review product that I thought that we were all
10 interested in obtaining, in hiring this group
11 to give us an annual review of our portfolio.
12 And the access to the database was something
13 different and sort of an add-on and we agreed
14 to sort of start with the annual review. So
15 it's not like the board or staff is going to
16 be responsible for doing an analysis
17 themselves in some kind of subjective way.
18 MR. ADLER: I understand, but it's
19 receiving the analysis and what we do with it.
20 MS. VICKERS: That's exactly it, but we
21 will be receiving objective data. So there
22 will be scores and details that are hard facts
23 that the board would, as Robin described, if
24 there is -- you know, if we own them, then we
25 can ask the managers are these facts correct.

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2 It's all an objective conversation. I don't
3 think it's putting the board in a subjective
4 situation.
5 MR. ADLER: No. But then what we do,
6 what I thought we were going to do was arrive
7 at some criteria.
8 MS. PELLISH: For divestment?
9 MR. ADLER: For watch list, engagement,
10 or divestment. Those three options, that is
11 what we talked about. And what it sounds like
12 we say well, based on this let's watch list
13 this one, based on this let's engage that one.
14 And since we are already divested from that
15 one and that's what I --
16 MS. VICKERS: I don't think that needs
17 to be in the policy. I think it's in Step 6,
18 which is "Board determination of any action
19 items." So if you want to create some kind of
20 objective threshold --
21 MR. ADLER: That's where I thought we
22 were going.
23 MS. VICKERS: But that's here; that is
24 not here. This is the general policy because
25 we don't have this and this could change.

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2 MS. BUDZIK: And we don't have the
3 information.
4 MS. VICKERS: We haven't seen a report.
5 MS. BUDZIK: That might allow us to
6 establish that criteria.
7 MR. ADLER: We have seen sample reports
8 which is leading us to do this contract.
9 MS. VICKERS: But when the vendors come
10 in, they come in with sort of different -- you
11 could have option A and option B, you could
12 have different things. So I think it would be
13 premature to try to box us into something
14 until we have actually seen what the report
15 looks like.
16 MS. GREEN-GILES: Can we make a
17 distinction that this is an annual process;
18 this is from this point forward, there will be
19 a point in time every year where the board is
20 going to go through this process as a matter
21 of procedure?
22 MS. VICKERS: Sure.
23 MS. GREEN-GILES: That is different from
24 something blowing up in the interim where
25 suddenly there is some headline risk or

1 Proceedings
2 something like that which is obviously not
3 captured in this process, but is separate and
4 we can talk about that separately. But this
5 is to establish a process where there is some
6 annual review which may or may not yield a
7 change from year to year. But I agree with
8 you John, there needs to be something spelling
9 out about what do we do with this at that
10 point. We can't just be making it up every
11 year. We should have the criteria that says
12 whatever that might be. And we are not
13 getting that from our vendors, right? We are
14 not going to get that?
15 MR. ADLER: We have to determine the
16 criteria. The vendors are going to provide us
17 with this, quote/unquote, objective
18 information.
19 MS. GREEN-GILES: Exactly.
20 MR. ADLER: Then we have to decide
21 what's the criteria and I thought that's
22 really what we are going to plan here.
23 MS. GREEN-GILES: Do we feel qualified
24 to come up with that criteria?
25 MR. ADLER: That's why we have

1 Proceedings
2 consultants.
3 MR. BUCKLEY: Safe to say we are going
4 to get the criteria at some point in the
5 future?
6 MR. ADLER: No, this is where I
7 disagree. I thought the point with the
8 emerging markets policy was just like we had a
9 policy that says we are not going to invest in
10 Russian, China, Pakistan.
11 MS. VICKERS: I think we still --
12 MR. ADLER: No, we have an interim
13 policy that allows us to invest in Russian,
14 China, and Pakistan except for the companies
15 that are on the list that are already in China
16 that we have not previously invested. We are
17 still not invested, but -- can I just finish.
18 So I think what we need, to replace that
19 policy with a new policy that says these are
20 the criteria on which we are going to take
21 action and here is the range of actions we can
22 take. But then the criteria are in the policy
23 and then we can review that -- those criteria
24 whenever we want really. But I agree with the
25 idea that the data comes in on an annual

1 Proceedings
2 report and then we apply the criteria and then
3 if the board decides oh, this is the wrong set
4 of criteria, the criteria are wrongly drawn,
5 we could do that. But I think this is -- this
6 does nothing, in my view.
7 MS. PELLISH: So if -- so we do have
8 criteria in here which are the criteria by
9 which the vendors are going to flag companies,
10 but what you are saying is you want another
11 level of specificity. You want to say if they
12 rank orange in terms of UN global compact
13 violations, they go on a watch list. If they
14 rank red -- I am making this up. If they
15 rank, we divest them. And I don't think
16 that's consistent with our divestment and
17 exclusion policy.
18 There is two problems getting that
19 specific in the policy. First, I think it's
20 early and I would politely say perhaps
21 unnecessary at this point. At some point, we
22 are going to have to do that. I don't think
23 -- I don't think we need to box ourselves in
24 yet. By definition, we are going to have to
25 do that. I think it would be a big step

1 Proceedings
2 forward if we had a policy and could start to
3 engage with the data providers and then create
4 the additional specificity of criteria,
5 because I do think that will happen. The
6 second thing is we have to be very careful
7 about how that ties into the divestment and
8 exclusion policy, which is the policy under
9 which we make divestment decisions.
10 MR. ADLER: Understood, but I also want
11 to point out that the divestment and exclusion
12 policy leaves to the exclusive province of the
13 board -- you can roll your eyes. It is in the
14 policy, is it not?
15 MS. BUDZIK: But that statement -- in a
16 way of course it's up to the board whether or
17 not it does divest, but doesn't relieve the
18 board of its fiduciary obligation to go
19 through the process that's laid out in the
20 policy.
21 MR. ADLER: I agree. But to me the
22 criteria -- and maybe the criteria is that the
23 only time we divest from a company is when
24 they kill 100,000 people, but other than that
25 if they kill 99.000 people we engage, we don't

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2 divest. I am just saying, I agree that we
3 have to engage in the -- through the process
4 that's set up in the divestment exclusion
5 policy, but I believe that this just kicks the
6 can down the road and doesn't actually -- I
7 feel like the year and a half, we could have
8 done this a year and a half ago without going
9 through this whole process.
10 MS. VICKERS: That's totally false
11 because we -- this is very -- you know, with
12 all of the interactions that we have had with
13 the vendors, seeing what's out there, we
14 didn't want to copy something that maybe
15 another board does that's been deficient. I
16 don't think that at all -- this is a policy
17 for reviewing emerging market exposure; that's
18 it and that's what this achieves. What the
19 board does with that information, that's
20 another step. And I think you are conflating
21 having -- you know, that additional step
22 having to do with maybe divestment with this
23 policy. We just want a policy to see -- to
24 allow us exposure to potentially problematic
25 parts of the world and then have a responsible

1 Proceedings

2 way of seeing what that exposure is. And then
3 the next step is how we are going to deal with
4 it.
5 MR. KAZANSKY: And, John, the no Russia,
6 no China, no Pakistan policy is completely
7 free from all the nuance in here. It's a
8 super easy policy to implement.
9 MR. ADLER: I totally agree.
10 MR. KAZANSKY: So I think with this, the
11 expectation is we are taking something to a
12 much more granular detailed and reasonable
13 level. And I don't necessarily think that now
14 that we should be, as you said, determining
15 that, okay, if you kill 100,000 people that
16 means this and if you only kill 99,000 people
17 that means that or whatever it is that -- I
18 think the expectation is that at some point we
19 are going to get information from these
20 vendors as to what the company did or didn't
21 do. And we are going to have to then decide
22 is one of those things that the company did or
23 didn't do so egregious that we need to do
24 something different or is there ten different
25 little things that they have done that when

1 Proceedings
2 added together make it completely unpalatable
3 to still be with them. I think it is going to
4 be a very -- even though the data is going to
5 be objective, I think there is going to be
6 that moment where we have to look at the
7 totality of the information that's coming to
8 us and make a decision company by company.
9 MR. ADLER: I really disagree with you
10 on that. And I think it puts -- it's going to
11 create huge problems for the board if we are
12 going through company by company and
13 determining this one is in Column A, this one
14 is in Column B, and this one is in Column C.
15 I think we are much better off if we set
16 criteria based on the objective data.
17 MR. KAZANSKY: I just don't think we can
18 set criteria that goes to cover every possible
19 outcome.
20 MR. ADLER: I think we can. That's why
21 we are hiring vendors. Truthfully, I think
22 it's a real mistake to say guys, let roll up
23 our sleeves, here are 75 companies; what
24 should we do with Company A, what should we do
25 with B, what should we do with Company C all

1 Proceedings
2 the way to Company Z. I think it's a huge
3 mistake for the board to be doing that.
4 I think we are much better off setting
5 criteria based on the vendor reports and then
6 we can review this is what I thought we would
7 do. We are going to say okay, Company D here,
8 we have got them characterized as the worst of
9 the worst, but Manager Number 6 over here
10 thinks this is a great company. So Manager 6,
11 tell us why you think this is a great company
12 and why the report that our vendors are giving
13 us that they are the worst of the worst is
14 wrong.
15 MS. VICKERS: I think that's what we are
16 going to do, too. I totally agree.
17 MR. ADLER: But that's different from --
18 MS. VICKERS: I think maybe the
19 confusion is when you say we are going to get
20 a list of 75 companies and we are going to go
21 through each one --
22 MR. ADLER: That's what Dave said.
23 MS. VICKERS: Just hold on. Hold on.
24 There is going to be some kind of grouping in
25 the report; you know, red, orange, green, or

1 Proceedings
2 kind of whatever it is. So I think we need to
3 kind of iterate this: When we see the report,
4 it's -- I am hoping that it's going to be
5 something like, okay, you know, there is a
6 whole lot of yellows and, you know, it seems
7 that the predominant reason to be yellow is,
8 you know, some kind of governance thing that
9 didn't result in the killing of hundreds of
10 thousands of people so, okay, at this point
11 maybe yellow is okay; let's concentrate on the
12 greens and the blues or whatever it is. But I
13 think we need to -- and we can -- and we can
14 sort of determine how that conversation will
15 go at the time and we can codify it, if that's
16 that makes you feel better.
17 MR. ADLER: I think that should be part
18 of our policy.
19 MS. VICKERS: I don't think we can
20 codify it at this point until we go through
21 this process once. Because we are getting not
22 just a random list of 75 companies. We will
23 be getting a list of companies with a lot of
24 detail and information associated with them
25 with different ways of sorting and ranking

1 Proceedings
2 them. So I think we need to go through that
3 and understand what we are getting, while at
4 the same time agreeing to some kind of process
5 of how to deal with the worst of the worst,
6 the less worse, and I don't think anybody is
7 going to have the appetite to go through one
8 by one.
9 MR. KAZANSKY: Yes, I apologize for
10 saying company by company. It's not my
11 intention.
12 MR. ADLER: Yes, I didn't think so.
13 MS. BUDZIK: I would just point out: We
14 did -- it's even acknowledged in the policy;
15 it's in the policy. It's really the last
16 sentence, "Will be reviewed no later than and
17 we have 18 to 24 months." Natalie pointed out
18 it's going to be 12 to 18 months, but the idea
19 is that we need to go through this a few times
20 before you might develop criteria.
21 MS. PELLISH: And it may be -- can I
22 just say one thing, which I think is
23 important. It may be as a result of the first
24 review that it becomes clear to everyone that
25 there are readily available criteria or

1 Proceedings
2 thresholds that we can apply to companies
3 which are disappointing, but not actionable
4 companies which should be on a watch list and
5 companies which should be moved into the
6 divestment and exclusion policy framework. I
7 do think it would be very hard and it's not --
8 you can't.
9 MR. ADLER: What you just said gives me
10 much more comfort than what's on the page,
11 much more comfort. So I am not saying that's
12 the hard and fast criteria, but even the
13 creation of a criteria and what possible
14 outcomes could be give me much more comfort
15 than what's on the page here. So what I would
16 suggest, I appreciate this as a draft, that we
17 go back and rework it so that everybody at the
18 table is satisfied with it and then we review
19 it at our next meeting. And if you would like
20 me to take a crack at that, I will. But I
21 don't necessarily want to assume that
22 responsibility myself if that's not the role.
23 MS. PELLISH: But let me ask you: Would
24 adding language -- and I don't even know if
25 this is acceptable to others on the board, but

1 Proceedings
2 would adding language to the effect of it is
3 the expectation that criteria will be
4 developed which will allow the board to
5 appropriately -- which will allow the board to
6 frame the decision so that there will be
7 threshold criteria for companies which will be
8 watched and companies that may be moved into
9 the framework of the divestment and exclusion
10 policy?
11 MR. ADLER: And engagement?
12 MS. PELLISH: Yes, okay.
13 MR. KAZANSKY: Well, that's part of the
14 divestment.
15 MS. PELLISH: That's part of the
16 divestment and exclusion policy, calls for
17 engagement. Does that cover the spirit?
18 MR. ADLER: I think it does. So if you
19 want to work on some language like that, I
20 guess what I would ask is that we take a look
21 at this, you know, revise language, and take a
22 look at it with a little bit more notice the
23 weekend before the next meeting so we can
24 really take a look at it. And maybe everybody
25 else --

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2 MS. PELLISH: So do you have any
3 anything to contribute, Valerie, prior just so
4 we can flesh that out?
5 MS. BUDZIK: I mean, I would say some of
6 this just points out that it's a challenging
7 area to get in to start.
8 MS. PELLISH: Because it's fundamentally
9 subjective. We say we are providing objective
10 data, but at the end of the day what is
11 objectionable to you may not be objectionable.
12 You know, it's a very subjective decision.
13 MR. ADLER: I get that. But I feel like
14 that's why we want to set criteria based on
15 the data that we receive and not based on
16 individual board members reaction to oh, man,
17 this guy, this company poisoned these people
18 with lead, I think lead is the worst, I grew
19 up in a lead park. That's not what we want.
20 That's why I think developing criteria around
21 the categorization the vendors provide us is
22 the way to go and then we may review that as
23 time goes on.
24 MS. PELLISH: I agree with that, because
25 we are not going to go through 75 company

1 Proceedings
2 descriptions. I think the only point where
3 there is disagreement is whether we can define
4 those thresholds today in this policy.
5 MR. ADLER: I don't think we need to
6 define the threshold in the policy, but I want
7 a lot more language in there that says that's
8 what is going to happen and that the board
9 will define actionable -- will define criteria
10 for actionable thresholds that you need to.
11 MS. PELLISH: And I think by definition
12 that will have to happen, so I don't have any
13 problem putting that in the policy.
14 MR. ADLER: Just one other question,
15 which is: What about the index?
16 MS. PELLISH: Well, that -- so we should
17 talk about that. In the language here, we
18 anticipate -- we look at -- if you look at
19 Step 2 at the annual process, we are applying
20 it to both active and passive manager
21 holdings. So...
22 MR. ADLER: Presumably passive holds,
23 everything in the index?
24 MS. PELLISH: Yes.
25 MR. ADLER: So when we say a company

1 Proceedings
2 that we own presumably if we are just looking
3 at the emerging markets universe that we are
4 going to own everything in the emerging
5 markets universe. So the question is: It's
6 one thing for an active manager where they
7 have a belief in a company that we find the
8 criteria is objectionable in some way, but we
9 are going to own every company so what happens
10 where those -- you know, the real question I
11 had is, you know: Is there a mechanism for or
12 we just say this is what the divestment and
13 exclusion policy results in a mechanism for
14 dealing with companies that we don't hold
15 through the index, not through an active
16 manager and that's where you say -- in other
17 words, you know what I am saying.
18 MS. PELLISH: Well, I think your
19 question is: Would we get input from the
20 index manager? We are not going to get -- so
21 I think that extra step is not taken and we
22 simply move forward. And there is that
23 complication that, you know, if we divest a
24 lot from -- if there are sufficient
25 divestments from the passive pool or strategy,

1 Proceedings
2 we are going to have to consider whether we
3 want to modify the benchmark and we may. You
4 know, so that's not important enough to
5 include in this policy at all, but that's just
6 a fact.
7 MR. ADLER: Right. I mean, I will just
8 point out there was one company on the list
9 that was provided by the vendors that appeared
10 on both lists that is, you know, a sizeable
11 part of the benchmark. So that could
12 potentially have an impact.
13 MS. PELLISH: And I am sure that will be
14 part of the decision-making criteria that the
15 board will use when going through -- if it
16 ever gets to the divestment and exclusion
17 policy.
18 MS. BUDZIK: I would point out there are
19 other large pensions that care deeply about
20 ESG issues that don't apply any divestment to
21 indices, basically. They exclude indices from
22 any divestment.
23 MR. LEVINE: A good number of them do.
24 MS. BUDZIK: So that's an important
25 fiduciary conversation for the board to have.

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2 It's a big deal and it warrants discussion.
3 MR. ADLER: This board has always taken
4 a -- let me just say a universal view that if
5 we believe a company -- that we should not be
6 investing in a company; we apply that belief.
7 Whether it's passive or active; that's always
8 been the position of this board. It's true on
9 guns, it's true on coal, it's true on private
10 prisons. You know, and any other area that we
11 have from which we have divested, it was
12 always true when we had the country exclusions
13 on emerging markets as well. So to take a
14 different position would be a departure. Not
15 to say we shouldn't consider it; it would just
16 be a departure.
17 MS. BUDZIK: But an important issue that
18 the board would need to consider?
19 MR. ADLER: Understood.
20 MR. KAZANSKY: So if I understand
21 correctly, there will be some reworking to the
22 policy to be brought back to the board at a
23 later date?
24 MS. PELLISH: To be next month and
25 circulated well in advance.

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2 MR. KAZANSKY: Right. And circulated
3 well in advance for comments and suggestions?
4 MS. PELLISH: Yes.
5 MR. KAZANSKY: Okay, that looks like
6 that's everything on our public agenda.
7 Do I hear a motion to move into
8 executive session?
9 MR. BROWN: I move pursuant to Public
10 Officers Law Section 105 to go into executive
11 session.
12 MR. KAZANSKY: Is there a second?
13 MS. VICKERS: Second.
14 MR. KAZANSKY: Discussion?
15 All in favor? Aye.
16 MR. BROWN: Aye.
17 MR. BUCKLEY: Aye.
18 MR. ADLER: Aye.
19 MS. GREEN-GILES: Aye.
20 MR. KAZANSKY: Any opposed? Okay,
21 motion carries.
22 We are moving into executive session.
23 (Recess taken.)
24 MR. KAZANSKY: Fantastic.
25 Do I hear a motion to move out of

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2 executive session?

3 MS. VICKERS: So moved.

4 MR. KAZANSKY: Second.

5 MR. BROWN: Second.

6 MR. KAZANSKY: All in favor? Aye.

7 MR. BROWN: Aye.

8 MR. BUCKLEY: Aye.

9 MR. ADLER: Aye.

10 MS. GREEN-GILES: Aye.

11 MR. KAZANSKY: Any opposed? Okay,

12 motion passes.

13 Okay, we are back in public session.

14 Susan, can you please report out?

15 MS. STANG: Certainly.

16 In executive session a contract matter

17 was discussed and an update on several

18 transitions was provided, there was a

19 discussion of a procurement issue, and a

20 manager update was provided.

21 MR. KAZANSKY: Thank you.

22 Is there any other business before a

23 motion to adjourn?

24 MR. ADLER: Motion to adjourn.

25 MR. KAZANSKY: Do I have a second?

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2 MS. GREEN-GILES: Second.

3 MR. KAZANSKY: Any discussion? No,

4 good.

5 All in favor? Aye.

6 MR. BROWN: Aye.

7 MR. BUCKLEY: Aye.

8 MR. ADLER: Aye.

9 MS. GREEN-GILES: Aye.

10 MR. KAZANSKY: Any opposed? We are

11 adjourned.

12 MR. ADLER: Good job to the acting

13 chair.

14 [Time noted: 12:53 p.m.]

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2 C E R T I F I C A T E

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4 : ss.

5 COUNTY OF QUEENS)

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7 I, YAFFA KAPLAN, a Notary Public

8 within and for the State of New York, do

9 hereby certify that the foregoing record of

10 proceedings is a full and correct

11 transcript of the stenographic notes taken

12 by me therein.

13 IN WITNESS WHEREOF, I have hereunto

14 set my hand this 19th day of November,

15 2019.

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17 ______________________

18 YAFFA KAPLAN

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