

1 TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

2

3 INVESTMENT MEETING

4

5

6 Thursday, November 7, 2024

7 10:10 a.m.

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9 Teachers' Retirement System of NYC

10 55 Water Street, 16th Floor

11 New York, New York 10041

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23 William Montague

 Digital Reporter

24 Notary Commission No. 01MO0009174

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1 MEGHAN MUNCHOFF, 400 CAPITAL MANAGEMENT
2 NORA GRANVILLE, 400 CAPITAL MANAGEMENT
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4 JACK NEUMARK, FORTRESS CREDIT OPPORTUNITIES
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1 (The proceedings commenced at 10:10 a.m.)

2 MR. MCTIGUE: Good morning, Board Members.

3 Welcome to the Investment Meeting of the Teachers'

4 Retirement Board for November 7th, 2024.

5 I'll take a roll call.

6 Bryan Berge?

7 MR. BERGE: Bryan Berge representing Mayor

8 Eric Adams. Present.

9 MR. MCTIGUE: Thomas Brown?

10 CHAIRMAN BROWN: Good morning, Thad, Present.

11 MR. MCTIGUE: Anthony Giordano?

12 John Dorsa?

13 MR. DORSA: John Dorsa, designee for

14 Comptroller Brad Lander. Present.

15 MR. MCTIGUE: Victoria Lee?

16 MS. LEE: Good morning, Thad. Present.

17 MR. MCTIGUE: Christina McGrath?

18 MS. MCGRATH: Good morning, Thad. Present.

19 MR. MCTIGUE: Mr. Chair, we have a quorum.

20 CHAIRMAN BROWN: Thank you, Thad.

21 Good morning, everybody. And we're going to

22 start off with Public Agenda, Passport Funds.

23 Goldman Sachs, take it away.

24 MS. JANUSZ: Thanks, Tom. Gina, if you're on

25 the Zoom, are you able to pull up our September flash?

1 MS. TARANTINO: Yes, can you see it?

2 MS. JANUSZ: Yeah, thank you.

3 So September already feels like it was ages
4 ago, but the first quarter of the fiscal year was a
5 eventful quarter. We saw, certainly, a spike in
6 volatility mid-quarter, as there has a bit of noise
7 around jobs report and in anticipation of Fed activity.

8 We ultimately see the Fed, in September, lower
9 rates for the first time since March of 2020, and lower
10 those rates by 50 basis points, which was a positive
11 signal to the markets that the Fed was going to stick
12 their word about being serious about starting their
13 process of lowering rates. And so markets did respond
14 positively.

15 So over the three months, ending September,
16 you were in positive territory across the Passport
17 Funds. Mid-single digits in terms of return. If you
18 look at the Diversified Equity Fund at the top of the
19 page, up 6, 6 -- a little over 6 percent for the three
20 months ended September, and certainly very strong
21 numbers looking out at your year to date and one year
22 where you're in double digit territory for the
23 Diversified Equity Fund.

24 We've seen a little bit of underperformance
25 from your active management sleeve, particularly in the

1 US. It's been certainly a challenging environment for
2 your active managers. We've had very, very narrow
3 market leadership, as you all are aware. So any of your
4 active managers that are underweight specifically the
5 Magnificent Seven stocks or for whoever don't hold one
6 of those stocks, had a real headwind in keeping up with
7 the benchmarks of late.

8 So overall, your international equity options
9 had the strongest results over the quarter, right around
10 7 percent, but across the board positive results, and
11 certainly for the month of September everything was in
12 kind of that 1 to 2-and-a-half percent range. So
13 modestly positive results across the Variable Funds for
14 the month. And we ended September with around \$21.5
15 billion across the Variable Funds and 19-and-a-half of
16 that sits in the Diversified Equity option.

17 CHAIRMAN BROWN: Thank you, Amanda.

18 Any questions? Great. We go to the October
19 2024.

20 MS. JANUSZ: Do you want to do October?

21 Okay. So for the month of October, we saw a
22 little bit more mixed results. So certainly, going down
23 the page here, negative, although very modestly
24 negative, results for some of your US equity benchmarks,
25 slightly more negative for the international indices,

1 down around 4-and-a-half, close to 5 percent for the
2 month of October.

3 Again, a lot of anticipation here around what
4 would be the results of the US election and anticipation
5 of additional Fed activity for the remainder of the
6 year.

7 We do have another FOMC meeting later today,
8 expectation to see another 25 basis point cut from the
9 Fed today, and likely another 25 basis point reduction
10 in the remaining December meeting later this year.

11 But for the month of October, certainly
12 negative but not dramatically so.

13 CHAIRMAN BROWN: Thank you, Amanda.

14 Any questions? Great. Moving on to the
15 Market Commentary. Steve?

16 MR. MEIER: Thank you, Mr. Chair. We've got a
17 few new slides to go through today, just -- I'll be very
18 brief.

19 Kate, if you could pull those up, please.
20 Excellent. Terrific. Next slide please, Kate.

21 Just a quick snapshot of what's going on in
22 the economy. I'm echoing what Amanda has already talked
23 about, but real quick, we put together just a couple of
24 slides as an economic update and then a market update.

25 You can see on the upper left-hand side, real

1 GDP, meaning adjusted for inflation for the third
2 quarter came in early estimate at 2.8 percent, down a
3 little bit, but still fairly robust.

4 You can see, throughout the world, we've had
5 different pockets of strength. China has got a 5
6 percent target. They came in below that target at 4.6,
7 the UK just under 1 percent, and I think the bigger
8 problem for Europe right now is Germany at the bottom,
9 delivering, again, a second quarter of negative GDP
10 growth.

11 In terms of inflation, right below that, you
12 can see USCPI has moved down nicely. It's at 2.4
13 percent. Remember, that measure peaked in June of 2022
14 at 9.1 percent. So it's been a nice ride down
15 associated with the Fed's tightening policy and
16 certainly having great effect.

17 Below that, you can see the unemployment rate
18 is just 4.1 percent, pretty much where it was expected
19 to come in. Last Friday, November 1st, we had non-farm
20 payroll numbers for the month of October. We were
21 expected to come in around 100,000 jobs created. It
22 actually only came in 12,000 due to a couple things.
23 There were two, obviously, hurricanes in the month of
24 October as well as the Boeing strike, which weighed on
25 those outcomes.

1 On the upper right-hand side, you can see from
2 a rates perspective, US Fed Fund rates right now are 5
3 percent, again reflecting that September 18th rate cut
4 of 50 basis points that Amanda talked about earlier. We
5 do have another Fed meeting today, and at two o'clock,
6 the Fed is widely expected to cut another 25 basis
7 points.

8 We also had a reduction in the Bank of
9 England's official rates as well today, where they cut
10 25 basis points to 475.

11 And on the bottom of that page, you can get a
12 look at just where spreads are, credit spreads. It's a
13 fancy way of saying that OAS, that option adjusted
14 spread, for investment grade, at the bottom, you can see
15 about 80 basis points of spreads, and for high yield
16 bonds, a little over 280 basis points above comparable
17 US Treasuries.

18 On the next slide, just a quick look at where
19 we are calendar year to date for equities on the left,
20 you can see that it's a lot, mostly green in that slide,
21 certainly focused on the S&P 500, which is a fairly
22 broad measure of US equities, up fully 21 percent for
23 the year.

24 And down the line, you can see Europe for the
25 most part almost all green, and Asia-Pac as well with

1 the Hang Seng up 21 percent, the NIKKEI, in Japan, up 17
2 percent, local dollar terms, local currency terms, I
3 should say, but the US dollar terms, just 7.8 percent.

4 On the right-hand side, just to look at where
5 bonds are. Bonds have had a little bit more volatility
6 both here and abroad. The top line where it says,
7 "United States," you can see the yield as of yesterday.

8 Yesterday, after we had the results of the
9 election and President-elect Trump coming in, yields
10 backed up significantly on concerns of increased deficit
11 spending and potential pressures and the widening of the
12 term premium. And you can see the 10-year US Treasuries
13 wide now to 4.43 percent yield, meaning prices were
14 lower.

15 Year to date, on the far right-hand side in
16 white, you can see 55 basis points above where it
17 started the year, and on down the line, you can see, as
18 the general matter, in mostly all the developed
19 economies, interest rates are higher.

20 On the next slide, actually a look at your
21 portfolio returns. These are audited financials through
22 September 30th, again, with the alternatives being
23 reported with a one quarter delay, the mark to markets,
24 I should say. But you can see here, a good look at your
25 portfolio.

1 For the month of September, again ending
2 September 30th, pretty much green -- well, it's black
3 here, but pretty much green across the board, delivering
4 for your plan a 1.7 percent return. For the quarter,
5 for the first fiscal -- for the first quarter fiscal
6 year 2025, fully a 5.3 percent return.

7 Most importantly, again, as we look out
8 further on the horizon to the right, 10-year returns for
9 your plan on average 7.4 percent. And obviously, you've
10 seen strong performance with private equity, the highest
11 returning on average over the course of 10 years at 13.9
12 percent, followed closely by public equities of 12.8
13 percent, again, over that 10-year horizon. Those are
14 typically not to be expect -- returns you'd expect to
15 see over a long-term horizon.

16 And that's it. If there are any questions, as
17 I said, remember the performance for September was
18 really driven by that Fed 50 basis point rate cut on
19 September 18th, as Amanda talked about earlier, and I'll
20 see -- we'll see an Executive Session. October was a
21 different story with much more volatility and a general
22 reduction in pricing across public markets.

23 MR. DORSA: I have --

24 CHAIRMAN BROWN: Sure.

25 MR. DORSA: Yeah, I just have one thing. On

1 the first line, if you could go up one font size, maybe
2 two --

3 MR. MEIER: Okay.

4 MR. DORSA: -- because I don't know about
5 anybody else, but it was kind of hard to see on the
6 screen. With my advancing years, it was even more
7 challenging.

8 MR. MEIER: Okay, take that under advisement.

9 MR. DORSA: Thank you.

10 MR. MEIER: Thanks.

11 Any other questions?

12 CHAIRMAN BROWN: Questions for Steve? Thank
13 you.

14 Can we go to the new cover memo?

15 MR. DORSA: So I think everybody knows Donald
16 De Rosa from the Director of the Trustee --

17 MR. MCTIGUE: Sorry. Can you speak from the
18 podium?

19 MR. DORSA: Sure.

20 MR. MCTIGUE: That would be great. Thank you,
21 John.

22 MR. DE ROSA: We've got to be more serious
23 now, right?

24 Good morning, everyone. I just want to spend
25 a minute talking about something that we've been working

1 on the last couple of months as a team that we are
2 planning to move forward in December. I'll preface
3 that, with today's meeting, this is just a draft
4 document, there's no proprietary information or notes,
5 so we are doing it in Public Session, but December,
6 moving forward, of course, this will be a privileged
7 document that we'll be using that, in that sense, is
8 going to help us flow through the meeting, too.

9 So I'll take a step back. As part of the STAR
10 report, one of the many things that McKinsey heard from
11 trustees was that BAM, of course, provides you all with
12 a large amount of documents that are very dense, to say
13 the least, and we want to be cognizant that this is not
14 your day job, and we understand that, when we have many
15 deals, especially like today, it's a hundred-plus pages
16 worth of information that we, of course, would like you
17 to read, but understand that there are limitations on
18 that.

19 And for those who attended BAM University, we
20 gave a little bit of a preview to this as well as those
21 who looked through the slides. But what we came up with
22 was this cover memo that is not going to replace any of
23 the documents that we are giving to you but is a
24 supplement to what we gave to you.

25 And it is really just a run through and an

1 abbreviated version of these materials that is going to
2 pull out the most important information that we feel you
3 need to make these decisions. And while we, of course,
4 encourage you to read through the documents, this is
5 going to what we think be a very helpful tool to pull
6 out, in a couple of pages, the most important
7 information.

8 So I want to run through this very quickly.
9 If you just want to look at the screen, the first
10 section is just the agenda and what we're running
11 through on a monthly basis. But the important
12 information that is pulled out that we feel is really
13 important for you is, of course, the item itself, the
14 applicable materials, which consists of BAM documents,
15 as well as consultant materials and presentations as
16 well as the presenters themselves, both from BAM as well
17 as managers, so that you know who is speaking to you,
18 and then lastly, the action required, which, from a
19 trustee perspective, it can be advisory, it could also
20 be a vote that you have to take of course.

21 And then moving on to portfolio top lines,
22 which, of course, Steve just did a Public Session, this
23 one will be geared more towards Executive, but it pulls
24 out some of what we already do, but it expands on it a
25 little bit to also include AUM and a new way of viewing

1 portfolio under and overweights previously, and you'll
2 actually see this under/overweights in today's Executive
3 presentation as well, but instead of a chart with a lot
4 of numbers, we felt that this was much more visually
5 appealing and really gets to the point that we are
6 trying to make about performance.

7 The third section, which is really the nuts
8 and bolts of this memo, is investment recommendations.
9 And this is, in essence, pulling out and consolidating
10 the reports that you are getting regarding investment
11 recommendations in the BAM memos. And as you can see
12 from here, we are going through a light background, the
13 highlights, the considerations, as well as key areas,
14 economics, overview, investment strategy, as well as
15 additional considerations that, if we feel needs to be
16 highlighted, we will of course pull that into this
17 report, but we refer you back to the more lengthy BAM
18 memo that you also get.

19 And the end of it really, the Trustee
20 decision, what our recommendation is, what the
21 consultant's recommendation is on moving forward with
22 this, and then a couple of last sections that are more
23 as needed, but we would love to move into, into the new
24 year, is more strategic topics, an overview of quarterly
25 reports, other updates, whether that be major staff

1 changes in BAM, highlights in BAM-o-grams that were sent
2 since the last meeting, as well as any major topics that
3 we might want to bring up at the next meeting.

4 So again, this is something that we are going
5 to start using in December, moving forward, and we
6 really think that it's going to be helpful from a
7 trustee perspective to really have in front of you this
8 important information to pull out as we are walking
9 through various recommendations.

10 Of course, I'm happy to take any questions,
11 but.

12 CHAIRMAN BROWN: Any questions for Donald?

13 MR. DE ROSA: Thanks.

14 CHAIRMAN BROWN: That wraps up our agenda for
15 Public Session. Do I hear a motion to go into Executive
16 Session?

17 MR. DORSA: So moved.

18 CHAIRMAN BROWN: And is there a second?

19 MS. LEE: Second.

20 CHAIRMAN BROWN: Great. Questions?
21 Discussion? All those in favor of going into Executive
22 Session, please say aye.

23 (Ayes were heard.)

24 CHAIRMAN BROWN: Those opposed, say nay?
25 Abstentions?

1 We're in Executive Session. Thank you. Liz
2 will let us know when we're ready.

3 (Exit Public Session; enter Executive
4 Session.)

5 (Exit Executive Session; enter Public
6 Session.)

7 CHAIRMAN BROWN: Thank you so much. We are
8 back in Public Session.

9 Welcome back, everybody, and we'll have a
10 readout from our own Priscilla Bailey. Thank you.

11 MS. BAILEY: Thank you, Chair. Thank you.

12 In the Executive Session of the Passport Fund,
13 there was no manager update.

14 In the Executive Session of the Pension Fund,
15 there was an update on preliminary performance. There
16 was no manager update.

17 There were two alternative credit
18 presentations. Consensus was reached on both.

19 There was a real estate presentation.
20 Consensus was reached.

21 There were two infrastructure presentations.
22 Consensus was reached on both.

23 There was a private equity secondary sale
24 presentation. Consensus was reached.

25 The Board tabled the discussion, the continued

1 discussion on the public equity developed XUS manager
2 search recommendation.

3 That being said -- that being said, details
4 will be made available at an appropriate time.

5 CHAIRMAN BROWN: Thank you, Priscilla,
6 appreciate it.

7 For the record, I thank the -- I thank our IT
8 person from TRS, Ricardo, and thanks to Ricardo, Will,
9 both have done a fantastic job. It's much appreciated.

10 And I think that concludes our agenda today.
11 Is there a motion to adjourn?

12 MR. DORSA: So moved.

13 CHAIRMAN BROWN: Is there a second?

14 MS. LEE: Second.

15 CHAIRMAN BROWN: Any discussion? All those in
16 favor of adjourning, please say aye?

17 (Ayes were heard.)

18 CHAIRMAN BROWN: Those opposed, say nay? Any
19 abstentions? We are adjourned. Thank you, everybody.
20 Appreciate it.

21 (The proceedings concluded at 2:12 p.m.)

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