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4 TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

5 Investment Meeting

6 Held on Thursday, February 6, 2020

7 At

8 55 Water Street, 16th Floor

9 New York, New York 10041

10 10:00 a.m.

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3 TEACHERS' RETIREMENT ATTENDEES:

4 John Adler

5 Thomas Brown

6 Natalie Green-Giles

7 Patricia Riley

8 David Kaczynski

9 Debra Penny

10 Russell Bucco

11 Susannah Vickers

12 Robin Pellish

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Proceedings

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3 DEBRA PENNY: Welcome to the Teachers'
4 Retirement System of the City of New York
5 Investment meeting. Today is February 6th,
6 2020. Patricia, will you call the roll,
7 please?

8 PATRICIA REILLY: John Adler?

9 JOHN ADLER: Yeah.

10 PATRICIA REILLY: Thomas Brown?

11 THOMAS BROWN: Here.

12 PATRICIA REILLY: Natalie Green-Giles?

13 NATALIE GREEN-GILES: Here.

14 PATRICIA REILLY: David Kaczynski?

15 DAVID KACZYNSKI: Present.

16 PATRICIA REILLY: Russell Bucco?

17 RUSSELL BUCCO: Here.

18 PATRICIA REILLY: Debra Penny?

19 DEBRA PENNY: Here.

20 PATRICIA REILLY: Susannah Vickers?

21 SUSANNAH VICKERS: Here.

22 PATRICIA REILLY: We have a quorum.

23 DEBRA PENNY: Thank you, Patricia.

24 So, we have a public agenda and just

25 for clarification we're going to have our

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2 public agenda meeting, we'll go into executive
3 session, and then when we go back into public
4 meeting, we're going to add an emergency
5 discussion of a budget item and a resolution
6 that will be added, Okay. Robin, ready to
7 start passport funds for December?

8 MICHAEL: Great. Good morning,
9 everyone --

10 DEBRA PENNY: -- Or Michael.

11 MICHAEL SAMET: We will briefly begin
12 with a quick recap of what the markets did in
13 December and how the Passport Funds perform.
14 Everyone should have that report handy.
15 At the end of December, you can see the assets
16 in the Diversified Equity Fund were about
17 \$16.2 billion and you will recall the
18 structure of this fund includes the US and non
19 US markets. As a reminder, the US Equity
20 market was up about 2.9% in December. So it's
21 a really strong month for US equities. That
22 brought the calendar returns just over 31% in
23 2019. So, it's a really strong market.
24 Abroad we saw similar numbers to the EPF three
25 markets developed non US. So in December,

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2 they were up about 3.3% and, again, quite a
3 strong one year number of over 20% for

4 developed markets and then in emerging markets
5 December was really notable month up over
6 seven and a half percent and for the calendar
7 year emerging markets up just shy of 20% So,
8 again, really strong environment. What did
9 that mean for the passport funds you can see
10 in December the Diversified Equity Fund was up
11 also a little over 3% outpacing the hybrid
12 benchmark by a few basis points. The calendar
13 year returned for the debt fund was up to
14 28.05% So, again, lagging the hybrid
15 benchmark by about 62 basis points for the
16 calendar year. The underlying components of
17 the Diversified Equity Fund, you can see the
18 defensive strategies composite last year was
19 up over 21% that was a little bit behind -- a
20 few percentage points behind its custom
21 benchmark. The actively managed composite
22 last year also generated returns of about
23 26.8% versus the Russell up 31 and the
24 international equity component of the
25 Diversified Equity Fund was up over 22% with

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2 22.8% return and that out cased the custom
3 benchmark there. The balanced month again
4 comprised of both global equities and fixed
5 income funds was up over just shy of 11% last
6 year with the 10.8% return and its benchmark
7 11.4% The International Equity Fund, which I
8 noted the composite of Diversified Equity Fund
9 interest by equity fund, this is a deal we
10 call, mirrored strategy that fund has an asset
11 of about \$184 million.

12 December, a strong month of over 4%
13 calendar year to date, return of 22.7%
14 Inflation Protection Fund, with \$75 million in
15 assets. Last year was up 10.6% versus it's
16 benchmark of 11.2 and the sustainable equity
17 fund of assets of about \$255 million last year
18 also returning about 24.3% versus the custom
19 benchmark, was up 33.3% Any questions on
20 December of 2019? We can review 2019 a little
21 bit more as well before we present the
22 quarterly report next?

23 MICHAEL: So, January, fast forwarding
24 ahead a little bit. January was a bit of a
25 more volatile month. You might actually

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2 recall that as recent as last Friday. The
3 markets sold off quite a bit. A lot of that
4 to do with headlines and concerns around the
5 coronavirus in China and spreading more

6 abroad. So, January was an -- ended up being
7 a negative month for equity markets across the
8 globe. The US was flat to negative by about
9 11 basis points, see the trend for the Russell
10 3000 index just below that the second line
11 item here the International composite
12 benchmark down about two and a half percent.
13 If you break that apart a little bit, and you
14 look a little bit toward the middle of the
15 page, you can see the EP index was down 2.1%
16 small caps were down with just over 3% and
17 emerging markets down about 4.7% If you look
18 at the defensive strategies benchmark you can
19 see during the month of January, rather than
20 protecting on the downside, they actually
21 outperformed. We expect a positive return of
22 about 1.3% for that composite.

23 What we saw in the US, a little bit
24 more notable, not so much notable that growth
25 outpaced value in January, which we had seen

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2 quite a bit for a while we've been talking
3 about, but low volatility stocks which make up
4 a good portion of that composite were -- did
5 especially well in the month of January.
6 So we'll see that trickle into the performance
7 of the Diversified Equity Fund. You can see
8 the Diversified Equity Funds hybrid benchmark
9 down about 45 basis points for the month of
10 January. Below that down toward the bottom of
11 the page you can see we've added a couple
12 additional data points. We added given the
13 launch of the two new passport funds on
14 January 1st, the underlying index funds for
15 the US equity index, and the international
16 equity index passport funds. I'll just
17 comment very briefly. The broad US fund was
18 down in line with the US markets. It got 13
19 basis points and the International equity
20 index down about 3.3% If -- maybe I'll just
21 comment very briefly because we have seen some
22 volatility. I commented about Friday being a
23 particularly negative day in the market. This
24 week we've seen actually a very strong few
25 days for equities especially here in the US.

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2 In fact, the S&P just had -- we're in the
3 middle of the strongest week the S&P has had
4 in eight months. So again, the day-by-day
5 everything seems to be quite different, quite
6 a bit of volatility, but all told the market
7 continues to come along.

8 DEBRA PENNY: So, we're ready for the
9 discussion of Strategic Asset Allocation.
10 ROBIN PELLISH: So, this is a
11 continuation of a discussion we're having with
12 the Board at the last several investment
13 meetings and specifically, at the January
14 meeting. We presented asset allocation that
15 included capital market assumptions, as well
16 as assumptions that reflect more consensus
17 based views at public equity markets.
18 Specifically, what we did was we
19 received from BAM, the average of all the
20 consultants for the New York City retirement
21 systems excluding Rocaton and we ran analysis
22 using those assumptions as well as Rocaton
23 assumptions which particularly the US equity
24 are less optimistic.
25 The court's response following a discussion
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2 was to request that both Rocaton and BAM
3 develop some alternative portfolio mixes that
4 would represent interim steps between the
5 current target allocation and the -- and the
6 initial recommended which that we presented,
7 which calls for a reduction of US equities in
8 aggregate of about six and a half percentage
9 points.
10 So, what we have on Slide 3 is the
11 result of that work that BAM and Rocaton
12 collaborated on and my colleague Joe Natrog,
13 who is a bit of an asset here, at Rocaton, is
14 here to answer any questions you might have on
15 this, but let me just describe what we
16 included on Slide 3.
17 So, on slide 3, we have five columns.
18 The current policy targets are the far left.
19 You're familiar with those, you've seen those
20 before the initial recommended policy targets
21 are the far right. That was what -- that was
22 what was discussed in the January 6th
23 investment meeting. In between the current
24 policy targets and the initial recommended
25 policy targets are three alternatives that --
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2 that are sort of a step function. I take they
3 step from the current policy target, and
4 reduce US equity by increments of about two
5 percentage points until we get to the original
6 initial recommended policy targets.
7 So, we have five different mixes on
8 Slide 3. Let me tell you what's at the bottom
9 of the Slide 3. At the bottom of Slide 3,

10 what we show are expected compound returns
11 over the next 5,10, and 30 years for each one
12 of these mixes. As well as the expected risk
13 by each standard deviation.

14 For each one of these portfolio mixes,
15 we develop expected risk and return over these
16 two different time periods using both the
17 original Rocaton assumption. Those are the
18 assumptions that include a relatively modest
19 expected return for US equities and then we
20 use what we call the adjusted expectations,
21 which reflect the consensus of the Non-Rocaton
22 consultants for the New York City Retirement
23 System -- and so, as you as you would expect,
24 in each case, the adjusted returns looking
25 forward for these different portfolio mixes

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2 are slightly higher than the Rocaton expected
3 return. And in some cases, they are pretty
4 materially higher at a total portfolio level
5 of about 100 basis points.
6 So, let me also note that in each case we have
7 added a statistic which is a contribution to
8 the Basket Clause. You see that line under
9 the total portfolio allocation? And just
10 remind everyone that this is a pretty
11 significant constraint that we have to operate
12 within, which limits the extent to which we
13 can reallocate US equity assets.

14 DEBRA PENNY: So, Mike, is there
15 anything you'd like to add?

16 MIKE HADDAD: No, I think you summed it
17 up well. You covered most of the content
18 that's on this slide.

19 DAVID KACZYNSKI: One thing that I'll
20 just highlight, which is certainly implicit in
21 the recommendation we're making, but I'll call
22 it out specifically, that is the Sharpe Ratio.
23 We have on this page as well, which is a
24 measure -- one measure, that's not only one
25 measure of risk adjusted. It's the return

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2 measured divided by the risk. It's a way to
3 see how much risk we're taking for that return
4 we expect to get from that portfolio, and the
5 risk that we're taking to get that return.
6 For all the recommended, the alternative we're
7 looking is an improvement in that Sharpe
8 ratio, higher is better. So we're improving
9 the Sharpe ratio relative to where we are
10 today with the current target. That's
11 inherent in what we're recommending

12 essentially except for trying to do as much as
13 possible as investors trying to tilt the
14 portfolio to improve risk adjusted return.
15 We're always taking risks as investors, but in
16 this case we're trying to most intelligently,
17 given the market conditions -- take risks and
18 that would be true either -- with if it's less
19 improvement, but still some improvement would
20 be the adjustors sections.

21 ROBIN PELLISH: So just to remind
22 everyone the theme of all of these portfolio
23 mixes is one of reducing risks taken in Global
24 Equity Market, Public Equity Markets, but most
25 notably in the US Equity Market and these are
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2 as is always the case, not sweeping changes,
3 but we're charged with the task of looking at
4 both current market conditions, and long-term
5 expectations, and recognizing that while we're
6 not trying and could not, in fact, not be
7 tactical investors with a portfolio of this
8 size. We are trying to make prudent
9 recommendations in light of current market
10 conditions, which for equity markets, we think
11 calls and in particular for the US equity
12 market -- we think calls for a reduction in
13 the level of risk taken in that asset class.
14 In all portfolios, we see a reduction in US
15 equities and an increase in investment rates
16 fixed income and that continues to be the
17 joint recommendation of Rocaton and BAM, that
18 the board considers reducing exposure to US
19 equities and increasing exposure to investment
20 grade fixed income in a moderate -- to a
21 moderate degree.

22 We are comfortable with all of these
23 portfolios because they can move us in that
24 direction of reducing risk exposure in a -- in
25 a modest way, but in an important way because
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2 anytime we take action with regard to this
3 portfolio we're moving billions of dollars --
4 Yes?

5 SUSANNAH VICKERS: Can you remind me,
6 does anything investment grade, fixed income
7 go in the basket? It's all basket grade?

8 ROBIN PELLISH: Yes. Your modest
9 changes to other asset classes. Whether it
10 opportunistic, fixed income, or high yields.
11 The meaningful change, is again, reduction in
12 US equity and increase in investments --

13 MIKE HADDAD: And install the largest,

14 by far and in a way, the largest allocation in
15 the portfolio. So, this is where --
16 ROBIN PELLISH: -- US Equity --
17 MIKE HADDAD: -- where US Equity, we're
18 diversifying the portfolio by moving some
19 money out of the largest line item and into
20 other asset classes. So, it's still a
21 significant amount of capital allocated to US
22 Equity and risks. In return, we expect to
23 generate US Equity, but we think that at this
24 point in the market cycle, given market
25 conditions it's prudent they diversify into

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2 other asset classes to try to find other ways
3 to generate return and manage portfolio risks.
4 DAVID KACZYNSKI: And I would like to
5 add, are we meeting the objectives that Robin
6 laid out? Are we in light of the current
7 market and I think you can see that
8 quantitatively if you take your eyes to the
9 results of the current policy, the first
10 column, so that your actual portfolio today
11 and running that through the current capital
12 markets assumptions, both Rocaton discreetly
13 as well as the other four, and you look at the
14 expected risk and expected Sharpe ratio in the
15 first column, and compare that to any of those
16 portfolios, you are seeing both a reduction in
17 expected risk and an increasing expected
18 Sharpe ratio, without a whole lot of
19 degradation of expected return. And then I
20 think that's where we both get comfortable
21 with either of these portfolios -- any of
22 these options. We have a lien towards one but
23 it's kind of accomplishes the major goals.
24 What I think is important to the decision
25 making.

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2 THE COURT REPORTER: Can I have your
3 name, please?
4 MIKE HADDAD: Mike Haddad, H-A-D-D-A-D.
5 THE REPORTER: Okay, thanks.
6 DEBRA PENNY: So, Mike and Robin, so if
7 we went -- no one has a crystal ball and we
8 certainly don't know what's going to happen.
9 But if we chose something that's moderate like
10 the Alternative 2, we're still meeting what we
11 wanted to accomplish. We're still reducing
12 the risk yet, Is that fair?
13 MIKE HADDAD: In my humble opinion,
14 yes. You're reducing risk, you're saying --
15 you are taking -- There's some movements going

16 around, you can do the simple math around
17 there, but you're still -- you're still
18 have -- what is it -- 44% of your portfolio in
19 US and public equities and then, you know,
20 just a simple add on, I look at all equities.
21 I'd throw private equities into that category.
22 And an option Alternative 2, that sounds like
23 the 50.7. How does that compare to where you
24 sit today? That's -- that's -- that's 56%
25 So, there is a reduction and that's the

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2 riskiest part of your portfolio. So there is
3 some of that risk reduction going on.

4 JOHN ADLER: And Alternative 2, looks
5 like -- at least statistically, better
6 compound return numbers than the others and
7 better Sharpe Ratios across the board.

8 MIKE HADDAD: Yes, that's true,
9 modestly --

10 JOHN ADLER: -- yeah, of course.

11 ROBIN PELLISH: This is all about
12 modest moves.

13 JOHN ADLER: I have quick a question.
14 I -- I also find Alternative 2 appealing, but
15 I want to ask about Alternative 1, 'cause I --
16 I think they'd be clear to both to have done
17 that. I feel -- I understand they need to
18 de-risk into lessen the public equity exposure
19 but I don't want to go overboard, whatever
20 that means.

21 So, on Alternative 1, I have a
22 question, which is -- and I don't have your
23 capital markets essentially in front of me but
24 I assume you guys do, which is the decision to
25 increase high yield and lower OFI and as I

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2 recall, OFI has substantially better Sharpe
3 ratio than on bill 2 --

4 MIKE D: I'm not sure if that's true or
5 not, show me where that is?

6 JOHN ADLER: And since there's so much
7 room under the basket in Alternative 1, I'm
8 wondering why we wouldn't keep high yield
9 either and keep -- and at least put another
10 percentage into a OFI -- no OFI, is allocated
11 at five, but we don't have the actual
12 investment It isn't even close to five, I
13 think it's less than three, if I'm not
14 mistaken.

15 MIKE HADDAD: It's in the mid to high
16 three's.

17 JOHN ADLER: It is? Okay.

18 MIKE HADDAD: There is so money that is
19 been allocated but not called. So when you're
20 doing the actual allocation numbers that you
21 see, don't show that you're on the an actual
22 call there.

23 JOHN ADLER: But then if that's the
24 case, then reducing it to three would require
25 us to actually clear back the portfolio,

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2 whereas if we -- again, I don't -- I don't
3 know what it would have effectively have. You
4 know, all of these are fairly close as David
5 just pointed out. In terms of Sharpe ratio
6 and expected return, but I'm just curious as
7 to why not keep the high yield where it is
8 and, you know, allow for some further growth
9 in our final test. Does it -- Am I right it
10 has better Sharpe ratio?

11 MIKE HADDAD: It does not just because
12 of -- probably better. Yes, we model this
13 high yield plus 3% which was, you know,
14 certainly the objective for high yield, but
15 also, you know, the expected return premium --

16 JOHN ADLER: -- yeah --

17 MIKE HADDAD: -- so, the ball is the
18 same. We recognize that these are technically
19 in vehicles are more illiquidity. So, you'd
20 expect a premium, but that's that's really,
21 you know, it's how much do you believe in that
22 --

23 JOHN ADLER: -- and the correlations
24 are also similar --

25 MIKE HADDAD: -- the correlations are

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2 similar, yeah.

3 JOHN ADLER: Yeah. So, then what would
4 be the rationale towards reducing --
5 increasing high yield?

6 MIKE HADDAD: Well, I mean I think
7 that's a fair point and I think if you look at
8 the -- if you were to increase or buy the
9 expensive high yield in Alternative 1, that's
10 the question with a suggestion. It would
11 improve this operation. It would. Yeah,
12 that's fair. Fair, because correlations
13 actually -- because it models high yield plus
14 three correlations, with all ratios and
15 classes are identical. Volatility is
16 identical. It's just we're getting 3% more.
17 Sometimes when we run these for your
18 portfolio, or if I gets crowded out because of
19 the basket, but that's not the case *00:22:50

20 not the case for one --
21 DAVID KACZYNSKI: I'm just going to add
22 that it's the basket, really, that's driving
23 the difference between, you know, where you
24 see a three and a five is how we're allocating
25 basket assets because 95% of high yield -- I'm

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2 sorry, high yields is assumed to be the
3 basket --

4 ROBIN PELLISH: -- but we have to pass
5 the basket -- yeah --

6 DAVID KACZYNSKI: -- Yes, alternative
7 1 --

8 MIKE HADDAD: -- you could -- actually,
9 you could have Alternative 1 or prime A
10 whatever you want to call it, which would --
11 which would take my high yields --

12 SUSANNAH VICKERS: Isn't that
13 Alternative 2?

14 ROBIN PELLISH: Yeah, it's yes. So, we
15 know Alternative 2, we accomplish that but at
16 the same time, the real question is, where do
17 you want to take US Equity down to? That's
18 really the question.

19 JOHN ADLER: Right. And I -- I would
20 be more comfortable with the smaller
21 production in the total equity from 50 or 46
22 then from 50 or 44. And -- and from a risk
23 perspective, it seems to me that if we did
24 that little switch, I guess that's what it is.
25 The Sharpe ratio would be pretty close. I

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2 mean, pretty close now.

3 SUSANNAH VICKERS: Can I ask John a
4 question? Just when you said that you would
5 feel more comfortable going down to 46 rather
6 than 44, what do you fix that on?

7 JOHN ADLER: So look, I understand that
8 this is Rocaton view, and BAM view.
9 Especially, it looks like it has not performed
10 as well, because everybody feels not perform
11 as well -- perform less well in the next
12 decade and then perform in the last decade.
13 Given our statuses, multiple investors, I am
14 -- I'm very reluctant to see us take a lot of
15 that equity off the table. A little bit I
16 get, I also get, you know, the expansion of
17 investment risks as a, you know, risk
18 mitigator. I think as one for investors we
19 need to do the equity exposure. Markets are
20 going to go down but then they come back up
21 and that taking too much equity off the table

22 is a mistake for us as long term investors.
23 SUSANNAH VICKERS: But if we make this
24 move now, I'm just wondering kind of like
25 quantitative and timing. We're taking some

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2 percentage of equity off the table for, you
3 know, this asset, this version of asset
4 allocation, which isn't forever, it's not
5 fixed. I'm not saying that we're like -- but
6 the idea I think is, you know, usually to sell
7 high and buy low. So, you know, we would be
8 selling when things are at their all-time high
9 and then there's an opportunity to get back
10 in. It's not -- it's not saying that, that
11 the equity exposure has to be, you know, 42%
12 for the next 100 years.

13 JOHN ADLER: I understand. I think
14 that our strategic asset allocation should not
15 underweight our equity exposure. We are
16 already under weighing our equity exposure
17 through the denouncing that BAM has time and
18 staying at that all time high. BAM, has gone
19 essentially to the bottom of our rebalancing
20 range or very close for the last year, two
21 years, right?

22 It was because of you that the markets
23 were overpriced, and yet we gained 30% last
24 year. So, you know, again, Monday morning
25 quarterbacking, but had we not done that we

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2 would have a lot more money in bank and I just
3 fear that if you just look at a 6% reduction
4 in US Equity that we're not market timers and
5 that to me, is a market timing move. A small
6 reduction, that I'm comfortable with but a
7 large reduction I feel like isn't worth the
8 time.

9 SUSANNAH VICKERS: And what -- how long
10 did it take to achieve the whole thing?

11 MIKE HADDAD: Once the board adopts
12 asset allocation, BAM and Rocaton have to come
13 back for that implementation plan. In that
14 implementation plan would be some recommended
15 speed or number of orders we would execute
16 from them. We don't know where things are
17 going. My best guesses and you probably do
18 that over multiple quarters --

19 ROBIN PELLISH: -- I mean you could --
20 you could actually do this as quickly as --
21 you can do it relatively quickly --

22 MIKE HADDAD: -- you could --

23 ROBIN PELLISH: -- but the more typical

24 process is to take several quarters and
25 minimize regret.

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2 JOHN ADLER: Like what are -- which are
3 US Equity exposure, absent the market -- the
4 placeholders?

5 DAVID KACZYNSKI: It's a little higher
6 than with the target and the placeholders --

7 ROBIN PELLISH: -- but if you didn't
8 have --

9 JOHN ADLER: -- no, I'm saying without
10 the placeholders.

11 DAVID KACZYNSKI: Oh, without the
12 placeholders? We're right on target.

13 So, I want to -- I want to -- make one
14 edification or correction to one of your
15 comments about our tactical facility. Yes, we
16 tilted the portfolio, underweight equities,
17 with little over 2% in the middle of '18, I'm
18 guessing?

19 We bought back three quarters of that.
20 One percentage of wine on December 29, we were
21 in four different countries. We were able to
22 execute that --

23 JOHN ADLER: December 29th, a month
24 ago?

25 MIKE HADDAD: No, two years ago, 2018.

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2 When the market was at its low on the 12th.
3 And then we -- and then we invested another
4 half percent at International, it was in
5 February last year. So, while we have the
6 results of potential, still have heard the
7 aggregate portfolio, it's less than what you.

8 DAVID KACZYNSKI: Fair enough. It
9 would be actually useful to get a report on
10 how much tactical tilt. If we were at policy
11 instead of underweight, what we'd heard, what
12 would the marginal effect be on portfolio?
13 Like, I'm guessing. I have no idea. I'd like
14 to know.

15 MIKE HADDAD: And we already did
16 that --

17 DEBRA PENNY: So, Robin, when we do
18 this every 36 months, is that when you meet
19 with us?

20 ROBIN PELLISH: Yes.

21 DEBRA PENNY: What if we -- so what if
22 we -- as we start reducing it, what if we do
23 it sooner? What if we, you know, go towards
24 the 25% and look at it 18 months and then, I
25 mean, is there any harm to doing that? Is

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2 there --

3 ROBIN PELLISH: Well, there should be
4 no, no harm and the benefit could be -- no,
5 we're very concerned about risk. We're very
6 concerned about volatility. Our senses that
7 markets have overreached for a variety of
8 reasons and the one that Mike has cited at
9 times and this is -- we also believe is -- at
10 the heart of this is, you know, central bank
11 pumping huge, huge amounts.

12 We'll put it into the system, which
13 encourages investors to use for less. So that
14 could continue for some period of time or
15 there could be other events or our
16 expectations could come to term -- so, come to
17 fruition. So, I think certainly if we adopt
18 Alternative 2, I would like to come back to
19 the Board. We would come back to the Board,
20 on a regular basis anyway, and as you know,
21 Mike talks about working conditions of
22 every -- but we could certainly come back and
23 say, these were the assumptions we made. This
24 was our -- this was the premise that we based
25 our assumptions on, here's what's transpired,

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2 and we can certainly come back and relook at
3 things in 18 months. Particularly, if markets
4 -- if our worst concerns were realized the
5 market sold off significantly, we would not
6 wait for 36 months. We would come back --

7 DEBRA PENNY: -- right --

8 ROBIN PELLISH: -- to it. So, this is
9 not about the market, I just want to be clear
10 of this. We have no illusions that we can
11 time markets, or that we can tactically trade
12 in a significant way, but nonetheless, to
13 completely ignore current marketing conditions
14 or not to take them into consideration when
15 they seem to be at extremes, we think is not
16 wise either and that's why we go through this
17 exercise.

18 MIKE HADDAD: It's more about -- it's
19 actually more -- I would characterize it as a
20 medium term view as opposed to it's not --
21 it's not a one year we can't -- excuse me --
22 make decision based on a single year but a
23 three to five year view would be -- we think
24 this, you know, Alternative 2, or any of the
25 three we just discussed would be preferred to

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1 Proceedings

2 where we are today.
3 I'd say one quick note on Alternative
4 2. John as to your concern ballet is a
5 partial offset to the reduction, US Equity is
6 an increase in the target of private equity,
7 which is not public equities, but it's
8 probably more US focused. It clearly is more
9 US focused, and it is equity, and it is
10 certainly a place where you can take risk and
11 generate significant returns.
12 ROBIN PELLISH: It's a high beta form
13 of US Equity.
14 JOHN ADLER: And the truth is that
15 takes so long to invest, that the place
16 will --
17 ROBIN PELLISH: -- Yes --
18 DAVID KACZYNSKI: That's exactly right,
19 so --
20 JOHN ADLER: -- what's our current
21 private equity?
22 MIK HADDAD: You're at -- you're at
23 6% --
24 JOHN ADLER: -- yes --
25 MIKE HADDAD: So, if you -- if you went

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1 Proceedings
2 to a target of seven, the balance of between
3 six and seven that's not invested yet would be
4 held in the US Equity --
5 JOHN ADLER: -- yes, I get that.
6 MIKE HADDAD: Okay.
7 JOHN ADLER: In some ways, I mean, I
8 support that. I've been doing increasing
9 private equity make sense. So, I get that
10 means that effectively, you know, that the
11 total equity exposure goes from as you said,
12 56 to essentially 51, under Alternative 2.
13 MIKE HADDAD: Yes, and 52 on
14 Alternative 1.
15 JOHN ADLER: And 52 on Alternative 1,
16 right, and let me just point out that we're
17 also reducing an Alternative 2, well, not by
18 much, I guess only by -- we're reducing the
19 international only by what? I guess, 3/10th's
20 of a percent in total.
21 Right. In other words, it goes,
22 international equity goes from 10 to \$9.6
23 hundred --
24 MIKE HADDAD: -- it's 12 --
25 JOHN ADLER: -- it goes up.

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1 Proceedings
2 ROBIN PELLISH: That's a basket issue.
3 JOHN ADLER: That's a basket issue,

4 right.
5 ROBIN PELLISH: Yeah.
6 JOHN ADLER: I get that.
7 MIKE HADDAD: Then the other thing I
8 want to share. I tried to updates on my
9 graphs from a meeting in Albany, on a Tuesday.
10 If you'll recall the graph that I've shared
11 with you all the G Sam one, with the equity
12 market divided into deciles?
13 DEBRA PENNY: Who can forget that?
14 MIKE HADDAD: So, the statistics
15 associated with the deciles -- and this is --
16 DAVE KACZYNSKI: I'd say
17 congratulations --
18 MIKE HADDAD: This is historic. It
19 does not predict our future results --
20 ROBIN PELLISH: Necessarily --
21 MIKE HADDAD: Necessarily, but in
22 previous experiences whenever in the tenth
23 decile, average return of the bonds the
24 following five years which is point 0.2% and
25 32% of the time each of those years, I've got

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1 Proceedings
2 a negative -- I've got a positive return. So
3 the corollary 67% of the time, I'm marking
4 them --
5 ROBIN PELLISH: Each of the properties?
6 MIKE HADDAD: Each of the properties,
7 yes.
8 SHERRY CHAN: And just to give an idea
9 about the feature that you're talking about,
10 you know, when we're going to look at this
11 again. There is a memo that was distributed
12 this morning and I remember that my office
13 prepared based on what's the next five years
14 would -- like, if some of these portfolio were
15 adopted. There's a memo in the front but if
16 you go to the very last page, there's a chart
17 that summarizes the study. The baseline for
18 the first row on top, that's obviously if we
19 earn 7% or if we actually assume grade and
20 this chart tells you what the dollar change in
21 the accumulative five grids for the next five
22 years will be if certain portfolios were
23 adopted, and what the funded ratio will be at
24 that time in five years. So, if we earn 7%
25 we're going to see an 83% funding ratio in

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1 Proceedings
2 five years. There's a current asset
3 allocation that was given to us from broker
4 time and these don't necessarily look like the
5 numbers that are in the presentation because

6 the numbers in the presentation are five
7 years, 10 years, but the five year analysis is
8 that we just took the first five years and
9 because the rest of six -- year six through 10
10 were at 7% we just said because the City plans
11 of five years, the five -- the first five
12 years are more heavily weighted anyway we look
13 to a five year return and the proposed asset
14 allocation we took for Alternative number 2.
15 But if you do look at the returns, they're
16 within point two basis points of each other.
17 So, again, this is to provide you an idea. So
18 I don't think much -- deviates much if we
19 choose, you know, either of the alternatives.
20 So you can see that in the 95th percentile or
21 --

22 MIKE HADDAD: -- can I interrupt you
23 for one second?

24 SHERRY CHAN: Yes.

25 MR. HADDAD: Which portfolio was

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1 Proceedings
2 calculated? Was it the initial recommended,
3 Alternative 2? Do we know?
4 ROBIN PELLISH: No, Mike. Were they
5 analysis that was given to the office of the
6 actuary, which was the recommended portfolio.
7 MIKE HADDAD: I believe it was
8 Alternative 2 --
9 ROBIN PELLISH: Was it Alternative 2?
10 MIKE HADDAD: I believe so, but I can
11 double check.
12 SUSANNAH VICKERS: And that's where it
13 says proposed, Alternative 2?
14 MR. HADDAD: Yeah.
15 JOHN ADLER: It is Alternative 2.
16 MIKE HADDAD: I can confirm that right
17 now.

18 SHERRY CHAN: Okay. And again, like
19 even if it's not, it's-- it's very if you
20 look at the slides, the returns are within,
21 you know, point 2.1 basis points of each
22 other.

23 ROBIN PELLISH: Right. This is not
24 going to --

25 JOHN ADLER: Yeah. Sorry, sorry.

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1 Proceedings
2 SHERRY CHAN: So, you know, look at
3 rows, asset allocation, have we earned the,
4 you know, 12.3% on an annual basis for the
5 first -- for the next five years, the
6 contributions will decrease \$1.4 billion the
7 next five years and that would increase the

8 ratio from 83% to 104%
9 JOHN ADLER: What's the funding ratio
10 today?
11 MIKE HADDAD: About 76%
12 SHERRY CHAN: Yeah. 70. It's on the
13 front page, 76% It's on the first page.
14 ROBIN PELLISH: 76%
15 SHERRY CHAN: 76% So, the 83% is five
16 years from now, and all those funded ratios
17 are five years from now. So, that's simple.
18 JOHN ADLER: Thank you.
19 SHERRY CHAN: And you know, we earned a
20 weight of fifth percentile, which is on annual
21 basis negative 1.4% for the next five years,
22 the contributions would increase over the next
23 five years \$2.5 billion and it would drop the
24 funded ratio up to 51%
25 So, you can see even in the 50th percentile,
0037

1 Proceedings
2 we're going to have -- it's not projected on
3 an expected basis that we're going to earn the
4 seven percent so there is some thought about
5 Board plans that this Board should think about
6 in terms of the current actuary rate which is
7 at seven percent.
8 That is obviously a legislative process
9 that needs to be, you know, discussed and gone
10 through in order to change that, but it is
11 something that this Board should think about
12 especially if we can't obtain the seven
13 percent. Thank you.
14 JOHN ADLER: One of the thing we left
15 out is how the difference between the current
16 asset allocation and proposed asset allocation
17 is, you know, actually pretty modest.
18 ROBIN PELLISH: It's like 50 basis
19 points.
20 MIKE HADDAD: Depending on where your
21 fears of it as far as.
22 JOHN ADLER: Well, yes. You could say
23 that. I mean, what's interesting is that at
24 the 15% that's the biggest difference really,
25 is that the 50% of the current asset
0038

1 Proceedings
2 allocation generates, you know, 40 basis
3 points more. The extremes are more or less.
4 But the impact of contributions, if you think
5 about it is 100 million dollars between the
6 expected case with the current asset
7 allocation versus the proposed allocation. So
8 if you take 100 million dollars over 19.4,
9 that's about 50 basis points.

10 SHERRY CHAN: The difference we're
11 working with that Rocaton gave us was, 6.2%
12 compounded versus a 6.1% compounded for 10
13 years. For five years, 5.5.
14 JOHN ADLER: What did you do? I don't
15 understand that you did 6.2, 0.1?
16 SHERRY CHAN: That's based on the
17 compounded term they use.
18 JOHN ADLER: But they're actually 6.2.
19 In terms of, are you talking about their
20 original capital markets expectations.
21 SHERRY CHAN: That was provided to us.
22 Yes, this shows no difference.
23 ROBIN PELLISH: But Sherry, would you
24 agree that, I think with these two thank you
25 for this and I think I, what I take away from
0039

1 Proceedings
2 this is that the main difference, like any
3 single action we take with regard to this
4 portfolio, it's very large. We don't take we
5 revolve, we don't take revolutionary steps.
6 And so that they're very modest, very modest
7 differences.
8 SHERRY CHAN: I think they're modest
9 and lots of portfolios.
10 ROBIN PELLISH: Yes.
11 SHERRY CHAN: But I think also, we have
12 to keep in mind that when compared to --
13 ROBIN PELLISH: -- which has nothing to
14 do with the decision we're making today.
15 SHERRY CHAN: (Continued.) Seven
16 percent You know, that is, you know, half a
17 billion dollars over five years.
18 ROBIN PELLISH: Yeah --
19 SHERRY CHAN: -- it could be
20 potentially --
21 ROBIN PELLISH: -- right --
22 SHERRY CHAN: Even at the 50th
23 percentile, and even more. So I think that's,
24 that's another point to. Within the portfolio
25 is it choosing for the Board is choosing. I
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1 Proceedings
2 agree with your statement. But you know, just
3 a step forward. The next step, of course, you
4 think about it, it's also you know what our
5 next steps? Now that you know that you know
6 that your portfolio in the 50th percentile is
7 not going to achieve the actually interests
8 rate you should think about you know,
9 calibrating a certain rate. So, our
10 assumptions match, you know, what our
11 portfolios are doing.

12 NATALIE GREEN-GILES: Well, can I ask
13 you a question? When you think about setting
14 that seven percent rate of return what period
15 of time over what time horizon should we be
16 thinking when establishing that rate of return
17 and.

18 SHERRY CHAN: It is it is a longer term
19 every 10 years could be something that helped
20 or not helpful but the study is done for right
21 because I look at money weighted value or
22 liabilities. It is very much waited on first
23 10 years versus a 30 year time. I will say
24 that Don't have, it's not like we only have
25 one opportunity every 10 years to change it.

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1 Proceedings

2 Right? So are the discount rates that said
3 state statute. It was that for a period of
4 let's say, like five years before that sunset.
5 So, when it sunsetted, actuary made proposals
6 to keep that seven percent for a one year
7 term, that every year we were renewing it, but
8 then we had discussions with the city and
9 said, you know, "Why are we doing this every
10 year, we should think about a longer term."

11 So this past fiscal year, this current
12 fiscal year. It's now in a state statute for
13 two years. So, it's this fiscal year and next
14 fiscal year. So, the seven percent is due to
15 expire next June, June of 2021 -- 2021. That
16 doesn't preclude us from going to the
17 legislators to change it. We feel that we
18 should change it, but that's just the
19 legislative process.

20 NATALIE GREEN-GILES: But it's the four
21 other systems expected returns. I think the
22 seven percent legislatively and what would you
23 do with that?

24 DEBRA PENNY: You know, they are, you
25 know, obviously the statute and -- the statute

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1 Proceedings

2 is different for each retirement system. So
3 it doesn't necessarily handcuff us to having
4 the same discount rate for all the boards
5 especially, if there is different decisions
6 made by different boards and different risks.

7 NATALIE GREEN-GILES: Thank you.

8 JOHN ADLER: Just one point, which she
9 said. If you look at the adjusted expected
10 returns, and for the most part volatilities
11 are the same.

12 ROBIN PELLISH: Yes.

13 JOHN ADLER: But the adjuster was

14 referring to obviously --
15 ROBIN PELLISH: Well, we were -- we
16 continue to use our balance So, that's why
17 it's the same.
18 JOHN ADLER: Okay, so that's it --
19 that's why it's the same.
20 ROBIN PELLISH: Yeah.
21 JOHN ADLER: So you didn't do a
22 consensus volatility --
23 ROBIN PELLISH: Right, and I think the
24 volatilities were materially different --
25 JOHN ADLER: -- Okay --

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1 Proceedings
2 ROBIN PELLISH: It was really the
3 return. So, they were very different.
4 JOHN ADLER: Anyway, one of the things
5 that strikes me that's useful in this exercise
6 is that, you know, not only at this point --
7 at this point, obviously, we've been using the
8 Rocaton capital markets and then at the other
9 Board we're using theirs.
10 So, but if you look at the consensus, then
11 these expected returns are all right at seven
12 percent and on the margins of seven percent.
13 ROBIN PELLISH: For 10 years --
14 JOHN ADLER: -- for 10 years -- I
15 think for a period I think that you're
16 suggesting. So, that would suggest, you know,
17 when you say that -- that would suggest the
18 seven percent actually might be the
19 appropriate discovery and it might be
20 something like, there might be some of the
21 other folks too who is looking at -- using
22 consensus as opposed to that specific thing
23 for the purpose of figuring out the discount
24 rate is on target.
25 SUSANNA VICKERS: I think the consensus

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1 Proceedings
2 number includes Rocaton.
3 JOHN ADLER: That's true.
4 SUSANNA VICKERS: If Rocaton was
5 included that number would ben lower.
6 JOHN ADLER: Good point.
7 ROBIN PELLISH: It would be a lot
8 lower --
9 JOHN ADLER: Very good point.
10 ROBIN PELLISH: Okay --
11 NATALIE GREEN-GILES: I'm sorry. Can
12 you go over quickly the difference between
13 those two column? If it's green?
14 ROBIN PELLISH: So, the green uses
15 capital market assumptions that are the

16 average of the four consultants for the system
17 excluding Rocaton --
18 NATALIE GREEN-GILES: Okay.
19 ROBIN PELLISH: -- because there is a
20 difference particularly in our US Equity
21 expectation, so the Board is interested in
22 seeing what the expected returns for each
23 portfolio would look like if they excluded
24 Rocaton more conservative expectations from
25 the analysis.

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1 Proceedings
2 SHERRY CHAN: And the blue is just,
3 Rocaton.
4 DEBRA PENNY: Okay --
5 MR. ADLER: -- could I just ask this
6 one last teeny tiny question?
7 ROBIN PELLISH: As long as it's teeny
8 tiny.
9 JOHN ADLER: Yes. The thing is it
10 jumps out is that if you look at the total
11 public equity across the Board, 50, 46, 43.7,
12 42 and then high yield, you go to 5.3. Why is
13 that 5.3 in high yield but not in US Equity or
14 in public equity?
15 MIKE HADDAD: I believe it's a basket
16 issue. That would -- that would be the most
17 be the most logical, because --
18 DAVID KACZYNSKI: -- it's
19 international --
20 MIKE HADDAD: Yes, international
21 accounts for its basket, high yield does not
22 --
23 MR. HADDAD: Yeah, I mean -- one --
24 JOHN ADLER: -- 20 percent --
25 MR. HADDAD: -- yeah. It seems like

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1 Proceedings
2 it's -- those odd we -- I usually attribute
3 those to odd non-integer results to basket
4 because the bad -- the modeling characteristic
5 take into consideration the optimal portfolio
6 at certain -- given certain constraints and
7 the basket is one of those constraints that
8 just pushes things around.
9 JOHN ADLER: And the basket that you
10 guys have recommended, the basket is not going
11 to 25% of what we did last time or go to 24 --
12 MIKE HADDAD: -- right --
13 JOHN ADLER: -- more or less.
14 MIKE HADDAD: So we get about 25 and we
15 do the rounds, we have to take action to go
16 back that way to Alex.
17 JOHN ADLER: The basket is going to

18 take me a long time.
19 DEBRA PENNY: Okay, so we thank Rocaton
20 and BAM for creating this with all the
21 alternatives. Does anyone have any other
22 questions about it? Are we ready to take a
23 vote on this or --
24 JOHN ADLER: -- I would like to -- I'm
25 not quite ready to take a vote. I would just
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1 Proceedings
2 like to consider this.
3 DEBRA PENNY: So, what else do you
4 need? What else would I need to do?
5 JOHN ADLER: Well, I just -- a huge
6 decision that we're making this is like the
7 most important decision that trustees make.
8 DEBRA PENNY: It absolutely is.
9 JOHN ADLER: So, in that case I would
10 propose that we take a little bit more time to
11 consider it and then we can vote at the next
12 meeting.
13 ROBIN PELLISH: I can add it to this
14 February 7th agenda, SIM.
15 DEBRA PENNY: I won't be able to make
16 that SIM, I sent you an e-mail to notify you.
17 See if we can do it the next Board meeting or
18 investment meeting. U. So I can do it at the
19 next investment meeting. So we'll just review
20 -- we're looking at. So we tend to be looking
21 at Alternative 2 and what did we think about
22 the 18 months that we've -- so, Mike did you
23 weight into that as part of the 18 months,
24 instead of 36 coming back? And seeing how
25 that is? Is that a possibility for you or --
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1 Proceedings
2 MR. HADDAD: -- absolutely. And I
3 would also encourage the Board to charge
4 Rocaton and BAM with -- in addition to the
5 strategic review, which is generally every
6 three years to review it yearly.
7 DEBRA PENNY: Yeah, so charged.
8 NATALIE GREEN-GILES: May I also just
9 follow up on, I think what John was asking
10 for? If it's possible to get that analysis of
11 the placeholders and the sort of opportunity
12 cost of not having the full allocation in the
13 private markets?
14 It's just to get a sense of --
15 MIKE HADDAD: Make sure I understand
16 what you're asking.
17 NATALIE GREEN-GILES: Well, I think
18 what just as aspirationally we're at, you
19 know, not in project, but I think you said for

20 --
21 ROBIN PELLISH: -- for private equities
22 at target --

23 JOHN ADLER: -- I think what you're
24 saying is that we are not -- we get in the
25 balancing ranges you've done a tilt, and so

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1 Proceedings
2 what the opportune cost.

3 ROBIN PELLISH: Or the impact, it has
4 not always been about opportune for us.

5 NATALIE GREEN-GILES: Right, just the
6 impact. Just to get an understanding of the
7 difference between the numbers and -- the
8 numbers, that's important.

9 SUSANNA VICKERS: Well, can I just add
10 -- I just want to make clear that, you know,
11 the rebalancing. So the Board tells BAM, you
12 know, this is the target, you know, plus or
13 minus one or two percentage points, and that
14 becomes the rebalancing range, and BAM keeps
15 everybody within the rebalancing range. Maybe
16 not. It might be impossible to be exactly on
17 target all the time, but BAM maybe has, you
18 know, done certain things to keep us at the
19 high end or the low end, but we're within the
20 ranges that the Board -- that the fund is in
21 the ranges that the Board has approved and
22 charged BAM with understanding of it. So
23 there is no bad or, you know --

24 JOHN ADLER: Yeah, there is, it's
25 within the range --

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1 Proceedings

2 SUSANNA VICKERS: It's within the
3 range, right? The fund is within the ranges
4 the Board has approved. I mean, I don't think
5 anybody here can say, you know, we're
6 requiring exactly at 29 all the time. We're
7 saying we know that the way things work, it
8 could be a 29.2 or you can be a 28.4, you
9 know, sort of things come back and forth to
10 work within the ranges. So, when we talk
11 about it is, you know, opportunity cost or
12 having lost money, but that's we're just doing
13 what the Board has told us to do, which is to
14 stay within these band, within these bands and
15 they're using their best professional judgment
16 to say, within the band, you know, kind of on
17 this side or on that side, they're both within
18 the bands that the Board has required us to be
19 and I just think that needs to be made clear.

20 JOHN ADLER: It's clear, within the
21 bands. The staff does itself.

22 SUSANNA VICKERS: The staff uses their
23 judgment. That's what you want staff to do.
24 JOHN ADLER: I understand. I just
25 stated --

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1 Proceedings

2 SUSANNA VICKERS: Really? I just want
3 -- I just think that it's -- that it's really
4 important like we don't want the Board to have
5 to micromanage every single decision.

6 JOHN ADLER: Absolutely.

7 SUSANNA VICKERS: What we're telling
8 our investment advisor to do is to have this
9 target and stay within these bands. Every SIM
10 like shows the little lollipop chart, about
11 you know, how close to the band that we're in.

12 So, you know, just like in thinking
13 about it, it's like, you know, is it the
14 board's job to kind of, you know, make the
15 determination and then say, okay, within that
16 determination that who told you to do you're
17 doing it, but why are you doing it, you know,
18 like, this shade of gray rather than that
19 shade of white.

20 DEBRA PENNY: Natalie, did that answer
21 your question? Did you still miss some
22 something?

23 NATALIE GREEN-GILES: Yeah. I mean it
24 answers my question, it's just that --

25 DEBRA PENNY: Okay.

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1 Proceedings

2 --

3 MS. NATALIE: -- it's just that when
4 we're looking at alternatives here, and it's,
5 you know, the difference of 0.1% And then I'm
6 wondering, how does that reflect how the
7 allocations are actually being made, and it
8 seems ridiculous to be splitting hairs here
9 and then that that's all.

10 MIKE HADDAD: And so, we'll certainly
11 give you numerical analysis of the crux of the
12 placeholder assets that are deployed are
13 because of under deployment real estate that
14 that's where it is. So, private equity is
15 fully deployed.

16 DEBRA PENNY: Okay.

17 MIKE HADDAD: There is no placeholder
18 assets associated with that. It's real
19 estate, which we talked about at various
20 different meetings, but I'm happy to show you
21 actuals.

22 DEBRA PENNY: Great, thank you.

23 JOHN ADLER: I'm sorry. Just two more

24 points. First is that, let's also remember
25 that BAM, came to the Board a few months ago
0053

1 Proceedings

2 and asked for those ranges to be doubled, and
3 we decided to delay that decision to actually
4 do what asset allocation. So that would be
5 another important decision that we have to
6 make once this asset allocation discussion is
7 complete.
8 Secondly, I just wanted to ask Rocaton, could
9 you come back with your calculations on making
10 those changes on the Alternative 1 where you
11 reduce high yield one percent and decrease or
12 divide 55 by one percent just in case -- give
13 the numbers.

14 DEBRA PENNY: We're looking at
15 Alternative 2 is that what you?

16 JOHN ADLER: I was asking for
17 Alternative 1.

18 SUSANNAH VICKERS: So you want to see
19 what Alternative 1 would look like high yield
20 at five -- oh, at five and four?

21 JOHN ADLER: Yeah.

22 ROBIN PELLISH: I don't know if you
23 would be able to see a difference but we're
24 happy to do that.

25 JOHN ADLER: Great, thank you.

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1 Proceedings

2 DEBRA PENNY: All right.

3 MR. ADLER: I would like the Board to
4 think about the following, the outcome of the
5 November elections, potentially very important
6 for you to ask some markets, very simply if
7 Trump's reelected that's positive for markets.
8 If a democrat is reelected, it depends if the
9 democrat's more progressive versus one more
10 centrist to support two markets. And I think
11 the other consensus view of the markets is --
12 the equity market hasn't been quiet been able
13 to think about those probabilities because the
14 democrats don't yet have a candidate and on
15 March 3rd, 37% of the delegates get assigned.
16 I'm not saying -- I'm not saying that could be
17 the tipping point to when there is a candidate
18 and then the markets are going to have to
19 wrestle with versus the reelection or whoever
20 that candidate is. Potentially an important
21 day for markets. When that candidate becomes
22 decided upon by the -- by the party, it's
23 going to roughly be 50/50 and most people
24 think that that's probably not a possibility,
25 bare that in mind as you're going through your

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1 Proceedings

2 time.

3 DEBRA PENNY: Okay. So, I think we
4 decided on the next meeting to February 27
5 meeting, Is that when we'll make this
6 decision?

7 SUSANNA VICKERS: Make it after March
8 3rd?

9 DEBRA PENNY: Or you wanted to do it
10 after March 3rd --

11 SUSANNA VICKERS: -- before, he wants it
12 before.

13 DEBRA PENNY: I think before we even --
14 we decided by March -- by February 27. We're
15 almost ready, correct? John, just wants one
16 little thing and then we'll be ready to take
17 the vote. Yes? Okay. All right. So, we'll
18 put it on February 27th.

19 JOHN ADLER: Okay.

20 DEBRA PENNY: Okay. Is there anything
21 else? All right Then, the motion to move into
22 executive session.

23 THOMAS BROWN: I move pursuant to
24 public officers Law Section 105 from public to
25 executive session for discussions on the

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1 Proceedings

2 investment and litigation and related matter.

3 DEBRA PENNY: Thank you, Mr. Brown. Do
4 we have a second?

5 MS. BUCKLEY: Second.

6 DEBRA PENNY: Thank you, Mr. Buckley,
7 any discussion? All those in favor?

8 THE BOARD: Aye.

9 DEBRA PENNY: Any opposed? We are in
10 executive session. Thank you.

11

12 DEBRA PENNY: Okay. Are we ready?

13 Okay. All right.

14 Welcome back to Teachers' Retirement
15 System, we are in public agenda. When we
16 spoke before we said that we had an emergency

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2 item that was added to our agenda, the Gulino
3 Implementation Budget Modification.

4 Okay. So, we have a resolution for the Gulino
5 project?

6 PATRICIA REILLY: Okay. Whereas the
7 Teachers' Retirement System of the City of New
8 York must comply with the court ordered
9 avoiding tension release to linearization
10 class members and whereas TRS has started to

11 work simply meant that court order and that
12 work would continue through and beyond the end
13 of the current fiscal year and whereas the
14 total TRS fiscal year 2020 budget, previously
15 approved by the TRS BOARD of Trustees for the
16 Modernization Budget, did not include funding
17 to formwork necessary to implement a Gulino
18 Pension Order or account for the impact of the
19 order on the monetization program and budget.

20 Therefore, be it resolved that the
21 BOARD of Trustees hereby approves a
22 modification to the fiscal year 2020 budget by
23 increasing the agency budget in the amount of
24 \$4,322,629 with an estimated 2 thousand --
25 THE BOARD: Two million --

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2 PATRICIA REILLY: -- 2 million,
3 sorry --
4 \$2,788,000 attributable to the variable
5 program expense fund and an estimated
6 \$1,534,629 attributed to the employees,
7 administrative expense contribution.

8 DEBRA PENNY: Thank you. Is there a
9 motion to approve this resolution?

10 DAVID KACZYNSKI: So moved.

11 DEBRA PENNY: Thank you, Mr. Kazcynski.
12 Is there a second?

13 SUSANNAH VICKERS: Second.

14 DEBRA PENNY: Thank you. Is there any
15 discussion?

16 JOHN ADLER: Yeah. So, the mayor,
17 myself as the manager of opposes this
18 resolution, at least today. I feel that we
19 have not received sufficient documentation to
20 support the spending of this amount.
21 I feel that we really don't have a full enough
22 sense of the analysis that has been done and
23 alternatives to including this program in the
24 monetization program and therefore, we're not
25 going to vote for today and my preference

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2 would be to table this resolution for today.

3
4 So with that, I'll make a motion to take the
5 resolution.

6 DEBRA PENNY: Is there a second?

7 THOMAS BROWN: Second.

8 DEBRA PENNY: Thank you. Any
9 discussion?

10 Just like to say that I might have
11 tabled this and unnecessary delay, there is
12 work that needs to be done and I'm not in a

13 place to insert myself into the day to day
14 operations that TRS needs to do this work and
15 comply with this litigation and sooner we get
16 it started, the sooner we can get the Gulino
17 class members there sound, so I'm against it,
18 you know, I hope that we can move this forward
19 and vote on this today.

20 DEBRA PENNY: It should also be noted
21 that there is a budget committee and the
22 budget committee had an emergency meeting on
23 Tuesday and it's my understanding you were
24 brought up to date on some of these matters as
25 well?

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2 RUSSELL BUCCO: Yeah.

3 DEBRA PENNY: So, members of the budget
4 committee or --

5 SUSANNAH VICKERS: The Controller's
6 office.

7 DAVID KACZYNSKI: Controller's office,
8 so Mayor John was there, I was there --

9 DEBRA PENNY: Okay. So, we're going to
10 take a vote on if we want to table it. So,
11 the motion was made to table the issue. So,
12 all of those in favor of tabling this item,
13 please, say aye.

14 THE BOARD: Aye.

15 DEBRA PENNY: Okay. So, we have three.
16 Okay. All those opposed, please say, aye.

17 THE BOARD: Aye.

18 DEBRA PENNY: Any abstaining?

19 All right. So we have what is
20 necessary. We have someone from the --

21 ROBIN PELLISH: You have the motion to
22 table the resolution.

23 DEBRA PENNY: Okay. All right. So,
24 now we're going to take the vote.

25 SUSANNAH VICKERS: Before we do, Madam

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2 Chair, if I can just add on the original
3 discussion on the resolution. The, you know,
4 the comptrollers office perspective is, you
5 know, definitely one concern of the large
6 amount of this cause, but you know, are some
7 of our concerns were alleviated and address in
8 the information that we received from TRS as
9 well as the lengthy discussion and the details
10 that we received at the budget committee
11 meeting the other day, in terms of going
12 through the steps necessary and the scope of
13 work required to process this special class of
14 people in the midst of a modernization and

15 having to create that system in two different
16 functionality's.
17 So, in discussing this internally, the
18 one request that the controller's office has
19 going forward after you were able to approve
20 the budget mod today is that, you know, we
21 have an outside set of eyes, you know, some
22 group that is familiar with TRS operations and
23 the modernization project, and could, you
24 know, take a look at the plan going forward at
25 the very beginning right now, and maybe just

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2 give the BOARD, you know, some more
3 information on whether the approach makes
4 sense if there are any tweaks that could be
5 that can be made.

6 So, you know, my office is suggesting Marks
7 Spanin. Tara Staff had suggested LRWL and,
8 you know, either those would be, I think, fine
9 and it could really be a positive contribution
10 to the discussion.

11 DEBRA PENNY: Okay. Thank you. All
12 right. So, we'll take a vote. So, just
13 remind everyone, we're taking a vote on
14 approving the modification to the fiscal year
15 2020 budget with the understanding that there
16 will be another set of eyes looking at this
17 again, either someone from LRWL and/or the
18 auditor Mark Spanin and he will -- they will
19 make suggestions and let us know how they're
20 doing with this modification.

21 Okay. All right. So, is there a motion --
22 motion again? No, okay so we're good. So,
23 all those in favor of this please say, aye.

24 THE BOARD: Aye.

25 DEBRA PENNY: All those opposed?

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2 JOHN ADLER: Nay.

3 DAVID KACZYNSKI: Nay.

4 DEBRA PENNY: Okay. Any other items.

5 ROBIN PELLISH: Report out --

6 DEBRA PENNY: Sorry, Ron.

7 RON: In the executive session of the
8 passport funds. There was one manager update.
9 There was a presentation from an emerging
10 market manager, consensus was reached, and
11 will be announced at the appropriate time.
12 Lastly, a litigation related matters was
13 discussed.

14 DEBRA PENNY: Okay. Thank you. Is
15 there a motion to adjourn the meeting?

16 SUSANNAH VICKERS: So moved.

17 DEBRA PENNY: Thank you, Ms. Vickers.
18 Is there a second?
19 MR. BROWN: Second.
20 DEBRA PENNY: Thank you, Mr. Brown.
21 Any discussion about it? No. All those in
22 favor?
23 THE BOARD: Aye.
24 DEBRA PENNY: Opposed? Okay. We are
25 adjourned.

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2 (Time noted: 1:11 p.m.)
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2 C E R T I F I C A T E.
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4 STATE OF NEW YORK)
: SS.:
5 COUNTY OF RICHMOND)
6

7 I, PATRICIA GIGLIO, a Notary Public for and
8 within the State of New York, do hereby certify:
9 That the witness whose examination is
10 hereinbefore set forth was duly sworn and that such
11 examination is a true record of the testimony given
12 by that witness.

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

17 IN WITNESS WHEREOF, I have hereunto set my hand

18 this 6th day of February 2020.

19

20

22

PATRICIA GIGLIO

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