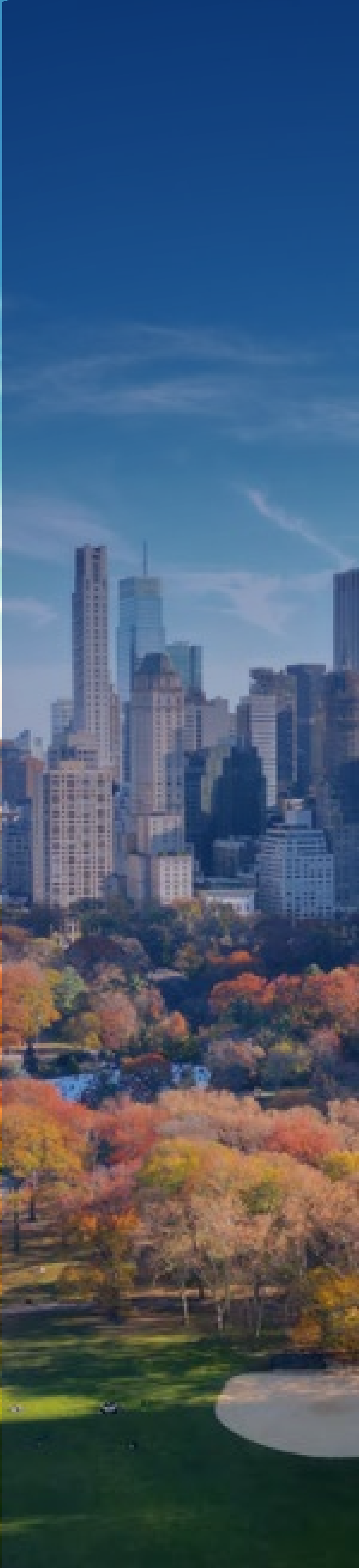


NEW YORK CITY COMPTROLLER
BRAD LANDER

New York City Pension Funds' Returns

For Fiscal Year 2024

August 2024

Introduction

The Office of the New York City Comptroller serves as investment advisor, custodian, and trustee for the five New York City public pension systems (collectively referred to as "the Systems"). Through the efforts of the Bureau of Asset Management (BAM), the Comptroller's office works with the trustees of the five systems to manage over $274 billion in assets, which represents the retirement security that the City of New York has promised to more than 750,000 dedicated public servants – New York City's teachers, firefighters, police officers, clerical, health care, and maintenance workers, and many others.

This week, the Comptroller announced that for the fiscal year ending June 30, 2024, the five City pension systems achieved a strong aggregate 10.0% return, net of fees. These returns surpass the 7% target rate set by the state legislature. As a result, the City's required contributions to the pension system will be reduced by approximately $1.81 billion over the next five fiscal years, leaving more funds to meet current obligations.

Every year, the City of New York makes deposits, called pension obligations, into each of the five pension funds – Teachers Retirement System of New York City (Teachers), New York City Employees Retirement System (NYCERS), New York City Police Pension Fund (Police), New York City Fire Pension Fund (Fire), and New York City Board of Education Retirement System (BERS) – as determined by the City Actuary. The trustees of each pension fund, composed equally of representatives of the City, including the Comptroller and the Mayor, and of the labor unions representing the workers, are charged with investing those assets.

When returns are above the 7% target rate set by the State, as they were in fiscal year 2023 and fiscal year 2024, the City budget is adjusted to require lower pension obligation deposits; when returns are below that rate, the City must contribute additional funds to meet pension obligations. These annual adjustments are phased in over five years to smooth the impact.

One-year returns can vary significantly from year to year. While this year's returns were strong and followed a robust 8.0% combined net of fees performance in fiscal year 2023, fiscal year 2022 was one of the worst stock and bond market years in decades. Given the long-term nature of the City's pension obligations, BAM stays focused on long-term performance, which shows steady growth over recent years, with an average 10-year return of 7.0%:

Table 1: NYC Combined Pension System Annualized Returns, Net of Management Fees for Periods Ended June 30, 2024

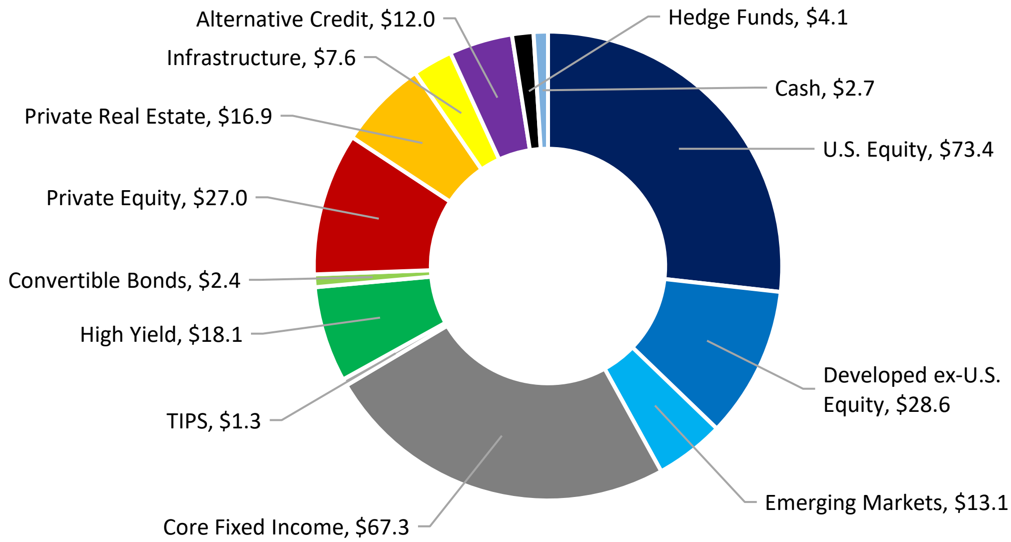
1 Year	3 Year	5 Year	7 Year	10 Year
10.0%	**2.8%**	**7.4%**	**7.5%**	**7.0%**

Source: State Street

The Systems' total assets under management at the close of the 2024 fiscal year stand at over $274 billion. The "funded ratio" (i.e. the percentage of assets against total obligations for the decades to come) for the combined funds was 83% (calculated as of June 30, 2023, the percentage will be updated later this year by the Actuary), which exceeds the average of U.S. public pension plans of 78%. The contributions set by the City Actuary put the Systems on the path to achieve 100% funding by 2032.

The Systems' assets are diversified across asset classes, with approximately 42% in Public Equities (i.e. corporate stocks), 32% in Public Fixed Income (i.e. Government and Corporate Bonds), and 26% in Private Markets Alternatives (including Private Equity, Real Estate, Alternative Credit, Infrastructure, and Hedge Funds). System trustees, working with the Bureau of Asset Management and the System's consultants, make decisions on the Systems' asset allocations based on factors including economic risk, return, performance, and beneficiary distributions.

AUM ($ Billions)

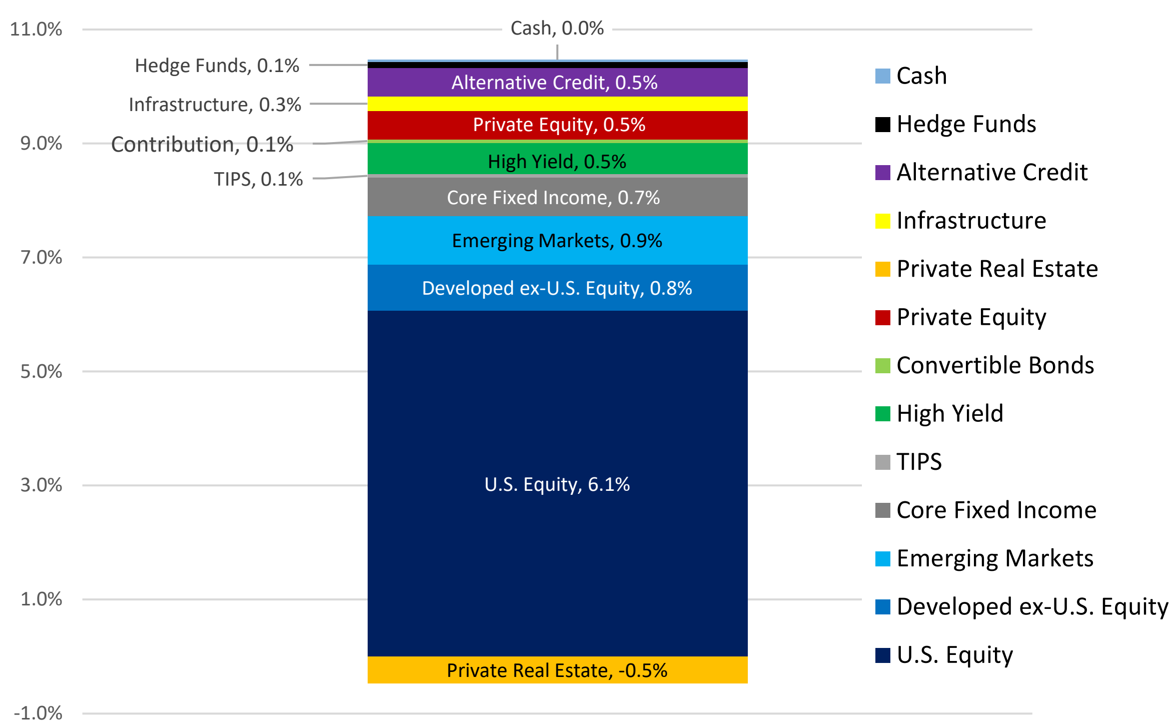


Source: State Street

As of June 30, 2024

Contribution to Return

Year Ended June 30, 2024



Source: State Street

Table 2: Assets Under Management, Return, and Contribution to Return for Periods Ended June 30, 2024

Investment Strategy	AUM ($ Billions)	AUM % of Total	FY 2024 Return	Contribution to FY 2024 Return
U.S. Equity	73.4	26.8%	23.0%	6.1%
World ex-U.S.	28.6	10.4%	7.8%	0.8%
Emerging Markets	13.1	4.8%	15.1%	0.9%
Core Fixed Income	67.3	24.5%	2.8%	0.7%
TIPS	1.3	0.5%	2.7%	0.1%
High Yield	18.1	6.6%	10.1%	0.5%
Convertible Bonds	2.4	0.9%	6.5%	0.1%
Private Equity	27.0	9.8%	5.1%	0.5%
Private Real Estate	16.9	6.1%	-7.1%	-0.5%
Infrastructure	7.6	2.8%	10.3%	0.3%
Alternative Credit	12.0	4.4%	12.3%	0.5%
Hedge Funds	4.1	1.5%	6.8%	0.1%
Cash/Equivalents	2.7	1.0%	5.9%	0.0%
Total Combined NYC Plans	**274.4**	**100.0%**	**10.0%**	**10.0%**

Source: State Street

Details on the Systems' assets under management, broken down by System, asset class, and asset manager are available on the Comptroller's website, a feature that was added in 2022 and provides significantly increased transparency.

Economic and Market Commentary

The US and other world economies continued to dust off the residual impacts of the global pandemic in fiscal year 2024. The incredible economic and social dislocations of COVID-19 were evidenced in several key areas, including a spike in inflation associated with supply chain disruptions, higher official interest rates by the world's central banks to combat inflation, high cash balances held by individuals associated with an abnormally high savings rate during COVID, the option of remote work, and pent-up demand for goods and experiences. In fiscal year 2024, these conditions continued to unwind through global disinflation, expected and actual official rate cuts, resilient consumer and retail spending, a slow migration back to a five-day in-office workweek, and normalization of leisure and business travel. In the US, a gradual and steady decline in inflation towards the Fed's two percent target rate fueled expectations for interest rate cuts last year, but solid above-trend economic growth, strong retail sales, high levels of consumer spending, and a strong labor market combined to keep the Fed on-hold following their last rate hike in July of calendar year 2023. We anticipate further normalization of conditions in a post-pandemic world in fiscal year 2025.

Last year's strong economic backdrop was supportive of improving corporate earnings which translated into higher stock prices both in the US and other developed and emerging markets. In the US, there was a noteworthy concentration of earnings performance and stock price appreciation among a few Mega-Cap stocks that are perceived leaders in the development, deployment, implementation, and support of artificial intelligence. In fact, at one point in late fiscal year 2024, ten individual stocks comprised a staggering 38 percent of the S&P 500's market capitalization. Returns were clearly focused on a handful of technology companies and Growth outperformed Valuation for yet another year. US Treasury obligations, alternatively, didn't fare as well in a solid growth, Fed on-hold environment throughout the year as base interest rates remained elevated. Corporate Investment Grade and High Yield Bonds, however, performed strongly as investors stretched for high relative yields while a strong economy reduced borrower default risk and caused credit spreads to tighten. Lastly, cash was king in fiscal year 2024 as official interest rates remained at peak levels supporting money market yields and returns relative to longer-term obligations suffering from the longest yield curve inversion in US history.

Reflections on Public Markets

In fiscal year 2024, public asset classes continued to recover from a challenging post-pandemic sell-off in 2022 and early 2023. This process of public market return improvement was supported by the continuation of US and non-US disinflation trends, and general expectations for official interest rate cuts here and abroad. In the US, markets were also supported by a resilient domestic economy with a robust labor market and healthy consumer spending, along with continued fiscal stimulus programs and deficit spending. This outcome was achieved despite higher base interest rates, restrictive monetary policy, and increasing geopolitical risks around the world.

For the second consecutive year, public market equities have delivered the lion's share of positive portfolio returns for the pension plans. In the US, Growth companies and strategies continued to shine, with exceptional performance delivered by a small number of tech companies with adjacencies to artificial intelligence-themed investment spending. As this transformational technology is further developed and its infrastructure established, the market is anticipating impactful deployment and implementation across most sectors of our economy with a broadening impact on equity prices in the future. In fiscal year 2024 the Systems' combined results for US equities outperformed non-US holdings with a net return of 23 percent, compared with healthy emerging market equity net returns of 15.1 percent and developed market ex-US net returns of 7.8 percent.

For the Systems' public fixed income allocations, core fixed income strategy returns were dampened by continued strength in the US economy and a slow and uneven decline in domestic inflation, both contributing to the Federal Reserve Bank's interest policy committee's reluctance to cut official interest rate following their last interest rate hike in July 2023. At times, the market was pricing in expectations for several 25 basis point rate cuts in fiscal year 2024 but was disappointed when official rates were held steady at the prevailing range of 5.25-5.50 percent. The result of consistent and relatively high official interest rates and a general increase in base US Treasury rates contributed to a net return of 2.8 percent across the Systems' Core Fixed Income holdings. The strength of the economy, however, was positive for the Investment Grade and High Yield credit positions, with lower default rates and tighter credit spreads supporting a net return for the Systems' High Yield bond holdings of 10.1 percent.

Reflections on Private Markets

Once again, the Systems' Infrastructure holdings continued to deliver strong returns with a high level of income and a meaningful inflation hedge through concentrating in sectors including energy transition, digital infrastructure, and transportation. Our combined portfolio net return for Infrastructure in fiscal year 2024 was a respectable 10.3 percent. Across the Systems' Alternatives holdings, this performance was only exceeded by the Systems' strong net performance in Alternative Credit, where we achieved a healthy 12.3 percent net outcome. Alternative Credit was generally supported by steady and high short-term interest rates (most of the Systems' holdings are floating rate investments indexed to Secured Overnight Funding Rate (SOFR)), and a resilient US economy that limited creditor defaults and drove credit spreads lower. Across the Systems' Private Equity holdings, which is the Systems' largest single alternative asset class, we achieved a net return of 5.1 percent. Headwinds for this important asset class were a continued transition to higher base interest rates and a slow-down in Mergers and Acquisition activities that dramatically reduced portfolio value-creation realizations, company sales/exits, and capital distributions to limited partners. Next, the Systems' private Real Estate (core and non-core) combined portfolios struggled in fiscal year 2024, delivering a negative 7.1 percent return. This disappointing outcome was largely driven by continued challenges in the commercial Office sub-sector, as the market addresses tenant needs, and overcapacity as pandemic remote work protocols continue to be endorsed by many public and private employers in the US. This result, while disappointing, delivered 150 basis point net return improvement relative to its benchmark due to the intentional underweight of Office and Retail holdings and an overweight position in Multi-Family Housing and Industrial Logistics. Lastly, for Police and Fire, the two pension plans that invest in Hedge Fund strategies, the portfolio achieved a net return of 6.8 percent.

Strategic Asset Allocation Update

Throughout fiscal year 2024, the team at BAM was engaged with trustees and respective plan general consultants in analyzing capital market expectations (asset class expected returns, risk, and correlations to other assets) for the next ten years as part of a Strategic Asset Allocation (SAA) review. The impetus for this review was a change in legislation for the State of New York that expanded the Systems' potential allocation to non-traditional assets, primarily alternative investments. This change increased the potential allocation from 25% of total portfolio holdings to a new maximum 35%. Armed with an expanded opportunity set of investment allocation options, amended asset allocations were recommended to trustees for their respective plans and were approved and largely implemented in fiscal year 2024 (Alternative/Private market increased allocations will be achieved through a multi-year Pacing Plan in an effort to gain vintage year diversification). The importance of a plan's SAA decision is widely recognized by investment professionals as they account for nearly 90% of return variability over time.

While the capital market assumptions mentioned above are key inputs of SAA decision-making, other inputs were considered as longer-term themes that will drive key economic factors that directly impact investment outcomes over time, namely GDP growth, inflation, productivity, public spending, and private investment. The themes and considerations we believe will influence long-term outcomes include the following:

1) Decarbonization, response to climate change
2) Demographics, impact of an aging population
3) Deglobalization, on-shoring, near-shoring, friend-shoring
4) Technological transformation, Artificial Intelligence (AI)
5) Sovereign Debt Sustainability
6) Geopolitical Developments

While we are not thematic investors, we will continue to monitor and assess the impact of these considerations on the Systems' portfolio returns over time. At this time we do not anticipate re-assessing the Systems' SAAs for at least three years.

See detailed SAA changes in the Appendix.

Conclusion and Looking Forward

The combined performance of net returns for the five NYC pension systems of 10.0% in fiscal year 2024 was strong relative to the seven percent target rate of return, established benchmarks, and our peers. Although not all asset classes delivered positive outcomes and performance relative to expectations, the overall result underscores the benefits of diversification and the portfolio resiliency achieved through owning a mix of uncorrelated investments across a range of public and private/alternative market asset classes and strategies. As we know, investment performance may vary widely year-to-year due to developments beyond the control of even the most astute institutional investor. As long-term investors, we seek to achieve our target rate of return over an extended period, recognizing that the retirement benefits earned and promised to plan participants and beneficiaries stretch well into the future.

In the coming months and throughout fiscal year 2025, we will be focused on recommending investment opportunities to trustees that meet the unique needs of each of the five NYC pension plans, seeking to achieve strong and consistent risk-adjusted returns over time and through market cycles. Our efforts will center on partnering with the very best investment managers in the world, and thoughtfully constructing portfolios designed to deliver consistent outcomes within established risk tolerances and priorities. This will be achieved through a dedicated team of diverse and talented individuals within the Comptroller’s Bureau of Asset Management, with a sole focus of delivering excellent investment advice and service to plan trustees in support of fulfilling NYC’s long-term pension obligations. This will include working closely with plan general and specialty consultants to achieve desired outcomes. Lastly, delivering pension investment support, service, and outcomes requires an unwavering commitment to our collective fiduciary obligations in a proactive, efficient, and impactful way and will continue to be our mission.

Disclosures

Information presented is current as of the date of this publication only. Past performance does not guarantee the future performance of any manager or strategy. The performance results and historical information provided herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, these results are not indicative of the future performance of any strategy, index, fund, manager or group of managers. This program does not constitute investment advice and should not be viewed as a recommendation to purchase or sell any investment product included herein.

Appendix

		TRS - Rocaton			NYCERS - Callan			Police - Wilshire			Fire - NEPC			BERS - Segal Marco		
		Old	New	Diff	Old	New	Diff	Old	New	Diff	Old	New	Diff	Old	New	Diff
Public Equity	U.S. Equity	25.0%	24.0%	-1.0%	27.0%	23.5%	-3.5%	30.0%	26.0%	-4.0%	27.0%	24.5%	-2.5%	31.0%	34.0%	+3.0%
	Dev. World ex-US	10.0%	12.1%	+2.1%	12.0%	11.6%	-0.4%	8.0%	6.5%	-1.5%	9.0%	9.0%	+0.0%	10.0%	9.0%	-1.0%
	Emerging Markets	9.5%	4.9%	-4.6%	5.0%	4.9%	-0.1%	5.0%	3.0%	-2.0%	6.0%	6.0%	+0.0%	6.0%	4.0%	-2.0%
	Total Public Equity	**44.5%**	**41.0%**	**-3.5%**	**44.0%**	**40.0%**	**-4.0%**	**43.0%**	**35.5%**	**-7.5%**	**42.0%**	**39.5%**	**-2.5%**	**47.0%**	**47.0%**	**+0.0%**
Public Fixed Income	Core FI	25.0%	24.5%	-0.5%	22.5%	23.5%	+1.0%	16.0%	20.0%	+4.0%	21.0%	19.0%	-2.0%	16.0%	21.5%	+5.5%
	High Yield	4.5%	5.0%	+0.5%	3.0%	5.0%	+2.0%	7.0%	9.0%	+2.0%	6.0%	7.0%	+1.0%	8.0%	6.0%	-2.0%
	TIPS	3.0%	-	-3.0%	3.0%	-	-3.0%	3.0%	-	-3.0%	4.0%	-	-4.0%	3.0%	-	-3.0%
	Convertibles	-	-	-	2.0%	2.0%	+0.0%	2.0%	-	-2.0%	0.0%	-	+0.0%	-	-	-
	Total Public Fixed Income	**32.5%**	**29.5%**	**-3.0%**	**30.5%**	**30.5%**	**+0.0%**	**28.0%**	**29.0%**	**+1.0%**	**31.0%**	**26.0%**	**-5.0%**	**27.0%**	**27.5%**	**+0.5%**
Public Other	Cash	-	0.5%	+0.5%	-	0.5%	+0.5%	-	0.5%	+0.5%	-	0.5%	+0.5%	-	0.5%	+0.5%
	Total Public Other	**0.0%**	**0.5%**	**+0.5%**	**0.0%**	**0.5%**	**+0.5%**	**0.0%**	**0.5%**	**+0.5%**	**0.0%**	**0.5%**	**0.5%**	**0.0%**	**0.5%**	**+0.5%**
												-				
Alt. Assets	Private Equity	7.0%	10.0%	+3.0%	8.0%	10.0%	+2.0%	8.0%	10.0%	+2.0%	8.0%	12.0%	+4.0%	9.0%	8.0%	-1.0%
	Private Real Estate	7.0%	8.0%	+1.0%	7.5%	8.0%	+0.5%	7.0%	7.0%	+0.0%	7.0%	7.0%	+0.0%	8.0%	8.0%	+0.0%
	Private Infrastructure	4.0%	5.0%	+1.0%	4.0%	4.5%	+0.5%	3.0%	4.0%	+1.0%	3.0%	5.0%	+2.0%	4.0%	4.0%	+0.0%
	Private Credit	5.0%	6.0%	+1.0%	6.0%	6.5%	+0.5%	5.0%	7.0%	+2.0%	4.0%	6.0%	+2.0%	5.0%	5.0%	+0.0%
	Hedge Funds	0.0%	0.0%	+0.0%	0.0%	0.0%	+0.0%	6.0%	7.0%	+1.0%	5.0%	4.0%	-1.0%	0.0%	0.0%	+0.0%
	Total Alt. Assets	**23.0%**	**29.0%**	**+6.0%**	**25.5%**	**29.0%**	**+3.5%**	**29.0%**	**35.0%**	**+6.0%**	**27.0%**	**34.0%**	**+7.0%**	**26.0%**	**25.0%**	**-1.0%**

Source: State Street