NEW YORK CITY COMPTROLLER
BRAD LANDER

Spotlight

New York City Pension Fund Returns for FY 2023

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Introduction

The Office of the New York City Comptroller serves as investment advisor, custodian and trustee for the five New York City public pension funds (collectively referred to as the New York City Retirement Systems, or NYCRS). 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 $250 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, 2023, the five City pension systems achieved a robust 8.0% 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 $550 million over the next five fiscal years, leaving more funds to meet current obligations.

Every year, the City of New York makes deposits into each of the five pension funds – Teachers Retirement System of NYC (Teachers), New York City Employees Retirement System (NYCERS), NYC Police Pension Fund (Police), NYC Fire Pension Fund (Fire), and NYC Board of Education Retirement System (BERS) – as determined by the City Actuary. The trustees of each 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 funds.

When returns are above the 7% target rate set by the State, as they were in FY21, the City budget is adjusted to require lower deposits; when returns are below that rate, as they were in FY 22, the City must contribute additional funds. 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, they follow one of the worst stock 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 7-year return of 7.9%:

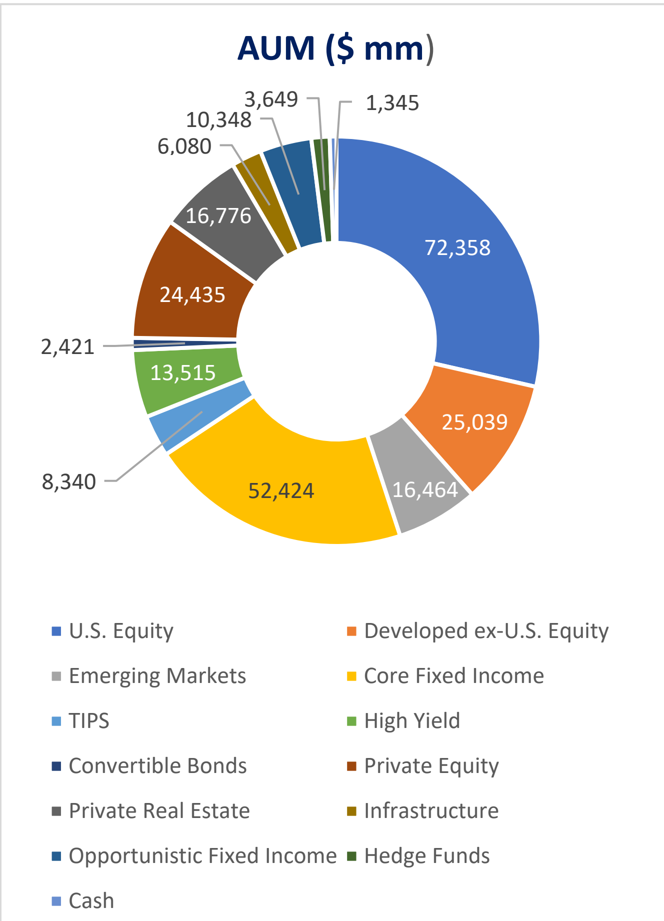
Table 1: NYC Combined Pension System Annualized Returns, Net of Management Fees for Periods Ended June 30, 2023

1 Year	3 Year	5 Year	7 Year
8.0%	7.5%	6.8%	7.9%

The pension funds' total assets under management at the close of the 2023 fiscal year stand at over $253 billion. The "funded ratio" (i.e. the percentage of assets against total obligations for the decades to come) for the combined funds was 82% (calculated as of June 30, 2022, 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 path to achieve 100% funding by 2032.

The funds' assets are diversified across asset classes, with approximately 45% in public equities (i.e. corporate stocks), 30% in public fixed income (i.e. government and corporate bonds), and 25% in private markets alternatives (e.g. private equity, real estate, infrastructure, private credit). Fund trustees, working with the Bureau of Asset Management and the Board's consultants, make decisions on the funds' asset allocations based on factors including economic risk, return, performance, and beneficiary distributions.

Chart S.1: Assets Under Management (AUM)



Strategy	AUM ($ mm)
U.S. Equity	72,358
Developed ex-U.S. Equity	25,039
Emerging Markets	16,464
Core Fixed Income	52,424
TIPS	8,340
High Yield	13,515
Convertible Bonds	2,421
Private Equity	24,435
Private Real Estate	16,776
Infrastructure	6,080
Opportunistic Fixed Income	10,348
Hedge Funds	3,649
Cash	1,345
Total Investments	**253,194**

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

This past year, inflation hit levels not seen since the 1980s and investors were met with the most aggressive Federal Reserve rate hiking cycle in 40 years. Rapidly shifting geopolitical risk factors against the backdrop of COVID-induced supply line disruption, the outbreak of war in Europe, and heightened geopolitical tensions increased economic uncertainty. Despite this uncertain environment, the US economy demonstrated exceptional stability and growth, underscored by a resilient job market and low unemployment. The economy staged a robust post-COVID recovery, bolstered by the federal CARES and ARP Acts, followed by an investment boom sparked by the CHIPS and Inflation Reduction Acts. This strong economic backdrop lifted both corporate profits and consumption, giving tailwinds to equity markets.

The New York City pension fund portfolio blends asset classes with an expectation that certain asset classes will perform better in particular years than others. For this fiscal year, in summary, public markets accounted for the majority of returns, while alternatives delivered close to flat performance. This stands in contrast to 2022, one of the worst years for public equities in recent decades, during which private markets accounted for a disproportionate percentage of the funds' positive returns.

Reflections on Public Markets

In FY 2023, following an initial drop in inflation, public equities rebounded strongly. The MSCI ACWI rose 17% after a decline of 16% in FY 2022. By the year's end, public equities contributed over 91% to NYCRS' returns. This follows a negative impact from public equity in 2022, reaffirming the value of maintaining a diversified asset portfolio.

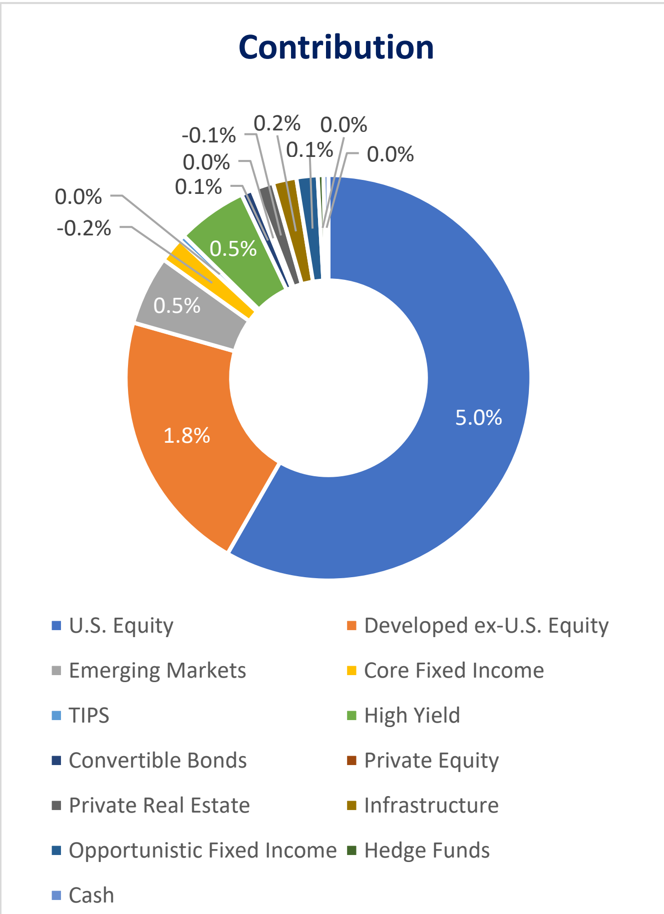
In fixed income, 2023 saw a partial rebound in returns in rate-sensitive markets. A rise in 10-year interest rates from 2.8% to 3.8% (resulting from the Federal Reserve Board's efforts to control inflation) put general downward pressure on fixed-rate bonds. Credit assets performed strongly in the second half of FY 2023, bolstered by resilient corporate earnings and ample cash buffers in the face of the rates-hiking cycle.

Reflections on Alternatives

Infrastructure continued to generate consistently stable returns with a high level of income while providing a strong hedge against inflation, with a portfolio concentrated in sectors including energy transition and digital infrastructure. Real estate holdings also continued to generate income and diversification benefits despite downward price pressure in certain sectors such as commercial office markets (as a result of the shift to remote work). In private equity, 2023 saw a reduction in mergers and acquisitions resulting in decreased distributions, while valuations were marked lower in the second half of the fiscal year. Hedge funds generated positive returns despite mixed results in macro-defensive strategies.

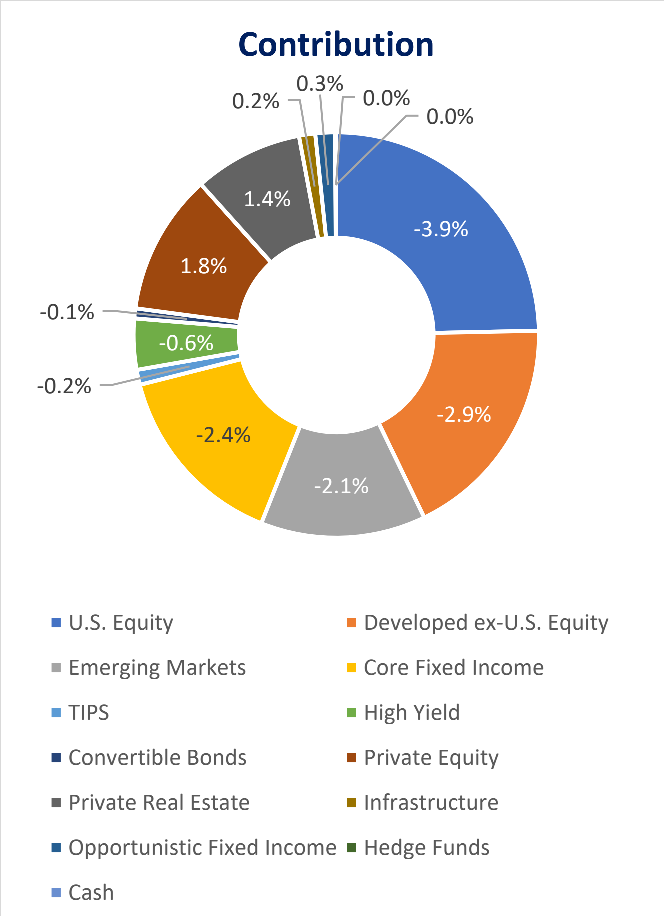
A recent analysis conducted by BAM found that private markets investments, net of fees, have delivered strong returns and diversification over the past [7] years. Despite the slowdown in exits, investors continue to witness strong value creation and BAM expects private equity to continue to provide strong performance in the long run.

Chart S.2: Contribution to Return, Year Ended 6/30/23



Strategy	Contribution
U.S. Equity	5.0%
Developed ex-U.S. Equity	1.8%
Emerging Markets	0.5%
Core Fixed Income	-0.2%
TIPS	0.0%
High Yield	0.5%
Convertible Bonds	0.1%
Private Equity	0.0%
Private Real Estate	-0.1%
Infrastructure	0.2%
Opportunistic Fixed Income	0.1%
Hedge Funds	0.0%
Cash	0.0%
Total Investments	**8.0%**

Chart S.3: Contribution to Return, Year Ended 6/30/22



Strategy	Contribution
U.S. Equity	-3.9%
Developed ex-U.S. Equity	-2.9%
Emerging Markets	-2.1%
Core Fixed Income	-2.4%
TIPS	-0.2%
High Yield	-0.6%
Convertible Bonds	-0.1%
Private Equity	1.8%
Private Real Estate	1.4%
Infrastructure	0.2%
Opportunistic Fixed Income	0.3%
Hedge Funds	0.0%
Cash	0.0%
Total Investments	**-8.6%**

Responsible Fiduciary Investing (aka "ESG")

As long-term investors, the New York City Retirement Systems look to mitigate risks and maximize opportunities to deliver strong risk-adjusted returns. Through engagement with asset managers across public and private markets, shareholder advocacy with portfolio companies, proxy voting, and economically targeted investments, the Bureau of Asset Management works to reduce risks that could affect the long term returns of the NYCRS funds.

Responsible fiduciary investing takes into account environmental, social, and governance (or "ESG") risks facing individual companies and asset managers, asset classes, and the economy as a whole, in order to deliver stronger long-term, risk-adjusted economic returns. Whether that is looking at how a company treats its workers, how climate change may impact their business model, or whether they have good guardrails on governance issues like board independence or insider trading, responsible investing means assessing risks that may impact financial returns.

For large, long-term investors whose portfolios are invested very broadly across the economy, exposure to systemic risks in the economy –like climate change and inequality – cannot be diversified away. As a result, responsible fiduciary investing can include systemic stewardship to address these risks. Over the past year, the NYCRS funds deployed a range of ESG strategies to mitigate specific and systemic risks facing the Systems' portfolio.

In April 2023, after the completion of in-depth economic analysis, three of the City's pension funds – Teachers, NYCERS, and BERS – announced their Net Zero Implementation Plans, to protect and strengthen their portfolios by achieving net-zero emissions by 2040, building on their earlier decisions to divest from fossil fuel reserve owners. Their ambitious plans, involve disclosing emissions annually across Scopes 1, 2, or 3 – standards used to measure different sources of GHG emissions from a company's operations – and setting interim reduction targets; engaging asset managers and portfolio companies to set science-based targets and take active steps to decarbonize; divesting to de-risk their portfolios where sustained engagement does not succeed; and significantly increasing investments in climate solutions.

The funds also brought shareholder resolutions at a range of publicly-traded companies as part of their ESG/corporate governance strategy. One significant area of work during the past year was seeking to protect workers' freedom of association to form and join unions and bargain collectively. In response to a NYCRS' resolution, Apple voluntarily agreed to conduct a third-party assessment of its labor practices. After Starbucks did not agree to do so voluntarily, 52% of investors voted in favor of the NYCRS resolution, a historic win for investors who believe that respecting worker's rights is key to a company's long-term flourishing. BAM also advocated successfully for workers' freedom of association at a range of companies held in NYCRS' private markets portfolios. In contrast, major North American banks resisted shareholder resolutions calling on them to adopt climate strategies consistent with their previously stated goals, including NYCRS' resolutions urging JP Morgan Chase, Goldman Sachs, Bank of America, and Royal Bank of Canada to adopt absolute emissions targets aligned with a science-based net zero emissions pathway.

Other areas of NYCRS' responsible fiduciary investing attention this year included diversifying corporate boards, disclosing EEO-1 statements (which has become a standard corporate practice, following sustained NYCRS advocacy) and diversifying the funds' own asset managers.

As NYCRS' strong economic performance this year and over the long term shows, responsible fiduciary investing that takes environmental, social, and governance concerns into account to address both specific and systemic risks is highly consistent with fiduciary duty and achieving strong risk-adjusted returns for the plans' beneficiaries.

Conclusion and Looking Forward

Overall, the 8.0% return for FY23 represents strong performance relative to NYCRS' benchmarks and peers. As noted above, market performance varies widely from year-to-year, with forces far beyond the control of any individual investor. NYCRS' diversified asset allocation and portfolio construction — with a balance of both public and alternative assets across geographic regions — is designed to weather these swings as effectively as possible, with a focus on long-term returns.

In the coming months, the NYCRS systems are embarking on "strategic asset allocation reviews," a process undertaken every three to five years, in which trustees, after an intense strategic review of market trends in partnership with BAM and each fund's general consultant, adjust their target allocations to each asset class for the coming years. The current asset allocation process benefits from improved flexibility stemming from legislative changes in 2022 to the New York State Retirement and Social Security Law (RSSL), strongly advocated by the Comptroller, increasing the maximum allowable allocation to "basket assets" (nontraditional assets including many private asset classes) from 25% to 35%. This change will allow for the opportunity to continue to diversify the portfolio in pursuit of strong and resilient long-term risk-adjusted returns. As we face the future, the Comptroller's Bureau of Asset Management remains committed to responsible fiduciary investing, in partnership with pension fund trustees, while providing first-in-class transparency and accountability, in order to deliver strong returns and fulfill the promise of retirement security for New York City's dedicated public sector workers.

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