News and Analysis

News | **Pension Plans**

NYC retirement system reports growth, but warns that good times may not last

The $175bn funds' fiscal-year performance to date were in the 9-11% range, well above the city's assumed 7% rate of return

Dietrich Knauth | 22 Jun 2017

The $175bn **New York City Retirement Systems** reported higher-than-expected growth in the beginning of 2017, but its CIO warned against complacency, saying that some of the factors driving that growth are not sustainable in the long run.

The funds' fiscal year performance to date was in the nine to 11% range, well above the city's assumed 7% rate of return, CIO **Scott Evans** said at the funds' quarterly public meeting. But with much of the growth driven by "ebullient" markets, the funds remain in a "dicey situation, fraught with risk," he said.

"This is not normal – rates are low, valuations are extremely high, and volatility is extremely low," Evans said. "This is as good as it gets, so we should not be complacent. We should be sure to rebalance frequently to keep our portfolio taut, because we're going to get hit by a wave sooner or later. We can't predict when it will come."

0 - 12

The systems are concerned about the level of quantitative easing, which has been high ever since the 2008 financial crisis, mixed market signals stemming from low Treasury yields and high stock prices, and uncertainty around the possibility that President **Donald Trump** will appoint a new U.S. **Federal Reserve** chair with different policies than current chair **Janet Yellen**.

The fund's strategy is built for the long-term, so it won't overreact to short-term changes in the market, but riding high now doesn't mean that the fund can take its recent growth for granted, Evans added.

"We're a pension fund, we don't turn for shore when the wave comes, we are designed to make it through," Evans said. "But it's going to be more volatile and the returns are going to more choppy than what we're experiencing now. We have to be ready for that, and we can't think that this is normal."

The recent quarter was "good, and fairly dull" for the funds, with return for the portfolio slightly exceeding the benchmarks around 8%, Evans said. The excess return, which Evans characterized as "positive, and modest," is a result of asset allocation and manager value added.

Fiscal year to date, manager value added was positive for all funds, except the **Teachers Retirement System** (TRS). But for the three-year trailing period, manager value added was negative for all funds except the **Board of Education Retirement System** (BERS).

"Managers have been performing better than they have been historically, which is good, because we were frustrated with that," Evans said.

Equities were fairly flat in the first quarter, as most of the funds' equity managers struggled to keep up with their benchmarks, Evans said.

"We're a little overweight small cap, and small cap was by far the strongest part of the sector, so net-net it kind of evened out," Evans said.

International, and especially emerging markets, was another area where the funds' managers outperformed expectations.

"Emerging markets were by far the strongest part of the international market, and our managers did super, all but one of them outperforming the benchmark," Evans said. "So nothing but happiness in emerging markets."

The funds are close to meeting their asset allocation targets, remaining a little overweight on U.S. equity and international equity, and a little underweight on high-yield fixed income investments, Evans said. The funds are in the middle of a procurement for high-yield fixed income, and while that process drags on, the funds plan to hold assets earmarked for high-yield fixed income in other asset classes that can serve as proxies for high yield, he said. Those placeholder allocations will be decided within a month or so, Evans said.

"We're going to have temporary placeholders for high yield until we're able to get the procurement done and get the money invested," Evans said.

The five pension funds comprising the systems are the **New York City Employees' Retirement System** (NYCERS), the Teachers' Retirement System of the City of New York (TRS), the **New York City Police Pension Fund** (POLICE), the **New York City Fire Department Pension Fund** (Fire), and the New York City Board of Education Retirement System (BERS).

Investor Profile

New York City Retirement Systems

Topics

Donald Trump **Janet Yellen** **New York City Board Of Education Retirement System** **New York City Employees' Retirement System** **New York City Fire Department Pension Fund** **New York City Police Pension Fund** **New York City Retirement** **New York City Teachers Retirement System**

0 - 12