The New York Common Retirement Fund - With Anastasia Titarchuk, CIO

Simon Brewer

We've been exploring the world's super allocators whose immense size of assets offers potential buying power and access. It could simultaneously suggest rigidities in layers of decision-making. But we're learning how different these large institutions are in approach and dispersed in investment decisions. To help complete our understanding, we're going to examine these questions through the prism of one of the largest US public pension plans, the New York State Common Retirement Fund, over $250 billion dollars in assets and more than 1 million members. And to help us explore their purpose, decision-making, investment approach and execution, we're going to New York, and I'm delighted to welcome Anastasia Titarchuk, if I pronounced that correctly. Anastasia?

Anastasia Titarchuk

I think you did very well, Simon. Thank you for having me and thank you for the pronunciation.

Simon Brewer

I have to ask you, it's a great name. Tell me the origins of that name.

Anastasia Titarchuk

Well, I don't know if I could say it nowadays, but I grew up in Russia until I was about 14 years old.

Simon Brewer

You can certainly say that. That's absolutely fine.

Anastasia Titarchuk

But the last name is Ukrainian, in case I need to balance it out.

Simon Brewer

Right. Well, perfect. Well, let's start with your education. I see that you studied maths at Yale and succeeded with many distinctions. I'd just like to know, why Yale?

Anastasia Titarchuk

It was by accident, if I could be honest. I actually have a twin sister who went to Harvard and we applied to four schools. Three were the same, and then I think we both decided let's try an Ivy League school at the time. And at the time, there was no common application, I don't think, or maybe it was in the infancy so it actually was work to apply to different schools, and it cost money so we picked four. Once we both got into Yale and Harvard, there was a lot of pressure on us and my parents to send us there. So that's why, by pure chance, I went to Yale and she went to Harvard.

Simon Brewer

Did she study maths as well?

Anastasia Titarchuk

I believe her major was computer science.

Simon Brewer

Okay, well, that's good. You had something else to talk about at the dinner table other than maths. So what struck me was you have made that transition in your career from sell side to buy side. So let's just start out because I see what appears to be an equity derivative specialist at JP Morgan and then Barclays Capital and Bank of America latterly, before you changed roles. What drew you to the sell side of Wall Street?

Anastasia Titarchuk

I initially went to sell side because once you get to some of these Ivy League schools, there are a few popular majors. There's the pre-med track, the Econ track, the Poli Sci, the consulting track. So very early, you get exposure to things that I didn't necessarily know about before college. So when I entered college, I actually wanted to be a chemical engineer and then I figured out that it wasn't the place for that. And honestly, financially, it was much more lucrative to go to the sell side. And I got a little bit of the sell side experience from my older sister who was working for banks. Initially, my interests came naturally. I liked finance, I liked economics. I always paid attention to global markets and partially it was because I was still very recently an immigrant to the States. So of course, I cared about what was happening in the rest of the world. So early in my career, I had an internship in emerging markets for that reason because I cared about Russia and the rest of the emerging markets. And then it sort of naturally evolved. Once I had the internship at JPMorgan, they gave me a full-time offer. Derivatives were the hot thing at the time of any kind, credit or equities, and with a quantitative background, it was a more natural place for me to go to. So that's really how I ended up on the sell side.

Simon Brewer

It looked to me as if you were Lehman's when the crisis unfolded. If that was the case, I wonder what reflections you have of that traumatic time.

Anastasia Titarchuk

That probably transitions well into one of your other questions, how I made the change from the sell side to the buy side. I was at Lehman, and honestly, the timing was poor, but I thought it was a reasonable career decision for me to make at the time. It was a role that required building some new businesses and having a bigger team responsibility. But obviously, the timing wasn't great. And then I did make the transition to Barclays. But my business of complex structured products wasn't really popular during the GFC or immediately after. And then I spent a year at Bank of America. But essentially, as I look back at those three years or so, I thought, well, I haven't really made any money and I really don't enjoy what I do anymore, so I'd like to do something else. And as everybody probably knows, when you start talking to people about changing careers, it's hard because a recruiter is always going to want to put you into the same job that you were doing before. That's the easiest thing. The easier way to do it is through networking, which is still hard. And making the transition from sell side is easier to the buy side if you're going to a public institution. There are reasons for it, pay being one of them. I got introduced to New York Common through one of my old bosses at Lehman and the rest is history. Now I've been here for 11 years.

Simon Brewer

What struck me as well is that this fund is widely regarded as one of the nation's best-managed and best-funded pension plans, and I wonder whether you could set the stage about this organization.

Anastasia Titarchuk

So there are a number of reasons for it. But historically, I can't take credit for all it because it was a pioneer in some of the alternative asset classes and it was a pioneer of a balanced approach to investing, now we're talking back 30 years or so. And it always had very professional management. We've had bumps along the way, but it's worked. It's a unique state in that it's a sole trustee structure. So the controller is my boss, and he is the sole trustee who delegates investment authority to me, but he does sign off on every investment that we make. I think this trustee has been around for all of my tenure, and he's very reasonable and supportive of the investment organisation, and that definitely contributes to the organisation's success. The other big component is the structure of the New York State Constitution. By law, the state cannot skip the contractually required funding for the pension fund. So unlike many of our neighbors and peers, we're fully funded because we never took contribution holidays. So as our fiscal year end, which was in March, we were over 100% funded. That's going to come down a little bit this year because we have taken some write downs, especially on the public equity side, but it's still going to be one of the best-funded pension funds in the States.

Simon Brewer

So having been an alumni of Yale, I have to ask you, did you study with, learn from, or have you followed at all the lessons of the late great David Swensen?

Anastasia Titarchuk

David was very kind with his time, and he did actually sit down with me unfortunately not long before he passed away to talk about investing in the fund. I shared our investing approach and he talked a little bit about his. His verdict was that we take a very reasonable approach to investing. A fund of our size is very different than an endowment of a fifth of the value perhaps, or any kind of large-size endowment that you can think of. There are both advantages and disadvantages. Sometimes because of our size, we can drive terms, but we also can’t be as nimble as an endowment can be, and we have other restrictions by the virtue of being a public entity.

Simon Brewer

So set the investment goals, please, so we can understand what we might refer to as the strategic asset allocation or at least the requirements of your asset allocation.

Anastasia Titarchuk

So we have a 5.9 actuarial expected rate of return, which again, for a US pension fund is considered reasonable. It's on the lower end of things. So the goal is to meet that return with the least amount of volatility with the restrictions that we have on our investments. And some of these restrictions are serious. We used to be limited to essentially no more than 25% in alternatives, and even had restrictions that we couldn't invest more than 10% in international equity. We've just had that lift a little bit. So that restriction is now 35%. So all of your alternatives go into what we call a basket. That's 35%. So, again, that gives us a little more flexibility. But that will prohibit us from ever looking like an endowment that might invest 50% of their assets in private equity, for example.

Simon Brewer

Yes, I think that Yale even today has less than 20% in public equities. So presumably, your large allocations are to public equity markets and public debt markets. And so the question that follows is, active or passive?

Anastasia Titarchuk

For the most part, we take the approach that in developed markets, we will be passive because we think alpha is hard to come by, and we'll be more active in markets that we consider inefficient. And we tend to outsource the active management to outside funds.

Simon Brewer

And so therefore, am I right in saying that this important allocation to private markets is where more time is spent on manager selection and on the particular investment categories?

Anastasia Titarchuk

That's fair. Another way to think of our private and public allocations is our global equity is going to be the largest driver of nominal return, but something like private equity is expected to have the highest absolute return.

Simon Brewer

So tell me a little bit about how you approach that whole private equity space, because we've seen very different variations from the sovereign wealth funds and from other pension funds like Ontario Teachers'. Just describe how you go about it.

Anastasia Titarchuk

So we have today about a 15% allocation to private equity. The most important thing for us is to have consistency, because we've all lived through many market downturns and our historical experience shows us that for a fund like us, we can't really market time anything and especially we can't market time private equity. So we try to have vintage year diversification. And we also have done historical analysis of where we've done well and where we haven't done well. So given our size, we're always going to invest in some of the big players, that's sort of our beta, and then we try to have alpha on top of it. And we're pretty agnostic where in the world we'll invest but certainly, maybe because of my personal biases, I tend to invest less in places where the rule of law, let's say, is less clear. And we have a pretty large co-investment program. One of it is run by a partner, but we also have separate co-investment vehicles as well.

Simon Brewer

It struck me that the very interesting and very clear strand within your investment thesis is real assets, which is particularly topical as we deal with an inflationary impulse which might prove to be more than a transitory thing. How have you approached real assets?

Anastasia Titarchuk

So real assets in the lifespan of our fund is relatively new for us. We started the program about 10 years ago and we've been very ramping it up. We definitely started it and I think we're not unique in that with a thought of how can we have a differentiated stream of returns, and something that may also help us in an inflationary environment. As I sit here today, I wish I had a larger portion of the fund in real assets. Now, both from a standpoint of developing a new asset class but also because of our restrictions, we couldn't get much bigger than we are at today. We might grow it a little bit because now we have a little bit of flexibility in that 35% basket, but it's hard. It's hard to be a large fund and protect yourself against inflation.

Simon Brewer

So what's in those real assets?

Anastasia Titarchuk

A lot of our real assets program is infrastructure. We're not big investors in traditional energy. We haven't been. We have various types of infrastructure, not just traditional things, but let's say digital. And then there are other things that we don't like to invest in. We are not a commodities investor, so we don't have that. And we have a little bit of agriculture. But again, we sort of tried it for size, it hasn't been clear that there's a very strong case for us to do Ag, which is why the portfolio is mostly infrastructure.

Simon Brewer

Can you give me some examples of the types of infrastructure investments that you prefer?

Anastasia Titarchuk

It depends. There's core infrastructure, which will take very little development risk, and that's a lot of contractual cash flows. I don't think we're particularly for or against anything other than we're not big investors and traditional energy, but we'll look at cell towers through funds, we'll look at toll roads, airports, whatever it might be.

Simon Brewer

The other strand is that you seem to have an emerging manager program. Tell us a little bit about how you deal with your size and then for it to make sense when you go to emerging managers.

Anastasia Titarchuk

So on this front, I would also like to think that we were a bit of a pioneer because we were doing it certainly before my time and before it was popular. It's something that the controller is very passionate about. The idea of the program is really the double bottom line, as the controller likes to say. One, we believe that emerging managers are just naturally hungry. When you're on fund one or just started your business, I think there is that extra incentive to make sure that you succeed. So that's an argument of why an emerging manager would outperform. And then the second bottom line is we do want to promote women and minorities to the extent that we have. So that's the historical genesis of that program. It started initially, I believe, in equities and private equity and developed over the years. We've also developed how we do it. We've learned. Early on, I think we mostly tried to do it through the fund-of-funds model. But then as we evolved and some of the alpha became harder to find, we realized that we needed to change the fee structure a little bit so we weren't losing the benefit of the extra returns from emerging managers by let's say paying an extra layer of fees to fund of funds. So we still use fund of funds. They're structured a little bit differently. Sometimes we go direct, sometimes we structure co-investments and other vehicles to help us drive return in that program.

Simon Brewer

How do you find them and how do they find you?

Anastasia Titarchuk

Actually, the timing was a little bit fortuitous. We just had our emerging manager conference in Albany. We always have it in mid-February, so that's an annual event. We had about 800 people who came to our events, but that answer is how do they find us. If you want to find us, we hold a really big event every year, and obviously, that's the best way to meet the staff and our partners. We walk all the asset classes through how we structure the emerging manager program, who the program partners are, how it works, what we look for. So that's one way, but there are ways to find us other times of the year as well. First of all, this controller is very passionate about transparency. So that means a lot of the information is available on our website. Our website has our annual report, it has our holdings, it has the asset classes that we have. There's even a listing of all of our fund investments, so someone can get an idea of size from there. And then on the emerging manager front, I have a team of people that's dedicated just to emerging managers and they work with relevant asset classes.

Simon Brewer

Got it. Now, we are perhaps in this changing investment climate. You've talked about size being a realistic challenge to move your asset allocation substantially. How have you gone about thinking about what might be a changing investment climate and what are you doing in response to that?

Anastasia Titarchuk

Size is definitely a challenge. I always tell the people that I don't think a public fund like ours, of our size, can be nimble. So it's very hard to turn the ship around. It's sort of like a supertanker. So market timing doesn't really work for us. We don't have the skills internally to make macro calls, and we're slow. So even if I had a bit of a macro edge, you have to be right twice. You have to be right in both your buy and the sell decision. So we tend not to really do it. Where we do it is we do it on the margins. Now, as we've just talked about, we might look to incrementally increase our real estate or real assets allocation within our constraints. We will look to adjust our allocations within an asset class. So for example, what that means for me right now is in private assets, there's less capital available this year and a lot of it has to do with the fact that public assets have sold off. So a lot of people suddenly have alternative allocations that look much bigger than the plan. So fundraising environment for even the best funds is more difficult. So that puts somebody like New York Common into a better position to negotiate, to get access, to co-invest, etc. And we might look at strategies that we wouldn't otherwise consider because maybe they wouldn't be open to us or our size, but we might consider them now because of that.

Simon Brewer

So I'd like to turn to a question raised by Luba Nikulina, who we both know. She kindly introduced us to you and she was a guest when she was at Willis Towers Watson. She's now at IFM Investors, an Australian organization that's actually owned by 17 world's leading pension funds doing some very interesting work.

Anastasia Titarchuk

That's right. And we know them.

Simon Brewer

Great. So she raised the question of ESG, because we've had this recent, I suppose, we use the word spat where the Department of Labor unveiled this rule in the US that allowed retirement managers to consider ESG factors and then President Biden has been pushing for inclusion. There's been some pushback on this. So what's your take on the world of ESG and how you want to interpret and incorporate it?

Anastasia Titarchuk

So I think ESG has become very politicised, and that's not a debate that I want to venture into because that's not my area of expertise. I want to invest, not create political waves. But the way the fund has approached ESG is to say look, ESG is important and you should evaluate ESG factors when they're relevant. So our approach is not to say that everyone has to evaluate themselves on every single ESG factor. But the way I would describe it is, look, if there are two companies that essentially have the same revenue, they have the same business model, and one company is dirtier than the other, well, which one would you pick if they're identical investments? So that's where it matters. And it matters. Maybe it's not relevant to you because your jurisdiction doesn't care right now, but it might because it's getting a lot of attention. So that's how we approach it. And then we do think that there's a lot of greenwashing in funds that claim to invest on ESG principles, and we're not even sure what that quote means, that perhaps charge higher fees that are not justifiable by returns. And I think that is one of the reasons that a lot of regulators here in the States and in Europe are paying attention to the proliferation of these funds.

Simon Brewer

So as you look out for the next five-plus years, what would you expect to be some of the maybe less expected investment themes that come to play, and along with that, how you might want even the margin to tilt the fund?

Anastasia Titarchuk

I think that's a really hard call. It's clear that we are going to invest a lot of money in the green transition. What that means, I don't know. I think there's a lot of focus right now on renewable energy, and that will come into play. But I also think that human beings are incredibly innovative. So I think we will also figure out how to decarbonise in other ways. So carbon capture is I think something that's quite real, and things like nuclear on a smaller scale might come back as well. So that could be a theme. And I think the younger generations, the generations that are perhaps in college or just getting out of college now really care about sustainability and working with a purpose. So I think that generation will drive that theme as well.

Simon Brewer

And in this global portfolio you're running, which obviously has the US liability at the end of the day, how do you think about currency risk? Or do you not think about currency risk when you venture overseas?

Anastasia Titarchuk

So we do think about currency risk. The number one question that I ask the team when we invest overseas is, what is the purpose of the overseas investment? Because if I'm going to get the same return but I'm taking additional currency risk, that doesn't necessarily make sense for me unless I'm getting a diversifying stream of returns. And to be honest, if we're investing let's say in a private equity fund in Europe, it's not always diversifying to the US private equity because you're going to get some global growth beta in there and then you'll get alpha differentiation. So there has to be a reason for me to go overseas, then we could consider hedging. We haven't for a couple of reasons. One, hedging the currency risk would count towards that basket. So it's expensive. Essentially, the way I think about our basket, it's like a really expensive balance sheet. It better drive return. And in the developed world, hedging currency risk, it does reduce your volatility, but the expected return is zero. So a long answer to say we don't hedge.

Simon Brewer

I've got it, but I'm not sure I understand that expected return is zero. Just help me see that.

Anastasia Titarchuk

Well, I think long term, if you're looking at let's say yen, euro and dollar, you don't expect it to appreciate or depreciate over 10 or 20 years. Like a currency hedge fund, yes, they'll make bets. They'll typically be shorter-term bets and you hope that they have alpha. I'm not sure that there is long-term depreciation of developed currencies. It's different in the emerging world because you routinely have massive devaluations. And one can make an argument or can have a spirited conversation I think with me or anyone else now that maybe we're in a different world now because all of the developed economies have printed a massive amount of money over the last decade or so.

Simon Brewer

Right. So I'd like to move to some general questions, if I may. Having worked on Wall Street and having moved from private to public, what's the biggest challenge that you found?

Anastasia Titarchuk

It's very hard to make the comparison. On Wall Street, I think a lot of the challenge is you literally get evaluated every day. And I would say the bank, regardless what your function is, it's all about making the dollar every day. When you head an asset manager, it's all focused on the long term and you tend to be the client, a very different relationship. You do have other clients that you could say, well, my pension here is on my clients, I'm trying to make the best return, but it's a different pace of life. I think also working for the state versus working for public pension funds would be very different. Some of the people that I see adjusting from a Wall Street environment to pension fund environments struggle because the pace is different. On Wall Street, it's kind of like get the deal done, get the deal done. Here, we might talk to somebody for a few years before we make an investment. There are challenges of both worlds, you just have to navigate them.

Simon Brewer

Got it. One of the things about the investment world alongside others is just the sheer information overload. I wonder what disciplines you put in place to manage that.

Anastasia Titarchuk

So I would say information overload might actually be an advantage when you're sitting at New York Common because when you're on sell side, you're generally fed your own research, and that's one perspective. Here, you have all the research available to you and you can also pick up the phone and literally talk to anybody in the world. You have a general good perspective on what goes on in real estate and fixed income and equities, whatever you might look at. And then I think like all of us, we choose the information that we absorb. So I tend to read a lot of macro research. But I have three or four providers, I like them for certain things, and I focus on them. And then on the asset side, again, you try to synthesise who gives you what and how. There are certain people that are going to be very salesy, and you have to know that, and there are others that are going to be very informative. So I think that's what we do. And then when it comes to developing new relationships, it can be a challenge because at any given moment, there are probably hundreds of funds that are fundraising and it's not realistic for me or anyone else on the team to know them all. So I'm lucky that I have a good team that can synthesise a lot of information before it comes up to me, but it's challenging.

Simon Brewer

You talked about supporting emerging managers. What advice would you give to young people, young women and young minorities thinking about finance as a business?

Anastasia Titarchuk

One of the issues that we have and why there aren't more minorities and women is there are not enough of us on a senior level to serve as role models. But I actually think the desire to have more women and minorities is out there. Women might be an easier one because a lot of men who run shops have children and they have daughters as well so they want to give them as many opportunities as they can have. But I would say just go for it. If I look at the incoming classes for banks, for example, they tend to be pretty diverse. It's higher up in the ranks where it gets harder. It's a challenge because as we get older, we evolve. And I can speak as a woman because that's my experience, balancing a family and moving up in some of these organizations, it's not the easiest thing to do in the world.

Simon Brewer

Got it. Now, you meet lots of people who are great investors, you meet people who are running corporations, who's the one person that you'd really like to meet that you haven't met yet?

Anastasia Titarchuk

I don't know. I meet so many people. If I really want to meet somebody, I'd probably meet them via all the fund relationships that we have. I can say that it's not one person, but I sometimes like to meet politicians. I've met former presidents. I haven't met this president, but it would be somebody like that. It would be a president of a country. It could be US or somebody else. I say that because this is the world that's so different from my day-to-day that sometimes I just like to see how the sausage is really big versus like you read in the paper.

Simon Brewer

If you could wake up tomorrow having acquired one skill that you lack currently, what would it be?

Anastasia Titarchuk

I'd like to be a better public speaker probably. I do plenty of interviews on plenty of panels and I think that's always easier. But when I have to give a speech, I have to be honest that the first few minutes, I'm always a little nervous.

Simon Brewer

Yeah, well, you're not alone with that. But it's true that practice does help in this particular business. Well, that's been really interesting, Anastasia, to be able to understand what a large organization like the New York State Common Retirement Fund does. Its limitations in the sense of size can be an asset and a disadvantage. But I really enjoy the fact that you shared your view of the world and the realism that you have to apply as well. It's going to be very interesting for people who are listeners of the Money Maze Podcast around the world to compare your approach to some of these other very large super allocators. So thank you very much for your time today.

Anastasia Titarchuk

My pleasure. And thank you for having me, Simon.