



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco Employees' Retirement System

RETIREMENT BOARD MEETING MINUTES

Wednesday, February 12, 2020

1145 Market Street, 6th Floor
San Francisco, CA 94103

1:00 p.m.

Please take notice that the Retirement Board will begin its meeting with a closed session item. The Board will take public comment before going into closed session, limited to the topic of the closed session item. The Board will return to open session and begin the public portion of the meeting with General Public Comment, not earlier than 2:30 PM.

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is Dedicated to Securing, Protecting and Prudently Investing the Pension Trust Assets, Administering Mandated Benefit Programs, and Providing Promised Benefits.

RETIREMENT BOARD MEMBERS

President

Joseph Driscoll

Vice President

Leona Bridges

Commissioners

Al Casciato

Carmen Chu

Scott Heldfond

Ahsha Safaí

Brian Stansbury

Executive Director

Jay Huish

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Sunshine Ordinance Task Force
City Hall
1 Dr Carlton B. Goodlett Place, Room 244
San Francisco, CA 94103-4689
(415) 554-7724
by fax at (415) 554-7854
or by email at sotf@sfgov.org

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OPENING CALENDAR

1. Pledge of Allegiance

2. Roll Call

Commissioner Leona Bridges 1:20 PM
Commissioner Al Casciato 1:20 PM
Commissioner Carmen Chu 1:20 PM
President Joseph Driscoll 1:20 PM
Commissioner Heldfond 1:20 PM
Commissioner Ahsha Safaí 1:50 PM
Commissioner Stansbury 1:25 PM

3. 021220-03(a) Action Item CLOSED SESSION – January 21, 2020 Special Board Meeting

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Chu, to not disclose the discussions held in the closed session at the January 21, 2020 Special Board Meeting: Public Employee Performance Evaluation – Executive Director under California Government Code Section 54957(b) and the San Francisco Administrative Code Section 67.12(a).

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond

Absent: Commissioners Safaí, Stansbury

021220-03(b) Action Item CLOSED SESSION

President Driscoll called for public comment on the Board going into Closed Session.

There were no comments and public comment was closed.

The Board entered closed session at 1:20 PM

The following individuals were present for the closed session re Possible Recommendation and/or Action on Sale and Purchase of Particular, Specific Pension Fund Investment under California Government Code Section 54956.81: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Safaí, Stansbury; Jay Huish, Executive Director; Caryn Bortnick, Deputy Executive Director; William J. Coaker, Chief Investment Officer; Anna Langs, Managing Director Asset Allocation, Risk Management and Innovative Solutions; David Francl, Managing Director, Absolute Returns; Kurt Braitberg, Managing Director, Public Markets; Tanya Kemp, Managing Director for Private Markets; Andrew Collins, Director of ESG Investing; Han Pham, Director Public Equity; Victoria Owens, Justin Lo, Alo Martins, Eunice McHugh, Senior Portfolio Managers; Dennis Esselsagoe, Luke Angus, Kien Trinh, Chris Terrazzano, Tiffany Dong, Security Analysts; Kevin Zhang, Investment Fellow; Karen Perez, Investment Management Assistant; Darlene Armanino, Board Secretary; Robert Bryan, Molly Nordale, Tran Ly, Deputy City Attorneys; Anita Ng, Richard Grimm, Cambridge Associates; James Reichert, Allan Martin,

Dan Hennessy, NEPC.

Closed Session ended at 2:55 PM

The Board returned to open session at 2:55 PM

Action: Moved by Commissioner Casciato, Second by Commissioner Bridges, not to disclose any discussions held in closed session under San Francisco Administrative Code Section 67.12(a).

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond

Absent: Commissioners Chu, Safaí, Stansbury

4. 021220-04 General Public Comment - Not earlier than 2:30 PM

President Driscoll called for General Public Comment.

John Stenson, Member, spoke about underfunded pension funds and over-diversification.

There were no additional comments and General Public Comment was closed.

5. 021220-05 Action Item Approval of the Minutes of the January 8, 2020 Meeting

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the January 8, 2020 Retirement Board Meeting

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, to approve Minutes of the January 8, 2020 Retirement Board Meeting.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond

Absent: Commissioners Chu, Safaí, Stansbury

CONSENT CALENDAR

All matters listed hereunder constitute a Consent Calendar, are considered to be routine by the Retirement Board and will be acted upon by a single vote of the Retirement Board. There will be no separate discussion of these items unless a member of the Retirement Board so requests, in which event the matter shall be removed from the Consent Calendar and considered as a separate item.

6. 021220-06	Action Item	Consent Calendar
021220-06b	Action Item	Voluntary Retirement Board List No. 8-19
021220-06c	Action Item	Decisions of Hearing Officers
Gregory L. Blatman Effective Date: 7/1/16	H20 Lieutenant, Fire Suppression Fire	Industrial Disability Retirement Granted
Michael A. Braun Effective Date: 2/1/18	7254 Automotive Machinist Sup. I Administrative Services	Ordinary Disability Retirement Granted
Gordon J. Brown Effective Date: PERS	8306 Sr. Deputy Sheriff Sheriff	Cal-PERS - Disability Retirement Certified
James R. Fewell Effective Date: TBD	H28 Lieutenant, Div. of Training (Acting) Fire	Industrial Disability Retirement Denied
Sandra S. Green Effective Date: 9/26/19	2430 Medical Evaluations Asst Public Health	Ordinary Disability Retirement Granted
Elia C. Lewin-Tankel Effective Date: 1/24/20	Q3 Police Officer II Police	Industrial Disability Retirement Granted
Mary L. Morentz Effective Date: 4/22/17	Q4 Police Officer III Police	Industrial Disability Retirement Denied
Elmer C. Najarro Effective Date: 2/15/17	Q4 Police Officer III Police	Industrial Disability Retirement Granted
Tufoua G. Peleki Effective Date: 10/28/19	7308 Cable Splicer Dept of Technology	Ordinary Disability Retirement Granted
Donald J. Stocum Effective Date: 9/13/17	2578 Med. Examiner's Investigator II Administrative Services	Ordinary Disability Retirement Granted
Eduardo C. Sunga Effective Date: 1/11/20	7410 Automotive Service Worker MTA	Ordinary Disability Retirement Granted
Melanie C. Vaughn Effective Date: PERS	8306 Sr. Deputy Sheriff Sheriff	Cal-PERS - Disability Retirement Certified

Richard Wendland Effective Date: 6/13/18	H3 EMT/Paramedic/Firefighter Fire	Industrial Disability Retirement Denied
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021220-06d	Action Item	Travel Requests
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021220-06e	Discussion Item	Retirement Board Member Reports and Comments
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Action: This is a discussion only item.

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Hearing Officer Decisions.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, to approve Consent Calendar.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond
Absent: Commissioners Chu, Safai, Stansbury

INVESTMENT CALENDAR

7. **021220-07** **Action Item** **Update to Recommendation on Investment Restriction in Companies Operating in Sudan**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

William Coaker, Chief Investment Officer, Kurt Braitberg, Managing Director, Public Markets, Andrew Collins, Director of ESG Investing, Luke Angus, Security Analyst, ESG Investing, Allan Martin, NEPC, presented an oral and written report on this item.

In November 2006, the Retirement Board (the "Board") approved the implementation of Level III of SFERS' Social Investment Procedures with respect to divestment from Sudan. Each year, utilizing research from MSCI ESG Research LLC ("MSCI ESG") and other sources, investment staff ("Staff") reviews the business activities of companies in Sudan and prepares a set of recommendations for the Board's review and consideration.

At the October 2019 meeting, the Board approved the two parts of Staff's recommendation, but directed Staff to return to the Board with additional information about the seven companies that were not added to the restricted list and make a recommendation to the Board, based on the existing SFERS criteria and the type of activities in which the companies engage in Sudan, whether they should be added to the Restricted List of Companies.

Staff reported that, as approved by the Board at the October 2019 meeting, they will continue to evaluate the transition of power in Sudan in the coming years. This review will focus on the following events as key for monitoring the transition progress:

1. The removal of the Sponsor of State Terrorism designation by the US government.
2. The 21-month Sovereignty Council leadership change to a civilian.
3. The 2022 elections and whether military figures in the Sovereignty Council step aside.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

John Stenson, Member, urged Board not to invest in any company that is involved in a civil war.

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, to Approve the Proposed Updates to the Criteria for Restriction of Investment in Companies Operating in Sudan and Approve the Recommended Updates to List of Restricted Companies.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond

Absent: Commissioners Chu, Safaí, Stansbury

8. 021220-08 Action Item 2020 Update to SFERS Proxy Voting Guidelines

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Andrew Collins, Director of ESG Investing, Luke Angus, Security Analyst, ESG Investing, presented an oral and written report on this item.

Mr. Collins reported that on an annual basis, Investment Staff, working with its appointed Proxy Research Provider, currently Glass Lewis & Co. ("Glass Lewis"), reviews the approved Proxy Voting Guidelines and makes recommendations for modifications. For 2020, Staff recommended the following updates to the SFERS Proxy Voting Guidelines:

- a. General updates to the Proxy Voting Guidelines to improve presentation, clarity, and readability (as attached);

- b. Six (6) updates to the existing proxy voting policy for Director Elections;
- c. One (1) update to the existing proxy voting policy for Disclosure Related Environmental & Social Proposals;
- d. One (1) update to Equity Compensation Plans;
- e. Approval of the Proxy Voting Guidelines for 2020.

Mr. Collins highlighted two of those changes:

1. SFERS will vote against the chair of Nominating and Governance Committee when more than 80% of the Board is the same gender and will vote against the entire Nominating and Governance Committee when the Board lacks any representation from one gender; and
2. SFERS will generally vote against executive compensation plans if the remuneration committee uses its own discretion to lower performance goals or increase awards, if long-term incentives lack any performance basis, if excessive severance payments have been made, and/or if information on short-term incentives is not adequately disclosed.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, to Approve the Proxy Voting Guidelines.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Safaí, Stansbury

President Driscoll called for Item No. 11

11. 021220-11 Discussion Item Proxy Voting Report for Calendar Year 2019

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

William Coaker, CIO, Kurt Braitberg, Managing Director, Public Markets, Andrew Collins, Director of ESG Investing and Luke Angus, Security Analyst, ESG Investing, presented a written and oral report on this item.

Mr. Collins reported that each year, Investment Staff, with assistance from SFERS' proxy consultant, present a summary report on proxies voted during the prior calendar year. The report provides summary level information on how SFERS has voted its proxies across two broad proxy proposal

classifications:

- a. Management Proposals – this includes the election of directors, appointment of auditors and reorganizations / mergers; and
- b. Shareholder Proposals – this includes corporate governance, social, and environmental topics

Additionally, information was provided on how SFERS voted its proxies in the area of management and director compensation.

Mr. Collins reported that this year's report included tracking from both Institutional Shareholder Services (ISS) and Glass Lewis (GL) as SFERS had transitioned its proxy services provider agreement from ISS to GL effective August 1, 2019.

Mr. Collins reported that, in calendar year 2019, SFERS received over 1,600 proxies – with 73% having a meeting date in the second quarter. As a result, 86% of votes for 2019 were submitted by ISS. Fifty five percent of the proxies related to US companies, with the balance mainly represented by UK, European, Chinese and Japanese companies.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

9. 021220-09 Action Item Approval of Revised Guidelines for Public Equity and Fixed Income Manager Monitoring and Retention

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Guidelines for Public Equity and Fixed Income Manager Monitoring and Retention (marked), Guidelines for Public Equity and Fixed Income Manager Monitoring and Retention (unmarked)

William Coaker, CIO, Kurt Braitberg, Managing Director, Public markets, Allan Martin, NEPC, presented a written and oral report on this item.

Staff reported that the guidelines establish general policies and procedures for monitoring investment manager effectiveness and provide for a systematic and consistent process for SFERS Staff and the General Consultant to employ when making decisions and recommendations to the Retirement Board concerning manager retention. Mr. Braitberg reported that these guidelines were last update October 2008.

After review and consultation with NEPC, General Investment Consultant, Staff is recommending amendments to the guidelines that 1) better reflect current practices and, 2) evolve reporting to reflect Staff's resources and capabilities, and SFERS' investment horizon. In addition to routine changes to certain descriptions and/or the addition of clarifying language, Staff recommended two primary changes:

(1) Staff recommended that the practice of determining manager standing, either "Good Standing" or "Under Review", be conducted on a semi-annual basis (as of June 30 and December 31 each year) as opposed to on the current quarterly basis; and

(2) Staff recommended that rather than quarterly Managers Under Review ("MUR") reports to the Board, a more comprehensive report prepared by Staff General Investment Consultant, on a semi-annual basis, be distributed to the Managing Director - Public Markets, the Managing Director - Asset Allocation, Risk Management and Innovative Solutions, the Chief Investment Officer ("CIO"), the Executive Director, and the General Investment Consultant. Any additions or deletions to the MUR list along with the general circumstances (e.g. performance) will be reported out to the Retirement Board in the CIO Report in the month following the addition or deletion.

Staff believes that such a change is consistent with the duties delegated among the Board, Staff, and the General Investment Consultant as described in SFERS' recently updated (December 2019) Investment Policy Statement.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll requested, and it was agreed, that on a semi-annual basis, Staff will provide a written summary for each of the managers categorized as Under Review to the Managing Director – Public Markets, the Managing Director – Asset Allocation, Risk Management and Innovative Solutions, the Chief Investment Officer, the Executive Director, the Consultant and each member of the Board.

President Driscoll called for public comment.

John Stenson, Member, stated that the Board members need to listen to a passive money investment consultant.

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Safaí, to Approve the recommended changes to the San Francisco City and County Employees' Retirement System's Guidelines for Public Equity and Fixed Income Manager Monitoring and Retention, with addition of providing electronic copy of MUR report to Board members.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Safaí, Stansbury

10. 021220-10 Action Item Recommendation to Issue a Request for Proposals for Investment Consulting Services

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, proposed RFP for investment consulting services

William Coaker, CIO, Tanya Kemp, Managing Director, Private Markets, presented a written and oral report on this item.

Ms. Kemp reported that the Retirement Board is authorized to retain investment consultants to serve as advisors to the Fund on matters related to strategic and tactical investment planning, market research and investment due diligence for its Real Assets portfolio. On June 11, 2014, the Retirement Board issued an RFP for investment consulting services. On November 1, 2014, Cambridge Associates was awarded a three-year contract with two one-year extensions. Both extensions were exercised.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Chu, to Approve recommendation to issue a Request for Proposals for investment consulting services for SFERS' real assets portfolio.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Safaí, Stansbury

12. 021220-12 Discussion Item Asset Allocation Study Kickoff: Introduction to Leverage

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, NEPC Asset Allocation Assumptions and SFERS Return Expectations, NEPC Introduction to Leverage

William Coaker, CIO, Anna Langs, Managing Director Asset Allocation, Risk Management and Innovative Solutions, Allan Martin, NEPC, presented a written and oral report on this item.

Every three years, the Retirement System conducts an Asset Liability Modeling and an Asset Allocation Study. The materials provided to the Retirement Board at this meeting included NEPC's 2020 Investment Outlook, NEPC's capital markets assumptions in calculating risk and return

expectations for SFERS' asset classes, and an introduction to portfolio leverage. Staff noted that as return expectations are lowered across the boards, NEPC and Staff consider introducing moderate and carefully measured and monitored portfolio leverage options to increase expected returns.

Staff reported that the new approach reduces the estimated volatility of SFERS portfolio and decreases the forecasted probability that SFERS Trust experiences a large loss. For example, the previous approach resulted in approximately a 1.5 standard deviation event, or a 7% probability, of SFERS portfolio experiencing a 20% loss or greater in a single year. The new approach results in roughly a 2 standard deviation event, or a 2.5% probability, of SFERS portfolio losing 20% or more in one year.

Staff reported that, while the new approach results in less expected volatility and a lower probability of the SFERS Trust incurring a large loss, it is based on the actual volatility of our Private Markets strategies. Thus, it is based on historical fact versus the approach used in previous years which estimated volatility for Private Markets based on the volatility for Public Markets, adjusted for characteristics of Private Markets strategies.

Staff reported that the previous approach had historically been used to "even up" the volatility of Private Markets compared to Public Markets due to the formers greater use of leverage and infrequent pricing; however, the new approach is based on the facts of SFERS' actual volatility, adjusted for how SFERS plans to invest compared to its historical approach. Staff recommended that this new approach will be more representative of the SFERS portfolio volatility.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

Commissioner Stansbury commented that he would like to look at other possibilities to increase returns as he is not able to support leverage at this time. He would like to see more private credit, more private equity, building out investment staff, and that leverage would be a lower priority for him.

Commissioner Bridges stated that she would prefer to continue to study this as a third investment tool to continue additional research on the model.

Commissioner Chu stated that it creates some concern in case of bad patches but looks forward to more information and discussion on the topic.

President Driscoll called for public comment.

John Stenson, Member, urged Board to not take on any more high-risk investments.

There were no additional comments and public comment was closed.

Action: This is a discussion only item.

13. 021220-13 Discussion Item Chief Investment Officer Report

Documents provided to the Retirement Board prior to the current meeting: CIO Report

William Coaker, CIO, presented an oral and written report on this item.

CIO Coaker reported that SFERS edged out a small gain of 0.06% in January 2020 even as Public Equity, Private Equity, and Real Assets posted returns of -0.23%, -0.68%, and -0.27%, respectively. He reported that the month experienced two return patterns. In the first half of January, stocks gained more than 3% as last year's optimism and 32% gain continued early into the year. In the second half of the month, stocks sold off sharply on fears that the coronavirus would spread and negatively impact economic growth. CIO Coaker reported that, on the whole, stocks declined slightly for the month. Bonds gapped up, posting returns of 1.18%, with the yield on the 10-year Treasury falling to 1.5% as fears mounted and investors sold stocks.

CIO Coaker reported that, through the first seven months of FY2019-20, the SFERS portfolio has returned 5.42%. Public Equity has led the way, posting returns of 8.31% followed by Private Equity which has gained 5.43%. All other portfolios have recorded positive returns of between 2.20% and 3.97%.

Closed Session Disclosures:

Cerberus Global Residential Loan Strategy Fund, LP

At its meeting on September 11, 2019 the Retirement Board approved in closed session a commitment of \$200 million in aggregate to Cerberus Global Residential Loan Strategy Fund, L.P. via Cerberus Global Residential Loan Strategy Institutional Feeder Fund, L.P. by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

Ayes: Commissioners Bridges, Driscoll, Casciato, Heldfond, Safaí, Stansbury

Nays: None

Absent: Commissioner Chu

SFERS's commitment of \$200 million in Cerberus Global Residential Loan Strategy Fund, L.P. closed on January 14, 2020.

This investment is classified as a Credit – Residential Mortgages investment within SFERS' absolute return portfolio and is SFERS' first investment with Cerberus via share class B of SFARI II. More information about the firm is available at: <https://www.cerberus.com/>

Insight Partners XI, L.P.

At its meeting on December 11, 2019, the Retirement Board approved in closed session an investment of up to \$75 million in Insight Partners XI, L.P. The investment was approved by the following vote:

Ayes: Commissioners Casciato, Chu, Driscoll, Heldfond, Safaí, Stansbury

Absent: Commissioner Bridges

SFERS closed on \$50 million in Insight Partners XI, L.P. on January 21, 2020.

This investment is classified as a growth capital investment within SFERS' private equity portfolio.

More information about Insight Partners is available on <https://www.insightpartners.com/>.

Perceptive Life Sciences Qualified Fund, L.P.

At its meeting on January 8, 2020 the Retirement Board approved in closed session an additional investment of \$150 million to Perceptive Life Sciences Qualified Fund, L.P. by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond,

Nays: None

Absent: Commissioners Chu, Safaí, Stansbury

SFERS's investment of \$35 million in Perceptive Life Sciences Qualified Fund, L.P. closed on February 1, 2020.

This investment is classified as an Equity Long/Short investment within SFERS' absolute return portfolio and is SFERS' second investment with Perceptive via share class B of SFARI II.

More information about the firm is available at: <https://www.perceptivelife.com/>

Wynnchurch Capital Partners V, L.P.

At its meeting on December 11, 2019, the Retirement Board approved in closed session an investment of up to \$75 million in Wynnchurch Capital Partners V, L.P. The investment was approved by the following vote:

Ayes: Commissioners Casciato, Chu, Driscoll, Heldfond, Stansbury

Absent: Commissioners Bridges, Safaí

SFERS' investment of \$30 million in Wynnchurch Capital Partners V, L.P. closed on January 15, 2020.

This investment is classified as Special Situations within SFERS' private equity portfolio and is SFERS' second investment with Wynnchurch Capital.

Coatue CT 63, LLC

At its meeting on January 8, 2020, the Retirement Board approved in closed session an investment of up to \$25 million in Coatue CT 63 LLC. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll

Noes: Commissioner Heldfond
Absent: Commissioners Safai, Stansbury

SFERS closed on \$25 million in Coatue CT 63, LLC on February 5, 2020.

This investment is classified as a co-investment opportunity within SFERS' private equity portfolio.

More information about Coatue Management is available on <https://www.coatue.com/>.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

DEFERRED COMPENSATION PLAN CALENDAR

**14. 021220-14 Action Item Approval of Recommended Investment Manager for the
SFDCP's US and Global REIT Mandates**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Callan US and Global REIT presentation

Diane Chui Justen, Deferred Compensation Plan Manager, Alex Hoy and Greg Ungerman, Callan, provided an oral and written report on this item.

Ms. Chui Justen reported that at the September 17, 2019 Deferred Compensation Committee (DCC) meeting, Callan recommended the DCC place Morgan Stanley's Global Real Estate Fund and US Real Estate Funds on the Watch List, due to persistent underperformance relative to peers and the funds' respective benchmark indexes. Upon review of Callan's recommendation, the Deferred Compensation Committee instructed Staff and Callan to conduct a replacement manager search for the SFDCP's US and Global REIT mandates.

Ms. Chui Justen reported that, beginning with a universe of 73 firms that offer both US and Global REIT strategies, Callan and Staff determined the following three firms most closely aligned with the needs of the SFDCP: Cohen & Steers, Duff & Phelps, and Principal.

The search process conducted by Callan and Staff included: interviews of these three candidate firms on November 12, 2019; review of each firm's investment performance, philosophy, fee and portfolio management structure, as well as a follow up RFI "Request for Information" regarding each firm's stance on diversity and inclusion. Upon completion of the search process, Callan and Staff concluded and recommended to the Deferred Compensation Committee that Principal should replace Morgan Stanley for both the US and the Global REIT Fund mandates. The Deferred Compensation Committee approved Callan and Staff's recommendation to engage Principal at its December 18, 2019 committee meeting and is forwarding its recommendation to the Board for its

approval.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Heldfond, to Approve Principal as the investment manager for the SFDCP's US and Global REIT mandates, using the CIT vehicle.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Stansbury

Absent: Commissioner Safai

15. 021220-15 Action Item Approval of Proposed Revisions to the SFDCP Investment Policy Statement

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and SFDCP Investment Policy Statement – redline and clean copy

Diane Chui Justen, Deferred Compensation Plan Manager, provided an oral and written report on this item.

The SFDCP Investment Policy Statement (IPS) was last reviewed in February 2018. At the August 14, 2019 Board meeting, the Retirement Board voted to expand the SFDCP's self-directed brokerage platform to include mutual funds, ETFs, and U.S. exchange securities.

As a result, the Investment Policy Statement has been revised to reflect these changes in Section 5 – Investment Options of the Plan, Self-Directed Brokerage Option. These changes were presented and approved to be forwarded to the Full Board by the Deferred Compensation Committee on December 18, 2019.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll commented that Staff and Callan should continue to monitor the Self-Directed Brokerage Option (SDBO) as participants will be taking on more personal risk in investing through the SDBO.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Bridges, Seconded by Commissioner Casciato, to Approve proposed revisions to the SFDCP Investment Policy Statement.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Stansbury
Absent: Commissioner Safaí

16. 021220-16 Discussion Item Review of SFDCP Investment Performance for the Second Half of 2019

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Callan Presentation and Investment Measurement Service Q4 Report

Greg Ungerman, Callan Associates, presented an oral and written presentation on this item.

Mr. Ungerman reported that the Deferred Compensation Plan was valued at \$3.9 billion on December 31, 2019. The change in value has shown steady growth with an increase of \$602 million for the year and roughly \$1.2 billion over the past five years. The Index funds added in March of 2018 have seen significant interest totaling \$463 million across the Bond, Small and International Index assets.

Mr. Ungerman reported the target date funds had another strong quarter and year of performance given the robust stock and bond market. All of the vintages performed ahead of their custom benchmark returns and ranged between 3.9% to 8.6% for the quarter. Longer term results are very good and outperforming their respective benchmark returns. The target date series managed by Russell Investments collectively makes up 21% of plan assets at \$816 million as of December 31, 2019. The target date 2060 and 2065 funds were added to the plan during April of 2019 and have already seen inflows.

Mr. Ungerman reported that, given the strong equity and fixed income market for the year to date, absolute results for the core investment funds have been very good. Relative performance has also been strong across short- and longer-term time periods.

Mr. Ungerman reported that two firms are currently on the watch list:

Galliard was placed on the watch list for ongoing changes within the senior leadership team. In 2019 Galliard announced they were planning to have four retirements including two of the founders, Richard Merriam and Karl Tourville. Both will remain as advisors to the firm through December of 2022. Callan is in process of conducting a search and will be presenting a recommendation at the next Deferred Compensation Committee meeting.

Morgan Stanley's US REIT and Global REIT funds are currently on the watch list for performance reasons. Callan has conducted a replacement search and will be presenting a recommendation to the Retirement Board.

Mr. Ungerman reported that the passive funds managed by Vanguard and Northern Trust all replicated the indices they are intended to match during all time periods.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

17. 021220-17 Discussion Item Deferred Compensation Manager Report

Documents provided to the Retirement Board prior to the current meeting: SFDCP Manager Memorandum and Quarterly Activity Report

Diane Chui Justen, Deferred Compensation Plan Manager, presented an oral and written report on the following items:

Investments

- Stable Value Q1 2020 Credit rate reduced to 2.54%, from 2.60% in Q4
- Galliard has decreased its SVF investment manager fee to flat 7 bps vs prior tiered structure
- Asset Allocation changes to futureReady Model Portfolios by Financial Engines

Marketing/Communications

- Target Date 2020 Fund letter: Fund will merge into the Target Date Retirement Fund
- Self-Directed Brokerage letter: Rollout of e-Consent as a result of open SDB platform
- All participant letter: New Collective Investment Trust (CIT) vehicle for T Rowe Growth Stock Fund

Operations

- Overtime pay eligible for SFDCP contributions in Q2 2020
- SECURE Act of 2019 modifies Retirement Plan provisions

Recordkeeper

- The SFDCP now offers complimentary Advisory Services by using Online Advice via the web and speaking to a licensed financial advisor over the phone at no additional cost. The SFDCP also offers a fee-based "Managed Account" program, also known as "Professional Management" via Voya Retirement Advisors (VRA). This service allows participants to turn over management of their SFDCP account to a financial professional's discretion for an additional cost. Managed Accounts can be particularly valuable to participants near or in retirement, as studies show they are generally better served with a professional draw-down strategy, designed to gradually spend down their nest egg by creating a steady stream of

income from various sources, that will last them throughout retirement.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

John Stenson, Member, spoke about mutual funds.

There were no additional comments and public comment was closed.

Action: This is a discussion only item.

ADMINISTRATION CALENDAR

18. 021220-18 Discussion Item Travel Expense Report for the Quarter Ended December 31, 2019

Documents provided to the Retirement Board prior to the current meeting: Travel Expense Report for the Quarter Ended December 31, 2019

Jay Huish, Executive Director, gave an oral and written report on this item.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

19. 021220-19 Action Item Review and Approval of Basic COLA Effective July 1, 2020

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Exhibit A—San Francisco-Oakland-Hayward CPI – all items, all urban consumers, not seasonally adjusted, Exhibit B—COLA Bank

Janet Brazelton, Actuarial Services Coordinator, gave an oral and written report on this item.

San Francisco Charter §A8.526-2 provides that on each July 1, cost of living adjustments will be made to SFERS retirement allowances for all Miscellaneous retirees, for Safety retirees who retired under San Francisco Charter §A8.586, A8.588, A8.597, A8.598, A8.601, A8.602, A8.604 and A8.605,

for all Sheriff's Department retirees who retired under San Francisco Charter §A8.606, A8.607, and A8.608, and for all Miscellaneous Safety retirees who retired under San Francisco Charter §A8.609 and A8.610 based on the percentage increase (or decrease) in the San Francisco-Oakland-Hayward Consumer Price Index for the preceding calendar year (measured from December to December). The cost of living adjustment is calculated by rounding the percentage increase or decrease to the nearest one percent, and any annual increase is limited to a maximum of 2%.

Ms. Brazelton reported that, based on a (rounded) 2% increase for calendar year 2019, Charter §A8.526-2 provides that all qualified SFERS members who retired on or before July 1, 2020 will receive a 2% cost of living increase (Basic COLA) payable effective July 1, 2020. She reported that as there is no difference between the (rounded) 2% increase for 2019 and the 2% Basic COLA granted July 1, 2020, 0% will be credited to the COLA Bank for all members who retired prior to July 2, 2020.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Chu, to Approve a Charter A8.526-2 cost of living (Basic COLA) increase of 2% payable effective July 1, 2020 for all qualified SFERS retirees who retired prior to July 2, 2020.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury

Absent: Commissioners Heldfond, Safaí

20. 021220-20 Action Item Determination and Approval of Credited Interest Rate for Fiscal Year 2020-21

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Credited Interest Rate Policy

Janet Brazelton, Actuarial Services Coordinator, gave an oral and written report on this item.

Ms. Brazelton reported that as the change in the average yield rate between Calendar Year 2018 and Calendar Year 2019 was less than 0.50%, and as the 2019 average yield of 1.25% falls short of the minimum 4% credited interest rate, Plan's credited interest rate will remain at 4.0% effective July 1, 2020.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Chu, Seconded by Commissioner Casciato, to accept the credited interest rate analysis provided and approve no adjustment in the Plan's current credited interest rate of 4% effective July 1, 2020.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury
Absent: Commissioner Heldfond, Safai

- 21. 021220-21 Action Item Review and adoption of the July 1, 2019 Actuarial Funding Valuation Report and presentation of Employer Contribution Rate Stress Test Projections.**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Cheiron Presentation

Janet Brazelton, Actuarial Services Coordinator, Bill Hallmark and Anne Harper, Cheiron, gave an oral and written report on this item.

Mr. Hallmark reported that, in response to the new Actuarial Standard of Practice No. 51, effective for any actuarial work product with a measurement date on or after November 1, 2018, Cheiron created a new section of the report titled Assessment and Disclosure of Risk (first included in the July 1, 2018 report). The annual stress testing of investment returns was moved to this new section.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Bridges, to adopt the July 1, 2019 actuarial valuation report.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury
Absent: Commissioners Heldfond, Safai

President Driscoll called Item No. 23

- 23. 021220-23 Action Item Adoption of Employer Contribution Rate of 26.90% for Fiscal Year 2020-21**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Janet Brazelton, Actuarial Services Coordinator, Bill Hallmark and Anne Harper, Cheiron, presented an oral and written report on this item.

Ms. Brazelton reported that the net employer contribution rate is calculated by Cheiron as part of the annual valuation process. It represents the recommended contribution rate to be made by the plan sponsors as a percent of covered payroll. After the employer contribution rate is adopted, both the employer and employee contribution rates will be adjusted for the cost-sharing provisions of Proposition C approved by voters in November 2011.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll noted that this increase does not trigger an increase in the employees' cost-sharing percentage under the Charter.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Chu, Seconded by Commissioner Casciato, to approve the recommended employer contribution rate of 26.90% for fiscal year 2020-2021.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury

Absent: Commissioners Heldfond, Safaí

22. 021220-22 Action Item Selection of Recommended Actuarial Consultant

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Janet Brazelton, Actuarial Services Coordinator, gave an oral and written report on this item.

Ms. Brazelton reported that the Board's current contract with the consulting actuary, Cheiron, is expiring on May 31, 2020. In accordance with its Service Provider Selection Policy, the Board approved a Request for Proposals for Actuarial Consulting Services at its November 2019 Board meeting. The RFP was advertised and issued on November 14, 2019 and two responses were received by the deadline for submission of proposal of December 19, 2019: Segal Consulting and Cheiron, Inc.

The evaluation team comprised of Ms. Brazelton, Executive Director Huish and Deputy Executive Director Bortnick recommends that the Retirement Board select Cheiron, Inc. to continue as the Board's consulting actuarial services provider. The evaluators scored each proposal in accordance with the criteria in the RFP. All three evaluators ranked Cheiron in the number one position. As the top ranking was unanimous and averaged score difference was significant, the evaluation team

does not recommend that the second ranked proposer present to the Board.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Bridges, to approve recommendation to retain Cheiron, Inc.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury

Absent: Commissioners Heldfond, Safai

24. 021220-24 Action Item Review and Approval of FY2020-21 Department Budget

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Jay Huish, Executive Director, presented an oral and written report on this item.

Mr. Huish reported that the proposed FY 2020-2021 department budget reflects a 6.12% or nearly \$6 million decrease from the current fiscal year budget while at the same time requesting a total of 11 new positions across the Investment, Retirement Services and Deferred Compensation Divisions. These new positions will add \$1.8 million in new salary expenses to the department budget. The new positions are mission-critical to the department's strategic goals.

Mr. Huish commented that \$630,000 was added to the Administration budget for increase in the lease. SFERS has run out of office space at its current location at 1145 Market Street and additional office space is currently available in the building. Mr. Huish has started preliminary discussions on leasing additional office space on the 10th floor for remainder of SFERS' existing lease (which runs through 2024) which would provide additional office space moving forward into the next two budget years.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

John Stenson, Member, spoke about SFERS purchasing a building.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Stansbury, to approval of

FY2020-21 Department Budget.

Ayes: Commissioners Bridges, Casciato, Driscoll, Stansbury
Absent: Commissioners Chu, Heldfond, Safai

President Driscoll continued Item No. 25 to the March Board meeting

25. 021220-25 Discussion Item Educational Presentation on Fiduciary Duties: Part 11 – Practice

26. 021220-26 Discussion Item Executive Director’s Report

Documents provided to the Retirement Board prior to the current meeting: Executive Director’s Report

Administrative Update:

- SFERS Operations Management Dashboard – December 2019
- **Offsite Board Retreat – Wednesday, February 19, 2020; 12:00 noon; Nossaman’s Office at 50 California Street, San Francisco**
- *Statements of Economics Form 700* and Ethics and Sunshine Ordinance Training: **Filing Deadline – Wednesday, April 1, 2020**
- Department Response to Coronavirus Outbreak

Attachments for Informational Purposes:

- SFERS Operations Management Dashboard – December 2019
- *2020 Statement of Economic Interest Form 700* – San Francisco Ethics Commission
- Retirement Board Forward Calendar for February 2020 to January 2021
- Request for Proposal in Progress Blackout Period
- *Public Retirement Conferences and Training Programs for SFERS Trustees* – Nossaman LLP

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

27. 021220-27 Discussion Item Retirement Board Member Good of the Order

Retirement Board members may request that any matter be calendared at a future meeting. All such requests shall be calendared in a reasonable time. (Board Operations Policy ¶24.) The Board will not discuss any items requested to be calendared until a subsequent meeting when the matter is included on the agenda with the required public notice.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

28. 021220-28

Adjournment

Having no further business, the Board adjourned the meeting at 5:50 PM



Respectfully submitted,
Jay Huish, Executive Director