



**Wednesday, April 22, 2020**

Open Session 1:30 p.m.

Closed Session immediately after Open Session

**Meeting Held by Teleconference Pursuant to the Governor's Executive Order N-29-20 and the Fifth Supplement to Mayoral Proclamation Declaring the Existence of a Local Emergency**

**During the Coronavirus Disease (COVID-19) emergency, the Retirement System's regular meeting room, 1145 Market Street, 6<sup>th</sup> Floor, is closed.** Commissioners and Retirement Staff convened remotely. The special Retirement Board meeting was streamed live on SFGovTV ([www.sfgovtv.org](http://www.sfgovtv.org)) and the public was able to provide public comment during the meeting by live call-in. The public was encouraged to submit comments in advance of the meeting either by: (1) email to [sferspubliccomment@sfgov.org](mailto:sferspubliccomment@sfgov.org) or (2) recording public comment on the Retirement System's public comment line 415-487-7020. Public comments submitted by 5:00 p.m. PST, Monday, April 20, 2020 are included in the record.

**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**

Joseph Driscoll, President

Leona Bridges, Vice President

Al Casciato

Carmen Chu

Scott Heldfond

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Brian Stansbury

Jay Huish, Executive Director

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

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vote:

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

SFERS' investment of \$50 million closed on April 14, 2020. This investment will be classified as a global mezzanine fund within SFERS' Private Credit Portfolio.

More information about HPS Investment Partners, LLC is available at [www.hpspartners.com](http://www.hpspartners.com).

#### 2 - Private Markets Secondary Transaction

At its meeting on March 13, 2019, the Retirement Board approved in closed session to engage in a sales process for up to \$1 billion in NAV across SFERS' Private Equity and Real Assets portfolios. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Paskin-Jordan, Safaí, Stansbury

Contracts to sell \$966.3 million of NAV were in place by December 11, 2019. As of April 15, 2020, more than 97% of the NAV has been transferred.

#### 3 - Altaris Health Partners V, L.P.

At its meeting on December 11, 2019, the Retirement Board approved in closed session an investment of up to \$100 million in Altaris Health Partners V, L.P. The investment was approved by the following vote:

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

SFERS' commitment of \$50 million closed on April 15, 2020. The investment is classified as a mid-market buyout investment within SFERS' Private Equity portfolio and is SFERS' first investment with Altaris Capital Partners.

More information about the firm is available at [altariscap.com](http://altariscap.com).

#### 4 - Mayfield XVI, L.P. and Mayfield Select II, L.P.

At its meeting on February 12, 2020, the Retirement Board approved in closed session an investment of up to \$50 million to Mayfield XVI, L.P. and Mayfield Select II, L.P. These investments were approved by the following vote:

Ayes: Bridges, Casciato, Chu, Driscoll, Heldfond  
Absent: Safaí; Stansbury

SFERS closed on \$18 million in Mayfield XVI, L.P. and \$11 million in Mayfield Select II, L.P., on March 17, 2020.

These investments will be classified as Venture Capital within SFERS' Private Equity portfolio.

More information about Mayfield is available at <https://www.mayfield.com/>.

5 - Cerberus Levered Loan Opportunities Fund IV, L.P.

At its meeting on March 11, 2020, the Retirement Board approved in closed session an investment of up to \$75 million in Cerberus Levered Loan Opportunities Fund IV, L.P. The investment was approved by the following vote:

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

Absent: Commissioner Casciato

SFERS' investment of \$75 million in Cerberus Levered Loan Opportunities Fund IV, L.P. closed on March 25, 2020. This investment will be classified as a Direct Lending investment within the SFERS' Private Credit portfolio.

More information about Cerberus Capital Management is available at [www.cerberus.com](http://www.cerberus.com).

### **CIO Special Report on COVID-19**

CIO Coaker reported that March 2020 was the most volatile month in the history of the S&P 500 - more volatile than any month during the Great Depression, the Global Financial Crisis, or any other time.

The COVID-19 virus proved to be highly infectious, and fatalities also began to soar. Hospitals were not prepared for a large-scale pandemic, lacking ventilators and ICU beds in volume to care for critically ill patients. Health care professionals were lacking personal protective equipment, including masks, gloves, surgical gowns, wipes, and more.

CIO Coaker noted that as large private markets investors, SFERS relies on managers to call capital when they have attractive investments to make and to return capital to SFERS when investment value has been realized. SFERS is also large investors in public markets, where Staff relies on external managers to buy securities and sell securities to outperform their benchmarks. Many investment decisions are made by external managers. Staff, in turn, focuses on a) recommending and implementing a strategic asset allocation; b) conducting manager due diligence and recommending external managers; c) planning for and managing liquidity needs; d) managing risk; and e) portfolio construction by assets class and for the portfolio as a whole.

CIO Coaker reported that, due to COVID-19, SFERS needs to put more emphasis on the following activities: manager meetings, staff meetings, manager selection, and liquidity planning.

CIO reported that, as of April 17, SFERS portfolio has declined less than 1% FYTD. SFERS has weathered the greatest human health crisis since 1918, the most rapid 35% decline ever in the history of the markets, and the shutdown of large segments of the economy quite well.

He reported that there is substantial uncertainty as to how the COVID-19 crisis will unfold. Broadly speaking, investors have characterized their views of a recovery as V-Shaped, U-Shaped, or L-Shaped. The initial shape on all three is the sudden decline that just occurred. A V-Shape signifies a rapid recovery, U-Shaped is a slow recovery from the trough, with various views on how long the trough is. The L-Shape is a deep recession or a depression with trend line growth not returning for many years, if ever.

CIO Coaker reported that recently stock prices have had a rapid recovery, with major indices up about 30% from their lows in March. That suggests investors are pricing in a V-Shaped rebound.

CIO Coaker reported that, until a vaccine, effective treatment, or at least mass testing and tracing is in place, Staff thinks that a V-Shaped recovery is unlikely. Staff anticipates more unemployment and a spike in bankruptcies and store closings. When the economy reopens, individuals' concerns about personal safety or new regulations requiring social distancing will limit economic upside.

CIO Coaker reported that, for the stated reasons, Staff expects a recovery will be more U-Shaped than rapid. The duration of the trough will depend on the magnitude of a second wave of the virus and the resulting restrictions on social gatherings and economic activity.

CIO Coaker reported that, while Staff does not think a depression is probable, it is also not a non-zero event. Ray Dalio, Founder of Bridgewater Associates, said he expects a catastrophic economic downturn resembling the effects of the Great Depression from 1929 to 1933. Back then, unemployment reached 24.9% and GDP contracted by nearly 30%. Mr. Coaker related that Staff believes a depression is unlikely, because Congress and the Federal Reserve will do whatever it takes to avoid that. Mass testing and contact tracing will become available, some therapies have shown promise in treating the virus, and medical research is likely to eventually find a vaccine. Because people are adaptable and creative, we will need to create a "new normal" - new ways of doing business and enjoying our lives.

### **Liquidity Analysis**

CIO Coaker reported that, in view of the variability of cash flows from private markets and Increasing pension obligations, SFERS needs to become more liquid. Staff has a three-pronged strategy to do so. First, starting this year, Staff will reduce the private market investment pacing schedule until liquidity is improved. Second, at next month's Board meeting Staff will recommend tactical downside protection tools to use to provide SFERS more flexibility and liquidity. Third, later this year Staff is likely to recommend that the Retirement Board change its strategic asset allocation to improve liquidity while also generating high long-term returns and high risk-adjusted returns.

Ms. Langs reported that the liquidity needs to fund pension obligations and capital calls are \$1.3 billion with stress liquidity needs up to \$2 billion. These liquidity needs will be met by reducing treasuries, liquid credit, public equities, real assets, and absolute return. Ms. Langs reported that private equity is over target allocation of 18% at 21% and projected to become net cash flow neutral in 2020. The real assets portfolio is close to target allocation of 17% at 16% and is planned to be further reduced in 2020.

Forecasted net cash inflow for real assets portfolio in 2020 are around \$160 million. The private credit target allocation is 10%; currently funded at 4%, with forecasted liquidity needs of \$556 million net outflows in 2020. The absolute return portfolio has \$240mm of unfunded commitments that are projected to be called in 2020.

Ms. Langs reported that the liquidity analysis presentation materials included base case, no growth, and GFC stress scenarios for cash flow forecasts. Due to recent market volatility, SFERS is operating under “no growth” scenario and preparing for further stress cases.

The SFERS Trust has a market value of \$25.6 billion as of April 9, 2020. SFERS is a large investor in private markets with an aggregate strategic allocation to private equity, real assets, and private credit totaling 45% or just over \$11 billion of NAV. Ms. Langs reported that SFERS has a total of approximately \$7 billion in contractual commitments of uncalled capital to private markets managers. SFERS does not control the timing of when capital is called and when distributions are received.

Ms. Langs reported that, from 2020 to 2025, annual payments will increase from \$549 million to \$914 million annually, an increase of 66%, or 10.7% per year. In 2030 our pension payments are projected to be \$1,314 million, an increase of 139%, or 9.1% per year from 2020 to 2030. From 2020 to 2025 our pension payments will total \$4.11 billion and from 2020 to 2030 they will total \$9.685 billion.

Over the past 6 years, SFERS has increased its strategic allocation to private equity from 16% to 18%, increased real assets from 12% to 17%, and introduced a 10% allocation to private credit and 15% allocation to absolute return. The revised strategic asset allocation dramatically changed SFERS liquidity profile which now requires very close monitoring. In 2015, public equity and public fixed income constituted 72% of our strategic allocation while at the end of 2019, these public portfolios accounted for 40% (31% to public equity, 6% to U.S. Treasuries and 3% to liquid credit).

Ms. Langs reported that, building SFERS’ exposure to private investments resulted in a robust commitment pacing to the three illiquid asset classes in recent years: private equity, real assets, and private credit. In recognition of SFERS current liquidity needs, robust recent commitments, and the potential for distributions to slow due to the market disruption caused by COVID-19, Ms. Langs reported that the plan is to reduce pacing schedule for this year from a planned \$2.4 billion in 2019 to \$1.6 billion in 2020. The upside of SFERS overcommitments in recent years is that the underwriting for any market dislocation caused by the COVID-19 crisis is already done. SFERS has \$3.29 billion of uncalled capital in private equity, \$2.39 billion of uncalled capital in real assets, and \$1.27 billion in private credit.

Ms. Langs presented SFERS’ liquidity needs to fund its capital call obligations under three scenarios: Base Case, No Growth for 3 Years, and a Stress Case which is a replay of the Global Financial Crisis. Ms. Langs reported that SFERS has sufficient liquid assets to pay plan benefits, meet capital calls, and pay plan expenses under all three scenarios.

She reported that a positive aspect of SFERS robust underwriting to Private Equity over the past five years is that SFERS has \$3.29 billion in uncalled capital. The underwriting for the current dislocation caused by the COVID-19 crisis has already been done. Ms. Langs reported that if the current dislocation

caused by COVID-19 persists, SFERS will have \$2.39 billion in uncalled capital in its real assets portfolio available for external managers to make investments at lower prices.

Ms. Langs reported that the main factor that could make the results better than what was represented under the three scenarios would be returns that prove to be higher than projected. Other factors that would boost these results are distributions being received earlier than projected, capital calls being lower than forecasted, and secondary sales.

The primary factors that could make the results shown worse would be lower than forecasted returns, a deeper stress than the Global Financial Crisis, or two or more stress events in the referenced time frame. Other factors that could cause our liquidity and cash flow to be worse than we have shown would be capital calls being made earlier than expected and distributions being received later than forecasted.

Ms. Langs reported that in all three scenarios, overweight positions in private markets will need to be funded by reducing public equity, treasuries, bonds, or absolute return. Since SFERS does not control when private markets call capital or return cash, the results will impact our asset allocation, liquidity, total plan risk, and flexibility to respond to market conditions and opportunities.

Ms. Langs reported that the key takeaways of Staff's presentation are:

1) Due to a sharp rise in pension payments over the next 5 and 10 years and the potential for a large variability of cash flows from private markets, Staff will reduce the pacing schedule. Staff will reduce the pacing from \$2.4 billion in 2019 to \$1.6 billion in 2020 and maintain a lower pacing schedule until our liquidity has improved. The 2020 target allocations are \$700 million to private equity/venture capital, \$400 million to real assets, and \$500 million to private credit.

2) SFERS has sufficient liquid assets to pay plan benefits, meet capital calls, and pay plan expenses under all three scenarios

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.

### **DEFERRED COMPENSATION PLAN CALENDAR**

6. 042220-6            **Action Item**            **Approval of SFDCP Stable Value Investment Manager**  
Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Callan Stable Value Search Process and Recommendation

Jay Huish, Executive Director; Greg Ungerman and Kyle Fekete, Callan, presented an oral and written report on this item.



Mr. Huish reported that the SFDCP Stable Value Fund (“SVF”) currently holds nearly \$1 Billion in participant assets as of December 31, 2019, accounting for nearly 25% of Plan assets. SVF is currently managed by Galliard Capital Management and their contract with the SFDCP expires on June 30, 2020. As a result, on September 17, 2019, the Deferred Compensation Committee directed Staff and Callan to conduct a Stable Value Manager Search.

On February 3, 2020, Staff and Callan invited three semifinalists - Galliard (\$76 B in AUM), Invesco (\$59 B in AUM) and Mellon (\$20 B in AUM) - to the SFDCP office for on-site interviews. As a result of their due diligence, Staff and Callan determined that Galliard and Invesco seemed best positioned for the SFDCP mandate due to their fixed income expertise, depth and breadth in wrap provider oversight and negotiations, and firm dedication to the SV business.

Mr. Huish reported that Galliard and Invesco made semifinalist presentations to the Deferred Compensation Committee on March 4, 2020. Following the semi-finalist presentations, Staff and Callan recommended retaining Galliard as the SFDCP’s Stable Value manager and the Deferred Compensation Committee voted to forward the recommendation to the full Board for approval.

Mr. Ungerman presented the due diligence process and findings used by Callan to reach its recommendation.

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

Commissioner Bridges commented that given the information that was received and based on the thorough research from the consultants and Staff, she recommended that the Board retain Galliard for the Stable Value Fund.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Bridges, Seconded by Commissioner Safaí, to Approve Galliard as the SFDCP’s Stable Value Investment Manager

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

7. **042220-7**                      **Action Item**                      **Discussion and Possible Action on Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Impact on the SFDCP**  
Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Jay Huish, Executive Director; Brian Merrick, VOYA, provided a written and oral report on this item.

Mr. Huish reported that the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020 to help mitigate the impact of the COVID-19 public health emergency and its economic impacts. As the largest economic relief bill in the history of the United States (at \$2.2 Trillion), the CARES Act provides financial aid and support for individuals and businesses, including certain mitigation and support measures for participants in defined contribution retirement plans, such as the San Francisco Deferred Compensation Plan (SFDCP).

Mr. Huish summarized the “opt-in” provisions of the CARES Act that apply to the SFDCP as follows:

1. Increased Loan Limit/Extended Repayment Period for Qualified Participants

- For the 180-day period beginning on the enactment of the CARES Act (March 27, 2020), a qualified individual may take out a loan in an amount not to exceed, in the aggregate, the lesser of \$100,000 (formerly \$50,000) or 100% (formerly 50%) of the participant’s vested account balance.
- Loan repayments are delayed by one year for any qualified individual who (1) has an outstanding participant loan balance on or after March 27, 2020, and (2) has loan payments due from March 27, 2020 through December 31, 2020.
- All subsequent payments are adjusted to take into account the one-year delay and the interest accrued during the delay. The five-year loan limit may be disregarded for this purpose.

2. Coronavirus-Related Distributions (“CRDs”) for Qualified Participants

- The CARES Act allows 457(b) plans to provide a new distribution type, referred to as a CRD, without violating in-service distribution restrictions. A CRD is not a hardship distribution, under existing rules, but a unique distribution category.
- A CRD is any distribution made on or after January 1, 2020 and before December 31, 2020 to a “qualified individual” under the Act. A qualified individual is someone:
  - who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease (COVID-19) by a test approved by the Centers for Disease Control and Prevention, or whose spouse or dependent is so diagnosed, or
  - who, due to such virus or disease, experiences adverse financial consequences as a result of (1) being quarantined, (2) being furloughed or laid off, (3) having work hours reduced, (4) being unable to work due to lack of child care, or (5) being unable to work due to the closing or reduction of the hours of a business owned or operated by the individual.
- Plan sponsors may rely on a participant’s self-certification that he/she has satisfied one of the above conditions – documentation is not required (unlike hardship distributions).
- The maximum CRD amount is \$100,000 but plan sponsors can lower the CRD maximum to any amount, as long as the CRD limit is consistent for all participants.
- A withdrawal is exempt from any applicable withholding tax (usually 20%) but will be considered taxable income to the participant recipient. Participants can opt to report the income over three years.
- CRD repayments are treated as rollover contributions and can be repaid back to the

SFDCP within three years of the date of distribution. Although additional clarification is needed from the IRS, presumably participants would be able to receive a refund of the taxes paid attributable to the distribution through the filing of an amended tax return or other administrative mechanism.

- Taking a CRD does not limit a participant's eligibility from taking out a loan or requesting a hardship distribution.

Mr. Huish reported that a temporary waiver of 2020 Required Minimum Distributions (RMDs) for SFDCP participants was also included in the CARES Act; however, no action was required by the Retirement Board on this provision as it became law upon the President's signature on the CARES Act legislation.

Mr. Huish reported that, under the CARES Act, if the Board approves the opt-in CRD and enhanced loan provisions, the provisions can be implemented immediately without requiring amendment of the Plan Document until the last day of the 2024 plan year. Mr. Huish reported that the Plan's recordkeeper, Voya, can also immediately administer any of the CARES Act provisions adopted by Retirement Board for the SFDCP.

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 Heldfond, to direct staff to implement the full provisions of the CARES Act which include a temporary loan extension of up to \$100,000 or 100% of the account as well as implementation of the Coronavirus related distribution (CRD) for eligible participants to take temporary repayable distributions from their SFDCP accounts.

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

#### **ADMINISTRATION CALENDAR**

- |           |                 |                        |  |
|-----------|-----------------|------------------------|--|
| <b>8.</b> | <b>042220-8</b> | <b>Discussion Item</b> | <b>Update to Retirement Board on Retirement Services, Deferred Compensation, and Investment Divisions' Activities since the Shelter in Place Order on March 16, 2020</b> |
|-----------|-----------------|------------------------|--|

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

Jay Huish, Executive Director and Caryn Bortnick, Deputy Executive Director, provided an oral and written report on this item.

Mr. Huish reported that at the time of the office closure, none of the Operations and Accounting staff was set up to work remotely. With the assistance of the department's IT team, staff members with home computers were set up to perform their work remotely. Laptops were provided to the remaining staff members. All units within Operations and Accounting have resumed their work.

Ms. Bortnick reported that there has been a significant increase in members requesting services regarding refunds and retirement counseling and reported that operations are up to date and fully staffed and confirmed that all teams are fully functional now that they have received laptops.

Mr. Huish commented that on March 16, the day after the shelter-in-place order, Ms. Bortnick and her team successfully began telephone counseling to those members who had retirement counseling appointments and now have doubled the size of that team. Mr. Huish congratulated Ms. Bortnick and her team on being able to accommodate those members. Mr. Huish announced that anyone wanting to retire before July 1<sup>st</sup> should refer to the SFERS website.

CIO Coaker reported that there were no disruptions other than unable to travel to meet with external managers.

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

Commissioner Stansbury asked for a "lesson learned" debriefing moving forward. Ms. Bortnick stated that department has a disaster recovery/business resumption plan in place and reported that there was no significant delay in getting any business conducted.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**9. 042220-9                      Action Item                      CLOSED SESSION**

The Board entered closed session

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: Commissioner Driscoll; Jay Huish, Executive Director; William J. Coaker, Chief Investment Officer; Darlene Armanino, Board Secretary.

The following individuals participated via teleconference: Commissioners Bridges, Casciato, Chu, Heldfond, Stansbury; Caryn Bortnick, Deputy Executive Director; Anna Langs, Managing Director, Asset Allocation, Risk Management and Innovative Solutions; Han Pham, Director Public Equity;

David Francl, Managing Director, Absolute Returns; Kurt Braitberg, Managing Director, Public

Markets; Alo Martins, Senior Portfolio Manager; Kien Trinh, Security Analyst; Robert Bryan, Deputy City Attorney; Allan Martin, NEPC; Alberto Santulin, Roberta Osborne, Blackstone.

The following individuals were present for the closed session for anticipated litigation with legal counsel: Commissioner Driscoll; Jay Huish, Executive Director; Darlene Armanino, Board Secretary.

The following individuals participated via teleconference: Commissioners Bridges, Casciato, Chu, Stansbury; Caryn Bortnick, Deputy Executive Director; Robert Bryan, Deputy City Attorney.

The Board returned to open session at 5:45 PM

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

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

Absent: Commissioners Heldfond, Safaí

**10. 042220-10**

**Adjournment**

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



Respectfully submitted,  
Jay Huish, Executive Director