



**Wednesday, June 10, 2020**

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 2:00 PM.

**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**

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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

Ahsha Safai

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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**4. 061020-04 General Public Comment – Not earlier than 2:00 PM**

President Driscoll called for General Public Comment.

Via Email, John Stenson:

At your May Board meeting my public comment may have caused your computer system to malfunction and nobody heard it, so I will repeat it.

Hedge fund managers are notoriously anti union, and they don't have a problem investing in fossil fuels/firearms or tobacco investments. So I hope you Board members that belong to labor unions realize that when you invest in hedge funds you are biting the hand that feeds you. I am very pleased that in year ending 30 June 2019 the returns on your hedge fund investments slightly outperformed there management and performance fees.

With best regards from John Stenson

Eileen O'Grady, Private Equity Stakeholder Project, spoke about the system's investment in the private equity firm Leonard Green & Partners and is asking regulators to decline to approve Prospect's proposed change of ownership until Leonard Green returns the fees and dividends it collected from Prospect to ensure the hospitals and health care workers have as many resources as possible to respond to the COVID-19 pandemic.

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

PRESIDENT DRISCOLL CALLED ITEM #13

**13. 061020-13 Discussion Item Executive Director's Report**

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

Administrative Update:

- Data Breach Notice – 10up, Inc.
- Update on Service Levels during Shelter in Place Order
- Effective June 1, 2020 and for a period of 60 days, Committees of the Retirement Board may meet subject to conditions contained in the Sixteenth Supplement to Mayoral Proclamation declaring the Existence of a Local Emergency dated February 25, 2020
- 2020 Mandatory Harassment Prevention Training: deadline extended to Friday, July 31, 2020

Executive Director Huish reported that nearly 74,000 notices have been mailed out to all SFERS members who were potentially affected by the data breach. SFERS is offering complimentary data breach identity theft monitoring services for one year for those members who had SFERS website login information on the data file. Mr. Huish stressed that no Social Security numbers or bank account numbers were on the data file that was potentially breached.

Mr. Huish detailed how SFERS staff adapted member services after the unexpected Shelter in Place order issued on March 16, 2020. He reported that all members have been able to conduct vital retirement business remotely (via website, email, telephone or teleconferencing) while the SFERS Office remains closed.

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

Commissioner Casciato commented on the breach and stated that he would like to calendar for a later time an analysis of how the system handled the situation for lessons learned and to develop a protocol to reassure members that their financial data is protected.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**5. 061020-05                      Action Item                      Approval of the Minutes of the May 13, 2020 Meeting**

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the May 13, 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 May 13, 2020 Retirement Board Meeting.

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, 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. 061020-06                      Action Item                      Consent Calendar**

**061020-06b**                      **Action Item**                      **Voluntary Retirement Board  
List Nos. 12-19**

**061020-06c**                      **Action Item**                      **Decisions of Hearing Officers**

There are no Hearing Decisions for the June 10, 2020 Consent Calendar.

**061020-06d**                      **Action Item**                      **Travel Requests**

**061020-06e**                      **Discussion Item**                      **Retirement Board Member  
Reports and Comments**

Report by Commissioner Joseph Driscoll who attended NCPERS Accredited Fiduciary Program Videoconference, May 19-22, 2020 and May 26-29, 2020.

**Action:** This is a discussion only item.

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Board Report.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Bridges, Seconded by Commissioner Chu, to approve Consent Calendar.

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

#### **INVESTMENT CALENDAR**

7. **061020-07**                      **Discussion Item**                      **Update on Liquidity Stress Test, Review of Additional Cash  
Flow Stress Test with Cambridge Associates - Discussion  
Item**

William Coaker, Chief Investment Officer, Anna Langs, Managing Director, Asset Allocation, Risk Management and Innovative Solutions and Anita Ng, Cambridge, presented an oral and written report on this item.

Staff reported that the review of cashflow stress cases confirmed the validity and severity of previous stress cases previously presented in Cambridge Associates' analysis of Private Equity and

Real Assets contributions and distributions rates experienced during GFC and Technology Bubble. SFERS Staff and Cambridge Associates updated cash flow stress cases to budget for additional \$232 million in year 1 and \$200 million over the 3-year stress period.

Due to large variability (up to \$1 billion in one year) of cashflow estimates between base and stress cases, Staff proposes that the Board consider approving the use of credit facilities for liquidity management in case of large unanticipated outflows.

Staff reported that estimates of Liquidity Coverage Ratios confirm sufficient liquidity to meet capital calls and pension obligations under all scenarios. Under stress scenarios, in order to meet increased capital calls SFERS needs to sell risky assets (Public Equity, Non-Core Bonds, and Absolute Return) in additions to reducing its allocations to Treasuries and Core Bonds.

Staff reported that even under GFC Deeper Stress scenario SFERS has ample liquidity to pay plan benefits. Staff reported that, even in an especially dire scenario, consisting of a 3-year bear market in which public equity loses -60% at the start of the 3-year period and remains at that level three years later, SFERS still has more than \$4.5 billion in liquid assets.

Staff reported that SFERS needs to manage its long-term liquidity given that SFERS is a prominent investor in private markets, the variability of the cash flows in private markets can be substantial, and pension payments which will increase considerably over the next 10 years. SFERS net pension payments in 2020 are projected to total \$549 million and are expected to rise to \$914 million in 2025 and \$1,314 million in 2030. Staff will manage the changes to our pension outflows through our strategic asset allocation.

The Liquidity Management Update presentation included calculations for SFERS' Liquidity Coverage Ratio (LCR) and Modified Liquidity Coverage Ratio (MLCR). Staff reported that the difference between the two is that the liquidity assets in the MLCR includes only Non-Risky assets, not all liquid assets. Non-Risky assets include Treasuries, Core-Bonds and Cash, whose principal we expect will be returned to us at expiration. LCR includes Non-Risky assets plus all other liquid assets, such Public Equity, Emerging Market and High Yield Bonds, and Absolute Return, whose values vary more than Treasuries, Core-Bonds, and Cash. Staff reported that the LCR measure is much more important because it includes all of SFERS liquid assets. The MLCR ratio includes only SFERS safest assets.

In summary, the LCR shows that SFERS has ample liquidity to continue paying plan benefits even after exceptionally deep stress 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.



**Action:** This was a discussion only item.

**8. 061020-08                      Action Item                      Credit Facility Liquidity Management Tools (THIS ITEM WAS CONTINUED FROM THE MAY 13, 2020 RETIREMENT BOARD MEETING)**

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

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

Investment Staff recommended that SFERS establish a short-term credit facility of up to \$250 million with its custodian BNY Mellon through a cash release program from SFERS' securities lending cash collateral reinvestment account. Staff reported that credit facilities are designed to support future short-term liquidity needs and facilitate rebalancing.

Staff reported that it had reviewed several credit facility arrangements and recommended that a securities lending cash release program is the most cost efficient and operationally straightforward credit facility option available to SFERS at this time.

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

Commissioner Stansbury asked staff if there were procedural internal written policy control documents. Executive Director Huish confirmed that there are internal written control documents as well as custody bank written policies that are standard in the pension and banking industries. Commissioner Stansbury asked that Staff bring back proposed policy documents related to the recommended credit facility for the August 2020 Board meeting.

Commissioner Bridges commented on her support and stated that SFERS is fortunate to have this opportunity to give the investment team the flexibility to operate as needed with this type of facility at a low cost.

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 Initiate Cash Release Program for up to \$250 million from Securities Lending Cash Collateral Reinvestment account with BNY Mellon and to move forward with an additional recommendation for Staff to come back in August with written procedures that can be reviewed and approved by the Board.

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

PRESIDENT DRISCOLL CALLED ITEM NOS. 15 AND 16 TOGETHER

**15. 061020-15            Action Item            Election of Board President**

**16. 061020-16            Action Item            Election of Board Vice President**

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

Commissioner Stansbury nominated Commissioner Bridges as President and Commissioner Casciato as Vice President, Seconded by Commissioner Heldfond.

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

President Bridges asked Commissioner Driscoll to complete the presiding of this meeting due to the complexities of presiding over a remote meeting and that President Bridges would preside at the July Board meeting.

**9. 061020-09            Discussion Item            Report on Investment Performance of the Retirement Fund  
for the Quarter Ended March 31, 2019**

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

William Coaker, Chief Investment Officer, Allan Martin, NEPC, presented an oral and written report on this item.

Mr. Martin reported that, for the quarter ended March 31, 2020, the Retirement Fund was valued at \$24.9 billion. The total return for the quarter was -7.96%.

He reported that policy decisions that worked for SFERS during the Quarter included:

- Treasuries. Treasuries (+5.29%) were the strongest absolute performer for SFERS during the quarter as investors sought safe-haven assets in response to the lockdowns implemented to combat the Covid-19 pandemic, driving yields to all-time lows.
- Private Equity. Private Equity (+4.80%) outperformed Public Equity and was the largest contributor to relative performance during the quarter.
- Core Plus Fixed Income. Core/Core Plus (+1.48%) outperformed all other segments of Liquid Credit during the quarter.

- China A-Shares. Despite negative performance during Q1, the China A-Shares market outperformed other Public Equity segments.

Mr. Martin reported that policy decisions that did not work for SFERS during the Quarter included:

- Emerging Market Debt. Emerging Market Debt (-15.27%), lagged other segments of Liquid Credit as a combination of widening credit spreads and adverse currency movements caused significant declines.
- High Yield/Bank Loans. High Yield/Bank Loans (-13.11%) lagged Core/Core Plus within Liquid Credit as credit spreads widened significantly during the quarter.
- Absolute Return. Absolute Return (-10.94%) underperformed both the HFRI Fund of Funds Composite Index and (-8.79%) its policy benchmark (+1.62%) as well as the broader SFERS portfolio during the quarter.

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

Commissioner Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**10. 061020-10 Discussion Item Chief Investment Officer Report**

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

William Coaker, Chief Investment Officer, presented an oral and written report on this item.

CIO Coaker reported that in May 2020, the SFERS portfolio posted a return of 0.56%. Public Equity jumped up by 6.10% while the Private Equity, Real Assets and Private Credit portfolios experienced markdowns of -3.43%, -3.16%, and -4.81%, respectively. He reported that the SFERS Fixed Income portfolio returned 1.84% as High Yield, Emerging Market Bonds, and Bank Loans experienced some recovery from their large declines in March.

He reported that, for the first two months of 2Q2020, the SFERS portfolio returned 4.16%. Public Equity has experienced a historic recovery, surging 19.04% in just two months. Private Equity, Real Assets, and Private Credit were written down this quarter by -3.52%, -5.64% and -7.15%, respectively. Mr. Coaker reported that, if the rebound in Public Equity as well as Emerging Market and High Yield bonds becomes sustainable, at least some of the private markets write-downs would likely reverse.

CIO Coaker reported that in the first five months of 2020, SFERS has lost -3.91%. He reported that Public Equity book is down -4.90% while our Real Assets and Private Credit portfolios have lost -5.46% and -5.04%, respectively for this period. The SFERS Absolute Return portfolio lost -8.90% thru April 30.

Mr. Coaker reported that, despite the S&P 500 tanking -34% from February 20 to March 23, with one month to go in Fiscal Year 2019-20 SFERS has edged out a positive return of 1.20%. For Fiscal Year 2019-20, the Public Equity and Fixed Income strategies are up 3.12% and 2.87%, while the Private Equity portfolio gained 7.33%. He reported that SFERS' Private Credit and Real Assets portfolios have returned -1.21% and -3.13%, respectively, while Absolute Return was down -6.42% through April 30.

**MGG SF Evergreen Unlevered Fund LP.**

At its meeting on May 13, 2020, the Retirement Board approved in closed session an investment of up to \$55 million in MGG SF Evergreen Unlevered Fund LP. The investment was approved by the following vote:

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

SFERS' investment of \$55 million closed on May 18, 2020. This investment will be classified as a direct lending fund within SFERS' Private Credit Portfolio.

More information about MGG Investment Group LP is available at [www.mgginv.com](http://www.mgginv.com).

**Squarepoint Focus US Feeder LP**

At its meeting on December 11, 2019 the Retirement Board approved in closed session an investment of \$200 million in aggregate to Squarepoint Core US Feeder LP and Squarepoint Focus US Fund LP by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

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

Nays: None

Absent: Commissioner Bridges

SFERS's investment of \$25 million in Squarepoint Focus US Fund LP closed on May 1, 2020.

This investment is classified as a Quantitative investment within SFERS' absolute return portfolio and is SFERS' first investment with Squarepoint via share class B of SFARI II.

More information about the firm is available at: [<https://www.squarepoint-Capital.com%20>]  
<https://www.squarepoint-capital.com>

**The Children's Investment Fund, LP**

At its meeting on May 13, 2020, the Retirement Board approved in closed session an investment of up to \$300 million in The Children's Investment Fund, LP. The investment was approved by the following vote:

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

SFERS' investment of \$100 million closed on May 27, 2020. SFERS expects to commit another \$200 million when additional capacity becomes available. The investment is classified as a global public equity

investment within SFERS' public equity portfolio and is SFERS' first investment with The Children's Investment Fund Management ("TCI").

More information about TCI is available at <https://www.tcifund.com/>.

**Thoma Bravo Fund XIV, L.P., Thoma Bravo Discover Fund III, L.P., and Thoma Bravo Explorer Fund, L.P.** At its meeting on May 13, 2020, the Retirement Board approved in closed session three investments of up to \$150 million in total in Thoma Bravo Fund XIV, L.P., Thoma Bravo Discover Fund III, L.P., and Thoma Bravo Explorer Fund, L.P. The investments were approved by the following vote:

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

SFERS' investment of \$50 million in Thoma Bravo Fund XIV, L.P., \$75 million in Thoma Bravo Discover Fund III, L.P., and \$25 million in Thoma Bravo Explorer Fund, L.P. closed on May 29, 2020.

Thoma Bravo Fund XIV, L.P. is classified as a Mega Buyout fund, Thoma Bravo Discover Fund III, L.P. as a Medium Buyout fund, and Thoma Bravo Explorer Fund, L.P. as a Small Buyout fund within SFERS' private equity portfolio. SFERS has previously invested in eight Thoma Bravo's private equity funds. Thoma Bravo Fund XIV, L.P., Thoma Bravo Discover Fund III, L.P., and Thoma Bravo Explorer Fund, L.P. are SFERS' ninth, tenth, and eleventh investments with Thoma Bravo.

More information about Thoma Bravo is available on <https://www.thomabravo.com>

#### **Livingbridge 7 LP**

At its meeting on May 13, 2020, the Retirement Board approved in closed session an investment of up to £50 million in Livingbridge 7 LP. The investment was approved by the following vote:

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

SFERS' investment of £50 million in Livingbridge 7 LP closed on June 1, 2020.

Livingbridge is classified as a Medium Buyout fund within SFERS' private equity portfolio and is SFERS' second investment with Livingbridge.

More information about Livingbridge is available on [www.livingbridge.com](http://www.livingbridge.com)

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

Commissinoer Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This was a discussion only item.

**DEFERRED COMPENSATION PLAN CALENDAR**

**11. 061020-11            Discussion Item            SFDCP Manager Report**

Documents provided to the Retirement Board prior to the current meeting: Deferred Compensation Manager Report and Quarterly Activity Report

Steve Moy, acting Deferred Compensation Program Manager, presented an oral and written report on this item.

Mr. Moy reported that the SFDCP Stable Value Fund ("SVF") holds nearly \$1 Billion in participant assets as of March 31, 2020. He reported that the SVF is managed by Galliard Capital Management, and their contract with the SFDCP has been recently renewed. Mr. Moy announced that the SVF crediting rate, guaranteed for the stated quarter, is 2.51% for Q2 2020, which is a very slight reduction of 3bps from the first quarter rate of 2.54%.

Mr. Moy reported that since the SFERS and SFDCP offices have been closed to the public due to the "Shelter in Place" order, the SFDCP staff has worked to ensure that participants and potential enrollees would still be serviced by staff and Voya. He reported that, during this time, Voya Retirement Counselors have remained available for remote individual or group appointments via phone, Skype, or Zoom. Starting in May, live daily webinars have been added by the Retirement Counselors to provide educational content for participants. Seminar topics include "Navigating Market Volatility", "Ready to Retire", and "What Does the Future Hold for You?". The SFDCP staff has also remained accessible as well. Voicemails and emails sent to the SFDCP team have been checked regularly and given prompt response.

Mr. Moy reported that as of May 31, 2020 there was a total 9 Coronavirus loans, 70 Coronavirus distributions and 17 Coronavirus loan suspensions.

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

Commissioner Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**ADMINISTRATION CALENDAR**

**12. 061020-12      Discussion Item      Update on the Budget for Fiscal Years 2020-2021 for the San Francisco Employees' Retirement System**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Draft FY 2020-2021 and 2021-22 SFERS Budget Narrative, Organization Charts for each SFERS Division, Investment Division Strategic Plan presentation – January 2020

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

The Retirement Board approved the department budget for Fiscal Years 2020-2021 and 2021-2022 at its February 12, 2020 Board meeting. Since February, the City's fiscal outlook has dramatically changed due to COVID-related emergency spending. The City is now projecting a budget shortfall of \$1.7 billion through Fiscal Year 2021-2022. General fund revenues and public health revenues are projected to be significantly reduced over the next two budget years as a result of the COVID pandemic impact on the local economy.

Mr. Huish reported that, as a result of the drastic change in the City's budget outlook, Mayor Breed requested that all City departments re-evaluate and resubmit their budget proposals focusing on new budget priorities by June 12, 2020. He reported that the Mayor's new budget priorities include:

- Mandatory reduction of General Fund support
- Prioritizing core services that provide critical government functions
- Evaluating current operations for realignment with City's COVID operating measures and guidelines
- Prioritizing services for vulnerable populations and providing equitable services for underserved populations

MR. Huish reported that the proposed FY 2020-2021 department budget reflects a 4 – 6% or nearly \$5 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. He emphasized that even though these new positions will add an estimated \$1.8 million in new salary expenses to the department budget, the requested new positions are mission-critical to the department's strategic goals particularly in light of the impact of the COVID-19 pandemic.

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

Commissioner Driscoll called for public comment.

Claire Zvanski, Retired Employee, City and County, called to congratulate the new President and Vice President and mention the proposed amendment to charter to protect appointees to City commissions and boards.

There were no additional comments and public comment was closed.

