SFERS
San Francisco Employees' Retirement System

City and County of San Francisco Employees' Retirement System

RETIREMENT BOARD MEETING

MINUTES

Wednesday, August 12, 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

During the Coronavirus Disease (COVID-19) emergency, the Retirement System's regular meeting room, 1145 Market Street, 6th Floor, is closed. Commissioners and Retirement Staff will convene remotely. The special Retirement Board meeting will be streamed live on SFGovTV (www.sfgovtv.org) and the public will be able to provide public comment during the meeting by live call-in. The public is encouraged to submit comments in advance of the meeting either by: (1) email to sferspubliccomment@sfgov.org or (2) recording your public comment on the Retirement System's public comment line 415-487-7020. Public comments submitted by 5:00 p.m. PST, Monday, August 10, 2020 will be 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

Leona Bridges, President
Al Casciato, Vice President
Carmen Chu
Joseph Driscoll
Scott Heldfond
Ahsha Safaí
Brian Stansbury

Jay Huish, Executive Director

Remote Retirement Board Meeting

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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. Roll Call	Commissioner Leona Bridges	1:10 PM
	Commissioner Al Casciato	1:10 PM
	Commissioner Carmen Chu	1:10 PM
	President Joseph Driscoll	1:10 PM
	Commissioner Heldfond	1:10 PM
	Commissioner Ahsha Safaí	1:10 PM
	Commissioner Stansbury	1:10 PM

2. Communications Announcement regarding instructions to follow for the teleconference Retirement Board Meeting.

3. 081220-03 Action Item CLOSED SESSION

President Bridges announced that the Retirement Board would be going into Closed Session.

President Bridges 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

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

The following individuals participated in the closed session re Possible Recommendation and/or Action on Sale and Purchase of Particular, Specific Pension Fund Investment under California Government Code Section 54956.81via teleconference: President Bridges, Commissioners Casciato, Chu, Driscoll, Heldfond, Safaí, and Stansbury; Caryn Bortnick, Deputy Executive Director; 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, Private Markets; Han Pham, Director, Public Equity; Ed Comerford, Director, Private Equity; Chris Chow, Director, Real Assets, Andrew Collins, Director, ESG; Justin Lo and Alo Martins, Senior Portfolio Managers; Patrick Li and Kien Trinh, Investment Analysts; Robert Bryan, Deputy City Attorney; Allan Martin, NEPC; Anita Ng, Kelly Jensen, Marc Cardillo, Anelise Hohl, and Jacquelyn Klehm, Cambridge.

b) The following individuals were present for the closed session to consider the employment of Executive Director: Jay Huish, Executive Director.

The following individuals participated in the closed session to consider the employment of Executive Director: President Bridges, Commissioners Casciato, Chu, Driscoll, Heldfond, Safaí, and Stansbury.

The Board returned to open session at 3:07 PM

President Bridges called for public comment.

John Furlan stated that he had emailed three public comments to be included in the Minutes. Mr. Furlan spoke about the July 15, 2020 CIO Report and his concerns about the Strategic Asset Allocation process.

There were no further comments and public comment was closed.

Action: Moved by Commissioner Heldfond, seconded by Commissioner Chu, not to disclose any discussions held in Closed Sessions a and b under San Francisco Administrative Code Section 67.12(a).

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

4. 081220-04 General Public Comment – Not earlier than 2:00 PM

President Bridges called for General Public Comment.

General Public Comment received from John Stenson, SFERS retired member, via advance email:

A CLIENT ASKED HIS HEDGE FUND MANAGER.
``HAS ALL MY MONEY GONE" ? NO SAID THE HEDGE FUND MANAGER
IT JUST WENT TO SOMEBODY ELSE.

MOST HEDGE FUNDS GO OUT OF BUSINESS AFTER LOSING MOST OF THEIR CLIENTS MONEY. I RECCOMEND THAT YOU TURN YOUR HEDGE FUND INVESTMENTS INTO CASH. IN THE LAST RECESSION CASH GAVE MUCH BETTER DOWN MARKET PROTECTION THAN HEDGE FUNDS.

WHEN THE GOVERNMENT STOP GIVING OUT STIMULUS MONEY WE WILL GO INTO A DEEP RECESSION AND BECAUSE OF YOUR HIGH RISK INVESTMENT STRATEGY OUR PENSION FUND WILL LOSE BILLIONS OF DOLLARS.

P.S.--BEN MENG THE FORMER CHIEF INVESTMENT OFFICER OF CALPERS IS LOOKING FOR A JOB. MR. MENG IS A EXPERT IN HEDGE FUND AND CHINESE INVESTMENTS.

WITH BEST REGARDS FROM JOHN STENSON

General Public Comment received from John Furlan, San Francisco resident/taxpayer, via advance email:

In 7/15/20 SAA document CIO wrote "Staff estimates the median [10-year] return...is approximately 5.0% and for SFERS current strategic asset allocation it is approximately 5.5%."

Those are beta/asset returns far lower than NEPC's SAA 7.1% estimate and SFERS 7.4% target, they should be modeled, though will never be adopted. Can the huge gap be overcome by "manager selection" alpha; asset tilts to growth, tech, life sciences, China, etc; upper-range allocations, e.g. private equity 20.6% on 7/31/20; without leverage?

Six new SAA mixes shown by NEPC differ very little on all key metrics over the next five years in base case, One or two significantly different allocations should be modeled. CIO recently said: "if we had no cash flows, and we had no political sensitivities about what our short-term returns would be, rather than that 49% to public and private equity, I'd recommend it would be 100."

NEPC's recession, stagflation scenarios should be considered "base" cases. In 2017 funded status of NEPC's recommended "adjusted mix" (56% equities) projected 42% in recession. Now NEPC's projection is 73-74% for current "policy target" (49% equities) in 2022-25 in recession, stagflation (pg 34). But actual, not target, equities on 7/31/20 was 55.6%.

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

5. 081220-05 Action Item Approval of the Minutes of the July 8, 2020 Meeting

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

President Bridges 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 July 8, 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.	**081220-06**	**Action Item**	**Consent Calendar**
	081220-06b	**Action Item**	**Voluntary Retirement Board List No. 02-20**
	081220-06c	**Action Item**	**Decisions of Hearing Officers**
	Clinnis Dentley Effective Date: 8/29/18	9163 Transit Operator MTA	Ordinary Disability Retirement/Stip Granted
	Gabriel A. Fernandez Effective Date: 11/3/18	6319 Senior Construction Inspector DPW	Ordinary Disability Retirement/Stip Granted
	Ma K. Hmwe Effective Date: 11/1/2016	9163 Transit Operator MTA	Ordinary Disability Retirement Granted (VR – 12/1/18)
	Renota C. Martinez Effective Date: 3/16/18	Q62 Lieutenant III Police	Industrial Disability Retirement/Stip Granted (Date of Death – 4/13/18)
	Richard E. McGee Effective Date: 7/1/17	H40 Battalion Chief, Fire Suppression Fire	Industrial Disability Retirement/Stip Granted
	Ana Morales Effective Date: 6/30/18	Q4 Police Officer III Police	Industrial Disability Retirement/Stip Granted
	Matthew M. O'Shea Effective Date: PERS	8308 Sheriff's Sergeant Sheriff	Cal-PERS - Disability Retirement Certified
	Karen E. Pandolfi Effective Date: 8/1/17	Q4 Police Officer III Police	Industrial Disability Retirement/Stip Granted
	Theodore J. Russo Effective Date: PERS	8205 Institutional Police Sergeant Community College District	Cal-PERS - Disability Retirement Certified
	081220-06d	**Action Item**	**Travel Requests**
	081220-06e	**Discussion Item**	**Retirement Board Member Reports and Comments**

Action: This is a discussion only item.

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

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, to approve the Consent Calendar with one change to remove one person listed on the Retiree List who has changed their mind about retiring at this time. Caryn Bortnick, Deputy Executive Director, confirmed updating the Retiree list with this update.

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

INVESTMENT CALENDAR

7. 081220-07 Action Item Approval of a Revised Investment Policy Statement (IPS) and Processes and Procedures for SFERS' Securities Lending Program.

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Revised SFERS Investment Policy Statement (marked), Revised SFERS Investment Policy Statement (unmarked), Internal Processes and Procedures for SFERS' Securities Lending Program with BNY Mellon

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

CIO Coaker reported that the Securities Lending Program is off to a very strong start.

Ms. Langs reported that on May 13th, 2020, the Retirement Board conditionally approved the initiation of a credit facility of up to $250 million with SFERS' custodian BNY Mellon through a cash release program from the securities lending cash collateral reinvestment account. She stated that final approval was contingent on the approval of recommended changes to SFERS' IPS related to the use of credit facilities and acceptance of attendant processes and procedures.

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

President Bridges called for public comment.

Claire Zvanski, RECCSF, expressed concerns regarding previous cash losses associated with a prior cash overlay program. Ms. Zvanski thanked the Board for holding the remote meetings so that she can participate.

John Furlan spoke of his support on the IPS revisions and commented that the CIO was doing an excellent staffing job. Mr. Furlan also submitted the following written summary of his public comment on this item via email:

I support this change in the IPS. The liquidity stress test analyses, tools, Cash Release Program from the CIO, MD are among the most important things I have seen at SFERS, because of its very large exposure to illiquid private funds, capital calls, rising benefits. SFERS' world-class staff is its strength, shown in recent asset class updates.

In the 06/10/20 document on liquidity stress tests, under "No Growth Scenario," which evidently is the budgeting base case, LCR/MLCR at 2 std dev were 1.71/0.88, in "GFC Deeper Stress Scenario," 1.67/0.74 (pp 17-19). MLCRs below 1 indicate SFERS might have to sell liquid risky assets. This Cash Release Program will help mitigate that risk.

SFERS just went through an extremely short real-life stress test. It might be helpful to try to estimate, using a realistic private equity negative return, its funded status, LCR/MLCR at 3/23/20 low with S&P 500 down -33.9% from 2/19/20.

The allowable ranges of strategic asset classes in the IPS are huge and can help the CIO mitigate bear market losses and liquidity issues. Treasuries and cash on 6/30/20 were 10.6%, up from 6.6% on 12/31/19, allowable range is 3-15%. Small "market timing"?

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Driscoll, to approve the recommended changes to the San Francisco City and County Employees' Retirement System's Investment Policy Statement and the attendant Processes and Procedures for SFERS' Securities Lending Program.

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

8. 081220-08 Action Item Recommendation to Hire Alatus Capital to manage a European public equity portfolio for up to $300 million.

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

William Coaker, Chief Investment Officer; Kurt Braitberg, Managing Director, Public Markets; Han Pham, Director, Public Equity, Dan Hennessy, NEPC presented an oral and written report on this item.

Staff reported that Alatus launched its long-only Inflection Fund on September 1, 2012 and had $1.3 billion in assets as of June 30, 2020. The Fund is a concentrated portfolio with approximately 15 equity long positions with each weighing 4%-8%. Staff said that the Fund has no short positions and does not use leverage.

Staff highlighted a proven investment team at Alatus – Richard Vogel, Patrick MacNeil, and Antoine Firmenich have been working together for over 12 years. Staffed reported that each Partner excels at different skills from portfolio management to financial analysis, to subject matter expertise and that these skill sets complement each other in their continued execution of their strategy.

Staff reported that the Fund has strong historical net performance of 10.0% (versus 2.8% for MSCI Europe USD) annualized net returns since inception. Further, Staff reported that Alatus has strong risk-adjusted returns as illustrated in its Sharpe Ratio and Information Ratio. Staff also reported that Alatus' focus on businesses with strong FCF has resulted in strong up capture of 108% and down capture of 82%.

Staff reported that Alatus' internal capital represents approximately 9% (~$160 million) of the total AUM as of June 30, 2020 and the investment team is well aligned in the decisions they make for the portfolio in order to compound and preserve capital for their institutional investors. Staff reported that Alatus is focused solely on European public equity investing.

Staff recommended engaging Alatus Capital for active management services for a separately managed account of up to $300 million in a European public equity long-only strategy. Staff also recommended that, if SFERS does not invest the full $300 million by August 2021, Staff would come back to the Board to make another recommendation to invest the remaining amount.

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

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Heldfond, to approve the engagement of Alatus Capital for active investment management services for up to $300 million.

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

President Bridges called Item Nos. 9, 10 and 11 together

9. 081220-09 Action Item Recommendation to Issue a Request for Proposals for Private Credit Investment Consulting Services

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Proposed RFP for private credit investment consulting services.

10. 081220-10 Action Item Recommendation to Issue a Request for Proposals for Private Equity Investment Consulting Services

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Proposed RFP for Private Equity investment consulting services.

11. 081220-11 Action Item Recommendation to Issue a Request for Proposals for Private Markets Reporting Consulting Services

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

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

CIO reported that all three contracts were expiring and is requesting the issuance of each of these three RFPs.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Driscoll, to approve the following:

- Approve recommendation to issue a Request for Proposals for Private Credit investment consulting services;
- Approve recommendation to issue a Request for Proposals for Private Equity investment consulting services; and
- Approve recommendation to issue a Request for Proposals for monitoring, reporting and performance measurement consulting services.

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

12. 081220-12 Action Item Recommendation to Hire Cambridge Associates for Real Assets Consulting Services

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

William Coaker, Chief Investment Officer; Tanya Kemp, Managing Director, Private Markets, presented an oral and written report on this item.

CIO Coaker reported that on March 2, 2020, SFERS issued a Request for Proposals seeking qualified professional investment consulting firms to provide SFERS with comprehensive real asset investment consulting advice and services. These services are to include strategic and tactical investment planning, market research, investment due diligence ("advisory services"), portfolio monitoring, and reporting.

Mr. Coaker reported that, by the April 10, 2020 RFP submission deadline, SFERS received proposals from four firms (alphabetically): 1) Aberdeen Standard Investments; 2) Cambridge Associates ("CA"); 3) Meketa Investment Group ("Meketa"); and 4) The Townsend Group. He reported that a review committee comprised of SFERS investment team members reviewed and evaluated each proposal in accordance with the criteria and weighting percentages approved in the RFP. In its evaluation, the review committee carefully considered each firm's advisory, monitoring and reporting services, research capabilities, fee proposal, and potential conflicts of interest issues. Each proposal was scored independently by each review committee member and the aggregate results were compiled by average score and ranking.

Mr. Coaker reported that, on June 4, 2020, two firms were notified of their selection as finalists and invited to participate in a video conference call with the SFERS review committee. The finalists (alphabetically) were 1) Cambridge Associates and 2) Meketa.

Based on evaluation team's due diligence, Staff recommended that SFERS retain Cambridge Associates as the primary Real Assets consultant.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, to approve Staff's recommendation to retain Cambridge Associates as the primary Real Assets consultant.

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

13. 081220-13 Action Item Recommended Statement of Objectives, Guidelines and Procedures for PIMCO Multi-Sector Fixed Income Portfolio

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Statement of Objectives, Guidelines and Procedures for PIMCO Multi-Sector Fixed Income portfolio

William Coaker, Chief Investment Officer; Kurt Braitberg, Managing Director, Public Markets presented an oral and written report on this item.

President Bridges 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 proposed Guidelines for the multi-sector fixed income portfolio to be managed by PIMCO.

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

14. 081220-14 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 as of July 31, 2020, SFERS FYE returns were 2.19% with commingled and private market funds returns still pending. He reported that the updated estimate is that SFERS' June 30, 2020 FYE returns were 2.41%. He indicated that some minor changes may still be posted as private markets managers provide updated valuations as of June 30, 2020. CIO Coaker reported that the initial FYE median return of peers is 1.34% but nearly half of peers have not announced their returns as of this date.

CIO Coaker reported that, in July 2020, SFERS investments recorded a strong one-month return of 2.43%. All asset classes posted positive returns. Public Equity portfolio returned a robust 6.43%, outperforming the MSCI ACWI which gained 5.29% for the month. Fixed Income, Private Credit, Private Equity, and Real Assets all gained between 0.42% and 0.69% for the month. Absolute Return will post its July return by approximately mid-August. He reported that the SFERS portfolio was projected to record a return this month of 1.0% or higher.

Closed Session Disclosures:

Fortress Credit Opportunities Fund V Expansion L.P.
At its meeting on July 8, 2020, the Retirement Board approved in closed session an investment of up to $60 million in Fortress Credit Opportunities Fund V Expansion L.P. The investment was approved by the following vote:

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

SFERS' investment of $60 million in Fortress Credit Opportunities Fund V Expansion L.P. closed on July 21, 2020. This investment will be classified as a Credit Opportunities fund within the SFERS' Private Credit portfolio.

More information about Fortress Investment Group is available at www.fortress.com.

Fortress Lending Fund II, L.P.
At its meeting on July 8, 2020, the Retirement Board approved in closed session an investment of up to $60 million in Fortress Lending Fund II, L.P. The investment was approved by the following vote:

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

SFERS' investment of $60 million in Fortress Lending Fund II, L.P. closed on July 31, 2020. This investment will be classified as a Direct Lending fund within the SFERS' Private Credit portfolio.

More information about Fortress Investment Group is available at www.fortress.com.

CIO Coaker indicated that Staff will bring the Strategy Update on ESG Investing and update on the Plan's Risk Exposures to the Board in October. He reported that will also present an update to our Strategic Asset Allocation at the October Board meeting.

CIO Coaker reported that SFERS is currently recruiting for a Manager of Investment Operations position as well as for an Investment Analyst in ESG Investing to replace Luke Angus who left SFERS on July 10.

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

Commissioner Stansbury requested that next month's CIO Report include a breakout of credit in absolute returns to better understand the impact of credit.

President Bridges called for public comment.

John Furlan asked that his written public comments be included in the record not his verbal comments made today:

At 7/31/20, Absolute Return is -5.77% YTD, -10.9% in Mar qtr. Its return in 2018 was -1.48%. Benchmark is 90 Day T-Bill + 500 bps, positive.

Hedge funds performed poorly during, since GFC. While long extremely critical of them, with equities at 63.3% on 8/31/17, 10-year 2.20% on 9/13/17, from 09/13/17 Board minutes:

"John Furlan recommended...Board adopt a 15% allocation to Absolute Return rather than 10% in the Adjusted Mix" "motivated by a recession/bear market in the next five years...in which the Adjusted Mix allocation is forecasted to result in a 42% funded status by 2022."

Board adopted 15%. In 2018, I recommended 1/3 of that 15% be used in Quantitative Strategies for risk mitigation, which did not happen. I support a lower allocation to Absolute Return, new allocation to GTAA/defensive, NEPC's SAA "Mix 1" is 10%/5%.

In 2020 bear market, SFERS in effect had a huge tail risk hedge with no expiration, from huge increases in Fed's balance sheet, fiscal deficits, at unpaid costs of low rates/high debt. Famous Fed "put" salvaged every financial crisis since 1987, can SFERS rely on it in next crisis, with 10-year at 0.57%? Uncertainty vs risk?

There were no additional comments and public comment was closed.

Action: This is a discussion only item.

DEFERRED COMPENSATION PLAN CALENDAR

15. 081220-15 Discussion Item Deferred Compensation Manager Report

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, SFDCP Manager Memorandum for Q2 2020, Quarterly Activity Report as of June 30, 2020, SFDCP Counselor Introduction Flyer, SFDCP Counselor Introduction Email, Updated CARES Act Flyer, Voya Security Snapshot

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

Mr. Moy Reported that the SFDCP Stable Value Fund currently holds over $1 Billion in participant assets as of June 30, 2020 and is managed by Galliard Capital Management. The SVF crediting rate, guaranteed for the stated quarter, is 2.33% for Q3 2020, which is a slight reduction from the second quarter rate of 2.51%. He reported that rates were in a gradual decline since 4Q18 but given recent economic events, there has been an even more significant decline in the second quarter of 2020.

Mr. Moy reported that the renewal contract with Galliard, SFERS Stable Value Investment Manager, has been successfully completed with the new term commencing on July 1, 2020.

Mr. Moy reported that, at the outset of the Shelter-In-Place order, the SFDCP prioritized informing participants of the resources still available through multiple avenues of communication. He reported that, with social distancing protocols continuing indefinitely, the SFDCP has focused on expanding virtual methods of communication to maintain the high level of service participants have been accustomed to. Starting in May, live webinars were added to the SFDCP website. He reported that the three initial presentations covered topics such as market volatility, basics of the SFDCP, and retirement readiness. Additional presentations covering topics such as online capabilities will be added at a future date.

Mr. Moy reported that SFDCP staff and the local Retirement Counselors have reached out to various departments to engage new employees in a variety of ways. Retirement Counselors have attended the recent Police and Fire Academies as well as the recent DPH orientations. Pre-recorded Deferred Compensation presentations have been provided for the upcoming Path to Retirement and Ready to Retire seminars. He reported that SFDCP and SFERS Member Services have coordinated virtual live presentations for the monthly New Employee Orientations normally held at 1 South Van Ness utilizing the Zoom app.

Mr. Moy reported that the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020 to help ease some of the financial pressures facing participants in the wake of COVID-19. For those who have been impacted by COVID-19 and meet the eligibility requirements, the Act allows increased flexibility and additional access to retirement savings. As part of the special Board Meeting held on April 22, 2020, the Board voted to implement all three provisions, which went into effect shortly afterwards.

Mr. Moy reported that Voya will allow participants to view the post log-in website in Spanish starting in September. The Voya Call Center is also in the midst of adding multiple items to improve the participant phone experience. The call center has recently added a "last called agent" feature so that participants have the option of being routed to the last call center rep they spoke with or the next available rep. This allows the participant to speak with someone who already has familiarity with the situation. Mr. Moy reported that, to avoid lengthy wait times, procedures are in place in the event that the last rep is unavailable or on another call. He indicated that, at the end of the year, Voya is also planning to roll out a "text status notification" feature which will allow participants to receive text updates on the status of their requests.

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

Commissioner Casciato reported that he will be scheduling a Deferred Compensation Committee Meeting shortly.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

16. 081220-16 Discussion Item Review of SFDCP Investment Performance for the First Half of 2020

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Performance Summary, Investment Measurement Service Quarterly Review

Steve Moy, Deferred Compensation Program Manager; Greg Ungerman, Allan Associates, presented an oral and written report on this item.

Mr. Ungerman reported that the Deferred Compensation Plan was valued at $3.8 billion on June 30, 2020. The change in total Plan assets was significant over the past two quarters. Given the strong drawdown during the first quarter, the Plan fell by $484 million but then rebounded sharply during the second quarter with an increase of $458 million.

Mr. Ungerman reported that the SFDCP target date funds had another strong quarter after a difficult first quarter given the market drawdown. All of the vintages performed ahead of their custom benchmark returns on a since inception basis and the shorter dated funds have tended to outperform their respective benchmarks by a wider margin than the longer dated funds. He indicated that, given the strong equity and fixed income market during the quarter, the 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 one manager was placed on the manager watch list:

- LSV is the sole large cap value manager for the SFDCP Large Cap Value Equity fund. Their poor performance during the dramatic sell off during the first quarter of this year has brought their longer-term performance of 3 and 5 years below benchmark and ranks below median. Their diversified approach with sizable allocations to the hard-hit industries like Financials and Energy were the largest detractor to their relative results.

Mr. Ungerman reported that the Department of Labor (DOL) made two announcements during second quarter:

- The DOL proposed a rule regarding evaluating and offering an ESG fund within a DC Plan. The key take away is their emphasis that any decision on adding a fund to a plan must be based on only financial interests for the participant and not done to incorporate a plan sponsors bias or belief in non financial matters.

- The DOL wrote a letter in response to two Private Equity firms asking if private equity can be added to a DC Plan. The response noted that there is nothing that prohibits Private Equity from being considered but a plan sponsor would still have to follow a prudent process of evaluation and consideration.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

ADMINISTRATION CALENDAR

President Bridges called Item No. 18 next

18. 081220-18 Action Item Approval of President's Appointments to Committees

Documents provided to the Retirement Board prior to the current meeting: President's Memorandum

President Bridges recommends the following committee assignments for 2020-2021:

COMMITTEE	CHAIR	MEMBERS	CONSULTANT	STAFF LIAISON
Deferred Compensation	Casciato	Bridges, Driscoll	Callan	Diane Chui-Justen
Governance	Driscoll	Casciato, Chu	Nossaman	Jay Huish/Caryn Bortnick
Investment	Heldfond	Committee of the Whole	NEPC	Bill Coaker
Operations Oversight	Chu	Safai, Stansbury		Caryn Bortnick
Personnel	Stansbury	Casciato, Heldfond	Nossaman	Jay Huish/Grace Tam

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, to move to approve President's Recommended Committee Assignments.

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

17. 081220-17 Discussion Item Review of Demographic Experience Study

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Presentation by Cheiron: Demographic Experience Study as of June 30, 2019, Report by Cheiron: Demographic Experience Study as of June 30, 2019

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

Ms. Brazelton reported that SFERS demographic studies are conducted approximately every five years. The Board adopted current demographic assumptions at its November 18, 2015 Board meeting. The net impact on the July 1, 2015 actuarial liability was an increase of over one billion dollars entirely due to the strengthened mortality assumption including assumed generational mortality improvements.

She reported that the Retirement Board is required to perform periodic demographic studies pursuant to Administrative Code Section 16.37-2:

"...at intervals of not to exceed six years, the Board shall make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries...Upon the basis of all or any such investigation, valuation and determination, the Board shall: (a) Adopt for the retirement system such interest rate and such mortality, service and other tables, or any of such items, as shall be deemed necessary."

Staff and Cheiron reported that demographic studies are performed to ensure demographic assumptions match up with the actual experience of the plan's members. Cheiron reported that the Government Finance Officers Association recommends an experience study about every three to five years. They indicated that assumptions studied include "decrements" to the active member population such as termination and retirement along with other assumptions that significantly impact benefits to members or costs to the plan. Cheiron's detailed report covered SFERS assumptions for merit salary increases, Old Plan safety cost-of-living increases, retirement rates, disability rates, mortality rates, termination rates, refund rates, reciprocity and family composition and administrative expenses.

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

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

19. 081220-19 Discussion Item Travel Expense Report for the Quarter Ended June 30, 2020

Documents provided to the Retirement Board prior to the current meeting: Travel Expense Report for the Quarter Ended June 30, 2020

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

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

20. 081220-20 Discussion Item Executive Director's Report

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

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

Mr. Huish discussed the following administrative updates:

- California Supreme Court decision – *Alameda County Deputy Sheriff's Assoc. et al., v Alameda County Employees' Retirement Assn., et al.* (2020) – summary and analysis
- Follow-up: *Department of Labor Proposes Rule to Crack Down on ESG* – SFERS Staff Comment

submitted to DOL dated July 29, 2020

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

Commissioner Driscoll addressed Item 6(c) on the Consent Calendar and commented the number of disability applications being filed exceeds the disability applications being closed and stated that this issue needs to be calendared so the Board can discuss the current disability application case load.

Commissioner Casciato asked why Death Report was not part of monthly Board packet. Mr. Huish responded that he did not recall it ever being part of the Board packet but that any group who would like to receive a copy to let himself or Caryn Bortnick know. Commissioner Casciato asked to be placed on that list to receive.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

21. 081220-21 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.

Commissioner Driscoll announced he will be scheduling a mutually convenient time for a Governance Committee Meeting.

President Bridges called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

22. 081220-22 Adjournment

Having no further business, the Board adjourned the meeting at 5:32 PM

Respectfully submitted,

Jay Huish

Jay Huish, Executive Director