



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

RETIREMENT BOARD
INVESTMENT COMMITTEE
MINUTES

Wednesday, July 15, 2020

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 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, July 13, 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.

INVESTMENT COMMITTEE MEMBERS

Leona Bridges
Al Casciato
Carmen Chu
Joseph Driscoll
Scott Heldfond, Chair
Ahsha Safai
Brian Stansbury

Jay Huish
Executive Director

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Materials accompanying the agenda are available for public inspection and copying at SFERS, 1145 Market Street, 7th Floor. For additional information, please contact Darlene Armanino, Executive Assistant, at (415) 487-7012.

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(Chapter 67 of the San Francisco Administrative Code)

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Sunshine Ordinance Task Force
City Hall
1 Dr Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
(415) 554-7724
by fax at (415) 554-7854
or by email at sotf@sfgov.org

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Investment Committee Meeting

PUBLIC COMMENT CALL-IN: 408-418-9388 Access Code: 146 060 2449

Providing Public Comment

- Each speaker will be allowed 2 minutes to speak. Comments or opportunities to speak during the public comment period are available via phone call by calling (408) 418-9388, access code [146 060 2449], then '#' and then '#' again.
- When connected you will hear the meeting discussions, but you will be muted and in listening mode only.
- When your item of interest comes up, dial *3 to be added to the speaker line. Best practices are to call from a quiet location, speak clearly and slowly, and turn down your television, radio or computer.

OPENING CALENDAR

1. Roll Call	Commissioner Bridges	2:00 PM
	Commissioner Casciato	2:00 PM
	Commissioner Chu	2:00 PM
	Commissioner Driscoll	2:00 PM
	Chair Heldfond	2:00 PM
	Commissioner Safaí	Absent
	Commissioner Stansbury	2:20 PM

2. 071520-02 General Public Comment

Chair Heldfond called for General Public Comment.

There were no comments and General Public Comment was closed.

3. 071520-03 Action Item Approval of the Minutes of the October 16, 2019 Investment Committee Meeting

Documents provided to the Committee prior to the current meeting: Draft Minutes of the October 16, 2019 Investment Committee Meeting

Action: Moved by Commissioner Chu, Seconded by Commissioner Bridges to approve the Minutes of the October 16, 2019 Investment Committee Meeting.

Ayes: Commissioners Bridges, Casciato, Chu, Heldfond

Absent: Commissioners Driscoll, Safaí, Stansbury

4. 071520-04 Discussion Item Education on Global Tactical Asset Allocation

Documents provided to the Committee prior to the current meeting: Staff Memorandum

Anna Langs, Managing Director, Asset Allocation, Risk Management and Innovative Solutions, and Alan Martin, NEPC, made the presentation to the Board.

Staff reported that they have been working with NEPC to design a custom Global Tactical Asset Allocation (GTAA) program for over a year. Some organizations implement GTAA as a component of an absolute return allocation whereas others treat it as a strategic asset class. Staff reported that implementing GTAA as a strategic asset class and part of a diversified asset allocation can significantly improve the liquidity profile of a portfolio, especially in periods of market stress. Staff reported that SFERS' experience during the Q1 2020 market dislocation related to Covid-19

highlighted the importance of maintaining sufficient liquidity, and how an allocation to GTAA could provide significant incremental liquidity and downside protection.

Staff reported that SFERS' research on GTAA has focused on the following four main objectives:

1. An additional source of high risk-adjusted returns across market cycles
2. Significant incremental downside protection for the portfolio
3. Increased diversification of the strategic asset allocation
4. Significant incremental liquidity, especially in periods of stress.

NEPC and Staff reported that they worked with the investment manager community to create custom GTAA strategies that best meet these four objectives. In February 2020 in collaboration with NEPC and Albourne, SFERS sent out Request For Information (RFI) to 27 GTAA managers and received responses in April, 2020 from 25 GTAA managers for 34 investment strategies designed to complement the specific objectives of SFERS' strategic asset allocation. Staff reported that, after further evaluation, Staff and NEPC reduced the SFERS custom GTAA proposals to 14 managers with 15 investment strategies that best met SFERS' stated objectives.

NEPC and Staff presented the results of their evaluation quantifying and confirming how a custom GTAA program for SFERS could achieve high risk-adjusted returns, incremental downside protection for the portfolio, increased diversification, and incremental liquidity, especially in periods of stress.

NEPC and Staff reported that they researched GTAA as both an evolution of SFERS Absolute Return program that offers higher liquidity and downside risk protection and a total plan overlay program. They reported that the SFERS Asset and Liabilities Study will include proposals for a direct allocation to GTAA as a strategic asset class.

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

Chair Heldfond called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

5. 071520-05 Discussion Item Update and Discussion on Asset Liability Study and Strategic Asset Allocation

Documents provided to the Committee prior to the current meeting: Staff Memorandum and NEPC Asset-Liability Study

Anna Langs, Managing Director, Asset Allocation, Risk Management and Innovative Solutions, and Alan Martin, NEPC, made the presentation to the Board.

Staff highlighted the key investment risks and the factors that may mitigate such risks. Staff reported that the Asset-Liability Study that they are presenting to the Committee provides important context for the Strategic Asset Allocation recommendation that Staff plans to bring to the Retirement Board in October 2020.

NEPC summarized the conclusions of the NEPC Asset-Liability Study as follows:

1. the System's funded status has fallen 5% over the last year but is projected to increase over the next ten years if investment expectations are met.
2. the current Policy Target allocation is not expected to meet the long-term expected return of 7.4% over the next ten years due to near term headwinds; however, the current policy allocation is expected to exceed 7.4% on a 30-year basis. NEPC's return expectations average 7.1% over the next 10 years and 8.1% over 30 years.
3. Supplemental COLAs increase liabilities and employer contributions if investment gains exceed the expected actuarial return.
4. proposed asset allocation changes that Staff and NEPC are considering will improve risk-adjusted returns. The proposed asset allocation will continue to build the public and private equity portfolios to improve returns, reduce real assets and absolute return allocations, consider addition of GTAA and Long Treasuries to protect against market volatility, and explore the use of leverage to increase exposure to equity markets.

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

Chair Heldfond called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

6. 071520-06

Adjournment

Having no further business, the Committee adjourned the meeting at 4:00 PM


Respectfully submitted,
Jay Huish, Executive Director