



SFERS

San Francisco Employees' Retirement System


San Francisco City and County Employees' Retirement System Chief Investment Officer

William J. Coaker Jr., CFA, MBA

RETIREMENT BOARD CALENDAR SHEET Retirement Board Meeting of October 14, 2020

DATE: October 14, 2020

TO: Members of the Retirement Board

THROUGH: Jay Huish 
Executive Director

FROM: William J. Coaker Jr. – CFA, MBA
Chief Investment Officer

SUBJECT: CIO Monthly Report

1– September 2020 Returns

In September 2020 SFERS investments lost -0.77%, though that was much better than the S&P 500 which declined -3.8% during the month. Our Private Equity and Private Credit books posted positive returns during the month, up 1.29% and 0.95%, respectively. Real Assets and Fixed Income inched down, losing -0.19% and -0.22%, respectively, in September. Our Public Equity book lost -2.92% during the month, driven by profit-taking after the extraordinary run-up since late March, an uptick in new COVID-19 cases, and uncertainty about the future of taxation and regulation as the 2020 election season nears.

2– QTD and FYTD Returns

For the quarter ended September 30, 2020, SFERS investments gained 6.23%. Private Equity and Public Equity posted sterling returns of 12.26% and 9.46%, respectively. Private Credit also posted a strong quarter, up 4.69%, as economic conditions showed strong improvement. Absolute Return gained 2.33% in July and August, with September results pending. Fixed Income gained 1.35% for the quarter, as credit sensitive securities rose amid an improving economy. Real Assets fell -0.19% for the quarter, as uncertainty lingers over the Real Estate and Natural Resources industries during and post COVID.

3- CYTD Returns

For the nine-months ended September 30, 2020, SFERS investments have gained 3.56%. Next is a summary of our returns CYTD by asset class.

SFERS Private Equity book has had a very strong year, gaining 12.14%. CYTD our Venture Capital book has gained over 14% backed by a strong IPO market, particularly for Technology and Biotech companies. Our Buyout investments are up nearly 10% this year.

Our Public Equity portfolio has gained 8.94% due to strong returns on our investments in Technology and China. CYTD both are up more than 15%.

Our Fixed Income portfolio is up 3.48% CYTD. Within our Fixed Income book, Treasuries posted high single-digit returns during the COVID-19 selloff in February-March. During the same period, our High Yield, Emerging Market Bonds, and Bank Loan investments in the aggregate posted low double-digit losses. As the economy experienced a partial recovery since then, our credit sensitive investments have posted solid returns. CYTD our Treasury book is up more than 6% while our High Yield, Emerging Market and Bank Loan credits as a group have lost about -4%.

SFERS Private Credit book has moved back into positive territory, up 0.58% CYTD. In 2Q the portfolio experienced write-downs driven by the plunge in economic activity due to COVID-19. Since then, our Private Credit book has posted solid returns, with credits being written backup as investors realize value in their holdings.

Our Absolute Return portfolio has lost -3.58% CYTD. The portfolio lost -10.56% in March when fears of a Depression surged, but it has recovered more than 7% since then. Most of the March loss was in our structured credit and mortgage credit investments. Since the selloff, investment value in these credit securities is being realized as investors worst economic fears have eased. Staff thinks most of these investments will prove to be "money good" as the economy recovers and investor confidence returns.

SFERS Real Assets book is down -8.83% CYTD. Within our Real Assets portfolio, our Real Estate investments have lost -1.64% while our Natural Resources book is down -21.16%.

Real Estate has struggled this year due to COVID's impact on hotels and office properties, but other property investments such as logistics and storage have done well while residential demand in less dense cities and states with lower taxes has been high.

In Natural Resources, an unprecedented plunge in demand for oil has caused this part of our book to incur large losses this year. Future returns will depend on improved demand for oil, particularly in transportation. Oil prices tend to self-correct. For example, when demand is low, production is cut, which boosts prices and future investment returns. When demand has exceeded supply, leading to high prices and strong investment returns, demand tends to fall in response to high prices, pushing future investment returns lower. In view of where prices are now and with demand edging up as the economy has partially recovered, near and intermediate term returns should be better than they have been this

year. Stated differently, transportation and tourism should stabilize from here, and improve when people feel more secure about their personnel health when traveling.

Within our Natural Resources book, our Metals and Mining investments have posted low double-digit returns this year.

4- Asia Alternatives Capital Partners VI, L.P.

At its meeting on August 12, 2020, the Retirement Board approved in closed session an investment of up to \$50 million in Asia Alternatives Capital Partners VI, L.P. The investment was approved by the following vote:

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

SFERS' investment of \$50 million in Asia Alternatives Capital Partners VI, L.P. closed on September 17, 2020.

This investment is classified as a Growth Fund within SFERS' private equity portfolio and is SFERS' third investment with Asia Alternatives.

More information about Asia Alternatives is available on <https://www.asiaalt.com>

5- Blue Torch Credit Opportunities Fund II LP

At its meeting on September 9, 2020, the Retirement Board approved in closed session an investment of up to \$50 million in Blue Torch Credit Opportunities Fund II LP. The investment was approved by the following vote:

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

Absent: Commissioners Chu, Safaí

SFERS' investment of \$50 million in Blue Torch Credit Opportunities Fund II LP closed on October 2, 2020. This investment will be classified as a Special Situations fund within the SFERS' Private Credit portfolio.

More information about Blue Torch Capital is available at www.bluetorchcapital.com.

6- Hillhouse Focused Growth Fund V, L.P.

At its meeting on June 10, 2020, the Retirement Board approved in closed session two investments of up to \$75 million in aggregate in Hillhouse Fund V, L.P. and Hillhouse Focused Growth Fund V, L.P. The investments were approved by the following vote:

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

SFERS' investment of \$25 million in Hillhouse Focused Growth Fund V, L.P. closed on September 18, 2020.

This investment is classified as a Venture Capital – Late Stage Fund within SFERS' private equity portfolio and is SFERS' third investment with Hillhouse Capital.

More information about Hillhouse Capital is available on <https://www.hillhousecap.com>

7- Lead Edge Capital V, LP

At its meeting on August 12, 2020, the Retirement Board approved in closed session an investment of up to \$25 million in Lead Edge Capital V, LP. The investment was approved by the following vote:

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

SFERS' investment of \$22.5 million in Lead Edge Capital V, LP closed on October 2, 2020.

This investment is classified as a Venture Capital – Late Stage Fund within SFERS' private equity portfolio and is SFERS' first investment with Lead Edge Capital.

More information about Lead Edge Capital is available on <https://leadedgecapital.com>

8- OrbiMed Private Investments VIII, LP

At its meeting on September 9, 2020, the Retirement Board approved in closed session an investment of up to \$75 million in OrbiMed Private Investments VIII, LP. The investment was approved by the following vote:

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

Absent: Commissioners Chu, Safai

SFERS' investment of \$50 million in OrbiMed Private Investments VIII, LP closed on September 30, 2020.

This investment is classified as a Venture Capital – Multi-Stage Fund within SFERS' private equity portfolio and is SFERS' fourth investment with OrbiMed Advisors.

9 –Economic Update

In the first quarter of 2020, U.S. GDP fell by an annualized -3.4%, or \$186 billion. In 2Q2020, domestic GDP plunged a worst-ever 34.3% annualized, or \$2.15 trillion, to \$19.41 trillion.

The numbers are still early for the third quarter, but estimates are the U.S. economy expanded by approximately 32% annualized, or more than \$1.5 trillion. Consensus estimates are that the U.S. economy will contract about 4% in 2020.

The unemployment rate now stands at 7.9%. That's much improved compared to the nearly 15% level earlier in the year. That said, the unemployment rate was 3.5% at the start of the year, a reminder that we still have a long road ahead to get to where the economy was prior to COVID-19.

The U.S. economy added an estimated 661,000 jobs in September. The gains were especially strong in economically sensitive industries that experienced stunning job losses earlier in the year. In September, the Leisure and Hospitality industries combined to gain 318,000 jobs while Retail added 142,000 jobs.

There was some negative job impact in September. During the month, government employment fell by 216,000. Education related employment by state and local governments fell by 49,000 and 231,000, respectively, during the month. The latest job report demonstrated that even as unemployment has fallen sharply in recent months, the budgets of federal, state, and local governments remain under severe strain as transportation, hotels, and tourism remain about 70% lower compared to the start of the year and household needs for assistance remains high.

10 – Manager's Under Review Update

SFERS reported June 30, 2020 performance at its recent meeting on September 9, 2020 and subsequently updated its list of Managers Under Review. Please note the following changes:

- Within the public equity portfolio, DFA Emerging Markets Core was added due to underperformance. AQR was removed as the Board approved the manager's termination at the May 13, 2020 Board meeting.
- Within the public fixed income portfolio, Fidelity High Yield CMBS was added due to underperformance. No managers were removed.

11 – Pacing Schedule Update

SFERS has made commitments totaling \$1.609 billion to private markets investments thus far in 2020. We have made commitments of \$694 million in Private Equity, \$500 million in Private Credit, and \$215 million in Real Assets.

In a worst-case scenario, Staff projected our pacing schedule for the year would total \$1.65 billion while in a mid-range case our commitments would total \$1.95 billion. In the prior few years SFERS was committing approximately \$2.4 billion annually.

As the economy has improved, distributions have been solid (cash inflows did not dry up), and we have improved the liquidity of our Absolute Return portfolio, a need to implement our worst-case scenario did not unfold. Hence, we are on pace to hit our mid-range pacing schedule or perhaps a tad higher, but end up significantly below our total commitments of the past few years.

12 – Status of Strategy Updates

Staff provided Strategy Updates to the Retirement Board this year as follows:

-In January 2020 Staff provided a Strategy Update for our Public Equity and Fixed Income portfolios.

-In May 2020 Staff furnished a Strategy Update for our Absolute Return portfolio.

-In July 2020 Staff provided a Strategy Update for our Private Equity, Real Assets, and Private Credit portfolios.

-At this month's October 2020 Board meeting Staff provided a Strategy Update on our ESG Initiatives. In March 2020 Staff furnished a recommendation that SFERS adopt an ambition and implement a plan to be carbon neutral by 2050. The Retirement Board approved Staff's recommendation.

-At this month's October 2020 Board meeting Staff provided an Update on the Trust's Risk Exposures. The Update included a review of the Plan's Asset Allocation, returns, and risk exposures, an attribution of returns, and historical and hypothetical factor-based scenarios. In April 2020 Staff furnished the Retirement Board with an update on SFERS liquidity profile.

The Strategy updates will continue next year according to the same calendar as this year, except Absolute Return will take place in April 2021. The Update for Absolute Return in 2020 was scheduled for April but was delayed to May when the regularly scheduled Board meeting for April was canceled due to COVID.

13 – Next Board Meeting and Investment Committee Meetings

• Investment Committee Meeting October 21st from 1:00 to 3:30 pm

The next Investment Committee meeting will be held on October 21 from 1:00 pm to 3:30 pm. There are two subjects planned for the meeting. First, NEPC and Staff will provide an update on Asset Allocation mixes currently under consideration. Second, CIO William Coaker will provide an educational item titled "Why SFERS Invests in Technology" and subtitled "Seeking High Returns by Investing in Science, Technology and Innovation."

The October 21 Investment Committee meetings provides important context for our upcoming decision on Asset Allocation and for the November 18 Investment Committee meeting.

• Investment Committee Meeting November 18th from 2:00 to 4:30 pm

We are a tad behind on Investment Committee meetings this year due to COVID, so we are holding two I.C. meetings in consecutive months. SFERS will be hosting three external guests via remote for the November 18th Investment Committee meeting.

-Mr. Robert Smith, Founder, Chairman, and Chief Executive Officer of Vista Equity Partners.

-Mr. David Goel, co-Founder and Managing General Partner of Matrix Capital Management

-Mr. Carl Gordon, Founding Partner and co-Head of Global Private Equity at OrbiMed Advisors

Mr. Smith and Mr. Goel will speak on the innovations in technology, software, and the digital transformation. Mr. Gordon will speak on innovations in the biotech industry.

- **Board Meeting on November 11th at 1:00 pm**

At next month's Board meeting on November 11th Staff and NEPC are planning to bring an updated Strategic Asset Allocation recommendation to the Retirement Board.

14 - Personnel Updates

Staff is delighted to report that Ba Do has joined SFERS as our inaugural Manager of Investment Operations. Mr. Do brings 17 years of investment operations experience to SFERS, including nearly 10 years at State Street Bank and most recently the past seven years at Natixis Global Asset Management. At Natixis Mr. Do served as the Vice President of Operations and Client Service where he was responsible for the management of more than 10,000 accounts and the operations needs of over 3,000 financial advisors. At State Street Mr. Do served as the Assistant Vice President where he was responsible for the operations management of the Bank's custodial relationship with CalSTRS. Mr. Do earned a Bachelor of Science degree in Business Administration from the University of Pacific and he is a CFA Level II candidate.

Staff is currently recruiting for a Security Analyst for Venture Capital reporting to Senior Portfolio Manager Justin Lo and for a Security Analyst for Risk Management reporting to Managing Director Anna Langs.

**SFERS**

San Francisco Employees' Retirement System

**City and County of San Francisco
Employees' Retirement System****RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of October 14, 2020****To:** Retirement Board**Through:** Jay Huish 
Executive DirectorWilliam J. Coaker, Jr. – CFA, MBA
Chief Investment Officer**From:** Alo Martins – CFA
Senior Portfolio Manager**Date:** October 14, 2020**Re:** Chief Investment Officer's Report – Plan Value

Best available data as of September 30, 2020

	<u>Value</u> ¹ (000)	<u>Weight</u> (%)	<u>MTD</u> (%)	<u>QTD</u> (%)	<u>YTD</u> (%)	<u>FYTD</u> (%)
SFERS TOTAL FUND	28,197,908	100.0	-0.77	6.23	3.56	6.23
Public Equity	9,989,870	35.4	-2.92	9.46	8.94	9.46
Private Equity	6,256,990	22.2	1.29	12.26	12.14	12.26
GROWTH ASSETS	16,246,859	57.6				
Real Assets	3,626,523	12.9	-0.19	-1.07	-8.83	-1.07
Absolute Return ²	3,404,308	12.1	0.00	2.33	-3.58	2.33
DIVERSIFYING ASSETS	7,030,831	24.9				
Private Credit	1,307,128	4.6	0.95	4.69	0.58	4.69
Fixed Income	2,565,806	9.1	-0.22	1.35	3.48	1.35
INCOME GENERATING ASSETS	3,872,935	13.7				
CASH	1,047,283	3.7	---	---	---	---

¹ Valuations are preliminary and are reported gross of fees. The reported returns are based on prior month-end values that have been audited and adjusted by SFERS' Custody Bank since the last report. For non-daily priced vehicles, performance may include estimates or be proxied using benchmark performance.

² Absolute Return performance for most recent month is assumed to be 0%.

³ Cash Overlay performance is reflected in Total Fund Performance.

SFERS - Asset Allocation Summary Report |

As of September 30, 2020

	8/31/2020	Cash In	Cash Out	MV Δ ¹	9/30/2020	Current	LT Target	Range	11/30/2020 Projection			Unfunded
									Expected Δ ²	End \$	End %	(\$ Mn)
		----- (\$ Mn) -----										
						----- Weight (%) -----						
GROWTH ASSETS	16,457.3	176.9	168.3	-219.1	16,246.9	57.6	49	40 - 60	300.0	16,546.9	59.1	2,926.1
Public Equity	10,239.7	50.1	0.9	-299.1	9,989.9	35.4	31	25 - 50	200.0	10,189.9	36.4	
<i>United States</i>	3,178.9	0.1	0.0	-112.0	3,066.9	10.9						
<i>Developed Ex US</i>	785.2	0.0	0.4	-11.6	773.2	2.7			200.0			
<i>Emerging</i>	1,808.6	0.0	0.4	-34.3	1,773.8	6.3						
<i>Global</i>	2,817.8	50.0	0.0	-91.5	2,776.3	9.8						
<i>Opportunistic</i>	1,649.2	0.0	0.0	-49.5	1,599.7	5.7						
Private Equity	6,217.6	126.8	167.4	80.0	6,257.0	22.2	18	13 - 23	100.0	6,357.0	22.7	2,926.1 ³
DIVERSIFYING ASSETS	6,984.7	74.5	21.6	-6.8	7,030.8	24.9	32	19 - 37	70.0	7,100.8	25.4	2,429.2
Real Assets	3,587.4	67.5	21.6	-6.8	3,626.5	12.9	17	12 - 22	70.0	3,696.5	13.2	2,135.7 ³
Absolute Return	3,397.3	7.0	0.0	0.0	3,404.3	12.1	15	5 - 17	0.0	3,404.3	12.2	293.5
INCOME ASSETS	2,213.4	34.6	30.6	5.5	2,222.9	7.9	13	5 - 25	150.0	2,372.9	8.5	1,773.9
Liquid Credit	922.2	0.4	0.0	-6.7	915.8	3.2	3	0 - 10	0.0	915.8	3.3	
Private Credit	1,291.3	34.2	30.6	12.3	1,307.1	4.6	10	3 - 15	150.0	1,457.1	5.2	1,773.9 ³
CAPITAL PRESERVATION	2,861.2	320.8	486.3	1.6	2,697.3	9.6	6	3 - 15	-720.0	1,977.3	7.1	0.0
Treasuries ⁴	1,649.2	0.0	0.3	1.2	1,650.0	5.9	6	3 - 10	0.0	1,650.0	5.9	
Cash ⁴	1,212.0	320.8	486.0	0.4	1,047.3	3.7	0	0 - 5	-720.0	327.3	1.2	
<i>Investment Cash</i>	1,102.4	220.8	386.0	0.0	937.2	3.3			-720.0	217.2	0.8	
<i>Dedicated Cash</i>	104.7	100.0	100.0	0.0	104.8	0.4			0.0	104.8	0.4	
<i>Other Cash</i>	4.9	0.0	0.0	0.4	5.4	0.0			0.0	5.4	0.0	
TOTAL PORTFOLIO	28,516.7	0.0	100.0	-218.8	28,197.9	100.0	100		-200.0	27,997.9	100.0	7,129.2

Notes: Target allocations and ranges were approved by the Board in September 2017 and October 2017, respectively.

¹ For non-daily priced vehicles, performance may include estimates or be proxied using benchmark performance.

² Expected Changes include Staff's planned rebalancing activity (for Liquid and Semi-Liquid asset classes) and Staff's estimated capital call and distribution projections (for Illiquid asset classes).

³ Unfunded commitment estimates for private markets are provided by Burgiss as of the current month end and include only active funds.

⁴ Treasuries account includes Treasuries exposure via futures in the Cash Overlay account.

San Francisco City and County Employees' Retirement System

Cash Activities and Projections

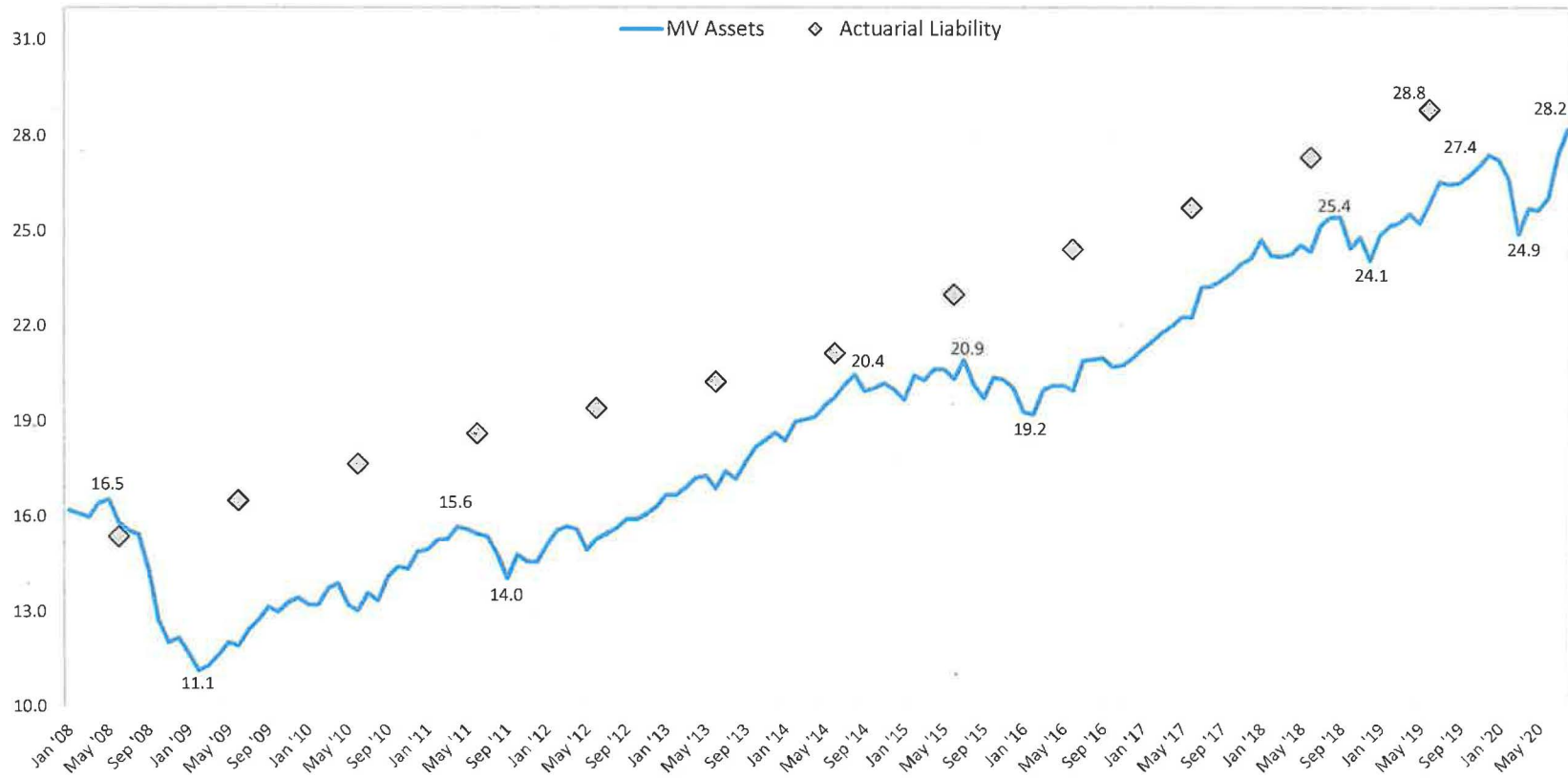
As of September 30, 2020

Investment Cash Account (In \$ Million)	
Beginning Balance as of September 1, 2020	1,102.4
Public Equity Net Flows	-49.2
Private Equity Net Flows	40.6
Real Assets Net Flows	-45.9
Absolute Return Net Flows	-7.0
Liquid Credit Net Flows	-0.4
Private Credit Net Flows	-3.6
Treasuries Net Flows	0.3
Funds to Dedicated Cash	-100.0
Funds to Other Cash	0.0
Misc. Cash Receipts	0.0
Ending Balance as of September 30, 2020	937.2
2 Month Forward Projections	
Public Equity Estimated Flows	-200.0
Private Equity Estimated Flows	-100.0
Real Assets Estimated Flows	-70.0
Absolute Return Estimated Flows	0.0
Liquid Credit Estimated Flows	0.0
Private Credit Estimated Flows	-150.0
Treasuries Estimated Flows	0.0
Transfer to Dedicated Cash	-200.0
Projected Ending Balance as of November 30, 2020	217.2

Dedicated Cash Account (In \$ Million)	
Beginning Balance as of September 1, 2020	104.7
Benefit Payment for September 2020	-100.0
Received from Investment Cash	100.0
Misc. Cash Receipts	0.0
Ending Balance as of September 30, 2020	104.8
2 Month Forward Projections	
Benefit Payment Reserve for October 2020 and November 2020	-200.0
Received from Investment Cash	200.0
Projected Ending Balance as of November 30, 2020	104.8

Note: Positive sign denotes an inflow into the cash account and a negative sign denotes an outflow from the cash account.

SFERS - Monthly Assets



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Notes: Data from January 31, 2008 through August 31, 2020. Total Plan market values through June 2020 are provided by NEPC. Data starting July 2020 is provided by BNY Mellon and should be considered preliminary.