



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

RETIREMENT BOARD

INVESTMENT COMMITTEE MINUTES

Wednesday, April 21, 2021

1:00 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 may listen to the committee meeting "live" by **dialing 415-655-0001 and using Access Code: 187 000 2369** and will be able to provide public comment during the meeting using this 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, April 19, 2021 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
Joseph Driscoll
Scott Heldfond, Chair
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 94102-4689
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Investment Committee Meeting

PUBLIC COMMENT CALL-IN: **415-655-0001** Access Code: **187 000 2369**

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 (415) 655-0001, access code [**187 000 2369**], 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.

portfolio was valued at \$2.47 billion and accounted for 8.0% of the Retirement Trust. Mr. Braitberg reported that the Public Fixed Income portfolio has two allocations: (1) Liquid Credit which was valued at \$0.94 billion, and (2) Treasuries which was valued at \$1.52 billion. SFERS' Public Fixed Income portfolio is structured to provide liquidity, income, diversification, and capital preservation.

Alo Martins, Senior Portfolio Manager, reported that the role of Treasuries is to provide capital preservation and act as a primary source of liquidity and the role of Liquid Credit is to generate added yield compared to Treasuries over a full market cycle and act as a secondary source of liquidity.

He reported that, in March and April of 2020, the SFERS' Public Fixed Income Portfolio generated \$778 million of liquidity via redemptions. He reported that redemptions in mid-March were concentrated within the portfolio's two indexed exposures: Treasuries and BB US Agg. Mr. Martins reported that redemption notices were sent to two Core managers in early April. He reported that, as liquidity improved later in 2020, three of the four strategies were re-funded.

Mr. Martins reported that, mindful of overall market opportunities, the Public Fixed Income team, under the oversight of SFERS' CIO, MD of Public Markets and MD of Asset Allocation/Risk, will manage the portfolio to the long-term target weights approved by the Retirement Board in November 2020.

At the November 2020 meeting, the Retirement Board approved a 3% target allocation to leverage. Mr. Martins reported that SFERS Staff, in coordination with the Board's consultant, NEPC, have discussed leverage solutions with several providers and are considering a number of options.

He reported that Staff plans to research whether investing in an ESG bond fund could yield similar or higher returns as a non-ESG fund, with significantly lower ESG risk.

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

Chair Helffond called for public comment.

There were no callers and public comment was closed.

Action: This is a discussion only item.

5. 042121-05 Discussion Item Annual update regarding the Public Equity Portfolio

Documents provided to the Committee prior to the current meeting: Staff Memorandum, NEPC's materials for SFERS' Public Equity Update.

Bill Coaker, Chief Investment Officer; Han Pham, Director, Public Equity; Kurt Braitberg, Managing Director, Public Markets; Dan Hennessey, Tim O'Connell, NEPC, presented an oral and written report on this item.

Staff provided an overview of the portfolio's strategic plan, performance, activity and initiatives. For the year ending December 31, 2020, the Public Equity portfolio was valued at \$12.1 billion and accounted for 39.4% of the Retirement Trust.

Ms. Han reported that the role of SFERS' Public Equity portfolio is to provide long-term growth, capital appreciation, and liquidity. She noted that the Public Equity portfolio was \$12.1 billion as of 12/31/2020 and has significantly evolved over the last 5 years.

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

Chair Heldfond called for public comment.

There were no callers and public comment was closed.

Action: This is a discussion only item.

6. 042121-06 Discussion Item Annual update regarding the Absolute Return Portfolio

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Blackstone's materials for SFERS' Absolute Return Update.

Bill Coaker, Chief Investment Officer; David Franci, Managing Director, Absolute Return; Alberto Santulin, Roberta Osborne, Joe Dowling, Blackstone, presented an oral and written report on this item.

Staff provided an overview of the portfolio's strategic plan, performance, activity and initiatives to the Committee.

Mr. Franci noted that, in February 2015, SFERS' Retirement Board approved a 15% target allocation to Absolute Return. A reduction to 10% was approved in November 2020. He reported that, as of March 31, 2021, the portfolio had approximately \$3.7 billion of NAV (or 11.8% of total Plan assets). Mr. Franci reported that the portfolio has generated a since inception annualized return of 5.0% and a Sharpe ratio of 0.61 with annualized volatility of 6.2% and equity beta* of 0.31.

Mr. Franci reported that, despite substantially underperforming its benchmark in March 2020, the Program's recent absolute returns and performance relative to its long-term benchmark has been very strong. He noted that March 2020 losses were generally mark-to-market (related to investor worry about another Great Depression) with substantial recovery in 2020 and the remainder expected over the next 1-2 years.

Mr. Franci reported that 2021 year to date Staff has funded \$141.3m of new investment exposure via co-investments (\$5m), fund subscriptions (\$100m) and capital calls (\$36.3m). He noted that co-investments have offered SFERS the opportunity to enhance returns, reduce economic leakage to GPs, and target select exposures with attractive asymmetric risk/return profiles. He reported that

Absolute Return co-investments have had notably strong positive performance during months when equity markets were negative. All co-investments meet the criteria and standards established by SFERS.

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

Chair Heldfond called for public comment.

There were no callers and public comment was closed.

Action: This is a discussion only item.

7. 042121-07 Discussion Item Investment Committee Good of the Order

Committee 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 ¶124.) The Committee 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 Casciato commented that this remote presentation has been recorded and will be available to the public at a later time.

Commissioner Driscoll announced he will be bringing an item on investment decision process to the May 3rd Governance Committee meeting.

President Bridges thanked investment team and Blackstone for their performance.

Chair Heldfond called for public comment.

There were no callers and public comment was closed.

Action: This is a discussion only item.

8. 042121-08 Adjournment

Having no further business, the
Committee adjourned the meeting at 3:15 PM



Respectfully submitted,
Jay Huish, Executive Director