SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

Office of the
Chief Executive Officer & Chief Investment Officer

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of January 10, 2024

To: Retirement Board

From: Alison Romano
CEO & CIO

Date: January 10, 2024

Agenda Item: Chief Investment Officer's Report

Recommendation:
This is a discussion item only.

Background:
Alison Romano, Chief Executive Officer and Chief Investment Officer, will report on the following items:

Performance and Market Update and Plan Value
Update on Closed Investments

Attachments for Informational Purposes:

- Exhibit 1: Performance and Market Update
- Exhibit 2: Plan Value Report
- Exhibit 3: Update on Investments

Exhibit 1: Performance and Market Update

January 10, 2024

Section 1

Market and Total Fund Performance

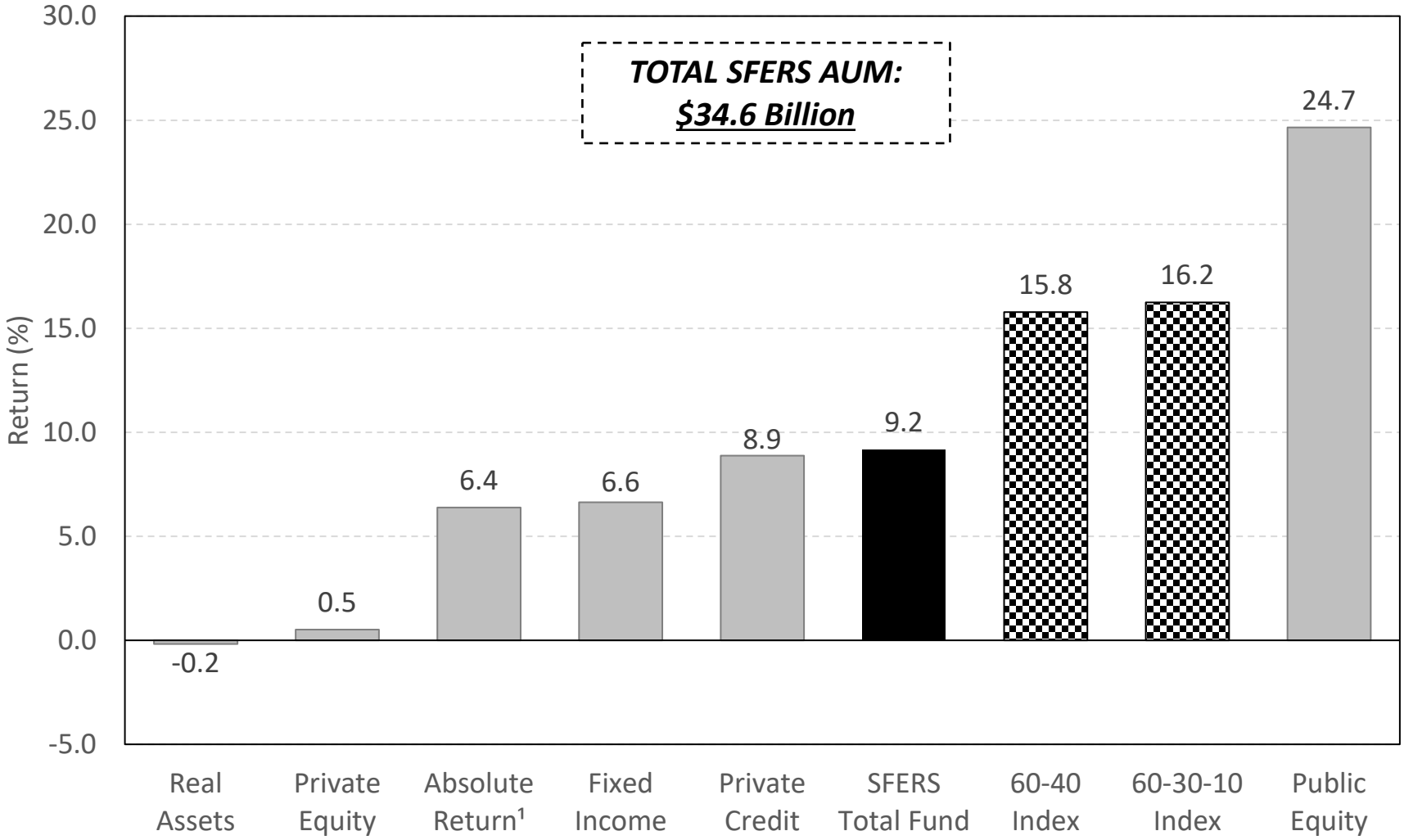
Summary

- On a preliminary basis, the SFERS Total Plan returned +2.2% in the month of December. Public Equity (+6.6%) was the strongest performing asset class, followed by Fixed Income (+1.9%), Real Assets (+0.2%), Private Credit (+0.2%), and Private Equity (-0.1%). Absolute Return[1] was up +1.31% in November.
- For the calendar year 2023, the SFERS Total Plan has generated a +9.2% return. Public Equity was the best performing asset class in 2023 with a return of +24.7%. Private Credit also had a strong year, posting a return of +8.9%. Fixed Income, Absolute Return[1] and Private Equity are up +6.6%, +6.4% and +0.5%, respectively. Real Assets has returned -0.2% for the year-to-date.

Notes: Preliminary data sourced from SFERS Plan Value Report.
[1]Absolute Return performance is lagged by one month.

SFERS
San Francisco Employees' Retirement System

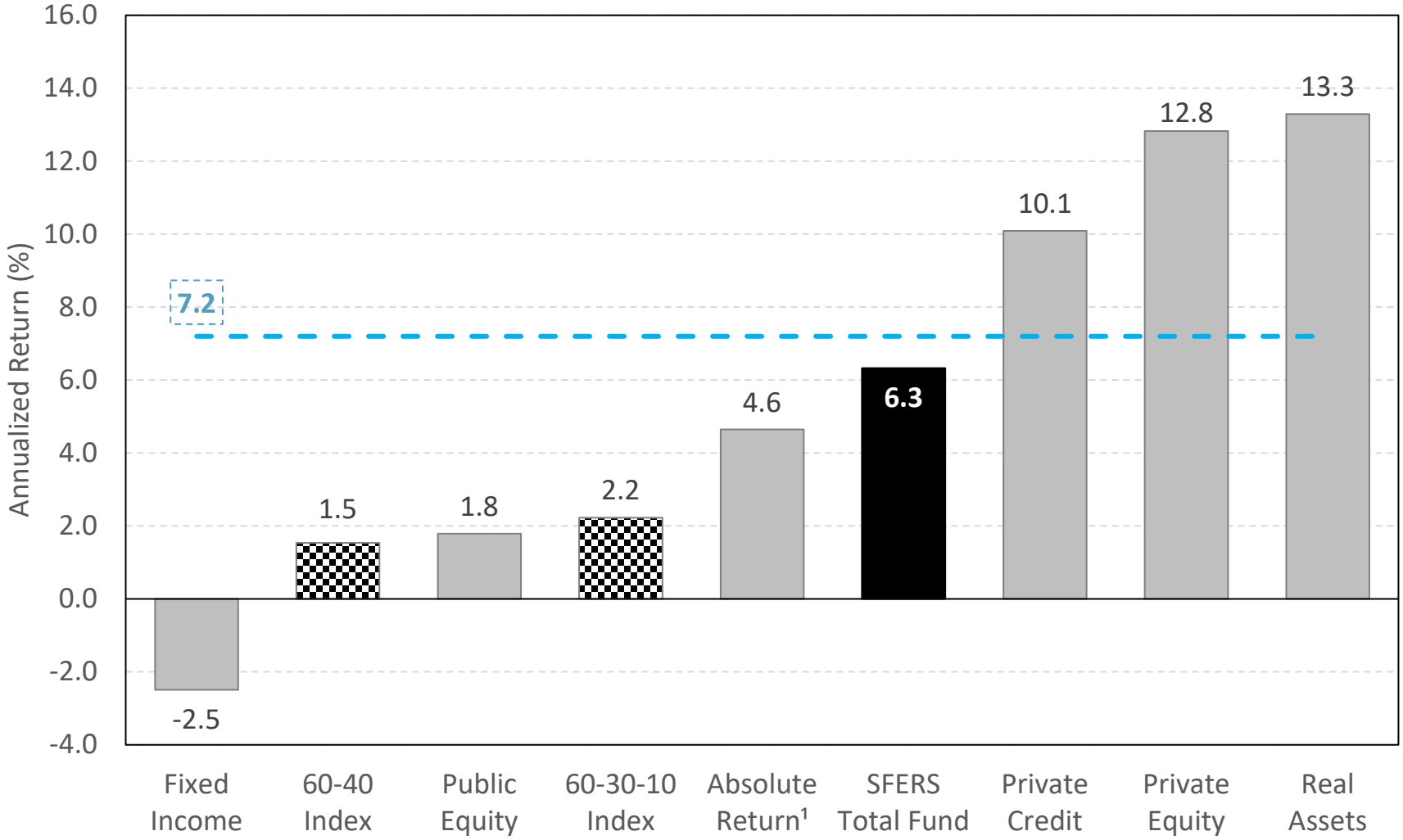
Estimated CYTD Performance



Notes: Preliminary data sourced from SFERS Plan Value Report, through December 31, 2023.
[1] Absolute Return performance is lagged by one month.
60-40 and 60-30-10 indices comprise of the MSCI ACWI (GD), Bloomberg Global Aggregate and FTSE EPRA/NAREIT Global.

SFERS
San Francisco Employees' Retirement System

Estimated Annualized 3 Year Performance

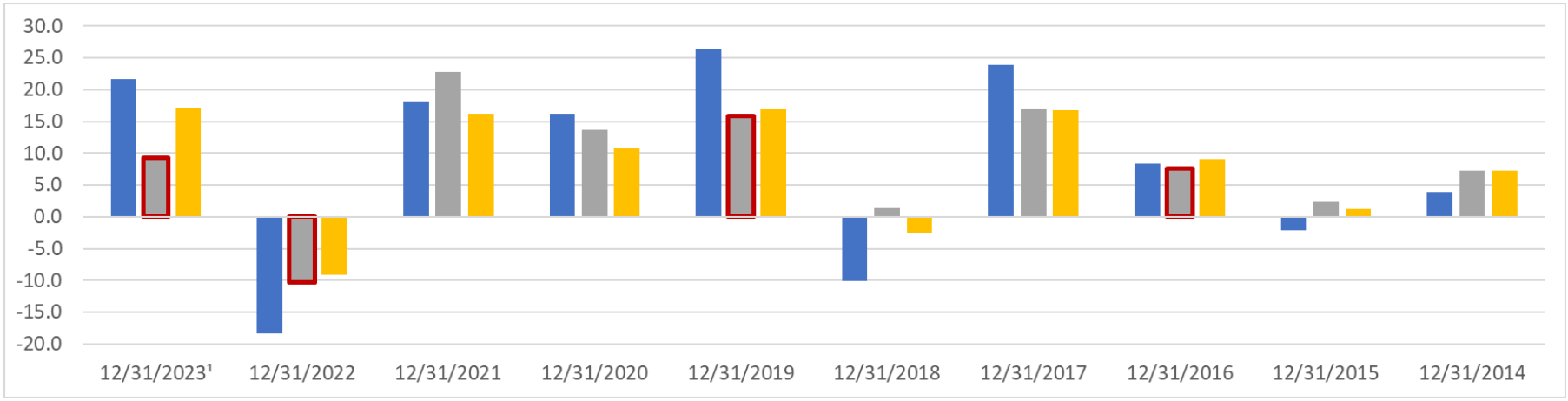


Notes: Preliminary data sourced from SFERS Plan Value Report, through December 31, 2023.
[1] Absolute Return performance is lagged by one month.
60-40 and 60-30-10 indices comprise of the MSCI ACWI (GD), Bloomberg Global Aggregate and FTSE EPRA/NAREIT Global.

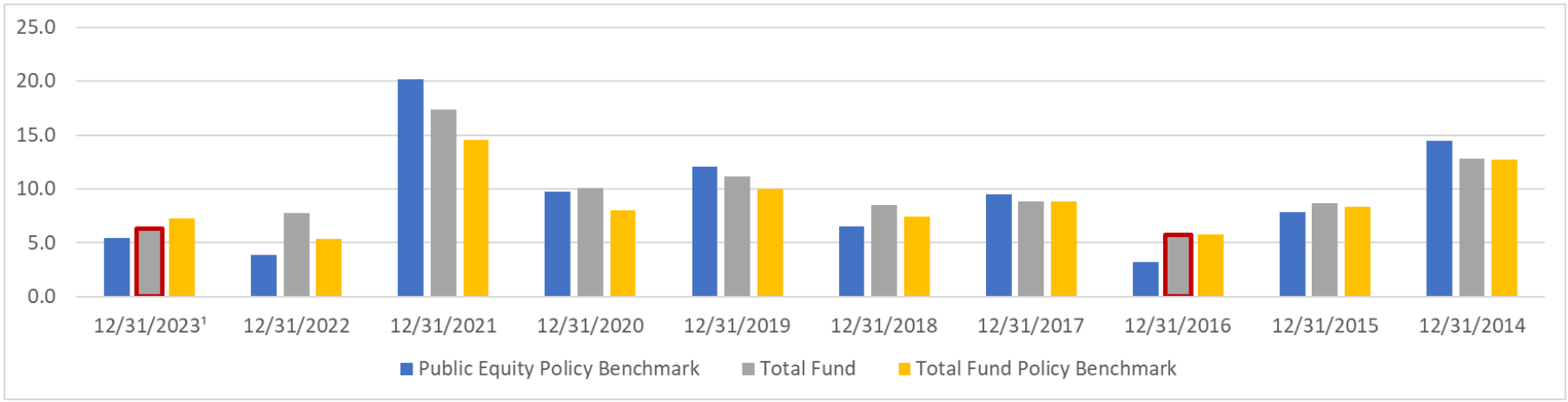
SFERS
San Francisco Employees' Retirement System

Market Volatility and Performance

1 Year Returns



3 Year Annualized Returns

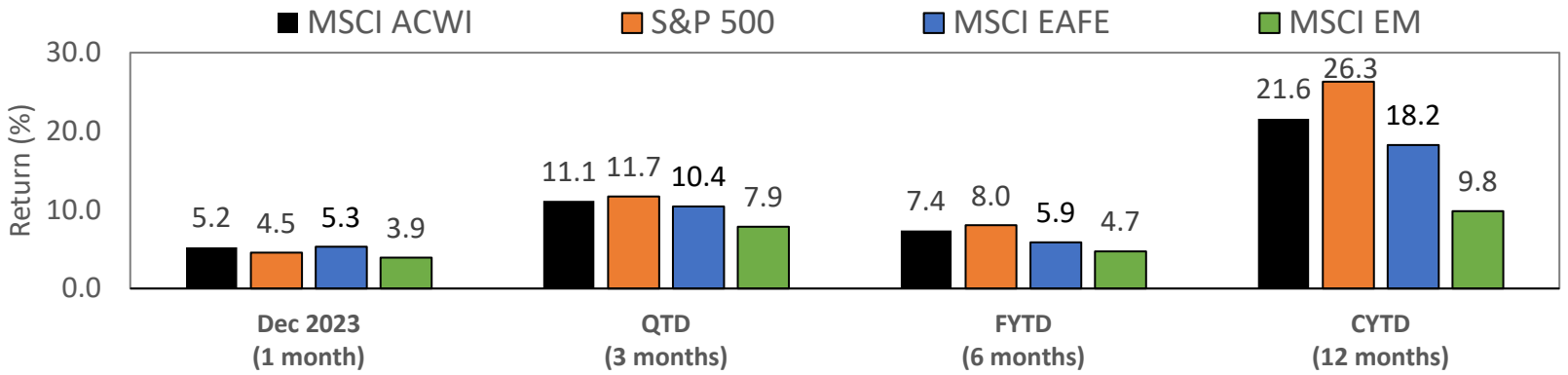


SFERS
San Francisco Employees' Retirement System

[1] Preliminary data sourced from SFERS Plan Value Report, through December 31, 2023.
Note: Red outline denotes underperformance relative to Total Fund Policy Benchmark

Public Equity

- **Geography:** Public Equity markets performed well in December to cap off a strong fourth quarter and calendar year 2023. U.S. equities have been the best performing equity market in the fourth quarter (+11.7%) and in 2023 (+26.3%).



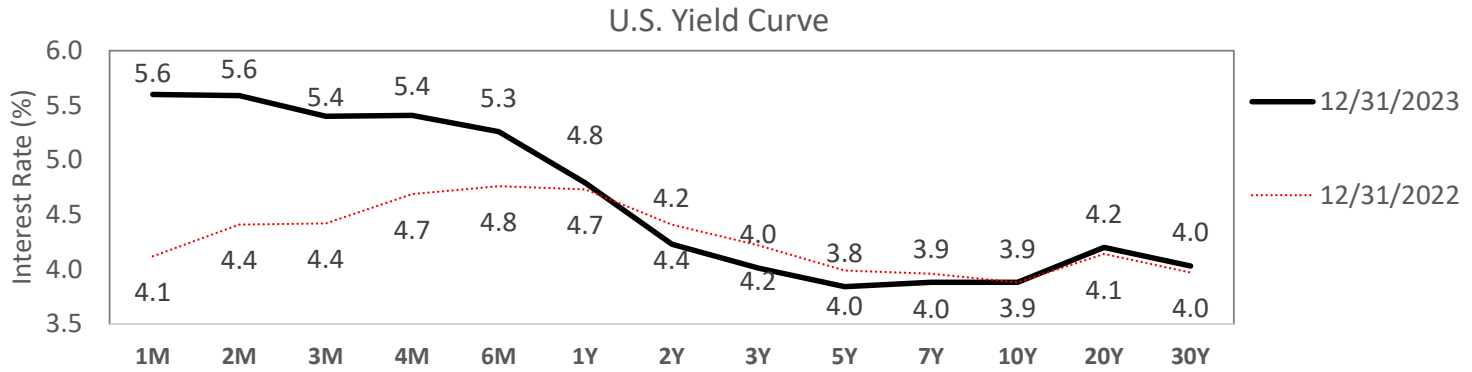
- **Sector:** The best performing sectors in December were Real Estate (+8.7%) and Industrials (+7.0%). In 2023 the best performing sectors were Information Technology (+57.8%), Telecommunication Services (+55.8%) and Consumer Discretionary (+42.4%).
- **Style:** In U.S. markets value (+5.5%) outperformed growth (+3.7%) for the month of December. For the calendar year 2023, growth (+30.0%) outperformed value (+22.2%).
- **Size:** From a size perspective, small caps (+12.2%) outperformed large caps (+4.9%) in December. For the calendar year 2023, large caps (+26.5%) have outperformed small caps (+16.9%).

SFERS
San Francisco Employees' Retirement System

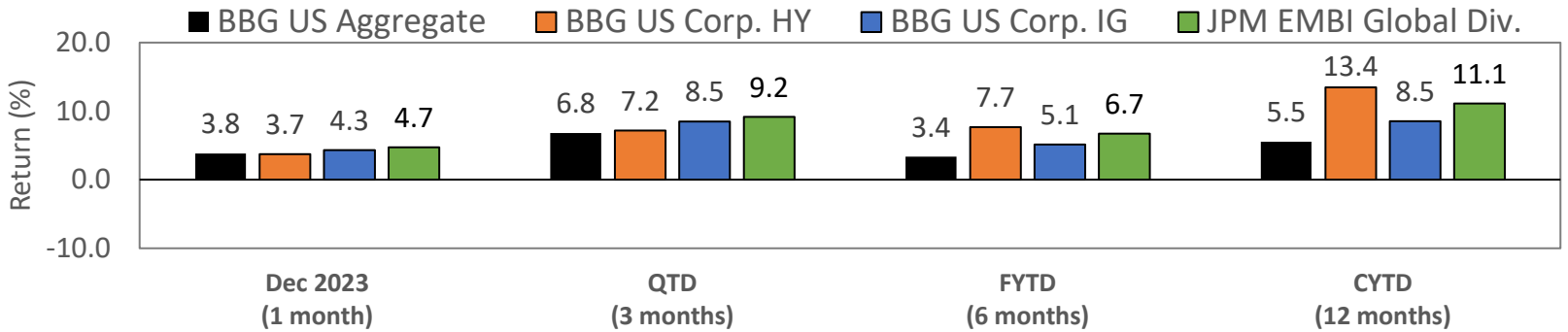
Notes: Returns sourced from eVestment. Underlying sources are MSCI, S&P and Russell. Performance is reported on a total return basis through December 31, 2023. Sector and Size performance metrics refer to large cap U.S. markets (S&P 500 and Russell 1000) unless specified.

Fixed Income

- **Rates:** During December, long end rates continued to drop, ending the year close to the levels of 12 months prior. Comparing the yield curve for year end 2023 versus year end 2022, rates on the short end have increased considerably.



- **Credit:** Credit indices were broadly up in December and in 2023 overall. For the calendar year 2023, high yield (+13.4%) and EMD (+11.1%) outperformed credit indices with higher duration; the Bloomberg Aggregate returned +5.5% and the investment grade index returned +8.5%.



SFERS
San Francisco Employees' Retirement System

Notes: Returns sourced from eVestment. Underlying sources are Bloomberg and JP Morgan. Performance is reported on a total return basis through December 31, 2023. Yield curve data sourced from https://home.treasury.gov.

Liquid Real Assets

- Real estate securities were up during the fourth quarter in both the United States and abroad.
- Commodity results were negative for the quarter, with crude oil falling by -21.1% to $71.65 per barrel. This is the lowest price since the summer of 2023 and overall commodity returns are down for the past twelve months.
- Natural gas prices moved lower during the fourth quarter after six months of significant increases. Prices were down -14.2% and are down a massive -43.8% for the past twelve months. Prices closed December at $2.51 per million BTUs.
- Gold prices were up during the quarter after six months of declines, 12.1% for the three months, finishing at approximately $2,072 per troy ounce. Gold above the $2,000 mark has not happened often in its history.

Notes: Sourced from Wilshire's Quarterly Market Commentary – Fourth Quarter 2023. Underlying sources are Wilshire, FTSE and Bloomberg.

SFERS
San Francisco Employees' Retirement System

Section 2

Absolute Return
Mid Year Performance and Guidelines Update

Performance Update

Absolute Return performance led by credit and quant strategies

- Total Absolute Return assets: $3.1B
- Outperformed both new policy and secondary benchmarks on fiscal YTD basis
- Calendar year to date and trailing twelve-month returns are +6.4% and +7.2%, respectively
  - Performance across sub-strategies strong
  - Quantitative and credit strategies contributing the most positive attribution with CYTD returns of +14.0% and +8.5%, respectively
  - Detractors were biotech and China-focused equity strategies which team is de-emphasizing through portfolio construction activities
- Portfolio providing downside risk mitigation characteristics, delivering positive performance in 4 out of 5 months in 2023 when both global equities and fixed income were negative

	CYTD	FYTD
Absolute Return (Net)	6.39%	3.71%
Policy Benchmark	8.67%	3.58%
Secondary Benchmark	1.28%	0.14%

Note: Performance metrics through November 30, 2023

SFERS
San Francisco Employees' Retirement System

Investment Activity Update

Delivering on liquidity needs while repositioning the portfolio

- Staff continues to manage portfolio as significant source of liquidity
  - Swept back net $420m of cash to Plan over calendar year 2023
- Staff has continued to scale its highest conviction investments
  - Added two new GP relationships and $192.5m of new investments to portfolio in CY2023

SFERS
San Francisco Employees' Retirement System

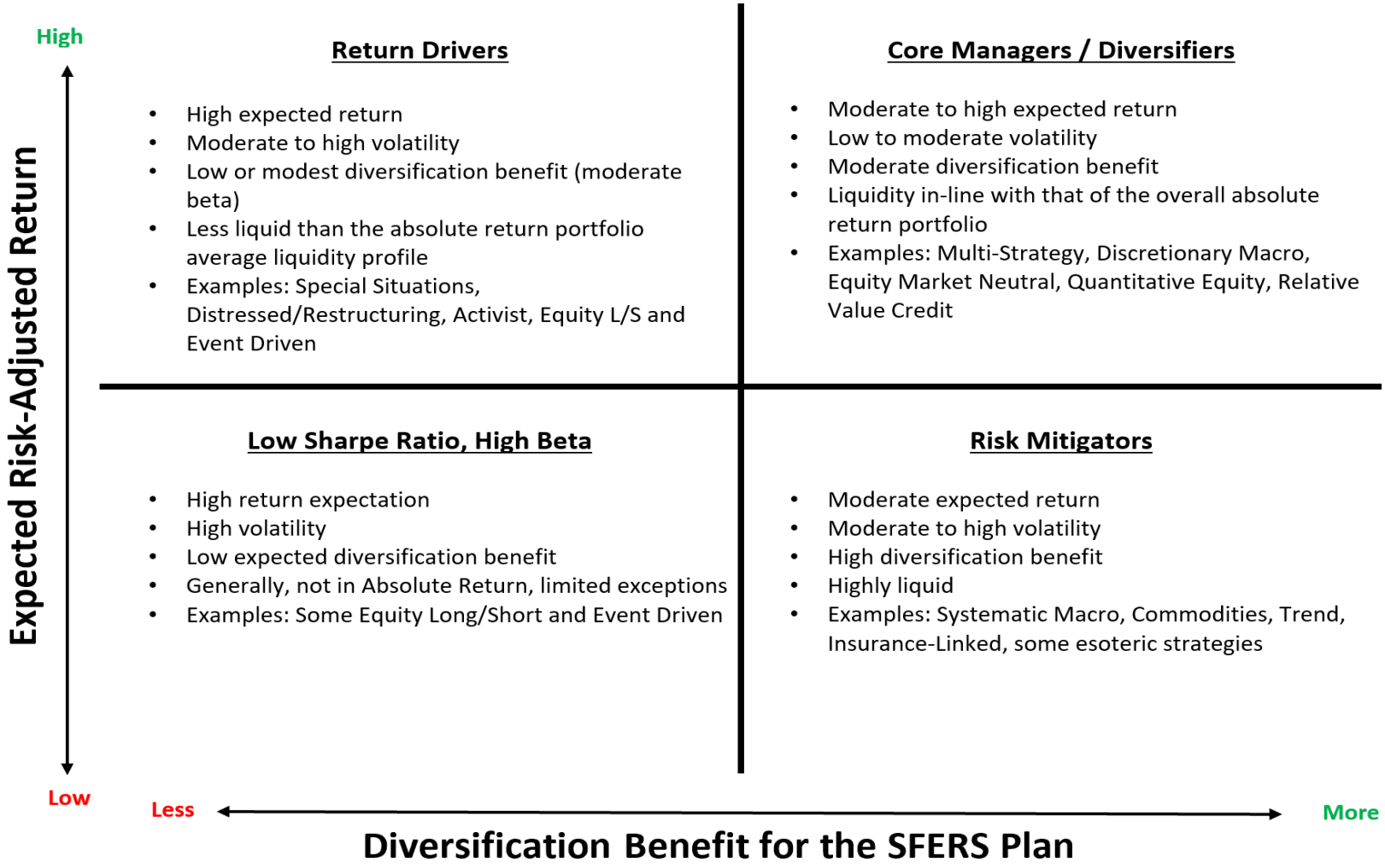
Portfolio Construction & Guidelines Update

Outside newly adopted portfolio construction guidelines, but on a path to compliance

- Staff implemented monthly monitoring and reporting procedures to measure ongoing compliance with new Investment Guidelines approved by the Retirement Board in July 2023
- With respect to those guidelines, beta, standard deviation, and factor sensitivity are slightly above guideline on a 5-year rolling basis
- More recent 1-year and 3-year measures significantly lower, providing reassurance that the portfolio is trending toward coming in line with these guidelines
- Comprehensive update on Absolute Return planned for June and will include update on strategy, performance, and investment guidelines

SFERS
San Francisco Employees' Retirement System

Portfolio Construction Framework



SFERS
San Francisco Employees' Retirement System

Guideline Monitoring: Investment Category

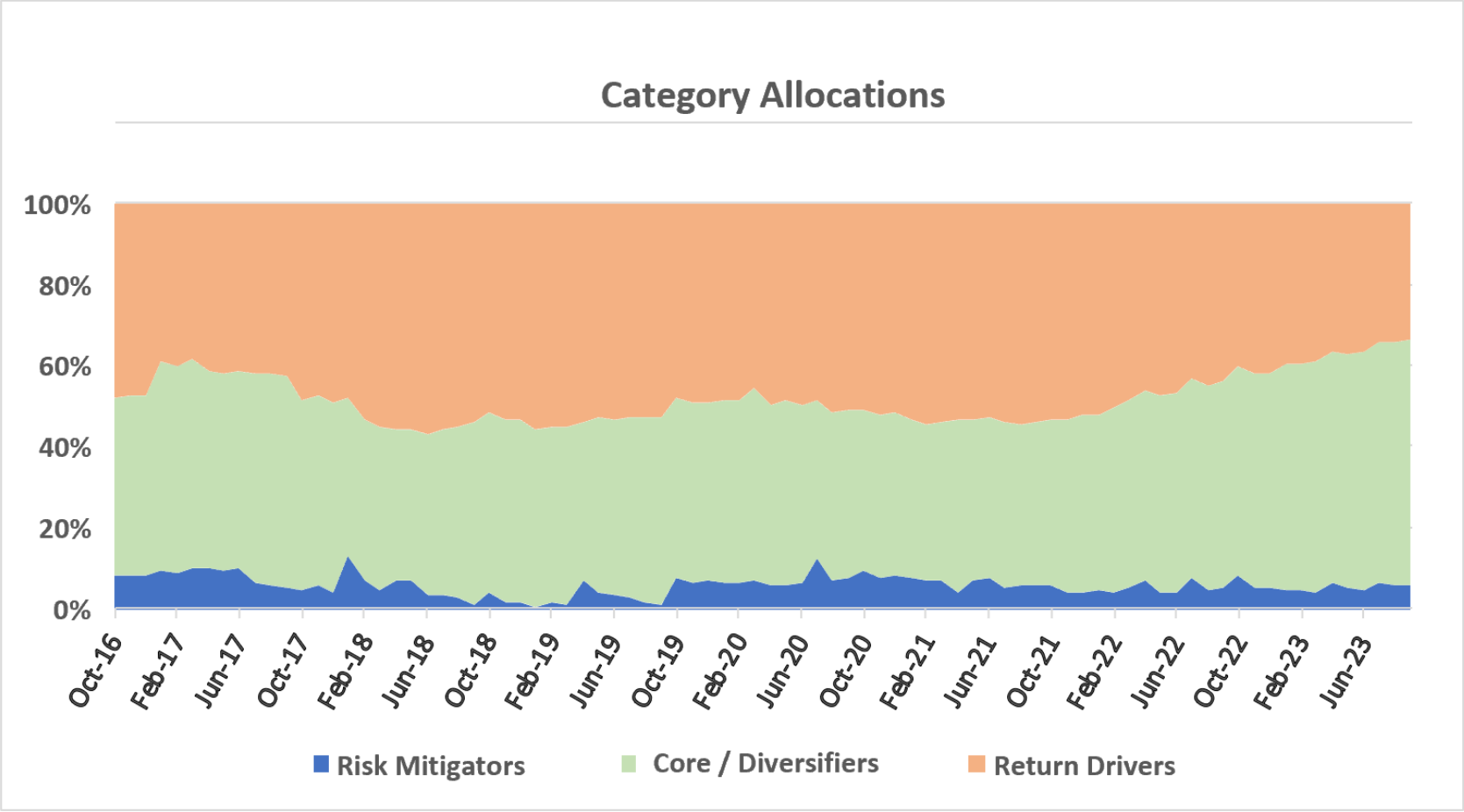
Categories	Jul-23	Aug-23	Sep-23
Core/Diversifiers (Target 60%, Range 40%-80%)	60%	61%	61%
Return Drivers (Target 20%, Range 10%-30%)	35%	34%	34%
Risk Mitigators (Target 20%, Range 10%-30%)	5%	5%	5%

Historic Range	Min	Max
Core / Diversifiers	37%	60%
Return Drivers	34%	57%
Risk Mitigators + Cash	1%	13%

Comments: As of September 30, 2023, Core/Diversifier exposure is 61% of assets and currently at target. Return Drivers exposure is 34%, and Risk Mitigators exposure is 5%, both a distance away from their respective targets. Staff expects the percentage of Return Drivers to decrease as portfolio rebalancing efforts reduce exposure to beta return drivers and shift to more diversifying and risk mitigating exposures. The current 34% Return Driver exposure represents the lowest percentage since inception and is expected to steadily decrease.

SFERS
San Francisco Employees' Retirement System

Investment Category Exposure



SFERS
San Francisco Employees' Retirement System

Exhibit 2: Plan Value Report

City and County of San Francisco
Employees' Retirement System

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of January 10, 2024

To: Retirement Board

Through: Alison Romano
CEO & CIO

From: Kevin Cao
Investment Officer

Date: January 10, 2024

Re: Plan Value Report

Best available data as of December 31, 2023

	Value[1,3] (000)	Weight (%)	MTD (%)	QTD (%)	CYTD (%)	FYTD (%)
SFERS TOTAL FUND	**34,625,884**	**100.0**	**2.24**	**4.64**	**9.17**	**3.63**
Public Equity	11,063,838	32.0	6.55	12.53	24.65	7.66
Private Equity	10,012,844	28.9	(0.14)	0.12	0.51	0.63
GROWTH ASSETS	**21,076,683**	**60.9**				
Real Assets	5,283,672	15.3	0.23	1.07	(0.18)	0.06
Absolute Return[2]	3,117,867	9.0	1.31	2.51	6.39	3.71
DIVERSIFYING ASSETS	**8,401,539**	**24.3**				
Private Credit	2,926,476	8.5	0.21	2.65	8.88	5.17
Fixed Income	1,861,016	5.4	1.90	4.42	6.63	3.73
INCOME GENERATING ASSETS	**4,787,492**	**13.8**				
NET CASH EXPOSURE[3]	**360,171**	**1.0**	---	---	---	---
LEVERAGE OFFSET[3]	**0**	**0.0**	---	---	---	---

[1] Valuations are preliminary and are reported gross of fees. The reported returns and market values 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 public fund vehicles, returns and market values may include estimates or be proxied using benchmarks. For private equity, private credit and real assets, returns and market values are based on the most currently available manager data.

[2] Absolute Return market value and return are lagged by one month.

[3] Values reflect net exposures, not necessarily physical holdings.

SFERS - Asset Allocation Summary Report

As of December 31, 2023

	11/30/2023	Value In	Value Out	MV Δ[1]	12/31/2023	Current	LT Target	Range	Unfunded
		---------- ($ Mn) ----------				----- Weight (%) -----			($ Mn)
GROWTH ASSETS	**20,452.6**	**66.4**	**110.1**	**667.8**	**21,076.7**	**60.9**	**60.0**	**45 - 75**	**3,547.8**
Public Equity	*10,409.0*	*0.1*	26.7	681.5	11,063.8	32.0	37.0	25 - 50	
Physical	*10,409.0*	*0.1*	26.7	681.5	11,063.8	32.0			
Private Equity	*10,043.6*	66.3	83.4	(13.7)	10,012.8	28.9	23.0	15 - 30	3,547.8[3]
DIVERSIFYING ASSETS	**8,386.5**	**100.6**	**138.3**	**52.7**	**8,401.5**	**24.3**	**20.0**	**15 - 30**	**1,783.2**
Real Assets	*5,309.9*	61.1	99.8	12.5	5,283.7	15.3	10.0	8 - 15	1,781.8[3]
Absolute Return	*3,076.7*	39.5	38.5	40.2	3,117.9	9.0	10.0	5 - 15	1.4
INCOME ASSETS	**3,909.2**	**143.6**	**40.7**	**25.1**	**4,037.1**	**11.7**	**15.0**	**5 - 25**	**2,150.2**
Liquid Credit	*1,091.5*	0.0	0.0	19.1	*1,110.6*	3.2	5.0	0 - 10	
Private Credit	*2,817.7*	143.6	40.7	5.9	2,926.5	8.5	10.0	3 - 15	2,150.2[3]
CAPITAL PRESERVATION	**734.8**	**0.0**	**0.0**	**15.7**	**750.4**	**2.2**	**8.0**	**3 - 12**	**0.0**
Treasuries[2]	*734.8*	0.0	0.0	15.7	*750.4*	2.2	8.0	3 - 12	
Physical	*734.8*	*0.0*	*0.0*	*15.7*	*750.4*	*2.2*			
CASH[2]	520.0	529.4	690.8	0.0	360.2	1.0	0.0	0 - 5	
LEVERAGE OFFSET[2]	0.0	---	0.0	---	0.0	0.0	3.0	0 - 5	
Gross Synthetic Exposure	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*			
Investment Cash	*160.7*	*389.4*	*450.7*	*0.0*	*99.4*	*0.3*			
Short-term Treasury	*358.4*	*0.0*	*100.2*	*1.7*	*259.9*	*0.8*			
Dedicated Cash	*0.8*	*140.0*	*140.0*	*0.0*	*0.8*	*0.0*			
Credit Facility	*0.0*	*0.0*	*0.0*	---	*0.0*	*0.0*			
TOTAL PORTFOLIO	**34,003.0**	**0.0**	**140.0**	**761.2**	**34,625.9**	**100.0**	**103.0**	**100 - 105**	**7,481.3**

Notes: Target allocations and ranges were approved by the Board in January 2023.

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

[2] Values reflect net exposures, not necessarily physical holdings.

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

San Francisco City and County Employees' Retirement System

Cash Activities and Projections

As of December 31, 2023

Investment Cash Account (In $ Million)	
Beginning Balance as of December 1, 2023	**160.7**
Cash from Credit Line	0.0
Return to Credit Line	0.0
Cash Collateral	0.0
Public Equity Net Flows	26.6
Public Equity Synthetic Net Flows	0.0
Private Equity Net Flows	17.1
Real Assets Net Flows	38.7
Absolute Return Net Flows	-1.0
Liquid Credit Net Flows	0.0
Private Credit Net Flows	-102.9
Treasuries Net Flows	0.0
Short-term Treasury Net Flows	100.2
Funds to Dedicated Cash	-140.0
Ending Balance as of December 31, 2023	**99.4**

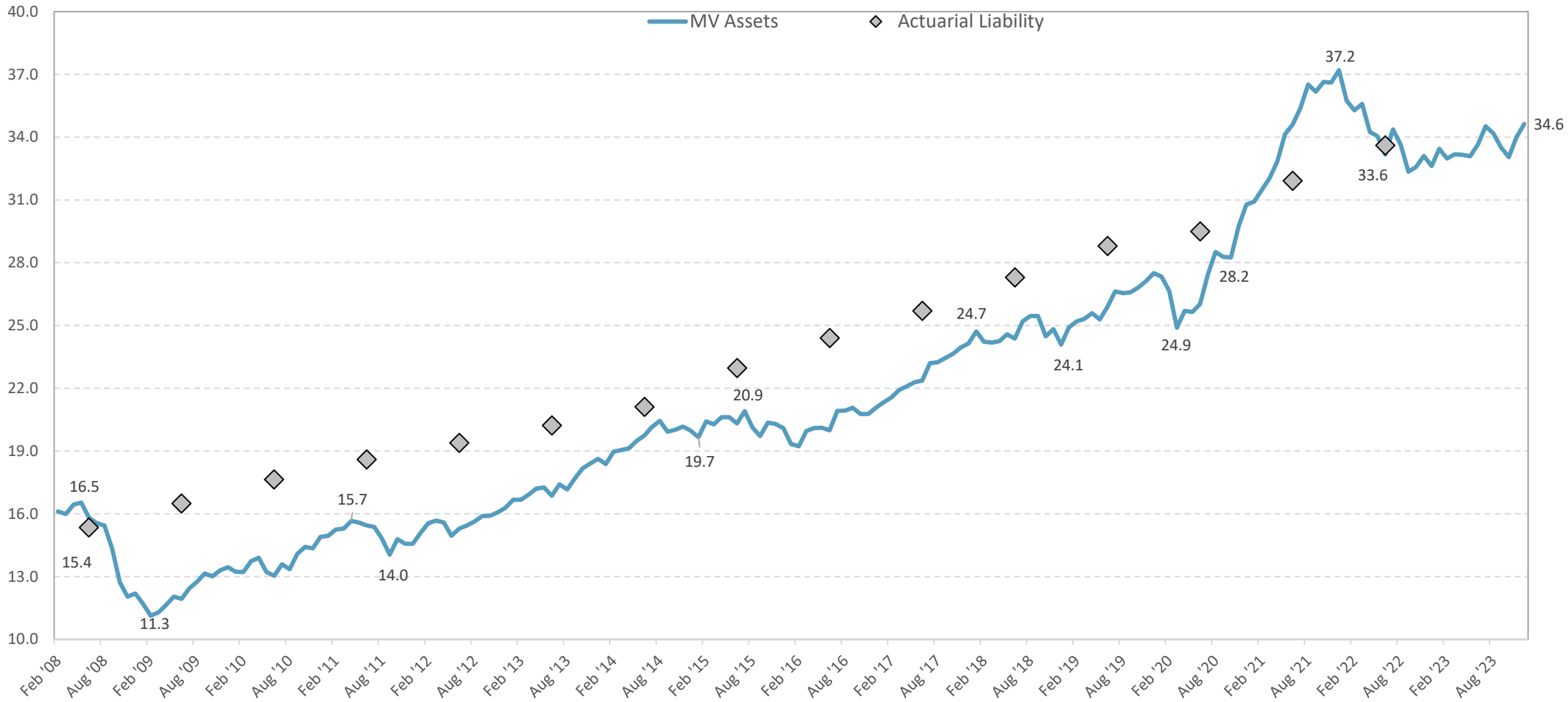
Credit Line	
Total Credit Available	600.0
Net Credit Drawn from BNY Mellon's Cash Release	0.0
Period of Credit Utilization	N/A
Annualized Cost of Credit (basis points)	N/A
Cost of Credit ($)	N/A
Ending Balance of Credit Drawn as of December 31, 2023	**0.0**

All Cash (In $ Million)[1]	
Beginning Balance as of December 1, 2023	**161.5**
Benefit Payment for December 2023	-140.0
Investment Cash Flows	-21.5
Short-term Treasury	100.2
Cash from Credit Line	0.0
Return to Credit Line	0.0
Ending Balance as of December 31, 2023	**100.2**

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

[1]All Cash comprises Investment and Dedicated cash accounts.

SFERS - Monthly Assets



SFERS
San Francisco Employees' Retirement System

Notes: Data from January 31, 2008 through December 30, 2023. Total Plan market values through December 2022 are provided by NEPC. Data from January 2023 to June 2023 is provided by BNY Mellon. Data starting July 2023 is provided by BNY Mellon and should be considered preliminary.

Exhibit 3: Update on Approved Investments

CLOSED INVESTMENTS

Balderton IX, L.P.

Under its delegated authority, SFERS invested $35 million in Balderton IX, L.P. The investment closed on December 13, 2023.

This fund will be classified as Venture Capital within SFERS' Private Equity portfolio.

More information about Balderton Capital is available at https://www.balderton.com.

Wynnchurch Capital Partners VI, L.P.

Under its delegated authority, SFERS committed $70 million to Wynnchurch Capital Partners VI, L.P., which closed on December 14, 2023.

Wynnchurch Capital Partners VI, L.P. is classified as a Buyout investment within SFERS' Private Equity portfolio and is SFERS' third commitment to a Wynnchurch-sponsored private equity fund.

More information about the firm is available at www.wynnchurch.com.

Partners Solutions/S Joint Venture, L.P.

Under its delegated authority, SFERS invested $80 million in Partners Solutions/S Joint Venture, L.P., which closed on December 22, 2023. This investment is classified as a Real Estate investment within the Real Assets portfolio and is SFERS' third investment with Crow Holdings.

More information about the firm is available at www.crowholdings.com.

Sustainable Asset Fund IV, LP

Under its delegated authority, SFERS committed $80 million to Sustainable Asset Fund IV LP, of which $57.55 million closed on December 27, 2023. The investment is classified as an Infrastructure investment within the Real Assets portfolio and is SFERS' fourth investment with Vision Ridge Partners.

More information about the firm is available at https://vision-ridge.com.

Arrow Global/SFERS Co-Invest Partnership

At its meeting on March 16, 2023, the Retirement Board approved in closed session an investment of up to $25 million to Arrow Global/SFERS Co-Invest Partnership. This investment was approved by the following vote:

Ayes: Commissioners Bridges, Driscoll, Gandhi, Safaí, and Thomas
Nays: None
Absent: Commissioner Heldfond

SFERS' investment of $25 million to Arrow Global/SFERS Co-Invest Partnership closed on December 28, 2023. This investment is classified as a Credit Opportunities investment within SFERS' Private Credit portfolio. This is SFERS' second investment with Arrow within the Private Credit portfolio.

More information about Arrow is available at https://www.arrowcredit.com/.

Magnetar Structured Solutions Fund LP

At its meeting on December 13, 2023, the Retirement Board approved in closed session an investment of up to $75 million Magnetar Structured Solutions Fund LP. This investment was approved by the following vote:

Ayes: Commissioners O'Connor, Thomas, Heldfond, Driscoll, Bridges
Nays: None
Absent: Commissioners Gandhi and Safaí

SFERS' investment of $75million to Magnetar Structured Solutions Fund LP closed on January 5, 2024. This investment is classified as a Specialty Finance investment within SFERS' Private Credit portfolio. This is SFERS' first investment with Magnetar within the Private Credit portfolio.

More information about Magnetar is available at https://www.magnetar.com/.

Exhibit 3: Update on Approved Investments

TERMINATED INVESTMENTS

Springs Capital

The CEO & CIO approved the termination of Springs Capital on September 22, 2023 and final proceeds of the investment were received on December 20, 2023. The termination was approved by the CEO & CIO in accordance with *SFERS Manager Selection, Monitoring and Termination Policy* approved by The Retirement Board at its meeting on July 20, 2023.

The investment was part of SFERS's public equity portfolio.

East Lodge Capital Credit Opportunities Fund, LP

The CEO & CIO approved a termination of East Lodge Credit Opportunities Fund, LP on November 21, 2023 and final proceeds of the investment were received on December 29, 2023. The termination was approved by the CEO & CIO in accordance with SFERS Manager Selection, Monitoring and Termination Policy approved by The Retirement Board at its meeting on July 20, 2023.

The investment was classified as a Credit - Structured investment within SFERS's absolute return portfolio share class B of SFARI II.