



City and County of San Francisco
Employees' Retirement System
INVESTMENT COMMITTEE MINUTES

Wednesday, September 17, 2014

30 Van Ness Avenue, Suite 3000

San Francisco, CA 94102

1:00 PM

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.

COMMITTEE MEMBERS

Commissioner Leona Bridges

Commissioner Malia Cohen

Commissioner Joseph Driscoll

Commissioner Victor Makras

Commissioner Herb Meiberger, CFA (Co-Chair)

Commissioner Wendy Paskin-Jordan (Co-Chair)

Commissioner Brian Stansbury

Jay Huish

Executive Director

Pledge of Allegiance

Roll Call:

Commissioner Victor Makras	1:00 PM
Commissioner Malia Cohen	1:00 PM
Commissioner Leona Bridges	Absent
Commissioner Joseph D. Driscoll	1:00 PM
Commissioner Herb Meiberger, CFA	1:00 PM
Commissioner Wendy Paskin- Jordan	1:00 PM
Commissioner Brian Stansbury	1:00 PM

Public Comment:

Public Comment Procedures:

Commissioner Paskin-Jordan called for public comment.

There were no comments from the public.

09172014-01 Action Item

Review and Approval of the Minutes of the May 21, 2014 Investment Committee Meeting

Documents provided to the Committee prior to the current meeting: Draft Minutes

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Meiberger, to approve the Minutes of the May 21, 2014 Investment Committee Meeting

Commissioner Paskin-Jordan called for public comment.

There were no comments from the public.

Ayes: Cohen, Driscoll, Makras, Meiberger, Paskin-Jordan, Stansbury

Absent: Bridges

Commissioner Paskin-Jordan called item #3

09172014-03 Discussion Item

Educational Session: Presentation by Craig Beach, Managing Director, Cambridge Associates, on Real Assets

Documents provided to the Committee prior to the current meeting: Educational materials prepared by Cambridge Associates

Art Wang, Managing Director for Public Markets, introduced Craig Beach, Managing Director, Cambridge Associates, who conducted an educational presentation on Real Assets.

Mr. Beach discussed:

- Characteristics of Real Assets;
- Representative Real Estate Strategies;
- Public Real Estate and Valuations;
- Private Core Real Estate Returns;
- Private Real Estate Returns;
- Energy Investment Vehicles;
- Public Commodity Futures; and,
- Public Resources Equities and Valuations.

Commissioner Paskin-Jordan called for public comment.

There were no comments from the public.

Commissioner Paskin-Jordan discussed the historical performance of value add funds and opportunistic funds. Mr. Beach noted definitional and sample size challenges with the data presented.

Commissioner Stansbury discussed the production life cycle of oil and gas well heads and the impact on investment returns.

Commissioner Driscoll inquired regarding the inflation sensitivity of timber. Mr. Beach noted that timber has historically been linked, in part, to demand for construction which is impacted by inflation.

Commissioner Driscoll inquired regarding availability of timber funds in secondary markets. Mr. Beach noted that some timber funds have been available in the secondary market; however this is a very small universe.

Commissioner Meiberger, CFA, discussed cash yield in the timber space.

Mr. Wang noted that Real Estate and Energy are not new asset categories to SFERS. Staff will continue to take a private markets approach to these categories.

Commissioner Meiberger, CFA, discussed the execution challenges in these categories. Mr. Wong noted that recruitment is currently under way to add additional Investment staff to assist in these areas.

Commissioner Meiberger, CFA, stated his preference for investing in agricultural products in the United States.

Commissioner Driscoll noted that Chinese firms are looking to invest in alternative energy, and encouraged staff to develop working relationships with these firms.

Action: This was a discussion only item.

The Committee recessed from 2:15 – 2:25

- 09172014-02 Discussion Item **Educational Session: Presentation by Jes Staley, Managing Director, and Susan Mason, Investor Relations, BlueMountain Capital Management, LLC, on the state of the markets and the endowment model of investing**

Documents provided to the Committee prior to the current meeting: Educational materials prepared by BlueMountain Capital Management, LLC.

William J. Coaker, Jr. Chief Investment Officer, introduced Jes Staley, Managing Director, and Susan Mason, Investor Relations, BlueMountain Capital Management, LLC, who conducted an educational presentation on the state of the markets and the endowment model of investing.

Mr. Stanley and Ms. Mason discussed:

- The 2008 Financial Crisis;
- Market Dynamics;
- Regulation of the Banking Sector;
- Federal Reserve Policies;
- Role of Mutual Funds in Liquidity Transformation;
- Hedge Funds, including experience of Yale and Bowdoin Portfolios

Commissioner Paskin-Jordan called for public

comment.

There were no comments from the public.

Commissioner Stansbury inquired regarding changes in transparency following the 2008 Credit Crisis, particularly with regard to hedge funds.

Mr. Staley noted that his fund values transparency, and that the markets and regulators are demanding greater transparency.

Commissioner Stansbury inquired regarding the perception that hedge funds charge high fees and do not manage real assets. Ms. Staley noted hedge funds can serve as a vehicle to prudently invest savings for retirees and help grow the economy.

Commissioner Stansbury discussed the performance of hedge funds during and after the 2008 Credit Crisis. Mr. Staley discussed BlueMountain's process for reviewing the market on a daily basis and hedging appropriately based on market conditions.

Commissioner Paskin-Jordan discussed the experience of CALPERS and noted the challenges faced by large funds seeking to invest in hedge funds. Mr. Staley noted that public funds have been increasing their investments in private equity. He further noted that dedicated staffing and consultants are required for public pension funds to efficiently invest in hedge funds. He cited the experience of Bowdoin College and Yale University, who are heavily invested in hedge funds.

Commissioner Driscoll discussed the Yale and Bowdoin experience in investing in hedge funds. Mr. Beach noted that Yale's model includes a significant allocation to alternatives, including hedge funds.

President Makras discussed transparency when investing in hedge funds, and what steps could be taken to improve transparency. Mr. Beach recommended clear communications, written in simple language and with a glossary provided. He further recommended that the hedge fund industry adopt a common approach to describing investment vehicles and risk. Finally, he recommended that all parties understand leverage as utilized by hedge funds.

Commissioner Paskin-Jordan noted that transparency has been increasing in the hedge fund arena. Ms. Mason noted that BlueMountain's portfolio data is provided to Risk Metrics, and investors are provided with daily, weekly, and monthly performance data.

President Makras discussed hiring in-house staff to manage hedge fund investments versus retaining outside consultants. Mr. Staley noted he would consider the availability of investment talent, risk management tools, and other technology costs to duplicate the infrastructure utilized by a firm such as BlueMountain.

President Makras noted that many hedge funds are based in the Cayman Islands and Ireland. Mr. Staley noted that this may be related to tax treatment of foreign investments; however it is not his area of expertise.

Commissioner Meiberger, CFA, noted the differences between a private endowment and a public pension fund, such as ERISA compliance.

Commissioner Meiberger, CFA, noted that some of BlueMountain's funds are registered in the Cayman Islands. Commissioner Meiberger discussed the history of Cayman Islands and the tax treatment of investments registered there.

Commissioner Meiberger, CFA, inquired regarding the Federal Reserve's quantitative easing program. Mr. Stanley noted that the quantitative easing program is beginning to wind down and interest rates can be expected to rise.

Mike Hebel, Police Officers Association, inquired as to how members can be assured that SFERS is selecting appropriate hedge funds and fund managers. Mr. Stanley noted that given the size of SFERS, the number of available funds would be limited.

Jay Huish, Executive Director, noted that the purpose of Mr. Stanley's presentation was to review broad macro-economic issues, and not to discuss specific hedge fund managers.

Action: This was a discussion only item

09172014-04 Discussion Item **General Public Comment:**

Commissioner Paskin-Jordan called for public comment.

There were no comments from the public.

09172014-05 **Adjournment**

Having no further business, the Committee adjourned the meeting at 3:48 PM.

Respectfully submitted,
Jay Huish, Executive Director