



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

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**Wednesday, May 15, 2013**

30 Van Ness Avenue, Suite 3000

San Francisco, CA 94102

2:00 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 Malia Cohen

Commissioner Joseph Driscoll (Chair)

Commissioner Victor Makras

Commissioner Herb Meiberger

Commissioner Wendy Paskin-Jordan

Commissioner Brian Stansbury

Commissioner Brenda Wright

Jay Huish  
*Executive Director*

Commissioner Driscoll called the meeting to order at 2:00 PM

- Pledge of Allegiance
  
- Roll Call:

Commissioner Brenda Wright	2:00
Commissioner Malia Cohen	2:00
Commissioner Joseph D. Driscoll	2:00
Commissioner Victor Makras	2:00
Commissioner Herb Meiberger	2:00
Commissioner Wendy Paskin-Jordan	2:00
Commissioner Brian Stansbury	2:00
  
- General Public Comment

Commissioner Driscoll called for General Public Comment.  
There were no comments from the public.
  
- 05152013-01 Action Item

**Review and Approval of the Minutes of the February 20, 2013 Investment Committee Meeting**

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

Action: Moved by Commissioner Cohen, Seconded by Commissioner Wright to Approve the Minutes of the February 20, 2013 Investment Committee Meeting.

Approved by the following vote:

Ayes: Cohen, Driscoll, Makras, Meiberger, Paskin-Jordan, Stansbury, Wright
  
- 05152013-02 Discussion Item

**Educational Presentation on Market Environment (Cliff Asness - AQR)**

Documents provided to the Board prior to the current meeting: Educational materials prepared by AQR Capital Management

Bob Shaw, Interim Deputy Director for Investments, presented an oral and written report on this item.

Mr. Shaw noted that every three years, SFERS undertakes an asset/liability study to evaluate how best to allocate assets given the structure of the System's liabilities. The next asset/liability study will be in 2014. In advance of the study, Investment Staff is asking industry experts, such as Cliff

Asness, Co-founder, AQR Capital Management, to make presentations to the Investment Committee regarding their perspective on markets and where they see risk and opportunities over the medium to long term.

SFERS has retained AQR as an investment manager in core international equities since August, 2006. Founded in 1998, AQR currently manages over \$79 billion in strategies that range from traditional long-only equities to market neutral hedge funds. Over the past 1, 3, and 5-year time periods, SFERS' AQR portfolio has exceeded its benchmark (MSCI-EAFE) by 176 basis points net of fees on an annualized basis.

Mr. Asness conducted an educational session regarding AQR's perspective on markets and where they see risk and opportunities over the medium to long term.

The Board engaged in a question and answer session.

Commissioner Driscoll called for Public Comment.

There were no comments from the public.

Action: This was a discussion only item

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| <input type="checkbox"/> | <p>05152013-03   Discussion Item</p> <p><b>Educational Presentation on Public Market Manager Search Process</b></p> <p>Documents provided to the Board prior to the current meeting: Staff memorandum</p> <p>Bob Shaw, Interim Deputy Director for Investments, presented an oral and written report on this item.</p> <p>Mr. Shaw noted that the discussion was a continuation from a discussion held at the September, 2011 Board Retreat.</p> <p>Mr. Shaw presented an overview of the current SFERS investment manager selection process, and the associated steps in the search process.</p> <p>Mr. Shaw noted that the Board could, on a going forward basis, create a pre-approved Request For Proposals (RFP) structure for public market RFPs as part of the annual process associated with the adoption of the Investment Policy Statement; this could shorten the search process by 3-4 weeks.</p> |
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Mr. Shaw further noted that greater Board involvement in the investment manager selection process would require:

- Subject matter expertise;
- Ability to compare and contrast all RFP responses;
- Ability to integrate RFP responses with current SFERS need, i.e. highly ranked candidates may not be the best fit for current need.

Jay Huish, Executive Director, noted that the Board had interviewed investment managers prior to selection at a point in the past. However, the Board met twice a month because of the required time commitment. He further noted that the process required for the Board to be involved in the selection of managers is different than the process required for the Board to approve a staff recommendation of a manager.

Commissioner Driscoll discussed qualitative versus quantitative scoring of RFP responses. Mr. Shaw and Ms. Kautz, Angeles Investment Advisors, noted that the initial screening weighting factors were listed in each RFP.

Commissioner Cohen inquired as to how RFPs were publicly posted. Ms. Kautz noted that all RFPs are screened with the eVestment Alliance database to identify potential bidders meeting the minimum qualifications; these managers are then notified of release of the RFP by Angeles Investment Advisors.

Mr. Huish noted that RFPs are also posted on the City's Office of Contracts Management and the SFERS websites.

Commissioner Cohen inquired as to the availability of bidding preferences for minority, women's, and local business enterprises. Mr. Huish noted that these firms are encouraged to apply, however SFERS is retaining services for intellectual property and contracts are not awarded to the least expensive bidder based on a preference system. Therefore, investment contracts do not include the types of hiring goals found in construction and similar goals. SFERS has worked with the City's Human Rights Commission to encourage the utilization MBE/WBW/LBE firms under Section 14B of the Administrative Code, including brokers. The Board receives regular reports on commissions and brokerage. Mr. Shaw noted that the requirement for assets under management may also impact the level of participation by MBE/WBW/LBE firms.

Commissioner Cohen discussed the process for qualitatively evaluating bid responses. Mr. Shaw noted that there is a formal scoring matrix for the initial review of bids, and that after that point a collaborative process was used by staff and consultant to conduct a consistent qualitative review process based on all available information. Mr. Huish noted that the qualitative review process was designed to identify the “best fit.”

Commissioner Makras discussed the qualitative versus quantitative review process. Commissioner Paskin-Jordan noted the importance for the qualitative process to be free of bias.

Commissioner Wright inquired regarding the eVestment Alliance screening process. Ms. Kautz noted that no fees are charges to participate in the eVestment Alliance system, and Mr. Huish noted that all potential bidders have the option, as specified in all RFPS, to submit their performance data directly SFERS staff and to not utilize the eVestment Alliance system.

Commissioner Wright inquired as to factors that might be considered as determining factors in the qualitative review process. Ms. Kautz noted these factors could include how the proposed manager compliment existing managers in regard to style and risk profile, and the skills of the proposed manager’s team.

Commissioner Meiberger discussed the importance of evaluating the culture of a manager and the honesty of the principals. Ms. Kautz noted that this is a critical part of the current review process, and was measured by factors such as the ownership structure; decision making process of the manager; length of time the team has worked together; and, SEC and other regulatory compliance.

Commissioner Meiberger proposed that “the Board get involved after staff and consultant have interviewed the managers and have the finalist determined, in essence after Step 11. Step 11 is when the staff and consultant bring a recommendation to the Board. The process would be changed to have Step 11, the staff and board would recommend the finalists, and then the Board would interview those finalists in public session.”

Commissioner Meiberger noted that he was not seeking “deep Board involvement.” He noted that while several members of the Board would serve as subject matter experts, that is not required. The Board currently has the authority to reject a staff recommendation.

Mr. Huish noted that the Retirement Board hires their own consultants as subject matter experts for investment advice and recommendations. Staff are hired for their expertise and availability to do due diligence. If the Board rejects a recommendation from staff, staff and consultant will present another recommendation based on their expertise and thorough review.

Commissioner Driscoll requested clarification as to whether Commissioner Meiberger’s recommendation was to interview the finalist or finalists. Commissioner Meiberger responded “finalists, plural.”

Mr. Huish noted that this would supplant staff and consultants recommendation as to “the best fit.”

Commissioner Meiberger noted that “if the staff or Board recommends two or three finalists, then I want to interview them all. If it’s one finalist, then it’s a different story. The Board should be involved in the final process”

Mr. Huish noted the recommendation of whom to interview or who to hire were two different things. If staff were to recommend one manager for hire, then the Board would not have interviewed the “finalists” reached to get to the recommendation of one manager.

Commissioner Meiberger stated that the interviews would be with the “finalists.”

Commissioner Driscoll stated for clarification that the recommendation was to have the Board interview “the staff recommendation for hire.”

Commissioner Meiberger stated that the Board are fiduciaries, and are not allowed to be involved in the RFP review process due to the Blackout Policy. Mr. Huish noted the Blackout Policy would not prevent the Board from interviewing a finalist.

Commissioner Meiberger noted the advantage of having the Board interview managers face to face to evaluate their culture and intellectual ability.

Commissioner Meiberger summarized his recommendation as “the board interview the finalists after staff and consultant have made the presentations and selected those.”

Commissioner Makras asked Mr. Shaw if staff found the manager interviews helpful and if staff gained information from the interview process. Mr. Shaw agreed that the staff and consultant interviews assisted the process.

Commissioner Makras suggested that the Board would also benefit from the opportunity to interview.

Commissioner Makras requested information for a 3 or 5 year period as to how many managers were selected who had and had not participated in the eVestment Alliance system; Mr. Huish agree to provide the information.

Commissioner Paskin-Jordan spoke in support of the Board interviewing the finalist, and noted that the Board would not have the ability to screen three or four finalists and make a decision to exclude some.

She noted the Board’s limited time availability for interviewing multiple managers, but welcomed the opportunity to interview the finalist recommended by staff.

Commissioner Paskin-Jordan recommended that the manager interview be scheduled as part of a regular Board meeting so as to not delay the selection process.

Mr. Huish noted that this could be done for upcoming recommendations.

Commissioner Driscoll inquired as to whether this would be a “presentation or interview.” He recommended against a “beauty contest.”

Mr. Huish noted that this would be a “structured presentation with the opportunity to ask questions.”

Commissioner Wright discussed the Board's role in interviewing its own consultants versus investment manager hires. She noted the process could be problematic and could require amendment of the Investment Policy Statement.

Commissioner Makras stated "it is a presentation, we ask questions, and it comes back at the following meeting for approval. Then we have the opportunity to reach out to staff, share what we learned, and share reflections. They would have the same opportunity to read look at the recommendation."

Commissioner Driscoll noted "that will add another six weeks to the process." Mr. Shaw noted that this could be mitigated by the pre-approval of RFPs.

Commissioner Paskin-Jordan recommended that the process be tried out going forward. Commissioner Driscoll asked if this would begin with the bank loan search. Caryn Bortnick, Deputy City Attorney, noted that a change to the Investment Policy Statement could be brought forward if required. Mr. Huish agreed to review the Policy for the Board to interview the "hire recommendation."

05152013-04 Discussion Item **Update on Covered Call Investment Strategy**

Documents provided to the Board prior to the current meeting: Angeles Investment Advisors memorandum

This item was continued to the November 20, 2013 Investment Committee meeting.

Action: This was a discussion only item

05152013-05 Discussion Item **Public Comment:**

Commissioner Driscoll called for Public Comment.

There were no comments from the public.

05152013-06

**Adjournment:**

There being no further business, the Board adjourned its meeting at 5:20 PM.

Respectfully submitted,

Jay Huish  
Executive Director