



SFERS
San Francisco Employees' Retirement System

San Francisco
Employees' Retirement System
**RETIREMENT BOARD
MEETING MINUTES**

Wednesday, February 11, 2015

**1145 Market Street, 6th Floor
San Francisco, CA 94103**

1:00 p.m.

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.

RETIREMENT BOARD MEMBERS

President

Victor Makras

Vice President

Malia Cohen

Commissioners

Leona Bridges

Joseph Driscoll

Herb Meiberger, CFA

Wendy Paskin-Jordan

Brian Stansbury

Jay Huish
Executive Director

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San Francisco, CA 94102-4689
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OPENING CALENDAR

President Makras called the meeting to order at 1:23 PM

Pledge of Allegiance

Roll Call

Commissioner Victor Makras	1:23 PM
Commissioner Malia Cohen	1:23 PM
Commissioner Leona Bridges	1:23 PM
Commissioner Joseph D. Driscoll	1:23 PM
Commissioner Herb Meiberger, CFA	1:23 PM
Commissioner Wendy Paskin-Jordan	1:23 PM
Commissioner Brian Stansbury	1:23 PM

021115-01 Discussion

General Public Comment

President Makras called for general public comment.

John Stenson, MUNI retiree, addressed the Board regarding the punctuality of Board members and the starting time of the meeting. He also spoke in opposition to investment in hedge funds based on the CalPERS experience.

Patrick Monette-Shaw addressed the Board regarding investment in hedge funds and submitted the following written statement to be included with the minutes:

“How are SFERS’ Board and its chief investment officer, Bill Coaker, smarter than Warren Buffett and George Soros, who have both warned against investing public pension portfolios in hedge funds?”

‘Publius Poplicola’s’ on-line survey of SFERS Plan beneficiaries shows that as of February 10, among 794 survey respondents:

- 94.46% are **not** in favor of investing the City’s pension fund in hedge funds.
- 82.8% believe SFERS should **not** invest in hedge funds (i.e., a zero-percent allocation).
- 87.5% do **not** believe hedge funds are less risky than stocks.
- 95.6% do **not** believe hedge funds will protect the Pension Plan in a stock market decline.
- 95.8% believe SFERS’ seven-member Board should **not** invest in hedge funds without approval of the 54,823 Plan beneficiaries.

Trustees of public pension plans – such SFERS’ Board – whose clients (Plan beneficiaries) reject investment recommendations, have fiduciary, ethical and legal obligations, to back off.”

Jamilah Din, SEIU Local 1021 and active employee at Laguna Honda Hospital, spoke in opposition to investing in hedge funds due to fees and risk.

Cynthia Marcopulos, San Francisco Superior Court retiree, spoke in opposition to possible investment with the Mayor’s Office of Housing down payment assistance program and in opposition to investment in hedge funds.

Janice Wong, active employee with SEIU Local 1021, spoke in opposition to investment in hedge funds due to high fees and risk.

Deborah Rosas, SEIU Local 1021, spoke in opposition to investment in hedge funds due to fees, accountability and transparency concerns.

Sylvia Alvarez-Lynch, active employee SFMTA, spoke in opposition to investment in hedge funds and noted the potential impact on employer contributions due to poor performance.

Steve Seltzer, United Public Workers for Action, spoke in opposition to investment in hedge funds. He noted the negative impact of hedge funds on unions and employee pension programs.

Tom O’Connor, President of San Francisco Firefighters Local 798, expressed his appreciation for the efforts of the Retirement Board and the professional investment staff, and expressed his trust in their judgment and experience.

Gregory Hoan, SEIU Local 1021 and active library employee, spoke in opposition to investment in hedge funds.

Kay Walker, United Public Workers for Action and SF Gray Panthers, spoke in opposition to investment in hedge funds and expressed concern regarding transparency, socially responsible investments, and other factors.

Larry Griffin, City employee and member of Local 21, addressed the Board regarding cost-sharing under proposition C and in support of prudent, fact-based decisions and responsible and sophisticated investments, including hedge funds.

Richard Hack, SEIU Local 1021 retiree, encouraged

more dialogue between the Board and the public. He also spoke in opposition to high risk investments, particularly hedge funds.

David Canham, SEIU Local 1021, read a statement from President Sanchez of SEIU in opposition to investing in hedge funds.

Elaine Hanson, SEIU Local 1021 and active City library page, spoke in opposition to investment in hedge funds due to performance history, high fees, illiquidity, and lack of transparency.

Herbert Weiner, SEIU Local 1021 retiree, spoke in opposition to investment in hedge funds due to high fees and potential impact on retirees if the fund does not perform well. Mr. Weiner submitted a written statement to be included with the minutes:

“Hedge funds are being proposed as a means of protecting the SFERS Fund against recessions and a means of attaining the market value necessary for the extra COLA.

If we do adopt hedge funds, there are high administrative costs: the annual 2% payment to the fund, 20% if the fund does well and the hiring of personnel to insure proper investments.

It should be noted that the annual 2% payment and personnel costs will hold constantly whether or not the fund performs adequately. Good returns are offset by the 20% cost.

Leveraging increases risks, because other leveraged borrowers must be paid off first. In case of poorly performing funds, we may not be paid off with significant losses for us.

We cannot be sure if the hired administrators will choose the best hedge funds. Didn't the best minds of Wall Street choose funds that went south, even bankrupting firms as Bear Stearns?

No transparency presents another peril.

We will have no idea about the operations of the investor, the internal problems that they might have until a brave journalist exposes them when they crash. This is the ultimate transparency-when it is too late.”

Vivian Imperiale, retiree, spoke in opposition to investment in hedge funds due to risk and fees.

Maria Guillén, SEIU Local 1021, spoke in opposition to investment in hedge funds due to risk.

Michael Lyon, SF Gray Panthers, spoke in opposition to investment in hedge funds.

Dwayne Victory, SEIU Local 1021, spoke in opposition to investment in hedge funds due to transparency concerns, recent performance history.

Richard Gale, retiree, spoke in opposition to investment in hedge funds due to fees, transparency, and poor performance.

Mike Hebel, SF Police Officers Association, expressed his appreciation for the time and efforts of the staff and Board in the asset allocation process. He spoke in support of consideration of hedge funds as an allowable asset class.

Jonathan Meade, SEIU Local 1021, addressed the Board regarding their role as trustees and expressed concern regarding how the asset allocation study process had been conducted.

Patricia Jackson, retiree and member of the SF Gray Panthers, spoke in opposition to any type of investment in hedge funds due to potential impact on retirees and fees.

Sai Orr, retiree, spoke in opposition to investment in hedge funds and expressed concerns with Prudential's administration of the 457(b) Deferred Compensation Plan due to fund performance, fees and expense ratios.

David Hill, active employee of the Public Library, spoke in opposition to investment in hedge funds.

Evelyn Curiel, SEIU Local 1021, spoke in opposition to investment in hedge funds due to potential impact on retirees.

Denise D'anna, retiree, spoke in opposition to investment in hedge funds and urged the Board to take action to promptly resolve this issue.

Cynthia Landry, SEIU Local 21, spoke in opposition to any potential hedge fund allocation.

Rebecca Rhine, Municipal Employees Association, noted the concerns regarding pension security expressed by active employees and retirees. She spoke in support of a fact-based decision making process and noted that the decision on which specific hedge funds to consider for

investment would be considered individually by the Board prior to any actual investments.

John Furlen noted that public equities are over-valued and that a simple indexing alternative was not available to the Board.

David Williams, SEIU Local 1021 retiree, spoke in opposition to investment in hedge funds due to fees, transparency, and lack of due diligence. He submitted an additional 865 petitions in opposition to investment in hedge funds.

Teri Dowling, Local 21 Investment Committee, said the Committee voted unanimously to support a 10% allocation to hedge funds due to the protections provided in the event of a market down turn.

Claire Zvanski, Retired Employees of the City and County of San Francisco, spoke in opposition to investment in hedge funds and expressed concern regarding the degree of due diligence conducted by the Board.

Michael Seville, Local 21, noted that their Investment Advisory Committee has unanimously voted to support a 10% hedge fund allocation based on expert advice received by the Retirement Board. He further noted the need to adapt the investment strategy to provide down-side protections.

Martha Hawthorn, Local 1021, spoke in opposition to investment in hedge funds due to lack of transparency and in support of divestment from fossil fuels.

021115-02 Action Item

Approval of the Minutes of the January 14, 2015 Retirement Board Meeting

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the January 14, 2015 Retirement Board Meeting

Caryn Bortnick, Deputy Director and Interim Deferred Compensation Manager, requested a correction on page 18 of the draft Minutes. The draft stated: "Ms. Bortnick reported a recent change in the Target Date Fund small cap growth manager. QMA, the current manager, has reduced the number of managers from six to one."

It should read: "Ms. Bortnick reported a recent change in the Target Small Cap Value fund. Prudential, the current advisor, reduced the number of managers from six external managers to one manager (QMA, which is a subsidiary of Prudential)."

Commissioner Meiberger requested two changes:

On page 5 of the draft Minutes his comments should reflect a preference for fund of funds over a direct approach and on page 9 his comments should note that he “would not rule out PCA.”

President Makras called for public comment.

There were no comments from the public.

Action: Moved by Commissioner Meiberger, Seconded by Commissioner Stansbury to Approve Minutes of January 14, 2015 Retirement Board Meeting as revised.

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

CONSENT CALENDAR

All matters listed hereunder constitute a Consent Calendar, are considered to be routine by the Retirement Board and will be acted upon by a single vote of the Retirement Board. There will be no separate discussion of these items unless a member of the Retirement Board so requests, in which event the matter shall be removed from the Consent Calendar and considered as a separate item.

<input type="checkbox"/>		Action Item	Consent Calendar
	021115-03a	Action Item	Voluntary Retirement Board List No. 08-14
	021115-03b	Action Item	Decisions of Hearing Officers
	Otto B. Dittman Effective Date: 11/1/12	7235 Transit Power Line Supervisor MTA	Ordinary Disability Retirement Denied
	Stephen H. Feiner Effective Date: 3/16/10	H4 Fire Inspector Fire	Industrial Disability Retirement Denied
	Donald E. Kern, Jr. Effective Date: 9/1/11	H2 Firefighter Fire	Industrial Disability Retirement Granted
	Nelly R. Kuan Effective Date: 10/1/13	2905 Sr. Eligibility Worker Human Services	Ordinary Disability Retirement Denied
	Joseph P. Lehane Effective Date: 3/15/14	7449 Sewer Service Worker PUC-Clean Water	Ordinary Disability Retirement Granted
	Jennifer E. Matz (Deceased – 12/5/14) Effective Date: 12/5/14	1381 Special Asst. 22 Business & Economic Development	Ordinary Disability Retirement Granted

Gloria D. Posadas Effective Date: 10/7/14	1092 IT Operations Support Adm. II DPH-CMHS	Ordinary Disability Retirement Granted
Lawrence E. Thompson Effective Date: PERS	8304 Deputy Sheriff Sheriff	CAL-PERS - Disability Retirement Denied
Claudia Valentino Effective Date: 12/10/13	H2 Firefighter Fire	Industrial Disability Retirement Granted
Maria E. Zuniga Effective Date: 9/6/12	9163 Transit Operator MTA	Ordinary Disability Retirement Granted

021115-03c Action Item **Petition for Rehearing**

Otto B. Dittman Effective Date: 11/1/12	7235 Transit Power Line Supervisor MTA	Ordinary Disability Retirement Denied
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021115-03d Action Item **Request Travel Approval for
Commissioner Leona Bridges to
attend the CII Spring 2015
Conference, March 30 - April 1,
2015, Washington, D.C.**

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Hearing Officer Decisions, Agenda

President Makras called for public comment.

There were no comments from the public.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Meiberger to Approve the Consent Calendar

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

INVESTMENT CALENDAR

021115-04 Action Item **Staff Due Diligence Report on 2015 Asset Allocation
Proposals and Staff’s Asset Allocation Recommendation**

Documents provided to the Board prior to the current meeting: Staff and Consultant Memoranda

William J. Coaker, Jr., Chief Investment Officer, and Leslie Kautz, Angeles Investment Advisors (Board General Investment Consultant), presented an oral and written report on this item.

Mr. Coaker submitted a written report on staff and consultant due diligence on the asset allocation proposals presented at the December 3, 2014, Special Board meeting.

Mr. Coaker noted that Investment staff, Angeles Investment Advisors, and Cambridge Associates (Board Alternative Investments consultants) had met to discuss December 3, 2014 asset allocation proposal as well as the proposed staff and consultant recommendation.

President Makras accepted the staff and consultant reports as presented and called for a motion from the Board.

Moved by Commissioner Stansbury, seconded by Commissioner Driscoll to accept the alternative staff asset allocation recommendation of:

Global Equity	40%
Private Equity	18%
Real Assets	17%
Absolute Return/Hedge Funds	5%
Fixed Income	20%

On the motion, Commissioner Bridges requested clarification, would the proposed hedge fund allocation be direct or fund of funds.

Commissioner Stansbury noted that the recommendation was to accept the staff recommendation and not constrained at this point, both options could be considered as individual investments recommendations following retention of a hedge fund consultant and appropriate staff due diligence.

Mr. Coaker noted that it was staff's intent to issue a Request for Proposals (RFP) for specialty hedge fund consultant(s), which would be broadly written with an open mandate.

Jay Huish, Executive Director, noted that the consultant and investment manager selection process would be the same as the Board normally uses. The Board will have an opportunity to consider individual investments.

Commissioner Bridges expressed concern regarding staffing infrastructure prior to moving forward with implementation of the recommendation.

Mr. Huish noted that staffing and consultant resources will be addressed prior to any investment recommendation being brought forward for consideration by the Board.

Commissioner Paskin-Jordan reviewed some of the concerns raised by members of the public during public comments.

She noted that some individuals had expressed concern that hedge funds can't be tracked and had raised transparency concerns.

Mr. Coaker noted that the issue of transparency has been evolving over the last few years and that clients can insist on transparency, holdings can be provided to a risk aggregator (Risk Metrics for example), or hedge fund managers can provide factor exposures. He further noted that investment managers understand that the environment has rapidly changed in regard to transparency since 2008.

Ms. Kautz noted that transparency has to be a significant criterion in due diligence and manager selection.

Commissioner Paskin-Jordan noted that there are good hedge funds and bad hedge funds and that it was her intent to see that the System invested in top quartile managers.

Commissioner Paskin-Jordan noted that members of the public had inquired as to whether investment staff had met with CalPERS to discuss its reasons for exiting hedge funds. Mr. Coaker reported that he has recently met with CalPERS and has been meeting with CalPERS staff since 2005. This included meetings with CalPERS staff in February 2014 and additionally conversations as recently as last week. These discussions included what could be done by plans similar in size to SFERS in regard to utilizing hedge funds to manage risk.

Commissioner Paskin-Jordan noted that members of the public had stated that the plan grew since 2008 without risky assets.

Mr. Coaker reported that 85% of portfolio is in risk-oriented assets, 15% are in high quality bonds. The only risk free asset is U.S. treasuries (3%). The risk free rate of return on U.S. treasuries is currently about 2% and plan needs to achieve an investment return of 7.5%.

Ms. Kautz noted that the last six years have been exceptional and hedge funds provided down-side protections following the 2008 credit crisis.

Commissioner Paskin-Jordan noted that there is a negative public perception of hedge funds in general based on some poorly performing, highly leveraged hedge funds. She further noted that there are good and bad hedge funds, and the bad funds have generated much of the attention. She noted the strong funded ratio of the fund and the Board's role to manage a well diversified portfolio.

Commissioner Paskin-Jordan noted that there had been public comment related to Mr. Coaker's investment experience at the University of California.

Mr. Coaker noted that the U.C. performance data from his employment period there is publically available on the U.C. website and demonstrates above average performance.

Commissioner Driscoll addressed the issue of Board member due diligence activities. He noted the need for the Board to respond to the 2008 down-turn, and the need to reduce risk and volatility but still achieve the targeted rate of return. He noted that pensions are guaranteed by the City, not the funded status of the plan.

Commissioner Driscoll discussed the process for development of investment guidelines for hedge fund managers, including control of assets and due diligence, leverage and social issues. He reported that he has spoken with CalPERS staff regarding factors influencing their decision on hedge funds and noted the positive experience with hedge funds of some other large public pension plans.

Mr. Coaker noted that the first step would be to issue an RFP for hedge fund consulting services, conduct a through search, and then retain a consultant. The consultant would assist staff in developing appropriate investment guidelines, which would include ESG guidelines.

Commissioner Meiberger expressed appreciation for efforts of the public in the asset allocation study process. He discussed Warren Buffet's negative experience with US AIR and how he had addressed this publically.

He noted the limitations of "expert" advice and group think.

In regard to the staff recommendation, he noted that there is general agreement that SFERS holds too many bonds, and that there are valid concerns regarding a

market down-turn. He discussed how to measure success with hedge funds and noted recent proposed changes in U.C. portfolio as reported in Pensions & Investments to reduce excessive fees.

In regard to fees, he noted that endowments and public pensions have differences in cash flow needs to service members and different operating cultures. He noted the lack of transparency with hedge funds.

Commissioner Meiberger questioned what happens if hedge funds lose money. Mr. Coaker cited “high water mark” provisions and use claw-back provisions in investment manager guidelines.

Commissioner Meiberger discussed the assumptions in the Angeles memorandum, specifically the correlation between Natural Resources / Infrastructure and fixed income. Ms. Kautz noted that infrastructure is not public and more equity like in returns.

Commissioner Stansbury left the meeting from 3:55 – 4:01 PM. Commissioner Cohen left the meeting from 3:58 – 4:02 PM.

Commissioner Meiberger recommended that natural resources, including farmland and timberland, should be considered a diversifying asset class.

He further noted that the staff recommendation only lowers fixed income by 5%. Real assets could provide greater diversity.

Mr. Coaker noted that the proposal included 17% to real assets, and staff had signaled that it can revisit that allocation within two years in the 2017 ALM study.

Commissioner Meiberger inquired if hedge fund managers would be fiduciaries to the Trust. Mr. Coaker and Ms. Kautz responded that this would depend on the specific situation, but hedge fund managers would probably not be fiduciaries based on likely fund structures being considered.

Commissioner Bridges left the meeting from 4:03-4:08 PM. Commissioner Makras left the meeting from 4:08 – 4:10 PM.

Commissioner Meiberger inquired if hedge fund managers will be required to comply with ERISA. Mr. Coaker responded that this could be negotiated. Ms. Kautz noted that hedge funds are well represented in private plans with ERISA regulated portfolios.

Commissioner Meiberger inquired if hedge fund managers will have manager investment guidelines as part of the contract. Ms. Kautz noted that they would have manager investment guidelines as part of contract, based on the specific fund structure.

Commissioner Meiberger inquired if hedge fund managers provide Global Investment Performance Standards (“GIPS”). Ms. Kautz noted that GIPS generally apply to managers who manager a large number of funds. Mr. Coaker noted that a specialty hedge fund consultant will assist with operational issues such as GIPS compliance.

Commissioner Meiberger discussed the use of a risk aggregator to identify factor exposures. Mr. Coaker discussed the use of holdings based data as well as factor exposures.

Commissioner Meiberger inquired if hedge fund managers will be held to CFA Code of Ethics. Ms. Kautz noted that many hedge fund managers are members of CFA, and in addition many hedge fund managers are SEC registered. These are issues that can considered as part of the due diligence process.

Commissioner Meiberger inquired if hedge fund managers will be held to a standard of negligence or gross negligence for purposes of liability. Jay Huish, Executive Director, noted that the issue of liability is addressed as part of contract negotiation.

Commissioner Meiberger stated his opposition to the motion, and said that while he liked the goal of reducing risk he did not think hedge funds were the answer.

Commissioner Cohen inquired if the proposed hedge fund allocation would be direct or fund of fund.

Mr. Coaker noted that this would be determined after a consultant has been retained through RFP process.

Commissioner Cohen inquired as to the time-line for implementation. Mr. Coaker reported that the RFP could be presented at the March Board meeting with responses due by the end of April, evaluation of responses by mid-May, presentation of semi-finalists to the Board by the June Board meeting, followed by on-site due diligence, and a final recommendation to the Board by August.

In addition to the consultant resources, additional in house staff are to be hired.

Commissioner Cohen inquired as to the impact on staff

recruitment of a 5% versus 10% hedge fund allocation. Mr. Coaker responded that 5% is sufficient to attract and recruit qualified staff. The difference between 5% and 10% is a strategic decision by the Board between starting a new program slowly and reducing down-side risk more quickly.

Commissioner Cohen noted that fees remain a concern. Mr. Coaker responded that fees can be negotiated, and fees have been moving downward, from the 2% and 20% structure, to approximately 1.7% and 17%. Long-term lock-up arrangements can help to reduce fees, as can managed accounts. Ms. Kautz reported there was downward pressure on fees.

Commissioner Cohen noted the need for better, more stream-lined communication between the Board and public. The Board will be addressing these issues in the future on an on-going basis. She acknowledged the concerns expressed in public comment and written communications from members. She spoke in support of the staff and consultant recommendation, noting that hedge funds have been used by investment managers over the years. She further noted that Board and staff have an obligation to protect the fund in a down-market, and that hedge funds are a vehicle to be considered by the Board to invest the fund in a diversified manner.

Commissioner Stansbury expressed his appreciation to the members of the public who have attended Board meetings and participated in the process. He noted that several Board members have been engaged in conversations with the public and have held informational meetings with members. He discussed the recent experience of public pension funds such as Stockton and Detroit, which have impacted benefits received by members of those funds. He further noted that the System needs to make changes based on lessons learned from the 2000-2002 tech bubble and the 2008 global financial crisis. Pension benefits are guaranteed by the Trust and the full-faith and credit of the City and County of San Francisco, regardless of the asset allocation decision. The required return cannot be achieved by bonds. Stocks are risky, SFERS rides them up but also down. Hedge funds have offered lower volatility and more consistent returns over the last 20 years. SFERS is top tier public pension fund in terms of returns, but not when compared to endowments, which out perform pension funds and are early adopters of various successful investment strategies. Transparency is an important concern to the Board, as are ESG concerns. He noted that the Board included three active City employees and two members relying on a City pension, and that the Board was very invested in the financial health of the plan.

Commissioner Meiberger left the meeting at 4:35 PM returned at 4:41 PM.

Commissioner Bridges noted that every asset class has some level of risk, including hedge funds, and the issue is the level of risk that the Board is prepared to accept. One risk is whether SFERS will be able to attract the best hedge fund managers?

Mr. Coaker noted that SFERS has many advantages in attracting top-tier hedge fund managers, including location, access, size, and history.

Commissioner Bridges expressed her preference for a fund of funds approach, rather than a direct investment program. Mr. Coaker said the RFP would invite both hedge fund consultants and fund of funds managers to respond.

President Makras discussed direct, fund of fund, and hybrid approaches to hedge fund investments. Mr. Huish noted that staff could include all three approaches in the RFP.

President Makras discussed transparency concerns and how best to address them moving forward.

Mr. Coaker noted that this would depend in part the on managers hired and contractually negotiated terms.

President Makras discussed how to protect against bad actors. Mr. Coaker noted the importance of staying close to a manager, understanding the manager, and having an effective due diligence and monitoring process in place.

President Makras spoke in support of the proposed consolidation of private equity asset classes, and recommended a meaningful consideration of commitment to Bay Area real estate.

President Makras called for public comment.

Claire Zvanski, RECCSF, urged the Board to provide specific direction to staff on the draft of the RFP for hedge fund consulting services and recommended that investment guidelines should be established first.

Sylvia Alvarez-Lynch, SFMTA employee, commented that the Board has not been provided a blueprint to develop the hedge fund RFP and guidelines.

Herb Weiner, retiree, noted concerns previously expressed in Civil Grand Jury reports and spoke in

opposition to investment in hedge funds.

John Furlen spoke in support of investment in hedge funds and noted the importance of de-risking the fund. He asked the Board if there is any recent public pension fund experience in attracting top managers, are there alternatives to “alternatives,” urged the consideration of emerging hedge fund managers, and questioned whether local politics will impact the System’s ability to attract top managers.

Jed Holtzman, Fossil Free SF, spoke in support of members of labor organizations and in opposition to hedge funds. He submitted a statement for the record:

“When giving managers guidance on investing the "Natural Resources" portion of the "Real Assets" allocation the Retirement Board will approve today, the Board should command that SFERS:

- Directly invest in companies whose businesses, technologies, and services drive resource optimization in the environmental markets: energy, water, waste, and sustainable agriculture.
- Directly invest in clean and renewable energy, including wind, solar, geothermal, wave, tidal, storage, and any other emerging renewable energy technologies.
- Directly invest in energy efficiency.
- Avoid any investment in companies whose primary business is in finding, extracting, transporting, or refining fossil fuels, or in providing services to support the fossil fuel industry in these practices.
- Avoid any investment in an electric utility whose reliance on coal is above the average of its home country.
- Avoid any investment in companies whose operations are in, or whose supply chain includes, any type of illegal clear-cutting or deforestation.
- Avoid any investment in mining companies whose operations have been associated with reported environmental, labor, or human rights abuses.
- Avoid any investment in companies working on development projects in countries who have known violations of ILO standards, primarily forced labor, in connection to development projects.”

Lois Scott, retiree, encouraged better communication

between the Board and System members.

Kay Walker, retiree, addressed the Board regarding communication and data provided to the public. She urged greater participation by members in the process.

David William, retiree, urged the development of specific guidelines and values in advance of manager selection or the issuance of an RFP.

Teri Dowling, Local 21, spoke on behalf of the staff recommendation.

Patrick Monette-Shaw urged the development of guidelines prior to making an asset allocation. He said the Board was ignoring the survey results of plan members, and that the Board has not conducted due diligence on FX Concepts.

Al Haggit, retiree, expressed his appreciation to the Board for their efforts.

Mr. Huish restated the motion.

Moved by Commissioner Stansbury, seconded by Commissioner Driscoll to accept the alternative staff asset allocation recommendation of:

Global Equity	40%
Private Equity	18%
Real Assets	17%
Absolute Return/Hedge Funds	5%
Fixed Income	20%

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

Noes: Meiberger

Commissioner Meiberger left the meeting at 5:50 PM

Break: 5:50 - 6:10 PM

021115-05 Discussion Item **Proxy Voting Report for Calendar Year 2014**

Documents provided to the Board prior to the current meeting: Staff memorandum and ISS Report

William J. Coaker, Jr., Chief Investment Officer, Robert L. Shaw, Managing Director for Public, and Fassil Michael, Institutional Shareholder Services (Proxy Services Consultant), presented an oral and written report on this item.

Mr. Shaw reported that annually the Investment Staff and Institutional Shareholder Services provides the Retirement Board with a report that summarizes the proxy votes made by the Retirement System during the prior calendar year. The report provide summary level information on how the Retirement System has voted its proxies across two broad proxy proposal classifications:

- Management – this includes the election of directors, appointment of auditors and Reorganizations/Mergers; and,
- Shareholder – this includes Corporate Governance, Social Proposals and Health/Environmental.

President Makras called for public comment.

Jed Holtzman, Fossil Free SF, discussed Level One proxy voting for fossil fuels and inquired how this was addressed in the report.

Jay Huish, Executive Director, noted that the Board had received updates on fossil fuel related proxy issues during the course of the year and a final report at the end of the proxy season in June 2014.

Action: This was a discussion only item.

021115-06 Discussion Item

Review and Approval of Proxy Voting Policies for Calendar Year 2015

Documents provided to the Board prior to the current meeting: Staff memorandum and ISS Report

William J. Coaker, Jr., Chief Investment Officer, Robert L. Shaw, Managing Director for Public, and Fassil Michael, Institutional Shareholder Services (Proxy Services Consultant), presented an oral and written report on this item.

Mr. Shaw reported that annually the Investment Staff and Institutional Shareholder Services reviews the approved Proxy Voting Guidelines and makes recommendations for modifications. For 2015, Staff and ISS recommended:

- Changes to seven existing proxy voting policies;
- Adoption of three new proxy policies; and,
- Approval of the Proxy Voting Guidelines for 2015.

President Makras called for public comment.

Jed Holtzman, Fossil Free SF, discussed Level One proxy

voting for fossil fuels, Greenhouse Gas Emission Goals and urged development of stronger policies, beyond Level One.

Claire Zvanski, RECCSF, urged the Board to adopt a stronger position on animal testing, which currently is considered on a case-by-case basis.

Moved by Commissioner Cohen, seconded by Commissioner Paskin-Jordan to Approve the Proxy Voting Policies for Calendar Year 2015

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

Absent: Meiberger

021115-07 Action Item

Approval to commit up to \$150 million to Blackstone Real Estate Partners VIII, L.P.

Documents provided to the Board prior to the current meeting: Staff and Consultant memoranda

William J. Coaker, Jr., Chief Investment Officer, Art Wang, Managing Director for Private Markets, Peter Lin, Security Analyst, and Craig Beach, Cambridge Associates (Alternative Investment Consultant), presented an oral and written report on this item.

Commissioner Bridges left the meeting from 6:23-6:25PM.

Mr. Wang reported that The Blackstone Group is raising its eighth flagship global real estate fund, Blackstone Real Estate Partners VIII, L.P., to target opportunistic real estate investments. The Fund targets to invest at least 60% of commitments in the United States and the remainder in Asia, Europe and Latin America. Blackstone Real Estate Advisors (“BREA”) seeks to acquire controlling interests in high-quality real estate by targeting distressed sellers or through sub- and non-performing loan transactions. To drive value creation, BREA will take an active asset management approach across its portfolio properties and will maximize value by building scale through assemblage of sector specific (property) portfolios or operating platforms. BREA believes that this will provide significant opportunities for the Fund to maximize operating synergies and exit opportunities. In addition, BREA intends to leverage its reputation as a “scale-player” to source large and highly complex transactions that typically have less competition from other opportunistic real estate

investors.

President Makras called for public comment.

There were no comments from the public.

Action: Moved by Commissioner Paskin-Jordan,
Seconded by Commissioner Cohen to commit up to
\$150 million to Blackstone Real Estate Partners VIII, L.P.

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

Absent: Meiberger

□ 021115-08

Chief Investment Officer Report

Documents provided to the Retirement Board prior to
the current meeting: CIO Report

William J. Coaker, Jr., presented an oral and written
report on this item.

Mr. Coaker reported that the fund was valued at \$19.85
billion as of January 31, 2015.

Mr. Coaker reported that:

- At its meeting on November 12, 2014, the Retirement Board approved in Closed Session an investment of up to \$50 million in OrbiMed Royalty Opportunities II, L.P. and the investment closed on January 30, 2015;
- At its meeting on December 10, 2014, the Retirement Board approved in Closed Session an investment of up to \$100 million in Kerogen Energy Fund II, L.P. and the investment closed on January 30, 2015; and,
- At its meeting of January 14, 2015, the Retirement Board approved in Closed Session an investment of up to \$50 million in Vivo Capital VIII and the investment closed on February 3, 2015.

President Makras called for public comment. There were
no comments from the public.

President Makras requested that reports of actions
taken in Closed Session include the approved and actual
closed commitments.

This was a discussion only item

DEFERRED COMPENSATION PLAN CALENDAR

- 021115-09 Discussion Item **SFDCP Manager Report**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Report

Caryn Bortnick, Deputy Director and Interim Deferred Compensation Manager, presented an oral and written report on this item.

Ms. Bortnick reported that Russell Investments, the SFDCP Target Date Consultant, has been put up for sale. Additional information will be presented to the next Deferred Compensation Committee meeting.

President Makras called for public comment.

There were no comments from the public.

This was a discussion only item.

ADMINISTRATION CALENDAR

- 021115-10 Action Item **Review and Approval of Basic COLA Effective July 1, 2015**

Documents provided to the Board prior to the current meeting: Staff memorandum

Janet Brazelton, Actuarial Services Coordinator, presented a written report on this item. President Makras accepted the report as submitted.

President Makras called for public comment. There were no comments from the public.

Action: Moved by Commissioner Cohen, Seconded by Commissioner Driscoll to Approve a Charter Section A8.526-2 cost of living (Basic COLA) increase of 2% payable effective July 1, 2015 for all qualified SFERS retiree who retired prior to July 2, 2015.

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

Absent: Meiberger

021115-11 Action Item

Determination and Approval of Credited Interest Rate for Fiscal Year 2015-2016

Documents provided to the Board prior to the current meeting: Staff memorandum

Janet Brazelton, Actuarial Services Coordinator, presented a written report on this item. President Makras accepted the report as presented. There were no questions from Board members.

President Makras called for public comment. There were no comments from the public.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Cohen to Accept the credited interest rate analysis provided and approve recommendation of no adjustment in the Plan's current credited interest rate of 4% effective July 1, 2015.

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

Absent: Meiberger

021115-12 Action Item

Review and Adoption of July 1, 2014 Actuarial Valuation Results

Documents provided to the Board prior to the current meeting: Cheiron (Consulting Actuary) presentation materials

Janet Brazelton, Actuarial Services Coordinator, Bill Hallmark and Anne Harper, Cheiron, presented an oral and written report on this item.

President Makras called for public comment. There were no comments from the public.

Action: Moved by Commissioner Paskin-Jordan,
Seconded by Commissioner Stansbury Adopt July 1,
2014 Actuarial Funding Results

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

Absent: Meiberger

021115-13 Action Item

Adoption of Employer Contribution Rate for Fiscal Year 2015-2016

Documents provided to the Board prior to the current meeting: Staff memorandum

Janet Brazelton, Actuarial Services Coordinator, presented an oral and written report on this item.

President Makras called for public comment.

There were no comments from the public.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Cohen to Approve the recommended employer contribution rate of 22.80% for Fiscal year 2015-2016.

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

Absent: Meiberger

021115-14 Discussion Item

Finance Committee Report

Documents provided to the Board prior to the current meeting: Finance Committee Report

Commissioner Driscoll presented an oral and written report on this item.

Commissioner Driscoll reported that the Finance Committee met on January 21, 2015. At the meeting, the Committee:

- Approved the Minutes of the January 22, 2014 Finance Committee meeting.
- Reviewed the SFERS department budget for Fiscal Year 2015 – 2016. In 2014 the Retirement System submitted a two-year budget proposal for Fiscal Years 2014-15 and 2015-16. The proposed two-year budget included an increase in manager research and risk management/optimization services as well as seven new Investment Division positions.
- Reviewed SFERS expenditures for the Fiscal Year ended June 30, 2014;
- Reviewed the Audited Financial Statements and Supplemental Schedules for Fiscal years ended June 30, 2014 and 2013. Macias Gini & O’Connell, the external audit firm, will present the audited financial statements to the full Board at its March 11, 2015 regular meeting.
- Reviewed recaptured commissions (receipts and expenditures) for Fiscal Year Ended June 30, 2014.

President Makras called for public comment.

There were no comments from the public.

Action: This was a discussion only item

021115-15 Discussion Item **Personnel Committee Report**

Documents provided to the Board prior to the current meeting: Personnel Committee Report

Commissioner Cohen presented an oral report and written on this item.

Commissioner Cohen reported that the Personnel Committee met on January 21, 2015.

At their meeting the Committee:

- Approved the Minutes of the March 19, 2014 Personnel Committee meeting.
- Reviewed the Board Performance Evaluation Process and content for the position of Actuarial Services Coordinator; and,
- Met in Closed Session for the performance evaluation of Executive Director Jay Huish.

President Makras called for public comment.

There were no comments from the public.

Action: This was a discussion only item

021115-16 Discussion Item

Update on Statements of Economic Interest (Form 700) Annual Filing Requirements and other Filing Requirements

Documents provided to the Board prior to the current meeting: Staff memoranda

Jay Huish, Executive Director, presented an oral and written report on this item.

Mr. Huish reported that under San Francisco's Campaign and Governmental Conduct Code and Ethics Commission regulations, individuals who file their Statement of Economic Interest (also known as "Form 700s") with the Ethics Commission must do so electronically. The Board was provided with the guide prepared by the Ethics Commission on how to file electronically.

Board members must also complete the Annual Sunshine and Bi-Annual Ethics Training Declarations; these are also filed directly with the Ethics Commission. Finally, Retirement Board members are required to submit the Annual Membership Disclosure Form and return that to Norm Nickens, Board Secretary.

All filings are due no later than April 1, 2015.

Action: This was a discussion only item.

□ 021115-17 Action Item

Approve prospectively expanding the interpretation of the term “shortage” in the SFERS plan to include *Gillmore* debt

Documents provided to the Board prior to the current meeting: Staff memoranda

Jay Huish, Executive Director, and Caryn Bortnick, Deputy Director, presented an oral and written report on this item. Mr. Huish explained the community property concepts of *Gillmore* rights and *Gillmore* debts. SFERS members with *Gillmore* debts have an option to repay the amount advanced, with interest, to avoid receiving an actuarially reduced retirement allowance. As an administrative practice, SFERS has only accepted after-tax payments, either after-tax payroll deductions or over the counter payments, to repay the *Gillmore* debt. But by expanding prospectively the definition of the term “shortage” in the plan to include *Gillmore* debts, members would be able to transfer funds from a SFDCP account under San Francisco Administrative Code Section 16.61-5, to pay a *Gillmore* debt.

President Makras called for public comment. There were no comments from the public.

Commissioner Stansbury expressed appreciation for efforts of staff in developing the proposal and inquired regarding the timeline for implementation. Mr. Huish reported the change would have immediate effect.

Commissioner Driscoll recommended that any communications to members regarding the change use plain language showing the pros and cons for members, including identifying any taxable events.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Bridges to Approve prospectively expanding the interpretation of the term “shortage” in the SFERS plan to include *Gillmore* debt

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

Absent: Meiberger

021115-18 Discussion Item **Executive Director's Report**

Documents provided to the Retirement Board prior to the current meeting: Executive Director's Report

Administrative Update:

Mr. Huish reported on:

- Sunshine Ordinance Task Force complaint and outcome, with no finding of any violation; and,
- Soft launch of the new SFERS web site (mysfers.org) with a calculator, access to duplicate 1099Rs, and direct deposit notices.

Attachments for Informational Purposes:

Educational Opportunities List
Blackout Period List
Forward Calendar

President Makras called for public comment. There were no comments from the public.

021115-19 Discussion Item **Retirement Board Member Reports and Comments**

Documents provided to the Board prior to the current meeting: Articles submitted by Commissioner Meiberger

There were no reports from Board members.

President Makras called for public comment. There were no comments from the public.

Action: This was a discussion only item

CLOSED SESSION

021115-20 Action Item **Closed Session – Recommendations and Possible Action on Purchases of Particular, Specific Pension Fund Investments under California Government Code Section 54956.81**

President Makras called for public comment.

There were no comments from the public.

The Board entered closed session at 7:15 PM.

Present in the closed session were:

Commissioners Bridges, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury.

Jay Huish, Executive Director; William J. Coaker, Chief Investment Officer; Art Wang, Managing Director for Private Markets; Cynthia Wong, Securities Analyst; Justin Lo, Securities Analyst; Katie Porter, William Lin and Tran Ly, Deputy City Attorneys; Norm Nickens, Board Secretary; and Anita Ng, Scott Martin, Jennifer Urdan, and Marshall Fisher, Cambridge Associates.

Commissioner Bridges left the meeting at 7:17 PM.

The Board returned to open session at 7:25 PM.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Driscoll to not disclose discussions from closed session.

President Makras called for public comment. There were no comments from the public.

Ayes: Bridges, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury.

Absent: Meiberger

Commissioner Driscoll requested staff to explore adding additional details to reporting out on Closed Session investments when they are reported as closed to the Board.

021115-21

Adjournment

Having no further business, the Board adjourned the meeting at 7:26 PM.

Respectfully submitted,
Jay Huish, Executive Director