



San Francisco Employees' Retirement System

City and County of San Francisco  
Employees' Retirement System

**RETIREMENT BOARD CALENDAR SHEET**  
**Retirement Board Meeting of May 8, 2019**

**To:** Retirement Board

**Through:** Jay Huish *JH*  
Executive Director

William J. Coaker, Jr. – CFA, MBA *WJC*  
Chief Investment Officer

**From:** Alo Martins – CFA *AM*  
Security Analyst

**Date:** May 08, 2019

**Re:** Chief Investment Officer's Report – Plan Value

Best available data as of April 30, 2019

	<u>Value</u> <sup>1</sup> (000)	<u>Weight</u> (%)	<u>MTD</u> (%)	<u>QTD</u> (%)	<u>YTD</u> (%)	<u>FYTD</u> (%)
<b>SFERS TOTAL FUND</b>	<b>25,440,395</b>	<b>100.0</b>	<b>1.18</b>	<b>1.18</b>	<b>7.32</b>	<b>5.73</b>
Public Equity	8,862,463	34.8	2.98	2.98	18.13	5.11
Private Equity	5,107,187	20.1	1.01	1.01	1.33	12.33
<b>GROWTH ASSETS</b>	<b>13,969,650</b>	<b>54.9</b>				
Real Assets	4,108,034	16.1	-0.70	-0.70	0.67	6.45
Absolute Return <sup>2</sup>	3,262,698	12.8	0.00	0.00	3.62	0.81
<b>DIVERSIFYING ASSETS</b>	<b>7,370,732</b>	<b>29.0</b>				
Private Credit	638,629	2.5	-0.61	-0.61	0.00	5.61
Fixed Income	2,793,566	11.0	0.23	0.23	3.02	4.52
<b>INCOME GENERATING ASSETS</b>	<b>3,432,195</b>	<b>13.5</b>				
Cash ex Overlay	600,596	2.4	1.12	1.12	1.80	2.72
Cash Overlay <sup>3</sup>	67,221	0.3	---	---	---	---

<sup>1</sup> Valuations are preliminary and are reported gross of fees. The reported returns 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 vehicles, performance may include estimates or be proxied using benchmark performance.

<sup>2</sup> Absolute Return performance for most recent month not available and assumed to be 0.0%.

<sup>3</sup> Cash Overlay performance is reflected in Total Fund Performance.

# SFERS - Asset Allocation Summary Report | As of April 30, 2019

	3/31/2019	Cash In	Cash Out	MV Δ <sup>1</sup>	4/30/2019	Current	LT Target	Range	6/30/2019 Projection			Unfunded
		----- (\$ Mn) -----				---- Weight (%) ----			Expected Δ <sup>2</sup>	End \$	End %	(\$ Mn)
<b>GROWTH ASSETS</b>	<b>13,634.6</b>	<b>834.8</b>	<b>807.2</b>	<b>307.5</b>	<b>13,969.7</b>	<b>54.9</b>	<b>49</b>	<b>40 - 60</b>	<b>-13.2</b>	<b>13,956.4</b>	<b>55.3</b>	<b>3,367.1</b>
Public Equity	8,621.0	769.6	785.1	257.0	8,862.5	34.8	31	25 - 50	-50.0	8,812.5	34.9	
<i>United States</i>	4,301.9	494.5	592.1	144.3	4,348.5	17.1						
<i>Developed Ex-US</i>	1,618.8	25.1	192.9	38.4	1,489.4	5.9						
<i>Emerging</i>	1,567.4	0.0	0.1	21.9	1,589.2	6.2						
<i>Global</i>	1,133.0	250.0	0.0	52.4	1,435.4	5.6						
Private Equity	5,013.6	65.2	22.1	50.5	5,107.2	20.1	18	13 - 23	36.8	5,144.0	20.4	3,367.1 <sup>3</sup>
<b>DIVERSIFYING ASSETS</b>	<b>7,308.1</b>	<b>118.5</b>	<b>27.0</b>	<b>-28.8</b>	<b>7,370.7</b>	<b>29.0</b>	<b>32</b>	<b>19 - 37</b>	<b>152.0</b>	<b>7,522.7</b>	<b>29.8</b>	<b>3,169.7</b>
Real Assets	4,098.0	65.9	27.0	-28.8	4,108.0	16.1	17	12 - 22	48.8	4,156.8	16.5	2,797.7 <sup>3</sup>
Absolute Return	3,210.1	52.6	0.0	0.0	3,262.7	12.8	15	5 - 17	103.2	3,365.9	13.3	372.0
<b>INCOME ASSETS</b>	<b>2,052.6</b>	<b>34.2</b>	<b>144.9</b>	<b>2.3</b>	<b>1,944.2</b>	<b>7.6</b>	<b>13</b>	<b>5 - 25</b>	<b>17.7</b>	<b>1,961.8</b>	<b>7.8</b>	<b>985.5</b>
Liquid Credit	1,424.6	0.0	125.2	6.1	1,305.5	5.1	3	0 - 10	0.0	1,305.5	5.2	
Private Credit	628.0	34.2	19.7	-3.8	638.6	2.5	10	3 - 15	17.7	656.3	2.6	985.5 <sup>3</sup>
<b>CAPITAL PRESERVATION</b>	<b>2,243.0</b>	<b>1,075.1</b>	<b>1,179.5</b>	<b>17.2</b>	<b>2,155.8</b>	<b>8.5</b>	<b>6</b>	<b>3 - 15</b>	<b>-356.4</b>	<b>1,799.4</b>	<b>7.1</b>	<b>0.0</b>
Treasuries	1,487.4	0.0	0.0	0.6	1,488.0	5.8	6	3 - 10	0.0	1,488.0	5.9	
Cash	755.5	1,075.1	1,179.5	16.7	667.8	2.6	0	0 - 5	-356.4	311.4	1.2	
<i>Investment Cash</i>	596.4	979.1	1,083.5	7.6	499.7	2.0			-356.4	143.3	0.6	
<i>Dedicated Cash</i>	100.7	96.0	96.0	0.2	100.9	0.4			0.0	100.9	0.4	
<i>Cash Overlay</i>	58.4	0.0	0.0	8.8	67.2	0.3			0.0	67.2	0.3	
<b>TOTAL PORTFOLIO</b>	<b>25,238.2</b>	<b>2,062.6</b>	<b>2,158.6</b>	<b>298.2</b>	<b>25,440.4</b>	<b>100.0</b>	<b>100</b>		<b>-200.0</b>	<b>25,240.4</b>		<b>7,522.2</b>

Notes: Target allocations and ranges were approved by the Board in September 2017 and October 2017, respectively. Staff expects to be in compliance with the approved ranges by July 2019. Beginning and Ending Asset Balances are based on 'Entry Dates'.

<sup>1</sup> For non-daily priced vehicles, performance may include estimates or be proxied using benchmark performance.

<sup>2</sup> Expected Changes include Staff's planned rebalancing activity (for Liquid and Semi-Liquid asset classes) and capital call and distribution projections provided by Torrey Cove (for Illiquid asset classes).

<sup>3</sup> Unfunded commitment estimates are provided by Torrey Cove as of the current month end and represent net cash flows (capital calls- distributions).

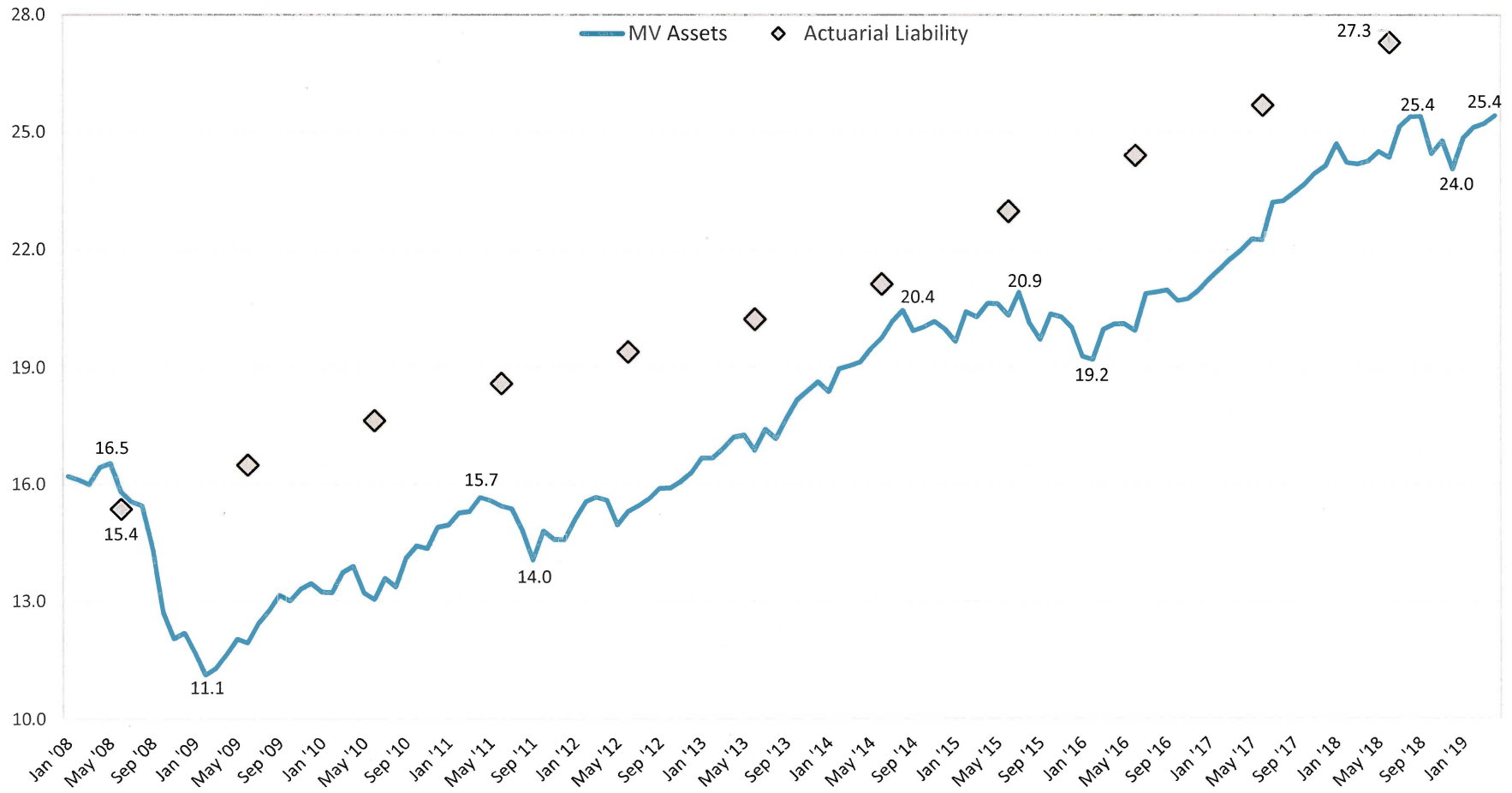
**San Francisco City and County Employees' Retirement System**  
**Cash Activities and Projections**  
**As of April 30, 2019**

<b>Investment Cash Account (In \$ Million)</b>	
<b>Beginning Balance as of April 1, 2019</b>	<b>596.4</b>
Public Equity Net Flows	15.5
Private Equity Net Flows	-43.1
Real Assets Net Flows	-38.9
Absolute Return Net Flows	-52.6
Liquid Credit Net Flows	125.2
Private Credit Net Flows	-14.5
Treasuries Net Flows	0.0
Funds to Dedicated Cash	-96.0
Funds to Cash Overlay	0.0
Misc. Cash Receipts	7.6
<b>Ending Balance as of April 30, 2019</b>	<b>499.7</b>
<b>2 Month Forward Projections</b>	
Public Equity Estimated Flows	50.0
Private Equity Estimated Flows	-36.8
Real Assets Estimated Flows	-48.8
Absolute Return Estimated Flows	-103.2
Liquid Credit Estimated Flows	0.0
Private Credit Estimated Flows	-17.7
Treasuries Estimated Flows	0.0
Transfer to Dedicated Cash	-200.0
<b>Projected Ending Balance as of June 30, 2019</b>	<b>143.3</b>

<b>Dedicated Cash Account (In \$ Million)</b>	
<b>Beginning Balance as of April 1, 2019</b>	<b>100.7</b>
Benefit Payment for April 2019	-96.0
Received from Investment Cash	96.0
Misc. Cash Receipts	0.2
<b>Ending Balance as of April 30, 2019</b>	<b>100.9</b>
<b>2 Month Forward Projections</b>	
Benefit Payment Reserve for May 2019 and June 2019	-200.0
Received from Investment Cash	200.0
<b>Projected Ending Balance as of June 30, 2019</b>	<b>100.9</b>

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

# SFERS - Monthly Assets



Notes: Data from January 31, 2008 through March 31, 2019. Total Plan market values through December 2018 are provided by NEPC. 2019 data is provided by BNY Mellon and should be considered preliminary.





**San Francisco City and County  
Employees' Retirement System  
Chief Investment Officer**

**William J. Coaker Jr., CFA, MBA**

**Memorandum**

**DATE:** May 8, 2019  
**TO:** Members of the Retirement Board  
**THROUGH:** Jay Huish *JH*  
Executive Director  
**FROM:** William J. Coaker Jr. – CFA, CFP, MBA *WJC*  
Chief Investment Officer  
**SUBJECT:** CIO Report Memorandum

**1 – Returns Summary**

In April SFERS investments returned 1.18%, led by Public Equity and Private Equity which returned 2.98% and 1.01%, respectively.

On a calendar year basis, SFERS investments have gained 7.32% in the first four months of 2019. Our Public Equity portfolio has surged 18.13%, led by our U.S. equity portfolio which has returned 20.22%. The S&P 500 has posted its highest return for the first four months of a calendar year since 1987, thanks to an easing of trade concerns with China that negatively impacted returns last year and due to continued strong growth in the number of new jobs created.

On a fiscal year basis, with nine months in the books, SFERS investments have gained 5.73%. Private Equity has posted a return of 12.33% led by a strong IPO market for prominent technology companies. Real Assets, Private Credit, and Public Equity have recorded mid-single digit returns ranging from 5.11% to 6.45%.

**2 – Portfolio Management Group Meetings**

The "Portfolio Management Group (PMG) has been meeting a minimum of twice monthly since October 2018. The PMG reviewed and approved each investment recommendation presented to the Retirement Board this month.

### 3 – Personnel

We are especially delighted to announce the promotion of three members of the SFERS investment team.

**Mr. Christopher Chow** has been promoted from Senior Portfolio Manager to Director of Real Assets, responsible for the management of SFERS \$4.1 billion real estate and natural resources portfolio together with Mr. Ed Comerford and under the direction of Ms. Tanya Kemp, Managing Director of Private Markets.

Mr. Chow has a total of 12 years investment experience. He joined SFERS just over three years ago as Senior Portfolio Manager of Real Assets. For the three years ended December 31, 2018, SFERS Real Assets portfolio returned 14.07% annualized while the median large pension plan's real assets program returned 5.31%, an outperformance of 8.76% annualized.

Prior to SFERS, Mr. Chow served two stints at Albourne Partners totaling over 8 years where he was stationed in both the U.S. and Hong Kong. At Albourne Mr. Chow led the origination and evaluation of fund investments and co-investments of private markets and real assets for institutional investors. Mr. Chow earned an MBA from the University of California, Berkeley, Haas School of Business, and a Bachelor of Arts in Business Economics with a minor in Accounting from the University of California at Los Angeles.

**Mr. Edward Comerford** has been promoted from Senior Portfolio Manager to Director of Real Assets, responsible for the management of SFERS \$4.1 billion real estate and natural resources portfolio together with Mr. Christopher Chow and under the direction of Ms. Tanya Kemp, Managing Director of Private Markets.

Mr. Comerford has a total of 12 years investment experience. He joined SFERS four years ago as Senior Portfolio Manager of Real Assets. For the three years ended December 31, 2018, SFERS Real Assets portfolio returned 14.07% annualized while the median large pension plan's real assets program returned 5.31%, an outperformance of 8.76% annualized.

Prior to SFERS, Mr. Comerford served at Brownson, Rehmus and Foxworth for two years and Hall Capital Partners, one of the most recognized OCIO's for endowments and foundations in the country, for six years. Mr. Comerford earned an MBA from the Kellogg School of Management at Northwestern University, a Bachelor of Science from Santa Clara University, and he is a Chartered Financial Analyst Charterholder.

**Ms. Han Pham** has been promoted from Senior Portfolio Manager to Director of Public Equity responsible for the management of SFERS \$9.1 billion public equity portfolio and under the direction of Managing Director Kurt Braitberg.

Ms. Pham has served at SFERS for five years and has a total of 26 years of investment experience. Her prior experience includes working as an Assistant Economist for the Federal Reserve Bank of New York, equity research for Thomas Weisel Partners and Merrill Lynch, Senior Investment Officer for the California HealthCare Foundation, and Principal/Consultant at Makena Capital Management, one of the most recognized OCIO's in the country to endowments and foundations. Ms. Han earned an MBA in Finance from the Kellogg Graduate School of Business at Northwestern University and a Bachelor of Arts degree in Economics from Wellesley College.

We have recently completed the Security Analysts recruitments for Real Assets and Asset Allocation, Risk Management and Innovative Solutions, and for a Private Equity Intern. Each of the three candidates will begin working at SFERS later this month. The announcements will be included in next month's CIO report.

#### **4 - Eisler Capital Fund LP**

At its meeting on April 10, 2019 the Retirement Board approved in closed session an investment of \$200 million in Eisler Capital Fund LP. by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

Ayes: Commissioners Bridges, Chu, Driscoll, Heldfond, Safai  
Nays: None  
Absent: Commissioners Casciato, Stansbury

SFERS's investment of \$125 million in Eisler Capital Fund LP. closed on May 1, 2019. This investment is classified as a Macro investment within SFERS' absolute return portfolio and is SFERS' first investment with Eisler via share class B of SFARI II.

More information about the firm is available at: <https://eislercapital.com/>

#### **5 - Ellie Mae Parent, LP**

At its meeting on April 10, 2019, the Retirement Board approved in closed session an investment of up to \$25 million in Ellie Mae Parent, LP. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Chu, Driscoll, Heldfond, Safai  
Absent: Commissioners Casciato, Stansbury

SFERS' investment of \$20 million in Ellie Mae Parent, LP closed on April 17, 2019.

This investment is classified as a Co-investment within SFERS' private equity portfolio and is SFERS' first co-investment alongside Thoma Bravo, LLC.

More information about Thoma Bravo is available on <https://www.thomabravo.com/>.

#### **6 - The Energy & Minerals Group Fund V, LP**

At its meeting on March 13, 2019, the Retirement Board approved in closed session an investment of up to \$100 million in The Energy & Minerals Group Fund V, LP. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury  
Absent: Commissioners Paskin-Jordan, Safai

SFERS' commitment of \$100 million closed on April 17, 2019. The investment is classified as a natural resources investment within SFERS' Real Assets portfolio and is SFERS' third investment with The Energy & Minerals Group.

More information about the firm is available at [emgtx.com](http://emgtx.com).

## **7 - EMGVSC, LP**

At its meeting on March 13, 2019, the Retirement Board approved in closed session an investment of up to \$100 million in EMGVSC, LP. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Stansbury

Absent: Commissioners Paskin-Jordan, Safai

SFERS' commitment of \$100 million closed on April 17, 2019. The investment is classified as a natural resources investment within SFERS' Real Assets portfolio and is SFERS' fourth investment with The Energy & Minerals Group.

More information about the firm is available at [emgtx.com](http://emgtx.com).

## **8 - OrbiMed Royalty & Credit Opportunities III, LP**

At its meeting on March 13, 2019, the Retirement Board approved in closed session an investment of up to \$75 million in OrbiMed Royalty & Credit Opportunities III, LP. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Paskin-Jordan, Safai, Stansbury

Absent: None

SFERS' investment of \$75 million in OrbiMed Royalty & Credit Opportunities III, LP closed on April 26, 2019. This investment will be classified as a specialty finance investment within the SFERS' Private Credit Portfolio.

More information about OrbiMed is available at [www.orbimed.com](http://www.orbimed.com).

## **9 - Primary Wave Music IP Fund 2, LP**

At its meeting on April 10, 2019, the Retirement Board approved in closed session an investment of up to \$50 million in Primary Wave Music IP Fund 2, LP. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Chu, Driscoll, Heldfond, Safai

Absent: Commissioners Casciato, Stansbury

SFERS' commitment of \$40 million closed on April 30, 2019. SFERS' investment sits within SFERS' Real Assets portfolio and is SFERS' first investment with Primary Wave.

More information about the firm is available at <https://primarywave.com/>.

## **10 - SSG Capital Partners V, L.P. and SSG Capital Partners V Sidecar, L.P.**

At its meeting on February 13, 2019, the Retirement Board approved in closed session an investment of up to \$75 million in SSG Capital Partners V, L.P. and \$25 million in SSG Capital Partners V Sidecar, L.P. The investments were approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Paskin-Jordan, Safai, Stansbury

SFERS' investments of \$75 million in SSG Capital Partners V, L.P. and \$25 million in SSG Capital Partners V Sidecar, L.P. closed on April 25, 2019. These investments will be classified as distressed/special situations investments within the SFERS' Private Credit Portfolio.

More information about SSG Capital Management Limited is available at [www.ssgasia.com](http://www.ssgasia.com).

### **11 - Taurus Mine Finance Fund No. 2 L.P.**

At its meeting on February 13, 2019, the Retirement Board approved in closed session an investment of up to \$125 million in Taurus Mine Finance Fund No. 2 L.P. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Paskin-Jordan, Safai, Stansbury

SFERS' commitment of \$100 million closed on April 18, 2019. SFERS' investment is classified as a natural resources investment within SFERS' Real Assets portfolio and is SFERS' second investment with Taurus Funds Management.

More information about the firm is available at <http://www.taurusfunds.com.au>.

### **12 - WMQS Global Equity Active Extension Offshore Fund**

At its meeting on February 13, 2019, the Retirement Board approved in closed session an investment of up to \$500 million in the WMQS Global Equity Active Extension Offshore Fund. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Paskin-Jordan, Stansbury

Absent: Commissioner Safai

SFERS' commitment of \$250 million closed on April 24, 2019. SFERS expects to commit another \$250 million in May 2019. The investment is classified as global public equity active extension within SFERS' public equity portfolio and is SFERS' first investment with WMQS.

More information about WMQS is available on <https://www.worldquant.com/>.

### **13- Absolute Return Portfolio**

Since inception, the Absolute Return program has returned **4.79%** annualized (net of all fees) outperforming the Hedge Fund Research Fund of Funds Composite Index return of **3.57%** and underperforming the 90-Day US T-Bills plus 5% index return of **6.41%**. The MSCI ACWI Net index returned **10.20%** and the Barclays U.S. Aggregate Bond Index returned **1.36%** for the same time period. The chart below includes additional performance data through the end of March 2019:



	<b>MTD</b>	<b>YTD</b>	<b>FYTD</b>	<b>ITD ANN</b>
San Francisco Absolute Return (Net)	0.41%	3.62%	0.81%	4.79%
HFRI FOF	0.94%	4.63%	-0.30%	3.57%
90 Day US T-bill + 5%	0.61%	1.83%	5.45%	6.41%
MSCI ACWI Net	1.26%	12.18%	2.06%	10.20%
S&P 500	1.94%	13.65%	5.86%	13.57%
Barclays US Aggregate Bond Index	1.92%	2.94%	4.65%	1.36%

#### **14 – Review of the Investment Committee meeting on April 17, 2019**

At the Investment Committee meeting on April 17, 2019 the PMG presented Staff's long-term plan for managing the assets of the SFERS Trust.

SFERS has grown from a \$5 billion pension plan in 1992, to \$10 billion in 2000, grew to \$17 billion in 2007 then fell to \$11 billion in 2009 due to the Global Financial Crisis, and has grown rapidly since then, to \$20 billion in 2014 and \$25 billion in 2018.

Going forward, SFERS liabilities are projected to grow from \$28 billion today to \$40 billion in 2028 and \$60 billion in 2038. Additionally, our net cash outflows for benefit payments are projected to rise from about \$500 million annually today to \$1.2 billion per year in 2028 and to \$2.0 billion annually in 2038.

SFERS liabilities will slightly more than double over the next 20 years, and our net benefit payments are expected to rise four-fold over the same time. In other words, SFERS will both grow to become a very large plan and we will become a more mature plan.

Our investment strategy has placed extra emphasis on private investments as well as investing in unique, niche, and specialist strategies in private equity, real estate, natural resources, private credit, and public equity. Such strategies are more capacity constrained, which means they will become more difficult to invest in as a proportion of our assets as SFERS grows.

To meet the challenges ahead, the PMG recommended to the Investment Committee that SFERS undertake the following:



1 – Develop an Investment Operations group dedicated to the operations, administration, compliance, and reporting of investment activities;

2 – Develop a more comprehensive career track for investment staff;

3 – Increase co-investments from approximately \$1 billion today (less than 5% of Trust Assets) to \$4-8 billion in 10 years (10-20% of Trust Assets);

4 – Increase the number of investment and operations staff from a budget of 26 today to 33 in the next three years and to 40 in 2025, or six years from now.

The PMG believes that SFERS has arrived at a horizon where our assets have growth considerably and in recent years we added Absolute Return, Natural Resources, Private Credit, ESG, and Asset Allocation and Risk Management to our investment strategy. We believe we need to change our approach, both to manage our existing initiatives and to manage the challenges that we will experience as we grow.

Options available to change our approach include increasing our allocation to indexing, increasing our allocation to large platforms, or retaining our emphasis on unique, niche, and specialist strategies while increasing our allocation to co-investments.

Increasing our investment in indexing can be implemented quickly and it is very cheap, but we also think indexing would significantly reduce our returns. Mr. Allan Martin noted at the March 2018 Board meeting that SFERS had outperformed a global 70/30 index strategy by \$5 billion for the five years from 2014 to 2018. We also think indexing would increase the volatility of the Trust's returns and increase our exposure to a large loss.

Increasing our investment with large platform organizations is also relatively efficient and easy, but it is easily the most expensive of three options highlighted here and we think it would lower our returns compared to our recommended approach.

The PMG's recommended approach is to continue to emphasize unique, niche, and specialist strategies, while meaningfully increasing our co-investments with our existing General Partners and extracting more value from our existing relationships. Our recommendation is also to increase the staff resources – from 26 today including operations to 33 in the next few years and to 40 in 2025 - needed to manage our existing initiatives, the increase in co-investments we anticipate in the future, and to meet the challenges as we grow to become a very large and much more mature pension plan. The costs of our recommended approach are much lower than increasing our allocation to large platforms. We also believe our recommended approach results in the highest future return for the SFERS Trust.