



**Wednesday, July 10, 2019**

1145 Market Street, 6<sup>th</sup> Floor  
San Francisco, CA 94103

1:00 p.m.

Please take notice that the Retirement Board will begin its meeting with a closed session item. The Board will take public comment before going into closed session, limited to the topic of the closed session item. The Board will return to open session and begin the public portion of the meeting with General Public Comment, not earlier than 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.*

#### RETIREMENT BOARD MEMBERS

##### ***President***

Joseph Driscoll

##### ***Vice President***

Leona Bridges

##### ***Commissioners***

Al Casciato

Carmen Chu

Scott Heldfond

Ahsha Safai

Brian Stansbury

##### ***Executive Director***

Jay Huish

### DISABILITY ACCESS

The San Francisco Employees' Retirement System is wheelchair accessible. Accessible seating is available for persons with disabilities. To obtain a disability-related modification or accommodation, including large print agendas, American Sign Language interpreters, FM sound amplification system and auxiliary aids or services, please contact Darlene Armanino at (415) 487-7012 at least two (2) business days before the meeting.

There is accessible parking in the vicinity of 1145 Market Street at Civic Center Plaza. Accessible **MUNI** lines are available at the corner of Market Street and 8<sup>th</sup> Street. The closest accessible **MUNI /BART** station is Civic Center Station.

Materials accompanying the agenda are available for public inspection and copying at SFERS, 1145 Market Street, 7th Floor. For additional information, please contact Darlene Armanino, Executive Assistant, at (415) 487-7012.

In order to assist the City's efforts to accommodate persons with severe allergies, environmental illness, multiple chemical sensitivity or related disabilities, attendees at public meetings are reminded that other attendees may be sensitive to various chemical based products. Please help the City to accommodate these individuals.

**The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.**

### **Know Your Rights Under the Sunshine Ordinance**

#### **(Chapter 67 of the San Francisco Administrative Code)**

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. FOR MORE INFORMATION ON YOUR RIGHTS UNDER THE SUNSHINE ORDINANCE OR TO REPORT A VIOLATION OF THE ORDINANCE, CONTACT THE SUNSHINE ORDINANCE TASK FORCE.

Sunshine Ordinance Task Force  
City Hall  
1 Dr Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94103-4689  
(415) 554-7724  
by fax at (415) 554-7854  
or by email at [sotf@sfgov.org](mailto:sotf@sfgov.org)

**Citizens interested in obtaining a free copy of the Sunshine Ordinance can request a copy from Mr. Darby or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, <http://www.sfgov.org/sunshine/>**

Any materials distributed to the Retirement Board (or committee) within 72 hours of the meeting or after distribution of the agenda packet to Board (or committee) members are available for public inspection at SFERS, 1145 Market Street, 7<sup>th</sup> Floor, during regular office hours.

#### **Lobbyist Registration and Reporting Requirements:**

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance (San Francisco Campaign and Governmental Conduct Code sections 2.100 – 2.160) to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at 25 Van Ness Avenue, Suite 220, San Francisco, CA 94103, telephone (415) 252-3100, fax (415) 252-3112 and web site: [www.sfgov.org/ethics](http://www.sfgov.org/ethics)

Meetings are recorded by SFGovTV, the Government Channel 26. For DVD copies and rebroadcast scheduling call (415) 554-4188. Video on demand is available at: <http://sfgovtv.org>

**OPENING CALENDAR**

**1. Pledge of Allegiance**

**2. Roll Call**

Commissioner Leona Bridges	Absent
Commissioner Al Casciato	1:30 PM
Commissioner Carmen Chu	Absent
Commissioner Driscoll	1:30 PM
Commissioner Heldfond	1:30 PM
Commissioner Ahsha Safaí	1:30 PM
President Brian Stansbury	1:30 PM

**3. 071019-03                      Action Item                      CLOSED SESSION**

President Driscoll called for public comment on the Board going into closed session.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to go into Closed Session for Possible Recommendation and/or Action on Sale and Purchase of Particular, Specific Pension Fund Investment under California Government Code Section 54956.81 (two investment recommendations).

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safaí, Stansbury

Absent: Commissioners Bridges, Chu

The Board entered closed session at 1:30 PM

The following individuals were present for the closed session: Commissioners Casciato, Driscoll, Heldfond, Safaí, Stansbury; Jay Huish, Executive Director; Caryn Bortnick, Deputy Executive Director; William J. Coaker, Chief Investment Officer; Kurt Braitberg, Managing Director, Public Markets; David Francl, Managing Director, Absolute Returns; Tanya Kemp, Managing Director for Private Markets; Chris Chow, Director for Natural Resources; Ed Comerford, Director for Real Assets; Andrew Collins, Director of ESG Investing; Han Pham, Director Public Equity; Victoria Owens, Justin Lo, Bo Williamson, Eunice McHugh, Alo Martins, Senior Portfolio Managers; Dennis Esselsagoe, Luke Angus, Tiffany Dong, Mark Coleman, Kien Trinh, Security Analysts; Jiada Tu, Investment Fellow; Karen Perez, Investment Management Assistant; Darlene Armanino, Board Secretary; Robert Bryan, Molly Nordale, Deputy City Attorneys; Kelly Jensen, Anita Ng, Todd Trabocco, Connor Kozin, Cambridge Associates; Allan Martin, NEPC.

Board ended Closed Session at 1:50 PM

Meeting recessed from 1:50 PM to 2:10 PM

The Board returned to open session at 2:10 PM

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, not to disclose discussions held in closed session under San Francisco Administrative Code Section 67.12(a).

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safai, Stansbury

Absent: Commissioners Bridges, Chu

**4. 071019-04            General Public Comment - Not earlier than 2:00 PM**

President Driscoll called for General Public Comment.

John Stenson, Member, spoke about over diversification and recommended a 60/40 balance performance of stocks, bonds and real estate.

Mike Hebel, SFPOA, stated that he was pleased to acknowledge the increase in the trust fund numbers and congratulated staff on their extraordinary efforts. Mr. Hebel also recognized that Institutional Investors has named the San Francisco Employees Retirement System the Public Fund of the Year.

There were no further comments and General Public Comment was closed.

**PRESIDENT DRISCOLL CALLED ITEM #27 GOOD OF THE ORDER**

**27. 071019-27            Discussion Item    Retirement Board Member Good of the Order**

Retirement Board members may request that any matter be calendared at a future meeting. All such requests shall be calendared in a reasonable time. (Board Operations Policy ¶24.) The Board will not discuss any items requested to be calendared until a subsequent meeting when the matter is included on the agenda with the required public notice.

Commissioner Casciato proposed that staff prepare a commendation letter, signed by the Commissioners, to be presented to all employees of the Retirement System in recognition of the work that they are doing to make the Retirement System successful for members and beneficiaries, as well as for the City. He suggested that the commendation letter be distributed to all labor organizations to acknowledge the importance of the accomplishments of the Retirement System as it relates to their members and beneficiaries. Commissioners Driscoll, Heldfond, Safai and Stansbury expressed support for Commissioner Casciato's request.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**5. 071019-05                      Action Item                      Approval of the Minutes of the June 12, 2019 Meeting**

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the June 12, 2019 Retirement Board Meeting

President Driscoll called for public comment.

Claire Zvanski, RECCSF, suggested that Commissioner Carmen Chu be designated in the Minutes as “excused” rather than “absent.” Jay Huish, Executive Director, noted that Commissioner Chu did not ask to be excused and the Minutes will remain as written.

There were no further comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Stansbury, to approve Minutes of the June 12, 2019 Retirement Board Meeting.

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

**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.*

<b>6. 071019-06</b>	<b>Action Item</b>	<b>Consent Calendar</b>
<b>071019-06b</b>	<b>Action Item</b>	<b>Voluntary Retirement Board List No. 1-19</b>
<b>071019-06c</b>	<b>Action Item</b>	<b>Decisions of Hearing Officers</b>
<b>Terry Fitzsimmons Effective Date: 5/1/17</b>	<b>H3 Paramedic/Firefighter Fire</b>	<b>Industrial Disability Retirement Denied</b>

<b>Denise D. Mason</b> Effective Date: 4/1/18	<b>9132 Transit Fare Inspector</b> MTA	<b>Ordinary Disability Retirement</b> Granted
<b>Francis M. Mellera III</b> Effective Date: 8/1/18	<b>9172 Manager II, MTA</b> MTA	<b>Ordinary Disability Retirement</b> Granted
<b>Terry W. Smerdel</b> (Deceased – 9/10/17) Effective Date: 9/11/17	<b>H40 Battalion Chief, Fire Suppression</b> Fire	<b>Death As A Result of Duty</b> Granted
<b>Daniel W. Tauber</b> Effective Date: 4/1/17	<b>H2 Firefighter</b> Fire	<b>Industrial Disability Retirement</b> Granted
<b>071019-06d</b>	<b>Action Item</b>	<b>Petition for Rehearing</b>
<b>Terry Fitzsimmons</b> Effective Date: 5/1/17	<b>H3 Paramedic/Firefighter</b> Fire	<b>Industrial Disability Retirement</b> Denied

**071019-06e**                      **Action Item**                      **Travel Requests**

Request travel approval for Commissioner Leona Bridges to attend the CII/CFA Institute’s Premier Pension Fund Trustee Training Course for California Public Fund Trustees, October 4, 2019, UC-Berkeley School of Law Campus.

**071019-06f**                      **Discussion Item**                      **Retirement Board Member**  
**Reports and Comments**

Report by Commissioner Leona Bridges who attended NASP Pension & Financial Services Conference, June 24-26, 2019, Baltimore, Maryland.

**Action:** This is a discussion only item.

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Hearing Officer Decisions, Travel Request, Board Report.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Heldfond, Seconded by Commissioner Stansbury, to approve Consent Calendar.

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

### INVESTMENT CALENDAR

**7. 071019-07                      Action Item                      Recommendation to hire J.P. Morgan Private Equity  
Distribution Management to manage distributed securities**

Documents provided to the Retirement Board prior to the current meeting: Staff Memoranda

William Coaker, Chief Investment Officer, and Kurt Braitberg, Managing Director, Public Markets, presented Staff's recommendation.

In January 2019, Staff distributed a Request for Information (RFI) to six distribution management firms. The six firms receiving the RFI included firms previously known to Staff, those recommended to SFERS by their consultants, and those recommended by peer institutions. Four of the firms provide discretionary distribution management services while the other two provide execution-only (brokerage) services. After reviewing the responses from the six firm, given SFERS' focus on external managers, Staff eliminated the two brokerage firms from further consideration.

Staff conducted on-site visits at each of the four remaining firms and spoke to dozens of references.

Due diligence was conducted by the following Staff members:

- Kurt Braitberg, Managing Director – Public Markets
- Tanya Kemp, Managing Director – Private Markets
- Anna Langs, Managing Director – Asset Allocation, Risk Management, and Innovative Solutions
- Han Pham, Director – Public Equity
- Mark Coleman, Analyst – Public Equity

Staff concluded that the historical trading results of the four firms are quite similar. Holding periods generally ranged from 35-65 days while value added typically ranged from 101-103%. These conclusions were validated through numerous discussions with references whose individual experiences were all within these ranges.

Staff recommended engaging J.P. Morgan Asset Management (JPMAM) to manage and maximize the overall cash proceeds of securities distributed by SFERS' private equity funds. Staff reported that JPMAM's Private Equity Distribution Management (PEDM) team is the sole distribution manager for JPMAM's \$28 billion Private Equity Group (PEG) and manages distribution management programs for 40 external clients. The PEDM team has been together for over 12 years and leverages the vast resources of JPMAM including private and public equity managers and analysts as well as state-of-

the-art trading capabilities around the globe.

The Board reviewed and discussed the material and engaged in a question and answer session.

President Driscoll thanked Staff for finding another opportunity to increase value for the system.

President Driscoll called for public comment.

John Stenson, Member, spoke about passive investments outperforming managed investments.

There were no further comments and public comment was closed.

**Action:** Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, to move that the Retirement Board of the San Francisco City and County Employees' Retirement System hire J.P. Morgan's Private Equity Distribution Management group to manage distributed securities.

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safai, Stansbury

Absent: Commissioners Bridges, Chu

**8. 071019-08 Discussion Item Private Equity Portfolio Update**

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

William Coaker, Chief Investment Officer, and Tanya Kemp, Managing Director, Private Markets, presented an oral and written report on this item.

Anita Ng and Kelly Jensen, Cambridge Associates along with Kara King and David Fang, TorreyCove, presented an update of the Private Equity Portfolio for the year 2018. Given the reporting lag associated with private investment partnerships, all data was presented as of December 31, 2018 unless otherwise noted.

As of December 31, 2018, SFERS' Private Equity portfolio has a market value of \$4.9 billion, representing 20.3% of total pension assets. The program has generated a 15.9% net IRR since inception.

In 2018, the Private Equity team closed on \$1.2 billion in commitments. Most of these investments are access-constrained.

David Fang, TorreyCove, reported that this program has been consistently one of the top 10 performing public pension managed private equity programs.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.



Commissioner Stansbury asked Cambridge to provide at a later time the return contribution numbers for the different sectors and also requested data on the last market correction and how they compared to vintage years.

President Driscoll called for public comment.

John Stinson, Member, urged Board not to invest in high risk investments.

Fred Sanchez, POB, spoke about how the POB is pleased with the past performance and is confident that the Retirement System will continue to perform well.

There were no further comments and public comment was closed.

**Action:** This is a discussion only item.

**9. 071019-09 Discussion Item Real Assets Portfolio Update**

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

William Coaker, Chief Investment Officer and Tanya Kemp, Managing Director, Private Markets, presented this item.

Mark Cardillo, Cambridge Associates and David Fann and Kara King, TorreyCove Capital Partners presented an update of the Real Assets Portfolio for the year 2018. Given the reporting lag associated with private investment partnerships, all data was presented as of December 31, 2018 unless otherwise noted.

As of December 31, 2018, SFERS' Real Assets portfolio has a market value of \$3.9 billion, representing 16.4% of total pension assets. The program has generated a 9.9% net IRR over the past 20 years.

President Driscoll called for public comment.

John Stenson, Member, urged Board to invest with passive money managers.

There were no further comments and public comment was closed.

**Action:** This is a discussion only item.

**PRESIDENT DRISCOLL CALLED ITEM #13**

**13. 071019-13                    Action Item                    Approval of proposed revisions to the SFDCP Loan Policy**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, SFDCP Loan Policy (redline and final versions)

Diane Chui Justen, Deferred Compensation Plan Manager, presented an oral and written report on this item.

The SFDCP Loan Policy was originally approved by the Retirement Board on July 8, 2015. Revisions were made and approved by Retirement Board on July 13, 2016 and the SFDCP Loan Program was launched in August 2016. Ms. Chui-Justen reported that the SFDCP continues to work closely with the recordkeeper to provide the best loan experience for participants. Since launch, Staff has identified some operational improvements that would benefit the Loan Program and is recommending that these enhancements be rolled out through the SFDCP's new recordkeeper, Voya Financial (Voya), in September 2019. Ms. Chui-Justen stated that these changes will not only benefit the participant experience but will also help streamline resources provided by SFDCP Staff.

Proposed changes include:

- Allowing direct deposit of SFDCP Loan Proceeds to minimize paper checks, limiting the risk of lost checks and decreasing turnaround times for participant access to loan funds
- Allowing ACH loan repayments in circumstances related to retirement or termination of service, providing participants the opportunity to continue paying off their loan instead of defaulting on any outstanding balance
- Allowing partial lump sum payments to help participants reduce their loan principal by paying off the loan earlier, if desired.
- Replacing the service provider's name with "Third Party Administrator" to make the Loan Policy more evergreen.

Ms. Chui-Justen reported that the proposed Loan Policy revisions have been reviewed by the City Attorney's Office and Voya, the recordkeeper who will be administering the Loan Program.

At the June 11, 2019 Deferred Compensation Committee meeting, the Deferred Compensation Committee voted to forward the revised Loan Policy to the Full Board with a recommendation for approval.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to approve the amended SFDCP Loan Policy with the provision that at any time they can be amended should they need to be amended.

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

**PRESIDENT DRISCOLL CALLED ITEM #15**

**15. 071019-15                      Action Item                      Approval of the SFDCP Advisory services through Voya Retirement Advisers (VRA)**

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

Diane Chui Justen, Deferred Compensation Plan Manager, Brian Merrick and Peter Winterbottom, Voya, and Wei Hu, Financial Engines Research Group presented an oral and written report on this item.

Ms. Chui-Justen reported that advisory services and/or Managed Accounts have long been considered by the SFDCP and Deferred Compensation Committee. In particular, in 2009, the SFDCP considered engaging Advised Asset Group, LLC to provide a computer model investment advice service called "Reality Investing". The agreement with Advised Asset Group, LLC was never executed, however, as costs associated with these types of services at the time were relatively high (over 65 bps per annum) and participant adoption of managed accounts was rather low (less than 3% national average).

Ms. Chui-Justen stated that over the last decade, as an increasing number of baby boomers enter their golden years, participant needs have shifted from accumulation to decumulation. Ms. Chui-Justen reported that the SFDCP has also experienced outflows driven by retirees, as they look to either consolidate assets with an existing financial advisor or roll their assets to an investment advisor with a commissions-based IRA. Recent data has shown that retirees are generally better served through investment advice offerings, as they benefit from a more hands-on personal needs approach, particularly when it comes to optimizing draw-down strategies from multiple income sources at retirement, such as Social Security, pension benefits and retirement savings.

By offering managed accounts through the SFDCP, near-retirees have the opportunity to establish a financial advisor relationship through the Plan and carry that relationship into retirement, all while still benefitting from investment offerings governed by the Retirement Board. Ms. Chui-Justen reported that advisory services will also strengthen SFDCP's value proposition overall, as active participants can choose to completely outsource management of their retirement savings to a financial expert or do it themselves with personalized advice. She reported that, with the addition of enhancements like pension integration and near-retirement services, the value of providing professional-grade investment tools and advice services has become undeniable both to active savers and retirees.

Ms. Chui-Justen reported that SFDCP recordkeeping services are expected to transition to Voya Institutional Plan Services (Voya) effective September 3, 2019. She reported that, based on Voya's

response to the recent Request for Proposals, the proposed reduced recordkeeping cost of 3.75 bps is contingent upon the SFDCP offering “Advisory Services” through Voya Retirement Advisors (VRA). VRA is registered as an investment advisor with the SEC and is a wholly-owned subsidiary of Voya Financial. Ms. Chui-Justen reported that, as a fiduciary advisor, VRA provides objective investment advice and management free from conflicts of interest.

Ms. Chui-Justen reported that VRA has partnered with Financial Engines to provide the technology and methodology that powers the advisory services offered to plan participants. As proposed, Financial Engines will operate as an independent, third-party, financial expert and sub-advisor to VRA. Ms. Chui-Justen reported that Financial Engines was founded in 1996 by Bill Sharpe with the vision of making the kind of advice and money management once reserved for only high-end institutional investors, available to everyone. Ms. Chui-Justen reported that today, Financial Engines is recognized as the leader in providing advisory services technology to large plan sponsors and recordkeeping partners.

Ms. Chui-Justen explained that advisory services through VRA include professional account management for a fee, and investment advice at no additional cost to participants. This includes access to an investment advisor, online advice tools and *futureReady* Model Portfolios.

Ms. Chui-Justen presented the following summary of these services:

- 1) Access to an investment advisor – at no additional cost, investment advisor representatives provide personal advice to SFDCP participants over the phone with zero commissions. Investment advisors ascertain the participant’s situation and consider all SFDCP investment options for suitability (from core investment funds to Target Date Funds to Managed Accounts) before rendering advice. Advisors can also discuss savings and contribution rates. When a recommendation is made, Participants may request the advisor to execute the changes in real time, or participants can implement the changes themselves at their discretion.
- 2) Online Advice – this no-cost tool is geared toward Participants who wish to manage their own retirement account while taking advantage of online guidance and investment advice through a personalized recommended investment portfolio. The recommended investment portfolio is based on a “snap-shot” of information drawn from the Participant’s SFDCP account profile and from the core investment funds available in the Plan (excluding TDF). The Participant then implements the recommended investment portfolio and manages his or her retirement account online.
- 3) *futureReady* Model Portfolios – at no additional cost, these ready-made model portfolios are based on a Participant’s current age and appetite for risk (Aggressive, Moderate or Conservative), similar to GoalMaker. However, *futureReady* is different in that they are designed specifically for the SFDCP by Financial Engines and uses a primarily passive investment strategy (via index funds), making it a very low cost portfolio option.
- 4) Professional Management – VRA’s discretionary “Managed Account” is geared toward

Participants who wish to have a qualified financial expert select among the available core investment funds (excluding TDF) and manage their retirement account for them. The Participant receives a personalized investment portfolio that reflects the core investment funds and the Participant's retirement timeframe, life stages, risk tolerance and overall financial picture, including assets held outside the SFDCP (if the Participant elects to provide this information), which may be taken into consideration when determining the asset allocation of the Participant's SFDCP account (note: does not provide advice nor manage a Participant's outside assets).

Ms. Chui-Justen reported that, under a Managed Account, VRA has discretionary authority over allocating among the available core investment fund options, without prior Participant approval of each transaction. Managed Account assets will be automatically monitored, rebalanced and reallocated every quarter by VRA based on Financial Engine methodologies.

Ms. Chui-Justen reported that VRA will offer tiered pricing for its Managed Account services. Annual fees for Managed Account services are as follows:

Participant Account Balance	Managed Account Annual Fee
First \$100,000	0.45 %
Next \$150,000	0.35 %
Assets above \$250,000	0.25 %

At the June 11, 2019 Deferred Compensation Committee meeting, the Deferred Compensation Committee voted to forward SFDCP Advisory services through VRA to the Full Board with a recommendation for approval.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Stansbury to approve SFDCP Advisory services through Voya Retirement Advisers (VRA).

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safaí, Stansbury

Absent: Commissioners Bridges, Chu

## **PRESIDENT DRISCOLL CALLED ITEM #16**

### **16. 071019-16            Action Item            2019 Economic Assumptions Review**

Documents provided to the Retirement Board prior to the current meeting: Cheiron presentation

Janet Brazelton, Actuarial Services Coordinator, and Ann Harper, Cheiron, presented this recommendation.

Ms. Brazelton reported that, under the Retirement Board's Monitoring and Reporting Policy, the Retirement Board's consulting actuary presents the results of its review of the long-term economic assumptions adopted by the Retirement Board on an annual basis. Ann Harper, a representative of Cheiron, the Retirement Board's consulting actuarial firm presented both a historical review and a view of current trends for price inflation, wage inflation, and discount rate.

The economic assumptions recommended by Cheiron and adopted by the Retirement for the July 1, 2018 actuarial valuation are as follows: Discount Rate – 7.40%; Price Inflation – 2.75%; and Wage Inflation – 3.50%.

Ms. Harper reported that the current assumptions remain reasonable, although they again asked the Board to consider reducing the discount rate to 7.25%. Ms. Harper reported that, although price inflation is the foundation for all economic assumptions, it has little direct impact on the valuation as long as the assumption exceeds the 2.0% cap that applies to most retirees' future Basic COLAs. She reported that 2018 Bay Area inflation was nearly 4.5% - significantly higher than the 2018 U.S. city average inflation of 1.9%. Ms. Harper recommended that the current wage inflation assumption of 3.50% remains reasonable given Bay Area trends.

Ms. Harper reported that NEPC's 2019 capital market assumptions applied to SFERS' investment allocations show a significant improvement in projected return over their 2018 capital market assumptions with the expected near-term return increased from 7.0% to 7.7% and the 30-year return increased from 8.0% to 8.6%. Expected volatility also increased from 13.2% to 13.7%. These updated capital market assumptions were set in December, a low point in the markets. Current market conditions would indicate a more moderate outlook.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Stansbury to maintain the current set of economic assumptions for the July 1, 2019 actuarial funding valuation.

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

**PRESIDENT DRISCOLL CALLED ITEM #20**

**20. 071019-20                    Action Item                    Review and Approval of Undue Influence Policy**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Draft Undue Influence Policy

At its July 11, 2017 special meeting, the Retirement Board approved a list of governance improvement recommendations presented to the Retirement Board following the 2016 Board performance evaluation conducted by Funston Advisory Services LLC (FAS). One of the Funston Report recommendations was the development of a policy addressing potential undue influence by individual Board members.

The Governance Committee reviewed the proposed policy and voted to recommend the policy to the full Board for approval at its June 24, 2019 committee meeting.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Heldfond, Seconded by Commissioner Casciato to Approve Undue Influence Policy.

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

**PRESIDENT DRISCOLL CALLED ITEM #25**

**25. 071019-25                    Action Item                    Request for Industrial Disability pension adjustment from 50% to 55% - Timothy J. Buelow Donovan IV**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Confidential City Attorney's Memo dated July 1, 2019

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

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to Approve the request to adjust Sergeant Buelow Donovan IV's pension from 50% to 55% of average monthly compensation until Sergeant Buelow Donovan IV qualifies for service retirement, subject to adjustment for the Retirement System's credit rights.

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

**10. 071019-10                      Discussion Item                      Private Credit Portfolio Update**

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

William Coaker, Chief Investment Officer, Kurt Braitberg, Managing Director, Public Markets, Eunice and McHugh, Senior Portfolio Manager, Private Credit, introduced representatives of Cambridge Associates and TorreyCove Capital Partners to present their annual review of SFERS' Private Credit Program.

Anita Ng and Tod Trabocco, Cambridge Associates and David Fann and Kara King, TorreyCove Capital Partners presented their annual reviews of SFERS' Private Credit Program, including portfolio and market observations. Given the reporting lag associated with private investment partnerships, all data was presented as of December 31, 2018 unless otherwise noted.

As of December 31, 2018, SFERS' Private Credit portfolio has a reported value \$558.3 million (or 2.3% of total Plan assets) and has generated an 11.0% net IRR since inception.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll commented on the three presentations presented by Cambridge and TorreyCove in over two hours and requested that they focus their material on what they really want us to look at to make it a more effective approach.

President Driscoll called for public comment.

John Stinson, Member, recommended low risk investments and urged Board to divest in high risk investments.

There were no further comments and public comment was closed.

**Action:** This is a discussion only item.

**PRESIDENT DRISCOLL CALLED ITEM #17**

**17. 071019-17                      Discussion Item                      Governance Committee Report**

Documents provided to the Retirement Board prior to the current meeting: Governance Committee Report



The Governance Committee met on Monday, June 24, 2019. At the meeting the Governance Committee:

- Approved Minutes of the November 2, 2017 Governance Committee Meeting
- Reported on Funston Governance Improvement Recommendations
- Consider and Recommend Adoption of Undue Influence Policy
- Consider and Recommend Amendments to President Terms of Reference
- Consider and Recommend Amendments to Finance Committee Terms of Reference
- Consider and Recommend Amendments to the Board Communications Policy
- Consider and Recommend Amendments to Actuarial Services Coordinator Terms of Reference
- Consider and provide input regarding Retirement Operations model “dashboard”
- No action was taken to recommend changes to the current Board committee structure including but not limited to Investment Committee Terms of Reference
- Moved to not retain outside consultant at this time but to work with Ms. Dunning to create a short form board self-assessment survey

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

#### **PRESIDENT DRISCOLL CALLED ITEM #18**

#### **18. 071019-18            Action Item            Presentation and Approval of 2019-2024 Strategic Plan**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Draft Strategic Plan

Jay Huish, Executive Director and Caryn Bortnick, Deputy Executive Director, presented this recommendation.

In January 2011, the Retirement Board approved the Strategic Planning Policy to provide a framework for a longer-term and more strategic approach to business planning on an organization-wide basis. SFERS' first strategic plan was approved by the Retirement Board in October 2011.

As set forth in the Retirement Board's policy, Staff recommended a new 2019-2024 Strategic Plan to the Retirement Board for its consideration and approval. Mr. Huish reported that, working together with senior management, Staff has identified business risks, opportunities and needs for the department and identified priority strategic goals and objectives designed to address them.

The FY2019-20 department budget approved by the Retirement Board at its March 13, 2019 meeting included both staff and other resources to address the strategic goals and objectives for

this Strategic Plan beginning in the coming year. Retirement staff will provide on-going updates on the progress made over time to achieve the strategic goals and objectives outlined in the proposed plan.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

Commissioner Casciato requested that this item be reported on every six months.

Commissioner Driscoll requested to amend the proposed 2019-2024 Strategic Plan by including the Strategic Initiative – Assess leadership communications skills and training needs for executive team and Retirement Board members – in both Goal 5 – Stakeholder Engagement and Goal 4 – Leadership Development and Succession Planning.

President Driscoll called for public comment.

John Stinson, Member, spoke about making an investment in a San Francisco office building.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to approve the 2019-2024 Strategic Plan for review every six months and to make amendment noted above to Goal 4 of the Strategic Plan.

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safaí, Stansbury

Absent: Commissioners Bridges, Chu

Commissioner Safaí left the meeting at 5:05 PM

**19. 071019-19                      Discussion Item                      Status Report on Funston Governance Improvement Recommendation**

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

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

At its July 11, 2017 special meeting, the Retirement Board approved a list of governance improvement recommendations presented to the Retirement Board following the 2016 Board performance evaluation conducted by Funston Advisory Services LLC (FAS). The Governance Committee has been working toward implementation of these recommendations over the past two years.

Mr. Huish reported that the Funston recommendations have been substantially implemented, with a handful of the recommendations deferred for consideration and possible action at a later date

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**PRESIDENT DRISCOLL CALLED ITEM NOS. 21, 22, 23, 24**

- |                      |                    |   |
|----------------------|--------------------|---|
| <b>21. 071019-21</b> | <b>Action Item</b> | <b>Review and Approval of Amendments to President Terms of Reference</b>                      |
| <b>22. 071019-22</b> | <b>Action Item</b> | <b>Review and Approval of Amendments to Finance Committee Terms of Reference</b>              |
| <b>23. 071019-23</b> | <b>Action Item</b> | <b>Review and Approval of Amendments to Board Communications Policy</b>                       |
| <b>24. 071019-24</b> | <b>Action Item</b> | <b>Review and Approval of Amendments to Actuarial Services Coordinator Terms of Reference</b> |

Documents provided to the Retirement Board prior to the current meeting: Staff Memoranda, Draft Amendments to President Terms of Reference, Finance Committee Terms of Reference, Board Communications Policy and Actuarial Services Coordinator Terms of Reference

President Driscoll called for these items to be accepted as submitted by Staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to Approve Amendments to President Terms of Reference, Finance Committee Terms of Reference, Board Communications Policy and Actuarial Services Coordinator Terms of Reference.

Ayes: Commissioners Driscoll, Casciato, Heldfond, Stansbury

Absent: Commissioners Bridges, Chu, Safai

**11. 071019-11 Discussion Item Chief Investment Officer Report**

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

William Coaker, Chief Investment Officer, presented an oral and written report.

Closed Session Disclosures:

**Carnelian Energy Capital III, L.P.**

At its meeting on May 8, 2019, the Retirement Board approved in closed session an investment of up to \$75 million with Carnelian Energy Capital III, L.P. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Stansbury (6-1)

Noes: Commissioner Safaí

SFERS' commitment of \$75 million closed on June 25, 2019. SFERS' investment in Carnelian Energy Capital III, L.P. is classified as a natural resources investment within SFERS' Real Assets portfolio and is SFERS' second investment with Carnelian Energy Capital.

**e.ventures US VI, L.P.**

At its meeting on May 8, 2019, the Retirement Board approved in closed session an investment of up to \$35 million in e.ventures US VI, L.P. The investment was approved by the following vote:

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

Absent: None

SFERS' investment of \$30 million in e.ventures US VI, L.P. closed on June 20, 2019.

This investment is classified as venture capital investment within SFERS' private equity portfolio.

More information about e.ventures is available on <https://www.eventures.vc/>.

**PAG Special Situations III, L.P.**

At its meeting on June 12, 2019, the Retirement Board approved in closed session an investment of up to \$50 million in PAG Special Situations Fund III, L.P. The investment was approved by the following vote:

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

Absent: Commissioners Chu, Heldfond

SFERS' investment of \$50 million in PAG Special Situations Fund III, L.P. closed on June 28, 2019. This investment will be classified as a distressed/special situations investment within the SFERS' Private Credit Portfolio.

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

**Vista Equity Endeavor Fund II, L.P.**

At its meeting on June 12, 2019, the Retirement Board approved in closed session an investment of up to \$75 million in Vista Equity Endeavor Fund II, L.P. The investment was approved by the following vote:

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

SFERS' investment of \$60 million in Vista Equity Endeavor Fund II, L.P. closed on June 27, 2019.

This investment is classified as a Small Buyout Fund within SFERS' private equity portfolio and is SFERS' seventh investment with Vista Equity Partners.

More information about Vista Equity Partners is available on <https://www.vistaequitypartners.com>  
Alo Martins was promoted from Security Analyst to Senior Portfolio Manager for Public Markets.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**26. 071019-26 Discussion Item Executive Director's Report**

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

Administrative Update:

- SFERS Operations Management Dashboard – May 2019
- SFERS Employee Recognition Lunch – Friday, July 19; starting at 11:30 am in the Retirement Boardroom
- Annual Performance Evaluation Surveys for Executive Director and Actuarial Services Coordinator – Governance Consultant Ashley Dunning, Nossaman, will distribute the surveys to all Board Members within the next few days

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

There were no comments and public comment was closed.

**Action:** This is a discussion only item.

**PRESIDENT DRISCOLL CONTINUED ITEMS 12 – DEFERRED COMPENSATION COMMITTEE REPORT  
and 14 – APPROVAL OF THE SFDCP’S SELF-DIRECTED BROKERAGE PLATFORM TO THE AUGUST 14,  
2019 BOARD MEETING**

**28. 071019-28**

**Adjournment**

Having no further business, the Board adjourned the meeting at 5:15 PM



Respectfully submitted,  
Jay Huish, Executive Director