



SFERS
San Francisco Employees' Retirement System

**City and County of San Francisco
Employees' Retirement System**

**RETIREMENT BOARD
MEETING MINUTES**

Wednesday, October 9, 2019

1145 Market Street, 6th 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.

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Vice President

Leona Bridges

Commissioners

Al Casciato

Carmen Chu

Scott Heldfond

Ahsha Safaí

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Jay Huish

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OPENING CALENDAR

1. Pledge of Allegiance

2. Roll Call

Commissioner Leona Bridges	1:18 PM
Commissioner Al Casciato	1:10 PM
Commissioner Carmen Chu	1:10 PM
President Joseph Driscoll	1:10 PM
Commissioner Heldfond	1:10 PM
Commissioner Ahsha Safaí	2:00 PM
Commissioner Stansbury	3:25 PM

3. 100919-03 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 Heldfond, Seconded by Commissioner Chu 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 Casciato, Chu, Driscoll, Heldfond

Absent: Commissioners Bridges, Safaí, Stansbury

The Board entered closed session at 1:10 PM

The following individuals were present for the closed session: Commissioners Bridges, Casciato, Chu, Driscoll, Heldfond, Safaí; Jay Huish, Executive Director; Caryn Bortnick, Deputy Executive Director; William J. Coaker, Chief Investment Officer; Anna Langs, Managing Director Asset Allocation, Risk Management and Innovative Solutions; David Francl, Managing Director, Absolute Returns; Kurt Braitberg, Managing Director, Public Markets; Tanya Kemp, Managing Director for Private Markets; Ed Comerford, Director for Real Assets; Andrew Collins, Director of ESG Investing; Han Pham, Director Public Equity; Victoria Owens, Bo Williamson, Alo Martins, Senior Portfolio Managers; Dennis Esselsagoe, Luke Angus, Chris Terrazzano, Cynthia Wong, Security Analysts; Darlene Armanino, Board Secretary; Robert Bryan, Molly Nordale, Deputy City Attorneys; Kelly Jensen, Anita Ng, Cambridge Associates; Allan Martin, NEPC.

Board ended Closed Session at 1:35 PM

Meeting recessed from 1:35 PM to 2:05 PM

The Board returned to open session at 2:05 PM

Absent: Commissioner Stansbury

General Public Comment - Not earlier than 2:00 PM

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

Approval of the Minutes of the September 11, 2019 Meeting

Absent: Commissioner 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.

6. 100919-06	Action Item	Consent Calendar
100919-06b	Action Item	Voluntary Retirement Board List No. 4-19
100919-06c	Action Item	Decisions of Hearing Officers
Derek A. Byrne Effective Date: 6/20/18	Q2 Police Officer Police	Industrial Disability Retirement Granted
Julia B. Capozzoli Effective Date: PERS	8304 Deputy Sheriff Sheriff	Cal-PERS - Disability Retirement Certified
Jennifer T. DeBerry Effective Date: 6/1/14	H6 Investigator, Fire Dept Fire	Industrial Disability Retirement Granted
Milagro E. Garcia Effective Date: 1/10/17	9977 Parent & Community Involvement Coordinator SFUSD	Ordinary Disability Retirement Granted
Margaret M. O'Sullivan Effective Date: 3/1/18	0923 Manager II Health Service	Ordinary Disability Retirement Granted
Evelyn W. Van Hoozer Effective Date: 7/1/19	1043 IS Engineer-Senior DPH-CMHS	Ordinary Disability Retirement Granted
Martien J. Verhaeg Effective Date: 4/25/15	H2 Firefighter Fire	Industrial Disability Retirement Granted
David V. Vizcay (Deceased – 9/12/19) Effective Date: 8/1/19	Q3 Police Officer II Police	Industrial Disability Retirement Granted

100919-06d

Action Item

Travel Requests

Request travel approval for Commissioner Leona Bridges to attend the 2019 Investor Forum "Building a New Investment Architecture for Sustainable Development," November 15, 2019, Santiago, Chile.

100919-06e

Discussion Item

**Retirement Board Member
Reports and Comments**

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.

President Driscoll called for public comment.

There were no comments and public comment was closed.

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

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

INVESTMENT CALENDAR

7. 100919-07 Discussion Item Annual ESG Update

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

William Coaker, Chief Investment Officer, recognized Andrew Collins, Director of ESG Investing, and Luke Angus, Security Analyst, and reported that they both have been very helpful, informative and collaborative in bringing investment recommendations.

Mr. Collins provided the annual update on the ESG program, including an update on all three pillars of the SFERS ESG Platform, including engagement, ESG in investment management, and communication & collaboration. Mr. Collins presented a report on the performance impact of historical investment exclusions and an analysis of the carbon footprint of the SFERS portfolio.

Environmental, social, and governance issues (ESG) relate to a variety of aspects of how SFERS invests and operates. Mr. Collins reported that, in order to (1) organize and (2) prioritize SFERS's ESG efforts, Staff implements the following ESG Platform and Strategic Plan.

The SFERS ESG Platform is comprised of three core pillars; these areas overlap and mutually support one another, with the overall objective of integrating ESG considerations into SFERS' investment decision making.

The Strategic Plan organizes various ESG efforts within each of the three pillars by defining strategy and outlining milestones and activities.

Mr. Collins reported that guiding this Plan is the belief that all of the ESG efforts that SFERS undertakes should ultimately contribute to our mission as a long-term investor: securing, protecting, and prudently investing the pension Trust assets, administering mandated benefit programs, and providing promised benefits.

Staff focuses on efforts aimed to be materially value-added to that goal. Staff does not focus on efforts that are concessionary or that promote a political or social agenda.

This presentation provided an update on ESG activities through September 2019. Mr. Collins announced that Staff intends to provide an annual update on the status/progress of the SFERS ESG Platform.

Mr. Collins reported that Staff has implemented a process to monitor the performance impacts on the total fund due to SFERS' investment restrictions. He reported that, since inception, investment restrictions are estimated to have had a small, but negative impact on risk and return. Staff will continue to monitor performance impacts over time and report findings annually to the Board.

Mr. Collins reported that the SFERS' Public Equity portfolio has significantly reduced its weighted average carbon intensity over the last 10 years (outpacing the decline in carbon intensity of the benchmark) and is significantly less carbon intensive than benchmark. The sovereign portion of the SFERS Fixed Income portfolio is more or less equal to the analogous portion of the benchmark, while the corporate portion is higher than the analogous portion of the benchmark.

The analysis shows that most carbon emissions are concentrated in three sectors, reinforcing Staff's approach of developing frameworks to address carbon risks within the most intensive sectors (i.e., energy and utilities).

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

The Commissioners spoke about and agreed that the Mayor's Office and members of the Board of Supervisors should be updated on this annual ESG update.

President Driscoll called for public comment.

John Stenson, member, urged the Board to divest in hedge funds.

Jed Holtzman, Fossil Free SF, thanked staff for their ESG work but noted that this strategy is poorly suited for the fossil fuel industry.

David Page, SEIU 1021, commented that he would like to see more focus on the social issues of the ESG plan.

There were no additional comments and public comment was closed.

Action: This is a discussion only item.

**8. 100919-08 Action Item Annual Report and Recommendation on Investment
Restriction in US Tobacco Companies**

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

Andrew Collins, Director of ESG Investing, presented an oral and written report on this item.

Mr. Collins reported that at the May 26, 1998 Retirement Board meeting the Board elected to divest holdings of domestic companies involved in the manufacture of tobacco products. This report describes recommended updates to the list of restricted tobacco companies, details the performance impact of not owning U.S. Tobacco companies in the SFERS' investment portfolio over the past year and since the inception of the restriction, and provides an update on developments within the U.S. tobacco industry over the past 12 months.

Staff recommended the addition of the following companies that are manufacturers of tobacco and/or electronic cigarette products to the List of Companies:

- Healthier Choices Manufacturing Corp. (OTCMKTS: HCMC), formerly Vapor Corp., incorporated on December 24, 2013, is a holding company. The company owns and operates four natural food stores in Florida and ten "vape stores" across the Southeast United States. The company states that it markets its Q-Cup™ technology under the vape segment and markets a wide variety of e-liquid under the Vape Store brand. The company states that it has no manufacturing capabilities and does not intend to develop any manufacturing capabilities, instead relying on third party manufacturers to make its products. The company recognizes revenue from the wholesale distribution of its vapor products.
- Standard Diversified Inc. (NYSE: SDI), a holding company that owns a majority stake in Turning Point Brands, Inc., a company currently on the List of Companies that acquired Lorillard's other tobacco product (or "OTP") business in 1988 and manufactures smoking, smokeless, and "newgen" tobacco products.

Mr. Collins reported that, as of June 30, 2019, SFERS did not hold positions in either company.

Staff recommended the following changes to the List of Companies to reflect changes in company

names:

- Newgen Concept Inc. be updated to Vapor Group, Inc.
- Alliance One International Inc. be updated to Pyxus International, Inc.
- American Heritage International, Inc. be updated to Fyolo Technology Corp.

Staff recommended the removal of Icon Vapor, Inc. from the List of Companies Icon Vapor, Inc. because it is no longer a publicly tradable security as a result of the SEC revoking its 12(j)Registration.

Staff reviewed companies involved exclusively in the distribution but not manufacturing of tobacco products in more detail. Using data and information from MSCI ESG Research, Staff was able to determine the revenue that this set of companies received from tobacco products. The data makes clear that certain companies receive a majority of their revenue from the distribution of tobacco products, while others receive a small or sometimes immaterial portion of their revenue from the category. As such, Staff recommends restricting investment in companies that receive greater than 10% of revenue from tobacco product distribution, in line with the threshold for financial reporting requirements for individually material business segments.

Based on this review, the following companies generate more than 10% and, in fact, more than 75% of revenues from tobacco distribution:

- AMCON Distributing Company
- Core-Mark Holding Company

SpartanNash, the fifth largest grocery distributor in the United States and a leading distributor of products to U.S military commissaries, including tobacco products, generates significantly less than 10% of revenues from tobacco products. Therefore, Staff recommends removing this company from the restricted list.

Mr. Collins reported that the restriction of U.S. tobacco stocks from the eligible universe of public equity securities has had a small but negative impact on the Trust's total return over the past 21 years – the period since the divestment decision was approved by the Retirement Board.

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 move that the San Francisco Employees' Retirement System maintain the current policy with respect to divestment from U.S. Tobacco companies and approve the list of restricted companies as outlined in Appendix B of Staff's memorandum.

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

**9. 100919-09 Action Item Annual Report and Recommendation on Investment
Restriction in Companies Operating in Sudan**

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

Andrew Collins, Director of ESG Investing, presented an oral and written report on this item.

In November 2006, the Retirement Board approved the implementation of Level III of SFERS' Social Investment Procedures with respect to divestment from Sudan. Each year, utilizing research from MSCI ESG Research LLC and other sources, investment staff reviews the business activities of companies in Sudan and prepares a set of recommendations for the Board's review and consideration.

Staff recommended no additions to the list of Restricted Companies with Business Activities in Sudan from November 2018 despite seven additional companies with Sudan ties being identified as per the Board's existing divestment guidelines.

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

President Driscoll called for public comment.

John Stenson, member, urged Board to make no direct investments in China.

There were no further comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Casciato, for SFERS to: 1) leave the Restricted Companies with Business Activities in Sudan from November 2018 in place unchanged; and 2) continue to re-evaluate the transition of power in Sudan through 2021 and signal, without commitment, willingness to reconsider restriction of investment of companies operating in the country if the transition continues as planned and stability improves further.

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

**10. 100919-10 Action Item Annual Report and Recommendation on Investment
Restriction in Firearms and Ammunition Manufacturers and
Retailers**

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

Andrew Collins, Director of ESG Investing, presented an oral and written report on this item.

On June 28, 2016 the San Francisco Board of Supervisors passed a resolution urging SFERS to divest its holdings from firearms and ammunition manufacturing companies. At the October 12, 2016 meeting Staff recommended divestment from a list of six firearms and/or ammunition manufacturers and three firearms and/or ammunition retailers. The Board approved this recommendation.

Staff recommended that the Board reaffirm the intent to remain divested from firearms and ammunition manufacturer and retail companies, the criteria used for such divestment, and adopt the list of restricted companies identified in Appendix B of the Staff Memorandum. Mr. Collins recommended adding one more company to this list, Korean Ammunition Maker to the restricted list this year and mentioned SFERS has no direct investment in this company.

Mr. Collins reported that they have made efforts to engage with retailers of firearms over the last year, companies who we have not divested from, around their gun retail practices. The companies were not as responsive as Staff had hoped for.

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

President Driscoll called for public comment.

Jed Holtzman, Fossil Free SF, spoke about industry making moves which had not been seen prior.

John Stenson, member, urged Board to talk with Hedge Fund managers and tell them not to invest in firearms, tobacco or fossil fuel.

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Chu, Seconded by Commissioner Bridges, to approve Request to Approve Updates to List of Restricted Firearms and Ammunition Manufacturers and Retailers.

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

Absent: Commissioner Stansbury

11. 100919-11	Action Item	Annual Report and Recommendation on Investment Restriction in Thermal Coal Companies
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Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Andrew Collins, Director of ESG Investing, presented an oral and written report on this item.

At the May 17, 2017 meeting, the San Francisco Employees' Retirement System Retirement Board approved Investment Staff recommendations to 1) establish investment restrictions (Level III) for certain "US companies that derive significant revenue from the mining of thermal coal" and 2) engagement (Level II) with certain companies for which thermal coal "does not represent a majority of revenues".

At the September 12, 2018 meeting, the Board approved recommendations to 1) establish a formal framework for thermal coal divestments and 2) an updated list of restricted thermal coal companies that was expanded to include non-US companies.

At the October 10, 2018 meeting, the Board approved five strategies recommended by Staff to address climate risk in the SFERS portfolio.

One of the strategies approved at the October 10, 2018 meeting included "Engage with thermal coal companies that receive between 10-50% of revenue from thermal coal. Considering divesting from any companies that do not make a commitment to exit the thermal coal business in the near term."

Mr. Collins reported that Staff continue to have significant concerns around the thermal coal industry's viability. In the context of tightening climate regulations, blends of gas and renewables integrated with energy storage, transmission and demand response have significant advantages in electricity generation. The coal industry is already in decline in the US and Western Europe (which accelerated in the first half of 2019), and indications are this is likely to occur around the world.

Mr. Collins reported that the existing criteria used to guide SFERS' divestment and restriction of further investment in companies with thermal coal activities is as follows:

The San Francisco Employees Retirement System (SFERS) shall not invest in public securities of companies if the company:

A. Regardless of country of domicile, derives the majority of company revenues from thermal coal activities, where:

- "Majority" of revenues is considered to be greater than 50%.
- Thermal coal activities include the mining or production of thermal coal (including lignite, bituminous coal, and anthracite coal) for sale to external parties.
- Thermal coal activities do not include the mining or production of metallurgical coal (aka coking coal), which is used for steelmaking.

Staff presented the following recommendations:

- Add the following four companies to the restricted list based on the existing criteria for divestment:

- New Hope Corporation Ltd
 - Yang Quan Coal Industry (Group) Co., Ltd.
 - GEO Energy Resource Ltd
 - Foresight Energy LP
- Update the criteria for divestment to include guidelines around companies that generate between 10-50% of revenue from thermal coal activities.
- Add the following 13 companies to the restricted list based on the expanded criteria for companies that generate between 10-50% of revenue from thermal coal activities.
 - Shanxi Lu'an Environmental Energy Dev. Co., Ltd
 - Shaanxi Coal Industry Company Limited
 - PT Indika Energy Tbk
 - China Shenhua Energy Company Limited
 - China Coal Energy Company Limited
 - DMCI Holdings INC.
 - Guanghui Energy Co., Ltd.
 - Semirara Mining and Power Corporation
 - Shanxi Xishan Coal and Electricity Power Co., Ltd.
 - Jizhong Energy Resources Co., Ltd.
 - PT Astra International Tbk
 - Huadian Power International Corporation Limited
 - Jardine Cycle & Carriage Limited
- Continue investment in Anglo American and CIMIC based on announcements the companies have made and monitor if the companies' thermal coal mining revenues decline below the 10% threshold as Staff expect.
- Continue investment in South32 based on the company's divestment plan and monitor is progress towards a sale of assets.
- Continue to attempt to engage with JSW and African Rainbow Minerals to determine more clearly each company's plans around thermal coal activities.

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

President Driscoll called for public comment.

David Page, SEIU 1021, on behalf of another retiree stated that the energy sector has been the worst performer in the past 10 years and he urged Board to get rid of all the coal companies.

Jed Holtzman, Fossil Free SF, proposed that Board come back next month and make an amendment

to Level III coal restriction using amounts of coal rather than by percent revenue.

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, to approve Request to Approve Updates to List of Restricted Thermal Coal Companies.

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

Absent: Commissioner Stansbury

Commissioner Stansbury arrived at 3:25 PM

12. 100919-12	Action Item	Annual Update on Strategies to Address Climate Risk and Recommendation on Investment Restriction in Certain Oil & Gas Companies
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Documents provided to the Retirement Board prior to the current meeting: Staff Memoranda

Andrew Collins, Director of ESG Investing, presented an oral and written report on this item.

Mr. Collins reported that the SFERS Retirement Board recognizes climate change as a risk to the health of the pension trust, and it has directed Investment Staff to take various actions to mitigate this risk.

The four pillars of SFERS's approach to manage climate risk are:

1. Invest – SFERS's invests in strategies that are aligned with the transition to a low-carbon economy, including carbon-constrained investments, renewable energy-related investments, and low-carbon technology opportunities.
2. Engage – Individually and in collaboration with other investors, SFERS engages with companies in its underlying portfolio to encourage them to strategically incorporate considerations of climate risk into their strategy, governance, and operational management. SFERS engages with its external managers to understand their process for incorporating consideration of climate risk (among other ESG factors) into their investment process.
3. Divest – SFERS divests companies and/or industries in its portfolio that it considers to have high, unmitigated investment risk due to climate change, which cannot be addressed through engagement or other means.
4. Advocate – Individually and in collaboration with other investors, SFERS advocates for policy efforts at the state, nation, and global level that promote a sustainable financial system that is focused on a just and orderly transition to a low-carbon and resilient economy.

Mr. Collins reported that informing activities in each pillar are SFERS' use of data and analytics, including the SFERS Climate Transition Risk Framework for Oil & Gas Companies and a variety of third-party carbon and climate risk data. Staff has also developed an additional framework to assess climate transition risk in the Utilities sector and inform engagement efforts with relevant companies.

Staff continues to identify and evaluate data and analytical tools that may provide deeper insight into climate risk exposure for the Plan.

SFERS continues to monitor peer funds' approaches to managing climate risk and pursuing opportunities created by the transition to a low carbon economy.

Mr. Collins reported that the challenge ahead for the transport industry is no longer about developing new technology. It is about replicating technology across manufacturers, scaling up production and making vehicles that are suitable for fleets. These are far easier and more predictable challenges than developing the new technology from scratch. With over 400 models by 2025 and automaker capex plans exceeding \$100 billion, this is imminent in just a few years and is well within the horizon impacting investments in oil companies.

Luke Angus, Security Analyst, reported on the financial risks arising from climate change within the GICS utilities sector, which includes independent power producers and electric, multi, gas and water utilities. Staff analyzes these risks in the context of SFERS' investments in the sector, which are global in scope and mainly concentrated in the Public Equity portfolio. The report outlines a framework for assessing the climate-related financial risks to these companies' electricity generation activities in order to inform decisions around investment in the sector, direct company engagement and proxy voting.

Mr. Collins reported that climate change and the associated "inevitable policy response" represent significant challenges to utility companies for two main reasons. First, the sector represents a significant source of global carbon emissions, with emissions from electricity and heat production contributing 25% of global GHG emissions according to the Intergovernmental Panel on Climate Change (IPCC)'s 2014 report. Second, there are economically viable alternatives to reducing emissions while still providing reliable and affordable electricity and heat. For these two reasons it's expected that new climate policies will focus on mandating and incentivizing low carbon power generation. Future policy responses, beyond those already in place, have already been signaled in the Nationally Determined Contributions for the 185 countries that have ratified the Paris Agreement.

Staff has developed a two-stage process work to assess climate risks facing the over 300 utilities in SFERS' Public Equity portfolio. The first stage is a review of all companies in the Public Equity portfolio and MSCI ACWI IMI using a quantitatively based framework, presented below. The second stage will involve more detailed reviews of a narrower set of companies that have been prioritized based on weights within the SFERS portfolio and the relative risks identified in the first stage.

Mr. Collins reported that this work will allow SFERS to prioritize topics for monitoring and engagement, will inform proxy voting decisions, and will inform any potential investment related decisions.

Staff reported that SFERS' overall exposure to the utilities sector is modest. The Public Equity portfolio is moderately well placed relative to benchmark with respect to the climate transition risks of the utility sector. The Public Equity portfolio's utility sector exposure is carbon intensive overall and is facing significant transition challenges.

Staff has the following near-term plan for managing climate transition risk within the utilities sector:

1. **Analyze and Report:** Adopt the above framework for assessing vulnerability to climate transition risk, rerun this analysis annually, and consider updates and improvements to the framework over time (i.e., with availability of new and better datasets).
2. **Direct Engagements:** For 2019/20, prioritize direct engagements with portfolio companies. One aspect of the direct engagements will be Staff requesting each company set a 2030 carbon intensity target that is equal to or lower than the Below 2 Degrees Scenario from Science Based Targets Initiative's Sectoral Decarbonization Approach, or an equivalent level specific to its region. Staff will be encouraging company to set the 2030 target within one year, reflecting the immediacy of the transition within this sector.
3. **Collaborative Engagements:** Formally contribute to collaborative engagements with Vistra, NRG, AES and NextEra through CA100+. These companies were identified as candidates for engagement as they are significant portfolio positions and have been identified as having high vulnerabilities to climate transition risk. Additionally, Staff have sought to prioritize companies with fewer collaborating investors on the CA100+ teams. While several other companies are significant portfolio positions with identified vulnerabilities (such as Dominion for example), the CA100+ teams are well resourced. Staff will be monitoring the progress of all CA100+ utility engagements.
4. **Manager Engagements:** Engage with Public Equity managers with the largest exposures to the sector. The objective of these engagements is to understand how they are incorporating climate considerations into the investment process; building knowledge within their investment teams, engaging with companies and responsibly participating in proxy voting.
5. **Voting:** Subsequent to engagements, consider if any intervention is appropriate on specific ballot items while ensuring consistency with the proxy voting guidelines.

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

President Driscoll called for public comment.

John Stenson, member, urged Board not to invest in fossil fuel, firearms or tobacco.

Jed Holtzman, Fossil Free SF, reported that he is happy with the quality of work in general but ultimately that doesn't change the take home message.

David Page, SEIU 1021, stated that he believes we are all doing too little too late to help change the amount of pollution in the atmosphere and asked for the Board's help in doing something about it.

There were no additional comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond, to:

1. Move that in order to fulfil the Board's request for "prudently phased divestment", divest positions in four companies, restrict further investment in those companies as well as six additional companies identified in Table 10 of Staff's memorandum (page 30).
2. Move that SFERS should adopt the SFERS Climate Transition Watch List, 2019 (Table 12 of Staff's memorandum on pages 32-33), and that Staff should engage with companies on that list, focusing resources and efforts on companies where SFERS has current, material investment (as identified in Table 13 of Staff's memorandum on page 33).
3. Move that Staff should engage with existing and potential external managers that hold positions in fossil fuel companies, beginning with those that are invested in companies on the SFERS Climate Transition Watch List, 2019 (Table 12 of Staff's memorandum on pages 32-33), to understand how they are including considerations of climate risk in their investment process.

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

Commissioner Safai requested a motion to reconsider Item No. 9.

Action: Moved by Commissioner Safaí, Seconded by Commissioner Heldfond for a motion to reconsider Item No. 9.

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

President Driscoll called for a new motion on Item No. 9.

Action: Moved by Commissioner Chu, Seconded by Commissioner Heldfond, for SFERS to: 1) leave the Restricted Companies with Business Activities in Sudan from November 2018 in place unchanged; 2) continue to re-evaluate the transition of power in Sudan through 2021 and signal, without commitment, willingness to reconsider restriction of investment of companies operating in the country if the transition continues as planned and stability improves further; and 3) request that staff come back in three months with additional information about the 7 companies that were currently added and whether or not based on the type of activities they are engaged with in Sudan.

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

President Driscoll announced that Item No. 13 will be continued.

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| 13. 100919-13 | Action Item | Recommendation to terminate the allocation to AFL-CIO Housing Investment Trust within the Liquid Credit Portfolio (THIS ITEM WAS CONTINUED FROM THE MAY 8, 2019 RETIREMENT BOARD MEETING) |
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| 14. 100919-14 | Discussion Item | Chief Investment Officer Report |
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Documents provided to the Retirement Board prior to the current meeting: CIO Report

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

CIO Coaker reported that in the month of September, the SFERS Trust gained 0.46%. Private Credit and Public Equity gained 2.08% and 1.16%, respectively, while Private Equity edged out a return of 0.45%. Fixed Income and Real Assets posted returns of -0.18% and -0.60%.

For the first quarter of FY 2019-20 SFERS posted a return of 0.85%. Public Equity declined during the quarter, losing -1.18%. However, all other asset classes posted positive returns, led by Private Credit and Private Equity which returned 4.45% and 3.71%, respectively.

CIO Coaker reported that the keys to investment returns this fiscal year are likely to be how much the political developments in Washington D.C. impact the economy, job growth, and investor sentiment, the impact that policy proposals on tax and regulation will have on each of the same, and whether the trade tensions with China are resolved or worsen.

Closed Session Disclosures:

Knightsbridge 2019 H LP and Knightsbridge A LP

At its meeting on August 14, 2019, the Retirement Board approved in closed session two investments of: (1) up to \$100 million in Knightsbridge H 2019 LP; and (2) up to \$10 million in Knightsbridge A LP.

The investments were approved by the following vote:

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

SFERS' investment of 10 million in Knightsbridge A LP closed on September 10, 2019 and SFERS' investment of \$100 million in Knightsbridge 2019 H LP closed on September 19, 2019.

The investments are classified as Venture Capital Funds within SFERS' private equity portfolio and

are SFERS' ninth and tenth investments with Knightsbridge Advisers.

More information about Knightsbridge Advisers is available on <https://knightsbridgevc.com>

LYFE Capital Fund III

At its meeting on September 11, 2019, the Retirement Board approved in closed session an investment of up to \$25 million in LYFE Capital Fund III. The investment was approved by the following vote:

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

Absent: Commissioner Chu

SFERS' investment of \$20 million in LYFE Capital Fund III (Dragon), L.P. and \$5 million in LYFE Capital Fund III (Phoenix), L.P. closed on September 30, 2019.

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

More information about LYFE Capital is available on <http://www.lyfecapital.com/English/>.

Longitude Venture Partners IV, L.P.

At its meeting on July 10, 2019, the Retirement Board approved in closed session an investment of up to \$40 million in Longitude Venture Partners, IV, L.P.

The investment was approved by the following vote:

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

Absent: Commissioners Bridges, Chu

SFERS' investment of 40 million in Longitude Venture Partners, IV, L.P. closed on September 23, 2019.

This investment is classified as a Venture Capital Fund within SFERS' private equity portfolio and is SFERS' second investment with Longitude Capital.

More information about Longitude Capital is available on <http://www.longitudecapital.com>

San Francisco Absolute Return Investors II, LP

At its meeting on April 10, 2019, the Retirement Board approved in closed session an update to the investment guidelines for San Francisco Absolute Return Investors II, LP. The item was approved by the following vote:

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

Absent: Commissioners Casciato, Stansbury

San Francisco Absolute Return Investors II, LP is classified as an absolute return investment and is a limited partnership between SFERS and Blackstone Alternative Asset Management.

More information about the firm is available at: [www.blackstone.com/the-firm/asset-management/hedge-fund-solutions\(baam\)](http://www.blackstone.com/the-firm/asset-management/hedge-fund-solutions(baam)).

Blackstone Strategic Opportunity Fund L.P. / San Francisco Absolute Return Investors II, LP

At its meeting on November 14, 2018, the Retirement Board approved in closed session the transfer of the remaining unfunded commitment of approximately \$240 million in Blackstone Strategic Opportunity Fund L.P. ("BSOF") from San Francisco Absolute Return Investors II, LP ("SFARI II") Share Class A to SFARI II Share Class B.

The Retirement Board also approved SFARI II to invest up to \$25 million each and a total of \$250 million in Special Investments ("Co-Investments") where SFERS will have investing discretion and Blackstone Alternative Asset Management will serve as the primary advisor, subject to approval and ongoing monitoring by SFERS Internal Investment Committee ("Portfolio Management Group", or "PMG") and subject to review with the Retirement Board upon exceeding thresholds of \$50 million, \$125 million, and \$200 million. The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Driscoll, Paskin-Jordan, Safaí

Absent: Commissioners Chu, Stansbury

This investment is classified as a Special Situations investment within SFERS' absolute return portfolio and is SFERS' first investment with BSOF via Share Class B of SFARI II. More information about the firm is available at: [www.blackstone.com/the-firm/asset-management/hedge-fund-solutions\(baam\)](http://www.blackstone.com/the-firm/asset-management/hedge-fund-solutions(baam)).

Bridgewater Pure Alpha Fund II, LLC and Bridgewater Pure Alpha Major Markets II, LLC

At its meeting on August 14, 2019 the Retirement Board approved in closed session an investment of \$200 million in aggregate to Bridgewater Pure Alpha Fund II, LLC and Bridgewater Pure Alpha Major Markets II, LLC by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

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

Absent: Commissioners Chu, Safaí

SFERS's investment of \$150 million in Bridgewater Pure Alpha Major Markets II, LLC closed on October 1, 2019.

This investment is classified as a Macro investment within SFERS' absolute return portfolio and is SFERS' first investment with Bridgewater via share class B of SFARI II.

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

CIO Coaker announced that the next Investment Committee meeting is scheduled for Wednesday, October 16, 2019.

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

President Driscoll called for public comment.

John Stenson, member, spoke about average costs of investment fees.

There were no additional comments and public comment was closed.

Action: This is a discussion only item.

ADMINISTRATION CALENDAR

15. 100919-15 Action Item Consideration of 2019 Board Governance Survey Results

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

Jay Huish, Executive Director, and Ashley Dunning of Nossaman LLC, the Board's governance consultant, presented an oral and written report on this item.

Mr. Huish reported that in order to engage the Retirement Board for the purposes of continuously developing and improving its own effectiveness as a fiduciary body and in accordance with the Board Performance Evaluation Policy, a governance survey was sent soliciting Board member responses to the following questions:

- Identify the top three governance goals that you would like the SFERS Board to accomplish in the next 12 months.
- What additional information, if any, would you like provided to the SFERS Board at or prior to its monthly meetings?
- List any Business Objectives that you believe are critical for the Executive Director to meet in the next 12 months.
- SFERS now has the following five committees; Investment, Governance, Personnel,

Operations Oversight, and Deferred Compensation. How effective do you find each of the committees to be, and what are your suggestions, if any, for improvement to any of them?

Ms. Dunning reported the Board's responses to the survey as follows:

Some trustees believe no change should be made in the Committee structure or functions, but note that Board participation may be a problem and they requested more information on that point.

Others believe streamlining of committees is warranted, with the investment committee meeting less with more delegation occurring to senior SFERS staff. One trustee commented that all other committees except deferred compensation and investment should be rolled into personnel because they all relate to the Executive Director.

Another trustee requested more frequent Personnel Committee meetings in closed session to discuss, with the Executive Director, the administration of SFERS by the ED.

Regarding the DC committee, a trustee asked whether the board is too involved with SFERS' operations, as opposed to policy. Another thought further analysis was warranted regarding the role of the DC committee, if any, in connection to SFERS and its Strategic Plan.

Regarding the Investment Committee, a trustee asked how educational topics for that committee are chosen, and also whether the Committee should discuss assumptions that ended up being incorrect.

Another trustee noted that the Governance Committee should improve its decision-making process to focus on quality and value. The trustee also noted that Finance & Operations needed to work with Investments to coordinate people and components of SFERS effectively.

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

Commissioner Stansbury commented that the purpose for this item as to set up the focus for the next off-site Board Retreat.

Commissioner Chu stated that the Board is simply accepting this information right now as a point of reference and that the Board does not need to take action or make priorities right now and recommended that the Chair and Governance Committee to move forward on the strategic retreat. President Driscoll agreed.

Commissioner Safaí commented on the budget and that to justify the need for more staffing in the future there will be questions from the Mayor's Office and the Board of Supervisors on the health of the fund, how funded it is, how well we are doing, and how much we have approved and what direction we are going.

President Driscoll stated that the Mission Statement is not the only document that should drive us

but rather the Mission Statement plus the budget and the hiring policies which will get us to where we think we want to go to be successful. This is what the Governance Committee will be talking about.

President Driscoll called for public comment.

John Stenson, member, spoke against Hedge Funds.

There were no additional comments and public comment was closed.

Action: The Retirement Board took no action on this Item.

16. 100919-16	Action Item	Declaration of Vacancy on Retirement Board Occurring February 20, 2020 and Approval of Election Procedures and Timeline
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Documents provided to the Retirement Board prior to the current meeting: Draft election schedule and materials

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

Mr. Huish reported that on February 20, 2020 Commissioner Stansbury will complete his term of office. Pursuant to the provisions of Administrative Code Section 16.550, the Retirement Board is required to declare that a vacancy will occur and establish a schedule for the election of a Retirement Board member for the five-year term commencing February 21, 2020.

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 Chu to approve declaration of vacancy on Board and election procedures and timelines.

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

17. 100919-17 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 – August 2019
- Reminder: General Consultant RFP – Finalist Presentations at October 16, 2019 Investment Committee Meeting

Attachments:

- SFERS Operations Management Dashboard – August 2019
- Retirement Board Forward Calendar for October 2019 to January 2020
- Request for Proposal in Progress Blackout Period
- *Public Retirement Conferences and Training Programs for SFERS Trustees* – Nossaman LLP
- *The Cortex Report* – Conferences and Training Events listing

Jay Huish, Executive Director, stressed the need for the Board's attendance at the next Investment Committee Meeting.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

18. 100919-18 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 asked if anyone had responded to email received from a member regarding spousal benefits. Jay Huish responded that a confidential response is being prepared.

Commissioner Casciato asked to acknowledge and honor Mark Coleman who was a 30-year employee with SFERS who recently passed away. Jay Huish reported that the family has planned private services. Also, the September Board meeting was adjourned in memory of Mark Coleman along with a letter which was sent to the family. Staff has made contributions to *The Monterey Bay Aquarium* in honor of Mark Coleman at the suggestion of his family.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This is a discussion only item.

19. 100919-19

Adjournment

Having no further business, the Board adjourned the meeting at 5:10 PM



Respectfully submitted,
Jay Huish, Executive Director