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

William J. Coaker Jr., CFA, MBA

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of June 9, 2021

DATE: June 9, 2021

TO: Members of the Retirement Board

THROUGH: Jay Huish
Executive Director

FROM: William J. Coaker Jr., CFA
Chief Investment Officer

SUBJECT: CIO Monthly Report

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1 – SFERS RETURNS

JANUARY 2021:
In May 2021 SFERS investments returned 3.54%. This month's return was boosted by the markup from a large IPO, enabling our Private Equity portfolio to post a one-month gain of 11.44%. Our Real Assets and Private Credit books also posted strong one-month returns of 2.08% and 2.22%, respectively. As we've suggested previously, pricing in Private Credit has gradually recovered post the COVID-19 write-downs, and as the economy has improved post-COVID a surge in prices in natural resources and real estate has enabled our Real Assets book to recently recover as well. Our Public Equity and Fixed Income portfolios gained 0.54% and 0.48% in May, respectively.

CALENDAR YEAR-TO-DATE:
In the first five months of CY 2021, SFERS portfolio has gained 11.54%. Private Equity has led the way, posting a return of 29.66% in just five months, due to several highly successful IPO's and writeups to public equity equivalents.

Our Private Credit, Public Equity, and Real Assets portfolios have gained 8.55%, 7.42%, and 7.30%, respectively. After a very rough 2020, our Real Assets portfolio has begun to recover, due to an improving economy which in turn has led to higher prices and increased demand for many types of goods. Our

Absolute Return book has gained 4.13% thru April, with May results expected around the time of the June Board meeting. Our Fixed Income book has lost 0.51% so far in 2021, due to a jump in interest rates.

FISCAL YEAR-TO-DATE:

With eleven months in the books for FY 2020-21, SFERS investments have posted a return of 30.62%. Private Equity has gained a surreal 59.92%, thanks to an especially robust IPO market for new economy businesses, particularly for technology, software, cloud computing, digital, and internet security businesses, as well as markups to public equity securities.

Our Public Equity book has gained a sterling 39.62% this fiscal year, initially due to high revenue and earnings growth among technology companies and scientific breakthroughs in the biotech sector, and more recently due to a broad recovery in other sectors, international stocks, and emerging market countries.

Our Private Credit and Absolute Return portfolios have gained 17.64% and 13.75%, respectively, for the fiscal year-to-date. Our Real Assets book has now edged out a solid return of 8.04%. Our Fixed Income portfolio has returned 2.66%, held down by low yields and rising interest rates.

2 – DISCUSSION OF SFERS RETURNS

This section is a follow-on to NEPC's enclosed quarterly performance report. In recent years when Staff presented its annual risk report to the Retirement Board, we noted the following regarding our investment strategy:

● We expected to outperform in down markets
● In a strong up market, we expected to post a strong return in absolute terms but we anticipated lagging our peers as well as a 60-30-10 portfolio of global stocks, U.S. bonds, and real estate
● Over a full market cycle, which we define as a bull market plus a bear market, we expected to outperform our peers as well as 60-30-10.

As noted in NEPC's Quarterly Performance Update, from April 1, 2020 to March 31, 2021, SFERS portfolio gained a lofty 29.63%. Meanwhile, a 60-30-10 portfolio gained 32.51% and our median peer returned 31.74%. As we expected, in a powerful market rally, SFERS strategy posted a very good return in absolute terms but we lagged the returns of our peers and 60-30-10.

As shown in the following table, over the past three and five years, SFERS has outperformed both our peers and 60-30-10. While the past one year includes just the strong bull market post-COVID, the past three and five years include the COVID-19 bear market in 1Q2020, the strong market in 2019, the bear market in 4Q2018 and the overall oscillating environment that marked CY2018,

Description	3 Mo's	FYTD	1 Year	3 Years	5 Years
SFERS Total Fund	5.03%	22.70%	29.63%	11.42%	11.79%
60% Global Stocks, 30% U.S. Bonds, 10% Real Estate (1)	2.24%	17.90%	32.51%	9.43%	9.69%
Median DB Plan > $1 billion	3.38%	19.78%	31.74%	8.93%	9.73%

(1) Please see page 18 of NEPC's enclosed quarterly performance report for the indices that comprise the 60-30-10 passive portfolio.

An important feature of our investment strategy, in addition to outperforming over a full market cycle and outperforming in down markets, is to incur less volatility and greater stability of returns and strong risk-adjusted returns. As shown in the following tables, SFERS risk-adjusted returns rank near the top. Over the past three years, the Standard Deviation of our returns ranks in the top 5% and has been nearly 30% less than our peers, and both our Sharpe Ratio and Sortino Ratio rank in the top 2% and have been nearly double the rate of our peers.

(Note: Standard deviation measures the volatility of returns, with lower measures and higher ranks indicating greater consistency of returns. Sharpe Ratio measures returns adjusted for the amount of volatility experienced, with high absolute numbers and lower ranks indicating high risk-adjusted returns. Sortino Ratio measures returns in down markets, again with higher absolute numbers and lower ranks indicating high risk-adjusted returns in falling markets.)

Risk-Adjusted Returns 3 Years	Annualized Std Dev	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
SFERS Total Fund	7.61%	5	1.32	2	1.65	2
Policy Index	10.17%	44	0.79	39	1.11	29
Median DB Plan > $1 billion	10.55%		0.72		0.95	

Risk-Adjusted Returns 5 Years	Annualized Std Dev	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
SFERS Total Fund	6.23%	6	1.71	2	1.91	2
Policy Index	8.26%	45	1.12	34	1.35	23
Median DB Plan > $1 billion	8.58%		1.01		1.14	

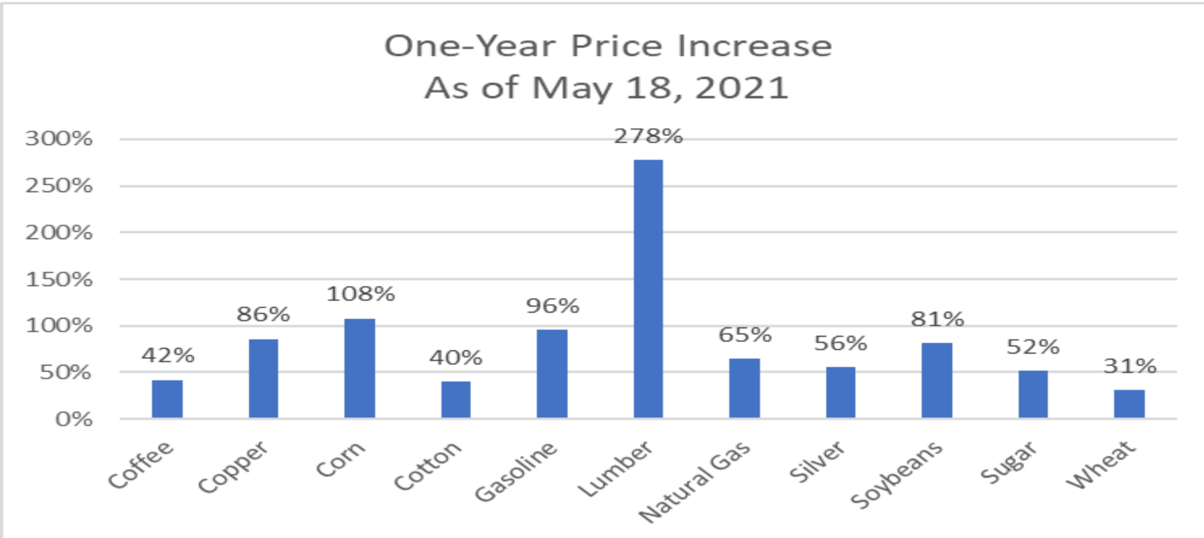
Another important feature of our investment strategy is our tilt toward new economy themes including technology, software, the digital transformation, cloud computing, internet security, biotech, genomics, the convergence of technology and medical science, and innovation more broadly. These tilts have been instrumental in SFERS outperformance over the past 3 and 5 years. However, in recent quarters they have been a headwind, as older and more mature businesses have recovered in value as the economy has improved and COVID-19 has receded. Our tilts could be a headwind for a few more quarters, as near-term quarterly comparisons are likely to favor previously depressed companies and as the economy further returns to normal.

That said, Staff thinks the tilts in our portfolio are unstoppable forces that are backed by a powerful retooling of how business will be done in the future.

<u>3 - INFLATION</u>

Inflation has suddenly jumped, with reported inflation the past one year of 4.2%, the largest one-year rate in more than a decade. The one-month inflation rate for April of 0.8% was the largest one-month increase in 40 years. The impact of printing trillions of dollars has had its impact on rising prices.

Further, the prices of some goods have surged very sharply. Over the past one year, the prices of the following goods have increased as follows:



Source: Wall Street Journal.

For many reasons, the reported rate of inflation may not accurately report the actual price increases experienced by consumers and business. These reasons include "the substitution effect", "hedonic adjustments", the innovation of new goods, taxes, and many other reasons.

The "substitution effect" is that when prices rise, consumers change behavior to buy less expensive goods. Thus, consumers are unable to afford the same standard of living that result from higher prices.

"Hedonic adjustments" are adjustments that, for purposes of reporting inflation, reduce the increase in the price of a good due to quality improvements in the good. For example, if the monthly charge for mobile phone service increases from \$100 to \$110 but the government deems that the quality of the service has improved by 10% due, for example, to expanded coverage service, voice or photo quality, or storage capacity, the reported rate of inflation for this item would be adjusted to zero, even though consumers are paying 10% more. Since the quality of goods is always improving, hedonic adjustments could understate the actual rate of inflation in a meaningful way.

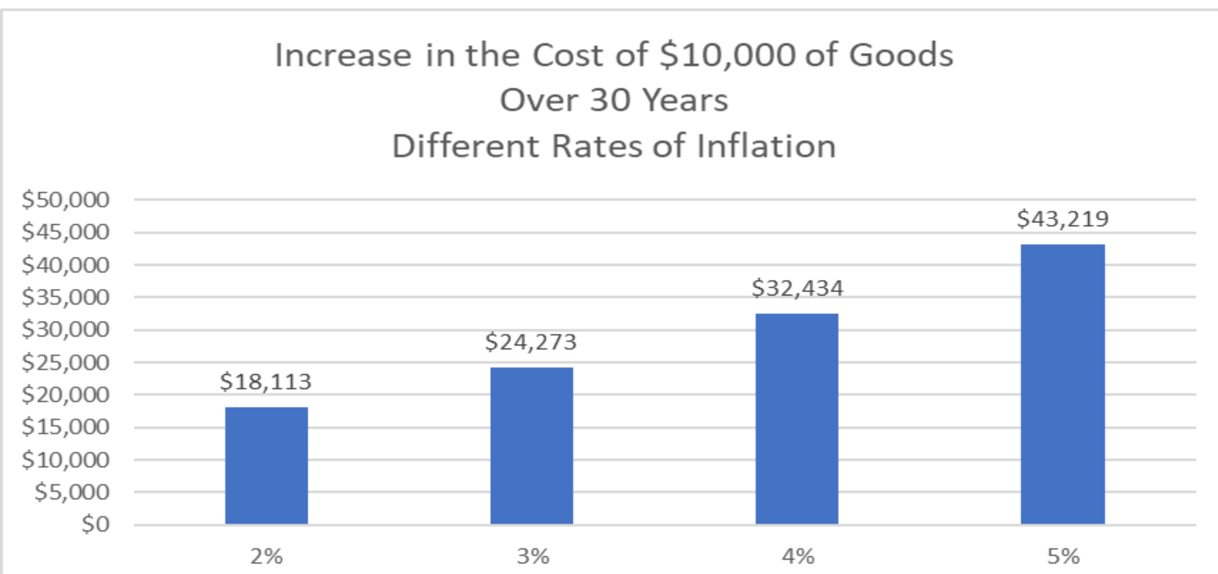
The innovation of new goods is sometimes not included in the inflation basket until the good has matured. For example, if the price of a laptop computer is unchanged from \$750 last year, the inflation rate for laptops is reported as zero. Twenty years ago, however, households and businesses were paying zero for laptops. In this instance, the most recent one-year inflation rate for laptops may be accurately conveyed, but the long-term cost of living impact may not be, when goods are included in the inflation basket only after they've become a common, mature good.

The Consumer Price Index (CPI) includes taxes such as sales taxes that are directly associated with the price of specific goods and services. However, the CPI excludes income taxes, social security taxes, and other taxes that are not directly associated with the purchase of consumer goods and services.

The inflation basket is based on an estimate of the typical basket of goods purchased by consumers. The U.S. Bureau of Labor Statistics (BLS), which calculates and publishes the CPI, tracks the prices of 80,000 different items, including groceries, gasoline, and rent, and determines the relative importance to the average household and produces two different national, four regional, and 10 metropolitan-area consumer price indexes every month. That said, the BLS considers only what consumers pay out of their own pockets. With respect to health care, the cost of employer health insurance is not included in the inflation basket.

In sum, inflation is “an inherently imprecise thing”, said Laurence Ball, an inflation expert and head of the economics department at Johns Hopkins University. “Different people consume different baskets of goods, so my personal inflation rate and your personal inflation rate could be different.” As noted in the October 17, 2016 edition of the Los Angeles Times, “critics say the formula for calculating the Labor Department’s widely used consumer price index has been altered in recent decades to create an artificially low inflation rate.” David Stockman, previous White House Budget Director, estimated that actual inflation was about 1% higher than reported. Other more skeptical critics estimate that actual inflation has been 3% higher than the reported rate.

Getting the inflation rate correct is vitally important. As the next chart shows, even modest under-reporting of inflation would have a large impact over long periods of time.



Inflation, at least as reported, has been dormant for the past 40 years. The recent spike in inflation has sparked uncertainty as to whether inflation will move meaningfully higher due to unprecedented levels of government spending or whether it will subside once stimulus measures recede. This discussion is intended to provide an overview of inflation including its complexity and importance.

4 – UPDATE ON BOARD APPROVED INVESTMENTS

● Crayhill Principal Strategies Fund II LP
At its meeting on May 12, 2021, the Retirement Board approved in closed session an investment of up to $70 million in Crayhill Principal Strategies Fund II LP. The investment was approved by the following vote:

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

SFERS' investment of $70 million in Crayhill Principal Strategies Fund II LP closed on May 25, 2021. This investment is classified as a global specialty finance investment within SFERS' Private Credit portfolio and is SFERS' first investment with Crayhill Capital Management.

More information about Crayhill Capital Management is available at www.crayhill.com.

● Controlled Environment Foods Fund II, LLC
At its meeting on April 14, 2021, the Retirement Board approved in closed session an investment of up to $50 million to Controlled Environment Foods Fund II, LLC ("CEFF II"). The investment was approved by the following vote:

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

SFERS' commitment of $40 million to CEFF II closed on May 13, 2021. SFERS' investment in CEFF II is classified as a Natural Resources investment within the Real Assets portfolio and is SFERS' first investment with Equilibrium Capital.

More information about the firm is available at https://eq-cap.com/.

● Hellman & Friedman Capital Partners X, L.P.
At its meeting on March 10, 2021, the Retirement Board approved in closed session an investment of up to $50 million in Hellman & Friedman Capital Partners X, L.P. The investment was approved by the following vote:

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

SFERS' investment of $50 million in Hellman & Friedman Capital Partners X, L.P. closed on May 10, 2021. The investment is classified as a mega buyout investment within SFERS' Private Equity portfolio and is SFERS' nineth investment with Hellman & Friedman.

More information about Hellman & Friedman is available at https://hf.com.

● Insight Partners XII, L.P. and Insight Partners XII Buyout Annex Fund, L.P.
At its meeting on April 14, 2021, the Retirement Board approved in closed session an investment of up to $100 million to be allocated between Insight Partners XII, L.P. and Insight Partners XII Buyout Annex Fund, L.P. The investments were approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond, Safaí, Stansbury
Noes: None
Absent: None

SFERS' investment of $50 million in Insight Partners XII, L.P. and $25 million in Insight Partners XII Buyout Annex Fund, L.P. closed on May 14, 2021.

These investments will be classified as Growth Equity within SFERS' Private Equity portfolio.

More information about Insight Partners is available on https://www.insightpartners.com/.

● Milestone Real Estate Investors V, LP
At its meeting on February 10, 2021, the Retirement Board approved in closed session an investment of up to $50 million to Milestone Real Estate Investors V, LP ("MREI V"). The investment was approved by the following vote:

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

SFERS' commitment of $40 million to MREI V closed on May 17, 2021. SFERS' investment in MREI V is classified as a Real Estate investment within the Real Assets portfolio and is SFERS' first investment with The Milestone Group.

More information about the firm is available at https://www.milestonegp.com/.

● TA XIV-A, L.P.
At its meeting on March 10, 2021, the Retirement Board approved in closed session an investment of up to $100 million to TA XIV-A, L.P. and TA Select Opportunities II-A, L.P. The investment was approved by the following votes:

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond, Stansbury
Nays: None
Absent: Commissioner Safaí

SFERS' total investment of $80 million in TA XIV-A, L.P. closed on May 27, 2021.

This fund is classified as a Growth Equity investment within SFERS' Private Equity portfolio.

More information about TA Associates is available on https://www.ta.com/.

● Vida Ventures III, L.P.
At its meeting on May 12, 2021, the Retirement Board approved in closed session an investment of up to $35 million to Vida Ventures III, L.P. The investment was approved by the following votes:

Ayes: Commissioners Bridges, Casciato, Driscoll, Gandhi, Heldfond, Safaí
Nays: None
Absent: Commissioner Stansbury

SFERS' total investment of $35 million closed on May 21, 2021.

This fund is classified as a Venture Capital investment within SFERS' Private Equity portfolio.

More information about Vida Ventures is available on https://vidaventures.com/.

5 – INVESTMENT COMMITTEE ON JULY 19, 2021 FROM 1:00 TO 4:00 P.M.

The next Investment Committee is scheduled for Wednesday, July 19th from 1:00 to 4:00 p.m. Four groups of SFERS investment team plus NEPC will be presenting. The agenda includes:

1- Annual report from Staff on SFERS Private Equity portfolio
2- Annual report from Staff on SFERS Real Assets portfolio
3- Annual report from Staff on SFERS Private Credit portfolio
4- Annual report from Staff on SFERS Liquidity Analysis and Pacing Schedule for Private Markets
5- Report from NPEC on Co-Investment transactions per the delegation of authority approved by the Board in January 2020 (rescinded in January 2021)

6 – PERSONNEL UPDATE

Staff has formed a plan to implement the investment staff portion of the Strategic Plan that the Retirement Board approved by the Board in January 2021 (the Strategic Plan was originally approved by the Retirement Board in January 2020; a revised plan was adopted by the Board in January 2021).

The personnel plan for FY 2021-22 builds the investment staff from its current budget of 23 (actual of 21) to 27 and provides for career track opportunities for many existing staff. The investment staff will be expanded to 31 in in FY 2022-23 and to 33 in FY 2023-24. For the changes taking place in FY 2021-22, job descriptions have been completed and recruitments are expected to begin in July or August.

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of June 9, 2021

To: Retirement Board

Through: Jay Huish
Executive Director

William J. Coaker Jr., CFA, MBA
Chief Investment Officer

From: Brady Jewett, CFA
Investment Analyst

Date: June 09, 2021

Re: Chief Investment Officer's Report – Plan Value

Best available data as of May 31, 2021

	Value[1,3] (000)	Weight (%)	MTD (%)	QTD (%)	YTD (%)	FYTD (%)
SFERS TOTAL FUND	**33,868,358**	**100.0**	**3.54**	**6.11**	**11.54**	**30.62**
Public Equity	12,699,521	37.5	0.54	4.03	7.42	39.16
Private Equity	9,135,938	27.0	11.44	14.82	29.66	59.92
GROWTH ASSETS	**21,835,460**	**64.5**				
Real Assets	3,895,305	11.5	2.68	3.65	7.30	8.04
Absolute Return[2]	3,644,061	10.8	0.00	1.30	4.13	13.75
DIVERSIFYING ASSETS	**7,539,366**	**22.3**				
Private Credit	1,758,751	5.2	2.22	3.33	8.55	17.64
Fixed Income	2,462,959	7.3	0.48	1.34	(0.51)	2.66
INCOME GENERATING ASSETS	**4,221,710**	**12.5**				
CASH[3]	**271,823**	**0.8**	---	---	---	---
LEVERAGE OFFSET[3]	**0**	**0.0**	---	---	---	---

[1] Valuations are preliminary and are reported gross of fees. The reported returns are based on prior month-end values that have been audited and adjusted by SFERS' Custody Bank since the last report. For non-daily priced vehicles, performance may include estimates or be proxied using benchmark performance.

[2] Absolute Return performance for most recent month is assumed to be 0%.

[3] Values reflect net exposures, not necessarily physical holdings.

SFERS - Asset Allocation Summary Report | As of May 31, 2021

	4/30/2021	Value In	Value Out	MV Δ[1]	5/31/2021	Current	LT Target	Range	7/31/2021 Projection			Unfunded
	----------- ($ Mn) -----------					----- Weight (%) -----			Expected Δ[2]	End $	End %	($ Mn)
GROWTH ASSETS	**21,054.5**	**65.6**	**295.3**	**1,010.7**	**21,835.5**	**64.5**	**60.0**	**45 - 75**	**80.0**	**21,915.5**	**62.6**	**3,008.4**
Public Equity	12,830.7	0.1	200.8	69.6	12,699.5	37.5	37.0	25 - 50	0.0	12,699.5	36.3	
United States	*3,610.8*	*0.0*	*0.1*	*(27.8)*	*3,583.0*	*10.6*						
Developed Ex US	*1,177.5*	*0.0*	*0.0*	*33.0*	*1,210.6*	*3.6*						
Emerging	*2,143.3*	*0.0*	*0.0*	*57.3*	*2,200.6*	*6.5*						
Global	*3,485.5*	*0.0*	*200.7*	*51.3*	*3,336.1*	*9.9*						
Opportunistic	*2,413.7*	*0.0*	*0.0*	*(44.3)*	*2,369.3*	*7.0*						
Private Equity	*8,223.8*	65.5	94.5	941.1	9,135.9	27.0	23.0	15 - 30	80.0	9,215.9	26.3	3,008.4
DIVERSIFYING ASSETS	**7,434.2**	**28.2**	**24.6**	**101.6**	**7,539.4**	**22.3**	**20.0**	**15 - 30**	**22.6**	**7,562.0**	**21.6**	**2,415.1**
Real Assets	*3,790.2*	28.2	24.6	101.6	3,895.3	11.5	10.0	8 - 15	50.0	3,945.3	11.3	2,153.5
Absolute Return	*3,644.1*	0.0	0.0	0.0	3,644.1	10.8	10.0	5 - 15	(27.4)	3,616.7	10.3	261.6
INCOME ASSETS	**2,676.7**	**33.3**	**52.4**	**45.9**	**2,703.6**	**8.0**	**15.0**	**5 - 25**	**90.0**	**2,793.6**	**8.0**	**1,524.1**
Liquid Credit	*937.2*	0.4	0.0	7.2	*944.8*	2.8	5.0	0 - 10	0.0	944.8	2.7	
Private Credit	*1,739.5*	32.9	52.4	38.7	1,758.8	5.2	10.0	3 - 15	90.0	1,848.8	5.3	1,524.1
CAPITAL PRESERVATION	**1,506.7**	**6.9**	**0.0**	**4.5**	**1,518.2**	**4.5**	**8.0**	**3 - 17**	**0.0**	**2,133.4**	**6.1**	**0.0**
Treasuries[4]	*1,506.7*	6.9	0.0	4.5	*1,518.2*	4.5	8.0	3 - 12	0.0	1,518.2	4.3	
Physical	*1,114.8*	0.0	0.0	3.3	*1,118.1*							
Synthetic	*391.9*	6.9	0.0	1.2	*400.0*							
CASH[4]	146.3	539.4	414.0	0.1	271.8	0.8	0.0	0 - 5	343.5	615.3	1.8	
LEVERAGE OFFSET[4]	0.0	---	---	---	0.0	0.0	0.0	0 - 5	0.0	0.0	0.0	
Gross Synthetic Exposure	*466.5*	*6.9*	*0.0*	*1.7*	*475.1*							
Investment Cash	*108.3*	*432.3*	*240.0*	*0.0*	*300.6*	*0.9*			343.5	644.1	1.8	
Dedicated Cash	*100.8*	*114.0*	*114.0*	*0.0*	*100.8*	*0.3*			0.0	100.8	0.3	
Cash Collateral, Receivables	*403.8*	*0.0*	*60.0*	*1.8*	*345.5*	*1.0*			0.0	345.5	1.0	
TOTAL PORTFOLIO	**32,818.4**	**0.0**	**114.0**	**1,162.8**	**33,868.4**	**100.0**	**103.0**	**100 - 105**	**536.1**	**35,019.7**	**100.0**	**6,947.6**

Notes: Target allocations and ranges were approved by the Board in November 2020.

[1] For non-daily priced vehicles, performance may include estimates or be proxied using benchmark performance.

[2] Expected Changes include Staff's planned rebalancing activity (for Liquid and Semi-Liquid asset classes) and Staff's estimated capital call and distribution projections (for Illiquid asset classes).

[3] Unfunded commitment estimates for private markets are provided by Burgiss as of the current month end and include only active funds.

[4] Values reflect net exposures, not necessarily physical holdings.

San Francisco City and County Employees' Retirement System

Cash Activities and Projections

As of May 31, 2021

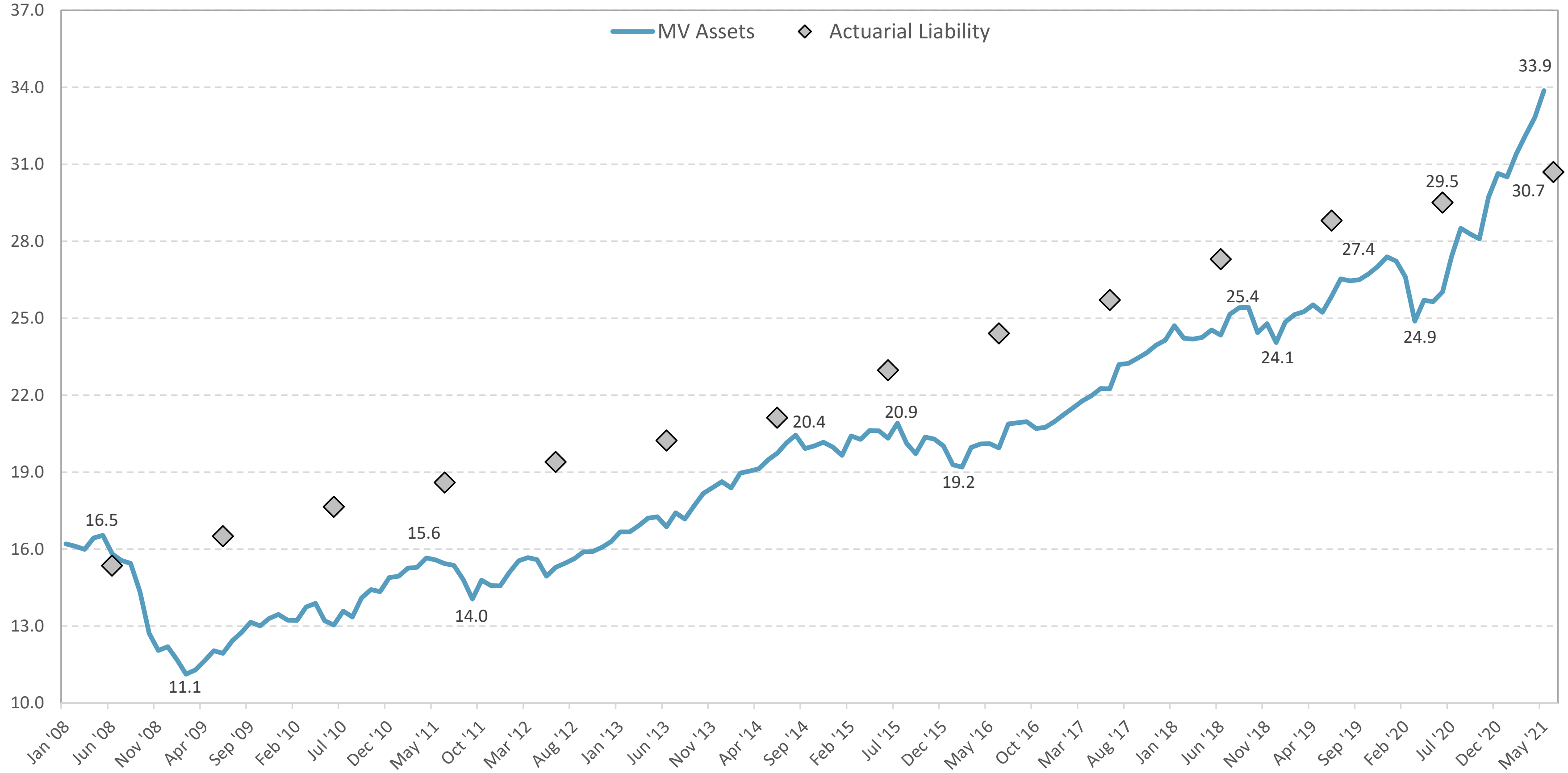
Investment Cash Account (In $ Million)	
Beginning Balance as of May 1, 2021	**108.3**
Public Equity Net Flows	200.7
Private Equity Net Flows	28.9
Real Assets Net Flows	-3.6
Absolute Return Net Flows	0.0
Liquid Credit Net Flows	-0.4
Private Credit Net Flows	19.5
Treasuries Net Flows	0.0
Funds to Dedicated Cash	-114.0
Funds to Other Cash	60.0
Receipts from Credit Line	0.0
Ending Balance as of May 31, 2021	**299.4**
2 Month Forward Projections	
Public Equity Estimated Flows	0.0
Private Equity Estimated Flows	-80.0
Real Assets Estimated Flows	-50.0
Absolute Return Estimated Flows	27.4
Liquid Credit Estimated Flows	0.0
Private Credit Estimated Flows	-90.0
Treasuries Estimated Flows	0.0
Receipts from Credit Line	0.0
Transfer to Dedicated Cash	-200.0
Prepayment of Annual Employer Contribution	736.1
Projected Ending Balance as of July 31, 2021	**642.9**
Credit Line	
Total Credit Available	250.0
Net Credit Drawn from BNY Mellon's Cash Release	0.0
Max Credit Utilized	0.0
Monthly Cost of Credit (basis points, annualized)	0.0
Ending Balance of Credit Drawn as of May 31, 2021	**0.0**

All Cash (In $ Million)[1]	
Beginning Balance as of May 1, 2021	**412.1**
Benefit Payment for May 2021	-114.0
Investment Cash Flows	305.1
Misc. Cash Receipts	0.0
Ending Balance as of May 31, 2021	**603.3**
2 Month Forward Projections	
June 2021 and July 2021 Benefit Payments	-200.0
Prepayment of Annual Employer Contribution	736.1
Investment Cash Flows	-192.6
Projected Ending Balance as of July 31, 2021	**946.7**

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

[1]All Cash comprises Investment and Dedicated cash accounts, as well as receivables from secondary sales.

SFERS - Monthly Assets



SFERS
San Francisco Employees' Retirement System

Notes: Data from January 31, 2008 through May 31, 2021. Total Plan market values through September 2020 are provided by NEPC. Data starting October 2020 is provided by BNY Mellon and should be considered preliminary. June 2021 Actuarial Liability should be considered preliminary.