CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND BOARD

RHCTF'S INVESTMENT CONSULTING RFP

RESPONSES TO ADDITIONAL QUESTIONS & UPDATED INVESTMENT POLICY STATEMENT

March 7, 2024

An error with the sequential numbering of certain questions in the RFP has been brought to our attention. Specifically, Section H Investment Consulting - questions 28-36 (pages 23-34). Despite the sequencing error, responses should maintain the numbers as they appear in the RFP.

Further, the Investment Policy Statement included in the RFP is not the most recent version. The current version follows:

City and County of San Francisco
Retiree Health Care Trust Fund

Investment Policy Statement

Approved and Adopted: May 22, 2014

Updated: July 28, 2014

Updated: September 15, 2014

Updated: November 20, 2017

Updated: September 29, 2020

Updated: May 17, 2021

I. Introduction

The City and County of San Francisco Retiree Health Care Trust Fund ("RHCTF" or "Fund") was created in 2009 for the sole and exclusive purpose of providing a funding source to defray the cost of the City's, and other Participating Employers', obligations to pay for health coverage for Retired Persons and their eligible spouses, registered domestic partners, dependents and survivors entitled to health care coverage under Charter Section A8.428. There are two Sub-Trusts under the RHCTF, one for the City and County of San Francisco and the other for the Community College District.

The San Francisco Retiree Health Care Trust Fund Board ("Board") is the governing fiduciary for the Fund, and, as such, is charged with governing the RHCTF.

The purpose of this Investment Policy Statement ("IPS") is to set forth the goals, objectives, and investment constraints of the Fund, and to establish guidelines for the implementation of investment.

II. Investment Goals

The Board recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the Fund and each Sub-Trust. As such, the Board has developed this IPS with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of Fund assets for each Sub-Trust;
- To establish a long-term target asset allocation with a likelihood of meeting Fund goals and objectives, given the explicit investment constraints;
- To protect the financial health of the Fund; and
- To clearly articulate duties of responsible parties.

III. Fiduciary Standards

a. As Trustees of the Fund and each Sub-Trust, Board members are fiduciaries. The Board operates under the "RHCTF Board Fiduciary Policy", and intends to act in accordance with that Policy in the context of exercising its investment responsibilities. Accordingly, Board members must:

   i. Act solely in the interest of Fund participants and beneficiaries, for the exclusive purpose of providing benefits and defraying the reasonable costs of managing Fund assets.

   ii. Exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.

iii. Diversify the investments of each Sub-Trust in order to minimize the risks of meaningful losses, unless under the circumstances it is clearly prudent not to do so.

iv. Act in accordance with the Fund authorizing statutes, Charter sections 12.204 and A8.432, and governing documents.

b. Fiduciary standards of conduct also apply to Fund staff, investment managers, custodians, investment consultants, and others who exercise discretionary authority or control over the management or disposition of Fund assets.

IV. Duties and Responsibilities

a. Board

The Board is responsible for establishing the policies and guidelines by which each Sub-Trust is managed. The Board also has authority over the selection and termination of investment consultants and investment managers

b. Staff

Staff is responsible for the oversight of the Investment Consultant, and recommendations to the Board on policies and guidelines by which the Fund is managed. This includes, but is not limited to, providing input on investment policy and asset allocation decisions for Board approval. In addition, Staff is responsible for working with the consultant to prepare a recommendation with respect to the selection and termination of investment managers, subject to Board approval.

c. Investment Managers

The Board employs professional investment managers and delegates to them the discretion to manage Fund assets for each Sub-Trust. Each investment manager will operate under a formal contract, which will include, but is not limited to, an outline of the strategy they have been hired to manage, performance expectations, and investment guidelines. The Board will periodically review the investment managers against their stated objectives.

d. Investment Consultant

The Investment Consultant is retained to provide performance reports, conduct asset allocation studies, complete manager due diligence, and provide overall investment recommendations, as requested by the Board. The recommendations of the Investment Consultant may be considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions.

e. Custodian Bank

The Custodian Bank holds the assets of the Fund. The Custodian Bank accounts for, and assists in, the settlement and transfer of assets for each Sub-Trust by investment managers and Fund Staff. The Custodian Bank is expected to provide the Fund with timely information as related to portfolio holdings, transactions, and performance.

V. Investment Objectives

The investment strategy of each Sub-Trust is designed to ensure the prudent investment of Fund assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

a. Risk Objectives

i. The Board recognizes that in order for the Fund to reach a generative rate of return and meet its expected liabilities, the Fund must allocate a portion of assets to riskier, higher returning assets.

ii. The Fund will use diversification to minimize company-specific, industry-specific, country-specific, and other idiosyncratic risks in the aggregate investment portfolio.

iii. The Board will monitor liquidity risk, thus maximizing the Sub-Trust's ability to meet disbursement needs during adverse market conditions.

b. Return Objectives

i. In a manner consistent with the goals stated in Section II above, to manage Fund assets so as to achieve the highest, reasonably prudent real return, with the lowest level of commensurate risk possible.

VI. Investment Constraints

a. Legal and Regulatory

The Board intends that Fund assets be at all times invested in accordance with applicable laws. The Board will retain legal counsel when appropriate to review contracts and provide advice with respect to applicable statutes and regulations.

b. Time Horizon

The Fund will be managed on a going-concern basis. Fund assets will be invested with a long-term time horizon (twenty years or more), consistent with the goals stated in Section II above.

c. Liquidity

The Board intends to monitor the percentage of assets that it will invest in illiquid vehicles, defined as those vehicles that do not allow withdrawals to occur on at least a monthly basis. For the Community College District Sub-Trust, it is anticipated that illiquid investments will not be appropriate given portfolio liquidity needs.

d. Tax Considerations

The Fund is exempt from U.S. federal, state, and local income taxes. Therefore, investments and strategies will be evaluated on a basis of expected risk and return regardless of taxable status, except where the prospect of Unrelated Business Income Tax ("UBIT") is a concern.

VII. Diversification

The Board recognizes that the important element of risk control is diversification. Therefore, investments in both Sub-Trusts will be allocated across multiple asset classes, chosen in part for the expected correlation of their returns. Within each asset type, the Board will seek to distribute investments across individual holdings, thus further minimizing volatility. In addition, for appropriate investment managers, investment guidelines will specify diversification requirements, including, but not limited to, the maximum permissible investment in any one asset.

VIII. Asset Allocation

The Board recognizes that the allocation of monies to various asset classes will be the major determinant of each Sub-Trust return and risk experience over time. Therefore, the Board intends to allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting Fund investment objectives.

a. Permissible Asset Classes

Because investment in any particular asset class may or may not be consistent with Fund objectives, the Board has specifically indicated in Appendix A those asset classes that may be utilized when investing Fund assets for each Sub-Trust.

b. Expected Returns, Risks, and Correlations for Permissible Asset Classes

The risk and return behavior of the Fund's Sub-Trusts will be driven primarily by the allocation of investments across asset classes. In determining the appropriate allocation, the expected return and risk behavior of each asset class and the likely interaction of various asset classes in a portfolio are to be considered. Appendix B lists the expected return, volatility, and correlations for each permissible asset class.

c. Long-Term Target Allocations

Based on the investment objectives and constraints of the Fund and its Sub-Trusts, and on the expected behavior of the permissible asset classes, the Board, based on recommendations from the Consultant and Staff, will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the Fund's overall market value, surrounded by a band of permissible variation resulting from market forces.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for each Sub-Trust's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the Fund. Deviations from targets that occur due to capital market changes are discussed below.

The target allocations of each Sub-Trust for all permissible asset classes are shown in Appendix C.

d. Rebalancing

In general, cash flows to and from the Fund will be allocated in such a manner as to move each asset class toward its target allocation for each Sub-Trust.

The Board recognizes that, periodically, market forces may move each Sub-Trust's allocations outside the target ranges. The Board also recognizes that failing to rebalance the allocations would unintentionally change each Sub-Trust's structure and risk posture. Consequently, the Board has established the following process to rebalance the allocations periodically.

On at least an annual basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to within the target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals. This rebalancing is considered a technical exercise and will be conducted with direction from the Consultant and Staff, and reported to the Board.

IX. Review of Investment Policy, Asset Allocation, and Performance

The Board, staff and consultant will review the Investment Policy Statement at least annually to ensure that the objectives and constraints remain relevant. However, the Board recognizes the need for a stable long-term Fund policy, and thus, in general, major changes to the Investment Policy Statement should only be made when significant developments in the circumstances, objectives, or constraints of the Fund and its Sub-Trusts occur.

The Fund's asset allocation and investment structure for both Sub-Trusts will be reviewed by staff, the consultant and the Board, at least every three years. A formal review will be conducted with Board participation. When necessary, such reviews may result in a rebalancing of asset allocation. In general, the Board intends that each Sub-Trust will adhere to its long-term target allocations, and that major changes to these targets should be made only in response to significant developments in the circumstances, objectives, or constraints of the Fund and its Sub-Trusts or in the capital market opportunities.

Staff and Consultant will evaluate and monitor Fund performance for each Sub-Trust relative to their objectives and to the returns available from the capital markets during the period under review, within the constraints created by size and structure. The consultant, with oversight from Staff, will report results to the Board and recommend a change in course of action when appropriate. In general, Sub-Trust performance will utilize relative, rather than absolute, benchmark results in evaluating performance. The total performance of the Fund and its Sub-Trusts will be evaluated relative to the investment objectives and constraints identified in this investment policy statement. Specifically, each of the Sub-Trust's performance will be evaluated relative to a "custom benchmark" that weights the returns of available market indices on the basis of the target investment structure, to assess the implementation of the investment strategy.

X. Investment Service Provider Review

Staff and the consultant (where applicable) will review periodically the Fund's investment managers, custodian, investment consultant and other investment service providers to verify that they remain appropriate for each Sub-Trust. Each provider's suitability as a Fund investment manager will be judged from a variety of perspectives including, but not limited to, stability and capability of professional staff, adherence to investment disciplines for which the manager was retained, business practices, prudent management of risk, investment performance, and client communication. If an outside structure is utilized to invest the assets, then the provider of the investment fund will be reviewed for consistency with Sub-Trust objectives.

The Board acknowledges that when the Fund is invested in collective investment vehicles, for example commingled trusts or mutual funds, the Board will not have control over selection of the underlying securities in the collective vehicles. However, designated staff/consultant, will conduct searches for, and recommend the managers, subject to Board approval. Staff and consultant will monitor these managers and investments, and, after notifying the Board can move assets to other investment products consistent with the underlying asset classes and allocations approved by the Board, under the following circumstances; 1) Significant Organizational change, 2) Senior Investment Staff Turnover, or 3) Unacceptable Performance Deviation. The Board will meet to ratify any such "crisis" manager terminations within 2 weeks.

XI. Investment Costs

The Board intends to monitor and control Fund investment costs:

- Professional fees will be negotiated whenever possible; staff and consultant will review existing fees periodically and re-negotiate them as appropriate.
- Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- If possible, assets will be transferred in-kind during manager transitions and portfolio restructurings to eliminate unnecessary expenses.
- Managers will be instructed to minimize brokerage, execution, and other costs.

XII. Voting of Proxies

The Board recognizes that the voting of proxies is important to the overall performance of Fund investments. The Board may delegate the responsibility of voting all proxies to investment managers or a third party. The Board expects that all proxies will be executed in a timely fashion. The Board intends to review the voting actions periodically. The Board retains the right to exercise acquired voting rights at any time.

XIII. Socially Responsible Investments

The Board recognizes that there may be unique circumstances which require the Board to consider socially responsible investments (or divestment) or other restrictions. The Board intends to consider such matters when appropriate, and when the size of the Fund is large enough that separate account mandates could be considered. The Board acknowledges that within commingled accounts or mutual funds, it may not have the ability to direct the specific inclusion or exclusion of securities.

XIV. Forbidden Assets and Strategies

The Fund's investment consultant may furnish appropriate investment managers retained by the Fund with a list of asset types and investment strategies that are forbidden as part of their investment manager guidelines.

Appendix A

Permissible Asset Classes – City and County of San Francisco Sub-Trust

Asset Class
Domestic Equity
International Equity
Emerging Market Equity
Investment Grade Bonds
High Yield
Bank Loans
Emerging Market Debt
Global Equity
U.S. Nominal Bonds
Inflation-linked Bonds
Real Estate
Global Macro
Private Equity

Appendix A (Continued)

Permissible Asset Classes – Community College District Sub-Trust

Asset Class
Domestic Equity
International Equity
Emerging Market Equity
Investment Grade Bonds
High Yield
Bank Loans
Emerging Market Debt
Global Equity
U.S. Nominal Bonds
Inflation-linked Bonds

Appendix B

Meketa Investment Group 2021 Annual Asset Study Twenty-Year Annualized Return and Volatility Expectations for Major Asset Classes

Asset Class	20-year Expected Return (%)	Standard Deviation (%)
Cash Equivalents	1.1	1.0
Investment Grade Bonds	1.8	4.0
Long-term Government Bonds	2.5	12.0
TIPS	1.8	7.0
High Yield Bonds	4.2	11.0
Bank Loans	4.0	9.0
Emerging Market Debt (local)	3.9	14.0
Private Debt	6.8	16.0
US Equity	6.8	18.0
Developed Non-US Equity	7.1	19.0
Emerging Non-US Equity	8.1	24.0
Global Equity	7.1	18.0
Private Equity	9.1	28.0
Real Estate	6.9	17.0
Core Private Infrastructure	7.0	14.0
Commodities	3.7	17.0
Hedge Funds	4.3	7.0
Inflation	2.1	3.0

Meketa Investment Group 2021 Annual Asset Study

Correlation Expectations for Major Asset Classes

	Inv. Grade Bonds	Long-term Gov't Bonds	TIPS	High Yield Bonds	US Equity	Dev. Non-US Equity	Em. Market Equity	Private Equity	Real Estate	Commod.	Core Infra. (private)	Hedge Funds
Investment Grade Bonds	1.00											
Long-term Government Bonds	0.82	1.00										
TIPS	0.77	0.53	1.00									
High Yield Bonds	0.23	-0.22	0.41	1.00								
US Equity	0.02	-0.32	0.19	0.75	1.00							
Developed Non-US Equity	0.10	-0.28	0.24	0.76	0.89	1.00						
Emerging Market Equity	0.15	-0.23	0.33	0.75	0.78	0.87	1.00					
Private Equity	0.00	-0.10	0.05	0.70	0.85	0.80	0.75	1.00				
Real Estate	0.20	0.05	0.10	0.50	0.50	0.45	0.40	0.45	1.00			
Commodities	0.02	-0.29	0.31	0.54	0.53	0.60	0.65	0.30	0.15	1.00		
Core Infrastructure (private)	0.30	0.15	0.30	0.60	0.55	0.55	0.50	0.45	0.60	0.35	1.00	
Hedge Funds	0.05	-0.34	0.26	0.78	0.86	0.88	0.86	0.60	0.45	0.67	0.60	1.00

Appendix C

Asset Allocation Targets – City and County of San Francisco Sub-Trust

Asset Class	Target (%)	Allocation Range (%)
Equities	**59.0**	**49-69**
US Equity Large Cap[1]	28.0	18-38
US Equity Small Cap[1]	3.0	1-5
Developed Market Equity (Non-U.S.)	15.0	10-20
Emerging Market Equity	13.0	8-18
Credit	**9.0**	**6-12**
Bank Loans/ High Yield Bonds	6.0	3-9
Emerging Markets Bonds	3.0	0-6
Rate Sensitive	**17.0**	**12-22**
Short-Term TIPS	4.0	0-8
Investment Grade Bonds	9.0	4-14
Long-Term Government Bonds	4.0	0-8
Private Markets	**10.0**	**0-15**
Private Equity	5.0	0-10
Private Core Real Estate	5.0	0-10
Risk Mitigating Strategies	**5.0**	**2-8**
Global Macro	5.0	2-8
Cash	**0.0**	**0-2**

[1] A dedicated target to US Equity Mid Cap was not established as it was acknowledged there would be Mid Cap exposure through the current passive managers in the US Equity Large Cap and Small Cap asset classes.

Appendix C (Continued)

Asset Allocation Targets – Community College District Sub-Trust

Asset Class	Target (%)	Allocation Range (%)
Equities	**68.0**	**58-78**
US Equity Large Cap[2]	31.0	23-39
US Equity Small Cap[1]	3.0	1-5
Developed Market Equity (Non-U.S.)	18.0	13-23
Emerging Market Equity	16.0	11-21
Credit	**9.0**	**6-12**
Bank Loans/ High Yield Bonds	6.0	3-9
Emerging Markets Bonds	3.0	1-5
Rate Sensitive	**23.0**	**18-28**
Short-Term TIPS	3.0	1-5
Investment Grade Bonds	15.0	10-20
Long-Term Government Bonds	5.0	1-9
Cash	**0.0**	**0-2**

[2] A dedicated target to US Equity Mid Cap was not established as it was acknowledged there would be Mid Cap exposure through the current passive managers in the US Equity Large Cap and Small Cap asset classes.