



# Retiree Health Care Trust Fund Board

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## **SPECIAL BOARD MEETING MINUTES**

**Wednesday, November 20, 2024 1:30PM**

City and County of San Francisco  
SFERS Office – 1145 Market Street, 6<sup>th</sup> Floor Conference Room  
San Francisco, CA 94103

### **RETIREE HEALTH CARE TRUST FUND BOARD MEMBERS**

*President*

**Pauline Marx**

*Vice President*

**Paul Denning**

*Members*

**Al Casciato**

**Katharine Petrucione**

**David C. Salem**

*Trust Administrator*

**Alison Romano**

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- American Sign Language interpreters will be available upon request.
- A sound enhancement system will be available upon request at the meeting.
- Minutes of the meeting are available in alternative formats.

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The chair of the meeting may allow an expelled person to return to the meeting following an agreement to comply with this rule.

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Sunshine Ordinance Task Force  
City Hall  
1 Dr. Carlton B. Goodlett Place, Room 244  
San Francisco CA 94103-4689  
(415) 554-7724  
by fax at (415) 554-7854  
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## CALENDAR

- **Roll Call**  
**Call to Order 1:35 PM**  
Al Casciato – Present  
Paul Denning – Present  
Pauline Marx – Present  
Katherine Petrucione – Present  
David Salem – Present

- 02132023-02 **Communications & General Public Comment**

Acting Board Secretary, Stephen Worsfold, reviewed public comment procedures for both in person and teleconference.

There was no public comment.

- 02132023-03 Action Item **Approve the Minutes of the August 26, 2024 Special Board Meeting**

Documents provided to Board prior to meeting: Minutes of the August 26, 2024 Special Meeting

**Action:** Moved by Commissioner Denning and seconded by Commissioner Casciato to approve the Minutes of the November 26, 2024 Special Board Meeting.

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

- 02132023-04 Discussion Item **Quarterly Review of Retiree Health Care Trust Fund Performance as of September 30, 2024**

Documents provided to Board prior to meeting: Staff Memorandum; Quarterly Review as of September 30, 2024 from Meketa Investment Group

Kurt Braitberg, SFERS Director of Public Markets, introduced this item.

Mika Malone, of Meketa Investment Group presented a written and oral report on this item.

Commissioner Salem asked about the September performance in China and if any recent stimulus created a riskier environment there. Mr. Braitberg responded that he was speculating but thought that China was reticent to offer any stimulus because their property markets were overstimulated. Many of their banks were over-leveraged, so they resisted adding more stimulus. So, they did incremental stimulus in the market, saying there was a lot of pent-up demand. The markets, which are driven primarily by retail investors in China, shot up over 25%, but the stimulus itself has been underwhelming in the intervening weeks, and many of those gains have come back. It was a run-up, particularly in September, so Mr. Braitberg thought that they were being very careful about how they plan to stimulate so they don't create other bubbles. The markets were excited in September and have been underwhelmed since then.

Commissioner Casciato asked for a straightforward statement that they could share with the public about how the fund was performing and referenced the financial trouble that City College is going through. Mr. Braitberg responded that we should be mindful that we have a target to earn 7% per year,

and that is our objective. The City will take out capital presumably in 2047, so we must compound the 7% a year to meet that projection. Since the inception of this trust, we've earned 8.3%, so it is doing well relative to our stated objectives.

Ms. Malone also highlighted that the Community College District's portfolio is performing better in the near term than the Retiree Healthcare Trust, predominantly because it is more exposed to publicly traded equity markets. The one-year performance is up 24.9%, which is going to be very difficult to beat, but this will put that fund well ahead of most peers. This portfolio has produced an 8.1% annualized return since its inception in September 2015, well ahead of 7%.

Commissioner Casciato followed up, asking what would happen to the Sub-Trust if the Community College District became insolvent. Caryn Bortnick, SFERS Chief Operating Officer, responded that the Charter says that we invest the contributions we receive, so if they dissolve and they stop providing contributions; we still have a trust that we are obligated to manage. Certain circumstances are prescribed in the charter under which a participating employer can withdraw those contributions. We would have to see at that point in time whether and how they would meet those requirements if they wanted to withdraw those contributions.

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

□ 02132023-05                      Action Item                      **Review of Risk Mitigating Strategies**

Documents provided to Board prior to meeting: Staff Memorandum; Review of Risk Mitigating Strategies from Meketa Investment Group

Mr. Braitberg introduced this item.

Ryan Lobdell, Managing Principal/Head of Marketable Alternatives for Meketa Investment Group, presented a written and oral report on this item.

Commissioner Salem asked about the second responder period, if the first responders are capturing the appreciation, how those decisions are being made, and whether we are in contact with them during these periods. Mr. Braitberg responded that they speak with them often, but they have discretion here and are expected to make those decisions quickly and without staff input. Anything that they tell us is generally after the fact. In some cases, staff has offered observations and criticisms on how they should monitor and manage the portfolio, but they were hired to do this. They don't seek staff input and will tell us after the fact, and that's the expectation.

Ms. Malone noted that it might be a good time to share that part of the process for reviewing the program with the Board and refreshing the thesis on why we have RMS in the portfolio. It's also one of the things that Meketa and staff have been walking through. Ms. Malone said that we always want to look at all of your asset classes to ensure we've got the right mix of strategies. So, just like the Board did with GQG, we complemented them with ARGA today. We wanted to look at the Man FRM portfolio and see if we get all the exposures we want. It's a big part of the portfolio. Ms. Malone asked we want to complement it with something else? Ultimately, through conversations with Man FRM, they're adjusting the underlying strategies to better align this portfolio with how we believe RMS should be constructed.

Mr. Braitberg noted there's a third level of monetization, which lies with us because this is a reasonably liquid strategy, and if it exceeds our targets, we have the decision to make. Do we monetize it ourselves? Do we redeem from them? We had these discussions, particularly in February and March of 2020, when everything rose so quickly, and we were overweight. The luxury we have in managing this

portfolio is the city continues to make contributions on a monthly basis, so rather than redeeming, we just allocated elsewhere.

Commissioner Marx thanked the staff and Meketa for the presentation. Mr. Braitberg recommended going through the appendices for detailed descriptions.

Commissioner Marx asked if Man FRM is the sole provider of the RMS portfolio. Ms. Malone confirmed. Mr. Braitberg noted that they have discussed this over the last few years. Do we want to diversify that exposure? Do we want to do something directly that complements Man FRM? Do we want to hire another fund-to-funds or manager of managers? Ultimately, based on conversations that staff and Meketa have had with Man FRM, we think this remains a good solution for us.

Commissioner Marx asked if other specialists in this area manage funds. Mr. Braitberg confirmed that there are, but not many.

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

□ 02132023-06                      Action Item                      **Approve a \$30 Million Commitment to HarbourVest XIII for the City & County Sub-Trust's Private Equity Portfolio**

Documents provided to Board prior to meeting: Staff Memorandum; Approve a \$30 Million Commitment to HarbourVest XIII for the City & County Sub-Trust's Private Equity Portfolio

Kurt Braitberg, RHCTF CIO and SFERS Director of Public Markets introduced this item.

Paola Nealon, Managing Principal/Consultant at Meketa, gave a written and oral presentation.

Commissioner Casciato asked for elaboration about the fund size being a weakness. Ms. Nealon responded that it makes the fund less nimble but believes the fund's overall track record makes it a good investment. Mr. Braitberg noted that the fund is raising \$2.5 billion, so they should still be able to access smaller emerging managers.

Commissioner Marx asked about the weakness of the lack of preferred returns. Mr. Braitberg stated that in private markets, typically, you pay an incentive fee over a preferred return, but in this case, they charge a 10% performance fee over zero.

Commissioner Denning asked about the future of fund-to-fund investments for this asset class and whether the RHCTF will be able to invest directly like SFERS. Mr. Braitberg responded that while the RHCTF may not be capital-constrained, it is resource-constrained. He also noted that HarborVest has performed well despite the additional fees.

Commissioner Salem asked how this fund fits into the diversification of the private equity portfolio. Mr. Braitberg responded that it has already been diversified between buyout and venture.

Commissioner Marx asked if the management fee was on the full commitment. Ms. Nealon referred to page 4 of the presentation to highlight the fee structure and noted the average 65 basis points on committed capital.

**Action:** Motion made by Commissioner Petrucione and seconded by Commissioner Casciato to Approve a \$30 Million Commitment to HarbourVest XIII for the City & County Sub-Trust's Private Equity Portfolio

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

02132023- 07                      Action Item                      **Approve a \$20 Million Commitment to Silver Rock Tactical Allocation Fund - Vintage 2024 for the City & County Sub-Trust's Private Credit Portfolio**

Documents provided to Board prior to meeting: Staff Memorandum; Approve a \$20 Million Commitment to Silver Rock Tactical Allocation Fund - Vintage 2024 for the City & County Sub-Trust's Private Credit Portfolio

Kurt Braitberg, RHCTF CIO and SFERS Director of Public Markets introduced this item.

Maya Ortiz de Montellano, Private Credit Research Professional for Meketa, gave a written and oral presentation.

Commissioner Petrucione asked if this investment was further along the risk scale. Ms. Ortiz de Montellano responded that because it is a co-fund, it combines the two, with the \$15 million in the main fund, relatively diversified across 25 to 30 holdings plus the little extra in the co-invest fund, so it doesn't disproportionately change the risk profile, and it lowers the fees.

Commissioner Salem asked how much the GP would invest in the fund. Mr. Braitberg responded with 2%, which is relatively standard.

Commissioner Denning asked about Vinay Kumar and whether it is concerning that the fund closes in nine months. Ms. Ortiz de Montellano responded that Vinay Kumar was very central to the deployment of the fund and deal structuring. Kumar was effectively hand-picked to run this strategy, and there is trust in his ability to execute. She also said that Meketa has no concerns about their ability to raise money for the fund.

Mr. Braitberg added that he recalled that in August, they closed on about \$2.7 billion, and they'll have another close towards the end of the year, and they expect to make the \$4 billion by Q1-2025.

Commissioner Denning thanked staff and Meketa for the presentation.

**Action:** Motion made by Commissioner Salem, and seconded by Commissioner Denning to Approve a \$20 Million Commitment to Silver Rock Tactical Allocation Fund – Vintage 2024 for the City & County Sub-Trust's Private Credit Portfolio

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

02132023-08      Action Item

**Approve a 40% Allocation to ARGA Emerging Markets Value Fund in the Existing Emerging Market Equity Exposure for both Sub-Trusts**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Emerging Markets Equity Manager Search

Kurt Braitberg, RHCTF CIO and SFERS Director of Public Markets introduced this item.

Merav Kaufman, research analyst for Meketa, gave a written and oral presentation.

Commissioner Denning asked about the political risks of investing in China and India. Ms. Kaufman responded that they generally leave country allocation to our managers, and they try to have our clients diversify across managers like we're doing here to ensure they're not overexposed to any one country. Mr. Braitberg explained that there is an asset allocation to emerging markets, and China and India are the two largest markets. He also noted that these two managers have been able to move in and out of China nimbly, and he expects that to continue.

Commissioner Salem referred to the chart on page 15 of the presentation and asked if they wanted to be in the upper left-hand quadrant, which represents the highest return with the lowest risk, and wanted to know if there were managers with good returns and less risk. Mr. Braitberg responded that the risk is somewhat mitigated for this allocation because the two are uncorrelated. When you combine them, you end up with a lower risk profile without compromising the return.

Commissioner Salem asked if the investments were made into accounts inside China or India. Mika Malone of Meketa Investment Group explained that this is why you should use a commingled vehicle or even a mutual fund in this space, although those vehicles tend to come at a slightly higher cost.

Commissioner Denning asked about due diligence for these investments when staff is unable to meet in person. Ms. Kaufman responded that it had been a significant shift since COVID, but most of the due diligence is done in person and on Zoom. They have comfort in both scenarios that have developed over time.

Action: Motion made by Commissioner Casciato and seconded by Commissioner Denning to Approve a 40% Allocation to ARGA Emerging Markets Value Fund in the Existing Emerging Market Exposure for Both Sub-Trusts.

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

- ☐ 02132023-09                      Action Item                      **Approve Amendments to Policy Regarding Disclosure of Placement Agent Fees, Gifts and Campaign Contributions**

Documents provided to Board prior to meeting: Staff Memorandum; Staff Memorandum; Proposed Policy - Redlined; Proposed Policy, Clean Version with Amendments

Caryn Bortnick, SFERS Chief Operating Officer, introduced this item.

Commissioner Marx asked if, in practice, these payments are being made currently. Mr. Braitberg responded that what happens now is that we have an obligation to provide them with the policy and the form, and they would confirm. Mr. Braitberg said he believed that, to date, that none of the funds that have been recommended have used a placement agency, but each manager attests to that.

Tran Ly, Deputy City Attorney clarified that the policy isn't that they're not allowed to use a placement agent, it's that they must disclose use of the placement agent, and that's consistent with California law.

The Board discussed some of the difficulties of completing the training using practical definitions and asked if there was more specialized training.

Alison Romano, SFERS CIO, and CEO told the Board that SFERS had developed materials with the City Attorney and the Ethics Commission. SFERS will conduct training sessions, and if it is deemed a good use of time and productive for the SFERS team, it can be extended to the RHCTF Board as well.

Ms. Bortnick said that we know the rules are difficult to understand and have contacted the Ethic Commission for direction.

**Action:** Motion made by and seconded by Commissioner Petrucione and Seconded by Commissioner Denning: Approve amendments to Policy Regarding Disclosure of Placement Agent Fees, Gifts and Campaign Contributions.

No vote taken

- ☐ 02132023-10                      Discussion Item                      **Trust Administrator Report**

Documents provided to Board prior to meeting: Staff Memorandum; Cortex Report

Caryn Bortnick, SFERS Chief Operating Officer, introduced this item and asked Board members to contact her directly if they are interested in the educational opportunities listed in the Cortex Report.

Ms. Bortnick told the Board that we are preparing our budget for next year, and under city law, we are required to hold two meetings before February 14. Ms. Bortnick proposed the first meeting on January 22 and a second on February 3, and the Board agreed.

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

- 02132023-11                      Discussion Item                      **Good of the Order**

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

- **Adjourned: 3:48 PM**

The next special meeting is Wednesday, January 22, 2025