



# **Retiree Health Care Trust Fund Board**

## **SPECIAL BOARD MEETING MINUTES**

**Monday, August 26, 2024**

**1:30 p.m.**

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**

### **Disability Access**

The meeting will be held at the SFERS Office, 1145 Market Street, 6<sup>th</sup> floor, San Francisco, CA 94103. The Retiree Health Care Trust Fund Board Meeting Room is wheelchair accessible. Accessible seating is available for persons with disabilities or wheelchairs. The following services are available upon request:

- 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.

If you require the use of any of these services, contact Kelsey Lim, Board Secretary, at (415) 487-7507 or by email at [kelsey.lim@sfgov.org](mailto:kelsey.lim@sfgov.org) at least two (2) business days before the meeting.

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

### **Summary of Retiree Health Care Trust Fund Board Policy Regarding Public Comment**

Speakers are urged to fill out a speaker card in advance, but may remain anonymous if so desired. A member of the public has up to three minutes to make pertinent public comments before action is taken on any agenda item. A member of the public may comment on any matter within the Board's jurisdiction at the designated time at the end of the meeting. Call Kelsey Lim, Board Secretary, for further assistance at (415) 487-7507 or email at [kelsey.lim@sfgov.org](mailto:kelsey.lim@sfgov.org).

### **Summary of Retiree Health Care Trust Fund Board Policies Regarding Cell Phones and Pagers**

The ringing and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting.

The chair of the meeting may order the removal from the meeting room of any person(s) in violation of this rule.

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

### **Knowing Your Rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code)**

Government's duty is to serve the public; reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For more information on your rights under the Sunshine Ordinance or to report a violation of the ordinance, contact:

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

Citizens interested in obtaining a free copy of the Sunshine Ordinance can request a copy from the Clerk of the Sunshine Ordinance Task Force or by printing Chapter 67 of the San Francisco Administrative Code located on the Internet at <http://www.sfgov.org/sunshine/>. To review or obtain meeting documents covered under the Sunshine Ordinance contact Kelsey Lim, Board Secretary, SFERS, 1145 Market Street, 5<sup>th</sup> Floor, San Francisco, CA 94103; telephone (415) 487-7507; or send an email with your request to [kelsey.lim@sfgov.org](mailto:kelsey.lim@sfgov.org).

### **Location of materials accompanying agenda items and materials distributed less than 72 hours before meeting.**

Meeting materials are available for inspection and copying during regular business hours at SFERS, 1145 Market Street, 5<sup>th</sup> Floor, San Francisco, CA 94103; please ask for Sofia Millham, Board Secretary. Any materials distributed to the members of the Board within 72 hours of the meeting or after the agenda packet has been delivered to the members are available for inspection at the same location during regular office hours.

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

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance (SF Campaign & Governmental Conduct Code § 2.100 -2.160) to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102; telephone (415) 252-3100; fax (415) 252-3112; or web site [www.sfgov.org/ethics](http://www.sfgov.org/ethics).

# CALENDAR

- **Roll Call**      **Call to Order: 1:30 PM**  
Al Casciato -- Present  
Paul Denning – Present  
Pauling Marx -- Present  
Katharine Petrucione - Present  
David Salem – Present
  
- 08262024-02      **Communications & General Public Comment**  
  
Board Secretary, Kelsey Lim, reviewed public comment procedures for both in person and teleconference.  
  
No Public comment
  
- 08262024-03      Action Item      **Approve the Minutes of the May 20, 2024 Board Meeting**  
  
Documents provided to Board prior to meeting: Minutes of the May 20, 2024 Meeting  
**Action:** Moved by Commissioner Casciato and Seconded by Commissioner Denning to Approve the Minutes of the May 20, 2024 Meeting.  
  
Ayes: Casciato, Denning, Marx, Petrucione, Salem    Nays: None
  
- 08262024-04      Action Item      **Approve the Recommendation to Exercise the Option to Extend the Custody Services Agreement with Northern Trust for an Additional 5 Year Period**  
  
Documents provided to Board prior to meeting: Staff Memorandum; Northern Trust Service Review Material; Meketa Custody Service Review  
  
Kurt Braitberg, RHCTF CIO and SFERS Managing Director- Public Markets, introduced this item.  
  
Commissioner Salem asked Staff to explain why the Board may have only received two responses from fund custodians.  
  
Mr. Braitberg explained that Meketa's RFI was conducted anonymously. The three big custodians are Bank of New York, State Street, and Northern Trust who all work with trillions of dollars. He went on to say his best guess would be that due to the RHCTF size of 1.5 billion dollars, it was not within these custodians' business model.  
  
**Action:** Moved by Commissioner Petrucione and seconded by Commissioner Salem to approve the recommendation to exercise the option to extend the Custody Services Agreement with Northern Trust for an additional 5 year period.  
  
Ayes: Casciato, Denning, Marx, Petrucione, Salem    Nays: None
  
- 08262024-05      Discussion Item      **Quarterly Review of the Retiree Health Care Trust Fund Performance as of June 30, 2024**  
  
Documents provided to Board prior to meeting: Staff Memorandum; Quarterly Review as of June 30, 2024 from Meketa Investment Group

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

Mika Malone, of Meketa Investment Group, presented a written and oral presentation.

Commissioner Marx asked if there was a strategy concerning the concentration of market value in the few high tech companies.

Mr. Braitberg responded that concentration is in Large Cap US Securities. Staff index everything there. One of the mitigants to the concentration risks in the equity market is through what Meketa calls RMS Strategies, also described as macro strategies. Ms. Malone has mentioned GQG, which is the Trust's Emerging Markets Manager. The Trust has 120 million dollars with GQG, which is appears to be transitioning from more of an Emerging Markets-focused strategy to Global strategy. Over the past few months, Staff have been reduced allocations to GQG down to the target weight for Emerging Markets. Staff and Meketa are considering other strategies to complement GQG.

Commissioner Denning questioned how Staff take into account artificial intelligence, considering it's level of skill, intended use, and effectiveness when strategizing plans for the Board.

Ms. Malone noted that one of the biggest challenges is not just how technology itself change the game, but also how consultants operate, how Staff will monitor and manage the Trust's portfolio. AI certainly changes the way underlying active managers are using models to watch earnings reports and piece that information together. The other standpoint to that thought is as an investor, where there are companies like NVIDIA or ChatGPT.

Steve McCourt, of Meketa Investment Group, added that currently, the stock markets are willing to reward any companies willing to invest capital in AI. Very shortly, the market is going to change it's focus and begin to insist that companies show how they make a return on AI investment. The commercial side of this is unknown. Companies have been very successful at building data centers and infrastructure around AI. However, they do not know how they will capitalize on that internal profit on the hundreds of billions of dollars that they are spending on AI. There is optimism, but the biggest risk is when the market begins to change it's focus from rewarding AI investment to return on investment.

Commissioner Salem noted that the Board has 10% in Global Macro. He questioned what the effect of Global Macro Strategies would have been if the quarter had ended at the bottom of volatility. He suggested that perhaps a discussion for another day, would be why the Board needs Global Macro at all.

Kurt Braitberg responded that RMS is meant to be a mitigant against equity market dislocations. In 2020, during Covid, when the Market dropped, that strategy was up. Similarly in 2022, the equity markets and bond markets were negative, RMS was positive. These strategies are not great when there are rapid and large reversals in the markets. Recently, the Japanese equity markets fell 12% in one day and then quickly recovered. If there is a trend where markets continue to fall throughout the week, then the strategy likely would have been positive. In a prolonged down draft, Staff expect the strategy to protect the portfolio.

Commissioner Salem wanted reassurance the Board is getting value within Man FRM considering there is 110 million in that strategy.

Mr. Braitberg reassured the Board they absolutely got value out of the strategy, particularly in 2022 when everything was negative. Man FRM was positive. Mr. Braitberg also mentioned that the Board could continue a more in-depth conversation at the next meeting.

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

□ 08262024-06 Discussion Item **Core Real Estate Review**

Documents provided to the Board prior to meeting: Staff Memorandum; Meketa Investment Group's Core Real Estate Review

Mr. Braitberg introduced this item.

Scott Maynard, of Meketa Investment Group, presented a written and oral presentation on this item.

Commissioner Marx asked how the private secondary markets work.

Mr. Maynard explained that people within the redemption queue that need capital and are not getting payment from the managers, can go to a broker and sell their share to someone who might want additional shares and it will often be at a discount. It is essentially a third party transaction.

Commissioner Petrucione asked what the Board should do with this Core Real Estate information.

Mr. Braitberg responded Staff and the Board have had three previous discussions around real estate. It is the one asset class that really is challenged right now. Staff wanted the Board to know the Trust is intentionally underweight and not deploying new capital into these funds. Staff and the Board will discuss next quarter, but this may be a good time for new capital in funds that have a clean balance sheet with no legacy assets.

Commissioner Denning asked what Staff and Meketa's thoughts were on international real estate.

Scott Maynard responded that Europe is a little bit farther ahead in repricing than the United States. Last quarter, Europe was flat within their core plus fund, so their repricing is already finished. This is a good time to deploy capital on the upswing. Historically, returns are a lot lower in Europe. The diversification benefit is not as strong. The more attractive opportunity is within Asia Pacific because the diversification benefit is a lot greater. However, you begin to deal with currency risk and additional risks that you have to wonder about risk versus reward.

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

□ 08262024-07 Action Item **Approve Retaining a General Investment Consultant**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Private Market Pricing Studies

Kurt Braitberg introduced this item.

Mika Malone, along with several other team members from Meketa Investment Group- including Paola Nealon, Jason Leong-Campbell, Scott Maynard, and Steve McCourt - presented a written and oral presentation on this item.

Commissioner Salem asked what measures does Meketa put into place to ensure the information they bring to this Board is on the up and up and not self-serving.

Steve McCourt replied all information presented to the Board is vetted through several committees before it is shared with clients. Moreover, Meketa is owned fully by it's employees. Meketa has no outside ownership interest. It is not a public company that needs to make quarterly earnings or revenue. Meketa's main goal is and has been to help it's clients.

Mika Malone added that Meketa does not hold any conferences for investment managers or allow

managers to pay Meketa to be a part of their database. This is another way to ensure there is no alternative relationships with managers.

After Meketa finished their presentation, members from Wilshire presented a written and oral presentation. Members from Wilshire who attended the meeting were Christopher Tessman, Thomas Toth, and Ali Kazemi.

Commissioner Denning wondered how often does Wilshire meet in person with investment staff in person in order to collaborate.

Chris Tessman responded Wilshire is willing to meet as often as a client would like to meet. This Board meets quarterly, so Wilshire could meet in person or virtually and is happy to arrange either preference to run as smoothly as possible, so the Board has the information it needs.

Commissioner Salem asked what controls does Wilshire have in place to ensure there are no backside payments and the information presented to the Board is best for this firm.

Mr. Tessman replied that Wilshire has an extensive compliance system that all transactions, outside business, outside expenditure and activities are processed through to ensure there is no influence from any particular manager.

Mr. Braitberg shared Staff's research and thoughts on both firms for Meketa and Wilshire. He noted that both firms are very capable when it comes to experience with Boards and educational materials.

Commissioner Petrucione asked if choosing another firm would make a significant impact for the Trust's portfolio.

Mr. Braitberg replied that in short, there is no catalyst to interviewing firms, other than Staff were required to have an RFP. There would not be a significant impact on changing firms.

Commissioner Salem shared his thoughts on Meketa stating he is comfortable with the working relationship this Board has with Mika Malone who has been with this Board since it's inception.

Mr. Braitberg stated that he agrees with the comments made about Mika Malone, of Meketa Investments, but the same could also be said of Ali Kazemi, of Wilshire, who SFERS Staff have worked closely with as well.

**Action:** Moved by Commissioner Casciato and seconded by Commissioner Salem to approve retaining a general investment consultant.

Ayes: Casciato, Denning, Marx, Petrucione, Salem    Nays: None

□ 08262024-08    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.

The Board discussed a special Board meeting date for November meeting due to conflicting schedules and holiday.

The next scheduled Board meeting is Wednesday, November 20, 2024.

Action: This item is a discussion item only.

□ 08262024-09    Action Item    **Election of Board President**

Documents provided to Board prior to meeting: Staff Memorandum

Action: Motion made by Commissioner Petrucione and seconded by Commissioner Salem to elect Pauline Marx as Board President.

Ayes: Casciato, Denning, Marx, Petrucione, Salem      Nays: None

- 08262024-10    Action Item      **Election of Board Vice President**

Documents provided to Board prior to meeting: Staff Memorandum

Action: Motion made by Commissioner Casciato and seconded by Commissioner Marx to elect Paul Denning as Board Vice President.

Ayes: Casciato, Denning, Marx, Petrucione, Salem      Nays: None

- 08262024-11    Discussion Item      **Good of the Order**

RHCTF Board members may request that any matter be calendared at a future meeting. All such requests shall be calendared in a reasonable time. (RHCTF Board Operations Policy ¶17.) 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.

Action: This was a discussion item only.

### **Adjourned at 5 PM**

Next scheduled meeting is Wednesday, November 20, 2024 at 1:30pm

