



Retiree Health Care Trust Fund Board

BOARD MEETING MINUTES

Special Meeting

Monday, February 25, 2019

9:00 a.m.

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

RETIREE HEALTH CARE TRUST FUND BOARD MEMBERS

President

Katharine Petrucione

Vice President

David Salem

Members

Pauline Marx

Clare Murphy

Ed Walsh

Trust Administrator

Jay Huish

SFERS Executive Director

Disability Access

The meeting will be held at the SFERS Office, 1145 Market Street, 6th 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 Sofia Millham, Board Secretary, at (415) 487-7055 or by email at sofia.millham@sfgov.org at least two (2) business days before the meeting.

The closest accessible BART Station is Civic Center, three blocks from City Hall. Use the Market and 8th Street exit. Accessible MUNI lines serving this location are: 5, 9, 9L, 19, 47 and the F Line to Market and 8th and the Metro stations at Civic Center. For more information about MUNI accessible services, call (415) 923-6142. There is accessible parking in the vicinity of City Hall at Civic Center Plaza adjacent to Davies Hall and the War Memorial Complex.

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 Sofia Millham, Board Secretary, for further assistance at (415) 487-7055 or email at sofia.millham@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 sof@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 Sofia Millham, Board Secretary, SFERS, 1145 Market Street, 5th Floor, San Francisco, CA 94103; telephone (415) 487-7055; or send an email with your request to sofia.millham@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, 5th 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.

CALENDAR

- **Roll Call** **Call to Order 9:02 AM**
 - Commissioner Petrucione – Present
 - Commissioner Salem – Present
 - Commissioner Marx – Present
 - Commissioner Murphy – Present
 - Commissioner Walsh - Present

- 02252019-02 **General Public Comment**

Commissioner Petrucione noted that there were no members of the public present.

- 02252019-03 Action Item **Semi-Finalist Presentations – General Investment Consultant Services RFP**

Documents provided to Board prior to meeting: Staff Memorandum

Kurt Braitberg, SFERS' Managing Director for Public Markets, presented a verbal report on this item. He discussed a set of sample questions provided to the Board for use during the Semi-Finalist presentations. He reported that SFERS staff determined that all three candidates, NEPC, Verus and Meketa, are capable.

Commissioner Petrucione noted for the record that she would have to leave the meeting by 11:50 PM.

Commissioner Petrucione requested that each commissioner select a question from the list to ask each presenter.

Daniel Hennessy, Senior Consultant, and Phill Nelson, Director of Asset Allocation, of NEPC gave an oral and written presentation on their proposed services.

They presented:

- NEPC's experience with post-employment benefit plans;
- Observations on RHCTF's current asset allocations;
- Glide path approach to setting asset allocations;
- High level proposed work plan;
- An overview of NEPC's structure and the proposed team for RHCTF; and
- Implications of current market on RHCTF.

Commissioner Murphy asked NEPC to provide a few attributes that distinguish NEPC from other investment consultants. Mr. Hennessey highlighted the customization discussed, the size of NEPC's research team, the fact that investment consulting is the only business NEPC does, and NEPC's ownership structure.

Commissioner Salem asked when the NEPC team thought the RHCTF would be ready to start investing in private markets and what percentage of the portfolio should be allocated. Mr. Hennessey stated that NEPC believes the RHCTF is large enough now. Mr. Nelson stated he believed 40 percent could be invested in the illiquid markets. Mr. Hennessey clarified it would take 5-7 years to reach that level.

Commissioner Walsh inquired as to NEPC's level of service and how the service may change as the Fund grows. Mr. Hennessey emphasized that NEPC would provide high level service as the Fund grows.

Commissioner Walsh left the meeting at 9:59 AM, returned at 10:03 AM.

Break 10:07 AM - 10:13 AM.

Margaret S. Jadallah, Managing Director, Barry Dennis, Managing Director, and Joseph Abdou, Consultant, of Verus gave an oral and written presentation on their proposed services.

They presented:

- Verus' history, structure and its organizational culture;
- Asset allocation process and tools;
- A review of RHCTF's current asset allocation through Verus' model;
- Verus' approach to research; and
- Tools and reporting.

Commissioner Walsh asked if Verus' default approach was conservative and if they increased risk dependent on the needs of individual clients. Mr. Dennis explained that the market was risky, and he didn't see that their approach was conservative.

Commissioner Salem asked when the Verus team thought the Fund should start to invest in private markets and at what percentage. Ms. Jadallah suggested the Board consider incorporating private markets when the Fund reaches \$500 million at about 5%. Mr. Dennis stated they would suggest it take 5 years to get to the target.

Commissioner Walsh asked their thoughts on hedge funds as an option for the Fund and how their advice on this may differ between SFERS and an OPEB trust. Ms. Jadallah said that they do have hedge funds with their bigger clients and recommend them for growing portfolios. Mr. Dennis stated this all depends on the client's risk preference and role they would want hedge funds to play in their portfolio.

Commissioner Walsh then asked about their level of service and what might be unique for the RHCTF. Ms. Jadallah stated that their low client to consultant ratio means a high level of service.

Commissioner Murphy asked how Verus distinguishes itself in the investment consultant field and how do they look to evolve moving forward. Ms. Jadallah pointed to Verus' recent changes, its management and ownership structure and Verus' focus on risk.

Commissioner Marx asked if Verus' team approach differs between clients. Ms. Jadallah stated that the basic approach is the same for all clients.

Commissioner Petrucione requested the team talk about their OPEB clients and their similarities and differences to the RHCTF.

Break 11:00 AM - 11:07 AM.

Larry Witt, Principal, Mika Malone, Managing Principal, and Paola Nealon, Executive Vice President, of Meketa Investment Group gave an oral and written presentation on their proposed services.

They presented:

- A brief overview of their biographies;
- A review of Meketa's history and structure, and effect of upcoming merger on its structure;
- A review of Meketa and the Fund's history;
- The scope of work Meketa would do for the Fund; and
- An overview of Meketa's particular strengths.

Commissioner Marx asked for clarification on what the firm will look like after the upcoming merger. Ms. Malone assured the Board that the Meketa team working with them would not change.

Commissioner Salem asked when they thought that the Fund should start to invest in private markets and at what percentage. Ms. Malone talked about timing and that the Board should consider investing in private markets when the fund reaches \$300 million and should invest about 10-15% of its assets in these markets.

Commissioner Walsh inquired as to their fee structure. Ms. Malone stated that it was a lower fee structure because the Fund was already a client.

Commissioner Walsh asked about their view on hedge funds. Mr. Witt reported that Meketa has a team who can help if the Board is interested in this investment type.

Commissioner Walsh asked if the level of service will change. Ms. Nealon reported that it will probably be a higher level of service as the portfolio evolves.

Commissioner Murphy asked how they go about knowing the investment universe for the RHCTF. Ms. Malone and Mr. Witt went over the resources Meketa has for manager research.

Commissioner Marx inquired as to how many OPEB clients Meketa has. Ms. Nealon stated there were six.

Commissioner Marx asked if Meketa's approach was different for their OPEB clients. Ms. Malone reported that the approach is different as all their OPEB clients are very different.

Commissioner Petrucione stated her preference to contract with Meketa again.

Commissioner Walsh asked if they were expected to make a decision today.

Commissioner Petrucione left the meeting at 11:55 pm.

Commissioner Murphy expressed her concerns regarding Meketa.

Commissioner Walsh stated his preference to contract with Meketa again.

Commissioner Marx stated her preference to contract with Meketa again.

Commissioner Salem stated his preference to contract with Meketa. He expressed his preference that Meketa continue to have Ms. Malone as the Fund's main consultant.

Action: Moved by Commissioner Walsh and seconded by Commissioner Marx to retain Meketa as the Retiree Health Care Trust Fund's General Investment Consultant, and direct staff to start contract negotiations.

Caryn Bortnick, Deputy Executive Director for SFERS, asked if there was any direction the Board would like to give staff as they enter into contract negotiations.

Commissioner Salem requested a key person clause be in the contract.

Commissioner Murphy brought up Meketa's merger with Pension Consulting Alliance and her concerns about how it will make Meketa work. She expressed her preference that the contract be for three years with a renewable option.

Ayes: Marx, Salem, Murphy and Walsh. Nays: None. Absent: Petrucione

- **Adjourn – 12:20 PM**