



Retiree Health Care Trust Fund Board

SPECIAL BOARD MEETING MINUTES

Monday, August 19, 2019

1:30 p.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

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

- **Roll Call** **Call to Order: 1:35 PM**
 - Commissioner Petrucione - Present
 - Commissioner Salem - Present
 - Commissioner Marx - Present
 - Commissioner Murphy - Present
 - Commissioner Walsh - Present

- 08192019-02 **General Public Comment**

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

- 08192019-03 Action Item **Approve the Minutes of the April 22, 2019 Board Meeting**

Documents provided to Board prior to meeting: April 22, 2019 Draft Minutes

Action: Moved by Commissioner Marx and Seconded by Commissioner Murphy to approve the minutes.

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

- 08192019-04 Discussion Item **Review of the Q2 2019 Performance Report**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Q2 Performance Report

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

Paola Nealon, of Meketa Investment Group, presented a written and oral report on this item.

Action: This was a discussion item only.

- 08192019-05 Action Item **Review and Approve Proposed Asset Allocation Plan**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Presentation

Bill Coaker, SFERS' Chief Investment Officer, and Kurt Braitberg, SFERS' Managing Director of Public Markets, introduced this item.

Bill Coaker, SFERS Chief Investment Officer, presented a third allocation option in addition to those in the written materials.

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

At the April 22, 2019 Board meeting, Meketa and Staff initiated a discussion about the types of asset categories that the RHCTF Board could consider now that the Fund has grown in size to nearly \$400 million. Among these were more illiquid strategies such as private equity, real estate, and certain risk mitigating strategies. Also highlighted were areas such as short duration TIPS and long duration treasuries as potentially diversifying asset classes. Again, the purpose of adding additional asset classes and strategies to an existing investment portfolio is to improve the efficiency of the portfolio by maintaining long-term expected returns while reducing the probability of loss.

While dozens of possible asset classes exist that could be added, Meketa Investment Group focused on those that they believe will provide strong diversification benefits when combined with the current portfolio. Five new asset categories are further considered:

1. Real Estate. Core, open-ended real estate is an asset class that can provide income, potential growth, and significant diversification potential to the portfolio by investing in high-quality office, multi-family, industrial, and retail properties. It has an expected return in between that of equity and fixed income, and open-end funds provide more liquidity than many private market investments.
2. Private Equity. Private Equity assets are companies that are not currently traded on a public exchange. Meketa recommends utilizing a Fund of Funds approach, given the size of RHCTF, to achieve diversified exposure. Assets would be locked up for 7-10 years or more in this asset class, and come at a higher fee load, but the diversification potential, and growth potential of assets is higher than that of public equities. It is worth noting that other private market assets could be considered in this space, such as private debt, infrastructure, or private natural resources, over time.
3. Short-Term TIPS. These high-quality bonds are issued by the U.S. Government and are treasuries with an inflation component, whereby the yield of the bonds is increased or decreased based on changes in CPI over time. Therefore, Meketa believes they provide both a desirable diversifier in a broad portfolio, but also some level of protection if and when interest rates rise over time.
4. Long-Term Treasuries. When considered alongside short-term TIPS, long term treasuries provide a complementary ("barbelled") approach to some of the fixed income assets in the portfolio. These treasuries are most sensitive to interest rate risk, and therefore do poorly in periods of rising rates, but they are often the best performing asset in a "risk off" environment, such as when equity markets are falling significantly.
5. Risk Mitigating Assets. This category can include a variety of asset types, but within this review, Meketa focuses on Global Macro as a sub asset class specifically. These are hedged portfolios with a focus on reducing the left-tail risk in the portfolio (e.g., the risk of all assets falling concurrently). They tend to do well in periods such as the 4th quarter of 2018. They complement the higher risk nature of the equity focus within the portfolio.

Three asset allocation policies were presented. All three alternatives focus on reducing the equity risk in the portfolio and diversifying both the risks and opportunities within the Fund.

The first policy presented (Alternative 1) adds Risk Mitigating strategies at 5% of the portfolio, private real estate at 4%, and private equity at 4%. Alternative 1 does not modify the current fixed income exposure within the Fund.

The second policy presented (Alternative 2) utilizes Risk Mitigating strategies at 4%, private real estate at 5%, private equity at 5%. It also increases fixed income and shifts some of the fixed income assets into long-term treasuries and short-term TIPS (4% each).

The third policy presented (Alternative 3) is attached at the end of these minutes.

Commissioner Murphy expressed concern that due to the size of the Fund, private equity managers would not treat RHCTF as well as other larger investors.

Commissioner Petrucione asked how the Real Estate allocation would happen.

Commissioner Marx asked how Global Macro mitigates going in the opposite direction.

Commissioner Murphy asked about the fees for Global Macro.

Caryn Bortnick, SFERS' Deputy Executive Director, stated in addition to manager fees, there will be increased legal fees and staff costs.

Mr. Coaker suggested that the Board consider Alternative 3 for its diversifying effect.

Ms. Malone also stated that while Meketa was recommending Alternative #2, they also stood behind Alternative #3.

Commissioner Walsh asked if they could ease into Alternative 3.

Commissioner Salem asked how the implementation would happen with the growth of the plan.

Commissioner Walsh noted that Global Macro is very vague and asked for more information.

Commissioner Murphy expressed concern that what is presented about Global Macro is really Hedge Funds. She is concerned about what those reports would look like, how to gauge performance and how the Fund would get its money back. She stated she is not comfortable with the 10% allocation to Global Macro without much more information about the new components and how that changes decision making on an ongoing basis.

Commissioner Petrucione also stated her concern with a 10% allocation to Global Macro.

Commissioner Salem stated that he wasn't comfortable with even 4% allocation to Global Macro at this time without further information on what it was.

Commissioner Petrucione suggested further education on these assets before making a decision at the next meeting.

Commissioner Salem requested an alternative that doesn't include Global Macro.

Commissioner Marx requested more concrete examples of Global Macro to help them understand.

Commissioner Petrucione suggested scheduling a special meeting for education.

Commissioner Murphy expressed concern that Alternative #3 was only presented today without the supporting information provided with the other alternatives.

Commissioner Petrucione asked if there was support among the Board for more investment in Private Markets. The consensus was yes.

Commissioner Walsh expressed opposition to Hedge Funds, he clarified that he was politically opposed and also that since the Fund doesn't have to pay out benefits, that it doesn't need Hedge Funds. He suggested that the SEIU present on why they are opposed to Hedge Funds.

Mr. Braitberg said at the next meeting they would educate further on Global Macro and hedging risk.

Commissioner Marx asked for more information on why the allocation is different between Allocation #2 and Allocation #3, for example why the allocation changes between TIPS and Short-Term TIPS.

Commissioner Petrucione stated that the Board would schedule a Special Meeting before the next regularly scheduled meeting and then vote on the new asset allocation at the next regularly scheduled meeting

Action: This item was continued to the October 2019 RHCTF Board Meeting.

- 08192019-06 Action Item **Review and Approve Proposed Changes to RHCTF Board Operations Policy**

Documents provided to Board prior to meeting: Staff Memorandum, Draft RHCTF Board Policy Manual (2019)

Action: Moved by Commissioner Murphy and seconded by Commissioner Salem to approve proposed changes to the RHCTF Board Policy Manual.

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

□ 08192019-07 Discussion Item **Trust Administrator Report**

Documents provided to Board prior to meeting: Staff Memorandum

Caryn Bortnick, SFERS Deputy Executive Director, presented an oral and written report on this item.

- Election Results
- Possible RFPs/Expiring contracts

Commissioner Murphy suggested that if the Board decides to extend the expiring contracts in a future meeting, that they ensure that there haven't been any changes in the custody world that would be beneficial to the Fund.

Jay Huish, SFERS' Executive Director, stated that if the Board was to do an RFP he would suggest they hire an expert to assist them with the process.

Action: This item was a discussion item only.

□ 08192019-08 Discussion Item **Board Educational Opportunities**

Documents provided to Board prior to meeting: List of Educational and Training Opportunities from Cortex Applied Research

Commissioner Walsh mentioned that the Wharton School will be offering a Private Markets session if Board members were interested.

Action: This was a discussion item only.

□ 07232018-09 Action Item **Annual Election of Board President**

Documents provided to Board prior to meeting: None

Action: Moved by Commissioner Walsh and seconded by Commissioner Marx to elect Commissioner Salem as Board President.

□ 07232018-10 Action Item **Annual Election of Board Vice President**

Documents provided to Board prior to meeting: None

Action: Moved by Commissioner Salem and seconded by Commissioner Murphy to elect Commissioner Petrucione as Board Vice President.

□ 08192019-11 Discussion Item **Good of the Order**

Commissioner Walsh asked about the breach in security with Meketa, if the Board was satisfied with information provided and did IT look into it.

Mika Malone, of Meketa Investment Group, explained the nature of the breach. Caryn Bortnick, SFERS' Deputy Executive Director, explained that due to the nature of the breach SFERS IT didn't look into it.

Commissioner Walsh asked if the SFUSD can create their own Retiree Health Fund.

Commissioner Marx asked that the Board receive an ESG presentation from Meketa's expert.

Action: This was a discussion item only.

- **Adjourn: 4:49 PM**

	Current	Alt 1	Alt 2 (RECOMMENDED)	Alt 3
Expected Return (1 year)	9.2%	8.9%	8.7%	8.8%
Risk	14.7%	13.5%	12.9%	13.0%
Expected Return 20 years	8.3%	8.1%	8.0%	8.0%
Sharpe Ratio	0.37	0.39	0.39	0.39
IRS	14.0%	14.0%	17.0%	10.0%
Investment Grade Bonds	9.0%	9.0%	9.0%	7.0%
Intermediate Government Bonds	0.0%	0.0%	0.0%	0.0%
Long-term Government Bonds	0.0%	0.0%	4.0%	0.0%
TIPS	5.0%	5.0%	0.0%	3.0%
Short-term TIPS	0.0%	0.0%	4.0%	0.0%
CREDIT	9.0%	9.0%	9.0%	10.0%
High Yield Bonds	3.0%	3.0%	3.0%	3.0%
Bank Loans	3.0%	3.0%	3.0%	3.0%
Emerging Market Bonds (major)	1.5%	1.5%	1.5%	2.0%
Emerging Market Bonds (local)	1.5%	1.5%	1.5%	2.0%
TOTAL EQUITY	77.0%	64.0%	60.0%	50.0%
US Equity	41.0%	34.0%	32.0%	27.0%
Developed Market Equity (non-US)	20.0%	16.0%	15.0%	13.0%
Emerging Market Equity	16.0%	14.0%	13.0%	10.0%
PRIVATE MARKETS	0.0%	8.0%	10.0%	20.0%
Private Equity Fund of Funds	0.0%	4.0%	5.0%	13.0%
Core Private Real Estate	0.0%	4.0%	5.0%	7.0%
Global Macro	0.0%	5.0%	4.0%	10.0%