



Retiree Health Care Trust Fund Board

SPECIAL BOARD MEETING MINUTES

Monday, August 28, 2023

1:00 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

David Salem

Vice President

Katharine Petrucione

Members

Al Casciato

Paul Denning

Pauline Marx

Trust Administrator

Alison Romano

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 Kelsey Lim, Board Secretary, at (415) 487-7507 or by email at kelsey.lim@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 Kelsey Lim, Board Secretary, for further assistance at (415) 487-7507 or email at 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

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, 5th Floor, San Francisco, CA 94103; telephone (415) 487-7507; or send an email with your request to 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, 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: 1:05 PM**
Al Casciato - Present
Paul Denning – Present
Pauling Marx -- Present
Katharine Petrucione - Present
David Salem – Present

- 08282023-02 **Communications & General Public Comment**

Board Secretary, Kelsey Lim, reviewed public comment procedures for both in person and teleconference.

No Public comment

- 08282023-03 Action Item **Approve the Minutes of the February 13, 2023 Board Meeting**

Documents provided to Board prior to meeting: Minutes of the February 13, 2023 Meeting
Commissioner Marx asked for an update on the request to get better visibility into the liabilities portion of the MGO financial statements.

Ms. Bortnick responded that staff have some access to liabilities from the City’s financial statements that can be presented to the RHCTF Board. The Board should make requests for any additional changes or information they would like to see in the financial statements.

Action: Moved by Commissioner Petrucione and seconded by Commissioner Marx to approve the Minutes of the February 13, 2023 Meeting.

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

- 08282023-04 Action Item **Approve the Minutes of the May 15, 2023 Board Meeting**

Documents provided to Board prior to meeting: Minutes of the May 15, 2023 Meeting

Action: Moved by Commissioner Marx and seconded by Commissioner Petrucione to approve the Minutes of the May 15, 2023 Board Meeting.

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

- 08082023-05 Action Item **Approve a \$45 Million Commitment to HarbourVest Dover XI for the City and County’s Sub-Trust**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Private Equity Recommendation: Secondary Fund of Funds

Kurt Braitberg, RHCTF CIO and SFERS Managing Director- Public Markets, introduced this item.
Cristen Xhama, Research Analyst at Meketa Investments, gave a written and oral presentation.
Commissioner Marx asked if the reason investors are selling their exposure to private equity was due to over allocation, valuation or another reason.

Mr. Braitberg explained that in 2022, both the equity and fixed income markets fell sharply. Private

equity valuations tend to be lagged. So at the end of the year, public market asset values fell, but private equity and other private markets did not move at all. Consequently, the percentages allocated to private equity, in almost every plan, were much higher than the target allocation. There are plans that are 10-15% over target allocations at a time when investors need liquidity. Private equity valuations have come down, but many investors remain over allocated. This issue is commonly referred to as the “the denominator effect”. The denominator has shrunk while the numerator has had little fluctuation. One way asset owners can cure that problem is to sell portions of their private equity portfolio. The opportunity for the Board, as a provider of capital, is they can get high quality private equity exposure at a discount.

Commissioner Salem asked for clarification on the distribution and timeline of the \$45 Million in HarbourVest Dover XI.

Mr. Braitberg replied that this is a 10 year commitment. Over it’s lifetime, there will be 40 to 60 commitments to underlying funds over a period of 4 to 5 years.

Mika Malone, of Meketa Investments, further explained that Meketa plans to come back to the Board at the next meeting to recommend a more traditional Private Equity Fund of Funds Allocation. She noted that the target, based on pacing, is \$90 Million per year. Meketa is recommending that half of that be committed to the secondaries opportunity and hold onto the other half for later this year or early 2024.

Commissioner Petrucione wondered what are the indicators that the Trust may be over allocated and how does the Board prevent that in the possible future.

Ms. Malone referred to page 5 of 35 of the Meketa presentation. She explained that these are long-term investments. Meketa uses a lot of data to make these determinations, such as, how funds collect capital over a period of time, their intended commitment period, and how they deliver back to the Trust. One would want to see consistent pacing over time. The green line on the pacing model represents the Trust’s fair market value. Every year, Meketa and SFERS staff will revisit the pacing model to evaluate what the denominator of the RHCTF is to date, as well as, evaluate change in public assets and adjust accordingly.

Commissioner Denning asked how Meketa evaluates and maintains relationships with providers and their teams over time.

Ms. Xhama explained that these three firms, in particular, have a tenured team. The team at the top have been with the firm for decades and whose compensation is tied to vested, carried interest, which incentivizes the team to stay. Meketa keeps daily contact with HarbourVest with updates, renewing secondaries, and fund of funds offerings.

Action: Moved by Commissioner Petrucione and seconded by Commissioner Casciato to Approve a \$45 Million Commitment to HarbourVest Dover XI for the City and County’s Sub-Trust.

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

- 08282023-06 Discussion Item **Approve Manager Recommendations to Implement the City and County’s Sub-Trust’s Private Credit Allocation**

Documents provided to the Board prior to meeting: Staff Memorandum; Private Market Investments Pacing Studies from Meketa Investment Group

Mr. Braitberg introduced this item.

Mary Bates, of Meketa Investment Group, presented a written and oral report on this item.

Commissioner Salem asked if the income distribution gets reinvested into the fund.

Mr. Braitberg explained that during the investment period, the Board can elect to return back to the fund and reinvest elsewhere or it can have the distribution reinvested within the fund. Currently, staff is recommending to re-invest within the fund, since the Trust does not have a need for cash.

Commissioner Salem asked about the significance of multiple uninvested capital and how Ares' multiple should be evaluated.

Ms. Bates said there are multiple ways to look at returns. In the public markets, managers put one hundred percent of investors' capital to work on day one. When one invests in private markets, managers use their discretion to draw down the capital when they find an attractive opportunity. It will be invested over a period of time and then start returning. For these strategies, Meketa considers the Internal Rate of Return (IRR). A healthy IRR with healthy income, will lead to capital appreciation.

Commissioner Denning wanted to know what big assumptions about the world, in the next eighteen to twenty-four months, did Meketa and staff make while strategizing this portfolio.

Ms. Bates answered that Meketa wanted to avoid junior debt risk and emphasize senior capital structure. They tried to build a program of diversification that has downside protection through the top of the capital structure. Senior secured is one protection. Floating rates is another advantage when there is a rising interest rate environment.

Mr. Braitberg clarified that staff is not trying to implement a tactical view, but rather implement a 5% long-term target allocation. Staff and Meketa want to construct a portfolio that is diversified and senior secured but we are not assuming a particular environment.

Action: Moved by Commissioner Denning and seconded by Commissioner Marx to Approve Manager Recommendations to implement the City and County's Sub-Trust's Private Credit Allocation.

Ayes: Casciato, Denning, Marx, Petrucione, Salem

Nays: None

□ 08282023-07 Discussion Item **Real Estate Review**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Real Estate Review
Kurt Braitberg, RHCTF CIO and SFERS Managing Director- Public Markets, introduced this item.
Scott Maynard, of Meketa Investment Group, gave a written and oral presentation.

Commissioner Salem asked about the significance of the redemption queue represented on page 16 of the Meketa document.

Mr. Maynard noted that this information is indicative of whether investors have lost conviction in a fund and are pulling out. TA Realty's queue is 3% of their fund; AEW's is 9%. This is rebalancing because of the denominator effect. Markets had a recent drop in value and private markets have a lag effect in valuations. Investors in the redemption queues also have the ability to rescind redemption requests. Many people put in their redemption requests knowing they are not going to get a lot of capital right now because transaction markets are stalled, but they like having optionality.

Mika Malone, of Meketa Investment Group, reiterated that when you start to see markets dislocate, people will get into a redemption queue so that they have optionality. Even when their number is called, they may choose not to take that capital.

Mr. Maynard added that it is important to note that AEW and TA Realty are not forced to sell

properties to satisfy these redemption requests. They have their sources and uses of cash at the fund. They are not fire selling assets just to satisfy redemptions.

Action: This was a discussion item only.

5 Minute Break at 2:50pm

- 08282023-08 Discussion Item **Quarterly Review of the Retiree Health Care Trust Fund Performance as of June 30, 2023**

Documents provided to Board prior to meeting: Staff Memorandum; Quarterly Review as of June 30, 2023 from Meketa Investment Group

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

Paola Nealon, of Meketa Investment Group, presented a written and oral presentation.

Action: This was a discussion item only.

- 08282023-09 Discussion Item **Trust Administrator Report**

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

Caryn Bortnick, SFERS Chief Operating Officer, introduced this item. She welcomed new Commissioners, Al Casciato and Paul Denning, to the SF RHCTF Board.

Action: This was a discussion item only.

- 08282023-10 Action Item **Election of Board President**

Documents provided to the Board prior to meeting: Staff Memorandum

Ms. Bortnick introduced this item.

Commissioner Petrucione nominated Pauline Marx as the Board President.

Action: Moved by Commissioner Petrucione and seconded by Commissioner Casciato to elect Pauline Marx as Board President.

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

- 08282023-11 Action Item **Election of Board Vice President**

Documents provided to the Board prior to meeting: Staff Memorandum

Ms. Bortnick introduced this item.

Commissioner Salem nominated Paul Denning as the Board Vice President.

Action: Moved by Commissioner Salem and seconded by Commissioner Casciato to elect Paul Denning as Board Vice President.

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

- 08282023-12 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.

President Salem reminded the Board that Mr. Braitberg/Meketa would discuss Real Estate Investments, specifically regarding the Office sector, at the next meeting.

Action: This was a discussion item only.

Adjourned at 3:15 PM

Next regularly scheduled meeting is Monday, November 20, 2023.