



Retiree Health Care Trust Fund Board

BOARD MEETING MINUTES

Monday, November 20, 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

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, 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.

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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.

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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
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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.

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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**
AI Casciato - Present
Paul Denning – Present
Pauling Marx -- Present
Katharine Petrucione - Present
David Salem – Present

- 11202023-02 **Communications & General Public Comment**

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

No Public comment

- 11202023-03 Action Item **Approve the Minutes of the August 28, 2023 Special Board Meeting**

Documents provided to Board prior to meeting: Minutes of the August 28, 2023 Meeting
Action: Moved by Commissioner Petrucione and seconded by Commissioner Salem to approve the Minutes of the August 28, 2023 Meeting.

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

- 11202023-04 Discussion Item **Quarterly Review of the Retiree Health Care Trust Fund Performance as of September 30, 2023**

Documents provided to Board prior to meeting: Meketa Quarterly Performance Report as of September 30, 2023

Kurt Braitberg, RHCTF CIO and SFERS Managing Director of Public Markets, introduced this item. Paola Nealon, of Meketa Investment Group, presented a written and oral presentation.
Action: This was a discussion item only.

- 11202023-05 Discussion Item **Investment Beliefs- Introduction**

Documents provided to Board prior to meeting: Staff Memorandum; Meketa Investment Beliefs Introduction

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 Salem asked, considering the Board’s rotation and evolving viewpoints, how frequently Staff and Meketa would revisit this statement of beliefs.

Ms. Malone proposed reviewing Investment Beliefs as often as the Investment Policy Statement, which is about annually. She noted the goal with these statements is to be long term beliefs or consensus oriented beliefs.

Commissioner Petrucione asked how often would Meketa be using this survey.

Ms. Malone explained they would use it as a guidepost when Meketa presents a new investment, allocation, or manager to the Board. For instance, there may be a tick box showing which of the beliefs the investment meets.

Action: This was a discussion item only.

- 11202023-06 Action Item **Approve Private Equity Buyout Recommendations for the City & County Sub-Trust's Private Equity Portfolio**

Documents provided to the Board prior to meeting: Staff Memorandum; Meketa Investment Group's Private Equity Recommendations: Buyout Fund of Funds

Mr. Braitberg introduced this item.

Cristen Xhama, Research Analyst at Meketa Investments, gave a written and oral presentation.

Commissioner Marx asked what other companies did Meketa consider and why did they focus on the ones presented today.

Ms. Xhama explained that HighVista has a solid, tenured team who execute their strategies well. Meketa has confidence in their ability to execute deals and get returns. HighVista focuses and specializes in investments in the lower to middle market areas, which is attractive to the RHCTF portfolio.

Ms. Xhama further explained that Constitution Capital offers lower management fees. This is a nice benefit when investing in a co-mingled offering because the Board would be reducing the double layer of fees.

Commissioner Petrucione requested further explanation on the concept of "lower middle market" and why should the Board focus on this type of market.

Mr. Braitberg explained when SFERS staff initially presented private equity to the Board, years ago, it was described as investing in private companies. The private equity markets are diverse. There are buyout strategies, growth strategies, and venture capital. At the start of building the RHCTF portfolio, the Board decided to favor buyout strategies relative to venture capital. Venture capital is where one sees the highest returns, but also has the greatest risks. We should seek balance we it build up the portfolio. Staff evaluate what the portfolio needs, year-end goals, and takes into account, the budget for that year. Considering these factors, Staff and Meketa determine which high quality managers are available at that time of allocation. The Sub-Trust's long term target is approximately sixty percent buyout and forty percent venture capital.

Mika Malone, of Meketa Investment Group, added that one could look at buyout funds similarly to public companies on a small cap, mid cap, and large cap basis. Lower and middle market are on the smaller end of the spectrum of the buyouts that are available. Meketa suggests companies that approach that middle and smaller end of the market because they are numerous and funds tend to not be as competitive as in the mega cap space.

Commissioner Marx asked what companies would be an example of large cap private equity space.

Mr. Braitberg said Constitution Capital defines lower middle market companies, as those with total revenues of \$100-300 million dollars. HighVista focuses on companies with enterprise values of \$200 million dollars or less. In private equity, big funds, such as Apollo or Hellman & Friedman are raising funds of \$20 billion or more.

Ms. Malone stated PetSmart and Toys “R” Us are examples of large market companies.

Commissioner Denning questioned how much help do Meketa and SFERS staff need or do they receive from a Funds of Funds, considering the knowledge both teams already possess.

Mr. Braitberg agreed the notion of investing in a Funds of Funds does mean an additional layer of fees. However, what the Sub-Trust receives is professional oversight and due diligence in the markets that most do not have insight to. Funds of Funds allows the Sub-Trust quickly achieve diversified exposure. Further, investments in secondaries help mitigate the J curve. In the long term, the Board will have to evaluate when they want to begin investing directly.

Commissioner Salem questioned the fees and expenses for Constitution Capital and HighVista and asked for further clarification on “carried interest.”

Ms. Xhama explained carried interest is the same structure utilized by the underlying private equity funds, which is based on the return of the fund. The carried interest is a share of profit that goes to the manager. There needs to be certain amount of money or a preferred return in order for this to be collected by Constitution Capital or HighVista, which is 8%. At that point, the two managers will receive 5% of the return.

Action: Moved by Commissioner Petrucione and seconded by Commissioner Salem to approve Private Equity Buyout Recommendations for the City & County Sub-Trust’s Private Equity Portfolio.

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

□ 11202023-07 Discussion Item **Trust Administrator Report**

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

Caryn Bortnick, Chief Operating Officer, introduced this item.

Ms. Bortnick explained there will need to be two special board meetings to discuss the budget for next year. The first special board meeting will be held on January 29, 2024 at 1pm. The second special board meeting will be on February 12, 2024 at 1:30pm.

Action: This was a discussion item only.

□ 11202023-08 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.

Commissioner Salem requested Staff present a recap of the circumstances and events surrounding City College District and the history behind the Sub-Trust.

Commissioner Salem would like to discuss Real Estate Investments, specifically regarding the Office sector, at the next meeting. He suggested discussing the possible trends, volatility, and impact of the Trust’s investments.

Commissioner Salem would also appreciate an update on where the Trust is in it’s timeline to reach it’s original goal of subsidizing or a fully funding the retiree benefits.

Action: This was a discussion item only.

Adjourned at 3:15 PM

Next scheduled meeting is Monday, January 29, 2024.