CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

San Jose Police and Fire Department Retirement Plan

Private Markets Pacing Plan

Fiscal Year 2025-26

as of April 2025

Purpose

- Seek approval of target commitment amounts (the "pacing plan") for each private markets asset class in the next fiscal year as required by the current IPS and proposed Investment Implementation Procedures.
- The pacing plan uses assumptions on future cash flows and NAVs to estimate commitment amounts to reach and maintain target allocations.

Valuable context:

- Execution of FY 2024-25 pacing plan.
- Current allocations.
- Pacing plan modeling completed by Neuberger Berman (buyout) and Meketa Investment Group (other private asset classes).
- Projections for 10 years shown, but the pacing plan is revisited on an annual basis.

Year in review

Execution of FY 2024-25 pacing plan

- 20 commitments for $456mm of $395mm pacing plan (115%) expected.
- Half of commitments with existing fund manager relationships.
- Growth Real Estate commitments resumed in December 2024 after a two-year pause.

Current positioning versus target

- Private markets are currently 23.2% of plan assets, 4.3% below the 27.5% target.
- Current allocation is 1% above the prior year pacing plan model due to a slowdown in Buyout realizations.

Asset allocation changes

- No changes to 27.5% target.

Market environment

- Sticky inflation, high interest rates, and geopolitical risk.
- Valuations have moderated, but remain elevated.
- Challenging private markets fundraising environment.

FY 2024-25 Pacing Plan Execution

	Style	Date	Executed ($mm)		Target ($mm)	% of Target
Buyout			**150**	/	**150**	**100%**
PE Strategic Partnership SJPF	Fund-of-one	7/1/2024	150			
Venture Capital			**41**	/	**35**	**117%**
Tiger Iron SJPF	Fund-of-one	7/1/2024	18			
Friends & Family Capital III	Mid Stage	12/30/2024	3			
Lerer Hippeau IX	Early Stage	12/31/2024	5			
Streamlined Ventures V	Early Stage	1/16/2025	5			
Northgate Select Opportunities Fund III	Early/Mid Stage	3/31/2025	5			
Expected to close soon	*Early Stage*	*TBD*	*5*			
Private Debt			**112**	/	**80**	**140%**
Silver Point Specialty Credit Fund III	Par Credit	11/15/2024	28			
Arbour Lane Credit Opportunity Fund IV	Stress	12/9/2024	28			
Strategic Value Special Situations Fund VI	Stress	12/19/2024	28			
TPG AG Credit Solutions Fund III	Stress	3/31/2025	28			
Growth Real Estate			**75**	/	**70**	**107%**
IPI Partners Fund III	Value Added	12/11/2024	24			
Expected to close soon	*Value Added*	*TBD*	*17*			
Expected to close soon	*Value Added*	*TBD*	*17*			
Expected to close soon	*Value Added*	*TBD*	*17*			
Private Real Assets			**78**	/	**60**	**130%**
Primary Wave Music IP Fund 4	Infra	9/27/2024	18			
Pelican Energy Partners Base Zero	Energy	10/25/2024	18			
Lime Rock New Energy II	Infra	12/3/2024	12			
Expected to close soon		*TBD*	*18*			
Expected to close soon		*TBD*	*12*			
Total Private Markets			**456**	/	**395**	**115%**

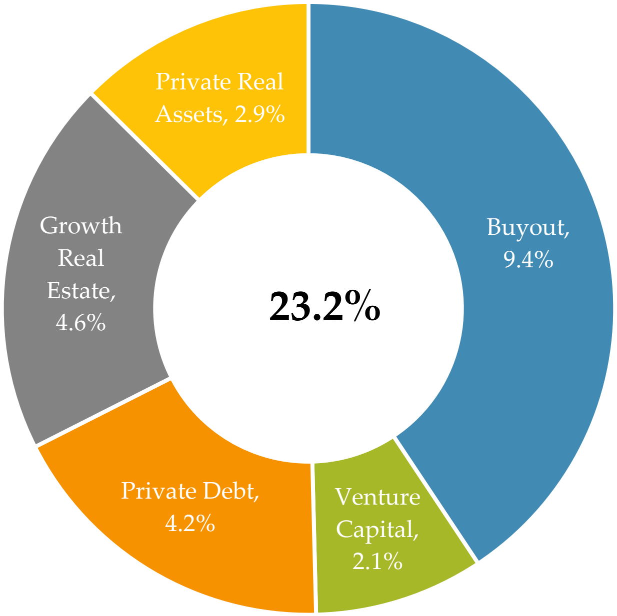
As of March 31, 2025. Values in $ millions.

Private Markets Allocation Snapshot

- The Private Markets allocation is currently 4.3% below the 27.5% target.

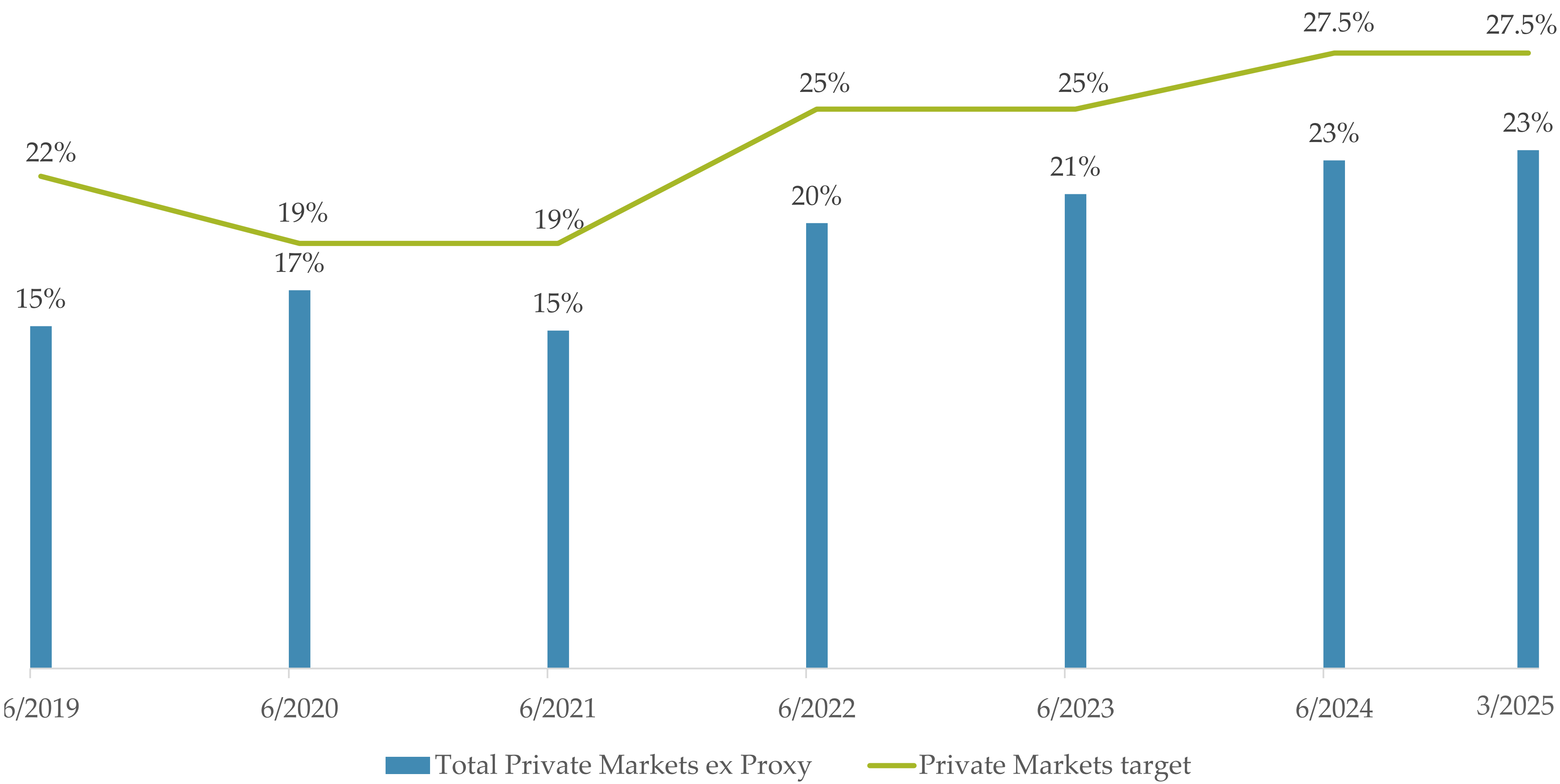
	% of Plan	Target	Difference
Buyout	9.4%	10%	-0.6%
Venture Capital	2.1%	4.5%	-2.4%
Private Debt	4.2%	5%	-0.8%
Growth Real Estate	4.6%	4%	0.6%
Private Real Assets	2.9%	4%	-1.1%
Total Private Markets	**23.2%**	**27.5%**	**-4.3%**

As of March 31, 2025



Private Markets % of Plan Over Time

- The Private Markets allocation is currently 4.3% below the 27.5% target.
- The Private Markets target was increased from 25% to 27.5% in May 2024 and 19% to 25% in March 2022.



Current positioning versus target slightly ahead of plan

- The Private Markets allocation is 1% higher than expected in the prior year pacing plan due to a slowdown of realizations (distributions) in the Buyout asset class.

	Expected 6/30/25 (% of plan)			Expected 6/30/25 NAV ($mm)		
	Prior Pacing	Current Estimates	Difference	Prior Pacing	Current Estimates	Difference
Buyout	9%	10%	+1%	482	570	+87
Venture Capital	2%	2%	0%	129	137	+8
Private Debt	5%	4%	0%	250	237	-13
Growth Real Estate	4%	4%	0%	230	233	+3
Private Real Assets	3%	3%	0%	163	168	+5
Total Private Markets	**23%**	**24%**	**+1%**	**1,254**	**1,345**	**+90**

Plan-level net asset value forecasts

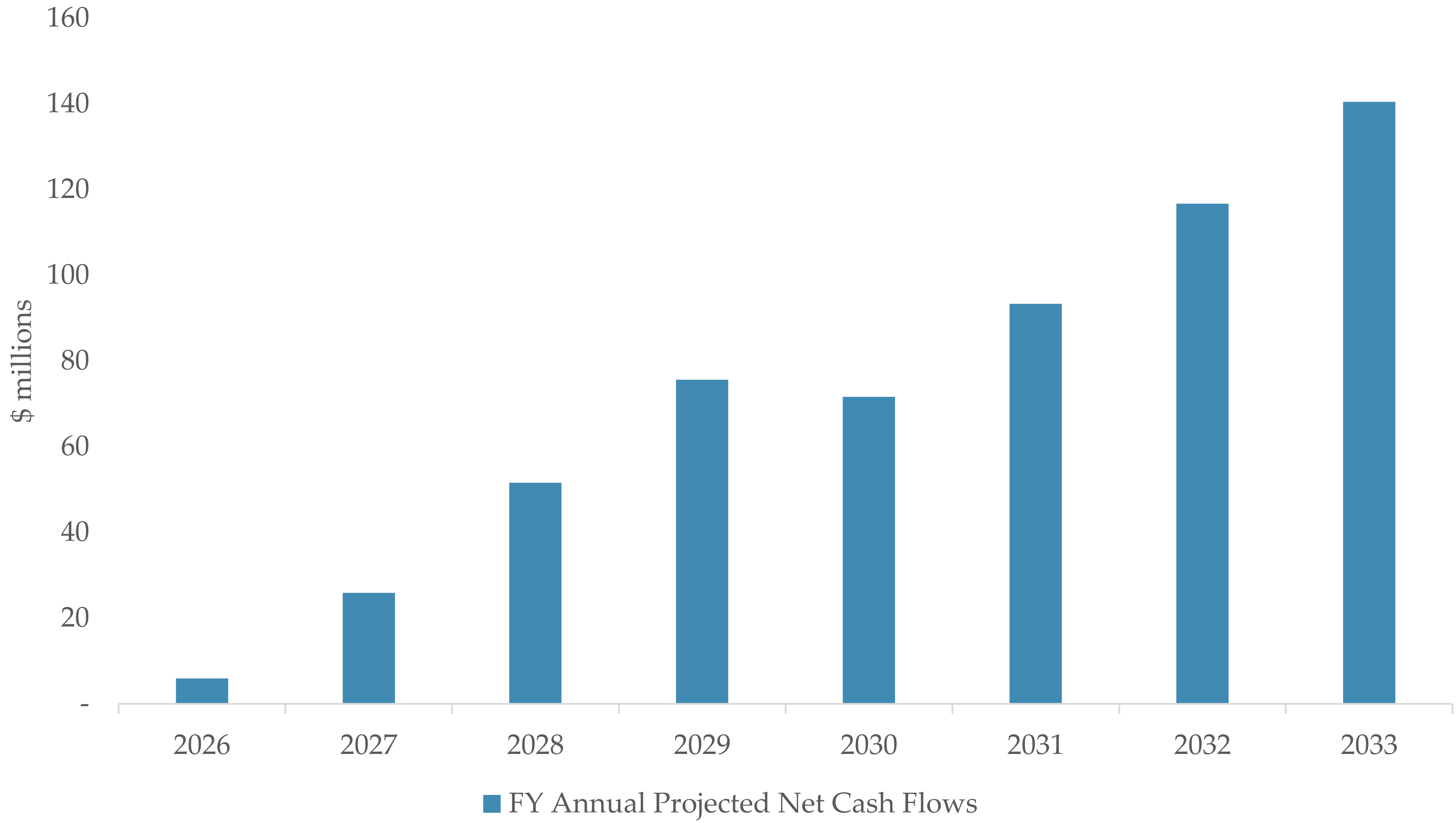
- The current NAV forecasts are slightly higher compared to last year's pacing plan.

	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029
Current NAV forecast ($mm)	**5,548**	**5,877**	**6,217**	**6,565**	**6,923**
Prior Year NAV forecast ($mm)	*5,434*	*5,750*	*6,077*	*6,414*	*6,762*
Difference	*2%*	*2%*	*2%*	*2%*	*2%*

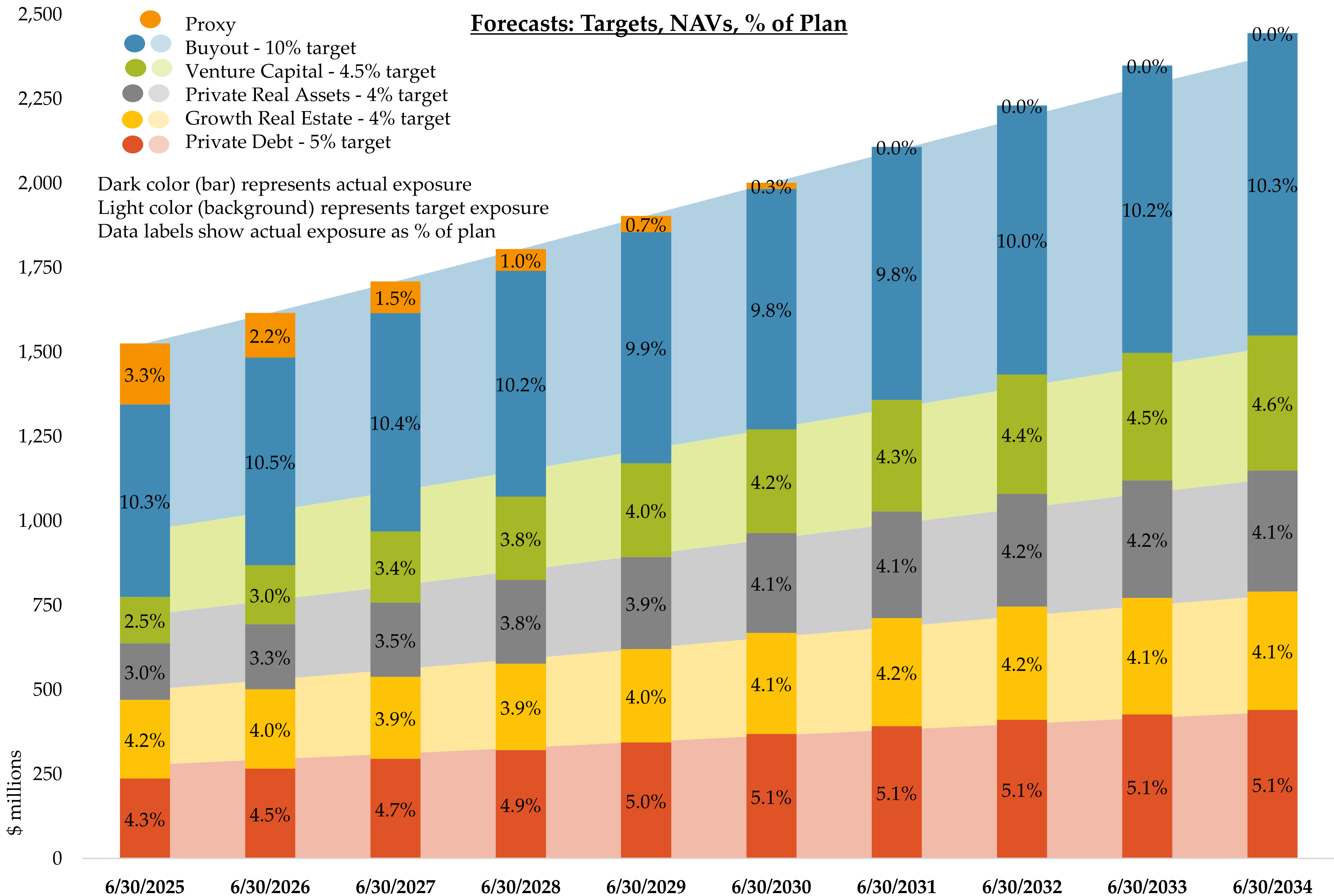
	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034
Current NAV forecast ($mm)	**7,280**	**7,628**	**7,981**	**8,328**	**8,658**
Prior Year NAV forecast ($mm)	*7,112*	*7,453*	*7,798*	*8,138*	*8,460*
Difference	*2%*	*2%*	*2%*	*2%*	*2%*

Liquidity Management

- Private Markets are forecast to be net cash flow positive to the total plan.
- Projected Net Cash Flows = Projected Distributions minus Projected Capital Calls



Forecast private markets net asset values



Pacing Plan Recommendation

- Below are the target commitment amounts from pacing plan modeling completed by Neuberger Berman (buyout) and Meketa Investment Group (other private asset classes).
- Staff recommends approval of the highlighted asset class commitment amounts for FY 25-26.

	FY 24-25		Pacing Plan				
	Pacing Plan	Actual	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Buyout	150	150	125	125	125	125	150
Venture Capital	35	41	40	40	40	40	40
Private Debt	80	112	80	80	80	80	90
Growth Real Estate	70	60	75	75	75	75	75
Private Real Assets	60	78	55	55	55	50	50
Total Private Markets	**395**	**441**	**375**	**375**	**375**	**370**	**405**

- The IPS commitment limit per asset class is 150% of pacing plan (cumulative). The maximum commitments are shown below for reference assuming expected closings on page 4 occur before 6/30/2025.

	FY 25-26 Pacing Plan	150% of Pacing Plan	Cumulative Catch-Up	Maximum Commitments
Buyout	125	188	-	188
Venture Capital	40	60	-	60
Private Debt	80	120	-	120
Growth Real Estate	75	113	-	113
Private Real Assets	55	83	-	83
Total Private Markets	**375**	**563**	**-**	**563**

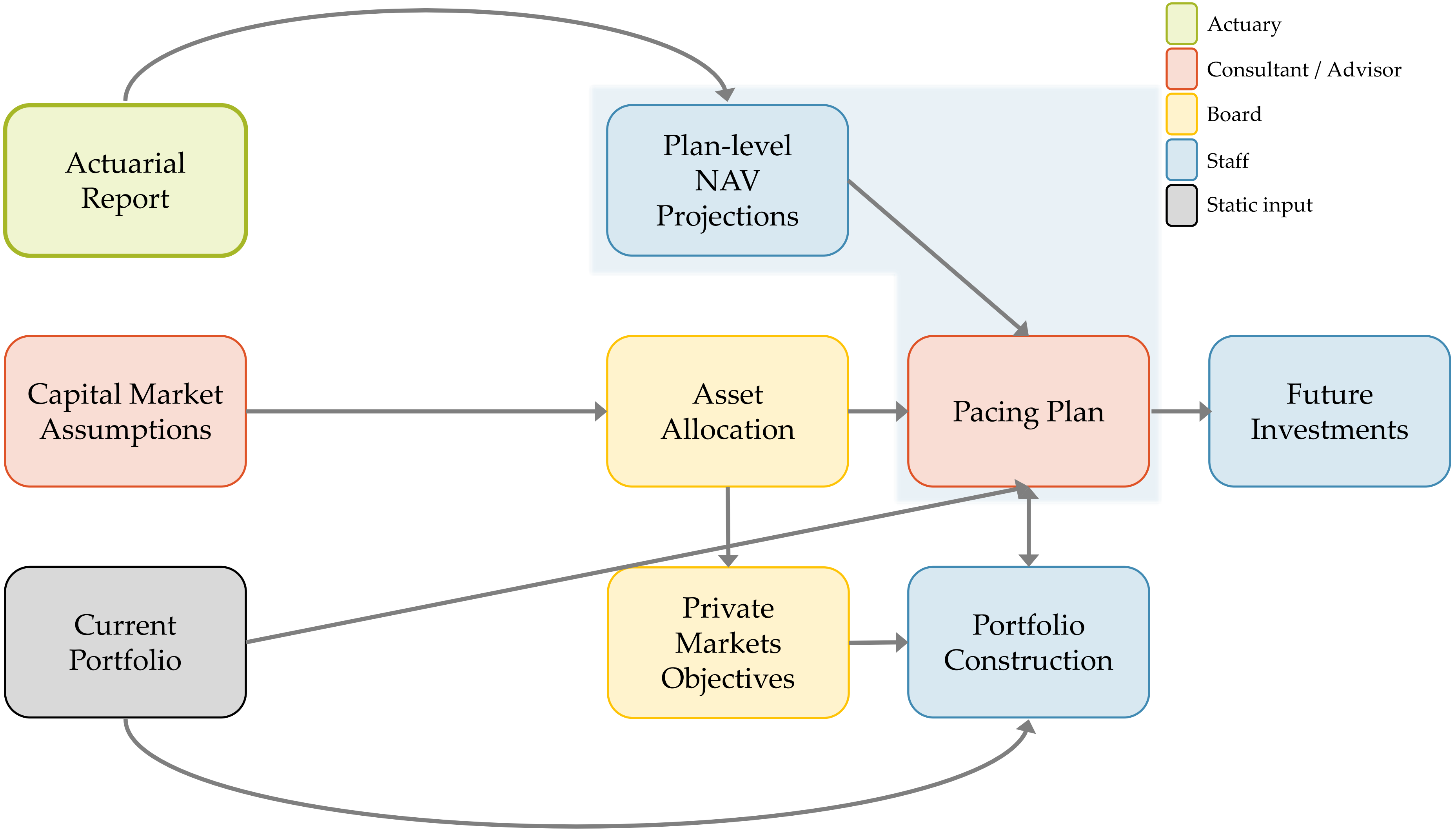
Values in $ millions

Appendix

Pacing plan basics

- The pacing plan models how the pension plan will reach and maintain target allocation to private markets strategies.
- The key output is a target level of annual commitments to funds in each private market asset class.
- Many assumptions are incorporated into the pacing plan models. Because of the assumptions' high variance (actual vs. forecast), the pacing plan is revisited annually.
- Staff produces plan-level NAV targets for each private markets asset class, which are then provided to Neuberger Berman and Meketa Investment Group for detailed modeling on Buyout, Venture Capital, Private Debt, Growth Real Estate, and Private Real Assets.
- Staff aggregates the output into a single pacing plan document to allow stakeholders to view the private markets program holistically.
- The Boards' approvals of their respective pacing plans sets the guideline for the constraints outlined in the current IPS and proposed Investment Implementation Procedures around delegation of manager selection to staff.
- When actual private markets exposure is below target, a public markets proxy is used to rebalance to target.

Private markets process / data flow



Investment projection methodology

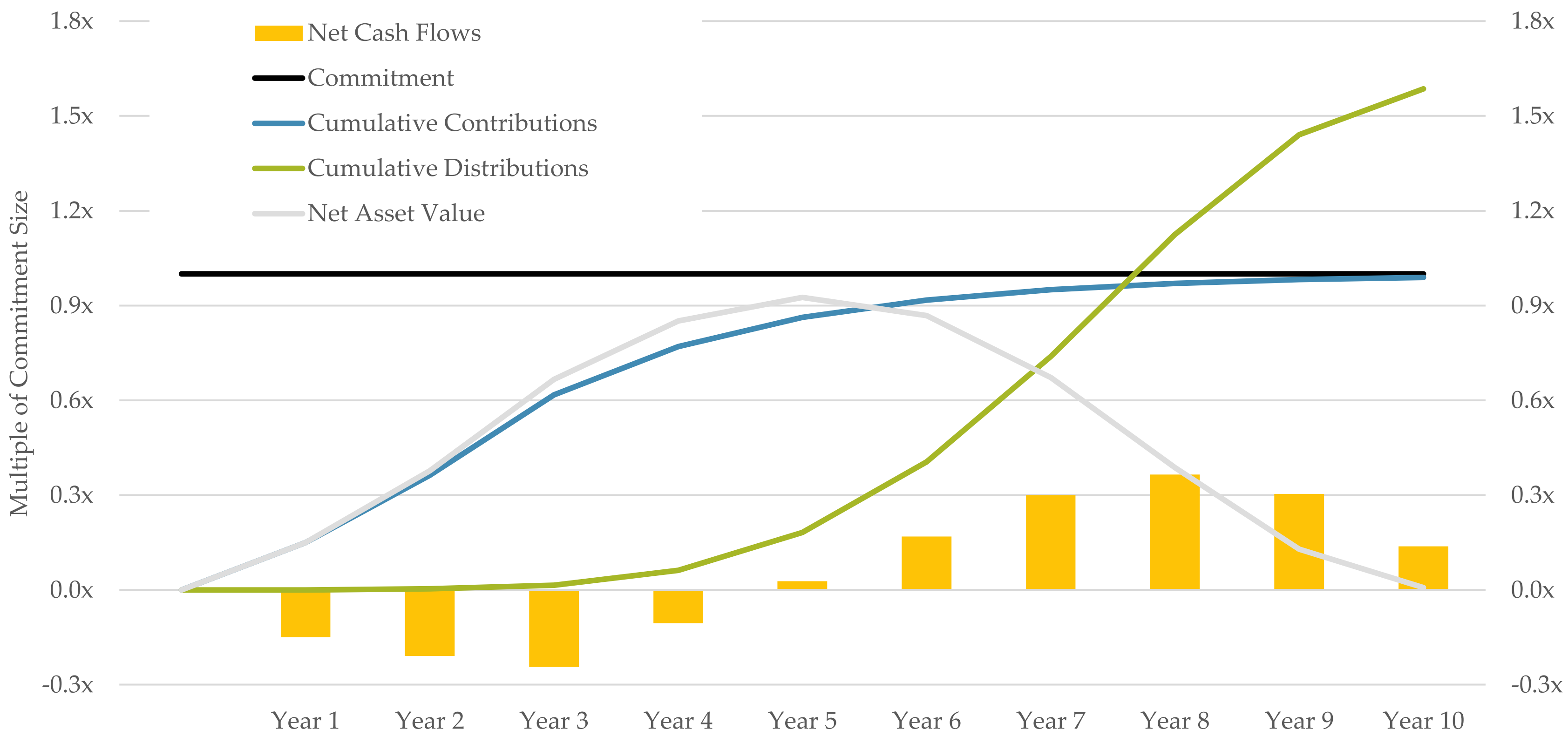
Meketa produced an easy-to-read white paper on commitment pacing that outlines their specific methodology (PDF link).

An example to demonstrate the assumptions and output for a sample investment is shown below using the Takashi-Alexander framework, which is the basis for the Meketa model.

Inputs

Fund type:	Large buyout	**Projected net return:**	12% IRR / 1.6x TVPI
Contribution rates, Year 1 / 2 / 3+:	15% / 25% / 40%	**Projected yield:**	2%
Fund term:	10 years	**Bow factor:**	3.0

Output



Investment Policy Statement

Basis*	Description	Strategy Limit[1]
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit[2]
	Commingled funds (public, active)	15%
	Commingled funds (hedge funds)	15%
	Commingled funds (private strategies)	15%[3]
Public Markets[4]	Passive strategies	No limit
	Active strategies	15%
Private Markets		**Transaction Limit[5]**
	Total $ commitment to asset class (e.g. Private Debt)	150% of Board-approved pacing plan (cumulative)[6]
	Primary fund commitment (1st allocation to mgr.)	2%**
	Primary fund commitment (follow-on)	3%**
	Secondary fund investment	1%**

* To be selected, the manager must satisfy the "Vehicle" constraint and the appropriate "Public Markets" or "Private Markets" constraints

** Percentage (%) of total System assets

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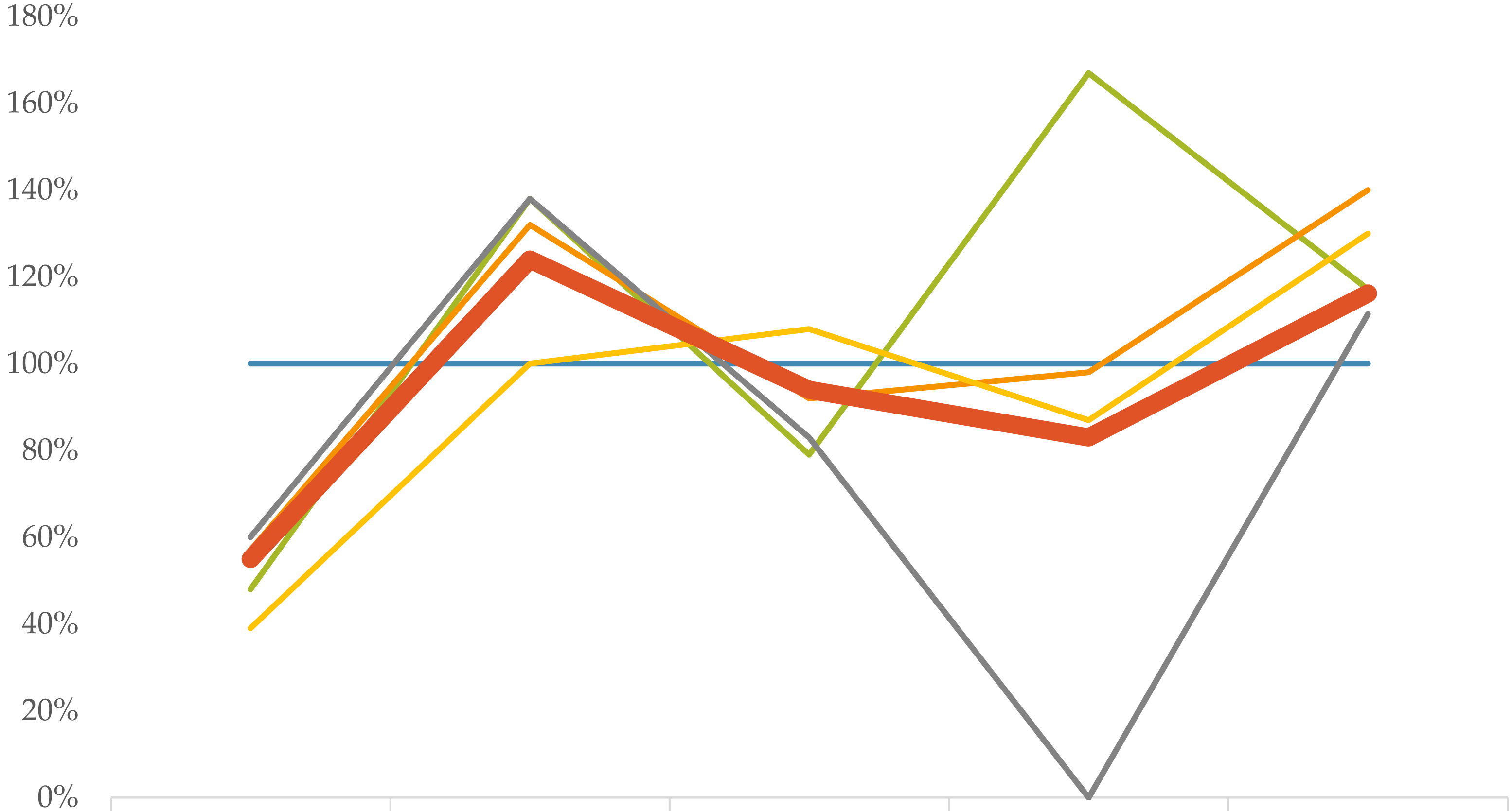
1 Percentage (%) of total System assets allowable per investment strategy.
2 Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing.
3 For private strategies, limit applies to the capital invested plus future callable commitments.
4 Some of these limits related to public markets may be "interim", to be replaced by risk-based limits for example.
5 Percentage (%) of total System assets allowable per investment manager.
6 This would allow, for example, a commitment in Year 1 that is 50% above "plan". The "cumulative" provision would allow for a "catch-up" for any slower-than-planned investments in prior years.

Historical Actual Commitments as a % of Pacing Plan



	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Buyout	100%	100%	100%	100%	100%
Venture	48%	138%	79%	167%	117%
Private Debt	57%	132%	92%	98%	140%
Growth Real Estate	60%	138%	83%	0%	111%
Private Real Assets	39%	100%	108%	87%	130%
Total Private Markets	55%	124%	94%	83%	116%

Unfunded Commitments and Proxy

Asset Class	Unfunded Commitments	% of Plan
Buyout	238	4%
Venture	86	2%
Private Debt	163	3%
Growth Real Estate	77	1%
Private Real Assets	111	2%
Total Private Markets	**675**	**12%**

Source: Meketa. As of September 30, 2024. Values in $ millions.

Private Markets Proxy	NAV	% of Plan
Northern Trust Russell 3000	61	1.1%
BlackRock 3 Month T-Bills	169	3.2%
Total	**230**	**4.3%**

Source: BNY Mellon. As of March 31, 2025. Values in $ millions.