

San Jose Police and Fire Department Retirement Plan

Private Markets Pacing Plan

Fiscal Year 2023-24

as of April 2023

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 IPS.
- 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 2022-23 pacing plan and current allocations.
- Impact of changes in financial markets and asset allocation on the plans’ long-term private markets program.
- 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 and approved on an annual basis.

Year in review

FY 2022-23 pacing plan execution

- Staff expects to complete 20 commitments for \$320mm of \$334mm pacing plan (96%).
- Half of commitments with existing fund manager relationships.

Current positioning versus target

- Private markets are currently 20.5% of plan assets and progressing toward 25% target.
- Denominator effect, acceleration of capital calls, and slowdown of realizations brought the allocation 4% higher than anticipated in the previous pacing plan.

Changes in asset allocation

- None in 2023.
- 25% target adopted by the Board in March 2022 which increased the private markets target by 6%.

Changes in market environment

- Inflation, rising interest rates, geopolitical risk, and banking crisis.
- Valuations have moderated, but remain elevated.
- Capital is no longer a commodity.

FY 2022-23 Pacing Plan Execution

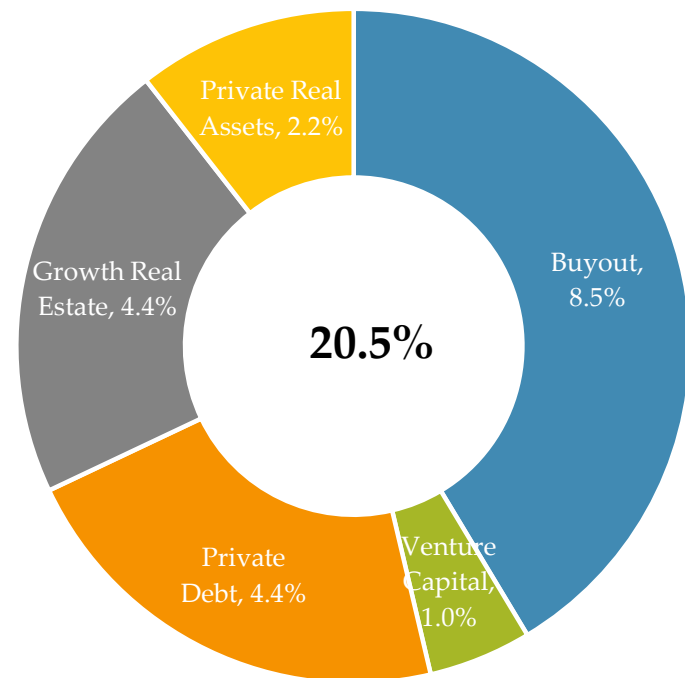
	Style	Date	Executed	Target	
Buyout			\$ 100mm	/ \$ 100mm	100%
PE Strategic Partnership SJPF	Fund-of-one	7/1/2022	\$ 100mm		
Venture Capital			\$ 38mm	/ \$ 40mm	95%
Next Play SJPF	Fund-of-one	7/8/2022	\$ 10mm		
Tiger Iron SJPF	Fund-of-one	n/a	\$ 5mm		
Lerer Hippeau Ventures VIII	Early stage	8/12/2022	\$ 5mm		
Signia Venture Partners IV	Early stage	9/26/2022	\$ 3mm		
Crosslink Ventures X	Early stage	1/27/2023	\$ 3.5mm		
Sierra Ventures XIII	Early stage	3/30/2023	\$ 5mm		
<i>Expected before 6/30/2023</i>	-	-	\$ 5mm		
<i>Expected before 6/30/2023</i>	-	-	\$ 1.5mm		
Private Debt			\$ 59mm	/ \$ 64mm	92%
Eagle Point Defensive Income Fund II	Par Credit	8/26/2022	\$ 21mm		
HPS Special Situations Opportunity Fund II	Stress	9/7/2022	\$ 21mm		
<i>Expected before 6/30/2023</i>	-	-	\$17mm		
Growth Real Estate			\$ 58mm	/ \$ 70mm	83%
EQT Exeter Industrial Value Fund VI	Value Added	7/29/2022	\$ 17mm		
GCP SecureSpace Property Partners	Value Added	7/29/2022	\$ 14mm		
DRA Growth & Income Fund XI	Value Added	11/1/2022	\$ 27mm		
Private Real Assets			\$ 65mm	/ \$ 60mm	108%
Kimmeridge Fund VI	Energy	9/30/2022	\$ 16mm		
H.I.G. Infrastructure Partners	Infrastructure	12/22/2022	\$ 19mm		
Lime Rock Partners IX	Energy	2/14/2023	\$ 10mm		
Paine Schwartz Food Chain Fund VI	Agriculture	3/15/2023	\$ 10mm		
<i>Expected before 6/30/2023</i>	-	-	\$ 10mm		
Total Private Markets			\$ 320mm	/ \$ 334mm	96%

Private Markets Allocation Snapshot

- The Private Markets allocation is 4.5% below target.
- Venture Capital is the newest private markets asset class and currently 3% below target.

	% of Plan	Target	Difference
Buyout	8.5%	9%	-0.5%
Venture Capital	1.0%	4%	-3.0%
Private Debt	4.4%	4%	0.4%
Growth Real Estate	4.4%	4%	0.4%
Private Real Assets	2.2%	4%	-1.8%
Total Private Markets	20.5%	25%	-4.5%

Pro Forma as of April 7, 2023



Current positioning versus target slightly ahead of plan

- The Private Markets allocation is 4% higher than expected in the prior year pacing plan.
 - Due to a combination of denominator effect, acceleration of capital calls, and slowdown of realizations.

	Expected 6/30/23 % of plan			Expected 6/30/23 NAV (\$mm)		
	<u>FY 22-23</u>	<u>Current</u>	<u>Forecast</u>	<u>FY 22-23</u>	<u>Current</u>	<u>Forecast</u>
	<u>Pacing</u>	<u>Estimates</u>	<u>Error</u>	<u>Pacing</u>	<u>Estimates</u>	<u>Error</u>
Buyout	8%	9%	+1%	424	436	+12
Venture Capital	1%	1%	+0%	56	57	+1
Private Debt	3%	4%	+1%	159	202	+43
Growth Real Estate	3%	4%	+1%	155	190	+35
Private Real Assets	2%	2%	+0%	88	96	+8
Total Private Markets	17%	21%	+4%	882	981	+99

Plan-level net asset value forecasts

- Compared to last years pacing plan, the current NAV forecast is:
 - Lower in FY 2023-27 due to a decline in plan assets.
 - Higher in FY 2028-32 due to increased return expectations and updated actuarial data.

	<u>6/30/2023</u>	<u>6/30/2024</u>	<u>6/30/2025</u>	<u>6/30/2026</u>	<u>6/30/2027</u>
Current NAV forecast (\$mm)	4,706	5,025	5,353	5,697	6,053
Prior Year NAV forecast (\$mm)	5,059	5,342	5,613	5,877	6,131
<i>Difference</i>	-7%	-6%	-5%	-3%	-1%

	<u>6/30/2028</u>	<u>6/30/2029</u>	<u>6/30/2030</u>	<u>6/30/2031</u>	<u>6/30/2032</u>
Current NAV forecast (\$mm)	6,438	6,842	7,255	7,667	8,094
Prior Year NAV forecast (\$mm)	6,388	6,648	6,903	7,140	7,373
<i>Difference</i>	1%	3%	5%	7%	10%

Pacing Plan Output

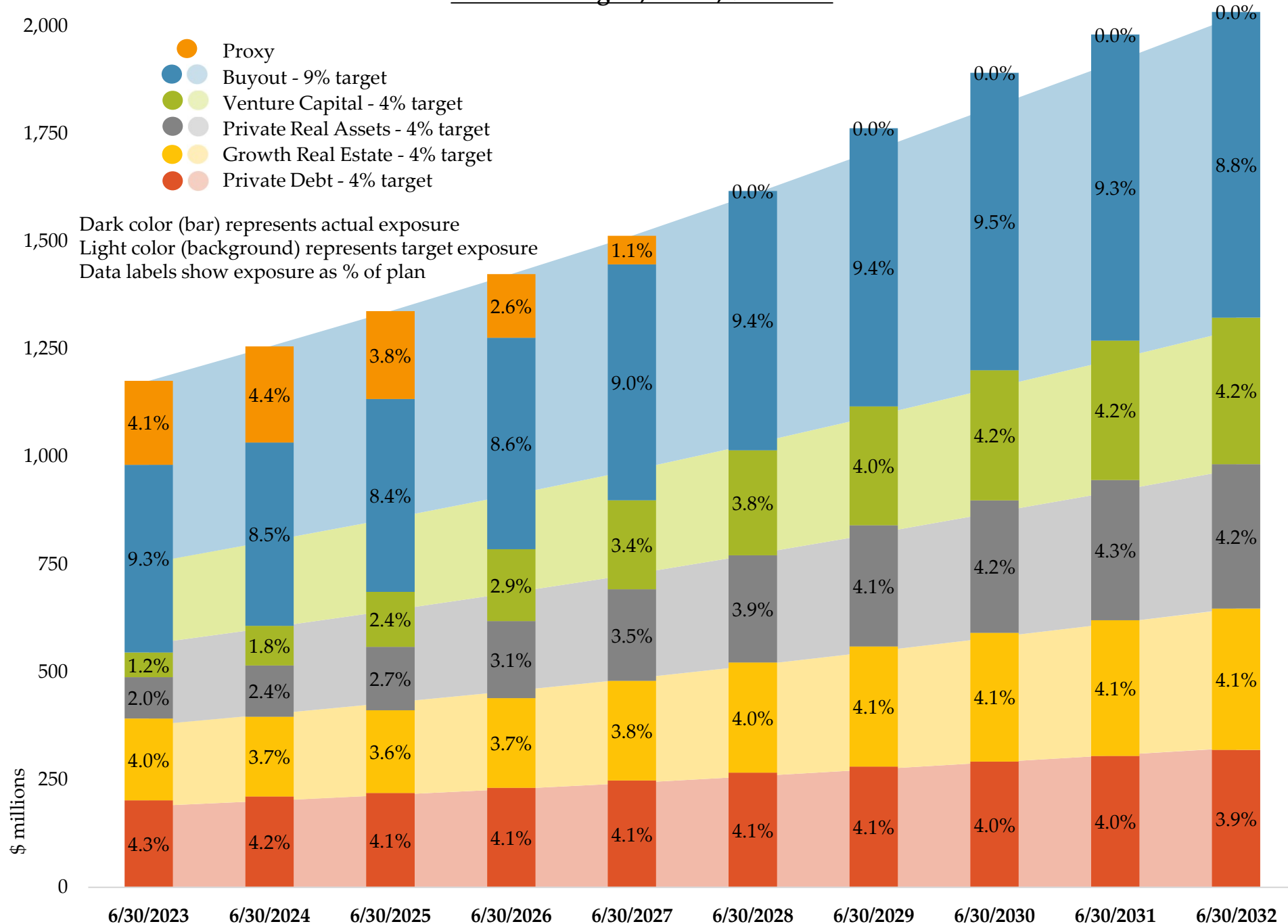
- Below are the target commitment amounts from pacing plan modeling completed by Neuberger Berman (buyout) and Meketa Investment Group (other private asset classes).
- The FY 23-24 commitment amounts are consistent with the current pacing plan.
- Compared to the FY 22-23 pacing plan, Venture Capital is \$5mm lower in FY 23-24.

FY 22-23				Pacing Plan				
		<u>Pacing Plan</u>	<u>Actual</u>	<u>FY 23-24</u>	<u>FY 24-25</u>	<u>FY 25-26</u>	<u>FY 26-27</u>	<u>FY 27-28</u>
Buyout		100	100	100	150	150	150	150
Venture Capital		40	38	35	35	35	35	35
Private Debt		64	59	64	64	64	64	70
Growth Real Estate		70	58	70	70	75	75	75
Private Real Assets		60	65	60	60	55	55	55
Total Private Markets		334	320	329	379	379	379	385

Values in \$ millions

Forecast private markets net asset values


Forecasts: Targets, NAVs, % of Plan



Pacing plan commitment recommendation

- Staff recommends approval of the highlighted commitment amounts for FY 2023-24.

Recommendation for approval.



		FY 22-23		Pacing Plan				
		<u>Pacing Plan</u>	<u>Actual</u>	<u>FY 23-24</u>	<u>FY 24-25</u>	<u>FY 25-26</u>	<u>FY 26-27</u>	<u>FY 27-28</u>
Buyout		100	100	100	150	150	150	150
Venture Capital		40	38	35	35	35	35	35
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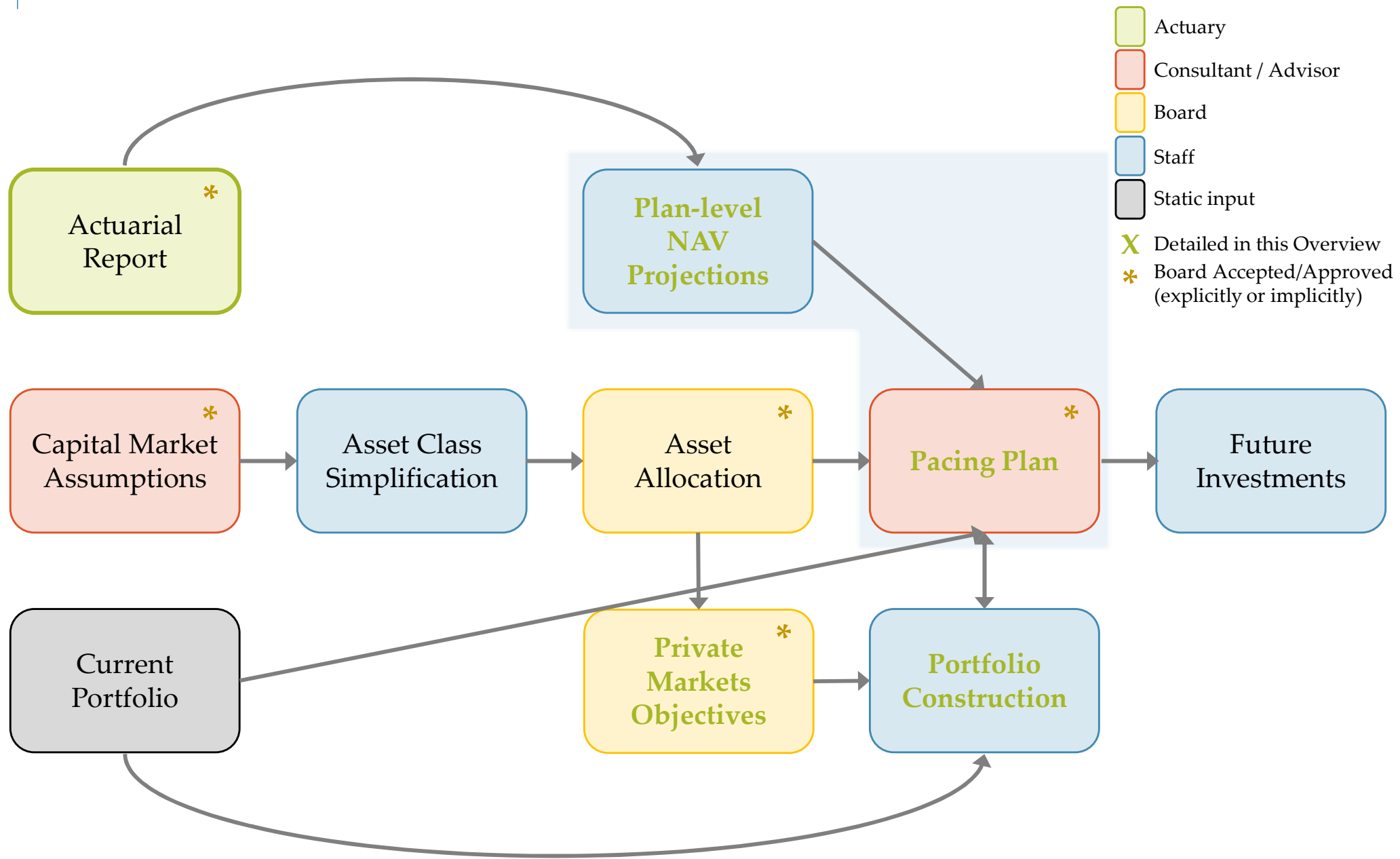
Values in \$ millions

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.
- For Buyout, Private Debt, Growth Real Estate, and Private Real Assets, the Boards' approvals of their respective pacing plans sets the guideline for the constraints outlined in the IPS around delegation of manager selection to staff.
- For Venture Capital, individual investments are approved by the Investment Committee and Board.
- 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

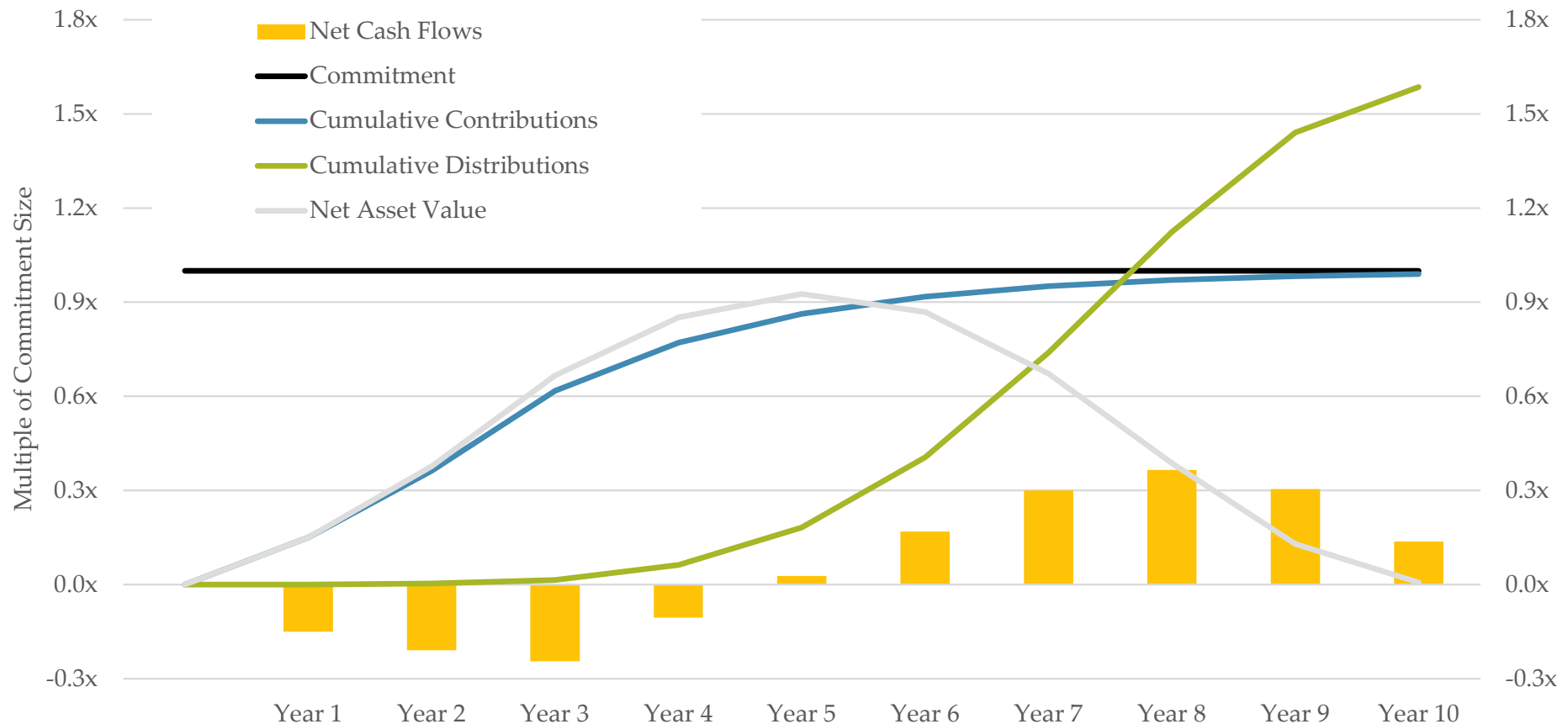
Meketa produced an easy-to-read white paper on commitment pacing that outlines their specific methodology ([PDF link](#)).

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

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.

Private Markets Asset Classes

Buyout		<ul style="list-style-type: none"> • Large Buyout • Small-/Mid- Buyout • Special Situations • Other 	Equity investments in growing, established, and mature companies, with enterprise values generally ranging from \$20mm to \$20bn.
Venture		<ul style="list-style-type: none"> • Fund-of-funds • Direct funds • Co-investments 	Primarily equity investments in start-ups and high growth companies.
Debt		<ul style="list-style-type: none"> • Par Credit • Securitized • Stress/Distress • Other 	Debt investments include credit expected to pay back original principal and interest (par credit), loans and bonds that have been packaged into special purpose vehicles (securitized), securities where the obligor is in a stressed or distressed financial situation (stress/distress), and unique strategies that have some or all the characteristics of debt investments.
Real Estate		<ul style="list-style-type: none"> • Value-Added • Opportunistic • Real Estate Debt • Other 	Equity and debt investments in operating companies and physical properties where the economic value is derived primarily through real estate-related activities. Value-added and opportunistic are distinguished by the level of risk associated with an investment.
Real Assets		<ul style="list-style-type: none"> • Infrastructure • Energy • Natural Resources • Other 	Investments in operating companies and physical assets where the economic value is derived primarily from the development, production, transport, or processing of natural resources, and the facilities supporting their downstream progress.