

San Jose Police and Fire Department Retirement Plan

Private Markets Program Update

December 20, 2022

Private Markets Asset Classes

Buyout



- 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



- Fund-of-funds
 - Direct funds
 - Co-investments
- Primarily equity investments in start-ups and high growth companies.

Debt



- 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



- 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



- 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.

Objectives

Economic objectives leading to inclusion of private markets within the asset allocation

The purpose of Private Markets is to get exposure to investment strategies that are not available in public markets, thereby capturing an illiquidity premium. The factor exposures will be comparable to those of public markets – primarily growth, supplemented by credit and inflation. The sub-asset classes are Buyout, Venture Capital, Private Debt, Growth Real Estate, and Private Real Assets.

Quantified “absolute” objectives as a result of the asset allocation

- Be near target Net Asset Value for Private Markets and individual private asset classes.
- Achieve performance consistent with asset allocation assumptions:

<i>Measurement Group</i>	<i>Net Return</i>	<i>Time Horizon and Methodology</i>
Private Markets Program	9%	20Y, Meketa geometric expected return
Buyout	10%	
Venture	10%	
Debt	7%	
Real Estate	9%	
Real Assets	9%	

Quantified “relative” objectives as a result of asset class characteristics

- Achieve performance that justifies use of private markets versus public markets.
- Achieve performance that demonstrates a level of staff skill.

<i>Measurement Group</i>	<i>Net Return</i>	<i>Time Horizon and Methodology</i>
Private Markets Program	Global Equity + 100 bps	20Y, Meketa geometric expected return
Individual investments	1 st & 2 nd Quartile	Investments’ peer groups, by vintage year

Key Elements of Private Markets Strategy

1. **Ensure beta exposure above all else.**

Failure to execute the pacing plan guarantees not meeting objectives envisioned within the asset allocation.

Implication is that consistent commitments and vintage diversification matter more than anything else, including manager selection.

2. **Alpha is an outcome of process.**

Sources of alpha can be picking: better sub-sectors (beta timing), managers who are better at choosing the right investments (security selection), manager who operate more effectively (value creation), capital structure optimization (risk decomposition).

Consistently harvesting alpha from those sources requires a competitive advantage relative to all sources of private capital, which must be deliberately developed and maintained.

3. **Alignment of interests can overwhelm most other investment factors.**

Long-term illiquid commitments require careful due diligence and selection of partners.

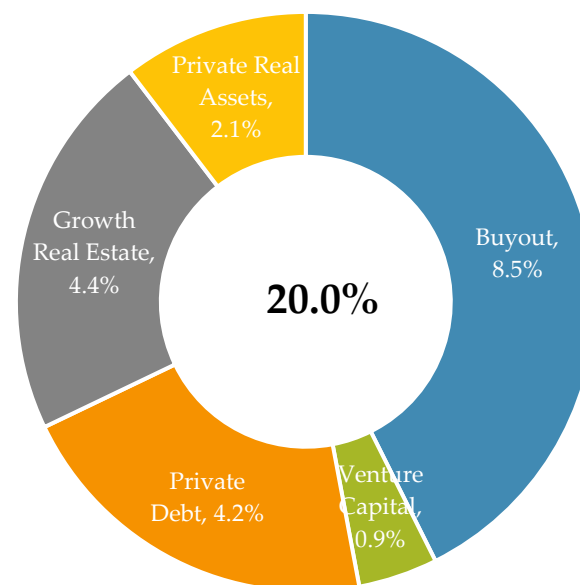
Agency conflicts increase with (a) distance from the asset and (b) dispersion of ownership.

Fees are the result of a buy-versus-build decision and market forces.

Private Markets Allocation Snapshot

- The Private Markets allocation is 5% below target.
- The asset allocation approved by the Board in March 2022 increased the Private Markets target allocation by 6% and the Plan is progressing toward the new target.
- Venture Capital is the newest private markets asset class and currently 3.1% below target.

	% of Plan	Target	Difference
Buyout	8.5%	9%	-0.5%
Venture Capital	0.9%	4%	-3.1%
Private Debt	4.2%	4%	0.2%
Growth Real Estate	4.4%	4%	0.4%
Private Real Assets	2.1%	4%	-1.9%
Total Private Markets	20.0%	25%	-5.0%



Pro Forma as of November 30, 2022

Post-2017 Commitments Outperforming

- Commitments in vintage years 2017-2022 are outperforming legacy commitments in vintage years 2005-2016.
- On a time-weighted basis, the Private Markets portfolio is exceeding the return of the MSCI ACWI IMI + 100 bps.

Since Inception Net IRR

	Vintage 2005-2016	Vintage 2017-2022
Buyout	10.0%	29.1%
Private Debt	5.7%	15.2%
Growth Real Estate	13.3%	18.0%
Private Real Assets	12.1%	21.6%
Venture Capital	n/m	n/m

As of June 30, 2022

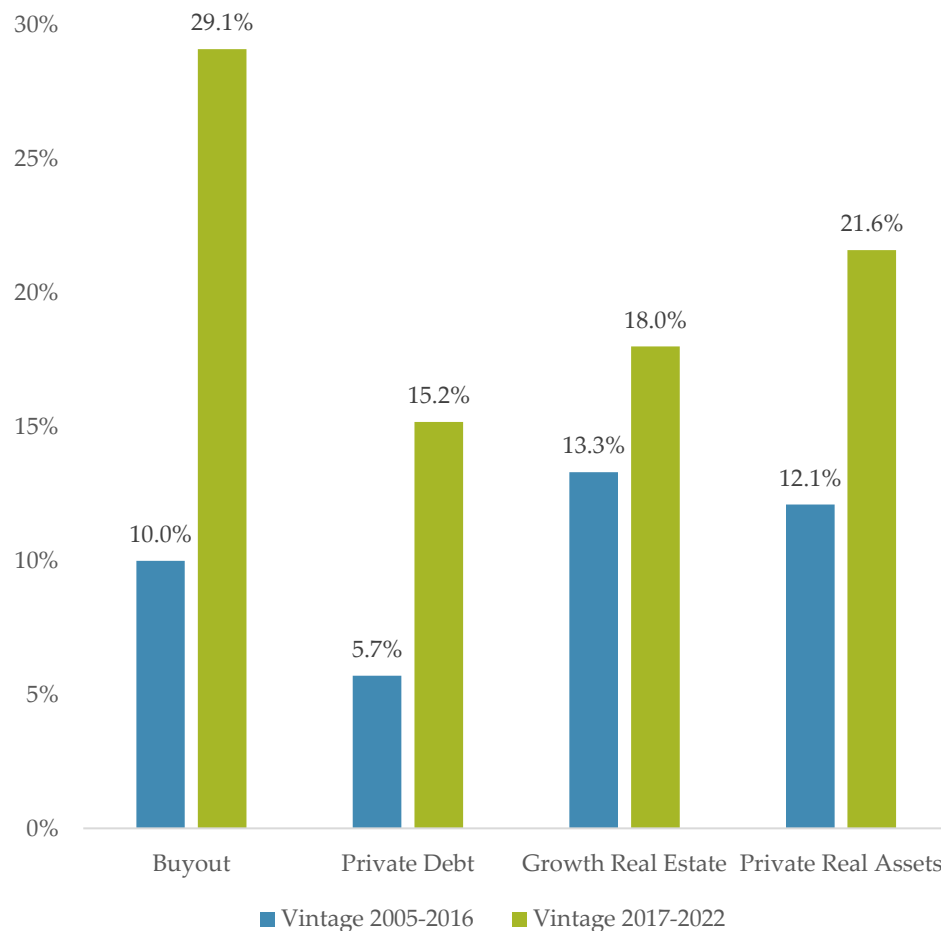
Source: Meketa

Since July 2015 Time-Weighted Net Return

	As of 9/30/22
Private Markets ex Proxy	9.9
MSCI ACWI IMI + 100 bps	6.6
Difference	3.3

Source: Meketa

Since Inception Net IRR



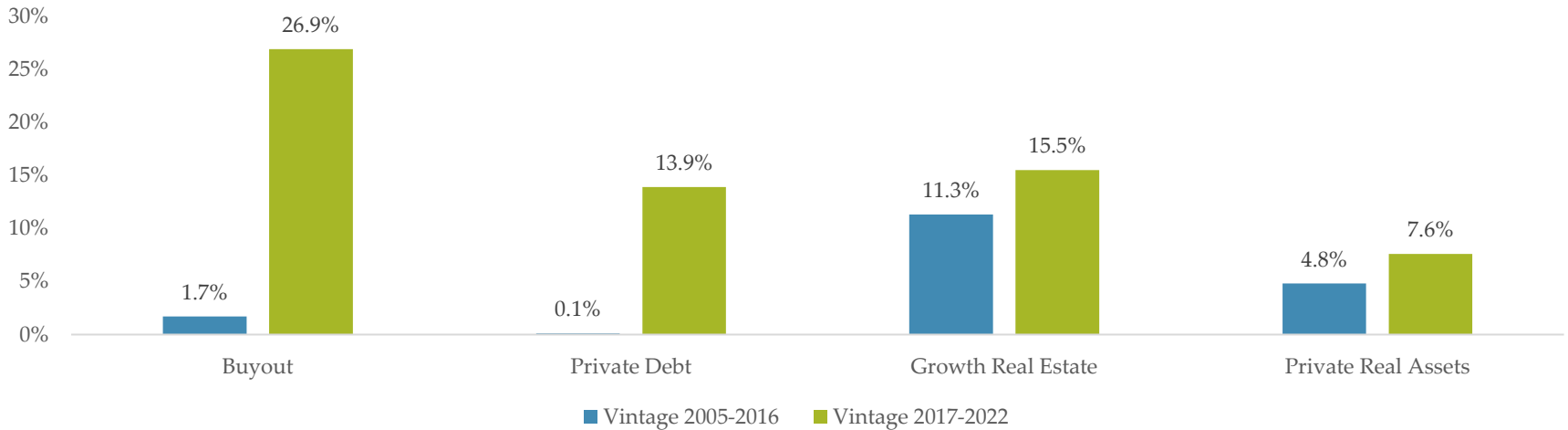
Performance Relative to PME

- Commitments in vintage years 2017-2022 are outperforming legacy commitments in vintage years 2005-2016.

Since Inception Net IRR

	Vintage 2005-2016	PME	Excess	Vintage 2017-2022	PME	Excess
Buyout	10.0%	8.3%	1.7%	29.1%	2.2%	26.9%
Private Debt	5.7%	5.6%	0.1%	15.2%	1.3%	13.9%
Growth Real Estate	13.3%	2.0%	11.3%	18.0%	2.5%	15.5%
Private Real Assets	12.1%	7.3%	4.8%	21.6%	14.0%	7.6%

Excess Return to PME by Vintage Year



As of June 30, 2022

Source: Meketa

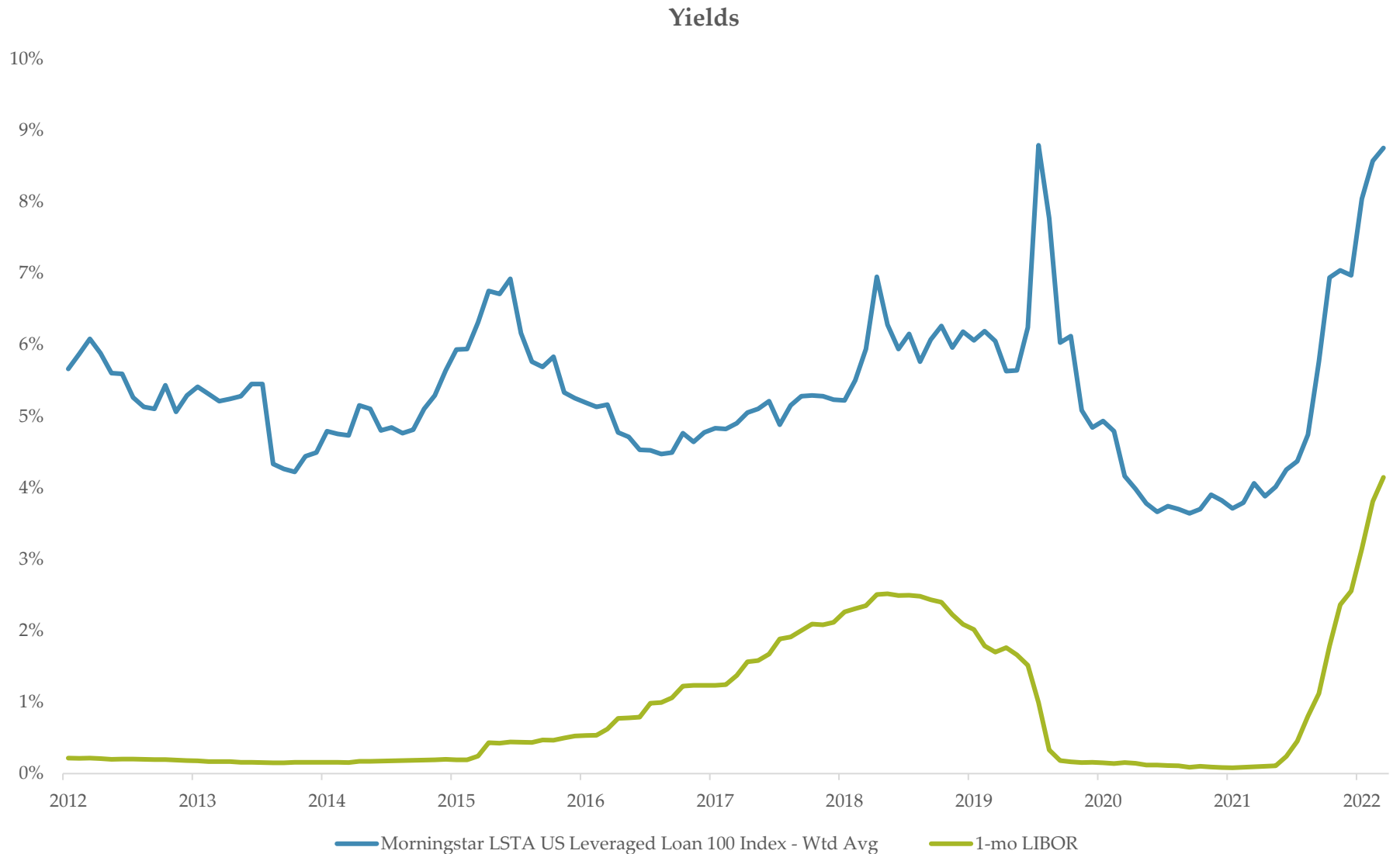
Pacing Plan Execution

72% of FY 2022-23 pacing plan committed through November 30, 2022.

	Style	Date	Executed	Target	
Buyout			\$ 100mm	/ \$ 100mm	100%
PE Strategic Partnership SJPF	Fund-of-one	7/1/2022	\$ 100mm		
Venture Capital			\$ 23mm	/ \$ 40mm	58%
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		
Private Debt			\$ 42mm	/ \$ 64mm	66%
Eagle Point Defensive Income Fund II	Par Credit	8/26/2022	\$ 21mm		
HPS Special Situations Opportunity Fund II	Stress	9/7/2022	\$ 21mm		
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	Style		\$ 16mm	/ \$ 60mm	27%
Kimmeridge Fund VI	Energy	9/30/2022	\$ 16mm		
Total Private Markets			\$ 239mm	/ \$ 334mm	72%

Private Debt

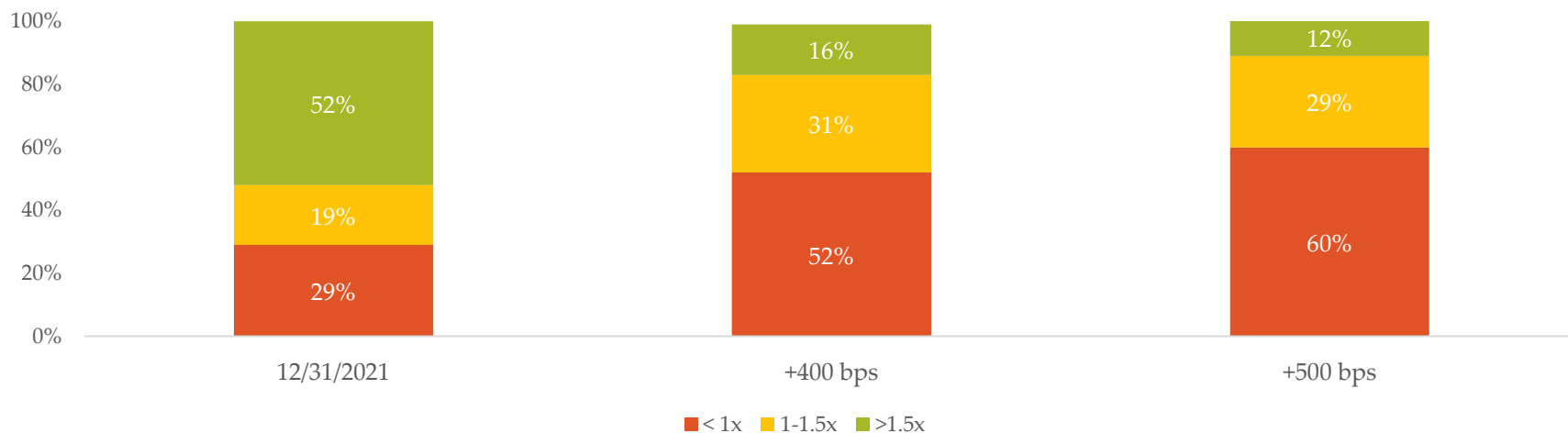
Interest Rates Rising



Source: Bloomberg, as of November 30, 2022

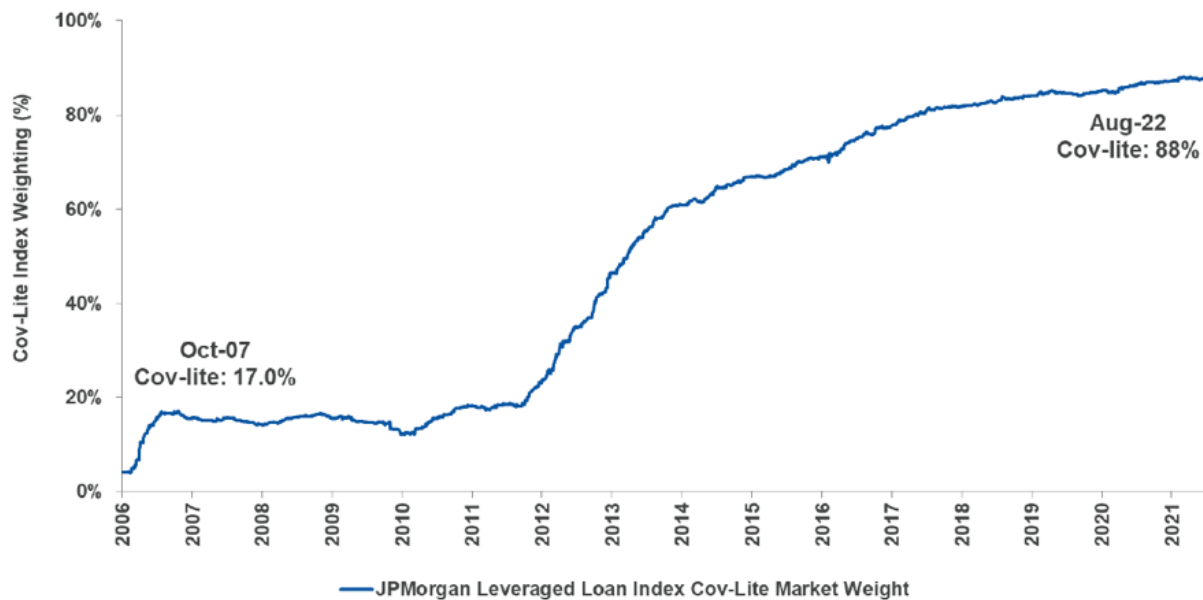
Rising Risk Profile in Leveraged Loans

Interest Coverage Ratio (B3 rated Corporates)

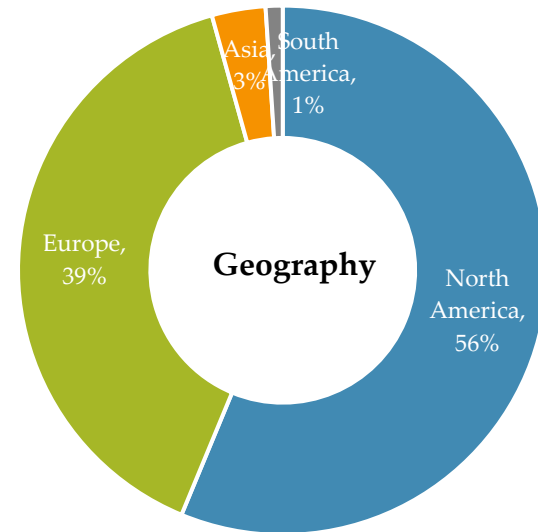
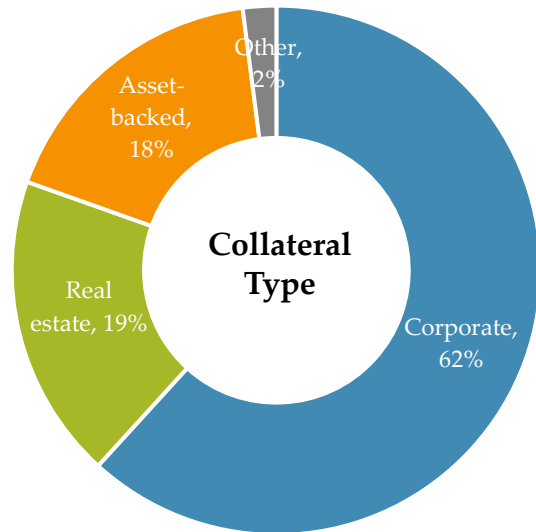
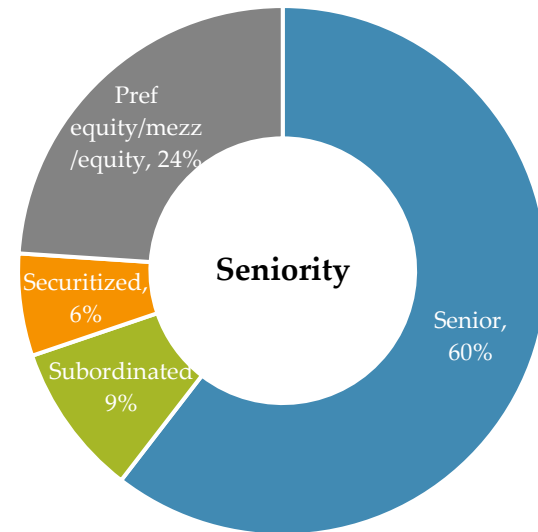
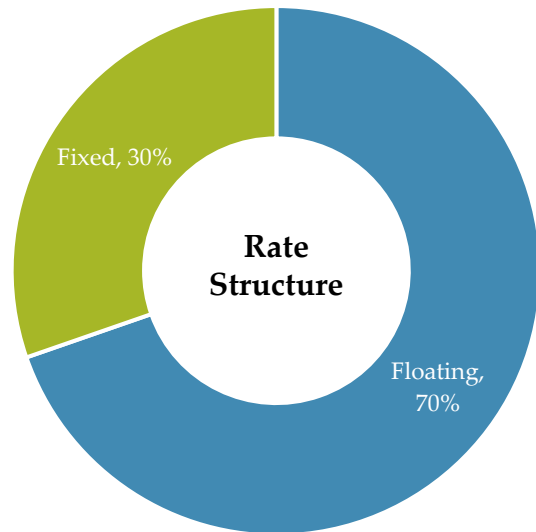


Source: Moodys, as of June 30, 2022

Interest Coverage Ratio calculated as (EBITDA – CapEx)/Interest



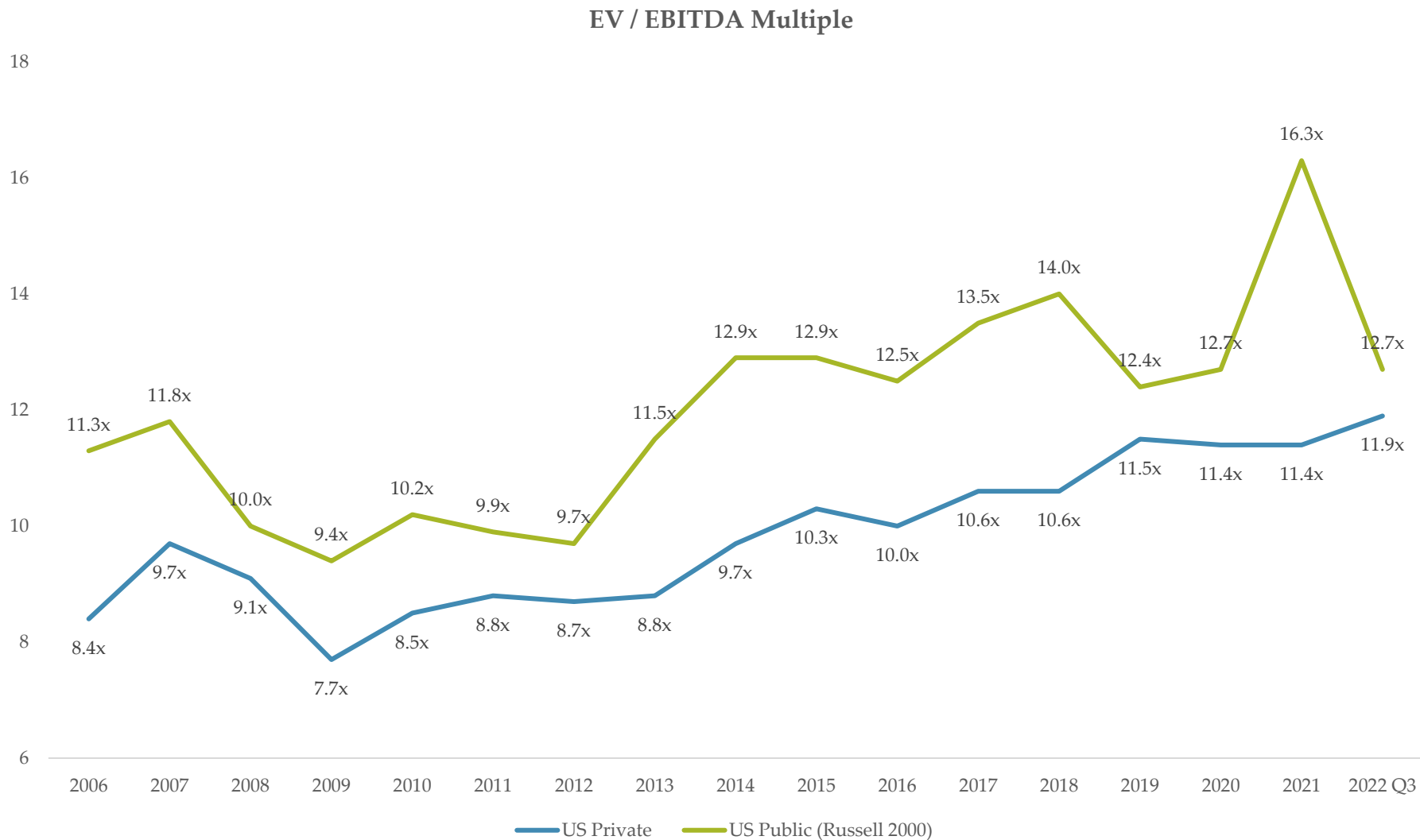
Private Debt Portfolio Update



Source: San Jose Staff, as of June 30, 2022
Values based on NAVs plus unfunded commitments

Buyout

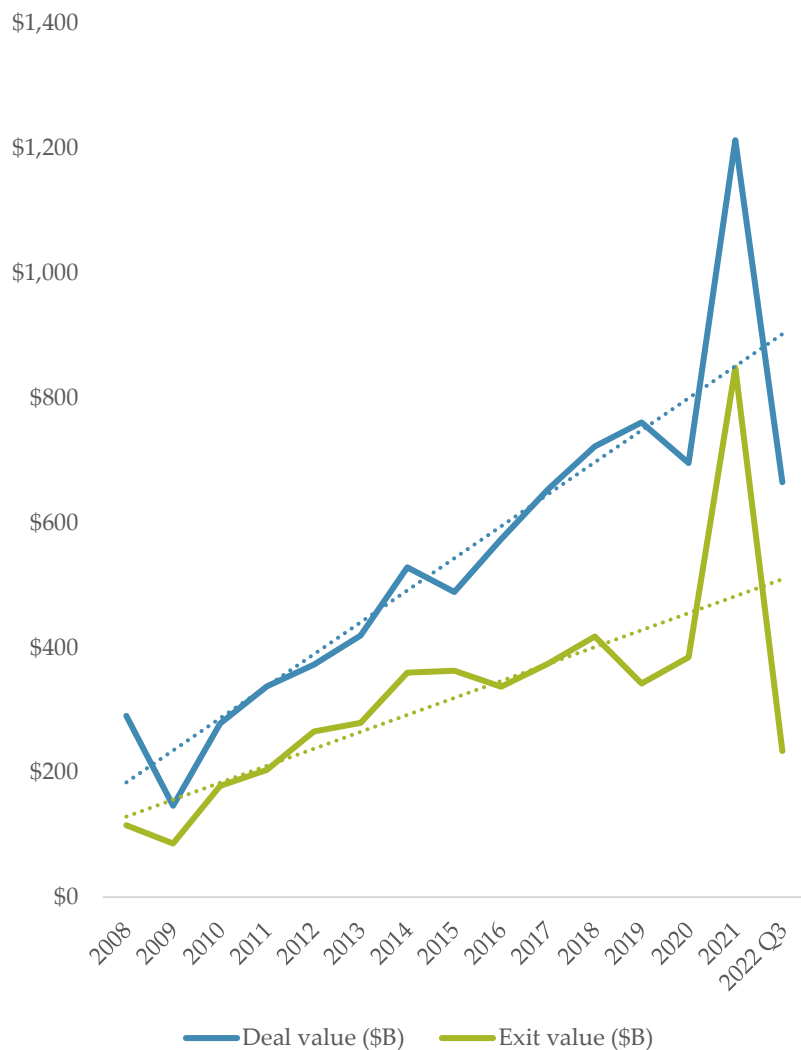
U.S. Private Equity Purchase Prices vs. Russell 3000



Source: Pitchbook LCD and S&P Capital IQ, as of September 30, 2022

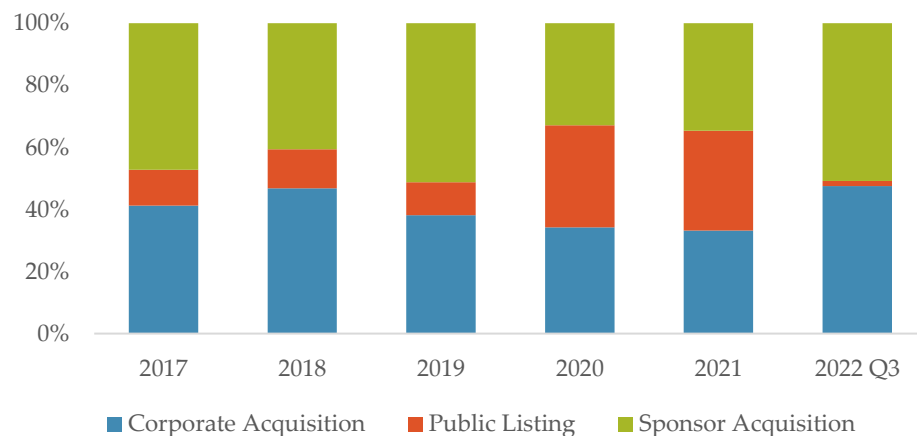
Deal Activity Moderates After 2021 Spike

U.S. Private Equity Deal Activity (\$ billions)



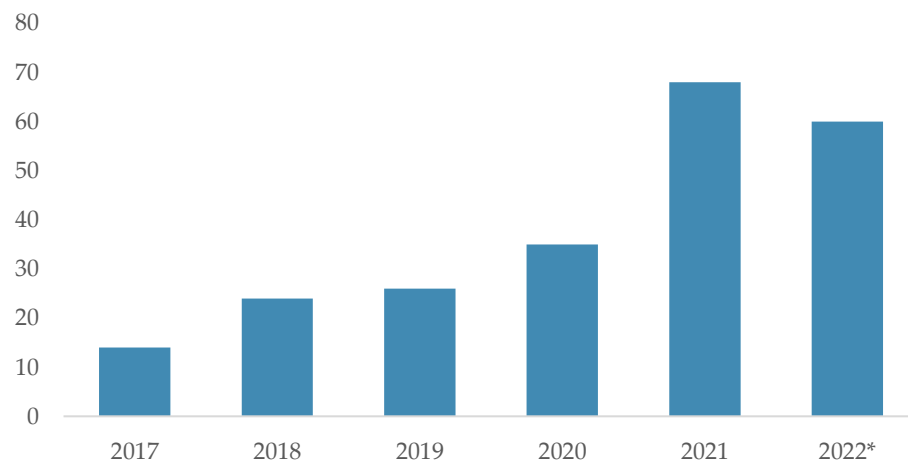
Source: Pitchbook, as of September 30, 2022

U.S. Private Equity Value of Exits by Type



Source: Pitchbook, as of September 30, 2022

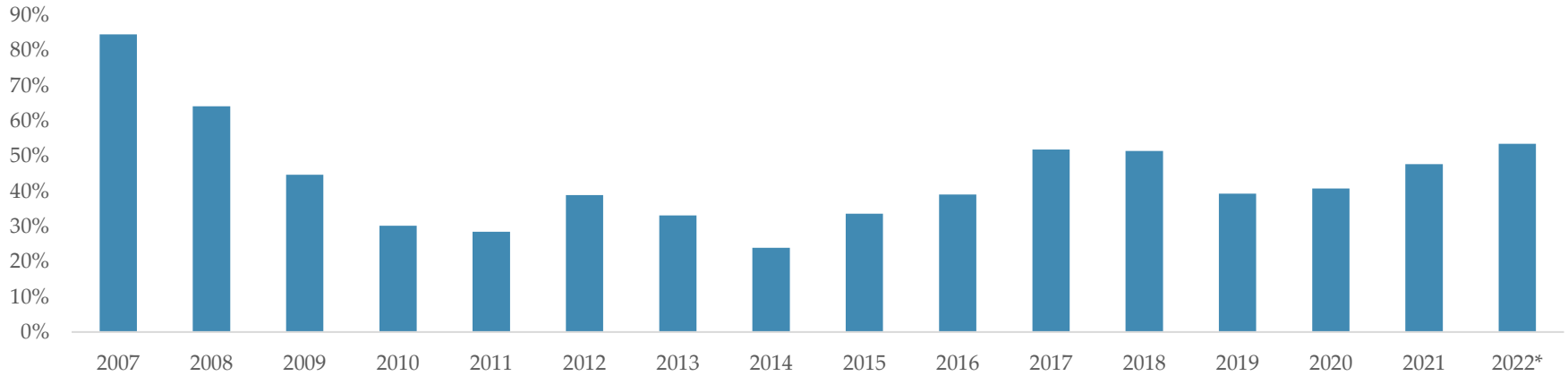
GP-Led Secondary Transaction Volume (\$ billions)



Source: Jefferies Global Secondary Market Review, as of June 30, 2022
 * 2022 values are projected. \$24 billion in 2022 1H

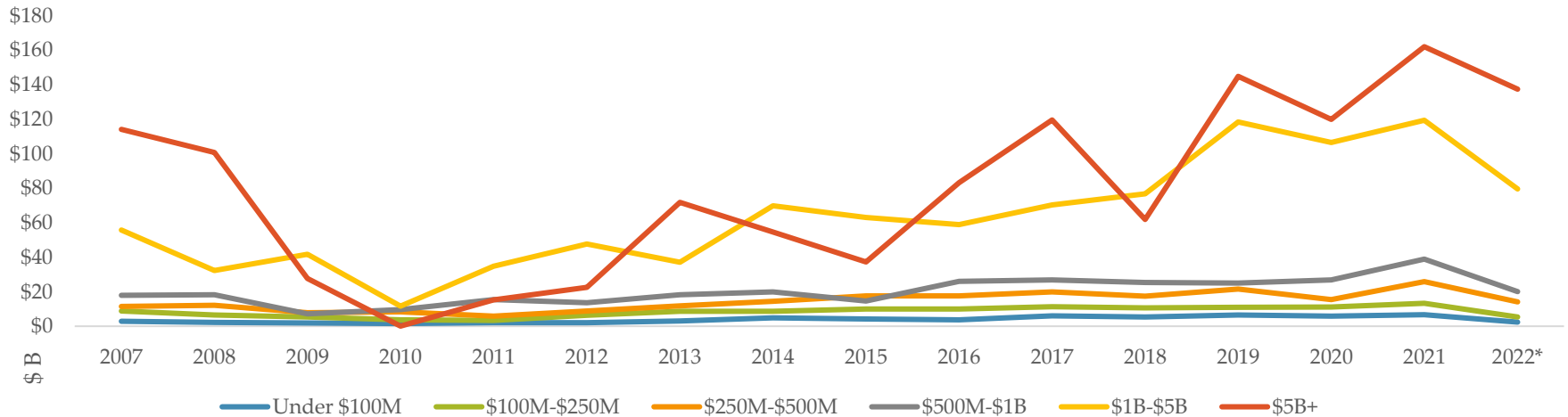
Capital Gravitates Toward Large Funds

U.S. Private Equity Median Fund Size Step-Up



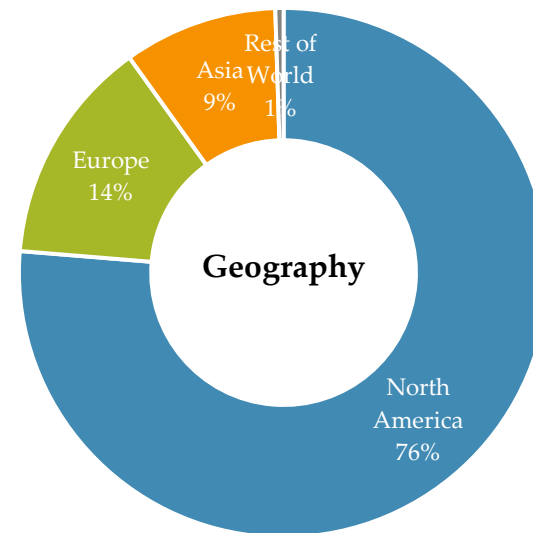
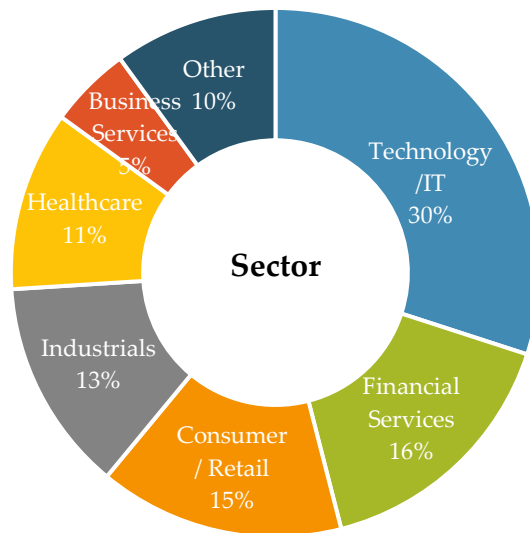
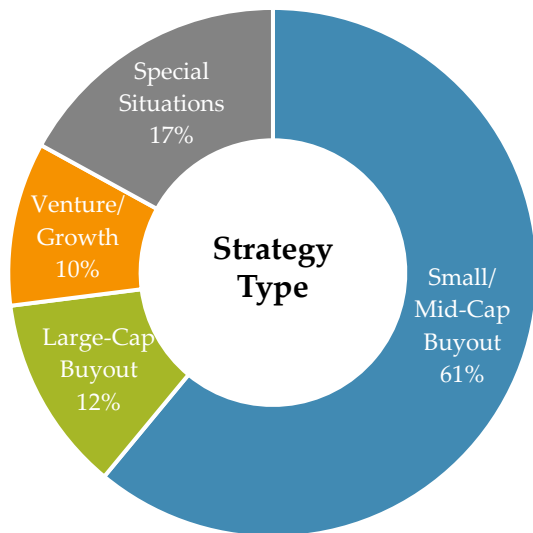
Source: Pitchbook, as of September 30, 2022

U.S. Private Equity Capital Raised by Fund Size (\$ billions)



Source: Pitchbook, as of September 30, 2022

Buyout Portfolio Update



Source: Neuberger Berman, as of June 30, 2022
Only includes PE Strategic Partnership
Values based on NAVs plus unfunded commitments

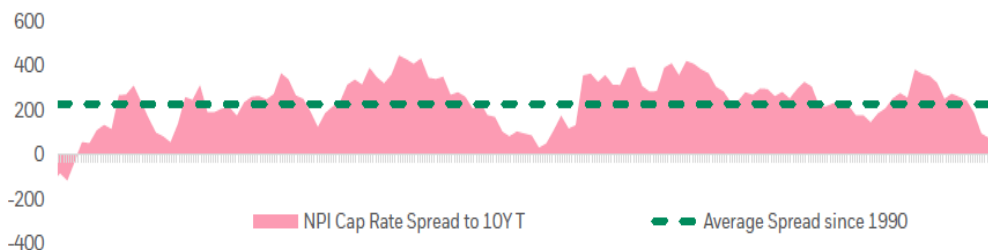
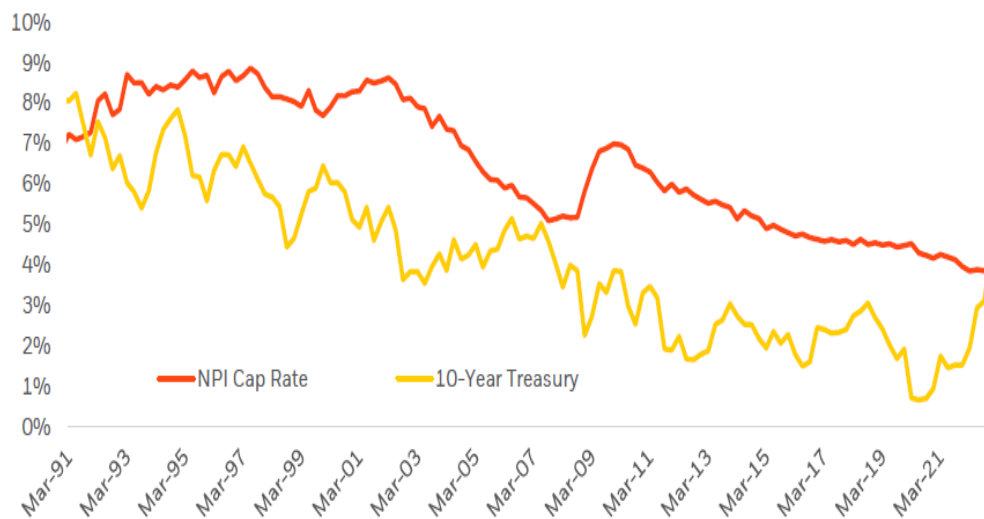
Buyout Portfolio Update

Currently in year 6 of strategic partnership with Neuberger Berman.

Primary Fund Commitments	Status	Region	Strategy Type	\$ mm
Redacted Fund A	Committed	North America	Growth Equity	6.8
Redacted Fund B	Committed	North America	Small/Mid-Cap Buyout	16.0
<i>Redacted Fund C</i>	<i>Model</i>	<i>North America</i>	<i>Small/Mid-Cap Buyout</i>	20.0
<i>Redacted Fund D</i>	<i>Model</i>	<i>North America</i>	<i>Small/Mid-Cap Buyout</i>	20.0
Subtotal – Primary Fund Commitments				62.8
Co-Investments / Secondaries	Status	Region	Strategy Type	\$ mm
Redacted Co-Investment E	Committed	North America	Small/Mid-Cap Buyout	3.4
Redacted Secondary F	Committed	North America	Small/Mid-Cap Buyout	6.4
Redacted Co-Investment G	Committed	North America	Small/Mid-Cap Buyout	3.6
Redacted Co-Investment H	Committed	Europe	Small/Mid-Cap Buyout	5.0
Redacted Co-Investment I	Committed	North America	Special Situations	1.3
<i>Unallocated Co-Investments / Secondaries</i>	<i>Model</i>	<i>n/a</i>	<i>n/a</i>	18.9
Subtotal – Co-Investments / Secondaries				38.6
Total Year 6 Commitments				101.4

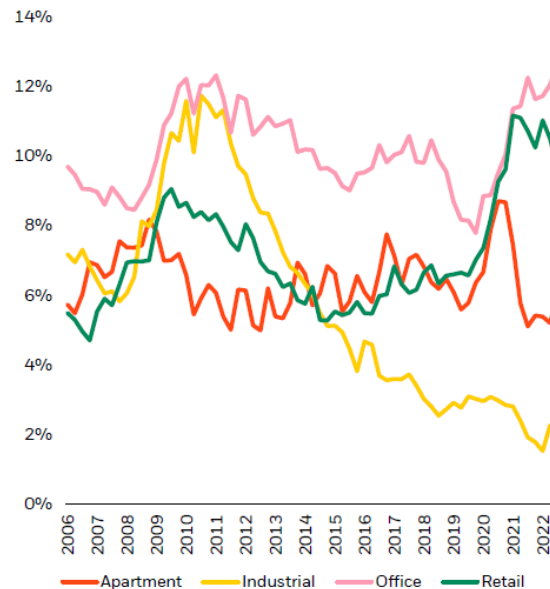
Growth Real Estate

Private Cap Rates Unchanged. Sector Fundamentals Diverging

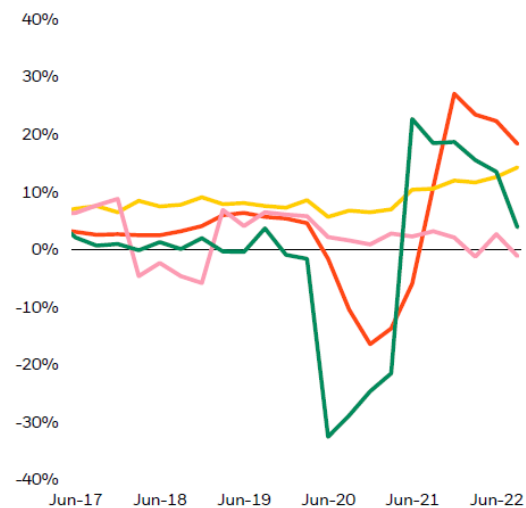


Source: US Treasury, NCREIF, BlackRock; as of 30 Sep 2022. Treasury yield and spread updated through 15 Nov 2022

Vacancy rates



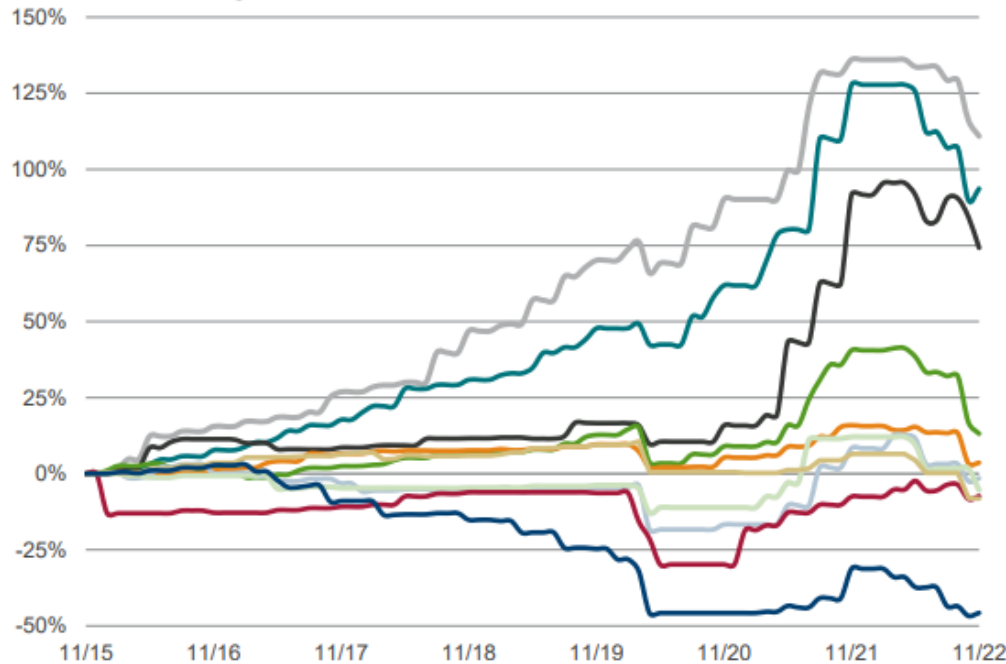
NOI growth



Valuations Declining For Transactions Being Negotiated

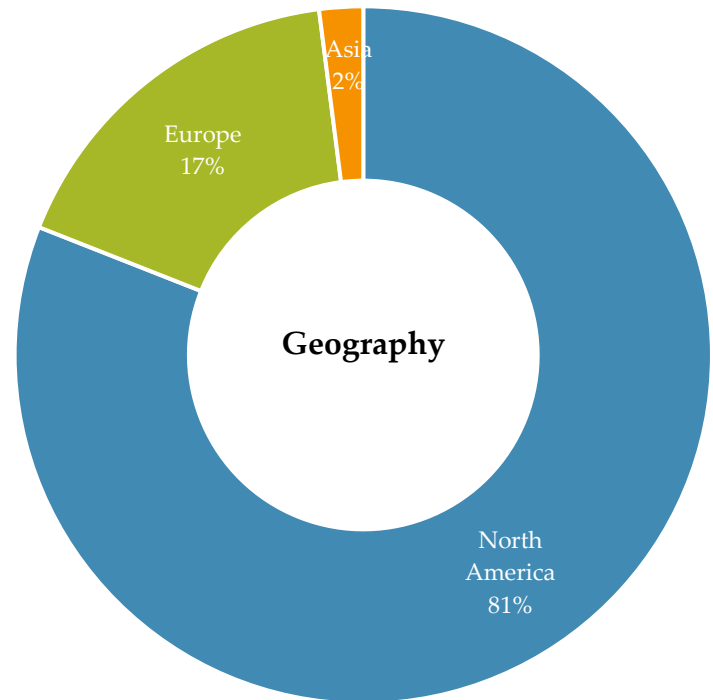
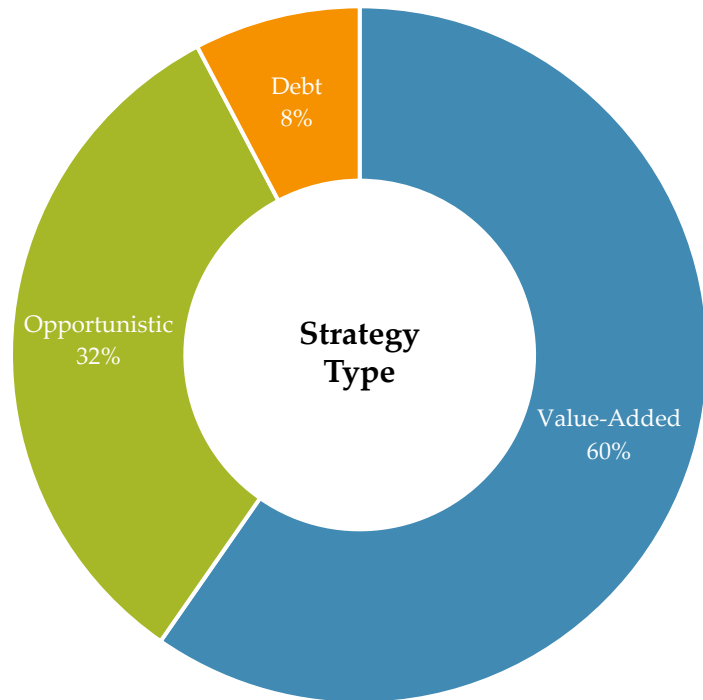
Green Street's Commercial Property Price Index® is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted.

Cumulative Change in CPPI®: Past Seven Years



	Nov 2022	Oct 2022	TTM
Man Home	-2%	-6%	-11%
Industrial	2%	-8%	-15%
Self-Storage	-6%	-3%	-9%
Apartment	-3%	-12%	-19%
Health Care	0%	-9%	-11%
Strip Retail	1%	-5%	-9%
Net Lease	-7%	0%	-16%
Lodging	1%	-5%	0%
Office	0%	-8%	-14%
Mall	2%	-6%	-21%

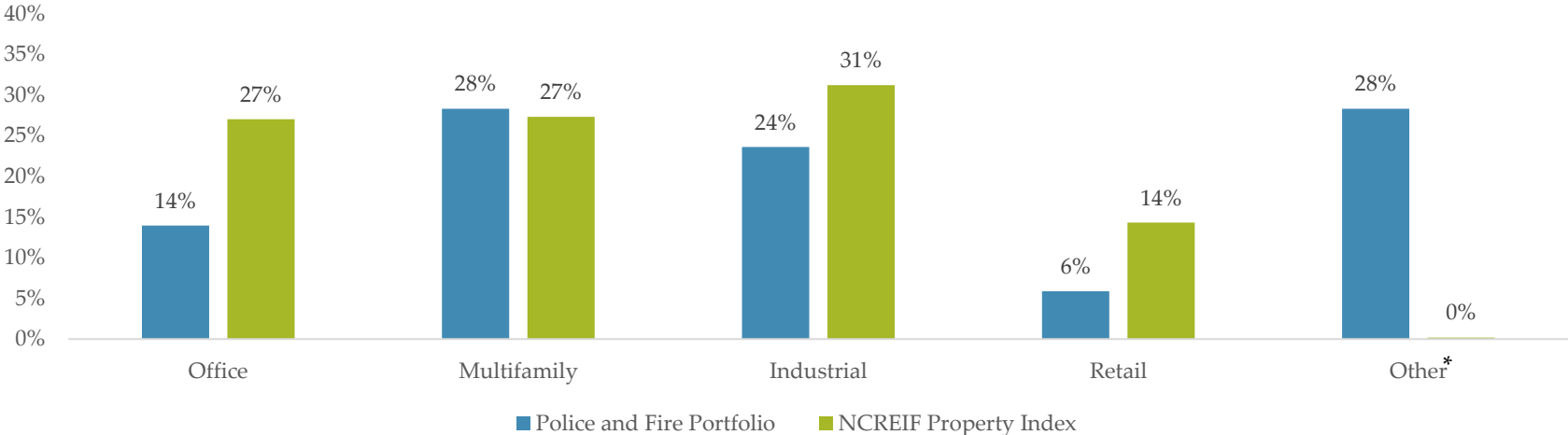
Growth Real Estate Portfolio Update



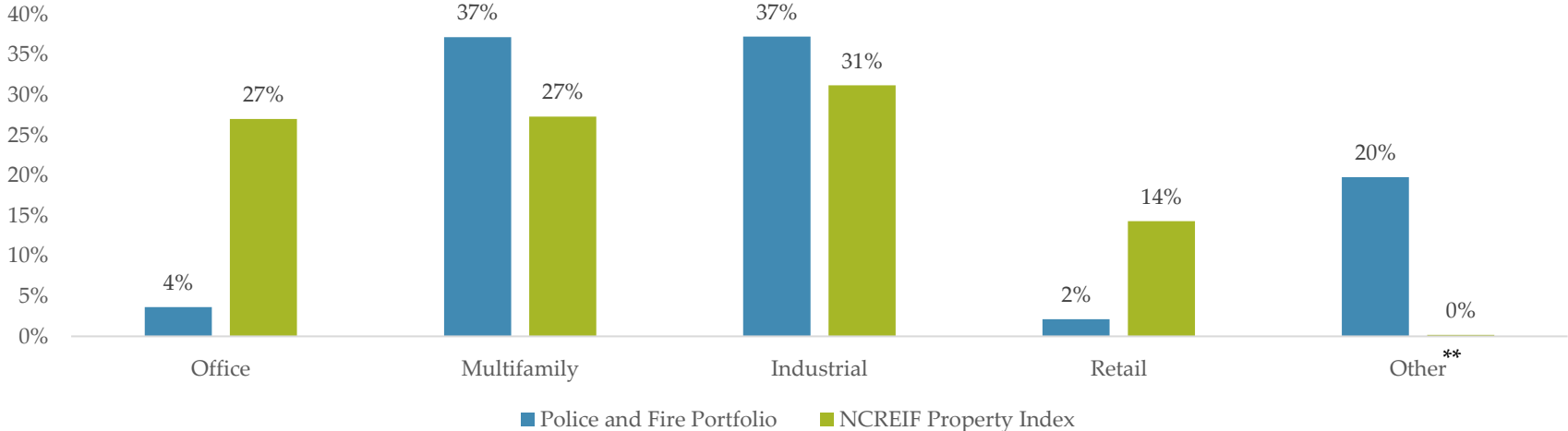
Source: San Jose Staff, as of June 30, 2022
Values based on NAVs plus unfunded commitments

Growth Real Estate Portfolio Update

Property Type Exposure



Property Type Exposure - Actively Investing Vintage 2020-22 Commitments



Source: San Jose Staff, NCREIF as of June 30, 2022

Values based on NAVs plus unfunded commitments

* Other category of 28% includes 13% hospitality, 6% self-storage, 4% lab office

** Other category of 20% is includes 14% self-storage, 4% lab office, and 2% hospitality

Core Real Estate

Industrial Sector Outperformance Expected to Continue

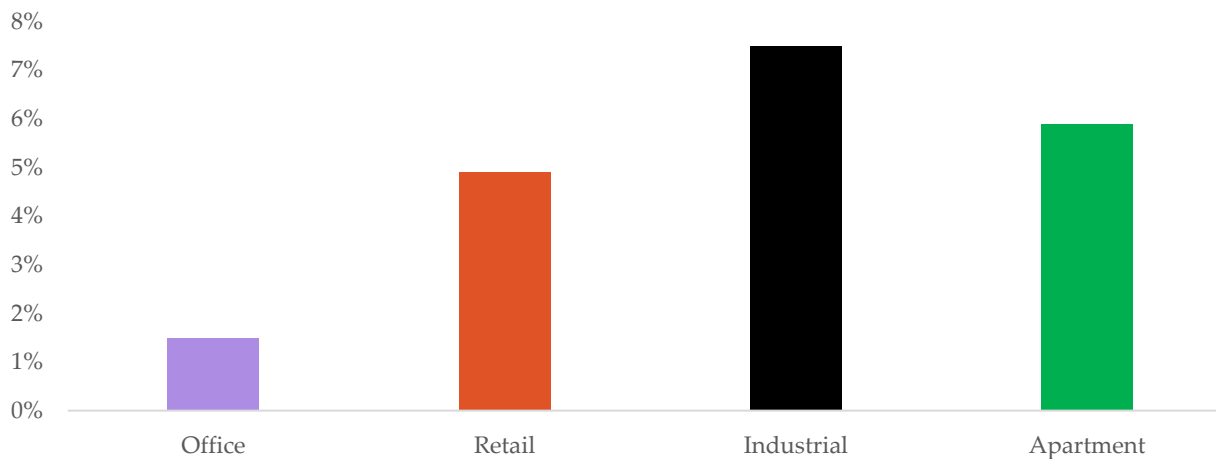
NPI total returns (2014 to 2021, 1Q to 3Q 2022)

Calendar Year								Quarterly		
2014	2015	2016	2017	2018	2019	2020	2021	1Q22	2Q22	3Q22
Ind 13.4%	Ret 15.3%	Ind 12.3%	Ind 13.1%	Ind 14.3%	Ind 13.4%	Ind 11.8%	Ind 43.3%	Ind 11.1%	Ind 5.9%	Apt 1.2%
Ret 13.1%	Ind 14.9%	Ret 9.0%	Apt 6.2%	Off 6.9%	Off 6.6%	Apt 1.8%	Apt 19.9%	Apt 5.3%	Apt 3.9%	Ind 1.1%
Off 11.5%	Off 12.5%	Apt 7.3%	Ret 5.9%	Apt 6.1%	Apt 5.5%	Off 1.6%	Off 6.1%	Ret 2.3%	Ret 2.6%	Ret 0.4%
Apt 10.3%	Apt 12.0%	Off 6.2%	Off 5.8%	Ret 2.2%	Ret 1.9%	Ret -7.5%	Retail 4.2%	Off 1.6%	Off 0.6%	Off -0.7%

Ind – Industrial, Apt – Apartments, Off – Office, Ret – Retail. Unlevered returns.

Source: BlackRock, NCREIF

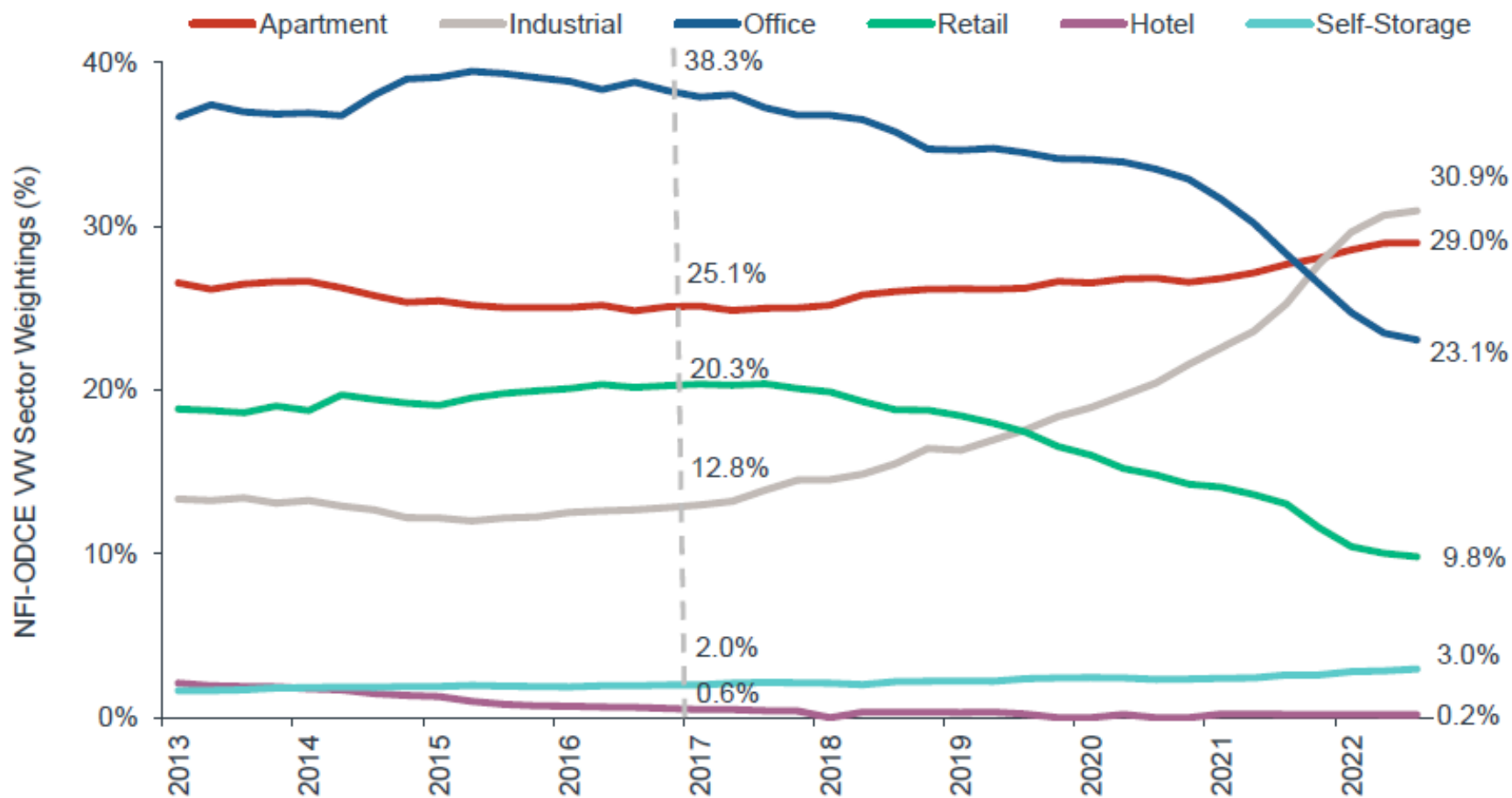
Average Forecast Total Returns 2022-2026



Source: Pension Real Estate Association, as of November 2022 from 25 respondents. Unlevered returns.

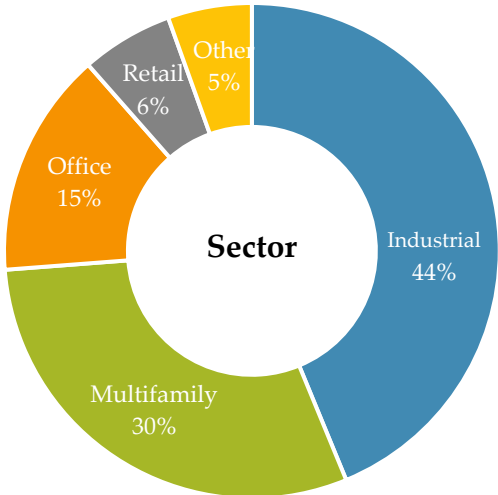
NCREIF ODCE Index Sector Allocations Shifting

ODCE SECTOR ALLOCATION IN RECENT HISTORY (AS OF Q3 2022)

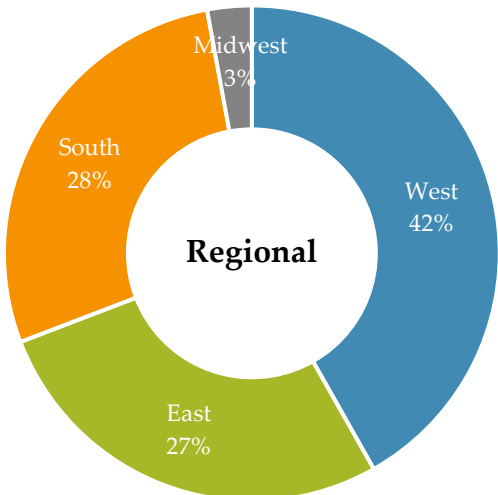
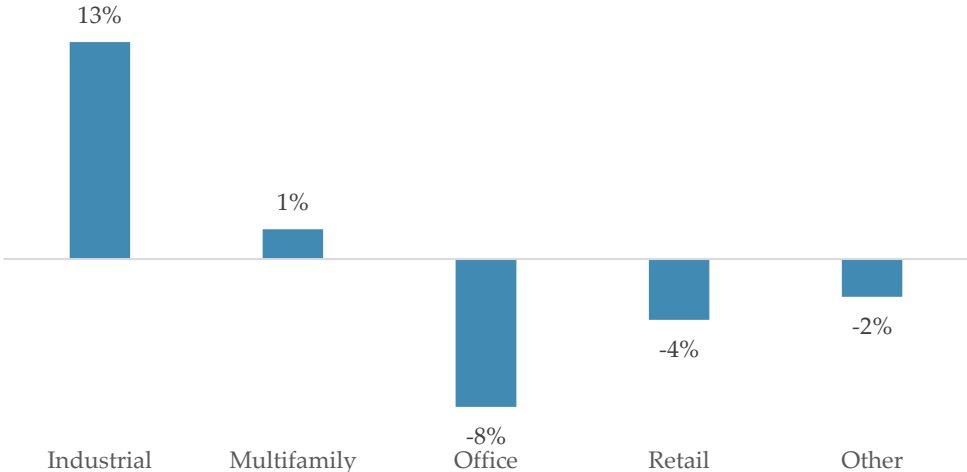


Source: NCREIF, Clarion Partners Investment Research

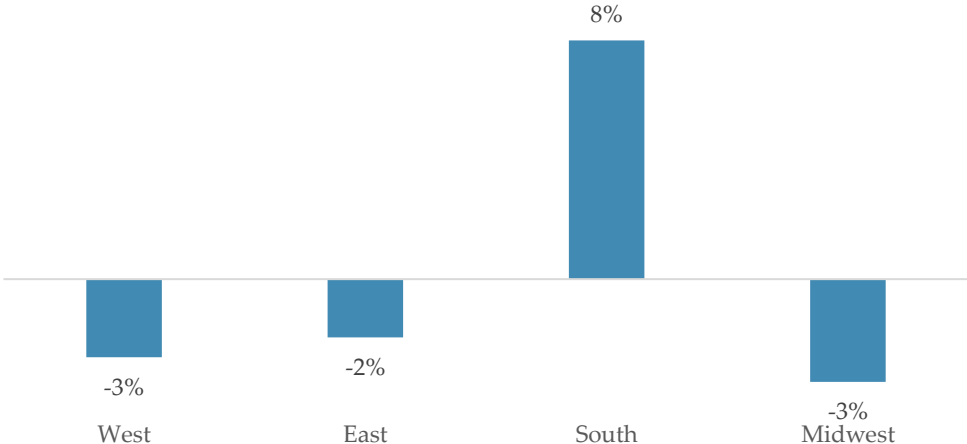
Core Real Estate Portfolio Update



Active Sector Weights



Active Regional Weights

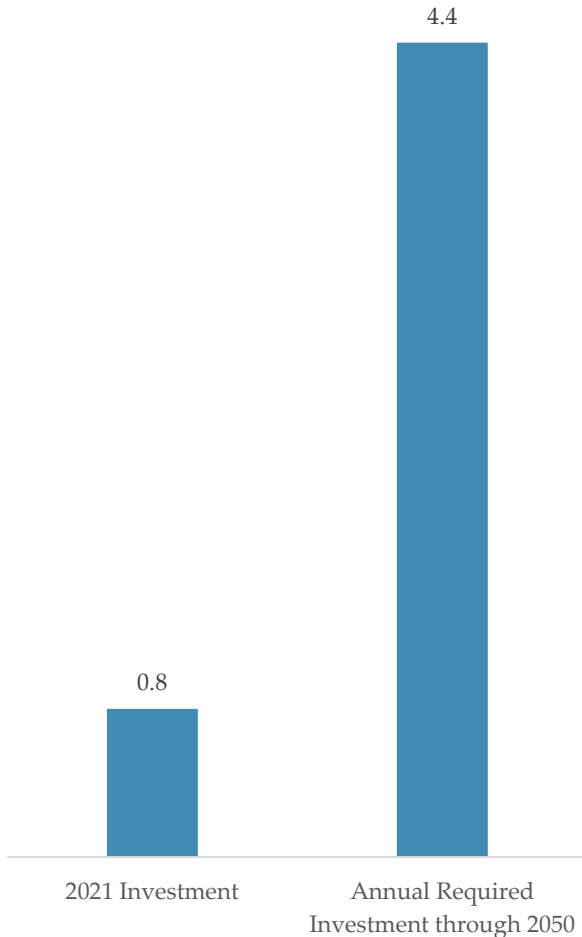


As of Oct 1, 2021, pro forma for pending capital activity
Active weights relative to NCREIF ODCE index as of 10/1/2022

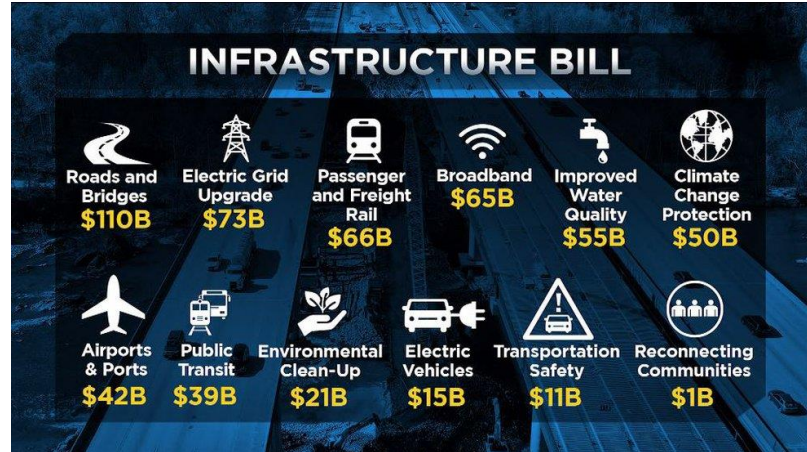
Private Real Assets

Significant Real Assets Investment Gap

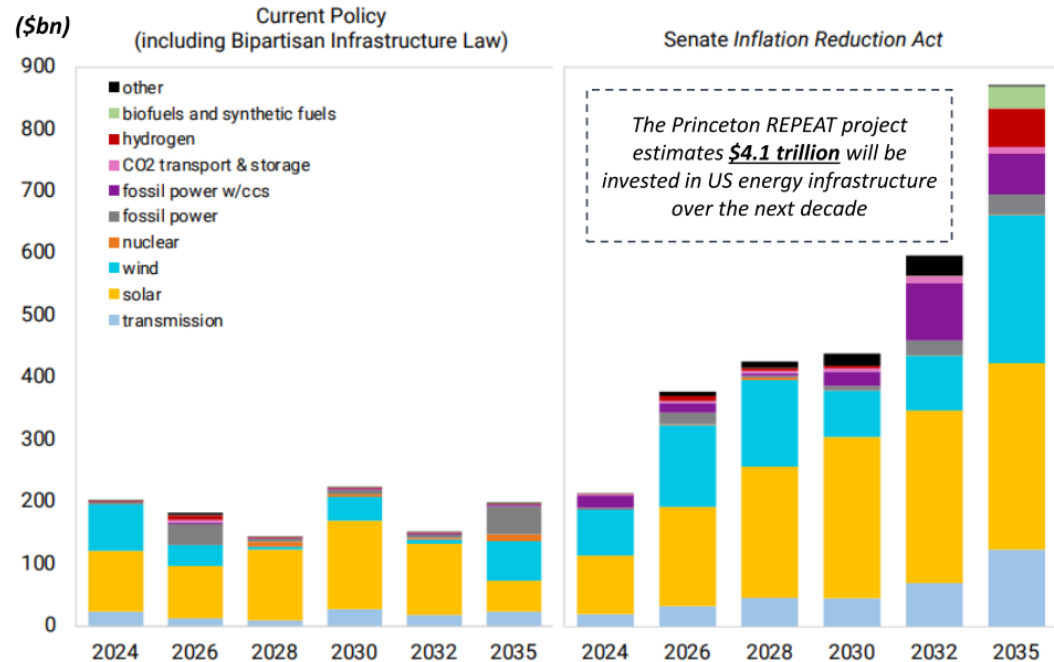
Energy Transition
Investment Gap (\$ trillions)



Source: Bloomberg, IRENA World Energy Transitions Outlook



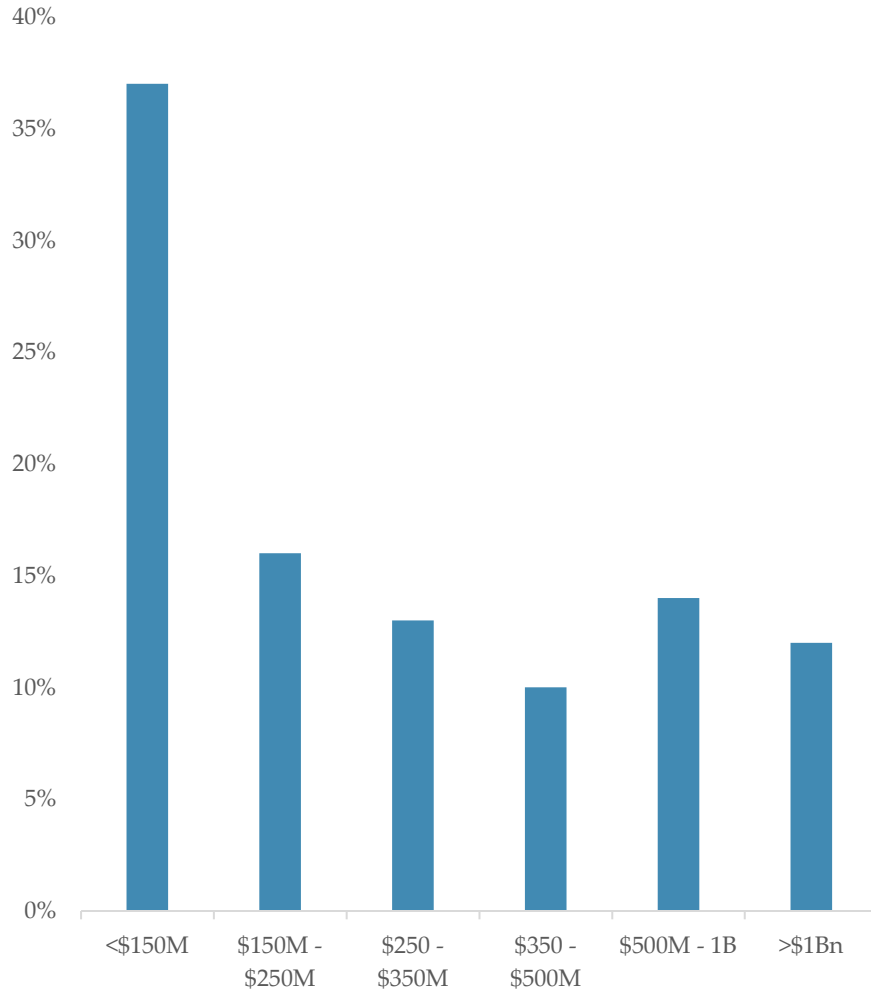
2021 Infrastructure Investment and Jobs Act
Source: Close Up



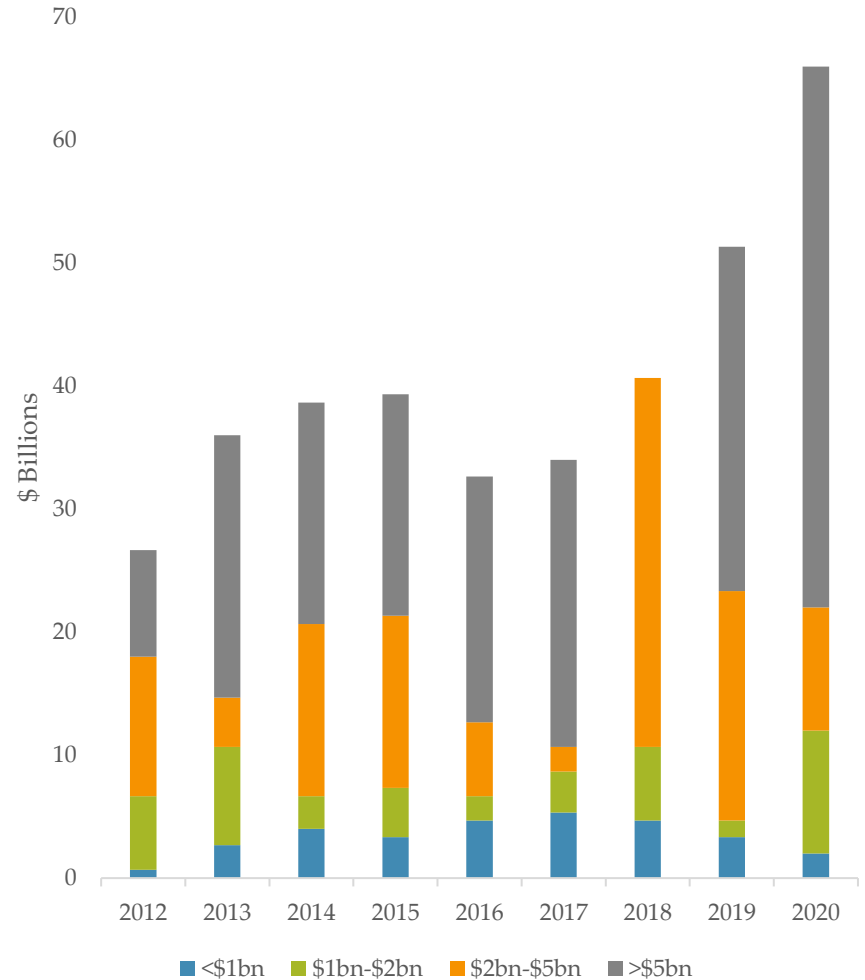
Source: REPEAT project, congress.gov, BCG, Quantum Energy Partners

Infrastructure Middle Market Opportunity

North American Infrastructure Equity Transactions by Size

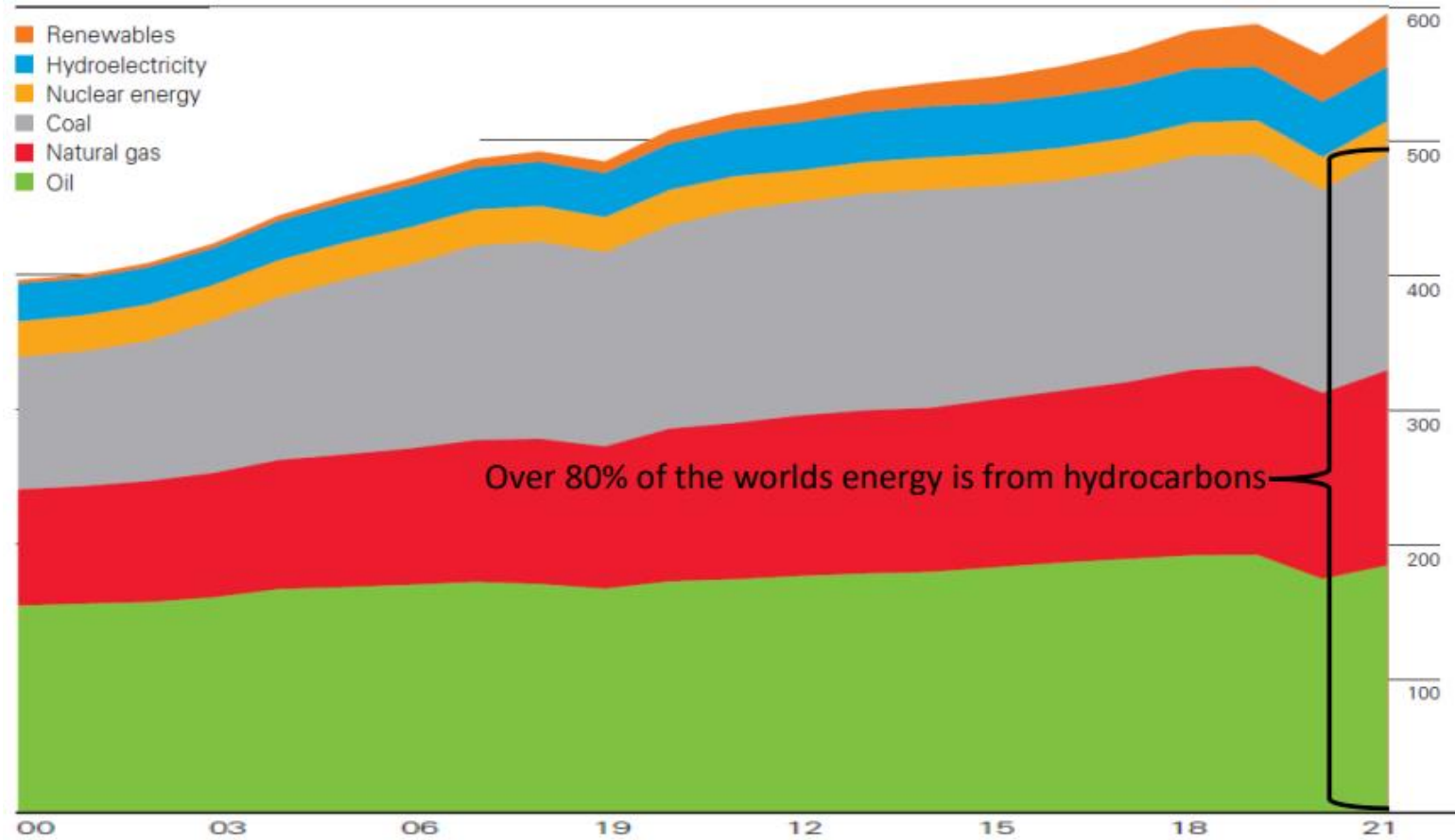


Capital Formation by North American Infrastructure Managers



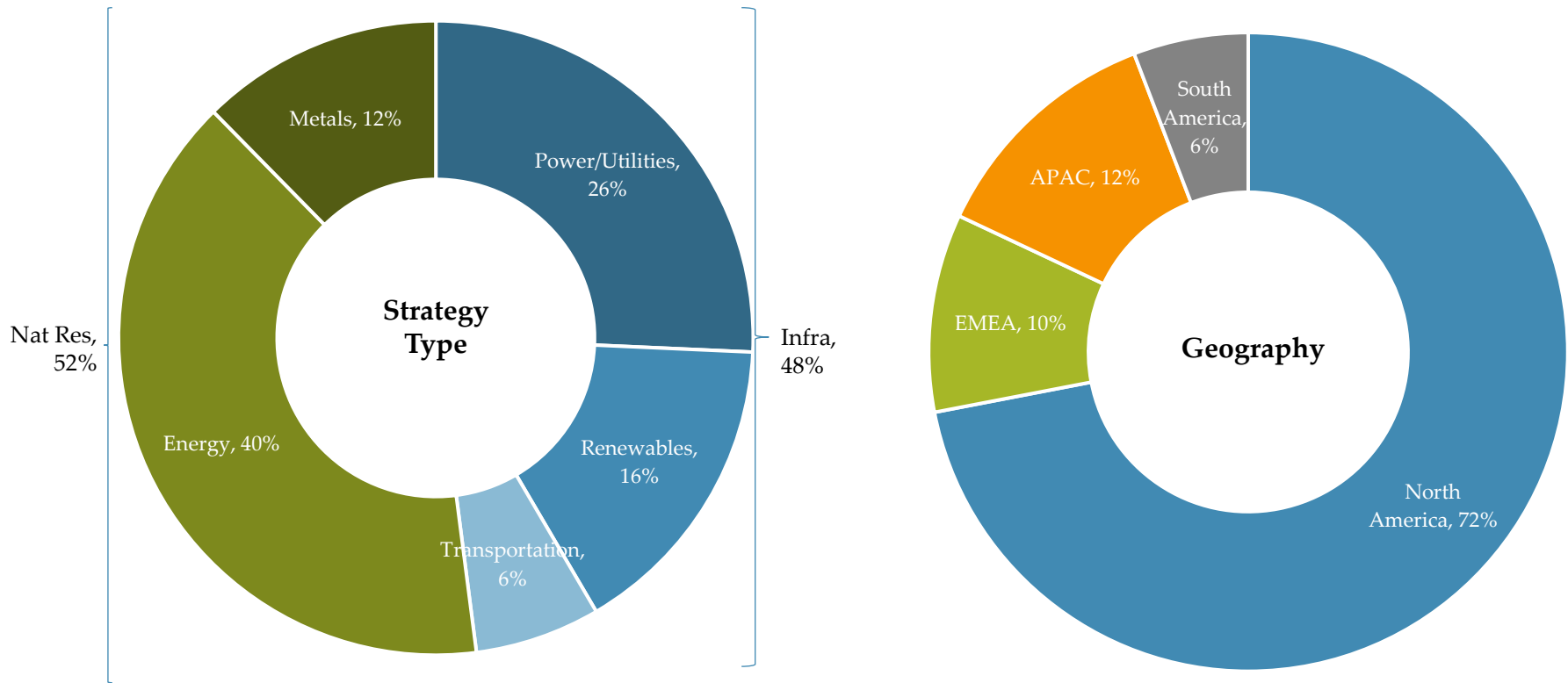
Source: Inframation, Ridgewood Infrastructure

Energy – Hydrocarbons Still Account for the Majority of World Consumption



Source: BP Statistical Review of World Energy 2022, Scout Energy Partners

Private Real Assets Portfolio Update

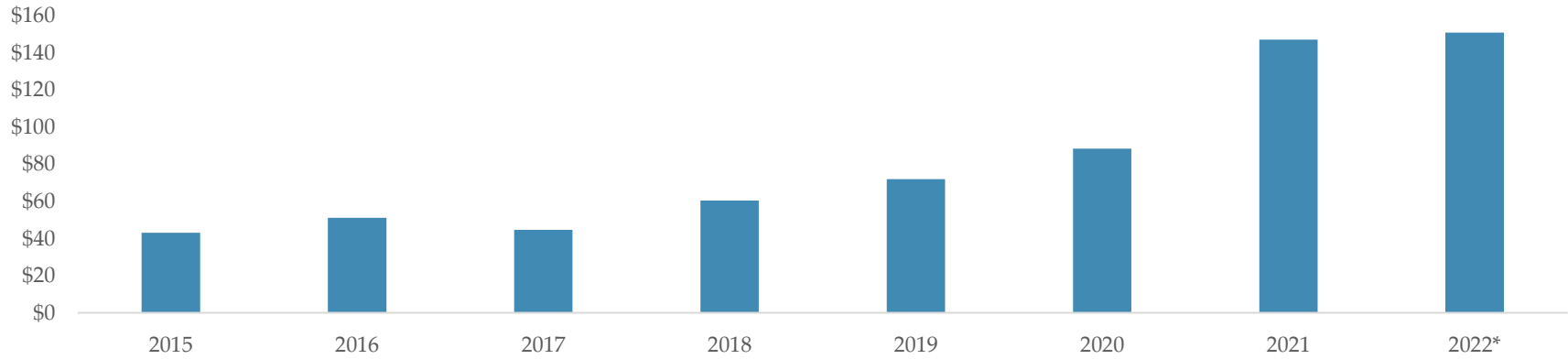


Source: San Jose Staff, as of June 30, 2022
Values based on NAVs plus unfunded commitments

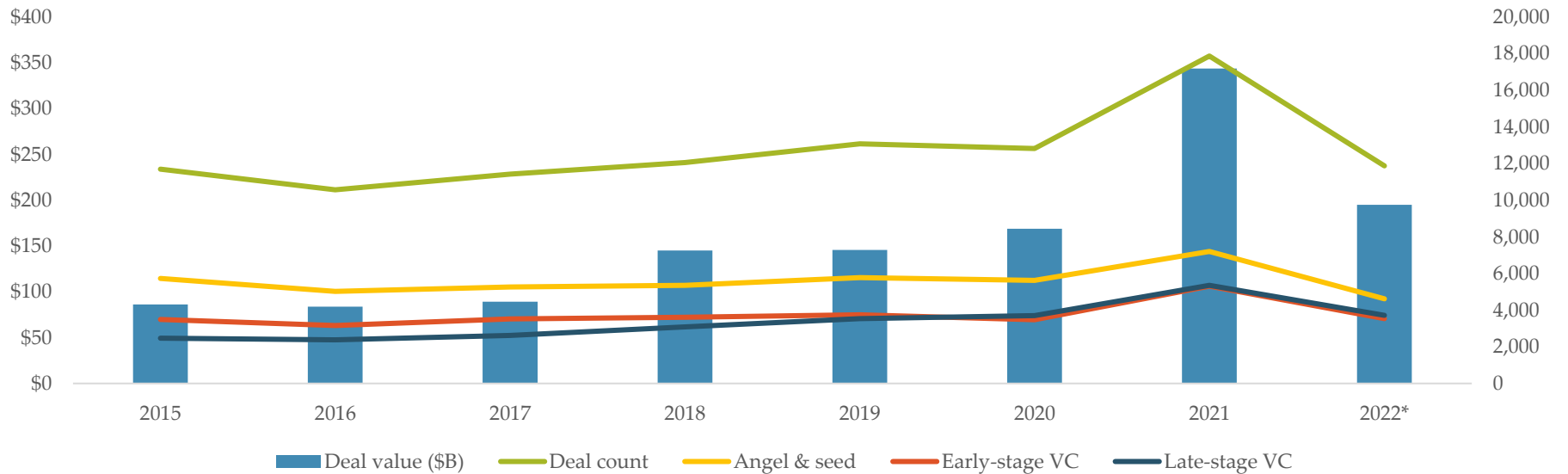
Venture Capital

Deal Activity Slowing Across All Stages, But Still at Historical Levels

U.S. VC Capital Raised (\$B)



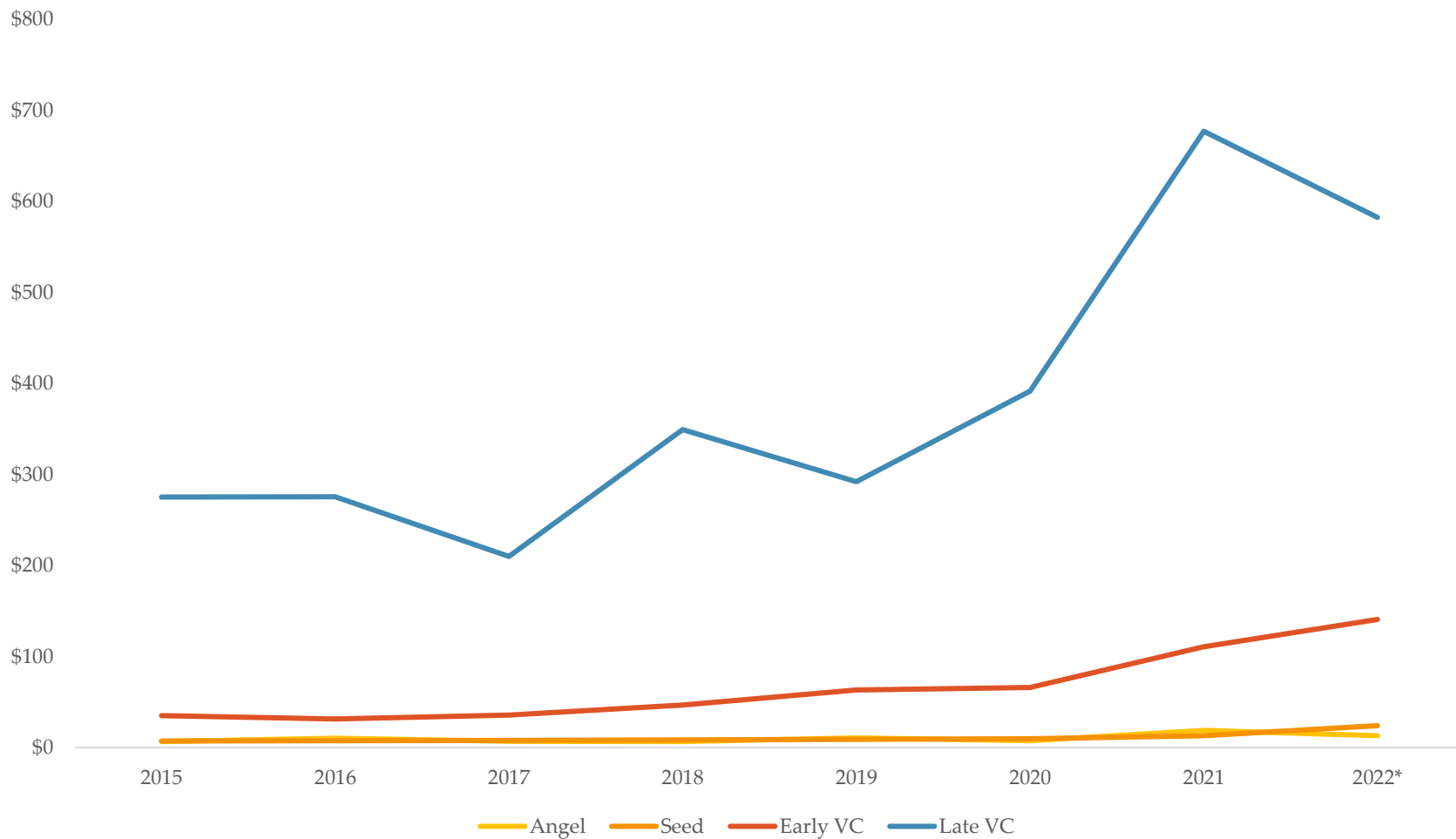
U.S. VC Deal Activity



Source: Pitchbook, as of September 30, 2022

Resulting in Lower, but Still Elevated Valuations

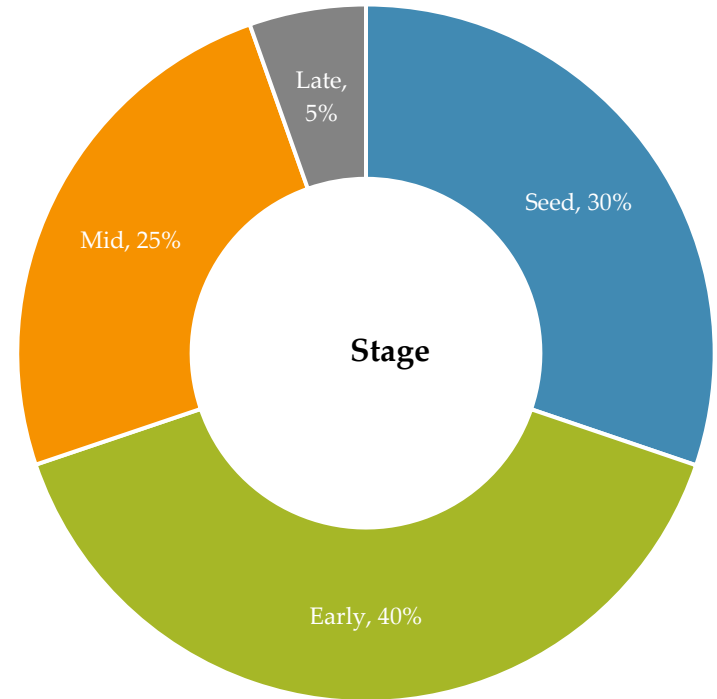
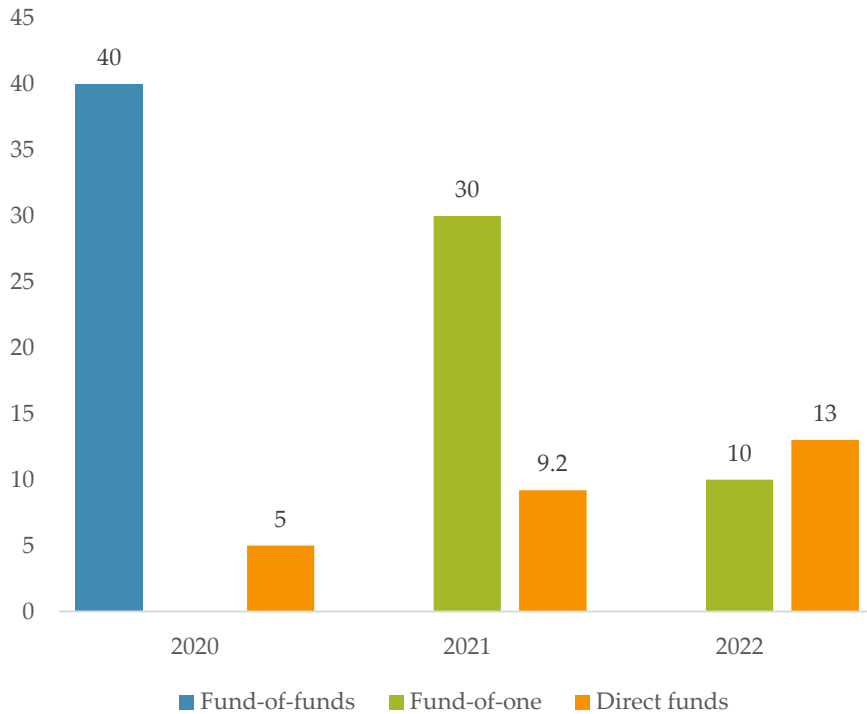
U.S. VC Average Pre-Value (\$M) by Stage



Source: Pitchbook, as of September 30, 2022

Venture Capital Portfolio Update

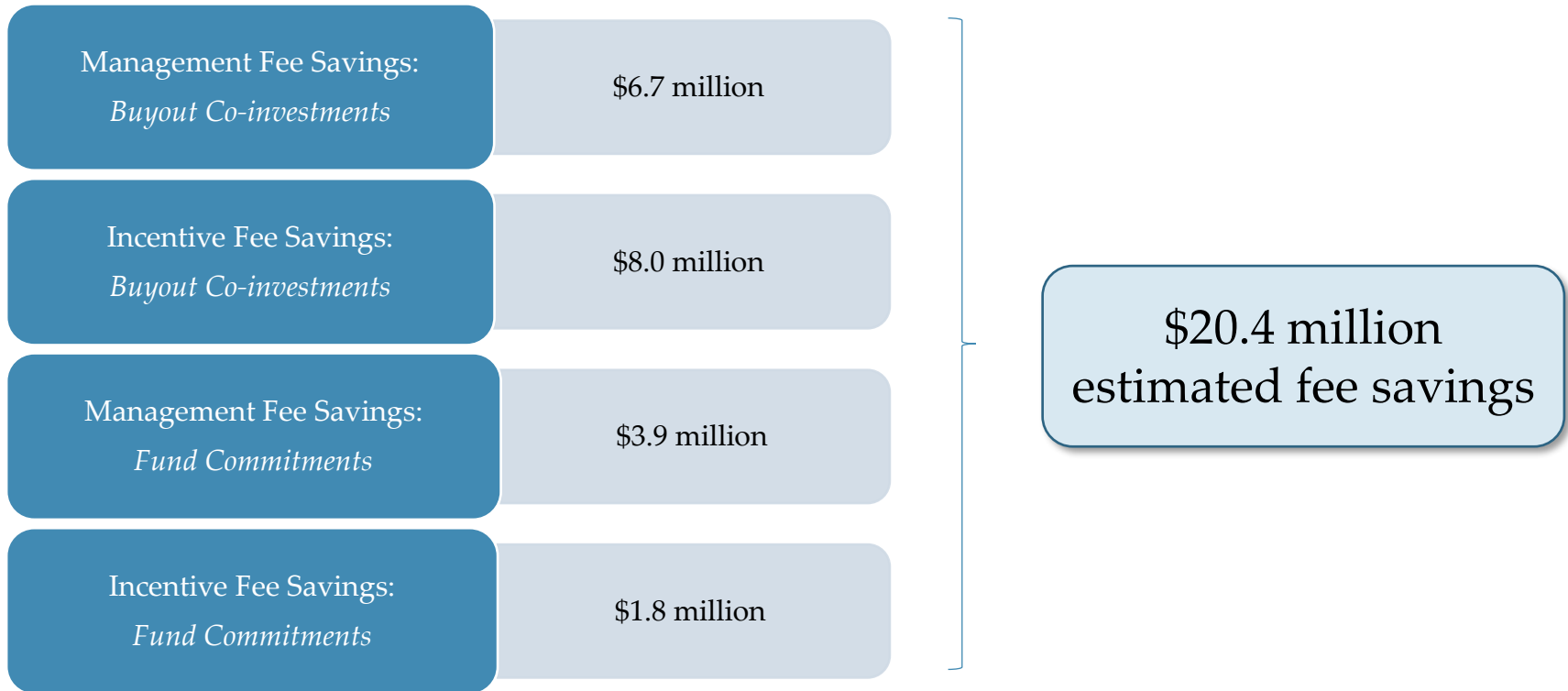
Commitments (\$ mm) by
Vintage Year and Fund Type



Source: San Jose Staff, as of June 30, 2022
Values based on committed capital

Over \$20mm estimated fee savings achieved in the past 18 months

- Estimated fee savings from commitments over the past 18 months over the projected life of the investments for both San Jose Police & Fire and Federated plans combined:



- Fund Commitments fee savings from Staff negotiations, early closing discounts, and volume discounts.
- Additional fee savings not modeled: fee structures of fund-of-ones compared to fund-of-funds alternative, upside performance of investments with incentive fee discounts, commitments to funds with standard fees below asset class averages, and fee discounts from investments prior to July 2021.

Conclusion

- Private Markets strategy developed in 2017 is being executed as planned
- Flexibility and governance have been accretive
- Strong relationships developed
- Sophisticated due diligence and portfolio management
- Current portfolio diversified and actively managed
- Continuing to identify and execute on attractive risk-adjusted alpha opportunities
- Significant fee savings achieved
- Uncertain market environments can produce some of the best vintage years