San Jose Police and Fire Department Retirement Plan

Private Markets Pacing Plan

Fiscal Year 2024-25

as of April 2024

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.
- The Board is considering two potential asset allocation options that increase the private markets target by 2.5% or 5%. This document includes output for the current target along with both options being considered.

Valuable context:

- Execution of FY 2023-24 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 on an annual basis.

Year in review

FY 2023-24 pacing plan execution

- 13 commitments for $267.5mm of $329mm pacing plan (81%) expected.
- Half of commitments with existing fund manager relationships.
- No Growth Real Estate commitments.

Current positioning versus target

- Private markets are currently 21.8% of plan assets, 3.2% below the 25% target.
- Slowdown of realizations (distributions) brought the allocation 1% higher than anticipated in the previous pacing plan.

Changes in asset allocation

- The Board is considering two asset allocation options in addition to maintaining the current allocation:
- Option 1 (27.5% Private Markets target): Increasing Buyout (+1%), Private Debt (+1%), and Venture Capital (+0.5%).
- Option 2 (30% Private Markets target): Increasing each of the five private asset classes by 1%.

Changes in market environment

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

Pacing Plan Execution

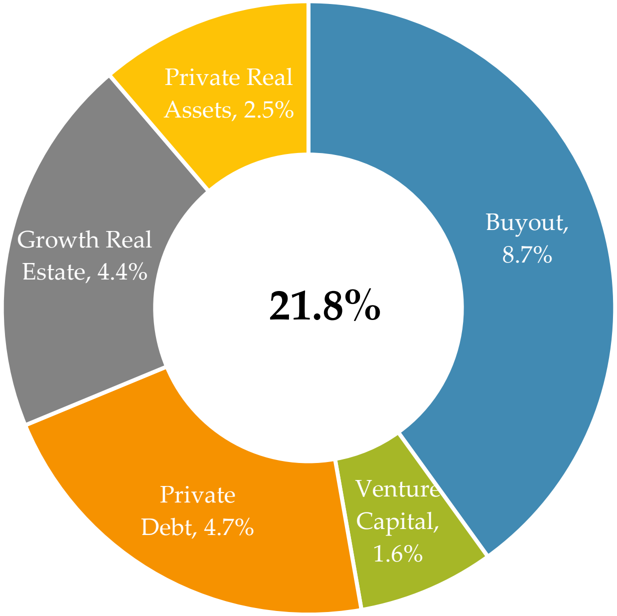
	Style	Date	Executed ($mm)		Target ($mm)	% of Target
Buyout			**100**	**/**	**100**	**100%**
PE Strategic Partnership SJPF	Fund-of-one	7/1/2023	100			
Venture Capital			**58.5**	**/**	**35**	**167%**
Tiger Iron SJPF	Fund-of-one	9/19/2023	2			
Crosslink Endeavour Fund II	Mid Stage	9/26/2023	1.5			
Innovation Endeavors V	Early stage	9/29/2023	5			
Collective Global Fund I	Diversified	11/13/2023	45			
Upfront VIII	Early stage	11/17/2023	5			
Private Debt			**63**	**/**	**64**	**98%**
Invesco Credit Partners Fund III	Stress	12/22/2023	21			
Charlesbank Credit Opportunities Fund III	Stress	1/5/2024	21			
Expected to close by 6/30/2024	*Stress*	*TBD*	*21*			
Growth Real Estate			**0**	**/**	**70**	**0%**
Private Real Assets	**Style**		**46**	**/**	**60**	**77%**
Scout Energy Partners VI	Energy	10/6/2023	12			
Orion Mine Finance IV	Metals	10/10/2023	10			
Seraya Partners Fund I	Infrastructure	11/15/2023	12			
Expected to close by 6/30/2024	*Infrastructure*	*TBD*	*12*			
Total Private Markets			**267.5**	**/**	**329**	**81%**

Private Markets Allocation Snapshot

- The Private Markets allocation is 3.2% below target.
- The Private Markets target was increased by 6% in March 2022 and progressing toward the new target.
- Venture Capital is the newest private markets asset class and currently 2.4% below target.

	% of Plan	Target	Difference
Buyout	8.7%	9%	-0.3%
Venture Capital	1.6%	4%	-2.4%
Private Debt	4.7%	4%	0.7%
Growth Real Estate	4.4%	4%	0.4%
Private Real Assets	2.5%	4%	-1.5%
Total Private Markets	**21.8%**	**25%**	**-3.2%**

As of March 31, 2024



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).

	Expected 6/30/24 (% of plan)			Expected 6/30/24 NAV ($mm)		
	Prior Pacing	Current Estimates	Forecast Error	Prior Pacing	Current Estimates	Forecast Error
Buyout	8%	9%	+0%	426	455	+29
Venture Capital	2%	2%	-	92	83	-9
Private Debt	4%	4%	+0%	211	230	+19
Growth Real Estate	4%	4%	+1%	185	224	+39
Private Real Assets	2%	3%	+0%	119	134	+15
Total Private Markets	**21%**	**22%**	**+1%**	**1,033**	**1,126**	**+93**

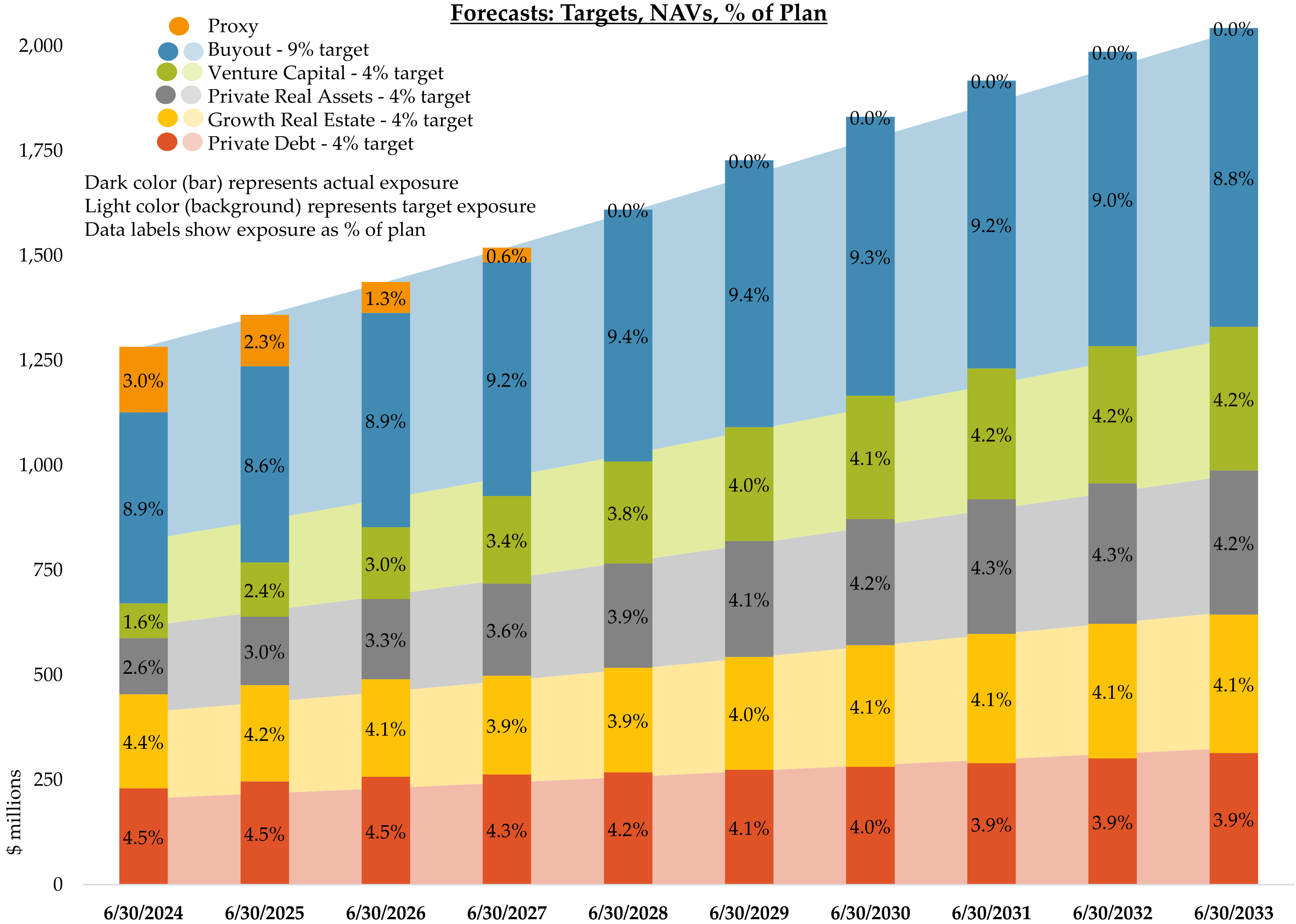
Plan-level net asset value forecasts

- Compared to last year's pacing plan, the current NAV forecast is:
  - Slightly higher in FY 2024-28.
  - Slightly lower in FY 2028-33 due to updated actuarial data.

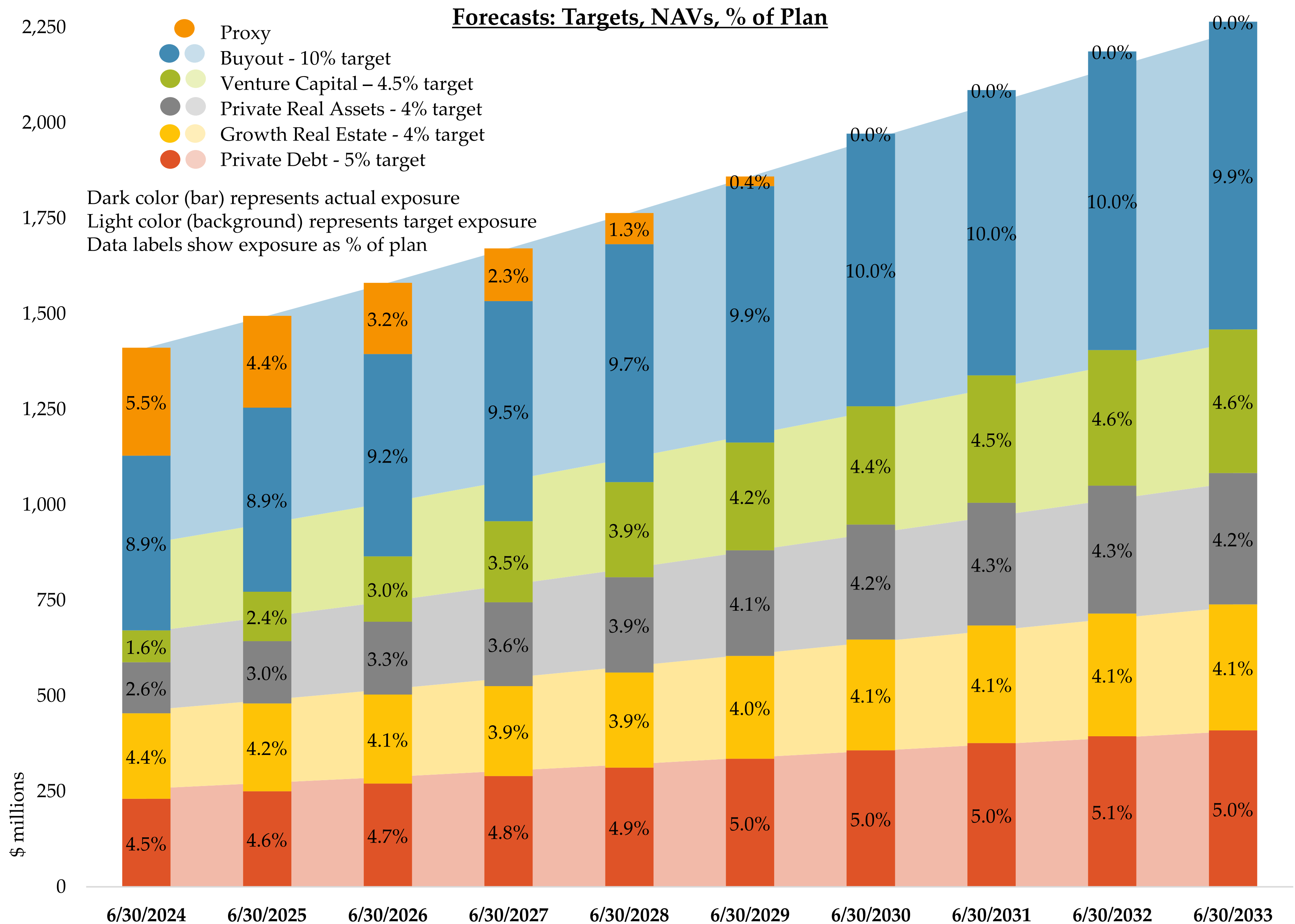
	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028
Current NAV forecast ($mm)	**5,131**	**5,434**	**5,750**	**6,077**	**6,414**
Prior Year NAV forecast ($mm)	*5,025*	*5,353*	*5,697*	*6,053*	*6,438*
Difference	*2%*	*2%*	*1%*	*0%*	*0%*

	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033
Current NAV forecast ($mm)	**6,762**	**7,112**	**7,453**	**7,798**	**8,138**
Prior Year NAV forecast ($mm)	*6,842*	*7,255*	*7,667*	*8,094*	*8,526*
Difference	*-1%*	*-2%*	*-3%*	*-4%*	*-5%*

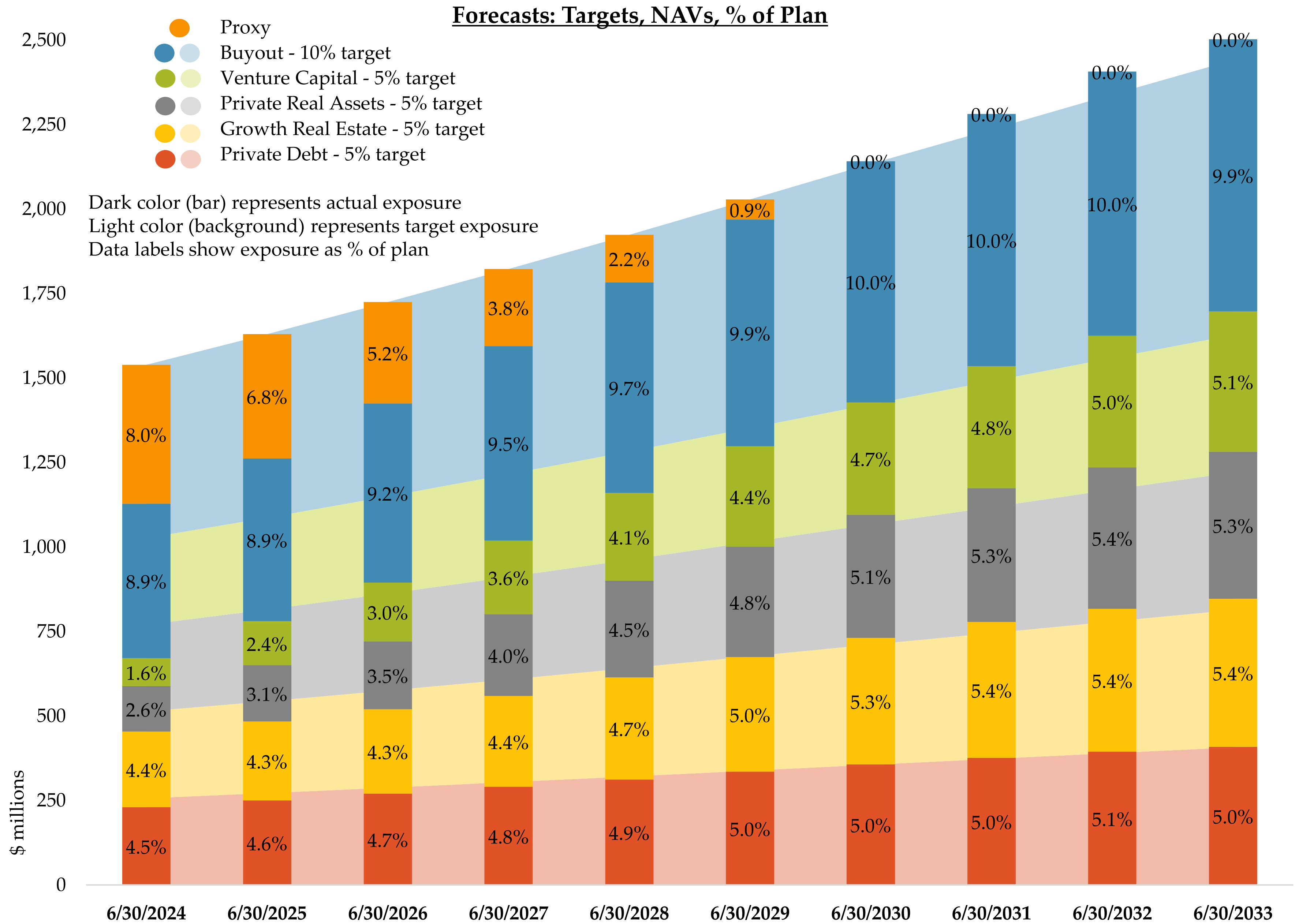
Forecast private markets net asset values (25% target)



Forecast private markets net asset values (27.5% target)



Forecast private markets net asset values (30% target)



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) at the asset allocation ("AA") targets being considered by the Board.
- Compared to the prior pacing plan at the 25% target, Buyout increased by $25 million and the other asset classes are unchanged.
- Staff recommends approval of the highlighted commitment amounts for FY 24-25 at the Board-approved AA target.

	FY 23-24		Pacing Plan (25% target)				
	Pacing Plan	Actual	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
Buyout	100	100	125	150	125	125	125
Venture Capital	35	58.5	35	30	30	30	30
Private Debt	64	63	64	64	64	64	70
Growth Real Estate	70	-	70	70	75	75	75
Private Real Assets	60	46	60	55	55	55	50
Total Private Markets	**329**	**267.5**	**354**	**369**	**349**	**349**	**350**

Pacing Plan (27.5% target)

FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
150	150	125	125	125
35	35	35	35	35
80	80	90	90	100
70	70	75	75	75
60	55	55	55	50
395	**390**	**380**	**380**	**385**

Pacing Plan (30% target)

FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29
150	150	125	125	125
40	40	40	40	40
80	80	90	90	100
100	100	100	100	100
80	80	70	70	65
450	**450**	**425**	**425**	**430**

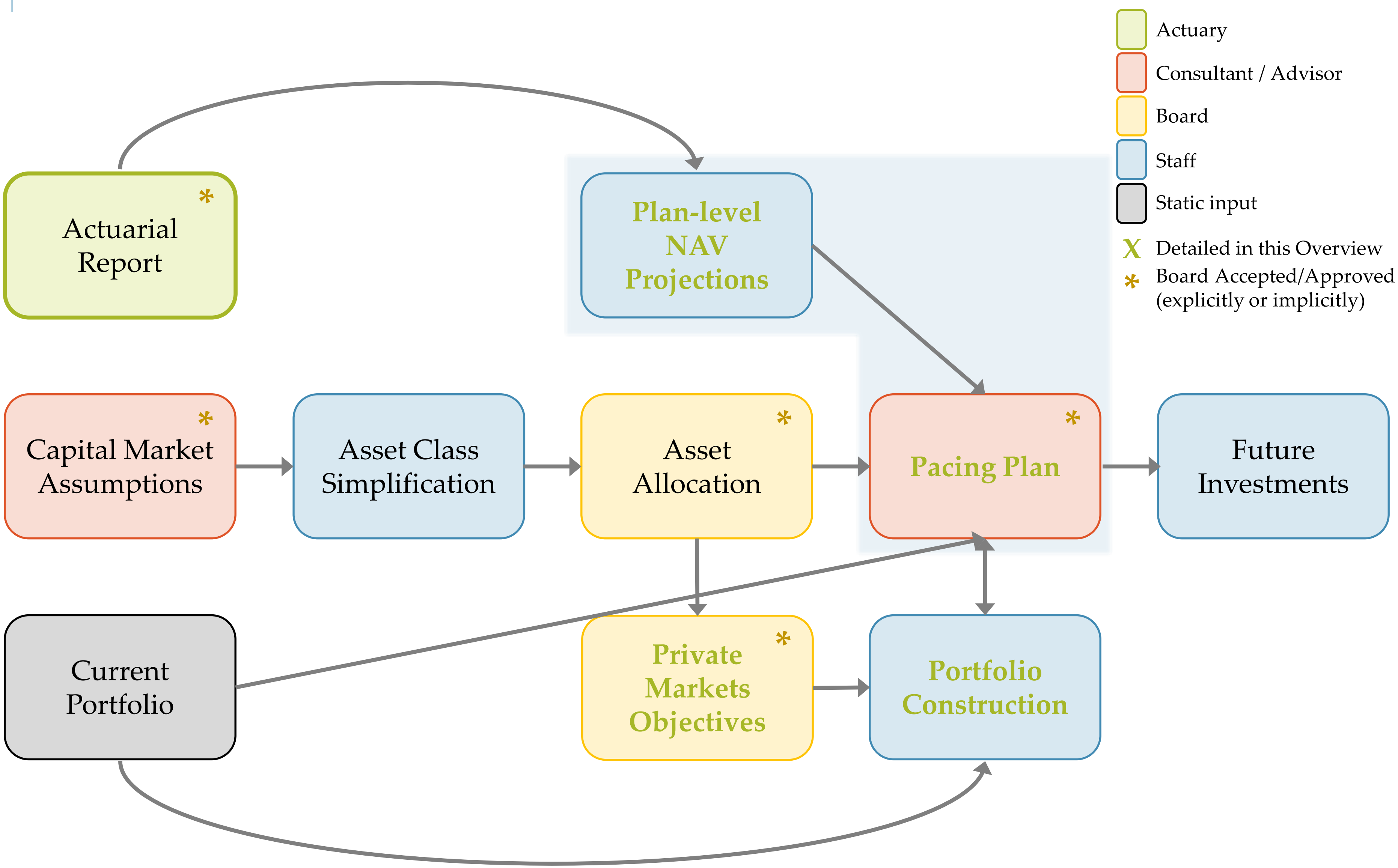
Values in $ millions

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

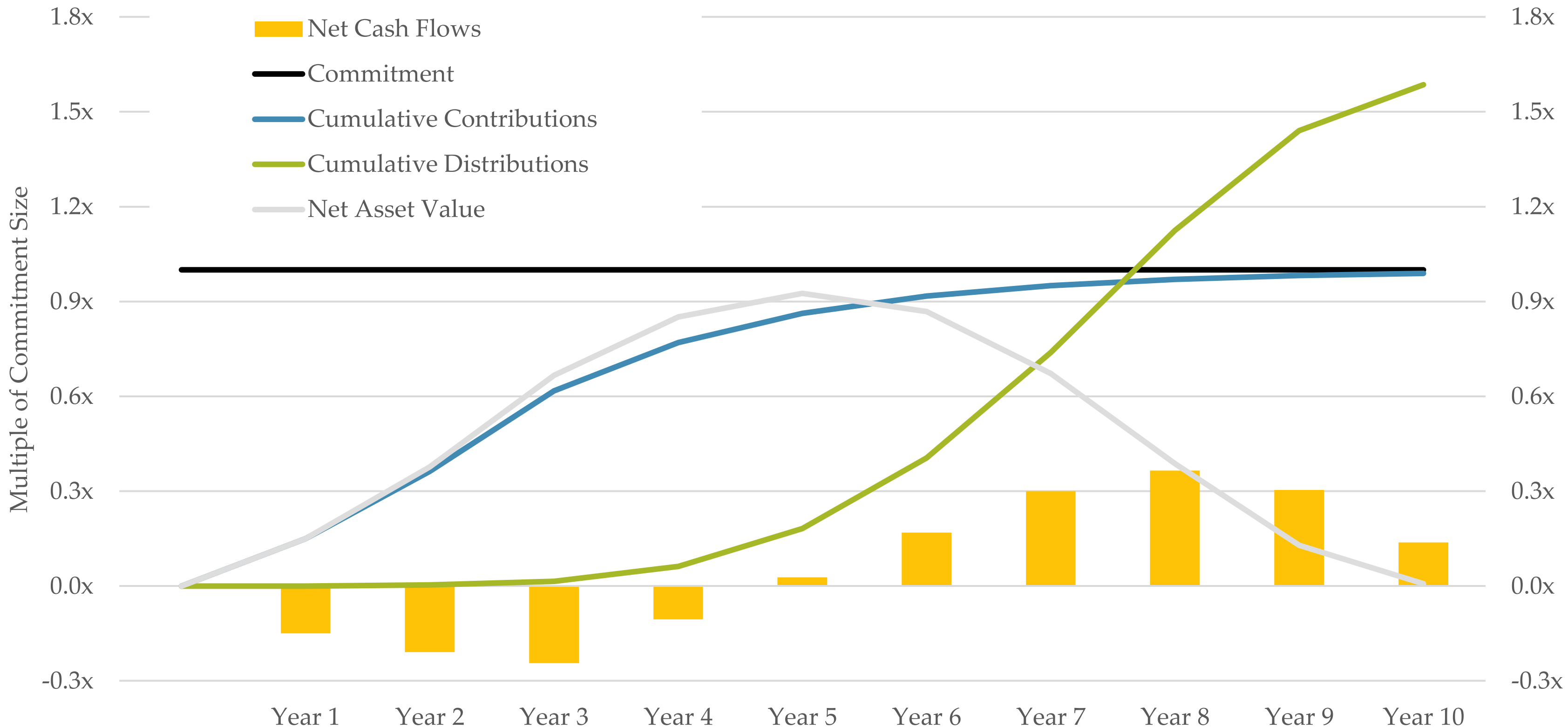
Meketa produced an easy-to-read white paper on commitment pacing that outlines their specific methodology (PDF link).

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

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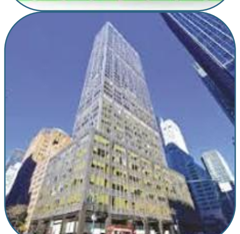
1 Percentage (%) of total System assets allowable per investment strategy.
2 Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing.
3 For private strategies, limit applies to the capital invested plus future callable commitments.
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.

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		• Early Stage • Mid Stage • Late Stage • Diversified	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.