

San Jose Police and Fire Department Retirement Plan

Private Markets Program Update

December 7, 2023

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.

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	10%	20Y, Meketa geometric expected return
Buyout	11%	
Venture	12%	
Debt	9%	
Real Estate	9%	
Real Assets	10%	

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.

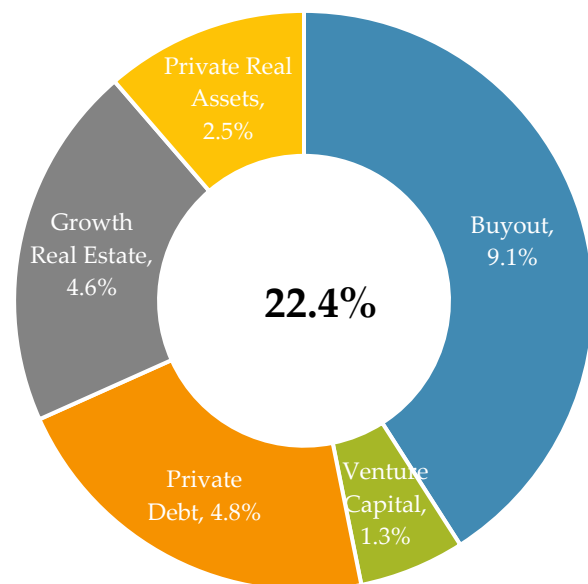
Private Markets Allocation Snapshot

The Private Markets allocation of 22.4% of plan assets is 2.6% below the 25% 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.

	% of Plan	Target	Difference
Buyout	9.1%	9%	0.1%
Venture Capital	1.3%	4%	-2.7%
Private Debt	4.8%	4%	0.8%
Growth Real Estate	4.6%	4%	0.6%
Private Real Assets	2.5%	4%	-1.5%
Total Private Markets	22.4%	25%	-2.6%

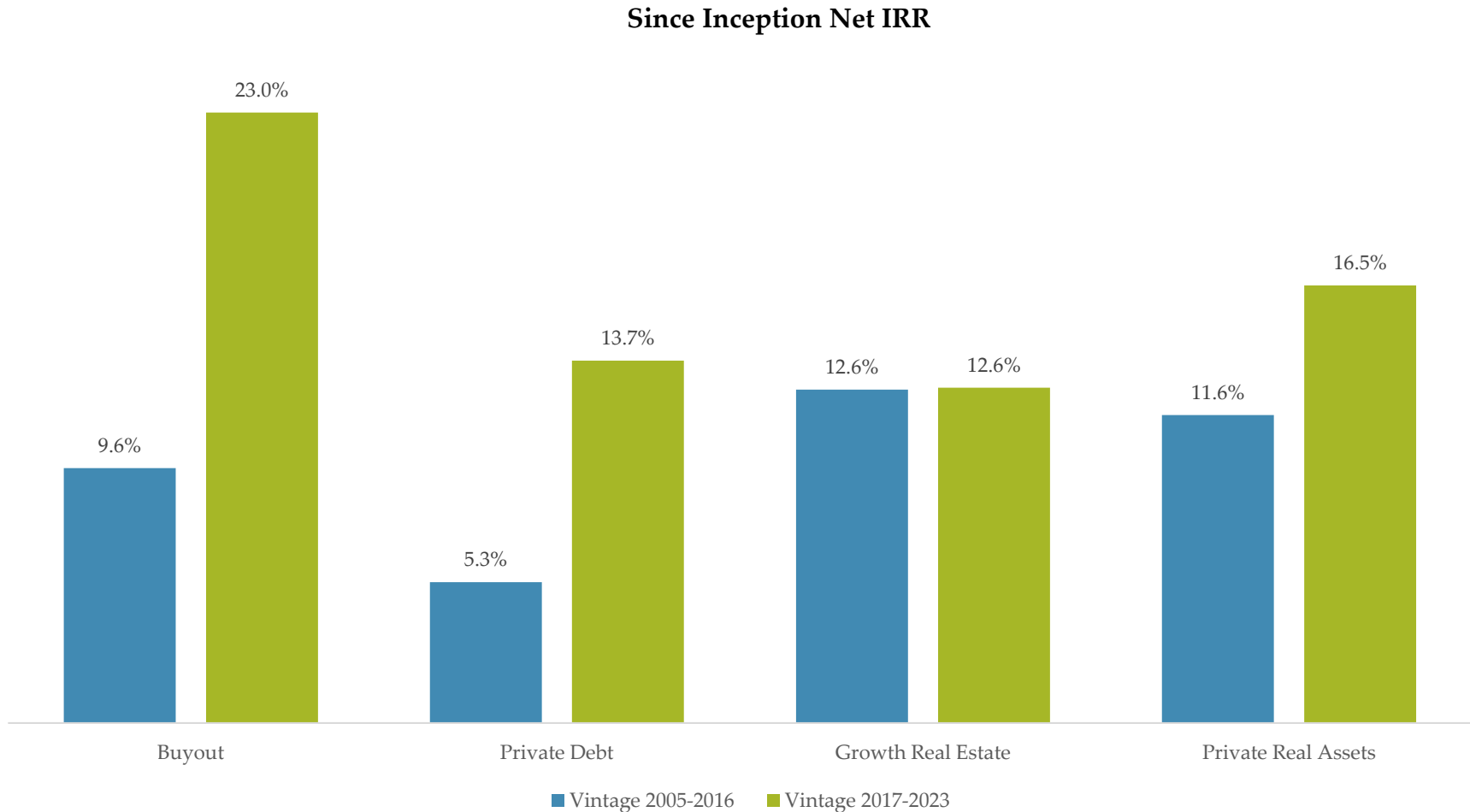
Pro Forma as of November 30, 2023



Post-2017 Commitments Outperforming

Commitments in vintage years 2017-2023 are outperforming legacy commitments in vintage years 2005-2016.

A formal private markets investment strategy, team, and enhanced resources were put in place in 2017.



As of June 30, 2023

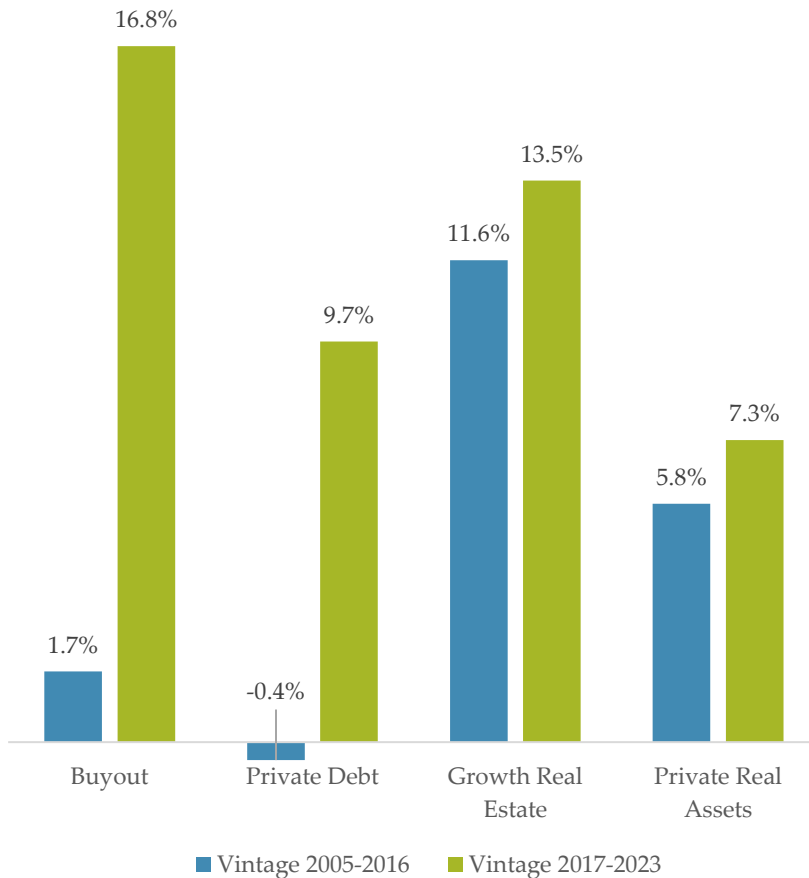
Source: Meketa, Neuberger Berman

Outperformance to PME and MSCI ACWI IMI + 100 bps

Commitments in vintage years 2017-2023 are outperforming legacy commitments in vintage years 2005-2016.

The Private Markets portfolio is also exceeding the return of the MSCI ACWI IMI + 100 bps.

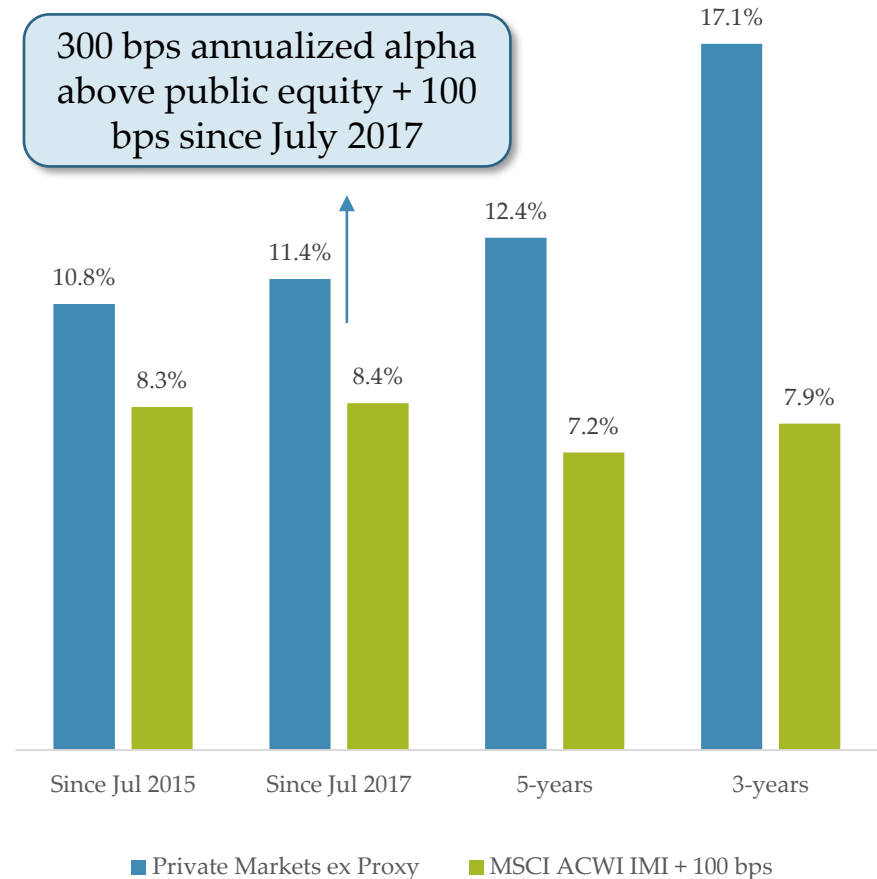
Excess Return to PME by Vintage Year



As of June 30, 2023

Source: Meketa, Neuberger Berman

Time-Weighted Net Returns



As of September 30, 2023

Source: Meketa, BNY Mellon

Pacing Plan Execution

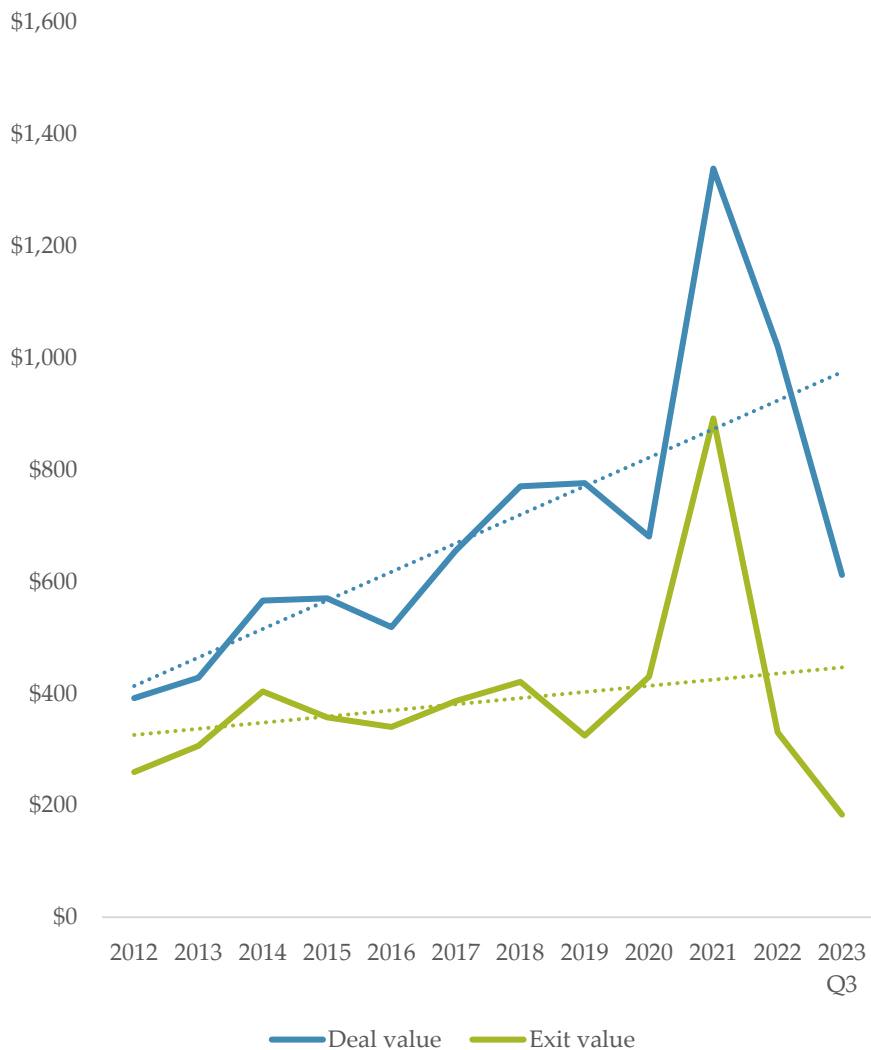
71% of FY 2023-24 pacing plan committed through November 30, 2023.

	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			42	/ 64	66%
<i>Expected to close soon</i>	<i>Stress</i>	<i>TBD</i>	21		
<i>Expected to close soon</i>	<i>Stress</i>	<i>TBD</i>	21		
Growth Real Estate			0	/ 70	0%
Private Real Assets			34	/ 60	57%
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		
Total Private Markets			234.5	/ 329	71%

Buyout

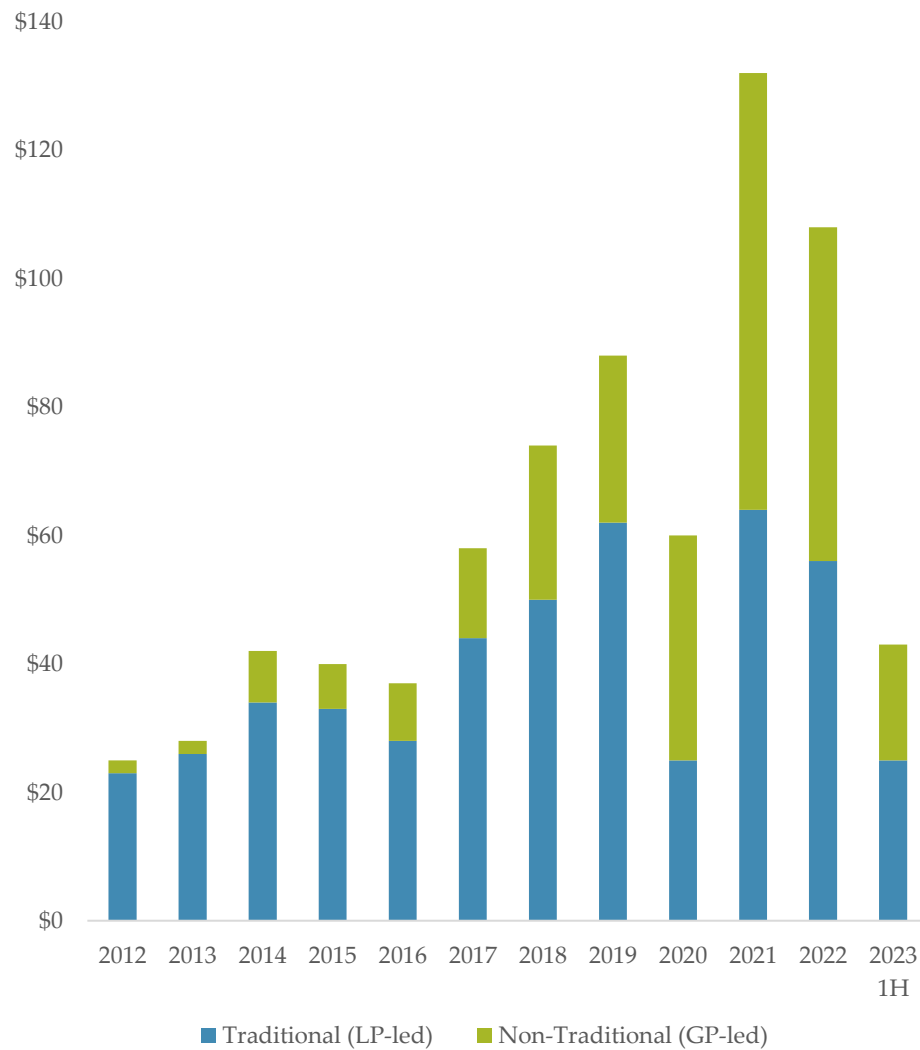
Deal activity remains slow with more GP-led secondaries

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



Source: Pitchbook, as of September 30, 2023

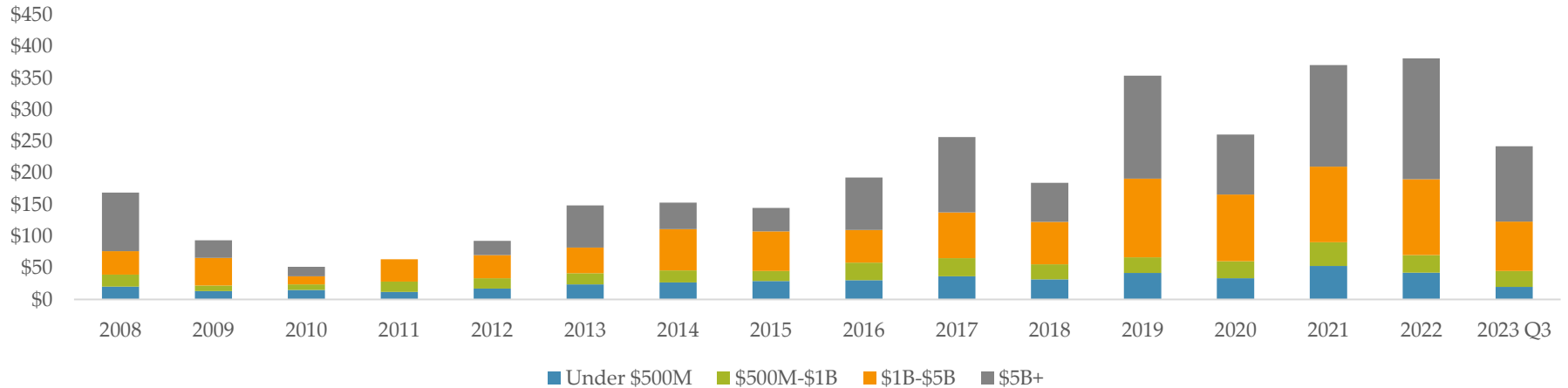
Secondary Transaction Volume (\$ billions)



Source: Jefferies Global Secondary Market Review, as of June 30, 2023

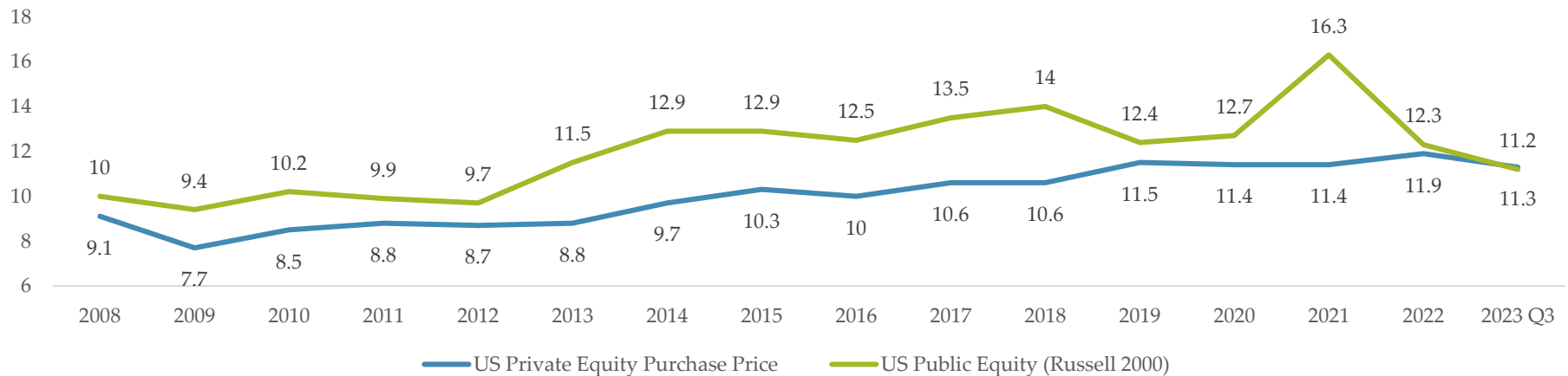
Fundraising trending to larger funds and valuation gap narrowing

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



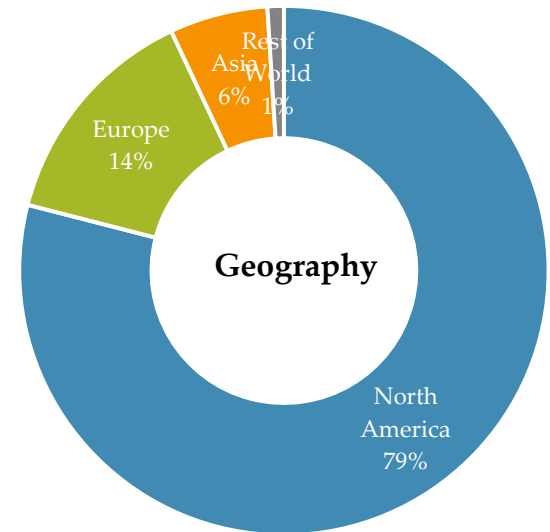
Source: Pitchbook, as of September 30, 2023

EV / EBITDA Multiple



Source: Pitchbook LCD and S&P Capital IQ, as of September 30, 2023

Buyout Portfolio Update



Source: Neuberger Berman
As of June 30, 2023, values based on NAVs
Only includes PE Strategic Partnership

Buyout Portfolio Update

Currently in year 7 of Private Equity strategic partnership with Neuberger Berman.

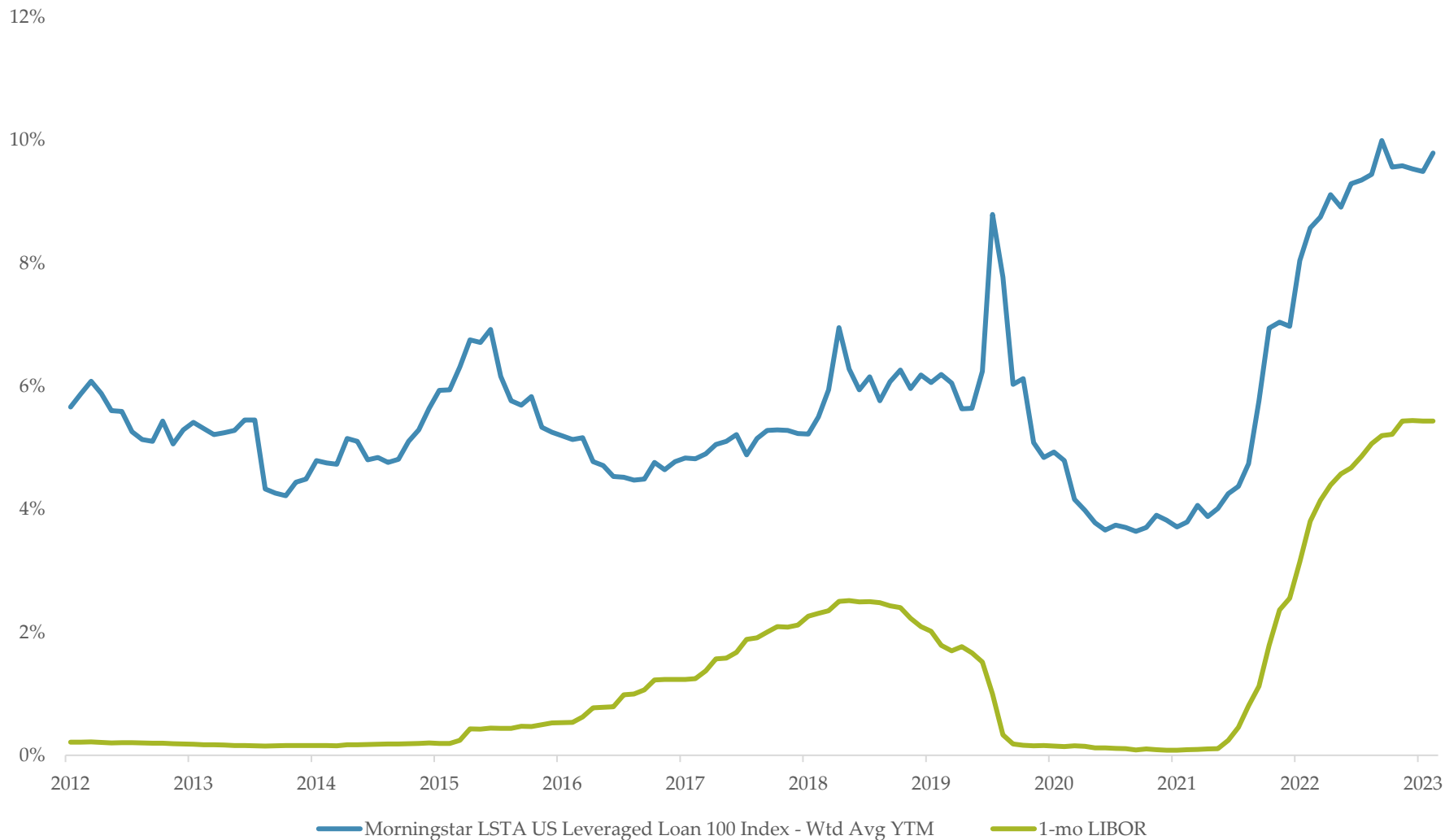
Primary Fund Commitments	Status	Region	Strategy Type	\$ mm
Redacted Fund A	Committed	North America	Small/Mid-Cap Buyout	15.6
<i>Redacted Fund B</i>	<i>Model</i>	<i>North America</i>	<i>Small/Mid-Cap Buyout</i>	<i>20.0</i>
<i>Redacted Fund C</i>	<i>Model</i>	<i>North America</i>	<i>Small/Mid-Cap Buyout</i>	<i>20.0</i>
Total – Primary Fund Commitments				55.6
Co-Investments / Secondaries	Status	Region	Strategy Type	\$ mm
Redacted Co-Investment D	Committed	North America	Small/Mid-Cap Buyout	3.1
Redacted Co-Investment E	Committed	North America	Small/Mid-Cap Buyout	2.3
Redacted Co-Investment F	Committed	North America	Small/Mid-Cap Buyout	0.2
Redacted Co-Investment G	Committed	North America	Small/Mid-Cap Buyout	2.1
Redacted Secondary H	Committed	North America	Small/Mid-Cap Buyout	2.8
Redacted Secondary I	Committed	Asia	Small/Mid-Cap Buyout	2.1
Redacted Co-Investment J	Committed	North America	Growth Equity	2.3
Redacted Secondary K	Committed	North America	Small/Mid-Cap Buyout	6.4
Redacted Co-Investment L	Committed	North America	Small/Mid-Cap Buyout	0.1
<i>Unallocated Co-Investments / Secondaries</i>	<i>Model</i>	<i>n/a</i>	<i>n/a</i>	<i>28.7</i>
Total – Co-Investments / Secondaries				50.1
Total Year 7				105.7

Source: Neuberger Berman, as of November 30, 2023

Private Debt

Interest Rates Stabilizing at Higher Levels

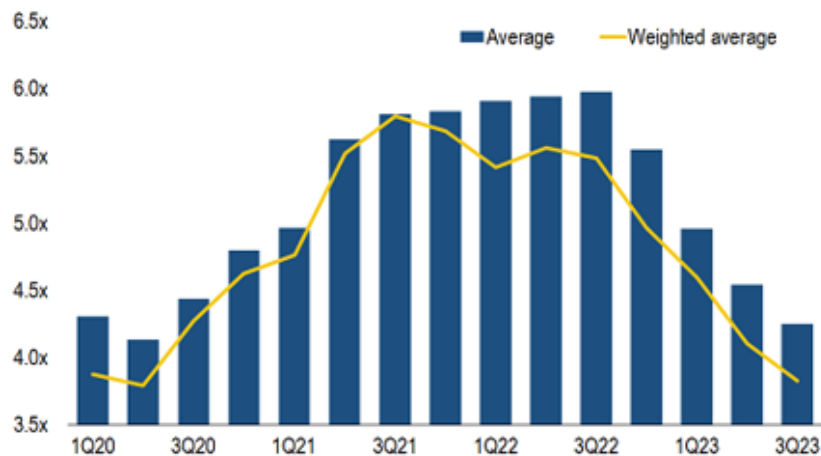
Yields



Source: Bloomberg, as of October 31, 2023

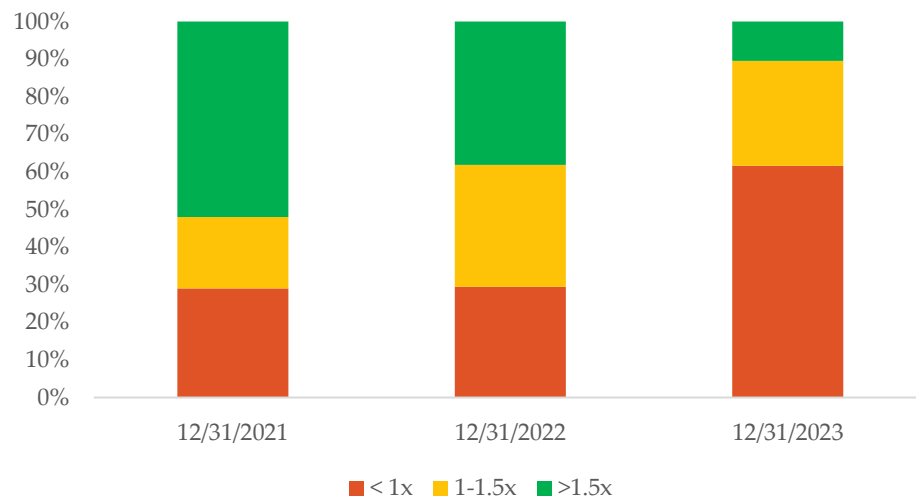
Rising Risk Profile in Leveraged Loans

Interest Coverage – Outstanding Leveraged Loans



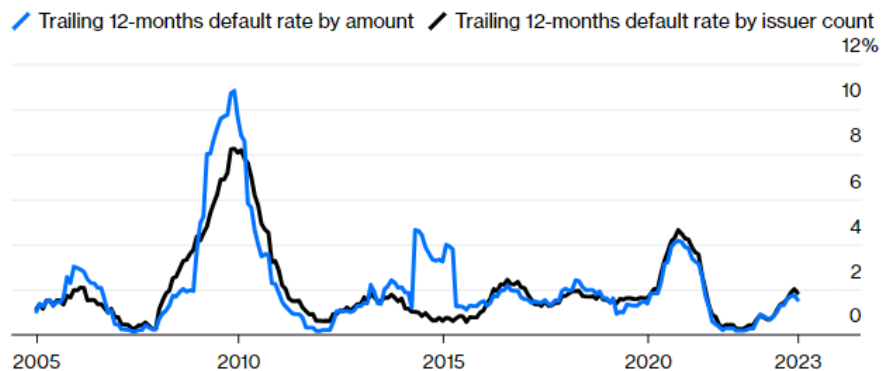
Source: Bloomberg, Pitchbook LCD

Interest Coverage Ratio (B3-rated Issuers)



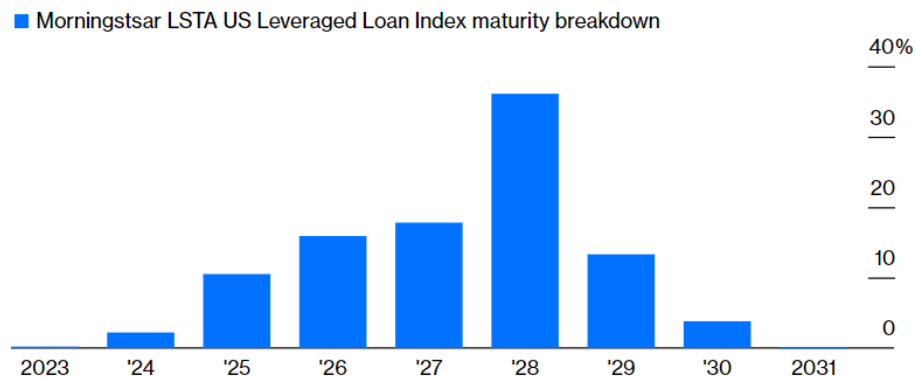
Source: Moodys

Leveraged Loan Default Rates



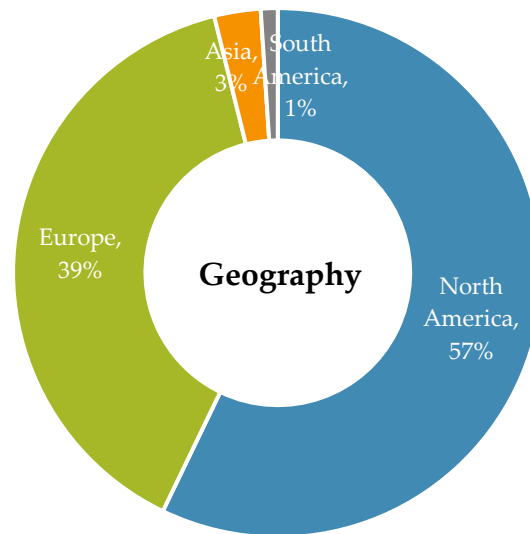
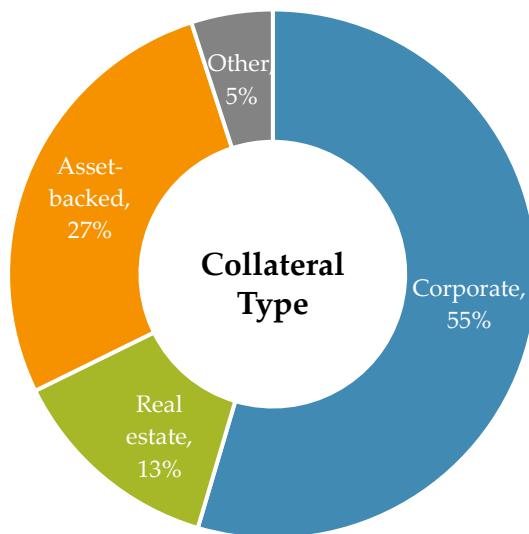
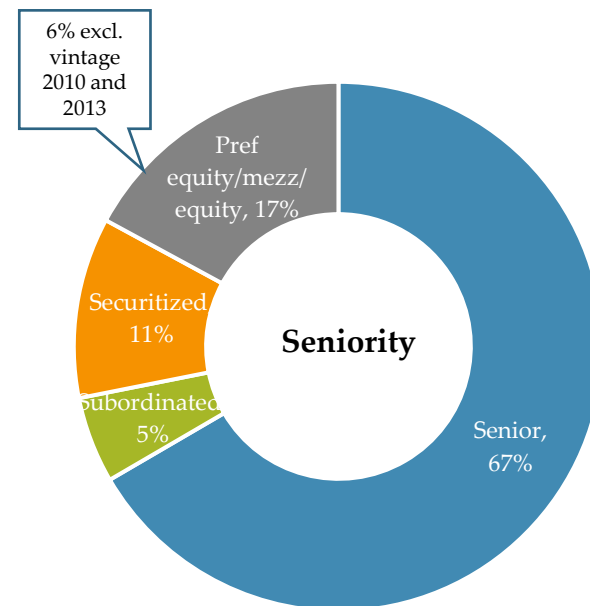
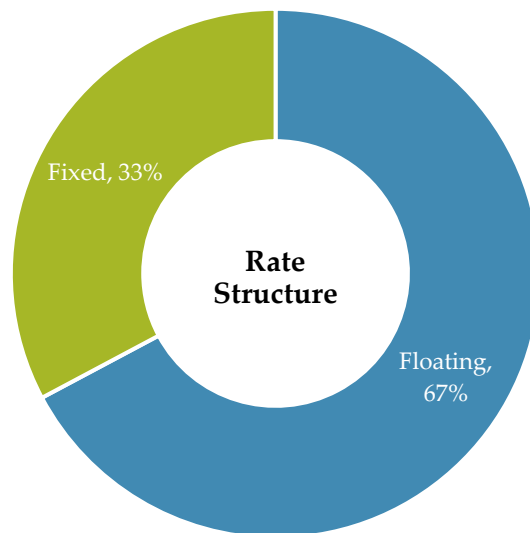
Source: Bloomberg, Pitchbook LCD

Leveraged Loan Maturities



Source: Bloomberg, Eaton Vance, Pitchbook LCD

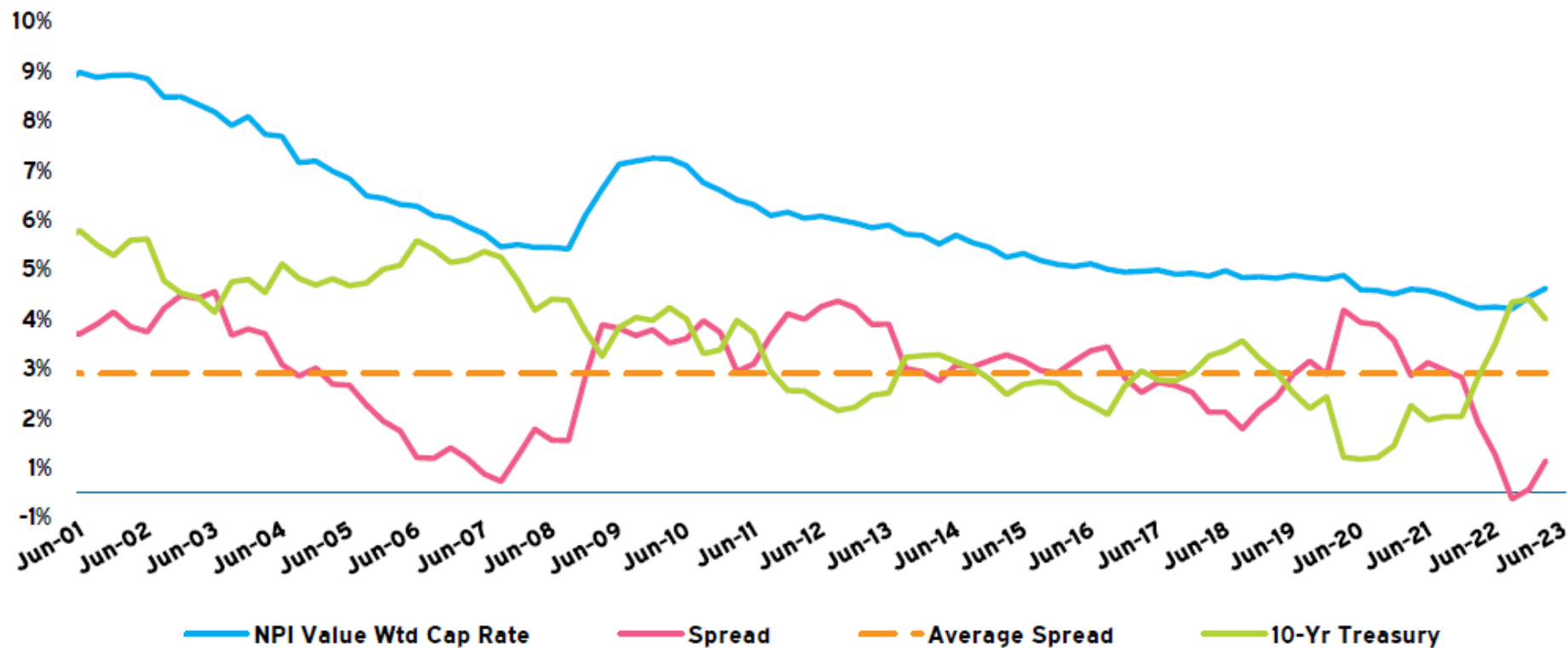
Private Debt Portfolio Update



Source: San Jose Staff, as of June 30, 2023
Values based on NAVs plus unfunded commitments

Growth Real Estate

Cap rate spread to 10-Year Treasury has flattened

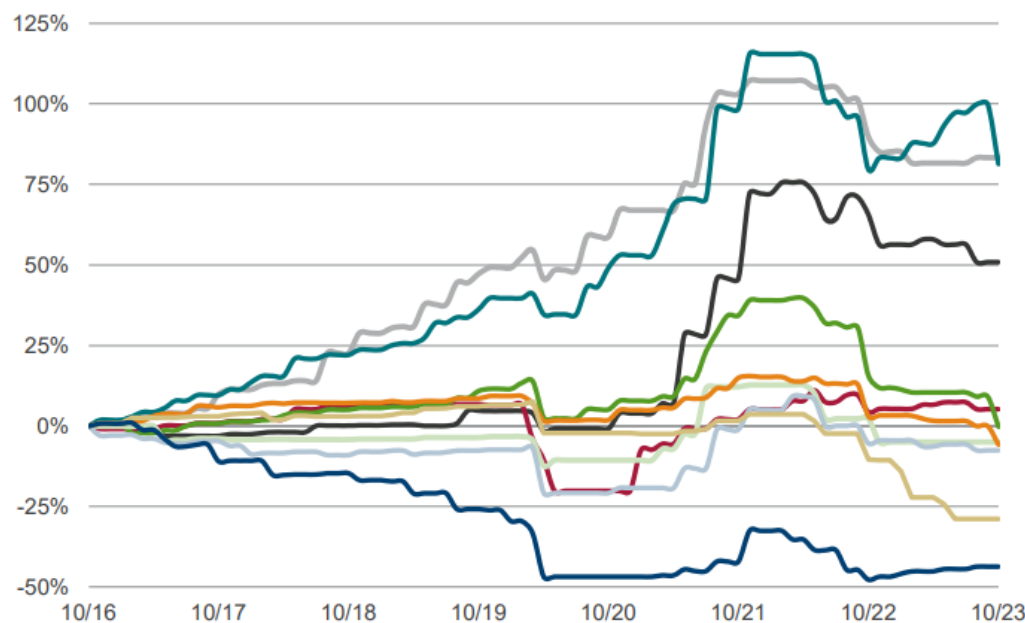


Source: Meketa, NCREIF, US Department of Treasury

Valuations declining for transactions going into contract

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.

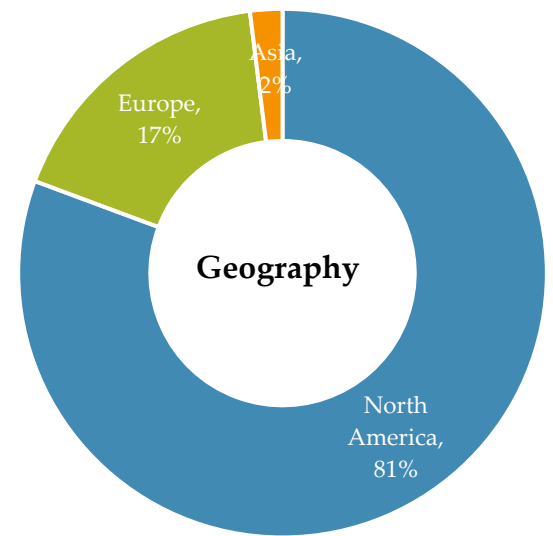
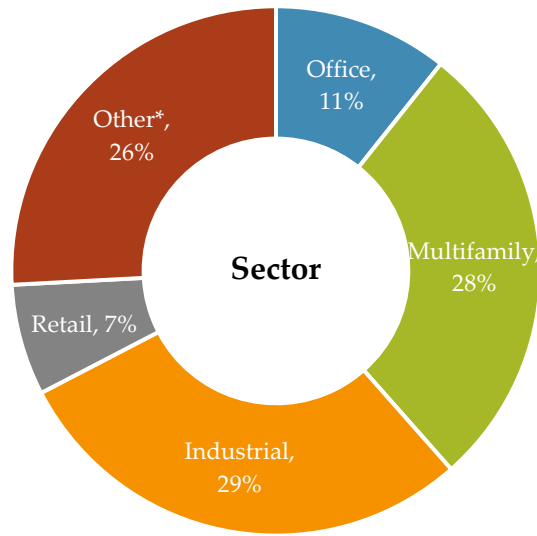
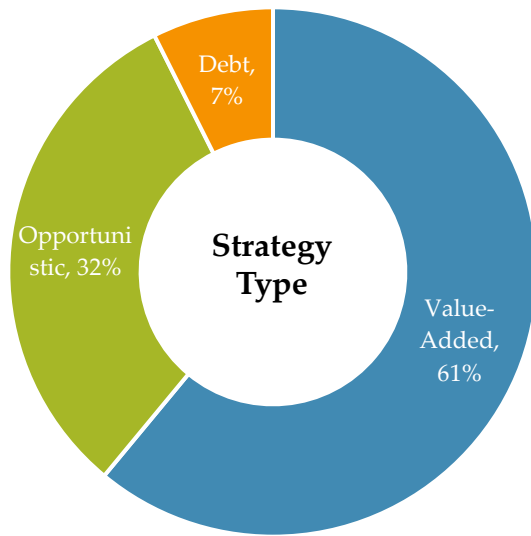
Cumulative Change in CPPI®: Past Seven Years



	Oct 2023	TTM	From Peak
Man Home	0%	-3%	-12%
Industrial	-9%	1%	-16%
Self-Storage	0%	-9%	-14%
Lodging	0%	1%	-5%
Apartment	-9%	-14%	-29%
Net Lease	0%	-7%	-16%
Health Care	-6%	-9%	-18%
Strip Retail	0%	-2%	-15%
Office	0%	-21%	-31%
Mall	0%	8%	-16%

Source: Green Street Commercial Property Price Index®, as of November 6, 2023

Growth Real Estate Portfolio Update



Source: San Jose Staff, as of June 30, 2023

Values based on NAVs plus unfunded commitments

* Other Sector category of 26% includes 12% hospitality, 5% self-storage, 3% single-family residential, 2% lab office, 1% student housing

Core Real Estate

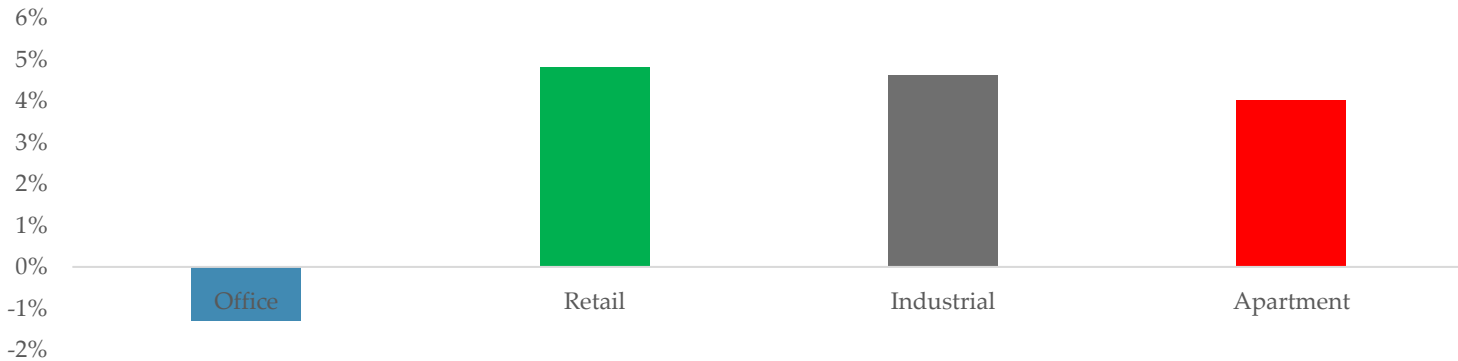
Sector Performance

NCREIF Property Index Unleveraged Total Returns by Sector

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 Q3 YTD
Industrial 13.4%	Retail 15.3%	Industrial 12.3%	Industrial 13.1%	Industrial 14.3%	Industrial 13.4%	Industrial 11.8%	Industrial 43.3%	Industrial 14.6%	Retail -1.4%
Retail 13.1%	Industrial 14.9%	Retail 9.0%	Apartment 6.2%	Office 6.9%	Office 6.6%	Apartment 1.8%	Apartment 19.9%	Apartment 7.1%	Industrial -5.3%
Office 11.5%	Office 12.5%	Apartment 7.3%	Retail 5.9%	Apartment 6.1%	Apartment 5.5%	Office 1.6%	Office 6.1%	Retail 2.7%	Apartment -7.6%
Apartment 10.3%	Apartment 12.0%	Office 6.2%	Office 5.8%	Retail 2.2%	Retail 1.9%	Retail -7.5%	Retail 4.2%	Office -3.4%	Office -17.1%

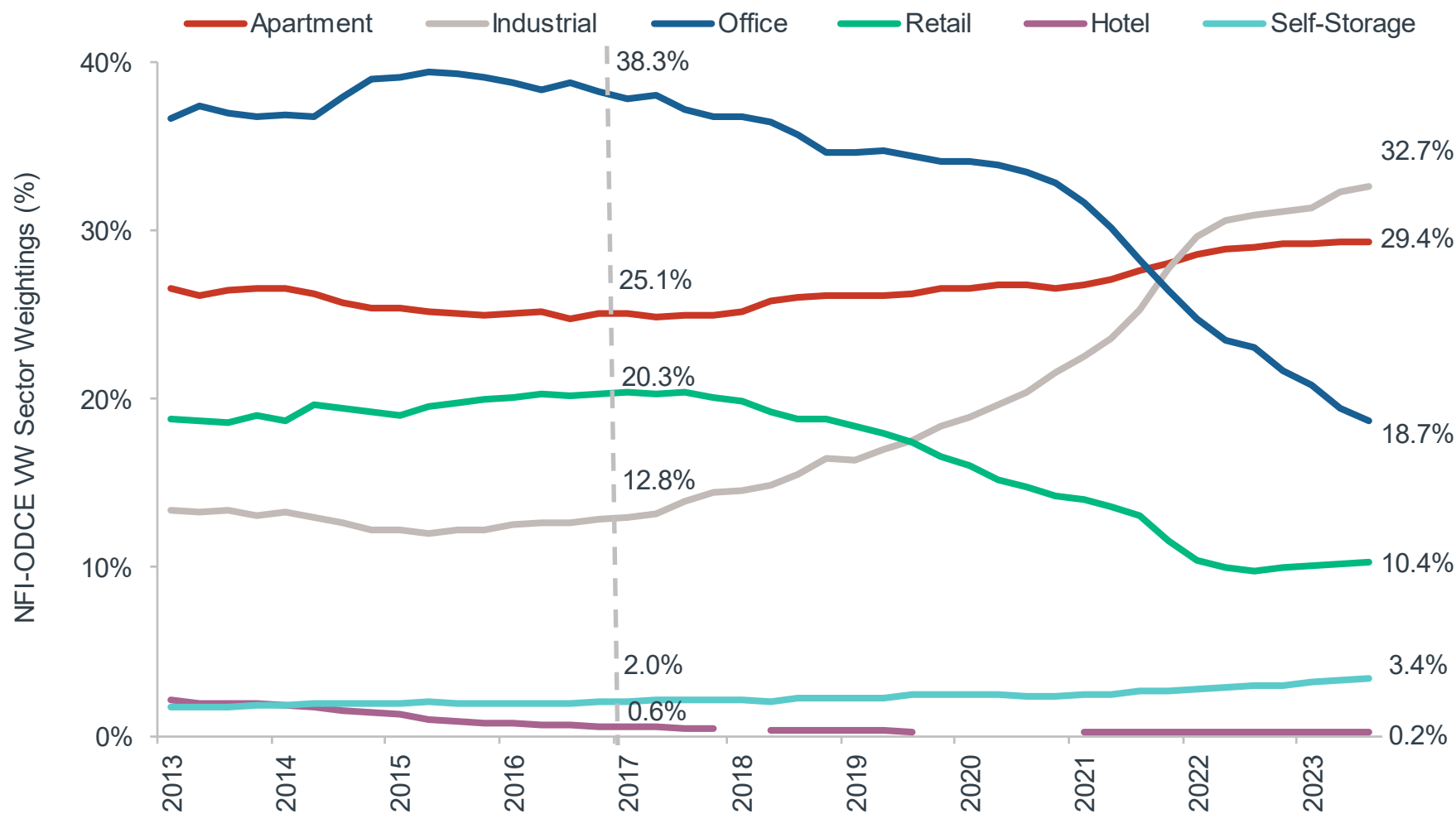
Source: BlackRock, NCREIF

Average Forecast Total Returns 2023-2027



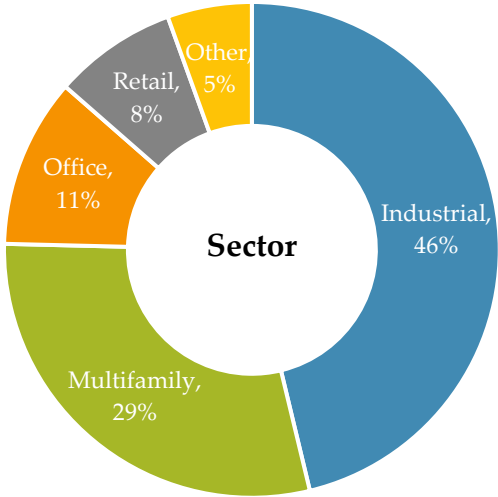
Source: Pension Real Estate Association, as of August 2023 from 27 respondents

NCREIF ODCE Index Sector Allocations Shifting

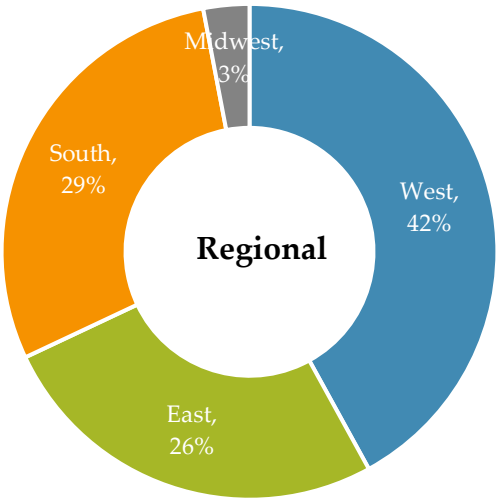
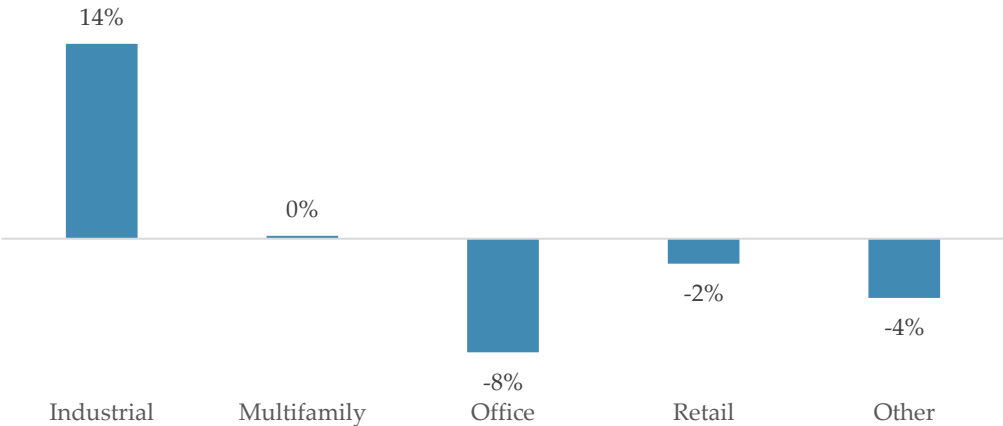


Source: NCREIF, Clarion Partners Investment Research

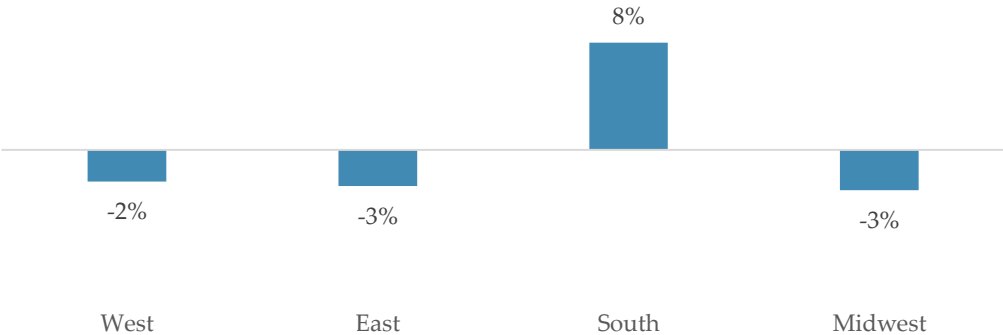
Core Real Estate Portfolio Update



Active Sector Weights



Active Regional Weights



As of September 30, 2023
Active weights relative to NCREIF ODCE index

Core Real Estate Portfolio Update

Both the Pension and Health Care Trust are slightly above the Core Real Estate policy targets.

The plans closed a secondary purchase of \$13.9 million (\$8.7 million Pension; \$5.2 million Health Care Trust) in an existing fund on September 30, 2023.

Core Real Estate Allocation

	% of Plan	Target	Difference
Police & Fire Pension	5.1%	5%	0.1%
Police & Fire Health Care Trust	12.4%	12%	0.4%

**\$20.9 million alpha
over 5 years**

Core Real Estate Alpha (\$ millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	5-years
Police & Fire Pension	\$2.2	\$3.8	\$2.3	\$2.3	\$9.9	\$20.6
Police & Fire Health Care Trust	n/a	n/a	n/a	n/a	n/a	\$0.3

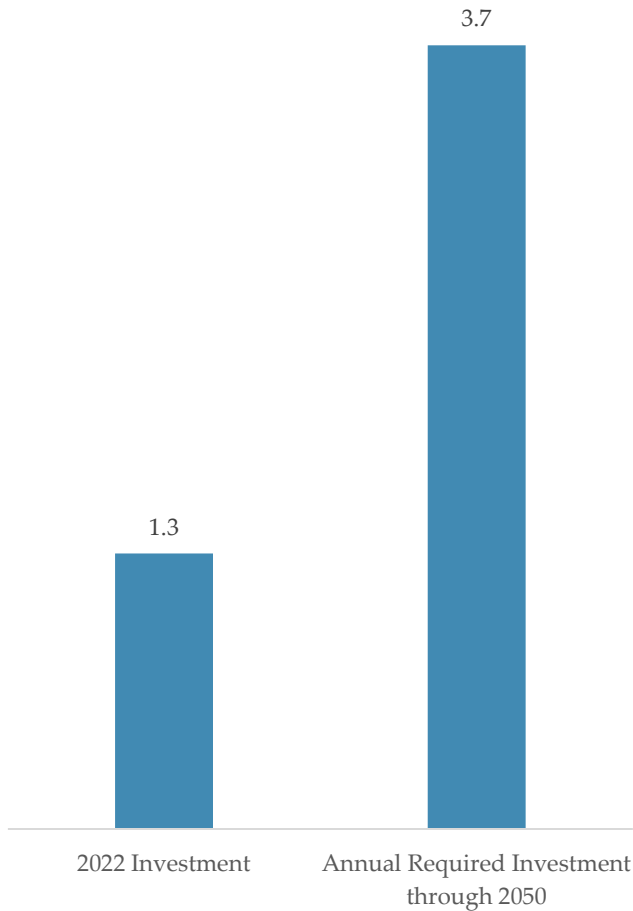
The Core Real Estate asset class manager lineup was restructured in 2019 and has generated outperformance since then. Over the past 5 years, Core Real Estate was responsible for 17% of all Pension alpha (defined as Selection effect for all public asset classes excluding private markets) and 71% of all Health Care Trust alpha.

Source: Meketa, BNY Mellon
% of Plan is Pro Forma as of November 30, 2023

Private Real Assets

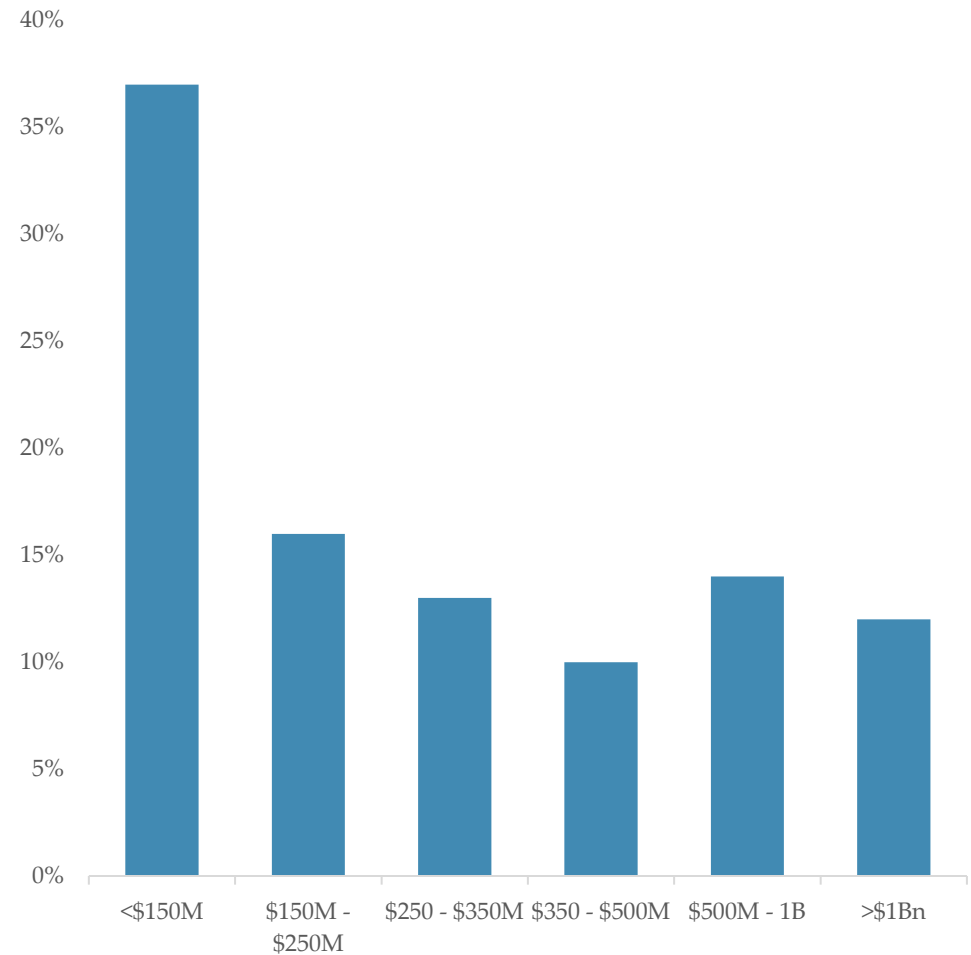
More Real Assets Spending Needed

**Energy Transition Investment Gap
(\$ Trillions)**



Source: IRENA World Energy Transitions Outlook

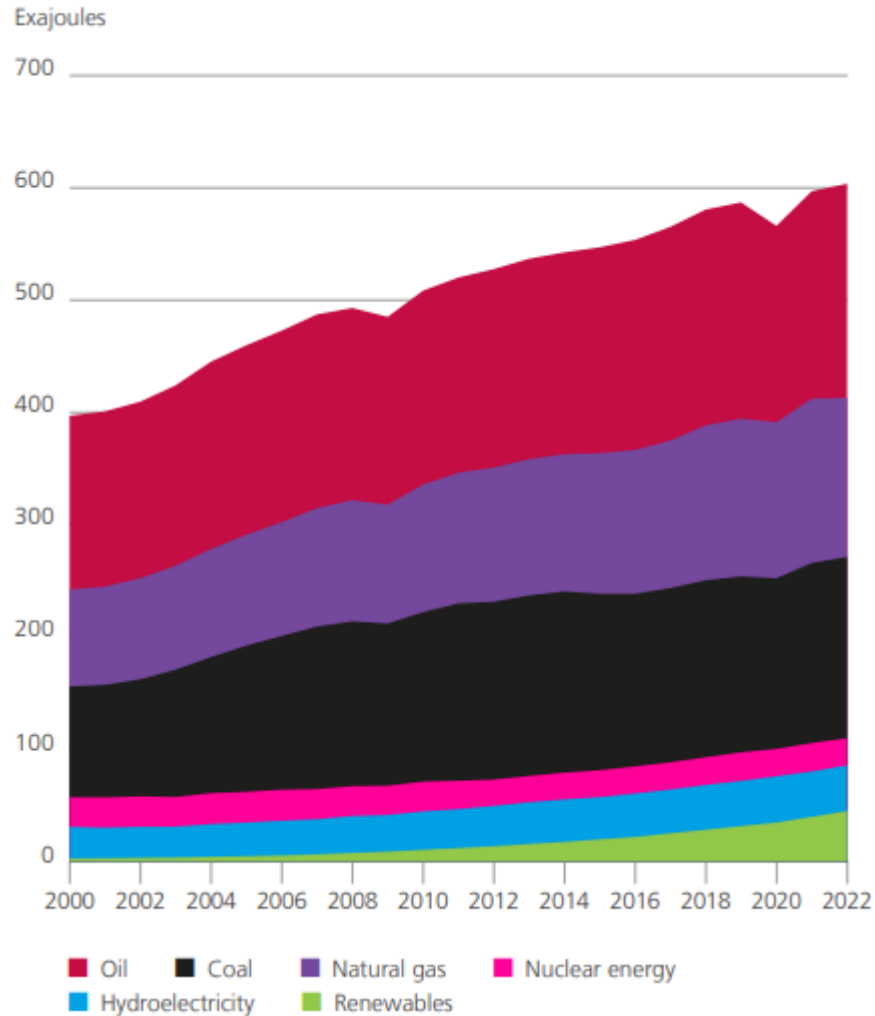
**North American Infrastructure
Equity Transactions by Size**



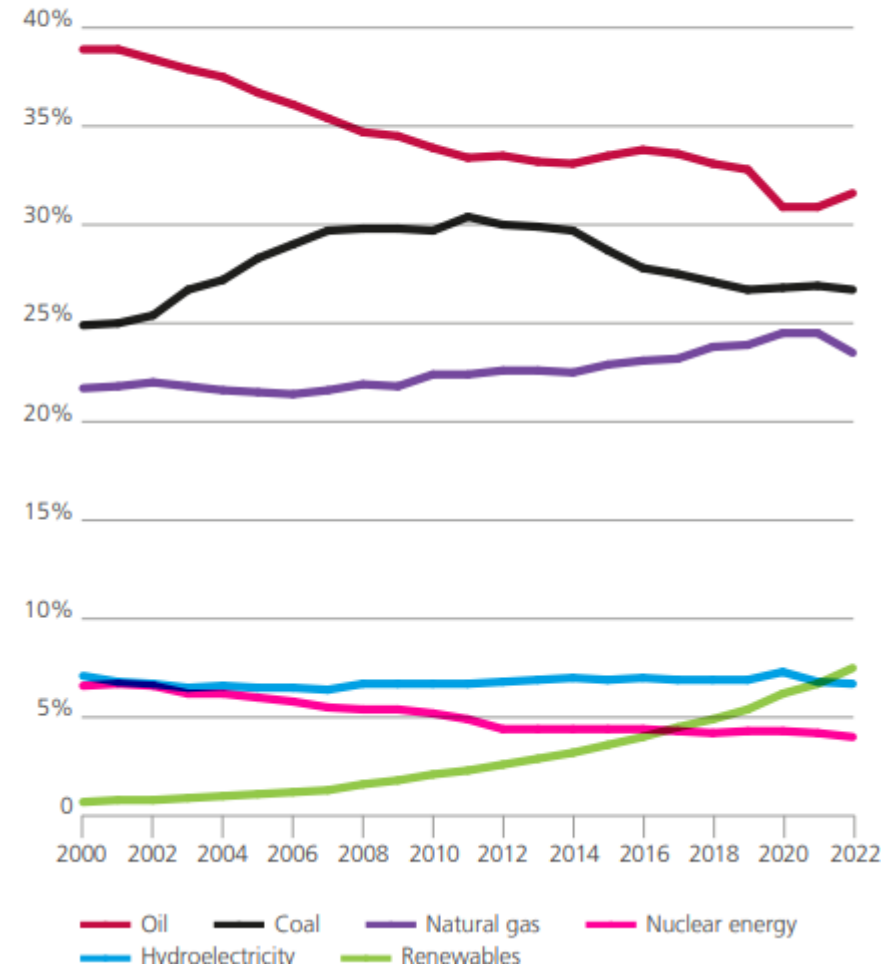
Source: Inframation, Ridgewood Infrastructure

Energy – Hydrocarbons still account for over 80% of world consumption

World consumption

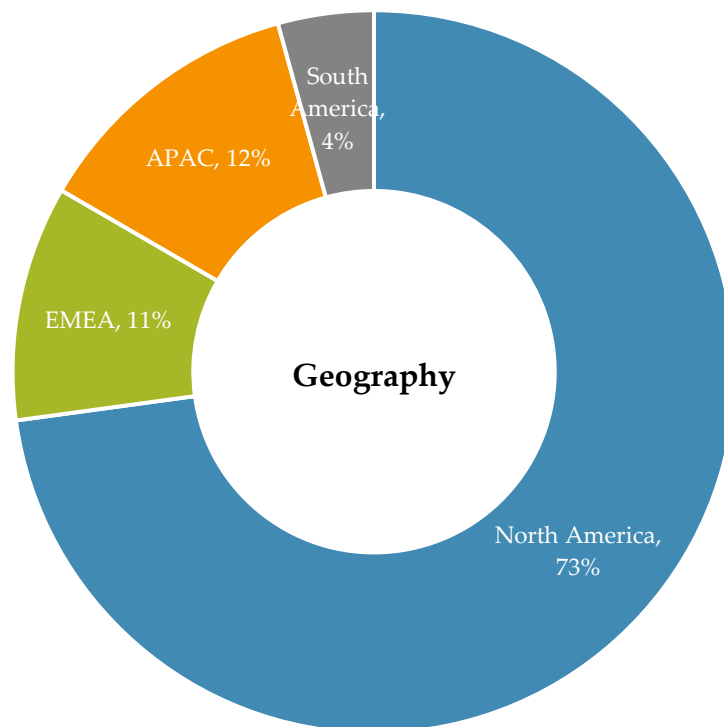
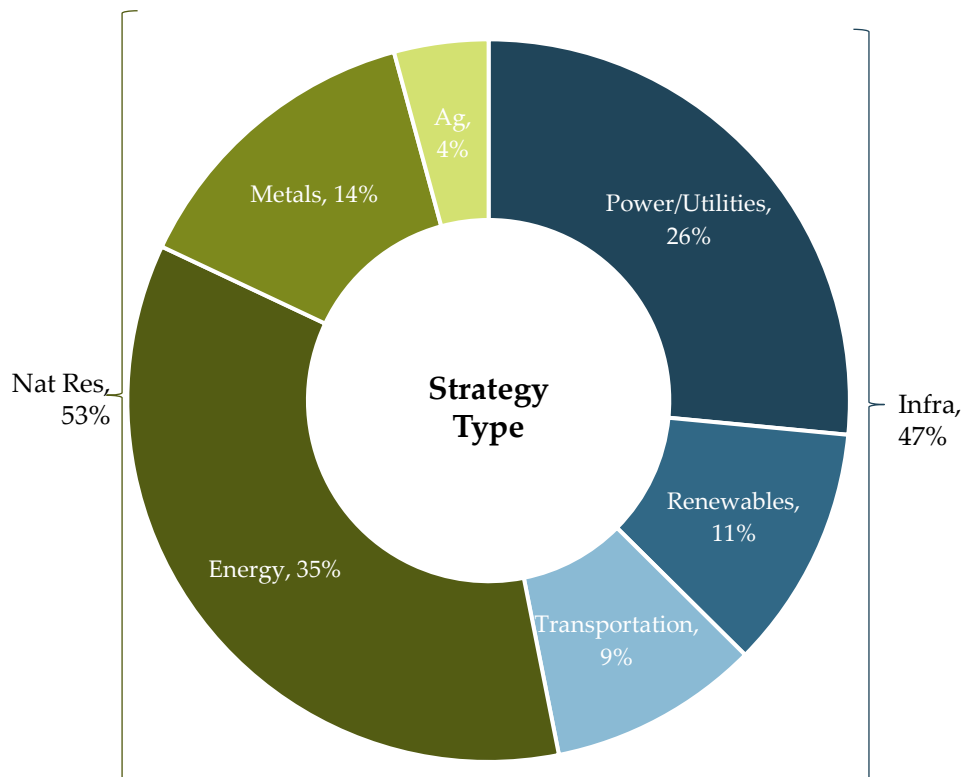


Share of global primary energy



Source: Energy Institute Statistical Review of World Energy, June 2023

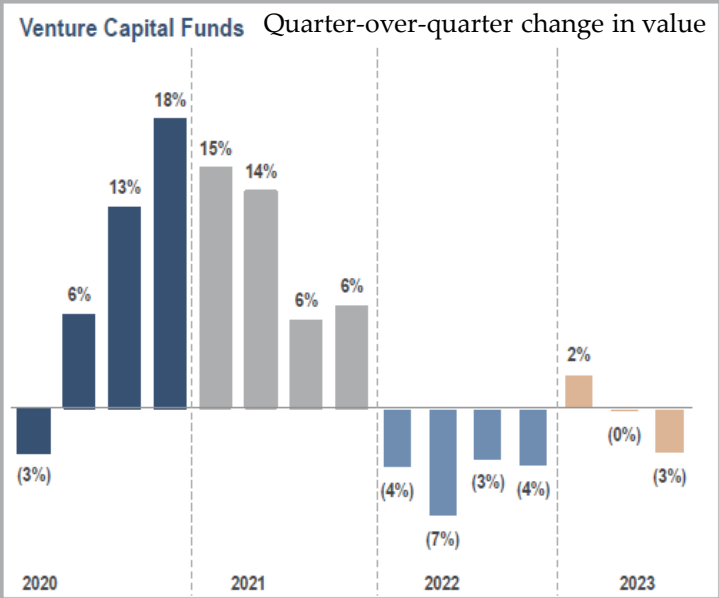
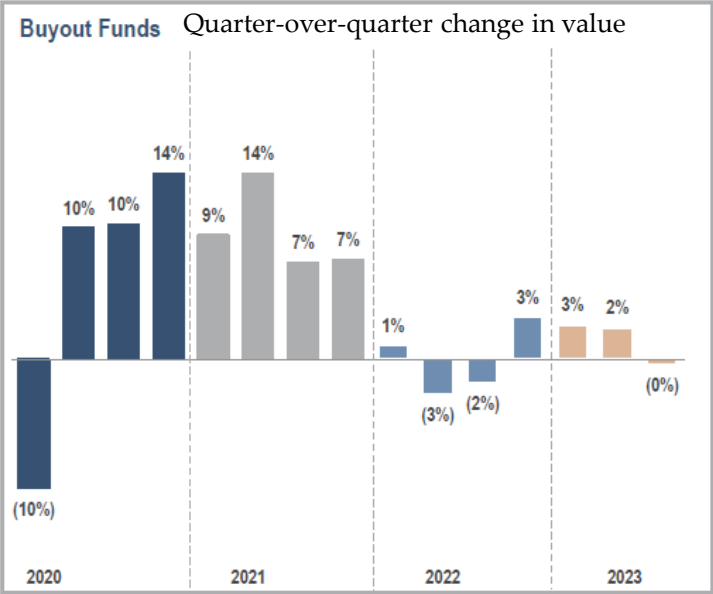
Private Real Assets Portfolio Update



Source: San Jose Staff, as of June 30, 2023
Values based on NAVs plus unfunded commitments

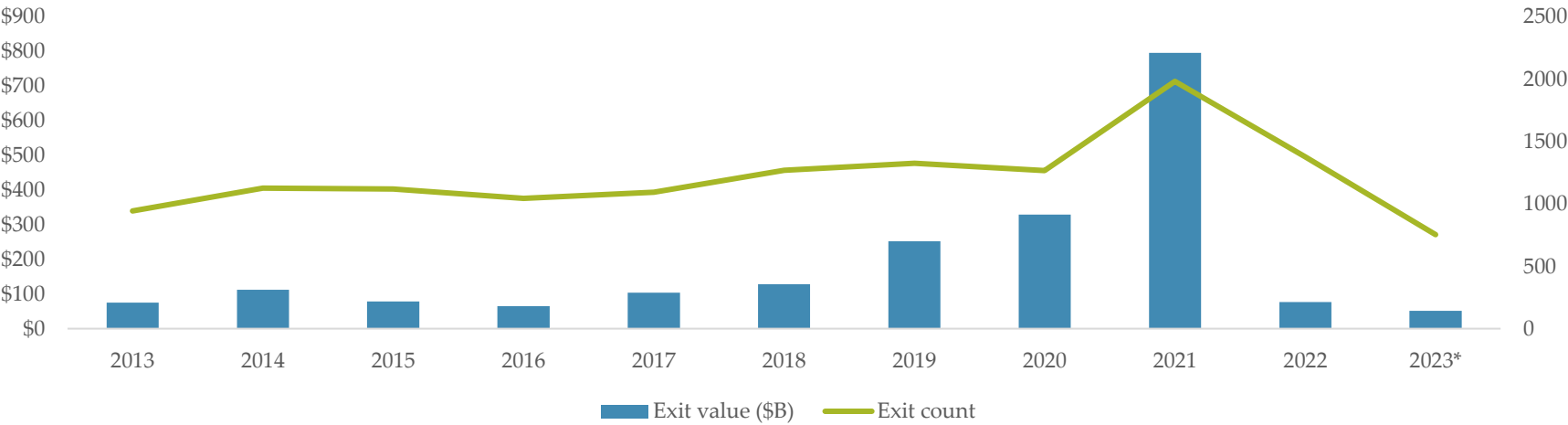
Venture Capital

Challenging period for VC – Poor returns coupled with a challenging exit environment



Source: Neuberger Berman Q3 2023 Valuation Summary

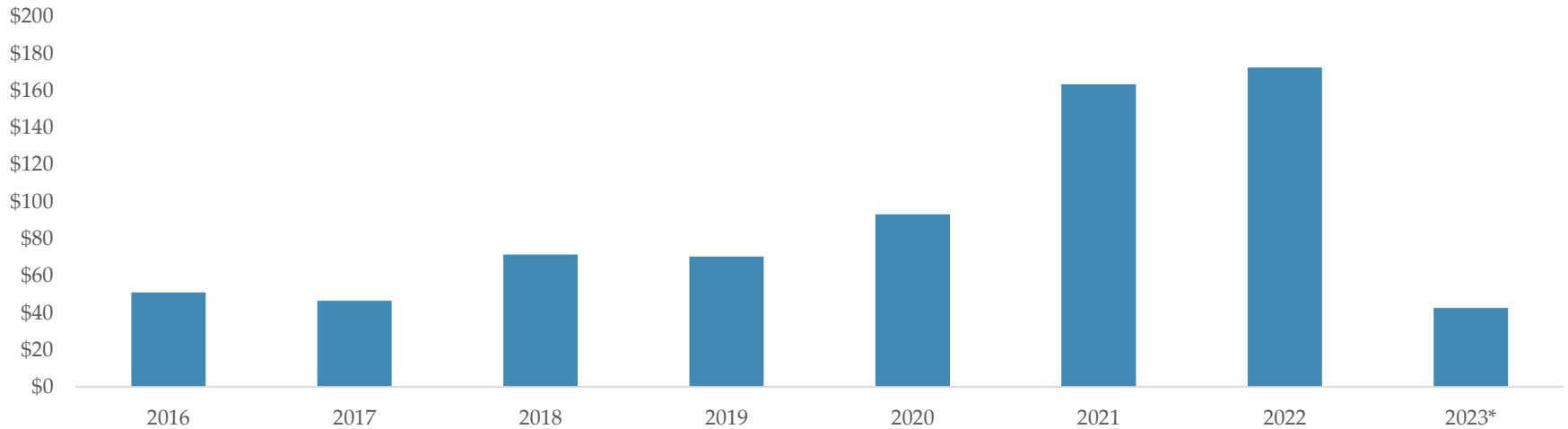
US VC Exit Activity



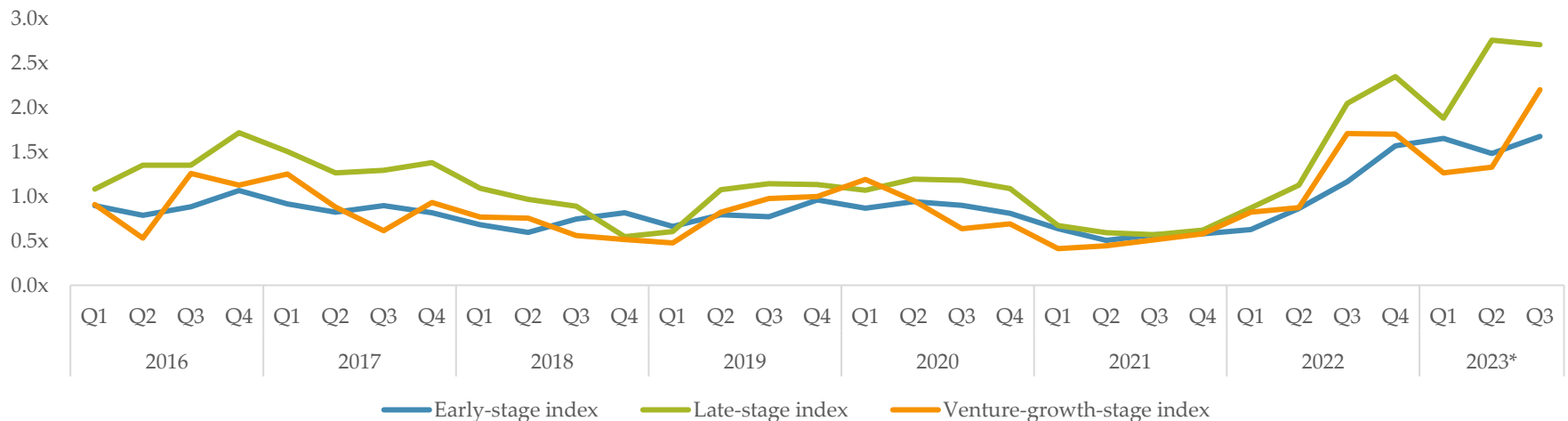
Source: Pitchbook, as of September 30, 2023

Capital is no longer a commodity – investor friendly environment

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



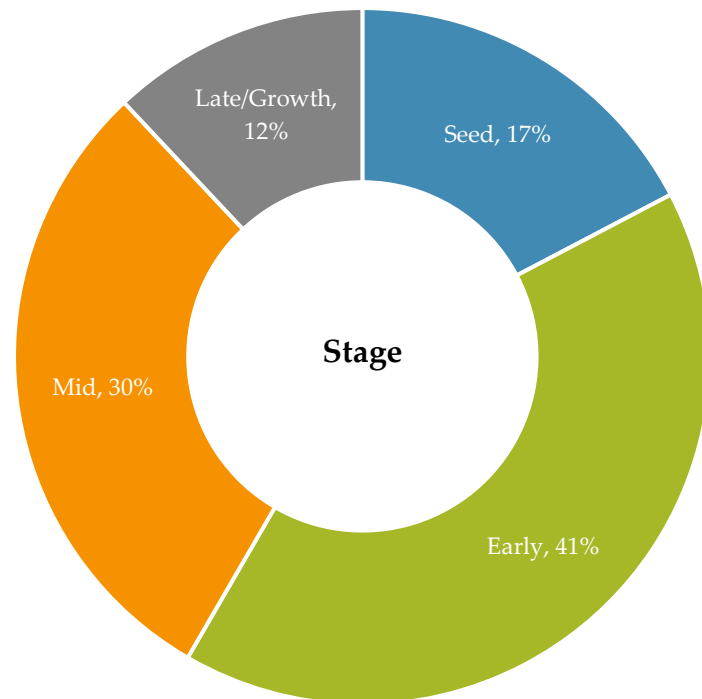
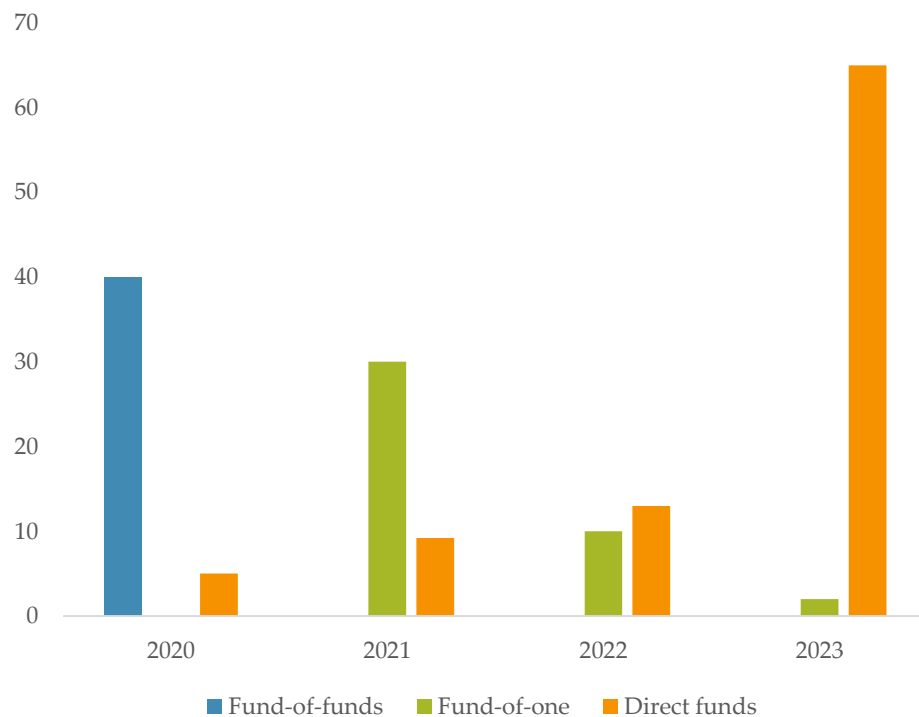
Capital-demand-to-supply ratio



Source: Pitchbook, as of September 30, 2023

Venture Capital Portfolio Update

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

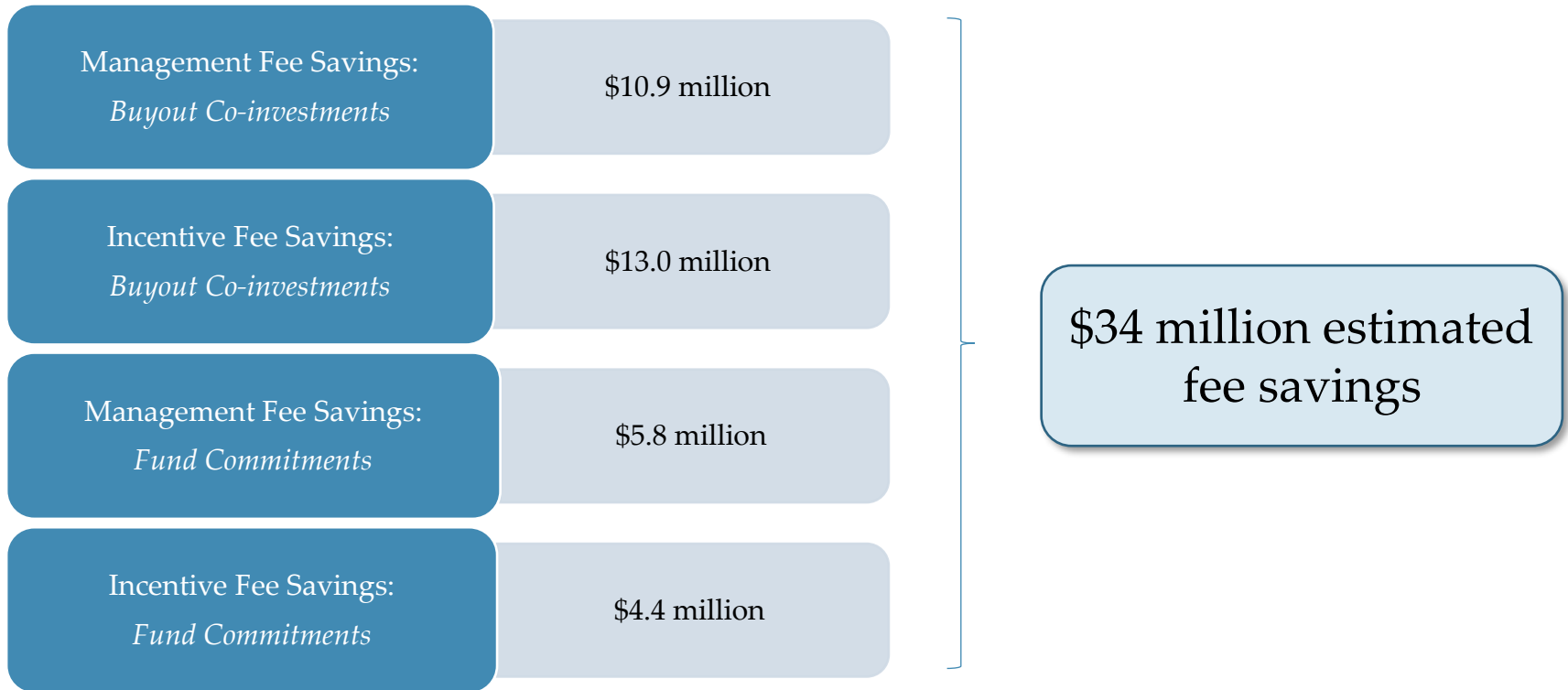


Source: San Jose Staff, as of November 30, 2023

Source: San Jose Staff, as of June 30, 2023
Values based on NAVs plus unfunded commitments

\$34mm estimated fee savings achieved in the past 2.5 years

- Estimated fee savings from commitments over the past 2.5 years over the projected life of the investments for both San Jose Police and Fire and Federated plans:



- 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.