

San Jose Federated City Employees' Retirement System
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.

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

- 11 commitments for \$81.5mm of \$130mm pacing plan (63%) expected.
- Half of commitments with existing fund manager relationships.
- No Growth Real Estate commitments.

Current positioning versus target

- Private markets are currently 23% of plan assets, 2% above the 21% target.
- Slowdown of realizations (distributions) brought the allocation 2% higher than anticipated in last years pacing plan.

Changes in asset allocation

- No changes to 21% target.

Changes in market environment

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

FY 2023-24 Pacing Plan Execution

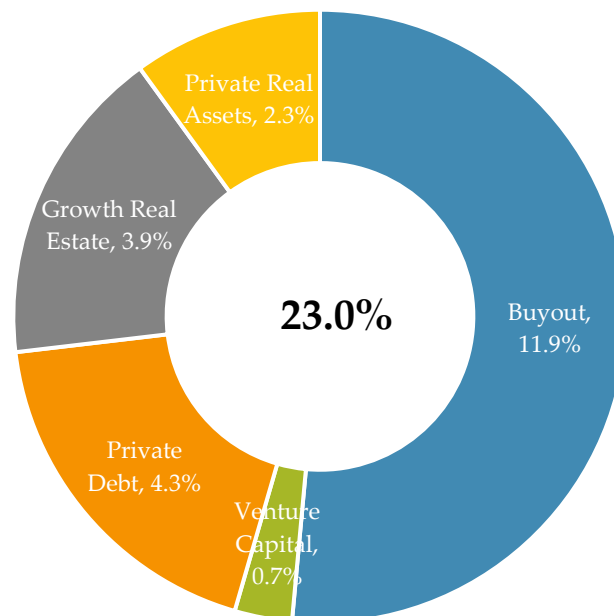
	Style	Date	Executed (\$mm)	Target (\$mm)	% of Target
Buyout			25	/ 25	100%
PE Strategic Partnership SJFED	Fund-of-one	7/1/2023	25		
Venture Capital			21.5	/ 28	77%
Crosslink Endeavour Fund II	Mid Stage	9/26/2023	1.5		
Innovation Endeavors V	Early Stage	9/29/2023	5		
<i>Expected to close soon</i>	<i>Early Stage</i>	<i>TBD</i>	<i>15</i>		
Private Debt			15	/ 20	75%
Invesco Credit Partners Fund III	Stress	12/22/2023	5		
Charlesbank Credit Opportunities Fund III	Stress	1/5/2024	5		
<i>Expected to close by 6/30/2024</i>	<i>Stress</i>	<i>TBD</i>	<i>5</i>		
Growth Real Estate			0	/ 32	0%
Private Real Assets			20	/ 25	80%
Scout Energy Partners VI	Energy	10/6/2023	5		
Orion Mine Finance IV	Metals	10/10/2023	5		
Seraya Partners Fund I	Infrastructure	11/15/2023	5		
<i>Expected to close by 6/30/2024</i>	<i>Infrastructure</i>	<i>TBD</i>	<i>5</i>		
Total Private Markets			81.5	/ 130	63%

Private Markets Allocation Snapshot

- The Private Markets allocation is 2% above target.
- Buyout is 3.9% above target from strong performance (21% net IRR for the PE Strategic Partnership since 2017 inception) and larger commitments in 2017-2018 when the buyout target allocation was 10%.
- Venture Capital is the newest private markets asset class and currently 3.3% below target but making progress toward the target allocation.

	% of Plan	Target	Difference
Buyout	11.9%	8%	3.9%
Venture Capital	0.7%	4%	-3.3%
Private Debt	4.3%	3%	1.3%
Growth Real Estate	3.9%	3%	0.9%
Private Real Assets	2.3%	3%	-0.7%
Total Private Markets	23.0%	21%	2.0%

As of March 31, 2024



Current positioning versus target slightly ahead of plan

- The Private Markets allocation is 2% 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)		
	<u>Prior</u>	<u>Current</u>	<u>Forecast</u>	<u>Prior</u>	<u>Current</u>	<u>Forecast</u>
	Pacing	Estimates	Error	Pacing	Estimates	Error
Buyout	10%	11%	+1%	296	343	+47
Venture Capital	1%	1%	-	43	28	-15
Private Debt	4%	4%	-	121	128	+7
Growth Real Estate	3%	4%	+1%	98	122	+24
Private Real Assets	2%	3%	+0%	71	78	+7
Total Private Markets	20%	22%	+2%	629	699	+70

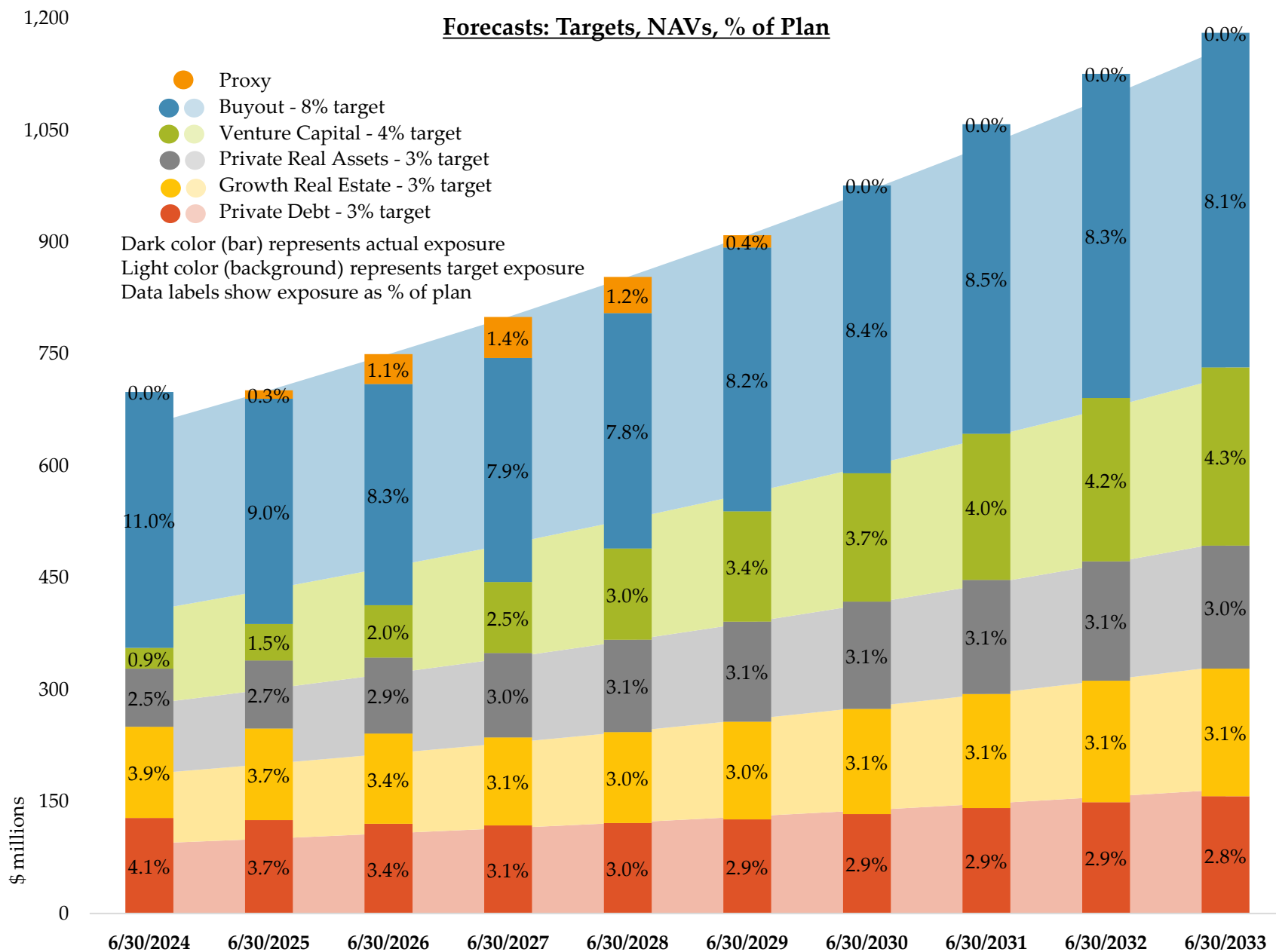
Plan-level net asset value forecasts

- NAV forecasts only changed modestly compared to last years estimates.

	<u>6/30/2024</u>	<u>6/30/2025</u>	<u>6/30/2026</u>	<u>6/30/2027</u>	<u>6/30/2028</u>
Current NAV forecast (\$mm)	3,120	3,340	3,569	3,807	4,063
Prior Year NAV forecast (\$mm)	3,107	3,330	3,565	3,811	4,079
<i>Difference</i>	0%	0%	0%	0%	0%

	<u>6/30/2029</u>	<u>6/30/2030</u>	<u>6/30/2031</u>	<u>6/30/2032</u>	<u>6/30/2033</u>
Current NAV forecast (\$mm)	4,329	4,609	4,904	5,208	5,531
Prior Year NAV forecast (\$mm)	4,361	4,661	4,980	5,312	5,667
<i>Difference</i>	-1%	-1%	-2%	-2%	-2%

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).
- The FY 24-25 commitment amounts are unchanged from FY 23-24.
- Staff recommends approval of the highlighted commitment amounts for FY 24-25.

Recommendation for approval.



	FY 23-24		FY 24-25	Pacing Plan			
	Pacing Plan	Expected		FY 25-26	FY 26-27	FY 27-28	FY 28-29
Buyout	25	25	25	75	75	75	100
Venture Capital	28	21.5	28	28	28	28	24
Private Debt	20	15	20	25	25	30	30
Growth Real Estate	32	-	32	32	36	36	40
Private Real Assets	25	20	25	25	25	25	25
Total Private Markets	130	81.5	130	185	189	194	219

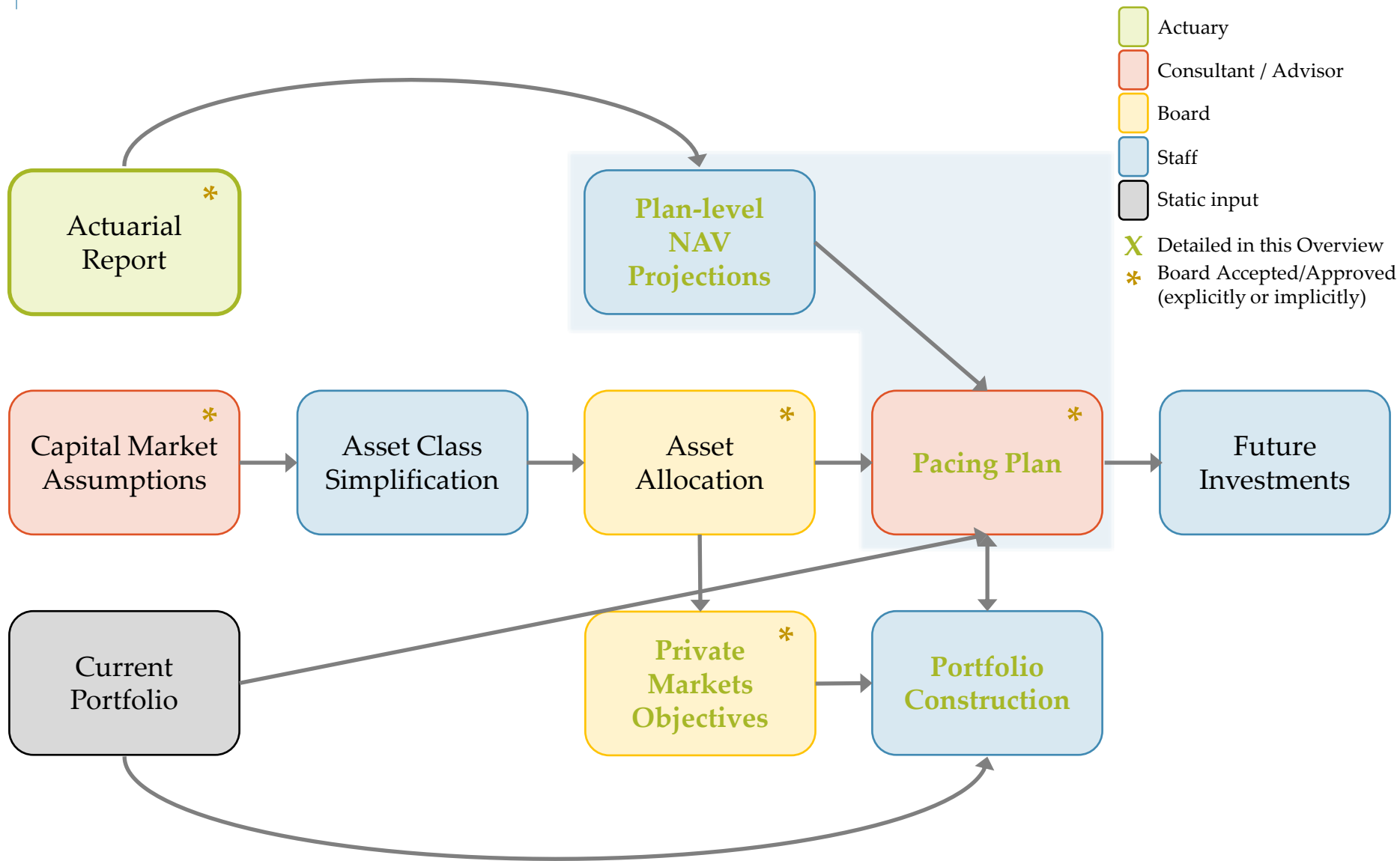
Values in \$ millions

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

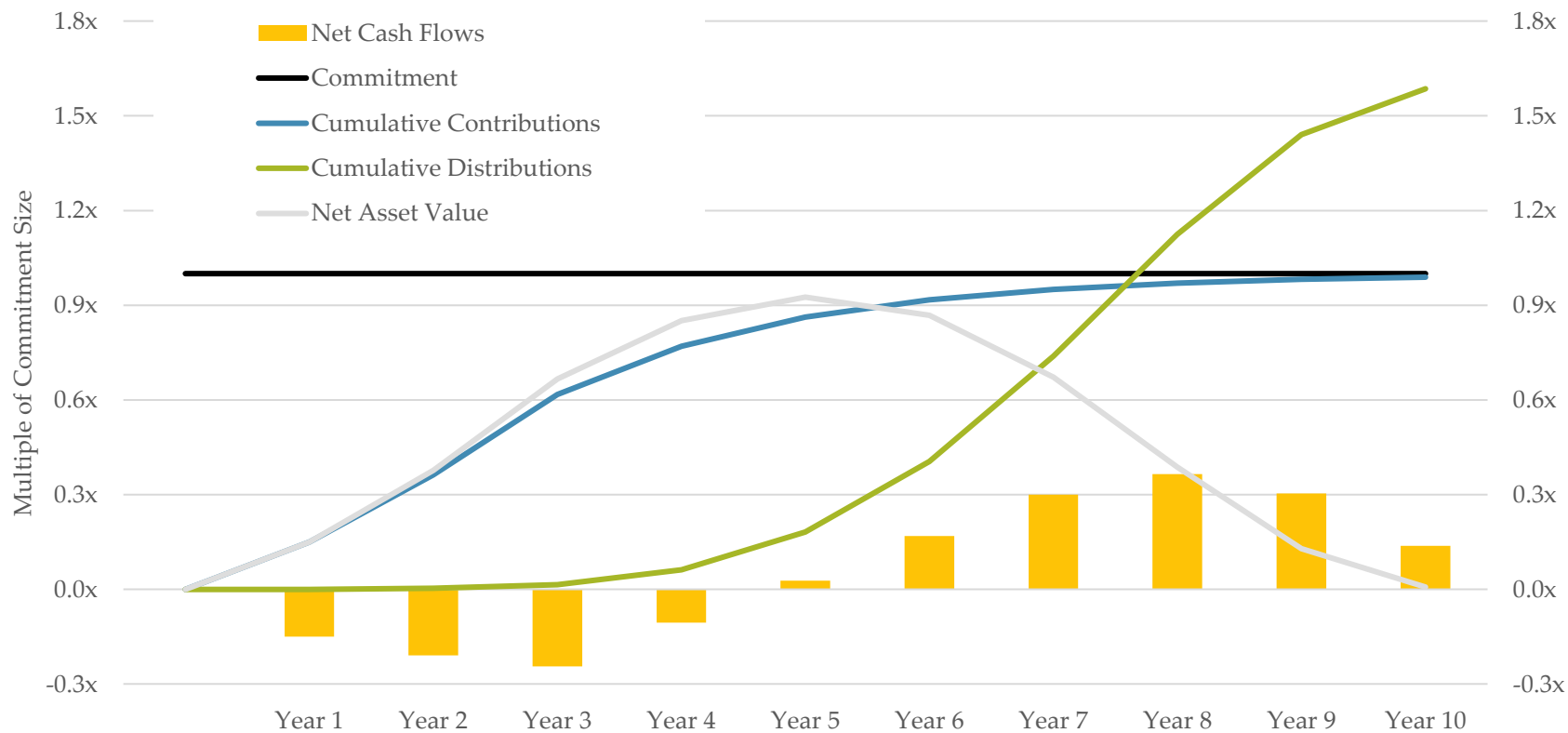
Meketa produced an easy-to-read white paper on commitment pacing that outlines their specific methodology ([PDF link](#)).

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 Limit⁵	
	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



- 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.