San Jose Police and Fire Department Retirement Plan
Private Markets Pacing Plan

Fiscal Year 2022-2023

as of April 2022

Purpose

- Seek approval of target commitment amounts (the "pacing plan") for each private markets asset class over the next fiscal year.

Valuable context:

- Report what staff did compared with what staff said in last year's pacing plan presentation.
- Acknowledge how changes in financial markets and asset allocation impact the plans' long-term private markets program.
- Highlight topics for discussion during future private markets presentations.

Year in review

Executed previous pacing plan

- Staff expects to have completed 20 investments for Police & Fire, totaling $248mm.
- Deployed as anticipated:
  - ✓ Private markets program has matured with a stable roster of managers;
  - = Existing relationships can be scaled;
  - ✓ Strong bench to displace incumbents;
  - ✓ With the core portfolio in place, staff can be opportunistic by pursing niche strategies or taking portfolio management actions to drive incremental performance;
  - = Building relationships and serving as a resource in the marketplace enhances goodwill and deal flow that allows staff to access the best opportunities.

Current positioning versus target

- Police & Fire: 18% of plan assets, matching projections from the previous year pacing plan.
- 7% below new private markets policy target adopted by Board in March 2022.

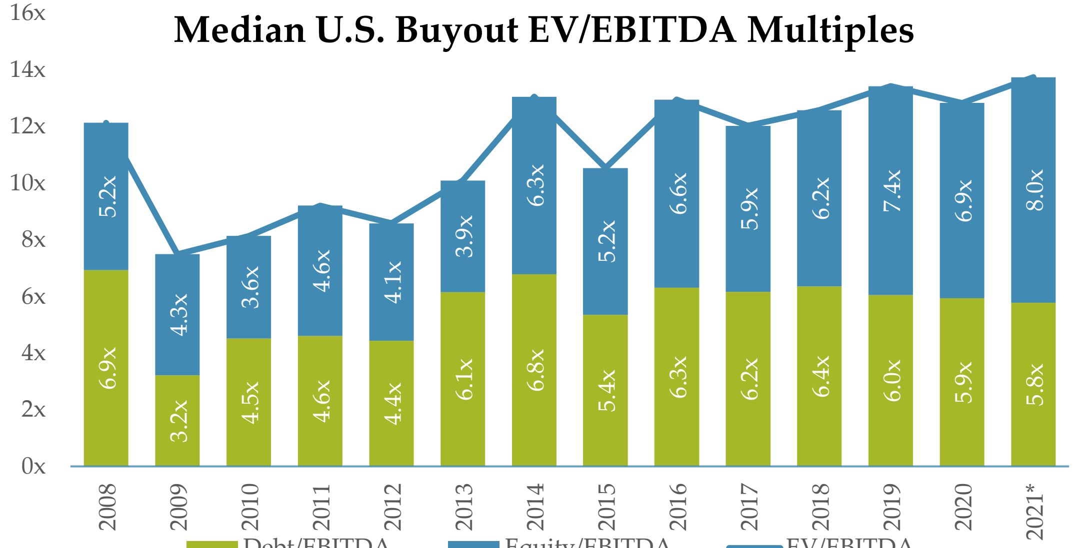
Changes in asset allocation

- Police & Fire: Buyout +2%; Venture +1%; Private Debt +1%; Growth Real Estate +1%; Private Real Assets +1%

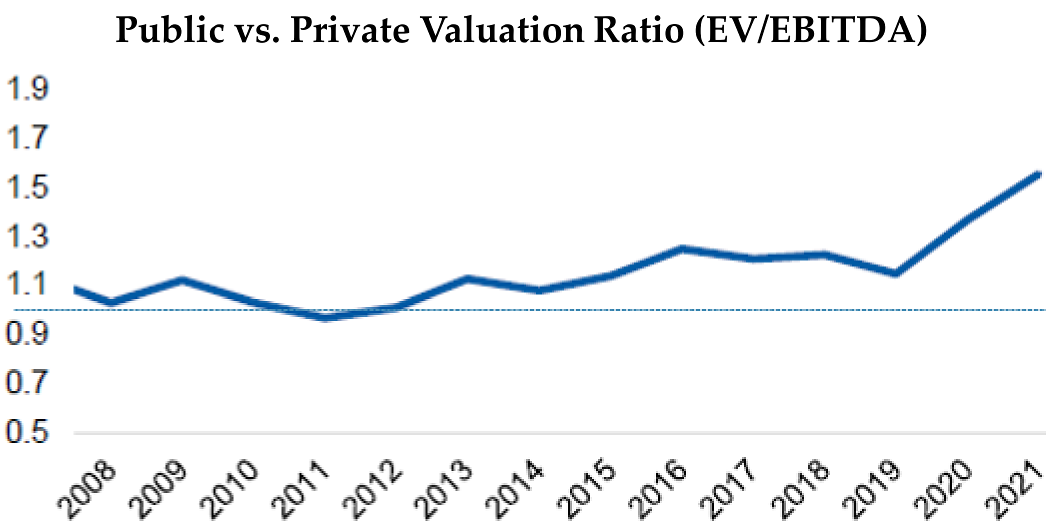
Changes in market environment

- Inflation, rising interest rates, geopolitics, and withdrawal of stimulative policies leading to re-pricing of risk.
- Valuations remain elevated, fundraising cycles have accelerated, and funds are growing larger.

Valuations remain elevated, but less than public markets



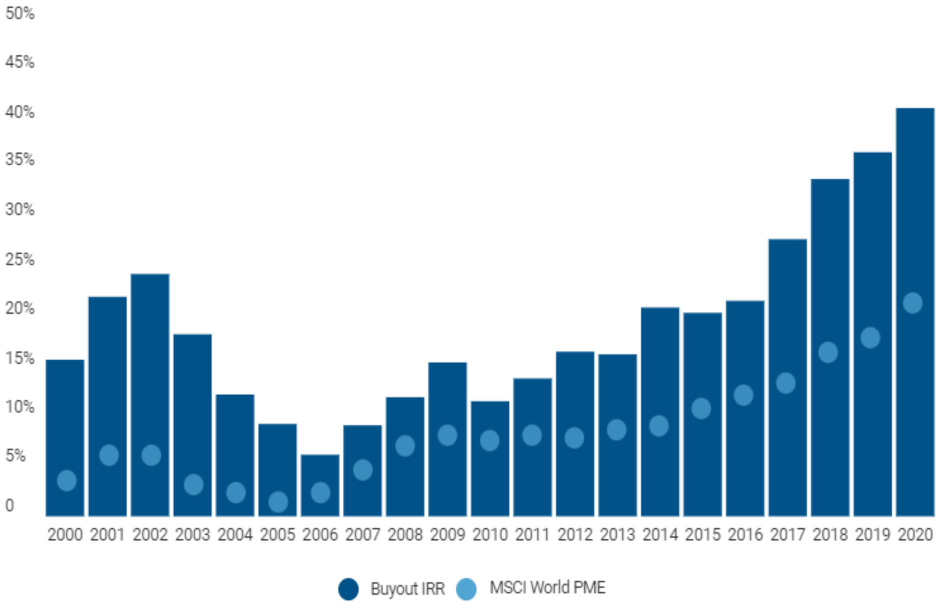
Source: Pitchbook Data, Inc. (December 2021)



Source: Morgan Stanley, Preqin (August 2021)

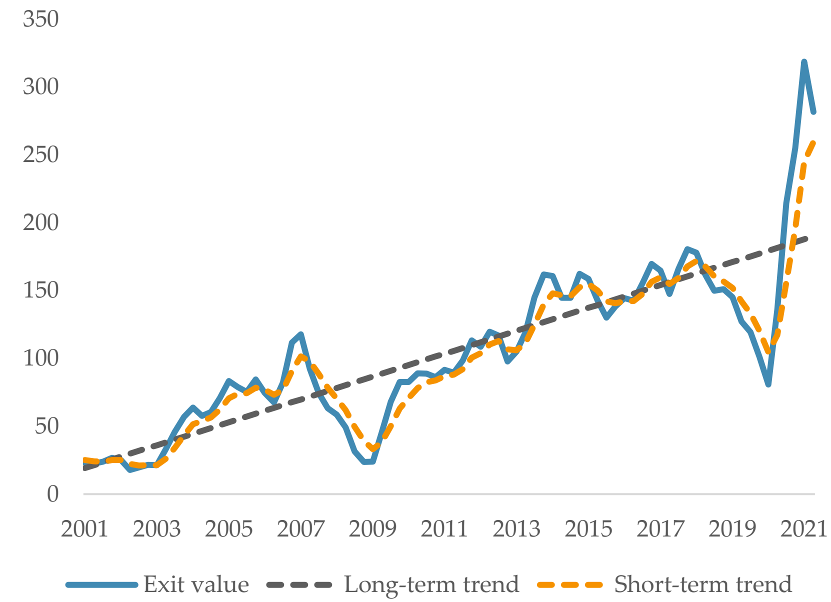
Performance + exits + investment pace = faster fundraising cycles

Buyout IRR vs. PME by Vintage Year



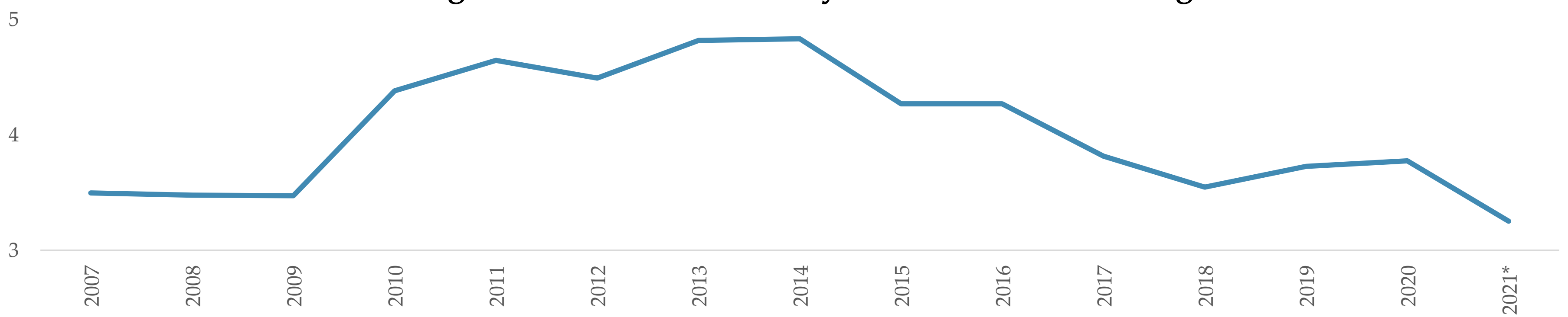
Source: Hamilton Lane Data via Cobalt Bloomberg (January 2022)

U.S. Buyout Exit Value



Source: Pitchbook Data, Inc. (December 2021)

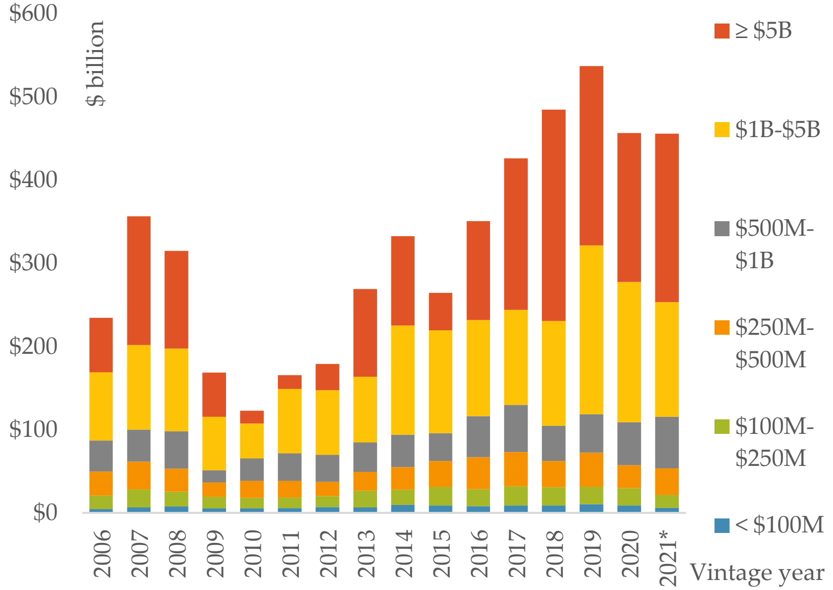
Average Years Between U.S. Buyout Fund Series Closings



Source: Pitchbook Data, Inc. (December 2021)

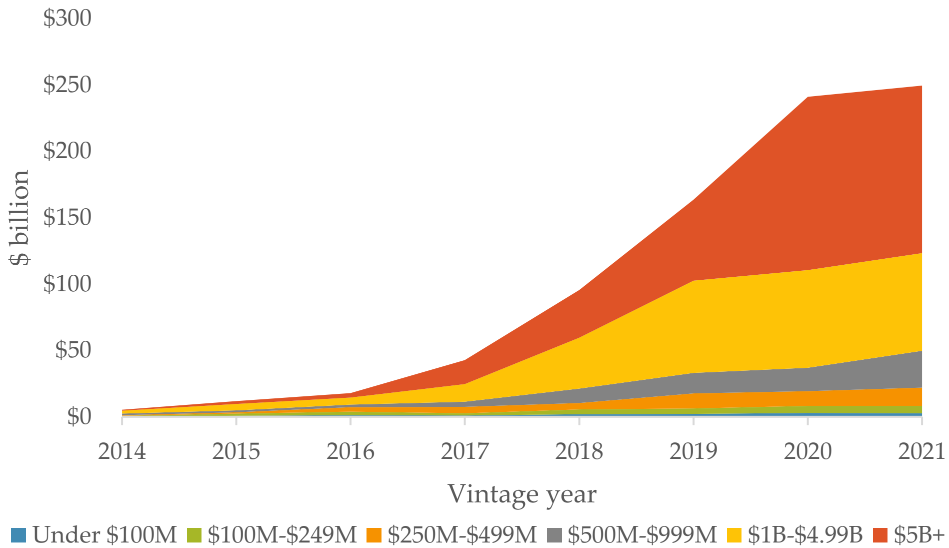
Fundraising and dry powder gravitates toward large funds

Buyout capital raised by vintage year/fund size



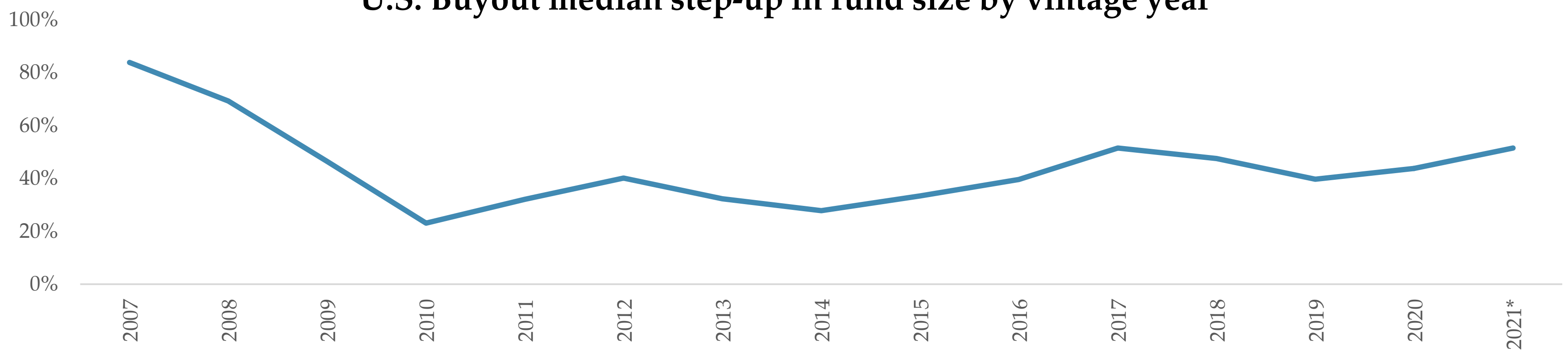
Source: Pitchbook Data, Inc. (December 2021)

U.S. Buyout dry powder by vintage year/fund size



Source: Pitchbook Data, Inc. (June 2021)

U.S. Buyout median step-up in fund size by vintage year



Source: Pitchbook Data, Inc. (December 2021)

Executed FY 2021-22 pacing plan

Asset Class	**Police & Fire**	
- *Fund*	**Pacing Plan**	**Actual**
Buyout	**$25mm**	**$25mm**
- *Neuberger Berman fund-of-one*		*25.0*
Venture Capital	**$40mm**	**$64mm**
- *Invesco Venture Alpha Fund II*		*10.0*
- *Next Play Capital Fund III*		*10.0*
- *Tiger Iron SJPF*		*20.0*
- *Expected before 6/30/2022*		*5.0*
- *Expected before 6/30/2022*		*5.0*
- *Expected before 6/30/2022*		*5.0*
- *Expected before 6/30/2022*		*5.0*
- *Expected before 6/30/2022*		*4.0*
Private Debt	**$48mm**	**$63.2mm**
- *Cross Ocean ESS Fund I secondary*		*0.2*
- *Angelo Gordon Credit Solutions Fund II*		*21.0*
- *Arbour Lane Credit Opportunity Fund III*		*21.0*
- *Octagon CLO Opportunity Fund IV*		*21.0*

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Executed FY 2021-22 pacing plan (cont'd)

Asset Class	**Police & Fire**	
- *Fund*	**Pacing Plan**	**Actual**
Growth Real Estate	**$40mm**	**$51mm**
- H.I.G. Realty Partners Fund IV		*15.0*
- Praedium X Middle-Income Housing Fund		*18.0*
- Expected before 6/30		*18.0*
Private Real Assets	**$36mm**	**$45mm**
- Tembo Capital Mining Fund III		*9.0*
- Mountain Capital Partners II		*9.0*
- Hull Street Energy Partners II		*9.0*
- Expected before 6/30		*9.0*
- Expected before 6/30		*9.0*

Current positioning versus target remains on track

Police & Fire total private markets exposure is expected to match the 18% projection in the prior year pacing model.

Buyout is near expectations with strong performance offset by secondary sales from the legacy buyout portfolio.

Venture is progressing toward target more quickly than anticipated with faster deployment of investments.

Private Debt is below expectations due to an acceleration of distributions.

Growth Real Estate and Private Real Assets are mostly in line with projections.

Police & Fire

	Exp. 6/30/22 NAV ($mm)				Exp. 6/30/22 Allocation			Current Estimates vs. Target
	FY21-22 Pacing	Current Estimates	Forecast Error		FY21-22 Pacing	Current Estimates	Target	
Private Markets	*864*	*837*	*-28*	*-3%*	*18%*	*18%*	*25%*	*-7%*
Buyout	451	418	-33	*-7%*	9%	9%	9%	0%
Venture	15	31	17	*116%*	0%	1%	4%	-3%
Private Debt	172	145	-27	*-16%*	4%	3%	4%	-1%
Growth Real Estate	150	167	17	*11%*	3%	4%	4%	0%
Private Real Assets	77	75	-2	*-2%*	2%	2%	4%	-2%

Plan-level net asset value forecasts

Plan-level NAV forecasts did not significantly change from previous year NAV forecasts.

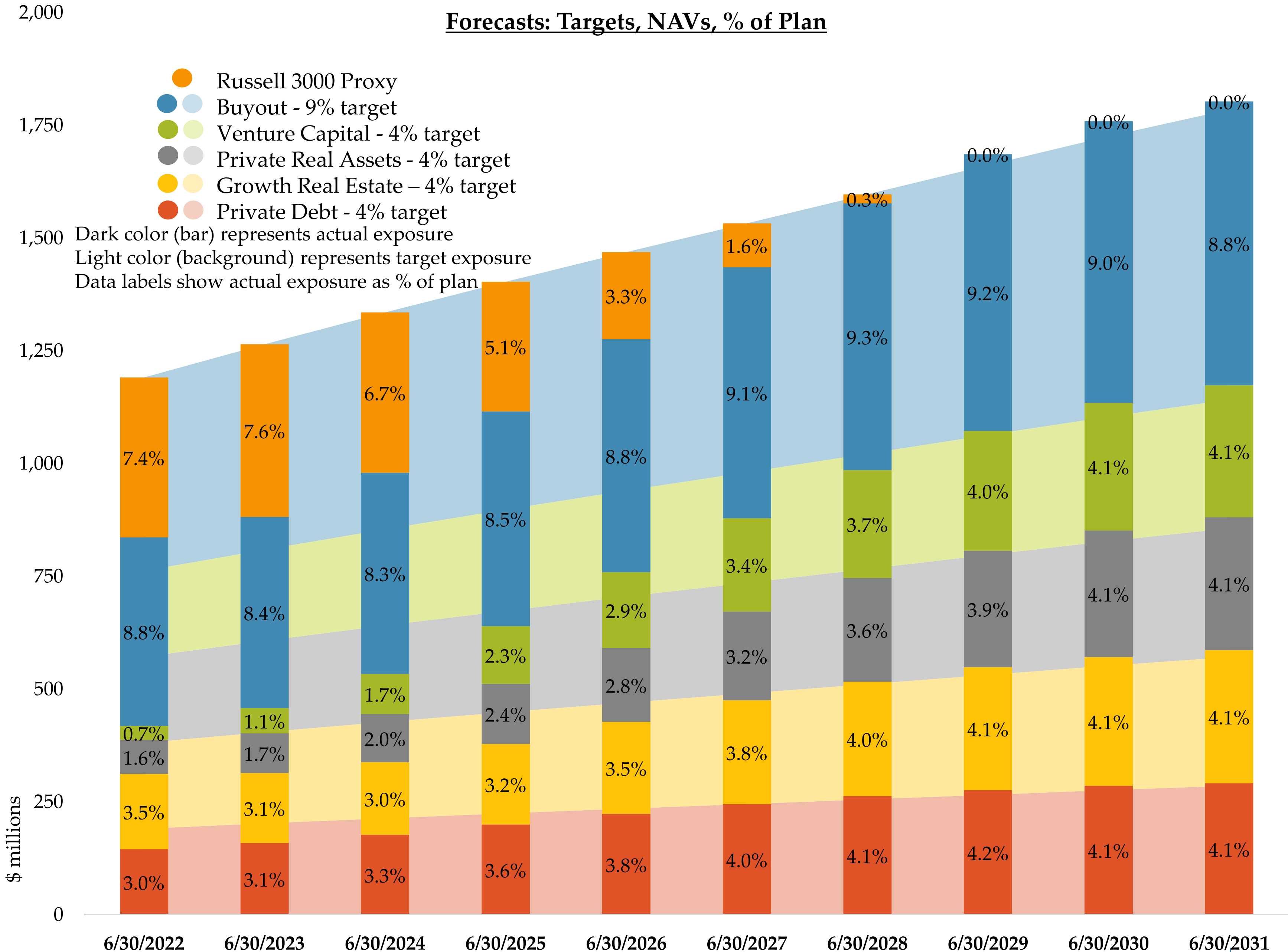
Plan-level net asset value forecasts

(in $ mm)	6/30/2022	6/30/2023	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2031	6/30/2032
Police & Fire	**$ 4,765**	**$ 5,059**	**$ 5,342**	**$ 5,613**	**$ 5,877**	**$ 6,131**	**$ 6,388**	**$ 6,648**	**$ 6,903**	**$ 7,140**	**$ 7,373**
Previous NAV forecast	*4,797*	*5,087*	*5,383*	*5,688*	*6,004*	*6,330*	*6,666*	*7,012*	*7,360*	*7,699*	*n/a*
Difference (%)	*-1%*	*-1%*	*-1%*	*-1%*	*-2%*	*-3%*	*-4%*	*-5%*	*-6%*	*-7%*	*n/a*

Asset Class NAV Targets as of 6/30/2022

Police & Fire	**Target**	**$ million**
Private Markets	*25%*	*1,191*
Buyout	9%	429
Venture	4%	191
Private Debt	4%	191
Growth Real Estate	4%	191
Private Real Assets	4%	191

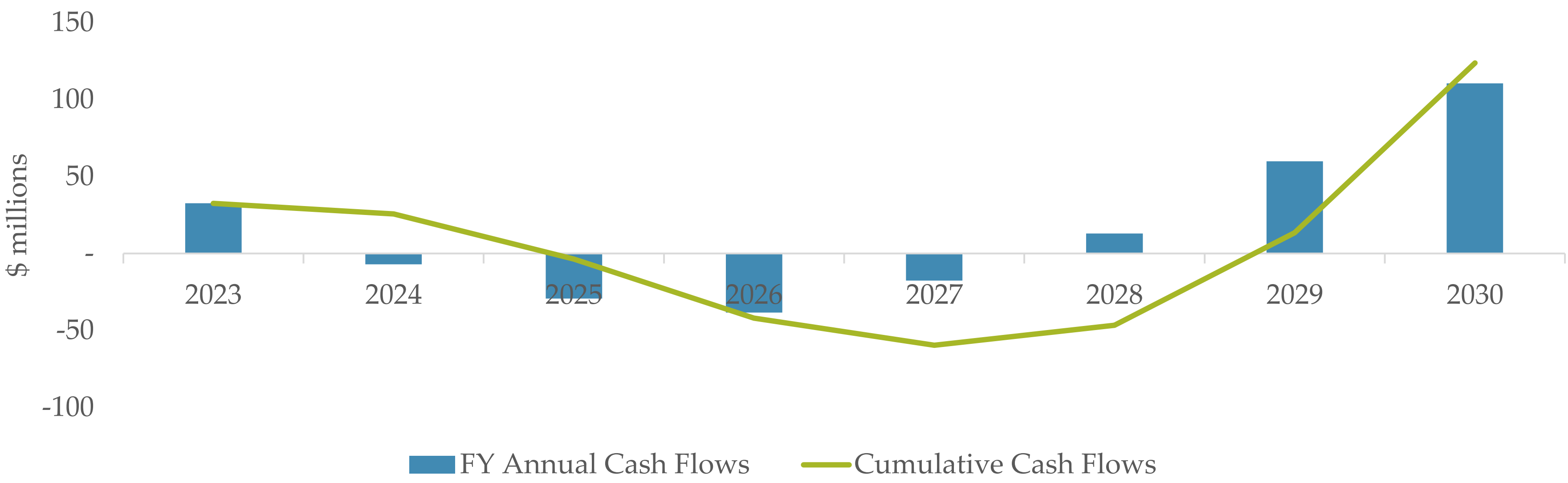
Police & Fire forecast private markets net asset values



Liquidity requirements

For the Police and Fire private markets program, distributions are expected to exceed contributions for FY 2022-23.

The four subsequent years are expected to have slightly more contributions than distributions as the program builds toward the new asset allocation targets.



Pacing plan commitment recommendation

Recommendation for approval.

Police & Fire

(in $ mm)	FY 21-22		Pacing Plan				
	Pacing Plan	Actual	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
Private Markets	*189*	*248*	*334*	*359*	*359*	*354*	*354*
Buyout	25	25	100	125	125	125	125
Venture	40	64	40	40	40	35	35
Private Debt	48	63	64	64	64	64	64
Growth Real Estate	40	51	70	70	70	70	70
Private Real Assets	36	45	60	60	60	60	60

IPS Limits with proposed red-line change

Basis*	Description	Strategy Limit[2]
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit[3]
	Commingled funds (public, active)	15%
	Commingled funds (hedge funds)	15%
	Commingled funds (private strategies)	15%[4]
Public Markets[5]	Passive strategies	No limit
	Active strategies	15%
Private Markets ~~(excluding venture capital)~~		**Transaction Limit[6]**
	Total $ commitment to asset class (e.g. Private Debt)	150% of Board-approved pacing plan (cumulative)[7]
	Primary fund commitment (1st allocation to mgr.)	2%**
	Primary fund commitment (follow-on)	3%**
	Secondary fund investment	1%**

1 Active risk or tracking error limits may apply at the total fund level, or another aggregation (e.g. public markets assets only, excluding private markets). Risk limits may also be based on concentration, expressed for example, as a percentage (%) of some total amount of risk.
2 Percentage (%) of total Plan assets allowable per investment strategy
3 Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing.
4 For private strategies, limit applies to the capital invested plus future callable commitments.
5 Some of these limits related to public markets may be "interim", to be replaced by risk-based limits for example.
6 Percentage (%) of total Plan assets allowable per investment manager.
7 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.

* To be selected, the manager must satisfy the "Vehicle" constraint and the appropriate "Public Markets" or "Private Markets" constraints
** Percentage (%) of total plan assets

IPS Venture Capital approval process unchanged

VII. Manager Selection, Retention, Evaluation & Termination Policy

Background

A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the Plan subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures ("Procedures"), approved by the CIO, that provide more detailed constraints and parameters.

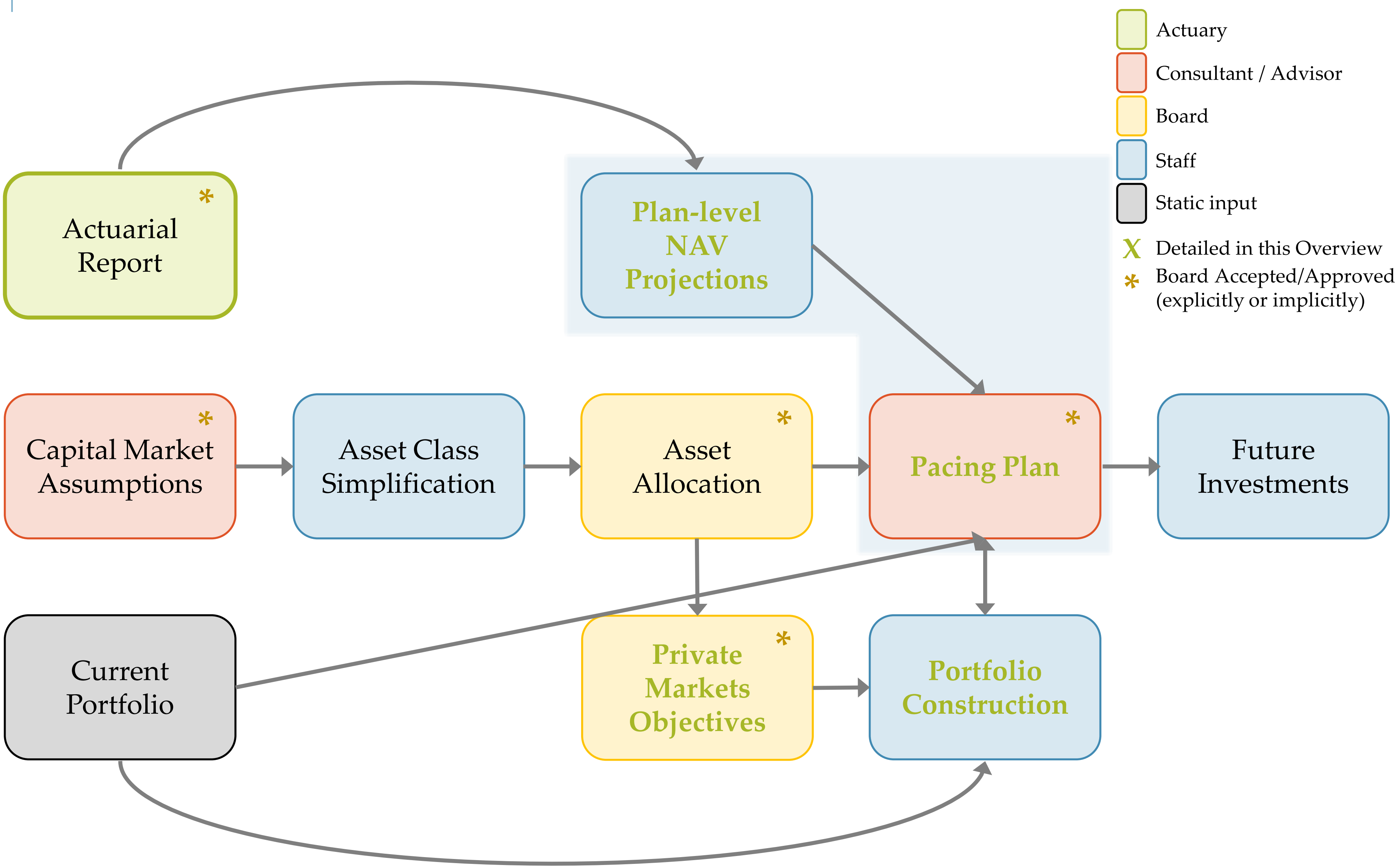
B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration risk of co-investments). The Venture Capital program shall be approved by the Investment Committee and the Board prior to its implementation. These exceptions do not pertain to funds where an external manager has discretion.

Appendix

Pacing plan basics

- The pacing plan models how the pension funds will reach and maintain their 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.

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