San Jose Federated City Employees' Retirement System
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 15 investments for Federated, totaling $167mm.
- 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

- Federated: 1% underweight policy target; compared to projections from the previous year pacing plan of 5% underweight due to strong performance of the Buyout portfolio.

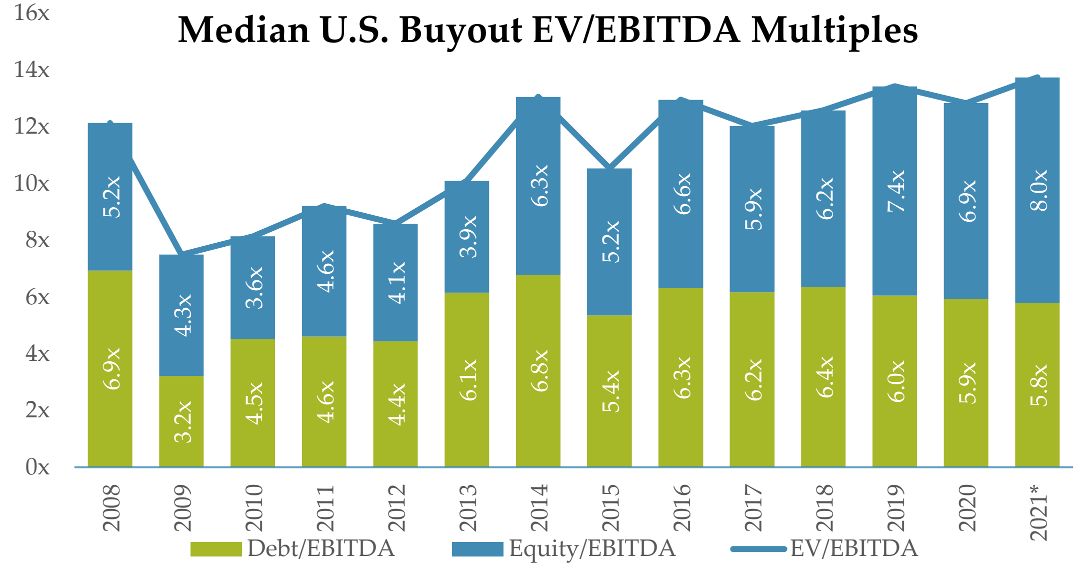
Changes in asset allocation

- Federated: No changes.

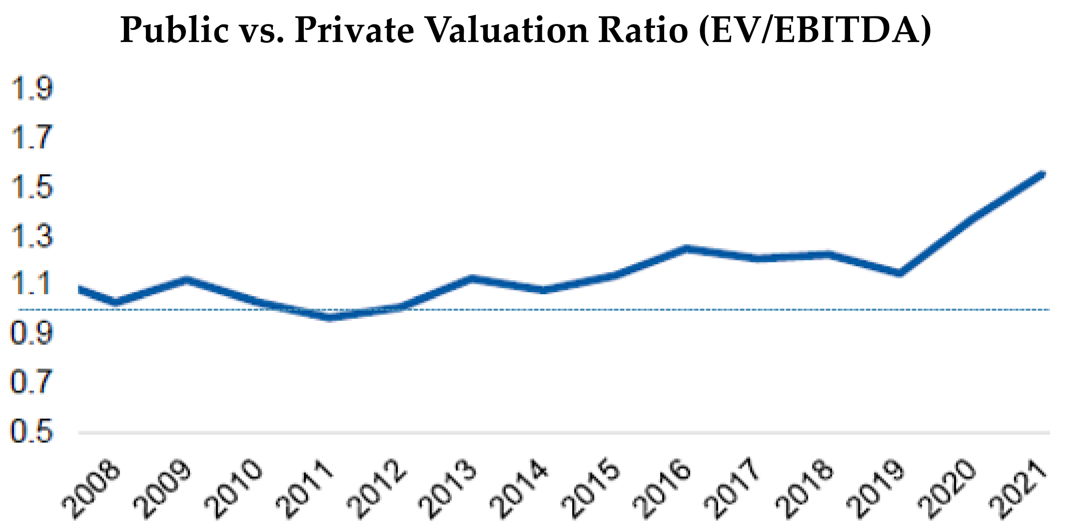
Changes in market environment

- 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



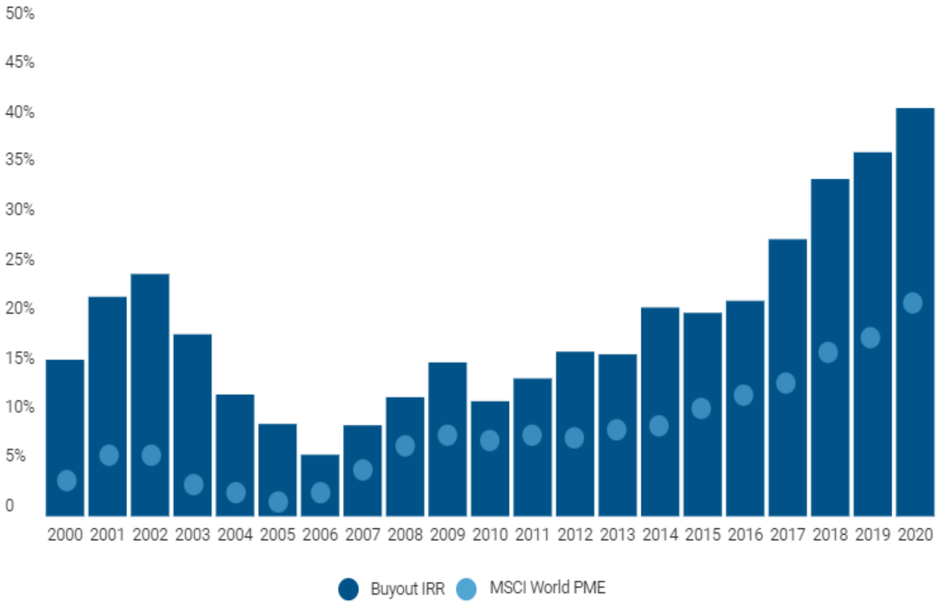
Source: Pitchbook Data, Inc. (December 2021)



Source: Morgan Stanley, Preqin (August 2021)

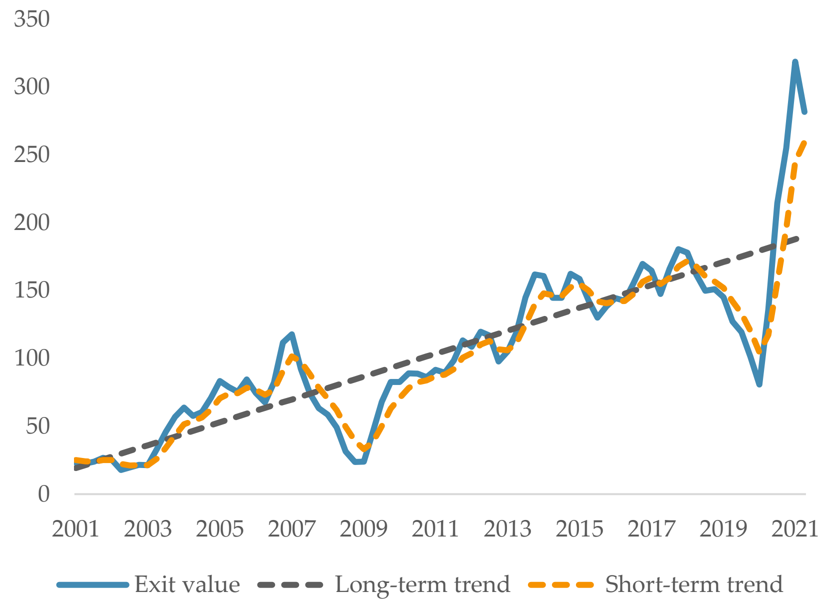
Performance + exits + investment pace = faster fundraising cycles

Buyout IRR vs. PME by Vintage Year



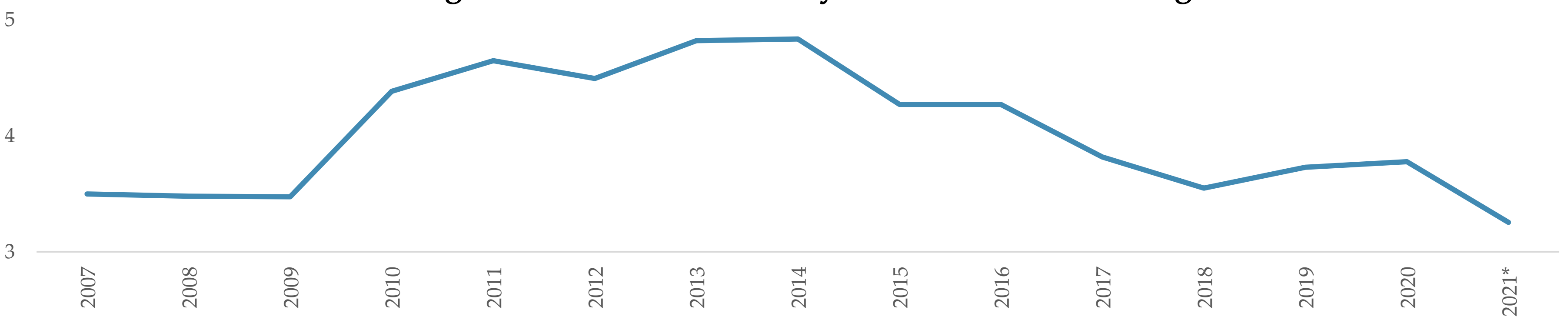
Source: Hamilton Lane Data via Cobalt Bloomberg (January 2022)

U.S. Buyout Exit Value



Source: Pitchbook Data, Inc. (December 2021)

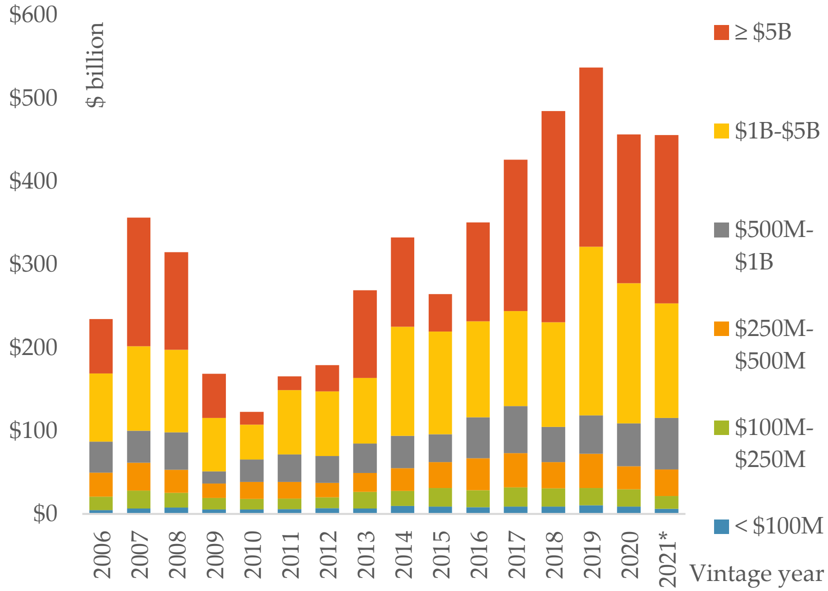
Average Years Between U.S. Buyout Fund Series Closings



Source: Pitchbook Data, Inc. (December 2021)

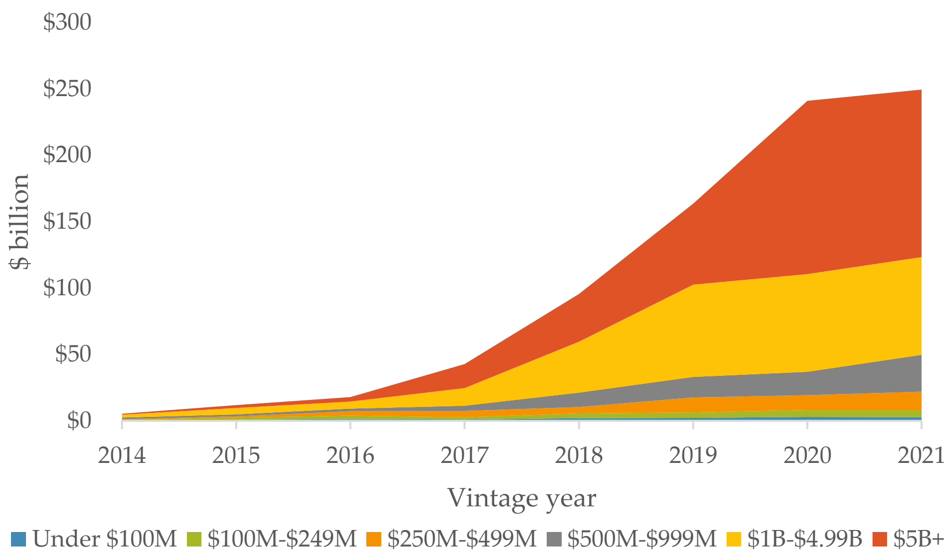
Fundraising and dry powder gravitates toward large funds

Buyout capital raised by vintage year/fund size



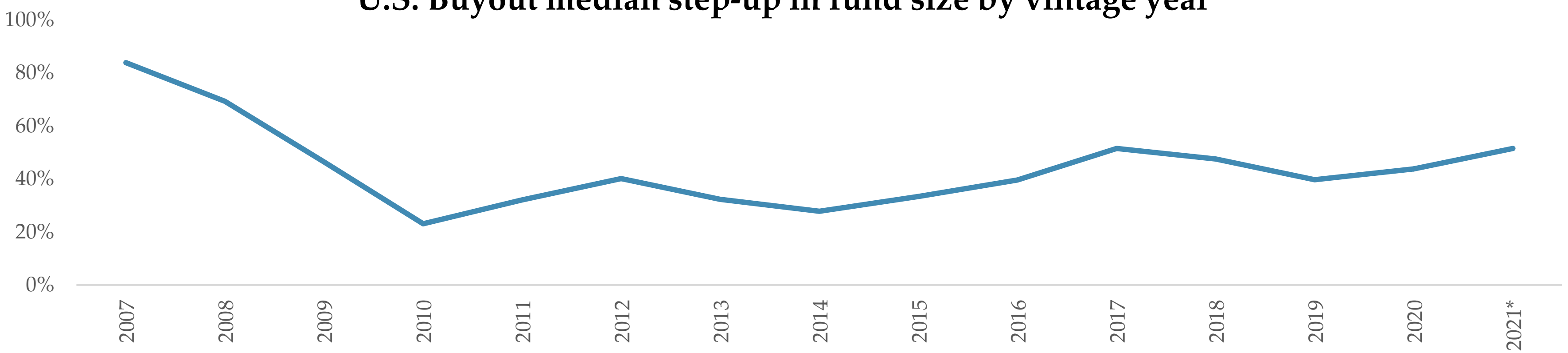
Source: Pitchbook Data, Inc. (December 2021)

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	**Federated**	
- *Fund*	**Pacing Plan**	**Actual**
Buyout	**$50mm**	**$50mm**
- *Neuberger Berman fund-of-one*		*50.0*
Venture Capital	**$30mm**	**$30mm**
- *TI Platform SJFED*		*20.0*
- *Soma Capital Fund III*		*5.0*
- *Fin VC Horizons II*		*5.0*
Private Debt	**$28mm**	**$27mm**
- *Angelo Gordon Credit Solutions Fund II*		*9.0*
- *Arbour Lane Credit Opportunity Fund III*		*9.0*
- *Octagon CLO Opportunity Fund IV*		*9.0*
Growth Real Estate	**$28mm**	**$30mm**
- *H.I.G. Realty Partners Fund IV*		*10.0*
- *Praedium X Middle-Income Housing Fund*		*10.0*
- *Expected before 6/30*		*10.0*
Private Real Assets	**$26mm**	**$30mm**
- *Tembo Capital Mining Fund III*		*6.0*
- *Mountain Capital Partners II*		*6.0*
- *Hull Street Energy Partners II*		*6.0*
- *Expected before 6/30*		*6.0*
- *Expected before 6/30*		*6.0*

Current positioning approaching private markets target

Federated was expected to be 5% short of policy target in the prior year pacing model (16% expected vs. 21% target), but is now expected to be 1% short (20% expected vs. 21% target).

Strong performance in the Buyout asset class led to a current allocation nearly 50% higher than projected last year and 4% above the target.

All asset classes apart from Buyout are in line with prior year projections.

Federated

	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	*454*	*570*	*117*	*26%*	*16%*	*20%*	*21%*	*-1%*
Buyout	234	340	106	*45%*	8%	12%	8%	4%
Venture	9	9	-0	*-5%*	0%	0%	4%	-4%
Private Debt	80	85	5	*7%*	3%	3%	3%	0%
Growth Real Estate	88	93	5	*6%*	3%	3%	3%	0%
Private Real Assets	43	43	1	*2%*	1%	1%	3%	-2%

Plan-level net asset value forecasts

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

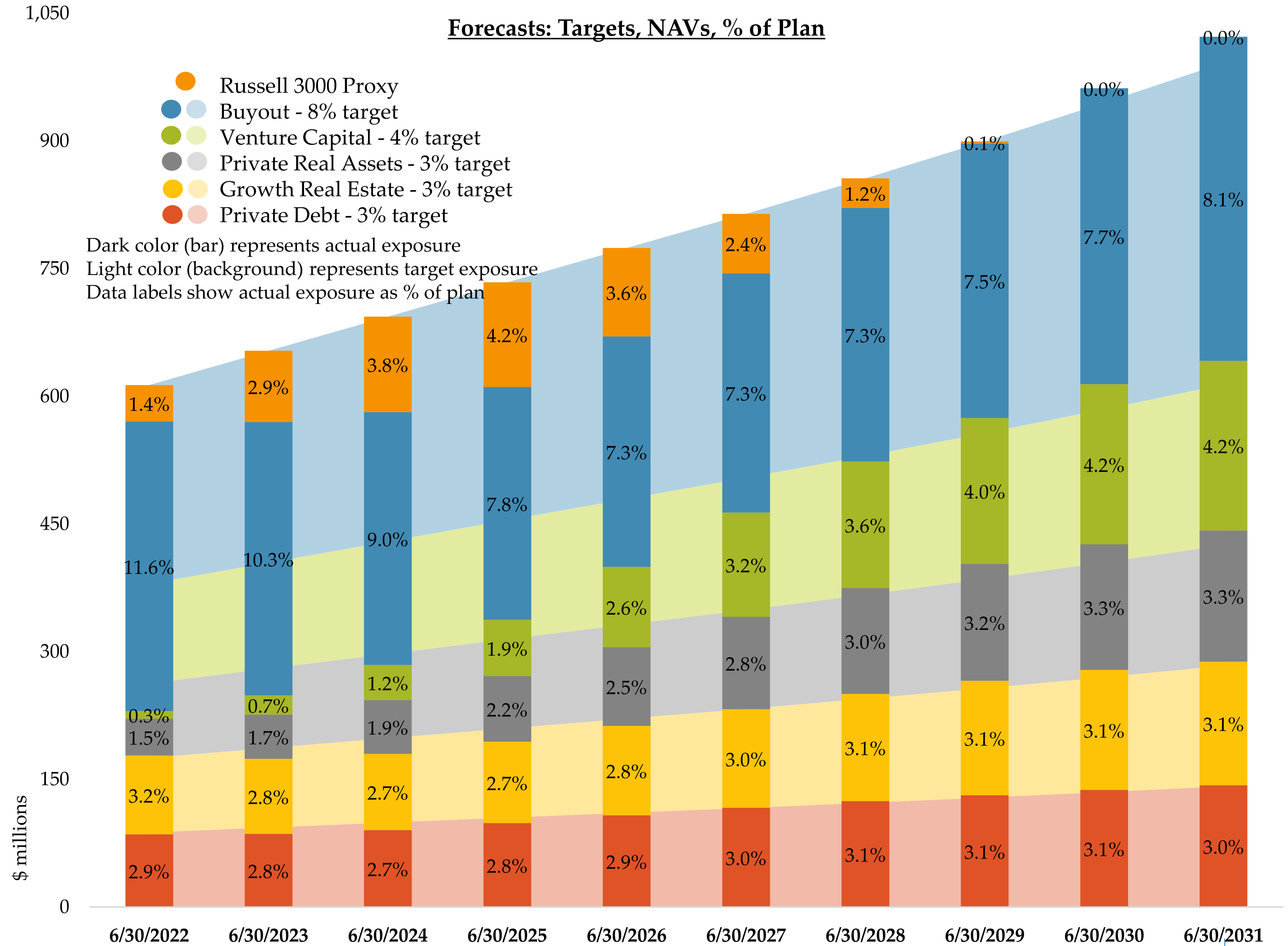
Plan-level net asset value forecasts

(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
Federated	**$ 2,920**	**$ 3,111**	**$ 3,303**	**$ 3,495**	**$ 3,687**	**$ 3,878**	**$ 4,077**	**$ 4,284**	**$ 4,499**	**$ 4,723**	**$ 4,951**
Previous NAV forecast	*2,892*	*3,070*	*3,257*	*3,453*	*3,660*	*3,875*	*4,102*	*4,337*	*4,584*	*4,843*	*n/a*
Difference (%)	*1%*	*1%*	*1%*	*1%*	*1%*	*0%*	*-1%*	*-1%*	*-2%*	*-2%*	*n/a*

Asset Class NAV Targets as of 6/30/2022

Federated	**Target**	**$ million**
Private Markets	*21%*	*613*
Buyout	8%	234
Venture	4%	117
Private Debt	3%	88
Growth Real Estate	3%	88
Private Real Assets	3%	88

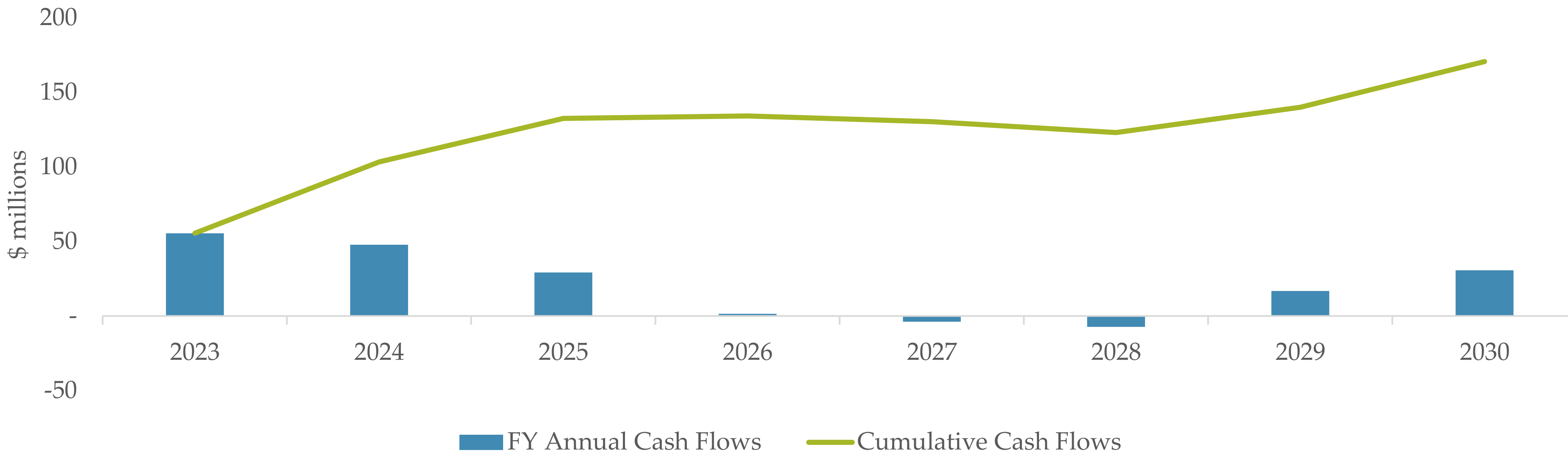
Federated forecast private markets net asset values



Liquidity requirements

For the Federated private markets program, distributions are expected to exceed contributions for most future years and the program is largely self-funding.

The Buyout asset class in particular is expected to generate significant distributions.



Pacing plan commitment recommendation

Recommendation for approval.

Federated

(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	*162*	*167*	*149*	*149*	*150*	*198*	*196*
Buyout	50	50	25	25	25	75	75
Venture	30	30	30	30	28	28	26
Private Debt	28	27	30	30	30	30	30
Growth Real Estate	28	30	32	32	35	35	35
Private Real Assets	26	30	32	32	32	30	30

IPS Limits with proposed red-line change

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 ~~(excluding venture capital)~~		**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

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.

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.

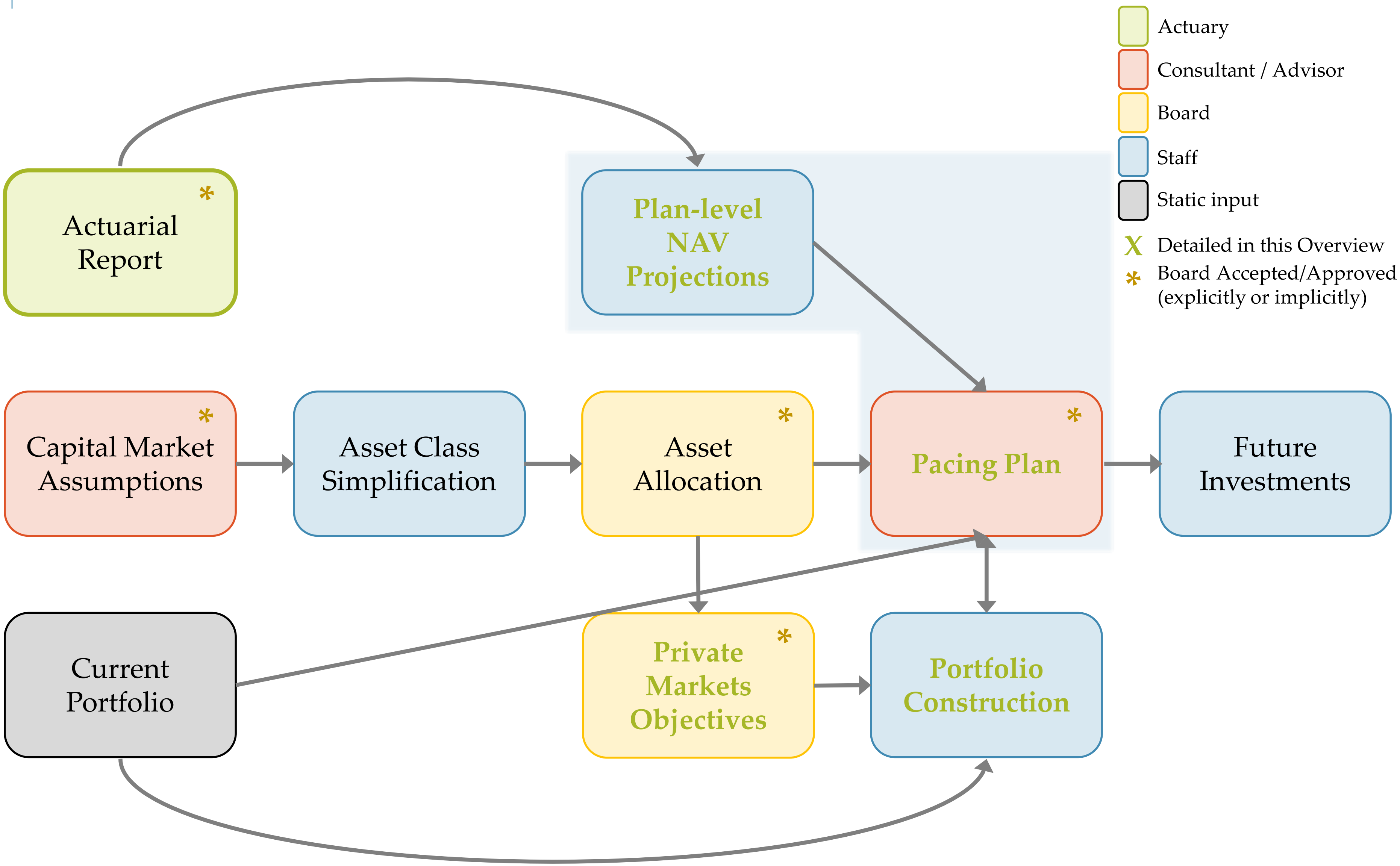
B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration 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