



City and County of San Francisco Employees' Retirement System

RETIREMENT BOARD MEETING MINUTES

Wednesday, May 17, 2017

1145 Market Street, 6th Floor
San Francisco, CA 94103

1:00 p.m.

Please take notice that the Retirement Board will begin its meeting with a closed session item. The Board will take public comment before going into closed session, limited to the topic of the closed session item. The Board will return to open session and begin the public portion of the meeting with General Public Comment, not earlier than 2:30 PM.

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is Dedicated to Securing, Protecting and Prudently Investing the Pension Trust Assets, Administering Mandated Benefit Programs, and Providing Promised Benefits.

RETIREMENT BOARD MEMBERS

President

Malia Cohen

Vice President

Brian Stansbury

Commissioners

Leona Bridges

Al Casciato

Joseph Driscoll

Victor Makras

Wendy Paskin-Jordan

Executive Director

Jay Huish

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1 Dr Carlton B. Goodlett Place, Room 244
San Francisco, CA 94103-4689
(415) 554-7724
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OPENING CALENDAR

President Cohen called the meeting to order at 1:00 PM.

1. Pledge of Allegiance

2. Roll Call	Commissioner Malia Cohen	1:00 PM
	Commissioner Leona Bridges	1:20 PM
	Commissioner Al Casciato	1:00 PM
	Commissioner Joseph D. Driscoll	1:00 PM
	Commissioner Victor Makras	1:00 PM
	Commissioner Wendy Paskin-Jordan	1:00 PM
	Commissioner Brian Stansbury	1:00 PM

3. 05172017-03 Action Item CLOSED SESSION

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Recommendations and Possible Action on Sales and Purchases of Particular, Specific Pension Fund Investments under California Government Code Section 54956.81 (3 investment recommendations).

The Board entered into Closed Session at 1:03 PM.

Commissioner Bridges joined the meeting at 1:20 PM.

The following individuals were present for the closed session: Commissioners Bridges, Casciato, Cohen, Driscoll, Makras, Paskin-Jordan and Stansbury; Jay Huish, Executive Director; Caryn Bortnick, Deputy Executive Director; William J. Coaker, Chief Investment Officer; Bob Shaw, Managing Director for Public Markets; Ellen Brownell, Managing Director for Asset Allocation; Tanya Kemp, Director; Han Pham, Christopher Chow, Justin Lo, Vicki Owens, Ed Comerford, Senior Portfolio Managers; Cynthia Wong, Mark Coleman, Ashley Dennig, Dennis Esselsagoe, Kien Trinh, Joe Bates, Security Analysts; Robert Bryan, William Lin, Molly Nordale and Tran Ly, Deputy City Attorneys; Norm Nickens, Board Secretary; Anita Ng, Marc Cardillo and Craig Beach, Cambridge Associates; Allan Martin, NEPC.

The Board returned to open session at 2:30 PM.

Action: Moved by Commissioner Paskin-Jordan, Seconded by Commissioner Stansbury to not disclose discussion in Closed Session under San Francisco Administrative Code Section 67.12(a).

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury

4. 05172017-04 General Public Comment - Not earlier than 2:30 PM

President Cohen called for public comment.

Carlos Radd, Carpenters Union, addressed the Board regarding a recent investment in Carmel Partners and recommended the Board develop a policy regarding the use of union labor and prevailing wages.

A member of the public addressed the Board regarding COLAs for pre-1996 retirees.

There were no additional comments from the public and President Cohen closed public comment.

5. 05172017-05 Action Item Approval of the Minutes of the April 12, 2017 Retirement Board Meeting

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the April 12, 2017 Retirement Board Meeting

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: Moved by Commissioner Bridges, Seconded by Commissioner Casciato to approve the Minutes of the April 12, 2017 Retirement Board Meeting

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury

CONSENT CALENDAR

All matters listed hereunder constitute a Consent Calendar, are considered to be routine by the Retirement Board and will be acted upon by a single vote of the Retirement Board. There will be no separate discussion of these items unless a member of the Retirement Board so requests, in which event the matter shall be removed from the Consent Calendar and considered as a separate item.

6. 05172017-06a	Action Item	Consent Calendar
05172017-06b	Action Item	Voluntary Retirement Board List No. 11-16
05172017-06c	Action Item	Decisions of Hearing Officers
Elizabeth B. Bacchus Effective Date: 3/1/10	2672 Children's Center Asst. Houseparent SFUSD	Ordinary Disability Retirement Granted

Jessica M. Bermudez Effective Date: 10/1/15	8158 Child Support Officer II Child Support Services	Ordinary Disability Retirement Granted
Lorraine L. Lombardo Effective Date: 1/13/16	Q4 Police Officer III Police	Industrial Disability Retirement Granted
Frederick Lumpkin Effective Date: 3/1/16	9163 Transit Operator MTA	Ordinary Disability Retirement Granted
Stephen Mahoney Effective Date: 7/1/15	7514 General Laborer Public Works	Ordinary Disability Retirement Granted
Chancellor V. Mateo Effective Date: 10/8/16	8238 Public Safety Comm. Dispatcher Emergency	Ordinary Disability Retirement Granted
Debra Matthews Effective Date: 1/1/16	2110 Medical Records Clerk DPH-CMHS	Ordinary Disability Retirement Granted
Jan'I Sutow Effective Date: 9/12/15	7430 Asst. Elect. Maint. Tech. DTIS	Ordinary Disability Retirement Denied
Marjie A. Thompson Effective Date: 12/1/15	9163 Transit Operator MTA	Ordinary Disability Retirement Granted
Calvin G. Tom (Deceased – 2/16/15) Effective Date: 2/17/15	Q4 Police Officer III Police	Death As A Result of Duty Granted
Keith T. Ybarreta Effective Date: 10/29/15	Q4 Police Officer III Police	Industrial Disability Retirement Granted

05172017-06d

Action Item

Travel Requests

Request travel approval for Commissioner Leona Bridges who attended the NASP Advisory Council for NASP-USAID Investment Partnership for Mobilizing Institutional Investors to Develop Africa's Infrastructure, April 30 – May 6, 2017, South Africa.

Request travel approval for Commissioner Leona Bridges to attend the NASP 28th Annual Pension and Financial Services Conference, June 26-28, 2017, Los Angeles, CA.

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Hearing Officer Decisions, and Travel Requests.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Stansbury to approve the Consent Calendar.

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury

INVESTMENT CALENDAR

7. 05172017-07 Discussion Item ESG Committee Report

Documents provided to the Retirement Board prior to the current meeting: ESG Committee Report

Commissioner Driscoll, Chair of the ESG Committee, reported that at their meeting of April 19, 2017 the ESG Committee:

- Approved the Minutes of the September 14, 2016 ESG Committee meeting;
- Approved forwarding to the full Board an Implementation Plan for Investment Restrictions on Thermal Coal Companies; and,
- Discussed a Board of Supervisors Resolution related to Executive Compensation.

The Implementation Plan for Investment Restrictions on Thermal Coal Companies has been calendared separately for Board consideration and approval.

President Cohen called for public comment.

Clare Zvanski, RECCSF, addressed the Board regarding the use of rhino horns and recommended that the Board raise concerns with managers and consider possible divestment.

There were no additional comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

8. 05172017-08 Action Item Update and Possible Action related to Implementation of Investment Restrictions for Thermal Coal Companies

Documents provided to the Retirement Board prior to the current meeting: Staff memorandum

Jay Huish, Executive Director; William Coaker, Jr, CIO; and, Robert Shaw, Managing Director, Public Markets and presented an oral and written report on this item.

Mr. Shaw provided background on the Board's previous consideration and action on possible divestment from fossil fuels, including thermal coal. He reported as of March 31, 2017, SFERS holds interests in ten companies that are actively involved in the mining of thermal coal with a market value of \$48.1 million:

1. Alpha Natural Resources (U.S.) - active in both thermal (more than 50% of revenues) and metallurgical coal;
2. Anglo American PLC (U.K.) - a global mining company that is active in metals (32% of revenues), iron and steel (24% of revenues), diamonds (26% of revenues), other (5%) and thermal coal (13% of revenues);
3. BHP Billiton LTD (U.K.) - a global mining company active in iron ore (34% of revenues),

base metals (27% of revenues), petroleum (22% of revenues) and coal (15% of revenues) with other activities accounting for roughly 2% of revenues. Using data from the most recent company information (fiscal 2016), thermal coal mining revenues are 5.7% of its total revenues;

4. Black Hills Corporation (U.S.) - primary line of business is as an electric and gas utility in and around Rapid City, South Dakota with the mining of thermal coal less than 4% of revenues;
5. China Resource Power Holdings (Hong Kong) – a power company operating power plants and coal mines in mainland China with thermal coal representing approximately 4.4% of revenues;
6. CLP Holdings (Hong Kong) – a utility company with operations across Asia, India and Australia which owns and operates several thermal coal mines in Australia - based on available estimates of the amount of coal (metric tonnes) mined each year, Staff estimates that thermal coal mining is approximately 10% of revenues;
7. Consol Energy (U.S.) is an energy company active in oil and gas (43%) and coal (57%). Staff estimates that the majority of the coal revenues are from thermal coal mining;
8. Glencore (U.K.) - active in a three lines of business – metals & mining (37%), energy products (50%) and agriculture (13%) – based on data obtained from Glencore’s financial statements, Staff estimates that revenues from coal mining account for 44% of total revenue and 20% of industrial revenue;
9. Rio Tinto (U.K.) - a global mining company active in four main business lines – aluminum (27%), copper and diamonds (13%) and energy and minerals (19%). . Based on business line data provided by Rio Tinto, Staff estimates that thermal coal is 4% of revenues; and
10. Vale (Brazil) - focused on three primary business lines: ferrous minerals (74% of revenues), base metals (22%) and coal (3%) with other business accounting for roughly 1% of revenues). Based on business line data available in Vale’s published reports, Staff estimates that thermal coal is 1.5% of revenues.

Staff has completed preliminary due diligence on the seven non-US coal companies currently in SFERS’ Public Markets portfolio: Anglo American, BHP Billiton, China Resource Power Holdings, CLP Holdings, Glencore, Rio Tinto and Vale. The universe of non-US coal companies not owned by SFERS will require additional analysis by Staff to determine each company’s involvement in thermal coal mining. Staff will return to the Board with a recommendation regarding investment restrictions for other non-US coal companies at a later date.

Staff believes that the thermal coal mining industry will face significant financial and environmental hurdles going forward, which will limit the potential for positive investment returns. These hurdles include:

1. Bankruptcy - Alpha Natural Resources, Arch Coal, Peabody Energy and Walter Energy have all filed for bankruptcy within the last 12 months;
2. Asset Impairments - many companies (Rio Tinto, Vale, etc.) have reported impairment charges on their financial statements to note the decline in the value of reserves and other

assets related to the companies' coal operations;

3. Regulatory Uncertainty – last month, President Trump signed an executive order targeting the US Clean Power Plan (signed into law in 2015) which sought to cut greenhouse gas emissions from coal-fired power plants which would have very likely resulted in reduced coal utilization in favor of natural gas and other substitutes; and
4. Coal Substitution Options - a broad set of fuels (natural gas, solar and wind) have become or are becoming price competitive with thermal coal, which may limit the ability of many thermal coal companies to return to profitability.

Staff recommended that:

A. Investment restrictions be approved (Level III of the SFERS Environmental, Social and Governance Investment Policy and Procedures) for the following US companies that derive significant revenues from the mining of thermal coal:

1. Alpha Natural Resources
2. Alliance Resource
3. Arch Coal
4. Cloud Peak Energy
5. Consol Coal Resources LP
6. Consol Energy
7. Hallador Energy
8. Peabody Energy
9. Westmoreland Coal

and

B. Staff continue shareholder engagement (Level II of the SFERS Environmental, Social and Governance Investment Policy and Procedures) for the following companies:

1. Anglo American PLC
2. BHP Billiton LTD
3. Black Hills Corp.
4. China Resource Power Holdings
5. CLP Holdings
6. Glencore
7. NACCO
8. Rio Tinto
9. Vale

Commissioner Casciato asked how ownership of these firms has benefited the plan. Mr. Shaw noted that coal firms have not been additive to the portfolio in the last few years.

Commissioner Driscoll noted the challenges of determining the percentage of business related to thermal coal activities for purposes of meaningful divestment of bad actors.

President Cohen called for public comment.

Jed Holtzman, Fossil Free SF, addressed the Board regarding coal divestment and urged the Board to take stronger actions, to use a reserve threshold, and use the Carbon 200 list.

Peter Welte, Fossil Free SF, spoke in support of divestment from fossil fuels due to the risk of climate change.

Kurtis Wu, spoke in support of divestment from fossil fuels and in support of indigenous peoples' rights.

Anne Foo, SF Berniecrats, spoke in support of divestment from fossil fuels, particularly coal.

Martha Hawthorn, SEIU 1021, spoke in support of divestment from fossil fuels, particularly coal.

Todd Synder, spoke in support of divestment from fossil fuels as part of the Board's fiduciary duty.

Trevor Martin, SF Berniecrats and SF Dakota Access Pipe Line ("DAPL") Coalition, spoke in support of divestment from fossil fuels and DAPL related firms.

Jackie Fielder, SF DAPL Coalition, spoke in support of divestment from fossil fuels and in support of indigenous people's rights.

Elizabeth Milos, SF DAPL Coalition, spoke in support of divestment from fossil fuels and firms associated with the DAPL such as Energy Transfer Partners.

Martin MacKerel, spoke in support of divestment from fossil fuels, particularly coal, and recommended accelerated action.

Eddie Ong, Brightline, spoke in support of divestment from fossil fuels and noted environmental justice concerns.

Pam Tau Lee, Chinese Progressive Association, spoke in support of divestment from fossil fuels, noted environmental justice concerns, and urged investment in renewable energy.

Mishwa Lee, retired school teacher, spoke in support of divestment from fossil fuels and in support of indigenous people's rights.

David Williams, SEIU 1021 Retirees, spoke in support of divestment from fossil fuels.

Jennifer Green, SF DAPL Coalition, spoke in support of divestment from fossil fuels.

There were no additional comments from the public and President Cohen closed public comment.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Paskin-Jordan to approve the Implementation Plan for Investment Restrictions on Thermal Coal Companies

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Paskin-Jordan, Stansbury

Commissioner Makras asked if divestment would benefit the plan and discussed fossil fuel holdings in the portfolio and their returns. He noted that current fossil fuel public equity investments constitute 86 holdings, valued between \$500,000 and \$60 million. In regard to 2 year returns, 37 are losers and 12 are winners. In regard to 5-year returns, 28 were losers and 18 were winners. In regard to private market coal exposure, SFERS invested in nine companies between 2005 and 2016. They were between \$237,000 and \$2.5 million. Seven were losers and two were winners.

He noted the Board of Supervisors previously passed a resolution urging divestment from fossil fuels. He recommended a vote on complete prudent divestment from fossil fuel equity and fixed income holdings as an economic issue. This would include fossil fuel equity holdings valued at \$422 million (as of April 30, 2017) and fossil fuel fixed income holdings valued at \$48 million (as of April 30, 2017), as well as private market equity coal exposure valued at \$4 million (as of September 30, 2016).

Robert Bryan, Deputy City Attorney, noted that the current item was calendared only for action on divestment from thermal coal.

Commissioner Makras moved to prudently divest from fossil fuels within a 180-day period. Commissioner Bridges seconded the motion.

Commissioner Casciato discussed environmental and health consequences for City employees as a result of exposure to fossil fuels.

Commissioner Stansbury noted that the proposed motion should be noticed and agendized separately so that staff can provide the information for the Board to make a prudent decision.

Mr. Huish, Executive Director, noted that staff would have to prepare an appropriate analysis related to the proposed motion.

Commissioner Paskin-Jordan recommended that the proposed motion be calendared for the next Board meeting.

President Cohen spoke in support of timely action by the Board after a meaningful discussion.

9. 05172017-09 Action Item Request to Issue RFP for Global and Non-U.S. Equity

Documents provided to the Retirement Board prior to the current meeting: Draft RFP for Global and Non-U.S. Equity

William Coaker, Jr, CIO; Bob Shaw, Managing Director for Public Markets; Han Pham, Senior Portfolio Manager; and, Allen Martin, NEPC presented an oral and written report on this item.

Mr. Shaw reported that staff and consultant view the issuance of the recommended Request For

Proposals as an opportunity to survey the universe of Active Global and Non-US Public Equity investment managers for strategies that might enhance the risk/return profile of the investment portfolio.

Commissioner Paskin-Jordan requested additional information on the search process for such a broad mandate.

Mr. Coaker summarized the review process, and noted that it would require an extensive time commitment by staff to review proposals. Mr. Shaw noted that the proposed RFP would provide staff with a wide range of options and strategies, and that the System has not conducted a similar search in over five years.

Commissioner Cohen left the meeting at 3:58 PM and returned at 4:01 PM.

Commissioner Paskin-Jordan left the meeting at 4:00 PM.

President Cohen called for public comment.

Paul Denning, former Board member, addressed the Board regarding their fiduciary duties.

There were no additional comments from the public and President Cohen closed public comment.

Commissioner Driscoll noted the complexity of the proposed RFP and the extensive time commitment required by the proposed RFP.

Commissioner Stansbury asked why the System uses RFPs. Mr. Huish noted the transparency provided by the RFP process and that alternative methods, such as a RFI, could be considered by the Board in the future.

President Cohen recommended additional questions be included related to ESG concerns.

Commissioner Casciato asked how managers with weak ESG policies would be identified. Mr. Huish noted that appropriate benchmarks would have to be developed for the process of hiring managers.

Commissioner Makras recommended that the Board consider alternatives to the RFP process at a future meeting.

Commissioner Stansbury recommended consideration of alternatives to RFPs.

Action: Moved by Commissioner Makras, Seconded by Commissioner Driscoll to approve the Issuance of RFP for Global and Non-U.S. Equity

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Stansbury

Absent: Paskin-Jordan

10. 05172017-10 Action Item Chief Investment Officer Report

Documents provided to the Retirement Board prior to the current meeting: CIO Report

William Coaker, Jr, CIO, presented an oral and written report on this item.

Mr. Coaker reported that the fund was valued at \$21.89 billion as of April 30, 2017.

There were no Closed Session investments to report this month.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

DEFERRED COMPENSATION PLAN CALENDAR

11. 05172017-11 Discussion Item SFDCP Manager Report

Documents provided to the Retirement Board prior to the current meeting: SFDCP Manager Report

Caryn Bortnick, Deputy Executive Director, presented and oral and written report on this item, including:

- Monthly Activity Report,
- Loan program default.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

ADMINISTRATION CALENDAR

12. 05172017-12 Discussion Item Personnel Committee Report

Documents provided to the Retirement Board prior to the current meeting: Personnel Committee Report

President Cohen, Chair of the Personnel Committee reported that at their meeting of April 19, 2017 the Personnel Committee:

- Approved the Minutes of April 29, 2015 Personnel Committee meeting;
- Reviewed and approved the Board Performance Evaluation Process for the Actuarial Services Coordinator; and,

- Reviewed and directed staff to work through the Board's Governance Consultant (Nossaman, LLP) to provide a recommendation to amend the Board Performance Evaluation Process for the Executive Director.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

13. 05172017-13 Discussion Item Travel Expense Report for the Quarter Ended March 31, 2017

Documents provided to the Retirement Board prior to the current meeting: Travel Expense Report for the Quarter ended March 31, 2017

Jay Huish, Executive Director, presented and oral and written report on this item.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

14. 05172017-14 Action Item Approval of Resolutions of Commendation for Glen Schwartz and Diane Terrell

Documents provided to the Retirement Board prior to the current meeting: Resolutions of Commendation for Glen Schwartz and Diane Terrell

Jay Huish, Executive Director, presented and oral and written report on this item.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Makras to approve the Resolutions of Commendation for Glen Schwartz and Diane Terrell

Ayes: Bridges, Casciato, Cohen, Driscoll, Makras, Stansbury

Absent: Paskin-Jordan

15. 05172017-15 Discussion Item Executive Director's Report

Documents provided to the Retirement Board prior to the current meeting: Executive Director's Report.

Jay Huish, Executive Director, presented and oral and written report on this item.

Administrative Update:

- 2017 Retirement Board Retreat – Funston Advisory Services Board Evaluation Workshop: Monday, May 22nd, 9:00 AM – 4:00 PM;
- Investment Committee Meeting: Tuesday, May 23rd at 1:00 PM
- 2017 Proxy Voting System – Update on SFERS proxy votes on INCR-sponsored resolutions.
- Custody Agreement with BONY Mellon has been signed.

Attachments:

- *Public Retirement Conferences and Training Programs for SFERS Trustees* listing prepared by Nossaman LLP and *Cortex Report*
- Blackout Period List
- Forward Calendar

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

16. 05172017-16 Discussion Item Retirement Board Member Good of the Order

Documents provided to the Retirement Board prior to the current meeting: None.

Commissioner Casciato recommended disbanding the ESG Committee and bringing all ESG items directly to the Board.

Commissioner Casciato asked for a report on what efforts the City has taken to reduce its carbon footprint and to minimize City employees' exposure to fossil fuel emissions. President Cohen recommended contacting the Board of Supervisors, Department of the Environment, Public Utilities Commission, Mayor's Office, and City Administrator.

President Cohen called for public comment.

Claire Zvanski inquired regarding a plaque for former Commissioner Meiberger.

There were no additional comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

17. 05172017-17 Discussion Item Retirement Board Member Reports and Comments

Report by Commissioner Leona Bridges who attended the Pension Bridge Annual, April 18-19, 2017, San Francisco, CA.

Report by Commissioner Joseph Driscoll who attended the Pension Bridge Annual, April 18-19, 2017, San Francisco, CA.

Report by Commissioner Leona Bridges who attended the NASP Advisory Council for NASP-USAID Investment Partnership for Mobilizing Institutional Investors to Develop Africa's Infrastructure, April 30 – May 6, 2017, South Africa.

President Cohen called for public comment.

There were no comments from the public and President Cohen closed public comment.

Action: This was a discussion only item.

18. 05172017-18

Adjournment

Having no further business, the Board adjourned the meeting at 4:51 PM.

Respectfully submitted,
Jay Huish, Executive Director