SCERS
SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 15

MEETING DATE: **May 15, 2024**

SUBJECT: **Education: Real Assets and Real Estate Asset Classes**

SUBMITTED FOR: __ Consent ___ Deliberation and Action _X_ Receive and File

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RECOMMENDATION

Receive and file presentations on the Real Assets and Real Estate asset classes.

PURPOSE

This item supports the Strategic Management Plan by contributing to the effective management and oversight of investment activities.

DISCUSSION

At the February 2024 meeting, Staff and Verus started the asset class education series, covering the Global Equity and Fixed Income asset classes, followed by the Absolute Return asset class in March, and the Private Equity and Private Credit asset classes in April. At the May meeting, Staff and Cliffwater will provide education presentations covering the Real Assets and Real Estate asset classes.

The objective of the asset class educational series is to:

- Assist the Board in understanding the role and objective of each asset class
- Review asset class construction
- Provide an overview of asset class performance in meeting their objectives
- Discuss asset class trends and considerations

The asset class overviews are intended to provide a backdrop for the Board as Verus conducts the Asset Liability Management (ALM) study later in the year and presents the Board with asset class mixes for consideration.

The Real Assets and Real Estate presentations will wrap up the asset class educational series. Following the Real Assets and Real Estate presentations, Staff will also summarize the key considerations for each asset class covered during the educational series. The next step in the

ALM process will be the enterprise risk tolerance (ERT) survey that will be conducted by Verus, followed by the ALM study.

ATTACHMENTS

- Board Order
- Real Assets and Real Estate Asset Classes presentation

Prepared by:

/s/

JR Pearce
Senior Investment Officer

Reviewed by:

/s/

Eric Stern
Chief Executive Officer

/s/

Steve Davis
Chief Investment Officer

Retirement Board Order
Sacramento County Employees' Retirement System

Before the Board of Retirement
May 15, 2024

AGENDA ITEM:

Education: Real Assets and Real Estate Asset Classes

THE BOARD OF RETIREMENT hereby approves Staff's recommendation to receive and file presentations on the Real Assets and Real Estate asset classes.

I HEREBY CERTIFY that the above order was passed and adopted on May 15, 2024 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES:
(Present but not voting)

James Diepenbrock
Board President

Eric Stern
Chief Executive Officer and
Board Secretary

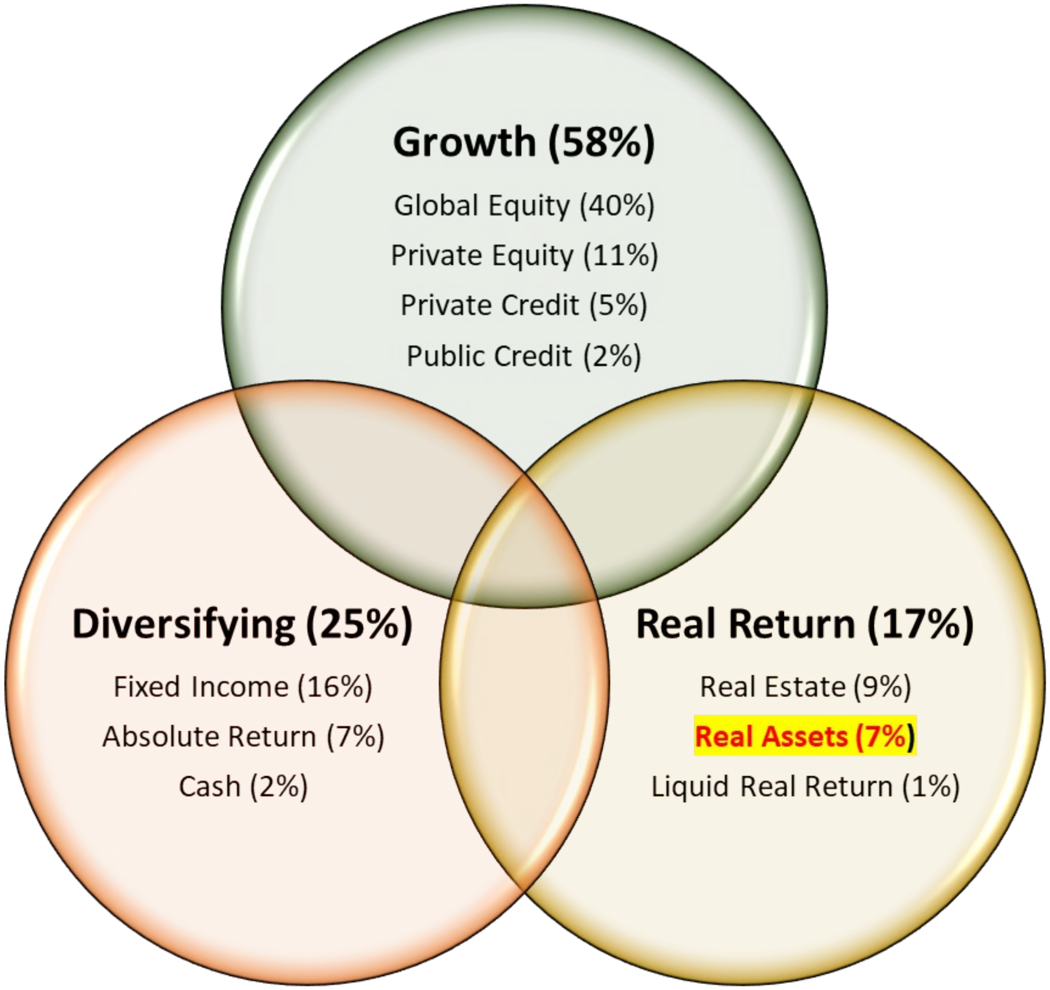
Education – Real Assets Overview

May 15, 2024

Introduction

- Portfolio fit and construction
- Roles and objectives of Real Assets
- Real Assets timeline
- Performance
- Real Assets considerations

Portfolio Fit



- Real Assets resides in the Real Return Asset Category
- Target Allocation 7% (5-9% range); 8.5% as of 12/31/2023; expect actual to decline to target by 2026

Roles and Objectives

Earn attractive risk-adjusted returns (net of inflation), with less sensitivity to the broader economy and low or negative correlation to other asset classes

Generate attractive current yield at a lower volatility of return and muted downside risk

Income that adjusts with inflation or have built in escalations

Infrastructure assets with long term contracted revenues or regulated revenues are less sensitive to economic conditions given the essential nature of the assets

Governance

- Alternative assets/private markets protocol
- Includes Absolute Return; Private Equity; Private Credit; Real Estate; and <u>Real Assets</u>
  - The selection of investment managers is delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment process
  - Reports provided to the Board on a timely basis regarding actions recommended by Staff and Consultant

Real Assets Timeline

2011

- First Private Real Assets allocation – 6% target
- Part of broader Real Assets asset class – also included Real Estate and Commodities
- Greater Energy focus over Infrastructure and Agriculture
- Cliffwater hired as alternative assets consultant

2017

- Became stand alone asset class within Real Return asset category - increased target to 7%
- Sub-strategy target allocations set - 45% Infrastructure, 35% Energy, and 20% Agri/Timber
- Custom benchmark based on target sub-sectors

2021

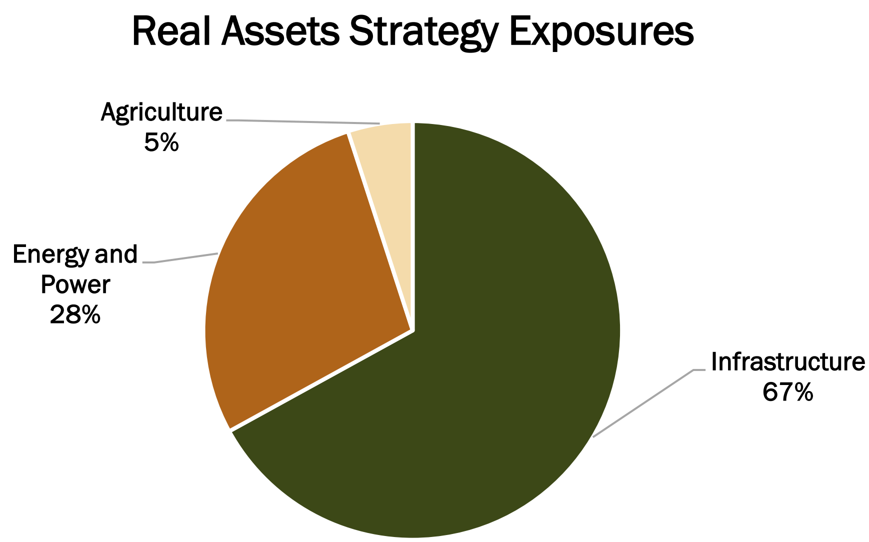
- Target allocation remained at 7%
- Renamed 'Energy' sub-strategy to 'Energy and Power'
- Revised sub-strategy target allocations - 60% Infrastructure, 30% Energy/Power, and 10% Agri/Timber

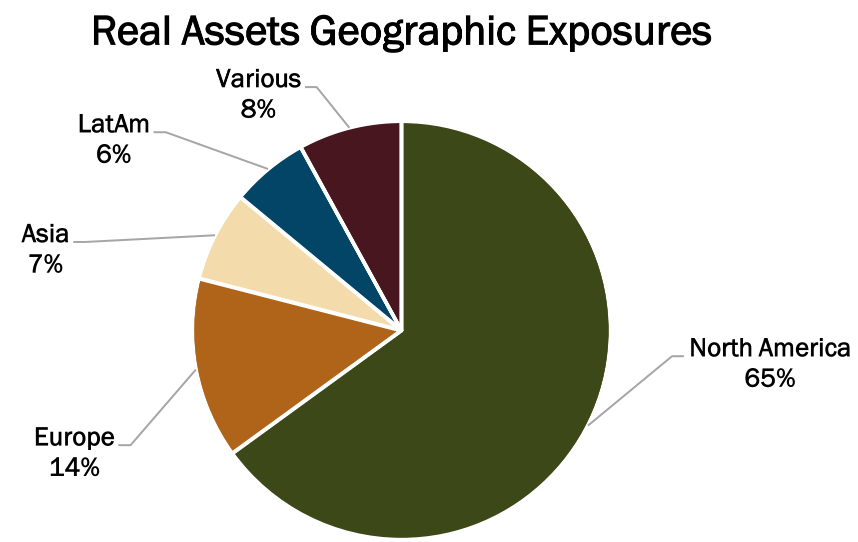
Portfolio Construction

Sub-Strategy	Minimum	Target	Maximum	Policy Index Benchmark
Total Real Assets Portfolio	**5%**	**7%**	**9%**	**Custom blend of benchmarks below:**
Infrastructure	45%	**60%**	75%	60% Cambridge Associates Private Infrastructure
Energy and Power	15%	**30%**	45%	30% Cambridge Associates Private Energy
Agriculture, Timber, Other	0%	**10%**	20%	10% NCREIF Farmland

- Investments are made globally, with an emphasis in North America, Europe, and parts of Asia; Latin America and Asia Pacific are also permitted
- Investments include an array of sub-sectors within the Real Assets sub-strategies
  - Investment structures may include closed and open-end funds, separate accounts, and secondary investments
  - Foundational/beta exposure through open-end funds; alpha generated from sector/geographic specific closed end funds
- Over the long term (5-10 years), Real Assets return performance is expected to exceed CPI-U (headline inflation) by 5% (actual inception net return is 11.2%)

Real Assets Exposures

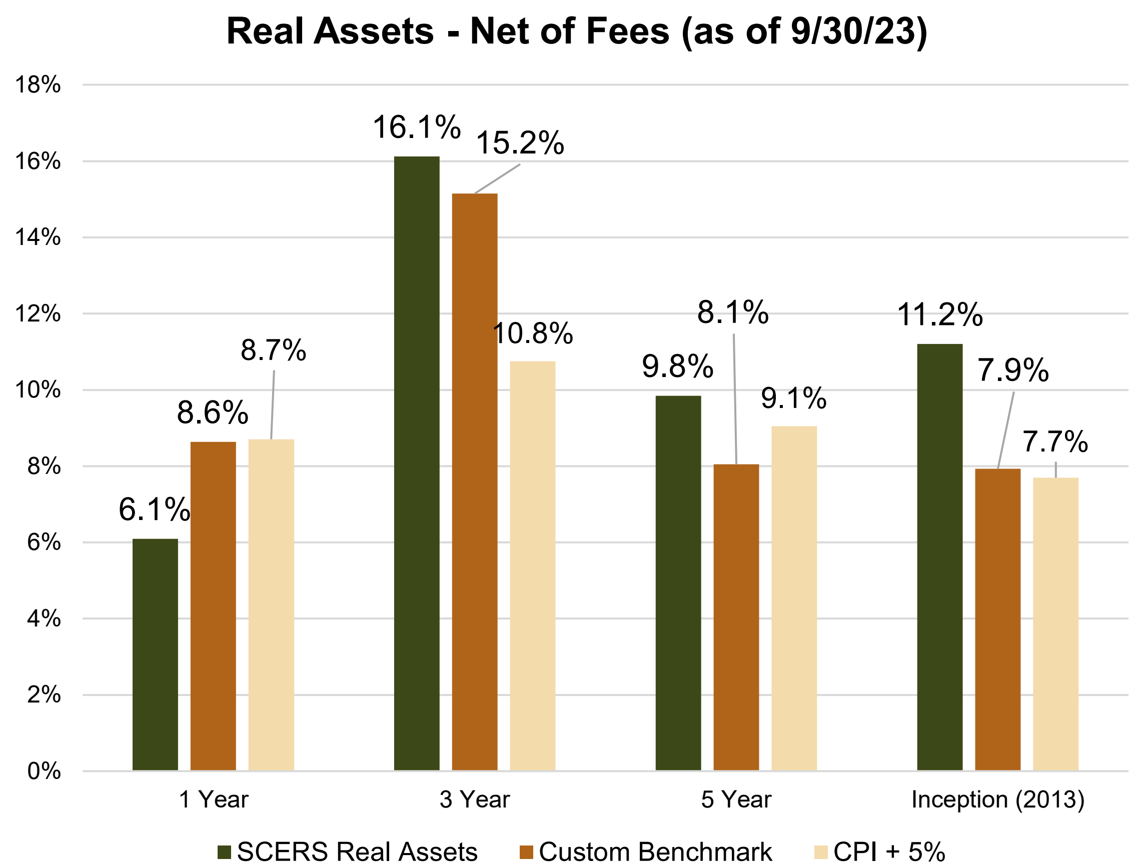




Source: Cliffwater, as of 09/30/23

- SCERS has 32 active fund investments with 22 managers (target is 15 ongoing manager relationships, with a range of 10-20)
  - Relationships will vary over time based on the sub-strategy opportunities meeting the Real Assets objectives
- 3 open-end funds with the remaining in closed-end commingled funds
- As of 9/30/23, SCERS has committed $1.6 billion and 71% has been drawn

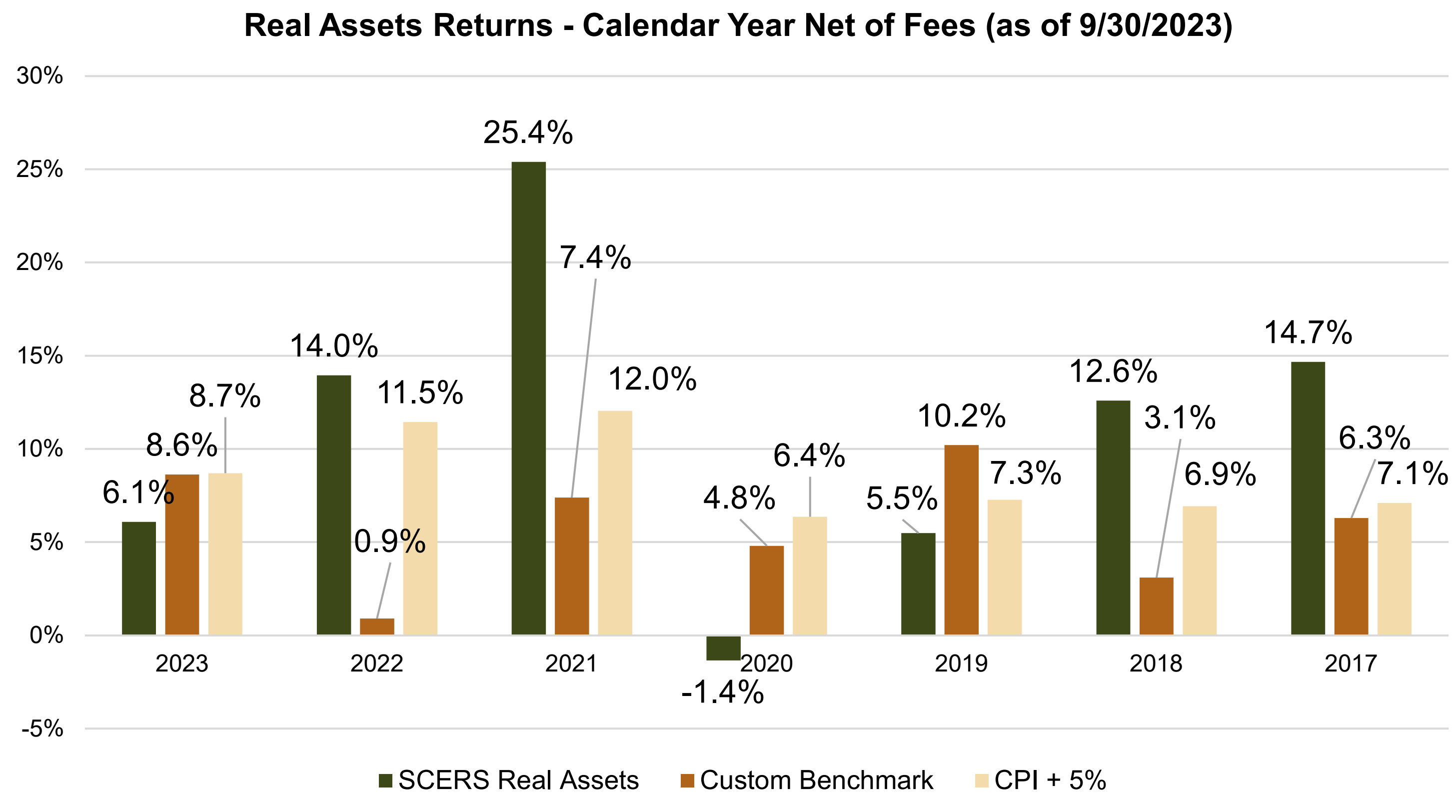
Real Assets Performance



Source: Cliffwater

- Performance has exceeded the policy benchmark and CPI + 5% over the long term
  - Contributing to the strong performance has been the Energy and Power investments and the selection of top performing managers
- Performance has also exceeded the expected Real Assets return target of 8-10% net

Real Assets Performance



Source: Cliffwater

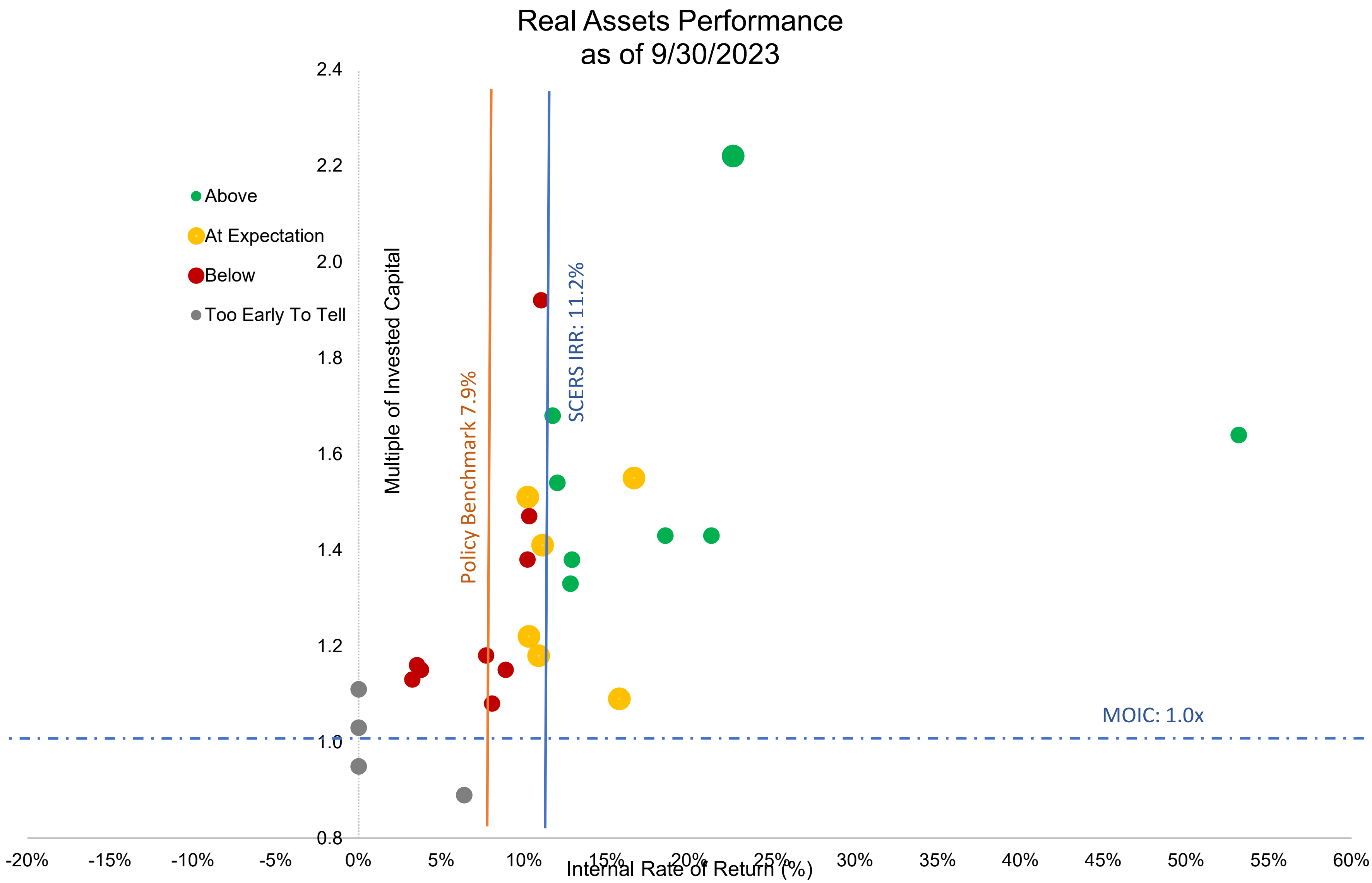
- Underperformance in 2019-20 was due to the overweight in Energy (43%)
- Significant outperformance in 2021-22 during rising inflation and interest rates as the portfolio transitioned into Infrastructure (66%) and the recovery in Energy and Power

Real Assets Manager Performance

Manager	Value 09/30/23 ($million)	Returns Since Inception	Inception Date
Agriculture			
ACM Fund II	$14.5	-10.4%	Oct-16
Paine Schwartz Food Chain Fund V	$35.0	21.3%	Feb-20
Energy and Power			
Ara Fund III Feeder	$0.0	N/A	Jun-23
ArcLight Energy Partners Fund VI	$13.6	3.5%	Sep-15
Carlyle Power Partners II	$40.8	10.3%	Nov-15
EnCap Energy Capital Fund IX	$12.0	11.0%	Feb-13
EnCap Energy Capital Fund X	$24.5	15.8%	May-15
EnCap Flatrock Midstream III	$12.0	10.2%	Aug-14
EnCap Flatrock Midstream IV	$12.9	7.7%	Mar-18
Global Energy & Power Infrastructure Fund II	$9.6	11.1%	Jan-15
NGP Royalty Partners I	$31.8	53.2%	Sep-20
NGP Royalty Partners II	$22.2	6.4%	Jan-23
Quantum Energy Partners VI	$25.0	22.6%	Dec-14
Quantum Energy Partners VII	$40.0	16.6%	Sep-17
Tailwater Energy Fund III	$21.0	3.3%	Oct-18
Tailwater Energy Fund IV	$25.4	18.5%	Nov-19

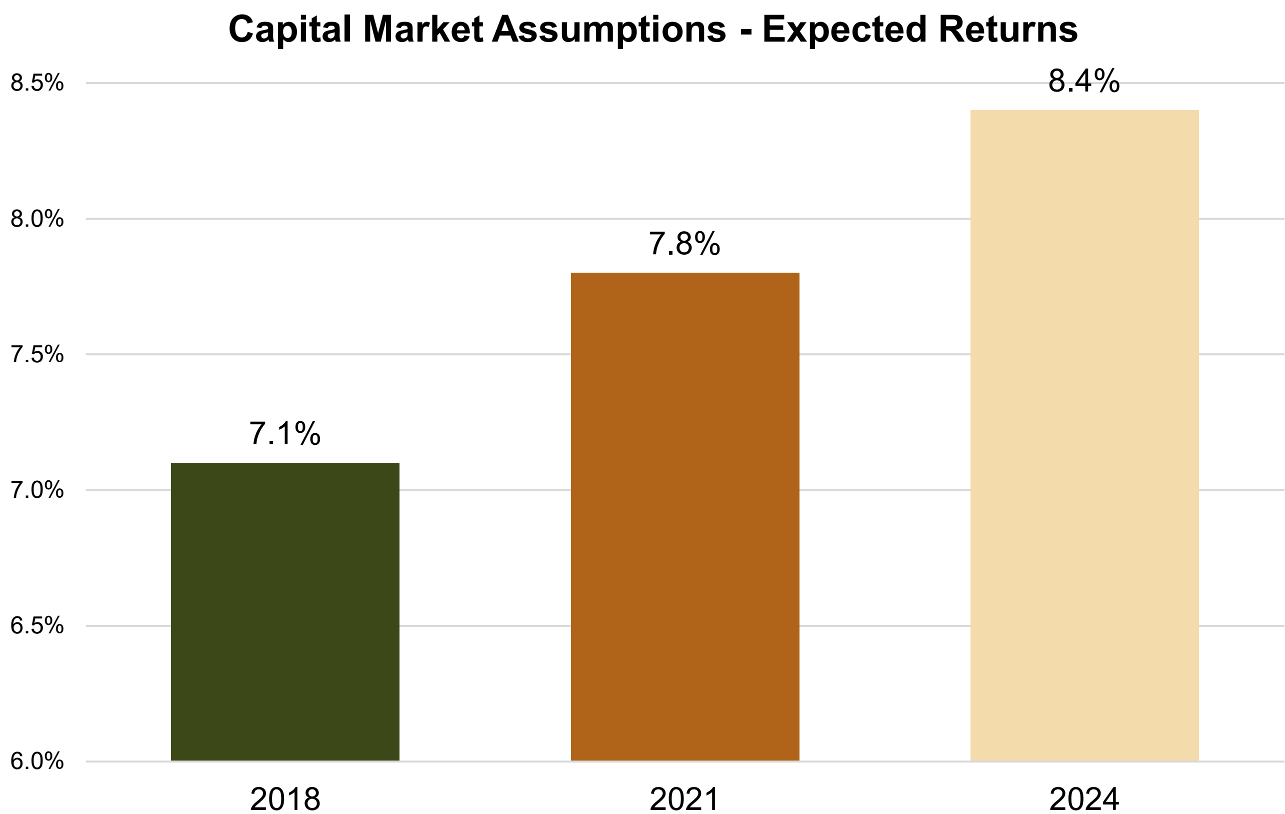
Manager	Value 09/30/23 ($million)	Returns Since Inception	Inception Date
Infrastructure			
Brookfield Infrastructure Fund III	$43.4	12.0%	Jun-16
Brookfield Infrastructure Fund IV	$40.9	12.8%	Oct-19
Brookfield Super-Core Infrastructure (open-end)	$105.0	7.1%	Aug-22
DigitalBridge Partners II	$34.9	7.4%	Jun-21
EQT Infrastructure IV (No.2) USD SCSp	$38.6	10.2%	Jul-19
Harrison Street Social Infra Fund (open-end)	$110.7	8.9%	Aug-21
IFM Global Infrastructure Fund (open-end)	$163.3	11.7%	May-17
ISQ Global Infrastructure Fund II	$54.3	12.9%	Nov-18
ISQ Global Infrastructure Fund III (UST)	$15.2	8.1%	Jan-22
KKR Asia Pacific Infrastructure Fund II	$0.0	N/A	Oct-23
Meridiam Infrastructure North America Fund III	$38.0	10.3%	Oct-17
Meridiam Infrastructure North America Fund IV	$0.0	N/A	Jun-23
Meridiam Sustainable Infrastructure Europe IV	$9.7	N/A	Aug-21
Pantheon SCERS SIRF MM	$38.3	10.9%	Aug-14
Ridgewood Water & Strategic Infra Fund II	$4.7	N/A	Jan-23
Wastewater Opportunity Fund	$8.4	3.8%	Jan-16

Real Assets Fund Performance



Source: Cliffwater and MSCI

Real Assets Considerations



Source: Verus

- CMA is based on infrastructure investments only versus SCERS' mix of sub-strategies that include Energy and Power, which have a higher expected return
  - Infrastructure assets typically have long term (7- to 30-year) contracts with escalations providing stability of returns

Real Assets Considerations

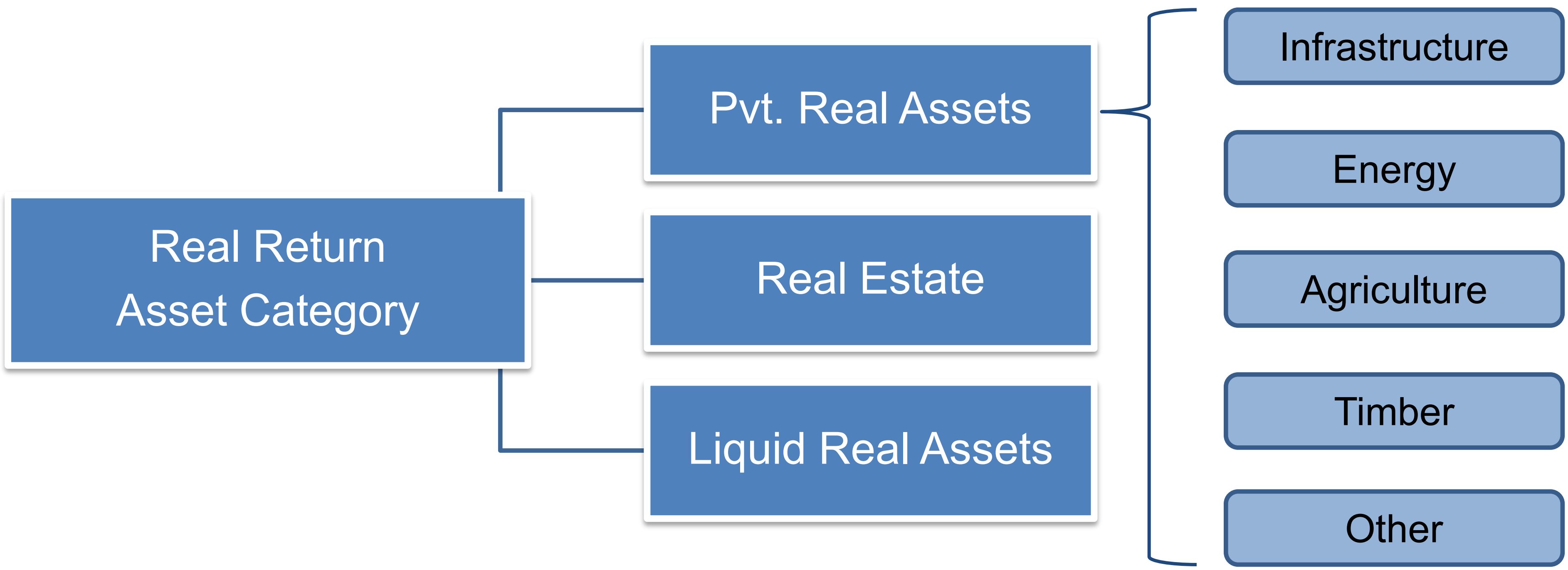
- J-Curve can be elongated due to longer investment periods (5 years)
  - Balancing return profile between 50% cash yield and 50% capital appreciation
  - Preference for Infrastructure investments that have more return coming from income/cash yield
  - Energy and Power investments are capital appreciation orientated and have a wider range of return outcomes
- Valuations held up and outperformed during rising inflation and interest rate increases
  - Infrastructure assets with long-term contracts and/or regulated revenues tend to be less sensitive to economic conditions given the essential or mission critical nature of the asset

Real Assets Considerations

- Flood of capital into the asset class
  - Ever larger fund sizes exceeding $20 billion plus – who will be the exit buyers for these large assets?
  - Very crowded trades particularly in renewables, digital infrastructure, and EV charging stations
- Infrastructure investment strategies 10-15 years ago focused on buying assets and operating them but has since evolved into buying and building platforms/companies, a private equity approach – are we being compensated for the risk?
- Difficulty finding agriculture opportunities – may look to eliminate target allocation
- Revisit upstream energy given the lack of capital creating investment opportunities

Appendix – Real Assets Concepts and Terminology

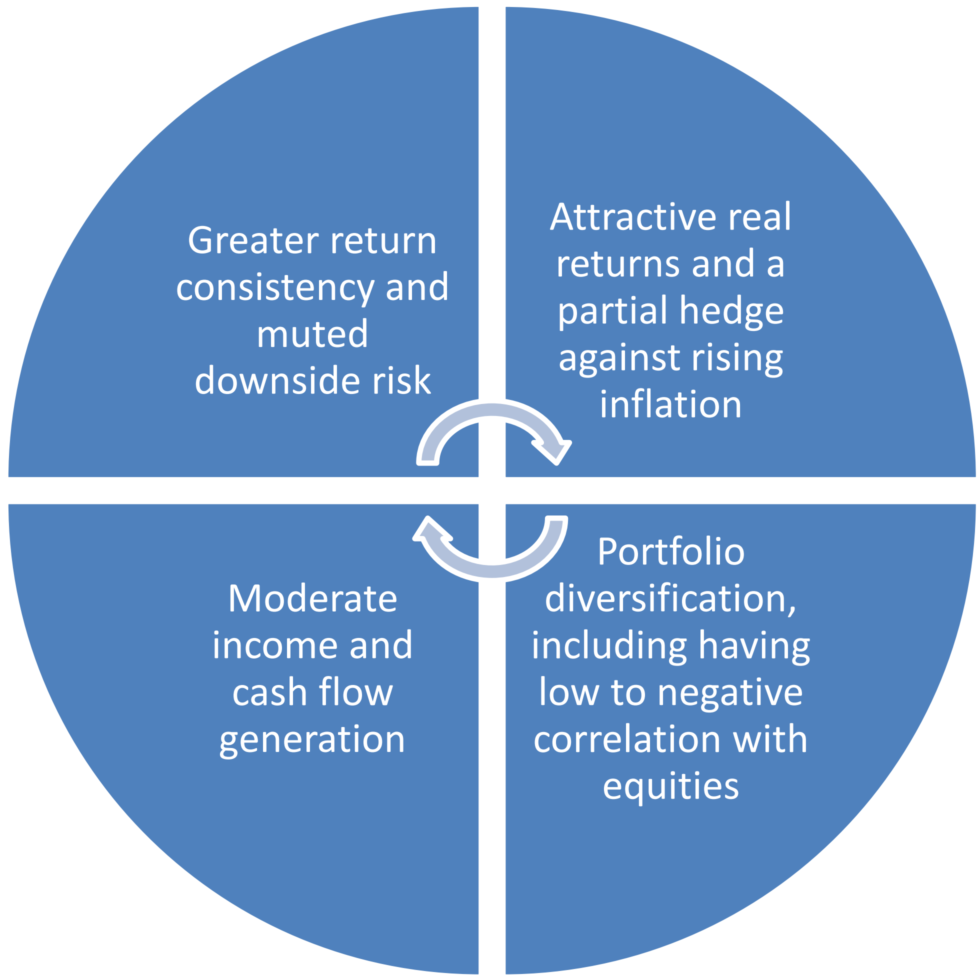
Private Real Assets



** Liquid Real Assets may include inflation linked bonds, floating rate notes, commodities, REITs, and other publicly traded securities*

Real Assets Portfolio Objectives

Real Assets portfolios are often intended to achieve multiple investment objectives



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Infrastructure Dominating Real Asset Allocations

Infrastructure has seen consistent growth in allocations by institutional investors

- Competition for infrastructure assets has also increased, forcing many infrastructure funds to increase risk through non-traditional investments
- Seeing fewer pure Core strategies; also seeing return compression in low-risk strategies

Infrastructure Risk Categorizations

Core
Target Yield: 6%-8%

- Fully Contracted Cash Flows
- High Barriers to Entry / Monopolistic
- Brownfield or PPPs
- Inflation Sensitive/GDP Insensitive

Core Plus
Target Yield: 5%-8%

- Mix of contracted and market-based cash flows
- Low or Restricted Competition
- Brownfield & Greenfield
- Inflation Sensitive/Partially GDP Insensitive

Value-Add
Target Yield: 0% - 5%

- Shorter Contracts
- Indifferent operating status
- Higher GDP Risk
- Higher Return & Risk

Opportunistic
Target Yield: NA

- Private Equity-Like Investments Within the Traditional Infrastructure Sectors

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Infrastructure Sectors

Transportation	Energy	Water	Digital Infrastructure	Social
-Roads & Toll Roads	-Oil and Gas Processing, Transportation, & Storage	-Fresh Water Systems	-Data Centers	-Court Houses
-Bridges & Tunnels	-Electricity Transmission	-Waste Water Systems	-Fiber Optic Networks	-Hospitals
-Airports	-Conventional & Renewable Power	-Desalination Plants	-Wireless Towers	-Education Facilities
-Sea Ports			-Cable Networks	-Police Facilities
-Rail & Rolling Stock			-Broadcast Towers	-Correctional Facilities
-Parking			-Satellites	

The infrastructure asset class has a finite set of sectors that meet typical stated (or perceived) criteria for infrastructure investments

- Each sector has a range of risk and return characteristics that are largely commensurate with the level of contracted cash flows

Public Private Partnerships (PPPs) are an investment structure utilized across all infrastructure sectors

- Represents the lowest risk and often lowest return due to its highly contracted cash flows
- Other investment structures may not include any contracted cash flow but may have other defensible characteristics (e.g. barriers to entry) that provide meaningful protection

Energy Value Chain

Highlighting major segments of the energy value chain, with general characteristics of each

- *Included Renewables as a segment, though is really a component of Downstream power production*

Upstream
Exploration, acquisition and production of oil and natural gas reserves

- High commodity price sensitivity
- Capital appreciation focus with little income generation
- Volatile performance

Midstream
Processing, transportation & storage of oil and natural gas

- More infrastructure-like
- Contracted cash flows, can have links to commodity prices
- Midstream assets found in Energy and Infrastructure funds

Downstream
Refining and distribution of oil and natural gas, as well as power generation

- Expected returns low unless taking greenfield (development) risk or executing a value-add strategy
- Downstream assets can also be found in Energy and Infrastructure funds

Renewables
Development and operation of renewable energy sources

- Significant demand for renewable assets
- Government subsidies still important to the underlying economics
- Varying degrees of technology risk

Sector Specific Real Assets Funds

Other Real Assets sector funds include agriculture, timberland, water, and wastewater

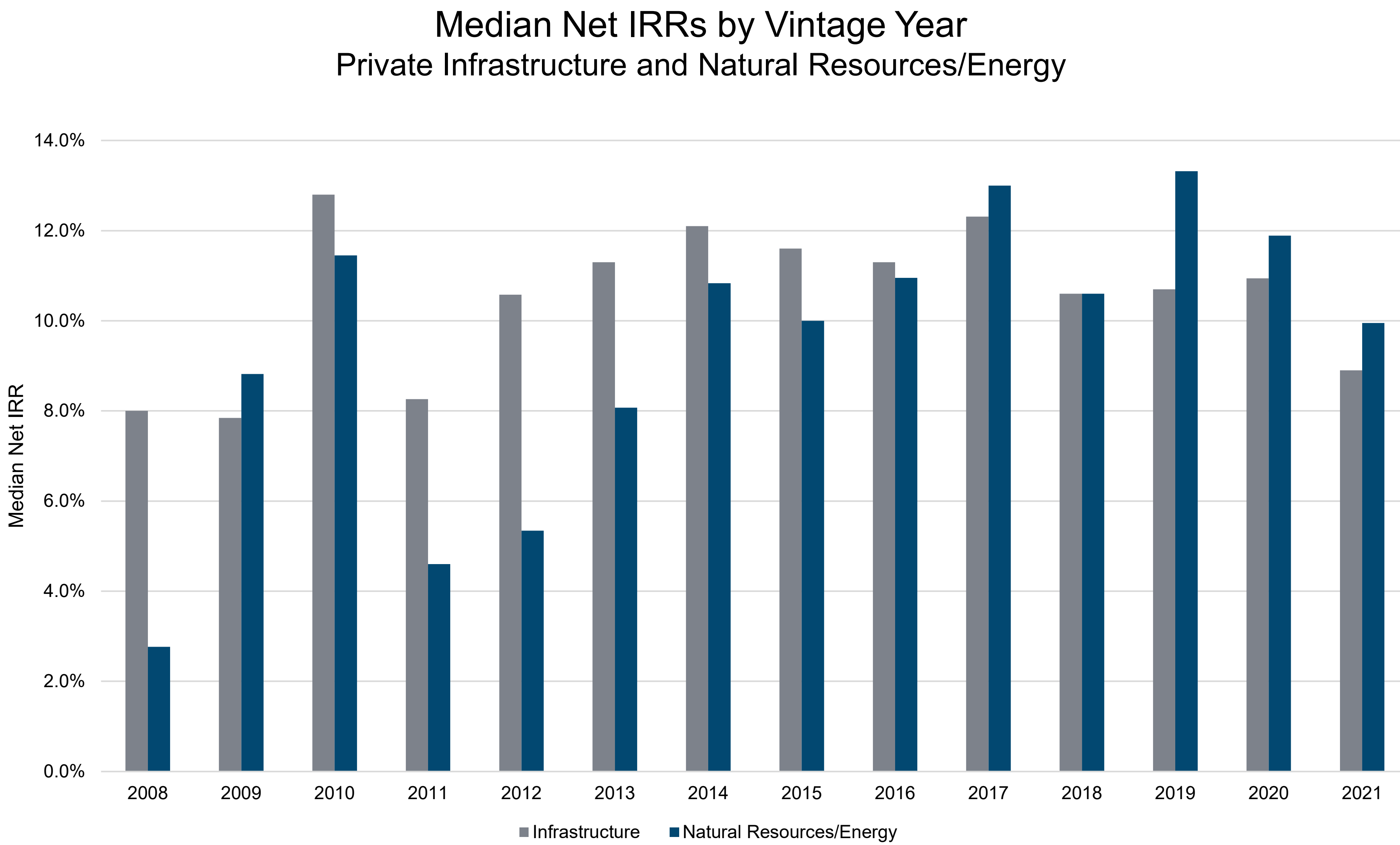
- Institutional investors have invested in the agriculture sector for more than 20 years, yet total allocations remain small
    - Weather, pricing, and international trade issues have impacted performance
    - Over the past 5 – 10 years, farmland funds have begun to apply innovative techniques to increase yield through sustainable practices
- Timberland has also been included in institutional portfolios for decades
    - The sector had initial strong performance as large integrated paper companies divested timberland holdings to investors who initially saw successful exits
    - Timberland has since lagged expectations as housing-related demand has generally slowed, with no large substitute markets for timber
- The water and wastewater sector has long been a target of global diversified funds which invested in large regulated assets, primarily in the U.K.
    - The U.S. market is highly fragmented and offers good investment opportunities for operators with experience

Sector Specific Real Assets Funds

Newer specialized Real Assets strategies include commodity royalty funds and other leasing strategies

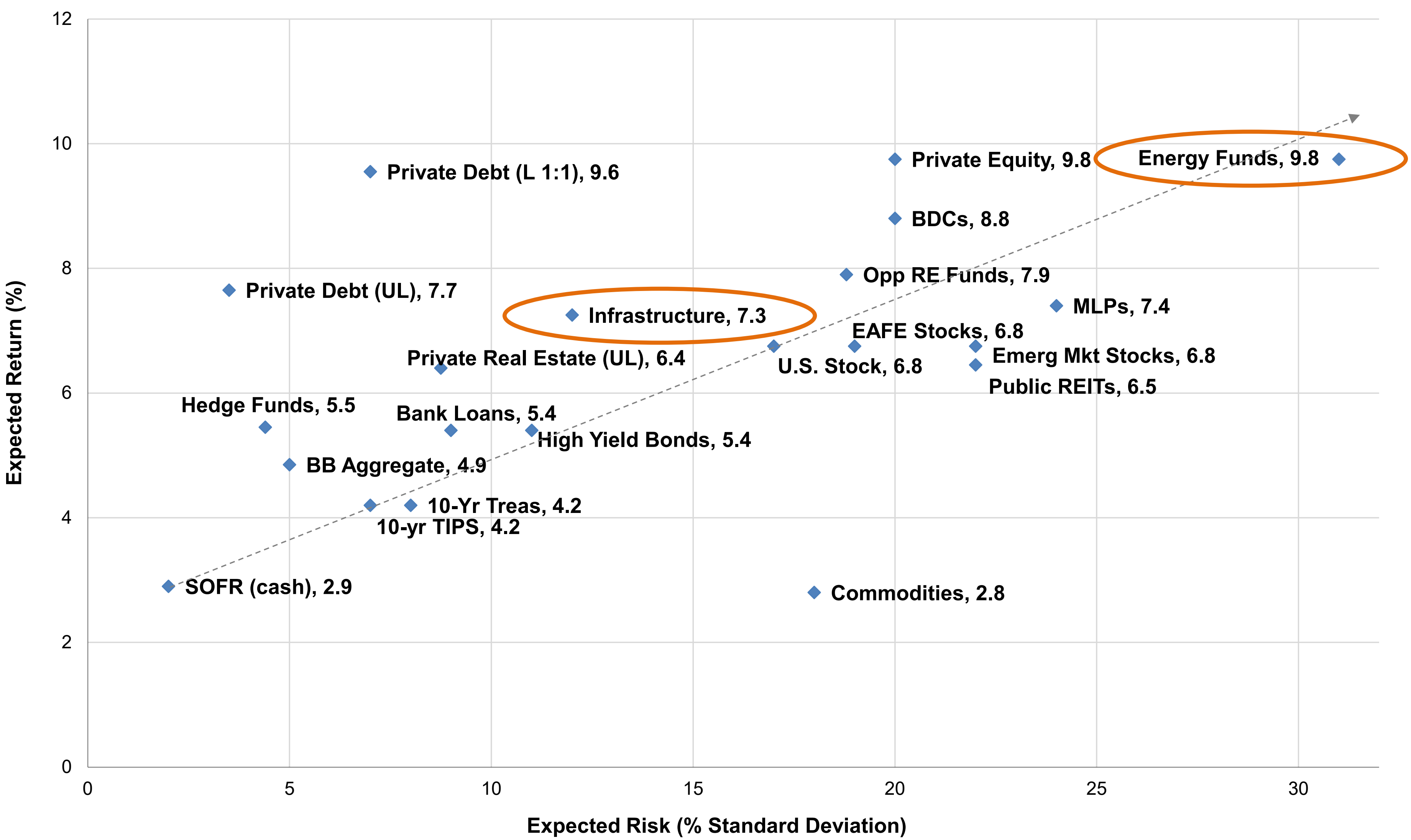
- Commodity royalty funds represent a relatively new institutional asset class
  - Can provide a lower return, lower risk alternative to higher risk investment strategies in the oil and gas and mining sectors
- Hard asset leasing strategies are also relatively new but are offering investment opportunities with strong cash flow profiles
  - Cash flows are often contracted and backed by high credit quality counter-parties
  - These leasing strategies have been focused primarily on aircraft, rail, and shipping assets

Asset Class Historical Performance



Source: Preqin

Expected Asset Class Return and Risk*



*Cliffwater expectations. Please see Cliffwater's 2024 Asset Allocation Report for additional details and disclosures.
Past performance is not indicative of future returns.

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General Disclosures

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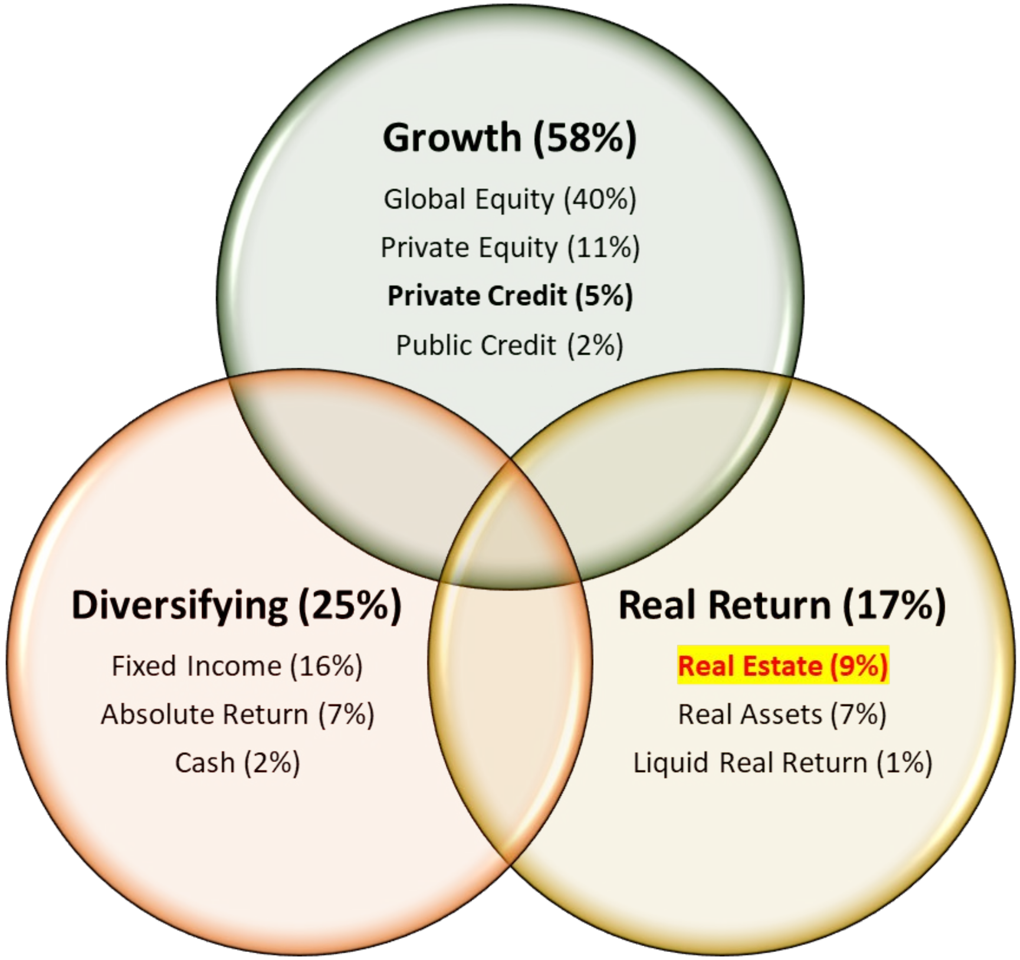
Education – Real Estate Overview

May 15, 2024

Introduction

- Portfolio fit and construction
- Roles and objectives of Real Estate
- Real Estate timeline
- Performance
- Real Estate considerations

Portfolio Fit



- Real Estate resides in the Real Return Asset Category
- Target Allocation 9% (7-11% range); 7.1% as of 12/31/2023; expected to return to target by 2026

Roles and Objectives

Earn attractive risk-adjusted returns (net of inflation), with less sensitivity to the broader economy and low or negative correlation to other asset classes

Generate attractive current yield at a lower volatility of return and muted downside risk

Income that adjusts with inflation or have built in escalations

Two broad categories – Core and Non-Core, with Core assets having lower risk and more cash yield while Non-Core assets provide higher returns from capital appreciation but take on greater risk

Governance

- Alternative assets/private markets protocol
- Includes Absolute Return; Private Equity; Private Credit; Real Estate; and Real Assets
  - The selection of investment managers is delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment process
  - Reports provided to the Board on a timely basis regarding actions recommended by Staff and Consultant

Real Estate Timeline

2008

- Stand-alone asset class with a 15% target
- 9% Core, 3% Value Add, and 3% REITs
- Mostly Core exposure, with combo Core separate account and commingled funds

2011/2012

- Part of broader Real Assets asset class – included Real Assets and Commodities
- Real Estate target allocation of 7%; primarily Core – REITs moved to public equities
- Townsend hired as real estate consultant

2017

- Became stand-alone asset class within Real Return asset category - maintained target at 7%
- Eliminated Core separate accounts and moved to 100% core commingled funds
- Recategorized Non-core to the Real Estate asset class from the Opportunities asset class
- Sub-strategy target allocations set at 65% Core and 35% Non-Core
- Non-U.S. investments permissible up to maximum of 30%

2021

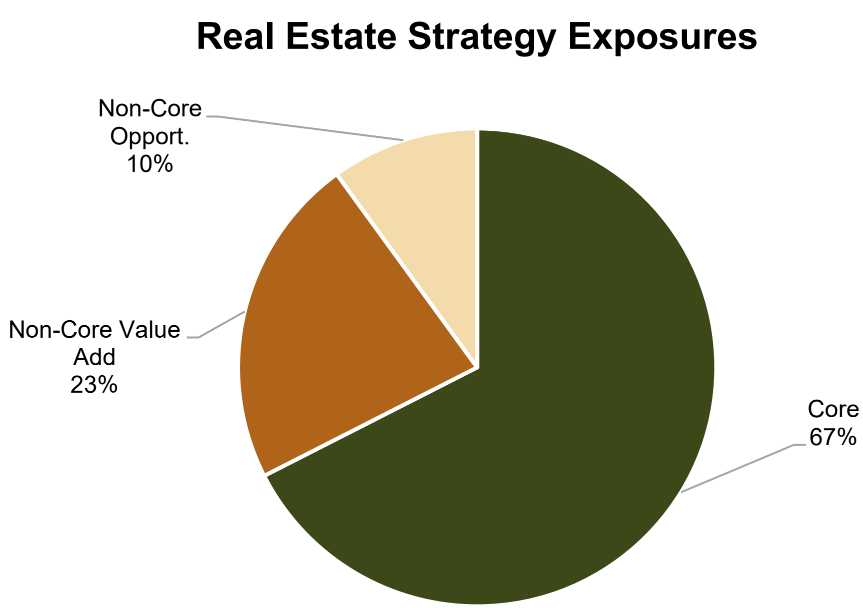
- Target allocation increased to 9%
- Revised sub-strategy allocations – 60% Core and 40% Non-Core
- Revised permissible non-U.S. investments to maximum of 35%
- Revised property weightings to maximum of 40% and 25% for other

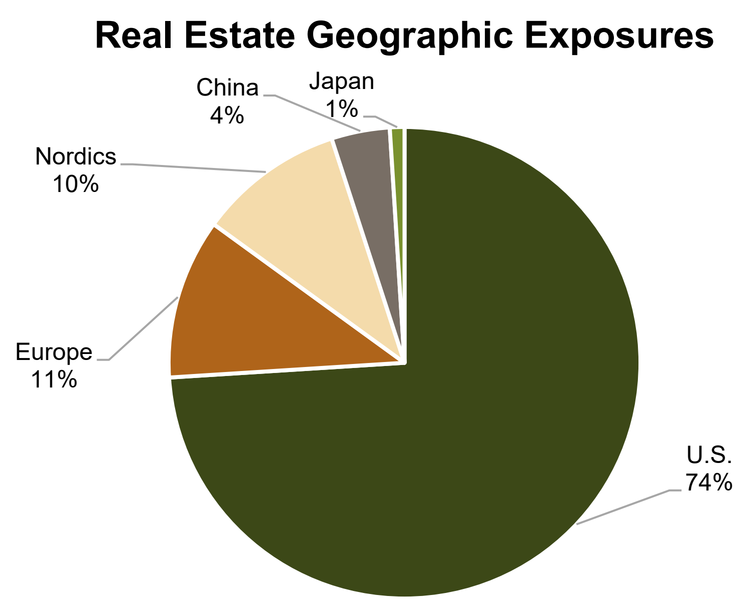
Portfolio Construction

Sub-Strategy	Minimum	Target	Maximum	Policy Index Benchmark
Total Real Estate Portfolio	**7%**	**9%**	**11%**	**Custom blend of benchmarks below:**
Core Real Estate	50%	**60%**	80%	60% NFI-ODCE +
Non-Core Real Estate	30%	**40%**	50%	40% NFI-ODCE + 1%
U.S. Real Estate	60%	**65%**	80%	
Non-U.S. Real Estate	0%	**0%**	35%	

- Primarily investments in the U.S.; non-U.S. investments permitted up to 35%
- Investments include an array of property types
  - Investment structures may include closed and open-end funds, separate accounts, and secondary investments
  - Foundational/beta exposure through open-end funds; alpha generated through sector/geographic specific closed-end funds
- Customized secondary Global Benchmark that blends U.S. and non-U.S. benchmarks, with the Global Real Estate Fund Index used for non-U.S.
  - SCERS 10-Year return of 8.5% exceeded Global Benchmark of 6.3%, as of 9/30/23

Real Estate Exposures

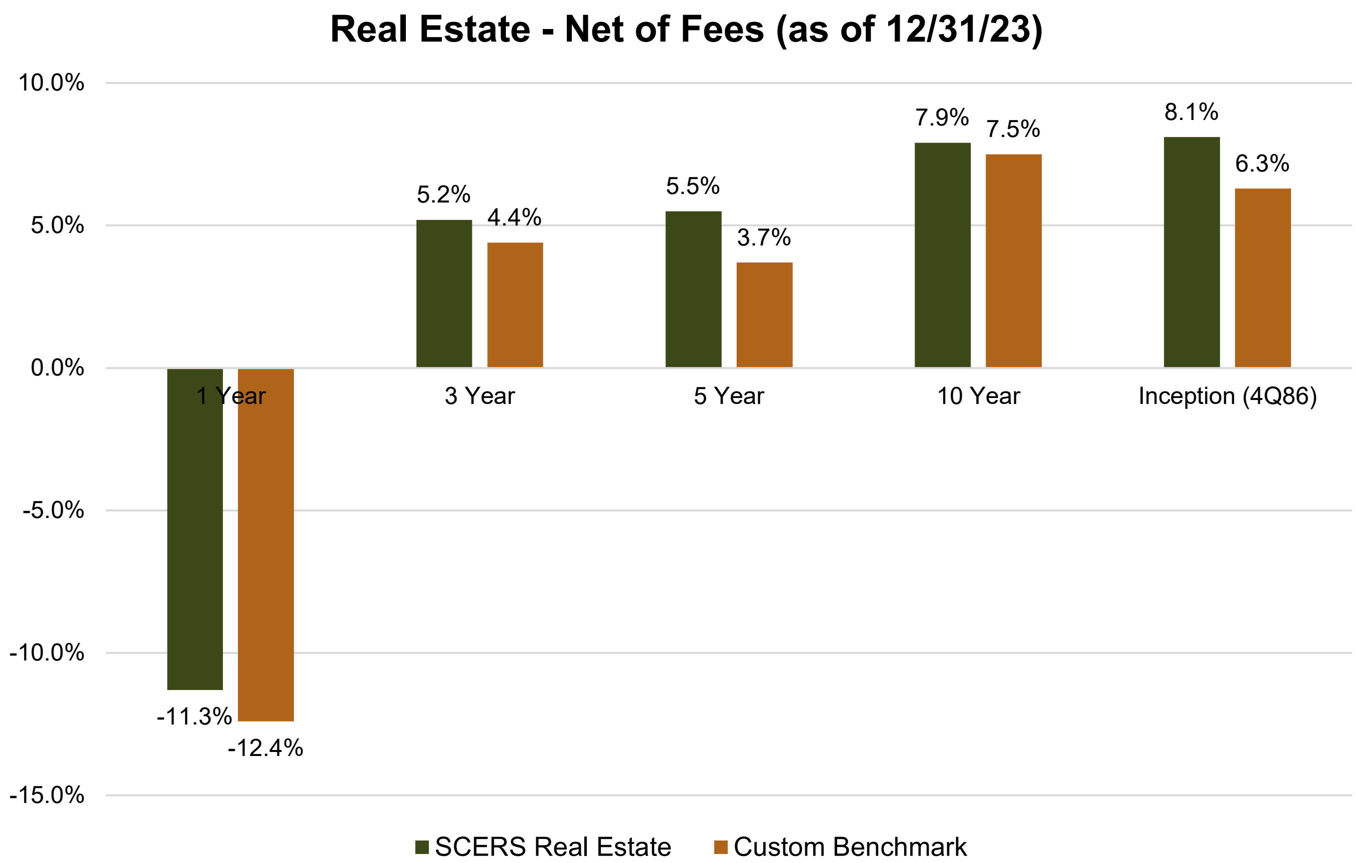




Source: Townsend, as of 12/31/23

- SCERS has 27 active fund investments with 18 managers (target is 15 ongoing manager relationships, with a range of 10-20)
  - Relationships will vary over time based on the sub-strategy opportunities
  - 7 open-end funds, with the remaining in closed-end commingled funds
- As of 12/31/23, SCERS has committed $1.1 billion and 84% has been drawn

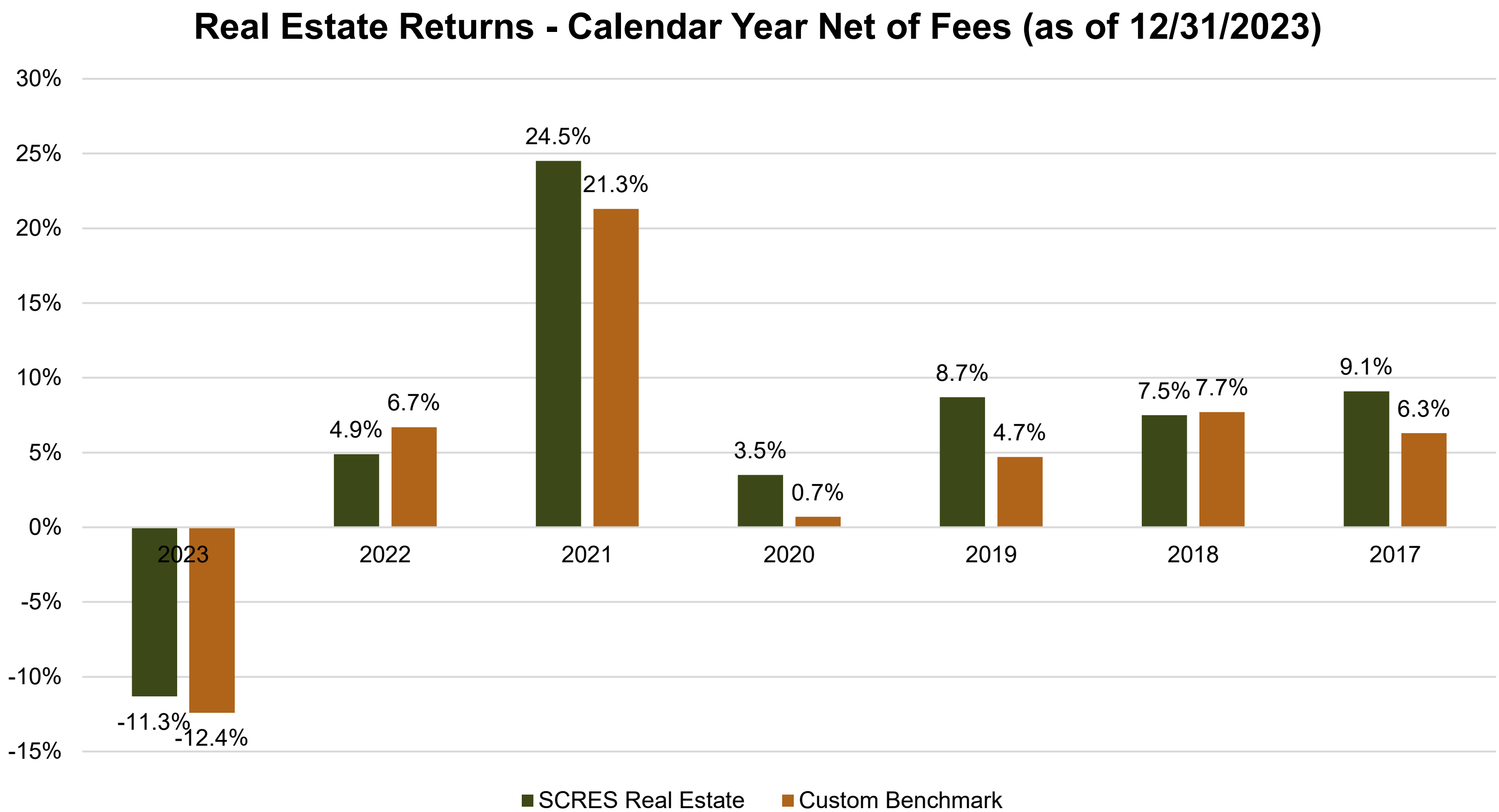
Real Estate Performance



Source: Townsend

- Returns have exceeded the policy benchmark over all reporting periods
  - Outperformance is due to the strong returns of the Value-Add strategies (NREP and Hammes) and the selection of strong performing Core funds (MetLife Core and Prologis U.S. Logistics)
  - The Opportunistic strategies have disappointed overall, except for Sculptor’s outperformance

Real Estate Performance



Source: Townsend

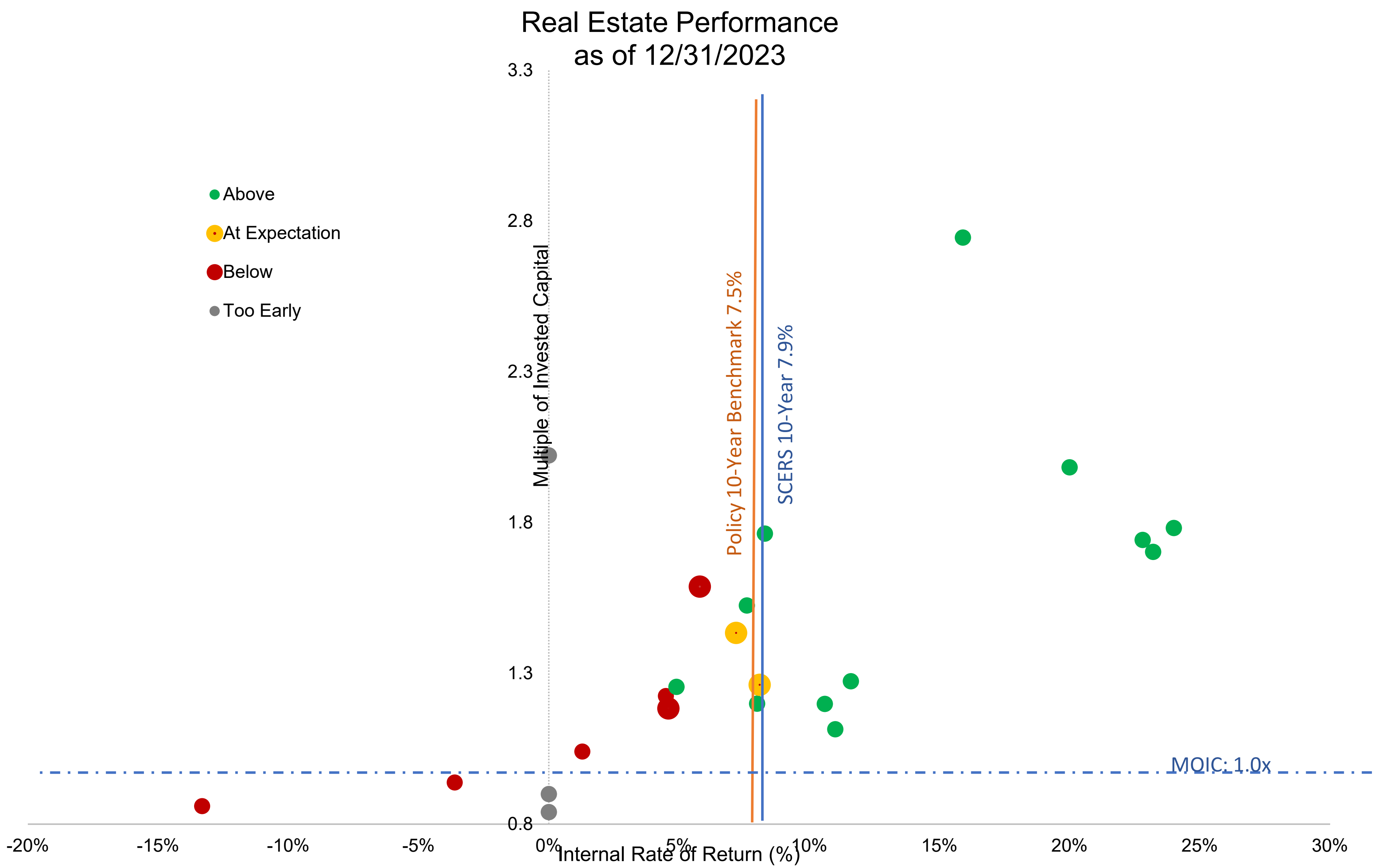
- SCERS Real Estate portfolio has consistently outperformed the benchmark annually, except for 2018
  - Key contributor to the outperformance is SCERS' strategic overweight to industrial and a deliberate underweight to office and retail

Real Estate Manager Performance

Manager	Value 12/31/23 ($million)	Returns Since Inception	Inception Date
Core Commingled Funds			
Brookfield Premier Real Estate Partners	$102.4	4.9%	Oct-18
Lion Properties Fund	$109.7	4.6%	Oct-18
MetLife Core Property Fund	$73.9	8.3%	Jan-14
Principal U.S. Property Account	$55.6	5.8%	Nov-15
Prologis European Logistics Fund	$59.7	7.2%	Nov-15
Prologis Targeted U.S. Logistics Fund	$71.7	15.9%	Aug-15
Townsend Real Estate Fund	$138.3	7.6%	Apr-16
Non-Core Opportunistic			
Carlyle China Project Rome Co-Investment	$21.2	-10.7%	Jul-17
Carlyle China Realty	$4.8	-9.7%	Jul-17
CIM Fund VIII	$23.3	-5.2%	Mar-15
KKR Real Estate Partners Americas	$1.0	11.6%	Mar-14
LaSalle China Logistics Venture	$7.8	-13.3%	Oct-21
Sculptor Real Estate Fund III	$3.6	24.0%	Oct-14
Sculptor Real Estate Fund IV	$19.5	11.0%	Jul-20
Seven Seas Japan Opportunity Fund	$11.9	N/A	Apr-22

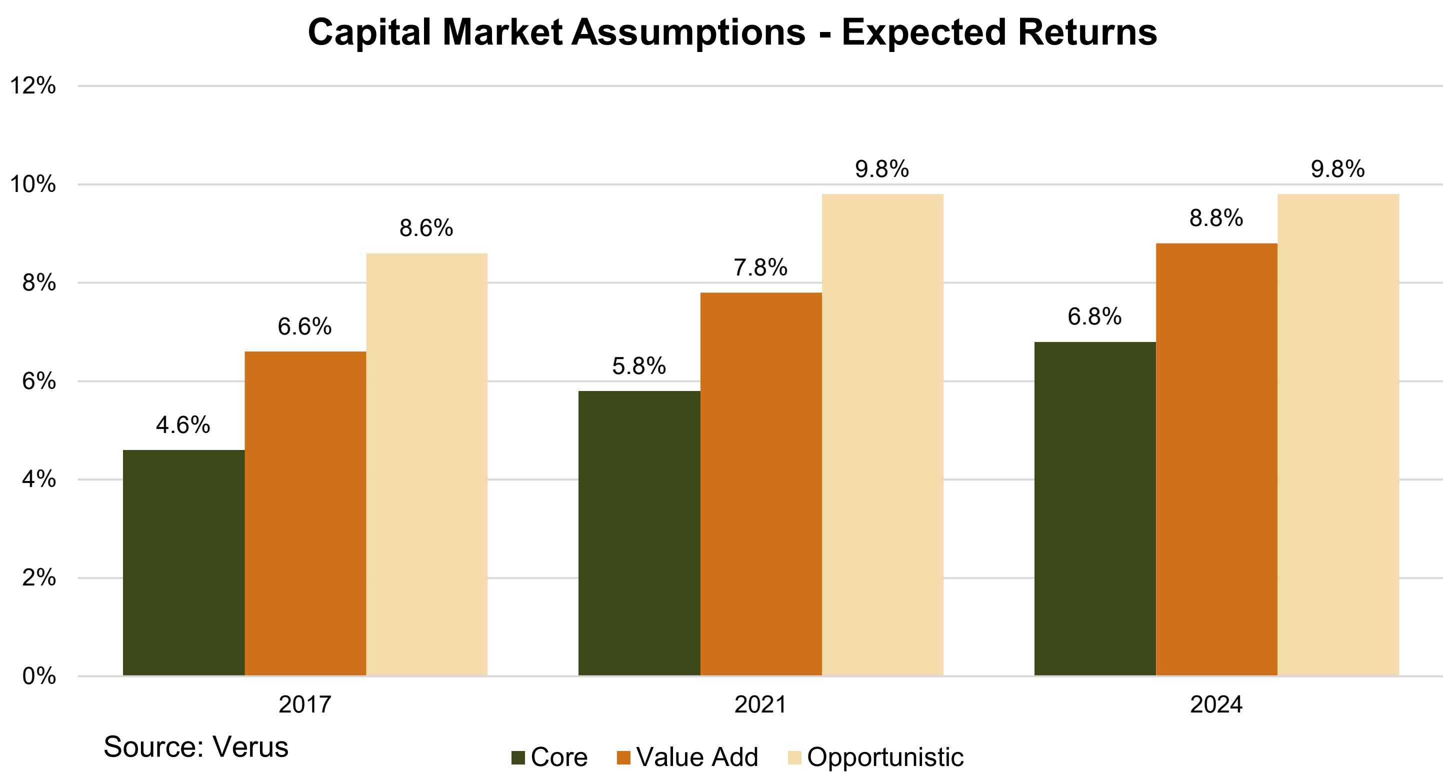
Manager	Value 12/31/23 ($million)	Returns Since Inception	Inception Date
Non-Core Value Add			
Asana Partners Fund II	$32.6	8.0%	May-19
Asana Partners Fund III	$14.6	N/A	May-22
DRC European Real Estate Debt Fund II	$6.2	1.3%	Dec-13
ECE European Prime Shopping Centre Fund II	$36.1	4.5%	Aug-15
Hammes Partners II	$3.3	23.2%	Aug-15
Hammes Partners III	$20.1	10.6%	Nov-18
Hammes Partners IV	$0.8	N/A	Dec-22
NREP Nordic Strategies Fund	$3.1	22.8%	Oct-14
NREP Nordic Strategies Fund II	$15.4	20.0%	Jul-16
NREP Nordic Strategies Fund III	$34.8	8.1%	Aug-18
NREP Nordic Strategies Fund IV	$21.7	-3.6%	Aug-20
NREP Nordic Strategies Fund V	$14.9	N/A	Nov-22

Real Estate Fund Performance



Source: Townsend

Real Estate Considerations



- Verus CMA is shown for each sub-category over each SCERS ALM study year
- Return expectations have increased with rise in interest rates and deterioration in real estate valuations
  - There is no target to value-add or opportunistic; however, there is a preference for value-add strategies over opportunistic within Non-core

Real Estate Considerations

- Though SCERS' Real Estate target allocation increased from 7% to 9% in 2021, limited implementation has taken place
  - Due to deterioration in real estate fundamentals and limited opportunity set
  - Evaluation during the ALM study is whether the 9% target is appropriate

- Valuations between U.S. public and private real estate markets diverge
  - Private markets late to take value declines due to appraisal process
  - With limited transactions, difficult to find clarity on cap rates, return expectations, and investor demand
  - Expect another down quarter given the Fed is holding rates higher for longer

Real Estate Considerations

- NFI-ODCE Investors shifting out of main property types into the alternative property types
  - 2017: Office 38.3%, Industrial 12.8%, Apt 25.1%, Retail 20.3%
  - 2023: Office 22.3%; Industrial 34.6%, Apt 28.6%, Retail 14.1%
  - May need to revisit SCERS' property type limitations, currently 40% maximum to the main property types and 25% maximum to specialty

- Increasing growth in specialized property sectors as investors move out of office and retail
  - Student and senior housing
  - Manufactured housing
  - Self storage
  - Life sciences
  - Single family
  - Data centers

- Real estate has shown greater sensitivity to the broader economic environment and contains concentrated investments in certain property sectors (industrial and multi-family) and geographic locations (southeast and smile states)

Appendix – Real Estate Concepts and Terminology

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Real Estate Education

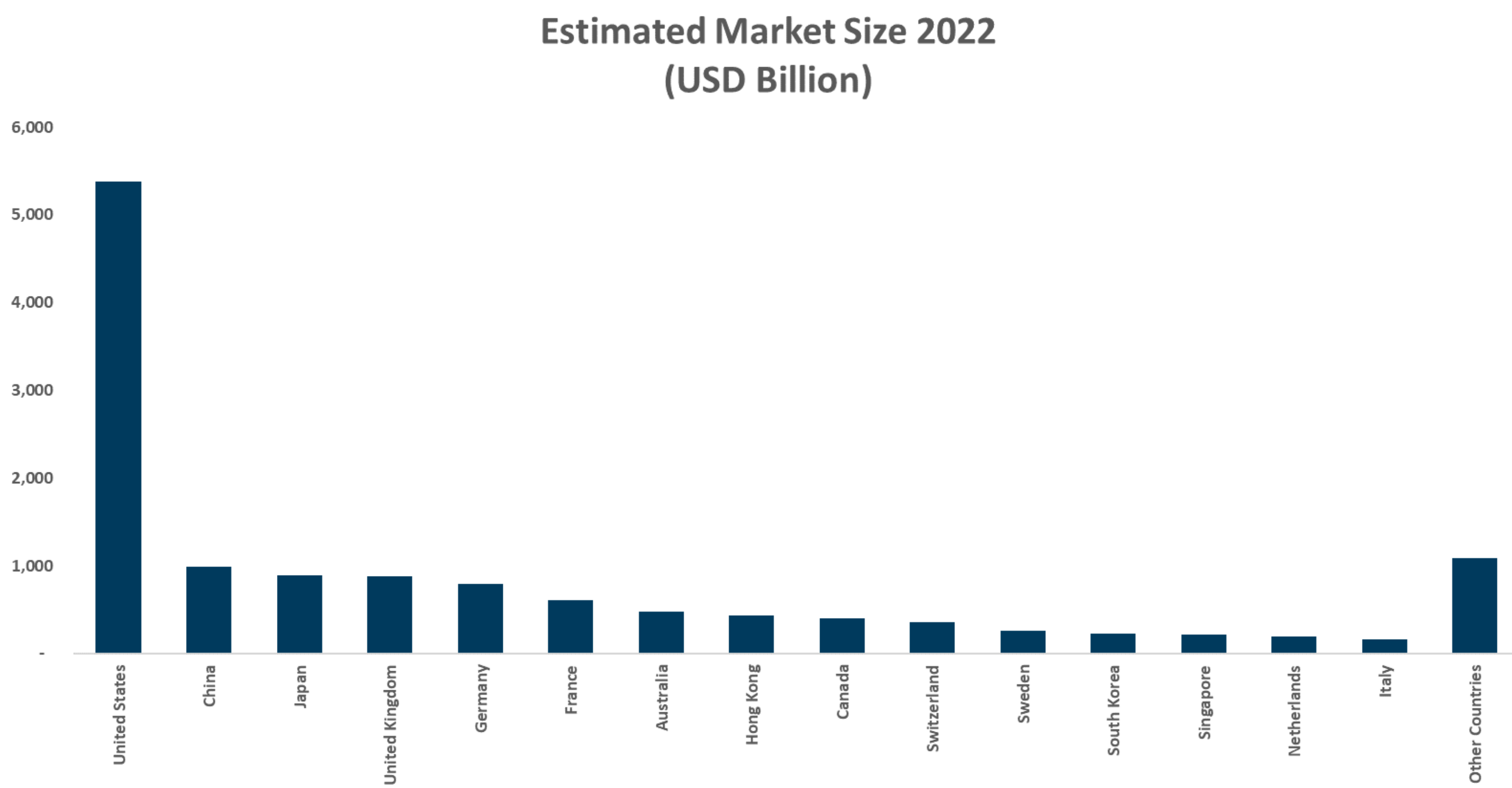
PROPRIETARY & CONFIDENTIAL

May 2024

Real Estate Markets In A Global Context

- Commercial Real Estate is a vast asset class estimated to represent more than $30 trillion in value globally
  - $8 to $9 trillion is held by institutional investors
  - $4 to $5 trillion in listed shares
  - The U.S. market is leading in size globally

- Investment access to equity, debt and securitized real estate can be achieved through a wide array of legal formats including funds, co-investments, joint ventures, separate accounts and public and private REITs.



Source: MSCI (2022) Estimated Market Size

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

The Strategic Role of Real Estate

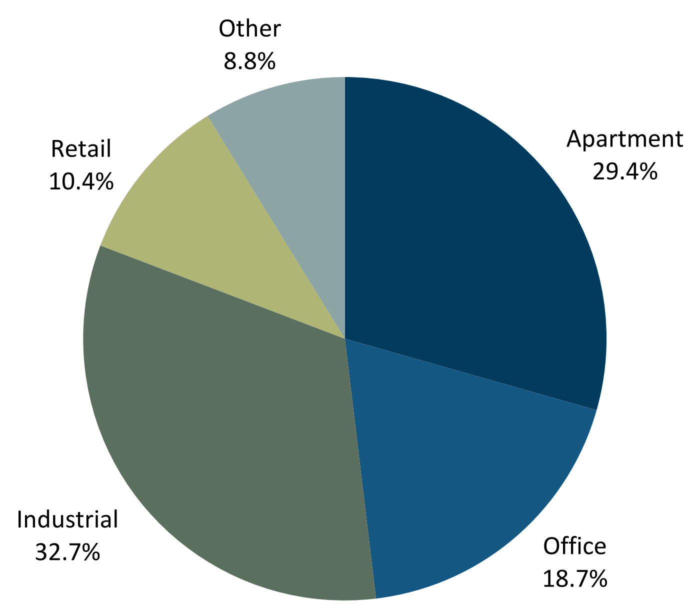
- While always seeking to preserve capital, real estate programs are typically designed to provide:
  - Diversification
  - Inflation hedging attributes
  - Attractive risk adjusted returns
  - Income

- Most institutional investors target between 5% and 10% of their portfolios to the real estate asset class in sector strategies as follows:
  - Income driven strategies seeking 6% to 8% returns, called “Core”; strategies seeking 8% to 9% returns, called “Core Plus”;
  - Growth driven strategies seeking returns of 9% to 20%+, net, called Value-Add and Opportunistic, or “Non-Core”

- The risk profiles of the strategies above can have significant disparities
  - Core: income biased, low leverage, diversified strategies by geographic region and property type
  - Non-Core: focused strategies, international exposure, life cycle risk (e.g., leasing, development), leverage

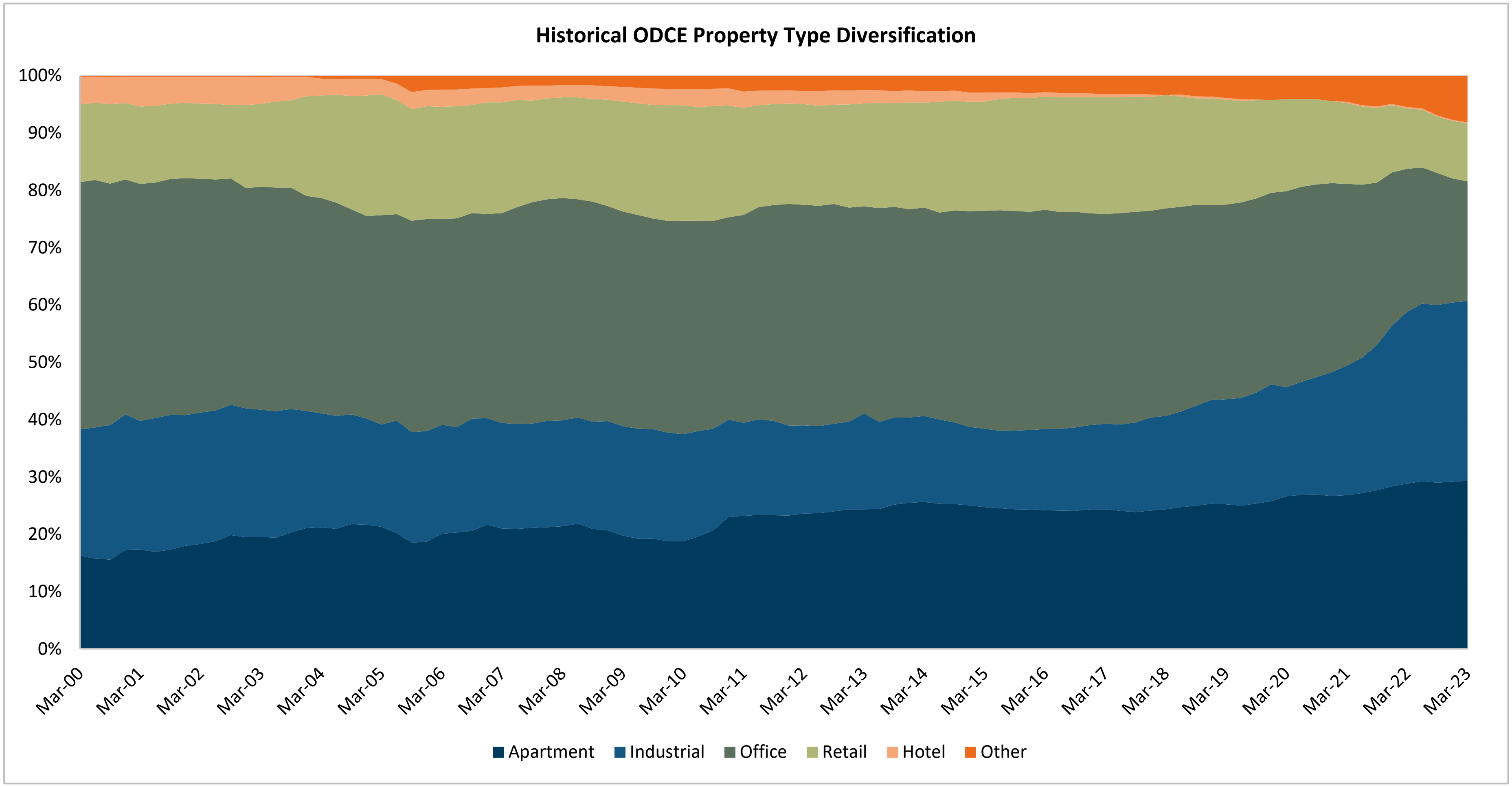
- Geographically diverse exposure to the four major property types is typically sought by institutional investors, though some portfolios with tactical components may contain other types of properties (eg. self-storage, senior housing).
  - Apartment
  - Office
  - Industrial
  - Retail

NFI-ODCE Property Diversification



Historical Composition of ODCE

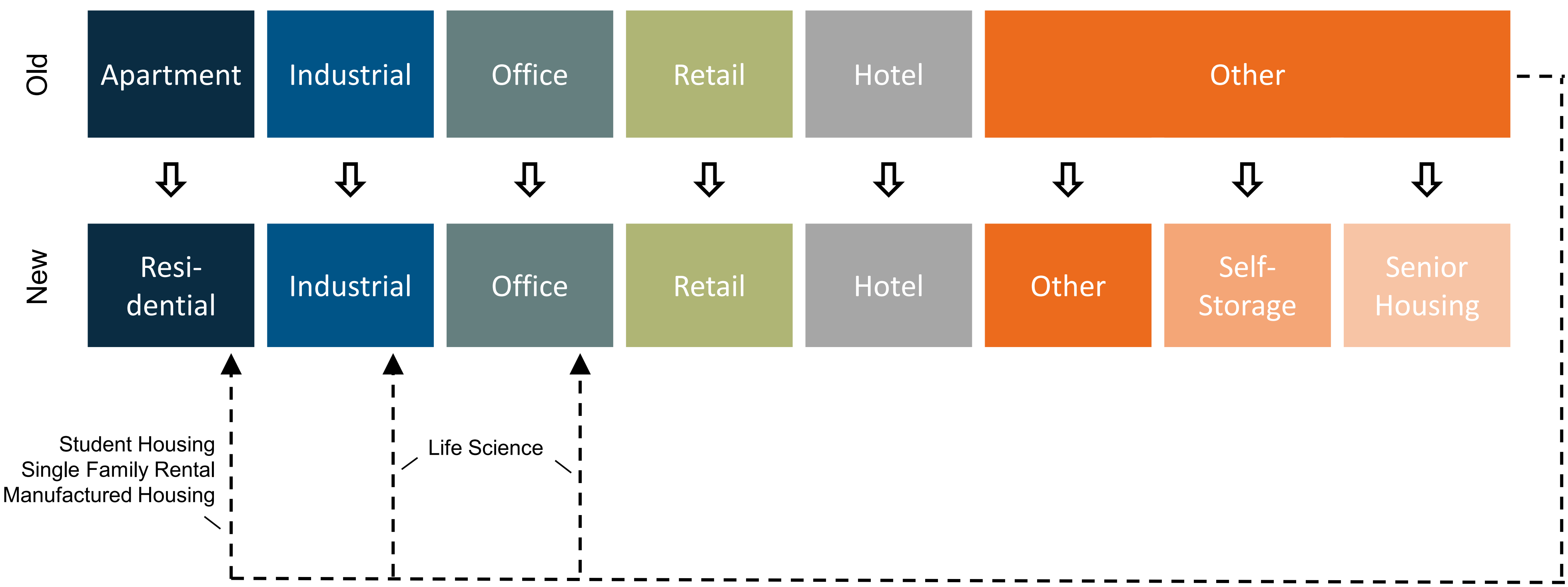
- 20 years ago, ODCE was comprised primarily of the main property types: Apartment, Industrial, Office, and Retail. Over time, exposure to "Other" property types has increased to 8.1% of the index.
- Historically, the "Other" category has consisted of Self-Storage with some Medical Office, Life Science Space, Senior Housing, some Student Housing, etc.
- Since 2000, exposure to Apartment and Industrial increased by 13.0% and 9.4%, respectively, and exposure to Office decreased by -22.3%. Much of this shift occurred within the past few years.



Source: NCREIF. Data as of 3/31/2023.

Property Type Classifications (cont'd)

- In addition to the new property type classifications, NCREIF also re-classified some underlying property sub-types.
  - **Student Housing, Single Family Rental,** and **Manufactured Housing** are now all sub-types of **Residential.**
  - **Life Sciences** is a newly created sub-type of both **Office** and **Industrial**.
  - **Data Centers** is a newly created sub-type of **Other.**



Property Type Classifications (cont'd)

- The new classifications (i) provide investors with additional detail, (ii) provide managers with additional clarity in reporting data, and (iii) reflect ongoing changes in the investable core real estate universe.

- Residential
  - Apartment
  - Student Housing
  - Manufactured Housing
  - Single Family Rental
- Industrial
  - Manufacturing
  - Warehouse
  - Flex
  - Life Science
  - Specialized
- Office
  - CBD
  - Urban
  - Secondary Business District
  - Suburban
  - Medical Office
  - Life Science
- Retail
  - Mall
  - Street Retail
  - Strip Retail
- Hotel
  - Full Service
  - Limited Service
- Self Storage
- Senior Housing
- Other
  - Data Centers
  - Land
  - Entertainment
  - Parking
  - Other

Real Estate: Diversification Benefits

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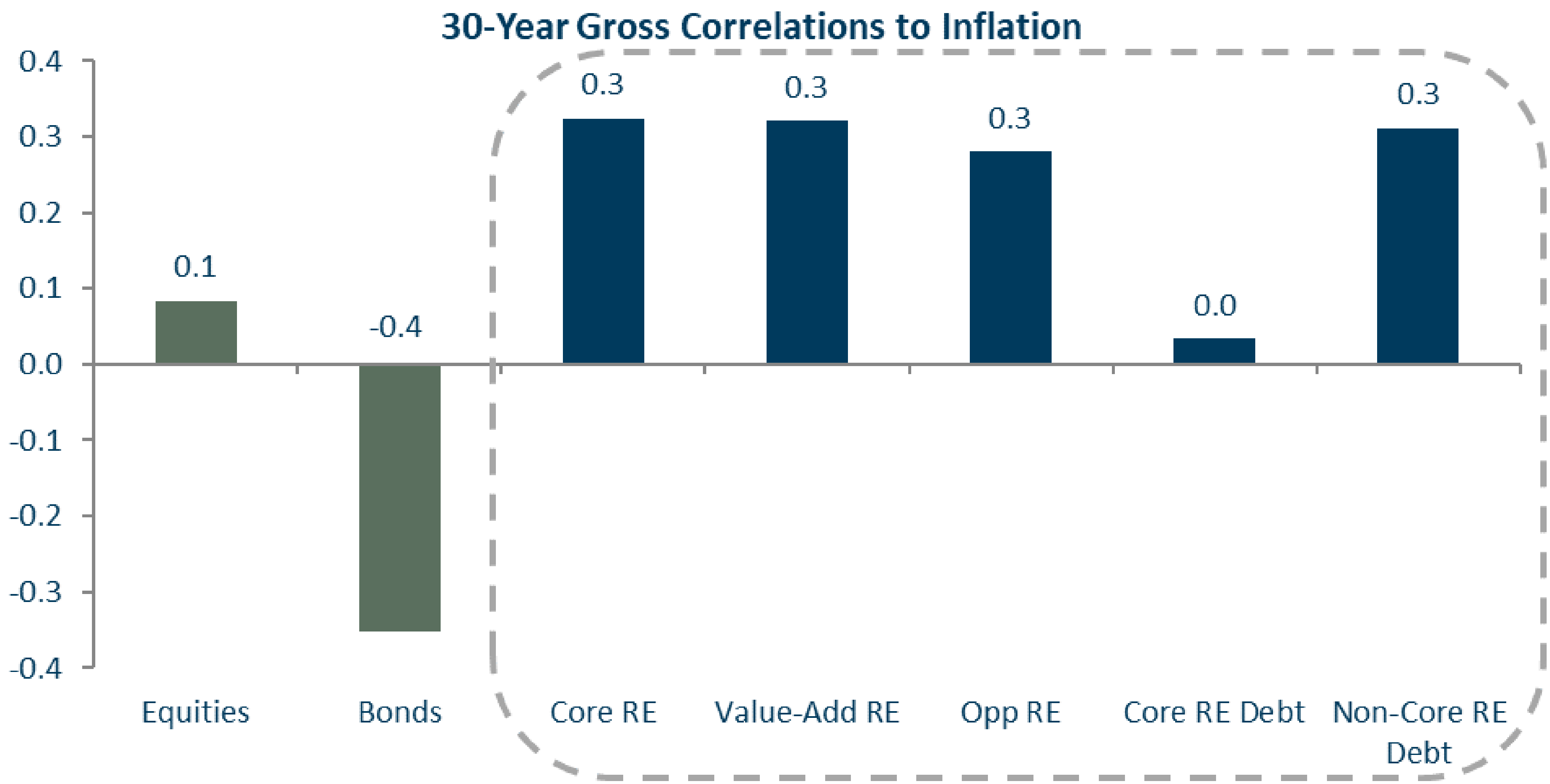
- Private Real Estate has shown a less than perfect correlation to equities and fixed-income, creating a diversification benefit.

Correlations	Core Real Estate (ODCE)	Value-Add Real Estate	Opportunistic Real Estate	Equities (S&P 500)	Bonds (Bloomberg Agg)	Listed Real Estate	Core RE Debt	Non-Core RE Debt
Core Real Estate (ODCE)	1.0							
Value-Add Real Estate	0.8	1.0						
Opportunistic Real Estate	0.7	0.8	1.0					
Equities (S&P 500)	0.1	0.2	0.3	1.0				
Bonds (Bloomberg Agg)	-0.1	-0.2	0.0	-0.1	1.0			
Listed Real Estate	0.2	0.2	0.4	0.6	0.2	1.0		
Core RE Debt	0.0	0.0	0.2	0.1	0.7	0.3	1.0	
Non-Core RE Debt	0.8	0.9	1.0	0.3	-0.1	0.4	0.1	1.0

Source: NCREIF, Bloomberg, The Townsend Group. Data as of September 30, 2023. 30-year time period. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

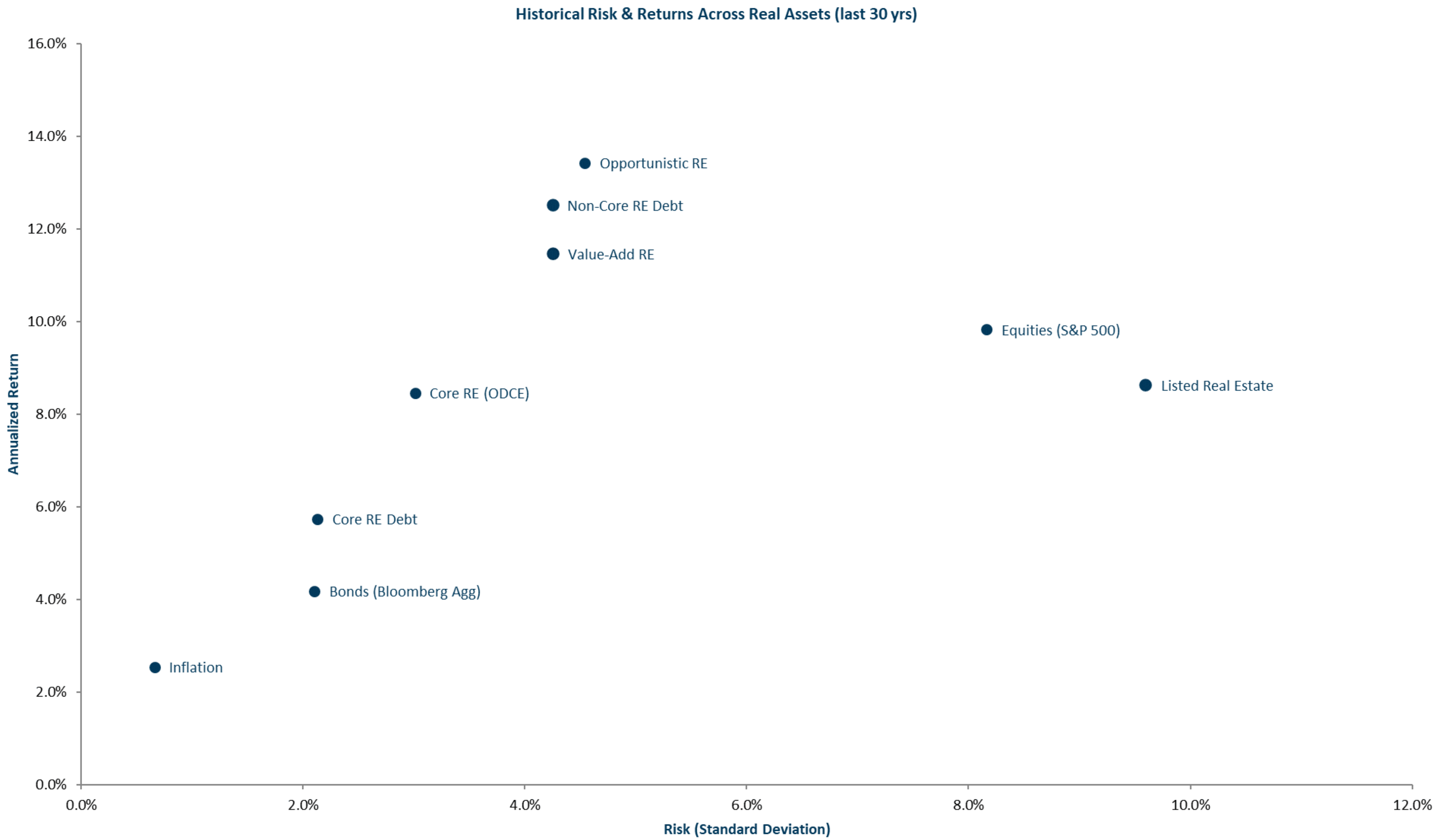
Real Estate: Inflation Hedging

- Private Real Estate has shown a moderate correlation to inflation, suggesting that it serves as a partial inflation hedge.



Real Estate: Risk-Adjusted Returns

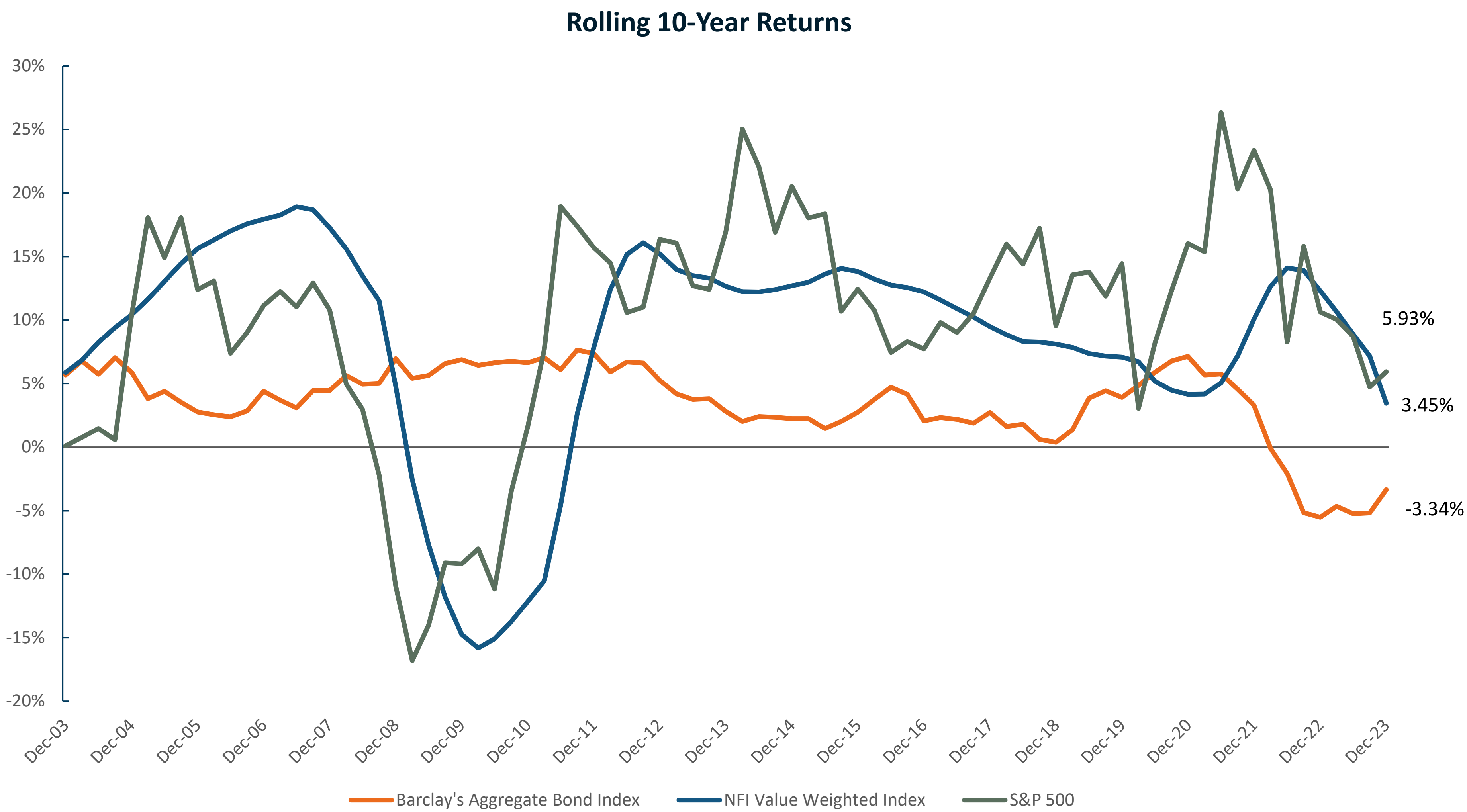
- Private Real Estate has provided competitive long-term risk-adjusted returns relative to equities and fixed income.



Source: NCREIF, Bloomberg, The Townsend Group. Data as of September 30, 2023. 30-year time period. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

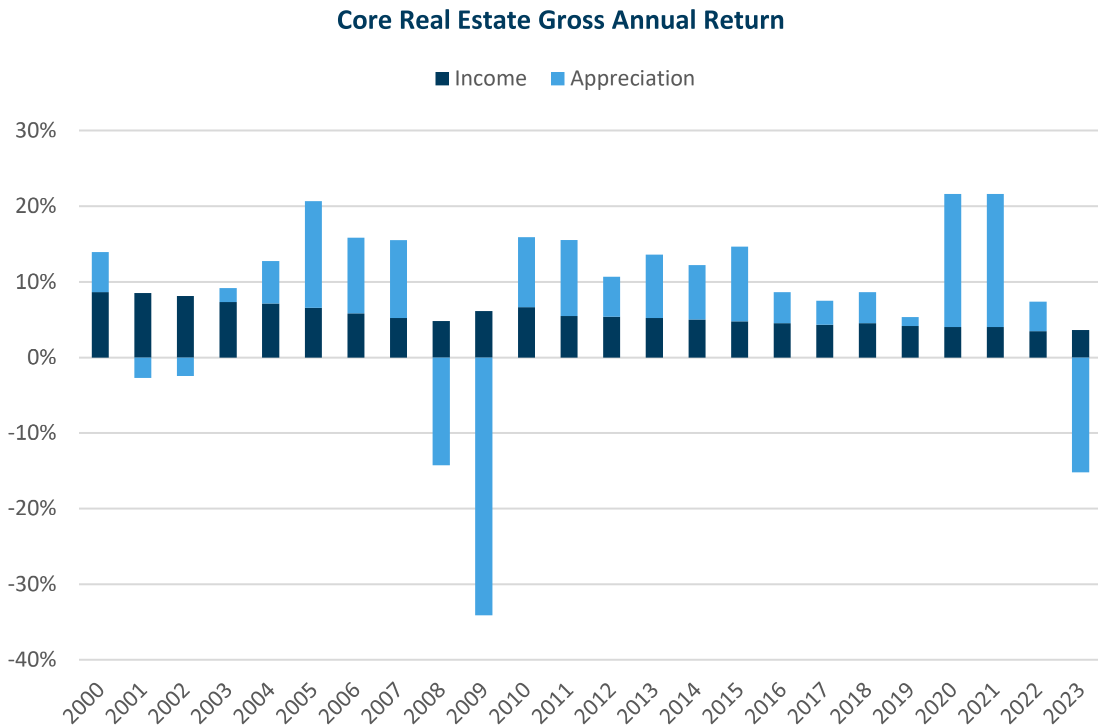
Real Estate: Attractive Performance

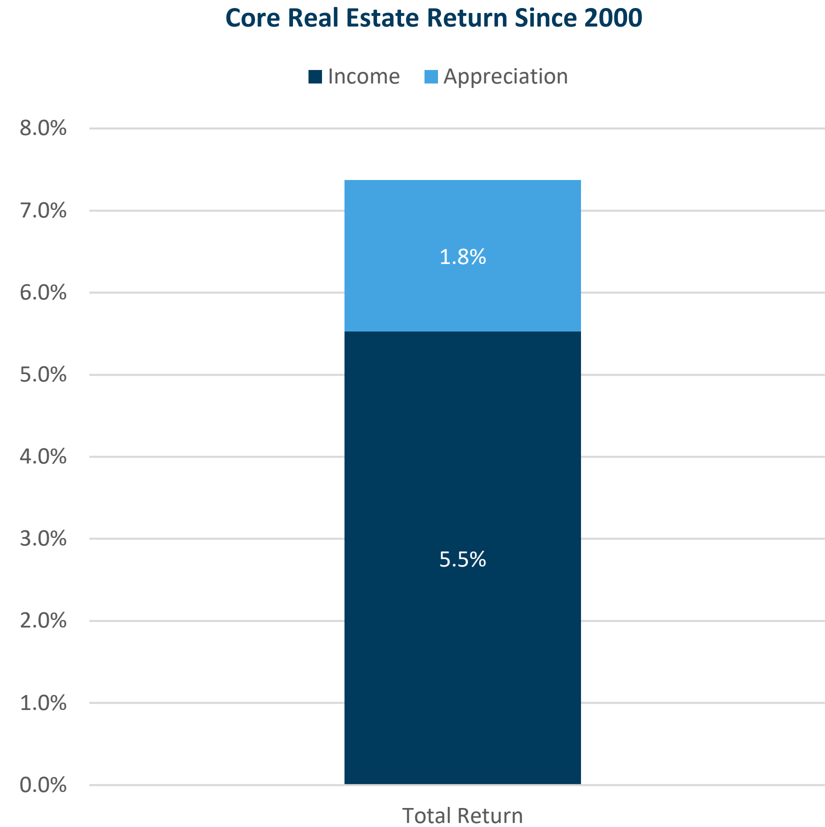
- Private Real Estate has been more than competitive with stocks and bonds over an extended time horizon.



Source: NCREIF, Bloomberg, The Townsend Group. Data as of December 31, 2023. 20-year time period. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

Real Estate: Returns with a Strong Income Component



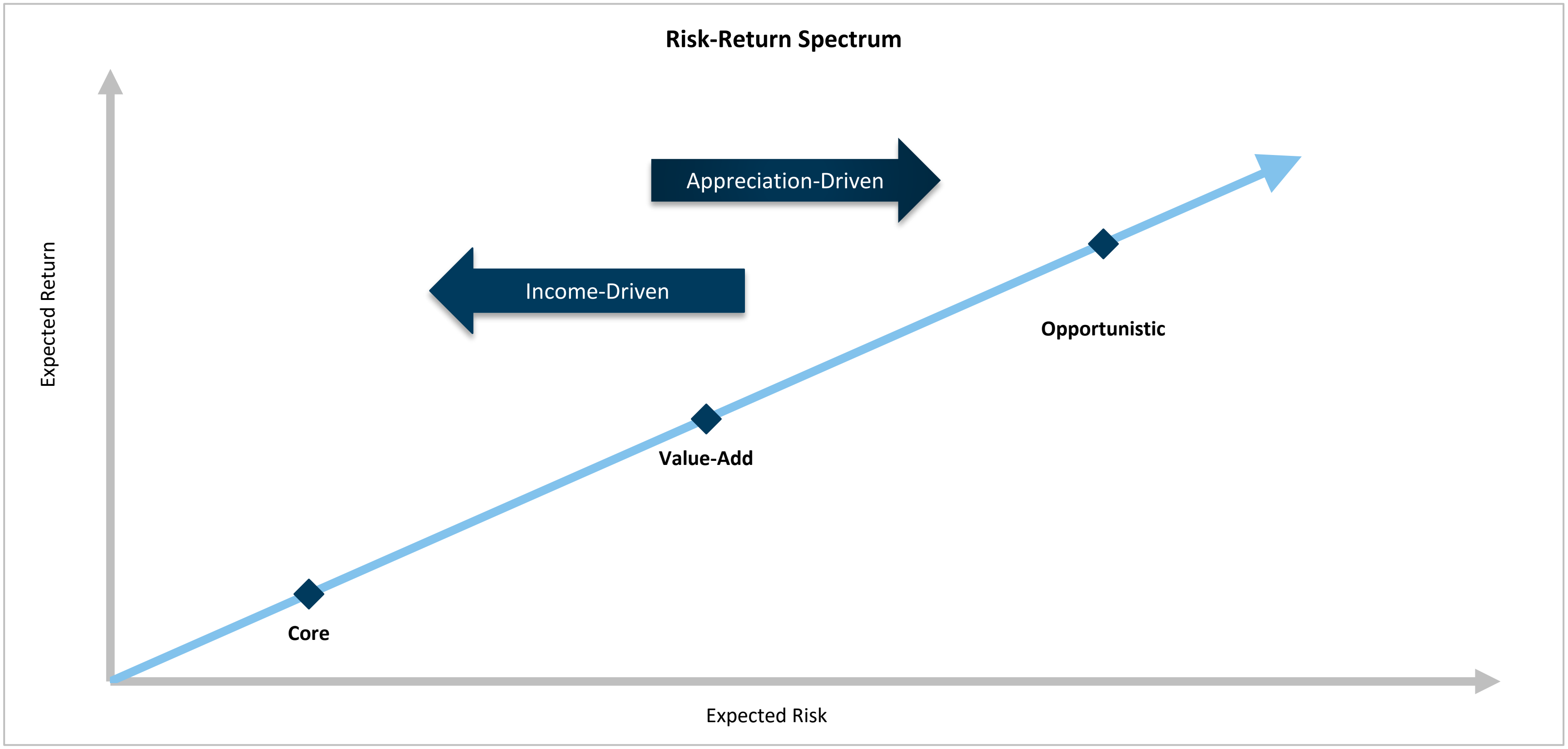


- High-quality real estate income generation has been very resilient, even during the toughest of economic times
- Over the period 2000 – 2023, around 75% of the total return generation of quality Core real estate has been through income
- Given that income is so stable, Core-Plus strategies that invest in high-quality real estate with higher leverage levels may produce higher returns especially due to the low cost of debt

Source: NCREIF, Bloomberg, The Townsend Group. Data as of December 31, 2023. 20-year time period. Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

What is Core Real Estate?

- Real estate can be accessed at different points across the risk and return spectrum, with core real estate at the lowest end.
- Core real estate is comprised primarily of stabilized, income producing assets, utilizing low leverage. Historically, it has been concentrated in the "primary" property types of Office, Industrial, Retail, and Apartment.
- The NCREIF Fund Index – Open-End Diversified Core Equity ("ODCE") is an index of investment returns of 26 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s.



Key Strategies

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Own Income Streams — Higher Risk/Return ⇨

⇦ Lower Risk/Return — Build and Sell Income Streams

	Core / Core Plus	Value-Add	Opportunistic
Key Return Drivers	• Primarily income	• Blend of income and appreciation	• Appreciation-oriented
Types of Assets and Strategies	• Stabilized, operating assets in good condition	• Assets that could benefit from capital investment (renovation, leasing) • Limited development	• Deep value-add • Mispriced assets / dislocated markets • Development
Typical Net Return Targets	• Core: 6%-7% after fees • Core+: 8%-10% after fees	• 11%-13% after fees	• 14% or more after fees
Example	• Ownership of a high-quality apartment • Long-term investment	• Aggregate and lease a portfolio of warehouses. • Sell to a core investor	• Acquire from, or recapitalize, owners that are under pressure. • Sell to a core investor
			

"Net Return Targets" reflect returns targeted by managers. Because these targets are not always achieved, Townsend has lower long-term assumed returns for these sectors.

Real Estate Risk Profile

- Different strategies expose investors to different risk profiles.

Low Risk ⟷ High Risk

<table>
<tr><th></th><th>Core</th><th>Core Plus</th><th>Value-Add</th><th>Opportunistic</th></tr>
<tr><td>Market Risk</td><td colspan="4">• Strategies are exposed to market risk (supply and demand)
• Risk tends to be greater for value-add and opportunistic strategies</td></tr>
<tr><td>Operating Risk</td><td colspan="4">• Core properties require maintenance, but relatively low levels of active management.
• Higher risk strategies require more intense operations. Execution risk can be controlled through careful manager selection.</td></tr>
<tr><td>Capital Structure Risk</td><td colspan="4">• In real estate, low levels of leverage are generally used for lower risk investments.
• Higher levels of leverage tend to be used for non-core investments. This results in both (i) greater volatility and (ii) a risk of loss. Capital structure risk can be controlled to a large degree by skilled managers.</td></tr>
<tr><td>Currency Risk</td><td colspan="4">• All real estate investments made to foreign countries carry currency risk.
• Higher return and higher risk strategies in foreign markets may have their returns eroded by adverse movements in exchange rates.</td></tr>
<tr><td>Tax</td><td colspan="4">• Tax implications to be considered by each investor when making a global real estate investment.</td></tr>
</table>

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Real Estate Investment Vehicle Structures

- Real estate can be accessed through various investment vehicle structures.

Vehicle	Suitability	Pros	Cons
Separate Accounts	• Core Real Estate Investments • Enhanced Return Real Estate Investments	• Control over strategy, investments, terms and conditions • Liquidity, subject to market conditions • Transparency • Lower fees and can be structured • Alignment of interests	• Less diversification • Manager concentration • Administrative resources • Less immediate access • Investment rotations
Open-End Pooled Funds	• Core Real Estate Investments • Core Plus Real Estate Investments • Value Add/Enhanced Return Real Estate Investments	• Immediate exposure • Superior diversification • Liquidity, subject to investor governance and market conditions • Transparency • Access to broad area of property types	• Limited to few investment strategies • Little control over terms and strategy • Fees often higher than separate accounts • Less alignment of interests
Closed-End Pooled Funds	• Value Add/Enhanced Return Real Estate Investments • Opportunistic/High Return Real Estate Investments	• Greatest number of investment strategies • Improved diversification • Diversification by strategy and manager • Alignment of interests • Often exclusivity	• Least control • Least liquidity • Reduced transparency • Higher fees • Little control over terms and strategy
Alternatives (e.g., joint ventures, portfolio acquisitions, entity investments)	• Core Real Estate Investments • Value Add/Enhanced Return Real Estate Investments • Opportunistic/High Return Real Estate Investments	• Ability to be tactical • Access to unique opportunities • Capitalize on competitive advantages • Ability to drive terms	• Require structuring expertise • Management oversight • Concentrated risk

Glossary

Common Terms

Cap Rate	Calculated as NOI divided by Property Value. A metric industry participants use to gauge the yield of a transaction. Cap rates are typically quoted on a forward one-year NOI basis.
Capital Expenditures ("Cap ex")	Costs associated with the long-term ownership of commercial real estate, including some maintenance and leasing costs. Many of these expenditures are capitalized, not expensed, for accounting purposes and can have a significant impact cash flows from properties.
Development Yield	Measures the NOI expected to be generated from a development property upon stabilization as a percentage of development cost (Stabilized NOI/Total Estimated Development Cost). Total development cost should include land and cost of capital during the lease-up period.
Discount Rate	The unlevered required rate of return on a property, used to compute net present value of an asset.
Floor Area Ratio ("FAR")	The ratio of building area to ground area (Total Building sq ft/Total Land sq ft). A higher FAR reflects a higher density. Land values, zoning, and entitlements are often quoted in these terms.
Gross Leasable Area ("GLA")	Represents the total floor area within a property, typically excluding common space.

Common Terms (cont'd)

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J-Curve	The tendency of private equity real estate funds to post negative returns in the early years with returns improving later years as the investments mature. This is often driven by the time (and costs, including management fees) to realize business plans early in the life of an investment.
Net Asset Value ("NAV")	NAV is the market value of a property calculated by applying an estimate of the real estate value and deducting debt and planned cap ex.
Net Effective Rent	Measures the economics of a lease after deducting applicable operating costs, leasing commissions, concessions, and tenant improvements.
Net Leasable Area ("NLA")	A property's leasable area. This measure typically excludes common areas and mechanical space.
Net Operating Income ("NOI")	Rents less operating expenses.
Net Rent/Triple Net Leases	Rent that does not include property expenses, which that are paid by tenants directly rather than by the landlord. "Triple net" (NNN) leases are one common type where the tenant agrees to pay all expenses associated with the property (i.e., real estate taxes, insurance, repairs/maintenance).
Occupancy/Availability	Occupancy is unleased space. Availability also includes space that will become available in the near term. Economic occupancy (leased vs unleased) varies from physical occupancy, the latter of which refers to physical space occupied by tenants.

Style Groups

The Style Groups consist of returns from commingled funds with similar risk/return investment strategies. Investor portfolios/investments are compared to comparable style groupings.	
Core:	Direct investments in operating, fully leased, office, retail, industrial, or multifamily properties using little or no leverage (normally less than 30%).
Value-Added:	Core returning investments that take on moderate additional risk from one or more of the following sources: leasing, re-development, exposure to non-traditional property types, the use of leverage.
Opportunistic:	Investments that take on additional risk in order to achieve a higher return. Typical sources of risks are: development, land investing, operating company investing, international exposure, high leverage, distressed properties.

Indices

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Stylized Index:	Weights the various style group participants so as to be comparable to the investor portfolio holdings for each period.
Open-End Diversified Core Equity Index ("ODCE"):	A Core index that includes only open-end diversified Core strategy funds with at least 95% of their investments in U.S. markets. The ODCE is the first of the NCREIF Fund Database products, created in May 2005, and is an index of investment returns reporting on both a historical and current basis (25 active vehicles). The ODCE Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.
Open-End Diversified Value Equity Index ("ODVE"):	A value-added index that includes only open-end diversified value-added strategy funds with at least 95% of their investments in U.S. markets. The Open-End Diversified Value Equity index is not a published index, but rather maintained internally by The Townsend Group and is an index of investment returns reporting on both a historical and current basis (12 active vehicles). The Open-End Diversified Value Equity Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.
NCREIF Property Index ("NPI"):	National Property Index comprised of Core equity real estate assets owned by institutions.
NAREIT Equity Index:	This is an index of Equity Real Estate Investment Trust returns reflecting the stock value changes of REIT issues as determined through public market transactions.

Townsend Performance Measurement Report

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Income Return ("INC"):	Net operating income net of debt service before deduction of capital items (e.g., roof replacement, renovations, etc.)
Appreciation Return ("APP"):	Increase or decrease in investment's value based on internal or third party appraisal, recognition of capital expenditures which did not add value or uncollectible accrued income, or realized gain or loss from sales.
Total Gross Return ("TGRS"):	The sum of the income return and appreciation return before adjusting for fees paid to and/or accrued by the manager.
Total Net Return ("TNET"):	Total gross return less Advisor fees reported. All fees are requested (asset management, accrued incentives, paid incentives). No fee data is verified. May not include any fees paid directly by the investor as opposed to those paid from cash flows.
Inception Returns:	The total net return for an investment or portfolio over the period of time the client has funds invested. Total portfolio Inception Returns may include returns from investments no longer held in the current portfolio.
Net IRR:	IRR after advisory fees, incentive and promote. This includes actual cash flows and a reversion representing the LP Net Assets at market value as of the period end reporting date.
Equity Multiple:	The ratio of Total Value to Paid-in-Capital (TVPIC). It represents the Total Return of the investment to the original investment not taking into consideration the time invested. Total Value is computed by adding the Residual Value and Distributions. It is calculated net of all investment advisory and incentive fees and promote.
Vintage Year	The year of a fund's first capital call.

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Asset Class Summary

Asset Class Summary – Key Considerations

Global Equity	• ALM modeling will point toward reducing risk • Evaluation of geographic mix – U.S. vs. non-U.S.
Fixed Income	• Higher interest rates point to higher return expectations • Will model better than in 2021; good way to de-risk and increase liquidity
Absolute Return	• Underwhelming CMA relative to true expected return • Plays a distinct and unique role in the total portfolio

Asset Class Summary – Key Considerations

Private Equity	• Still models well, but industry working through challenges • ALM modeling will point toward reducing risk
Private Credit	• Highest expected return within CMAs • Will model well during ALM and serves a key role - cash flows
Real Assets	• Attractive expected return within CMAs; has performed well • Does opportunity set support higher allocation?
Real Estate	• Facing challenging environment; CMA still fairly robust • Haven't implemented 2021 increase from 7% to 9%