



San Bernardino County Employees' Retirement Assoc.

Staff Report Details (With Text)

File #: 19-662 **Name:**

Type: Action Item

File created: 11/19/2019 **In control:** INVESTMENT COMMITTEE

On agenda: 1/14/2020 **Final action:** 1/14/2020

Title: Recommend that the Board approve the 2020 Real Estate Pacing Plan.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Exhibit A: NEPC Private Real Estate Strategic Investment Plan

| Date | Ver. | Action By | Action | Result |
|-----------|------|----------------------|----------|--------|
| 1/14/2020 | 1 | INVESTMENT COMMITTEE | Approved | Pass |

FROM: Don Pierce, Chief Investment Officer

SUBJECT: 2020 Real Estate Pacing Plan

RECOMMENDATION:

Recommend that the Board approve the 2020 Real Estate Pacing Plan.

BACKGROUND:

At the beginning of each calendar year, investment staff and the Plan's Consultant propose target commitment levels to real estate strategies for the upcoming year. For calendar year 2020, NEPC and staff are recommending a target commitment budget of up to \$140 million, of which a minimum of \$40 million is reserved for each of private core real estate (which includes real estate debt) and private non-core real estate.

Within the real estate program, SBCERA currently holds assets of approximately \$456 million, equal to 4.2% of total plan assets, and has an additional \$209 million 1.9% of total plan assets) in existing uncalled capital commitments to real estate private equity funds. Within the credit portfolio, SBCERA holds an additional approximately \$150 million (1.4% of total plan) in real estate assets.

The recommended 2020 commitment budget of up to \$140 million is designed to build real estate exposure at a measured pace to the plan's long-term strategic target allocation of 7%. By making regular annual commitments to real estate, and increasing real estate exposure gradually over time, SBCERA will continue to build a real estate portfolio that is well diversified by strategy and vintage year. In connection with the annual real estate investment plan process, NEPC and staff can make necessary adjustments to the yearly commitment pacing to maintain and manage the plan with respect to target allocation goals.

SBCERA's real estate investment policy contemplates investments in private core (which includes real estate debt) and non-core real estate and in core real estate public securities, with broad ranges

to allow sufficient flexibility to allocate capital to the most attractive opportunities based on market conditions and available manager opportunities. SBCERA's policy requires that the real estate portfolio be managed to a long-term composition of at least 50% private core (which includes real estate debt), at least 30% private non-core, and no more than 20% public core real estate investments.

The proposed real estate pacing plan will be implemented primarily through investments in both open-end and closed-end funds, and potentially co-investments alongside such funds. Preference will be given to existing manager relationships in which staff and NEPC have a high level of confidence including, where possible, strategic long-term partnerships established by SBCERA utilizing the MCA structure. The benefits of these structures include favorable economic terms, greater transparency, and enhanced information flows between SBCERA and its investment managers.

At this time anticipated 2020 commitments to real estate include the following:

| <i>Manager</i> | <i>Relationship</i> | <i>Opportunity</i> |
|----------------|---------------------|--|
| Partners Group | MCA | Possible Direct & Secondary Investments |
| Kayne Anderson | MCA | KA RE Partners VI KA RE Debt IV |
| Invesco RE | Existing Manager | Possible co-investments alongside Asia Core Fund |

BUDGET IMPACT:

Investment Costs are deducted from Net Asset Value.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Laura Vossman

ATTACHMENTS:

Exhibit A: NEPC Private Real Estate Strategic Investment Plan