



# BOARD OF RETIREMENT

## Staff Report

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**File #:** 19-662.1

**Agenda Date:** 2/6/2020

**Agenda #:** 25.

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**FROM:** Don Pierce, Chief Investment Officer

**SUBJECT:** 2020 Real Estate Pacing Plan

**RECOMMENDATION:**

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

**COMMITTEE REVIEW:**

This item was reviewed by the Investment Committee at its January 14, 2020 meeting and recommends Board approval, with a 3-0 vote. Trustee Mason was absent from this portion of the meeting.

**BUDGET IMPACT:**

Investment Costs are deducted from Net Asset Value.

**STRATEGIC PLANNING GOAL/OBJECTIVE:**

Prudent Fiscal Management

**STAFF CONTACT:**

Don Pierce

**ATTACHMENTS:**

Exhibit A: NEPC Private Real Estate Strategic Investment Plan