

## Public Agenda Item #14

# *\*Review, Discussion and Consideration of Real Estate - (Action)*

March 10, 2021

Robert Sessa, CFA, Director of Real Estate  
Simon Mok, CFA, Real Estate Portfolio Manager

# Public Agenda Item

## *Real Estate Market Update and Program Overview*



Logistics Facility, South Korea, Brookfield



The Tribute Mid-Rise Multifamily, Raleigh, NC, Waterton



St. Louis Ambulatory Surgery Center, Hammes Partners

March 10, 2021

Robert Sessa, CFA, Director of Real Estate

# Market Update & Program Overview

## Agenda

- Real Estate Overview
- Staffing
- Listed Securities as of December 31, 2020
- Private Real Estate
- Pandemic Thoughts
- Accomplishments
- Initiatives



# Market Update & Program Overview

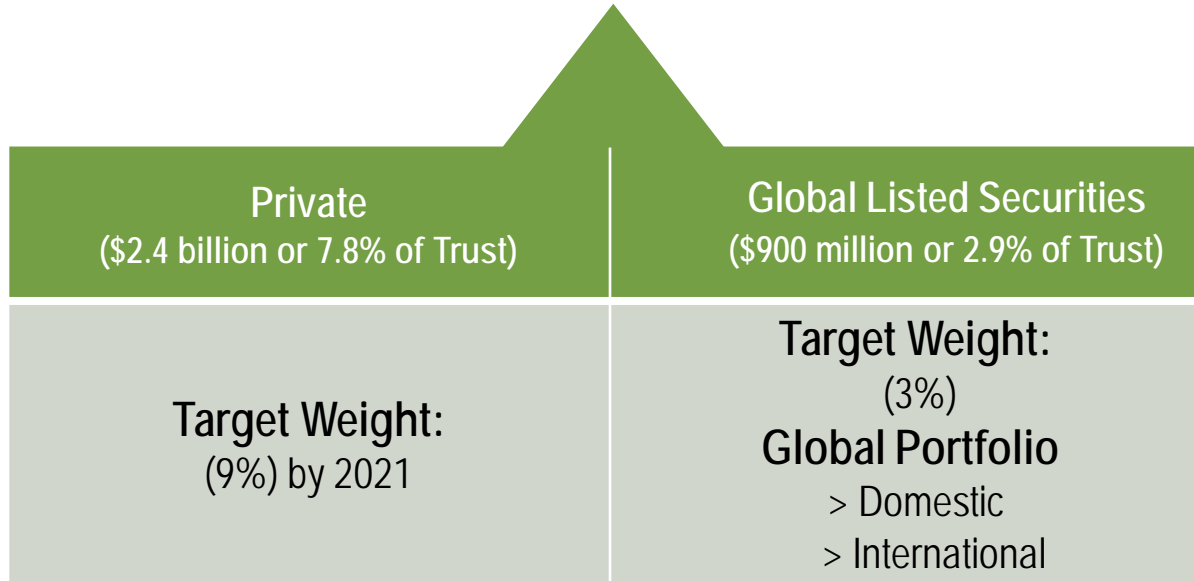


## Overview

Target Weights:

**12% of Pension Fund**

Current weight 10.7% or  
\$3.3 billion as of December 31



# Market Update & Program Overview



## Staffing

**Bob Sessa, CFA**  
Director of Real Estate

- 26 years work experience, 19 Real Estate
- BS from Fordham University and MBA from UT Austin

**Annie Xiao, CFA**  
Portfolio Manager

- Covers Int'l Listed Securities
- 19 years work experience, 14 Real Estate
- BS from Zhengzhou University and MBA from Duke

**Ken McDowell, CPA**  
Portfolio Manager

- Private Real Estate Focused
- 29 years work experience, 29 Real Estate
- BA and BS from Ohio State University

**Amy Cureton**  
Portfolio Manager

- Private Real Estate Focused
- 17 years work experience, 12 Real Estate
- BA and MBA from UT Austin

**Simon Mok, CPA, CFA**  
Portfolio Manager

- Private Real Estate Focused
- 21 years work experience, 18 Real Estate
- BA and MPA from UT Austin

**Tony Cardona,**  
Portfolio Manager

- Public Real Estate Focused
- 11 years work experience, 6 Real Estate
- BS from Cornell University

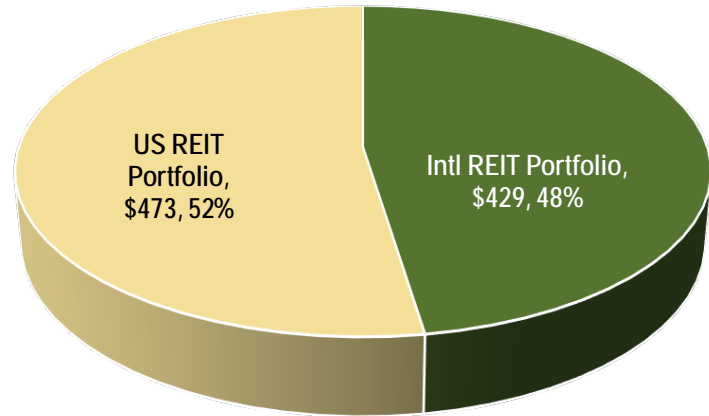
**Sriyas Pande**  
Investment Analyst

- Supports Private and Public Real Estate PMs
- 5 years work experience, 4 Real Estate
- BA from Texas Christian University and MS from Baruch College

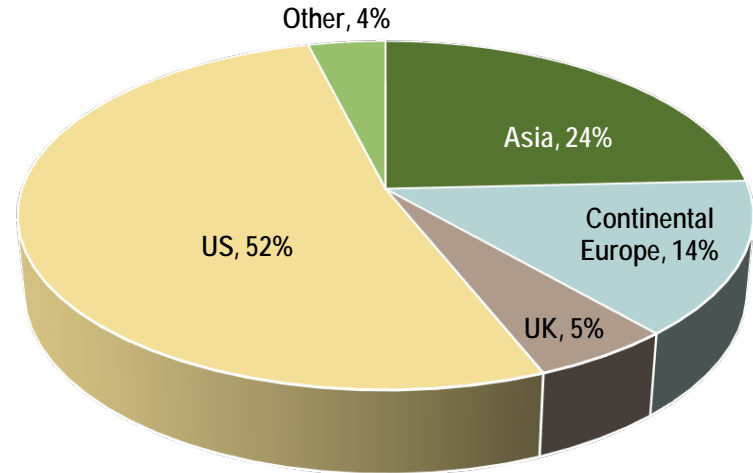
# Market Update & Program Overview

## Listed Securities as of December 31, 2020

Total Portfolio: \$903 million



Total Portfolio - Geography



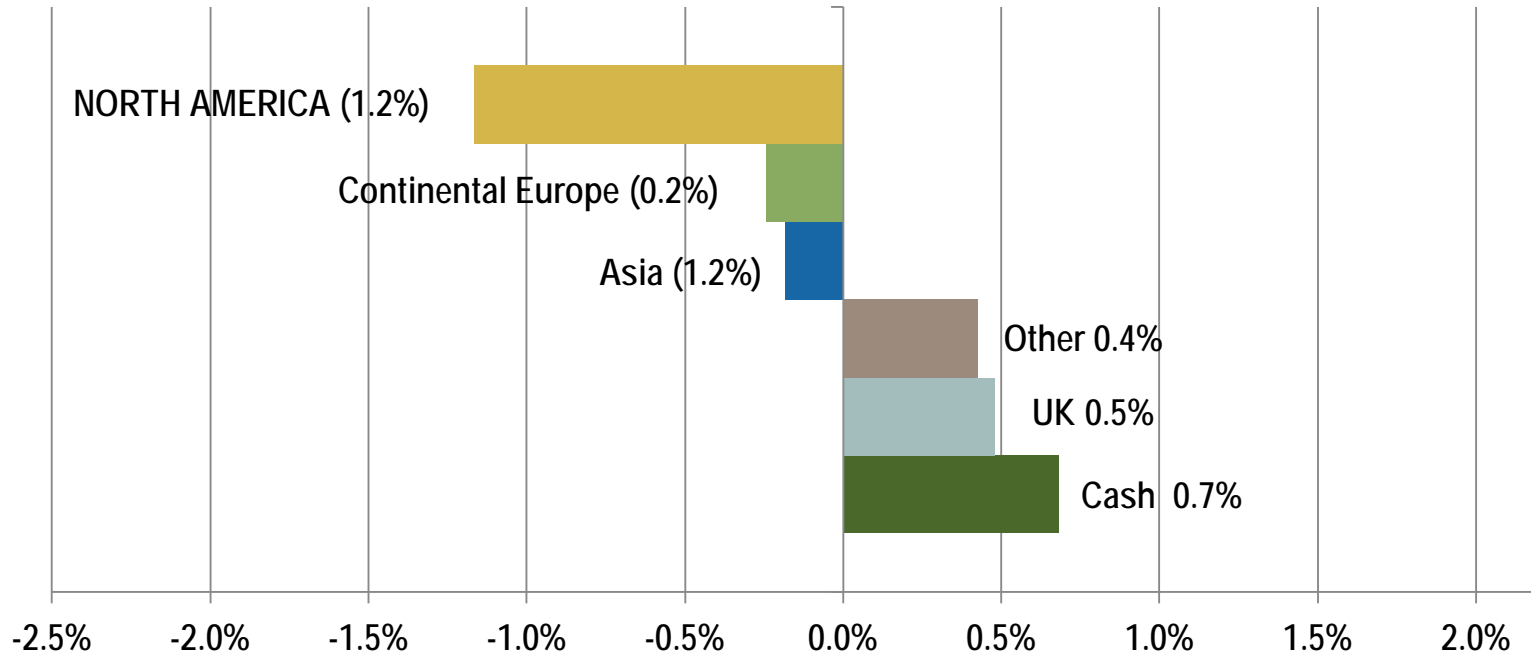
Note: Other includes Canada, Middle East and Cash

# Market Update & Program Overview



Listed Securities as of December 31, 2020

## Portfolio Over/Underweight

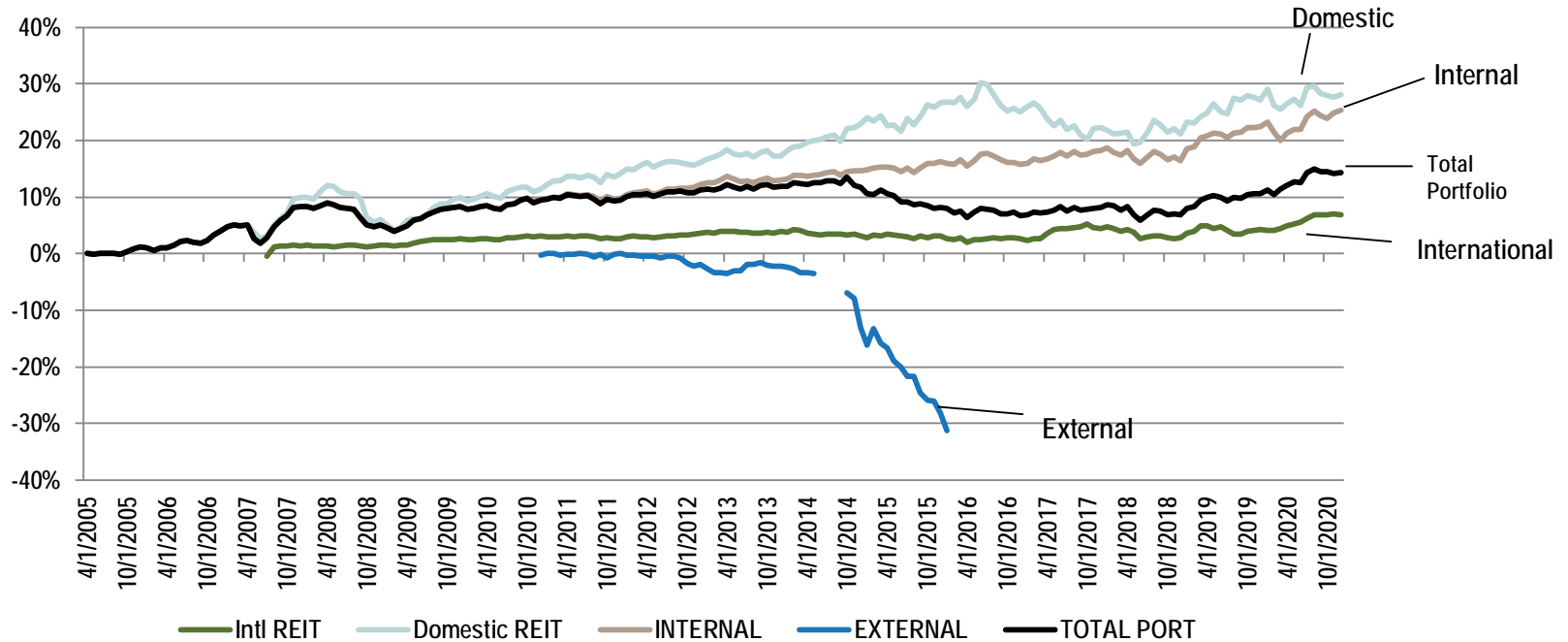


# Market Update & Program Overview



Excess Total Return as of December 31, 2020

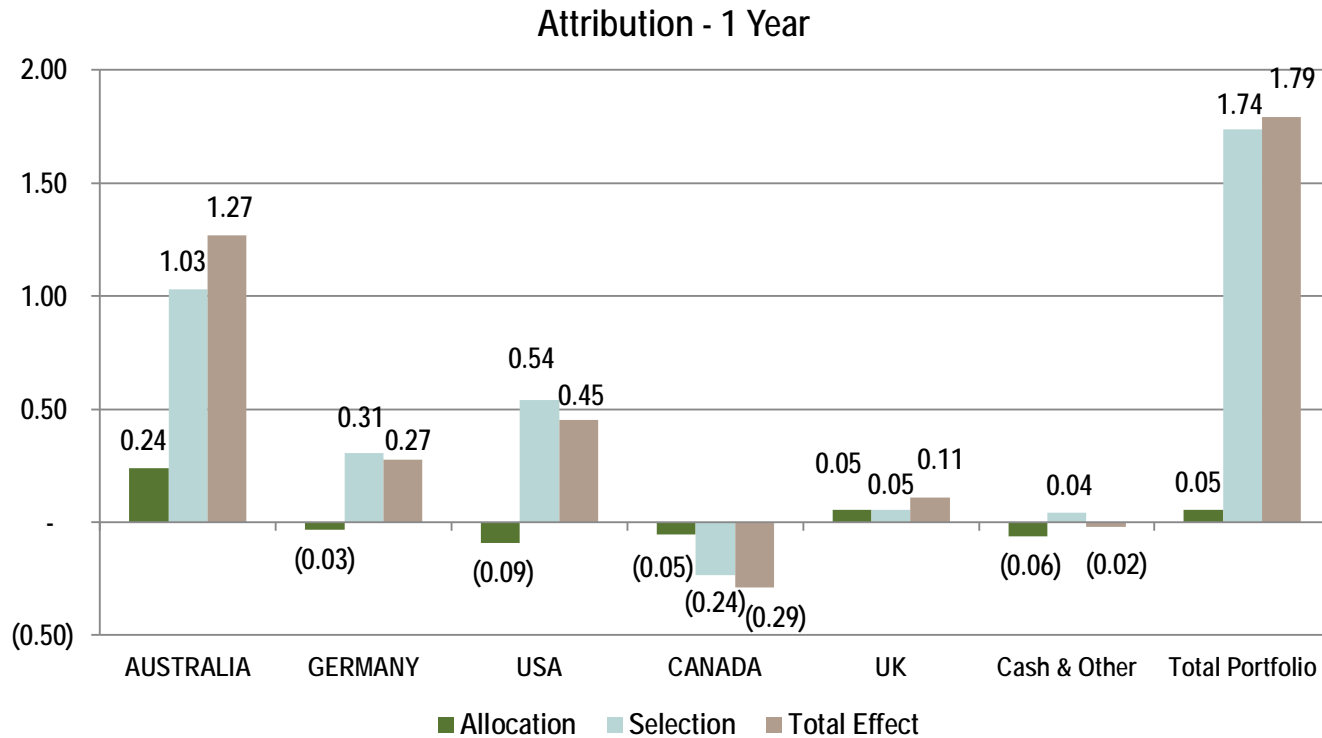
## Since Inception Cumulative Excess Total Return





# Market Update & Program Overview

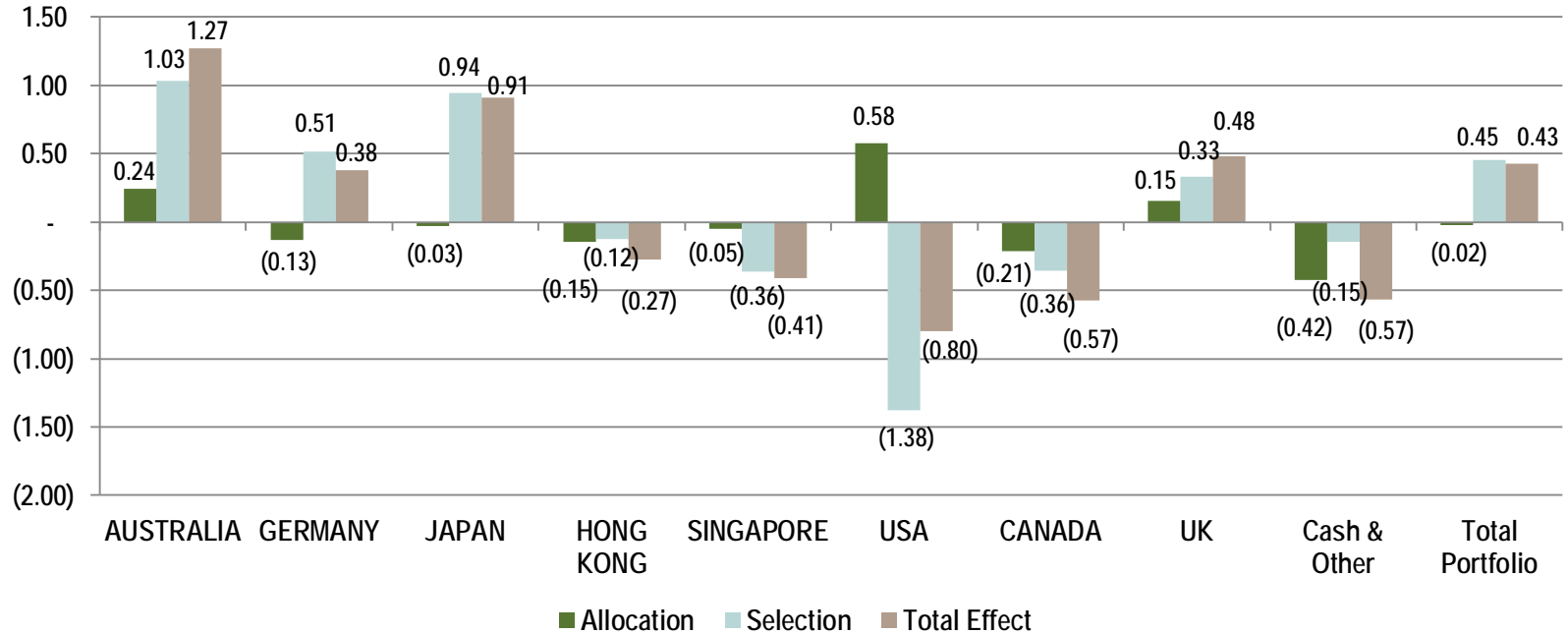
Attribution as of December 31, 2020 – One Year



# Market Update & Program Overview

## Attribution as of December 31, 2020 – Five Years

Attribution - 5 Year



Note: Internal portfolios only

# Market Update & Program Overview



## *Private Real Estate as of December 31, 2020*

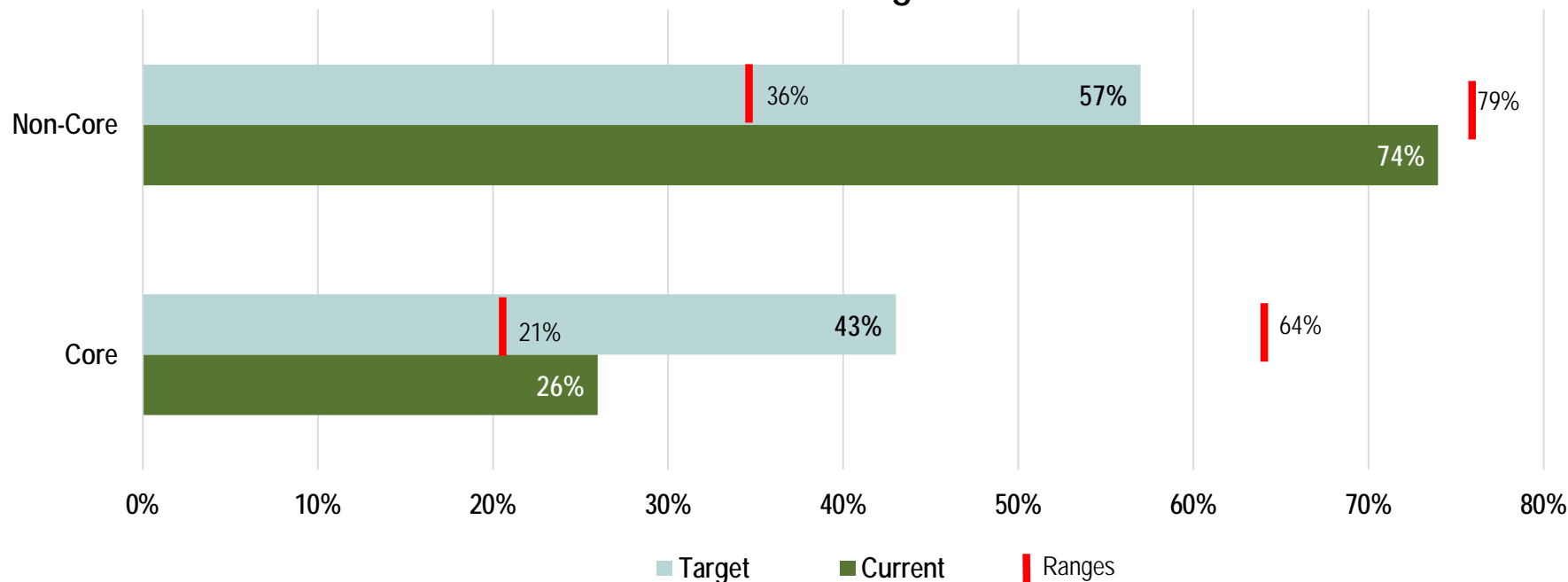
- **PORTFOLIO NET ASSET VALUE:** \$2.4 billion
- **INVESTMENT TYPE:** Equity 92%; Debt 8%
- **OVERALL LOAN TO VALUE RATIO:** 52%
- **COMMITMENTS:**
  - Total Portfolio (since inception) \$5.3 billion with 83 Investments (73 active deals) and 38 managers
  - FY 2021 Committed \$175 million to 3 deals
- **PROGRAM AVERAGE ECONOMICS:**
  - Management Fee: 110 bps
  - Carry: 16.70%
- **CAPITAL CALLED:**
  - Since Inception  $\approx$  \$4.1 billion
  - FY 2021 \$143 million
- **DISTRIBUTIONS:**
  - Since Inception  $\approx$  \$3.1 billion
  - FY 2021 \$150 Million

# Market Update & Program Overview



## Asset Allocation vs. Target as of December 31, 2020

### Current Allocation vs Target Allocation



Note: Current allocation based on current NAV

Non-Core Target Weight – 57%; Range 36% - 79%

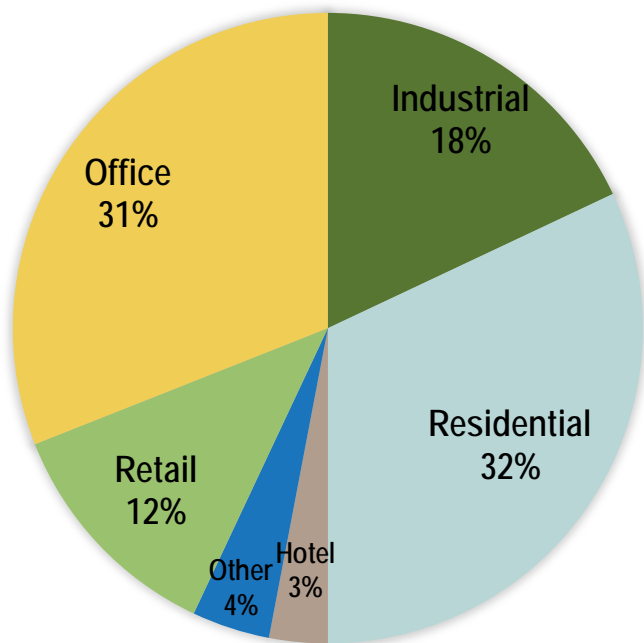
Core Target Weight – 43%; Range 21% - 64%

# Market Update & Program Overview

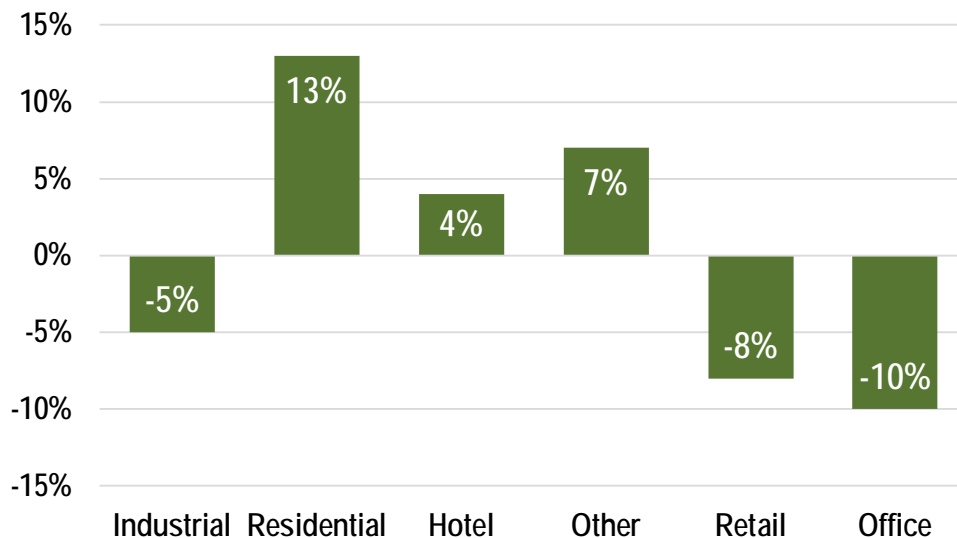


## Property Type Weights as of September 30, 2020

ERS Portfolio by Property Type  
Based on ERS' NAV, Global



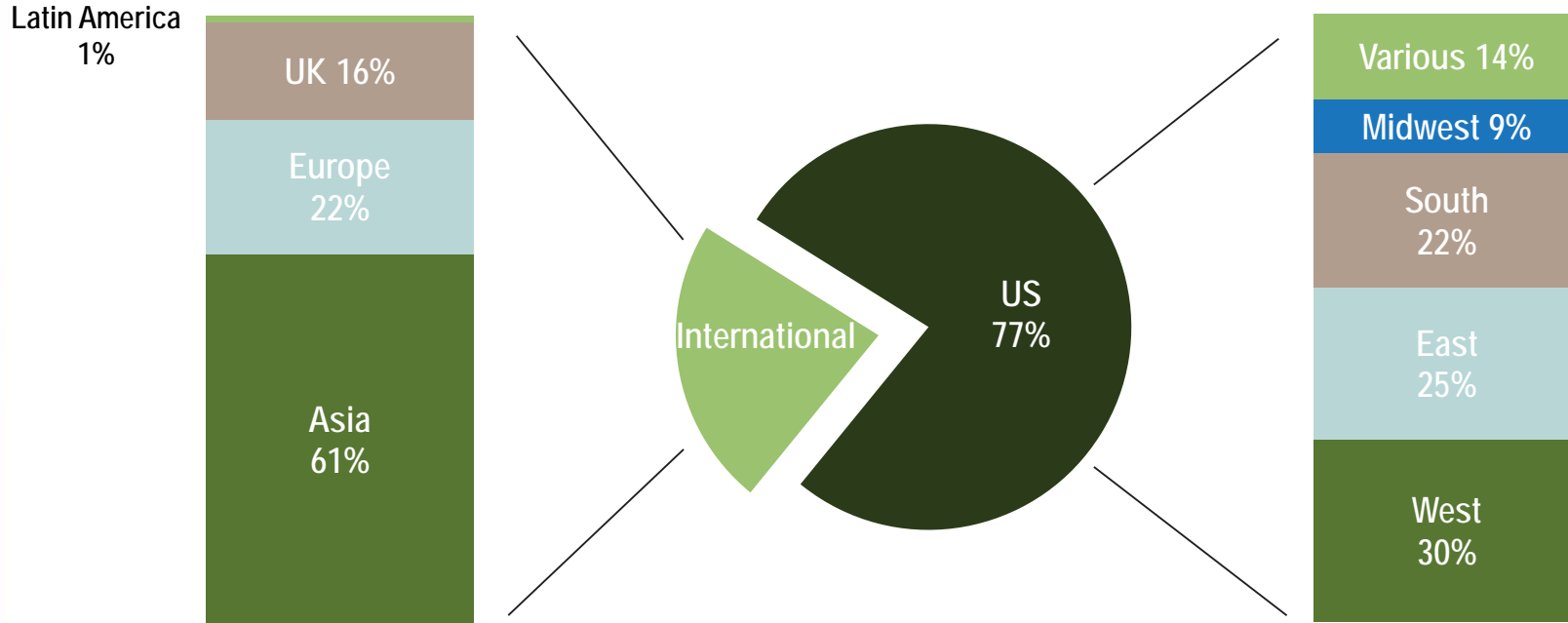
ERS Portfolio Compared to NCREIF Property  
Index Benchmark, US Only



*Note: Residential includes niche segments (e.g. Student Housing, Senior Housing and Manufactured Housing, etc.) and Office includes Life Science and Medical Office. Other includes portfolios of assets, Self Storage, Data Centers, and Proptech.*

# Market Update & Program Overview

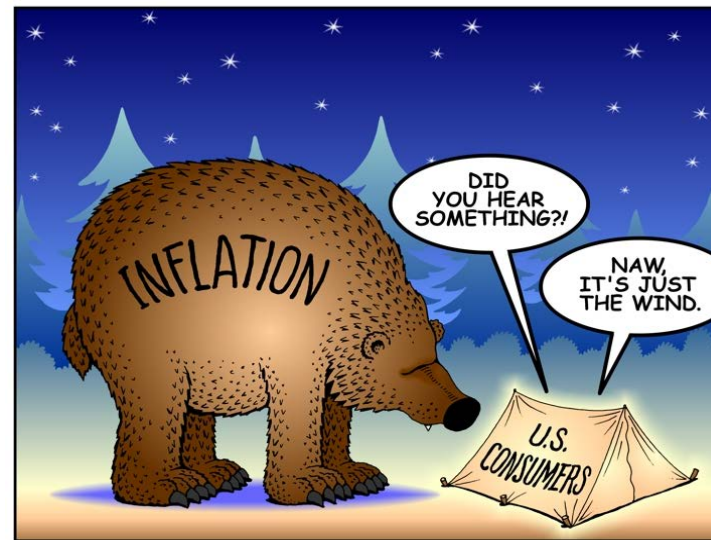
*Geographic Weights Based on ERS' NAV as of Sept. 30, 2020*



# Pandemic Thoughts

## *Impact on Real Estate*

- Hotels and Retail bore the brunt but rental collections are increasing
- Work, Live, Travel differently post Covid-19??
- Acceleration of existing trends
  - eCommerce (especially grocery sales)
  - Supply chain reconfiguration
  - Cloud computing adoption
  - Exodus from Coastal cities
- Government Intervention in Real Estate
- Global Monetary and Fiscal Response
  - Short and Long Term Impacts
  - Inflationary ??



# Market Update & Program Overview



## *FY21 Accomplishments*

- Internal REIT portfolios have outperformed the benchmark for the 1,3,5 years and since inception periods
- Private Real Estate Portfolio has outperformed the benchmark since inception
- Managed to continue to underwrite new deals and monitor the portfolio remotely
- Negotiated an estimated \$150 million in savings since inception plus non-economic terms to improve corporate governance
- Hired a new analyst
- In compliance with the Real Estate Guidelines



# Market Update & Program Overview



## *FY22 Initiatives*

- Continue to commit new capital to Private Real Estate on a selective basis
- Understand the Post Covid-19 environment and analyze repositioning the private real estate portfolio
- Targeting \$350 million in commitments with a range of \$300 million to \$700 million and 3 to 8 new commitments
- Continue to improve upon the REIT investment process and performance



Questions?



" IT MUST BE NICE HAVING A JOB  
WHERE YOU CAN WORK AT HOME. "

*Mother* **HUMOR**

*Review, Discussion and Consideration of Amended  
Real Estate Annual Tactical Plan For Fiscal Year  
2021- (**Action**)*

March 10, 2021

Robert Sessa, CFA, Director of Real Estate

# Proposed FY21 Amended Tactical Plan



## *Overview*

- Original FY21 Tactical Plan completed in late March/early April 2020 at depths of market sell off
- Weighting of Private Real Estate at that time was 8.9% (target allocation is 9%)
- In hindsight, the tactical plan was too conservative
- Weighting of Private Real Estate as of December 31, 2020 is 7.8%

# Proposed FY 2021 Amended Tactical Plan



*Fiscal Year 2021*

	FY21 Tactical Plan - Original		FY21 Tactical Plan – Proposed Amended	
Category	Number of new Investments	New Commitment in millions (range)	Number of New Commitments	Commitment Amount in millions
Core	0 – 2	\$150 (\$0 - \$300)	2 – 4	\$250 (\$200-\$400)
Non-Core	3 – 6	\$150 (\$0 - \$300)	4 – 6	\$250 (\$200-\$400)
<b>Total</b>	<b>3 – 8</b>	<b>\$300 (\$200 - \$600)</b>	<b>6 - 10</b>	<b>\$500 (\$400-\$800)</b>

Questions?  
**Action Item**

*Review, Discussion and Consideration of Proposed  
Real Estate Annual Tactical Plan for Fiscal Year  
2022- (**Action**)*

March 10, 2021

Robert Sessa, CFA, Director of Real Estate

Simon Mok, CFA, CPA, Portfolio Manager

# Proposed FY22 Tactical Plan



## Overview

- Private Real Estate Annual Tactical Plan is a guideline for investing
- Current value of Private Real Estate is \$2.4 billion
- Currently at 7.8% of the total ERS portfolio (target allocation is 9%)
- Commitments will target \$350 million for FY22, with a range of \$300 million to \$700 million
- \$50 million - \$100 million commitment sizes, but may be smaller or larger for niche or special situations



# Proposed FY22 Tactical Plan

*Fiscal Year 2021 in Review*



FY21 Tactical Plan (Amended) <sup>A</sup>			FY21 Actual (as of December 31, 2020)	
Category	Number of new Investments	New Commitment in millions (range)	Number of New Commitments	Commitment Amount in millions
Core	2 – 4	\$ 250 (\$200 -\$400)	0	\$ 0
Non-Core	4 – 6	\$ 250 (\$200 - \$400)	3	\$175
Total	6 – 10	\$ 500 (\$400 - \$800)	3	\$175

<sup>A</sup> – This assumes the FY21 Amended Tactical Plan is approved. Original targets were \$300 million in total with \$150 million targets each for core and non-core.

# Proposed FY22 Tactical Plan

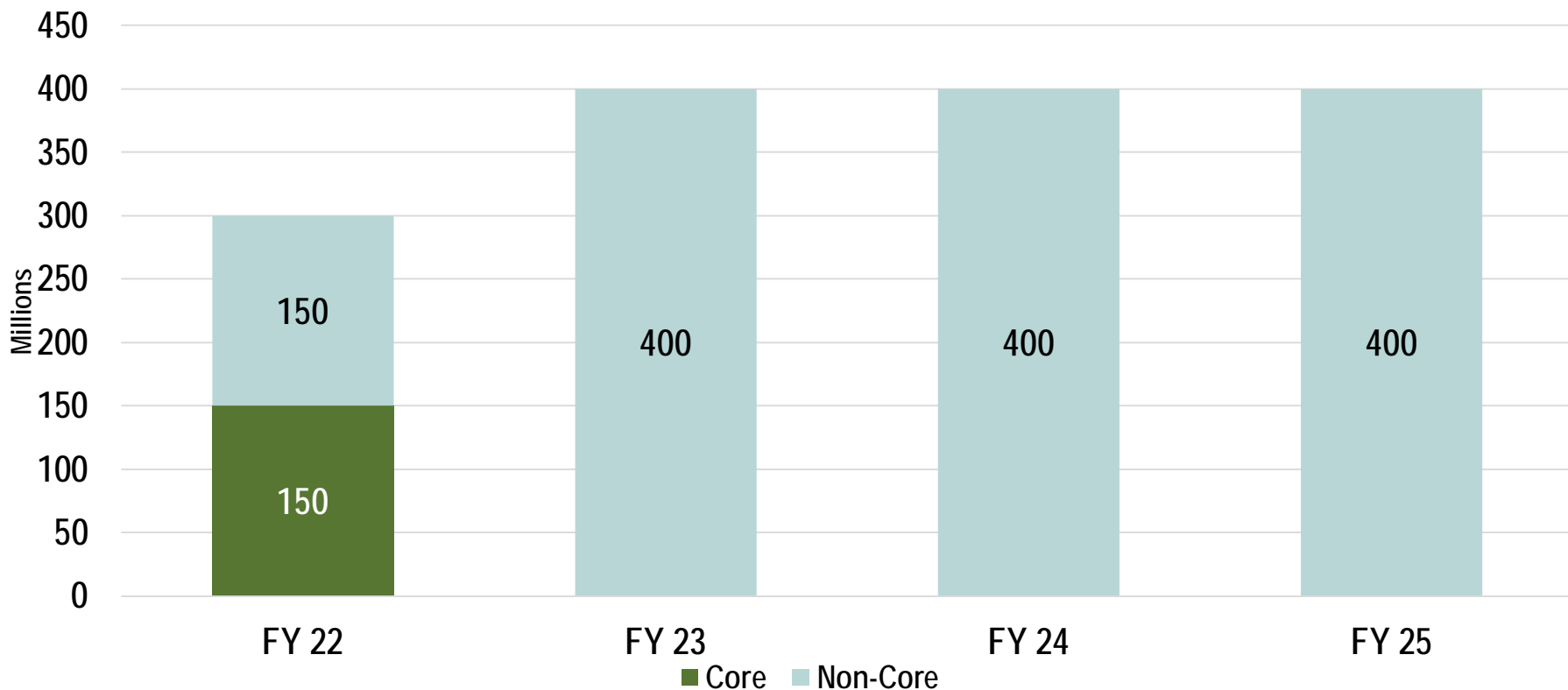


## FY22 Proposed Tactical Plan

Category	Number of new Investments	New Commitment in millions (range)
Core	2 – 3	\$175 (\$0 - \$350)
Non-Core	3 – 6	\$175 (\$0 - \$350)
<b>Total</b>	<b>3 – 8</b>	<b>\$350 (\$300 - \$700)</b>

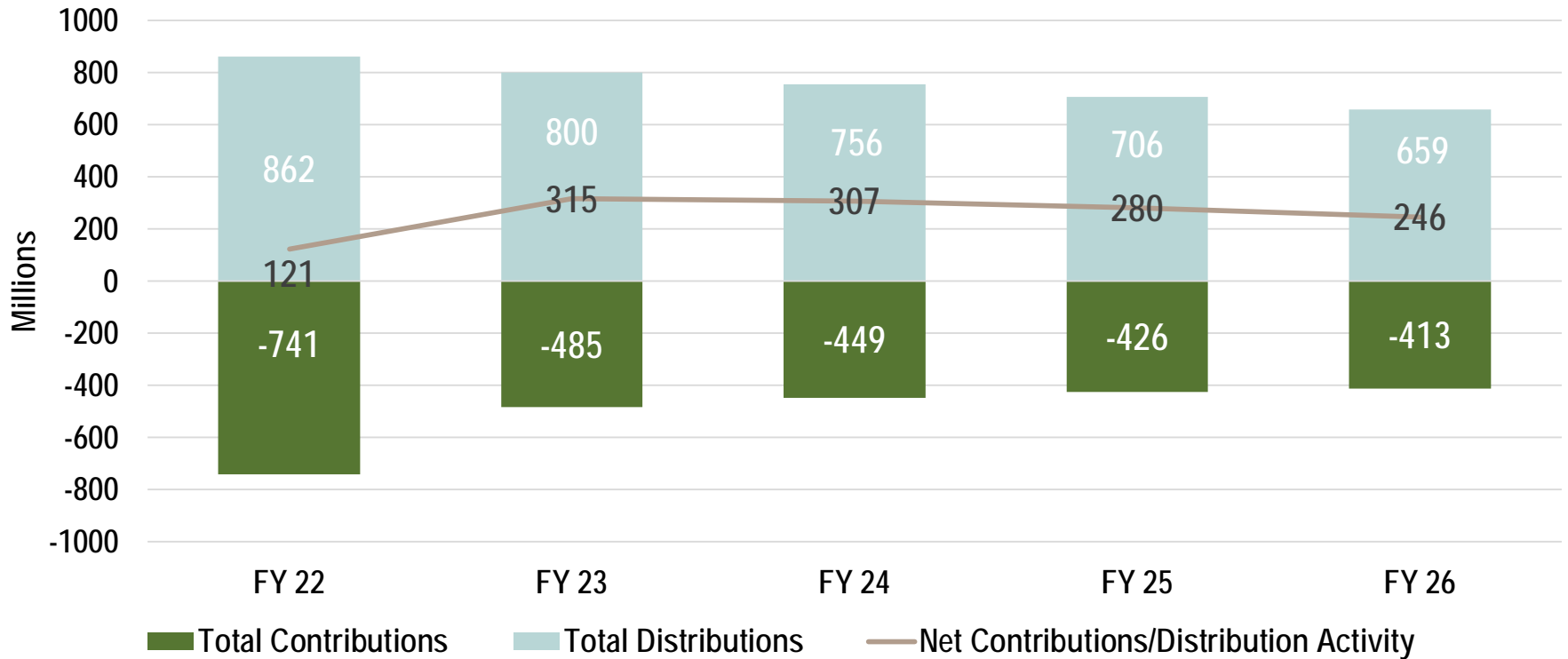
# Proposed FY22 Tactical Plan

## Targeted New Commitments Through Fiscal Year 2025



# Proposed FY22 Tactical Plan

## Projected Cash Flows Through FY2025



# Proposed FY22 Tactical Plan



## *Near Term Strategy*

- Understand post pandemic world and potential opportunities
- Build relationships of scale with strong partners and small groups of investors
- Niche type funds or other strategies that will diversify the existing portfolio (life science, self-storage, manufactured housing and debt funds)
- Co-Investments and separate accounts to leverage strategic partnerships
- Explore long term holds for select investments, including core
- Selective international investments – Asia and possibly the UK

Questions?  
**Action Item**