

## Public Agenda Item #15

# *Consideration and Annual Review of Real Estate Program and Proposed Annual Tactical Plan for Fiscal Year 2023 – (Action)*

August 24, 2022

David T. Veal, Chief Investment Officer, CFA, CAIA, FRM  
Robert Sessa, Managing Director of Real Assets  
Amy Cureton, Director of Private Real Estate  
Annie Xiao, Director of Public Real Estate

# Real Estate

## Program Overview



### Two Separate Programs

- **Public**
  - Return seeking allocation to provide long-term growth
  - Program began in 2005
- **Private**
  - Return seeking allocation to provide long-term growth
  - Program began in 2008

### Investment Objective

- Outperform benchmark over rolling 5-year (for Public Real Estate) and 10-year periods (for Private Real Estate)
- Maintain compliance with risk parameters

# Public Real Estate

## Key Characteristics



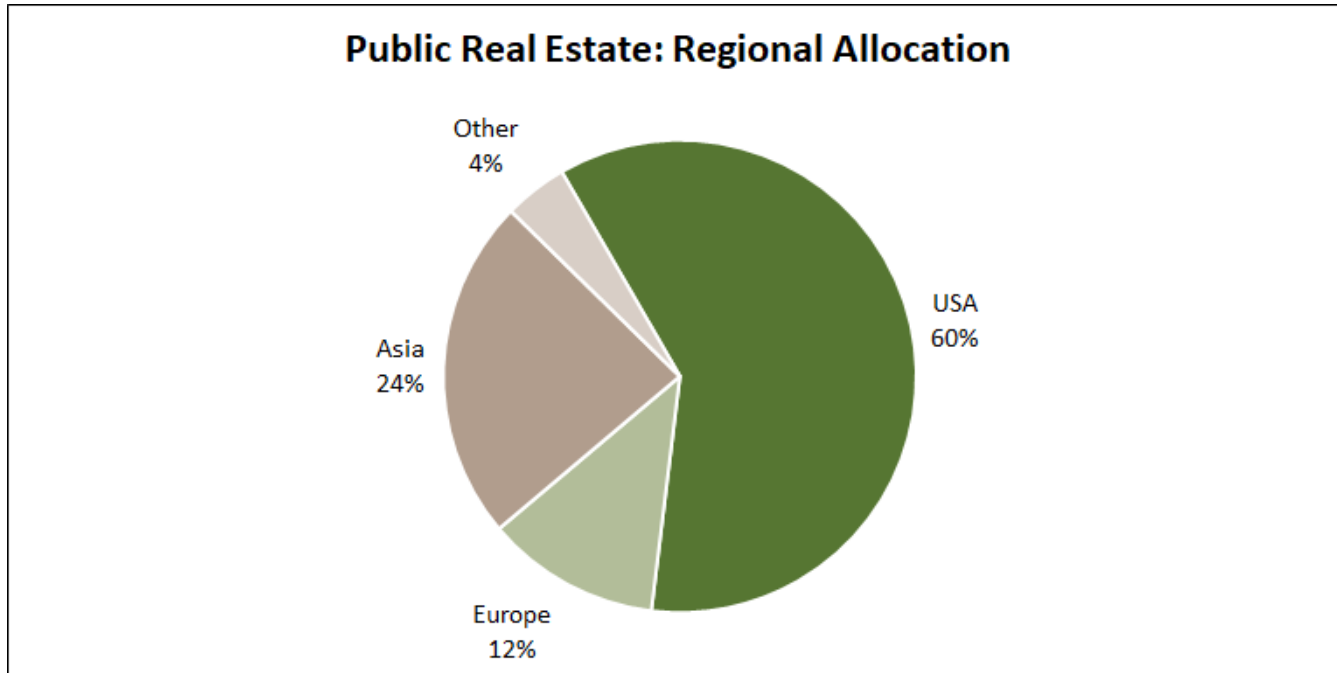
Attribute	Public Real Estate Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 3%, range from 0% to 13%
Management Style	Internally managed but can hire external managers
Performance Objective	Outperform FTSE EPRA/NAREIT Developed Total Return Index
Risk Budget	Tracking error target of 200 basis points.
Information Ratio	$\geq 0.30$ expected
Investment Expenses	~11 bps total

# Public Real Estate

## Portfolio Structure



- \$914 million represents 2.8% of the Trust, well-diversified across major regions

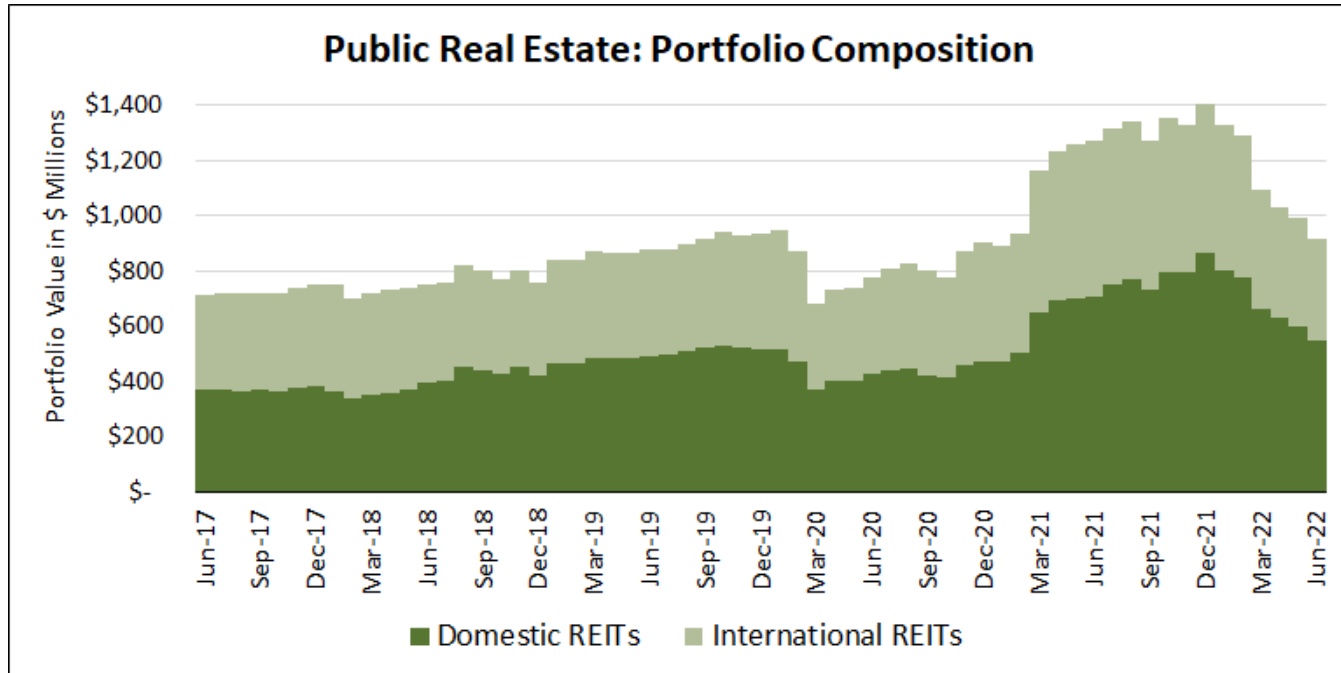


# Public Real Estate

## *Historical Composition*



- \$200 million tactically allocated in March 2021, \$250 million moved out in March 2022

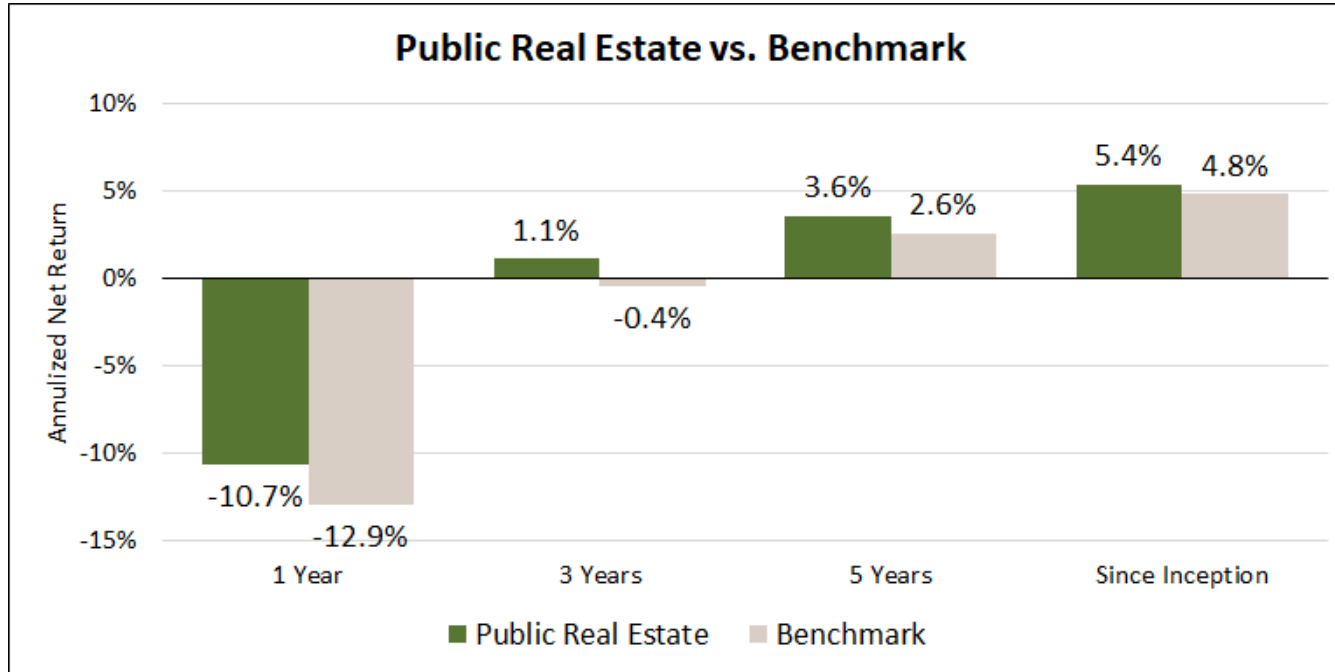


# Public Real Estate

## Performance Snapshot as of June 30, 2022



- Strong performance across all time horizons, including +101 bps of value add last 5 years

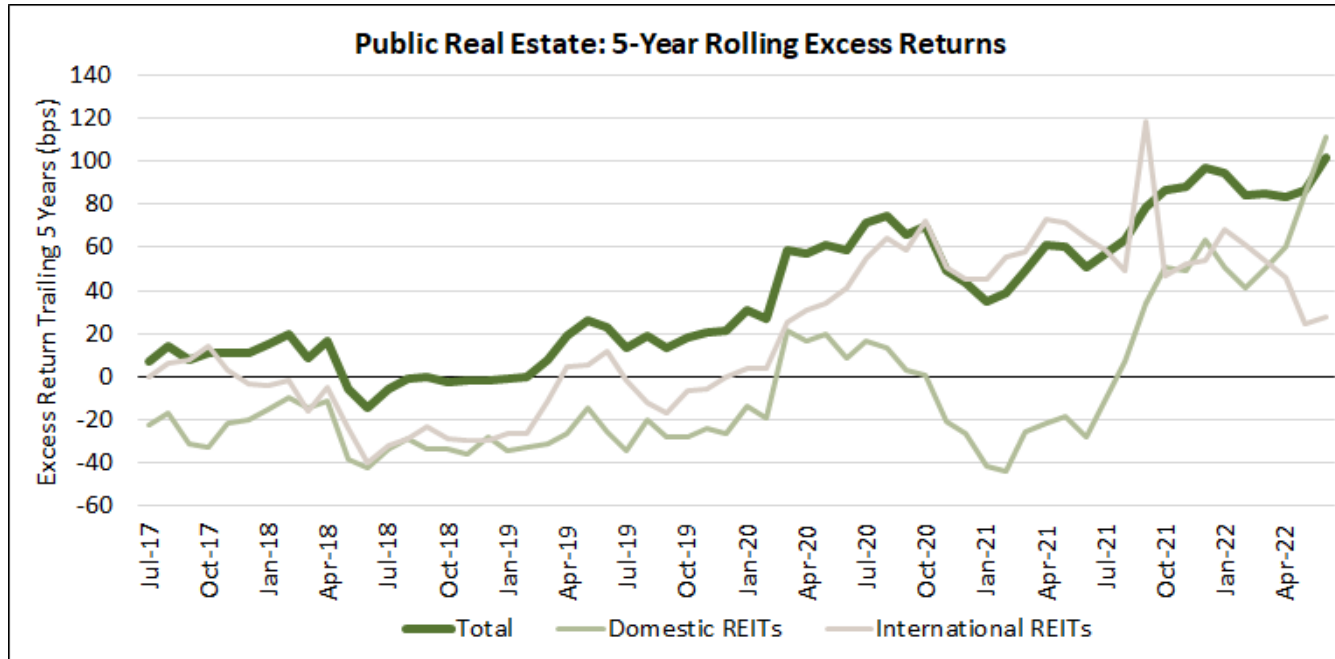


# Public Real Estate

## Relative Returns



- Solid performance from both domestic (+111 bps) and international (+27 bps) portfolios

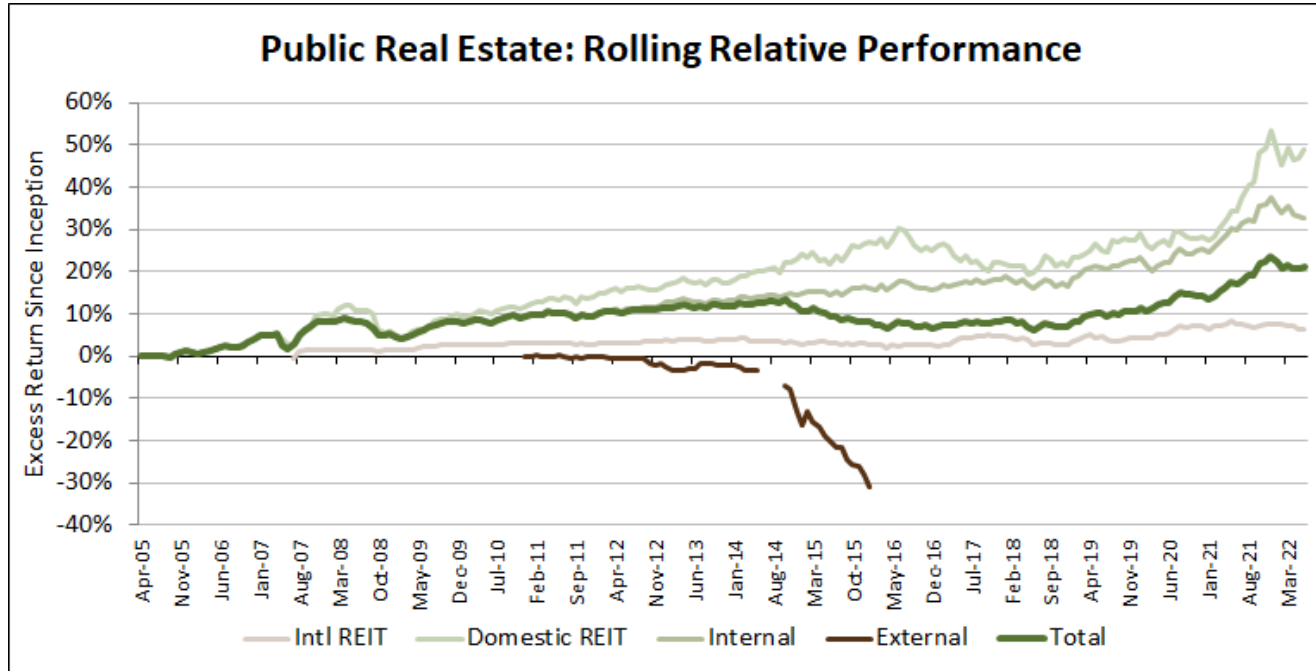


# Public Real Estate Program

## Cumulative Excess Return



- Portfolios have added significant value over time despite periods of underperformance



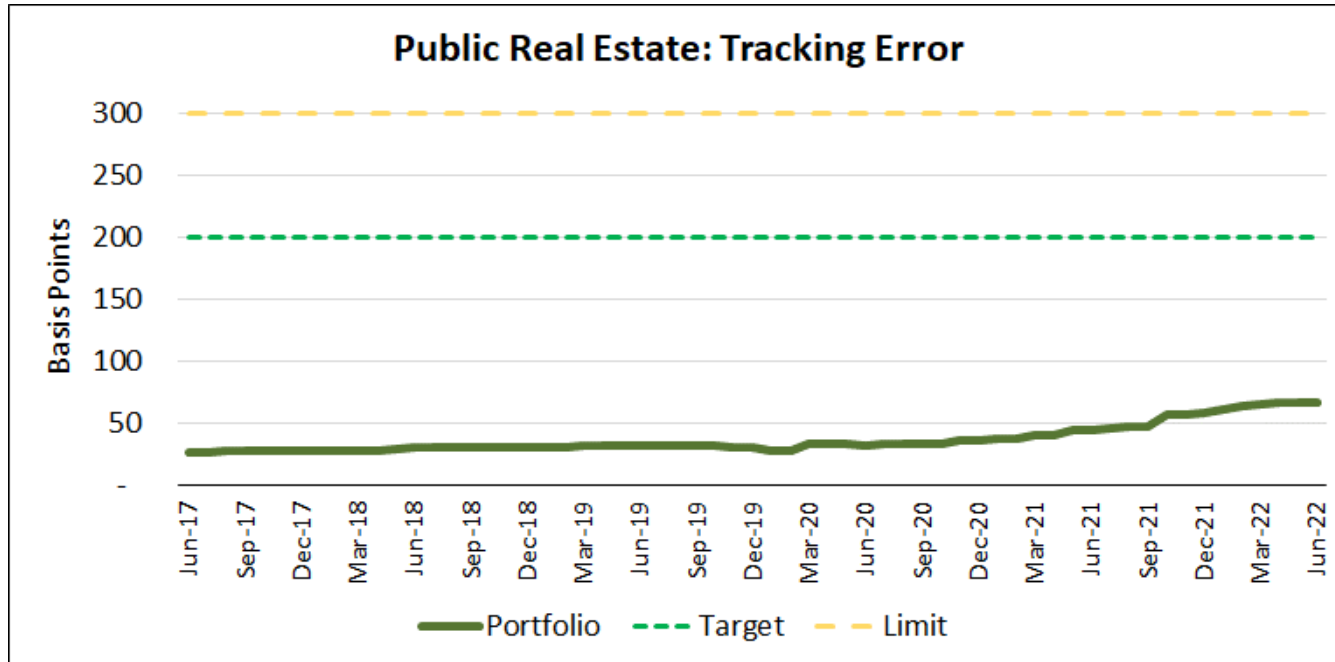


# Public Real Estate

## Risk Budget



- Tracking error has been well below target, but is increasing as the program matures



# Public Real Estate

## Goals and Objectives for Fiscal Years 2022 & 2023



### Fiscal Year 2022

- Outperform respective benchmarks – Ongoing
- IPS compliant
- Continue to Improve Investment Process

### Fiscal Year 2023

- Outperform respective benchmarks
- IPS compliant
- Continue to Improve Investment Process
- Find replacement for Domestic REIT PM position (Tony Cardona departed)

# Private Real Estate

## Key Characteristics



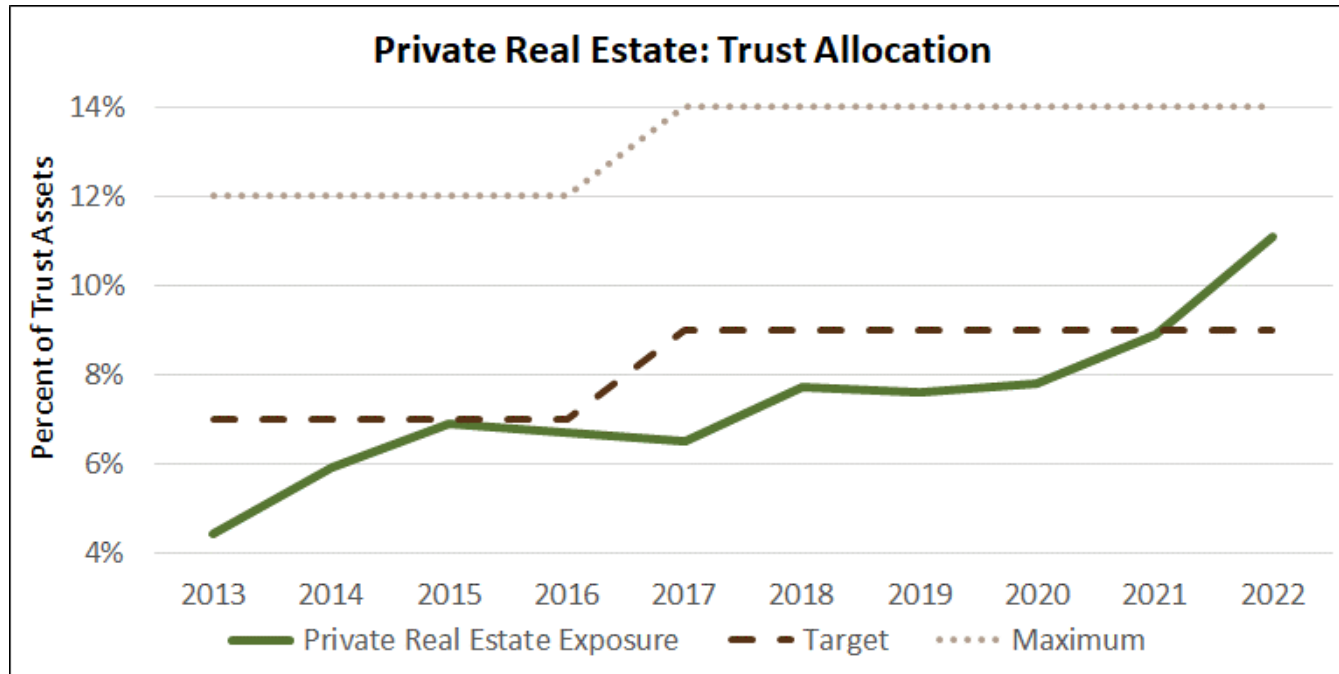
Attribute	Private Real Estate Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 9%, range from 4% to 14%
Performance Objective	Outperform NCREIF-ODCE Net Total Return Benchmark
Management Style	Externally managed commingled funds
	Also includes fund of funds, separate accounts, and co-investments
Risk Mitigation	Diversification across vintages, geographies, strategies, sectors and managers
Investment Expenses	~175 basis points external, ~10 bps internal

# Private Real Estate

## *Historical Allocation*



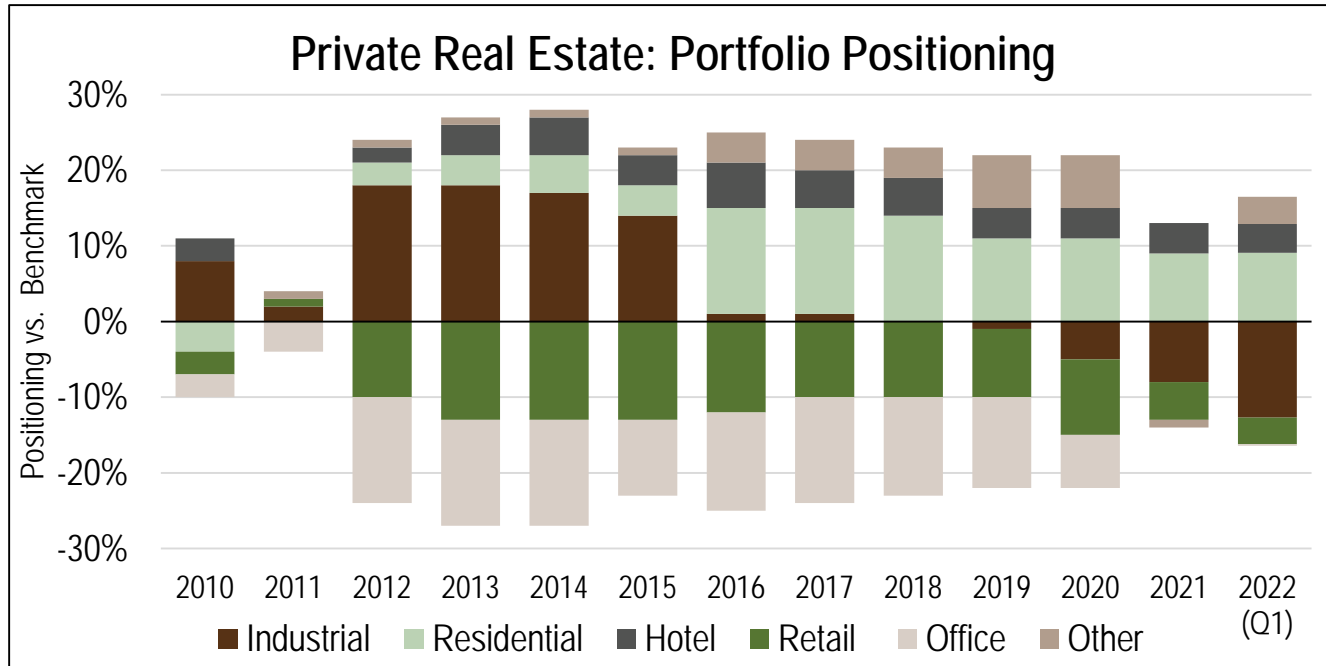
- Strong performance and denominator effect has led to increased allocation over time



# Private Real Estate

## *Historical Composition*

- Highly diversified with current tilts toward residential and away from industrial

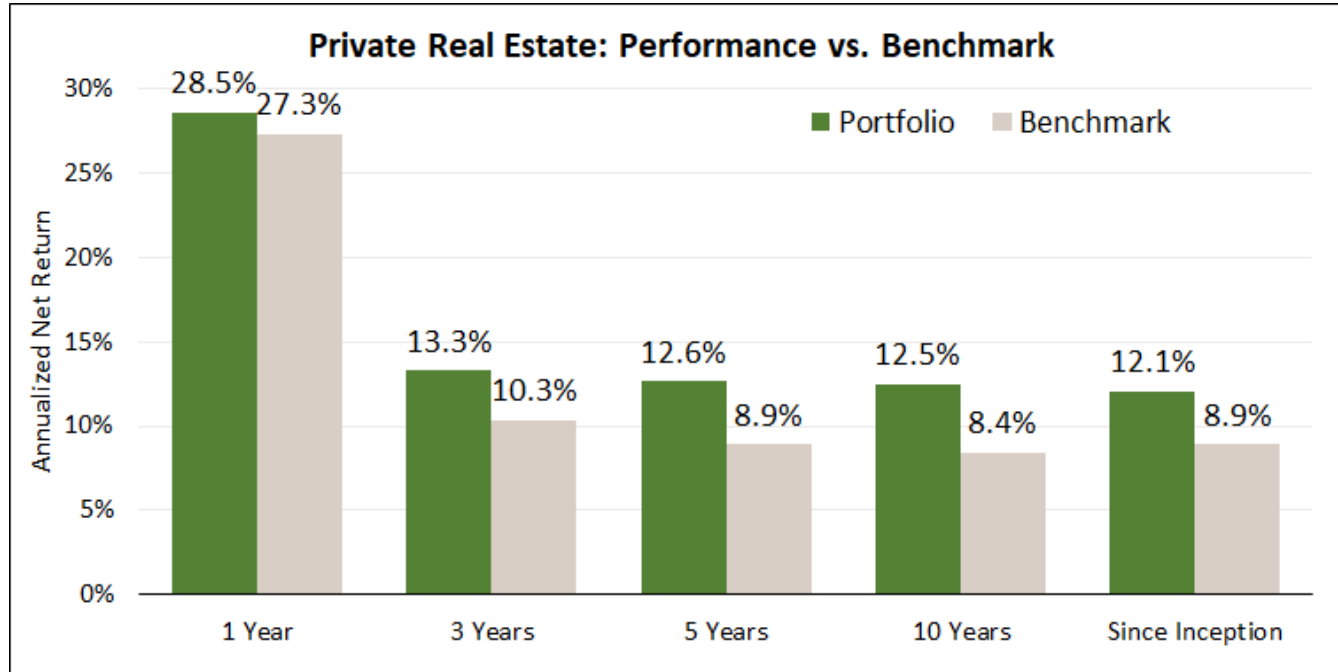


# Private Real Estate

## Performance Snapshot as of June 30, 2022



- Strong performance across all horizons, including 400 bps of value add over last 10 years

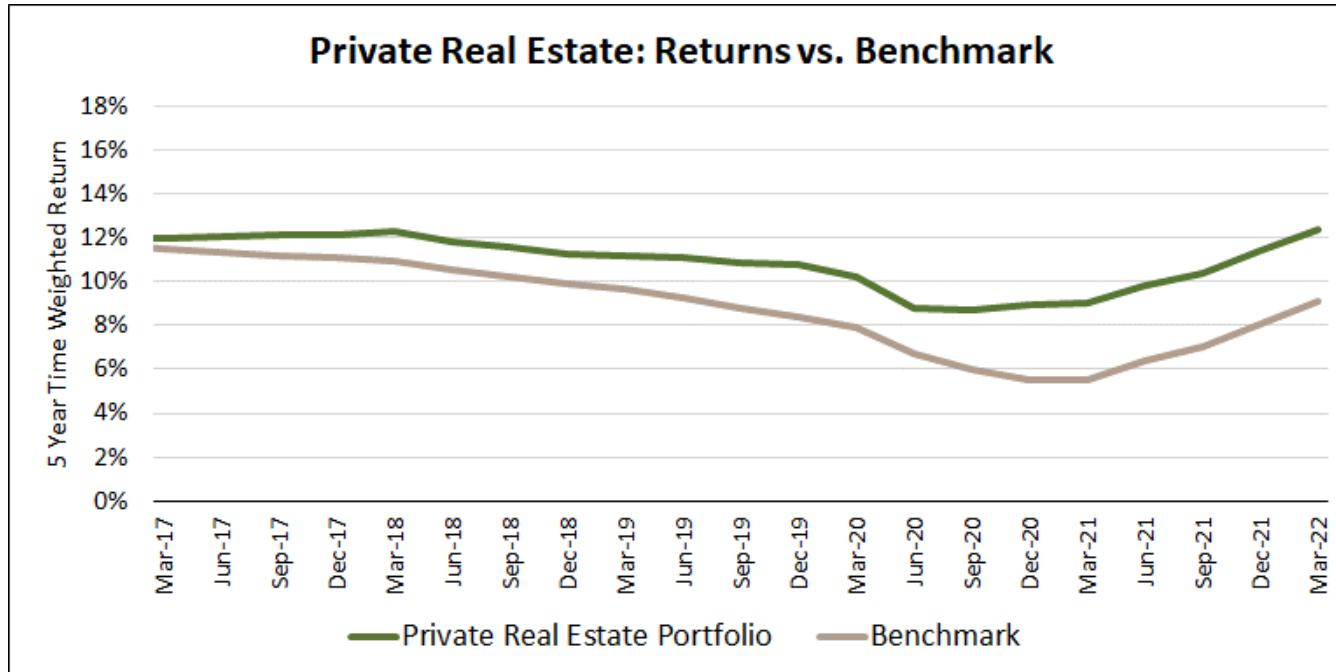


# Private Real Estate

## Historical Performance



- Strong and improving performance vs. benchmark across recent horizons



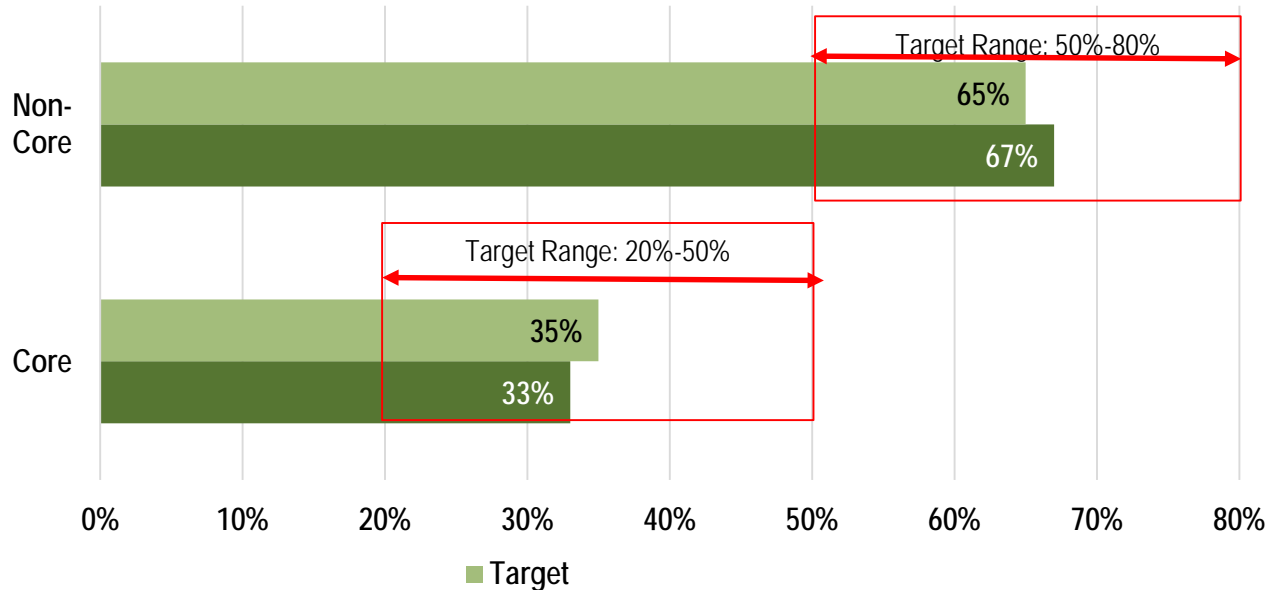
# Private Real Estate

## *Risk Diversification*



- Portfolio remains diversified and slightly overweight non-core property types

### Private Real Estate: Allocation vs. Target



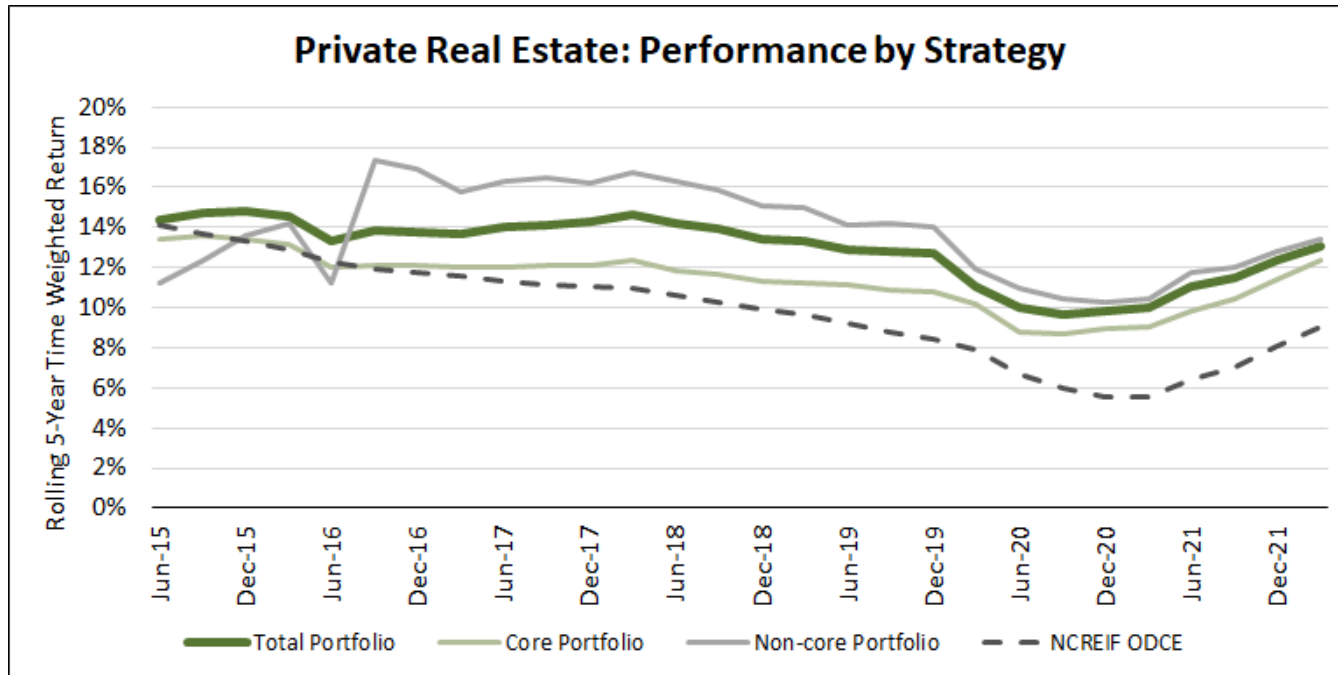


# Private Real Estate

## Historical Performance



- Strong performance by both core and non-core across recent horizons

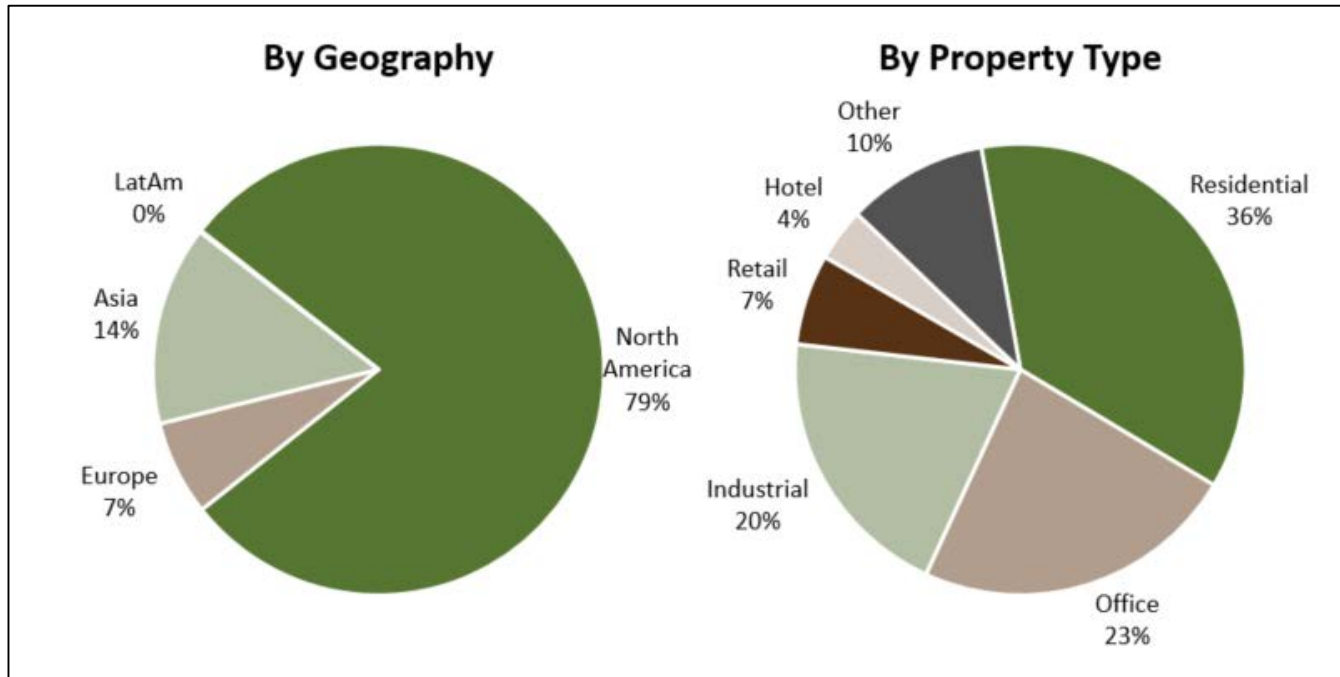


# Private Real Estate

## *Risk Diversification*



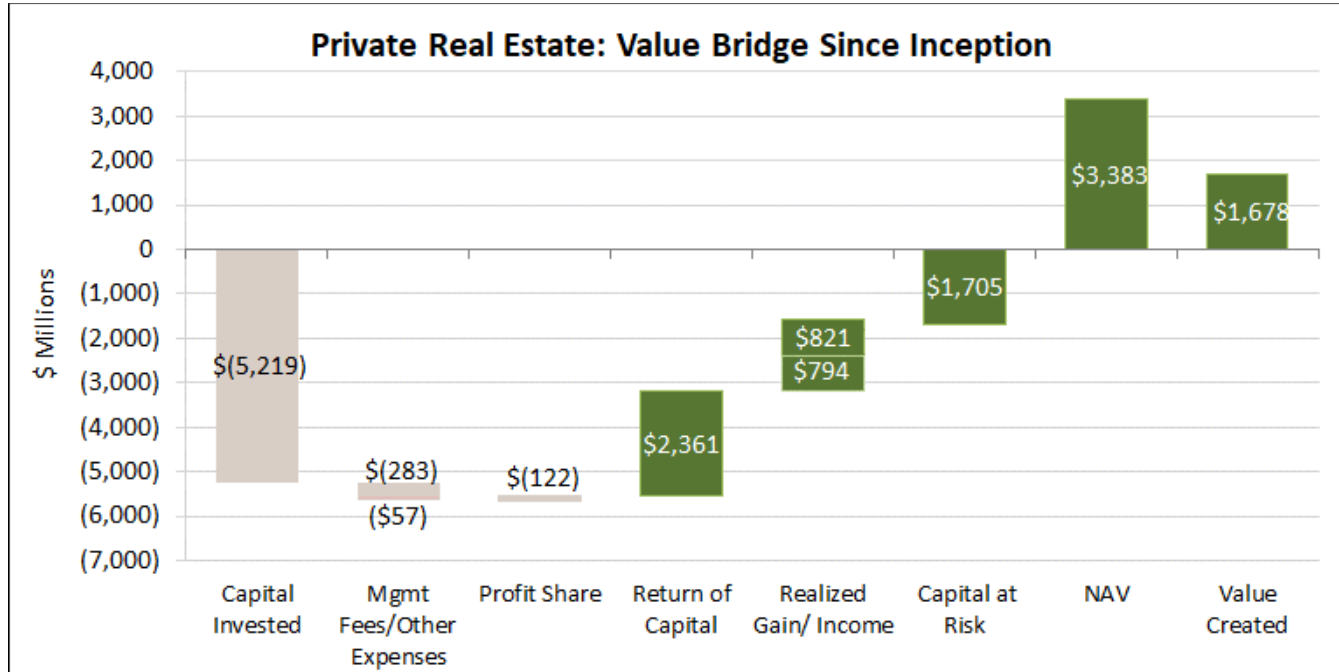
- Portfolio remains well-diversified across regions and property types



# Private Real Estate

## Historical Performance: Value Bridge

- Significant value creation for the Trust with contributions from income and appreciation

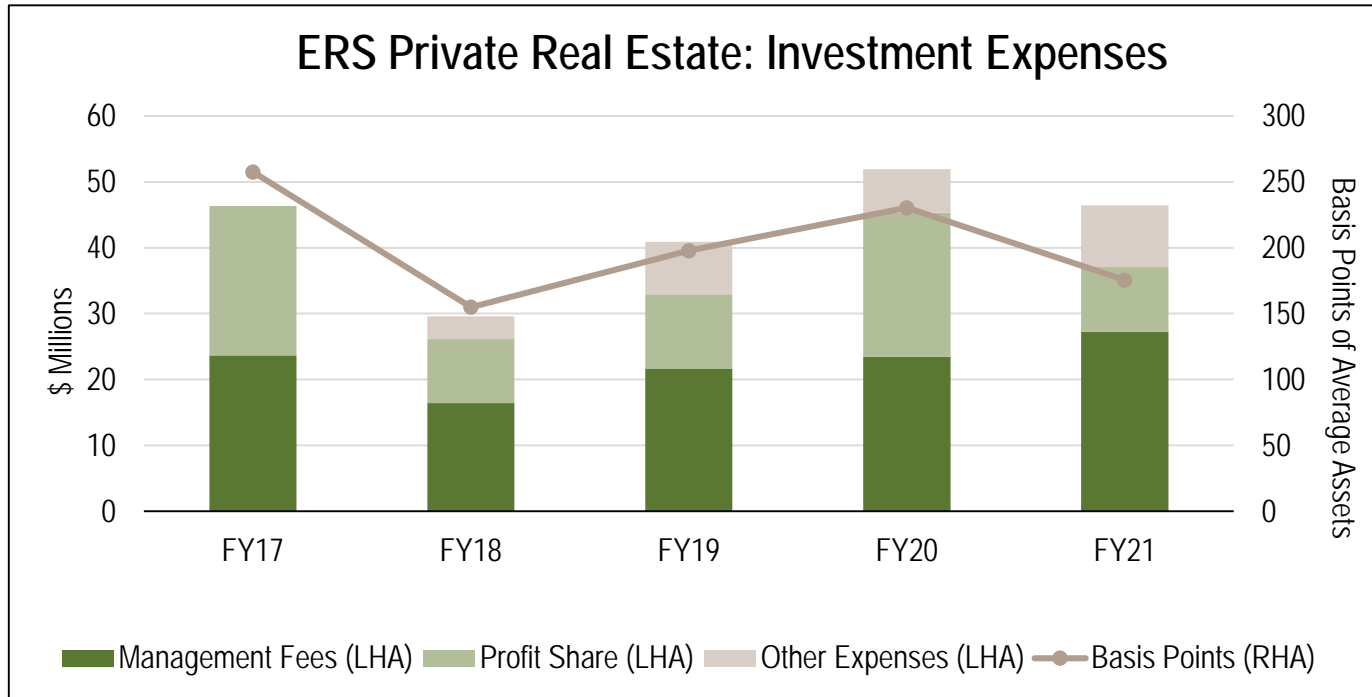


# Private Real Estate

## Investment Expenses



- Strong performance in FY20 translated into above average profit share



# Private Real Estate

## Goals and Objectives for Fiscal Years 2022 & 2023



### Fiscal Year 2022

- Outperform respective benchmarks – Ongoing
- Execute on Tactical Plan – Ongoing
- Target Allocation Strategy Adjustments – Ongoing
- Continue to Improve Investment Process

### Fiscal Year 2023

- Outperform respective benchmarks
- Execute on Tactical Plan
- Target Allocation Strategy Adjustments
- Continue to Improve Investment Process

Questions?

*Review and Approval of Proposed  
Private Real Estate Tactical Plan For  
Fiscal Year 2023 – (Action)*

Robert Sessa, Managing Director of Real Assets  
Amy Cureton, Director Private Real Estate

# Tactical Plan

## *Proposal for Fiscal Year 2023*



### **ERS Private Real Estate Annual Tactical Plan for Fiscal Year 2023:**

- Commitments totaling \$200 million
  - 3-6 investments mostly with existing managers but new relationships may be added
  - Co-investments – as presented
- Commitment target range  $\pm$  50% (\$100 million – \$300 million)

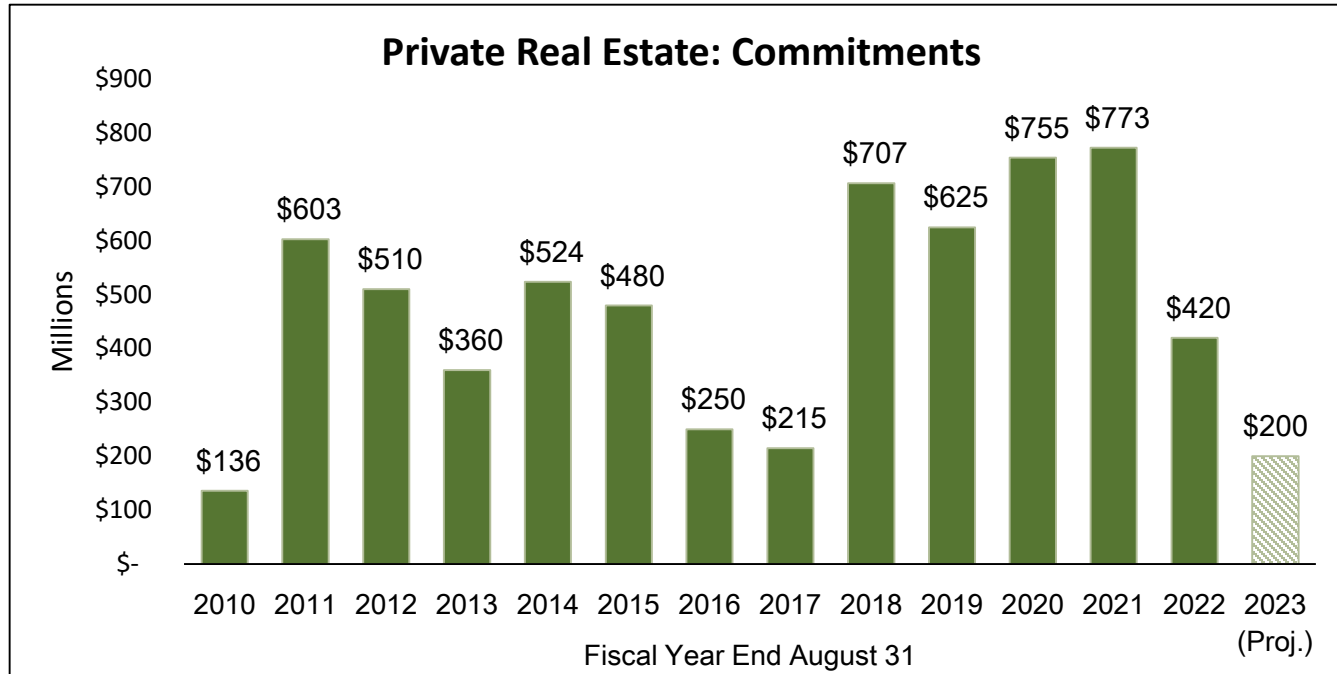


# Tactical Plan

## Commitment Pacing



- Pacing within Private Real Estate moderating after a period of high growth

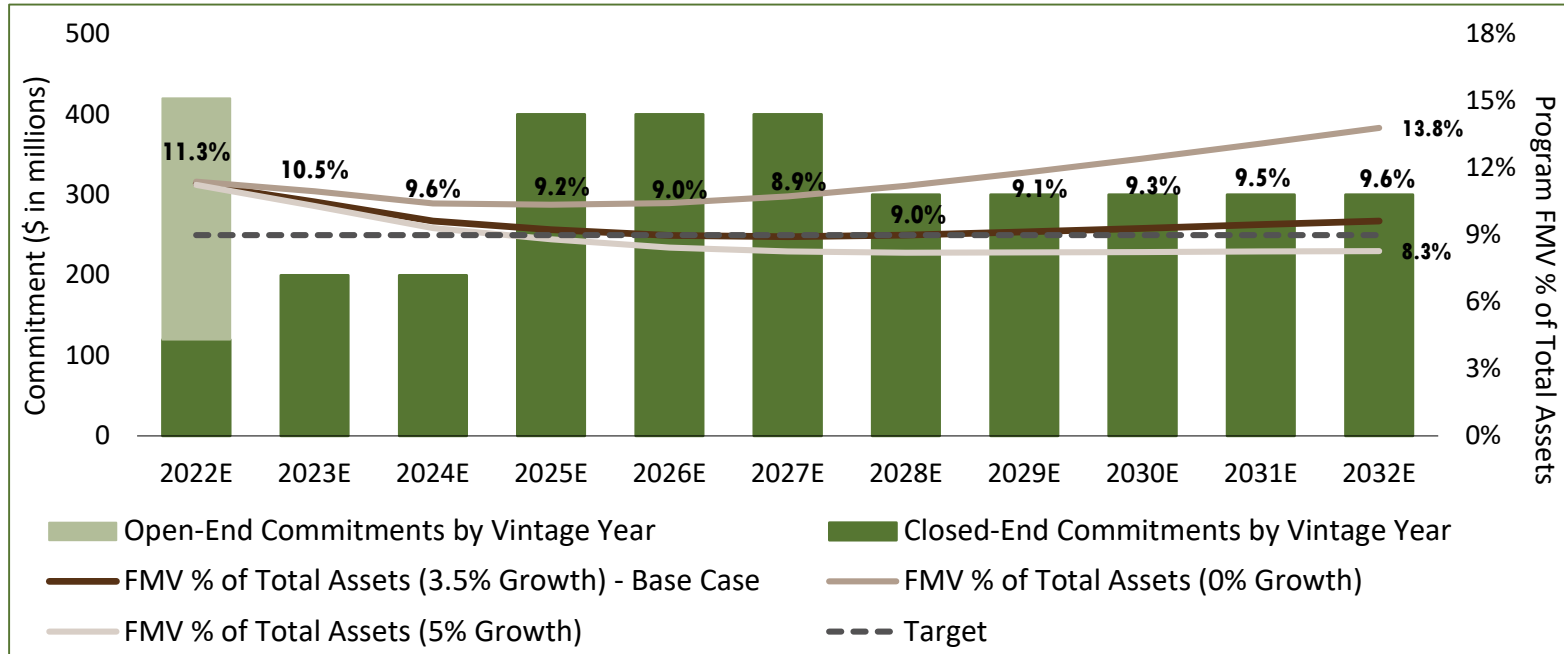


# Tactical Plan

## Pacing Model Output



- Return to policy allocation target in 2025-2028 with commitments adjusted as appropriate



Questions?  
**Action Item**