LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Investment Committee Agenda

REGULAR MEETING

TUESDAY, JUNE 9, 2020

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

MEETING LOCATION:

In conformity with the Governor's Executive Order N-29-20 (March 17, 2020) and due to the concerns over COVID-19, the LACERS Investment Committee's June 9, 2020, meeting will be conducted via telephone and/or videoconferencing.

Important Message to the Public

Information to call-in to participate:
Dial: (669) 900-6833 or (253) 215-8782
Meeting ID# 918 8647 4424

Instructions for call-in participants:

1- Dial in and enter Meeting ID
2- Automatically enter virtual "Waiting Room"
3- Automatically enter Meeting
4- During Public Comment, **press *9** to raise hand
5- Staff will call out the last 3-digits of your phone number to make your comment

Information to listen only: Live Committee Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Chair:	Sung Won Sohn
Committee Members:	Elizabeth Lee Nilza R. Serrano
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq*. More information is available at ethics.lacity.org/lobbying. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

Request for services

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, Telecommunication Relay Services (TRS), or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at ***(213) 855-9348*** and/or email at ***ani.ghoukassian@lacers.org***.

Disclaimer to participants

Please be advised that all LACERS Board and Committee Meeting proceedings are audio recorded.

CLICK HERE TO ACCESS BOARD REPORTS

I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – *THIS WILL BE THE ONLY OPPORTUNITY FOR PUBLIC COMMENT* - **PRESS *9 TO RAISE HAND DURING PUBLIC COMMENT PERIOD**

II. APPROVAL OF MINUTES FOR THE REGULAR MEETING OF MAY 12, 2020 AND POSSIBLE COMMITTEE ACTION

III. INVESTMENT MANAGER CONTRACT WITH BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS VALUE PORTFOLIO AND POSSIBLE COMMITTEE ACTION

IV. REAL ESTATE FISCAL YEAR 2020-21 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

V. CHIEF INVESTMENT OFFICER VERBAL REPORT

VI. OTHER BUSINESS

VII. NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, July 14, 2020 at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while public health concerns relating to the novel coronavirus continue.

VIII. ADJOURNMENT

LACERS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Agenda

SPECIAL MEETING

TUESDAY, JUNE 9, 2020

TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING THE REGULAR BOARD MEETING

MEETING LOCATION:

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VIII. ADJOURNMENT

Agenda of:	**June 9, 2020**
Item No:	**II**

MINUTES OF THE REGULAR MEETING
INVESTMENT COMMITTEE
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

In conformity with the Governor's Executive Order N-29-20
(March 17, 2020) and due to the concerns
over COVID-19, the LACERS Investment Committee's
May 12, 2020, meeting was conducted
via telephone and/or videoconferencing.

May 12, 2020

1:45 p.m.

PRESENT via Zoom Meeting:	Chair:	Sung Won Sohn
	Committee Members:	Elizabeth Lee Nilza Serrano
	Manager-Secretary:	Neil M. Guglielmo
	Legal Counselor:	Miguel Bahamon
PRESENT at LACERS Offices:	Executive Assistant:	Ani Ghoukassian

The Items in the Minutes are numbered to correspond with the Agenda.

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE REGULAR MEETING OF MARCH 10, 2020 AND POSSIBLE COMMITTEE ACTION – Committee Member Elizabeth Lee moved approval of the minutes for the Regular Meeting of March 10, 2020, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, stated the Committee Members have been forwarded the 12-month forward calendar and he will run dates by the Investment Committee for a Special Investment Committee Meeting to conduct interviews of the Emerging Markets Small Cap Equity Manager Search.

IV

CONTINUED DISCUSSION OF INVESTMENT MANAGER CONTRACT WITH DIMENSIONAL FUND ADVISORS LP REGARDING THE MANAGEMENT OF A U.S. TREASURY INFLATION PROTECTED SECURITIES (TIPS) PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Bryan Fujita, Chief Operating Officer, Ellen Chen, Investment Officer I, and Carolyn Smith, Partner with NEPC presented and discussed this item with the Committee for 25 minutes. Committee Member Serrano moved approval of a one year contract with Dimensional Fund Advisors LP, with staff to report back to the Committee on the appropriate dollar allocation to the TIPS strategy within the next several months, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

V

PRIVATE CREDIT MANDATE UPDATE AND POSSIBLE COMMITTEE ACTION – Clark Hoover and Robert King, Investment Officers presented and discussed this item with the Committee for 17 minutes. Committee Member Elizabeth Lee moved approval, and adopted by the following vote: Ayes, Committee Member Elizabeth Lee, Serrano and Chair Sohn -3; Nays, None.

Chair Sohn recessed the Regular Meeting at 2:36 p.m. to convene in Closed Session.

VI

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER THE PURCHASE OF PARTNERSHIP INTERESTS IN WATERTON RESIDENTIAL PROPERTY VENTURE XIV, L.P. AND POSSIBLE COMMITTEE ACTION

Chair Sohn reconvened the Regular Meeting at 3:11 p.m. and announced that the Committee approved the purchase of partnership interests in Waterton Residential Property Venture XIV, L.P.

VII

OTHER BUSINESS – There was no other business.

VIII

NEXT MEETING: The next Regular meeting of the Investment Committee is scheduled for Tuesday, June 9, 2020 at 10:30 a.m. or immediately following the Board Meeting, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401 and/or via telephone and/or videoconferencing. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings while public health concerns relating to the novel coronavirus continue.

IX

ADJOURNMENT – There being no further business before the Committee, Chair Sohn adjourned the Meeting at 3:13 p.m.

Sung Won Sohn
Chair

Neil M. Guglielmo
Manager-Secretary

LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM

REPORT TO INVESTMENT COMMITTEE **MEETING: JUNE 9, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: III**

SUBJECT: **INVESTMENT MANAGER CONTRACT WITH BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS VALUE PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board a three-year contract renewal with Barrow, Hanley, Mewhinney & Strauss, LLC for the management of an active non-U.S. equities developed markets value portfolio.

Executive Summary

Barrow, Hanley, Mewhinney & Strauss, LLC (BHMS) has managed an active non-U.S. equities developed markets value portfolio for LACERS since November 2013. LACERS' portfolio was valued at $448 million as of May 31, 2020. BHMS' current contract expires on September 30, 2020. Staff and NEPC, LLC, (NEPC) LACERS General Fund Consultant, recommend a three-year contract renewal with BHMS.

Discussion

Background
BHMS has managed an active non-U.S. equities developed markets value portfolio for LACERS since November 2013, and is benchmarked against the MSCI EAFE Value Index. BHMS' fundamental research-based and value-oriented investment strategy emphasizes companies with low price/earnings ratios, low price/book ratios, and high dividend yields to provide a measure of protection in down markets, as well as participation in improving economic cycles. The portfolio is managed by Rand Wrighton and TJ Carter, who have 20 years and 16 years of industry experience, respectively. LACERS' portfolio was valued at $448 million as of May 31, 2020.

BHMS was hired through the 2013 Active Non-U.S. Equities Developed Markets Manager Search and three-year contracts were authorized by the Board on June 11, 2013 and on June 28, 2016. The Board subsequently authorized a one-year contract extension on July 23, 2019; the current contract expires on September 30, 2020.

Organization
BHMS is an investment management firm that specializes in long-only value investing. The firm is a majority owned affiliate of BrightSphere Investment Group (BSIG), a public company listed on the New York Stock Exchange (Ticker Symbol: BSIG). BSIG was formerly branded as OM Asset Management, plc. Under this structure, Barrow Hanley operates its business independently and autonomously. BHMS is headquartered in Dallas and has 97 employees, including 55 investment professionals. As of March 31, 2020, the firm managed $40 billion in total assets with $1.6 billion in the non-U.S. value equities strategy.

Due Diligence
BHMS' organizational structure, investment philosophy, strategy, and process have not changed over the one-year contract period. Until December 2019, BHMS had served as a long-time sub-advisor to Vanguard's Windsor II and Selected Value mutual funds. In mid-December, Vanguard ended its relationship with BHMS, resulting in the loss of approximately $21 billion in assets under management (AUM) from BHMS' domestic equities strategies. BHMS' total AUM declined from approximately $72 billion as of September 30, 2019 to approximately $52 billion as of December 31, 2019. Staff evaluated the severed relationship and the loss of assets with Vanguard and concluded that this event had no adverse impact on the management of BHMS' non-U.S. value equities strategy.

Performance
As of May 31, 2020, BHMS outperformed its benchmark over all time periods based on unaudited performance data, as presented in the table below.

Annualized Performance, Unaudited as of 5/31/20 (Net-of-Fees)						
	3-Month	1-Year	2-Year	3-Year	5-Year	Since 11/30/13
BHMS	-9.90	-7.49	-10.09	-4.57	-1.92	-0.74
MSCI EAFE Value	-10.68	-13.03	-10.66	-5.45	-2.89	-1.79
% of Excess Return	*0.78*	*5.54*	*0.57*	*0.88*	*0.97*	*1.05*

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance, Unaudited as of 5/31/20 (Net-of-Fees)								
	1/1/20-5/31/20	2019	2018	2017	2016	2015	2014	11/30/13-12/31/13
BHMS	-22.43	26.12	-18.12	23.12	3.23	-6.56	-2.06	2.26
MSCI EAFE Value	-22.05	16.09	-14.78	21.44	5.02	-5.68	-5.39	1.36
% of Excess Return	*-0.38*	*10.03*	*-3.34*	*1.68*	*-1.79*	*-0.88*	*3.33*	*0.90*

Pursuant to LACERS Manager Monitoring Policy (Policy), BHMS was placed "On Watch" last year on April 17, 2019 for an initial one-year period due to underperformance as of March 31, 2019. At the end of the one-year monitoring period, BHMS' performance (as of March 31, 2020) was in compliance with the Policy criteria. Therefore, staff and NEPC have removed BHMS from "On Watch" status. BHMS continues to outperform the benchmark through period end May 31, 2020.

Fees
LACERS pays BHMS an effective fee of 52 basis points (0.52%), which is approximately $2.3 million annually based on the value of LACERS' assets as of May 31, 2020. The fee ranks in the 27th percentile of fees charged by similar managers in the eVestment database (i.e., 73% of like-managers have higher fees).

General Fund Consultant Opinion
NEPC concurs with this recommendation.

Strategic Plan Impact Statement

A contract renewal with BHMS will allow the fund to maintain a diversified exposure to the non-U.S. equities developed markets, which is expected to help optimize long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure is consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

Prepared By: Ellen Chen, Investment Officer I, Investment Division

RJ/BF/EC:jp

Attachment: 1. Consultant Recommendation – NEPC

NEPC, LLC

To: Los Angeles City Employees' Retirement System Investment Committee

From: NEPC, LLC

Date: June 9, 2020

Subject: Barrow, Hanley, Mewhinney & Strauss, LLC - Contract renewal

Recommendation

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) renew the contract with Barrow, Hanley, Mewhinney & Strauss, LLC ('BHMS') for a period of three years from the date of contract expiry.

Background

BHMS was hired to manage a Non-U.S. Equity portfolio in 2013 and thus provides the Plan with public equity exposure across international developed countries/markets. The portfolio's strategy is benchmarked against the MSCI EAFE Value Index and has a performance inception date of November 30, 2013.

As of April 30, 2020, BHMS managed $429.5 million, or 2.5% of Plan assets in an international developed markets separately managed account. The performance objective is to outperform the MSCI EAFE Value Index, net of fees, annualized over a full market cycle (normally three-to-five years).

BHMS was founded and registered with the SEC in July of 1979 to manage U.S. tax-exempt portfolios for institutional clients. In January of 1988, BHMS sold themselves to United Asset Management Corporation (UAM), a Boston-based holding company, listed on the New York Stock Exchange. On October 5, 2000, UAM was acquired by Old Mutual plc, an international financial services group based in London. Following the acquisition, Old Mutual plc renamed UAM, "Old Mutual Asset Management". In 2014, Old Mutual plc conducted an initial public offering of Old Mutual Asset Management. OM Asset Management plc rebranded as BrightSphere Investment Group plc in March 2018, following its separation from Old Mutual plc. BrightSphere Investment Group plc is a publicly-listed company traded on the New York Stock Exchange (Ticker symbol: BSIG). Many key employees, including portfolio managers and analysts, have economic ownership in BHMS through a limited partnership that owns a 24.9% equity interest in BHMS LLC.

In early January 2020 Vanguard announced meaningful sub-advisory changes to the investment manager line up within the firms' Vanguard Windsor II and Vanguard Selected Value Strategies, US stock portfolios. These changes resulted in the loss of approximately $21 billion in assets under management ('AUM') for BHMS or approximately 29% of AUM. BHMS had been a manager for the Vanguard Windsor II fund for approximately 34 years. BHMS managed $72.2 billion as of September 30, 2019 and the termination of the Vanguard relationship resulted in firm AUM falling to $51.7 billion as of December 31, 2019. As of March 31, 2020, the firm's AUM is $39.8 billion.

The LACERS portfolio is managed by two portfolio managers, Rand Wrighton and TJ Carter. Mr. Wrighton has been a lead portfolio manager on the strategy since 2006. In March of 2018 David Hodges, Co-Portfolio Manager, retired after having built the non-US Value portfolio capability at BHMS with Mr. Wrighton. TJ Carter was promoted into the portfolio manager role when David Hodges retired. In addition, Charlie Radtke was brought aboard as a third Portfolio Manager. Mr. Radtke left the firm in September of 2018. Mr. Radtke had been with the firm for approximately a year and he did not have a significant impact on the names in the portfolio, therefore, a replacement has not been pursued.

BHMS' approach to the equity market is based on the underlying philosophy that markets are inefficient. These inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. No attempt to time the market or rotate in and out of broad market sectors is used, as they believe that it is difficult, if not impossible, to add incremental value on a consistent basis by top-down or thematic market timing. BHMS stays fully invested with a defensive, conservative orientation, based on the belief that superior returns can be achieved while taking below-average risks. They implement this strategy by constructing portfolios of individual stocks that reflect value characteristics such as: price/earnings, price/book, and enterprise value/free cash flow ratios at or below the market (MSCI EAFE Index), and dividend yields at or above the market.

BHMS' value investing strategy emphasizes low price/earnings ratios, low price/book ratios, and high dividend yields as a way to add protection in down markets, as well as participation in improving economic cycles. Within a broad universe of more than 4,000 non-U.S. stocks, there are approximately 2,600 stocks with market capitalizations greater than $1 billion with levels of liquidity that they consider sufficient. This subset of stocks is the starting point for their Non-US Value stock selection process. This universe is reduced to the least expensive portion of the universe resulting in approximately 250 stocks that receive the highest ranking by the screening model. These stocks are then placed on BHMS' Non-U.S. Security Guidance List. They then perform bottom-up, fundamental securities analysis on these stocks for potential inclusion in the Non-US Value portfolio. The Security Guidance List is reviewed weekly.

The firm seeks to build equally-weighted portfolios generally consisting of 50 to 70 stocks. While the "core" position size is approximately 2%, positions may be larger if the conviction level is unusually high or the target company's weight in the Index mandates a larger weight in order to generate sufficient alpha. However, no more than 5% of the portfolio, at market value, will be invested in any one security. Sector and country weightings are a residual of the bottom-up stock selection process and they may vary meaningfully at times from the respective weightings in the MSCI EAFE Index. Sector weightings are limited to an absolute weight of 40% of the portfolio. Individual country weightings are limited to 25%, at market value (ex-Japan and the UK). While the Non-US Value strategy is primarily invested in companies domiciled in developed non-U.S. markets, BHMS may, on an opportunistic basis, invest in companies domiciled in emerging markets, as defined by MSCI.

Performance

Referring to Exhibit 1, as of April 30, 2020, the portfolio has outperformed the benchmark since inception by 0.86% (-1.41% vs. -2.27%). In the past year, ended April 30, 2020 the portfolio outperformed the benchmark by 2.49% (-17.99% vs. -20.48%). Referring to Exhibit 2, since inception ended March 31, 2020, the strategy has outperformed the MSCI EAFE Value Index by 0.25%, returning -2.85%, net of fees. The portfolio ranked in the 74th percentile in its peer universe since November 30, 2013. The information ratio was 0.06 and active risk, as measured by tracking error was 3.82%. In the one-year period ended March 31, 2020, the portfolio outperformed the index by 0.02% and ranked in the 67th percentile in its peer universe.

Since November 30, 2013, referring to Exhibit 3, historical cumulative performance had been positive when compared to the benchmark until the second quarter of 2018. Relative outperformance through 2019 has resulted in positive cumulative performance versus the benchmark. This was primarily related to stock selection in Energy, Industrials and Consumer Discretionary sectors.

The BHMS account is currently on Watch due to performance according to LACERS' manager monitoring policy. Since being put on Watch status last year, performance has improved and the portfolio is now in compliance with LACERS' manager monitoring policy. Therefore, NEPC and Staff have determined that BHMS should be removed from Watch status due to their improved performance profile.

Fees

The portfolio has an asset-based fee of 0.52% (52 basis points) annually. This fee ranks in the 27th percentile among its peers in the eVestment EAFE All Cap Value Universe. In other words, 73% of the 28 products included in the peer universe have a higher fee than the LACERS account.

Conclusion

BHMS has performed within the range of anticipated outcomes against its benchmark since inception in a time period in which value equity investments have not been favored by markets. Since being placed on Watch, BHMS has been able to turn around the portfolio's relative performance versus the benchmark. The firm has had some turnover in portfolio management and executive ranks, though a founding member of the team is still with the firm/product as the lead portfolio manager. The investment process and philosophy have remained intact. BHMS has lost significant assets since the end of Q4 2019 and we should be cognizant of what this may mean as the firm digests the reduction in revenue and continue to monitor the asset levels at the firm. NEPC recommends a contract renewal for a period of three years from the period of contract expiry.

The following tables provide specific performance information, net of fees referenced above.

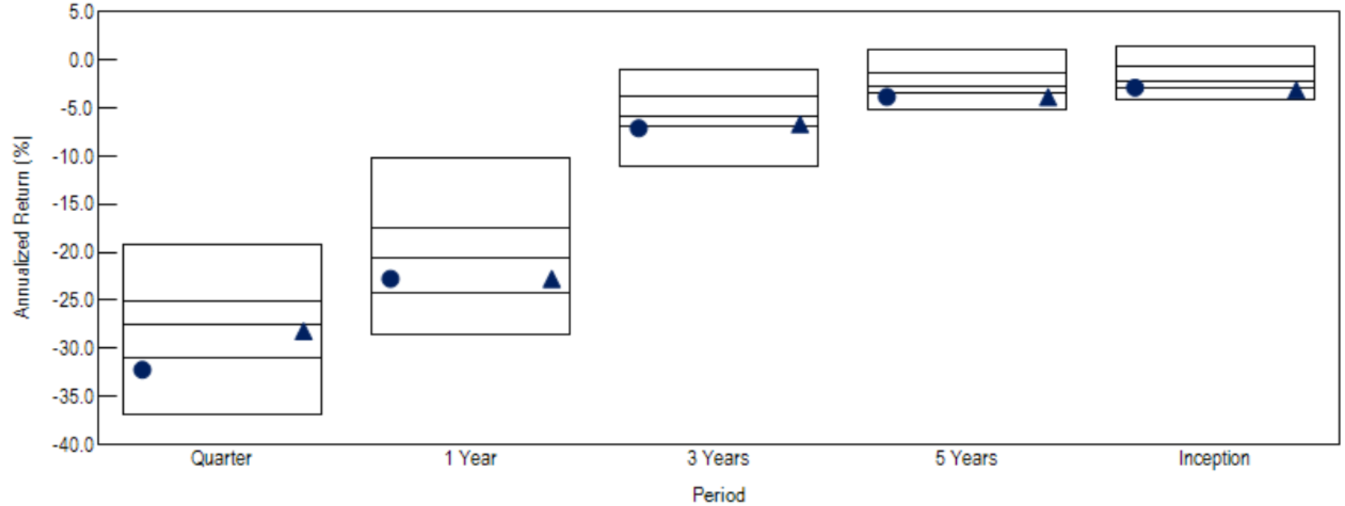
IC Meeting: 06/09/20
Item III
Attachment 1

Exhibit 1

	Ending April 30, 2020 Market Value($)	1 Mo(%)	3 Mo(%)	YTD(%)	Fiscal YTD(%)	1 Yr(%)	3 Yrs(%)	5 Yrs(%)	10 Yrs(%)	Inception (%)	Inception Date
Barrow Hanley	429,477,033	9.68	-22.36	-25.66	-17.99	-17.99	-5.00	-2.84	--	-1.41	13-Nov
MSCI EAFE Value		5.35	-21.52	-24.35	-19.86	-20.48	-5.67	-3.66	1.35	-2.27	13-Nov
Over/Under		*4.33*	*-0.84*	*-1.31*	*1.87*	*2.49*	*0.67*	*0.82*		*0.86*	

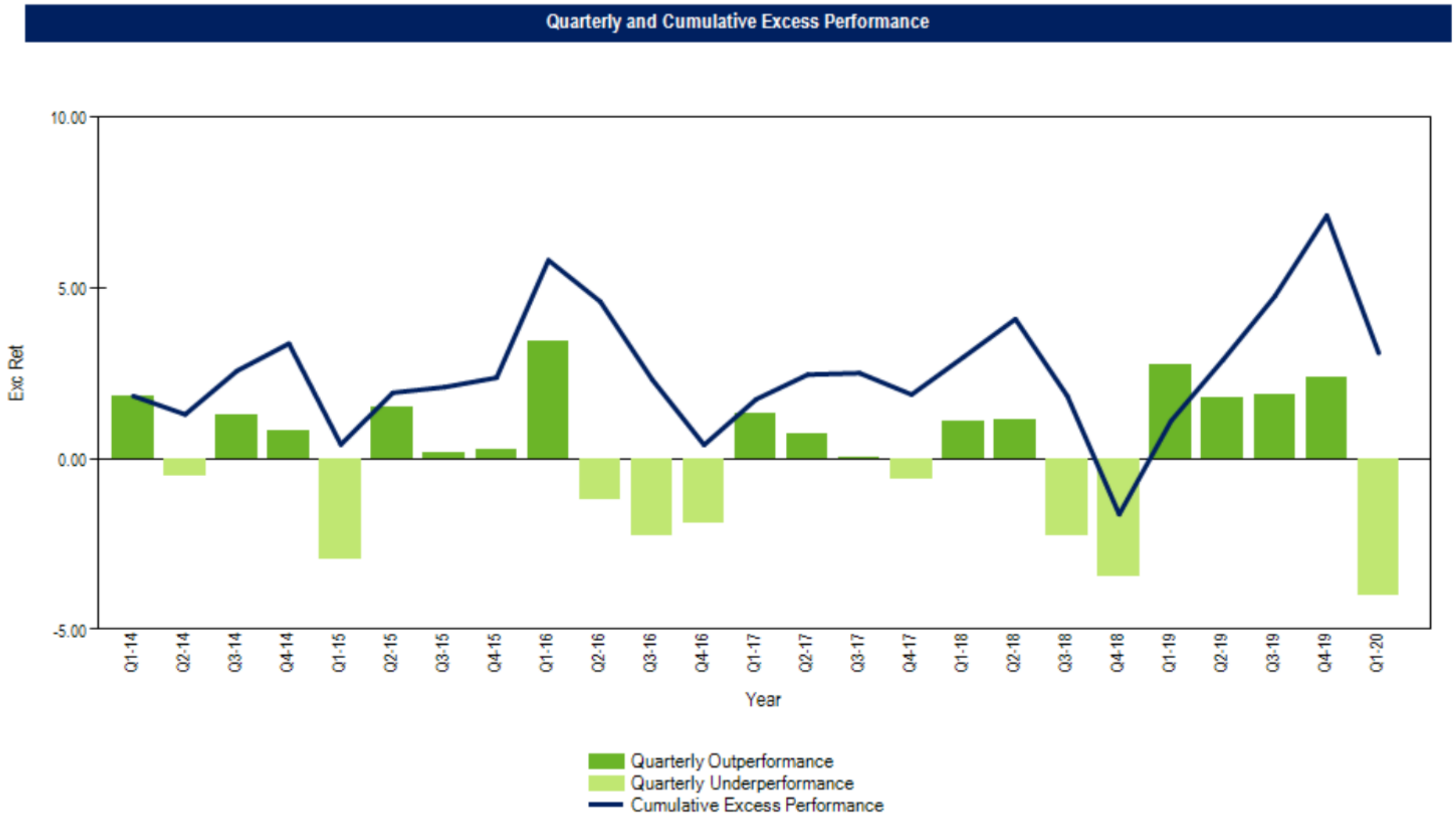
Exhibit 2

eV EAFE Value Equity Net Return Comparison
Ending March 31, 2020



	Return (Rank)									
5th Percentile	-19.20		-10.20		-1.07		1.01		1.39	
25th Percentile	-25.05		-17.41		-3.72		-1.35		-0.66	
Median	-27.51		-20.67		-5.80		-2.75		-2.17	
75th Percentile	-31.00		-24.21		-6.95		-3.39		-2.89	
95th Percentile	-36.92		-28.65		-11.09		-5.18		-4.08	
# of Portfolios	58		58		53		47		46	
● **Barrow Hanley**	-32.22	(85)	-22.74	(67)	-7.07	(78)	-3.81	(82)	-2.85	(74)
▲ **MSCI EAFE Value**	-28.20	(58)	-22.76	(67)	-6.65	(69)	-3.83	(82)	-3.10	(83)

Exhibit 3


Quarterly and Cumulative Excess Performance
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Q2-19
Q3-19
Q4-19
Q1-20
Year
Quarterly Outperformance
Quarterly Underperformance
Cumulative Excess Performance

REPORT TO INVESTMENT COMMITTEE **MEETING: JUNE 9, 2020**
From: Neil M. Guglielmo, General Manager **ITEM: IV**

SUBJECT: **REAL ESTATE FISCAL YEAR 2020-21 STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION**

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Committee recommend to the Board the adoption of the Real Estate Fiscal Year 2020-21 Strategic Plan.

Discussion

The Townsend Group (Townsend), LACERS Real Estate Consultant, with input from staff, has developed the proposed Real Estate Fiscal Year 2020-21 Strategic Plan, which considers strategic objectives and investment plan recommendations for the next fiscal year. Staff has reviewed the plan and recommends its adoption. Townsend will present the proposed plan.

Strategic Plan Impact Statement

The annual real estate strategic plan assists the Board in building a diversified real estate to optimize long-term risk-adjusted returns (Goal IV). Development and adoption of such a plan also promotes good governance practices (Goal V).

Prepared By: Eduardo Park, Investment Officer II, Investment Division

RJ/BF/WL/EP:jp

Attachment: 1. Proposed Real Estate Strategic Plan – The Townsend Group

TOWNSEND® GROUP
an Aon company

MEMORANDUM

TO:	**The Board of Los Angeles City Employees' Retirement System**
DATE:	June 2020
SUBJECT:	Real Estate Strategic & Investment Plan for Fiscal Year 2020-2021 – Executive Summary
FROM:	**The Townsend Group**

Executive Summary

The purpose of this report is to review the Los Angeles City Employees' Retirement System ("LACERS" or the "System") Real Estate Strategic Plan ("Strategic Plan") and outline the corresponding Real Estate Investment Plan ("Investment Plan"). The Investment Plan includes actions which will help LACERS to capitalize on current market opportunities while still meeting the guidelines set forth in the proposed Strategic Plan.

Townsend was re-engaged by LACERS's Board in 2014 to serves as its real estate consultant. Since that time, Townsend has worked with LACERS Staff to successfully transition the Portfolio to reflect a more conservative risk profile. The investment strategy from 2014 to-date has emphasized $255 million of investments into Core funds, $245 million into tactical Non-Core funds and close monitoring of pre-GFC underperforming investments which have begun to mature and liquidate.

In April 2018, LACERS Board adopted changes to its Asset Allocation targets, as advised by its general consultant. The impact to real estate was to increase capital from 5.0% of Total Plan Assets to 7.0% of Total Plan Assets.

Townsend has no recommended changes to the Strategic Plan. Investment Plan recommendations are summarized below.

FY 2020-2021 Investment Recommendations

The LACERS Program (the "Program") has a 7.0% allocation target (with an allowable range of ± 2.0%). As of December 31, 2019, the market value of the Portfolio was $896 million on a committed and funded basis (4.7% of Total Plan Assets). With the combination of the recently approved increased allocation to real estate, and planned liquidations, LACERS will need to deploy significant capital in order to reach its 7.0% allocation target over the coming years.

Townsend recommends the following 2020-2021 Goals to LACERS for consideration:

	LACERS Annual Investment Plan FY 2020-2021
Core	
Capital	**$30 M - $70 M**
Number of Funds	0-1
Target Average Commitment per Fund	$55 M
Non-Core	
Capital	**$100 M - $140 M**
Number of Funds	2-3
Target Average Commitment per Fund	$50 M
Total Annual Commitments	***$130 M - $210 M***

Overall Portfolio Goals

- Monitor market conditions closely to capitalize on opportunities created by market stress and actively manage risk.
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation.

Core Portfolio Goals

- Evaluate existing Open-End Core fund portfolio and consider rebalancing the portfolio to improve diversification and returns, as necessary, while ensuring that LACERS does not redeem at temporarily depressed valuations due to current market stress.
- Consider top-up commitments to existing high-conviction funds.

Non-Core Portfolio Goals

- Focus on up to three incremental commitments in Non-Core (ranging from $35 to $50 million per investment), emphasizing blind-pool funds which target distress, as well as thematic investments arising from the current economic and health crisis's impact on the real estate sector.

- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
    - **High-Conviction Opportunities**
        - Retain the ability to commit to niche, high-conviction "Best Idea" Opportunistic Non-Core strategies that offer attractive risk-adjusted returns or unique exposures.
        - Pursue blind-pool opportunistic funds with managers capable of taking advantage of market distress.
            - Temporary periods of market volatility, illiquidity, and stressed properties/ownership historically tend to hallmark better vintages for higher risk/return Opportunistic funds.
    - **Industrial**: Consider increasing exposure to strategies that are complementary to those of LACERS' Core Industrial holdings, which currently represent the majority of LACERS' exposure to the property type. While LACERS is slightly overweight to the Industrial property type (22.7% vs. 20.3% NFI-ODCE), a larger overweight may be appropriate. Additionally, Non-Core exposure to Industrial properties is only 3.2% and should be increased.
    - **US Apartments**: Increase Non-Core Apartment exposure with a best-in-class manager.
        - Consider a value-added, diversified manager to increase Apartment exposure.
            - This action has been approved by the Board as of 5/26/2020.
    - **Ex-U.S. Exposure**
        - Evaluate Non-Core diversification and consider an ex-U.S. strategy if a compelling thematic opportunity is available.

END OF INVESTMENT RECOMMENDATIONS

IC Meeting: 06/09/20
Item IV
Attachment 1

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Real Estate Portfolio

Fiscal Year 2020-2021 Investment Plan

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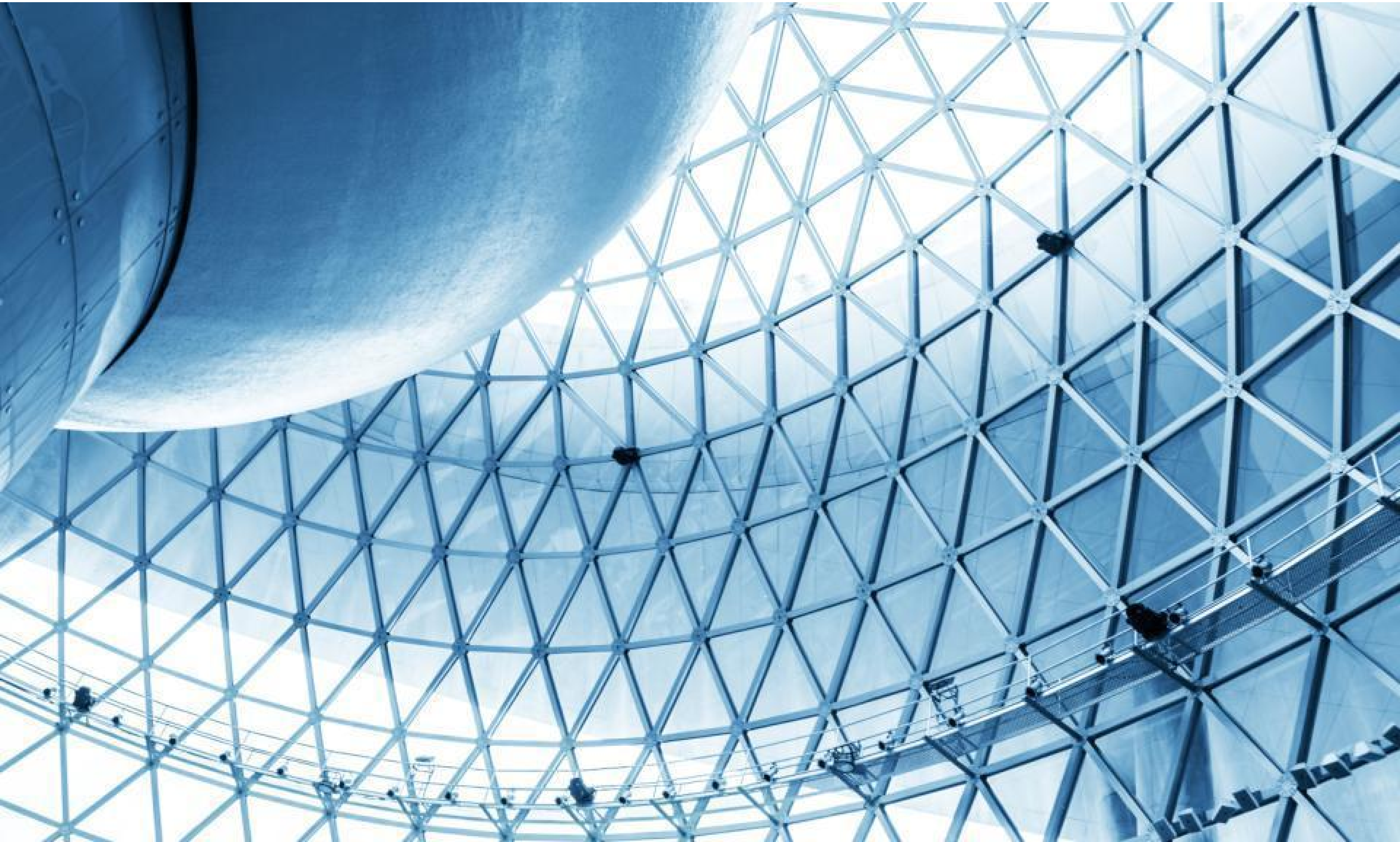
A. LACERS Real Estate Program Overview



LACERS Real Estate Program Overview

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- LACERS began investing in Real Estate in 1989.
- In April 2018, LACERS' Board elected to increase its real estate allocation from 5.0% to 7.0% of Total Plan Assets (with an allowable range of ± 2.0%).
- As of December 31, 2019, the market value of the Portfolio was $777 million (4.1% of Total Plan Assets).
    - Employing March 31, 2020 numbers for LACERS' Total Plan Assets, LACERS' real estate portfolio rises to 4.6% of Total Plan Assets, a result of negative public markets performance due to COVID-19.
- Forecasts show that several investments will be liquidating from the Portfolio over the next three-year period.

	Market Value ($ millions)*	% LACERS Plan*
LACERS Total Plan Assets	18,868	
Real Estate Target	1,321	7.0%
RE Market Value:		
Core	572	
Non-Core	185	
Timber	19	
Total RE Market Value	777	4.1%
Unfunded Commitments	119	0.6%
RE Market Value & Unfunded Commitments	896	4.7%
Remaining Allocation	425	2.3%

*Figures may not add due to rounding. Unfunded commitments exclude commitments made after 12/31/19.

LACERS Real Estate Program Overview (continued)

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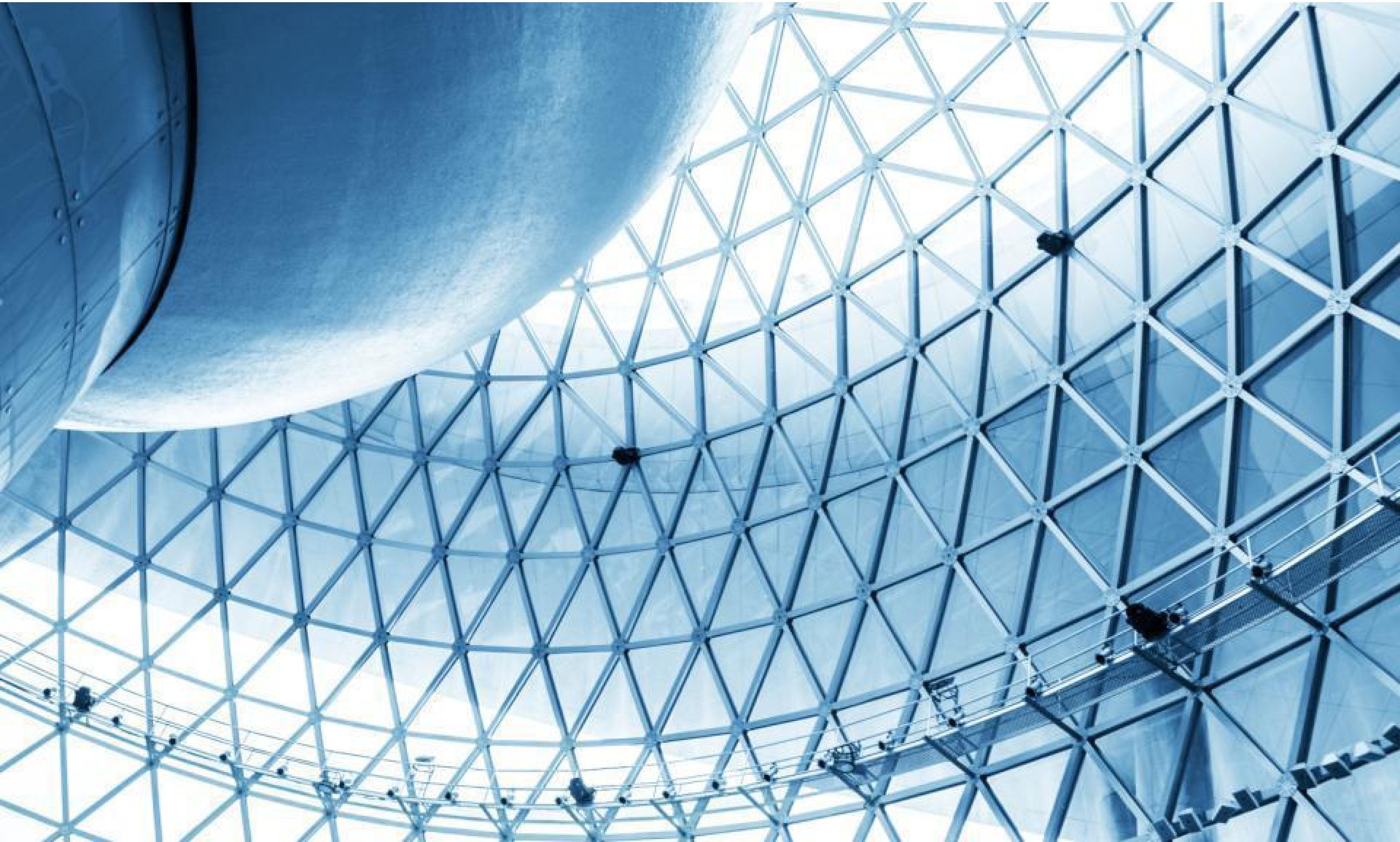
	Strategic Targets		Portfolio Composition (12/31/2019)*	
	Target Allocation	Tactical Range	Market Value	Market Value & Unfunded Commitments
Core	**60%**	**40% - 80%**	**73.7%**	**65.9%**
Non-Core	**40%**	**20% - 60%**	**23.9%**	**31.9%**
Value Add Portfolio	*N/A*	*N/A*	*12.2%*	*17.1%*
Opportunistic Portfolio	*N/A*	*N/A*	*11.7%*	*14.8%*
Timber	**N/A**	**N/A**	**2.5%**	**2.1%**

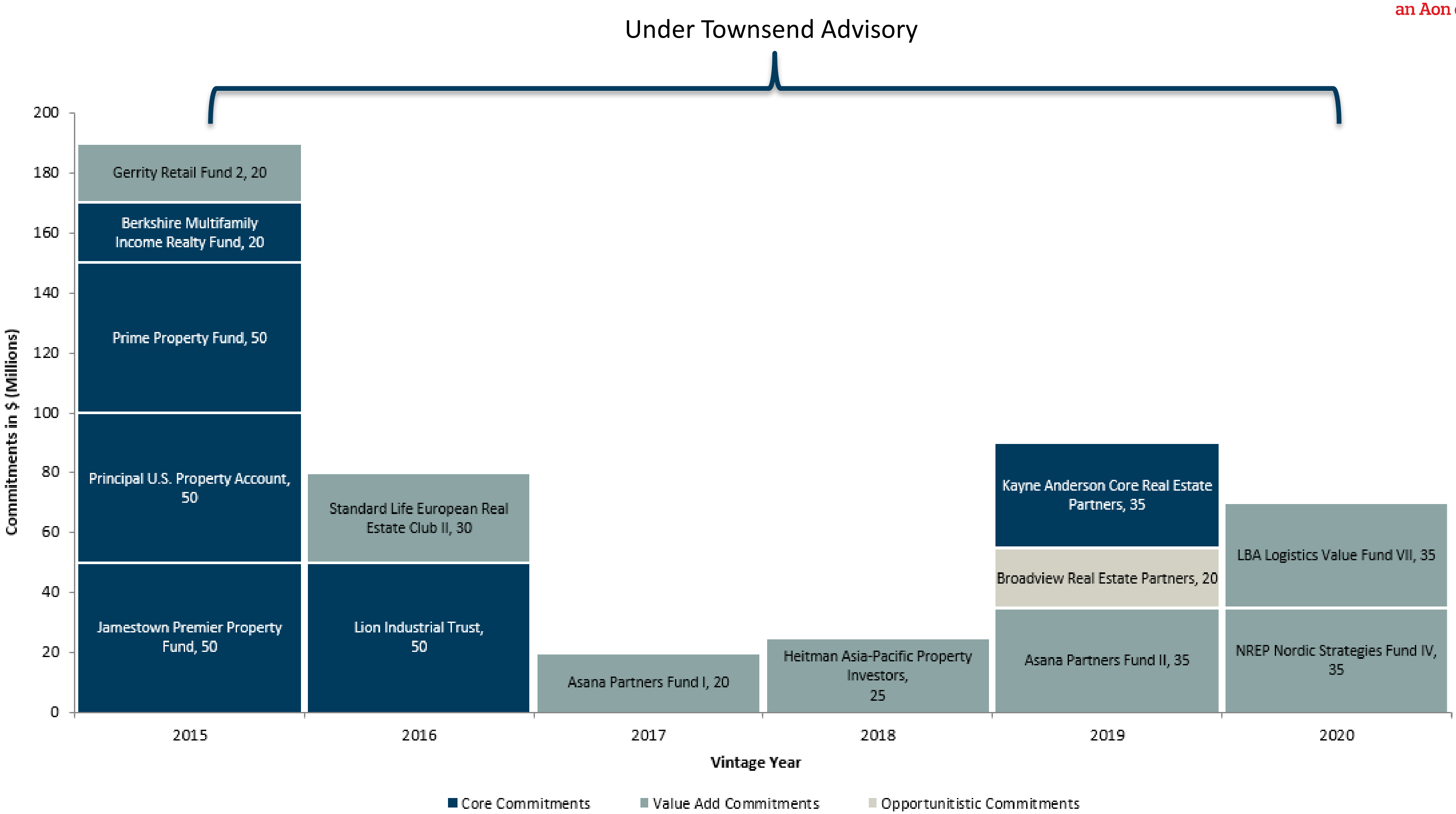
- In May 2014, the Board approved the strategic targets displayed above in order to reflect a more conservative risk profile going-forward. At the time, the Portfolio had 30% exposure to Core and 70% exposure to Non-Core.
- Since 2014, in an effort to transition the Portfolio, the LACERS Board has approved $255 million in Core commitments, which have all been funded in full, with the exception of a $35 million commitment to Kayne Anderson Core Real Estate Fund.
- The LACERS Board approved $220 million in Non-Core investments since 2015. These investments mainly focused on Value Add strategies with pre-specified portfolios, embedded value and/or an element of current income. The only Opportunistic commitment since 2015 has been Broadview Real Estate Partners, a niche strategy and a Townsend “Best Idea”.
- On a funded as well as a funded and committed basis, the LACERS Core and Non-Core allocations are in line with the strategic targets.
- The Core Portfolio utilizes 25.9% leverage, measured on a loan-to-value (LTV) basis, well below the 40.0% constraint.
- The Non-Core Portfolio has a 47.1% LTV ratio, well below the 75.0% constraint.

*Figures may not add due to rounding. Funded & Committed figures exclude commitments made after 12/31/19.

B. LACERS Commitment History



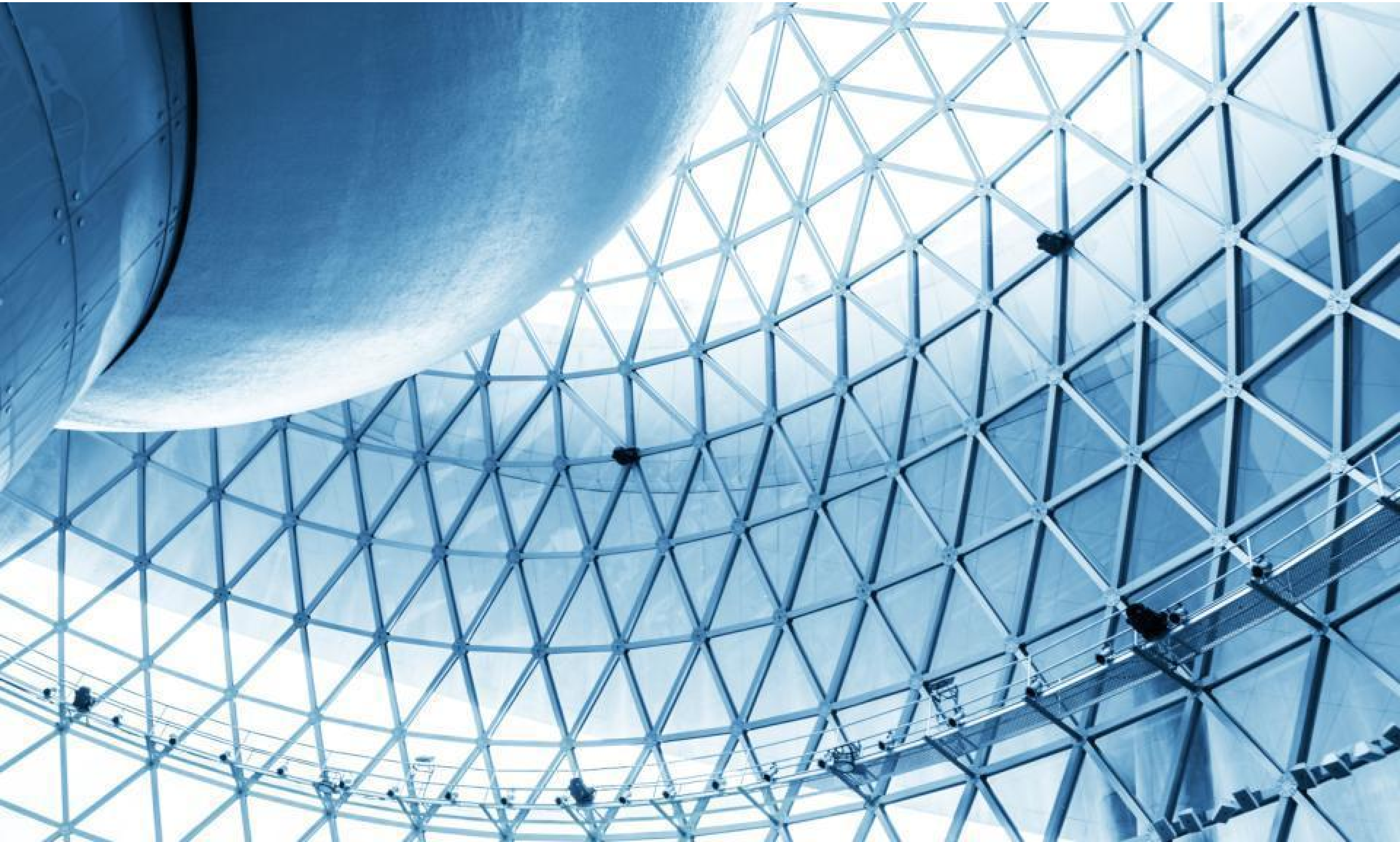
LACERS Commitment History – Last Five Years



- LACERS has committed $475* million since 2015 while under advisement of Townsend.
- 34% of Non-Core commitments since 2015 (Gerrity, Asana, Broadview) met LACERS Emerging Manager guidelines. In the Core open-end fund space, there are currently no managers meeting these guidelines.
- Vintage year classifications are based on LACERS' first capital call (or expected capital call), though commitments may have been approved in prior years.

*Inclusive of investments made through 4Q19. LACERS total presented in USD.

C. LACERS 2020-2024 Objectives and Investment Plan



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Market Update: Real Estate Four Quadrants Summary

May 11 – May 22

Real Estate Private Equity

- Open end fund redemption queues remain elevated at roughly $14.4 billion (doubled since year end). Open end Fund managers are suspending or limiting redemptions to preserve cash and to protect assets of the funds.
- Early reported Q1 2020 returns saw little impact on real estate valuations. It remains to be seen how closed end funds and separate account managers will adjust valuations as of March 31. Larger impacts are expected in Q2 and Q3.
- Closed-end commingled funds have pushed out business plans including development and sale of assets due to the uncertainty of valuations and market views
- Multi-family assets are holding up surprisingly well in this prolonged market downturn. The National Multifamily Housing Council found May apartment rent collections to reach 87.7% , which is down 2.1% from April. The retail sector is being hit the hardest in this regard, with reports of lower than 40% rent collection.
- Townsend maintains its positive outlook on blind pool funds that offer the potential to have capital available when new opportunity sets present themselves.

Real Estate Public Equity

- Although non-store retail rose by 8%, including e-commerce, the increase was unable to offset the overall decline in retail sales of -16.8% demonstrating the continued and accelerated decline of brick and mortar stores after the pandemic ends.
- Despite the wide shutdowns, the share of rent collected in May was unchanged from April indicating that while REITs' tenants continue to face challenges, their ability to pay rent didn't worsen in May.
- The inconsistency in nationwide protocols for reopening the economy from the lockdowns had a negative effect on REITs and the broader equities market.
- FTSE NANAREIT All Equity REITs index declined to a -8.2% return for the week ending May 15th from a 2.1% return for the week ending Mayth.
- All property sectors recorded negative total returns for the week of May 15th including the most resilient ones. While diversified, timber, office, lodging/resort and retail REITs had double-digits declines, data centers and infrastructure saw single digits negative returns.

Real Estate Private Debt

- The impact of COVID-19 is not yet visible in most private valuations because capital market activity has slowed significantly, leaving investors with few benchmarks to guide valuations.
- Anecdotally, debt funds have delayed investing due to pressures on liquidity. Those who have re-entered the market are targeting subordinated debt and/or senior loans with wider spread levels due to a lack of lending options.
- Depressed interest rates are offset by increased spreads, leading to higher all-in debt costs. Wider spreads have lead to all-in debt costs 20-30 basis points higher than Q4 2019.
- Local and regional bank lending continues to focus on top customer relationships, decreasing the availability of commercial real estate financing. With demand exceeding the current financing supply, private lenders have the chance to capitalize on the opportunity to step in and offer lending with much wider spreads than previously available.

Real Estate Public Debt

- Spreads on AAA Conduit CMBS are about 165 bps, down from 185 bps, which has created renewed interest.
- BBB CMBS paper spreads are unchanged, sitting around 1150 bps even as buyer fatigue starts to set in.
- The significant widening of spreads has been exacerbated by forced selling by mortgage REITs and debt funds in order to satisfy margin calls with their repo lenders
- There's a dispersion in pricing between what the market perceives as "good" deals and "bad" deals (as an example, the range on single A- paper trading over the past week was anywhere from S+490 to upwards of S+1200).
- Fed intervention via the Primary Market Corporate Credit Facility, which will allow the Fed to buy AAA-BBB rated corporate bonds may help narrow spreads across markets as liquidity is injected into riskier asset classes. The Fed expects the program to be up and running by the end of the month.

*Source: Green Street Advisors, NAREIT, NCREIF, Townsend

Market Update: Property Type Summary
May 11 – May 22

Property Type	Market Sentiment	Commentary
Multifamily	↑	According to NCREIF, Multifamily rent collections (91.7%) remain strongest amongst other property types. Gov't stimulus and shelter-in-place edicts should continue to support the apartments during the pandemic. Pre-COVID-19 secular tailwinds, coupled with recent home price increases, should support ongoing demand. As such, we have upgraded our market sentiment.
Office	↔	Some prominent tech firms indicate that employees may never return to the office. On the other hand, firms requiring their employees to return to the office may demand more space per employee in order to comply with social distancing. A recent poll supported by Duetsche Bank indicated workers felt they were more efficient and would rather work from home. A return to the office seems inevitable, however the way in which we work remains purely conjecture at this point.
Industrial	↑	Industrial property fundamentals have remained strong and demand for logistics assets continues to grow. First quarter transaction activity was up 85.8% year over year, but vacancy rose 10 bps year over year in the first quarter. NCREIF industrial funds collected 81.2% of rents during the month of April, with rent relief requested by retail operated warehouses.
Retail	↓	National lockdown has led to significant decreases in foot traffic over the first quarter, as well as unprecedented brick and mortar job losses. Green Street forecasts more than half of mall-based department stores will be closed by the end of 2021. Strip centers were the worst performers with 47% of typical April rents collected. However, this was on the higher end of analyst estimates of 30% - 50% normal rent collection.
Hotel	↓	Given the steep initial drop in occupancy, and assuming an occupancy-led recovery over the next 12-24 months, along with a trajectory for ADR growth that mirrors what occurred following the 2008-09 GFC, it may take four to five years for the industry to achieve "prior peak" (January 2020) RevPAR levels.
Other	↔	**Senior Housing**: Communities across the country have halted move-ins of new residents, alongside which increased supplies and increased labor costs are expected to have a significant financial impact on the sector. However, operators are still marketing, and demand still grows. **Student Housing**: The future for student housing is still unknown. A decline in international student intakes creates a risk for the sector, as does the announcement that some universities (such as the California State University system) plan to continue classes online through the fall semester.

*Source: Green Street Advisors, Evercore, Townsend
Townsend's views are as of this date of this publication and may be changed or modified at any time without further notice

Market Update – Townsend Response

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- Given the sharp correction witnessed in public real estate debt and equity, Townsend believes significant write-downs in the private markets over the coming quarters is likely.
    - As a result, Townsend recommends halting commitments to open and closed-end funds with pre-specified portfolios, as the carrying value of these assets may not reflect current (lower) market values.
    - Similarly, Townsend recommends pausing the funding of recent open-end investments, to the extent possible.
    - Additionally, new commitments will need to be re-evaluated in context of recent market events.
- Townsend expects the magnitude of distress to create opportunities for limited partners going forward.
    - Specifically, Townsend looks favorably on blind-pool, opportunity driven closed-end funds that are capable of executing in and capitalizing on asset and portfolio level distress.
- A full Townsend Market Update is presented in **Attachment A.**

LACERS Investment Plan Summary – Fiscal Year 2020-2021

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	LACERS Annual Investment Plan FY 2020-2021
Core	
Capital	**$30 M - $70 M**
Number of Funds	0-1
Target Average Commitment per Fund	$55 M
Non-Core	
Capital	**$100 M - $140 M**
Number of Funds	2-3
Target Average Commitment per Fund	$50 M
Total Annual Commitments	***$130 M - $210 M***

LACERS Real Estate Return Projections

- Yearly, Townsend conducts an in-depth analysis of expected real estate returns by segment. These projections consider historical returns as well as macro-economic and asset class specific characteristics.
- Overall, real estate returns are expected to moderate towards long term averages of 5%-7%, meaningfully lower than realized returns in the last 5 years.
- Core strategies are expected to return 6.0%, Value-Added 6.5% and Opportunistic 9.0%.
- All returns are nominal and net of fees.

Nominal Return Assumptions*			
Risk and Return	Core	Value Add	Opportunistic
Net Expected Return	6.00%	6.50%	9.00%
Standard Deviation	8.65%	10.95%	11.30%

*Return projections reflect conditions prior to the COVID-19 pandemic. Return forecasts will be updated as new information becomes available.

LACERS 2020-2024 Objectives

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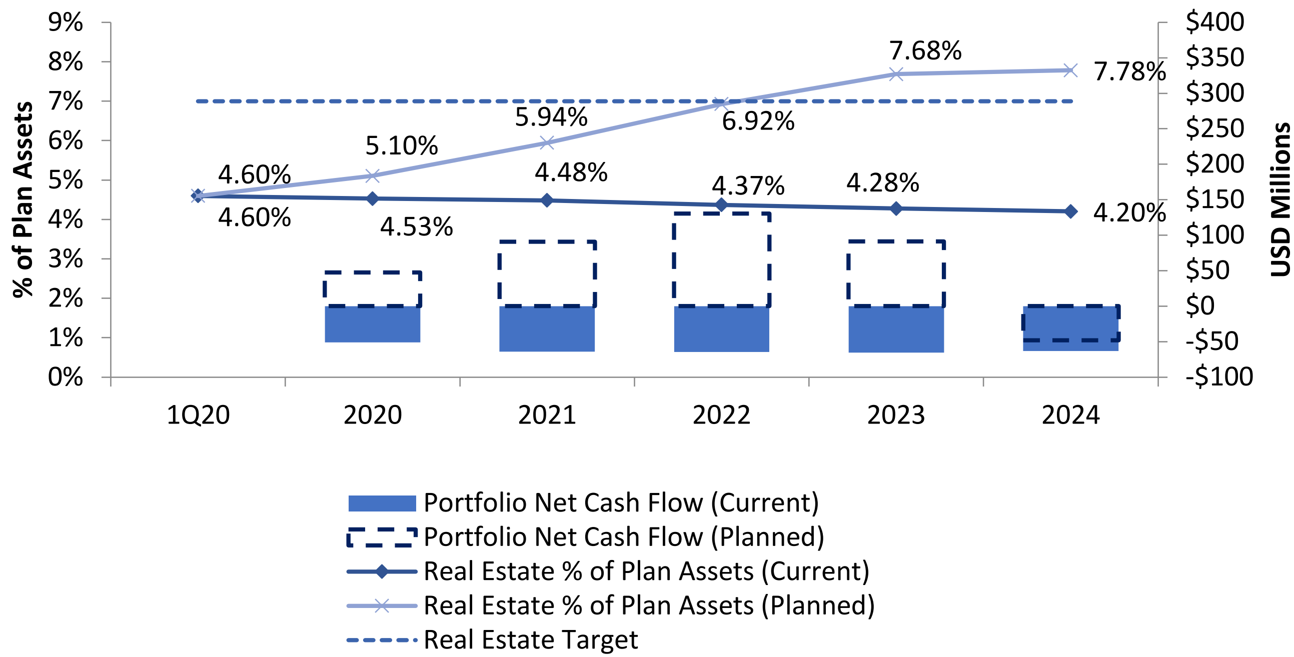
Projected Growth

- The below capital projections assume a 6.0% annual growth rate for Core strategies, a 6.5% annual growth rate for Value Add strategies, and a 9.0% annual growth rate for Opportunistic strategies. Total plan growth is projected at 4.0%.
- According to Townsend's capital projections, LACERS requires annual private real estate commitments in excess of $100 million in order to grow its allocation to 7.0% of Plan Assets by 2023.
- Townsend will work with Staff to carefully manage LACERS investment exposure.
  - Preserve investment capacity to allow LACERS to take advantage of opportunities during all market cycles (not all capital needs to be deployed at once).
  - Monitor contribution and distribution/withdrawal activities, and forecasts provided by LACERS' managers.

Real Estate % of Total Plan Assets (All Planned Commitments)



LACERS 2020-2024 Investment Plan

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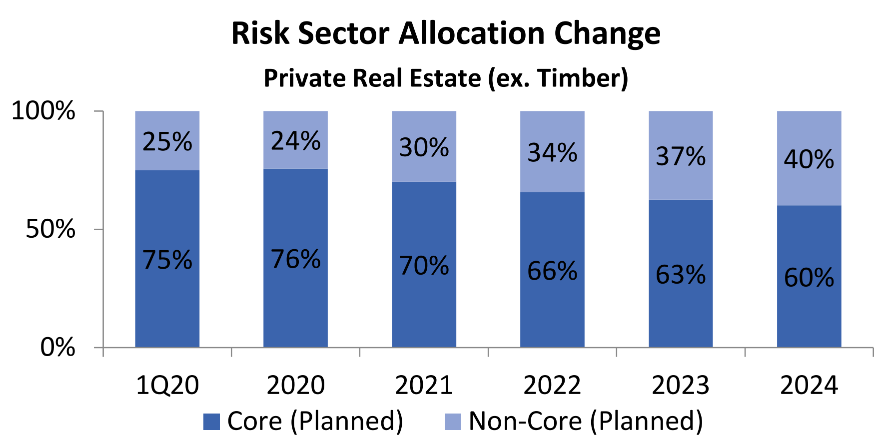
Real Estate Program Proposed Plan

- Vintage year diversification is a tool to control risk by reducing exposure to market cycles.
  - Tactical adjustments to overweight or underweight a particular vintage are based on market views and portfolio exposure relative to the 7.0% allocation target and benchmark.
  - Adjustments may be made based upon specific opportunities presented.
- If the real estate market continues to face headwinds and stress, consider a more opportunity-driven capital deployment schedule, with commitments focused on providing exposures to distressed plays and targeted non-core strategies.
  - This may result in greater or fewer commitments in 2020-2021, depending on market conditions and available opportunities. Additionally, commitments may be to focused/tactical strategies that capitalize on market dislocation, provide downside protection to the portfolio, or provide complimentary exposures to current holdings.
- Identify opportunities to strategically rebalance the Core portfolio to increase income and expected performance.
  - Consider top-up commitments to existing high-conviction funds.
  - Ensure that any redemptions do not occur at unfavorable valuations.
- Remain mindful of the strategic targets of 60% Core/40% Non-Core, and of the Total Real Estate Benchmark (ODCE+80bps).
  - Currently the portfolio is trending towards the higher end of the Core allocation target range, which will lead to difficulty outperforming the Benchmark. New proposed annual commitments of approximately $55 M to Core and $120 M to Non-Core strategies would bring the portfolio closer to its target, as illustrated below.



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LACERS 2020-2024 Investment Plan

2020-2021 Overall Portfolio Activity

- Monitor market conditions closely to capitalize on opportunities created by market stress and actively manage risk.
- For compelling opportunities, consider increasing average commitment size to reflect the new real estate allocation.

2020-2021 Core Activity

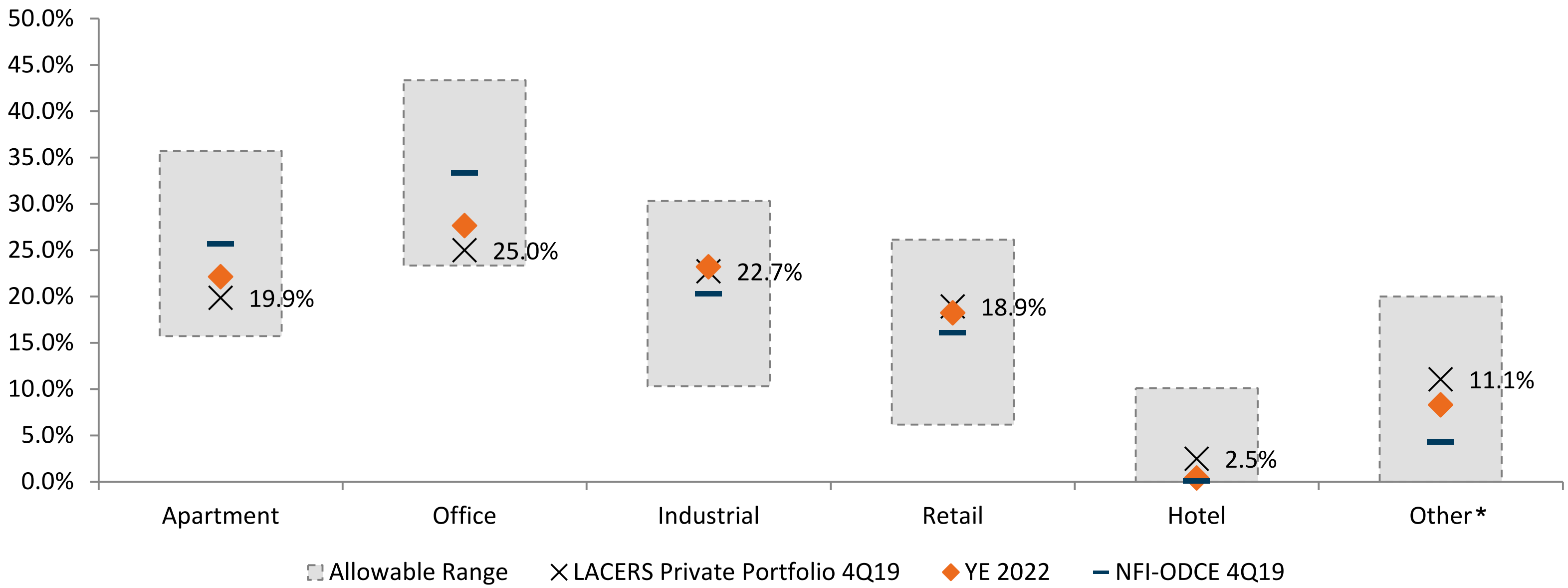
- Evaluate existing Open-End Core fund portfolio and consider rebalancing the portfolio to improve diversification and returns, as necessary, while ensuring that LACERS does not redeem at temporarily depressed valuations due to current market stress.
- Consider top-up commitments to existing high-conviction funds.

2020-2021 Non-Core Activity

- Focus on up to three incremental commitments in Non-Core (ranging from $35 to $50 million per investment), emphasizing blind-pool funds, as well as thematic investments arising from the current economic and health crisis's impact on the real estate sector.
- Target commitments to preferred property types and regions based on LACERS Portfolio exposures:
    - **High-Conviction Opportunities**
        - Retain the ability to commit to niche, high-conviction "Best Idea" Non-Core strategies that offer attractive risk-adjusted returns or unique exposures.
        - Pursue blind-pool opportunistic funds with managers capable of taking advantage of market distress.
            - Temporary periods of market volatility, illiquidity, and stressed properties/ownership historically tend to hallmark better vintages for higher risk/return Opportunistic funds.
    - **Industrial**: Consider increasing exposure to strategies that are complementary to those of LACERS' Core Industrial holdings, which currently represent the majority of LACERS' exposure to the property type. While LACERS is overweight to the Industrial property type (22.7% vs. 20.3% NFI-ODCE), a larger overweight may be appropriate. Additionally, Non-Core exposure to Industrial properties is only 3.2% and should be increased.
    - **US Apartments**: Increase Non-Core Apartment exposure with a best-in-class manager.
        - Consider a value-added, diversified manager to increase Apartment exposure.
    - **Ex-U.S. Exposure**
        - Evaluate Non-Core diversification and consider an ex-U.S. strategy if a compelling thematic opportunity is available.

LACERS Diversification Projections

Private Real Estate Portfolio (Ex. Timber) - Property Type Diversification
4Q19 vs. Projected Year-End 2022 Exposure



- LACERS continues to be underweight to Office and Apartment.
  - An Office underweight is supported by Townsend's View of the World, due to the sector's correlation to the economic cycle and current market conditions.
  - An increase in Apartment exposure should be targeted due to the sector's defensive nature. This could be done partially through a commitment to a diversified Apartment specialist, paired with a rebalancing of current Core positions.
    - The 2022 projections assume a $50 million commitment to an Apartment specialist, however Townsend supports bringing Apartment exposure to an overweight position.
- LACERS may consider further increasing the Industrial overweight, as well as Ex-US Industrial options that provide further diversification.

*'Other' reflects properties that do no fit into the traditional classifications (apartment, industrial, office, retail), such as self-storage, data centers, and other property types.

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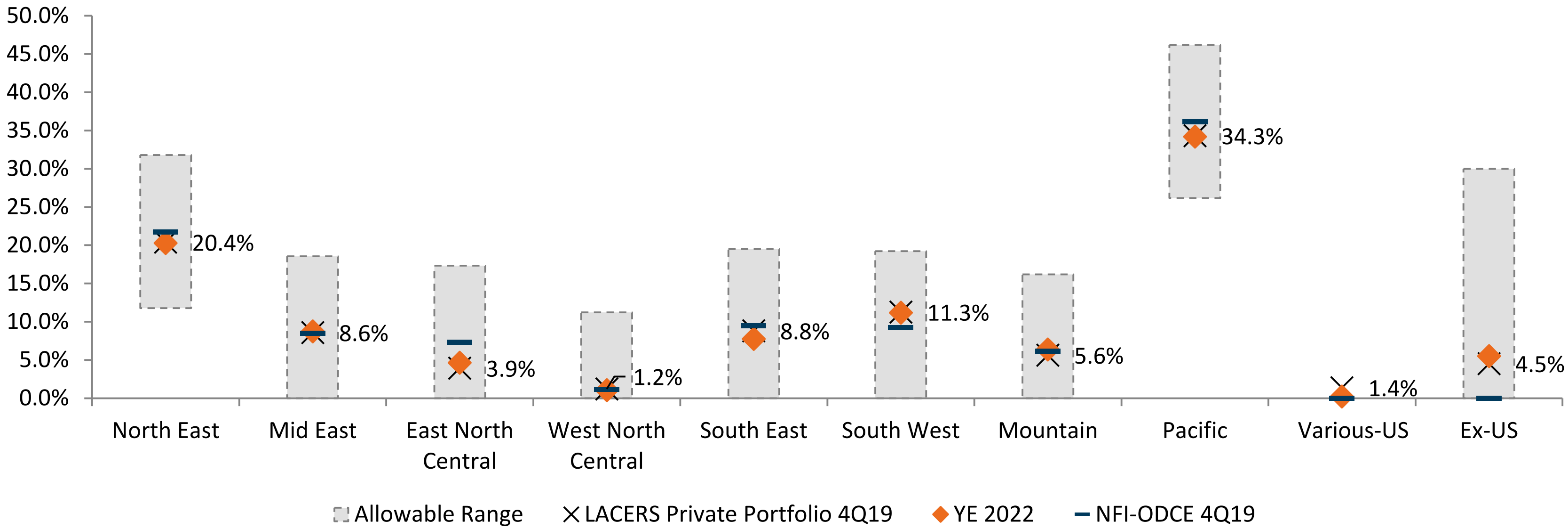
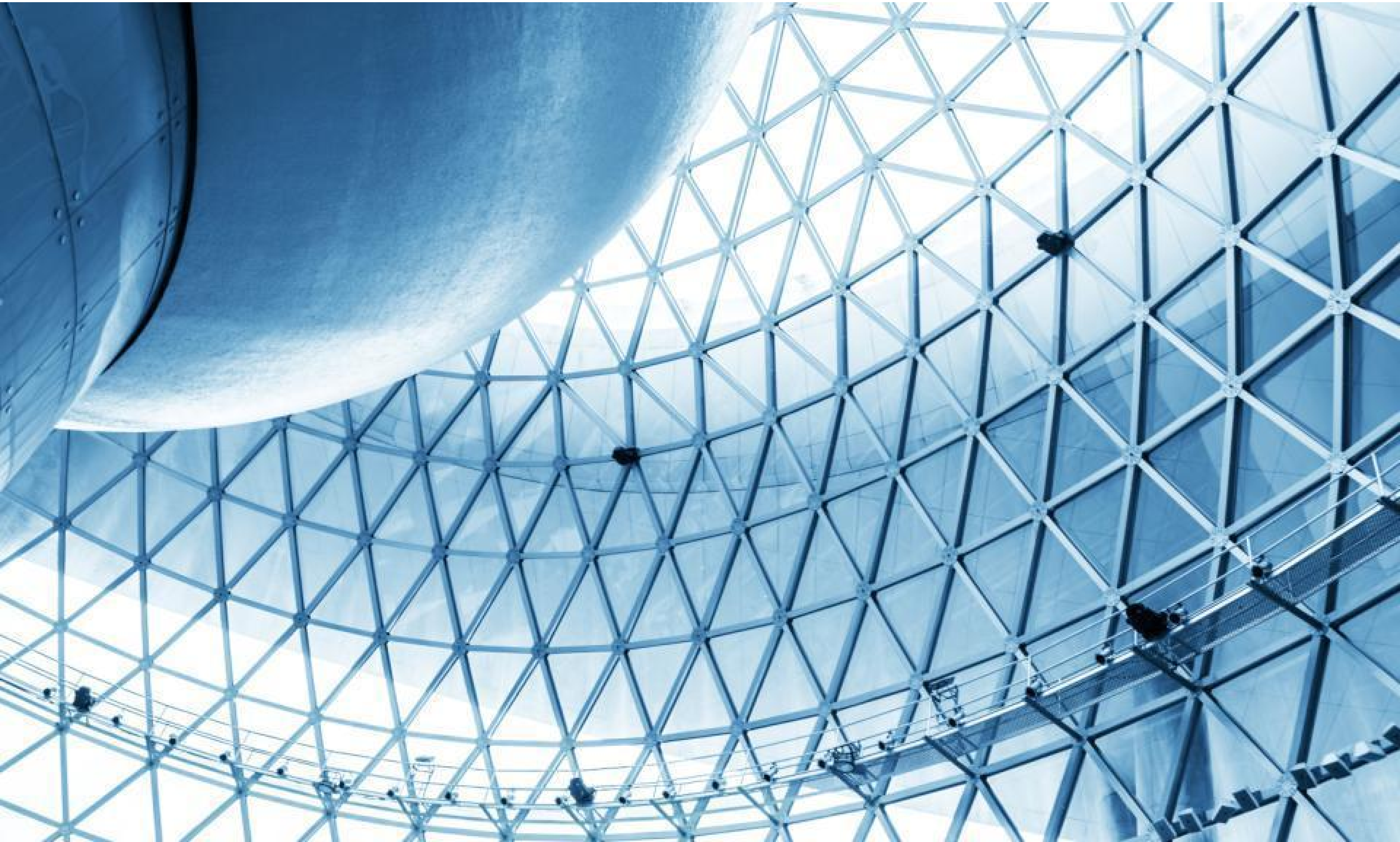
LACERS Diversification Projections

Private Real Estate Portfolio (Ex. Timber) – Geographic Diversification
4Q19 vs. Projected Year-End 2022 Exposure



- LACERS continues to be underweight to the North East, East North Central and the Pacific regions. The Pacific, in particular, is a market that has been outperforming and is expected to continue to do so.
  - Continue to seek exposure to Sunbelt regions (Pacific, South East, South West)
  - Consider modest tactical opportunities in the North East.
  - Maintain relative underweight to the East North Central region.
- Consider additional Ex-US opportunities to enhance geographic diversification and returns.
  - As of 4Q19, LACERS held a 4.5% Ex-US exposure, composed primarily of three large regional exposures: Asia (2.5%), Europe (1.5%), and Emerging Americas (0.5%).

D. Sourcing and Deal Flow



Manager Sourcing & Due Diligence

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Core and Core Plus Fund Sourcing and Selection

- Townsend’s dedicated open-end fund team reviews and monitors the open-end universe on a monthly and quarterly basis.
- As of June 30, 2019, the statistics for the existing open-end fund universe were as follows:
  - 24 Core Diversified Funds,
  - 17 Core Plus Funds,
  - 14 Specialty Funds (Property Type Specific and Debt Funds).
- Townsend also evaluates Core closed-end funds, though fewer exist.
- Comprehensive review, evaluation and selection process:
  - Sourcing and evaluation of new fund launches,
  - Quarterly data collection and analysis,
  - On-site meetings and quarterly reviews,
  - Advisory board participation,
  - Ongoing platform assessment,
  - Continual due diligence.

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Emerging Manager Sourcing Process

Emerging Manager Sourcing

- Townsend focuses on identifying emerging managers during its sourcing and monitoring process.
  - Network and establish new relationships through regular sourcing channels, outreach and conference attendance.
  - Seek new and unique opportunities that align with Townsend View of the World.
  - Uncover experienced niche operating partners interested in raising third-party capital.
  - Oversight and management of dedicated Emerging Manager programs across the firm.
  - Maintain active pipeline of Emerging Manager candidates.
  - Actively vetting new owner/operators as potential Emerging Manager candidates.

LACERS Emerging Manager Efforts

- LACERS has been focused on de-risking the Portfolio over the past four years, resulting in more Core search activity.
- Majority of Emerging Manager opportunity set is in the Non-Core segment:
  - 2014-2015: 50% of LACERS Non-Core commitments qualified under the LACERS Emerging Manager Program.
  - 2016: In 2H2016, Townsend conducted a LACERS-specific Emerging Manager search resulting in the recommendation of a $20 million Non-Core commitment to Asana Partners I, which was approved by the Board in August 2016.
  - 2019: A $20 million commitment to Broadview Real Estate Partners was approved by the Board.
- In 2019, LACERS updated its Emerging Manager Policy to the following:
  - The General Partner will have no more than $2 billion in firm-wide assets.
  - First- or second-time institutional fund for a given General Partner.
  - The Fund shall have a minimum size of $150 million in committed capital inclusive of LACERS pending commitment.
  - The firm must have been in existence for a minimum of one year.
  - The team must have a minimum track record of five years.
  - No person or entity, other than the principals and/or employees of the firm, shall own more than forty-nine percent (49%) interest of the firm.
  - No client can represent more than 30% of the total Fund’s capital.
  - LACERS commitment in the strategy being considered shall not exceed 10% of the projected final closing fund size or $30 million, whichever is lower.

Manager Sourcing & Due Diligence

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Non-Core Fund Sourcing and Selection

- In addition to the work completed for open-end commingled funds (evaluation process outlined on the previous page), Townsend is continuously analyzing the universe of Non-Core closed-end funds available for investment.
- As of December 31, 2019, Townsend's statistics for the Non-Core fund universe were as follows:
  - 283 funds screened.
  - 252 funds in initial due diligence.
  - 50 funds approved for client investment.
  - 72% North America/Global, 16% Europe, 4% Asia, and 8% Rest of the World.
- Detailed due diligence follows a three-phase due diligence process:
  - Sourcing and evaluation of new fund launches.
  - On-site due diligence meetings.
  - Evaluation of investment characteristics includes, but is not limited to the following:
    - *Executive Summary:* Strategy Overview, Comparative Advantages, Potential Issues and Concerns.
    - *Strategy:* Overview, Leverage, Investment Guidelines, Pipeline.
    - *Sponsor*: Organizational Background/History, Turnover, Compensation, and Retention.
    - *Investment Process:* Overview, Investment Committee, Affiliate Transactions, Limited Partner Advisory Committee, Exclusivity and Allocations, Valuations.
    - *Fund Structure:* Key Terms, Fees and Distributions, Analysis of Fees.
    - *Performance:* Detailed Summary of Prior Vehicles, Vintage Year Comparison, Dispersion of Returns, Investment Highlights.
- Ongoing due diligence includes fund coverage, investment monitoring, reporting, advisory board representation and client advocacy.

IC Meeting: 06/09/20
Item IV
Attachment 1

Attachment A: Townsend Market Update

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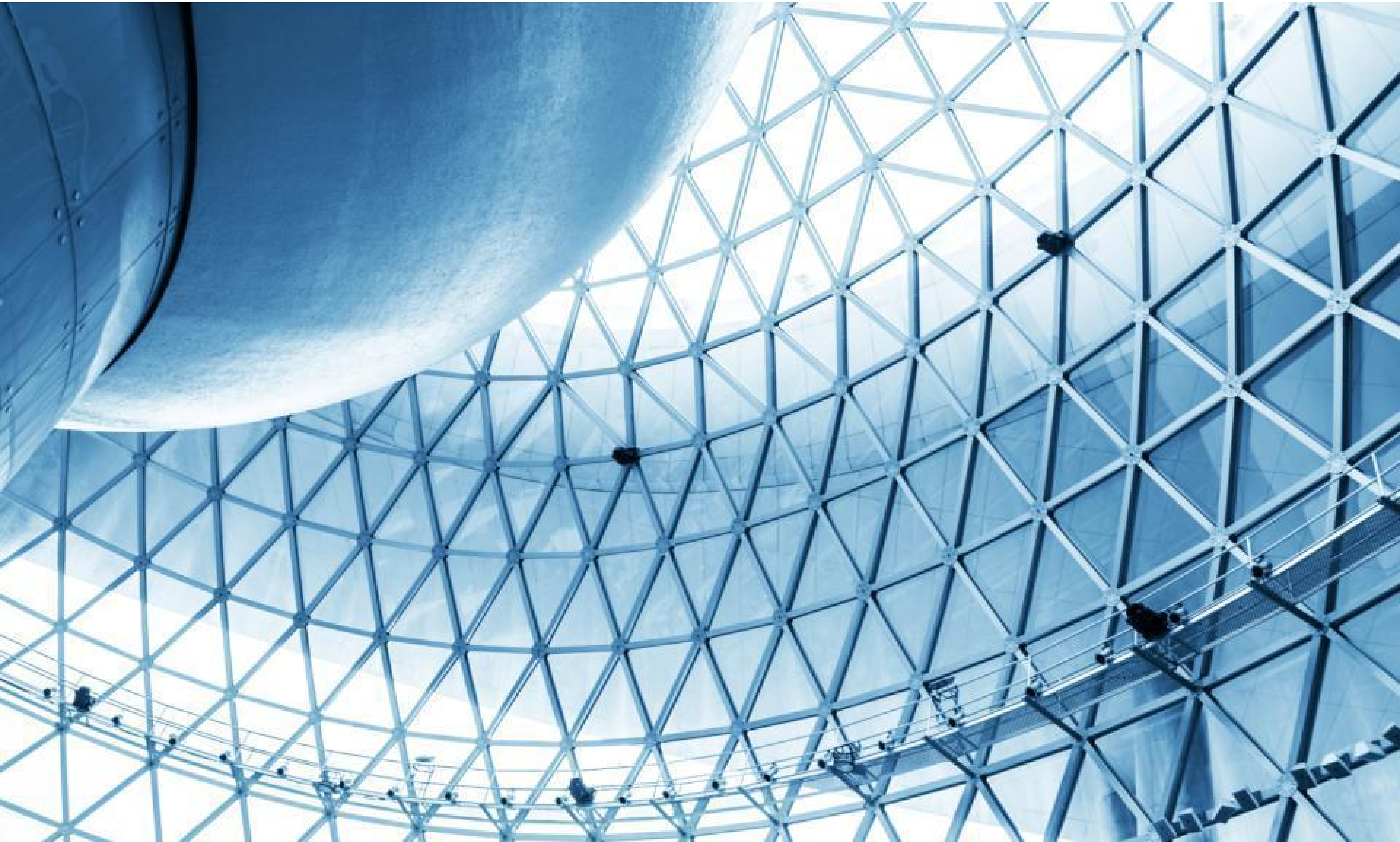

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COVID-19 Real Estate Market Update

PROPRIETARY & CONFIDENTIAL
MAY 2020

Economic Outlook

Economic Uncertainty At Historic Levels

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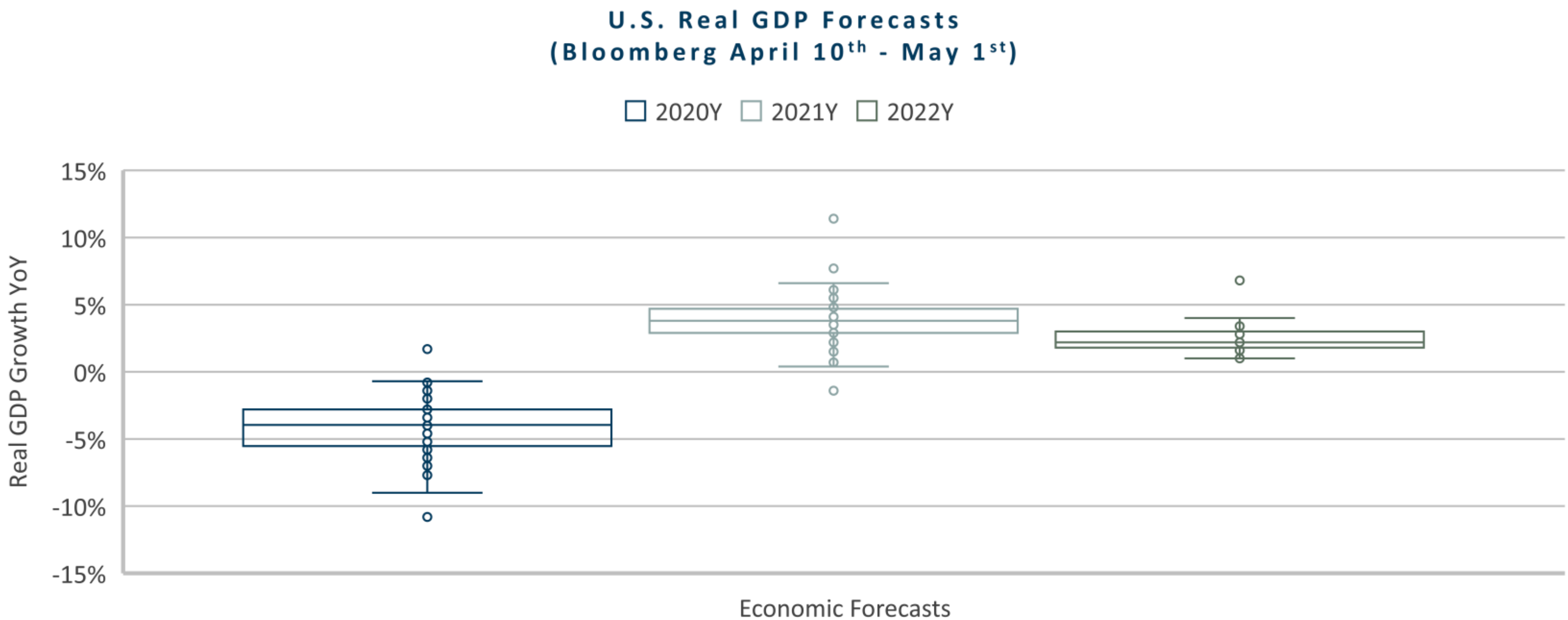
CHALLENGING TO QUANTIFY: IMPACT OF CORONAVIRUS HAS RESULTED IN DIVERGENCE BETWEEN FORECASTS



- Economic uncertainty is growing day-by-day and is reflected by the wide dispersion of Real GDP forecasts
  - The above example is specific to the United States, but virus driven uncertainty is a global phenomenon
- Material information is coming out on an almost daily basis, and thus economic forecasts are changing rapidly
- High levels of uncertainty are expected to persist until more data is available on COVID-19 (e.g. infection fatality rate, infectivity, developed treatments)
  - Implied market volatility is still 3-4x pre-coronavirus levels

Source: Bloomberg (05.01.20)
Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice.

Staggering Job Losses To Impact Consumption

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LEADING INDICATORS POINTING TO SUBSTANTIAL CONTRACTION IN CONSUMPTION

- April unemployment is expected to jump to 16.0%; estimates are generally in the 15-18% range
  - All Jobs created during the recovery have been wiped out
- Personal saving rates have spiked as consumer confidence has tumbled
  - Personal consumption, a substantial portion of GDP, declined 7.5% in March alone
- Retail sales fell 8.7% in March, a historic decline
- Unemployment and declines in consumption are happening across the globe; individuals are shoring up their balance sheets and cutting discretionary expenditures

Source: St. Louis Fed

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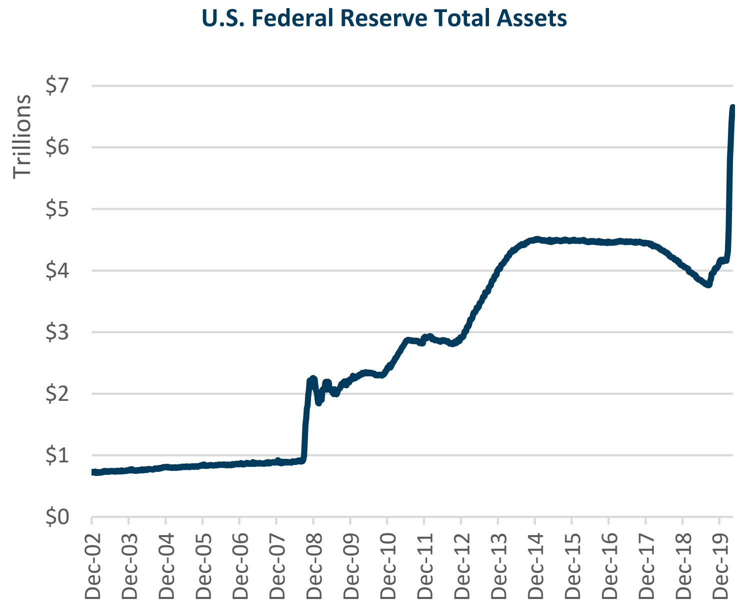
Central Banks Have Quickly Intervened

GLOBALLY MONETARY POLICY HAS STEPPED IN TO SOFTEN THE DOWNTURN

country/region	current rate	previous rate	Change	Date
Russia	5.50%	6.00%	-0.50%	4/24/2020
Turkey	8.75%	9.75%	-1.00%	4/22/2020
China	3.85%	4.05%	-0.20%	4/20/2020
South Africa	4.25%	5.25%	-1.00%	4/14/2020
Poland	0.50%	1.00%	-0.50%	4/8/2020
Israel	0.10%	0.25%	-0.15%	4/6/2020
Chile	0.50%	1.00%	-0.50%	3/31/2020
Canada	0.25%	0.75%	-0.50%	3/27/2020
India	4.40%	5.15%	-0.75%	3/27/2020
Czech Republic	1.00%	1.75%	-0.75%	3/26/2020
Mexico	6.50%	7.00%	-0.50%	3/20/2020
Norway	0.25%	1.50%	-1.25%	3/20/2020
Australia	0.25%	0.50%	-0.25%	3/19/2020
Great Britain	0.10%	0.25%	-0.15%	3/19/2020
Brazil	3.75%	4.25%	-0.50%	3/18/2020
South Korea	0.75%	1.25%	-0.50%	3/16/2020
New Zealand	0.25%	1.00%	-0.75%	3/16/2020
Saudi Arabia	1.00%	1.75%	-0.75%	3/16/2020
United States	0.25%	1.25%	-1.00%	3/15/2020
Indonesia	6.50%	6.75%	-0.25%	6/16/2016
Hungary	0.90%	1.05%	-0.15%	5/24/2016
Europe	0.00%	0.05%	-0.05%	3/10/2016
Japan	-0.10%	0.00%	-0.10%	2/1/2016
Denmark	0.05%	0.20%	-0.15%	1/19/2015



- Central banks have quickly exercised tools that were developed and successful during the GFC
  - Intervention has been deployed substantially faster than prior declines
- Unprecedented levels of monetary easing have taken place to soften the economic impact
- Substantial quantitative easing has helped markets maintain liquidity in the near-term

Source: global-rates.com (05.01.20)

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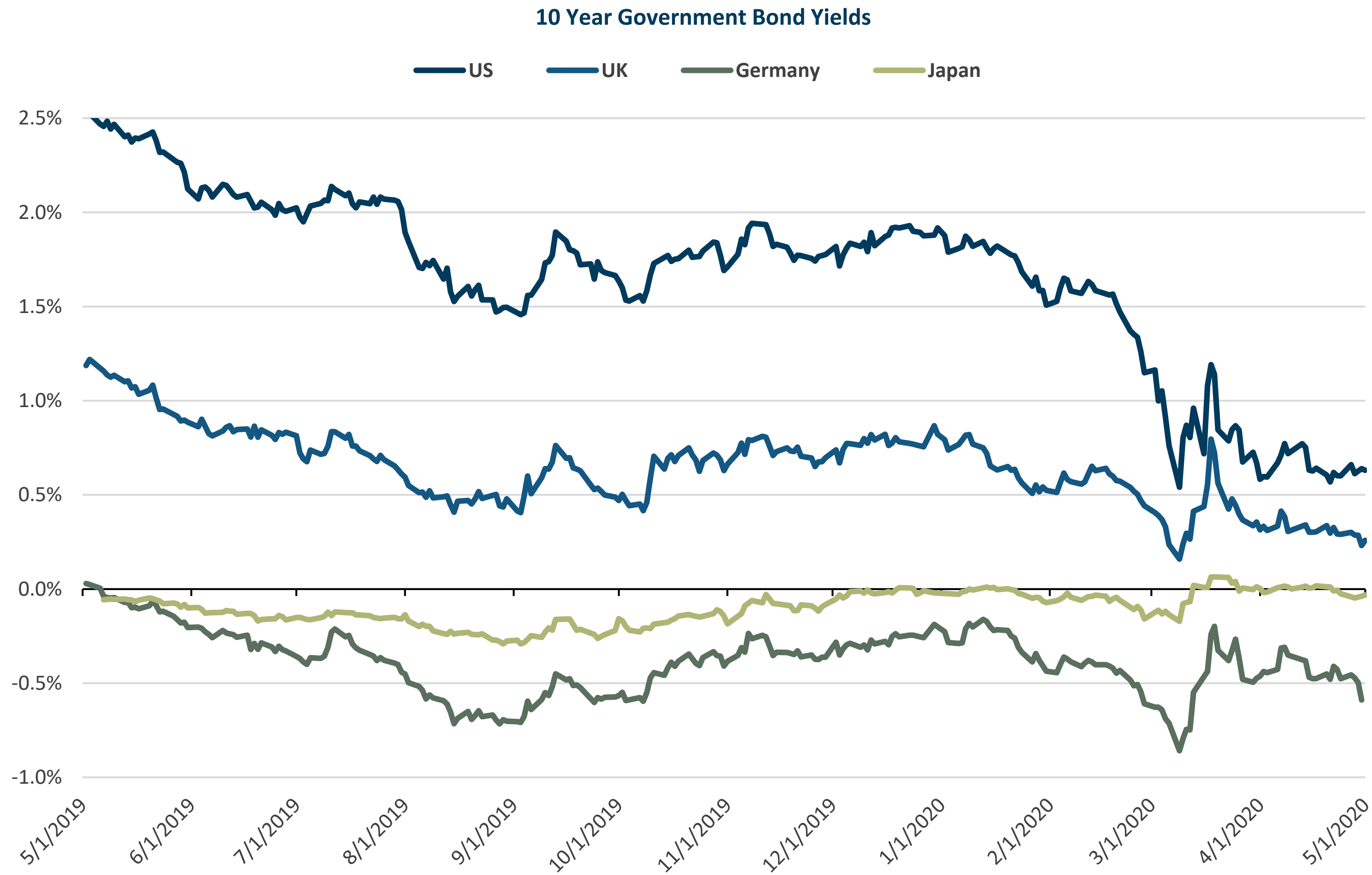
Interest Rates Decline As Investors Seek Safety

LOW RATES SHOULD LEND SUPPORT TO ASSET VALUATIONS



Source: Bloomberg (05.01.20)

What Does The Recovery Look Like?

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GO FORWARD SCENARIOS

V Shaped Recovery (Market Base Case)

- Lockdowns manage to flatten the curve
- Disease outbreak recedes by May; antibody testing allows the economy to reopen, and we get back to work by June
- Swift policy response keeps financial markets functioning
- Substantial recovery in 2H20

U Shaped Recovery

- Deeper recession with much sharper contraction in GDP
- Dislocation in labor market and a decline in sentiment
- Both a demand and supply shock
- Policy supports economic recovery in mid-2021 and stronger recovery in 2022

W Shaped Recovery (Downside)

- Challenging process of stabilizing the economy
- Persistent virus risk creates a financial crisis
- GDP to fall in 2020 (each quarter), stabilize in 2021, begin recovery in 2022

Source: The Townsend Group
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Real Estate Valuations

Pre COVID-19 Global Economic Outlook And Real Estate Investment Opportunities

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Macro Factors	U.S.	Europe	Australia	Japan
GDP ('20)	1.7%	1.3% (U.K. 1.1%, DE 0.8%, FR 1.2%)	2.4%	0.3%
Unemployment ('19)	3.6%	6.3% (U.K. 3.7%, DE 3.1%, FR 8.5%)	5.2%	2.4%
Key Real Estate Themes	Fundamentals diverge significantly across property sectors and submarkets Core offers good income and protection against a potential slowdown Non-Core selectively mispriced	Levered income returns typically higher than in the U.S., but low growth environment expected to persist Repositioning opportunities attractive	Superannuation funds dominate Core real estate market and benefit from lower cost of capital Non-Core opportunities offer attractive growth outlook	Low growth despite easing Existing stock old provides attractive repositioning opportunities Low debt cost offers good leverage without adding much risk
Office	Select markets offer good rent growth; southern markets witnessing net migration likely to benefit Repositioning and high income-producing investments likely to outperform low cap rate opportunities	Limited growth potential, but attractive income generation given low cost of debt In the U.K., Brexit-related uncertainty continues to weigh on the market	Strong leasing demand driving up rents, with limited near-term supply risks Sydney cap rates higher than those in NY, London, and Tokyo	Fundamentals are healthy, but new supply expected to temper rent growth Old stock in good locations in Tokyo/ Osaka offers attractive upgrading opportunities
Industrial	E-commerce and imports driving demand at record high level Supply rising in hotbeds, requiring focus on quality and infill assets	Strong demand from logistic players and e-commerce Yields continue to offer attractive cash returns boosted by low-cost debt	Demand for modern buildings fueled by growth of e-commerce Core asset pricing bid up by domestic capital, but Value-Add assets more appropriately priced	Strong demand for modern logistics assets driven by 3PLs Supply building in town peripheries that is likely to limit rent growth
Retail	E-commerce reshaping landscape and forcing consolidation of retailers' space Neighborhood retail presents interesting side play	E-commerce driven reshaping is putting retail at risk; U.K. retail is challenged E-commerce usage remains muted on the continent but projected to increase	Investor sentiment driving down asset pricing	Select repositioning opportunities appear attractive given poor existing asset quality E-commerce likely to be a headwind
Residential	Rent affordability remains stretched; evolving regulatory environment threatens affordable housing rent growth Suburban product offers higher yield and stands to benefits from aging millennials	Most large cities undersupplied with dwellings Evolving regulatory environment may limit rent growth	While demand for housing and rental units is strong, institutional investment opportunities with established operators are limited	Attractive residential development opportunities in high-growth cities like Tokyo and Osaka Secular demand growth for aged care

Actively Pursuing | Neutral | Selectively Pursuing

Sources: The Townsend Group, Consensus Estimates: Bloomberg (October 2019), OECD (2Q19 Harmonized Unemployment).

Public Market Initial Reactions

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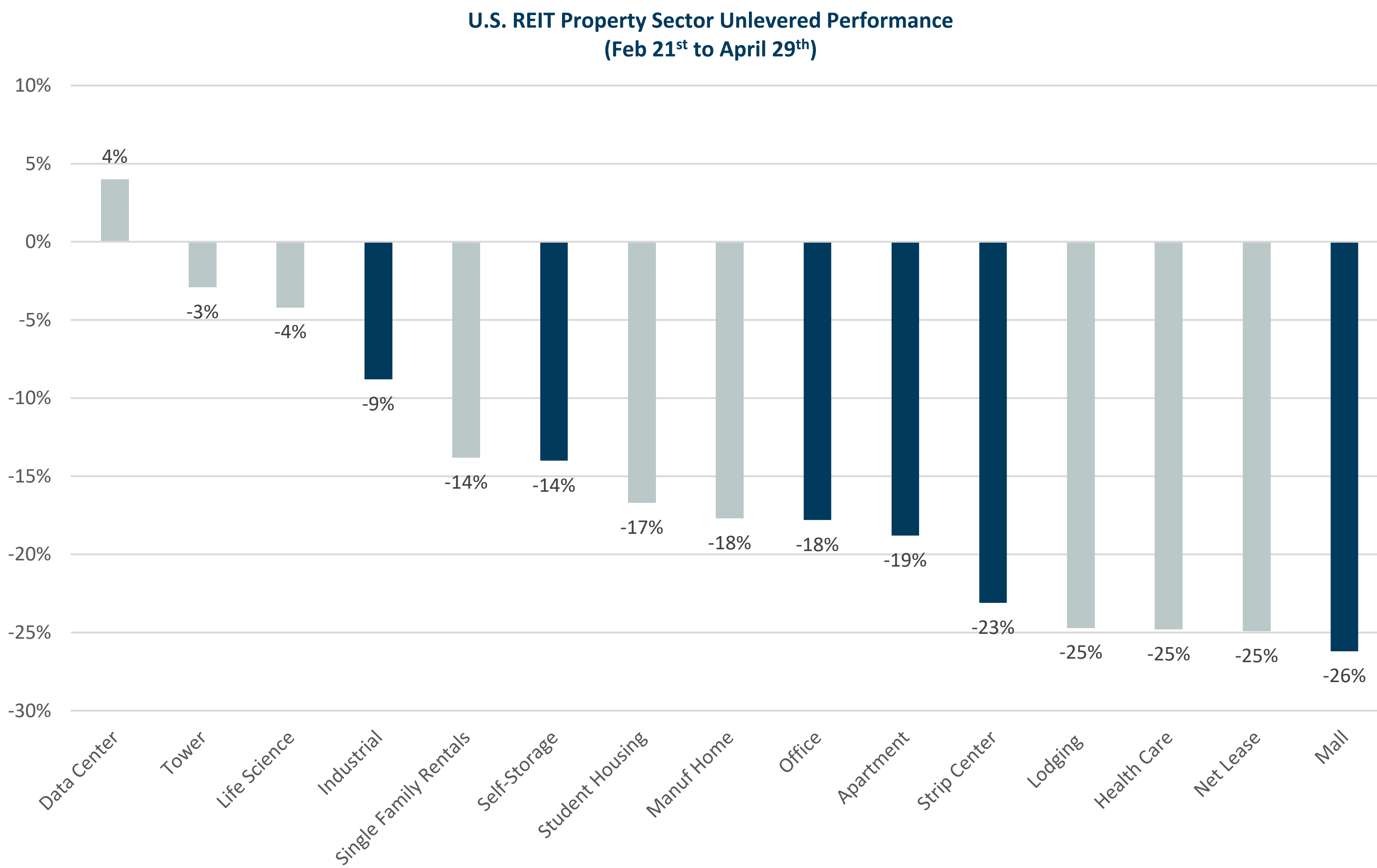
LARGE DIVERGENCE IN EXPECTED PROPERTY SECTOR IMPACT



Source: Green Street (04.29.20)
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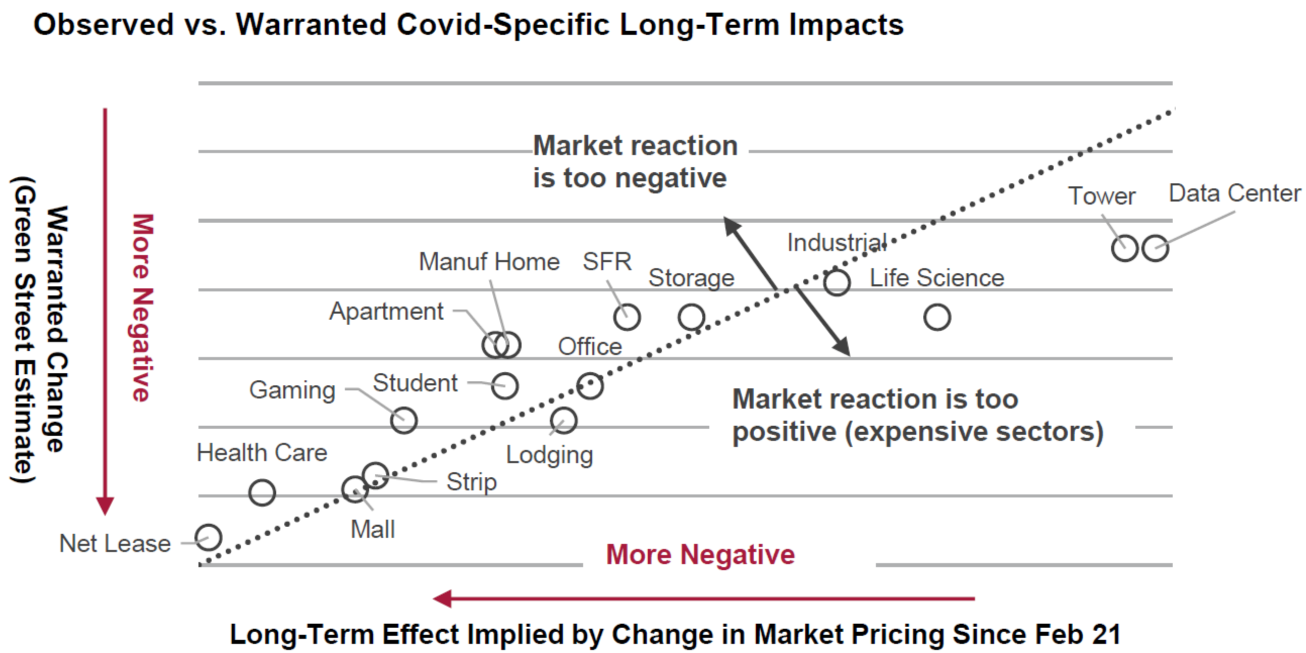
Preliminary Property Sector Impact and Outlook



- The above analysis base case assumes that a recovery to 2019 GDP occurs by end of 2022
- In addition, this assumes consumer behavior reverts to normal once herd immunity is achieved
  - Unfortunately, people are unpredictable and new material information may still emerge
  - There is additional tail risk that may have an outsized impact on sectors at risk such as Malls, Net Lease, Strip Centers, and Lodging

Source: Green Street (04.16.20)

Public Market Implied Premium/Discount To Private Market Values

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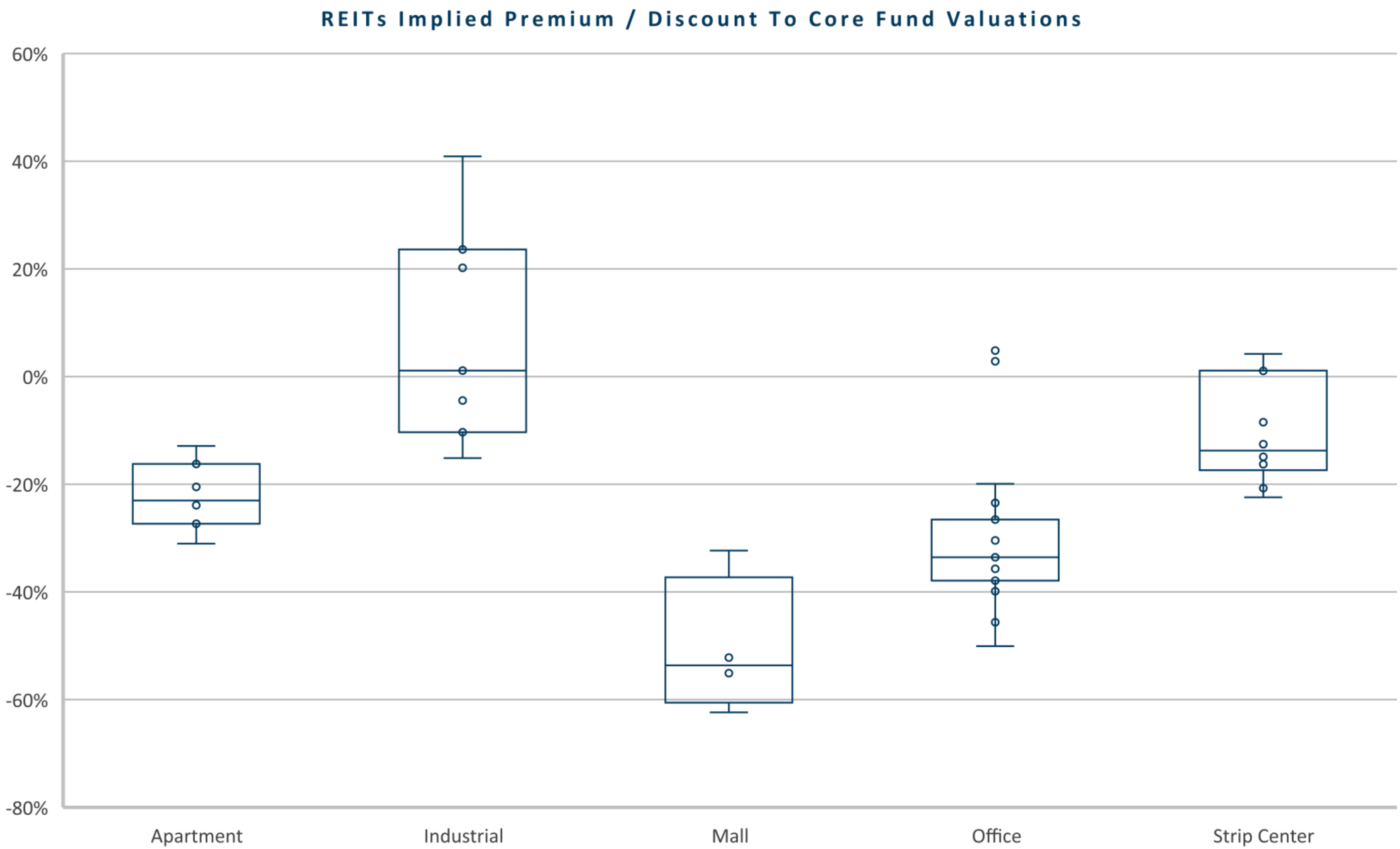
THE MARKET CONTINUES TO FAVOR INDUSTRIAL AND OTHER TECHNOLOGY DRIVEN REAL ESTATE



Source: Green Street (04.27.20), NCREIF
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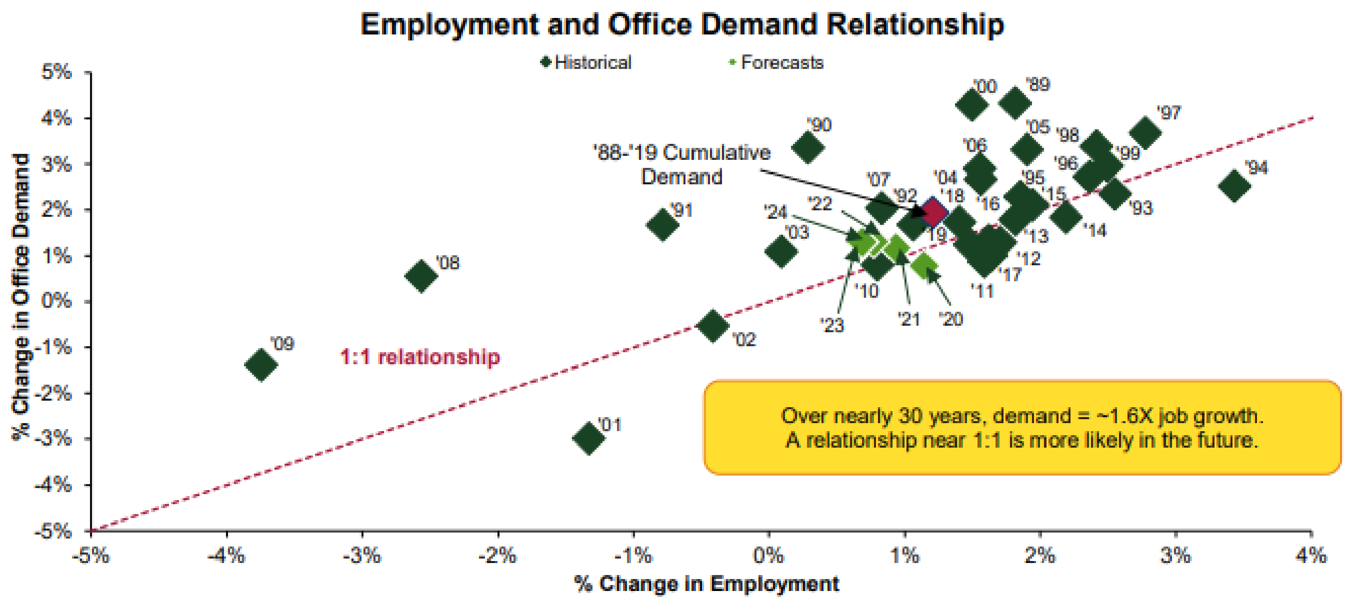
Volatility Creates Opportunity

INVESTING POST-CORONAVIRUS

- Public markets have been quick to react and several investment opportunities appear attractive
- Blind pool commingled funds that line up with the readjusted long-term real estate trends of the post-coronavirus world will be particularly compelling investment opportunities
- Seek opportunistic real estate investments to tactically take advantage of dislocation
- Preliminarily, we expect the following property sectors to react accordingly:
  - **Positive: enable consumption in a socially distanced and movement restricted world**
    - Industrial
    - Data Centers
  - **Neutral: uncertain or limited impact of social distancing and movement restrictions**
    - Single Family Housing
    - Apartments
    - Office
  - **Negative: heavily impacted by social distancing and movement restrictions**
    - Retail
    - Senior Housing
    - Lodging

Office Sector: New Structural Headwinds Emerging



- Employment and office demand are highly correlated; a decline in jobs will result in an immediate decline in demand
- Structurally, a broad shift to work from home and a transition to hoteling concepts represents a bigger challenge going forward
  - A typical office has 175-200 SF / employee, but hoteling and shift work can actually decrease the demand to 110 SF / employee because only 2/3 or less of employees show up each day.
  - Hoteling reduces space needed by ~35-45%, a 25% shift to hoteling would reduce demand 9-12%
- The rapid shift toward work from home and potential long-term shift towards hoteling concepts could create substantial headwinds to office demand going forward
  - A countervailing trend, the need to social distance could potentially buck densification trends and create demand for more space; it seems more likely companies adopt hoteling, rather than spend additional money on leases

Source: Green Street, The Townsend Group

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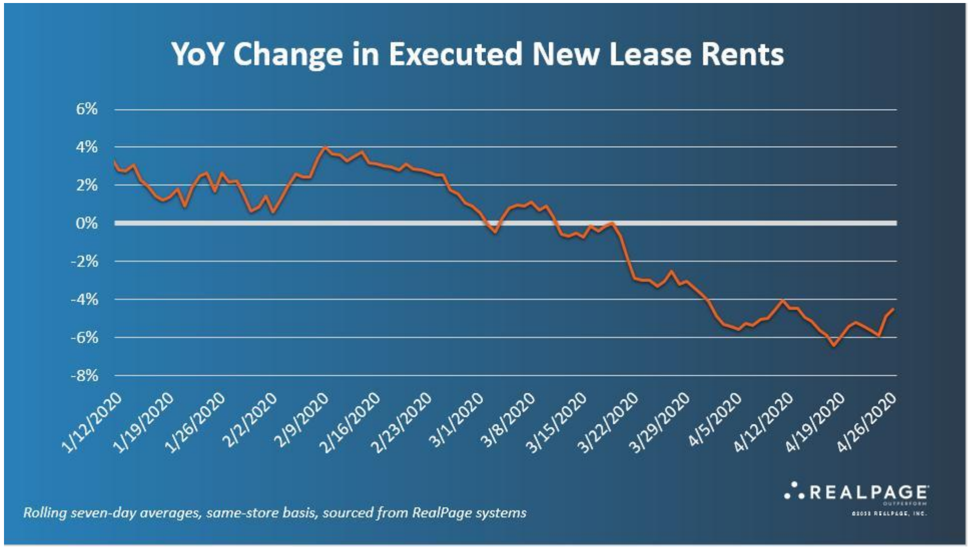
Apartments: Finding A Safe Space



- Historically, apartment occupancy has not dipped below 90%, and we expect occupancy to be resilient but rents to rebase lower
  - Currently eviction protections combined with high retention rates, since its challenging to even visit new apartments, are keeping occupancy levels high
- Go forward demand for apartments is expected to remain resilient as a result of the following trends:
  - Individuals remain in apartments as lending standards tighten for mortgages
  - Forecasted wave of divorces will increase household formation
- Expect a meaningful decline in rents, apartment rent growth is highly correlated to office-jobs growth (a 15% loss of jobs = 11% decline in rents)
- New trends will emerge post COVID-19, but its still to early to tell how demand for housing is reshaped
- Apartments remain an attractive and defensively positioned property sector long-term

Source: RealPage, The Townsend Group

Industrial: E-commerce Enabling Consumption At A Distance

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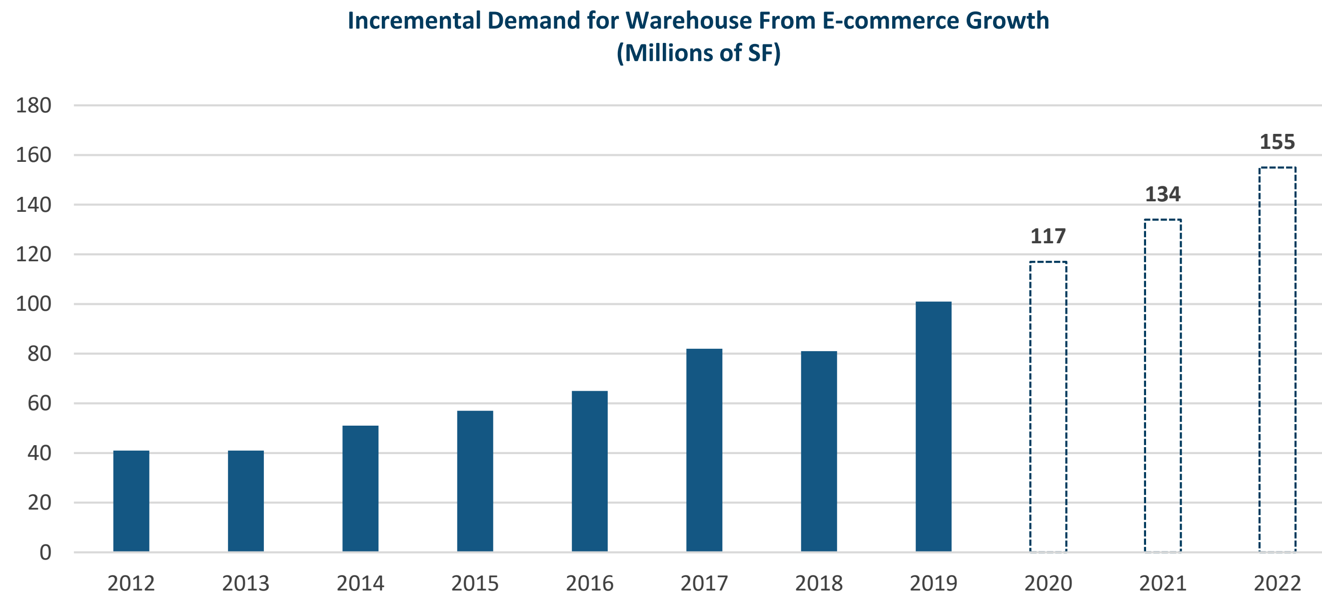

- E-commerce is expected to drive strong demand for warehouse space
- Social distancing has demonstrated the absolute critical need for an online presence and an omnichannel supply chain
- While consumption has retracted, it is expected e-commerce will benefit from capturing a large portion of retail sales
  - As reported, Amazon was adding 100,000 jobs and limiting delivery to “essentials” because of outsized/unexpected demand
  - Amazon Q1 forward guidance suggests net sales growth of 18-28% YoY
- Infill and large diversified industrial is trading at a premium to private market valuations, indicating the market believes in the e-commerce demand so strongly
- Industrial remains well positioned to benefit from shifting consumption habits, but near-term demand is expected to face some challenges because a large number of industrial tenants are smaller

Source: Duke Realty (March 2020), CBRE, Cushman & Wakefield, NAIOP, Assumes 15% E-commerce growth rate, Amazon

Retail: The Straw That Broke The Camel's Back

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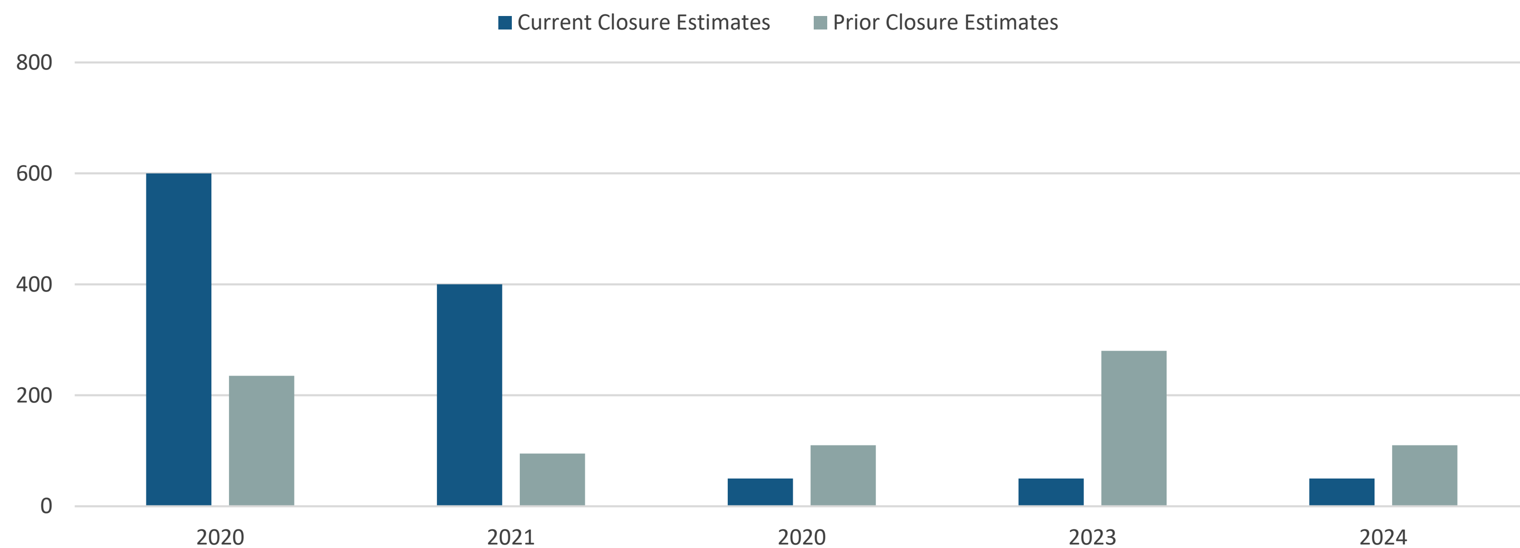
Forecasted Mall Department Store Closures



- Retail sales contracted at a historic rate in March; shelter in place orders rolled out and jobless claims began to spike in the second half of March
- Retail rent collections in April substantially lagged other property sectors (<40% collected)
- Underlying tenant financial strength was deteriorating prior to COVID-19, bankruptcies and store closures will accelerate
- Consumers' lack of confidence will likely curtail the strength of a rebound in discretionary spending
- A huge tail risk exists for brick and mortar stores if social distancing behavior remains persistent
- Low quality mall REITs will likely breach debt covenants and have to raise equity
  - CBL, PEI, and WPG equity values have declined substantially and have unsustainable levels of debt
- Go forward, the retail sector will face a challenging period of price discovery as rents rebase and occupancy rates broadly decline

Source: Green Street, Company Disclosures, NCREIF

Disclosures

Disclosures

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