



Alameda County Employees' Retirement Association  
**BOARD OF RETIREMENT**

**INVESTMENT COMMITTEE/BOARD MEETING**

**ACERA MISSION:**

**To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.**

Wednesday, November 7, 2018  
9:30 a.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 <sup>TH</sup> STREET, 10 <sup>TH</sup> FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	ELIZABETH ROGERS, CHAIR	ELECTED GENERAL
	GEORGE WOOD, VICE CHAIR	ELECTED GENERAL
	DALE AMARAL	ELECTED SAFETY
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	TARRELL GAMBLE	APPOINTED
	JAIME GODFREY	APPOINTED
	LIZ KOPPENHAVER	ELECTED RETIRED
	HENRY LEVY	TREASURER
	NANCY REILLY	ALTERNATE RETIRED <sup>1</sup>
	DARRYL L. WALKER	ALTERNATE SAFETY <sup>2</sup>

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee. The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at [www.acera.org](http://www.acera.org).

**Note regarding public comments:** Public comments are limited to four (4) minutes per person in total.

**Note regarding accommodations:** The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

<sup>1</sup> Alternate Retired Member (Votes in the absence of the Elected Retired Member, or, if the Elected Retired Member is present, then votes if both Elected General Members, or the Elected Safety Member and an Elected General Member, are absent.

<sup>2</sup> Alternate Safety Member (Votes in the absence of (1) the Elected Safety, (2) either of the two Elected General Members, or (3) both the Retired and Alternate Retired Members).

# ***INVESTMENT COMMITTEE/BOARD MEETING***

**NOTICE and AGENDA, Page 2 of 3 – Wednesday, November 7, 2018**

**Call to Order:** 9:30 a.m.

## **Action Items: Matters for discussion and possible motion by the Committee**

### **1. Discussion of and Possible Motion to Recommend to the Board:**

- i) To approve a total investment of up to \$400 million (from ii and iii below) into the following three (3) State Street Global Advisors (SSgA) funds, as follows: (1) State Street Bloomberg Roll Select Commodity Index Non-Lending Fund (up to \$60 Million or 15%); (2) State Street S&P Global Infrastructure Index Non-Lending Common Trust Fund (up to \$140 Million or 35%); and (3) State Street S&P Global LargeMidCap Natural Resources Index Non-Lending Fund (up to \$200 Million or 50%) as part of ACERA's Real Assets Portfolio's – Liquid Pool (Liquid Pool);
- ii) To fully redeem ACERA's investments in AQR Customized Real Return Offshore, Gresham eTAP, and Gresham TAP Funds for a combined redemption of (up to \$300 million) and infuse the entire redemption proceeds into the Real Assets Portfolio's Liquid Pool;
- iii) To increase the Real Assets Portfolio to its approved 5% allocation of the Total Fund by rebalancing monies, as needed, from the Equities and Fixed Income asset classes (up to \$100 million) and infusing the entire amount into the Liquid Pool.;

9:30 – 10:45 Rob Guiliano, SSGA  
Sonya Park, SSGA  
John Nicolini, Verus Advisory, Inc.  
Faraz Shooshani, Verus Advisory, Inc.  
Philip Wogsberg, ACERA  
Betty Tse, ACERA

### **2. Discussion of and Possible Motion to Recommend to the Board to Approve an up to \$40 Million Investment in EQT Infrastructure IV in ACERA's Real Assets Portfolio – Infrastructure**

10:45 – 11:15 Darlene de la Rosa Sammon, EQT Partners  
Erwin Thompson, EQT Partners  
John Nicolini, Verus Advisory, Inc.  
Faraz Shooshani, Verus Advisory, Inc.  
Philip Wogsberg, ACERA  
Betty Tse, ACERA

# ***INVESTMENT COMMITTEE/BOARD MEETING***

**NOTICE and AGENDA, Page 3 of 3 – Wednesday, November 7, 2018**

**Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports**

1. Discussion of Proposed Revisions To ACERA's Real Estate Investment Guidelines, Policies and Procedures

11:15 – 12:00                      Jonathan Gould, Callan Associates  
Avery Robinson, Callan Associates  
Thomas Taylor, ACERA  
Betty Tse, ACERA

## **Trustee Remarks**

**Public Input (Time Limit: 4 minutes per speaker)**

## **Future Discussion Items**

None

## **Establishment of Next Meeting Date**

December 12, 2018 at 9:30 a.m.



## ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

TO: Members of the Investment Committee  
FROM: Betty Tse, Chief Investment Officer  
DATE: November 7, 2018  
SUBJECT: Discussion of Proposed Revisions to ACERA's Real Estate Investment Guidelines, Policies and Procedures

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### **Recommendation:**

Not applicable. This is an Information Item.

### **Background / Discussion:**

ACERA's last review of and amendments made to the R/E Policy was January 21, 2016. Callan Associates, Inc. ("Callan") and Staff have discussed some proposed revisions, such as including Debt Real Estate<sup>1</sup> and International Real Estate investments. At this time, we are seeking input to determine the direction from the Trustees for Callan and Staff.

The objectives of updating the current R/E Policy are to: 1) reflect the current investments and conditions of ACERA's Real Estate Portfolio, 2) improve the language of the policy for clarity and consistency, and 3) to add more flexibility in investment diversification; therefore, proposing the addition of Debt Real Estate and International Real Estate investments in ACERA's current and future investments. The attached draft of the policy has incorporated the proposed additional investment styles for our discussion.

The following identifies and explains the key proposed revisions for your consideration:

### **Investment Objectives / Risk Management / Diversification** **(Section II-IV - Pages 1-8)**

1. Within defined limits, allowing for the flexibility to invest in Debt Real Estate and International investments will allow for several advantages to ACERA, including 1) providing additional ways to access real estate investments, 2) diversification benefits and

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<sup>1</sup> Not to be confused with leverage, i.e., loan-to-value, debt real estate is owning debt which is secured by the underlying property, e.g., a lender. Debt real estate, which is higher on the capital structure compared to equity real estate, can be Whole Loans, Senior Loans, B-Notes, Mezzanine Loan, Preferred Equity, etc. Debt real estate provides an income-oriented returns, downside protection relative to equity real estate interests, lower historical volatility, for example.

tactical opportunities beyond equity real estate investments, and 3) an expanded opportunity set. Several commingled real estate funds in which ACERA is presently invested in can potentially allocate or invest in debt real estate or international real estate; this will bring the policy current.

**Compliance Checklist Template for RE Investments  
(Appendix B - Page 18-19)**

2. Staff recommends adding a Compliance Checklist – similar to the Private Equity, Absolute Return, and Real Assets Compliance Checklist for any private real estate fund structures.

**Attachments:**

1. Proposed amended ACERA Real Estate Investment Guidelines, Policies and Procedures (redline copy)
2. Callan – Real Estate Policy Review and Education Presentation



 **DRAFT**

**ALAMEDA COUNTY  
EMPLOYEES RETIREMENT ASSOCIATION**

**REAL ESTATE INVESTMENT GUIDELINES,  
POLICIES AND PROCEDURES**

Amended ~~January 12, 2016~~ November 8, 2018

## TABLE OF CONTENTS

I.	Scope .....	1
II.	Purpose .....	1
III.	Investment Objectives .....	2
	A. Asset Allocation.....	2
	B. Return Objectives.....	2
IV.	Investment Policies .....	2
	A. Portfolio Composition .....	2
	B. Risk Management .....	4
	1. <i>Defined Roles for Participants</i> .....	4
	2. <i>Investment Structures</i> .....	4
	3. <i>Diversification</i> .....	5
	4. <i>Leverage</i> .....	6
	5. <i>Investment Size</i> .....	8
	6. <i>Valuations</i> .....	8
	C. Discretionary Authority .....	8
	1. <i>Commingled Funds</i> .....	8
V.	Investment Procedures .....	9
	A. Commingled Funds .....	9
	1. <i>Commingled Fund Selection Process</i> .....	9
	B. Separately Managed Accounts .....	9
	1. <i>Control and Monitoring</i> .....	9
	C. Performance Measurement Reports .....	10
<b>Schedules</b>		
	Schedule I—Manager Structure Targets.....	12
	Schedule II—Policy Index for Real Estate and Benchmark for Real Estate Managers.....	13
<b>Appendices</b>		
	Appendix A – Defined Roles of Participants.....	14
	<a href="#"><u>Appendix B – Compliance Checklist .....</u></a>	<a href="#"><u>16</u></a>

**I. SCOPE**

The Real Estate Investment Guidelines, Policies and Procedures ("R/E Policy") governs all investments in the Real Estate asset class made by Alameda County Employee's Retirement Association ("ACERA"). The R/E Policy is subject to all provisions of applicable law and the applicable limitations and requirements of ACERA's General Investment Guideline, Policies and Procedures ("General Policy"). If there is any conflict between this R/E Policy and ACERA's General Policy pertaining to investments in the Real Estate asset class, this R/E Policy prevails. The ACERA Board ("Board") reserves the right to amend, supplement or rescind this R/E Policy at any time.

**II. PURPOSE**

The purpose of this Policy is to 1) set forth the real estate investment policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which real estate investment opportunities are to be measured; and 3) serve as a governance document and guide to the ongoing oversight of ACERA's Real Estate Portfolio ("R/E Portfolio") on a consistent basis. The Policy also defines roles and responsibilities of the Board, the ACERA Investment Committee ("Investment Committee"), the ACERA Staff ("Staff"), the ACERA Real Estate Consultant ("Consultant") and the Real Estate Investment Managers hired by ACERA to manage its assets ("Investment Managers").

It is expected that this Policy will be a living document and that changes will be made from time-to-time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

ACERA has determined that, over the long term, inclusion of ~~equity~~ real estate investments should provide the following benefits (in order of relative importance):

- Lower portfolio risk due to low correlation with other portfolio asset classes
- Generate a stable, income stream to assist in meeting cash flow needs
- Provide growth through appreciation
- Serve as a hedge against inflation
- Provide an opportunity to enhance portfolio return through higher total return investments

In order to achieve the above benefits, this document establishes the specific investment guidelines, policies and procedures involved in the implementation and oversight of the ACERA real estate program. The investment guidelines define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management



of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

### III. INVESTMENT OBJECTIVES

#### A. Asset Allocation

ACERA has approved a long-term asset allocation target of eight percent (8%) for investment in ~~equity~~ real estate investments.

#### B. Return Objectives

The Board has determined that the primary objective for the real estate asset class will be to provide a source of return that improves the diversification of the overall investment portfolio. Equity real estate investments generally have low correlations to traditional asset classes. The secondary objective for the asset class will be to achieve total returns<sup>1</sup> that include a large portion attributable to income<sup>1</sup>.

The Board seeks to achieve total net returns [on all real estate investments](#) equivalent to the net returns of the National Council of Real Estate Investment Fiduciaries Fund Index Open-End Diversified Core Equity Index ("NFI-ODCE" or "ODCE") as a minimum return for the total portfolio over rolling five-year periods.

### IV. INVESTMENT POLICIES

#### A. Portfolio Composition

The universe of public and private real estate investment strategies ('styles') can be divided into three primary categories: (1) Core, (2) Value-Added, and (3) Opportunistic. For purposes of diversification and because of the size of ACERA's Fund, the portfolio will consist mostly of commingled funds, not Separately Managed Accounts ("SMA") except for maintaining ACERA's Headquarters. The style groups are defined by their respective market risk/return characteristics:

##### Core Characteristics

- Institutional quality operating properties that are substantially leased (greater than 80%) core quality properties;
- Property types invested in mainly include office, apartment, retail and industrial;

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<sup>1</sup> Total return is comprised of two components: income and appreciation. Income is defined as [net](#) operating income from real estate after expenses and leverage but before the deduction of capital items (e.g. roof replacement, renovations, etc). Appreciation / depreciation is defined as an increase or decrease in investment value based on an internal or third party appraisal or mark-to-market.

## REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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- Total return consists of both income and appreciation with income accounting for 50% or more of the return.

May generally include the use of leverage up to 50% Loan-to-Value. (See Section IV.B.4.a, "Leverage: Core" for more information).

### Value-Added Characteristics

- Institutional quality properties with identifiable deficiencies such as lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments in order to reach stabilization;
- Strategies may include traditional (office, apartment, retail, industrial) or niche property types with demonstrated capital demand for disposition;
- Total return consists of capital appreciation with anticipated growing income over time;
- May generally include the use of leverage up to 65% Loan-to-Value. (See Section IV.B.4.b, "Leverage: Value Added" for more information).

### Opportunistic Characteristics

- Institutional quality properties offering recapitalization, turnaround, development, market arbitrage opportunities or offshore investments;
- No property types are excluded, and properties may include business operations (e.g. hotels, congregate care), as well as, office, apartment, retail, and industrial;
- Total return is primarily attributable to appreciation.
- May generally include the use of leverage up to 80% Loan-to-Value. (See Section IV.B.4.c, "Leverage: Opportunistic" for more information).

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES  
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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With respect to the three style groups, the Board has established the following portfolio composition target<sup>1</sup>:

Style	Return Benchmarks (Net of Fees)
≥ 70% Core	NCREIF Open-End Diversified Core Equity ("ODCE") Index Capitalization – Weighted (Net of Fees)
0% - 30% Value-Added	NCREIF Open-End Equity ("OE") Index
0% - 15% Opportunistic	NCREIF OE Index
Total Real Estate Portfolio	NCREIF ODCE Index Capitalization-Weighted (Net of Fees)

All investments will be classified based upon the strategy advocated at inception of the investment.

## B. Risk Management

The primary risks associated with ~~equity~~ real estate investments relate to property type and geographic selection, illiquidity, investment manager risk, portfolio management risk and loss of principal (economic risk). The following policies have been established to prudently manage and mitigate the risks involved in investing in ~~equity~~ real estate.

### 1. Defined Roles for Participants

All program participants must comply with ACERA policies, guidelines and contracts in addition to the conditions listed in this document. Additional roles and responsibilities specific to the real estate portfolio are detailed in Appendix A of this document.

### 2. Investment Structure

ACERA recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that maximize investor control of the assets are preferred, particularly in Core and Value-Added investments. ACERA also recognizes that the Opportunistic style requires the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

ACERA will utilize the following investment structure:

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<sup>1</sup> Refer to Schedule II: ACERA's policy index for Real Estate and Benchmarks for Real Estate Managers.

a) Commingled Funds<sup>1</sup>

Commingled Funds will be utilized for Core, Value-Added and Opportunistic investment strategies.

The Core investment style is considered to be less risky (thereby providing lower returns) than higher returning value-added or opportunistic investments. The lower risk assigned to stabilized investments is due to three primary characteristics: (1) the stability of the income generated;(2) the higher proportion of the total return attributable to income; and (3) the limited use of debt (0% to 50%) usually associated with the style. Because of its high occupancy rates, Core properties are more stable.

The Value-Added and Opportunistic investment styles seek to provide higher returns with higher risk than the Core component of the portfolio. Value-Added investments depend upon the successful completion of an active management strategy and a timely disposition of the asset(s). Value-Added investments often use higher levels of debt, as compared to Core investments, to further increase total return expectations.

Opportunistic investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering, non-domestic markets) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion and a significant level of diversification.

In order to mitigate the increased risks associated with the style exposure, ACERA will make investments in the Value-Added and Opportunistic components through the ownership of units or shares of Commingled Fund structures. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations. ACERA will invest in Commingled Fund in accordance with the procedures detailed in Section IV. B.

3. *Diversification*

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<sup>1</sup> Investments made through a privately placed commingled fund structure or limited partnerships are considered Alternative Investments.

## REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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To minimize the adverse impact of any single style, strategy, manager or investment property, ACERA will seek to diversify its ~~equity~~ real estate portfolio by property type, property location, investment style, investment strategy, and manager; and primarily through commingled funds. At the asset class level, the debt investments in real estate cannot account for more than up to 15% of the total allocation.

### *Property Types and Location*

Selection of specific Commingled Fund investments will provide enhanced diversification characteristics based on its complimentary strategy/style so as to increase diversification benefits within the real estate portfolio.

Exposure to any single property type (i.e. office, retail, apartment, industrial) or geographic region (East, Mid-West, West or South in the United States or internationally) will be within a range of zero percent (0%) to forty percent (40%), excluding the Oakland Office Building. Any single property type or region found to be in excess of the range limitations must be approved as an exception by the Committee and Board. At the asset class level, investments in international real estate cannot account for more than up to 15% of the total allocation.

### *Investment Style/Strategy*

The risk profile of the real estate portfolio will be managed through the maintenance of the approved style composition ( $\geq$  70% Core; 0%-30% Value-Added; 0%-15% Opportunistic) when allocating capital.

### *Investment Vehicles/Managers*

#### a) Commingled Fund ("CF")

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Core, Value-Added and Opportunistic allocation and/or the total portfolio. Commingled Funds will provide reporting which will allow ACERA to monitor its geographic and property type diversification. Commingled Funds are generally categorized into two sub-structures, Open-end and Closed-end. Open-end commingled funds are infinite vehicles which provide liquidity by allowing investor to make capital contributions or redemption requests, typically on a quarterly basis. Closed-end funds are finite vehicles where the timing of contribution requests and capital distributions are at the discretion of the manager.

#### 4. *Leverage*

ACERA has approved leverage limits in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of forty percent (40%) leverage for the total portfolio. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the ACERA's Staff and Consultant will notify the Board and make a recommendation for action or exception.

##### a) Core

Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. Core opportunities accessed through Commingled Funds will have pre-specified leverage limits stated in the offering documents. Core Commingled Fund leverage will generally be limited to 50% at the portfolio level.<sup>1</sup>

##### b) Value-Added

Investments classified as Value-Added generally provide a higher proportion of appreciation, as compared to income, than Core assets. Value-Added opportunities accessed through Commingled Funds will have pre-specified leverage limits stated in the offering documents. Value-Added Commingled Fund leverage will generally be limited to 65% at the portfolio level.

##### c) Opportunistic

Investments classified as Opportunistic investments often utilize third-party debt as an integral part of their total return strategy. Such investments will be made through Commingled Funds and will therefore have a specified leverage target or maximum stated in the offering documents. Opportunistic Commingled Fund leverage will generally be limited to 80% at the portfolio level.

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<sup>1</sup> For any single Core SMA asset, such as the Oakland Office Building, third-party debt will be limited to fifty percent (50%) of the market value of the asset.



A chart depicting the leverage limits is shown below:

Style	Leverage Limits
Core	≤ 50%
Value-Added	≤ 65%
Opportunistic	≤ 80%
Total Real Estate Portfolio	≤ 40%

5. *Investment Size*

ACERA's investment in any single Commingled Fund may not exceed 20% of the total net asset value of the Commingled Fund at offering.

6. *Valuations*

This policy does not apply to the Fund's commingled fund investments, where the Fund does not have control over the appraisal policies or implementation of appraisal practices.

For any SMA, such as the Oakland Office Building, an annual valuation in the quarter of the anniversary date of each asset acquisition, the Manager will arrange for valuations for such assets and will provide ACERA with valuations for all properties for which it has asset management responsibilities. Unless specifically directed by ACERA, the valuation will be prepared by a qualified independent third party entity beginning on the third anniversary of ownership and every third year of ownership thereafter. Interim valuations may be conducted by the manager.

All materials generated by the independent third party will be copied to ACERA for record keeping. Valuation adjustments made in the interim periods will be documented in a memo to ACERA and retained for record keeping.

C. **Discretionary Authority**

The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk.

1. *Commingled Funds*

Commingled Funds are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in Commingled Fund investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to Commingled Funds extending greater investor rights (eg. redemptions, termination, and alignment). Investments made in Commingled Funds are monitored for compliance with vehicle documents through quarterly performance measurement procedures.



## **V. INVESTMENT PROCEDURES**

The ACERA Annual Real Estate Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Real Estate Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section IV.A-C.

### **A. Commingled Funds**

The following procedures will be utilized in the selection, closing and monitoring of specific Commingled Fund investments.

#### **1. *Commingled Fund Selection Process***

- a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate Commingled Fund investments to Staff.
- b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.
- c) Staff shall verify and opine as to the compliance of each recommended fund with the approved R/E Policy and current Investment Plan. ([See Compliance Check List, Appendix B](#))
- d) Staff shall arrange presentations to the Committee in order to allow the Committee to recommend a selection to the Board for approval.

### **B. Separately Managed Accounts ("SMA")**

The following procedures will be utilized for maintaining and monitoring of SMA, such as the Oakland Office Building.

#### **1. *Control and Monitoring***

- a) Budget and Management Plan

Not less than 60 days after the end of the calendar year, each SMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate SMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income

and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly distribution projections.

Not more than 90 days after the end of the calendar year, Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

**C. Performance Measurement Reports**

On a quarterly basis, the Consultant will prepare a report and evaluation of the real estate portfolio relative to the R/E Policy. The report shall provide such information as may be required by ACERA to evaluate and administer its investments and Managers.

The content of the report shall include return analysis for both the investment managers and the total portfolio including: income, appreciation, gross and net returns for the portfolio and each manager, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and R/E Policy and Investment Plan compliance.

Quarterly reports will also provide the ACERA Staff and Board with notification of any manager appearing on the ACERA 'Watch list' for additional oversight and evaluation.

**Watch List Qualification**

1. A manager may be placed on the Watch List at any time for material organizational changes or instability. Material organizational changes may include, but are not limited to, key personnel changes, ownership changes or other firm level issues.
2. A manager will automatically be placed on the Watch List if net of fee performance falls below the net of fee performance of the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three or five year rolling returns).

**Watch List Removal**

1. With respect to material organizational changes, a manager may be removed from the Watch List after a minimum one year period and with satisfaction by and recommendation from the Staff and Consultant. The Staff and Consultant will provide notification to the Board when such changes are made.
2. With respect to performance, any manager placed on the Watch List for underperformance will automatically be eligible for removal from the Watch List once net of fee performance exceeds the relevant manager account benchmark for three (3) consecutive quarters. Performance will be measured on a quarterly basis using the longest rolling time period possible (one, three, or five year rolling returns).

The Consultant shall prepare and forward to ACERA's Staff, a Performance Measurement Report within ninety (90) days following the last day of each quarter pending receipt of all manager supplied data requests.

**Schedule I**

**Manager Structure, Capital Structure, and Location Targets**

No manager may represent more than 35% of ACERA's total real estate target allocation. Other guidelines are set forth in the chart below.

Style	Target Allocation within Asset Class
Core Investments	≥ 70%
Value-Added Investments	0% - 30%
Opportunistic	0% - 15%

<u>Capital Structure/Location</u>	<u>Target Allocation within Asset Class</u>
<u>Equity Real Estate</u>	<u>0% - 100%</u>
<u>Debt Real Estate</u>	<u>0% - 15%</u>
<u>International Exposure (Equity or Debt)</u>	<u>0% - 15%</u>

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES  
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule II

Policy Index for Real Estate and Benchmarks for Real Estate Managers

POLICY INDEX FOR REAL ESTATE PORTFOLIO

RETURN BENCHMARKS FOR REAL ESTATE MANAGER

Style	BENCHMARK (Net of Fees)
<b>Core Investments</b>	<b>NCREIF Open-End Core Diversified Equity Index ("ODCE")</b>
ACERA Oakland Building Portfolio	ODCE
Clarion Lion Industrial Trust	ODCE
Heitman America Realty Trust (HART)	ODCE
Jamestown Premier Property Fund	ODCE
JP Morgan Strategic Property Fund	ODCE
MetLife Core Property Fund	ODCE
PRISA	ODCE
UBS Trumbull Property Fund	ODCE
<b>Value-Added Investments</b>	<b>NCREIF Open-End Equity Index ("OE")</b>
AEW Value Investors II	OE
<a href="#">Artemis Real Estate Partners Healthcare Fund I, L.P.</a>	<a href="#">OE</a>
CIM Urban REIT IV	OE
CIM VI-2 (Urban REIT)	OE
Heitman Value Partners II	OE
<a href="#">Heitman Value Partners IV, L.P.</a>	<a href="#">OE</a>
PRISA III	OE
<b>Opportunistic</b>	<b>NCREIF Open-End Equity Index ("OE")</b>
<a href="#">AEW Partners Real Estate Fund VIII, L.P.</a>	<a href="#">OE</a>
<a href="#">AG Realty Value Fund X, L.P.</a>	<a href="#">OE</a>

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES  
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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**Appendix A**

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee ("Committee"), Staff, Real Estate Consultant ("Consultant") and Investment Managers ("Manager" or "Managers"). Set forth below is the delegation of the major responsibilities of each participant.

Responsibilities of the ACERA Board

- Approves Committee recommendations.

Responsibilities of the Investment Committee

- Reviews the R/E Policy and the Investment Plan for the real estate program.
- Evaluates the selection and/or termination of Managers and Real Estate Consultants, and recommends such selection and/or termination to the Board for approval.
- Reviews the real estate portfolio quarterly to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.
- Makes recommendations to the Board for approval.

Responsibilities of the ACERA Staff

- Recommends the R/E Policy and the Investment Plan to the Committee.
- Makes recommendations to the Committee regarding ACERA's real estate portfolio.
- Ensures compliance with the R/E Policy and with contracts by consultants and by managers.
- Implements Board and Committee decisions.
- Provides day-to-day oversight of program activities.
- Makes recommendations to the Committee regarding the management of the portfolio.
- Monitors the organization and performance of managers, and reports any significant discrepancies.
- Completes any other activity as directed by the Committee and/or Board.

Responsibilities of the Consultant

- Recommends the R/E Policy and the Investment Plan to the Committee.
- Makes recommendations to the Committee regarding ACERA's real estate portfolio.
- Brings any non-conforming items or significant issues to the attention of the Staff, Committee and/or Board.
- Prepares the R/E Policy (with annual reviews) and Real Estate Investment Plan
- Prepares the Annual Real Estate Portfolio Review including the review of annual Budget and Management Plans prepared by Managers in conjunction with Staff.
- Oversees Manager preparation of annual Manager Investment Plans.

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES  
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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- Reviews Preliminary Investment Packages (submitted by IMA Managers) for program compliance.
- Presents portfolio performance reports (as described in Section IV.C. of this document) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans to the Committee quarterly.
- Provides any additional real estate related information (within the agreed upon scope of work) as requested by the Board and ACERA Staff.

Responsibilities of the Manager

- Provides performance measurement data in form and substance as requested by ACERA or its Consultant.
- Promptly reports any non-conforming items or significant issues to the Staff and Consultant.
- Provides any additional real estate related information as requested by the Board, ACERA Staff and the Consultant.
- Attends ACERA's meetings as requested.

*Separately Managed Account Managers (e.g. Manager of the Oakland Building):*

- Monitors, manages and disposes of assets on behalf of ACERA.
- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").
- Provides quarterly financial statements and annual reports to Staff and Consultant.
- Prepares Manager Investment Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Prepares Preliminary Investment Packages (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Prepares Budget and Management Plans (as described in Section V.B.1.a of this document) to be submitted to Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review (as described in Section V.B.1.a of this document).

*Commingled Fund Managers:*

- Adheres to the most recent version of the NCREIF PREA Reporting Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA").
- Provides all compliance reports, including quarterly financial statements and annual reports to Staff and Consultant.
- Executes and performs its responsibilities under the terms of the investment vehicle documents and contracts.
- Provides timely notices for capital contributions and distributions.

REAL ESTATE INVESTMENT GUIDELINES, POLICIES AND PROCEDURES  
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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- Conducts annual portfolio review meetings with the Consultant, Staff, the Committee and/or the Board, and provides timely information to discuss important developments regarding investment and management issues.



## Compliance Checklist Template for RE Investment/Commitment

<u>RE Policy</u>	<u>Investment Fund</u>	<u>In Compliance</u>
<p>1. The RE Policy is in compliance with the Investment Fund's policies.</p>	<p>1. The Investment Fund is in compliance with the RE Policy.</p>	<p>1. The Investment Fund is in compliance with the RE Policy.</p>

Any legally permissible vehicle will be allowed including, but not limited to, separate accounts, commingled funds, joint ventures, limited partnerships, corporations, and limited liability companies.	<i>Specific legal structure.</i>	<i>Yes, No, or N/A</i>
--	----------------------------------	------------------------

2. Investment Methods	Specific investment methods.	Yes, No, or N/A
Commingled Funds		
Individual limited partnership funds		
Primary and/or Secondary		
Separate accounts		
Discretionary		
Separate Accounts		
REITs/ETFs		
Co-Investments		
Fund-of-funds		
Combination of the above		

3. Investment Characteristics		
<p>RE may include, but not be limited to,</p> <ul style="list-style-type: none"> <li>• Core (Total Return with expected income, substantially leased)</li> <li>• Value-Add (deficiencies in lease-up, repositioning, or rehabilitation of assets.)</li> <li>• Opportunistic (recapitalization, turnaround, development, market arbitrage opportunities or offshore);</li> </ul>	<p><i>Specific investment type.</i></p>	<p><i>Yes, No, or N/A</i></p>
<p>RE may include debt real estate in addition to equity real estate: Level of debt real estate at Fund Level, at asset class level.</p>	<p><i>Specific limit of debt real estate in percentage and dollars terms?</i></p>	<p><i>Yes, No, or N/A</i></p>

**RE Policy**

**Investment Fund**

**In Compliance**

**4. Portfolio Diversification**

Property Type and Geography:  Property Types: Office, Multifamily, Retail, and Industrial. No property types are excluded, and properties may include business operations (e.g. hotels, senior housing, and storage)  Geography/Diversification (Domestic or International): Geographic Percentage and Property Type Percentage) – within R/E Policy Guidelines.  By vintage year: roughly equal amounts of new funding may be committed in each calendar year with deviations permitted (Closed-end Commingled Funds).	Specific investment type.      Specific region of investments; Is this a domestic or international fund; specific currency denomination.    Specific vintage year.	Yes, No, or N/A      Yes, No, or N/A    Yes, No, or N/A
---	--	---

**5. Return Expectation**

Benchmark in Policy (net of all fees): • Core, • Value-Added, • Opportunistic.	Specific return target(s).	Yes, No, or N/A
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**6. Strategic Investment Allocations<sup>1</sup>**

<u>RE Portfolio</u> : 8% of the total Fund.  • Core ≥ 70% • Value-Added 0% - 30% • Opportunistic 0% - 15%	Expected allocations to the RE Portfolio and to the underlying portfolios including specific commitment to the Investment Fund.	Yes, No, or N/A
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**RE Investment Plan for YEARS**

Approved: **DATE**

**Investment Fund**

**In compliance**

Specific Investment Plan.	Commitment to Fund.	Yes, No, or N/A
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November 2018

## **Real Estate Policy Review and Education**

Callan LLC

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**Avery Robinson, CAIA**  
Senior Vice President

**Jonathan Gould, CAIA**  
Vice President

# Agenda

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- Portfolio Objectives Overview
- Real Estate Policy Review
- Observations
- Real Estate Debt Investing Overview
- International Investing Overview
- Appendix
  - ACERA Portfolio Overview
  - Additional Real Estate Debt Terminology

# Portfolio Objectives Overview

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## Real Estate Investment Program

- The ACERA Real Estate portfolio dates back to 1988. The program has evolved from a heavily concentrated, predominately separately-managed account based portfolio, to a well-diversified, fund-based program.
- The ACERA Real Estate portfolio is anticipated to provide the following benefits over the long term:
  - Lower the overall portfolio risk due to real estate's low correlation with other portfolio asset classes
  - Generate a stable income stream to assist in meeting cash flow needs
  - Provide growth through appreciation
  - Serve as a hedge against inflation
  - Provide an opportunity to enhance portfolio return through higher total return investments
- The real estate program has a target allocation of 8%. As of August 30, 2018, the real estate exposure was 6.6%; 8.1% when including unfunded commitments.

# ACERA Policy Overview

ACERA COMPLIANCE MATRIX (as of August 31, 2018)		
Return Targets (5 Year Measurement; Net/Net)	<u>Strategic Constraint / Guideline</u>	<u>Compliance</u>
Core	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance
Value-Added	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Opportunistic	NCREIF Fund Index - Open End Equity ("OE")	In Compliance
Total Portfolio	NCREIF Fund Index - Open End Diversified Core Equity ("ODCE")	In Compliance

Investment Style Allocations	<u>Strategic Constraint / Guideline</u>	<u>Compliance</u>
Core	70% to 100%	In Compliance (82% Funded, 70% Funded and Committed)
Value-Added	0% to 30%	In Compliance (18% Funded, 25% Funded and Committed)
Opportunistic	0% to 15%	In Compliance (0% Funded, 5% Funded and Committed)

# ACERA Policy Overview

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ACERA COMPLIANCE MATRIX (as of August 31, 2018)		
Risk Policies	<u>Strategic Constraint / Guideline</u>	<u>Compliance</u>
Manager/Fund Diversification	No manager may represent more than 35% of ACERA's total real estate target allocation.	In Compliance
Property/Location Diversification	No property type or geographic location should represent more than 40% of program.	In Compliance
Leverage	A maximum of 40% leverage for the total portfolio	In Compliance (23% LTV)



# ACERA Policy Overview

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## Observations

- Currently no explicit guidance or limitation on international or debt investment positions.
- Of ACERA's eleven active real estate funds, eight have the ability to invest in international real estate, debt positions in real estate, or both.
- Establishing policy language regarding international and debt investing will:
  - Serve as an additional risk management tool
  - Ensure compliance with possible interpretations of the current policy language
  - Provide additional flexibility for ACERA to selectively pursue debt and international strategies
- Potential recommendation is to establish an international real estate policy range of 0-15% and a debt investment policy range of 0-15%.

# Why Managers Invest in Real Estate Debt?

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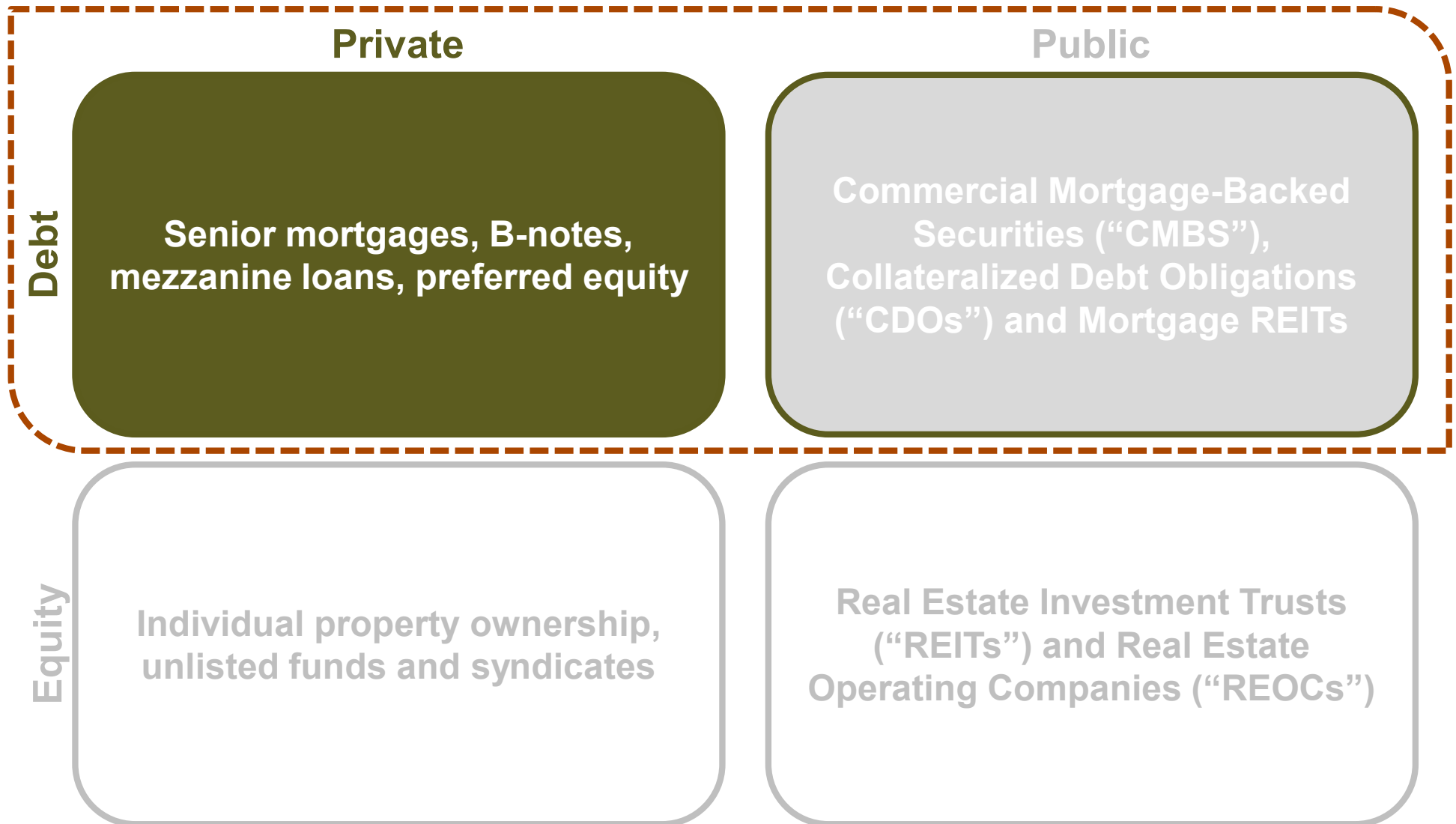
Investment in real estate debt may offer key benefits

- Provides additional ways to access real estate investments
- Increased downside protection relative to equity real estate interests
- Income-oriented return profile, primarily derived from property cash flows
- Additional diversification benefits by participating in varying capital market cycles
- Lower historical volatility relative to equity real estate investments; narrower dispersion of outcomes at the investment-level
- Debt investments can provide a differentiated risk/return profile which can compliment the equity capital stack
- Enhance inflation protection as floating-rate loans may track rising interest rates for well-positioned, well-located investments

**A well-constructed debt investment could offer equity-like real estate returns with significant downside protection**

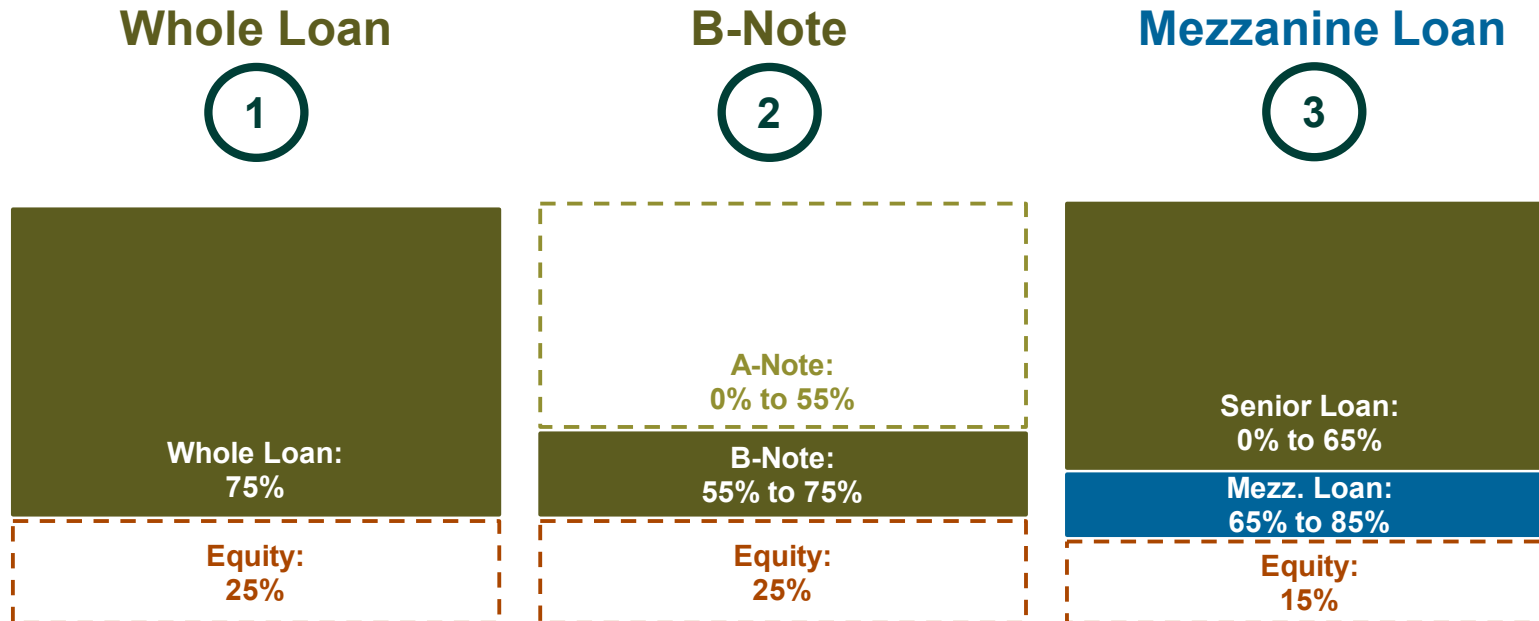
# Real Estate Debt Overview

The four quadrants of real estate investment



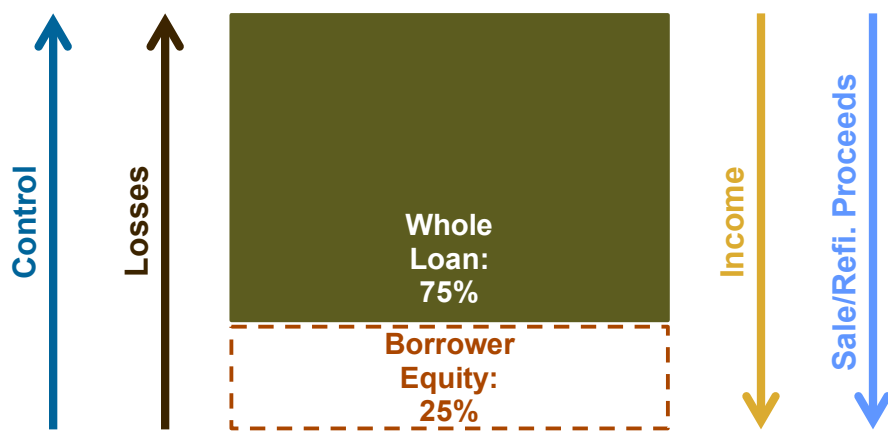
# Illustrative Real Estate Capital Stack Alternatives

Each position in the capital stack has distinct characteristics and rights



Effective selection of the position in the capital stack is based on a variety of factors

# ① Characteristics of Investment Types – Whole Loan

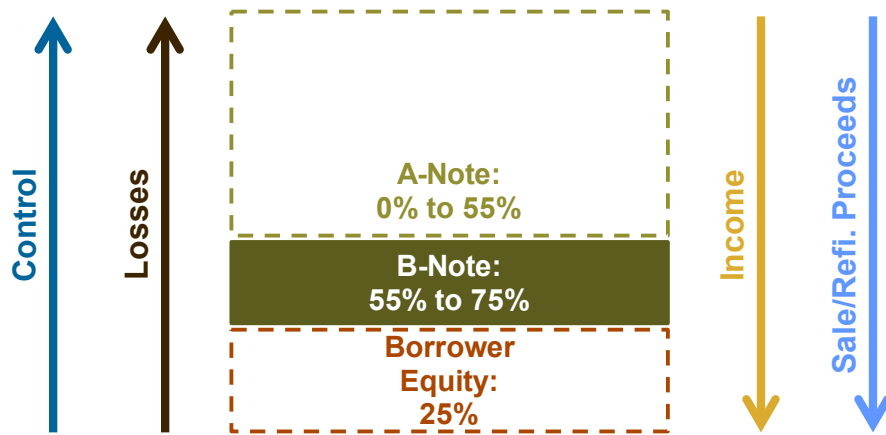


## Typical Characteristics

Capital Stack Position	From 0% to ~65%-75% LTV
Priority of Claim	Highest
Capital Requirement	High
Pay Structure	Interest income, fees
Interest Rate	Floating- or fixed-rate
Investment Term	Typically up to 10 years

- A Whole Loan is a debt instrument collateralized by a first mortgage or deed of trust that encumbers an income producing property
- The whole loan is typically the senior-most position in the capital stack
- Investments receive a priority claim for interest income and repayment proceeds
- The primary source of income is rent paid by tenants that occupy the income producing property, enhanced by fee and servicing income

## ② Characteristics of Investment Types – B-Note

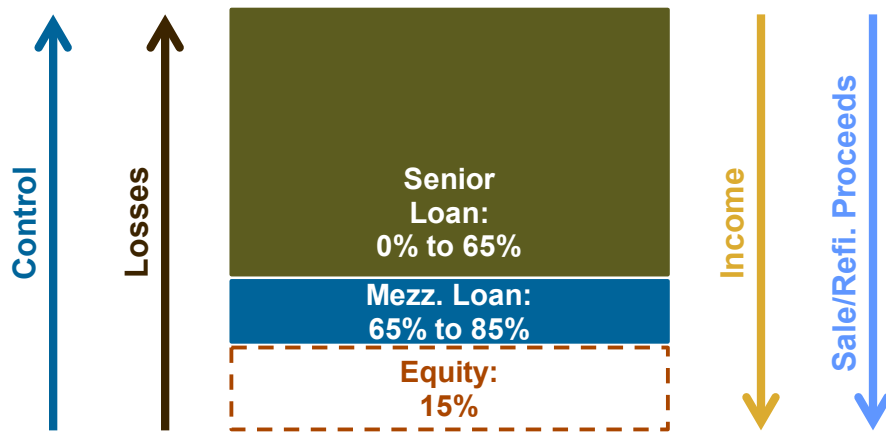


### Typical Characteristics

<b>Capital Stack Position</b>	From ~55% to ~75% LTV
<b>Priority of Claim</b>	Moderate
<b>Capital Requirement</b>	Moderate
<b>Pay Structure</b>	Interest income, fees
<b>Interest Rate</b>	Floating- or fixed-rate
<b>Investment Term</b>	Typically up to 10 years

- A B-Note is created by originating a whole loan and selling a senior interest in that loan
- The B-Note holds a relatively senior position in the capital stack
- Investments receive an enhanced return by selling an A-Note at a lower yield
- The primary source of income is rent paid by tenants that occupy the income producing property; however, the A-Note holder receives income first

### 3 Characteristics of Investment Types – Mezzanine Loan



#### Typical Characteristics

<b>Capital Stack Position</b>	From ~65% to ~85% LTV
<b>Priority of Claim</b>	Moderate to low
<b>Capital Requirement</b>	Moderate to low
<b>Pay Structure</b>	Interest income, PIK, fees
<b>Interest Rate</b>	Transaction specific
<b>Investment Term</b>	Typically 2 to 5 years

- A Mezzanine Loan is a debt instrument collateralized by a pledge of ownership interests in a property
- The mezzanine loan holds a relatively junior position in the capital stack and typically finances a transitional property that needs to be repositioned
- Higher return from income from rent paid by tenants and proceeds from a sale/refinancing
- Performance driven by market environment and success of repositioning

# Direct Debt Investing Structures

Similar vehicle types as equity real estate; different underlying assets

	Open End Funds	Closed End Funds
<b>Strategy</b>	Core Plus Value Add	Core Plus Value Add Opportunistic
<b>Investor Control</b>	Limited	Limited
<b>Liquidity</b>	Moderate Quarterly Liquidity	Low Fund Terms of 10+ Years
<b>Diversification by Property Type and Geography</b>	Moderate	Varies based on size of fund and strategy
<b>Diversification by Number of Loans</b>	Moderate - High Varies based on tenure of investment vehicle	Varies based on size of fund and strategy
<b>Monitoring by the Investor</b>	Moderate	Moderate
<b>Fees</b>	Moderate 0.65% -1% of NAV No incentive fee	Moderate - High 1.0%-1.5% on committed or invested equity plus an incentive fee (typically 15-20% over a hurdle rate) Core Plus may not have an incentive fee
<b>Diversification Benefit to Overall Portfolio</b>	Moderate	Moderate



# Why Managers Invest in International Real Estate?

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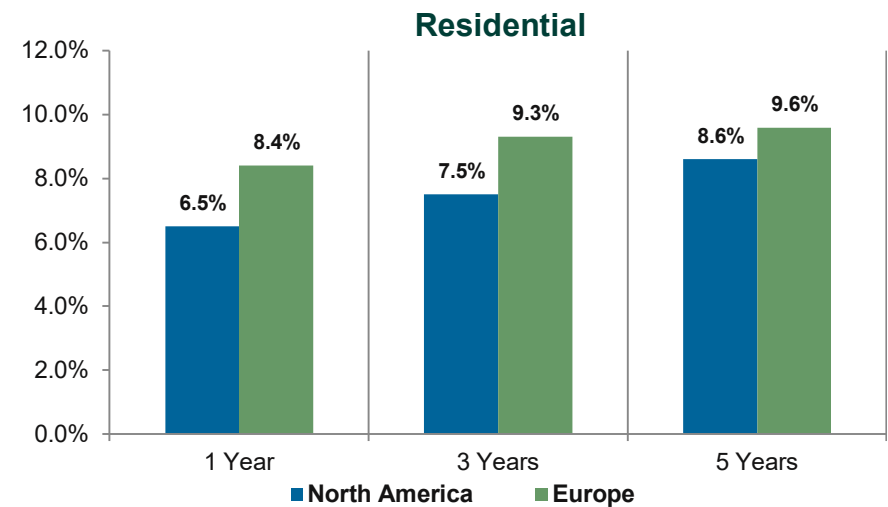
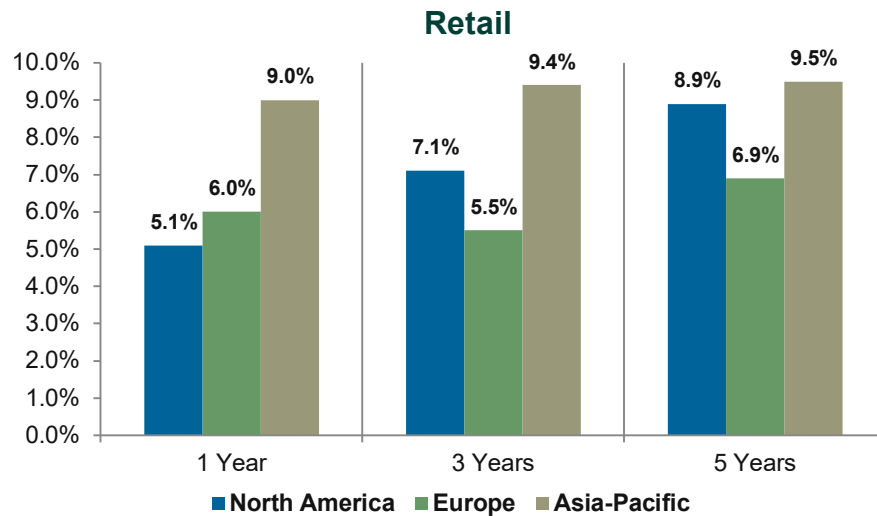
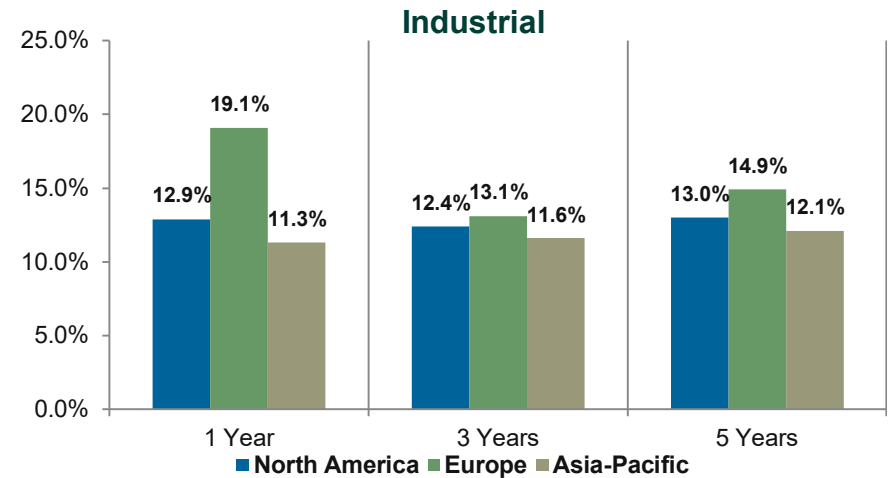
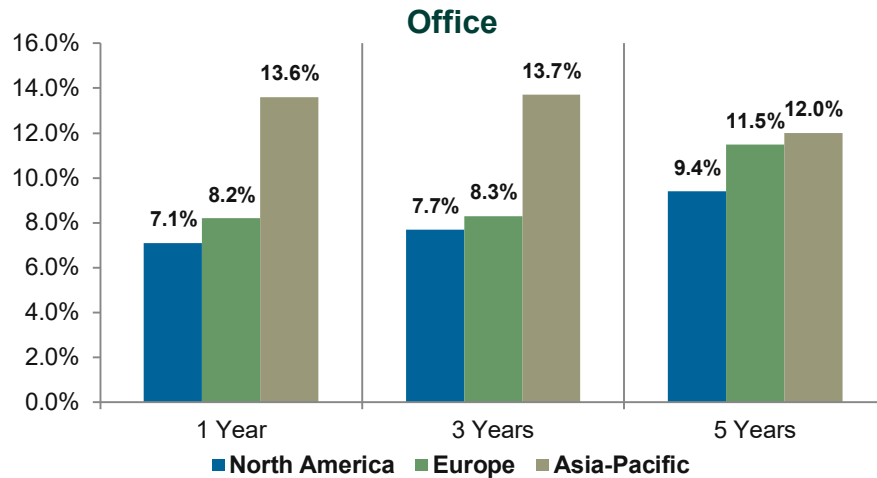
Investment in international real estate may offer key benefits

- Diversification from domestic real estate investments by participating in asynchronous economic, capital market and real estate cycles
- Ability to pursue most compelling investment strategies, regardless of geography
- Exposure to global, gateway cities (i.e. London, Paris, Tokyo, Hong Kong, Sydney, etc.)
- Exposure to non-dollar currencies provides a further hedge against inflation as well as declines in the U.S. dollar
- Competitive risk-adjusted returns

**The flexibility to invest in international commercial real estate could offer further diversification, enhanced return opportunities, or both**

# International Real Estate Performance

Competitive risk-adjusted returns that perform differently than U.S. real estate



Source: MSCI IPD Global Property Fund Index Digest

# Direct International Real Estate Universe

Similar vehicle types as U.S. equity real estate

	Open-End Funds	Closed-End Funds
<b>Strategy</b>	Core, Core Plus	Core Plus Value Add Opportunistic
<b>Investor Control</b>	Limited	Limited
<b>Liquidity</b>	Moderate - Quarterly Liquidity	Low Fund Terms of 7+ Years
<b>Diversification by Property Type and Geography</b>	High	Varying depending on strategy and market-focus
<b>Diversification by Number of Properties</b>	Moderate - High Varies based on age of product	Varies based on size of fund and strategy
<b>Monitoring by the Investor</b>	Low – Moderate	Moderate - High
<b>Fees</b>	Moderate - High 0.75% – 1.25% of NAV Incentive fees more prevalent than ODCE	Moderate - High 1.0%-1.5% on committed or invested equity plus an incentive fee (typically 15-20% over a hurdle rate)
<b>Diversification Benefit to Overall Portfolio</b>	Moderate	Moderate

# Institutional Int'l Real Estate Markets – Asia & Europe

Asia & Europe are the most viable international real estate markets for institutional investors

Asia		Europe
Smaller (4-6 viable funds)	Open-End Fund Universe	Emerging (13 funds and growing)
15 – 20	Closed-End Fund Universe	30 – 40
Mix of Developed (Australia, Japan) & Emerging (China, Southeast Asia)	Markets & Market Quality	Mostly Developed (UK, France, Germany, Benelux, Nordics), with some distressed/recovering/developing (Southern Europe, Ireland, CEE)
Mostly 4 main property types + hotels	Property Types	Office, Retail & Logistics Focus. Residential is less institutional but changing. Maturing market for alternative property types such as student & seniors housing, and Hotels
High Growth Markets; Rapid urbanization and population growth	Key Drivers	Low stock of new supply; High barriers to entry; Continued Urbanization;
Currency fluctuations; Low barriers to entry in some markets; Potentially Emerging Market risks	Key Risk Considerations	Political instability; Currency fluctuations & stability; Variations in legal, tax, language, culture, etc.

- Expanding universe of managers and funds, including new product offerings and familiar managers who operate global platforms
- Newer open-end products have offered attractive fee discounts and have established vehicle structures more friendly to U.S.-based investors



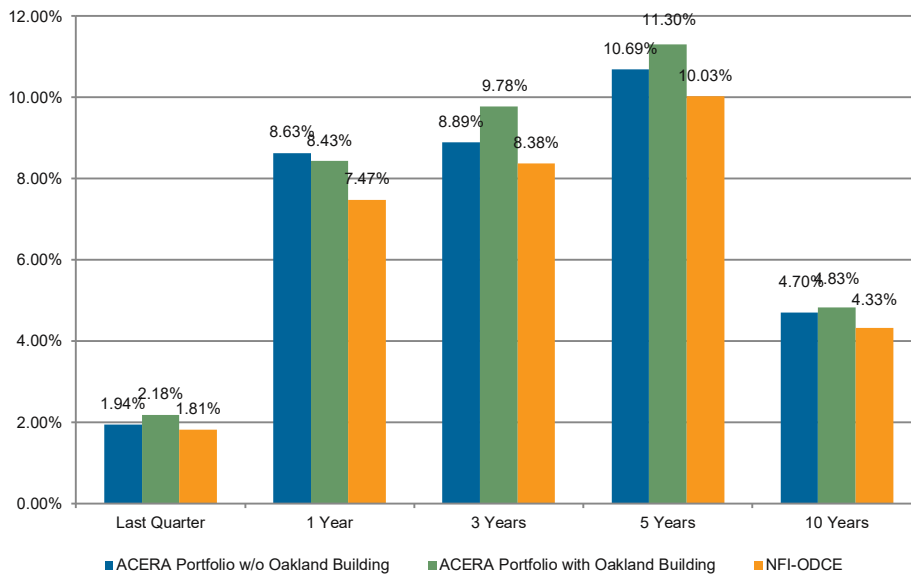
## Appendix A. ACERA Portfolio Overview

# Portfolio Net Returns (as of August 31, 2018)

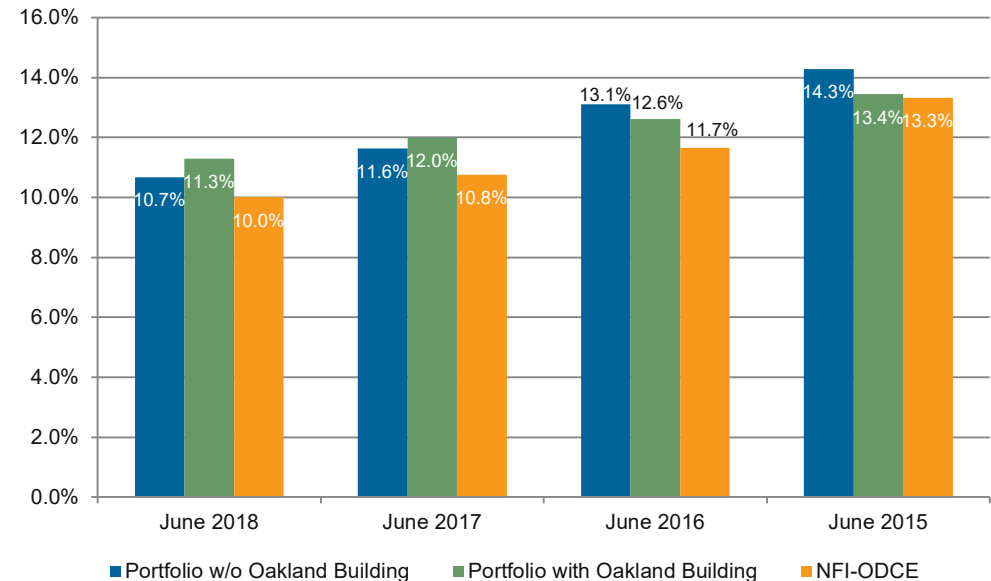
## Total Net Real Estate Portfolio Returns

- The ACERA Portfolio seeks to outperform the ODCE, net of fees, over rolling five-year periods.
- Inclusive and exclusive of the Oakland Building, the annualized portfolio returns have outperformed over all time periods.
- The rolling five-year returns have exceeded the index over all recent time periods.

Annualized Returns

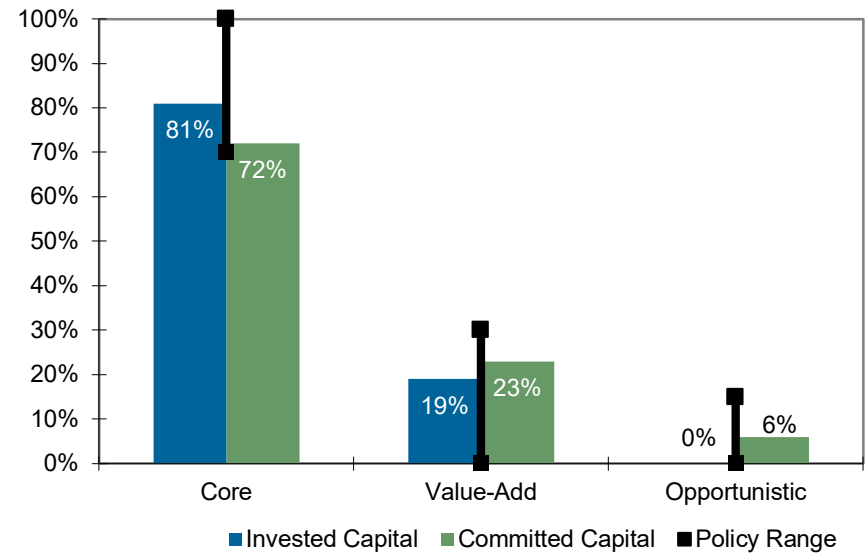
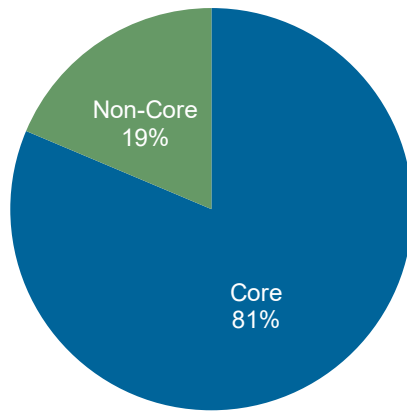


Rolling 5 Year Returns



# Strategic Diversification (as of August 30, 2018)

## Portfolio Overview



- ACERA has a predominantly core portfolio with some value-added exposure.
- All styles are within their strategic ranges.

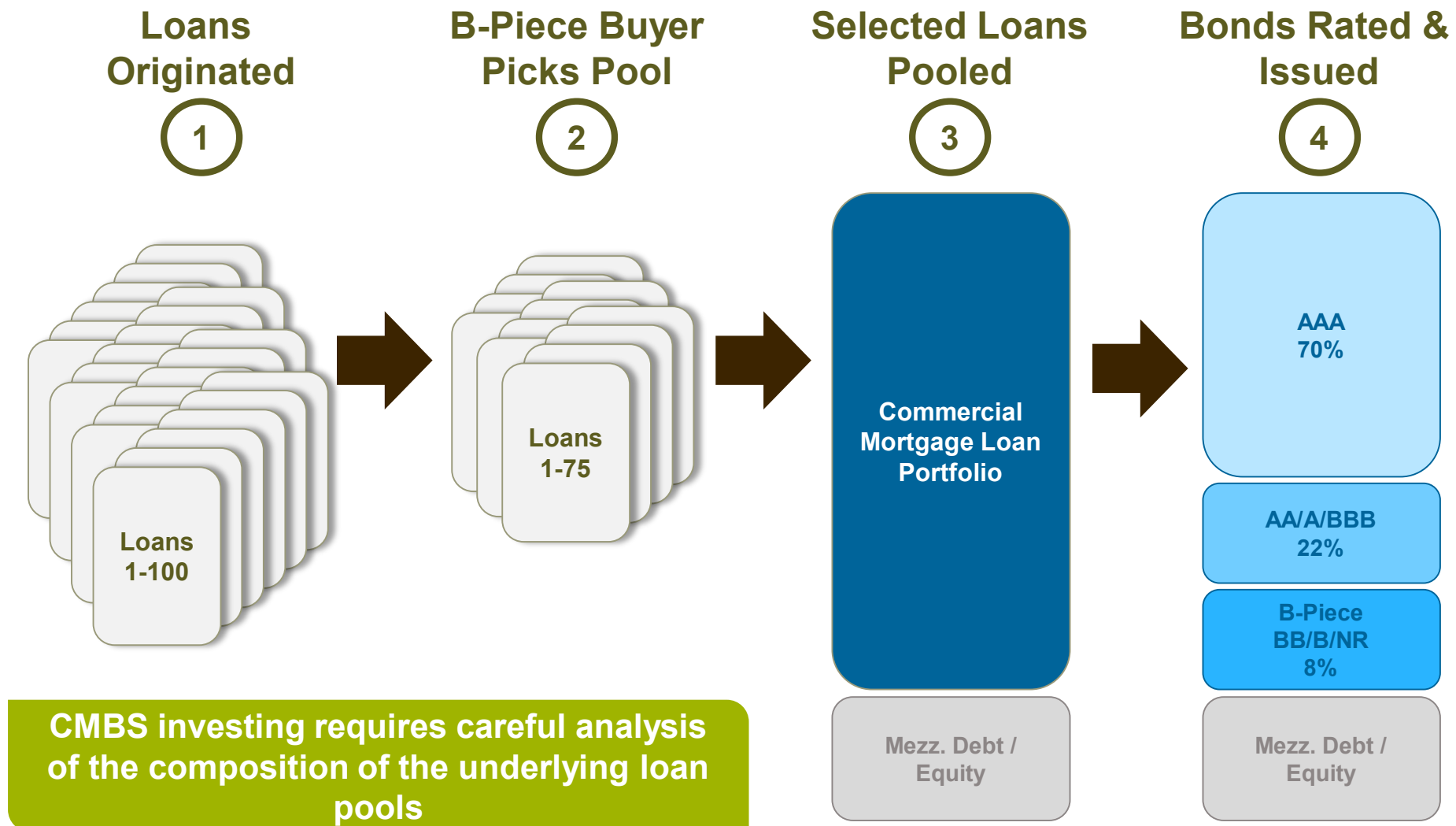


## **Appendix B. Additional Real Estate Debt Investing Terminology**



# Commercial Mortgage-Backed Securities (CMBS) Overview

CMBS offers investors a relatively liquid alternative to real estate debt investment



# Loan Terminology

## Speaking the language of debt

### Bridge Loan

- Short-term loan with a three to five-year term
- Rates may be fixed or floating

### Construction Loan

- A loan to fund up to 100% of construction costs of a property
- May be made in conjunction with a commitment by the lender for a permanent loan upon completion

### Conduit Loan

- Commercial real estate loan made to ultimately be securitized via CMBS

### Conduit Lender

- Makes conduit loans and holds the loans until they can be securitized as CMBS
- Can be insurance companies, banks, pension funds, financial services firms, investment banks, and other types of lenders

### Permanent Loan

- Senior loan, whole loan, conduit loan, participating mortgage, or otherwise long-term financing of a property

### Repurchase Loans

- Repo loan
- A short-term loan, often made overnight, in which the lender lends cash to a borrower in exchange for bonds with the borrower agreeing to repurchase the bonds later at a higher price

### Whole Loan Commercial Mortgage

- Debt instrument collateralized by a first mortgage or deed or trust that encumbers an income producing property
- Whole loans are not securitized

# Loan Terminology

## Speaking the language of debt

### Fixed Rate Loan

- Interest rate is fixed and remains the same for the entire term of the loan

### Floating Rate Loan

- Interest rate fluctuates over the term of the loan and is based on a spread over a benchmark
- E.g. LIBOR plus 200 basis points

### Interest Only Mortgage (I/O)

- A loan where the borrower's periodic payments are only interest payments
- Principal is paid when the loan is paid off or amortization with interest and principal payments may begin during the loan term after the I/O period

### LIBOR

- London Interbank Offered Rate
- Rate banks charge each other for short-term loans
- Interest rates on real estate loans can be based on a spread over LIBOR

### Loan to Value (LTV)

- Loan amount divided by the property value
- Used by lenders to judge the safety of the loan
- Property value may be measured by appraised value, as determined by a rating agency or the lender
- A LTV of more than 100 can reduce the borrower's motivation to continue making mortgage payments

### Debt Service Coverage Ratio (DSCR)

- Measures the ability of a property to pay for all mortgage related payments
- Calculated as Net Operating Income divided by Total Debt Service
- A key metric used by lenders, along with LTV, to judge the safety of a loan
- Breaching a minimum DSCR is a condition of default in many loan documents

# Loan Terminology

## Speaking the language of debt

### Payment in Kind (PIK)

- Represents interest that may be deferred at the option of the borrower
- For example: a loan with an interest rate of 8% comprised of 5% current pay and 3% deferred interest (the PIK)

### Transitional Asset

- A property undergoing a value-add program, such as leasing, renovation, or repositioning, or a property in a location where fundamentals are weaker than prime markets

### Collateral

- Security pledged for the payment of a loan

### Fannie Mae

- Federal National Mortgage Association
- A public government sponsored enterprise that provides financing in the housing sector
- Securitizes mortgage loans
- Referred to as an Agency Lender

### Freddie Mac

- Federal Home Loan Mortgage Corporation
- A public government sponsored enterprise that provides financing in the housing sector
- Securitizes mortgage loans
- Referred to as an Agency Lender

### Foreclose

- The process of taking possession of a mortgage property as a result of the mortgagor's failure to make mortgage payments

# Disclaimers

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This report is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of this content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation.

This report may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact.

Reference to or inclusion in this report of any product, service or entity should not be construed as a recommendation, approval, affiliation or endorsement of such product, service or entity by Callan.

Past performance is no guarantee of future results.

The statements made herein may include forward-looking statements regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties such that actual results may differ materially from these statements. There is no obligation to update or alter any forward-looking statement, whether as a result of new information, future events or otherwise. Undue reliance should not be placed on forward-looking statements.

# Definitions

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## **Style Groups**

The Style Groups consist of returns from commingled funds with similar risk/return investment strategies. Investor portfolios/investments are compared to comparable style groupings.

Core: Direct investments in operating, fully leased, office, retail, industrial, or multifamily properties using little or no leverage (normally less than 30%).

Value-Added: Core returning investments that take on moderate additional risk from one or more of the following sources: leasing, re-development, exposure to non-traditional property types, the use of leverage.

Opportunistic: Investments that take on additional risk in order to achieve a higher return. Typical sources of risks are: development, land investing, operating company investing, international exposure, high leverage, distressed properties.

# Definitions

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## Indices

Stylized Index: Weights the various style group participants so as to be comparable to the investor portfolio holdings for each period.

Open-End Diversified Core Equity Index (“ODCE”): A core index that includes only open-end diversified core strategy funds with at least 95% of their investments in U.S. markets. The ODCE is the first of the NCREIF Fund Database products, created in May 2005, and is an index of investment returns reporting on both a historical and current basis (23 active vehicles). The ODCE Index is capitalization-weighted and is reported gross and net of fees. Measurement is time-weighted and includes leverage.

NCREIF Fund Index Open-End Index (“OE”): NFI-OE is an aggregate of open-end, commingled equity real estate funds with diverse investment strategies. Funds comprising NFI-OE have varied concentrations of sector and region, core and non-core, leverage and life cycle.

NAREIT Equity Index: This is an index of Equity Real Estate Investment Trust returns reflecting the stock value changes of REIT issues as determined through public market transactions.

# NCREIF Region Map

## GEOGRAPHIC REGIONS and DIVISIONS

