



**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 April 1, 2026  
10:30 a.m.**

LOCATION AND TELECONFERENCE	COMMITTEE MEMBERS	
<p>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</p> <p>The public can observe the meeting and offer public comment by using the below Webinar ID and Passcode after clicking on the below link or calling the below call-in number.</p> <p>Link: <a href="https://zoom.us/join">https://zoom.us/join</a> Call-In: 1 (669) 900-6833 US <b>Webinar ID: 879 6337 8479</b> <b>Passcode: 699406</b></p> <p>For help joining a Zoom meeting, see: <a href="https://support.zoom.us/hc/en-us/articles/201362193">https://support.zoom.us/hc/en-us/articles/201362193</a></p>	<b>TARRELL GAMBLE CHAIR</b>	<b>APPOINTED</b>
	<b>STEVEN WILKINSON VICE CHAIR</b>	<b>APPOINTED</b>
	<b>OPHELIA BASGAL</b>	<b>APPOINTED</b>
	<b>KEITH CARSON</b>	<b>APPOINTED</b>
	<b>ROSS CLIPPINGER</b>	<b>ELECTED SAFETY</b>
	<b>SCOTT FORD</b>	<b>ELECTED GENERAL</b>
	<b>HENRY LEVY</b>	<b>TREASURER</b>
	<b>ELIZABETH ROGERS</b>	<b>ELECTED RETIRED</b>
	<b>KELLIE SIMON</b>	<b>ELECTED GENERAL</b>
	<b>KATHY FOSTER</b>	<b>ALTERNATE RETIRED<sup>1</sup></b>

<sup>1</sup> The 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 Safety Member and an Elected General member, are absent.

*Note regarding accommodations:* If you require a reasonable modification or accommodation for a disability, please contact ACERA between 9:00 a.m. and 5:00 p.m. at least 72 hours before the meeting at accommodation@acera.org or at 510-628-3000.

Public comments are limited to four (4) minutes per person in total. The order of items on the agenda is subject to change without notice.

Board and Committee agendas and minutes and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure) are posted online at www.acera.org and also may be inspected at 475 14th Street, 10th Floor, Oakland, CA 94612-1916.

# **INVESTMENT COMMITTEE/BOARD MEETING**

**NOTICE and AGENDA Wednesday, April 1, 2026**

**Call to Order:** 10:30 a.m.

## **Roll Call**

**Public Input (The Chair allows public input on each agenda item at the time the item is discussed)**

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

There are no action items.

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

1. Report on the Proposed Minimum Qualifications and Scoring Matrix for ACERA's Global Equity Manager Search – Public Equities

10:35 – 11:05  
Sam Austin, NEPC  
Emily Moran, NEPC  
Stephen Quirk, ACERA  
Betty Tse, ACERA

2. Progress Report on 2025 Absolute Return Investment/Rebalancing Plan

11:05 – 11:20  
Sam Austin, NEPC  
Rose Dean, NEPC  
Clint Kuboyama, ACERA  
Betty Tse, ACERA

3. Educational Session: Update on Private Debt Market Environment and to Make Sense of Today's Private Debt Headlines

11:20 – 11:50  
Sam Austin, NEPC  
Rose Dean, NEPC  
Emily Moran, NEPC  
Clint Kuboyama, ACERA  
Betty Tse, ACERA

4. Review of Blue Owl First Lien Fund<sup>3</sup>

11:50 – 12:20  
Jean Joseph, Blue Owl  
Collin Kroeger, Blue Owl  
Sam Austin, NEPC  
Rose Dean, NEPC  
Clint Kuboyama, ACERA  
Betty Tse, ACERA

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<sup>3</sup> Written materials and investment recommendations from the consultants, fund managers and ACERA Investment Staff relating to this alternative investment are exempt from public disclosure pursuant to CA Gov. Code §7928.710 and §7922.000.

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

**NOTICE and AGENDA Wednesday, April 1, 2026**

5. Education Session: Affordable Housing Part 2 – Real Estate Investments

12:20 – 1:05

Aaron Quach, Callan  
Avery Robinson, Callan  
John Ta, ACERA  
Betty Tse, ACERA

6. Report on a Private Equity Investment Made Under Delegated Authority after Distribution of the Last Investment Committee Meeting Agenda: Warren Equity Partners V (\$60 million)<sup>3</sup>

1:05 – 1:15

Sam Austin, NEPC  
Rose Dean, NEPC  
John Ta, ACERA  
Betty Tse, ACERA

**Trustee Remarks**

**Future Discussion Items**

None

**Establishment of Next Meeting Date**

May 6, 2026, at 10:30 a.m.

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<sup>3</sup> Written materials and investment recommendations from the consultants, fund managers and ACERA Investment Staff relating to this alternative investment are exempt from public disclosure pursuant to CA Gov. Code §7928.710 and §7922.000.



To: Members of the Investment Committee  
From: Stephen Quirk, Investment Officer *Stephen Quirk*  
Date: April 1, 2026  
Subject: Report on the Proposed Minimum Qualifications and Scoring Matrix for ACERA's Global Equity Manager Search – Public Equities

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### **Background**

At the January 15, 2026 Board meeting, the Board approved a new Public Equity structure which includes a Global Core mandate.

### **Discussion**

Staff and NEPC will issue a Request for Proposal (RFP) to a targeted short list of high conviction managers (approximately ten) to enable further evaluations. The NEPC Focus Placement List of top-rated managers will be the primary input for the targeted RFP short list. Staff and NEPC designed Minimum Qualifications (MQs, See Attachment #1) that managers must meet to be considered for the search. The MQs reflect the desired manager attributes of Staff and NEPC for this mandate. Staff and NEPC created a Scoring Matrix (See Attachment #2) that they will use to evaluate the RFP submissions. The Scoring Matrix is consistent with how NEPC evaluates managers.

The search process includes the following steps with an estimated projected timeline in 2026 (June to November):

- 1) RFP issuance and managers submissions
- 2) Staff/NEPC scoring of the submissions
- 3) Selection of three Finalists by the Board
- 4) Onsite due diligence of the Finalist firms by NEPC and Staff
- 5) Staff and NEPC's recommendation of the Finalist firms to the Investment Committee

### **Next Steps**

Staff and NEPC will recommend that the Investment Committee approve the proposed Minimum Qualifications and Scoring Matrix for ACERA's Global Equity Manager Search tentative scheduled at the May 6, 2026 IC meeting.

### **Attachments**

1. ACERA Global Equity Manager Search Minimum Qualifications – prepared by Staff
2. ACERA Global Equity Manager Search Scoring Matrix – prepared by NEPC

**ACERA GLOBAL EQUITY MANAGER SEARCH MINIMUM QUALIFICATIONS**

1. The investment strategy must be Global Core.
2. The investment vehicle must be a commingled fund with a minimum of monthly liquidity.
3. Active Extension strategies must maintain a net 100% market exposure.
4. The Firm must have a minimum three-year, continuous performance history managing a global equity fund for institutional investors by the existing portfolio manager or portfolio management team. The manager's performance history must be documented, real time (not simulated) and in compliance with CFA Institute Global Investment Performance Standards.
5. The MSCI World Index is the preferred benchmark.
6. It is ACERA's intent that its portfolio comprises no more than 25% of the firm's total assets under management at any time in accordance with ACERA's General Investment Guidelines, Policies and Procedures.
7. Quantitative strategies should have a minimum 2.5% tracking error since inception.
8. Fundamental strategies should have a minimum 5% tracking error since inception and a 90% active share.
9. The Firm must agree to act as fiduciary to ACERA.
10. The Firm must be registered as an investment adviser under the Investment Advisers Act of 1940, a bank (as defined in that Act) or an insurance company qualified to perform investment management services under state law in more than one state, including the State of California.
11. ACERA will only consider Emerging Investment Managers that meet all the Minimum Qualifications for Proposal.
12. The Firm must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the Firm or a legal joint venture partner.
13. The Firm must be able to provide monthly GIPS-compliant performance reports to ACERA, its General Consultant, and its Custodian Bank.
14. The Firm should carry the following minimum insurance coverage or should apply for it by contract execution (subject to change upon final contract negotiation):
  - a. Commercial General Liability – \$4,000,000
  - b. Crime Coverage
    - i. Employee Dishonesty Coverage - \$10,000,000
    - ii. Computer Theft Coverage - \$1,000,000
  - c. Error and Omissions (Professional Liability) - \$10,000,000
  - d. Fiduciary Liability - \$25,000,000, or 10% of the total assets managed in the ACERA account, whichever is higher, unless the proposed contract specifies otherwise
  - e. Workers' Compensation and Employer's Liability - \$1,000,000
15. The Firm must provide a description of its ESG policies and objectives and Diversity & Inclusion efforts and objectives.
16. The Firm must agree to attend ACERA's Investment Committee Meetings as needed.
17. The Firm must be willing to allow ACERA to review the latest 3-5 years of the firm's audited financial statements. In-office reviews are acceptable.
18. Once selected by ACERA as the recommended Firm, the Firm must consent to a background investigation of the investment management entity and key individuals.

# ACERA GLOBAL EQUITY MANAGER SEARCH SCORING MATRIX

Attachment #2

<b>Total Points</b>	<b>100</b>	
<b>ACERA Portfolio Fit</b>	<b>20</b>	Alpha correlations, tracking error, active share, name overlap
<b>Firm/Organization</b>	<b>15</b>	
Ownership		Independent, outside ownership
Culture		Integrity, cohesiveness, inclusiveness
Business Strategy		Fund size growth, competing pools of capital
Organizational Stability		Going concern risk, succession plan
Firm Reputation		Headline risk, reference, governance
<b>People &amp; Resources</b>	<b>15</b>	
Team Structure		Decision makers, focus, resources, key person
Compensation		Team incentives
Turnover		Departures vs. Additions
<b>Investment Strategy &amp; Process</b>	<b>25</b>	
Investment Philosophy & Edge		Define investment edge and whether its sustainable
Investment Underwriting Process		Deal sourcing, lifecycle of investment, value creation
Portfolio Construction		Specific questions by strategy type
Risk Management		Fund composition, leverage, background check, ODD
Fees		Management fees
<b>Net of Fee Performance</b>	<b>25</b>	Luck vs. Skill, Breakeven information ratio, factor attribution



ACERA's Investment Score is based on a 0-100 points scale with 100 points being the highest score.



475 14th Street, Suite 1000, Oakland, CA 94612 / telephone #: (510) 628-3000 / fax #: (510) 268-9574 / [www.acera.org](http://www.acera.org)

TO: Members of the Investment Committee  
FROM: Clint Kuboyama, Senior Investment Officer *Clint Kuboyama*  
DATE: April 1, 2026  
SUBJECT: Progress Report on 2025 Absolute Return Investment/Rebalancing Plan

**Background:**

In July 2024, the ACERA Board adopted a new Total Fund asset allocation. As part of this new asset allocation, the target weighting of the Absolute Return (“AR”) Asset Class was lowered from 8% to 6%. To lower the weighting of the AR Asset Class towards its 6% target, capital had to be moved out of the AR Asset Class and into another asset class or classes. As a result, any plan to lower the weighting and move capital out of the AR Asset Class had to be accompanied by a plan to move the same amount of capital into another asset class or classes.

In July 2025, when Staff and NEPC were formulating the 2025 Absolute Return Investment/Rebalancing Plan (“Plan”), the Private Credit (“PC”) Asset Class was 2.5% underweight its 6.8% target. Meanwhile, the Safe Haven Fixed Income and Risk Seeking Fixed Income Asset Classes were 0.8% and 0.4% overweight their targets, respectively, for a total of 1.2% overweight to the Fixed Income Asset Classes<sup>1</sup>. Since the PC Asset Class’s inception in 2019, the investment strategies in the Fixed Income Asset Classes have been overweighted to act as proxies for the underweight in the PC Asset Class. When doing this, the Loomis Sayles account in the Risk Seeking Fixed Income Asset Class has most heavily been used as the proxy because the risk/return of this strategy most closely aligns with the risk/return of the PC Asset Class.

Given these factors, Staff and NEPC proposed to the ACERA Board to reduce the AR Asset Class by approximately 1.4% or \$174 million and invest the \$174 million in the Loomis Sayles account. These changes were projected to lower the AR Asset Class’s weighting to 6.5% and increase the Risk Seeking Fixed Income Asset Class’s overweight to 1.7%. This 1.7% overweight to the Risk Seeking Fixed Income Asset Class plus the existing 0.8% overweight to the Safe Haven Fixed Income Asset Class would sum to a 2.5% overweight to the combined Fixed Income Asset Classes. According to the Plan, this 2.5% overweight would act as a proxy for the 2.5% underweight in the PC Asset Class. The Plan was approved by the Board in August 2025. Its major components are shown below in Table 1:

Table 1: 2025 Absolute Return Investment/Rebalancing Plan Before and Projected After Implementation			
	Before Investment/ Rebalancing Plan (as of July 17, 2025)	Movement of Capital (September 2025 - January 2026)	After Investment/ Rebalancing Plan Projection (January 2026)
Absolute Return Asset Class Weighting	7.9%	-\$174 million	6.5%
Safe Haven Fixed Income Overweight <sup>1</sup>	0.8%		0.8%
Risk Seeking Fixed Income Overweight	0.4%	+\$174 million	1.7%
Total Fixed Income Overweight	1.2%		2.5%
Private Credit Underweight	-2.5%		-2.5%

**2025 Absolute Return Investment/Rebalancing Plan Implementation Update:**

To generate \$174 million from the AR Asset Class, \$174 million in capital redemptions were requested from four of the five investment strategies in the AR Portfolio. (The fifth strategy is an illiquid limited partnership representing

<sup>1</sup> The weighting of the Safe Haven Fixed Income Asset Class included \$88.2 million in notional exposure (0.7% of the Total Fund) to US Treasuries in ACERA’s cash overlay program with Parametric.

only 4% of the AR Portfolio.) The redemption amounts per strategy were calibrated to align the AR Portfolio's weightings to the sub-class target weightings of the AR Asset Class - 80% Fund of Hedge Funds and 20% Other Alternatives/Opportunistic. Three of the four strategies that capital was redeemed from have quarterly liquidity with 90-days' notice<sup>2</sup>. Thus, soon after the Plan was approved in August 2025, Staff made the redemption requests for these strategies by the end of September 2025. Given the redemption timelines, most of the redemption proceeds would be received by January 2026 (i.e., after the 90-day notice period and at the end of 4Q:25). Because there was a lag between when these redemption requests were made in September 2025 and when the bulk of the redemption proceeds would be received by ACERA in January 2026, and there was ample cash in ACERA's cash account<sup>3</sup> to deploy, Staff invested \$174 million into the Loomis Sayles account in October 2025, thereby deploying the target amount of the redemption proceeds into Loomis Sayles before the proceeds were received.

Between November 2025 and January 2026, ACERA received \$170.7 million out of a total of \$174 million in redemption proceeds. The remaining \$3.3 million will be received over time as the illiquid investments, in one of the Funds in which a redemption was sought, are sold and the sales proceeds distributed to ACERA. Thus, with ACERA receiving close to its \$174 million in AR strategy redemption proceeds so far and \$174 million invested in the Loomis Sayles account, the Plan has largely been completed. Table 2 below shows what the weightings of the AR Asset Class, the Safe Haven<sup>4</sup> and Risk Seeking Fixed Income Asset Classes, and the PC Asset Class were as of 1/31/26, after the Plan was largely completed:

	Projected After Investment/Rebalancing Plan (January 2026)	Actual As of January 2026
Absolute Return Asset Class Weighting	6.5%	6.4%
Safe Haven Fixed Income Overweight	0.8%	0.8%
Risk Seeking Fixed Income Overweight	1.7%	1.5%
Total Fixed Income Overweight	2.5%	2.3%
Private Credit Underweight	-2.5%	-2.9%

### **Conclusion:**

While the Plan is largely completed, the actual results of the plan in terms of total Fixed Income Asset Class overweight, matching in absolute magnitude, the underweight in the PC Asset Class, have deviated from what was projected when the Plan was created for approval. Over the six-month period between when the Plan was created (end of July 2025) and when the Plan was largely completed (end of January 2026), the value of Total Fund rose 8.4%, driven by a 13.7% rise in the Public Equity Asset Class (more than 50% weighting in the Total Fund). The strong six-month growth in the Public Equity Asset Class and Total Fund, along with the underperformance of the AR, PC and Risk Seeking Fixed Income Asset Classes compared to the Public Equity Asset Class, caused the market-value weightings of the AR, PC, and Risk Seeking Fixed Income Asset Classes as of the end of January 2026 to be lower than projected in July 2025. While the Plan, as intended, has brought the Total Fund's risk/return closer to the 2024-approved Total Fund asset allocation, Staff will continue to monitor the Total Fund's cash balance and may invest more into the Risk Seeking Fixed Income Asset Class down the line to reduce the gap between the absolute magnitude of the PC Asset Class's underweight compared to the overweight in the combined Fixed Income Asset Classes.

<sup>2</sup> The fourth strategy has daily liquidity. Its redemption request was made in January 2026, and the redemption proceeds were received in the same month.

<sup>3</sup> Any cash held in ACERA's cash account is "equitized" by ACERA's overlay program with Parametric. The cash equitization process involves Parametric purchasing futures whose notional value equals the amount of the cash in the cash account. Any cash in the cash account is equitized 79% global equities and 21% US Treasuries.

<sup>4</sup> The overweight of the Safe Haven Fixed Income Asset Class included \$155.8 million in notional exposure (\$1.1% of the Total Fund) to US Treasuries in the cash overlay account with Parametric.



# EDUCATIONAL SESSION

UPDATE ON PRIVATE DEBT MARKET  
ENVIRONMENT AND TO MAKE SENSE  
OF TODAY'S PRIVATE DEBT HEADLINES

APRIL 1, 2026

Rose Dean, CFA, Partner  
Emily Moran, Senior Consultant

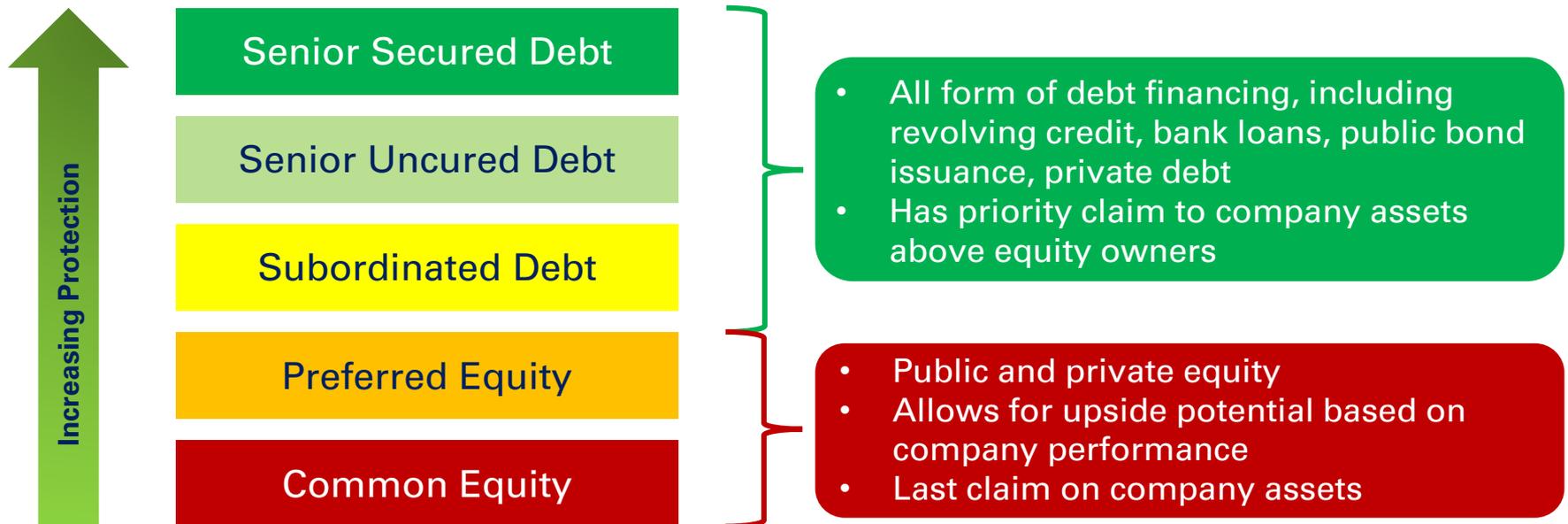


# PRIVATE DEBT OVERVIEW

# PRIVATE DEBT OVERVIEW

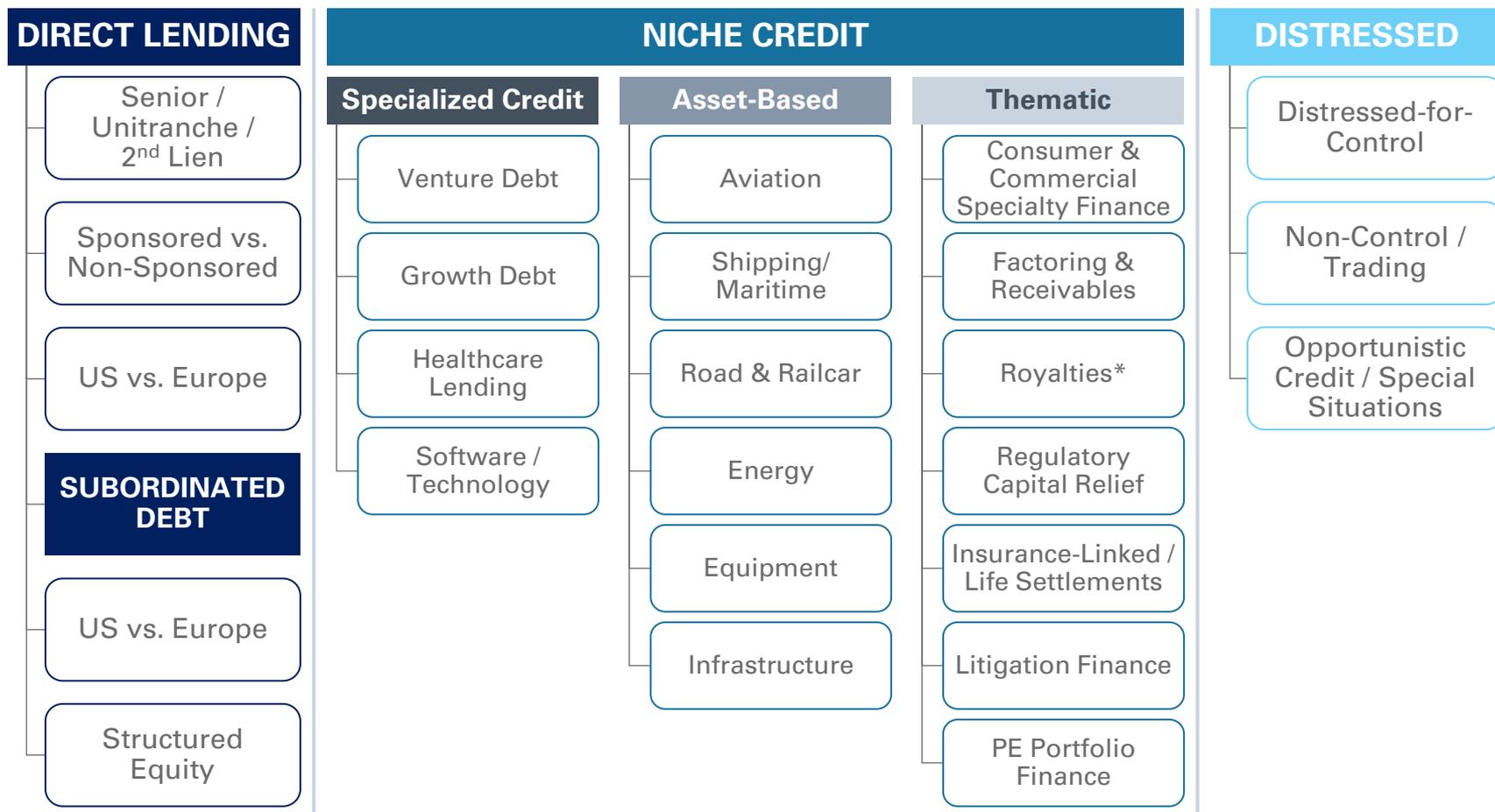
- **Private debt is the provision of debt finance to companies from funds, rather than banks, bank-led syndicates, or public markets**
  - Private debt is often used to finance buyouts, though it is also used as expansion capital or to finance acquisitions, amongst other use cases
- **Large investable universe**
  - Approximately \$250 billion raised annually across strategies over the past three years
- **Benefits of Private Debt**
  - **Return enhancer**
    - The premium earned over other investment options serves to compensate for the liquidity risk
  - **Investment diversification**
- **Two components of private debt return:**
  - **Current Income:** Derived from portfolio company operations, loans and leases
  - **Capital Appreciation:** Derived from an increase in the value of an asset between acquisition and sale

# CORPORATE CAPITAL STRUCTURE HIERARCHY



- Debt financing can be in the form of public and private credit
- Equity financing can be in the form of public and private equity
- Private credit, along with other debt, typically sits above all equity ownership claim
- Structuring is key in terms of claim on asset

# NEPC PRIVATE DEBT TAXONOMY



Yield-Oriented/Capital Preservation/  
Lower Outcome Dispersion
Maximized Return/Capital Appreciation/  
Higher Outcome Dispersion



\*Healthcare/Music/Film/Media/Energy & Minerals royalties

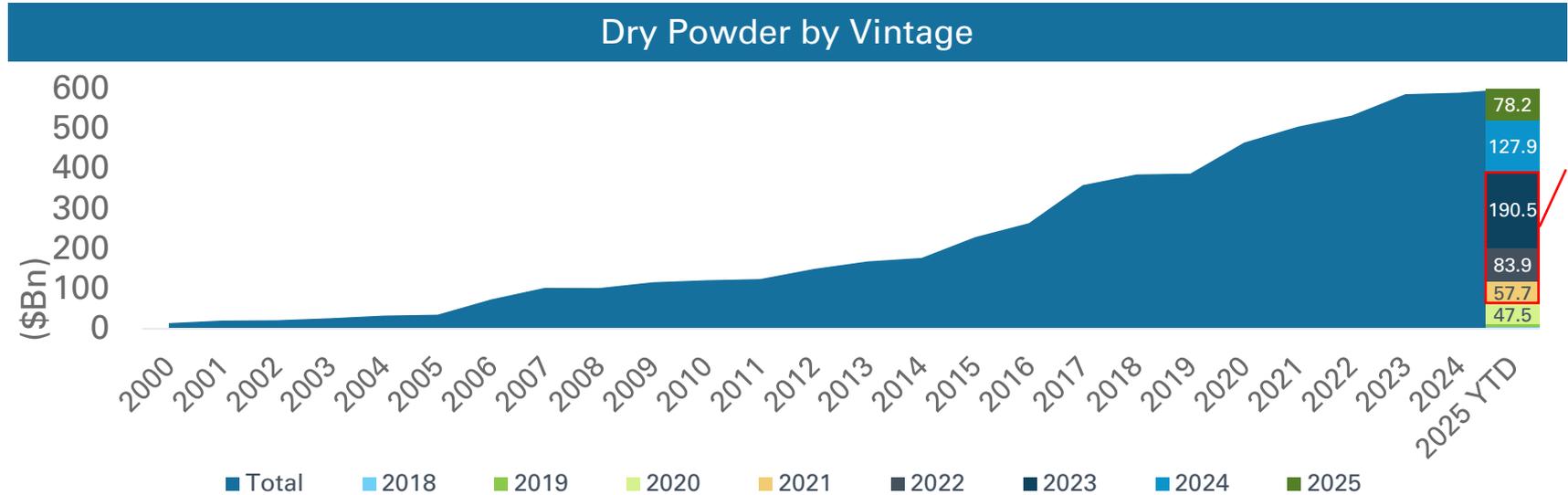
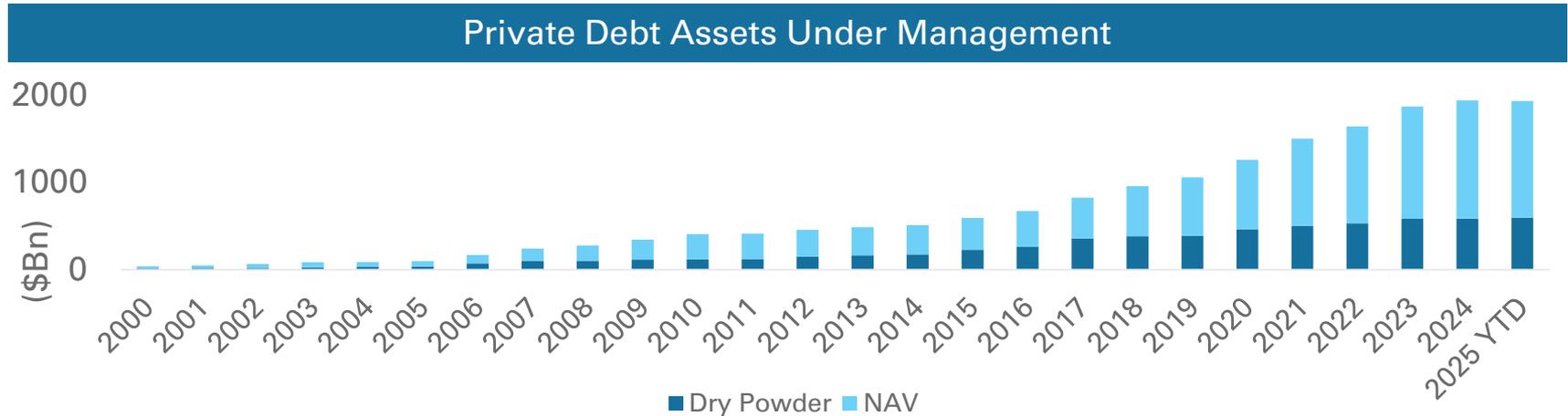
# CONTRASTING ILLIQUID CREDIT STRATEGIES: INCOME ORIENTATION VS CAPITAL APPRECIATION

- **Looking at 4 broad categories of private debt strategies**
  - The categories help define a spectrum of expected portfolio behavior and portfolio goals
  - Categories range from one that focuses on high cash income to one that focuses more on capital appreciation.

	Cash Income Focus	Capital Appreciation	Relative Risk and Total Return	Example
Senior Direct Lending			Low	Senior secured lending to non-public corporations
Mezzanine Lending			Mid	Subordinated lending to non-public corporations
Opportunistic/ Niche/ Other Credit			Mid to High	Requires a more specific expertise. May include "storied" credits, flexible but higher cost capital, younger or challenged companies. Includes other credit-linked opportunities.
Distressed			Mid to High	Distress-for-control strategies, but may include some trading

# PRIVATE DEBT ASSETS UNDER MANAGEMENT

OVERALL AUM CONTINUES TO GROW

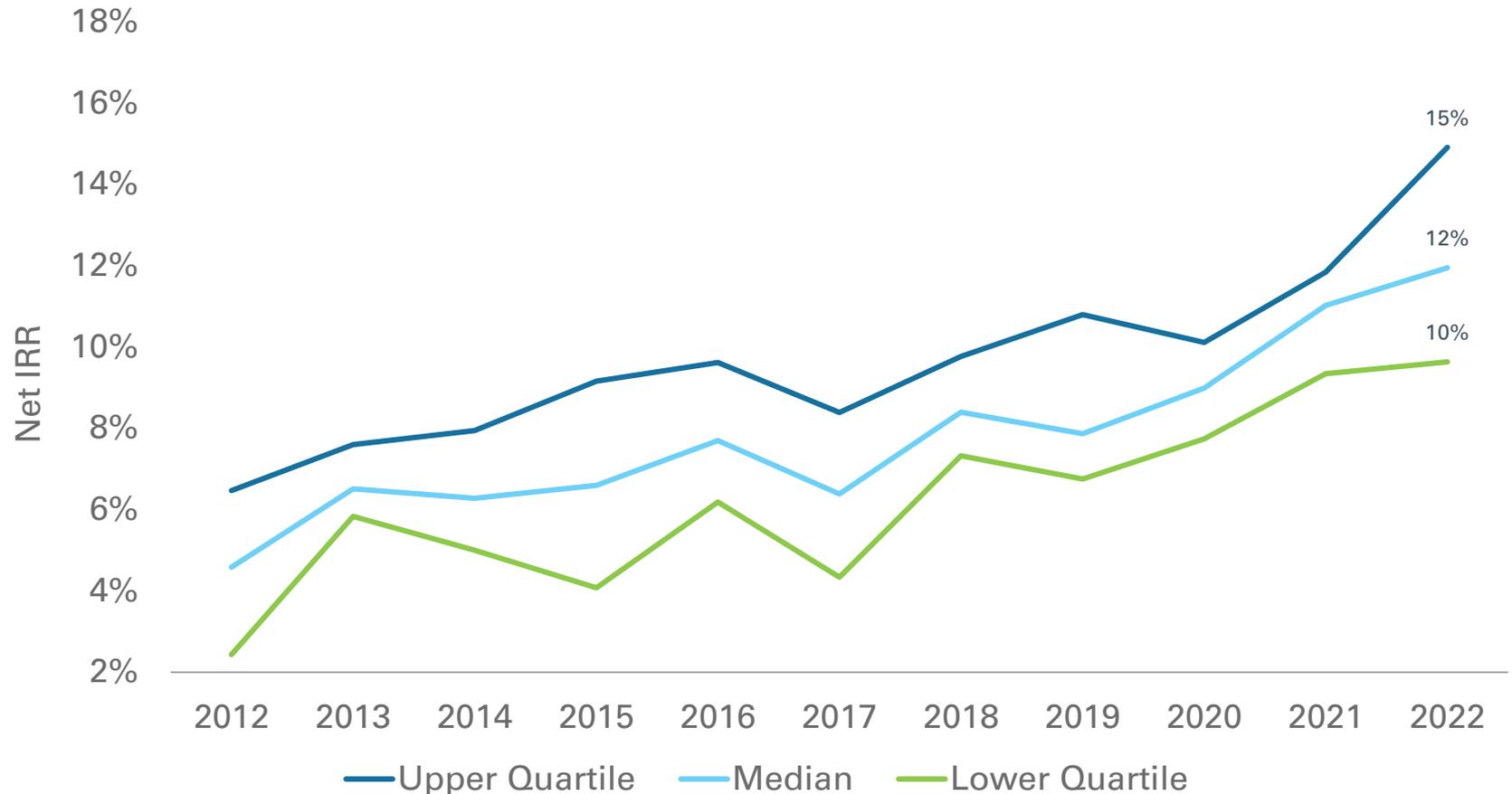


Source: Pitchbook as of 3/31/2025



# DIRECT LENDING PERFORMANCE

RELATIVELY STABLE OVER TIME



Source: Thomson One/CJA as of 6/30/2025

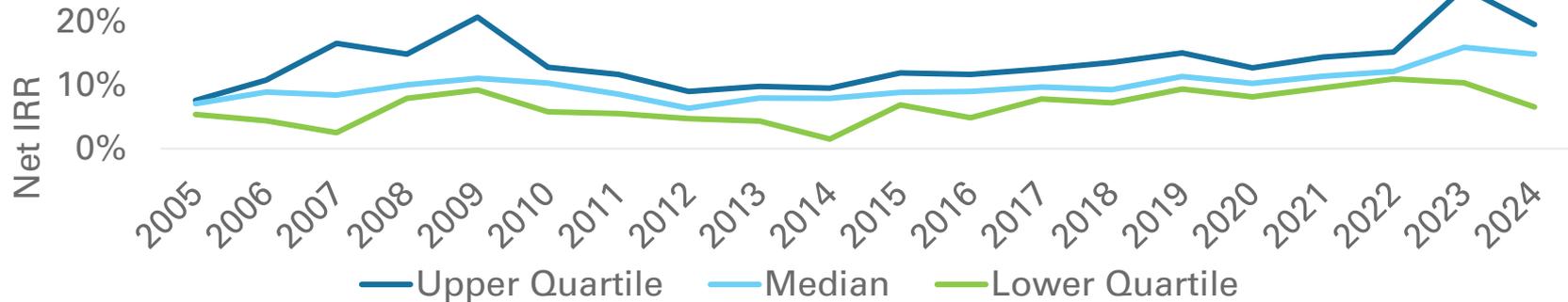
No NEPC clients are invested in these exact strategies and have not achieved these returns – for illustrative purposes only.



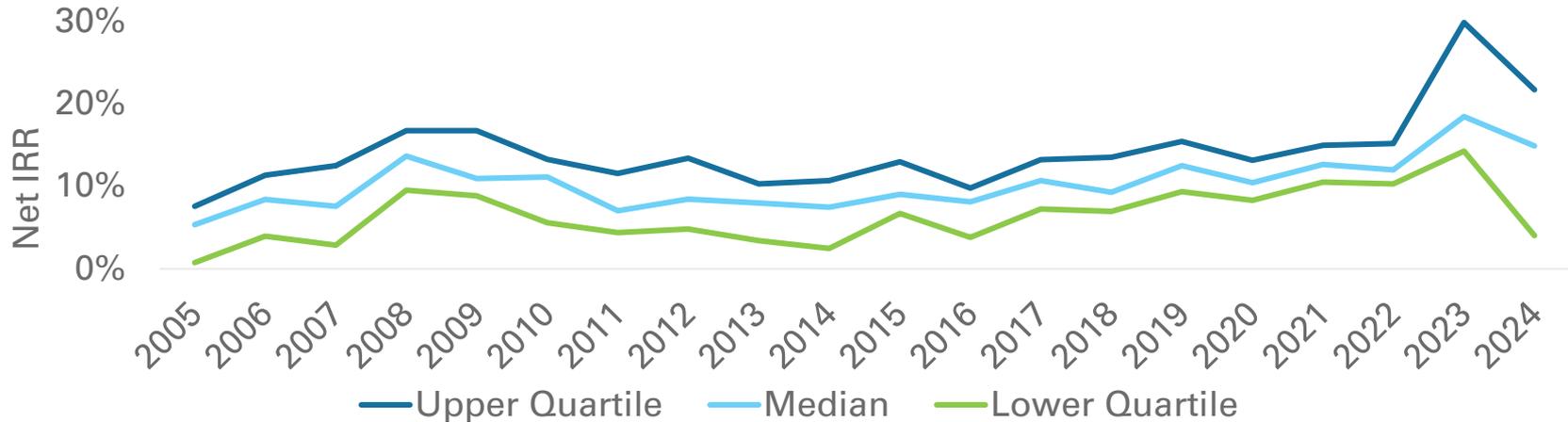
# PERFORMANCE

## HEIGHTENED IMPORTANCE ON MANAGER SELECTION

### Junior Capital/Opportunistic Credit



### Distressed/Opportunistic Credit



Source: Thomson One/CJA as of 6/30/2025

No NEPC clients are invested in these exact strategies and have not achieved these returns – for illustrative purposes only.



# CURRENT MARKET



# 2026 PRIVATE DEBT MARKET ENVIRONMENT

- **AUM growth continues driven primarily by New Entrants and Consolidation**
  - New entrants including private wealth & retail investors and insurance companies → sharp rise in evergreen/open-ended vehicles
  - Continued consolidation through acquisitions and strategic partnerships (managers, banks, insurance companies etc.)
  - Convergence of public and private credit continues to expand
- **Increased pressure and propensity to sell throughout credit markets**
  - Increased secondary market activity in both single assets and whole portfolios
  - Pressure to sell underperforming/troubled/complex assets; propensity to sell mature, performing assets
- **Evolution of dedicated Credit Secondary market**
  - More mature market for LPs and GPs to transact in both asset and portfolio sales
- **Opportunities for managers that seek Complexity rather than beta**
  - Value add through finding structurally mis-financed capital structures, overlooked/misunderstood cash flows

# UNDERSTANDING DEFAULT

- **Payment defaults**

- Typically interest or principal payment default
- Can involve amendments, penalties, restructuring, litigation, etc.

- **Technical default**

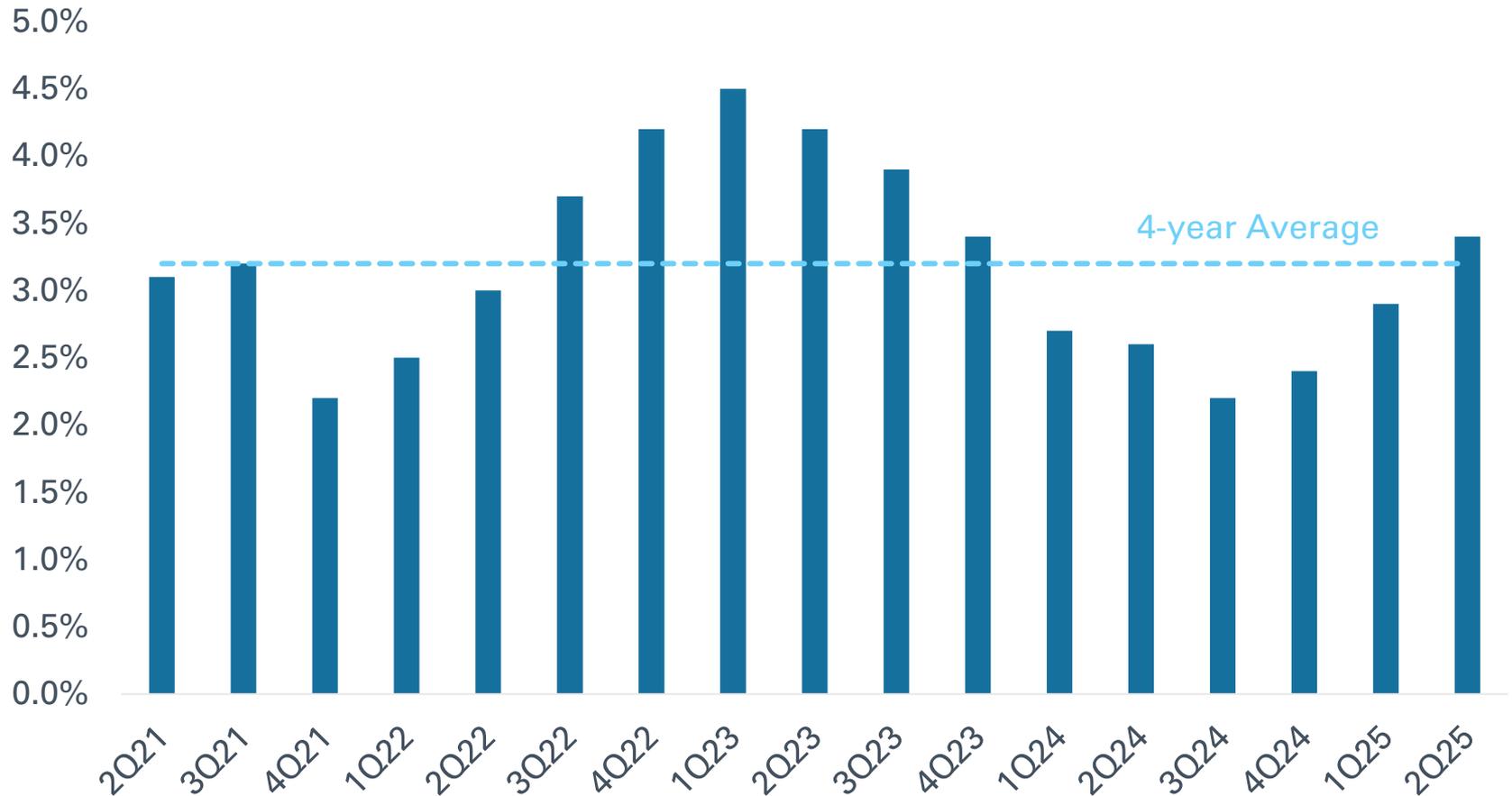
- Failure to meet certain legal terms or loan covenants that are not payment related
- Examples of certain metrics : maintaining a set debt to income ratio, insurance requirements etc.
- Certain technical defaults cured through negotiations / waivers depending on severity of breach

- **Not all defaults lead to lower return**

- Lender (manager) can take measures to proactively manage temporary underperformance, or liquidity strain
- Loan amendments, extension, PIK (Payment-In-Kind)
  - Lender can be compensated for these arrangements

# DIRECT LENDING COVENANT DEFAULT RATE

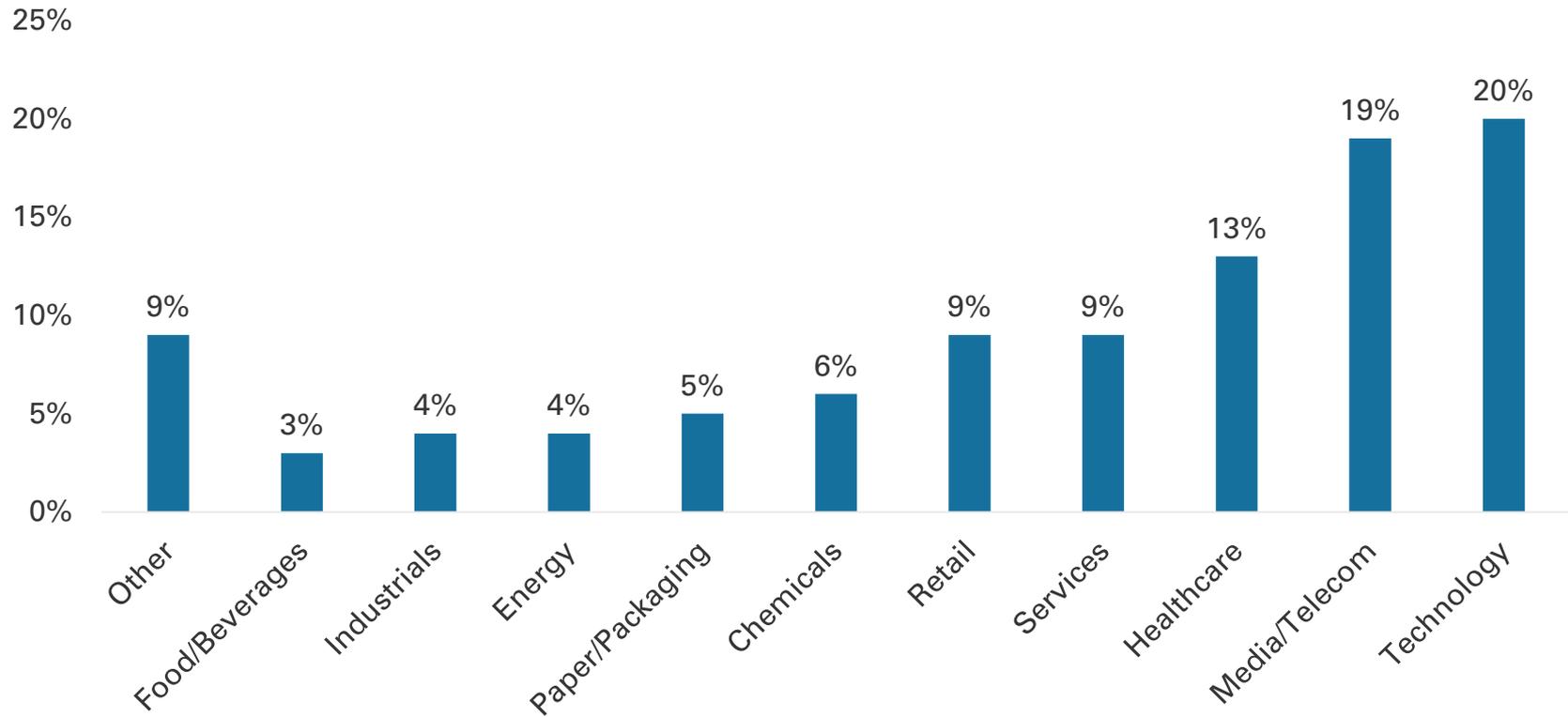
LOWER QUALITY DEALS GETTING MORE EXPOSED



Source: Lincoln International as of 6/30/2025

# DISTRESS CONCENTRATED IN DISRUPTED SECTORS

## Distressed Universe by Industry



As of September 30, 2025. Source: J.P. Morgan Default Monitor. 1. Media / Telecom represents aggregate default volume of Broadcasting, Cable & Satellite, Diversified Media and Telecom; Retail represents aggregate default volume of Consumer Products and Retail; Other represents aggregate default volume of all other industries. Distressed assets represent bonds with spreads over 1,000 bps and loans priced below \$80 in the JP Morgan HY and Loan Indices.

# RECENT HEADLINES

## FIRST BRANDS, BLUE OWL, ETC...

- **Defaults are part of credit investing, both in public and private debt**
  - Can be due to weak underwriting, change in fundamentals, poor loan structuring, lack of proper due diligence / fraud
  - Higher interest rate, large capital overhang can increase probability of default
  - Performance depends on recovery and timing but still above equity claim
  
- **Potential issues within current private credit landscape**
  - **Liquidity mismatch** : BDCs, evergreen funds or vehicles that allow for frequent liquidity can create structural risk
  - **Valuations** : GPs have discretion on valuations – not unreasonable since GP conducts the detailed credit underwriting
    - Material mispricing are uncommon; More common for distressed debt
    - But overall, expect to see more volatility going forward
  - **Concentration in software sector**
    - AI disruption has hit parts of tech and software sectors but not confined to the private credit market
    - Meaningful portion of private credit market (~20%)
    - Overall expect more stress and restructurings, creating further dispersion across managers and vintages

# IMPLICATIONS AND OPPORTUNITIES

- **Do not see systemic risk in private credit**
  - Headline limited to select cases / sectors and semi-liquid structures
  - But likely see more volatility and dispersion in manager performance
    - Tracking spread compression, default rates, sector concentration
  - Consolidation in industry expected to continue
- **Retail investing is unlikely to go away**
  - Retail flows concentrated in large, evergreen vehicles
  - Increased competition for deals; Returns may compress in direct lending
  - Need closer due diligence on liquidity mismatch and implications for the broader platform
- **Portfolio construction remains important**
  - Vintage year, sector, strategy diversification across private debt portfolio
- **Opportunity to take advantage of dislocation**
  - Skilled managers can extract value through loan structuring, sector expertise, and opportunistic financing
  - Opportunities in secondary markets
  - Liquidity provider in stressed parts of the market

# APPENDIX A: GLOSSARY

# PRIVATE DEBT GLOSSARY

- **Carried interest** - the share of profits that the fund manager is due once it has returned the cost of investment to investors
- **Commitment** - every investor in a private DEBT fund commits to investing a specified sum of money in the fund partnership over a specified period of time. The fund records this as the limited partnership's capital commitment. The sum of capital commitments is equal to the size of the fund
- **DPI** – a ratio of the amount of capital distributed (D) to investors over the amount of capital called from (or Paid In by) investors
- **IRR** - a dollar-weighted, since inception return expressed as a percentage. IRR uses the present sum of cash drawdowns (money invested), the present value of distributions (money returned from investments) and the current value of unrealized investments
- **Management fee** – this is the annual fee paid to the general partner. It is typically a percentage of limited partner commitments to the fund and is meant to cover the basic salaries and overhead costs of running a fund
- **Fund expenses** – these are certain administrative, fund formation, reporting, legal and regulatory costs that are paid by the fund in addition to management fees. A fund's Limited Partnership Agreement (LPA) will specify what costs are fund expenses & which are not
- **Preferred return** – minimum returned distributed to the limited partners until the time when the general partner is eligible to deduct carried interest. The preferred return ensures that the general partner shares in the profits of the partnership only after investments have performed well
- **TVPI** - a ratio of the Total Value (TV) of all distributions and current net asset value over the amount of capital called from (or Paid In by) investors (PI)
- **EBITDA** – Earnings Before Interest, Taxes, Depreciation and Amortization. Commonly used as a proxy for operating cash flow



# APPENDIX B: ALTERNATIVE INVESTMENT DISCLAIMER

# ALTERNATIVE INVESTMENT DISCLAIMER

**It is important to note the following characteristics of many non-traditional investment strategies including hedge funds and private DEBT:**

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers are not required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Limited partnership agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy

April 1st, 2026



# Blue Owl Overview

Presentation to ACERA

# Agenda



Wednesday, April 1<sup>st</sup> 2026 11:50am – 12:20pm PT

11:50am – 11:55am (5 min)

**Introduction Jean Joseph** | *Senior Managing Director, Head of First Lien Strategy*

11:55am – 12:00pm (5 min)

**Blue Owl & Credit Platform Update Collin Kroeger** | *Principal, Institutional Capital*

12:00pm – 12:10pm (10 min)

**Direct Lending Market Update Jean Joseph** | *Senior Managing Director, Head of First Lien Strategy*

12:10pm – 12:20pm (10 min)

**Blue Owl First Lien Fund (“OFL”) Portfolio Update Jean Joseph** | *Senior Managing Director, Head of First Lien Strategy*

# Blue Owl Presenters



## Jean Joseph, Senior Managing Director, Head of First Lien Lending Strategy



Jean Joseph is a Senior Managing Director at Blue Owl and member of the Direct Lending Investment Team. Jean is also a Portfolio Manager and a member of the First Lien Investment Committee. In his role, he focuses on direct lending to middle-market companies.

Before joining Blue Owl in 2018, Jean was a Managing Director at Goldman Sachs & Co. where he was Portfolio Manager in its Investment Management Division responsible for the management of the division's leveraged loan strategies. Prior to that, Jean was a member Goldman Sachs' Leveraged Finance group within the Investment Banking Division. Prior to Goldman Sachs, Jean was a member of the Wells Fargo Securities Leveraged Finance department, and began his career as a credit analyst at GE Capital and Atherton Capital with a focus on middle market lending.

Jean received an MBA from the Goizueta Business School at Emory University, where he attended as a Consortium for Graduate Study in Management Fellow. Jean also received a BBA from the University of Notre Dame where he captained the Varsity Men's Soccer Team and was a recipient of the Francis Patrick O'Connor Award. Jean is a member of the Beta Gamma Sigma business honor society.

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## Collin Kroeger, Principal, Institutional Capital



Collin Kroeger is a Principal at Blue Owl and member of the Institutional Capital Team. In his role, he serves as product specialist focused on direct lending.

Before joining Blue Owl, Collin was a Senior Associate at PIMCO, where he focused on institutional account management for US public pension plans. He began his career at PIMCO as an Analyst in Trade Compliance.

Collin is a Chartered Financial Analyst and holds a BS in Finance with a concentration in International Business from Wayne State College, where he graduated cum laude.

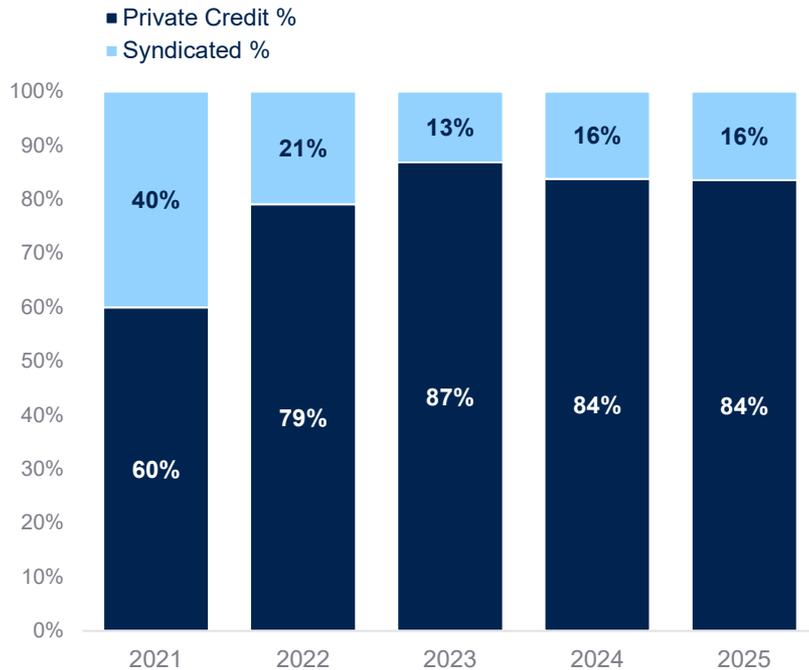
# Direct Lending Market Update



# State of the Leveraged Finance Market

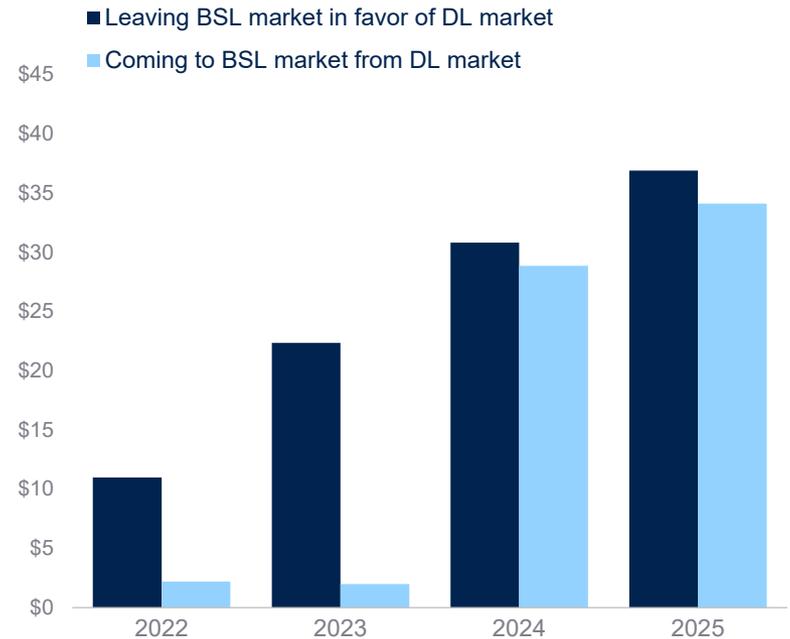
Demand for direct lending solutions is evidenced by LBO market share, as well as direct lending versus syndicated market takeouts

## LBOs Financed by Direct Lending vs BSL market<sup>1</sup>



Private credit has continued to take market share, providing a stable source of capital to private equity sponsors and borrowers

## Direct Lending vs. BSL Takeouts<sup>2</sup>



Although the BSL market was active in 2025, a comparable volume of capital structures shifted to private solutions

Past trends are not a guarantee of future results. It is not possible to invest in an index.

1. Sources: KBRA & Pitchbook LCD. Figures as of December 31, 2025. Unitranche defined as  $\geq 4.5x$ , all senior capital structure in the US.

2. Source Pitchbook LCD.

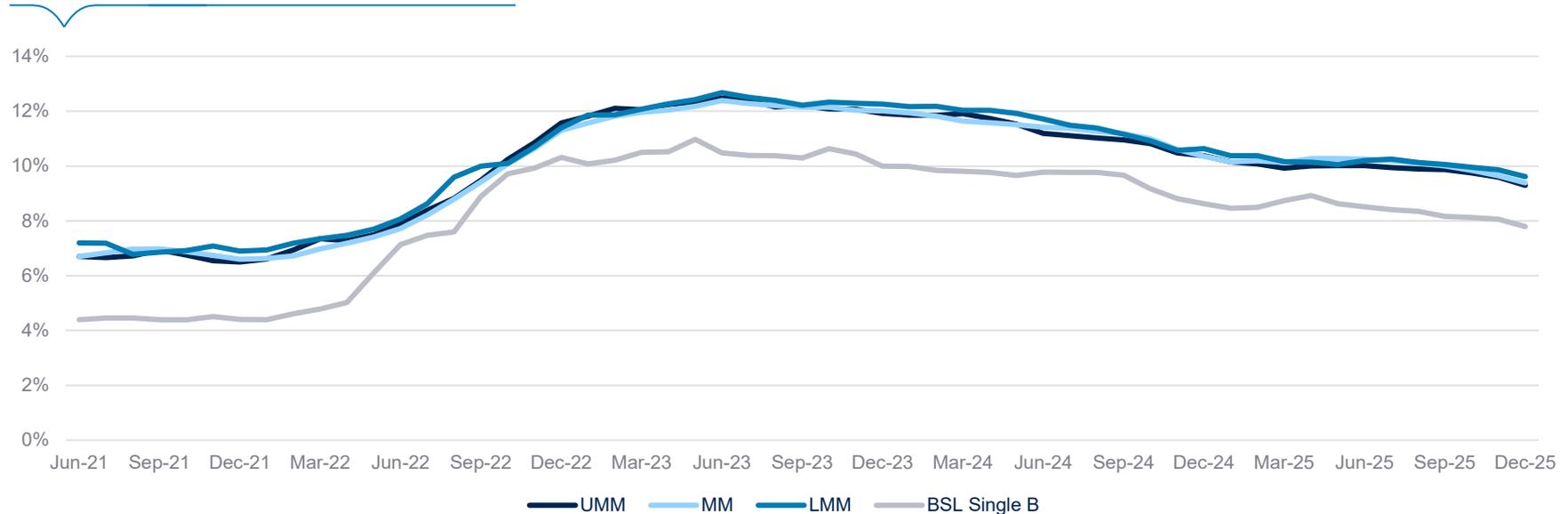
PROPRIETARY AND CONFIDENTIAL



# Direct Lending and Syndicated Loan Yields

Direct lending maintains a relatively stable premium to the broadly syndicated loan market, with limited yield dispersion between the upper, core and lower middle markets

## Historical Yields<sup>1,2</sup>



## Key Takeaways

- Direct lending has consistently carried a stable premium to the broadly syndicated loan market, averaging more than 150bps over single-B BSLs since 2021
- Within direct lending, the incremental yield on offer for investing in the lower middle market has been limited, with less than 25bps of additional spread relative to the upper middle market throughout 2025
- Meanwhile, we believe credit risk is greater down market, as reflected in higher long-term default rates across the lower and core middle markets

**The past performance of an index is not a guarantee of future results.** There can be no assurance that historical trends will continue.

1. Source: KBRA Private U.S. Sponsored Deals Analysis December 2025. 3-month rolling averages for first-lien term loans. Represents 3-year yield to maturity. Upper middle market (“UMM”) defined as borrowers with an EBITDA greater than \$50m, core middle market (“MM”) defined as \$20-50m, and lower middle market (“LMM”) defined as less than \$20m.

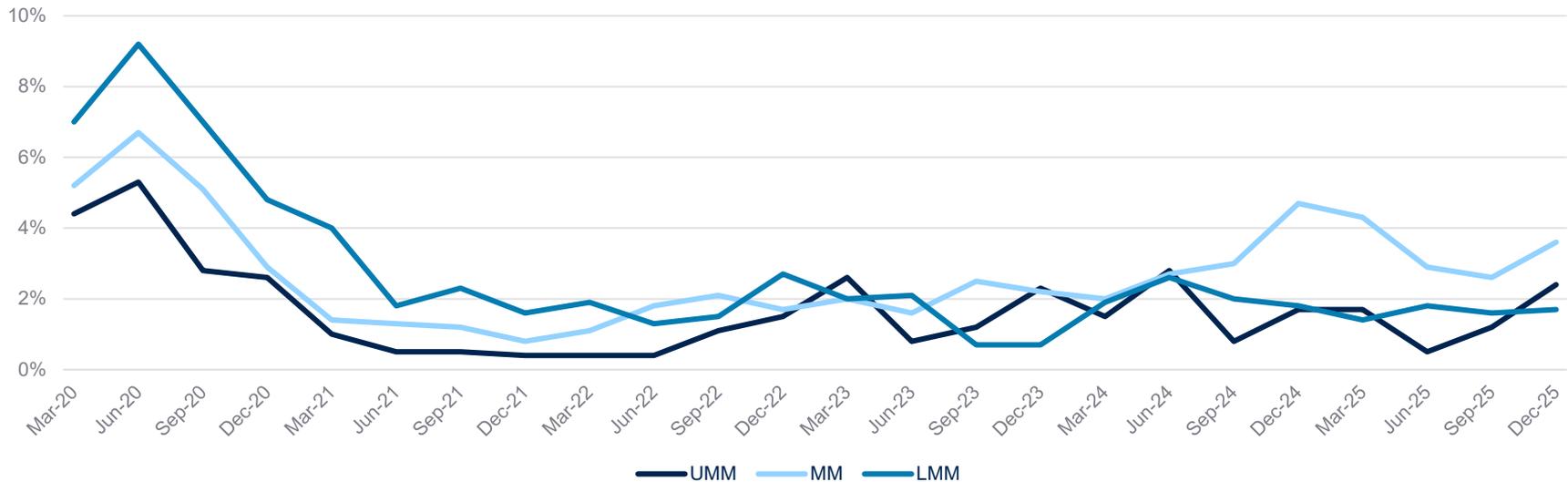
2. Source: Pitchbook. U.S. Leveraged Loan Index Daily.



# Direct Lending Default Rates by EBITDA

Since yields are typically correlated between the upper, core, and lower middle markets, outperformance is more often dependent on avoiding defaults and realized losses

## Historical Default Rates<sup>2</sup>



## Key Takeaways

- Rather than reaching for yield, outperformance in direct lending is the result of avoiding defaults and realized losses. Here, we can see that the upper middle market has historically outperformed the core and lower middle markets across market cycles
- During COVID, default rates in the lower and core middle markets spiked to 9.2% and 6.7%, respectively, while the upper middle market default rate peaked at 5.3%, illustrating the stability inherent to larger, scaled companies in times of stress
- The long-term default rate for the upper middle market averages 1.7%, versus 2.7% for both the lower and core middle markets

**The past performance of an index is not a guarantee of future results.** There can be no assurance that historical trends will continue.

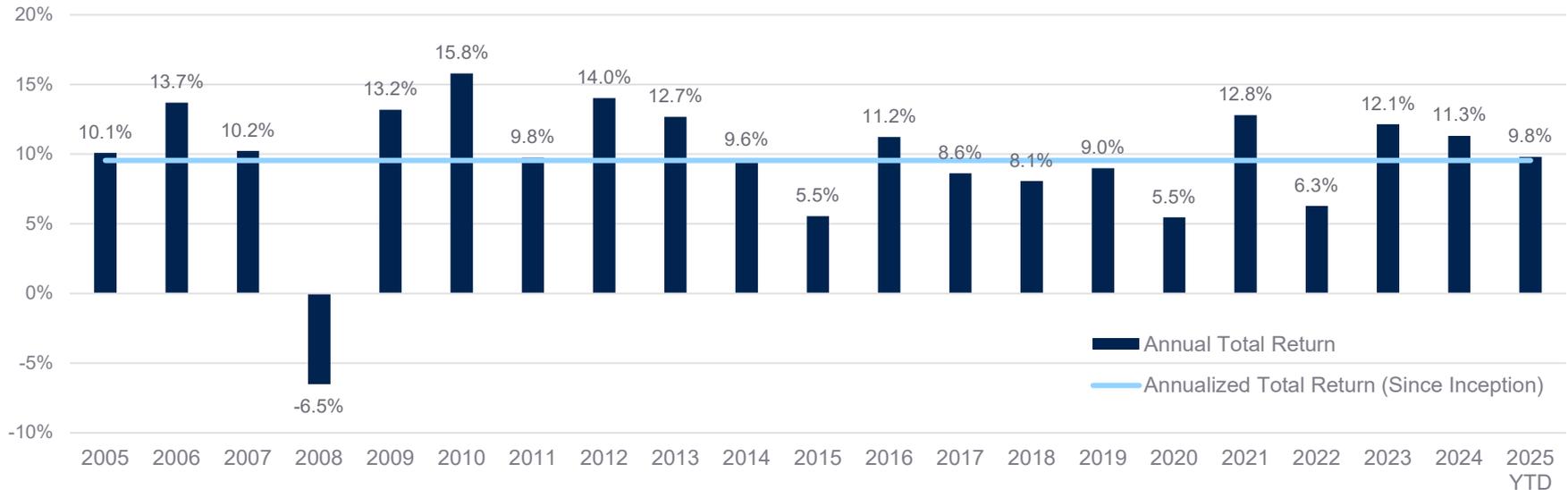
1. Source: KBRA Private U.S. Sponsored Deals Analysis December 2025. 3-month rolling averages for first-lien term loans. Represents 3-year yield to maturity. Upper middle market (“UMM”) defined as borrowers with an EBITDA greater than \$50m, core middle market (“MM”) defined as \$20-50m, and lower middle market (“LMM”) defined as less than \$20m.
2. Source: Proskauer Default Index as of December 2025. Based on number of issuers. Upper middle market (“UMM”) defined as borrowers with an EBITDA greater than \$50m, core middle market (“MM”) defined as \$25-50m, and lower middle market (“LMM”) defined as less than \$25m.



# Direct Lending Performance

Over a 20-year span, direct lending has delivered relatively consistent returns, with only one year of negative performance

## Historical Performance<sup>1</sup>



## Key Takeaways

- Since 2005, direct lending has generated an annualized gross unlevered total return of approximately 9.6%, as measured by the Cliffwater Direct Lending Index
- Performance has been resilient through market cycles, with only one year of negative returns during the Global Financial Crisis, and many 2008 mark-downs were subsequently reversed, as reflected in strong performance in 2009 and 2010
- In the current environment, direct lending returns are in line with long-term averages, and elevated base rates combined with the potential for wider spreads amid reduced capital formation in perpetual BDCs support an attractive forward-looking return profile

**The past performance of an index is not a guarantee of future results.** There can be no assurance that historical trends will continue.

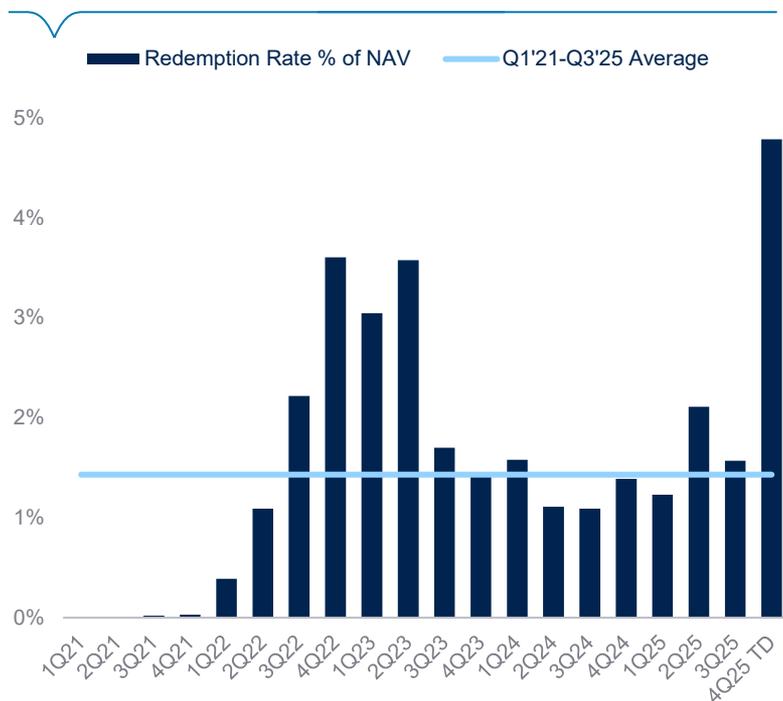
1. Source: Cliffwater Direct Lending Index. As of September 30, 2025.

# Current Volatility is not Reflective of Credit Performance

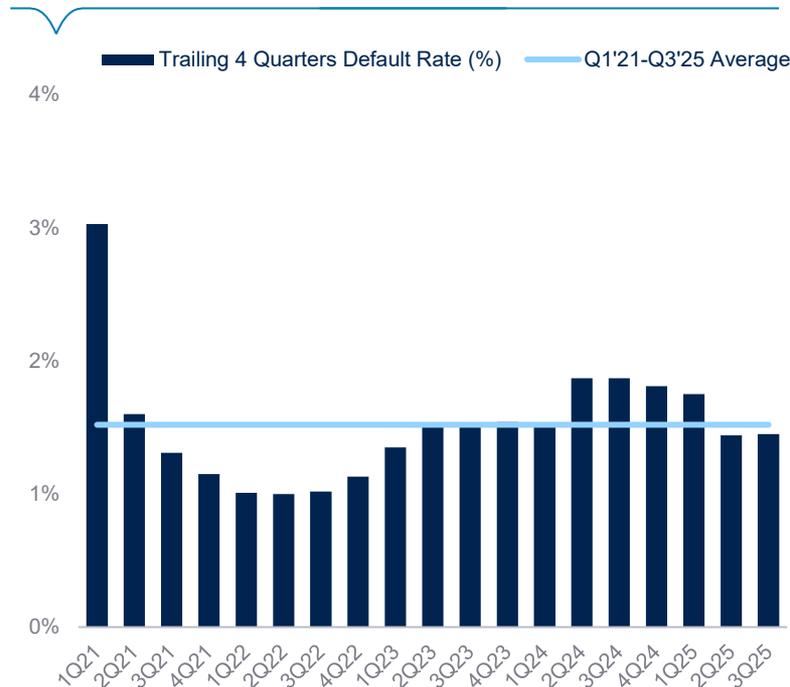


Public perception of private credit is increasing pressure on perpetual BDCs; however, we have not observed a commensurate increase in credit stress

## Perpetual BDC Redemption Rate has Increased Sharply...<sup>1</sup>



## Despite No Meaningful Changes in Credit Performance<sup>2</sup>



**We believe that perpetual BDC redemption activity is currently disconnected from underlying credit performance**

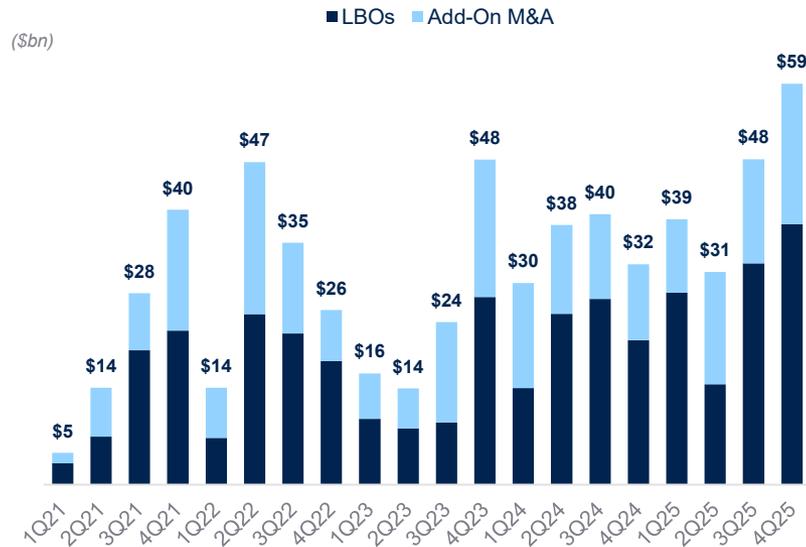
1. Source: Cliffwater Direct Lending Index – Perpetual.  
2. Source: Cliffwater LLC.



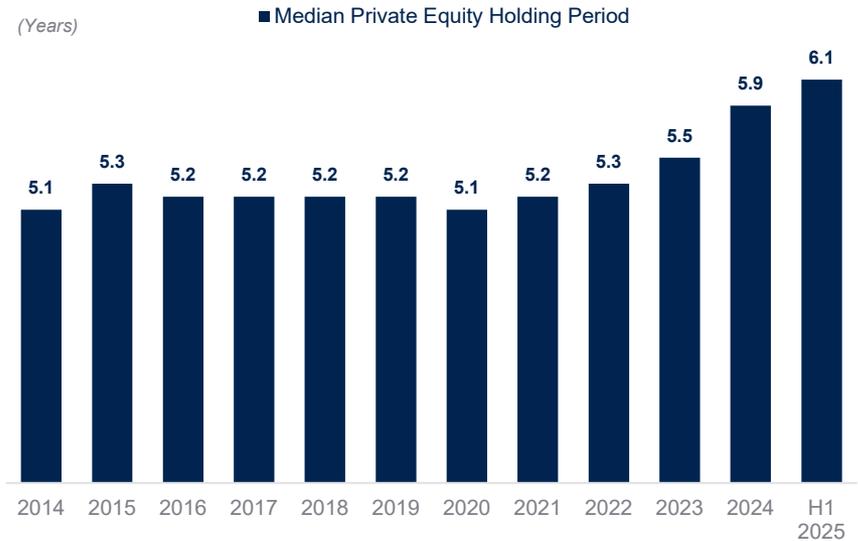
# Demand Continues to Build for M&A

We believe that 2025 volumes and private equity hold times indicate the potential for an improved M&A environment, though geopolitical and economic uncertainties could create headwinds

## M&A Volumes Rose in 2025<sup>1</sup>



## Median PE Hold Periods Indicate Pent-up Demand<sup>2</sup>



## Key Takeaways

- M&A volumes have begun to rebound in 2025, increasing to ~\$58mn in 4Q and ~\$177mm for FY 2025, up from ~\$140mn in FY 2024
- At the same time, private equity median hold periods have been steadily increasing, likely indicating pent-up demand for sponsor-to-sponsor transactions and other exits
- While geopolitical and economic uncertainty in 2026 could temper a more pronounced recovery, the long-term outlook remains supportive of increased deal activity

**Past performance is not a guarantee of future results.** There can be no assurance that historical trends will continue. The views expressed are Blue Owl's views as of the date of this presentation and subject to change without notice as market and other conditions change.

1. Source: KBRA DLD Research.

2. Source: Preqin. Private Equity in 2026.

# Defined Terms



## **Fund Performance:**

**Average Annual Net Gain/Loss:** Average annual net gain/loss rate is calculated by averaging the 'annual total net realized gain/loss rate' since the fund's inception through 4Q25. 'Annual total net realized gain/loss rate' is defined as the total net realized gain or loss for a given year, divided by the average quarterly investments at amortized cost for that year. Results are calculated at the portfolio level and do not reflect the deduction of management fees, incentive fees, financing costs, or expenses. This metric reflects realized activity only and does not include unrealized gains or losses; it is not a measure of total return.

**Gross Fund IRR:** Gross Fund IRR based on Net Asset Value ("NAV") represent the annual return rate and are based on cash flows for distributions, capital calls and equity raised, and net asset value ("NAV") as of the end of the period presented. The calculations exclude the impact of management fees, performance fees (where applicable) and include operating expenses incurred by the fund.

**Net Fund IRR:** Net Fund IRR based on Net Asset Value ("NAV") represent the annual return rate and are based on cash flows for distributions, capital calls and equity raised, and net asset value ("NAV") as of the end of the period presented. The calculations include the impact of management fees, performance fees (where applicable) and expenses incurred by the fund. IRR based on total fund cash flows, inclusive of GP and all LPs, net of management fees. Returns experienced by LPs may differ.

**Net LP IRR:** Net LP IRR based on Net Asset Value ("NAV") represent the annual return rate and are based on LP cash flows for distributions, capital calls and equity raised, and net asset value ("NAV") as of the end of the period presented. The calculations include the impact of management fees, performance fees (where applicable) and expenses incurred by the LP.

## **Portfolio Statistics:**

**EBITDA:** Earnings before interest tax depreciation and amortization and represents free cash flow.

**Interest coverage ratio:** Represents a borrowers EBITDA divided by interest expense.

**Net leverage:** Blue Owl's last dollar of invested debt capital (net of cash) as a multiple of EBITDA. Net leverage weighted based on the fair value of the loan investments.

# Important Information



Unless otherwise noted the Report Date referenced herein is as of December 31, 2025.

## **Past performance is not a guarantee of future results.**

Assets Under Management (“AUM”) refers to the assets that we manage and is generally equal to the sum of (i) net asset value (“NAV”); (ii) drawn and undrawn debt; (iii) uncalled capital commitments; (iv) total managed assets for certain Credit and Real Assets products; and (v) par value of collateral for collateralized loan obligations (“CLOs”) and other securitizations.

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An investment in the Fund or other investment vehicle is suitable only for sophisticated investors and requires the financial ability and willingness to accept the high risks and lack of liquidity associated with an investment in the Fund or other investment vehicle. Investors in the Fund or other investment vehicle must be prepared to bear such risks for an indefinite period of time. There will be restrictions on transferring interests in the Fund or other investment vehicle, and the investment performance of the Fund or other investment vehicle may be volatile. Investors must be prepared to hold their interests in the Fund or other investment vehicle until its dissolution and should have the financial ability and willingness to accept the risk characteristics of the Fund’s or other investment vehicle’s investments.

There can be no assurances or guarantees that the Fund’s or other investment vehicles investment objectives will be realized that the Fund’s or other investment vehicle investment strategy will prove successful or that investors will not lose all or a portion of their investment in the Fund.

Furthermore, investors should not construe the performance of any predecessor funds or other investment vehicle as providing any assurances or predictive value regarding future performance of the Fund.

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## Important Information (cont.)



investments are subject to risk, including the loss of the principal amount invested. These risks may include limited operating history, uncertain distributions, inconsistent valuation of the portfolio, changing interest rates, leveraging of assets, reliance on the investment advisor, potential conflicts of interest, payment of substantial fees to the investment advisor and the dealer manager, potential illiquidity, and liquidation at more or less than the original amount invested. Diversification will not guarantee profitability or protection against loss. Performance may be volatile, and the NAV may fluctuate.

**Performance Information:** Where performance returns have been included in this material, Blue Owl has included herein important information relating to the calculation of these returns as well as other pertinent performance related definitions.

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April 2026

## **Affordable Housing Education Session**

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**Avery Robinson, CAIA**  
Senior Vice President

**Aaron C. Quach**  
Senior Vice President

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Callan

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**ACERA Real Estate Portfolio –  
Residential Spotlight**

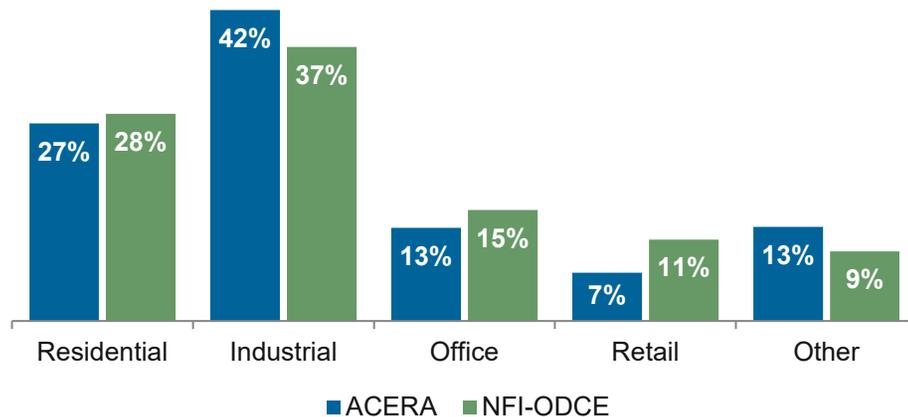
# ACERA Real Estate Portfolio – Residential Spotlight

Residential exposure in ACERA’s real estate portfolio consists primarily of market-rate multi-family

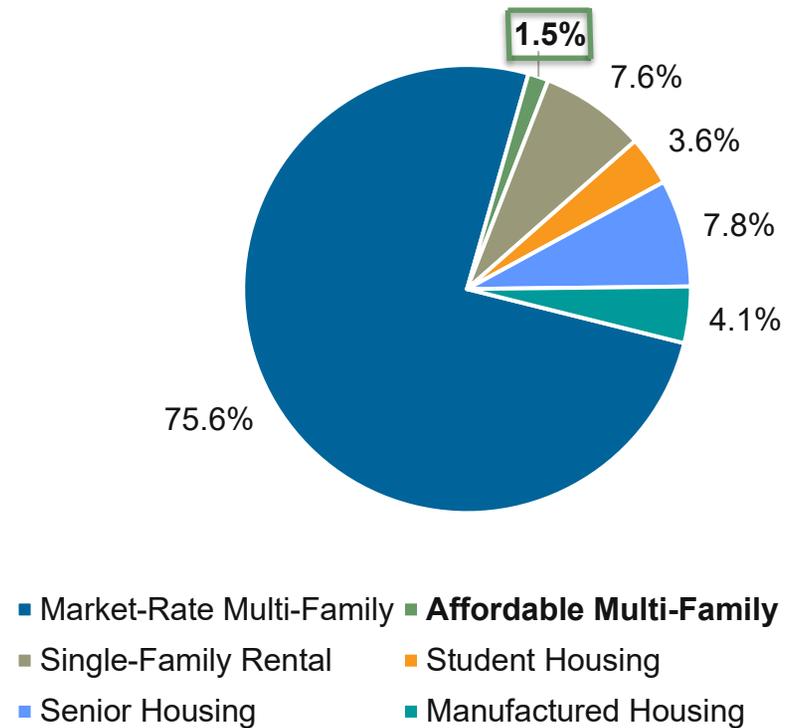
## ACERA Real Estate Market Value Summary

As of September 30, 2025	\$ Millions	(%)
Total Plan Assets	\$14,027	100.0%
Plan's Real Assets Market Value	\$821	5.9%

## Real Estate Sector Diversification



## Residential Sub-Sector Diversification



- ACERA’s real estate portfolio is diversified across various property sectors, with a slight underweight to the residential sector
- The portfolio’s residential exposure consists primarily of market-rate multi-family, which represents 75.6% of the residential portfolio and 22.7% of the total real estate portfolio
- Just 1.5% of the residential portfolio and 0.4% of the total real estate portfolio is invested in affordable housing.

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## Affordable Housing Performance Trends

# Open-End Affordable Housing Performance Summary

Performance history of open-end affordable housing funds is limited, but compelling

- Open-end affordable housing funds have become more prevalent in the past five years.
- There are six institutional open-end affordable housing funds with at least one-year of track record (seven total).
- Nearly all of these funds were launched in 2022 or later
- While performance history is limited, all of these funds have outperformed the NCREIF ODCE Index, with comparable income returns and far less volatility of appreciation returns

## Total Returns (net), as of September 30, 2025)

Index Name	Last Year	Last 2 Years	Last 3 Years
Fund A	11.08%	7.74%	-
Fund B	26.06%	13.56%	9.10%
Fund C	-0.06%	5.44%	6.66%
Fund D	6.27%	-0.41%	-1.14%
Fund E	4.09%	2.17%	-1.56%
Fund F	3.00%	0.60%	-5.07%
<b>NCREIF NFI-ODCE Index</b>	3.19%	-2.59%	-6.15%

Source: Callan Research

# Affordable Housing Long-Term Performance History

Closed-ended affordable housing funds have existed for the past 15 years

- Several institutional closed-end fund series have existed for the past 15 years.
- These funds generally have a value-add risk/return profile, targeting low- to mid-teens net returns
- Capital raised has historically come from banks and insurance companies, with limited participation from pension funds
- Performance has been strong compared to traditional value-add real estate funds

Manager and Fund	Vintage Year	Net IRR
Manager A, Fund I	2010	14.4%
Manager A, Fund II	2012	10.1%
Manager A, Fund III	2014	13.0%
Manager A, Fund IV	2016	15.7%
Manager B, Fund I	2012	16.2%
Manager B, Fund II	2015	10.6%
Manager C, Fund I	2007	18.2%
Manager C, Fund II	2011	25.8%
Manager C, Fund III	2013	21.8%
Manager C, Fund IV	2015	20.7%

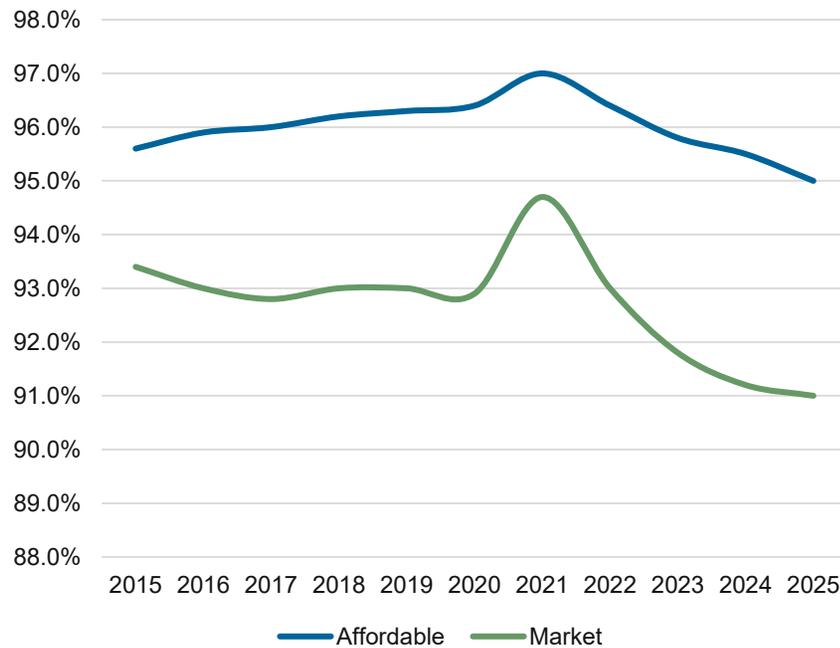
Source: Callan Research

# Occupancy and Rent Growth Trends

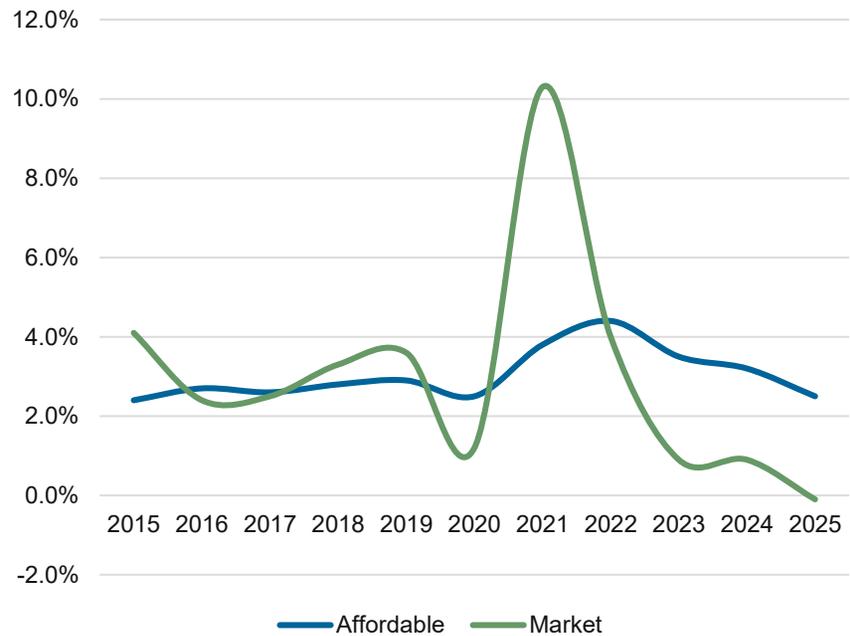
Affordable housing has historically had higher occupancy and less volatile rent growth

- Over the past ten years, affordable housing has provided consistent rent growth with only one-third of the volatility of market-rate rent growth
- Affordable housing communities have historically featured higher occupancy rates, consistently above 95%
- Rent growth has historically been less volatile for affordable housing properties

### Occupancy Comparison



### Rent Growth Comparison



Source: Callan Research, Avanath Capital Management, CoStar

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## **Investment Characteristics and Implementation**

# Investable Types of Affordable Housing

There are four main categories of affordable housing investment opportunities in the U.S.

## Low Income Housing Tax Credit (“LIHTC”)

- Established in 1986 and is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing
- Tax credits are delivered to developers and their equity partners in the first 10 years, at which point those parties are typically bought out. Properties built with LIHTC must maintain rent and income restrictions for at least 30 years (up to 55 years, depending on state)
- LIHTC is the primary federal tool for producing new affordable housing and accounts for most new affordable units delivered annually (approximately 60,000 units per year)

## Section 8 (Project Based and Tenant Based)

- Privately-owned housing for households earning below 80% of the AMI. Rent payments are supplemented by the HUD
- Rents are set at local Fair Market Rent; tenant pays 30% of their income and HUD pays the difference directly to the landlord
- Includes both:
  - Project-based (subsidy is based on specific units for the term of the contract)
  - Tenant-based (the Housing Choice Voucher subsidy is tied to a specific tenant and is transferable to other units)

## State/Municipality Driven / Voluntary Regulation

- Broad category that refers to housing with rent or income restrictions established with various state- or municipality-led programs
- These programs generally offer property tax abatements or other forms of subsidy in exchange for establishing, extending, or increasing rent or income restrictions, generally between 60%-120% of AMI.
- Programs vary by state or municipality (e.g., Public Facility Corporations, Community Housing Development Organization)

## Naturally Occurring Affordable Housing (“NOAH”)

- Does not have a regulatory agreement in place but is affordable to renter households with incomes up to 100% of AMI.
- Target tenants earn too much to qualify for government subsidy but cannot comfortably afford market-rate housing.
- Business plans for NOAH typically involve maintaining the property rather than pursuing a value-add strategy to achieve market-rate rents.

Source: Callan Research, Fairfield Residential

# Affordable Housing Can Offer Competitive Returns

Investors do not need to accept lower returns to invest in affordable housing

## Property Tax Abatements Can Reduce Expenses

States and municipalities are offering long-term real estate tax abatements in exchange for affordability restrictions

## Government Subsidies Can Support Financial Returns

Certain affordable housing benefits from reliable rental streams through federally funded subsidies such as Section 8.

## Financing Terms and Pricing are Often More Favorable

Government Sponsored Entity (“GSE”) financing through the FHFA, Fannie Mae, and Freddie Mac offer consistently favorable terms and pricing

## Risk-Adjusted Returns are Consistent with Market-Rate Investments

Higher occupancy, lower tenant turnover, and more stable cash flows may contribute to lower volatility relative to market-rate multi-family

### Common Misconception:

*“Because affordable housing properties charge lower rents, investors must accept lower returns.”*

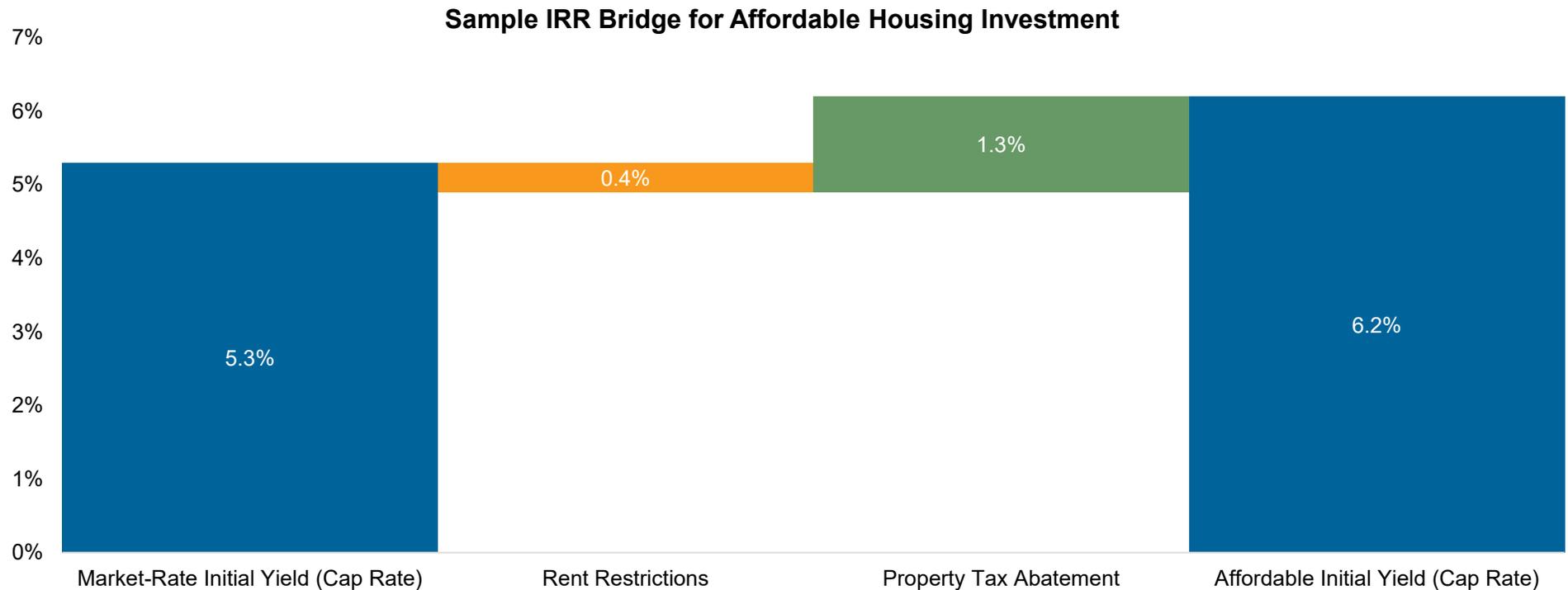
Affordable housing investments are not necessarily impact investments or concessionary in nature. Historically, returns have been competitive with market-rate multifamily, though return profiles differ.

Source: Callan Research

# How Affordable Housing is Profitable – An Example

Affordable housing funds can generate market-rate returns due to subsidies

- Target returns for core/core plus affordable housing investments generally range from 9% to 11% gross
- Real estate property tax abatements or other subsidies can meaningfully reduce expenses and offset lower rents
- Target returns can be achieved through a combination of tax abatements and subsidies, optimizing revenues/expenses, and financing



Source: Callan Research, Vistria Real Estate

# Potential Benefits of Investing in Affordable Housing

Affordable housing investments can offer several attractive features

## Favorable Supply and Demand

- Shortage of available affordable units is approximately 8 million units
- Additional 745,000 rent-restricted units are set to expire by 2030
- New construction is limited
- Demand is persistent across market cycles

## Strong Occupancy and Low Turnover

- Occupancy levels tend to run above conventional apartments, averaging 96%+ over the past 13 years
- Average length of stay is nearly twice as long as conventional apartment units
- Higher occupancy and lower turnover results in lower turnover costs

## Consistent Rent Growth Tied to AMI

- Rents are tied to AMI and adjusted annually, which historically has resulted in more stable rent growth than market-rate units
- This can improve inflation-hedging characteristics
- During periods of negative rent growth for market-rate rent units, affordable housing rents *generally* remain flat historically

## More Stable and Durable Cash Flows

- High occupancy and regulated rent structures can contribute to more stable net operating income relative to conventional multi-family
- Many households in affordable housing are paying rents that are significantly below market, resulting in a more stable renter base that is less vulnerable to economic shocks

## Bipartisan Government Support

- Funding for federal rental assistance and LIHTC has increased under every White House Administration this century
- Housing affordability has proven to be a bipartisan issue at the federal, state, and local level. Local implementation can vary significantly by jurisdiction.

Source: Callan Research, Fairfield Residential, Vistria Real Estate

# Considerations of Investing in Affordable Housing

There are several potential considerations for investing in affordable housing

## Operational Complexity

- Income certification, rent restrictions, and ongoing compliance requirements
- Specialized property management and regulatory reporting
- Compliance failures can lead to penalties or loss of subsidy eligibility

## Limited Upside

- Rent levels often capped by program rules tied to AMI or subsidy limits
- Value creation driven primarily by operations rather than rent growth
- Exit pricing may be constrained by regulatory agreements or buyer pool

## Potential Policy or Regulatory Risk

- Program rules and subsidy structures depend on federal, state, and local policy
- Changes to tax credits, rent regulations, or subsidy funding could impact returns
- Local housing authorities may impose additional compliance requirements

## Potential Headline Risk

- Affordable housing investments may attract heightened public scrutiny
- Misconduct by bad actors in the sector has increased sensitivity
- Institutional investors may face reputational risk if tenant outcomes are perceived negatively

Source: Callan Research

# Implementation Considerations for Institutional Investors

Affordable housing can be accessed by investors in a variety of strategies and vehicles

## Strategy Types

- Equity strategies are more common than debt strategies
- Core/core plus strategies focus on preservation
- Value-add strategies focus on renovation
- Development opportunities are limited; primarily mixed-income projects

## Vehicle Structures

- Closed-end value-add funds were historically most common
- Limited number of separately managed accounts or joint ventures allow larger investors greater control but less diversification
- Growing institutional adoption of open-end core/core plus funds

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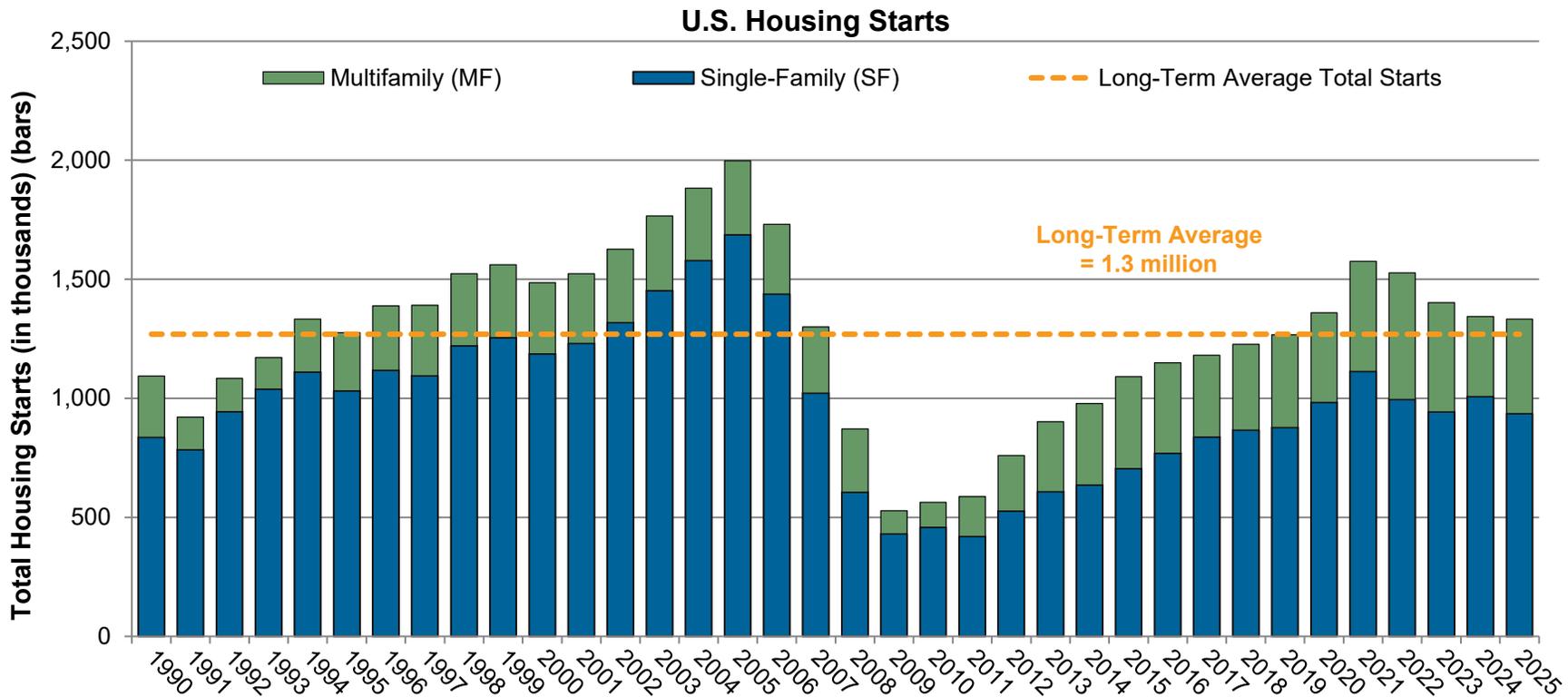
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## Appendix and Glossary

# U.S. Housing Shortage

The structural housing shortage is largely due to underbuilding since the Global Financial Crisis

- U.S. housing starts have averaged 1.3 million units since 1990. From 2008 to 2020, the U.S. averaged 1.0 million units.
- Freddie Mac estimates that the current housing shortage is approximately 3.7 million units.
- Construction costs continue to climb, and developers have responded by building class-A luxury product to justify costs, rather than affordable/workforce product.
- In fact, almost 80% of new supply in the past 10 years has been luxury product with rents in the top quintile of the market.

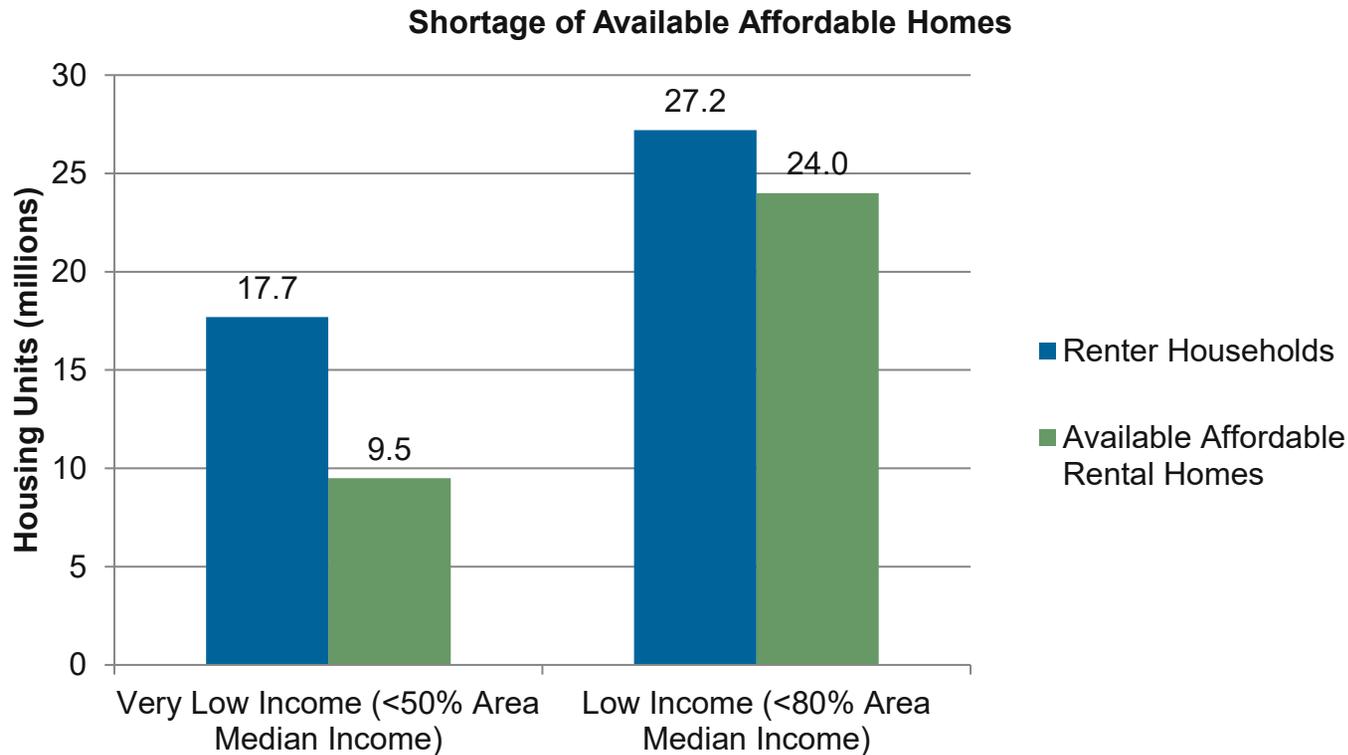


Source: U.S. Census Bureau, Freddie Mac, Fairfield Residential, Vistria Real Estate, CoStar

# Affordable Housing Shortage

The housing shortage is particularly acute for affordable units

- The U.S. Department of Housing and Urban Development (“HUD”) defines “cost burdened” households as those that spend at least 30% of their income on housing.
- The percentage of cost-burdened households has steadily increased over the past two decades to 49% in 2024.
- Nationally, the number of households in need of affordable housing far exceeds the number of available affordable rental homes, particularly at the lowest end of the market.

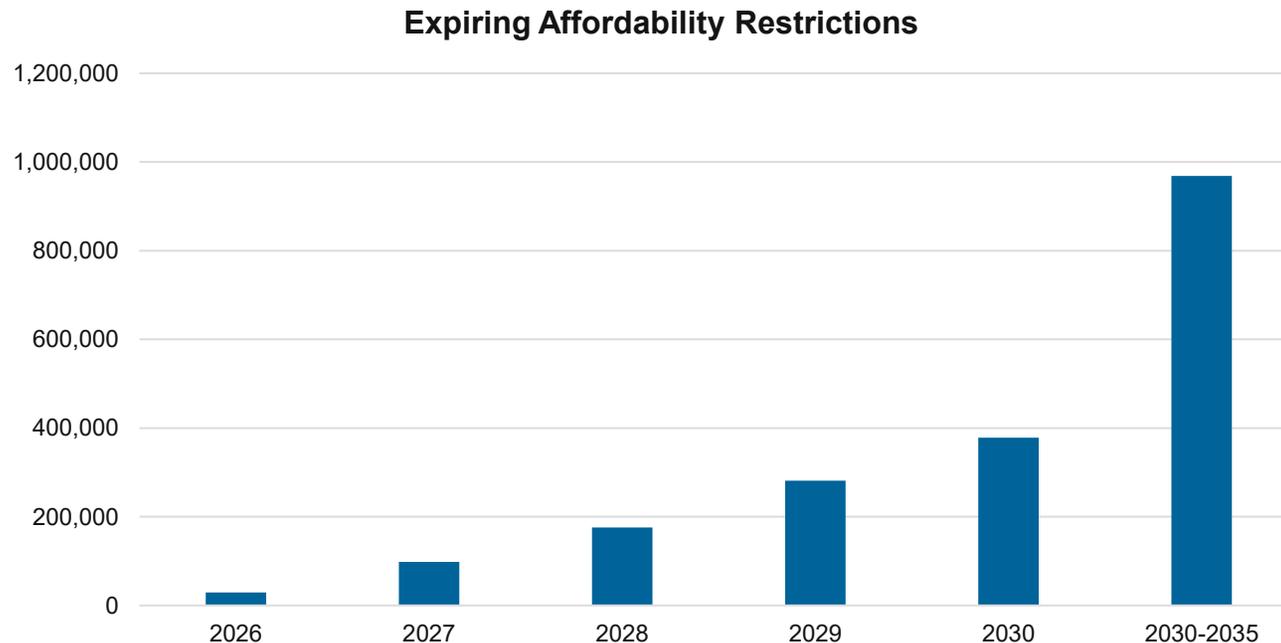


Source: U.S. Census Bureau, Freddie Mac, National Low Income Housing Coalition, Fairfield Residential

# Expiring Affordability Restrictions

## Affordability restrictions expiring over the next decade, emphasizing the importance of preservation

- The affordable housing shortage must be addressed both via the delivery of new affordable units as well as preservation of the existing stock.
- Affordability restrictions on approximately 968,000 affordable rental units are set to expire by 2030.
- This provides an opportunity for investors to acquire properties with expiring affordability periods and negotiate extensions, either through resyndication via the Low Income Housing Tax Credit program or directly with states or municipalities in exchange for property tax abatements or other forms of subsidy.



Source: Freddie Mac, National Housing Preservation Database, Avanath Capital Management

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## Definitions

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**Capitalization rate:** Commonly known as cap rate, is a rate that helps in evaluating a real estate investment.  $\text{Cap rate} = \text{Net operating income} / \text{Current market value (Sales price) of the asset}$ .

**Net operating income:** Commonly known as NOI, is the annual income generated by an income-producing property after taking into account all income collected from operations, and deducting all expenses incurred from operations.

**Retail - Community Center:** In addition to convenience goods, provides for the sale of goods such as apparel or furniture. Typical area is 100,000 to 350,000 square feet with two or more anchor tenants (primarily Grocery and Drug).

**Retail - Neighborhood Center:** Provides for the sale of daily living needs of the immediate area. Typical property is 30,000 to 150,000 square feet with at least one anchor tenant.

**Retail - Regional Center:** Provides a variety of goods comparable to those of a central business district in a small city, including general merchandise, apparel and home furnishings, as well as a variety of services and perhaps recreational facilities. Two or more full-line department stores anchor a total area of 400,000 to 800,000 square feet.

**Retail - Super-Regional Center:** Provides an extensive variety of shopping goods comparable to those of the central business district of a major metropolitan area. The anchors are three or more full-line department stores, with total area in excess of 800,000 square feet.

**NFI-ODCE Index:** time-weighted return Index with an inception date of 12/31/1977. The Index is comprised of 36 open-end commingled funds. Inclusion within the Index requires (a) minimum of 80% of net fund assets invested in the multifamily, retail, industrial, office, or hotel property type, (b) maximum of 20% of net fund assets invested in real estate debt or private/public company equity, (c) at least 80% of net assets invested in properties with a minimum occupancy of 60%, (d) no more than 70% of real estate net assets invested in a single property type or region, (e) maximum of 40% leverage, and (f) at least 95% of net real estate assets invested within the U.S. market.

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## Definitions – Investment Styles

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**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.

**Non Core:** Includes both value added and opportunistic strategies

**Closed-End Fund:** A commingled fund with a stated maturity (termination) date with few or no additional investors after the initial formation of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not invest the sales proceeds. (Source: NCREIF PREA Reporting Standards).

**Commingled Funds:** A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, a partnership, a corporation, an insurance company separate account, or another multiple ownership entity.

**Open-End Fund:** A commingled fund with no finite life that allows continuous entry and exit of investors, typically on a quarterly basis, and engages in ongoing property operations as well as investment purchase and sale activities.

**Real Estate Investment Trust (REIT):** A corporation or business trust that combines the capital of many investors to acquire or provide financing for all forms of income-producing real estate. (Source: National Association of Real Estate Investment Trusts)

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## Definitions – Performance Monitoring

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**Vintage Year:** Year of first drawdown

**Paid-In Capital:** Cash funded to the investment for acquisition and capital items (i.e., initial investment cost or significant capital improvements).

**Uncalled Capital:** Capital allocated to managers which remains to be called for investment. Amounts are as reported by managers.

**Distributed Capital:** Actual cash returned from the investment, representing distributions of income from operations. Withdrawals: Cash returned from the investment, representing returns of capital or net sales proceeds.

**Net Asset Value:** The value of an investment as determined by actual sales dollars invested and withdrawn plus the effects of appreciation and reinvestment; market value is equal to the ending cumulative balance of the cash flow statement (NAV).

**Net IRR:** IRR after advisory fees, incentive and promote. This includes actual cash flows and a reversion representing the LP Net Assets at market value as of the period end reporting date.

**TVPI Multiple:** The ratio of Total Value to Paid-in-Capital (TVPIC). It represents the Total Return of the investment to the original investment not taking into consideration the time invested. Total Value is computed by adding the Residual Value and Distributions. It is calculated net of all investment advisory and incentive fees and promote.

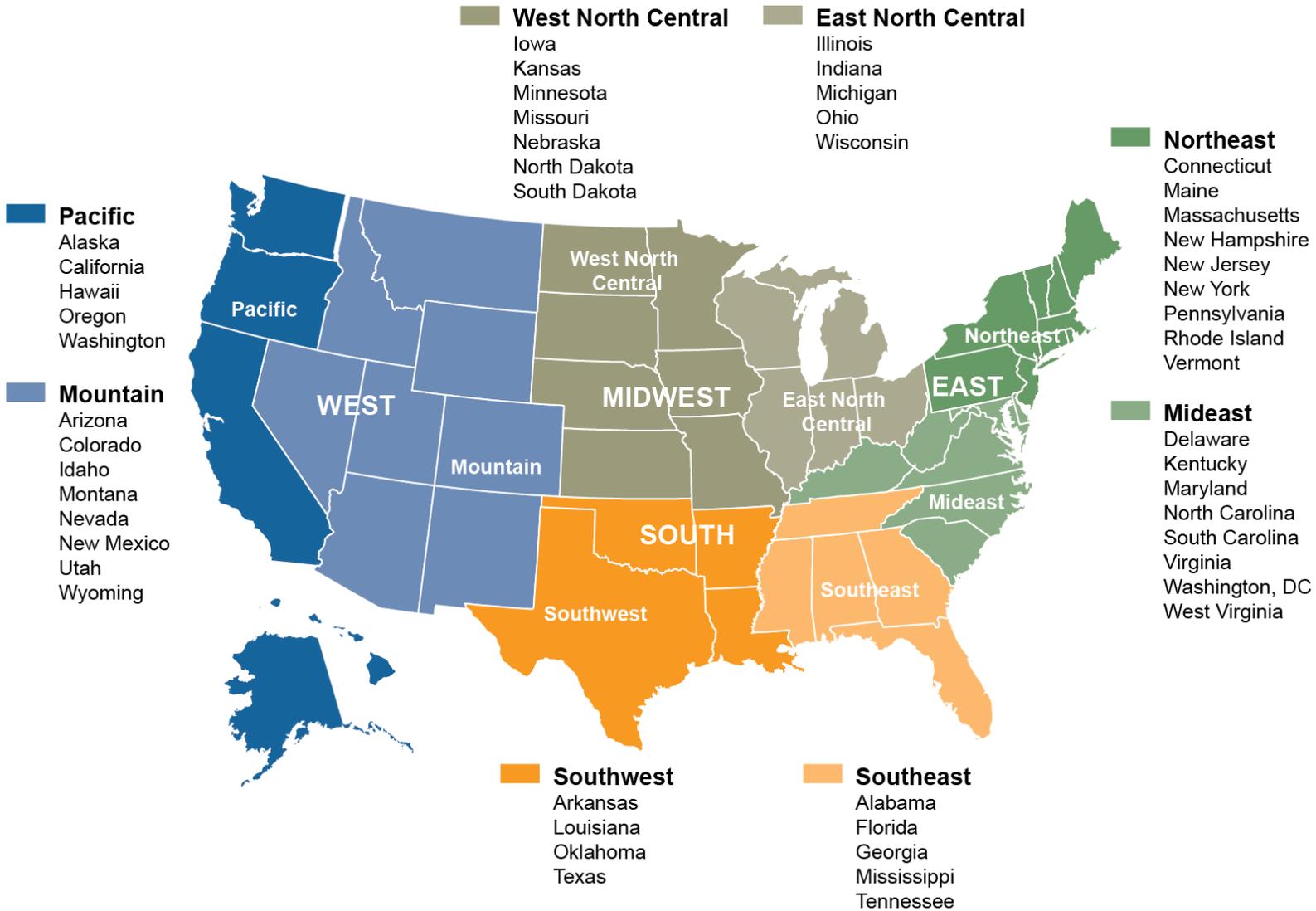
**DPI Multiple:** The ratio of distributions paid to the investor divided by the amount of contributions paid by the investor. It is calculated net of all investment advisory and incentive fees and promote. It is calculated net of all investment advisory and incentive fees and promote

**RVPI Multiple:** The ratio of net asset value divided by the amount of contributions paid by the investor.

**Net IRR:** The total net return for an investment or portfolio over the period of time the client has funds invested. Total portfolio Inception Returns include returns from investments no longer held in the current portfolio.

# NCREIF Region Map

## Geographic Regions and Divisions



Source: NCREIF

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Performance numbers in this presentation are based on quarterly data collected from Alameda County Employees' Retirement Association investment managers and calculated by Callan.