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January 11, 2018

To: Board of Retirement

From: Stephen Sexauer *ss/sm*
Chief Investment Officer

RE: **Recommendation to Approve Investment in Brookfield Senior Mezzanine Real Estate Finance Fund**

At the December 21, 2017 SDCERA Board meeting, Investment staff presented “Step One” of the recommendation to invest \$100 million in Brookfield Senior Mezzanine Real Estate Finance Fund. The Board approved proceeding to “Step Two” of the Private Markets Investment Approval Process which consists of (1) completing the operational due diligence review, (2) a review by Investment and Legal Staff of the fund documents, and (3) a second staff presentation to the Board of the expected investment returns and risks.

The operational due diligence review and review of fund documents are completed. The expected investment returns and risks are in Attachment A.

Staff recommends the Board authorize staff to execute the fund documents to make a \$100 million investment in Brookfield Senior Mezzanine Real Estate Finance Fund.

Cc: David Wescoe

Appendix A

Private Markets Underwriting Brookfield Senior Mezzanine Real Estate Finance Fund Investment \$100 Million

Brookfield has managed and operated real assets since 1899, managed third-party assets since 2001, and real estate debt funds since 2002. Brookfield Senior Mezzanine Real Estate Finance Fund (“BSREF” or “Fund”) is an open-end fund created to invest in real estate finance related transactions in a credit risk position between the senior debt and equity portions of the capital stack.

Alignment, Structure, and Expected Returns

Alignment

a. Governance:

BSREF is governed by a Limited Partnership Agreement and Private Placement Memorandum. The General Partner will form an advisory committee consisting of Limited Partners selected by the General Partner.

b. Fees:

Fixed management fees for BSREF are set at 100 basis points annually on Net Asset Value. As an Early Closing Investor, SDCERA fixed management fees will be reduced to 90 basis points annually on Net Asset Value. There are no performance or incentive fees.

c. Control of contributions and distributions:

Open-end fund. After an initial two-year lockout period, capital can be withdrawn from the Fund. Notice is at least 90 days prior to a redemption date. Additional capital contributions can be made on a quarterly basis at the General Partner’s discretion.

2. Structure

a. Sponsor size:

The Fund currently has total commitments of \$400-500 million with the expectation of closing this round of funding at up to \$1 billion. Additional capital will be raised year-by-year depending on market conditions. The investment team consists of 22 investment professionals, many of whom have multi-decades of real estate finance and investment experience. Brookfield Real Estate Finance Group has invested approximately \$440 million in a separately managed portfolio (SMA) of mezzanine debt in a strategy similar to BSREF.

- b. Sustainability:
BSREF is an open-end fund structure.

3. Expected annualized returns

- a. Total gross: Libor plus 6%

- b. Total net: Libor plus 5%

4. Expected risk

The Fund will primarily invest in Senior Mezzanine Loans, either through origination or acquisition in the secondary market. Loans will have a Loan-to-Value ratio in the range of 50-60% with a maximum of 70%. The Fund will also selectively invest in First Mortgage Loans and Single Borrower Commercial Mortgage-Backed Securities. For most investments, Brookfield will underwrite the entire loan. This allows Brookfield to control all terms and conditions, risk mitigation steps, and the assessment of the value of underlying asset(s).