



Agenda Item No.	D-3
Board Meeting	January 24, 2018
Approved by	
Retirement Administrator	

REPORT TO THE JOINT RETIREMENT BOARDS

January 12, 2018

FROM: ROBERT T. THELLER, Retirement Administrator

BY: KATHLEEN RILEY BROWN, Assistant Retirement Administrator

SUBJECT: REVIEW, DISCUSS AND CONSIDER OPPORTUNITIES TO INVEST IN THE NEW PCCP, LLC VALUE ADD REAL ESTATE FUND

BACKGROUND:

In November 2015, the Boards' approved the recommendation by Staff and NEPC to initiate an RFI (Request for Information) Value Add Real Estate Manager search. This manager search process culminated in June 2016, with the retention of two Value Add Real Estate managers, Oaktree Capital [Oaktree Real Estate Opportunities Fund VII, L.P.] and PCCP [PCCP Equity VII, LP] both located in Los Angeles, California. The Boards originally adopted an asset allocation target of 1.2 percent or \$30.0 million (a capital commitment of \$15.0 million to each manager) to invest in value add real estate consistent with the NEPC Real Estate Plan adopted by the Boards in October 2015.

The Boards' NEPC Real Estate Plan is a strategic investment pacing plan to steadily reduce the REIT allocation to zero over a four-year period while concurrently investing in Value Add Real Estate up to the 4.0 percent [\$120.0 million allocation based on current total fund value] target allocation adopted in March 2017 which will be implemented over a four year period or sooner as opportunities arise.

The current unfunded capital commitment after return of capital is ~\$13.6 million for Oaktree Fund REO VII and ~\$7.4 million for PCCP Fund VII; a remaining total unfunded capital commitment of \$21.0 million to the two funds.

PCCP has advised that the firm is now raising funds for their new value add real estate fund, PCCP Equity Fund VIII, a \$750 million closed-end equity real estate fund. The fund expects an 18-20% Gross/14-16% net levered IRR Target investing in middle market, top 25 markets in four major product types.

NEPC will be presenting an updated Real Estate Plan for the Retirement Systems in February. In the meantime, the Boards may want to consider the new fund with PCCP and a formal manager search for new value add real estate opportunities.

RECOMMENDATION

Based upon the historical closed-end fund drawdown schedules and the Systems' four percent (4%) allocation to value add real estate, the Boards may want to consider the new investment opportunity with PCCP Equity Fund VIII, as well as a formal search for additional value add real estate opportunities.

BOARD ACTION: APPROVED LAID OVER REC REVIEW