DISCUSSION SHEET

Employees' Retirement Fund
Board of Trustees Meeting

August 18, 2020

Issue: Value Add Real Estate Request for Proposal ("RFP") Update

Attachment: None

Discussion: ERF staff and Wilshire reviewed all eligible respondents for the Value Add Real Estate RFP issued last January. This process will help fulfill the 2.5% percent allocation approved by the Board in November 2019.

RFPs were reviewed and firm selections were made based on their: organizational strength/ quality and depth of investment staff; investment philosophy and process; organizational and research resources; investment performance; and fees.

The four firms recommended for further due diligence were: AEW Capital Management; Harbert Management Corp.; Stockbridge Capital Group; and Virtus Real Estate.

Based on the selection criteria, ERF staff and Wilshire recommend the following three managers for final presentations to the Board in September: **AEW Capital Management; Stockbridge Capital Group; and Virtus Real Estate.**

AEW Capital Management Co. Boston, MA based and a wholly owned subsidiary of Natixis Investment Managers with 734 employees worldwide, 23 of whom are on the AEW Partners Funds team. Firm AUM is $42B, proposed product is $1.8B. Investment strategy is a combination of top-down analysis with fundamental bottom-up observations and experience from the firm's investment professionals.

Their focus is real estate only, their team has been through multiple market cycles, with proven ability to produce returns in different environments. Strong research capabilities.

Stockbridge Capital Group. Privately owned, San Francisco, CA based firm with 91 employees worldwide, six professionals on the proposed product team, with firm AUM of $8.6B. Investment strategy is a two-pronged approach to portfolio construction that combines research to help develop a broad strategic direction with the utilization of their network on the ground to help identity investment opportunities and inform investment decisions.

Virtus Real Estate. Based in Austin, TX and wholly owned by Terrell Gates, CEO, with 42 employees in the U.S. $614M in total firm AUM and proposed product AUM of $101M. Investment strategy is a collaboration between individual business units and internal research staff. The investment committee reviews each portfolio from a top-down perspective to identity potential risks, then down to an individual asset level, including but not limited to assessing the hypothetical liquidation value for each asset.

ERF staff and Wilshire recommend the following three managers present to the Board for final presentations in September: **AEW Capital Management; Stockbridge Capital Group; and Virtus Real Estate.**

Proposed Timeline:

- ✓ January – RFP issued
- ✓ February – RFP submission due date
- ✓ May – Submit manager names recommended for due diligence
- ✓ July – Conducted manager due diligence
- • August – Recommendations made for final presentations to the Board
- • October – Final managers presentations made to the Board and final manager selection made

Recommendation: Suggested motion for the approval is as follows: Move to approve the recommended investment managers for final presentations to the Board and execute proposed timeline.