

STATE OF RHODE ISLAND

REIT ANALYSIS

April, 2019

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REITS WITHIN THE SIC INCOME CLASS

NEPC, LLC

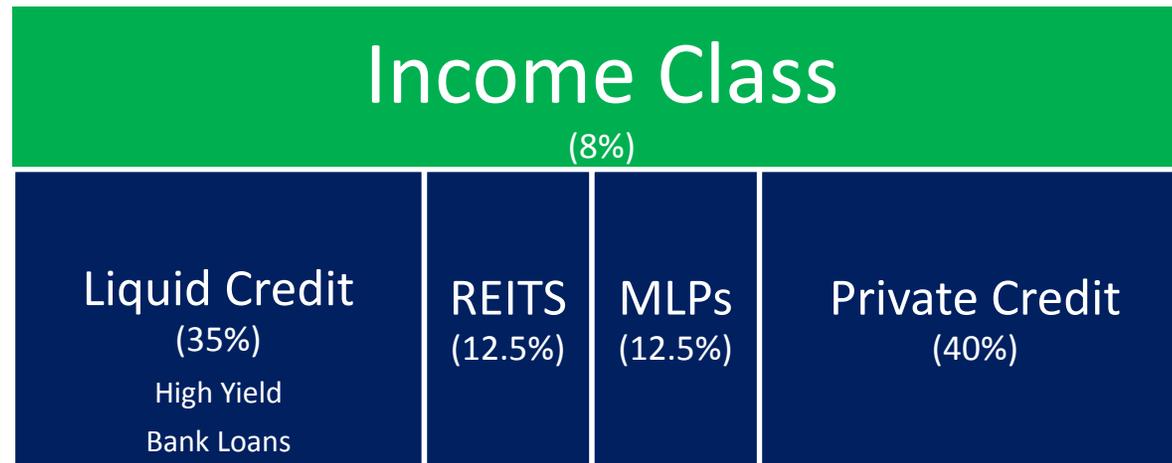
THE ROLE OF THE **INCOME CLASS** PORTFOLIO

The Income Class portfolio is designed to provide a high and stable income stream to help offset the System's negative cashflow

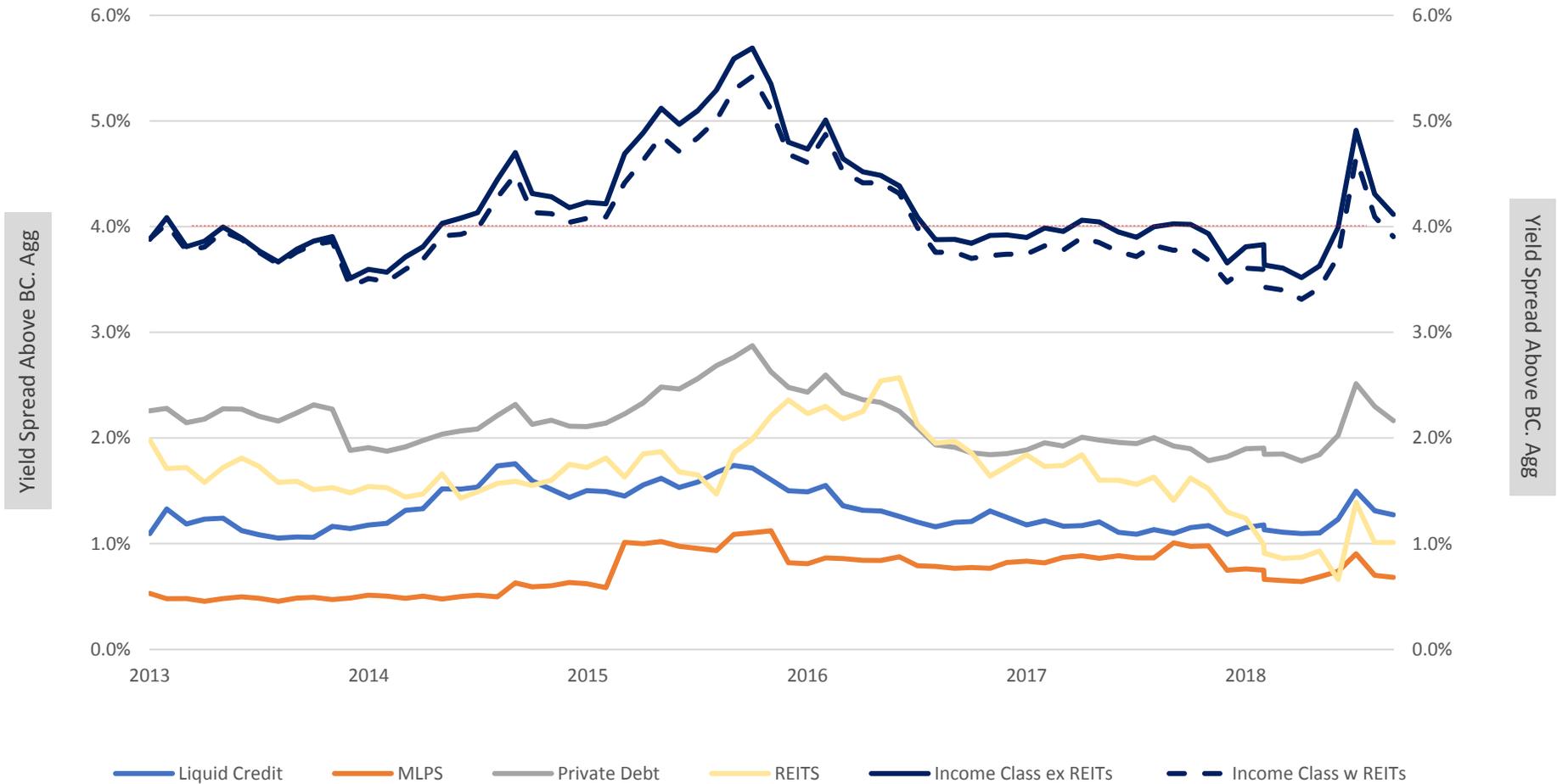
As such, the Income Class consists of various yield focused investments across different asset classes and liquidity types

The explicit goal of the **Income Class portfolio is to produce a **400 bps yield premia** above the **Barclay's Aggregate**, over a full market cycle**

REITS provide the opportunity to benefit from their yield and appreciation



INCOME CLASS YIELD SPREAD OVER BC AGG.



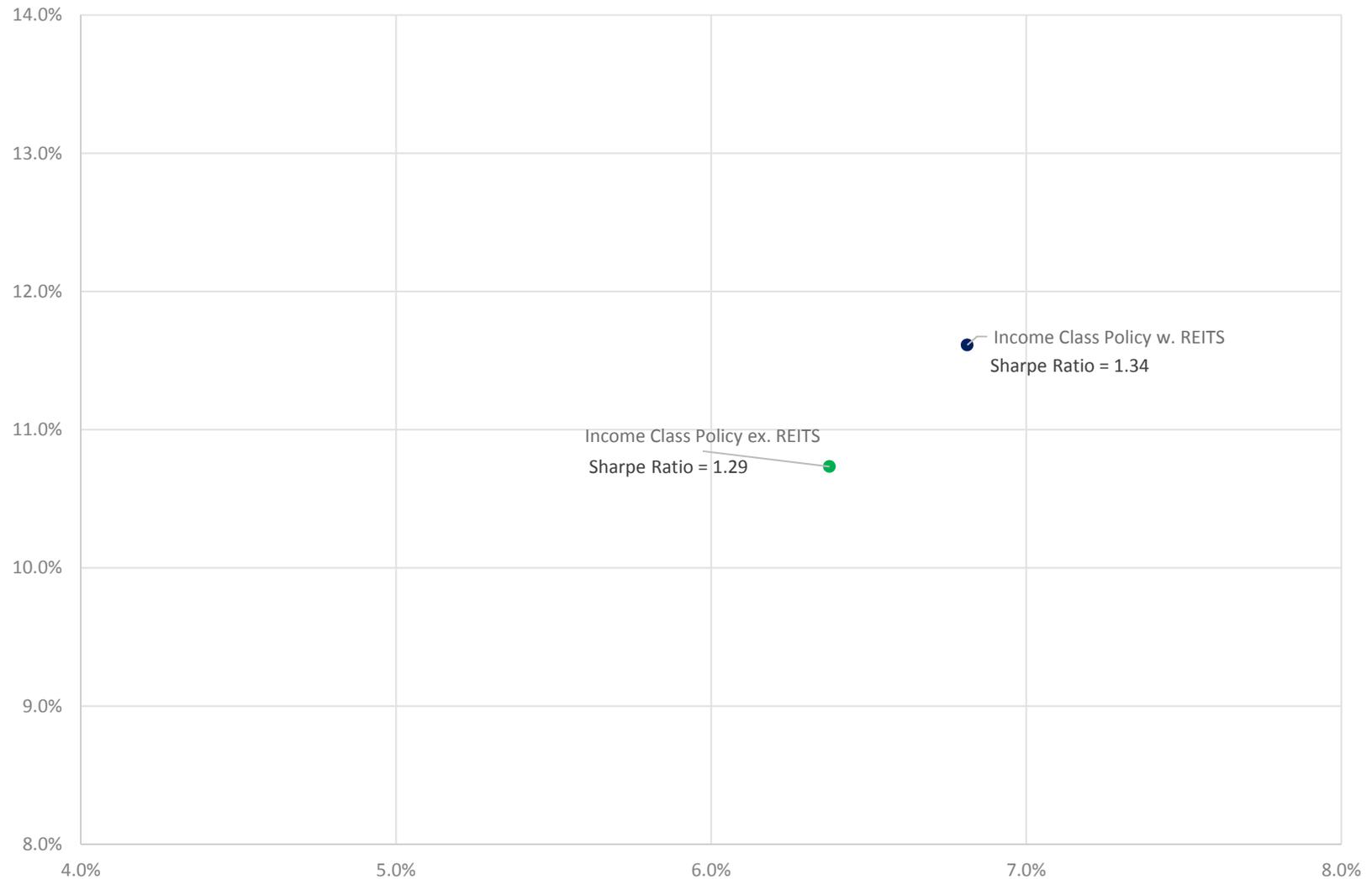
*Above information is as of 2.28.19 and based on the income class yield targets ex. REITS

**The actual yields of SIC managers are used and combined with the yield of their respective benchmarks in cases where the manager's track record did not extend back to 2013

***The Private Debt yield is based on its policy benchmark



10 YEAR RISK/RETURN CHART (2.28.19)



*Above information is as of 2.28.19 and based on index returns for each asset class

**Income Class Policy ex. REITS: (43.75% Liquid Credit, 18.75% MLPs, 37.50% Private Debt, 0% REITS)

***Income Class Policy w. REITS: (35% Liquid Credit, 12.5% MLPs, 40% Private Debt, 12.5% REITS)

****A cash return of 2.5% is used a part of the Sharpe ratio calculation



THE ROLE OF REITS WITHIN THE INCOME CLASS

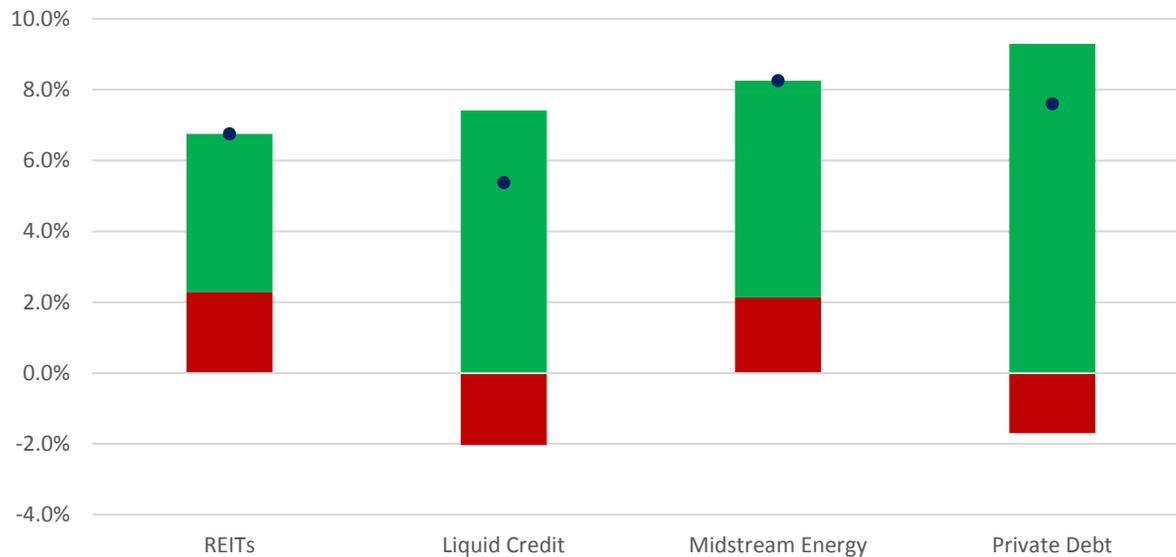
While the yield of REITS may not meet the explicit goal of the Income Class, their total return profile is expected to earn a spread over the BC Aggregate

As noted, REITS rely on both capital appreciation and yield which differs from some of the other investments within the Income Class

The yield from REITS have traditionally been lower than high yield/bank loans, MLPs, and Private debt

However, its capital appreciation has helped offset that difference

5-7 Year Total Return Expectations



■ Capital Appreciation ■ Yield ● Total Return

*Total return expectations are based on NEPC's 2019 5-7 year assumptions
**Capital appreciation based on current market conditions



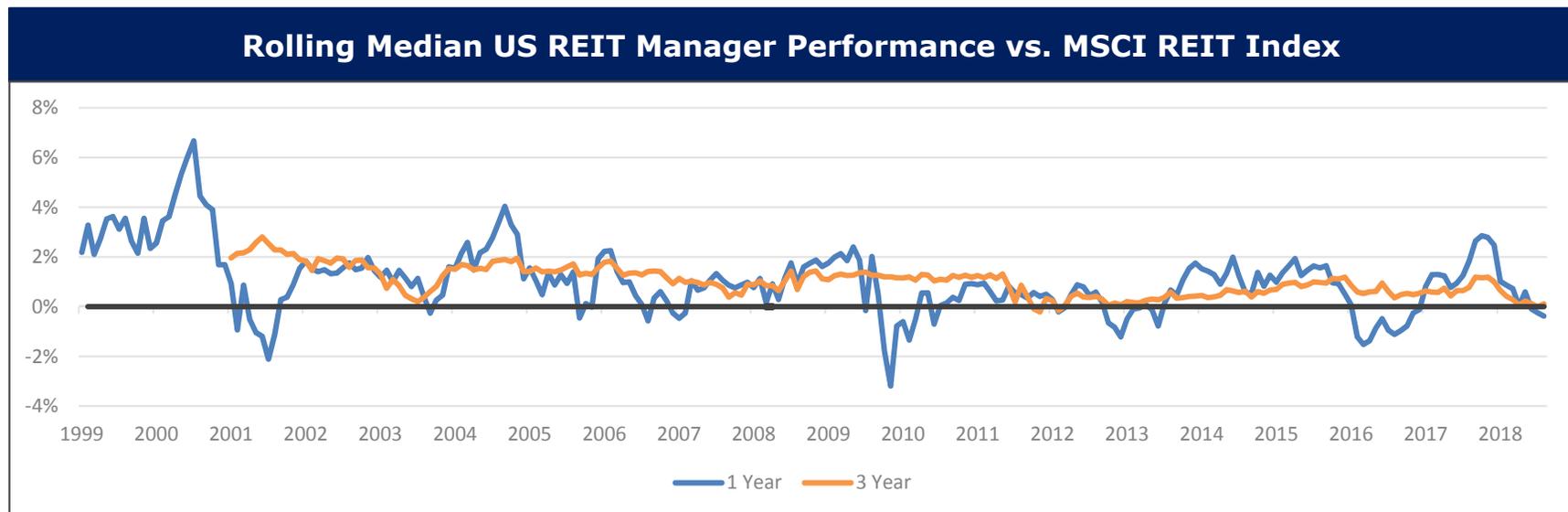
REIT ACTIVE MANAGEMENT: NET OF FEES

REIT active management consistently outperforms the benchmark

- The median US REIT manager performance is consistently better than the performance for the MSCI REIT Index

Outperformance has been persistent:

- 81% outperformance on rolling one-year periods (191 of 236 observations)
- 98% outperformance on rolling three-year periods (208 of 212 observations)*



Source: NEPC and eVestment. The universe data shown includes only actively managed portfolios. The minimum sample size used for each time period is 60 portfolios. Data inception is May 31, 1998. Data as of December 31, 2018.

HEITMAN SUMMARY

NEPC, LLC

FIRM AND PRODUCT SUMMARY

Firm/Team Comments	Investment Style/Strategy	Performance Expectations	Portfolio Positioning	Other Comments
HEITMAN – US Real Estate Focused Fund				
Heitman is 100% owned and controlled by senior officers of the firm following a redemption of OM Asset Management plc's ownership interests in 2017	Concentrated portfolio that seeks to identify security mispricings, targets greater active share, and larger position sizes	Stock selection should be the primary driver of returns, complimented by active management of allocations across sectors	The portfolio targets holding 25 positions, with positions being allowed to grow to a maximum of 10% or +/- 7.5% of the securities weight in the benchmark. Cash is held to a minimal level, generally less than 5%.	Concentrated version of the US Real Estate Securities Strategy

NEPC Investment Thesis

HEITMAN – US Real Estate Focused Fund

The Heitman valued add is attributable to an informational advantage generated from the combination of fundamental insights across the firm's real estate investment management businesses: direct property ownership, public real estate securities, and real estate debt. The team based nature of decision making also provides for higher-quality decision making, as pros and cons of various opportunities are debated, decreasing the likelihood of individual bias. The Focused strategy represents a concentrated, higher conviction version of Heitman's US Real estate strategy with particular emphasis paid to security selection.

Proposed Fee

HEITMAN – US Real Estate Focused Fund

	Standard Fee	NEPC Discounted Fee <i>(SIC Option A)</i>	Performance Based Fee <i>(SIC Option B)</i>
	First \$25 million - 0.75% Next \$75 million - 0.65%	First \$25 million - 0.64% Next \$75 million - 0.55%	Management Fee: 0.30% on all assets plus 20% of excess return over 30 bps



UNIVERSE PERCENTILE RANKINGS: NET OF FEES

as of 12/31/18 (net of fees)	1 Year	Rank	3 Years	Rank	5 Years	Rank	7 Years	Rank	10 Years	Rank
Heitman US Focused RE	-3.66	4	3.04	35	9.83	5	9.38	19	16.73	1
US REIT Universe Median	-4.94		2.52		8.20		8.51		12.59	
# of Observations	50		48		47		46		43	



*Analysis is net of fees and rankings are based on the eVestment US REIT universe

INVESTMENT FIRM/PRODUCT PROFILE

Heitman, LLC Heitman US Focused Real Estate Securities Strategy

NEPC Research
Source: NEPC and eVestment

Firm Description

Heitman LLC is a Chicago, Illinois based global real estate investment management firm founded in 1966. The firm's real estate heritage began with originating and servicing commercial real estate loans. Heitman has three complementary business units: Private Real Estate Equity, Real Estate Debt, and Global Real Estate Securities. From a historical perspective, in 1980, Heitman became a Registered Investment Adviser in North America and started providing real estate investment services to tax-exempt institutional investors in separate account formats. In 1989 Heitman launched the real estate securities business and added the management of publicly traded, listed real estate securities for institutional investors to their capabilities.. In the mid-1990s, the firm expanded globally and began investing in portfolios of directly held interests in European real estate. In 2006, investing capabilities were extended to include real estate securities global and regional specific strategies. The firms first direct property investment in Asia-Pacific in 2011. The Firm is 100% employee owned by its 37 partners following the redemption of OM Asset Management's (OM or Old Mutual) ownership interest in Heitman. Old Mutual has acquired the stake in Heitman in 2000. As part of this agreement Heitman was given the right of first offer to buy back this 50% stake from OM if there was a change in the ownership of OM. In early 2017 OM sold a portion of their business to HNA, a Chinese conglomerate, and triggered the buyback clause in the partnership documents.

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INVESTMENT FIRM/PRODUCT PROFILE

Heitman, LLC

Heitman US Focused Real Estate Securities Strategy

People

Heitman's Global Public Real Estate Equity team is led by Jerry Ehlinger. Mr. Ehlinger was formerly the lead portfolio manager of the North American Public Real Estate Securities group. Mr. Ehlinger rejoined the firm in 2013 after having been at RREEF for 10 years. Jeff Yurk, Charles Harbin, and Mat Spencer each serve as portfolio manager for North America. The North America Real Estate Securities team manages the portfolio as a team. Disagreements are infrequent, but when they occur, the matter is taken to the team for a vote.

Philosophy

Heitman believes that pricing inefficiencies exist in public real estate securities which can be uncovered and capitalized on through company and industry underwriting and superior access to information. Over time Heitman believes that REIT share prices track the value of the underlying assets, however in the short term a variety of factors may cause share prices to deviate from their fundamental value. By utilizing company and industry underwriting Heitman believes they can uncover market pricing inefficiencies.

Investment Strategy

Heitman's investment process begins with the analysis of the current investment landscape in which real estate security companies are operating. Heitman's Global Investment Committee (GIC) are responsible for assessing both the global macroeconomic and the capital markets environment impacting real estate securities. The assessment of global macroeconomics can be bucketed into three groups: cyclical conditions, secular trends and structural catalysts. The fixed income markets are also analyzed given the capital intensive nature of real estate. Underlying secular trends, such as population age, demographics, or urbanization trends that shape the macro economy (and real estate industry) over the long-term are also assessed.



INVESTMENT FIRM/PRODUCT PROFILE

Heitman, LLC

Heitman US Focused Real Estate Securities Strategy

Following the assessment of the macro landscape, Heitman's public real estate team performs in depth research on every major property type, while leveraging potential insights garnered from their private market counterparts. Fundamental research can be allocated into three structures, Private Market Analysis, Public Market Analysis, and Theme and Catalysts Analysis. The Private Market Real Estate Value approach seeks to identify the net asset value based on private real estate pricing by calculating the value of property portfolios, other business lines and assets and the value of liabilities. Public Equity Market Value approach seeks to value the enterprise as a public entity through the utilization of discounted cash flow analysis, multiples, or market comparables. Public Market assessment also includes valuing the quality of the management team and the corporate governance of the firm, calculating potential value creation or destruction, and potential frictional factors such as liquidity and ownership. Beyond valuation the investment team generates themes established through the collection of observations derived from the research process. Lastly catalysts are identified, i.e. fundamental events impacting valuation that are contrary to or absent from current market expectations. These inputs are then used to generate their proprietary Valuation Model Summary. The team then groups the entire universe of stocks into thirds, with the top one-third of names being suggested buys, the middle one-third being suggested holds, and the bottom one-third of names being suggested sells. The team then discusses these outputs at weekly meetings to finalize buy/hold/sell decisions surrounding the portfolio. Buy/sell decisions are made jointly by the Lead Portfolio Manager, assistant portfolio managers and analysts after discussion. If consensus is not achieved, Lead Portfolio Manager, Jerry Ehlinger's vote decides the outcome.

Portfolio

The US Focused strategy is a concentrated version of the firm's Diversified strategy, holding only the team's highest conviction ideas. The portfolio will typically hold 20-30 securities, although as few as 20 securities may be held. Individual securities and sector weightings are limited to +/- 750 basis points of the Wilshire US Real Estate Securities Index. Non-Benchmark securities are limited to 10% of the portfolio. High conviction positions range between +/- 750 basis points. Typical overweight's range between 1.0%-2.0%, underweight positions are generally limited. Cash is held to a minimal level, generally less than 5%.



INVESTMENT FIRM/PRODUCT PROFILE

Heitman, LLC

Heitman US Focused Real Estate Securities Strategy

Performance Expectations

When macro factors are dominating returns and volatility and correlations are high, Heitman's ability to add alpha is diminished. Conversely when correlations are lower and fundamental factors are dominating returns the strategy should perform well.



BIOGRAPHIES OF KEY PROFESSIONALS

Heitman, LLC

Heitman US Focused Real Estate Securities Strategy

Jerry Ehlinger, Senior Managing Director

Jerry Ehlinger is Senior Managing Director and Head of Global Real Estate Securities. Mr. Ehlinger is responsible for leading the firm's regional and global public real estate securities strategies, and is a member of the group's Global Investment Committee. Mr. Ehlinger is also a member of the firm's Global Management Committee, and an equity owner of the firm. Mr. Ehlinger holds 23 years of experience in real estate and investment management, including 13 years of experience managing global real estate securities portfolios. He previously served as Portfolio Manager for Heitman's North America Real Estate Securities group, and co-Portfolio Manager for the group's global strategies. Previously, Mr. Ehlinger was Lead Portfolio Manager and Head of Real Estate Securities, Americas at DB/RREEF Real Estate. He began his career at Morgan Stanley Asset Management, where he primarily covered the REIT sector as both a side-sell analyst and senior research associate. Mr. Ehlinger received an MS in Finance, Investment and Banking from the University of Wisconsin-Madison and a BS in Finance from the University of Wisconsin-Whitewater. Among other professional affiliations, Mr. Ehlinger is a member of the NAREIT Real Estate Investment Advisory Council, National Multi Housing Council, International Council of Shopping Centers, the CFA Institute, and the CFA Society of Chicago.

Jeffrey Yurk, CFA, Vice President

Mr. Yurk is a Senior Vice President and Portfolio Manager in Heitman's North American Public Real Estate Securities group. He is an equity owner of the firm. Jeffrey is responsible for fundamental company and market analysis supporting his stock recommendations. In addition, he is responsible for monitoring and assessing the health of the US capital markets. He works with the firm's Client Service & Marketing group to understand the needs, situations and objectives of the firm's clients. Prior to joining Heitman, Mr. Yurk was with Principal Global Investors, where he was responsible for providing quantitative and qualitative research on seasoned commercial mortgage-backed securities issuances, with a focus on forecasting the default probabilities on the underlying real estate. Mr. Yurk received a BBA and an MBA from the University of Wisconsin-Madison and is a CFA Charterholder.



BIOGRAPHIES OF KEY PROFESSIONALS

Heitman, LLC

Heitman US Focused Real Estate Securities Strategy

Charles Harbin, Vice President, Assistant Portfolio Manager

Mr. Harbin is a Senior Vice President and Portfolio Manager for Heitman's North American Public Real Estate Securities group. His role with Heitman focuses on fundamental company and market analysis supporting his stock recommendations. Prior to joining the firm, he was with Deutsche Bank/RREEF as a senior analyst/vice president, developing long/short equity and debt investments for its multi-strategy, multi-asset class hedge fund. Prior to working at RREEF, he was a long/short equity analyst for Renascent Capital Management and a derivatives analyst for Prebon Yamane, a financial brokerage and consulting firm. Mr. Harbin received a BA in Economics with honors from Sewanee, The University of the South.

Mathew Spencer

Mathew "Mat" Spencer is a Vice President and Portfolio Manager for Heitman's North American Public Real Estate Securities group. He is responsible for portfolio management, including fundamental company and market analysis. Prior to joining the firm, Mr. Spencer worked for Robert W. Baird & Co. between 2011 and 2015, first as an equity research analyst and then as an equity research associate, where he was responsible for assisting in the coverage on new REITs and covering stocks across multiple property sectors. Additionally, Mr. Spencer built dozens of new models to forecast earnings, formulate a 12-month price target and estimate the value of the company.



APPENDIX

NEPC, LLC

DOES THE SIC HAVE EXPOSURE TO REITS CURRENTLY?

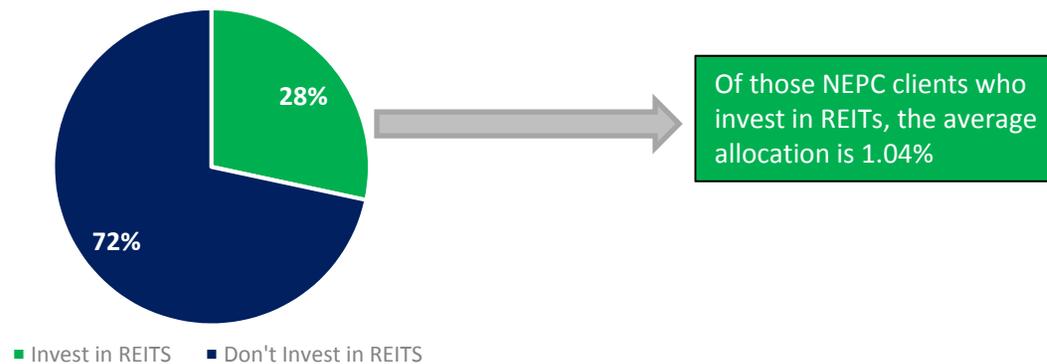
SIC's current exposure to REITS predominantly comes from its existing Equity investments

The SSGA QVM strategy and each of the SIC's equity index funds have small allocations to Global REITs

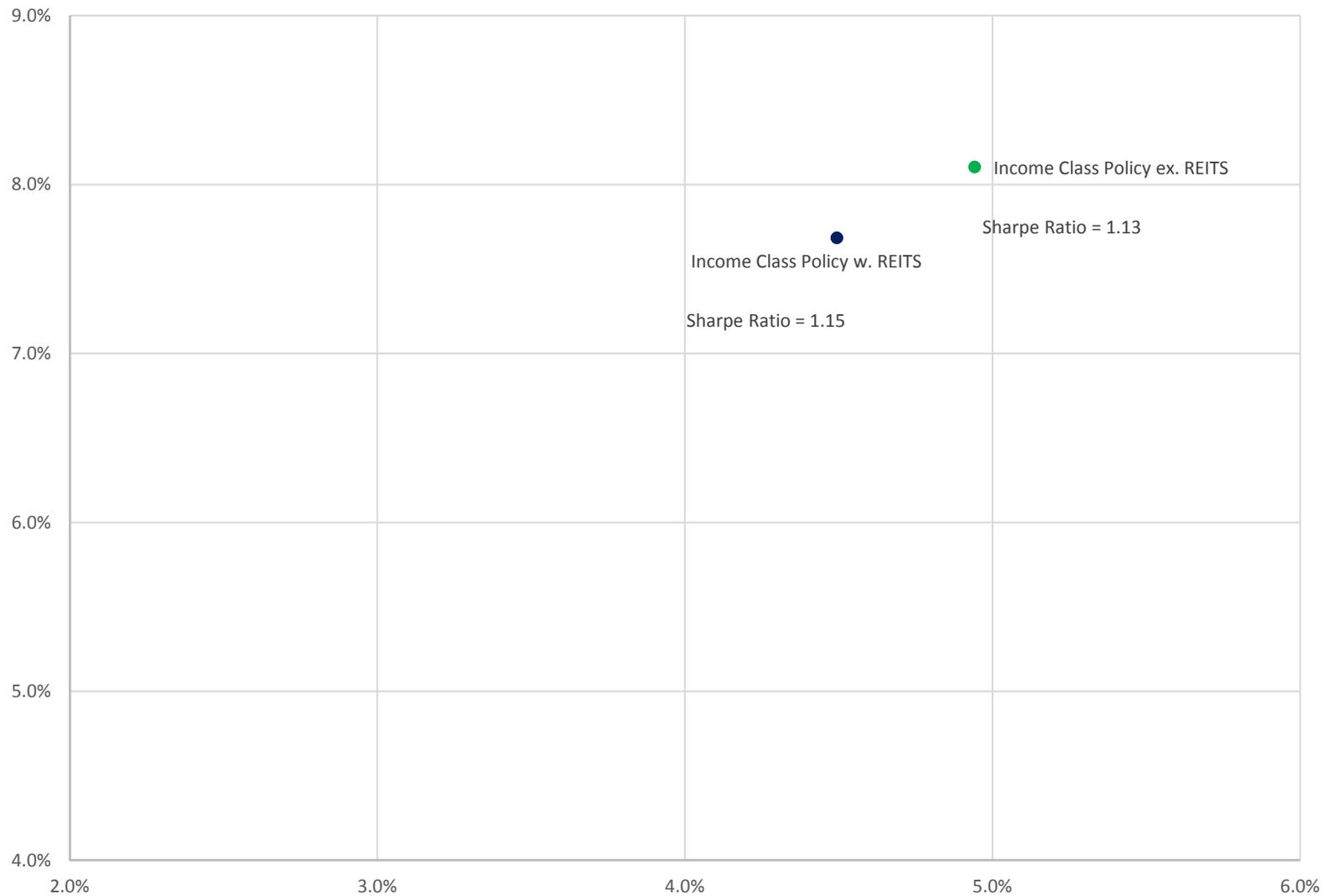
As a result, the SIC's total exposure to REITS currently is roughly \$107 million which equates to a 1.3% of the total Fund

The SIC's total exposure will increase if/when the 1% dedicated REIT target is funded

NEPC Public Fund clients who invest in REITs, on average, have a 1.04% allocation in addition to their exposure from Equities



3 YEAR RISK/RETURN CHART (2.28.19)



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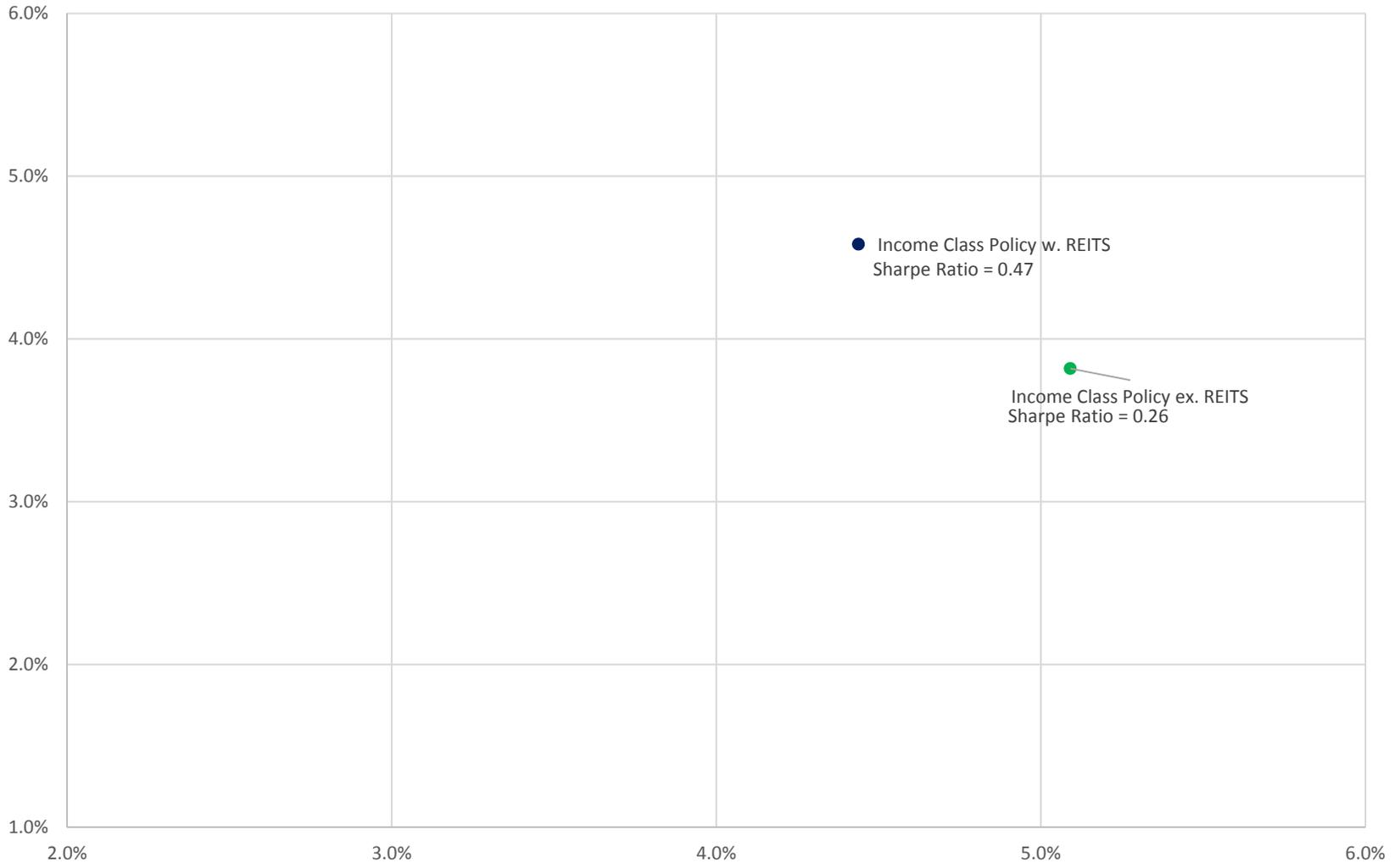
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5 YEAR RISK/RETURN CHART (2.28.19)



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10 YEAR CORRELATIONS

	Liquid Credit	MLP	Private Debt	REIT
Liquid Credit	100%			
MLP	59%	100%		
Private Debt	54%	28%	100%	
REIT	66%	45%	45%	100%

*Above information is as of 2.28.19 and based on index returns

**Correlations are based on index returns: Liquid Credit = 50% ICE BofA ML US HY index/ 50% CS Lev Loan index, MLP = Alerian MLP index, Private Debt = S&P LSTA Lev. Loan index +3%, REIT = MSCI US REIT index



ROLLING 1 YEAR INDEX CORRELATIONS OF REITS TO S&P 500

