



# ERSRI PORTFOLIO OVERVIEW

Employees' Retirement System of Rhode Island

April 2015



## INTRODUCTION

- PCA has updated the following charts to assist the Employees' Retirement System of Rhode Island (System) with developing an investment pacing plan for its real estate program.
- PCA used growth and return assumptions provided by the System's existing real estate managers, assumptions from the System for growth of the fund, as well as PCA's own growth and return estimates in development of this pacing plan.
- Actual market conditions and returns may vary. Key assumptions are included on the following page.

## KEY LONG TERM ASSUMPTIONS

Total Plan Assumptions	
Total Plan Growth Rate	7.50%
Target Real Estate Allocation	8.00%
Real Estate Plan Assumptions	
Core Target Allocation	75.00%
Non-Core Target Allocation	25.00%
Publicly Traded Target Allocation	0.00%
Real Estate Growth Assumptions	
Core Net Income	4.70%
Core Net Appreciation	1.40%
Total Net Core Return	6.10%
Core Cash Distributions	3.70%
Non-Core Net Income	3.00%
Non-Core Appreciation	9.00%
Total Net Non-Core Return	12.00%
Publicly Traded Net Appreciation	4.50%
Publicly Traded Dividend	3.50%
Publicly Traded Net Return	8.00%

PCA believes it is appropriate to create ranges for each of the sub asset classes. For modeling only purposes, we have used static targets for each sub-asset class target.

## KEY INPUTS

For Discussion Sake and Subject to Review and Change:

### Core

The model assumes the System will commit and contribute the following amounts to existing or new Core managers:

- \$75 million annually in 2015 & 2016
- \$35 million in 2017 and per annum thereafter

### Non-Core

The model includes the following commitments to the Non-Core portfolio, all of which are contributed over three year periods, earn distributions beginning in the fourth year, and have been adjusted downward by a 20% over-commitment factor:

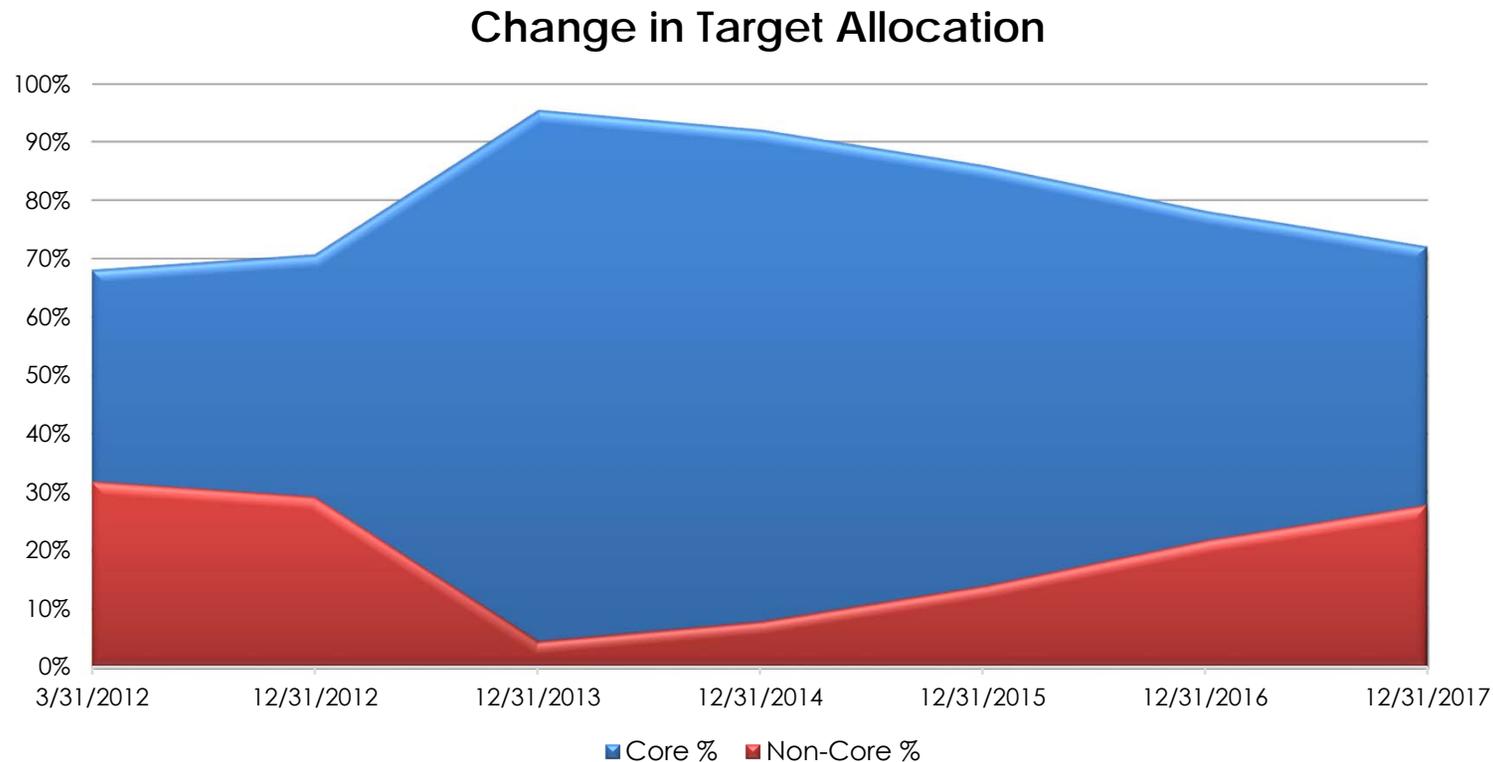
- \$19 million for Lone Star in 2015
  - Funded: \$2 million (2015), \$9.5 million (2016) & \$7.5 million (2017)
- \$20 million for Crow Holdings Retail Fund in 2015
  - Funded: \$2 million (2015), \$8 million (2016) & \$10 million (2017)
- \$80 million of total new commitments in 2015, 2016 & 2017
  - Committed: \$55 million (2015), \$15 million (2016) & \$10 million (2017)
  - Funded: \$21 million (2016), \$31 million (2017) & \$25 million (2018)

### Publicly-Traded

The model does not include a commitment to publicly-traded securities.

## CHANGE IN TARGET ALLOCATION

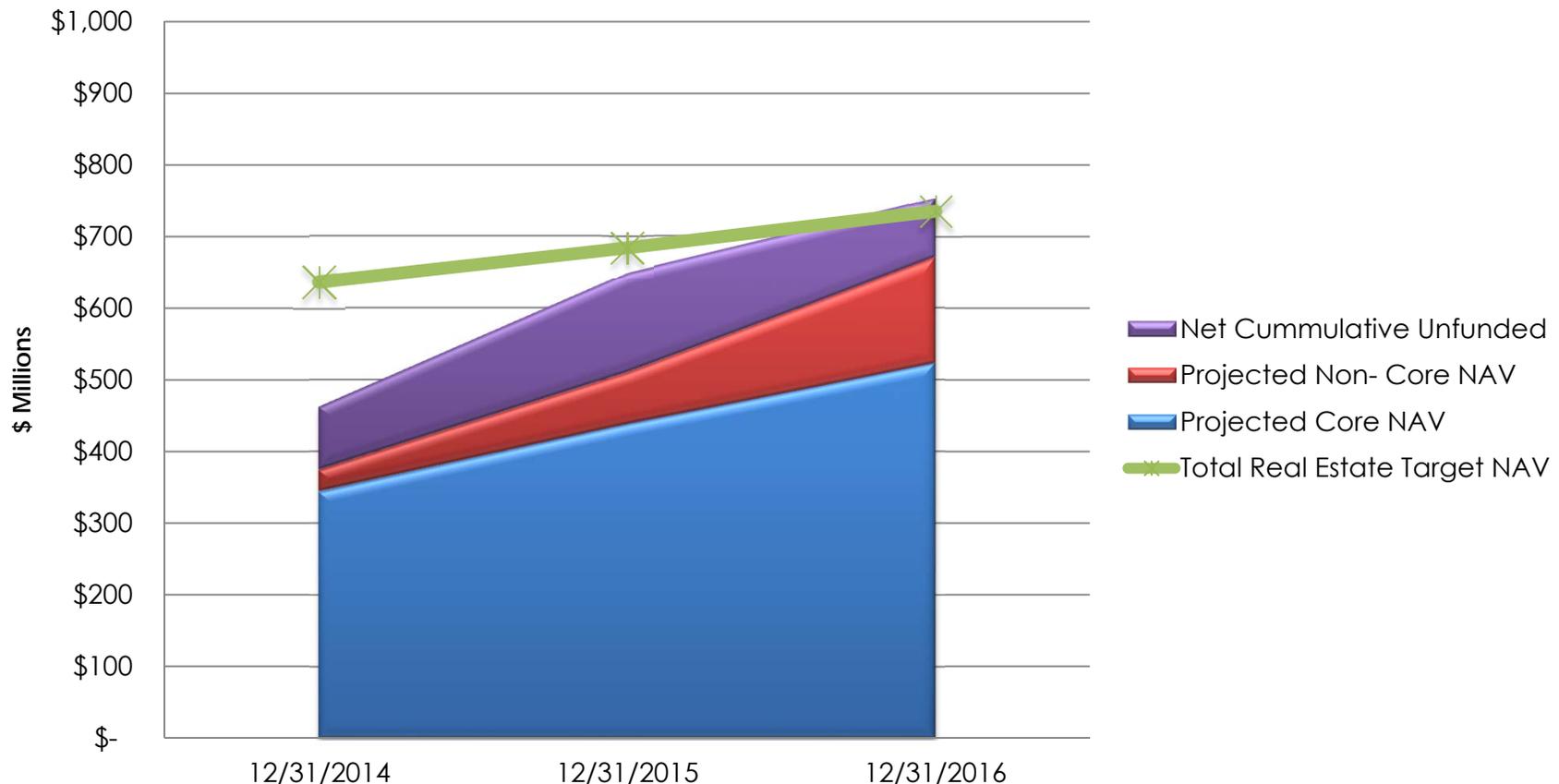
Since PCA began working with ERSRI in the first quarter of 2012, the strategic allocation of the real estate portfolio has changed from being 68% Core and 32% Non-Core to 92% Core and 8% Non-Core as of December 31, 2014. It is anticipated the 8% NAV target of total plan assets will be reached by the end of 2017.



# VALUATION

As of year-end 2014, the System had invested 4.7% and was committed to invest 5.8% of the overall portfolio in real estate. It is estimated as of June 30, 2015, the System will be committed to invest 6.2% of the overall portfolio in real estate. The green line in the chart below illustrates the actual targeted 8% NAV real estate allocation for the System projected through year-end 2016.

## Projected Valuations



# COMMITMENTS

A commitment schedule for each sub-asset class is shown below in order to achieve the full targeted real estate funding of projected NAV plus unfunded commitments by year-end 2016.

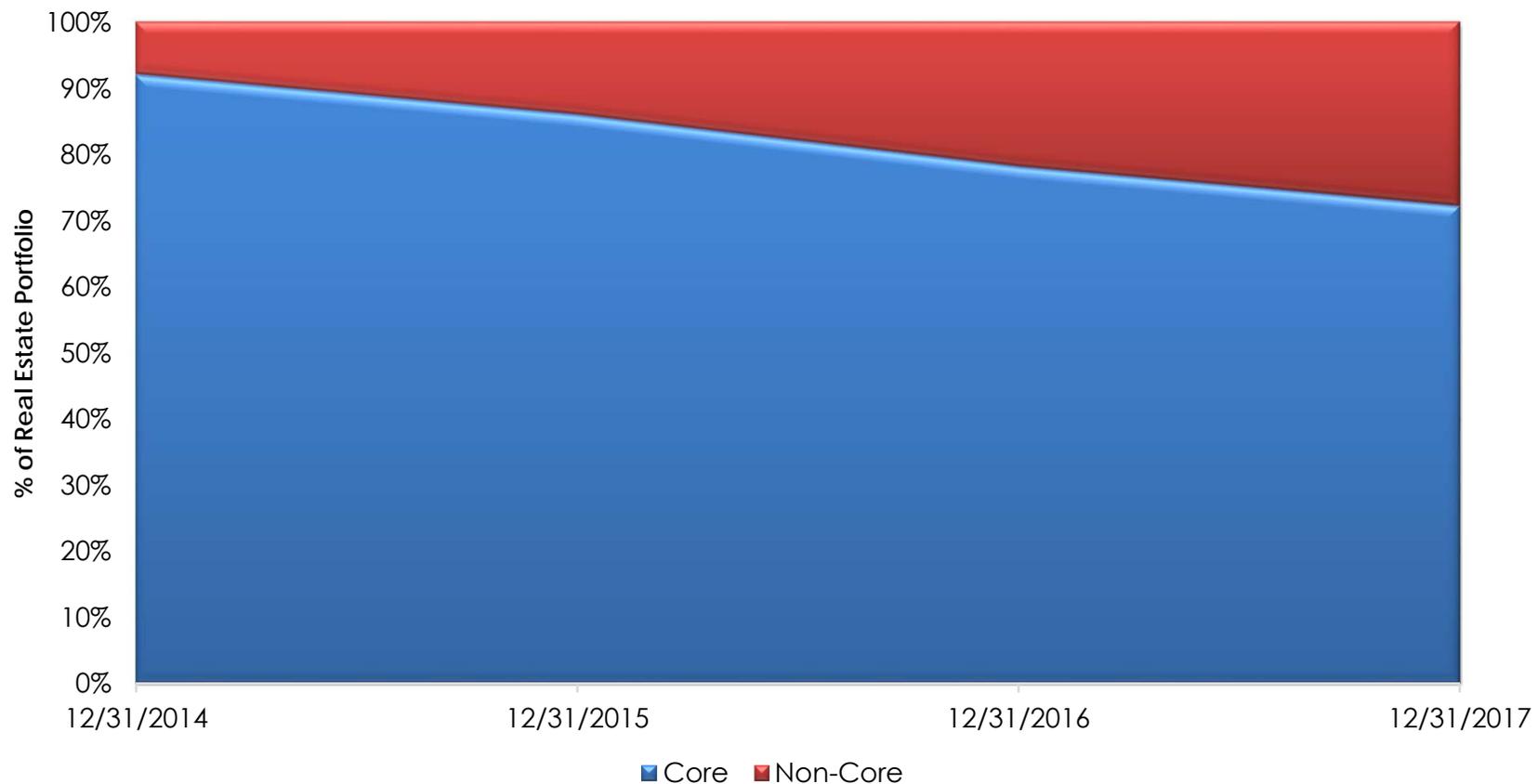
### Commitment Schedule



## STRATEGY

Over the next four years, the pacing plan would shift the portfolio NAV toward a long-term target of 75% core and 25% non-core.

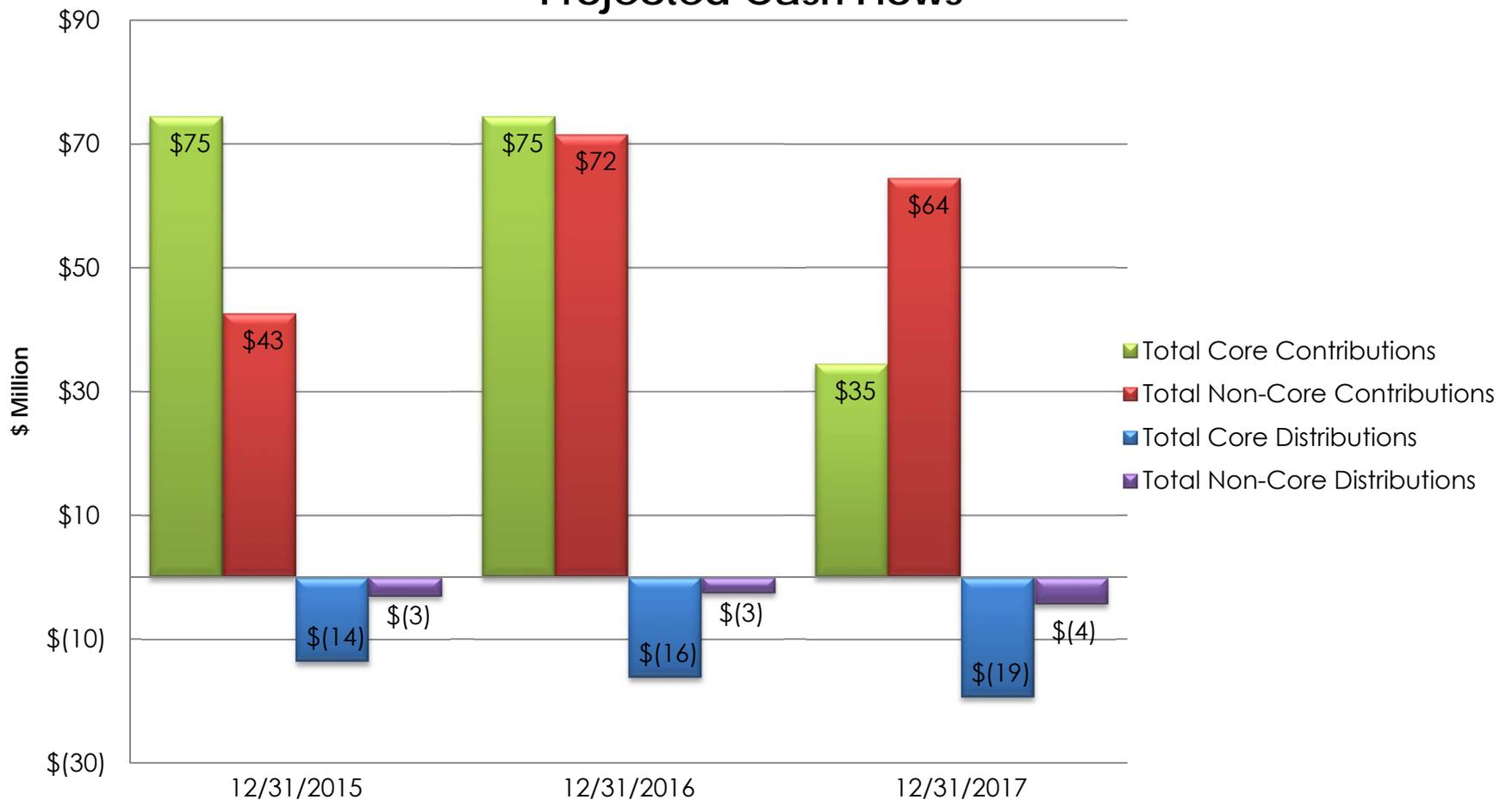
### Real Estate Portfolio by Strategy



# CASH FLOWS

Over the next three years, the real estate program is expected to require significant capital inflows, primarily to fund the increased core commitments.

## Projected Cash Flows



# APPENDIX

 <b>NFI-ODCE Snapshot Report <sup>(A)</sup></b> Quarter-ended 12/31/2014 <span style="float: right;">Released 1/30/2015</span>								
<b>NFI-ODCE</b>								
	Current Qtr (a)	Previous Qtr (b)	Change (a - b)	1 Year	3 Years	5 Years	10 Years	SI <sup>(B)</sup> (37 Years)
Income	1.21%	1.23%	-0.02%	5.03%	5.23%	5.56%	5.63%	7.45%
Appreciation	2.04%	2.00%	0.04%	7.17%	6.93%	6.00%	1.40%	1.07%
<b>Total, Gross of Fees (C)</b>	<b>3.26%</b>	<b>3.24%</b>	<b>0.02%</b>	<b>12.50%</b>	<b>12.45%</b>	<b>13.93%</b>	<b>7.10%</b>	<b>8.58%</b>
Total, Net of Fees	3.02%	3.00%	0.02%	11.46%	11.38%	12.85%	6.11%	7.51%
Fund Count <sup>(D)</sup>	22	22	0					
	Current Qtr (c)	Previous Qtr (d)	% Change [(c - d) / d]					
Ending Assets <sup>(D)</sup>	\$126,560.7	\$121,418.7	4.23%					
<b>Other Indices</b> (Total Return, Gross of Fees)								
	Current Qtr (a)	Previous Qtr (b)	Change (a - b)	1 Year	3 Years	5 Years	10 Years	SI <sup>(B)</sup> (37 Years)
Barclays Capital Gov. Bond (p.k.a. Lehman Bros. Gov. Bond)	1.86%	0.32%	1.54%	4.91%	1.40%	3.70%	4.29%	7.40%
Barclays Capital Gov. / Credit (p.k.a. Lehman Bros. G/C 10yr)	1.02%	0.17%	0.85%	5.17%	2.49%	4.53%	4.62%	7.78%
NAREIT Equity REIT Index	12.94%	-2.48%	15.42%	28.03%	16.38%	16.91%	8.32%	12.72%
NCREIF Property Index (NPI)	3.04%	2.63%	0.41%	11.82%	11.11%	12.14%	8.38%	9.22%
Russell 3000	5.24%	-1.16%	6.40%	11.24%	20.03%	15.36%	7.82%	N/A
S&P 500 Index	4.93%	1.13%	3.80%	13.69%	20.42%	15.45%	7.67%	11.77%
T-Bills (90 day)	0.01%	0.01%	0.00%	0.04%	0.05%	0.07%	1.47%	5.09%
<b>NFI-ODCE Equal Weight</b>								
	Current Qtr (a)	Previous Qtr (b)	Change (a - b)	1 Year	3 Years	5 Years	10 Years	SI <sup>(B)</sup> (37 Years)
Income	1.19%	1.23%	-0.04%	5.07%	5.25%	5.56%	5.59%	7.51%
Appreciation	1.91%	2.22%	-0.31%	7.03%	6.71%	7.84%	1.09%	0.58%
<b>Total, Gross of Fees (C)</b>	<b>3.11%</b>	<b>3.46%</b>	<b>-0.35%</b>	<b>12.38%</b>	<b>12.24%</b>	<b>13.75%</b>	<b>6.73%</b>	<b>8.12%</b>
Total, Net of Fees (C)	2.88%	3.24%	-0.36%	11.42%	11.23%	12.75%	5.78%	7.11%

# APPENDIX

 <b>NFI-ODCE Snapshot Report <sup>(A)</sup></b> Quarter-ended 12/31/2014 <span style="float: right;">Released 1/30/2015</span>			
Manager Name	Fund Name	Fund Inception Date	Index Inclusion Date
<b>AEW Capital Management</b>	<b>AEW Core Property Trust*</b>	<b>10/1/2007</b>	<b>03/31/2010</b>
American Realty Advisors	American Core Realty Fund*	11/21/2003	06/30/2004
ASB Capital Management, Inc.	ASB Allegiance Real Estate Fund*	6/1/1984	06/30/2011
Bentall Kennedy (U.S.) LP	Multi-Employer Property Trust*	6/30/1982	12/31/1990
Blackrock Realty	Granite Fund*	1/1/1981	09/30/1984
CBRE Global Investors, LLC	CBRE U.S. Core Partners, LP*	5/15/2013	09/30/2013
Chemical Bank Real Estate Svcs.	Real Estate Equities Fund	3/31/1978	03/31/1982
CIGNA Realty Investors	Open End Real Estate Fund	10/1/1981	06/30/1982
Clarion Partners	Clarion Lion Properties Fund*	4/1/2000	06/30/2000
Cornerstone Real Estate Advisors LLC	Cornerstone Patriot Fund*	7/1/2004	09/30/2004
Deutsche Asset & Wealth Management	RREEF America REIT II*	7/28/1998	06/30/1999
First Wisconsin Trust Co.	Employee Benefit Real Estate Fund	12/31/1982	12/31/1987
Guggenheim Real Estate LLC	GRE U.S. Property Fund L.P.		03/31/2015
Heltman Capital Management	First Chicago Real Estate Fund	9/1/1973	03/31/1978
<b>Heltman Capital Management</b>	<b>Heltman America Real Estate Trust, L.P.*</b>	<b>1/4/2007</b>	<b>03/31/2010</b>
Henderson Global Investors	U.S. Property Fund (Phoenix RESA)	6/30/1981	06/30/1984
INVESCO Real Estate	INVESCO Core Real Estate - USA, LLC*	9/30/2004	12/31/2004
<b>J.P. Morgan Chase Bank, N.A.</b>	<b>Commingled Pension Trust (Strategic Property) of JPMorgan Chase Bank, N.A.*</b>	<b>4/1/1998</b>	<b>03/31/1998</b>
J.P. Morgan Chase Bank, N.A.	Real Estate Fund	3/1/1970	06/30/1995
John Hancock Real Estate Investment Group	E.R.A.	3/31/1977	03/31/1978
L&B Realty Advisors, LLP	L&B Core Income Partners, L.P.*	4/29/2011	06/30/2014
LaSalle Advisors	LaSalle US Property Fund*	2/6/2010	09/30/2013
Massachusetts Mutual	SIA-R	12/31/1981	03/31/1984
<b>Morgan Stanley Real Estate Advisor, Inc</b>	<b>Prime Property Fund*</b>	<b>8/1/1973</b>	<b>03/31/1978</b>
Mutual of New York Real Estate Investment Mgmt	MONY - Pooled Account 7	9/30/1981	12/31/1981
<b>New York Life Investments</b>	<b>Madison Core Property Fund LLC*</b>	<b>5/1/2001</b>	<b>06/30/2011</b>
PNC Bank, national Association	AFL-CIO Bldg. Invsmt Trust*	9/30/1988	12/31/1996
Principal Real Estate Investors	Principal U.S. Property Account*	3/1/1982	06/30/1982
<b>Prudential Real Estate Investors</b>	<b>PRISA*</b>	<b>7/1/1970</b>	<b>03/31/1978</b>
Stockbridge Capital Group	Smart Market Fund*	10/1/2011	03/31/2013
Suntrust Banks	Real Estate Investment Fund	6/30/1981	12/31/1981
The Travelers Corporation	Separate Account R	3/1/1978	06/30/1978
TIAA-CREF Asset Management	TIAA-CPF*	8/2/2004	09/30/2005
Trust Company Of Texas	Southland Fund	2/1/1981	09/30/1981
UBS Realty Investors, L.L.C.	UBS Trumbull Property Fund*	1/13/1978	12/31/1978

\* Funds were included in the current quarter returns

**Notes:**

- (A) The NFI-ODCE (NCREIF Fund Index - Open-End Diversified Core Equity) is a fund-level capitalization weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (i.e., returns reflect the fund's actual asset ownership positions and financing strategy).
- (B) The NFI-ODCE Index begins as of the first quarter of 1978, inclusive. "NA" indicates that historical data is not available since NFI-ODCE Index inception.
- (C) The sum of income and appreciation returns may not equal total return due to rounding and/or the compounding of individual component returns to each other.
- (D) Change is not applicable ("NA") if the report is based on less than 100% of active funds reporting.

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