

**MEKETA**

INVESTMENT GROUP

# Employees' Retirement System of Rhode Island (ERSRI)

Private Real Estate  
Pacing Plan Implementation

February 2024



# Employees' Retirement System of Rhode Island

## Pacing Plan Implementation Discussion

### Meketa Pacing Methodology

- The determination of the appropriate level of future commitments is an iterative process that seeks to present a base case scenario that achieves allocation and diversification objectives.
- Meketa has developed a model, grounded in industry best practices and proprietary research, to provide a simple, flexible structure to facilitate commitment pacing decisions.
- Key Assumptions & Inputs
  - Real Estate Assets
  - Annual commitment/redemption amounts
  - Existing unrealized investments and unfunded capital
  - Expected rate of contributions/distributions and return
  - Dividend reinvestment, if applicable
- Outputs
  - How long will it take to reach the target allocation?
  - How should commitments be allocated across time and strategies to maintain appropriate diversification?
  - When will a program become cash flow positive?



# Employees' Retirement System of Rhode Island

## Pacing Plan Implementation Discussion

### ERSRI Investment Objectives/Portfolio Construction

- Commit capital to closed-end value-add/opportunistic funds at an even pace to maintain vintage year diversification.
  - 3 to 5 commitments per year
  - Investment size varies but is generally expected to be in the \$15M to \$25M range
- Consider new tactical core/core-plus investments to lean into targeted sectors.
  - One commitment per year
  - Investment size may vary but is generally expected to be around \$25M
- Maintain a real estate portfolio that is diversified by manager, property type, vintage year, and geography.
- Position the portfolios to achieve or exceed benchmark returns without taking excess risk.
- Manage portfolios in accordance with any investment limitations and the Investment Policy Statement.



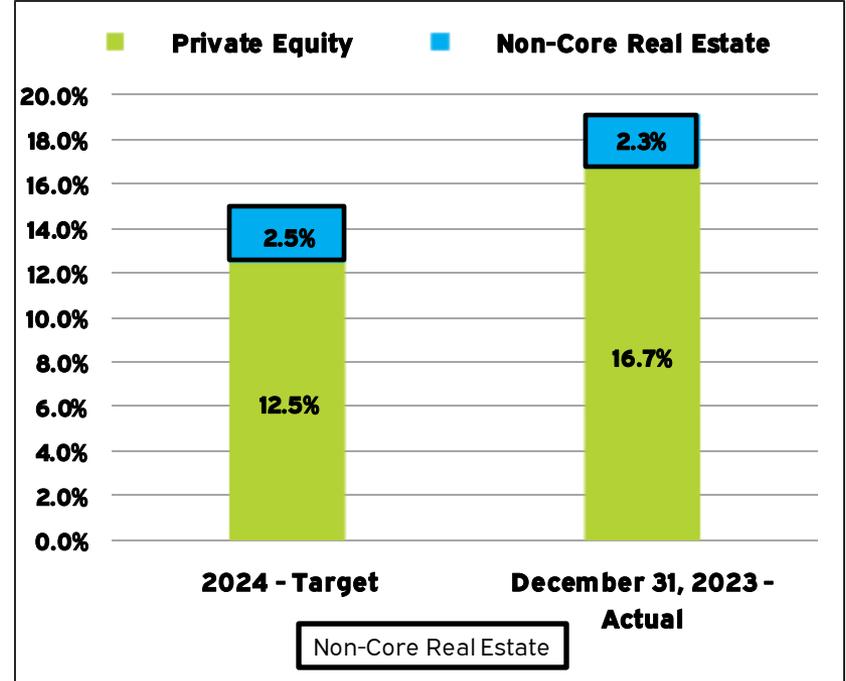
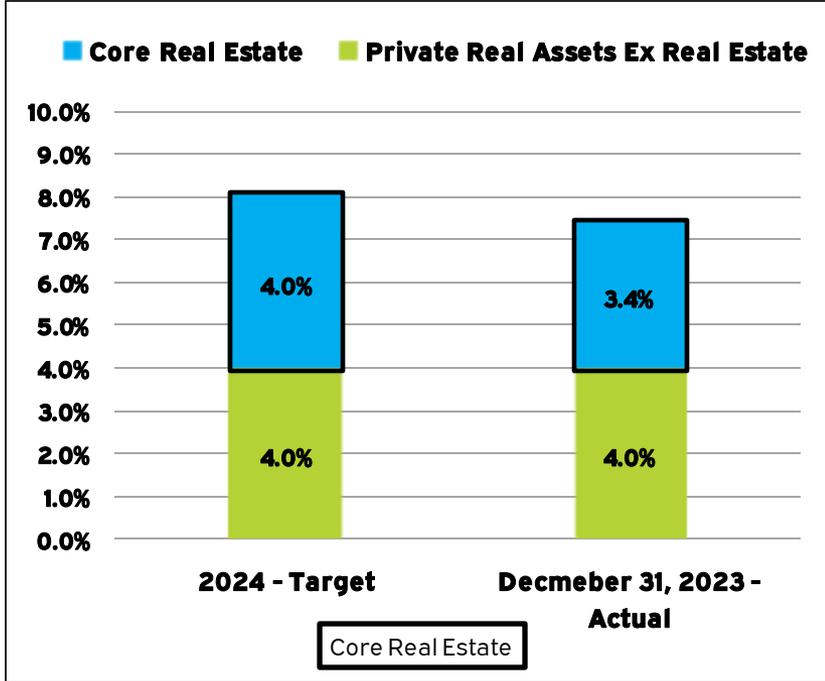
# Employees' Retirement System of Rhode Island

## Pacing Plan Implementation Discussion

### Overview

#### INFLATION PROTECTION CLASS 8% TARGET

#### PRIVATE GROWTH CLASS 15% TARGET



- The targets for private real estate are:
  - Core real estate: 4.0%
  - Non-Core real estate: 2.5%



# Employees' Retirement System of Rhode Island

## Pacing Plan Implementation Discussion

### Key Inputs & Assumptions

Core Real Estate		Non-Core Real Estate	
Plan Growth Rate	4.0%	Plan Growth Rate	4.0%
Redemptions	None currently.		
Total Assumed Rate of Return	4.3%	Total Assumed Rate of Return	8.5%
<i>Net Income</i>	3.0%	<i>Net Income</i>	2.8%
<i>Net Appreciation</i>	1.3%	<i>Net Appreciation</i>	5.7%

- Pacing models are especially sensitive to several factors that drive the assumed value of assets in the portfolio:
  - Total Plan Growth Rate
  - Net Appreciation
  - New Commitments

**Core Real Estate | Pacing Plan**  
**Commitment Schedule & Scenario Analysis**



### Core / Inflation Protection

- **Recommendation:** Set allocation ranges around the Target to allow for tactical investing and to provide bandwidth around factors outside of ERSRI's control such as change in market value, contributions and distributions. This allows the investment staff to manage its real estate asset class concentration within a reasonable range.
  - *Proposed Range: +/- 15% of Target or 3.25% to 4.75%*
- If the current allocation is outside of the Target Range for two consecutive quarters, Investment Staff will inform the SIC and present a course of action with supporting rationale. The course of action may be limited to "further monitoring" if anticipated market changes, capital calls, and/or distributions are expected to bring the allocation back within the Target Range.
- If the current allocation is **above** the Target Range, the potential sequence of actions is as follows:
  - *Change any "dividend reinvestment" elections to "dividend distribution"*
  - *Reduce or suspend new commitment activity*
  - *Submit redemption requests*
  - *Explore secondary market sales*
- If the current allocation is **below** the Target Range, the potential sequence of actions is as follows:
  - *Change any "dividend distribution" to "dividend reinvestment"*
  - *Increase or accelerate new commitment activity*
  - *Explore secondary market purchases*

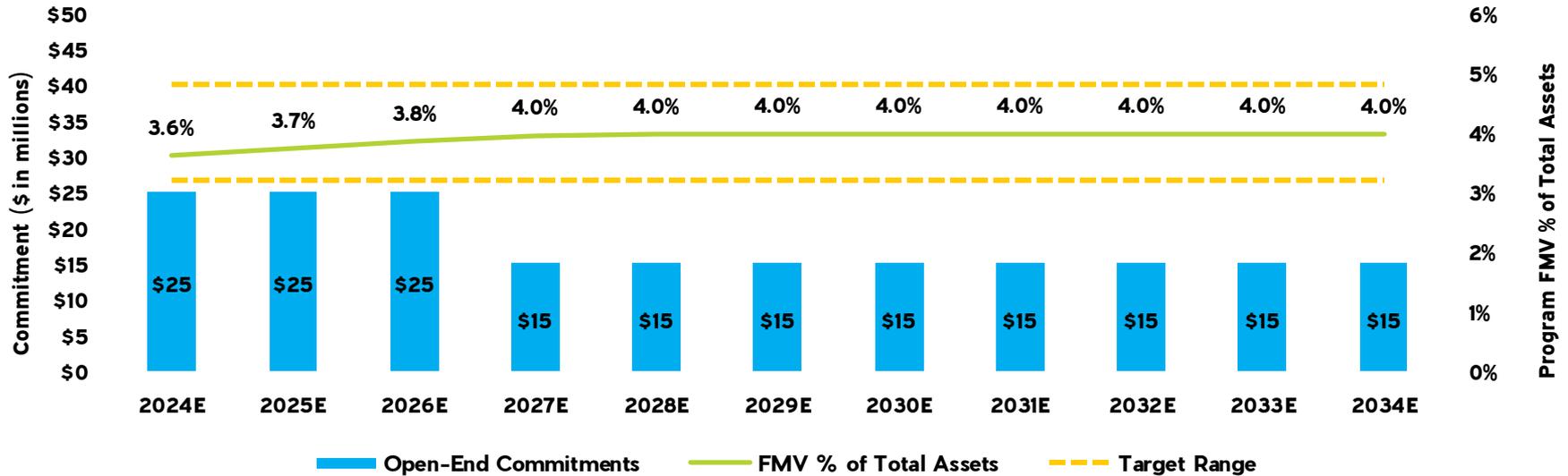


# Employees' Retirement System of Rhode Island

## Core Real Estate | Pacing Plan

### Commitment Schedule

#### CORE REAL ESTATE PACING SUMMARY – BASE CASE



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	0	0	0	0	0	0	0	0	0	0	0
Open-End Commitments	25	25	25	15	15	15	15	15	15	15	15
Contributions	-22	-25	-25	-25	-15	-15	-15	-15	-15	-15	-15
Distributions	11	12	13	14	14	15	16	16	17	18	18
Net Cash Flow	-11	-13	-12	-11	-1	0	1	1	2	3	3
Fair Market Value	392	422	452	483	504	526	548	570	592	615	638
<b>FMV % of Total Assets</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.0%</b>							

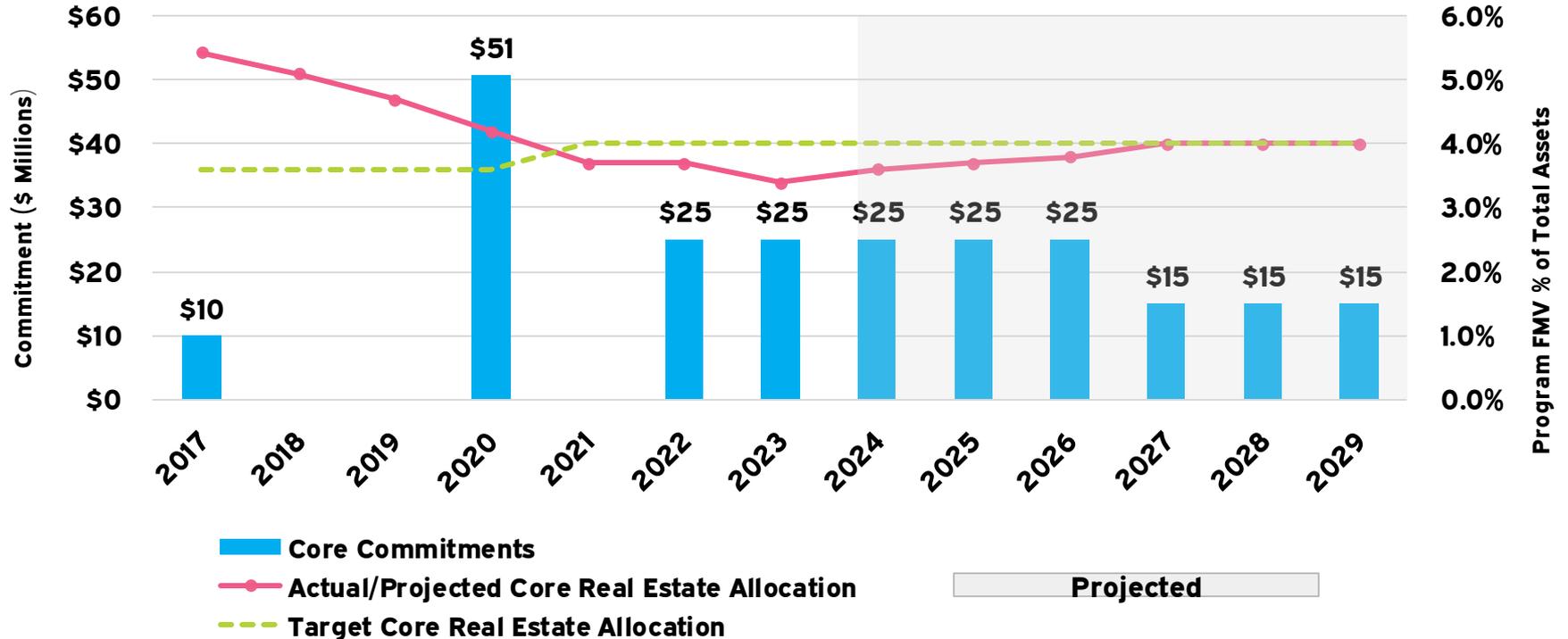


# Employees' Retirement System of Rhode Island

## Core Real Estate | Pacing Plan

### Commitment Schedule

#### HISTORICAL & PROJECTED COMMITMENTS AND ALLOCATION



### Assumptions

- Total Plan Net Growth Rate: 4.0%
- Total Net Core Real Estate Return: 4.3%



# Employees' Retirement System of Rhode Island

## Core Real Estate | Pacing Plan

### Pacing Plan Projection vs. Actual Experiences COMPARISON TO 2019 PACING MODEL

<b>Core Commitments (\$M)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
2019 Projection	0	0	0	0	0
Actual	0	51	0	25	25
<b>Variance</b>	<b>0</b>	<b>+51</b>	<b>0</b>	<b>+25</b>	<b>+25</b>

<b>Core Cash Flows (\$M)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Contributions - 2019 Projection	0	0	0	0	0
Distributions - 2019 Projection	81	9	10	10	10
Net Cash Flow - 2019 Projection	81	9	10	10	10
Net Cash Flow - Actual	13	22	62	12	(25)
<b>Variance</b>	<b>-68</b>	<b>+13</b>	<b>+52</b>	<b>+2</b>	<b>-35</b>

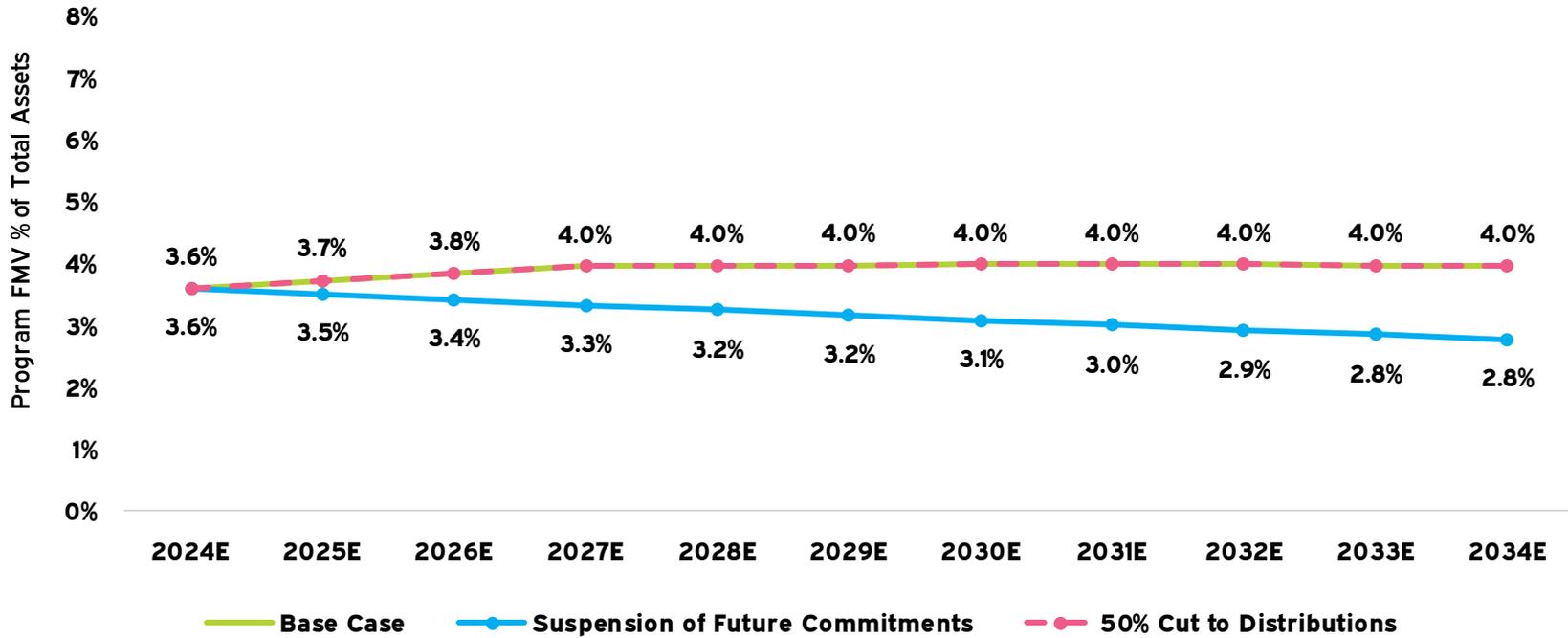
- At the beginning of 2019, ERSRI was overweight to core real estate by over 100 bps (\$83.7 million).
- The model projected a more immediate return of the 2019 redemption request but was actually paid out gradually over time.
- ERSRI made an additional \$51 million in commitments in 2020 to existing investments in Morgan Stanley Prime Property Fund and Heitman America Real Estate Trust, primarily sourced from \$110 million of redemptions from JP Morgan Strategic Property Fund.
- Inflection point in 2022 after the allocation target to core increased in 2021 from 3.6% to 4.0% of total plan assets.



# Employees' Retirement System of Rhode Island

## Core Real Estate | Pacing Plan

### Alternative Scenarios



- The above chart demonstrates the impact to ERSRI's core real estate allocation from two different scenarios:
  - Suspension of all future commitments: Steady decline in overall core allocation, moving below the recommended range in 2028 at a 3.24% allocation.
  - Cut future distributions by 50%: No impact to projected FMV as a % of Total Plan Assets, as the change only impacts the level of regular quarterly dividends distributed.

# **Non-Core Real Estate | Pacing Plan**

## **Commitment Schedule & Scenario Analysis**



### Non-Core/Private Growth

- **Recommendation:** Set allocation ranges around the Target to allow for tactical investing and to provide bandwidth around factors outside of ERSRI's control such as change in market value, contributions and distributions. This allows the investment staff to manage its real estate asset class concentration within a reasonable range.
  - *Proposed Range: +/- 15% of Target or 2.13% to 2.87%*
- If the current allocation is outside of the Target Range for two consecutive quarters, Investment Staff will inform the SIC and present a course of action with supporting rationale. The course of action may be limited to "further monitoring" if anticipated market changes, capital calls, and/or distributions are expected to bring the allocation back within the Target Range.
- If the current allocation is **above** the Target Range, the potential sequence of actions is as follows:
  - *Reduce or suspend new commitment activity*
  - *Explore secondary market sales*
- If the current allocation is **below** the Target Range, the potential sequence of actions is as follows:
  - *Increase or accelerate new commitment activity*
  - *Explore secondary market purchases*

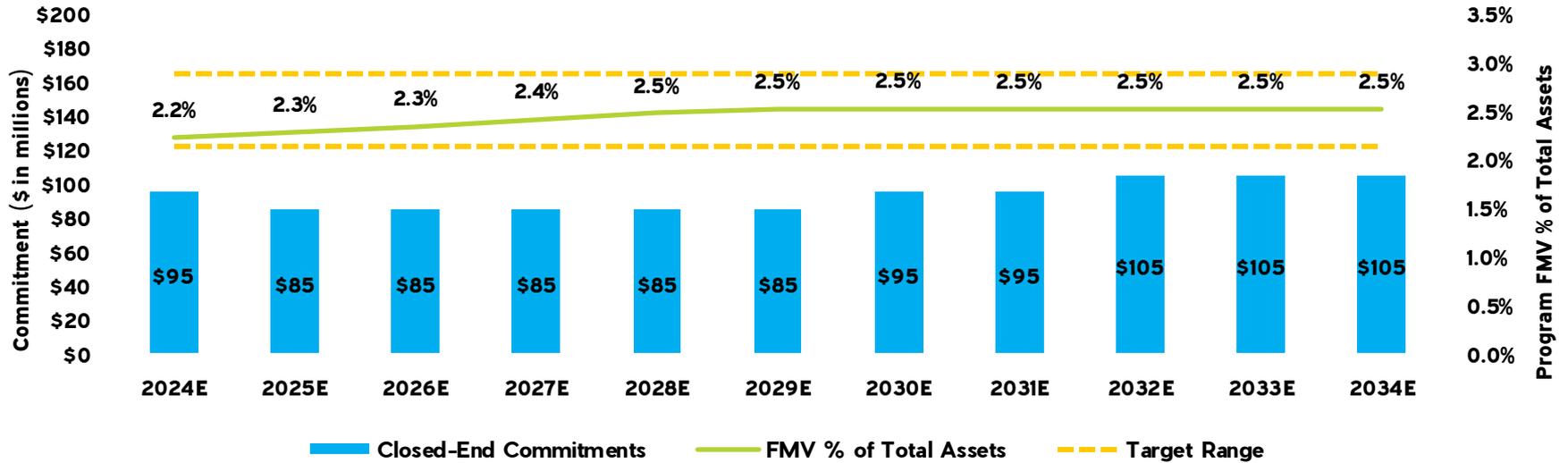


# Employees' Retirement System of Rhode Island

## Non-Core Real Estate | Pacing Plan

### Commitment Schedule

#### NON-CORE REAL ESTATE PACING SUMMARY – BASE CASE



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	95	85	85	85	85	85	95	95	105	105	105
Open-End Commitments	0	0	0	0	0	0	0	0	0	0	0
Contributions	-58	-69	-75	-78	-81	-82	-85	-88	-92	-96	-99
Distributions	69	74	79	82	86	91	98	105	108	112	117
Net Cash Flow	11	5	4	4	5	8	14	18	17	16	18
Fair Market Value	242	257	275	294	314	332	347	359	373	388	404
<b>FMV % of Total Assets</b>	<b>2.2%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.5%</b>						

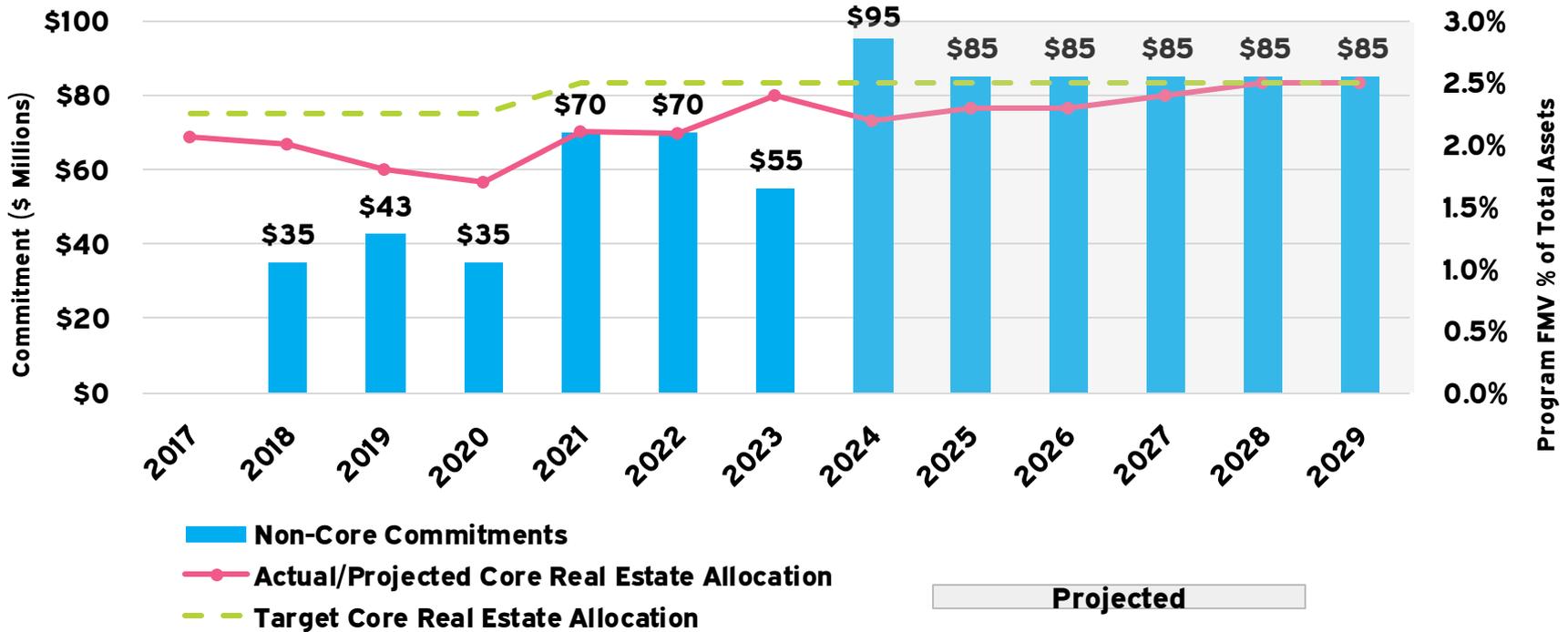


# Employees' Retirement System of Rhode Island

## Non-Core Real Estate | Pacing Plan

### Commitment Schedule

#### HISTORICAL & PROJECTED COMMITMENTS AND ALLOCATION



#### ASSUMPTIONS

- Total Plan Net Growth Rate: 4.0%
- Total Net Non-Core Real Estate Return: 8.5% to 9.6%



# Employees' Retirement System of Rhode Island

## Non-Core Real Estate | Pacing Plan

### Pacing Plan Projection vs. Actual Experiences COMPARISON TO 2019 PACING MODEL

Non-Core Commitments (\$M)	2019	2020	2021	2022	2023
2019 Projection	35	35	35	35	35
Actual	43	35	70	70	55
<i>Variance</i>	<i>+8</i>	<i>0</i>	<i>+35</i>	<i>+35</i>	<i>+20</i>

Non-Core Cash Flows (\$M)	2019	2020	2021	2022	2023
Contributions - 2019 Projection	42	49	57	35	33
Distributions - 2019 Projection	60	52	44	52	71
Net Cash Flow - 2019 Projection	18	3	(13)	17	38
Net Cash Flow - Actual	12	(11)	(12)	22	4
<i>Variance</i>	<i>-6</i>	<i>-14</i>	<i>+1</i>	<i>+5</i>	<i>-34</i>

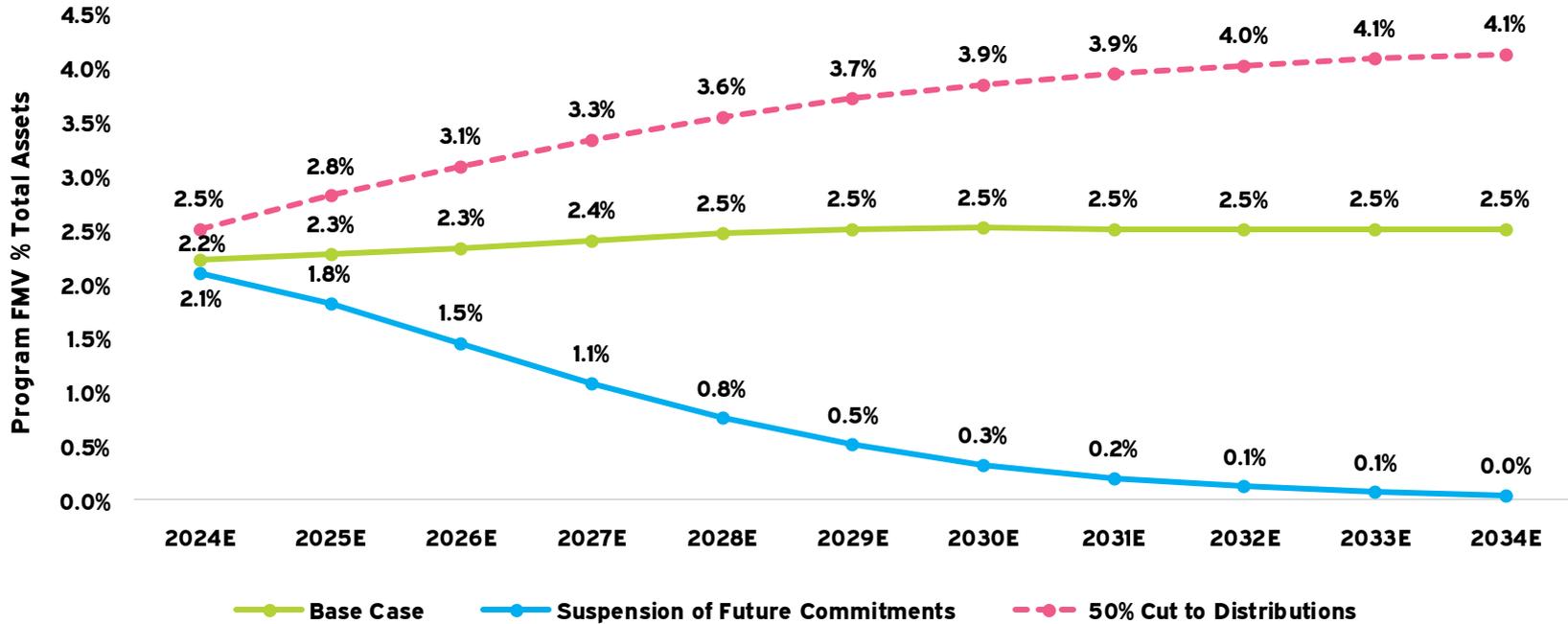
- At the beginning of 2019, ERSRI was underweight to non-core real estate by ~50 bps (\$23.0 million).
- Inflection point with commitments in 2021 when the allocation target to non-core increased from 2.3% to 2.5% of total plan assets.
- Private real estate managers have discretion over when they buy/sell assets, which makes it difficult to predict cash inflows and outflows generally.



# Employees' Retirement System of Rhode Island

## Non-Core Real Estate | Pacing Plan

### Alternative Scenarios



- The above chart demonstrates the impact to ERSRI's non-core real estate allocation from two different scenarios:
  - Suspension of all future commitments: Rapid and material decline in overall non-core allocation, with the entire projected line outside of the recommended range, ultimately reaching 0% in 10 years.
  - Cut future distributions by 50%: Projected FMV increases as ERSRI retains increasing unrealized value, significantly exceeding its target and moving outside of the recommended upper range in 2026.

# Appendix

## Performance Summary



# Employees' Retirement System of Rhode Island

## Core & Non-Core Real Estate | Performance Summary

### Time Weighted Fund Performance: Sorted by Strategy and Fund

	% of Program	% of Strategy	QTR (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	S.I. (%)	S.I. Date
<b>Total Program Net</b>	<b>100.0</b>		<b>(1.7)</b>	<b>(3.0)</b>	<b>(6.6)</b>	<b>11.6</b>	<b>7.6</b>	<b>9.7</b>	<b>5.4</b>	<b>Apr-89</b>
<i>NCREIF ODCE (net)</i>			<i>(2.9)</i>	<i>(6.2)</i>	<i>(10.7)</i>	<i>7.1</i>	<i>5.6</i>	<i>7.8</i>	<i>6.2</i>	
<b>Core</b>	<b>61.6</b>	<b>100.0</b>	<b>(2.5)</b>	<b>(5.4)</b>	<b>(8.7)</b>	<b>8.4</b>	<b>6.1</b>	<b>8.2</b>	<b>5.7</b>	<b>Apr-89</b>
<i>NCREIF ODCE (net)</i>			<i>(2.9)</i>	<i>(6.2)</i>	<i>(10.7)</i>	<i>7.1</i>	<i>5.6</i>	<i>7.8</i>	<i>6.2</i>	
AEW Core Property	19.9	32.3	(3.5)	(7.0)	(9.9)	7.6	6.1	8.0	9.8	Jan-10
Heitman RE Trust	20.6	33.4	(2.2)	(5.9)	(9.2)	9.5	5.6	--	7.2	Oct-14
Prime Property	17.3	28.1	(2.2)	(3.5)	(7.1)	8.5	6.8	9.2	7.5	Oct-05
AEW EHF	3.8	6.2	(0.6)	--	--	--	--	--	(0.6)	Apr-23
<b>Non-Core</b>	<b>38.4</b>	<b>100.0</b>	<b>(0.2)</b>	<b>0.9</b>	<b>(3.1)</b>	<b>18.0</b>	<b>10.3</b>	<b>13.6</b>	<b>5.0</b>	<b>Jan-05</b>
<i>NCREIF ODCE (net)</i>			<i>(2.9)</i>	<i>(6.2)</i>	<i>(10.7)</i>	<i>7.1</i>	<i>5.6</i>	<i>7.8</i>	<i>6.5</i>	
Exeter III	0.1	0.3	(18)	(2.1)	(1.9)	19.3	16.3	--	20.4	Oct-14
GEM V	2.2	5.8	(11.7)	(11.8)	(26.9)	(8.9)	(7.4)	--	0.0	Jan-14
GEM VI	1.7	4.3	(1.3)	(2.4)	(12.3)	14.9	4.8	--	13.5	Jan-18
Waterton XII	2.6	6.8	(3.5)	(12.1)	(16.4)	10.2	6.7	--	11.3	Jan-15
Crow Retail	0.2	0.5	2.6	16.2	5.8	15.1	7.9	--	11.3	Oct-15
IC Berkeley IV	0.0	0.0	(15.1)	(17.5)	(82.3)	(33.4)	(17.6)	--	(12.8)	Jul-16
Lone Star IV	1.1	2.8	(2.4)	(4.0)	(8.0)	1.1	(1.0)	--	4.8	Oct-15
Tri Continental VII	0.1	0.1	7.9	7.9	9.8	4.9	6.1	0.9	(8.2)	Jul-05
Raith RE II	5.5	14.3	(2.0)	5.8	4.1	67.1	--	--	27.3	Apr-19
Linchriss II	3.6	9.3	(2.2)	4.1	15.0	35.8	--	--	16.1	Jan-20
Exeter V	6.3	16.5	2.2	2.8	2.6	--	--	--	39.3	Jan-21
Berkeley V	4.5	11.7	6.4	3.4	(4.2)	21.0	--	--	21.0	Jul-20
IPI Partners II	3.6	9.4	6.6	7.9	6.5	--	--	--	8.3	Jul-21
Crow Realty IX	5.6	14.6	(0.4)	(2.8)	(3.9)	--	--	--	7.2	Jan-22
GEM Realty VII	0.3	0.7	(5.6)	(24.8)	--	--	--	--	(59.0)	Oct-22
Raith III	0.2	0.4	(6.0)	(17.9)	--	--	--	--	(17.9)	Jan-23
Greystar XI	0.9	2.2	--	--	--	--	--	--	--	Sep-23

As of June 30, 2023.

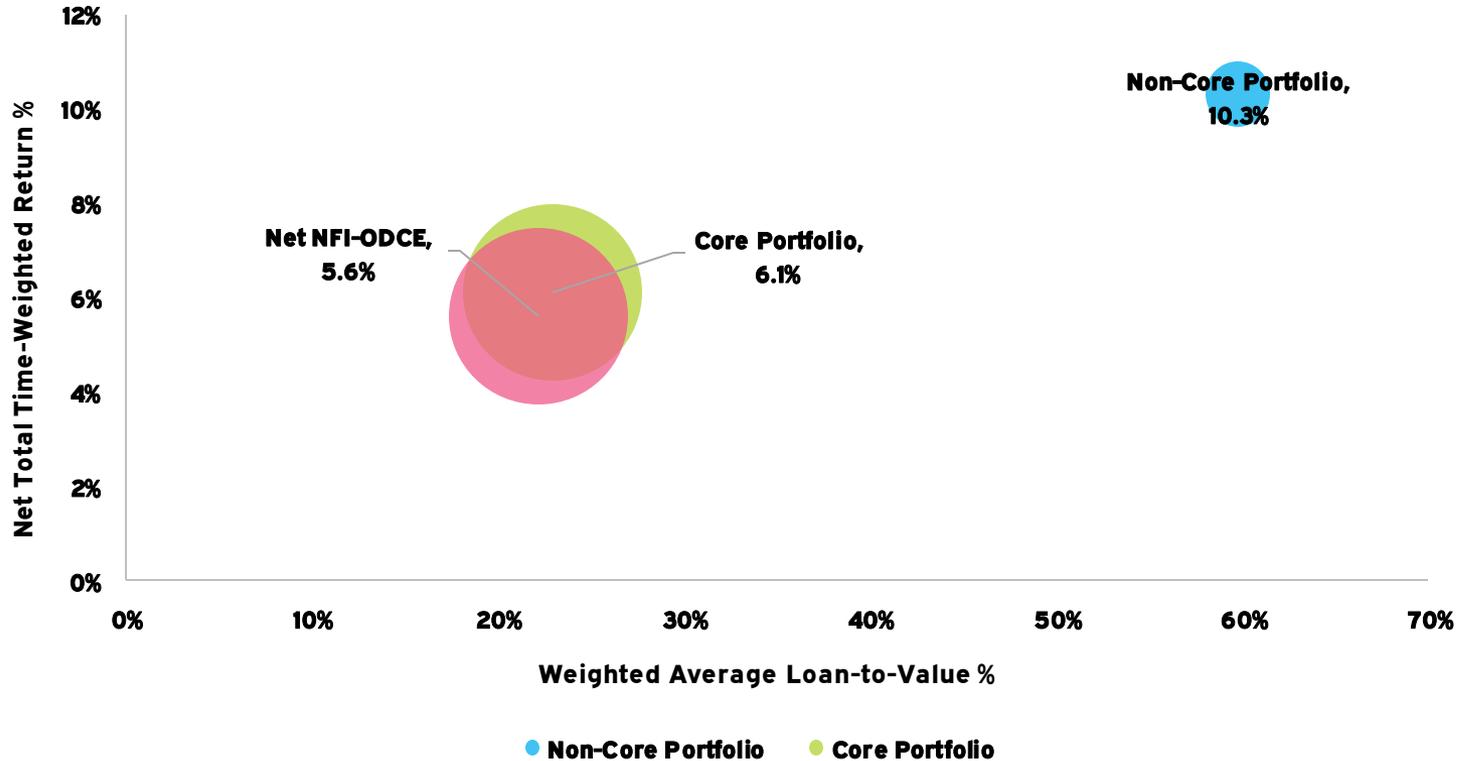


# Employees' Retirement System of Rhode Island

## Real Estate Portfolio Overview

Net Performance as of June 30, 2023<sup>1,2</sup>

### ERSRI REAL ESTATE PORTFOLIO 5-YEAR NET PERFORMANCE



<sup>(1)</sup> The size of the bubble relates to the NAV amount of the investment and the percentage inside the bubble is the net total time-weighted return. For formatting purposes, the NFI-ODCE NAV is the same as the ERSRI Core Portfolio. As of 6/30/2023, the NAV for the NFI-ODCE Index represented \$240.7 billion.

<sup>(2)</sup> The Loan-to-Value ratios used in the graph are a weighted average.



# Employees' Retirement System of Rhode Island

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In some cases Meketa Investment Group assists the client in handling capital calls or asset transfers among investment managers. In these cases we do not make any representations as to the managers' use of the funds, but do confirm that the capital called or transferred is within the amounts authorized by the client.

Because there is no readily accessible market for private markets assets (companies and partnerships), the values placed on private markets assets are calculated by General Partners using conservative and industry standard pricing procedures. Annually, an independent auditor reviews the pricing procedures employed by the General Partner of each partnership.

The values of companies and partnerships are audited at year-end, and are not audited at other quarter-end periods. While financial information may be audited, there is some discretion as to the method employed to price private companies and, therefore, private markets partnerships. At all times, Meketa Investment Group expects General Partners to utilize conservative and industry standard pricing procedures, and requires the General Partners to disclose those procedures in their reports. However, because of the inherent uncertainty of valuation, these estimated values may differ from the values that would be used if a ready market for the investments existed, and the differences could be significant.