



MEMORANDUM

Date: November 20, 2019

To: Employees' Retirement System of Rhode Island

From: Meketa Investment Group
Private Markets – Real Estate

RE: Functional Asset Allocation – Inflation Protection Class
Core Private Real Estate Sub Portfolio Recommendation:
JP Morgan Strategic Property Fund

Executive Summary

Effective with the 2017-18 fiscal year, the Employees' Retirement System of Rhode Island (ERSRI or System) implemented a revised asset allocation. As part of this change, private core real estate investments will serve as a portion of the Inflation Protection Class allocation. Previously, the System had categorized real estate as a distinct asset class, and had an allocation target of 8% of total ERSRI portfolio assets. These investments permitted private and public real estate, diversified by core risk and non-core risk investments, as well as by geography and property type. Currently, all of ERSRI's private real estate holdings are in a series of open and closed end private commingled funds, and while permitted, as of June 30, 2019, the System had not yet invested in public real estate.

As of June 30, 2019, approximately \$602.7 million, or 7.1% of total plan assets were invested and committed to invest in private real estate. Approximately 61% of the invested and committed real estate amounts are in four, open end core funds totaling \$365.5 million, equal to 4.3% of total plan assets, and 72% of total real estate NAV. 39% of the real estate amounts are invested and committed to 11 non-core closed end funds¹ totaling \$237.2 million, 2.8% of total plan assets and 28% of NAV.

As part of the revised functional asset class portfolio structure, core open-end private real estate funds are included within the **Inflation Protection Class**. The target NAV of this sub-portfolio is intended to be reduced, in a gradual process, to 3.6% of the total ERSRI portfolio. In September 2018, the State Investment Commission (SIC) approved a redemption of the Prudential PRISA position. Proceeds in the amount of \$78.9 million were received in December 2018. The redemption decreased the Core sub-portfolio to 4.3% of total plan assets from 5.2% of total plan assets. It is currently estimated that an additional reduction of approximately \$60 million will assist ERSRI in achieving its 3.6% core real estate target allocation within the Inflation Protection class.

Meketa has worked with Staff in examining the System's core real estate investments and recommends that ERSRI withdrawal \$60 million from the \$41.8 billion JP Morgan Strategic Property Fund (JPM Strategic or the Fund). The proposed withdrawal will bring the remaining NAV in JPM Strategic from \$110.7 million (as of June 30, 2019) to approximately \$50.7 million. ERSRI made its initial investment in JPM Strategic in 2006. Attached to this memo is Appendix A, which illustrates the various core open-end private real

¹ Please note the number of non-core funds and the NAV includes Magna Hotel Fund III as the fund has not completed its liquidation but excludes the commitment of up to \$25 million to Linchris Capital Opportunity Fund II, L.P (Hotels). The commitment was approved by the Rhode Island SIC in February 2019, however the Fund did not have a closing until October 2019.



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estate funds in the portfolio as of June 30, 2019 (the most recent Quarterly Report), with additional updates as available through September 30, 2019 shown in Appendix B.

Elements of the recommendation include:

1. Performance of the JPM Strategic Property Fund has been weaker than the other ERSRI open-end core funds. As of June 30, 2019, the Fund outperformed the gross NFI-ODCE Index for the current quarter and underperformed the Index for the 1-, 3-, 5-, and 10-year time periods.
2. Annual asset management fees to JP Morgan currently equal to 92 basis points annually. Fees would increase to 100 basis points following the redemption. This is a relatively reasonable amount (total JPM Strategic fees will decline by approximately \$505,000 based on the lower invested amount, and increase by approximately \$42,000 from \$465,000 to \$507,000 on the remaining \$50.7 million).
3. The remaining open-end core funds provide adequate diversification by property type and geographic region so that the redemption of roughly 54% of the JPM Strategic investment will not create undue concentration.

ERSRI could submit a redemption request by no later than November 29, 2019 in order to be in the redemption queue as of December 31, 2019. As of October 2019, the Fund fully satisfied all outstanding withdrawal requests for redemptions, fees and distributable cash flow. As a result of the preceding, there is no longer a redemption queue. If a redemption queue were to form, there is no obligatory date by which JP Morgan Strategic must satisfy the request; however, given the size of the proposed redemption, it is unlikely that the proceeds would not be available within the next several quarters. ERSRI would continue to earn the Fund return through the redemption date.



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Appendix A Reported Values as of June 30, 2019 Quarterly Report

ERSRI Core Fund Estimate Withdrawal from JPM Strategic

Fund	Committed /Funded	Core Sub-Portfolio NAV @ 6/30/19	Estimated Withdrawal	Total Projected Core Sub-Portfolio NAV	Projected Annual Fee Amount	Projected Total Fees as Blended Annual Basis Points	Impact on Fee Rate Due to Withdrawal	CURRENT Annual Fees Based on Actual Paid ⁽¹⁾	CURRENT Total Fees as Blended Annual Basis Points
AEW Core Property Trust	\$69,873,660	\$107,288,205	\$0	\$107,288,205	\$537,059	50	N/A: 50 bps - Founder's Rate for entire investment If <\$30 million is withdrawn ERSRI remains in the same fee tiers. However, the blended fee changes as the total NAV decreases since less money is receiving the most favorable fee rate.	\$533,150	50
Heitman America Real Estate Trust	\$60,000,000	\$81,216,020	\$0	\$81,216,020	\$734,728	90		\$734,759	90
JP Morgan Strategic Property Fund	\$75,000,000	\$110,728,989	(\$60,000,000)	\$50,728,989	\$507,290	100	If ENAV drops below \$100M, the fee becomes 100 bps on NAV.	\$1,012,290	92
Morgan Stanley Prime Property Fund	\$35,000,000	\$66,299,186	\$0	\$66,299,186	\$743,206	112	None due to a withdrawal.	\$730,485	112
Total		\$365,532,400	(\$60,000,000)	\$305,532,400	\$2,522,283	83		\$3,010,684	82

⁽¹⁾ Based on the prior four quarters as of June 30, 2019.

Total Plan - June 2019 (\$ Millions)	\$8,468.8
Core Target - Total Plan Percentage	3.6%
Core Target - Total Plan Amount (\$ Millions)	\$304.9
6/30/19 Core NAV (\$ Millions)	\$365.5
Amount OVER Target (\$ Millions)	\$60.7
Withdrawal Amount (\$ Millions)	(\$60.0)
Core NAV POST Withdrawal (\$ Millions)	\$305.5
Core Percentage - Total Plan Amount	3.6%



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Appendix B Reported Values as of September 30, 2019 for Informational Purposes

ERSRI Core Fund Estimate Withdrawal from JPM Strategic

Fund	Committed /Funded	Core Sub-Portfolio NAV @ 9/30/19	Estimated Withdrawal	Total Projected Core Sub-Portfolio NAV	Projected Annual Fee Amount	Projected Total Fees as Blended Annual Basis Points	Impact on Fee Rate Due to Withdrawal	CURRENT Annual Fees Based on Actual Paid ⁽¹⁾	CURRENT Total Fees as Blended Annual Basis Points
AEW Core Property Trust	\$69,873,660	\$107,012,313	\$0	\$107,012,313	\$538,493	50	N/A: 50 bps - Founder's Rate for entire investment If <\$30 million is withdrawn ERSRI remains in the same fee tiers. However, the blended fee changes as the total NAV decreases since less money is receiving the most favorable fee rate.	\$533,150	50
Heitman America Real Estate Trust	\$60,000,000	\$81,778,047	\$0	\$81,778,047	\$739,224	90		\$734,759	90
JP Morgan Strategic Property Fund	\$75,000,000	\$110,685,321	(\$60,000,000)	\$50,685,321	\$506,853	100	If ENAV drops below \$100M, the fee becomes 100 bps on NAV.	\$1,012,290	92
Morgan Stanley Prime Property Fund	\$35,000,000	\$66,581,410	\$0	\$66,581,410	\$746,370	112	None due to a withdrawal.	\$730,485	111
Total		\$366,057,091	(\$60,000,000)	\$306,057,091	\$2,530,940	83		\$3,010,684	82

⁽¹⁾ Based on the prior four quarters as of June 30, 2019.

Total Plan - September 2019 (\$ Millions)	\$8,487.4
Core Target - Total Plan Percentage	3.6%
Core Target - Total Plan Amount (\$ Millions)	\$305.5
9/30/19 Core NAV (\$ Millions)	\$366.1
Amount OVER Target (\$ Millions)	\$60.5
Withdrawal Amount (\$ Millions)	(\$60.0)
Core NAV POST Withdrawal (\$ Millions)	\$306.1
Core Percentage - Total Plan Amount	3.6%

***Treasury Investment Staff Post-Meeting Note:** upon deliberation, the SIC concluded that it would redeem the Plan's full investment in JPM Strategic Property Fund, and allocate a portion of the redemption proceeds to the other investments in the Plan's Core Real Estate portfolio in order to rebalance the portfolio back to its 3.6% target allocation.

	Core Sub-Portfolio NAV @ 9/30/19	Estimated Withdrawal	Estimated Reallocation	Total Projected Core Sub-Portfolio NAV
AEW Core Property Trust	\$107,012,313			\$107,012,313
Heitman America Real Estate Trust	\$81,778,047		\$25,342,661	\$107,120,708
JP Morgan Strategic Property Fund	\$110,685,321	(\$110,685,321)		\$ -
Morgan Stanley Prime Property Fund	\$66,581,410		\$25,342,661	\$91,924,071
	\$366,057,091	(\$110,685,321)	\$50,685,321	\$306,057,091
Total Plan - September 2019 (\$ Mil)	\$8,487.4			
Core Target (%)	3.6%			
Core Target (\$ Mil)	\$305.5			
9/30/2019 Core NAV	\$366.1			
Amount OVER Target (\$ Mil)	\$60.5			
Net Withdrawal Amount (\$ Mil)	\$60			
Core NAV POST Withdrawal (\$ Mil)	\$306.1			
Core Percentage - Total Plan Amount	3.6%			