



Real Estate Update

Core Portfolio Presentation for IAC

November 18, 2015



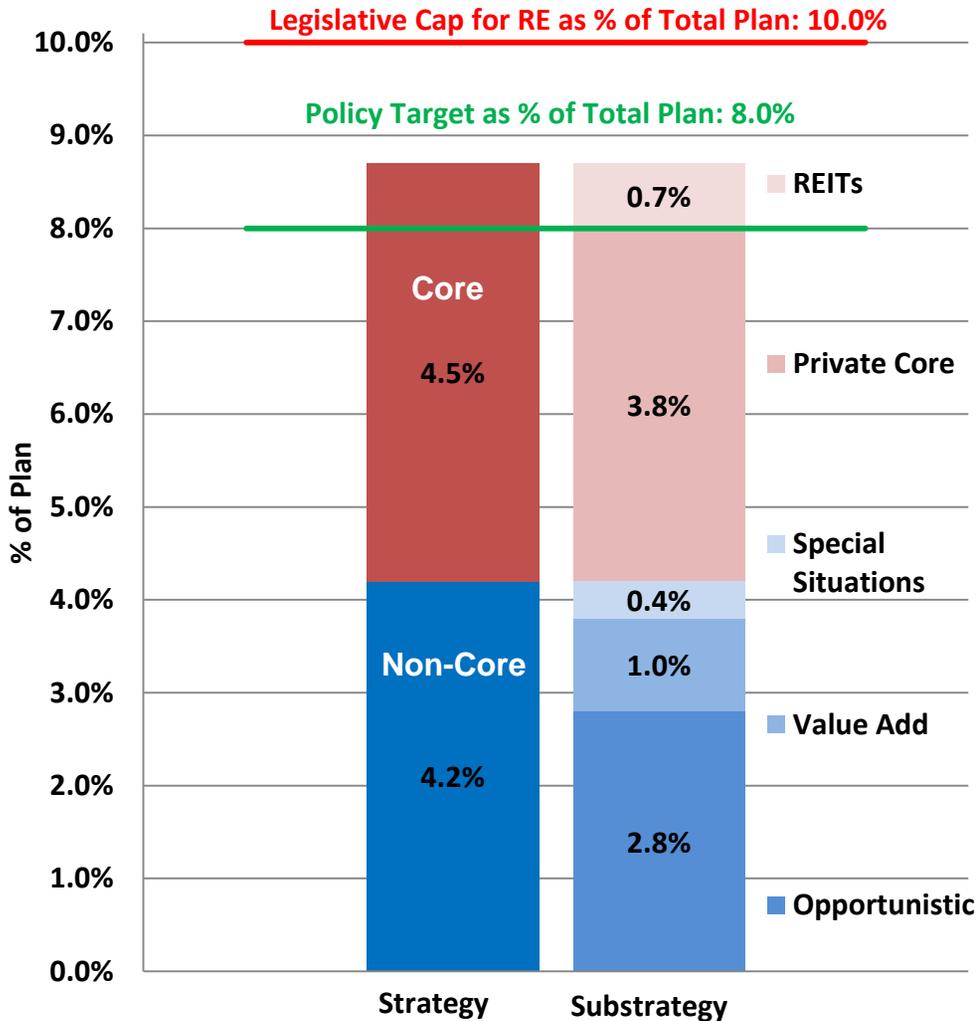
North Carolina Department of State Treasurer
Investment Management

Learn. Invest. Grow. Prosper.

- I. Real Estate Investment Portfolio Overview
- II. Core & Non-Core Real Estate Performance
- III. Core Real Estate Transitional Goals
- IV. Market Conditions
- V. Discussion Topics



Real Estate Allocation Overview (as of 9/30/15)



Valuation as of 9/30/15

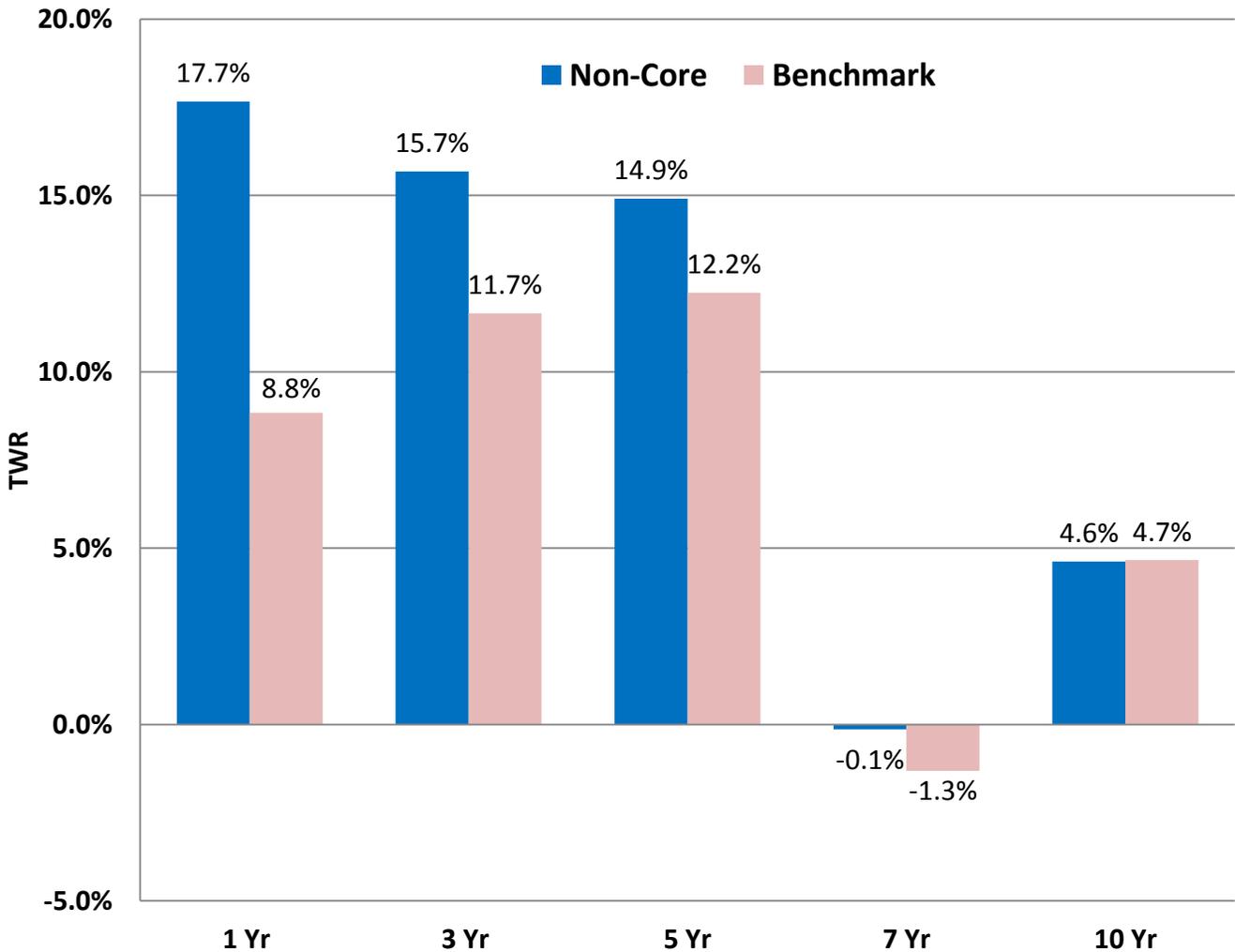


Strategic policy transition to 5% Core / 3% Non-Core of plan (60/40 within REIP), is well underway



Non-Core RE Performance (Net Returns)

Non-Core Contribution to Return			
1 Yr		Contribution	
Opportunistic		10.3	
Value Add		7.3	
Total Non-Core		17.7	
<i>Major Drivers Vintage</i>			
O	NorthCreek	2011	2.6
O	Blackstone VII	2011	1.7
O	Lone Star II	2010	1.5
V	NorthRock II	2012	1.2
O	Blackstone VI	2007	1.0
3 Yr		Contribution	
Opportunistic		10.1	
Value Add		5.6	
Total Non-Core		15.7	
<i>Major Drivers Vintage</i>			
O	Blackstone VI	2007	1.5
O	NorthCreek	2011	1.5
O	Blackstone VII	2011	1.4
V	KTR II	2008	1.2
O	Lone Star II	2010	1.1



O = Opportunistic, V = Value Add

NCRS data through 9/30/15

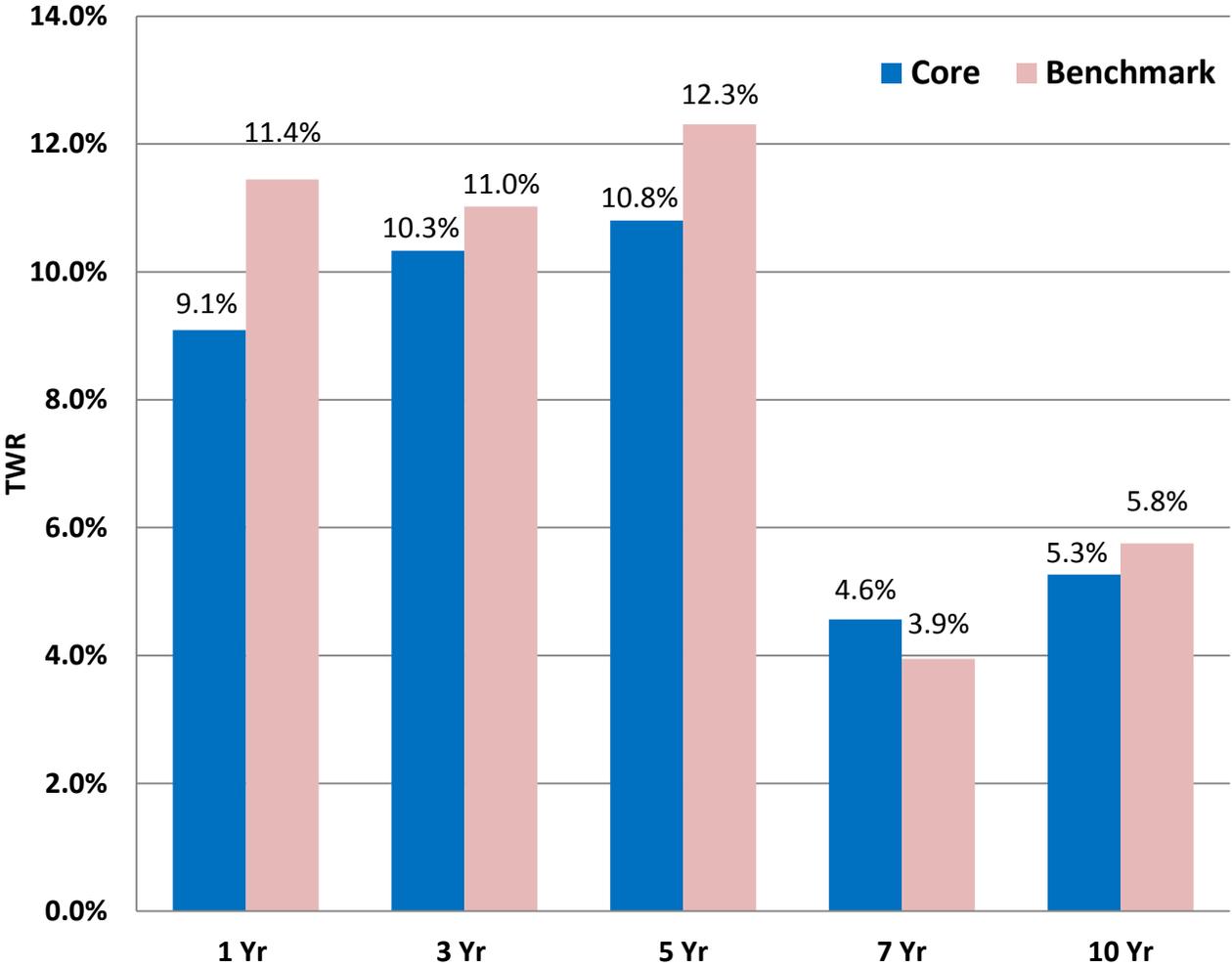
Separate accounts and high-conviction managers are driving impressive returns



Core Real Estate Performance (Net Returns)

Core Contribution to Return			
1 Yr		Contribution	
Private Core RE		7.6	
REITs		1.5	
Total Core		9.1	
<i>Major Drivers</i>		<i>Vintage</i>	
PC	NorthRock Core	2008	2.4
PC	JP Morgan SPF	1989	2.1
PC	Blackstone Edens	2013	1.4
3 Yr		Contribution	
Private Core RE		8.4	
REITs		2.0	
Total Core		10.3	
<i>Major Drivers</i>		<i>Vintage</i>	
PC	NorthRock Core	2008	3.5
PC	JP Morgan SPF	1989	2.3

PC = Private Core Real Estate

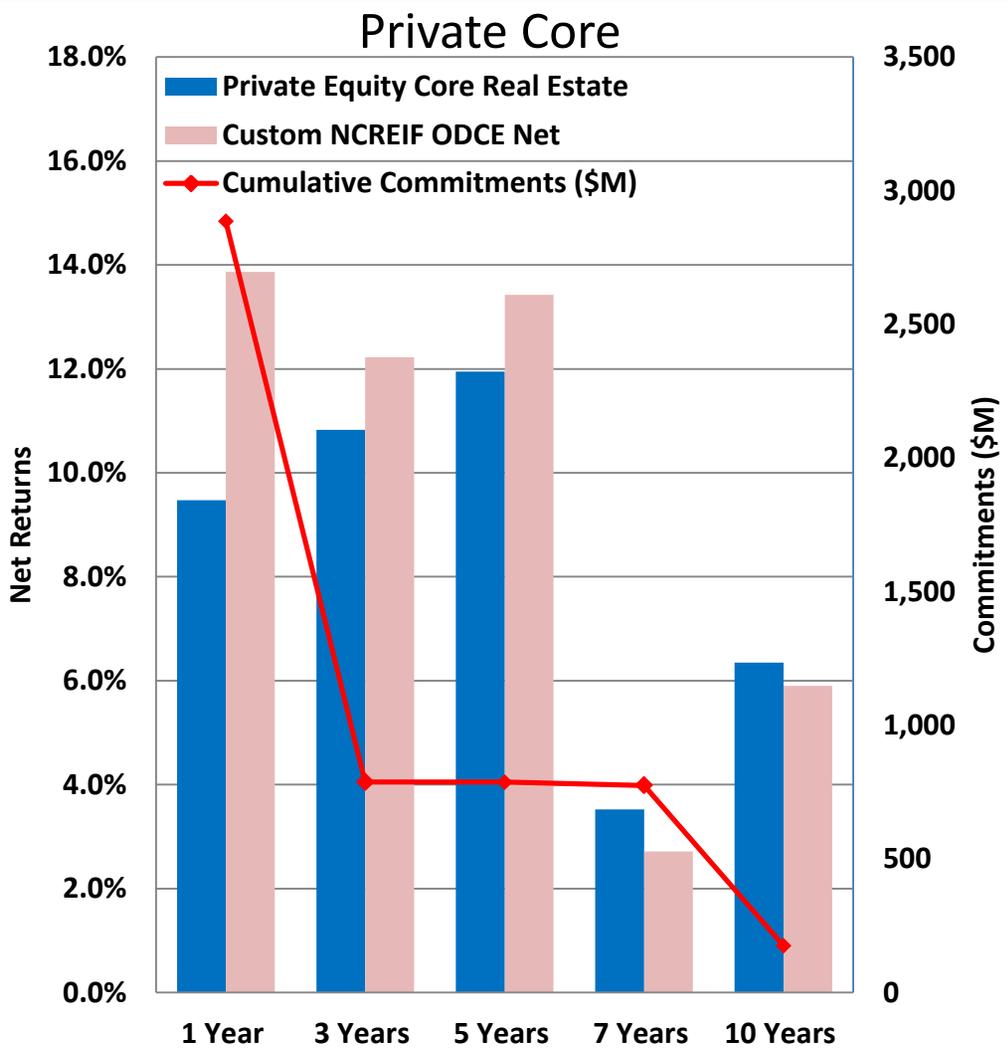
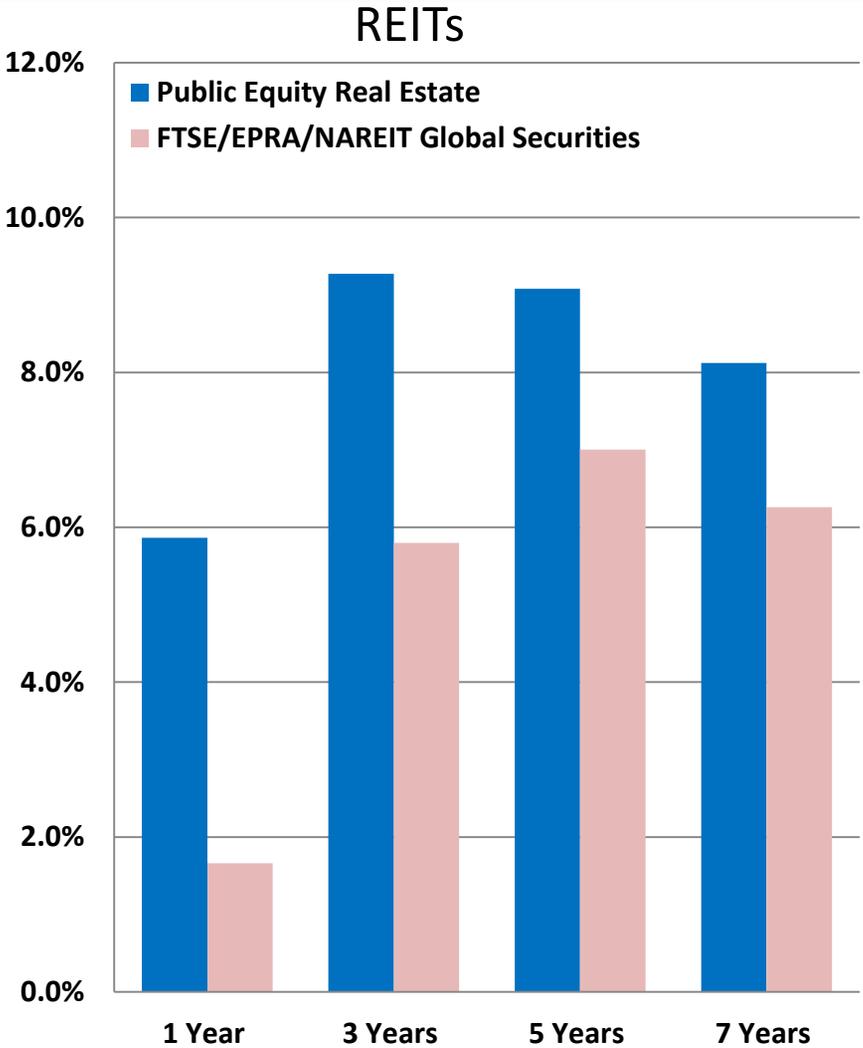


NCRS data through 9/30/15

Core performance is expected to improve within 24 months as investments mature



REITs & Private Core Performance (net returns)



Source: NCRS data through 9/30/15

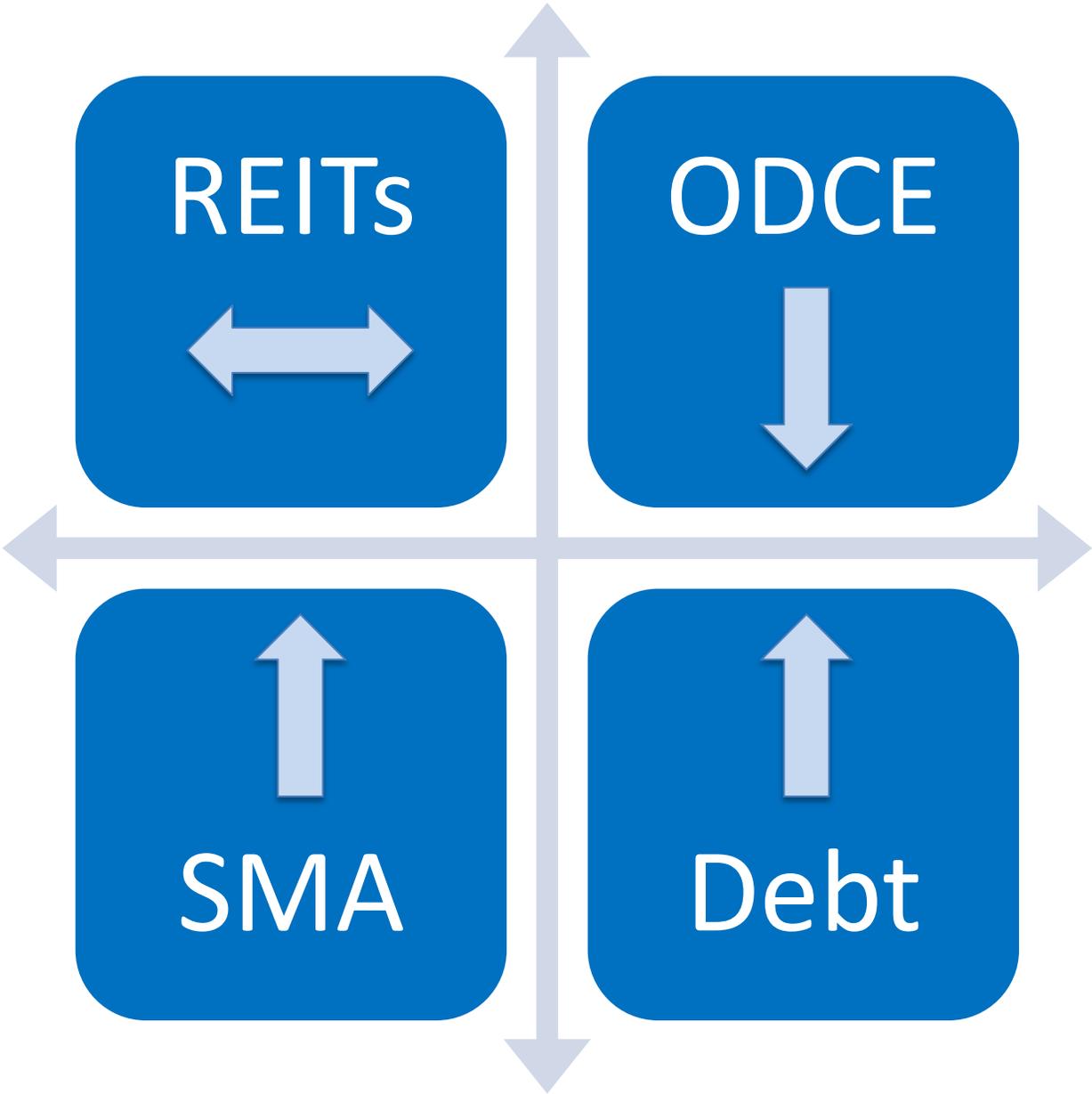
Anticipated J-curve effect from significant recent commitments to Core Plus investments is causing short term underperformance



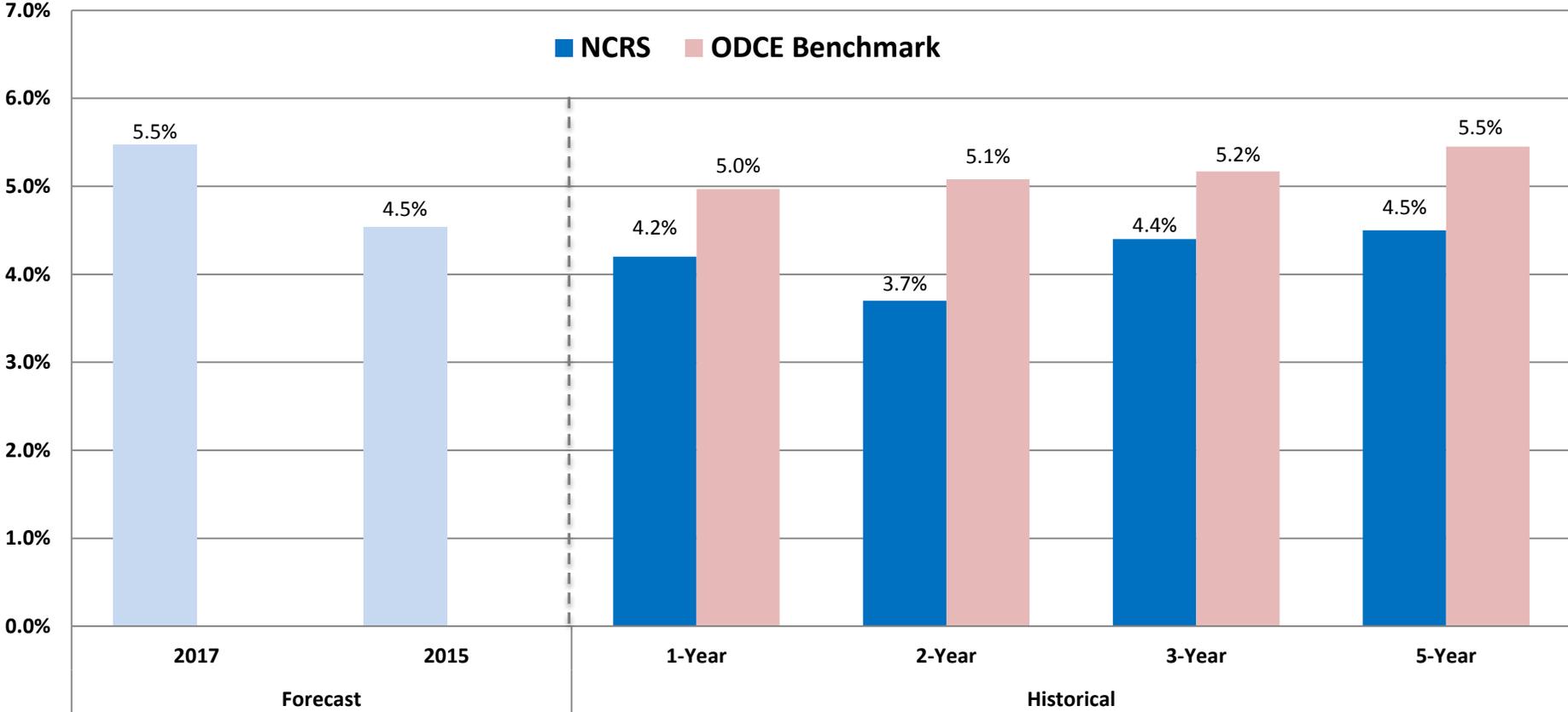
Core Thesis

“To generate durable income and stable returns through strategic investments, with prudent use of leverage, in assets with long-term fundamental drivers that will endure for generations”





Private Core Gross Income Returns



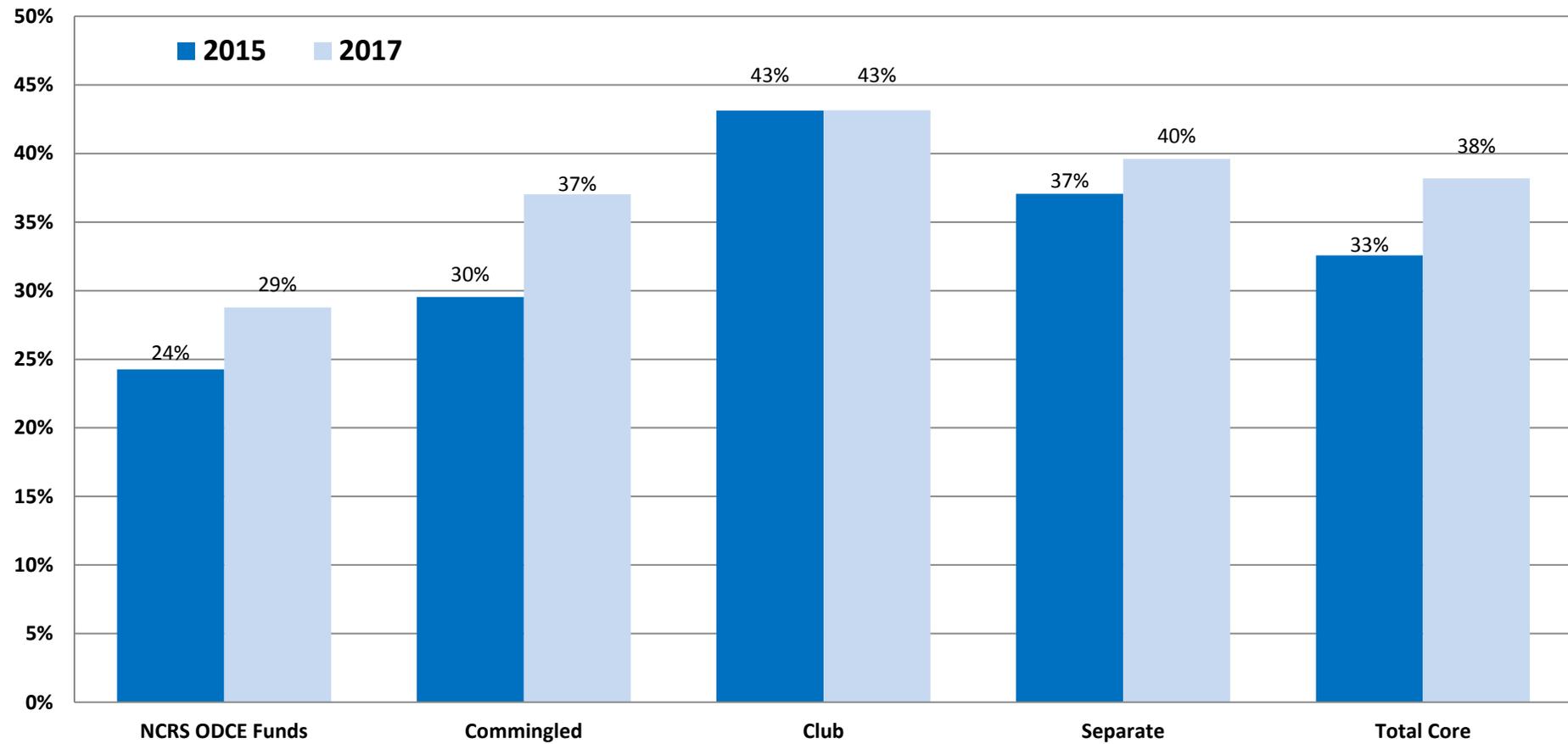
Source: 2Q15 Courtland Report

As a result of implementing the Core Transition Plan, we expect core returns to increase steadily over the next couple of years



Total Core Leverage by Structure

Leverage



Real estate cash flow projection

Overall leverage is projected to move higher, however NCRS maintains control with Separate Accounts



- Vacancy rates are low as solid demand outpaces new supply
- Fundamentals are driving rent increases above inflation and providing healthy NOI
- Elevated valuations are evident for high quality assets
- Financial market turbulence and market/industry specific risks are ever-present, but long-term fundamental drivers provide support for values

Multifamily	• Household formation and demographic trends favor apartments
Office	• Supply constrained CBDs and strong employment growth
Retail	• Urbanization and limited development
Industrial	• E-commerce and supply chain optimization with focus on the “last mile”
Hotel	• Rising travel spending , prime locations generate high occupancy and pricing



Consider raising the overall cap on real estate

Increasing our investment in real estate will allow non-core real estate investments to offset underweight to Private Equity

Real Estate Operating Company (REOCs)

Pros

- Pipeline access
- More efficient cost structure
- Governance/control

Challenges

- Private Equity-type risk
- Difficult to source
- More DST resources

Leverage

Comfort level

- Leverage is accretive in current market environment
- Proper structure is key





Thank You!

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