

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

INVESTMENT MANAGEMENT DIVISION

Real Estate Update

May 25, 2022



Agenda

Page

3	Real Estate Team
4	Real Estate Sector Analysis
5	Real Estate Allocation
6	Real Estate Cash Flow
7	Manager Concentration (excludes REITs)
8	Cost Efficiency
9	Performance: Total Real Estate vs. REITs
10	Performance: Core Real Estate
11	Performance: Non-Core Real Estate
12	Unfunded Commitment Pacing
13	Mixed Use Build-To-Core Program
18	Investment Strategy Objectives
19	Appendix



Real Estate Team

Troy March, CCIM, MBA
Director of Real Estate

9 Years with IMD
20 Years Industry Experience

Casey High
Portfolio Manager

9.5 Years with IMD

Chris Ward
Analyst

8 Years with IMD

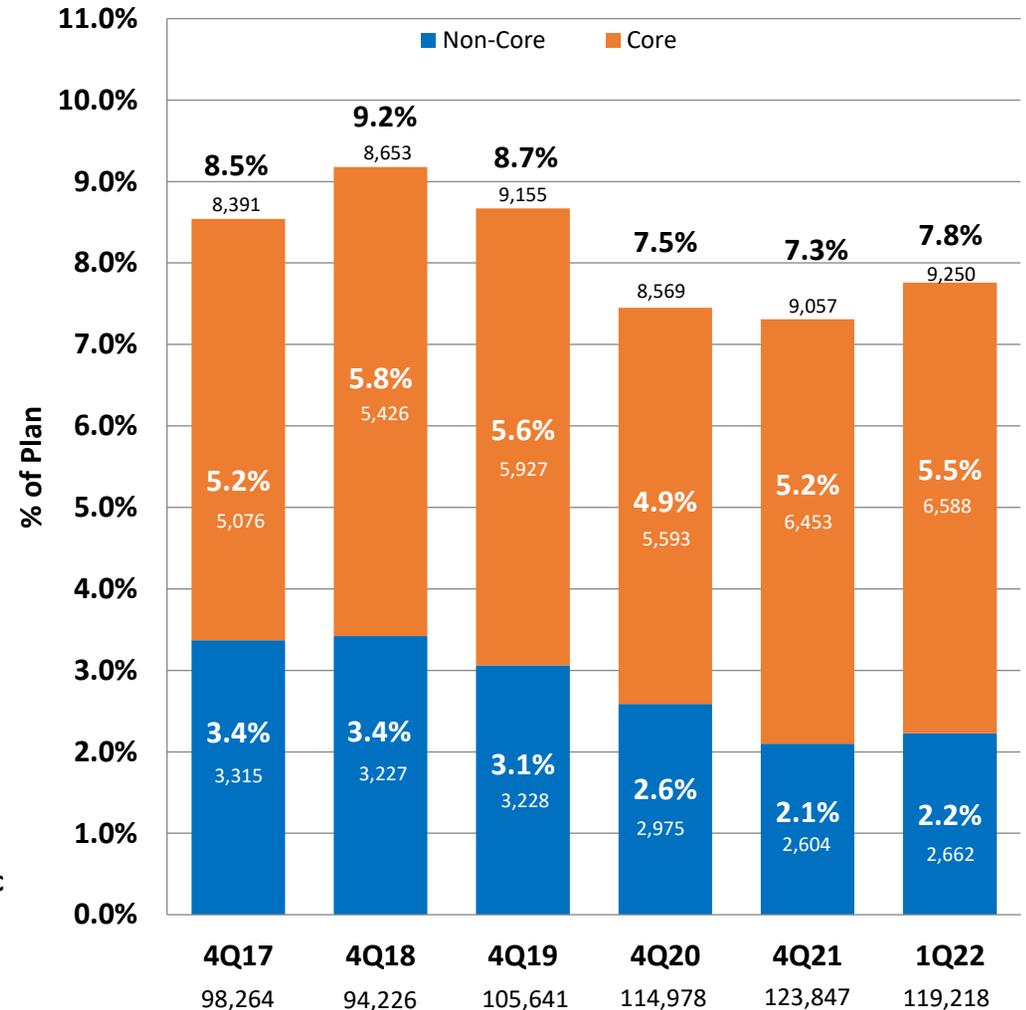
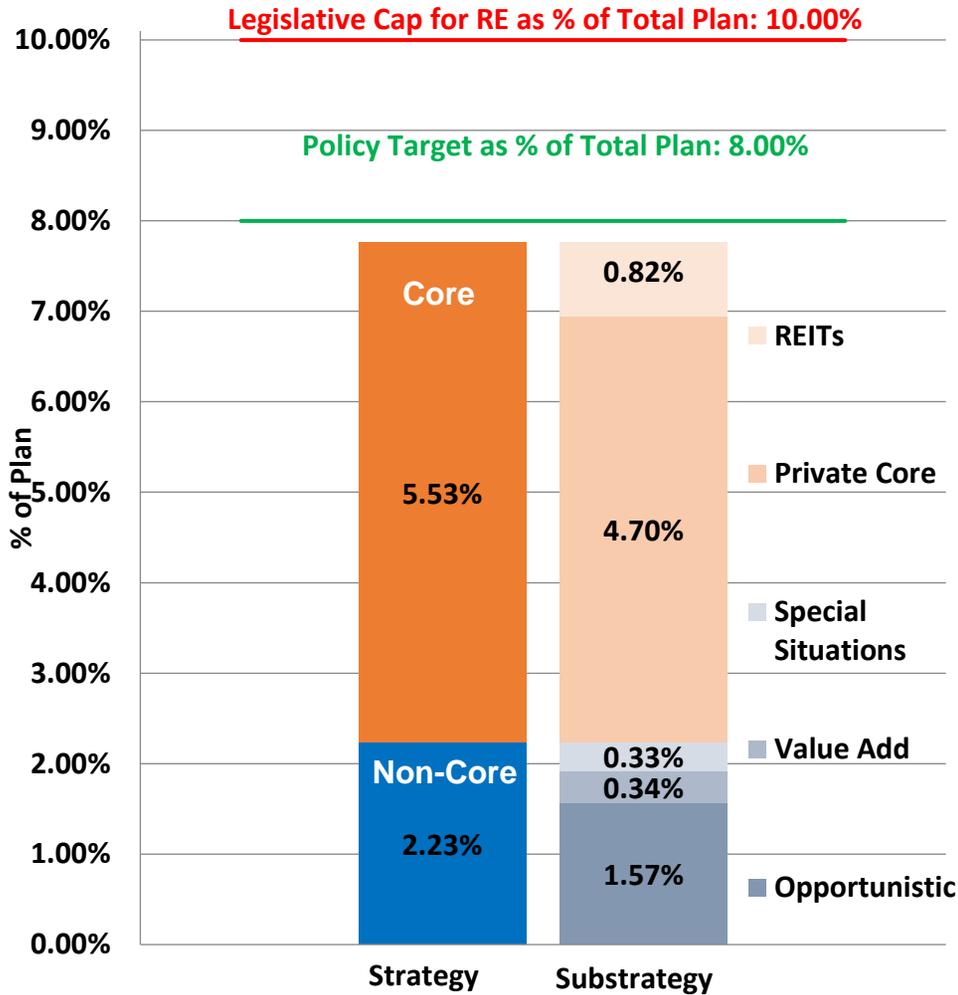


Real Estate Sector Analysis

Risk: ● Higher ● Medium ● Lower

● Industrial	<ul style="list-style-type: none"> • Insatiable demand for infill distribution • Industrial Outdoor Storage evolving into an institutional property type
● Self-Storage	<ul style="list-style-type: none"> • Unprecedented demand has outstripped high supply levels • Diversified and sticky tenant base driving recent demand wave
● Multifamily	<ul style="list-style-type: none"> • Relative affordability ratios have improved in favor of apartment rentals over homeownership in the top-50 metros • Chronic undersupply creating opportunities for SFR/BTR
● Data/Cell Tower	<ul style="list-style-type: none"> • Data center vacancy at record low levels • Expanding 5G coverage driving demand that shows no sign of slowing
● Student Housing	<ul style="list-style-type: none"> • Campuses continue operating on a mix of remote and in-person basis • Reduced levels of new supply & larger incoming student populations are tailwinds for the sector's rebound
● Office	<ul style="list-style-type: none"> • Flight to quality & migration from Gateway to Non-Gateway markets • Flexible work plans still evolving & affecting Office demand
● Senior Housing	<ul style="list-style-type: none"> • Operationally intensive; NOI margins are narrower than other property types • Demographics tailwinds expected to increase over the next decade
● Retail	<ul style="list-style-type: none"> • Neighborhood, necessity-based retail still proving resilient • Retail is bouncing back but supply overhang will hold down rent growth for years
● Hotel	<ul style="list-style-type: none"> • Business travel has increased but still lags pre-pandemic levels • Leisure travel has picked up meaningfully, but staffing remains a challenge

Real Estate Allocation



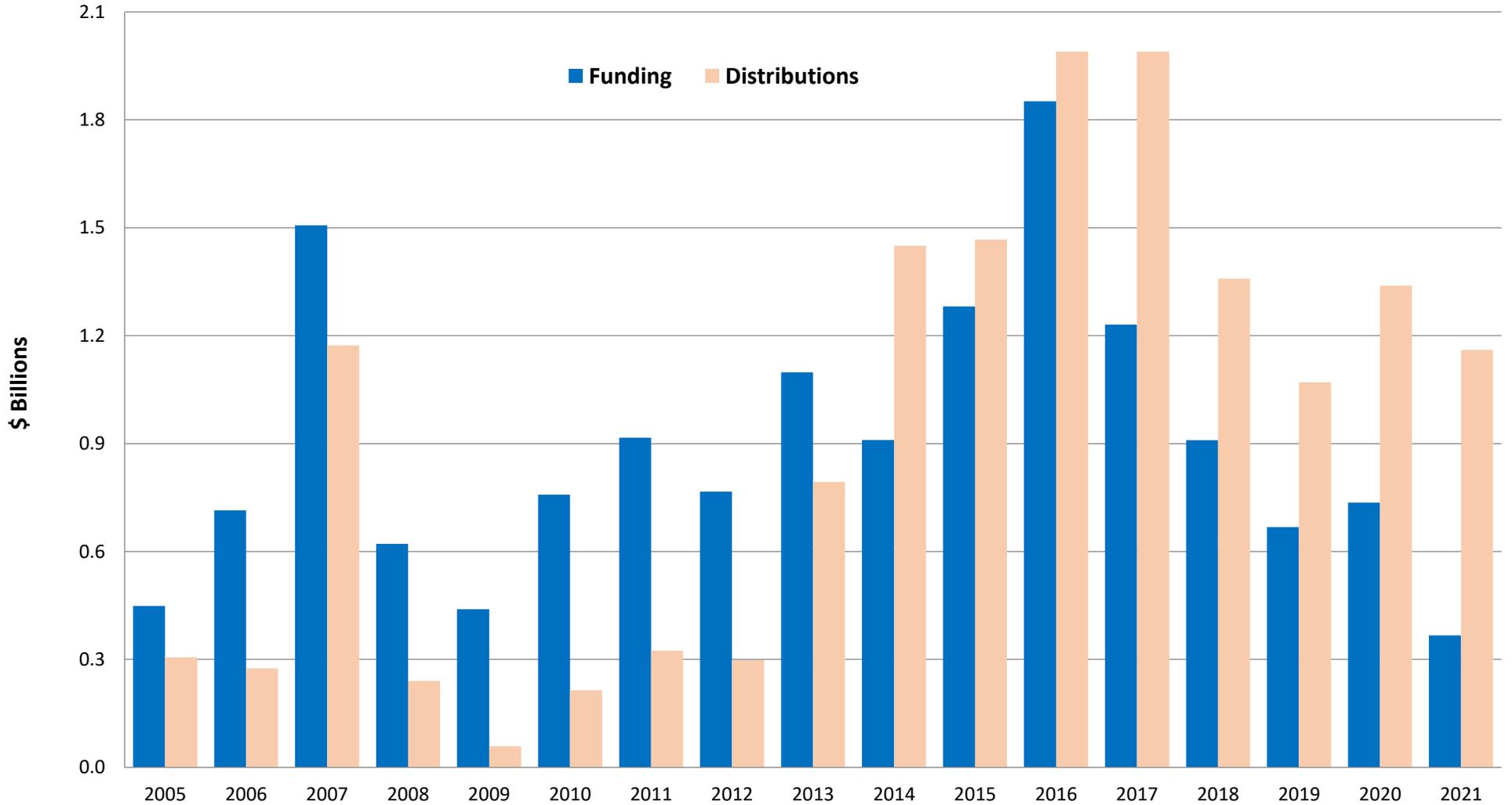
NCRS data as of 3/31/2022
Special Situations – Build-to-Core Strategy

\$ in millions

As of 5/6/2022, Real Estate was 8.04% of the Total Plan. RE Allocation has grown in 2022 due to Denominator Effect.



Real Estate Cash Flow



Net Cashflows (\$M):	(143)	(440)	(336)	(381)	(381)	(544)	(591)	(468)	(304)	539	186	138	759	449	403	602	794
----------------------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-----	-----	-----	-----	-----	-----	-----	-----

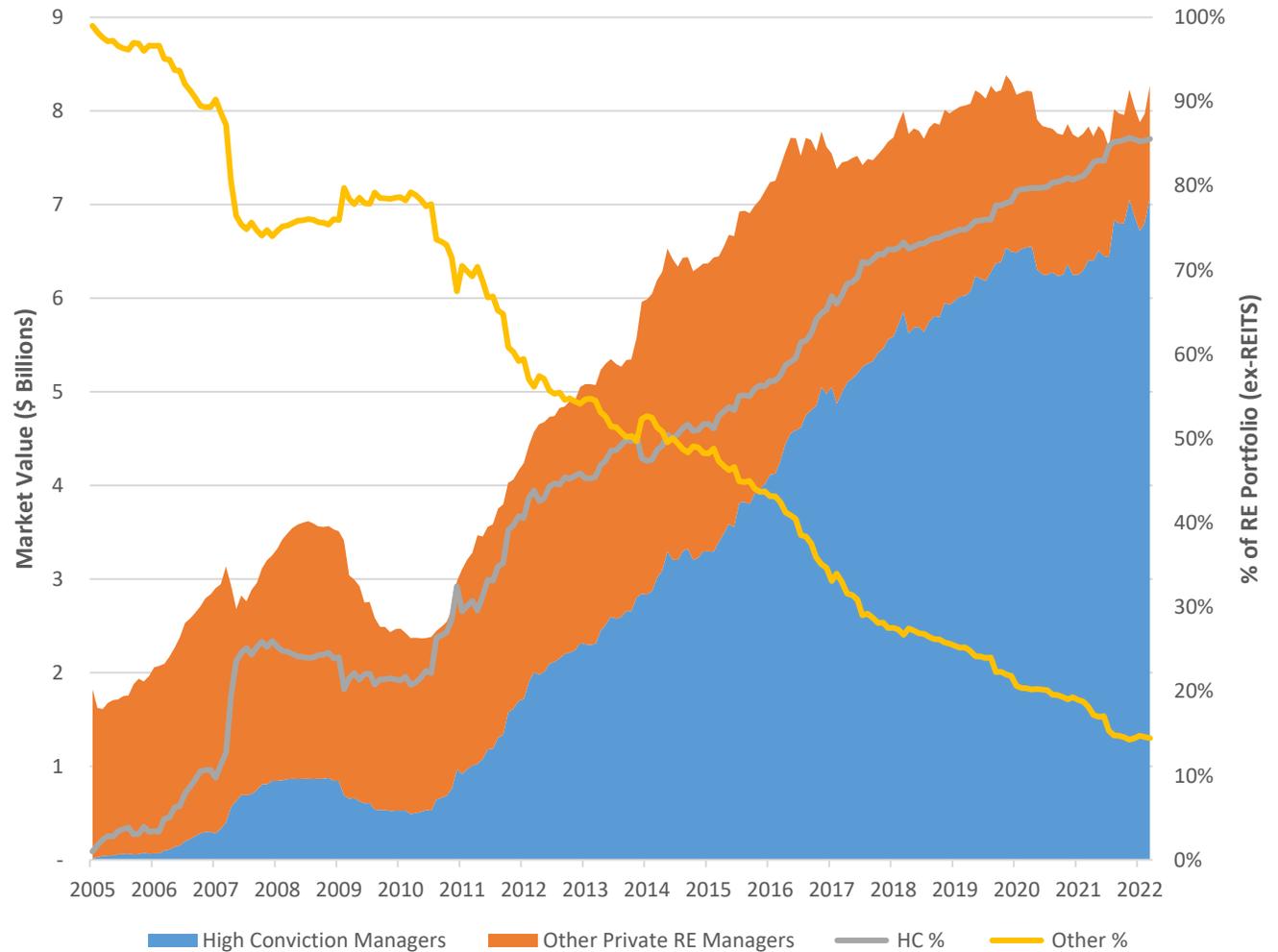
Year-To-Date net distributions were \$423 million as of 5/6/2022. Pent up demand to transact likely to result in significant return of capital in 2022.

Manager Concentration (excludes REITs)

Contribution to Return			
	3 Year	5 Year	7 Year
Private Core	8.9	8.3	8.6
High Conviction	8.9	7.7	6.5
Others	0.0	0.6	2.1
Non-Core	10.0	10.9	11.7
High Conviction	9.5	9.8	9.7
Others	0.5	1.1	2.0

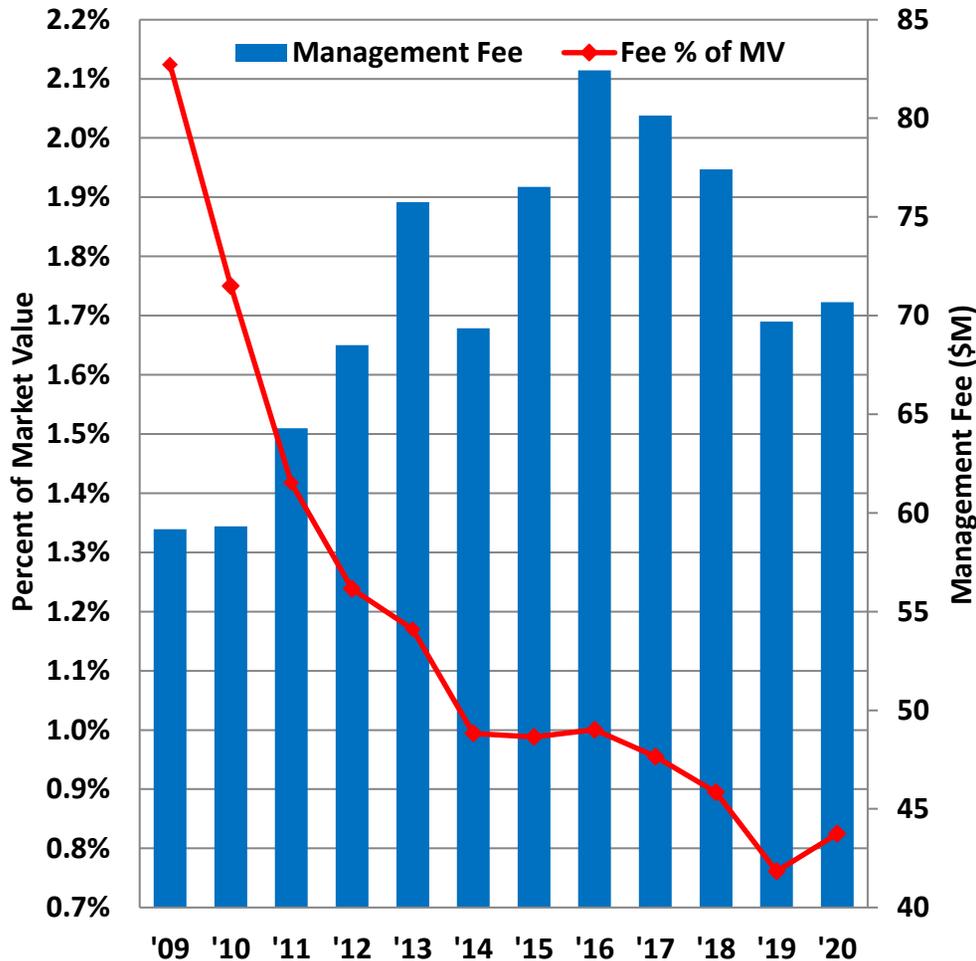
* "High Conviction" Managers are identified by the Real Estate Team as General Partners with the highest probability of meeting/exceeding expected fund-level returns

NCRS data through 3/31/2022

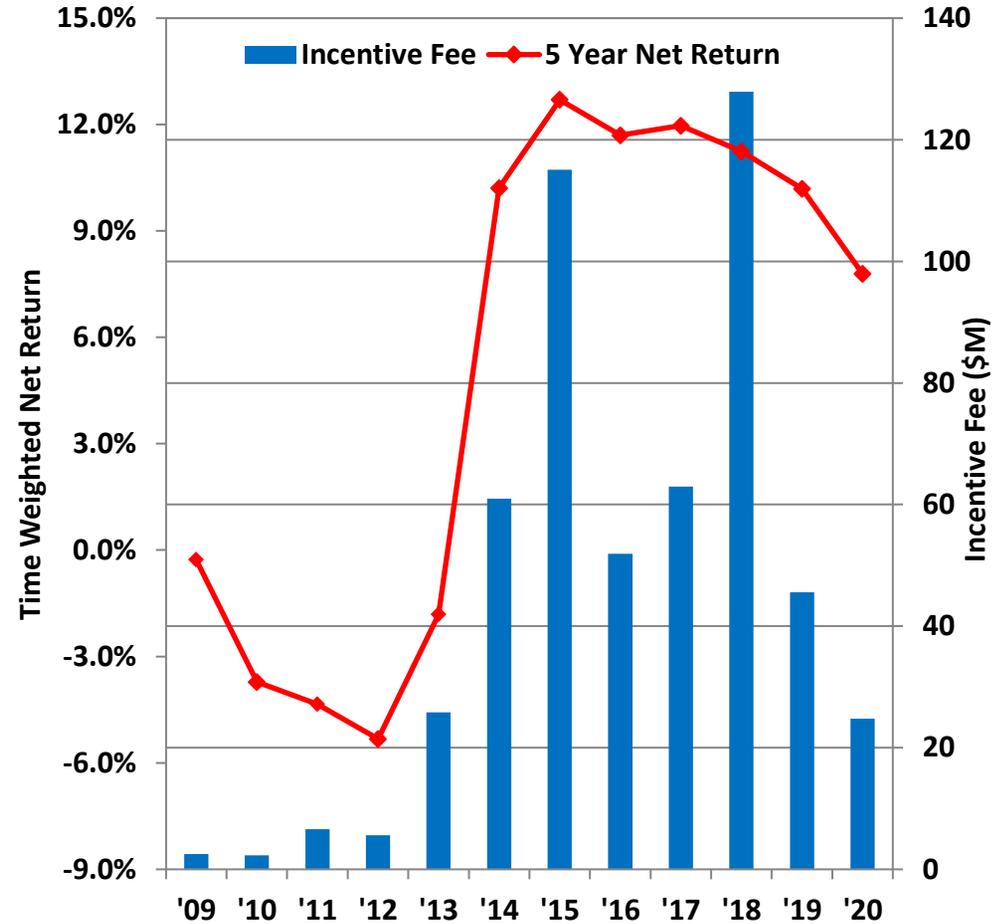


86% of private market value is with high conviction managers –
Concentration helps reduce complexity and fees, increases transparency, and improves returns

Cost Efficiency



NCRS data through 12/31/2020



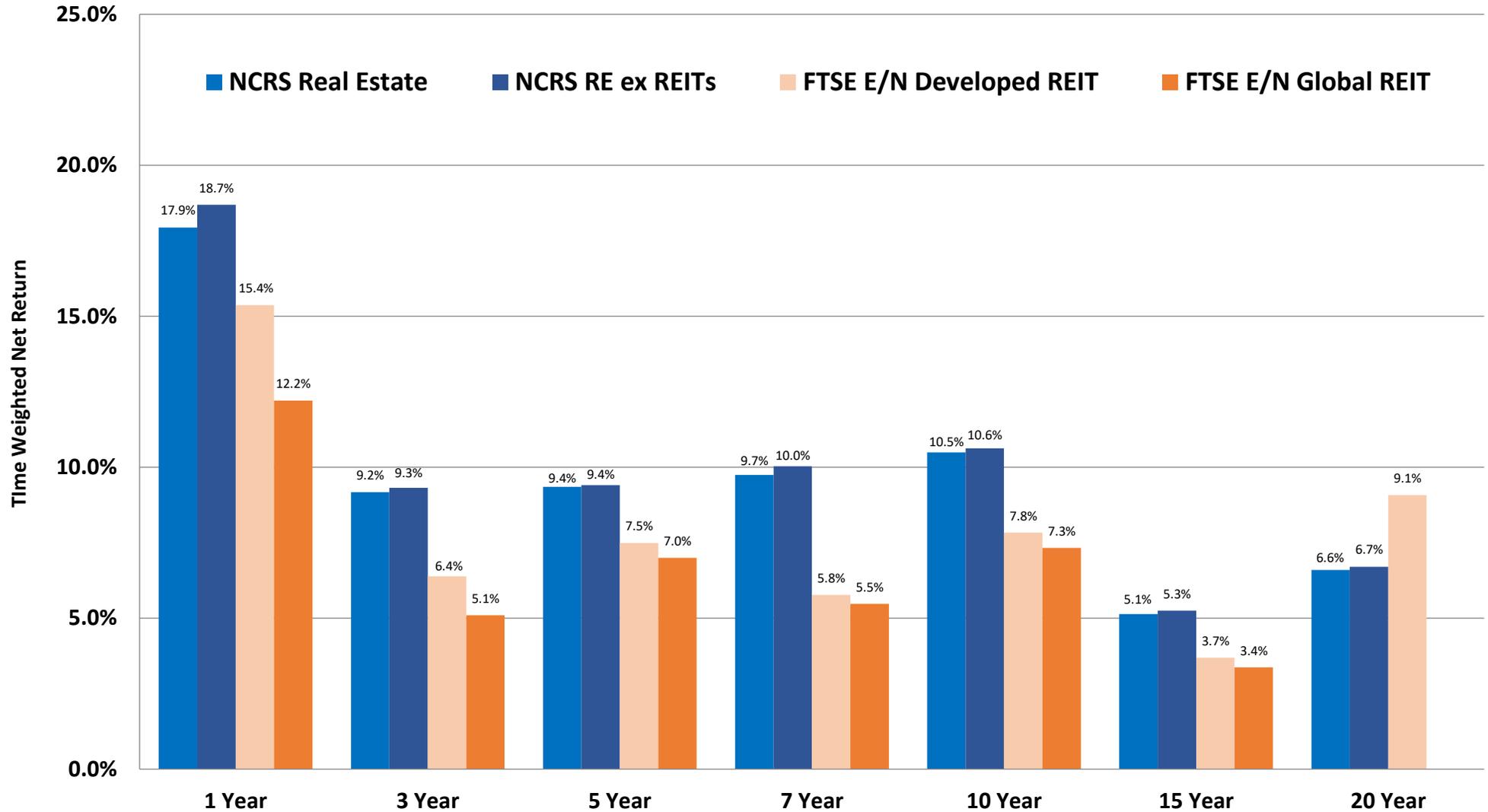
2015: Convergence of delayed realization of GFC funds, early realization of post-GFC funds, and an Industrial manager selling their entire platform

2018: Realization of a large, successful, platform investment

Fees remain low as we leverage relationships and scale to minimize costs and enhance alignment



Performance: Total Real Estate vs. REITs as of 3/31/2022



NCRS data through 3/31/2022

FTSE EPRA/NAREIT Developed Index: The index serves to represent real estate equities across developed markets of North America, Europe and Asia.

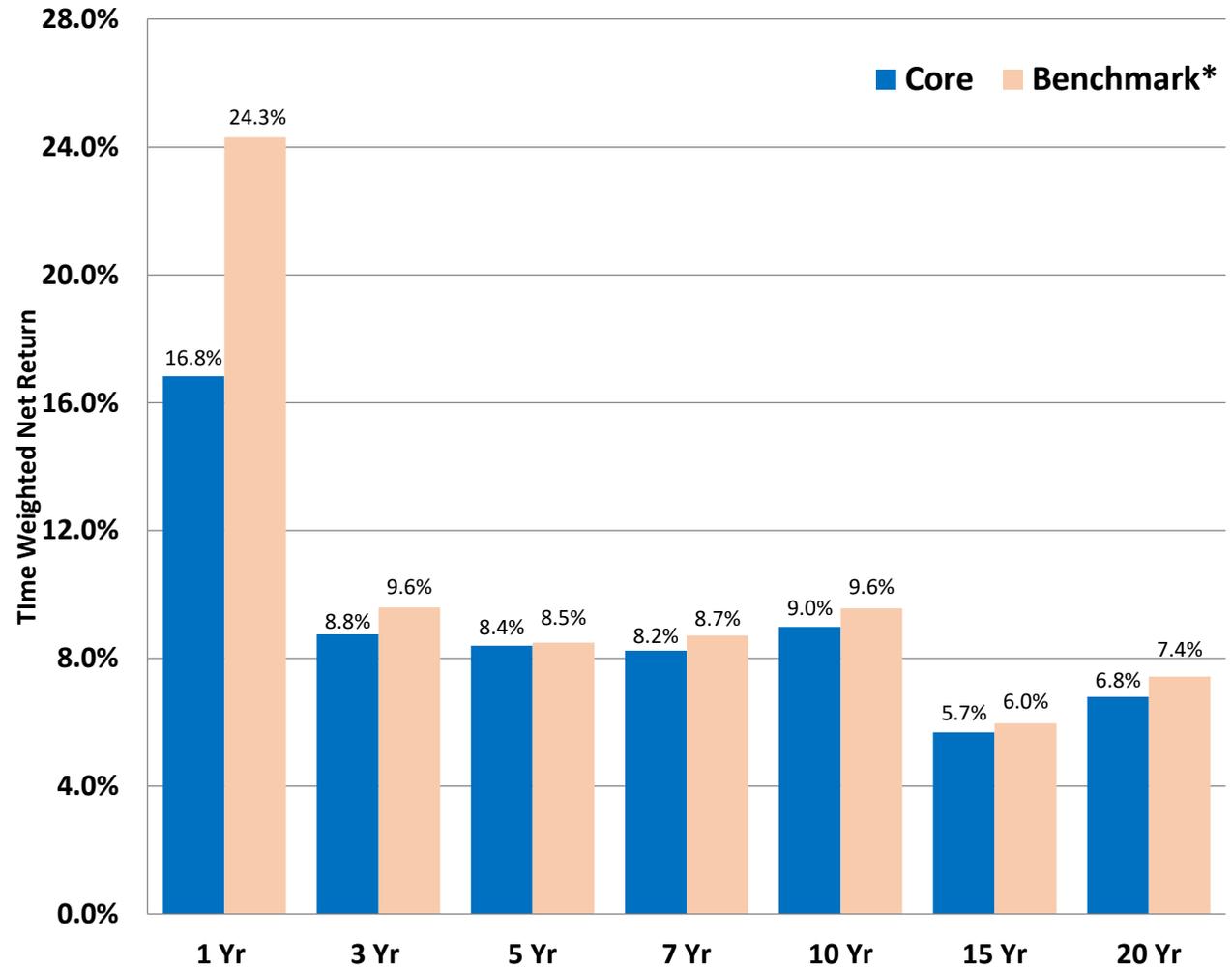
FTSE EPRA/NAREIT Global Index: The index is designed to track the performance of real estate equities in both developed and emerging markets.



Performance: Core Real Estate

Core Contribution to Return				
3 Year			Contribution	
Private Core RE			7.5	
REITs			1.3	
Total Core			8.8	
<u>Major Drivers</u>			<u>Vintage</u>	
LBA NC Core				
PC	Industrial	2016	1.4	
REIT	BR World REIT	2016	1.3	
PC	NorthRock Core	2008	1.1	
5 Year			Contribution	
Private Core RE			7.0	
REITs			1.4	
Total Core			8.4	
<u>Major Drivers</u>			<u>Vintage</u>	
LBA NC Core				
PC	NorthRock Core	2008	1.2	
PC	Industrial	2016	1.0	
REIT	BR World REIT	2016	0.9	

NCRS data through 3/31/2022



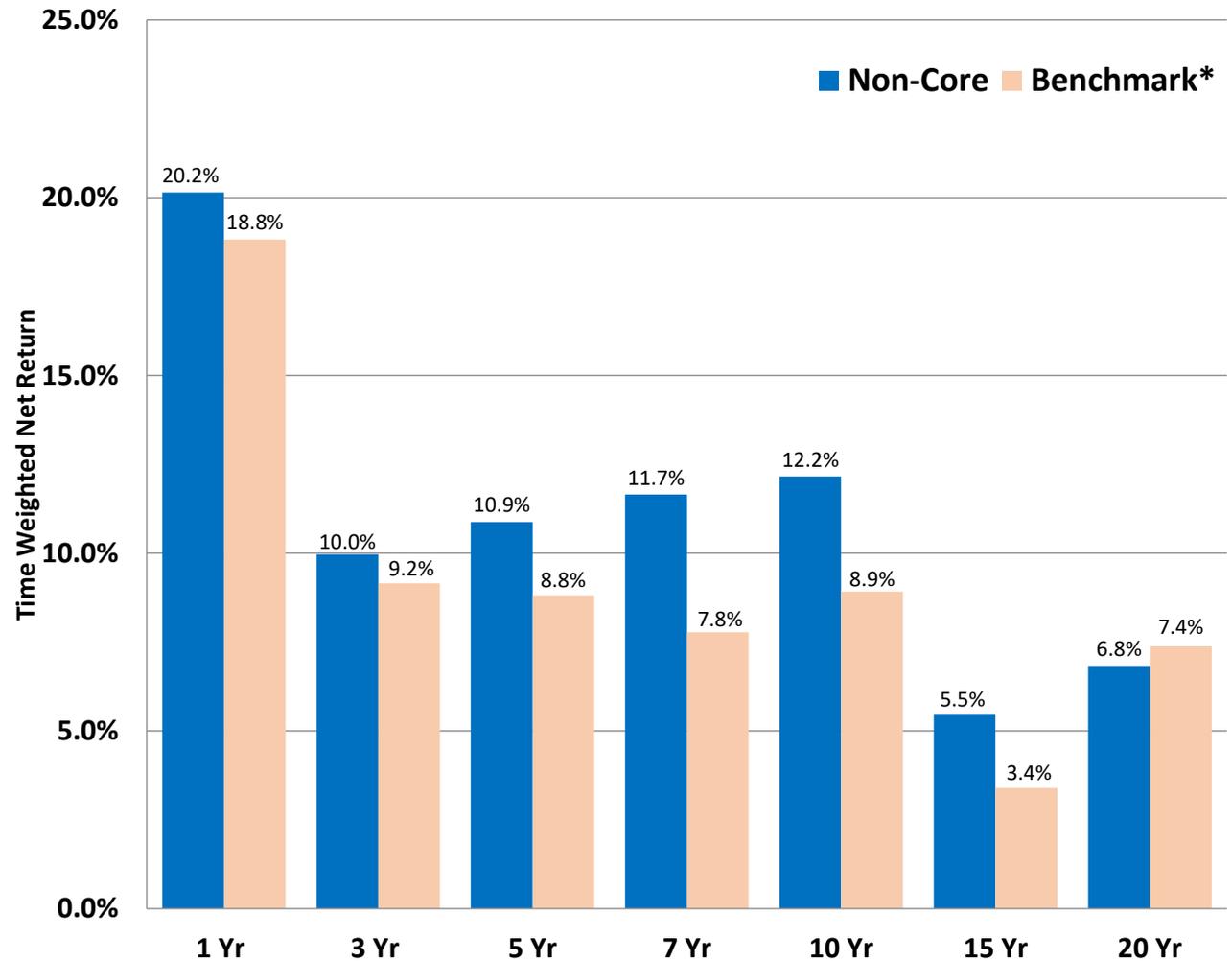
* The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index.

Significant underweight to Industrial was the primary detractor to performance



Performance: Non-Core Real Estate

Non-Core Contribution to Return			
3 Year		Contribution	
Opportunistic		5.9	
Value Add		4.1	
Total Non-Core		10.0	
<u>Major Drivers</u>		<u>Vintage</u>	
Rockwood Dev			
V Partners	2016	1.9	
O BREP VIII	2015	1.2	
O BREP IX	2019	1.2	
5 Year		Contribution	
Opportunistic		7.2	
Value Add		3.7	
Total Non-Core		10.9	
<u>Major Drivers</u>		<u>Vintage</u>	
Rockwood Dev			
V Partners	2016	1.0	
O NorthCreek	2011	1.0	
O BREP VIII	2015	0.9	

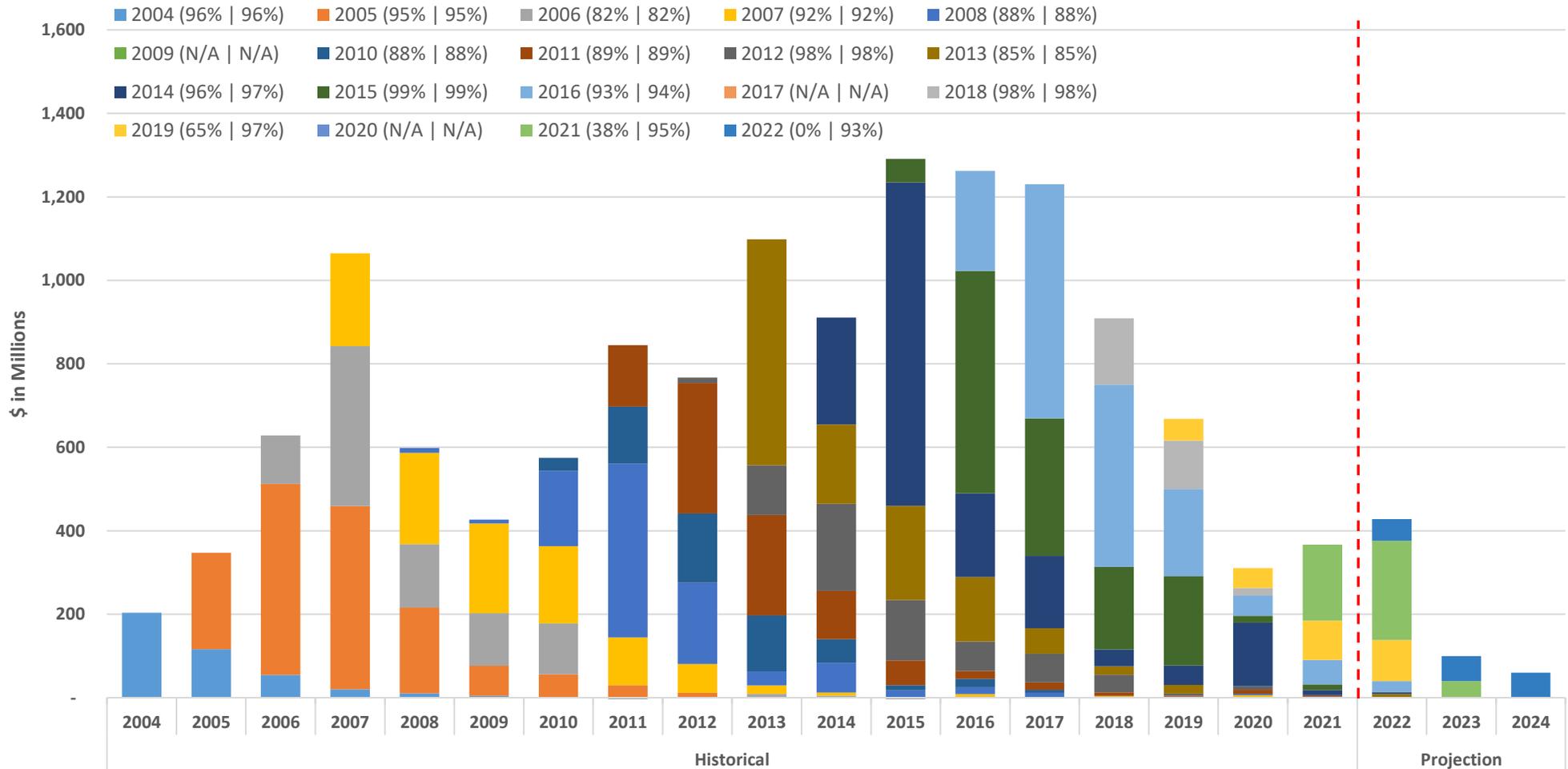


* Non-Core Real Estate Benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).

NCRS data through 3/31/2022

Non-Core performance bounced back strong after a lackluster year prior

Unfunded Commitment Pacing by Vintage Year (excludes REITs)



*Vintage (% Called | % To be Called)

Commits (\$M): 430 1,567 1,077 1,641 1,057 0 653 1,052 695 1,417 1,769 1,367 2,265 0 300 300 0 482 200

NCRS data through 12/31/2021

*Commitments are considered "Vintage" the year in which the first \$ of capital is drawn

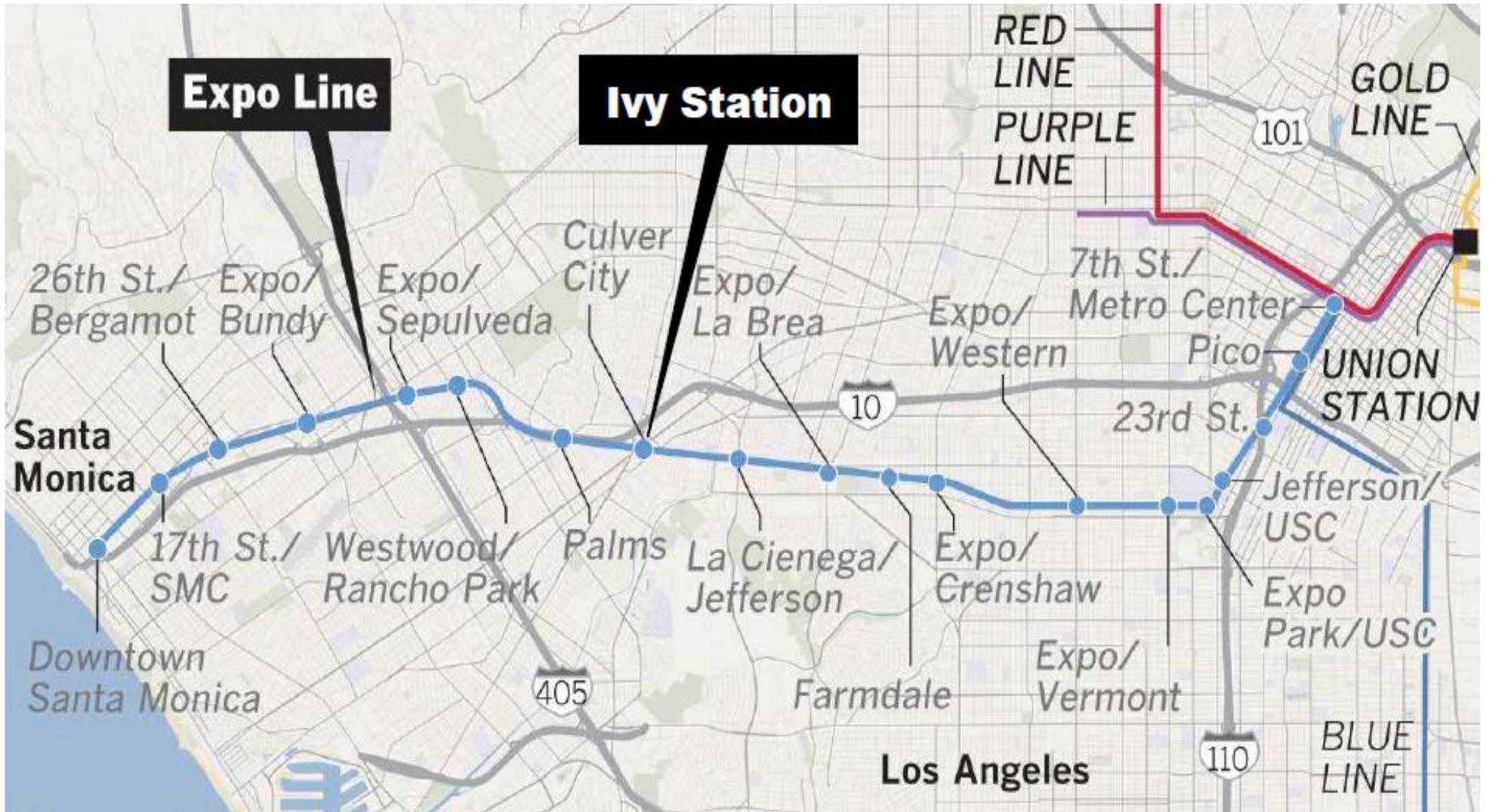
Of the \$1.4 billion of unfunded commitments, we expect ~\$600M to be called and the remainder left as reserves



Build-To-Core Program Case Study: Ivy Station

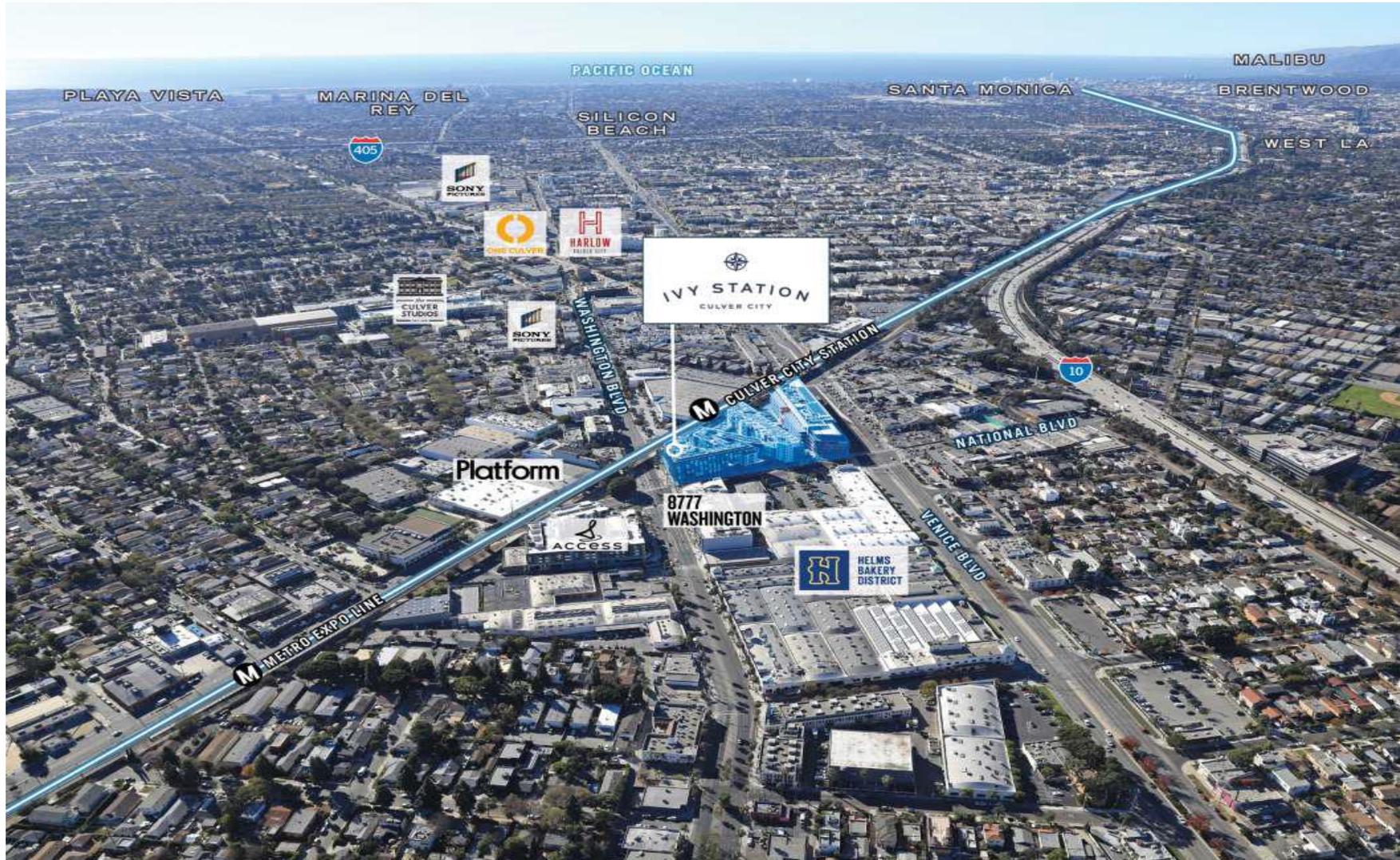


Ivy Station Development – Expo Line Map





Ivy Station Development – Aerial View





Ivy Station Development – Plaza-Level Site Plan



IVY STATION
CULVER CITY

Source: Rockwood Capital Partners



Ivy Station Development – Completed Project



Source: Rockwood Capital Partners



Investment Strategy Objectives

- Continued focus on Separate Accounts and reducing manager count
- Minimize costs and maximize returns by favoring partnership structures that optimize alignment of interests
- Increase exposure to public real estate through a “completion portfolio” concept for public REIT investment to help gain exposure to sectors where we are underweight
- Increase exposure to both high growth and low capex sectors: Industrial, Multi-family, Self-Storage
- Decrease exposure to high capex and macro-challenged sectors: Office, Retail, and Hotel



Appendix

Page

20	Role and Objectives
21	Investment Approach
22	Leverage
23	Property Type Diversification
24	Geographic Diversification

Role and Objectives

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”

Investment Strategy
 High Quality
 Well-Located
 Strong Risk-Adjusted Returns

Non-Core Thesis

“To achieve attractive risk-adjusted net returns through appreciation and income from a diversified portfolio, planning for strategic exit optionality”

Core

- Inflation hedge
- High current income
- Stabilized occupancy
- Credit tenancy
- Long-term return > fixed income
- Minimal risk/downside protection

Non-Core

- Growth diversifier
- Opportunity to add value
- Renovation, development, leasing
- Stabilized upon completion
- Long-term appreciation and returns
- Low correlation to fixed income



Investment Approach

Stay the course with our investment strategy...do not reach for yield

- Downside protection
- Eye toward current income for Core or “speed to income” for Opportunistic strategies
- Moderate leverage levels

Use thoughtful & deliberate portfolio construction

- Stabilized Core portfolio
- Diversify by strategy, property sector, size, vintage year and location
- Balance asset risk and market risk by insisting on the highest asset quality and location
- Target specific submarkets and streets

Leverage the size of our plan

- Better terms and fees
- More transparency and control
- Ability to move quickly to capitalize on opportunities and dislocations
- Be the founding investor for new strategies with high conviction managers

Invest meaningful amounts with fewer best-in-class managers

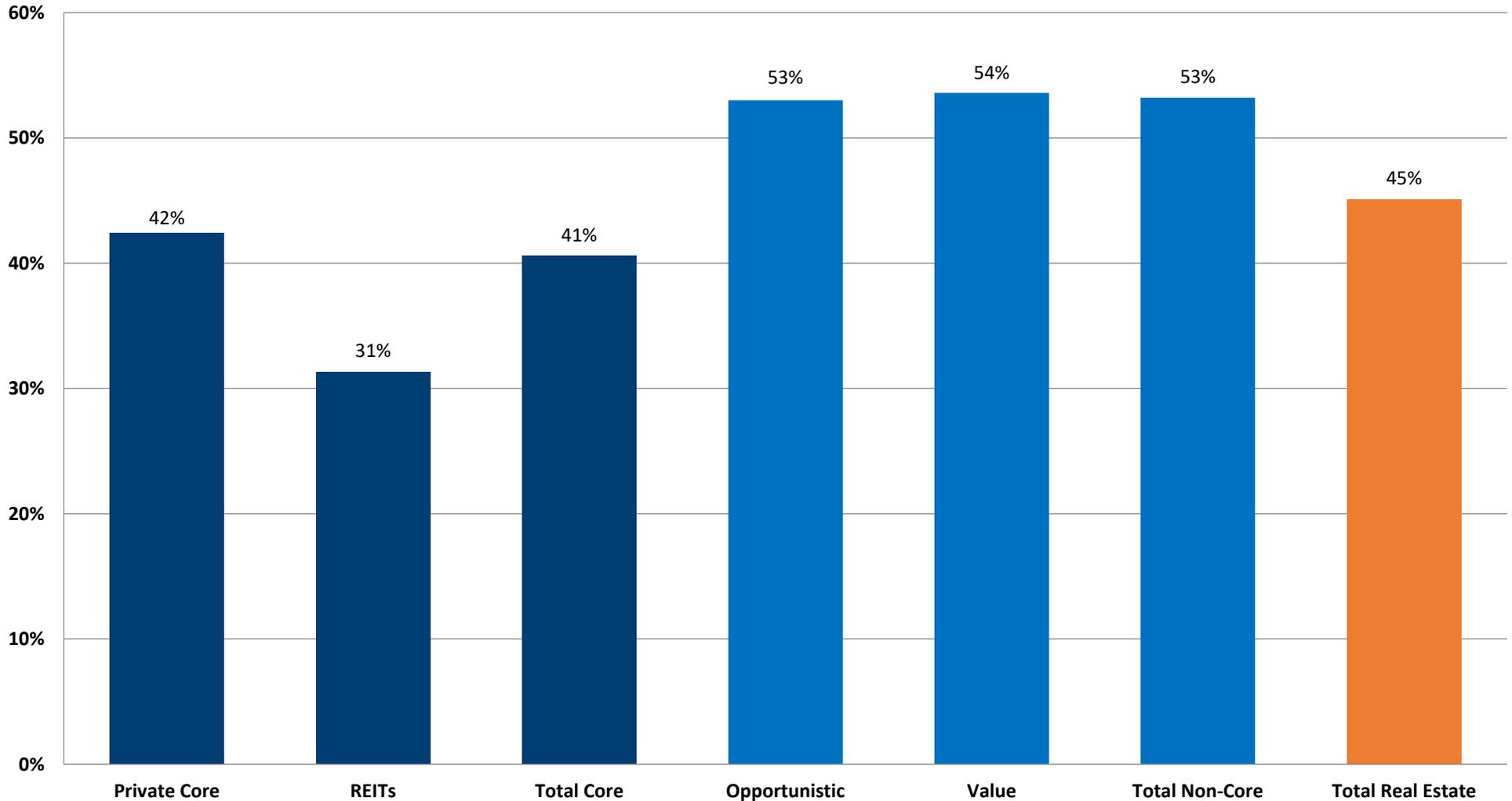
- Separate accounts
- Multiple strategies with single manager
- Fee benefits

Take a long-term view toward investments and manager relationships

- Be involved, nimble and follow through
- Deliver results
- Be a leader among Limited Partners



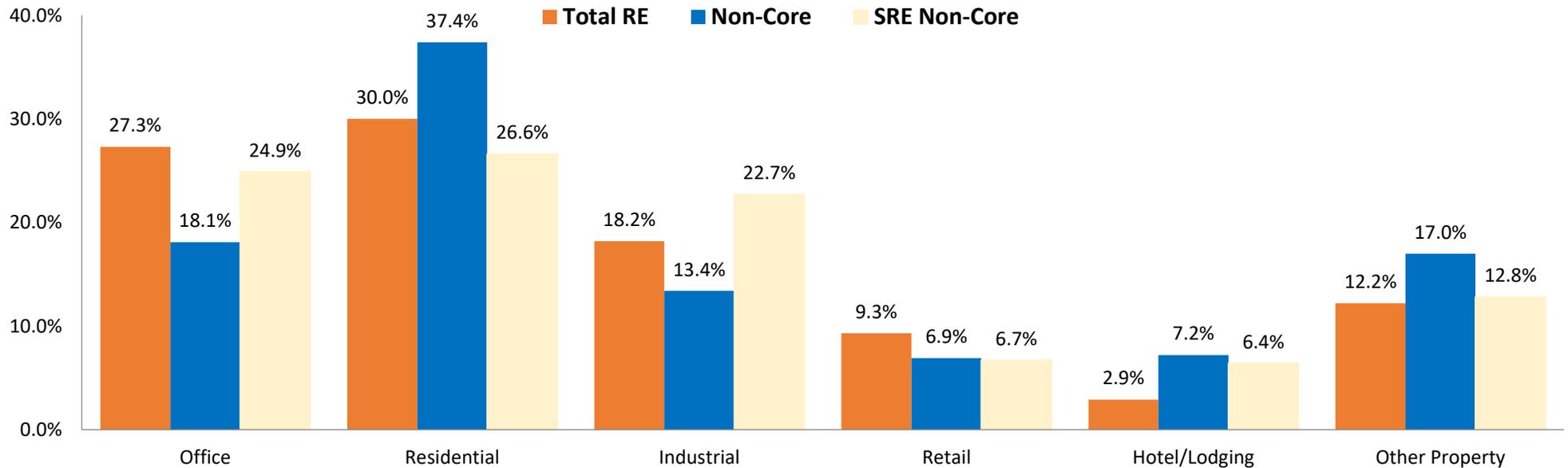
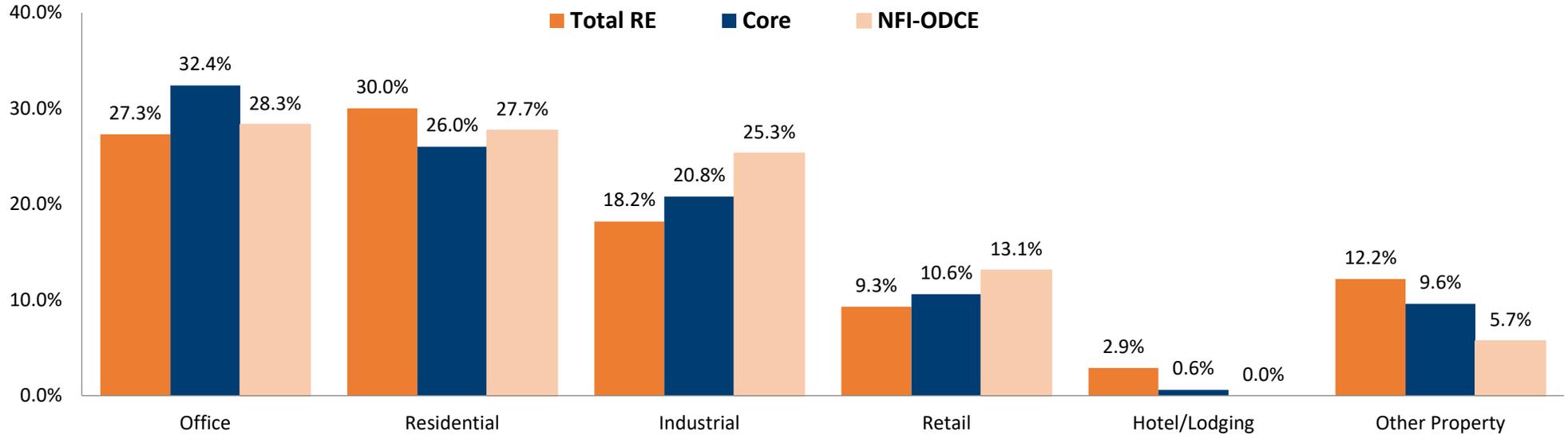
Leverage



Source: StepStone NCRS 3Q21 Portfolio Monitoring Report

Maintain prudent levels of leverage and retain ability to adjust through our separate accounts

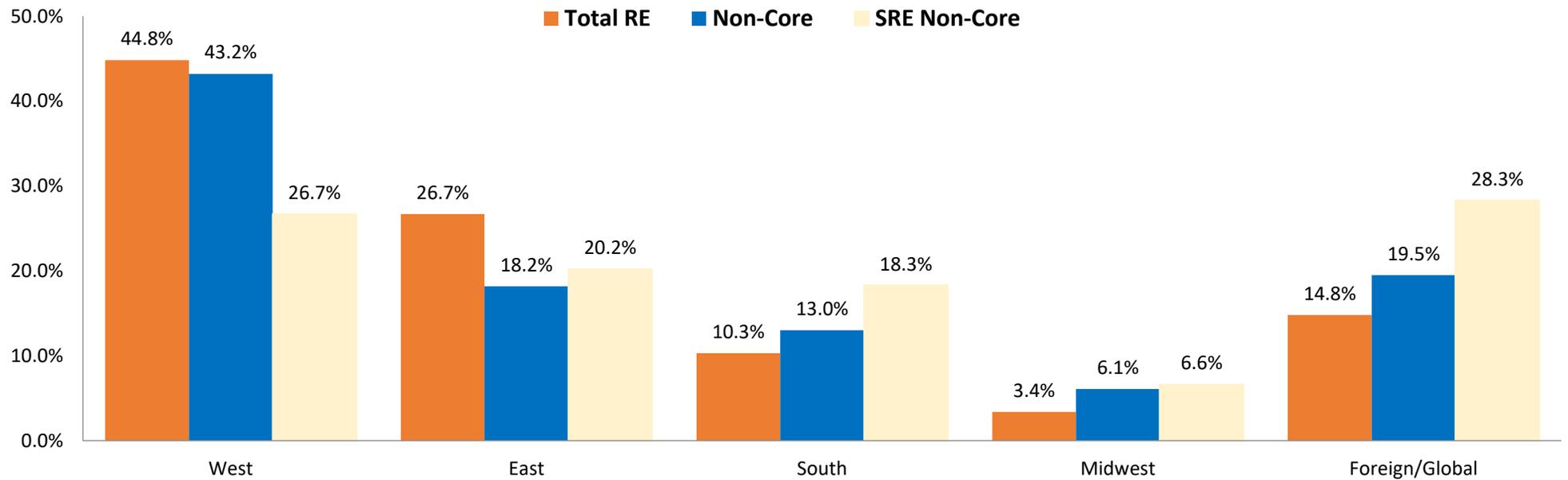
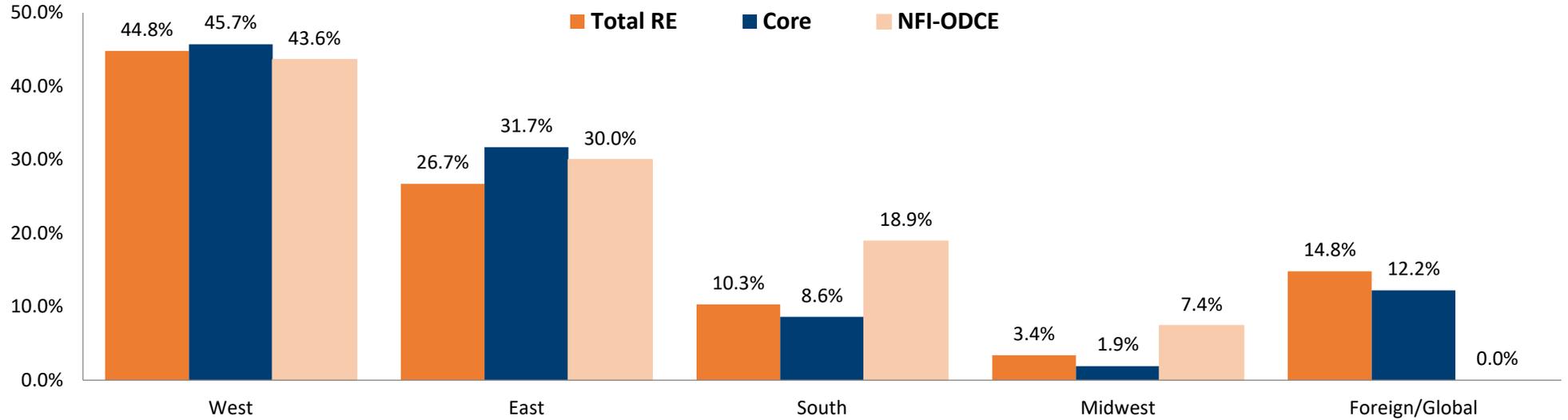
Property Type Diversification



Source: StepStone NCRS 3Q21 Portfolio Monitoring Report



Geographic Diversification



Source: StepStone NCRS 3Q21 Portfolio Monitoring Report