



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 16

MEETING DATE: May 15, 2019

SUBJECT: Real Estate Investment Consultant Contract

SUBMITTED FOR: Consent **Deliberation and Action** **Receive and File**

RECOMMENDATION

Staff recommends the Board renew and extend the contract with The Townsend Group (Townsend) for real estate investment consulting services, for a three-year term, and authorize SCERS' Chief Executive Officer to negotiate and execute documents necessary to update the contract.

PURPOSE

This agenda item does not specifically support the 2018-19 Strategic Management Plan, but contributes to the effective management and oversight of investment activities. The Board is responsible for approving contracts with its consultants, auditors, actuaries, and investment managers.

DISCUSSION

In August 2012, SCERS hired The Townsend Group as its first dedicated real estate consultant. The contract with Townsend was amended in 2015 to reflect a merger with NorthStar Asset Management, and also amended and extended in 2017. Townsend was subsequently acquired by Aon in 2017. The current contract with Townsend expires June 30, 2019.

Specific duties of the real estate investment consultant include:

- Development of goals, strategy, objectives, and policy for SCERS' real estate program
- Planning and design of optimal and prudent real estate allocations
- Collaboration with SCERS' Staff, SCERS' Board, general investment consultant and alternative assets consultant, and advisors, in incorporating the strategic plan for real estate across asset classes
- Development of operating policies and procedures for the real estate program
- Due diligence on funds and other investment structures for the real estate program

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- Review, analysis, evaluation, and recommendation of potential sale candidates from within the real estate program holdings
 - Monitoring of SCERS' real estate investments, and analysis and reporting of performance
 - Research and analytics on current market events
 - Board education

BACKGROUND

Staff has been pleased with the performance of Townsend as its dedicated real estate investment consultant. Townsend has assisted SCERS in formulating a long-term strategic plan for its real estate portfolio, including managing a core separate account portfolio of individual real estate properties held by SCERS, developing a thoughtful approach toward implementing within non-core and non-U.S. real estate markets, assisting in designing real estate policy benchmarks, performing due diligence and recommending real estate funds, and providing performance results and analysis. Townsend also assisted SCERS in formulating an implementation plan to unwind its core separate account real estate portfolio in 2018, in favor of allocating to core real estate exclusively through open end commingled funds. Townsend has assisted SCERS in developing a well-diversified and differentiated real estate program that has generated strong return on an absolute and relative basis. As of December 31, 2018, SCERS' real estate returns have outperformed the policy index benchmark return by 1.9% and 1.4% over the 3-year and 5-year periods, and rank in the top 4th and 9th percentile over these periods relative to peer investors (as measured by the InvestorForce universe of public pension plans with median assets greater than \$1 billion).

Though SCERS unwound its core separate account real estate portfolio in 2018, Staff recommends maintaining a dedicated real estate consultant going forward. Real estate is an asset class with unique characteristics and idiosyncratic risks. SCERS also takes a global approach with exposure to several niche strategies and property types that requires the expertise and resources of a dedicated real estate consultant. Staff believes that Townsend provides significant depth and breadth of coverage among dedicated real estate consultants, and has meaningful resources deployed globally to assist SCERS in managing its real estate program.

While it is prudent to stay educated on the broader real estate investment consulting market, Staff believes that conducting a competitive search for real estate consulting services is not needed at this time. Staff therefore recommends that SCERS enter into a three-year contract renewal with Townsend for real estate consulting services, and update the language, scope of services, and terms within the contract as needed.

While the recommended contract term for Townsend is three years, the contract will have language that gives either party the ability to terminate the engagement upon notice. With this flexibility, SCERS will have the ability to evaluate Townsend on an ongoing basis, and consider a competitive search if needed.

Townsend currently charges SCERS a flat annual fee of \$225,000. Townsend has offered to keep the existing annual fee of \$225,000 for the three-year term of a renewed contract with

SCERS, with an annual 2% inflation adjuster. The current primary consultant for SCERS, Jennifer Stevens, is named as the consultant for SCERS in the renewed contract.

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