



# Real Estate Update

## Core Portfolio Presentation for IAC

November 18, 2015



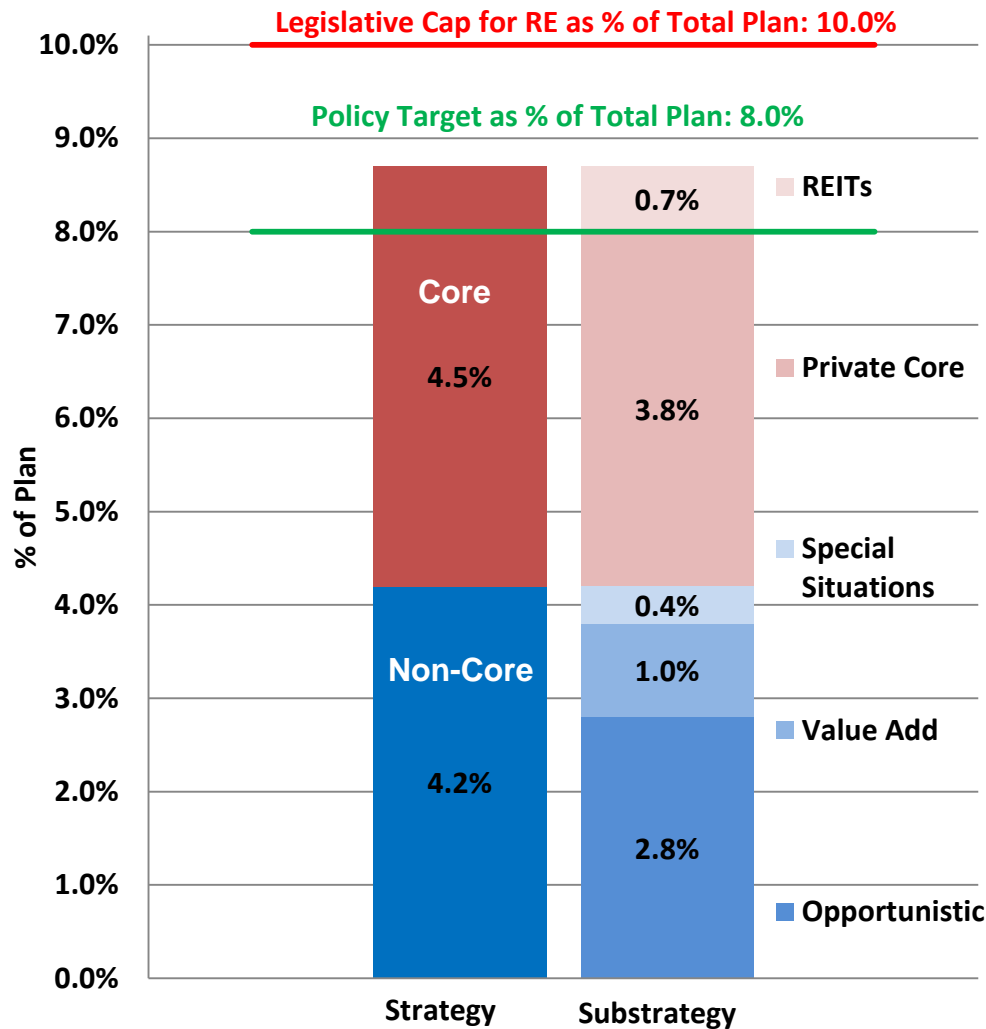
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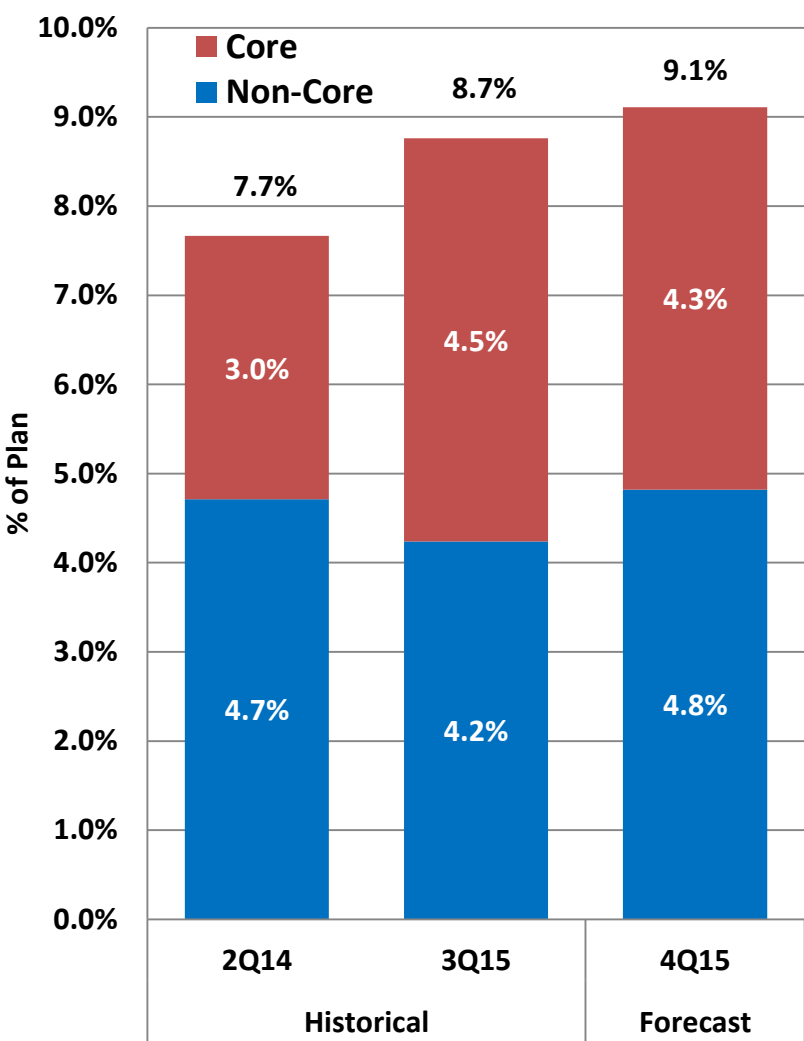
- I. Real Estate Investment Portfolio Overview
- II. Core & Non-Core Real Estate Performance
- III. Core Real Estate Transitional Goals
- IV. Market Conditions
- V. Discussion Topics



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



Valuation as of 9/30/15



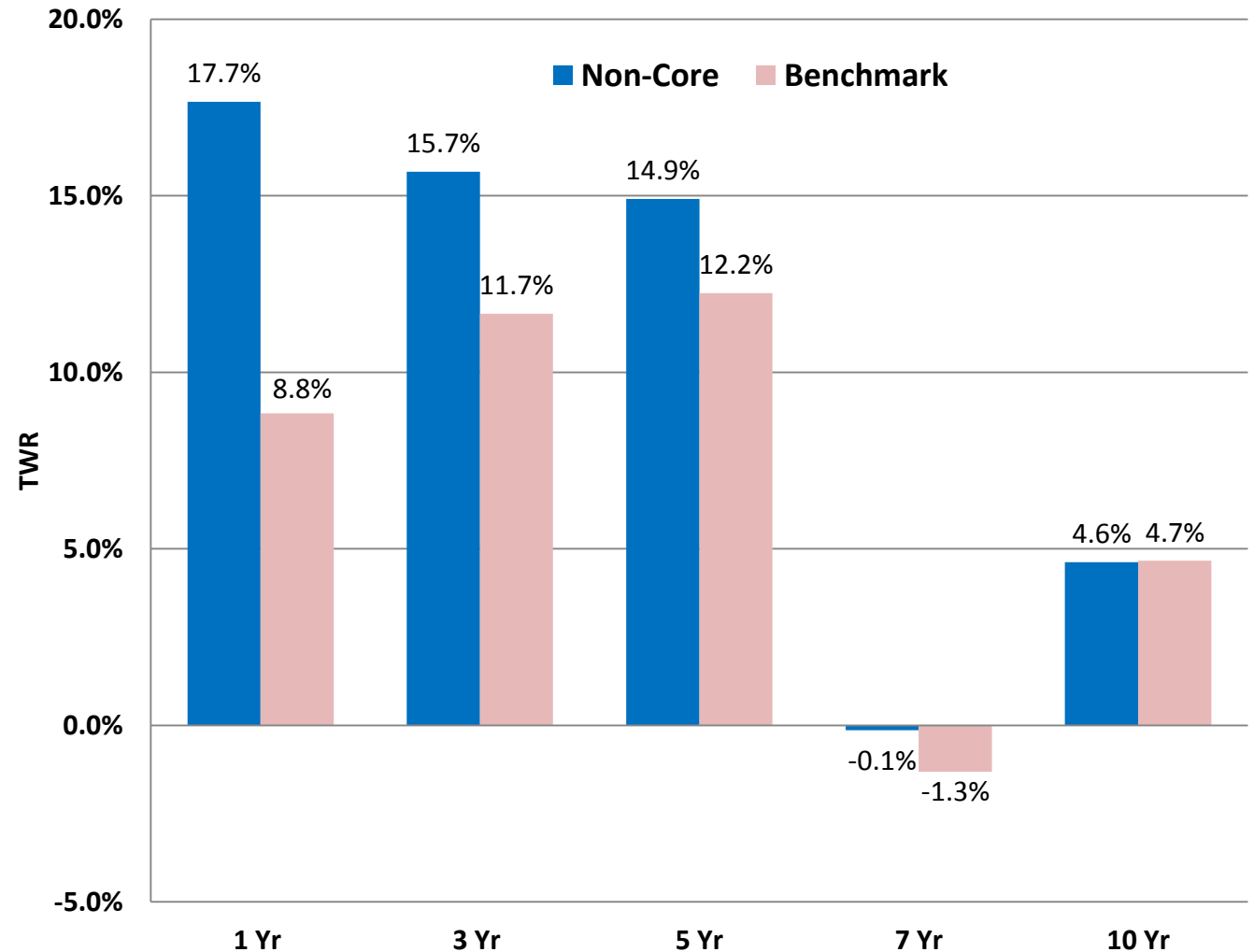
Strategic policy transition to 5% Core / 3% Non-Core of plan (60/40 within REIP), is well underway



# Non-Core RE Performance (Net Returns)

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Non-Core Contribution to Return			
1 Yr		Contribution	
Opportunistic		10.3	
Value Add		7.3	
<b>Total Non-Core</b>		<b>17.7</b>	
<u>Major Drivers</u>		<u>Vintage</u>	
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	
<b>Total Non-Core</b>		<b>15.7</b>	
<u>Major Drivers</u>		<u>Vintage</u>	
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



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# Core Real Estate Performance (Net Returns)

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## Core Contribution to Return

1 Yr

Contribution

Private Core RE	7.6
REITs	1.5
<b>Total Core</b>	<b>9.1</b>

### Major Drivers

### Vintage

PC	NorthRock Core	2008	2.4
PC	JP Morgan SPF	1989	2.1
PC	Blackstone Edens	2013	1.4

3 Yr

Contribution

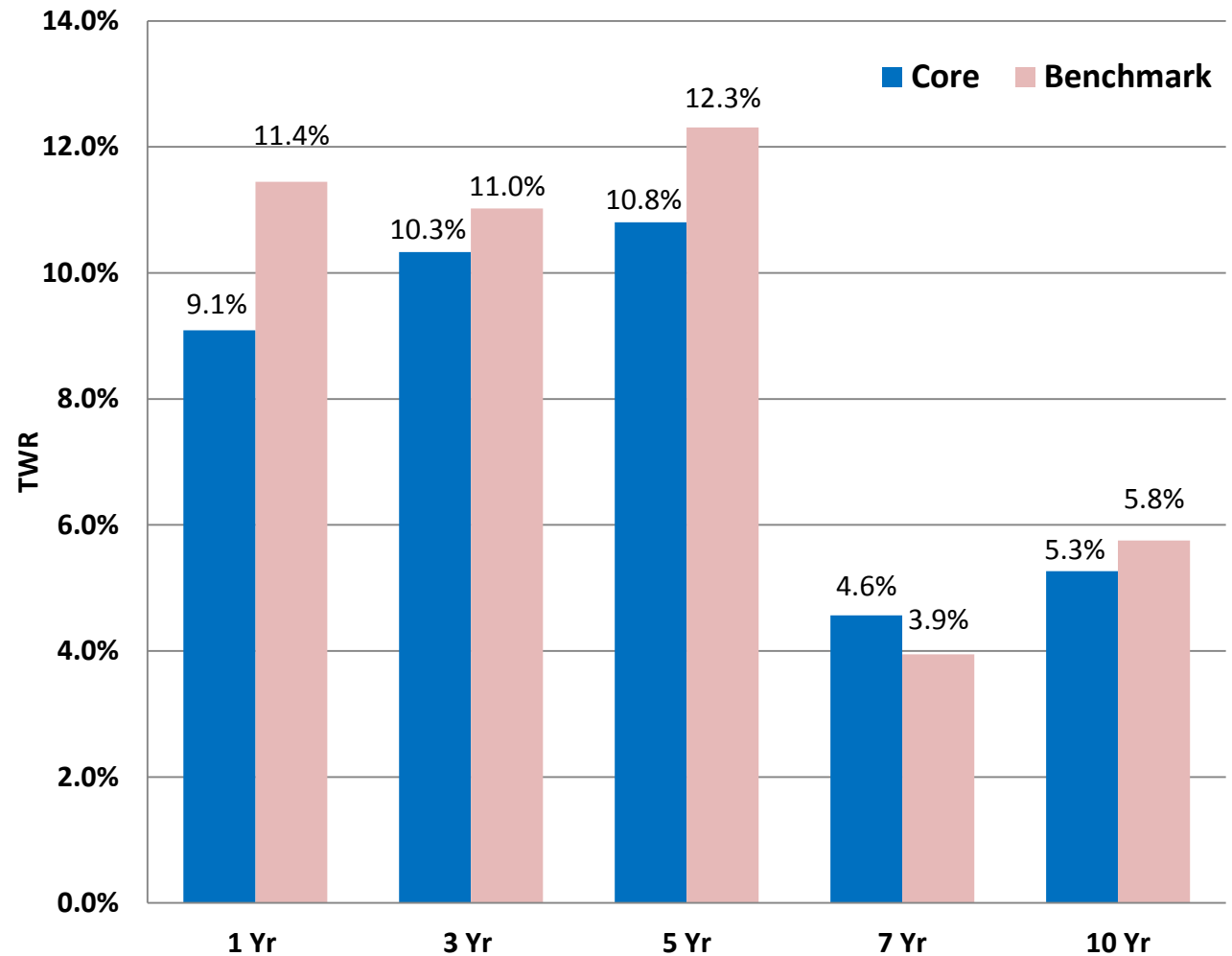
Private Core RE	8.4
REITs	2.0
<b>Total Core</b>	<b>10.3</b>

### Major Drivers

### Vintage

PC	NorthRock Core	2008	3.5
PC	JP Morgan SPF	1989	2.3

PC = Private Core Real Estate



NCRS data through 9/30/15

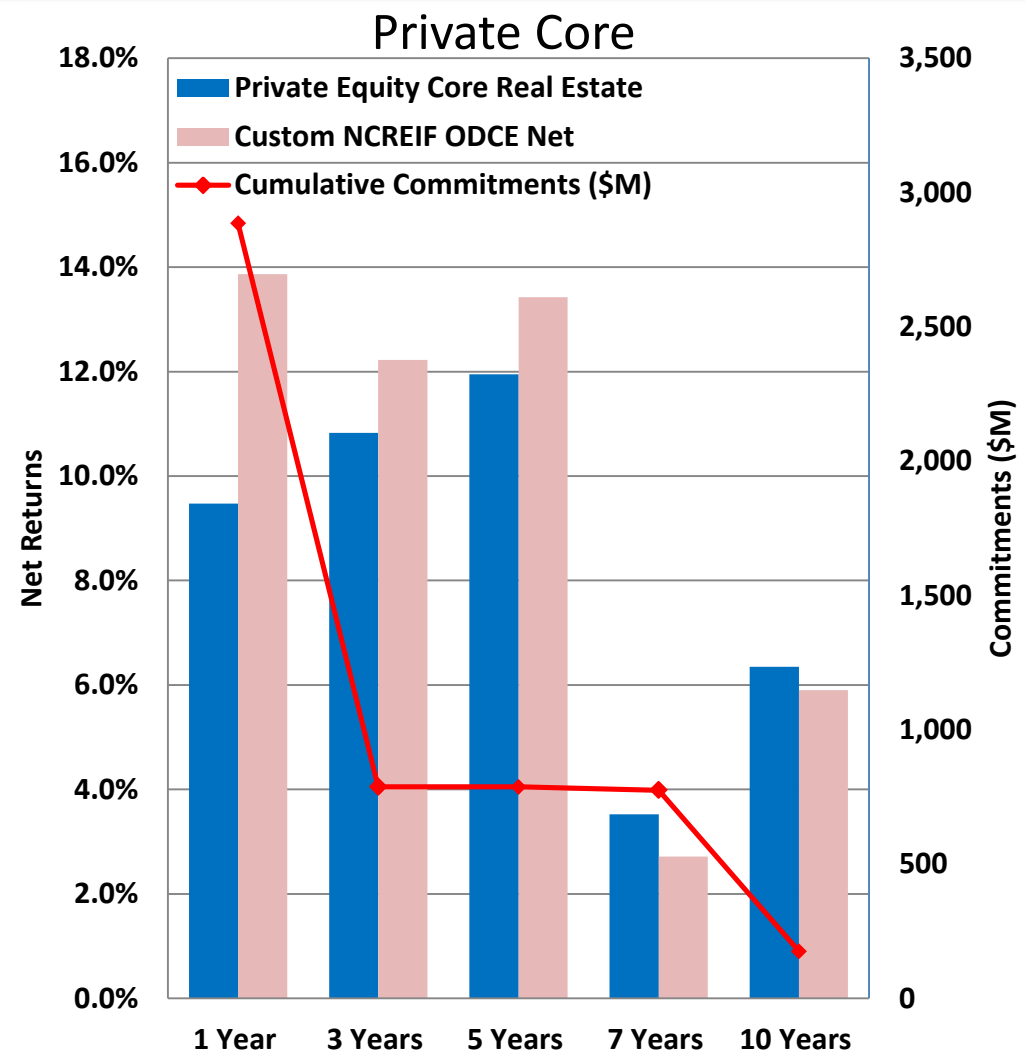
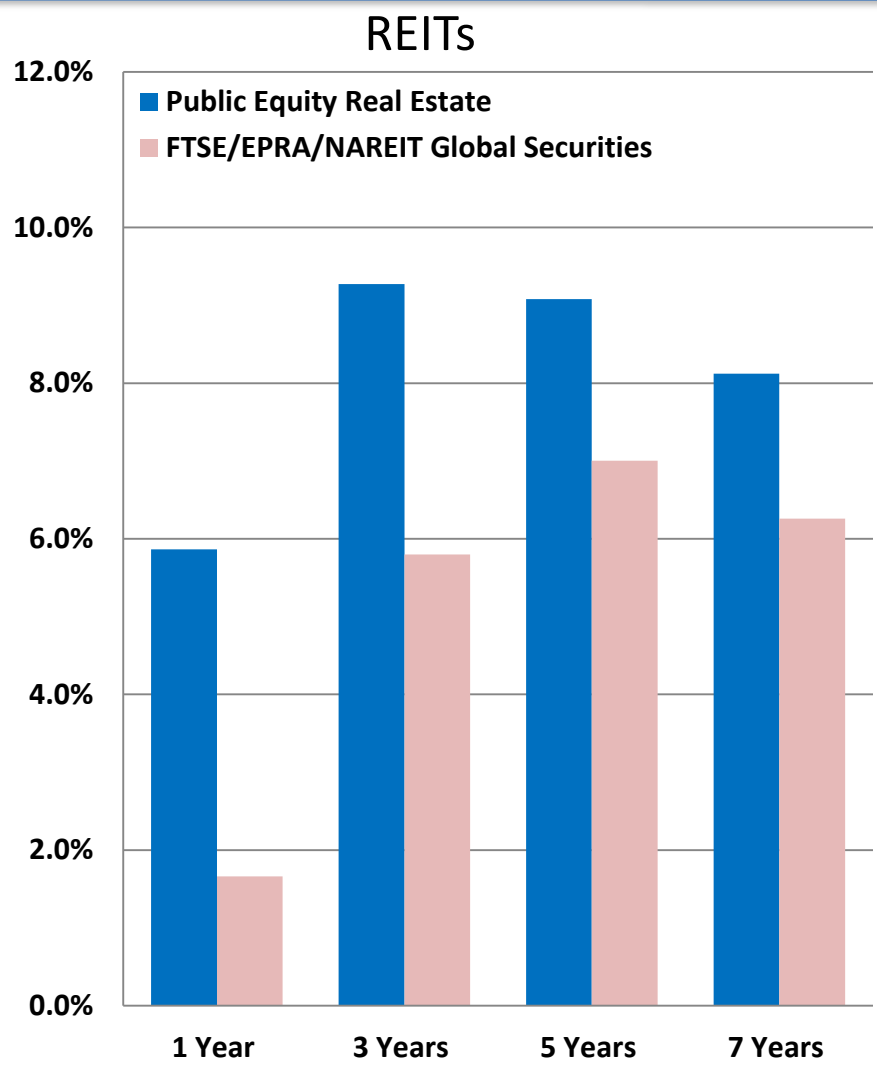
Core performance is expected to improve within 24 months as investments mature



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# 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



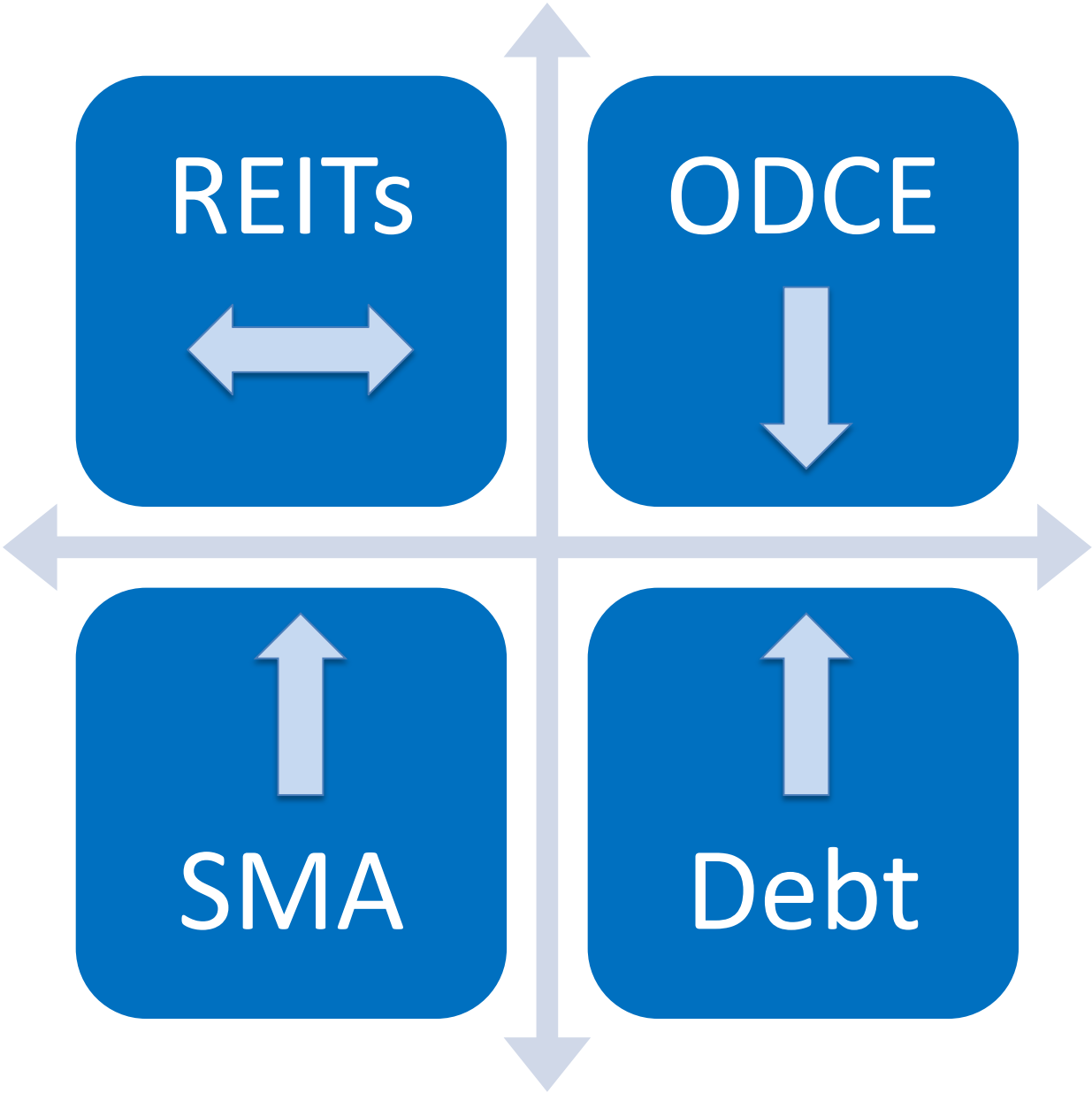


# Core Thesis

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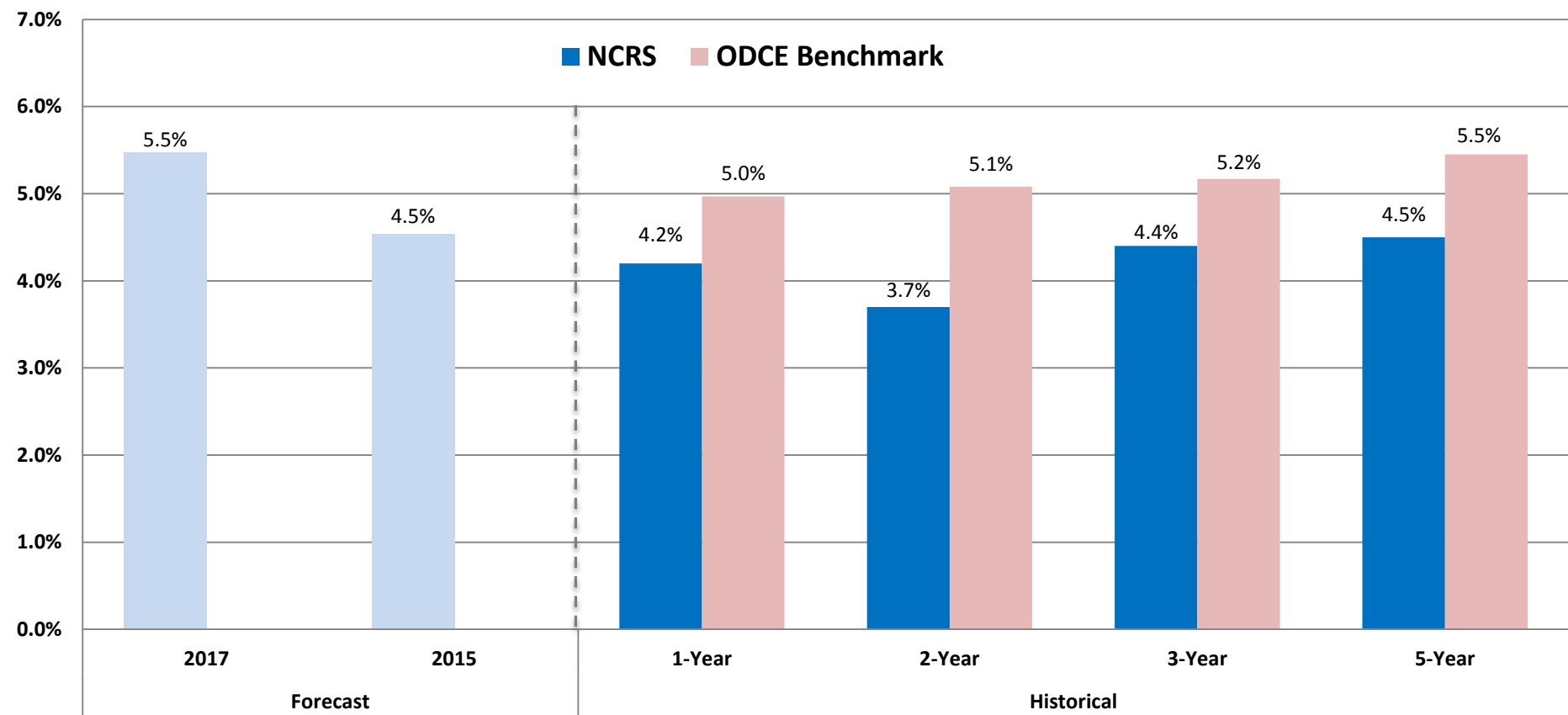
*“To generate durable income and stable returns through strategic investments, with prudent use of leverage, in assets with long-term fundamental drivers that will endure for generations”*







Private Core Gross Income Returns

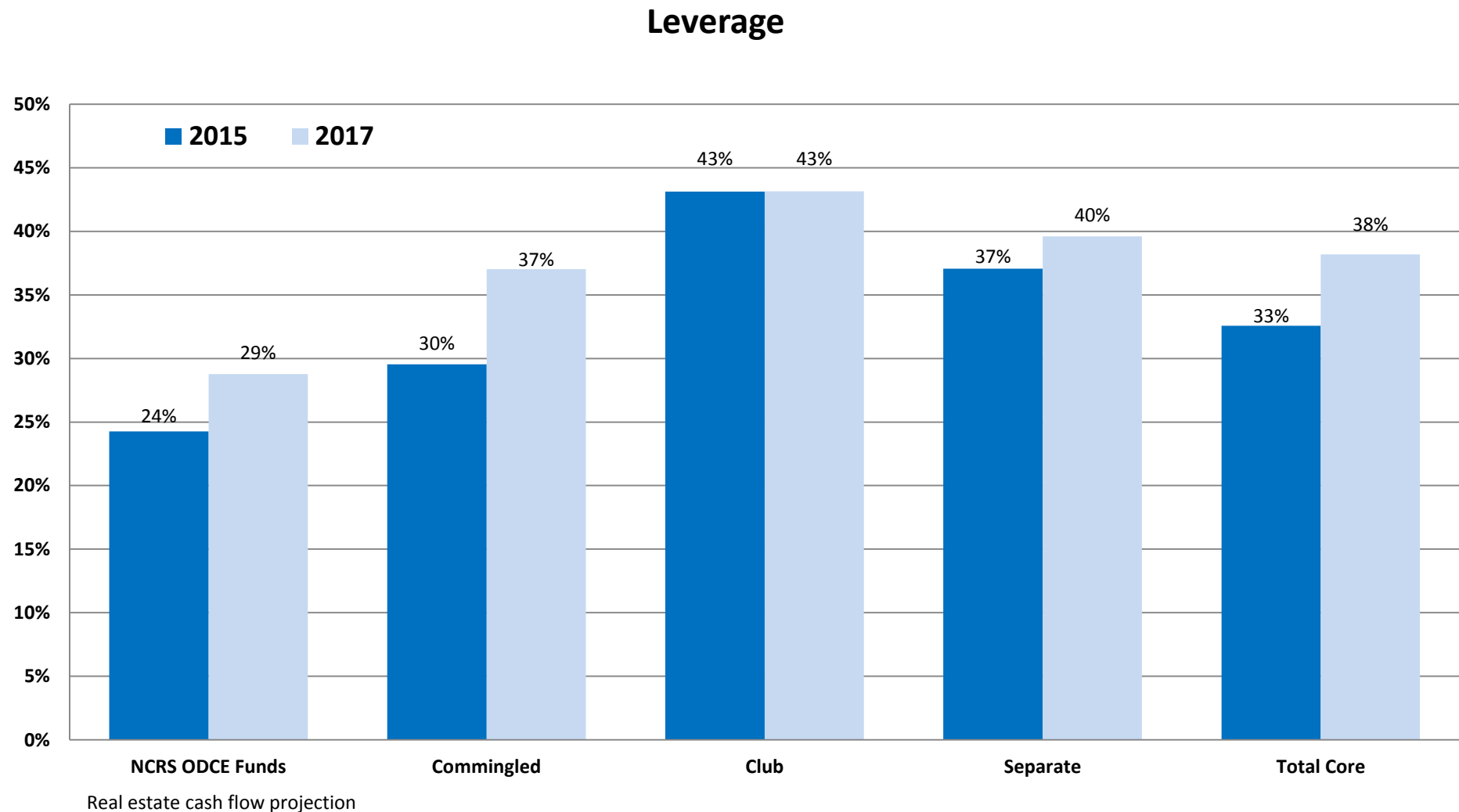


Source: 2Q15 Courtland Report

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



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



# IV. Topics for Discussion

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## 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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