

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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INVESTMENT MANAGEMENT DIVISION

Real Estate Update

May 29, 2024



Agenda

Page

3	Real Estate Team
4	Real Estate Allocation
5	Real Estate Investments since 3/31/2023
6	Real Estate Cash Flow
7	Unfunded Commitment Pacing
8	Performance: Total Real Estate vs. REITs
9	Performance: Core Real Estate
10	Performance: Non-Core Real Estate
11	Property Type Diversification
12	Property Type Allocation Trend
13	Real Estate Separate Accounts
14	Property Type Allocation
15	Higher Control Structures
16	Non-Core Portfolio Valuation by Life Cycle
17	Real Estate Sector Analysis
18	Appendix



Real Estate Team

Troy March, CCIM, MBA
Director of Real Estate

11 Years with IMD
22 Years Industry Experience

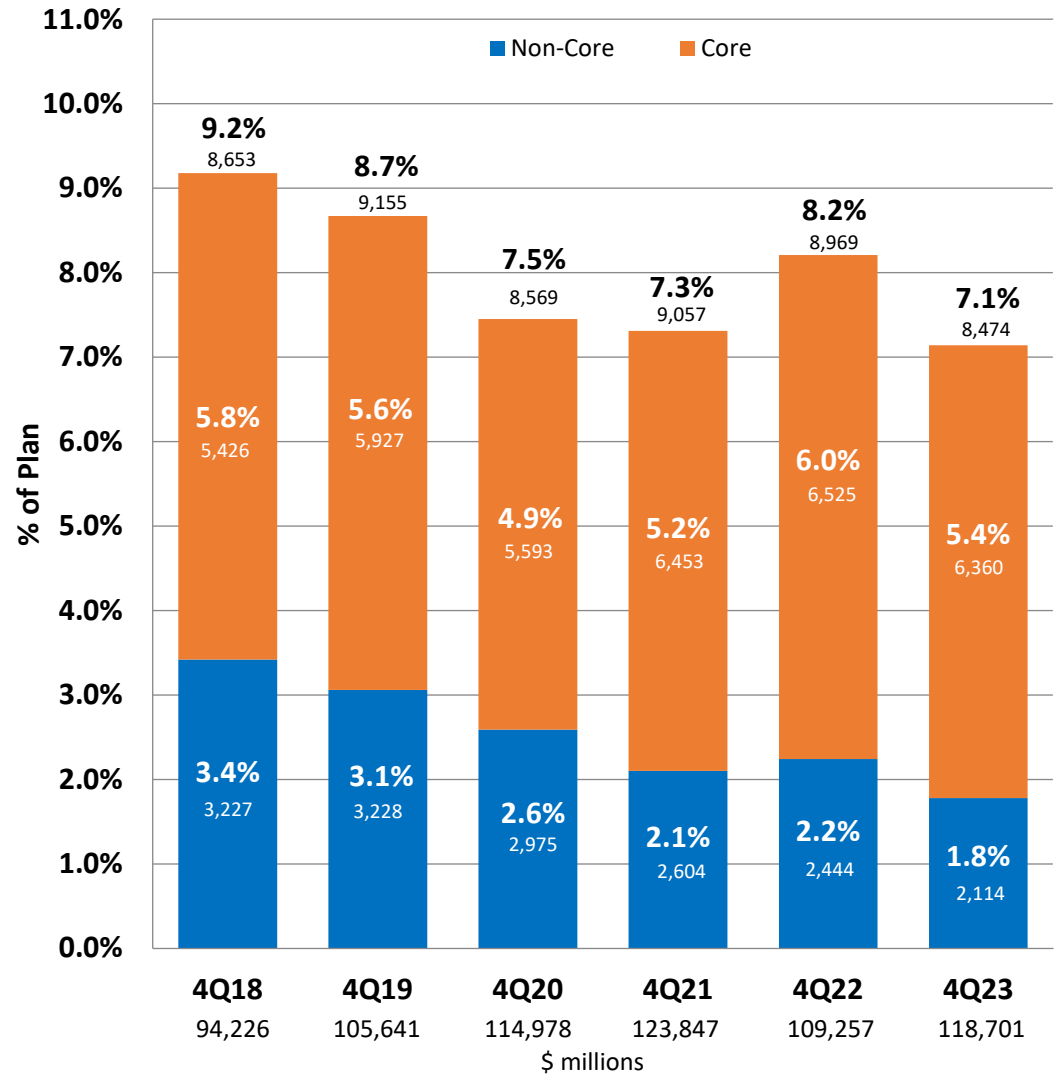
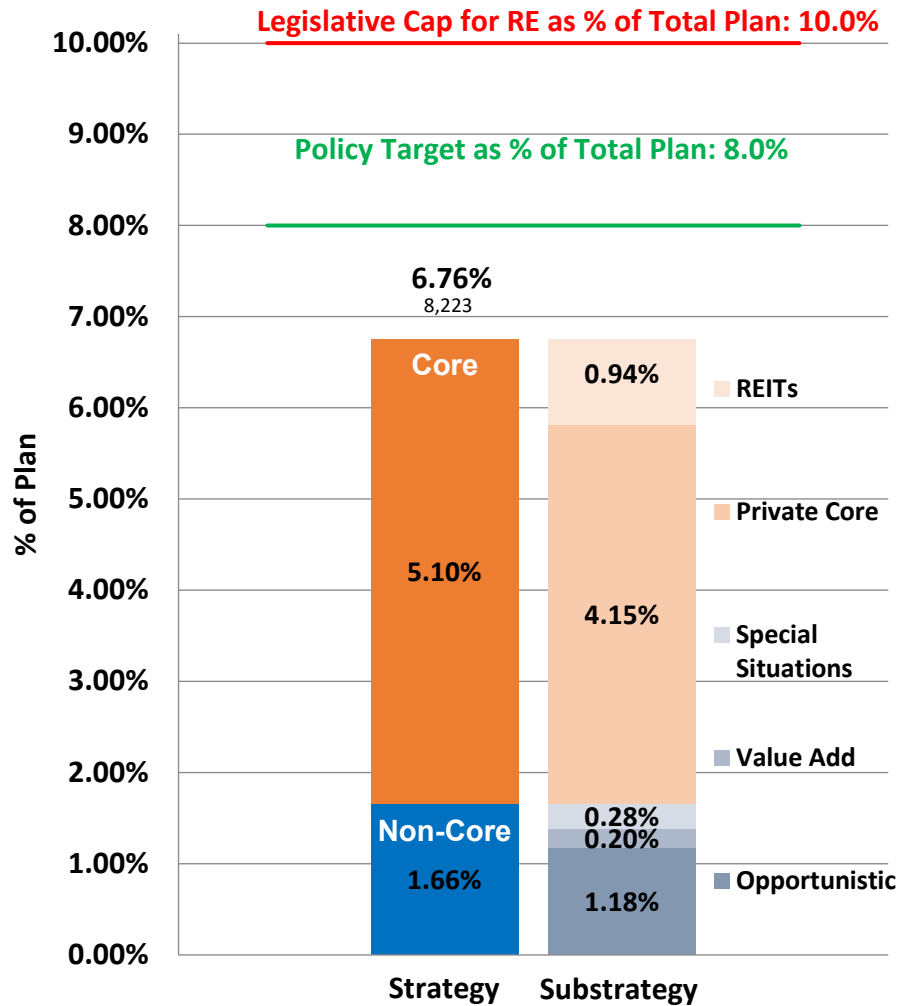
Casey High
Portfolio Manager

11 Years with IMD

Chris Ward
Analyst

10 Years with IMD

Real Estate Allocation



NCRS data as of 3/31/2024
Special Situations – Build-to-Core Strategy

As of 5/1/2024, Real Estate was 6.83% of the Total Plan



Real Estate Investments since 3/31/2023

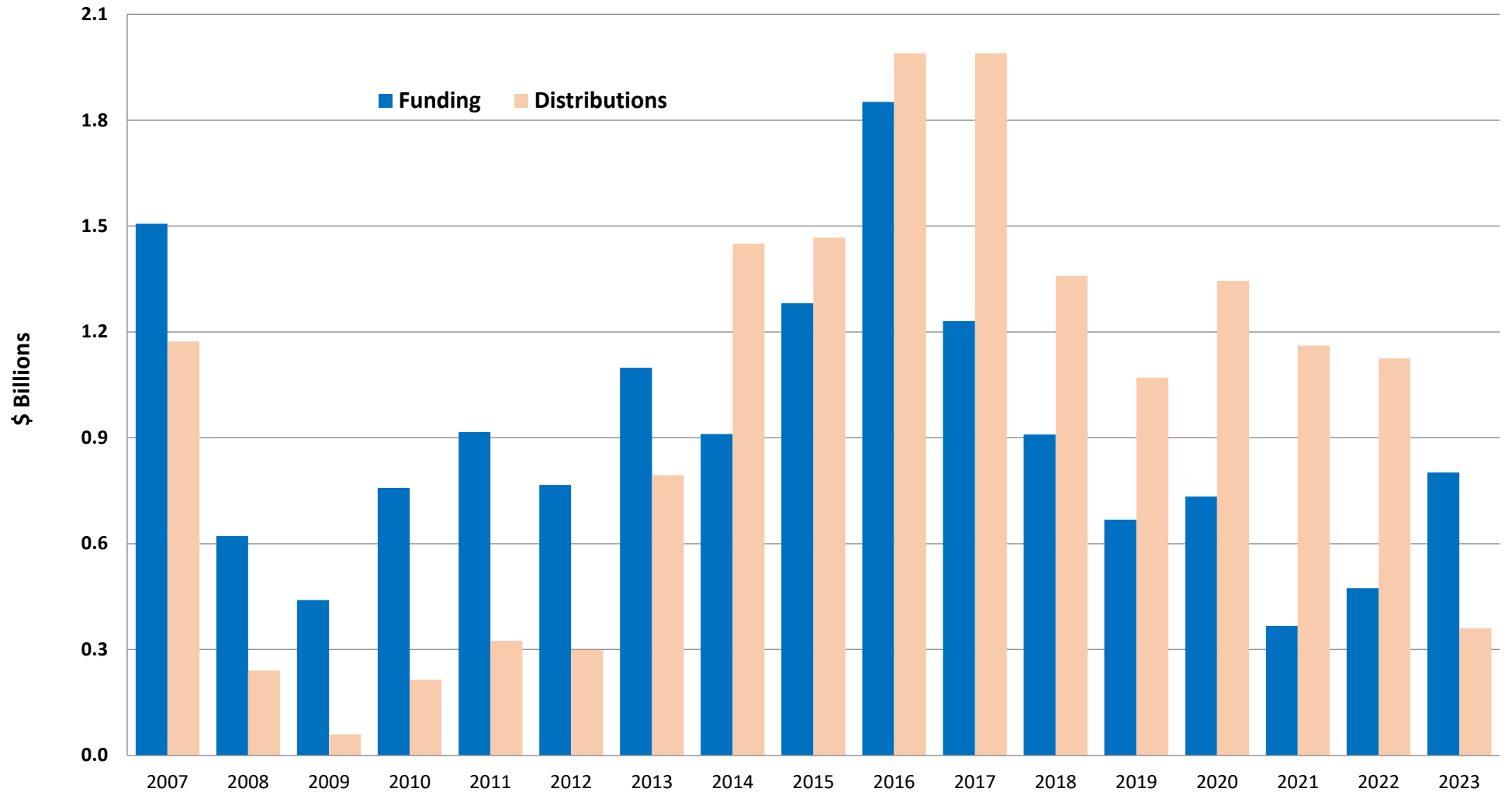
Closing Date	Fund Name	Commitment (millions)	Fund Type	Sector	Portfolio
Q3 2023	NorthRock IV	\$119*	Closed-end Separate Account	U.S. Diversified	Core
Q4 2023	NorthRock I	\$127*	Closed-end Separate Account	U.S. Diversified	Core
Q4 2023	Northpond Retail Partners	\$200	Open-end Separate Account	U.S. Retail	Non-Core Value Add
Q1 2024	NorthRock IV	\$141*	Closed-end Separate Account	U.S. Diversified	Core

*Contributions made for the sole purpose of paying off outstanding debt on specific underlying assets

Since 3/31/2023, NCRS has made commitments totaling ~\$587 million.



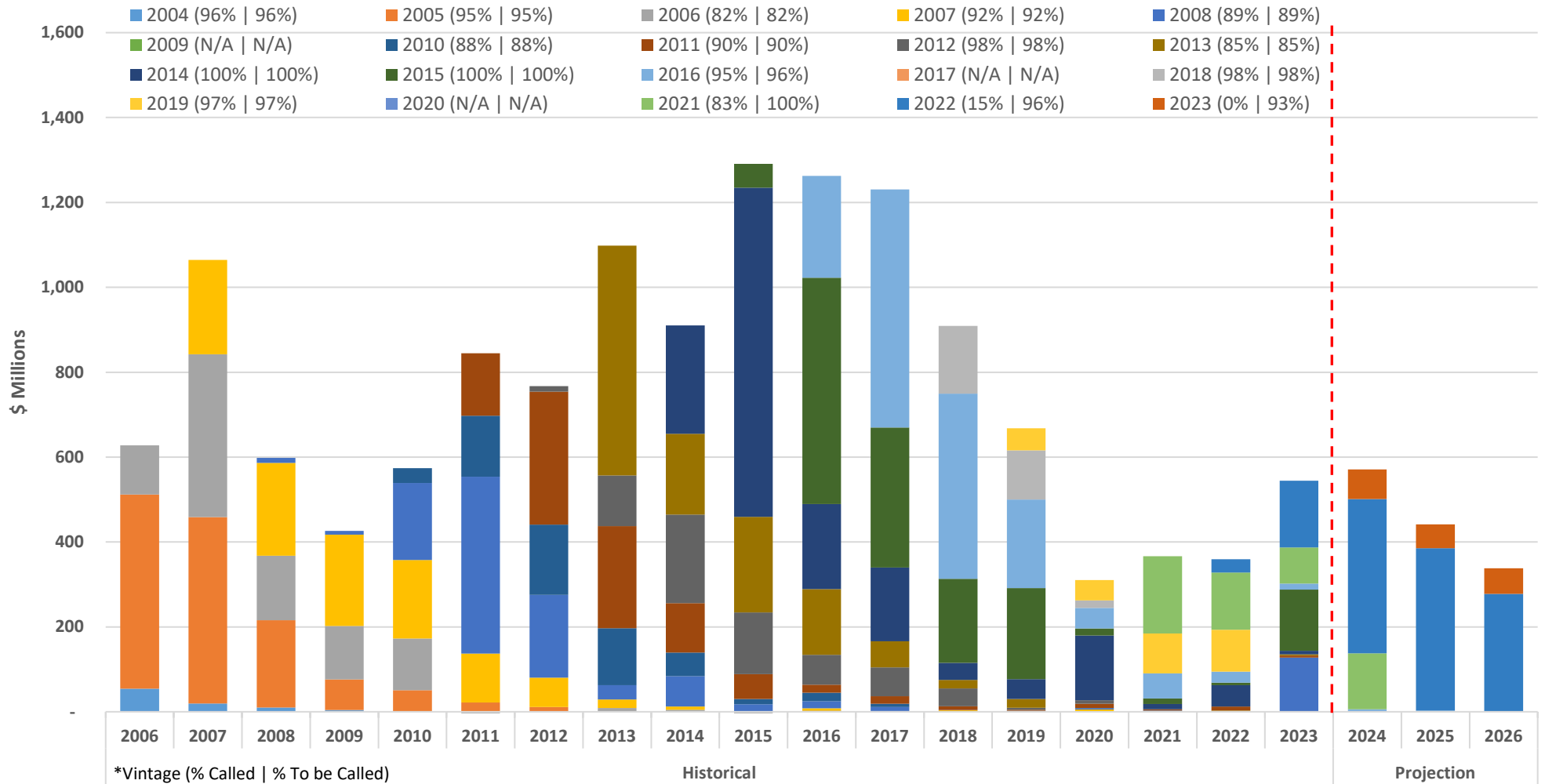
Real Estate Cash Flow



Net Cashflows (\$MM):	(334)	(381)	(381)	(544)	(591)	(468)	539	186	138	759	449	403	602	794	651	(442)
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Year-To-Date net contributions were \$156 million as of 5/1/2024. There is pent up demand to transact but frozen capital markets are limiting both investment and divestment

Unfunded Commitment Pacing by Vintage Year (excludes REITs)



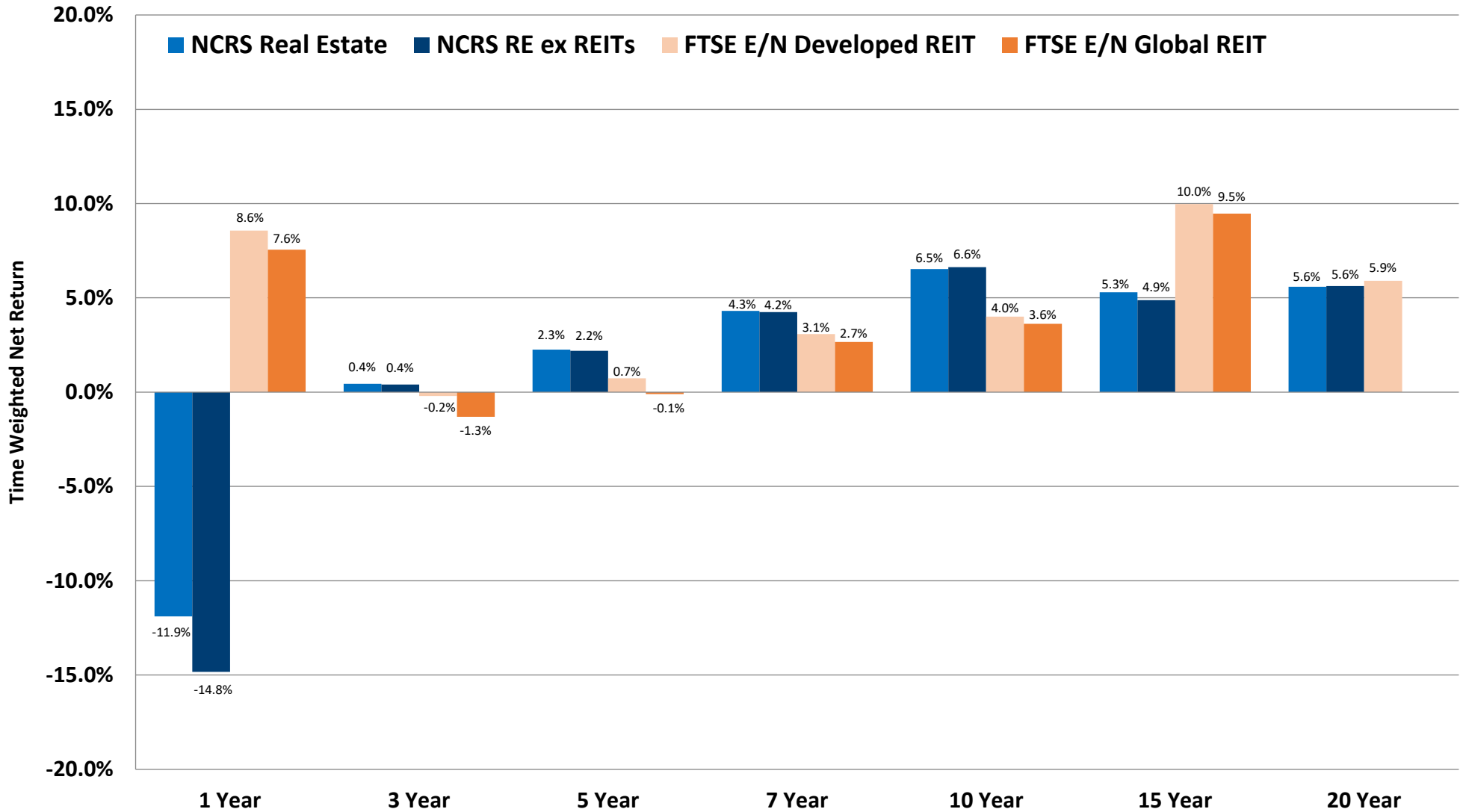
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1,088	1,165	1,230	0	653	1,055	695	1,428	1,721	1,490	1,675	0	300	300	0	482	1,575	200			

NCRS data through 12/31/2023

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

Of the \$2.1 billion of unfunded commitments, we expect ~\$1.5 billion to be called and the remainder held as reserves

Performance: Total Real Estate vs. REITs as of 3/31/2024



NCRS data through 3/31/2024

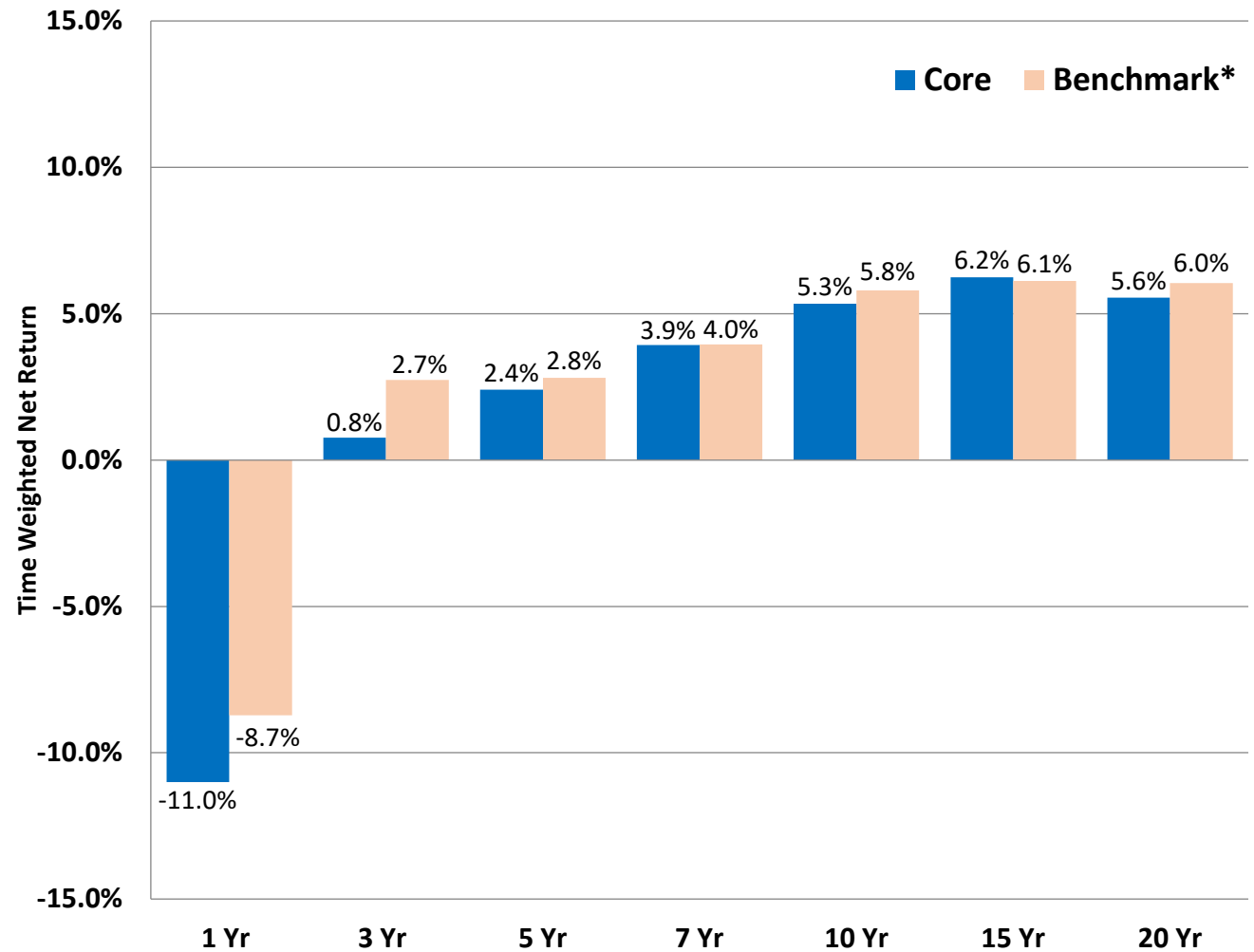
FTSE EPRA/NAREIT Developed Index: The index serves to represent real estate equities across developed markets of North America, Europe and Asia.

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		0.6	
REITs		0.1	
Total Core		0.8	
<i>Major Drivers</i>		<i>Vintage</i>	
PC	LBA NC Core Industrial	2016	0.8
PC	BREP Edens	2013	0.4
PC	Blackstone Property Partners	2014	0.4
5 Year		Contribution	
Private Core RE		2.0	
REITs		0.4	
Total Core		2.4	
<i>Major Drivers</i>		<i>Vintage</i>	
PC	LBA NC Core Industrial	2016	0.7
REIT	BR World REIT	2016	0.4
PC	Blackstone Property Partners	2014	0.4



NCRS data through 3/31/2024

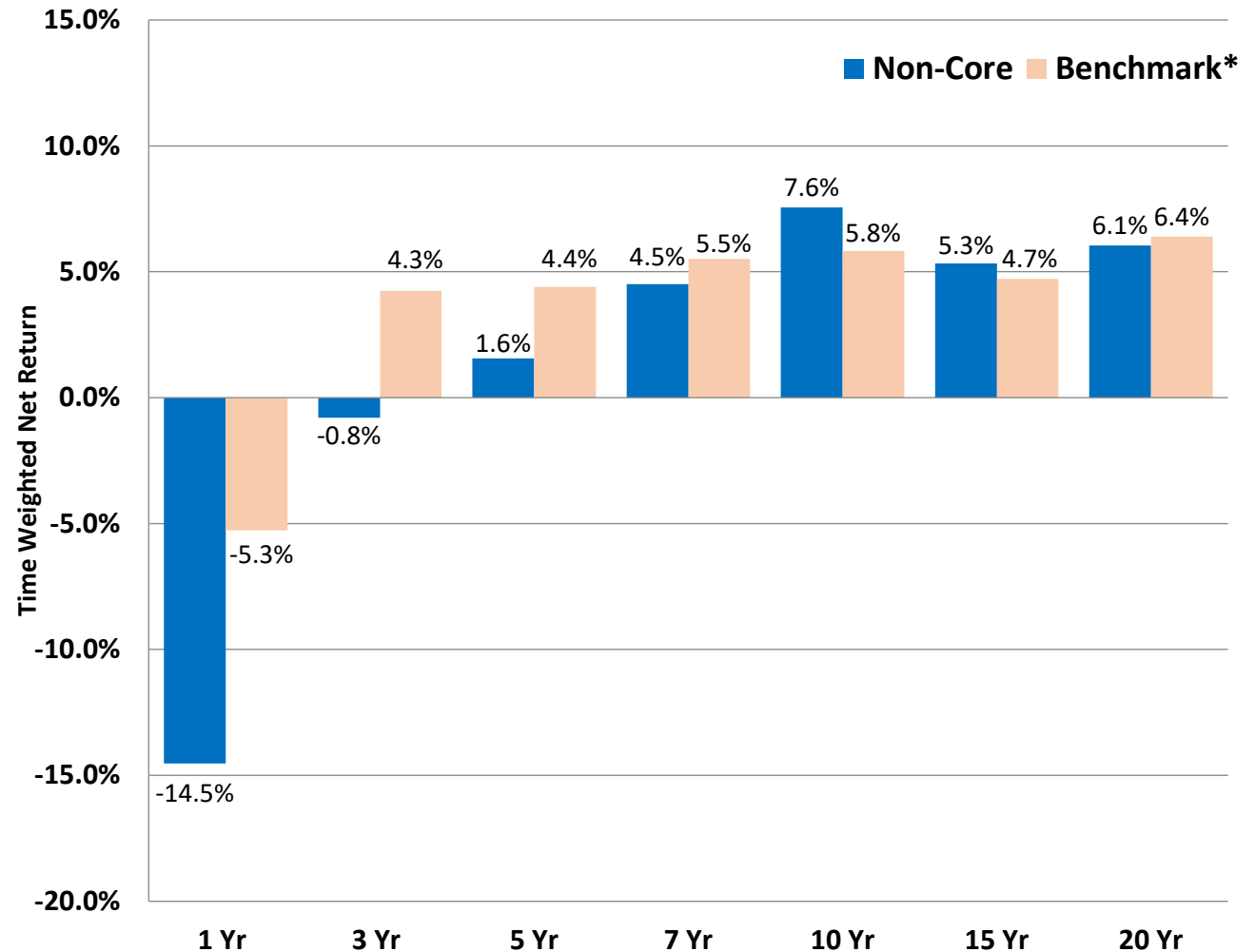
* The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index.

Negative short-term returns of private portfolio partially offset by strong performance of REITs



Performance: Non-Core Real Estate

Non-Core Contribution to Return		
3 Year		Contribution
Opportunistic		-0.6
Value Add		-0.2
Total Non-Core		-0.8
<u>Major Drivers</u>		<u>Vintage</u>
O	Blackstone RE Partners IX	2019 1.0
O	Blackstone RE Partners VIII	2015 0.6
V	Crow Holding Retail Fund II	2016 0.4
5 Year		Contribution
Opportunistic		1.3
Value Add		0.3
Total Non-Core		1.6
<u>Major Drivers</u>		<u>Vintage</u>
O	Blackstone RE Partners IX	2019 0.7
O	Rockwood Dev Partners	2016 0.6
O	Blackstone RE Partners VIII	2015 0.6

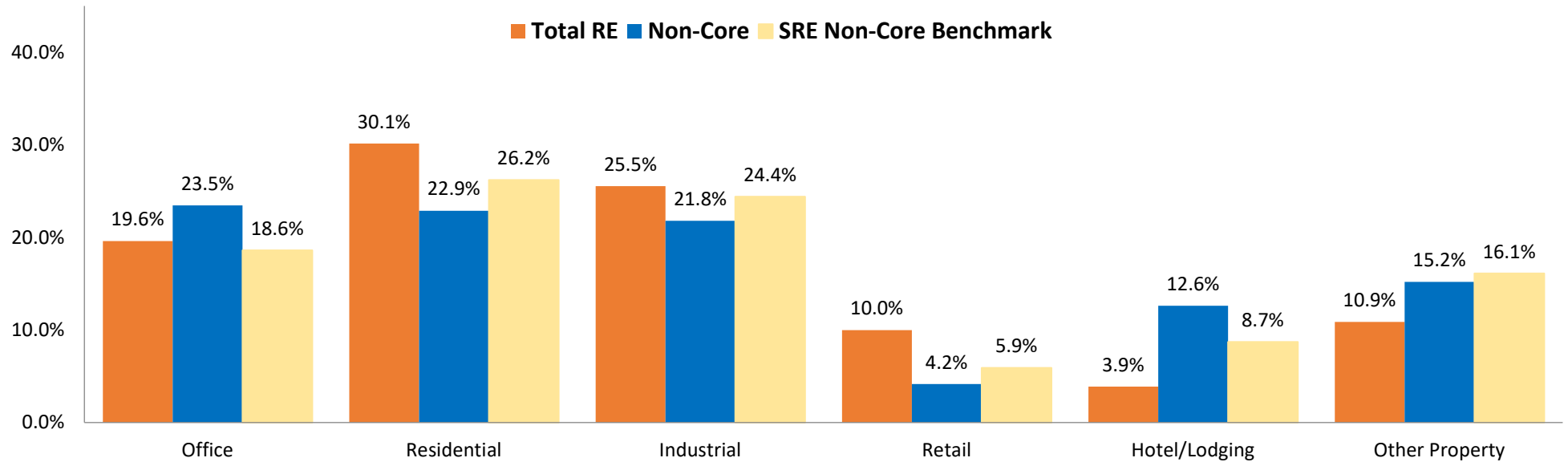
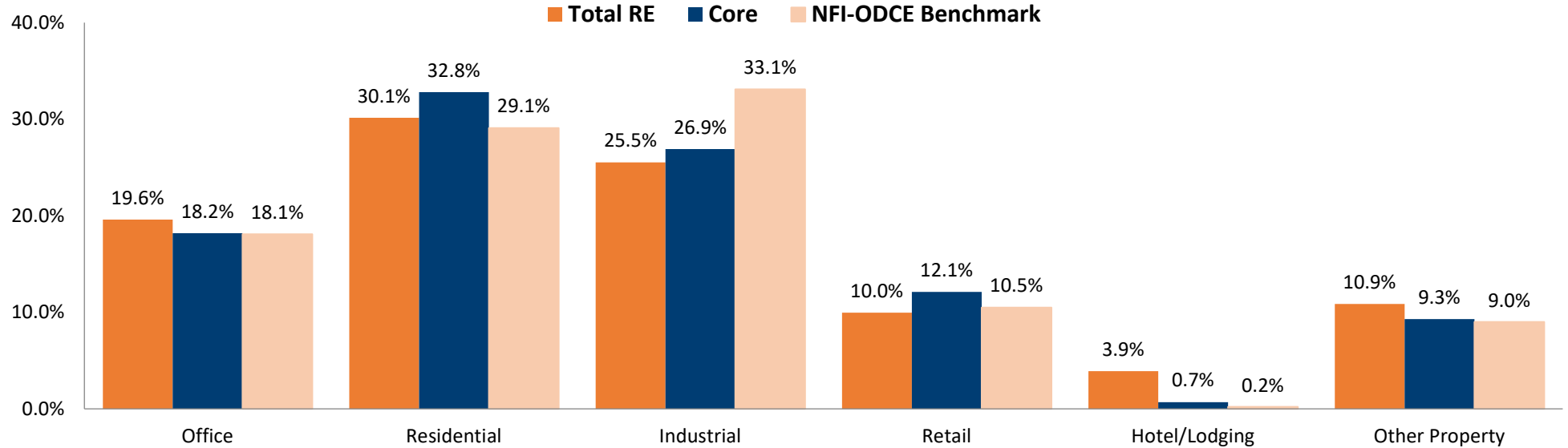


NCRS data through 3/31/2024

* 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).

Underweight to Industrial and legacy vintage year exposure contributed to near term underperformance

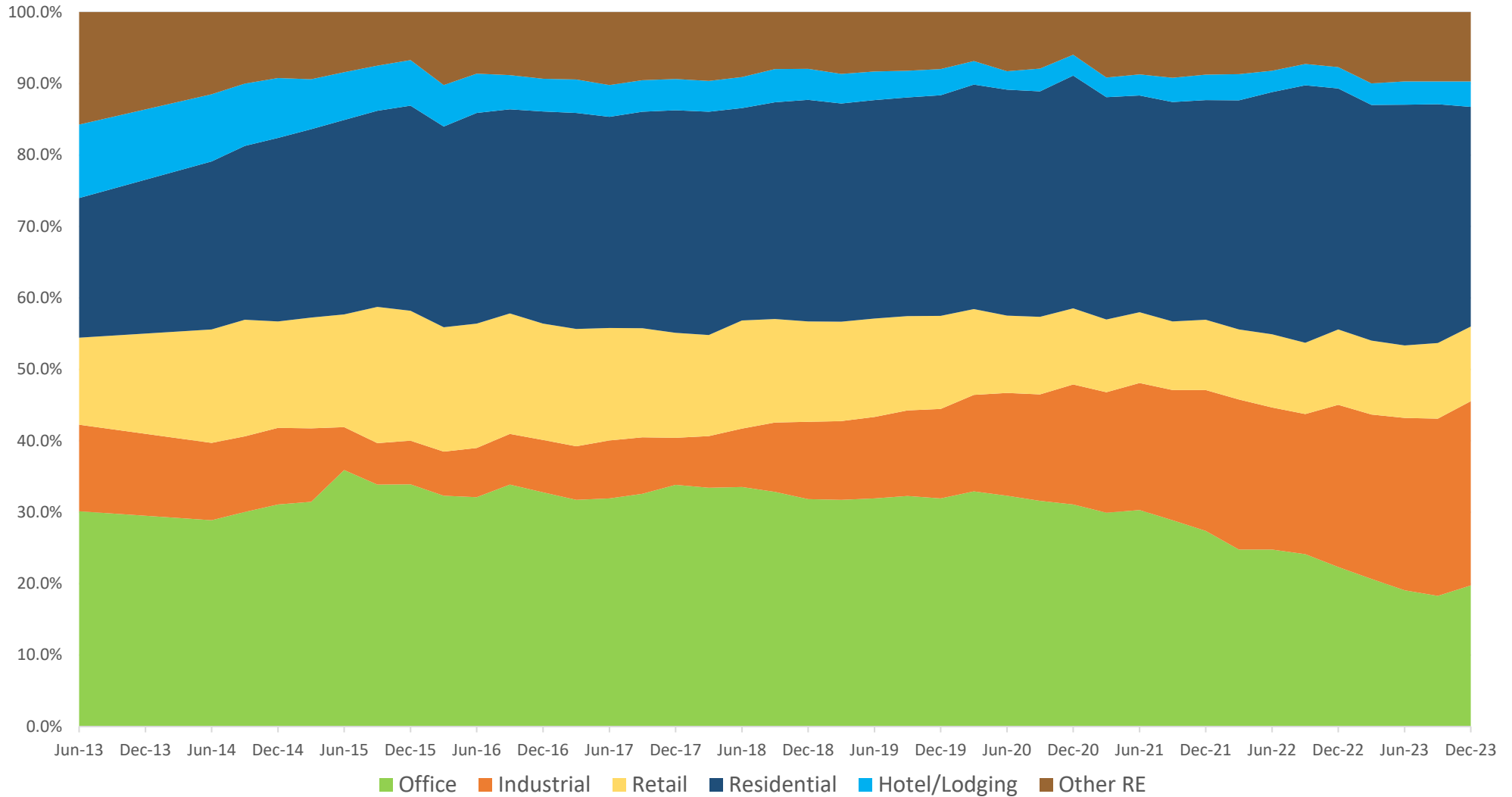
Property Type Diversification



Source: SRE StepStone NCRS 4Q23 Portfolio Monitoring Report



Property Type Allocation Trend

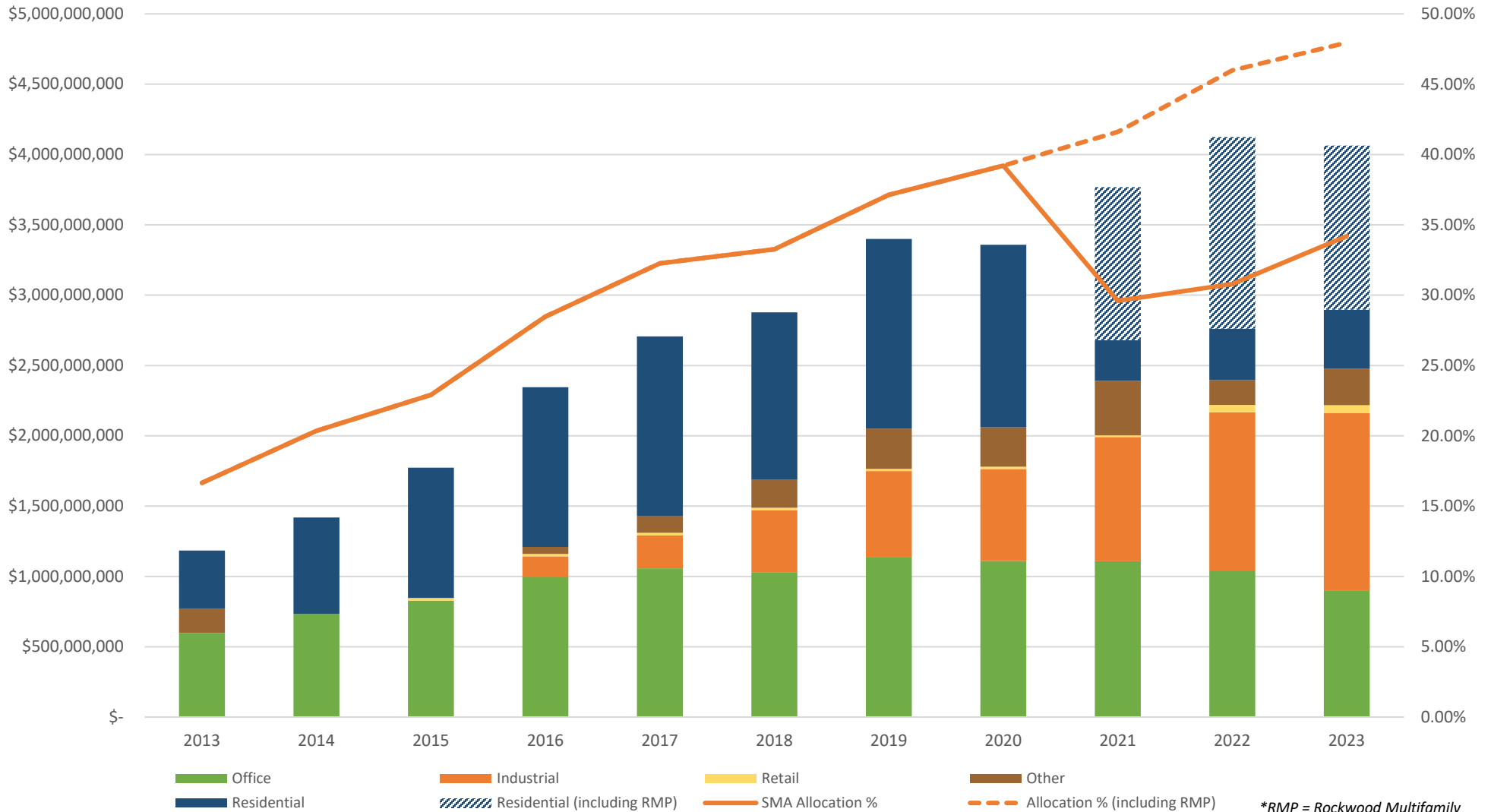


Source: SRE StepStone NCRS Portfolio Monitoring Report

Over the last 5 years, increase in Industrial exposure has offset the decline in Office exposure



Real Estate Separate Accounts (SMA)

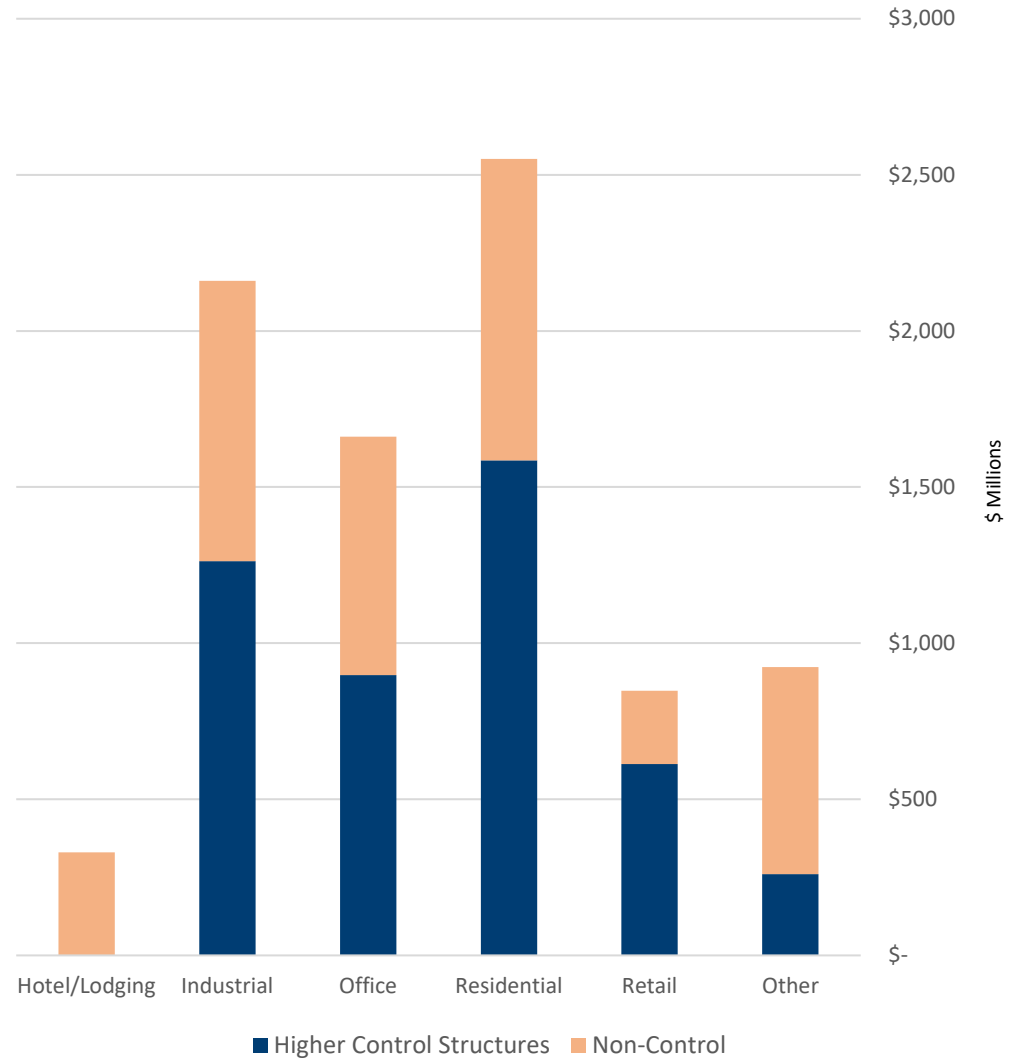
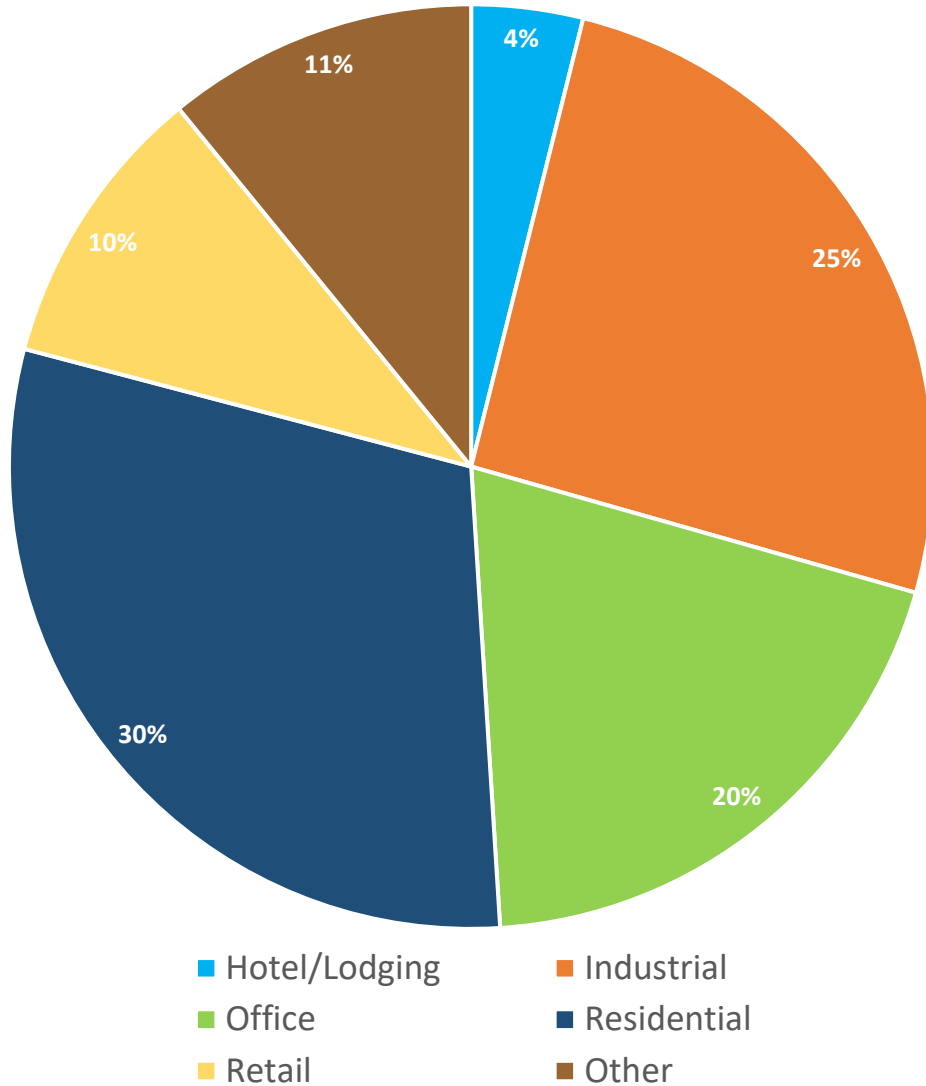


*RMP = Rockwood Multifamily

Decline in 2021 due to restructure of Multifamily SMA into Open-end Fund



Property Type Allocation



Meaningful exposure to sector specific Higher Control Structures



Higher Control Structures

Manager	Fund Name	Fund Type	Property Type	Vintage	Portfolio	NAV (millions)
Rockwood Capital	NorthRock Core Fund, L.P.	SMA	Office	2008	Core	\$449
Rockwood Capital	NorthRock Fund IV, L.P.	SMA	Office/Residential	2015	Core	\$573
Rockwood Capital	Rockwood Development Partners	SMA	Mixed-Use Development	2016	Non-Core	\$337
Rockwood Capital	Rockwood Income and Credit Partners LP	SMA	Office	2016	Core	\$48
Rockwood Capital	Rockwood Multifamily Core Plus	Open-End	Residential	2021	Core	\$1,057
Blackstone Real Estate	BREP Edens Investment Partners L.P.	Platform	Grocery Anchored Retail	2013	Core	\$525
Meadow Partners	Meadow Core Plus Real Estate Fund	SMA	Diversified	2014	Core	\$117
Meadow Partners	Meadow Core Plus Real Estate Fund 2015-1 Series	SMA	Diversified	2015	Core	\$29
LBA Realty	LBA NC Core Industrial, L.P.	SMA	Industrial	2016	Core	\$1,236
Prime Group Holdings	Prime Storage NC LP	SMA	Self Storage	2022	Non-Core	\$70
RXR Realty	RXR NC Development Partners LP	SMA	Mixed-Use Development	2023	Non-Core	\$96
NorthPond Partners	NorthPond Retail Partners LP	SMA	Small Strip Essential Retail	2024	Non-Core	\$7

Total: \$4,544

Higher Control Structures now represent 55% of Real Estate Portfolio



Non-Core Portfolio Valuation by Life Cycle





Real Estate Sector Analysis

Outlook: ● Positive ● Neutral ● Negative

● Data Center

- Single and multi-tenant space remains in high demand fueled by advancement of AI technology
- Present demand/supply imbalance expected to persist well beyond 2025

● Industrial

- Near term forecasts for net absorption and market rent growth have been lowered, but occupancy rates over next 2 years are expected to remain higher than their long-term average of ~93%
- 3-5yr revenue growth forecasted at 5-7% CAGR as leases of seasoned assets are marked-to-market

● Self-Storage

- Tepid home sales in a higher mortgage rate environment resulting in slower leasing activity
- Until home sale activity picks back up, forecasts will reflect lower than average YoY rent growth, but that trend is not expected to persist long term

● Multifamily

- Near-term oversupply in growth markets pressuring rents, but new starts have slowed considerably
- Long-term fundamentals still positive due to undersupply of housing across the U.S and growing unaffordability of single-family homes

● Retail

- Neighborhood, necessity-based retail attracting more institutional capital; 'A' malls surprised in '23
- Macroeconomic uncertainty and high inflation remain the largest threat to retailers, but non-grocery anchored necessity-based retail is poised to weather a potential slowdown

● Student Housing

- 2023 supply down 17% while many select universities experienced record enrollment
- Power 5 Universities with favorable supply/demand dynamics attracting institutional investors

● Senior Housing

- Sector has now seen 12 consecutive quarters of positive net absorption; 5.4% rent growth over TTM
- New construction ~71% below pre-Covid peak; occupancy rate continues to rise to pre-Covid peak

● Hotel

- Business travel has nearly returned to pre-pandemic levels, concentrated in major urban cities
- Leisure-oriented markets remain resilient, but higher cost of living may impact near-term demand

● Office

- Certain key markets beginning to see workers returning to the office (i.e. NYC)
- Would-be buyers still unable to secure affordable debt, further restricting transaction volume

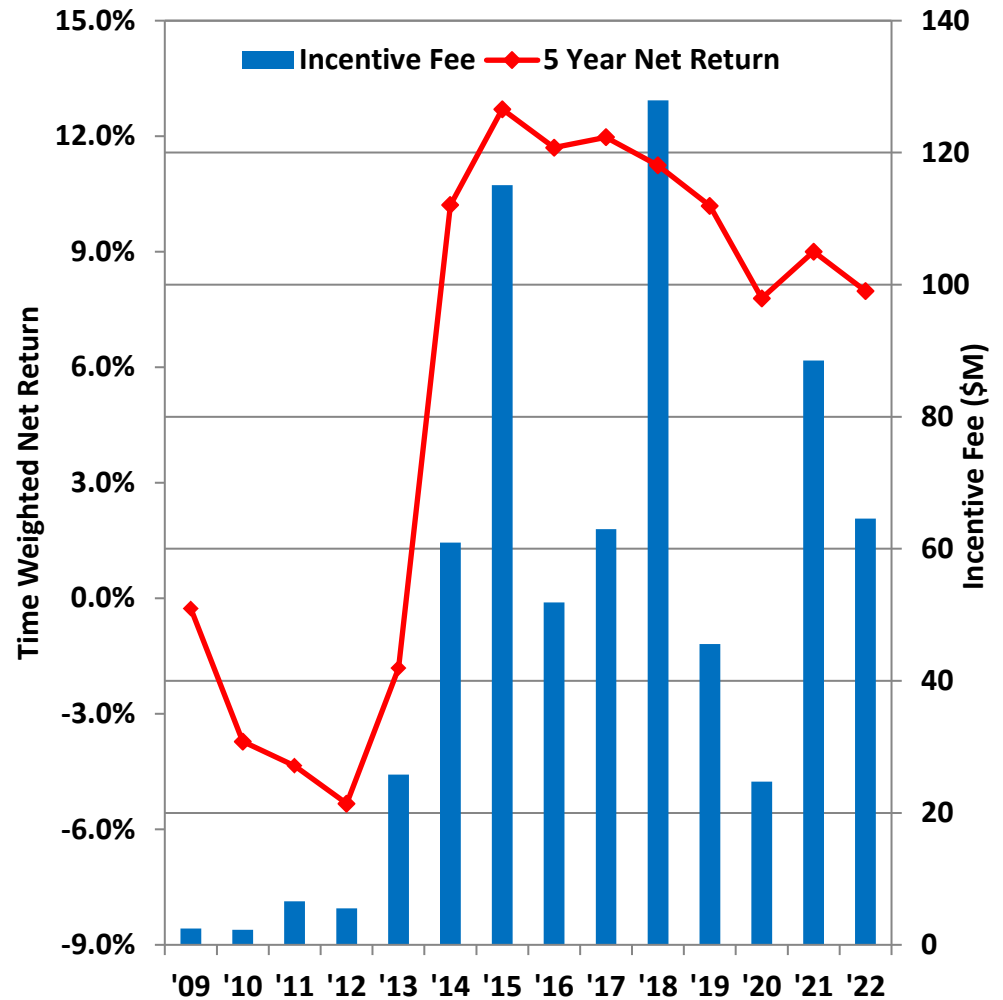
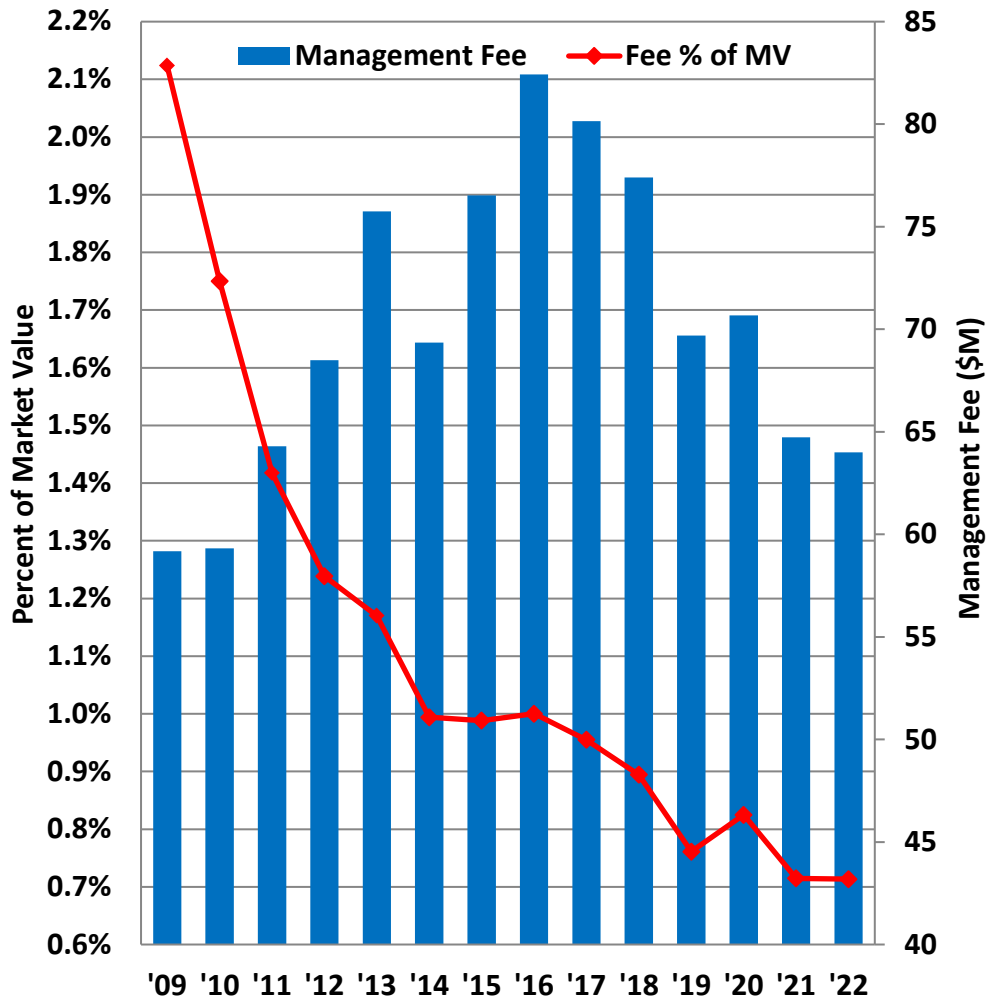


Appendix

Page

19	Cost Efficiency
20	Leverage
21	Geographic Diversification
22	Role and Objectives
23	Investment Strategy Objectives
24	Investment Approach

Cost Efficiency

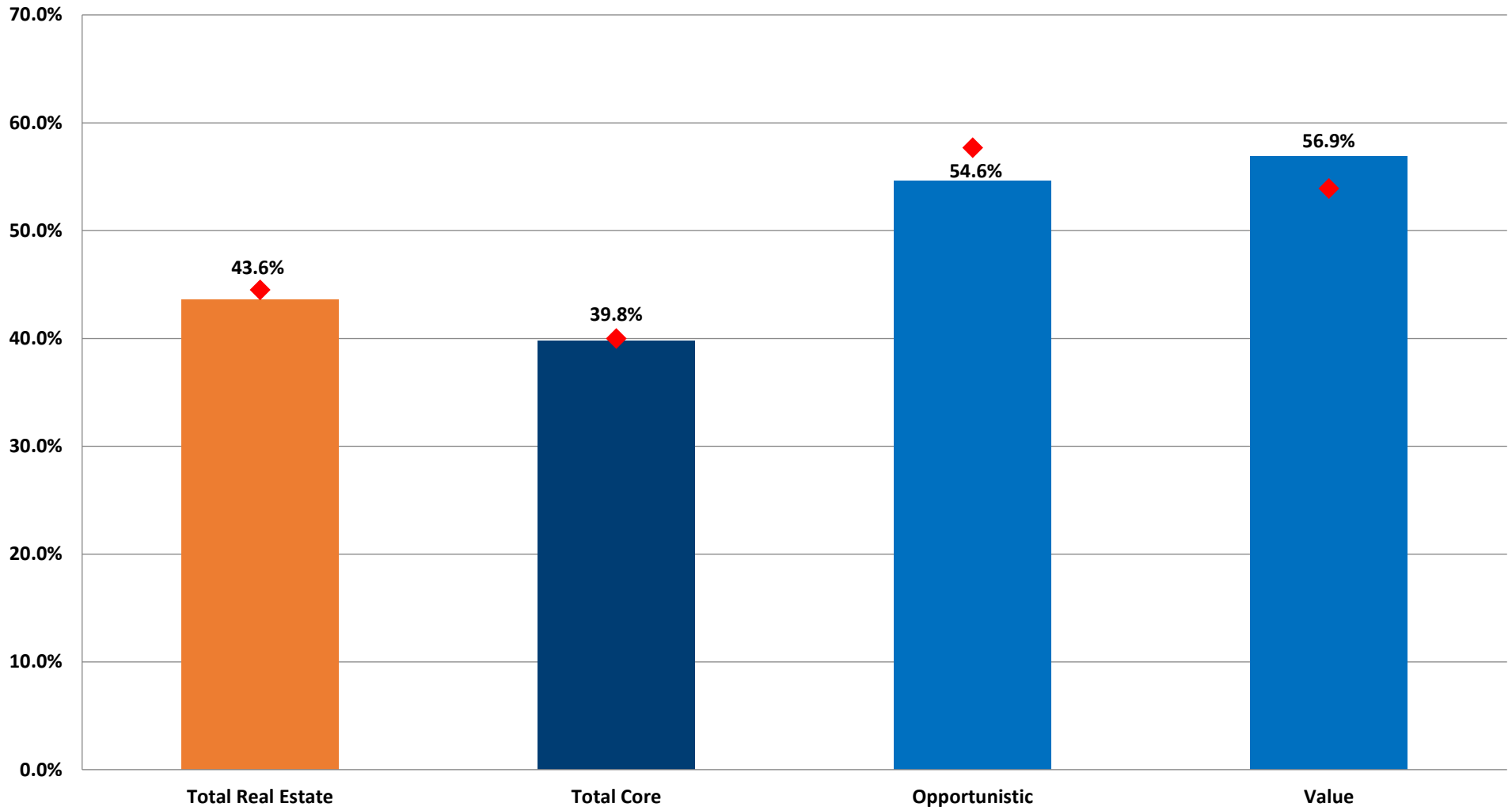


NCRS data through 12/31/2022

Fees continue to move lower as we leverage relationships and scale to minimize costs and enhance alignment



Leverage



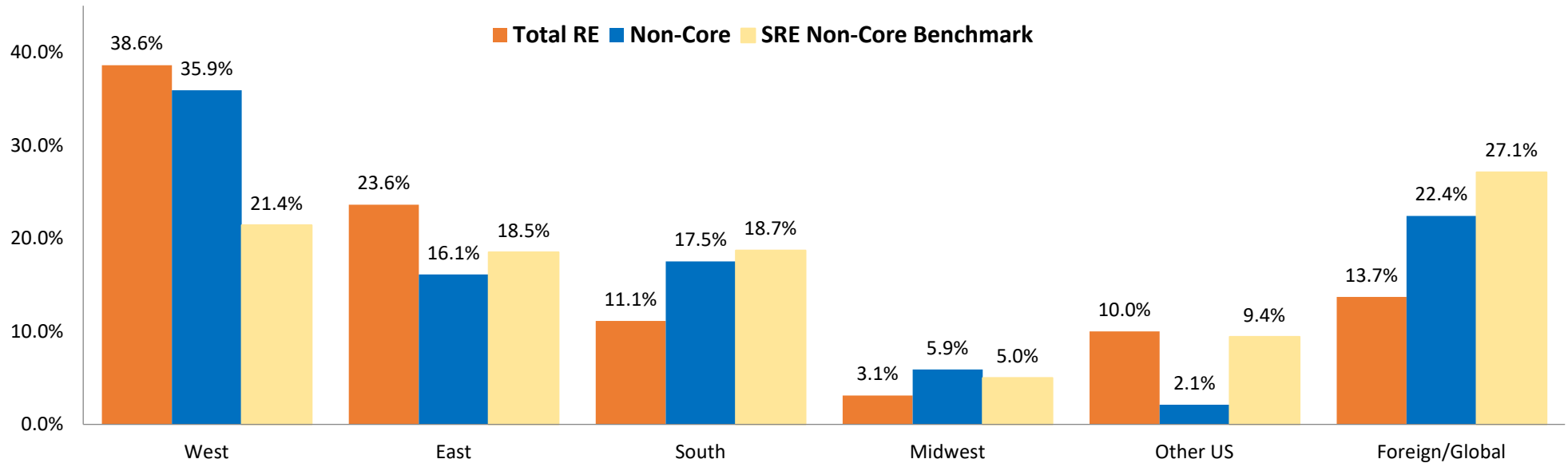
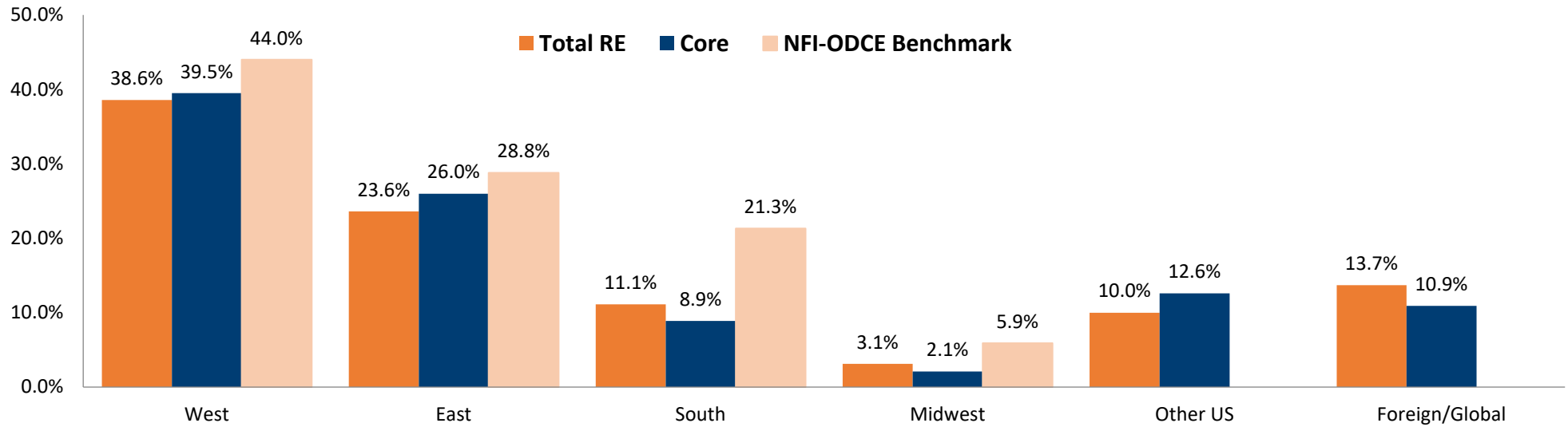
Source: SRE StepStone NCRS 4Q23 Portfolio Monitoring Report

◆ Prior Year

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



Geographic Diversification



Source: SRE StepStone NCRS 4Q23 Portfolio Monitoring Report



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 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 while security prices are still trading below net asset values
- Increase exposure to both high growth and low capex sectors: Industrial, Multifamily, Self-Storage, Small Strip Center Retail
- Decrease exposure to high capex and macro-challenged sectors: Office, Retail, and Hotel



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