



CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND BOARD

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RETIREE HEALTH CARE TRUST FUND
BOARD CALENDAR SHEET

Special Board Meeting of February 3, 2025

TO: Retiree Health Care Trust Fund Board

FROM: Kurt Braitberg, CFA, CAIA
RHCTF CIO
SFERS Managing Director- Public Markets

DATE: February 3, 2025

Agenda Item

Approve an \$18 million commitment to Sculptor Real Estate Fund V for the City and County's sub-trust.

Background

The City and County's Sub-Trust has a 5% policy target allocation to Real Estate. Currently, the Sub-Trust's exposure is approximately 2.6%. To achieve the 5% allocation over time, Meketa's pacing studies recommend committing approximately \$40 million in 2025.

Recommendation

Staff and Meketa recommend that the RHCTF Board approve a \$18 million commitment to Sculptor Real Estate Fund V for the City and County's sub-trust.

Attachments

Meketa Real Estate Recommendation



San Francisco Retiree Health Care Trust Fund: City and County of San Francisco

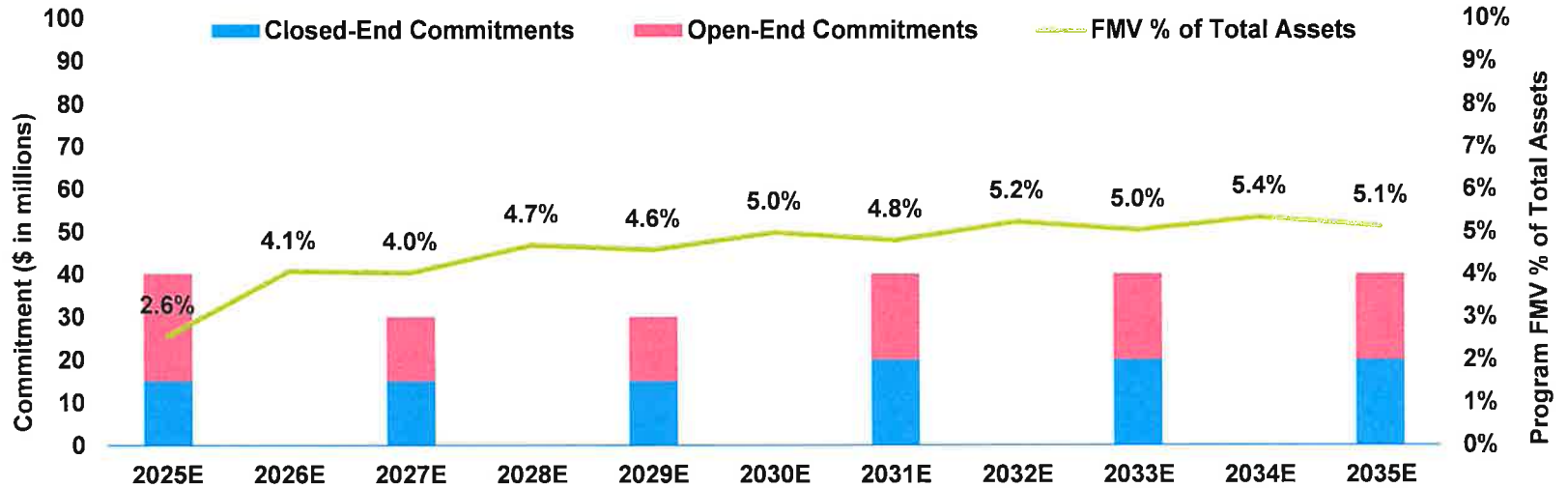
February 3, 2025

Private Real Estate Manager
Search

Background

- The San Francisco Retirement Health Care Trust Fund (“RHCTF”) has a 5% policy target allocation to Private Real Estate within the City & County Sub-Trust. As of year-end 2024, the Sub-Trust’s current market value stood at roughly \$33.8M, or 2.6% of the Sub-Trust.
- The Sub-Trust began building out its Real Estate program in 2021 with the approval of 2 open-ended core funds: AEW Core Property Trust (\$20M) and TA Core Property Trust (\$12M).
- To continue moving towards its 5% target allocation and broaden the Real Estate Program, Meketa and Staff **recommend the inclusion of a closed-end fund**, with an additional open-ended Core Plus fund targeted in May.
- Meketa reviewed several opportunities in the closed-end space for the City & County Sub-Trust, and narrowed it down to three potential candidates: BGO, Invesco, and Sculptor.
 - Among them, we view Sculptor Real Estate Fund V to be a strong compliment to the Plan’s existing open-ended core funds as a truly opportunistic yet diversified strategy. Additionally, SFERS as a current investor has knowledge of the manager, further enhancing conviction of the recommendation.
 - The next phase will expand with an additional open-ended core plus fund that seeks to diversify exposures already held. (May meeting target)
 - The following page outlines the pacing for the Real Estate program to reach its 5% target allocation, and provides additional information on Sculptor Real Estate Fund V.
- **Action Item:** Approve a \$18M commitment size to Sculptor Real Estate Fund V (closed-end fund) (inclusive of fees and expenses, as needed).

**Private Real Estate Pacing Model
(as of September 30, 2024)¹**



Private Real Estate (\$ millions)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Closed-End Commitments	15	0	15	0	15	0	20	0	20	0	20
Open-End Commitments	25	0	15	0	15	f	20	0	20	0	20
Contributions	-2	-29	-5	-21	-7	-22	-8	-28	-9	-29	-10
Distributions	0	0	1	2	3	5	7	8	9	10	11
Net Cash Flow	-2	-29	-5	-19	-4	-17	-1	-21	0	-19	1
Fair Market Value	38	68	76	100	109	132	141	169	179	209	220
FMV % of Total Assets	2.6%	4.1%	4.0%	4.7%	4.6%	5.0%	4.8%	5.2%	5.0%	5.4%	5.1%

¹ Pacing model used market value data as of 09/30/2024 adjusted for subsequent cash flows through 12/31/2024. An annual contribution of \$100 million to the Total Plan assets and 7% growth rate are assumed. FMV includes existing investments.



San Francisco Retiree Health Care Trust Fund: City and County of San Francisco

Private Real Estate Manager Search

Sculptor Real Estate Fund V

Manager Background

Sculptor Real Estate Fund V	
Firm Headquarters	New York
Firm Inception	1994 (Real Estate: 2003)
Strategy	Non-Core Real Estate
Strategy Inception	2005
Fund I	\$408 million
Fund II	\$840 million
Fund III	\$1.5 billion
Fund IV	\$2.6 billion

Organizational

- Sculptor Real Estate (SRE) launched in 2003 and has raised four prior closed-end funds. SRE also sponsors a real estate credit fund series and a REIT.
- Sculptor Capital Management is 100% owned by Rithm Capital Corporation (listed on the New York with ticker RITM).
- SRE is led by founder Steve Orbuch, who together with Nicholas Hecker, Cory Perlstein, and Joshua Kirkham make up the senior leadership team. SRE has grown its investments team to 37 professionals, who have invested in 30 different property types.

Investment Terms

Sculptor Real Estate Fund V	
Partnership Name	Sculptor Real Estate Fund V
Investment Strategy/Focus	Non-Core Real Estate
Target Gross IRR	18-22%
Geographic Focus	US and Europe
Anticipated Final Closing	Mid 2025
Fees / Expenses:	
Management Fee	1.5% on committed capital during the investment period; 1.5% on invested capital
Preferred Return	8%
Structure	Deal-by-Deal
Carried Interest / Performance Fee	20%

- The management fee for the fund is standard for a non-core, closed-end real estate fund. The deal-by-deal structure is not common and is GP favorable.
- Meketa has negotiated consultant aggregation fee breaks as follows:
 1. A 12.5 basis points discount if capital advised by a consultant equals or exceeds \$150 million
 2. A discount of 25 basis points if capital advised by a consultant equals or exceeds \$200 million
 3. A discount of 35 basis points discount if more than \$300 million

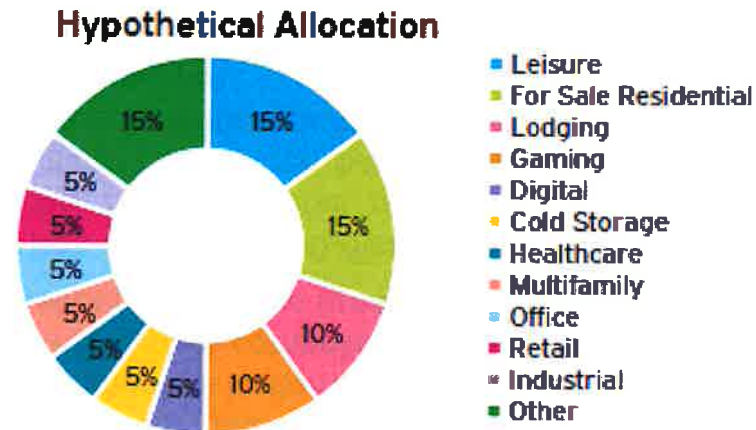
Fund Strategy

Market Opportunity

- 2025 marks a potentially attractive vintage to invest in real estate as markets are experiencing a broad-based correction, the magnitude of which has not been seen since the GFC. This has seen real estate values reset from a period of low interest rates, and debt financing become significantly more constrained. However, investors are cautioned about the potential impact of lower economic growth on more traditional CRE sectors. For these reasons, specific non-traditional sectors that continue to exhibit growth and resiliency offer a unique opportunity.

Investment Strategy & Portfolio Construction

- Sculptor Real Estate Fund V will continue executing the Firm's flagship opportunistic strategy, investing across a wide range of traditional and non-traditional property types in North America and Europe, comprising debt and equity transactions.
- Sculptor's opportunistic profile is largely attributed to the risk taken through its flexibility to invest across a large variety of asset types. The Firm implements a bottoms-up approach, constructing its portfolio without fixed sector allocations in order to capitalize on the most compelling opportunities at different points in time. Investors can expect Fund V to make 30-40 investments across a broad spectrum of sectors.
- Across the Fund series, Sculptor has invested in 30 distinct real estate asset classes to date, including the five main traditional sectors of multifamily, industrial, retail, office, and hotel, and 25 other niche property types, such as gaming, ski resorts, senior housing, cell towers, parking, and car washes, among others. Based on current market views and pipeline, below is a hypothetical portfolio for Fund V, which illustrates the broad diversification of the fund, and benefits to a real estate program.



- Historically, Sculptor has invested heavily in non-traditional property types due to them having (i) less correlation to GDP, (ii) significant barriers to entry, (iii) higher current cash returns, and (iv) less efficient capital markets. Ultimately, Sculptor anticipates Fund V's portfolio will continue to execute in the same way, by allocating allocated 70% to non-traditional sectors and 30% to traditional sectors.
- SRE seeks to add value by leveraging its dedicated asset management team, whose singular focus is to maximizing asset value. At a high level, SRE seeks to increase value through three primary avenues: Operational enhancements (such as cost control and system upgrades), Growth opportunities (such as capex projects and leasing), and Capital transactions (such as secure financing and portfolio sales).
- Sculptor Real Estate will seek to acquire assets that present multiple exit strategies, including private individual asset sales, aggregations with a portfolio exit or mergers with public entities.
- The Fund targets opportunistic returns of 18% to 22% gross IRR, with at least 50% of the return coming from income, which SRE believes enhances its overall quality and predictability of returns. The Fund will look to utilize conservative levels of leverage, which have averaged between 30% and 50% over the prior four funds.

Sculptor Real Estate Historical Track Record
(As of December 31, 2023)

Fund	Vintage Year	Fund Size (\$M)	Invested (\$M)	Realized (\$M)	Total Value (\$M)	Net Multiple (x)	Net IRR (%)	Quartile Ranking
Fund I	2005	408	386	848	848	1.7	16.1	1st
Fund II	2010	840	763	1,571	1,602	1.7	21.6	1st
Fund III	2014	1,500	1,113	2,075	2,246	1.6	20.0	2nd
Fund IV	2020	2,596	1,831	562	2,308	1.1	14.0	--
Total			4,093	5,055	7,003	1.5	17.9	

Concerns

- The Fund has an atypical carry structure, in which the GP earns carry on a deal-by-deal basis, as opposed to the more common European waterfall structure.
 - Mitigating Factors: In practice, SRE has not paid out any carry it earned until a fund has been fully/nearly fully liquidated. Further, the Fund has a clawback provision whereby any unearned carry paid out can be clawed back, with a several guarantee
- Fund V expects to build up a 20% allocation to Europe. However, the two Heads of Europe, John Clingan and Will Dear, are newer to the Firm, having joined in 2022.
 - Mitigating Factors: In While the Fund expects to build up to a 20% allocation to Europe, it does not have to make any investments in Europe. SRE has stated they are seeing strong deal flow from North America which could see the Fund being fully deployed in this region if needed.

Strengths

- The Fund's senior team has worked together for nearly 20 years and has led the platform through various market cycles, including the global financial crisis, the European Debt crisis, and the global pandemic.
- SRE offers strong diversification potential and exposure to sectors that have differentiated demand drivers. Additionally, SRE aims to generate over 50% of total returns from income, establishing a solid foundation for overall returns.
- SRE aims to generate over 50% of total returns from income, establishing a solid foundation for overall returns. By basing returns on a strong income foundation and reducing the reliance on high leverage levels, the return profile is more defensive and may offer better downside protection.

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