Arkansas Public Employees Retirement System

Thirty-first Annual Educational Seminar

Wednesday, October 21, 2020

Video Conference via Zoom

APERS
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
124 West Capitol, Suite 400 • Little Rock, AR 72201-3704
501-682-7800 • 1-800-682-7377 • www.apers.org

Arkansas Public Employees Retirement System
Thirty-first Annual Educational Seminar
Wednesday, October 21, 2020
Video Conference via Zoom

Call to Order

Recognition of the Presence of a Quorum

Notification of Meeting to News Media Pursuant to Act 93 of 1967 (ACA 25-19-101) – Freedom of Information Act

9:00 a.m. to	9:10 a.m.	Ms. Brianne Weymouth, Mr. John Jackson (Callan) Update the Callan Work Plan
9:10 a.m. to	9:30 a.m.	Ms. Brianne Weymouth, Mr. John Jackson (Callan) Passive versus Active Investing Value versus Growth
9:30 a.m. to	9:50 a.m.	"Growth Investing" Mr. Ryan Crane, Stephens Investment Management Group -
9:50 a.m. to	10:10 a.m.	"Value Investing" Dr. Josef Lakonishok, LSV Asset Management
10:10 a.m. to	10:15 a.m.	Break
10:15 a.m. to	10:45 p.m.	Mr. Avery Robinson (Callan) Core Real Estate Panel Discussion Mr. Bill Grubbs, INVESCO Real Estate Mr. Blaise Keane, Heitman America Real Estate Trust
10:45 a.m. to	11:25 a.m.	Mr. Avery Robinson (Callan) Value Add Real Estate Panel Discussion Mr. Joe Munoz, LaSalle Investment Management Mr. Tom McCarthy, Heitman Value Partners Mr. Jim Raisides, TA Realty

Next Quarterly Board Meeting – Wednesday, November 18, 2020 at 9:00 a.m.

Potential Member Appeal – Tuesday, December 8, 2020 at 9:00 a.m.

Adjournment

Callan

October 21, 2020

APERS Educational Seminar

U.S Equity Management

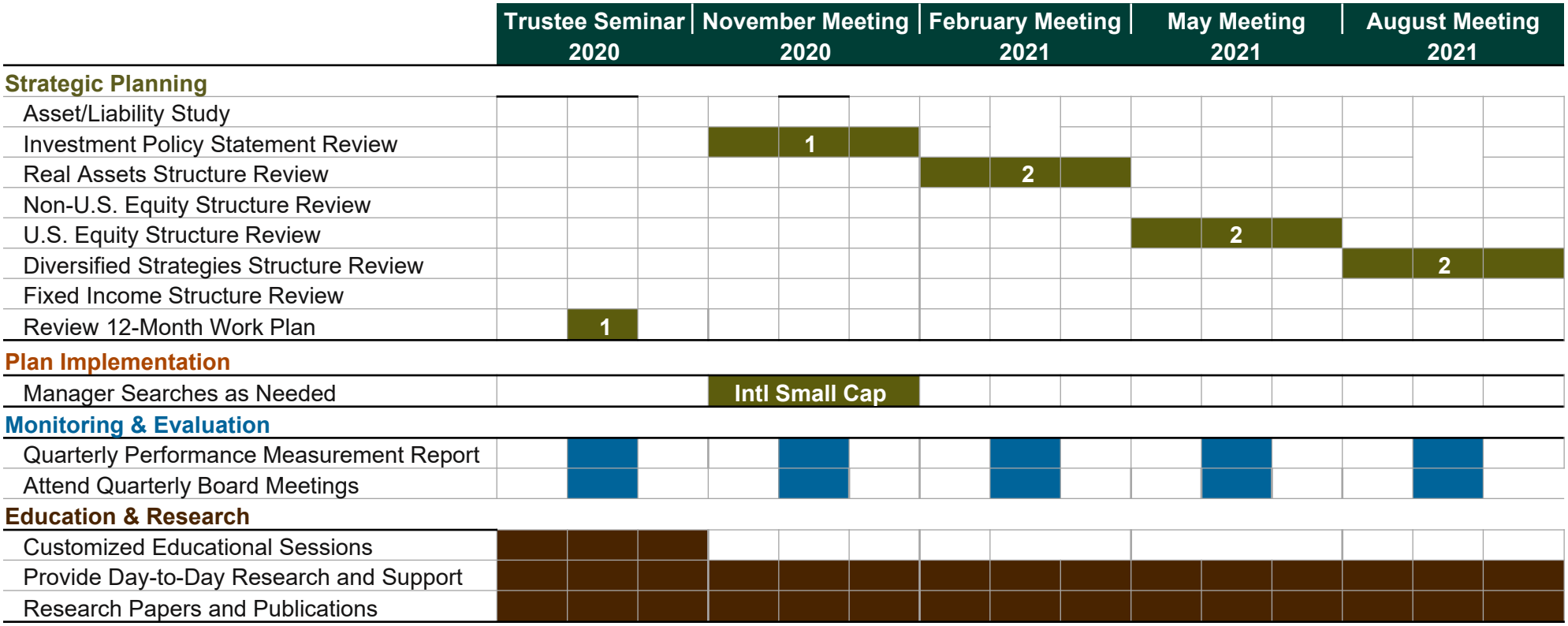
Brianne Weymouth, CAIA
Senior Vice President

John Jackson, CFA
Senior Vice President

Callan

Work Plan

APERS 2020 Work Plan



Notes
1. Annual Recurring Reviews
2. Review current structure and consider alternatives

Callan

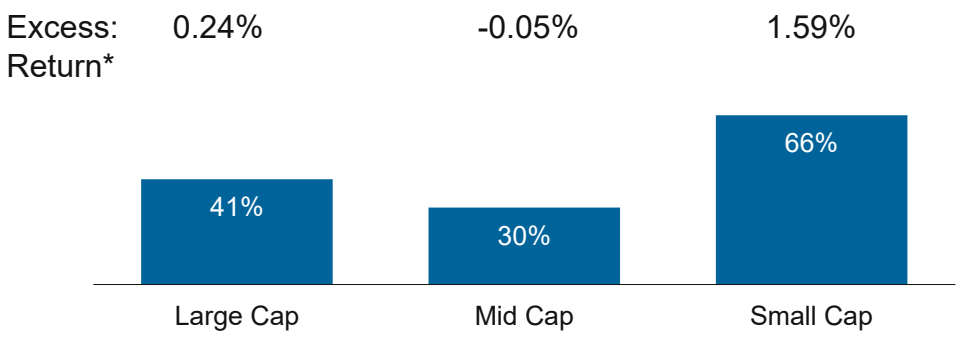
Active vs. Passive

Active Managers vs. the Index

Percent of 3-Year Periods Median Manager Beat the Benchmark by Hurdle

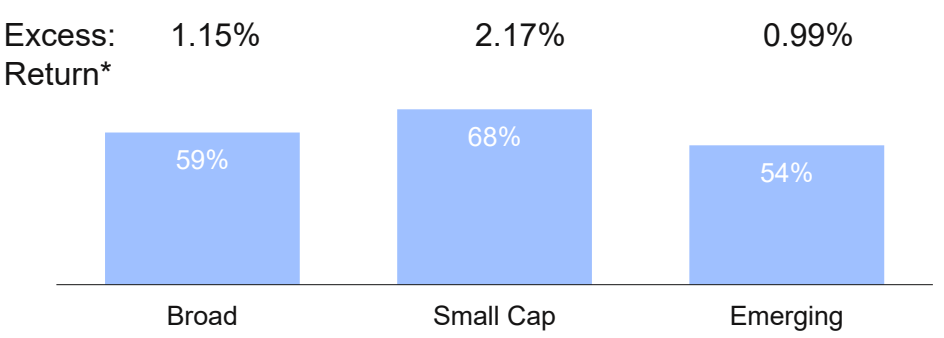
For 20 Years ended June 30, 2020

U.S. Equity



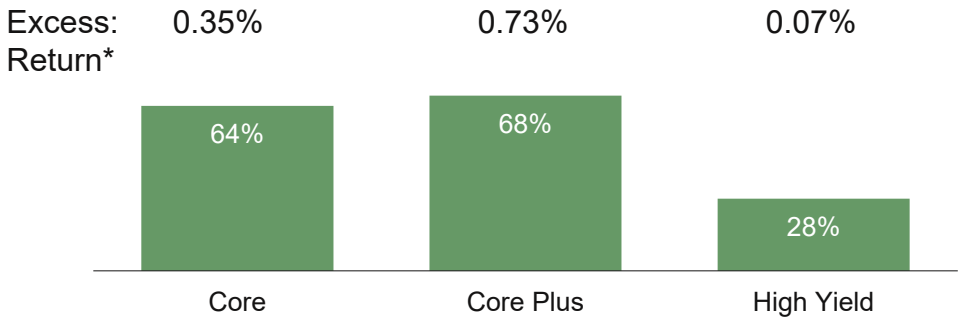
Hurdles: Large = 0.40% / Mid = 0.60% / Small = 0.75%

Non-U.S. Equity



Hurdles: Broad = 0.50% / Small = 0.75% / Emerging = 0.80%

U.S. Fixed Income



Hurdles: Core = 0.25% / Core Plus = 0.30% / High Yield = 0.50%

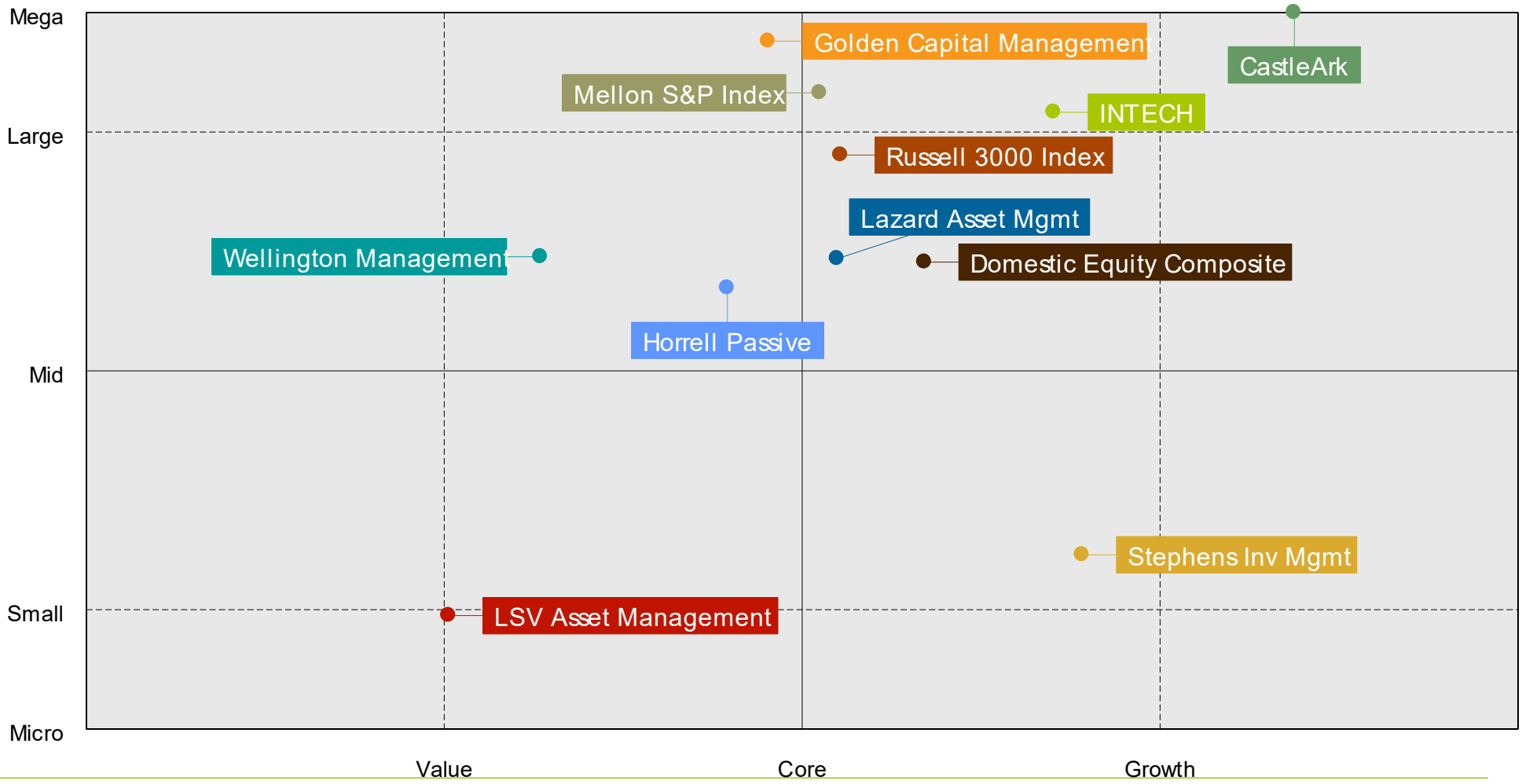
*Excess Return reflects the average annualized 3-Year excess return, gross of fees, for the median manager over the last 20 years.

Callan

Growth vs. Value

Style Mapping of APERS' Domestic Equity Managers

Style Map
Holdings for One Quarter Ended June 30, 2020



What is a Value Stock?

A value stock is a stock that trades at a lower price relative to its fundamentals, such as dividends, earnings, or sales, making it appealing to value investors.

Key Characteristics:

- High dividend yield, lower P/E (price to earnings)
- Typically has a lower price as it is viewed unfavorably by investors
- Typically has a lower stock price than what the company's performance would suggest

Value Market Sectors (largest concentration):

- Financials
- Health Care
- Industrials

Russell 3000 Value Index Holdings as of 6/30/2020	Index Weight
Berkshire Hathaway	2.3%
Johnson & Johnson	2.1%
JP Morgan Chase	1.9%
Intel Corp	1.7%
Verizon Communications	1.5%
AT&T	1.4%
Walt Disney Co	1.3%
Cisco Systems	1.3%
Exxon Mobil	1.3%
Bank of America	1.2%

Source: Investopedia, Russell

What is a Growth Stock?

A growth stock is any share in a company that is anticipated to grow at a rate significantly above the average growth for the market. These stocks generally do not pay dividends. This is because the issuers of growth stocks are usually companies that want to reinvest any earnings they accrue in order to accelerate growth in the short term. When investors invest in growth stocks, they anticipate that they will earn money through capital gains when they eventually sell their shares in the future.

Key Characteristics:

- Expected to grow sales and earnings at a faster rate than the market average
- Higher P/E ratio so may look expensive relative to the market average
- Typically do not pay dividends

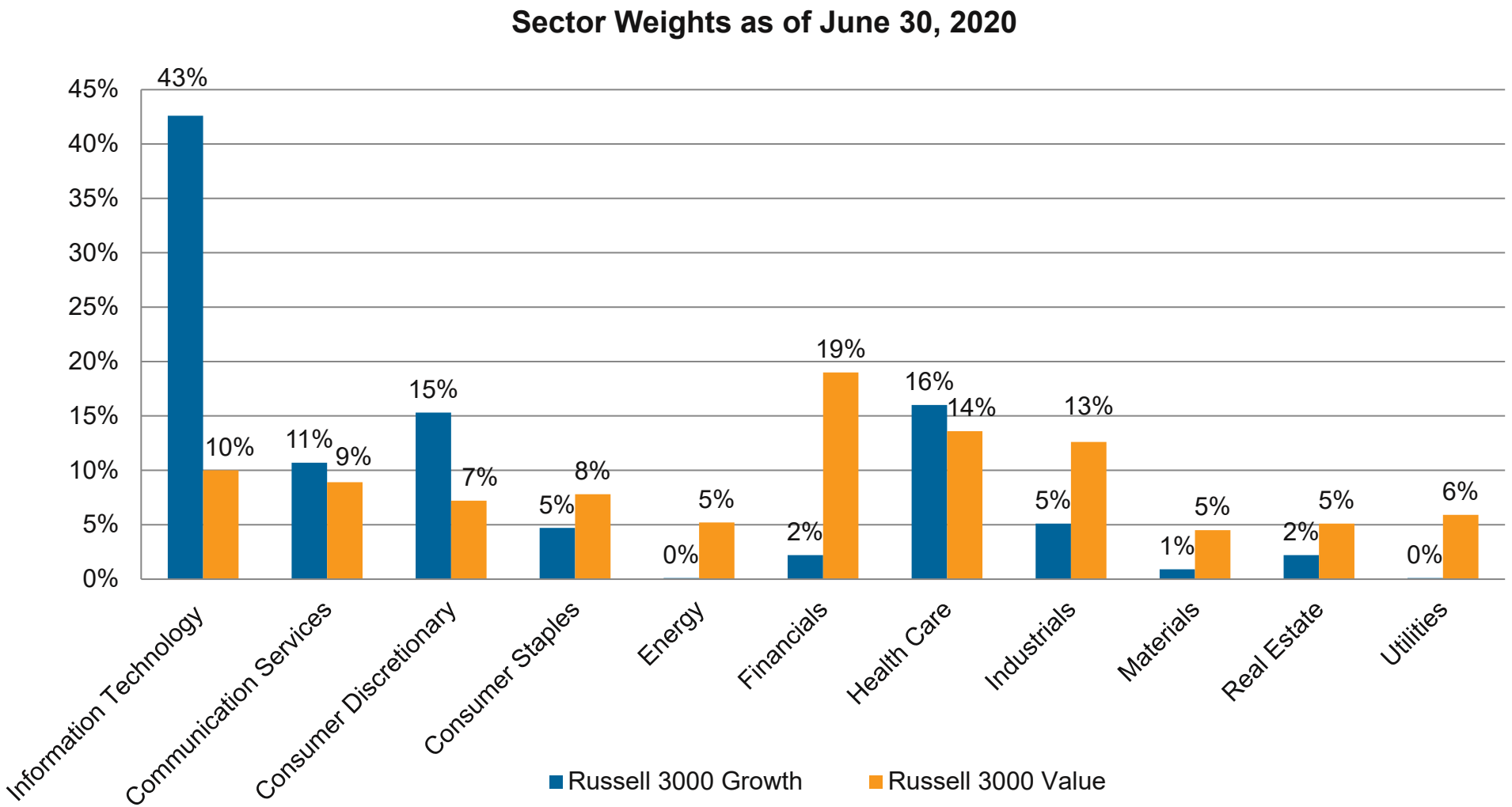
Growth Market Sectors (largest concentration):

- Information Technology
- Consumer Discretionary
- Health Care

Russell 3000 Growth Index Holdings as of 6/30/2020	Index Weight
Microsoft	9.8%
Apple	9.6%
Amazon.Com	7.6%
Facebook	3.5%
Alphabet Inc Class A	2.1%
Visa	2.1%
Alphabet Inc Class C	2.1%
Mastercard	1.7%
UnitedHealth Group	1.5%
Nvidia Corp	1.4%

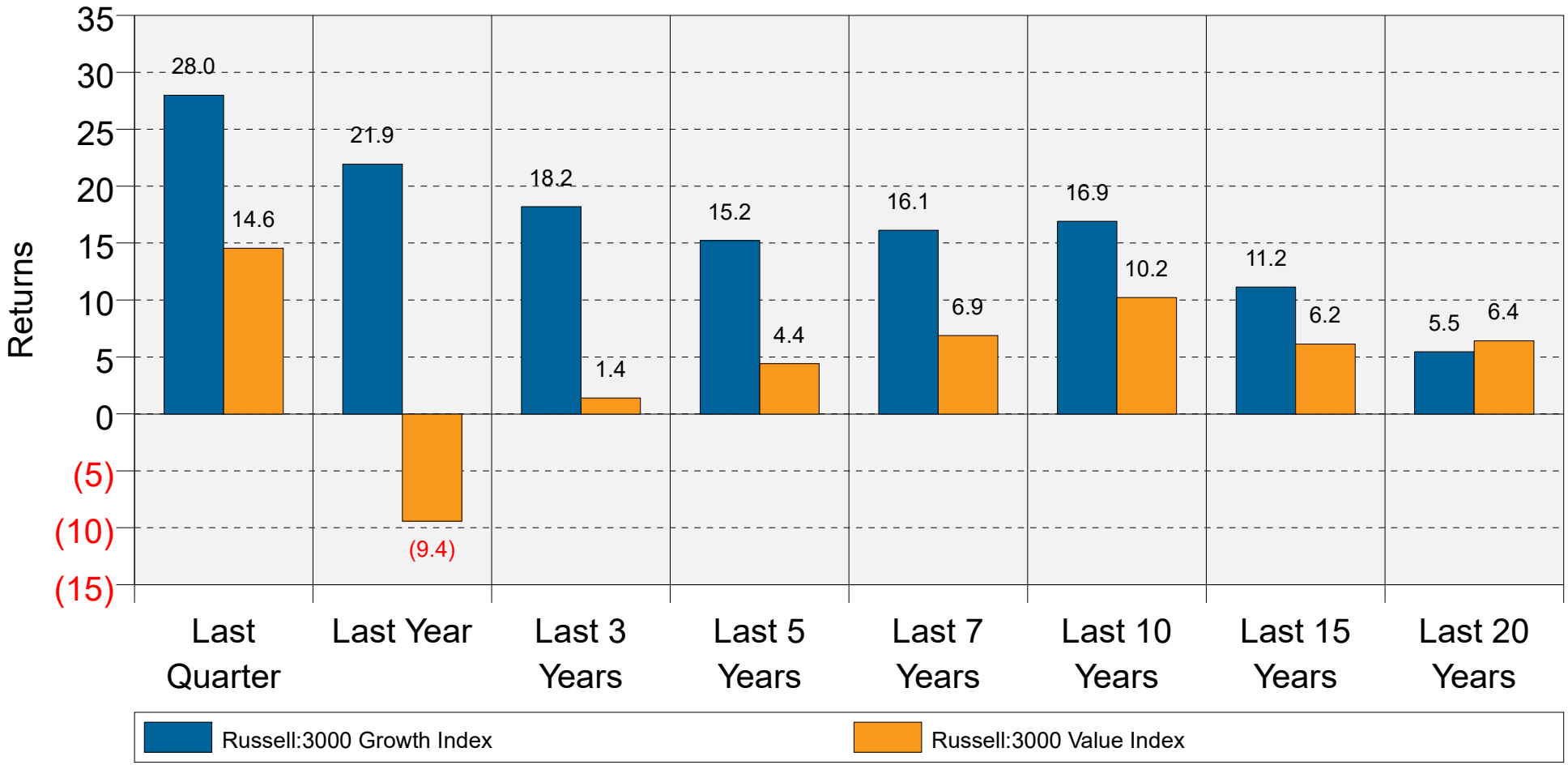
Source: Investopedia, Russell

Russell 3000 Index Sectors



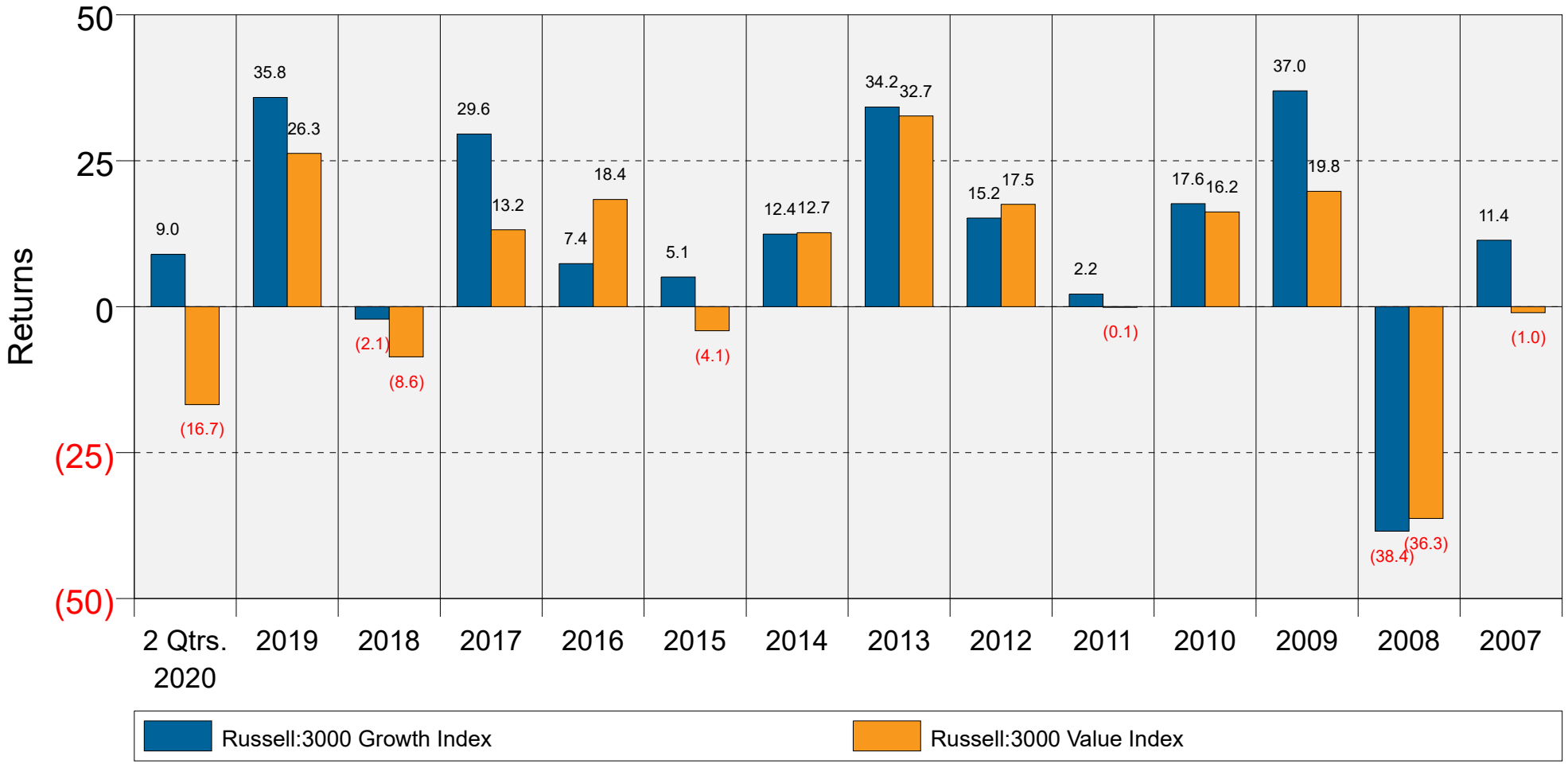
Trailing Annualized Returns

Annualized Returns
Current Quarter Ending June 30, 2020



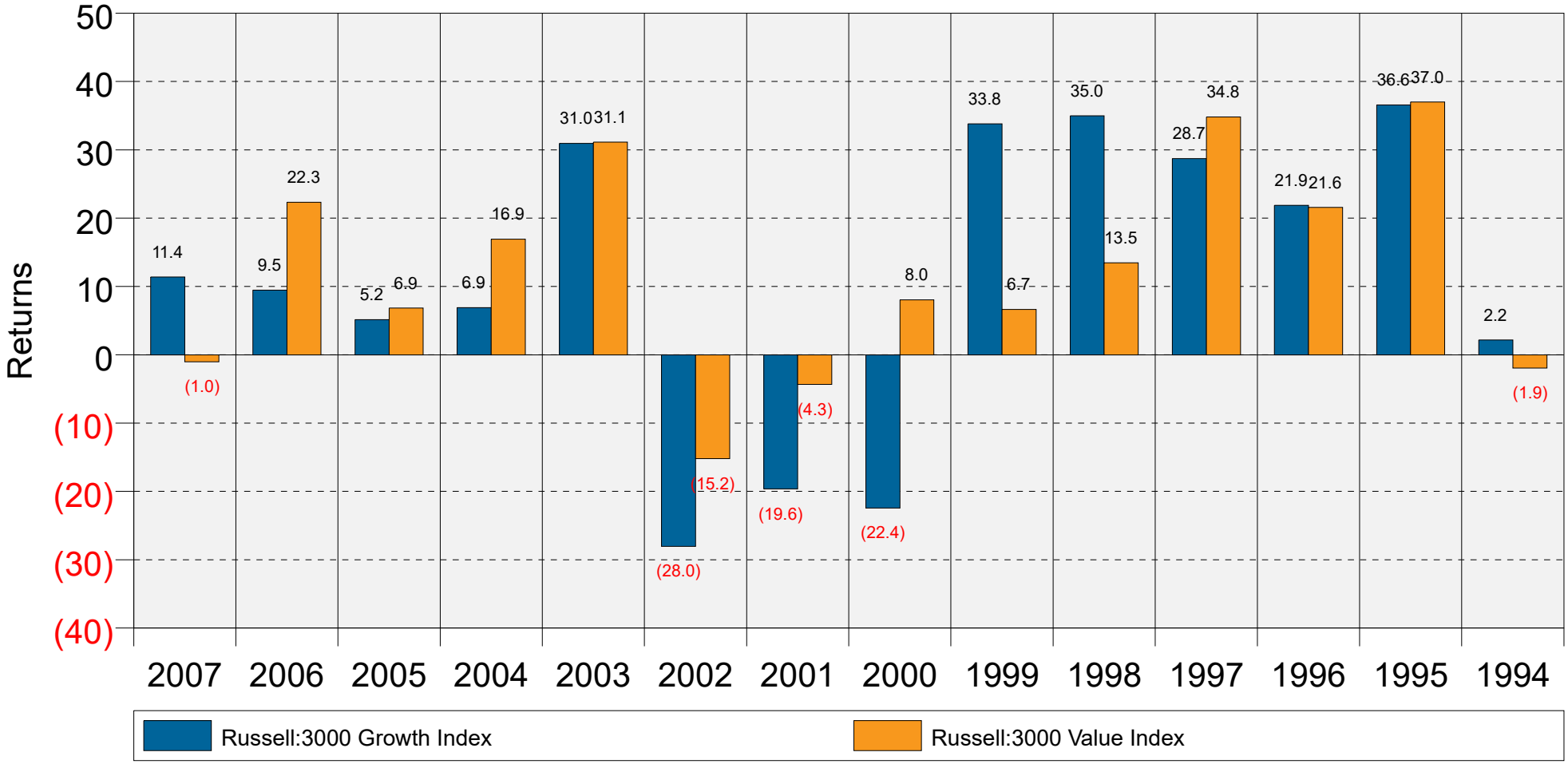
Calendar Year Returns

Returns for Calendar Years
2007 to June 30, 2020



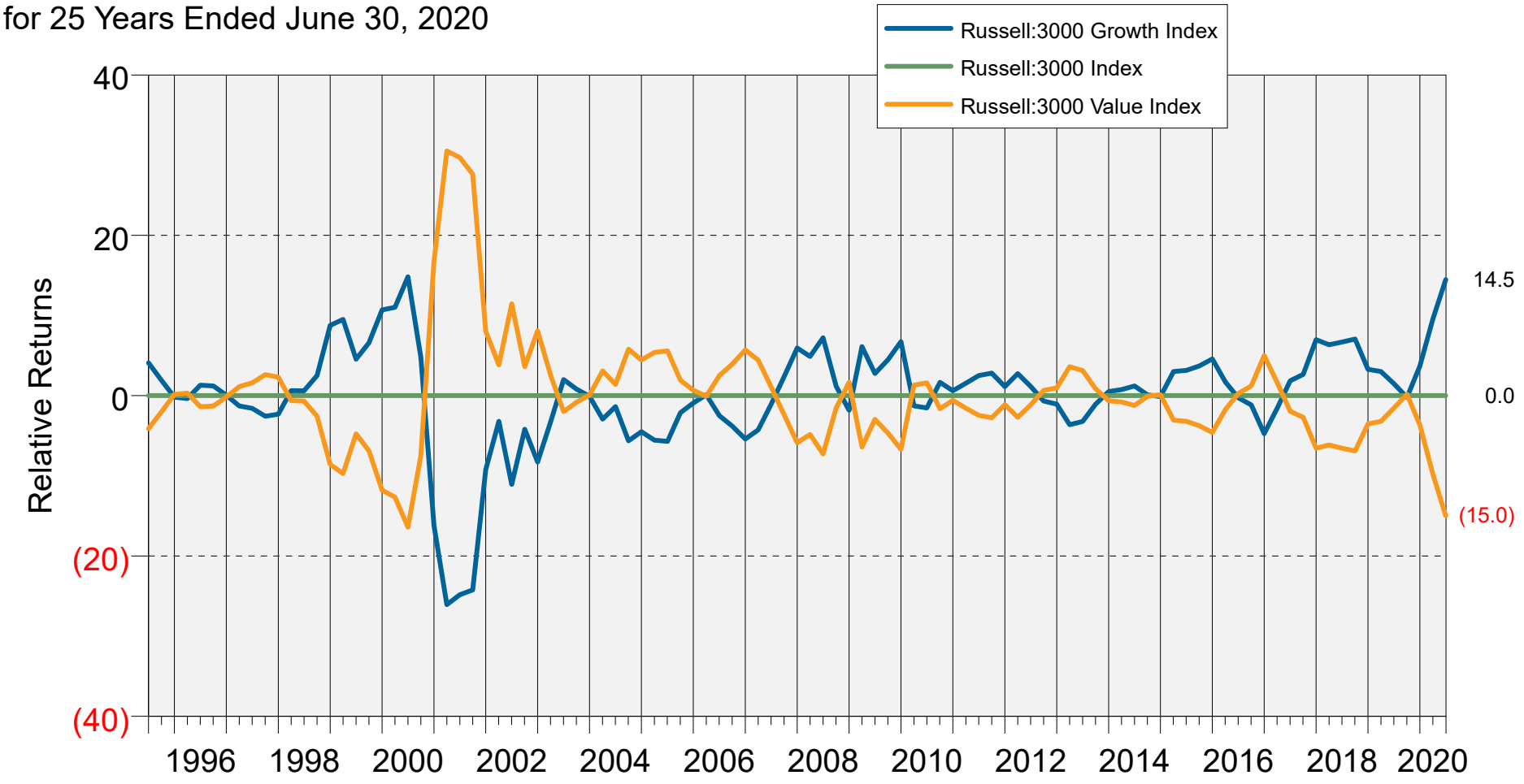
Calendar Year Returns (continued)

Returns for Calendar Years
1994 Through 2007



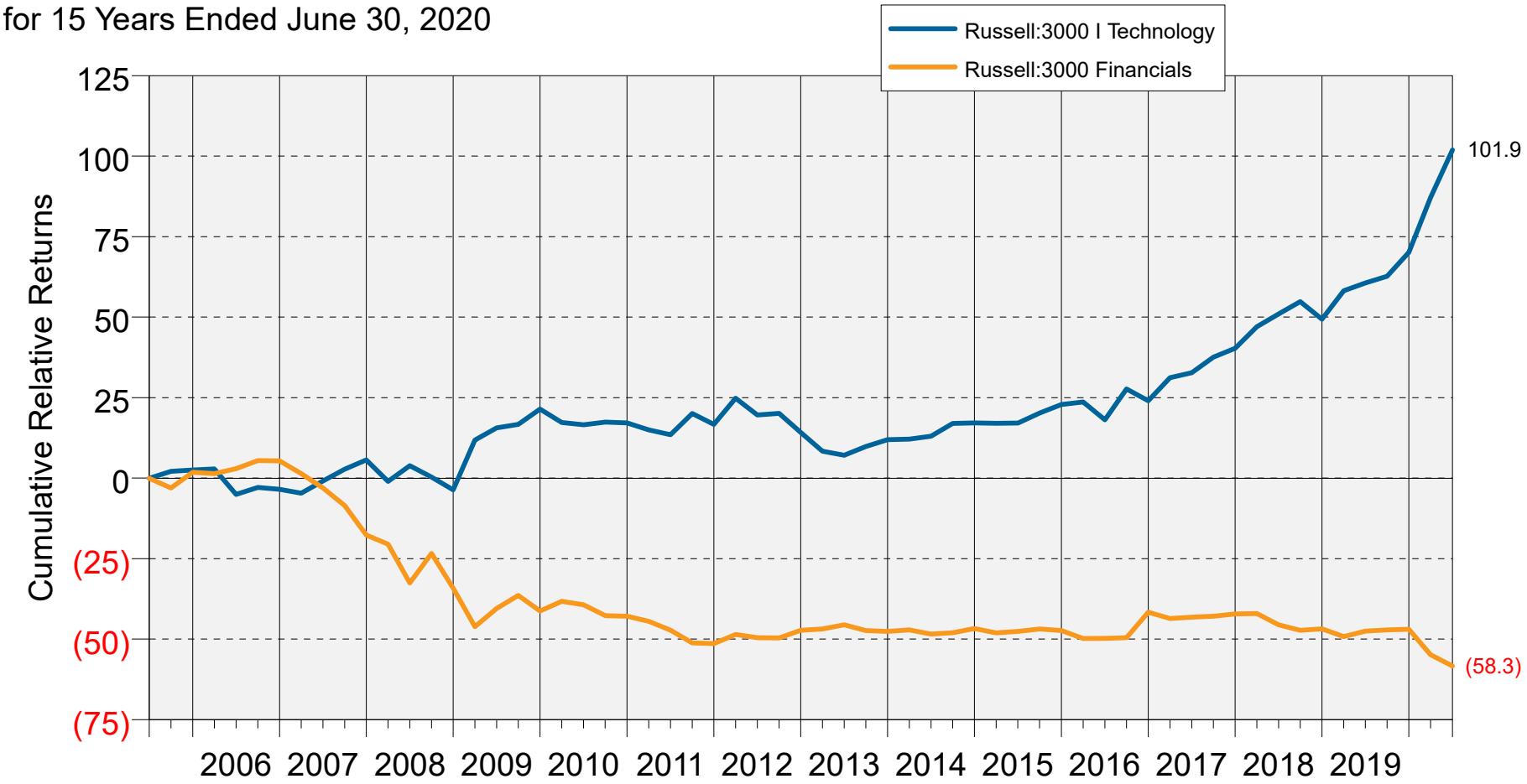
U.S. Equity Style Performance

Rolling 1 Year Relative Returns Relative To Russell:3000 Index
for 25 Years Ended June 30, 2020



Information Technology vs Financials

Cumulative Relative Returns Relative To Russell:3000 Index
for 15 Years Ended June 30, 2020



Growth and Value

Stephens
Investment Management Group®

APERS 2020 Seminar

October 21, 2020

Growth and Value - Definitions

Stephens Investment Management Group

Remember: **The framework of Growth and Value is an oversimplification of a very complex array of investment styles and strategies.**

- Growth and Value don't have to be mutually exclusive.
- Growth stocks can be cheap.
- Value stocks can grow.
- The research is full of assumptions and shortcuts that won't necessarily reflect what real investment managers are doing.
- There are many flavors of growth investing, just as there are many flavors of value.

Growth managers typically invest in companies which are currently experiencing or which they expect to experience a positive change in revenues and/or income.

Value managers typically invest in companies for which they believe the stock price is undervalued or mispriced relative to the assets or fundamental prospects of the firm.

Growth and Value - History

Stephens Investment Management Group

Which is better?

- We've all been taught that from a historical perspective, Value has outperformed Growth.
- Every college and business school teaches Value Investing.
- Value is perceived to be less risky than Growth.

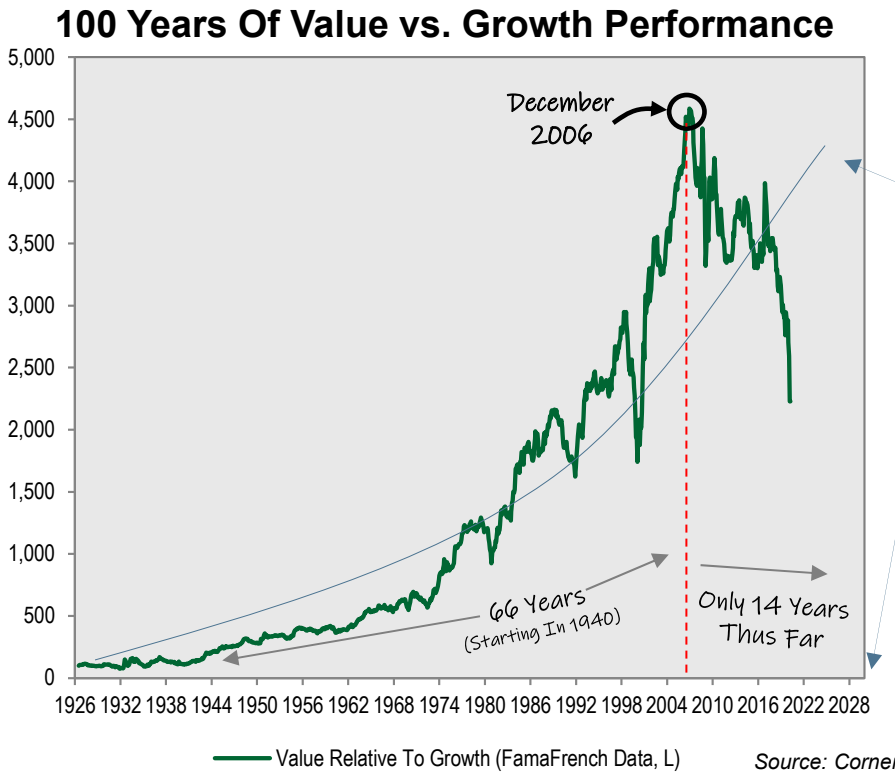
But…

- The history only goes back 100 years.
- For the first 50 years, there weren't "value stocks" or "growth stocks", there were just "stocks".
- Is the sample size big enough to draw a strong conclusion?
- What other trends and factors were in place?

Growth and Value – Mean Reversion

Stephens Investment Management Group

- Value has outperformed historically.
- Growth has done much better in the past 10 years.
- Everyone seems to be clamoring for mean reversion.



Source: Cornerstone Macro

…reverting to which mean?

Growth and Value - Indexes

Stephens Investment Management Group

- The way in which the index providers define “Growth” and “Value” results in some significant differences across other factors.
- These factors can change dramatically over time.
- Sometimes what is driving the relative performance difference isn’t Growth or Value per se, but some other factor.

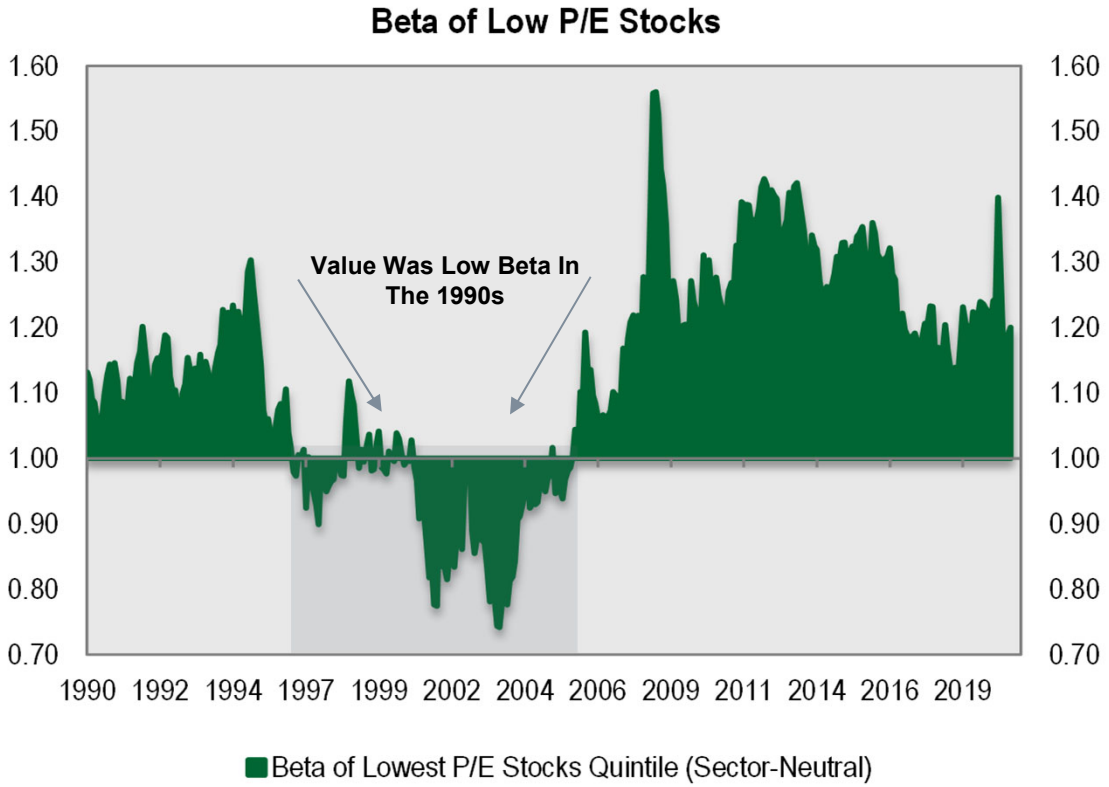
	12/31/1999			9/30/2020		
	Russell 2000 Growth	Russell 2000 Value	Difference	Russell 2000 Growth	Russell 2000 Value	Difference
Communication Services	1.5	0.4	1.0	2.3	2.4	-0.0
Consumer Discretionary	10.3	13.1	-2.7	13.7	13.3	0.4
Consumer Staples	1.9	3.5	-1.6	3.2	3.7	-0.4
Energy	1.5	5.0	-3.5	0.1	3.9	-3.8
Financials	8.1	25.2	-17.2	4.2	26.6	-22.4
Health Care	12.5	5.5	7.1	34.5	6.9	27.6
Industrials	12.4	15.4	-3.0	13.8	16.8	-3.0
Information Technology	43.9	9.9	34.0	20.1	6.0	14.1
Materials	2.4	7.6	-5.1	2.6	5.6	-3.0
Real Estate	0.6	5.6	-5.0	3.7	9.9	-6.1
Telecommunication Services	4.4	0.8	3.6			
Utilities	0.4	7.8	-7.4	1.7	5.0	-3.3
[Unassigned]	--	0.14	-0.14			
Total	100.00	100.00	--	100.00	100.00	--

Source: FactSet and Russell

Growth and Value - Factors

Stephens Investment Management Group

It's not just sectors and industries that are dramatically different. There are other important factor differences.

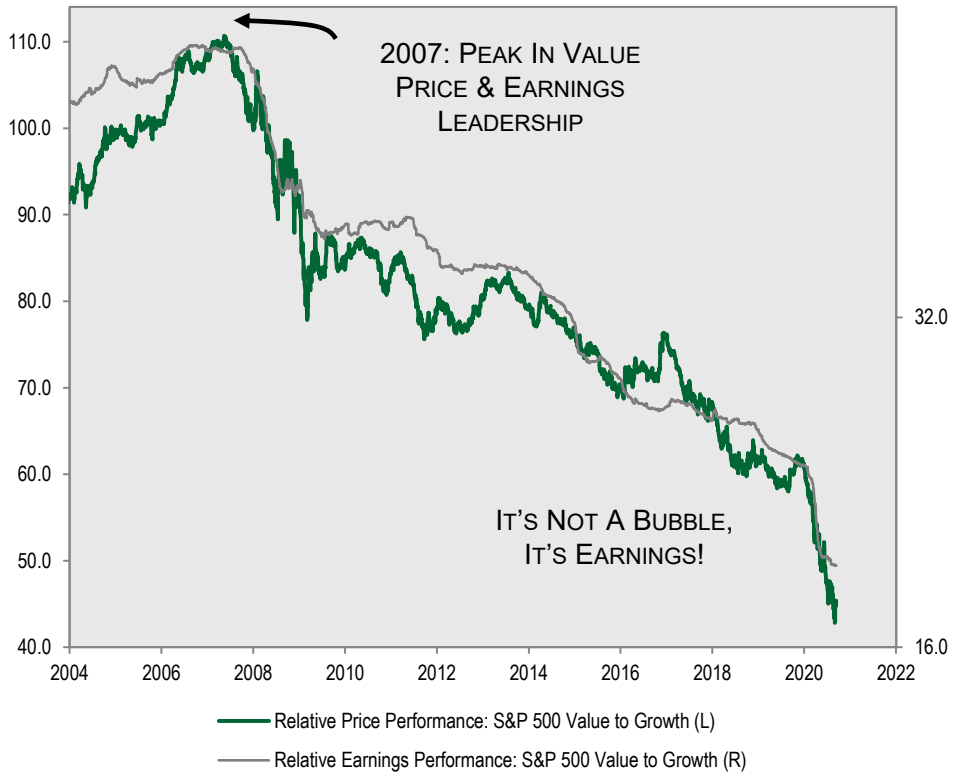


Source: Cornerstone Macro

Why Has Growth Outperformed?

Stephens Investment Management Group

Growth's Outperformance Over Value
Boils Down To Stronger Earnings …

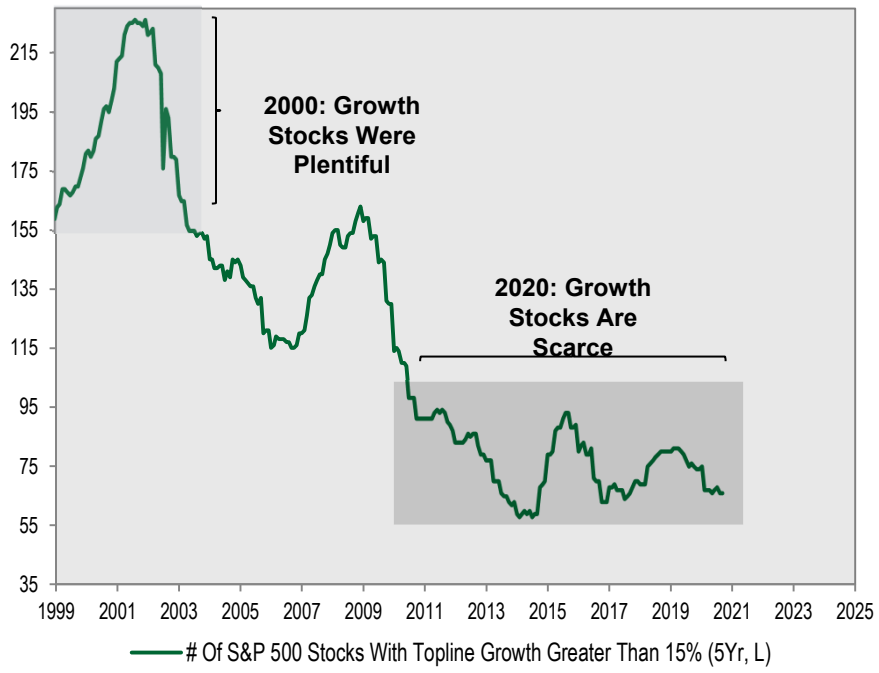


Source: Cornerstone Macro

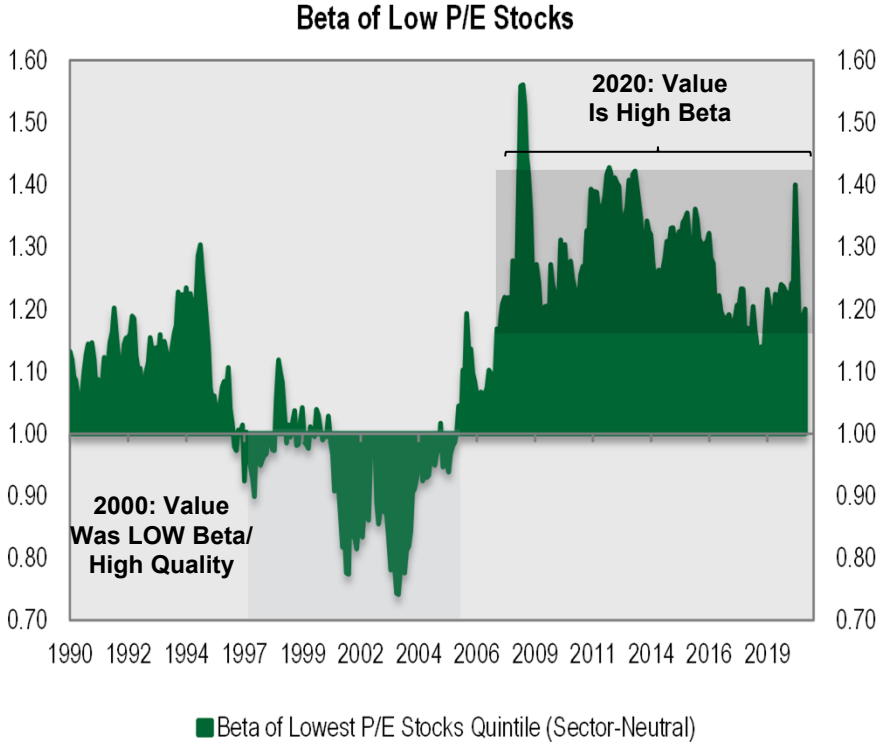
Why Has Growth Outperformed?

Stephens Investment Management Group

The Supply Of Growth Stocks Has Decreased



While The Risk Of Value Stocks Have Increased



Source: Cornerstone Macro

What happens next?

- ~~It's different this time~~. It's different *every* time.
- Right now, growth is secular and value is cyclical.
- Value should outperform if we get a cyclical recovery.
- Growth is actually more defensive, and much higher quality than Value.

LSV Asset Management

APERS Education Seminar

Value Investing

October 21, 2020

Josef Lakonishok
Founding Partner, CEO & CIO
P: (312) 460-2326 | W: lsvasset.com

Introduction to Value Investing

What is a Value Stock?

Low price-to-earnings ratio
Low price-to-book ratio
Slow or declining earnings growth
Slow or declining sales growth
High dividend yield

- *Expectations* for future growth are low
- Value stocks are generally older more mature companies and instead of reinvesting all their profits back into the company to grow, they pay a portion of the profits back to shareholders in the form of a dividend and share repurchases
- A value investor believes the market is not always efficient and that it is possible to find companies trading for less than they are worth – "diamonds in the rough"
- Value investors tend to be contrarians

LSV Philosophy

From Lakonishok, Shleifer, and Vishny *"Contrarian Investment Extrapolation and Risk"* 1994:

- Value stocks (cheap stocks) outperform "glamour" stocks (expensive stocks) consistently over a long-period of time.
- Investors are overconfident about their ability to forecast future growth; and ignore regression to the mean to extrapolate past performance too far into the future.
- This can lead to low growth stocks being undervalued and high growth stocks being overvalued.
- Buying undervalued stocks and avoiding overvalued stocks, therefore, can be profitable.

The various factors in the LSV quant model are chosen based on careful empirical research involving over 50 years of historical data.

Value Stock Example - Pfizer

	Pfizer	NIKE
Market Cap	**$203.8B**	**$203.3B**
P/E Forward 1 YR	12.8x	45.5x
Revenue	$49.2B	$37.3B
Earnings Growth (past 5 yrs)	6.3%	5.7%
Operating Cash Flow	$15B	$3B
Dividend Yield	4.2%	0.8%

A Good Company is Not Always a Good Investment
Valuation Matters

LSV Asset Management

LSV is a Deep Value Investor

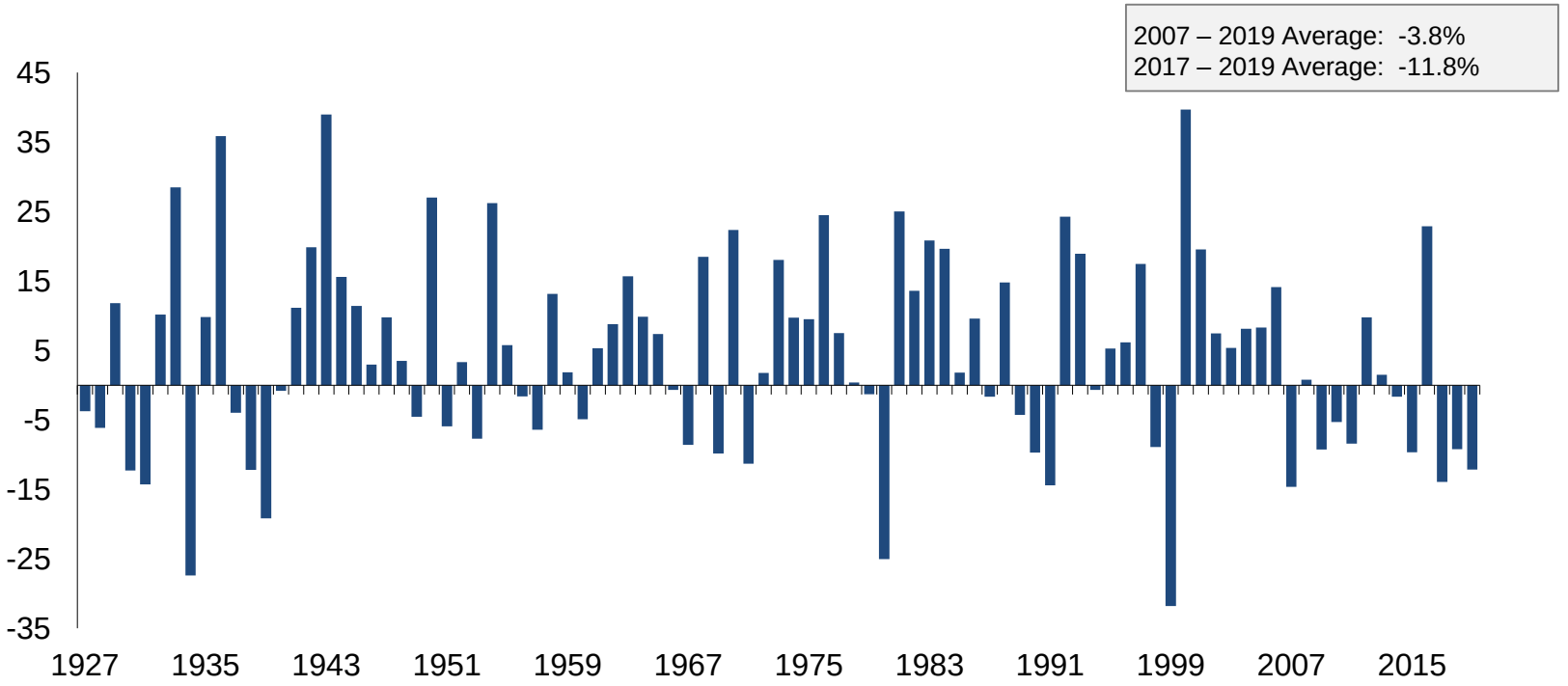
Portfolio Characteristics
As of September 30, 2020

	APERS Portfolio	Russell 2000 Value	Russell 2000 (Core)
Value Measures			
Price / Earnings (FY1)	**12.2x**	23.5x	45.0x
Price / Earnings (FY2)	**9.0x**	13.8x	10.8x
Price / Cash Flow	**6.4x**	12.2x	23.8x
Price / Book	**1.1x**	1.2x	1.9x
Dividend Yield	**2.7%**	2.1%	1.2%
Size Measures			
Weighted Average Market Cap	**$2.3 billion**	$1.9 billion	$2.5 billion
Weighted Median Market Cap	**$1.9 billion**	$1.6 billion	$2.1 billion
# of Holdings	**212**		

LSV Asset Management

Why Have Value Exposure in Your Portfolio?

Value/Growth Cycles in the U.S. (1927-2019)



- From 1927 to 2019, value stocks outperformed growth stocks by 4.5% per in the U.S. and in 60% of calendar years

Value Equity
Investment Specialists

Data from Ken French's website: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/
Value is 30% of stocks with the highest B/M and Growth is 30% with the lowest B/M

Value Reversals in the U.S. (1927-2019)

Value Reversals After 3 Years Of Underperformance

Year	Trailing 3 year moving average (High B/M -Low B/M)	Next year's return	Next 3 years average return
1939	-11.77	-0.82	10.06
2019	-11.76	---	---
1940	-10.72	11.13	23.32
1991	-9.47	24.28	14.17
1980	-8.65	25.01	19.82
1999	-7.73	39.68	22.23
2009	-7.70	-5.31	-1.32
2011	-7.65	9.75	3.19
1932	-5.47	28.46	3.63
1931	-4.92	10.15	3.75
2010	-4.59	-8.39	0.95
1953	-3.43	26.21	10.13
2015	-3.27	22.90	-0.08
1941	-2.95	19.87	24.82
1930	-2.21	-14.29	8.11
2012	-1.32	1.50	-3.27
1957	-0.74	13.16	3.38
1967	-0.63	18.50	10.34
1981	-0.44	13.59	18.02
2000	-0.33	19.53	10.80
2017	-0.22	-9.22	---
2018	-0.08	-12.15	---
Average	**-4.82**	**11.12**	**9.58**
Number of events	22	21	19
Number > 0	0	15	16
% > 0		**71.4%**	**84.2%**
Avg. 1927-2019	4.49		

- Value strategies mean revert strongly after a period of underperformance
- After 3 years of underperformance, value strategies outperform 71% of the times over the next calendar year and 84.2% of the times over the next 3 calendar years

Data from Ken French's website: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/

Value Stocks Have Struggled Since the Financial Crisis

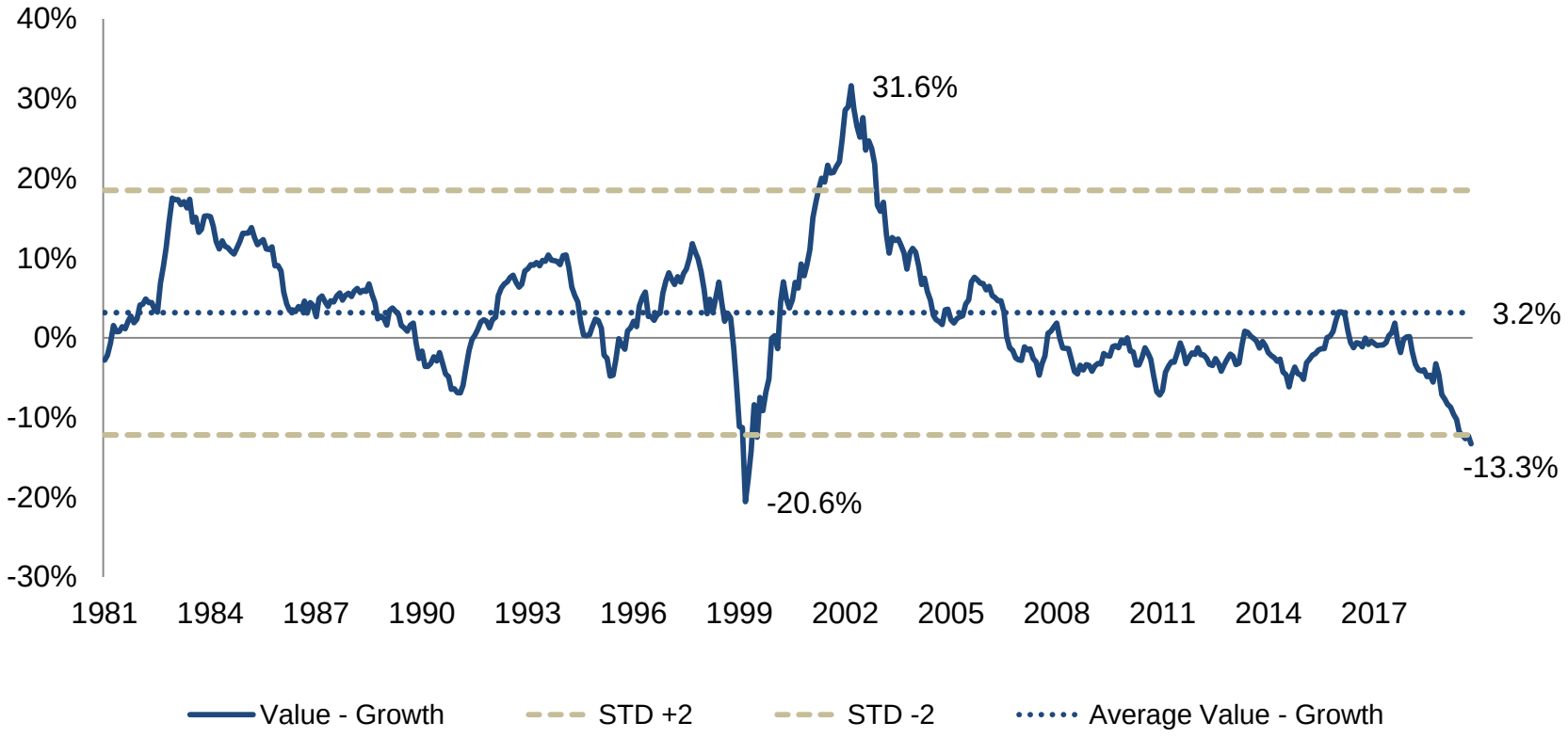
	Periods Ending 9/30/20						
	3Q20	YTD	1 Yr	2 Yrs	3 Yrs	5 Yrs	10 Yrs
S&P 500	8.9%	5.6%	15.1%	9.6%	12.3%	14.1%	13.7%
Large Cap Value (R1000V)	5.6%	-11.6%	-5.0%	-0.6%	2.6%	7.7%	9.9%
Large Cap Growth (R1000G)	13.2%	24.3%	37.5%	19.4%	21.7%	20.1%	17.3%
Value vs Growth Spread:	**-7.6%**	**-35.9%**	**-42.6%**	**-20.0%**	**-19.0%**	**-12.4%**	**-7.3%**
Mid Cap Core (RMC)	7.5%	-2.3%	4.6%	3.9%	7.1%	10.1%	11.8%
Mid Cap Value (RMCV)	6.4%	-12.8%	-7.3%	-3.0%	0.8%	6.4%	9.7%
Mid Cap Growth (RMCG)	9.4%	13.9%	23.2%	13.9%	16.2%	15.5%	14.6%
Value vs Growth Spread:	**-3.0%**	**-26.8%**	**-30.5%**	**-16.8%**	**-15.4%**	**-9.1%**	**-4.8%**
Small Cap Core (R2000)	4.9%	-8.7%	0.4%	-4.4%	1.8%	8.0%	9.9%
Small Cap Value (R2000V)	2.6%	-21.5%	-14.9%	-11.6%	-5.1%	4.1%	7.1%
Small Cap Growth (R2000G)	7.2%	3.9%	15.7%	2.3%	8.2%	11.4%	12.3%
Value vs Growth Spread:	**-4.6%**	**-25.4%**	**-30.6%**	**-13.9%**	**-13.3%**	**-7.3%**	**-5.2%**

Periods longer than one year are annualized.

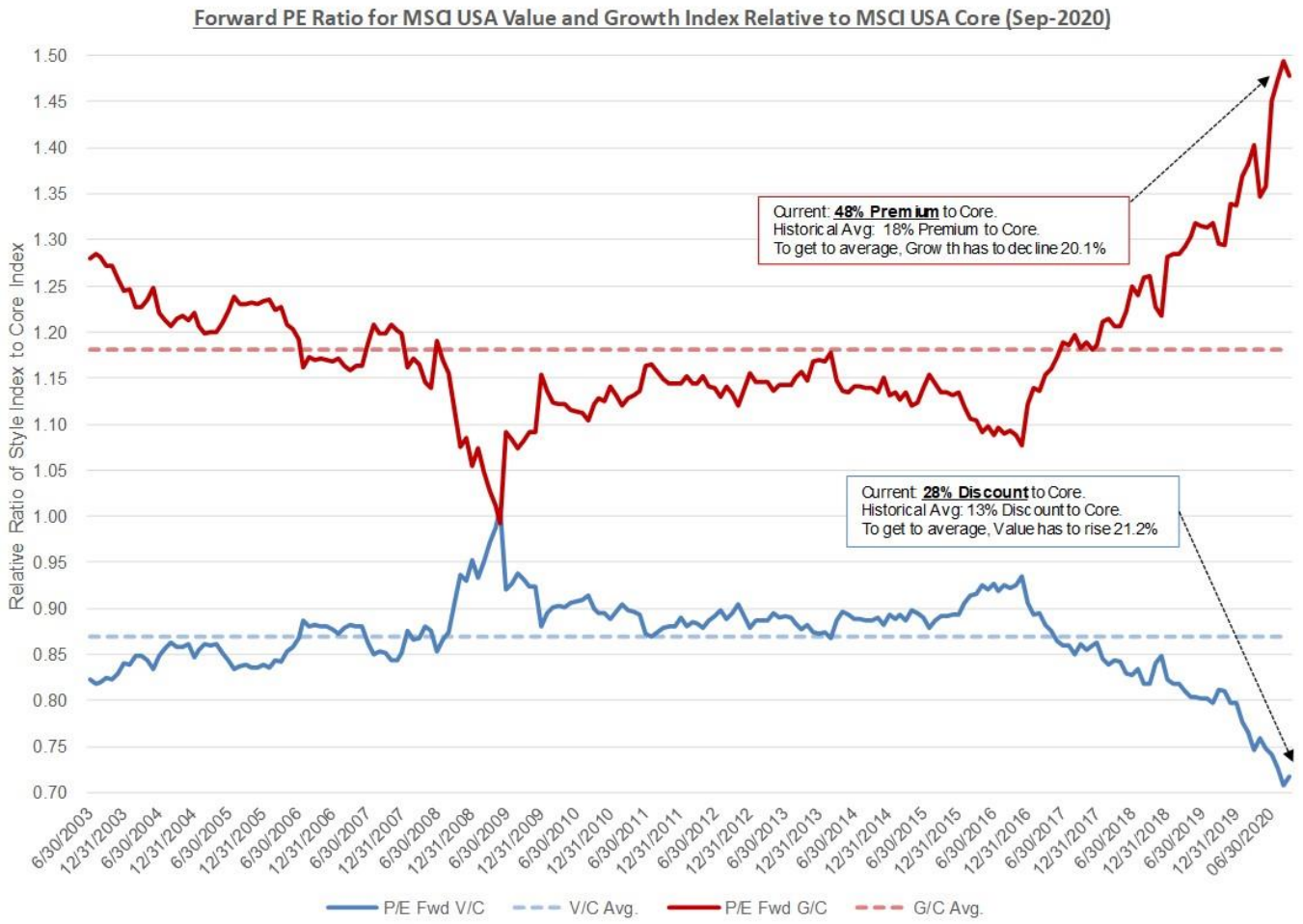
Value vs. Growth – U.S. Small Cap

3-Year Annualized Returns: Russell 2000 Value – Russell 2000 Growth

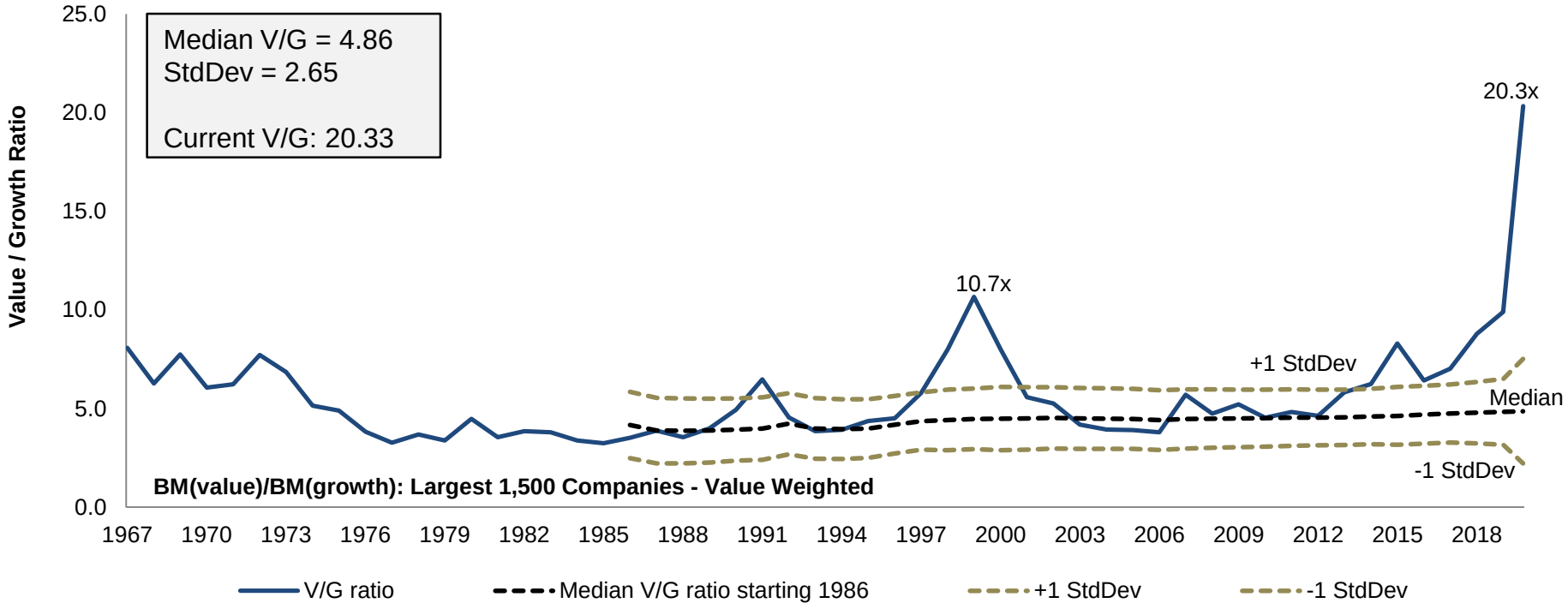
January 1979 – September 2020



Relative Valuations of Value vs. Growth at All-time Extreme Levels



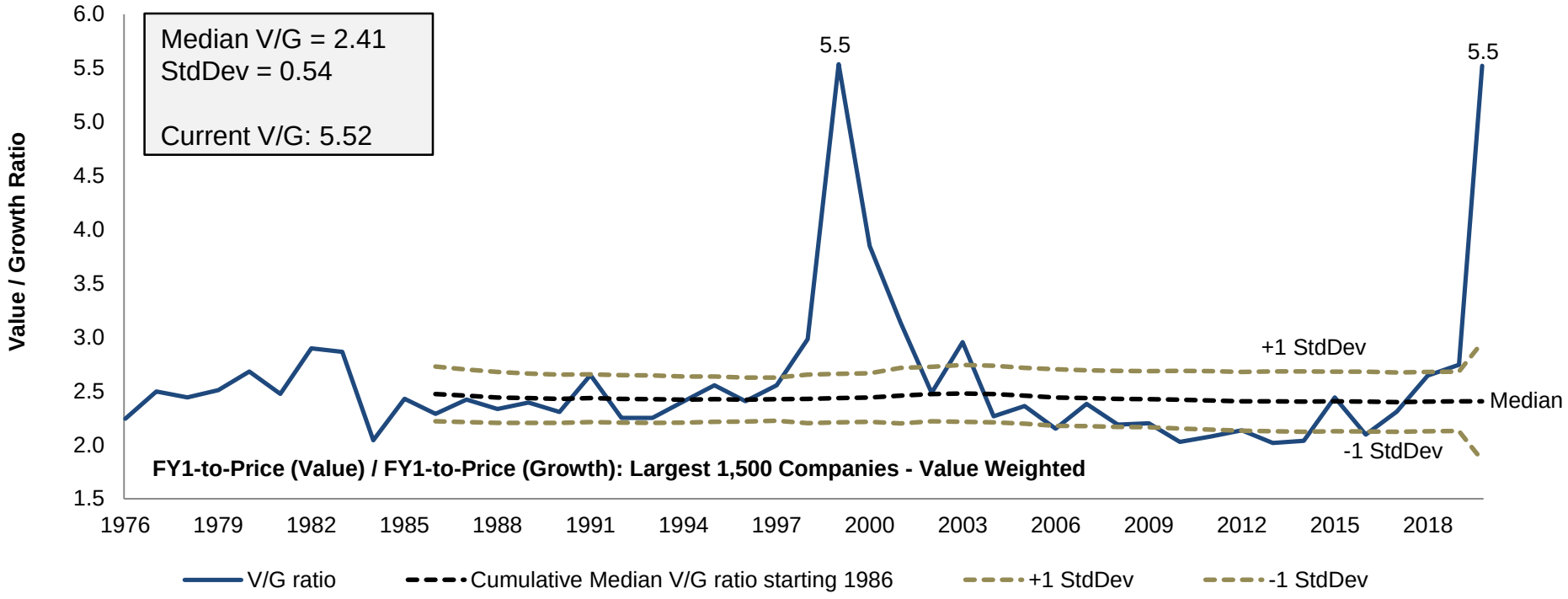
Value vs. Growth Relative Valuation in the U.S. – B/M ratios



- Historically, value has been about 4.86 times cheaper than growth in the U.S
- As of September 30, 2020, value is 20.33 times cheaper than growth; higher than1999!
- 318% above the median (over 5 StdDev)

LSV Asset Management

Value vs. Growth Relative Valuation in the U.S. – E/P ratios



- Historically, value has been about 2.41 times cheaper than growth in the U.S.
- As of September 30, 2020, value is 5.52 times cheaper than growth; more than 5 Std Dev above the median and same as 1999!

Is Now a Good Time to be Passive in U.S. Equities?

A "Passive" investment in the S&P 500 has flaws:

- A bet on 5 stocks (nearly 25% of the index)
- Concentration in high valuation technology stocks
- The top 5 have multiples significantly higher than the index
- Index hitting new highs (along with DOW and Nasdaq)

….the last time that happened…1999

In 1999, the index was full of tech stocks, some of which are no longer around. By the end of 1999, the S&P 500 ranked in the top third of active manager universes.

Was that a good time to go entirely passive?

Yes, if you had been there in the prior 5 years, but NO if you gave up on active management at that time – the next 10+ years were far better for active management.

September 2020	Weight
APPLE	6.7%
MICROSOFT	5.7%
AMAZON.COM	4.8%
ALPHABET INC	3.1%
FACEBOOK INC	2.3%
BERSHIRE HATHAWAY	1.5%
JOHNSON & JOHNSON	1.4%
PROCTER & GAMBLE	1.2%
VISA	1.2%
NVIDIA	1.2%
HOME DEPOT	1.1%
MASTERCARD	1.1%
UNITEDHEALTH GROUP	1.0%
JP MORGAN CHASE	1.0%
VERIZON	0.9%
TOTAL	**34.3%**

Source: LSV, Standard & Poors Index data. Past performance does not guarantee future results.

Is Now a Good Time to be Passive in U.S. Equities?

The Top 10 S&P 500 Stocks Over Time

	December 1980	December 1990	December 2000	December 2010	August 2020
1	IBM	IBM	General Electric	Exxon Mobil	Apple
2	AT&T	Exxon	Exxon Mobil	Apple	Amazon
3	Exxon	General Electric	Pfizer	Microsoft	Microsoft
4	Standard Oil of Indiana	Phillip Morris	Citigroup	Berkshire Hathaway	Alphabet
5	Schlumberger	Royal Dutch Shell	Cisco Systems	General Electric	Facebook
6	Shell Oil	Bristol-Myers Squibb	Wal-Mart Stores	Wal-Mart	Berkshire Hathaway
7	Mobil	Merck	Microsoft	Google	Tesla
8	Standard Oil of California	Wal-Mart Stores	AIG	Chevron	Visa
9	Atlantic Richfield	AT&T	Merck	IBM	Johnson & Johnson
10	General Electric	Coca-Cola	Intel	Procter & Gamble	Wal-Mart

- The “top 10” generally make up about 20% of the Index and the list is always changing
  - As of August 31, 2020 the top 10 represents 30.5% of the S&P 500 Index
- When a concentration occurs in one sector or in high valuation companies, the next 5 years tend to be good for ‘active’ money managers
- In 1980, there were 7 oil companies in the top 10

Source: LSV, eVestment, Standard & Poors Index data. Past performance does not guarantee future results.

October 2020

APERS Education Seminar – Real Estate (Core)

Avery Robinson
Callan – Senior Vice President

Blaise Keane
Heitman – Executive Vice President

Bill Grubbs
Invesco – Managing Director

Private Real Estate Investing Strengths and Considerations

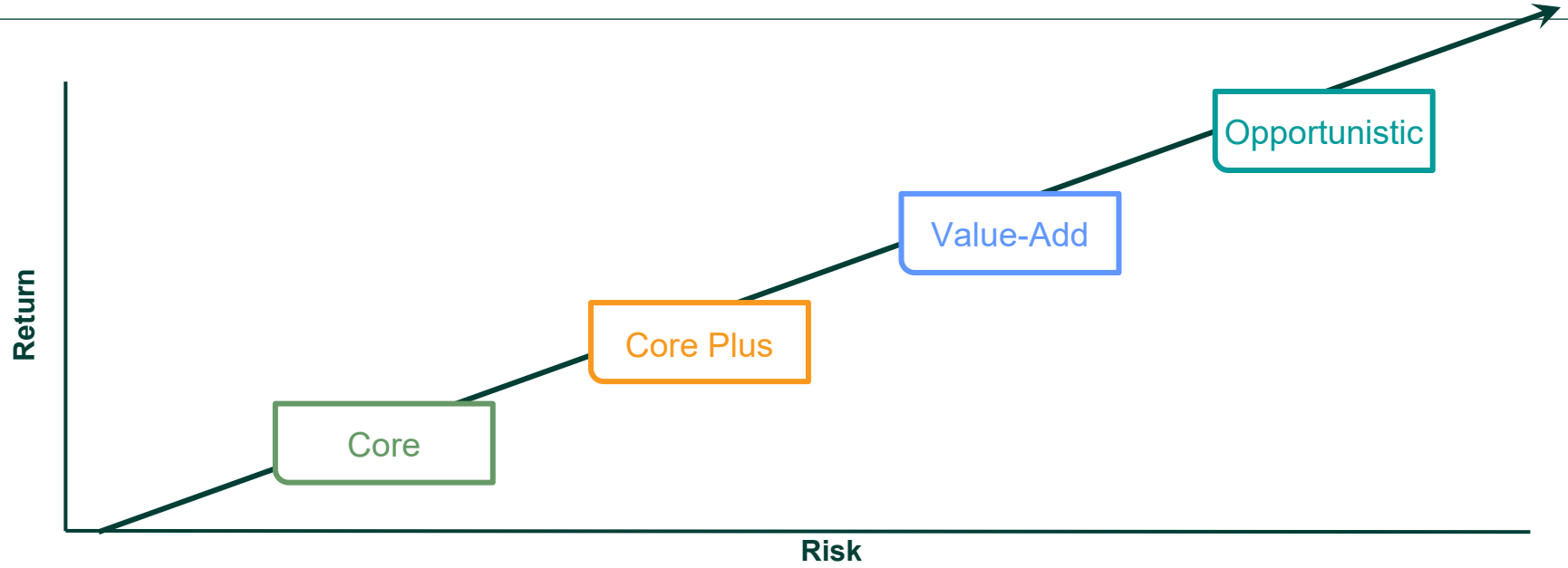
Strengths

- Competitive returns
- Diversification benefits when added to portfolios of stocks and bonds
- Low correlations with stocks and bonds
- Strong income component
- Inefficiency creates return opportunities
- Inflation protection characteristics

Considerations

- Real Assets are cyclical in nature
- Relatively Illiquid
- Management intensive/implementation risks
- High fees compared to mainstream asset classes
- Benchmarking issues

Private Real Assets Strategies – Relative Risk/Return



	Core		Non-Core	
	Core	Core Plus	Value-Add	Opportunistic
Net Return estimate	Up to 8%	8-10%	10-12%	13%+
Asset	Stable asset, Highly leased	Stable, plus moderate upside	Enhancement of existing asset, Material improvement, releasing	Development of a new asset, Significant capital improvement
Expected Income vs Appreciation Return	>75% from Income	65% Income / 35% Appreciation	50%/50%	>65% from Appreciation
Common Structures	Open-end Funds (Quarterly Liquidity) Separate Accounts		Closed-end Funds (Three to Four Year Investment Period, Ten Year Total Life)	

Real Estate Market Update – COVID-19

Prior to the COVID-19 pandemic, the overall real estate market was relatively healthy from a fundamental standpoint, albeit there were indications of the market being late in the cycle. Positive indicators included strong occupancy, upward rent growth and steady transaction volumes. While moderating total returns and the flattening of property value appreciation, particularly in the retail sector, was causing some cautiousness among investors.

While the impact of the pandemic on real estate will continue to playout over time, it is clear that all property types have and will be negatively impacted by the crisis to varying degrees. The market consensus suggest that retail properties will be the most negatively impacted out of the four main property types. This will be followed by office and industrial, with apartments remaining the most resilient. This perspective is has been supported by rent collection figures, with retail by far the lowest of the four main property type.

Given the U.S. stay-at-home measures began in mid to late March, the impact of COVID-19 on 1Q returns was limited, with the private market benchmark still delivering a positive 1.0% return. 2Q20 core real estate returns were approximately -1.6%, while preliminary 3Q20 returns appear to be flat (~0%).

Although the transactions market slowed dramatically, the crisis will eventually bring about some buying for manager poised to take advantage.

COVID-19 Impact on Real Estate

Sector	COVID-19 Immediate Impact	Near-term Repricing	Long-term Risks: Change due to COVID-19
Single-Family Rental	Low	Low	Low
Industrial	Medium	Low	Low
Medical Office	Medium	Low	Low
Self-Storage	Medium	Low	Low
Apartment	Medium	Medium	Low
Student Housing	High	Medium	Medium
Senior Housing	High	High	Medium
Office	Medium	Medium	High
Hospitality	High	High	Medium
Open-Air Retail	High	High	Medium
Malls	High	High	High

Source: Heitman Research

Legacy West

Mixed Use (Retail/Office/Apartment) ◆ Plano, Texas (Dallas MSA)

Asset Highlights

- Best in class mixed-use office, retail and apartment project in Plano, TX, developed by ICRE in 2015-2017.
- 335,000 SF of Class A office and 320,000 SF lifestyle open-air shopping center featuring a combination of contemporary retailers, best in class restaurant operators and differentiated office suites.
- 621 Class A apartment units with first class amenities.
- Excellent location at the heart of Legacy Business Park – home of Toyota North America's 2.1million headquarter building, plus regional campuses for JPM Chase and Liberty Mutual.

Key Statistics

Total Development Cost:	$356.9 million
Current Carry Value (3Q20):	$570.0 million
Office % Leased (3Q20):	98%
Retail % Leased (3Q20):	91%
Apartments % Leased (3Q20):	98%

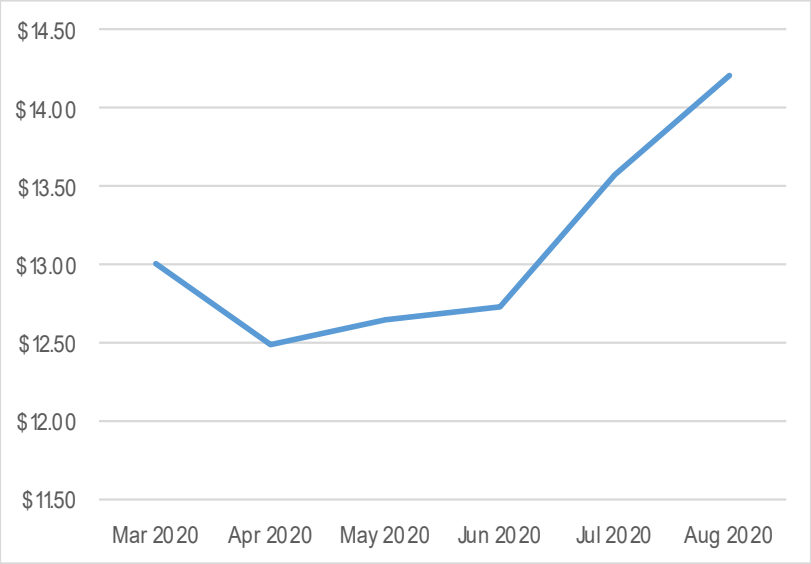
Source: Invesco Real Estate as of September 2020.

6

Self-Storage Market Rents and Demand Increase

HEITMAN

SELF-STORAGE PORTFOLIO MARKET RENT/SF



Market rents rise by **9.3%** since onset of pandemic

LEASING LEVEL

Q1 2020		Q3 2020
88% Leased	→	93% Leased

Increased demand for self-storage

Manage to Core Success

Material leasing at California industrial developments

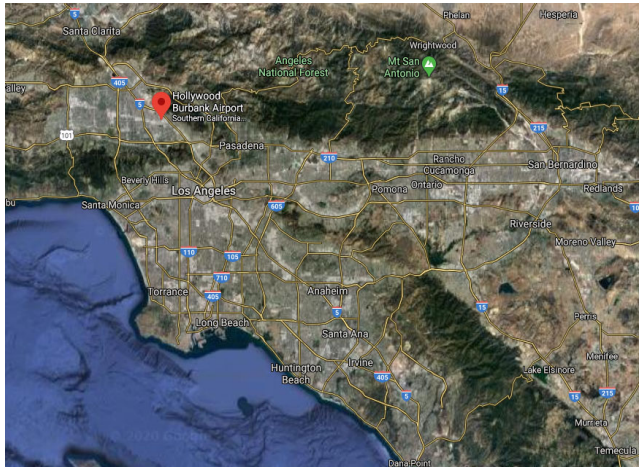
Pacific Commons

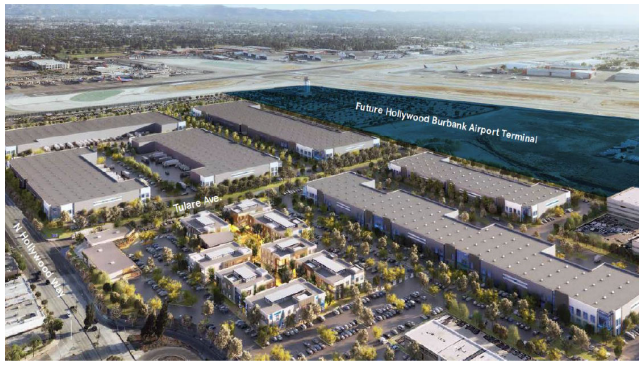
Bay Area Industrial Development

Pac Commons	Avion
Total Cost	
$325m	**$266m**
Industrial SF Leased	
74% [5]	**76%** [2]
Final Completion	
Q420	**Q121**
Rent Commencement	
Q320	**Q420**
Stabilized NOI (@ Fund Share)	
$18.7m	**$18.7m**
Return on Cost	
5.9%	**7.6%**
Total No. of Industrial Buildings	
Ten [3]	Six [2]
Industrial Square Footage	
1,651,773 [3]	993,282 [4]
Stabilized Cap Rate [1]	
4.25%	Sub 4-cap
Stabilized Value (@ 100%)	
$428m	$469m

Avion Burbank

SoCal Industrial Development





Leasing Status

1. ***E-commerce tenant: 936k SF*** [3]
2. ***Social media tenant: 104k SF***
3. ***Life science tenant: 179k SF (Signed LOI)*** [5]

Leasing Status

1. ***E-commerce tenant: 751k SF***

[1] The stabilized cap rates presented are IRE estimates and not currently being used in the 3rd party valuations.
[2] Current plan is for two supporting Retail buildings and nine Office buildings. Total project leased is 65%. No leasing to date on the Office and/or Retail.
[3] Includes Building 7 (193k SF) that will not be constructed in accordance with a signed lease; the underlying land will be used as parking.
[4] Project also includes142,250 SF of office and 15,475 SF of retail; [5] Includes signed LOI
Source: Invesco Real Estate as of June 30, 2020. Performance was not a criteria for selection. The images are provided for illustrative purposes only and do not constitute investment advice or a recommendation.

4Q 2020 Pending Disposition: Medical Office Portfolio

HEITMAN

MIDWEST MOB PORTFOLIO

Disposition of assets consistent with strategic plan

Strong interest from potential investors

Mix of on- and off-campus assets

75% leased to strong health systems

Location	Various Midwest States
Square Feet	436,834
Leasing	95.5%
Projected Proceeds	$165M
NOI /F&C IRR	5.3% / 6.2%

October 2020

APERS Education Seminar – Real Estate (Non-Core)

Avery Robinson
Callan – Senior Vice President

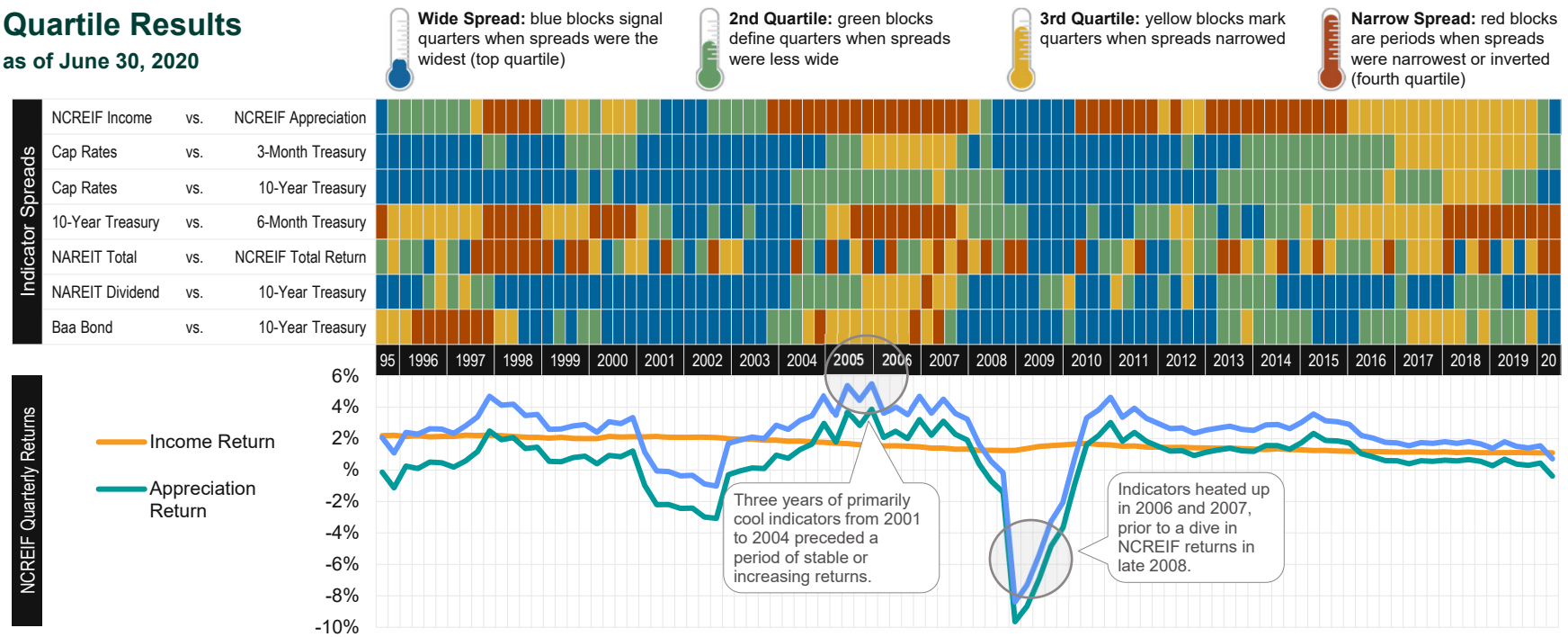
Joe Muñoz
LaSalle – CIO, Income & Growth Funds

Thomas McCarthy
Heitman – Senior Managing Director

James Raisides
TA Realty – Managing Partner

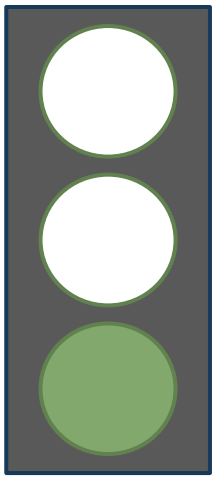
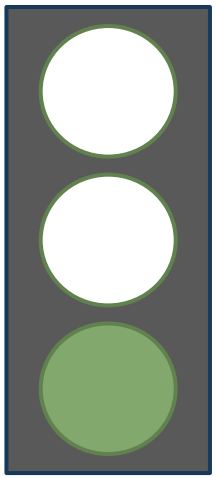
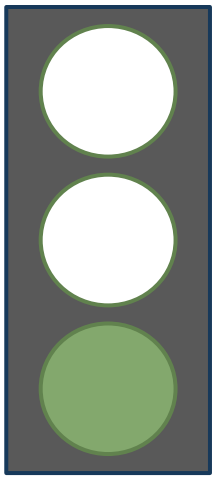
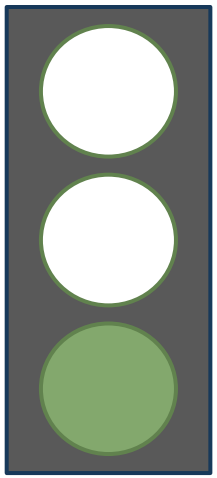
The Importance of Vintage Year Diversification
Real Estate Indicators

Quartile Results
as of June 30, 2020



The seven indicator spreads reveal multiple instances when wide spreads (cool indicators) preceded stable or increasing performance, and narrow spreads (hot indicators) were more prevalent before declining market periods.

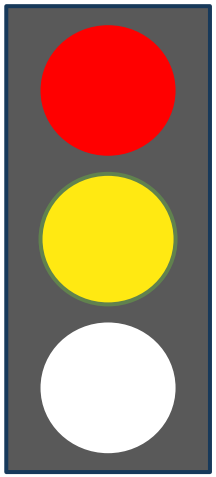
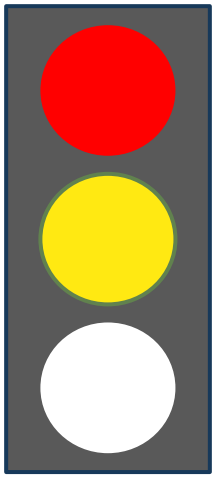
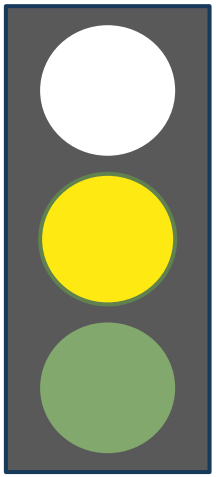
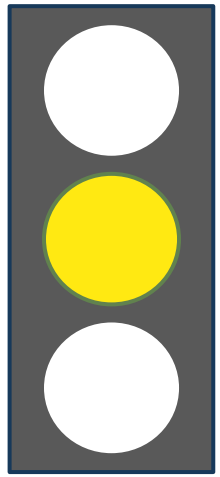
LaSalle INVESTMENT MANAGEMENT

Bid-Ask	Short-Term	Long-Term	Debt Available
			

Full Speed

- Suburban Sun-Belt Apartments
- Logistics
- Life Sciences, Lab, Medical Office
- Single Family Rental
- Entertainment/Content Studios
- Long-term leased Office
- Long-term leased Grocery Retail
- Retail that wants to be something else

LaSalle
INVESTMENT MANAGEMENT

Bid-Ask	Short-Term	Long-Term	Debt Available
			

Proceed with Caution

or

Wait and See?

- Gateway Metro Apartments
- Smaller Tenant Logistics
- Gateway Metro “Front” Office
- Student Housing
- Seniors Housing

Deal Examples

Charlotte Apartments

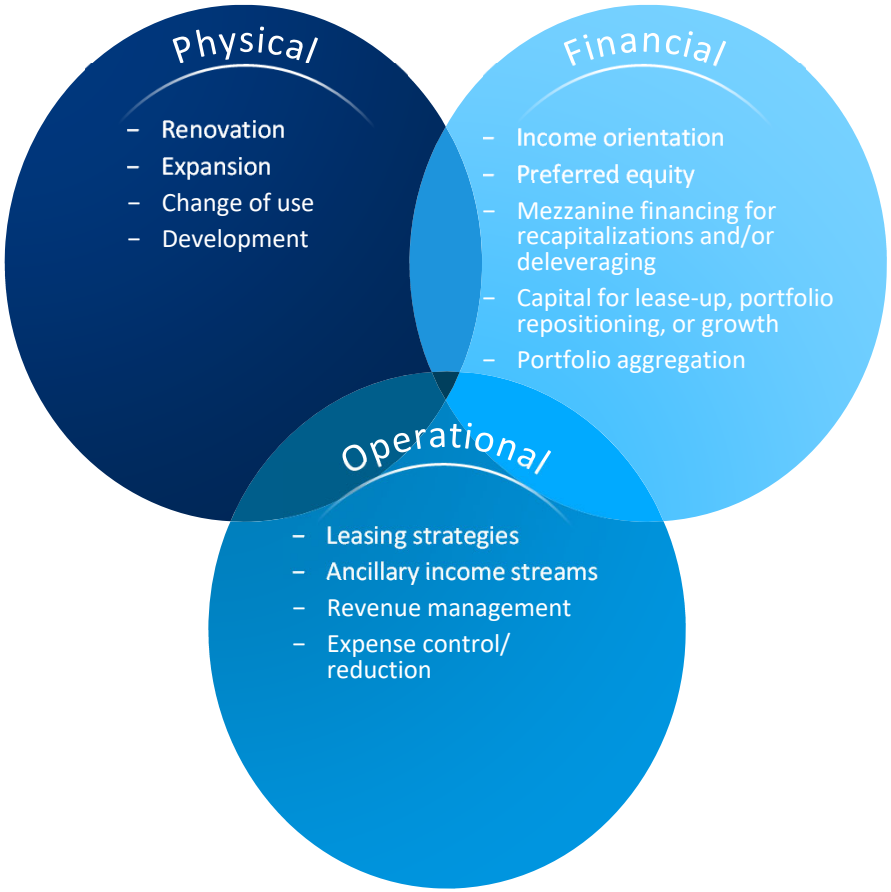
- Recapitalization of 1,300 units across five properties with a local family developer
- Acquired at value 25% below recent comparable sales and without
- No renovation/rent premium execution risk

California Industrial

- 76 acres of zoned and entitled land located in the Central Valley
- Acquired at 30% of pre-COVID market value
- Supports development of 1.2 MSF of bulk industrial buildings, pursuing build-to-suits, or selling the land to a developer

Value Creation Strategies

HEITMAN



( ) Acquisition Date

Commons at Knoxville
Student Housing Renovation (April 2018)
Upgraded 42% of units, generating 24% return on cost; increased NOI ~28% since takeover

The Maddox
Apartment Renovation (December 2017)
Upgraded 42% of units to date, generating 28% return on cost on upgrades

CubeSmart Self Storage JV
Portfolio Aggregation & Repositioning (December 2015)
Increased occupancy by 5% and NOI by 26% during holding period

Millennium
Student Housing Acquisition (July 2018)
Increased occupancy from 55% prior to takeover to 95%+ for the last two school years

Montecito MOB
Portfolio Aggregation (November 2014)
Aggregation of 20 high-quality MOBs; 98% leased with long-term leases and 12.8% cash-on-cash yield

Jernigan Capital JV
Financing for Self-Storage Development (March 2016)
Financed 11 developments; 6.9% current interest rate + 49.9% interest in operating cash flow and sale profits

Sample selection of investments shown for illustrative purposes only. See 'Appendix: Track Record' for a complete list of transactions.
See Appendix for important notice and disclaimer information

Single-Family Rentals ("SFR")

HEITMAN

Demand for rental homes expected to remain strong for foreseeable future

- Prime renter cohort expected to grow by 6.5 million through 2030. Aging millennials forming families and having children should increase demand for single-family rental homes
- Shortage of starter homes and financial constraints expected to make homeownership a challenge

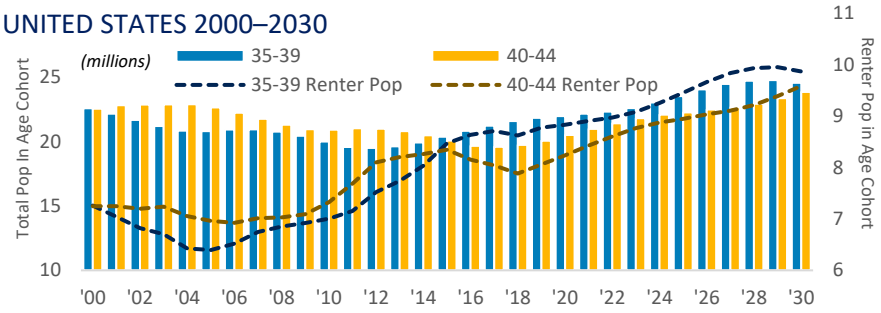
SFH rental operators have competitive operating platforms

- Technology advancements have enabled operators to efficiently manage large portfolios of homes
- Centralized call centers and maintenance systems allow operators to manage portfolios at scale

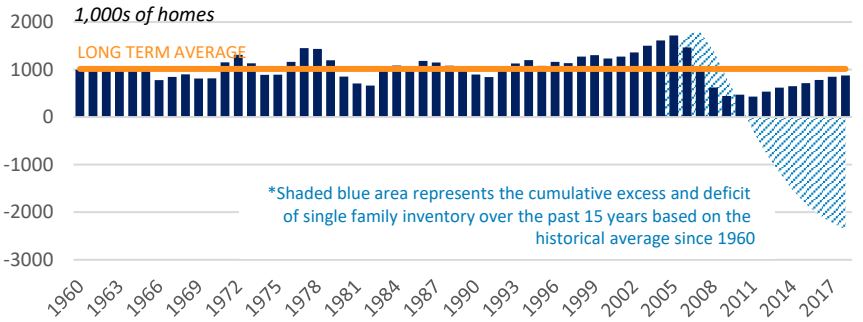
Operating performance for single-family home rentals more attractive than apartments

- Trailing annual NOI growth was 4.6% for the SFR sector, compared with 3.4% for apartments[1]
- NOI margins for single-family home rental operators approaching levels of major apartment REITs[1]

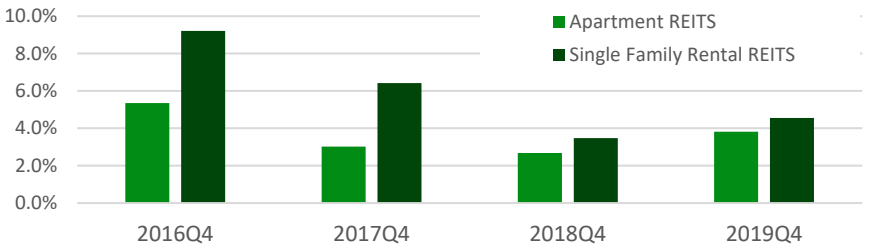
PROJECTED POPULATION OF PRIME RENTER COHORT
UNITED STATES 2000–2030



SINGLE-FAMILY HOME STARTS, 1960–2018



AVERAGE ANNUAL SAME STORE NOI GROWTH, 2016- 2019



Source: Moody's Analytics; US Census Bureau; Public Company Filings; Heitman Research
1. Data from company reports compiled by Heitman Securities Group as of September 30, 2019

American Homes 4 Rent JV

HEITMAN

GROWTH

KEY STATISTICS

Property Type	Specialty
Target Gross Capitalization	$328.9m
Equity Investment	$80m (HVP IV) $170m (Co-invest)
Target LTV	61%
Heitman JV Ownership	80%
Projected Net IRR	12-14%[1]
Status	1,019 sites acquired

As of June 30, 2020

Programmatic joint venture to develop purpose-built single-family rental homes in attractive markets nationally

RESEARCH THESIS

- We believe renter demographics are likely to stay favorable over the next decade, providing a larger format alternative to apartments at an attractive price point
- Limited residential construction and improved operational efficiencies are driving healthy income growth in burgeoning sector

INVESTMENT STRATEGY

- Develop homes to supply undersupplied "starter home" segment of the market (average cost of $265k/home, $119 psf)
- Target home sites owned or controlled by American Homes 4 Rent ("AH4R") and located in areas where they have a significant operating presence; no entitlement risk

OPERATING PARTNER

- AH4R is second largest operator in the single-family home rental industry with more than 52,000 homes in 22 states[2]

PROGRESS TO DATE

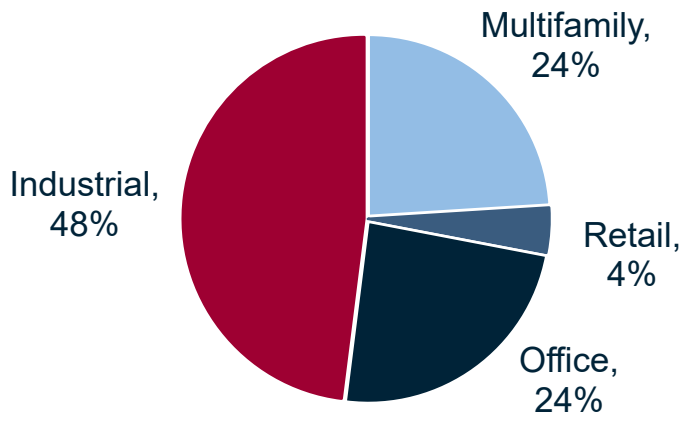
- 1,019 sites acquired to date, including 574 completed homes
- Completed homes are 96% leased; rents are in line with underwriting
- 6.0% projected yield-on-cost for completed homes, 8.9% leveraged yield-on-cost
- Closed on $201M financing facility for portfolio in August; proceeds will be drawn as homes are completed and leased

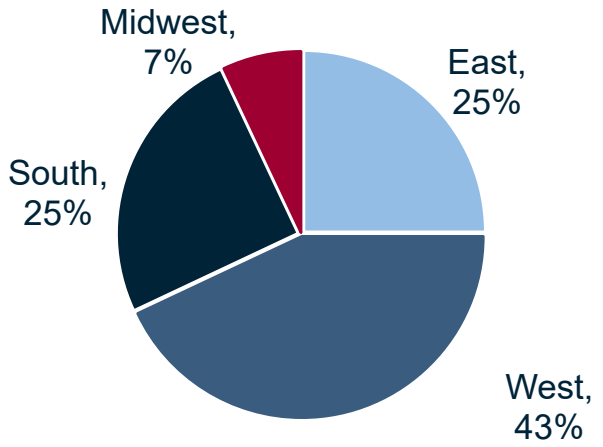
1. The actual and projected returns reflected for each illustrative transaction summarized herein are leveraged returns (unless otherwise indicated), net of all operating partner compensation, and net of all asset management fees but gross of fund-level costs and expenses and fund-level incentive compensation (which is based on the performance of the fund as a whole and not on a deal by deal basis). Incentive compensation, if earned, would reduce actual returns received by investors.
2. AH4R company public filing as of October 2019

TA Realty: Value Add Investing

- Twelve funds raised between 1987 and 2020 totaling over $10.5B in capital commitments
- Sixth largest buyer and seller of industrial real estate in the U.S.[1]
- Current combined Industrial and Multifamily allocation in last three funds of 72%[2]
- Post-COVID e-commerce jumps from 12% to 16% of total retail sales
- Apartments have best Q3 absorption on record, led by the suburbs

APERS Composite Holdings Funds X, XI & XII[2]





[1]Source: Real Capital Analytics
[2]As of September 30, 2020 Preliminary. Fund XII includes committed assets.

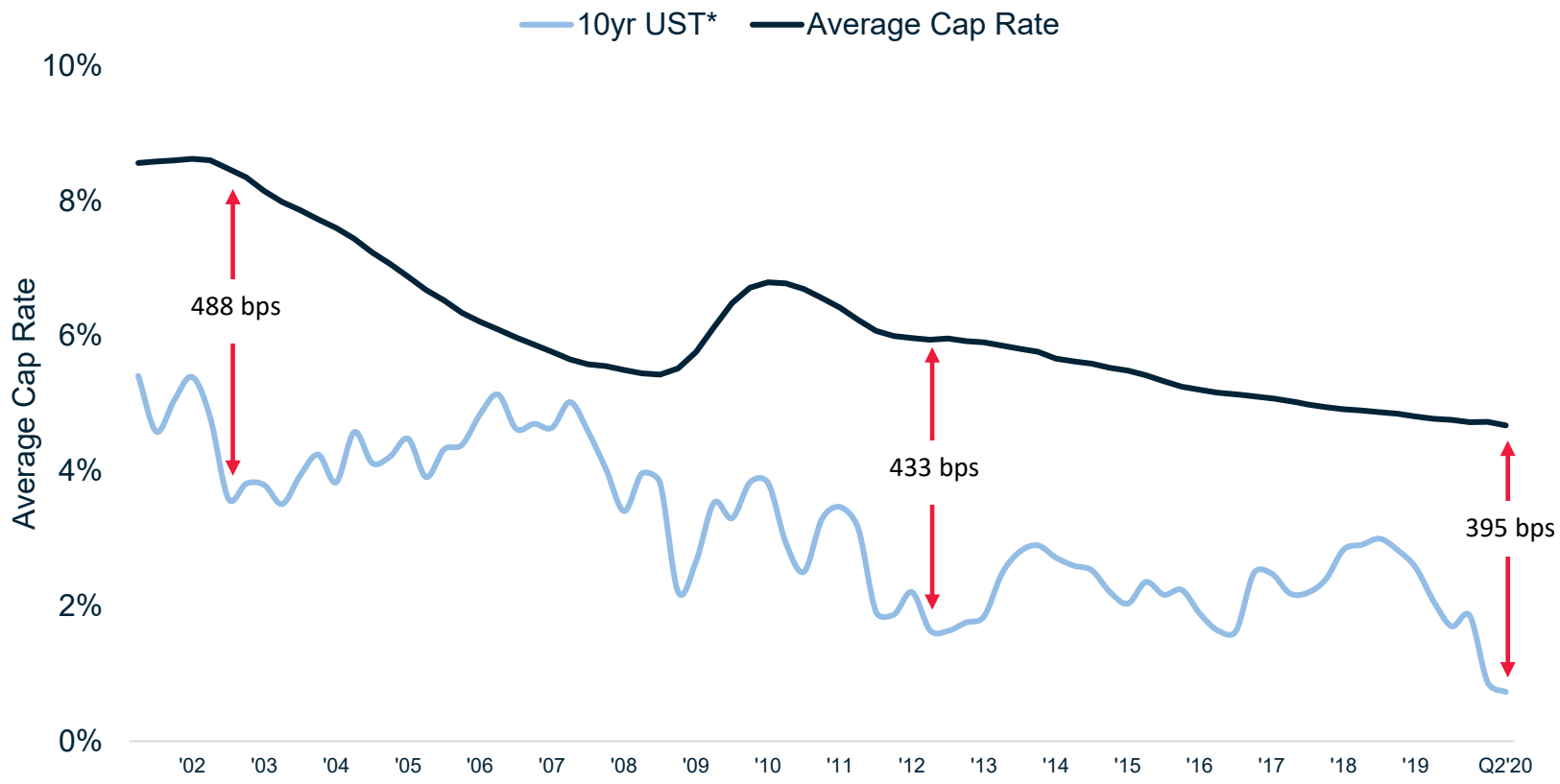
Enders Place at Baldwin Park

Orlando, FL

DATE ACQUIRED:	PROPERTY TYPE:	PRICE:	SIZE:	OCCUPANCY (AT ACQ.):
April 2020	*Multifamily*	*$53.1 MM*	*220 Units*	*93%*

- Suburban low-density apartments are most attractive post-COVID
- Seller was a public REIT, highly motivated during COVID-19 crisis after their equity price dropped by 66%
- Purchase Price reflects a $10MM discount to pre-COVID bids for this property
- Townhome construction with direct access garages in 27 of its 29 buildings and the largest unit sizes in the market
- Only 4% of tenants are employed in hospitality, travel and tourism industries

Cap rate spreads to the 10-year UST are well above average



Source: NCREIF Moving average cap rate by current market value. Federal Reserve. Data as of Q2 2020.