



September 30, 2024

Board of Retirement  
Ventura County Employees' Retirement Association  
1190 South Victoria Avenue, Suite 200  
Ventura, CA 93003

**SUBJECT: Sculptor Real Estate Fund V \$100 Million Investment Commitment**

Dear Board Members:

NEPC and I jointly recommend that the Board approve a \$100 million investment commitment to opportunistic real estate fund Sculptor Real Estate Fund V.

Discussion

The Board adopted a revised asset allocation plan at its meeting of May 20, 2024, affirming the current 8% real estate target, but within real estate, reducing the core real estate target from 6% to 4%, while increasing the non-core real estate target from 2% to 4%.

On a current market value basis as of valuations reported in the NEPC August 31, 2024 preliminary monthly investment report, total real estate represented 5.7% of VCERA's total portfolio. Of the 5.7% in real estate, 4.4% is in open-ended core funds managed by Prudential and UBS, and approximately 1.3% is in non-core value-added funds managed by Alterra and LaSalle. Sculptor Real Estate Fund V would be VCERA's sole opportunistic real estate fund commitment and would fall into the non-core category.

As described in greater detail in both NEPC's recommendation memo and in Sculptor's presentation deck, Sculptor focuses on a wide variety of real estate types to source transactions meeting its criteria, shifting between traditional and non-traditional property types where it finds the most compelling investment opportunities at different points in time, and finding compelling investments in less correlated, non-traditional real estate opportunities. Sculptor seeks to generate at least ½ of its total returns from current cashflow, which reduces risk profiles. Sculptor will also invest across the capital structure, typically diversifying across equity, debt, and hybrid investments. Unlike most opportunistic strategies, Sculptor generally targets leverage of 50% or less. The fund will invest at least 66% of commitments in North America but will not invest more than 20% of the fund in a single investment.

Sculptor is targeting a Fund V size of \$3 billion. It will have an 8-year term from the final close, with up to 2 one-year extensions. There will be a 4-year investment period from final close, with up to 1 one-year extension. The fund is targeting a 14% to 18% net Internal Rate of Return (net-IRR), and a Total Value of Paid-In (TVPI) capital of 1.7x – 1.8x.

Sculptor's management fees are graduated based upon investment commitment size. Fees are on committed capital during the investment period, and switch to fees on invested capital thereafter.

For commitment sizes below \$50 million, the fees are 1.5%. At a \$100 million commitment size, the management fee is reduced by 50 basis points to 1.0%.

NEPC clients receive an additional fee discount of 12.5 basis points if client aggregated commitments reach \$150 million; 25 basis points if client aggregated commitments reach \$200 million; and 35 basis points if client aggregated commitments reach \$300 million.

The hurdle rate will be 8%, and a 20% carried interest.

If approved at today's meeting, VCERA would qualify for a 4-month fee holiday.

NEPC has identified Sculptor Fund V as a high conviction product (non-core real estate) and has assigned it a #1 rating on their focus placement list of non-core real estate managers.

As this fund is highly rated by NEPC and the clock triggering the 4-month fee holiday is triggered at the second close in October, staff recommends that the Board approve this investment commitment.

**THEREFORE, IT IS RECOMMENDED THAT THE BOARD:**

- 1. Approve an allocation of \$100 million to Sculptor Real Estate Fund V and,**
- 2. Subject to legal review, authorize the Board Chair or the Retirement Administrator or in the absence of both, the Chief Investment Officer, to approve and execute the required documentation.**

Respectfully submitted,



Dan Gallagher  
Chief Investment Officer