



To: Ventura County Employees' Retirement Association

From: NEPC Consulting Team

Date: May 19, 2025

Subject: PIMCO EDCO (Real Assets)

Recommendation

NEPC and VCERA's investment staff recommend that the Board of the Ventura County Employees' Retirement Association ("VCERA" or the "Plan") approve a commitment of \$30 million to PIMCO European Data Centre Opportunity Fund ("EDCO" or the "Fund"). The Fund has been rated "1" by the NEPC Private Investment Committee, indicating high conviction in this product. PIMCO (the "Firm") currently manages approximately \$170 million across 4 funds for VCERA as of March 31, 2025

NEPC and VCERA's investment staff believe that PIMCO EDCO fits well in the Plan's investment portfolio for the following reasons:

- **Very significant data center and European real estate expertise:** The formation of EDCO and its operating business Apto brings together a number of key principals with the necessary expertise to develop data centers in growth markets across Europe. PIMCO provides the Fund with an existing European real estate presence to leverage local relationships and source suitable data center sites. Additionally, the Fund has exclusive access to Apto which is owned by the Fund and comprises a senior team with extensive data center experience in development, leasing and management. Apto will provide general oversight and day-to-day management of each development project and will play an important role in sourcing through its existing relationships with hyperscale tenants such as Amazon Web Services, Microsoft Azure, Google Cloud, Meta, and Oracle.
- **Targeted market selection in collaboration with hyperscale tenants:** The Fund will focus on tier 2 and tier 3 European markets due to increasing land and power availability constraints across tier 1 markets. In addition to these dynamics, underlying hyperscale tenants are looking to expand capacity in local markets closer to end-users not only for growth but also due to data sovereignty rules across Europe. Many of these markets currently lack sufficient data center capacity with few dedicated players that can provide the necessary investments. The Fund will seek to be a first mover in these markets and act as a solutions provider for hyperscale tenants. Additionally, the Fund has a targeted approach and specific investment criteria regarding site selection. The Fund will leverage Apto's tenant relationships to focus on their most preferred markets. To manage development risks they will not purchase land until ensuring the ability to permit and procure power to the site, and will not commence datacenter construction without a signed long-term tenant contract with a hyperscaler.
- **Strong Data Center tailwinds:** The data center market has experienced exponential growth over the last decade which has resulted in favorable tailwinds for the emerging property sector. Widespread demand for data computation, transmission, and storage across consumers and enterprises offers opportunities for continued hyperscaler growth to meet these needs. As a result, hyperscale companies are frequently securing long-term leases or build-to-suit contracts for data center capacity in development or predevelopment stages. At the same time, the exponential increase in demand has been met with increased constraints on supply, especially

with land and power availability in tier 1 data center markets. The tailwinds are particularly attractive for the Fund due to the focus on European tier 2 and tier 3 markets that have become target locations for hyperscale tenants and are expected to grow and provide strong fundamentals such as low vacancy and pricing power. Because of the compelling market fundamentals, investor demand for this emerging property sector is strong and exit optionality should exist for the Fund after stabilization. The long-term leases that are typically 15 years with high credit tenants make newly-built stabilized product particularly attractive for data center REITs, large institutional investors, and core infrastructure funds.

- **Embedded upside with potential sale of Apto:** The creation of Apto, which is structured as an operating company owned by the Fund, provides embedded upside potential through any increase in value associated with the scaling of the platform. Through successful execution of the Fund's underlying strategy, EDCO will build a portfolio of highly desired data center assets that are under long-term leases with financially strong tenants. The Fund will have the ability to exit assets individually, which is the base case underwriting scenario that has been the premise for the Fund's target return of an 18% to 20% net internal rate of return ("IRR") and a 2.0x net multiple on invested capital ("MOIC"). However, PIMCO intends to exit the portfolio of assets and Apto simultaneously, which should result in IRR and MOIC returns significantly in excess of the Fund's targets.

Overview of VCERA Private Real Assets Portfolio

As of March 31, 2025, the real assets portfolio comprises 5.8% of the total fund versus its target allocation of 6%. Through March 31, 2024, the real assets allocation has generated a time-weighted annualized return of 13.3% over the past five years, and 6.1% since its May 2013 inception date.

Fund Overview

PIMCO is seeking to raise €1.0 billion for PIMCO EDCO, a data center-focused strategy targeting hyperscale development projects in tier 2 and tier 3 European markets. As part of the strategy execution, PIMCO has built and established a European data center operating platform, Apto, providing specialized data center development and operating expertise. Together, PIMCO and Apto will source and acquire data center sites in various European markets that are highly desired by potential hyperscale tenants and possess qualities consistent with successful data center development.

PIMCO is a large, well-known investment manager that invests across public and private asset classes, including real estate. The Firm has over \$180 million of AUM spanning public and private debt and equity real estate with over 280 real estate specialists globally. PIMCO has an established European real estate team that comprises investment professionals that are distributed in offices across the continent and possess key on-the-ground relationships with local counterparties.

PIMCO EDCO launched its operating company Apto and set out to recruit a "best in class" team of experienced senior data center professionals in Europe. Apto is led by Russel Poole (Chief Executive Officer), who is supported by senior professionals across sales and business development, development and construction, acquisitions, finance, and legal functions. The Apto senior team possesses data center development expertise and key tenant relationships through experiences at prominent firms such as Equinix, Digital Realty, Amazon Web Services ("AWS"), and Google. Apto will work closely with members of the PIMCO private commercial real estate equity team, led by Kirill Zavodov (Executive Vice President, Head of European CRE Equity) that is equipped with 24 investment professionals.

Similar to trends seen in the United States, European data center markets have experienced an increase in demand due to growth in data creation, consumption, and storage across enterprise and consumer end-users. This dynamic has led to elevated investment in tier 1 European markets which



includes Frankfurt, London, Amsterdam, Paris, and Dublin. Power is becoming more of a constraint in the tier 1 markets, making it more difficult or extending the timeline to develop new data centers in these markets. Additionally, trends such as data sovereignty laws in Europe as well as the proliferation of low latency applications such as Internet of Things (“IoT”) and Artificial Intelligence (“AI”) has increased the need for localized data center capacity. As a result, the Fund will seek to be a first mover in the development of data centers in tier 2 and tier 3 markets, which, among others, include Berlin, Copenhagen, Madrid, Milan, Athens, Lisbon, and Marseille. Through the combined partnership and experience of PIMCO and Apto, the Fund will look to capitalize on the significant and defined demand from the hyperscale tenants in identifying desirable sites, developing the data centers and leasing/operating the assets.

Overall, the Fund will seek to take advantage of the tailwinds in the data center sector by assembling a portfolio of eight to 12 data center development projects. Market selection will be driven by conversations with potential hyperscale tenants in Apto’s network, leveraging long-standing relationships with the Apto team. Furthermore, the Fund will rely on PIMCO real estate professionals to source suitable land for data center development with technical assistance from the Apto team. The Fund is intended to create value through the development of high demand assets that are signed to long-term leases by investment-grade tenants, but also through the growth and scaling of Apto as a data center platform. The Fund is targeting an 18% to 20% net IRR and 2.0x net MOIC, which is derived from the base case underwriting of individual asset sales. However, PIMCO will look to fully maximize the value of EDCO through a full-scale platform sale that includes Apto and the underlying portfolio, which should provide additional upside. As of February 2025, PIMCO has raised approximately €800 million for this Fund.

Portfolio Fit

The Fund is a closed-end sector-specific strategy that is suitable for clients that would like more focused data center exposure to take advantage of the strong demand tailwinds and increasing investor interest of this growing sector. The risk-return profile of the Fund is more appreciation-driven and opportunistic (18% to 20% net IRR / 2.0x net MOIC) and will almost exclusively consist of data center development projects. However, the Fund intends to de-risk each investment through upfront due diligence to ensure the site is permitted and entitled for data center use, has access to sufficient power, and is desired by a hyperscale tenant. The Fund will not engage in any development activities until a lease is signed and the lease rent will be based on cost. PIMCO also will ensure that a gross maximum price contract (“GMP”) is in place for construction and financing is secured prior to vertical construction. EDCO currently has an initial seed portfolio of two assets located in Madrid and Milan with a third under a land option agreement located in Athens.

The Fund is Euro denominated and has no U.S. dollar sleeve for clients to invest through. The Fund has no specific hedging requirements but is expected to hedge any investments made in non-base currencies (non-Euro) back to Euros. PIMCO has a traditional approach when conducting currency hedging and will use its firm-wide process to ensure efficiency. Additionally, the Fund will have a Delaware feeder vehicle available for U.S. investors that have certain tax implications.

Areas to Monitor

- **Newly established operating company:** Apto, a data center development and operations company was founded alongside EDCO with the sole purpose of supporting the Fund’s investment execution. Apto comprises a dedicated senior team who have extensive industry experience and track records but have limited direct experience working with each other or under the PIMCO umbrella. Therefore, there is underlying uncertainty surrounding the group’s ability to grow and scale the business through the execution of the given business plan. However, NEPC believes that PIMCO has recruited the necessary professionals and built a team with not only data center development and operational experience but also

hyperscale tenant relationships, which can provide immediate value-add to the Fund. Additionally, PIMCO has experience with building platforms and has an internal corporate asset management team that can be leveraged by Apto for administrative, financial, and operational needs.

- **First-time fund:** PIMCO does not possess a track record of investing private equity in data center assets. However, this is not entirely surprising due to the complexities and relative infancy of the asset class relative to other traditional real estate sectors. PIMCO has a deep real estate team and presence across Europe, has financed data center assets, and has experience in evaluating and investing in data center REITs. Additionally, created the Apto operating business and helped to staff it with a very experienced team of data center professionals. Together, PIMCO and Apto provide complementary experience and capabilities to execute the Fund's strategy.
- **Concentration risk:** The Fund will consist of eight to 12 data center investments, and therefore, is exposed to concentration risk in being a sector-specific strategy. Furthermore, outside of the initial seed assets, the Fund is largely a blind pool with all investment intended to be development projects. As a result, the underperformance of one or more assets may materially affect the overall result of the Fund. However, despite the Fund deploying an opportunistic mandate, the Fund's investment will be de-risked through land option agreements subject to permitting and power, advance indication of hyperscale tenant interest and lease execution prior to construction, lease rent based on cost, and GMP construction contracts. The Fund's target markets are expected to experience significant demand growth and have shown evidence of strong leasing activity from credit worthy hyperscale tenants that deem data center capacity as mission critical.
- **Headline risk:** PIMCO is a large global firm that has been involved in lawsuits in the ordinary course of business. While there has been no lawsuits specific to the Fund or the investment team, NEPC has identified multiple lawsuits associated with workplace discrimination over the past several years, which resulted in NEPC placing PIMCO on "Watch" status in December 2020. Although most of the cases of concern since this time have been dismissed, there remains one outstanding lawsuit from May 2022 alleging discrimination and unequal pay. PIMCO believes these allegations are not justified and will seek to demonstrate the plaintiffs were treated fairly. NEPC will continue to monitor the situation but would like clients to be aware of the situation.

DUE DILIGENCE RATINGS SUMMARY

1	Research views 1-rated strategies as best ideas. The strategy has a clearly articulated investment thesis, and the manager is sufficiently resourced and incentivized to execute on the thesis. NEPC Research has high conviction that 1-rated strategies are positioned to deliver on a stated investment thesis and target return over a full investment cycle.
2	NEPC Research has a positive view of a 2-rated strategy. The strategy has a clearly articulated investment thesis, and the manager is sufficiently resourced and incentivized to execute on the thesis. A single factor or mosaic of factors may lead NEPC Research to a 2 rating rather than a 1 rating.
3	NEPC Research has a constructive view of the strategy and believes the strategy can play an appropriate role in certain client portfolios. Through initial and/or ongoing research of a strategy, NEPC has not identified unreasonable risks from an organizational, process, operational or investment perspective.
4	NEPC Research has conducted a reasonable level of due diligence and has an unfavorable view of the strategy due to issues, weaknesses or risks that we believe would challenge the manager's ability to execute on a stated investment thesis.
5	NEPC Research has conducted a reasonable level of due diligence and has significant concerns about the effectiveness or viability of the strategy. Through the due diligence process, NEPC has uncovered serious issues, weaknesses or risks that we believe challenge the manager's ability to execute on a stated investment thesis.
Not Rated	Due diligence has not been sufficiently completed on the product or manager.

Disclaimers and Disclosures

Past performance is no guarantee of future results.

The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

This memo for the Fund provides a summary of information and documentation received by NEPC from the manager through phone calls and meetings. The product has been rated by NEPC's Alternative Assets Committee.

Information used to prepare this report was obtained directly from the investment manager, and market index data was provided by other external sources. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

NEPC does not provide legal, regulatory or tax advice. Please consult your attorney or tax advisor for assistance as needed.

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In addition, it is important that investors understand the following characteristics of non- traditional investment strategies including hedge funds, real estate, and private equity:

Performance can be volatile, and investors could lose all or a substantial portion of their investment.

Leverage and other speculative practices may increase the risk of loss.

Past performance may be revised due to the revaluation of investments.

These investments can be illiquid, and investors may be subject to lockups or lengthy redemption terms.

A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value.

These funds are not subject to the same regulatory requirements as registered investment vehicles.

Managers may not be required to provide periodic pricing or valuation information to investors.

These funds may have complex tax structures and delays in distributing important tax information.

These funds often charge high fees.

Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy.

