

Callan



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NCREIF Virtual Conference

Daily Priced Real Estate in
Target Date Funds

Mark Andersen

SVP & Manager – Trust Advisory Group

Agenda

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Callan's Daily Priced Real Estate Implementation Resources

Trust Advisory Group

Portfolio managers, senior operations professionals, and investment analysts

- Portfolio managers make final decisions regarding glidepath design, asset allocation, exposure sizing and strategy selection
- Operational experience managing multi-asset portfolios in a daily liquidity environment
- Daily cash flow allocation monitoring and periodic rebalancing activity

Real Assets Consulting

Manager selection process is objective and thorough:

- Bottom up process – no buy-list, customized to fit specific mandate
- Original research, in-depth due diligence
- Quantitative evaluation and qualitative assessment
- Valuation process review
- On-going monitoring of employed strategies

Capital Markets Research Group

Tenured team of economists, capital market experts, asset allocation and glidepath design specialists, actuaries, and risk management experts

- Objective, rigorous top-down glidepath design
- Quantitative modeling to test potential investor outcomes and risk/reward tradeoffs
- Risk management stress testing
- In-depth knowledge of traditional and alternative asset classes

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Daily Priced Real Estate Experience

Timeline

- 2007: Initial allocation to “generation 1” DC Real Estate Fund within the Callan GlidePath® Funds, our proprietary TDF series
- 2012: Selected as Advisor to daily priced Real Estate Interval Fund
- 2015: Transitioned to “generation 2” DC Real Estate Fund for the Callan GlidePath Funds
- 2016: Utilization of DC Real Estate allocations across eligible discretionary TDF implementations
- 2017: Selected as Advisor to daily priced Real Assets Interval Fund
- 2019: Added second Daily Priced Real Estate strategy to Callan GlidePath Funds

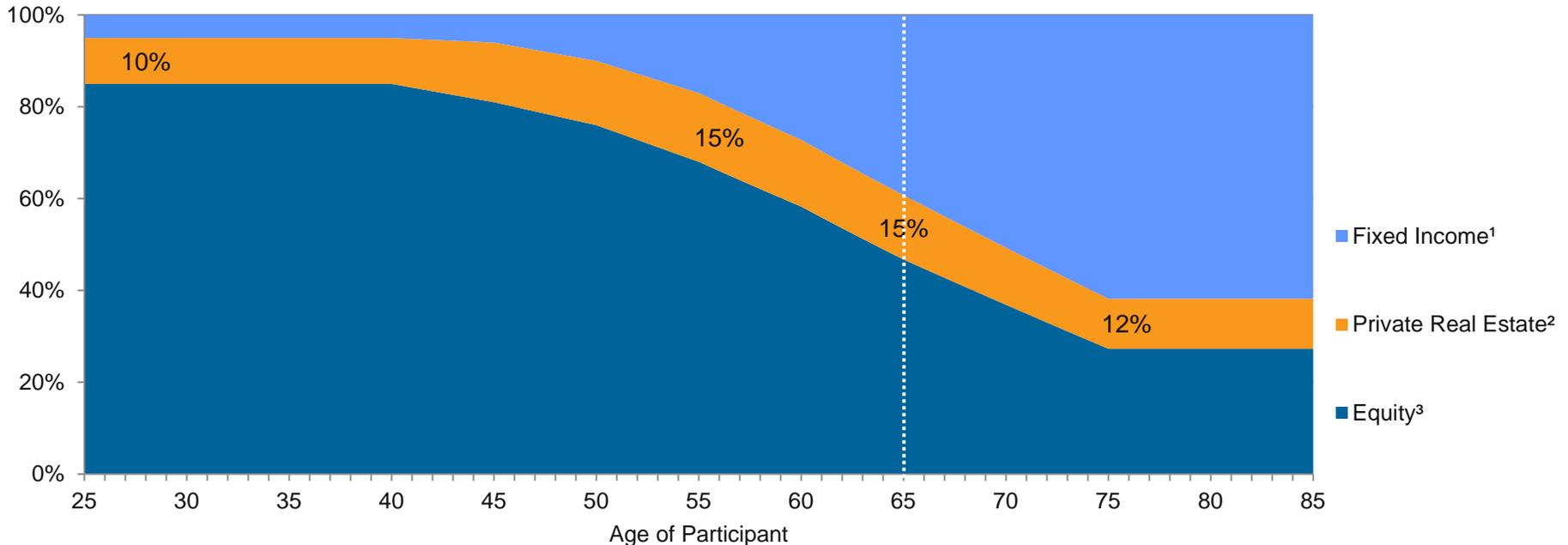
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Daily Priced Real Estate Exposures

- Callan GlidePath® Funds
- Callan Diversified Real Assets Fund
- Custom TDF Implementations & Interval Funds

Callan Glidepath® Funds – Target Asset Allocation Rolldown

Target Exposures: Equity – Private Real Estate – Fixed Income



- ¹ “Fixed Income” combines Core/CorePlus Bonds, Bank Loans, TIPS, and Capital Preservation
- ² “Private Real Estate” includes a small liquidity sleeve of REITs & Cash
 - 10% initial allocation grows to 15% at age 55 and declines after age 65 to 12% at the glidepath landing point of age 75.
- ³ “Equity” combines US Large Cap, US Small Cap, Developed Non-US and Emerging Markets.

Asset allocation and glidepath structure are subject to change.
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Callan MultiManagerSM Specialty Funds

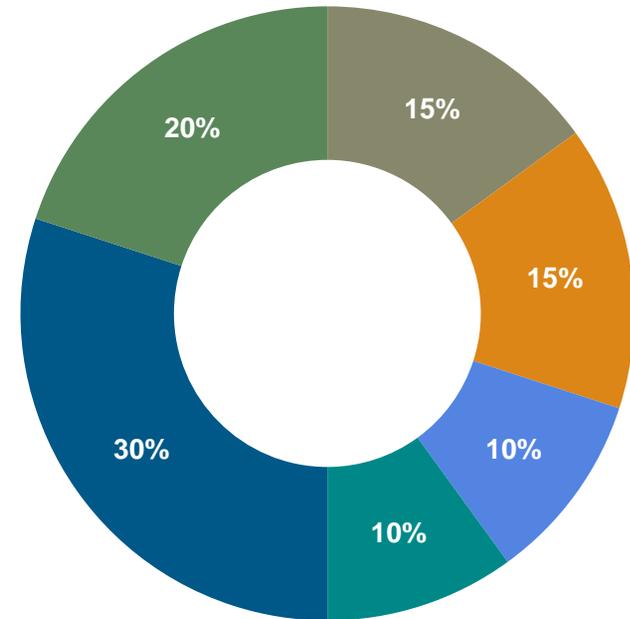
Diversified Real Assets: Manager Structure

Highly diversified and engineered to pursue net of fee excess return with strong risk control and low costs.

100% actively managed for excess return, diversified across six complementary asset classes and subadvisor strategies.

- **Private Real Estate (30%):** Daily priced direct real estate solution with a small sleeve of US REITs for ongoing liquidity.
- **Global REITs (10%):** Quantitative Global REIT portfolio focused on securitized real estate. Avoids REOCs, Developers, Homebuilders, Prisons, and other non-core property types.
- **Listed Infrastructure (15%):** Global liquid infrastructure portfolio focused on stable owner/operators with long-lived assets.
- **Natural Resources (10%):** Diversified natural resource public equity portfolio.
- **Bank Loans (15%):** Floating rate loan portfolio.
- **TIPS (20%):** Active full duration US TIPS portfolio.

Diversified Real Assets Manager Structure



- Private RE
- Bank Loans
- Global REITs
- TIPS
- Infrastructure
- Natural Resources

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Other Exposures

Daily Priced Real Estate Utilization

Custom Target Date Funds

- Custom TDF design is a core competency within our Defined Contribution services.
- Callan has designed custom glidepaths on behalf of more than a dozen large DC plan sponsors.
- Private Real Estate is utilized in both discretionary and non-discretionary custom glidepaths.
- Real Estate Allocations generally start at not less than 5% and may reach up to 15%.

Real Estate and Real Assets Interval Funds

- Callan serves as the advisor to two daily priced interval funds.
- These are multi-manager constructs with diversified allocations across a variety of private real estate and real assets strategies.

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Daily Priced Real Estate in Volatile Markets

Managing through Illiquidity

GFC

Prolonged economic downturn, with a distinct lag between public equity and REIT declines and private real estate writedowns

- Through the early phase of the GFC (mid-2008), private real estate provided a source of funds to rebalance into equities as real estate valuations adjusted slowly.
- In late-2008 and early-2009, REITs as the liquidity sleeve in daily priced real estate products sold off dramatically and impaired some funds ability to fund redemptions.
- By early/mid-2009, equities and REITs had begun to rally while private real estate writedowns continued through year end.
- Callan suspended contributions and redemptions in daily priced real estate exposure in the spring of 2009 and resumed by early 2010.

COVID-19

Sharp economic downturn with tremendous volatility

- As the COVID crisis accelerated in February and March, it was clear that we would need to rebalance into equities. We rebalanced our GPFs three times in eight weeks.
- By early April, it was clear that attempting to access liquidity in real estate, both redemptions and contributions, would be challenging. Callan elected to suspend transactions in daily priced real estate across all of our discretionary TDF implementations.
- Private real estate writedowns began more quickly than in the GFC and some daily priced vehicles have reduced or suspended transactions.
- As COVID's impact on real estate becomes more clear, valuations become more reliable, and liquidity improves, we will consider reestablishing transactions.

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Looking Forward

What does Callan see in the future?

- **Continued uptake of private real estate in DC structures; both TDFs and Diversified Real Assets**
 - Adoption has been almost exclusively in CITs and custom solutions.
 - New legal structures deployable in Mutual Funds may find traction as smaller TDF series seek to differentiate their solutions from the “Big 5 Oligopoly”.
- **Interest in private real estate debt solutions for use late in TDF glidepaths, DRA structures, and potentially multi-manager fixed income solutions**
 - Hybrid private debt solutions that combine private real estate debt and private corporate debt may also be of interest.
- **Evolving usage and sizing of liquidity sleeves**
 - As uptake of daily priced real estate continues within TDFs and multi-asset solutions, the need for daily cash allocations may wane. Daily valuation with periodic (monthly/quarterly) contributions and redemptions may suffice.
- **Expansion into other types of real assets; timber, farmland, infrastructure**
 - As open-end vehicles gather scale, we expect daily priced solutions to begin including additional types of real assets.

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Q & A

Thanks for joining the discussion. We welcome your questions.

Speaker Bio:

Mark Andersen is a senior vice president & manager of Callan's Trust Advisory Group (TAG) and serves as portfolio manager for the Callan GlidePath® Funds and Callan MultiManagerSM Core Funds.

He is responsible for design, asset allocation, manager structure, and general investment research for the firm's discretionary mandates. He also supports firm-wide research on multi-asset class strategies (MACs), liquid alternatives, and real asset investments. Mark is a member of Callan's Defined Contribution and Management committees and is a shareholder of the firm.



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