MEKETA

San Diego City Employees' Retirement System

September 11, 2025

SDCERS Real Estate Annual Investment Plan Recommendation

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1. Recommendations for Approval

Summary of Recommendations

Investment Policy Statement

→ Incorporate Real Estate Target Allocation of Total Plan Assets to 10%

→ Adjust guidelines accordingly, if the recommended change from a 70/30 Core/Non-Core target to a 60/40 Core/Non-Core target is approved

- Adjust Portfolio Leverage Target Range from 35%-45% to 35%-50%, and leverage Guideline from <50% to <55%

Annual Investment Plan – Core

→ $35M - $50M in new commitments

→ Submit a full redemption ($44M) request from MetLife Core Mortgage ($27.5M currently approved)

→ Submit a full redemption ($39M) request from Mesa West Core Debt ($27.5M currently approved)

→ Remain in the UBS Trumbull Property Fund redemption pool (previously approved; $22M remaining)

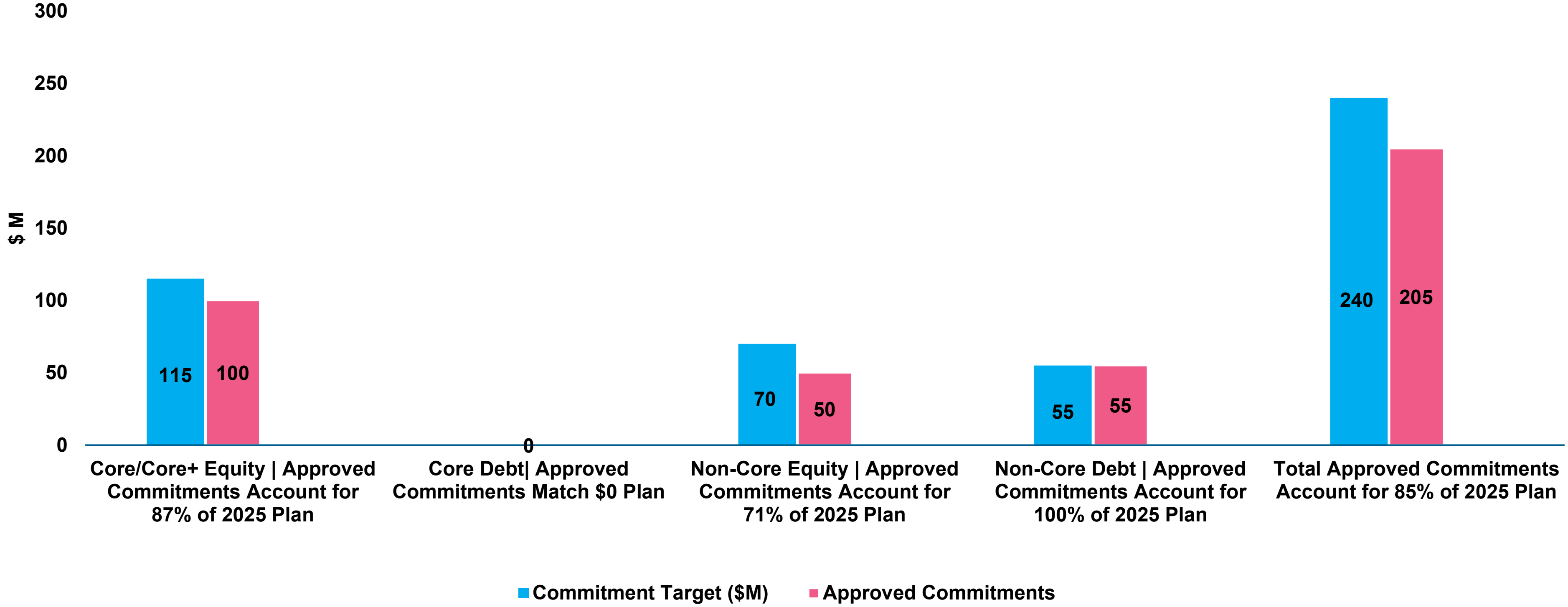
Annual Investment Plan – Non-Core

→ $80M - $120M in new commitments to equity funds

→ $40M - $50M in new commitments to debt funds

2. Real Estate Program Update

Real Estate AIP Target & Commitment Tracking - FY 2025



FY2025 Approved Commitments

Core/Core+ Equity	Non-Core Equity	Non-Core Debt
$50 million – CBRE U.S. Core	$50 million – PGIM PRISA III	$25 million – Sabal III
$50 million – Invesco Income		$30 million – Berkshire IV

3. Capital Projections and Pacing

FY 2026 Capital Projections and Pacing Summary

Overall Objectives

→ Manage overall exposure from current 9.5% to the 10.0% target and maintain exposure close to 10.0% through the analysis period

→ Manage portfolio to maintain an Equity overweight, with a complementary exposure to Debt

- 80%-100% Equity
- 0%-20% Debt

→ Manage overall Core exposure down from 78% toward approved target (70% current target; 60% recommended target)

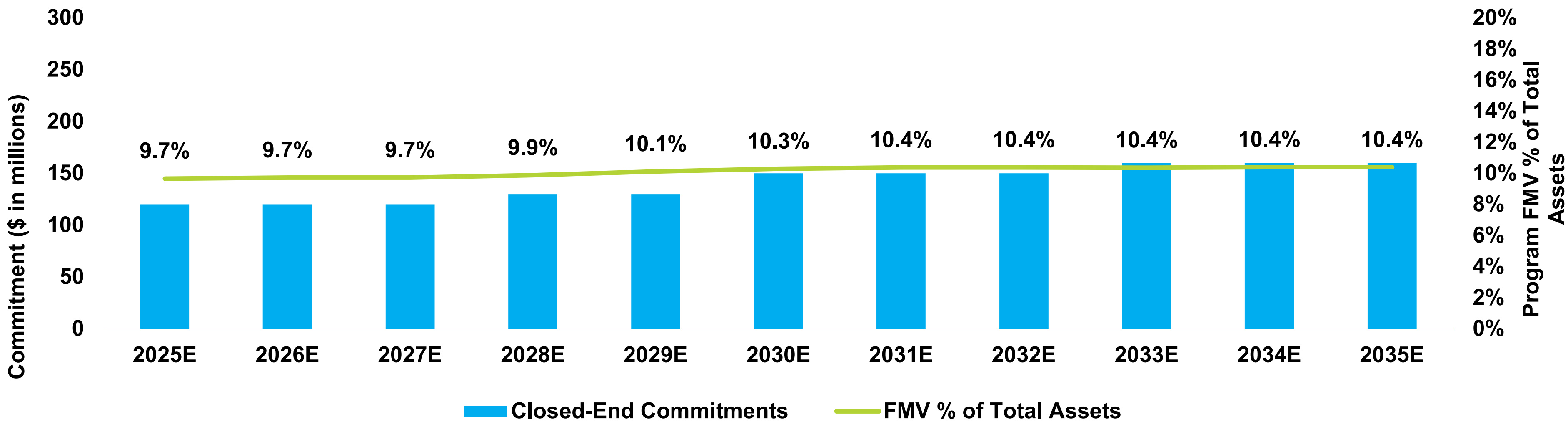
- Target mix of Core and Core Plus, with 75%-80% allocated to Diversified Core funds and 20%-25% invested in Core Plus funds
- Recommendation for full redemptions from three Core funds (~$105M as of Q1-25; 8.7% of RE portfolio)

→ Maintain steady Non-Core commitment pace to avoid vintage concentration

- Focus on Value-Add Equity and Non-Core Debt strategies

FY 2026 Capital Projections and Pacing Summary

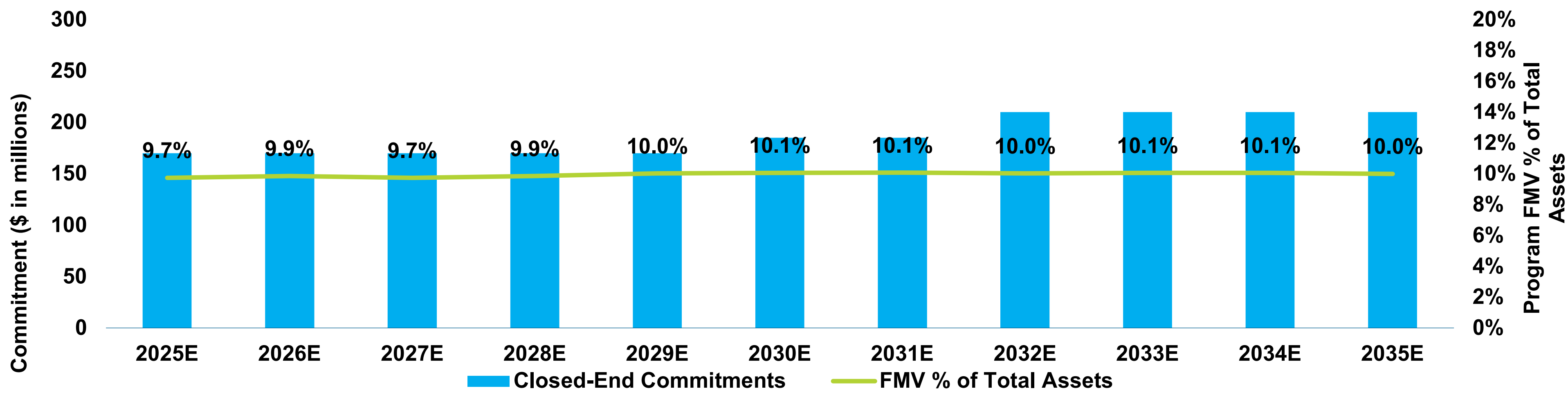
Scenario A – 70% Core / 30% Non-Core (Current Approved Target)



	FY 2026 | FY 2027 | FY 2028 Commitment Budgets Scenario A (70/30) $M
Core/Core Plus Commitments	50 | 50 | 75
Non-Core Equity Commitments	80 | 80 | 80
Non-Core Debt Commitments	40 | 40 | 40
Redemptions	25 | 30 | 30
Projected RE Exposure (FY 2026)	9.7%
Projected Core / Non-Core (Year 3)	70/30
Projected Equity / Debt (Year 3)	90/10

FY 2026 Capital Projections and Pacing Summary

Scenario B – 60% Core / 40% Non-Core (Recommended Target)



	FY 2026 | FY 2027 | FY 2028 Commitment Budgets	
	Scenario B (60/40) $M	Scenario B Variance vs Scenario A
Core / Core Plus Commitments	35 | 0 | 35	-$105M
Non-Core Equity Commitments	120 | 120 | 120	+$120M
Non-Core Debt Commitments	50 | 50 | 50	+$30M
Redemptions	25 | 30 | 30	$0
Projected RE Exposure (FY 2026)	9.9%	20 bps
Projected Core / Non-Core (Year 3)	65/35	500 bps
Projected Equity / Debt (Year 3)	89/11	100 bps

4. Real Estate Investment Policy

Annual Investment Policy Statement Assessment

Summary of Changes

→ The recently approved revision to the real estate investment guideline, reducing the target from 11% to 10%, has been incorporated following approval at the July 2025 Board Meeting.

→ If the Core/Non-Core targets shift from 70/30 to 60/40, the following changes are recommended to conform to the slightly higher Non-Core target:

	Risk Profile Mix	Target Range		Portfolio Leverage	
Policy Targets	Core / Non-Core	Core	Non-Core	Target	Guideline
Current	70/30	55%-85%	15%-45%	35% - 45%	<50%
Recommended	***60/40***	***50%-80%***	***20%-50%***	***35% - 50%***	***<55%***

5. Annual Investment Plan Implementation

FY 2026 Portfolio Considerations

Exposure Targets

→ Manage overall exposure to be within a functional 9.0% - 11.0% tactical range

→ Manage Core/Non-Core allocation toward the approved target

Property Type Allocations

→ Remain underweight Office

→ Increase Multifamily to at least neutral weight

Core Portfolio Composition

→ Shift remaining Core debt exposure ($83M) to Core equity

Non-Core Portfolio Composition

→ Balance equity investments between diversified and property type specific investment strategies, both with proven investment managers

→ Participate in structured debt recapitalizations at an attractive investment basis

FY 2026 Investment Plan - Core

Core Equity

→ Make a single ($35M - $50M) commitment to a high conviction Diversified Core Plus investment
- Potential to make a smaller single commitment to a new investment and upsize current Core Plus investments

→ Remain in UBS Trumbull Property Fund redemption pool ($22M remaining)
- Potential to manage down asset management fees through revised loyalty program, without impacting timing of redemptions

Core Debt

→ Submit full redemptions from Mesa West and MetLife Core Mortgage (combined $83M remaining) to shift the real estate debt program to higher conviction non-core strategies

FY 2026 Investment Plan – Non-Core

Non-Core Equity

→ Commit $80M - $120M to funds sponsored by proven institutional investment managers with strategies ranging from diversified to those focused on sectors with clear tenant demand drivers and expected capital inflows

- Two to three commitments

Non-Core Debt

→ Commit $40M - $50M to funds sponsored by institutional investment managers with an established real estate debt investment program and cycle-tested track record

- One to two commitments

6. Appendix

Target Allocation and Funding Status as of 4Q-2024

→ SDCERS is within its tactical range for real estate but is below its strategic target of 10.0%[1]

- Real estate holdings have increased slightly
- Total Plan assets have increased at a faster pace

	RE FMV ($M)	Total Plan ($M)	RE Allocation	Tactical Range	In Compliance
4Q-2023	$1,127	$11,170	10.1%	5% - 15%	Yes
4Q-2024	$1,129	$11,860	9.5%	5% - 15%	Yes
Year Over Year Variance ($)	$2	$690			
Year Over Year Variance (%)	0.2%	6.2%	(60 bps)		

[1] Strategic Target was reduced from 11% to 10% effective July 2025.

Risk Classifications

→ SDCERS is within its tactical ranges for Core and Non-Core real estate

→ SDCERS is within its tactical ranges for Real Estate Equity and Real Estate Debt

	Strategic Targets		Portfolio Composition (12/31/24)		Guideline Compliance (NAV)
	Target[1]	Tactical Range	NAV	NAV + Committed	
Total Real Estate	10%	5% - 15%	9.5%	11%	Yes
Core Portfolio	70%	55% - 85%	78%	68%	Yes
Non-Core Portfolio	30%	15% - 45%	22%	32%	Yes
Real Estate Equity	90%	80% - 100%	89%	86%	Yes
Real Estate Debt	10%	0% - 20%	11%	14%	Yes

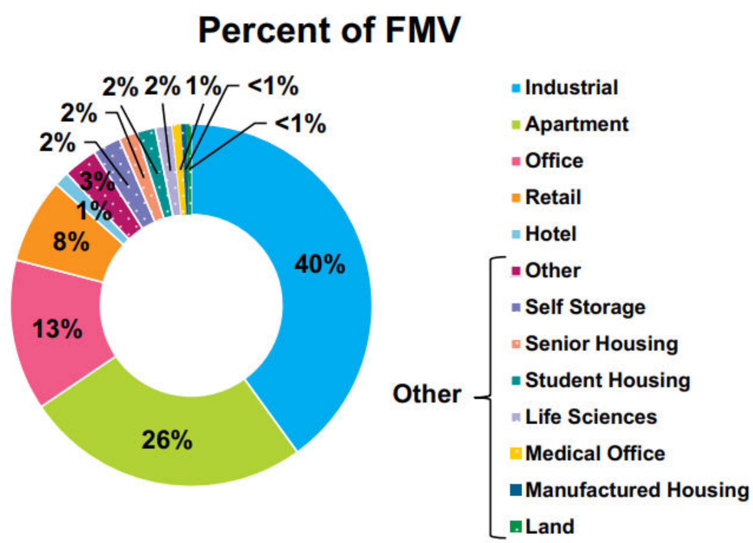
[1] Real Estate Target was reduced from 11% to 10% in July 2025.

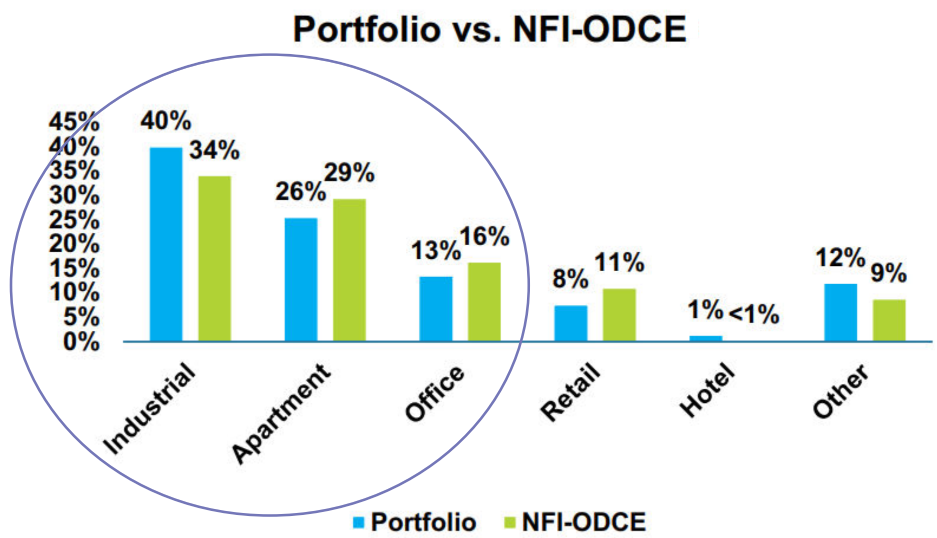
Guideline Adherence

→ The SDCERS portfolio is within its leverage and diversification guidelines

	Target	Guideline	Actual as of 12/31/24	Guideline Adherence
Core Leverage	20% - 30%	<45%	29%	Yes
Portfolio Leverage	35% - 45%	<50%	35%	Yes
Debt Investments		<30%	11%	Yes
Single Manager		<30% (Includes Unfunded)	13% (RREEF Alternative Investments)	Yes
Property Type		+/- 15% of ODCE	+ 6% (Industrial)	Yes
Geographic Region		+/- 15% of ODCE	- 5% (West)	Yes
Non-U.S.		<15%	5%	Yes

Property Type Diversification





Key Observations

→ Broadly diversified by property type, including (Other) niche sectors

→ In compliance with policy guidelines

→ Favorably overweight Industrial

→ Favorably underweight Office

→ Unfavorably underweight Apartments

Market Overview Summary

→ The NFI-ODCE EW Index showed positive net returns in Q4 2024 after eight consecutive quarters of decline.

→ Despite recent positive performance, one- and three-year returns remain negative due to two years of negative quarterly results. Over a ten-year horizon, returns are positive and comparable to public real estate indices.

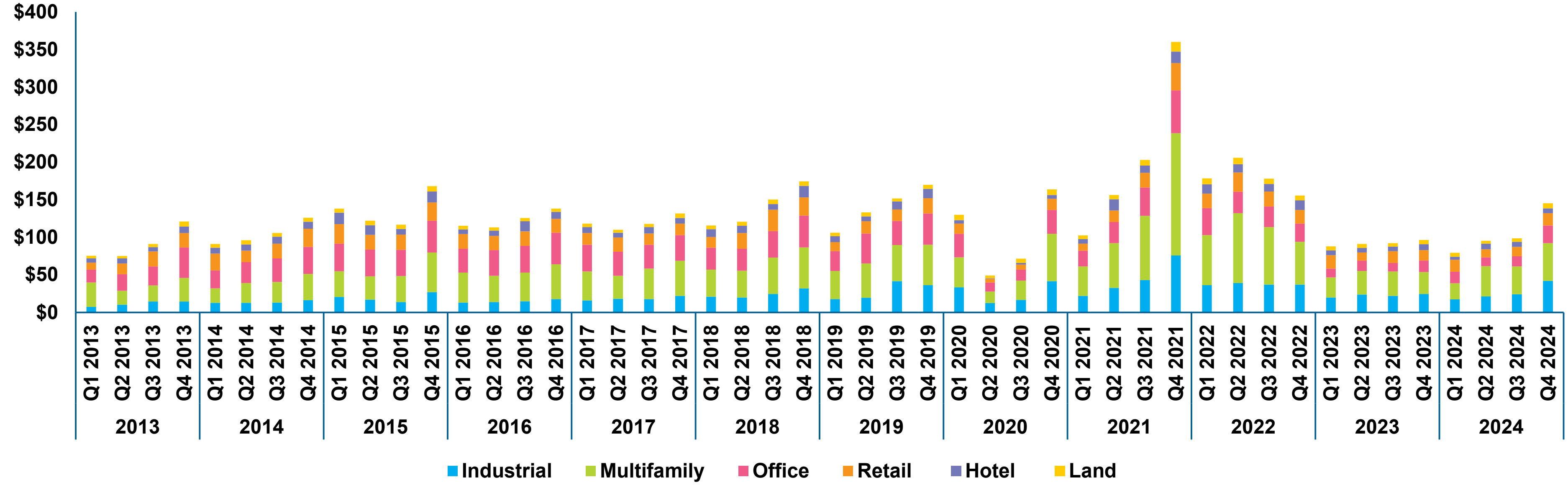
→ While overall NCREIF Property Index ("NPI") returns (unleveraged) were modest at 0.4% for the trailing 12 months ending Q4 2024, the office sector was the main drag with a -7.7% return, contrasting with stronger performances in other property types.

→ In Q4 2024, the aggregate vacancy rate across all property types rose to 6.5%—driven largely by an increase in industrial vacancies and persistently elevated office vacancies, which remain stuck at high post-pandemic levels.

→ Private real estate transaction volume for properties valued above $2.5 million surged to $145.5 billion in Q4 2024—the highest since Q4 2022—driven by increased activity in multifamily ($50.1B) and industrial ($42.0B) sectors. This surge followed multiple rate cuts in Q4 2024 that made financing more accessible.

→ Real estate closed-end fund dry powder in North America peaked in 2022 but has since declined as higher interest rates have contributed to lower overall transaction volume, and fewer distributions to commit to new investments.

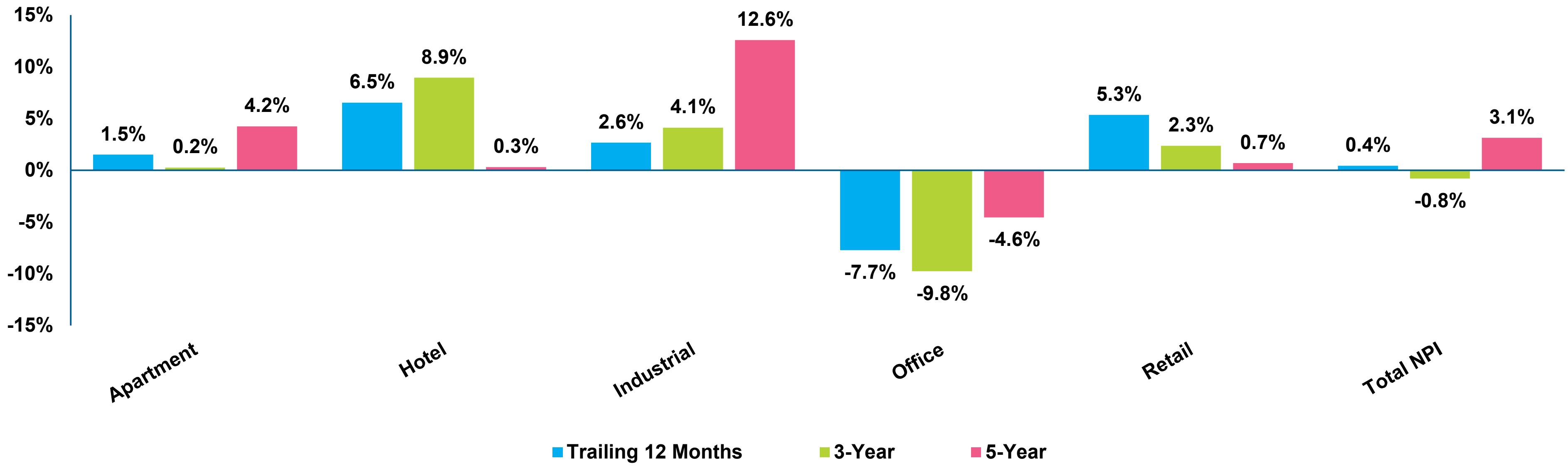
Quarterly Transaction Volume by Property Type



- → Private real estate transaction volume for properties valued over $2.5 million accelerated considerably in the fourth quarter of 2024 to $145.5 billion, representing a significant increase of over $47 billion from the prior quarter and the highest quarterly transaction volume total since the fourth quarter of 2022.
- → Transaction volume increased across all sectors during the fourth quarter, with the exception of hotel activity, which remained relatively stagnant. Multifamily and industrial saw the largest increases in transaction volume in Q4 2024 and continue to constitute the property types with the highest activity overall, representing $50.1 billion and $42.0 billion, respectively, of transaction volume in the fourth quarter.
- → The fourth quarter upsurge in transaction volume corresponds with the multiple rate cuts that occurred from September through December of 2024, making financing for real estate transactions both more attractive and readily available.

Source: PREA

NPI Returns by Property Type
(As of December 31, 2024)

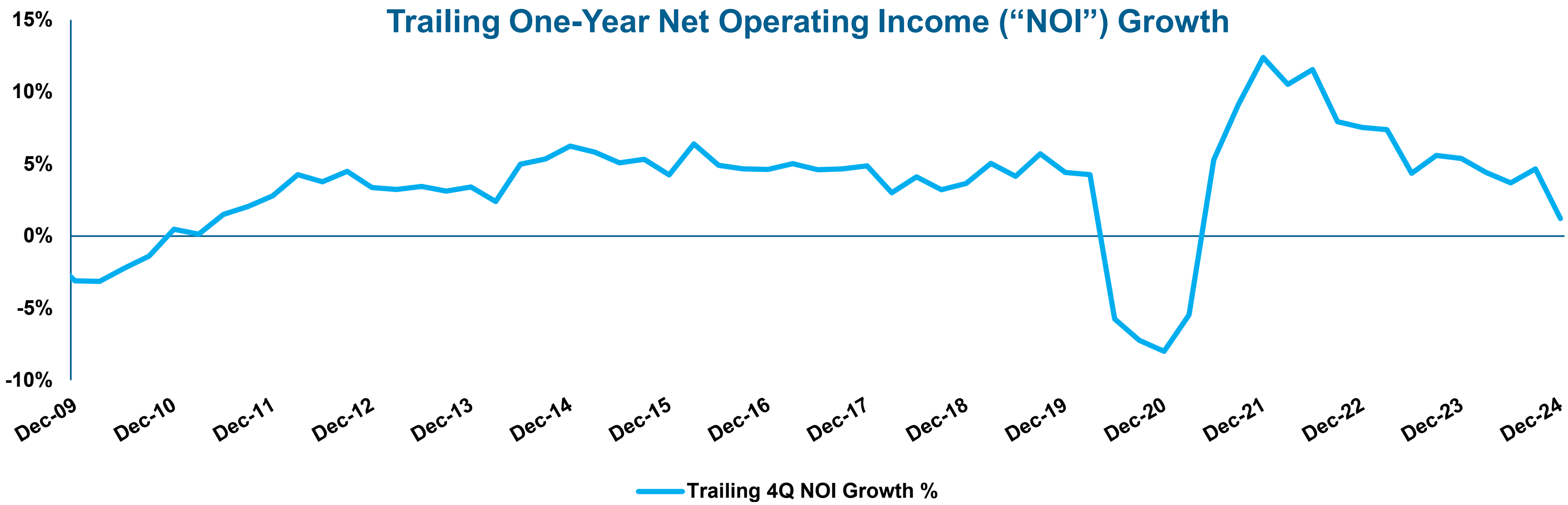


→ As of Q4 2024, the NCREIF Property Index ("NPI") generated a 0.4% trailing 12-month return, primarily diluted by the meaningful underperformance in the office sector, which posted a -7.7% return over the same time period. Office is the only sector with negative property-level returns across any of the three presented time periods.

→ Over the past few years, the hotel and retail sectors have exhibited outsized returns relative to their counterparts, demonstrating positive post-COVID rebounds as consumers return to travel and storefronts.

→ Over the longer-term, the industrial sector is a pronounced outperformer, having generated a 12.6% return over the last five years, as of Q4 2024, with multifamily trailing in second place at 4.2%.

Source: NCREIF



→ Following the GFC, annual income growth rates were relatively steady, hovering in the 2% to 5% range leading up to the COVID pandemic.

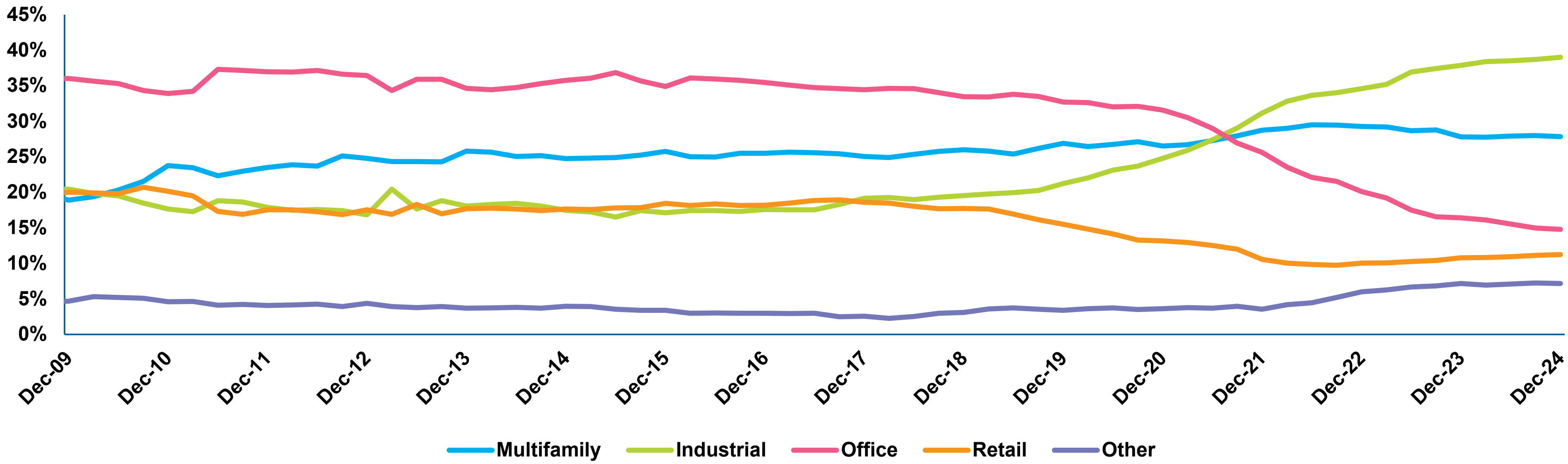
→ NOI Growth turned negative in early 2020, driven by dramatic declines in in-store shopping and a surge in remote office work. Many jurisdictions also established apartment eviction moratoriums, which led some renters to remain in place without making monthly payments.

→ NOI Growth bounced back in 2021 as shoppers returned to stores, eviction moratoriums were lifted, and in-office mandates were reinstated, for most, to at least 2 or 3 days in the office per week.

→ The overall trailing twelve-month NOI growth rate decelerated in Q4 2024 but remained positive at 1.2%. Generally, vacancies have increased and rent growth has slowed. Office continues to be the sole sector with a negative year-over-year NOI growth rate.

Source: NCREIF

Property Type Changes Within the Equal Weighted ODCE Index



→ The NFI-ODCE Equal Weight Index currently comprises 28% multifamily, 39% industrial, 15% office, 11% retail, and 7% in other property types, based on its net asset value ("NAV") as of Q4 2024.

→ Capital flows and values began to favor the industrial sector starting around 2017, at the expense of office and retail properties. The onset of the pandemic in 2020 further accelerated the decline in office and retail exposure, although the retail sector has experienced a recovery post-COVID given its strong fundamentals of low supply, high demand, and strong rent growth, particularly in neighborhood and community centers.

→ Other property types, including self-storage, healthcare, and senior housing, have continued to gain traction over the last several years as managers seek to re-allocate office dollars and diversify their portfolios beyond traditional multifamily and industrial.

Source: NCREIF

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