

Investment Recommendation

SERS’ Investment Office Staff and SERS’ Real Estate Consultant, NEPC, recommend that the State Employees’ Retirement System Investment Committee interview LEM Capital (“LEM”, the “GP” or the “Firm”) at the December 7, 2021 Investment Committee Meeting to consider a potential commitment of up to \$75 million to LEM Multifamily Fund VI, L.P. (“LEM VI” or the “Fund”), subject to the satisfactory completion of legal due diligence and contract negotiation. SERS has previously committed \$25 million to LEM Multifamily III. LEM VI is targeting \$350 million of capital commitments, with a hard cap of \$450 million in commitments.

Investment Rationale

Staff believes LEM VI represents a strong candidate for SERS’ capital commitment as it offers:

- Additional exposure to a high-quality private investment manager that has generated strong net returns;
- Additional exposure to a private investment manager that outperforms private peers and public market indices.
- Exposure to a secular growth market with expected tailwinds.
- Exposure to a sector that has shown resiliency throughout market cycles.
- Increased exposure to the multifamily sector which is currently underweight in the portfolio.

Investment Risks

Staff identified the following potential risks of a commitment to LEM VI:

- The changing macroeconomic backdrop could negatively impact future returns.
- Recent turnover at the firm.
- Concentration at the sector and fund levels due to fund strategy and size.

Portfolio Implications

A commitment to LEM VI would be considered a 2021 vintage allocation to a fund which is categorized in the Real Estate asset class and Value-Add/Opportunistic sub-asset class. As of June 30, 2021, SERS’ exposure to the Value-Add/Opportunistic sub-strategy represented approximately 47.9% of the total Real Estate portfolio.

The following two charts highlight the proforma effect a commitment to the Fund is expected to have on sub-strategy allocation within the Real Estate portfolio.

