



Investment Committee Memorandum

Rubicon First Ascent LP

Real Estate Asset Class

Recommendation

The SERS' Investment Office ("Staff") and NEPC recommend that the Board approve an investment in Rubicon First Ascent, LP of up to \$30 million and that the Board approve an investment in Rubicon First Ascent, Side-car LP of up to \$20 million, subject to successful contract negotiations

Both commitments will be considered a 2020 allocation to the Value-Add/Oppportunistic subcategory of the Real Estate portfolio and is consistent with SERS' strategic plan and pacing schedule.

Overview

Rubicon Point Partners, LLC (the "Manager" or "Rubicon") is a boutique real estate investment company investing in office and mixed-use properties in the San Francisco Bay Area and Pacific Northwest. Rubicon was formed in 2011 and is co-managed by Ani Vartanian and Razmig Boladian. Since its formation Rubicon has acquired \$910 million in real estate through separate account arrangements with institutional investors. The firm has a focused investment approach, targeting up & coming locations with value created through hands-on repositioning, operations and management. Rubicon targets innovation-driven markets that benefit from employment multiplier effects and changing demographics.

Rubicon is a vertically integrated investor and manager of commercial real estate, directly repositioning and improving the operations of the investments purchased. The firm's expertise extends from construction management to property and operations management to tenant service management. Lastly, Rubicon invests time and resources to develop technology and data tools which enhance and provide for a competitive advantage in the acquisition and asset management of the firm's strategies.

Investment Thesis

Rubicon Partners has a history of strong performance having generated a 37% IRR and 1.7x MOIC since inception. The SERS investment team believe this performance is indicative of the Firms vertically integrated capabilities and expertise which spans from construction management to property and operations management to tenant service management. All of which contribute to their ability to continue generating strong performance across cycles and various market environments.

The strategy is also a great fit for SERS' portfolio as it further accomplishes the goal of diversifying the geographic and asset type exposure within the portfolio. Additionally, SERS structured a sidecar investment vehicle to invest alongside the main fund and is projected to reduce SERS' management fees throughout the duration of the fund. Lastly, Rubicon is a diverse manager/firm who operates in the middle-market, targeting investments between \$15-50 million, an area shown to be less efficient, due to lesser competition from institutional investors.

Investment Risk & Mitigants

Typical risk factors as well as mitigation techniques specific to Rubicon are summarized in Table 1 below.

Table 1 – Risk Factors

TYPICAL RISKS	MITIGATING FACTORS
Market Risk	Historical peak-to-trough on rents are studied as well as vacancy and sub-lease rates. During each acquisition, Rubicon’s underwriting includes a downside scenario that reflects deep drops in market rent, reflects long lease-up time, high TI costs, cap rate movements, and interest rate impacts, to name a few. The opportunity must still offer a viable return in a downside scenario to be approved by its internal investment committee.
Portfolio Risk	Fund limitations: <ul style="list-style-type: none"> ○ Invest no more than 25% of commitments in any single investment ○ Geographically focused in San Francisco Bay area, and the Pacific Northwest ○ Invest no more than 25% of commitments in the Pacific Northwest ○ Leverage is capped at 70% at the fund and asset level ○ Invest no more than 10% of aggregate commitments in ground-up development
Exit Risk	Identify exit strategies during due diligence and continually monitor capital markets for opportunities. At the time of every acquisition, the Rubicon team is already thinking about the asset’s disposition strategy. Analysis is done throughout the investment process as to whether to hold or sell. There are times when the asset is sold earlier than planned but only because buyers are willing to price through asset-level execution risk. Similarly, there are times when the disposition is delayed due to market considerations, improving cash flow, or strong financial markets.
Credit Risk/Tenant Risk	Rubicon runs its 8-factor tenant risk model on each tenant that is being acquired. Rubicon then runs scenarios on the impact of its underwriting if the tenant were to vacate. In some cases, it is more accretive for a tenant to vacate than to stay.
Financing Risk	Rubicon looks to secure an executed term sheet prior to going non-refundable on any investment. Further, there is strong preference at Rubicon to work with a relationship bank over a debt fund or syndicating lender.
Currency Risk	N/a, The Fund will be denominated in US dollars

SERS' Portfolio Risk

From a portfolio risk perspective, an investment in the Fund is expected to lower the total risk of SERS' Real Estate Portfolio and by extension, the plan risk, through increased diversification to the asset class. Additionally, the timing of the investment further supports SERS' continued dedication to consistent investing over time, increasing vintage year diversification. Lastly, the relatively low equity correlation and inflation hedging characteristics of real estate investments are an important part of diversification from a total portfolio risk perspective.

Portfolio Implications – Asset Allocation

From a portfolio perspective, an investment in the Fund would slightly increase SERS' strategy exposure to value-add opportunistic strategies as well as increase SERS' geographic exposure to United States and SERS' sector exposure to Office assets. Furthermore, SERS' current exposure to the office sector is heavy tilted towards the east coast. A commitment to the fund compliments our current exposure by increasing our west coast office exposure and decreasing our overweight exposure to the east coast.

Management Team

Ani Vartanian, *Managing Partner*. Ani co-manages Rubicon Point. Ani focuses on investment selection and disposition, transaction underwriting and structuring. Prior to co-founding Rubicon Point Partners in 2011, Ani served in the Obama administration where she led a team responsible for the \$200 billion TALF program and restarting the securitization market during the height of the recent financial crisis on behalf of The U.S. Department of the Treasury. Previously, Ani was with Rockwood Capital, where she was involved with acquisitions, asset management, and establishing a \$400 million separate account on behalf of a state pension fund. Ani began her career at Goldman, Sachs & Co. Ani has a BA from Stanford University and an MBA from Harvard Business School.

Razmig Boladian, *Managing Partner*. Razmig co-manages Rubicon Point and is responsible for strategic planning, portfolio management and capital markets. Under Razmig leadership, RPP executed 1.5 million SF in new leases, closed in excess of \$300 million in financings, and completed \$52 million in construction projects. Prior to Rubicon, Razmig co-founded Roland Berger Strategy Consultants' Middle East practice and served as Partner and Saudi Arabian Country Manager. Razmig began his career at Deloitte. Razmig has a BE from American University of Beirut, an MS from Carnegie Mellon University and an MPA from Harvard Kennedy School.