



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 21

**MEETING DATE:** May 18, 2022

**SUBJECT:** Real Estate Investment Consultant Contract

**SUBMITTED FOR:**  Consent  **Deliberation** and Action  **Receive** and File

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### **RECOMMENDATION**

Staff recommends the Board renew and extend the contract with The Townsend Group (Townsend) for real estate investment consulting services, for a three-year term, and authorize the Chief Executive Officer to execute documents necessary to update the contract.

### **PURPOSE**

This agenda item supports the 2022 Annual Investment Plan, and contributes to the effective management and oversight of investment activities. The Board is responsible for approving contracts with its consultants, auditors, actuaries, and investment managers.

### **BACKGROUND**

In August 2012, SCERS hired The Townsend Group as its first dedicated real estate consultant. The contract with Townsend was amended in 2015 to reflect a merger with NorthStar Asset Management. Townsend was subsequently acquired by Aon in 2017, and the contract with Townsend was also amended and extended in 2017 and 2019. The current contract expires June 30, 2022.

Specific duties of the real estate investment consultant include:

- Development of goals, strategy, objectives, and policy for SCERS' real estate program
- Planning and design of optimal and prudent real estate allocations
- Collaboration with SCERS' Staff, SCERS' Board, general investment consultant and alternative assets consultant, and advisors, in incorporating the strategic plan for real estate across asset classes
- Development of operating policies and procedures for the real estate program
- Due diligence on funds and other investment structures for the real estate program
- Review, analysis, evaluation, and recommendation of potential sale candidates from within the real estate program holdings

- Monitoring of SCERS' real estate investments, and analysis and reporting of performance
- Research and analytics on current market events
- Board education

## **DISCUSSION**

Staff has been pleased with the performance of Townsend as SCERS' dedicated real estate investment consultant. Townsend has assisted SCERS in formulating a long-term strategic plan for its real estate portfolio, including managing a core separate account portfolio of individual real estate properties held by SCERS, developing a thoughtful approach toward implementing within non-core and non-U.S. real estate markets, assisting in designing real estate policy benchmarks, performing due diligence and recommending real estate funds, and providing performance results and analysis. Townsend also assisted SCERS in formulating and implementing a plan to unwind its core separate account real estate portfolio in 2018, in favor of allocating to core real estate exclusively through open end commingled funds. Townsend has assisted SCERS in developing a well-diversified and differentiated real estate program that has generated strong returns on an absolute and relative basis.

Real estate is an asset class with unique characteristics and idiosyncratic risks that necessitates having a dedicated consultant. SCERS takes a global approach with exposure to several niche strategies and property types that requires the expertise and resources of a dedicated real estate consultant. Staff believes that Townsend provides significant depth and breadth of coverage among dedicated real estate consultants, and has meaningful resources deployed globally to assist SCERS in managing its real estate program.

While it is prudent to stay educated on the broader real estate investment consulting market, Staff believes that conducting a competitive search for real estate consulting services is not needed at this time. Staff therefore recommends that SCERS enter into a three-year contract renewal with Townsend for real estate consulting services, and update the language, scope of services, and terms within the contract as needed.

While the recommended contract term for Townsend is three years, the contract will have language that gives either party the ability to terminate the engagement upon notice. With this flexibility, SCERS will have the ability to evaluate Townsend on an ongoing basis, and consider a competitive search if needed.

Within the current contract, Townsend's annual fee is \$225,000 (as of 2019) with a 2% annual escalator. Townsend has proposed maintaining the existing annual fee structure for the renewed contract with SCERS; however with an increase in the annual escalator from 2% to 3%. Staff believes that this is a reasonable request, and it would be in with the 3% annual escalator that Verus proposed.

The current Townsend consulting team for SCERS of Chris Cunningham (lead consultant) and Richard Brown (co-lead consultant) will be reflected as the consulting team for SCERS in the

renewed contract. Jennifer Stevens is the named consultant for SCERS in the current contract; however, Ms. Stevens left Townsend in 2020.

**ATTACHMENT**

- Board Order

Prepared by:

/S/

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Steve Davis  
Chief Investment Officer

Reviewed by:

/S/

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Eric Stern  
Chief Executive Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
May 18, 2022

AGENDA ITEM:

### Real Estate Investment Consultant Recommendation

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to renew and extend the contract with The Townsend Group for real estate investment consulting services, for a three-year term, and authorize Chief Executive Officer to execute documents necessary to update the contract.

I HEREBY CERTIFY that the above order was passed and adopted on May 18, 2022 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

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Richard B. Fowler II  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary