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Memorandum

To: Nebraska Investment Council ("NIC")
From: Chae Hong; Jack Dowd
CC: Matthew Hooker
Date: June 8, 2023
Re: Oaktree Real Estate Opportunity Fund IX – \$64 million Commitment Recommendation

Background and Recommendation

In accordance with the Nebraska Investment Council ("NIC") Annual Investment Plan, a total of \$64 million of non-core capital is recommended to be deployed to the Defined Benefit/Cash Balance Benefit ("DB/CBB"), 50/50 & Healthcare Endowments ("Endowments"), and Omaha School Employees' Retirement System ("OSERS") in 2023. Following a detailed review of the Plans' existing non-core real estate exposure, The Townsend Group ("Townsend"), an Aon Company, is recommending that the DB/CBB plan commit \$50 million, the 50-50 endowment commit \$2 million, the Healthcare Endowment commit \$2 million, and OSERS commit \$10 million subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on our due diligence of the Fund and is supported by our Investment Summary included as **Attachment A**.

Oaktree Real Estate Opportunities Fund IX (the "Fund") is being established by Oaktree Capital Management L.P. ("Oaktree" or the "Sponsor") as the next vehicle in its series of global opportunistic funds. The \$5 billion Fund will target a levered 21-23% gross IRR (15-17% net) and 1.9x gross equity multiple. The Fund will focus on a diversified credit distress oriented strategy targeting opportunistic returns in commercial and residential real estate through distressed debt acquisitions, rescue financings, discounted securities purchases, and equity recapitalizations. The Fund will also acquire/develop new assets on a direct basis through joint venture operating partner relationships. Investments may be in hard assets through single or portfolio acquisitions or in debt or equity of corporate platforms. The strategy will focus primarily on U.S. opportunities but will include a global component executed via dedicated Europe and Asia teams.

Attachment A



Real Estate Investment Summary

Oaktree Real Estate Opportunity Fund IX

An Opportunistic Equity and Credit Distress Fund

March 2023

EXECUTIVE SUMMARY

OVERVIEW

Date	Rating	Prior Fund Rating
March 2023	Buy	Buy

Oaktree Real Estate Opportunities Fund IX (the “Fund”) is being established by Oaktree Capital Management L.P. (“Oaktree” or the “Sponsor”) as the next vehicle in its series of global opportunistic funds. The \$5 billion Fund will target a levered 21-23% gross IRR (15-17% net) and 1.9x gross equity multiple.

The Townsend Group, an Aon Company. (“Townsend”) has reviewed and performed an in-depth analysis of the above categories which includes, but is not limited to:

- Retention of Limited Partners
- Institutional Investor Representation
- Management Company Ownership
- Consistency/ Volatility of Returns
- Write-offs
- Transaction Experience in Strategy
- Organization Expenses
- Management Fee
- Incentive Fees/ Waterfall Distribution
- Fund Size
- Sponsor Commitment
- Ability to Create Value in Deals
- Valuation Discipline
- Reporting Transparency
- Back-Office Resources
- Investment Period
- Fund Term
- Key Person Provision
- Turnover/Tenure
- GP Attribution Concentration
- Fault Provisions
- Advisory Board
- Priority of Distributions
- Alignment of Partner Interest
- Firm Leadership

In addition, Aon Investments, USA’s Operational Due Diligence team has reviewed the Firm from an operating perspective and has given Oaktree a Pass rating.

RECOMMENDATION

In accordance with the Nebraska Investment Council (“NIC”) Annual Investment Plan, a total of \$64 million of non-core capital is recommended to be deployed to the Defined Benefit/Cash Balance Benefit (“DB/CBB”), 50/50 & Healthcare Endowments (“Endowments”), and Omaha School Employees’ Retirement System (“OSERS”) in 2023. Following a detailed review of the Plans’ existing non-core real estate exposure, The Townsend Group (“Townsend”), an Aon Company, is recommending that the DB/CBB plan commit \$50 million, the 50-50 endowment commit \$2 million, the Healthcare Endowment commit \$2 million, and OSERS commit \$10 million subject to completion of a legal review and satisfactory agreement of terms.

Sponsor:

HQ Location	Los Angeles, CA	Parent	Brookfield Asset Management
Ownership	Public, with minority stake privately held by employees	Founded	1995
Gross AUM (Dec 31, 2022)	\$169 billion (16.4 billion RE)	Employees	1,100+

Organization: Real Estate group (the “Manager”) within a diversified global investment management firm drawing on firmwide credit expertise and shared operations infrastructure.

Fund/Portfolio Characteristics:

Vehicle Structure	Closed-end commingled fund	Risk Segment	Opportunistic
Targeted Size	\$5 billion to \$6 billion	Sponsor Co-Invest	2.5% up to \$100M
Fund Term	10 Years	Investment Period	4 years
Avg Deal Size	\$50M	Typical Business Plan	3-5 year hold

Fees

Management Fee	1.5% on Committed then Invested Discounts available for First Close and TTG aggregate commitment size	Incentive Fees	8% preferred return; return of capital 60% GP Catch-up 80% LP / 20% GP thereafter
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Primary Strategy: The Fund will focus on a diversified credit distress oriented strategy targeting opportunistic returns in commercial and residential real estate through distressed debt acquisitions, rescue financings, discounted securities purchases, and equity recapitalizations. The Fund will also acquire/develop new assets on a direct basis through joint venture operating partner relationships. Investments may be in hard assets through single or portfolio acquisitions or in debt or equity of corporate platforms. The strategy will focus primarily on U.S. opportunities but will include a global component executed via dedicated Europe and Asia teams.

SPONSOR

OVERVIEW

Oaktree Capital Management is a global alternative and non-traditional investment manager founded in 1995 by six co-founders that left TCW to form a new company. Founder ownership was diluted and the equity base was expanded through private placements of equity interests in 2004 and 2007, and later an IPO in 2012 (previously NYSE: OAK). Brookfield Asset Management (NYSE: BAM) acquired a 61% interest in Oaktree in 2019, inclusive of the public shares, shares from the institutional private placements, and non-public interests held by current and former Oaktree employees. Brookfield agreed to purchase the remaining 39% held by employees over a defined schedule through 2029. As of Dec 31, 2022, Brookfield held 64.2% of Oaktree. Despite having certain overlapping product offerings, the two platforms operate completely independently aside Brookfield representation on the Oaktree board of directors.

- AUM: Over \$169 billion in AUM in Credit (64%), Real Assets (12%), Private Equity (9%), Listed Equity (4%) and a 20% interest in multi-strategy fund manager DoubleLine Capital accounting for 11% of AUM.
- Staffing: The firm has nearly 1,200 employees; headquartered in Los Angeles with 22 other offices across the U.S., Europe, Middle East, and Asia Pacific.

REAL ESTATE GROUP

The Real Estate group has 61 professionals in six offices including Los Angeles (32), New York (12), London (10), Hong Kong (4), Sydney (2), and Tokyo (1).

- Coverage of investments is organized in a “matrixed” coverage model where personnel are generally divided by specialty (commercial, residential, corporate platforms, opportunistic credit, and global ex-US) but also cover a particular region and/or property sector given a greater focus on JV equity in recent vintages. Professionals work across RE product lines in proportion to the given fund or account’s strategy focus.
- Product lines are comprised of the flagship opportunity fund series, a core/core plus equity OECF, and performing debt products including a closed-end and lower risk/return open-end vehicle.
- Real Estate AUM totals \$16.4 billion (net) as of December 31, 2022:
 - 50% in opportunistic, 29% in performing debt strategies, and 21% in core plus equity
 - 90% in commingled fund format, 10% in separate accounts and co-investment vehicles

John Brady leads the Real Estate group along with co-portfolio managers Ambrose Fisher and Todd Liker, who collectively have ultimate decision authority over the activity of the opportunity fund.

About Townsend Group – An Aon Company

Founded in 1983, The Townsend Group provides custom real asset solutions that help clients worldwide achieve their unique investment goals. As an Aon company, The Townsend Group is now part of one of the top three outsourced chief investment officer (OCIO) providers in the world measured by global assets under management. Aon's Investment organization, including Townsend, manages more than \$130 billion of worldwide assets under management and has advised on more than \$240 billion of real estate assets.

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