

Sacramento County commits to Euro debt

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The Sacramento County Employees Retirement System (SCERS) has made its first European real estate debt investment, committing \$50 million to DRC Capital's European Real Estate Debt Fund II. The investment was approved at a private meeting of investment staff on October 28.

The new commitment falls into SCERS' real assets portfolio. The \$7.4 billion county pension system currently allocates 15 percent to real assets, with private core real estate investments account for 4 percent to 9 percent. The real assets allocation also includes the option for value-added and opportunistic investments, which are made at the discretion of the investment staff and do not have a set allocation.

On the pension's decision to enter European real estate debt, SCERS chief investment officer Scott Chan said: "We like the market from the top down. It's a lower risk scenario with very good yield."

Chan and the SCERS investment staff, under the advisement of The Townsend Group, selected London-based investment firm DRC Capital from 10 finalists in the debt space. DRC founders Dale Lattanzio, Cyrus Korat and Rob Clayton spun out from London-based Duet Private Equity to create the independent firm in March 2012. "They're a very experienced team and we liked that," said Chan. "Most managers in European real estate debt have shorter track records. Only a handful of folks got in early."

DRC managed its first vehicle in partnership with Duet, closing on £300 million in equity commitments. The firm's second offering, which is targeting £400 million, is expected to follow a similar strategy to the first, providing mezzanine financing for core commercial real estate, primarily in the UK and Germany and selectively in the rest of Europe. Other institutional investors in the fund include the New Mexico Public Employees Retirement Association, which made a £26 million investment to the fund in June.

SCERS' real assets portfolio represented 13.8 percent of total assets as of June, underweight to its 15

percent target. According to Chan, the pension system is “very likely” to close on an investment to another commingled core real estate fund by the end of this month.