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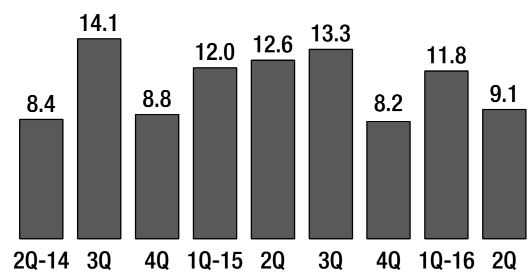
# Public Pensions Trimmed Pledges in Quarter

Turning cautious, public pensions cut back their equity contributions to high-yield real estate vehicles in the second quarter.

Pension systems committed $9.1 billion to commingled funds and separate accounts from April to June, down 24% from $12.6 billion a year earlier, according to **FPL Consulting** of Chicago. The first-half tally was $20.9 billion, down from $24.6 billion in last year's first half.

"I don't want to blow it out of proportion, but it is a pullback," said FPL principal **Timothy Kessler.** "I'm hearing a lot more cautiousness now than I did even three months ago or six months ago. Whether it's Brexit, the election, terrorism — you name it. There's a sense of cautiousness in the world."

**Pension Pledges ($Bil.)**




Source: FPL Consulting

Signs of a pullback emerged in the fourth quarter, when pledges plunged 35% from the average of the three previous quarters, to $8.2 billion. However, commitments rebounded to $11.8 billion in the first quarter, bucking expectations.

But now a pullback seems to be taking hold, said Kessler, adding: "I don't expect a big pop in the third quarter. This is the new normal for now because nothing's going to get resolved in the next quarter."

Still, even with the decline, Kessler noted, commitments are on pace for the second-highest total since FPL began tracking pledges in 2012. The highest level, set last year, was $46.2 billion.

In the first half, institutional investors shied away from core investments in favor of high-yield plays. Equity commitments to core vehicles plunged to 6% of the total, from 30% in full-year 2015. Meanwhile, value-added and opportunistic plays accounted for 78% of pledged dollars, up from 64%, and core-plus investments quadrupled, to 16%.

"A lot of people think the true core assets are too pricey," Kessler said. "The emergence of core-plus reflects that and is still consistent with a conservative outlook."

Some 59% of commitments went to closed-end vehicles in the first half, up from 50% for full-year 2015. The rest was pledged to open-end funds, joint ventures and separate accounts.

Vehicles targeting a single asset class attracted just 13% of commitments, half the level of full-year 2015. Among such vehicles, 51% of pledged dollars went to multi-family strategies, up from 40%. Niche funds — which invest in nontraditional assets, including medical offices, senior-living facilities and student housing — garnered 27% of commitments, up from 19%. The rest of the capital went to vehicles investing in the following property types: industrial (16%, down from 24%) office (6%, down from 8%) and retail (1%, down from 10%).

Vehicles targeting investments in North America received 55% of the first-half pledges, down from 65% for full-year 2015. Globally focused vehicles nabbed 27% of pledges, in line with last year. European-focused vehicles received 14%, up from 6%, with the remaining 4% going to Asian vehicles. The report attributed part of the jump in European investments to large equity closes in the quarter held by funds sponsored by **Blackstone, Kildare Partners** and **Patron Capital.**

FPL tracks 191 pension systems with $260 billion of real estate assets and $3.3 trillion of total assets under management. That is believed to represent the vast majority of real estate assets held by public pension systems. The research firm will release a report summarizing its findings this week. ❖