

Memorandum

MEETING DATE

JUN 01 2011

AGENDA ITEM

#6

Date: May 25, 2011
To: CCCERA Board of Retirement
From: Cary Hally, Retirement CIO; Chih-chi Chu, Investment Analyst
Subject: Fidelity/Long Wharf Sub-advisory Agreements for Fidelity Real Estate Growth Fund II & III

Recommendation

We recommend approval of the request from Fidelity (Pyramis) to enter into sub-advisory arrangement with Long Wharf Real Estate Partners, LLC to manage Fidelity Real Estate Growth Fund II & III, subject to satisfactory legal review.

CCCERA's Investments

In 2004, CCCERA made a \$50 million commitment in Fidelity Real Estate Growth Fund II (FREG II). The fund is now fully invested and has 21 assets remaining to be liquidated. In 2007, CCCERA made a \$75 million commitment in Fidelity Real Estate Growth Fund III (FREG III). The fund is currently 70% invested and has 19 assets.

Key Terms of the Proposal

Under the proposed sub-advisory arrangement, Fidelity will remain General Partner (GP) of both FREG II & III. It will enter into sub-advisory arrangement with Long Wharf Real Estate Partners, LLC (Long Wharf), a newly formed entity owned and controlled by key employees of the funds: Michael Elizondo, Jeff Gandel, Jeff Tapley, John Barrie, and others. Long Wharf will be capitalized with at least \$2,000,000 of initial equity from its management team. Going forward, Fidelity will remit 100% of the management fees for FREG II & III to Long Wharf, and reimburse Long Wharf for related operating costs related to managing the funds. Remaining as GP, Fidelity is entitled to receive carried interest, if any, related to FREG II & III. Fidelity will also retain its existing capital interest and commitment to FREG III (FREG II's capital is fully called). Pyramis will remain as investment manager and have oversight of Long Wharf, but will delegate all the investment and operating responsibilities to Long Wharf.

Overview

The sub-advisory proposal is consistent with the thoughts presented to the board from the fund management team back in 2008. With Fidelity remaining as GP, the proposal will not relinquish Fidelity's obligations to funds' Limited Partners. The sub-advisory arrangement will officially delegate all the management duties of both funds to the existing key employees of the funds. Within Fidelity, the real estate group has been operating as an independent group since 2008.

The whole process of the sub-advisory arrangement was lengthened due to the necessary steps to obtain consent from certain lenders involved in the real estate transactions which had change of control clauses in the loan documents. The last consent from the lenders was gathered in late March this year.