Date: August 19, 2026
To: Board of Retirement
From: F. Robert Reveles, Retirement Financial Investment Officer
Subject: Second Quarter 2026 Real Estate Update and Manager Characteristics

Recommended Action:

Receive and file.

Fiscal and Financial Impacts:

There is no financial impact to receiving this informational item.

Strategic Plan Importance and Risk Assessment:

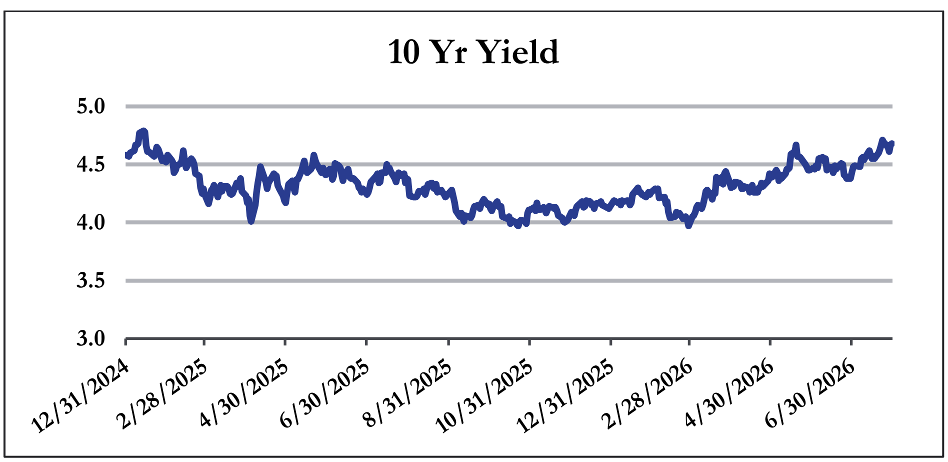
This report pertains to Goal 1 – Protect the Plan's long-term financial health and Goal 2 – Strengthen Risk Oversight.

Background and Discussion:

The second quarter of 2026 saw the real estate composite underperform the benchmark by 30 basis points (bps), returning a net 1.00%, while the NFI-ODCE returned a net 1.30%. For the fiscal year 2026, the real estate composite returned a net 4.63%, outperforming the benchmark return of a net 3.54% by 109 bps.

10-Year Treasury Note Update

Over the quarter, the 10-Year yield rose from 4.30% to 4.44%. The chart below shows yield changes for the period from December 31, 2024, to July 30, 2026, over which the yield retraced its path and rose ten basis points.



Barings Update

The Barings strategy returned a net 1.09% for the quarter and net 4.06% over the past year.

Sector allocations relative to the NFI-ODCE are consistent with the previous update. Residential and Retail remain overweight, Industrial is neutral, and Office is underweighted. The strategy continues to believe these allocations are ideal.

Trailing-twelve-month same-store Net Operating Income (NOI) is up 5.8% year-over-year. Again, all sectors are positive except retail. Sector performance is led by Industrial (24.7%) and Self-Storage (18.6%). The fund's newest industrial assets, located in Texas and Florida, significantly contributed to NOI. The single self-storage asset continues to perform well. The two-building property located in downtown L.A. contains over 1,650 climate controlled units. The property is being operated by Extra Space Storage, a well known publicly traded self-storage operator. Rent controls put in place as a result of last year's wildfires were lifted during the quarter which has allowed management to begin moving rents closer to market. NOI is expected to increase as local demand remains strong, competing inventory is limited, and new supply is low. The Office sector increased 4.1%, while Residential is up 1.7%. The only sector that dropped was the Retail sector, which was down 7.7%. Trailing NOI dropped because the prior period included a large lease termination payment. Fund management expects retail NOI growth to be 3% by year end and 6% next year.

There were no acquisitions or dispositions over the quarter.

As mentioned in the last update, the fund continues to look for opportunities to expand into the alternative sectors of Self-Storage, Healthcare, Industrial Outdoor Storage (IOS), and Mezzanine Debt. Pipeline investments under review include Self-Storage assets in Chicago and Denver, Retail locations in Seattle, Washington D.C. and Orange County, and Residential complexes in Boston, Phoenix, and the Bay Area. The fund is also looking at an Industrial Outdoor Storage property in Boston.

As of quarter-end, the fund's redemption queue stands at about $440M. During the quarter, the strategy accepted $8.5M in new contributions, including reinvested dividends, and paid $15M in redemptions on July 1st, 2026 (of which we received almost $372,000). Management continues to expect to pay off the redemption queue by the middle of next year.

RREEF Update

The RREEF strategy returned a net 0.60% for the quarter and a net 4.62% over the past year.

Sector allocations relative to the NFI-ODCE changed little over the quarter. The strategy is overweight Industrial and Retail and underweight the Residential, Office, and Self-Storage sectors. DWS RREEF maintains its allocations relative to its internal house view. Compared to this view, Industrial and Office are at the top of their ranges, while Residential and Self-Storage are below the ranges. Only Retail is comfortably in the middle range. The strategy continues to work toward aligning the portfolio with the house view by selling non-strategic older buildings, developing residential projects, and finding attractively priced Self-Storage assets.

Management continues to diversify the portfolio by expanding into targeted niche sectors, including student housing, purpose-built single-family rental (SFR) homes, IOS, self-storage, and medical offices. The fund believes student housing, SFR, and IOS offer the strongest growth potential. This outlook is supported by favorable structural tailwinds, including low vacancy rates and counter-cyclical resilience in student housing, Millennial demographic shifts, low housing affordability, and severe supply constraints across the IOS and cold storage sectors.

The fund completed four dispositions during the quarter. Continuing its goal to reduce industrial overweight on the west coast, a building in Carson, CA was sold for nearly $95 million. A vacant land lot in New York City was sold for $199 million. To modernize the portfolio, the fund continues to sell older buildings. A retail building in Pennsylvania, built in 1962 and acquired in 2004, was recently sold for just over $15 million. And in Chicago, Illinois, a building built in 1985, acquired in 2015, was sold for just over $70 million. All the buildings had expected rental growth rates below their expense growth rates. The four dispositions totaled about $379 million.

Kayne Update

On July 1, 2026, Kayne issued a capital call for $1 million. This brings the total invested in the strategy to $21 million, with $4 million in uncalled committed capital remaining. Staff anticipate another capital call on October 1, 2026.

The portfolio returned a net 1.46% for the quarter and a net 2.91% over the first two quarters of calendar year 2026.

The strategy realized $675 million in May from the sale of an older, 2001-vintage senior housing portfolio consisting of seven properties in Florida. The proceeds were reinvested the following month into the Texas market, where the strategy acquired five senior housing assets totaling 1,546 units. Located in Dallas-Fort Worth and Houston, these new acquisitions comprise a mix of independent living, assisted living, and memory care facilities. Two of the properties closed in June, while the remaining three closed on July 1. The transaction expands the senior housing allocation by 10% to 33% of the portfolio, bringing the updated sector mix to 58% medical office, 33% senior housing, and 9% student housing

The Kayne strategy now contains 192 properties across 36 states, with half the portfolio strategically located in the five high-growth states of Florida, Texas, North Carolina, Georgia, and Tennessee. Overall occupancy remains high at 95.2%.

LaSalle Update

MCERA was accepted into the fund during the second quarter with an initial commitment of $6 million. Staff anticipate a partial capital call on October 1, 2026.

Additional Risk Statistics

Ending Q2 2026	Barings	RREEF	Kayne
Net Asset Value ($B)	$ 1.6	$ 11.5	$ 3.9
Leverage	27.2%	26.3%	24.0%
Trailing 12 Month Distribution Yield	3.2%	3.8%[1]	1.8%[2]
For the period Q1 2012 through Q2 2026			
Tracking Risk	2.7%	2.2%	N/A
Annualized Standard Deviation	5.8%	5.5%	N/A
Correlation with S&P 500	(0.1765)	(0.1968)	N/A
Correlation with S&P 500 (prior to Fed rate hikes)	(0.0971)	0.0012	N/A

Attachment:

1. Real Estate Portfolio Characteristics – 6/30/26

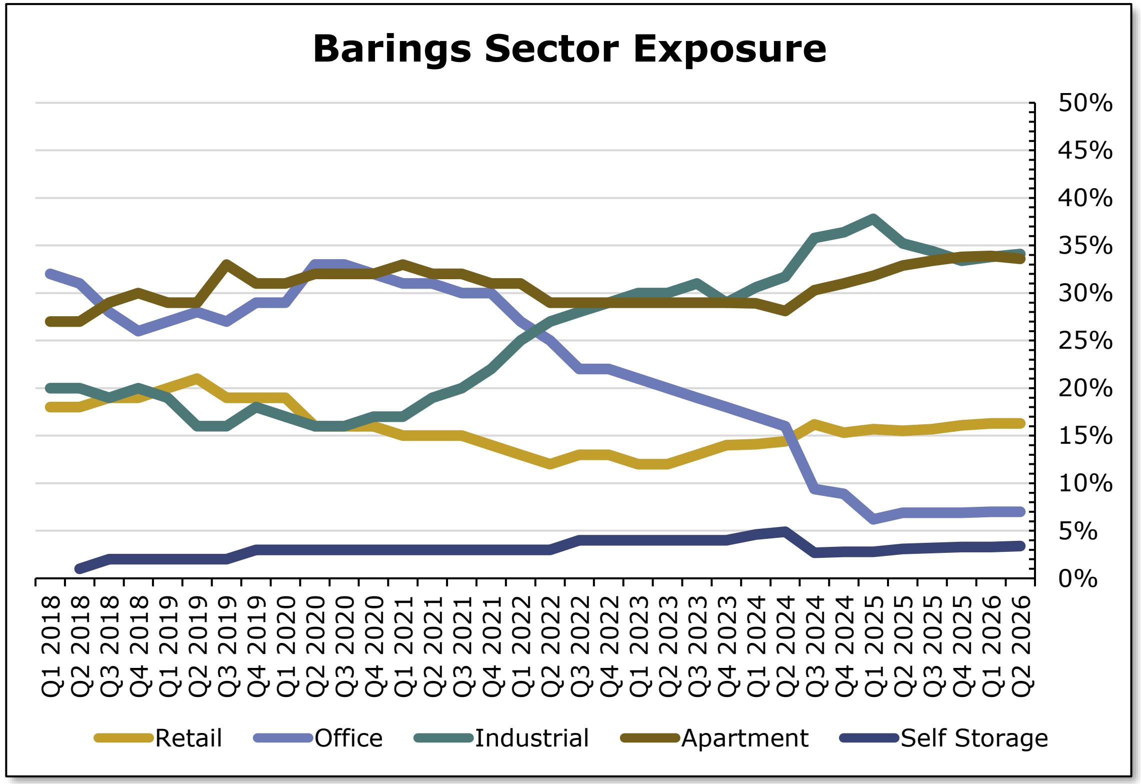
[1] Increased yield due to $5M redemption in February 2026

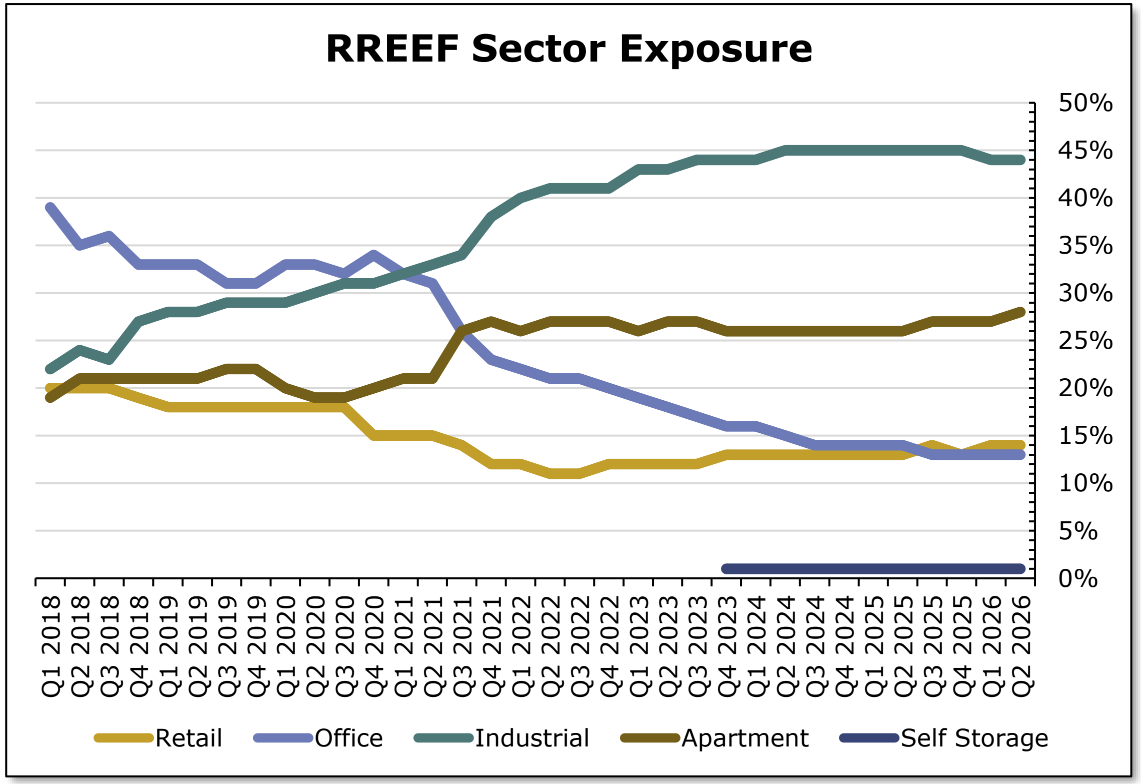
[2] Includes only Q1 and Q2 of calendar year 2026

Mendocino County Employees Retirement Association

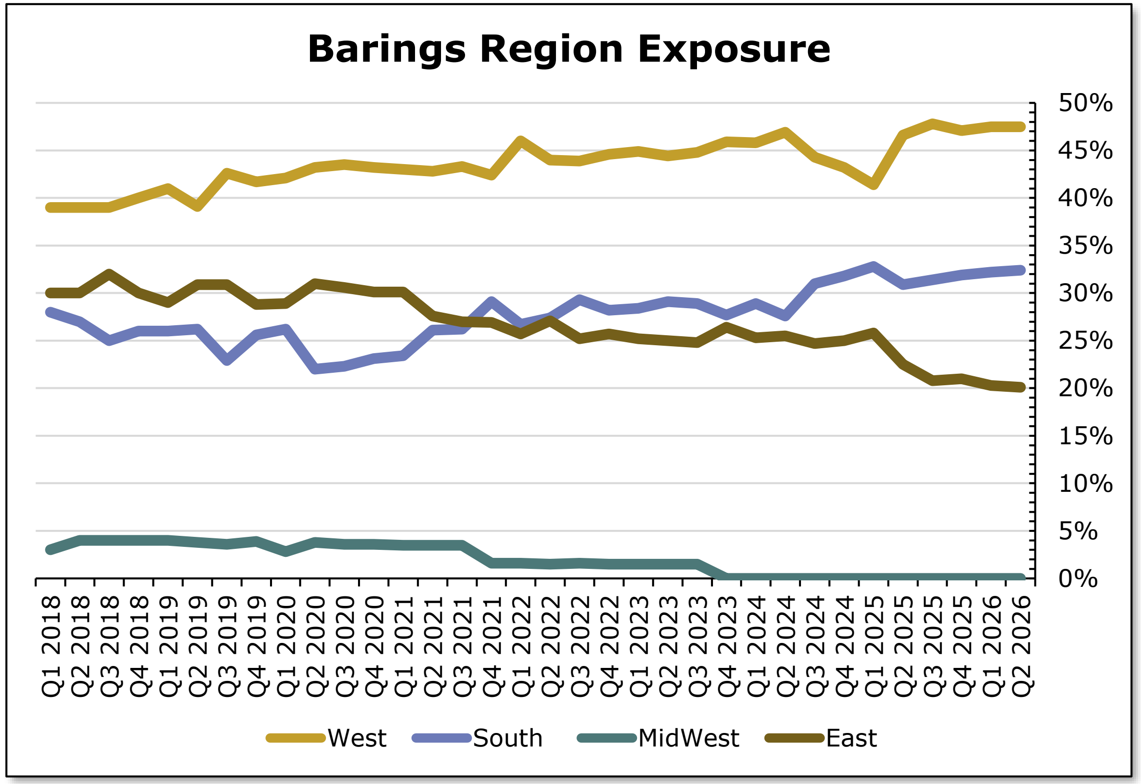
Real Estate Characteristics

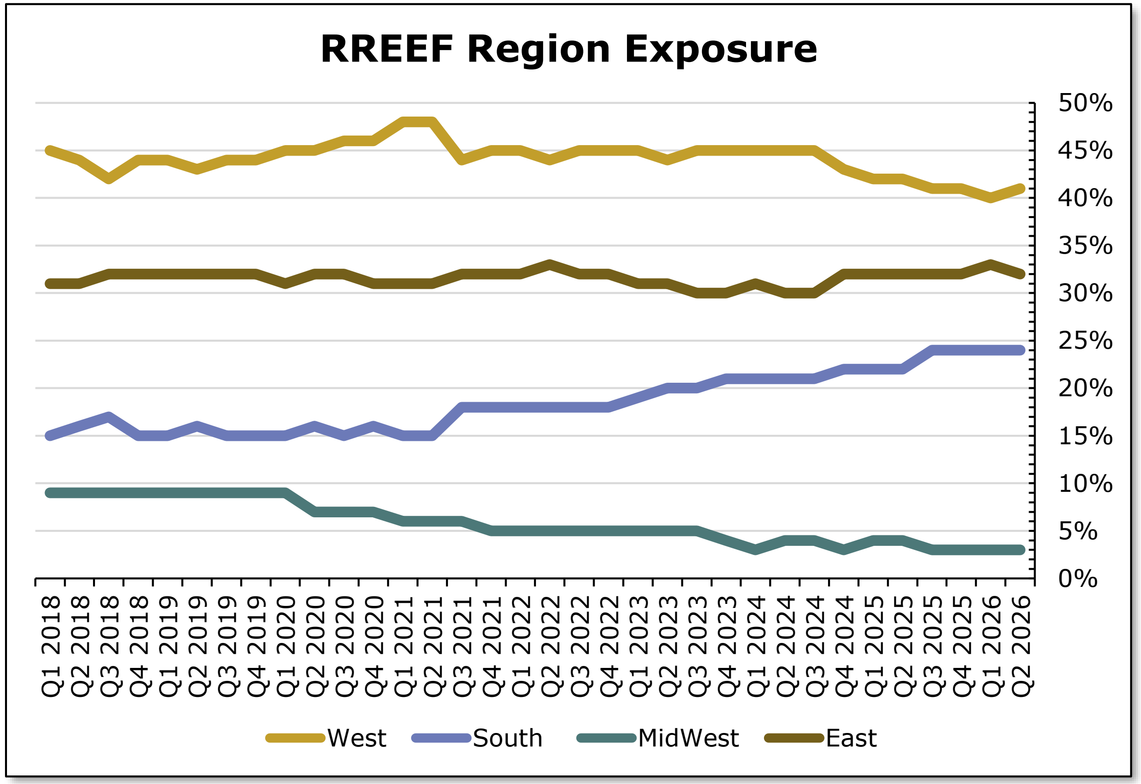
Sectors – 6/30/26



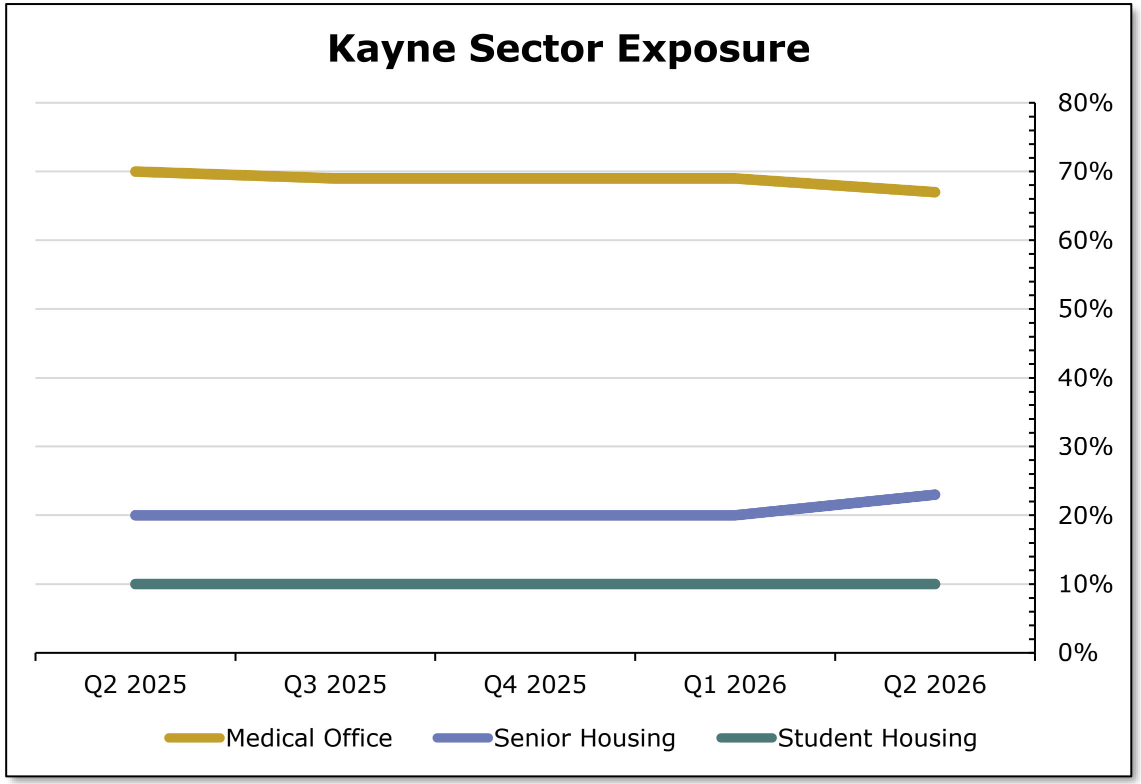


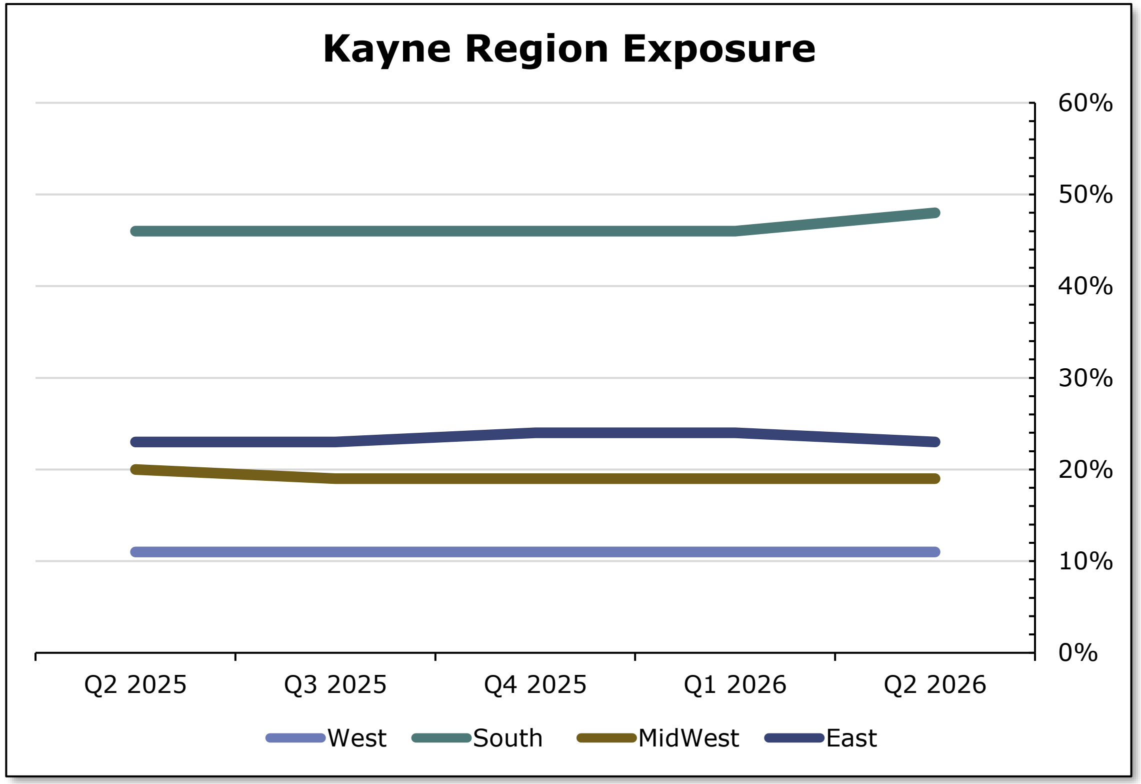
Regions – 6/30/26



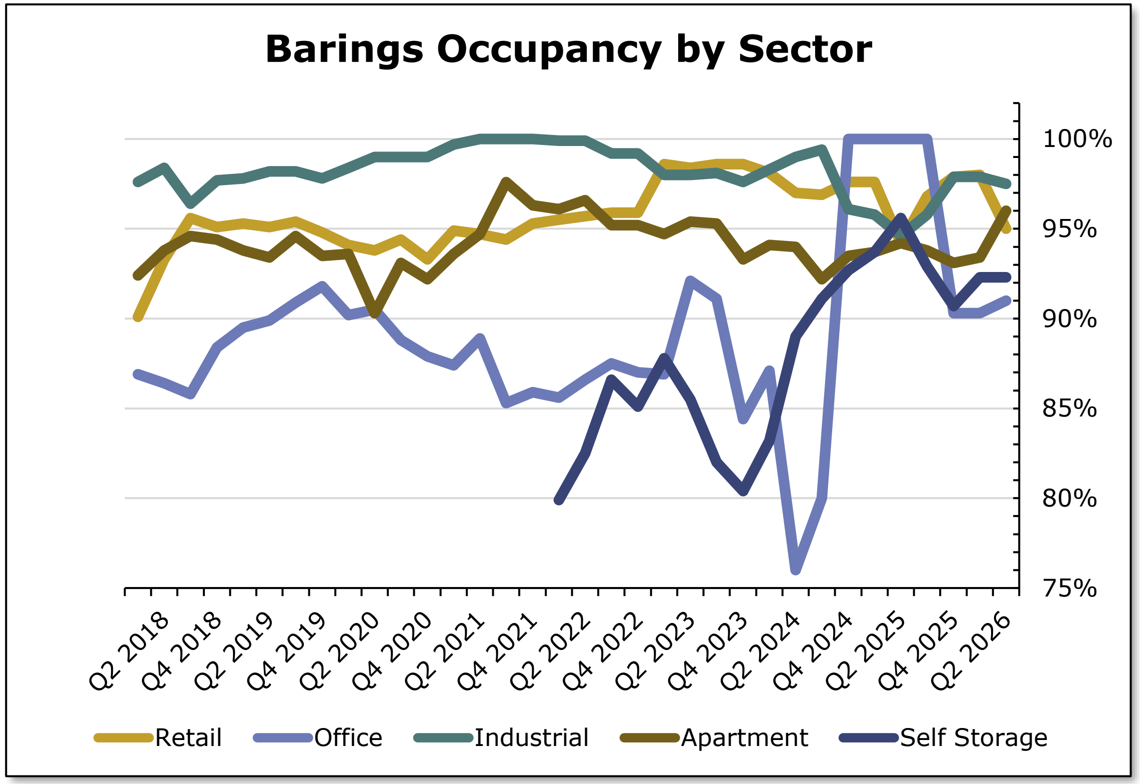


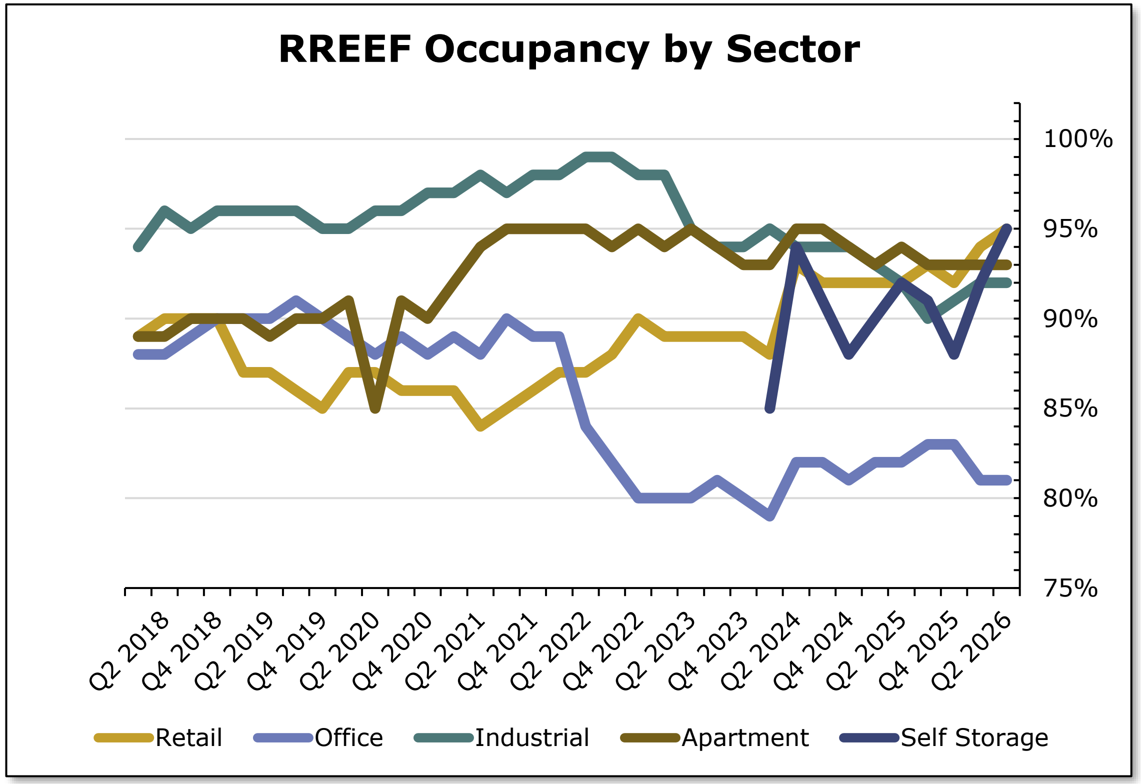
Sectors and Regions – 6/30/26



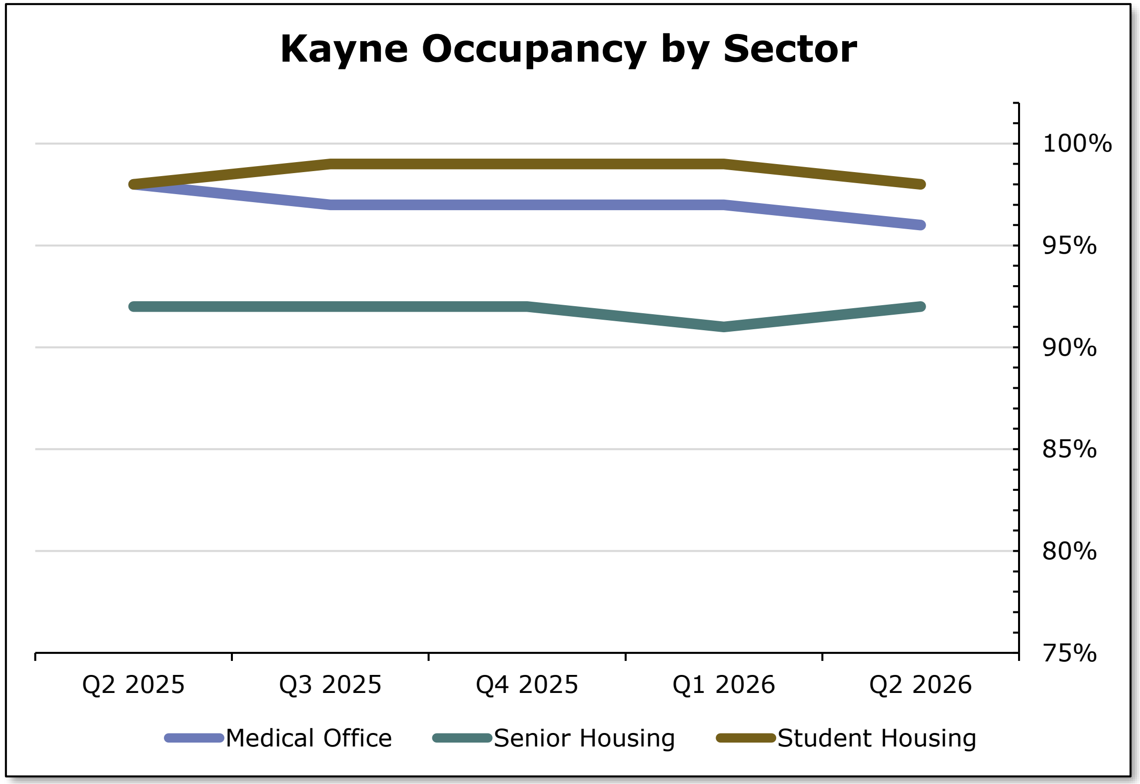


Occupancy Rates – 6/30/26

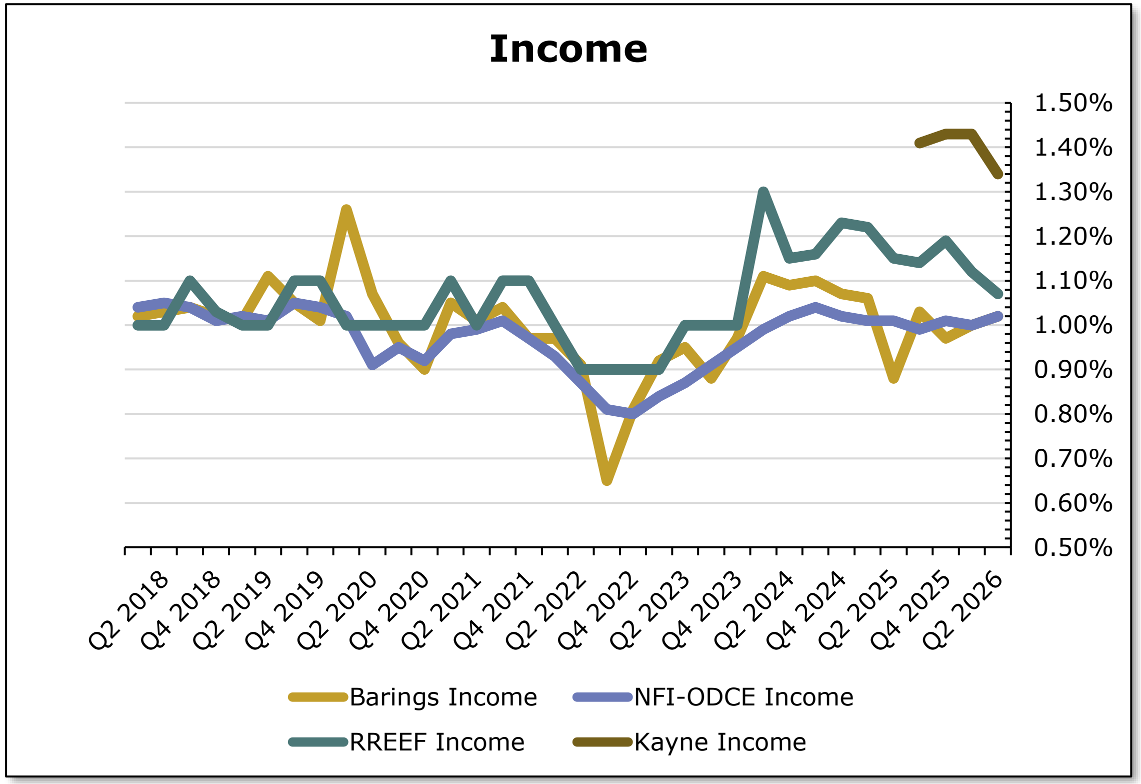


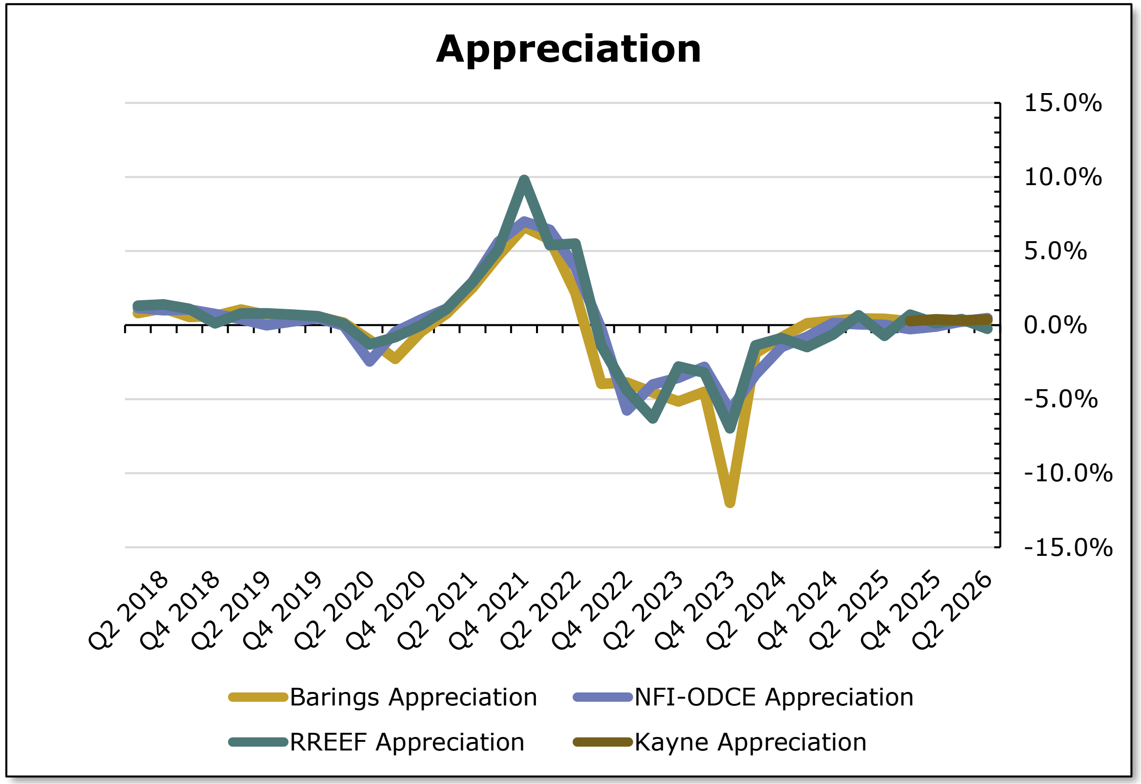


Occupancy Rates – 6/30/26

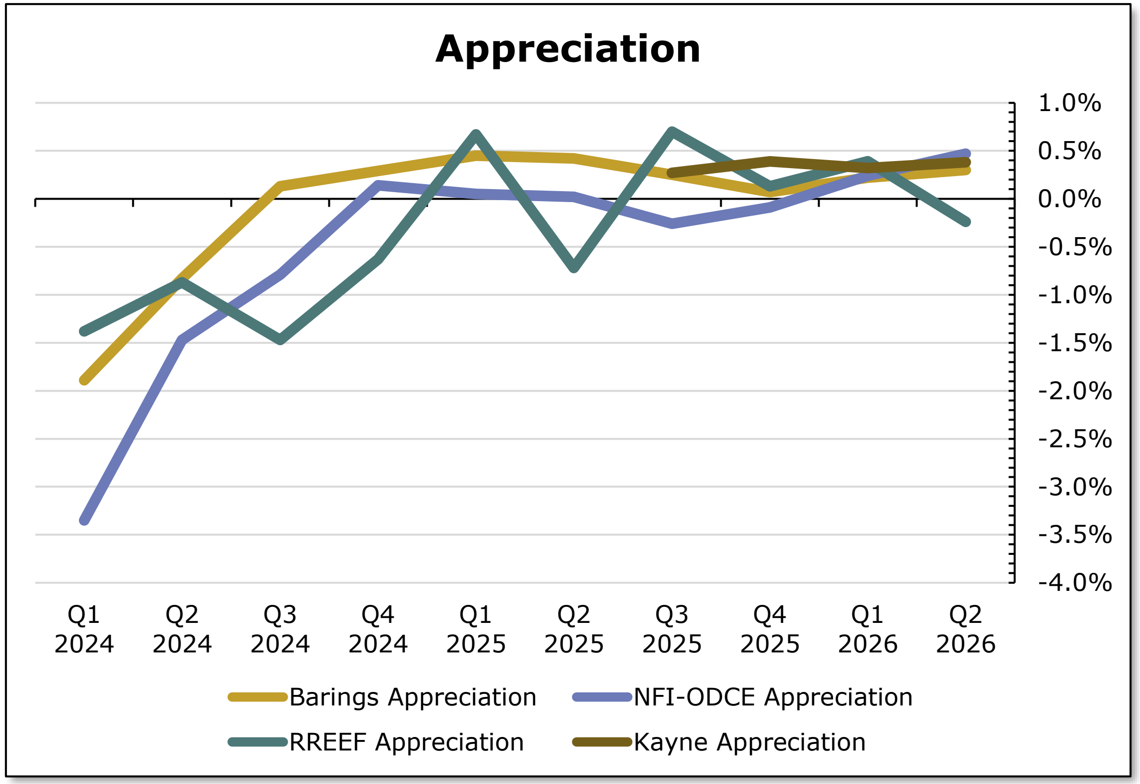


Income and Appreciation Returns (Gross) – 6/30/26





Appreciation Returns (Gross) – 6/30/26, Recent Period Close-Up



Net Returns – 6/30/26

Barings Fund Level Net Returns – June 30, 2026

Period	Income	Appreciation	Total
Trailing 12 months	3.39%	0.88%	4.27%
Trailing 36 months	3.43%	-5.96%	-2.53%
Trailing 60 months	3.21%	-3.42%	-0.21%
Trailing 120 months	3.23%	-0.47%	2.76%

Kayne Fund Level Net Returns – June 30, 2026

Period	Income	Appreciation	Total
Trailing 12 months	5.03%	1.38%	6.41%
Trailing 36 months	4.73%	-1.41%	3.32%
Trailing 60 months	4.51%	0.70%	5.21%

RREEF Fund Level Net Returns – June 30, 2026

Period	Income	Appreciation	Total
Trailing 12 months	3.61%	1.01%	4.62%
Trailing 36 months	3.70%	-4.70%	-1.00%
Trailing 60 months	3.40%	-0.90%	2.50%
Trailing 120 months	3.30%	1.10%	4.40%

NFI-ODCE Net Returns – June 30, 2026

Period	Income	Appreciation	Total
Trailing 12 months	3.20%	0.37%	3.57%
Trailing 36 months	3.20%	-4.67%	-1.47%
Trailing 60 months	3.00%	-1.14%	1.86%
Trailing 120 months	3.10%	0.62%	3.72%

MENDOCINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

Thank you