

# Memorandum

**To:** Board of Trustees, Fresno County Employees Retirement Associate (FCERA)  
**From:** Michael Kamell, CFA, CAIA, Senior Consultant  
**Date:** November 4, 2020  
**RE:** Kennedy Wilson Lead Portfolio Manager Departure and Investment Extension

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## Executive Summary

The purpose of this memorandum is to provide the Board an update on recent announcements from Kennedy Wilson (KW). No action is required as a result of these items.

First, the departure of Kennedy Wilson's Lead Portfolio Manager and the succession plan in place. Second, a proposal to extend the investment period of Real Estate Fund VI due to COVID-19. FCERA's exposure to Kennedy Wilson is through \$30 million commitments to the Real Estate Fund V and VI made in 2016 and 2019 respectively. Both are closed-end funds and are categorized strategically as value-add.

On October 1<sup>st</sup>, 2020, Verus received word from Kennedy Wilson that Nick Colonna, Lead Portfolio Manager, would be leaving the company to pursue other opportunities. Around that time, Verus also became aware of KW's proposal to extend the investment period of Fund VI by one year due to COVID-19. Verus recently spoke to KW about the departure as well as KW's proposal and although both are material changes that need to be discussed, we believe that these announcements won't have significant material effects on how the strategies will be managed moving forward.

## CIO Departure

On October 1st, 2020 Verus received notice that Nick Colonna, Lead Portfolio Manager will be leaving company. Although it is unclear if the departure was effectively immediately, we do know that the reason for his departure is to pursue other opportunities. Verus spoke with KW representatives in October regarding Mr. Colonna's retirement and the firm's subsequent succession plan. To start, Mr. Colonna's responsibilities covered asset management at KW. Among his contributions, he helped institutionalize the fund business. Mary Ricks, President of KW, will be assuming his responsibilities until a suitable replacement can be found. As President, Ms. Ricks' currently oversees KW's investment activities and investment management platform. She has also been on the company's Investment Committee for 20 plus years and is still heavily involved with deal sourcing.

In addition to Ms. Ricks, KW Chairman and CEO William McMorrow remains involved with business decision-making and overall company direction. KW also has team depth with 89 employees within investment and fund management. Although there's always concern when a key individual retires, we believe that KW and specifically Ms. Ricks are well prepared to handle the change until a suitable replacement for Mr. Colonna is found.

Real Estate Fund V is currently in the harvesting stage as FCERA has received roughly \$27 million in distributions since inception and should continue receive distributions moving forward. Regarding Real Estate Fund VI, FCERA has contributed over 60% of their committed capital or roughly \$19 million since its inception date in 2019.

## **Biographies**

### **David Waldman**

William McMorrow is chairman and CEO of Kennedy Wilson, which he acquired in 1988 and has subsequently grown into a leading global real estate investment platform. Kennedy Wilson began with just one office and 11 employees, and today, the company has offices in 15 different markets throughout the United States, United Kingdom, Ireland, Spain, and Japan with \$16 billion of assets under management across the property spectrum. Mr. McMorrow has led the creation of three public companies: Kennedy-Wilson Holdings on the New York Stock Exchange, Kennedy Wilson Japan on the Tokyo Stock Exchange and Kennedy Wilson Europe Real Estate Plc on the London Stock Exchange, whose \$1.7 billion IPO represented the largest real estate vehicle listing since the economic downturn and the second largest real estate IPO in the 200-year history of the London Stock Exchange. Mr. McMorrow attended Loyola High School and received his Bachelor of Science degree in Business as well as his MBA from the University of Southern California, where he serves as a Trustee.

### **Mary Ricks**

Mary Ricks is President of Kennedy Wilson, where she oversees Kennedy Wilson's investment activities with a focus on multifamily and office properties in the Western U.S., U.K., and Ireland. She has responsibility for growing the company's investment management platform, which employs asset management strategies to generate strong current cash returns for a global, diverse institutional investor base. Mary has more than 30 years of experience in international real estate investment. Before assuming her current role, she served as President and CEO of Kennedy Wilson Europe, which she helped establish when Kennedy Wilson served as the catalyst and lead investor in the recapitalization of the Bank of Ireland in 2011. Ms. Ricks currently serves on Kennedy Wilson's Board of Directors as well as the company's investment committee. Ms. Ricks received a B.A. in Sociology from UCLA.

## **Real Estate Fund VI Investment Period Extension**

On September 30<sup>th</sup>, 2020, Verus and FCERA Staff received an amended proposal to extend the investment period of Real Estate Fund VI from three years to four years until November 1<sup>st</sup>, 2021. Given the uncertainty surrounding COVID-19, many real estate transactions have either been put on pause or taken off-of the market completely. This has resulted in modestly lower transaction volume. The proposal gives KW an extra year to fully invest committed capital.

From our recent call with KW, Verus confirmed that the fund extension will be approved as the limited partners who had responded before the deadline have already accounted for the majority. Focusing on FCERA’s investment in Fund VI, we view this an appropriate move given the uncertainty of the current environment. From a management standpoint, we are more comfortable with KW committing new capital with clarity and certainty as opposed to forcing capital to work based on a deadline.

## Performance

Fund	Inception Date	% of Portfolio	Total Commitment	Contributions	Distributions	Estimated NAV	One Quarter Returns	One Year Returns	Three Year Returns	(IRR) Since Inception
Kennedy Wilson Real Estate Fund V	2016	0.2%	\$30,000,000	\$28,113,444	\$27,351,451	\$11,346,648	-1.6%	9.8%	14.1%	13.8%
Kennedy Wilson Real Estate Fund VI	2019	0.4%	\$30,000,000	\$19,134,259	\$1,984,520	\$19,399,373	9.8%	9.8%	N/A	12.0%

Net of Fees; As of June 30, 2020

Since inception performance for both funds have been in line with our expectations and the expectations given from management. With that said, it remains to be seen how COVID-19 will affect the funds moving forward. Real estate prices tend to lag relative to public market investments so it is plausible that there could be more downside to returns in the future.

## Conclusion

Since Mr. Colonna’s departure did not trigger a key-man provision, the alternative to remaining invested with KW is a secondary market sale at a likely discount. We do not recommend this course of action. We believe that the depth of the team and Ms. Ricks’ experience is more than capable of handling the Lead Portfolio Manager’s responsibilities until a suitable replacement is found. Verus and FCERA Staff will continue to monitor this event closely going forward.

Verus also views the amendment proposal to extend Fund VI’s investment period appropriate as well. Given the uncertainty of COVID-19 and the real estate markets, the extension gives KW an extra year to identify opportunities with further clarity. Since the vote has already passed, no action is required.

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