RCLCO FUND ADVISORS

MEMORANDUM

DATE: August 25, 2026

TO: California State Teachers' Retirement System

FROM: RCLCO Fund Advisors – Taylor Mammen, Ben Maslan, Erik Ctvrtlik, Ethan Michalowski, and Gavin Bramwit

SUBJECT: Semi-Annual Open Session Report; As of March 31, 2026

INTRODUCTION

RFA's semi-annual report is as of Q1 2026. Goals and objectives that the semi-annual report evaluates include: a real estate allocation target of 15%; a net return that exceeds the NCREIF NFI-ODCE Index, a hedge against inflation and stable cash flow generation, an allocation based on property stage – stable and value creation (lease-up/reposition and construction) – to maintain an appropriate risk profile; and an appropriate level of leverage, with a loan to value (LTV) limit of 50% for the controlled portfolio and 65% for the non-controlled portfolio.

PORTFOLIO HIGHLIGHTS

- The real estate portfolio has outperformed its target return benchmark over the last decade and has generated a 10-year net TWR of 4.7%, outperforming the ODCE benchmark return of 3.8% by 90 basis points. Over shorter time periods, the portfolio has underperformed, generating a 5-year net TWR of 1.8%, below the ODCE benchmark return of 2.3% by ~50 basis points. The portfolio generated a 3-year net TWR of -4.3% and 1-year net TWR of 0.5%, underperforming the ODCE benchmark by ~150 basis points and ~260 basis points, respectively.
- The real estate portfolio had a NAV of $49.4B as of Q1 2026, equating to 12.6% of the total fund. This is below the target allocation of 15% but within the permitted range. The portfolio is compliant with the targeted allocation by investment strategy and is within the permitted leverage limits for the control and non-control portfolios of 50% and 65%, respectively.
- The portfolio continues to be underweight industrial and multifamily by 7.1% and 4.5%, respectively, relative to ODCE. The allocation to office properties (including life science properties) increased by 74 basis points over the past six months and remains 5.1% overweight relative to the benchmark.

MARKET HIGHLIGHTS

- Real estate prices have mostly reset at 15-35% below peak and have seen limited appreciation in the past several quarters. A further correction is unlikely, with Gateway markets and alternative sectors expected to outperform in the near term.
- Real estate valuations reached a floor across most product types and appreciation should gradually resume as the recovery progresses. Preliminary appreciation returns for the NFI-ODCE and NPI indices have been slightly positive as of Q1 2026 and are expected to increase going forward, with total NPI returns of 5-7% projected over the next three years.
- Real estate fundamentals are expected to continue improving, with industrial and apartment fundamentals benefiting from moderating new supply pipelines. Office vacancies appear to have peaked and neighborhood retail and niche sectors such as senior housing and self-storage continue to benefit from favorable demographics and limited new supply.
- Real estate capital markets continued to open through 2026, with CMBS issuance reaching its highest level since 2007 and bank lending also increasing. Transaction volumes have trended higher across most major property types, led by office and industrial, with continued growth expected in the near term.