

Date: September 9, 2016

To: Employees' Retirement System of Rhode Island (ERSRI)

From: Pension Consulting Alliance, LLC (PCA)

RE: **Open-End Core Real Estate Funds: AEW Share Redemption and Purchase**

Background

ERSRI has an allocation of 8% of assets to real estate. Both private and public real estate are permissible; however, all of ERSRI's holdings are in a series of open and closed end private real estate funds. Approximately 8.5% of assets are invested and committed to invest in real estate. Approximately 60% of the invested and committed amounts are in core funds, and 40% are invested and committed to non-core.

ERSRI has been offered the chance to increase its investment in the AEW Core Open Ended real estate fund by purchasing shares from a departing investor.

Currently, ERSRI has approximately \$89 million invested in AEW, of which approximately \$36 million are Class B shares, with no AUM fees, and \$53 million of Class A shares at market rate fees of approximately 110 basis points. The pro-rational split of Class A and B shares determines the total management fee rate. Thus, ERSRI's current blended annual asset management fee is equivalent to approximately 65 basis points.

PCA believes ERSRI should consider redeeming \$33 million worth of shares in order to purchase a pro-rational split of Class A and B shares which would produce the lowest asset management fee rate of 50 basis points (Founder's fee). An additional consideration should be a purchase of approximately \$11.3 million worth of shares which would generate the same reduced Founder's fee rate. The additional purchase would increase ERSRI's investment in the AEW Core Fund to approximately \$100 million. Please refer to Table 1 for details of the proposed transactions.

Table 1

	Original Commitment		Follow-On Commitment		Proposed \$33 M Redemption and Re-Purchase		Proposed \$11.3M Additional Purchase		Total
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B	
Current Number of Shares	26,218	31,557	28,257	5,886	0	0	0	0	91,918
Proposed Number of Shares	26,218	31,557	0	0	15,495	18,649	5,313	6,395	103,627
Current Percentage Split	45%	55%	83%	17%	45%	55%	45%	55%	
Proposed Percentage Split	45%	55%	0%	0%	45%	55%	45%	55%	
Resulting NAV (in Millions)	\$25.3	\$30.5	\$0	\$0	\$15.0	\$18.0	\$5.1	\$6.2	\$100
AUM Fee Rate Based on Share Class in Basis Points (bps)	110 bps	0	110 bps	0	110 bps	0	110 bps	0	
Blended AUM Fee Rate in Basis Points (bps)	50 bps		91 bps		50 bps		50 bps		50 bps

*Amounts as of June 30, 2016. Totals are preliminary and subject to adjustment.

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While PCA has reviewed the terms of the Fund referred to in this document and other accompanying financial information on predecessor partnerships, this document does not constitute a formal legal review of the partnership terms and other legal documents pertaining to the Fund. PCA recommends that its clients retain separate legal and tax counsel to review the legal and tax aspects and risks of investing in the Fund. Information presented in this report was gathered from documents provided by third party sources, including but not limited to, the private placement memorandum and related updates, due diligence responses, marketing presentations, limited partnership agreement and other supplemental materials. Analysis of information was performed by PCA.

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