



State of Rhode Island
Office of the General Treasurer

Belveron Partners Fund VII- Staff Recommendation

August-2024

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$20 million to Belveron Partners Fund VII (“Belveron VII”).
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$600,000 to Belveron Partners Fund VII (“Belveron VII”).

ASSET CLASS: Non-Core Real Estate (ERSRI), Private Growth – Non-Core Real Estate (OPEB)

SUB-STRATEGY: Value-Add Multifamily (Focusing on Regulated “Capital A” Affordable Housing)

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Non-Core Real Estate is 2.5% and the allocation as of 7/31/2024 is 2.2%. Pacing plan for 2024 vintage is \$95 million committed to 3-5 funds at \$15-25 million per fund. Pending approval of this recommendation, ERSRI’s 2024 vintage commitments will be \$55 million.
- [Rhode Island OPEB System Trust](#): The target allocation for Private Growth is 5.0% and the Non-Core Real Estate sub-strategy is targeted to represent ~20% of the asset class (i.e. 1.0% at the OPEB Trust level). The actual allocation to Private Growth – Non-Core Real Estate as of 7/31/2024 is 0.2%. Pacing plan for 2024 vintage is \$2 million committed to 3-4 funds at \$0.45-0.60 million per fund. Pending approval of this recommendation, OPEB’s 2024 commitments will be \$1.65 million.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The ERSRI Non-Core Real Estate portfolio contains a mix of sector focused and diversified funds that bring operational expertise to value-add and opportunistic asset types (see Appendix 3). ERSRI allocates to sector focused funds that demonstrate specialized expertise and differentiated execution. Belveron is founded in 2007, and it has focused on conversion and preservation of affordable housing in the US since inception. ERSRI made a \$25 million commitment to another affordable housing focused fund, AEW Essential Housing, in February 2022. AEW Essential Housing Fund is an open-end fund with a core+ risk-return profile targeting net return of 7.5% to 8%. It primarily focuses on direct investment in stabilized properties and uses moderate leverage, not exceeding 50% at the fund level. Belveron VII is a value-add, closed-end fund targeting net return from 14% to 16% with a leverage of 65% loan-to-value. Belveron VII seeks investments in “Capital A” affordable housing which is governed by a regulatory agreement or deed restriction related to rents. Belveron targets three main types of deals including Project Based Section 8, which are not a target of the AEW Essential Housing Fund; Belveron VII doesn’t target naturally occurring affordable (e.g. manufacturing housing) which is a component AEW Essential Housing Fund. Belveron VII, a value-add, closed-end fund with a heavy focus on regulated affordable housing is complementary to ERSRI’s existing exposure in other residential funds such as 1) AEW Essential Housing Fund, which is characterized as core+, open-end fund with a focus on naturally occurring affordable and voluntary regulation (about a quarter is regulated) and 2) GreyStar Equity Partners XI, which is a value-add, closed-end fund that’s targeting residents with an Average Median Income (“AMI”) of 100%+ (market rent vs affordable housing). Pending approval of the recommendation, Belveron VII would represent ~5% of the Non-Core Real Estate Portfolio and total residential exposure through sector focused funds would represent ~12% of the Non-Core Real Estate Portfolio (see Appendix 4).

- [Rhode Island OPEB System Trust](#): The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate (as described above) strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendation, Belveron VII would represent ~10% of Private Growth's Non-Core Real Estate allocation within OPEB (see *Appendix 5*).

MERITS:

- [Sector Specialist](#): Belveron focused on the acquisition of limited partnership shares in other affordable housing funds in its first two commingled funds (fund I & II) and this has provided a channel of relationships and deal sourcing. Belveron is specialized in 'Capital A' affordable housing and has a deep network and experience working with key policy makers, housing authorities and financing agencies. Belveron serves an important role in preserving affordable units as not all existing affordable housing owners are sophisticated and/or have the knowledge and regulatory expertise to keep the units affordable under a complex regulatory environment.
- [Social Impacts & Performance](#): Social Impact is the core emphasis of the firm. Belveron has preserved and created about 30,000 affordable units since inception. The positive social impacts don't come at a cost to its fund investors or its residents. Belveron has delivered strong performance in its six investment vehicles. Affordable housing is more recession resilient than traditional multifamily, and majority of the debt used is from agencies such as Fannie Mae, Freddie Mac and FHA. Affordable housing tends to get more certainty and better terms on financing, less tenant turnover and higher occupancy.

CONCERNS:

- [Older Assets with Potential Hidden Issues](#): Belveron targets buildings built from 1970 to 2020 depending on types of regulations and subsidies. Underwriting older buildings requires an extra lens of review as previous owners may have deferred maintenance and hidden and/or concealed issues may not be discovered during the physical due diligence. Part of the Fund V underperformance is due to the failure to identify structural issues and Belveron had to spend more than the budgeted CapEx to mitigate the physical risks.
 - [Mitigant – Enhanced Physical Due Diligence](#): Belveron has enhanced its physical due diligence process. A property condition report (or PCR) is compiled and reviewed for every investment and specialized engineers are engaged based on the property type and age.
- [Small Team Size](#): Belveron has a team of 21 and is currently owned entirely by its founder Paul. The firm lost three members who started their own affordable housing business from 2020 to 2021. Belveron, prior to the launch of fund VII in 2023, had no dedicated capital raising personnel.
 - [Mitigant – Key-Person Provision & Carry Structure](#): Paul, the founder, is covered by the key-person provision. Paul owns the entire track records and was able to fill positions with seasoned talents and expand the team further. Belveron is now adequately staffed with key functions (acquisition, asset management, & finance) having double coverage Belveron is generous in sharing most of the fund carry across the team.

ESG: Belveron is categorized as an ESG **Leader**.

- [ESG](#): Belveron is part of the Multifamily Impact Council, a nonprofit organization that created a framework for ESG benchmarking for the affordable housing industry in the U.S. Belveron's head of asset management is responsible for the implementation of ESG policy and all members within the firm share the responsibility of achieving ESG goals. Belveron engaged a 3rd party consultant to help create an ESG roadmap and collaborates with various non-for-profit organizations and offers to its tenants services such as financial literacy education, healthcare, job training, and social support networks to help them achieve economic stability while improving their quality of life. Belveron released its first Impact Report in July 2024. Belveron Partners Fund VII targets \$350 million and has raised \$260 million so far. Belveron's ESG impact far exceeds funds of similar sizes.
- [DEI](#): Belveron is solely owned by its founder Paul and about a third of its total staff is female. Belveron has a DEI committee that meets regularly. The firm conducts annual DEI survey and anti-bias training and sponsors events to attract and recruit new and diverse talent to the industry.

FEES: Fees Belveron Partners Fund VII are in-line with industry standards.

- Management Fees: Belveron Partners Fund VII charges a 1.5% management fee for capital commitment during the 3-year investment period and 1.5% of net invested capital thereafter.
- Carried Interest: Carried interest is 20% over an 7% hurdle, slightly below market standard of 8% hurdle, with a 50% catchup to the GP. Carry is distributed on a total fund basis.

Appendix 1: ERSRI Prior Fund Exposure

This section is left blank intentionally. ERSRI has no exposure to prior Belveron funds.

Appendix 2: ERSRI Prior Fund Performance

This section is left blank intentionally. ERSRI has no exposure to prior Belveron funds.

Appendix 3: ERSRI Non-Core Real Estate Managers

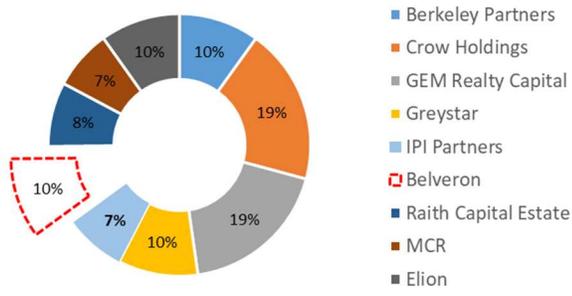
ERSRI Non-Core Real Estate Managers		
Manager	Sub-Strategy	Sector
Crow (Diversified)	Value-Add	Diversified
GEM	Value-Add/Opportunistic	Diversified
Raith	Opportunistic	Diversified
Lone Star	Distressed	Diversified
IC Berkeley	Value-Add	Industrial
Exeter	Value-Add	Industrial
Elion	Value-Add	Industrial
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Greystar	Value-Add	Residential
Belveron	Value-Add	Residential
Linchris	Value-Add	Hotel
MCR	Value-Add	Hotel
IPI	Value-Add/Opportunistic	Data Centers

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

OPEB Pro-Forma Non-Core Estate Exposure by Sector (FMV + Uncalled)



OPEB Pro-Forma Non-Core Estate Exposure by Sector (FMV + Uncalled)

