TO: The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan
FROM: Meketa Investment Group
DATE: February 7, 2024
RE: Elion Industrial Fund II

On behalf of The Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI") along with the Rhode Island OPEB System Trust ("OPEB"), (collectively, the "Plans"), Meketa Investment Group ("Meketa") has conducted due diligence on Elion Industrial Fund II, LP ("Fund II" or the "Fund") and its sponsor, Elion Partners, LLC ("Elion" or the "Firm"). The opportunity is being considered as part of the Plans' Non-Core real estate allocation, within the Private Growth class. The Fund's value-add risk profile and industrial sector focus supports the objective of diversifying ERSRI's non-core holdings with sectors benefiting from favorable fundamentals. Based on the Plans' investment strategies, the merits of the Fund and the information provided in this summary, Meketa is of the opinion that an investment in the Fund is a prudent investment opportunity for the Plans. Meketa's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered tax, legal, or transaction-structuring advice. In making any investment decision with respect to this Fund, the Plans may rely on this report but must also make their own examination and assessment of the Fund, including the terms of the offering, the merits, and the risks involved.

Investment Overview

Elion Industrial Fund II is a value-add, closed-end equity Fund targeting industrial and logistics investments located within the United States. The Fund is targeting returns of 15% to 17% gross IRR and 13% to 15% net IRR. Fund II will target asset level leverage between 40% to 60% LTV on each investment.

Organization

Elion Partners, LLC was founded in 2010 as a technology-enabled real estate investment manager. Headquartered in Miami, Elion maintains additional office presences in New York and Los Angeles, with remote professionals in Seattle, Chicago, Washington, D.C., and Boston. The Firm is vertically integrated with in-house leasing, property management, acquisitions, construction, and capital markets platforms. The Senior Management Committee leads Elion's 54 team members. The 14-person Senior Management Committee members average 18 years of relevant real estate experience. Elion remains privately held with its ownership dispersed amongst its four Managing Partners: Jack Azout, Shlomo Khoudari, Juan DeAngulo, and Sylvian Argy. Elion is a minority-owned registered investment advisor.

Since the Firm's inception, the Managing Partners have reviewed and executed a thematic approach to portfolio construction and asset allocation. Originally founded as a diversified real estate manager, Elion has since refocused its resources into becoming a specialized industrial and logistics owner/operator. Historically, Elion has sponsored six commingled investment funds and nine additional single-asset, evergreen vehicles. In 2020, Elion solidified its conviction in becoming an industrial specialist by renaming its fifth commingled investment vehicle from Fund V to Elion Industrial Fund I. Elion Industrial Fund II is a direct continuation of the value-add strategies and processes set forth in Industrial Fund I.

Fund Strategy

Elion Industrial Fund II will pursue value-add investments in industrial and logistics assets in supply constrained markets across the United States. The Fund anticipates 35 to 40 investments over its term with a total capitalization of $15 to $100 million for each asset. Primary geographic areas of focus will revolve around core, urban logistics hubs near large population centers in South Florida, Washington, D.C., New York City boroughs, New Jersey, Seattle, San Francisco Bay Area, Los Angeles, and San Diego. These coastal, gateway markets have been identified as optimal targets due to their supply constraints, low re-tenanting costs, and strong demographic drivers, such as population, employment, and in-migration growth. Value add enhancement strategies for the Fund include re-tenanting, repositioning, or redeveloping assets through the Firm's vertical-integration capabilities. In each instance, Elion intends to be the sole, controlling investor of the asset, which will limit double promote incentives and increase total control. Fund II will not pursue any ground-up development.

Prudent levels of leverage will be utilized by the Fund, with an anticipated 40% to 60% loan to value ("LTV") level on each investment, with a limitation of 70% LTV at the asset level and 65% LTV across the Fund. Fund-level return objectives consist of a gross levered annual rate of return of 15-17% (net IRR of 13-15%) and gross equity multiple of 1.6-1.8x (net equity multiple of 1.5x). The returns are projected to be generated from 70% to 85% appreciation and 15% to 30% derived from income/operating cash flow. Meketa anticipates the gross-to-net return spread to be approximately 300 bps rather than 200 bps, as projected by Elion, based on market observations of similarly structured closed-end, value add industrial funds. This results in a revised target net IRR of 12-14%.

Terms

The $750 million target fund size represents a moderate increase from the predecessor fund's final size of $500 million. The General Partner will commit 5% of total capital commitments, up to $32.5 million. Of the $32.5 million, Elion's Managing Partners will make capital commitments equal to the lesser of 2% of total capital commitments or $15 million. The management fee is 1.5% of commitments during the investment period and 1.5% of invested capital thereafter. The Fund has an 8% preferred return, a 20% carried interest structure, and a 50% catch-up provision calculated on a whole-fund basis.

The Fund has closed on over $290 million of commitments and is expected to close on another $100 million of commitments by the end of Q1 2024. The Fund's final close will occur on June 2, 2024.

Institutional Fund Performance

Elion Partners
As of September 30, 2023

Fund	Property Type	Vintage Year	Invested ($M)	Realized Value ($M)	Total Value ($M)	Net Multiple (X)	Net IRR (%)	Top Quartile[1] (%)
Fund II	Retail	2012	22.0	33.7	33.7	1.5	19.6	20.9
Fund III	Diversified	2014	100.5	164.1	164.1	1.5	10.3	17.9
Fund IV	Diversified	2017	136.3	146.4	155.3	1.0	0.0	25.9
Industrial Fund I	Industrial	2020	465.2	30.2	704.5	1.4	14.6	17.8
Industrial Fund II	Industrial	2022	37.4	0.7	38.0	0.9	0.0	NM
Total			761.4	375.1	1,095.6			

Fund	Vintage Year	Allocation within Fund (%)	Invested ($M)	Realized Value ($M)	Total Value ($M)	Net Multiple (X)	Net IRR (%)	Top Quartile[2] (%)
Fund III-Industrial Only Performance	2014	3	3.1	5.1	5.1	1.6	19.0	17.9
Fund IV-Industrial Only Performance	2017	58	78.7	140.7	140.7	1.6	21.8	25.9
Total			81.8	145.8	145.8			

Elion raised capital from friends and family for its first investment vehicle in 2010. This "Fund I" invested in four retail assets over several years and is the precursor to Elion's institutional fund series. Fund II invested in retail assets. Fund III and Fund IV invested in multifamily, industrial, and retail properties. Industrial Fund I (the vehicle most similar in strategy to the current offering) is strictly investing in the industrial sector. Elion has increased its industrial exposure overtime by investing 0% of Fund II's capital, 3% of Fund III's capital, and 58% of Fund IV's capital in industrial assets. Elion's Fund II and Fund III portfolios are fully realized, and generated a 1.5x and 1.5x DPI, respectively. As of September 30, 2023, Elion Partners had invested $761 million, realized $375 million, and had $721 million in unrealized value across 72 investments.

[1] Preqin Non-Core Real Estate, North America, Various Vintages, As of September 30, 2023
[2] Preqin Non-Core Real Estate, North America, Various Vintages, As of September 30, 2023

Recommendation

Meketa recommends a commitment of $20,000,000 should be considered for ERSRI and $600,000 for OPEB, as part of their non-core real estate portfolios. The Fund's value-add risk profile and industrial sector focus support the objective of diversifying ERSRI's non-core holdings with sectors benefiting from favorable demographic trends. The investment is consistent with the role of non-core real estate within the Private Growth sections of the Plans.