



State of Rhode Island  
Office of the General Treasurer

## Elion Industrial Fund II- Staff Recommendation

*February-2024*

### RECOMMENDATION:

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

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

**SUB-STRATEGY:** Value-Add Industrial (Focused on Last-mile Logistics)

### ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Non-Core Real Estate is 2.5% and the allocation as of 1/31/2024 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 \$35 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 12/31/2023 is 0.1%. Preliminary 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 \$1.05 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. Elion was founded in 2010, and it has successfully shifted from its early focus in retail only to a more diversified strategy that includes retail, multifamily and industrial and to industrial only. Elion had exposure to industrial prior to it launching its first dedicated fund in industrial in 2019. Elion Industrial II targets 40-50 last-mile distribution properties with gross asset value from \$40 to 60 million each. Elion is a vertically integrated operator and focuses on last-mile properties in supply constrained markets. Pending approval of the recommendation, Elion Industrial II would represent ~5% of the Non-Core Real Estate Portfolio and total industrial exposure through sector focused funds would represent ~27% 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, Elion Industrial II would represent ~11% of Private Growth’s Non-Core Real Estate allocation within OPEB (see *Appendix 5*).

### MERITS:

- [Vertical Integration & Sector Specialist](#): Elion is a vertically integrated owner operator with regional teams led by senior management team. Elion has in-house development, asset management, and accounting functions. Elion has an extensive relationship network with leasing brokers, tenants, and owners. 90% of the prior acquisitions are sourced pre-market within its network. Elion has been focusing on industrial assets since 2015, prior to the launch

of its first dedicated fund in Industrial in 2019. Elion Industrial Fund II will only invest in last-mile industrial assets in supply constrained, core costal market which it believes will have higher rental rate growth.

- **Team:** Elion has a diverse team and its four managing partners, with an average of over 20 years of experience in real estate investing, have worked together for more than 10 years. Elion has gone through changes when the strategy shifted from retail to diversified to industrial. Elion has expanded in the past years and has a strong team culture. Elion has a strong research team and a dedicated data science and technology team working on its proprietary system 'Elion Intelligence'.

## CONCERNS:

- **Limited Track Record in Industry:** Elion has some, but limited, realized track records in industrial. Elion raised its first dedicated fund in industrial ("Elion Industrial Fund I") in 2019. Elion Real Estate Fund I & II are 100% in retail and there is only 1 industrial property, about 3% in committed capital, in Elion Real Estate Fund III and 16 industrial properties, about 58% in committed capital, in Elion Real Estate Fund IV. All 17 industrial properties in Elion Real Estate Fund III & IV are fully realized. Elion Real Estate Fund IV is the last fund prior to name convention to Industrial fund.
  - **Mitigant – Adaptive Team:** With hands-on management of retail tenants in Elion Real Estate Fund I & II, Elion recognized how technological advances changed consumer behavior. Elion ultimately raised its dedicated industrial fund after gaining industrial experience in Elion Real Estate Fund III & IV. Elion Real Estate Fund IV scored second quartile in net IRR (speaking of industrial exposure only, which is about 58% of Elion Real Estate Fund IV).
- **Competitive Markets:** The amount of capital seeking industrial assets has increased significantly. Elion's disciplined acquisition strategy may be impacted by the abundance of capital pursuing industrial properties. Elion hasn't made an acquisition since Q3'2022 and this may cause slower than typical deployment.
  - **Mitigant – Proprietary Technology – "Elion Intelligence":** Elion has built a proprietary system - Elion Intelligence ("E.I") for pipeline and market research including macro and micro elements such as employment growth, supply & demand drivers, etc. E.I also collects and analyzes financial and asset level data, from its accounting system Yardi, in real time. E.I. integrates market research, pipeline, financing, and property & portfolio management into one system, with the goal of driving better decision making.

## ESG: Elion is categorized as an ESG **integrator**.

- **ESG:** Elion has a formal ESG policy, and an ESG/DEI Steering committee comprised of senior management team. Elion hired a 3<sup>rd</sup> party consultant for its ESG integration and best practice guidance in 2020. Elion is a signatory of the United Nations Principles for Responsible Investment ("UNPRI"). Elion has incorporated ESG considerations into its investment analysis and decision-making processes and has been focusing on collecting comprehensive ESG data at the asset level, which in return will help Elion benchmark and identify areas for improvements.
- **DEI:** Elion is a minority-owned firm and values Diversity, Equity, and Inclusion ("DEI"). More than half of Elion's senior management, advisory board and total staff are women and ethnically diverse. Elion is a signatory of the CEO Action for Diversity & Inclusion, and aims to create a culture of inclusion, diversity, and social responsibility. Elion has also been recognized as one of the "Best Places to Work in Money Management" by Pensions & Investments ("P&I") for four consecutive years (2020, 2021, 2022, 2023) (there are about 120 firms being recognized by P&I.)

## FEES: Fees for Elion Industrial Fund II are in-line with industry standards.

- **Management Fees:** Elion Industrial Fund II 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 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 Elion funds.

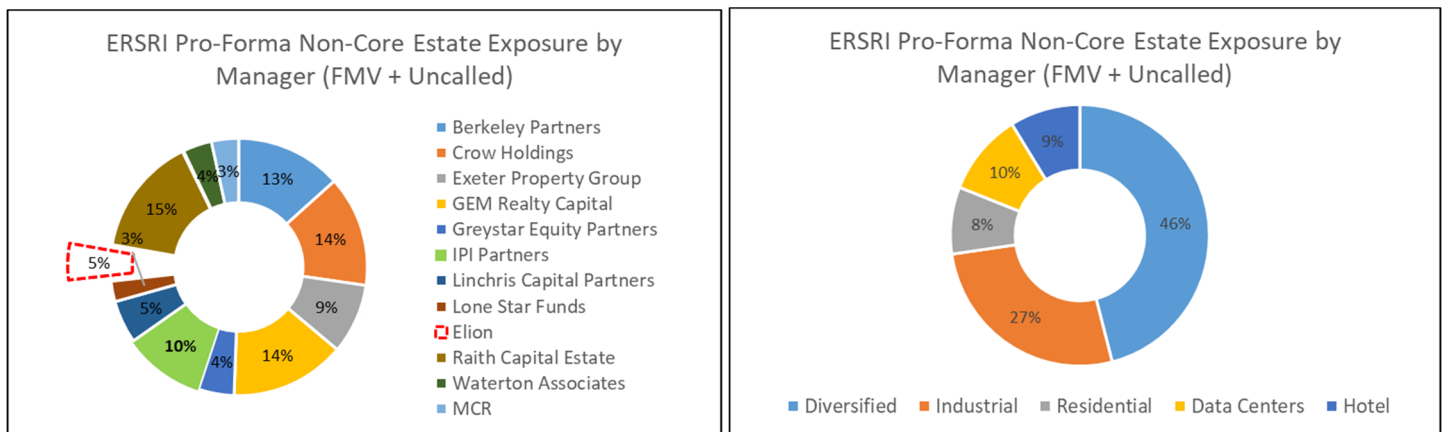
## Appendix 2: ERSRI Prior Fund Performance

This section is left blank intentionally. ERSRI has no exposure to prior Elion 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
Linchris	Value-Add	Hotel
MCR	Value-Add	Hotel
IPI	Value-Add/Opportunistic	Data Centers

## Appendix 4: ERSRI Portfolio Fit



## Appendix 5: OPEB Portfolio Fit

