



# AEW Essential Housing Fund



# ERSRI / AEW Partnership & Today's Presenters

## INVESTMENT HISTORY

- Employees' Retirement System of Rhode Island made an original commitment \$35 million to AEW's core open-end fund in Q3 2008 and made additional commitments in 2013 and 2016.
- Being one of the original investors in the Fund, ERSRI's management fee on their entire commitment is 50 bps per annum.
- Since inception, ERSRI has received dividends of approximately \$41.9 million, equating to a dividend yield of 4.96% and has outperformed the ODCE benchmark net of fee.



**Julie Kittler**

Director, Multifamily Asset Management



**Dillon Lorda**

Senior Portfolio Manager



**Mike Acton, CFA®**

Head of AEW Research



As of December 31, 2021.

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The NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) is a leveraged, net of fee, time weighted index. Past performance is not indicative of future results. Past performance is not indicative of future results.

OVERVIEW

# AEW Essential Housing Fund

**Open-end fund focused on investing in residential assets that are affordable to middle- to low-income renters (“essential housing”), composed of rent-restricted and market-rate units.**

**The objective of the Fund is to provide durable current income while preserving capital and seeking appreciation over the long-term.**

FIDUCIARY  
SPONSOR

RECESSION  
RESILIENT  
INCOME

RESEARCH-  
DRIVEN  
INVESTMENT  
APPROACH

ACTIVE ASSET  
MANAGEMENT

INTEGRATED  
ESG+R  
MANAGEMENT

## INVESTMENT GUIDELINES

- Diversified, national geographic focus
- Primarily focused on direct investment in stabilized properties
- Ability to invest across capital stack
- Leverage limited to 50% at the Fund level
- Target Return: Income Return of 5.0%, Total Return of 7.5% - 8%+

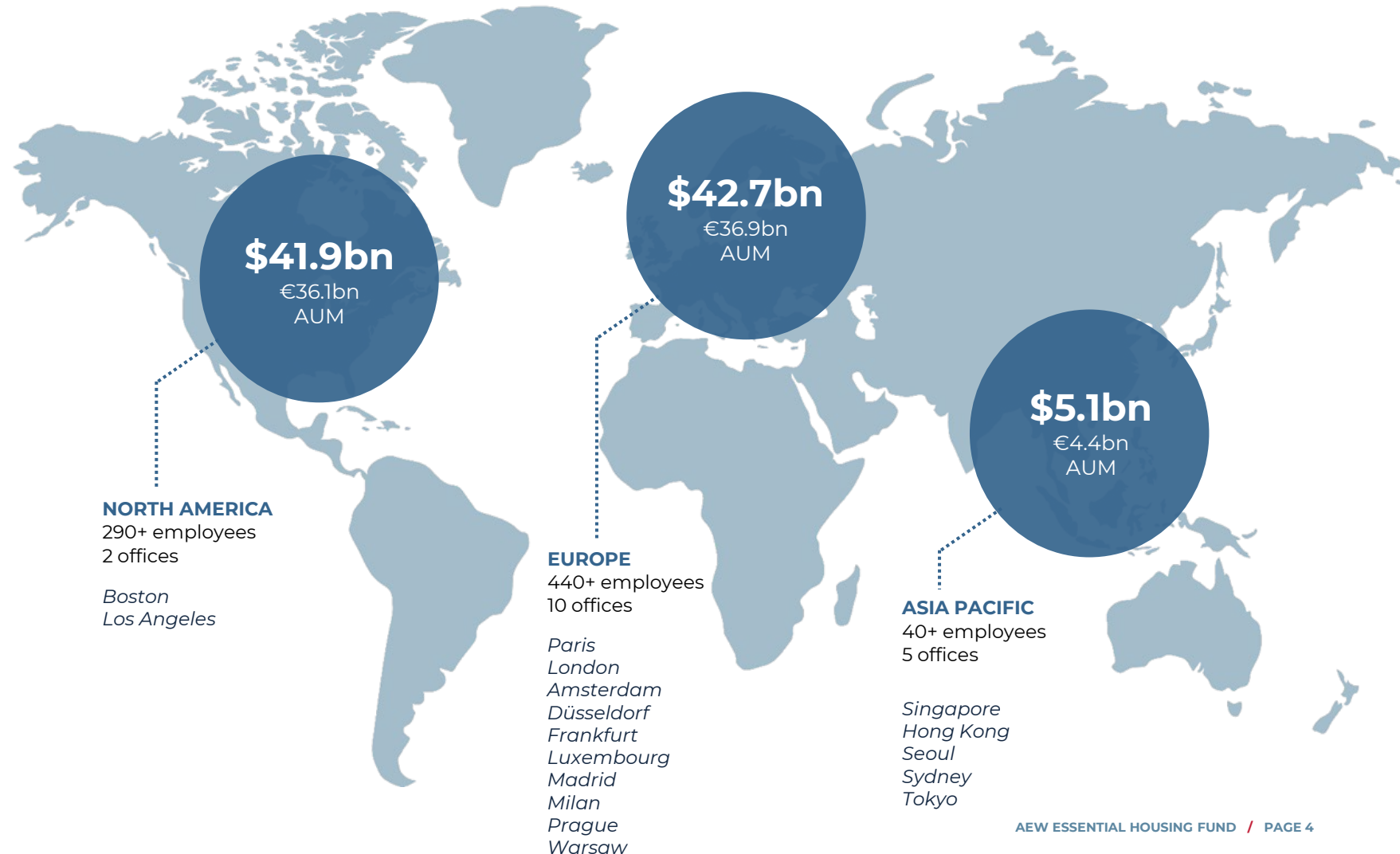
## GLOBAL OVERVIEW

# About AEW

- 40 years of real estate investment experience and exclusively focused on real estate
- Among the largest real estate investment managers in the world
- Over 770 employees in 17 offices
- AEW Capital Management, L.P. is a registered investment advisor and regulated by the SEC
- Our mission is to be our clients' most trusted and effective advisor
- Broad experience across all property types and geographic regions

Gross asset value as of September 30, 2021. Total AEW AUM of \$89.7 billion includes \$41.8 billion in assets managed by AEW Europe SA and its affiliates and \$243 million in advisory/subadvisory, wrap and other accounts for which AEW Capital Management provides only a model portfolio. Client staff and offices include AEW Capital Management and AEW Europe SA and their respective subsidiaries. AEW includes (i) AEW Capital Management, L.P. in North America and its wholly-owned subsidiaries, and (ii) affiliated company AEW Europe SA and its subsidiaries. AEW Capital Management is AEW Europe SA's sister company and is commonly owned by Natixis Investment Managers.

**\$89.7/€77.4** billion in direct and listed assets under management in North America, Europe and Asia Pacific



# Diversity, Equity & Inclusion

## Our Mission Statement

### Focused on the Future Through a Wider Lens

We commit to foster and create an equal and inclusive workplace that welcomes all individuals so that our organization can become as diverse and vibrant as the cities in which we invest.

When all employees are empowered to share their experiences and ideas, it strengthens our ability to deliver the best possible solutions for AEW's clients. With collaboration and a full spectrum of views, we see the future of real estate through a focused, but wider lens.

To be truly successful, we must respect, encourage and celebrate everyone's voice. We strive to lead by example and will continue to take steps within our own walls to cultivate an equitable and diverse workplace. Let's take this journey together.

## PARTNERSHIPS & INITIATIVES








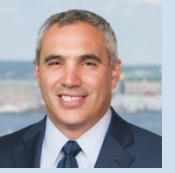

**SEO** Seizing Every Opportunity

**CREST**  
COMMERCIAL REAL ESTATE SUCCESS TRAINING

**PROJECT·DESTINED**

ESSENTIAL HOUSING TEAM

# Managed by a seasoned team with **broad, complementary skills**

	PORTFOLIO MANAGEMENT	ACQUISITIONS		ASSET MANAGEMENT	FUND OPERATIONS			
DEDICATED TEAM	 <p><b>SENIOR PORTFOLIO MANAGER</b> <b>DILLON LORDA</b> 21 years of experience 1 year at AEW</p>	 <p><b>WESTERN U.S. ACQUISITIONS</b> <b>GEORGE MCNEE</b> 24 years of experience 17 years at AEW</p>	 <p><b>EASTERN U.S. ACQUISITIONS</b> <b>MICHAEL DOPLER</b> 16 years of experience 15 years at AEW</p>	 <p><b>DIRECTOR/MULTIFAMILY</b> <b>JULIE KITTLER</b> 28 years of experience 28 years at AEW</p>	 <p><b>PORTFOLIO CONTROLLER</b> <b>GWEN BRUNO</b> 21 years of experience 15 years at AEW</p>			
SENIOR TEAM	 <p><b>CHIEF INVESTMENT OFFICER &amp; HEAD OF PRIVATE EQUITY &amp; DEBT</b> <b>MICHAEL BYRNE</b> 21 years of experience 17 years at AEW</p>	 <p><b>MANAGING DIRECTOR WEST COAST ACQUISITIONS</b> <b>THOMAS MULLAHEY</b> 38 years of experience 26 years at AEW</p>	 <p><b>MANAGING DIRECTOR EAST COAST ACQUISITIONS</b> <b>JOSHUA HELLER</b> 18 years of experience 10 years at AEW</p>	RESEARCH				
				 <p><b>DIRECTOR RESEARCH</b> <b>ADRIENNE ORTYL</b> 24 years of experience 19 years at AEW</p>	 <p><b>MANAGING DIRECTOR HEAD OF RESEARCH</b> <b>MIKE ACTON, CFA®</b> 36 years of experience 31 years at AEW</p>			
ADDITIONAL EHF RESOURCES								
	ACQUISITIONS	RESEARCH	ASSET MANAGEMENT	CAPITAL MARKETS	INSURANCE RISK MANAGEMENT	LEGAL	INVESTOR RELATIONS	ARCHITECTURE & ENGINEERING
	35+ PROFESSIONALS	8 PROFESSIONALS	50+ PROFESSIONALS	4 PROFESSIONALS	4 PROFESSIONALS	8 PROFESSIONALS	10+ PROFESSIONALS	3 PROFESSIONALS



## OVERVIEW

AEW has a strong background of acquiring and managing residential properties

### Strong Fiduciary Sponsor

A 40-year history of managing real estate investments as a fiduciary on behalf of its clients

### Research Driven Approach

A disciplined research approach that focuses on the structural supply/demand imbalance of essential housing in the U.S.

### Experienced Residential Manager

A history of acquiring residential properties, with a dedicated acquisitions and asset management team

### Affordable Housing Expertise

A strong team that is experienced, managing nearly 16,000 rent-restricted units since 2000, including LIHTC and other affordable housing units



# AEW has extensive housing experience

Investment  
Experience

## CORE MULTIFAMILY

**33,467 Units**  
**\$9.0 Billion**

## AEW CORE MULTIFAMILY RETURNS

GROSS TIME WEIGHTED RETURNS <sup>1</sup>	1YR	3YR	5YR	10YR	15YR	20YR
AEW Core Unleveraged MF	12.41%	7.68%	7.48%	8.79%	7.77%	8.81%
NPI Multifamily	13.37%	6.92%	6.67%	8.63%	6.75%	8.22%
<b>AEW Outperformance</b>	<b>-0.95%</b>	<b>0.76%</b>	<b>0.81%</b>	<b>0.16%</b>	<b>1.02%</b>	<b>0.59%</b>
NET TIME WEIGHTED RETURNS <sup>2</sup>	1YR	3YR	5YR	10YR	15YR	20YR
AEW Core Net Leveraged MF	14.48%	7.93%	7.19%	8.89%	7.59%	8.68%
ODCE Net	13.64%	6.13%	6.56%	8.92%	5.55%	6.91%
<b>AEW Outperformance</b>	<b>0.84%</b>	<b>1.80%</b>	<b>0.63%</b>	<b>-0.03%</b>	<b>2.04%</b>	<b>1.76%</b>

Asset  
Management  
Experience

## NATURALLY OCCURRING AFFORDABLE HOUSING<sup>3</sup>

**35,563 Units**  
**\$4.9 Billion**

## RENT RESTRICTED AFFORDABLE

**17,459 Units**  
**\$1.8 Billion**

All information as of September 30, 2021 unless otherwise indicated. A full list of composite performance for all funds is available upon request. There can be no assurances that the strategy will achieve its objectives. Nothing contained herein shall constitute an offer to sell or solicitation of an offer to buy. Past performance is no guarantee of future results. These returns have been compiled to show AEW's prior experience in the multi-family sector and are not indicative of a return that an investor could receive for their investment in the AEW Essential Housing Strategy.

<sup>1</sup>Returns are as of September 30, 2021. Returns are unlevered, gross of fee, core property level returns for all private equity funds and separate accounts multifamily assets. Property level returns are calculated for all private equity assets that are reported to NCREIF. Returns are compared to the multifamily slice of the NPI index which is an unlevered, gross of fee, property level index.

<sup>2</sup>Returns are as of September 30, 2021. Returns are levered, net of fee, core investment level returns for all private equity funds and separate accounts multifamily assets. Returns are compared to the NCREIF fund index - open-end diversified Core Index (NFI-ODCE) which is leveraged, net of fee, time weighted index.

<sup>3</sup>Properties with rents affordable to households with incomes below 80% of area median income (inclusive of core, value-add, and opportunistic business plans for properties in separate accounts, takeover portfolios, and commingled funds)



# A **differentiated strategy** that seeks to provide **durable income**

**Compelling,  
recession-resilient**  
cash flow generated by:

- Sponsor an evergreen vehicle that aligns interests and facilitates differentiated investment opportunities
- Assemble a diversified portfolio of properties affordable to middle- to low-income renters (“Essential Housing”)
- Manage properties with a long-term focus on reducing risk while improving cash-flows

## EXECUTION STRATEGY



# Essential Housing is affordable to middle- to lower-income households

## EXTENSIVE DEMAND ACROSS RENTER COHORTS

**20.8 million or 47%**

of renter households spend 30% or more of incomes on housing (“cost-burdened”)<sup>1</sup>

### Cost-burdened by renter demographics

**60%**

Single parents

**52%**

With a high school degree

**36%**

With full-time employment

**50%**

Married households with two children

## ESSENTIAL HOUSING CAN SERVE MANY PROFESSIONS

PROFESSION	MARKET	INCOME	% OF AREA MEDIAN INCOME	% OF INCOME TO CLASS B <sup>2</sup> RENT
Construction	Columbus	\$43,247	64%	30%
Teacher	Tampa	\$42,437	73%	31%
Police	Atlanta	\$43,405	61%	32%
Personal Care	St. Louis	\$30,217	45%	36%
Office Admin.	Sacramento	\$45,618	59%	39%
Healthcare Support	Phoenix	\$30,244	45%	41%
Food Service	Raleigh	\$25,054	31%	51%
Social Worker	New York	\$55,163	73%	57%

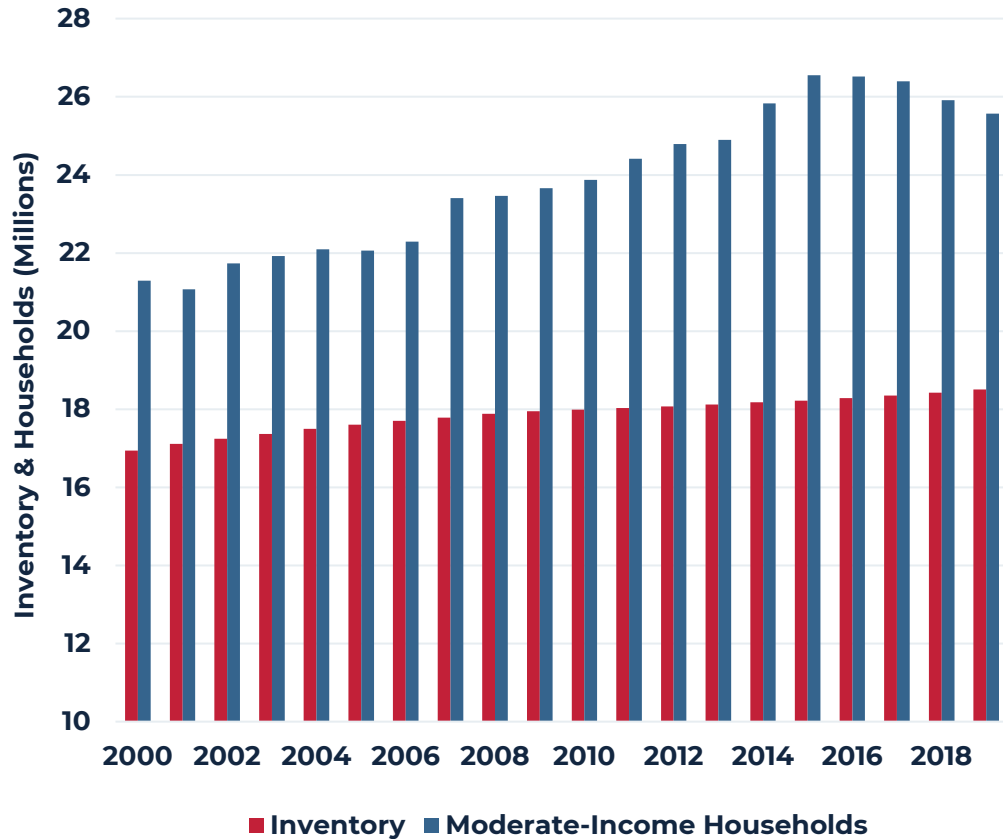
<sup>1</sup> Source: Joint Center for Housing Studies of Harvard (Cost-burdened renters are defined by The United States Department of Housing and Urban Development (HUD) as households who pay more than 30 percent of their income for housing)

<sup>2</sup> Source: AEW Research (Costar, American Community Survey)

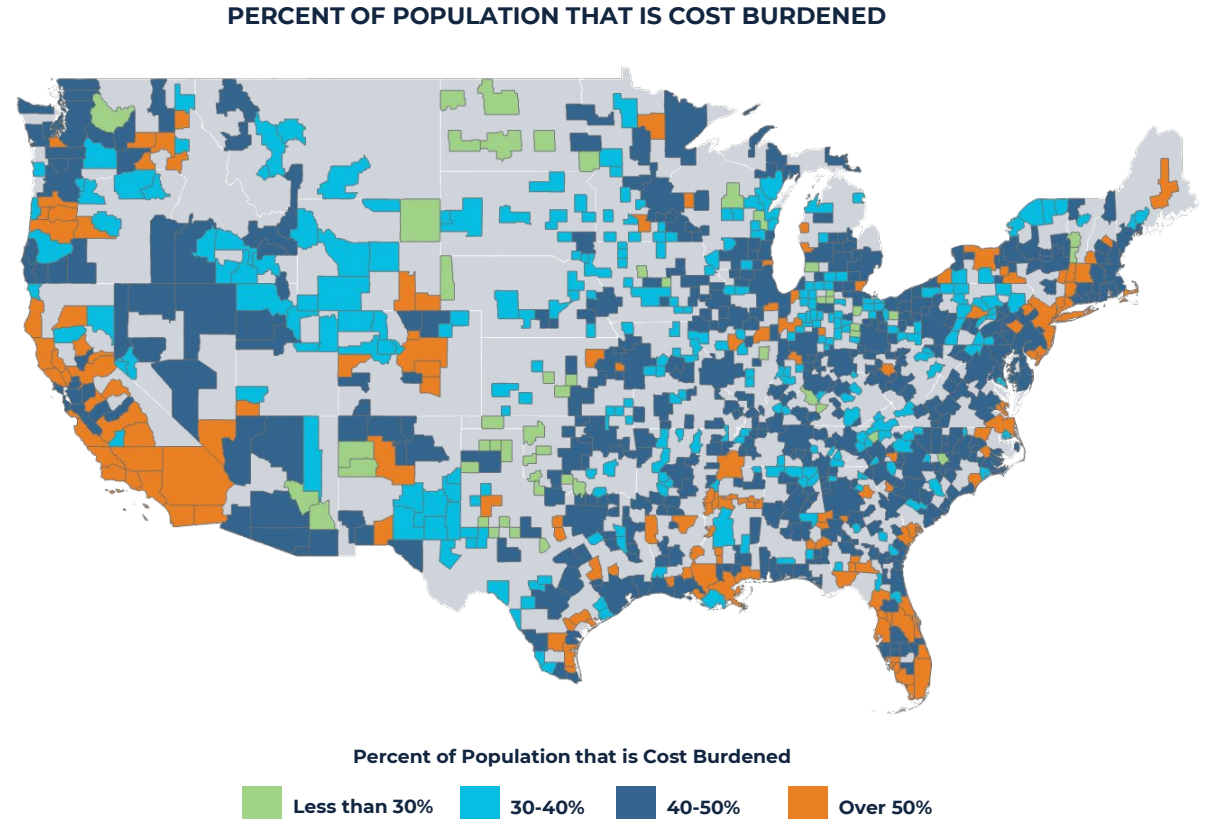
The information and opinions presented above have been prepared internally and/or obtained from sources which AEW believes to be reliable; however, AEW does not guarantee the accuracy, adequacy, or completeness of such information.

# Structural supply/demand imbalance through cycles and across markets

**PERSISTENT SHORTAGE OF AFFORDABLE UNITS (4-8.5 million)<sup>1</sup>**



**DEMAND FOR ESSENTIAL HOUSING IS WIDESPREAD<sup>2</sup>**



<sup>1</sup> Source: AEW Research (Inventory defined as 1-, 2-, and 3-star units; moderate-income households defined as earning less than 80% area median income)

<sup>2</sup> Source: AEW Research/Harvard Joint Center on Housing Studies 2020

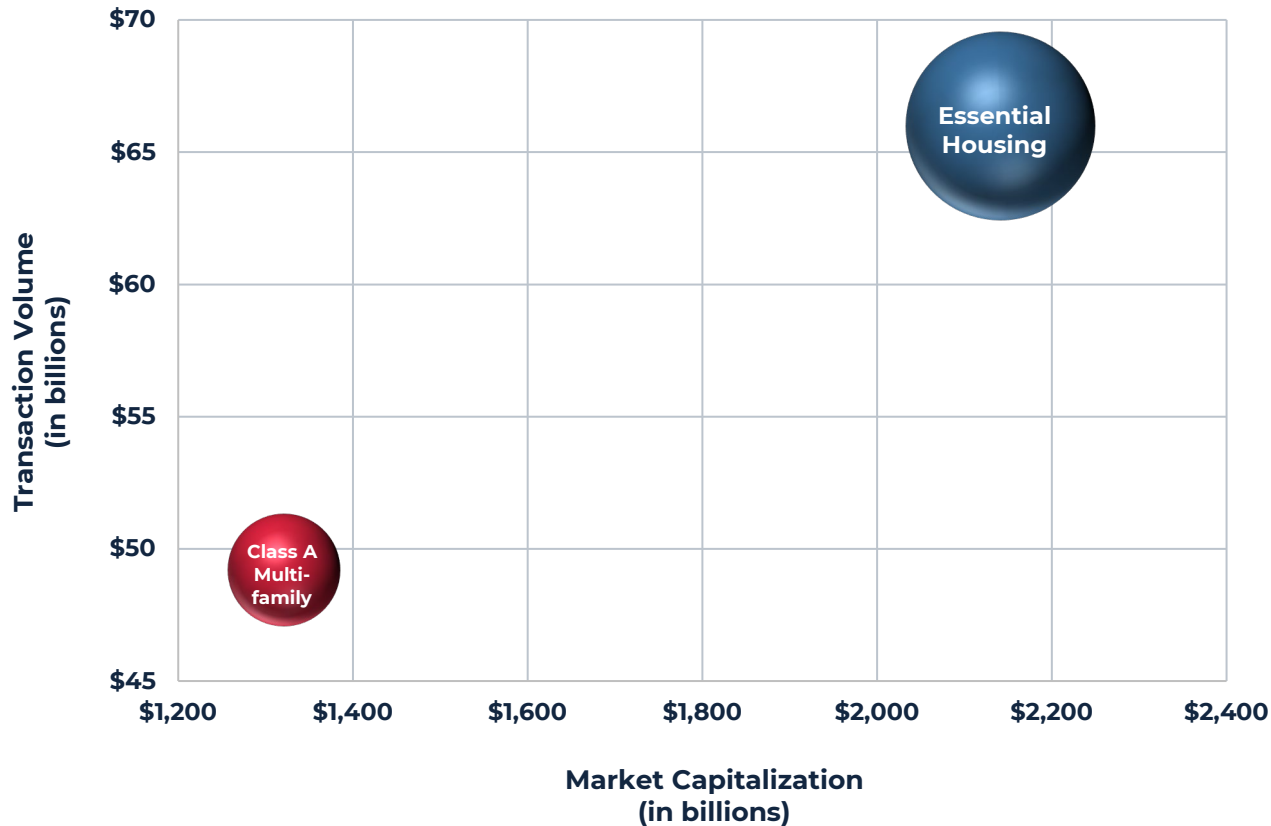
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## ESSENTIAL HOUSING

# Essential housing encompasses a large, diverse, liquid universe of properties

### LARGE, LIQUID INVESTABLE UNIVERSE

#### MULTIFAMILY MARKET CHARACTERISTICS<sup>1</sup>



### TARGET PROPERTY SUB-TYPE CATEGORIES

#### Market-Rate



Properties with lower rents due to property age, condition and/or location (“Naturally Occurring Affordable Housing” or “NOAH”)

#### Rent-Restricted



Properties that have pre-existing government regulation restricting rents on all or a portion of the units (rent stabilized, LIHTC, Section 8)

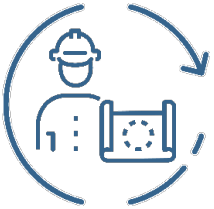
## STRUCTURAL OPPORTUNITIES

# Target opportunities facilitated by **strategy, structure, and culture**



### **Collaborate with and source from non-profits and mission-oriented entities**

- Access financial incentives to maintain and improve affordability with a long-term perspective
- Source from nonprofits with a desire for stable property management revenue from an aligned capital partner



### **Source from affordable housing developers seeking to optimize funding resources**

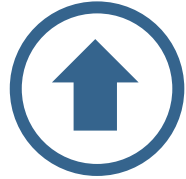
- Acquire from developers with a desire to maximize tax credits while maintaining property management revenue



### **Invest in markets that are not traditionally pursued by institutional capital**

- Diversification with exposure to markets with less institutional participation
- Durable income orientation facilitates investing in markets that have stable rent growth as well as higher rent growth

# Functional, not cosmetic, improvements that fortify cash flow



## Occupancy & Retention

### *Improved Resident Experiences*

Listen to residents to understand their needs;  
Partner with specialists to provide access to resources;  
Measure outcomes



Community events,  
health & wellness,  
security



After-school programs,  
tutoring, swimming/sports  
lessons



Interest groups, GED prep,  
financial literacy, credit  
counseling



## Operating Costs

### *Expense Reduction*

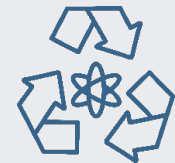
Analyze controllable expense structure;  
Engage residents and capital sources;  
Invest in functional improvements that lower costs



LED lighting, HVAC,  
Green Leases,  
mechanical



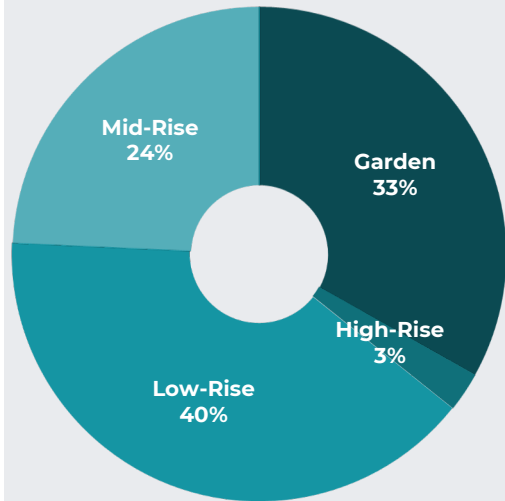
Low-flow fixtures,  
drip irrigation, drought-  
tolerant landscaping



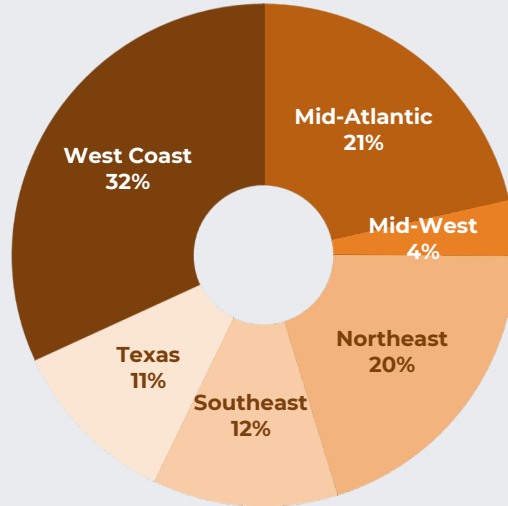
Climate risk  
mitigation, disaster  
prep, renewable  
energy

# Pipeline Characteristics

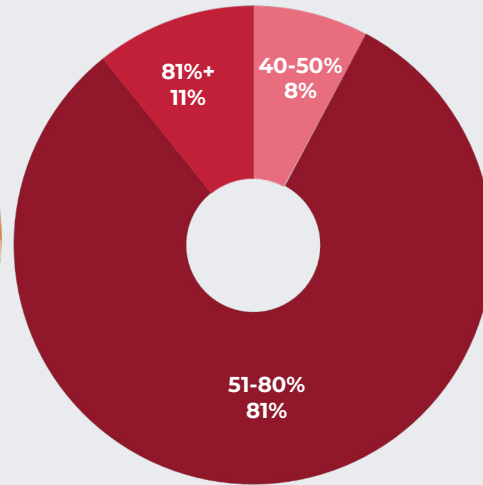
DISTRIBUTION BY BUILDING TYPE



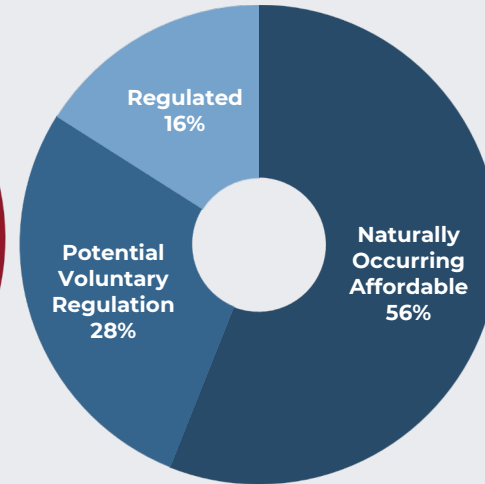
DISTRIBUTION BY REGION



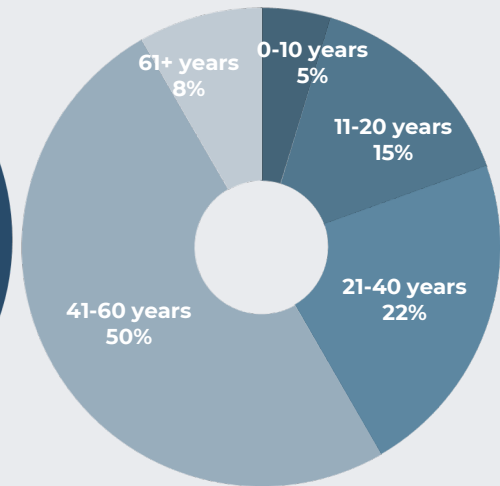
DISTRIBUTION BY AFFORDABILITY RANGE (AMI %)



DISTRIBUTION BY RENT TYPE



DISTRIBUTION BY AGE AT ACQUISITION



## AEW ESSENTIAL HOUSING FUND

# Summary of Key Terms

<b>Structure</b>	The AEW Essential Housing Fund is a Delaware limited partnership that intends to make its investments through one or more entities that qualify as real estate investment trusts under the Internal Revenue Code of 1986.								
<b>Strategy</b>	Assemble a portfolio of housing assets that benefit from structural supply/demand imbalance. Focus on portfolio diversification across geography, economic drivers, and depth of affordability. Manage assets with a focus on durability of cash flow.								
<b>Investment Guidelines</b>	Invest in stabilized US rental housing assets; Up to 25% of the Fund may be invested in non-core or non-equity assets								
<b>Leverage</b>	Not to exceed 50% of gross asset value in aggregate at Fund level								
<b>Target Return</b>	Income Return of 5.0% Total Return of 7.5% - 8% or greater								
<b>Sponsor Co-investment</b>	The lesser of (i) 3% of Capital Contributions made during the Initial Capital Raise Period and (ii) \$10 million.								
<b>Minimum Investment</b>	\$5 million								
<b>Term</b>	Evergreen								
<b>Redemptions</b>	Quarterly, subject to a 4-year lock-up period for Founder Investors.								
<b>Valuations</b>	Each asset in the Fund will be externally appraised every twelve months. In addition, assets will be valued internally by AEW on a quarterly basis. The external and internal valuation process will be subject to oversight and review by an independent valuation advisor.								
<b>Investor Governance</b>	Advisory Board representation for Founder Investors over \$25 million and subsequent investors over \$50 million								
<b>Management Fee</b>	<table><thead><tr><th>Management Fee</th><th>Commitment Amount (millions)</th></tr></thead><tbody><tr><td>125 bps</td><td>Under \$50 million</td></tr><tr><td>112.5 bps</td><td>\$50-\$100 million</td></tr><tr><td>100 bps</td><td>Over \$100 Million</td></tr></tbody></table> <p>*Current Founder Investor fee 65 bps</p>	Management Fee	Commitment Amount (millions)	125 bps	Under \$50 million	112.5 bps	\$50-\$100 million	100 bps	Over \$100 Million
Management Fee	Commitment Amount (millions)								
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100 bps	Over \$100 Million								



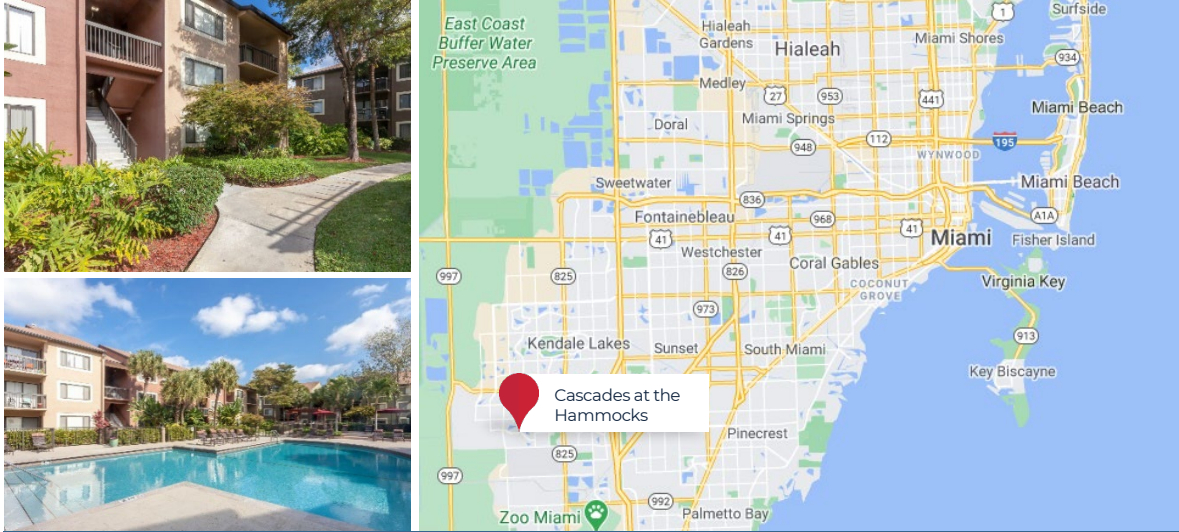
There can be no assurances that the strategy will achieve its objectives. Nothing contained herein shall constitute an offer to sell or solicitation of an offer to buy an interest in the Fund. Any such offer will be made only to qualified investors pursuant to a private placement memorandum. There can be no assurances that the Fund will achieve its objectives. Please refer to the explanation of target returns in the additional notes section of the Appendix. Individual investor returns may vary due to differences in fee structures.



ESSENTIAL HOUSING REPRESENTATIVE TRANSACTION

# Cascades at the Hammocks

10605 Hammocks Boulevard, Miami, FL 33196



**AEW HISTORICAL TRANSACTION**

**KEY TAKEAWAYS**

- Older vintage communities can be proactively maintained for an extended period of time – in this case 20 years – to deliver attractive income and total returns for investors.
- Can generate stable, long-term rent growth due to the supply-demand imbalance for well-maintained, affordable multifamily properties in high-cost markets.
- The Fund will seek to target Naturally Occurring Affordable Housing (“NOAH”) transactions with a similar profile to Cascades at the Hammocks: properties without significant deferred maintenance that are affordable to teachers, construction workers, Police/Fire/EMT personnel, among others, in markets that are exhibiting stable growth characteristics.

<sup>1</sup> Average LTV during hold period

The above transaction is an example of an investment completed by AEW. Although this transaction represents the types that we may pursue, no representation is made that similar opportunities will be available. Past performance is not indicative of future results. There can be no assurances that the Fund will achieve its objectives. Returns are calculated at the Investment Level IRR inclusive of investment management fees, partnership expenses and incentive management allocation and includes investment-level financing. Source: AEW Research.



**INVESTMENT ATTRIBUTES**

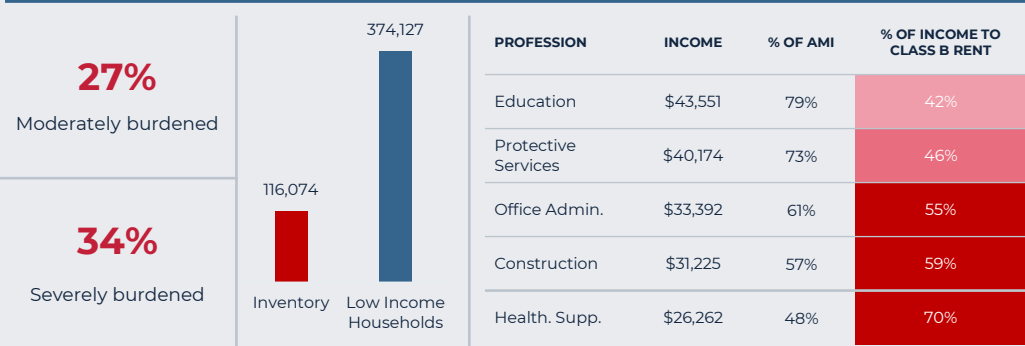
PROPERTY TYPE	Class B, Garden-style Multifamily
REGULATORY FRAMEWORK	N/A
IN-PLACE RENTS AT ACQ.	\$1,030/Unit, \$1.02/SF
AMI LEVEL AT ACQ.	85%
UNITS	264 Units
YEAR BUILT / RENOVATED	1970
YEAR ACQUIRED	2001
YEAR SOLD	2021

**Market Rate**

**INTERIM INVESTMENT RETURNS**

PURCHASE PRICE	\$19,550,000 / \$74,470 per Unit
OWNERSHIP STRUCTURE	100% AEW
	<b>Leveraged (17%<sup>1</sup>)</b>
AVG. CASH YIELD DURING HOLD	5.4%
PROPERTY-LEVEL IRR	14.5%
PROPERTY-LEVEL EQUITY MULTIPLE	3.52x

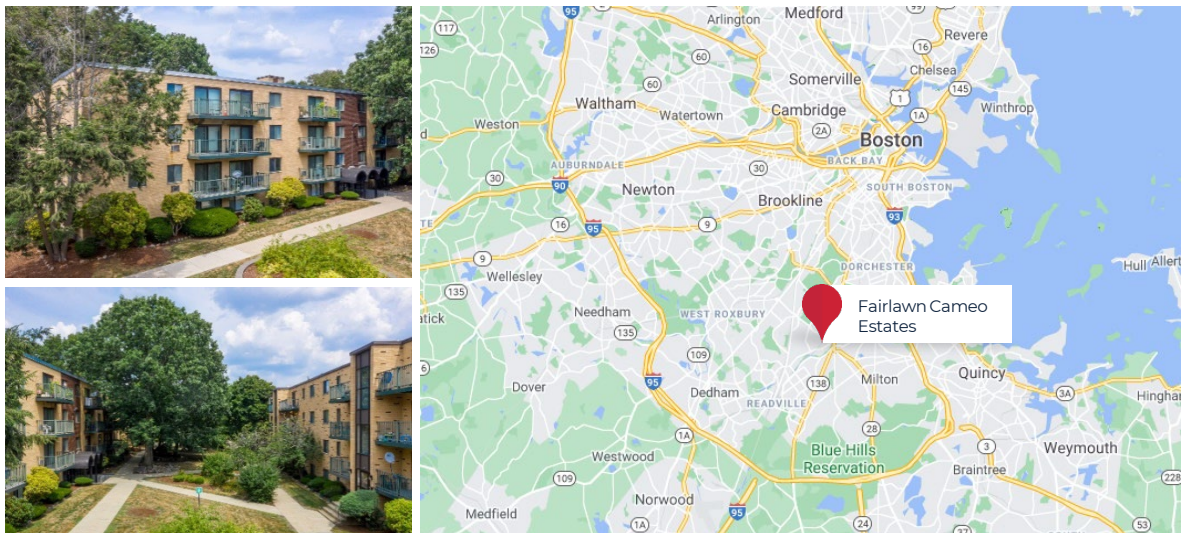
**MIAMI RENTAL MARKET**



## ESSENTIAL HOUSING REPRESENTATIVE TRANSACTION

# Fairlawn Cameo Estates

15 Bismarck Street, Mattapan, MA 02126



### AEW HISTORICAL TRANSACTION

#### KEY TAKEAWAYS

- Despite the economic recession and erosion in the capital markets brought on by the GFC, the Property remained well-leased and generated durable income throughout the hold period. From 2008 to 2010, the Property averaged 97% occupancy, 27% average annual turnover, and 2.0% average annual rent growth.
- Properties outside of the traditional “institutional” submarkets in major metros can offer similar – if not better – fundamentals at a higher yield.
- Older vintage properties owned for a long period by less sophisticated owner/operators have many opportunities to generate operational improvements that significantly increase distributable cash flow. At Fairlawn, AEW instituted a water and energy conservation program that had a payback period of less than one year.

<sup>1</sup>Average LTV during hold period

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#### INVESTMENT ATTRIBUTES

PROPERTY TYPE	Class B- Garden-Style Multifamily
REGULATORY FRAMEWORK	N/A
IN-PLACE RENTS AT ACQ.	\$1,195/Unit, \$1.43/SF
AMI LEVEL AT ACQ.	70%
UNITS	347 Units
YEAR BUILT / RENOVATED	1962 / 2000
YEAR ACQUIRED	2003
YEAR SOLD	2011

**Market Rate**

#### INTERIM INVESTMENT RETURNS

PURCHASE PRICE	\$39,000,000 / \$112,392 per Unit
OWNERSHIP STRUCTURE	Joint Venture (73% AEW / 27% JV Partner)
	<b>Leveraged (71%<sup>1</sup>)</b>
AVG. CASH YIELD DURING HOLD	6.8%
PROPERTY-LEVEL IRR	8.8%
PROPERTY-LEVEL EQUITY MULTIPLE	1.69x

#### BOSTON RENTAL MARKET

22%	Moderately burdened	Inventory	755,898	PROFESSION			
				INCOME	% OF AMI	% OF INCOME TO CLASS B RENT	
25%	Severely burdened	Low Income Households	146,031	Education	\$65,738	74%	38%
				Construction	\$60,372	68%	41%
				Maint. & Repair	\$52,450	59%	48%
				Transportation	\$46,510	52%	54%
				Health Supp.	\$36,013	41%	69%

# Additional Notes

**This information is distributed by AEW Capital Management, L.P.**

**AEW Capital Management, L.P.** is an investment adviser registered with the U.S. Securities and Exchange Commission.

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**Past Performance:** The performance data quoted represents past performance. Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time. The value of your investment may fluctuate and your investment may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted. Performance returns may increase or decrease as a result of currency fluctuations.

**Index Performance:** Indices are unmanaged and investors cannot actually make investments in an index. The index performance shown does not reflect the deduction of management fees or other expenses, which would reduce an index's performance returns.

**Investment Process:** The current investment themes and the research and investment process presented in this material represent the views of the portfolio manager at the time this material was completed and are subject to change without notice.

**Portfolio Holdings:** The portfolio holdings, characteristics, weightings, and allocations presented in this material represent the portfolio at the time this material was completed and are subject to change without notice.

**Information Only:** This material is for information purposes only. It does not constitute an offer or a recommendation to purchase or sell shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing. The information presented in this material has been prepared internally and/or obtained from sources which AEW believes to be reliable, however AEW does not guarantee the accuracy, adequacy, or completeness of such information.

# Additional Notes (continued)

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**Target Returns:** Target yields and returns (“Targets”) Targets are based on a variety of factors and assumptions and involve significant elements of subjective judgment and analysis. You should understand that these targets provide insight into the level of risk that the Firm is likely to seek with respect to the Product. As such, the Targets should be viewed as a measure of the relative risk of the Product, with higher Targets reflecting greater risk. They are not intended to be promissory in nature. Targets are estimates based on a variety assumptions, which may include but are not limited to, our assumptions about: current and future asset yields for such investments and projected cash flows related thereto, current and future market and economic conditions, prevailing and future interest rates, including the cost of use of leverage, where applicable, historical and future credit performance for such investments, and other factors outside of the Firm’s control. Targets are inherently subject to uncertainties and are based upon assumptions which may prove to be invalid and may change without notice. Other foreseeable events, which were not taken into account, may occur. You should not rely upon the Targets in making an investment decision. Although the Firm believes that there is a sound basis for the Targets presented, no representations are made as to the accuracy of such Targets, and there can be no assurance that such Targets will be realized or achieved. Additional information concerning the assumptions used in connection with the Targets is available on request.

# Additional Notes (continued)

**SEO Career** recruits and trains high achieving Black, Latinx, and Native American college students for challenging summer internships that lead to coveted full-time jobs.

**The Commercial Real Estate Success Training (CREST)** Program is a comprehensive initiative to support commercial real estate and related companies in their commitment to attract underrepresented students of color and women to the industry.

The mission of **Project Destined** is to transform minority youth into owners and stakeholders in the communities in which they live, work and play. With the careful guidance of its leadership team, Project Destined will produce the nation's largest number of minority owners of real estate.



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