



TO: Employees' Retirement System of Rhode Island
FROM: Meketa Investment Group
DATE: February 14, 2022
RE: AEW Essential Housing Fund

On behalf of the Employees' Retirement System of Rhode Island (ERSRI), Meketa Investment Group has conducted due diligence on the AEW Essential Housing Fund (the "Fund" or "EHF") and its sponsor AEW Capital Management ("AEW"). The opportunity is being considered as part of the core real estate portfolio. Based on ERSRI's investment strategy, 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 for the Employees' Retirement System of Rhode Island (ERSRI). Meketa's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered as tax, legal or transaction-structuring advice. In making any investment decision with respect to this Fund, ERSRI may rely on this report but must also make its own examination and assessment of the Fund and the terms of the offering, including the merits and risks involved.

Investment Overview

Essential Housing Fund is an open-end core-plus fund targeting U.S. apartment properties which cater to long-term renters who earn less than 100% of area median income. The Fund has closed on over \$350 million of commitments and is in the process of closing on approximately \$100 million of additional commitments. EHF is expected to acquire its first two properties during 1Q22. The acquisitions are consistent with the Fund's strategy and are summarized below:

Miami, Florida

- \$25 million equity investment
- 2020 vintage, purpose-built affordable housing
- Local Workforce Housing Designation, which requires the asset to remain affordable to families of moderate income

NYC Aggregation, Manhattan/Brooklyn, NY

- \$21 million equity investment
- Five mid-rise buildings constructed between 1908 and 1930
- Subject to 2019 NY State Housing Stability and Tenant Protection Act, which limits owner's ability to increase rents

Organization

AEW was founded in 1981 and invests globally through three distinct platforms in North America, Europe and Asia. Across the globe, AEW and its affiliates manage approximately \$79 billion of gross assets, including \$38.5 billion in North America. AEW is a wholly-owned subsidiary of Natixis Investment Managers (“Natixis”), a global asset management firm, and is Natixis’ sole dedicated real estate affiliate. AEW maintains autonomy in the day-to-day operations from Natixis.

Within North America, AEW has over 290 employees located across two offices in Boston (Headquarters) and Los Angeles. EHF is led by portfolio manager, Dillon Lorda, and supported by a dedicated team of four professionals, including two Directors of Acquisitions (East & West), one Director of Multifamily Asset Management, and one Director of Research. The Fund team leverages the broader resources of the AEW platform, including 36 acquisitions professionals, over 50 asset management professionals, and seven research professionals. Of consideration, Dillon Lorda joined the Firm just over one a year ago. The team will, however, be supported by other senior members who have been at the Firm for an average of 19 years and in the real estate industry for 25 years.

Fund Strategy

The investment thesis pairs generating strong risk-adjusted returns with a purpose of preserving housing affordability. AEW’s EHF team is specifically focused on establishing relationships with public entities and housing authorities, to generate partnerships opportunities.

The Fund has an overall core-plus risk profile and is targeting a 7.5% to 8.5% net IRR using leverage in the 40% to 50% range. More than half of the target return is expected to come from operating cash flow.

The Fund will primarily target stabilized, garden-style multifamily communities ranging from 20 to 60 years in age, but may also selectively invest in newer properties, single family homes, and manufactured housing. Up to 25% of the Fund’s net asset value may be invested in development projects. Assets will comprise both market rate and rent restricted housing categories. AEW anticipates EHF’s portfolio to be comprised of approximately 50% in naturally occurring affordable housing, 30% to 40% in voluntary regulated housing where the Fund voluntarily places a rent restriction on the property in order to access a compensating benefit, and 10% to 20% in assets that currently have a regulatory framework in place.

Performance

While this is a first time fund, AEW has extensive experience investing in the multifamily sector. The Firm has made more than 100 multifamily investments targeting demographics with less than 100% area median income (“AMI”) across various vehicles and has outperformed the ODCE and NPI-Multifamily Index by approximately 100 bps over the last 20 years.

Terms

AEW is offering a significant fee discount to investors who commit during the Fund's initial closing period. The annual asset management fee is reduced from 1.25% to 0.65% for the life of the investment. The discount also applies to any future capital commitments.

Recommendation

Meketa recommends that an investment of \$25 million be considered in AEW's Essential Housing Fund as part of the core real estate portfolio. Meketa believes that Essential Housing Fund offers an attractive risk-adjusted return profile with a current cash flow orientation, modest leverage, and favorable supply and demand fundamentals. AEW has a long and successful track record investing in affordable housing and has the resources to execute the Fund's strategy. Essential Housing Fund is designed to provide institutional quality and well managed affordable housing and, at the same time, adds diversification and additional return potential to ERSRI's core real estate portfolio.