



State of Rhode Island  
Office of the General Treasurer

**OPEB Asset Allocation Implementation Update Memo**

September-2022

**RECOMMENDATION:** Re-authorize a commitment of up to \$5 million from Rhode Island OPEB System Trust (“OPEB”) to AEW Core Property Trust (“AEW CPT”) and a \$12.5 million initial allocation to Neuberger Berman’s CLO Equity and Mezzanine Debt Strategy.

**AEW CORE PROPERTY TRUST:**

The OPEB Implementation Plan discussed at the August 3rd, 2022 SIC meeting incorporates a proposal to commit \$5 million to AEW Core Property Trust (Asset Class: Core Real Estate). The accompanying meeting materials cite a 0.50% management fee for ERSRI’s investment in AEW CPT. This fee reflects discounted founder’s terms offered to ERSRI as one of the fund’s original investors. This memo seeks to clarify that the proposed \$5 million commitment made on behalf of the OPEB Trust will not be subject to the discounted 0.50% fee applicable to ERSRI’s existing investment. However, OPEB will still be able to leverage ERSRI’s scale to obtain discounted terms.

Fund Name	Proposed Commitment Size for OPEB*	Strategy	Sector	Description	ERSRI Fees	OPEB Fees	Target Close Date
AEW Core Property Trust	\$5.00 million	Core Real Estate	Diversified - Industrial, Multifamily, Office, Retail	Invests in core real estate properties across the US in four primary property types.	Management Fee: 0.50% Carried Interest: None	Same as ERSRI	September 2022

Table above presented to during August 3, 2022 SIC meeting

For purpose of determining the Asset Management Fee Rates, OPEB’s commitment will be aggregated with ERSRI’s existing commitment. OPEB’s \$5 million commitment will be subject to a management fee of 0.89%, which is discounted from the standard 1.10% fee applicable to commitments sized at \$5 million. Thus, as the August 3<sup>rd</sup>, 2022 OPEB Implementation Plan materials had implied, ERSRI and OPEB are subject to the same fee structure (an additional \$5 million commitment from ERSRI would be subject to the same 0.89% fee that OPEB will pay).

**NEUBERGER BERMAN:**

The previously presented OPEB Implementation plan includes a proposal to make a \$12.5 million initial allocation to Neuberger Berman’s CLO Equity and Mezzanine Strategy (Asset Class: CLOs). The appendix of the accompanying meeting materials cites ERSRI’s quoted management fee of 0% on the first \$25 million of CLO Mezzanine Debt exposure (0.50% fee thereafter). This memo seeks to clarify that the proposed allocation on behalf of the OPEB Trust will not pay a 0% management fee on the first \$25 million of CLO Mezzanine Debt.

Asset Class	Investment Manager	Account Structure	Proposed Investment Size for OPEB	Description	ERSRI Fees	OPEB Fees
CLOs	Neuberger Berman	SMA	~\$12.5mm	Scales to a long-term strategy target of 60% NB CLO Equity/40% 3rd party CLO Mezz. \$2.5mm will be reserved as uncalled capital for opportunistic deployment, which will also serve a liquidity buffer to fund NB CLO Equity purchases when necessary.	Management fee (NB CLO Equity): 0 bps Management fee (CLO Mezz): 0 bps on first \$25mm, 50 bps thereafter Incentive Fee (only opportunistic uncalled): 20% after 12% IRR hurdle	Same as ERSRI

Table above presented to during August 3, 2022 SIC meeting

Neuberger Berman had initially agreed to aggregate OPEB’s investment with that of ERSRI for the purposes of managing an SMA at OPEB’s size, meaning any CLO Mezzanine Debt exposure within the OPEB account would be subject to a 0.50% management fee (Neuberger is currently managing ~\$50 million of CLO Mezzanine exposure on behalf of ERSRI). Neuberger has since agreed to waive management fees on the first \$2.5 million of CLO Mezzanine Debt exposure.

**SUMMARY:**

Notwithstanding the information outlined herein, staff continues to recommend a commitment of up to \$5 million to AEW Core Property Trust and a \$12.5 million initial allocation to Neuberger Berman's CLO Equity and Mezzanine Debt Strategy on behalf of the OPEB Trust. Each of these proposals allows the OPEB Trust to benefit from ERSRI's scale.