



State of Rhode Island
Office of the General Treasurer

Homestead Capital USA Farmland Fund IV, L.P. - Staff Recommendation

September-2022

RECOMMENDATIONS:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$50 million to Homestead Capital USA Farmland Fund IV, L.P. (“Homestead IV”). ERSRI previously committed \$25 million to Homestead Capital USA Farmland Fund III, L.P. (“Homestead III”) a 2019 vintage fund.
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$2 million to Homestead Capital USA Farmland Fund IV, L.P. (“Homestead IV”).

Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Values* in USD			Valuation	Net Performance	
				Amount Drawn	Amount Distributed	Amount Unfunded		Net IRR (%)	Net Multiple of Investment
Homestead Capital USA Farmland Fund III LP	2019	Value Add Farmland	25,000,000	15,343,720	468,146	9,666,184	16,098,094	8.58%	1.08

*ERSRI values as of 3/31/2022

ASSET CLASS: Private Real Assets (ex-Real Estate)

SUB-STRATEGY: Farmland (Value-Add)

ALLOCATIONS:

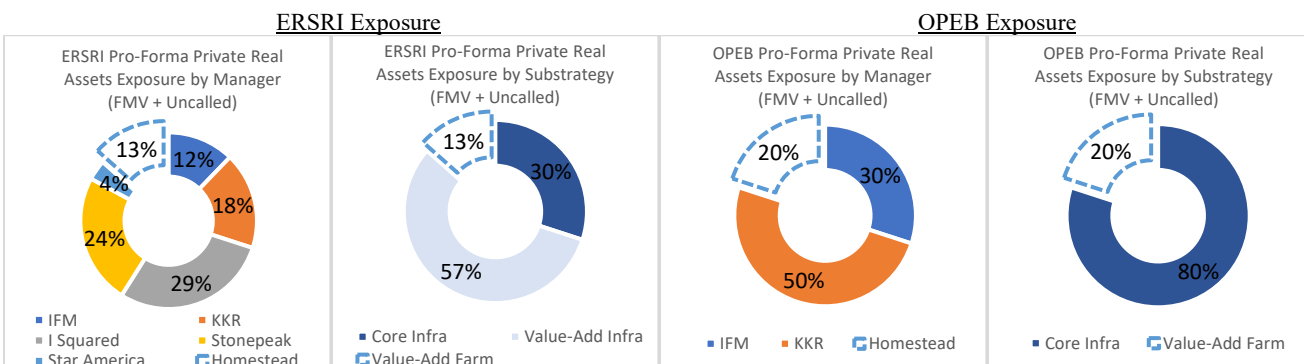
- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Private Real Assets is 4% and the actual allocation as of August 31, 2022 is 3.2%. The pacing plan for 2022 is \$50 million to 1-2 primary funds per year at \$25-50 million per fund. Pending approval, ERSRI’s 2022 commitments will be \$50 million.
- [Rhode Island OPEB System Trust](#): Effective January 1, 2023, the target allocation for Private Real Assets will be 4% and the actual allocation as of August 31, 2022 is 0.0%. The pacing plan for 2022 is \$10 million committed to 2-4 primary funds at \$2-5 million per fund. Pending approval, OPEB’s commitments will be \$10 million in 2022.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The Private Real Assets (ex-Real Estate) portfolio consists of six managers. The allocation is built around a base of private infrastructure funds and may also invest in other real assets, ex-real estate such as farmland to provide additional diversification. As part of the Inflation Protection bucket, the Private Real Assets allocation is meant to exhibit inflation hedging characteristics. Farmland investments can provide inflation hedging given the direct link between food prices and revenues from crop sales as well as increases in land prices in inflationary environments. Homestead makes value-add middle market farmland investments diversified across five target regions in the US: Mountain West, Pacific, Pacific Northwest, Midwest, and Delta. The firm will primarily invest in farms producing row crops (crops planted and harvested annually) and add diversification and return potential through permanent crop investments (crops growing on trees or vines with longer harvest cycles). The fund can also make select credit investments, primarily in short duration opportunities often ignored by traditional agriculture lenders. Homestead III represents the entirety of the portfolio’s exposure to farmland to-date. Pending approval of a \$50 million commitment to Homestead IV, Homestead would represent 13.4% of exposure (NAV + unfunded commitments) based on 8/31/2022 values.
- [Rhode Island OPEB System Trust](#): The Private Real Assets (ex-Real Estate) portfolio is in the process of ramping up to its target allocation through commitments made in tandem with those from ERSRI. The proposed commitment to Homestead IV would represent the entirety of the portfolio’s exposure to the farmland sub-strategy. Pending approval of a \$2 million commitment to Homestead IV, the fund would represent 20% of exposure (NAV + unfunded commitments) based on 8/31/2022 values.

Manager**	Asset Class	Strategy	Structure	Sectors	Market	Geography
IFM	Infrastructure	Core	Evergreen	Diversified	Large	Global
KKR	Infrastructure	Core	Evergreen	Diversified	Large	Global
I Squared	Infrastructure	Value-add	Close-ended	Diversified	Middle-Large	Global
Stonepeak	Infrastructure	Value-add	Close-ended	Diversified	Middle-Large	North America
Star	Infrastructure	Value-add	Close-ended	PPP (no energy)	Middle	U.S.
Homestead	Farmland	Value-add	Close-ended	Prem and row crop	Middle	U.S.

**ERSRI Private Real Assets (ex-Real Estate) managers as of 8/31/2022



MERITS: Homestead takes a differentiated approach to farmland investing. The firm’s strength begins with a direct proprietary sourcing channel that utilizes a network of sixteen Regional Farm Managers (“RFMs”). These RFMs are accredited farmland appraisers who are experienced in their geographies and have deep relationships with local farm operators, owners, and service providers. The RFMs operate on a contractual relationship with Homestead, with the vast majority of their time devoted to Homestead. RFMs manage farms after acquisition and are strongly aligned with the fund’s success as they are compensated based on the net income of their farms. As the firm has matured, Homestead has also increasingly sourced directly from within its own network of farm operators and service providers. Through its differentiated sourcing, Homestead is often able to acquire farms on a bi-lateral or limited competition basis.

Once the firm acquires a farm, Homestead will implement a highly active value-add plan to improve the income and value of its assets. Common value-add initiatives include improving irrigation systems, precision leveling, and implementing crop rotations. The firm often acquires additional plots to grow acreage and achieve economies of scale. Homestead will hire top tier farm operators and implement a mix of leases to manage risk, ranging from pure yield plays through cash rents where Homestead takes on no price risk to direct or custom arrangements where the fund is responsible for all costs and decision making in exchange for receiving all farm income. This compares to many peers who often employ a predominately cash lease approach and rely almost exclusively on yield for returns.

CONCERNS: Due to its highly-capital intensive value-add strategy, Homestead IV may have a deep j-curve and execution risk. Permanent crop investments may require clearing of farmland and planting of new trees or vines which take several years to begin producing fruit. This concern is mitigated by the expertise and resources of Homestead’s team. The firm is led by co-founders and co-CEOs Daniel Little and Gabe Santos who along with their broader investment team have extensive history performing diligence on and managing portfolios of farms and agricultural commodities. Homestead’s internal knowledge is supplemented by its RFMs who have intimate knowledge local agricultural markets. Furthermore, the firm limits permanent crops to 50% of fund assets and in practice these assets have represented under 40% of capital.

Additionally, agriculture prices are cyclical in nature and difficult to forecast over longer horizons. This risk is mitigated by Homestead’s thoughtful portfolio construction. The firm limits single asset exposure to 15% and single region exposure to 50% of capital and constructs diversified portfolios with no single crop representing over 20% of exposure to-date.

ESG: Homestead is categorized as a **Leader** on ESG. The firm became a UNPRI signatory in 2020 and has a formal ESG policy. As part of due diligence, Homestead produces an ESG supplement detailing ESG risks and opportunities with a particular focus on environmental factors such as water usage and supply, impact on local species and habitat, and potential externalities such as chemical runoffs. Additionally, Homestead will evaluate the wellbeing and safety of labor employed

by farm operators with which it considers working. Once an asset has been acquired, Homestead works with local farm communities, implements sustainable farming practices, and in some cases transition farms to organic operations. The firm tracks water and energy usage at its farms and distributes an impact report to its LPs annually. Homestead's founders recently formed Revive, a sister company to Homestead that can operate farms using technology-enabled climate-smart farming practices. Homestead will assess potential benefits of utilizing Revive to manage its assets at market-clearing rates.

Homestead is 50% minority-owned and is committed to creating a culture of diversity and inclusion. The firm has a formal DEI policy. Homestead contributes to and partners with leading DEI organizations including SEO Scholars, Project Basta, TOIGO, Latinos in Finance, 100 Women in Finance, and UAspires.

FEES: Fee terms are in-line with industry standards. The management fee is 1.5% on committed capital during the four year investment period and 1.5% on invested capital thereafter. The management fee will be 100% offset by transaction, investment banking, breakup, advisory, monitoring, and other such fees. Carry is 15% on the fund-level after a 6% hurdle.