

Recommendation on Homestead Capital USA Farmland Fund IV

To: RISIC
Prepared: September 19, 2022
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Homestead Capital USA Farmland Fund IV ("Homestead IV" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's and OPEB's Private Real Asset allocation. ERSRI is currently invested in the predecessor fund, Homestead III.

Summary of Homestead IV

Fund Overview: Homestead IV will acquire and manage a diversified portfolio of farmland located in the U.S.

People and Organization: Homestead Capital USA LLC ("Homestead" or the "Firm") was founded in 2012 by Daniel Little and Gabe Santos, the Managing Partners. Subsequent to the Firm's formation, Gary Thien joined as a Partner, and subsequently retired in July 2018. Prior to forming Homestead, Little and Santos managed investment strategies for J.P. Morgan and Goldman, Sachs & Co. respectively. Thien provided more than 25 years of farmland valuation, sourcing, management, and disposition experience across the United States to the Firm and strategy. Thien's responsibilities were assumed by Patrick Trainer, Managing Director and Head of Investments, as well as other Homestead investment professionals. The senior investment professionals have an average of 15 years of agriculture investment experience. The founders are supported by a moderately sized investment team including a managing director, six vice presidents and two associates. In addition, the Firm has a three-person dedicated finance and accounting group and recently hired a general counsel who is also leading the Firm's credit investments. Homestead is headquartered in San Francisco with field offices in key agricultural regions including Little Rock, AR, Idaho Falls, ID, and Mahomet, IL. Critical to the Firm's strategy are the Regional Farm Managers ("RFMs"). The Firm structured the relationship with the RFMs so that they would remain independent and where they could maintain their existing farm management businesses for individuals. This allowed for a continued relationship with the owners of farmland who are typically over 60 and the primary target for acquisition. The team of RFMs has grown from five regional managers to 16. The Firm has developed a clearly delineated strategy to ensure that the RFMs present the best opportunities. All 16 RFMs are under contract to provide Homestead a right of first look on farmland within their regions. The RFMs are compensated through a percentage of farm income and may accrue a bonus out of a pool of capital retained from the management fee. The bonus is only paid upon a successful exit that achieves the underwritten performance targets.

Investment Strategy and Process: The Firm will source and acquire undervalued farms by leveraging their exclusive team of RFMs who are all accredited farmland appraisers within four specified U.S. regions including Midwest, Mountain West, Delta, and Pacific. The Firm will apply a well-defined set of value-add initiatives to the acquired farms including redevelopment, higher and better use, crop and operator optimization, capital improvements, and technology and sustainability. Each of the regional farmland managers is highly experienced in their regions and will have prior knowledge of target investments. Regional Farm Managers will identify farm investments that have distinct value add opportunities that will bring the farm to a top producing status. The Fund will partner with top farm operators and apply optimal lease structures to each farm. New in Fund IV, will be the ability for the Fund to allocate up to 15% of

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commitments to credit investments. Borrowers will be smaller farmers that are high quality credit worthy entities. The Fund will invest \$5 million to \$25 million in approximately 30 to 45 quality row and permanent crop assets. The Fund will seek to construct a diversified portfolio across regions, crop types, lease types, and operators. The Fund will add value to farm assets through operational improvements, farm manager and lease type, economies of scale, crop rotation, precision agriculture technology, and government programs. The Fund will use its RFM team to ensure that farm operators are implementing best practices techniques and maximizing crop yield.

Performance: From its previous three funds, Homestead Capital has raised approximately \$1.17 billion of total capital commitments and has called \$973 million of capital from limited partners, generating a net return of 1.12 times invested capital and a net IRR of 3.9%, as of June 30, 2022. The lower-than-expected performance is due primarily to Fund I. Fund III is performing at expectations with a net IRR of 7.7% due to better lease management.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a 4-year investment period and a 15-year term. The Fund will charge a 1.5% management fee during the investment period and a 1.5% management fee invested capital thereafter. The management fee will be offset by 100% of all transaction, investment banking, break-up, advisory, monitoring, and other such fees. The Fund has a 15% carried interest on a fund-wide basis subject to a 6% preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million and \$2 million for ERSRI and OPEB, respectively, to Homestead Capital USA Farmland Fund IV for the private real asset allocation.