



State of Rhode Island
Office of the General Treasurer

Crow Holdings Realty Partners X, L.P. - Staff Recommendation
May-2022

RECOMMENDATION: Approve a commitment of up to \$20 million to Crow Holdings Realty Partners X (“Fund X”).

ASSET CLASS: Non-Core Real Estate

SUB-STRATEGY: Diversified Value-Add

ALLOCATION: The target allocation to Non-Core Real Estate is 2.5% effective 7/1/2021, and the actual allocation as of 4/30/2022 is 2.2%. The pacing plan for Non-Core Real Estate is \$70-80 million per year. ERSRI has made \$25 million in Non-Core Real Estate commitments in 2022. A commitment to Fund X would represent a re-up to ERSRI’s \$40 million commitment to Crow Holdings Realty Partners IX in 2021. ERSRI also made a \$25 million commitment to Crow Holdings Retail Fund I, Crow’s dedicated Food & Service Retail fund, in 2015.

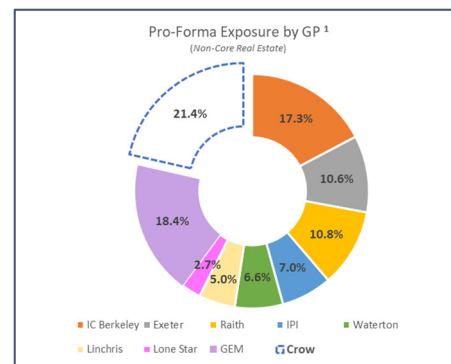
PORTFOLIO FIT: The ERSRI Non-Core Real Estate portfolio contains a mix of sector focused and diversified funds that bring operational expertise to value-add and opportunistic asset acquisitions; ERSRI allocates to diversified funds that mitigate portfolio sector concentration, provide differentiated exposures, and ultimately enhance Non-Core Real Estate portfolio diversification. Diversified funds also offer the flexibility to move into and out of sectors based on relative attractiveness more quickly than the rate at which ERSRI can allocate. Fund X can be categorized as a diversified value-add strategy – the fund will allocate across a variety of sectors in which the Crow team possesses property type expertise.

We anticipate that Fund X will be anchored by exposure to industrial and apartment property types (~70% Fund X target allocation). As of 9/30/2021, ERSRI’s Non-Core Real Estate portfolio is underweight apartment assets relative to the NFI-ODCE Index. ERSRI’s largest sector focused GP ¹ in the Non-Core Real Estate portfolio is Berkeley Partners, who manages funds that target industrial assets. Berkeley targets small, undermanaged, light industrial properties that are generally below 200,000 sq. ft., with a preference for assets near urban core and in-fill locations that appeal to broad base of U.S. small and mid-size businesses. Berkeley does not typically invest in new development. Crow, on the other hand, targets larger warehouse and distribution facilities that cater to the deepest part of the tenant market, with an emphasis on new development. Crow also allocates to less-trafficked niche property types (30% Fund X target allocation) to which ERSRI has de minimis exposure. These niche property types include Manufactured Housing and Convenience & Gas, amongst others, which can be highly fragmented sectors with strong value-add potential as well as resilient/defensive characteristics (i.e., sticky tenancy, necessity-driven demand, low capex).

Crow is complementary to ERSRI’s other diversified value-add GP, GEM, whose strategy is anchored by office, hotel, and residential assets. Crow predominately targets traditional garden style and low-density multi-family apartments within its residential allocation, whereas GEM seeks to build residential exposure that is diversified across traditional multi-family, single-family, and senior housing assets. Crow and GEM target different specialty property types as well. Crow focuses on manufactured housing and convenience & gas; GEM focuses on production studios and marinas.

Upon approval, Crow Holdings Realty Partners X would represent 4.8% of the Non-Core Real Estate portfolio’s exposure. Crow Holdings Capital, inclusive of ERSRI’s investments in Crow Holdings Realty Partners IX and Crow Holdings Retail Fund, would represent 21.4% of the Non-Core Real Estate portfolio. ¹

Manager	Strategy	Sector
IC Berkeley	Value-Add	Light Industrial
GEM	Value-Add/Opportunistic	Diversified
Exeter	Value-Add	Industrial
Raith	Opportunistic	Diversified
Crow (Diversified)	Value-Add	Diversified
IPI	Core/Value-Add/Opportunistic	Data Centers
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Linchris	Value-Add	Hotel
Lone Star	Distressed	Diversified



MERITS: Over its extensive history, Crow has developed a strong reputation amongst a large network of developers, brokers, and other external partners. These relationships have helped drive Crow’s demonstrable ability to source off-market transactions and participate in target-marketed deals (~60% of Fund IX deals were sourced off-market, ~20% target-marketed). Crow Funds typically include a large number of diversified investments with smaller deal sizes (average fund equity of ~\$15-20mm per transaction) relative to other institutional investors, reducing the level of competition for deals. The firm also possesses expertise in the acquisition and development of niche property types with significant value-add opportunities that will ultimately enhance ERSRI’s portfolio diversification.

Crow has successfully executed its clear and repeatable strategy across their diversified value-add family of funds dating back to 1998, achieving consistently strong returns through multiple market cycles. All but one of Crow’s diversified value-add real estate funds have generated a net IRR in excess of 10%. Crow has been able to achieve these results with a well-resourced investment team (over 80 employees dedicated to Fund X) directed by highly experienced property-type vertical leads. The Fund X Investment Committee consists of 12 senior members of the Crow team who, on average, possess roughly 26 years of industry experience and 20 years of experience with Crow.

as of 9/30/21					
Crow Fund	Vintage	Crow Net IRR	Crow Net Multiple	Quartile	
I	1998	11.3%	1.6x	N/A	
II	2000	17.0%	1.5x	3rd	
III	2003	29.0%	1.6x	1st	
IV	2006	1.6%	1.1x	2nd	
V	2008	14.8%	1.5x	2nd	
VI	2012	10.2%	1.4x	3rd	
VII	2014	11.5%	1.4x	2nd	
VIII	2017	23.0%	1.5x	1st	

*Quartile rankings are relative to the Cambridge Value-Add Real Estate Universe

CONCERNS: Crow X’s \$3 billion target fund size represents a ~30% increase to Fund IX’s raise. The risks associated with this size increase are mitigated by Crow’s track record of successfully and persistently growing its fund sizes without an accompanying drift in strategy. Crow has continued to scale its team and resources alongside deal volume. Additionally, Crow raised a \$750 million development-only fund in 2021 to absorb deal flow in excess of Fund IX’s development cap, demonstrating an ability to place ~\$3 billion in fund equity over a typical Crow investment period.

ESG: Crow is categorized as an ESG **Integrator**. Crow has a formal ESG policy, tracks KPIs, and incorporates an ESG checklist into every investment committee recommendation memo. Crow works with a third-party ESG consultant to evaluate, assess, and monitor investments. The firm also has a dedicated ESG Taskforce that is staffed with representatives from multiple areas of the organization, including senior portfolio and asset management investment professionals. Crow is in the process of building-out its ESG KPIs for monitoring and reporting. Crow continues to expand its diversity and inclusion efforts through specific initiatives tied to ensuring a diverse talent pipeline, expanding mentorship programs, and establishing affinity groups.

FEES: ERSRI will pay a management fee of 1.25%, which includes a 0.15% early-close discount as well as a 0.10% prior fund investor discount. The fund charges carried interest of 20% subject to a 9% preferred return with a 50/50 catch-up.

¹ Exposure measured on a pro-forma basis; fair market value + unfunded commitments to-date, calculated as of September 30, 2021