**TO:** The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan
**FROM:** Meketa Investment Group
**DATE:** August 20, 2024
**RE:** Belveron Flagship Fund VII

On behalf of The Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI"), along with the Rhode Island OPEB System Trust ("OPEB"), (collectively, the "Plans"), Meketa Investment Group ("Meketa") has conducted due diligence on Belveron Flagship Fund VII ("Fund VII" or the "Fund") and its sponsor, Belveron Partners ("Belveron," the "Manager," or the "Firm"). The opportunity is being considered as part of the Plans' non-core real estate allocation, within the Private Growth class. The Fund's value-add risk profile and affordable housing sector focus supports the objective of diversifying ERSRI's non-core holdings with sectors benefiting from demographic trends. Based on the Plans' investment strategies, 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 opportunity for the Plans. Meketa's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered tax, legal, or transaction-structuring advice. In making any investment decision with respect to this Fund, the Plans may rely on this report but must also make their own examination and assessment of the Fund, including the terms of the offering, the merits, and the risks involved.

## Investment Overview

Belveron Fund VII is a value-add, closed-end equity Fund targeting affordable housing investments within the United States. The Fund is targeting returns of 18% to 20% gross IRR and 14% to 16% net IRR. Fund VII will target asset level leverage of 65% loan-to-value.

## Organization

Founded in 2007 by Paul Odland, Belveron is a privately held real estate investment manager focused on the conversion and preservation of affordable housing in the US. Since inception, the Firm has raised over $1 billion of equity capital across multiple vehicles and has participated in the creation and preservation of over 45,000 affordable housing units across 23 states.

Belveron was initially focused on the acquisition and aggregation of limited partnership interests in affordable housing assets nationwide. This investment strategy was implemented through Belveron's first two commingled funds (Fund I and Fund II), which deployed approximately $30 million of equity capital sourced from the Firm's original high net worth investor base. Through this effort, the Firm established extensive relationships and partnerships with affordable housing developers, syndicators, and investors on a national scale, which provide deal sourcing channels to this day. Starting in 2013 with Fund III, Belveron shifted its investment strategy to leading direct deals in Section 8 and Low-

Income Housing Tax Credits ("LIHTC") initiatives, as well as fostering the creation of public-private partnerships.

Belveron employs 20 people in its New York City headquarters and San Francisco office. Paul Odland (Founder and CEO) works from the San Francisco office and his home office in Austin. The Firm is currently wholly owned by Mr. Odland.

## Fund Strategy

The Fund seeks capital appreciation through investments in "Capital A" affordable housing, which are multifamily assets that are governed by a regulatory agreement or deed restriction related to rents. The Fund seeks controlling equity investments with a "regulatory value-add" opportunity, leveraging the Belveron Investment Team's specialized regulatory acumen and deep network of key policy makers, housing authorities, and financing agencies to execute on creative structures. Belveron maintains a flexible investment strategy with the ability to invest across project-based Section 8 housing, low-income housing tax credits, and properties subject to elective local or state affordability programs. Investments will be located throughout the United States but may be concentrated based on regulatory opportunity. The Fund will not invest in ground-up development.

Belveron has demonstrated it can generate attractive returns in this space by working with housing authorities to secure tax abatements, running assets at higher than market occupancy (and lower turnover) rates, and increasing rent to market within the regulatory parameters where applicable. Belveron's strategy includes a mix of target hold periods, which may include sales within three years as well as hold periods extending beyond five years to maximize the benefit of certain tax abatement structures. Irrespective of the financial structure, Belveron aims to continue its practice of preserving rent affordability and maintaining strong tenant retention through institutional property upkeep, improving amenity space, and offering targeted community programing.

Belveron anticipates making approximately 20-25 investments in the Fund, representing equity investments of approximately $10-$40 million ($25-$120 million gross capitalization). Some deals, particularly portfolios, may be larger. The typical capital structure is a combination of Fund equity and Fannie / Freddie / FHA debt. Target acquisition leverage is 65% LTV. Belveron Fund VII is targeting a 14% to 16% net IRR (18% to 20% gross IRR) and 1.8x net (2.0x gross) equity multiple.

## Terms

The $350 million target fund size represents a moderate increase from the predecessor fund's size of $280 million in 2020. The Fund has closed on over $240 million of commitments as of July 2024 and its final close will occur in September or October 2024.

The General Partner will commit $6 million to the Fund, which will be 100% funded by the Belveron management team. The management fee is 1.5% of commitments during the investment period and 1.5%

of invested capital thereafter. The Fund has a 7% preferred return, a 20% carried interest structure, and a 50% catch-up provision calculated on a whole-fund basis.

## Institutional Fund Performance

**Belveron Partners[1]**
**As of March 31, 2024**

| Fund | Vintage Year | Invested ($M) | Realized Value ($M) | Total Value ($M) | Net Multiple (X) | Net IRR (%) | Top Quartile[2] (%) |
|---|---|---|---|---|---|---|---|
| Fund I | 2007 | 8.9 | 24.0 | 24.0 | 2.70 | 18.2 | 13.0 |
| Fund II | 2011 | 18.9 | 44.1 | 44.1 | 2.34 | 25.8 | 28.3 |
| Fund II-Sidecar | 2013 | 5.0 | 16.5 | 16.5 | 3.30 | 35.4 | 30.2 |
| Fund III | 2013 | 105.0 | 212.2 | 239.6 | 2.27 | 22.1 | 30.2 |
| Fund IV | 2015 | 203.7 | 358.1 | 391.7 | 1.88 | 21.3 | 23.3 |
| Fund V | 2018 | 284.7 | 88.2 | 363.6 | 1.26 | 6.0 | 21.2 |
| Sweeper Fund (“Continuation Vehicle”) | 2019 | 12.3 | 22.0 | 33.5 | 2.72 | 54.4 | 11.0 |
| Fund VI | 2020 | 262.7 | 386.8 | 541.1 | 1.99 | 47.0 | 11.1 |
| Fund VII | 2023 | 78.7 | 0.0 | 74.8 | NM | NM | NA |
| Total | | 979.9 | 1,151.9 | 1,728.8 | 1.50 | | |

Upon its inception in 2007, Belveron’s investment strategy primarily focused on acquiring passive LP shares in various affordable housing deals across the U.S. Funds I, II, and II-Sidecar exhibited this strategy. All the LP shares in Funds I, II, and II-Sidecar were transferred to the Sweeper Fund in exchange for either a cash payment of redemption proceeds or interests in the Sweeper Fund. All redeeming shares were bought out by existing investors at a price determined by a third-party valuation firm. The Firm’s investment scope widened for Fund III with the introduction of an institutional investor; Belveron began direct investing and operating within the affordable housing sector. Funds III and IV performed in the top quartile from a multiple perspective, and slightly below top quartile from an IRR perspective. Fund V has underperformed relative to expectations; the manager cites several investments that deviated from the core “Capital A” affordable housing strategy paired with regulatory changes in New York City, where Fund V has substantial exposure, as reason for the underperformance. Fund V was also invested during a period of rapidly increasing interest rates, which adversely impacted

[1] Belveron did not provide investment-level or fund-level cash flows for Funds I, II, III, IV, VII, Fund II – Sidecar, or Sweeper Fund / “Continuation Vehicle”. Therefore, Meketa was not able to verify performance figures. The performance figures in the table for these funds were provided by the manager.
[2] Preqin (Real Estate - Value-Added – North America) Net IRR as of March 31, 2024.

the strategy. Fund VI has performed very well to date and has returned invested capital 1.5x while holding additional unrealized value. Changes from Fund V to Fund VI that could explain Fund VI's outperformance include a geographic shift away from the Eastern US region and into the Southern US region, as well as a shift towards mixed income housing versus pure regulated affordable housing.

## Recommendation

Meketa recommends a commitment of $20 million for ERSRI, and $600,000 for OPEB, as part of its non-core real estate portfolio. The Fund's value-add risk profile and affordable housing focus support the objective of diversifying ERSRI's non-core holdings with sectors benefiting from favorable demographic trends. The investment is consistent with the role of non-core real estate within the Private Growth section of the Plans' portfolio.