



State of Rhode Island
Office of the General Treasurer

Berkeley Partners Value Industrial Fund VI, L.P. - Staff Recommendation

May-2023

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): **Approve a commitment of up to \$20 million to Berkeley Partners Value Industrial Fund VI, L.P. (“Berkeley VI”).** ERSRI previously committed \$18 million to IC Berkeley Partners III (“Berkeley III”), a 2013 vintage fund, \$30 million to IC Berkeley Partners IV (“Berkeley IV”), a 2016 vintage fund and \$35 million to Berkeley Partners Value Industrial Fund V (“Berkeley V”), a 2020 vintage fund (exposure in *Appendix 1*, performance in *Appendix 2*).
- [Rhode Island OPEB System Trust](#): **Approve a commitment of up to \$600,000 to Berkeley Partners Value Industrial Fund VI, L.P. (“Berkeley VI”).**

ASSET CLASS: Non-Core Real Estate (ERSRI), Private Growth – Non-Core Real Estate (OPEB)

SUB-STRATEGY: Value-Add Light Industrial

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Non-Core Real Estate is 2.5% and the allocation as of 4/30/2023 is 2.1%. The preliminary pacing plan for the 2023 vintage is \$70 million committed to 3-4 funds at \$15-20 million per fund. Pending approval of this recommendation, ERSRI’s 2023 vintage commitments will be \$40 million.
- [Rhode Island OPEB System Trust](#): The target allocation for Private Growth is 5.0% and the Non-Core Real Estate sub-strategy is targeted to represent ~20% of the asset class (i.e. 1.0% at the OPEB Trust level). The actual allocation to Private Growth – Non-Core Real Estate as of 4/30/2023 is 0.02%. The preliminary pacing plan for the 2023 vintage is \$2 million committed to 3-4 funds at \$0.45-0.60 million per fund. Pending approval of this recommendation, OPEB’s 2023 commitments will be \$1.2 million.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): 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 types (see *Appendix 3*). ERSRI allocates to sector focused funds that demonstrate specialized expertise and differentiated execution. Berkeley’s value-add light industrial strategy fits well within this segment of the portfolio. Berkeley VI will target buildings in select U.S growth-oriented target markets that are i) generally 50,000 to 250,000 square feet with truck courts and ii) close to city centers, housing, and transportation corridors (‘Infill Urban Locations’). Those buildings tend to be older buildings constructed prior to 1990 and are occupied by small/medium businesses. With Berkeley’s top-down market selection, bottom-up property underwriting and its vertically integrated asset management, Berkeley VI targets to maintain a large number and broad diversity of tenants with staggered lease expiration and loan maturities. Berkeley primarily focuses on short-term to intermediate term (3-7-year) triple net leases with annual escalator. Major capital improvements are generally limited to roof, parking lots and HVAC units. However, up to 20% of fund may be invested in group-up development. Pending approval of the recommendation, Berkeley would represent ~15% of the Non-Core Real Estate Portfolio and ~61% of the sector focused Value-Add Industrial exposure within ERSRI (see *Appendix 4*).
- [Rhode Island OPEB System Trust](#): The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate (as described above) strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendation, Berkeley would represent ~14% of Private Growth’s Non-Core Real Estate allocation and 100% of sector-focused Value-Add Industrial within OPEB (see *Appendix 5*).

MERITS:

- **Vertical Integration & Sourcing:** Berkeley Partner is vertically integrated with in-house capabilities including underwriting, leasing, construction management, and property management. It focuses exclusively on light industrial real estate assets and has gone through multiple market cycles. Berkeley sources deals from multiple channels including traditional brokerage firms and existing relationships. About 43% of past acquisitions are sourced off market and 61% of Fund V's properties are acquired without a competitive bidding process.
- **Sector Specialist:** Berkeley is a sector specialist within light industrial real estate since 2005. Since its inception in 2005, Berkeley has invested in 234 properties, about 21.7 million square feet. Berkeley has corporate offices in Oakland, CA, Dallas, TX and Boston, MA and regional property management in select markets. Berkeley focuses on U.S. markets with fundamental strengths such as above average employment, household income (HHI), and population growth. Berkeley's specialized expertise in light industrial, its target in less institutional industrial assets and the ability to act quickly with an all-cash offer have provided an advantage in sourcing and executing transactions.
- **Unique Scale & Tenant Diversification:** Berkeley targets smaller properties (\$10-75 million of gross value) in infill locations with less institutional competition. Per CoStar, majority of the leases take place in smaller spaces and new supply in infill locations is limited due to higher construction costs and availability of land. Tenant base for infill light industrial properties is typically composed of small/medium local, regional business to national credit tenants in different sectors. A mix of local, regional, and national tenants from various sectors (warehouse/logistics, light manufacturing, wholesale and essential services) provides a stable, predictable and diverse stream of rent income.

CONCERNS:

- **Concern – Concentrated Ownership by Founder & Organizational Change:** The majority of Berkeley is owned by its founder Aaron Snegg. Aaron has been adding ownership as two other partners decrease their involvement with the firm.
 - **Mitigant – Key Person Clause and Addition of two Partners:** Before launching Berkeley VI, Andrew Holmberg and Bahaar Sidhu (COO & CFO) were promoted to partners and have ownership stake. Matthew Novak, CIO, has a big increase in ownership. Aaron Snegg is defined as a key person and a key person event is triggered to protect limited partners if he ceases to devote substantial time to the Firm during the Investment Period of Fund VI.

ESG: Berkeley is categorized as ESG **Neutral**.

- **ESG:** Berkeley has a Responsible Investing policy and is in the process of hiring an ESG consultant to develop a formal ESG policy and to conduct a benchmark study. Berkeley's Responsible Investing policy focuses on improving efficiency at properties which in return improves tenancy rates, lower operating costs and maximize exit value. Berkeley monitors environmental efficiencies at property level and improvements typically include LED light replacements, high efficiency plumbing fixtures, occupancy sensors, thermostat timers and solar panels. Berkeley expects to formalize its ESG framework and standards.
- **DEI:** Berkeley is committed to a culture of equity and inclusion. Senior management believes that a diverse team creates better decision making and improves investment and operational practices. Management has the desire to interview a diverse base of candidates for open positions. At the firm level, female or minority is above 40% of the entire staff.

FEES: Fees for Berkeley VI are in-line with industry standards.

- **Management Fees:** Berkeley VI will charge a 1.35% management fee (including early closing discount and consultant discount) on commitments during the investment period and a 1.5% fee on invested capital thereafter.
- **Carried Interest:** Carried interest is 19% (preferred economics for being a Meketa client) over an 8% hurdle with a 50% catchup to the GP. Carry is distributed on a total fund basis.

Appendix 1: ERSRI Prior Fund Exposure

Fund Exposure*

Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation
IC Berkeley Partners III, L.P.	2013	Value-Add	\$18,000,000	\$16,038,326	\$24,714,586	\$0	\$0
IC Berkeley Partners IV, L.P.	2016	Value-Add	\$30,000,000	\$29,935,246	\$48,003,009	\$64,755	\$80,300
Berkeley Partners Fund V, L.P.	2020	Value-Add	\$35,000,000	\$24,005,699	\$2,455,501	\$12,456,671	\$26,206,761

*Data as of 12/31/2022

Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year/ Initial Investment	Type	Net Performance*		Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	MSCI US REIT Net PME IRR**	Fund Excess Return (Fund IRR - PME)
IC Berkeley Partners III, L.P.	2013	Value-Add	20.22%	1.54	9.12%	11.10%
IC Berkeley Partners IV, L.P.	2016	Value-Add	17.19%	1.61	12.72%	4.47%
Berkeley Partners Fund V, L.P.	2020	Value-Add	16.27%	1.19	-4.55%	20.82%

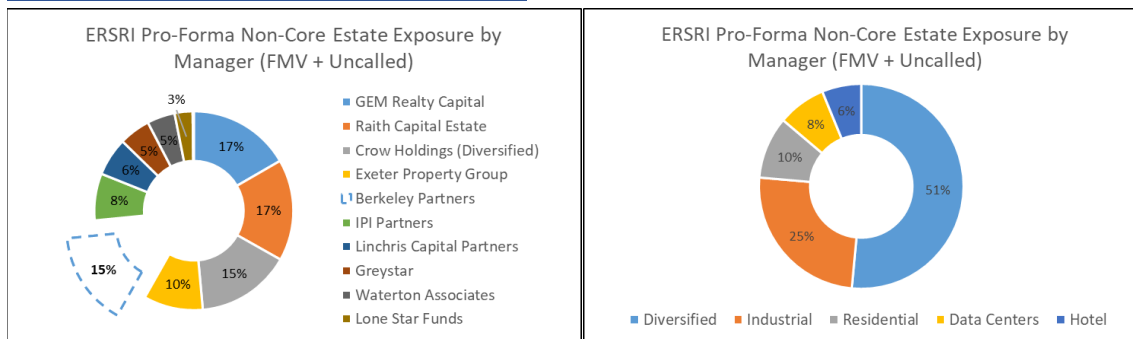
*Data of 12/31/2022

**Long Nickels PME Methodology

Appendix 3: ERSRI Non-Core Real Estate Managers

ERSRI Non-Core Real Estate Managers		
Manager	Sub-Strategy	Sector
Crow (Diversified)	Value-Add	Diversified
GEM	Value-Add/Oppportunistic	Diversified
Raith	Opportunistic	Diversified
Lone Star	Distressed	Diversified
Berkeley Partners	Value-Add	Industrial
Exeter	Value-Add	Industrial
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Greystar	Value-Add	Residential
Linchris	Value-Add	Hotel
IPI	Value-Add/Oppportunistic	Data Centers

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

