



State of Rhode Island
Office of the General Treasurer

**Ventas Life Science and Healthcare Real Estate Fund (“VLSHREF”) –
Staff Recommendation**
March-2023

RECOMMENDATION:

- **Rhode Island Employees Retirement Systems Pooled Trust:** Approve a commitment of up to \$25 million to Ventas Life Science and Healthcare Real Estate Fund (“VLSHREF”) with no more than 1/2 of the total commitment called in a quarter.
- **Rhode Island OPEB System Trust:** Approve a commitment of up to \$2 million to Ventas Life Science and Healthcare Real Estate Fund (“VLSHREF”) with no more than 1/2 of the total commitment called in a quarter.

ASSET CLASS: Core Real Estate (ERSRI & OPEB)

SUB-STRATEGY: Core/Core+ (Life Science and Healthcare Real Estate)

ALLOCATION:

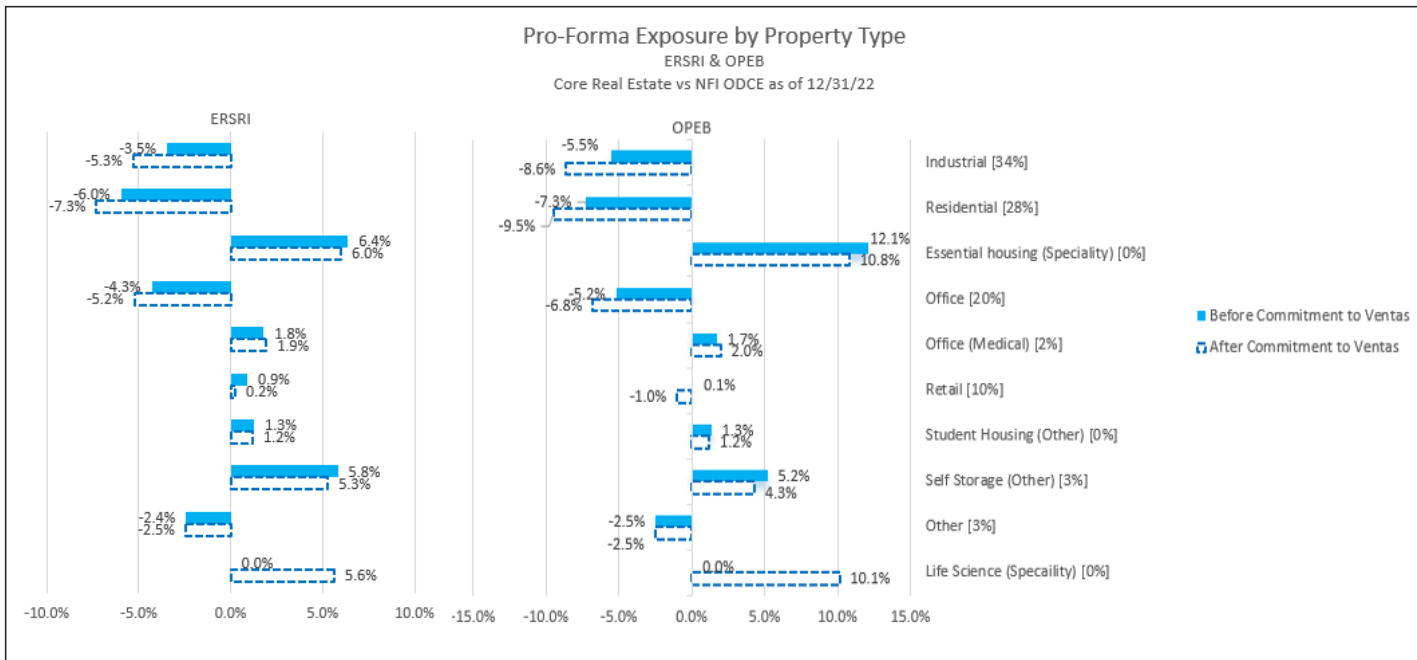
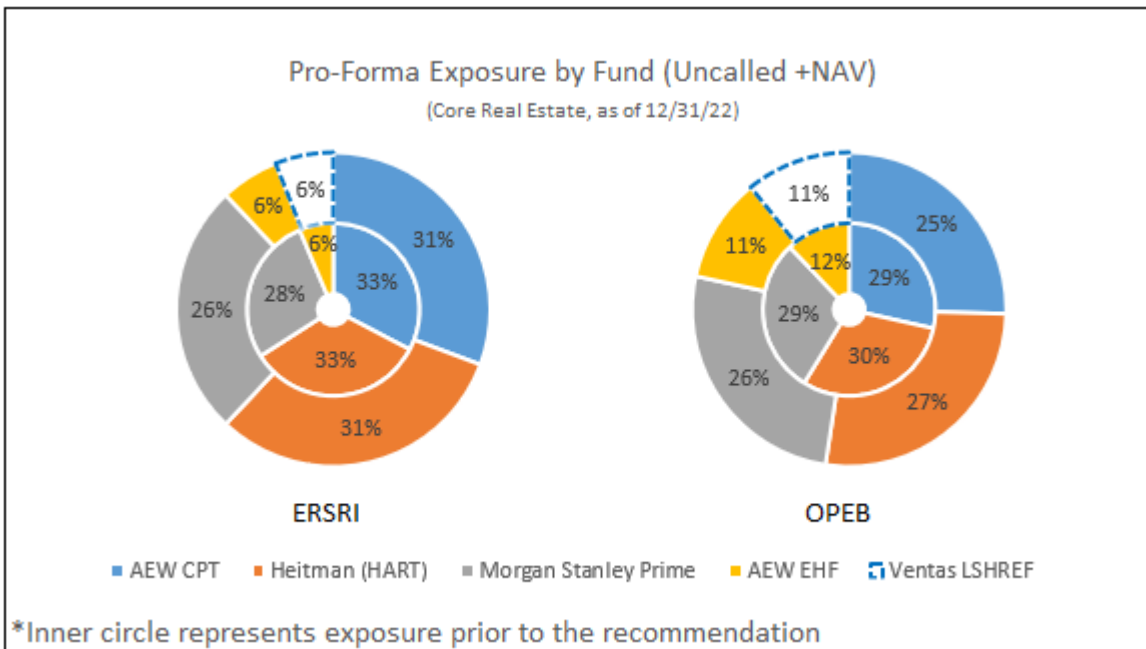
- **Rhode Island Employees Retirement Systems Pooled Trust:** The target allocation for Core Real Estate is 4.0% and the allocation as of 2/28/2023 is ~3.7%. Preliminary pacing plan for the 2023 vintage is \$25 million which will be entirely committed to VLSHREF. Pending approval of this recommendation ERSRI’s 2023 vintage commitments will be \$25 million.
- **Rhode Island OPEB System Trust:** The target allocation for Core Real Estate is 4.0% and the actual allocation as of 2/28/2023 is ~1.8%. Pending approval of this recommendation OPEB’s 2023 vintage commitments will be \$2 million.

PORTFOLIO FIT:

- **Rhode Island Employees Retirement Systems Pooled Trust:** ERSRI’s Core Real Estate allocation resides within the portfolio’s Inflation Protection allocation, which is a subcomponent of the Plan’s Stability Bucket. The core real estate allocation seeks to earn returns through investments in a diversified set of substantially leased income-producing properties. Core properties demonstrate predictable income flows with a high proportion of anticipated total return from tenant rents. Aligned with the broader goals of the allocation, VLSHREF is an income focused vehicle that will seek to generate stable, recession-resilient income while providing for the preservation of capital and modest levels of appreciation over time. VLSHREF is focused on acquiring a strategic mix of core/core+ life science, medical office, and seniors housing properties. As of Q4’22, the fund has 9 properties in Life Science and 2 in medical office. Life science and medical office are considered as specialty sectors which are still in the early stages of institutionalization and are underrepresented in the NFI ODCE index. The high-quality life science & medical office assets are anchored by a combination of investment grade rated universities, large cap publicly traded companies, health systems and life & science companies.

ERSRI’s Core Real Estate allocation is currently comprised of three open-ended diversified core funds and one open-ended specialty core+ fund focusing on affordable housing. The three diversified funds are broadly diversified and have limited exposure in life science, medical office and senior housing. VLSHREF is a sector-focused open-ended fund that will concentrate on life science. If approved, Ventas would represent ~6% of the Core Real Estate portfolio.

- **Rhode Island OPEB System Trust:** Similar to ERSRI, OPEB has a 4% allocation to core real estate which resides in portfolio’s Inflation Protection allocation, a subcomponent of the Plan’s Stability Bucket. OPEB has the same four open-ended core funds as ERSRI’s and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendation, VLSHREF would represent ~11% of the Core Real Estate portfolio.



MERITS:

- Life Science, Medical Office & Senior Living Market Dynamics:** The commercial specialty sectors in life science, medical office and senior living are supported by an aging population and technology trends. A handful of life science clusters markets such as Boston, San Francisco and San Diego have emerged, and the fund brings together academic and health anchors. Life science and medical office market benefits from high occupancy rates and cycle-resilient cash flows. Outpatient visits are expected to grow further with an aging population.
- Platform:** VLSHREF is supported by a broader platform from Ventas Inc (a leading REIT with more than 1,200 properties in senior living, medical office and life science, and with a 400+ person team and 20-year history). Ventas platform, which provides essential resources for sourcing, leasing, investment management, and back-office support, is fully accessible to the Fund team. Ventas Inc's extensive network and industry relationship and its execution reputation will provide the fund with material sourcing advantage.

RISKS:

- **Rising Rates & Cap Rate Expansion:** Increases in interest rates result in increased borrowing costs for new acquisitions and may lead to market values for existing assets declining due to cap rate expansion. Property values started to decline in Q4'2022 and may decline further in current environment.
 - **Mitigant – Staged Commitments:** Staff recommends staging the commitment over three quarters to reduce risk.
 - **Mitigant – Limited Fund Leverage:** The fund has low leverage ratio and majority (90%+) of the financing is at fixed rate (sub 3%) for a weighted average term ending in 2030. The fund is well positioned to look for new opportunities at more favorable cap rates.
- **Slowdown in Venture Capital Funding, IPOs and M&A:** The current macroeconomic volatility and slowdown in venture capital funding, IPOs and M&A can reduce tenant demand and can put downward pressure on occupancy and rent growth.
 - **Mitigant – Focus on High Quality Assets:** The fund has been targeting top life science clusters in the United States where there is supply-demand imbalance. Properties with geographical advantages (for example, close proximity to medical schools) in top life science clusters get less impact from the slowdown venture capital funding, IPOs and M&A.

ESG/DEI:

- **ESG:** Ventas is categorized as an ESG **Leader**. Ventas created an ESG Policy in 2016 and has a dedicated ESG team and an ESG steering committee chaired by its CEO and Board Chairman. Executive compensation is directly tied to ESG performance. Ventas's ESG team meets with its 3rd party operators to collaborate on ESG initiatives and provides insight and expertise on ESG-related topics. Ventas provides various ESG trainings to all Ventas employees. Since 2018, Ventas has been publishing an annual corporate sustainability report (CSR) which covers its Environmental, Social and Governance practices, policies, commitments, goals and targets. Ventas has made significant strides to reduce energy and emissions and in 2022, Ventas announced its firm-wide 2040 net zero development plan. The ESG team seeks to collect 100% of the environmental data (energy, water, waste) by property and prepares annual energy, water, and waste benchmarking assessments. Ventas, Inc. has been responding to GRESB ("Global Real Estate Sustainability Benchmark") since 2006 and VLSHREF has participated in GRESB since its inception. VLSHREF also reports to Energy Star Portfolio Manager, ISS ESG, and the Dow Jones Sustainability Indices annually.
- **DEI:** Ventas is committed to promoting diversity, equity & inclusion. In 2021, a formal DE&I committee and a comprehensive framework was created. The committee is further organized into subcommittees that research best practices and implement the initiatives. A clear set of goals and objectives are identified with a formal process of tracking and benchmarking. To drive accountability, executive compensation is tied to key DE&I metrics.

FEES: The fees are in-line with industry standards.

- **Management Fees:** Ventas Life Science and Healthcare Real Estate Fund will charge 1.0% management fee on current net asset value based on committed capital.
- **Carried Interest:** Carried interest is 15% after an 8% preferred return with no catch up. LPs are protected by a high-water mark calculated every three years.
- **GP Alignment:** GP alignment is strong. Ventas Inc has been committing 20% of capital contributions and will continue to commit until the fund size reaches \$2.5 billion.