



**TO:** The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan  
**FROM:** Meketa Investment Group  
**DATE:** February 22, 2023  
**RE:** Ventas Life Science & Healthcare Real Estate Fund

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On behalf of The Rhode Island Employees Retirement Systems Pooled Trust (“ERSRI”) along with the The Rhode Island OPEB System Trust (“OPEB”), (collectively, the “Plans”), Meketa Investment Group (“Meketa”) has conducted due diligence on Ventas Life Science and Healthcare Real Estate Fund (the “Fund” or “Ventas Life Science Fund”) and its sponsor Ventas, Inc. (the “Manager” or “Ventas”). The opportunity is being considered as part of the Plans’ Core / Inflation Protection real estate allocation. The Fund’s core-plus risk profile and sector focus support the objective of diversifying ERSRI’s core holdings with sectors supported by favorable 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

The Ventas Life Science Fund is a core-plus, open-end Fund targeting life science facilities, as well as smaller allocations to medical office buildings and senior housing communities, all located within the United States and Canada. The Fund targets a gross IRR of 8-10% and net levered IRR of 7-9%. Additionally, the Fund will target an annual 5% gross cash yield on invested equity. The Manager targets a 40% loan-to-value ratio on an asset and portfolio-level basis.

## Organization

Ventas, Inc. is a Chicago, IL-based healthcare real estate firm established in the 1990s. The Firm launched its publicly traded REIT (NYSE: VTR) in 2012. VTR has a portfolio of more than 1,200 healthcare properties across the United States encompassing more than 24 million square feet of life-science properties and medical office buildings, and over 800 senior living communities. The REIT’s market cap was \$19.5 billion as of January 18, 2023 and it is part of the S&P 500 Index. The VTR strategy targets higher returns than the Life Science Fund by focusing on development and heavy repositioning.



To grow the company, Ventas, Inc. sought to invest in life science, senior housing, development, and healthcare properties with a lower risk profile than those targeted by VTR. Given the scale of the Ventas platform and deep tenant/broker/owner relationships, the Fund's strategy is a natural extension for the Firm. The Firm launched the private equity real estate Fund, Ventas Life Science and Healthcare Real Estate, in March 2020 under the leadership of Brian Newman (Senior Vice President and Portfolio Manager). Brian Newman works alongside his team of four real estate professionals and an advisor. The Fund is supported by Ventas Inc.'s team of over 200 investment professionals.

## Fund III Strategy

The Fund is currently targeting a 60-90% allocation to the life science property type, a 10-30% allocation to the medical office property type, and less than 10% allocation to senior living facilities. The long-term trend of increasing life expectancy and rapidly growing population of those aged 65 and over, and particularly those above 85, is expected to drive demand for biomedical research, medical services, and senior care. The Fund's focus on life science and medical office is predicated on the tenants' need to physically occupy and utilize the space. The lab work, testing, and outpatient services conducted in the buildings the Fund targets cannot be completed remotely.

The Fund will target core to core-plus assets (88% occupancy or higher) which exhibit defensive investment characteristics including in-place cash flow, credit tenancy, and proven micro locations. The Fund may invest in life science or medical office development projects that are at least 50% pre-leased. While there is no cap on the amount of development the Fund may pursue, there are currently no Fund properties in development, and the expectation is for the Fund to predominantly be comprised of well-leased operating properties. Investment property values will generally range from \$45 million to \$200 million per asset. Assets will be located in the United States and Canada (15% max GAV in Canada).

## The Ventas Life Science Fund Status

- 2.5 million square foot portfolio valued at \$2.5 billion
- 11 assets: 9 life science, 2 medical office
- 94% leased including the South San Francisco Tower office-to-lab space currently being converted; 99% leased excluding the conversion space
- Assets located in: Baltimore, MD (13.8%); Cambridge, MA (7.0%); Durham, NC (4.0%); New Haven, CT (17%); Norfolk, VA (3.8%); Portland, OR (1.8%); San Francisco, CA (47.6%); and Winston-Salem, NC (5.4%).
- Weighted average lease term ("WALT"): 8.2 years
- Leverage: 35%; 94% fixed-rate financing at 2.9% for over 7.0 years



## Terms

The management fee is 1.0% per annum of current net asset value based on committed capital. The Fund has an 8% preferred return and no catch-up provision. The GP receives 15% of distributions after the preferred return has been met, subject to a high-water mark calculated every three years. Ventas, Inc. will commit 20% of capital contributions until the Fund size reaches \$2.5 billion.

The economic terms for the Fund are within the market range for open-end, core-plus funds. The inclusion of a high-water mark test is favorable. As of January 2023, the Fund has approximately \$500 million in uncalled capital, which will be drawn before any new client commitments.

## Fund Performance

As of September 30, 2022, the Ventas Life Science Fund has invested \$1.87 billion in 11 investments.

The table below shows 3Q 2022, one-year, and since inception returns as provided by Ventas. The Fund's total gross since inception (2020) returns of 17.9% are comprised of 4.8% gross income growth and 12.6% gross appreciation. The Fund's total net return since inception is 16.8%. The returns significantly exceeded target returns based on strong capital flows to the sector (lowering cap rates in 2021 and the first half of 2022) and sustained high rent growth. Preliminary 4Q 2022 return expectations are between (3%) to (4%), reflecting a general increase in real estate pricing and interest rates.

	3Q2022	1 Year	Since Inception (March 2020)
Income	1.31%	5.31%	4.79%
Appreciation	0.92%	14.46%	12.61%
Total Return	2.23%	20.34%	17.87%
<b>Total Net Return</b>	<b>1.97%</b>	<b>19.14%</b>	<b>16.77%</b>

## Recommendation

Meketa recommends a commitment of \$25,000,000 should be considered for ERSRI and \$2,000,000 for OPEB, as part of their core real estate portfolios. The Fund's core-plus risk profile and sector focus support the objective of diversifying ERSRI's core holdings and is consistent with the role of core real estate within the Inflation Protection sections of the Plans. It is further recommended to stage the commitment over two-to-three quarters to reduce the risk of contributing 100% of the commitment just prior to any value decline. Based on market conditions, there is potential for additional mark-downs over the next one or two quarters.