

**Item 5.c.iv.**

**Non-core Real Estate Manager Analysis**

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June 2023

## **Delray Beach Police**

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# Introduction

Purpose for this Manager Analysis Report:

This search report reviews potential candidates for an allocation to non-core real estate which includes managers that concentrate on value-add and/or opportunistic real estate strategies. Based on our research and due diligence of non-core real estate managers an evaluation of fit with the existing portfolio, we present the following candidates:

Firm	Fund
Virtus Real Estate	Virtus Real Estate Capital IV
Pennybacker Capital Management	Pennybacker VI
Angelo, Gordon & Co.	AG Realty Value Fund XI
Torchlight	Torchlight Debt Fund VIII
Harrison Street Real Estate Capital	Harrison Street Core Property Fund
Oak Street Real Estate Capital	Oak Street Net Lease Fund

\*Unless noted otherwise, all data is as of the date each fund was added as an approved strategy with AndCo



# Strategy Overview

## Definition and Characteristics of Non-Core Real Estate Strategies:

- Value-add real estate strategies focus on properties in need of re-leasing, renovation, repositioning or redevelopment to achieve stabilization. It may also include a limited amount of development. Leverage is typically in the 40% to 60% Loan-to-Value (LTV) range. The target IRR (net) is in the 11% to 13% range. Total return is comprised of appreciation and current income.
- Opportunistic real estate strategies focus on tactical opportunities, mispricing, or distress in the real estate and capital markets. Investments may include a variety of property types, real estate operating companies, distressed debt and land. Leverage is typically 60% plus LTV. The target IRR (net) is 15% plus. Total return is primarily comprised of appreciation with limited current income.

## Role within a Portfolio:

- Stabilized real estate provides diversification benefits, typically reduces overall portfolio volatility, generates income and has inflation hedging characteristics. A strategic allocation to higher-return/higher-risk value-add and opportunistic strategies complements the lower-risk, income-focused core strategy that is generally a primary component of an institutional investor's real estate portfolio.

## Benchmark and Peer Group:

- Performance evaluation is typically made on a relative basis with other value-add and opportunistic real estate strategies of a similar vintage. The vintage is the calendar year the manager began investing the fund's capital.

# Capital Stack Overview

- Typical capital stack for a value-add or opportunistic investment in real estate

- Value-add or opportunistic investment with additional leverage via a mezzanine debt or preferred equity structure



LTV = Loan-to-Value

LTC = Loan-to-Cost





MANAGER AND FUND COMPARISON

# Firm Overview

Firm	RE Business Inception	Ownership	Real Estate AUM	Headquarters	Employees/ Dedicated to Fund*
<b>Virtus Real Estate</b>	2003	<ul style="list-style-type: none"> <li>Terrell Gates (Founder and CEO) owns 75.01% and Almanac Realty Investors owns the remaining 24.99%</li> </ul>	\$2.6 billion	Austin, TX	Firm: 43 Fund: 28
<b>Pennybacker Capital Management</b>	2006	<ul style="list-style-type: none"> <li>67% employee owned and 33% minority interest held by JV between Kudu Investment Management and Pacific Current Group Limited</li> </ul>	\$4.1 billion	Austin, TX	Firm: 39 Fund: 30
<b>Angelo Gordon</b>	1993	<ul style="list-style-type: none"> <li>Angelo Gordon is owned by its founders, their related parties, and over 100 senior employees</li> </ul>	\$13.4 billion	New York, NY	Firm: 550 Fund: 27
<b>Torchlight Investors</b>	1995	<ul style="list-style-type: none"> <li>100% employee owned</li> </ul>	\$5.7 billion	New York, NY	Firm: 59 Fund: 53
<b>Harrison Street Real Estate Capital</b>	2005	<ul style="list-style-type: none"> <li>75% Colliers International Group and 25% employee owned</li> </ul>	\$55.0 billion	Chicago, IL	Firm: 133 Fund: 62
<b>Oak Street</b>	2009	<ul style="list-style-type: none"> <li>100% employee owned.</li> </ul>	\$20.4 billion	Chicago, IL	Firm: 45 Fund: 30

\*Indicates number of investment professionals dedicated to the fund

Note: Assets under Management are represented as of the date each fund was added as an approved strategy with AndCo. The most current AUM of each strategy may therefore differ from what is currently stated. Notwithstanding the foregoing, due to the short time period within which each of the private real estate funds is undergoing active capital raise, it is not anticipated that any such figures would be materially different than what is reflected on this report. Generally, AUM as of the most recent year-end can be found in their respective Form ADVs.



# Team Overview

Firm	Key Decision-Makers	Team Stability	Team Experience
<b>Virtus</b>	<ul style="list-style-type: none"> <li>The Investment Team is led by Founder and CEO Terrell Gates, CFO and COO William Strong, CIO Robert Schweizer and 5 managing directors.</li> </ul>	<ul style="list-style-type: none"> <li>Six of the Eight senior professionals have been at Virtus since 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Senior professionals average 25 years of experience</li> </ul>
<b>Pennybacker</b>	<ul style="list-style-type: none"> <li>The Investment Team is led by Tim Berry, Vince Reyna (Senior Principal, CIO), Thomas Beier (Principal, COO), Edwin Beasley (Managing Director and Portfolio Manager, Value Funds), Alexander Zabik (Managing Director and Portfolio Manager, Tactical Credit), and Richard Long (Managing Director and Portfolio Manager, Evergreen). The Investment Committee will be comprised of Messrs. Berry, Reyna, Beier, Beasley, Long, Dean, Zabik and Lindsey Jacot (Chief Compliance Officer).</li> </ul>	<ul style="list-style-type: none"> <li>Berry, Reyna, and Beier have invested together since 2007. Long and Dean joined in 2014.</li> </ul>	<ul style="list-style-type: none"> <li>Senior professionals average 18 years of experience</li> </ul>
<b>Angelo Gordon</b>	<ul style="list-style-type: none"> <li>14 senior professionals lead the investment activities of the fund. All investment decisions are approved with a unanimous vote of the Investment Committee (IC) comprised of Co-CEO/Head of Real Estate Adam Schwartz, Co-PM Reid Liffmann, Co-PM Steve White, Managing Directors Matthew Jackson, Louis Friedel, Chris Oka, Andrew Schaffler, Laura Metzger, Cory Elbaum, and Real Estate CFO Mark Maduras</li> </ul>	<ul style="list-style-type: none"> <li>Six of 14 senior professionals have invested together at AG for over a decade</li> </ul>	<ul style="list-style-type: none"> <li>Senior professionals average 18 years of experience</li> </ul>
<b>Torchlight</b>	<ul style="list-style-type: none"> <li>The Investment Team is led by Co-CEO and Co-CIO Daniel Heflin, Co-CEO and Co-CIO Marc Young, Head of Portfolio Management Samuel Chang, Head of Asset Management Gianluca Montalti, Chief Credit Officer Greg Dineen.</li> </ul>	<ul style="list-style-type: none"> <li>Four of the five senior professionals have worked at torchlight for over a decade</li> </ul>	<ul style="list-style-type: none"> <li>Senior professionals of the team average 25 years of experience</li> </ul>



# Team Overview (Cont)

Firm	Investment Team	Supporting Investment Professionals
<b>Harrison Street</b>	<ul style="list-style-type: none"><li>▪ Senior Portfolio Manager Joey Lansing, Portfolio Manager Chip George, Assistant Portfolio Manager Colleen McMillin</li></ul>	<ul style="list-style-type: none"><li>▪ Approximately, 26 asset managers, 25 acquisitions, and 11 research &amp; strategy</li></ul>
<b>Oak Street</b>	<ul style="list-style-type: none"><li>▪ NLPF's key decision makers are directed by the four-member investment committee. This is comprised of Marc Zahr, James Hennessey, Larissa Herczeg, and Michael Reiter.</li></ul>	<ul style="list-style-type: none"><li>▪ Approximately 12 Investment professionals, 6 business services, and 12 accounting and asset management</li></ul>

# Investment Strategy

Firm	Strategy Focus	Geographic Focus	Target Return (net)
<b>Virtus</b>	<ul style="list-style-type: none"> <li>VRE primarily targets value-add investments and select development opportunities in specialty property types with a primary focus on healthcare (senior housing and medical office), middle-income/workforce apartments, self-storage, and education (student housing and charter schools). VRE primarily targets properties in the South and Midwest regions. The typical investment is a lower to middle market property that requires an average equity investment of \$10 million. The team generally utilizes leverage in the 60% to 75% LTV range.</li> </ul>	<ul style="list-style-type: none"> <li>VREC primarily targets properties in the South and the Midwest regions</li> </ul>	12% to 15%
<b>Pennybacker</b>	<ul style="list-style-type: none"> <li>Focusing initial on industrial and multifamily properties, Pennybacker seeks assets in Atlanta, Austin, Dalla, Denver, Phoenix, Nashville, and Charlotte where favorable supply-demand fundamentals currently exist and situations where Pennybacker can create value through operational improvements and capital repositioning. The Investment Team proactively sources transactions through its network of relationships, executing investments on a principal basis or through local operating partners. The Partnership intends to leverage Pennybacker's fully aligned equity and tactical credit teams to pursue opportunities throughout the capital stack that it expects will achieve optimal risk-adjusted returns.</li> </ul>	<ul style="list-style-type: none"> <li>U.S. primary and secondary markets in the West and South regions.</li> </ul>	13% to 16%
<b>Angelo Gordon</b>	<ul style="list-style-type: none"> <li>Target a blend of Core-plus (33%-50%) and Value-add 50%-67%) investments in middle market and upper market properties with a focus on industrial, multifamily, for-sale residential, retail, self-storage, life science facilities, and hotels that require light value-add to heavy value-add. Light value-add typically has higher occupancies at acquisition with value created through operational improvements and leasing. Heavy value-add involves major repositioning to significantly upgrade the quality of the property or change to a higher and better use.</li> </ul>	<ul style="list-style-type: none"> <li>80% U.S. with a maximum of 20% Europe and Asia</li> <li>U.S. primary markets and next tier secondary markets</li> <li>Major markets of Europe &amp; Asia.</li> </ul>	12% to 13%
<b>Torchlight</b>	<ul style="list-style-type: none"> <li>Torchlight targets real estate debt investments in the private and public markets. In the private markets, Torchlight focuses primarily on loans for transitional assets that are more complex to underwrite and generally require funding at a higher LTV level that limits competition from commercial banks. It provides capital across the entire capital stack with a primary focus on senior whole loans, mezzanine loans, distressed loans, preferred equity, and selectively joint venture equity.</li> </ul>	<ul style="list-style-type: none"> <li>U.S. Top 50 MSA's</li> </ul>	10% - 12%

# Investment Strategy (Cont.)

Firm	Strategy Focus	Geographic Focus	Target Return (net)
<b>Harrison Street</b>	<ul style="list-style-type: none"> <li>Invest solely in specialty property types which includes medical office, senior housing, student housing, self-storage, and life science. The common theme of these property types is demand driven by demographic trends and/or social need</li> </ul>	<ul style="list-style-type: none"> <li>Well diversified between Gateway and Secondary markets with an overweight to the East</li> </ul>	6 – 8% Net
<b>Oak Street</b>	<ul style="list-style-type: none"> <li>Acquires single-tenant, triple net leased (NNN) commercial real estate properties leased to investment grade companies with a target lease term of 20 years.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	9 – 11% Net

# Key Differentiators

Firm	Unique Features	Points to Consider
<b>Virtus</b>	<ul style="list-style-type: none"> <li>▪ VRE tends to be more involved at the operational level than some of its larger peers focused on specialty property types.</li> <li>▪ For a moderate sized fund, the firm has a large team of acquisitions and asset management professionals that specialize by property type.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The team has the flexibility to allocate up to 35% of the fund's capital to development projects. The team has typically allocated 10% to 25% to development</li> </ul>
<b>Pennybacker</b>	<ul style="list-style-type: none"> <li>▪ Pennybacker follows a thematic, disciplined investment approach that is based on a rigorous bottom-up, top-down, data-driven process that leverages the Investment Team's diverse skill set and proprietary data and portfolio management platform.</li> <li>▪ Pennybacker's ability to leverage off the business activities of its tactical credit team may provide insights and investment opportunities that allows it to derive a better risk-adjusted return profile.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pennybacker may utilize affiliates for construction management, design, technology and research. The firm has taken the appropriate steps to address the use of affiliates. The fees, which are market rate, are stated in the offering documents. All fees earned by affiliates are required to be reported, annually, to the Limited Partner Advisory Committee.</li> <li>▪ Up to 30% of the Fund may be allocated to development projects.</li> <li>▪ Up to 20% of the Fund may be allocated to tactical credit opportunities.</li> </ul>
<b>Angelo Gordon</b>	<ul style="list-style-type: none"> <li>▪ Expertise spanning a variety of property types combined with a bottom-up, value focus allows the team to allocate capital to the property types it views as offering the best absolute value during the investment period</li> <li>▪ Senior professionals are assigned specific geographic regions and remain responsible for managing an investment through its entire life cycle</li> <li>▪ Expertise investing via distressed debt.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Planning to allocate 15% to 20% to Europe and Asia</li> <li>▪ AG utilizes forward contracts to hedge the currency risk of international investments.</li> <li>▪ AG provides an option to invest through a U.S. only vehicle.</li> <li>▪ Income return estimated to be 30% to 50% of total IRR</li> </ul>
<b>Torchlight</b>	<ul style="list-style-type: none"> <li>▪ The strategy has been able to generate consistent returns in recent vintages while utilizing lower leverage relative to its peer group.</li> <li>▪ Torchlight has a flexible multi-strategy approach which allows them to operate in various market cycles.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Torchlight will seek opportunities in a dislocated market with a lower risk profile that yield the expected 10-12% net IRR rather than opportunistically seeking out higher yielding opportunities with the original risk profile.</li> </ul>

# Key Differentiators (Cont.)

Firm	Unique Features	Points to Consider
<b>Harrison Street</b>	<ul style="list-style-type: none"> <li>▪ Invest solely in specialty property types which includes medical office, senior housing, student housing, self-storage, and life science. The common theme of these property types is demand driven by demographic trends and/or social need</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leverage will tend to be near or slightly above the ODCE</li> <li>▪ Minimal exposure to value-add and development</li> </ul>
<b>Oak Street</b>	<ul style="list-style-type: none"> <li>▪ Acquires single-tenant, triple net leased (NNN) commercial real estate properties leased to investment grade companies with a target lease term of 20 years.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Durable income profile supported by long-term leases. This could be impacted by interest rates</li> <li>▪ Fund invests in investment-grade retail, and mission critical industrial/office property types.</li> </ul>

# Typical Portfolio Characteristics

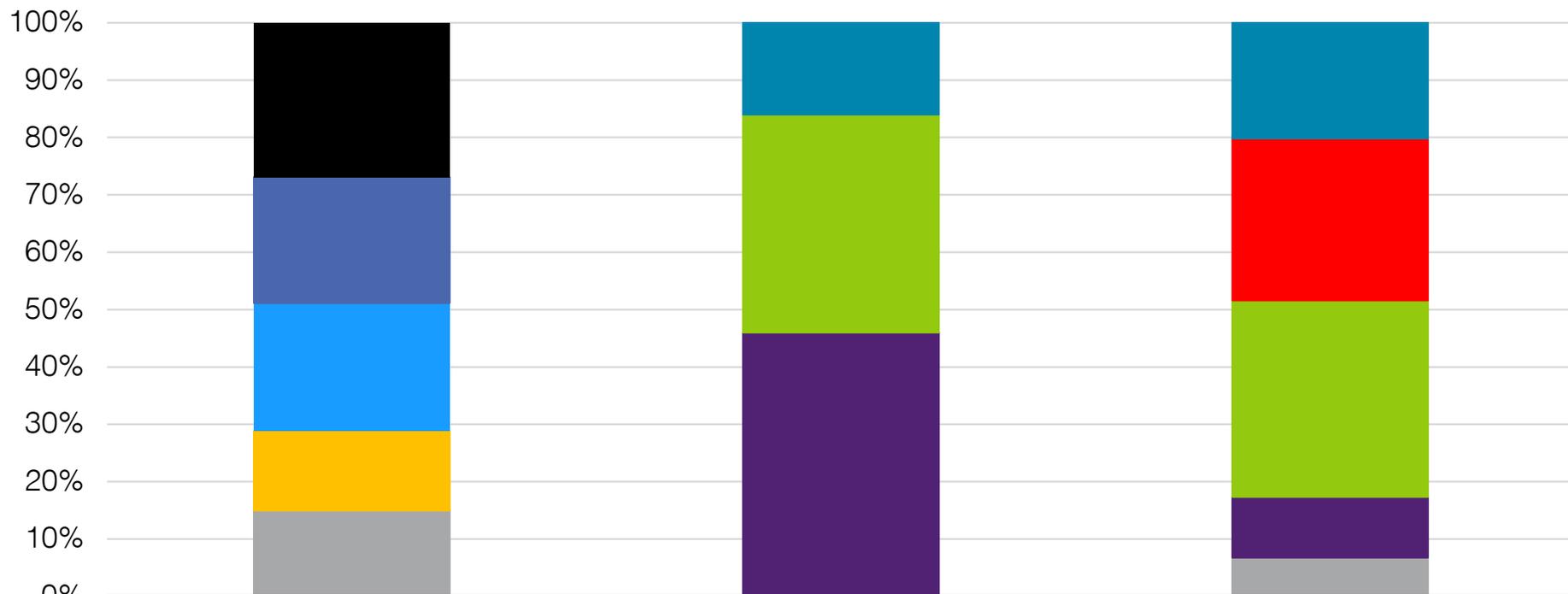
Firm	Property Type Focus	Maximum Allocation to Development	Typical Transaction Size (Equity)	Anticipated Number of Investments	Aggregate Leverage (portfolio-wide)
<b>Virtus</b>	<ul style="list-style-type: none"> <li>Senior housing, medical office, workforce housing, self storage and education</li> </ul>	<ul style="list-style-type: none"> <li>35%</li> </ul>	\$10 million	30 to 45	Max permitted: 75% Typical: 55 to 65%
<b>Pennybacker</b>	<ul style="list-style-type: none"> <li>Industrial, multifamily, low-density office, special situations, and tactical credit</li> </ul>	<ul style="list-style-type: none"> <li>30%</li> </ul>	\$10 to \$30 million	40 to 50	Max permitted: 70% Typical: 50% to 65%
<b>Angelo, Gordon</b>	<ul style="list-style-type: none"> <li>Industrial, multifamily, retail, For-sale residential, hotels</li> </ul>	<ul style="list-style-type: none"> <li>Minimal, less than 5% since inception</li> </ul>	\$30 to \$100 million	100	Max permitted: 70% Typical: 55% to 65%
<b>Torchlight</b>	<ul style="list-style-type: none"> <li>Credit, or credit-like positions within all primary property-types</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	\$25 to \$50 million	75 to 125	Max permitted: 40% Typical: 20 to 30%
<b>Harrison Street</b>	<ul style="list-style-type: none"> <li>Specialty (Medical office, senior housing, student housing, self-storage and life science)</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	\$25 to \$100 million	N/A	Max permitted: 40% Typical: 22 to 27%
<b>Oak Street</b>	<ul style="list-style-type: none"> <li>Single-tenant commercial real estate properties that are net leased to investment grade companies with a target lease term of 20 years</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	\$25 to \$100 million	N/A	Max permitted: 50% Typical: 40%

# Fund Profile (as of Q2 2023)

Firm	Fund Size	GP Commitment	Capital Raised	First Close	Final Close
<b>Virtus</b>	Target: \$750 million Hard cap: \$900 million	2.0% of LP commitments up to 15 million	\$242 million	May 2023	<ul style="list-style-type: none"> <li>Anticipated Q2 2024</li> </ul>
<b>Pennybacker</b>	Target: \$1.5 billion Hard cap: \$2.0 billion	1.0% of LP commitments, up to \$15 million	\$1.1 billion	June 2022	<ul style="list-style-type: none"> <li>Anticipated Q4 2023</li> </ul>
<b>Angelo, Gordon</b>	Target: \$3.25 billion Hard cap: none	3.0% of LP commitments, up to \$25 million	\$2.5 billion	March 2022	<ul style="list-style-type: none"> <li>Anticipated Q3 2024</li> </ul>
<b>Torchlight</b>	Target: \$2.0 billion Hard cap: \$2.5 billion	1% of LP commitments, up to \$20 million	\$865 million	September 2022	<ul style="list-style-type: none"> <li>Anticipated Q1 2024</li> </ul>



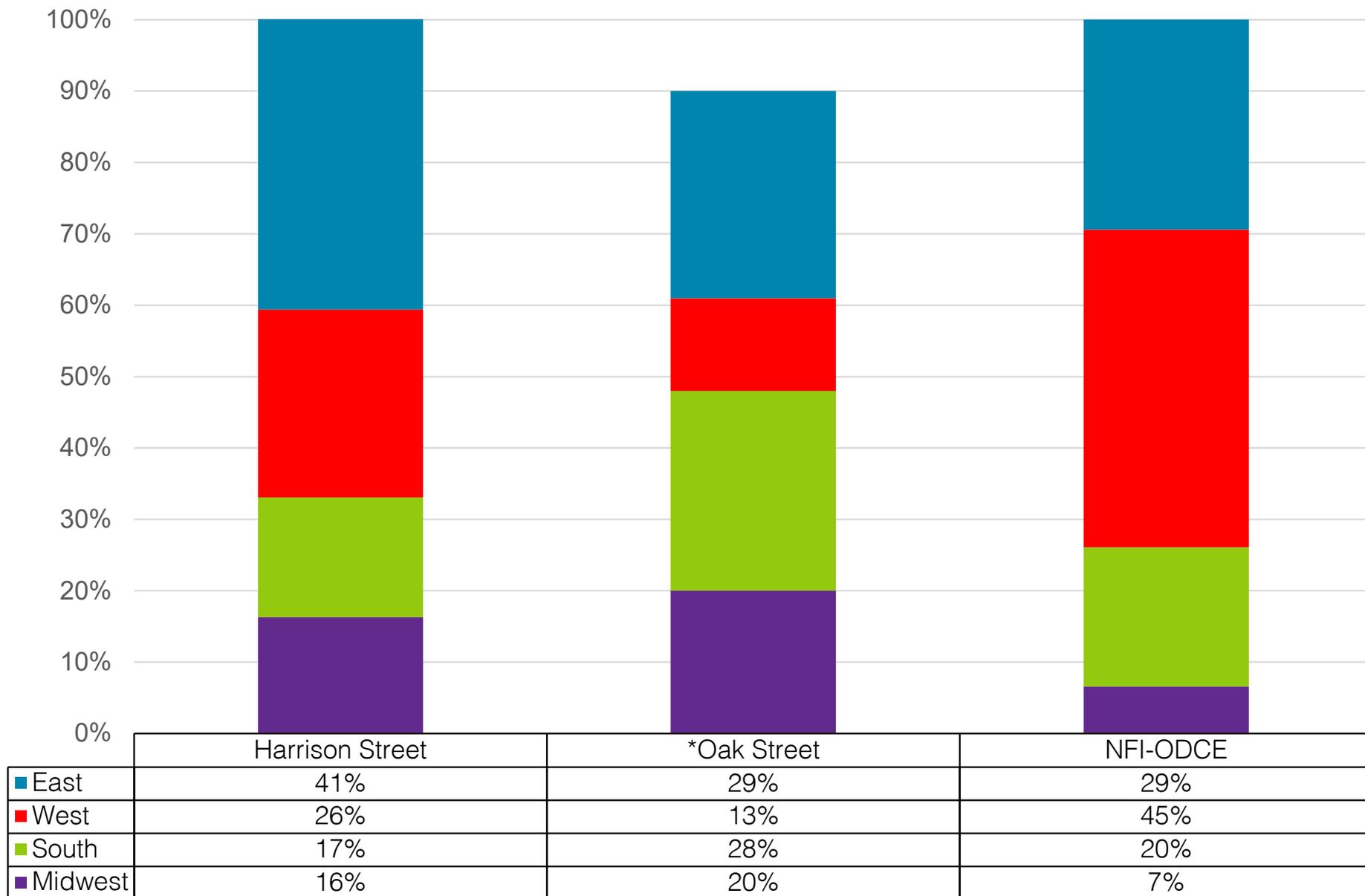
# Property Type Allocation



	Harrison Street	Oak Street	NFI-ODCE
Office	0%	16%	20%
Multifamily	0%	0%	28%
Industrial	0%	38%	34%
Retail	0%	46%	11%
Medical Office	27%	0%	0%
Student Housing	22%	0%	0%
Senior Housing	22%	0%	0%
Self-Storage	14%	0%	0%
Other	15%	0%	7%



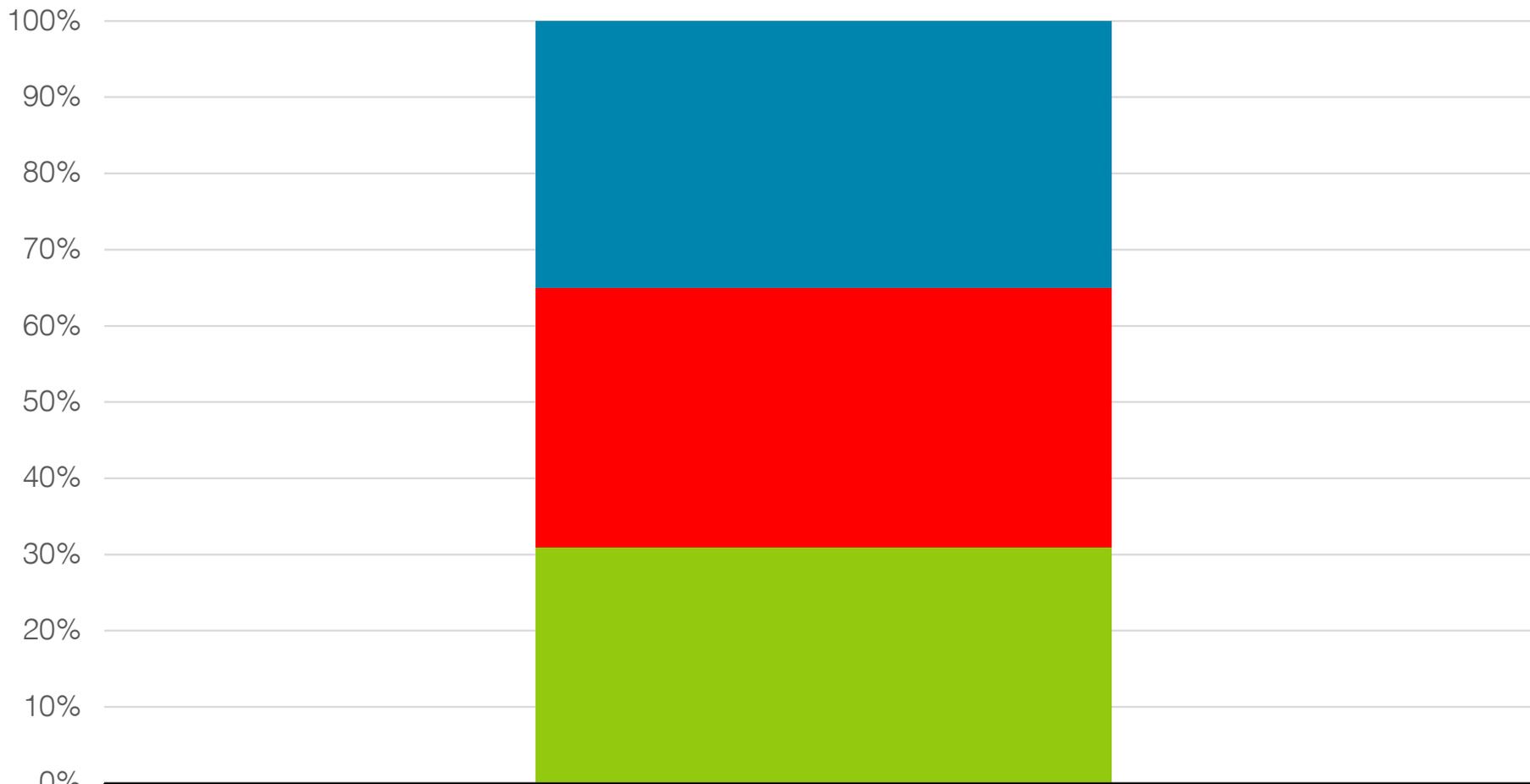
# Geographic Allocation



\*10% of Oak Street's assets are in Canada



# Property Location



	Harrison Street
■ Gateway Mkts	35%
■ Secondary Mkts	34%
■ Other Mkts	31%

Gateway Markets: Boston, Chicago, Los Angeles, New York/New Jersey, San Francisco, and Washington D.C.

Secondary Markets: Atlanta, Austin, Baltimore, Charlotte, Dallas, Denver, Fort Lauderdale, Houston, Miami, Minneapolis, Oakland, Orange County, Philadelphia, Phoenix, Portland, Riverside, San Diego, San Jose, Seattle, and West Palm Beach

\*Oak Street Net Lease Fund does not provide this information



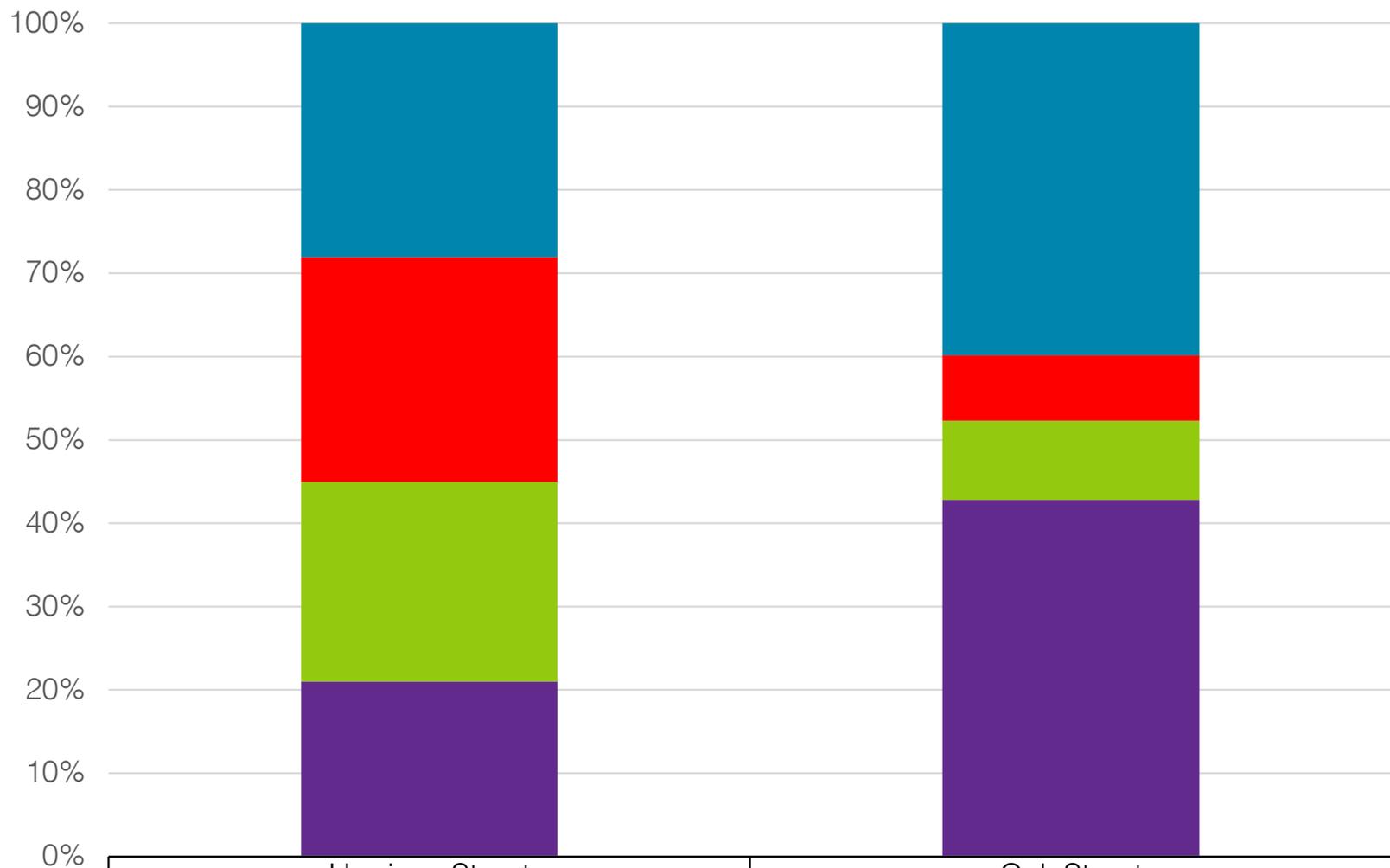
# Property Life Cycle



	Harrison Street	Oak Street
■ Stabilized	94%	100%
■ Value-Add	2%	0%
■ Development	4%	0%

Stabilized: asset that is 75%+ leased    Value-add: asset that is <75% leased

# Investment Size Allocation

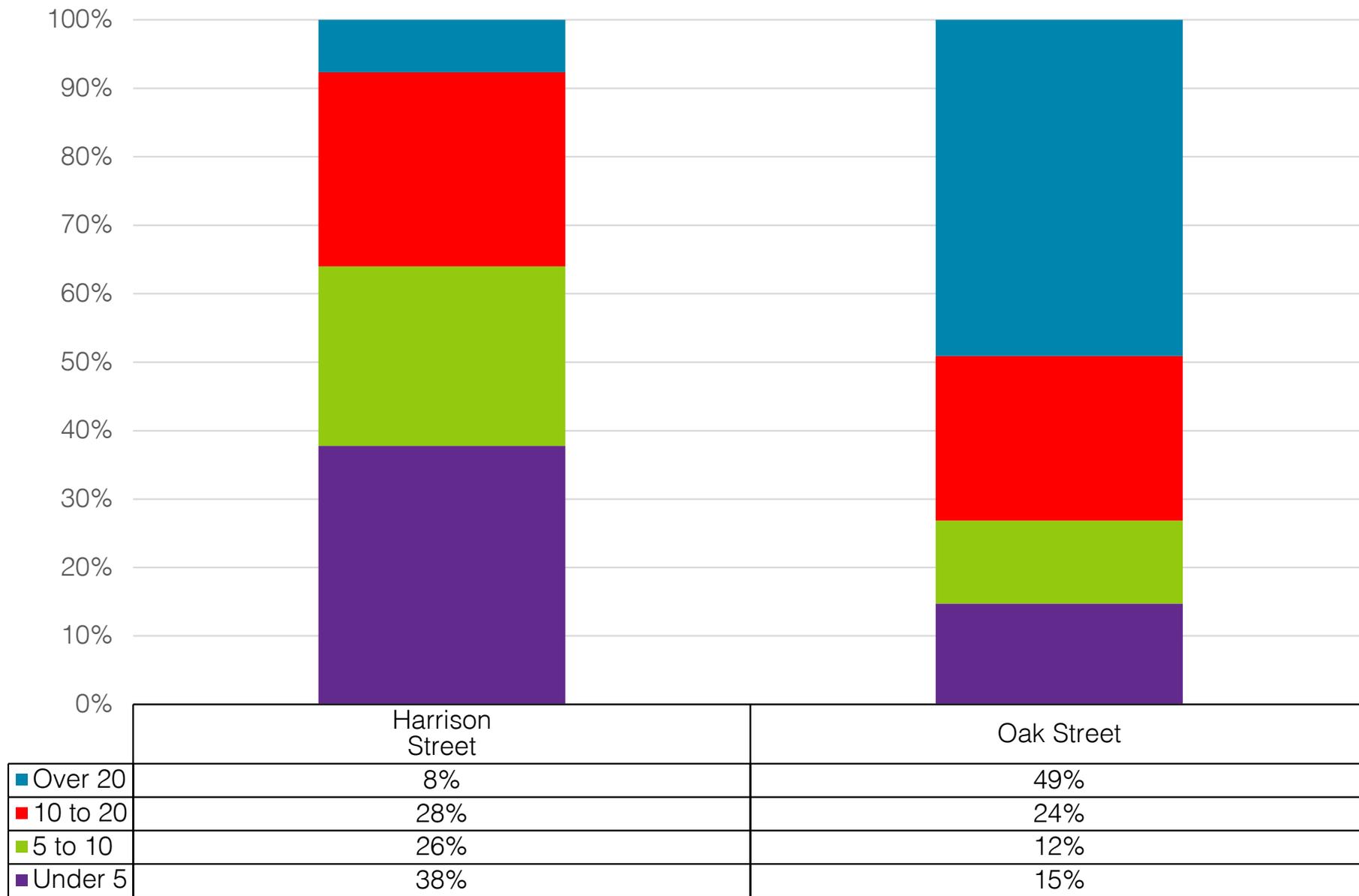


	Harrison Street	Oak Street
■ Over \$100 million	28%	40%
■ \$50-\$100 million	27%	8%
■ \$25-\$50 million	24%	10%
■ Less than \$25 million	21%	43%

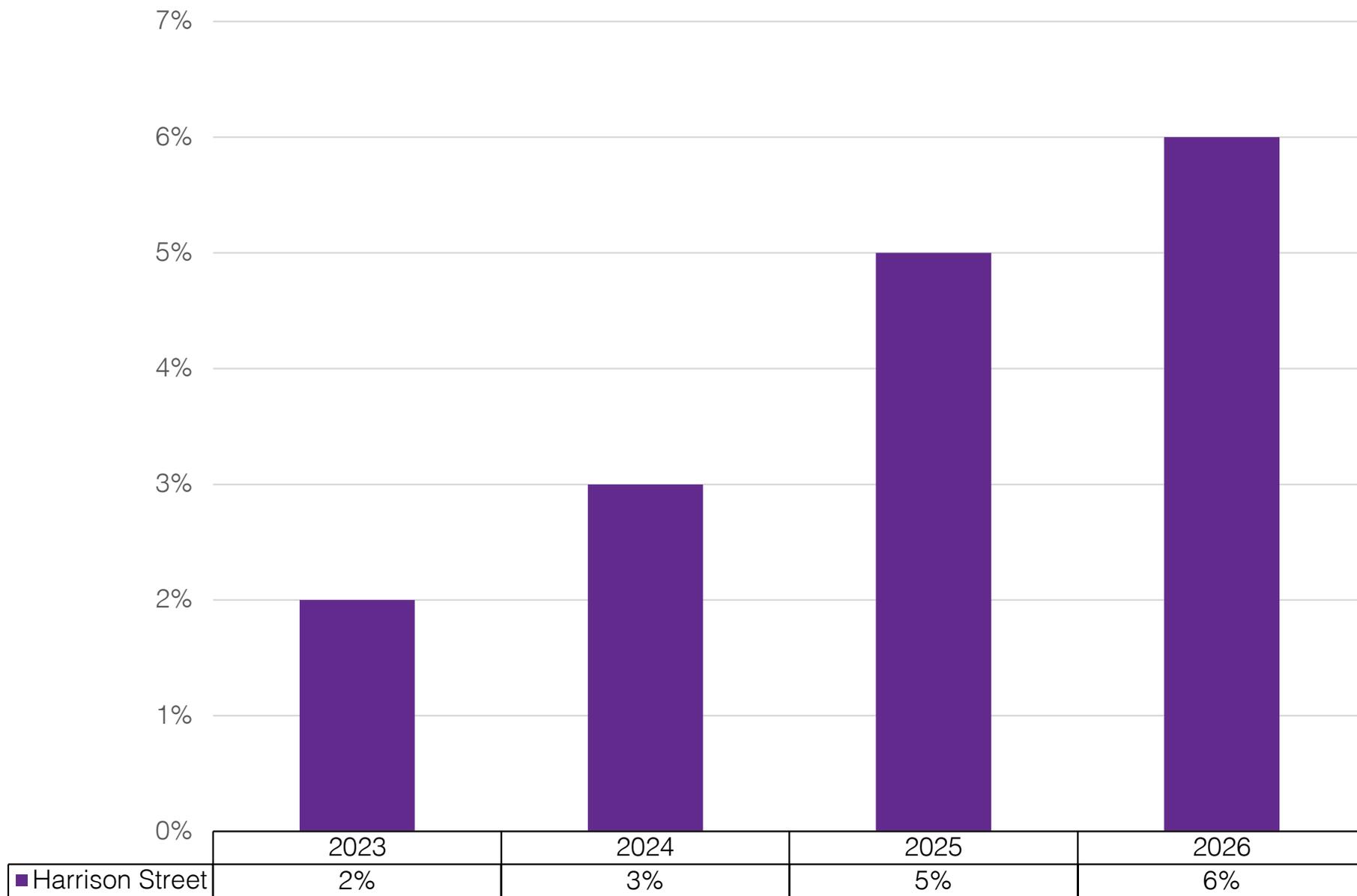
\*Investment size is represented by Gross Asset Value



# Property Age Allocation



# Lease Expirations



Note: represents lease expirations for office (including medical office), industrial, and retail

\*Oak Street Net Lease Fund does not provide this information

Due to the nature of the investment vehicle structure, closed-end funds are not included.





## FUND TERMS COMPARISON

# Terms

Firm	Minimum Commitment	Fees	Preferred Return	Investment Period	Fund Term
<b>Virtus</b>	\$10 million (negotiable)	<b>Management fee:</b> 1.70% on committed during the investment period, on contributed capital thereafter <b>Incentive fee:</b> 20% after return of capital and preferred return <b>Catch-up:</b> 50% Virtus and 50% LPs	8% compounded, annually	<ul style="list-style-type: none"> <li>Three years from initial closing date</li> </ul>	<ul style="list-style-type: none"> <li>Eight years from final close</li> </ul>
<b>Pennybacker</b>	\$5 million (negotiable)	<b>Management fee:</b> 1.50% on committed during the investment period, on contributed capital thereafter <b>Incentive fee:</b> 20% after return of capital and preferred return <b>Catch-up:</b> 50% Pennybacker and 50% LPs	8% compounded, annually	<ul style="list-style-type: none"> <li>Four years from initial closing date</li> </ul>	<ul style="list-style-type: none"> <li>Nine years from initial closing date</li> <li>Three, one-year extensions</li> </ul>
<b>Angelo, Gordon</b>	\$5 million (negotiable)	<b>Management fee: *</b> <b>Incentive fee:</b> 20% after a return of capital and preferred return <b>Catch-up:</b> 50% Angelo, Gordon and 50% investors	8% compounded, annually	<ul style="list-style-type: none"> <li>Four years from final close</li> </ul>	<ul style="list-style-type: none"> <li>Eight years from first close</li> <li>Two, one-year extensions</li> </ul>
<b>Torchlight</b>	\$10 million (negotiable)	<b>Management fee:</b> 1.50% on committed during the investment period, on contributed capital thereafter <b>Incentive fee:</b> 20% after return of capital and preferred return <b>Catch-up:</b> 50% Torchlight and 50% LPs	7% compounded, Annually	<ul style="list-style-type: none"> <li>Three years from final closing date</li> </ul>	<ul style="list-style-type: none"> <li>Ten years from initial closing date</li> <li>Two, one-year extensions</li> </ul>



# Terms

Firm	Minimum Commitment	Fees	Preferred Return	Investment Period	Fund Term
<b>Harrison Street</b>	\$10 million (negotiable)	<ul style="list-style-type: none"> <li>▪ 1.15% first \$25M</li> <li>▪ 1.05% over \$25M to \$50M</li> <li>▪ 0.95% over \$50M to \$75M</li> <li>▪ 0.90% over \$75M to \$100M</li> <li>▪ 0.85% over \$100M</li> </ul>	None	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>	N/A
<b>Oak Street</b>	\$5 million (negotiable)	<ul style="list-style-type: none"> <li>▪ 1.50% for less than \$15M</li> <li>▪ 1.25% from \$15M to \$75M</li> <li>▪ 1.00% &gt; \$75M</li> </ul>	None	<ul style="list-style-type: none"> <li>▪ 6% Preferred return hurdle Incentive Allocation Percentage / Capital Commitment</li> <li>▪ 15% for less than \$15M</li> <li>▪ 12.5% from \$15M to \$75M</li> <li>▪ 10% &gt; \$75M</li> </ul>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>

# Terms (cont.)

## \*Angelo Gordon Management Fees:

<u>Capital Commitment</u>	<u>Fee on Unfunded Capital During Investment Period</u>		<u>Fee on Net Funded Capital</u>	
	<u>First Close</u>	<u>Subsequent Close</u>	<u>First Close</u>	<u>Subsequent Close</u>
<\$5 million	1.50%	1.75%	1.75%	1.75%
\$5-74 million	1.00%	1.50%	1.50%	1.50%
\$75-149 million	0.75%	1.25%	1.50%	1.50%
\$150-249 million	0.50%	1.00%	1.50%	1.50%
\$250 million+	0.50%	1.00%	1.20%	1.35%



TRACK RECORD REVIEW

# Virtus (Q2 2023)

Fund	VREC	VREC II	VREC III
Vintage	2012	2015	2019
Fund Size (\$millions)	\$239.1	\$308.5	\$577.8
Contributions incl. fees (\$millions)	\$238.1	\$10.6	\$394.5
Distributions (\$millions)	\$294.5	\$200.3	\$77.8
No. of investments made	49	46	31
No. of investments realized	44	13	5
Average Leverage	62.6%	56.6%	52.8%
ITD Fund IRR (net)	13.4%	8.4%	12.1%
ITD Fund TVPI (net)	1.5x	1.4x	1.2x
ITD Fund DPI (net)	1.3x	0.7x	0.2x

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

*The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.*

# Pennybacker (Q1 2023)

Fund	Pennybacker II	Pennybacker III	Pennybacker IV	Pennybacker V	Pennybacker EIV <sup>(1)</sup>
Vintage	2011	2014	2017	2020	2021
Fund Size (\$millions)	105.1	322.0	510.0	775.0	275.0
Contributions incl. fees (\$millions)	87.7	251.4	395.7	576.0	199.5
Distributions (\$millions)	55.3	401.7	494.3	28.7	-
No. of investments made	19	31	35	42	14
No. of investments realized	19	30	24	14	1
Average Leverage	N/A	0.0%	61.2%	57.6%	57.9%
ITD Fund IRR (net)	26.3%	15.6%	13.5%	11.5%	1.2%
ITD Fund TVPI (net)	1.8x	1.6x	1.5x	1.2x	1.0x
ITD Fund DPI (net)	1.8x	1.6x	1.2x	0.0x	0.0x

(1) Pennybacker marks investments held for 6 months or less (from acquisition if no reconstruction needed, and from reconstruction or construction completion, if applicable) at cost. Current investment-level returns for select investments whose business plans involve ground-up development or heavy repositioning and have been marked down in Year 1 of their respective business plans. As of September 30, 2022, a material number of investments in Pennybacker EIV, LP were held at cost.

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

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# Angelo, Gordon & Co. (Q2 2023)

Fund	AG Core Plus Realty Fund III	AG Realty Fund VIII	AG Core Plus Realty Fund IV	AG Realty Fund IX	AG Realty Value Fund X
Vintage	2011	2011	2015	2015	2018
Fund Size (\$millions)	1,014	1,265	1,308	1,329	2,775
Contributions incl. fees (\$millions)	963	1,193	1,242	1,230	2,581
Distributions (\$millions)	1,569	1,596	973	1,164	1,423
No. of investments made	31	71	43	89	142
No. of investments realized	30	67	22	56	37
Average Leverage <sup>1</sup>	59%	48%	61%	53%	55%
ITD Fund IRR (net) <sup>2</sup>	19%	12%	5%	6%	16%
ITD Fund TVPI (net) <sup>2</sup>	1.6x	1.5x	1.2x	1.3x	1.3x
ITD Fund DPI (net)	1.6x	1.3x	0.8x	0.9x	0.6x

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

Note: Prior to AG Realty Fund X, AG concurrently raised separate core plus and opportunistic funds within the same vintage year

*The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.*

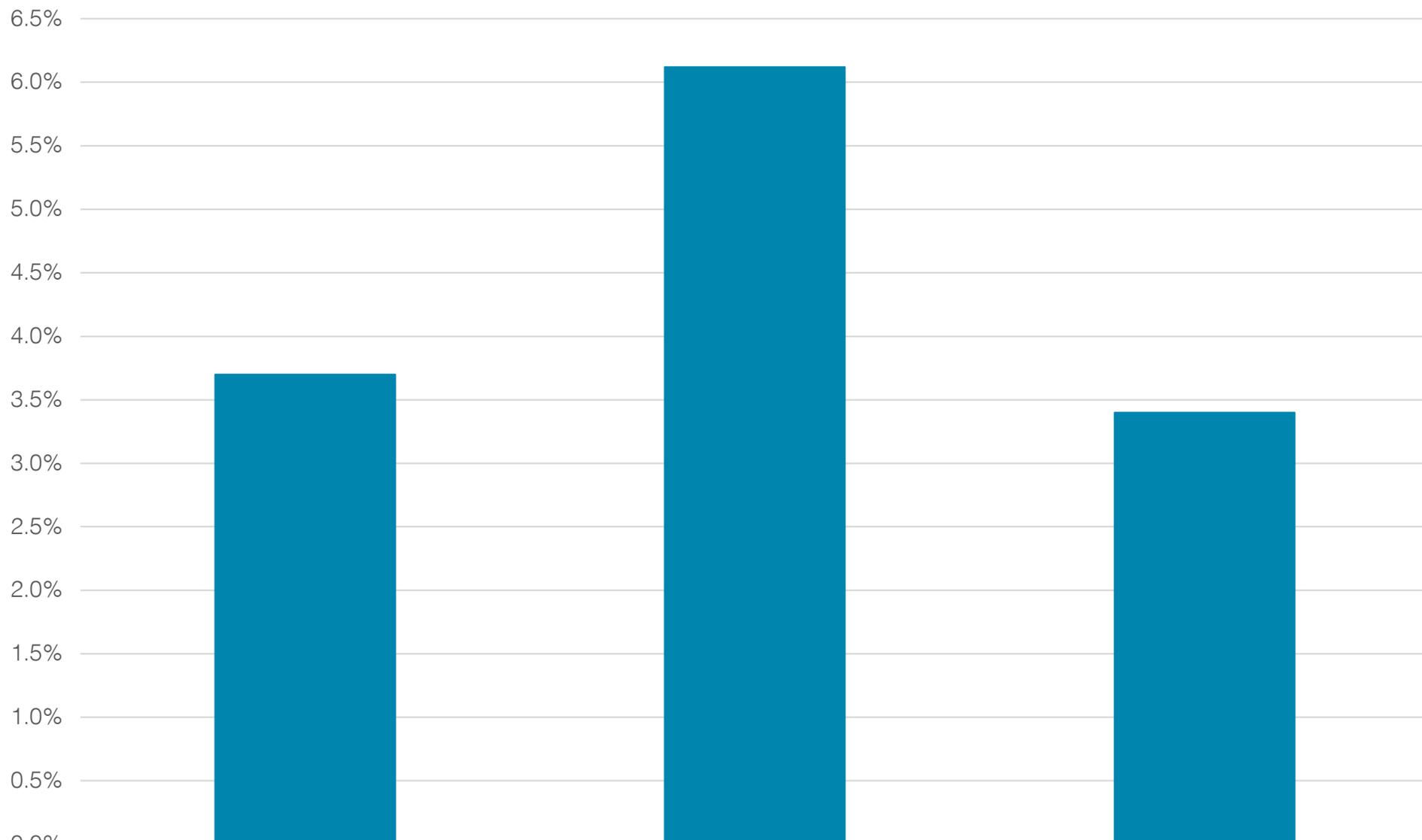
# Torchlight Investors (as of Q1 2023)

Fund	Debt Fund III	Debt Fund IV	Debt Fund V	Debt Fund VI	Debt Fund VII
Vintage	2008	2012	2015	2017	2020
Fund Size (\$millions)	\$764.8	\$941.6	\$1,359.0	\$1,683.5	\$2,044.5
Contributions incl. fees (\$millions)	\$764.8	\$941.6	\$1,087.2	\$1,515.2	\$1,022.3
Distributions (\$millions)	\$1,177.5	\$1,247.5	\$1,293.3	\$700.6	\$0
No. of investments made	67	85	85	135	114
No. of investments realized	67	83	81	105	40
Average Leverage	1.4%	0.5%	0.0%	0.0%	0.0%
ITD Fund IRR (net)	13.7%	9.3%	10.2%	8.4%	5.7%
ITD Fund TVPI (net)	1.54x	1.43x	1.31x	1.28x	1.08x
ITD Fund DPI (net)	1.54x	1.32x	1.19x	0.46x	0.00x

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

*The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.*

# Trailing 1-year Income Return



Income Return	Harrison Street 3.7%	Oak Street 6.1%	NFI-ODCE 3.4%
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# Comparative Performance: Calendar Year

Fund Name	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Harrison Street Core Property Fund	10.42	9.94	3.96	6.90	7.22	10.13	9.36	9.61	9.09	9.94	10.17
Oak Street Net Lease Fund	13.79	20.04	8.13	(2.14)	-	-	-	-	-	-	-
NCREIF – ODCE (VW)	6.55	21.02	0.35	4.40	7.37	6.66	7.79	13.95	11.46	12.90	9.79

\*2018 for TA Realty represents three quarters of performance

Note: all returns are net of fees. The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.



# Comparative Performance: Trailing Periods

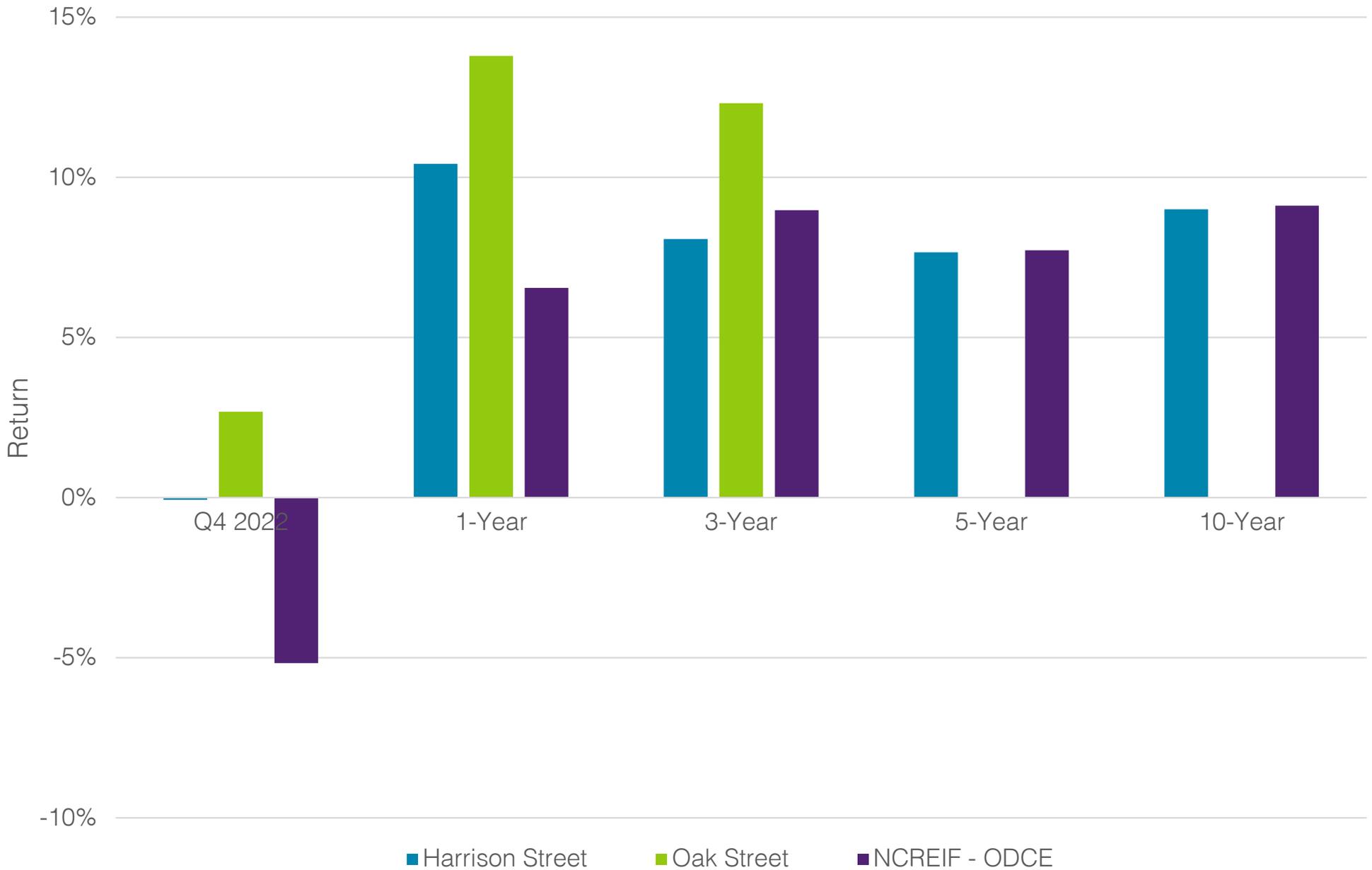
	Q2 (%)	1-yr (%)	3-yr (%)	5-yr (%)	10-yr (%)
Harrison Street Core Property Fund	0.21	1.18	7.43	6.57	8.14
Oak Street Net Lease Property Fund	2.16	7.74	16.89	9.97 <sup>1</sup>	-
NCREIF – ODCE (VW)	(2.88)	(10.73)	7.04	5.56	7.77

<sup>1</sup>The noted performance represents a “since inception” return.

Note: all returns are net of fees. The results shown represent past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.



# Comparative Performance: Trailing Periods (Cont.)



Note: Figures as of 9/30/2022. All returns are shown net of fees. Provided for informational purposes only. The results shown present past performance and do not represent expected future performance or experience. Past performance does not guarantee future results.





MANAGER AND FUND NARRATIVES

# Virtus Real Estate – Virtus Real Estate Capital IV

## Firm Overview

Virtus Real Estate (VRE) was founded in 2003 by CEO Terrell Gates. It is headquartered in Austin, TX. The firm focuses its investment activities on healthcare, education, workforce apartments, and self-storage properties. It launched its first institutional fund that invested across all property types in 2012. From 2008 to 2011, it invested via single property type vehicles with capital raised primarily from high-net-worth individuals. Prior to 2008, VRE would invest in multifamily assets sourced by an operating partner with the firm's primary source of capital being three family offices and one institution. Today, Virtus employs 43 professionals including 28 investment professionals. On November 1, 2022, Gates, Virtus's sole equity holder, sold a 24.99% interest in VRE to Almanac Realty Investors, a New York based buyer of real estate general partner stakes.

## Team Overview

The VRE management team has experience across market cycles and has worked together since the first fund in the VREC series. Founder/CEO Terrell Gates oversees the investment activities and strategic decisions of VRE. Gates background includes real estate, law, private equity, investment banking, and lending. His family has invested in commercial real estate since the 1950s. CIO Kevin White oversees the acquisitions and asset management professionals for each property type. Previously, he was a developer with a private equity group. CFO/COO Will Strong is responsible for firm management and debt sourcing. Prior to VRE, he served in the same role for a global private real estate fund sponsor, Forum Partners Investment Management.

The acquisitions and asset management teams are property type specialists. Three of the six leaders of the dedicated property type teams have been at the firm since the first fund in the VREC series. Importantly, each has experience through at least one real estate cycle. Managing Director Scott Humphreys is responsible for the oversight and performance of VRE's portfolio of properties across all sectors. Managing Director Matthew Withey is responsible for acquisitions of medical office properties. Managing Director Michael Casey is responsible for overseeing the business plan execution and performance of these property types.

## Strategy Overview

VRE primarily targets value-add investments and select development opportunities in specialty property types with a primary focus on healthcare (senior housing and medical office), middle-income/workforce apartments, self-storage, and education (student housing and charter schools). VRE primarily targets properties in the South and Midwest regions. The typical investment is a lower to middle market property that requires an average equity investment of \$10 million. The team generally utilizes leverage in the 60% to 75% LTV range. The common theme across the property types are fragmented ownership and demand driven by demographic trends or social need. Accordingly, these property types tend to be less correlated to economic growth relative to traditional commercial real estate investments.

## Expectations

For VREC IV, the team is targeting a 12% to 15% net IRR and our expectation is for a 1.5x total value to paid-in capital (TVPI). The fund is expected to provide investors with a diversified portfolio by property type and geographic region. The team projects an approximate allocation of 35% middle-income housing, 25% student housing/education, 25% medical office/healthcare, 10% self-storage, and 5% other. VRE will target 30 to 45 investments across the three-year investment period with an average equity investment of approximately \$10 million. The team will utilize leverage in the 60% to 75% loan-to-value (LTV) range.

We are comfortable with VRE's ability to generate the target returns. VREC (vintage: 2012) is expected to achieve the upper-end of the target range, returns for VREC II (vintage: 2015) are targeted at the lower-end of the range. While still early in its lifecycle, VREC III (vintage: 2019) is projecting returns at the upper-end of its targeted return profile. Additionally, VREC IV is a moderate sized fund with a three-year investment period that will allow VRE to patiently deploy capital in a market environment that may see valuation re-sets which would be beneficial for the prospects of the expected performance for VREC IV.

## Points to Consider

- While focused on the acquisition and management of the five noted key property-types, the composition profile of these assets within VRE-sponsored funds have varied from fund-to-fund. Furthermore, given the potential for market dislocations resulting from a rising interest rate environment, the portfolio construction of VREC IV may be lumpy.
- The team has the flexibility to allocate up to 35% of the fund's capital to development projects. The team has typically allocated 10% to 25% to development.

## Recommendation Summary

VRE's hybrid operator/allocator model, sourcing process, and execution of its relative value approach set it apart from peers with a similar investment focus. VRE concentrates its investment activities on specialty property types such as workforce apartments, senior housing, medical office, self-storage, and education (student housing and charter schools). The demand for these property types tends to be driven by demographic trends or social need and less by economic growth. Accordingly, the different demand drivers for these property types result in a lower correlation with economic growth than traditional property types such as office, industrial, and retail. Specialty property types also tend to have higher cash yields with 30% to 50% of return expected from income, which reduces residual value risk at exit. Additionally, VRE's moderate fund size and more favorable fee structure relative to competing fund sponsors with a similar investment focus makes it a compelling option. Given the characteristics of the fund and specialty property types, VREC IV is suitable as an initial allocation for a client that is beginning a non-core real estate program or as a component of an established program, particularly for those concentrated in traditional property types.

# Pennybacker Capital Management – Pennybacker VI

## Firm Overview

Pennybacker Capital Management was founded in 2006 by President and CEO Timothy Berry to pursue middle-market investment strategies incorporating technology, data and analytics, sophisticated research, and the team's background in distressed workouts in its approach to real estate investment and management. Pennybacker has managed six commingled, value-add/opportunistic funds, and three funds dedicated to tactical credit strategies.

In December 2019, Copper Funding, LLC ("Copper Funding"), a joint venture between Pacific Current Group Limited, a global multi-boutique asset management firm, and Kudu Investment Management, purchased a minority stake in Pennybacker. As of January 1, 2022, Berry holds a 42.67% indirect interest, Vince Reyna holds a 21.33% interest, Thomas Beier holds a 3.00% interest, and Copper Funding holds a 33.00% interest in the Firm. Pennybacker continues to be overseen by its founder and principals, and there have been no changes to its strategies or day-to-day operations since Copper Funding's minority interest purchase.

## Team Overview

In addition to Berry, Pennybacker's senior management team is comprised of Reyna, Michael C. O'Malley, Beier, Richard Long, Edwin Beasley, Jason Dean, Alexander Zabik, and Lindsey Jacot (together the "Leadership Team"). As of January 2022, the Leadership Team has an average of more than 18 years of industry experience and Berry, O'Malley, Reyna, and Beier have all worked together at Pennybacker since 2007. Pennybacker's Leadership Team is supported by a team of more than 30 investment, portfolio optimization, data analytics, capital formation, finance, accounting, and administrative professionals.

Pennybacker's Investment Team has experience in real estate development, leasing, asset management, property management, investment management, bankruptcy workouts, credit underwriting, asset-backed and cash flow-based lending, corporate and asset restructuring, traditional and distressed real estate debt security valuation, investment banking, engineering, and investor reporting. Pennybacker believes this uncommon combination of broad industry experience, coupled with the Firm's data-driven strategy, is a distinct competitive advantage and has been critical to delivering consistently strong returns to Pennybacker's investors. The Investment Committee will be comprised of Berry, Reyna, Beier, Beasley, Long, Dean, Zabik and Jacot (Chief Compliance Officer).

## Strategy Overview

Pennybacker intends to continue its successful strategy of investing across the United States, with a primary focus on dynamic growth markets in this Fund. Pennybacker seeks assets in sub-markets with favorable supply-demand fundamentals and situations where Pennybacker can create value through operational improvements and capital repositioning. Pennybacker follows a thematic, disciplined investment approach that is based on a rigorous bottom-up, top-down, data-driven process that leverages the Investment Team's diverse skill set and proprietary database and portfolio optimizing platform. The Investment Team proactively sources transactions through its network of relationships, executing investments on a principal basis or through local operating partners. The Partnership intends to leverage Pennybacker's fully aligned equity and tactical credit teams to pursue opportunities throughout the capital stack that it expects will achieve optimal risk-adjusted returns.

## Expectations

We continue to believe the current economic environment of rising inflationary pressures and interest rates remains attractive for non-core, real estate strategies such as those employed by PCM. Fund VI has a target IRR (net) of 13% to 16% and a multiple of 1.6x to 1.8x, which is a reasonable base case based on the current economic and real estate market landscape. These expectations are also consistent with PCM's prior performance.

Although we expect Fund VI to be diversified by property-type, we believe PCM will initially focus on Industrial and Multifamily properties due to the long-term, in-place, demographics which are positively impacting the NOI growth prospects for these property-types versus those within the Office, Retail, and Hospitality sectors.

## Points to Consider

- Pennybacker may utilize affiliates for construction management, design, technology and research. The firm has taken the appropriate steps to address the use of affiliates. The fees, which are market rate, are stated in the offering documents. Additionally, all fees earned by affiliates are required to be reported to the Limited Partner Advisory Committee for review at least annually.
- Up to 30% of the Fund may be allocated to development projects.
- Up to 20% of the Fund may be allocated to tactical credit opportunities.

## Recommendation Summary

We believe Fund VI is an attractive option for clients seeking a diversified approach to non-core real estate. We have been tracking and interacting with PCM for nearly a decade and have been impressed with the growth of the organization, its development and implantation of a proprietary data analytics system, while continuing to produce solid investment results over multiple fund vehicles. The investment professionals at PCM seek to continue the strong performance of the PCM-series of funds by executing on their successful strategy of sourcing and transacting on thematic value-add and special situations strategies that it has developed over 15 years. PCM's investment themes have evolved based on the output of its data and analytics team. Combined with fully integrated equity and debt teams, we believe PCM has an asymmetric informational advantage over typical market participants. PCM will continue to be proactive in adjusting and refining the Fund VI investment themes as the real estate cycle evolves and as market conditions warrant.

We recommend Fund VI for any client beginning a non-core real estate program or making additional commitments to an established non-core program. PCM will target approximately 40 to 50 investments in lower to middle market assets with a mix of value-add and special situation profiles. The typical equity investment is in the \$10 to \$30 million range with a gross asset value less than \$50 million. The diversified approach across property types and geographic regions positions Fund VI well to be a primary component of a non-core, Real Estate allocation or a complement to a strategy focused on larger transaction sizes. For Fund VI, PCM is targeting a 13% to 16% net, IRR and 1.6x to 1.8x equity multiple.

# Angelo, Gordon & Co. – AG Realty Value Fund XI

## Firm Overview

Angelo, Gordon & Co (AG) is a privately held firm specializing in four investment categories: corporate credit, direct lending, securitized products, and real estate. The firm was founded in 1988. It currently employs approximately 550 employees including 200 investment professionals across its headquarters in New York, and additional offices in Chicago, Houston, Los Angeles, San Francisco, London, Amsterdam, Frankfurt, Milan, Hong Kong, Tokyo, and Seoul. AG is 100% owned by its founders, their related parties and over 100 senior employees.

## Team Overview

Co-CEO and Head of Real Estate Adam Schwartz, Head & Co-Portfolio Manager of U.S. Real Estate Reid Liffmann, and Co-Portfolio Manager U.S. Real Estate Matt Jackson oversee the other 14 senior investment professionals who are responsible for the investment activities of the fund. The 17 senior professionals are supported by 12 professionals who provide analytical support. The stability of the team has been noteworthy with seven of the 17 senior professionals having invested together at AG for over a decade.

The team is structured with each senior professional assigned a geographic region to source investments that they will maintain responsibility for through all phases of the life cycle. This is an important aspect of the AG model as each professional has a consistent presence in their region, which helps to maintain relationships with existing operating partners and develop new relationships with operating partners AG has not invested with. Additionally, it allows for a deeper knowledge of markets and submarkets within the region, which provides for improved investment decision making.

The Investment Committee comprised of Adam Schwartz, Reid Liffmann, Matt Jackson, and five Managing Directors Louis Friedel, Chris Oka, Andrew Schaffler, Cory Elbaum, Laura Metzger, and Real Estate COO & CFO Mark Maduras. This committee must approve all investment acquisition decisions with a unanimous vote.

## Strategy Overview

The team focuses on acquiring properties at a significant discount to replacement cost that can generate a 13% to 20% gross IRR by creating value through the execution of a business plan. The team evaluates each investment with a mindset of downside protection. As a result, it tends to utilize conservative assumptions when underwriting acquisitions including limited rent growth, increase of cap rates at exit, exit below replacement cost, and moderate leverage of 50% to 65%.

The business plans range from light value-add to heavy value-add. Light value-add investments typically are properties with higher occupancies at acquisition with value created through operational improvements and addressing existing vacancy or near-term lease expirations. A heavy value-add investment will involve a major repositioning that entails more significant capex to improve the property within its competitive set, and results in a significant upgrade in the quality of the property or in some cases a change in use.

## Expectations

In its construction of the portfolio for AGRVF XI, AG will have a bias toward higher operating margin sectors (e.g., Multifamily, Self-storage, and Industrial) over lower margin sectors (Office, Hotel, and Retail). We continue to believe the current environment remains attractive for non-core, real estate strategies such as those employed by AG. AGRVF XI has a target net, IRR of 12% to 13% and a multiple of 1.6x -1.7x MOIC. We believe this is a reasonable base-case scenario based on the strategy to be executed within the current economic and real estate market landscape.

## Points to Consider

It is anticipated that AGRVF X will allocate 15% to 20% to real estate in Europe and Asia. For clients that do not want exposure to international real estate, AG provides the option to invest through a U.S. only vehicle. AG typically utilizes forward contracts to hedge the currency risk of the fund's international investments. At acquisition it will hedge the equity investment of a property plus approximately 50% of the projected profit for the underwritten holding period. During the holding period, the hedge is revised based on the greater of net asset value or equity invested plus 50% of the projected profit.

## Recommendation Summary

AG has a lengthy and successful track record investing in real estate that spans the risk spectrum from assets with in-place cash flow to more complex capital restructuring and repositioning. AG utilizes this breadth of experience to execute the strategy for AGRVF XI. AG anticipates 33% to 50% of the target return to be generated from income resulting from Core-plus risk investments with the remaining 50% to 67% generated by investments that achieve value appreciation through Value-add and Opportunistic strategies. Since its inception, AG has invested through joint venture partnerships to leverage the expertise of local real estate operators. AG has built a roster of 80+ operators that the team will invest with across its funds. The team is comprised primarily of professionals with backgrounds as operators of real estate, which leads AG to be seen by operating partners as not solely a provider of capital but also a partner capable of providing valuable input for operational decisions. Six of the fourteen senior team members who are at a level of Director, or higher, have worked together for more than nine years. Additionally, AG sources, reviews, and invests in real estate transactions on a global basis which provides the potential opportunity for AGRVF XI to achieve a broader diversified portfolio compared to a domestic-only strategy.

AGRVF XI is recommended for any client beginning a non-core private real estate program or making additional commitments to a current program. The diversified approach across risk profiles, property types, and geographic regions, including an allocation of 15% to 20% to real estate in Europe and Asia, positions the fund well as a primary component of a non-core real estate allocation for most clients. AG offers an affiliated investment vehicle that allows LPs to opt out of the exposure to the European and Asian-based investments contained within AGRVF XI. Consistent with AGRVF X return expectations, AG is targeting a 12% to 13% net IRR and 1.6x to 1.7x equity multiple for AGRVF XI.



# Torchlight Investors – Torchlight Debt Opportunity Fund VIII

## Firm Overview

Torchlight was founded in 1995 by CEO/Co-CIO Daniel Heflin. ING held a minority equity stake in Torchlight from 2002 to 2010. Torchlight bought back the ING stake in 2010. Today, the management company is held by ten partners including Heflin who holds the majority stake. The firm is headquartered in New York and employs approximately 58 professionals including 28 investment professionals. Since inception, Torchlight has invested over \$4.7 billion of capital in commercial real estate debt investments. Torchlight is fully integrated with sourcing, structuring, and asset management capabilities. Additionally, the firm operates a special servicer, Torchlight Loan Services (TLS), that was formed in 1998. Since inception, TLS has completed workouts for 741 loans representing \$10.8 billion of par value and managed 242 properties representing \$2.7 billion of equity.

## Team Overview

The five members of the IC lead Torchlight's investment activities. The IC is comprised of Heflin, Partner/Co-CIO Marc Young (joined in 2008) Partner/Investment Management Samuel Chang (joined in 1998), Partner/Head of Asset Management Gianluca Montalti (2010), and Partner/Chief Credit Officer Greg Dineen (2016). The members have a complementary set of backgrounds including mortgage structuring and origination, portfolio management, asset management, securitization, and distressed debt workout. The responsibilities of the IC include oversight and implementation of the investment strategy, approval of acquisitions and dispositions for private investments and parameters for purchasing and selling investment grade securities.

The investment team includes 12 professionals dedicated to acquisitions and 14 professionals dedicated to asset management. Similar to the IC, the senior professionals of acquisitions and assets management have significant tenure and experience. Three of the six most senior professionals in acquisitions have been with Torchlight for nearly a decade or longer and the six average 23 years of industry experience. The three most senior professionals in asset management have been with Torchlight for eight years or longer and average 18 years of industry experience. Additionally, TLS's activities as a special service provide the team with market intelligence for CMBS and real estate loans as well as an additional avenue for investment sourcing. Currently, there are four employees dedicated to TLS. However, staffing increases as distress increases and accordingly the demand for special servicing. For example, during the GFC, TLS had 20 employees.

## Strategy Overview

Torchlight targets real estate debt investments in the private and public markets. In the private markets, Torchlight focuses primarily on loans for transitional assets that are more complex to underwrite and generally require funding at a higher LTV level that limits competition from commercial banks. It provides capital across the entire capital stack with a primary focus on senior whole loans, mezzanine loans, distressed loans, preferred equity, and selectively joint venture equity. In the public markets, Torchlight invests in investment grade and non-investment grade CMBS and the Freddie Mac K-series. K-series are securitizations backed by stabilized multifamily properties. K-series includes guaranteed and unguaranteed classes. The non-investment grade CMBS bonds are often sold together and known collectively as the "B-piece" or "subordinate CMBS". The pool of mortgages comprising the CMBS are typically backed by stabilized multifamily, office, industrial, retail and hotel properties and at times other niche property types.

## Expectations

Torchlight's stated net target returns are 10% to 12% IRR and 1.3x+ TVPI. This includes an estimated 6%+ quarterly income distribution once the fund is fully invested. We are comfortable with Torchlight's prospects of achieving the target based on its track record and the opportunity set in public and private markets. We continue to believe that the current economic environment of decreased lending activity within private non-core real estate will prove to be an attractive market for sources of liquidity. The outlook of expected commercial mortgage securities that will have potential difficulty to refinance via traditional lenders gives us a favorable expectation for Torchlight to find attractive opportunities during its investment period.

## Points to Consider

- Two of the primary risks to the strategy are default and interest rate. Torchlight's asset management team has the experience and capabilities needed to execute a business plan should it need to take over an asset from a borrower. Most of the loans it originates are structured as floating rate, Torchlight generally requires a borrower to purchase a LIBOR cap at the time of closing to mitigate the risk of rising interest rates.
- Torchlight will seek opportunities in a dislocated market with a lower risk profile that yield the expected 10-12% net IRR rather than opportunistically seeking out higher yielding opportunities with the original risk profile. While the approach is favorable from a risk-reward dynamic, Torchlight exhibits a value-add profile with a well-diversified blend of investments that may underperform relative to more concentrated true opportunistic funds.

## Recommendation Summary

We believe Torchlight Debt Opportunity Fund VIII is an attractive option for clients seeking a diversified approach to non-core real estate through credit-oriented, value-add strategies. We have been following and tracking Torchlight since Fund VI and have been impressed with the firm's expertise in creating diversified portfolios that emphasize downside protection and provide consistent returns with minimal leverage relative to its peers. The investment professionals at Torchlight look to continue their consistent performance by executing on their flexible, multi-strategy approach which allows them to operate in various market cycles. Given the current market dynamics in which traditional lending sources (i.e. commercial banks and insurance companies) for transitional assets have significantly slowed or even paused their origination of debt financing securities, we believe Torchlight is well positioned to target opportunities in the credit markets. The Fund VIII return objective is 10-12% net IRR of which 6% is anticipated to be generated from current yield. Torchlight has the experience and flexibility to pivot its value-creation strategy in the capital stack as needed if market conditions change during the life of the fund.

We recommend Fund VIII for clients with an established core/core+ real estate portfolio and are looking to make additional commitments to their non-core allocation. Despite the fund's relatively diversified profile regarding property types, number of investments and exposure to both senior and junior debt positions within the capital structure, we do not recommend this strategy as a standalone investment.

# Harrison Street Real Estate Capital – Core Property Fund

## Firm Overview

Harrison Street Real Estate Capital was founded in 2005 by Christopher Merrill, Chris Galvin, and Mike Galvin. The co-founders created the firm with a goal of focusing its investment activities on real estate properties that have demographic and needs-based demand drivers. The firm is headquartered in Chicago and has a London office. It has more than 140 employees and over \$20 billion of assets under management. In July 2018, Harrison Street entered into a strategic partnership with Colliers International Group to purchase 75% of the firm. The Galvins sold 100% of their interest. The remaining interest is held by Co-Founder/Chairman & CEO Christopher Merrill and Senior Managing Directors Dean Egerter, Stephen Gordon, and Robert Mathias. Additionally, Senior Managing Directors Joey Lansing, Mike Gordon, and Geoff Regnery each hold units of a newly created perpetual equity class, which provides the opportunity to participate in the growth of the firm's enterprise value. Additional units will be awarded to new senior managing directors going forward.

## Team Overview

Senior Managing Director/Senior Portfolio Manager Joey Lansing has overseen the investment activities of CPF since inception. With the growth of the fund, HSREC has added Portfolio Manager Chip George and Assistant Portfolio Manager Colleen McMillin to support Lansing. The team dedicated to CPF also includes two portfolio associates, a portfolio analyst, and five individuals responsible for financial reporting. Additionally, there are 51 investment professionals across the firm's transactions and asset management teams who are critical to the execution of the fund's investment activities.

The Investment Committee (IC) has input into investment strategy, review portfolio construction, and approve all acquisitions and dispositions. Additionally, significant capital expenditures, leasing and financing decisions require review by IC member(s). The IC is comprised of Merrill, Egerter, S. Gordon, M. Gordon, Lansing, Mathias, and Regnery.

## Strategy Overview

CPF is a diversified core strategy that invests exclusively in specialty property types which includes medical office, senior housing, student housing, self-storage, and life science. The common theme across these property types are fragmented ownership and demand driven by demographic trends and/or social need. Accordingly, these property types tend to be less correlated to economic growth relative to traditional commercial real estate investments.

The investments are made via wholly owned or joint venture structures. The typical equity investment ranges from \$2.0 to \$20.0 million per property and the typical transaction size is \$10 to \$75 million. The target leverage is in the 22% to 27% LTV range. With the growth of the size of the fund, the team has more flexibility with its financing strategy and can utilize portfolio-level financing in addition to property-level debt. It will tend to favor portfolio-level financing because of its flexibility.

## Expectations

For core real estate, we expect a long-term total net return in the 6% to 8% range. Approximately, 80% of the return is expected to be derived from the income component. We expect a slightly higher long-term return for the Core Property Fund. The specialty property types it invests in have an income return advantage relative to traditional property types (office, multifamily, industrial, and retail). As of Q2 2019, the year one cap rate for CPF is 5.3% compared to 4.5% for the ODCE. Additionally, there is potential for greater cap rate compression for these property types as more institutional capital begin to view these property types as "institutional quality", which will lead to greater capital flows into the space. Accordingly, this provides potential for higher appreciation relative to traditional property types.

## Points to Consider

- CPF will have slightly higher leverage relative to the ODCE. The target leverage in the 22% to 27% range relative to the ODCE which is generally in the low 20s.
- The stated minimum for CPF is \$10 million. Harrison Street is flexible on accepting smaller commitments on a case-by-case basis. However, there will likely be limited availability to attend client meetings.

## Recommendation Summary

Harrison Street Real Estate Capital (Harrison Street) was one of the first fund sponsors to identify and solely focus on the opportunity in specialty property types. Accordingly, it has developed a depth of knowledge and investment experience within these property types that sets it apart from competitors. As one of the earliest movers in the space, the firm has established itself as a valued partner by health systems, universities, and operating partners, which provides a competitive advantage for information sharing and investment sourcing.

The CPF portfolio is differentiated from the typical core fund that comprises the NFI-Open-end Diversified Core Equity (ODCE) peer group. It provides exposure to a different set of property types that most ODCE funds have minimal or no exposure to. Additionally, it has a higher income return and exposure to property types that have less correlation to economic growth.

CPF is an excellent complement to a core fund that invests in the four primary property types. It will enhance the income return and increase property type diversification. We are also comfortable with it utilized as the sole allocation in a core portfolio. While the portfolio is comprised of property types that are different from that of most core funds, the characteristics of the CPF portfolio are consistent with a core strategy's objective of providing a stable income return and diversification.

# Blue Owl Capital Inc. – Oak Street Net Lease Property Fund (NLP)

## Firm Overview

Blue Owl was formed in May 2021 by the strategic combination of Owl Rock and Dyal Capital. Dyal Capital was previously a division of Neuberger Berman, a private, independent, employee-owned global asset management platform. Blue Owl acquired Oak Street in December 2021 to merge the business. Oak Steet's co-founder and President, Marc Zahr remains the Head of Blue Owl Real Estate division.

Oak Street was founded in 2009 as a private equity real estate firm under the name Oak Street Partners, LLC. Oak Street Partners, LLC was rebranded as Oak Street Real Estate Capital, LLC on September 1, 2011. Oak Street offers a unique platform combining direct and indirect real estate perspectives in its two lines of business: (i) the Net Lease platform ("Net Lease"); and (ii) the Seeding and Strategic Capital ("SASC") platform.

## Team Overview

NLP's investment management activities are directed by the Firm's eight-member Investment Committee (IC). The IC is comprised of Marc Zahr, Larissa Herczeg, Michael Reiter, Colleen Collins, Sean Sullivan, Gary Rozier, Jared Sheiker, and Grant Gaughrin. The IC is responsible for NLP's investment decisions including acquisitions and dispositions. A majority vote is required to approve an investment.

Blue Owl's Investment team, which reports to the Investment Committee, is responsible for the evaluation and execution of the Firm's Investment opportunities. As part of the Firm's investment activities, the investment team undertakes significant due diligence efforts each Investment. In addition to reporting to the IC, the IC and the investment team collaborate on a daily basis as the members of the IC possess extensive experience in critical aspects of the investment process.

NLP will be staffed by 38 professionals including the IC, a six-member Investment team, a 17-member Accounting and Asset Management team, and eight members dedicated to Business Services.

## Strategy Overview

The Fund's investment strategy is to acquire sing-tenant commercial real estate properties or portfolios that are net leased to investment grade companies with a target lease term of 20 years. Targeted properties will trade at a cap rate between 6% and 7%. Blue Owl further defines its strategy by focusing on tenants operating recession resistant businesses such as Walgreens, MetLife, and US Bank. Blue Owl believes the long-term in-place cash flow backed by investment grade credits offers an attractive risk-adjusted current return with capital appreciation potential upon exit.

Blue Owl's strategy is based on: a) focused investment parameters with strict credit underwriting; b) structuring acquisitions to provide operating cash flow in excess of the preferred return; c) active portfolio management; and d) a focus on downside protection. Each leg of this strategy contributes to Blue Owl's risk/reward proposition as an active manager in a traditional "buy and hold" sector of the real estate market.

## Expectations

The Fund seeks to provide investors with a current yield of 7% generated from contractual lease obligations and a total net return of 10%. The Fund is expected to use leverage up to 50% to achieve this despite having a target leverage of 40% LTV.

Based on Blue Owl's track record, we believe the targeted 10% net IRR is achievable. Blue Owl has raised four prior closed-end funds of similar strategy that have surpassed performance expectations. Since Blue Owl was founded, the Blue Owl has made over 150 consecutive monthly distributions of a 7%+ annualized preferred return in its closed-end fund series.

Blue Owl's NNN strategy with investment grade tenants should fare well in a more challenging economic environment. Blue Owl maintains strict underwriting standards and underwrites worse-case scenarios when acquiring assets. Its current downside analysis forecasts cap rates expanding several hundred basis points (target assets have a current cap rate of 6% - 7%) which may result in high single digit net IRR at exit while not impacting cash flow multiples.

## Points to Consider

Interest rates could impact the cost of debt as well as terminal cap rates. Interest rates have been at historical lows for an extended period of time which has provided positive leverage effects for property investments. This is less impactful for the Fund given that most of the debt is at the portfolio level which allows the manager to combine assets for more favorable terms. Additionally, completion of a previous private placement has allowed the manager to take advantage of favorable long-term (Maturities 2031,33,36) debt at attractive sub-3% fixed interest rates. Further, value impacts to assets with longer term, credit leases are more muted given the given the visibility of cash flows. Regardless, funds like NLP are going to be more sensitive to interest rates given some of the underlying investments.

The investment committee has doubled since 2018. However, the level of experience and time together is relatively light relative to other investment managers in the space.

## Recommendation Summary

NLP is recommended for any client interested in a core-plus open-end real estate program. As the fund achieves scale, NLP will acquire five to ten properties annually, each with an average gross asset value of \$100m. The fund will have a North American focus and will be diversified across the office, retail, and industrial real estate sectors. Underlying tenant exposure will be further diversified across all industries. NLP will target existing assets with 20-year leases in place or to be negotiated, with an expected 7 to 10-year hold period. NLP has a target net IRR of 10% and an annual yield of 7%. We categorize NLP as core plus on the risk/return spectrum.



# Glossary of Terms

**Capital Structure or Capital Stack** – Refers to the legal organization of all the capital placed into a real estate asset. There are four basic types of structures: senior debt, mezzanine debt, preferred equity and equity.

**Capital Call** – Occurs when a manager requests a transfer of the portion of the capital an investor has committed. The called capital is utilized by the manager to make investments and cover expenses.

**Cap Rate** – A measure of the income return of real estate. The cap rate for a property is generally calculated by dividing the net operating income of a property by the current market value.

**Carried Interest** – The manager's share of the fund's overall profits, typically 20%. It is typically received by the manager after returning called capital to investors plus a preferred return. Also known as "carry" or "promote".

**Catch Up** – Occurs after the manager has made distributions to investors equivalent to a return of the called capital plus the preferred return. At this point the manager generally receives 50% of future distributions until total distributions are equal to the manager's carried interest allocation.

**Committed Capital** – The amount of capital that an investor has agreed to invest in a private real estate fund. The capital is called on an as needed basis by the manager.

**Equity** – Represents the ownership interest in the property. The equity holder only receives cash flow after all other investors lower in the capital stack have been paid.

**Equity Multiple** – A performance measure for private investment funds. It represents the multiple of the called capital that is returned to investors.

**Gateway Markets** – Are the major coastal markets (Boston, New York, San Francisco, Los Angeles) as well as Chicago and Washington D.C. These markets tend to be the most liquid with the highest level of transaction volume.

**General Partner (GP)** – The GP is the manager of the fund while the investors of the fund are the limited partners (LPs). The GP retains liability for the actions of the partnership.

**Internal Rate of Return (IRR)** – A performance measure for private investment funds that accounts for the managers control of when cash flows occur and the irregular timing of cash flows.

**Investment Period or Commitment Period** – Refers to the established length of time a manager can make investments, generally two to three years.

**Limited Partnership** – The legal entity comprised of a general partner and limited partners. The general partner is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment.

**Limited Partner (LP)** – The investor in a limited partnership. The LP receives income and capital gains. It is also protected from legal actions and losses beyond its original investment.

**Loan-to-Cost (LTC)** – A metric used by a lender to express the ratio of a loan to the total cost of completing a development project.

**Loan-to-Value (LTV)** – A metric used by a lender to express the ratio of a loan to the fair market value of the property.

**Mezzanine Debt** – A hybrid between equity and debt. It is senior to equity but subordinate to senior debt. A mezzanine investor typically receives a fixed interest payment over a specified term but may also participate in the upside of the investment.

**Net Operating Income (NOI)** – All revenue generated from a property minus the necessary operating expenses required to run and maintain the building

**Preferred Equity** – A hybrid between equity and debt similar to mezzanine debt. It is senior to equity but subordinate to debt. Investors receive cash flows ahead of equity but also participate in the upside of the investment.

**Preferred Return** – The "hurdle rate of return" that the limited partners must receive on called capital for the manager to begin receiving its carried interest.

**Repositioning** – A real estate investment strategy where the owner adds value to the property by completing deferred maintenance, improving the physical appearance and/or operations in order to increase rents and/or attract new tenants.

**Redevelopment** – A real estate investment strategy that includes significant physical upgrades to the property which may result in a high-level of vacancy until the project is complete.

**Secondary Markets** – Are other sizable markets with solid transaction volumes and presence of institutional investors. Examples include Atlanta, Austin, Charlotte and Phoenix.

**Senior Debt** – A loan secured by the property which serves as collateral for the loan. It is senior to equity, preferred equity and mezzanine debt. The holder of the debt receives interest payments before cash flow can be distributed to the investors comprising the higher positions in the capital stack.

**Tertiary Markets** – Are markets with low transaction volumes and a limited presence of institutional investors. Examples are Cincinnati, Columbus and Memphis.

**Vacancy Rate** – The percentage of a property's space that is currently unoccupied or available for rent.

**Vintage** – The calendar year in which the manager begins investing the capital of a private real estate fund.

**Clients first.**



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