



## Memorandum

To	Vermont Pension Investment Commission (“VPIC”)
From	RVK, Inc. (“RVK”) Investment Manager Research
Subject	Angelo Gordon Net Lease Realty Fund V
Date	October, 2023

The following is a review of the potential investment opportunity offered by Angelo Gordon & Co., L.P. (“Angelo Gordon”, the “Manager”, or the “Firm”) which is a Delaware limited partnership. Angelo Gordon seeks to raise capital for their AG Net Lease Realty Fund V, L.P. (the “Fund”). The Firm has a long history of managing funds dedicated to the triple net lease real estate sector with this being their fifth value-add strategy offering. The team is comprised of experienced professionals with an excellent network of local operating partners, real estate brokers and financial institutions to source opportunities in the net lease real estate space.

The following is an executive summary of the AG Net Lease Realty Fund V opportunity based upon RVK’s diligence, which included: a thorough review of the offering and legal documents; quantitative evaluation of the track record; qualitative assessment of the managing Principals and their strategy; the market environment; and an on-site visit to the Firm’s New York office. An additional level of detail is available upon request.

### Recommendation Summary

RVK, Inc. recommends that the Vermont Pension Investment Commission commit \$50 million to AG Net Lease Realty Fund V, L.P. to continue to diversify the Commission’s Inflation Hedging Asset Portfolio with a dedicated triple net lease real estate strategy. RVK believes that a commitment sizing of \$50 million:

1. Appropriately reflects a meaningful allocation to the Plan’s Inflation Hedging Asset Portfolio by investing with an existing manager that is positioned to take advantage of market opportunities.
2. Provides attractive quarterly distribution yield to the Inflation Hedging Asset Portfolio.
3. Adequately balances risk-reward potential for a contribution to returns from a triple net lease real estate strategy.

While we find these merits compelling, all investment opportunities, including this one, carry risks. These risks are further outlined in the “Issues to Consider” section of this report. However, while RVK detailed concerns surrounding current valuations and uncertainty of real estate in some markets, RVK contends that this is a reasonable entry point for strategic investors with a long-time horizon.



## Investment Overview

AG Net Lease Realty Fund V is a closed-end fund focused on income producing net lease assets that offer an attractive risk-return proposition that has the potential to perform well in various market conditions. The Fund will target investments in non-investment grade, single-tenant, free-standing triple net lease assets structuring a long-term lease with appropriate landlord protections and an emphasis on mission critical locations. Angelo Gordon believes interest in triple net lease opportunities is increasing driven by companies viewing sale-leaseback transactions as an efficient use of company capital, enhancing corporate returns as they unlock the hidden value of their real estate. Angelo Gordon believes middle market companies generally find accessing long term or other sources of financing difficult thus sale-leaseback transactions are one of the most efficient and attractive way for companies to monetize their real estate assets while retaining operational control.

The Firm believes that relatively high yields on stable real estate leased to less-than-investment grade tenants, coupled with its rigorous real estate and credit analysis, will allow the Fund to earn favorable and stable rates of return. With the triple net lease structure, the tenants are responsible for expenses such as repairs, maintenance, insurance, and real estate taxes thus mitigating the impact of inflation and other unexpected expenses. The Fund will target a gross annual internal rate of return (“IRR”) of 14% to 16% and a net IRR of 10% to 12% with the potential to generate significant current returns from operating income. These targeted returns typically are not predicated on any improvements in underlying market rents or underlying investment demand for real estate assets.

## Merits

- **Rent Escalations (Inflation Resiliency):** Historically, most leases Angelo Gordon has negotiated have annual rental increases that are based on the Consumer Price Index (“CPI”) or on a fixed increase schedule. The Manager believes that this feature should allow the Fund’s income and residual interest in the real estate to keep pace with inflation. By including annual lease escalations, the Fund earns increased cash flow during the long-term lease creating value for investors and future potential investors. The triple net lease structure of the Fund reduces inflationary pressures on a building’s expenses such as maintenance and repairs, insurance, and taxes. While a 2% annual escalation may not appear to be able to keep up with recent higher inflation, by excluding building expenses this escalation provides a meaningful increase to annual cash flows. The Manager believes this steady increase in cash flows results in higher dividends, greater downside protection and less exit cap rate sensitivity.
- **Bond Like Portfolio with Upside:** Triple net lease strategies allow owners to lock in long-term leases with single tenants with minimal capex needed from the property owner due to



the structure of the lease. This allows the Manager to build a diversified bond-like portfolio consisting of long-term leases. The monthly or quarterly rental payments provide durable cash flow that can be passed along to investors during the hold period providing the majority of returns to investors. The advantage over bond holders is that if tenants are going through bankruptcy, they must either assume or reject the lease thus there is no diminished value of the lease if the tenant assumes the lease, which is most often the case because of the mission critical nature of the asset to ongoing operations. If the tenant rejects the lease the owner can search for a new tenant without losing value of the principal unlike many bond holders in bankruptcy proceedings. Unlike many bondholders, the Fund's leases do not face repayment risk for tenants who have an improving credit situation and would normally look to call more expensive debt. Also, owners of the real estate also have the potential for the underlying real estate to gain value over the holding period where a bond holders upside is typically capped.

- **Downside Protection:** When compared to a high yield bond portfolio, the net lease strategy managed by Angelo Gordon provides significant downside protection. As stated above if the tenant enters bankruptcy leases are in a secured position and have better results than bond holder, where average recovery for bond holders has averaged 40.3 cents on the dollar over the past 32 years. Angelo Gordon believes downside protection is achieved through three primary reasons. First, Angelo Gordon's credit experience provides for rigorous tenant credit underwriting standards which allows them to identify quality tenants who are able to improve operating performance and creditworthiness over the holding period. Second, the Manager believes by emphasizing the selection of assets that are vital to tenants' ongoing operation with tightly structured leases these long-term leases are more likely to survive tenant reorganizations or restructuring. Third, the Manager believes that through their real estate experience in underwriting allows the Fund to pay an appropriate market price for assets, so that in the unusual event of a need to sell or re-tenant an asset, it may do so at market rates.
- **Sourcing/Depth of Resources:** With over a three decades of investing in alternative assets and thirty years in real estate Angelo Gordon has a long history identifying attractive investments with a positive risk return profile. The net lease team will seek to leverage the Firm's internal capabilities to access its network of real estate operating partners, brokers and financial institutions that are regular and significant sellers of net lease real estate as well as financial restructuring firms whose solutions for their clients sometimes include sale-leaseback transactions. Also, the Fund will have the benefit of Angelo Gordon's contacts and expertise across a broad range of alternative investment strategies with a team of over 100 credit analysts across its credit-related disciplines. The net lease real estate team expects to use the overall firm's research and expertise when underwriting the credit of potential tenants. Angelo Gordon has also been an active participant in the secondary market for distressed and non-investment grade bank debt providing an additional source of distressed corporate



owners of real estate which are either sellers of real estate or for whom a sale-leaseback provides an excellent liquidity option.

- **Investment Track Record:** Angleo Gordon has a demonstrated track record of successfully sourcing and structuring sale-leaseback and other triple net leases transactions. Angelo Gordon has achieved strong multiples on invested equity in their first two funds which are fully realized. Fund III still has a significant amount of capital that has not been returned to investors. Due to the nature of their strategy and longer hold periods than typical value-add strategies it is not surprising for Fund III returns to be lower compared to value-add funds of the same vintage. The Manager intends to provide a 7% annual yield to investors beginning in year two of the Fund. The Manager has invested across a variety of property types while maintaining its focus on mission critical assets. Please see “Performance and Track Record Analysis” section for additional details.
- **Lease Provisions to Protect Value:** The Manager has experience creating bespoke and highly structured triple net leases. When leases are structured through sale-leaseback transactions the Manager can provide an alternative financing structure when capital is scarce allowing the necessary protections to be achieved. The Manager will seek to structure leases that include financial or operating covenants or cross-default provisions with the tenant’s senior bank agreements and other significant liabilities. Angelo Gordon believes that tenants generally place a high value on the customization of leases and consider it a significant factor when choosing a purchaser of their property.

### Issues to Consider

- **Risks to Exiting Investments:** In a closed-end investment vehicle the exit strategies and success are important aspects of insuring investors get their money back in a timely and effective manner. Currently AG Net Lease Fund III, a 2013 vintage fund, has 96% of invested capital remaining in the fund. These assets continue to provide yield to investors, but this is a significant amount of capital not returned to investors after a 10 year fund life. Angelo Gordon indicated that they are currently marketing the Fund as a portfolio, which they indicated would bring a better return for investors, but the current market environment has impacted a portfolio sale. An option they are considering is a continuation fund. This type of exit leaves investors with additional decisions and potential administrative work depending on how a continuation fund or potential public equity exit with distributions in-kind.

Another issue to consider for the delayed liquidation of assets is described by Angelo Gordon as an advantage. The Manager states “Angelo Gordon believes that it is one of the few large

investors in the below-investment grade net lease market which it believes provides a competitive advantage.” While this fact probably does buy them an advantage when sourcing and purchasing assets, it also means that there are fewer buyers in the market for these assets at time of exit. Unlike many value-add strategies that claim to have an advantage with less competition acquiring assets, Angelo Gordon isn’t adding value to these assets and then marketing improved assets either individually or as an aggregated portfolio. With a hold period of potentially 10 plus years Angelo Gordon will actually be selling assets after a majority of their original lease terms have passed making a net lease asset less attractive than those with long remaining lease life. Thus it would be important for Angelo Gordon to extend leases with current tenants or risk selling assets at a lower than expected value.

- **Economic Fragility and Uncertainty:** Inflation remains stubbornly high and problematic for the Fed. While the Fed continues to fight inflation, it is attempting to not send the economy into a recession, while many economists feel a recession is imminent. Many asset classes face increased uncertainty when combined with rising interest rates and ongoing labor shortages. These factors are keeping real estate transactions muted as buyers have higher financing and carrying costs, thus buyers are offering lower purchase prices for assets. On the flip side, sellers have been buoyed by low interest rates and strong fundamentals since the post-COVID economic rebound, thus sellers desire to receive higher property valuations that were in the market prior to the quick rise in interest rates. Until the market views inflation as under control and the Fed ends raising interest rates, real estate transactions may remain muted thus making valuing real estate difficult.

However, triple net lease structures may be more attractive to some corporations that find issuing bonds or acquiring debt more expensive than they have been accustomed to. Corporations may be more willing to sell real estate off their balance sheet to finance their business and locking into long-term leases. Triple net lease investors also may find themselves in a more beneficial position during inflationary environments as tenants feel the impacts of inflation and owners of these properties are insulated from the higher operating costs.

- **Uncertainty of Announced Acquisition:** On May 15, 2023, it was announced that TPG would be acquiring Angelo Gordon with an expected closing of the transaction in the fourth quarter of 2023. TPG is a global alternative asset manager known for their private equity and real estate investments. As asset managers have recently been acquiring other alternative asset managers to diversify and bolster their offerings to investors, it makes sense that TPG would want to acquire Angelo Gordon for its extensive private credit and lending strategies. However, there are some questions as to how they handle the duplication of many real estate strategies and personnel. During diligence it was communicated to RVK that the real estate



teams operate differently with TPG taking a more top-down approach and focus on core plus and opportunistic strategies while Angelo Gordon is more focused on building portfolios through a bottom-up approach. Angelo Gordon also indicated that each real estate team will continue to operate independently with an information barrier and the real estate teams will not see each other's pipeline. While RVK believes that in mergers like this where there is an overlap of investment verticals teams will be merged into a single vertical and strategies will be reviewed. From a triple net lease perspective there is not an overlap with TPG so it is doubtful this strategy would be subsumed by another TPG strategy; however, investors should continue to monitor the integration of firms going forward.

- **Terms and Conditions:** RVK considers the Key Person Provision too restrictive by requiring both Gordon Whiting and Adam Schwartz to no longer be engaged in the day to day running of the Fund. RVK recommends pushing for the provision to only include Gordon Whiting. If the Fund reaches its fundraising target the GP commitment would be 1%, which we view as on the low end for closed-end funds. RVK also believes that the 7% hurdle rate for carried interest is on the low side for a closed-end fund. These recommendations are highlighted in the terms and conditions summary section of this report. Despite these items that favor the General Partner, other terms are favorable to Limited Partner. On balance, RVK believes the Fund to be appropriately aligned with the Limited Partners.
- **Staff Turnover:** RVK considers the amount of turnover experienced on the Angelo Gordon Net Lease Real Estate team to be concerning, especially relative to peers. The Net Lease team currently consists of 17 members with 14 of those considered senior members of the team. Since 2018, there have been multiple senior members of the team that have left Angelo Gordon. This time period does not include a former Co-Portfolio Manager that left to lead a competing net lease strategy. This amount of senior turnover is cause for concern. It is also important to note that with the recently announced acquisition of Angelo Gordon by TPG, additional turnover would not be surprising during the investment period of Fund V. While we have expressed our concerns about the level of turnover, Gordon Whiting, Portfolio Manager and Sharon Kilmer, Deputy Portfolio Manager have been with Angelo Gordon for 18 years working together since the beginning of the net lease strategy.

## Firm

Angelo, Gordon & Co., LP is a privately held investment management firm that specializes in global alternative investments. The Firm was founded in 1988 by John Angelo and Michael Gordon with a focus on distressed debt and special situations. Today, the Firm's strategies have



grown to encompass broader corporate credit, direct lending, structured credit, and real estate. As of December 31, 2022, the Firm manages approximately \$73 billion in assets, including \$17.9 billion in real estate. Angelo Gordon benefits from significant resources due to its scale with over 650 employees, including more than 230 investment professionals. The Firm is headquartered in New York but has 14 offices across the US, Europe, and Asia-Pacific. See Figure 1 for an overview of the Angelo Gordon platform and the timeline of its growth.

On May 15, 2023, it was announced that TPG would be acquiring Angelo Gordon with an expected closing of the transaction in the fourth quarter of 2023. TPG is a global alternative asset manager known for their private equity and real estate investments. As asset managers have recently been acquiring other alternative asset managers to diversify and bolster their offerings to investors. However, there are some questions as to how they handle the duplication of many real estate strategies and personnel. During diligence it was communicated to RVK that the real estate teams operate differently with TPG taking a more top-down approach and focus on core plus and opportunistic strategies while Angelo Gordon is more focused on building portfolios through a bottom-up approach. Angelo Gordon also indicated that each real estate team will continue to operate independently with an information barrier between strategies and the real estate teams will not see each other's pipeline.

Angelo Gordon is headquartered in New York, New York, with the real estate based in New York, with additional members of the real estate and net lease teams located across the United States and in London. Angelo Gordon believes the Fund will benefit from collaboration with the Firm's real estate and debt investment groups whose collective expertise, proprietary research and sourcing capabilities should give the Fund an edge over other competitors in the market in identifying and evaluating attractive investment opportunities.

TPG expects to acquire Angelo Gordon in a cash and equity transaction valued at approximately \$2.7 billion, including an estimated \$970 million in cash and up to 62.5 million common units of the TPG Operating Group and restricted stock units of TPG, in each case, subject to certain adjustments. Upon closing of the transaction, Angelo Gordon's partners and employees will own approximately 16% of the equity of the combined company.

Angelo Gordon partners are expected generally to receive 15% cash / 85% equity; Angelo Gordon founders are expected to receive 90% cash / 10% equity. Unvested equity in TPG held by Angelo Gordon partners in connection with the transaction is expected to be subject to a five-year vesting period and a lock-up for the purpose of maintaining stability and continuity. A portion of Angelo Gordon's equity consideration is expected to be distributed to its non-partner employees, creating broad-based employee ownership.



## **Investment Philosophy and Strategy**

The Fund intends to invest primarily in single tenant commercial real estate, generally leased to less-than-investment grade tenants. The Fund intends to purchase both existing facilities and build-to-suit facilities that are integral to the ongoing operations of tenants. Many properties are expected to be acquired in simultaneous sale-leaseback transactions. The Manager intends to focus its sale-leaseback investment strategy on buying tenant-owned properties and structuring a long-term lease with appropriate landlord protections.

The Fund will target a gross IRR of 14% to 16% or a net IRR of 10% to 12% after fund-level expenses, management fees and carried interest. Angelo Gordon anticipates there will be an initial current return of approximately 7% from annual operating income, which is expected to be distributed on a quarterly basis.

**Triple Net Lease:** The Fund will target investments in triple net lease assets. Triple net lease structures require the tenant to pay for all or most property operating and capital expenditures. By contractually requiring the tenant to pay all operating expenses, the owner mitigates the potential of increased operating expenses, including property taxes, insurance, and utilities, impacting the net operating income of the property. This can become a significant advantage during periods of high inflation where contractual rent increases in traditional property types do not cover the increased operating expenses. The Manager also believes an increasingly competitive business environment has prompted companies to reallocate capital away from non-income producing assets into their core business. One method companies are using to achieve the desired increase in efficiency is to monetize their real estate assets through sale-leaseback arrangements.

**Below Investment Grade Tenants:** The Manager believes that relatively high yields on stable real estate leased to less-than-investment grade tenants, coupled with its rigorous real estate and credit analysis, will allow the Fund to earn favorable and stable rates of return. Angelo Gordon believes that the limited number of providers of capital for long-term real estate financing for less-than-investment grade tenants, combined with Angelo Gordon's expertise in both real estate investment and credit analysis, will lead to significant opportunities for the Fund in the marketplace. The Manager also believes it is one of the few large investors in below-investment grade net lease market which it believes provides a competitive advantage with the recent increase in participants in the overall net lease market. Compared to investment grade tenant sale-leaseback, the Manager believes that fewer buyers exist for non-investment grade transactions due to the greater difficulty in underwriting default risk.



**Positive Risk Return Characteristics:** The Manager believes the Fund can generate very attractive returns with relatively low risk due to the combination of stable tenants and real estate security while structuring customized leases to the needs of a particular tenant without sacrificing the security to the Fund. While focused on below-investment grade tenants compared to bonds in net lease investments a default may actually become a positive event if the tenant reorganizes as a healthier company or is sold to a buyer with better credit. In bankruptcy, a real estate lease gives the landlord a position superior to that of other creditors since the tenant must either assume or reject the lease. If the tenant assumes the lease, the rent payments continue on the current schedule and cannot be reduced. The Fund will endeavor to purchase assets that are critical to the tenant's ongoing operations, thereby increasing the likelihood that the tenant will assume the lease in a bankruptcy proceeding.

The Manager believes that downside protection is derived from three primary means. First, Angelo Gordon believes that rigorous tenant credit underwriting should allow the Manager to identify tenants that exhibit the ability to support their capital structure and often improve performance and creditworthiness over time. Second, the Manager believes that emphasizing the selection of assets that are vital to tenants' ongoing operations, reinforced by tightly structured leases, should provide for long-term leases that are much more likely to survive tenant reorganizations or restructurings. Third, the Manager believes that real estate valuation, selection and analytic expertise should allow the Fund to pay an appropriate market price for assets, so that in the unusual event of a need to sell or re-tenant an asset, it may do so at market rates.

**Single Tenant Assets:** The Fund intends to only invest in properties occupied by a single tenant to seek to eliminate risks and costs associated with vacancy, re-leasing, and tenant improvements. In addition, the Fund will target investments in properties which the General Partner believes serve a critical function for the tenant's business operations which reduces the likelihood of tenant vacancy. The Manager believes this element of the Strategy creates compelling visibility of cash flows and downside risk protection for investors.

**Returns Driven by Cash Flow:** The Fund targets a holding period of seven to ten years investing in a diversified portfolio of net leased assets which both generate increasing quarterly distributions and increase in value. The Manager seeks to generate significant current returns from operating income to provide investors an approximate 7% annual operating income which the Manager expects to distribute to investors on a quarterly basis. In order to achieve this the Manager will seek opportunities to purchase assets with all or some of the following fundamental strengths:

- Properties that are integral to the ongoing operations of the tenant;
- Tenants whose credit will likely improve over time;

- Facilities that are unlikely to become obsolete;
- Favorable projected long-term demand growth in the local market;
- Leases where base rents escalate based primarily on CPI, or leases with fixed escalations;
- Leases with letters of credit or corporate parent guarantees; and
- Leases that contain financial or operational covenants.

The Manager intends to structure transactions with the goal of generating current income distributions from recurring operating cash flow. In pursuit of this goal, the Fund will seek to utilize fixed-rate, non-recourse debt financing typically five to seven years in duration. The Manager intends to typically employ leverage of 50%-65% of the cost of each investment that are expected to bear interest rates significantly below the initial yield of the net lease investments, thereby providing positive leverage.

### **Investment Sourcing**

Angelo Gordon is a leader in triple net lease investing with non-investment grade companies having invested over \$2.5 billion of equity in net lease assets. The Angelo Gordon net lease team will leverage internal real estate and debt investment teams' propriety research and sourcing capabilities to source attractive investment opportunities. The team also has an extensive network of external alliances with regional real estate firms in most major U.S. markets. These firms typically focus on specific markets and property types, providing invaluable up-to-date real estate market information. In addition to these real estate operators Angelo Gordon has numerous relationships with real estate brokers and financial institutions that are regular and significant sellers of net lease real estate, including financial restructuring firms that often seek sale-leaseback transactions for their clients.

As Angelo Gordon has leveraged the broader real estate teams and credit team, it is expected that the TPG transaction will bring greater sourcing opportunities. As a significant player in the private equity market, TPG has increased market knowledge of companies that could benefit from sale-leaseback transactions. The net lease team will benefit from the introduction of these companies from the TPG private equity team.

### **Investment Process**

The investment process begins with the investment sourcing described above and then focuses on underwriting the credit, real estate, and lease terms. Angelo Gordon's investment selection and lease structuring process employs a combination of tenant credit analysis and real estate analysis and will take into consideration the strength of each tenant's credit and the diversification



of the Fund's portfolio. The real estate and credit underwriting professionals work on a transaction simultaneously, coming up with a price and lease terms that are tailored to the tenant and the size, location and nature of the real estate.

During the preliminary investment review, the Manager reviews seller-prepared sales information, gathers market data, talks with industry contacts, and analyzes financial information. That is followed by a first-hand tour of the property to understand the property's physical condition and competitive position in the market. Unique information about competition and broker and tenant sentiment is gathered during this process. The team then gathers preliminary information about the credit quality of the tenant.

#### CREDIT UNDERWRITING

Angelo Gordon will carefully evaluate the creditworthiness of each tenant by analyzing its capital structure, market position, company and industry fundamentals, and management. By focusing on less-than-investment grade tenants, Angelo Gordon believes that the Fund can achieve higher rates of return with less competition than more traditional investment grade net leased real estate. Angelo Gordon will seek to use its strength in credit analysis to identify those tenants whose credit profile will likely improve over time, thereby increasing the value of the investment.

The credit underwriting and research team assesses the financial stability, cash flow reliability, and long-term business viability of each tenant. This is an intensive process conducted through onsite interviews of the senior management team, evaluation of the company's business model and vision, as well as research into the financial health of the company.

#### REAL ESTATE UNDERWRITING

Angelo Gordon will carefully evaluate each real estate investment, including an analysis of financial returns, underlying real estate values and potential risk of loss. Angelo Gordon will seek to acquire properties that it believes are likely to result in minimal losses in the event of a lease default that results in a vacancy and will seek to avoid investments that may result in environmental or structural issues that could cause the Fund to be held liable to governmental entities or to third parties for damages. Angelo Gordon will seek to identify and purchase properties that are critical to the on-going operations of the tenant to improve the likelihood that a tenant will assume the lease in the event of such tenant's bankruptcy. Angelo Gordon has had significant experience in bankruptcy courts and is intimately familiar with methods of structuring leases in a manner advantageous to the Fund.

A due diligence team typically consists of both senior and junior Angelo Gordon net lease



investment professionals. Throughout the due diligence period the Angelo Gordon team is responsible for critically examining the proposed business plan. In addition, a team of third-party advisors including legal advisors (real estate, structuring and tax lawyers), environmental assessment firms and property condition specialists will be engaged to help with the due diligence. Additional specialists, such as zoning, real estate tax consultants, architects/engineers are brought in on a case-by-case basis as needed.

Throughout the due diligence process a senior Angelo Gordon team member is responsible for assimilating the key issues and often works with the portfolio manager to evaluate issues as they arise. All of the key findings of fact, sensitivity and risk analysis is eventually summarized in an investment memo that is circulated to the investment committee and incorporated into our underwriting.

#### LEASE UNDERWRITING

When possible, Angelo Gordon will pursue leases to include financial or operating covenants or cross-default provisions with tenants' senior bank agreements and other significant liabilities. These help to prevent the credit of the tenant from deteriorating, either by preventing management from taking actions that will reduce the creditworthiness of the tenant or by acting as an early warning system that allows Angelo Gordon time to take appropriate action. Whenever feasible, the Fund expects to generally seek a letter of credit or corporate parent guarantee to help mitigate any downturn in the tenant's credit and to pay for re-tenanting costs upon a vacancy. Angelo Gordon expects that long-term leases will usually be structured with future rental increases that can take a variety of forms. Angelo Gordon expects that such rental increases generally will be based on annual increases in the CPI (or some other appropriate index), or fixed, negotiated amounts. Increases based on the CPI help act as a hedge against inflation.

Angelo Gordon will seek to customize each lease to the needs of the particular tenant without sacrificing the security to the Fund. Tenants generally place a high value on the customization of leases and consider it a significant factor when choosing a purchaser of their property. Angelo Gordon will seek to emphasize the selection of assets which are vital to tenants' ongoing operations, reinforced by tightly structured leases, which it believes should provide for long-term leases that are much more likely to survive tenant reorganizations or restructurings. If a tenant emerges from Chapter 11 as a healthier company or is sold to a buyer with better credit profile, the improved credit can result in a higher value of the investment. In bankruptcy, a real estate lease gives the landlord a position superior to that of other creditors since the tenant must either assume or reject the lease. If the tenant assumes the lease, the rent payments continue on the



current schedule and cannot be reduced. This is contrary to the position of direct lenders who risk principal and income loss in the event of restructuring.

#### INVESTMENT COMMITTEE APPROVAL

Following the successful completion of underwriting of the tenant credit, real estate and leasing terms, including all third-party evaluations the diligence team summarizes their findings into an investment memo. This memo is then circulated to the investment committee for approval. The investment committee is a 10-person body and must approve the investment decision on a majority basis. Once approval has been received the final investment memo is incorporated into the Manager's underwriting.

The Investment Committee is comprised of 10 members of Angelo Gordon's senior management team and net lease team. The team includes Co-CEO/Co-CIO's Adam Schwartz and Josh Baumgarten as well as Head Portfolio Manager of Net Lease Real Estate, Gordon Whiting and seven other members of the Net Lease Real Estate team. Biographies are included at the end of this diligence report.

#### ASSET MANAGEMENT

The Angelo Gordon net lease team manages approximately 38 million square feet of properties in the U.S., Canada, Germany, France, Ireland, Mexico, the United Kingdom, and the Netherlands as of December 31, 2022. The net lease team includes four dedicated asset management professionals. The asset management team performs a variety of services aimed at ensuring tenant compliance with lease obligations and property compliance with municipal and other regulators. The asset management team monitors and confirms on an ongoing basis tenant compliance with various obligations which can affect the financial performance and/or value of our real estate investment. These tenant obligations include rent, tax and insurance payments and performance of required maintenance.

The Manager maintains asset level and vehicle level forecasting models. The projection models are updated twice a year, at June 30 and December 31. The asset level models are maintained by the investment team and the Fund level model is maintained by the accounting team. The asset level models are individually tailored for each investment and the inputs may vary from model to model. Some example inputs used are lease term, rent growth, and tenant credit quality. The asset management team is also responsible for performing regular physical inspections of each facility as well as analysis of the financial performance and industry positioning of each tenant. In addition, a property condition report is performed annually by an engineer.



## EXIT STRATEGY

Angelo Gordon will build a portfolio of triple net lease assets leased to non-investment grade tenants with significant lease term. The Fund's targeted holding period for assets will be seven to ten years. The exit timing will be dependent on the real estate and financial markets, the timing of tenant lease rental increases, the investment sales market, and other variables. The Fund will seek to invest in a diversified portfolio of net leased assets which both generate increasing quarterly distributions and increases in value.

It is expected that the Fund's assets will be sold as a portfolio or on an individual basis. The timing of sale is determined based upon the length of the remaining lease term, tenant credit quality, and capital market demand and other factors. Critical to the Fund's exit strategy, Angelo Gordon is mindful to invest in property types and markets with a deep pool of buyers.

## Fund Performance

Angelo Gordon has been investing in triple net lease assets in closed-end structures since launching Fund I in 2006. They have fully realized Funds I and II, with Fund III having distributed just over half of investors paid in capital and still have over \$900 million of remaining asset value in the Fund. Angelo Gordon has focused on maximizing income returns of their fund investments and thus typically have longer hold periods than some of their triple net lease peers.

When compared to a Preqin Non-Core Real Estate Fund Universe for comparable years of fund launch, Angelo Gordon realized funds have performed well. When comparing Angelo Gordon's net multiple, Total Value Paid In (TVPI) capital, for realized funds are top quartile while Fund III is currently 3<sup>rd</sup> quartile and Fund IV is 4<sup>th</sup> quartile. As discussed above Angelo Gordon has focused on income maximization and longer hold periods, thus multiple returns are typically higher but this takes time to occur during the hold period. Once a Fund is realized the total multiple is earned and compares well at the end. This focus on longer hold periods often leads to lower IRRs as IRRs have a greater focus on hold period and time value of money, thus quicker distributions back to investors result in higher IRRs. Angelo Gordon's IRRs as measured against the Preqin Universe Fund I was a top quartile performer, while Funds II, III and IV are 4<sup>th</sup> quartile performers.



## Summary of Key Partnership Terms

Targeted Commitments	\$1.5 Billion
Targeted Returns	10-12% Net Levered IRR; 7% Annual Distribution
Expected Term	11 years from the Fund's Final Close (plus two, one-year extensions, first by discretion of GP, second by discretion of GP unless LPAC objects)
The Fund	AG Net Lease Realty Fund V LP
General Partner	AG Net Lease V LLC
General Partner Commitment	Capital Commitments of the General Partner, Angelo Gordon, their affiliates, 3% of total Capital Commitments, up to a maximum of \$15 million.
Investment Period	Four years from the initial closing of the Fund, may be extended by the General Partner with the consent of the Advisory Committee.
Management Fee	<ul style="list-style-type: none"> <li>For Capital Commitments of at least \$50 million but less than \$100 million: 1.25% of undrawn Capital Commitments reduced to 0.75% for first closers, or reduced to 1.00% for second closers plus 1.50% of net funded Capital Commitments during the Investment Period</li> <li>After Commitment period 1.5% of net funded Capital Commitments below \$250 million</li> </ul>
Preferred Return	7%
Distribution & Carried Interest Policy	<ul style="list-style-type: none"> <li>Limited Partners will receive a 7% preferred return compounded annually, then the return of their capital contributions, before the General Partner receives any Carried Interest distributions.</li> <li>The General Partner's Carried Interest will be 20% of the profits, with a 50/50 catch up.</li> </ul>

## Conclusion

RVK believes the Angelo Gordon Net Lease Realty Fund V represents an attractive opportunity to capitalize on the Firm's strong investment platform and triple net lease expertise. Triple Net Lease investments provides a strategy that helps mitigate the negative impacts of inflation on real estate investments. Angelo Gordon brings a deep history of triple net lease investing focused on non-investment grade tenants and maximizing income through mission critical assets. Based on RVK's review of Angelo Gordon Net Lease Realty Fund V, we recommend VPIC invest \$50 million in the Fund.



## **Appendix**

### **Biographies of Key Personnel**

#### **Adam Schwartz, Co-Chief Executive Officer & Co-Chief Investment Officer**

Adam Schwartz is co-Chief Executive Officer and co-Chief Investment Officer of Angelo Gordon. He is the head of the firm's global real estate group. Since joining Angelo Gordon in 2000, Mr. Schwartz has been directly responsible for, or overseen, over \$32 billion of real estate assets. He has significant experience in the acquisition and repositioning of all property types. Prior to joining the firm, Mr. Schwartz worked in the acquisitions group at Vornado Realty Trust, a public real estate investment trust. His work focused on the acquisition of public and private real estate companies in addition to single asset acquisitions. Mr. Schwartz is a member of the executive committee of the Zell-Lurie Real Estate Center at The Wharton School and is a trustee of the Urban Land Institute. He is also a member of the board of directors of SparkYouth NYC (formerly The Catalog for Giving). Mr. Schwartz has a B.A. degree from the University of Pennsylvania.

#### **Gordon Whiting, Portfolio Manager, Head of Net Lease Real Estate**

Gordon Whiting joined Angelo Gordon in 2004 and is a Managing Director and the founder and Portfolio Manager of the firm's net lease real estate strategy. Mr. Whiting has over 30 years' experience in this industry and previously was an Executive Director of W. P. Carey. He was also the President and Portfolio Manager of Corporate Property Associates 14, Incorporated, one of W. P. Carey's publicly held, non-traded real estate investment trusts (with over \$1.3 billion in assets) that invest in net leased commercial and industrial properties. From 2002 to 2010, Mr. Whiting was a member of the five-person Federal Retirement Thrift Investment Board (the "FRTIB"), a position to which he was nominated by President George W. Bush and confirmed by the U.S. Senate. The FRTIB oversees over \$290 billion of 401(k) type retirement accounts (the Thrift Savings Plan) for most Federal employees and military personnel. Mr. Whiting received a B.S. degree from Cornell University and an M.B.A. degree from Columbia University.

#### **Sharon Kilmer, CFA, Deputy Portfolio Manager**

Sharon Kilmer joined Angelo Gordon in 2004 and is a Managing Director for the firm's net lease real estate strategy, overseeing the credit underwriting and research process. Prior to joining the net lease real estate team in 2009, Ms. Kilmer was the Chief Investment Officer of Angelo Gordon Advisors, LLC, a wholly owned, externally managed fund of funds group. Ms. Kilmer has over 18 years of broad fixed income investment management experience including portfolio management, credit analysis, trading, and hedging. She has experience in managing pension and insurance assets and open and closed-end mutual funds, with an expertise in corporate credit. Previously, she was an Executive Vice President at Pacific Investment Management Company, where she



was a senior member of the portfolio management and investment strategy groups and a corporate credit specialist. Prior to that, she was Director of Fixed Income Portfolio Management at Transamerica Investment Services, where her duties included overall asset allocation and fixed income portfolio management for the Transamerica life insurance and pension assets. Ms. Kilmer received a B.A. degree in Journalism and an M.B.A. degree from the University of Southern California and is a CFA charterholder.

#### **Chris Capolongo, Deputy Portfolio Manager**

Chris Capolongo joined Angelo Gordon in 2018 and is a Managing Director and Deputy Portfolio Manager for the firm's net lease real estate strategy, overseeing the acquisitions team. Prior to joining the firm, Mr. Capolongo was a Managing Director at Building and Land Technology ("BLT") where he was responsible for originations, acquisitions, asset management, financing and the overall growth of BLT's third-party real estate private equity platform. While at BLT, he also served as CEO of BLT Homes, a national Single Family Rental investment and operating platform with offices in 11 markets. Prior to BLT he was Senior Director in GE Capital Real Estate's Global Investment Management division, where he led investment strategy, M&A and business development and was responsible for originating and closing \$5 billion of investment partnerships. Prior to GE, he worked at Deutsche Bank as a Vice President covering the REIT sector and as a Manager at Ernst & Young. Mr. Capolongo received a B.S. in Accounting from Binghamton University.

#### **Paul Lewis, Deputy Portfolio Manager**

Paul Lewis joined Angelo Gordon in 2018 and is a Managing Director and Deputy Portfolio Manager based in London, where he is responsible for the firm's Net Lease strategy in Europe. Prior to joining the firm, Mr. Lewis led CBRE's Corporate Capital Markets Business across EMEA, specializing in the sourcing of Investment transactions directly from corporate occupiers and private equity firms. Previously, Mr. Lewis was at CBRE Capital Advisors leading the European Loan Advisory group focusing on the sale and management of distressed and performing real estate credit transactions. He has over 20 years of industry experience. Mr. Lewis has a BSc from the University of Southampton and an MSc from Cass Business School.

#### **Justin Heller, Managing Director**

Justin Heller joined Angelo Gordon in 2011 and is a Managing Director focusing on underwriting and credit monitoring for the firm's net lease real estate strategy. Prior to joining Angelo Gordon, Mr. Heller worked for FTI Consulting, a global business advisory firm focused in restructuring, where he was responsible for advising secured and unsecured creditors through complex bankruptcies. Mr. Heller is a Certified Insolvency and Restructuring Advisor (CIRA). Mr. Heller



received a BBA from the Ross School of Business at the University of Michigan.

### **Lisa Speltz, Managing Director**

Lisa Speltz joined Angelo Gordon in 2011 and is a Managing Director and Head of Asset Management for the firm's net lease group. Ms. Speltz has over 28 years of broad strategic asset management and corporate real estate experience as well as design and construction experience. Ms. Speltz was Director of Real Estate for 10 years of the industrial and office portfolio for Nestle' Waters North America, Inc. In addition, Ms. Speltz was an Alliance Director and Director of Project Management for Trammel Crow Corporate Services; Asset Manager for an office and retail portfolio for ITT Hartford Group, Inc. and an Associate for Cesar Pelli & Associates. Ms. Speltz is a registered architect and alumna of the Harvard University Graduate School of Design. Ms. Speltz received an M.B.A. in Finance from the University of Connecticut School of Business and a Master of Architecture from the University of Minnesota's School of Architecture. Ms. Speltz is a Fellow of the Industrial Asset Management Council. She is also Chair of the Women's Leadership Committee for CoreNet Global NYC and was named CoreNet Global's NYC Executive of the Year in 2022. Ms. Speltz is Treasurer and on the Board of Directors for the Abingdon Theatre Company in New York City.

### **Megan DeCuffa, Director**

Megan DeCuffa joined Angelo Gordon in 2012 and is a Director focusing on lease compliance related to the taxes, insurance and rent as well as analysis, due diligence and closing of real estate sale-leaseback transactions for the firm's net lease real estate strategy. Ms. DeCuffa holds a Certified Commercial Investment Member (CCIM) designation from the CCIM Institute and a Certified Property Manager (CPM) designation from the Institute of Real Estate Management (IREM). Prior to joining the firm, Ms. DeCuffa worked at Archstone in New York City and Cushman & Wakefield in Boston. Ms. DeCuffa holds a B.S. degree in Finance from Suffolk University.

### **Christian Blanke, Director**

Christian Blanke, CFA, CAIA joined Angelo Gordon in 2020 and is a Director focusing on the origination, underwriting, and structuring of real estate transactions for the firm's net lease real estate strategy. Prior to joining Angelo Gordon, Mr. Blanke was with Four Springs Capital Trust ("FSCT") for six years, most recently as a Senior Director in their acquisitions and finance team. While there, Mr. Blanke originated, underwrote and closed net lease real estate and debt transactions of a variety of property types and tenant industries. Prior to FSCT, Mr. Blanke was a Senior Analyst at SSARIS Advisors LLC, a former affiliate of State Street Global Advisors. Mr. Blanke received an MBA from the University of Massachusetts Amherst, a bachelor's degree from Westfaelische Hochschule in Germany and is a CFA and CAIA charterholder.



### **Abigail Horn, Vice President**

Abigail Horn joined Angelo Gordon in 2018 and is a Vice President focusing on underwriting and credit monitoring for the firm's net lease real estate strategy. Prior to joining Angelo Gordon, Ms. Horn worked for three years as a restructuring analyst at CDG Group, a boutique restructuring advisory firm (acquired by FTI Consulting). Ms. Horn received a BBA degree from the Goizueta Business School at Emory University.

### **Peter Anderson, Vice President**

Peter Anderson, CCIM joined Angelo Gordon in 2016 and is a Vice President focusing on origination and underwriting for the firm's net lease real estate strategy. Prior to joining the firm, Mr. Anderson was an Analyst in the J.P. Morgan Private Bank. Peter received a B.A. degree in Economics with a Concentration in Applied Mathematics from Davidson College.

### **Nicholas Grace, Vice President**

Nicholas Grace, CCIM rejoined Angelo Gordon in 2020 and is a Vice President in the firm's net lease real estate strategy. He focuses on the origination, evaluation, and underwriting for new sale-leaseback transactions. Prior to joining the firm, Mr. Grace was at Spear Street Capital, a real estate private equity firm focused on office assets. Before Spear Street Capital, Mr. Grace was at Angelo Gordon, focusing on asset management within the net lease real estate strategy. Mr. Grace holds a B.A. from Duke University.

### **Ben Yeterian, Vice President**

Benjamin Yeterian joined Angelo Gordon in 2017 and is a Vice President focusing on the origination, underwriting and structuring of real estate sale-leaseback transactions for the firm's net lease real estate strategy. Benjamin received a B.S. degree in Hotel Administration and a minor in Real Estate from The SC Johnson College of Business at Cornell University.

### **Samarth Arora, Vice President**

Samarth Arora joined Angelo Gordon in 2021 and is a Vice President based in London, where he is supporting the firm's Net Lease strategy in Europe. Prior to joining the firm, Mr. Arora worked at the Noé Group, a real estate investment manager focused on UK & European investments. Previously, Mr. Arora was at UBS and Canaccord Genuity, working within the generalist and real estate investment banking departments, focused on M&A and equity financings. He has over six years of industry experience. Mr. Arora has a BA from Durham University and an MSc from the London School of Economics and Political Science.



**Michael Minskovsky, Vice President**

Michael Minskovsky joined Angelo Gordon in 2018 and is a Vice President focusing on the origination, underwriting, and structuring of sale-leaseback transactions for the firm's net lease real estate strategy. He received a B.S. in Economics from The Wharton School of the University of Pennsylvania, concentrating in Finance, Real Estate, and Statistics.