

# Pembrook Capital Management LLC

## A 14 Year History of Impact Investing

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**\*As of March 31, 2021.** Information contained herein is presented as of the date noted for purposes of illustrating Pembrook's history of "impact investing" and may not represent future investments or all prior investments made by Pembrook's fund. Past performance is not a guarantee of future results. All information related to Pembrook's investment Funds (a "Fund") should not be construed as an offer to sell or purchase interests in a particular Fund. Investment in a Pembrook Fund is predicated on an interested party receiving all relevant disclosure documents including a private placement memorandum and such supplemental disclosure documents as the Fund manager deems necessary and appropriate.

# INVESTING FOR COMMUNITY IMPACT

Pembrook's Funds<sup>1</sup> allocate a majority of capital to socially responsible community related investments. 78% of our current<sup>2</sup> multifamily loans include income and rent limits to ensure we achieve these goals. Such investments achieve one or more objectives:

1. Creates or preserves affordable rental housing
2. Located in primarily minority population census tracts
3. Includes local, state or federally designated redevelopment zones
4. Creates jobs
5. Finances green properties
6. Finances not-for-profit entities that support one or more of the foregoing goals

Since inception, Pembrook has deployed over \$1.45 billion into 195 properties<sup>3</sup>, including \$700 million for affordable and workforce housing, as part of \$4.2 billion total capitalization of transactions in which Pembrook has invested across the U.S.; a majority, 81%, of the properties have been tied to socially responsible community related uses, primarily affordable/workforce rental housing<sup>4</sup>, and PCI Investors Fund IV, LLC is exclusively multifamily.

Pembrook's Funds are included in the Office of the Comptroller of Currency ("OCC") Compendium of National Bank Part 24 "Public Welfare Investments"<sup>4</sup> for CRA purposes.<sup>5</sup>

1. Current funds (may include subsidiary or feeder funds): Pembrook Community Investors LLC; PCI Investors Fund III, LLC; PCI Investors Fund IV, LLC. Prior funds: PCI Investors Fund II, LLC

2. As of March 31, 2021

3. "properties" includes single development sites and individual assets financed as non-contiguous portfolio properties and excludes certain securities backed by real estate assets

4. The information presented reflects investments from inception through Q1 2021 across all loan financings acquired by Pembrook. It should not be assumed that Pembrook's portfolio in the future will reflect the historical or current composition of the portfolio across all of Pembrook's funds. Past results are not indicative of future performance.

5. <http://www.occ.treas.gov/topics/community-affairs/resource-directories/public-welfare-investments/national-bank-public-welfare-investment-authority.html>. There can be no guarantee that future investments will qualify for credit under the CRA.

# Sustainable Development Goals

Pembrook's primary investing strategy is intended to align with the federal Community Reinvestment Act (CRA)<sup>1</sup> and applicable UN Sustainable Development Goals (SDG)<sup>2</sup>, including:

## **CRA**

- Preserve and build affordable housing
- Invest in low-moderate income census tracts
- Finance housing with rents no greater than 30% of 80% of area mean income
- Invest in areas traditionally underserved by US banks
- Invest in real estate that preserves or creates new job opportunities for lower income workers

## **United Nations SDG**

- Sustainable Cities and Communities. Invest in the preservation and creation of affordable and workforce rental housing, which stabilizes neighborhoods.
- Quality Education. Pembrook's Corporate School Grant Program directly supports K-12 schools in neighborhoods in which Pembrook invests.
- Decent Work and Economic Growth. By financing the development of new housing in underserved neighborhoods, or financing commercial real estate that creates jobs for blue collar or municipal employees.
- No Poverty. Finance housing that relieves tenants of rent burdens in excess of 30% of 80% of AMI, freeing up income for other household necessities.

<sup>1</sup>The Community Reinvestment Act (CRA), enacted by Congress in 1977 (12 U.S.C. 2901). Not all investments in Pembrook's portfolio may be eligible for CRA consideration.

<sup>2</sup><https://sdgs.un.org/goals>

# Impact Investing Objectives, Process and Outcomes

## Objectives:

- Preserve and create affordable housing for low-to-moderate income tenants
- Investments consistent with Community Reinvestment Act objectives and UN sustainable development goals
- Earn competitive, attractive returns for investors

## Process:

- Define lending parameters in the market
- Source, directly and through a network of intermediaries, a pipeline of multifamily lending opportunities nationally
- Nurture our historical focus on public welfare real estate transactions to establish our identity to developers and brokers
- Initial due diligence establishes potential to achieve objectives
  - ✓ Review federal and state census tracts to determine income characteristics
  - ✓ Establish borrower requirements upfront in agreed upon term sheets
  - ✓ Regulated rental units required to retain terms consistent with lending objectives
  - ✓ Market-rate rental properties required to restrict 51% or more of the units to rents equal to 30% of 80% of the area mean income (or 100% of AMI in high cost areas)
  - ✓ Workforce housing rents underwritten to 30% of 60-120% of AMI

## Outcomes:

- Preservation or creation of affordable housing opportunities through:
  - Targeted investments and terms that address housing needs in the community
  - Loan agreements that covenant compliance to income limits
  - Verified rent rolls consistent with covenants

# IMPACT HIGHLIGHTS

Through a series of institutional and high net worth investor open-end and closed-end private equity funds, Pembrook deploys a majority of the capital it raises to finance commercial real estate Impact Investments nationally.\*

### Multifamily Housing Produced or Preserved:

- Total dollars Invested: \$770,000,000
- Affordable/Workforce MF Rental Housing \$700,000,000
- Number of Units: >12,000
- Tenants served: ~31,000
- Predominantly minority neighborhoods: 70%
- Units primarily targeted to municipal employees >2000

Green buildings:	\$19,000,000
Not-for-profit owned multifamily buildings:	\$40,000,000
Not-for-profit owned commercial buildings:	\$25,500,000

\*Statistics from inception March 2007 to March 2021

## Impact Highlights



\$770 million invested into the development or redevelopment of > 12,000 multifamily apartment units providing housing for almost 31,000 tenants in the U.S.<sup>1</sup>

\$62M was invested into job preservation or creation assets in retail or hospitality totaling over 1.6M square feet, preserving or creating over 3,600 jobs<sup>2</sup>

\$25M funded for 180,000 SF of commercial real estate assets owned by one of the largest not-for-profit community reinvestment organizations in the U.S. and occupied primarily by similar not-for-profit tenants.



\$19M was used for the funding of over 800,000 SF of resource and energy efficient assets

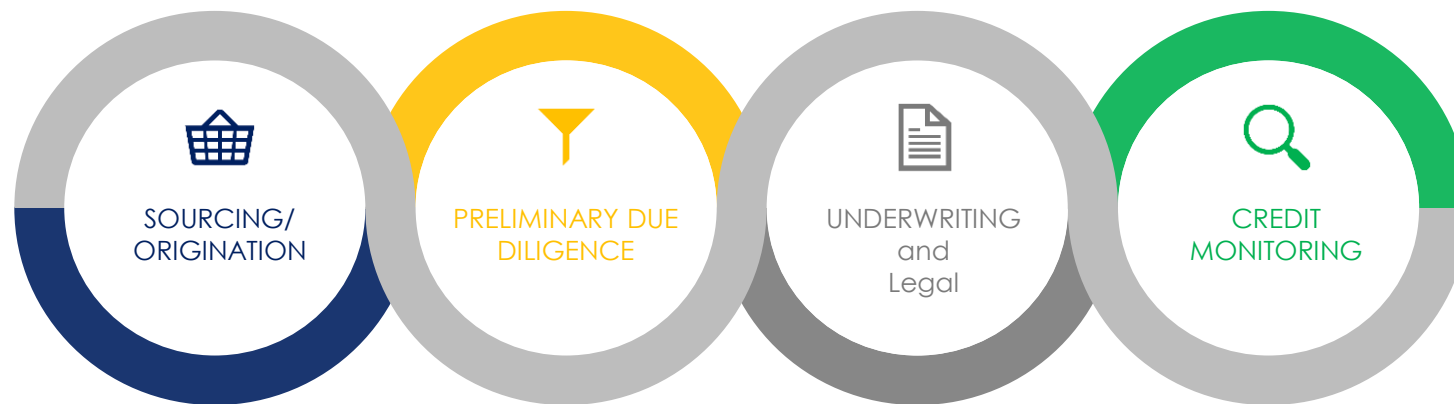
\$4M investment to finance the acquisition and upgrade to HUD standards of six skilled nursing facilities with over 800 beds in rural locations in the U.S.

\$129M was used for the funding of over 2000 units of multifamily housing targeted toward law enforcement, firefighters and teachers providing housing for over 5,100 tenants<sup>1</sup>

<sup>1</sup> Calculated according to the U.S. Census Bureau average American household consisting of 2.54 people in 2015.

<sup>2</sup> Calculated according to CBRE Hotels Group average number of employees per hotel room in 2015 is .50; according to the U.S. Green Building Council the average building area per specialty retail employee is 500 SF

# INVESTMENT PROCESS



- Dedicated in-house origination platform
- Generates high volume of opportunities from diverse network
- New opportunities are identified and assigned to underwriting deal team for further diligence
- **Initial CRA and Impact Assessment**
- Robust review and analysis of deals
- Alignment of lender and borrower interest (sufficient borrower financial stake)
- Borrower experience and financial condition
- Favorable market conditions and asset pricing
- **Confirm Impact objectives**
- Stressed debt yield analysis
- Site inspection
- Borrower financial, credit and legal review
- Appraisal, environmental and engineering reports
- Property and lease verifications
- Construction plans/ budgets evaluated
- Unanimous approval of Investment Committee required to close
- **Memorialize impact objectives**
- Investments tracked monthly, with formal reviews conducted quarterly
- Weekly updates on watch list credits
- Ongoing dialogue with borrowers throughout life of loan to monitor progress of business plan consistent with loan agreement

## Impact Examples<sup>1</sup>

Below are several examples illustrating the extensive knowledge and underwriting skills we bring to originate and close a variety of unique opportunities with a focus on impact investing.<sup>1</sup>

### 1111 Massachusetts Avenue

- \$15.25MM First Mortgage Loan
- Acquire and preserve 162 units of affordable rental housing
- Financed not-for-profit acquisition as bridge to LIHTC and tax exempt bond permanent financing
- Accelerated closing to enable acquisition before building was sold as market-rate apartments

### Commonwealth Portfolio

- \$32MM Tax Exempt Industrial Development Bonds
- Pembrook created and then purchased bonds to finance first mortgage loan
- Acquisition and renovation of 11-building portfolio in Kansas City neighborhood targeted for redevelopment
- 20% of units set aside with rents affordable to tenants earning 50% or less of AMI

### Mark Twain Hotel

- \$16.6MM First Mortgage Loan
- First acquisition made under Chicago's Single Room Occupancy Preservation Ordinance designed to save low-income housing in higher income neighborhoods
- Financed not-for-profit acquisition as bridge to LIHTC and tax exempt bond permanent financing

<sup>1</sup>The examples shown are solely for the purpose of illustrating Pembrook's experience in impact investing, and do not represent either Pembrook's entire portfolio of past investments or other impact investments; nor is it meant to imply that all of Pembrook's investment meet the definition of impact investing. The examples also are not indicative of future investment opportunities or performance. There can be no guarantee that future investments will contain the same characteristics as illustrated herein, nor that an investment in the a Pembrook fund was or will be profitable. A complete list of Pembrook funds' investments and additional information is available upon request. Past performance is not necessarily indicative of future results.



## Impact Examples<sup>1</sup>

### Alondra Townhomes

- \$8.3MM Construction Loan
- Not-for-profit sponsor focused on providing for-sale housing for low-to-moderate income families
- Construction of 28 condominiums for sale to a mix of buyers earning 120% of AMI or less in a high cost area
- Completion of project incorporated into city plans to revitalize the surrounding area

### Belmont Place

- \$12.43MM First Mortgage Loan
- Acquire and rehabilitate rent-regulated apartments with affordable set-asides via the NYC Article XI program that reduced real estate taxes
- Loan closed in midst of 2020 Covid-19 pandemic allowing borrower to complete repairs in less than 12 months

### 740 15<sup>th</sup> Street, Washington, DC

- \$12.5MM Preferred Equity Investment
- Not-for-profit sponsor focused on directing capital to underserved communities
- Office spaces leased to other not-for-profit entities focused on assistance to low-to-moderate income families
- Located four blocks from the White House
- Building added to National Register of Historic Places

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# SOCIAL COMPACT

## Investment for the broader good

Since inception, Pembrook has deployed over \$1.45 billion, much of which has had measurable social and environmental impact<sup>2</sup> in numerous communities across the U.S. In addition, In recent years, Pembrook's Corporate School Grant Program has sought to extend that impact by supporting schools in localities where Pembrook invests.

### PEMBROOK CORPORATE SCHOOL GRANT PROGRAM RECIPIENTS<sup>3</sup>

- **Midtown West High School – P.S. 122, New York, NY** – in support of the school's core curriculum development
- **Bronx Academy of Software Engineering, The Bronx, NY** – support for the school's Community Service Club
- **Compton High School, Los Angeles, CA** – college tours for juniors and seniors
- **Washington Metropolitan Opportunity Academy, Washington D.C** – support for accelerated high school graduation program
- **Los Angeles School for the Arts, Los Angeles, CA** – development of performing arts curriculum
- **Washington Elementary School, Visalia, CA** – support for early education curriculum
- **Noble Academy, Chicago, IL** – support for charter school curriculum
- **Mount Zion High School, Atlanta, GA** – support for school's Circle of Sisterhood program for young girls
- **Bodine High School, Philadelphia, PA** – International Day program exploring the school's multicultural heritage
- **Washington Elementary School, Phoenix, AZ** – Positive Behavioral Interventions & Supports program

<sup>1</sup> As of March 2021

<sup>2</sup> Utilizing the Global Impact Investing Network IRIS Metrics designed to measure social, environmental and financial performance of an investment

<sup>3</sup> As of March 2021

# IMPACT INVESTING BEYOND PEMBROOK

Pembroke's roots in impact investing extend prior to Mr. Boesky's founding Pembroke in 2006, to when he joined the Related Companies in the 1980s and began establishing his track record in affordable housing.

- Chief Executive Officer of CharterMac ("CHC"), a Senior Managing Director and principal of Related Capital Company and Executive Vice President of The Related Companies, Inc., national leaders in multifamily affordable housing finance and development respectively.
- Credited with developing new and creative way to deploy private capital into affordable multifamily housing. Organically and through acquisitions,
- Engineered CHC's growth and diversification from a portfolio investor in tax exempt multifamily housing bonds to a full-service real estate financial services firm with over \$19 billion of assets under management through a series of publicly registered companies and private funds offered to institutional and high net worth investors.
- The companies and funds owned debt and equity interests in over 300,000 affordable multifamily housing units located in 46 states and Puerto Rico.
- Mr. Boesky is a regular speaker at industry conferences and publishes articles on the subject of affordable multifamily housing. He also serves on the board of directors of the National Association of Affordable Housing Lenders. Mr. and was a founding member of the Leadership Forum on Pension Fund and Endowment Investments in Domestic Emerging Markets at the Joint Center for Housing Studies of Harvard University.

## IMPORTANT CONSIDERATIONS AND ASSUMPTIONS

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## IMPORTANT CONSIDERATIONS AND ASSUMPTIONS

### Disclosure of Risk Factors

An investment in a Private Equity fund is speculative and involves a significant degree of risk, which each prospective investor must carefully consider. Returns generated from an investment in a Private Equity fund may not adequately compensate investors for the business and financial risks assumed. An investor in Private Equity funds could lose all or a substantial amount of his or her investment. While Private Equity funds are subject to those market risks common to other types of investments, including market volatility, Private Equity funds employ certain trading techniques, such as, the use of leverage, and other speculative investment practices that may increase the risk of investment loss. Other risks associated with Private Equity funds include, but are not limited to, high illiquidity and fees (and the higher fees may offset the fund's trading profits), complex tax structures that may delay the distribution of important tax information, no requirement that periodic pricing or valuation reports be provided to investors, lack the regulatory requirements applied to mutual funds, limited operating history, lack of a secondary market for an investor's interest in the fund and none may be expected to develop, performance that is volatile, and restrictions on transferring interests in the fund. In addition, a Private Equity fund may have a fund manager who has total trading authority over the fund and the use of advisers applying generally similar trading programs could mean a lack of diversification, and consequentially, higher risk. The foregoing is only a summary of certain risks associated with an investment in the Fund. Before making an investment in the Fund, prospective investors are advised to thoroughly and carefully review the Supplemental Disclosure Documents with their financial, legal and tax advisors to determine whether an investment is suitable for them.

### Portfolio Disclaimer

The percentages set forth above are estimates and actual percentages may vary from time-to-time. Please see the Private Placement Memorandum for a description of the investment sectors (or capital allocations) set forth herein, as well as the risks associated therewith. Please note that certain of Pembrook's Funds may elect to invest assets in investment sectors that are different than those depicted above which may entail additional and/or different risks. Although we have attempted to fairly categorize each security holding by major industry type, please note that: 1) every security beneficially owned by a Fund does not necessarily lend itself to strict classification; and 2) certain information included in this presentation has been provided by third parties and although we believe it is reliable, may not have been independently verified for accuracy or completeness. Accordingly, this data is being provided to you for informational purposes only and should not be relied upon for any official purpose. Performance of a Fund will depend in large part on the investment manager's ability to identify and access superior investments and investment professionals to successfully effectuate investment ideas and balance assets to maximize return to the Fund while minimizing its risk. The actual investments or capital allocations in a Fund may or may not be the same or in the same proportion as those shown above.