



TO: The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan

FROM: Meketa Investment Group

DATE: January 1, 2024

RE: MCR Hospitality Fund IV

On behalf of The Rhode Island Employees Retirement Systems Pooled Trust (“ERSRI”) along with the The Rhode Island OPEB System Trust (“OPEB”), (collectively, the “Plans”), Meketa Investment Group (“Meketa”) has conducted due diligence on MCR Hospitality Fund IV (“Fund IV” or the “Fund”) and its sponsor, MCR Investors, LLC (“MCR” or the “Firm” or the “Manager”). The opportunity is being considered as part of the Plans’ Non-Core real estate allocation, within the Private Growth class. The Fund’s value-add-to-opportunistic risk profile and hospitality sector focus supports the objective of diversifying ERSRI’s non-core holdings with sectors benefiting from favorable demographic trends. Based on the Plans’ investment strategies, the merits of the Fund and the information provided in this summary, Meketa is of the opinion that an investment in the Fund is a prudent investment opportunity for the Plans. Meketa’s opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered tax, legal, or transaction-structuring advice. In making any investment decision with respect to this Fund, the Plans may rely on this report but must also make their own examination and assessment of the Fund, including the terms of the offering, the merits, and the risks involved.

Investment Overview

The MCR Hospitality Fund IV is a value-add to opportunistic, closed-end equity Fund targeting hotels and hospitality business investments located within the United States. The Fund is targeting an 18%-20% gross IRR and 15%-17% net IRR. Fund IV will target asset level leverage between 60%-75%, with an asset-level limit of 70%, and a Fund level limit of 65%.

Organization

Tyler Morse founded MCR in 2006 while developing six extended stay hotels across the US. Tyler sought out the assistance of his industry colleagues Rick Reiss and Randy Churchey to continue his vision of building a nationwide hotel ownership and management company. Together, the three owners managed the Firm, acquired, and operated 56 hotels until 2013 when Mr. Reiss retired, and Mr. Churchey elected to pursue other hospitality ventures.

Fund IV will be managed by the MCR Senior Management Team and Investment Committee. The Senior Management Team leads over 275 professionals within the Firm’s New York headquarters and Dallas office. Additionally, the Firm employs approximately 6,500 hotel operation professionals at its approximately 180 current hotel locations.



Between 2012 and 2016, the Firm acquired and operated primarily limited and select service hotels and hotel portfolios throughout the United States with endowment and foundation investors. In 2017, MCR launched its first comingled fund with \$300 million in commitments. The Firm raised Fund II in 2020 with \$450 million in commitments. At the same time, MCR saw the opportunity to acquire larger scale, full-service properties in urban centers, particularly in New York City, that were feeling the negative impact of COVID-19 related diminished travel. To capture this deal flow, MCR raised a separate Opportunity Fund, which closed on \$200 million of equity capital in mid-2021.

The Opportunity Fund I expanded on MCR's expertise in select-service hotel management and includes independent and full-service hotels with urban locations and more complex revenue streams and expenses than suburban select-service properties. The Opportunity Fund effectively serves as "Fund III" and, as such, MCR is now raising for Fund IV with a strategy that combines Fund I and Fund II's select-service strategy with the Opportunity Fund I full-service, urban strategy by targeting select-service, full-service, and distressed hotel investment opportunities.

Fund IV Strategy

MCR IV will make controlling equity investments in hotels, and hospitality businesses located in the US. Fund IV will primarily target select-service hotels close to government, education, medical, and military centers. Select-service hotels offer hotel guests standardized rooms, a modest dining or lounging area, and possibly a gym. The Fund will also target full-service hotels located in travel destinations. Full-service hotels offer additional amenities such as a full-scale restaurant, room service, laundry, shuttle services, spa, conference rooms, or event halls. Fund IV is targeting an 18%-20% gross IRR (15%-17% net IRR). MCR expects approximately half of the return to come from current income, driven by the higher yields from investing in daily priced hotel properties, relative to other property types with longer-term leases and more predictable rent revenue.

MCR expects that Fund IV will make 60-75 investments, averaging gross transactions size of approximately \$30 million and averaging equity commitments of \$12 million to \$15 million. The Fund will target hotels that are less than 15 years of age, maintain 75%-80% occupancy rates, and which are part of the Marriot or Hilton systems. Fund IV will not target hotel development as a primary strategy, citing acquisition discounts to replacement costs, though the Fund does have a development allowance of up to 30% of capital commitments. MCR will seek asset level leverage between 60%-65%, with an asset-level limit of 70%, and a fund-level limit of 65%, though leverage in today's environment is more likely to be in the 50% to 55% range.

Terms

The Fund has secured \$240 million of commitments as of December 31, 2023, and expects to close on another \$290 million in Q1 2024. The General Partner will commit no less than \$15 million to the Fund. This commitment represents 2.0% of the target fund size. The management fee is 1.5% of commitments



during the investment period and 1.5% of invested capital thereafter. The Fund has an 8% preferred return, a 20% carried interest structure, and a 50% catch-up provision calculated on a whole-fund basis.

Fund Performance

MCR Hospitality As of March 31, 2023

| | Vintage | Invested (\$) | Realized Value (\$) | Total Value (\$M) | Net IRR (%) | Net TVM (x) | Top Quartile ¹ (%) |
|-----------------------------------|-------------|------------------|------------------------|-------------------------|-------------------|-------------------|-------------------------------------|
| MCR REIT | 2006 | 20.7 | 29.5 | 29.5 | 5.0% | 1.4 | 7.1 |
| MCRS Portfolio | 2010 | 104.0 | 197.8 | 197.8 | 15.2% | 1.8 | 21.4 |
| MCR Florida | 2012 | 6.4 | 24.1 | 24.1 | 28.8% | 3.2 | 20.9 |
| MCRB Portfolio | 2012 | 84.2 | 168.8 | 168.8 | 19.5% | 1.9 | 20.9 |
| The High Line Hotel | 2012 | 11.2 | 15.5 | 37.8 | 18.1% | 2.9 | 20.9 |
| MCRT Portfolio | 2013 | 184.3 | 211.3 | 373.9 | 12.1% | 1.9 | 20.4 |
| MCRT2 Portfolio | 2014 | 61.4 | 104.8 | 179.6 | 21.5% | 2.5 | 16.4 |
| MCR Pompano Beach | 2015 | 4.9 | 3.6 | 9.0 | 10.8% | 1.8 | 19.1 |
| MCRT3 Portfolio | 2015 | 71.0 | 67.6 | 121.7 | 10.1% | 1.6 | 19.1 |
| MCR St. Louis | 2016 | 10.3 | 20.6 | 20.6 | 36.9% | 1.8 | 18.6 |
| MCR Dulles | 2016 | 11.9 | 17.1 | 17.1 | 5.9% | 1.2 | 18.6 |
| MCR Hospitality Fund LP | 2017 | 267.0 | 163.2 | 376.6 | 7.9% | 1.3 | 24.4 |
| Renaissance Newark Airport | 2018 | 14.0 | 0.9 | 13.7 | -2.1% | 0.9 | 25.1 |
| MCR Hospitality Fund II LP | 2020 | 235.0 | 152.2 | 342.7 | 19.0% | 1.3 | 21.1 |
| MCR Opportunity Fund I LP | 2020 | 127.2 | 3.5 | 147.0 | 4.9% | 1.1 | 21.1 |
| Total | | 1,213.3 | 1,180.6 | 2,059.9 | 12.9% | 1.5 | |

As of March 31, 2023, MCR Hospitality has invested approximately \$1.2 billion, realizing \$1,180 million, and retaining an unrealized value of \$879.3 million across a diverse portfolio comprising 182 investments. The Portfolio is marked at a 13% net internal rate of return ("IRR") and a 1.6x net total value multiple ("TVM") as of Q1 2023. To date, the Firm has fully realized 31 properties distributed across six portfolios and has also made partial realizations in every additional portfolio except for the Firm's investment in the Renaissance Newark Airport.

The Firm's track record extends to three Funds raised thus far: MCR Hospitality Fund, MCR Opportunity Fund I, and MCR Hospitality Fund II. MCR Hospitality Fund I, which involved an investment of \$267 million

¹ Preqin Top Quartile: Non-core, North America, as of 3/31/2023



across 33 properties, and MCR Opportunity Fund I, with \$127.2 million invested in six properties, both maintain positions below top quartile benchmarks in their respective markets. In contrast, MCR's most recent fund, MCR Hospitality II, featuring a \$235 million investment across 53 properties, currently demonstrates a significantly higher net IRR, albeit with a slight trailing of top quartile performance. It's noteworthy that MCR Hospitality II and MCR Opportunity Fund I remain in the early stages of their life cycle, suggesting the potential for further growth and success.

Recommendation

Meketa recommends a commitment of \$15,000,000 should be considered for ERSRI and \$450,000 for OPEB, as part of their non-core real estate portfolios. The Fund's value-add to opportunistic risk profile and hospitality sector focus support the objective of diversifying ERSRI's non-core holdings with sectors benefiting from favorable demographic trends. The investment is consistent with the role of non-core real estate within the Private Growth sections of the Plans.