

Date: February 27, 2019
To: Employees' Retirement System of Rhode Island
From: Pension Consulting Alliance, LLC
RE: Linchris Capital Opportunity Fund II, LP

On behalf of the Employees' Retirement System of Rhode Island (ERSRI), Pension Consulting Alliance, LLC (PCA) has conducted due diligence on Linchris Capital Opportunity Fund II, LP (the Fund or Fund II) and its sponsor Linchris Capital Management, LLC (Linchris). This opportunity is being considered as part of the private growth segment of ERSRI's investment portfolio, which includes "non-core" real estate. Based on ERSRI's investment strategy, the merits of the Fund and the information provided in this summary, PCA is of the opinion that an investment in the Fund, subject to certain restrictions set forth below, is a prudent investment for the Employees' Retirement System of Rhode Island (ERSRI). PCA's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered as, tax, legal or transaction-structuring advice. In making any investment decision with respect to this Fund, ERSRI may rely on this report but must also make its own examination and assessment of the Fund and the terms of the offering, including the merits and risks involved.

Investment Overview

The Linchris Capital Opportunity Fund II, LP is a single-strategy, value-added closed-end fund targeting domestic hotel assets. Linchris will utilize its extensive acquisition and management expertise to identify and purchase hotel assets that have quantifiable value opportunities because the assets are primarily either under-managed or under-valued due to operational inefficiencies.

Organization

Linchris Hotel Corp. based in Hanover, Massachusetts, was formed in 1985 and over its 33-year history has evolved from a local hotel management company into a national hotel operator managing 33 hotels, over 3,800 rooms, and in excess of 2,000 employees. Since 1992, Linchris Hotel Corp. has invested an estimated \$241.2 million of equity in 47 investments. After increasingly investing in more institutional quality assets, Linchris decided in 2016 to form Linchris Capital Management, LLC (Manager, the Manager or Fund Manager) with a 10-member senior management team. While Linchris has invested with some institutional quality partners previously, the Fund will be their first dedicated pool of discretionary investment capital. Linchris Hotel Corp. (Hotel Manager) will be retained to manage each hotel's day-to-day operations. Linchris Capital Management, LLC which currently has a total of 36 employees, is owned equally by Chris Gistis (33 1/3rd), Glenn Gistis (33 1/3rd) and Michael Sullivan (33 1/3rd).

Fund Strategy

Linchris Capital Opportunity Fund II, LP is a single-strategy, value-added closed-end fund targeting domestic hotel assets. The Fund is targeting a \$250 million equity capitalization with an ability to use leverage up to 70% at the asset level and 65% at the overall Fund level. Linchris will utilize its extensive acquisition and management expertise to identify and purchase hotel assets that have quantifiable value opportunities because the assets are primarily either under-managed or under-valued due to operational inefficiencies. It is anticipated that the Fund will be diversified by geography, hotel type (full, select or limited service) and franchise brand with an emphasis on Hilton, Marriott, Hyatt, IHG, Best Western brands. The targeted hotels will typically have between 70 to 500 rooms and between \$3 million and \$20 million in total revenue. The strategy is based on finding mispriced assets regardless of location rather than trying to identify hot and/or up and coming markets. Target investments will on average, require an equity commitment of between \$8 and \$15 million. The Manager anticipates acquiring between 20 and 30 properties for the Fund.

Performance

As of September 30, 2018, Linchris is projected to generate strong returns of a gross leveraged IRR of 20.8% and a gross leveraged equity multiple of 3.3x across all investments since their first investment in 1992. Linchris Capital Opportunity Fund II, LP is targeting a 15.0% net leveraged IRR and a net leveraged equity multiple of 2.0x.

Terms

The proposed management fee is an amount equal to 1.5% per annum of the capital commitments during the commitment period and 1.5% of contributed capital thereafter. The preferred return structure for the Fund is 8%. After investors have received their initial preferred return of 8% and a return of all invested capital, there is a 50% GP catch-up. Linchris will receive 20% of all remaining profits. There is also an LP claw-back in place. It should be noted that ERSRI was able to negotiate more favorable terms than the preceding. The total partnership term is seven years, inclusive of a four-year commitment period, with two one-year extensions, and one-year extensions thereafter upon approval of at least two thirds of the Limited Partners. The General Partner's commitment will be equal to approximately 3% of the Fund's aggregate capital commitments, or at least \$7.5 million.

Recommendation

PCA is of the opinion that an investment of up to \$25 million (not to exceed 15% of the Fund's committed capital) in the Fund is a prudent investment for the Employees' Retirement System of Rhode Island.

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Supplement for real estate and private equity partnerships:

While PCA has reviewed the terms of the Fund referred to in this document and other accompanying financial information on predecessor partnerships, this document does not constitute a formal legal review of the partnership terms and other legal documents pertaining to the Fund. PCA recommends that its clients retain separate legal and tax counsel to review the legal and tax aspects and risks of investing in the Fund. Information presented in this report was gathered from documents provided by third party sources, including but not limited to, the private placement memorandum and related updates, due diligence responses, marketing presentations, limited partnership agreement and other supplemental materials. Analysis of information was performed by PCA.

An investment in the Fund is speculative and involves a degree of risk and no assurance can be provided that the investment objectives of the Fund will be achieved. Investment in the Fund is suitable only for sophisticated investors who are in a position to tolerate such risk and satisfy themselves that such investment is appropriate for them. The Fund may lack diversification, thereby increasing the risk of loss, and the Fund's performance may be volatile. As a result, an investor could lose all or a substantial amount of its investment. The Fund's governing documents will contain descriptions of certain of the risks associated with an investment in the Fund. In addition, the Fund's fees and expenses may offset its profits. It is unlikely that there will be a secondary market for the shares. There are restrictions on redeeming and transferring shares of the Fund. In making an investment decision, you must rely on your own examination of the Fund and the terms of the offering.