



TO: The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan
FROM: Meketa Investment Group
DATE: September 19, 2022
RE: Raith Real Estate Fund III

On behalf of the Employee Retirement System of Rhode Island (“ERSRI”) along with the Other Pension Employee Benefits Plan (“OPEB”) (collectively, the “Plans”), Meketa Investment Group (“Meketa”) has conducted due diligence on Raith Real Estate Fund III (the “Fund” or “Fund III”) and its sponsor Raith Capital (“Raith”). The opportunity is being considered as part of the Plans’ non-core real estate portfolio. 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 its own examination and assessment of the Fund, including the terms of the offering, the merits, and the risks involved.

Investment Overview

Raith Real Estate Fund III, LP is an opportunistic closed-end Fund targeting investments diversified across multiple property types with a focus on large secondary markets in the United States. The Fund is targeting 12-15 investments in transactions with total capitalizations between \$25 million and \$250 million, with the potential to generate 16%-18% gross IRRs (12%-14% net IRRs).

Organization

Raith is a privately-owned real estate investment firm based in New York City. Bill Landis, Nelson Hioe, and Michael Suchy founded the firm in 2012 after working together at Rialto Capital Management. Raith Capital began as an operating partner to institutional funds and a CMBS trust investor before evolving into a comingled fund manager. Raith currently employs 21 investment professionals in New York, Miami, Denver, and Los Angeles.

Raith has invested approximately \$1.3 billion across its flagship Real Estate Fund Series and fourteen separate accounts. The separate accounts have investment strategies that do not conflict with the fund series, and in many cases are single asset, long-term hold vehicles. Fund I is predominantly realized, Fund II is fully allocated and partially realized, and several of the separate accounts are fully liquidated. Fund III is Raith’s exclusive vehicle for new opportunistic investments.



Fund III Strategy

The Fund's opportunistic, unconstrained strategy allows Raith to consider relative value across property type, geography and investment structure. Raith will look to invest capital in situations where (i) properties whose capital structures are broken or need to be re-set; (ii) assets have suffered in leasing velocity or rental rate due to a lack of capital investment and poor management; (iii) sponsors need to dispose of assets quickly/efficiently; and (iv) properties that operate in markets that have been overlooked by institutional capital but stand to benefit disproportionately from secular changes in demand drivers specific to those asset classes.

The Fund's strategy leverages Raith's existing expertise to invest in opportunities across the capital structure such as fee acquisitions, 'loan-to-own' opportunities via the purchase of a defaulted or non-performing loan, or rescue capital opportunities. Raith focuses on identifying the best relative value investments and provides the Fund with a wide range of investment opportunities.

Fund III Status

Raith Real Estate Fund III is targeting up to \$500 of equity commitments and has raised \$225 as of September 2022. The Fund has made two investments to date, consisting of development projects in Austin, Texas and Denver, Colorado. The investments are consistent with the stated strategy and are summarized below:

Austin Multifamily

Raith and a local development partner plan to develop a 340-unit apartment project in a master planned community, approximately 20 minutes south of Downtown Austin, TX. The development partner has the exclusive right to develop 2,700 units, of which the Fund has the option, but not obligation, to partner on the first three phases (1,000 units).

Denver Industrial

Raith and a development partner, in a 70/30 partnership, have acquired 157 acres of unentitled land adjacent to Denver International Airport for the development of airport logistics facilities. Raith structured an option to sell the investment to its partner during months 24 to 42 at a 1.5x equity multiple to compensate the Fund for taking entitlement risk. The development partner has executed similar projects at JFK, George Bush (Houston), SeaTac, and DFW airports.



Terms

The management fee is 1.5% per annum of the capital committed during the investment period and 1.5% of funded capital thereafter. The Fund has a 9% preferred return followed by a 40% GP catch-up until limited partners have received a 12% IRR. Following the 12% IRR, the GP catch-up increases to 50% until the GP has received 20% of total profits. Thereafter, distributions will be split 80% to limited partners and 20% to Raith. The total partnership term is ten years, inclusive of a four-year commitment period, with two one-year extensions. The Fund's 9% preferred return is slightly more favorable to limited partners than the typical 8% rate, and its two-tier catch-up provision is slightly favorable to limited partners when compared to a typical 50% catch-up immediately following payment of the preferred return.

Fund Performance

As of March 31, 2022, Raith has invested \$455 million across two opportunistic funds. On a combined basis, the investments have generated a 1.5x net multiple on invested equity and a 22% net IRR.

ERSRI committed \$35 million to Fund II, of which \$33.3 million has been contributed as of March 31, 2022. Fund II has benefited from three investments made during the early stages of the COVID-19 pandemic. All three are fully realized, including an investment in a publicly traded REIT that generated a 1.7x after less than a two-year hold. As of March 31, 2022 values, ERSRI's fund investment is valued at a 1.6x multiple and 66% net IRR.

Recommendation

Meketa believes that Raith has performed well for ERSRI and recommends that investments of \$25,000,000 and \$500,000 be considered for ERSRI and OPEB, respectively, as part of their non-core real estate portfolios. This recommendation adds diversification and is consistent with the role of non-core real estate within the Private Growth sections of the Plans.