



State of Rhode Island  
Office of the General Treasurer

**Raith Real Estate Fund III L.P. - Staff Recommendation**  
*September-2022*

**RECOMMENDATION:**

- [Rhode Island Employees Retirement Systems Pooled Trust](#): **Approve a commitment of up to \$25 million to Raith Real Estate Fund III LP (“Fund III”)**. ERSRI previously committed \$35 million to Raith Real Estate Fund, a 2018 vintage fund.
- [Rhode Island OPEB System Trust](#): **Approve a commitment of up to \$500,000 to Raith Real Estate Fund III LP (“Fund III”)**.

Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Values* in USD		Valuation	Net Performance	
					Amount Distributed	Amount Unfunded		Net IRR (%)	Net Multiple of Investment
Raith Real Estate II	2018	Non-Core	35,000,000	33,462,392	28,415,220	16,764,058	24,556,095	65.95	1.58

\*ERSRI values as of 3/31/2022

**ASSET CLASS:** Non-Core Real Estate (ERSRI). Private Growth (OPEB)

**SUB-STRATEGY:** Diversified Opportunistic (ERSRI). Non-Core Real Estate, Diversified Opportunistic (OPEB)

**ALLOCATION:**

- [Rhode Island Employees Retirement Systems Pooled Trust](#): ERSRI’s target allocation to Non-Core Real Estate is 2.5%, and the actual allocation as of 8/31/2022 is 2.3%. ERSRI’s pacing plan for Non-Core Real Estate is \$70-80 million for 2022. Pending approval, ERSRI’s 2022 commitments will be \$70 million.
- [Rhode Island OPEB System Trust](#): OPEB’s target allocation to Private Growth is 5% effective January 1, 2023. Staff targets the Non-Core Real Estate sub-strategy to represent approximately 20% within this asset class (i.e. 1% at the OPEB Trust level). OPEB’s actual allocation to Non-Core Real Estate as of 8/31/2022 is 0%. OPEB’s pacing plan for Non-Core Real Estate for 2022 is \$3.25 million. Pending approval, OPEB will commit \$3 million in 2022.

**PORTFOLIO FIT:**

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The ERSRI Non-Core Real Estate portfolio contains a mix of sector focused and diversified funds that bring operational expertise to value-add and opportunistic asset acquisitions; ERSRI allocates to diversified funds that mitigate portfolio sector concentration, provide differentiated exposures, and ultimately enhance Non-Core Real Estate portfolio diversification. Diversified funds also offer the flexibility to move into and out of sectors based on relative attractiveness more quickly than the rate at which ERSRI can allocate. Fund III can be categorized as a diversified Opportunistic strategy – the fund will allocate across a variety of U.S. geographies and sectors in which the Raith team sees high growth niches, development opportunities and distress.

Raith is the only diversified U.S.-focused opportunistic manager in ERSRI’s Non-Core Real Estate portfolio. Lone Star Real Estate fund IV, a 2015-vintage fund that focused on distressed investment opportunities in developed markets, invested about 59% of its equity capital in Europe. Lone Star Real Estate fund IV’s investment period

ended in 2016 and ERSRI's current exposure in Lone Star is about \$11 million, which represents about 2.9%<sup>1</sup> of the overall Non-Core Real Estate portfolio (inclusive of the prospective \$25 million commitment to Raith III). Raith is complementary to ERSRI's other diversified value-add/opportunistic GP, GEM, whose strategy is anchored by office, hotel, and residential assets. Raith targets a diversified range of property types within the US with a projected Fund III over-weight in industrial (small bay, industrial service facilities, last mile) and high conviction multifamily. Raith II invested 75% of its capital in industrial assets.

Raith III has closed two seed investments (one in multifamily and the other in industrial) – both of which are sourced off-market and are ground up development projects. Both sponsors have been in local markets and have deep market knowledge and expertise.

Upon Approval, Raith Real Estate Fund III would represent 6.3% of ERSRI's Non-Core Real Estate portfolio exposure. Raith Capital Partners, inclusive of ERSRI's investments in Raith Real Estate Fund II, would represent 16.7% of the Non-Core Real Estate portfolio<sup>1</sup>. Investment Staff has negotiated admission to Raith III's Limited Partner Advisory Committee with the recommended sizing of \$25 million.

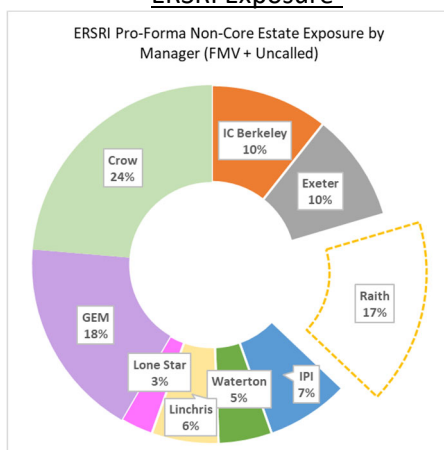
- [Rhode Island OPEB System Trust](#): The Private Growth portfolio is in the process of ramping up to its target allocation through commitments made in tandem with those from ERSRI. To-date, OPEB's portfolio in Non-Core Real Estate currently consists of a commitment of \$1.25 million to Crow Holdings Realty Fund X and a commitment of \$1.25 million to GEM Realty Fund VII. Raith is complementary to GEM, whose strategy is anchored by office, hotel, and residential assets and to Crow, whose strategy is more value-add (less opportunistic) targeting industrial, apartment, manufactured housing and convenience & gas/car wash. Upon Approval, Raith Real Estate Fund III would represent 16.67% of OPEB's Non-Core Real Estate portfolio exposure.

Manager	Asset Class	Strategy	Structure	Sector
IC Berkeley	Non-Core Real Estate	Value-Add	Close-Ended	Light Industrial
GEM	Non-Core Real Estate	Value-Add/Opportunistic	Close-Ended	Diversified
Exeter	Non-Core Real Estate	Value-Add	Close-Ended	Industrial
Raith	Non-Core Real Estate	Opportunistic	Close-Ended	Diversified
Crow (Diversified)	Non-Core Real Estate	Value-Add	Close-Ended	Diversified
IPI	Non-Core Real Estate	Core/Value-Add/Opportunistic	Close-Ended	Data Centers
Crow (Retail)	Non-Core Real Estate	Value-Add	Close-Ended	Retail - Food & Service
Waterton	Non-Core Real Estate	Value-Add	Close-Ended	Residential
Linchris	Non-Core Real Estate	Value-Add	Close-Ended	Hotel
Lone Star	Non-Core Real Estate	Distressed	Close-Ended	Diversified

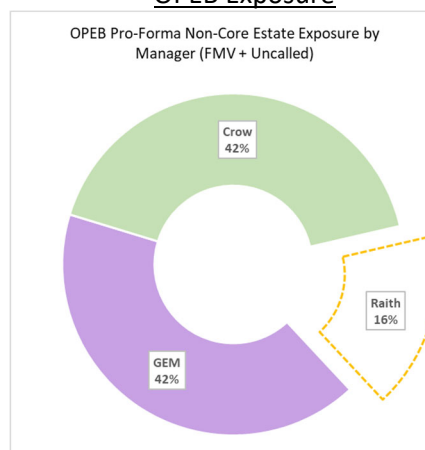
\*\*ERSRI Non-Core Real Estate managers as of 8/31/2022

<sup>1</sup>Exposure measured on a pro-forma basis; fair market value + unfunded commitments to-date, calculated as of June 30, 2022

### ERSRI Exposure



### OPEB Exposure



**MERITS:** Raith has a well-tenured team and a flexible investment mandate that allows it to take advantage of a variety of opportunities. The three founding partners formed Raith in 2012 after working together at Rialto capital in 2010. The founding team has over 12 years of continuity and the executive team (founding team, controller, and General Counsel & CCO) has an average of 25 years of experience. Raith has the flexibility to invest where it sees the best risk-adjusted return potential, unconstrained by property types and U.S. regions and can invest in any part of the capital stack. Raith’s ability to provide both debt and equity capital makes it an attractive partner for borrowers who are under pressure from either their lender or partnership. Raith maintains relationships with CMBS special servicers, regulation and non-regulated commercial lenders, insurance companies and sponsors. These relationships have helped drive Raith’s ability to source opportunities during times of dislocation.

Raith has delivered strong returns in fund I and II. Fund I, a 2014-vintage fund, has delivered a net return of 14.9% and a net multiple of 1.46x. Raith II has exited 5 out of 9 deals (about 35% of the capital invested has been realized) and the fund is projecting a net IRR of 46%<sup>2</sup> and a net multiple of 1.71x<sup>2</sup>.

<i>as of 3/31/22</i>				
<i>Raith Fund</i>	<i>Vintage</i>	<i>Raith Net IRR</i>	<i>Raith Net Multiple</i>	<i>Quartile</i>
I	2014	15% <sup>3</sup>	1.6x <sup>3</sup>	1st
II	2018	66% <sup>4</sup>	1.58x <sup>4</sup>	1st

### CONCERNS:

Staffing / Increase in fund size – Raith has 21 professionals who are tasked with running an organization, sourcing, closing, managing, and disposing the investment. Raith has experienced relatively high turnover at the junior level. The risks associated with high staff turnover are mitigated by Raith’s carry structure. 19 team members participate in the carried interest distribution for fund II and Raith has identified seven individuals for participation in fund III carried interests, with the expectation that additional team members will share carried interest. Raith III’s \$500 million target fund size represents an increase to Fund II’s actual size of \$241.8 million (Raith II initially targeted \$400 million in 2018). Raith III has raised \$248 million and depending on its final size, Raith may need to add resources.

<sup>2</sup> Projected Net IRR and Projected Net multiple assume the remaining capital produces a 17% gross IRR upon realization.

<sup>3</sup> ERSRI or OPEB is NOT an investor in Raith Fund I. It represents fund I projected performance net of management fees and carried interest as of 3/31/22.

<sup>4</sup> Net IRR and Net multiple as of 3/31/22 assume values of remaining assets distributed at FMV on 3/31/22. It represents ERSRI’s performance.

**ESG/DEI:** Raith is categorized as an ESG **Integrator**. Raith has a formal ESG policy and includes ESG findings in investment committee recommendation memo. A standard list of ESG issues are evaluated for every asset in every deal. Raith works with third-party consultants on environmental review. Raith is in the process of including ESG awareness as part of its formal annual compliance training. Raith has a formal Diversity, Equity, and Inclusion Policy and encourages headhunters to consider diverse candidates when skill sets match the job requirements. Raith is in the process of implementing regular women's event and expanding mentorship programs.

**FEES:** Fee terms are in-line with industry standards. The management fee is 1.50% on committed capital during the investment period and 1.50% on invested capital thereafter. The fund charges carried interest of 20% subject to a 9% preferred return with a two-tiered catch-up structure, which is favorable compared to a single tiered 50/50 catch-up.