PCA PENSION CONSULTING ALLIANCE

MEMORANDUM

Date: December 12, 2018

To: Employees' Retirement System of Rhode Island

From: Pension Consulting Alliance, LLC

RE: **Raith Real Estate Fund II, L.P.**

On behalf of the Employees' Retirement System of Rhode Island (ERSRI), Pension Consulting Alliance, LLC (PCA) has conducted due diligence on Raith Real Estate Fund II, LP (the Fund or Fund II) and its sponsor Raith Capital Partners, LLC (Raith). This opportunity is being considered as part of the private growth segment of ERSRI's investment portfolio, which includes "non-core risk" 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

Raith invests in fundamentally sound real estate in the United States that is experiencing some form of financial, geographic, or marketplace dislocation. The target assets must exhibit at least one of the following: (i) broken capital structure; (ii) dislocated, mismanaged, or non-strategic assets; or (iii) stressed sponsors. Raith believes that these dislocations will allow them to acquire all or a controlling interest in assets at discounts to their intrinsic values. Thereafter, Raith applies its operating expertise to increase cash flows and drive the assets' values and sell and return capital to the investors. Target investments for Raith Real Estate Fund II will be single or multi-property transactions across all property types with current gross asset values between $15 million and $75 million.

Organization

Raith was founded in early 2012 by William Landis, Nelson Hioe, and Michael Suchy, who previously worked together since 2009 at Rialto Capital Management. The asset management firm is owned by Landis (70%) and Hioe (30%). The General Partner (GP), comprised of a series of separately created special purpose entities (SPEs) for each fund, is owned by all three principals. Since 2009, they have collectively executed on approximately $1.7 billion of equity capital in distressed debt, direct equity, high-yield commercial mortgage-backed securities (CMBS), and mezzanine loan transactions. Of that amount, $850 million represents the equity investment activity at Raith. Raith has raised and managed Raith Real Estate Fund I, two CMBS-focused funds, and a handful of separately managed accounts targeting B-Piece CMBS. Raith Real Estate Fund II will have the same strategy as Raith Real Estate Fund I.

Fund Strategy

Raith Real Estate Fund II is an opportunistic closed-end commingled fund targeting a $400 million equity capitalization, with an ability to use leverage up to 70% of value. The Fund's strategy is to opportunistically invest in dislocated assets in high- and medium-growth metropolitan statistical areas (MSAs) across the United States. Raith will aim to concentrate investments in markets and submarkets that have experienced limited new supply as a percentage of total stock and where there are strong demographics and substantial secular demand generators, such as income and population growth, a strong business environment, and transportation advantages. Raith will primarily target fundamentally sound real estate that is experiencing some form of dislocation, whether financial, market perception-related, or geographic. These target assets must exhibit at least one of the following: (i) broken capital structure; (ii) dislocated, orphaned assets not strategic for their owners; or (iii) stressed sponsors. Target investments will be single or multi-property transactions across all property types with current capitalizations between $15 million and $75 million, which will equate to approximately 15-20 equity investments for Fund II.

Performance

As of June 30, 2018, Raith is projected to generate positive returns across all of its investment vehicles since its first investment vehicle in 2012. Raith Real Estate Fund I, the 2014 vintage-year predecessor fund to Raith Real Estate Fund I, is projected to generate an 14.0% net leveraged IRR and a net leveraged equity multiple of 1.4x.

Terms

The proposed management fee is an amount equal to 1.5% per annum of the capital commitments during the investment period and 1.5% of contributed capital thereafter. The preferred return structure for the Fund is tiered, first with 9%, followed by 12%. After investors have received their initial preferred return of 9% and a return of all invested capital, Raith will receive 40% of all profits. After investors have received their secondary preferred return of 12%, Raith will receive 20% of all remaining profits. There is also a 50% GP catch-up and an LP claw-back in place. The total partnership term is eight years, inclusive of a three year investment period, with two one-year extensions. The General Partner's commitment will be equal to 1% of the Fund's aggregate capital commitments, but a minimum of $2 million.

Recommendation

PCA is of the opinion that an investment of up to $35 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.