TO: The Employee Retirement System of Rhode Island and the Other Pension Employee Benefits Plan
FROM: Meketa Investment Group
DATE: March 26, 2025
RE: Raith Real Estate Fund IV

On behalf of The Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI"), along with the Rhode Island OPEB System Trust ("OPEB"), (collectively, the "Plans"), Meketa Investment Group ("Meketa") has conducted due diligence on Raith Real Estate Fund IV ("Fund IV" or the "Fund") and its sponsor, Raith Capital Partners ("Raith," the "Manager," or the "Firm"). 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 primary focus in multifamily and industrial sectors support the objective of bolstering ERSRI's non-core holdings with property types benefiting from strong fundamentals and 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

Raith Real Estate Fund IV is a value-added to opportunistic, closed-end equity fund targeting deep value investment opportunities in commercial real estate that arise from distressed, stressed, and complex situations. The Fund maintains a flexible mandate across sectors, markets, and investment structure, but will primarily focus on multifamily and industrial assets. Fund IV is targeting net levered IRR returns of 12% to 14%, with the ability to use leverage of up to 70% loan-to-value.

Organization

Raith Capital Partners is an employee-owned investment firm focused on commercial real estate investments across both debt and equity strategies. Bill Landis and Nelson Hioe co-founded the Firm in 2012 after previously working together for three years at Rialto Capital Management. Another Rialto colleague, Michael Suchy, joined both Mr. Landis and Mr. Hioe at Raith's inception to launch the platform and capitalize on the investment opportunity in CMBS credit and non-performing loans. Collectively, the three Partners oversee Raith's 20+ person team.

In its early years, Raith primarily operated as a debt investor in non-performing loans, as well as CMBS B-Pieces and credit-rated CMBS through separate accounts. In 2014, the Firm launched Raith Real Estate Fund I, its first commingled fund vehicle, targeting an opportunistic equity and distressed credit strategy. Raith ultimately raised $208 million for Fund I, subsequently launching Fund II in 2018 and Fund III in 2022. In aggregate, Raith has raised nearly $900 million in commitments across the three predecessor funds within its equity fund series, the Firm's exclusive channel for equity investments. On the debt side, Raith primarily invests through separate accounts, in addition to its open-ended, high-yield credit fund. As of September 30, 2024, Raith maintains approximately $2.1 billion in AUM, comprising $1.3 billion in private equity and $800 million in private credit.

Fund Strategy

Raith Real Estate Fund IV will execute a value-added to opportunistic strategy underpinned by the Firm's central investment principles of pricing power, event-driven dislocations, strategic development, and aggregation. While implementing a diversified approach across property types and markets, the Fund will exhibit a primary focus on industrial and residential sectors, maintaining a similar emphasis as predecessor funds. Specific to Fund IV, Raith will aim to capitalize on current macroeconomic themes of deglobalization and housing affordability as key investment drivers of mission critical, point-of-entry industrial centers and rental properties in high growth markets with strong job and education opportunities, respectively. Generally, the Fund will also seek to identify opportunities arising from sponsors' need to recapitalize and refinance the large wave of maturing debt across all sectors, including distressed loans, as well as end-of-fund-life sales and lender-driven recapitalizations. In addition to industrial and residential opportunities, Raith has also identified essential retail, data centers, industrial outdoor storage, and self-storage as other potential tangential sectors of interest. Potential transactions may span fee acquisitions, rescue capital investments, strategic ground-up development (up to 30% of commitments), and "loan-to-own" opportunities through the purchase of a defaulted or non-performing loans. It should be noted that non-performing loan investments may result in negotiated payoffs whereby the Fund earns a very attractive IRR but relatively low multiple on invested capital. While the fund will make opportunistic investments, not all investments will have a high risk profile. For example, Fund III is invested in a scattered-site, Section 8, single family rental programmatic venture that is generating strong cash-on-cash returns. In the event that the Fund partners with a third party on any particular deal, Raith will maintain a majority interest and decision making control of all major decisions.

Overall, Fund IV is targeting a portfolio of between 15 and 18 investments and a net IRR of 12% to 14%, of which 30% to 40% is expected from current income and 60% to 70% from appreciation, utilizing up to 70% LTV. The target returns are generally based on expected hold periods of three to five years. As Raith has demonstrated, it can generate higher deal level IRRs by executing the business plan and exiting after hold periods closer to the three-year end of the spectrum.

Terms

The $700 million target fund size represents a moderate increase from the predecessor fund's size of $446 million, or $540 million including co-investment. The Fund anticipates holding a first close in late Q1 or early Q2 of 2025. The General Partner will commit 1.0% of aggregate commitments to the Fund.

The Fund has a 9% preferred return and 20% incentive fee. The 9% hurdle is slightly more favorable than the typical 8% rate, as is the catch-up provision of 40% until LPs receive a 12% IRR, followed by a 50% catch-up. The tiered catch-up is more LP-friendly relative to the standard 50% catch-up immediately following payment of the preferred return.

The management fee is 1.50% of commitments during the investment period and 1.50% of invested capital thereafter. For first close commitments of $30 million or more, Raith will offer a 50% management fee discount on uninvested capital through the final close. The discount will also apply if Meketa clients reach an aggregated $75 million, but will commence when the respective investors close, lasting for the duration of the fundraising period. The effective annual discount could be up to 15 bps for early closers and if the fundraising periods extends to 18 months. The effective discount would scale down to an estimated 10 bps if the fundraising period lasts only 12 months.

Fund Performance

Raith Real Estate Equity Fund Series
As of September 30, 2024

Fund	Vintage Year	Invested ($M)	Realized Value ($M)	Total Value ($M)	Net Multiple (X)	Net DPI (X)	Net IRR (%)	Top Quartile[1] (%)
Fund I	2014	227.4	328.4	328.4	1.44	1.44	14.9	16.9
Fund II	2018	290.7	201.1	401.8	1.38	0.69	24.1	21.4
Fund III	2022	147.8	42.4	145.6	0.98	0.29	-1.8	11.2
Total		**665.9**	**571.9**	**875.7**				

As of September 30, 2024, Raith has invested over $660 million across 32 investments since the launch of the first closed-end, opportunistic vehicle of its flagship series. Raith fully exited Fund I in 2022 with nearly zero losses, generating a 14.9% net IRR in line with the fund's respective target returns and positioned in the second quartile compared to the relative non-core peer set. Further, Fund II is tracking in the top quartile on a net IRR basis and is expected to be fully realized within the next 10-12 months after executing an industrial portfolio sale, including its largest investment, prior to year-end 2024. Fourth quarter sales activity meaningfully increases Fund II's DPI in excess of 1.0x. Fund II's net multiple performance was impacted by two short-term mezzanine loan investments with equity kickers, collateralized by industrial service facility portfolios. Raith closed on the deals in April and June of 2020 and exited both in January 2021 prior to the loans' 12-month maturity date, resulting in outsized IRR returns, but lower gross multiples of 1.3x and 1.1x. Raith reinvested the equity, which inflates the "invested capital" number (denominator) in the above Net Multiple calculation. If the recycled capital is only included once in the "invested capital" number, the fund-level Net Multiple would increase to 1.46x. a closer mark to the median for that vintage. Overall, both Fund I and II evidence Raith's capability to execute on its business plans and successfully generate strong realized returns for investors within a timely period.

As of Q3 2024, Fund III had made seven investments, of which three constitute development projects that are non-income producing at present. Such investments have contributed to the Fund's current negative net IRR performance that is primarily resulting from the typical J-curve of private equity funds early in the fund life. Through the end of January 2025, Fund III has closed on five new transactions, with an additional deal under exclusivity, collectively bringing the fund to 81% committed, in the event that the advanced pipeline deal moves forward. Raith anticipates one to two more deals in Fund III to fill out the portfolio, while maintaining reserves. Importantly, Fund III committed less than $50 million prior to mid-2023, as the team waited for SOFR to stabilize.

[1] Preqin, North America Non-Core Real Estate – As of September 30, 2024.

Recommendation

Meketa recommends a commitment of $30 million from ERSRI, and $900,000 from OPEB, to Fund IV as part of the respective non-core real estate portfolios. Raith Real Estate Fund IV offers investors the opportunity to capitalize on current market dislocation through property acquisitions, development projects, and distressed debt investments while maintaining primary exposure to industrial and residential sectors, two of the most fundamentally strong sectors within commercial real estate. The investment is consistent with the role of non-core real estate within the Private Growth section of the Plans' portfolio.