State of Rhode Island
Office of the General Treasurer

Raith Real Estate Fund IV- Staff Recommendation

March-2025

RECOMMENDATION:

- Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI"): **Approve a re-up commitment of up to $30 million to Raith Real Estate Fund IV ("Raith IV").** ERSRI's previous commitments include: $35 million to Raith Real Estate Fund II (2018 vintage), and $25 million to Raith Real Estate Fund III (2022 vintage).
- Rhode Island OPEB System Trust ("RI OPEB"): **Approve a re-up commitment of up to $0.9 million to Raith Real Estate Fund IV ("Raith IV").** RI OPEB previously committed $500,000 to Raith Real Estate Fund III.

ASSET CLASS: Non-Core Real Estate (ERSRI), Private Growth – Non-Core Real Estate (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 for Non-Core Real Estate is 2.5% and the current allocation (as of 2/28/2025) is 2.3%. The 2025 Non-Core Real Estate pacing plan calls for commitments of up to $90 million across four-to-five funds at $15-30 million per fund. Pending approval of this recommendation, ERSRI's 2025 Non-Core Real Estate commitments will total $55 million.

- Rhode Island OPEB System Trust: OPEB's target allocation for Private Growth is 5.0% and its Non-Core Real Estate sub-strategy targets ~20% of the asset class (i.e. 1.0% of the total plan). The actual allocation to Private Growth – Non-Core Real Estate as of 2/28/2025 is 0.3%. The 2025 pacing plan calls for commitments of up to $2.5 million across four-to-five funds at $0.45-1.0 million per fund. Pending approval of this recommendation, OPEB's 2025 commitments will total $1.65 million.

RAITH IV INVESTMENT STRATEGY & TARGET FUND SIZE:

- Investment Strategy: Raith IV is a closed-end, value-add and opportunistic fund targeting a diversified portfolio of deep value investments in commercial and residential real estate, with a special focus on distressed, stressed, or complex situations. It's a continuation of the previous deep value focused funds.

- Target Fund Size & Timeline: Raith IV is targeting a $700 million fund size, an increase from Raith III at $446 million. The Fund expects a first close in either Q1 or Q2 of 2025, and the GP anticipates committing 1% of aggregate commitments.

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 (see Appendix 3). ERSRI targets diversified funds that mitigate portfolio sector concentration, provide differentiated exposures, offer investment flexibility across sectors and enhance Non-Core Real Estate portfolio diversification. The Firm executes a flexible mandate (e.g. debt vs equity, buy vs develop vs loan-to-own, public vs private) that allows Raith to identify and invest at a compelling relative value. Raith IV will primarily invest in industrial and residential projects and opportunistically in niche projects such as essential retail, data center land development, industrial outdoor storage and self-storage, which offer the potential for outsized risk returns. Raith is complementary to ERSRI's other diversified value-add/opportunistic GP, GEM, which targets ~40% in hotel and specialty property types such as labs/R&D, marinas and production studios and ~60% in residential and industrial.

Pending approval, Raith Real Estate Fund IV will represent ~6% of the Non-Core Real Estate Portfolio and the portfolio's diversified sector funds will represent ~38% (see Appendix 4). Raith Capital Partners, inclusive of ERSRI's investments in Raith Real Estate Fund II, III & IV, would represent ~14% of the Non-Core Real Estate portfolio. Investment Staff has negotiated admission to Raith IV's Limited Partner Advisory Committee (LPAC) with the recommended sizing of $30 million from ERSRI.

- Rhode Island OPEB System Trust: The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate (as described above) strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval, Raith Real Estate Fund IV will represent ~11% of OPEB's Private Growth's Non-Core Real Estate allocation, and the portfolio's diversified sector exposure will represent ~45% (see *Appendix 5*). Raith Capital Partners, inclusive of OPEB's investments in Raith Real Estate Fund III & IV, would represent ~17% of the Non-Core Real Estate portfolio.

MERITS:

- Strong Realization and Top IRR & DPI (Distributions to Paid-in Capital): Since 2014, Raith has invested $665.9m across three Funds, generating an aggregate total value of $875.7m, as of September 30, 2024, and an aggregate FMV gross IRR and net IRR of 22.5% and 16.3%, respectively. As of September 30, 2024, Raith II's 0.68x DPI is first quartile, and its 23% net IRR is first decile when benchmarked against Cambridge Associates (CA) 2018 Vintage Value-Add Real Estate Funds. ERSRI's NAV (Net Asset Value) in Raith II was ~$29m as of Q3 2024. Subsequent to quarter end, Raith II experienced additional realizations, distributing ~$24m to ERSRI in Q4'24. Raith II's DPI of 0.68x (as of Q3'24) versus a DPI of 1.24x (as of Q4'24) demonstrates stronger realizations against peers per the Q3'24 CA 2018 Value Add Real Estate Benchmark. Raith II has one asset remaining as of February 2025, and ERSRI's current exposure in Raith II is about $5-6 million. Raith expects its remaining asset in Raith II will exit in late 2025, further enhancing Raith II's DPI.

- Continuity of Senior Leadership Team & Leadership Industry Experience: Bill, Nelson and Michael (Senior Leadership Team) have worked together since 2009 at their previous firm, and they founded Raith Capital Partner in 2012. Overall, Bill has over 35+ years of relevant industry experience while Nelson and Michael each has 23+ years' experience. The Senior Leadership Team has executed on distressed debt investments, direct equity acquisition, mezzanine loans and high yield commercial mortgage-backed securities.

- Disciplined Raith III Deployment Pacing: Raith has been disciplined in deploying Fund III (2022 vintage) by investing less than 10% of the fund prior to Q3'2023 when interest rates peaked, and transaction acquisition pricing decreased significantly. Raith III is ~80% committed (as of Feb'2025) and solely focuses on multifamily and industrial which Raith sees for strong long-term pricing power.

CONCERNS:

- Small Team & Double Promote: Raith has a team of 26 people (3 senior leaders, 6 in acquisition, 6 in asset management and the rest in finance, accounting, legal, compliance and investor relations). Raith is not fully vertically integrated and may partner with local operators and 3rd party developers who brings specialized knowledge and expertise to the investments. The 3rd party operators and developers are incentivized to perform, creating a double-promote structure and thus widening the gross to net investment return.
    - Mitigant – Investing in a partnership with an experienced operator in a specialized sub-strategy allows Raith to deliver outsized returns. Raith conducts detailed interviews and due diligence on operators. These JV partnerships allow Raith to invest in areas where it doesn't have current presence or all the required resources (staff, ongoing monitoring, existing platform to source, etc.).

- Prepayment & Reinvestment Risk on Loan Holdings: Raith may invest across the capital stack. One of Fund IV's themes takes into account current capital structure stresses in the real estate market, given the large volume of a looming maturity wall coming due. If Raith continues to structure loan investments (e.g. mezz loans with low/moderate equity multiples), it faces potential prepayment risks and lower equity return if capital can't be redeployed fast enough.

- Mitigant – The mezz loan deals in Raith II were made at the height of Covid and Raith was being cautious in an uncertain time. Raith II's moderate TVPI which uses grossed-up cashflows comes with the intention of reducing overall risks. Raith has proven its ability to recycle capital and Raith II's net cash MOIC (Multiple on Invested Capital) of 1.46x (as of Q3'24) takes recycling effects into consideration whereas the net TVPI of 1.38x (as of Q3'24) is without recycling effects. Reinvestment risk can also be reduced if Raith chooses to structure mezz loan investments during the early investment period, giving itself enough time to redeploy if the borrower pays back early.

ESG: Raith is categorized as an ESG **Integrator.**

- ESG: Raith has an Environmental, Social and Governance Policy (ESG) in place and investment team and committee consider material ESG factors in the due diligence phase. Raith considers ESG factors that can help mitigate risk, meet tenant demands and add economic value to the portfolio over the long term.
- DEI: Raith adopted a formal Diversity, Equity and Inclusion Policy ("DEI Policy") in 2021. Raith is committed to recruiting and retaining top professionals and encourages headhunters to consider diverse candidates when skill sets match their job requirements.

FEES: Fees for Raith Real Estate Fund IV are in-line with industry standards.

- Management Fees: Raith Real Estate Fund IV charges a 1.5% management fee for capital commitment during the 3-year investment period and 1.5% of net invested capital thereafter. Raith IV offers a 50% management fee discount on uninvested capital through the final close to early investors who close by Q2'2025.
- Carried Interest: Carried interest is 20% over a 9% hurdle. Raith IV uses a tiered catch-up provision – 40% until LPs receive a 12% IRR and then a 50% catch-up. Carry is distributed on a total fund basis.

Appendix 1: ERSRI Prior Fund Exposure

			Fund Exposure*					
Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation (NAV)	Exposure (Amount Unfunded + Valuation)
Raith Real Estate II	2018	Non-Core RE	$35,000,000	$ 42,505,357	$ 29,019,170	$ 7,721,094	$29,509,588	$ 37,230,682
Raith Real Estate Fund III	2022	Non-Core RE	$25,000,000	$ 8,964,558	$ 2,825,280	$18,860,723	$ 5,850,957	$ 24,711,680

Data as of 9/30/2024

Appendix 2: ERSRI Prior Fund Performance

			Net Performance*			Public Market Equivalent (PME)	
Current Partnerships	Vintage Year/ Initial Investment	Type	Net IRR (%)	Net Multiple of Investment	Distributed to Paid-In Capital	Net Index PME IRR**	Fund Excess Return (Fund IRR - PME)
Raith Real Estate II	2018	Non-Core RE	23.6%	1.38	0.68	11.6%	12.0%
Raith Real Estate Fund III	2022	Non-Core RE	NM	0.97	NM	NM	NM

Data as of 9/30/2024

*** Long Nickels PME Methodology*

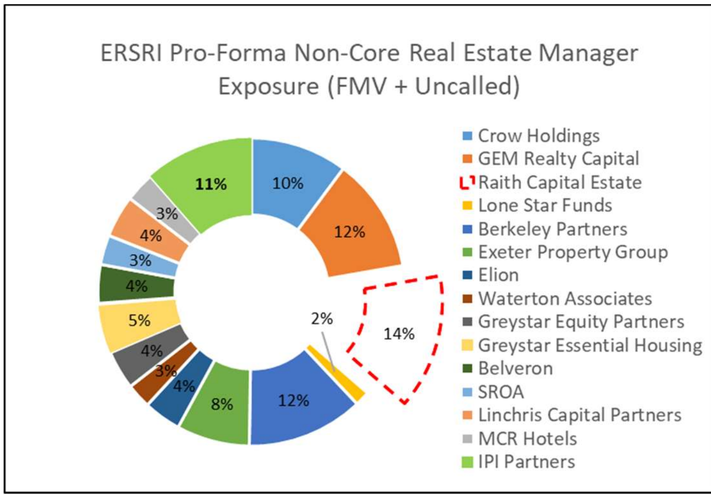
***MSCI US REIT Net Index PME IRR*

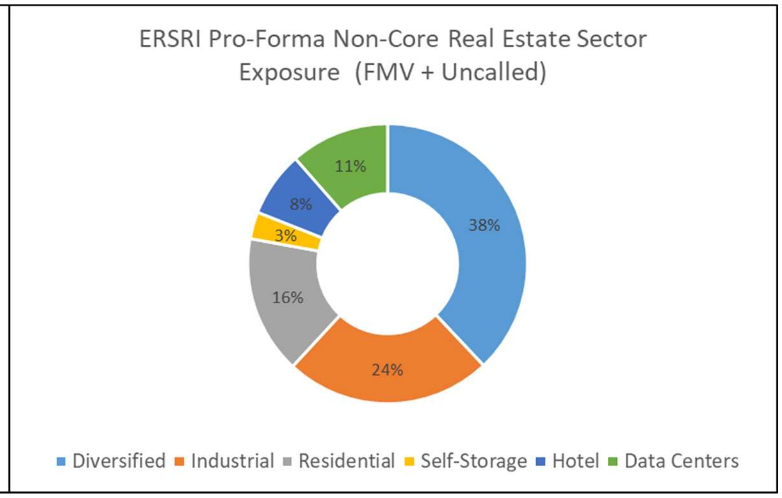
* Note – Raith Real Estate Fund III is a closed end fund and was about 80% committed by Q3'24. Performance is not meaningful at this early stage and about 90% of the commitment was made in/after Q3'23. OPEB is not an investor in Raith Real Esate II.

Appendix 3: ERSRI & OPEB Non-Core Real Estate Managers

ERSRI & OPEB Non-Core Real Estate Managers		
Manager	Sub-Strategy	Sector
Crow (Diversified)	Value-Add	Diversified
GEM	Value-Add/Opportunistic	Diversified
Raith	Opportunistic	Diversified
Lone Star*	Distressed	Diversified
IC Berkeley	Value-Add	Industrial
Exeter*	Value-Add	Industrial
Elion	Value-Add	Industrial
Crow (Retail)*	Value-Add	Retail - Food & Service
Waterton*	Value-Add	Residential
Greystar U.S. Flagship	Value-Add	Residential
Greystar Essential Housing	Opportunistic	Residential
Belveron	Value-Add	Residential
SROA	Core+/Value-Add	Self-Storage
Linchris*	Value-Add	Hotel
MCR	Value-Add	Hotel
IPI	Value-Add/Opportunistic	Data Centers
*RI OPEB has no position in Crow(Retail), Waterton, Linchris, Exeter and Lone Star as those recommendations were made before OPEB started to include Real Estate in its Strategic Asset Allocation in 2022.		

Appendix 4: ERSRI Portfolio Fit





Appendix 5: OPEB Portfolio Fit