Date: March 20, 2015

To: Employees' Retirement System of Rhode Island

From: Pension Consulting Alliance, Inc. (PCA)

RE: **Lone Star Real Estate Fund IV**

Pension Consulting Alliance, Inc. (PCA) has evaluated Lone Star Real Estate Fund IV, L.P. (LSREF IV or the Fund). The Fund is sponsored by Lone Star Funds (Lone Star, the Manager, General Partner, or GP). Based on the merits of the Fund and the information provided through this summary, PCA recommends the fund for investment. 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

Lone Star's core investment strategy is to seek distressed investment opportunities in developed markets that have suffered an economic and banking crisis resulting in a distressed financial system. The Fund will target global investments in a broad range of financial and commercial real estate assets, defined as multifamily, retail, office, industrial, hospitality, senior housing, student housing, and other related assets (excluding single-family residential and related debt securities or obligations). The Fund will target investments in opportunities in the United States, Europe, and Japan that are the result of disequilibrium between supply and demand. Estimated allocations of invested capital for the Fund are as follows: 10%–20% in U.S., 70%–80% in Europe, and 10%–20% in Japan. However, the actual invested capital in these regions may vary materially depending on market conditions.

Organization

Lone Star's origins trace back to a joint venture between the Robert M. Bass Group and the Federal Deposit Insurance Corporation (FDIC) in 1993, called Brazos Partners, LP, which acquired and resolved nearly 1,300 "bad bank" assets. John Grayken led the operation and served as chairman and CEO of the general partner. Mr. Grayken subsequently formed Lone Star in 1995. Lone Star is structured as three regional investment companies, with one focused on the U.S., Europe, and Japan regions, employing a total of 85 individuals. Mr. Grayken is the sole beneficial owner of Lone Star. He also has the ultimate management control of the general partner for each of the Prior Funds and will continue in this role for the general partner for LSREF IV.

The Lone Star funds are operated using two distinct entities: Lone Star acts as the advisor to the funds, and Hudson Advisors, LLC (Hudson), provides asset management and other ancillary services. Hudson is 100% owned by Mr. Grayken and has 855 employees. Since its inception in

1995, Hudson has been dedicated to the support of fund investment activities globally, providing due diligence and analysis, asset management, and other support services.

For much of Lone Star's history, the firm has been a global platform and has sought distressed assets wherever it believed the best opportunities could be found. Since the establishment of the first fund in 1995, Lone Star has organized 14 private-equity funds with aggregate capital commitments totaling over $54.0 billion of equity, all of which have focused on distressed assets. Lone Star had approximately $14.0 billion in net assets and $47.0 in gross assets under management (AUM) as of September 30, 2014.

Fund Strategy

Lone Star's core investment strategy is to seek distressed investment opportunities in developed markets. The Fund will target global investments in a broad range of financial and commercial real estate assets, defined as multifamily, retail, office, industrial, hospitality, senior housing, student housing, and other related assets (excluding single-family residential and related debt securities or obligations). Within these targeted assets, Lone Star will invest in commercial real estate, investments in or origination of secured loans, securitized commercial real estate products, other equity investments which have an underlying value of commercial real estate and derivative instruments related to any of the foregoing.

Performance

As of September 30, 2014, Lone Star projects that its investment vehicles will generate a net leveraged equity multiple of 1.6x, with a minimum of 1.2x and a maximum of 1.9x. Lone Star projects that eight of the 13 funds will generate net leveraged IRRs of 17% or higher, and only three funds are projected to generate net leveraged IRRs of 10% or lower.

Terms

The proposed management fee is based on a preferred Limited Partner tiered structure. For those committing less than $100 million, the fee is 1.20% of committed capital during the commitment period and 0.6% on invested capital thereafter. The proposed management fee is reduced by 10 basis points for investors who are part of the first close. The preferred return is also based on a preferred Limited Partner tiered structure. For those committing less than $100 million, the preferred return is 8%. After investors have received their preferred return and a return of all invested capital on a portfolio basis, Lone Star will participate in a 50/50 catch-up and receives 20% of the profits investment level profits. If the investment achieves 25% investment level compounded annual return, Lone Star will receive 25% of the profits. The investment period is three years and the partnership term is 8 years after the final closing, with up to two consecutive one-year extensions. The General Partner's commitment will be equal to approximately 1% of aggregate commitments and a Hudson Co-Investment vehicle will commit up to 1.5% of aggregate commitments. In addition, entities associated with John Grayken and or other partners of the General Partner will commit $250 million or more.

Recommendation

PCA is of the opinion that an investment of up to $30 million 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.