

Date: May 12, 2014
To: Employees' Retirement System of Rhode Island (ERSRI)
From: Pension Consulting Alliance, Inc. (PCA)
RE: IC Berkeley Partners III, L.P.

Pension Consulting Alliance, Inc. (PCA) has evaluated IC Berkeley Partners III, L.P. (ICBP III or the Fund). The Fund is sponsored by Industry Capital Advisors, LLC (Industry Capital, IC, or the Firm). Based on the merits of the Fund and the information set forth in this report, 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 understands that ERSRI has considered the impact of an investment in the Fund on ERSRI's portfolio of assets with respect to liquidity and current return relative to cash flow needs, investment strategy diversification, funding requirements, and projected returns. 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 the 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

IC Berkeley Partners III, L.P. will continue to pursue a value-add strategy in multitenant industrial real estate—the same strategy that it has pursued since the Firm's inception. The Fund seeks to raise \$100 million in equity capital commitments and may employ leverage up to 65% on a loan-to-value basis, which it will use to target sub-\$10 million deals. IC's tenant base is composed of small local and regional businesses, compared to the big-box industrial funds like the ODCE funds and Prologis that focus on a Fortune 2000-type tenant base. Once IC enters a market, it acquires a critical mass of property within that market to achieve economies of scale on the expense side and scale on the revenue/lease-up side. The Firm purchases at least 100,000 square feet in any given market so it can install in-house trained employees as property managers in the market, maximizing the leverage of its vertically integrated management strategy. The Fund will target to deliver 14%–16% net returns, a 2.0x equity multiple, and 18%–20% gross returns.

Organization

In 2004, the principals of Industry Capital established an operating partnership that combined the 20-year industrial-real-estate-investment track record of the Snegg family with IC's experience in professional alternative-fund management. Industry Capital acquires multitenant

industrial real estate across the Western, Southern, and other U.S. markets experiencing significant population growth. IC focuses particularly on sub-\$10 million deals, because the Firm observes that there is little institutional competition in that price range. IC reports that its target market is over three billion square feet and is highly fragmented by ownership, providing tremendous opportunity to scale.

Industry Capital was founded by Norman Villarina in 2003 as a spin-off of Industry Ventures, which he co-founded in 1998. Norman Villarina, Aaron Snegg, Doug Wertheimer, and Kingston Wu own or control 100% of Industry Capital Advisors' real estate affiliate, Berkeley Capital Advisors, LLC (BCA). Mr. Villarina is the majority owner.

The Firm is currently led by Norman Villarina, Aaron Snegg, and Doug Wertheimer and manages four private-equity real estate commingled funds in geographic clusters across the Western and Southern U.S.

Fund Strategy

The Fund will use a value-add strategy. 100% of the Fund's capital will target multitenant industrial real estate. Industry Capital attempts to add value by stabilizing undermanaged or distressed assets, aggregating a critical mass of properties, and adding institutional-quality management to an inefficient asset class. No tenant will occupy more than 30% of a property; no property will exceed 10% of the Fund's holdings; and no single tenant will be greater than 5% of the portfolio. While the target deal size is sub-\$10 million, portfolio acquisitions could range from \$5 to \$25 million. When disposing of properties, IC will "bundle" several assets within a geographic area and sell them as a portfolio.

Performance

Industry Capital has generated, and is projected to generate, positive returns for all of its investment vehicles to date. Berkeley Capital Partners I, which closed in 2005, has produced a realized gross internal rate of return (IRR) of 9.4%, a projected gross IRR of 9.4%, a realized net IRR of 4.3%, and a projected net IRR of 5.2%. Berkeley Capital Partners II, which closed in 2007, has produced a realized gross IRR of 31.1%, a projected gross IRR of 24.2%, a realized net IRR of 18.8%, and a projected net IRR of 13.4%. Berkeley Capital Trust has produced a realized gross IRR of 35%, a projected gross IRR of 21.5%, a realized net IRR of 26.4%, and a projected net IRR of 15.2%. IC Berkeley Partners III, which had its first close in 2013, has so far produced a realized gross IRR of 199%, a projected gross IRR of 20%, a realized net IRR of 95.1%, and a projected net IRR of 16%.

Terms

The proposed management fee is 1.5% on committed capital during the commitment period and 2.0% of contributed capital thereafter. After limited partners have received a return on all of their invested capital and a 9% preferred return, Industry Capital will participate in 20% of all

profits with no catch up. The commitment period is three years from the initial closing, and the total partnership term is eight years. The general partner will contribute \$2.5 million to the Fund. The terms are in PCA's view both market rate and reasonable.

Recommendation

PCA is of the opinion that an investment of up to \$20 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.