

COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

127 PUBLIC SQUARE
SUITE 5050
CLEVELAND, OH 44114

TELEPHONE: (216) 522-0330
FAX: (216) 522-0331
www.courtland.com

January 2, 2014

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Bell Institutional Fund V, L.L.C.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Bell Institutional Fund V, L.L.C. (the "Fund"). The Fund will seek to acquire well-located Class A/B multifamily assets in supply-constrained submarkets across the East Coast and Southwest United States to generate attractive current income and achieve superior total returns through low risk, value-added enhancement strategies. The Fund will implement a disciplined and focused approach to acquire these multifamily assets. Bell Partners ("Bell") will add value to the investments by leveraging its extensive operating platform.

Given current pricing conditions and apartment fundamentals, Bell believes a prudent strategy is to invest in markets that have strong demand/supply fundamentals and relatively high capitalization rates in order to generate attractive current income with lower risk.

The Fund will be focused on major markets across the East Coast and Southwest United States and will seek to create a diverse portfolio with a broad geographic footprint. More specifically, the following 14 markets have been identified as "Target Markets": Boston, MA; Northern/Central New Jersey; Philadelphia, PA; Washington, DC; Raleigh/Durham, NC; Charlotte, NC; Atlanta, GA; Tampa, FL; Orlando, FL; Miami/Ft. Lauderdale, FL; Nashville, TN; Austin, TX; Dallas, TX; and Houston, TX. Bell believes these markets generally (i) support a large population of over 1.5 million; (ii) offer lower rent growth volatility; (iii) provide a sizable transaction market to maximize investor interest upon exit; (iv) project attractive total returns based on historical capitalization rates and expected rent growth; and (v) have the ability to be supported by Bell's management team. Other smaller markets may also be considered on a selective basis where Bell has a core competency and attractive risk adjusted returns are projected. No more than 25% of capital will be deployed in any one market.

Bell believes that the Fund can capture a compelling market opportunity. Apartments have historically provided attractive risk adjusted returns over the long term and are projected to continue to have healthy fundamentals. The Fund's Target Markets are expected to have outsized cash flow growth since they typically capture a disproportionate share of renter demand compared to the U.S. average. New apartment supply is estimated to remain at reasonable levels. This dynamic, coupled with the relatively high going-in yields generated in the Target Markets, should result in appealing current income, lower risk, and a superior total return.

Due to Bell's reputation in the industry, history of performance, and regionally focused teams, it often has unusual access to attractive opportunities, at times securing assets before they are offered to other

purchasers and/or selected over competing bidders. By utilizing market information generated from managing approximately 70,000 units and input from regionally based teams, Bell seeks to avoid overheated markets and is able to carefully select and underwrite opportunities.

There continue to be significant demand drivers for multifamily assets including, the growing echo-boomer population, the growth of the U.S. population in general, the decline in homeownership rates, and the anticipated job growth in the economy. On the supply side, apartment starts and construction permits are expected to continue to remain low on a historical basis.

The Fund has already acquired one apartment community in Raleigh, NC, for an estimated total investment value of \$51.4 million. Bell expects over \$100 million in gross value of seed assets by the initial closing. It is currently under contract on a community in Dallas and is far along in its due diligence on a deal in Ft. Lauderdale

Courtland's recommendation is based upon the following factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with key Bell management team members, and review of all relevant materials provided by Bell.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Bell's track record and organizational resources.
- Discussion and review of the market conditions in markets relative to the proposed investment strategy.
- The strategy proposed for the Fund is appropriate for the real estate component of the portfolio.

Based on the above, Courtland recommends that PSERS commit up to \$75 million to the Fund. Courtland makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Courtland does not provide legal or other non-investment-related advice.

Sincerely,



Steven Novick
Principal-Chief Operating Officer

COURTLAND PARTNERS, LTD.



Value-Added Real Estate Commitment

Bell Institutional Fund V, LLC

January 23, 2014

Bell Institutional Fund V, LLC – Value-Added Real Estate

Overview

- Fund size is anticipated to be \$300 million, including \$200M+ from the Institutional Fund
- Fifth in a series of closed-end commingled real estate funds targeting value-added returns of 11-14%, including 6-8% from income yield. The first three investment funds included mainly high net worth friends and family investors, while Bell acted as operating partner to larger institutional funds. Fund IV was the first Institutional Fund, with PSERS and three other institutions investing in addition to the high net worth capital
- Bell Partners was founded in 1976 by Steven Bell to invest in and manage real estate; primarily, multifamily assets. Steve remains active as the Chairman and CEO of the firm. Steve's son, Jonathan, joined Bell in 2001 after working with Lend Lease and Faison for six years and has taken the position of President. Durant Bell, another son, joined the firm in 2006 and is currently EVP of Operations. Since 2008, the firm has exclusively focused on multifamily and has been growing that platform while exiting other investments. Bell Partners has grown to be the 7th largest U.S. multifamily management company with over 70,000 homes under management as of 12/31/13

Fund Strategy

- Bell Partners will continue to acquire well-located, quality apartment communities across the East Coast and the Southwest United States. These properties will offer relatively high yields at purchase, with opportunities to improve management and facilities resulting in increased cash flows
- Bell target markets have historically reflected rents with lower volatility than the major “Gateway City” markets (New York metro, Los Angeles, San Francisco, Boston and Seattle). The fourteen Bell target markets include D.C., Ft. Lauderdale, Dallas, Raleigh, Charlotte, Nashville, and Austin, with focus placed on supply-constrained submarkets near major infrastructure and employment bases

Investment Team

- The fund will be managed by Lili Dunn, CIO with the support of Jon Bell, President. In total, eleven investment professionals will be focused on the Fund. This firm is a fully integrated manager that manages and operates assets internally. Bell Partners real estate offices are headquartered in Greensboro, North Carolina and, including their twelve additional regional offices located in their target markets, are staffed with over 1,700 employees

Bell Institutional Fund V, LLC – Value-Added Real Estate

GP “Value Add”

- Integrated operating platform enables effective execution of business plans to drive value-added initiatives; including, pricing techniques, expense savings, substantial renovations, and purchasing existing core assets in transitioning locations. As of 6/30/13, Bell’s ten year unlevered realized net IRR was 10.5%, which was 15% higher than the NCREIF Apartment Index of 9.1%
- Established relationships with banks, funds, life companies, and government agencies provide easy access to financing, as well as leads for investments. The 600 high net worth investors have also proven to be a strong source for deals
- Management team has extensive work experiences from various institutional firms; including, AvalonBay, Trammell Crow, Lend Lease, Colonial Properties and UDR
- There are currently three assets pre-identified for Fund V, two of which have closed. Total equity invested in these assets will be approximately \$40 million and the expected cash income yield is 7%, with a total net IRR of 12.5%

History with PSERS

- This will a follow-on investment for PSERS, following a \$75 million commitment approved by the Board in March 2012

Performance (as of June 30, 2013)

	Current IRR	Current MOC	Projected MOC
Bell Fund I (2006)	1.0%	1.1x	1.4x
Bell Fund II (2007)	10.1%	1.5x	2.2x
Bell Fund III (2009)	29.3%	1.9x	2.6x
Bell Fund IV (2011)	17.6%	1.1x	2.2x
Separate Accounts (1991-2013)	18.7%	2.2x	2.6x

Bell Institutional Fund V, LLC – Value-Added Real Estate

Market Opportunity

- Rental housing continues to benefit from strong demand driven by historically low homeownership rates and robust rental household formation due to attractive demographic trends, employment growth and population growth. The current vacancy rate of 4.3% will moderate as completions exceed absorption over the next four years. Thus far supply has been quickly absorbed due to the built up demand, but activity must be closely monitored for submarket selection

Risks and Mitigants

- Investment Pacing: PSERS committed to Fund IV in March 2012 – *When PSERS invested there had already been 3 investments closed, and four investments closed within six months*
- Limited Institutional Experience – *Bell has worked with PSERS to develop ‘institutional’ reporting, valuation and accounting practices. Since 2007, Bell has hired 4 senior-level individuals (CIO, CAO, COO, CFO) with strong institutional investor backgrounds to join Steve and Jon Bell*
- Limited Realizations – *Due to the timing of Fund IV, there have not been any realizations to date. As of June 30, 2013, 72 of 239 investments had been realized, with an additional 23 properties sold in the second half of 2013. Bell is currently marketing multiple investments from prior funds that are expected to close throughout 2014*

Board Issues

- Pennsylvania Presence – 217 unit multifamily property, Bell Elkins Park, located In Elkins Park, PA and purchased 12/19/07 as a part of a portfolio purchase
- Placement agents – Lazard Frères & Co. LLC and Lazard & Co., Limited (collectively "Lazard"), hired to introduce additional Institutional investors to Bell, not used regarding PSERS investment
- PA political contributions – None
- Relationship with consultant – None

Recommendation

- Staff, together with Courtland Partners, Ltd, recommend that the Board invest an amount not to exceed \$75 million plus reasonable normal investment expenses