COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Pramerica Real Estate Capital VI, L.P.

Real Estate Commitment

Laurann H. Stepp
Senior Portfolio Manager

February 11, 2016

Recommendation:

Staff, together with Courtland Partners, recommends to the Board a commitment of up to £75 million, approximately $110M, to Pramerica Real Estate Capital VI, L.P. ("Fund", "Fund VI" or "PRECap VI"). Pramerica Real Estate Investors ("Pramerica" or "PRECap"), is sponsoring the Fund to build a Junior debt and Preferred capital portfolio secured by real estate assets located in major Western European markets.

Firm Overview:

Pramerica Real Estate Investors is the European brand name of Prudential Real Estate Investors ("PREI"), the real estate investment management businesses of Prudential Global Investment Management ("PGIM"), formerly known as Prudential Investment Management. The parent company of the entities is Prudential Financial, Inc. (NYSE: PRU). Prudential Financial is one of the largest financial institutions in the United States, with assets under management of $1.2 trillion.

PREI/Pramerica has been investing in real estate on behalf of its clients for more than 45 years. With a goal to be the best multi-product real estate manager in the markets in which they invest, their assets under management have grown to $62.6 billion (net) and are located in the Americas, Europe and Asia Pacific. The PREI/Pramerica network of 625 real estate professionals are located across 18 cities in the focus markets. Pramerica Europe was established in 1982 and has grown to $5.6B net AUM. The PREI/Pramerica real estate debt platform has teams located in the United States and Europe.

The three Senior members of the European PRECap team, Andrew Radkiewicz, Andrew Macland and Mathew Crowther, worked together since 2005, and joined PGIM in 2009 to develop a real estate debt platform in Europe. They have subsequently hired 15 additional debt specialists. Since November 2010 this team has executed 45 debt investments deploying $2.6B in junior debt, preferred equity and structured loans.

Investment Strategy:

The Fund will focus on building a Junior Debt and Preferred capital portfolio secured against real estate properties located in major European markets. Approximately 70% of fund will be in UK and Germany investments, with the rest within Western Europe. The loan term of 5 years, plus one with GP vote and one with Advisory Council vote, will match the underlying 3-5 year Junior mortgages of £30-70 Million (average £25-30M).

The Borrowers typically need capital in order to purchase, refinance or buy an existing loan to eventually own the underlying real estate. As explained further in the Market Opportunity section of this memo, the number of providers of this capital has greatly reduced. Borrowers are expected to execute a business plan to improve the real estate income and drive appreciation. This is accomplished by increasing leasing levels at higher rents, repositioning assets, stabilizing income (sweeping the excess cash flow on a strong asset to pay the coupon due on the Junior debt), refurbishing existing assets, or developing new real estate where the approvals are all in-place and there is advanced pre-leasing.

The Fund will build a diversified portfolio of 25-30 single loans. If lending above the threshold of 60-75% loan to value (LTV), capital participation is required. The Fund will lend to strong asset manager partners, or sponsors, with value-add initiatives to create a core real estate asset to be sold within the terms of the debt. Control is achieved with thorough documents that are typically pre-approved by the Senior debt lenders. Through linking of holding companies to covenant triggers, Pramerica is able to serve notice and step into the Borrower's position within hours, if necessary. These loans will be primary originations, not purchased loans, with borrowers which may be repeat clients, or are sourced through long-term associations with bankers, as well as referrals from borrowers. Fund VI will invest within the limitations identified:

Property Type	Limitations
UK and Germany	≥70%
Subscription and Senior Debt	35%
Hotels and Healthcare assets	15%
Preferred Capital	20%
Residential redevelopment/development	20%

Investment Team:

The fund will be led by the three Senior members of the European PRECap team, Andrew Radkiewicz, Andrew Macland and Mathew Crowther. These professionals have worked together since 2005, and joined PGIM in 2009 to develop a real estate debt platform in Europe. They have subsequently hired 15 additional debt specialists.

The headquarters office is in London and team members are also located in Paris, Munich, Frankfurt and Luxembourg. The larger 323-person international network of Pramerica provides back up support in many Administrative areas.

Investment Instruments:

PRECap VI will originate Junior fixed rate mortgage loans secured by real estate, and establish Preferred Capital equity positions which will receive a minimum priority return plus participation in the capital upside of the underlying real estate.

Investment Structure:

PRECap VI is a limited partnership established and registered in England.

The Manager of the Fund, Pramerica Fund Management Limited, is a UK Company registered with the England Companies House in London.

Market Opportunity:

Historically banks in Europe provided for 95% of the required real estate debt capital. Similar to the United States, regulations as a result of the Great Recession have been established that place costly risk weighted requirements on the banks, greatly restricting their ability to lend or refinance existing debt. The third quarter of 2015 represented the fifteenth straight quarter of decline in European bank real estate debt holdings. Currently banks may provide limited debt capital up to 50-65% LTV, versus up to 75% previously, with the difference provided by non-bank lenders such as PRECap VI. In Europe, this lack of debt capital, recovering transaction volumes, and improving real estate fundamentals driving higher property yields provides a strong market for the Fund VI offering.

Investment Highlights:

Experience and solid reputation
The three Senior Managers have worked with each other in various capacities for the past 11 years, and have been active in the European market for over 15 years. The reputation that they have earned working with Borrowers has enabled 50% of their deals to come from repeat business. Their experiences have built strong links with sponsors, agents, developers, banks, all of which provide access to attractive deals.
Unique approach
The PRECap team is one of the largest, well established non-bank lenders in the European markets. Their consistent focused approach of originating and structuring all loans to match the underlying risk has been successful to date. Their structuring savvy enables them to use the preferred capital tool to capture upside benefits of development/redevelopment/value-add deals.

Strong market fundamentals
As discussed in the Market Opportunity, the improving real estate fundamentals as well as the dearth of debt funding in the PRECap VI markets provide a solid basis for this type of investing.

Investment Considerations:

New entrants into markets, competition
Although there have been numerous entrants to the European non-bank lending market, PRECap estimates that approximately 90% have been Senior Debt providers. This Fund would look to work with those groups to offer the Junior debt piece. They expect that their established platform and connections will continue to provide them first access to the strong deals in the market. There are a handful of existing funds with similar strategies.
Development/Redevelopment
The Fund currently allows for up to a third of the capital to be invested in development/redevelopment. In accordance with the prior funds, they expect that approximately 15% may be in development, the rest refurbishing or redevelopments. Regarding the development portion, further restrictions apply: minimum 50% pre-leased for commercial real estate, planning/zoning in place, and maximum of 20% in residential development where the cash flow is driven by a sale.
Hedging impact of $ to £
There is always risk when investing in a different currency; however, PSERS has established a program to include private markets international investments in a hedging program. Pramerica provided an estimation that the impact of currency on the returns of PRECap Fund I (5 years into its fund life) was approximately 54 basis points. Additionally, PRECapVI hedges all Euro denominated loans into GBP.

PSERS History & Performance:

PSERS has not committed to the PRECap platform in the past. However, PSERS has committed:

$100M in 2006 to PRISA, a U.S Core open-end fund
$100M in 2011 to Senior Housing Partnership Fund IV, L.P.
$100M in 2015 to Senior Housing Partnership Fund V, L.P.

The above investments are all on the Pramerica (Prudential) Real Estate Investors Americas platform.

The following table summarizes PRECap's historical performance as of September 30, 2015. Funds I and IV reflect the strategy proposed for PRECap Fund VI. The separate accounts (considered PRECap accounts II, III, V) had differing mandates, including different target jurisdictions (such as Spain, Ireland, Netherlands) or a lower return target (with corresponding lower maximum LTV limits). PRECap will not be investing additional funds with those mandates, but will solely focus on Fund VI.

Fund/Strategy ($M*)	Vintage	Fund Size	Contributions	Distributions	NAV	Investments made/realized	Net IRR	MOIC
PRECap I	2011	728.1	649.2	700.7	127.8	17/12	11.7%	1.28x
PRECap II (Separate Account)	2012	71.5	71.5	62.0	28.1	2/1	11.4%	1.26x
PRECap III (Separate Account)	2012	333.7	182.9	107.2	100.4	5/2	8.5%	1.14x
PRECap IV	2013	1,033.9	653.8	30.0	749.9	19/4	15.1%	1.19x
PRECap V (Separate Account)	2013	291.0	162.1	8.1	164.7	4/0	8.6%	1.07x
Sub-Total		**$2,458.2**	**$1,719.4**	**$908.0**	**$1,170.8**	**47/19**		
Sub-Total Fund strategies		**$1,762.0**	**$1,303.0**	**$730.7**	**$877.7**	**36/16**		

*All funds are Great Britain Pound (GBP, or £) denominated. They have been converted in the chart to Dollars based on a conversion of GBP = 1.48

Portfolio Fit:

A commitment to this fund will be allocated to the Value-Added bucket of PSERS' Real Estate portfolio. As of September 30, 2015, the Real Estate portfolio (based on total exposure) was approximately invested 61.8% Opportunistic, 28.2% Value-Added, and 10% Core. The PRECap VI strategy will increase PSERS' value-added exposure, which is currently below a long term target of 50%.

The table below summarizes PSERS' projected exposure, using values as of 9/30/15, inclusive of a recommended £75 million commitment to PRECap VI:

Investment Type	Market Value	%	Unfunded (1)	%	Total Exposure (1)	%
Opportunistic	$3,319.2	61.8%	$1,186.2	45.0%	$4,505.4	55.6%
Value-Add	$1,517.4	28.2%	$1,287.5	45.1%	$2,805.0	34.6%
Core	$534.9	10.0%	$262.0	9.9%	$796.9	9.8%
Total	**$5,371.5**	**100.0%**	**$2,735.8**	**100.0%**	**$8,107.3**	**100.0%**

(1) Includes post Q3'2015 pending/closed commitments, and the three real estate deals proposed to the Board on March 10, 2016 (LMREC IV, Pramerica VI, and BSREP II).

Liquidity & Leverage Profile:

The Fund is expected to be invested within two-years of its final closing, plus one year with the Advisory Board approval (the "Investment Period"). The Fund will make quarterly distributions, and expect to generate current income returns of 6%.

PRECap VI will not use additional leverage, except:

1. A Subscription Line of Credit for cash management relating to the timing of investment funding. This line will not exceed 25% of total commitments, and will reduce to a maximum of 10% within one year of the expiry of the Investment Period.
2. Senior Loan Term financing may be arranged by the Fund for the Senior debt portion, if this is more favorable than direct Bank debt. This will be limited to 10% of total commitments.

Finance Committee Disclosure:

Relationship with Courtland:	No
Placement Agent:	No
PA Political Contributions:	No political contributions in PA by anyone in PREI for last 24 months
PA Presence:	N/A, UK, Germany, other Western Europe
Conflicts:	None reported
First Time Fund With PSERS:	Yes
PSERS Internal Alpha Committee Approval:	February 10, 2016

Oversight Responsibility:

Investment Office:	Charles J. Spiller Laurann H. Stepp	Deputy CIO, Non-Traditional Senior Portfolio Manager
External Consultant:	Courtland Partners	

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February 11, 2016

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

Re: Pramerica Real Estate Capital VI, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Pramerica Real Estate Capital VI, L.P. ("PRECap VI" or the "Fund"). PRECap VI will seek to build up a diverse junior debt and preferred capital portfolio secured against commercial real estate assets located in major Western European markets, with a specific focus on the United Kingdom and Germany (minimum 70% of the Fund). The Fund's position in an investment capital stack will typically be in the 60-80% LTV range, although a single deal maximum LTV can be up to 85%.

The Manager attempts to differentiate itself from its competitors through primary origination of investment opportunities and it is intended that investments will be specifically sourced and structured from the Manager's extensive contacts in the borrower, banking and real estate advisory communities, in addition to the ability to acquire single targeted loans. As a result, the Fund will not acquire secondary loan portfolios or CMBS.

The Fund will target a portfolio IRR of 14%, gross of management and incentive fees, tax and other costs and expenses. The net target IRR is 12% and includes a target income component of 6% net per annum. Since November 2010, the PRECap team has executed investments, totaling $2.5 billion of debt secured on over $12 billion of European real estate. The PRECap team now has a clear market brand as a non-bank lender and many existing borrower relationships providing considerable leverage and a "head-start" to supplying a continued pipeline of debt investments for the Fund.

As one of the largest non-bank real estate lending teams in the European market, the PRECap team originally comprised a group of four members that joined the Manager in 2009. Since then, the Manager has invested in expanding the team to ensure effective investment and management of the $2.6bn of investor capital committed to the platform to date. The team now comprises eighteen dedicated members, with support drawn from the Manager's broader transactions, asset management, operations and research teams on an investment by investment basis. The team comprises qualified lawyers, surveyors and accountants as well as experienced investment bankers providing a combined skill set essential to executing the strategy. Two additional analyst hires are expected to join the PRECap Team in the near-term to support the growing platform.

PRECap does not try to compete with banks in the senior debt space, nor does it participate, syndicate or sell down its investments. In this way, the Manager controls the due diligence, underwriting and legal documentation for each investment, rather than accept an investment which has been structured by a third party and sold to the Fund.

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 PRECap management team members, and review of all relevant materials provided by PRECap.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of PRECap'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 Blackstone'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.