COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Bell Institutional Fund VI, LP

Real Estate Commitment

Laurann H. Stepp
Senior Portfolio Manager

August 30, 2016

Recommendation:

Staff, together with Courtland Partners, Ltd, recommends the Board commit up to $75 million to Bell Institutional Fund VI, L.P. ("Fund" or "Bell VI"). Bell Partners ("Bell" or the "Firm") seeks to acquire well-located, institutional quality multi-family assets in supply-constrained domestic submarkets in order to generate strong returns using value added strategies.

Firm Overview:

Bell Partners is a privately owned firm founded in 1976 by Stephen Bell, and currently owned with his sons, Jon and Durant, both of whom are fully engaged in the firm business. Since 2002, Bell has completed approximately $8.5 billion in total apartment transaction volume, comprised of $3.1 billion in acquisitions and $5.4 billion in dispositions. That equates to 274 properties (211 realized, 63 unrealized as of 6/30/2016) in 143 transactions requiring a total equity investment of $2.1 billion. The Fund platform was created in 2006, and five funds have been invested on behalf of institutional and high net worth investors. With $3.2 billion in assets under management as of June 30, 2016, Bell currently sponsors four active funds, multiple single-asset and portfolio high net worth separate account investments, and a property management portfolio.

With the exception of two legacy commercial assets, Bell now focuses all efforts on the multifamily real estate sector, currently overseeing approximately 60,000 total apartment units in 219 communities. As a vertically integrated platform, Bell performs all critical functions in-house, including: acquisition, asset management, renovation/maintenance, and ongoing property management of the apartment communities. Bell is one of the largest apartment operators and renovators in the nation, with approximately 23,000 units under renovation as of April 2016.

Property Type	Responsibility	Number of Properties	AUM	Total Units
Multi-family	Discretionary equity investments	63	$3.2B gross, $1.1B net	19,092
Multi-family	Property Management	156	No ownership	42,217

Market Opportunity:

Apartment fundamentals still remain strong, although the rate of acceleration is moderating. Axiometrics, a well-known real estate research firm, projects U.S. rent growth to average approximately 3.6% from 2015 to 2020, roughly 1.5% higher than the 16-year long term average. Physical occupancy nationally is expected to remain between 94.5% and 95.5%.

In the Bell target markets, rental housing continues to benefit from stronger than average demand. This demand is driven by: (i) continued historically low homeownership rates, (ii) increasing household formation due to the demographic trends, (iii) employment growth and (iv) population growth. Millennials currently outnumber Baby Boomers, are more ethnically diverse and have a higher propensity to rent. The 25-39 year old age group is renting at a historically high rate, and is expected to grow at a faster rate than the broader population, supporting continued apartment demand over the next decade.

Supply is expected to peak in 2017 at 400,000 new units (2% of existing inventory) and then decline through 2020 to 1-2% of existing stock, which is consistent with historical averages. Thus far, supply has been quickly absorbed due to the built-up demand, but activity must be closely monitored during submarket selection with a focus on supply constrained areas.

According to NCREIF data, the apartment sector has outperformed other real estate categories since inception (1978) and for the 1991-2015 time period with returns of 10.6% and 9.6%, respectively.

Portfolio Fit:

A commitment to the Fund will be allocated to the Real Estate portion of PSERS' Real Assets portfolio. As of March 31, 2016, and adjusted to include commitments from the March, May, June, and the current Board meeting, the Real Estate portfolio is 49.5% Opportunistic, 32.8% Value-Added, and 17.7% Core. Investment in this Fund will increase PSERS' Value-Add real estate exposure, which is currently below a long term target of 50%.

The table below summarizes PSERS' projected exposure inclusive of a recommended $75 million commitment to the Fund:

Investment Type ($M)	Market Value	%	Unfunded[1]	%	Total Exposure	%
Opportunistic	3,242.6	57.7%	1,037.5	34.4%	**4,280.1**	**49.5%**
Value-Add	1,406.2	25.0%	1,429.6	47.3%	**2,835.8**	**32.8%**
Core	974.9	17.3%	550.8	18.3%	**1,525.7**	**17.7%**
Total	**$ 5,623.7**	**100.0%**	**$ 3,017.9**	**100.0%**	**$ 8,641.6**	**100.0%**

(1) Includes post Q1'2016 pending/closed commitments, and the three deals to be presented to the Board on October 7, 2016 (Cabot IVF V, Exeter IVF IV and Bell Institutional Fund VI)

Investment Strategy:

Bell will continue their program of investing to create a portfolio of value-add multifamily properties across the United States, targeting a net IRR of 11-13% using 65% leverage. Bell will execute their value-add strategy through: improving management operations, completing renovations, acquiring assets in transitioning neighborhoods and finding opportunities with pricing dislocations. They will acquire well-located, higher quality multifamily assets in supply-constrained submarkets with access to major infrastructure and employment bases. These properties will tend to contain between 150-450 individual units.

Currently Bell investments span 13 states, and they will continue to target the following markets for Fund VI: Boston, DC, Raleigh/Durham, Nashville, Atlanta, Charlotte, Orlando/Tampa, Ft. Lauderdale/Miami, Dallas, Austin, Denver, Northern and Southern California. The California market is an additional market for Fund VI, and will be limited to a maximum of 20%.

Theme	Description
Renovation	Renovate and reposition older, yet well-located, apartment communities using dedicated, seasoned, regionally focused teams. Follow well-developed programs to upgrade interiors and amenity areas. Use proprietary tools and processes to track inventory, minimize vacancy and maximize rent premiums.
Enhanced Operations	Use local presence and economies of scale to improve property operations. Institute revenue management software systems to monitor rent, occupancy and market position to establish pricing for all leases. All information shared with Business Intelligence, Sales, and Marketing across the platform to enhance performance.
Transitioning Neighborhoods	Acquire newer, high quality assets in emerging neighborhoods. Opportunities are identified using market research to identify positive investment trends and the experience from locally-based associates that fully understand the micro-market conditions of an improving area.
Pricing Dislocations	Acquire investments at a favorable basis due to unique deal characteristics, such as issues with: financing, ownership structure, environmental items, timing, and certainty of closing.

Investment Structure:

Institutional Fund investors will invest in Bell Institutional Fund VI, L.P., a Delaware Limited Partnership, which combined with parallel entities for the high net worth investors and senior management, will form Bell Apartment Fund VI, LLC.

The Fund's sponsor, Bell Partners Inc., is wholly owned by Steve, Jon and Durant Bell, and will act as General Partner of the Fund through a Delaware Limited Liability Company, Bell Fund VI Manager, LLC.

Investment Instruments:

Investments are expected to be interests in real estate properties.

Investment Team:

The fund will be managed by Lili Dunn, President, with the support of Jon Bell, CEO, and sixteen investment professionals. The Firm is a fully integrated manager that manages and oversees assets internally. Bell Partners' real estate offices are headquartered in Greensboro, North Carolina and, including their five additional regional offices located in target markets, are staffed with approximately 1,600 employees. Excluding the three owners, currently 12 senior executives participate in the GP profit share, seven of whom are women/minorities.

Investment Highlights:

Experience of the Team
The Bell senior management team has an average of over 20 years of experience, with investment experience throughout all phases of the real estate cycle. The majority of the team has worked together over 10 years. Bell combines their centralized leadership with local expertise, through its six regionally based teams, to evaluate opportunities and ensure focused execution at the property level as well as the asset management portfolio level.
Sourcing and Harvesting
Greater than 75% of the prior transactions completed by Bell are a result of strong relationships with brokers, sellers, or both parties. Bell generally avoids broad auction processes or heavily bid assets. At least quarterly, the portfolio is reviewed to determine potential sale candidates in order to maximize total returns. The Firm's national perspective and experience are applied to consider the optimal time to exit. The evaluation includes current versus projected returns and property performance, buyer demand/capital flows, and forecasted industry fundamentals. Since 2002, Bell has sold approximately 64%, or $5.4B gross, of their $8.5B in total assets, with a net realized return of 17.5% and MOIC of 2.2x.
Vertically Integrated Platform
Within their vertically integrated platform, Bell has dedicated groups to focus on: property management, construction management, accounting, capital markets and finance, market research, business intelligence, information technology, revenue management, property taxes, risk management, human resources and training, marketing and public relations, purchasing and energy management. A customized business plan for each asset is developed and executed by the regional and on-site teams in order to maximize performance. Senior management is able to leverage and analyze the information to assess results and make real-time adjustments.

Investment / Risk Considerations:

Abundant Capital Driving High Pricing
Current pricing for assets is aggressive and does not leave room for miscalculation. On the purchase side, Bell is extremely cautious and has frequently found themselves on the losing end of higher bids. With a three-year investment period, and substantial personal equity at stake, they can choose to be more patient capital. As discussed above, candidates for potential sale are reviewed quarterly at a minimum. In the current environment, Bell has taken advantage of the aggressive capital and, since 2013, has sold 11 fund assets prior to expected hold periods without diluting the equity multiple of the return to investors. Acquisitions will be more difficult to locate, but much of the capital in the markets does not focus on properties that need the value-add attention that Bell provides.
Development and Redevelopment
Up to 15% of the fund commitments are permitted to be in development deals; however, the fund will not purchase a site until it is fully entitled and ready to break ground. Increasing costs of materials and labor, as well as labor

availability, can impact development and redevelopment projects. However, with Bell's vertically integrated platform and economies of scale, they are able to take advantage of expense control strategies and couple that with their revenue management software to determine cost effectiveness of the projects and make adjustments accordingly.

PSERS History & Performance:

PSERS previously committed to two Bell funds, and one co-investment. The table below summarizes PSERS' investments and Bell performance as of June 30, 2016:

Fund ($,M)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MOIC
Bell Fund IV	RE	2011	75.0	73.0	33.5	89.9	18.8%	1.7x
Bell Fund V	RE	2013	75.0	48.6	3.8	54.7	15.5%	1.2x
Woodstock JV	Co-invest	2014	10.0	9.7	1.2	12.8	30.0%	1.4x
Total			**$160.0**	**$131.4**	**$38.7**	**$157.3**	**18.6%**	**1.5x**

Since 2002, across their entire platform, Bell has achieved a net realized levered IRR of 17.5% and a net 2.2x MOIC on approximately $5.4 billion of gross asset sales.

Finance Committee Disclosure:

Relationship with Courtland Partners, Ltd:	None Disclosed
Introduction Source:	Fund Sponsor
Placement Agent:	Yes, CBRE Capital Advisors, Inc. and Atlantic Partners, Ltd. – Not used for PSERS
PA Political Contributions:	None Disclosed
PA Presence:	No
Potential Conflicts:	We are not aware of Bell having any investment conflicts
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	August 30, 2016

Oversight Responsibility:

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

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

August 24, 2016

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

Re: Bell Institutional Fund VI, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Bell Institutional Fund VI, L.P. (the "Fund"). The Fund seeks to acquire well-located, institutional quality multifamily assets in supply-constrained submarkets across the United States in order to generate attractive current income and 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 United States and will seek to create a diverse portfolio with a broad geographic footprint. More specifically, the following 13 markets have been identified as "Target Markets": Boston, MA; Washington, DC; Raleigh/Durham, NC; Charlotte, NC; Atlanta, GA; Orlando/Tampa, FL; Miami/Ft. Lauderdale, FL; Nashville, TN; Austin, TX; Dallas, TX; Denver, CO; Northern CA; and Southern CA. 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. Fund investment in the two California markets will be limited to 20% of aggregate Fund equity commitments.

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 60,000 units and input from regionally based teams, Bell seeks to avoid over-heated 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.

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 factors, Courtland recommends that PSERS commit up to $75 million to the Fund. Courtland makes this recommendation considering Bell'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.