

**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

DATE: January 3, 2018
SUBJECT: PSERS Yes Holdings LP
TO: Members of the Investment Committee
FROM: William P. Stalter, IV *WPS#*
Senior Portfolio Manager – Real Estate and Infrastructure

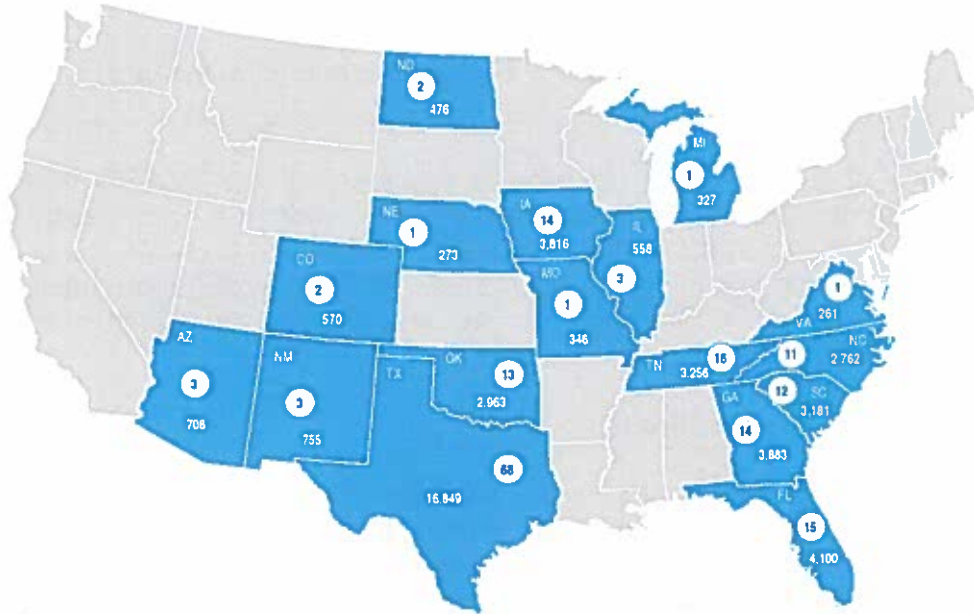
The objective of this memo is to provide members of the PSERS Investment Committee with an update of an investment PSERS holds in a company that owns and operates manufactured housing communities within the U.S. As the company may have growth opportunities in the future, PSERS would then have, at its discretion, the option to maintain its pro rata interest in the investment by contributing additional capital to the company.

OVERVIEW OF YES COMMUNITIES

YES Communities LP, O.P. (“YES” or the “Company”) is one of the nation’s largest privately-held owners and operators of manufactured home communities, with a portfolio of 180 communities in 17 states, containing over 45,000 residential home sites. YES achieved home site occupancy of 86.5%¹ as of October 31, 2017. YES pursues a holistic operating strategy designed to meet the affordable housing needs of the broadest number of qualified residents, including (i) leasing home sites to existing owners of manufactured homes, (ii) leasing manufactured homes and the underlying home sites to home rental residents and (iii) selling homes with attractive financing available to existing and new residents within its communities. The Company owns over 11,200 manufactured homes within its communities, 97.1% of which were occupied as of October 31, 2017. YES is consistently adding to its home inventory in order to meet demand, with over 2,900 new homes acquired since 2015, including over 900 homes acquired in 2017 (through October 31). In addition to home rentals, YES also has a robust homes sales program, through which it sold over 1,800 inventory homes in 2016 and has sold over 1,500 homes to date in 2017 (through October 31). A critical element of YES’s home sales strategy is its ability to acquire home loans that are made to prospective homebuyers to facilitate their purchase of homes. YES maintains a home loan portfolio with a principal balance outstanding of \$185 million as of October 31, 2017, with all of the loans secured by homes within its communities. A substantial portion of home sales are made to existing home rental residents, many of whom are given the opportunity to purchase their homes through YES’s successful rental conversion program. As of October 31, 2017, approximately 72% of YES’s residents were homeowners and 28% were home renters.

¹ Excludes recently-acquired Sandhill Shores and Pleasure Cove communities.

YES's portfolio is geographically diversified, with concentrations in major markets in the southeastern and southwestern United States, as well as in select midwestern states, facilitating economies of scale in property management and operations. The top five states by manufactured home sites as a percentage of total as of October 31, 2017 are Texas (37.4%), Florida (9.1%), Georgia (8.6%), Iowa (8.5%) and Tennessee (7.2%). YES's communities are primarily located in markets that benefit from a limited supply of competing manufactured housing communities and comparatively more expensive alternative housing options. Below is a geographic overview of YES as of October 31, 2017.



Senior executives of Stockbridge have been associated with members of YES's management team for over 20 years. The YES team is recognized by its peers as one of the finest in the manufactured home community sector, having won the "Community Operator of the Year" award from the Manufactured Housing Institute, the industry's primary trade group, for eight consecutive years since 2009.

BUSINESS MODEL

Through its innovative business model, YES is able to offer multiple housing solutions to prospective residents and thus capitalize on multiple sources for total revenue, occupancy and NOI growth. From 2014 to 2016, YES achieved same-community compound annual NOI growth of over 12%.

Home Site Rental Business

YES's traditional home site rental business provides the Company with a reliable and stable source of cash flow, accounting for approximately 60% of total revenues in 2016. All residents in YES's communities, whether homeowners or home renters, pay home site rent. It is a steady, predictable generator of revenue and NOI, which YES believes will continue to grow due to YES's resident-focused operating philosophy and the operational excellence that characterizes the Company's communities. As of October 31, 2017, YES's average home site rental rate was \$415 per month, an increase of 4.0% over the average home site rental rate as of October 31, 2016.

Rental Home Business

In the markets that it serves, YES has experienced consistent demand for rental homes from prospective residents who do not wish to or cannot afford to purchase a home. YES's rental home business accounted for approximately 17% of total revenues in 2016 and YES's manufactured home inventory of over 11,200 homes was 97.1% occupied as of October 31, 2016. The revenues attributed to YES's rental home business do not include a rental resident's home site rent.

In addition to maintaining high rental home occupancy, YES's senior management team has a demonstrated track record of increasing home rental rates and managing YES's rental home business efficiently, with predictable capital expenditures. As part of YES's rental home business, the Company introduced a "Gold Key Service" program, which provides residents with regular inspections of their rental homes by YES's qualified personnel. This service allows YES to proactively identify and address inventory or resident issues and to provide timely preventative, routine and emergency maintenance services. As of October 31, 2017, YES's average home rental rate was approximately \$474 per month, an increase of 3.8% over the average home rental rate as of October 31, 2016.

Home Sales and Home Loan Acquisition Programs

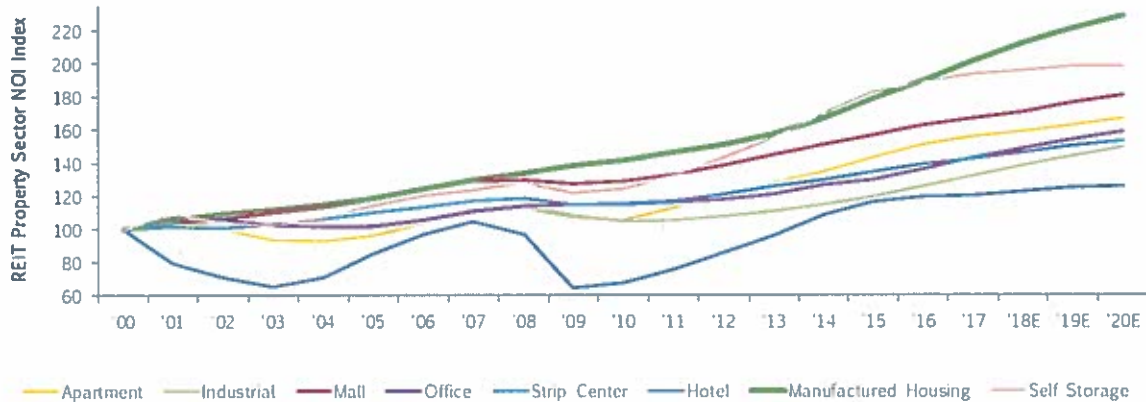
YES's strategy allows the Company to attract prospective new homeowners and give long-term renters the opportunity to become homeowners through YES's home sales and home loan acquisition programs. Through the home sales program, YES offers prospective homeowners the convenience of purchasing a new or pre-owned home directly from the Company, through on-site home sales professionals. YES's home loan acquisition program, which is available exclusively within YES's communities, gives prospective homeowners the ability to finance their purchases on attractive terms. Independent third-party lenders selected by YES use the Company's specified terms and underwriting criteria to originate these loans. YES then purchases the loans at par from the originating lender and monitors servicing and compliance. In 2016, YES sold over 1,800 manufactured homes to new and existing residents and increased its loan portfolio by over 850 loans, to a total principal balance of \$185 million as of October 31, 2017.

GROWTH OPPORTUNITIES

YES is currently pursuing both internal and external growth opportunities and is reviewing a pipeline of communities totaling over 9,000 sites. YES intends to continue its disciplined strategy of targeting community acquisitions that offer a value-add component, where YES can pursue its comprehensive approach to increasing total revenues, occupancy and NOI. Stockbridge and YES's management team believe that YES can utilize its strong market position and favorable brand recognition to acquire such communities and efficiently integrate them into the YES platform. Increasing YES's presence and market share will also enable the Company to (i) realize synergies through operating efficiencies and further economies of scale, (ii) provide prospective residents with a broader range of affordable, high-quality housing options and amenity packages, (iii) introduce YES's successful operating strategy into new markets and (iv) increase YES's visibility and positive brand recognition. YES's strong balance sheet and access to capital give the Company considerable flexibility in structuring and consummating acquisitions. YES's structure

also allows it to offer potential sellers of communities the option to complete transactions in exchange for equity in YES on a tax-efficient basis.

Manufactured home community cash flows have been shown to be highly resilient, even during economic downturns, as evidenced by the chart below produced by Green Street Advisors (“Green Street”). Per Green Street, the manufactured home sector is the only major real estate asset class that has not experienced a year-over-year decline in net operating income in *any year* since 2000. Green Street views manufactured home communities as offering the most favorable return profile among all property sectors it covers.



Source: Green Street Advisors.

INVESTMENT COMMITTEE DISCLOSURE

Relationship with Courtland Partners, Ltd.:	None disclosed, Stockbridge works with Courtland as directed by PSERS.
Placement Agent:	None
PA Political Contributions:	None Disclosed.
PA Presence:	None
Conflicts:	None Disclosed.
History with PSERS:	Yes, since 2000.
PSERS Allocation Implementation Committee Approval:	Approved on January 3, 2018.

Given the risks/return attributes of this investment, staff believes it is prudent for PSERS to maintain its investment in PSERS Yes Holdings LP and that the Investment Office have the discretion to invest additional sums within the target ranges approved by the Board, as it pertains to Section VI: Risk Management and Controls of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time.

Please do not hesitate to contact me at (717) 720-4727 should you have any questions regarding this matter.