COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Exeter Industrial Core Fund III, L.P.

Core Real Estate Commitment

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February 5, 2019

Recommendation:

Staff, together with Hamilton Lane, recommends the Board commit up to $100 million to Exeter Industrial Core Fund III, L.P. ("Fund"). The purpose of the Fund is to acquire and operate cash-flowing, modern industrial properties across the top 30 markets of the U.S. Exeter Property Group ("Exeter," "GP," or the "Firm") is a highly experienced sponsor of industrial real estate funds and is headquartered in suburban Philadelphia.

The Fund's objective is to acquire, hold, operate, develop and dispose of interests in industrial real estate properties, which hold high occupancy, are long term leased at acquisition and are located in the Target Markets (as defined below). The investment properties will primarily consist of modern, Class A quality, bulk industrial properties, including big box warehouses and last mile warehouses, occupied for inventory storage, sorting and packaging of finished goods, distribution and logistics services, assembly, office and/or showroom use. The Fund may also invest in forward-funded build-to-suit transactions, which are 100% pre-leased ground-up development projects.

Firm Overview:

Founded in 2006, Exeter Property Group is a vertically integrated real estate operator that is differentiated by its in-house execution of investment sourcing, development, leasing/asset management, and property management. The Firm employs approximately 150 real estate professionals in the U.S., Mexico, and Europe who are located across 23 offices. Exeter utilizes this highly local presence to garner keen market intelligence and cultivate key tenant and leasing relationships.

Exeter manages three types of industrial accounts: core funds, value add funds, and managed accounts. Current gross real estate assets under management are estimated to be $11.1 billion. The Fund's General Partner, Exeter Industrial Core Fund Management III, LLC, is wholly controlled by the Firm's Principals.

Market Opportunity:

The industrial property sector is characterized by a stable long-term outlook due to its sustainable macro demand drivers, namely the global growth in population, trade, and e-commerce adoption, which in turn drive consumption and thus greater logistics and warehousing requirements. In the U.S., this ongoing strong tenant demand has outpaced new supply for the last 9 years, leading to high, 95+% market occupancy going into 2019. Consequently, rental rates have been growing by more than 5% annually since 2014, which supports income growth in the numerous properties that are leased at substantially below-market rents. Not only does such NOI growth enhance the cash yields during the hold period, it is furthermore expected to drive growth in capital values. Capital values are also expected to grow because strong global investor demand for diversified, large scale, income-producing industrial portfolios continues to drive robust exits.

The Investments will be located in the following Target Markets.

Premium Markets: New York City metropolitan area (including northern New Jersey and Lehigh Valley, Pennsylvania); Baltimore-Washington corridor; southern Florida; southern California (Los Angeles and Inland Empire); northern California ("East Bay" and "Central Valley"); and Seattle.

Prime Markets: Central Pennsylvania; southern New Jersey; Dallas: Houston: Austin/San Antonio; Chicago; Indianapolis; Memphis; Columbus; Louisville; Cincinnati; St. Louis; Atlanta; Charlotte; Greenville; Jacksonville; Tampa/Orlando; Denver; Reno; Salt Lake City; Phoenix; San Diego; Portland; and Boston.

Portfolio Fit:

A commitment to the Fund will be allocated to the Real Estate portion of PSERS' Real Assets portfolio. Using the net market value from June 30, 2018, and adjusting the unfunded to include commitments from the prior and current Board meetings, the Real Estate portfolio would be 22.0% Core, 41.3% Opportunistic, and 36.7% Value-Added.

The table below summarizes PSERS' projected exposure inclusive of a recommended $100 million commitment to the Fund, as of June 30, 2018:

Investment Type ($M)	Market Value[1]	%	Unfunded	%	Total Exposure[1]	%	Long Term Target (%)
Core	1,594.6	28.5%	324.9	10.4%	1,919.5	22.0%	20%
Opportunistic	2,407.4	43.1%	1,198.6	38.2%	3,606.0	41.3%	30%
Value-Add	1,589.9	28.4%	1,612.7	51.4%	3,202.6	36.7%	50%
Total	$ 5,591.8	100%	$ 3,136.2	100%	$ 8,728.0	100%	100%

[1] Includes Gross PTRES Exposure

Investment Strategy:

The purpose of the Fund is to create, and hold for the long-term, a diversified, core portfolio of well-leased, Class A industrial properties in primary population centers and high-growth e-commerce fulfillment hubs across the United States. The Fund will be invested based on the following investment themes:

Theme	Description
Stable cash flow	Generate stable income by acquiring well-occupied, modern distribution assets with at least 4 years remaining lease term. This acquisition profile provides steady cash flows and requires minimal capital for new tenant improvements, leasing commissions and lost operating expenses. Such stability is expected to be augmented through the aggregation of a large portfolio that will provide for staggered lease expirations and the diversity of a large base of regional, national, international tenants which will reduce the impact of any one lease on the total income stream.
Portfolio construction: One-off acquisitions, Aggregated exits	Exeter will assemble the Fund portfolio by executing multiple one-off acquisitions. This single-asset/small package acquisition approach provides for more attractive pricing by avoiding the greater competition and pricing premium for large stabilized portfolios. Conversely, the Fund is expected to exit as a large portfolio.
Product type: Modern, bulk industrial	Exeter anticipates that approximately 75% of the portfolio will be comprised of big box warehouses and 25% last-mile distribution facilities. This mix will result in a portfolio that is logistics-oriented and therefore efficient to operate and maintain, while also providing for diversity in market types (regional consumption, local consumption, air cargo, and intermodal distribution markets) with an associated diversity in tenants.
Top 30 markets	Exeter has selected the top 30 U.S. distribution markets in which to pursue investments for the Fund. Warehouse demand is driven by consumption and population growth, and these 30 markets account for the great majority of both these drivers in the U.S.

Investment Structure:

Delaware Limited Partnership, with tax-efficient subsidiaries including REITs which will hold the real estate investments.

Investment Instruments:

Investments are expected to be wholly-owned real estate industrial properties.

Investment Team:

The Fund's investment and asset management strategy will be executed by its Portfolio Managers, James Hoeland and Tom Meehan, with leadership oversight by Exeter's Managing Principals, Ward Fitzgerald and Tim Weber. While executive and portfolio management oversight are centralized at headquarters, the team is supported by investment and asset management Principals in the following offices: Conshohocken (headquarters), Washington DC, Chicago, Indianapolis, Columbus, Memphis, Atlanta, Charlotte, Orlando, Dallas, Houston, Phoenix, Los Angeles, and San Francisco.

Investment Highlights:

- Experienced, cohesive and aligned team
- Track record/strong cash flow
- Operator execution

Investment / Risk Considerations:

- Competition from other capital sources
- Growth of firm
- Supply/development risk

PSERS History & Performance:

Since 2011, PSERS has committed $250 million to three Exeter U.S. value funds and $100 million to one Exeter U.S. core fund. The following table summarizes PSERS' historical, inception-to-date performance with Exeter as of June 30, 2018:

Fund ($M)	Vintage	Fund Size	Commitment	Contributions	Distributions	NAV	Net IRR	MoC
Exeter Core Industrial Club Fund II, L.P.	2016	575.8	100.0	52.7	5.1	56.5	13.3	1.2
Exeter Industrial Value Fund II, L.P.	2011	615.0	75.0	73.5	145.5	4.7	30.6	2.0
Exeter Industrial Value Fund III, L.P.	2014	832.8	75.0	72.7	97.7	36.9	31.1	1.9
Exeter Industrial Value Fund IV, L.P.	2017	1,275.0	100.0	30.0	-	32.2	13.9	1.1
Total			$ 350.0	$ 229.0	$ 248.4	$ 130.3	29.2%	1.7x

Investment Committee Disclosure:

Relationship with Hamilton Lane:	None
Introduction Source:	Fund Sponsor
Placement Agent:	None
PA Political Contributions:	None
PA Presence:	Since 2011, 23 investments in PA totaling 11.3 million square feet and $789 million in market value. Some have been sold; 9 are currently held and total 6.3 million SF and $366 million in market value.

Potential Conflicts:	None
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	February 5, 2019

Oversight Responsibility:

Investment Office:	Charles J. Spiller	Deputy CIO, Non-Traditional Investments
	Melanie A. Cubias	Senior Investment Professional
	Melissa A. Quackenbush	Senior Portfolio Manager
External Consultant:	Hamilton Lane	

January 22, 2019

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

Re: Exeter Industrial Core Fund III, L.P.

Dear Trustees:

Exeter Property Group, LLC ("Exeter") was founded in 2006 by Ward Fitzgerald and Tim Weber, who continue to lead the firm. In January 2019, Exeter completed a sale of a passive, indirect interest in its management company to facilitate the succession of Mr. Weber and broaden the ownership of the management company. The firm's U.S. core program is led by Portfolio Managers James Hoeland and Tom Meehan. Exeter maintains 23 regional offices throughout North America and Europe, including 15 regional offices in the U.S., consisting of professionals focused on acquisitions, development, leasing and asset management and property management. In aggregate, the General Partner consists of 13 senior investment professionals and 66 other employees; the senior investment team is comprised of a CEO, a CFO, two U.S. Core Portfolio Managers, two Principals / Portfolio Managers, one Assistant Portfolio Managers and six Investment Officers / Asset Managers ("Regional Heads"). The investment team is supported by Exeter Property Group Advisors, the organization's in-house asset and property management team, which provide property management, leasing and construction management services; the General Partner leverages this team to select the best-designed assets, leading to high tenant retention, high operating efficiency and low rollover costs. Exeter is targeting $750 million in commitments for its third core industrial real estate fund, Exeter Industrial Core Fund III, L.P. (the "Fund"). Exeter expects to hold a final close in April or May 2019. The General Partner will commit at least $6 million to invest in the Fund.

Consistent with prior funds, the General Partner seeks to create a diversified portfolio of well-leased, modern, Class A industrial properties; specifically, Exeter seeks to invest in modern distribution properties with high occupancy, long lease terms, low capex requirements and creditworthy tenants. The Fund is expected to be constructed of investments in 30 primary population centers and other high-growth distribution/logistics hubs throughout the U.S., while opportunistically concentrated in particular markets based on tenant demand. The General Partner's operational expertise and understanding of tenant demand improve market and asset selection; Exeter leverages its extensive network of tenant relationships to better understand the property features they are looking for, as well as the markets they expect to target in the future, improving its ability to identify growth markets and stay abreast of market trends. Thoughtful portfolio construction and moderate use of leverage lead to an enhanced return profile at exit as the General Partner's presence in key distribution markets throughout the U.S. allows it to ensure appropriate diversification across tenant-type, industry and industrial market demand drivers. Additionally, Exeter's creative financing approach allows it to source long-term fixed-rate debt at attractive rates, further enhancing its cash return profile. The Fund will target 55 to 60 equity investments in the range of $5 million to $75 million, targeting properties valued between $30 million and $150 million. The General Partner has consistently generated attractive net performance, with Funds I and II generating returns at or above top-quartile benchmarks on a net IRR, TVPI and DPI basis.

Exeter Industrial Core Fund III's investment thesis can be summarized as follows:

- Dedicated senior investment team supported by regional experts and broader Exeter platform

- Bottom-up approach to aggregating a diversified portfolio of large, modern industrial assets with stable in-place cash flows
- Consistent top-quartile returns driven by attractive cash-on-cash profile, with moderate appreciation at exit

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed October 30, 2018; the on-site due diligence was conducted December 17, 2018; the Fund was approved by Hamilton Lane's Investment Committee on January 14, 2019 and the recommendation to PSERS was issued January 22, 2019

- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured

- Detailed operational due diligence, including interviews with Exeter's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR, and accounting functions

- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment

- The strategy proposed for the Fund is appropriate for the Private Real Estate component of the portfolio

The individuals at Hamilton Lane who were involved in the due diligence process for the Fund are:

Radhika Cobb – Vice President, Bala Cynwyd Office
Tim Delaney – Analyst, Bala Cynwyd Office
Samuel Sugarman – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to $100 million in Exeter Industrial Core Fund III, L.P. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Chief Client Officer

Corina English,
Principal