PSERS

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Bell Value-Add Fund VIII, L.P.

Private Real Estate Commitment

Allocation Implementation Committee
Approval Date: November 21, 2022

Executive Summary

Melissa A. Quackenbush, Senior Portfolio Manager, and Hamilton Lane Advisors, L.L.C. ("Hamilton Lane"), recommend that the Board commit an amount not to exceed $150 million plus reasonable normal investment expenses to Bell Value-Add Fund VIII, L.P. (the "Fund" or "Fund VIII") and/or related investment vehicles.

Fund Name	Bell Value-Add Fund VIII, L.P.
Firm Name	Bell Partners, Inc. ("Bell" or "Bell Partners")
Target Fund Size / Hard Cap	$1.0 billion / $1.3 billion
Recommended Commitment Amount	$150 million
Existing Relationship	Yes
Asset Class / Sub Asset Class	Private Real Estate / Value-Add
Investment Office Professionals Due Diligence Team ("IOP")	Melissa A. Quackenbush, Senior Portfolio Manager Jarrett B. Richards, Senior Investment Professional
Investment Office Oversight	Melissa A. Quackenbush
External Consultant Oversight	Hamilton Lane Advisors, LLC
ESG Policy (Y / N)	Yes

Firm Overview

Established in 1976, Bell Partners is a privately held, vertically integrated multifamily investment management firm. With approximately 75,000 units under management across the U.S., Bell Partners is led by a senior management team with an average of over 25 years of experience that has invested throughout all phases of the real estate cycle and has worked together at Bell Partners in various capacities for over 11 years.

Bell has an extensive operating platform with approximately 1,750 employees and 12 offices (including its headquarters in Greensboro, N.C.) with a focus on: fund management, acquisitions, dispositions, property management/operations, construction management, investor relations, asset management, accounting, capital markets and finance, market research, information technology, human resources and training, revenue management, property taxes, marketing, purchasing and utilities management, risk management/compliance, and business intelligence/reporting.

During its 46-year history, Bell Partners has grown to become one of the largest and most experienced multifamily real estate organizations in the U.S. Its investment management portfolio is currently comprised of 68 apartment communities totaling approximately 21,600 units with a gross asset value of approximately $7.9 billion as of 2Q 2022.

Bell's deep experience, institutional quality processes, disciplined focus, strong reporting capabilities, and dedicated fund management team have enabled Bell Partners to become a seasoned investment manager for institutional and high net worth clients. Bell Partners' disciplined approach to investment management has produced a track record of favorable returns. Bell is ranked as one of the most consistent top-performing real estate private equity firms globally since 2014, according to Preqin, a recognized industry provider of financial data and information on the alternative assets market.

As of June 30, 2022, Bell has realized 287 apartment investments, generating aggregate proceeds (gross asset value) of approximately $10.4 billion, and net levered returns of 17.7% / 2.1x (IRR and equity multiple, respectively).

The fund platform was created in 2006 and, since that time, eight funds (collectively, the "Prior Funds") with total equity commitments of $3.4 billion have been launched and substantially invested on behalf of institutional and high net-worth investors. In the years preceding the formation of the fund platform, Bell's investment vehicles were comprised of separate account syndications ("Separate Accounts") as well as strategic joint ventures with institutional partners.

Today, Bell operates two fund series, a core fund series (~$931 million in commitments in active funds) and a value-add fund series (~$1,700 million in commitments in active funds). The value-add series is Bell's flagship strategy. Bell also has four separate accounts with institutional partners totaling ~$1,684 million in equity; these separate accounts straddle both core and value-add strategies. The Fund will have priority for investment opportunities which fit its mandate. There is no allocation rotation with other vehicles which may have similar mandates.

In addition to its various investment vehicles, Bell provides property management services to third parties for a fee.

Market Opportunity

PSERS overweights the residential sector in its Private Real Estate Portfolio and aligns with Bell's investment thesis given the following attractive sector attributes:

ATTRACTIVE RETURNS: Apartments historically have provided among the highest risk adjusted returns in the real estate sector and with lower relative volatility. The NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index (NPI) returns by property type from 1986-1Q2022 show apartment returns averaging 8.3% which is ahead of all other real estate asset classes.

SOLID/ATTRACTIVE SECTOR FUNDAMENTALS: With favorable demographics, including increased renter household formation, continued job growth and rising wages acting as tailwinds, in conjunction with the persistent undersupply of housing units, the multifamily sector had a solid 1H 2022. These tailwinds are projected to remain strong, albeit at more moderate levels, for the foreseeable future.

> RENT GROWTH: Recent record setting average U.S. rent growth, driven by a historic amount of renter demand, is expected to revert back to historical norms. Despite the projected slowdown in rent growth (from peak levels of ~17% nationwide), rent growth is expected to remain positive and consistently at or above the 2.5% long-term average. Rent growth in Bell's target markets has generally tracked or exceeded the U.S. average. Furthermore, rising interest rates have raised significant barriers to home ownership. Those tenants desiring home ownership might have to stay put a while longer, further driving demand for multifamily and the ability to increase rents.
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> SUPPLY: New supply scheduled to come online for 2022-2023 will likely be delayed as supply chain constraints continue to impact the construction sector. This will lead to a wave of new supply in 2024 that is expected to slightly outpace projected new demand. If so, this would put upward pressure on vacancy rates, resulting in projected vacancy estimates of 4.75-5.0%, an increase of 75-100 basis points above the current historically low vacancy rate of ~4.0%. Despite the projected uptick, vacancy is still projected to be below its 15-year average of 5.8%. While several of Bell's Sun Belt target markets are experiencing high levels of new construction, they are also experiencing some of the strongest levels of job growth and corresponding multifamily demand, thereby limiting vacancy upticks in these markets. Looking ahead, recent multifamily permitting shows a deceleration, which, in conjunction with favorable demographics discussed below, would support rent growth in the outer years.
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> FAVORABLE DEMOGRAPHICS: CBRE Econometrics projects growing demand for U.S. multifamily rental housing from 15.4 million occupied units in Q2 2020 to 17.4 million occupied units in Q2 2030, which represents an 11.6% demand increase. Even as the oldest of the Millennials are aging, there remains a substantial group of younger Millennials and "Gen Z'ers," totaling nearly

45.5 million prime renters between the ages of 20 and 29 in the U.S., many of whom are facing financial headwinds and barriers to homeownership brought on by student loan debt, rising single family home prices, rising interest rates, and the lingering effects of the COVID-19 pandemic.

LIQUIDITY: With multifamily assets accounting for the second largest share of institutional real estate investor's holdings (second only to office), there is a large buying universe which provides significant liquidity for this sector. As institutional investors continue to shift the composition of their portfolios by reducing their office and retail holdings, their increased focus on residential and industrial properties will bring even more liquidity to these sectors. Furthermore, apartments have historically had access to a wider availability of relatively low-cost debt relative to other asset types, further enhancing the appeal of this asst class (in addition to banks, life insurance companies, and CMBS, the multifamily sector also has access to loans via government sponsored enterprises such as Fannie Mae and Freddie Mac).

INFLATION HEDGE: The relative short-term nature of multifamily leases allows for more immediate rent adjustments to reflect current market conditions. In an inflationary environment, this can be important when owners need to cover increased operating costs.

CASHFLOW/LOWER CAPITAL EXPENDITURES/STABILITY: Existing multifamily properties are investments that produce current income. And while all properties require routine maintenance and occasionally major capital expenditures, these expenses in the multifamily space can be predicted within a tighter range and are typically lower than for other commercial asset classes resulting in less dramatic swings in cashflow. Furthermore, unlike office and retail assets, multifamily properties have a diversified tenant base with very low concentration risk.

Notwithstanding the current market cycle headwinds (rising inflation, rising interest rates, supply chain constraints and labor shortages) apartments have proven to be, and are projected to continue to be, defensive during periods of increased risk due in part to the perpetual need for housing.

Fund Investment Strategy

The Fund's investment strategy is to acquire well-located, institutional quality, multifamily properties in the defined Target Markets across the U.S. that generate attractive returns through lower risk value-enhancement strategies. The Fund will focus exclusively on conventional, market rate U.S. multifamily investments (i.e., no senior housing, student housing, or tax credit/government subsidized strategies).

The following 14 metropolitan statistical areas ("MSAs") have been identified as "Target Markets": Boston, MA; Washington, DC; Raleigh, NC; Charlotte, NC; Atlanta, GA; Orlando, FL; Tampa, FL; Ft. Lauderdale, FL; Dallas, TX; Austin, TX; Denver, CO; Seattle, WA; San Francisco, CA; and Los Angeles, CA.

Bell Partners believes these markets generally (i) support a large population of approximately 2 million+; (ii) offer attractive demand/supply fundamentals; (iii) provide a sizable transaction market to maximize investor interest upon exit; and (iv) project attractive total returns based on historical capitalization rates and expected rent growth.

Each Target Market is ranked on several key factors taking into consideration both long and short-term impacts. These key factors include:

- Demand/Supply Fundamentals: Job gain and growth, tech employment, and inventory growth
- Future Demand Indicators: Market share and projected growth of the 24-42-year-old population and educational attainment
- Performance: Revenue growth, standard deviation of revenue growth, and total returns
- Other: Operational complexity and geographic diversification

Within the Target Markets, Bell will focus on higher quality properties generally containing between 150 to 400 units that are located within strong submarkets and proximate to major infrastructure and employment bases.

The targeted risk spectrum is value-add, and the Fund will target a net levered IRR of 11-13% and a net MoC of at least 1.8x over the investment period utilizing 65% leverage.

Bell will drive value by renovating and repositioning older communities, improving property operations, acquiring newer, high-quality assets in emerging neighborhoods, and taking advantage of pricing dislocations.

PSERS History & Performance

as of June30, 2022

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Measure	*$M*	*$M*	*$M*	*$M*	*%*	*0.0x*
Bell Institutional Fund IV, LLC* (2011)	75.0	73.8	140.9	0.0	17.4%	1.9x
Bell Institutional Fund V, L.P. (2013)	75.0	72.8	160.0	0.1	16.9%	2.2x
Bell Institutional Fund VI, L.P. (2016)	75.0	71.7	14.6	116.8	18.8%	1.8x
Bell Institutional Fund VII, L.P. (2019)	100.0	66.4	5.1	85.0	33.0%	1.4x
Bell Woodstock JV, LLC (2014)	10.0	10.0	24.9	0.0	26.6%	2.4x
Bell Uptown Charlotte (2022)	25.0	0.0	0.0	0.0	N/A	N/A
Bell Fund VII Four Pack JV** (2022)	35.0	0.0	0.0	0.0	N/A	N/A
Total	**395.0**	**294.7**	**345.5**	**201.9**	**18.29**	**1.88**

**Fund has been fully realized*
*** Co-investment committed to in September 2022*

Portfolio Fit

The Fund will be allocated to PSERS' Private Real Estate portfolio. The returns for this strategy will be achieved via a growing income yield and moderate capital appreciation, a return profile consistent with the PSERS IPS definition of a "Value-Add" Private Real Estate strategy. This commitment is consistent with current goals to focus on domestic real estate, overweight residential real estate, and grow the value-add portfolio while reducing the opportunistic portfolio.

The Real Estate team is seeking Board approval for two real estate recommendations at the December 2022 Board meeting (Bell Value-Add Fund VIII, L.P. and AG Europe Realty Fund IV). This commitment recommendation (Bell Value-Add Fund VIII, L.P.) would close in December 2022 and, when added to all previous 2022 Real Estate commitments, results in total 2022 Real Estate commitments within the Real Estate pacing budget for 2022. AG Europe Realty Fund IV ($100MM) would close in January 2023 and would be accounted for in the 2023 pacing analysis.

					Pending Current Recommendations		
Strategy	**Market Value[1]**	**Unfunded[1]**	**Exposure[1]**	**%**	**December 2022[2]**	**Exposure[1]**	**%**
Measure	*$M*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Core	1,092	215	1,306	15.0%	-	1,309	14.6%
Value-Add	2,765	1,261	4,026	46.4%	250	4,276	47.9%
Opportunistic	2,146	1,205	3,351	38.6%	-	3,351	37.5%
Total	**6,003**	**2,681**	**8,683**	**100.0%**	**250**	**8,933**	**100.0%**

[1] *As of June 30, 2022; includes recently closed $100 million commitment to EQT Exeter Industrial Value VI (PSERB resolution 2022-56), $175 million commitment to Cabot Industrial Value VII (PSERB resolution 2022-74), and $125 million commitment to DRA Growth and Income Fund XI (PSERB resolution 2022-75)*
[2] *Includes 2 December recommendations: Bell Value-Add Fund VIII ($150M) and AG Europe Realty Fund IV ($100M).*

Investment Highlights

- Attractive Sector Fundamentals
- Experienced and Cohesive Senior Management Team
- Proven Successful Track Record

Investment Risk/Considerations

- Deceleration of Rent Growth
- Rising Interest Rates and Inflation
- Abundant Capital in the Market
- Potential Increasing Rental Growth Regulation

Investment Committee Disclosure

Relationship with Hamilton Lane:	No Hamilton Lane discretionary client has committed to prior Bell Partner funds. Preliminary allocation data as of October 11, 2022, indicates that PSERS will be the only Hamilton Lane client committing to Fund VIII. Please note that this information, which is available to PSERS upon request, is subject to change pending further review and decision making between Hamilton Lane and its clients.
Introduction Source:	Existing Relationship
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on November 8, 2022, this investment complies with the Board's Placement Agent Policy.
PA Political Contributions:	None Disclosed
PA Presence:	No
Potential Conflicts:	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure:	Bell receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business and to the best of Bell's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on Bell or the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Due Diligence Costs:	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the Fund.