Public Investment Memorandum

Cabot Industrial Value Fund VII, L.P.

Private Real Estate Commitment

Allocation Implementation Committee
Approval Date: August 22, 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 $175 million plus reasonable normal investment expenses to Cabot Industrial Value Fund VII, L.P. (the "Fund" or "Fund VII") and/or related investment vehicles.

Fund Name	Cabot Industrial Value Fund VII, L.P.
Firm Name	Cabot Properties, L.P. ("Cabot")
Target Fund Size / Hard Cap	$1.5 billion / $1.75 billion
Recommended Commitment Amount	$175 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

Cabot Properties L.P. ("Cabot"), based in Boston with seven regional offices in the United States, United Kingdom, Europe, and Australia, is a leading vertically integrated industrial property firm. Cabot has more than 35 years of history acquiring, developing, operating, leasing, financing, and selling industrial properties through multiple market cycles. Today, Cabot employs 109 individuals and manages approximately $4.2 billion.

Cabot was initially formed in 1986 as an affiliate of Cabot, Cabot & Forbes, one of the oldest and most respected real estate development, investment, construction, and management firms in the U.S. In those early years, Cabot focused on providing real estate investment advice to a limited number of large, sophisticated investors. Registered with the SEC under the Investment Advisers Act of 1940, Cabot was able to offer complete advisory and fiduciary capabilities for buying, managing, improving, and selling real estate assets. Cabot grew this business to $1 billion in assets under management by 1997. In early 1998, certain Cabot clients and other investors (including PSERS) contributed assets into an initial public offering to create Cabot Industrial Trust (the "Cabot REIT"). Beginning with the formation of the Cabot REIT, the Cabot team had the ability to invest on a fully discretionary basis. In 2001, the Cabot team sold the Cabot REIT in an all-cash transaction valued at $2.1 billion.

In November 2001, Cabot Properties L.P., an employee-owned limited partnership, was formed by certain senior officers of the Cabot REIT, including Franz F. Colloredo-Mansfeld, Howard B. Hodgson, Jr., and Mark A. Bechard, to continue investing in industrial properties via a series of core and value-add limited partnerships and separate accounts. The trio of founders remain active with the firm.

Over the past five years, Cabot has regionalized its investment efforts. Historically operating solely in Boston, the firm has evolved to recognize that on-the-ground professionals in target markets lead to superior market knowledge, deal flow, asset management, and tenant relationships. The regional offices include senior, mid-level, and junior team members with expertise in acquisitions, asset management, and day-to-day property management. Cabot now has U.S. offices in Boston, Atlanta, Chicago, Dallas, and Los Angeles with global offices in Amsterdam, London, and Sydney.

Market Opportunity

Strong tenant demand lowered the national warehouse vacancy rate to 4.1% at year-end 2021, which compares favorably to the 9.4% average vacancy rate over the past ~25 years. Correspondingly, market rents increased by almost 10% last year, exceeding the five-year annual rent growth average of 5.6%. Looking forward, the industrial real estate sector maintains a stable long-term outlook as a result of continued population growth, increasing e-commerce adoption across industries, favorable macroeconomic trends driving demand for functional warehouse space, and liquidity at exit.

Population growth is a natural driver of consumption growth, which ultimately drives the demand for industrial space. The current U.S. population of ~332.9 million is expected to reach 400 million by 2060, according to the U.S. Census Bureau. Globally, population growth is expected to slow but remain positive and fuel demand for additional industrial space.

With added support from the COVID-19 pandemic, e-commerce growth has accelerated, and online sales are a growing presence in the retail landscape, driving demand for logistics real estate. Currently, ~14% of all retail sales in the U.S. are a result of e-commerce. The e-commerce markets in the United Kingdom and the Netherlands are similarly well-established with online sales accounting for 20% of total retail sales. Fund VII will see opportunity to build-out e-commerce infrastructure for Western European counties that have lagged in the adoption of online sales. Ultimately, e-commerce growth generates additional tailwinds in this sector, as it leads to smaller retail needs and larger warehouse and distribution requirements, estimated to be ~3x larger than that of traditional retail.

Further, third-party logistics providers (3PLs), which allow businesses to outsource their supply chain and logistics operations, have grown at an annual rate of 6% over the last decade. 3PLs tend to be located close to major population centers and maintain a presence in smaller, infill locations. Cabot's strategy focuses on this type of building and location, making 3PLs a meaningful tenant group for Fund VII. The growth trend in 3PLs is increasingly evident on a global basis.

Market opportunity also presents itself in the form of new development as tenants seek to maximize the efficiency of their supply chains. Warehouse tenants today require higher clear heights (taller ceilings) for efficient product storage and selection, improved site-planning for more efficient truck flow, and enhanced power with redundancy for automation technologies. Warehouses built prior to the mid-2000s often cannot accommodate the needs of today's complex warehouse tenant thus necessitating the need for development of modern industrial space.

With the industrial sector's attractive current market conditions and stable long-term outlook, combined with the relative scarcity of high-quality industrial property portfolios in the public and private markets, investor interest in the industrial sector continues to strengthen globally. As a result, the market for core, institutional quality, cash flowing portfolios remains liquid, leaving the Fund in a strong position to achieve a potential premium at the time of sale.

Green Street, an independent research and advisory firm concentrating on the commercial real estate industry in North America and Europe, expects rent growth to decline yet remain positive in the next few years despite new supply. Similarly, outside of the U.S., record low vacancy rates and a strengthening adoption of e-commerce in certain European and Asian-Pacific regions are projected to drive rent growth for industrial properties.

As long-term demand drivers are in place to support industrial properties, and institutional investors remain particularly interested in the industrial sector, the global market for industrial properties is expected to be favorable for the foreseeable future and support the investment thesis of Fund VII.

Fund Investment Strategy

Cabot will build and acquire mid-sized, multi-tenant industrial warehouses near urban areas that have large, dense populations with high average incomes, low unemployment rates, a steady labor force, and transportation infrastructure.

Cabot plans to invest primarily in North American markets but maintains discretion to invest up to 30% of the Fund outside of North America. Regardless of the continent, Cabot will explore markets with similar attractive growth dynamics. Target markets across the globe include:

- Primary North American Markets:
    - United States – Los Angeles, New Jersey, Eastern Pennsylvania, the Inland Empire, Atlanta, South Florida, Dallas, Chicago, San Diego, and Boston
    - Potential Additional North American Markets:
        - Mexico – Mexico City
        - Canada – Toronto, Vancouver, and Montreal
- Primary European Markets:
    - United Kingdom – London, Birmingham, Manchester, Leeds, Liverpool, and Sheffield
    - Germany – Hamburg and Bremerhaven
    - Netherlands – Rotterdam
    - Belgium – Antwerp
    - Potential Additional European Markets:
        - France – Lille-Paris-Lyon-Marseille corridor
        - Spain – Madrid and Barcelona
        - Italy – Northern Italy
- Asian Markets:
    - Japan – Tokyo and Osaka
    - Australia – Sydney, Melbourne, and Brisbane

Within these markets, Cabot may either buy or build. Acquisition targets typically have some combination of vacancy, near-term rollover, or capital expenditure requirements. Cabot's on-the-ground professionals in the target markets rely on longstanding tenant relationships and Cabot's vertical integration (property managers, development professionals, and leasing teams) to lease-up vacancy, mark-to-market rents upon rollover, and update older suites to modern and functional tenant space.

Development occurs when supply-demand is out of equilibrium allowing a proficient developer, such as Cabot, to construct and lease a property to generate risk-adjusted returns that would be in line with or greater than those achieved by acquiring a similar building. Cabot has long-tenured relationships with multiple prominent national general contractors that are experienced in constructing space for today's modern warehouse tenant. These contractors often guarantee the pricing of the building, mitigating construction price risk to the Fund.

Whether buying or building, Cabot is focused on constructing a portfolio diversified across geographies and tenant type that, once stabilized, is attractive to well-capitalized, low cost of capital core investors such as insurance companies, public pension plans, non-traded REITs, and sovereign wealth funds. The primary exit strategy for Fund VII, like its predecessor funds, will be through one or more portfolio dispositions.

PSERS History & Performance

as of March 31, 2022

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Measure	*$M*	*$M*	*$M*	*$M*	*%*	*0.0x*
*Cabot Industrial Core I (2015)	147.3	147.3	243.2	-	15.0%	1.7x
Cabot Industrial Core II (2018)	100.0	100.0	8.0	137.3	24.2%	1.5x
Cabot UK Core+ Industrial I (2019)	65.8	18.0	34.1	2.6	69.6%	2.0x
*Cabot Industrial Value III (2008)	81.7	81.7	123.2	-	21.9%	1.5x
*Cabot Industrial Value IV (2013)	72.7	72.7	117.0	-	28.1%	1.6x
Cabot Industrial Value V (2016)	100.0	96.8	215.8	2.9	36.6%	2.3x
Cabot Industrial Value VI (2019)	100.0	56.5	-	76.6	67.6%	1.4x
Total	**667.5**	**573.0**	**741.5**	**219.4**	**23.1%**	**1.7x**

**Fund has been fully realized*

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 industrial real estate, and grow the value-add portfolio while reducing the opportunistic portfolio.

					Pending Current Recommendations		
Strategy	**Market Value[1]**	**Unfunded[1]**	**Exposure[1]**	**%**	**October 2022[2]**	**Exposure[1]**	**%**
Core	1,088	231	1,319	15.3%	-	1,319	14.8%
Value-Add	2,754	1,004	3,758	43.7%	300	4,058	45.6%
Opportunistic	2,327	1,195	3,522	41.0%	-	3,522	39.6%
Total	**6,171**	**2,429**	**8,600**	**100.0%**	**300**	**8,900**	**100.0%**

[1] As of March 31, 2022; $ in millions; includes recently closed $100 million commitment to EQT Exeter Industrial Core+ IV (PSERB resolution 2022-21) and to-be-closed $100 million commitment to EQT Exeter Industrial Value VI (PSERB resolution 2022-56)
[2] $ in millions; includes 2 October recommendations: Cabot Industrial Value VII ($175M) and DRA Growth & Income Fund XI ($125M)

Investment Highlights

- Cohesive, Cycle-Tested Management Team with a Proven Successful Track Record
- Fundamental Shifts in Consumer Behavior
- Increasing Vertical Integration
- Scarcity of Land in Infill Locations

Investment / Risk Considerations

- Deceleration of Industrial Tailwinds
- Inflation and Rising Interest Rates
- Development Exposure
- International Exposure and Currency Risk
- Recent News from Amazon

Investment Committee Disclosure

Relationship with Hamilton Lane:	Six Hamilton Lane discretionary clients have committed an aggregate $305 million across prior Cabot real estate funds. Preliminary Hamilton Lane allocation data as of August 1, 2022, indicates that five Hamilton Lane clients, including PSERS, plan to commit $320 million to Fund VII. 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 August 17, 2022, this investment complies with the Board's Placement Agent Policy.
PA Political Contributions:	None Disclosed
PA Presence:	Yes
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:	Cabot 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 Cabot's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on Cabot 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.