



Hamilton Lane

June 2, 2022

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

Re: Cabot Industrial Value Fund VII, L.P.

Dear Trustees:

Cabot Properties (“Cabot,” “General Partner”) is led by an experienced, well-tenured senior investment team that has been investing together at the General Partner for an average of 16 years. The General Partner’s longstanding history in the U.S. industrial real estate sector began in 1986, allowing the Firm’s investment professionals to develop significant sector-related expertise and local market knowledge. The General Partner benefits from in-house asset management professionals as well as dedicated property management professionals in key markets. Cabot has continued to build out its team resources across investments, asset management and its back office, further bolstering the depth and breadth of the team. The General Partner has increasingly focused on building out the next generation of Firm leadership in addition to expanding its geographic reach. The General Partner has shifted its carried interest allocation approach to largely correspond to the composition of the General Partner’s commitment, which is comprised of contributions from professionals at or above the Director level, which we believe creates better alignment. As Cabot has continued to grow its AUM across target strategies, the team has proven its ability to quickly grow diversified portfolios to scale and position investments for exit through bulk portfolio sales, enabling it to remain efficient and manage capacity. Cabot is targeting \$1.5 billion in commitments from limited partners for its seventh fund, Cabot Industrial Value Fund VII, L.P. (the “Fund”). Cabot held a first close for the Fund on May 6, 2022. The second and final close are expected in July and September of 2022, respectively.

The General Partner intends to employ the same investment strategy as prior funds, seeking to build a high-quality industrial portfolio with geographic diversification that will appeal to large portfolio buyers. Cabot continues to pursue an infill-focused approach, targeting liquid, supply-constrained markets with high barriers to entry, proximity to labor markets and transportation infrastructure and attractive population demographics such as large, dense populations, high average income and low unemployment rates. The General Partner utilizes its asset management team to manage development and property improvements, with the goal of increasing occupancy and enhancing leases through mark-to-market rents and optimized terms. Cabot plans to invest approximately 70% of the Fund in North America, 20% in Europe and 10% across Australia and Japan. Cabot expects to invest 35% of the Fund in stabilized/operating properties, 25% in leasing/repositioning investments and 40% in development projects. The Fund will target equity investments in the range of \$5 million to \$20 million.

The industrial, logistics and distribution property type, collectively “Industrial”, continues to be propelled by the structural shift in consumer behavior away from brick-and-mortar retail towards e-commerce. This shift in consumer behavior has fundamentally changed the way many companies utilize real estate, leading to generally smaller retail needs and much larger warehouse and distribution requirements. E-commerce distribution networks require substantially more Industrial space than traditional brick-and-mortar, with Green Street estimating this Industrial requirement to be roughly three times that of retail. This conversion was well underway ahead of the Covid-19 pandemic but it’s since been accelerated as consumer demand has transitioned more rapidly. As such, demand for Industrial real estate space continues to grow with the sector boasting high levels of absorption, low vacancy and rent growth that has surpassed all-time highs in many US markets. The market is responding, and new supply is being delivered which will eventually



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moderate property price increases however expectations are for these overarching tailwinds to be supportive of the sector over the medium-term which aligns well with the expected life of Fund VII. Given these expectations, Hamilton Lane views Industrial as one of the most attractive real estate property types for investment today.

The investment thesis for investing in Cabot Industrial Value Fund VII, L.P.'s can be summarized as follows:

- Experienced and established real estate partner with deep market expertise and broad industry relationships
- Investment strategy targeting mid-sized assets in in-fill locations across markets exhibiting favorable dynamics
- Attractive returns to date with top-quartile performance across most predecessor funds and a strong focus on downside protection

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

- Detailed due diligence, including interviews with industry peers and private real estate professionals. The on-site due diligence was conducted on March 1, 2022; the Fund was approved by Hamilton Lane's investment committee on March 15, 2022; and the recommendation to PSERS was issued on June 2, 2022.
- 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 the Cabot Properties' 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.
- Throughout diligence of the Fund, Hamilton Lane had formal video and teleconference calls in addition to informal phone and email interactions with Cabot Properties. Hamilton Lane has been engaged in routine ongoing monitoring and due diligence activities concerning Cabot Properties since the inception of the Hamilton Lane and PSERS partnership, as PSERS has invested with Cabot Properties since 1998.
- Confirmation that the strategy proposed for the Fund is appropriate for the private real estate partnership component of the portfolio.

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

Scott Davies – Principal Real Assets, Conshohocken Office
Sabeen Jameeli – Senior Associate Real Assets, San Diego Office
Bryce Smith – Analyst, Conshohocken Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$175 million, plus reasonable normal investment expenses, to Cabot Industrial Value Fund VII, L.P. (and/or related investment vehicles).



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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