PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

EQT Exeter Industrial Value Fund VI, L.P.

Private Real Estate Commitment

Allocation Implementation Committee
Approval Date: July 12, 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 $100 million plus reasonable normal investment expenses to EQT Exeter Industrial Value Fund VI, L.P. (the "Fund" or "Fund VI") and/or related investment vehicles.

Fund Name	EQT Exeter Industrial Value Fund VI, L.P.
Firm Name	EQT Exeter
Target Fund Size / Hard Cap	$4.0 billion / $5.0 billion
Recommended Commitment Amount	$100 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

EQT, a global, publicly listed investment manager with headquarters in Stockholm, Sweden, was founded in 1994 and launched its first fund in 1995 targeting investments in industrial companies in Sweden and neighboring countries. Today, EQT has seven business lines: EQT Private Equity, EQT Ventures, EQT Future, EQT Growth, EQT Public Value, EQT Infrastructure, and EQT Exeter. As of December 31, 2021, EQT's assets under management were ~€73.4 billion.

EQT Exeter is the real estate division of EQT. EQT Exeter was formed in April 2021 when Exeter Property Group, a Pennsylvania-based real estate investment manager founded in 2006 by Edward "Ward" Fitzgerald and partners, merged with EQT. The merger with EQT provides Exeter with permanent capital from a strategic partner to effectuate succession planning for retiring executives, support for business growth initiatives, and the benefits of an experienced, global firm with superior back office, ESG, information technology, and compliance functions. PSERS, as an investor in prior Exeter-sponsored funds, reviewed the merger alongside its public pension plan peers, came to a favorable conclusion on the benefits to limited partners, and consented to the transaction.

EQT Exeter currently serves over 100 institutional investors around the globe. Its fund series are organized by property sector, geography, and strategy with each fund series having its own dedicated portfolio managers. EQT Exeter is vertically integrated with 382 dedicated real estate professionals operating in 50 global offices, 24 of which are located in the United States (U.S. headcount is 206 professionals). Vertical integration is a differentiator for EQT Exeter compared to its peers; there are internal teams that manage development, leasing, property management, investment due diligence, accounting, legal, and other back-office functions. This integration allows EQT Exeter to have deeper market knowledge and act swiftly as it pursues investment opportunities.

The management team is a well-seasoned, cohesive team which has worked together for 14 years on average. As of 4Q 2021, AUM for EQT Exeter was ~$17.5 billion. Since 2007, EQT Exeter has completed 800+ transactions totaling more than 1,650 buildings and has achieved a track record of consistent outperformance. Creating further stability, Ward Fitzgerald, the founder of Exeter, remains the Head of EQT Exeter, is a Partner of EQT Group, and sits on the Investment Committee for Fund VI.

Market Opportunity

The stable long-term outlook for the industrial real estate sector is attributed to growth in population, e-commerce penetration, demand outpacing supply, and liquidity at exit.

The industrial real estate sector is demographically driven – the growth in population leads to a natural growth in consumption which, in turn, drives demand for industrial space. According to the U.S. Census Bureau, the 2020 U.S. population of 331.5 million is expected to grow to 355 million people by 2030 and reach 400 million people by 2060. With average warehouse demand of ~60 square feet per person, new population-based industrial demand will be approximately 141 million square feet per year for the next ten years. To capture the growth in demand, Exeter will be focused on industrial properties in major metropolitan markets, fast growing cities, and the distribution hubs serving these consumption centers:

- Major Metropolitan Markets: Atlanta, Chicago, Dallas, Greater NYC, and Southern California
- Fast Growing Cities: Denver, Houston, Miami, Phoenix, and Washington, DC
- E-Commerce Hubs: Cincinnati, Columbus, Indianapolis, Louisville, and Memphis

According to May 2022 Census Bureau data, the long-term average retail sales growth is 4.73%, and we continue to see a shift in consumer preferences away from brick-and-mortar retail and towards e-commerce options. The supply chain demands on e-commerce require ~3x the warehouse space versus traditional brick and mortar retail, creating further tailwinds for this sector. We continue to monitor a new trend in logistics - the COVID-19 pandemic and subsequent, ongoing supply chain issues significantly depressed retailer inventories; consequently, retailers are looking to bolster inventory levels which requires more warehouse space as they shift from a "just in time" to a "just in case" model to avoid similar inventory shortages in the future. Should more companies shift to a "just in case" model, PSERS IOPs expect warehouse demand to meaningfully outpace new supply.

Fundamentals in the industrial sector remain strong. Low vacancy rates, strong tenant demand, and a decrease in supply all put upward pressure on rental rates. Rising rental rates are especially prevalent in the coastal markets where Green Street (an independent research and advisory firm concentrating on the commercial real estate industry in North American and Europe) projects rent increases of 18% in 2022. Rising rents translate to rising cash flows which offset higher cap rates to maintain property valuations. With annual absorption of 200+ million square feet annually since 2014, industrial demand has been and is anticipated to be strong going forward. Development was curtailed in the second half of 2020 due to the COVID-19 pandemic. In 2022, due to permitting and construction delays, new supply is expected to remain limited as land, material, and labor costs push sharply higher. Additionally, there are significant barriers to entry from a zoning/permitting perspective as certain communities push back against the development of new industrial space. Together, these factors serve to dampen the pace of construction and will put continued upward pressure on rents amidst continued tenant demand.

Given industrial real estate's current and long-term property fundamentals, in conjunction with the sector's stable cash flow profile, investors continue to be attracted to the U.S. core industrial sector (defined as high quality properties in major markets with stabilized occupancy, higher grade tenancy with longer lease term remaining, and minimal capital expenditure requirements) as evidenced by increasing allocations to this property type. Consequently, the transaction market, especially for high-quality institutional portfolios, remains liquid. As such, the Fund will be well-positioned to realize capital value appreciation when the value-add portfolio is stabilized and prepared for sale to low cost of capital core buyers.

With sustainable demand drivers and a strong appetite from institutional investors, the U.S. market for industrial properties is expected to be favorable for the foreseeable future and supports the investment thesis of Fund VI.

Fund Investment Strategy

EQT Exeter will capitalize on its local market presence and history of deep tenant relationships to source controlling interests (typically 100%) in primarily domestic industrial properties that fit into one of the following three value-creation strategies: leasing vacancy, capturing mark-to-market rents for expiring tenants, and developing modern distribution facilities. Leasing vacancy is a strategy by which EQT Exeter will acquire a fully vacant or partially vacant property with the market intelligence showing that the property can be leased to a stabilized occupancy within an underwritten time horizon. The uncertainty of vacancy coupled with EQT Exeter's local market presence allows for discounted acquisitions.

The second strategy entails acquiring a leased property with a lease expiring in the near-term. Given the increase in industrial rents over the past ten years, many tenants are paying below-market rents. EQT Exeter will identify the properties with high-credit tenants paying below market rents, and at lease expiration, rents will be adjusted to be in line with the market.

The third strategy is development, and there are two driving forces behind a development. There are times in market cycles where properties in certain markets transact above their replacement cost (defined as the cost to construct a building of the same utility in a similar location). Despite ever-growing construction costs, we are currently in this phase of the market cycle in many geographies, and EQT Exeter has been capitalizing successfully in this strategy in Fund V. The other driver of development is functional obsolescence and the drive for efficiency in supply chains. Warehouse tenants today require higher clear heights (taller ceilings) for efficient good 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. EQT Exeter has demonstrated an ability to develop, via its in-house development team, modern distribution warehouses that lease at premium rents.

EQT Exeter focuses on building large-scale portfolios diversified across geographies and tenant type that, once stabilized, become 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 VI, like its predecessor funds, will be through one or more portfolio dispositions.

PSERS History & Performance

as of December 31, 2021

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Measure	*$M*	*$M*	*$M*	*$M*	*%*	*0.0x*
Exeter Core Industrial Club II (2016)	100.0	97.4	26.9	224.2	29.7%	2.6x
Exeter Industrial Core III (2019)	100.0	90.0	2.2	120.5	51.0%	1.4x
Exeter Industrial Core-Plus IV (2022)	100.0	-	-	-	-	-
Exeter Industrial Value II (2011)	75.0	73.2	148.7	2.6	30.5%	2.1x
Exeter Industrial Value III (2014)	75.0	72.7	157.9	3.5	29.7%	2.2x
Exeter Industrial Value IV (2017)	100.0	94.4	192.8	15.0	31.6%	2.2x
Exeter Industrial Value V (2019)	100.0	70.0	0.0	110.2	103.7%	1.6x
Total	**650.0**	**497.7**	**528.6**	**475.9**	**31.4%**	**2.0x**

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 stated 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[1,2]**	**Exposure[1]**	**%**	**August 2022**	**Exposure[1]**	**%**
Measure	*$M*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Core	981	243	1,224	14.8%	-	1,224	14.7%
Value-Add	2,712	860	3,572	43.3%	100	3,672	44.0%
Opportunistic	2,249	1,205	3,454	41.9%	-	3,454	41.4%
Total	**5,941**	**2,309**	**8,250**	**100.0%**	**100**	**8,350**	**100.0%**

[1]As of December 31, 2021; [2] Includes all commitments up to last Board meeting and/or notational ballot voting

Investment Highlights

- Cohesive Cycle-Tested Management Team
- Fundamental Shifts in Consumer Behavior
- Benefits of Vertical Integration
- Expertise in Portfolio Construction to Create Exit Liquidity

Investment / Risk Considerations

- Doubling of Fund Size
- Inflation and Rising Interest Rates
- Development Exposure
- Recent News from Amazon

Investment Committee Disclosure

Relationship with Hamilton Lane:	Four Hamilton Lane ('HL') clients (combination of discretionary and advisory), including PSERS, have approved and/or committed an aggregate $465 million across prior EQT Exeter real estate funds while HL was providing advisory services. Preliminary HL allocation data as of June 17, 2022, indicates that three Hamilton Lane clients, including PSERS, plan to commit an aggregate total of $160 million to Fund VI. Please note that this information is subject to change pending (i) client-by-client discussions for our advisory clients and (ii) at Allocation Committee for our discretionary clients.
Introduction Source:	Existing Relationship
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on June 30, 2022, this investment complies with the Board's 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:	EQT Exeter 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 EQT Exeter's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on EQT Exeter 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.