PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

PIMCO Commercial Real Estate Debt Fund II, L.P.

Private Credit Commitment

Allocation Implementation Committee
Approval Date: May 19, 2023

Executive Summary

Sean T. Sarraf, Senior Investment Professional, together with Aksia, LLC ("Aksia"), recommend that PSERS commit an amount not to exceed $200 million plus reasonable, normal investment expenses to PIMCO Commercial Real Estate Debt Fund II, L.P. (the "Fund", "Fund II" or "PCRED II") and/or related investment vehicles.

Fund Name	PIMCO Commercial Real Estate Debt Fund II, L.P.
Firm Name	Pacific Investment Management Company LLC ("PIMCO")
Target Fund Size / Hard Cap	$2.0 - $3.0 billion / None
Recommended Commitment Amount	$200.0 million
Existing Relationship	Yes
Asset Class / Sub Asset Class	Private Credit / Real Estate Credit
Investment Office Professionals Due Diligence Team ("IOP")	James F. Del Gaudio, Director Sean T. Sarraf, Senior Investment Professional Michael J. Severance, Junior Investment Professional
Investment Office Oversight	James F. Del Gaudio, Director Sean T. Sarraf, Senior Investment Professional
External Consultant Oversight	Aksia, LLC
ESG Policy (Y/N)	Yes

PIMCO was founded in Newport Beach, California in 1971 and is one of the world's largest fixed income managers, with a presence in every major bond market. PIMCO started as a subsidiary of Pacific Life Insurance Company to manage separate accounts for institutional clients. In 2000, PIMCO was acquired by Allianz SE ("Allianz"), a large global financial services company based in Germany. PIMCO operates as a separate and autonomous subsidiary of Allianz. Today, PIMCO has over 3,000 employees (including over 950 investment professionals) and has 23 office locations globally with its headquarters in Newport Beach, CA. PIMCO has developed a strong alternatives platform and applies dedicated resources to a select group of strategies that seek to capitalize on PIMCO's broad capabilities across public and private credit, global macro, commodities, and real estate. Within their dedicated alternatives platform, PIMCO has over 130 investment professionals located across three PIMCO offices in Newport Beach, New York, and London, and managed $1.7 trillion in assets, including ~$1.4 trillion in third-party client assets, as of December 2022.

PCRED II is targeting $2.0 - $3.0 billion in commitments and seeks to generate attractive risk-adjusted returns by constructing a defensive, diversified portfolio of primarily first mortgage loans secured by U.S. Commercial Real Estate ("CRE") assets with a focus on generating current income. Through December 31, 2022, PIMCO has invested ~$24 billion across ~270 CRE debt and equity investments including over $17 billion in private real estate debt investments.

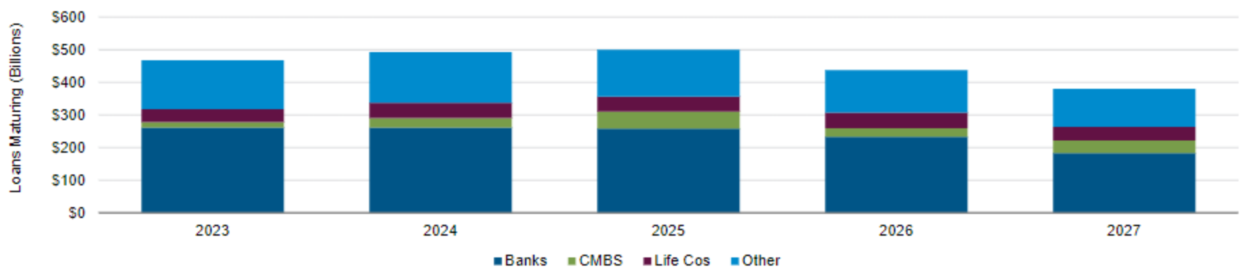
PSERS and PIMCO have a long-standing relationship dating back to 1987. Within private credit, PSERS previously committed $450 million across two PIMCO-managed funds, including:

- $250 million to PIMCO BRAVO Fund III, L.P. in 2016 ("BRAVO III")
- $200 million to PIMCO Commercial Real Estate Debt Fund I, L.P. in 2018 ("Fund I" or "PCRED I")

Market Opportunity

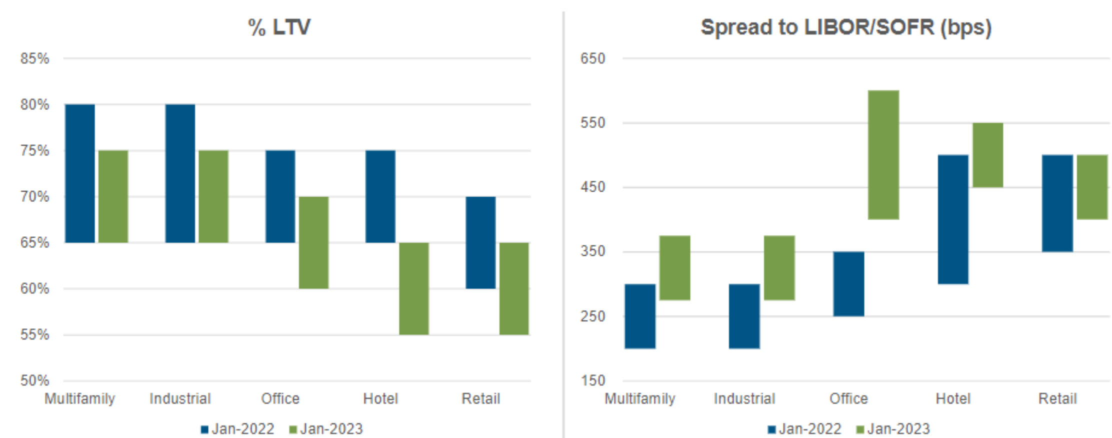
There has been an ongoing secular shift since the onset of the global financial crisis creating an opportunity for private capital to bridge the funding gap of unmet CRE borrower demand. Since that time, approximately one-third of the previous top 20 loan originators have exited the market and commercial mortgage-backed securities ("CMBS") originations have compressed, falling over 60% from peak levels in 2008. This ongoing supply / demand imbalance has only widened in recent months with many levered lending platforms (i.e., public / private mortgage REITs) facing heightened balance sheet and liquidity pressures. Moreover, fallout from the collapse of Silicon Valley Bank has constrained regional banks which account for a disproportionate share of overall U.S. CRE lending activity, in effect sidelining a large source of private loan origination.

Supply / demand imbalances in CRE debt markets are expected to persist with an historic level of debt maturities on the horizon. Over $2 trillion of existing CRE loans are set to mature within the next five years (reference chart below), much of which is believed to be transitional in nature (the focus of PCRED II). Additionally, private equity dry powder for value-add and opportunistic real estate assets is near record levels (~$250 billion estimated as of March 31, 2023), and many existing value-add assets face a longer trajectory to stabilization which will increase the need for bridge financing.



Source: Morgan Stanley as of December 31, 2022

Given a limited supply of available capital to support expected refinancing needs, liquidity providers (such as the Fund) can command wider spreads at a lower Loan-to-Value ("LTV"). Below is a chart illustrating the significant movement of LTVs and spreads experienced across sectors year-over-year through January 2023. With wider spreads available in lower risk assets, the Fund has prioritized investing greater amounts of capital in less cyclical sectors such as Industrial and Multi-family, while limiting exposure to stressed or cyclical sectors (e.g., Office and Retail).



Source: PIMCO as of January 31, 2022

Finally, liquidity pressures persist in public markets which remain susceptible to dislocation. Although spreads in CMBS markets have largely retraced from post-COVID wides, the potential for future volatility may create attractive entry points for well-capitalized investors such as PCRED II.

Investment Strategy

As discussed earlier, the Fund seeks to generate attractive risk-adjusted returns (targeting 8% - 10% net IRR) by constructing a defensive, diversified portfolio of primarily first mortgage loans secured by U.S. CRE assets with a focus on generating current income. The Fund expects to originate and/or acquire predominantly (i) U.S. senior CRE first mortgage loans secured by CRE assets, and (ii) other CRE-related securities or assets that PIMCO believes may offer attractive trading or investment opportunities, including mezzanine loans, preferred equity, B-notes, structured investments, and special situations. To a lesser extent, the Fund also expects to originate and/or acquire similar investments in other developed markets, including Europe.

The Fund will target institutional-quality borrowers who own assets primarily in central business districts, in or near dense population clusters, or areas that are in the path of growth. From a credit perspective, it is anticipated these loans will feature floating rate coupons with LTVs of ~60% - 75%, typically with a term lasting two to five years and 12 – 24 months of call protection. The Fund will seek to diversify by property type and may include both transitional and stable properties across multi-family, industrial, life sciences, hotel, and office, among other property types. It is expected that the Fund will invest in 55 - 65 positions, deploying an average of ~$100 million per position (inclusive of leverage).

The base currency of the Fund is USD, and to the extent it makes non-USD denominated investments, PIMCO hedges back to USD. PIMCO may also seek to hedge interest rate duration at the asset or portfolio level, typically using interest rate swaps. The Fund expects to use leverage as part of its investment strategy.

Portfolio Fit

The Fund will be allocated to the Real Estate Credit bucket of PSERS' Private Credit portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended $200 million commitment, as of December 31, 2022:

			Pending Additional Commitments		
Investment Strategy ($M)	**NAV**	**Unfunded**	**Additional Commitments***	**Pro-Forma Total Exposure**	**%**
Distressed & Special Situations	$2,236.3	$1,316.6	$0.0	$3,552.8	42.9%
Direct Lending	$1,409.8	$606.4	$0.0	$2,016.2	24.4%
Real Estate Credit	$264.3	$379.7	$200.0	$844.1	10.2%
Mezzanine	$442.0	$384.3	$0.0	$826.3	10.0%
Specialty Finance	$426.2	$259.9	$0.0	$686.1	8.3%
Real Assets Credit	$298.5	$49.3	$0.0	$347.7	4.2%
Total Portfolio	**$5,076.8**	**$2,996.2**	**$200.0**	**$8,272.9**	**100%**

Source: Burgiss, as of 12/31/2022
Note: Additional Commitments inclusive of recommended $200 million commitment PCRED II

Overall, a commitment to the Fund allows PSERS to maintain exposure to a high-conviction strategy with a compelling go-forward market opportunity, on a fee-advantaged basis. Furthermore, and consistent with the Private Credit Strategic Plan, a commitment to Fund II enables access to non-corporate collateral, further diversifying the private credit portfolio across collateral types. The Fund's return target meets the return objective for PSERS' Private Credit portfolio.

Investment Highlights

- Improved Market Opportunity
- Portfolio Fit
- Downside-Focused Mindset
- PCRED Fund I Performance
- Experienced Senior Investment Team
- Allianz Real Estate Combination
- Attractive Fee Structure

Investment / Risk Considerations

- Key Person Departure
- Stressed CRE Sectors
- Competition
- Geographic Expansion to non-U.S. Developed Economies

Investment Committee Disclosure

Relationship with Aksia	Aksia represents other non-discretionary and discretionary clients with commitments to various PIMCO-managed investments, including PCRED II.
Introduction Source	Existing Relationship
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on 2/9/22 this investment complies with the Board's policy
PA Political Contributions	None Disclosed
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	PIMCO receives communications from regulators and is involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on 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.