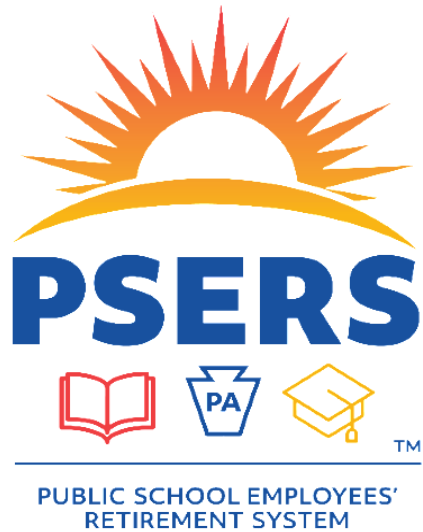




**PSERB Resolution 2024-45**  
**Re: ACORE Opportunistic Credit II, L.P.**  
**August 16, 2024**

**RESOLVED**, that the Public School Employees' Retirement Board (the "Board") adopts the recommendation of the Investment Committee to invest an amount not to exceed \$175 million, plus reasonable and normal investment expenses, to ACORE Opportunistic Credit II, L.P., and/or related investment vehicles.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contracts.



# ACORE Opportunistic Credit II, LP Private Credit Recommendation

**Jarrett Richards**  
Portfolio Manager

**Sean T. Sarraf**  
Portfolio Manager

**July 2024**

# Today's Presentation

## *ACORE Opportunistic Credit II, L.P. ("AOC II")*

### **Main Presentation**

1. Asset Class Considerations
  - *Recommendation is consistent with PSERS' Strategic Asset Allocation (SAA) and current year commitment planning*
2. Recommendation Overview
  - *PSERS IO and Aksia recommend committing \$175 million to AOC II (\$125M fund + \$50M co-investment sidecar)*
3. Strategy & Expertise
  - *Highly experienced real estate credit specialist with a deep market opportunity*
4. Investment Considerations
5. Investment Highlights

### **Appendix**

- Investment Committee Disclosure
- Private Credit Dashboard

# 1. Asset Class Considerations

*Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and the 2024 pacing analysis*

## PSERS SAA and Pacing

1. PSERS SAA has established a long-term target of 6.0% to Private Credit.
2. The current overweight is due to Q4 2021 change in the SAA target from 8% to 6%.
3. PSERS' and Aksia's pacing analysis suggests \$550M – \$750M of annual commitments to reach the target exposure to Private Credit.
4. The pacing analysis is revisited frequently based on the actual performance of the Private Credit allocation and the broader PSERS portfolio.

SAA Allocation	
Private Credit Target	6.0%
Private Credit Actual	7.4% <sup>1</sup>
Pacing Budget	
Pacing Budget Range	2024 \$550M - \$750M
Primary Fund Commitments	
YTD Commitments	\$166M
Today's Recommendation	\$175M
Co-investments	
YTD Commitments	\$15M
Total Primary and Co-Investments	
Remaining Budget <sup>2</sup>	\$294M
Est. Remaining Primary Fund Recommendations	\$225M
Expected to be in Target Budget Range?	Yes

1. Private Credit Actual taken from Verus 2023 4Q Total Fund Report  
 2. Remaining to the mid-point of the pacing budget

## 2. Recommendation Overview

*PSERS IO and Aksia recommend committing \$125 million to ACORE Opportunistic Credit II, L.P. and \$50 million to a co-investment sidecar for a total \$175 million commitment.*

Key Term	
Firm Name	ACORE Capital
Investment Professionals / Employees	70 Investment Professionals / 120 Employees
Fund Name	ACORE Opportunistic Credit II, LP
Strategy Invested Capital <sup>1</sup>	\$596 million
Target Return	13-15% Net Return
Target Fund Size / Hard Cap	\$750 million - \$1 billion / Hard Cap is being negotiated
Recommended Commitment	\$175 million (\$125M to Fund, \$50M to Co-investment Sidecar)
GP Commitment	1%, max of \$10 million
Fund Structure	Closed-End
PSERS Existing Relationship	No
Notable Investment Committee Disclosures <sup>2</sup>	None

1. as of December 31,2023  
 2. Detail in appendix (Slide 9)

### 3. ACORE Strategy & Expertise

*AOC II has a compelling market opportunity and is complementary in the PC portfolio*

- 1. Market Opportunity:** Three specific and adjacently related events have created the market opportunity for AOC II: (1) sharp and drastic increase in interest rates, (2) reset in property valuations despite strong property fundamentals, and (3) bank pullback from commercial real estate lending. IO Staff expect this opportunity to persist for the duration of the Fund's investment period.
- 2. Strategy:** ACORE will originate whole loans, mezzanine loans, and preferred equity collateralized by domestic real estate. The current environment of strong real estate fundamentals and low liquidity allows ACORE to lend on high-quality properties with strained balance sheets to target high-teen gross returns with quarterly income distributed back to investors. Returns will be derived primarily from monthly or quarterly loan interest payments.
- 3. Portfolio Fit:** The Private Credit portfolio's primary exposure to Real Estate Credit has been through managers employing first mortgage origination strategies on trophy and transitional properties. AOC II offers differentiated exposure, primarily providing debt solutions across the capital stack to finance well-performing assets that require capital structure optimization in a higher interest rate environment.

# 4. Investment Considerations

*ACORE Opp Credit risk factors consistent with RE Credit risks*

Risk	Detail	Mitigating Factors
Competition in RE Credit	The market opportunity has resulted in record fundraising targets (\$100B in 2024) for real estate credit strategies.	<i>If fundraising targets are met, there remains a gap between opportunity (\$400B) to finance value-add assets and available capital (\$100B) in 2024. Staff expects this funding gap to persist through the investment period.</i>
Business Plan Execution Risk	Borrowers are utilizing loan proceeds to fund value-add business plans at their properties.	<i>As the principal risk to the strategy, ACORE focuses its underwriting and monitoring to assess the business plan and resulting asset value. Staff reviewed ACORE's asset management processes in detail and believes that ACORE is well-positioned to proactively address potential problems with the Borrower's execution of the property business plan.</i>
Interest Rate Risk	Floating-rate credit strategies are susceptible to interest rate risk, in particular lower coupon payments and faster prepayment in decreasing interest rate environments.	<i>ACORE typically institutes covenants in its loan agreements: floors to protect against lower coupon payments and prepayment protection that mandates minimum multiples to the lender.</i>

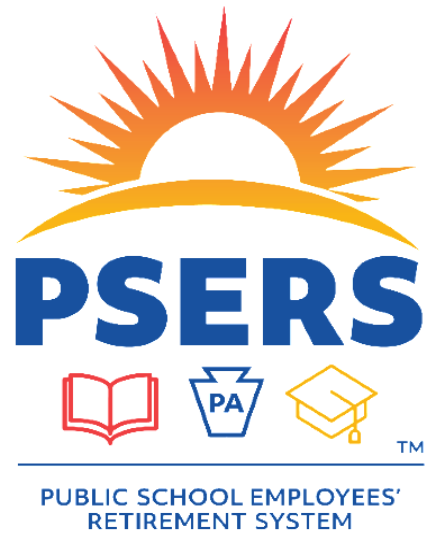
*Note: Please see Aksia and PSERS confidential memos for additional discussion on risks and mitigants*

# 5. Investment Highlights

*ACORE's specialist expertise matches today's market opportunity*

Highlight	Detail
Real Estate Credit Specialist	ACORE is solely focused on real estate credit, and the leadership team has been specialists in this market for 25+ years, originating and asset managing loans across cycles. Over this time, the team has developed not only credibility with borrowers for improved sourcing channels but also best-in-class asset management practices.
Downside Focus	ACORE's focus on preserving capital is proven by its low loss rates, which are unmatched by its peers. Defaults have occurred in the portfolio, but by promoting a culture of stringent underwriting, proactive asset management, and alignment with investors, only once has a default led to a realized loss to investors.
Preferred Economics Through Co-investment	IO Staff negotiated a \$50M co-investment vehicle to invest alongside the Fund at preferred economics. The blended fee structure across the main fund and the co-investment vehicle reduces base management fees while allowing PSERS to retain a larger share of outperformance.





# Appendix

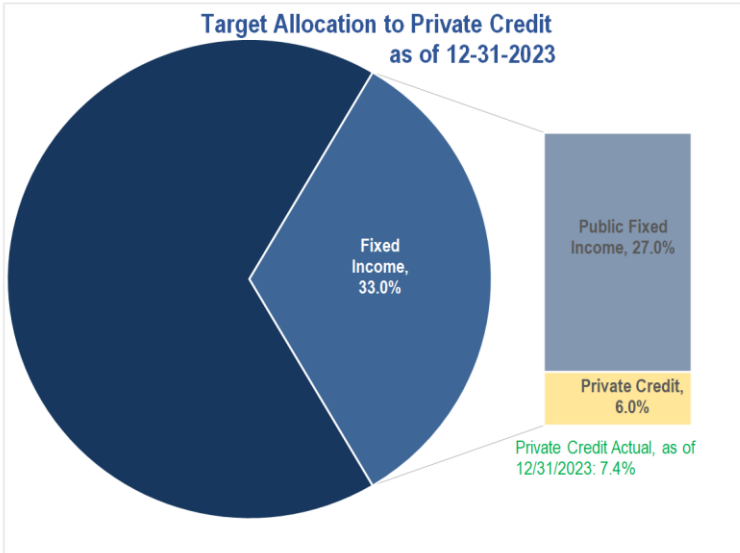
# Investment Committee Disclosure

*No mandatory disclosures*

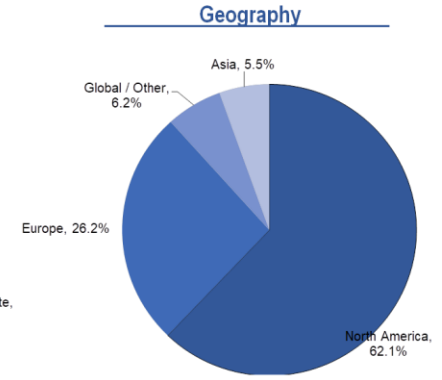
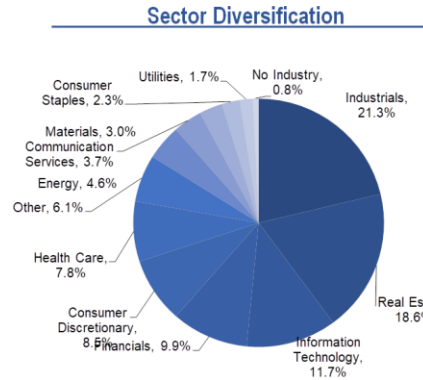
Disclosure	Response
Relationship with Aksia	As of March 31, 2024, three (3) current Aksia investment management clients have made aggregate subscriptions and commitments of \$104.1 million across investments managed by ACORE Capital LP. As of June 14, 2024, there is one other Aksia client considering a commitment to ACORE Opportunistic Credit II.
Introduction Source	GP Outreach Directly to PSERS Staff
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on July 19, 2024, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Political Contributions	None Disclosed
PA Presence	Yes, 15 active investments
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in AOC II.
Litigation Disclosure	ACORE 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 the sponsor's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on the Firm, or AOC II.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of 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 AOC II.

# Private Credit Dashboard

As of December 31, 2023



Note: 7.4% figure sourced from Verus 2023 4Q – Total Fund Report



Note: Underlying holding Sector and Geography data is one-quarter lagged

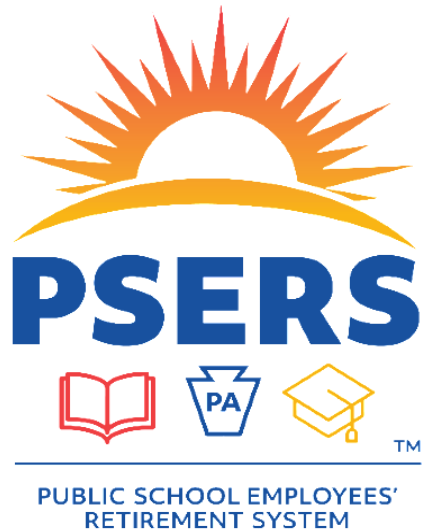
## Recent Fund Deployment (\$M)

2023 Budget Items	
Park Square SMA (CP V Strategy Inclusion)	\$115.0
PIMCO Commercial Real Estate Debt Fund II	\$200.0
TCI Real Estate Partners Fund IV	\$200.0
2024 Budget Items	
ICG Mid-Market II*	€ 150.0

\*Board Approved

## PSERS Private Credit Portfolio Performance

	Time-Weighted					Dollar-Weighted		
	1-YR	3-YR	5-YR	10-YR	ITD	KS PME	Direct Alpha	ITD
Direct Lending	12.4%	9.4%	8.3%	9.2%	8.0%	1.06x	2.0%	9.8%
Mezzanine	14.5%	9.8%	12.8%	10.5%	11.3%	1.14x	4.2%	10.9%
Distressed & Special Situations	8.2%	8.3%	7.6%	7.2%	7.1%	1.01x	0.3%	8.4%
Specialty Finance	11.7%	6.9%	22.8%	13.7%	13.3%	1.03x	1.8%	9.8%
Real Estate Credit	8.1%	7.0%	0.8%	1.6%	1.6%	0.89x	-5.2%	2.6%
Real Assets Credit	10.0%	26.1%	9.1%	3.7%	4.7%	0.88x	-3.2%	3.0%
<b>Total Portfolio</b>	<b>10.2%</b>	<b>10.4%</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.3%</b>	<b>1.02x</b>	<b>0.6%</b>	<b>8.5%</b>
<b>Benchmark</b>	<b>15.6%</b>	<b>7.9%</b>	<b>7.9%</b>	<b>6.5%</b>	<b>6.9%</b>			



## ACORE Opportunistic Credit II, LP Private Credit Recommendation

**Jarrett Richards**  
Portfolio Manager

**Sean T. Sarraf**  
Portfolio Manager

**July 2024**

## Manager Recommendation Memo

June 14, 2024

Board of Trustees  
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")  
5 North Fifth Street  
Harrisburg, PA 17101

Re: ACORE Opportunistic Credit II LP

Dear Trustees:

Aksia LLC ("Aksia"), having been duly authorized by the Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement, Objectives, and Guidelines, a commitment of up to \$175 million to ACORE Opportunistic Credit II ("AOC II" or the "Fund") with up to \$125 million expected to be allocated to the Fund and up to \$50 million expected to be allocated to a dedicated co-investment vehicle.

ACORE Capital LP ("ACORE" or the "Firm") was founded in 2015 by Boyd Fellows, Warren de Haan, Chris Tokarski, and Stew Ward, who have worked together for over 25 years. The Firm manages over \$20 billion in AUM, focusing primarily on commercial real estate ("CRE") investing. ACORE benefits from a large platform of over 120 professionals, leveraging the resources of its nationwide originations and asset management teams. Additionally, the Firm has a long track record in CRE loan origination, with ~500 investments and over \$38 billion closed since its inception in 2015, with limited credit losses to date.

ACORE is currently seeking commitments of \$500-\$750 million for AOC II, the second vintage in its opportunistic credit fund series. The Fund is expected to invest primarily in senior whole loans, subordinate debt (mezzanine debt and preferred equity investments), and performing and non-performing loan purchases. These are expected to make up 80-90% of the Fund's portfolio, supplemented by JV equity and securities investments (both targeting 0-10% of the Fund's portfolio). Investments will predominantly be in U.S. primary and select secondary markets, with up to 10% of investments outside of the U.S.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of ACORE's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
  - Most recent on-site investment due diligence visit was conducted March 2024.
- Due diligence of ACORE's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
  - Most recent on-site operational due diligence visit was conducted March 2024.
- Evaluation of the Fund's strategy within the context of the current investment environment; and
- Appropriateness of the Fund's strategy as a component of PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in these funds, since their needs, objectives, and circumstances may not be identical to those of PSERS. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Tim Nest  
Partner, Head of Private Credit



Simon Fludgate  
Partner, Head of Operational Due Diligence