

Value-Added Real Estate Commitment



Exeter Industrial Value Fund III, L.P.

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See Last Page for Disclaimer

Laurann H. Stepp,
Portfolio Manager, Real Estate

Exeter Industrial Value Fund III, LP – Value-Added Real Estate

Overview

- Fund size is anticipated to be \$675 million
- Third in a series of closed-end commingled real estate funds investing in the industrial real estate sector and targeting value-added returns that include a large component (two-thirds of total return) of income yield
- In 2006, Ward Fitzgerald and five additional investment professionals left Liberty Property Trust (“LPT”) and joined with Tim Weber, from Terramics Property Company, to form Exeter Property Group. Since formation, seven additional colleagues left LPT and Terramics to join the Exeter team

Fund Strategy

- Fund will acquire, reposition, lease, develop, operate and sell industrial and business park assets in the major markets of the United States, and select Canadian markets (Vancouver, Calgary, Toronto). Equity investments of \$5M - \$20M will include (i) big box warehouses, which lease to national consumer goods and logistics operations, (ii) multi-tenant industrial, or regional/metro warehouses, and (iii) flex/suburban office, typically leasing to biotech/pharmaceuticals, technology and defense. Development will be limited to 15% for projects less than 75% leased

Investment Team

- The fund will be managed by Ward Fitzgerald and Tim Weber, founders and CEO and CFO, respectively, and 42 investment professionals. Exeter is a fully integrated manager that manages and operates the assets internally. Their real estate offices are headquartered in Plymouth Meeting, PA, and additional offices are located in DC, Atlanta, Austin, Louisville, Chicago, San Francisco and Juno Beach, Florida

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GP “Value Add”

- Leasing success with national tenant relationships as well as local market knowledge and relationships give Exeter the ability to favorably source, lease and price deals. Due to extensive relationships, over 50% of the 115 investments made between 2007-2013 were sourced off market or were limited competition situations
- Expertise in repositioning, redeveloping and developing properties allows them to select investments that others may avoid, at more attractive pricing. After developing, renovating and leasing, Exeter creates core portfolios to extract disposition premiums upon exit
- Management team has been together over an average of fifteen years, and has 20+ years experience, which covers multiple market cycles since the late 1980's. Exeter has not lost any members during or after the financial crisis

Performance (as of June 30, 2013)

- The \$1.2B of transactions completed by the Senior Management of Exeter while at Liberty Property Trust from 1996-2006 were estimated to produce a gross IRR of 28.8% and a gross 3.2x MOC
- Exeter Fund I (2007) net 1.2x MOC and a 5.75% net IRR. Project 8.3% net IRR and 1.5x net MOC
- Exeter Fund II (2011) net 1.1x MOC and a 15.5% net IRR, including 7% from income. Project 15% net IRR (9% from income) and 1.7x net MOC
- Exeter Fund III (2013) will target a net 1.7x MOC and a 13-14% net IRR

Market Opportunity

- Favorable supply-demand environment supports income growth, as trade and population growth drive warehouse demand. Obsolescence due to logistical innovations curtail desirable supply
- Troubled, leverage-induced sellers provide opportunities to invest at favorable pricing. Pricing remains 15% below peak in 2007
- Strong investor demand for diversified, income-producing portfolios of large scale drives robust exits

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History with PSERS

- This will be PSERS second fund investment with Exeter. In early 2012, PSERS invested \$75M in Exeter Industrial Value Fund II, LP.

Board Issues

- Pennsylvania Presence – Headquarters in Plymouth Meeting, PA
 - 6 investments in suburban Philadelphia including 1,030,000sf at a cost of \$140M
 - 3 investments in Lehigh Valley including 834,000sf at a cost of \$34M
 - 5 investments in Harrisburg and York including 1.9Msf at a cost of \$80M
- Placement agents – Hodes Weill & Associates for potential international limited partners
- PA political contributions – None
- Relationship with consultant – None

Recommendation

- Staff, together with Courtland Partners, Ltd., recommends that the Board invest an amount not to exceed \$75 million plus reasonable normal investment expenses

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COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

127 PUBLIC SQUARE
SUITE 5050
CLEVELAND, OH 44114

TELEPHONE: (216) 522-0330
FAX: (216) 522-0331
www.courtland.com

November 18, 2013

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

Re: Exeter Industrial Value Fund III, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Exeter Industrial Value Fund III, L.P. (the "Fund"). As was the case in Fund I and Fund II, the Fund will pursue a value-add strategy in big box warehouse, multi-tenant logistics, and select flex/office properties or related first mortgage whole loans—throughout the United States and select markets in Canada. In particular, the Fund will seek to acquire under-leased and under-managed properties at distressed pricing, as well as partially- to fully-leased assets with growth potential at value-oriented pricing.

While investing in under-leased assets will be a significant component of the Fund's strategy, the inclusion and emphasis on well-leased acquisitions in the portfolio will provide existing cash flow to mitigate leasing risk associated with tenant demand that has improved, but is still only modest by historical standards. Exeter intends to generate strong income returns by actively managing the properties to increase occupancy and reset trough rents to market levels, thereby increasing net operating income ("NOI"). Consequently, Exeter's ability to grow NOI, coupled with its strategy of negotiating long term leases, is expected to generate significant appreciation in asset values.

The acquisition focus will emphasize Class A building features, high quality construction and physical condition, the most sought-after primary markets and locations, and transportation accessibility in order to attract and retain tenants by offering the best functionality among competing properties. While tenant demand fell significantly across all products and markets during the recession, the drop was particularly steep in primary markets and Class A big box warehouse product, which Exeter noted in 2006-2007 were among the most over-valued and over-built, but now post-recession, present excellent long term investment profiles. To further take advantage of the current primary market opportunities, Exeter will leverage its technical expertise to identify and execute repositioning, redevelopment, and development projects in such locations. Exeter believes that the opportunities to acquire and develop big box warehouses in densely populated primary markets are compelling because they not only provide the stability of large existing baseline demand, but are also anticipated to attract much of the new demand resulting from population growth.

The Fund will target big box warehouse and multi-tenant logistics properties that serve concentrated "mega-regional" population centers. In particular, the Fund will target the five largest primary markets—New York/Philadelphia, Chicago, Dallas, Atlanta, and Los Angeles—which are typically a component of popular supply chain models that rely on two, three or five distribution centers to service all of a firm's domestic logistics requirements. Exeter will enhance returns by complementing these five mega-population

markets with a diverse selection of high growth major markets and top-tier distribution hubs which provide geographic advantages and logistics infrastructure such as intermodal “inland ports,” airport freight hubs, and seaports.

Courtland’s recommendation is based upon the following factors and is made within the context of PSERS’ investment guidelines.

- Detailed due diligence, including interviews with key Exeter Property Group management team members, and review of all relevant materials provided by Exeter.
- Evaluation of the Fund’s proposed investment strategy within the context of the current investment environment.
- Evaluation of Exeter’s track record and organizational resources.
- Discussion and review of the market conditions in markets relative to the proposed investment strategy.
- The strategy proposed for the Fund is appropriate for the real estate component of the portfolio.

Based on the above factors, Courtland recommends that PSERS commit up to \$75 million to the Fund. Courtland makes this recommendation considering Exeter’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. Courtland does not provide legal or other non-investment-related advice.

Sincerely,



Steven Novick
Principal-Chief Operating Officer

COURTLAND PARTNERS, LTD.