



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

DRA Growth and Income Fund IX, LLC

Real Estate Commitment

Laurann H. Stepp
Senior Portfolio Manager

May 12, 2016



Recommendation:

Staff, together with Courtland Partners, Ltd, recommends the Board commit up to \$100 million to DRA Growth and Income Fund IX, LLC ("Fund" or "DRA IX"). DRA Advisors, LLC ("DRA" or the "Firm") is sponsoring the Fund to continue the Firm's real estate investment strategy.

Firm Overview:

DRA is a privately-owned registered investment adviser with assets under management of approximately \$7 billion as of December 31, 2015. Founded in 1986 as a subsidiary of the Dreyfus Corporation, DRA was taken private by the partners in 1994. DRA operates solely as an investment manager of commingled funds and since inception the firm has invested on behalf of nine value-added commingled funds. Four of those funds are currently operating and the other five have been fully realized.

For the past 29 years, DRA maintained focus on preservation of capital, downside protection and stability of cash flows. These principles have driven the Firm's value-added investment approach and will continue to be utilized. DRA invests primarily through joint ventures with operators, by purchasing controlling equity interests and loans secured by underlying real estate. A significant portion, 61% historically, of their expected investment returns will be derived from income.

Since inception, DRA has acquired 1,220 properties in 241 transactions with gross cost of \$24.8 billion. They invest across the United States in multiple real estate property types, including: office, retail, multifamily, industrial and other real estate related properties.

Property Type	Number of Properties	Total Square Footage/Units
Office	193	47.7 million SF
Retail	603	55.2 million SF
Multi-family	217	64,261 Units
Industrial	207	31.7 million SF

Market Opportunity:

The generally stable and improving economic conditions in the United States in recent years have led to good real estate fundamentals and healthy overall capital markets. Record transaction volumes and steadily improving occupancies and rent growth has occurred across all major property types and in most markets. As investors continue their search for yield in the broader capital markets, real estate's income return component combined with the ability to finance properties at historically low interest rates appears attractive. However, after seven years of highly accommodative monetary policy many believe that higher interest rates and capitalization rates will ensue. Investing in today's market will require the ability of the owner/operator to acquire properties at a cost basis that provides for a margin of safety relative to where the properties trade today. More focus will be placed on acquisitions at a discount to replacement cost with healthy current levels of income. At this stage of the cycle strong operating skills, asset management and risk management disciplines are essential for success.

Portfolio Fit:

A commitment to the Fund will be allocated to the Real Estate portion of PSERS' Real Assets portfolio. As of December 31, 2015, and adjusted to include commitments from the March, May and the current Board meeting, the Real Estate portfolio is 52.2% Opportunistic, 34.4% Value-Added, and 13.4% Core. Investment in this Fund will increase PSERS' Value-Add real estate exposure, which is currently below a long term target of 50%.

The table below summarizes PSERS' projected exposure inclusive of a recommended \$100 million commitment to the Fund:



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Investment Type (\$M)	Market Value	%	Unfunded	%	Total Exposure	%
Opportunistic	3,245.2	58.6%	1,080.5	39.4%	4,325.7	52.2%
Value-Add	1,536.3	27.7%	1,311.2	47.8%	2,847.5	34.4%
Core	757.6	13.7%	350.0	12.8%	1,107.6	13.4%
Total	\$ 5,539.1	100.0%	2,741.7	100.0%	8,280.8	100.0%

Investment Strategy:

DRA will continue to invest in a diversified portfolio of office, retail, multifamily, industrial and other real estate related properties and assets across the United States and its territories. DRA will increase property income through value-added operational improvements. Fund IX will be invested based on the following investment themes:

Theme	Description
Capitalize on Seller Motivation	Find sellers who seek certainty of execution for: liquidity/capital due to pending loan maturities, compressed timelines, recapitalization of an existing venture. Strategic needs of public REITs, including asset divestiture or outright corporate sale
Emphasize Out-of-Favor Markets	Uncover assets inefficiently priced. Less competition due to perceived lack of quality or liquidity in locations such as: Chicago, Austin, Charlotte, Miami and suburban rings of gateway cities
Strategic Use of Joint Ventures	Acquire most single asset acquisitions through local joint ventures ("JV") with private operators that invest 5-20% of the equity. JV's provide a broad sourcing platform and help generate the most effective business plans. As of December 31, 2015 DRA has 40 active JV relationships, and over the past two years has invested with thirteen new JV partners. DRA maintains control of all major asset decisions
Value Enhancement	As a part of every transaction, identify opportunities to increase revenue. Accomplished through: leasing, increased rents, reduced expenses, corrected management, capital expenditures/renovations

Investment Structure:

The Fund investors will choose to invest in a Delaware Limited Liability Company, DRA Growth and Income Fund IX, LLC or a 100% owned subsidiary Maryland Business Trust, DRA G&I Fund IX Real Estate Investment Trust. The combined entities will form DRA Growth and Income Master Fund IX, LLC, a Delaware Limited Liability Company that will invest in properties.

The Fund's sponsor, DRA Advisors LLC, is registered as an investment adviser with the SEC and will act as Managing Member of the Fund through a Delaware Limited Liability Company, Manageco IX, LLC.

Investment Instruments:

Investments are expected to be interests in real estate properties.

Investment Team:

The fund will be managed by thirteen partners, including David Luski, one of the two founding partners. The thirteen partners also (i) own 100% of DRA, (ii) average 20 years with DRA and 25 years in the real estate industry, and (iii) comprise the investment committee. Most of the 79 employees work out of the NYC headquarters, and DRA also operates San Francisco and Miami offices to more effectively handle acquisitions and asset management. DRA offers a long-term incentive plan, in which 60% of the non-partner professionals participate. All of the employees are fully dedicated to the fund series, and there are not any other lines of business within DRA.



Investment Highlights:

Longevity and experience of the DRA Team
DRA has exhibited uniquely low turnover at all levels of the firm. The newest Partner, and member of the Investment Committee, has been there twelve years. The fifteen member asset management team has 23 years of average industry experience and has been able to work through any direct property challenges without seeking additional equity, or 'rescue' capital. The firm retains control over major leasing, management, financing and disposition decisions and is the principal driver to execute business plans. DRA is well-known across the country, especially within the realm of value-add real estate, as a reputable partner able to mobilize quickly, and navigate complicated transactions with certainty of available capital to close deals
Sourcing
Partner relationships have been formed over decades, particularly with public REITs. For example, in Fund VIII DRA was able to execute an off-market acquisition and privatization of a public REIT, Inland Real Estate Corporation (IRC). This multi-billion dollar retail real estate company owned 114 properties located in the Midwest U.S. In the past two years, DRA sourced approximately 40% of new transactions, the JV partners sourced 40% and 20% of new transactions were identified jointly
Structuring
DRA has completed three REIT privatizations and numerous large portfolio acquisitions which required structuring complex corporate transactions, including: various forms of secured and unsecured financings and preferred equity. These abilities will be beneficial in the current competitive environment
Track Record Since Inception
Since inception in 1995 through December 31, 2015, DRA has invested over \$24.8B in 1,220 properties in 241 transactions with similar investment strategies. Five of the predecessor funds have been fully realized, and 835 properties have been sold generating a gross realized IRR of 17.3% (estimated 14% net IRR). PSERS investments with DRA have achieved a net 12.4% IRR and 1.5x multiple of invested capital ("MOIC") as of December 31, 2015, even though the first PSERS investment was made prior to the financial crisis

Investment / Risk Considerations:

Market, Competition and Supply
Currently the real estate market is flush with ready capital driving some markets beyond peak pricing. Thus far, real estate fundamentals remain relatively sound and supply substantiated in most markets. DRA does not expect that the market will stay the same over the life of Fund IX. DRA has invested across multiple cycles and considers themselves fundamentally conservative real estate investors that emphasize preservation of capital, downside protection and current cash flow. They do not expect to pursue significant ground-up development and are limited to a maximum of 20%
Reliance on Joint Ventures with Operating Partners
Historically DRA has invested in most of its single property acquisitions through joint ventures with operating partners. As of the end of 2015 there were 40 active JV partners, and in the past two years thirteen new JV relationships were established. These partners invest 5-20% of the equity and DRA retains overall control of the venture. The JV partners are compensated for property management and leasing, as well as a performance based incentive typically with a 15% realized return to DRA capital hurdle. Collaboration with the operating partners brings synergies, fresh ideas and local market knowledge into the decision making process

PSERS History & Performance:

PSERS previously committed to three DRA funds, and one co-investment. The table below summarizes PSERS' investments and DRA performance as of December 31, 2015⁽¹⁾:

Fund (\$M)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	MOIC
DRA Fund VI	RE	2007	148.2	97.4	129.5	33.6	11.1%	1.7x
DRA Fund VII	RE	2011	100.0	101.6	46.5	98.9	16.3%	1.4x
DRA Fund VIII	RE	2014	100.0	41.5	3.1	42.3	13.9%	1.1x
DRA Co-investment	Co-invest	2016	15.0	15.0	0	15.0	----- ⁽¹⁾	1.0x
Total			363.2	255.5	179.1	189.8	12.4%	1.5x

(1)The DRA Co-Investment was funded March 22, 2016 and held at cost.



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Finance Committee Disclosure:

Relationship with Courtland Partners, Ltd:	None Disclosed
Introduction Source:	Fund Sponsor
Placement Agent:	No
PA Political Contributions:	None Disclosed
PA Presence:	No
Potential Conflicts:	We are not aware of DRA having any investment conflicts
First Time Fund With PSERS:	No
PSERS Internal Alpha Committee Approval:	May 12, 2016

Oversight Responsibility:

Investment Office:	Charles J. Spiller Laurann H. Stepp	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager
External Consultant:	Courtland Partners, Ltd.	

COURTLAND PARTNERS, LTD.

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May 2, 2016

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

Re: DRA Growth and Income Fund IX, L.L.C.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated DRA Growth and Income Fund IX, L.L.C. (the "Fund"). The Fund will pursue a value enhancement strategy in acquiring real estate assets to improve operations and have the potential for capital appreciation. The Fund will seek opportunities for physical value-enhancement and attempt to capitalize on market inefficiencies for example, seller strategic or financial motivation or the existence inefficient capital structures. Investments may include direct and indirect equity interests and loans secured by interests in real estate.

DRA has employed a consistent value-added investment strategy over the past three decades. The Fund team targets investments that offer strong income returns and the potential for capital appreciation. Preservation of capital, downside protection, and stability of cash flows underlie DRA's investment approach. The major themes that are expected to be pursued by the Fund are to attempt to capitalize on seller financial or strategic motivation, an emphasis on out-of-favor markets, the strategic use of joint ventures, and value enhancement.

DRA will also target quality assets in somewhat smaller markets that are often overlooked by competitors. Although these markets demonstrate above-average growth prospects, many investors may shy away due to perceived lack of quality or liquidity. Due to the intense bidding for core assets in gateway markets, DRA believes that properties in secondary markets are more likely to be priced inefficiently. With local market knowledge and conservative underwriting, these situations may offer above average risk-adjusted returns.

DRA's funds are designed to be diversified across the major property types and locations, and predecessor funds are comprised of assets that represent a wide range of value-added investments.

DRA has historically demonstrated the ability to execute on an investment strategy across multiple market cycles. The value-added space in which DRA operates provides for core-like income opportunities with the potential for sizeable upside through future sales, repositioning, or recapitalization. The market cycle at this point in time is favorable for disciplined, value-added approaches.

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 DRA management team members, and review of all relevant materials provided by DRA.

- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of DRA'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 Courtland recommends that PSERS commit up to \$100 million to the Fund. Courtland 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. Courtland does not provide legal or other non-investment-related advice.

Sincerely,



Steven Novick
Principal-Chief Operating Officer

COURTLAND PARTNERS, LTD.