



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Almanac Realty Securities VIII, L.P.

Real Estate Commitment

William P. Stalter
Senior Portfolio Manager

November 8, 2017



Recommendation:

Staff, together with Courtland Partners, Ltd, recommends the Board commit up to \$150 million to Almanac Realty Securities VIII, L.P. ("Fund VIII" or the "Fund"). Almanac Realty Investors ("Almanac", the "Manager" or the "Firm"), a New York, NY headquartered investment firm, is sponsoring the Fund to provide growth capital to public and private companies that own and operate real estate located primarily in the United States.

Firm Overview:

Almanac Realty Investors, LLC was originally known as Rothschild Realty, Inc. from 1981 to 2007 and was the manager to the then existing ARS Fund Series, which were then referred to as the Five Arrows Realty Securities series of funds. John D. McGurk, Matthew W. Kaplan and D. Pike Aloian took ownership of the business in 2007, which was then operated as Rothschild Realty Mangers LLC, and continued the investment and management of the Five Arrows Realty Securities series of funds. In 2011, the firm was renamed Almanac Realty Investors, LLC and each of the existing Five Arrows Realty Securities series of funds was similarly renamed. Accordingly, Almanac Realty Securities I-VI were formerly known as Five Arrows Realty Securities I-VI. The ARS Fund Series is managed by the Managing Principals of Almanac Realty Investors, LLC, a registered investment adviser.

Almanac (together with its predecessor, Rothschild Realty, Inc.), led by the Managing Principals, has over three decades of experience investing in real estate opportunities. The Managing Principals, the majority of whom have worked together for over 27 years, have managed a large number of real estate and securities transactions, having built a successful track record over the course of multiple investment cycles.

Market Opportunity:

The continued improvement of the U.S. economy and the current composition of real estate capital flows provide a compelling environment in which to execute a value-add investment strategy. Even as property and capital market conditions have improved in recent years, there remains a number of owners lacking the time horizon, capital requirements or operating expertise to effectively own, manage and improve assets across multiple property sectors and markets. The market environment creates many opportunities for private placements of debt and equity capital to companies that are active in the ownership, management and enhancement of real estate in the United States This same environment is also supportive for liquidating assets once business plans have been achieved, as there remains strong demand for stabilized real estate assets.

Portfolio Fit:

A commitment to the Fund will be allocated to the Real Estate portion of PSERS' Real Assets portfolio. Using the net market value from March 31, 2017, and adjusting the unfunded to include commitments from the prior and current Board meetings, the Real Estate portfolio would be 21.4% Core, 42.0% Opportunistic, and 36.6% Value-Added. 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 \$150 million commitment to the Fund:

Investment Type (\$M)	Market Value ¹	%	Unfunded	%	Total Exposure ¹	%	Long Term Target (%)
Opportunistic	1,601.9	26.4%	209.2	8.8%	1,811.2	21.4%	20%
Value-Add	2,719.7	44.8%	828.2	34.7%	3,547.9	42.0%	30%
Core	1,744.6	28.8%	1,346.0	56.5%	3,090.6	36.6%	50%
Total	\$ 6,066.2	100%	\$ 2,383.4	100%	\$ 8,449.6	100%	100%

¹Includes Gross PTRES exposure

Investment Strategy:

The Fund's principal objective will be to generate current income and long-term capital appreciation by creating a diversified portfolio of real estate investments. The Fund will provide growth capital to public and private companies that own and operate real estate located primarily in the United States. The Manager will target real estate investments projected to provide a meaningful yield component, with an emphasis on capital preservation and portfolio diversification. The Almanac investment philosophy has been consistent over time:

	Description
Providing Capital To Underperforming Companies	Portfolio Companies seeking to use proceeds to recapitalize their balance sheet and/or grow. In these situations, Almanac will seek to take advantage of pricing dislocations that are often associated with dynamic and evolving real estate investment markets.
Protective Provisions	Almanac will seek to include protective provisions in transaction documentation that allow for additional rights in the event of certain negative events, such as: (i) "springing" board seats in the event that a Portfolio Company breaches certain defined covenants or fails to make contractual payments, (ii) change of control put provisions, (iii) anti-dilution provisions, or (iv) preferential voting rights.
Conservative Balance Sheets	Almanac tends to favor Portfolio Companies that have been conservative in their use of leverage on their balance sheets, and to include covenants restricting leverage at the Portfolio Company level. Almanac will not utilize fund-level debt, with the exception of a subscription line to bridge acquisitions.
Portfolio Construction	Rigorous portfolio construction with ability to make tactical changes based on changing market conditions. Almanac targets investment sizes requiring \$100-500 million of equity.

Investment Instruments:

Investments are expected to be made through a variety of structures, including private placements of debt and equity into private and public real estate companies.

Investment Structure:

The Fund is a Delaware Limited Partnership, sponsored by Almanac Realty Securities. The General Partner, Almanac Realty Partners VIII, LLC, is a Delaware limited liability company.

The Fund will be managed by Almanac Realty Investors, LLC (the "Manager"). The Manager is registered with the U.S. Securities Exchange Commission as an investment adviser.

Investment Team:

The Managing Principals form the leadership of a 29-person team of employees and senior advisors that has a significant combination of real estate, capital markets, and corporate management expertise. These professionals have experience in real estate investment management, including acquisition, development, leasing, construction, underwriting and financing; Almanac has broad capital markets expertise in corporate financing and restructuring, equity underwriting, debt financing and mergers and acquisitions; and, further, the Managing Principals have experience managing and building successful



organizations. Almanac professionals have collectively occupied 69 board seats on 39 different boards of directors.

Investment Highlights:

Proven, Experienced and Cohesive Leadership
Stable and deep team that has been market cycle-tested and is established in focus markets. Key contributors to Almanac's Real Estate Group's demonstrated track record have been the length and breadth of the team's investment experience. The Fund will be supported by 29 investment professionals with extensive and diverse real estate expertise. Each senior investment professional has "hands on" experience across changing real estate market cycles and in a broad range of property types and geographies as owners, operators, developers, borrowers and lenders. Additionally, the Almanac team has earned a reputation for treating their partners with the highest level of fiduciary care.
Track Record Across Cycles
In aggregate, the ARS Funds have achieved their targeted returns while generating attractive current income. As of June 30, 2017, the aggregate ARS series of funds were projected to generate a combined 12.9% net IRR and a 1.5x net MoC, of which approximately half of the total return was derived from current income.
Range of Investment Structures
Almanac's track record has been established by successfully deploying capital in: (i) senior securities such as debt or preferred equity and (ii) common equity in portfolio companies or joint venture investments in partnership with portfolio companies. Structures often include rights to convert debt to equity or provide equity warrants or equity like participation rights.

Investment Considerations:

Competitive Market
The Fund will be competing for investments with many other real estate investment vehicles, as well as private investment funds, advisers managing pension fund separate accounts, foreign investors, institutional investors, family groups and wealthy individuals. Further, this competition could limit the number of suitable investment opportunities offered to the Fund, and may also increase the bargaining power of company owners, making it more difficult for the Fund to make new investments on attractive terms.
The Almanac team has demonstrated patience in investing the capital of predecessor funds. Additionally, the investment period for Fund VIII ends four years following the final close, affording the team adequate time to deploy Fund capital in a thoughtful manner.
Long-Term Investment Horizon
The term of the Fund will be 10 years from the final closing, which may be extended for two additional one-year periods at the General Partner's discretion and thereafter for an additional one-year with approval of a Majority-in-Interest of the Limited Partners. While the Fund will target a meaningful portion of total return from current yield, it is possible that cash flows could be delayed by market disruptions.
Development, Redevelopment and Construction Risks
The Fund may invest in real estate companies that invest in real properties requiring construction, new development or redevelopment activities that could subject the Fund to a number of risks, including risks associated with: construction delays, costs overruns, permitting delays, difficulty in obtaining construction financing and/or disruptions in labor availability and material shortages.
The team is experienced with projects of this ilk, however prior Almanac funds have not had significant exposure to development projects. To mitigate risks, the Almanac team structures investments where they have an active role in corporate governance in portfolio companies and will have significant influence on major business decisions.



PSERS History & Performance:

Since 2007, PSERS has committed \$343.4 million to three Almanac real estate partnerships and four Almanac co-investments. The following table summarizes PSERS' historical performance with Almanac, as of March 31, 2017:

Fund (\$,M)	Vintage	Fund Size	Commitment	Contributions	Distributions	NAV	Net IRR	MoC
Almanac Realty Securities V, L.P.	2007	839.2	100.0	98.7	129.1	19.7	11.5%	1.5x
Almanac Realty Securities VI, L.P.	2012	819.1	100.0	61.2	44.5	41.8	16.6%	1.4x
Almanac Realty Securities VII, L.P.	2015	1,263.5	100.0	34.1	0.5	38.0	10.1%	1.1x
Almanac Co-Investments	Various	n/a	43.4	27.3	1.6	30.9	20.4%	1.2x
Total			\$343.4	\$221.3	\$175.7	\$130.4	12.7%	1.4x

Finance Committee Disclosure:

Relationship with Courtland:	None disclosed
Introduction Source:	Fund Sponsor
Placement Agent:	None
PA Political Contributions:	None disclosed
PA Presence:	Almanac Funds (III-VI) have made investments in five companies located in PA. Three investments have been realized; current investments include a Mortgage REIT and a Hospitality Finance company.
Potential Conflicts:	We are not aware of Almanac having any conflicts
First Time Fund With PSERS:	No
PSERS Allocation Implementation Committee Approval:	November 8, 2017

Oversight Responsibility:

Investment Office:	Charles J. Spiller William P. Stalter	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager
External Consultant:	Courtland Partners	

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October 27, 2017

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

Re: Almanac Realty Securities VIII, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Almanac Realty Securities VIII, L.P., ("the Fund"). The Fund is sponsored by Almanac Realty ("Almanac"), formally known as Rothschild Realty. From the time of its founding in 1981, it has invested into a wide array of real estate companies and opportunities. Since 1996, its primary investment activity has consisted of making private placements into public and private real estate operating companies through its Almanac Realty Securities private equity funds. The majority of the Almanac team has worked together for over 25 years.

The investment strategy for the Fund is expected to continue Almanac's strategy of investing growth capital via private placements of debt and equity in high-quality real estate companies that are active in the ownership, management, and enhancement of real estate in the United States. The investment strategy will primarily fall within the following two investment categories: structured investments and common equity investments. Fund investments are typically structured as convertible debt or preferred equity in order to enable the Fund to earn a high current income return, while seeking to generate capital gains by growing a company's equity value through acquiring, developing, and/or repositioning real estate assets.

Almanac's approach is premised on investing in companies with high-quality management teams that have long-standing and proven track records. The targeted companies are focused on generating recurring real estate cash flow and have a demonstrated competitive advantage with a real estate niche. Almanac focuses on a pricing discipline that is based on a company's net asset value and projected unleveraged real estate returns.

Almanac expects that most of the Fund's portfolio investments will be structured with a five to eight year holding period. Almanac believes that this time period will allow a portfolio company to realize its business plan and capture enterprise value. Exit strategies include a sale of the equity stake or debt position, a sale or IPO of the portfolio company, or a partial or complete liquidation or recapitalization of the assets of the portfolio company.

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

- Detailed due diligence, including on-site interviews with key Almanac management team members, and review of all relevant materials provided by Almanac.

- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Almanac'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 \$150 million to the Fund. Courtland makes this recommendation considering Almanac'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
Managing Principal

COURTLAND PARTNERS, LTD.