

Public Investment Memorandum

Bell Institutional Fund VII, L.P.

Value-Add Real Estate Commitment

Melissa A. Quackenbush
Senior Portfolio Manager

May 23, 2019



Recommendation:

PSERS Investment Professionals, together with Hamilton Lane, recommends the Board commit up to \$100 million to Bell Institutional Fund VII, L.P. ("Fund" or "Bell VII"). Bell Partners ("Bell" or the "Firm") seeks to acquire well-located, institutional quality, multifamily assets in targeted markets across the U.S. to generate attractive total returns using value added strategies.

Firm Overview:

Bell Partners is a privately-owned firm founded in 1976 by Stephen Bell and currently owned with his sons, Jon and Durant, both of whom are fully engaged in the firm business. During its 40+ year history, Bell Partners has grown to become one of the largest and most experienced multifamily real estate platforms in the U.S. with approximately 50,000 units currently under management.

Bell's disciplined approach to investment management has produced a track record of favorable returns. Per Preqin, a recognized industry provider of financial data and information on the alternative assets market, Bell Partners is ranked as one of the most consistent top performing real estate private equity firms globally since 2014. As of December 31, 2018, Bell Partners has realized 246 apartment investments generating a 17.5% net levered return and a 2.1x Multiple of Capital (MoC).

Since 2002, Bell has invested approximately \$3.4 billion of equity on behalf of investors and partners in 301 multifamily assets, including realized and unrealized investments.

The fund platform was created in 2006, and since then six funds with total equity commitments of \$1.5 billion have been launched and subsequently invested on behalf of institutional and high net worth investors. Four of the six funds have been fully realized. Prior to the formation of the fund platform, the firm's investment vehicles were comprised of separate accounts as well as strategic joint ventures with institutional partners.

Beginning in 2008, Bell focused solely on the multifamily sector. Prior to 2008, investments were made in senior living, office and retail assets – these assets have since been successfully sold or liquidated.

Bell Partners is led by a senior management team with an average of over 25 years experience. This team has invested throughout all phases of the real estate cycle and has worked together in various capacities for almost 10 years.

Bell has an extensive operating platform with approximately 1,200 employees in eight offices, including its headquarters in Greensboro, NC. A vertically integrated company, Bell has expertise in fund management, acquisition/dispositions, property management/operations, and construction management.

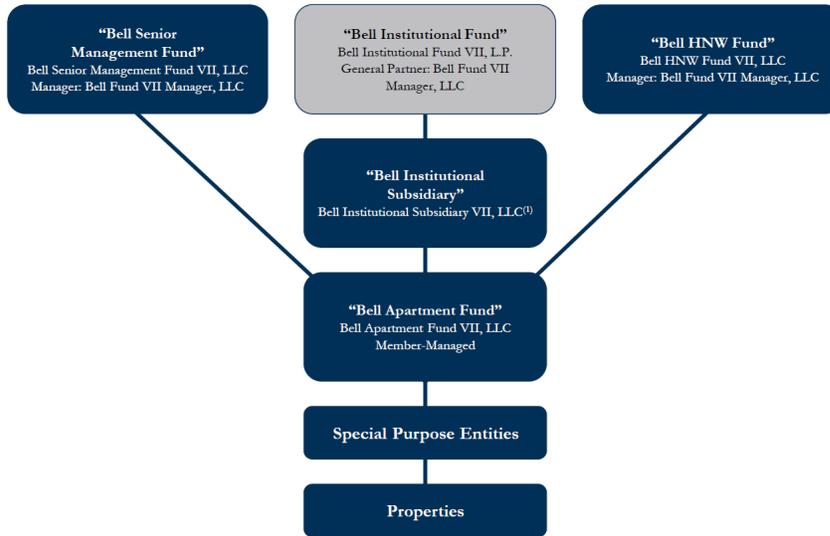
Fund Size:

Bell Apartment Fund is targeting capital commitments of approximately \$800 million (targeting \$700 million from Bell Institutional Fund VII, L.P. and approximately \$100 million for the concurrent Bell High Net Worth Fund VII LLC). Bell Senior Management Fund will invest a minimum of \$12 million in Bell Apartment Fund.



Fund Structure:

The Fund structure is depicted below. Bell Institutional Subsidiary will elect to be treated as a REIT for U.S. federal income tax purposes.



Bell Senior Management fund is made up of eligible Bell employees who write personal checks using after tax dollars. There has been 100% participation at the Executive Vice President and higher level. Certain Vice Presidents, and all Senior Vice Presidents and higher are eligible to participate in this vehicle.

Investment Strategy:

The Fund’s investment strategy will be to acquire well-located, institutional quality, multifamily properties in the defined Target Markets across the U.S. that generate attractive returns through lower risk value-enhancement strategies. The Fund will focus exclusively on conventional, market rate U.S. multifamily investments (i.e., no senior housing, student, or tax credit/government subsidized strategies).

The targeted risk spectrum is value-add and the Fund will target a net levered IRR of 11-13% and a net MoC of at least 1.8x over the investment period utilizing 65% leverage.

Bell will drive value by renovating and repositioning older communities, improving property operations, acquiring newer, high quality assets in emerging neighborhoods, and taking advantage of pricing dislocations.

Investment Team:

The fund will be managed by Lili Dunn, President, with the support of Jon Bell, CEO, and nineteen investment professionals. The Firm is a fully integrated manager that manages and oversees assets internally. Bell Partners’ real estate offices are headquartered in Greensboro, North Carolina and, including their seven additional regional offices located in target markets, are staffed with approximately 1,200 employees. Senior Vice Presidents and above participate in the Fund’s carried interest. Certain Vice Presidents and above participate in the annual cash profit sharing plan.

Averaging 25 years of real estate investment experience, the senior management team is deeply experienced. Many have previously worked at well-known institutional investors and public REITS. The senior members of the team are a cohesive group with most of the teaming having worked together for almost 10 years.



Investment Structure:

Institutional Fund investors will invest in Bell Institutional Fund VII, L.P., a Delaware Limited Partnership, which combined with parallel entities for the high net worth investors and senior management, will form Bell Apartment Fund VII, LLC.

The Fund's sponsor, Bell Partners Inc., is wholly owned by Steve, Jon and Durant Bell, and will act as General Partner of the Fund through a Delaware Limited Liability Company, Bell Fund VII Manager, LLC.

Investment Instruments:

Investments are expected to be interests in real estate properties.

Market Opportunity:

Apartments have historically provided among the highest risk adjusted returns in the real estate sector and are projected to continue to have healthy supply/demand fundamentals and long term cashflow. In 2018, the multifamily sector was the most actively traded real estate asset class for the third consecutive year as investors continue to recognize the sector's solid performance. The NPI annual return for apartments averaged 9.1% from 1986-2018, higher than all other real estate asset classes.

Several third-party reports on the multifamily sector were reviewed and the general consensus is that the multifamily sector is healthy and is expected to remain so in the near term even with elevated new supply levels.

Some of the common themes among the reports are:

- Solid rent growth predicted and only modest increases in vacancy levels in 2019 despite slightly elevated new supply levels
 - **SUPPLY:** Even as new supply remains elevated into 2020, robust demand related to changing demographics and consumer preferences continues to push rents up and vacancies down.
 - At the national level, data shows consistent healthy apartment absorptions – averaging about 310,000 annually in the past year.
 - U.S. Census Bureau data showed multifamily completions flat in 2018 when compared to 2017 (November data release). Completions could increase slightly but are expected to remain near current levels for the short term.
 - Permit growth is relatively flat while starts are up 7% - this might suggest that elevated levels of deliveries might continue into the near term.
 - However, in certain markets there are pockets of oversupply, particularly in urban locations.
 - **RENT GROWTH:** U.S apartment rents for new tenant leases climbed 3.3% in 2018 despite the delivery of approximately 287,000 units. Apartment rents have been rising on an annual basis for 34 quarters.
 - Rent growth is expected to range from 3-4% in 2019 and remain above historical averages in most of the markets. Highest revenue growth is expected to occur in several Florida markets.
 - Rents will vary across markets. But even in areas with slowing rent growth, most metros will see rent growth surpass the target inflation rate of 2 percent.
 - **OCCUPANCY:** Occupancy is on the uptick and was 95.2% in February 2019 as the sector emerges from the seasonally slow leasing season. This is the strongest February on record in the current economic cycle.
 - Vacancy rates are expected to remain at or below their respective historical averages for most metros in 2019 despite new supply entering the market.
 - Overall occupancy rates are predicted to range from 94-95%.
 - Notwithstanding the foregoing, it is acknowledged that there are weaknesses in individual markets and submarkets but overall the multifamily market remains healthy.



- Cap rates will eventually begin to rise with a rise in Treasury rates
 - Cap rates have remained low through 4Q 2018 and in fact have been falling over the past few quarters despite rising interest rates. While higher interest rates have caused cap rate spreads to compress, the spread remains near the long-term average. Solid fundamentals and investor demand for multifamily housing have continued to push pricing up, however, it is anticipated that cap rates will eventually rise as Treasuries rise and thereby dampen property price growth.

Investment Highlights:

- Attractive total returns in the U.S. apartment sector
- Experienced and cohesive Senior Management Team
- Proven track record
- Vertically integrated, single asset focus
- Research driven approach to Target Markets
- Robust investment process
- Allocation Policy
- Dedicated Risk Management Team

Investment / Risk Considerations:

- Slowdown in rent growth, pockets of over supply
- Abundant capital in the market
- Leverage

PSERS History & Performance:

PSERS previously committed to three Bell funds, one co-investment and four direct investments. The table below summarizes PSERS' investments and Bell performance as of September 30, 2018:

<u>Fund (\$M)</u>	<u>Vintage</u>	<u>Fund Size</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>MoC</u>
PSERS Real Estate Internal	2014	23.6	10.0	10.3	4.0	15.1	21.4	1.9
Bell Institutional Fund IV, LLC	2011	200.0	75.0	72.7	124.6	16.8	17.6	1.9
Bell Institutional Fund V, L.P.	2013	425.0	75.0	72.2	13.2	88.1	12.5	1.4
Bell Institutional Fund VI, L.P.	2016	600.0	75.0	31.8	0.6	31.5	1.3	1.0
Keystone Miramar LLC	2018	37.1	37.1	37.1	0.1	37.2	0.5	1.0
Keystone Orlando LLC	2018	67.2	67.2	67.2	0.3	67.4	0.8	1.0
Keystone Parkland LLC	2018	93.2	93.2	93.2	0.3	93.6	0.7	1.0
Total			\$ 432.5	\$ 384.5	\$ 143.1	\$ 349.6	15.2%	1.3x

The fourth direct property is not shown in the chart above as it did not close until February 8, 2019.



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 September 30, 2018 and adjusting the unfunded to include commitments from the prior and current Board meetings, the Real Estate portfolio would be 22.0% Core, 39.9% Opportunistic, and 38.1% Value-Added.

The table below summarizes PSERS' projected exposure inclusive of a recommended \$100 million commitment to the Fund as of September 30, 2018 and excludes exposure to the open-end redemptions:

Investment Type (\$M)	Market Value ⁽¹⁾	%	Unfunded	%	Total Exposure ⁽¹⁾	%	Long Term Target (%)
Core	1,570.5	28.1%	315.1	10.6%	1,885.7	22.0%	20%
Opportunistic	2,346.9	41.9%	1,077.3	36.2%	3,424.2	39.9%	30%
Value-Add	1,679.3	30.0%	1,585.3	53.2%	3,264.5	38.1%	50%
Total	\$ 5,596.7	100%	\$ 2,977.7	100%	\$ 8,574.4	100%	100%

⁽¹⁾ Includes Gross PTRES Exposure

Finance Committee Disclosure:

Relationship with Hamilton Lane:	None Disclosed
Introduction Source:	Fund Sponsor
Placement Agent:	Yes, Park Hill. – Not used for PSERS. PSERS will not be charged any placement agent fees and Park Hill will not receive any fees whatsoever in connection with an investment in the Fund by PSERS.
PA Political Contributions:	None Disclosed
PA Presence:	None Disclosed
Potential Conflicts:	None
History With PSERS:	This will be PSERS fourth fund investment with Bell. Additionally, PSERS has four separate account investments with Bell.
PSERS Allocation Implementation Committee Approval:	May 23, 2019

Oversight Responsibility:

Investment Office:	Charles J. Spiller Melissa A. Quackenbush	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager
External Consultant:	Hamilton Lane	



Hamilton Lane

April 1, 2019

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

Re: Bell Institutional Fund VII, L.P.

Dear Trustees:

Bell Partners Inc. ("Bell") was founded in 1976 by Steve Bell and is a vertically-integrated owner and operator of multifamily properties across the United States. Steve Bell serves as the firm's Chairman, where he oversees all aspects of the company, and is supported by Jon Bell, his son, and Lili Dunn, who serve as CEO and President, respectively. The General Partner's longstanding presence in each of its target markets has enabled it to develop deep relationships, contributing to its sourcing capabilities. Additionally, Bell has built out its research capabilities as it leverages its large portfolio to update market forecasts on a quarterly and annual basis, supporting its research-oriented, top-down approach to market selection. The investment team is led by Nickolay Bochilo, who is primarily responsible for sourcing opportunities and overseeing all transactions. The General Partner has an integrated investment process, which encourages end-to-end involvement of both investment and operations professionals. Asset management, property management and construction services professionals work together within an asset team during diligence, repositioning and stabilization. Bell's significant resources enable it to add value through hands-on management and drive operational efficiencies through economies of scale. Bell is targeting \$800 million in commitments for its seventh dedicated multifamily real estate fund, Bell Institutional Fund VII, L.P. (the "Fund"). Bell expects to hold a first close in June or July 2019. The General Partner will commit at least \$10 million to invest in the Fund.

Consistent with prior funds, the Fund will seek to create a geographically-diversified portfolio of multifamily investments located in primary and secondary growth markets within the United States. Bell has identified 14 primary and secondary target markets that are highly liquid and exhibit favorable demographics, such as a growing, educated population of at least 2 million: Boston, MA; Washington DC; Nashville, TN; Raleigh, NC; Charlotte, NC; Atlanta, GA; Orlando/Tampa, FL; Ft. Lauderdale, FL; Dallas, TX; Austin, TX; Denver, CO; Seattle, WA; San Francisco, CA and Los Angeles, CA. The General Partner assesses its target markets based on short-term opportunities and long-term historical performance and leverages its extensive portfolio to inform its market selection, leaning in or out of certain markets depending on relative attractiveness. Bell has historically targeted high-quality assets that are usually between 10 and 15 years old and in need of light value-additive repositioning and redevelopment. The General Partner targets properties with strong in-place occupancy and current cash flows, enabling it to capture immediate income while executing its asset plan. Post-acquisition, Bell leverages its local, on-the-ground resources to improve and manage properties. The team seeks to create value through four key strategies that are designed to improve the cash flow and positioning of the asset, including physical renovation, management repositioning, transitioning neighborhoods and pricing dislocation. The Fund will target 25 to 35 equity investments in the range of \$10 million to \$50 million, targeting properties valued between \$30 million and \$125 million. Bell has generated top-quartile and near top-quartile returns in various market environments on a net IRR and DPI basis.

Bell Institutional Fund VII's investment thesis can be summarized as follows:

- Access to broader national platform supports investment activities and drives value creation



Hamilton Lane

- Experienced and cohesive senior investment team with deep expertise and networks in target markets
- Focus on investing in modern assets located in attractive markets across the U.S.
- Bell has consistently generated top-quartile and near top-quartile returns across prior funds

Hamilton Lane's recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania, Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed February 25, 2019; the on-site due diligence was conducted February 28, 2019; the Fund was approved by Hamilton Lane's Investment Committee on March 18, 2019 and the recommendation to PSERS was issued April 1, 2019
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured
- Detailed operational due diligence, including interviews with Bell's back office team to review the controls and processes surrounding the firm's finance, fund administration, tax, legal, compliance, IT, HR, and accounting functions
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment
- The strategy proposed for the Fund is appropriate for the Private Real Estate component of the portfolio

The individuals at Hamilton Lane who were involved in the due diligence process for the Fund are:

Scott Davies – Principal, Portland Office

Tim Delaney – Analyst, Bala Cynwyd Office

Chelsea Yasgur – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million in Bell Institutional Fund VII, L.P. Hamilton Lane 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. Hamilton Lane does not provide legal or other non-investment-related advice.

Sincerely,

Michael Koenig,
Chief Client Officer

Corina English,
Principal