

Public Investment Memorandum

DRA Growth and Income Master Fund X, LLC

Value - Add Real Estate Commitment

Melissa A. Quackenbush
Senior Portfolio Manager

July 11, 2019



Recommendation:

PSERS Investment Office Professionals ("IOP"), together with Hamilton Lane, recommend the Board commit up to \$100 million to DRA Growth and Income Master Fund X, LLC ("Fund" or "Fund X"). DRA Advisors, LLC ("DRA" or the "Firm") is sponsoring the Fund. Fund X's strategy is a continuation of the strategy that DRA has employed with their previous value-add funds.

Firm Overview:

DRA is a privately-owned registered investment adviser with assets under management of approximately \$10 billion as of December 31, 2018. Founded in 1986 as a subsidiary of the Dreyfus Corporation, DRA was taken private by the partners in 1994. Today, DRA's management team is made up of fourteen partners, including one of its original founders, and is 100% privately owned by all partners. DRA headquarters is in New York City. DRA has satellite offices in Miami and San Francisco to facilitate acquisitions and asset management of its portfolio in these regions. Since its inception, DRA has invested on behalf of ten value-added comingled funds (and their related co-investment vehicles), six of which have been fully realized and four of which are currently operating.

For the past 32 years, DRA has focused 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 continues to invest primarily through joint ventures with operators, by purchasing controlling equity interests, and through loans secured by underlying real estate. Historically, approximately 60% of their expected investment returns will be derived from income.

Since inception, DRA has executed a focused, value-added investment strategy building a track record over multiple market cycles. DRA has acquired 1,642 properties in 303 transactions with aggregate acquisition costs of \$30.4 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 (SF)/ Units
Office	215	52.9 million SF
Retail	777	81.8 million SF
Multi-family	229	69,688 Units
Industrial	421	57.3 million SF

Market Opportunity:

Despite being this late in the economic cycle, the outlook remains healthy for all major commercial real estate asset types. Rebounding equity markets, low unemployment figures, stronger than expected 1Q 2019 GDP, and ongoing strength in real estate occupier fundamentals has fueled investor optimism year to date. However, given the current geopolitical environments, trade wars, and current asset pricing, investors are taking a more defensive position and proceeding with caution. The value-add space is currently the most attractive along the risk-return spectrum with an emphasis on the cash component of total return. Prudent investors are underwriting slower rent growth across most sectors and wider exit capitalization rates while showing a preference for more liquid and secure markets. In the search for alpha, many investors will continue to pursue secondary markets with those markets outside of the path of growth factoring in a pricing correction.

With many investors anticipating a rising interest rate environment, capitalization rate compression will no longer be the driver of returns. To manage downside risk, investors should look to managers that acquire properties below replacement cost and have the ability to drive revenue growth through improved operations, accretive property upgrades, and right sized financing.



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 December 31, 2018, and adjusting the unfunded to include commitments from the prior and current Board meetings, the Real Estate portfolio would be 20.7% Core, 38.9% Opportunistic, and 40.3% Value-Added.

The table below summarizes PSERS' projected exposure inclusive of a recommended \$100 million commitment to the Fund as of December 31, 2018 and excludes exposure to the open-end redemptions:

Investment Type (\$M)	Market Value ⁽¹⁾	%	Unfunded	%	Total Exposure ⁽¹⁾	%	Long Term Target (%)
Core	1,436.0	26.8%	307.5	10.1%	1,743.5	20.7%	20%
Opportunistic	2,231.1	41.7%	1,041.6	34.1%	3,272.7	38.9%	30%
Value-Add	1,688.7	31.5%	1,701.4	55.8%	3,390.2	40.3%	50%
Total	\$ 5,355.8	100%	\$ 3,050.5	100.0%	\$ 8,406.3	100.0%	100.0%

⁽¹⁾ Includes Gross Publicly Traded Real Estate Exposure (PTRES) Exposure

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 X will be invested based on the following investment themes which are consistent with those in the prior fund:

Theme	Description
Capitalize on Seller Motivation	Find sellers who seek certainty of execution for: liquidity/capital due to pending loan maturities, compressed timelines, or recapitalization of an existing venture. Capitalize on the strategic needs of public REITs, including asset divestiture or outright corporate sale.
Emphasize Out-of-Favor Markets	Uncover assets inefficiently priced where there is less competition due to perceived lack of quality or liquidity in locations such as: Chicago, Minneapolis, Pittsburgh, Charlotte, and suburban rings of gateway cities. Although these markets provide above-average growth prospects, DRA believes that many institutional investors may shy away due to perceived lack of quality or liquidity.
Strategic Use of Joint Ventures	Acquire most single asset acquisitions through local joint venture relationships ("JV") with private operators that invest 5-20% of the equity. JV's provide a broad sourcing platform and help generate effective business plans. As of December 31, 2018, DRA has 48 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, DRA identifies opportunities to increase net operating income. This can be accomplished through: leasing, increased rents, reduced expenses, corrected management, and capital expenditures/renovations. DRA has been able to significantly renovate well-situated assets in solid growth markets while still being able to compete on rents. This strategy is designed to keep major tenants, offer improved amenities with affordable rents or attract new tenants to a previously less competitive or "tired" asset.

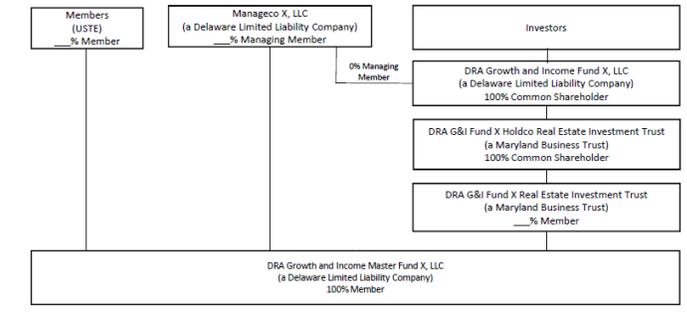
Investment Structure:

The Fund investors may choose to invest in a Delaware Limited Liability Company, DRA Growth and Income Master Fund X, LLC or any of the upstream entities which feed directly into the master fund. Prior to DRA Fund VIII, the REIT was below the master fund. By moving the REIT from below the master fund to above the master fund, investors that do not desire to invest through a REIT have greater structural flexibility, furthermore, this addresses a particular investor's investment policy requirements which in prior funds necessitated the formation of parallel vehicles (which creates more administrative complexity) and mitigates certain tax efficiencies that result from prior fund structures where the REIT was below the master fund. It is important to note that all economics occur at the master fund level.



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 X, LLC.

DRA Growth & Income Master Fund X, LLC



Investment Instruments:

Investments are expected to be direct and indirect equity interests and loans secured by interests in real estate properties.

Investment Team:

The fund will be managed by fourteen partners, including David Luski, one of the two founding partners (Frank Tansey was the other founding partner; Frank retired in 2010). The fourteen partners also (i) own 100% of DRA, (ii) average 21 years with DRA and 25 years of relevant experience, and (iii) comprise the investment committee. Most of the 88 employees work out of the NYC headquarters. 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 approximately 40% of the non-partner professionals participate.

Investment Highlights:

- Deal Sourcing/Investment Discipline
- Proven Investment Principles
- Emphasis on Cash Flow
- Experienced & Cohesive Senior Management Team
- Proven Track Record

Investment / Risk Considerations:

- Pursuing opportunities in less liquid/less institutional markets
- Management Fee Based on Gross Asset Cost
- Reliance on Joint Ventures with Operating Partners
- Use of Leverage

PSERS History & Performance:

PSERS previously committed to four DRA funds, and two co-investments. The table below summarizes PSERS' investments and DRA performance as of December 31, 2018:



Fund (\$M)	Vintage	Fund Size	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
PSERS Real Estate Internal Total	2017	41.2	15.0	14.4	7.9	10.1	16.1	1.3
PSERS Real Estate Internal Total	2016	302.0	15.0	15.0	4.7	13.9	9.3	1.2
DRA Growth and Income Fund IX, LLC	2016	1,576.0	100.0	52.8	13.1	50.1	19.6	1.2
DRA Growth and Income Fund VI, L.P.	2007	1,250.0	148.2	97.4	153.9	11.7	10.7	1.7
DRA Growth and Income Fund VII, L.P.	2011	1,000.0	100.0	106.6	162.6	57.3	20.8	2.1
DRA Growth and Income Fund VIII, LLC	2014	1,350.0	100.0	101.7	50.8	84.1	12.2	1.3
Total			\$ 478.2	\$ 387.8	\$ 392.9	\$ 227.1	14.0%	1.6x

Finance Committee Disclosure:

Relationship with Hamilton Lane:	None disclosed
Introduction Source:	Prior fund investor; PSERS has been investing with DRA since 2007.
Placement Agent:	DRA does not engage placement agents.
PA Political Contributions:	Neither the Sponsor nor its employees have made any political contributions for state or local office in the Commonwealth of Pennsylvania in the prior three years. Additionally, no political contributions required to be reported pursuant to P.S. §3260(a) have been made in the past year.
PA Presence:	As of 12/31/18, DRA owns five properties in Pennsylvania which employ 22 people. Property location are as follows: 2 in Pittsburgh, 1 in Northampton, 1 in Philadelphia and 1 in Middletown. These five properties total 1.3 million square and have a total market value of \$136.8 million.
Potential Conflicts:	None reported to PSERS.
First Time Fund With PSERS:	No, PSERS has committed \$478.2 million to DRA over the past 12 years. PSERS' Relationship with DRA began in 2007 with Fund VI and continued on with Funds VII-IX and two co-investments.
PSERS AIC Approval:	July 11, 2019

Oversight Responsibility:

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



June 24, 2019

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

Re: DRA Growth and Income Fund X, L.P.

Dear Trustees:

DRA Advisors (“DRA”) was founded in 1986 as a subsidiary within the Dreyfus Corporation, an American investment manager operating across a variety of strategies. DRA was taken private by its Partners in 1994 and has remained wholly owned by its senior team. Since inception, DRA has focused on U.S. value add real estate and has established itself as a leading investor within the space, having invested nine prior funds across multiple market cycles. The General Partner is led by David Luski, a co-founder of the organization, and 14 other Partners, and is split into three divisions: Acquisitions/Dispositions, Asset Management and Portfolio Management. The Acquisitions/Dispositions team focuses on sourcing, due diligence and dispositions for all investments; the Asset Management team is responsible for creating and executing business plans and monitoring progress; the Portfolio Management group concentrates on debt financing, budgeting and investor reporting. Professionals work together across functions, further promoting cohesion within the Firm. The General Partner employs a thorough, multi-staged investment process that utilizes all of its teams’ to fully evaluate an investment, which it has continued to develop since inception. In addition, DRA has established and maintained relationships with a diversified group of private operators that it seeks to work with on a repeat basis to execute underwriting and the development of property specific business plans. DRA is targeting \$1.65 billion in commitments for its tenth value add real estate fund, DRA Growth and Income Fund X, L.P. (the “Fund”). DRA expects to hold a first close in July 2019 and a final close by April 2020. The General Partner will commit at least \$20 million to invest in the Fund.

Consistent with prior funds, DRA intends to opportunistically invest across the U.S., with the intention of investing in markets where it has identified the most attractive relative value. The General Partner expects to diversify across the office, multifamily, retail and industrial sectors and primarily invest in second and third-tier markets throughout the United States. DRA executes a bottom-up investment approach, focusing on markets surrounding specific investments rather than relying on broader macroeconomic trends, and leverages its experience and industry relationships to invest across a variety of markets. The General Partner concentrates on assets that can be purchased at a discount to replacement cost with a visible path to significant near-term cash distribution. DRA expects to pursue control-oriented joint ventures, retaining control of the asset and driving business plans in every investment. The General Partner targets properties with significant growth opportunity as it relates to occupancy rates, as DRA’s dedicated Asset Management team works actively with operators to increase occupancy rates and enhance property value. Key initiatives include physical improvements, enhanced lease up activity, proactive asset management and capital structure optimization. Operators execute post-investment initiatives, and are responsible for day-to-day management, including capital oversight and expense savings, while asset managers at DRA oversee leasing execution and property management. The Fund will target 40 to 60 equity investments in the range of \$15 million to \$40 million, targeting properties valued between \$30 million and \$150 million. Across prior funds, the General Partner has generated attractive returns investing throughout market cycles on a gross and net basis.

DRA Growth and Income Fund X’s investment thesis can be summarized as follows:



Hamilton Lane

- Well-tenured, stable platform supported by operating partner relationships
- Flexible, bottom-up approach to constructing a diversified portfolio
- Attractive performance across market cycles with consistent investment and realization activity

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 April 11, 2019; the on-site due diligence was conducted June 11, 2019; the Fund was approved by Hamilton Lane's Investment Committee on June 17, 2019 and the recommendation to PSERS was issued June 24, 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 DRA'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:

Radhika Cobb – Vice President, Bala Cynwyd Office

Samuel Sugarman – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million in DRA Growth and Income Fund X, 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