Public Investment Memorandum

AG Europe Realty Fund III, L.P.

Value-Add Real Estate Commitment

Melanie A. Cubias
Senior Investment Professional

Melissa A. Quackenbush
Senior Portfolio Manager

July 5, 2019
Recommendation:

PSERS Investment Office Professionals (IOP), together with Hamilton Lane, recommends the Board commit up to $100 million to AG Europe Realty Fund III, L.P. (“Fund”). Angelo Gordon seeks to make investments in commercial real estate in Europe. The Fund expects to focus on major Western European markets, including the United Kingdom, Ireland, the Netherlands, Germany, France, Spain, Italy, Sweden, Denmark, and Norway. Angelo Gordon believes that the Fund will benefit from a value-add strategy in a region with continued high levels of distressed real estate and loan sales and economic fundamentals that continue to lag the recovery seen in the United States.

Firm Overview:


The Firm manages capital across four strategies: (i) real estate; (ii) corporate credit; (iii) direct lending; and (iv) securitized products. In each discipline, the Firm seeks to generate absolute returns, in all market environments and with less volatility than the overall markets, by exploiting market inefficiencies and capitalizing on situations that are not in the mainstream of investment opportunities.

Angelo Gordon is an active investor in a broad range of real estate opportunities in the United States, Europe, and Asia. Over the past 26 years, Angelo Gordon has acquired over $29 billion of real estate assets in over 550 transactions, representing over $12 billion of equity. The Firm has also been a disciplined seller throughout its real estate investment history. As of December 31, 2018, Angelo Gordon has fully realized approximately 66% of these transactions. Since 2009, Angelo Gordon has committed over $1.7 billion of equity to 61 transactions in Europe. Of these, the Firm has had 21 full realizations on which it has earned a 27% gross IRR.

Market Opportunity:

Angelo Gordon believes that the European marketplace continues to offer an attractive macro real estate environment highlighted in many cases by prices for transitional assets below peak levels, attractive fundamentals characterized by stable demand, low vacancy, very limited levels of new supply and a continuing deleveraging by financial institutions, which is expected to offer distressed acquisition opportunities. In addition, non-core and non-performing assets are suffering from a lack of capital and management focus, resulting in underperforming or delinquent assets. Angelo Gordon believes that troubled banks, liquidity-constrained owners, finite life funds and unintentional owners of non-stabilized assets are expected to continue to be active sellers of properties. These properties have represented a large source of acquisitions for the last few years and are expected to provide attractive repositioning opportunities for the Fund.

Angelo Gordon expects these themes to persist over the near term while risks for an economic recession are growing. Angelo Gordon believes that a recession in Europe or in certain countries in Europe may create buying opportunities if loan delinquencies increase or certain owners (for example, open-end funds) become forced sellers. Further investment opportunities may arise from the political uncertainty and transition in various markets across Europe, which could create pockets of real estate investment dislocation. In the United Kingdom, Brexit is a good example of a political event that could lead to short term market disruption which may force some real estate owners to sell.

In its ten-year history, Angelo Gordon has been able to allocate real estate capital tactically among countries in the United Kingdom and Western Europe. The Firm believes that this flexibility and agility,
along with its local presence in all major markets, are essential in an environment where political and economic factors may create shifting buying opportunities among countries or regions.

**Portfolio Fit:**

A commitment to the Fund will be allocated to the Value-Add 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-Add.

The table below summarizes PSERS’ projected exposure inclusive of a recommended $100 million commitment to the Fund, as of December 31, 2018:

<table>
<thead>
<tr>
<th>Investment Type ($)</th>
<th>Market Value (1)</th>
<th>%</th>
<th>Unfunded</th>
<th>%</th>
<th>Total Exposure (1)</th>
<th>%</th>
<th>Long Term Target (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>1,436.0</td>
<td>26.8%</td>
<td>307.5</td>
<td>10.1%</td>
<td>1,743.5</td>
<td>20.7%</td>
<td>20%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>2,231.1</td>
<td>41.7%</td>
<td>1,041.6</td>
<td>34.1%</td>
<td>3,272.7</td>
<td>38.9%</td>
<td>30%</td>
</tr>
<tr>
<td>Value-Add</td>
<td>1,688.7</td>
<td>31.5%</td>
<td>1,701.4</td>
<td>55.8%</td>
<td>3,390.2</td>
<td>40.3%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 5,355.8</strong></td>
<td><strong>100%</strong></td>
<td><strong>$ 3,050.5</strong></td>
<td><strong>100%</strong></td>
<td><strong>$ 8,406.3</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

(1) Includes Gross PTRES Exposure

**Investment Strategy:**

The Fund’s strategy will emphasize the purchase of a range of sub-performing and distressed real estate assets and debt that fall along a value-add spectrum in terms of the requisite business plan for each asset. Business plans may range from modest lease-up and operations improvement to a more significant value-add strategy, which may require complete capital restructuring or asset repositioning to stabilize the underlying asset.

The Fund will purchase assets from owners who lack the capital, the patience or the expertise to improve cash flow and value. The assets are often attractively priced due to inefficiency of the sale process, information gaps due to lender control, specific attributes of the asset, or a unique angle or creative approach which Angelo Gordon may take with regard to the acquisition process or the eventual repositioning of the underlying asset. The Fund intends to focus on the largest, most liquid and institutional markets in Western Europe (notably, the United Kingdom, Ireland, the Netherlands, Germany, France, Spain, Italy, Sweden, Denmark, and Norway). Assets are expected to typically fall in the traditional categories of office, retail, residential, industrial, and hotels, but may include alternative asset classes such as student housing, senior housing, self-storage, and land.

Generally, Angelo Gordon will form an alliance and work in tandem with a local operating partner to correct an asset’s sub-performance, increase cash flow, and add significant value. In many cases, local operating partners are able to source opportunities that are off-market and proprietary, which the Firm believes has created an attractive stream of deal flow. Angelo Gordon has sourced approximately two-thirds of its deal flow in Europe on an off-market proprietary basis or through a broken sales process. An investment model of exclusively using local operating partners is uncommon in Europe and as a result, Angelo Gordon has been able to attract numerous operating partners across its target markets. Angelo Gordon expects to continue to leverage the Firm’s deep network of relationships with leading European banks, loan servicers, and bankruptcy liquidators to acquire many properties in privately negotiated processes.
The Fund will be invested based on the following investment themes:

<table>
<thead>
<tr>
<th>Theme</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Performing Assets</td>
<td>Clearly identifiable reasons for underperformance and a well-defined and achievable plan for turnaround.</td>
</tr>
<tr>
<td>Attractively Priced</td>
<td>Purchase price and forecasted stabilized value that are at discounts to replacement cost or competition.</td>
</tr>
<tr>
<td>Markets with strong fundamentals</td>
<td>Favorable long-term demand growth in the local market. Barriers to new supply in the local market due to restrictions on land availability, zoning, or entitlement.</td>
</tr>
</tbody>
</table>

**Investment Structure:**

PSERS will invest as a Limited Partner in AG Europe Realty Fund III, L.P., a Cayman Islands Exempt Limited Partnership.

The Fund’s Advisor/Manager is Angelo, Gordon & Co., L.P., an investment adviser registered with the U.S. Securities and Exchange Commission, and the General Partner of the Fund is AGR Europe III LLC, a Delaware limited liability company. Both are privately owned by the estate of John Angelo, Michael Gordon, over 100 senior employees of Angelo Gordon, and their related parties.

**Investment Instruments:**

The Fund has been formed to make investments in commercial real estate in the United Kingdom and Western Europe. The Fund is authorized to invest in real estate or real estate-related interests of all kinds, including income-producing and non-income-producing real property, performing and non-performing debt obligations secured directly or indirectly by real property, and securities of, or other interests in, entities which own or manage significant interests in real property.

**Investment Team:**

The Fund will be managed by a team of experienced real estate investment professionals with a long and successful history of working together to produce an impressive track record of successful investment results. The team’s experience includes significant operating experience encompassing all aspects of both real estate investment and management, including acquisition, financing, disposition, leasing, and construction management for a broad range of real estate product types in various geographic regions. The purchase of assets that are out of favor and require substantial repositioning demands a great deal of discipline and operating experience supported by fundamental research, a cornerstone of Angelo Gordon's investment approach.

**Investment Highlights:**

- Disciplined Investor – Strong Investment Track Record
- Extensive Network of Deal Sources
- Focused and Proven Investment Strategy
- Experienced Real Estate Team
Investment / Risk Considerations:

- Currency Risk
- Joint Venture Partner Risk
- Leverage
- BREXIT

PSERS History & Performance:

PSERS relationship with Angelo Gordon began in 2011. The following table summarizes PSERS' historical performance with Angelo Gordon as of December 31, 2018:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Vintage</th>
<th>Fund Size</th>
<th>Commitment</th>
<th>Contributions</th>
<th>Distributions</th>
<th>NAV</th>
<th>Net IRR</th>
<th>MoC</th>
</tr>
</thead>
<tbody>
<tr>
<td>AG Core Plus Realty Fund III, L.P.</td>
<td>2011</td>
<td>1,014.2</td>
<td>75.0</td>
<td>69.8</td>
<td>104.3</td>
<td>14.9</td>
<td>21.8</td>
<td>1.7</td>
</tr>
<tr>
<td>AG Core Plus Realty Fund IV, L.P.</td>
<td>2015</td>
<td>1,307.7</td>
<td>100.0</td>
<td>76.4</td>
<td>7.0</td>
<td>81.9</td>
<td>9.6</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total AG Core Plus</strong></td>
<td></td>
<td><strong>175.0</strong></td>
<td><strong>146.3</strong></td>
<td><strong>111.3</strong></td>
<td><strong>96.7</strong></td>
<td><strong>18.5</strong></td>
<td><strong>1.4x</strong></td>
<td></td>
</tr>
<tr>
<td>AG Europe Realty Fund II, L.P.</td>
<td>2017</td>
<td>842.6</td>
<td>100.0</td>
<td>45.5</td>
<td>-</td>
<td>47.3</td>
<td>7.3</td>
<td>1.0</td>
</tr>
<tr>
<td>AG Realty Value Fund X, L.P.</td>
<td>2018</td>
<td>2,530.6</td>
<td>150.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>425.0</strong></td>
<td><strong>191.7</strong></td>
<td><strong>111.3</strong></td>
<td><strong>144.0</strong></td>
<td><strong>18.2%</strong></td>
<td><strong>1.3x</strong></td>
<td></td>
</tr>
</tbody>
</table>

Investment Committee Disclosure:

| Relationship with Hamilton Lane: | None |
| Introduction Source:            | Fund Sponsor |
| Placement Agent:                | None Reported |
| PA Political Contributions:     | None Reported |
| PA Presence:                    | Yes, 5 investments in AG Core Plus Realty Fund IV, L.P. |
| Potential Conflicts:            | None Reported |
| First Time Fund With PSERS:     | No |
| PSERS Allocation Implementation Committee Approval: | July 5, 2019 |

Oversight Responsibility:

| Investment Office: | Charles J. Spiller, Deputy CIO, Non-Traditional Investments |
|                   | Melissa A. Quackenbush, Senior Portfolio Manager |
|                   | Melanie A. Cubias, Senior Investment Professional |
| 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: AG Europe Realty Fund III, L.P.

Dear Trustees:

Angelo, Gordon & Co. ("Angelo Gordon") was founded in 1988 by John Angelo and Michael Gordon and has since grown to over 500 employees globally. The broader Angelo Gordon organization manages $33 billion across real estate, credit and securitized products and executes investment strategies throughout North America, Europe and Asia. The European real estate program was founded in 2015 and is led by Adam Schwartz and Anuj Mittal. The 17-member investment team is comprised of two Co-Portfolio Managers, six Managing Directors, one Director, four Vice Presidents and four junior professionals. The investment team operates across acquisition, asset management, property management and disposition activity, with each professional involved at every stage of an investment. Each senior investment professional oversees a group of assets from acquisition to disposition, with staffing assignments typically based on relevant relationships and expertise. Angelo Gordon is owned by the founding families and 30 most senior professionals, creating alignment across the platform. The General Partner has maintained a stable investment team; there has been limited turnover to date with continued platform expansion. Angelo Gordon is targeting $1.2 billion in commitments for its third European value add real estate fund, AG Europe Realty Fund III, L.P. (the "Fund"). Angelo Gordon expects to hold a first close in September 2019. The General Partner will commit at least 3% of commitments (up to $15 million) to invest in the Fund.

Consistent with prior funds, the General Partner seeks to focus on sub-performing and undermanaged real estate assets with identifiable improvement plans through the execution of value add initiatives. Angelo Gordon invests with a sector and geographic agnostic approach, utilizing a bottom-up investment approach and pursuing opportunities with the most attractive risk-adjusted returns. The General Partner expects to invest the Fund in the largest, most liquid and institutional markets in Western Europe; specifically, Angelo Gordon targets assets in the following geographies: the U.K., Ireland, the Netherlands, Germany, France, Spain, Italy, Sweden, Denmark and Norway. The Firm looks to purchase assets from non-institutional owners who do not maintain the capital or expertise necessary to improve the cash flow profile and value of an asset. Given this focus, Angelo Gordon seeks to leverage its reputation as a leading private markets investor and local relationships to source assets through inefficient sales processes or on a direct basis. The General Partner has generally demonstrated the ability to purchase assets at attractive cap rates, resulting from its relationships with local owners and institutions. Angelo Gordon primarily pursues repositioning and lease up initiatives to generate value at the portfolio level; as such, occupancy levels at entry have historically ranged based on the strategy of the asset. Following the completion of value add initiatives, the General Partner expects to exit investments through sales to traditional institutional real estate investors. The Fund will target 30 to 45 equity investments in the range of $15 million to $180 million, targeting properties valued between $33 million and $400 million. The General Partner has generated attractive returns across realized investments. Additionally, the unrealized portfolio tracking is well with near-term liquidity expected.

AG Europe Realty Fund III's investment thesis can be summarized as follows:
• Experienced senior investment team supported by the broader Angelo Gordon platform
• Flexible investment approach driven by joint venture relationships
• Attractive returns with unrealized portfolio tracking well to date

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 May 14, 2019; the on-site due diligence was conducted June 13, 2019; the Fund was approved by Hamilton Lane’s Investment Committee on June 24, 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 Angelo Gordon’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 AG Europe Realty Fund III, 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, Corina English,
Chief Client Officer Principal

One Presidential Blvd, Bala Cynwyd, PA 19004 610-934-2222