



Public Investment Memorandum

AG Europe Realty Fund IV, LP

Private Real Estate Commitment

Allocation Implementation Committee
Approval Date: November 21, 2022



Executive Summary

Jarrett B. Richards, Senior Investment Professional, and Hamilton Lane Advisors, LLC (“Hamilton Lane”), recommend that the Board commit an amount not to exceed \$115 million plus reasonable normal investment expenses to AG Europe Realty Fund IV, LP (the “Fund” or “Fund IV”) and/or related investment vehicles.

Fund Name	AG Europe Realty Fund IV, LP
Firm Name	Angelo, Gordon & Co, LP (“Angelo Gordon”, the “Firm”, or “AG”)
Target Fund Size / Hard Cap	\$2.5 billion / \$3.0 billion
Recommended Commitment Amount	\$115 million
Existing Relationship	Yes
Asset Class / Sub Asset Class	Private Real Estate / Value-Add
Investment Office Professionals Due Diligence Team (“IOP”)	Melissa A. Quackenbush, Senior Portfolio Manager Jarrett B. Richards, Senior Investment Professional
Investment Office Oversight	Melissa A. Quackenbush
External Consultant Oversight	Hamilton Lane Advisors, LLC
ESG Policy (Y / N)	Yes

Firm Overview

Angelo Gordon is a privately held firm founded in 1988, specializing in global real estate and credit strategies. The Firm manages approximately \$52 billion as of June 2022 and is headquartered in New York with 14 offices across the United States, Europe, and Asia. Over the last five years, the Firm has been implementing a formal succession plan. The founders, John Angelo and Michael Gordon, are no longer involved, and Adam Schwartz (prior Head of Real Estate) and Josh Baumgarten (prior Head of Credit) assumed the co-CEO role in January 2021. In addition to a thoughtful transition of Firm leadership, Angelo Gordon has been transitioning firm ownership from its founders to more than 100 senior employees.

Angelo Gordon has been an active investor in a broad range of real estate opportunities in the United States (since 1993), Asia (since 2005), and Europe (since 2009). Over the past 29 years, Angelo Gordon has acquired over \$47 billion of real estate assets across 800 transactions globally. The Firm began monitoring and building relationships in the European real estate markets in the early 2000s. In 2009, they made their first investment in Europe, capitalizing on the distress caused by the Global Financial Crisis. Today, Angelo Gordon is one of the most active U.S.-based investors in Europe, having acquired nearly \$6 billion of European real estate across 98 transactions.

The European Real Estate team is led by Anuj Mittal and Tom Rowley, based in Amsterdam and London, respectively, who combine for more than 40 years of real estate experience and 25 years at Angelo Gordon. Supporting Messrs. Mittal and Rowley in Europe are 21 investment professionals in London, Amsterdam, Frankfurt, and Milan, as well as 288 individuals across the Angelo Gordon platform providing back-office functions in accounting/operations, legal, compliance, risk, data science, and investor relations. The European business has been successful because Angelo Gordon pairs its own real estate expertise with established local operators in each target market. This “allocator model” creates an expansive sourcing network and allows Angelo Gordon to nimbly pivot into and out of geographies and property types as market conditions change. Angelo Gordon has approximately 50 active operating partner relationships – some with only one or two properties and others with more than 10 current properties. The team is constantly networking with and conducting due diligence on potential new operating partners across sectors and geographies.

The European Real Estate team is solely focused on this strategy. The three predecessor funds in this series have followed the same blueprint: apply a bottom-up (rather than sector-specific or theme-driven)



investment approach to identify mispriced or mismanaged assets and partner with the best local operators to construct a diversified portfolio with value upside. This strategy has resulted in a 15.9% net Internal Rate of Return and a 1.5x net Multiple of Capital across the European fund series.

Market Opportunity

The market environment today is much different from the low-rate paradigm that has been in place since the Global Financial Crisis. For 13 years, investors benefitted from monetary stimulus, low cost of debt, and ample liquidity to boost returns. The opportunity set in Europe today is more idiosyncratic as explained below. Fund managers will need to be highly skilled to identify properties in the correct micro-locations and successfully implement business plans to achieve value-add returns in an uncertain economic environment. Angelo Gordon has identified four key themes that are expected to drive opportunity in Europe, as examined below.

Quantitative Tightening and Rising Interest Rates: Since the Global Financial Crisis and even more so since the start of the COVID-19 pandemic, global economies have been experiencing declining interest rates. Because of these low rates, borrowing costs remained low and asset prices continued to rise across nearly all property types, both in the public and private markets. Today, the Federal Reserve and the European Central Bank are on a clear and synchronized path to raise interest rates and reduce their balance sheets in an effort to tame inflation. Just as declining rates led to higher asset prices, the combination of higher borrowing costs and less liquidity is expected to lower asset prices. Many European investors have become accustomed to interest rates hovering around zero percent and have acquired assets at historically low capitalization rates (and historically high values). At these historically low cap rates, even small movements in rates and valuations can lead to distress. Angelo Gordon anticipates that some investors will face increased pressure to sell assets as leverage ratios increase and refinancing becomes more challenging. This Fund will be positioned to acquire financially distressed, high-quality assets as interest rates increase.

Impact of Behavioral Changes on Real Estate: The COVID-19 pandemic has changed the way that individuals interact with real estate. Certain property types will need to be transformed to remain relevant while other property types remain chronically undersupplied. Suburban office and retail properties have faced significant valuation decreases since 2020 as tenants remain uncertain of the future of hybrid work and brick-and-mortar retail. In contrast, data centers, life science offices, and urban logistics property types are much less developed in Europe compared to the United States, and demand has significantly increased. Angelo Gordon and their operating partners are well-positioned to provide the expertise and capital investment to deliver these in-demand assets through property type conversions and ground-up development.

Environmental Regulations: While environmental regulations in Europe vary from country to country, all countries in the European Union have committed to carbon neutrality by 2050 and a 55% reduction in carbon emissions by 2030. Real estate has been a major contributor to carbon emissions and thus a focus of regulators and policymakers. An estimated 35 million buildings will need to be renovated by 2030 to meet the emission reduction targets. Colliers, an international real estate research and brokerage firm, estimates that the capital required to meet the near-term target will be €7 trillion. Many current property owners will be unable to make the required investments, especially when combined with decreasing asset values and higher borrowing costs, and this will create buying opportunities for Fund IV.

Deglobalization: Global trade has diminished significantly relative to pre-pandemic levels, and deglobalization is expected to persist as companies shift to onshoring. While the associated need for more production and distribution space will benefit the industrial property type, deglobalization has led to a lower global growth outlook and increased risk for a deeper economic recession. As a result, it is expected that buying opportunities will arise as property owners seek liquidity that they will not find in the debt markets.

These four themes should create a broad opportunity set in Europe as Angelo Gordon invests Fund IV.



Fund Investment Strategy

The Fund's strategy will emphasize the purchase of sub-performing and distressed real estate assets that fall along the value-add spectrum in terms of the requisite business plan for each asset. Business plans may range from modest lease-up and operational improvements to a more significant value-add strategy requiring a 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 the 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 business plan. 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 life science, data centers, self-storage, student housing, senior housing, and land.

In each investment, Angelo Gordon will form a joint venture to work in tandem with a local operating partner to correct an asset's sub-performance, increase cash flow, and add value. These local operating partners are often able to source opportunities that are off-market, creating an attractive stream of deal flow. Angelo Gordon has been able to attract the best operating partners across its target markets because very few competitors rely on local operating partners, and Angelo Gordon can structure the ventures to properly incentivize outperformance. In addition to the operating partners, 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 properties in privately negotiated processes.

The Fund will seek to invest in a portfolio of assets that, upon stabilization, will be highly sought after by lower cost of capital investors such as life insurance companies and sovereign wealth funds. Therefore, Angelo Gordon will acquire assets that have one or more of the following inherent strengths: (i) clearly identifiable reasons for underperformance and a well-defined plan for turnaround; (ii) purchase price and stabilized value at discounts to replacement cost; (iii) long-term demand growth in the local market; (iv) barriers to new supply due to restrictions on land availability or zoning.

This strategy has been deployed successfully in the predecessor European funds, and the market opportunity is present for continued success in Fund IV.

PSERS History & Performance *as of June 30, 2022*

Below is a summary of PSERS' history investing with Angelo Gordon.

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
<i>Measure</i>	<i>\$M</i>	<i>\$M</i>	<i>\$M</i>	<i>\$M</i>	<i>%</i>	<i>0.0x</i>
AG Core Plus Realty III (2011)	75.0	71.3	111.2	4.6	20.1%	1.7x
AG Core Plus Realty IV (2015)	100.0	95.0	71.3	58.8	8.9%	1.4x
AG Realty Value X (2018)	150.0	126.8	31.5	139.5	26.5%	1.4x
US Fund Series	325.0	293.0	213.9	202.9	16.2%	1.5x
AG Europe Realty II (2017)	100.0	93.0	35.5	98.0	13.2%	1.5x
AG Europe Realty III (2019)	100.0	50.8	0.6	55.3	11.5%	1.1x
European Fund Series	200.0	143.8	36.1	153.3	12.9%	1.3x
Total (US and European Funds)	525.0	436.8	250.1	356.2	15.4%	1.4x



Portfolio Fit

Fund IV will be allocated to PSERS' Private Real Estate portfolio. The returns for this strategy will be achieved via a growing income yield and moderate capital appreciation, a return profile consistent with PSERS' IPS definition of a "Value-Add" Private Real Estate strategy. This commitment is consistent with current goals to grow the value-add portfolio while adding complementary Western Europe exposure to the predominantly domestic Private Real Estate portfolio. This investment will close in 2023, and this recommendation is consistent with the 2023 annual pacing budget for Private Real Estate.

Strategy	Market Value ¹	Unfunded ¹	Exposure ¹	%	Pending Current Recommendations		
					December 2022 ²	Exposure ¹	%
Measure	\$M	\$M	\$M	%	\$M	\$M	%
Core	1,092	215	1,306	15.0%	-	1,309	14.6%
Value-Add	2,765	1,261	4,026	46.4%	265	4,291	47.9%
Opportunistic	2,146	1,205	3,351	38.6%	-	3,351	37.5%
Total	6,003	2,681	8,683	100.0%	265	8,948	100.0%

¹ As of June 30, 2022; includes recently closed \$100 million commitment to EQT Exeter Industrial Value VI (PSERB resolution 2022-56), \$175 million commitment to Cabot Industrial Value VII (PSERB resolution 2022-74), and \$125 million commitment to DRA Growth and Income Fund XI (PSERB resolution 2022-75)

² Includes two December recommendations: Bell Value-Add Fund VIII (\$150M) and AG Europe Realty Fund IV (\$115M)

Investment Highlights

- Proven Successful Track Record
- Broad Opportunity Set and Wide Sourcing Network
- Long-Term Operating Partner Relationships in Top Markets
- Benefits of Bottom-Up Investment Philosophy

Investment / Risk Considerations

- Reliance on Operating Partners to Execute Investment Strategy
- Foreign Currency Exposure
- Inflation and Rising Interest Rates
- Low Growth Outlook in Europe

Investment Committee Disclosure

Relationship with Hamilton Lane:	No Hamilton Lane discretionary client has committed to prior Angelo Gordon funds. Preliminary allocation data as of October 11, 2022, indicates that PSERS will be the only Hamilton Lane client committing to Fund IV. Please note that this information, which is available to PSERS upon request, is subject to change pending further review and decision making between Hamilton Lane and its clients.
Introduction Source:	Existing Relationship
Compliance with Placement Agent Policy:	As confirmed by PSERS' Office of Chief Counsel on November 8, 2022, this investment complies with the Board's policy.
PA Political Contributions:	None Disclosed
PA Presence:	Yes
Potential Conflicts:	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
Litigation Disclosure:	Angelo Gordon receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business, and to the best of Angelo Gordon's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on Angelo Gordon or the Fund.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Due Diligence Costs:	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of the Fund.