



Hamilton Lane

January 3, 2022

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

Re: EQT Exeter Industrial Core-Plus Fund IV

Dear Trustees:

EQT Exeter (“General Partner” or “Firm”) is targeting \$2.5 billion in commitments from limited partners for its fourth core plus U.S. industrial fund, EQT Exeter Industrial Core-Plus Fund IV (“Fund IV”). The Firm, founded in 2006 as Exeter Property Group, was established by Ward Fitzgerald and Tim Weber to serve institutional investors in the industrial real estate space. Since its founding, the Firm has grown to include strategies in North America and Europe focusing on a range of property types across the core to value-add risk spectrum. More recently, in April 2021, EQT AB, a publicly traded Stockholm, Sweden-based private equity firm, acquired Exeter Property Group to complement its thematic investment platforms across North America and Europe. For EQT Exeter, the business combination provides a strong balance sheet to capitalize its future growth initiatives. Today, EQT Exeter is a 280-person vertically integrated global platform with 171 U.S.-based employees that is led by Ward Fitzgerald, CEO and Peter Lloyd, CFO. More specifically, Fund IV is led by portfolio managers Gardner Ellner, Tom Meehan and Brian Serpico, who average 15 years of relevant experience and are supported by Messrs. Fitzgerald and Lloyd, who have each worked in U.S. real estate for more than 30 years. EQT Exeter has continued to expand its regional office count, currently at 22 in North America, and teams in line with Firm growth, enabling it to efficiently execute across regions. EQT is targeting March 2022 for Fund IV’s final close. The General Partner will commit 1% or up to \$25 million to Fund IV.

Consistent with prior funds, EQT Exeter seeks to invest in modern distribution properties that exhibit high occupancy, long lease terms, low capex requirements and creditworthy tenants. The General Partner intends to construct its portfolio with at least 75% of investments located in the top five primary distribution markets (New York/Pennsylvania, Los Angeles/Inland Empire, Dallas, Atlanta, and Chicago), and the e-commerce fulfillment markets of the Central U.S. (Indianapolis, Columbus, Louisville, Cincinnati and Memphis). EQT Exeter expects to assemble the Fund through one-off acquisitions of lower and middle-market assets, requiring between \$20 and \$25 million of equity, on average. The General Partner targets single-asset and small portfolio transactions where it can leverage local market expertise to source properties at attractive prices. EQT Exeter leverages its extensive network of tenant relationships to understand the required physical features for modern tenants, as well as the markets they expect to target in the future, thus improving its ability to identify growth markets and stay abreast of market trends. EQT Exeter takes a bottom-up approach to portfolio construction, balancing secondary growth markets, which offer attractive yields, and higher-priced primary markets exhibiting strong tenant demand. The Fund will target approximately 130 to 150 equity investments in the range of \$5 million to \$75 million. EQT Exeter’s Core Plus Fund series has generated top-quartile performance and outperformed real estate benchmarks across all prior funds to date.

The industrial, logistics and distribution property type, collectively “Industrial”, continues to be propelled by the structural shift in consumer behavior away from brick-and-mortar retail towards e-commerce. This shift in consumer behavior has fundamentally changed the way many companies utilize real estate, leading to generally smaller retail needs and much larger warehouse and distribution requirements. E-commerce distribution networks require substantially more Industrial space than traditional brick-and-mortar, with



Green Street estimating this Industrial requirement to be roughly three times that of retail. This conversion was well underway ahead of the Covid-19 pandemic but it's since been accelerated as consumer demand has transitioned more rapidly. As such, demand for Industrial real estate space continues to grow with the sector boasting high levels of absorption, low vacancy and rent growth that has surpassed all-time highs in many US markets. The market is responding, and new supply is being delivered which will eventually moderate property price increases however expectations are for these overarching tailwinds to be supportive of the sector over the medium-term which aligns well with the expected life of Fund IV. Given these expectations, Hamilton Lane views Industrial as one of the most attractive real estate property types for investment today.

The investment thesis for investing in EQT Exeter Industrial Core-Plus Fund IV can be summarized as follows:

- Sector tailwinds are supportive of Industrial real estate investment
- Experienced senior investment team with deep expertise in the U.S. industrial market
- Active approach to aggregating diversified portfolios of highly occupied industrial assets with stable in-place income
- Consistent top-quartile performance, with significant capital deployment across funds

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

- Detailed due diligence including interviews with industry peers and private real estate professionals. The on-site due diligence was conducted on November 3, 2021; the Fund was approved by Hamilton Lane's Investment Committee on November 15, 2021, and the recommendation to PSERS was issued on January 3, 2022.
- 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 EQT Exeter'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
- Confirmation that the strategy proposed for the Fund is appropriate for the private real estate portfolio

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

Scott Davies – Principal Real Assets, Conshohocken Office
Cameron Mountain – Senior Associate Real Assets, Portland Office
Michelle Lipovsky – Analyst, Conshohocken Office



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Based on the above, Hamilton Lane recommends that PSERS commit up to \$100 million, plus reasonable normal investment expenses, to EQT Exeter Industrial Core-Plus Fund IV (and/or related investment vehicles). 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