PSERS

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

DRA Growth and Income Master Fund XI, LLC

Private Real Estate Commitment

Allocation Implementation Committee
Approval Date: September 12, 2022

Executive Summary

Melissa A. Quackenbush, Senior Portfolio Manager, and Hamilton Lane Advisors, LLC ("Hamilton Lane"), recommend that the Board commit an amount not to exceed $125 million plus reasonable normal investment expenses to DRA Growth and Income Master Fund XI (the "Fund" or "Fund XI") and/or related investment vehicles.

Fund Name	DRA Growth and Income Master Fund XI, LLC
Firm Name	DRA Advisors, LLC ("DRA")
Target Fund Size / Hard Cap	$2.25 billion / Not yet established
Recommended Commitment Amount	$125 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

DRA Advisors, headquartered in New York with offices in San Francisco and Miami, is a privately held registered investment advisor owned and managed by its 14 partners. Frank Tansey and David Luski left General Electric Pension Trust in 1986 to found Dreyfus Realty Advisors (now "DRA Advisors"), which managed real estate investments for institutional investors such as IBM, DuPont, and others. Mr. Tansey retired in 2010 while Mr. Luski remains President and CEO of DRA and has assembled a team of next generation leadership to manage DRA into the future. DRA's 14 partners are established real estate professionals with diverse backgrounds in capital markets, accounting, finance, and law. The partners average 25 years of experience in the real estate industry and over 22 years of tenure with DRA. Together, they have executed the same value-add investment strategy over multiple market cycles. In addition to the 14 partners, DRA employs 82 professionals divided across acquisitions, asset and portfolio management, dispositions, investor services, compliance, and financing/operations business units.

From 1986 to today, the business has been successful because DRA identifies and partners with established local operators in each target market. This "allocator model" creates an expansive sourcing network and allows DRA to nimbly pivot into and out of geographies and property types as market conditions change. DRA has ~50 active operating partner relationships – some with only one or two properties and others with more than 10 current properties. DRA is constantly networking with and conducting due diligence on potential new operating partners across sectors and geographies.

Apart from one industrial sector-focused separate account, DRA is solely focused on its Growth and Income Fund Series. The 10 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 assets, and partner with the best local operators to construct a domestic, diversified portfolio of income-producing assets with value upside. Applying this strategy, DRA has acquired more than 1,800 properties with property values greater than $33 billion. The funds have generated income-grounded returns with an aggregate gross time-weighted return of 16.3% comprised of 9.4% income and 6.9% appreciation. As of December 31, 2021, DRA managed $12 billion of assets.

Market Opportunity

While supply-demand fundamentals across the commercial real estate market remain strong, increased interest rates and continued economic uncertainty have caused investors to underwrite the future more conservatively. Today's uncertainty has created buying opportunities for investors flush with capital. According to PERE, a private real estate news and analytics service, private real estate investment vehicles raised $175.5 billion in 2021, the third highest year of fundraising since PERE began tracking this data in 2008. Managers deploying this record level of capital will need to be mindful that real estate is not homogenous; just as post-COVID tailwinds have benefited certain sectors more than others, a slowdown in the U.S. economy will impact property types in different ways, as examined below.

Residential: The United States continues to face a housing shortfall and an affordability issue. CBRE Econometrics, a global real estate broker and research firm, projects growing demand for U.S. multifamily rental housing from 15.4 million occupied units in Q2 2020 to 17.4 million occupied units in Q2 2030, which would represent an 13% increase. To keep pace with population growth and the deterioration of older rental properties, the Harvard Joint Center for Housing Studies estimates that the United States requires more than 300,000 new rental units per year. CBRE Econometrics data shows that multifamily completions averaged only 206,000 units per year since 2010, creating undersupply amidst growing demand. Many of today's renters are facing financial headwinds and barriers to homeownership brought on by student loan debt, rising single family home prices, and, most recently, higher mortgage rates. Even prior to the onset of the COVID-19 pandemic, finding affordable housing options was a growing challenge for moderate-income families, and it's growing worse today. The median price of an existing single-family home grew to $403,800 in July 2022, a 10.8% increase year-over-year and more than $100,000 higher than pre-pandemic levels, according to the National Association of Realtors. There continues to be opportunity for responsible investment in the residential sector amid growing demand and a need for new or refurbished supply.

Industrial: The industrial market operating environment remains favorable despite a worsening economic outlook. Occupancy levels continue to grow and are expected to stay well above the long-term average, driven in part by sustained e-commerce growth. E-commerce growth has and continues to be a strong driver of industrial demand, as it requires larger warehouse and distribution spaces, estimated to be ~3x larger than that of traditional retail. Inventory strategies are correspondingly evolving to carry more safety stock as retailers prepare for future supply chain disruptions, requiring retailers to absorb more space. Strong tenant demand lowered the national warehouse vacancy rate to 4.1% at year-end 2021 compared to an average vacancy rate of 9.4% over the past 25 years. Correspondingly, market rents increased by almost 10% last year, exceeding the five-year annual rent growth average of 5.6%. Looking forward, the industrial real estate sector maintains a stable long-term outlook as a result of continued population growth, increasing e-commerce adoption across industries, and capital flows into the sector.

Office: According to Green Street Advisors, an independent research and advisory firm concentrating on the commercial real estate industry in North America and Europe, the expansion of the tech industry has caused office-using jobs to surpass pre-pandemic levels by 3%, and office-using employment growth remains positive, but a tech-hiring slowdown and a recession are the newest risks facing office landlords. Over the last decade, the tech industry has become one of the primary drivers of office leasing activity, accounting for 17.5% of annual average leasing activity. A tech slowdown will impact most office markets, but some markets such as Austin and Raleigh are likely more insulated, given vigorous in-migration and the strong and growing life science industry. With a recession looming, employers may be emboldened to enforce in-office work, which would significantly decrease work from home and increase office demand. The office market, like real estate more broadly, is not uniform; the winners of pandemic-era migration patterns (Austin, Nashville, Raleigh) are under-supplied in office space while San Francisco, Los Angeles, and New York have seen negative job growth and are over-supplied in many submarkets. The office market remains uncertain as the work from home trend plays out; however, there will be opportunities to capitalize on mispricing of high-quality office properties with credit-grade tenancy in the right markets.

Retail: Retail is a story of haves and have-nots. While middle of the road regional malls have struggled immensely with tenant bankruptcies, e-commerce trends, and the decline of the department store, higher-end malls (think King of Prussia) are experiencing record traffic and record sales. Similarly, everyday strip centers with a grocery store are performing well. The tailwinds that are enhancing strip center fundamentals continue to outweigh the impact of the ongoing deceleration of the economy. The lack of new strip centers, the enhanced role of the store for delivery logistics, and consumers spending more time in the suburbs combine to increase sales, tenant retention, and occupancy. In the retail sector, operating expenses are typically reimbursed by the tenants and the landlord gets a percentage of outsized sales; this structure is ideal in an inflationary environment, positively correlating inflation and retail asset values.

In general, the market conditions are favorable for DRA to construct a domestic, diversified, value-add portfolio.

Fund Investment Strategy

DRA has employed a value-add investment strategy since its inception, pivoting between sectors and U.S. geographies as they adapt to changing market conditions. Regardless of property type or geography, DRA targets investments that offer competitive levels of cashflow with the potential for capital appreciation.

Fund XI will capitalize on inefficiencies in real estate markets to acquire operating assets at a discount to replacement cost. Such inefficiencies can be accessed by (i) taking advantage of sellers' strategic or financial motivations, (ii) investing in markets and property types that are perceived as out-of-favor by other investors, (iii) leveraging DRA's industry relationships with both private and public joint venture partners to access off-market opportunities, and (iv) utilizing DRA's deep experience to exploit pricing inefficiencies in complex transactions.

After acquiring an asset, DRA deploys its playbook of value-enhancing strategies including: (i) physical improvements to make properties more marketable and operationally efficient, (ii) execution of leasing and operational plans to increase revenues and minimize expenses, (iii) focus on downside risks through proactive asset management, (iv) utilization of moderate leverage to enhance returns and optimize capital structures, and (v) opportunistic sales as market conditions warrant.

This Fund is expected to have sizeable exposure to secondary markets. While many institutional investors, both domestic and foreign, are focused on core assets in large gateway markets (i.e. New York City, Miami, San Francisco, Los Angeles), many high-quality assets in smaller markets (i.e. Memphis, Raleigh, Minneapolis, suburbs of gateway markets) are often overlooked. DRA faces less competition in these markets, and less competition often equates to market inefficiencies and lower purchase prices. To identify and capitalize on these secondary market opportunities, DRA has forged relationships with local brokers and operators who understand DRA's approach and share opportunities that fit DRA's targeted investment profile. With local market knowledge and conservative underwriting assumptions, secondary markets have produced above-average risk-adjusted returns for DRA in prior funds and will be a focus in Fund XI.

While most Fund investments will involve third-party operating partners, Fund XI will always hold the controlling equity positions and negotiate control of all key decisions, such as leasing, budgeting, capital spend, and disposition timing. To align Fund investor and operating partner interests, key principals of the operating partners are required to contribute significant capital in each investment, typically 5-20% of the total equity. Should the operating partner produce returns in excess of pre-negotiated return thresholds, the operating partner may receive incentive compensation.

PSERS History & Performance

as of March 31, 2022

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
Measure	*$M*	*$M*	*$M*	*$M*	*%*	*0.0x*
*Fund VI (2007)	100.0	97.4	164.5	-	10.5%	1.7x
Fund VII (2011)	100.0	106.6	236.9	8.0	21.7%	2.3x
Fund VIII (2014)	100.0	103.5	106.7	35.9	8.8%	1.4x
Fund VIII Co-investment (2016)	15.0	15.0	5.6	4.6	-9.4%	0.7x
Fund IX (2016)	100.0	101.3	83.3	80.9	19.3%	1.6x
Fund IX Co-investment (2017)	15.0	14.7	18.8	9.9	23.2%	2.0x
Fund X (2019)	100.0	50.4	16.2	53.4	41.6%	1.4x
Total	**530.0**	**488.8**	**632.0**	**192.6**	**14.2%**	**1.7x**

**Fund has been fully realized*

Portfolio Fit

Fund XI 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 the PSERS IPS definition of a "Value-Add" Private Real Estate strategy. This commitment is consistent with current goals to focus on domestic real estate and grow the value-add portfolio while reducing the opportunistic portfolio. In its diversified mandate, this Fund will provide select exposure to the office and retail sectors where the current Private Real Estate portfolio is underweight relative to its benchmark.

					Pending Current Recommendations		
Strategy	**Market Value[1]**	**Unfunded[1]**	**Exposure[1]**	**%**	**October 2022[2]**	**Exposure[1]**	**%**
Measure	*$M*	*$M*	*$M*	*%*	*$M*	*$M*	*%*
Core	1,088	231	1,319	15.3%	-	1,319	14.8%
Value-Add	2,754	1,004	3,758	43.7%	300	4,058	45.6%
Opportunistic	2,327	1,195	3,522	41.0%	-	3,522	39.6%
Total	**6,171**	**2,429**	**8,600**	**100.0%**	**300**	**8,900**	**100.0%**

[1] As of March 31, 2022; includes recently closed $100 million commitment to EQT Exeter Industrial Core+ IV (PSERB resolution 2022-21) and to-be-closed $100 million commitment to EQT Exeter Industrial Value VI (PSERB resolution 2022-56)

[2] Includes 2 October recommendations: Cabot Industrial Value VII ($175M) and DRA Growth and Income Fund XI ($125M)

Investment Highlights

- Narrowly Focused, Cycle-Tested Team with a Proven Successful Track Record
- Cashflow-Producing Properties with Operational Upside
- Long-Term Operating Partner Relationships in Growing Markets
- Benefits of Bottom-Up Investment Philosophy

Investment / Risk Considerations

- Reliance on Operating Partners to Execute Investment Strategy
- Liquidity in Secondary Markets
- Inflation and Rising Interest Rates

Investment Committee Disclosure

Relationship with Hamilton Lane:	One Hamilton Lane discretionary client has committed an aggregate $22.5 million across prior DRA Advisors real estate funds. Preliminary Hamilton Lane allocation data as of August 18, 2022, indicates that two Hamilton Lane clients, including PSERS, plan to commit a total of $135 million to Fund XI. 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 August 17, 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:	DRA 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 DRA's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on DRA 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.