



## Value-Added Real Estate Fund Commitment

### Cabot Industrial Value Fund IV, L.P.

March 14, 2013

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Laurann H. Stepp  
Portfolio Manager, Real Estate

# Cabot Industrial Value Fund IV, L.P. - Value-Added Real Estate

## Overview

- Fund IV will be seeking \$650M in capital commitments
- Fund objective is to provide superior risk adjusted returns by investing in industrial properties, primarily in the United States. Up to 20% may be invested outside of North American markets, including major markets in the United Kingdom, and the Netherlands
- Since 1998, Cabot has invested \$4.6 billion in 923 industrial properties, and sold 551 properties; generating net returns within their target range of a 12–14% IRR

## Fund Strategy

- Focus on acquisition, development, redevelopment, operating, leasing and selling industrial properties. Targeted investments are value-add in nature and tend to be smaller in size (average deal size since 2002 has been approximately \$13 million). Expect within a few years of investing, Funds will distribute approximately 8% annually from income received
- Pursue deals based on (i) locations with growing demand, (ii) disciplined valuations, (iii) ability to enhance value through active management, (iv) maximizing distributable current income, and (v) options for harvesting gains

## Investment Team

- The Fund has a dedicated team of 21 professionals, including the 5 Senior Members whom have worked together since 1996
- The entire team has an average of 19 years in the real estate industry and 13 years with Cabot

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## GP “Value Add”

- Cabot's experienced and cohesive team has been focused on the industrial arena for over 25 years and has demonstrated the ability to capitalize on a large network of national relationships as well as broad local market relationships
- Extensive experience in pursuing various exit routes. In 1998 created publicly traded Cabot REIT, and subsequently sold in 2001. Fund I, established in 2002, was sold in a single transaction in 2005, realizing a net IRR of 120% and a 2.2x equity multiple for the fund investors

## Performance (as of December 31, 2012)

- Since 1998, they have liquidated over 55% of the investments producing an unlevered gross IRR of 14.8%, compared with the NCREIF Industrial Index average of 9% over the equivalent period
- Fund I (2003) Liquidated - proforma 1.8x MOC and a proforma net IRR of 63.8%
- Fund II (2005) - proforma gross 0.9x MOC and a (2.7%)% net IRR to date - projected to achieve (0.7%) - 3.6% net IRR
- Fund III (2008) - proforma gross 1.3x MOC and a 13.8% net IRR to date - projected to achieve 13.1% - 17.1% net IRR

(Above proforma assumes 65% leverage, which is the expected level of debt for Fund IV)

## Market Opportunity

- As current economic conditions slowly improve, there are also long term demographics and observations that reflect the opportunity available in the industrial markets. Three positive longer term trends include: growing population, increasing domestic energy supplies and improving housing markets
- Industrial markets remain fragmented, allowing for timing opportunities when there are market disruptions. For example, in 2012 there were opportunities to purchase stabilized core assets in the UK for value-add yields

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## History with PSERS

- PSERS relationship with Cabot began in 1998, when directly held industrial properties were traded for 5.5 million shares of the public Cabot company. The shares were tendered in 2001 for a gain of \$22 million and a net IRR of 11.34%
- In 2008 PSERS committed \$100 million to Cabot Industrial Value Fund III, L.P.

## Board Issues

- Pennsylvania Presence – Since 1998 Cabot acquired 7 PA assets totaling over \$100 million. PA continues to be a target market
- Placement Agents – N/A
- PA political contributions – N/A
- Relationship with Consultant – N/A

## Recommendation

- Staff, together with Courtland Partners Ltd., recommends that the Board invest an amount not to exceed \$75 million plus reasonable normal investment expenses

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