


**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

DATE: April 2, 2015
SUBJECT: Stockbridge Fund III Co-investment modification
TO: Members of the Finance Committee
FROM: William P. Stalter, IV 
Senior Portfolio Manager – Real Estate

At the April 30, 2015 Finance Committee meeting, we will request a modification to PSERB 2007-42, which will permit the remaining Stockbridge Real Estate Fund III co-investment allocation to be invested in co-investment opportunities presented to the Limited Partners of Stockbridge Real Estate Fund I, Stockbridge Real Estate Fund II or Stockbridge Real Estate Fund III.

In June 2007, PSERS committed \$200 million to Stockbridge Real Estate Fund III, LP ("Fund III"). In concert with this commitment, the Committee approved an additional \$200 million allocation to Fund III co-investment opportunities.

In 2013, PSERS co-invested \$64.87 million (\$15 million from PSERS internally-managed secondary/co-investment program plus \$49.87 million from the Stockbridge Real Estate Fund III Co-investment allocation) in a manufactured housing platform. This company is now the largest privately-held owner and operator of manufactured housing communities in the United States. This investment has performed well-above underwriting, with current performance of 27.95% IRR and 1.53x MOC, as of 12/31/14. The remaining Fund III Co-investment allocation is \$150.13 million.

Several Stockbridge Fund I, II and III investments are in land redevelopment projects in high barrier to entry markets in the U.S. These projects typically involve lengthy entitlement processes and require significant time and capital to complete infrastructure and vertical development. There are several Stockbridge fund projects where the general partner may provide co-investment opportunities to limited partners. These projects are fully entitled and there is now the opportunity to capitalize the next phases of the projects, including site infrastructure and preparation of land pads for vertical development. Co-investors may also have the opportunity to contribute equity towards the vertical development in certain projects.

Given the risks/return attributes of these co-investment opportunities, staff believes it is prudent to utilize the remaining Fund III Co-investment allocation for Fund I, II or III co-investments opportunities.

Please do not hesitate to contact me at (717) 720-4720 should you have any questions regarding this matter.