



Public Investment Memorandum

PGIM Real Estate Capital VII, SCSp

Private Real Estate Commitment

William P. Stalter
Senior Portfolio Manager

Jarrett B. Richards
Intermediate Investment Professional

July 9, 2020



Executive Summary

PSERS' Investment Office Professionals, together with Hamilton Lane, recommend that PSERS commit \$125 million to PGIM Real Estate Capital VII, SCSp (the "Fund" or "PRECap VII"). This recommendation is based on the assessment of the investment strategy and the evaluation of PGIM Real Estate and its affiliates ("PGIM" or the "Firm").

Fund Name	PGIM Real Estate Capital VII, SCSp
Firm Name / General Partner	PGIM Real Estate / PGIM Real Estate Luxembourg S.A. PGIM Real Estate is a subsidiary of Prudential Financial, Inc., a publicly traded company (NYSE: PRU).
Target Fund Size	£1-1.5 billion target, inclusive of USD-denominated feeder vehicle
Recommended Commitment Amount	\$125 million
Existing Relationship	Yes, PSERS is invested alongside PGIM Real Estate in the predecessor fund, PRECap VI, as well as in two senior housing funds and a farmland separate account.
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Real Estate / Value-Add
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments William P. Stalter, Senior Portfolio Manager Jarrett B. Richards, Intermediate Investment Professional
External Consultant Oversight	Hamilton Lane

In 2007, Andrew Radkiewicz and Andrew Macland, and Mathew Crowther formed a boutique fund manager, Paramount Private Equity, to invest in private real estate debt in Europe. In 2009, PGIM acquired Paramount to create PGIM Real Estate Capital ("PRECap"), expanding the global investment manager's European debt business. Since the establishment of PRECap, the team has executed 90 debt investments totaling \$3.6 billion across three funds (Funds I, IV, and VI) and three separate accounts (Funds II, III, and V). Today, PRECap employs 36 professionals in their London headquarters and a smaller originations office in Germany.

For PRECap VII, PGIM is offering a U.S. dollar-denominated feeder vehicle whereby the Fund manager is responsible for passively hedging the Sterling and Euro-denominated investments back to U.S. dollars. A USD feeder vehicle was not offered in prior PRECap funds.

PRECap VII, like Funds I, IV, and VI, will originate junior loans and preferred equity investments secured by commercial real estate assets located in major Western European markets, with a specific focus on the United Kingdom and Germany. Details on the prior Funds are listed below:

- Pramerica Real Estate Capital I, L.P. ("Fund I"), a £492 million 2010 vintage fund, fully realized
- Pramerica Real Estate Capital IV, L.P. ("Fund IV"), a £699 million 2013 vintage fund
- Pramerica Real Estate Capital VI, L.P. ("Fund VI"), a £1,017 million 2016 vintage fund

Funds II, III, and V are separate accounts with a different investment strategy and are not comparable to PRECap VII.

As of March 31, 2020,

- Fund I, fully realized, generated a 10.7% net IRR and a 1.3x net MoC.
- Fund IV has generated an 9.4% net IRR and a 1.3x net MoC.
- Fund VI has generated an 13.5% net IRR and a 1.2x net MoC.



Investment Team

The PRECap series of funds has a highly experienced team of five, London-based, key decision makers. Andrew Radkiewicz is Global Head of Private Debt Strategy for PGIM Real Estate. Andrew Macland is the Head of European Debt for PGIM Real Estate. Mathew Crowther is the Senior Portfolio Manager for the PRECap funds. Mary Hamilton heads asset management for PRECap, while Leroy Mattis leads the financial reporting and data analytics functions for PRECap.

PGIM, a large global investment manager, has multiple levels of investment review. All investment opportunities in the PRECap funds are reviewed by PGIM's eight-person European Investment Committee which comprises regional executives, investment strategy heads, and global risk and operation leaders. In addition to the European Investment Committee, the Fund is supported by PGIM's Global Investment Committee. The Global Investment Committee includes PGIM Real Estate's CEO and Global COO, Global Chief Investment Risk Officer, Global Head of Real Estate Securities, Global Head of Debt Strategies, Global Head of Research, CIO for the Americas and the heads of the regional investment businesses. In addition to other duties, the Global Investment Committee is responsible for approving PRECap transactions that exceed thresholds for specific risk attributes regarding size, markets, and partners.

Market Opportunity

PRECap VII has been formed to take advantage of the opportunity for suppliers of junior debt and preferred capital in the European real estate market. The introduction of new banking regulations in the aftermath of the global credit crisis, particularly Basel II and Basel III, together with increased governmental pressure for banks to remain better capitalized, has continued to restrict banks' abilities to provide real estate financing above a 60-65% LTV ratio, providing non-bank lenders, such as PRECap VII, an opportunity to provide financing at higher LTV ratios.

There are four specific factors evident in today's market that create an opportunity for providers of "alternative debt." First, Europe's commercial real estate debt maturity profile continues to be weighted to the short term, with more than half (£300 billion plus) of the total debt stock due to mature over the next three years, all the while banks, due to regulations discussed above, remain limited in their ability to provide the required refinancing capital. Second, low senior debt interest rates combined with comparatively high property yields equates to surplus cashflow for property owners. With this surplus cash flow, property owners are able to afford junior debt which is often used to fund value-enhancing capital projects. Third, owners of property in major Western European markets continue to benefit from supply-demand imbalances, set against a backdrop of low supply growth, aging stock and a shortfall of capital expenditure. These fundamentals afford property owners the flexibility to bear the current economic slump brought on by the COVID-19 pandemic. Finally, real estate value volatility breeds opportunity for junior debt lenders and preferred equity investors who can lend conservatively during volatile markets (Brexite, COVID-19) and share in any value upside once market stability returns.

Investment Strategy

To capitalize on this market opportunity, PRECap VII will invest in junior debt and preferred equity, often attaching near 60% LTV and detaching near 80% LTV, secured by core real estate in primary Western European markets. Investments will be made to finance acquisitions, to refinance existing debt or to target single-loan acquisitions. The opportunities will be sourced from the Firm's extensive contacts in the borrower, banking and real estate advisory communities. It is expected that these relationships will provide a broad range of investment opportunities to the Fund and enable it to deploy capital effectively in a competitive market.

The portfolio investments will be structured whereby the Borrower pays origination fees, fixed periodic (often quarterly) coupons, and exit fees or profit-sharing. Profit-sharing is negotiated in each loan agreement to provide the Fund with a percentage of the borrower's profit, the surplus sale proceeds after debt repayment.

Investments will be selected via a "bottom-up" analysis of the underlying asset or collateral. PRECap seeks to identify properties that are attractively priced (conservative risk assumptions, mispricing due to distress),



have good fundamentals (supply-demand dislocation, favorable demographic trends), produce sustainable income (strong tenancy, below- or at-market rents) and show potential for active asset management (immediate opportunities to enhance income, long-term upside).

PRECap has demonstrated an ability in Funds I, IV, and VI to enact these investment strategies and processes to produce favorable risk-adjusted returns with stable and consistent cash flows.

Investment Instruments

PRECap VII will invest primarily through junior debt and preferred equity interests secured by commercial real estate assets.

Portfolio Fit

The Fund will be allocated to PSERS' Private Real Estate portfolio and, more specifically, the Value-Add strategy within this portfolio. The table below summarizes PSERS' Private Real Estate portfolio, as of March 31, 2020 (82% of funds reporting), inclusive of the recommended \$125 million commitment to PRECap VII:

Strategy (\$M)	NAV	%	Unfunded	%	Total Exposure	%
Core	\$ 855.8	17.8%	\$ 229.7	9.3%	\$ 1,085.5	14.9%
Value-Add	1,838.1	38.3%	1,447.4	58.7%	3,285.5	45.2%
Opportunistic	2,107.0	43.9%	789.6	32.0%	2,896.6	39.9%
Total	\$ 4,800.9	100.0%	\$ 2,466.7	100.0%	\$ 7,297.6	100.0%

In addition to the investments detailed above, PSERS has \$70.8 million of NAV exposure to private real estate co-investments through its internal co-investment program.

PRECap VII is projected to generate equity-like returns with the downside protection provided by a debt strategy. Investments in the PRECap funds are structured whereby the Fund not only collects a fixed quarterly coupon secured by core real estate but also participates in investment outperformance through upside fees or profit-sharing arrangements. This opportunity, strengthened by banking regulation in the UK and EU, is expected to provide superior risk-adjusted returns and provide steady, fixed cash flows to PSERS' Private Real Estate portfolio.

Investment Highlights

- Strong Sponsorship / Experienced Senior Leadership Team
- Robust Sourcing Ability and Industry Relationships
- Downside Capital Protection / Income Return Focus / J-curve Mitigation
- Commitment to ESG Practices / Community Outreach

Investment / Risk Considerations

- General Investment Risks / Mitigation in Practice
- Exposure to Development Projects
- Potential Impact of Currency Translation on Fund Returns



PSERS History and Performance with PGIM Real Estate

PSERS previously committed \$581 million across five PGIM Real Estate vehicles. PSERS currently has \$265 million of NAV exposure to PGIM Real Estate.

Investment (Vintage)	Commitment	Contributions	Distributions	NAV	Net IRR	Net MoC
PRISA ¹ (2006)	\$ 100.0	\$ 100.0	\$ 157.5	\$ 0.0	4.7%	1.6x
Pramerica Real Estate Capital VI ² (2016)	93.0	88.1	41.9	52.3	9.4%	1.2x
Senior Housing Partnership Fund IV (2011)	88.4	88.3	154.3	3.6	13.5%	1.8x
Senior Housing Partnership Fund V (2015)	100.0	78.4	7.9	97.2	11.4%	1.3x
Farmland Separate Account (1992)	200.0	116.1	92.2	111.4	10.2%	1.7x
Total	\$ 581.3	\$ 470.8	\$ 453.8	\$ 264.5	8.6%	1.5x

¹fully realized

²Pramerica Real Estate Capital VI, L.P., is a GBP-denominated fund and did not offer a USD feeder vehicle. PSERS systematically hedges 50% of the GBP exposure. The returns displayed for PRECap VI in the table above reflect the net returns after hedging (Net IRR in GBP: 13.4%; Net IRR in USD (unhedged): 5.3%; Net IRR in USD (hedged): 9.4%)

Investment Committee Disclosure

Relationship with Hamilton Lane	Hamilton Lane represents clients with commitments to prior PGIM Real Estate funds. It is not anticipated that additional Hamilton Lane clients will commit to PRECap VII.
Introduction Source	Hamilton Lane
Placement Agent	In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund. Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to PSERS' management fees. As confirmed by PSERS' Office of Chief Counsel on July 20, 2020, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Presence	Not Applicable
PA Political Contributions	None Disclosed
Conflicts of Interest	We are not aware of PGIM Real Estate having any conflicts of interest.
PSERS History with the Investment Manager	PSERS previously committed \$581 million across five PGIM Real Estate vehicles. PSERS currently has \$265 million of NAV exposure to PGIM Real Estate.
Litigation Disclosure	PGIM Real Estate receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on PGIM Real Estate, the Fund or any prior funds.
PSERS Allocation Implementation Committee Approval	July 19, 2020



Hamilton Lane

June 26, 2020

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

Re: PGIM Real Estate Capital VII, SCSp.

Dear Trustees:

PGIM Real Estate ("PGIM" or "General Partner") was founded in 1970 as the real estate investment management business of PGIM, Inc., the principal asset management business of Prudential Financial, Inc.. PGIM benefits from the reputation of its parent organization, a well-respected, global provider of financial solutions. Since inception, the General Partner has developed a long-standing presence in the real estate space, with approximately 140 years of real estate lending on behalf of institutional and middle-market borrowers and 49 years of investing in commercial real estate on behalf of institutional investors. PGIM began managing core real estate investments for pension fund clients in 1970 with the launch of PRISA, the industry's first open-end comingled fund. Today, the General Partner has locations in New Jersey (U.S. headquarters), London (Europe headquarters), Luxembourg and 30 additional offices globally. The General Partner has a team of 17 investment professionals and 19 operations professionals dedicated specifically to PGIM's real estate debt platform in Europe. PGIM's senior investment team is well-tenured, remaining consistent since Fund III. The General Partner distributes carried interest across investment teams and the broader organization, encouraging alignment amongst the Firm's various functions and promotes retention across the organization. PGIM is targeting £1 billion in commitments from limited partners for its seventh European real estate debt fund, PGIM Real Estate Capital VII, SCSp. ("Fund VII"). To date, Fund VII has closed £350 million and will be having successive closes until its final close in Q1 2021. The General Partner will commit 5% of commitments, or up to £75 million to invest in Fund VII.

Since Inception, the General Partner seeks debt investments across multiple markets and property types, including industrial, office, residential and retail assets. Today, PGIM's opportunistic approach in regards to property type allows the ability to lean into different sectors depending on the current market environment, as well as provide downside protection through portfolio diversification. PGIM's structural flexibility also allows it to take on additional upside options, which further differentiates the General Partner from its peers. Consistent with prior funds, the General Partner targets preferred equity and junior debt opportunities in high-quality real estate to fund acquisitions, value-add initiatives and refinancings within Western Europe. PGIM evaluates investments based on the quality and liquidity of the underlying asset, as well as the borrower's track record, enabling it to identify attractive opportunities that perform well across market cycles. The General Partner has maintained conservative positions across prior funds, averaging first dollar loss positions of 70% LTV across the existing portfolio. PGIM mainly utilizes fund-level leverage for cash management related to investment timing and to finance senior debt portions of whole loan investments, effectively mitigating the j-curve. Fund VII will target approximately 30 to 40 equity investments in the range of £10 million to £70 million. The majority of PGIM's prior funds have generated at least second-quartile performance when compared to real estate credit benchmarks.

PGIM Real Estate Capital VII's investment thesis can be summarized as follows:

- Dedicated investment team supported by the reputation and resources of the broader organization



Hamilton Lane

- Consistent investment approach targeting real estate debt opportunities while remaining flexible with regard to property type
- Above median net performance, albeit with a healthy unrealized portfolio

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

- Detailed due diligence, including interviews with industry peers and private equity professionals. The initial review was completed February 19, 2020; on-site due diligence was conducted March 27, 2020 (via video); Fund VII was approved by Hamilton Lane's Investment Committee on April 13, 2020 and the recommendation to PSERS was issued June 26, 2020.
- 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 PGIM'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.
- The strategy proposed for the Fund is appropriate for the Private Real Estate component of the portfolio.

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

Robert Flanigan – Principal, Bala Cynwyd Office

Jackie Luceri – Analyst, Bala Cynwyd Office

Kelley Jamieson – Analyst, Bala Cynwyd Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$125 million in PGIM Real Estate Capital VII, SCSp. 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