



Hamilton Lane

October 4, 2022

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

Re: AG Europe Realty Fund IV, L.P.

Dear Trustees:

Angelo, Gordon & Co. (“Angelo Gordon”, “AG”, “General Partner”) was founded in 1988 by John Angelo and Michael Gordon and has since grown to over 600 employees globally. The broader AG platform manages vehicles across real estate, corporate credit, direct lending, and securitized products strategies. The European real estate program was founded in 2015 and is led by Co-Portfolio Managers Anuj Mittal and Tom Rowley. The investment team is well-staffed with 22 professionals who have access to broader platform resources which constitute 40 additional non-European real estate investment professionals and 145 back- and middle-office professionals. The investment team is well-versed in structuring transactions by investing across capital structures, including the ability to gain exposure to properties by acquiring debt positions and ultimately securing control of the equity through events of stress or distress. The local knowledge of the Operating Partner network permeates through the decision-making process of AG, complementing its expansive real estate investment acumen with local intel. Angelo Gordon is targeting \$2.5 billion with a \$3 billion hard cap in commitments for its fourth European value add real estate fund, AG Europe Realty Fund IV, L.P. (the “Fund”). Angelo Gordon anticipates holding its first and second closes in October 2022 and January 2023, respectively. The General Partner will commit at least 3% of commitments (up to \$25 million) to the Fund.

Consistent with prior funds, the General Partner intends to focus on sub-performing and undermanaged real estate assets with identifiable drivers of underperformance that it believes can be improved through value-add initiatives. Additionally, AG expects to execute several high-margin development opportunities in densely populated markets with projected demand growth in the near-term. The General Partner seeks to execute a range of business plans from modest lease-ups and operations improvements to capital restructuring and repositioning in order to reach stabilization. The General Partner benefits from a longstanding presence in European markets, which has resulted in a reputable brand name that drives direct and off-market deal flow. Through its locally driven Operating Partner networks, the General Partner seeks to reposition and refurbish properties to capitalize on their undermanaged nature. AG is pursuing an investment strategy consistent with prior funds, targeting high quality properties in popular and growing European cities. AG invests on a pan-European basis, targeting primarily Western European countries with established institutional markets, favorable long-term demand dynamics and barriers to new supply, including land availability constraints and zoning or entitlement complexities. The Fund will target 35 to 45 equity investments of up to \$375 million, with the average equity investment expected to be \$45 million. The fund will target properties of up to \$680 million, with the average property value expected to be \$80 million. As of 3/31/22, across prior funds, the General Partner was generating gross returns in-line or in excess of its targets.

The investment thesis for investing in AG Europe Realty Fund IV, L.P. can be summarized as follows:

- Longstanding and well-established General Partner with broad platform resources
- Value-oriented investment strategy driven by regional Operating Partner relationships and deep structuring capabilities
- Competitive net returns



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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 September 14, 2022; the Fund was approved by Hamilton Lane's investment committee on September 26, 2022; and the recommendation to PSERS was issued on October 4, 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 Angelo, Gordon & Co.'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 partnership component of the portfolio

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

Leigh Hazelton– Vice President Real Assets, London Office
Timothy Severgnini– Associate Real Assets, London Office
Bryce Smith– Analyst Real Assets, Conshohocken Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$115 million, plus reasonable normal investment expenses, to AG Europe Realty Fund IV, L.P. (and/or related investment vehicles). Hamilton Lane makes this recommendation considering Angelo, Gordon & Co.'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,

Corina English,
Principal

TC Rolfstad,
Principal