



Hamilton Lane

August 16, 2022

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

Re: DRA Growth and Income Fund XI, LLC

Dear Trustees:

DRA Advisors (“DRA”) is led by an experienced, well-tenured senior investment team of fourteen Partners who average 26 years of relevant investment experience and 23 years of tenure. The Partners are supported by 60 dedicated real estate investment professionals inclusive of both property-type specialists and generalists. DRA has been investing in real estate since 1986 and is well-known throughout the industry, and the firm’s reputation enables attractive deal flow generation. DRA has had minimal senior-level turnover since the prior fund and has expanded the team to accommodate the increase in fund size. The broader DRA platform is comprised of the transactions & capital markets, which focuses on sourcing and due diligence for all investments, asset management, which is responsible for executing business plans and monitoring progress, portfolio management & valuations, which concentrates on debt financing, budgeting and investor reporting and back-office professionals. DRA allocates the majority of the carried interest to its 14 partners but allocates a meaningful portion to key non-Partner professionals, creating alignment across the Firm. DRA is headquartered in New York City and maintains offices in San Francisco and Miami for regional sourcing and asset management initiatives. DRA Advisors is targeting \$2.25 billion in commitments from limited partners for its eleventh fund, DRA Growth and Income Fund XI, LLC (the “Fund”). DRA intends to hold a first close for the Fund on October 14, 2022, and a final close in April 2023. DRA will consider PSERS a first close investor in a 1B close to be held later in October.

Consistent with prior funds, DRA plans to focus on industrial, multifamily, retail, and office properties in primary and secondary markets throughout the U.S. In periods of market volatility, DRA plans to take advantage of the flexible capital by rotating between sectors that are showing demand tailwinds and deep value. DRA focuses on stabilized assets with a cash flow yield and often targets assets with >80% occupancy rate at entry. DRA seeks to use moderate leverage for the Fund, targeting 65% loan-to-value at the portfolio level. DRA does not provide a target investment allocation to sector or geography and intends to utilize a bottom-up underwriting approach to acquire assets opportunistically across property types and markets. DRA has been investing via partnerships with local, vertically integrated real estate operating companies and has cultivated a consistent reputation as a leading value-add investor with brokers and institutions, providing widespread sourcing opportunities through different industry channels. DRA intends to take on control positions as either the sole investor or in a Joint Venture structure. When investing through a Joint Venture, operating partners typically invest 5% to 20% of equity while DRA retains governance rights, leads business plan initiatives and funds a majority of the capital. DRA, with support from operating partners, seeks to develop a business plan to improve leasing and expense management and execute targeted capital expenditure projects. As of 12/31/21, DRA has generated consistent performance to date, with a 18% gross IRR and 1.8x gross multiple across aggregate investments since Fund VI. DRA expects to invest in 50 to 80 properties with property values ranging from \$30 million to \$150 million and targets an average equity commitment between \$15 million to \$40 million, but may acquire larger assets based on market conditions and opportunities.

The investment thesis for investing in DRA Growth and Income Fund XI, LLC can be summarized as follows:



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- Stable platform led by well-tenured and experienced professionals supported by extensive relationships with operating partners
- Diversified investment strategy with a focus on U.S. industrial, multifamily and office properties
- Strong and consistent performance across market cycles

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 August 5, 2022; the Fund was approved by Hamilton Lane's investment committee on August 15, 2022; and the recommendation to PSERS was issued on August 16, 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 the DRA Advisors' 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:

Scott Davies – Principal Real Assets, Conshohocken Office

Jackie Blickman – Senior Associate Real Assets, Conshohocken Office

Michelle Lipovsky – Analyst, Conshohocken Office

Based on the above, Hamilton Lane recommends that PSERS commit up to \$125 million, plus reasonable normal investment expenses, to DRA Growth and Income Fund XI, LLC (and/or related investment vehicles). Hamilton Lane makes this recommendation considering DRA'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