

Investment Recommendation

SERS' Investment Office Staff and SERS' Real Estate Consultant, NEPC, recommend that the State Employees' Retirement System Investment Committee interview Ares Management ("Ares" or the "Firm") at the December 5, 2023, Investment Committee Meeting to consider a potential commitment of up to \$100 million to Ares PA Opportunities Fund, L.P. ("APAOF") subject to the satisfactory completion of legal due diligence and contract negotiation. This commitment would be part of the overall strategic partnership between PA SERS and Ares approved in April 2019. The \$100 million upsize to APAOF will be the first commitment to the Ares US Real Estate Opportunities fund series through a proportionate commitment of \$70 million to Ares US Real Estate Opportunity Fund IV, L.P. ("AREOF IV" or the "Fund") and up to \$30 million in co-investment. AREOF IV is currently targeting \$3 billion of capital commitments and expects to hold its final closing by year-end 2023.

Investment Rationale

Staff believes Ares US Real Estate Opportunity Fund IV represents a strong candidate for SERS' capital commitment as it offers:

- A Strategic Partnership with a Top Performing Manager
- Access to a Robust Investment Platform
- A Dynamic Investment Strategy
- A Strong Portfolio Fit
- A Manager Committed to an Action Oriented DEI Program

Investment Risks & Mitigants

- Increased Fund Size
- Financing Risk
- Rising Interest Rates/ Distressed Environment
- Headline Risk

Portfolio Implications

A commitment to AREOF IV would be considered a 2023 vintage allocation to a fund which is categorized in the Real Estate asset class and Value-Add/Oppportunistic sub-asset class. As of June 30, 2023, the plan's total allocation to the Value-Add/Oppportunistic sub-strategy represented approximately 47.9% of the total Real Estate portfolio.

A commitment to AREOF IV is expected to increase the Real Estate sub-strategy exposure to Value-Add/Oppportunistic by approximately 2.0%.

