NEPC, LLC

To: Pennsylvania State Employees' Retirement System Board Members

From: NEPC, LLC ("NEPC")

Date: February 25, 2020

Subject: Investment in Oak Street Real Estate Fund V

Recommendation

NEPC recommends that the Board of the Pennsylvania State Employees' Retirement System ("SERS") consider a commitment of up to $50 million to Oak Street Real Estate Capital V, LP ("RECF V" or the "Fund") at the February 25 Investment Committee meeting. NEPC has identified the following positive attributes for the Fund, among others:

- Team Experience
- Strong Current Yield
- Demonstrated Ability to Make Distributions
- Downside Protection of Net Leases
- Market Opportunity

Overview

Oak Street is a real estate investment firm headquartered in Chicago, IL, which qualifies as a minority/female owned business. The Firm was founded in 2009 and specializes in net lease real estate and emerging manager programs. The Firm has over $4 billion in assets under management and a total of 26 employees.

Similar to predecessor funds, RECF V will exclusively target real estate assets with long-term net leases in place to investment grade credit tenants. Properties are typically free-standing, single tenant buildings, and may include a mix of office, industrial, and retail space. Oak Street is targeting $2.0 billion for the Fund, with a first close expected to occur in January 2020.

NEPC Due Diligence

NEPC's Real Assets Research Team has conducted due diligence on the Firm, including the following items (among others):

- Consideration of portfolio fit within the Pennsylvania SERS Real Estate Portfolio
- Consideration of the Fund relative to others in its peer universe (including strength of team, strategy, track record, and fees/terms, among other factors)
- On-site meeting conducted at the Manager's office
- A review of the Manager's track record, including both fund- and investment-level performance
- Operational due diligence review

Disclaimers and Disclosures

- Past performance is no guarantee of future results.
- The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.
- Information used to prepare this report was obtained directly from the investment manager, and market index data was provided by other external sources. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- NEPC may provide background information on fund structures or the impact of taxes but you should contact your legal counsel or tax professional for specific advice on such matters.
- This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

In addition, it is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds, real estate and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment
2. Leverage and other speculative practices may increase the risk of loss
3. Past performance may be revised due to the revaluation of investments
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value
6. These funds are not subject to the same regulatory requirements as registered investment vehicles
7. Managers may not be required to provide periodic pricing or valuation information to investors
8. These funds may have complex tax structures and delays in distributing important tax information
9. These funds often charge high fees
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy