



Investment Committee Memorandum

Oak Street Real Estate Capital Fund V, LP.

Real Estate Asset Class

February 25, 2020

Recommendation

The SERS' Investment Office ("Staff") and NEPC recommend that the Board approve an investment in Oak Street Real Estate Capital Fund V, LP ("Oak Street V", "Fund V" or "the Fund") of up to \$50 million subject to successful contract negotiations.

A commitment to the Fund would be considered a 2020 allocation to the Value-Add/Oppportunistic subcategory of the Real Estate portfolio and is consistent with SERS' strategic plan and pacing.

Overview

Oak Street was founded in 2009 with the goal of establishing a world class, triple net lease focused private equity real estate investment firm. The founders, Marc Zahr and Jim Hennessey respectively were part of the acquisitions and asset management teams for American Realty Capital prior to founding Oak Street. Oak Street employs 26 employees focused on the Firm's sole business, real estate investment management, with its primary office in Chicago, Illinois.

Since 2009, Oak Street has raised over \$4 billion from institutional investors across four previous value-add funds and one separately managed account targeting triple net lease strategies, their Open-Ended, Core Plus Net Lease Property Fund, and within their Emerging Manager Fund platform. This memo is exclusively focused on the closed end, Triple Net Lease strategy of Oak Street Real Estate Fund V. Oak Street V would be complementary to SERS' existing real estate portfolio as the fund's strategy risk profile is attractive at this point in the cycle and the fund's target property types are currently underrepresented with the real estate portfolio.

Opportunity and Investment Strategy

The Fund will invest exclusively in investment grade or equivalent single-tenant, free-standing triple net or double net lease (roof and structure) assets with an emphasis on recession resistant tenants and mission-critical locations. Investments will be made on an individual asset or portfolio of assets basis.

The Fund has a goal of preservation of capital, which it plans to achieve through a focus on investment grade tenant credits, a heavy current cash flow component paid monthly and additional downside protection through favorable pricing from off-market purchases. Additionally, the Fund will seek to provide downside protection through its deal structure. These leases are expected to have increases imbedded in their rent structure, which allow for increased cash flow over time. Further downside protection exists through the modest use of leverage and use of long-term fixed rate debt.

Oak Street's focus on investment grade credit tenants is a main differentiator for this strategy in comparison to other investment options. No other institutional investment option in the net lease space, either public or private, focuses exclusively on investment grade credit tenants. Additionally, the firm has never had a bankruptcy filing from a tenant, a tenant default, a missed rent payment or a property vacancy in their history.

Management Team

Marc Zahr, Chief Executive Officer and Managing Partner, 18 years of industry experience, 10 years at Oak Street. Mr. Marc Zahr is the Co-Founder, Managing Partner and Chief Executive Officer of Oak Street Real Estate Capital, LLC. In this role, Mr. Zahr is responsible for the overall direction and leadership of Oak Street. He manages and oversees the firm's investment activities which include sourcing, underwriting and negotiating all of Oak Street's acquisitions. Mr. Zahr also leads the firm's Investment Committee and new product development. He founded Oak Street with the intention of creating investment strategies that are closely aligned with the interests of investors. Mr. Zahr's work in providing creative solutions that enhance the balance sheets of companies has generated the firm's investment opportunities primarily through sale-leasebacks, developer partnerships, and lease restructurings.

Mr. Zahr has focused on sourcing and structuring the acquisitions that were executed in Oak Street's funds, co-investment vehicles and customized funds of one. Select tenants include Walgreen Co., CVS Health Corp., MetLife, Inc., Advance Auto Parts Inc., Motorola Solutions, Inc., Ericsson, The Sherwin-Williams Company, U.S. Bancorp, Anthem Blue Cross Blue Shield, Dollar General Corp., and Capital One Financial Corp. Mr. Zahr also spearheaded the integration of Oak Street's Seeding & Strategic Capital platform.

Prior to Oak Street, Mr. Zahr served as Vice President at American Realty Capital where he was responsible for the analytics and acquisition activities within the company's real estate portfolios. Mr. Zahr also served as a Fixed Income Trader at TM Associates and an Associate at Merrill Lynch. Mr. Zahr received a B.A. in Communications from the University of Dayton

James Hennessey, Chief Financial Officer and Managing Partner, 17 years of industry experience, 10 years at Oak Street. Mr. James Hennessey is Co-Founder, Managing Partner, Chief Financial Officer and a member of Oak Street's Investment Committee. Mr. Hennessey is responsible for all financial and fiscal management aspects of Oak Street's operations including: financial and real estate analysis of all potential acquisitions, closing purchases and sales inclusive of debt financings, portfolio accounting, and financial & tax reporting.

Mr. Hennessey is heavily involved in Oak Street's Net Lease investment due diligence efforts. In addition to these responsibilities, he has been integral to the asset management of Oak Street's Net Lease funds, associated co-investment vehicles and customized funds of one. Mr. Hennessey led Oak Street's initial registration with the Securities and Exchange Commission ("SEC") and has overseen all compliance efforts at the firm.

Mr. Hennessey was previously the Corporate Controller at American Realty Capital where he was responsible for asset management and SEC reporting for the firms' real estate portfolios. Before his time at American Realty Capital, he was a manager in the Assurance Advisory practice at Plante Moran (formerly Blackman Kallick, Bartelstein). Mr. Hennessey received a B.S. in Accounting and Finance from Indiana University.

Larissa Herczeg, Managing Partner 19 years of industry experience, 7.5 years at Oak Street Ms. Larissa Herczeg is a Managing Partner of Oak Street Real Estate Capital, LLC and a member of the firm's Investment Committee. Ms. Herczeg is responsible for all aspects of Oak Street's SASC business, including investment sourcing, due diligence, selection and portfolio management and reporting.

Ms. Herczeg focuses on sourcing, due diligence, investment monitoring and serving on advisory boards for Oak Street's SASC business. Select activities include co-founding Women in Real Estate, serving as a Trustee of Roosevelt University and a mentor for the Goldie B. Wolfe Miller Women Leader's In Real Estate Initiative, a

mentor for the Toigo Foundation and has served as a guest speaker at the University of California-Berkeley, Kellogg School of Management and the University of Notre Dame.

Prior to Oak Street, Ms. Herczeg was responsible for global real estate investing at Morgan Creek Capital Management, Franklin Templeton Real Estate Advisors and the Credit Suisse Customized Fund Investment Group (now known as GCM Grosvenor). Ms. Herczeg received a B.A. with honors in Government and Economics from the University of Notre Dame, a Master's degree with honors in International Affairs from Columbia University's School of International and Public Affairs and a Juris Doctor degree with honors from Columbia University Law School.

Michael Reiter, Managing Director and 20 years of industry experience, 2.5 year at Oak Street Mr. Michael Reiter is a Managing Director of Oak Street Real Estate Capital, LLC, a member of the firm's Investment Committee. In this role, Mr. Reiter is responsible for overseeing the firm's capital markets, business development and investment activities.

Mr. Reiter previously served as Managing Director, Real Estate Investment Management at Cantor Fitzgerald, where he was primarily responsible for acquisitions and new product development, including REITs and private equity funds. From 2015 to 2016, Mr. Reiter was a Member of the Board of Directors of Plymouth Industrial REIT, Inc. (NYSE: PLYM). Prior to Cantor Fitzgerald, from 2007 to 2015, Mr. Reiter was a Senior Vice President, Capital Markets at VEREIT, Inc. where he oversaw capital offerings and strategic M&A; and Senior Vice President at American Realty Capital, where he was responsible for acquisitions and business development. During his tenure at VEREIT and ARC, he was active in executing over \$60 billion of transactions, including \$30 billion of M&A and property portfolios, \$23 billion of non-traded equity offerings and \$7 billion of public equity and debt offerings.

Mr. Reiter has worked in the real estate industry for 20 years. Prior roles included Director of Investments at Savills-Studley, Inc. and Manager in Ernst & Young's real estate advisory and assurance practices. Mr. Reiter is a certified public accountant. He received his Bachelor of Science degree in economics from the University of Wisconsin, Madison and his Master of Science degree in accounting, cum laude, from the University of Notre Dame.

Investment Risk & Mitigants

Staff has identified the following risk factors and mitigation techniques specific to Oak Street, as shown in Table 1 below.

Table 1 – Risk Factors

TYPICAL RISKS	MITIGATING FACTORS
Investment Risk	Follow extensive underwriting process which includes input from all teams as well as third party reviews of legal, structural and environmental risk
Portfolio Risk	Manage limitations within set guidelines: <ul style="list-style-type: none"> ○ Exclusively focused on single-tenant triple and/or double net leases ○ Long lease term remaining ○ Acquisitions based on conservative valuation metrics ○ No more than 15% exposure to a single credit ○ Solely focused on Investment Grade Credit Tenants
Exit Risk	Identify exit strategies during due diligence and continually monitor capital markets for opportunities. Long term lease structure and high cash yield provides Oak Street the ability to be patient in choosing to exit investments at the most advantageous time
Operator Risks	Minimum operating risk due to the nature of triple net lease structure
UNIQUE RISKS	MITIGATING FACTORS
Credit Risk	Significantly diminished through the Funds' focus on Investment Grade tenants, portfolio diversification and assets underwritten to be critical to the tenant's core business
Currency Risk	All debt is structured to match the investments currency
Headline Risk	Tenured team with strong corporate relations and deep networks creates strong platform for monitoring and mitigating potential risk
Litigation Risk	Use local knowledge and experience to evaluate opportunities as well as continually monitor assets