To: Pennsylvania State Employees' Retirement System Board Members ("SERS")

From: NEPC, LLC ("NEPC")

Date: September 8, 2022

Subject: Commitment to Oak Street Real Estate Capital Fund VI, LP

Recommendation

NEPC recommends that the Board of the Pennsylvania State Employees' Retirement System consider a commitment of up to $75 million to Oak Street Real Estate Fund VI, LP ("Fund VI" or the "Fund") at September 22, 2022 Investment Committee meeting. NEPC has identified the following positive attributes for the Fund, among others:

- Team experience
- Focus on current yield
- Demonstrated ability to make distributions
- Downside protection
- Attractive market opportunity

Overview

Oak Street Real Estate Capital ("Oak Street," the "Firm," or the "Manager") is a real estate private equity firm headquartered in Chicago, IL. The Firm was formed in 2009, with a specialized focus on net lease real estate and emerging manager programs. Oak Street is seeking $4 billion in commitments for Oak Street Real Estate Capital Fund VI ("Fund VI" or the "Fund"), to invest in investment grade triple net (NNN) lease real estate.

The Fund will exclusively purchase mission-critical, free-standing office, industrial, and retail assets with long-term leases (minimum of 11 years of remaining term) that they can acquire at a going-in cap rate of 7% or higher. Another requirement that Oak Street has stated for the Fund is that all tenants of the properties they acquire must have investment grade credit status. Under a net lease structure, the tenant pays all property operating expenses, taxes, and capital expenditures which creates attractive, stable cash yields. The Manager is targeting a total (net) IRR of 12% - 14% over the long term and a minimum annual net cash yield of 8% (utilizing 60% leverage), to be paid monthly to investors. Oak Street plans to hold a first close for Fund VI in October 2022, with a final close by 2022 year-end.

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 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)
- Virtual onsite meeting conducted

- 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