To: Pennsylvania State Employees’ Retirement System Board Members (“SERS”)

From: NEPC, LLC (“NEPC”)

Date: October 29, 2021

Subject: Commitment to LEM Multifamily 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 LEM Multifamily Fund VI, LP (“Fund VI” or the “Fund”) at the December 7, 2021 Investment Committee meeting. NEPC has identified the following positive attributes for the Fund, among others:

- Strong track record
- Network of local operating partners that are financially aligned
- Prudent approach given current market conditions

Overview

LEM Capital, LLC (“LEM”) was founded in 2002 by Jay Eisner, Herbet Miller, and Ira Lubert to invest in commercial real estate. Today, the daily operations of LEM are led by Mr. Eisner and Mr. Miller, who, together with Partner Allison Bradshaw and Principals Greg Biester and Jennifer Clausen, make up the LEM Management Committee.

From 2002 to 2011, LEM invested primarily in structured debt investments with a concentration in multifamily properties. After the Global Financial Crisis, with the inception of Fund III, the Firm has been investing in equity positions exclusively in Class B value-add multifamily properties located in infill suburban locations across the United States. LEM’s strategy pivot was driven by strong demographic trends and a supply/demand imbalance within the multifamily sector. Fund VI will continue the strategy of the prior funds, investing in value-add multifamily properties in select suburban markets across the United States. Target assets are generally 10-35 years old, functionally relevant with larger floor plans, and offer the ability to add value through a combination of physical improvement and management changes. LEM’s target markets offer diverse employment drivers, strong demographics, and high barriers to entry.

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