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

From: NEPC, LLC ("NEPC")

Date: September 30, 2025

Subject: Commitment to Blue Owl Real Estate Fund VII, LP

Recommendation

NEPC recommends that the Board of the Pennsylvania State Employees' Retirement System consider a commitment of up to $100 million to Blue Owl Real Estate Fund VII, LP ("Fund VII" or the "Fund") at the October 7, 2025, Board meeting. NEPC has identified the following positive attributes for the Fund, among others:

- Proven ability to execute investment strategy
- Strong prior fund performance and track record of consistent income distributions
- Deep and tenured investment team
- Consistent and differentiated investment strategy
- Well-established sourcing channels
- Elevated downside protection of the net lease property sector from high tenant credit quality

Overview

Blue Owl Capital (the "Firm," the "Manager," or "Blue Owl") is raising its seventh closed-end, North American net lease real estate fund, Blue Owl Real Estate Fund VII. The Fund will continue the same investment strategy that has been in place since the inception of the fund series, where it will target free-standing, single-tenant commercial properties primarily in sale-leaseback transactions, exclusively with tenants that have investment-grade credit status. The Manager exclusively targets investments in triple-net lease (NNN) structures, where the tenant is responsible for property operating expenses, taxes, and capital expenditures. By targeting long-term NNN leases with investment grade tenants, the Fund should be able to generate a stable cash yield and attractive total return profile. The Fund will target a net IRR of 12% to 14% and a net multiple of 1.5x to 1.7x. The Fund also targets an 8% annualized distribution yield paid monthly to investors, which the fund series has successfully produced since inception in 2009.

The fund series began under the management of Oak Street Real Estate Capital ("Oak Street"), a real estate private equity firm founded by Marc Zahr in 2009, when it launched its first closed-end fund. Between 2009 and 2021, Oak Street had launched and managed five closed-end funds consistent with the strategy of Fund VII and an open-end net-lease real estate fund that was launched in early 2019. In December 2021, Oak Street was acquired by Blue Owl Capital, a large, publicly-traded alternative asset manager. The Oak Street team (and underlying funds) were rebranded as Blue Owl Real Estate and continue to be led by Marc, now Co-President of Blue Owl Capital. Subsequently, Blue Owl has raised and is investing the sixth fund in the series and has also launched a non-traded REIT (in 2022) and a European net lease fund (in 2024).

Over time, the fund series has had a very strong and consistent track record. The first three funds in the series (vintage years 2010 through 2015) are all fully-realized and each generated at least a high-teens net IRR. Fund IV (2017 vintage year) is also largely realized, while Funds V and VI are earlier in their fund lifecycle, but all three are on-track to generate a return at least in-line with targets. With these prior funds generating net IRRs at or above their targets, the Manager has displayed their ability to consistently and successfully aggregate portfolios of high cash-flowing net-lease investments and sell them to income-seeking investors through portfolio sales or single-property transactions. The key investment professionals, including Marc, have built relationships with tenants, intermediaries, and potential buyers since implementing the strategy under the Oak Street name and aim to continue the successful implementation with Fund VII capital.

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)
- Due-diligence meeting conducted at the Manager's office in Chicago
- A review of the Manager's track record, including both fund- and investment-level performance
- Operational due diligence review, including background checks on the Firm and key professionals

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.

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