

Opportunistic Real Estate Fund Commitment

Morgan Stanley Real Estate Fund VII Global, L.P.

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Morgan Stanley Real Estate Fund VII Global, L.P.

Opportunistic Real Estate

Overview

- Fund Size: \$10 billion
- Opportunistic Global Real Estate, focused on distress and dislocation globally

Fund Strategy

- The Fund will invest in a broad range of real estate and real estate-related opportunities. Investment themes will include distressed opportunities, development opportunities in emerging and developing markets, as well as corporate and government divestitures
- The Fund will partner with established, proven local developers and operators to execute its business plans with clear exit strategies
- Typical investment size: \$20 – 1,000+ million
- Pennsylvania Presence – Morgan Stanley has made substantial investments in a variety of real estate properties across the State. Additionally, Morgan Stanley has many retail advisory branches throughout the State. Morgan Stanley's Investment Management division maintains a major office in West Conshohocken, PA

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Investment Team

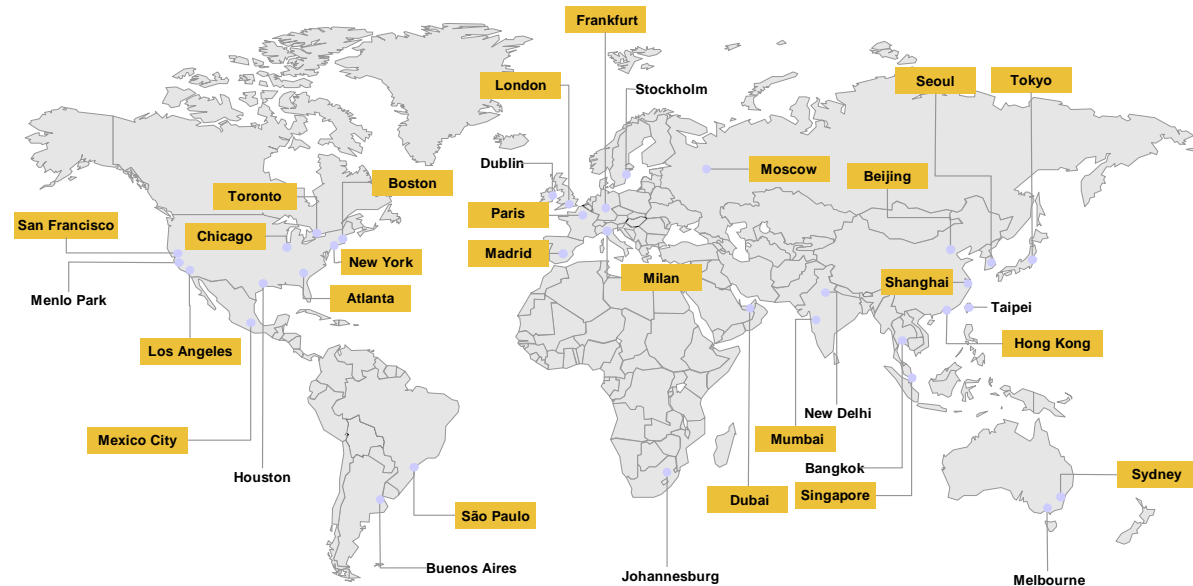
- Morgan Stanley Real Estate's Investing group is comprised of 818 professionals (529 Investment professionals, 136 Financial controllers, 83 Legal / IT, and 70 Support staff)
- Overall, Morgan Stanley employs more than 46,000 people in 600 offices in 33 countries
- Morgan Stanley Real Estate has been investing in the U.S. since 1969, Europe since 1987, and Asia since 1989

GP "Value Add"

- Morgan Stanley offers a differentiated investment platform where its Investment Banking, Private Equity, Real Estate and Infrastructure platforms provide unparalleled access to deal flow, relationships, and institutional knowledge
- Morgan Stanley's expertise in acquisitions, capital markets, redevelopment, and asset management has been accretive to investment performance over several market cycles
- Additionally, Morgan Stanley's network of operating and development partners provide redevelopment, management, local market knowledge and due-diligence capabilities, and are also a valuable source of deal-flow to the Fund

Morgan Stanley Real Estate Offices Global Platform

- Morgan Stanley is a global leader in financial services with a significant franchise in funds management
- Morgan Stanley Real Estate leverages Morgan Stanley's global infrastructure of more than 46,000 people in over 600 offices in 33 countries
- Morgan Stanley Real Estate is a premier global real estate franchise with a local market presence throughout the United States, Europe and Asia
 - U.S. real estate market since 1969
 - European real estate market since 1987
 - Asian real estate market since 1989



Morgan Stanley Real Estate Global Platform	
Number of Offices	24
Number of Professionals	957 ¹

Morgan Stanley Real Estate Offices
 Morgan Stanley Investment Banking Offices

1. Includes banking and investing professionals as well as Financial Controllers, IT, Legal and administrative staff who fully support the real estate investing business, as of December 31, 2007

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Performance

- As of December 2007, Morgan Stanley Real Estate Funds are projected to produce an aggregate gross IRR 33% and a 2.4x multiple on equity

Market Opportunity

- Given the general lack of credit/financing worldwide, an expectation of continued distress in the credit/capital markets and continuing distress in the U.S. residential markets, there are ample opportunities to make debt and equity investments in distressed assets, under-managed assets, and those assets controlled by non-core owners (i.e. large corporations and government entities)
- In China, India, and the Emerging Markets, where the demand for quality real estate assets far outstrips supply, there are opportunities to develop properties to attractive yields on invested capital
- This fund will provide PSERS with additional exposure to the global real estate markets

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History with PSERS

- This would be PSERS' seventh Morgan Stanley Real Estate Fund investment (MSREF II, MSREF IV Domestic, MSREF IV International, MSREF V U.S., MSREF V International, and MSREF VI International). Additionally, PSERS is an investor in Morgan Stanley's Prime Property Fund (core open-ended)

Recommendation

- Staff, together with Courtland Partners, Ltd., recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$400 million plus management fees and reasonable normal investment expenses