

Opportunistic Real Estate Fund Commitment

Paladin Realty Latin America Investors III, L.P.

May 1, 2008

Charles J. Spiller, Director of
Private Markets and Real Estate

Paladin Realty Latin America Investors III, L.P.

Opportunistic Real Estate

Overview

- Fund Size: \$500 million target, \$800 million cap
- Opportunistic Latin American Real Estate, focused on developing for-sale housing (low to middle income segments). The Fund may also invest in resort-residential, office, industrial, retail and hotel properties in target Latin American countries

Fund Strategy











- The Fund will invest in a broad range of real estate opportunities in targeted supply-constrained Latin American markets, with a focus on for-sale housing and opportunistic commercial development ventures and acquisitions
- The Fund will partner with established, proven local developers and operators to execute its business plans with clear exit strategies
- Typical investment size: \$5 – 25 million
- Pennsylvania Presence – N/A



Key Markets

PALADIN
REALTY

Paladin utilizes a highly selective approach to choosing markets

Key Markets	Secondary Markets	Will Avoid
<p>Mexico</p>  <p>Pop: 108 million GDP: \$884 billion GDP Growth: 3.1%</p> <ul style="list-style-type: none"> Tax code reforms passed Adopts policy changes to promote stability Government agencies established to provide mortgage credit will fuel housing growth 	<p>Peru</p>  <p>Pop: 29 million GDP: \$105 billion GDP Growth: 7.2%</p> <ul style="list-style-type: none"> Free trade agreement approved by the US Congress to be ratified on December 14th. President Garcia embracing free market Consumer credit growth 	<p>Venezuela</p>  <ul style="list-style-type: none"> Chavez's push toward "21st Century Socialism" Political support through oil-financed public spending Glimmer of democratic resistance in recent referendum
<p>Brazil</p>  <p>Pop: 189 million GDP: \$1.25 trillion GDP Growth: 4.7%</p> <ul style="list-style-type: none"> Investment grade rating likely in next year or two Encouraging development of a mortgage market Interest rates cut 17x from 18% in 2005 to 11% today 	<p>Colombia</p>  <p>Pop: 47 million GDP: \$165 billion GDP Growth: 6.4%</p> <ul style="list-style-type: none"> Improving security Curbing inflation (5%) through fiscal reform 	<p>Bolivia</p>  <ul style="list-style-type: none"> Showcasing Venezuelan aid President Morales refers to Chavez as his "older brother"
<p>Chile</p>  <p>Pop: 17 million GDP: \$166 billion GDP Growth: 5.9%</p> <ul style="list-style-type: none"> Growing foreign reserves built on strong copper prices Historically low inflation (2.5% average form 1999-2006); managed today at 7% despite commodity price pressures 	<p>Central</p>  <ul style="list-style-type: none"> CAFTA, tourism and canal expansion stimulating demand 	<p>Ecuador</p>  <ul style="list-style-type: none"> President Correa joins Chavez in endorsing "21st Century Socialism" Plans to dissolve congress
	<p>Argentina</p>  <p>Pop: 40 million GDP: \$234 billion GDP Growth: 7.6%</p> <ul style="list-style-type: none"> Low-cost market provider; diversifying economy New president (Ms. Kirchner) sending market friendly signals Structural reforms still necessary 	

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Investment Team

- Paladin Realty has more than 30 professionals located in Los Angeles (corporate headquarters), Morristown (NJ), São Paulo, Buenos Aires, and Istanbul. Over a dozen Paladin professionals spend at least 75% of their time executing the firm's Latin America strategy
- The senior management team at Paladin has worked together for over 10 years

GP "Value Add"

- The Fund will benefit from Paladin's 11 year track record of investing in Latin American real estate
- Paladin has developed a network of local partners which will provide a continual source of investment opportunities to the Fund

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Performance

- As of December 2007, Paladin has invested in 15 platforms encompassing 66 individual projects in Latin America. To date, 27 projects have been sold for a 25% realized gross IRR and a 1.8x multiple.
- Through December 2007, Paladin has committed approximately \$275 million of equity to its Latin American platforms, funded \$162 million, and has realized \$62 million in total returns (including proceeds that have been reinvested). Paladin expects to receive in excess of \$500 million in additional proceeds from the balance of its Latin American platform.
- Paladin's investments in Latin America are projected to generate approximately a 25% gross IRR and in excess of a 2x multiple to fund investors.

Market Opportunity

- Given the favorable demographic trends and a decade of economic and political reforms, the Latin American economy is poised for sustainable growth.
- Paladin Realty Latin America Investors will provide PSERS with additional exposure to the Latin American real estate market.

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History with PSERS

- This would be PSERS' second fund relationship with Paladin Realty (William E. Simon & Sons Realty Partners, LP).

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 \$150 million plus management fees and reasonable normal investment expenses.

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