

# COURTLAND PARTNERS, LTD.

## INSTITUTIONAL REAL ESTATE SERVICES

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February 16, 2012

Board of Trustees  
Pennsylvania Public School Employees' Retirement System  
5 North 5<sup>th</sup> Street  
Harrisburg, PA 17101

**Re: AG Core Plus Realty Fund III, L.P. (Angelo, Gordon & Co.)**

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated AG Core Plus Realty Fund III, L.P., ("the Fund") or ("CP III"). The Fund is sponsored by Angelo, Gordon & Co., a privately-held registered investment advisor dedicated to alternative investing. The firm was founded in 1988 and currently manages approximately \$22 billion in assets under management. AG began investing in the real estate sector in 1993, and has since acquired over \$11 billion of assets across all property types and several geographic locales. The team is supported by real estate professionals based in New York, Los Angeles, Hong Kong, Seoul, Tokyo and Shanghai, offering a global view of the market with a prime emphasis on the United States and, more recently, Asia.

The Angelo, Gordon core-plus real estate strategy is based on the acquisition of assets with significant in-place income which the firm believes can be stabilized with relatively low risk. The fund will target high quality, in-fill assets where sub-performance can be corrected and which are likely to appreciate over time. The fund invests across all four property types within areas of proven demand. The fund will place a heavy emphasis on the top-15 U.S. markets, and will not invest in development projects. It is anticipated that the Fund's investments will be located principally in the U.S., although the Fund may invest without limitation elsewhere in North America and up to 25% of the Fund committed capital outside of North America.

The core-plus fund has a target net return of 12-13%, with 6-7% of the total expected returns to be derived from income. Leverage will be between 55-65%. The fund's targeted holding period for assets will be four to six years, with the exit timing dependent upon completion of asset repositioning, the timing of tenant lease rollovers, the investment sales markets, and other variables. The Fund will seek to invest in a portfolio of assets that, after stabilization, (i) will be highly sought after by traditional institutional real estate investors and (ii) will continue to appreciate even after asset underperformance has been corrected.

Courtland's recommendation is based upon the following factors and is made within the context of PSERS' investment guidelines.

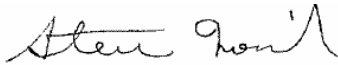
- Detailed due diligence, including on site interviews with key Angelo Gordon management team members, and review of all relevant materials provided by Angelo Gordon.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Angelo Gordon's track record and organizational resources.

- Discussion and review of the market conditions in markets relative to the proposed investment strategy.
- The strategy proposed for the Fund is appropriate for the real estate component of the portfolio.

Based on the above, Courtland recommends that PSERS commit up to \$75 million to the Fund. Courtland makes this recommendation considering Angelo Gordon's qualifications and PSERS' overall investment guidelines.

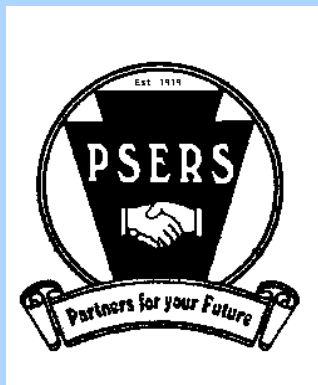
This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Courtland does not provide legal or other non-investment-related advice.

Sincerely,



Steven Novick  
Principal-Chief Operating Officer

**COURTLAND PARTNERS, LTD.**



## Value-Added Real Estate Commitment

# AG Core Plus Realty Fund III, L.P.

March 8, 2012

See Last Page for Disclaimer

Laurann H. Stepp  
Portfolio Manager, Real Estate

# AG Core Plus Realty Fund III, LP – Value-Added Real Estate

## Overview

- Fund size is anticipated to be \$1 billion
- Third in a series of closed-end commingled real estate funds targeting value-added returns which include a large component (50-60% of total return) of income yield
- The investment adviser to this fund is Angelo, Gordon & Co., L.P., which was founded in 1988 and is a privately held firm specializing globally in alternative investments. The Firm has five investment areas: (i) real estate debt and equity – value and opportunistic (ii) distressed debt and leveraged loans, (iii) residential and commercial mortgage-backed and asset-backed securities, (iv) private equity and special situations, and (v) multi-strategy. As of 9/30/11 the firm had \$22 billion in assets under management, 45% of which were real estate equity and debt

## Fund Strategy

- AG will invest with local operating partners in high quality well built office, retail, industrial and multifamily properties located primarily in the top fifteen U.S. markets. Operating within the AG global platform, up to 25% of the fund may be invested outside of North America. Investments will have strong and stable current income of 7-9%, with minimal risk from tenant concentrations. The properties will have value-added upside and will be purchased below replacement cost. The Fund will purchase sub-performing real estate assets which require minimal risk to correct deficiencies

## Investment Team

- The fund will be managed by Adam Schwartz , a Managing Director and the Head of U.S and Europe Real Estate for Angelo Gordon. Four additional Managing Directors, and a team of 13 investment professionals will also be responsible for the Fund. AG real estate offices are located in New York City, Los Angeles, London and Asia

# AG Core Plus Realty Fund III, LP – Value-Added Real Estate

## GP “Value Add”

- The firms’ focus on real estate equity and debt provides unique access to deals. In fact, 75% of deals since 2008 were off market transactions. Two-thirds of deals have been purchased from lenders at a discount
- AG utilizes over 40 active local partners to manage the investments in their funds. These partners are able to stay on top of the local markets and execute the value-add plans. AG maintains sufficient oversight control of these partners
- Fund III has already invested \$213 million in seven investments, many of which are producing a current yield in excess of 8%. All three prior investment vehicles have achieved a first quartile ranking according to the Courtland Partners Index

## Performance (as of September 30, 2011)

- Core Plus Managed Account (2002) returned a net 1.7x MOC and a 26.8% net IRR – 100% liquidated
- Core Plus I (2003) currently has a net 1.5x MOC and a 18.2% net IRR – 83% liquidated
- Core Plus II (2006) currently has a net 1.1x MOC and a 3.3% net IRR – expect will reach net IRR of 8% with a net 1.4x MOC
- Core Plus III (2011) will target net 1.7x MOC and a 12-13% net IRR, with 6-7% current return from income

## Market Opportunity

- Bank balance sheets are full with commercial real estate loans and assets that are too costly to continue to hold and it is estimated that there is a \$600 billion financing gap, or amount required to be invested in order to refinance properties. This pressure provides a great opportunity for firms with ready capital, a strong reputation amongst the banks, and a lack of distracting legacy issues

## History with PSERS

- This will be PSERS first fund investment with Angelo Gordon

See Last Page for Disclaimer

# AG Core Plus Realty Fund III, LP – Value-Added Real Estate

## Board Issues

- Pennsylvania Presence –
  - Core Plus Funds I, II, III:
    - 95% of The Franklin, an 18-story, mixed-use property in Philadelphia, PA consisting of 412 residential units, 125,788 square feet of medical office and retail space, and a 120-space underground parking garage. The operating partner on this deal is Korman Communities
    - 97% of Regency Centers Portfolio. The Pennsylvania assets include two properties, in Reading (161,424 square feet) and Lansdale (132,917 square feet). The operating partner on this deal is Spectrum Properties
    - 97% of International Plaza in Philadelphia, PA. This is a two office building plaza totaling 487,409 square feet. The operating partner on this deal is Amerimar Enterprises
  - Opportunity Funds VI, VII:
    - 34% of Tandem Healthcare. The Pennsylvania assets include 14 skilled nursing and other senior housing facilities totaling 1,259 beds. The operating partner on this deal is Formation Capital
    - 97% of the KeyBank Storage Portfolio. There are three assets in Pennsylvania: in Darby Township (93,750 square feet), Edgemont Township (81,525 square feet) and Trevoise (78,125 square feet). The operating partner on this deal is Andover Properties
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – None

## Recommendation

- Staff, together with Courtland Partners, Ltd, recommend that the Board invest an amount not to exceed \$75 million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.