

COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

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January 8, 2013

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

Re: Paramount Group Real Estate Fund VII

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Paramount Group Real Estate Fund VII, LP (the "Fund"). Fund VII will make equity investments in trophy quality office assets seeking to achieve value-add type returns, generally over a ten-year anticipated holding period. Fund VII will target the primary markets of New York City, San Francisco, and Washington D.C., with a strong emphasis on New York City.

Paramount is one of the largest privately-owned real estate investment and management firms in New York City and since 1995, has been actively implementing the current investment strategy of pursuing Class A trophy assets in New York City, Washington D.C., and San Francisco. The firm is a vertically integrated operator that has expertise in acquisition, finance, disposition, property management, leasing, and construction.

Paramount's asset management is a competitive advantage for the Fund. With Paramount's sizable platform, it is able to quickly analyze prospective deals without the assistance of outside preliminary underwriting. Once a deal is sourced, Paramount has the necessary capabilities to underwrite and close a transaction. Once a deal is formally underwritten, it is presented to the Executive Committee. This committee is comprised of nine members averaging 29 years experience and 14 years of average tenure with Paramount.

The Fund VII strategy will be focused on acquiring trophy quality assets, but with property specific issues that Paramount can effectively manage in order to generate value-add returns. Paramount has proven its ability to seek out opportunities that require re-tenanting a building or managing near-term lease rollover in order to generate attractive returns.

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

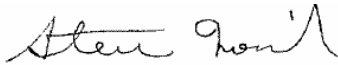
- Detailed due diligence, including interviews with key Paramount's management team members, and review of all relevant materials.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Paramount's track record and organizational 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 \$100 million to the Fund. Courtland makes this recommendation considering Paramount's qualifications and PSERS' overall investment guidelines.

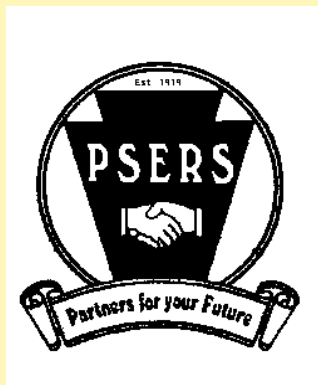
This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits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

Paramount Group Real Estate Fund VII, L.P.

January 24, 2013

Paramount Group Real Estate Fund VII, L.P. – Value-Added Real Estate

Overview

- Fund VII anticipates raising \$600 million to \$1 billion in capital
- Invest in value-add CBD office properties primarily located in New York, Washington, D.C., and San Francisco. Utilize 60% leverage to generate a net 10-14% IRR and a 2x multiple
- Paramount was formed in 1968 by Werner Otto of Hamburg, Germany to invest the Otto family capital. In the mid 90's began investing on behalf of other high net worth individuals, and then German closed ended funds. In 1995 solidified current strategy and focus

Fund Strategy

- Paramount will invest in high quality office buildings where their hands-on operating experience will maximize value. Investments are expected to be located within specific sub-markets of New York City (40-60%), San Francisco (20-25%) and Washington, D.C. (20-25%). Paramount focuses on these markets due to lower vacancy rates, and higher rates of rental growth and resiliency. Extensive use of proprietary deal sourcing through GP member relationships, primarily in New York City area

Investment Team

- Paramount has a 9 member Executive Committee with an average 29 years of real estate experience, and 14 years on average with Paramount. They are led by Albert Behler, who joined in 1991 and spearheaded the current strategy since 1995
- As a fully integrated firm Paramount employs 210 individuals, located in their New York City headquarters, and San Francisco and Washington, D.C. branch offices

Paramount Group Real Estate Fund VII, L.P. – Value-Added Real Estate

GP “Value Add”

- Greater than 70% of their deals are sourced off-market
- Invested over \$11 billion in office buildings since 1995. Recognized that investors were overpaying during 2006/2007 and sold \$4.5 billion for substantial gains. Remaining portfolio currently valued at approximately \$10 billion
- As a fully integrated firm they: source, structure, acquire, property manage, lease, provide construction expertise and disposition services in-house
- This fund gives PSERS a unique opportunity to invest with a group of sponsoring partners that have an exceptional track record, reputation and history of sourcing proprietary deals

Performance reflecting current strategy from 1995 (as of 9/30/12)

- Realized net IRR since inception 27.4%, 3.2x
- Unrealized net IRR since inception 9.4%, 1.9x
- Total combined net IRR since inception 16.5%, 2.2x

Market Opportunity

- The target markets of New York City, San Francisco and Washington D.C. have led the real estate market recovery. These markets exhibit lower vacancy rates and higher rental growth, but can be volatile, which creates opportunities for experienced operators
- Opportunities will continue to be created for several years by the excess of maturing real estate debt versus the amount of financing available

Paramount Group Real Estate Fund VII, L.P. – Value-Added Real Estate

History with PSERS

- This is PSERS' first commitment to The Paramount Group series of funds

Board Issues

- Pennsylvania Presence – None
- Placement agents – None for PSERS commitment. Christian Fischer (primarily focused on German institutional and High net worth investors), Vera Rebanova (primarily focused on Switzerland and Europe ex-Germany institutional and high net worth investors) and ProFund GmbH, focused on certain German institutions
- PA political contributions – None
- Relationship with consultant – None

Recommendation

- Staff, together with Courtland Partners, recommends that the Board invest up to \$100 million plus reasonable normal investment expenses, in Paramount Group Real Estate Fund VII, L.P.

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.