Value-Added Real Estate Commitment

DRA Growth and Income Fund VIII, LLC

December 9, 2013

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Portfolio Manager, Real Estate

DRA Growth and Income Fund VIII, LLC – Value-Added Real Estate

Overview

- Fund size is anticipated to be $1 billion - $1.35 billion
- Invest primarily through joint ventures with operators, in controlling equity interests and loans secured by real estate
- Currently, and for the past 27 years, preservation of capital, downside protection and stability of cash flows has driven the firms value-added investment approach
- A significant portion of the return to the fund is expected to be from cash flow. Historically 65% of their return has been derived from income

Fund Strategy

- Continue to invest in a diversified portfolio of office, retail, multifamily, industrial and other real-estate related properties and assets across the United States and its territories. Investment themes will include: (i) distressed deals, (ii) portfolio deals and/or joint ventures with REITs, and acquisitions in secondary markets. DRA will increase property income through operational improvements

Investment Team

- The fund will be managed by fourteen partners, including one Founding Partner. The fourteen partners also own 100% of DRA, average 17 years with DRA, and 22 years in the real estate industry
- The team consists of 76 employees; located in New York City, San Francisco and Miami

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GP "Value Add"

- DRA has a wealth of investment experience, networks of industry leaders, an entrepreneurial style, and a history of successful value-added real estate investing throughout many cycles
- Willingness to be flexible, recognize the impact of market condition, and respond to changing capital market flows
- Proven execution: 202 of DRA's 1,000 investment properties have been sold, achieving a net 16% IRR and 1.6x MOC

Performance (as of June 30, 2013)

- DRA Opportunity Fund (1995) Fully realized net 2.1x MOC and a 16.1% IRR
- DRA G&I Fund (1997) Fully realized net 1.9x MOC and 12.3% IRR
- DRA G&I Fund II (1998) Fully realized net 2.2x MOC and 15.7% IRR
- DRA G&I Fund III (2000) Fully realized net 2.7x MOC and 24.2% IRR
- DRA G&I Fund IV (2003) 95% realized, current net 12.5% IRR and 1.7x MOC, and projected net 1.7x MOC
- DRA G&I Fund V (2005) 23% realized, current net 1.4% IRR and 1.1x MOC, and projected net 1.4x MOC
- DRA G&I Fund VI (2007) 14% realized, current net 6% IRR and 1.2x MOC, and projected net 1.5x MOC
- DRA G&I Fund VII (2011) current net 16.1% IRR and 1.1x MOC, and projected net 2x MOC

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Market Opportunity

- Real estate transaction volumes have doubled, based on attractive yields combined with the availability of historically cheap debt. All property sectors are improving, and thus far supply has continued to be extremely low

History with PSERS

- This will be PSERS third fund investment with DRA . PSERS invested $148 million in DRA Growth and Income Fund VI in 2007, and $100M in DRA Growth and Income Fund VII in 2011

Board Issues

- Pennsylvania Presence – DRA currently owns 29 office properties in Pennsylvania, totaling 1.6 million SF and valued at $260 million.
- Placement agents – DRA does not use a placement agent
- PA political contributions – none
- Relationship with consultant – none

Recommendation

- Staff, together with Courtland Partners, Ltd., recommends that the Board invest an amount not to exceed $100 million plus reasonable normal investment expenses

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November 14, 2013

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

Re: DRA Growth and Income Fund VIII, L.L.C.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated DRA Growth and Income Fund VIII, L.L.C. (the "Fund"). The Fund will pursue a value enhancement strategy in acquiring real estate assets to improve operations and have the potential for capital appreciation. The Fund will seek opportunities for physical value-enhancement and attempt to capitalize on market inefficiencies for example, seller strategic or financial motivation or the existence inefficient capital structures. Investments may include direct and indirect equity interests and loans secured by interests in real estate.

DRA has employed a consistent value-added investment strategy over the past 27 years. The Fund team targets investments that offer strong income returns and the potential for capital appreciation. Preservation of capital, downside protection and stability of cash flows underlie DRA's investment approach. Three major themes characterize the Fund team's valued-driven investment process – distressed deals, portfolio deals and/or joint ventures with REITs, and acquisitions in non-gateway markets.

DRA will also target quality assets in somewhat smaller markets that are often overlooked by competitors. Although these markets demonstrate above-average growth prospects, many investors may shy away due to perceived lack of quality or liquidity. Due to the intense bidding for core assets in gateway markets, DRA believes that properties in secondary markets are more likely to be priced inefficiently. With local market knowledge and conservative underwriting, these situations may offer above average risk-adjusted returns.

DRA's funds are designed to be diversified across the major property types and locations, and predecessor funds are comprised of assets that represent a wide range of value-added investments.

DRA has historically demonstrated the ability to execute on an investment strategy in situations such as the current market as well as during periods of distress. In an environment where a number of value-add managers are finding it difficult to consummate transactions in line with stated investment strategies, DRA has invested approximately $120 million over 10 separate transactions diversified by property type and geography and generating, on average, an 11% cash-on-cash yield and forecast gross IRR of 17%. The value-added space in which DRA operates provides for core-like income opportunities with the potential for sizeable upside through future sales, repositioning, or recapitalization. The market cycle at this point in time is extremely favorable for disciplined, value-added approaches.

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 DRA management team members, and review of all relevant materials provided by DRA.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of DRA'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 the General Partner'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.