

# COURTLAND PARTNERS, LTD.

## INSTITUTIONAL REAL ESTATE SERVICES

---

200 PUBLIC SQUARE  
SUITE 2530  
CLEVELAND, OH 44114

TELEPHONE: (216) 522-0330  
FAX: (216) 522-0331  
www.courtland.com

January 10, 2013

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

### **Re: Blackstone Real Estate Debt Strategies II**

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Blackstone Real Estate Debt Strategies II, L.P. (the "Fund"). The Fund will pursue an investment strategy that continues the strategy of Blackstone's predecessor debt fund. The Fund's mandate is a continuation of the strategy to generate attractive risk-adjusted returns by primarily purchasing and/or originating performing loans.

The Fund will focus primarily on high yield lending on commercial real estate through new loan originations and purchases of legacy loans and securities, but may otherwise pursue a broad range of real estate related debt and non-controlling equity investments. The Fund's objectives include:

- Lending on institutional quality real estate at attractive levels relative to replacement cost and historical valuations
- Producing equity-like returns while taking debt-like risk by purchasing and/or originating performing loans, not from control or ownership of real estate assets
- Generating a significant portion of total return through current income, which is distributed on a quarterly basis

The Fund seeks to generate attractive risk-adjusted returns by primarily purchasing and/or originating performing loans, not from control or ownership of real estate assets. The Fund's broad investment mandate, which includes junior mortgage debt (e.g., B-Notes), mezzanine debt, whole loans, participations, commercial mortgage backed securities ("CMBS") and preferred equity, should enable it to take advantage of volatility in both the public and private markets. In addition, Blackstone's breadth and depth of resources and capital enable it to invest in large and complicated transactions where there often is limited competition

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

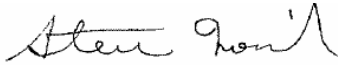
- Detailed due diligence, including interviews with key Blackstone's management team members, and review of all relevant materials.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.

- Evaluation of Blackstone'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 Blackstone's qualifications and PSERS' overall investment guidelines.

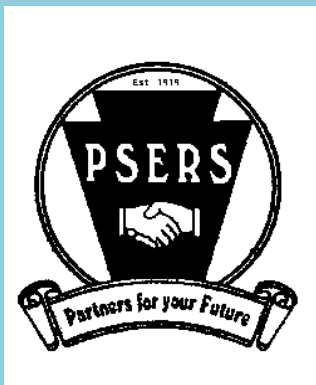
This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits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

Blackstone Real Estate Debt Strategies II, L.P.

January 24, 2013

William P. Stalter  
Portfolio Manager, Real Estate

# Blackstone Real Estate Debt Strategies II, L.P. - Value-Added Real Estate

## Overview

- Fund size: \$3 billion target
- Value-added real estate debt fund
- Founded in 1985, Blackstone Group has total assets under management of approximately \$204.6 billion (\$53.5 billion in real estate, \$50.2 billion in private equity, \$46.2 billion in Hedge Fund Solutions and \$54.6 billion in its credit businesses)
- Blackstone employs approximately 1,650 employees globally, of which 123 are Senior Managing Directors

## Fund Strategy

- Lending on institutional quality real estate assets at attractive levels relative to replacement cost and historical valuations
  - producing equity-like returns while taking debt-like risk
- Purchase and/or originate performing loans, which may include junior mortgage debt, mezzanine debt, whole loans, participations, CMBS and preferred equity
- Target 13% net IRR to limited partners
- Nearly half of total return from current income

# Blackstone Real Estate Debt Strategies II, L.P. – Value Added Real Estate

## Real Estate Team

- Headquartered in New York and London
- 206 professionals located in the US, UK, Continental Europe, and Asia
- \$54 billion equity under management
- 26 professionals dedicated to the real estate debt strategies business

## GP “Value Add”

- Consistent Team – 16 senior managing directors within the real estate team have an average tenure at Blackstone of 14 years
- Ability to creatively structure investments and move with scale and speed
- Consistent Investment Process – limits risks and allows team to take advantage of the intellectual capital across the firm

## Performance

- BREDS I (2009) 1.2x net MOIC and 13.3% net IRR

## Market Opportunity

- Distress, Deleveraging and Recapitalization
- Improving fundamentals
- Limited debt availability
- Historically wide spreads provides greater safety of principal

# Blackstone Real Estate Debt Strategies II, L.P. – Value Added Real Estate

## History with PSERS

- PSERS has previously committed to BREP V, BREP VI, BREP VII and BREP Europe III

## Board Issues

- Pennsylvania Presence – BREDS I has exposure to 39 properties located in PA, which in aggregate represents less than 1% of the Fund's total invested capital. These include Retail, Self-Storage and Hotel properties in markets such as Erie, Pittsburgh, Monroeville, State College, Bethlehem, King of Prussia and Philadelphia
- Placement Agents – No placement agent used in respect to PSERS' commitment; however Blackstone utilizes an affiliate, Parkhill Real Estate, to raise other 3<sup>rd</sup> party capital
- PA Political Contributions – None
- Relationship with Consultant – No

## Recommendation

- Staff, together with Courtland Partners Ltd., recommends that the Board invest an amount not to exceed \$100 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.