

COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

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November 11, 2014

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

Re: Almanac Realty Securities VII, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Almanac Realty Securities VII, L.P., ("the Fund"). The Fund is sponsored by Almanac Realty ("Almanac"), formally known as Rothschild Realty, a real estate investment advisor to public and private institutional pension plans, endowments, and foundations. From the time of its founding in 1981, it has invested almost \$3.0 billion into a wide array of real estate companies and opportunities. Since 1996, its primary investment activity has consisted of making private placements into public and private real estate operating companies through its Almanac Realty Securities private equity funds. The majority of the Almanac team has worked together for over 24 years.

The investment strategy for the Fund is expected to continue Almanac's strategy of investing growth capital via private placements of debt and equity in high-quality real estate companies that are active in the ownership, management, and enhancement of real estate in the United States. The investment strategy will primarily fall within the following two investment categories: structured investments and common equity investments. Fund investments are typically structured as convertible debt or preferred equity in order to enable the Fund to earn a high current income return, while seeking to generate capital gains by growing a company's equity value through acquiring, developing, and/or repositioning real estate assets.

Almanac's approach is premised on investing in companies with high-quality management teams that have long-standing and proven track records. The targeted companies are focused on generating recurring real estate cash flow and have a demonstrated competitive advantage with a real estate niche. Almanac focuses on a pricing discipline that is based on a company's net asset value and projected unleveraged real estate returns.

Almanac expects that most of the Fund's portfolio investments will be structured with a five to eight year holding period. Almanac believes that this time period will allow a portfolio company to realize its business plan and capture enterprise value. Exit strategies include a sale of the equity stake or debt position, a sale or IPO of the portfolio company, or a partial or complete liquidation or recapitalization of the assets of the portfolio company.

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

Almanac Realty Securities Fund VII, L.P.

December 8, 2014

See Last Page for Disclaimer

Laurann H. Stepp
Senior Portfolio Manager

Almanac Realty Securities Fund VII, LP – Value-Added Real Estate

Overview

- Target fund size is \$1 billion
- Invest with private placements of growth equity capital into public and private real estate companies. Structured with stringent risk mitigants; including, financial safeguards and governance provisions. Focus on recurring cash flow which will equate to approximately half of the total return
- Seven years ago spun out from Rothschild Group, but retained Rothschild affiliate ‘Five Arrows’ name. In 2011, the firm became Almanac Realty Investors and changed the fund name

Fund Strategy

- Investments are typically structured as convertible debt and/or convertible preferred securities within real estate companies. They identify strong management teams, with demonstrated competitive advantages within their local markets and property types, and make concentrated investments that may amount to significant ownership percentages

Investment Team

- The fund will be managed by three Managing Principals, including three Founding Partners, that have worked together for over the past twenty years
- The team consists of 22 professionals with real estate, capital markets and management skills; primarily located in New York City

Almanac Realty Securities Fund VII, LP – Value-Added Real Estate

GP “Value Add”

- Proven ability to selectively identify strong management teams
- Provide unique combination of corporate management, real estate and capital markets knowledge to become trusted advisor regarding the future of the company’s within which they invest
- Generate capital gains by growing the company’s equity value through acquiring, developing and/or repositioning real estate assets

Performance (as of March 31, 2011)

- ARS Fund I (1996-1998) has a 2.2x net multiple and a 15.9% net IRR
- ARS Fund II (1998-1999) has a 1.5x net multiple and a 14.3% net IRR
- ARS Fund III (1999-2001) has a 1.4x net multiple and a 9.7% net IRR
- ARS Fund IV (2004-2007) has a 1.5x net multiple and a 8.7% net IRR
- ARS Fund V (2007-2011) has a 1.4x net multiple and a 12.1% net IRR
- ARS Fund VI (2011-2015) has a 1.2x net multiple and a 17.9% net IRR

Almanac Realty Securities Fund VII, LP – Value-Added Real Estate

Market Opportunity

- The shift of real estate ownership into integrated entities such as LLCs and REITs is still in its early stage as the real estate capital markets evolve. This has created characteristics of an immature capital market environment within a mature asset class
- Target companies require significant amounts of growth capital to access expansion or consolidation opportunities, and also need guidance as they reposition their organizations

Potential Risks

- **Team turnover**

Investing at the entity level requires a unique set of investing prowess. Currently, the team is sufficiently staffed to handle investing for a new fund. The risk of turnover is reduced by the firm being privately owned by the Senior Staff, and carry being distributed throughout the firm

- **Concentrated deal selection**

There have been approximately 8 deals in each fund. The diversification risk is reduced by the strict underwriting standards, and structuring of the investment. Ongoing oversight with Board positions enables adjustments to be made, if necessary, to protect the investment

Almanac Realty Securities Fund VII, LP – Value-Added Real Estate

History with PSERS

- This will be PSERS third fund investment with the ARS team. PSERS invested \$100 million in Almanac Realty Securities Fund V in 2007, and \$100M in Almanac Realty Securities VI in 2012

Board Issues

- Pennsylvania Presence – none
- Placement agents – ARS does not use a placement agent
- 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 \$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.