



PSERS REAL ESTATE PROGRAM

**Recommendation for Investment in
Strategic Partners Value Enhancement Fund**

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Strategic Partners Value Enhancement Fund

EXECUTIVE SUMMARY

Triton Pacific Investment Management, LLC (“TPIM”) is sponsoring Strategic Partners Value Enhancement Fund (the “Fund”), a discretionary real estate investment fund. The Fund will seek to acquire smaller “off-market” and “under the radar screen” multi-family, office, industrial, and retail properties across the US via joint ventures with highly experienced local real estate operators (“LREOs”). The Fund intends to acquire properties that have value-added potential and that can be re-tenanted, re-developed and/or repositioned to generate superior risk-adjusted returns. The Fund will seek to provide its investors with an internal rate of return (“IRR”) of 15% to 17% (net of all fees, expenses and sponsor compensation). The Fund is seeking aggregate commitments of \$200 to \$250 million.

SPONSOR HISTORY

TPIM was founded by three executives, Gene Zink, Robert Davis, and Rick Hurd (the “Principals”). The Principals have approximately 70 years of collective real estate investment experience involving virtually every type of real estate asset. In the last 15 years, the Principals have executed a combined \$3 billion of acquisitions, \$3 billion of joint ventures and preferred equity investments, \$2 billion of debt investments, \$4 billion of developments and \$8.5 billion of investment banking transactions.

TPIM has leveraged off of the unique talents and broad experience of its owner/executives to build an organization that is uniquely capable of accomplishing the Fund’s investment goals and provide the Fund with the following three essential elements of investment management:

Asset Management and Investment Performance Execution: Gene Zink - Gene was one of the co-founders of Duke Realty Corporation and spent 26 years helping grow the company from virtually a start-up owner/operator/developer to an \$8.5 billion company that consistently had one of the best fiduciary reputations and performance records of any publicly traded real estate firm. Since 1993, Duke, under Gene’s leadership, produced, on average, a 40% total return per year to its shareholders.

Investor Relations and LREO Sourcing and Underwriting: Robert Davis - Robert founded Triton Pacific Capital, LLC (TPC), a boutique real estate investment banking firm. Since establishing TPC in 1996, Robert has acted as the lead real estate investment banker in approximately 30 transactions, valued at over \$8.5 billion involving a myriad of private placements, joint ventures, discretionary funds and M&A transactions. TPC, over the last 10 years, has established a large, broadly diversified, and proprietary network of LREO relationships that will be used to help access investments for the Fund.

Acquisitions and Joint Venture Investments: Rick Hurd - Rick has 18 years of investment experience with GE Real Estate and was an integral part of the GE team that invested over \$30 billion of debt and equity in virtually every real estate asset type and every market in the US. Rick was specifically responsible for approximately \$2 billion of joint venture and preferred equity investments and approximately \$2 billion of investments in mortgages and non-performing loan acquisitions.

THE OPPORTUNITY

It is widely accepted that Local Real Estate Operators (LREOs) have a significant advantage in making real estate investments for the following reasons: 1) access to deal flow that is “below the radar screen” of traditional institutional investors, 2) superior knowledge of the market and the events that affect the market, 3) an entrepreneurial mindset, and 4) the ability to avoid bidding wars.

Despite this very attractive investment benefit, it has been very difficult for institutional investors to participate since the LREO market is very large, highly fragmented, and the transactions have generally been too small to warrant the time and energy of institutional investors and their traditional investment managers.

The Strategic Partners Value Enhancement Fund has been established to specifically address that problem and allow institutional investors the ability to capitalize on this underutilized and highly attractive investment sector via an efficient, broadly diversified, and professionally managed platform.

INVESTMENT STRATEGY

The Fund will pursue a value-added investment strategy of acquiring smaller “off-market” and “under the radar screen” multi-family, office, industrial, and retail properties across the US via joint ventures with highly experienced LREOs.

Once acquired, the properties will be repositioned, released, and/or redeveloped to materially increase cash flow and residual value in an effort to produce superior risk-adjusted investment returns over a 3-5 year investment horizon.

TPIM’s first priority is to locate attractive investments and LREO joint venture partners to enable the Fund to carry out its investment strategy and achieve its targeted returns. Consequently, the Fund will not allocate its capital to any particular type or category of LREO, but will instead seek to establish relationships with the LREO partners who are best qualified to help the Fund meet its objectives including, without limitation, Minority and Women-Owned Businesses (MWOB) that operate in the real estate industry.

Local Real Estate Operator (LREO) Relationships. The Fund will utilize the TPIM Principals’ well established and extensive database of LREO relationships across the U.S. to source investment opportunities. Once an LREO and a potential acquisition are identified, TPIM will leverage off of its Principals’ transactional experience, and market knowledge to conduct a comprehensive underwriting of each LREO and each individual acquisition.

Once a property is acquired, TPIM will continue to play a highly proactive oversight role in making sure that each LREO partner is on-target and on-time in achieving the investment goals established for each asset. The Fund will maintain control over all major decisions associated with each asset, yet rely on the LREO to oversee the day-to-day operations and management of each asset.

Acquisition Strategy. The Fund will target properties that have the following profile: (i) “B to C” class properties located in “A to B” class markets, (ii) Properties that can be acquired at prices meaningfully below replacement cost, (iii) Properties that are challenged in some manner (leasing or capital constrained) resulting in value creation opportunities, and may have untapped current income potential; and/or (iv) Properties that have distinctive location or physical attributes that will extract a pricing premium upon sale and help provide a more rapid and viable exit strategy.

The Fund will target properties that can be acquired opportunistically, repositioned and then exited to harvest gains within a 3 to 5 year investment horizon. The Fund will consider all viable exit strategies, including single asset and/or portfolio sales to institutional investors, individual investors, REITs and 1031 exchange buyers.

TPIM will seek to acquire, with its LREO partners, assets that are challenged by whose income stream and value can be enhanced via appropriate repositioning, re-tenanting and re-developing strategies. These investments may be acquired in a variety of forms, including but not limited to, direct fee simple, leaseholds, bankruptcy, foreclosures, or non-performing loans.

The Fund anticipates acquiring approximately 30 to 40 assets over a 3 year investment period with an approximate equity investment of between \$2 million and \$8 million.

The Fund intends to place special emphasis on going-in cash flow yields in its acquisition strategy. The goal is to build upon this cash flow base by upgrading the tenant base and the facility, by expanding the project (where feasible), and by making other improvements to the property. The Fund will not be cap rate driven, and will place significant emphasis on replacement cost and other asset growth and value specific characteristics.

Property Strategy. The Fund will target properties that are undervalued or mispriced because they have a variety of challenges, including but not limited to, existing vacancies, imminent tenant rollover risk, mismanagement, mispositioning, undercapitalization, etc. The Fund, through the expertise of TPIM and its LREO partners, will address these “correctable” issues in an effort to produce superior overall risk-adjusted returns. The Fund will specifically target, as well as specifically attempt to avoid, certain types of properties in order to achieve its investment goals. The Fund will target various U.S. real estate markets that are generally large, exhibit strong growth potential and are generally supply constrained.

Financing Strategy. The Fund will employ reasonable leverage from debt sources to reduce its equity investment in properties and seek to maximize long-term return on equity in circumstances where the use of leverage will increase the Fund’s overall yield. The use of prudent leverage will enable the Fund to acquire more properties than if leverage is not used, thereby increasing the diversification of the Fund’s portfolio.

Investment Process. The Fund will follow a detailed and disciplined due diligence investment process that is subject to the overall policy direction of the Investment Committee. The stages of the investment due diligence process are highly integrated, with formal Investment Committee review as the final point in the process. The Investment Committee will make all acquisition, financing and disposition decisions with respect to the Investments.

Portfolio Management. TPIM will play an active oversight role in conjunction with its LREO partners in the operation, management, maintenance, improvement, financing and leasing of the Fund’s Investments. TPIM will provide ongoing portfolio management and reporting services to the Fund and its investors, including, but not limited to: (i) confirming that each proposed acquisition meets the Fund’s investment criteria, (ii) preparing individual asset management plans for each Investment, (iii) preparing portfolio-wide analysis and reports, (iv) performing internal valuations of all Investments at least annually and adopting procedures for such valuations, (v) making recommendations as to the retention or disposition of Investments, and (vi) providing periodic status reports to the Investors informing them of acquisitions or dispositions of Investments by the Fund and other material developments affecting the Fund.

The Fund will employ a very proactive Portfolio Asset Management program that involves a variety of specific processes to help ensure the assets are meeting Fund expectations and Investors are being timely and appropriately updated on the Fund’s operations.

Sale of Fund Investments. The sale of Fund Investments will typically be on an all-cash basis unless TPIM determines that a disposition upon other terms is likely to be more advantageous to the Fund. In such instances, the Fund may accept purchase money obligations and other forms of consideration (including other real properties) in exchange for one or more Investments of the Fund. In connection with acquisitions or dispositions, the Fund may enter into certain guarantee obligations relating to environmental claims or claims against certain financial defaults, and may be required to maintain reserves against such obligations. In addition, the Fund may dispose of less than 100% of its ownership interest in any Investment if the Fund believes that such disposition is in the best interests of the Fund. The Fund will consider all viable exit strategies for its Investments, including single asset and/or portfolio sales to institutions, investment companies, REIT's as well as individuals and 1031 exchange buyers. However, the Partnership Agreement will prohibit the sale or transfer of any Investment between the Fund and TPIM or any TPIM affiliate.

THE MANAGEMENT OF THE FUND

A dedicated team of TPIM professionals will manage the Fund. The full range of personnel, systems and resources of the TPIM organization will support a dedicated team. TPIM currently has a staff of seven and is headquartered in Chicago, with offices in Los Angeles and Indianapolis. TPIM will add additional staffing as necessary to meet the needs of the Fund.

Gene Zink –Chief Executive Officer and Vice Chairman of the Board

Gene Zink was named Vice Chairman of Duke Realty Corporation in 2003. Since 1993 he was Executive Vice President, Chief Financial Officer and Chairman of the Investment Committee of Duke. He received the Outstanding CFO Award for the public real estate industry presented by Realty Stock Review in 1999, 2001 and 2002. Gene joined the private company predecessor of Duke Realty in 1982 after practicing real estate law with Bose McKinney & Evans, where he was a partner in the firm. Prior to that he was a Captain in the United States Air Force.

Gene's real estate career began in 1978 representing Duke Associates (the predecessor to Duke Realty Corporation) as well as other real estate owners and developers. He also represented a number of commercial real estate lenders (banks and insurance companies). In 1982 Gene became a partner in Duke Associates with primary responsibility for acquisitions and dispositions, financing and structuring joint ventures and other financial and legal relationships. In 1993, Gene and his partners took their private real estate company public as Duke Realty Corporation, a public real estate investment trust. At the time, the total market capitalization of Duke was \$630 million. Today the total market capitalization of the company is approximately \$8.5 billion. During his career Gene has been involved in developing, buying, operating and selling nearly 2000 industrial, office and retail properties. Under Gene's leadership, Duke achieved the impressive returns highlighted in the table below.

In addition to having been Vice Chairman of Duke Realty Corporation, Gene is also President and Chief Executive Officer of HKZ Enterprises. He is a Director and member of the Executive Committee of Fifth Third Bank (Indiana), Chairman of the Board of Directors of the Greater Indianapolis Chamber of Commerce, a Director and Vice Chairman of VEI (Healthcare), a member of the Investment Committee of KC Partners Investment Fund and Past President of the Park Tudor School Board of Trust, the Park Tudor Foundation, the CICOA Foundation and the Pleasant Run Foundation.

Gene received a Bachelor of Arts degree from Vanderbilt University in 1968; a Master of Business Administration degree from the University of Hawaii in 1973 and a Doctor of Jurisprudence degree from Indiana University in 1976.

Robert Davis – President and Chairman of the Board

Since 1995, Robert has acted as the lead real estate investment banker in more than 50 transactions, valued at over \$8.5 billion, involving a number of private placements, joint ventures, discretionary funds and M&A transactions. Prior to founding Triton Pacific Capital, LLC, a boutique real estate investment banking firm, in 1996, Robert's most recent prior experiences included: Partner-in-Charge of Capital Markets – Arthur Andersen & Co. as well as Vice President of Investment Banking – Morgan Stanley. Robert is a member of the Advisory Board for the Institute for International Research and the Conference Committee for the Pension Real Estate Association. He is a frequent speaker on various real estate investment banking topics, and has authored numerous articles for publications such as: The Wall Street Journal, Forbes, Institutional Real Estate Investor, PREA Quarterly, and Barron's. Robert has an MS from the University of Arizona and an MBA from Arizona State University. He is also a CPA and Registered Securities Principal.

Rick Hurd – Chief Investment Officer and Treasurer

Rick was a Managing Director in GE Real Estate's North American Equity Group. Since 1996, Rick has invested over \$800 Million of equity in various real estate transactions with a total capitalization of approximately \$2 Billion.

Rick joined GE Real Estate in 1988 and spent the next five years in London establishing GE Real Estate's presence in Europe. Since moving back to the States in 1994, Rick has been involved in a variety of roles throughout GE Real Estate including portfolio acquisitions, business development, and managing the Mid-West region. Rick has a B.A. in Economics and Accounting from Ohio Wesleyan University and an M.B.A. from Drexel University. During his tenure with GE Real Estate, Rick was a member of NAREIT, a Board Member of Chicago's Brookfield Zoo, an advisory Board Member of ING Realty Partners and an editorial advisory member of Multi-housing Forum.

GE Real Estate has a portfolio of approximately \$30 billion and provides both debt and equity to a broad range of commercial and multifamily operators in the US, Europe and Asia. GE's North American Equity Group manages a portfolio of \$10 billion of equity and owns several real estate companies including Interpark and Storage USA.

CONCLUSION/RECOMMENDATION

Based upon the successful track record and experience of the principals and the recommendation of PSERS' consultant, Courtland Partners, Ltd., staff recommends that the Board invest an amount equal to 25% of the committed capital, up to \$62.5 million, but not less than \$55.0 million, plus management fees and reasonable normal investment expenses, in Strategic Partners Value Enhancement Fund. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.