



PSERS OPPORTUNISTIC REAL ESTATE PROGRAM

Recommendation for Investment in MGP Asia Fund III, L.P.

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MGP Asia Fund III, L.P.

EXECUTIVE SUMMARY

Macquarie Global Property Advisors (“MGPA”) is establishing MGP Asia, a Bermuda exempted limited partnership, to invest in real estate opportunities in Asia. Building on the successful track record of its prior funds, MGPA will seek to provide Limited Partners with superior risk-adjusted returns through tactical and opportunistic investments in real estate and real estate related assets, including direct and indirect equity investments in completed projects via stand alone assets and portfolios, development and redevelopment projects, real estate operating companies, undeveloped land and mortgage loans and mezzanine finance for real estate.

MGP Asia will focus on investments in Japan, South Korea, Malaysia, Singapore, Taiwan, China, Hong Kong, India, Australia and Thailand with a limited potential allocation to the emerging markets of Vietnam, Macau, Philippines and Indonesia. The objective of the Partnership will be to create a portfolio of opportunistic investments, and in general the Fund will observe certain geographic limitations with regard to the investments as well as limitations on the size of individual investments. The Fund, along with MGP Europe, will target capital commitments aggregating approximately \$3.5 billion, including amounts invested by MGPA. The Fund is seeking to achieve an internal rate of return over time of 17% to 20% (after Base Fees, General Partner performance participation and other Partnership-level expenses).

THE SPONSOR

MGPA is an established global real estate investment advisor headquartered in Bermuda and with offices and representatives in Frankfurt, London, Luxembourg, Paris, Munich, Beijing, Hong Kong, Kuala Lumpur, Shanghai, Seoul and Tokyo. It manages real estate assets throughout Europe and Asia, including development and re-development projects and joint-venture investments as well as investments in real estate operating companies, mortgage loans and listed real estate securities. MGPA employs over 115 staff across Europe and Asia including personnel experienced in real estate acquisitions, asset management, development and construction management, tax and legal structuring, finance and accounting and fund administration and compliance.

MGPA manages or advises four real estate investment funds and two co-investment vehicles (plus additional related parallel funds and alternative investment vehicles), with total assets under management of \$5.1 billion (4): (i) Lend Lease Global Properties, SICAF (“Global Fund I”); (ii) MGP Europe Fund II, L.P. (“MGP Europe Fund II”); (iii) MGP Asia Fund II, L.P. (“MGP Asia Fund II” and, collectively with MGP Europe Fund II, “Global Fund II”); (iv) MGP Japan Core Plus Fund, L.P. (“MGP Japan Fund”); (v) MGP Millennium, L.P. (“MGP Millennium”) and (vi) MGP Vicwood Plaza, L.P. (“MGP Vicwood Plaza”). MGP Asia Fund II and MGP Europe Fund II are limited partnerships established to invest on an opportunistic basis in real estate assets across Europe and the Asia-Pacific region, respectively. MGP Japan Fund is a recently established partnership established to build a diversified portfolio of core plus real estate assets in Japan. MGP Millennium and MGP Vicwood Plaza were formed as two co-investment vehicles established to invest in two specific assets in joint venture with MGP Asia Fund II.

MGPA is currently majority owned (51%) by nine members of its Senior Management Team (the “Principals”), many of whom have been working together for over a decade. The remaining 49% of the business is currently owned by Macquarie, a pre-eminent

diversified global investment bank. MGPA's network is enhanced by its affiliation with Macquarie, which is listed on the Australian Stock Exchange (ASX), and has a global network of offices in 24 countries. MGPA has committed to invest up to the lesser of \$20 million (or its euro equivalent) and 10% of the aggregate Capital Commitments of MGP Europe and MGP Asia.

SPONSOR'S APPROACH TO INVESTING

Building on the successful track record of Global Fund I, Global Fund II and MGP Japan Fund, the Fund's investment program will be driven by a focus on deriving returns from real estate investment fundamentals, in order to achieve its investment returns. Through a disciplined research process, MGPA seeks to identify mispriced risk opportunities and to target key sectors and markets that demonstrate counter-cyclical and early stage pro-cyclical performance criteria to generate consistently attractive risk-adjusted returns.

MGPA utilizes a "top-down" and "bottom-up" approach to analyze markets and to identify trends that may give rise to investment opportunities. The "top-down" approach focuses on regional macro-economic trends to identify capital misalignments, structural changes in economies and economic trends. MGPA then combines its macro-economic research with local market data sourced by MGPA's strong local network and its alliances. The "bottom-up" approach allows MGPA to identify local trends and opportunities and to apply its macro-economic analysis on a local level. MGPA has developed relationships with a series of key research providers for both macro-economic and real estate specific research and applies research tools that track the key cities within the Fund's target regions on both a macro- and micro-level. Once MGPA has identified key trends, it utilizes its extensive network of real estate professionals to source, underwrite and execute investments.

Once investments have been acquired, MGPA will seek to maximize the value of those investments through intensive post-acquisition asset management. MGPA's management, together with the team members involved in the acquisition and underwriting of an investment, develop a detailed asset plan containing strategies to maximize the value of an investment and identify optimal exit strategies. During the life of an investment, MGPA reviews, at least quarterly, an investment's performance against the asset plan and makes appropriate adjustments to the asset plan. MGPA has successfully implemented this investment strategy in connection with its management of Global Fund I, Global Fund II and MGP Japan Fund.

INVESTMENT HIGHLIGHTS

Proven Track Record. MGPA has total assets under management of \$5.1 billion and over the last eight years, MGPA's principals and team of professionals have acquired and managed approximately \$7.9 billion of real estate investments for Global Fund I, Global Fund II and MGP Japan Fund. These MGPA managed/advised funds have made 47 investments, including investments in approximately 182 properties in 17 countries throughout Europe and Asia.

Experienced Management. The members of MGPA's Senior Management Team have on average over 22 years of real estate experience and have participated in the execution of over \$49.4 billion in real estate transactions in Europe, Asia, North America and Australia. Many members of MGPA's Senior Management Team have been working together for over a decade, including in connection with the formation and management

of Global Fund I, Global Fund II and MGP Japan Fund. The team offers a range of skills from diverse backgrounds including property development, brokerage, banking, finance and accounting, corporate finance and asset management.

Established Infrastructure. MGPA has an extensive network of professionals and local business relationships dedicated to the Fund's target regions. In addition to its local business relationships, MGPA maintains offices or representatives in 11 countries within the Fund's target regions and employs over 115 staff including personnel experienced in real estate acquisitions, asset management, development and construction management, tax and legal structuring, finance and accounting, and fund administration and compliance.

Disciplined Investment Methodology. MGPA applies a rigorous, disciplined investment methodology which combines macro-economic research and a detailed "top-down" and "bottom-up" analysis of prospective markets and opportunities. MGPA's combination of local networks and broad experience in many real estate markets allows it to identify opportunities resulting from underlying trends and mispriced risk opportunities in its target markets. MGPA then uses its extensive local network of employees, business partners and alliances with other recognized real estate specialists to source, underwrite and execute investments based on those identified trends and opportunities. In particular, MGPA uses its networks to source private, off-market transactions as this type of transaction tends to reduce required acquisition consideration and thereby increase potential returns. In MGPA's view, the combination of this "top-down" and "bottom-up" approach uniquely positions MGPA to capitalize on impending real estate market cycles and structural changes in economies.

Alignment of Interest. As mentioned previously, MGPA has committed to invest the lesser of \$20 million (or its euro equivalent) and 10% of MGP Europe's and MGP Asia's aggregate Capital Commitments. This investment provides an alignment of interests between the Limited Partners, MGPA, and its Senior Management Team, nine of whom currently own 51% of MGPA. In addition, the General Partner's compensation will be heavily weighted towards incentive compensation. MGPA intends to grant direct rights to a significant portion of these potential incentive fees to the employees who will be involved and responsible for the achievement of the Fund's investment objective.

THE INVESTMENT OPPORTUNITY IN ASIA

Opportunities to invest in real estate in Asia remain strong due to the scale, variety and relative immaturity of real estate markets in Asia. Economic growth and wealth creation in Asia remain strong, generating increasing demand for better quality real estate. The real estate markets are also starting to achieve a critical mass in terms of market liquidity and depth of institutional ownership, and this is lowering risk premiums across Asia. The region's development has been positively impacted by strong economic growth in China, the emergence of India and the recovery of Japan from a decade long slowdown.

Cyclical prospects remain attractive across Asia due to robust economic growth, healthy demand and relatively tight supply in most of the markets. New development opportunities are arising as a result of increasing consumer spending and a growing need for urban housing and infrastructure development. The development of real estate investment trust ("REIT") structures has grown strongly over the past five years, improving market transparency and increasing the institutionalization of the real estate investment market. There is strong potential for continued growth in the Asian markets with the

acceptance of the REIT structure across other emerging markets driving improvements in transparency.

Asia — Dominating Global Growth Prospects. Prospects for the Asia-Pacific region over the next 12 months continue to look bright. MGPA expects the growth momentum in the Asia-Pacific region to come from strong growth in China and India and a rebound in economic growth in the Southeast Asian economies and, in particular, the added stimulus from the continuing revival of the Japanese economy. Together China, India and Japan constitute 62% of the GDP of the region. Most notably, Japan has emerged from a decade-long economic depression, with the end of deflation and the positive GDP growth over the last three years confirming the recovery of the Japanese economy.

A strategic trading relationship has developed between China and Japan as Japan is currently China's third largest trading partner after the U.S. and the E.U. and China is by far Japan's largest source of imports. Japan also became the second largest foreign investor in China in 2005 — as such Japan and China are bound together in their economic prospects. The Japanese revival has created significant export opportunities for other Asian economies too and those economies are also benefiting from Japan's increases in direct investment and improving corporate financial health. The strong growth in China and Japan provides a solid base for the rest of Asia to continue to exploit strong export-led growth, as evidenced by strengthening trade flows within Asia and places Asia firmly in position to achieve strong growth over the medium term.

Maturing Market Cycles. In the more mature economies of Japan, South Korea, Hong Kong, Taiwan and Singapore, real estate markets remain at an early stage of their current development cycle with the demand-supply balance remaining attractive. Also, there is both a strong requirement for the upgrading of current stock and good potential for the development of new real estate sectors, such as the development of industrial/logistics space in Japan as a result of the country increasingly becoming a more import-oriented economy due to the off-shoring of its production activities.

China and India are particularly attractive as emerging real estate markets, offering a wide range of opportunities driven by the fast pace of economic and consumer spending growth coupled with a shortage of existing stock and the relative immaturity of domestic real estate markets. Furthermore, as China and India continue to progress, the secondary cities will prove to be attractive as they become the focus of corporate, retail and residential demand. MGPA also considers Southeast Asia to present interesting opportunities, especially Malaysia and Thailand, driven by maturing economic structures and rising incomes. The emergence of Vietnam and its recent entry into the WTO will lead to real estate opportunities across all sectors from offices and retail to the industrial markets due to the expected liberalization of the financial and IT markets, reduced tariffs on imported goods and increased demand from occupiers such as logistics, trading businesses and manufacturing multinationals.

India — Extending the Investment Universe in Asia. India is reaping the benefits of 15 years of reform and its economy is set for a period of strong and sustainable growth. While the Indian real estate market still lacks transparency and liquidity compared to more mature real estate markets, its market structure is changing fast in response to the demands of multinational occupiers despite lagging investment in transport infrastructure. Favorable demographics, a large educated and skilled labor force, a large emerging middle class accompanied by rising disposable incomes and a growth in foreign direct investment are accelerating India's economic growth, and the country is expected to become the world's third largest economy (measured by purchasing power) by 2010.

Opportunities for real estate investment in India exist as a result of the strong growth in demand for commercial office space, the huge potential for retail expansion (underpinned by favorable demographics, increasing urbanization and rising disposable incomes), a residential boom (fueled by rapid salary growth of young urban professionals) and the longer term prospects for growth in the logistics sector (as manufacturing expands, exports grow and leading retailers enhance their logistics processes).

However despite the promising outlook, MGPA continues to be cognizant of the inherent risks of investing in India — risks associated with low market transparency, a lack of liquidity, a scarcity of suitable investment products and regulatory concerns. As a consequence, MGPA intends to take a longer-term strategic approach towards entering this key global economy, seeking alliances with local partners in order to take advantage of the increasing institutionalization of India's real estate market.

Capital Flows. Investment activity across the Asia-Pacific region is undoubtedly experiencing strong growth with the value of direct commercial real estate investment totaling \$43 billion in the first half of 2006, up 40% on the equivalent volumes for the first half of 2005. Although domestic capital continues to dominate activity, the level of the cross-border investment has grown and represents approximately 29% of total investment. Improvements in the transparency of Asian real estate markets, the acceptance of real estate as a financial asset and the growing number of listed tax efficient real estate vehicles, are the key driving forces behind this growth. However, despite the potential for further growth, excesses of capital, lack of market depth and shortage of high-quality real estate combined with the growing demand for assets, has resulted in compressed cap rates across the region. Spreads still remain attractive due to the low cost of finance and low bond yields in the region. In the longer term, as government policy making and land granting processes become more open and transparent and as market transparency improves, this will lead to lower risk premiums and lower required returns. As a result, there should be pressure on yields over the long term, which in turn will drive an appreciation in asset values.

Wealth Effect. MGPA expects Asia's growth dynamics to continue to transition from those underpinned by an export-oriented economic base, to one driven by domestic consumption due to strong economic growth resulting in an increasingly large middle class and more widely distributed wealth. The diversity and rate of change in the demographic and socio-economic landscape of Asia means that the region offers many different opportunities. Although the countries are changing from quite diverse states, in respect of their population, GDP per capita and age profile, Asia is effectively moving in one direction — from the young poor position of the Philippines and towards Japan's older and more affluent position.

Rising per-capita income levels, emerging middle classes, favorable demographics and the trend towards smaller households are fueling residential and retail demand in many Asia-Pacific cities, especially in China, India, South Korea, Thailand and Hong Kong. In addition, with improving education, young people are moving from rural areas to urban areas to seek better jobs. The size of this movement is considerable, with an estimated 23.8 million people moving to cities per annum for the next ten years, with most of this movement concentrated in China and India. This dramatic shift in the urbanization of Asian markets in general will have a major effect on the global economy and is likely to continue to give rise to significant real estate investment opportunities.

A parallel demographic trend in Japan is an increasingly aging population which should present investment opportunities in new sectors. MGPA foresees the housing market in

Japanese cities expanding as retirees seek to be closer to the infrastructure that the cities provide. MGPA also anticipates real estate investment opportunities will arise as a direct result of the population shift, with retailers catering more to the aging Japanese population.

The rise in disposable income, increase in home and car ownership and greater personal mobility, the spread of television and the sub-culture associated with it and the lure of increased choices in high-street shops and shopping malls will continue to transform consumer behavior across Asia and the per capita consumption of consumer durables will increase and in turn impact the growth of the retail sector. This trend will change the nature of retail opportunities available in the market, both in high street and suburban and community centers, creating opportunities to develop well-located and appropriately planned centers to capture the growth in retail expenditure. In particular MGPA expects quality developments in prime locations, primarily at the center of the commercial districts of the major cities, to provide a strong source of value as limited supply and rapid urbanization exert upward pressure on land values.

Structural Changes. The development of REIT-style markets in Asia is likely to contribute to increased liquidity and play a significant role as a source of new capital for real estate markets. Listed REIT-style sectors are now operating in many of the Asia-Pacific region's mature and semi-mature markets, including Singapore, Hong Kong and Taiwan and they are surfacing in other countries as well, including Malaysia, Korea and Thailand — by the middle of 2006, they had a combined market capitalization of over \$40 billion. This growth has led to an increase in the institutionalization of the real estate investment market, in turn leading to improvements in levels of liquidity, efficiency, transparency and maturity of the underlying real estate markets in which the REITs operate. MGPA anticipates that given the relatively small scale of the Asian REIT markets in absolute terms and relative to GDP, this strong pace of growth is likely to continue.

MGPA expects the growth of the REIT-style markets to result in an increased demand for stabilized yielding assets which can enhance liquidity, presenting opportunities to consummate exit strategies based on the sale of stabilized yielding assets to core capital.

MANAGEMENT OF THE FUND

James Quille, Chairman and Chief Executive Officer. Mr. Quille has over 30 years of experience in the real estate sector spanning the U.S., Europe, Asia, South America and Australia. Mr. Quille, as CEO of MGPA and a member of the MGPA Investment Committee, will serve in an oversight capacity for the Fund. He has been directly involved in real estate funds management for the last 15 years working in both the listed and private equity sectors. Mr. Quille founded MGPA in 2004 following a Management buy out of Lend Lease Corporation's Global Property fund unit, which he led and he subsequently led the formation of a joint venture between MGPA and Macquarie Bank. Mr. Quille was largely responsible for the establishment in 1992 of The Asia Pacific Investment Company, one of the first pan-Asian real estate funds and has been involved in the structuring, capital raising, investment program and performance of Global Fund I as well as the establishment of MGPA's other products including Global Fund II, MGP Japan Fund and investment partnerships in both Asia and Europe.

Andrew Wood, Director, Chief Operating Officer, Global Fund I. Mr. Wood's responsibilities include the day-to-day operations of MGPA and its advisory functions and he is a member of the MGPA Investment Committee. He also retains responsibilities for the day-to-day operations of Global Fund I, which he assisted in establishing in 1999. Mr.

Wood has over 30 years of experience in the real estate sector in the U.K., Continental Europe, Asia and the U.S. Mr. Wood is a founding shareholder of MGPA and prior to establishing MGPA he was a Principal of Lend Lease Real Estate Investments, Inc in the United States where his responsibilities included funds management, investor relations and product development. Mr. Wood is a Counselor of Real Estate in the U.S. and Fellow of the Royal Institution of Chartered Surveyors in the U.K.

Simon Treacy, Principal and Managing Director, MGP Asia Fund II & III. Mr. Treacy's responsibilities include the day-to-day operations of MGP Asia Fund II. He will perform a similar role for MGP Asia Fund III. He is also a member of the MGPA Investment Committee and is a founding shareholder of MGPA. Mr. Treacy was previously country manager for Japan where he established MGPA local operations over a period of six years. Prior to establishing MGPA, Mr. Treacy was with the Lend Lease Group for 15 years in various investment management roles across financial services, infrastructure and the investment real estate sector. Mr. Treacy moved to Asia in 1996 and has experience in Singapore, Thailand, Hong Kong, Japan, Malaysia, South Korea and China. Mr. Treacy has a Bachelor of Commerce degree from Griffith University, Brisbane in Australia.

Michael Wilkinson, Principal, Managing Director and Head of Investment Management — Asia. Mr. Wilkinson is a founding shareholder of MGPA and his responsibilities include the day-to-day investment management operations in Asia for Global Fund I, MGP Asia Fund II and investment partnerships and he will serve a similar function for the Fund. He is also a member of the MGPA Investment Committee. Mr. Wilkinson has 20 years of experience in property development and investments in Japan, Korea, Hong Kong, Singapore, Australia and New Zealand. He has been involved in several major retail developments throughout the region as well as office and residential transactions and redevelopments in Hong Kong, Tokyo and Seoul.

Neil Jones, Principal, Managing Director and Chief Financial Officer. Mr. Jones is a founding shareholder of MGPA and his responsibilities include the management of all financial, accounting and compliance functions of managed funds, including statutory and management reporting, foreign exchange, hedging policy and risk management. He is also a member of the MGPA Investment Committee and has over 20 years of finance, accounting and risk management experience working in the U.K., the U.S., Hong Kong and Australia, of which the last nine years were in the real estate sector. Mr. Jones has a Bachelor of Economics degree from Macquarie University, Sydney in Australia, a post-graduate Investment Diploma with the Securities Institute of Australia and is a member of the Institute of Chartered Accountants of Australia.

Shigeaki Shigemasa, Country Manager — Japan. Mr. Shigemasa has over 24 years of experience in real estate with much of that experience being in development in both the U.S. and Japan. His responsibilities include acquisition evaluation, development and asset management activities in Japan. Prior to joining MGPA Japan, Mr. Shigemasa worked with Sumitomo Realty & Development for 21 years, including 11 years in the U.S. as president of a Sumitomo subsidiary. Mr. Shigemasa's experience has been in residential development and investments in commercial properties. After returning to Japan in 2001, he was responsible for condominium developments and property management. Mr. Shigemasa has a Bachelor of Economics degree from the University of Tokyo in Japan.

Masashi Ochi, Investment Manager. Mr. Ochi's responsibilities will include investment management activities, deal evaluation and transaction support in Japan. Before joining

MGPA Japan, Mr. Ochi had been with Seibu Saison group, one of the biggest retail operations and developers in Japan, Mr. Ochi has over 17 years of real estate experience and he has been directly involved in a number of large developments and investments across Japan, the U.S. and Singapore in the retail, commercial, residential and hotel sectors. Mr. Ochi has a degree in Landscape Architecture from the University of California in the U.S.

Masanori Suzuki, Investment Manager. Mr. Suzuki's responsibilities include investment management activities, deal evaluation and transaction support in Japan. Before joining MGPA Japan, Mr. Suzuki had been with Recruit Cosmos, one of the biggest residential developers and brokerage groups in Japan, Mr. Suzuki has over 26 years of real estate experience, and he has been directly involved in developments and investments across Japan mainly in the office and residential sectors. Mr. Suzuki has a Bachelor's degree in Law from the Waseda University, Japan.

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 percent of the committed capital, but not to exceed \$200 million plus reasonable normal investment expenses, in MGP Asia Real Estate Fund III, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.