

COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

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February 16, 2012

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

Re: Exeter Industrial Value Fund II, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Exeter Industrial Value Fund II, L.P., ("the Fund") or ("Exeter II"). The Fund will seek to make compelling value-add investments with superior risk-adjusted returns through its pursuit of industrial, flex, and business park properties and first mortgage whole loans throughout major markets in the eastern, central, and southern United States. Exeter's specific knowledge and skills garnered throughout multiple economic cycles and across numerous geographic markets will be critical to the Fund's investment success.

In particular, the Fund will seek to acquire under-leased and under-managed industrial properties—or the whole loan, first mortgage notes thereon—at distressed pricing, as well as partially- to fully- leased assets with existing cash flow and growth potential at value-oriented pricing. In addition, Exeter intends to leverage its technical expertise to execute repositioning, redevelopment, and development opportunities. To select specific submarkets and procure these transactions from limited competition or off-market sources, the management team will capitalize on its extensive market knowledge and long term relationships in the industry. Finally, the Fund's investment strategy entails aggregating single assets into portfolios to obtain diversification benefits and concentrating presences in business park settings to optimize asset management effectiveness and maximize disposition proceeds.

This Fund will focus on industrial/logistics properties, including big box warehouses, multi-tenant industrial facilities, and related business park properties such as flex (office-warehouse) buildings in an anticipated, but not imposed, ratio of 55%/35%/10% respectively. The Fund's tenant base will be diversified across the range of industrial property users, which cover a myriad of industries such as consumer goods, durable goods, food distribution, paper and packaging, commodities and construction products, third party logistics providers, pharmaceuticals, technology, medical devices and products, government, and service center operations.

The Fund will target industrial markets that are primary distribution hubs due to the size of their metropolitan population and their geographic and infrastructure characteristics that make these markets desirable locations from which to distribute to a large, multi-region area. The Fund's properties will serve the concentrated population bases of the most densely populated areas of the U.S., including eight of the ten most populous states and nine of the ten most populous metropolitan statistical areas ("MSAs"). The Fund will target investments in the Northeast, Mid-Atlantic, Midwest/Mid-South, Southeast, and Southwest U.S. Focus regions include New York, Greater Philadelphia, Washington, DC, Chicago, Dallas/Fort Worth, Houston, and Atlanta. The Fund also expects to target medium-sized cities with a high growth trajectory, many of which have benefited from the southward migration of industry and population from more mature northern cities. These cities include Orlando, Austin, and San Antonio. Port markets

such as Jacksonville and Charleston, SC will also be considered. Further, as the large scale movement of goods continues to create industrial real estate demand, Exeter will also focus on major intermodal (rail/truck) and air transportation hubs which, due to increased imports and population shifts, continue to grow in importance to the U.S. distribution network. Logistics/transportation focus cities include intermodal hubs (Columbus, OH, Indianapolis, Kansas City) and airport freight hubs (Louisville and Memphis).

Exeter Property Group is led by a cohesive and long time management team whose members have worked 10 years together on average. Prior to the formation of Exeter, most of the firm's professionals, including the management team members, worked together either at Liberty Property Trust and its predecessor company Rouse & Associates, or at neighboring, Malvern, PA-based Terramics Property Company. As a result, the senior personnel and the majority of junior personnel have a close personal relationship and culture from shared experiences in the business community.

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 Exeter management team members, and review of all relevant materials provided by Exeter.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Exeter'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 \$75 million to the Fund. Courtland makes this recommendation considering Exeter's qualifications and PSERS' overall investment guidelines.

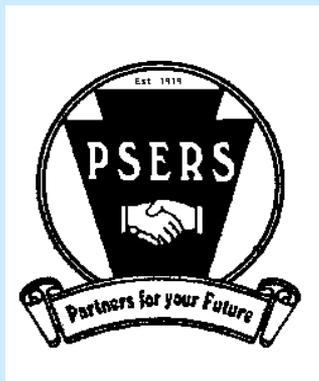
This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits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

Exeter Industrial Value Fund II, L.P.

March 8, 2012

See Last Page for Disclaimer

Laurann H. Stepp
Portfolio Manager, Real Estate

Exeter Industrial Value Fund II, LP – Value-Added Real Estate

Overview

- Fund size is anticipated to be \$425 million
- Second in a series of closed-end commingled real estate funds investing in the industrial real estate sector and targeting value-added returns that generate a large component (two-thirds of total return) of income yield
- In 2006, Ward Fitzgerald and five additional investment professionals left Liberty Property Trust (“LPT”) and joined with Tim Weber, from Terramics Property Company, to form Exeter Property Group. Liberty Property Trust had become a large publically traded REIT, and the group that formed Exeter had determined that they preferred to operate in the private markets, within a smaller organization. Since formation, seven additional colleagues left LPT and Terramics to join the Exeter team.

Fund Strategy

- Fund will acquire, reposition, lease, develop, operate and sell industrial and business park assets in the major markets of the Eastern, Central and Southern United States. Investments will include (i) big box warehouses, which lease to national consumer goods and logistics operations, (ii) multi-tenant industrial, or regional/metro warehouses, and (iii) flex/suburban office, typically leasing to biotech/pharmaceuticals, technology and defense. Development will be limited to 10% for projects less than 75% leased

Investment Team

- The fund will be managed by Ward Fitzgerald and Tim Weber, founders and CEO and CFO, respectively. In addition, 31 other investment professionals will be working with the Fund. This firm is a fully integrated manager that manages and operates the assets internally. Their real estate offices are headquartered in Plymouth Meeting, PA. Additional offices are in Baltimore, Atlanta, Austin, Louisville, Chicago and Juno Beach, Florida

Exeter Industrial Value Fund II, LP – Value-Added Real Estate

GP “Value Add”

- Leasing success with national tenant relationships as well as local market knowledge and relationships give Exeter the ability to favorably source, lease and price deals. Due to extensive relationships, over 75% of the 195 investments made between 1996-2011 were sourced off market or were limited competition situations
- Expertise in repositioning, redeveloping and developing properties allows them to select investments that others may avoid, at more attractive pricing. Exeter then creates core portfolios with leasing or renovations to extract disposition premiums
- Management team has been together an average of ten years, and have 20+ years experience, over multiple market cycles since the late 1980's. Have demonstrated ability to add value in all cycles
- Fund II has already invested \$70 million of equity, or \$209 million cost, in six investments which are already producing an 8% yield on cost, and a levered cash return of 15.5%. An additional six investments that are expected to close in the near term have been identified which would bring the total pre-specified investments to 26% of fund commitments

Performance (as of September 30, 2011)

- \$1.2B of transactions completed by the Senior Management of Exeter while at Liberty Property Trust from 1996-2006 are estimated to produce a gross IRR of 28.8% and a gross 3.2x MOC
- Exeter Fund I (2007) currently has a net 0.97x MOC and a -1.74% net IRR. Projected net 1.4x MOC and net 7% IRR at disposition
- Exeter Fund II (2011) will target net 1.7x MOC and a 13-14% net IRR, including 8-9% from income

Market Opportunity

- The financial crisis caused many real estate investors to become ill-liquid and under capitalized, which has triggered forced sales and distressed acquisitions from owners, banks and special servicers. This has allowed Exeter to purchase under-performing assets at distressed pricing and well-leased assets at value-pricing. 2011 was an inflection year for the industrial real estate market; as demand returned, driven by import growth, while new supply remains at low levels

Exeter Industrial Value Fund II, LP – Value-Added Real Estate

History with PSERS

- This will be PSERS first fund investment with Exeter
- Although this is the second fund offered by the Exeter team, the management team members led and participated in the IPO of Liberty Property Trust in 1994 and developed many institutional investor relationships. Examples include separate account/joint venture relationships with Colorado PERA and Ohio STRS

Board Issues

- Pennsylvania Presence – Headquarters in Plymouth Meeting, PA
 - 5 investments in suburban Philadelphia including 941,000sf at a cost of \$105M
 - 3 investments in Lehigh Valley including 754,000sf at a cost of \$21M
 - 5 investments in Harrisburg and York including 1.9Msf at a cost of \$46M
- Placement agents – Hodes Weill & Associates for off-shore potential limited partners
- 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 \$75 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.