

Opportunistic Real Estate Fund Commitment

Blackstone Real Estate Partners Europe III, L.P.

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Private Markets and Real Estate

Blackstone Real Estate Partners Europe III, L.P. – Opportunistic Real Estate

Overview

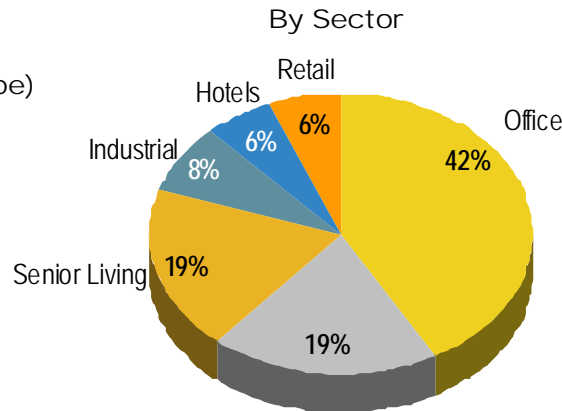
- Fund size: €3.0 billion, with an expected hard cap of €3.5 billion
- Opportunistic European Real Estate, capitalizing on platform investing, public-to-private transactions, distressed situations, and corporate and government divestitures.
- Will invest in the United Kingdom and Continental Europe

Fund Strategy

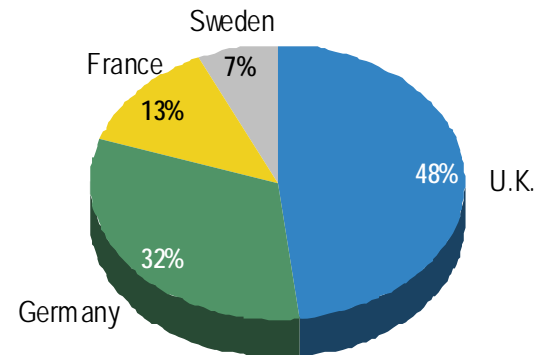
- The Fund will invest in a broad range of real estate and real estate-related opportunities in Europe.
- The Fund will leverage off of Blackstone's long-established global investment platform, with a focus on hospitality, healthcare and student housing properties and operating companies.
- Typical investment size: \$15 – 150 million
- Pennsylvania Presence – N/A

BREP International (Europe)

- ▶ \$1,172 million of equity capital invested/committed (including allocation to US/Global fund).

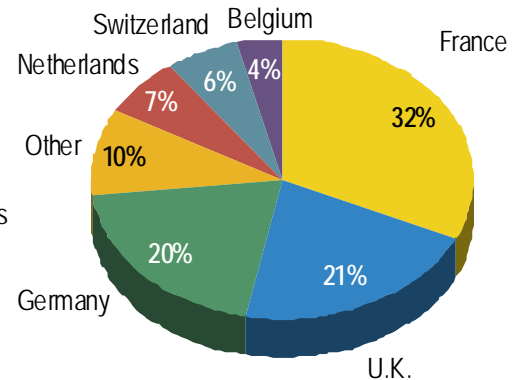
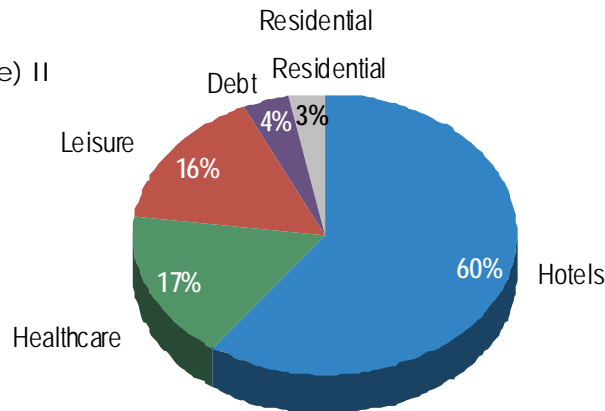


By Country⁽¹⁾



BREP International (Europe) II

- ▶ \$1,801 million of equity capital invested/committed (including allocation to US/Global fund). Hilton Hotels, which includes only the European component.



Other: Italy, Czech Republic, Denmark, Sweden, Spain

⁽¹⁾ Excludes Hilton, which has an European component.

Charts include transactions that have been invested in/committed as of November 26, 2007. There can be no assurance that BREP Europe III will have similar allocations.

1. Hospitality Europe (H) 2. Deutsche Interhotels (H) 3. Trianon Palace (H) 4. Marriott Copenhagen (H) 5. Alliance (H) 6. French Budget Hotels (H) 7. Savoy Group (H)



20. Logistics Properties (Lo)



- Hotel (H)
- Leisure (L)
- Healthcare (HC)
- Student Living (SL)
- Office (O)
- Residential (R)
- Retail (Re)
- Logistics (Lo)

Note: Only a selection of investments and portfolio assets displayed on map.

19. Triangle (Re)



18. Spirit Portfolio (Re)



17. Grosvenor Crescent (R)



16. WCM / Vitus (R)



15. Lumière (O)



14. Resolution Portfolio (O)



13. Skanska II (O)



12. Deutsche Bank Portfolio (O)



8. Center Parcs (L)



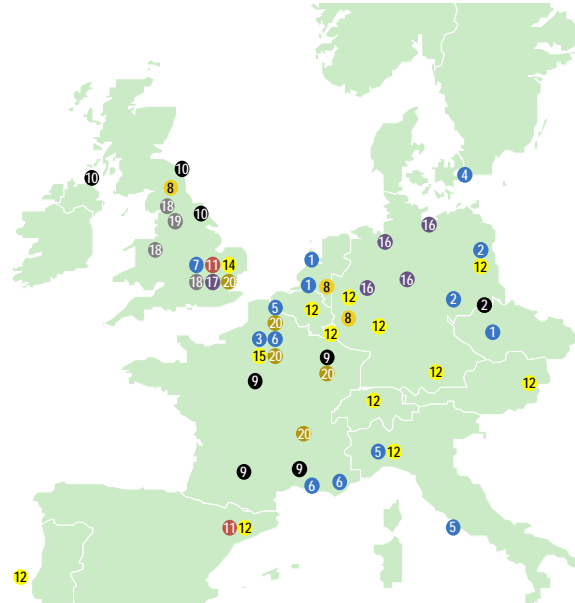
9. Vitalia (HC)



10. NHP (HC)



11. Nido (SL)



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Investment Team

- 62 acquisition and asset management professionals in its Real Estate Group (24 located in Europe, 28 located in the US, and 10 located in India, Japan and Hong Kong)
- European offices located in London and Paris, augmented by offices in New York, Atlanta, Boston, Chicago, Dallas, Los Angeles, San Francisco, Mumbai, Hong Kong and Tokyo

GP “Value Add”

- Blackstone has developed a global network of relationships with leading financial institutions, corporate executives, government officials and local operating partners, each of whom provides substantial deal flow to their investment platform.
- Blackstone’s expertise in understanding complex financial and operational situations provides a distinct advantage over other competitors

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Performance

- Since 2001, \$2.1 billion of capital has been invested/committed in 45 European real estate transactions, with a total transaction value of \$14.3 billion.
- Prior funds are on target to provide an investor-level aggregate IRR of 43.6 % and an equity multiple of over 2.0x

Market Opportunity

- Given the current volatility in the capital markets, there should be significant opportunities to make distressed debt and equity investments in under-managed operational assets, and those assets controlled by non-core owners (i.e. large corporations and government entities).
- Blackstone Europe will provide PSERS with additional exposure to the European real estate market.

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History with PSERS

- This would be PSERS' third fund relationship with Blackstone (Blackstone Real Estate Partners Fund IV and V)

Recommendation

- Staff, together with Courtland Partners Ltd., recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed €200 million plus management fees and reasonable normal investment expenses.