



January 4, 2013

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

Re: Morgan Stanley PE Asia Fund IV, L.P.

Dear Trustees:

Morgan Stanley Private Equity Asia ("MSPEA") is seeking to raise US\$1.5 billion of limited partnership interests for Morgan Stanley Private Equity Asia IV, L.P. (the "Fund"). The Fund will be making buyout and growth capital investments in businesses with significant operations in Asia and within a broad range of industries. MSPEA will typically aim to take a controlling or influential equity position. Investments will be both in public and in private companies that have clear value propositions and market leadership. The Fund will target a three-to-five year holding period and will attempt to identify multiple exit strategies, including public equity offerings, private sales and recapitalizations. Transaction size will be between US\$30 million and US\$200 million and the Fund is targeting a gross IRR of 25% to 30%. MSPEA held its first institutional close in November 2012 on approximately US\$600 million. The General Partner and its affiliates will commit 3% of the aggregate commitments to the Fund.

MSPEA will focus on generating investment returns through intrinsic value creation, as opposed to employing excessive financial leverage or relying on increasing public market values. To achieve this, the team will invest in businesses that are leading brand names, globally competitive with sustainable cost structures, and in industries characterized by recent or expected favorable changes in regulatory environments. Instead of building a massive portfolio, MSPEA plans to focus on a relatively small number of investments. In terms of investment restrictions, the Fund will not invest more than 15% of total commitments in a single investment. Geographically, no more than 60% in Greater China; no more than 50% in South Korea; and no more than 25% in any other country or jurisdiction in Asia. The team anticipates Fund IV to be approximately 75% investments in Greater China and Korea.

The team has been able to source transactions on a proprietary basis by leveraging the senior team's extensive network and Morgan Stanley's global franchise. Morgan Stanley is one of the world's premier global financial services firms with over 60,000 employees in over 1,300 offices and 42 countries worldwide, including over 7,000 employees located in all the key Asian markets. As a result, Morgan Stanley has senior-level relationships with many of the leading companies and entrepreneurs in Asia, which allow the investment team to access and develop attractive investment opportunities that may not be generally available to investors. To date, MSPEA has been able to secure several deals at attractive entry valuations and work closely with the management teams post-investment to drive value-creation.



Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for Morgan Stanley PE Asia Fund IV, L.P. are:

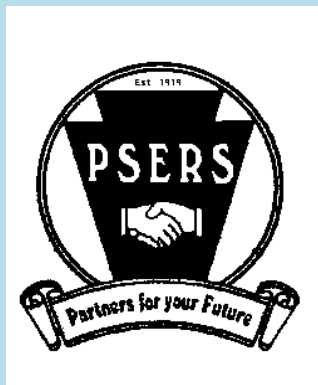
Chris Ruder - Managing Director, Darien Office
Ken Jarvis - Managing Director, Darien Office
Jonathan English – Senior Vice President, Hong Kong Office
Lenis Leung – Vice President, Hong Kong Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to US\$100 million of limited partnership interests in Morgan Stanley PE Asia IV, L.P. Portfolio Advisors makes this recommendation considering the General Partner'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. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO
MANAGING DIRECTOR



Private Equity Fund Commitment

Morgan Stanley Private Equity Asia IV, L.P.

January 24, 2013

See Last Page for Disclaimer

Michael Tyler
Sr. Investment Analyst, Private Markets

Morgan Stanley Private Equity Asia IV, L.P. – Private Equity Fund

Overview

- The targeted fund size is \$1.5 billion
- Target markets include China (50-60%), South Korea (25-30%)
- Other 25% of markets include Taiwan, southeast Asia, and India
- China strategy is minority investments with board seats and downside protection
- South Korea and Other strategy is control buyouts
- Investments will range from \$30 million to \$200 million in a single transaction
- Gross IRR targets of 25% to 30%
- Fund IV to have 16 to 20 portfolio companies, as in prior funds
- Co-Investment opportunities will be available

Fund Strategy

- Invests in four core sectors: Consumer Products, Industrial Products, Financial Services, Healthcare
- Targets lowly leveraged sector-leading companies with sustainable competitive advantages
- Looks for value-oriented transactions to take advantage of ongoing growth of Asian economies

Investment Team

- Team of 40 investment and portfolio operations professionals
- 8 managing directors with an average of over 10 years with the firm
- Operationally headquartered in Hong Kong; plus 5 regional offices

See Last Page for Disclaimer

Morgan Stanley Private Equity Asia IV, L.P. – Private Equity Fund

GP “Value Add” to Portfolio Companies

- Proven and successful track record of providing hands-on strategic direction and operational and financial expertise to portfolio companies in diverse market environments and across a broad range of industry sectors
- Guide portfolio companies in raising and allocating capital, guidance on strategic decisions, such as directing and executing growth strategies, analyzing and executing add-on acquisitions, recruiting executives, implementing financial controls, and designing incentive structures

Performance as of (9/30/2012)

- Five early MS Funds together have a net 3.2x MOC and a 21.3% IRR
- Fund II, 2005 vintage year, has a net 2.5x MOC and a 36.6% IRR
- Fund III, 2007 vintage year, has a net 1.1x MOC and a 3.4% IRR
- All funds since inception: 1.9x MOC, and 21.1% IRR

Market Opportunity

- Major Asian markets provide a favorable environment for generating significant long-term gains on well-structured private equity investments given GDP growth, and growing, large consumer markets
- PE markets in Asia favor fewer auctions and more direct negotiations with subsequently lower entry multiples
- Many major Asian and in particular Chinese industries are highly fragmented
- Strong opportunities for post-acquisition value-added changes to corporate structures & strategy
- Value chain opportunities as Asian middle class grows in size and wealth

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Morgan Stanley Private Equity Asia IV, L.P. – Private Equity Fund

History with PSERS

- This will be PSERS first commitment with MSPEA

Board Issues

- Pennsylvania Presence – None
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors through its fund-of-funds Asia Select III has made a \$15M commitment to MSPEA IV

Recommendation

- Staff, together with Portfolio Advisors, recommends 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.