

COURTLAND PARTNERS, LTD.

INSTITUTIONAL REAL ESTATE SERVICES

200 PUBLIC SQUARE
SUITE 2530
CLEVELAND, OH 44114

TELEPHONE: (216) 522-0330
FAX: (216) 522-0331
www.courtland.com

November 21, 2011

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

Re: Senior Housing Partnership Fund IV, L.P. (Prudential)

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Senior Housing Partnership Fund IV, L.P. (the "Fund" or "SHP IV"). An affiliate of Prudential Investment Management, Inc. ("PIM") will serve as the general partner. PIM will also act as investment manager (the "Manager") of the Fund and will perform its obligations through Prudential Real Estate Investors ("PREI"), a division of PIM.

Senior Housing Partnership Fund IV, L.P. is the fourth in a series of closed-end, commingled real estate funds targeting value-added returns with distributable cash flow through investment partnerships in senior housing real estate assets. The Fund will invest in for-rent, for-profit, private-pay independent living ("IL") and assisted living ("AL") communities including Alzheimer's or other forms of dementia care. Other target segments include senior apartments, condominiums, cottages and continuing care retirement communities ("CCRC") within the senior housing industry in markets throughout the U.S. The Fund may make up to 20% of its investments outside of the U.S. in Canada. SHP IV will focus on the private pay AL and IL portion of the spectrum.

The Fund will employ a flexible approach to investing that will target experienced operators within the IL and AL segments of the industry and provide these operators with a source of capital (including financing) for the development and acquisition of senior communities. SHP IV will continue to pursue the investment strategies implemented in the predecessor funds. However, SHP IV has a leverage limitation of no more than 50% of the portfolio's value. Previous SHP funds limited leverage to 65% and only invested in the U.S.

Courtland's recommendation is based upon the following factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including on site interviews with key Prudential management team members, and review of all relevant materials provided by Prudential.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Prudential'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 \$100 million to the Fund. Courtland makes this recommendation considering Prudential'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.

December 8, 2011

Senior Housing Partnership Fund IV, L.P.

Presented To:

Pennsylvania Public School Employees Retirement System

PREI®

Prudential Real Estate Investors

Noah Levy
Managing Director
(973) 683-1644

John Dark
Managing Director
(770) 395-8635

Larry Teitelbaum
Principal
(973) 683-1629

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Note: Please see "Important Information" in the Appendix for important disclosures regarding the information contained herein.

I. PREI Overview

Prudential Financial, Inc.

Prudential is among the leaders in the financial services business with a focus on retirement and investment management services

Among the World's Largest Asset Managers

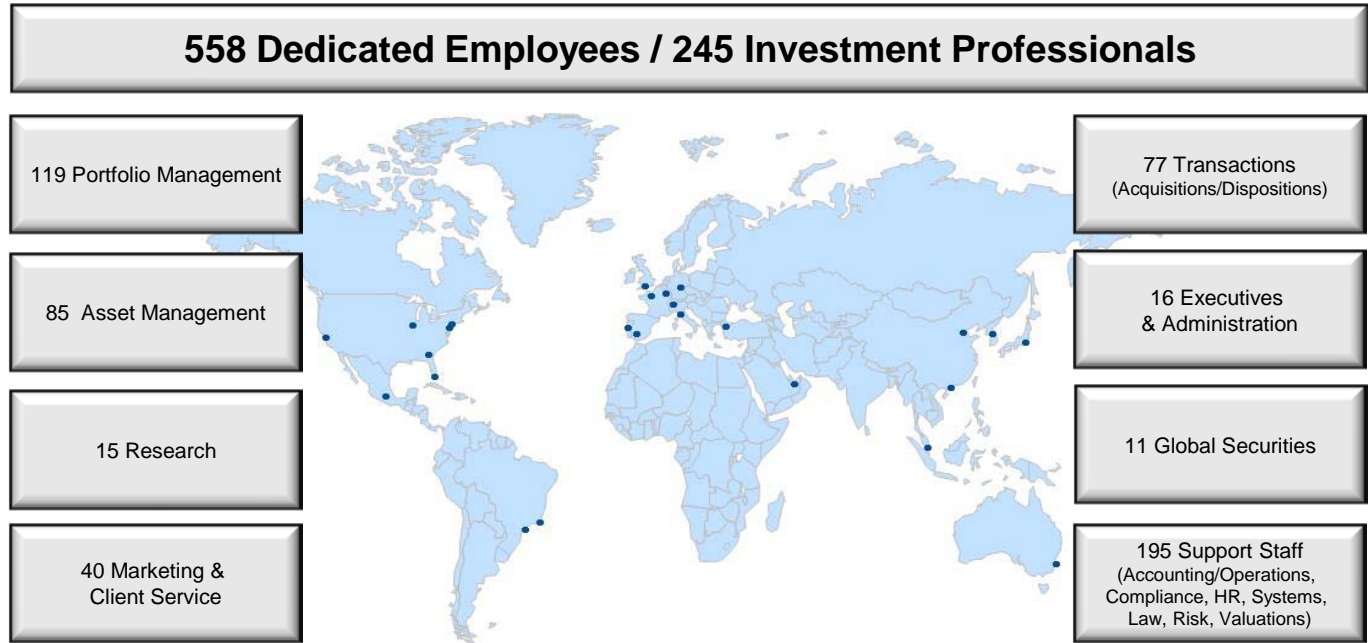
- Among the largest financial services institutions in the United States
- One of the largest life insurance companies in the United States
- Managing assets for more than 130 years
- Over 500 institutional clients
- Prudential's assets under management are \$871 billion, as of September 30, 2011
 - 72% managed for non-affiliated institutional clients and retail investors
- Top 20 institutional asset manager for over twenty years*
- Competitive Advantages:
 - Broad capabilities across public and private markets
 - Established global presence
 - Wide access to deal flow

* Pensions and Investments, December 27, 2010.

PREI Global Resources*

PREI is a leading global real estate investment manager investing on behalf of clients worldwide

- Serving institutional investors since 1970
- Largest real estate investment manager¹
- \$48.2 Billion in total gross AUM²
- 2nd largest manager of US tax-exempt assets³
- 25 locations worldwide



* As of September 30, 2011.
¹ Pensions and Investments, September 20, 2011.
² As of June 30, 2011, total net assets under management equal \$30.3 billion.
³ Pensions and Investments, September 20, 2011.

II. Senior Housing Industry Overview

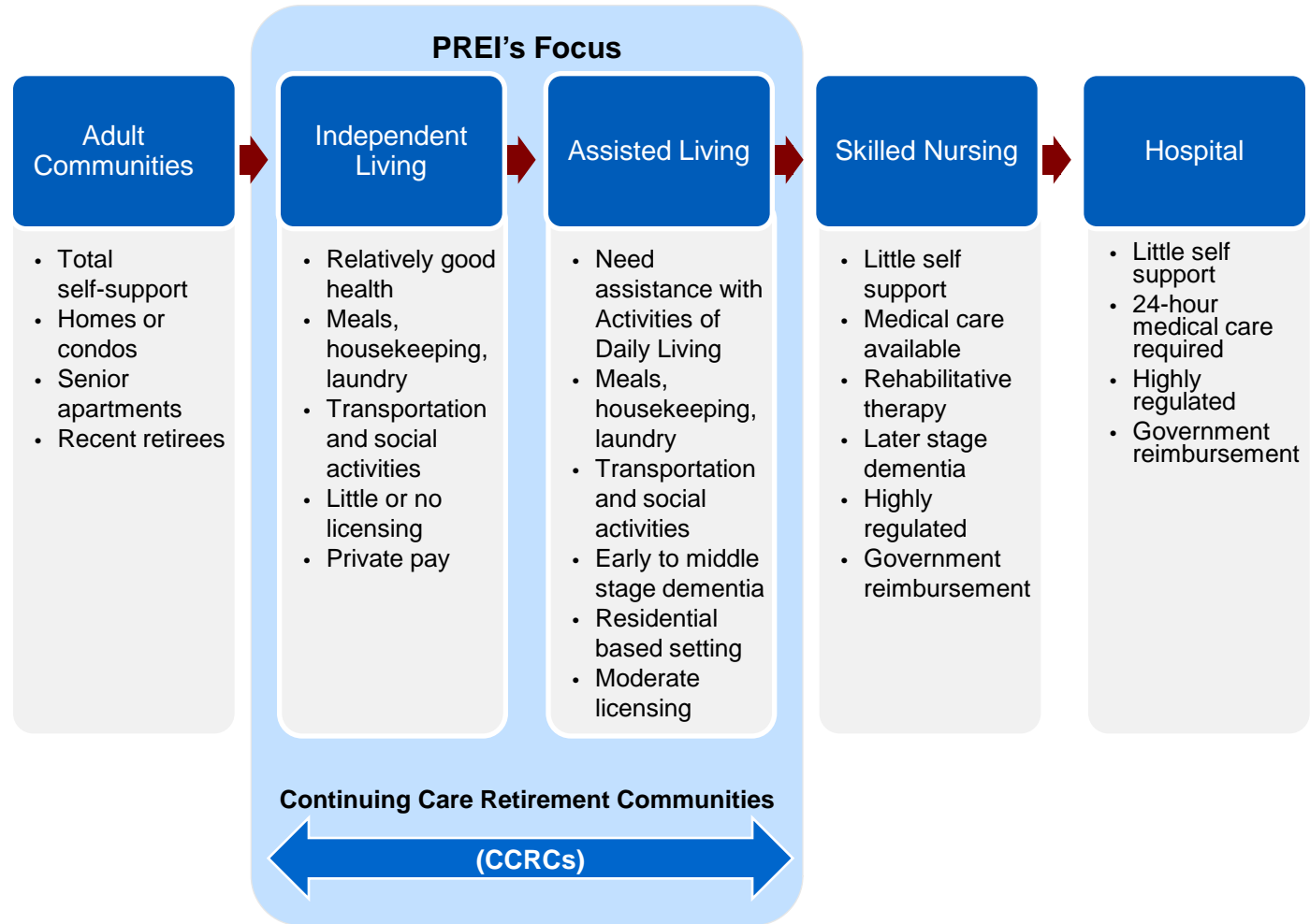
The Opportunity

Senior Housing Partners is a series of dedicated, closed-end funds designed to take advantage of opportunities in the growing senior housing industry

- **Attractive risk-adjusted returns** driven by **solid current income** can be achieved by employing a flexible investment strategy targeting specific segments of the senior housing market.
- Senior housing offers opportunities for higher returns with investments in an industry **less likely to track the general real estate cycle**. We believe senior housing can perform well even in an economic slowdown.
- Demand is supported by **powerful demographic trends** while **supply is constrained**.
- **Current operating fundamentals** are holding up relatively well.
- A wide range of experienced **operators are in need of capital** to expand their growing businesses.
- In today's changing debt markets, we expect to see **attractive opportunities** for equity and possibly mezzanine investments.

The Senior Housing Industry

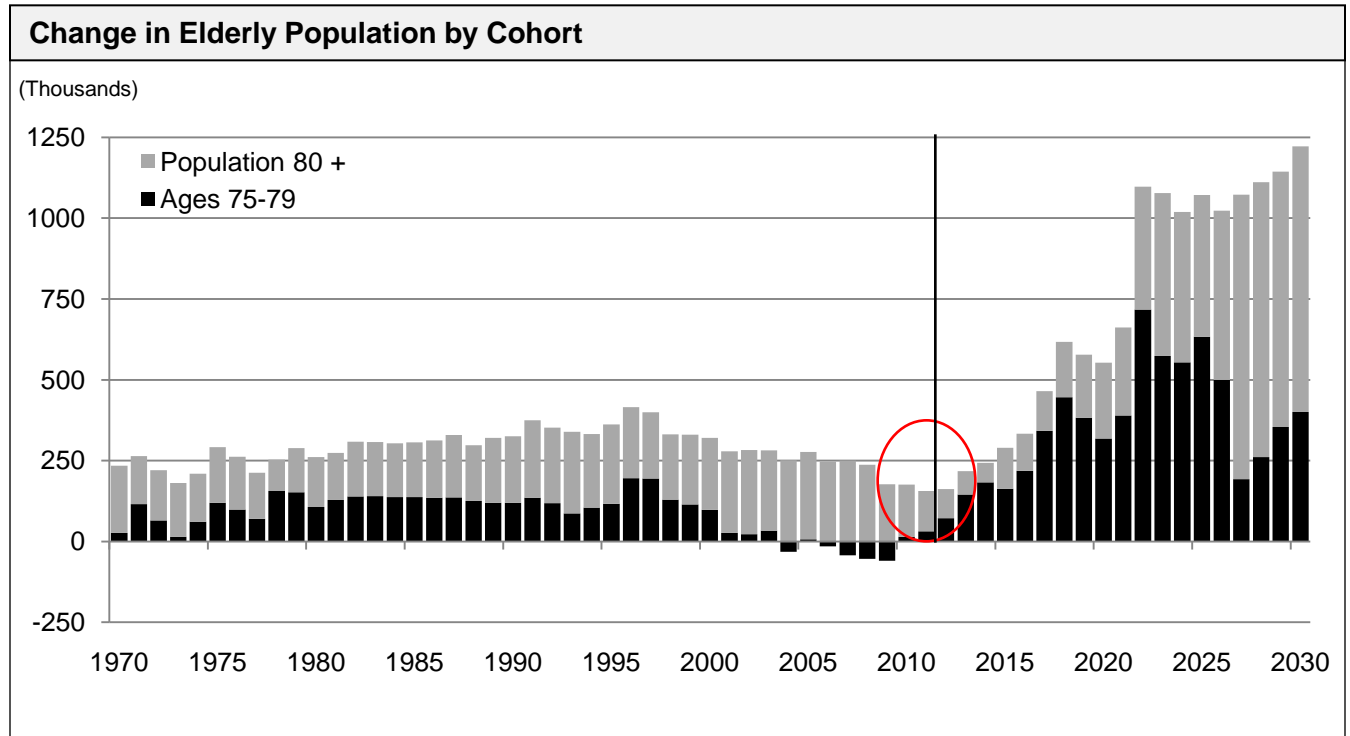
Housing and services for seniors who are generally 75 or older and no longer desire or are unable to live on their own. PREI focuses on the residential, private pay segments of the senior housing industry, which bridge the gap between self-sufficiency in the home and dependency in a more regulated, institutional setting.



Demand Outlook

Today there are approximately 19 million 75+ seniors in the U.S.

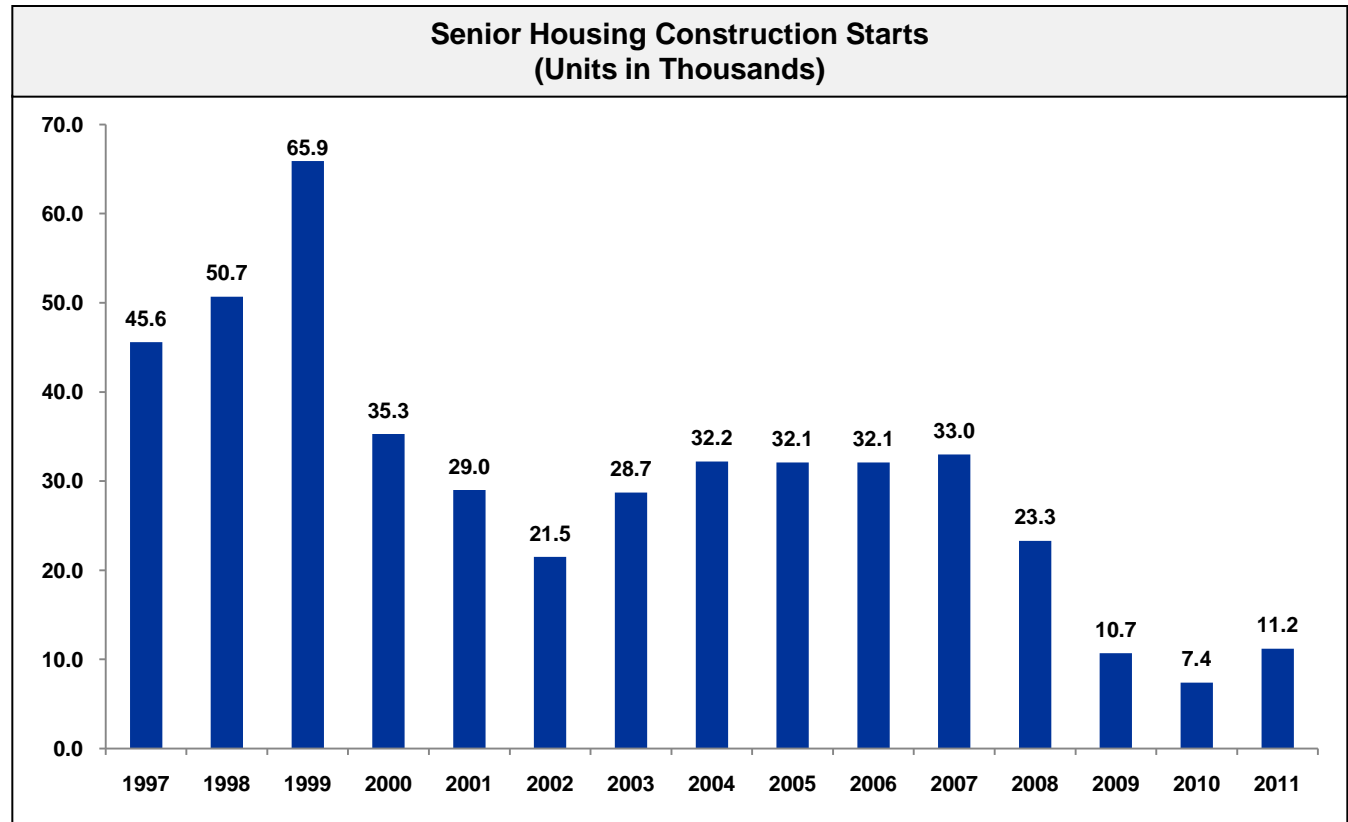
Demand growth is at a low point but still significant and is poised to grow rapidly over the next decade.



Source: U.S. Bureau of Economic Analysis, Moody's Economy.com

Supply Outlook

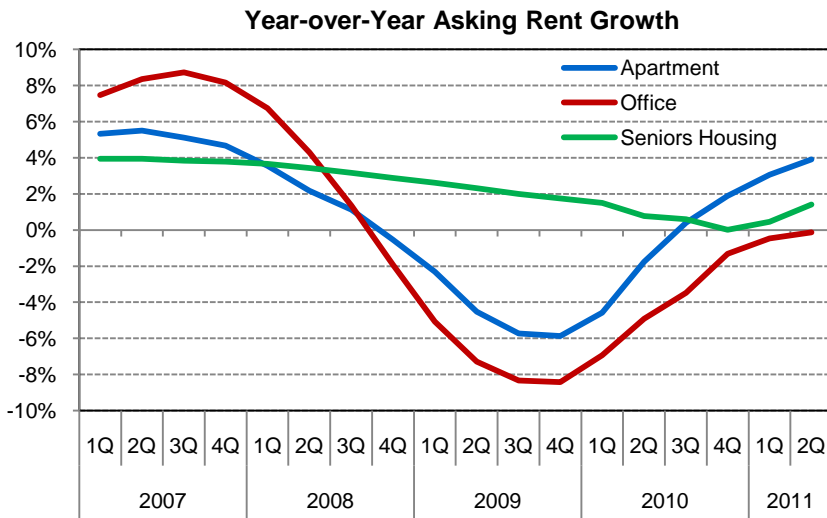
Growth in new supply has declined substantially and even when financing resumes there will continue to be constraints on new supply.



Source: American Seniors Housing Association NIC

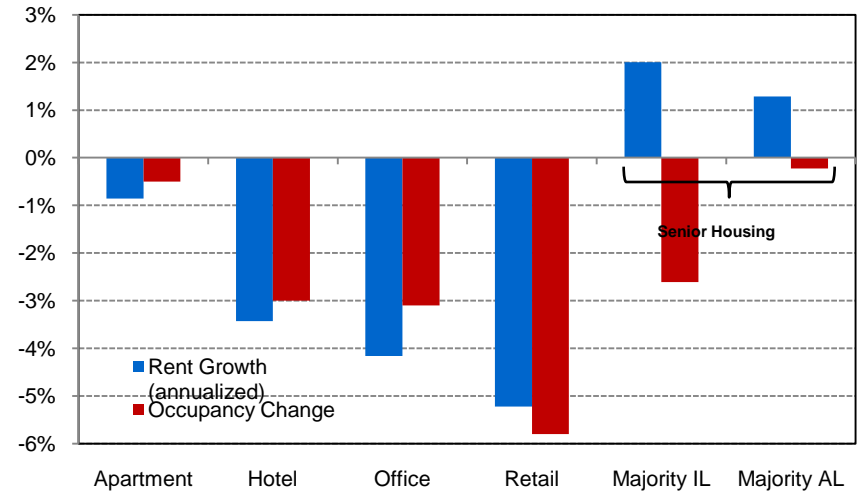
Fundamentals: Comparison Over the Last Cycle

Senior Housing holds its own compared to other property types.



Sources: Property & Portfolio Research; NIC MAP

Commercial Real Estate Performance (2Q08 - 2Q11)

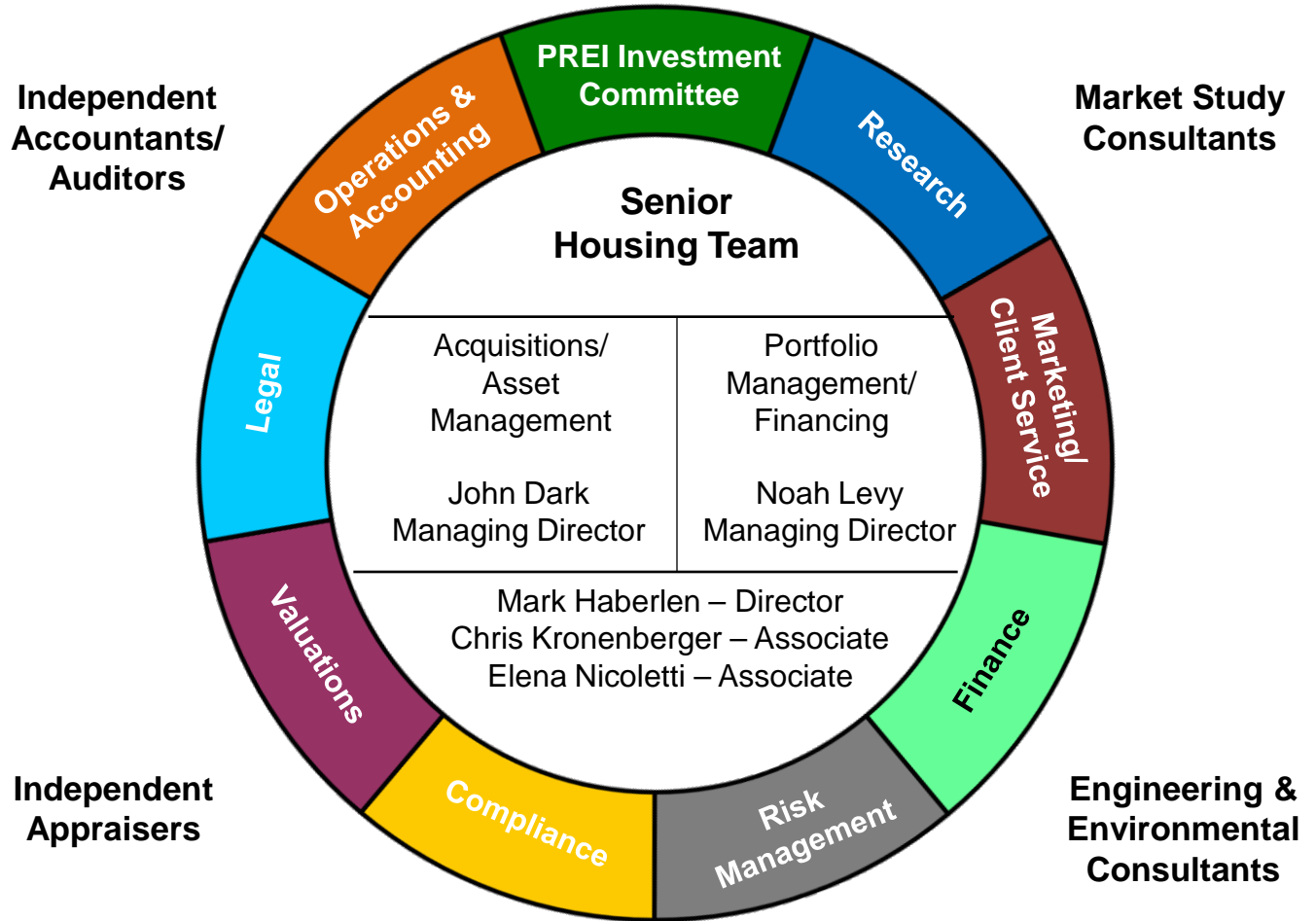


Sources: Property & Portfolio Research, NIC MAP

III. PREI Senior Housing Group

PREI's Senior Housing Team

A dedicated team applying PREI's traditional investment techniques to the Senior Housing industry supported by PREI's infrastructure



Senior Housing: Strategic Alternatives

PREI's Focus 

Strategy	Pros	Cons
Direct Asset Ownership (Dedicated or Non-Dedicated Fund)	<ul style="list-style-type: none"> • Diversification by segment/operator • High current income • Flexible investment structures • Multiple exit strategies • Lower overhead cost 	<ul style="list-style-type: none"> • Potential UBIT (unless insurance company separate account available) • Underwriting knowledge critical
Investment in Multiple Operating Companies (Public or Private)	<ul style="list-style-type: none"> • Liquidity (depending on issue size/float if public) • Potential stock appreciation • Potential to grow private company and exit via IPO • No UBIT 	<ul style="list-style-type: none"> • Liquidity, if private • Lack of diversification by segment/operator • Lack of current income • Exit via securities only • No control over assets • Limited demand from successful operators
Investment with a Single Operator (Public or Private)	<ul style="list-style-type: none"> • Same as above 	<ul style="list-style-type: none"> • Lack of diversification by segment/operator • Less flexible during changing market conditions
Investment in Healthcare REITs	<ul style="list-style-type: none"> • Liquid • Solid expertise • Diversified portfolios • Current income • No UBIT 	<ul style="list-style-type: none"> • Small percentage allocated to senior housing deals • Primarily nursing homes, rehab centers, medical office, hospitals, etc. • Current income limited to dividends • No direct property management • Essentially spread lenders • Generally net leased investments

Senior Housing Partners Investment Philosophy

- Investment Philosophy:** Maximize total return to investors through direct property investments in the independent and assisted living segments of the senior housing industry.
- Fund Structure:** Closed-end commingled funds structured as limited partnerships with direct ownership or through an insurance company separate account for eligible investors.
- Fund Objective:** Target value-added total returns ranging from 10-13% after fees, depending on market conditions, with income returns of 6-9% and leverage of no more than 50% of portfolio value.*
- Investment Strategy:** Employ a flexible approach to investing, the funds focus on:
- Direct and joint venture acquisitions of existing properties
 - Forward commitments to acquire newly constructed properties
 - Mezzanine loans
- Investment Process:** All senior housing transactions (acquisitions and dispositions) are sourced and executed by the dedicated senior housing team but are subject to standard PREI underwriting review and Investment Committee approval. All asset management is handled by the dedicated senior housing team.

* There can be no guarantee that projected returns can be achieved. Actual results may vary. Objectives have varied from fund to fund. Total return is measured on an IRR basis.

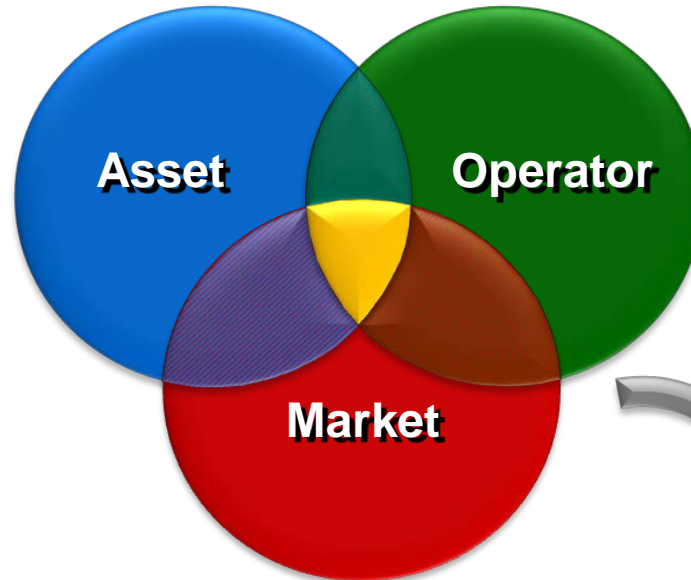
Our Process: Three Ring Fit

Asset:

- Historical Operations
- Leasing Status
- Location
- Physical Attributes
- Capex
- Market Position
- Financing (new or assumption)
- Operational Issues
- Licensing / Regulations

Market:

- Fit with Operator and Asset
- Supply and Demand (balance, outlook, penetration)
- New Competition (barriers to entry)
- Demographics / Income



Operator:

- Track Record (experience, performance, procedures)
- Fit with Operating Style (competency)
- Proximity to Management
- Incentives (skin in the game)
- People – Sr. Mgmt; Property Level
- Other Assets Under Management

Due Diligence to Confirm:

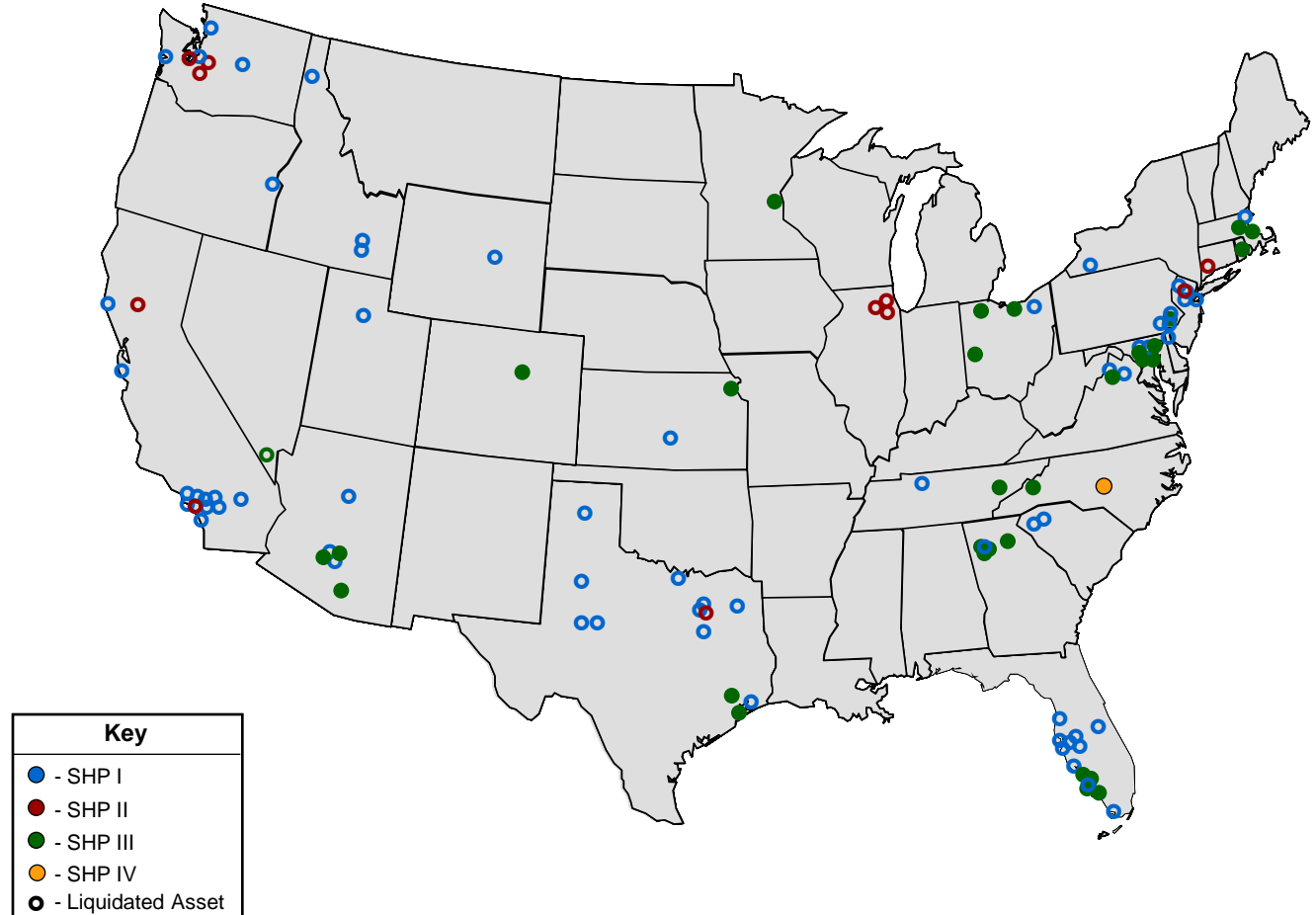
- Market Study
- Operator Review
- Engineering / Environmental
- Legal (title, survey, zoning, licensing)
- Finance / Accounting
- Risk Analysis

4th Dimension: Portfolio Fit

- Fund Parameters
- Stage of Portfolio Creation
- Risk / Reward Trade-off

SHP Portfolio Properties: 1998 - 2011

- 110 + properties
- 12,000+ units
- All across the United States



PREI Senior Housing Funds

Fund	SHP I ⁽¹⁾	SHP II ⁽²⁾	SHP III ⁽³⁾	SHP IV
Inception Date	Dec-98	Jun-01	Jan-06	Oct-11
Fund Size (Equity)	US \$183M	US \$93.75M	US \$370.7M	US \$500M (targeted)
Geographic Focus	U.S.	U.S.	U.S., CANADA	U.S., CANADA,
Investment Strategy	Direct Acquisition, Forward Commitments, Mezzanine Investments, Other Opportunities	Direct Acquisition, Forward Commitments, Mezzanine Investments, Other Opportunities	Direct Acquisition, Forward Commitments, Mezzanine Investments, Other Opportunities	Direct Acquisition, Forward Commitments, Mezzanine Investments, Other Opportunities
Status (as of 6/2011)	Liquidated	Liquidated	91% Funded	11% Funded ⁽⁴⁾
Net IRR Since Inception	16.44%	29.79%	0.42%	10% to 13% (projected)
Multiple on Investment (Gross)	2.05x	3.41x	1.02x	1.50 to 2.00x (projected)
Net Total Return Since Inception	14.98%	22.16%	2.38%	N/A
Net Income Return Since Inception	9.07%	12.27%	3.39%	N/A

Note: This table shows results of the various SHP investment vehicles managed by the Investment Advisor (as defined herein). Returns to date are preliminary 6/30/11 returns except as noted. Projected and target returns are not guaranteed. Past performance is not a guarantee or reliable indicator of future results.

- (1) Returns to date as of June 30, 2007, the quarter in which the last asset of the fund was liquidated.
(2) Returns to date as of June 30, 2011, the quarter in which the last assets of the fund were liquidated.
(3) Returns as of September 30, 2011.
(4) Based on first closing equity commitments of \$250 million. Percentage will decline with subsequent commitments.

Senior Housing Partners I, L.P.

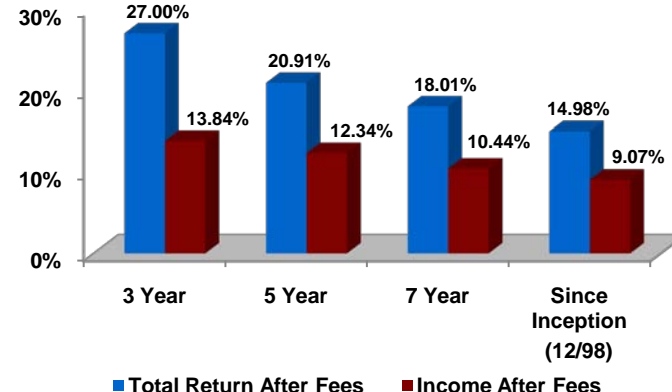
21 properties with 2,551 units and 2 mezzanine loans on 44 properties with 3,744 units

IRR since inception after fees: **16.44%**

Multiple on investment: **2.05x**

- Closed on December 18, 1998
- Liquidation complete in 2Q'07
- \$183.34 million in equity commitments from six investors including \$36.6 million of Prudential co-investment
- Gross assets at peak approximately \$380 million
- Portfolio leverage averaged less than 60%
- Targeted net returns were 12-17%
- Time-weighted net returns since inception of 14.98% at the fund level

SHP I
Fund Performance*
(periods ending June 30, 2007)



* Returns shown are audited time-weighted rates of return after deduction of management fees. Past performance is not a guarantee or a reliable indicator of future results. See Appendix for other Investment Considerations.

SHP I: Investment Example

Sunrise Portfolio

- 8 properties (666 units) in NJ, PA, VA.
- Assisted/Alzheimer's.
- Sunrise managed and retained 25% ownership and first loss position.
- Acquired 2/01. Cost: \$98.3 million.
- Exited via Canadian REIT IPO in 4Q04.
- Realized IRR in excess of 20%



**Various Locations
NJ, PA, and VA**

Note: Shown for illustrative purposes only. There can be no guarantee that similar investments with these results can be achieved in the future.

Senior Housing Partners II, L.P.

11 properties with
1,654 units

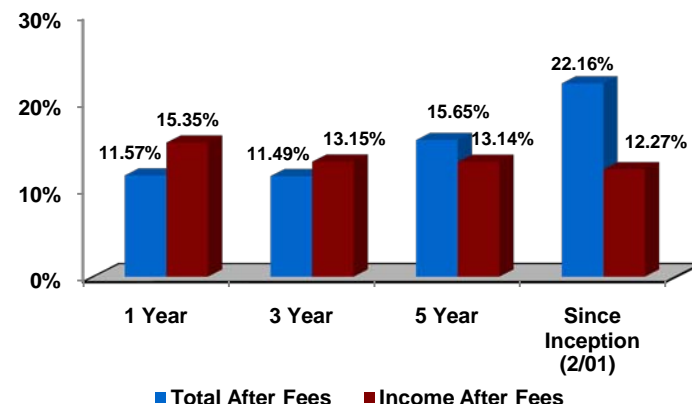
Last assets were
sold on 4/8/11

IRR since inception
after fees as of
9/30/11: **29.79%**

Multiple on
investment as of
9/30/11: **3.41x**

- Closed February 28, 2001
- Liquidation complete in 2Q'11
- \$93.75 million in equity commitments from four investors including \$18.7 million of Prudential co-investment
- Gross assets at peak approximately \$206 million
- Portfolio leverage has averaged less than 50%
- Targeted net returns were 12-17%
- Time-weighted net returns since inception of 22.16% at the fund level

**SHP II
Fund Performance***
(periods ending September 30, 2011)



* Returns are time-weighted rates of return after deduction of management fees. These calculations are audited through 12/31/10. Past performance is not a guarantee or a reliable indicator of future results. Projected returns are not guaranteed. See Appendix for other Investment Considerations.

SHP II: Investment Example

Rossmoor Regency and Narrows Glen

- 426 units (IL, AL, and ALZ)
- Acquired in 2001 for \$46.7MM
- Managed by Renaissance
- Sold in 6/07 for \$115.0MM
- Realized IRR in excess of 35%



Laguna Woods, CA



Tacoma, WA

Note: Shown for illustrative purposes only. There can be no guarantee that similar investments with these results can be achieved in the future.

Senior Housing Partners III, L.P.

At 9/30/11, SHP III had 32 properties with 4,472 units and two pieces of land

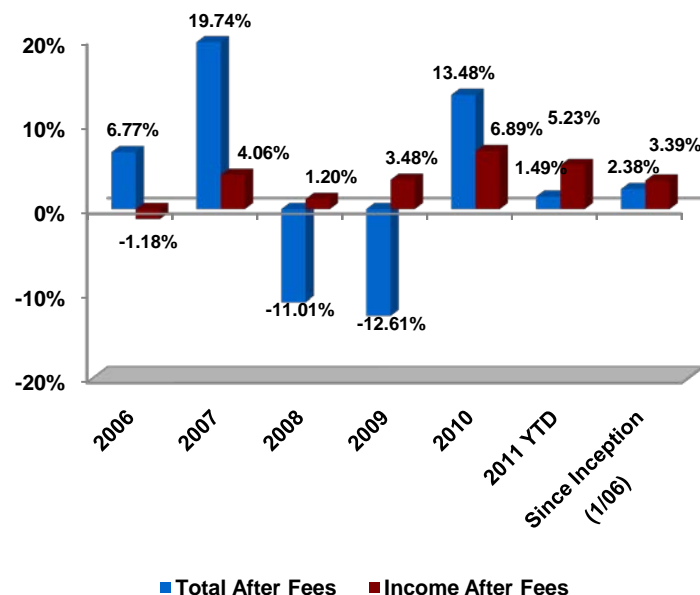
IRR since inception after fees: **0.42%**

Multiple on Investment if liquidated as of 9/30/11: **1.02x**

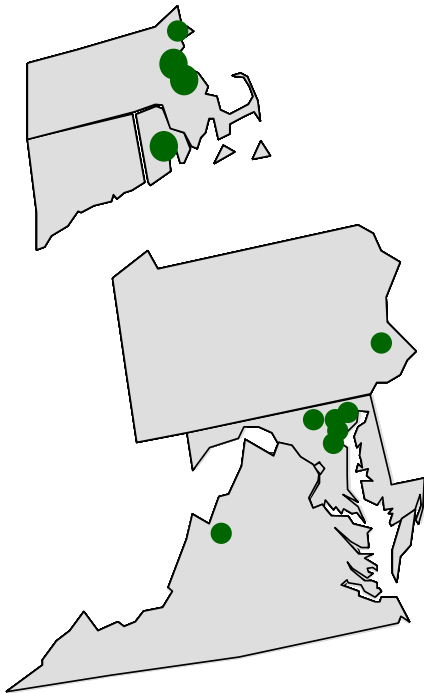
- 1st closing held in January 2006.
- \$370.7 million in equity commitments from 11 investors including \$30.7 million of Prudential co-investment
- At 9/30/11 gross assets of approximately \$356.7 million; net assets of \$310.3 million.
- Commitment period over. As of 9/30/11, 91.4% of committed equity was funded.
- Portfolio leverage was 59.4% as of 9/30/11.
- Targeted net IRR returns are 10-15%
- Time-weighted net returns since inception are 2.38% at the fund level as of 9/30/11.

* Returns are time-weighted rates of return after deduction of management fees. These calculations are audited through 12/31/10. Past performance is not a guarantee or a reliable indicator of future results. Projected returns are not guaranteed. See Appendix for other Investment Considerations.

**SHP III
Fund Performance***
(periods ending September 30, 2011)



SHP III: Investment Example



The Shelter Portfolio

- \$348MM purchase of 11 properties in MA, MD, PA, RI, VA
- Mix of IL/AL/ALZ with 1,600 units; overall occupancy 94% as of 3Q'11
- 8 properties closed in 2007 with 3 development properties closed in 2008 upon completion
- 8 properties closed in 2007 have long term fixed rate loans from Fannie and Freddie.
- Three development properties are stabilized and have long term fixed rate loans from Fannie.



IV. Senior Housing Partnership Fund IV

Senior Housing Partnership Fund IV, L.P.

Senior Housing Partnership Fund IV (“SHP IV”) will be the fourth fund in the series targeting value-added returns with a lower leverage maximum.

- Investment strategy essentially the same as SHP I, II & III:
 - Continued focus on independent and assisted living using flexible investment structures
 - Return target 10% to 13% after fees with no more than 50% leverage*
 - Same investment team
 - Similar investment guidelines with less potential forward/development risk
 - Can invest up to 20% of equity in Canada – a market very similar to the US in terms of demographics and operators**
- SHP IV domestic clients will invest through a traditional limited partnership or a partnership with an insurance company separate account:
 - Targeted size of \$500 million
 - Prudential will co-invest \$50 million
 - Term: 10 years
- Timeframe:
 - First close occurred in 2Q'11; first capital call made October 3, 2011
 - Outside date for follow-on closings is March 31, 2012.
 - Commitment period is 36 months with an outside funding period of 48 months.

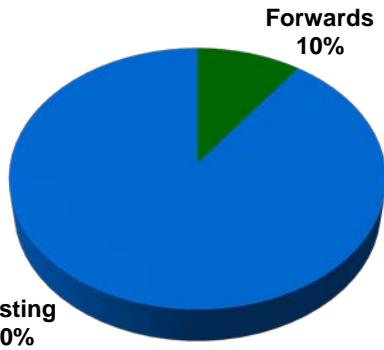
*There can be no guarantee that target returns will be achieved.

**The SHP Series has yet to invest in Canada due to current tax laws. However, if these laws change, investments may be considered.

Senior Housing Partnership Fund IV, L.P.

Sample Portfolio Composition⁽¹⁾

Sample Allocation by Investment Structure⁽⁵⁾



Invested/Committed (Gross Assets)

Investment Structure	# of Properties	Description	Projected Leveraged Property Returns ⁽²⁾	
			Income ⁽³⁾	IRR
Existing	32	Independent Living, Independent with Assisted, Assisted Living	7-9%	10-13%
Forward Commitments	3	Independent Living, Independent with Assisted, Assisted Living	7-8%	12-14%
Portfolio Expected Returns (Leveraged and Before Fees) ⁽⁴⁾			7-9%	11-14%

- (1) Sample portfolio shown for illustrative purposes only.
- (2) All returns shown before fees and assuming up to 50% leverage. There is no assurance that projected returns will be achieved.
- (3) First stabilized year varies by investment type. For example, forwards would not be expected to reach stabilization until year three.
- (4) Over the life of the portfolio. Does not represent returns for any individual year.
- (5) Average investment size is \$20-\$50 million (gross).

First Investment - Woodland Terrace, Cary, NC

SHP IV's first investment, Woodland Terrace, closed on October 4, 2011.

We anticipated stable cash flow from a community that has had 95%+ occupancy for the past 8 years.

SHP IV has purchased this facility in a 95% / 5% joint venture with Kisco Senior Living, who has been managing the asset since it opened in 1999.

A summary of the transaction highlights is outlined below:

PROPERTY

- Property: IL/AL/ALZ community
- Location: Cary, NC
- Year Built: 1999 (Phase 2 Cottages: 2008)
- Total Units: 176
- Occupancy at 9/29/11: 97%
- Gross Investment: \$53,000,000 (\$301,000 per unit)
- Loan-to-value: 47%

CAMPUS

The 21.6 acre campus includes the following:

- 24 cottage homes with average size of 1,458 square feet
- Three-story Independent Living building
- Single-story Assisted Living and Memory Care building
- Total gross square footage of all buildings is 221,290



Property Entrance

SHP IV – Fund Terms

Fees:

Asset Management Fee of 1.15% per annum on aggregate funded capital or capital commitments to a separate investment for future funding.

For investors with equity commitments of \$100 million or more, the asset management fee will be 0.90% per annum.

Acquisition Fee of 0.75% on equity invested with respect to each investment.

Total Return Performance Fee to Manager:

- 5% return after investors receive an 8% IRR, net of fees up to a 10% net IRR;
- 10% return to Manager above a 10% net IRR up to a 12% net IRR;
- 20% return to Manager above a 12% net IRR up to a 13% net IRR;
- 25% return to Manager above a 13% net IRR

Benefits of Investing in SHP IV

- **Senior Housing Industry**

- Outperformed other sectors
- Demand supported by powerful demographics
- Supply constrained
- High income generation

- **PREI Senior Housing Team**

- Consistent investment strategy
- Proven track record
- Backed by Prudential

Appendix

Biographies



noah.levy@prudential.com
(973) 683-1644

Noah R. Levy
Managing Director
Prudential Real Estate Investors

Number of Years Real Estate Experience: 21
Number of Years with Prudential: 21

Noah Levy is Managing Director, Senior Housing with PREI, a fully integrated real estate investment management firm with more than \$30.3 billion of net assets under management as of 6/30/11. Mr. Levy is the Portfolio Manager for Senior Housing Partners I, L.P. (SHP I), Senior Housing Partners II, L.P. (SHP II) and Senior Housing Partners III, L.P. (SHP III). SHP I, SHP II and SHP III are closed-end, discretionary, commingled funds specifically focused on investments in the senior housing industry. SHP I and SHP II, which at their peak had gross assets of approximately \$380 million, has been liquidated. SHP II, which at its peak had gross assets of approximately \$206 million, has been liquidated. SHP III had its final close in June 2006 with equity commitments of \$370.7 million and has completing its funding period. The SHP funds are the successors to Circle Housing Limited Partnership (Circle), PREI's first dedicated senior housing fund, which had gross assets of approximately \$120 million at its peak.

Prior to joining PREI full time in January 1998, Mr. Levy was responsible for Prudential's Senior Housing lending program nationwide for four years from 1994 through 1997. This program began in 1989 and has made loans on properties throughout the United States, including loans on independent living, assisted living, and nursing home facilities. In addition to his lending responsibilities, in 1997 Mr. Levy also worked to invest funds for Circle Housing (later becoming its portfolio manager). Mr. Levy was Chairman of the American Senior Housing Association for 2004-2005 and has spoken frequently at conferences on senior housing topics.

Since joining Prudential in 1990 as assistant to the Chairman for the then Prudential Realty Group, Mr. Levy has been involved in over \$250 million of commercial real estate loan originations on traditional property types (1993-1996). He has also successfully managed over \$1 billion in troubled mortgage assets (1991-1992 and 1996). Before working at Prudential, Mr. Levy spent seven years with Mitsui & Co. (USA), Inc., the American subsidiary of one of Japan's largest trading companies focused on new business development, corporate mezzanine investments, corporate planning, and economic research. Mr. Levy has a BA in History from Princeton University, an MA in International Affairs and Economics from The Johns Hopkins University, and an MBA from The Wharton School of The University of Pennsylvania.

Biographies



john.dark@prudential.com
(770) 395-8635

John W. Dark
Managing Director
Prudential Real Estate Investors

Number of Years Real Estate Experience: 38
Number of Years with Prudential: 34

John Dark is Managing Director, Senior Housing with PREI, a fully integrated real estate investment management firm with more than \$30.3 billion of net assets under management as of 6/30/11. Mr. Dark directs Acquisitions and Asset Management for Senior Housing Partners I, L.P.(SHP I), Senior Housing Partners II, L.P. (SHP II) and Senior Housing Partners III, L.P. (SHP III). SHP I, SHP II and SHP III are closed-end, discretionary, commingled funds specifically focused on investments in the senior housing industry. SHP I, which at its peak had gross assets of approximately \$380 million, has been liquidated. SHP II, which at its peak had gross assets of approximately \$206 million, has been liquidated. SHP III had its final close in June 2006 with equity commitments of \$370.7 million and has completing its funding period. The SHP funds are the successors to Circle Housing Limited Partnership (Circle), PREI's first dedicated senior housing fund, which had gross assets of approximately \$120 million at its peak.

Prior to moving to Atlanta and devoting full time to senior housing, Mr. Dark held a wide array of responsibilities involving institutional real estate. From 1993 to 1996, he was located in Parsippany, New Jersey and was portfolio manager of several portfolios including the liquidation of a troubled Canadian portfolio. Additional responsibilities included the development of an office building on behalf of a pension client and the coordination of due diligence activities for PREI.

From 1976 to 1992, he was responsible for development and asset management of Prudential's real estate equity portfolios of office, industrial, residential and retail properties in the Cleveland, Louisville, Cincinnati and Washington, DC markets. Assets under supervision exceeded \$1.5 billion. Mr. Dark is a graduate of the University of Michigan with a BBA in Business Administration. He has served on the Board of Directors of NIC, the National Investment Center for the Senior Housing and Care Industries. He has spoken at numerous conferences on senior housing topics.

Biographies

Larry Teitelbaum
Principal
Prudential Real Estate Investors

Number of Years Real Estate Experience: 17
Number of Years with Prudential: <1



larry.teitelbaum@prudential.com
(973) 683-1629

Larry Teitelbaum joined Prudential Real Estate Investors in early 2011 as a Principal within the Marketing and Client Services group. He focuses on marketing PREI's global products and providing client service to institutional investors throughout the U.S.- primarily in the Midwestern United States.

Larry has over 17 years of experience in real estate. He joined Prudential from ING Clarion Partners where he was an executive in Marketing and Client Services responsible for raising capital and providing client service to institutional investors and consultants. Prior to this, Larry was Vice President of Real Estate Institutional Equity Sales at Deutsche Bank Securities, Inc where he worked with long only equity managers and hedge fund managers. Prior to his career in the investment management business, Larry practiced law for seven years, including time as a real estate attorney at Greenberg Traurig, LLP.

Mr. Teitelbaum holds a Masters in Business Administration from New York University, a J.D. from Brooklyn Law School and received his Bachelor of Science in Business Administration from Washington University in St. Louis.

Disclosure

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Value-Added Real Estate Commitment

Senior Housing Partnership Fund IV, L.P.

December 8, 2011

See Last Page for Disclaimer

Laurann H. Stepp
Portfolio Manager, Real Estate

Senior Housing Partnership Fund IV, LP – Value-Added Real Estate

Overview

- Fund size is anticipated to be \$500 million
- Fourth in a series of closed-end commingled real estate funds targeting value-added returns, including a large component of income yield, through investments in senior housing real estate assets
- The investment adviser to this fund is Prudential Investment Management (PIM), which is an indirect wholly-owned subsidiary of PFI (Prudential Financial, Inc). PIM will fulfill its duties through a division known as PREI (Prudential Real Estate Investors), who oversees assets under management in excess of \$30 billion worldwide.

Fund Strategy

- Primary focus of investments will be direct and joint-venture acquisitions of for-rent, for-profit, private-pay independent living and assisted living communities, or facilities that offer a combination of the two, as well as Alzheimer care, senior apartments, condominiums, cottages and continuing care retirement communities (CCRC). Investments will be structured as direct acquisitions, forward commitments, and mezzanine investments, mainly in the United States. Up to 20% of the fund may be invested in Canada, whose senior housing market is very similar to the U.S. regarding demographics and operators, but where current prohibitive tax laws have historically eliminated investment opportunities.

Investment Team

- The fund will be managed by two Managing Principals, Noah Levy and John Dark, who have worked together since the first fund in 1998
- The team consists of 5 professionals located in Parsippany, NJ and Atlanta, GA

See Last Page for Disclaimer

Senior Housing Partnership Fund IV, LP– Value-Added Real Estate

GP “Value Add”

- Proven experience with Noah Levy and John Dark – both have been with Prudential for over 20 years and have specific strengths and backgrounds in senior living real estate. They are able to evaluate situations to make the appropriate choice of the most effective operator; which is key to successful investments
- Performance for the first two funds was above expectations and performance for all three prior funds are in the top quartile of value-added funds in Courtland’s database
- Fund income returns, upon stabilization, have exceeded 9% annually

Performance (as of June 30, 2011)

- SHP I (1998) returned a net 2.05x MOC and a 16.4% net IRR – 100% liquidated
- SHP II (2001) returned a net 3.40x MOC and a 29.8% net IRR – 100% liquidated
- SHP III (2006) currently has a net 1.01x MOC and a 0.27% net IRR – expect will reach target net IRR of 10-15%
- The SHP IV target will be to achieve a total return of 10-13% net of fees

Market Opportunity

- There are approximately 19 million 75+ seniors in the United States today, and that age-group is expected to grow rapidly over the next decade. However, since 2007, senior housing construction starts have sharply declined, having been restrained by lack of financing during the financial crisis
- Fundamentals in the senior housing industry reflected resilience during the crisis, with effective rents remaining positive throughout the recession

Senior Housing Partnership Fund IV, LP – Value-Added Real Estate

History with PSERS

- This will be PSERS first fund investment with Senior Housing Partners. However, in 2006 PSERS invested \$100 million in PREI's Core Open-End fund, PRISA. Since inception through 9/30/11 the net IRR is -1.3% and multiple is 1x for PRISA

Board Issues

- Pennsylvania Presence – SHP III owns 94% of a 171 unit project in East Norriton, PA through a joint venture with an operator, The Shelter Group. This facility includes Independent Living, Assisted Living, and Alzheimer care
- Placement agents – SHP IV did not use a placement agent
- 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 \$100 million plus reasonable normal investment expenses

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**Proposed
PSERB Resolution 2011-_____**
Re: Senior Housing Partnership Fund IV, L.P.
December 8, 2011

RESOLVED, that the Finance Committee of the Public School Employees' Retirement Board (the "Board") hereby recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses, in Senior Housing Partnership Fund IV, L.P., in accordance with the recommendation of Laurann H. Stepp, Portfolio Manager, Real Estate, dated December 8, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract.