



PSERS VALUE-ADDED REAL ESTATE PROGRAM

**Recommendation for Investment in
Apollo Value Enhancement Fund VII, L.P.**

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December 12, 2007

Apollo Value Enhancement Fund VII, L.P.

EXECUTIVE SUMMARY

Apollo Value Enhancement Fund VII, L.P. (Fund) is being formed by Apollo Real Estate Advisors as a closed-end value-added real estate fund to invest in real estate assets primarily in the United States. In March 2004, during the investment period of VEF V, Apollo acquired the Value Enhancement Funds business from Lend Lease to complement Apollo Real Estate Advisors' existing opportunistic and debt real estate funds.

The Fund will seek to create a diversified portfolio of real estate investments across major property types, which may include office buildings, hotels, multifamily properties, industrial properties, retail centers, and developable land. The Fund will target assets in major markets primarily in the United States that have diversified economies, well-developed transportation networks, and long-term growth potential. The Fund may acquire existing properties or direct or indirect equity interests in properties, originate or purchase mortgage debt, originate mezzanine, participating bridge and similar debt instruments, make preferred equity investments and participate in certain property development projects. The Fund will target real estate investment projected to result in gross internal rates of returns of 15% to 18%.

INVESTMENT STRATEGY

Apollo's investment philosophy is to maximize returns and manage risk by targeting situations in which its expertise provides a competitive advantage. The Fund intends to focus on investment opportunities in line with this core philosophy while seeking strategy conforming investments. Apollo's investment philosophy includes three key tenets: (i) capitalize on Apollo's depth of experience and existing industry based relationships to source and manufacture investment opportunities, (ii) select transactions where Apollo can provide unique value and (iii) underwrite conservatively.

Capitalize On Apollo's In-Depth Knowledge of Real Estate Operations, Development and Markets

The General Partner intends to capitalize on Apollo's established relationships within the real estate investment, development, lending and brokerage communities, which are valuable sources of deal flow and informed local market knowledge. As one of the largest and most experienced global high-return real estate investment management firms, Apollo and its principals are constantly evaluating opportunities for investments in real estate assets, many of which are presented on a "first look" basis. As a result, Apollo sees a tremendous number of potential opportunities and is able to identify emerging trends as well as mis-priced opportunities.

Select Transactions Where Apollo Can Provide Unique Value

Apollo's long history in the industry, experience in complex transactions and wide contact base enable Apollo to add significant value to a transaction. Apollo can bring its tremendous financial experience, industry expertise, and network of industry relationships to transactions, providing solutions to complex problems, insight on better cash flow planning, financial structuring, third party design and expert execution. Apollo, thus, focuses its deal sourcing efforts on complex transactions or those with information asymmetry under the belief that these opportunities lead to market inefficiency and superior risk-adjusted returns because there are few investors able to participate in these situations or to price them appropriately. Throughout its history, Apollo has invested according to value added and opportunistic equity strategies and, as such, Apollo has substantial experience with assets requiring significant leasing, redevelopment, re-tenanting, repositioning or that are in other ways transitional in nature.

Underwrite Conservatively

The Senior VEF Team's investment approach focuses on a bottom-up real estate analysis but considers factors such as the macroeconomic environment, the direction of the business cycle, local real estate market conditions and replacement cost. The objective of the Senior VEF Team is to uncover investments that have the potential for significant risk-adjusted returns under conservative assumptions. After the Senior VEF Team undertakes an investment, it constantly monitors the asset management strategy with an eye to re-evaluating the proper exit strategy.

Investment Strategy

Guided by Apollo's investment philosophy, the General Partner will target certain opportunities where the Fund can either capture inherent value through acquisitions and/or create value through active management. The target acquisition opportunities include:

- Value and growth-oriented assets, submarkets and property sectors
- Corporate and institutional divestitures
- Divestitures from REITs in their non-core markets
- Lender work-out opportunities
- Distressed asset situations and markets

Asset repositioning and re-tenanting have been key elements of the Value Enhancement Funds' prior investments and are expected to continue to create value for the Fund in the future. The Fund also expects to selectively pursue redevelopment and development opportunities. By targeting the opportunities highlighted above and implementing this strategy, the General Partner will seek to build a portfolio diversified across primary property types in high density and supply constrained markets.

MANAGEMENT OF THE FUND

Apollo VEF Advisors VII, L.P. (General Partner), a Delaware limited partnership, will be the sole general partner of the Fund. The General Partner will provide overall strategic direction and focus and will consider issues such as changes in investment mandate, distribution policy, leverage policy, equity offerings, changes in the Manager's compensation, equity offerings and the sale, merger or dissolution of the Fund.

Apollo VEF VII Management, LLC (Manager), a Delaware limited liability company affiliated with the General Partner, has been appointed as investment manager of the Fund. The Manager will assist the General Partner with the investment and financing operations of the Fund, including the identification, evaluation, acquisition, financing, management and disposition of all investments.

The Manager will be led by the Senior VEF Team, which includes most of the same dedicated investment team that has been managing the predecessor Value Enhancement Funds. In addition, Apollo's more than 55 investment professionals combine the real estate, financial, and corporate expertise required to execute the Fund's value added strategy. Apollo's market insight, distinctive approach to sourcing and execution, and experienced team will allow the Fund to create excess risk-adjusted returns for investors.

The Manager's Investment Committee

An investment committee established by the Manager will be responsible for approving all investments of the Fund and will make final decisions on the Fund's investments. The investment committee will be informed and actively involved in the Fund's investments through an iterative investment review process. The investment committee currently consists of the following senior members of the Manager: Lee Neibart, John Jacobsson, Steven Wolf, Howard Huang and Robert Gigliotti.

PARTNER BIOGRAPHIES

William Mack, Apollo Chairman, Founder and Senior Partner (66). Mr. Mack is a founder and Senior Partner of Apollo Real Estate Advisors and is the President of the corporate general partners of the Apollo Real Estate Investment Funds. With 42 years of experience in the U.S. real estate industry, he is recognized as one of its leading figures. Mr. Mack is also a Senior Partner of the Mack Organization, a national owner of industrial buildings and other income producing real estate investments. Mr. Mack serves as non-executive Chairman of the Board of Directors of Mack-Cali Realty Corporation and has been a Director of Mack-Cali since the 1997 merger of the Mack Organization's office portfolio into Mack-Cali, one of the largest publicly traded real estate investment trusts in the United States. Mr. Mack also serves as Vice Chairman of the University of Pennsylvania Board of Trustees, as an Overseer of the University of Pennsylvania's Wharton School of Business, as Vice Chairman of the North Shore Long Island Jewish Health System and as Chairman of the Board of the Guggenheim Foundation. Mr. Mack attended the University of Pennsylvania's Wharton School of Business and received a B.S. in Business Administration from the New York University School of Business.

Lee Neibart, Apollo Senior Partner (56). Mr. Neibart has been a Partner of Apollo since 1993. Mr. Neibart will serve on the Investment Committee of the Fund. From 1979 to 1993, Mr. Neibart was with the Robert Martin Company ("Robert Martin"), most recently as Executive Vice President and Chief Operating Officer. Robert Martin was a real estate development and management firm with a portfolio of approximately seven million square feet of commercial real estate. Mr. Neibart also serves on the advisory boards of both The Enterprise Foundation and The Real Estate Institute of New York University. He is also a former president of the New York Chapter of the National Association of Industrial and Office Properties. Mr. Neibart received a B.A. from the University of Wisconsin and an M.B.A. from New York University.

John Jacobsson, Apollo Managing Partner (38). Mr. Jacobsson has been associated with Apollo since its founding in 1993 and is a Partner responsible for new investments and investment management. Mr. Jacobsson will serve on the Investment Committee of the Fund. He is also primarily responsible for day-to-day management of Apollo Real Estate Investment Fund V, L.P. where he oversees all new investments. From 1990 to 1993, Mr. Jacobsson was a member of the acquisitions group of Trammell Crow Ventures in Dallas, Texas, where he executed investment transactions on behalf of an opportunistic real estate investment fund. Mr. Jacobsson is a Trustee of Groton School and graduated cum laude with a B.A. in East Asian Studies from Harvard College.

Steven Wolf, Apollo Partner and Value Enhancement Funds Managing Partner (43). Mr. Wolf has been associated with Apollo since 2004 and is the Managing Partner responsible for the Value Enhancement Funds. Mr. Wolf will serve on the Investment Committee of the Fund. Prior to his association with Apollo he held the title of Director at Credit Suisse First Boston. Previously, Mr. Wolf served as Managing Director and head of acquisitions of Northeast investments at Federal Realty Investment Trust. From 1990 to 1997, Mr. Wolf served as Senior Vice President in various capacities for Equitable Real Estate Investment Management Inc. Mr. Wolf graduated from Boston University and received his M.S. from New York University.

Howard Huang, Value Enhancement Funds Partner (47). Mr. Huang is a Partner of the Value Enhancement Funds and oversees new investments for the Funds. Mr. Huang will serve on the Investment Committee of the Fund. Mr. Huang directs the field acquisition personnel, and supports them in their efforts. He is also responsible for national relationships with investment partners. Mr. Huang was a Principal at Lend Lease Real Estate Investments where he held the same responsibilities for the Value Enhancement Funds. From 1992-1998, Mr. Huang worked at GE Capital in various roles involving distressed acquisitions and joint venture developments. He began his career as an architect working on major developments. Mr. Huang received a Bachelor in Architecture degree from Virginia Tech, and an M.B.A. from The Wharton School, University of Pennsylvania.

Robert Gigliotti, Apollo Partner (51). Mr. Gigliotti has been associated with Apollo since 2006 and is responsible for acquisitions across all of Apollo's funds under management. Mr. Gigliotti will serve on the Investment Committee of the Fund. Mr. Gigliotti spent the previous 27 years at GE, the last 20 at GE Asset Management where he was Managing Director responsible for all real estate investment activity in the eastern third of the US and in Europe. While at GE, Mr. Gigliotti managed an active portfolio with equity value in excess of \$1.5 billion and was previously involved in over \$3.5 billion in transactions. Mr. Gigliotti received his B.S. and M.B.A. from the University of Connecticut.

Dean Pentikis, Apollo Partner (39). Mr. Pentikis has been associated with Apollo since 1999 and is responsible for Apollo's West Coast debt and equity investment business. Prior to joining Apollo, Mr. Pentikis was a member of the Real Estate Group at Nomura Securities and was responsible for structuring and underwriting debt financing. Previously, Mr. Pentikis was a consultant at Deloitte & Touche Real Estate, focusing on debt and equity analysis. Mr. Pentikis began his career in the real estate finance area at The Bank of New York. Mr. Pentikis graduated with a B.S. in Economics from James Madison University.

Joseph Hill, Value Enhancement Funds Senior Investment Professional (39). Based in Atlanta, Mr. Hill is responsible for acquisitions and asset management in the Southeast. Prior to joining the Value Enhancement Funds team, Mr. Hill served in a marketing role with Lend Lease Real Estate Investments, focusing on the formation of new funds and accessing new sources of capital for the firm. Prior to that, Mr. Hill served as the Director of Investment Research for Lend Lease Real Estate Investments, having responsibility for integrating all propriety research into the company's internal and external operations. Prior to joining Lend Lease's predecessor company, Equitable Real Estate, Mr. Hill served as a Senior Product Development Engineer for a division of AT&T. He graduated cum laude with a B.S. in Ceramic Engineering from Clemson University and holds an M.B.A. with a concentration in real estate from Georgia State University.

Scott Janzen, Value Enhancement Funds Senior Investment Professional (48). Based in Philadelphia, Mr. Janzen is responsible for acquisitions and asset management in the Northeast, and focuses on the major metro markets from Washington to Boston. Previously, as a Principal at Lend Lease Real Estate Investments, he was the head of the Philadelphia Regional Office with primary responsibility for acquisitions in the region. Mr. Janzen joined Lend Lease's predecessor organization, Equitable Real Estate Investment Management, with varied responsibilities in asset management, acquisitions and loan origination, in 1989. Prior to joining Equitable Real Estate Investment Management, he was a development project manager with Toombs Development Company with responsibilities in Princeton, NJ and in Connecticut. From 1981 to 1985, Mr. Janzen was employed with the Limbach Company (mechanical construction, Pittsburgh) as a design build project manager. He holds a B.S. in Mechanical Engineering from Carnegie Mellon and an M.B.A. from The Wharton School.

Bill Stevenson, Value Enhancement Funds Vice-President (43). Based in Chicago, Mr. Stevenson is responsible for acquisitions and asset management in the Midwest and Texas. He has been involved with the Value Enhancement Funds since 1993. Mr. Stevenson joined Equitable Real Estate in 1991, working in equity finance, appraisal and investment management. Prior to joining Equitable, Mr. Stevenson was with Insignia Financial from 1987 through 1991. Mr. Stevenson, graduated from Monmouth College with a B.A. in Accounting, and received an M.B.A. from DePaul University.

Daryl Niemczyk, Value Enhancement Funds Associate (35). Based in Atlanta, Mr. Niemczyk is responsible for sourcing, underwriting, and performing due diligence functions for new acquisitions as well as supporting financing and disposition functions. Additionally, he performs various investment management responsibilities within the Southeast region. Mr. Niemczyk joined Equitable Real Estate's Atlanta office in 1995 where he held positions in the Equity Finance Group and Dispositions Group. Mr. Niemczyk is a Chartered Financial Analyst charterholder and a Certified Public Accountant and received his B.S. in Accounting from the University of North Carolina at Charlotte.

Gregory Canzano, Value Enhancement Funds Associate (33). Based in Atlanta, Mr. Canzano is responsible for acquisitions, dispositions, and asset management. Mr. Canzano was previously with John Wieland Homes and Neighborhoods in their land acquisition group and Intrawest, a resort real-estate development company. Mr. Canzano also has merger and acquisition and debt finance experience from prior positions with Wasserstein Perella in New York and Legg Mason in Baltimore. He earned an M.B.A. with a major in finance at the Wharton School and graduated magna cum laude with a B.S. in International Economics at Georgetown University.

Amanda Kelley, Value Enhancement Funds Vice-President (30). Based in Atlanta, Mrs. Kelley joined Lend Lease in 2002 to focus on accounting and reporting of the VEF Funds. Prior to Lend Lease, Mrs. Kelley was an auditor with Arthur Andersen, LLP in their audit assurance and advisory services group. Mrs. Kelley graduated magna cum laude with a B.B.A. in Accounting and an M.Acc. (Masters of Accountancy) both from the University of Georgia. Mrs. Kelley is a Certified Public Accountant.

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 \$150 million plus reasonable normal investment expenses, in Apollo Value Enhancement Fund VII, 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.