



# Real Estate Value-Added Fund Commitment

## Stockbridge Value Fund, L.P.

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# Stockbridge Value Fund, L.P.

## Value-Added Real Estate

### Overview

- Stockbridge has sponsored three opportunity funds and one value add separate account totaling over \$2.5 billion in equity
- Stockbridge has 19 senior professionals, 10 of whom were hired last year from RREEF
- The Fund is targeting 14% - 16% gross IRR with a goal of raising \$600 - \$800 million

### Fund Strategy

- Value creation through management, leasing, redevelopment, development, and repositioning
- Focus on investment in the range of \$30 - \$200 million
- Geographic focus on East and West Coasts as well as Sunbelt markets
- Pennsylvania Presence – The Senior Portfolio Manager has invested in one PA property, a \$100 million office building in Philadelphia. The Fund will continue to target investments in PA. In its other funds, Stockbridge has invested over \$500 million in PA investments

## II. Fund Offering

### *Geographic Focus*



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### Investment Team

- The senior professionals have extensive value-add experience
- The Stockbridge team has a full complement of capabilities, including acquisition, management, capital markets, finance, and development
- The senior professionals have invested over \$50 billion in more than 500 real estate and capital market transactions

### GP “Value Add”

- The Stockbridge team has significant experience in the value-add investing
  - Fund’s Senior Portfolio Manager was the President of RREEF III, a \$3.5 billion value-add fund
  - Fund’s Senior Portfolio Manager created and headed the \$1.2 billion JV between RREEF and CalPERS
- The team has a strong network of relationships that often enable them to complete investments on a privately-negotiated basis
- The Stockbridge professionals have extensive expertise in the development of all major real estate sectors. In addition, they have access to an affiliated development organization that can be utilized on select projects

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### Performance

- While Stockbridge Fund I is an opportunistic fund, it has provided strong inception-to-date performance. As of 3-31-08, the Fund liquidated \$257 million of the \$434 million in equity producing a 2.3 times multiple and a 27.0% gross IRR. The unrealized assets are projected to produce a 2.3 times multiple and a gross IRR of 28.5%
- While not legally allowed to lay claim to the RREEF III performance, the Sr. Portfolio Manager of the proposed fund created (2003) and ran RREEF III through the 2<sup>nd</sup> qtr of 2007. The RREEF III value-add fund reached \$3.4 billion in gross asset value and produced a gross IRR of 17.5%

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### Market Opportunity

- Since PSERS has a strong relationship with Stockbridge Capital Partners, PSERS has been able to negotiate very favorable non-market terms
- Stockbridge is an experienced real estate investor with a strong sourcing capabilities

### History with PSERS

- PSERS has a \$408 investment in Stockbridge's first opportunity fund. PSERS also has a \$162.5 commitment in their 2<sup>nd</sup> opportunity fund and \$400 million in their 3<sup>rd</sup> opportunistic fund

### Recommendation

- Staff, together with Courtland Partners, recommends that the Board invest an amount equal to 90.91 percent of the committed capital, but not to exceed \$150 million plus reasonable normal investment expenses, in a side fund to Stockbridge Value Fund, L.P.