PSERS PRIVATE INVESTMENT PROGRAM

Recommendation for Investment in ARCap Real Estate Special Situations Mortgage Fund, L.L.C.

Charles J. Spiller
Director of Alternative Investments

April 27, 2006

ARCap Real Estate Special Situations Mortgage Fund, L.L.C.

Executive Summary

ARCap Real Estate Special Situations Mortgage Fund, L.L.C. has been formed by ARCap REIT, Inc. ("ARCap" or the "Managing Member") to take advantage of real estate financing opportunities, in particular those inherent in Commercial Mortgage Backed Securities ("CMBS") pools managed or identified by the Managing Member. ARCap is an industry leader in the acquisition and management of high-yield CMBS and associated special servicing. The investment objective of ARESS Mortgage is to seek high-yield returns through financing in special situations. The Managing Member will seek to provide investors of the Fund with current cash-on-cash leveraged returns between 8% and 11% and internal rates of return to investors over the life of the Fund in excess of 12%.

ARCap is a privately held company based in Irving, Texas, with 78 employees. ARCap has raised approximately $250 million in equity capital for its own account and $890 million in equity commitments for funds which it or its affiliates manage (i.e., (i) ARCap High Yield CMBS Fund, LLC ("High Yield I") and ARCap Diversified Risk CMBS Fund, LLC ("Diversified Risk I", and together with "High Yield I", the "Prior Funds") and (ii) ARCap High Yield CMBS Fund II, LLC ("High Yield II") and ARCap Diversified Risk CMBS Fund II, LLC (Diversified Risk II, and together with High Yield II, the "Current Funds"). ARCap, the Prior Funds and the Current Funds have acquired a CMBS investment portfolio with a combined face value of approximately $2.5 billion (encompassing over 7,000 mortgage loans with an aggregate initial face value of nearly $51.2 billion) at a cost of approximately $1.5 billion. ARCap's key executives have worked together since 1996 and have been involved in CMBS investment management since the inception of the CMBS industry in 1992.

CMBS are publicly and privately-traded bond issues backed by pools of commercial real estate mortgages. These securities are rated by nationally recognized rating agencies such as Fitch, Standard & Poor's and Moody's. The senior tranche of a bond issue is the highest rated security, typically "AAA". More junior tranches receive lower ratings down to the most junior class, which is not rated. High-yield CMBS is the component of CMBS issues rated "BB+" and lower, and includes non-rated bonds. The purchase of high-yield CMBS is similar to the acquisition of real estate equity investments in that there is a heavy emphasis on underwriting the real estate itself. In the case of high-yield CMBS, a typical transaction includes hundreds of individual loans secured by hundreds of discrete real estate projects. ARCap has amassed a portfolio of seasoned high-yield CMBS and continues to be one of the most significant buyers of high-yield CMBS in the country, both of which should provide it with unique access to data on underlying mortgage pools and rights under pooling and servicing agreements ("PSAs") governing the mortgage pools.

ARCap's wholly-owned subsidiary, ARCap Servicing, Inc. ("ASI"), currently serves as special servicer (the "Special Servicer") in 49 CMBS transactions. ARCap, either in its capacity as a direct investor, collateral administrator, fund manager, or the managing member of the fund manager, acts as, or on behalf of, the directing certificate holder (the "Directing Certificateholder") for those same 49 transactions. This combination of duties should make ARCap privy to a significant flow of information regarding a broad array of commercial real estate mortgages which serve as collateral for CMBS. The Fund can produce excellent investment returns by capitalizing on the proprietary flow of investment product from ARCap's owned and managed portfolios.

ARCap has developed strong relationships with many Wall Street firms, insurance companies and banks which originate mortgages secured by commercial properties. In the course of originating mortgages, many lenders whose loans are securitized seek ARCap's input into loan structures. Further, in conducting due diligence on high-yield CMBS which it purchases, ARCap re-underwrites every loan proposed for a mortgage pool and provides feedback on loan amounts and structure to CMBS issuers. Recently, some lenders have begun offering ARCap the opportunity to participate in subordinate B-notes and mezzanine loans in order to facilitate origination and securitization and provide servicing of these loans consistent with the servicing of the senior securitized loans. More and more lenders will see value in this "one stop shopping" and the Fund will be able to take advantage of B-note and mezzanine loan lending opportunities which are or will be proprietary to ARCap. B-note and mezzanine loan structures will be on terms which are consistent with standards used in the real estate finance industry

The Real Estate Debt Environment

The commercial real estate mortgage market is very competitive and borrowers are becoming increasingly sophisticated in their use of structured real estate products in the capitalization of real estate projects. There appears to exist a surplus of available capital seeking both fixed and variable returns secured by U.S. real estate. While borrowers have been very aggressive in dictating terms, recent trends have seen many lenders, supported by input from participants in the structured finance markets, return to the underwriting discipline, which characterized the earlier years of the sector.

Nevertheless, the availability of capital has allowed borrowers to increase the use of leverage in development and ownership of commercial and multifamily real estate. The result has been an upturn in the availability of "high yield" mortgage products, which allow the borrower to increase the total leverage associated with a project. High yield mortgages may be secured by subordinate liens on the real estate collateral or by the owner's equity in the project itself.

"B-notes" are mortgages secured by subordinate or "junior" liens on commercial real estate collateral. B-notes are used in circumstances where the borrower wishes to obtain leverage in excess of the amount available in a first mortgage financing. First mortgages are secured by "first" or "senior" liens, which provide access to the first proceeds of a collateral liquidation, and are typically constrained in size by loan-to-value or debt service coverage considerations. B-notes can therefore be viewed as being supported by the property value in excess of the first mortgage amount and by the property cash flow in excess of the first mortgage debt service amount.

In some cases, first mortgage lenders will prohibit the use of subordinate liens. In that case, additional leverage can be obtained through "mezzanine" debt, or mortgages secured by equity ownership interests in the project. By definition, mezzanine debt is one step removed from the real estate collateral in terms of liquidation, and is more at risk of being "primed" by vendor liens or other legally obtained secured interests. Especially in the case of a single asset entity however, a very similar overall economic effect can be achieved by capturing the cash flows and value associated with the owner's equity as can be obtained by taking a subordinate interest in the real estate collateral.

By definition, high yield mortgage products bear more risk than first mortgages and therefore require higher returns. They may also be more structurally complex than first mortgages, using structural tools such as cash flow sweeps and stepped amortization to reduce the risk of repayment. Underwriting high yield mortgages requires a very detailed analysis of the real estate collateral because the lender is concerned with the evaluation of “excess” collateral value and “excess” cash flow.

High yield mortgages are typically governed by intercreditor agreements which limit the rights of the high yield mortgage holder in the event of a default by the borrower on the first mortgage debt. Intercreditor agreements may include notice provisions from the first mortgage holder to the high yield mortgage holder in the event of a borrower default. They may also provide the high yield mortgage holder the ability to cure the default by making payments on behalf of the borrower or by purchasing the first mortgage at par. While all high yield mortgages have fewer rights than first mortgages, negotiation of an appropriate intercreditor agreement is a critical component of underwriting a high yield mortgage.

Investment Strategy and Competitive Advantages

The Fund will invest in three primary asset classes: 1) Bridge loans secured by first mortgages for the refinance of commercial properties with existing loans, 2) B-notes secured by commercial real estate; 3) and Mezzanine loans secured by interests in entities owning commercial real estate.

Bridge loans. A significant number of the mortgages comprising CMBS owned and/or managed by ARCap or its affiliates are scheduled to mature over the next several years. Because ARCap has access to up-to-date financial reporting for each mortgage along with loan documentation and maturity information, ARESS Mortgage should be uniquely positioned to approach borrowers with maturing loans immediately prior to the expiration of their prepayment penalty period to facilitate refinancing alternatives. ARCap’s portfolio experience suggests that many of those borrowers will be interested in short-term renewals or bridge loans to allow them to position their property for sale or for placement of a new long-term loan. ARESS Mortgage will be in a position to generate a portfolio of intermediate term, floating rate, fee generating bridge loans to meet that borrower need and to provide such loans to other borrowers (or affiliates of borrowers) which ARCap may underwrite. The Fund should be able to select against poor credit risk because of ARCap’s access to significant prior performance information. Bridge loans originated or acquired by the Fund will typically carry a floating rate of interest at a spread over prime rate (as quoted in The Wall Street Journal), SWAPS or LIBOR (although fixed rate bridge loans may be made in certain circumstances). The spread will vary depending upon the market, the risk, the borrower and the security.

B-notes and mezzanine loans. B-notes and mezzanine loans (subordinate loans secured by interests in the borrowing entity) are a growing component of real estate capitalization and access to them on the open market is extremely competitive. As noted above, ARCap, in its role as a leading CMBS B-piece investor, often becomes aware of B-note and mezzanine loan opportunities before they become widely circulated. These opportunities sometimes arise from pre-origination structuring discussions with CMBS lenders and are sometimes driven by ARCap itself when a proposed mortgage targeted for securitization is too highly levered to support ARCap’s CMBS acquisition methodology, but the underlying real estate is high quality and an increase in value can reasonably be expected. ARESS Mortgage should be able to selectively capture the opportunities before they reach the open market.

B-note and mezzanine loan underwriting is more focused on the value of the underlying collateral property than on the property's stabilized cash flow generation capacity. While an expectation of stable debt service is critical to CMBS underwriting, acquisition due diligence for B-notes and mezzanine loans centers on loan-to-value analysis with an emphasis on potential value creation and growth. In those instances where value creation and growth are likely, a B-note or mezzanine loan can provide the needed bridge to close a financing transaction. B-notes and mezzanine loans acquired by the Fund will carry either a fixed rate or a floating rate of interest at a spread over SWAPS or LIBOR which will vary depending upon the market, the risk, the borrower and the security. The Fund may make subordinate construction loans in the form of either B-notes or mezzanine loans.

Competitive Advantages

ARCap is well positioned to capitalize on investments arising out of its owned and managed high-yield CMBS portfolio and other investment opportunities which may become available as a result of ARCap developing an origination platform, as well as its industry relationships. ARCap is one of only a small number of investors in the United States specializing in the acquisition of high-yield CMBS. It not only has a sizeable portfolio of its own, but should be able to capitalize on its reputation in order to take advantage of lending opportunities that may become available in the CMBS and real estate markets. ARCap has already become a recognized participant in structured real estate finance and should be able to expand its role within the marketplace. Furthermore, contact with borrowers in existing owned and managed CMBS pools could also lead to additional business opportunities, since many borrowers own and control more than one property.

Proprietary Access to Real Estate Opportunities. ARCap has demonstrated its ability to compete for the purchase of high-yield CMBS utilizing its disciplined analytical approach. Since its organization in 1998, ARCap has become a respected investor and servicer. During 2003 and 2004, ARCap was the second largest purchaser of below investment-grade CMBS in the United States. ARCap has developed strategic alliances and/or complementary relationships with many of the country's premiere mortgage originators and CMBS issuers. In many instances, ARCap is approached by industry specialists with opportunities that have been created by the paydown of CMBS pools or losses that are incurred by those pools. As CMBS pools reach the end of their lives, ARCap will be approached with opportunities to purchase bonds for the purpose of collapsing the trust and directly owning the underlying loans. On the other hand, as more subordinate bonds are extinguished, the Directing Certificateholder will change and ARCap will have the opportunity to become special servicer for bondholders who are unaccustomed to holding the Directing Certificateholder position. ARCap has already seen these opportunities develop and they should expand as more and more CMBS pools mature.

Extensive Proprietary Knowledge Base. ARCap has developed and maintains a proprietary interactive database containing detailed information on over 7,000 commercial mortgage loans and the real property securing those loans. This information and the analysis provided by ARCap's experienced surveillance and due diligence teams allows

ARCap an insight into the operation of the commercial properties securing those mortgages which should provide it with an understanding of the properties underlying CMBS that is not available to the other participants in the marketplace. ARCap is uniquely positioned to identify refinancing opportunities. ARESS Mortgage has been formed to take advantage of ARCap's proprietary database by identifying potential lending possibilities before they become widely available. Investment in the Fund will bring an investor into interactive contact with proprietary information relating to a pool of properties which is not available to the general public. ARCap's market contacts should also provide the Fund with a variety of real estate finance and investment opportunities.

Experienced Due Diligence. ARCap has developed the necessary analytical tools and has established rigorous and disciplined analysis and due diligence procedures in order to perform quality CMBS analysis. This expertise is readily applied to loan and property underwriting and will provide ARESS Mortgage with a competitive advantage in loan origination and other structured finance opportunities. ARCap's approach to CMBS has always been real estate oriented, and while it does pay attention to bond performance, its success is founded in real property analytics. ARCap understands the need for strong property level management. In underwriting CMBS, ARCap undertakes a property level analysis which carefully examines property condition, market position, market strength, tenant credit, leasing risk and borrower reputation. ARCap's analysis stresses property performance under varying scenarios and seeks to identify all potential property level risks. ARCap's due diligence division (the "Due Diligence Division") carries out independent research on markets, tenants and industry trends and utilizes that research in its loan analysis. The same approach will be carried out with respect to the Fund's investments, and by combining available capital with recognized real estate expertise, it can provide the returns targeted for ARESS Mortgage.

Surveillance. ARCap's surveillance division (the "Surveillance Division") reviews and analyzes the performance of commercial properties securing the mortgages in purchased CMBS pools through systematic interaction with master servicers and trustees of CMBS pools. The Surveillance Division constantly updates market, borrower and industry data initially obtained in the due diligence process. This information, coupled with a thorough understanding of borrower payment histories, loan requirements and other relevant data, enables ARCap to risk-grade each loan on a monthly basis. Potential problems are communicated to ARCap senior management and ARCap's special servicing subsidiary division ("Special Servicing"). The Surveillance Division gathers all information pertinent to a high risk mortgage loan so that it is readily available to Special Servicing in the event the loan goes into default. In that manner, situations where default resolution is best accomplished through management replacement are identified well in advance of default. Property level information is consistently maintained and analyzed, providing a ready source of historical operational data for underwriting all mortgages, both performing and defaulted. The Surveillance Division is generally able to identify refinancing opportunities well in advance of the time that many borrowers approach mortgage bankers and lenders for refinancing. The Surveillance Division will enable ARESS Mortgage to keep abreast of its investments utilizing the latest technological data management tools.

Expert Special Servicing. ARCap created ASI, a special servicing subsidiary in 2001 to ensure control by it over resolution of defaulting loans. ASI is responsible for the special servicing of over $50 billion of commercial mortgage loans. ASI is rated "Above Average" by Standard & Poor's and "CSS1" by Fitch, and will be appointed special servicer for any bridge loans, B-notes and mezzanine loans held by ARESS Mortgage.

Balance Sheet Servicing. ARCap serves as a primary servicer for conduit lenders whose loans have closed but have not yet been securitized. On average, the primary servicing department is responsible for over 400 loans with an average balance in excess of $6 billion. The primary servicing department will act as servicer for any bridge loans, B-notes and mezzanine loans made by ARESS Mortgage throughout their life. As such, ARCap will continue to interface with borrowers and will be in a position to identify additional opportunities for the Fund.

The ARCap Organization

ARCap has been in existence since early 1999, but its key executives have worked together since 1996 and most have been involved in CMBS investment management since 1992, the inception of the CMBS market. Larry Duggins and other key management personnel were instrumental in the establishment of a CMBS analysis, acquisition and servicing operation within Banc One Corporation, which became a rated servicer and active high-yield CMBS investor under their leadership. In 1996, Mr. Duggins and key staff identified by him, together with Lee Cotton and his investor group, created REMICap to provide investment advisory services and evaluations of high-yield CMBS investments to institutional investors. REMICap developed the first versions of the proprietary software now used by ARCap in bond analysis and, in 1997, obtained its first institutional client, Progressive Partners, a subsidiary of Progressive Casualty Insurance Company. Early 1998 was spent providing fee for service work to third parties and investigating the means by which REMICap could establish its own independent business of investing in high-yield CMBS.

In the fall of 1998, as CMBS spreads reached historical highs, REMICap began discussions with investors about the creation of a company to invest in high-yield CMBS. ARCap was created for that purpose in early 1999 and closed on the first subscriptions for its units in March 1999. For nearly 18 months, REMICap remained as an outside advisor to ARCap and on its behalf successfully deployed approximately $95 million in CMBS purchases. As ARCap attracted additional capital for expansion, ARCap and REMICap decided that the interests of management and ARCap's investors should be specifically aligned. REMICap was therefore merged into ARCap in August 2000 at the time of the first closing on ARCap's Series A Preferred Units, so that the business could be internally managed. In all, ARCap raised $150 million through its Series A Preferred Unit offering which was used for the purchase of additional high yield CMBS. In 2004 and 2005, ARCap carried out sales of a portion of the assets on its balance sheet and used the proceeds to redeem approximately 3.9 million (35%) of its outstanding units and significantly reduce its cost of debt. As of the date of this Memorandum, ARCap has book value assets of nearly $250 million with virtually no debt. As such, ARCap is a well capitalized company able to attract and retain quality management and make investments side by side with investors for whom it manages funds.

In 2001, ARCap determined that market factors dictated that it should shift its focus from development of a balance sheet company to management of funds for investors desiring to invest in CMBS. One of the Prior Funds, High Yield I, had its initial closing in November 2001, and another, Diversified Risk I, had its initial closing in May 2002. Together the Prior Funds received commitments from investors in the amount of $386 million, well in excess of the initial $300 million target. The Prior Funds acquired 149 bonds from 25 CMBS issues with an initial aggregate face amount of $1.2 billion (encompassing 3,779 mortgage loans with an aggregate initial face amount of

$28.1 billion). Total equity capital for the Prior Funds was fully deployed as of March 2004. Two collateralized debt obligation offerings were executed during the investment period which resulted in a return of approximately 48% of total capital deployed. The CDOs provided matched term financing for the REMIC interests held by the Prior Funds while allowing them to retain a long-term investment in the returns on those interests.

In 2004, ARCap initiated High Yield II and Diversified Risk II in order to meet investors' ongoing desires to invest in CMBS. High Yield II had its initial closing in June 2004 and Diversified Risk II had its initial closing in July 2004. Together the Current Funds received commitments from investors in the amount of $504 million, well in excess of the initial $400 million target. As of September 30, 2005, the Current Funds have acquired 90 bonds from 14 CMBS issues with an initial aggregate face amount of $458 million (encompassing 1,823 mortgage loans with an aggregate initial face amount of $15.2 billion). The total equity capital deployed by the Current Funds to date is approximately $186 million.

As of September 30, 2005, the management team of ARCap (the "Management Team") has overseen due diligence with respect to 68 CMBS transactions representing approximately $79 billion of commercial real estate mortgages and approximately 13,670 properties. This includes not only bonds purchased by ARCap, the Prior Funds and the Current Funds, but also bonds reviewed for clients of REMICap and issuances which were ultimately not purchased by ARCap or clients of REMICap. The aggregate bonds purchased by ARCap and the Prior Funds have an initial face amount of approximately $3.3 billion (encompassing 9,531 mortgage loans with an aggregate initial face amount of $60.6 billion), and its database has information on not only the bonds which it purchased, but also on all of the bonds and properties which it has reviewed. The Management Team's experience, expertise and knowledge base make it well-positioned to achieve the Fund's investment objectives.

Members of the Management Team have extensive experience as lenders and workout specialists. Mr. Cotton began his career as a commercial real estate lender and workout specialist with Citicorp for 8 years, while Mr. Duggins served in the same capacities for 8 years with MBank and Bonnet Resources Corporation. Mr. Inman was employed as a commercial construction loan officer for 8 years by Republic National Bank of Dallas and First National Bank of Oklahoma City and subsequently spent 9 years heading two mortgage banking companies with exclusive correspondent relationships with over 25 life insurance companies. Both Messrs. Smyth and Crouch have extensive experience in the resolution of defaulted mortgages with, among others, Bonnet Resources Corporation and Banc One Mortgage Capital Markets (n/k/a ORIX Capital Markets LLC), having spent a combined 25 years with those firms. Mr. D'Amico has worked with a number of real estate developers, owners and managers and spent 8 years with Mr. Cotton working out the Colonial Realty (one of the largest syndicators in the Northeast) portfolio after it was acquired by Harbour Realty.

Earlier this year ARCap began implementing plans to form a mortgage origination program and hired Barry Nectow, a senior executive with John Hancock Life Insurance Company to head its loan origination program. Mr. Nectow spent 16 years with John Hancock and was one of three persons involved in the development of that company's conduit loan origination program. As of the date of this Memorandum, Mr. Nectow is in the process of hiring additional origination staff and securing office space in the greater Boston, Massachusetts area.

Management Team

Leonard W. Cotton - Mr. Cotton serves as Chairman, Chief Executive Officer and a Director of ARCap. Mr. Cotton also served as the Chairman and Chief Executive Officer of REMICap, where he was instrumental in the development of REMICap into a nationally recognized CMBS due diligence and acquisition firm. Mr. Cotton also serves as Chairman of the Board of Harbour Realty Advisors ("Harbour"), which is engaged in real estate related special situation investment and commercial property management. Prior to joining Harbour in 1992, Mr. Cotton was engaged in a number of real estate related entrepreneurial endeavors, including acting as consultant on real estate workout strategies and the development of high-end residential property. Mr. Cotton has extensive experience in commercial real estate development, having served from 1982 to 1984 as a Partner in the Tulsa-based Frates Company and from 1979 to 1982 as a Partner in The Harlan Company. From 1972 to 1979, Mr. Cotton worked in commercial real estate lending and workout for Citicorp, including a term managing a $250 million real estate investment business in Sydney, Australia. Mr. Cotton received a Master of Business Administration from Columbia University in 1972 and a Bachelor of Arts from Bowdoin College in 1971.

James L. Duggins - Mr. Duggins serves as President and a Director of ARCap. Mr. Duggins co-founded REMICap in April 1996. Prior to undertaking this endeavor, he served as Managing Director of the Business Acquisition Group of Banc One Management and Consulting Corporation ("BOMCC") from 1994 to 1996. In this capacity, Mr. Duggins was responsible for negotiating new servicing contracts and for analyzing and acquiring CMBS investments. Before joining the Business Acquisition Group of BOMCC in 1992, Mr. Duggins was engaged in the resolution of defaulted mortgage loans in the real estate, energy and commercial industries for Bonnet Resources Corporation, MCorp Management Solutions, Inc. and MBank Houston, NA. He has been involved in various aspects of mortgage finance and commercial banking for 16 years. Mr. Duggins received a Master of Science in Finance in 1983, a Master of Business Administration in 1982 and a Bachelor of Arts in History in 1980 from Louisiana State University.

Steve R. Inman - Mr. Inman serves as a Chief Credit Officer of ARCap. Mr. Inman formerly served as a Director of REMICap since the commencement of its operations and was responsible for establishing REMICap's comprehensive due diligence and analytical procedures. Mr. Inman assisted in the creation and implementation of REMICap's proprietary "Base Case Analysis System" designed to facilitate "on line" data capture for commercial loans and properties, cash flow analysis and portfolio stressing. Prior to joining REMICap, Mr. Inman operated his own independent real estate consulting firm focused on the real estate evaluation needs of institutional clients. Mr. Inman has extensive experience in commercial real estate including real estate development, commercial lending, and resolution of distressed commercial loan portfolios. Mr. Inman has served as President of two commercial mortgage banking firms, Holliday Mortgage Corporation and Woodmark, Inc., as well as Operating Partner of a national real estate development firm, Property Company of America. He also managed interim construction loan portfolios for Republic National Bank of Dallas and the First National Bank of Oklahoma City. He received his BA in 1968 and his MBA in 1970, both from the University of Oklahoma.

Paul Smyth - Mr. Smyth serves as ARCap's Chief Operating Officer and brings to ARCap extensive experience in CMBS servicing. Prior to joining ARCap, he was Managing

Director-Servicing for Banc One Mortgage Capital Markets, LLC (n/k/a ORIX Capital Markets, LLC) and oversaw its Master/Special Servicing platform, inclusive of 40 sub-servicers and 180 servicing employees. He also served as a Senior Special Servicing Portfolio Manager at Banc One Mortgage Capital Markets and prior to that was a Senior Vice President/Group Manager at Banc One New Hampshire Asset Management, where he managed a $450 million problem loan portfolio comprised of over 2,000 commercial, franchise, and real estate loans located throughout New England and the east coast. From 1989 to 1992 he served as Vice President, Real Estate Division of Bonnet Resources Corporation, managing a $200 million problem loan/REO portfolio. He began his career in 1986 as a Credit Analyst and Vice President, Real Estate Lending Division of Bank One Texas. He is a 1985 graduate of Baylor University with a BBA in Finance and Real Estate.

Chris Crouch - Mr. Crouch serves as Managing Director of Special Servicing of ARCap Servicing, Inc. and has broad real estate lending and workout experience. Mr. Crouch has previously served as Managing Director-Special Servicing, Banc One Mortgage Capital Markets, LLC (n/k/a ORIX Capital Markets, LLC), where he managed a 50 member special servicing group responsible for 10 FDIC/RTC securitizations and 47 private securitization REMIC contracts. These portfolios encompassed approximately 12,000 loans with a balance of $41 billion. His responsibilities also included oversight of Criimi Mae as subservicer on 29 securitized contracts covering 5,200 loans with a balance of $28 billion. In the early 1990's he was employed as a Manager of commercial loan resolution and liquidation at Banc One New Hampshire Asset Management, where he managed a staff of 85 portfolio/asset managers to execute loan collection and resolution responsibilities under a $2 billion Asset Liquidation Agreement for the benefit of the FDIC. Prior to that he served as a Portfolio Manager for Bonnet Resources Corporation, where his responsibilities included collection on a $120 million distressed commercial real estate loan portfolio and supervision of asset managers with portfolios totaling $350 million. He began his real estate career as a senior commercial real estate loan officer and has also been involved in multifamily housing development and construction. He received his BBA in Management Finance from the University of Texas in 1974.

Bryan Carr - Mr. Carr serves as Chief Financial Officer of ARCap. Prior to joining ARCap he spent 16 years in public accounting, the last 12 with Ernst & Young LLP (formerly Kenneth Leventhal & Company) dedicated solely to serving clients in the real estate industry, with a particular emphasis on REITs and public company reporting. Prior to becoming the Chief Financial Officer, Mr. Carr served as the Director - Financial Planning for ARCap and was responsible for the Company's proforma financial corporate model and analyzing equity adjustment alternatives. Mr. Carr graduated cum laude with a BBA in Accounting from Texas A&M University in 1985.

Barry Nectow - Mr. Nectow serves as ARCap's Managing Director of Loan Origination. He has extensive background in commercial real estate lending and CMBS. Prior to joining ARCap, Mr. Nectow spent 16 years with John Hancock. He served as a vice president and head of the U.S. Real Estate Finance group where he was responsible for commercial mortgage production, capital markets investing, credit, portfolio management, collateral review and administration. The overall assets under management aggregated approximately $15 billion. From 1996 to 2004, he was one of three individuals involved with the development and start-up of the CMBS strategy at John Hancock by starting the loan origination conduit in 1997 and CMBS/CDO purchasing program in 1999. During that time, Mr. Nectow's conduit team originated over $2 billion of loans and participated in more than 15 securitizations. His CMBS/CDO buy side team purchased over $1.4 billion of mezzanine and subordinate securities. From 1989 to 1996, Mr. Nectow held various positions in John Hancock's lending operation, ranging from loan officer to team leader, covering all major markets throughout the United States. He received his Bachelor of Science in Business Management from Bentley College in 1982. He is a member of the CMSA, the Mortgage Bankers Association and the Urban Land Institute.

John D'Amico - Mr. D'Amico is General Counsel to ARCap. Prior to joining ARCap he spent 26 years as an associate and principal with the Hartford, Connecticut based law firm of Reid and Riege, P.C. He has experience in a wide array of business matters including creation and restructuring of limited liability companies, corporations and partnerships, syndications and private equity transactions, real estate and structured finance. He has served as counsel to investors, developers, financial institutions, underwriters and issuers and has been involved with the restructuring and workout of investments in shopping centers, industrial properties, multifamily dwellings and office buildings. He has particular knowledge and expertise in the structuring of real estate transactions from a tax standpoint. In addition to serving as General Counsel to ARCap, Mr. D'Amico also holds an Of Counsel position with the law firm of Updike, Kelly & Spellacy, P.C. in Hartford, Connecticut. He has served as an Adjunct Professor in Real Estate Taxation at the University of Hartford, Barney School. Mr. D'Amico received a BS from Tufts University in 1973, a JD from the University of Connecticut in 1976 and a LLM Taxation from New York University in 1977.

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 $100 million plus reasonable normal investment expenses, in ARCap Real Estate Special Situation Mortgage Fund, L.L.C. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.