

Value-Added Real Estate Commitment

Five Arrows Realty Securities Fund VI, L.P.

October 6, 2011

See Last Page for Disclaimer

Laurann H. Stepp
Portfolio Manager, Real Estate

Five Arrows Realty Securities Fund VI, LP – Value-Added Real Estate

Overview

- Fund size is anticipated to be \$800 million
- Invest with private placements of growth equity into public and private real estate companies. Structured with stringent risk mitigants; including, financial safeguards and governance provisions. Focus on recurring cash flow which will equate to approximately half of the total return
- Four years ago spun out from Rothschild Group, but retained Rothschild Realty Managers as management company name

Fund Strategy

- Investments are typically structured as convertible debt and/or convertible preferred securities within real estate companies. They identify strong management teams, with demonstrated competitive advantages within their local markets and property types, and make concentrated investments that may amount to significant ownership percentages

Investment Team

- The fund will be managed by three Managing Principals, including one Founding Partner, that have worked together for the past twenty years
- The team consists of 15 professionals with real estate, capital markets and management skills; primarily located in New York City

Five Arrows Realty Securities Fund VI, LP – Value-Added Real Estate

GP “Value Add”

- Proven ability to selectively identify strong management teams
- Provide unique combination of corporate management, real estate and capital markets knowledge to become trusted advisor regarding the future of the company’s within which they invest
- Generate capital gains by growing the company’s equity value through acquiring, developing and/or repositioning real estate assets

Performance (as of March 31, 2011)

- FARS Fund I (1996-1998) has a net 1.33x MOC and a 16.5% net IRR
- FARS Fund II (1998-1999) has a net 1.09x MOC and a 14.3% net IRR
- FARS Fund III (1999-2001) has a net 1.23x MOC and a 11.3% net IRR
- FARS Fund IV (2004-2007) has a net 1.06x MOC and a 9.5% net IRR
- FARS Fund V (2007-2011) has a net 0.99x MOC and a 0.3% net IRR

Market Opportunity

- The shift of real estate ownership into integrated entities such as LLCs and REITs is still in its early stage as the real estate capital markets evolve. This has created characteristics of an emerging market environment within a mature asset class
- Lack of sufficient liquidity within market creating opportunities to invest alongside larger and more sophisticated real estate companies

Five Arrows Realty Securities Fund VI, LP – Value-Added Real Estate

History with PSERS

- This will be PSERS second fund investment with FARS . PSERS invested \$100 million in Five Arrows Realty Securities Fund V in 2007

Board Issues

- Pennsylvania Presence – none
- Placement agents – FARS does 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

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.

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

September 21, 2011

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

Re: Five Arrows Realty Securities VI, L.P. (Rothschild)

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Five Arrows Realty Securities VI, L.P. (the "Fund" or "Rothschild FARS VI"). The Fund is managed by Rothschild Realty Managers, L.L.C. (the "Manager" or "Rothschild"). The investment strategy for FARS VI will be the same as the five predecessor Five Arrows funds. The strategy is to seek private placements of debt and equity capital to entities active in the ownership, management and enhancement of real estate.

As real estate companies experience the initial stages of maturation, they increasingly require significant amounts of growth capital to access expansion or consolidation opportunities. Many of these companies also need guidance in navigating through new arenas as they reposition their organizations. This asset class transition creates numerous opportunities for direct structured investments. The Manager intends to invest in these types of real estate companies looking for new capital.

The Manager will seek companies with management teams that have a highly developed, focused business plan within its area of expertise. These companies have exceptional, seasoned real estate personnel who excel at buying, managing and selling real estate assets. However, they often require additional guidance and tools (systems, accounting, managerial input, etc.) to help them get to the next level. The Manager has a long history of providing this assistance. The investments are structured to allow the Manager to provide substantial input and control over how the funds are deployed.

The Manager and its predecessor, Rothschild Realty, Inc., have three decades of experience building, investing in and growing real estate opportunities. The managing Principals have built a successful track record over the course of multiple investment cycles. The managing principals are a core team of skilled investment professionals who have worked together for nearly 20 years undertaking real estate investments and acting as financial advisors on a large number of real estate and securities transaction.

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

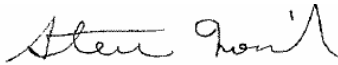
- Detailed due diligence, including on site interviews with key Rothschild management team members, and review of all relevant materials provided by Rothschild.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.

- Evaluation of Rothschild'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 Rothschild'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.