



Opportunistic Real Estate Commitment

Brookfield Strategic Real Estate Partners, L.P.

June 21, 2012

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William P. Stalter
Portfolio Manager, Real Estate

Brookfield Strategic Real Estate Partners – Opportunistic Real Estate

Overview

- Fund size: \$3.5 billion
- Fourth in a series of dedicated closed-end commingled opportunistic real estate funds
- Sponsored by Brookfield Asset Management (NYSE symbol: BAM), a large stable publically-traded company, with approximately \$150 billion of assets under management globally and one of the world's largest real asset investors
 - Brookfield's Asset Management businesses include: (i) Property, (ii) Renewable Power, (iii) Infrastructure and (iv) Private Equity
 - \$20.5 billion of capital invested in real estate transactions since 1987
 - \$10.5 billion of capital deployed in large-scale transactions over the past 10 years

Fund Strategy

- Target positions of control or influence in direct properties, real estate companies and distressed loans and securities
- Focus on large, complex, distressed, turnarounds and recapitalizations
- Implement an operations-oriented approach to add value and de-risk investments
- Invest primarily in North America and Europe, and selectively in Brazil and Australia; predominately in locations where Brookfield has an operating presence

Investment Team

- The fund will be managed by Ric Clark and Barry Blattman, who together oversee Brookfield's global real estate activities and are supported by more than 50 investment professionals
- Senior Managing Partners and Investment Committee members have an average of 25 years of experience and have worked together for an average of 17 years
- Offices are located in key markets, including New York, Washington D.C., Toronto, Calgary, Sao Paulo, Rio de Janeiro, London, Sydney, Hong Kong, Mumbai, Abu Dhabi and Dubai

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GP “Value Add”

- Extensive operating platforms and expertise facilitate prudent underwriting, operational value-add and risk mitigation
- Integrated model and operations-oriented approach allows Brookfield to control all phases of the property investment cycle
- Industry intelligence enhances deal sourcing, due diligence, operations and the strength of their investment thesis
- Majority of deals sourced through existing relationships rather than broker/3rd party channels

Performance (as of March 31, 2012)

- Brazil Retail Fund (2006) currently has a net 1.0x MOC and a 0.6% net IRR
- Real Estate Opportunity I (2006) currently has a net 1.6x MOC and a 9.3% net IRR
- Real Estate Opportunity II (2007) currently has a net 1.3x MOC and a 11.9% net IRR
- Real Estate Turnaround (2009) currently has a net 1.6x MOC and a 51.2% net IRR

Market Opportunity

- Market dislocations caused by ongoing instability, deleveraging and consolidation provides opportunities to recapitalize real estate and provide growth capital
- Significant upcoming debt maturities through 2017
- New regulatory environment: Basel III, Frank-Dodd/Volcker Rule, German Investment Act
- In the US, banks continue to be overexposed to commercial real estate and are accelerating sales of non-performing loans and real estate-owned properties (\$150 billion)
- In Europe, lenders have €151 billion in commercial real estate loans in default

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History with PSERS

- This will be PSERS first real estate fund investment with Brookfield
- Brookfield previously managed a High Yield Fixed Income separate account for PSERS

Board Issues

- Pennsylvania Presence –
 - Through its ownership interest in General Growth Properties, Inc. (“GGP”), owns and operates Neshaminy Mall (Bensalem) and Park City Center (Lancaster)
- Placement agents –
 - Brookfield’s fundraising is generally conducted in-house by a global team of dedicated fundraising professionals
 - Brookfield has engaged Deutsche Bank Private Wealth Management (“Deutsche Bank”) to assist its fundraising efforts with respect to BSREP amongst high net worth investors globally
- 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 \$200 million plus reasonable normal investment expenses

COURTLAND PARTNERS, LTD.

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June 6, 2012

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

Re: Brookfield Strategic Real Estate Partners, L.P.

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Brookfield Strategic Real Estate Partners, L.P. ("BSREP" or the "Fund"). BSREP will seek to continue its strategy of Brookfield's opportunistic investment strategy by targeting a diverse array of real estate transactions with a significant allocation (of approximately 70%) to large-scale platform investments with an average equity size of \$700 million and a meaningful allocation to mid-cap property investments with an average equity size of \$50 million. It is anticipated that the Fund will have approximately 60% of its investments in the U.S., with the majority of the mid-cap investments in the U.S., leveraging Brookfield's extensive local operating presence.

The Fund intends to target investments in what it believes are dynamic and resilient markets and where Brookfield already has a presence, focusing primarily on North America and Europe, and selectively on Brazil and Australia. The Fund will invest no more than 20% of capital commitments outside these regions without the consent of the LP Advisory Committee. The Fund does not have a specific target allocation by geographic region. It is anticipated that the Fund will have approximately 60% of its investments in the U.S., with the remaining 40% of its investments in Western Europe, Brazil and Australia.

The Fund is primarily targeting investments in direct property, equity positions in real estate companies, distressed debt, recapitalizations, toe-hold positions in debt and equity securities and control-oriented loan originations. Although not its main focus, the Fund may also pursue certain development and redevelopment opportunities, taking into account the Fund's risk/return and investment profile, transaction size, investment horizon, and other similar factors.

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

- Detailed due diligence, including interviews with key Brookfield management team members, and review of all relevant materials provided by Brookfield.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Brookfield'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 \$200 million to the Fund. Courtland makes this recommendation considering Brookfield'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.