



PSERS OPPORTUNISTIC REAL ESTATE PROGRAM

**Recommendation for Investment in
Fortress Investment Fund V, L.P.**

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Fortress Investment Fund V, L.P.

EXECUTIVE SUMMARY

Fortress Investment Group LLC (“Fortress”) is forming a series of parallel funds (together, “Fortress Investment Fund V”, “Fund V”, or the “Funds”) primarily to make control-oriented private equity investments in asset-based businesses and asset portfolios in the United States and Western Europe. The Funds intend to continue Fortress’s successful strategy of targeting cash flowing investments backed by real estate and other tangible and intangible assets that can be acquired at compelling valuations.

The Funds may invest in a range of sectors where cash flows are being undervalued as a result of complexity, undermanagement, financial distress, capital markets dislocation or structural changes to the way assets are owned and operated. The Funds may also invest in companies and sectors that are not under stress but that can be acquired at attractive cash flow yields and recapitalized to achieve significant organic or external growth. The Funds will focus on acquiring asset-based businesses and asset portfolios that offer (i) downside protection in the form of tangible collateral and diversified cash flows combined with (ii) significant upside potential from improvements to the operations, capitalization, and growth and strategic development of the underlying businesses. Sectors in which the Fortress private equity funds have been active investors include financial services, residential and commercial real estate, senior living, transportation, energy and power, and media/telecommunications.

The Funds will draw upon Fortress’s specialized expertise in asset valuation, structured finance, M&A and restructuring, and the public equity markets to identify, underwrite and create value in its portfolio companies. To find the most compelling opportunities, the Funds will pursue a broad range of transaction types. The Funds may acquire companies directly or through the bankruptcy/restructuring process. The Funds may also acquire asset portfolios on a standalone basis or as part of a corporate transaction.

Fund V is the fifth diversified asset-based private equity investment fund organized and managed by the Principals. Additionally, Fortress manages several co-investment vehicles that invest, on a side-by-side basis, with other Fortress Fund investments. PSERS is an investor in Fortress Investment Fund I, as well as Fortress Investment Fund IV. Fortress is seeking \$4 billion in third party capital commitments for this Fund.

OVERVIEW OF THE SPONSOR

The Funds are being sponsored by Fortress, a global alternative investment and asset management firm headquartered in New York, with affiliates that have offices in London, Rome, Frankfurt, Geneva, Los Angeles, San Diego, Dallas, Toronto, Sydney and Hong Kong. Fortress is controlled by Fortress Investment Group LLC, which trades on the New York Stock Exchange (NYSE: FIG). Fortress is managed and substantially owned by Wesley Edens, Robert Kauffman and Randal Nardone (the Principals) together with Peter Briger and Michael Novogratz. Fortress and its affiliates employ over 600 people, including 87 professionals and 107 total employees focused on the Funds and Fortress’s existing private equity activities. The European offices of Fortress and its affiliates include 27 private equity professionals.

Fortress’s private equity funds are headed by Wesley Edens, who, together with Robert Kauffman and Randal Nardone, co-founded the firm in 1998. The Principals collectively have over 60 years of professional experience in asset-based investing, including corporate mergers and acquisitions, real estate and the capital markets, bankruptcy and

restructuring, as well as tax and law. The Principals have worked together both as a team at Fortress and prior to forming Fortress for over 20 years, beginning in the mid-1980's at Lehman Brothers and Thacher Proffitt & Wood. Prior to forming Fortress, the Principals raised and managed a predecessor Fund (BlackRock Asset Investors or "BAI"). In May 1997, after fully investing BAI, the Principals founded the Global Principal Finance group of UBS Securities. Since forming Fortress in 1998, the Principals have completed investments involving over \$60 billion of assets and asset-based businesses.

In addition to the firm's private equity funds, Fortress and its affiliates manage the following Drawbridge funds and externally managed real estate related businesses.

- Drawbridge Special Opportunities funds, a series of special situations hedge fund investing in undervalued securities, loans and assets on a highly diversified basis.
- The Drawbridge Long Dated Value funds focused on opportunistic asset-backed investments over a 20+ year time horizon.
- Drawbridge Global Macro funds, a series of hedge fund investing in global fixed income, currency, equity and commodity markets and their related derivatives.
- Drawbridge Relative Value funds, a series of fixed income relative value hedge funds investing in a variety of financial assets on a global basis.
- Newcastle Investment Corp. (NYSE: NCT), a publicly traded real estate investment trust which invests primarily in US real estate securities and other real estate related assets.
- Eurocastle Investment Limited (Euronext Amsterdam: ECT), a publicly traded Guernsey company which invests primarily in German commercial real estate and European real estate related debt.

INVESTMENT STRATEGY AND OPPORTUNITIES

The current investment conditions in North America and Western Europe continue to create compelling opportunities for asset based investing. Although tight credit spreads and an abundance of equity and debt capital have driven up asset prices across many sectors, Fortress continues to find attractive investment opportunities among businesses and industries lacking the capital structure, management focus, or strategic direction to optimize cash flows and value. The recent downturn in the equity markets and turbulence within the subprime housing market may lead to additional investment opportunities among overleveraged or credit-sensitive sectors. While investment conditions will play out differently between the US, Canada and Western Europe, each region offers a dynamic environment for acquiring cash flowing businesses and asset portfolios, minimizing the risk of principal loss, and creating private equity upside by improving the operations, capitalization and growth prospects of the underlying businesses.

In the United States, the most compelling investments are likely to continue to be found among large, capital intensive sectors financed in large part with debt. Many of these companies generate significant cash flow and have benefited from low interest rates and the strong economy, but remain miscapitalized, poorly managed, or lack the institutional sponsorship to maintain consistent access to the capital markets. One area where Fortress expects to see investment opportunities for the Funds is the residential credit market. Deteriorating fundamentals in the housing sector, coupled with rising loan default

rates among lower credit quality borrowers, has led to a contraction in the subprime residential mortgage sector comparable to the debt crisis of 1998. The crisis is forcing the liquidation of billions of dollars of subprime loans, and has or is expected to put many less disciplined, poorly capitalized subprime lenders out of business. Depending on the size and length of the crisis, the flight of debt and equity capital from the residential credit sector may create additional investment opportunities for the Funds, both in the subprime sector directly, and in housing related areas ranging from financial services to homebuilding. The transportation equipment leasing sector – covering airplanes, ships, containers, trucks, railcars and other intermodal equipment – may also provide ongoing investment opportunities. Within the US rail industry, for example, limited rail capacity growth, high barriers to entry, increasing congestion on the nation's highway system, high fuel prices (which favor more efficient rail transportation) and rail operators' unique ability to carry certain types of freight all drive the attractive supply-demand dynamics in the railroad sector and support steady cash flows. In addition, railroad companies own significant assets – including most notably real estate assets – that often are not treated strategically and present opportunities to realize additional value.

In Canada, potential investment opportunities are expected to be found among the country's asset-intensive industries and companies, including many that converted to Income Trust status over the last five years to take advantage of preferred tax treatment (similar to REIT tax treatment in the US). Recent changes to the tax laws governing Canadian Income Trusts have created upheaval in the market and are expected to lead to a host of orphaned asset-based companies that may be attractive buying opportunities for the Funds. Income Trusts currently listed on the TSX pay a weighted average dividend yield of 9.5%, well above the 3.7% average yield of US REITs. Fortress expects to find cash flowing businesses with strong growth prospects that either lack access to the capital markets or are otherwise trading to attractive valuations.

In Western Europe, budgetary pressures and changing market conditions continue to create attractive investment opportunities. Ongoing regulatory reform throughout Europe, coupled with expansion and integration of the capital markets, is intensifying open market competition and increasing pressure on government budgets and corporate balance sheets. European investment opportunities of particular interest to the Funds are expected to include ongoing asset sales from governments and other non-core users; as well as investments in asset-rich sectors that stand to benefit from demographic trends and that have been a significant component of our US investment activities. In Germany, for example, health care assets being privatized by governments offer attractive cash flows and strong growth trends driven by the aging population. There may also be opportunities to restructure distressed companies, including acquisitions of previous leveraged buyout transactions.

In both the US and Western Europe, the public equity markets continue to provide attractively priced funds for recapitalizing dividend paying companies. The US is the clear leader in this arena. Within the real estate area, for example, the public REIT market has increased almost seven fold over the past 11 years. It is expected that the aging of the US population will continue to drive demand for cash flowing investment alternatives, as older Americans continue shifting into investments with strong, stable dividend yields. In Europe, one of the world's "grayest" regions, the market for dividend-oriented investment products is likely to grow quickly with the adoption of REIT-like investment vehicles in the UK and Germany and the emerging use of offshore investment products designed to mirror the transparency and tax pass-through characteristics of US REITs. In both regions, Fortress's ability to access the public markets to raise growth capital for asset-based business – often in sectors and utilizing structures not readily available to other

investment managers – has contributed significantly to Fortress’s ability to source, execute and create value for the Prior Funds.

To take advantage of attractive opportunities and market developments in the current environment, Fortress expects to pursue a range of equity and debt investments. The Funds may:

- (i) Invest directly in public and private companies;
- (ii) Acquire assets, either on a stand-alone basis or as the foundation for building a business to own and manage assets; and
- (iii) Lead the restructuring and recapitalization of distressed businesses, including by investing in the debt securities and assets of distressed or bankrupt companies which the Funds are seeking to control.

Across these investment themes, the Funds will focus on opportunities where Fortress can create significant value through active, hands-on management and recapitalization of investments.

DISTINGUISHING FACTORS

Consistent, Differentiated Investment Strategy. Since founding their first fund in 1995, Fortress’s private equity team has consistently focused on transactions involving cash flowing asset-based investments. Initially among asset pools and more recently in asset-based businesses, the Principals have adhered to a rigorous cash flow-focused pricing discipline designed to lock in attractive risk-adjusted returns and position investments for incremental upside. Fortress’s private equity investment strategy is further characterized by its emphasis on effective corporate control and intensive, hands-on investment management, which can include management restructuring, operational overhauls, and recapitalization of portfolio companies’ balance sheets. Another hallmark of Fortress’s strategy is its use of the public equity markets as a source of growth capital for the businesses it owns. Fortress has completed six initial and numerous secondary public stock offerings on behalf of its private equity portfolio companies within the last two and a half years, and utilized that capital to finance growth within the companies. This approach to the public markets is distinct from that of other private equity firms, who generally view the public markets primarily as an exit strategy.

Unique Deal Flow from Complimentary Businesses. Fortress, with approximately \$35.2 billion under management and approximately 600 employees, is one of the largest and most successful global alternative investment and asset management firms with a focus on asset-based investing. Fortress’s other asset-based investment businesses include (i) a series of companies that invest in real estate and real estate-related securities; (ii) a “special situations” hedge fund which makes loans and investments in undervalued securities and asset pools; and (iii) a series of “long dated value” funds focused on opportunistic asset-backed investments over a 20+ year time horizon. The complimentary interaction between Fortress’s businesses creates a “one stop shop” for asset-based investment opportunities which adds to the flow of deals sourced directly through the Principals’ extensive network of industry relationships. In particular, the private equity team benefits from the hedge fund’s lending and securities trading activities, which, in addition to providing a flow of market intelligence on asset-based sectors, periodically surfaces investment opportunities requiring private equity capital. Fortress’s trading operations also enable the private equity group to accumulate debt positions in target companies “off the radar screen.” To reinforce the flow of ideas and opportunities between Fortress’s platforms, Fortress is organized with highly aligned incentives among

the principals of the different businesses. While principals of the firm have direct responsibility for different businesses and operations within Fortress, all of Fortress's principals have an ownership interest in every aspect of Fortress, including the Funds. This creates a powerful economic incentive for cooperation and the maintenance of the highest investment discipline across all of Fortress's investment platforms.

Significant Presence in Western Europe. The Principals identified Western Europe as a significant source of investment opportunities in 1995 and since forming Fortress have completed 16 transactions on behalf of the Prior Funds in the United Kingdom, Italy and Germany. Fortress's private equity group has investment operations in London, Rome and Frankfurt headed by Robert Kauffman with a total of 27 investment professionals.

Effective Corporate Control. A key element of the Funds' investment approach is the importance of controlling the operations, management and business plan of each of its investments. Fortress views effective control of equity investments under its management as materially different from negative control rights prevalent in some private equity structures. When acquiring or investing directly in companies, Fortress – alone or in combination with a strategic partner – will typically control a majority of a company's equity and, while the company is private, hold a majority of its board seats. In restructurings and recapitalizations, Fortress will generally seek to direct the bankruptcy process by securing for the Funds a controlling interest in the class of securities positioned to dominate the restructuring process, or by negotiating with a company's board of directors and significant stakeholders to infuse equity into the company in exchange for ownership of the company or its assets.

Rigorous Financial, Legal and Operational Due Diligence. The Funds will approach each investment as a discrete set of assets set within a complex corporate capital structure. To evaluate these investments, Fortress will employ a rigorous due diligence protocol focused on (i) bottom-up financial analysis; (ii) fundamental asset-level valuations; and (iii) the legal, structural and operational conditions for controlling and maximizing asset and entity level value. In asset-based investments, the Principals view this bottom-up underwriting approach as critical to sound investing, particularly in situations involving distressed or poorly managed companies whose values may be obscured by accounting, legal or other non-asset related factors. When making investments outside the United States, Fortress will take an equally rigorous approach to analyzing and minimizing legal, tax, regulatory and currency risk in its investments.

Intensive Investment Management. Fortress takes an extremely active, hands-on approach to managing its investments, and has one of the most extensive in-house asset management functions of private equity groups its size. Fortress relies on a team of investment professionals focused on the operations, capitalization, and strategic development of portfolio investments, under the direct oversight of Wes Edens. To reposition and maximize the value of the Funds' companies, the Principals or senior managers will generally assume leadership positions including that of chairman and CEO, and will expect to maintain those positions even among publicly traded companies to maximize the long term value of the Funds' ownership stakes. Fortress will also seek to identify and attract top outside management based on the Principals' industry knowledge and relationships.

Fortress adds significant value post-acquisition in three primary phases: (i) By restructuring management, improving systems infrastructure, driving operating efficiencies and rationalizing a company's capital structure; (ii) By accessing the public equity markets to raise low cost capital for making follow-on investments and generating dividend growth;

and (iii) By optimizing growth, either organically or through the acquisition of assets that are accretive to the company on a one-off basis or through M&A.

Follow-on Investing. A major component of Fortress's investment approach is creating value within the Funds' portfolio companies by sourcing and executing follow-on investments. Even after a company's day to day operations have been restructured and turned over to management, Fortress personnel remain significantly involved in all major capital and investment decisions, and actively pursues incremental investment opportunities on behalf of the company that will be accretive to its core operations. Investment activity within portfolio companies can be as significant or more significant than direct new private equity investments. To finance these acquisitions, Fortress is often able to tap into the public equity markets to raise growth capital. Fortress currently owns significant stakes and plays a key role in the management of three publicly traded companies that the Principals took public over the last two years. Fortress's ability to leverage the public equity markets to grow these companies has generated significant investment value for the Prior Funds. This approach to the public markets is distinct from that of other private equity firms, who generally view the public markets primarily as an exit strategy.

Proactive Return of Capital to Reduce Risk. Risk reduction is central to the Funds' investment approach. A key element of reducing the risk of loss on investments is to minimize outstanding equity capital over time. To achieve this, the Principals have refined strategies for returning significant capital to investors typically 18 to 36 months following an investment. Through a combination of cash flow, sale of non-strategic assets, and restructuring or refinancing of investments, Fortress, on behalf of its investors, is often able to return investors' capital while retaining the equity upside at little or no risk.

MANAGEMENT OF THE FUND

Wesley R. Edens is the Chairman of the board of directors and the Chief Executive Officer of Fortress Investment Group LLC. Mr. Edens has been a principal and the Chairman of the Management Committee of Fortress since co-founding the Company in May 1998. Mr. Edens is responsible for the Fortress private equity and publicly traded alternative investment businesses. He is also the Chairman of the board of directors of each of Aircastle Limited, Brookdale Senior Living Inc., Eurocastle Investment Limited, GateHouse Media, Inc., Mapeley Limited and Newcastle Investment Corp. and a director of Crown Castle International Corp. and GAGFAH S.A. Mr. Edens served as the Chief Executive Officer of Newcastle Investment Corp. since inception until February 2007. Mr. Edens was the Chief Executive Officer of Global Signal Inc. from February 2004 to April 2006 and the Chairman of the board of directors from October 2002 to January 2007. Mr. Edens serves in various capacities in the following five registered investment companies: Chairman, Chief Executive Officer and Trustee of Fortress Registered Investment Trust and Fortress Investment Trust II; Chairman and Chief Executive Officer of Fortress Brookdale Investment Fund LLC and Fortress Pinnacle Investment Fund LLC and Chief Executive Officer of RIC Coinvestment Fund GP LLC. Prior to forming Fortress, Mr. Edens was a partner and a managing director of BlackRock Financial Management Inc., where he headed BlackRock Asset Investors, a private equity fund. In addition, Mr. Edens was formerly a partner and a managing director of Lehman Brothers. Mr. Edens received a B.S. in Finance from Oregon State University.

Robert I. Kauffman is the President (Europe) and a member of the board of directors of Fortress Investment Group LLC. Mr. Kauffman has been a principal and a member of the Management Committee of Fortress since co-founding the Company in 1998. Mr.

Kauffman is responsible for the management of Fortress's European private equity investment operations. Mr. Kauffman is the Chairman of the Supervisory Board of GAGFAH S.A. Prior to joining Fortress, Mr. Kauffman was a managing director of UBS from May 1997 to May 1998, and prior to that, was a principal of BlackRock Financial Management Inc. Mr. Kauffman was with Lehman Brothers from 1986 to 1994 and served as an executive director of Lehman Brothers International in London beginning in 1992. Mr. Kauffman received a B.S. in Business Administration from Northeastern University.

Randal A. Nardone is the Chief Operating Officer and a member of the board of directors of Fortress Investment Group LLC. Mr. Nardone has been a principal and a member of the Management Committee of Fortress since co-founding the Company in 1998. Mr. Nardone oversees Fortress's structured finance and legal matters. Mr. Nardone is a director of GAGFAH S.A., which is listed on the Frankfurt Stock Exchange, and Eurocastle Investment Limited, which is listed on the Euronext Amsterdam Exchange. Mr. Nardone was previously a managing director of UBS from May 1997 to May 1998. Prior to joining UBS in 1997, Mr. Nardone was a principal of BlackRock Financial Management, Inc. Prior to joining BlackRock, Mr. Nardone was a partner and a member of the executive committee at the law firm of Thacher Proffitt & Wood. Mr. Nardone received a B.A. in English and Biology from the University of Connecticut and a J.D. from Boston University School of Law.

Joseph Adams joined Fortress in April 2004 as a managing director in the acquisitions area and serves as Deputy Chairman of Aircastle Limited. Previously, Mr. Adams was a partner at Brera Capital Partners and at Donaldson, Lufkin & Jenrette where he was in the transportation industry group. Mr. Adams received a BS in Engineering from the University of Cincinnati and an MBA from Harvard Business School.

Jonathan Ashley is a managing director of Fortress specializing in the capital markets and structured finance area based in London. He joined Fortress in May 1998, prior to which he worked at UBS and, from April 1996 through May 1997, at BlackRock. Prior to that, Mr. Ashley worked at Morgan Stanley, Inc. in its real estate investment banking group, where he focused on commercial real state securitizations. Prior to Morgan Stanley, Mr. Ashley was in the structured finance group at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Ashley received a BA in History from Tufts University and a JD from the University of Pennsylvania Law School.

David Brooks is the general counsel of Fortress. Mr. Brooks joined Fortress in 2004 as the deputy general counsel and succeeded to the general counsel role in February 2007. Prior to joining Fortress, Mr. Brooks was an attorney at Cravath, Swaine & Moore LLP, where he specialized in mergers and acquisitions, capital markets transactions including initial public offerings and high-yield debt issuances, and providing corporate governance advice to large public companies. Mr. Brooks received a B.S. in Economics from Texas A&M University and a J.D. from the University of Texas School of Law.

William Doniger is a managing director of Fortress and oversees United States acquisitions. He joined Fortress in May 1998, prior to which he worked at UBS and, from January 1996 through December 1997, at BlackRock. Prior to that, Mr. Doniger was in the structured finance group of Thacher Proffitt & Wood. Mr. Doniger received an AB in History from Princeton University and a JD from American University.

Jeff Rosenthal has been the private equity funds' chief financial officer since June 2002. Mr. Rosenthal was previously executive vice president, chief operating officer, and a member of the executive and investment committees of Starwood Capital Group, a real estate equity fund manager, from April 1997 to June 2002. Mr. Rosenthal previously held

the positions of chief financial officer of JMB Realty Corporation, where he worked from December 1987 to February 1996, chief financial officer of Reyes Holdings from February 1996 to April 1997, and was a partner in the public accounting firm of KPMG Peat Marwick, where he worked from December 1972 to December 1987. Mr. Rosenthal is also a director of Baird & Warner, Inc., the largest independent real estate brokerage firm in the Chicago area. Mr. Rosenthal received a BS in Accounting from the University of Illinois in Chicago and is a Certified Public Accountant.

Allison Thrush is a managing director of Fortress overseeing investor relations and capital raising for the private equity funds. Ms. Thrush joined Fortress in March 2001. From 1996 to 2001, Ms. Thrush directed a portfolio of opportunistic real estate and private equity investments for the New York State Common Retirement Fund and, prior to that, she was with the New York State Urban Development Corporation and Coopers and Lybrand, now PricewaterhouseCoopers. Ms. Thrush received a BS in Economics from the University of California, Berkeley, and an MPP from Harvard University's Kennedy School of Government.

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 \$200 million plus reasonable normal investment expenses, in Fortress Investment Fund V, 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.