



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Brookfield Strategic Real Estate Partners II, L.P.

Real Estate Commitment

William P. Stalter
Senior Portfolio Manager

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Recommendation:

Staff, together with Courtland Partners, Ltd., recommends to the Board a commitment of up to \$200 million to Brookfield Strategic Real Estate Partners II, L.P. ("BSREP II", "Fund II" or the "Fund"). Brookfield ("Brookfield" or the "Firm"), an investment services firm headquartered in New York and Toronto, is sponsoring the Fund to make real estate investments primarily in North America, Europe, Brazil and Australia.

Firm Overview:

Brookfield is a publicly-listed global alternative asset manager offering investment strategies in property, infrastructure, renewable energy, private equity, and sustainable resources to institutional and retail investors. Brookfield's strategy is to provide alternative asset management services on a global basis focused on real assets. Brookfield's business model utilizes its global reach to identify and acquire high quality assets at favorable valuations, finance them on a long-term, low-risk basis, and then enhance the cash flows and values of these assets through the company's established operating platforms to achieve reliable attractive long-term total returns.

The Firm currently has approximately \$225 billion of assets under management ("AUM"), including \$140 billion of global real estate assets, managed by approximately 700 investment professionals and approximately 30,000 employees in over 100 operating locations globally.

Brookfield has an established private funds platform which has raised total commitments of approximately \$58 billion, including \$20 billion from Brookfield.

Brookfield is publicly listed on the NYSE, TSX and Euronext Amsterdam under the symbol BAM, BAM.A and BAMA, respectively.

Fund Size

Brookfield Strategic Real Estate Partners II, L.P. is seeking equity commitments of \$7 billion, with Brookfield (and affiliates) committing \$2 billion as principal investor. There is not currently a cap on the size of the fund.

Investment Strategy:

The Fund will make real estate investments primarily in North America, Europe, Brazil and Australia. The expected equity commitment per transaction will be \$50-200 million for direct asset acquisitions and \$200+ million for large scale/corporate transactions. The BSREP investing platform will endeavor to achieve the following:



- Acquire positions of control or influence in real estate companies, distressed loans and securities, and utilize its operating platforms to make asset acquisitions
- Invest in North America, Europe, Brazil, Australia and selectively in other markets
- Target a range of real estate transaction with significant allocation to large scale/corporate acquisitions and a meaningful allocation to direct asset acquisition investments
- Focus on multi-faceted transactions to acquire high quality assets on a value basis
- Implement an operational-oriented approach, leveraging Brookfield's operating platforms to enhance transaction sourcing and execution and create value post-acquisition
- Target 20.0% gross/16% net IRR and 2.0x gross/1.8x net MOIC

Investment Team:

The Brookfield real estate platform has a 100-year history of investing in, owning and operating real assets. With a global presence, Brookfield's real estate platform employs 281 investment professionals in 30 offices on five continents.

Investment Instruments:

BSREP II will seek to acquire positions of control or influence in real estate companies, distressed loans and securities, and utilize Brookfield's operating platforms to make asset acquisitions

Market Opportunity:

North America

- Identify off-market opportunities where returns can be derived through actively managing assets and making operational improvements
- Capitalize on asset owners seeking liquidity of assets held since the financial crisis

Europe

- Acquire assets at favorable pricing from highly-leveraged public companies whose shares trade at significant discounts
- Continue to transact with banks and other financial institutions that continue to dispose of non-performing loans and legacy property holdings due to European Central Bank ("ECB") regulations



Australia

- As export commodities have dropped to five-year lows resulting in mine closures, corporate insolvencies and the shelving of planned capital projects, pursue the acquisition of real estate assets from companies seeking to strengthen their balance sheets
- Acquire assets in non-prime locations within natural resource-related markets, where vacancies have temporarily increased due to tenant migration

Emerging Markets

- Opportunity to acquire prime assets in Brazil from distressed owners that are unable to wait out the long lease-up periods resulting from the challenging political and economic environment
- As credit for residential development is limited in China, there is an opportunity to acquire commercial or non-core portfolio holdings from residential developers seeking capital to finance new projects

Investment Highlights:

Experienced & Cohesive Senior Management Team

The Senior Managing Partners of the Brookfield team have an average of 28 years of experience. The BSREP I and BSREP II Investment Committee members have worked together at Brookfield for an average of 18 years.

Strong Track Record

Having invested over \$34 billion of equity in real estate transactions since 1987, Brookfield has achieved a 19.9% gross opportunistic real estate return and a 2.5x gross MOIC.

Deal Execution/Approach

The Brookfield real estate team leverages off of the overall Brookfield investing platform, which is one of the largest in the industry. Brookfield's well-established structuring capabilities allow the platform to execute multi-faceted transactions in order to acquire assets on a value basis.

Pre-specified Portfolio

BSREP II has committed nearly 50% of target capital across a diversified (by property-type and geography) portfolio of real estate assets, affording PSERS the opportunity to "window shop" ahead of its potential commitment.

Investment Considerations:

Use of Leverage

Given the current lending environment, historically low-cost leverage is abundantly available to strong sponsors of quality real estate assets. However, financial leverage can compound economic losses when asset values decline. Brookfield has historically utilized leverage in a prudent manner. The current leverage of BSREP I is approximately 53%.



Public Market Benchmark Returns

Brookfield's opportunistic real estate funds (including BSREP I) have each exceeded the public benchmark (FTSE NAREIT TR Index) by meaningful margins.

Foreign Country/Currency Risks

The Fund may invest outside the US (including up to 20% outside of North America, Europe, Brazil and Australia). Investing outside the US can subject investors to currency, political, economic and tax instability. Brookfield is a large global firm and has significant experience investing capital across many markets. As it has demonstrated in the past, Brookfield will utilize firm resources to determine how best to hedge currency risk.

Preferred Co-investment Rights

Due to the size and scale of targeted transactions, Brookfield anticipates there may be meaningful co-investment opportunities available. PSERS will be provided contractual co-investment rights at attractive terms. This will afford PSERS additional opportunities to underwrite deals for its internal co-investment program.

PSERS History & Performance:

In 2012, PSERS committed \$200 million to Brookfield BSREP I. As of September 30, 2015, BSREP I generated a 17.61% net IRR and a 1.26x net MOIC for PSERS. The table below summarizes PSERS' historical performance with this partnership:

<u>Fund (\$mm)</u>	<u>Vintage</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>MOIC</u>
BSREP I	2012	200.0	201.1	49.0	205.0	17.61%	1.26x



Portfolio Fit:

A commitment to BSREP II will provide PSERS' real estate portfolio exposure to a real estate investing platform that is unique in size and scale, a platform that will focus on larger opportunities across geographies and structures, all of which will be complementary to other real estate strategies within PSERS' Real Estate portfolio. Brookfield's opportunistic real estate funds have historically delivered compelling risk-adjusted returns and have provided consistent performance through many market cycles.

Investment Type	Market Value (\$mm)	%	Unfunded (1)	%	Total Exposure (1)	%
Opportunistic	\$3,319.20	61.80%	\$1,186.20	45.00%	\$4,505.40	55.60%
Value-Add	\$1,517.40	28.20%	\$1,287.60	45.10%	\$2,805.00	34.60%
Core	\$534.90	10.00%	\$262.00	9.90%	\$796.90	9.80%
Total	\$5,371.50	100.00%	\$2,735.80	100.00%	\$8,107.30	100.00%

⁽¹⁾ Includes post Q3'2015 pending/closed commitments

Liquidity Profile:

BSREP II is a finite life commingled private equity real estate fund. The Fund is expected to be invested within four years of its final closing and the fund term will be 10 years from the final closing (plus two 1-year extensions).

Finance Committee Disclosure:

Relationship with Courtland Partners, Ltd.:	None
Placement Agent:	None in respect to PSERS' commitment. Brookfield utilizes a registered in-house broker/dealer for private fund placement services in connection with investment funds sponsored by Brookfield. Brookfield may engage third-party agents in countries where it does not have a fundraising presence and/or in the US with respect to high net worth investors.
PA Political Contributions:	None Disclosed
PA Presence:	Brookfield-sponsored investment vehicles have invested in the following: <ul style="list-style-type: none">• Neshaminy Mall (Retail mall) – Bensalem, PA• Park City Center (Retail mall) –



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	Lancaster, PA <ul style="list-style-type: none">• 100 Louis Parkway (Industrial property) – Carlisle, PA
Conflicts:	None Disclosed
History with PSERS:	Yes
PSERS Internal Alpha Committee Approval:	February 4, 2016

Oversight Responsibility:

Investment Office:	Charles J. Spiller	Deputy CIO, Non-Traditional Investments
	William P. Stalter	Senior Portfolio Manager
External Consultant:	Courtland Partners, Ltd.	