

## STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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### **AGENDA**



BOARD OF RETIREMENT 832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room** Modesto, CA 95354 May 27, 2014 1:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

**PUBLIC COMMENT:** Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

**BOARD AGENDAS & MINUTES:** Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

**AUDIO:** All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <a href="http://www.stancera.org/sections/aboutus/agendas">http://www.stancera.org/sections/aboutus/agendas</a>.

**NOTICE REGARDING NON-ENGLISH SPEAKERS**: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

**REASONABLE ACCOMMODATIONS**: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

- Meeting Called to Order
- 2. Roll Call
- 3. Announcements
- 4. Public Comment
- 5. Consent Items
  - a. Approval of the April 22, 2014 Meeting Minutes View.
  - b. Approval of the May 7, 2014 Special Meeting Minutes View.

- c. Approval of Service Retirement(s) Sections 31499.14, 31670, 31662.2 & 31810
  - 1. Clement, Karen Alliance Worknet Effective 05-24-2014
  - 2. Gein, David Public Works Effective 05-17-2014
  - 3. Glover, Diana DCSS Effective 05-30-2014
  - 4. Grewal, Daljit BHRS Effective 05-04-2014
  - 5. Grimm, Bryan Sheriff Effective 05-17-2014
  - 6. Hujdic, Cynthia CSA Effective 05-17-2014
  - 7. Jackson, Gregory Public Defender Effective 05-25-2014
  - 8. Lebreton, Heidi Kiki DCSS Effective 05-20-2014
  - 9. Luna, Elizabeth Superior Court Effective 05-01-2014
  - 10. Rivera-Jara, Eva Alliance Worknet Effective 05-06-2014
  - 11. Wesselius, Sharon DCSS Effective 03-27-2014
- d. Approval of Deferred Retirement(s) Section 31700
  - 1. Curtin, Janice M. CEO Effective 01-04-2014
  - 2. French, Jaylen StanCOG Effective 04-25-2014
  - 3. Hardy, Melissa Sheriff Effective 04-19-2014
  - 4. Kiep, Andrea CSA Effective 05-03-2014
  - 5. Pena, Victor CSA Effective 03-08-2014
  - 6. Regalo, Sandra CEO Effective 04-05-2014
  - 7. Solis, Mario Auditor-Controller Effective 03-04-2014
  - 8. Stagg, Ebony Public Works Effective 01-04-2014
- e. Amended Retirement Dates
  - 1. Ellenburg, Judy Sheriff Effective 05-17-2014
- f. . StanCERA Investment Managers Peer Rankings for Quarter Ending March 30, 2014 View
- 6. Annual Update Report Legato Capital Management, LLC View
- 7. Strategic Investment Solutions (SIS), Inc.
  - a. Investment Performance Analysis for the First Quarter Ending March 31, 2014 <u>View</u>
  - b. StanCERA Investment Managers Review List for Quarter Ending March 31, 2014 <u>View</u>
  - c. Monthly Performance Review for the Month Ending April 30, 2014 View
  - d. Report on "Top 10 Holdings" of StanCERA Investment Managers as of April 30, 2014 View

## 8. Executive Director

- a. PIMCO Modification to Cash Equivalent Definition Paul View
- b. Value Added Reports View
- c. Legislative Update Dawn
- d. StanCERA Monthly Staff Report View

### 9. Closed Session

a. Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets Government Code Section 54956.81

## 10. StanCERA's Real Estate Asset Class

- a. Discussion and Action Regarding New Investment Commitments to StanCERA's Real Estate Core Asset Class <a href="View">View</a>
  - i. Presentation by Morgan Stanley View
  - ii. Presentation by RREEF America View

### 11. Closed Session

- a. Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets Government Code Section 54956.81
- Discussion and Action of Withdrawal of Application for a Service-Connected Disability Retirement by StanCERA Retired Member Raymond Byers Government Code Section 54957
- c. Discussion and Action on the Application for a Service-Connected Disability Retirement by StanCERA Retired Member Sirv Man Government Code Section 54957
- d. Conference with Legal Counsel Pending Litigation One Case: Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152 Government Code Section 54956.9(d)(4)
- e. Conference with Legal Counsel Pending Litigation One Case:
  O'Neal et al v. Stanislaus County Employees' Retirement Association
  Stanislaus County Superior Court Case No. 648469
  Government Code Section 54956.9(d)(1)

## 11. Closed Session (Cont.)

- f. Conference with Legal Counsel Pending Litigation One Case:
  Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
  Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate
  District, Case No. H038894 Government Code Section 54956.9(d)(1)
- 12. Members' Forum (Information and Future Agenda Requests Only)
- 13. Adjournment



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## PLEASE POST FOR EMPLOYEE VIEWING

## **BOARD OF RETIREMENT MINUTES**

April 22, 2014

Members Present: Gordon Ford, Donna Riley, Maria De Anda

Darin Gharat, Jeff Grover, Jason Gordo, Michael O'Neal,

and Jim DeMartini

Members Absent: Mike Lynch and Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director

> Kellie Gomes, Executive Board Secretary Kathy Herman, Operations Manager

Dawn Lea, Benefits Manager

Others Present: Fred Silva, General Legal Counsel

Doris Foster, County Chief Executive Office

1. Meeting Called to Order

Meeting called to order at 2:02 p.m. by Gordon Ford, Chair.

2. Roll Call

#### 3. Announcements

Kathy Herman gave the Board an update on the conversion to Northern Trust. The switch is progressing better than expected and we have met or exceeded our scheduling deadlines on all items. The transition should be completed by May 1, 2014.

Executive Director Rick Santos reported that Item 8A was cancelled due to the lack of a committee guorum. The item will be placed on the May 27th agenda.

### 4. Public Comment

None

### 5. Consent Items

- a. Approval of the April 9, 2014 Administrative Meeting Minutes
- b. Correspondence White Oak Pinnacle Fund, L.P.

## Consent Items(Cont.)

c. StanCERA Complaint Log of January 16, 2014 through March 31, 2014

Motion was made by Jeff Grover and seconded by Maria DeAnda to approve the above consent items.

Motion Carried

## 6. Annual Update Direct Lending Report - White Oak Global Advisors, LLC

Andre Hakkak, gave the Board an update on the performance of the fund, some of the investments within the fund and the prospects in the pipeline. StanCERA still has approximately \$20 million yet uncommitted capital to this investment, with the investment period closing December 31, 2015. Mr. Hakkak expects that 2 months from today, 65% (\$6 million more) of StanCERA's committed capital will have been invested.

- 7. Strategic Investment Solutions (SIS), Inc.
  - a. Report on On-Site Visit to PIMCO
  - b. Monthly Performance Review for the Month Ending March 31, 2014

Monthly Return: 3.41% Fiscal YTD: 14.04% Fiscal YTD alpha: 1.62%

Total Fund Value as of March 31, 2014: \$1,735,355,241

- Report on "Top 10 Holdings" of StanCERA Investment Managers as of March31, 2014
- 8. Committee Reports and Recommendations for Action

## STANDING COMMITTEES

- a. Internal Governance Committee
  - Discussion and Action to Approve the Professional Service Contracts – Legal Services

Item 8.a.i. was pulled due to the lack of a committee quorum

## b. Due Diligence Committee

 Discussion and Action to Approve Schedule of the 2014 - 2017 Due Diligence Calendar

Motion was made by Darin Gharat and seconded by Michael O'Neal to approve the Due Diligence Committee recommendation of the 2014-2017 Due Diligence Calendar as presented.

Motion Carried

## 9. Closed Session

Motion was made by Darin Gharat and seconded by Maria DeAnda to enter into Closed Session at 3:05 p.m.

Motion Carried

Darin Gharat left at 3:10 p.m.

 Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets Government Code Section 54956.81

Darin Gharat returned to meeting at 3:45 p.m.

- b. Conference with Legal Counsel Pending Litigation One Case: Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152 Government Code Section 54956.9(d)(4)
- Conference with Legal Counsel Pending Litigation One Case:
   O'Neal et al v. Stanislaus County Employees' Retirement Association
   Stanislaus County Superior Court Case No. 648469
   Government Code Section 54956.9(d)(1)
- d. Conference with Legal Counsel Pending Litigation One Case: Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate District, Case No. H038894 Government Code Section 54956.9(d)(1)

Jim DeMartini Left Meeting at 3:58 p.m. Jeff Grover Left Meeting at 4:06 p.m.

Motion was made by Jason Gordo and seconded by Darin Gharat to enter into Open Session at 4:12 p.m.

Motion Carried

Nothing to report out at this time

- 10. Members' Forum (Information and Future Agenda Requests Only)
- 11. Adjournment

Meeting adjourned at 4:14 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:

FRED A. SILVA, GENERAL LEGAL COUNSEL

Fred A. Silva, General Legal Counsel



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## PLEASE POST FOR EMPLOYEE VIEWING

## **BOARD OF RETIREMENT MINUTES OF SPECIAL MEETING**

May 7, 2014

Members Present:

Donna Riley, Mike Lynch, Darin Gharat

and Jim DeMartini

**Members Present** 

Joan Clendenin, Alternate Retiree Representative

Members Absent:

Michael O'Neal, Maria De Anda, Gordon Ford, Jeff Grover, and

Jason Gordo

Staff Present:

Rick Santos, Executive Director

Kellie Gomes, Executive Board Secretary Kathy Herman, Operations Manager

Dawn Lea, Benefits Manager

Others Present:

Fred Silva, General Legal Counsel

Meeting Called to Order

Meeting called to order at 2:07 p.m. by Darin Gharat.

- Roll Call
- 3. Announcements

None

4. Public Comment

None

- Closed Session
  - Discussion and Action Regarding Raven Capital Management LLC Request to Modify the Limited Partnership Agreement Government Code Section 54956.81

Motion was made by Donna Riley and seconded by Mike Lynch to enter into Closed Session at 2:08 p.m.

Motion Carried

Motion was made by Donna Riley and seconded by Joan Clendenin to enter into Open Session at 2:19 p.m.

## 5. Closed Session(Cont.)

**Motion Carried** 

Nothing to report out at this time

6. Members' Forum (Information and Future Agenda Requests Only)

None

## 7. Adjournment

Meeting adjourned at 2:20 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:

FRED A. SILVA, GENERAL LEGAL COUNSEL

Fred A. Silva, General Legal Counsel

StanCERA Investment Managers Peer Ranking **Total Fund**Taken From SIS Quarterly Investment Performance Analysis Reports
12/31/2010 through 3/31/2014

12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2014

1 Quarter 1 Year Over 3 years Over 5 years

16	45	68	85	30	16	69	5	27	13	38	14	14	63
19	22	30	77	85	70	62	12	5	6	22	13	12	13
38	13	16	8	14	10	23	21	28	27	14	9	10	15
41	47	38	59	54	43	41	62	61	12	8	2	3	3

Note: Ranking 1 is highest & 100 lowest

### StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 1 Quarter Taken From SIS Quarterly Investment Performance Analysis Reports 12/31/2010 through 3/31/2014

9/30/2010 12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 3/31/2014 12/31/2013 3/31/2014 

n/a

S&P 500	51	53	60	53	30
BlackRock 1,000 G	50	53	36	52	30
Delaware	24	87	27	26	7
BlackRock 1,000 V	65	44	59	57	35
Dodge & Cox	44	21	73	38	73
Legato	69	52	63	27	56
Capital Prospects	31	67	43	50	37
LSV	71	28	12	71	61
Pyramis	36	22	56	71	61
Dodge & Cox FI	72	8	22	71	90
Pimco	25	91	63	23	13
BlackRock US Real Estate	n/a	n/a	n/a	n/a	n/a
nvesco		29	60	42	99

Managers in red no longer managing funds

Note: Ranking 1 is highest & 100 lowest

## StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 1 Year

Taken From SIS Quarterly Investment Performance Analysis Reports 12/31/2010 through 3/31/2014

9/30/2010 12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2014

S&P 500
BlackRock 1,000 G
Delaware
BlackRock 1,000 V
Dodge & Cox
Legato
Capital Prospects
LSV
Pyramis
Dodge & Cox FI
Pimco
BlackRock US Real Estate
Invesco
Research Affiliates

47	46	55	52	32	28	35	34	24	16	18	29	63	58	66
n/a	47	47	49	29	23	34	27	37	53	37	37	63	56	63
13	55	52	35	16	2	8	4	24	36	29	57	13	39	41
50	59	68	64	44	30	50	26	19	30	17	44	15	59	61
83	23	41	39	63	83	81	55	4	3	7	29	3	15	17
66	69	71	60	56	61	58	35	34	24	16	28	28	41	53
40	43	39	42	34	42	56	37	35	9	9	68	29	53	47
34	47	25	35	46	48	54	78	64	75	69	53	54	39	40
28	22	26	37	60	34	35	37	80	52	35	40	52	61	80
45	21	22	27	70	89	72	77	12	9	20	7	4	3	4
n/a	56	59	56	30	14	25	19	55	54	28	74	63	89	87
n/a	n/a	п/а	n/a	5.7										
11	8	11	15	94	95	76	76	n/a						
n/a	n/a	n/a	n/a	n/a	n/a	100	100	n/a						

Managers in red no longer managing funds

Note: Ranking 1 is highest & 100 lowest

# StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 3 Years Taken From SIS Quarterly Investment Performance Analysis Reports 12/31/2010 through 3/31/2014

9/30/2010 12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/30/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2013

S&P 500
BlackRock 1,000 G
Delaware
BlackRock 1,000 V
Dodge & Cox
Legato
Capital Prospects
LSV
Pyramis
Dodge & Cox Fl
Pimco
BlackRock US Real Esta

60	62	62	57	52	50	56	44	20	11	18	16	48	50	55
n/a	29	63	39	39										
54	68	60	26	15	6	11	12	4	7	4	5	13	5	6
n/a	41	15	47	45										
62	65	61	60	46	39	35	62	55	44	50	23	3	17	17
n/a	n/a	n/a	n/a	n/a	61	62	58	60	59	53	54	39	40	30
n/a	n/a	n/a	n/a	n/a	64	66	48	42	21	22	34	32	30	35
52	39	34	29	26	17	23	34	49	57	57	71	60	70	74
45	48	39	54	38	36	34	34	67	65	74	72	67	68	80
27	16	11	15	17	32	20	38	31	40	39	17	9	12	13
n/a	n/a	n/a	n/a	n/a	n/a	п/а	n/a	n/a	n/a	n/a	45	52	52	58
n/a														

Note: Ranking 1 is highest & 100 lowest

## StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 5 Years

Taken From SIS Quarterly Investment Performance Analysis Reports 12/31/2010 through 3/31/2014

9/30/2010 12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2012 3/31/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2014

S&P 500
BlackRock 1,000 G
Delaware
BlackRock 1,000 V
Dodge & Cox
Legato
Capital Prospects
LSV
Pyramis
Dodge & Cox FI
Pimco
BlackRock US Real Estate

67	68	66	64	60	61	58	54	33	38	29	16	55	48	36
n/a	63	n/a	n/a											
n/a	n/a	n/a	n/a	43	34	32	22	21	23	16	11	13	10	14
n/a	15	n/a	n/a											
70	71	75	69	72	73	73	65	73	71	55	50	3	17	13
n/a	53													
n/a	п/а	45	46											
40	31	35	40	48	42	39	56	74	67	62	60	34	19	18
n/a	n/a	n/a	34	34	24	27	26	60	68	71	64	74	71	72
25	16	18	21	36	39	27	33	25	15	8	9	6	9	8
n/a														
n/a														

Note: Ranking 1 is highest & 100 lowest



Le-ga-to

(adj. & adv.) smooth, connected; without breaks

DEDICATED TO DISCOVERING THE FINEST ENTREPRENEURIAL INVESTMENT MANAGER TALENT

# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**PRESENTATION** 

May 27, 2014

Legato Capital Management LLC 111 Pine Street Suite #1700 San Francisco, CA 94111 General Office: (415) 821-8585

Investment Office: (415) 821-8586

Fax: (877) 838-8304

info@legatocm.com



## Biographical Information

Adam S. Lawlor, CFA

lawlor@legatocm.com

Direct line: (415) 821-8561

Mr. Lawlor is a Senior Vice President and a member of the investment committee at Legato Capital Management LLC. Prior to Legato's founding in 2004, he held the position of Director of Manager Research at Cazenave Partners, LLC. From 2000 to 2002, he directed the Investment Consulting Group at Robertson Stephens. From 1995 to 2000, he was a member of the Global Manager Research Group at Callan Associates. Mr. Lawlor has 22 years of investment experience. He received his undergraduate degree from the University of Connecticut, Storrs, where he studied business administration. He is a member of both the CFA Institute and the CFA Society of San Francisco.

## Douglas W. Porter, CFA, CAIA, FRM

porter@legatocm.com Direct line: (415) 821-8564

Mr. Porter is a Senior Vice President and a member of the investment committee at Legato Capital Management LLC. Prior to joining Legato in 2010, he spent seven years as an analyst at Russell Investments, which included positions within Russell's US Equity manager research, multi-asset class portfolio management, institutional consulting and institutional client service teams. From 2001 to 2003, Mr. Porter was an Index Analyst for Russell/Mellon Analytical Services. Mr. Porter has 13 years of investment experience. He received his undergraduate degree from the University of Puget Sound, where he studied business administration. He is a member of the CFA Institute, the CAIA Association and the Global Association of Risk Professionals, where he received certification as a Financial Risk Manager.



## Outline of Presentation

- I. Small Cap Growth Portfolio
- II. Manager Overview

## **Appendices**

- A. Compliance Checklist and Investment Guidelines
- B. Legato Style Classifications
- C. Investment Philosophy and Process



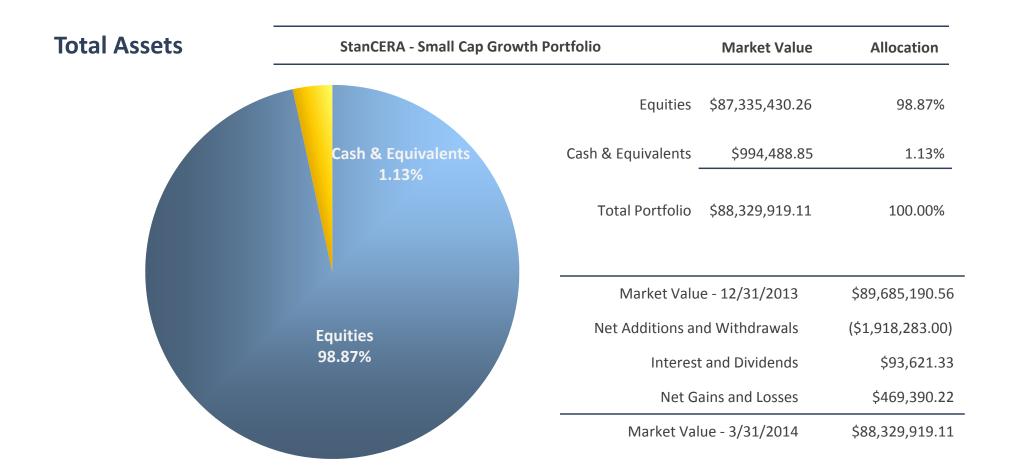
## Section I.

**Small Cap Growth Portfolio** 



## **Investment Objective**

A small cap growth manager of managers (MOM) portfolio that seeks to consistently produce alpha by utilizing entrepreneurial managers with complementary styles. The Portfolio is benchmarked against the Russell 2000® Growth Index.





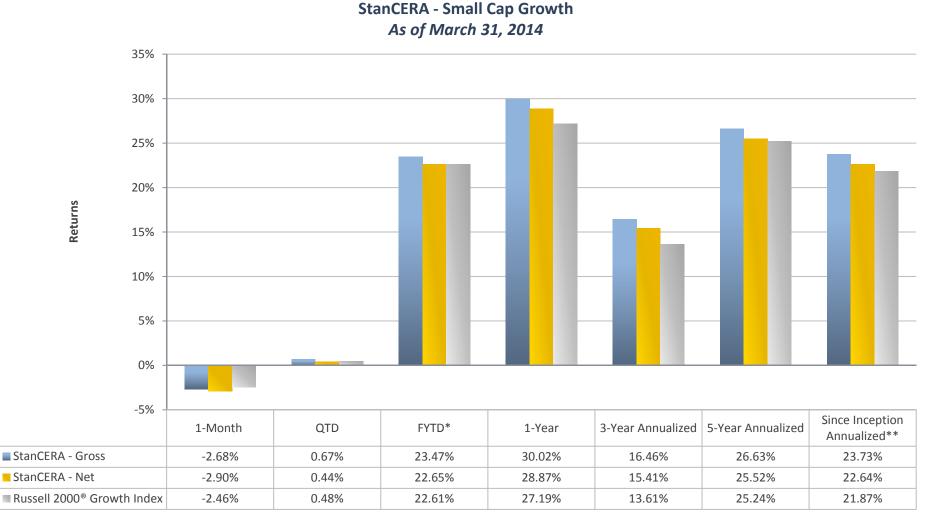
# Manager Allocations As of March 31, 2014

Manager	Style	Sub-Style	Target Weight Allocation	Current Weight	Difference
Riverbridge Partners	Growth	Conservative	24.00%	22.73%	-1.27%
Lee Munder Capital Group	Growth	Pure	20.50%	20.98%	0.48%
Stephens Investment Management Group	Growth	Pure	24.00%	23.04%	-0.96%
CastleArk Management	Growth	Aggressive	17.00%	17.80%	0.80%
EAM Investors	Growth	Aggressive	14.50%	15.45%	0.95%



## **Investment Performance**

For the first quarter, the Portfolio (gross-of-fees) outperformed its benchmark by 0.19%. Since inception, the Portfolio (gross-of-fees) has outperformed its benchmark by 1.86% on an annualized basis.



<sup>\*</sup>Fiscal year-end: June 30, 2014. \*\*Portfolio inception date: December 22, 2008.

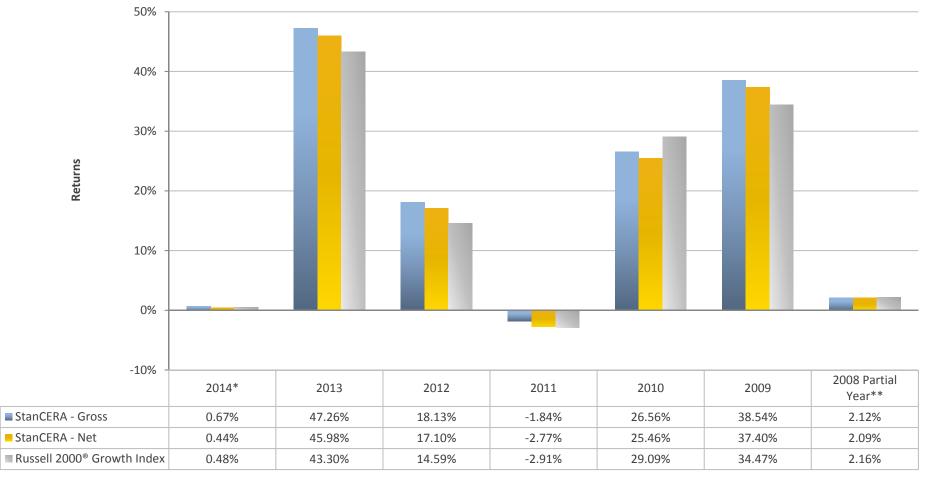
Past performance is no guarantee of future results. Gross-of-fees returns are presented gross of advisory and custodial fees, but net of trading expenses and non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting actual advisory fees incurred by the Portfolio from the gross-of-fees returns. Performance results reflect the reinvestment of dividends and other earnings.



## **Investment Performance**

StanCERA - Small Cap Growth

Calendar Years



<sup>\*</sup>As of March 31, 2014. \*\*Portfolio inception date: December 22, 2008.

Past performance is no guarantee of future results. Gross-of-fees returns are presented gross of advisory and custodial fees, but net of trading expenses and non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting actual advisory fees incurred by the Portfolio from the gross-of-fees returns. Performance results reflect the reinvestment of dividends and other earnings.



# **Total Portfolio & Manager Investment Performance** *As of March 31, 2014*

		Market Value	1-Month	QTD	FYTD*	1-Year	3-Year Annualized	5-Year Annualized	Since Inception Annualized**
Portfolio:	Small Cap Growth - Gross	\$88,329,919.11	-2.68%	0.67%	23.47%	30.02%	16.46%	26.63%	23.73%
	Small Cap Growth - Net		-2.90%	0.44%	22.65%	28.87%	15.41%	25.52%	22.64%
Benchmark:	Russell 2000® Growth Index		-2.46%	0.48%	22.61%	27.19%	13.61%	25.24%	21.87%
	Excess Return - Gross:		-0.22%	0.19%	0.86%	2.83%	2.85%	1.39%	1.86%
Managers - Gross	Riverbridge Partners	\$20,079,851.86	-2.30%	-0.91%	20.76%	26.66%	16.96%	27.49%	24.03%
	Lee Munder Capital Group <sup>†</sup>	\$18,535,079.20	-2.40%	0.96%	20.20%	27.62%	15.23%	-	-
Stephens Inve	estment Management Group	\$20,352,718.58	-3.23%	-1.52%	20.37%	24.59%	15.55%	26.52%	23.86%
	CastleArk Management <sup>†</sup>	\$15,719,296.31	-1.51%	2.76%	30.78%	39.01%	17.46%	-	-
	EAM Investors †	\$13,642,973.16	-4.16%	3.69%	29.29%	37.72%	-	-	-

<sup>\*</sup>Fiscal year-end: June 30, 2014.

<sup>\*\*</sup>Portfolio inception date: December 22, 2008.

<sup>†</sup>Lee Munder Capital Group and CastleArk Management funded on March 5, 2010, EAM Investors funded on April 6, 2011.



# **Total Portfolio & Manager Investment Performance (Estimates)**As of April 30, 2014

		Market Value	1-Month	QTD	YTD	FYTD*	1-Year	3-Year Annualized	5-Year Annualized	Since Inception Annualized**
Portfolio:	Small Cap Growth - Gross	\$82,243,225.58	-6.89%	-6.89%	-6.27%	14.96%	23.27%	12.21%	21.48%	21.69%
Benchmark:	Russell 2000® Growth Index		-5.13%	-5.13%	-4.67%	16.32%	21.46%	10.33%	20.50%	20.31%
	Excess Return - Gross:		-1.76%	-1.76%	-1.60%	-1.36%	1.81%	1.88%	0.98%	1.38%
Managers - Gross:	Riverbridge Partners	\$18,696,107.90	-6.89%	-6.89%	-7.73%	12.44%	20.67%	13.12%	22.07%	21.99%
	Lee Munder Capital Group <sup>†</sup>	\$17,552,068.49	-5.30%	-5.30%	-4.39%	13.82%	22.55%	10.63%	-	-
Stephens Inve	estment Management Group	\$18,814,062.35	-7.56%	-7.56%	-8.96%	11.27%	18.62%	10.80%	21.50%	21.66%
	CastleArk Management <sup>†</sup>	\$14,759,066.27	-6.11%	-6.11%	-3.52%	22.80%	32.02%	13.64%	-	-
	EAM Investors †	\$12,421,920.56	-8.96%	-8.96%	-5.60%	17.71%	26.05%	11.97%	-	-

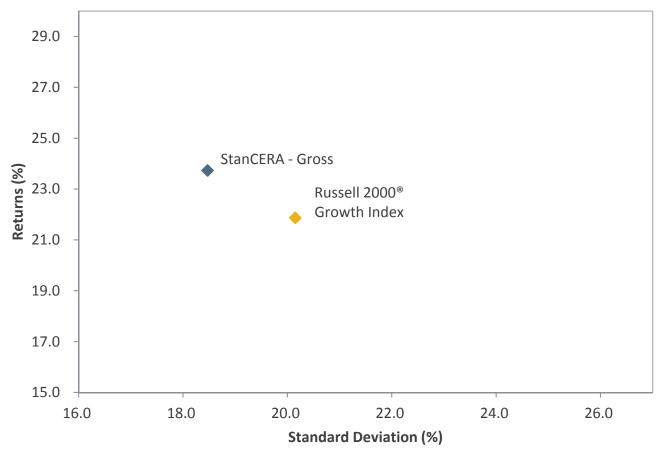
<sup>\*</sup>Fiscal year-end: June 30, 2014.

<sup>\*\*</sup>Portfolio inception date: December 22, 2008.

<sup>†</sup>Lee Munder Capital Group and CastleArk Management funded on March 5, 2010, EAM Investors funded on April 6, 2011.



# Statistics Relative to Russell 2000® Growth Index Since Inception of Portfolio\* As of March 31, 2014



•	Returns (%)	Standard Deviation (%)	Information Ratio	Sharpe Ratio	Excess Return (%)	Beta	Correlation	Tracking Error (%)	Up Market Capture (%)	Down Market Capture (%)	
	23.73	18.47	1.20	1.28	1.86	0.91	0.99	3.27	93.42	91.78	
	21.87	20.15	-	1.08	-	1.00	1.00	-	100.00	100.00	

StanCERA - Gross
Russell 2000® Growth Index



# **Quarterly Attribution Analysis** *As of March 31, 2014*

**Top Contributors/Detractors to Performance:** 

Sector All	ocation	Stock S	election
Positive	Negative	Positive	Negative
Consumer Discretionary	Consumer Staples	Health Care	Information Technology
Health Care	Cash	Consumer Discretionary	Consumer Staples

	PORTFOLIO			RUSSELI	_ 2000® GROV	VTH INDEX	ATTRIBUTION EFFECT			
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total	
Total Portfolio	100.00	0.65	0.65	100.00	0.50	0.50	0.03	0.13	0.15	
Consumer Discretionary	14.49	-2.13	-0.36	15.81	-4.66	-0.78	0.07	0.39	0.46	
Consumer Staples	2.98	-16.17	-0.53	4.69	1.68	0.06	-0.01	-0.57	-0.59	
Energy	3.38	13.90	0.49	3.55	3.02	0.11	0.03	0.35	0.38	
Financials	7.09	-1.47	-0.17	7.33	-0.84	-0.07	-0.01	-0.07	-0.08	
Health Care	22.71	9.43	2.08	22.24	4.21	0.92	0.03	1.11	1.14	
Industrials	15.71	0.93	0.10	15.30	1.64	0.21	0.00	-0.10	-0.10	
Information Technology	27.96	-3.86	-1.06	24.69	-0.05	-0.01	-0.01	-1.07	-1.08	
Materials	1.99	1.47	0.03	5.03	0.57	0.03	-0.01	0.02	0.02	
Telecommunication Services	1.10	5.98	0.05	0.90	1.47	0.01	0.00	0.03	0.03	
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	0.00	0.00	0.00	
Cash	2.46	0.01	0.00	0.00	0.00	0.00	-0.02	0.00	-0.02	
Unassigned	0.14	4.22	0.02	0.34	-78.80	0.00	-0.03	0.02	0.00	

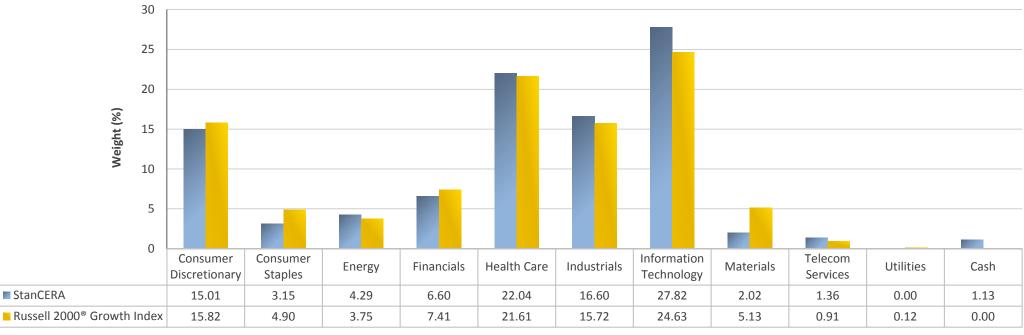
Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.



## **Top Ten Holdings & Sector Allocation**

- The majority of the top holdings contributed positively to relative performance
- The portfolio is overweight in energy, health care, industrials, information technology and telecom services and underweight in consumer discretionary, consumer staples, financials, materials, and utilities.

Security	Sector	Weight in Portfolio (%)	Weight in Index (%)	Contribution to Relative Performance (%)
Cepheid	Health Care	1.51	0.41	0.08
Ultimate Software Group, Inc.	Information Technology	1.23	0.44	-0.06
Portfolio Recovery Associates, Inc.	Financials	1.17	0.34	0.06
CoStar Group, Inc.	Information Technology	1.13	0.63	0.04
United Natural Foods, Inc.	Consumer Staples	1.02	0.41	-0.04
Grand Canyon Education, Inc.	Consumer Discretionary	0.98	0.25	0.04
MAXIMUS, Inc.	Information Technology	0.96	0.36	0.02
Neogen Corporation	Health Care	0.95	0.19	-0.02
Lithia Motors, Inc. Class A	Consumer Discretionary	0.89	0.17	0.01
Synchronoss Technologies, Inc.	Technology	0.89	0.12	0.08
	Total:	10.73	3.32	0.21





# **Top Portfolio Characteristics** *As of March 31, 2014*

- The portfolio is broadly diversified with over 450 securities
- The weighted average and median market cap are higher than the benchmark's
- Valuation: Price/Book is lower, and forward Price/Earnings is higher
- Growth: Long Term EPS Growth is higher
- Quality is lower as measured by Return on Equity

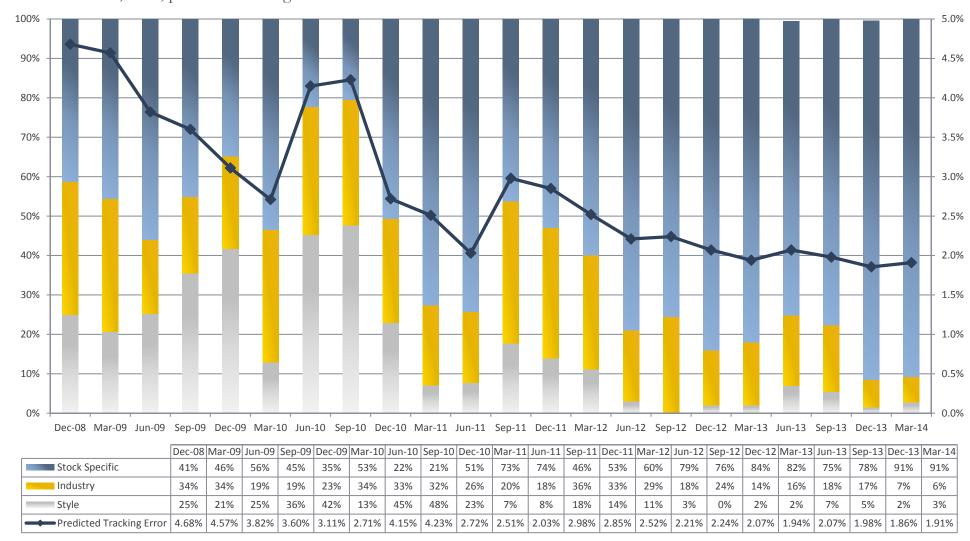
Characteristic	Portfolio	Russell 2000® Growth Index
Number of Securities	456	1,156
Cash (%)	1.13	-
Weighted Average Market Cap (mm)	\$2,164	\$2,101
Median Market Cap (mm)	\$1,363	\$879
Dividend Yield	0.28	0.65
Price to Book	3.64	3.93
Price to Earnings	29.01	24.52
Price to Earnings using FY1 Est	24.64	21.53
EPS Growth (Historical 5 Year)	13.72	15.63
EPS Growth (Est. LTG)	19.44	18.29
PEG Ratio (Forecast 12-Month)	1.41	1.33
Price to Sales	1.76	1.57
Price to CF	11.68	13.41
ROE	6.31	9.13
Axioma- Predicted Beta	1.00	1.00
Predicted Tracking Error (Std Dev)	1.91	-

Source: FactSet/Axioma/Advent.



## **Historical Risk Attribution**

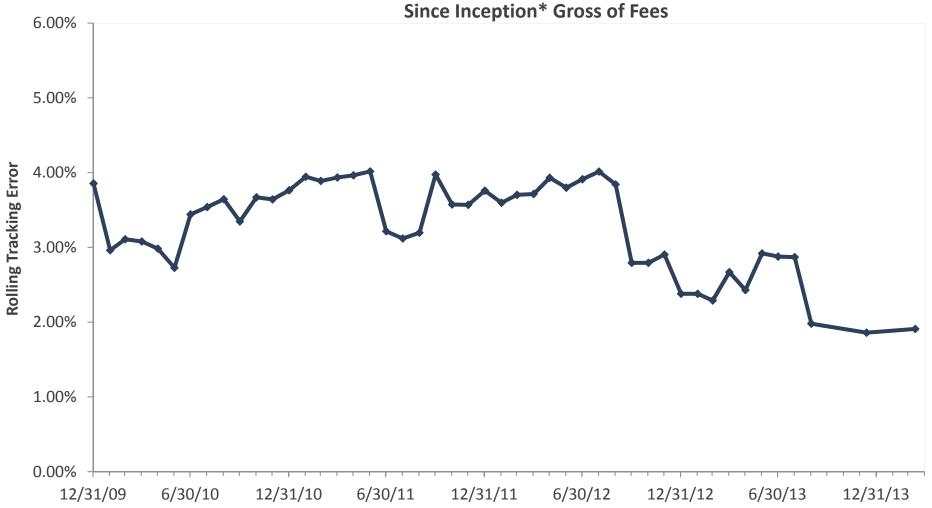
The chart below reflects the tracking error attributable to stock specific, industry and style risk factors. For the quarter ended March 31, 2014, predicted tracking error was 1.91%.





# Realized Tracking Error As of March 31, 2014

Rolling 12 Month Tracking Error Relative to Russell 2000® Growth Index
Since Inception\* Gross of Fees





# Risk Factor Analysis As of March 31, 2014

Summary	Portfolio Exposure	Benchmark Exposure	Active Exposure	Factor Contribution to Total Active Risk (%)
<u>Style</u>	-0.35	-0.49	0.14	2.76
Medium-Term Momentum	0.46	0.30	0.16	1.93
Value	-0.40	-0.46	0.06	0.06
Size	-0.69	-0.69	0.00	0.03
Volatility	0.64	0.59	0.05	0.67
Liquidity	-0.03	-0.04	0.02	-0.07
Short-Term Momentum	-0.25	-0.23	-0.02	-0.04
Leverage	-0.38	-0.32	-0.06	0.17
Market Sensitivity	0.44	0.42	0.02	0.05
Growth	-0.14	-0.08	-0.07	-0.01
Exchange Rate Sensitivity	0.00	0.01	-0.01	-0.02
ndustry	0.99	1.00	-0.01	6.49
Stock Specific				90.75
TOTAL				100.00



## Section II.

**Manager Overview** 



# Manager Overview As of March 31, 2014

Manager	Manager Assets in Strategy (millions)**	Total Manager Assets (millions)**	StanCERA Market Value (millions)*	Number of Holdings in Portfolio*
Riverbridge Partners	\$3,186	\$6,940	\$20.1	49
Lee Munder Capital Group	\$134	\$6,600	\$18.5	71
Stephens Investment Management Group	\$2,400	\$3,400	\$20.4	122
CastleArk Management	\$673	\$4,000	\$15.7	96
EAM Investors	\$495	\$968	\$13.6	248

\*Source: FactSet/Axioma.

<sup>\*\*</sup>Source: Manager.



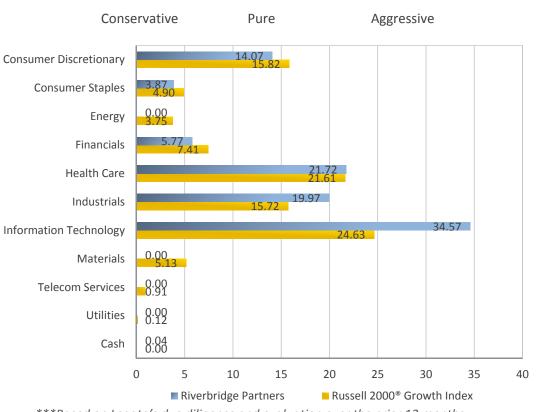
## **Riverbridge Partners - Small Cap Growth**

Year Founded	1987	Investment Process Change*	No
Employee Ownership	43%	Investment Personnel Change*	No
Total Firm Assets	\$6.9 bil.	Business Changes*	No
Total Strategy Assets	\$3.2 bil.	Compliance Violations*	No
Total Firm Employees	31	Operations Violations*	No
Investment Team Members	7		

Characteristic†	Riverbridge Partners	Russell 2000® Growth Index		
Number of Securities	49	1,156		
Weighted Average Market Cap (mm)	\$2,547	\$2,101		
Median Market Cap (mm)	\$1,998	\$879		
Dividend Yield	0.38	0.65		
Price to Book	3.97	3.93		
Price to Earnings	32.65	24.52		
Price to Earnings using FY1 Est	26.59	21.53		
EPS Growth (Historical 5 Year)	15.97	15.63		
EPS Growth (Est. LTG)	18.00	18.29		
PEG using FY1 Est	1.70	1.33		
Price to Sales	2.41	1.57		
Price to CF	20.36	13.41		
ROE	11.64	9.13		
Axioma- Predicted Beta	0.92	1.00		
Predicted Tracking Error (Std Dev)	4.53	-		

<sup>\*</sup>Significant changes or violations based on Legato's evaluation of information provided by the manager.





<sup>\*\*\*</sup>Based on Legato's due diligence and evaluation over the prior 12 months. †Source: FactSet/Axioma/Advent.

<sup>\*\*</sup>Based on Legato Style Classifications, refer to Appendix B.



## **Riverbridge Partners - Small Cap Growth - Attribution Analysis**

## **Top Contributors/Detractors to Performance:**

	Sector Allocation Stock Selection								
Positi	ve		Negative		Positive		Negative		
Consumer Dis	cretionary		Energy		Health Care Information Technology		nology		
Cash	า		ation Technology		ımer Discretic		Consumer Star		
		PORTFOLIC	)	RUSSELI	RUSSELL 2000® GROWTH INDEX		ATTRIBUTION EFFE		СТ
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	100.00	-0.92	-0.92	100.00	0.50	0.50	0.31	-1.73	-1.41
Consumer Discretionary	12.14	-0.16	-0.04	15.81	-4.66	-0.78	0.24	0.57	0.81
Consumer Staples	3.77	-8.65	-0.34	4.69	1.68	0.06	-0.02	-0.39	-0.41
Energy	0.00	0.00	0.00	3.55	3.02	0.11	-0.09	0.00	-0.09
Financials	5.65	-7.07	-0.41	7.33	-0.84	-0.07	0.02	-0.35	-0.33
Health Care	21.91	7.39	1.72	22.24	4.21	0.92	0.05	0.66	0.70
Industrials	18.37	-0.21	-0.10	15.30	1.64	0.21	0.03	-0.35	-0.32
Information Technology	35.81	-5.19	-1.75	24.69	-0.05	-0.01	-0.03	-1.86	-1.88
Materials	0.00	0.00	0.00	5.03	0.57	0.03	0.00	0.00	0.00
Telecommunication Services	0.00	0.00	0.00	0.90	1.47	0.01	-0.01	0.00	-0.01
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	0.00	0.00	0.00
Cash	2.36	0.01	0.00	0.00	0.00	0.00	0.12	0.00	0.12

Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.

Neutral

Outperformed



## Lee Munder Capital Group - Small Cap Growth

**Product** 

Role in

Portfolio\*\*

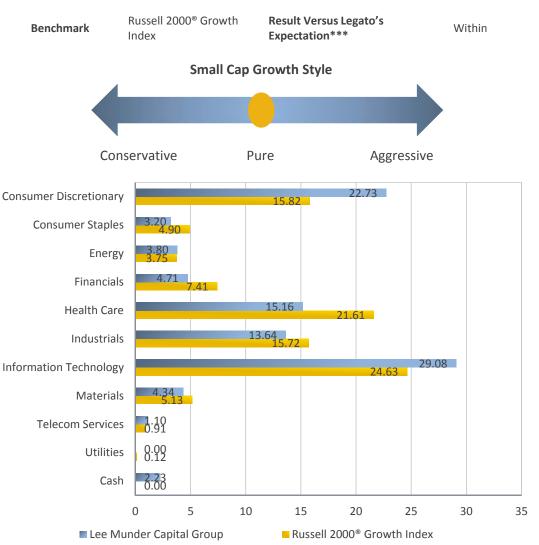
Small Cap Growth

Growth - Pure

Year Founded	2000	Investment Process Change*	No
Employee Ownership	43%	Investment Personnel Change*	No
Total Firm Assets	\$6.6 bil.	Business Changes*	No
Total Strategy Assets	\$134 mil.	Compliance Violations*	No
Total Firm Employees	59	Operations Violations*	No
Investment Team Members	3		

Characteristic†	Lee Munder Capital Group	Russell 2000® Growth Index
Number of Securities	71	1,156
Weighted Average Market Cap (mm)	\$2,255	\$2,101
Median Market Cap (mm)	\$1,898	\$879
Dividend Yield	0.25	0.65
Price to Book	3.25	3.93
Price to Earnings	23.47	24.52
Price to Earnings using FY1 Est	20.07	21.53
EPS Growth (Historical 5 Year)	14.32	15.63
EPS Growth (Est. LTG)	21.14	18.29
PEG using FY1 Est	1.01	1.33
Price to Sales	0.91	1.57
Price to CF	11.21	13.41
ROE	5.82	9.13
Axioma- Predicted Beta	0.97	1.00
Predicted Tracking Error (Std Dev)	4.45	-

<sup>\*</sup>Significant changes or violations based on Legato's evaluation of information provided by the manager.



Overall Market Conditions\*\*\*

**Actual Performance Result\*\*\*** 

<sup>\*\*</sup>Based on Legato Style Classifications, refer to Appendix B.

<sup>\*\*\*</sup>Based on Legato's due diligence and evaluation over the prior 12 months. †Source: FactSet/Axioma/Advent.



## Lee Munder Capital Group - Small Cap Growth - Attribution Analysis

**Top Contributors/Detractors to Performance:** 

	Sector Allocation			Stock Selection					
Positi	ve		Negative		Positive		Negative		
Energ	gy		Cash		Health Care		Consumer Stap	oles	
Health	Care		Financials		Industrials		Financials		
		PORTFOLI	)	RUSSELI	_ 2000® GROV	VTH INDEX	ATT	RIBUTION EFFE	СТ
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	100.00	0.93	0.93	100.00	0.50	0.50	-0.13	0.57	0.43
Consumer Discretionary	20.61	-5.02	-0.88	15.81	-4.66	-0.78	-0.04	-0.01	-0.05
Consumer Staples	3.42	-42.62	-2.00	4.69	1.68	0.06	-0.01	-1.99	-2.01
Energy	2.59	6.83	0.39	3.55	3.02	0.11	0.10	0.09	0.18
Financials	7.94	-5.05	-0.51	7.33	-0.84	-0.07	-0.05	-0.34	-0.38
Health Care	16.71	12.14	2.31	22.24	4.21	0.92	0.04	1.42	1.46
Industrials	11.23	6.78	0.73	15.30	1.64	0.21	0.02	0.55	0.57
Information Technology	28.67	1.65	0.44	24.69	-0.05	-0.01	-0.02	0.46	0.44
Materials	4.20	6.14	0.26	5.03	0.57	0.03	0.00	0.22	0.23
Telecommunication Services	0.82	23.74	0.20	0.90	1.47	0.01	0.00	0.17	0.17
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	0.00	0.00	0.00
Cash	3.82	0.01	0.00	0.00	0.00	0.00	-0.18	0.00	-0.18
Unassigned	0.00	0.00	0.00	0.34	-78.80	0.00	0.00	0.00	0.00

Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.

Unfavorable



## **Stephens Investment Management Group - Small Cap Growth**

**Product** 

Information Technology

Materials

Utilities

Cash

**Telecom Services** 

Small Cap Growth

0.54

5

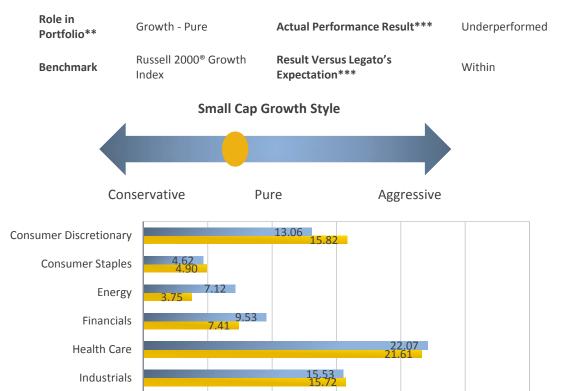
1.45

0.00

Year Founded	2005	Investment Process Change*	No
Employee Ownership	20%	Investment Personnel Change*	No
Total Firm Assets	\$3.4 bil.	Business Changes*	No
Total Strategy Assets	\$2.4 bil.	Compliance Violations*	No
Total Firm Employees	15	Operations Violations*	No
Investment Team Members	6		

Characteristic†	Stephens Investment Management Group	Russell 2000® Growth Index
Number of Securities	122	1,156
Weighted Average Market Cap (mm)	\$2,277	\$2,101
Median Market Cap (mm)	\$1,854	\$879
Dividend Yield	0.17	0.65
Price to Book	3.90	3.93
Price to Earnings	36.40	24.52
Price to Earnings using FY1 Est	27.45	21.53
EPS Growth (Historical 5 Year)	15.36	15.63
EPS Growth (Est. LTG)	19.62	18.29
PEG using FY1 Est	1.56	1.33
Price to Sales	2.82	1.57
Price to CF	7.01	13.41
ROE	8.24	9.13
Axioma- Predicted Beta	1.00	1.00
Predicted Tracking Error (Std Dev)	2.95	-

<sup>\*</sup>Significant changes or violations based on Legato's evaluation of information provided by the manager.



Overall Market Conditions\*\*\*

10

15

20

25

30

<sup>\*\*</sup>Based on Legato Style Classifications, refer to Appendix B.

<sup>■</sup> Stephens Investment Management Group ■ Russell 2000® Growth Index \*\*\*Based on Legato's due diligence and evaluation over the prior 12 months. †Source: FactSet/Axioma/Advent.



## **Stephens Investment Management Group - Small Cap Growth - Attribution Analysis**

#### **Top Contributors/Detractors to Performance:**

	Sector Allocation Stock			Stock Selection	Stock Selection				
Posi	tive		Negative		Positive		Negative	2	
Consumer D	iscretionary		Health Care		Energy	I	nformation Tec	hnology	
Ene	ergy		Financials		Financials		Industrial	S	
		PORTFOLI	)	RUSSELI	L 2000® GROV	VTH INDEX	ATT	TRIBUTION EFFE	.CT
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	100.00	-1.49	-1.49	100.00	0.50	0.50	0.08	-2.06	-1.99
Consumer Discretionary	12.71	-6.19	-0.82	15.81	-4.66	-0.78	0.15	-0.16	-0.02
Consumer Staples	4.35	-0.70	-0.04	4.69	1.68	0.06	-0.01	-0.10	-0.11
Energy	6.64	10.55	0.68	3.55	3.02	0.11	0.07	0.46	0.53
Financials	9.74	1.04	0.03	7.33	-0.84	-0.07	-0.04	0.15	0.11
Health Care	21.55	3.63	0.76	22.24	4.21	0.92	-0.10	-0.05	-0.14
Industrials	15.31	-3.65	-0.59	15.30	1.64	0.21	0.00	-0.80	-0.80
Information Technology	25.76	-6.24	-1.59	24.69	-0.05	-0.01	0.01	-1.62	-1.61
Materials	0.54	-11.21	-0.07	5.03	0.57	0.03	0.00	-0.07	-0.08
Telecommunication Services	1.29	14.28	0.15	0.90	1.47	0.01	0.01	0.14	0.14
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	0.00	0.00	0.00
Cash	2.11	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.34	-78.80	0.00	0.00	0.00	0.00

Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.

Favorable



## **CastleArk Management - Small Cap Growth**

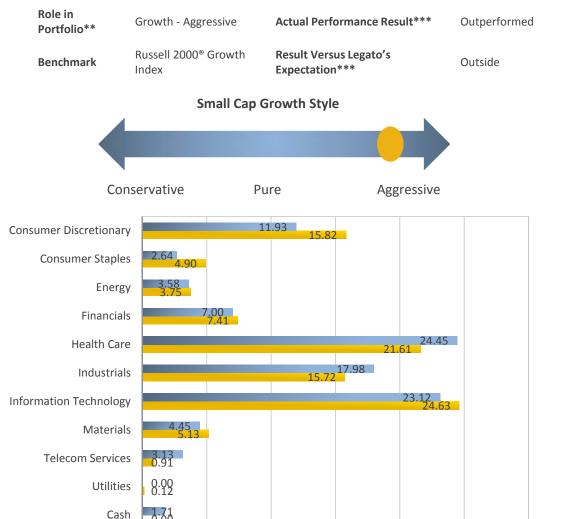
**Product** 

Small Cap Growth

Year Founded	1999	Investment Process Change*	No
Employee Ownership	100%	Investment Personnel Change*	No
Total Firm Assets	\$4.0 bil.	Business Changes*	No
Total Strategy Assets	\$673 mil.	Compliance Violations*	No
Total Firm Employees	25	Operations Violations*	No
Investment Team Members	5		

Characteristic†	CastleArk Management	Russell 2000® Growth Index
Number of Securities	96	1,156
Weighted Average Market Cap (mm)	\$2,192	\$2,101
Median Market Cap (mm)	\$1,511	\$879
Dividend Yield	0.44	0.65
Price to Book	3.37	3.93
Price to Earnings	26.49	24.52
Price to Earnings using FY1 Est	24.98	21.53
EPS Growth (Historical 5 Year)	7.31	15.63
EPS Growth (Est. LTG)	18.50	18.29
PEG using FY1 Est	1.48	1.33
Price to Sales	2.17	1.57
Price to CF	15.89	13.41
ROE	3.49	9.13
Axioma- Predicted Beta	1.01	1.00
Predicted Tracking Error (Std Dev)	3.87	-

<sup>\*</sup>Significant changes or violations based on Legato's evaluation of information provided by the manager.



Overall Market Conditions\*\*\*

10

15

Russell 2000® Growth Index

20

25

5

■ CastleArk Management

30

<sup>\*\*</sup>Based on Legato Style Classifications, refer to Appendix B.

<sup>\*\*\*</sup>Based on Legato's due diligence and evaluation over the prior 12 months. †Source: FactSet/Axioma/Advent.



Unassigned

## **CastleArk Management - Small Cap Growth - Attribution Analysis**

**Sector Allocation** 

0.78

4.22

#### **Top Contributors/Detractors to Performance:**

**Stock Selection** 

Posit	ive		Negative		Positive		Negative		
Consumer	Consumer Staples		Cash	Health Care		Inf	Information Technology		
Information 1	Technology		Materials	Consu	ımer Discretio	onary Telec	communication	Services	
		PORTFOLI	0	RUSSELI	_ 2000® GRO\	WTH INDEX	ATT	СТ	
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	100.00	2.76	2.76	100.00	0.50	0.50	-0.26	2.51	2.26
Consumer Discretionary	13.73	1.66	0.21	15.81	-4.66	-0.78	-0.01	1.05	1.03
Consumer Staples	1.38	5.90	0.13	4.69	1.68	0.06	0.08	-0.07	0.01
Energy	3.06	31.38	0.72	3.55	3.02	0.11	-0.02	0.72	0.70
Financials	6.93	3.96	0.23	7.33	-0.84	-0.07	-0.01	0.30	0.29
Health Care	24.37	9.54	2.24	22.24	4.21	0.92	-0.01	1.27	1.26
Industrials	17.90	0.84	0.08	15.30	1.64	0.21	-0.04	-0.08	-0.13
Information Technology	22.09	-3.34	-0.86	24.69	-0.05	-0.01	0.01	-0.73	-0.72
Materials	3.98	2.68	0.04	5.03	0.57	0.03	-0.04	0.07	0.04
Telecommunication Services	2.89	-3.31	-0.14	0.90	1.47	0.01	0.00	-0.16	-0.16
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	0.00	0.00	0.00
Cash	2.89	0.01	0.00	0.00	0.00	0.00	-0.06	0.00	-0.06

Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.

0.34

-78.80

0.00

-0.15

0.15

0.10

0.00

Favorable

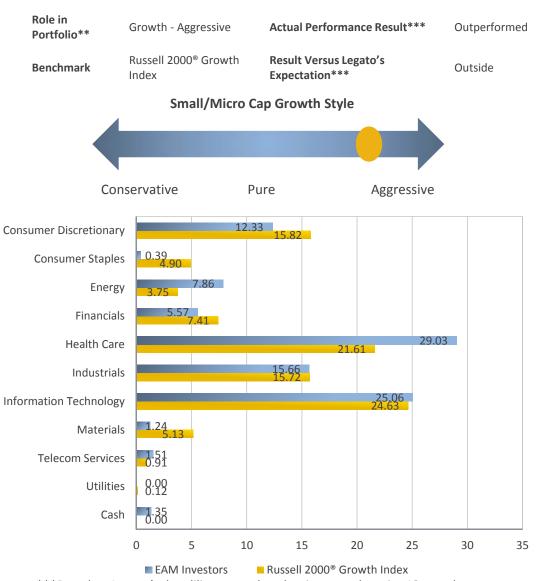


## **EAM Investors - Small/Micro Cap Growth**

Year Founded	2007	Investment Process Change*	No
Employee Ownership	56%	Investment Personnel Change*	No
Total Firm Assets	\$968 mil.	Business Changes*	No
Total Strategy Assets	\$495 mil.	Compliance Violations*	No
Total Firm Employees	10	Operations Violations*	No
Investment Team Members	7		

Characteristic†	EAM Investors	Russell 2000® Growth Index
Number of Securities	248	1,174
Weighted Average Market Cap (mm)	\$1,223	\$2,028
Median Market Cap (mm)	\$997	\$877
Dividend Yield	0.47	0.71
Price to Book	3.84	4.09
Price to Earnings	24.57	26.31
Price to Earnings using FY1 Est	29.17	23.62
EPS Growth (Historical 5 Year)	5.63	11.85
EPS Growth (Est. LTG)	20.59	18.97
PEG using FY1 Est	1.85	1.48
Price to Sales	1.49	0.05
Price to CF	15.29	13.88
ROE	0.21	8.59
Axioma- Predicted Beta	1.13	1.00
Predicted Tracking Error (Std Dev)	4.05	-

<sup>\*</sup>Significant changes or violations based on Legato's evaluation of information provided by the manager.



Overall Market Conditions\*\*\*

Small/Micro Cap

Growth

**Product** 

<sup>\*\*</sup>Based on Legato Style Classifications, refer to Appendix B.

<sup>\*\*\*</sup>Based on Legato's due diligence and evaluation over the prior 12 months. †Source: FactSet/Axioma/Advent.



## **EAM Investors - Small and Micro Cap Growth - Attribution Analysis**

**Top Contributors/Detractors to Performance:** 

	Sector Allocation Stock Selection								
Positi	ve		Negative		Positive		Negative		
Health (	Care	Con	sumer Staples		Health Care	Inf	ormation Techi	nology	
Energ	gy	Consun	ner Discretionary	Consu	ımer Discretio	nary	Consumer Stap	oles	
		PORTFOLIC	)	RUSSELI	_ 2000® GROV	VTH INDEX	ATT	RIBUTION EFFE	CT
Sector	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Sector Allocation	Stock Selection	Total
Total Portfolio	100.00	3.61	3.61	100.00	0.50	0.50	0.06	3.05	3.11
Consumer Discretionary	13.32	0.26	-0.08	15.81	-4.66	-0.78	-0.05	0.74	0.70
Consumer Staples	0.96	-15.14	-0.23	4.69	1.68	0.06	-0.10	-0.17	-0.28
Energy	5.01	19.05	0.79	3.55	3.02	0.11	0.11	0.64	0.75
Financials	4.30	-0.45	-0.07	7.33	-0.84	-0.07	0.04	-0.03	0.02
Health Care	31.92	15.19	4.29	22.24	4.21	0.92	0.20	3.13	3.33
Industrials	15.94	4.66	0.61	15.30	1.64	0.21	-0.04	0.44	0.41
Information Technology	25.28	-5.98	-1.53	24.69	-0.05	-0.01	0.00	-1.55	-1.55
Materials	1.88	-5.61	-0.10	5.03	0.57	0.03	-0.02	-0.12	-0.13
Telecommunication Services	0.81	-2.31	-0.05	0.90	1.47	0.01	-0.02	-0.05	-0.07
Utilities	0.00	0.00	0.00	0.12	0.89	0.00	-0.01	0.00	-0.01
Cash	0.58	0.01	0.00	0.00	0.00	0.00	-0.05	0.00	-0.05
Unassigned	0.00	0.00	0.00	0.34	-78.80	0.00	-0.01	0.00	-0.01

Source: FactSet. FactSet analysis includes cash & equivalents. FactSet returns may differ due to various factors, such as the way FactSet treats large portfolio flows and corporate actions. Numbers may not add up due to rounding.



# Appendix A.

**Compliance Checklist and Investment Guidelines** 



- All securities publically traded on established exchange (including NASDAQ) or registered under SEC Rule 144a
- ☑ Holdings of single issuer < 5% of shares outstanding; maximum weight of 8% of portfolio at time of purchase
- ✓ Market weighted capitalization +/- 33% of Russell 2000® Growth Index
- ☑ Market weighted capitalization +/- 33% of Russell 2000® Index
- ☑ Foreign denominated stocks < 20% of market value
- Sector diversification: maximum 3 times index weight or 25% at time of purchase and of market value at end of each quarter; GICS
- $\square$  Cash < 10%
- ✓ No derivatives



# Appendix B.

**Legato Style Classifications** 



# Legato Style Classifications

### Core

### **Active Quantitative**

The active quantitative strategy is based primarily upon a numerical stock selection process and builds portfolios with an active risk level similar to the average fundamental peer manager.

## Fundamental

The fundamental strategy is executed by an individual or a team who makes decisions based upon their independent due diligence and research.

#### **Enhanced Quantitative**

The enhanced quantitative strategy is based primarily upon a numerical stock selection process and builds portfolios with a relatively low active risk level to the benchmark.

### Growth

#### **Conservative Growth**

The conservative growth strategy is characterized by stocks with lower relative valuations versus the market, peers, and history while also having lower historical and projected revenue growth expectations. It is also referred to as 'Growth At a Reasonable Price (GARP).'.

#### **Pure Growth**

The pure growth strategy is characterized by a portfolio of growth stocks with similar valuation and earnings growth characteristics versus the benchmark.

#### **Aggressive Growth**

The aggressive growth strategy is characterized by stocks with higher historical and projected revenue growth expectations, high institutional ownership, positive price momentum, and higher relative valuation versus the market, peers, and their own history.

### Value

#### **Relative Value**

The relative value strategy is characterized by a portfolio of stocks that trade at relatively small discounts to valuation versus the market, peers, or their own history.

#### **Pure Value**

The pure value strategy is characterized by a portfolio of value stocks with similar valuation and earnings growth characteristics versus the benchmark.

#### **Deep Value**

The deep value strategy is characterized by stocks that have low institutional ownership, negative price momentum, and trade at deep discounts relative to average valuation levels or determined intrinsic value.



# Appendix C.

**Investment Philosophy and Process** 



## Firm Overview

## Assets Under Management (AUM) by Client Type

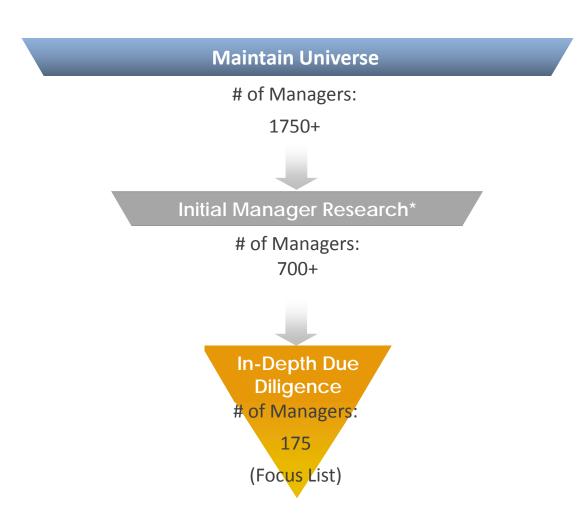
#### As of March 31, 2014

Client Type	Assets	% of AUM
ublic	\$1,505 million	75%
orporate	\$53 million	3%
oundations & Endowments	\$330 million	16%
nsurance	\$106 million	5%
Commingled Fund	\$26 million	1%
TOTAL AUM	\$2,020 million	100%



Idea Generation and Research

Analyze manager universe and develop a list of High Conviction ranked managers





Manager Research

Analysis which includes both quantitative and qualitative insights leads us to ask deeper questions.

#### We look for:

- A disciplined and repeatable investment process
- An organizational structure that supports the investment process
- A talented and dedicated team
- An entrepreneurial culture
- An ability and willingness to take calculated risks





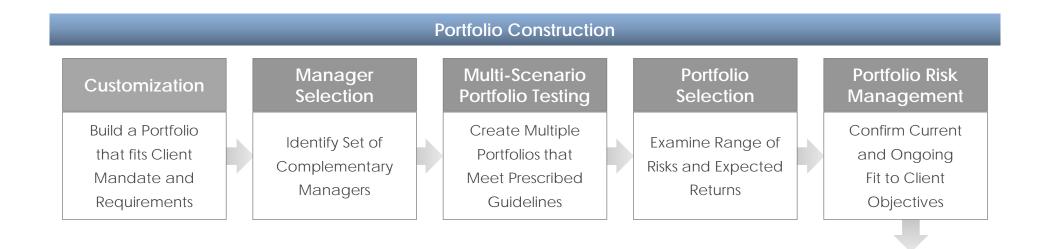
**Conviction Ranking** 

We assign each manager a
Conviction Ranking. Our
conclusions are not the result of
a simple averaging scheme, but
are based on our overall
assessment of an organization's
most powerful drivers.





Portfolio Construction Process



The portfolio construction process is designed to integrate manager selection, asset allocation and risk management to deliver a solution specific to each client's objectives

**Customized Multi-Manager Portfolio** 



Portfolio & Risk Management

#### **Ongoing Portfolio and Risk Management**

### Ongoing Due Diligence

- Portfolio Monitoring
- Manager Meetings
- Revision of Conviction Rankings
- Performance and Risk Attribution
- Formal Quarterly Reviews

### Risk Management

- Changes in Organization and Financial Stability
- Changes in Process and Execution
- Asset Growth Characteristics
- Style and Sector Exposures
- Tracking Error and Overall Risk Exposures

#### Rebalancing Procedures

- Changes in Conviction Ranking
- Target Allocation Drift
- Diversification and Risk Controls

### Sell Discipline

- Inconsistent Implementation of the Investment Process
- Fundamental Changes in Ownership or Investment Team Personnel
- Unexplained Style Drift
- Capacity Constraints at the Individual Manager Level
- Consistent Underperformance





# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## **INVESTMENT PERFORMANCE ANALYSIS**

FIRST QUARTER 2014

# STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000 San Francisco, CA 94104 (415) 362-3484

### Capital Market Review

First Quarter 2014

- Federal Reserve policy uncertainty and inclement weather in the US led to a volatile first quarter in the S&P 500, but the index ended the period with a gain of 1.8%.
- In addition to policy uncertainty, geopolitical risk limited gains in equity markets as the MSCI EM Net Return Index fell 0.4% in the first quarter. However, geopolitical risk and global growth concerns also helped boost demand for U.S. Treasuries.
- Hope for quantitative easing by the European Central Bank has helped drive down peripheral European financing costs and improve equity sentiment. Europe ex-UK equities rose 3.5% on a net return basis.
- The People's Bank of China announced a wider daily currency trading band in March, which has allowed the renminbi to depreciate. The prospects for increased exports and the potential for reform efforts conducive to growth in India and Indonesia may have limited the decline in the MSCI EM Asia Net Return Index.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. With confidence rising among North American institutions, the Global ICI increased 24.4 points during the quarter to 120.2 in March, remaining well above the neutral level of 100.
- For the period ending 3/31/14, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were 10.0% and 2.5%; one-year, 4.2% and 11.0%; three-year, 10.7% and 11.9% and five-year, 28.2% and 5.7%.
- A drop in the 10-year Treasury during Q1 2014 resulted in a rally in the US REIT market, with resulting in REITs doing well in comparison with the broader equity markets. The REIT dividend yield of 3.9% was 199 basis points higher than the 10-year US Treasury yield.
- Following the US REIT market, global REITs finished Q1 2014 with a total return of 4.0%; the UK at 6.7% and Canada at 5.5% were regional leaders.

#### **Executive Performance Summary**

First Quarter 2014

- The composite fund returned 1.5% in the first quarter of 2014 and ranked in the 63<sup>rd</sup> percentile among other public funds (1.6% median). The fund lagged its policy index (1.8%) during this time period. Longer term, the three and five-year returns of 10.0% and 16.8%, ranked above the median among public plans (8.6% and 13.7%, respectively).
- First quarter results were enhanced by the following factors:
  - 1. The Mellon Capital S&P 500 Index Fund returned 1.8% for the quarter. The Fund matched the S&P 500 Index and ranked below the median large cap core manager (2.1%).
  - 2. The BlackRock Russell 1000 Growth Index Fund returned 1.1% for the quarter and matched its benchmark. The large cap growth equity median return is 0.8%.
  - 3. The BlackRock Russell 1000 Value Index Fund (3.0%) and matched its benchmark return and was ahead of its median large cap value manager return of 2.6%.
  - 4. Fund of funds manager Legato gained 0.7% for the quarter and ranked in the 52<sup>nd</sup> percentile among other small cap growth managers (0.7% median). The Russell 2000 Growth Index returned 0.5%. The portfolio was eased by its stock selection in the Consumer Discretionary and Healthcare sectors. EAM appreciated 3.6% while Stephens Investment dropped the most, down 1.5% during the guarter. Over three years, Legato returned above its benchmark (16.4% vs. 13.6%).
  - 5. The Dodge & Cox 2.5% return out-performed its benchmark, the Barclays Aggregate Index (1.8%), and ranked in the top quartile among core bond managers, median return of 2.0%. The portfolio's non-US bonds, Time Warner Cable position and overweight to corporates boosted relative returns. D&C was up 5.3% for three years while its benchmark was up 3.7%.
  - 6. The BlackRock US Real Estate Index Fund matched its benchmark, the DJ US Select RESI (10.3%).

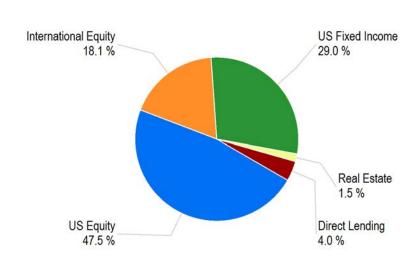
#### **Executive Performance Summary**

First Quarter 2014

- First quarter results were hindered by the following factors:
  - 1. Delaware's return of 0.2% compared unfavorably to the Russell 1000 Growth Index's (1.1%); it ranked in the third quartile among large cap growth managers. Below par Financials (Progressive Ohio) and Info Tech (Verisign, Mastercard) investments decreased relative performance. Over three years, Delaware returned above its benchmark and peer group median.
  - 2. Dodge & Cox-Equity, 2.4%, underperformed the median large cap value manager (2.6%) and the Russell 1000 Value Index (3.0%), ranking its portfolio in the 59<sup>th</sup> percentile among its peers. Below par stock selection in the Industrials sector (ADT, General Electric) and an overweight to Consumer Discretionary dampened results. Three year returns were in front of its benchmark (16.8% vs. 14.8%).
  - 3. Fund of funds manager Capital Prospects was beaten by its benchmark, the Russell 2000 Value Index (1.3% vs. 1.8%) and ranked in the 69<sup>th</sup> percentile among small cap value managers. Negative performance attributed was primarily from its Financials and Consumer Discretionary stock picks. Bernzott trailed during the quarter, at -2.9%. Pacific Ridge contributed the most, at 3.5%. For the three-year period, Capital Prospects was in front of its benchmark (15.5% vs. 12.7%).
  - 4. Pyramis' return of -1.4% was outperformed by the MSCI ACWI ex US Index return of 0.6%. It placed below the median among ACWI ex US growth equity managers (-0.2% median). Financials (Orix, Sumitomo Mitsui Financial), Consumer Discretionary (WPP, Volkswagen), Consumer Staples (Cencosud) and Utilities (underweight) detracted. Its three-year results led the benchmark (5.7% vs. 4.6%).
  - 5. LSV (0.1%) was below par with the MSCI ACWI ex US (0.6%) and ranked 75<sup>th</sup> among ACWI ex US value equity managers (median of 0.8%). LSV carried relatively weak Brazilian and South African investments. Its value tilt was a negative factor. Over three years, LSV (5.5%) surpassed its benchmark (4.6%).
  - 6. PIMCO returned 1.6%, as the Barclays Aggregate Index added 1.8%. The median core bond manager return was 2.0%. PIMCO's underweight to investment-grade corporate bonds, TIPS exposure and underweight to US duration dampened performance. Over three years, the portfolio returned above its benchmark and below its peer group median.
  - 7. Direct Lending investments added 1.7% and was below its target return of 9% per annum or 2.2% per quarter. Quarterly returns for Medley, Raven and White Oak were 0.0%, 1.8% and 4.9%, respectively.

## Asset Allocation Analysis

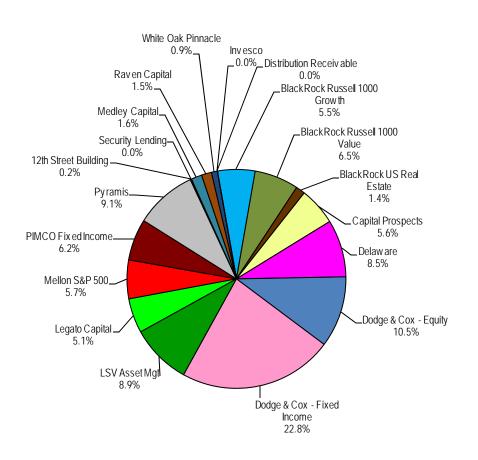
As of March 31, 2014



	Actual \$	Actual %
US Equity	\$821,792,971	47.5%
International Equity	\$313,224,358	18.1%
US Fixed Income	\$501,598,607	29.0%
Opportunistic	\$0	0.0%
Real Estate	\$26,421,516	1.5%
Direct Lending	\$68,450,770	4.0%
Other	(\$353,060)	0.0%
Total	\$1,731,135,163	

## Manager Allocation Analysis – Total Plan

As of March 31, 2014



BlackRock Russell 1000 Growth	\$		
DIACKINGCK INUSSCII 1000 GIOWIII	Ф	95,834,277	5.5%
BlackRock Russell 1000 Value	\$	112,785,294	6.5%
BlackRock US Real Estate	\$	23,649,938	1.4%
Capital Prospects	\$	96,844,453	5.6%
Delaware	\$	146,937,414	8.5%
Dodge & Cox - Equity	\$	182,082,976	10.5%
Dodge & Cox - Fixed Income	\$	395,081,339	22.8%
LSV Asset Mgt	\$	154,897,784	8.9%
Legato Capital	\$	88,329,496	5.1%
Mellon S&P 500	\$	98,979,061	5.7%
PIMCO Fixed Income	\$	106,517,268	6.2%
Pyramis	\$	158,326,574	9.1%
12th Street Building	\$	2,771,436	0.2%
Security Lending	\$	(501,827)	0.0%
Medley Capital	\$	27,398,574	1.6%
Raven Capital	\$	25,638,043	1.5%
White Oak Pinnacle	\$	15,414,153	0.9%
Invesco	\$	142	0.0%
Distribution Receivable	\$	148,767	0.0%
Total	\$ 1	1,731,135,163	100.0%

## Performance Summary

Periods Ending March 31, 2014

	1 QTR		FISCAL YT	D	1 YEAR		2 YEAR		3 YEAR		5 YEAR
Total Fund *	1.5	63	14.0	10	14.5	13	13.1	7	10.0	15	16.8 3
Policy Index 1	1.8	29	12.5	38	12.2	46	11.0	47	8.8	45	15.4 17
InvestorForce Public DB median	1.6		11.9		11.8		10.8		8.6		13.7
US EQUITY MANAGERS											
LARGE CORE											
Mellon S&P 500 - gross of fees	1.8	62	18.4	66	21.9	64	17.9	59	14.7	55	21.2 36
Mellon S&P 500 - net of fees	1.8		18.4		21.8		17.8		14.6		21.1
S&P 500 Index	1.8	62	18.4	66	21.9	64	17.8	59	14.7	55	21.2 38
LARGE GROWTH											
BlackRock Russell 1000 Growth - gross of fees	1.1	43	20.7	63	23.2	58	16.5	48	14.7	39	
BlackRock Russell 1000 Growth - net of fees	1.1		20.7		23.2		16.5		14.7		
Delaware - gross of fees	0.2	62	22.7	41	23.0	58	16.9	44	17.7	6	23.4 14
Delaware - net of fees	0.1		22.2		22.4		16.4		17.1		22.8
Russell 1000 Growth Index	1.1	43	20.7	63	23.2	58	16.5	50	14.6	39	21.7 33
LARGE VALUE											
BlackRock Russell 1000 Value- gross of fees	3.0	33	17.9	61	21.6	65	20.2	38	14.9	45	
BlackRock Russell 1000 Value - net of fees	3.0		17.8		21.6		20.2		14.8		
Dodge & Cox Equity - gross of fees	2.4	59	21.7	17	27.7	14	24.1	7	16.8	17	23.9 13
Dodge & Cox Equity - net of fees	2.3		21.5		27.5		23.9		16.5		23.7
Russell 1000 Value Index	3.0	33	17.8	62	21.6	65	20.2	38	14.8	48	21.8 46
SMALL GROWTH											
Legato Capital - gross of fees	0.7	52	23.5	53	30.0	47	24.2	24	16.4	30	26.6 53
Legato Capital - net of fees	0.7		23.0		29.2		23.4		15.5		25.6
Russell 2000 Growth Index	0.5	54	22.6	60	27.2	71	20.7	59	13.6	69	25.2 69

Rankings: 1=highest, 100=lowest.

<sup>\*</sup> Managers are ranked against the eVestment Alliance (eA) style universes. Asset class composites are ranked against the InvestorForce universes.

<sup>&</sup>lt;sup>1</sup> Effective 12/1/13, Policy Index is 37.3% Russell 1000 / 9.4% Russell 2000 / 18% MSCI ACWI ex US / 29.8% Barclays Aggregate / 1.5% DJ US Select RESI / 4% 9%-Annual.

## Performance Summary

Periods Ending March 31, 2014

	1 QTR		FISCAL YT	D	1 YEAR		2 YEAR		3 YEAR		5 YEAR	
SMALL VALUE												
Capital Prospects - gross of fees	1.3	69	22.1	47	23.7	66	24.3	25	15.5	35	26.4	46
Capital Prospects - net of fees	1.1		21.5		22.8		23.5		14.7		25.5	
Russell 2000 Value Index	1.8	56	19.7	75	22.6	<i>75</i>	20.3	66	12.7	74	23.3	81
US Equity Composite	1.5	69	21.1	19	24.7	20	20.6	8	15.9	7	23.2	17
80% R1000/ 20% R2000	1.9	43	19.6	53	22.9	55	18.8	41	14.6	41	22.5	34
Russell 3000 Index	2.0	32	19.4	61	22.6	64	18.5	53	14.6	37	21.9	55
InvestorForce All DB US Eq Gross Median	1.8		19.7		23.1		18.6		14.3		22.1	
INTERNATIONAL EQUITY MANAGERS												
LSV Asset Mgt - gross of fees	0.1	75	18.4	40	15.6	50	12.4	58	5.5	74	18.9	18
LSV Asset Mgt - net of fees	0.0		18.0		15.0		11.9		5.0		18.2	
Pyramis - gross of fees	-1.4	82	14.2	80	13.2	69	12.0	58	5.7	80	17.0	72
Pyramis - net of fees	-1.5		13.8		12.7		11.5		5.2		16.5	
International Equity Composite	-0.6	89	16.2	59	14.4	51	12.2	50	5.5	61	17.9	18
MSCI ACWI ex US Index	0.6	58	16.2	60	12.8	68	10.8	<i>72</i>	4.6	74	16.0	54
InvestorForce All DB ex-US Eq Gross Median	0.8		16.7		14.4		12.2		5.9		16.2	
US FIXED INCOME MANAGER												
CORE												
Dodge & Cox Fixed - gross of fees	2.5	9	4.5	4	2.7	2	4.3	7	5.3	13	8.2	8
Dodge & Cox Fixed - net of fees	2.4		4.4		2.6		4.2		5.2		8.1	
PIMCO Fixed Income - gross of fees	1.6	82	2.0	87	-0.9	95	2.3	69	4.3	58		
PIMCO Fixed Income - net of fees	1.5		1.7		-1.3		2.0		4.0			
Barclays Aggregate Index	1.8	67	2.3	<i>75</i>	-0.1	75	1.8	85	3.7	85	4.8	85
US Fixed Income Composite	2.3	43	4.0	44	1.9	24	3.9	43	5.0	50	8.1	41
Barclays Aggregate Index	1.8	64	2.3	79	-0.1	67	1.8	87	3.7	84	4.8	87
InvestorForce All DB US Fix Inc Gross Median	2.1		3.4		0.4		3.6		5.0		7.2	

## Performance Summary

Periods Ending March 31, 2014

	1 QTR	FISCAL YTD	1 YEAR	2 YEAR	3 YEAR	5 YEAR
REAL ESTATE						
BlackRock US Real Estate - gross of fees <sup>2</sup>	10.3	5.7	4.4			
BlackRock US Real Estate - net of fees	10.3	5.7	4.3			
DJ US Select RESI TR USD	10.3	5.7	4.4			
12th Street Building	0.0					
DIRECT LENDING						
Medley Capital <sup>3</sup>	0.0	1.7				
Raven Capital <sup>4</sup>	1.8	-3.7				
White Oak Pinnacle <sup>5</sup>	4.9					
Direct Lending Composite	1.7	5.8				
9% Annual	2.2	6.7				

<sup>&</sup>lt;sup>2</sup> Funded on 9/26/2012.

<sup>&</sup>lt;sup>3</sup> Funded on 5/16/2013.

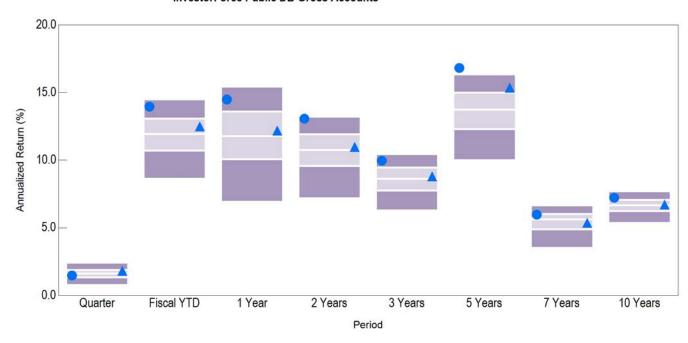
<sup>&</sup>lt;sup>4</sup> Funded on 5/22/2013.

<sup>&</sup>lt;sup>5</sup> Funded on 8/02/2013.

## Total Returns - Total Plan

Periods Ending March 31, 2014

#### InvestorForce Public DB Gross Accounts



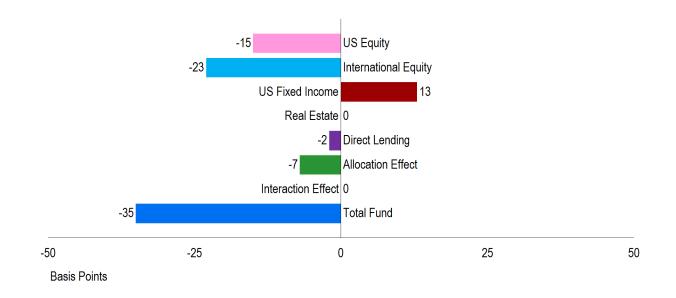
5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Total Fund
Policy Index

2.4		14.5		15.4		13.2		10.4		16.3		6.6		7.7	
1.9		13.1		13.6		11.9		9.5		15.0		6.0		7.1	
1.6		11.9		11.8		10.8		8.6		13.7		5.6		6.7	
1.3		10.7		10.1		9.6		7.8		12.3		4.9		6.3	
8.0		8.6		6.9		7.2		6.3		10.0		3.5		5.4	
216		214		214		207		190		177		166		146	
1.5	(63)	14.0	(10)	14.5	(13)	13.1	(7)	10.0	(15)	16.8	(3)	6.0	(29)	7.2	(20)
1.8	(29)	12.5	(38)	12.2	(46)	11.0	(47)	8.8	(45)	15.4	(17)	5.4	(61)	6.7	(48)

## Performance Attribution - Total Plan

Quarter Ending March 31, 2014



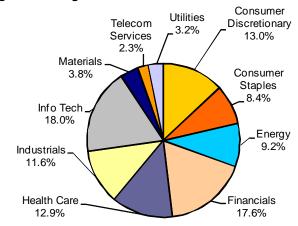
		Attributi	on Summary				
	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
US Equity	1.54%	1.86%	-0.33%	-0.15%	-0.01%	-0.01%	-0.16%
International Equity	-0.65%	0.61%	-1.26%	-0.23%	-0.01%	0.00%	-0.25%
US Fixed Income	2.28%	1.84%	0.44%	0.13%	-0.03%	0.00%	0.10%
Real Estate	10.26%	10.27%	-0.02%	0.00%	-0.02%	0.00%	-0.02%
Direct Lending	1.67%	2.18%	-0.51%	-0.02%	0.00%	0.00%	-0.02%
Total	1.47%	1.82%	-0.35%	-0.28%	-0.07%	0.00%	-0.35%

#### **U.S. MARKETS**

### U.S. Equity – Russell 3000

- Geopolitical risk and valuation concerns led to the outperformance of defensive sectors; utilities rose 9.4% in the first quarter, while healthcare stocks rose 5.7%.
- Consumer discretionary stocks fell 2.1% during the quarter.
- Overall, the Russell 3000 index returned 2.0% during the first quarter; the yearly return was 22.6%.

#### **Ending Sector Weights**

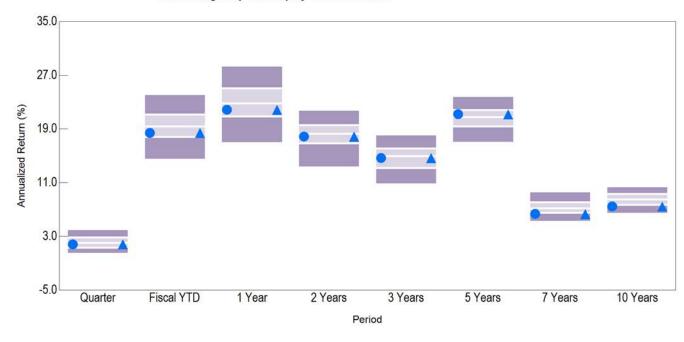


#### Sector Returns (%) Characteristics 35 Quarter 30.5 Div Yield (%) 1.89 ■1 Year 30 27.7 26.1 26.1 P/B Ratio 4.00 25 22.6 22.0 22.0 P/E Ratio 20.11 20 15.6 15 Forward P/E Ratio 16.24 12.1 11.3 9.4 10 Fundamental Beta 0.64 5.7 5.3 5 3.0 2.8 2.2 2.0 1.6 Market Cap - Cap 0.7 0.5 96,140 Wtd (MM\$) 0 -0.2 -2.1 -5 Consumer Consumer Energy Financials Health Care Industrials Info Tech Materials Telecom Utilities Russell 3000 Discretionary Staples Services **Contribution to Return:** Qtr -0.3 0.7 2.0 0.1 0.1 0.5 0.1 0.4 0.1 0.0 0.3 3.3 1.5 3.8 3.7 0.1 0.4 22.6 1 Year 1.1 3.1 4.5 0.9

## Total Returns - Large Cap Core Equity

Periods Ending March 31, 2014

#### eA US Large Cap Core Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

	Mellon S&P 500
1	S&P 500

4.1		24.2		28.4		21.8		18.2		23.9		9.7		10.4	
2.8		21.2		25.1		19.6		16.1		21.8		8.1		9.3	
2.1		19.4		22.9		18.3		15.0		20.8		7.2		8.6	
1.3		17.8		20.9		16.9		13.2		19.4		6.5		7.7	
0.4		14.4		16.9		13.3		10.8		17.0		5.2		6.4	
250		250		250		249		246		233		218		179	
1.8	(62)	18.4	(66)	21.9	(64)	17.9	(59)	14.7	(55)	21.2	(36)	6.4	(80)	7.5	(85)
1.8	(62)	18.4	(66)	21.9	(64)	17.8	(59)	14.7	(55)	21.2	(38)	6.3	(80)	7.4	(88)

## Equity Only Summary Statistics - Mellon S&P 500

Quarter Ending March 31, 2014

#### Characteristics

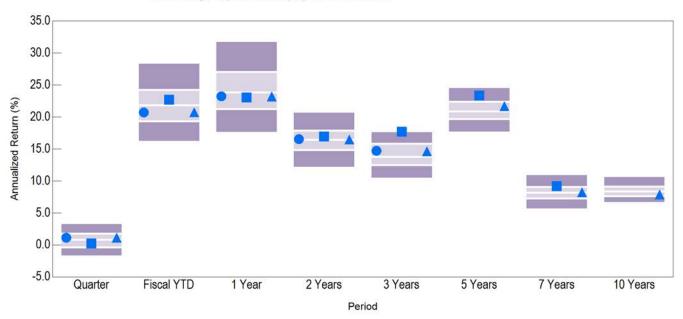
North an affiliation of	626
Number of Holdings 627	
Weighted Avg. Market Cap. (\$B) 97.7	97.7
Median Market Cap. (\$B) 8.4	8.4
Price To Earnings 23.2	22.7
Price To Book 5.9	5.4
Price To Sales 4.0	3.6
Return on Equity (%) 25.1	23.8
Yield (%)	1.6
Beta (holdings; domestic) 1.0	1.0

Top Holdings		Best Performers		Worst Performers	
APPLE	2.9%		Return %		Return %
EXXON MOBIL	2.5%	FOREST LABS. (FRX)	53.7%	BEST BUY (BBY)	-33.3%
GOOGLE 'A'	1.9%	NABORS INDS. (NBR)	45.3%	STAPLES (SPLS)	-27.9%
MICROSOFT	1.9%	TYSON FOODS 'A' (TSN)	31.8%	ADT (ADT)	-25.6%
JOHNSON & JOHNSON	1.7%	HARMAN INTL.INDS. (HAR)	30.4%	INTL.GAME TECH. (IGT)	-22.0%
GENERAL ELECTRIC	1.6%	HELMERICH & PAYNE (HP)	28.8%	CLIFFS NATURAL RESOURCES (CLF)	-21.4%
WELLS FARGO & CO	1.4%	FIRST SOLAR (FSLR)	27.7%	DUN & BRADSTREET DEL. (DNB)	-18.7%
JP MORGAN CHASE & CO.	1.4%	NEWFIELD EXPLORATION (NFX)	27.3%	CELGENE (CELG)	-17.4%
CHEVRON	1.4%	ELECTRONIC ARTS (EA)	26.5%	KANSAS CTY.STHN. (KSU)	-17.3%
BERKSHIRE HATHAWAY 'B'	1.3%	DELTA AIR LINES (DAL)	26.4%	PEABODY ENERGY (BTU)	-15.9%
		SOUTHWEST AIRLINES (LUV)	25.5%	GAMESTOP 'A' (GME)	-15.8%

## Total Returns - Large Cap Growth Equity

Periods Ending March 31, 2014

#### eA US Large Cap Growth Equity Gross Accounts



	Return (	Rank)														
5th Percentile	3.4		28.5		31.8		20.8		17.8		24.6		11.0		10.7	
25th Percentile	1.8		24.2		27.0		17.9		15.9		22.4		9.1		9.1	
Median	0.8		21.8		23.9		16.4		13.8		20.9		8.2		8.4	
75th Percentile	-0.4		19.3		21.2		14.8		12.5		19.7		7.3		7.6	
95th Percentile	-1.8		16.2		17.5		12.1		10.4		17.6		5.6		6.6	
# of Portfolios	268		267		267		262		257		248		228		194	
<ul> <li>BlackRock Russell 1000 Growth</li> </ul>	1.1	(43)	20.7	(63)	23.2	(58)	16.5	(48)	14.7	(39)	-	()	-	()	-	()
Delaware	0.2	(62)	22.7	(41)	23.0	(58)	16.9	(44)	17.7	(6)	23.4	(14)	9.2	(24)		()
Russell 1000 Growth	1.1	(43)	20.7	(63)	23.2	(58)	16.5	(50)	14.6	(39)	21.7	(33)	8.2	(49)	7.9	(69)

## Equity Only Summary Statistics - BlackRock Russell 1000 Growth

Quarter Ending March 31, 2014

#### Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	627	626
Weighted Avg. Market Cap. (\$B)	97.7	97.7
Median Market Cap. (\$B)	8.4	8.4
Price To Earnings	23.2	22.7
Price To Book	5.9	5.4
Price To Sales	4.0	3.6
Return on Equity (%)	25.1	23.8
Yield (%)	1.6	1.6
Beta (holdings; domestic)	1.0	1.0

Top Holdings		Best Performers		Worst Performers	
APPLE	3.9%		Return %		Return %
MICROSOFT	3.5%	MYRIAD GENETICS (MYGN)	63.0%	NU SKIN ENTERPRISES 'A' (NUS)	-39.8%
GOOGLE 'A'	3.1%	FREESCALE SEMICON. (FSL)	52.1%	WEIGHTWATCHERS INTL. (WTW)	-37.6%
INTERNATIONAL BUS.MCHS.	2.0%	AMERICAN AIRLINES GROUP (AAL)	45.0%	3D SYSTEMS (DDD)	-36.3%
VERIZON COMMUNICATIONS	2.0%	FIREEYE (FEYE)	41.2%	NEUSTAR 'A' (NSR)	-34.8%
COCA COLA	1.5%	KEURIG GREEN MOUNTAIN (GMCR)	40.2%	GROUPON (GRPN)	-33.4%
ORACLE	1.5%	TESLA MOTORS (TSLA)	38.6%	BEST BUY (BBY)	-33.3%
QUALCOMM	1.4%	ROYAL GOLD (RGLD)	35.9%	OCWEN FINL. (OCN)	-29.3%
PHILIP MORRIS INTL.	1.4%	MANITOWOC (MTW)	34.9%	HERBALIFE (HLF)	-26.9%
SCHLUMBERGER	1.3%	SIGNET JEWELERS (SIG)	34.8%	TWITTER (TWTR)	-26.7%
		ILLUMINA (ILMN)	34.4%	GNC HOLDINGS CL.A (GNC)	-24.4%

## Equity Only Summary Statistics - Delaware

Quarter Ending March 31, 2014

#### Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	31	626
Weighted Avg. Market Cap. (\$B)	78.2	97.7
Median Market Cap. (\$B)	33.1	8.4
Price To Earnings	29.0	22.7
Price To Book	5.3	5.4
Price To Sales	6.8	3.6
Return on Equity (%)	19.0	23.8
Yield (%)	1.0	1.6
Beta (holdings; domestic)	1.1	1.0

Top Holdings							
VISA 'A'	5.8%						
EOG RES.	5.6%						
MASTERCARD	5.4%						
MICROSOFT	5.3%						
QUALCOMM	4.9%						
WALGREEN	4.7%						
GOOGLE 'A'	4.7%						
CROWN CASTLE INTL.	4.7%						
LIBERTY INTACT.'A'	4.3%						
ADOBE SYSTEMS	4.3%						

Best Performers							
	Return %						
VERIFONE SYSTEMS (PAY)	26.1%						
NOVO NORDISK 'B' ADR 1:1 (NVO)	25.9%						
EOG RES. (EOG)	17.0%						
WALGREEN (WAG)	15.5%						
ALLERGAN (AGN)	11.8%						
YELP CLASS A (YELP)	11.6%						
MICROSOFT (MSFT)	10.4%						
ADOBE SYSTEMS (ADBE)	9.8%						
TERADATA (TDC)	8.1%						
QUALCOMM (QCOM)	6.7%						

Worst Performers	
	Return %
KINDER MORGAN WTS. (KMIW)	-56.7%
CELGENE (CELG)	-17.4%
INTERCONTINENTAL EX.GP. (ICE)	-11.8%
MASTERCARD (MA)	-10.5%
VERISIGN (VRSN)	-9.8%
SALLY BEAUTY HOLDINGS (SBH)	-9.4%
KINDER MORGAN (KMI)	-8.7%
L BRANDS (LB)	-5.9%
NIKE 'B' (NKE)	-5.8%
PROGRESSIVE OHIO (PGR)	-5.5%

# Stanislaus County Employees' Retirement Association

# Equity Sector Attribution - Delaware

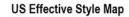
Quarter Ending March 31, 2014

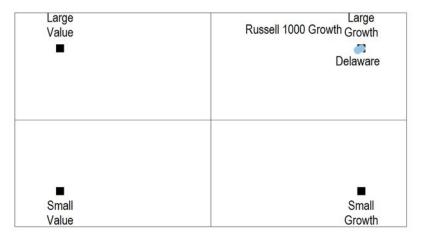
### **Delaware Performance Attribution vs. Russell 1000 Growth**

			Attribution Effects Returns Sector W					
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.1%	-0.1%	0.2%	-0.1%	4.6%	6.7%	8.6%	4.6%
Materials	-0.2%	-0.3%	-0.1%	0.2%	-5.2%	3.2%	1.9%	4.5%
Industrials	0.0%		0.0%			0.9%	0.0%	12.4%
Cons. Disc.	0.0%	-0.1%	0.1%	0.0%	-3.0%	-2.0%	16.0%	19.9%
Cons. Staples	0.7%	1.8%	0.1%	-1.2%	15.5%	0.0%	4.1%	11.9%
Health Care	-0.2%	-0.2%	0.0%	0.0%	1.6%	3.5%	13.3%	12.2%
Financials	-0.7%	-0.3%	-0.1%	-0.3%	-4.7%	0.2%	12.8%	5.6%
Info. Tech	-0.5%	-0.4%	0.1%	-0.2%	0.4%	1.9%	41.6%	27.1%
Telecomm.	0.0%		0.0%			-1.4%	0.0%	1.7%
Utilities	0.0%		0.0%			12.5%	0.0%	0.1%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		1.7%	0.0%
Portfolio	-0.9%	= 0.3%	+ 0.5%	+ -1.7%	0.2%	1.1%	100.0%	100.0%

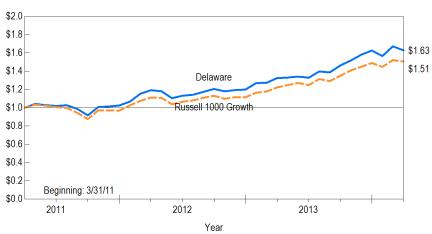
# Return Based Style Analysis - Delaware

3 Years Ending March 31, 2014

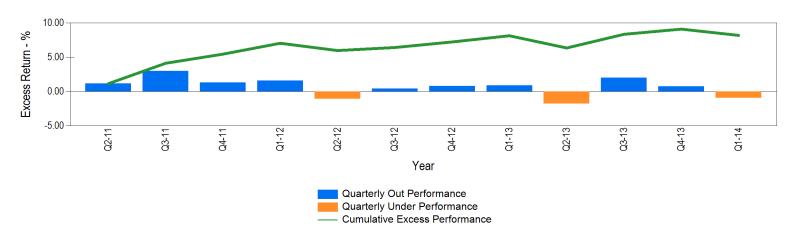




### Growth of a Dollar



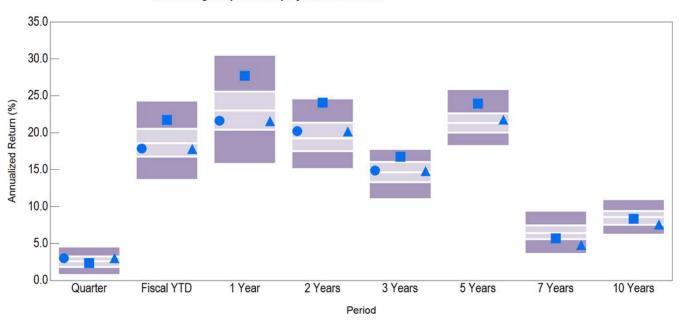
### **Quarterly and Cumulative Excess Performance**



# Total Returns - Large Cap Value Equity

Periods Ending March 31, 2014

### eA US Large Cap Value Equity Gross Accounts



	Return (	Rank)														
5th Percentile	4.6		24.3		30.5		24.6		17.8		25.9		9.4		11.0	
25th Percentile	3.3		20.6		25.6		21.4		16.0		22.6		7.5		9.4	
Median	2.6		18.6		23.0		19.3		14.7		21.3		6.4		8.6	
75th Percentile	1.9		16.8		20.4		17.5		13.3		20.0		5.6		7.6	
95th Percentile	0.7		13.6		15.8		15.1		11.0		18.2		3.6		6.2	
# of Portfolios	311		310		310		309		306		294		279		238	
BlackRock Russell 1000 Value	3.0	(33)	17.9	(61)	21.6	(65)	20.2	(38)	14.9	(45)		()		()		()
Dodge & Cox-Equity	2.4	(59)	21.7	(17)	27.7	(14)	24.1	(7)	16.8	(17)	23.9	(13)	5.7	(74)	8.3	(60)
A Russell 1000 Value	3.0	(33)	17.8	(62)	21.6	(65)	20.2	(38)	14.8	(48)	21.8	(46)	4.8	(89)	7.6	(75)

# Equity Only Summary Statistics - BlackRock Russell 1000 Value

Quarter Ending March 31, 2014

### Characteristics

Portfolio	Russell 1000 Value
666	664
108.1	108.1
6.6	6.6
19.0	18.1
2.2	2.2
2.3	2.2
13.3	13.2
2.2	2.2
1.1	1.1
	666 108.1 6.6 19.0 2.2 2.3 13.3 2.2

Top Holdings	
MICROSOFT	1.8%
GOOGLE 'A'	1.4%
WELLS FARGO & CO	1.1%
VISA 'A'	0.9%
GENERAL ELECTRIC	0.9%
QUALCOMM	0.8%
EBAY	0.8%
MASTERCARD	0.8%
EOG RES.	0.8%
HEWLETT-PACKARD	0.8%

Best Performers	
	Return %
FOREST LABS. (FRX)	53.7%
FREESCALE SEMICON. (FSL)	52.1%
NABORS INDS. (NBR)	45.3%
AMERICAN AIRLINES GROUP (AAL)	45.0%
FIREEYE (FEYE)	41.2%
ROYAL GOLD (RGLD)	35.9%
SIGNET JEWELERS (SIG)	34.8%
TRINITY INDS. (TRN)	32.5%
TYSON FOODS 'A' (TSN)	31.8%
SKYWORKS SLTN. (SWKS)	31.4%

Worst Performers	
	Return %
WEIGHTWATCHERS INTL. (WTW)	-37.6%
BEST BUY (BBY)	-33.3%
STAPLES (SPLS)	-27.9%
TWITTER (TWTR)	-26.7%
ADT (ADT)	-25.6%
DREAMWORKS ANIMATION SKG 'A' (DWA)	-25.2%
LEIDOS HOLDINGS (LDOS)	-23.4%
CLIFFS NATURAL RESOURCES (CLF)	-21.4%
STRATASYS (SSYS)	-21.2%
DUN & BRADSTREET DEL. (DNB)	-18.7%

# Equity Only Summary Statistics - Dodge & Cox Equity

Quarter Ending March 31, 2014

### Characteristics

	Portfolio	Russell 1000 Value
Number of Holdings	69	664
Weighted Avg. Market Cap. (\$B)	107.1	108.1
Median Market Cap. (\$B)	35.9	6.6
Price To Earnings	19.2	18.1
Price To Book	2.5	2.2
Price To Sales	2.4	2.2
Return on Equity (%)	14.5	13.2
Yield (%)	1.9	2.2
Beta (holdings; domestic)	1.3	1.1

Top Holdings		Best Performers		Worst Performers
EWLETT-PACKARD	4.2%		Return %	
VELLS FARGO & CO	4.1%	FOREST LABS. (FRX)	53.7%	ADT (ADT)
CAPITAL ONE FINL.	4.0%	MAXIM INTEGRATED PRDS. (MXIM)	19.7%	SYMANTEC (SYMC)
MICROSOFT	3.9%	DOMTAR (UFS)	19.6%	SPRINT (S)
NOVARTIS 'B' SPN.ADR 1:1	3.2%	BAKER HUGHES (BHI)	18.0%	COACH (COH)
COMCAST 'A'	3.1%	CORNING (GLW)	17.4%	NETAPP (NTAP)
GENERAL ELECTRIC	2.9%	HEWLETT-PACKARD (HPQ)	16.2%	NOKIA SPN.ADR 1:10 (NOK)
GLAXOSMITHKLINE SPN.ADR 1:2	2.9%	MERCK & CO. (MRK)	14.3%	TWENTY-FIRST CENTURY FOX CL.A
SANOFI ADR 2:1	2.9%	BOSTON SCIENTIFIC (BSX)	12.5%	VODAFONE GP.SPN.ADR 1:10 (VOD)
TIME WARNER	2.9%	WEATHERFORD INTL. (WFT)	12.1%	FEDEX (FDX)
		VULCAN MATERIALS (VMC)	11.9%	GOLDMAN SACHS GP. (GS)

# Equity Sector Attribution - Dodge & Cox Equity

Quarter Ending March 31, 2014

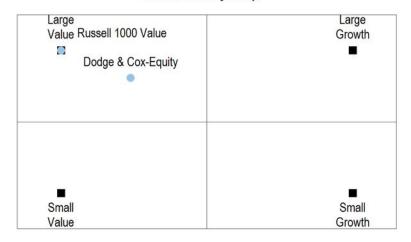
### Dodge & Cox-Equity Performance Attribution vs. Russell 1000 Value

			Attribution Effect	ets	Re	Returns		r Weights
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.7%	0.9%	0.2%	-0.4%	5.8%	-0.2%	7.7%	15.0%
Materials	0.1%	0.1%	0.0%	0.0%	7.2%	3.3%	2.6%	2.9%
Industrials	-0.5%	-0.8%	0.1%	0.2%	-7.9%	-0.1%	8.0%	10.5%
Cons. Disc.	-0.6%	-0.1%	-0.4%	-0.1%	-3.0%	-1.9%	15.2%	6.6%
Cons. Staples	0.0%	-0.1%	0.0%	0.1%	-0.2%	1.8%	2.2%	5.9%
Health Care	0.0%	-0.2%	0.2%	-0.1%	6.8%	8.1%	17.8%	12.9%
Financials	-0.1%	-0.1%	0.0%	0.0%	3.3%	3.5%	23.6%	29.0%
Info. Tech	0.2%	0.1%	0.1%	0.1%	4.6%	3.7%	20.2%	8.9%
Telecomm.	-0.1%	-0.3%	0.0%	0.1%	-10.9%	1.6%	1.4%	2.5%
Utilities	-0.4%		-0.4%			9.7%	0.0%	5.7%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		1.3%	0.0%
Portfolio	-0.7%	= -0.5%	+ -0.2%	+ -0.1%	2.3%	3.0%	100.0%	100.0%

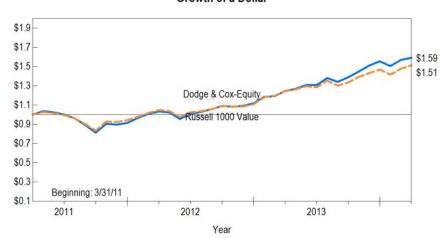
# Return Based Style Analysis - Dodge & Cox Equity

3 Years Ending March 31, 2014

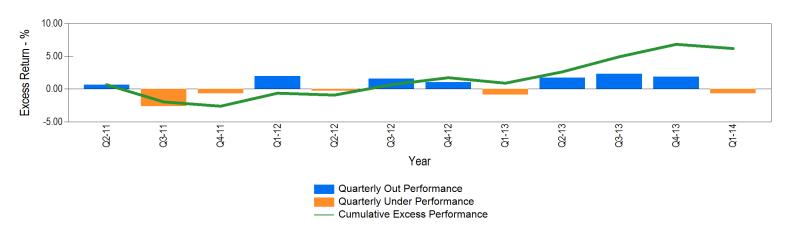
### **US Effective Style Map**



#### Growth of a Dollar



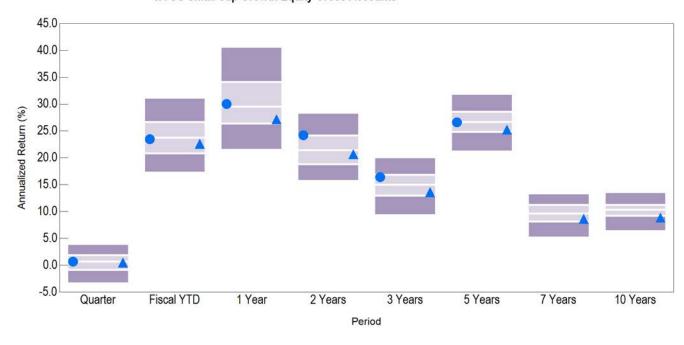
### **Quarterly and Cumulative Excess Performance**



# Total Returns - Small Cap Growth Equity

Periods Ending March 31, 2014

### eA US Small Cap Growth Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Legato CapitalRussell 2000 Growth

3.9		31.2		40.6		28.4		20.1		31.9		13.3		13.6	
1.9		26.7		34.1		24.2		16.9		28.6		11.2		11.2	
0.7		23.8		29.5		21.4		15.0		26.7		9.7		10.4	
-0.9		20.9		26.4		18.9		13.0		24.8		8.2		9.2	
-3.4		17.3		21.5		15.7		9.4		21.2		5.2		6.4	
156		156		156		155		152		147		128		113	
0.7	(52)	23.5	(53)	30.0	(47)	24.2	(24)	16.4	(30)	26.6	(53)		()		()
0.5	(54)	22.6	(60)	27.2	(71)	20.7	(59)	13.6	(69)	25.2	(69)	8.6	(68)	8.9	(80)

# Equity Only Summary Statistics - Legato Capital

Quarter Ending March 31, 2014

### Characteristics

	Portfolio	Russell 2000 Growth
Number of Holdings	456	1,156
Weighted Avg. Market Cap. (\$B)	2.2	2.1
Median Market Cap. (\$B)	1.5	0.9
Price To Earnings	32.2	27.3
Price To Book	5.3	5.1
Price To Sales	4.4	3.2
Return on Equity (%)	14.6	15.1
Yield (%)	0.4	0.4
Beta (holdings; domestic)	1.3	1.4

.5%
.2%
.2%
.1%
.0%
.0%
.0%
.0%
.9%
.9%

Best Performers	
	Return %
INTERCEPT PHARMS. (ICPT)	383.0%
PACIFIC ETHANOL (PEIX)	206.1%
INTERMUNE (ITMN)	127.2%
HORIZON PHARMA (HZNP)	98.4%
GT ADVANCED TECHS. (GTAT)	95.6%
GALECTIN THERAPEUTICS (GALT)	89.5%
PENN VA. (PVA)	85.5%
WLD.WRESTLING ENTM.'A' (WWE)	74.9%
BASIC ENERGY SVS. (BAS)	73.7%
OHR PHARMACEUTICAL (OHRP)	72.7%

Worst Performers	
	Return %
FAIRWAY GROUP HOLDINGS CL.A (FWM)	-57.9%
GERON (GERN)	-55.9%
CONN'S (CONN)	-50.6%
GALENA BIOPHARMA (GALE)	-49.6%
CYTRX (CYTR)	-44.3%
INTERMOLECULAR (IMI)	-43.1%
EXELIXIS (EXEL)	-42.3%
SFX ENTERTAINMENT (SFXE)	-41.2%
EXONE (XONE)	-40.7%
NU SKIN ENTERPRISES 'A' (NUS)	-39.8%

# Stanislaus County Employees' Retirement Association

# Equity Sector Attribution - Legato Capital

Quarter Ending March 31, 2014

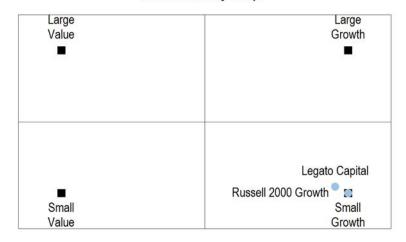
### Legato Capital Performance Attribution vs. Russell 2000 Growth

			Attribution Effects Returns					
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.4%	0.4%	0.0%	0.0%	15.0%	3.7%	3.4%	3.8%
Materials	0.0%	0.0%	0.0%	0.0%	1.4%	0.6%	2.1%	5.1%
Industrials	-0.2%	-0.2%	0.0%	0.0%	0.6%	1.6%	15.8%	15.4%
Cons. Disc.	0.5%	0.5%	0.1%	-0.1%	-1.9%	-4.7%	15.0%	16.7%
Cons. Staples	-0.6%	-0.8%	0.0%	0.3%	-15.5%	1.7%	3.0%	4.8%
Health Care	0.6%	0.6%	0.0%	0.0%	5.9%	3.2%	21.1%	21.2%
Financials	-0.2%	-0.1%	0.0%	0.0%	-2.4%	-1.0%	8.0%	7.3%
Info. Tech	-1.0%	-0.9%	0.0%	-0.1%	-3.6%	-0.1%	28.4%	24.6%
Telecomm.	0.0%	0.0%	0.0%	0.0%	4.3%	1.8%	0.9%	0.9%
Utilities	0.0%		0.0%			0.9%	0.0%	0.1%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		2.2%	0.0%
Portfolio	-0.5%	= -0.5%	+ -0.1%	+ 0.0%	-0.2%	0.3%	100.0%	100.0%

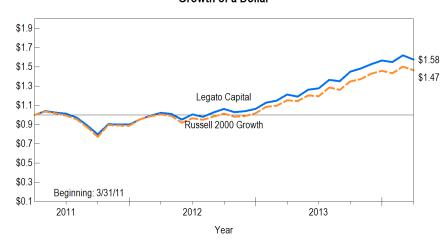
# Return Based Style Analysis - Legato Capital

3 Years Ending March 31, 2014

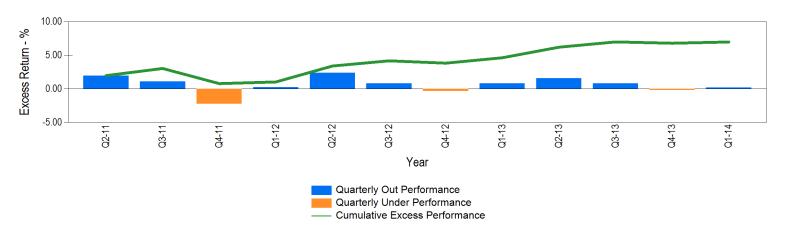
U.S. Effective Style Map



#### Growth of a Dollar



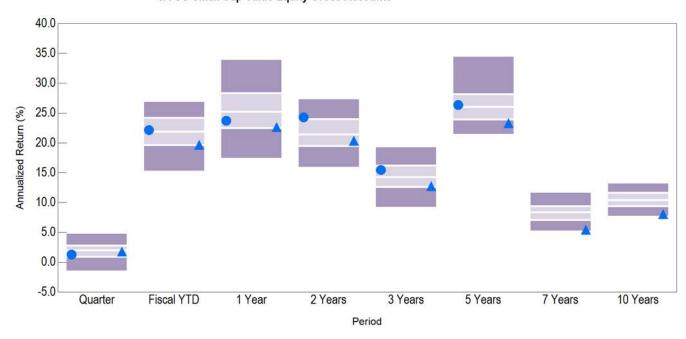
### **Quarterly and Cumulative Excess Performance**



# Total Returns - Small Cap Value Equity

Periods Ending March 31, 2014

### eA US Small Cap Value Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Capital ProspectsRussell 2000 Value

Return (	Rank)															
4.9		27.0		34.0		27.4		19.4		34.6		11.8		13.4		_
2.8		24.3		28.3		24.0		16.2		28.2		9.4		11.7		
2.0		21.9		25.2		21.4		14.3		26.1		8.4		10.4		
0.9		19.7		22.5		19.5		12.6		23.9		7.1		9.4		
-1.5		15.2		17.3		15.8		9.1		21.4		5.2		7.7		
192		192		192		191		189		181		161		144		
1.3	(69)	22.1	(47)	23.7	(66)	24.3	(25)	15.5	(35)	26.4	(46)		()		()	
1.8	(56)	19.7	(75)	22.6	(75)	20.3	(66)	12.7	(74)	23.3	(81)	5.4	(93)	8.1	(94)	

# Equity Only Summary Statistics - Capital Prospects

Quarter Ending March 31, 2014

#### Characteristics

	Portfolio	Russell 2000 Value
Number of Holdings	310	1,374
Weighted Avg. Market Cap. (\$B)	2.2	1.7
Median Market Cap. (\$B)	1.6	0.6
Price To Earnings	22.6	20.3
Price To Book	2.7	1.8
Price To Sales	2.0	2.4
Return on Equity (%)	13.1	7.7
Yield (%)	1.6	1.7
Beta (holdings; domestic)	1.4	1.4

Top Holdings	
HILLENBRAND	1.6%
BELDEN	1.3%
REGAL BELOIT	1.2%
LITTELFUSE	1.2%
MB FINL.	1.0%
IBERIABANK	1.0%
MEREDITH	1.0%
BROADRIDGE FINL.SLTN.	1.0%
POLYONE	0.9%
FIRST AMER.FINL.	0.9%

Best Performers	
	Return %
GT ADVANCED TECHS. (GTAT)	95.6%
KEYW HOLDING (KEYW)	39.2%
MATRIX SERVICE (MTRX)	38.3%
NORDION (NYS) (NDZ)	35.7%
LEXMARK INTL. (LXK)	31.2%
LAWSON PRODUCTS (LAWS)	31.2%
LYDALL (LDL)	29.8%
ENPRO INDS. (NPO)	26.1%
COMSTOCK RES. (CRK)	25.7%
PATTERSON UTI EN. (PTEN)	25.5%

Worst Performers	
	Return %
WEIGHTWATCHERS INTL. (WTW)	-37.6%
DIGITALGLOBE (DGI)	-29.5%
OCWEN FINL. (OCN)	-29.3%
MAGNACHIP SEMICONDUCTOR (MX)	-28.5%
GENTIVA HLTH.SVS. (GTIV)	-26.5%
MERCER INTL. (MERC)	-24.8%
ALTISOURCE PRTF.SLTN. (ASPS)	-23.3%
INTL.GAME TECH. (IGT)	-22.0%
FTI CONSULTING (FCN)	-19.0%
TRI POINTE HOMES (TPH)	-18.6%

# Equity Sector Attribution - Capital Prospects

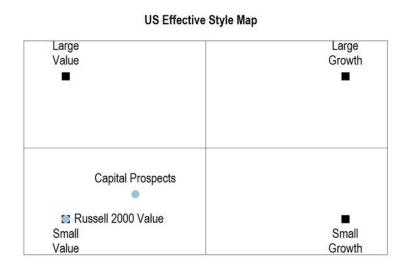
Quarter Ending March 31, 2014

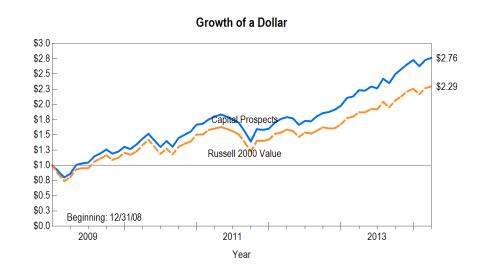
### Capital Prospects Performance Attribution vs. Russell 2000 Value

		oup.iu. i i oop	Attribution Effec	ts	Re	Returns		r Weights
	Total Effects	Selection Effect	Allocation Effect	Interaction Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.1%	0.1%	-0.1%	0.0%	8.6%	6.1%	5.8%	7.2%
Materials	-0.1%	0.0%	0.0%	0.0%	0.2%	1.2%	7.5%	4.7%
Industrials	-0.3%	-0.1%	-0.1%	-0.1%	-0.9%	0.0%	19.8%	13.4%
Cons. Disc.	-0.5%	-0.2%	-0.2%	-0.1%	-2.8%	-0.9%	17.2%	10.6%
Cons. Staples	0.1%	0.1%	0.0%	0.0%	4.8%	2.4%	2.7%	2.7%
Health Care	0.3%	0.2%	0.0%	0.0%	6.8%	2.1%	5.6%	4.7%
Financials	-0.3%	-0.6%	0.0%	0.2%	0.4%	1.9%	22.6%	39.2%
Info. Tech	0.1%	0.1%	0.0%	0.0%	2.4%	1.5%	13.1%	10.7%
Telecomm.	0.0%		0.0%			4.9%	0.0%	0.6%
Utilities	0.0%	0.2%	-0.1%	-0.1%	8.6%	5.5%	2.5%	6.1%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		3.4%	0.0%
Portfolio	-0.8%	= -0.2%	+ -0.6%	+ -0.1%	1.0%	1.8%	100.0%	100.0%

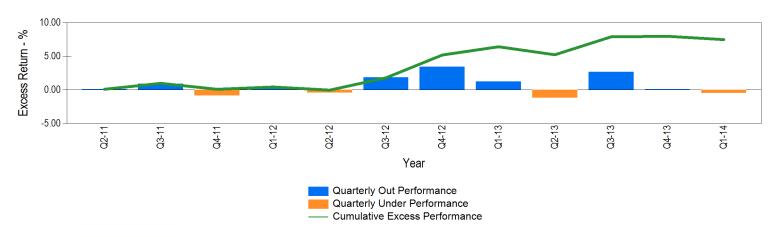
# Return Based Style Analysis - Capital Prospects

3 Years Ending March 31, 2014





### **Quarterly and Cumulative Excess Performance**



10.1

5.8

4.8

2.6

0.9

38

3.1

2.2

(80)

(72) (84) 12.3

10.3

9.1

7.4

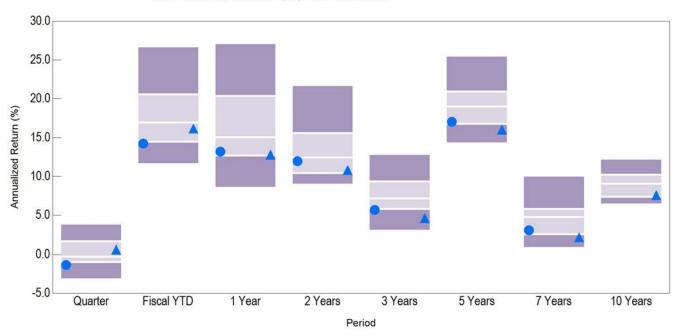
6.4 28

7.6

# Total Returns - ACWI ex-US Growth Equity

Periods Ending March 31, 2014

### eA ACWI ex-US Growth Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios
<ul><li>Pyramis</li></ul>
▲ MSCI ACWI ex U

	Return (	Rank)									
centile	3.9		26.7		27.1		21.8		12.9		25.5
ercentile	1.7		20.6		20.4		15.6		9.4		21.0
	-0.2		17.0		15.1		12.5		7.2		19.0
rcentile	-0.9		14.5		12.7		10.5		5.8		16.8
rcentile	-3.2		11.6		8.5		9.0		3.0		14.3
rtfolios	50		50		50		50		48		45
nis	-1.4	(82)	14.2	(80)	13.2	(69)	12.0	(58)	5.7	(80)	17.0
ACWI ex USA Gross	0.6	(42)	16.2	(62)	12.8	(75)	10.8	(64)	4.6	(87)	16.0

(--) (70)

# Equity Only Summary Statistics - Pyramis

Quarter Ending March 31, 2014

### Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	254	1,824
Weighted Avg. Market Cap. (\$B)	63.9	54.2
Median Market Cap. (\$B)	12.9	6.8
Price To Earnings	21.0	17.6
Price To Book	3.2	2.3
Price To Sales	2.2	1.9
Return on Equity (%)	17.0	14.7
Yield (%)	2.4	2.9
Beta (holdings; global)	1.1	1.0

Top Holdings	
NESTLE 'R'	2.1%
ROYAL DUTCH SHELL A	1.9%
HSBC HDG. (ORD \$0.50)	1.6%
SANOFI	1.6%
BAYER	1.5%
LLOYDS BANKING GROUP	1.4%
TOYOTA MOTOR	1.3%
ROCHE HOLDING	1.3%
UBS 'R'	1.3%
ALLIANZ	1.3%

Best Performers	
	Return %
BADGER DAYLIGHTING (C:BAD)	41.1%
ILIAD (F:ILD)	40.6%
AIR NEW ZEALAND (Z:AIRN)	36.8%
SEEK (A:SEKX)	35.7%
SIGNET JEWELERS (LON) (UKIR:SIG)	34.5%
REA GROUP (A:REAX)	34.3%
KELT EXPLORATION (C:KEL)	31.6%
AUTOCANADA (C:ACQ)	29.7%
CARDINAL ENERGY (C:CJ)	27.8%
RAGING RIVER EXPLORATION (C:RRX)	27.1%

Worst Performers	
	Return %
HITACHI CAPITAL (J:DJ@N)	-25.7%
TREASURY WINE ESTATES (A:TWEX)	-23.0%
AFRICA OIL (OME) (W:AOI)	-22.9%
MITSUBISHI GAS CHM. (J:JS@N)	-22.5%
DHX MEDIA (C:DHX)	-22.1%
SUMITOMO REAL.&DEV. (J:CK@N)	-20.9%
JFE HOLDINGS (J:JFEH)	-19.9%
ORIX (J:ORIX)	-19.7%
MITSUB.UFJ LSE.& FINANCE (J:DIML)	-19.4%
SHINSEI BANK (J:SHBA)	-18.9%

# Equity Sector Attribution - Pyramis

Quarter Ending March 31, 2014

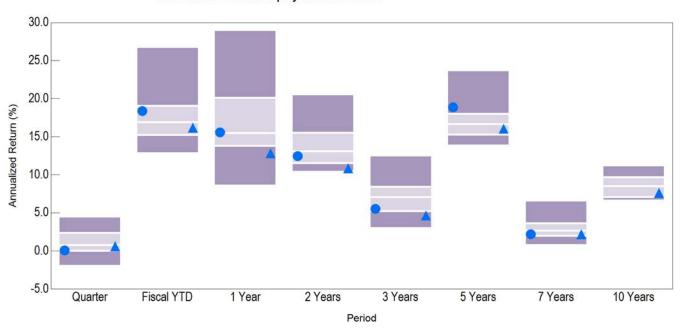
### Pyramis Performance Attribution vs. MSCI ACWI ex USA Gross

		Attribution Effects			Retu	rns	Sector V	Veights
	Total	Selection	Selection Allocation Interaction					
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.0%	0.0%	0.0%	0.0%	0.3%	0.6%	6.2%	9.1%
Materials	0.0%	-0.1%	0.0%	0.1%	-0.3%	0.2%	8.3%	8.7%
Industrials	-0.1%	-0.1%	0.0%	0.0%	-0.7%	0.4%	12.4%	11.2%
Cons. Disc.	-0.5%	-0.3%	-0.1%	-0.1%	-3.4%	-0.9%	16.2%	10.8%
Cons. Staples	0.0%	0.0%	0.0%	0.0%	0.1%	0.4%	9.2%	9.9%
Health Care	0.1%	0.0%	0.1%	0.0%	5.7%	6.0%	10.4%	7.8%
Financials	-0.8%	-0.9%	0.0%	0.1%	-3.6%	-0.4%	25.5%	26.7%
Info. Tech	-0.2%	-0.2%	0.0%	0.1%	-1.6%	1.6%	5.0%	6.7%
Telecomm.	0.0%	-0.1%	0.1%	0.0%	-4.3%	-2.5%	4.5%	5.8%
Utilities	-0.2%	-0.3%	-0.1%	0.2%	-1.4%	6.1%	0.9%	3.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		1.4%	0.0%
Portfolio	-1.8%	= -2.1%	+ -0.1%	+ 0.3%	-1.2%	0.6%	100.0%	100.0%

# Total Returns - ACWI ex-US Value Equity

Periods Ending March 31, 2014

### eA ACWI ex-US Value Equity Gross Accounts



5th Percentile	
25th Percentile	
Median	
75th Percentile	
95th Percentile	
# of Portfolios	
LSV Asset Mgt	
MSCI ACWI ex USA Gross	

Return (F	Rank)														
4.5	1000 1000 1000 1000	26.8		29.0		20.6		12.5		23.7		6.6		11.2	
2.4		19.1		20.1		15.6		8.4		18.0		3.6		9.7	
0.8		16.9		15.5		13.1		7.1		16.7		2.7		8.5	
0.1		15.2		13.8		11.5		5.2		15.3		2.0		7.1	
-1.9		12.8		8.6		10.4		3.0		13.9		8.0		6.6	
32		32		32		32		29		26		24		18	
0.1	(75)	18.4	(40)	15.6	(50)	12.4	(58)	5.5	(74)	18.9	(18)	2.2	(73)		()
0.6	(57)	16.2	(65)	12.8	(80)	10.8	(89)	4.6	(79)	16.0	(57)	2.2	(73)	7.6	(68)

# Equity Only Summary Statistics - LSV Asset Mgt

Quarter Ending March 31, 2014

### Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	203	1,824
Weighted Avg. Market Cap. (\$B)	37.1	54.2
Median Market Cap. (\$B)	8.0	6.8
Price To Earnings	14.7	17.6
Price To Book	1.6	2.3
Price To Sales	1.0	1.9
Return on Equity (%)	13.0	14.7
Yield (%)	3.8	2.9
Beta (holdings; global)	1.1	1.0

Top Holdings						
ASTRAZENECA	2.0%					
MAGNA INTL.	1.7%					
ROYAL DUTCH SHELL B	1.6%					
ALLIANZ	1.5%					
DAIMLER	1.4%					
BASF	1.4%					
SANOFI	1.3%					
CHINA PTL.& CHM. 'H'	1.3%					
NOVARTIS 'R'	1.3%					
SWISS RE	1.3%					

	Best Performers	
		Return %
	PANORAMIC RESOURCES (A:PANX)	65.8%
	BANCO POPOLARE (I:BP)	49.5%
	TIMAH (ID:TAA)	30.6%
	FINMECCANICA (I:FNC)	30.2%
	TEVA PHARMACEUTICAL (IS:TEV)	30.0%
	ENEL (I:ENEL)	29.4%
	CHINA SHINEWAY PHARM.GP. (K:CSPG)	27.4%
	VANGD.INTL.SEMICON. (TW:VGS)	25.5%
	DELHAIZE GROUP (B:DEH)	22.8%
	GIGA-BYTE TECHNOLOGY (TW:GBT)	22.1%

	Worst Performers	
		Return %
	GLOBAL BIO-CHEM TECH.GP. (K:GBIO)	-46.7%
	LABIXIAOXIN SNACKS GROUP SUSP - SUSP.24/03/14 (K:CLFB)	-42.3%
	HITACHI CAPITAL (J:DJ@N)	-25.7%
	KINGBOARD CHEMICAL HDG. (K:KINC)	-25.3%
	ALSTOM (F:ALO)	-25.1%
	BOART LONGYEAR (A:BLYX)	-22.0%
	PAPERLINX (A:PPXX)	-20.6%
	POSTNL (H:PNL)	-20.2%
	MOBL.TELSMS.OJSC SPN.ADR 1:2 (MBT)	-19.1%
	CIA.SANMT.BASICO SPN.ADR 1:1 (SBS)	-18.3%

# Equity Sector Attribution - LSV Asset Mgt

Quarter Ending March 31, 2014

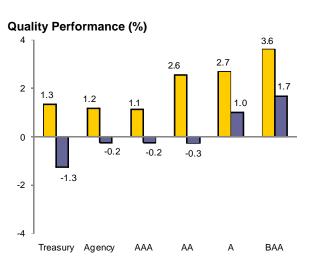
### LSV Asset Mgt Performance Attribution vs. MSCI ACWI ex USA Gross

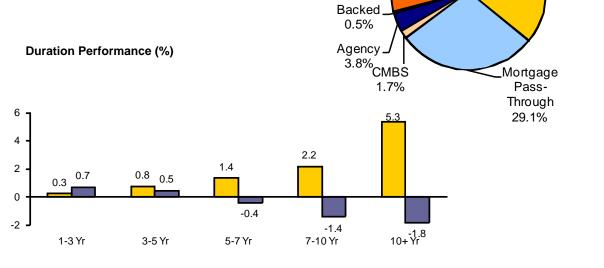
			Attribution Effect	s	Re	eturns	Secto	r Weights
	Total Effects	Selection Effect	Allocation Effect	Interaction Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.3%	0.1%	0.0%	0.1%	2.9%	0.6%	10.9%	9.1%
Materials	-0.2%	-0.2%	0.0%	0.0%	-2.1%	0.2%	8.8%	8.7%
Industrials	-0.4%	-0.5%	0.0%	0.1%	-3.7%	0.4%	10.7%	11.2%
Cons. Disc.	0.4%	0.6%	0.1%	-0.3%	3.7%	-0.9%	7.5%	10.8%
Cons. Staples	-0.4%	-0.6%	0.0%	0.1%	-6.6%	0.4%	5.7%	9.9%
Health Care	0.0%	0.0%	0.0%	0.0%	5.7%	6.0%	8.3%	7.8%
Financials	-0.1%	-0.1%	0.0%	0.0%	-0.9%	-0.4%	30.2%	26.7%
Info. Tech	0.2%	0.4%	0.0%	-0.2%	6.6%	1.6%	4.1%	6.7%
Telecomm.	-0.2%	-0.1%	-0.1%	0.0%	-3.9%	-2.5%	9.6%	5.8%
Utilities	-0.1%	-0.1%	0.0%	0.0%	3.6%	6.1%	3.2%	3.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		1.0%	0.0%
Portfolio	-0.7%	= -0.4%	+ -0.1%	+ -0.2%	-0.1%	0.6%	100.0%	100.0%

#### **BOND MARKETS**

# U.S. Bond Market Returns – Barclays Capital Aggregate

- Geopolitical risk and global growth concerns helped boost demand for U.S. Treasuries, which rose by 1.3% in the first quarter.
- Lower-rated corporate bonds outperformed during the first quarter, with BAA rated securities returning 3.6%.





**Sector Weights** 

Corporate

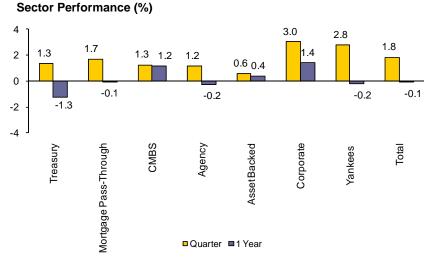
23.0%.

Asset

Yankees 6.1%

Treasury

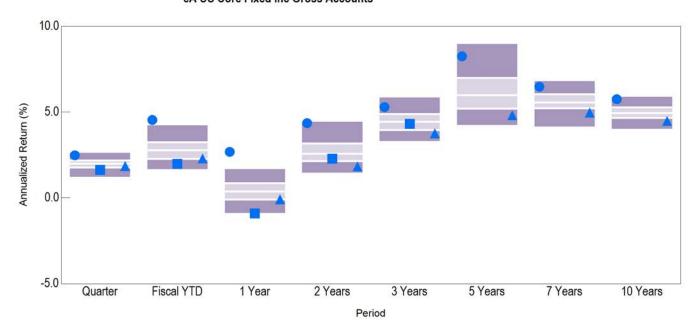
.35.8%



# Total Returns - Core Fixed Income

Periods Ending March 31, 2014

#### eA US Core Fixed Inc Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

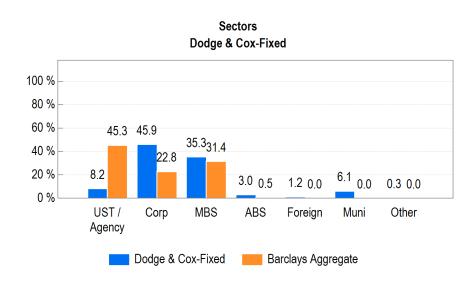
Dodge & Cox-Fixed

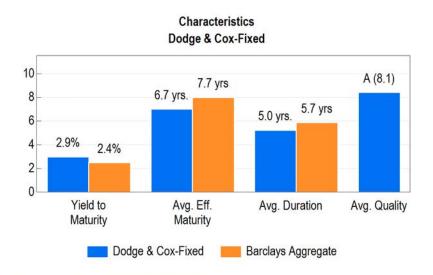
PIMCO Fixed Income
Barclays Aggregate

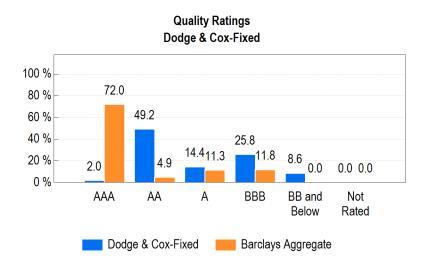
2.7		4.3		1.7		4.5		5.9		9.0		6.8		5.9	
2.2		3.2		0.9		3.2		4.9		7.0		6.0		5.3	
2.0		2.8		0.4		2.6		4.4		6.0		5.6		4.9	
1.8		2.3		-0.1		2.1		4.0		5.2		5.2		4.7	
1.2		1.6		-0.9		1.4		3.3		4.2		4.1		4.0	
211		211		211		211		209		202		194		179	
2.5	(9)	4.5	(4)	2.7	(2)	4.3	(7)	5.3	(13)	8.2	(8)	6.5	(10)	5.7	(8)
1.6	(82)	2.0	(87)	-0.9	(95)	2.3	(69)	4.3	(58)		()		()		()
1.8	(67)	2.3	(75)	-0.1	(75)	1.8	(85)	3.7	(85)	4.8	(85)	5.0	(85)	4.5	(86)

# Bond Summary Statistics - Dodge & Cox Fixed Income

As of March 31, 2014

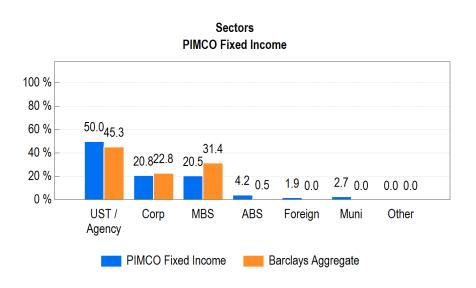


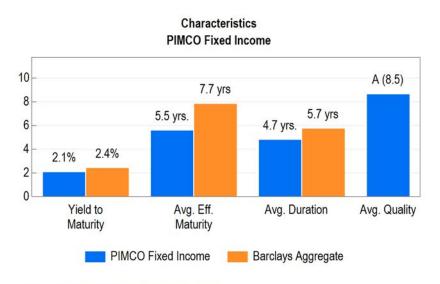


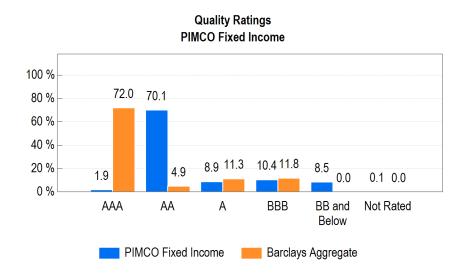


# Bond Summary Statistics - PIMCO Fixed Income

As of March 31, 2014







#### **CURRENCY AND BOND MARKETS**

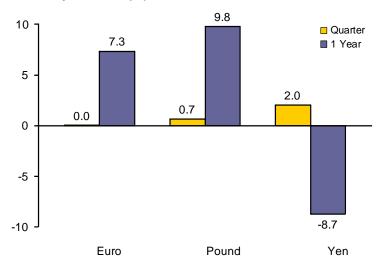
# **Currency Markets**

- The euro was flat against the dollar in the first quarter.
- The U.S. dollar trade-weighted index, which measures the dollar's movement against a basket of currencies, fell 0.12% in the first quarter.
- The yen rose 2.0% in the first quarter as demand for safe-haven assets increased.

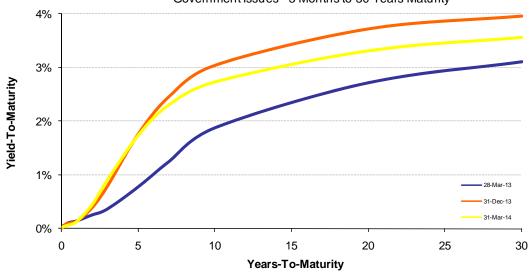


- The long-end of the U.S. yield curve fell on a quarterly basis and Treasury bonds rallied after subdued economic data in the U.S and rising geopolitical tensions.
- Ten-year yields fell 31 basis points during the first quarter.

### **Currency Returns (%)**



# INTEREST RATE TERM STRUCTURE Government Issues - 3 Months to 30 Years Maturity



#### StanCERA Manager Review List

Performance Through March 31, 2014

Returns are Gross of Fees

		Expected Manager Tracking Error	Benchmark	6 Month Alpha >	12 Month Alpha >	Annualized Alpha	Annualized Alpha	Peer Ranking	Peer Ranking	Manager in Compliance with	Organization Personnel	Adherence
Manager Name	Status	(bps)		-1 St. Dev	-1 St. Dev	3 Years	5 Years	3 Years	5 Years	Guidelines	Continuity	to Style
Domestic Equity												
Dodge & Cox (Lg Cap Value)	Good Standing	600	R1000V	Yes	Yes	200	210	17	13	Yes	Yes	Yes
BlackRock (Passive Lg Cap Value)	Good Standing	0	R1000V	Yes	Yes	10	N/A	45	N/A	Yes	Yes	Yes
Delaware (Lg Cap Growth)	Good Standing	500	R1000G	Yes	Yes	310	170	6	14	Yes	Yes	Yes
BlackRock (Passive Lg Cap Growth)	Good Standing	0	R1000G	Yes	Yes	10	N/A	39	N/A	Yes	Yes	Yes
Mellon Capital (Passive SP 500)	Good Standing	0	S&P 500	Yes	Yes	0	0	55	36	Yes	Yes	Yes
Capital Prospects (Sm Cap Value)	Good Standing	400	R2000V	Yes	Yes	280	310	35	46	Yes	Yes	Yes
Legato (Small Cap Growth)	Good Standing	400	R2000G	Yes	Yes	280	140	30	53	Yes	Yes	Yes
International Equity												
LSV Asset	Good Standing	600	MSCI ACWI ex US	Yes	Yes	90	290	74	18	Yes	Yes	Yes
Pyramis	Good Standing	400	MSCI ACWI ex US	Yes	Yes	110	100	80	72	Yes	Yes	Yes
REITS												
BlackRock (Passive US Real Estate Securities)	Good Standing	0	DJ US Select RESI	Yes	Yes	N/A	N/A	N/A	N/A	Yes	Yes	Yes
Fixed Income												
Dodge & Cox	Good Standing	300	Barclays Aggregate	Yes	Yes	160	340	13	8	Yes	Yes	Yes
PIMCO	Good Standing	100	Barclays Aggregate	Yes	Yes	60	N/A	58	N/A	Yes	No	Yes

#### Note:

1.0 x reported negative tracking error equates to the bottom 15% of the expected return distribution, assuming an alpha of 0%

If a manager has an expected tracking error of 800 basis points, that manager would be Under Review if its return was 800 basis points below the benchmark for the 6 and or 12 months time periods

If the manager has a negative alpha for 3 and or 5 years or is ranked in the bottom quartile, that manager could be placed on Under Review Status

Recommend keeping all managers in "Good Standing" status

# MARKET UPDATE

#### U.S. EQUITY

For the month of April, Value outperform Growth and Large Caps outperform Small Caps. The Russell 1000 Growth Index was unchanged +0.0% and the Russell 1000 Value Index up by +1.0% for the month. The Russell 2000 Growth Index was down -5.1% and the Russell 2000 Value was down by -2.6%. The S&P 500 Index ended the month higher by +0.7%.

The S&P 500 Index has a trailing P/E ratio of 17.7, a forward 12-month estimate P/E ratio of 15.6 and dividend yield of 2.0%.

Corporate merger highlights for the month included: Anheuser-Busch InBev completed its \$5.8 billion purchase of South Korea's Oriental Brewery; DFC Global, a pawn and payday leader, will be acquired by private equity firm Lone Star for \$1.3 billion; China's largest grain trader, Cofco and Hopu Investment Management, will buy a majority stake in Noble Group's agribusiness unit for \$1.5 billion; Vivendi will sell its mobile phone unit, SFR to Altice for \$23 billion; Ireland's Mallinckrodt will buy Questor Pharma for \$5.2 billion; India's Sun Pharmaceutical Industries will buy generic durgmaker Ranbaxy Laboratories for \$3.2 billion; Laclede Group will buy Alabama Gas from Energen for \$1.3 billion; Procter & Gamble will sell its pet food brands (Iams, Eukanuba and Natura) in major markets to confectionery company Mars for \$2.9 billion; South Africa's Woolworth Holdings will acquire Australian retailer David Jones for \$2.0 billion; Financial services TIAA-CREF will buy Nuveen Investments in an estimated \$6.26 billion deal; Privately held film and TV studio Relativity Media offered up to \$1.1 billion to buy Maker Studios; Symrise offered to buy French food firm Diana Group for \$1.8 billion; Zebra Technologies will buy Motorola Solutions' enterprise business, which makes rugged mobile computers, tablets, and barcode scanners for \$3.5 billion; Johnson Controls will buy Texas air ventilation company Air Distribution Technologies for \$1.6 billion; GEA Group sold its heat exchangers business for approximately \$1.8 billion; Cereal maker Post Holdings is buying packaged food maker Michael Foods in a \$2.45 billion deal; Valeant Pharma and Bill Ackman have offered to buy Botox maker Allergan in a deal worth \$46 billion; Orthopedic device maker Zimmer will buy Biomet for \$13.4 billion; Pfizer made a \$100 billion offer to buy AstraZeneca; Alibaba and a private equity firm will buy a \$1.2 billion stake in Youku Tudou, an online video business; Forest Laboratories will pay \$1.5 billion to acquire Furiex

Pharmaceuticals; Banco Santander made a buyout offer for the remaining 25% of its Brazilian unit in a deal worth \$6.5 billion; and Exelon will buy Pepco for about \$6.8 billion.

#### **FIXED INCOME**

The Commerce Dept. reported that gross domestic product expanded at a +0.1% annual rate in the first quarter, the slowest since the fourth quarter of 2012. Gross domestic product is projected to grow +2.7% this year after broad-based cuts in government spending restrained growth to +1.9% in 2013, according to economists surveyed by Bloomberg.

U.S. employers added 192,000 jobs in March, a solid pace, and hired more in January and February than previously announced. The unemployment rate remained unchanged at 6.7%.

The yield on the Bellwether 10-year Treasury note fell to 2.67% at the close of April from its March close at 2.77%. At month-end, the 30-year bond yield was 3.49% with the 3-month T-bill at 0.05%. The Barclays Capital U.S. Aggregate Index was up +0.84% in April and is now up +2.70% for the first four months of 2014.

On the economic front, the following key data was released in April:

#### THE GOOD

\*The Institute of Supply Management reported that its index of national factory activity rose to 53.7 in March, up from February's read of 53.2.

\*The Commerce Dept. reported that construction spending edged up +0.1% in February to an annual rate of \$945 billion.

\*Ford's U.S. vehicle sales rose +3% in March, Toyota's increased +5%, Chrysler Group's jumped +13%, Nissan's grew by +8.3%, and Volkswagen's fell by -2.6%.

\*The Commerce Dept. reported that new orders for manufactured goods jumped +1.6% in February, the largest rise since last September.

\*The Commerce Dept. reported that retail sales increased +1.1% last month, the largest growth since September 2012.

\*The Congressional Budget Office cut its estimate of the deficit for the fiscal year by \$23 billion to \$492 billion.

# MARKET UPDATE

\*The Labor Dept. reported that the Consumer Price Index increased by +0.2% in March, as a rise in food and shelter costs offset a decline in gasoline prices.

\*The Commerce Dept. reported that U.S. housing starts increased +2.8% in March to a seasonally-adjusted annual rate of 946,000.

\*Industrial production grew +0.7% in March; February's gain was revised to +1.2% from an initial reading of +0.7%.

\*Private industry workers' inflation-adjusted wages shrank -0.7% from 2011 through 2013 according to the Bureau of Labor.

\*Orders for durable goods increased +2.6% in March following a +2.1% rise in February indicating manufacturing is recovering after a cold winter disrupted business activity. (Blame it on the weather).

The Conference Board's Consumer Confidence Index dipped to 82.3 in April, the second highest reading since January 2008, from an upwardly revised 83.9 in March.

#### THE NOT SO GOOD

\*The U.S. trade deficit unexpected widened in February as exports hit a five-month low, suggest first quarter growth could be much weaker than initially reported.

\*About 19% of homeowners owe more on their mortgages than their reported properties would sell for, according to real estate database Zillow.

\*The Commerce Dept. reported that wholesale inventories increased by +0.5% in February after a revised +0.8% gain in January.

\*The producer price index, which measures price changes before they reach the consumer, rose +0.5% in March. Overall inflation remains tame with producer prices up a modest +1.4% over the past 12 months.

\*Sales of existing homes slipped in March to their lowest level since July 2012 as rising prices and a tight supply of available homes discouraged many would-be buyers. It was the seventh drop in the last eight months.

\*Sales of new homes slumped -14.5% in March to a 384,000 annualized pace, the weakest since last July. The median sales price of a new house is up +12.6% to a record \$290,000 versus a year ago.

#### NON-U.S. MARKETS

U.K. headline consumer price inflation (CPI) rate edged down in March to +1.6% year-over-year.

Eurozone CPI remains uncomfortably low in March and generally remains on a decelerating trend. For the overall Eurozone, CPI posted a +0.5% year-over-year gain. In addition, overall Eurozone manufacturing remains anemic. The overall Eurozone purchasing managers' index (PMI) rose +0.3 point to 53.3, just above the 50.0 expansion mark.

Japanese consumer confidence continued its disconcerting, steady erosion. The Cabinet Office's headline index fell another point in March to 37.5, leaving it below the levels that prevailed before Abe's election.

China's gross domestic product growth slipped to +7.4% in the first quarter, its slowest level in 18 months.

Russia hiked interest rates for a second month in a row in an effort to limit the economic damage of rising tensions over Ukraine.

Non-U.S. Developed equities were positive in April. The MSCI ACWI Ex-U.S. was up +1.4% (U.S. dollars) for the month. International Developed stocks (EAFE) were up +1.5% while Emerging Markets gained +0.4% for the month.

#### **CONCLUSION**

The major U.S. stock averages such as the Dow Jones Industrials and S&P 500 have been holding up quite well in 2014 and are not far off from their recent highs. However, underneath the surface there has been a good deal of damage to momentum growth stocks (i.e., social media and biotechnology) these past few weeks with many of those issues down -20% or more. The Russell 2000 Index has also started to exhibit signs of a potential correction.

One question is whether the two major U.S. indices will continue to hold up or follow the corrective behavior of the high growers? The recent rotation into Utilities, Energy and defensive types of stocks is usually a late type of cycle move. Although it is hard to say what part of the cycle we are in given the huge amounts of support from global central bankers.

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Apr-14	Month	Months	לוו	Year	Years	Years	Years	Years	Years
Russell 3000 Index	0.12	5.43	2.10	20.78	18.98	13.54	19.54	6.03	8.10
Russell TOP 200 Index	0.94	6.32	2.34	20.61	18.43	14.11	18.59	5.62	7.14
Russell TOP 200 Growth Index	0.70	4.70	1.39	20.78	16.26	14.20	18.95	7.70	7.50
Russell TOP 200 Value Index	1.18	7.98	3.31	20.45	20.67	14.03	18.22	3.54	6.76
S&P 500 Index	0.74	6.23	2.56	20.44	18.65	13.83	19.14	5.76	7.67
Russell 1000 Index	0.47	5.91	2.53	20.81	18.98	13.80	19.52	6.01	8.05
Russell 1000 Growth Index	0.00	4.09	1.12	20.66	16.56	13.37	19.47	7.52	7.99
Russell 1000 Value Index	0.95	7.83	4.00	20.90	21.35	14.16	19.52	4.38	7.95
Russell Mid-Cap Index	-0.57	4.98	2.93	21.25	20.22	13.05	21.87	7.05	10.40
Russell Mid-Cap Growth Index	-1.47	2.78	0.55	20.62	17.48	11.63	21.10	7.35	9.63
Russell Mid-Cap Value Index	0.41	7.47	5.66	22.10	22.88	14.41	22.61	6.44	10.77
Russell 2000 Index	-3.88	-0.04	-2.80	20.50	19.09	10.74	19.84	6.21	8.67
Russell 2000 Value Index	-2.57	3.15	-0.84	19.61	19.66	11.16	19.13	4.90	8.37
Russell 2000 Growth Index	-5.13	-3.00	-4.67	21.46	18.53	10.33	20.50	7.42	8.85
DJ US REIT Index	3.68	9.94	14.41	1.22	9.03	9.49	22.70	2.39	10.17
DJ-UBS US Commodity Index TR	2.44	9.27	9.60	3.17	-1.18	-7.68	4.59	-2.54	0.85
DJ-UBS US Gold Index TR	0.95	4.52	7.73	-12.30	-12.25	-6.47	7.08	8.64	11.89

### Non-US Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Apr-14	Month	Months	115	Year	Years	Years	Years	Years	Years
MSCI AC World Index ex USA	1.39	6.85	2.01	10.22	12.43	3.43	13.40	1.70	8.08
MSCI AC World Index	1.00	6.46	2.23	14.98	15.33	8.03	16.03	3.60	7.89
MSCI EAFE Index	1.53	6.59	2.31	13.80	16.84	6.15	14.09	1.35	7.41
MSCI Emerging Markets index	0.37	6.93	0.01	-1.49	1.39	-3.41	11.43	3.09	11.44
ML Global Government Bond Ex. U.S. Index	1.22	1.89	4.02	-0.07	-3.72	-1.19	3.73	4.99	4.51
Euro	0.60	2.82	0.63	5.17	2.35	-2.23	0.91	0.23	1.47
Japanese Yen	0.82	-0.16	2.89	-4.64	-11.59	-7.39	-0.75	2.27	0.78
UK Pound Sterling	1.28	2.75	1.95	8.49	1.97	0.41	2.65	-2.39	-0.49

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Apr-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.00	0.01	0.02	0.06	0.09	0.08	0.11	0.84	1.64
BarCap Aggregate Bond Index	0.84	1.21	2.70	-0.26	1.69	3.60	4.88	5.01	4.83
ML U.S. Corp/Govt Master Index	0.81	1.33	2.94	-0.91	1.84	4.00	5.30	5.05	4.81
ML U.S. Corporate Master Index	1.17	2.35	4.17	0.89	4.50	5.86	9.47	6.19	5.73
BarCap Mortgage Backed Securities Index	0.92	0.95	2.52	0.59	1.22	2.70	3.70	4.87	4.86
ML U.S. High Yield Master Index	0.66	2.91	3.67	6.24	10.04	8.41	15.61	8.35	8.61
JPM EMBI Global	1.56	6.17	5.09	-2.28	4.43	7.21	10.72	7.52	9.09

### **Monthly Market Update**

### **US Equity Indices Trailing Performance**

Annualized Performance to Date: Ending Apr-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	0.12	5.43	2.10	20.78	18.98	13.54	19.54	6.03	8.10
Russell TOP 200 Index	0.94	6.32	2.34	20.61	18.43	14.11	18.59	5.62	7.14
Russell TOP 200 Growth Index	0.70	4.70	1.39	20.78	16.26	14.20	18.95	7.70	7.50
Russell TOP 200 Value Index	1.18	7.98	3.31	20.45	20.67	14.03	18.22	3.54	6.76
S&P 500 Index	0.74	6.23	2.56	20.44	18.65	13.83	19.14	5.76	7.67
Russell 1000 Index	0.47	5.91	2.53	20.81	18.98	13.80	19.52	6.01	8.05
Russell 1000 Growth Index	0.00	4.09	1.12	20.66	16.56	13.37	19.47	7.52	7.99
Russell 1000 Value Index	0.95	7.83	4.00	20.90	21.35	14.16	19.52	4.38	7.95
Russell Mid-Cap Index	-0.57	4.98	2.93	21.25	20.22	13.05	21.87	7.05	10.40
Russell Mid-Cap Growth Index	-1.47	2.78	0.55	20.62	17.48	11.63	21.10	7.35	9.63
Russell Mid-Cap Value Index	0.41	7.47	5.66	22.10	22.88	14.41	22.61	6.44	10.77
Russell 2000 Index	-3.88	-0.04	-2.80	20.50	19.09	10.74	19.84	6.21	8.67
Russell 2000 Value Index	-2.57	3.15	-0.84	19.61	19.66	11.16	19.13	4.90	8.37
Russell 2000 Growth Index	-5.13	-3.00	-4.67	21.46	18.53	10.33	20.50	7.42	8.85
DJ US REIT Index	3.68	9.94	14.41	1.22	9.03	9.49	22.70	2.39	10.17
DJ-UBS US Commodity Index TR	2.44	9.27	9.60	3.17	-1.18	-7.68	4.59	-2.54	0.85
DJ-UBS US Gold Index TR	0.95	4.52	7.73	-12.30	-12.25	-6.47	7.08	8.64	11.89

### Non-US Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Apr-14	Month	Months		Year	Years	Years	Years	Years	Years
MSCI AC World Index ex USA	1.39	6.85	2.01	10.22	12.43	3.43	13.40	1.70	8.08
MSCI AC World Index	1.00	6.46	2.23	14.98	15.33	8.03	16.03	3.60	7.89
MSCI EAFE Index	1.53	6.59	2.31	13.80	16.84	6.15	14.09	1.35	7.41
MSCI Emerging Markets index	0.37	6.93	0.01	-1.49	1.39	-3.41	11.43	3.09	11.44
ML Global Government Bond Ex. U.S. Index	1.22	1.89	4.02	-0.07	-3.72	-1.19	3.73	4.99	4.51
Euro	0.60	2.82	0.63	5.17	2.35	-2.23	0.91	0.23	1.47
Japanese Yen	0.82	-0.16	2.89	-4.64	-11.59	-7.39	-0.75	2.27	0.78
UK Pound Sterling	1.28	2.75	1.95	8.49	1.97	0.41	2.65	-2.39	-0.49

### **US Fixed Income Indices Trailing Performance**

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Apr-14	Month	Months		Year	Years	Years	Years	Years	Years
ML 3-month T-bill Total Return Index	0.00	0.01	0.02	0.06	0.09	0.08	0.11	0.84	1.64
BarCap Aggregate Bond Index MLUS Corp/Govt Master Index	0.84	1.21	2.70	-0.26	1.69	3.60	4.88	5.01	4.83
ML U.S. Corp/Govt Master Index	0.81	1.33	2.94	-0.91	1.84	4.00	5.30	5.05	4.81
ML U.S. Corporate Master Index	1.17	2.35	4.17	0.89	4.50	5.86	9.47	6.19	5.73
BarCap Mortgage Backed Securities Index	0.92	0.95	2.52	0.59	1.22	2.70	3.70	4.87	4.86
ML U.S. High Yield Master Index	0.66	2.91	3.67	6.24	10.04	8.41	15.61	8.35	8.61
JPM EMBI Global	1.56	6.17	5.09	-2.28	4.43	7.21	10.72	7.52	9.09

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING APRIL 30, 2014

PRELIMINARY BASIS

#### SUMMARY OF INVESTMENTS

			CURRENT	POLICY	TARGET	POLICY
SSET CLASS	MARKET VALUE	PERCENT	ALLOCATION	RANGE	ALLOCATION	RANGE
DOMESTIC EQUITIES	801,727,403	46.4%	46.7%	41.7% - 51.7%	38.2%	32.2% - 44.2%
NTERNATIONAL EQUITIES	315,252,766	18.2%	18.0%	15.0% - 21.0%	18.0%	15.0% - 21.0%
EIXED INCOME	502,812,826	29.1%	29.8%	26.0% - 33.6%	29.8%	26.0% - 33.6%
LTERNATIVES:	96,440,608	5.6%	5.5%		14.0%	
DIRECT LENDING	71,916,468	4.2%	4.0%	2.0% - 6.0%	7.5%	2.5% - 9.0%
REAL ESTATE	24,524,140	1.4%	1.5%	1.0% - 2.0%	3.5%	1.0% - 4.5%
INFRASTRUCTURE	0	0.0%	0.0%	0.0% - 0.0%	3.0%	0.0% - 4.0%
SECURITY LENDING	0	0.0%	0.0%	0.0% - 0.0%	0.0%	0.0% - 0.0%
CASH (equity managers only)	11.246,094	0.7%	0.0%	0.0% - 3.0%	0.0%	0.0% - 3.0%
OTAL PORTFOLIO	1,727,479,698	100.0%	100.0%		100.0%	
			CURRENT	TARGET		
DODGE & COV LABOR CARVALLE	_	ACTUAL	ALLOCATION 9.7%	ALLOCATION 8.9%		
DODGE & COX - LARGE CAP VALUE BlackRock - R1000 VALUE INDEX		10.5% 6.6%	9.7% 6.5%	5.5%		
DELAWARE - LARGE CAP GROWTH		8.5%	8.5%	6.7%		
BlackRock - R1000 GROWTH INDEX		5.5%	5.5%	4.6%		
CAPITAL PROSPECTS		5.4%	5.5%	4.0%		
LEGATO CAPITAL		4.8%	5.5%	3.7%		
BNY - S&P 500 INDEX		5.6%	5.5%	4.8%		
LSV ASSET MGMT - INTL EQ		9.2%	9.0%	9.0%		
PYRAMIS - INTL EQ		9.2%	9.0%	9.0%		
DODGE & COX FIXED INCOME		22.9%	23.8%	23.8%		
PIMCO		6.2%	6.0%	6.0%		
MEDLEY		1.6%	1.0%	2.1%		
RAVEN		1.5%	1.5%	2.7%		
WHITE OAK	-11-12-1	1.1%	1.5%	2.7%		
BlackRock - US REAL ESTATE SECURITIE	SINDEX	1.4%	1.5%	1.5%		
Unallocated Private Real Estate		0.0%	0.0%	2.0%		
Infrastructure		0.0%	0.0%	3.0%		
SECURITY LENDING TOTALS		0.0%	0.0% 100.0%	0.0%		

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING APRIL 30, 2014

PRELIMINARY BASIS

ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
MARKET VALUE					
DOMESTIC EQUITIES	801,727,403	810,913,866	-1.13%	706,611,065	13.46%
INTERNATIONAL EQUITIES	315,252,766	311,784,102	1.11%	282,593,724	11.56%
FIXED INCOME	502,812,826	501,598,607	0.24%	541,274,542	-7.11%
DIRECT LENDING	71,916,468	63,996,800	12.38%	0	N/A
REAL ESTATE	24,524,140	23,649,938	3.70%	24,219,158	1.26%
SECURITIES LENDING	0	(528,520)	100.00%	(869,105)	100.00%
CASH (equity managers only)	11,246,094	14,339,756	-21.57%	13,093,033	-14.11%
TOTAL PORTFOLIO	1,727,479,698	1,725,754,549	0.10%	1,566,922,417	10.25%
ASSET ALLOCATION (ACTUAL)		337.72	2.41	+160 A	A/A
DOMESTIC EQUITIES	46.41%	46.99%	-0.6%	45.10%	1.3%
INTERNATIONAL EQUITIES	18.25%	18.07%	0.2%	18.03%	0.2%
FIXED INCOME	29.11%	29.07%	0.0%	34.54%	-5.4%
DIRECT LENDING	4.16%	3.71%	0.5%	0.00%	4.2%
REAL ESTATE SECURITIES	1.42%	1.37%	0.0%	1.55%	-0.1%
SECURITY LENDING	0.00%	-0.03%	0.0%	-0.06%	0.0%
CASH (equity managers only)	0.65%	0.83%	-0.2%	0.84%	-0.2%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%
* % Change represents changes in cash balances, include	ding cash transfers, and does not represent i	nvestment returns			Page 2

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING APRIL 30, 2014

PRELIMINARY BASIS

			CURRENT	
ASSET CLASS  OOMESTIC EQUITIES:	MARKET VALUE	PERCENT	TARGET	RANGE
DODGE & COX - LARGE CAP VALUE	181,407,043	10.5%	9.7%	7.7% - 11.7%
BLACKROCK - R1000 VALUE INDEX	113,855,443	6.6%	6.5%	5.5% - 6.5%
DELAWARE - LARGE CAP GROWTH	146,400,409	8.5%	8.5%	7.0% - 10.0%
BLACKROCK - R1000 GROWTH INDEX	95,842,801	5.5%	5.5%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	92,867,657	5.4%	5.5%	4.0% - 6.0%
LEGATO CAPITAL - SMALL CAP GROWTH	82,243,132	4.8%	5.5%	4.0% - 6.0%
BNY - S&P 500 INDEX	97,366,183	5.6%	5.5%	4.0% - 6.0%
TOTAL DOMESTIC EQUITIES	809,982,668	46.9%	46.7%	
IXED:INCOME				
DODGE & COX	395,639,561	22.9%	23.8%	20.8% - 26.8%
PIMCO	107 173 265	6.2%	6.0%	5.0% - 7.0%
TOTAL FIXED INCOME	502,812,826	29.1%	29.8%	
RECTLENDING:				
MEDLEY CAPITAL	27,847,660	1.6%	1.0%	1.0% - 3.0%
RAVEN CAPITAL	25,916,946	1.5%	1.5%	1.0% - 3.0%
WHITE OAK	18 151 862	1.1%	1.5%	1.0% - 3.0%
TOTAL DIRECT LENDING	71,916,468	4.2%	4.0%	
VTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	158,729,865	9.2%	9.0%	7.5% - 10.5%
PYRAMIS	159,513,731	9.2%	9 0%	7.5% - 10.5%
TOTAL INTERNATIONAL EQUITIES	318,243,596	18.4%	18.0%	
REAL ESTATE SECURITIES				
BlackRock - US RE SECURITIES INDEX	24 524 140	1.4%	1.5%	1.0% - 2.0%
TOTAL REAL ESTATE	24,524,140	1.4%	1.5%	1.0% - 2.0%
ECURITIES LENDING	0	0.0%	0.0%	0.0% - 0.0%
TOTAL StanCERA PORTFOLIO	1 727 479 698	100 0%	100.0%	

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING APRIL 30, PRELIMINARY 2014

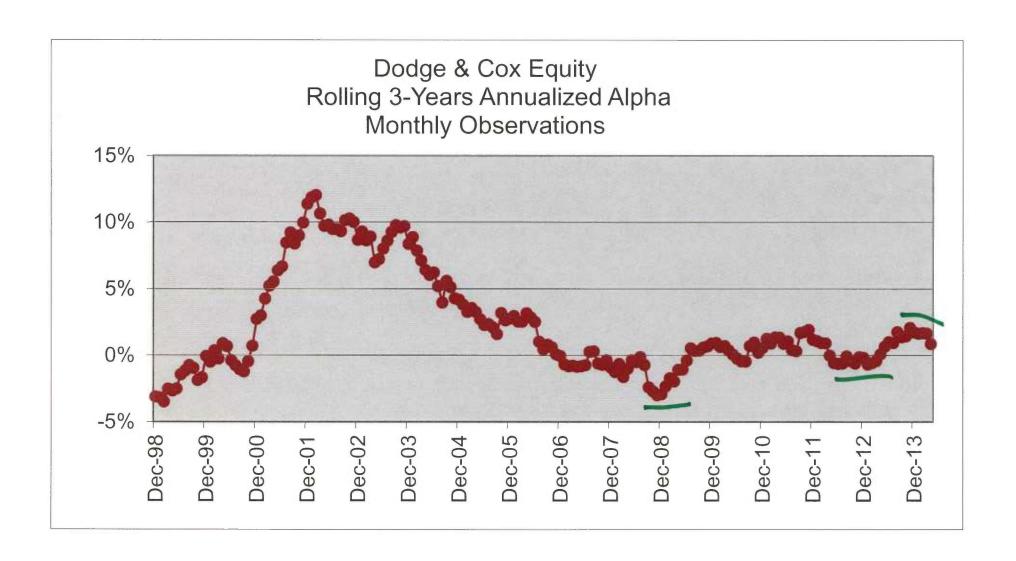
DOMESTIC EQUITIES	CASH	BONDS	EQUITIES	TOTAL
DODGE & COX - LARGE CAP VALUE	3,687,578		177,719,465	181,407,043
BLACKROCK - R1000 VALUE INDEX	0		113,855,443	113,855,443
DELAWARE - LARGE CAP GROWTH	497,999		145,902,410	146,400,409
BLACKROCK - R1000 GROWTH INDEX	0		95,842,801	95,842,801
CAPITAL PROSPECTS - SMALL CAP VALUE	2,131,302		90,736,355	92,867,657
LEGATO CAPITAL - SMALL CAP GROWTH	1,938,157		80,304,974	82,243,132
BNY - S&P 500 INDEX	228		97,365,955	97,366,183
TOTAL DOMESTIC EQUITIES	8,255,265		801,727,403	809,982,668
TIXED INCOME				
DODGE & COX	8,226,749	387,412,812		395,639,561
PIMCO	3,346,140	103 827 125		107,173,265
TOTAL FIXED INCOME	11,572,889	491,239,937		502,812,826
DRECTLENDING				5016016016
MEDLEY	0	27,847,660		27,847,660
RAVEN	0	25,916,946		25,916,946
WHITE OAK	0	18 151 862		18,151,862
TOTAL DIRECT LENDING	0	71,916,468		71,916,468
nternational investments				
LSV ASSET MGMT.	889,549		157,840,316	158,729,865
PYRAMIS	2 101 280		157 412 451	159,513,731
TOTAL INTERNATIONAL EQUITIES	2,990,829		315,252,766	318,243,596
REAL:ESTATE:SECURITIES			24,523,996	24,524,140
REAL ESTATE SECURITIES  BLACKROCK - US REAL ESTATE SECURITIES INDEX	144			
	144		24,523,996	24,524,140
		1	24,523,996	24,524,140
BLACKROCK - US REAL ESTATE SECURITIES INDEX TOTAL REAL ESTATE	144	563,156,405	24,523,996	0
BLACKROCK - US REAL ESTATE SECURITIES INDEX TOTAL REAL ESTATE SECURITIES LENDING	144	563,156,405		0

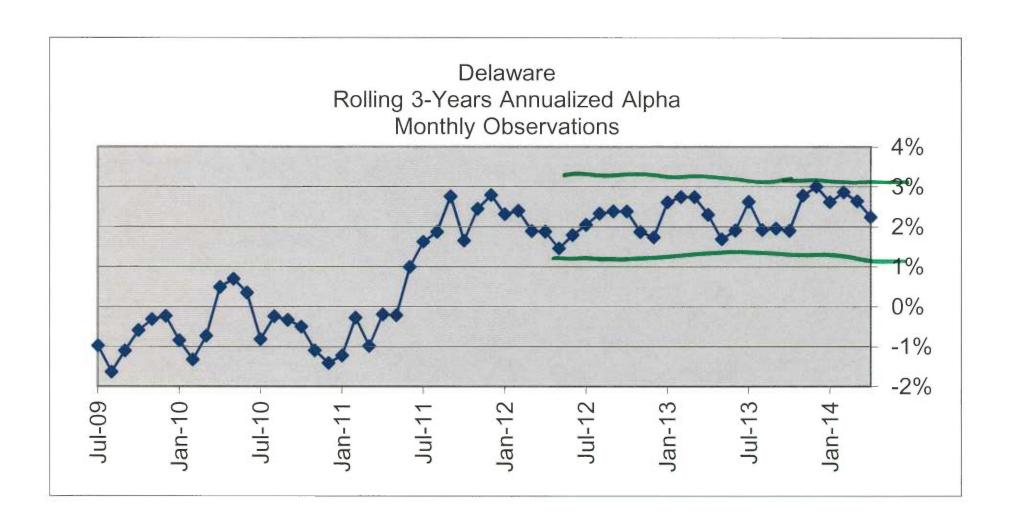
## MONTHLY PERFORMANCE REVIEW PERIOD ENDING APRIL 30, 2014 PRELIMINARY BASIS

	MARKET VALUE	APRIL	ALPHA	MAR	ALPHA	FISCAL YTD	ALPH
OMESTIC EQUITIES							
DODGE & COX - LARGE CAP VALUE RUSSELL 1000 VALUE	177,719,465	-0.37% 0.95%	-1.32%	1.42% 2.39%	-0.97%	21.21% 18.87%	2.34
BLACKROCK - R1000 VALUE INDEX	442 per 440	0.95%	0.000/	2.37%	-0.02%	18.97%	0.109
RUSSELL 1000 VALUE	113,855,443	0.95%	0.00%	2.37%	-0,02%	18.97%	0.10
DELAWARE - LARGE CAP GROWTH	145,902,410	-0.37%	-0.37%	-2.53%	-1.52%	22.25%	1.549
RUSSELL 1000 GROWTH	110,002,1110	0.00%		-1.01%		20.71%	
BLACKROCK - R1000 GROWTH INDEX RUSSELL 1000 GROWTH	95,842,801	0.01%	0.01%	<b>-1.00%</b> -1.01%	0.01%	<b>20.71%</b> 20.71%	0.009
CAPITAL PROSPECTS RUSSELL 2000 VALUE	90,736,355	-1.86% -2.57%	0.71%	1.29% 1.24%	0.05%	19.87% 16.61%	3.26
LEGATO CAPITAL RUSSELL 2000 GROWTH	80,304,974	-6. <b>89%</b> -5.13%	-1.76%	-2.68% -2.46%	-0.22%	14.96% 16.32%	-1.36
BNY - S&P 500 INDEX	97,365,955	0.74%	0.00%	0.84%	0.00%	19.29%	0.00
S&P 500		0.74%	2	0.84%	+	19.29%	
TOTAL DOMESTIC EQUITY  Russell 3000 Index	801,727,403	-0.82% 0.12%	-0.94%	0.04% 0.53%	-0.49%	20.93% 19.55%	1.38
IXED:INCOME							
DODGE & COX	395,639,561	0.91%	0.07%	0.05%	0.22%	5.05%	1.57
BARCLAYS US AGGREGATE BOND		0.84%		-0.17%		3.48%	
PIMCO	107,173,265	0.62%	-0.22%	-0.40%	-0.23%	2.65%	-0.83
BARCLAYS US AGGREGATE BOND		0.84%		-0.17%		3.48%	
TOTAL FIXED INCOME	502,812,826	0.85%	0.01%	-0.04%	0.13%	4.47%	0.99
BARCLAYS US AGGREGATE BOND		0.84%		-0.17%		3.48%	
CUSTOM 9% ANNUAL RAVEN CAPITAL	25,916,946	1.09%	0.34%	0.75% 0.46%	-0.29%	7.55% -2.65%	-10.20
CUSTOM 9% ANNUAL		0.75%		0.75%		7.55%	
WHITE OAK	18,151,862	0.31%	-0.44%	1.60%	0.85%	45.07%	39.07
CUSTOM 9% ANNUAL		0.75%		0.75%		6.00%	
TOTAL DIRECT LENDING	71,916,468	1.10%	0.35%	0.56%	-0.19%	6.96%	-0.59
CUSTOM 9% ANNUAL		0.75%		0.75%		7.55%	
NTERNATIONAL EQUITY							
LSV ASSET MGMT	157,840,316	2.47%	1.15%	-0.03%	-0.29%	21.31%	4.21
MSCI ACWI ex-US		1.32%		0.26%		17.10%	
PYRAMIS	157,412,451	-0.52%	-1.84%	-0.73%	-0.99%	15.09%	-2.01
MSCI ACWI ex-US		1.32%	0.040/	0.26%	0.050/	17.10%	4.00
TOTAL INTERNATIONAL EQUITY  MSCI ACWI ex-US	315,252,766	0.98% 1.32%	-0.34%	-0.39% 0.26%	-0.65%	18.13% 17.10%	1.03
EAL ESTATE SEGURITIES							
BlackRock US RE Index	24,524,140	3.70%	0.05%	0.85%	-0.01%	9.59%	0.03
DOW JONES US SELECT RE INDEX		3.65%		0.86%	**************	9.56%	
EGURITIES LENDING BNY MELLON					3121111111111		stration in
ASH and SHORT-TERM INVESTMENTS							
CASH	11,246,094	0.01%	0.00%	0.01%	0.00%	0.12%	0.0
90-day US Treasury Bill		0.01%		0.01%		0.11%	
Total StanCERA Fund Current Policy Index*	1,727,479,698	0.27% 0.38%	-0.11%	-0.07% 0.21%	-0.28%	14.35%	1.50
Actuary Rate of Assumption (7.75%)		0.64%	-0.37%	0.64%	-0.71%	6,50%	7.85
Actuary Rate of Inflation (3.25%)		0.27%	0.00%	0.27%	-0.34%	2.72%	11.63
Policy Index represents Current Policy Index that will							Page

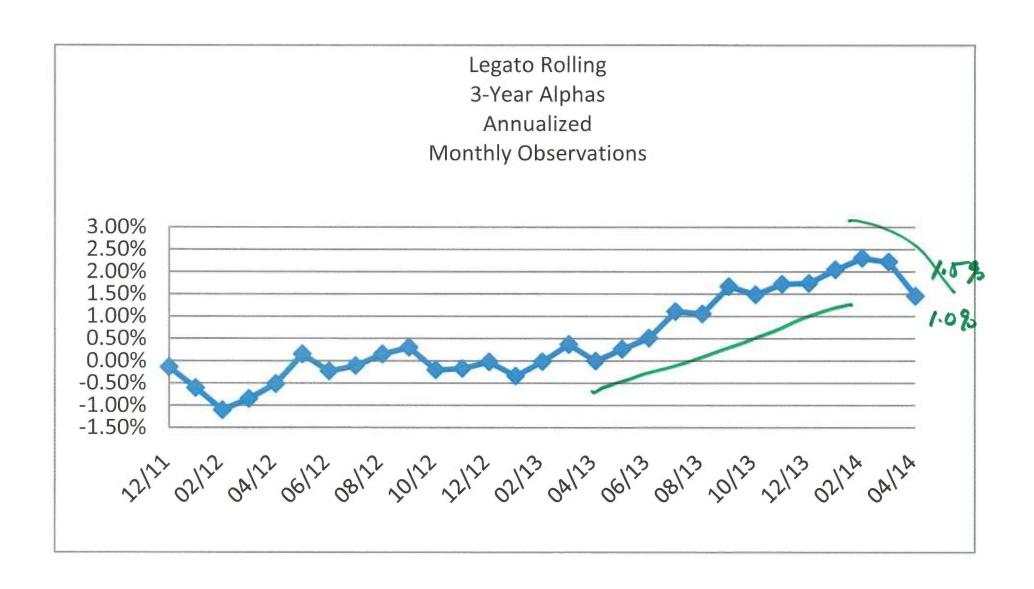
getting past J-curve good results!

14.35% 15+ 10 mowths

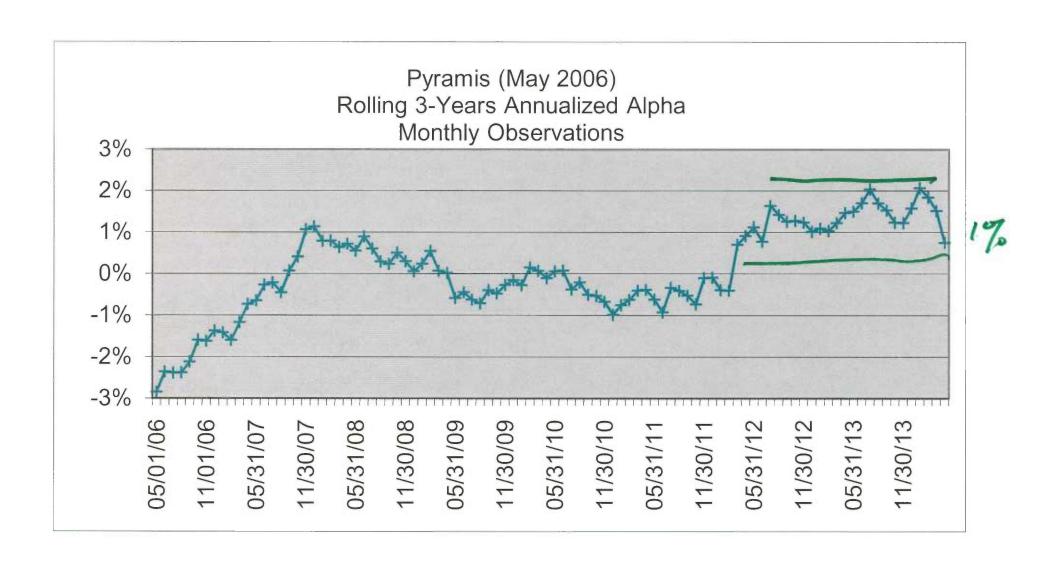


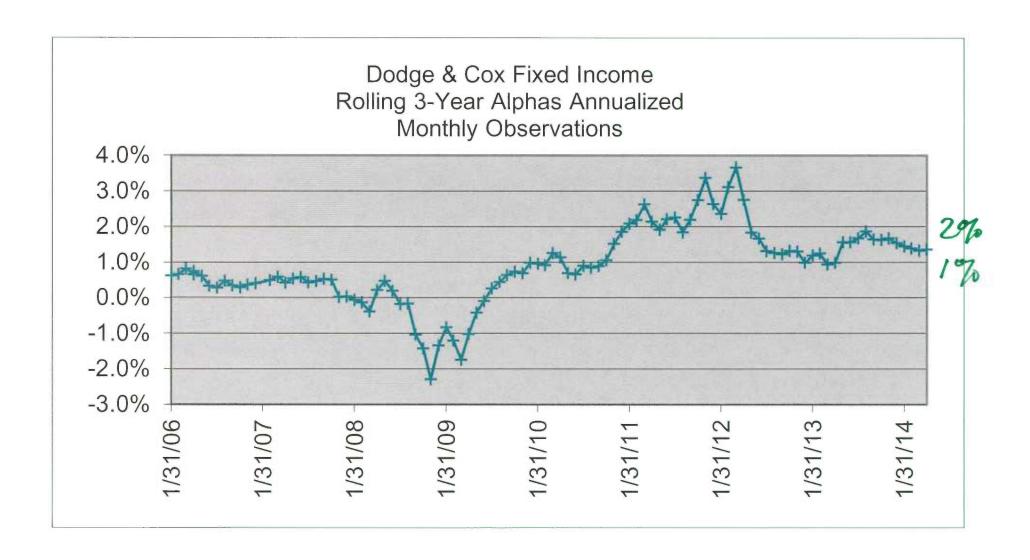


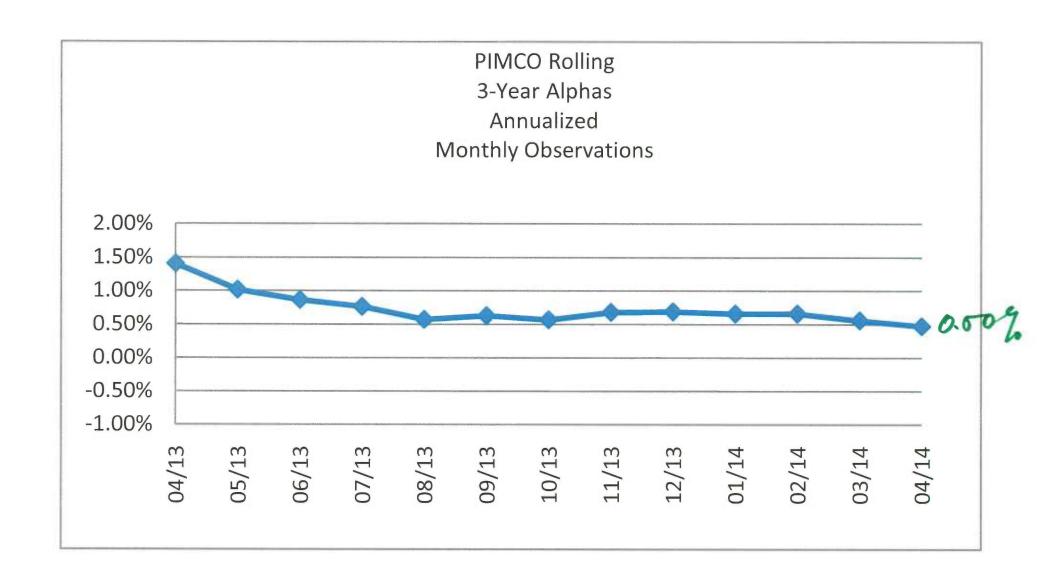












BlackRock
Passive Large Cap Growth Manager
Positions as of April 30, 2014

			\$ Value	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	6,546	\$3,862,465	4.03%	0.22%	590.09	597.51	1.26%	1.06%
Microsoft Corp.	MSFT	81,371	\$3,287,408	3.43%	0.19%	40.4	39.83	-1.41%	-1.61%
Verizon Communications	VZ	42,456	\$1,983,946	2.07%	0.11%	46.73	49.07	5.01%	4.81%
INTL Business Machines	IBM	9,074	\$1,782,676	1.86%	0.10%	196.47	187.06	-4.79%	-4.99%
Coca-Cola Co.	KO	37,360	\$1,523,901	1.59%	0.09%	40.79	40.89	0.25%	0.05%
Google Inc Class A	GOOG	2,748	\$1,447,226	1.51%	0.08%	526.66	520.63	-1.14%	-1.34%
Google Inc Class C	GOOGL	2,547	\$1,418,473	1.48%	0.08%	556.97	528.3	-5.15%	-5.34%
Philip Morris Intl.	PM	16,043	\$1,370,552	1.43%	0.08%	85.43	85.77	0.40%	0.20%
Oracle Corp	ORCL	33,526	\$1,370,552	1.43%	0.08%	40.88	41.69	1.98%	1.79%
QUALCOMM, Inc.	QCOM	17,047	\$1,341,799	1.40%	0.08%	78.71	79.42	0.90%	0.71%
TOP TEN HOLDINGS			\$19,388,999	20.23%	1.12%	Russell 1000 Growth	:	0.20%	

Total Portfolio Value Total StanCERA Value **\$95,842,801** \$1,727,479,698

BlackRock Passive Large Cap Value Manager Positions as of April 30, 2014

			\$ Value	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
EXXON MOBIL CORP	XOM	52,809	\$5,408,134	4.75%	0.31%	102.41	100.74	-1.63%	-1.07%
GENERAL ELECTRIC CO	GE	121,519	\$3,267,651	2.87%	0.08%	26.89	26.67	-0.82%	-0.25%
JOHNSON & JOHNSON	JNJ	29,113	\$2,948,856	2.59%	0.08%	101.29	100.58	-0.70%	-0.14%
CHEVRON CORP	CVX	22,858	\$2,869,157	2.52%	0.17%	125.52	123.18	-1.86%	-1.30%
WELLS FARGO & CO	WFC	57,570	\$2,857,772	2.51%	0.17%	49.64	49.08	-1.13%	-0.56%
BERKSHIRE HATHAWAY INC	BRK-B	21,030	\$2,709,760	2.38%	0.16%	128.85	126.86	-1.54%	-0.98%
PROCTER & GAMBLE CO	PG	31,860	\$2,630,061	2.31%	0.06%	82.55	80.33	-2.69%	-2.12%
JPMORGAN CHASE & CO	JPM	43,525	\$2,436,506	2.14%	0.06%	55.98	53.31	-4.77%	-4.20%
PFIZER INC	PFE	75,346	\$2,356,808	2.07%	0.06%	31.28	29.12	-6.91%	-6.34%
AT&T CORP	T	63,466	\$2,265,723	1.99%	0.13%	35.70	36.74	2.91%	3.48%
TOP TEN HOLDINGS			\$29,750,427	26.13%	1.28%	Russell 1000 Value		-0.56%	

Total Portfolio Value Total StanCERA Value **\$113,855,443** \$1,727,479,698

Capital Prospects Active US Small Cap Value Manager Positions as of April 30, 2014

			\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000V	\$ PX	\$ PX	% Change	% Change
Belden Inc	BDC	18,370	\$1,355,868	1.46%	0.08%	0.20%	73.81	69.44	-5.92%	-4.00%
Hillenbrand, Inc	HI	44,295	\$1,346,581	1.45%	0.08%	0.10%	30.40	29.41	-3.26%	-1.33%
Regal Beloit Corp	RBC	16,404	\$1,225,853	1.32%	0.07%	0.00%	74.73	75.17	0.59%	2.51%
Littelfuse, Inc	LFUS	12,205	\$1,105,125	1.19%	0.06%	0.12%	90.55	88.34	-2.44%	-0.52%
Broadridge	BR	24,707	\$947,250	1.02%	0.05%	0.00%	38.34	38.80	1.20%	3.12%
Polyone Corporation	POL	24,041	\$900,816	0.97%	0.05%	0.22%	37.47	37.52	0.13%	2.06%
Meredith Corporation	MDP	20,019	\$882,243	0.95%	0.05%	0.10%	44.07	44.62	1.25%	3.17%
First AM	FAF	32,818	\$872,956	0.94%	0.05%	0.00%	26.60	27.72	4.21%	6.13%
Deluxe Corporation	DLX	15,717	\$863,669	0.93%	0.05%	0.17%	54.95	54.60	-0.64%	1.29%
Iberiabank Corp	IBKC	13,583	\$854,382	0.92%	0.05%	0.12%	62.90	61.61	-2.05%	-0.13%
TOP TEN HOLDINGS			\$10,354,744	11.15%	0.60%	1.03%	Russell 2000 Value	e:	-1.92%	

Total Portfolio Value Total StanCERA Value \$92,867,657

\$1,727,479,698

Delaware Investments Advisers Active Large Cap Growth Portfolio Positions as of April 30, 2014

			\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
Allergan, Inc.	AGN	47,900	\$7,943,736	5.43%	0.46%	0.50%	165.84	160.00	-3.52%	-3.72%
Visa Inc. Class A	V	39,075	\$7,916,986	5.41%	0.46%	1.08%	202.61	209.81	3.55%	3.36%
Microsoft Corporation	MSFT	195,925	\$7,915,370	5.41%	0.46%	3.45%	40.40	39.83	-1.41%	-1.61%
QUALCOMM Incorporated	QCOM	100,375	\$7,900,516	5.40%	0.46%	1.39%	78.71	79.42	0.90%	0.71%
Celgene Corporation	CELG	52,275	\$7,684,948	5.25%	0.44%	0.63%	147.01	147.32	0.21%	0.01%
MasterCard Incorporated Class A	MA	104,000	\$7,649,200	5.22%	0.44%	0.88%	73.55	73.75	0.27%	0.08%
Walgreen Co.	WAG	109,425	\$7,429,958	5.08%	0.43%	0.50%	67.90	67.77	-0.19%	-0.39%
EOG Resources, Inc.	EOG	74,375	\$7,288,750	4.98%	0.42%	0.51%	98.00	102.50	4.59%	4.40%
Crown Castle International Corp.	CCI	93,425	\$6,794,800	4.64%	0.39%	0.25%	72.73	76.80	5.60%	5.40%
Liberty Interactive Corporation Class A	LINTA	216,350	\$6,287,131	4.29%	0.36%	0.01%	29.06	28.45	-2.10%	-2.30%
TOP TEN HOLDINGS			\$74,811,395	51.10%	4.33%	9.21%	Russell 1000 Growt	th:	0.20%	

Total Portfolio Value Total StanCERA Value **\$146,400,409** \$1,727,479,698

Dodge & Cox Equity Active US Large Cap Value Manager Positions as of April 30, 2014

			\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
HEWLETT-PACKARD CO	HPQ	232,705	\$7,693,227	4.20%	0.45%	0.70%	33.06	32.52	-1.63%	-1.83%
WELLS FARGO & CO	WFC	146,072	\$7,251,014	4.10%	0.42%	2.50%	49.64	49.08	-1.13%	-1.32%
MICROSOFT CORP	MSFT	170,000	\$6,868,000	4.00%	0.40%	0.00%	40.40	39.83	-1.41%	-1.61%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$6,835,750	3.90%	0.40%	0.50%	73.90	75.77	2.53%	2.33%
NOVARTIS AG-ADR	NVS	66,000	\$5,738,040	3.10%	0.33%	0.00%	86.94	89.88	3.38%	3.19%
COMCAST CORP-CLASS A	CMCSA	110,363	\$5,712,388	3.10%	0.33%	0.10%	51.76	50.19	-3.03%	-3.23%
SANOFI-ADR	SNY	98,255	\$5,286,119	2.90%	0.31%	0.00%	53.80	53.10	-1.30%	-1.50%
GLAXOSMITHKLINE PLC-SPON ADR	GSK	95,000	\$5,260,150	2.90%	0.30%	0.00%	55.37	55.43	0.11%	-0.09%
SCHLUMBERGER LTD	SLB	51,600	\$5,239,980	2.90%	0.30%	0.00%	101.55	99.59	-1.93%	-2.13%
TIME WARNER INC	TWX	78,232	\$5,199,298	2.80%	0.30%	0.60%	66.46	68.89	3.66%	3.46%
TOP TEN HOLDINGS	•		\$61,083,966	33.90%	3.54%	4.40%	Russell 1000 Grow	th:	0.20%	

Total Portfolio Value Total StanCERA Value **\$181,407,043** \$1,727,479,698

Legato Capital Management Active US Small Cap Growth Manager Positions as of April 30, 2014

			\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000G	\$ PX	\$PX	% Change	% Change
Cepheid	CPHD	25,319	\$1,100,870	1.34%	0.06%	0.36%	43.48	42.49	-2.28%	0.02%
Ultimate Software Group, Inc.	ULTI	8,996	\$1,076,191	1.31%	0.06%	0.41%	119.63	120.68	0.88%	3.17%
Portfolio Recovery Associates, Inc.	PRAA	17,364	\$992,353	1.21%	0.06%	0.36%	57.15	51.90	-9.19%	-6.89%
United Natural Foods, Inc.	UNFI	12,257	\$846,101	1.03%	0.05%	0.42%	69.03	66.91	-3.07%	-0.78%
Vantiv, Inc. Class A	VNTV	25,310	\$778,283	0.95%	0.05%	0.00%	30.75	30.36	-1.27%	1.02%
MAXIMUS, Inc.	MMS	18,256	\$777,158	0.94%	0.04%	0.36%	42.57	42.86	0.68%	2.97%
Grand Canyon Education, Inc.	LOPE	17,814	\$765,646	0.93%	0.04%	0.24%	42.98	45.09	4.91%	7.20%
Neogen Corporation	NEOG	17,963	\$750,404	0.91%	0.04%	0.18%	41.78	36.31	-13.09%	-10.80%
CoStar Group, Inc.	CSGP	4,620	\$743,312	0.90%	0.04%	0.56%	160.89	153.94	-4.32%	-2.03%
Lithia Motors, Inc. Class A	LAD	9,948	\$738,937	0.90%	0.04%	0.20%	74.28	74.03	-0.34%	1.96%
TOP TEN HOLDINGS			\$8,569,255	10.42%	0.50%	3.09%	Russell 2000 Growt	h:	-2.29%	

Total Portfolio Value Total StanCERA Value **\$82,243,132** \$1,727,479,698

BNY - S&P 500 Index Passive S&P 500 Index Fund Positions as of April 30, 2014

			\$ Value	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	5,297	\$3,125,454	3.21%	0.18%	590.09	597.51	1.26%	1.42%
Exxon Mobil Corp	XOM	24,910	\$2,550,994	2.62%	0.15%	102.41	100.74	-1.63%	-1.47%
Microsoft	MSFT	43,622	\$1,762,328	1.81%	0.10%	40.40	39.83	-1.41%	-1.25%
Johnson & Johnson	JNJ	16,341	\$1,655,225	1.70%	0.10%	101.29	100.58	-0.70%	-0.54%
General Electric Co	GE	57,210	\$1,538,386	1.58%	0.09%	26.89	26.67	-0.82%	-0.66%
Chevron Corp	CVX	10,937	\$1,372,863	1.41%	0.08%	125.52	123.18	-1.86%	-1.71%
Wells Fargo & Co.	WFC	27,656	\$1,372,863	1.41%	0.08%	49.64	49.08	-1.13%	-0.97%
Berkshire Hathaway Inc.	BRK-B	10,201	\$1,314,443	1.35%	0.08%	128.85	126.86	-1.54%	-1.39%
Procter & Gamble	PG	15,333	\$1,265,760	1.30%	0.07%	82.55	80.33	-2.69%	-2.53%
JPMorgan Chase & Co.	JPM	21,219	\$1,187,867	1.22%	0.07%	55.98	53.31	-4.77%	-4.61%
TOP TEN HOLDINGS	•		\$17,146,185	17.61%	0.99%	S&P 500 Index:	•	-0.16%	

Total Portfolio Value Total StanCERA Value \$97,366,183

\$1,727,479,698

LSV Asset Management International Large Cap Value Positions as of April 30, 2014

				\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	\$ PX*	\$ PX*	% Change	% Change
ROYAL DUTCH SHELL	RDS-A	London	49,792	\$3,920,628	2.47%	0.23%	1.42%	78.74	78.94	0.25%	-0.70%
ASTRAZENECA PLC	AZN	London	47,187	\$3,730,152	2.35%	0.22%	0.54%	79.05	80.28	1.56%	0.61%
MAGNA INTERNATIONAL INC	MGA	Canada	27,052	\$2,650,789	1.67%	0.15%	0.12%	97.99	99.00	1.03%	0.08%
ALLIANZ SE	ALV.DE	Germany	19,198	\$2,396,821	1.51%	0.14%	0.43%	124.85	121.35	-2.80%	-3.75%
BASF SE	BASFY	Germany	19,850	\$2,238,091	1.41%	0.13%	0.58%	112.75	112.73	-0.02%	-0.97%
DAIMLER AG	DAI.DE	Germany	32,826	\$2,190,472	1.38%	0.13%	0.49%	66.73	65.21	-2.28%	-3.23%
SANOFI S.A.	SNY	London	40,125	\$2,158,726	1.36%	0.12%	0.71%	53.80	53.10	-1.30%	-2.25%
NOVARTIS AG	NVS	Switzerland	23,735	\$2,063,488	1.30%	0.12%	1.09%	86.94	89.88	3.38%	2.43%
CHINA PETROLEUM & CHEMICAL CORPO	SNP	Hong Kong	22,505	\$1,999,996	1.26%	0.12%	0.12%	88.87	91.07	2.48%	1.53%
OLD MUTUAL PLC	OML.L	London	10,015	\$1,999,996	1.26%	0.12%	0.09%	199.70	200.00	0.15%	-0.80%
TOP TEN HOLDINGS				\$25,349,159	15.97%	1.47%	5.59%	MSCI ACWI ex-	-U.S.	0.95%	

Total Portfolio Value Total StanCERA Value **\$158,729,865** \$1,727,479,698

<sup>\*</sup>Company quotes are provided directly in USD

Pyramis Global Advisors Active Non-US Growth Manager Positions as of April 30, 2014

				\$ Value	Weight	Weight	Weight	4/30/2014	5/16/2014	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	PX*	PX*	% Change	% Change
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	34,365	\$2,678,751	1.64%	0.16%	1.40%	28.55	28.81	0.91%	-0.04%
NESTLE SA (REG)	7123870	Switzerland	64,005	\$2,652,168	1.48%	0.15%	1.34%	67.90	71.45	5.23%	4.28%
SANOFI	5671735	Paris	19,329	\$2,138,475	1.27%	0.12%	0.70%	53.80	53.10	-1.30%	-2.25%
HSBC HOLDINGS PLC (UK REG)	540528	London	196,453	\$2,003,925	1.26%	0.12%	1.03%	10.25	10.60	3.41%	2.46%
BAYER AG	5069211	Germany	14,223	\$1,972,090	1.22%	0.11%	0.62%	139.22	141.76	1.82%	0.87%
LLOYDS BANKING GROUP PLC	870612	London	1,394,874	\$1,774,965	1.10%	0.10%	0.34%	1.23	1.25	1.63%	0.68%
ROCHE HLDGS AG (GENUSSCHEINE)	7110388	Germany	5,455	\$1,717,753	1.03%	0.10%	1.11%	36.65	37.72	2.92%	1.97%
ALLIANZ SE (REGD)	5231485	Germany	78,694	\$1,649,399	1.03%	0.10%	0.43%	124.85	121.35	-2.80%	-3.75%
UBS AG (REGD)	B18YFJ4	Germany	28,600	\$1,644,579	1.02%	0.10%	0.41%	130.65	130.65	0.00%	-0.95%
GLAXOSMITHKLINE PLC	925288	London	9,528	\$1,578,307	1.02%	0.09%	0.72%	1632.00	1643.50	0.70%	-0.25%
TOP TEN HOLDINGS				\$19,810,412	12.07%	1.15%	8.10%	MSCI ACWI ex-	-US:	0.95%	

Total Portfolio Value Total StanCERA Value **\$159,513,731** \$1,727,479,698

\*Company quotes are provided in foreign currency and then converted to USD

#### STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000 SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 = FAX 415/362-2752

#### **MEMORANDUM**

DATE: May 27, 2014

StanCERA Board of Retirement TO:

StanCERA Staff

FROM: Paul S. Harte

SUBJECT: **PIMCO** 

Request for Modification to StanCERA's Guidelines

#### Overview

PIMCO had previously made a request to align StanCERA's definition of cash equivalents in their Statement of Investment Policy to PIMCO's standard definition of cash equivalents. The primary reason for PIMCO's request is to improve their operational efficiency (i.e., to make StanCERA similar to PIMCO's other clients) without having any material change to the risk/return profile of the StanCERA core fixed income portfolio.

The StanCERA Statement of Investment Policy as it relates to cash holdings is listed below:

#### Fixed Income Holdings

It is understood and acknowledged that benefit payment shortfalls (benefit payments less contributions) can be most efficiently managed from our fixed income portfolio. As a result, liquidity levels in the fixed income portfolios may naturally contain higher levels of cash relative to non-fixed income portfolios. Even so, excess cash holdings in separate short term fixed income accounts should be minimized. Cash equivalent holdings are allowed in the fixed income portfolio to maintain the portfolio duration within Investment Policy limits. Cash equivalent reserves shall consist of cash instruments having quality ratings by at least one rating agency of A-1, P-1 or higher, maturing in 360 days or less. The custodian's shortterm investment fund (STIF) is considered an eligible investment vehicle.

#### PIMCO Guidelines Request and Effect on StanCERA's Guidelines

Strategic Investment Solutions—in an email that was sent to PIMCO on May 7, 2014—received the following answers to four basic questions on why they were requesting a modification to guidelines:

1. Why you want to make that change?

We would like to align StanCERA's definition of cash equivalent's to PIMCO's standard definition of cash equivalents. This improves our operational efficiency without any material change to the risk/return profile of StanCERA's portfolio.

Background: StanCERA's guidelines defined cash equivalent securities as "instruments having quality ratings by at least one rating agency of A-1/P-1 or higher and **maturing** in 360 days or less. PIMCO's standard definition for cash equivalents (applied firm wide) applies a one year **duration** limit and a credit quality minimum of A- (which maps to A-2/P-2).

On the margin, aligning StanCERA's definition to PIMCO's standard definition will permit us to use a more automated process in evaluating compliance with cash backing limitations for forward settling positions. This issue originally surfaced in February 2014 when our compliance group notified us that we had modestly insufficient cash backing for a forward settling transaction because of the StanCERA's "custom" cash equivalent definition (in this case, we had a T Bill that just exceeded the 360 day maturity limit that we were not allowed to "count" as a cash equivalent but it would have passed muster under the one year duration limit).

2. The effect of making that change if we grant you your request?

In truth, the effect will be marginal (and not noticeable) from StanCERA's perspective. Changing the definition will allow us to automate a process that is currently more manual in nature. However, since this issue has only surfaced one time since funding the portfolio, it's clear to me that leaving the guideline unchanged will not have a material impact on the portfolio. Finally, if we need to choose between the two limits (duration or credit), we would prefer to align the duration limitation (and move away from a maturity based test).

3. How much value can you add by that change potentially?

We requested the change primarily for operational reasons – I don't see the change affecting the return or risk profile of the portfolio.

4. If we don't make that change request, how much heartburn will that cause you?

In truth, it will cause us minimal heart burn. My best estimate is that once to twice a year, we may need to obtain clarification/approval to use an instrument for cash backing that falls outside of StanCERA's definition. In light of this, if at all possible, I would very much like to maintain the duration test – I see that as an issue that is more likely to surface than the credit quality limit. I made the original request because I thought it would improve operations for our compliance and trade floor without "costs" for StanCERA.

Please let me know if I may answer any additional questions.

Warm regards, Matt Clark

SIS Memorandum to StanCERA Board of Retirement/StanCERA Staff PIMCO, Request for Modification to StanCERA's Guidelines May 27, 2014

#### Recommendation

The request made by PIMCO to modify the Cash Equivalents section of StanCERA's guidelines asks to change the duration from 360 days to 1-year (365 days) and to lower the credit quality minimum from A1/P1 to A2/P2 (still highly rated). These proposed changes would most likely only affect a handful of transactions in any year. The overall effect is miniscule.

Strategic Investment Solutions recommends that the StanCERA Board grant PIMCO's request and change their Statement of Investment Policy as it relates to cash equivalents by lengthening the duration from 360 days to 1-year and changing the minimum credit quality from A1/P1 to A2/P2. If the StanCERA Board does not want to make any changes that would also be okay as the PIMCO request is solely from an operational standpoint to align StanCERA's guidelines with their other clients.



#### STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12<sup>th</sup> Street, Suite 600 Modesto, CA 95354 P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393 Fax (209) 558-4976 www.stancera.org e-mail: retirement@stancera.org

# For the Retirement Board meeting Held on May 27, 2014

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: 2014 Quarter 1 Value Added and Cash Flow Report
- II. ITEM: #8.b
- III. RECOMMENDATION: None; Information item only
- IV. ANALYSIS: This report is meant to associate the fees StanCERA pays to manage its active portfolio with the returns the active managers are achieving. Among other things, the report shows all fees StanCERA pays in an attempt to earn a return greater than its policy benchmark. It breaks this information down by each active manager and shows how much value a manager is adding to the portfolio. "Value Added" in its purest form can simply be defined as the dollar returns a manager earns above the benchmark, less all fees StanCERA pays associated with that manager. The exhibits below are presented to the Board on a quarterly basis and the dialogue focuses specifically on notable information in this quarter's report. New to this month's report is a cash flow report detailing all cash flows into and out of the system between January 1, 2014 and March 31, 2014.

#### Quarterly Value Added Report

• Value Added Summary – This summary gives aggregate information for our current active managers for the most recent quarter and 12 month year over year period. It also presents the same information by asset class and style.

Quarter 1 proved to be challenging for StanCERA's active managers in the aggregate. The group lost \$4.6 million against their respective benchmarks, however, this should not come as a surprise, since the group has not had a losing quarter since June 30, 2012, adding over \$45 million in value since this time.

The fixed income portfolio continues to add the greatest relative value to the portfolio, buoyed once again by Dodge & Cox fixed income. Dodge & Cox fixed income has had only 4 losing quarters in the last 20. At the very least, this rate of success suggests that StanCERA at least consider a subset of the Barclay's aggregate as a more appropriate benchmark for Dodge & Cox fixed income. Staff will visit this issue in the near future.

Year over year active managers have added approximately \$18.2 million in value to the portfolio, led by Dodge & Cox fixed income. PIMCO and Delaware were the only detractors of value over this time period, losing just over \$2 million.

Value style investing led the way year over year earning over \$9 million in relative value, easily outpacing Large Cap style investing by nearly double.

• Total Fee Summary - This summary shows fees in dollars and expressed in annualized basis points for the most recent quarter and 12 month year over year period. The expression in annualized basis points allows one to weigh the reduction in the manager's total return due to the fees StanCERA pays to achieve those returns.

Compared to the year over year figures, manager fees as a percentage of the total portfolio declined this quarter from 34 basis points down to 31.3. This in large part can be explained by the new fee structure implemented with LSV Asset Management (discussed in more detail below).

Year over year, StanCERA paid approximately 33.5 basis points in fees to manage its portfolio. This compares favorably with the 35 basis point average of all 1937 Act Systems.

Custodial fees for this quarter expressed in basis points remained unchanged relative to year over year.

• 5 - Year Individual Manager Quarterly Value Added - This summary gives the quarterly value added and cumulative amounts for each individual manager for the past 5 years. Cumulatively, all active managers have added value over this period.

This quarter marks the first reporting period since the implementation of the new performance based fee schedule with LSV Asset Management. Managerial fees for LSV decreased approximately 57% or \$124,000 from the prior quarter due to subpar relative performance. LSV managerial fees are also 50% lower this quarter compared to the average over the last 5 years. Interestingly, custodial fees for LSV were up over 23% this quarter compared to the average of the 4 previous quarters. Custodial fees for LSV are heavily correlated with levels of trading. Caution should be taken in evaluating the efficacy of the performance based fee schedule at this early stage.

#### Cash Flow Report

This quarter provides the first report showing StanCERA's cash flows over the period January 1, 2014 through March 31, 2014. The report should be fairly self-explanatory.

- V. RISK: None
- VI. Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.

VII. BUDGET IMPACT: None

Rick Santos, Executive Director

Luiana Irizarry, Investment/Accounting Technician

Luiana M. Elrizarry

#### **Value Added Summary**

12/31/2013

Growth

390,394,912

3,630,152

(2,098,786)

(2,707,000)

389,219,278

(559,179)

(95,541)

(\$2,753,506)

-0.7%

Through

3/31/2014

(\$917,835)

42.2%

#### **By Current Active Managers**

										Mo	onthly
		Chan	ges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Current Active Managers	<u>Beginning</u>	Passive Return	Excess Return	Net Cash Flows	<u>Ending</u>	<u>Managerial</u>	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	183,006,527	5,726,626	(1,247,256)	(9,090,499)	178,395,398	(88,200)	(5,993)	(\$1,341,450)	-0.7%	(447,150)	36.2%
DELAWARE - LARGE CAP GROWTH	144,111,015	1,862,408	(1,120,390)	(1,090,099)	143,762,934	(177,076)	(4,840)	(\$1,302,306)	-0.9%	(434,102)	42.7%
CAPITAL PROSPECTS*	92,459,127	1,782,548	203,294	(677,518)	93,767,450	(177,806)	(10,791)	\$14,696	0.0%	4,899	50.3%
Legato Capital*	87,417,690	577,779	135,426	(741,215)	87,389,681	(202,405)	(25,425)	(\$92,404)	-0.1%	(30,801)	47.5%
LSV ASSET MGMT	153,643,209	1,160,066	(732,010)	(353,826)	153,717,439	(95,219)	(49,656)	(\$876,885)	-0.6%	(292,295)	25.7%
Pyramis	158,866,206	1,189,965	(1,113,822)	(875,686)	158,066,663	(179,698)	(65,276)	(\$1,358,796)	-0.9%	(452,932)	38.7%
DODGE & COX FI	388,696,352	7,180,223	789,086	(1,584,322)	395,081,339	(106,850)	(12,264)	\$669,972	0.2%	223,324	66.4%
PIMCO**	104,823,580	1,947,411	(243,594)	(10,128)	106,517,268	(90,077)	(8,159)	(\$341,830)	-0.3%	(113,943)	23.5%
* Funded December 2008											
** Funded May 2010											
				P <sub>1</sub>	Asset Class						
				Бу	Asset Class						
											onthly
			ges in Portfolio Va			Fees			Added	Average	Probability
Value Added By Asset Class	<u>Beginning</u>	Passive Return	Excess Return	Net Cash Flows	<u>Ending</u>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
1. Equity	=05.004.0=0	0.040.054	(2.020.027)	(44 500 600)	=00 04 <b>=</b> 460	(545.403)	(47.040)	(40.704.450)	0.70/	(4007.45.4)	40.004
a. Domestic	506,994,359	9,949,361	(2,028,927)	(11,599,330)	503,315,463	(645,487)	(47,049)	(\$2,721,463)	-0.5%	(\$907,154)	42.6%
b. International	312,509,415	<u>2,350,031</u>	(1,845,832)	(1,229,512)	311,784,102	(274,917)	(114,932)	(\$2,235,681)	-0.7%	(\$745,227)	32.3%
Equity Total	819,503,774	12,299,391	(3,874,758)	(12,828,842)	815,099,565	(920,404)	(161,981)	(\$4,957,144)	-0.6%	(\$1,652,381)	38.7%
2. Fixed Income	493,519,932	9,127,633	545,492	(1,594,450)	501,598,607	(196,927)	(20,423)	\$328,142	0.1%	\$109,381	57.3%
3. Total Equity and Fixed Income	1,313,023,706	21,427,025	(3,329,267)	(14,423,292)	1,316,698,172	(1,117,331)	(182,404)	(\$4,629,002)	-0.4%	(\$1,543,001)	45.7%
					By Style						
										Мо	onthly
		Chan	ges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Value Added By Asset Class	<u>Beginning</u>	Passive Return	Excess Return	Net Cash Flows	<b>Ending</b>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
Large Cap	327,117,542	7,589,033	(2,367,646)	(10,180,597)	322,158,332	(265,276)	(10,833)	(\$2,643,756)	-0.8%	(\$881,252)	39.1%
Small Cap	179,876,817	2,360,327	338,720	(1,418,733)	181,157,131	(380,211)	(36,216)	(\$77,708)	0.0%	(\$25,903)	48.9%
Value	429,108,863	8,669,240	(1,775,973)	(10,121,843)	425,880,287	(361,225)	(66,441)	(\$2,203,638)	-0.5%	(\$734,546)	35.5%
C	200 204 042	2 620 452	(2,000,705)	(2 707 000)	200 240 270	(=== 4===)	105 5 443	(40	0.70/	(40.4 = 00.5)	

# **Value Added Summary**

3/31/2013

Large Cap

Small Cap

Value

Growth

290,696,873

147,896,506

371,095,386

338,432,851

63,473,231

37,960,608

70,704,902

67,373,791

5,661,208

2,950,628

4,255,507

11,001,895

(37,672,980)

(7,650,611)

(26,921,896)

(20,842,870)

Through

3/31/2014

#### **By Current Active Managers**

				-,	- · · · · · · · · · · · · · · · · · · ·						
										M	onthly
		Chan	ges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
<b>Current Active Managers</b>	<b>Beginning</b>	Passive Return	Excess Return	Net Cash Flows	<u>Ending</u>	<u>Managerial</u>	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	159,422,540	34,540,194	5,781,999	(21,349,335)	178,395,398	(337,869)	(23,953)	\$5,420,177	3.2%	451,681	62.4%
DELAWARE - LARGE CAP GROWTH	131,274,333	28,933,036	(120,791)	(16,323,644)	143,762,934	(668,493)	(17,884)	(\$807,168)	-0.6%	(67,264)	48.3%
CAPITAL PROSPECTS*	79,008,788	18,163,354	1,270,895	(4,675,587)	93,767,450	(671,899)	(41,234)	\$557,762	0.6%	46,480	53.1%
Legato Capital*	68,887,718	19,797,254	1,679,734	(2,975,024)	87,389,681	(749,550)	(98,182)	\$832,002	1.1%	69,334	54.1%
LSV ASSET MGMT	132,664,058	18,001,353	3,949,002	(896,974)	153,717,439	(713,347)	(170,475)	\$3,065,180	2.1%	255,432	65.9%
Pyramis	138,270,800	18,643,501	2,696,564	(1,544,202)	158,066,663	(702,242)	(267,214)	\$1,727,109	1.2%	143,926	55.2%
DODGE & COX FI	425,532,175	(471,037)	9,209,599	(39,189,398)	395,081,339	(432,791)	(46,929)	\$8,729,879	2.1%	727,490	71.9%
PIMCO**	112,173,477	(142,926)	(898,467)	(4,614,816)	106,517,268	(359,956)	(34,153)	(\$1,292,576)	-1.2%	(107,715)	31.6%
* Funded December 2008											
** Funded May 2010											
•											
				Ву	Asset Class						
										M	onthly
		Chan	ges in Portfolio Va	llue		Fees		Value	Added	Average	Probability
Value Added By Asset Class	Beginning	Passive Return	Excess Return	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
1. Equity											
a. Domestic	438,593,379	101,433,839	8,611,836	(45,323,591)	503,315,463	(2,427,810)	(181,253)	\$6,002,773	1.3%	\$500,231	55.2%
b. International	270,934,858	36,644,854	6,645,566	(2,441,176)	311,784,102	(1,415,589)	(437,689)	\$4,792,289	1.6%	\$399,357	60.4%
Equity Total	709,528,237	138,078,692	15,257,402	(47,764,766)	815,099,565	(3,843,399)	(618,942)	\$10,795,062	1.4%	\$899,589	57.2%
2. Fixed Income	537,705,652	(613,963)	8,311,132	(43,804,214)	501,598,607	(792,747)	(81,082)	\$7,437,303	1.4%	\$619,775	63.5%
3. Total Equity and Fixed Income	1,247,233,889	137,464,729	23,568,534	(91,568,980)	1,316,698,172	(4,636,145)	(700,024)	\$18,232,365	1.4%	\$1,519,364	59.9%
					By Style						
										M	onthly
		Chan	ges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Value Added By Asset Class	<b>Beginning</b>	Passive Return	Excess Return	Net Cash Flows	<b>Ending</b>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
	000 000 0-1	CO 480 CT :		10 m ama a :		1	4 - 4	A second control			

322,158,332

181,157,131

425,880,287

389,219,278

(1,006,361)

(1,421,449)

(1,723,115)

(2,120,284)

(41,837)

(139,416)

(235,662)

(383,280)

\$4,613,010

\$1,389,764

\$9,043,119

\$1,751,943

1.5%

0.8%

2.3%

0.5%

\$384,417

\$115,814

\$753,593

\$145,995

56.0%

53.6%

61.6%

52.3%

# **Total Fee Summary**

3/31/2013

Through

3/31/2014

		Mar	nagerial Fees	Cus	stodial Fees		Total Fees
Manager	Average Dollars Managed	Total	Annualized Basis Points	Total	<b>Annualized Basis Points</b>	Total	Annualized Basis Points
DODGE & COX - LARGE CAP VALUE	170,967,060	337,869	19.8	23,953	1.4	361,822	21.2
MAZAMA - SMALL CAP GROWTH  * Terminated 12/2008	*	130	0.0		0.0		0.0
DELAWARE - LARGE CAP GROWTH	134,809,096	668,493	49.6	17,884	1.3	686,377	50.9
LOOMIS SAYLES - LARGE CAP GROWTH  * Terminated 6/2010  Capital Prospects - By Manager	•	:=-	0.0	*	0.0	20.	0.0
Bernzott	12,093,325	94,066		5,773		99,839	
Channing	20,040,367	155,881		9,566		165,447	
InView	18,831,034	146,474		8,989		155,463	
Keeley	11,143,135	86,675		5,319		91,994	
Ten/Pacific Ridge	11,747,801	91,378		5,608		96,986	
Walthausen	12,525,229	97,425		5,979		103,404	
CAPITAL PROSPECTS	86,380,891	671,899	77.8	41,234	4.8	713,133	82.6
Legato - By Manager							
CastleArk	13,375,445	123,676		16,200		139,876	
Lee Munder/Crosswinds	17,428,610	161,153		21,109		182,262	
Eudaimonia	11,348,862	104,937		13,745		118,682	
Riverbridge	19,455,192	179,892		23,564		203,456	
Stephens	19,455,192	179,892		23,564		203,456	
LEGATO CAPITAL	81,063,301	749,550	92.5	98,182	12.1	847,732	104.6
LSV ASSET MGMT	143,907,950	713,347	49.6	170,475	11.8	883,822	61.4
PYRAMIS	149,458,014	702,242	47.0	267,214	17.9	969,455	64.9
DODGE & COX FI	400,171,072	432,791	10.8	46,929	1.2	479,720	12.0
PIMCO	107,700,931	359,956	33.4	34,153	3.2	394,109	36.6
* Inception Date 5/2010 INVESCO	×	溪	0.0		0.0	*	0.0
* Terminated 9/2012 RAFI** * Terminated 6/2012	旦		0.0	Eki i	0.0	<b>%</b> €	0.0
STRATEGIC INVESTMENT SOLUTIONS	1,640,126,278	165,409	1.0	N/A	N/A	165,409	1.0
TOTAL	1,640,126,278	4,801,554	29.3	700,024	4.3	5,501,578	33.5

<sup>\*\*</sup> RAFI fees are taken from the actual portfolio

# **Total Fee Summary**

12/31/2013

Through

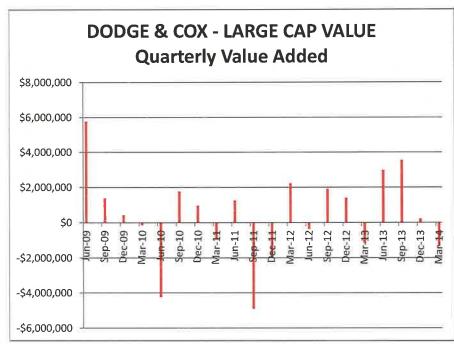
3/31/2014

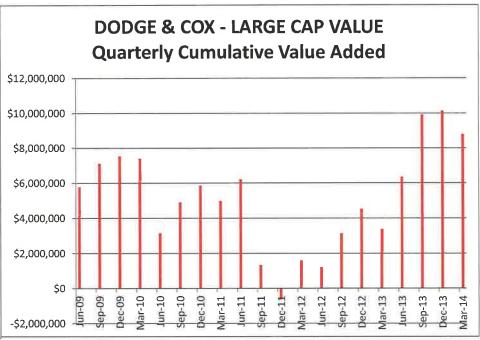
<u>Manager</u> DODGE & COX - LARGE CAP VALUE	Average Dollars Managed 179,627,155	<b>Mar</b> <u>Total</u> 88,200	Annualized Basis Points 19.6		fial Fees Annualized Basis Points 1.3	<u>Total</u> 94,193	Total Fees Annualized Basis Points 21.0
MAZAMA - SMALL CAP GROWTH * Terminated 12/2008	s.	;●;	0.0	*	0.0	,: <b>:</b> ::	0.0
DELAWARE - LARGE CAP GROWTH	143,119,304	177,076	49.5	4,840	1.4	181,916	50.8
LOOMIS SAYLES - LARGE CAP GROWTH  * Terminated 6/2010  Capital Prospects - By Manager	9	( <b>*</b> )	0.0	:e-1	0.0	(*)	0.0
Bernzott	12,844,487	24,893		1,511		26,404	
Channing	21,285,150	41,251		2,504		43,755	
InView	20,000,701	38,762		2,352		41,114	
Keeley	11,835,277	22,937		1,392		24,329	
Ten/Pacific Ridge	12,477,502	24,182		1,468		25,649	
Walthausen	13,303,219	25,782		1,565		27,347	
CAPITAL PROSPECTS	91,746,336	177,806	77.5	10,791	4.7	188,597	82.2
Legato - By Manager							
CastleArk	14,522,583	33,397		4,195		37,592	
Lee Munder/Crosswinds	18,923,365	43,517		5,466		48,984	
Eudaimonia	12,322,191	28,337		3,560		31,896	
Riverbridge	21,123,757	48,577		6,102		54,679	
Stephens	21,123,757	48,577		6,102		54,679	
LEGATO CAPITAL	88,015,653	202,405	92.0	25,425	11.6	227,830	103.5
LSV ASSET MGMT	151,382,667	95,219	25.2	49,656	13.1	144,875	38.3
PYRAMIS	156,214,267	179,698	46.0	65,276	16.7	244,974	62.7
DODGE & COX FI	393,112,797	106,850	10.9	12,264	1.2	119,114	12.1
PIMCO * Inception Date 5/2010	106,633,987	90,077	33.8	8,159	3.1	98,236	36.8
INVESCO  * Terminated 9/2012	2	121	0.0	2	0.0	21	0.0
RAFI**  * Terminated 6/2012	3	(8)	0.0		0.0	£	0.0
STRATEGIC INVESTMENT SOLUTIONS	1,715,820,103	42,500	1.0	N/A	N/A	42,500	1.0
TOTAL	1,715,820,103	1,159,831	27.0	182,404	4.3	1,342,236	31.3

<sup>\*\*</sup> RAFI fees are taken from the actual portfolio

#### **DODGE & COX - LARGE CAP VALUE Quarterly Value Added**

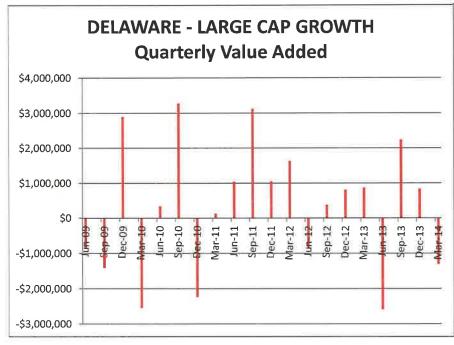
Quarter	Begin Date	End Date	<u> Alpha</u>	Managerial	Custodial	Value Added
1	3/31/2009	6/30/2009	\$5,845,442	\$74,654	\$3,210	\$5,767,578
2	6/30/2009	9/30/2009	\$1,446,821	\$85,652	\$3,814	\$1,357,354
3	9/30/2009	12/31/2009	\$515,303	\$88,756	\$4,122	\$422,425
4	12/31/2009	3/31/2010	-\$57,048	\$92,709	\$4,312	-\$154,069
5	3/31/2010	6/30/2010	-\$4,161,579	\$74,563	\$4,009	-\$4,240,151
6	6/30/2010	9/30/2010	\$1,841,032	\$79,904	\$3,653	\$1,757,475
7	9/30/2010	12/31/2010	\$1,043,825	\$86,729	\$3,997	\$953,099
8	12/31/2010	3/31/2011	-\$785,178	\$90,267	\$4,388	-\$879,833
9	3/31/2011	6/30/2011	\$1,340,497	\$88,927	\$4,499	\$1,247,071
10	6/30/2011	9/30/2011	-\$4,824,229	\$72,824	\$3,136	-\$4,900,189
11	9/30/2011	12/31/2011	-\$1,888,926	\$75,694	\$2,344	-\$1,966,964
12	12/31/2011	3/31/2012	\$2,303,140	\$68,984	\$1,476	\$2,232,680
13	3/31/2012	6/30/2012	-\$301,101	\$67,711	\$2,236	-\$371,048
14	6/30/2012	9/30/2012	\$1,983,489	\$71,825	\$1,072	\$1,910,592
15	9/30/2012	12/31/2012	\$1,467,208	\$73,225	\$2,092	\$1,391,891
16	12/31/2012	3/31/2013	-\$1,072,291	\$79,186	\$4,665	-\$1,156,142
17	3/31/2013	6/30/2013	\$3,074,425	\$80,061	\$6,119	\$2,988,245
18	6/30/2013	9/30/2013	\$3,641,556	\$81,796	\$6,026	\$3,553,733
19	9/30/2013	12/31/2013	\$313,275	\$87,811	\$5,815	\$219,650
20	12/31/2013	3/31/2014	-\$1,247,256	\$88,200	\$5,993	-\$1,341,450

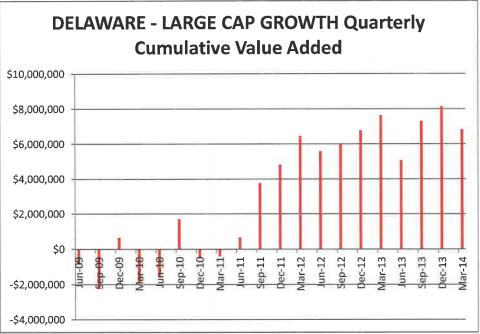




# **DELAWARE - LARGE CAP GROWTH Quarterly Value Added**

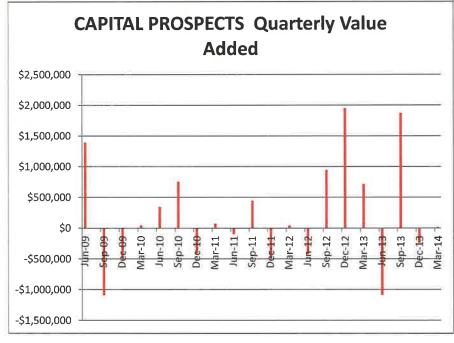
Quarter	Begin_Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	3/31/2009	6/30/2009	-\$731,767	\$116,062	\$2,078	-\$849,907
2	6/30/2009	9/30/2009	-\$1,263,475	\$131,961	\$2,431	-\$1,397,867
3	9/30/2009	12/31/2009	\$3,043,032	\$143,212	\$2,680	\$2,897,140
4	12/31/2009	3/31/2010	-\$2,395,031	\$144,649	\$2,754	-\$2,542,434
5	3/31/2010	6/30/2010	\$442,133	\$106,047	\$2,162	\$333,923
6	6/30/2010	9/30/2010	\$3,378,675	\$101,839	\$1,869	\$3,274,967
7	9/30/2010	12/31/2010	-\$2,113,459	\$115,269	\$2,140	-\$2,230,869
8	12/31/2010	3/31/2011	\$253,486	\$125,411	\$2,342	\$125,734
9	3/31/2011	6/30/2011	\$1,170,665	\$129,638	\$2,425	\$1,038,603
10	6/30/2011	9/30/2011	\$3,241,561	\$123,443	\$1,098	\$3,117,020
11	9/30/2011	12/31/2011	\$1,180,312	\$127,986	\$1,178	\$1,051,148
12	12/31/2011	3/31/2012	\$1,778,217	\$141,840	\$1,694	\$1,634,683
13	3/31/2012	6/30/2012	-\$723,810	\$142,009	\$1,954	-\$867,773
14	6/30/2012	9/30/2012	\$528,838	\$145,968	\$1,824	\$381,046
15	9/30/2012	12/31/2012	\$957,854	\$147,904	\$2,026	\$807,924
16	12/31/2012	3/31/2013	\$1,030,783	\$159,111	\$4,988	\$866,684
17	3/31/2013	6/30/2013	-\$2,421,912	\$156,738	\$4,430	-\$2,583,080
18	6/30/2013	9/30/2013	\$2,406,424	\$160,682	\$4,282	\$2,241,460
19	9/30/2013	12/31/2013	\$1,015,086	\$173,996	\$4,333	\$836,758
20	12/31/2013	3/31/2014	-\$1,120,390	\$177,076	\$4,840	-\$1,302,306

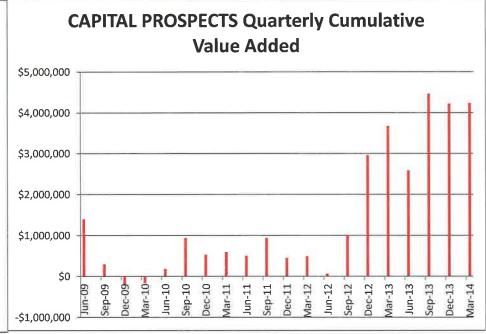




# **CAPITAL PROSPECTS Quarterly Value Added**

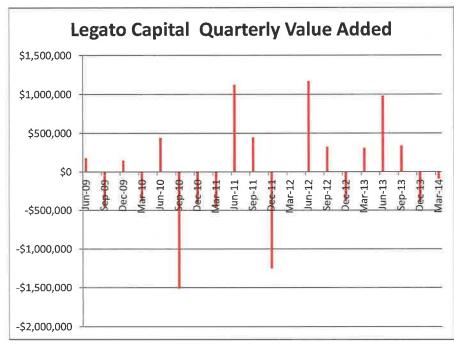
<u>Quarter</u>	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	3/31/2009	6/30/2009	\$1,489,736	\$94,328	\$4,650	\$1,390,759
2	6/30/2009	9/30/2009	-\$975,854	\$110,157	\$5,491	-\$1,091,503
3	9/30/2009	12/31/2009	-\$380,938	\$113,833	\$5,846	-\$500,617
4	12/31/2009	3/31/2010	\$172,742	\$123,719	\$6,289	\$42,735
5	3/31/2010	6/30/2010	\$469,514	\$120,854	\$6,261	\$342,399
6	6/30/2010	9/30/2010	\$873,418	\$113,604	\$5,806	\$754,009
7	9/30/2010	12/31/2010	-\$279,802	\$127,372	\$6,457	-\$413,631
8	12/31/2010	3/31/2011	\$218,674	\$139,484	\$7,171	\$72,018
9	3/31/2011	6/30/2011	\$44,992	\$136,107	\$7,292	-\$98,407
10	6/30/2011	9/30/2011	\$557,229	\$105,623	\$5,628	\$445,978
11	9/30/2011	12/31/2011	-\$378,530	\$108,585	\$4,888	-\$492,003
12	12/31/2011	3/31/2012	\$163,761	\$119,481	\$5,222	\$39,057
13	3/31/2012	6/30/2012	-\$301,042	\$117,427	\$5,636	-\$424,106
14	6/30/2012	9/30/2012	\$1,072,679	\$122,499	\$5,054	\$945,126
15	9/30/2012	12/31/2012	\$2,086,673	\$131,297	\$5,086	\$1,950,290
16	12/31/2012	3/31/2013	\$868,837	\$147,222	\$7,282	\$714,334
17	3/31/2013	6/30/2013	-\$924,866	\$154,313	\$7,805	-\$1,086,983
18	6/30/2013	9/30/2013	\$2,047,762	\$165,329	\$9,476	\$1,872,957
19	9/30/2013	12/31/2013	-\$55,295	\$174,451	\$13,162	-\$242,909
20	12/31/2013	3/31/2014	\$203,294	\$177,806	\$10,791	\$14,696

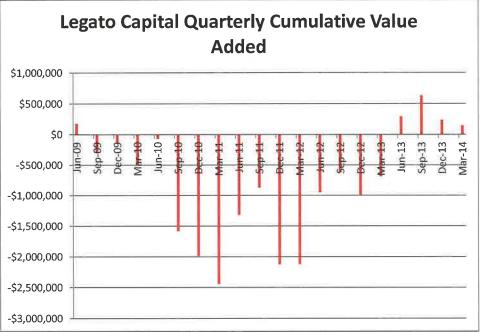




# **Legato Capital Quarterly Value Added**

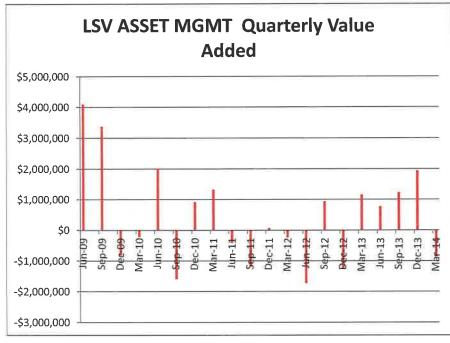
<u>Quarter</u>	<u>Begin Date</u>	End Date	<u>Alpha</u>	<u>Managerial</u>	Custodial	Value Added
1	3/31/2009	6/30/2009	\$262,526	\$73,140	\$10,728	\$178,658
2	6/30/2009	9/30/2009	-\$337,613	\$104,616	\$15,387	-\$457,616
3	9/30/2009	12/31/2009	\$274,823	\$108,982	\$16,133	\$149,708
4	12/31/2009	3/31/2010	-\$246,517	\$116,353	\$17,238	-\$380,108
5	3/31/2010	6/30/2010	\$579,733	\$120,704	\$18,097	\$440,932
6	6/30/2010	9/30/2010	-\$1,377,562	\$117,787	\$17,211	-\$1,512,560
7	9/30/2010	12/31/2010	-\$246,064	\$137,368	\$19,740	-\$403,172
8	12/31/2010	3/31/2011	-\$280,084	\$151,931	\$22,252	-\$454,267
9	3/31/2011	6/30/2011	\$1,299,087	\$154,501	\$23,323	\$1,121,263
10	6/30/2011	9/30/2011	\$582,439	\$117,446	\$18,692	\$446,301
11	9/30/2011	12/31/2011	-\$1,117,167	\$119,430	\$16,508	-\$1,253,105
12	12/31/2011	3/31/2012	\$159,474	\$130,946	\$22,688	\$5,841
13	3/31/2012	6/30/2012	\$1,322,961	\$131,021	\$22,120	\$1,169,820
14	6/30/2012	9/30/2012	\$479,877	\$135,442	\$19,914	\$324,521
15	9/30/2012	12/31/2012	-\$213,207	\$138,254	\$21,088	-\$372,549
16	12/31/2012	3/31/2013	\$485,352	\$153,975	\$21,977	\$309,400
17	3/31/2013	6/30/2013	\$1,167,286	\$164,612	\$21,657	\$981,017
18	6/30/2013	9/30/2013	\$546,533	\$183,840	\$23,292	\$339,402
19	9/30/2013	12/31/2013	-\$169,512	\$198,693	\$27,808	-\$396,013
20	12/31/2013	3/31/2014	\$135,426	\$202,405	\$25,425	-\$92,404

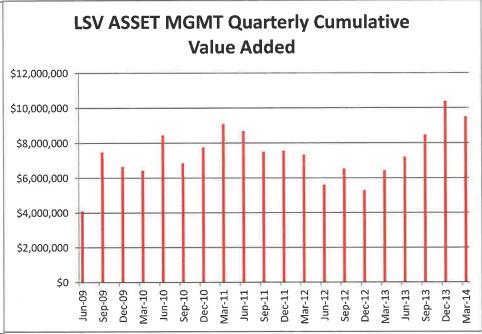




# LSV ASSET MGMT Quarterly Value Added

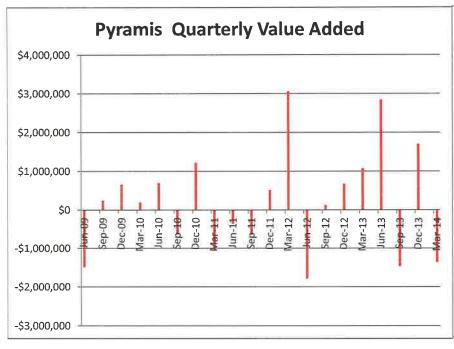
Quarter	Begin Date	End Date	Alpha	<u>Managerial</u>	Custodial	Value Added
1	3/31/2009	6/30/2009	\$4,280,311	\$163,383	\$22,515	\$4,094,412
2	6/30/2009	9/30/2009	\$3,601,604	\$193,494	\$27,633	\$3,380,477
3	9/30/2009	12/31/2009	-\$594,243	\$198,631	\$30,417	-\$823,291
4	12/31/2009	3/31/2010	\$12,530	\$197,281	\$31,000	-\$215,751
5	3/31/2010	6/30/2010	\$2,217,667	\$175,374	\$28,763	\$2,013,530
6	6/30/2010	9/30/2010	-\$1,372,452	\$193,603	\$28,530	-\$1,594,585
7	9/30/2010	12/31/2010	\$1,147,771	\$204,620	\$31,330	\$911,821
8	12/31/2010	3/31/2011	\$1,566,189	\$206,820	\$33,859	\$1,325,510
9	3/31/2011	6/30/2011	-\$164,056	\$205,220	\$34,467	-\$403,742
10	6/30/2011	9/30/2011	-\$1,004,436	\$163,726	\$19,932	-\$1,188,094
11	9/30/2011	12/31/2011	\$251,061	\$168,642	\$15,576	\$66,843
12	12/31/2011	3/31/2012	-\$33,570	\$180,121	\$26,254	-\$239,945
13	3/31/2012	6/30/2012	-\$1,538,936	\$168,468	\$21,326	-\$1,728,730
14	6/30/2012	9/30/2012	\$1,147,740	\$181,141	\$26,629	\$939,969
15	9/30/2012	12/31/2012	-\$1,051,237	\$189,009	\$23,035	-\$1,263,282
16	12/31/2012	3/31/2013	\$1,391,454	\$191,543	\$43,031	\$1,156,880
17	3/31/2013	6/30/2013	\$1,004,560	\$190,029	\$39,759	\$774,771
18	6/30/2013	9/30/2013	\$1,475,950	\$208,847	\$38,465	\$1,228,639
19	9/30/2013	12/31/2013	\$2,200,502	\$219,252	\$42,595	\$1,938,655
20	12/31/2013	3/31/2014	-\$732,010	\$95,219	\$49,656	-\$876,885

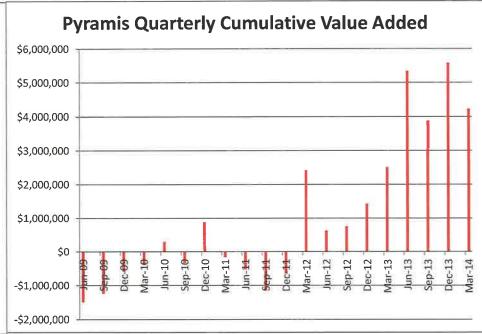




# **Pyramis Quarterly Value Added**

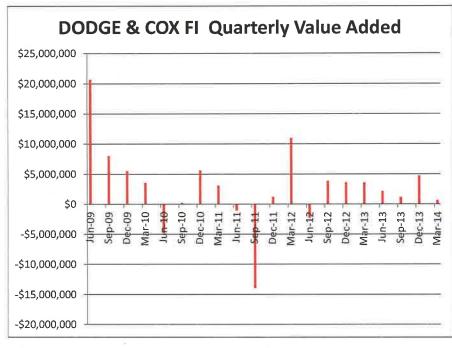
Quarter	Begin Date	End Date	<u>Alpha</u>	Manageri <u>al</u>	Custodial	Value Added
1	3/31/2009	6/30/2009	-\$1,281,976	\$137,529	\$65,502	-\$1,485,008
2	6/30/2009	9/30/2009	\$475,247	\$151,346	\$78,481	\$245,420
3	9/30/2009	12/31/2009	\$899,710	\$157,601	\$85,989	\$656,121
4	12/31/2009	3/31/2010	\$439,347	\$157,772	\$86,437	\$195,138
5	3/31/2010	6/30/2010	\$934,572	\$154,446	\$86,232	\$693,894
6	6/30/2010	9/30/2010	-\$387,602	\$159,074	\$86,739	-\$633,414
7	9/30/2010	12/31/2010	\$1,481,008	\$168,380	\$96,144	\$1,216,484
8	12/31/2010	3/31/2011	-\$772,440	\$174,287	\$101,681	-\$1,048,408
9	3/31/2011	6/30/2011	-\$81,072	\$173,911	\$103,461	-\$358,445
10	6/30/2011	9/30/2011	-\$383,265	\$153,665	\$98,953	-\$635,883
11	9/30/2011	12/31/2011	\$749,781	\$148,898	\$86,186	\$514,697
12	12/31/2011	3/31/2012	\$3,315,164	\$155,807	\$101,988	\$3,057,369
13	3/31/2012	6/30/2012	-\$1,542,684	\$151,167	\$89,339	-\$1,783,190
14	6/30/2012	9/30/2012	\$367,768	\$154,539	\$92,086	\$121,143
15	9/30/2012	12/31/2012	\$937,742	\$160,345	\$107,241	\$670,156
16	12/31/2012	3/31/2013	\$1,346,178	\$167,103	\$102,864	\$1,076,211
17	3/31/2013	6/30/2013	\$3,098,710	\$169,551	\$87,738	\$2,841,421
18	6/30/2013	9/30/2013	-\$1,227,803	\$171,817	\$63,218	-\$1,462,838
19	9/30/2013	12/31/2013	\$1,939,479	\$181,175	\$50,982	\$1,707,322
20	12/31/2013	3/31/2014	-\$1,113,822	\$179,698	\$65,276	-\$1,358,796

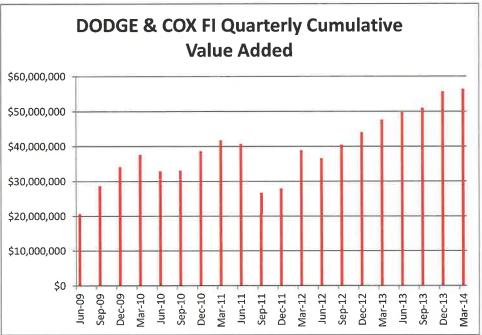




# **DODGE & COX FI Quarterly Value Added**

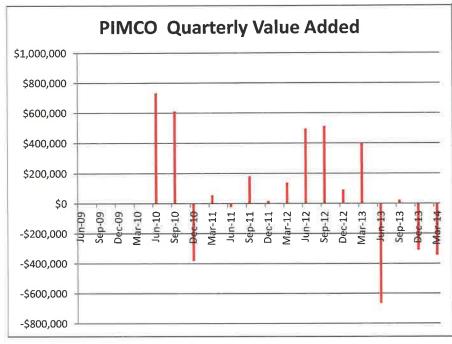
Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	3/31/2009	6/30/2009	\$20,762,262	\$93,348	\$5,185	\$20,663,728
2	6/30/2009	9/30/2009	\$8,095,535	\$96,022	\$4,765	\$7,994,748
3	9/30/2009	12/31/2009	\$5,598,814	\$94,950	\$4,729	\$5,499,134
4	12/31/2009	3/31/2010	\$3,610,418	\$96,543	\$4,719	\$3,509,156
5	3/31/2010	6/30/2010	-\$4,695,333	\$98,358	\$4,807	-\$4,798,498
6	6/30/2010	9/30/2010	\$304,813	\$100,758	\$4,940	\$199,115
7	9/30/2010	12/31/2010	\$5,724,549	\$100,934	\$5,014	\$5,618,601
8	12/31/2010	3/31/2011	\$3,197,808	\$102,236	\$5,036	\$3,090,536
9	3/31/2011	6/30/2011	-\$969,737	\$107,254	\$5,260	-\$1,082,251
10	6/30/2011	9/30/2011	-\$13,865,344	\$116,701	\$1,899	-\$13,983,943
11	9/30/2011	12/31/2011	\$1,326,142	\$115,860	\$1,433	\$1,208,849
12	12/31/2011	3/31/2012	\$11,121,304	\$113,310	\$1,364	\$11,006,630
13	3/31/2012	6/30/2012	-\$2,191,044	\$113,009	\$1,363	-\$2,305,417
14	6/30/2012	9/30/2012	\$3,967,160	\$113,951	\$1,395	\$3,851,813
15	9/30/2012	12/31/2012	\$3,730, <b>7</b> 94	\$113,934	\$1,355	\$3,615,505
16	12/31/2012	3/31/2013	\$3,702,213	\$114,526	\$11,741	\$3,575,946
17	3/31/2013	6/30/2013	\$2,279,219	\$110,496	\$11,520	\$2,157,204
18	6/30/2013	9/30/2013	\$1,298,298	\$108,799	\$11,616	\$1,177,882
19	9/30/2013	12/31/2013	\$4,842,996	\$106,646	\$11,529	\$4,724,821
20	12/31/2013	3/31/2014	\$789,086	\$106,850	\$12,264	\$669,972

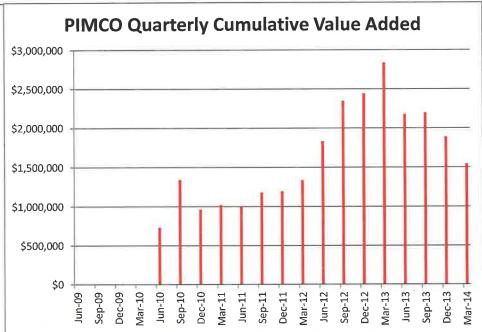




# **PIMCO Quarterly Value Added**

Q	<u>uarter</u>	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	<u>Custodial</u>	<u>Value Added</u>
	1	3/31/2009	6/30/2009	\$0	\$0	\$0	\$0
	2	6/30/2009	9/30/2009	\$0	\$0	\$0	\$0
	3	9/30/2009	12/31/2009	\$0	\$0	\$0	\$0
	4	12/31/2009	3/31/2010	\$0	\$0	\$0	\$0
	5	3/31/2010	6/30/2010	\$780,844	\$46,533	\$2,719	\$731,591
	6	6/30/2010	9/30/2010	\$689,748	\$73,608	\$4,686	\$611,454
	7	9/30/2010	12/31/2010	-\$302,620	\$72,769	\$4,742	-\$380,131
	8	12/31/2010	3/31/2011	\$134,401	\$73,072	\$4,688	\$56,641
	9	3/31/2011	6/30/2011	\$56,698	\$74,250	\$4,779	-\$22,331
	10	6/30/2011	9/30/2011	\$263,605	\$76,362	\$4,339	\$182,904
	11	9/30/2011	12/31/2011	\$100,614	\$79,352	\$4,814	\$16,448
	12	12/31/2011	3/31/2012	\$233,707	\$89,913	\$5,312	\$138,482
	13	3/31/2012	6/30/2012	\$592,931	\$91,631	\$4,314	\$496,986
	14	6/30/2012	9/30/2012	\$610,260	\$93,044	\$4,589	\$512,627
	15	9/30/2012	12/31/2012	\$190,266	\$93,384	\$4,741	\$92,141
	16	12/31/2012	3/31/2013	\$502,849	\$93,617	\$8,030	\$401,202
	17	3/31/2013	6/30/2013	-\$564,526	\$91,614	\$8,540	-\$664,680
	18	6/30/2013	9/30/2013	\$121,688	\$89,248	\$9,381	\$23,058
	19	9/30/2013	12/31/2013	-\$212,034	\$89,017	\$8,072	-\$309,124
	20	12/31/2013	3/31/2014	-\$243,594	\$90,077	\$8,159	-\$341,830





# **Cash Flow Report**

January 1, 2014 through March 31, 2014.

Beginning Cash Balance	\$11,141,928
Cash Flow In	
Sales of Investments	\$8,500,000
Plan Sponsor Contributions	\$10,875,640
Employee Contributions	\$4,963,281
Employee Buybacks	0\$
Interest Income	\$14,701
Rental Income	\$13,086
Commission Recapture	0\$
Litigation Recovery	\$0
Total Cash Flow In	\$24,366,707
Cash Flow Out	
Retirement Benefits	\$22,994,012
StanCERA Payroll	\$274,769
Operations Expense	\$186,825
Pension Software	0\$
Fixed Asset Purchases	\$0
Employee Refunds	\$294,673
Post Retirement Death Benefits	0\$
Burial Allowances	\$85,000
Retiree Death - Return of Contributions	\$0
Investment Consultant Fees	\$42,500
Actuarial Fees	\$26,232
Custodial Fees	\$176,197
Investment Management Fees	\$1,255,037
Investment Legal Fees	\$61,430
Total Cash Flow Out	\$25,396,675
Ending Cash Balance	\$10,111,960
Change in Cash Balance	-\$1,029,968

# **Administrative Cash Flow Report**

January 1, 2014 through March 31, 2014.

Beginning Cash Balance	\$11,145,631
Cash Flow In	
Sales of Investments	\$8,500,000
Plan Sponsor Contributions	\$10,885,357
Employee Contributions	\$4,960,077
Employee Buybacks	\$207,931
Interest Income	\$13,548
Rental Income	\$13,086
Commission Recapture	\$3,203
Litigation Recovery	<u>\$0</u>
Total Cash Flow In	\$24,583,202
Cash Flow Out	
Retirement Benefits	\$22,994,012
StanCERA Payroll	\$270,361
Operations Expense	\$175,521
Pension Software Maint & Disaster Rec.	\$10,746
Fixed Asset Purchases	\$0
Employee Refunds	\$294,673
Salary Death Benefit - Active Employee	\$0
Burial Allowances	\$85,000
Retiree Death - Return of Contributions	\$0
Investment Consultant Fees	\$42,500
Actuarial Fees	\$26,232
Custodial Fees	\$176,197
Investment Management Fees	\$1,255,037
Investment Legal Fees	<u>\$18,386</u>
Total Cash Flow Out	\$25,348,664
Ending Cash Balance	\$10,380,169
Change in Cash Balance	-\$765,462



### STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12<sup>th</sup> Street, Suite 600 Modesto, CA 95354 P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393 Fax (209) 558-4976 www.stancera.org e-mail: retirement@stancera.org

# For the Board of Retirement Meeting Held on May 27, 2014

TO: Board of Retirement

FROM: Rick Santos, Executive Director

I. SUBJECT: StanCERA Monthly Staff Report

II. ITEM: 8.d

III. ITEM TYPE: Recurring; Information Only

IV. STAFF RECOMMENDATION: None

- V. ANALYSIS: The monthly staff report's intent is to report out to the Board of Retirement important issues/tasks staff has been working on over the past month.
  - a. *Organizational Resources* Staff has been spending considerable time assessing resource needs over the next 5 to 10 years. As our System naturally evolves over time, StanCERA will need to consider future strategies that will allow us to keep up with that growth. A more formal presentation regarding this issue will be presented to the Board before year's end. To summarize, staff is considering on a 3-pronged approach that will utilize some combination of processes, technologies and people as a long-term solution.
  - b. Data Audit Process As StanCERA develops its Organizational resource needs, we are discovering some processes that are either outdated or incomplete. One of the most important issues that StanCERA must address today is our data. Processes, technology and people cannot solve future growth issues if our data isn't clean. To that end, staff has revived an audit process intended to complete the clean up our system data. If we can get to a point where we feel comfortable with our data, there are several manual processes that we can actually abandon and take advantage of our current technologies/systems to gain efficiencies.
  - c. Custodian Bank Transition Security Movements Northern Trust (NT) received over 1,300 domestic security positions on May 1, 2014. The final one was received on 5/9/14. Global In total there were 31 countries with a total of 427 securities to transition to NT. There are 12 global assets that are pending, one Greece asset will settle on 5/30/14. Physical Securities 2 positions are expected. 1 in the U.S. and 1 in Canada. Cash \$22,514,000 in cash was transferred within the first 10 days of the May. Commingled Funds and LP's 8 positions were posted on record 5/1/14. Auditing Northern Trust received the 4/30/14 "unaudited" holdings file from BNY/Mellon on 5/1/14. The preliminary reconciliation will be to this file. In Mid-May, they received and will tie back to the Audited April accounting from BNY/Mellon. Audited NT statements ending 5/31/14 are expected at StanCERA by June 30, 2014.

- d. Asset Liability Management Process Staff continues to work on a plan to manage our liabilities. We've recently completed the first draft of an asset liability policy which justifies why StanCERA has chosen to manage its liabilities and delivers a high level plan for how we will go about doing this. This information has also been shared recently with the County. This is the first step towards the creation of a specific glide-path approach to managing our pension risk. We've also recently purchased a monthly Bloomberg subscription which allows us to monitor the market costs of managing pension risk (liabilities) on a daily basis and also gives us the ability to bring most of the asset reporting functionality in house sometime next year.
- e. *Pre Retirement Seminar* After months of planning, organizing and confirming all of the speakers, Power Point presentations and handouts, the big day arrived on May 7, 2014. This annual half day event drew a crowd of 169 attendees, 8 speakers and representatives from 13 volunteer organizations, financial institutions, insurance providers and RESCO. The event was well received and earned high marks on the evaluation forms received. The coordinated efforts of staff from every division of our office culminated in a very successful program that provided members nearing retirement with the information they need to plan for a successful retirement.
- VI. RISK: None
- VII. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Dawn Lea, Benefits Manager

Kathy Herman, Operations Manager



### STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12<sup>th</sup> Street, Suite 600 Modesto, CA 95354 P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393 Fax (209) 558-4976 www.stancera.org e-mail: retirement@stancera.org

# For the Board of Retirement meeting Held on May 27, 2014

TO: The Board of Retirement

FROM: Rick Santos, Executive Director

I. SUBJECT: Real Estate Allocation to the Core Space

II. ITEM: 10.a

III. ITEM TYPE: Discussion and Action

- IV. STAFF RECOMMENDATION: Consider the allocation of \$15 million to either the Prime Property Fund or the RREEF America REIT II Fund. If the Board chooses to allocate the \$15 million to one of these funds, then staff recommends beginning legal review and analysis with Hanson & Bridgett
- V. ANALYSIS: At our February 2014 investment meeting, the Board of Retirement decided to allocate \$45 million to 2 private value added managers and \$15 million to one core strategy manager. At our March investment meeting, the Board decided upon the two private value added managers and the allocation between the two. The final approval pending legal review and analysis is scheduled to be brought before the Board in June.

Today, StanCERA will entertain 2 prospective core real estate investment strategies from the Prime Property Fund and the RREEF America REIT II Fund. Today's potential commitment of \$15 million to the core space represents StanCERA's final allocation to the real estate asset class.

The administrative process staff will be using today to potentially select a manager is somewhat different from the past and is meant to facilitate the investment process by combining the due diligence and selection process into one day. As a result, staff asked Michael Stubben from Research Advisors to initiate research and analysis on both managers and be prepared to discuss his findings with the Board today.

At the end of our regular business today, the Board will adjourn into closed session to discuss Mr. Stubben's findings and give the Board a chance to ask him any questions. The Board will then come out of closed session and personally meet with the candidates. Afterwards, the Board will reconvene into closed session and make the allocation decision and tend to other closed session business. If the Board does choose to allocate funds to either candidate, staff recommends the Board direct staff to begin legal review and analysis with Hanson & Bridgett.

VI. RISK: Undetermined

- VII. STRATEGIC PLAN: Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability
- VIII. ADMINISTRATIVE BUDGET IMPACT: Approximately \$10,000 in additional legal fees

Rick Santos, Executive Director

Kathy Herman, Operations Manager

05/27/14 Item#10.a.i

Morgan Stanley Real Estate Investing
Prime Property Fund, LLC
Discussion Materials

As of March 31, 2014

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

# **Table of Contents**

Section 1	Executive Summary			
Section 2	Portfolio Overview			
Section 3	Performance & Capital Flows			
Section 4	Additional Information			
Tab A	Prime Fee Structure			
Tab B	Investment Environment			
Tab C	Material Transactions			
Tab D	Governance			
Tab E	Portfolio Directory			
Tab F	Executive Bios and Contact Information			
Tab G	Risk Considerations			

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

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Availability of Adviser's Form ADV. Morgan Stanley Real Estate Advisor, Inc., the Adviser to the Fund, and various other Morgan Stanley affiliates that are registered with the U.S. Securities & Exchange Commission ("SEC") have filed with the SEC, and are required to update periodically, Form ADV. Form ADV Part 2A and 2B contain essential information about a given investment advisory firm, including information about firm management, clients, fee arrangements and the handling of conflicts of interest, and the SEC requires that it be sent to all prospective clients who might enter into an advisory agreement prior to execution. Upon request, the Adviser will furnish a copy of its Form ADV without charge to you. Please contact Morgan Stanley Real Estate Investor Services at (212) 761-7160 or email msreinvestor@morganstanley.com for a copy.

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For more information contact: Scott Brown, c/o Morgan Stanley, 1585 Broadway, 37th Floor, New York, NY 10036.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **Risk Considerations**

There are significant risk factors associated with an investment in Prime Property Fund ("PRIME" or the Fund"). An investment in PRIME will involve significant risks due to, among other things, the nature of the Fund's investments and potential conflicts of interest. There can be no assurance that the Fund will realize its rate of return objectives or return any investor capital. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of investment and the lack of liquidity). The value of an investment in a fund may fluctuate. Past results do not guarantee future performance. These risk factors include the following:

- Conflicts of interests between the Fund, its investors, its investment adviser and other affiliates of Morgan Stanley
- Tax considerations and regulatory matters
- Lack of liquidity of investments
- No or restricted transferability of, or market for, interests in the Fund
- Competition
- Risks of real estate investments
- Leverage
- Market risk; minority investments in companies
- Interest rate risks

See Tab  ${\bf G}\,$  - Risk Considerations for additional risk factors in connection with making an investment in PRIME

Section 1

**Executive Summary** 

**Morgan Stanley Real Estate** Investing **Prime Property Fund, LLC** 

### **EXECUTIVE SUMMARY**

# **Premier Assets**



AMLI Uptown, Houston, TX







Dadeland Mall, Miami, FL





155 North Wacker, Chicago, IL







Fashion Valley Mall, San Diego, CA

500 Park Avenue, New York, NY

801 17th Street, Washington, DC

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

 One of the longest-term core open-end funds – in its 41<sup>st</sup> year of operation

### **EXECUTIVE SUMMARY**

# A Leading Core Open-End Fund

### **Portfolio**

- Fully specified portfolio of high-quality core assets concentrated in preferred major markets
- Difficult to replicate and more resilient through market cycles
- Consistent, research supported investment strategies employed

### **Performance**

- Strong track record through market cycles
- Outperformed the NFI-ODCE over a 1-yr, 3-yr, 5-yr and 10-yr basis (1)

### **Sponsorship**

- Morgan Stanley Real Estate Investing ("MSREI") has over \$34B of RE AUM<sup>(2)</sup> globally
- Unique access to information and investment opportunities
- PRIME is MSREI's single largest fund representing over 35% of global AUM and almost 75% of U.S. AUM
- Morgan Stanley Real Estate Investing does not currently have any other active core, U.S. investment mandates

### **Management Team**

- Long-tenured and experienced portfolio management team
- Both members of the senior portfolio management team have been assigned to PRIME for more than a decade

### Note

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

<sup>1.</sup> Based on gross returns as of March 31, 2014. Please see page 36 for net returns and page 34 for gross returns compared to the NFI-ODCE.

 <sup>&</sup>quot;RE AUM" or real estate assets under management represents the gross fair market value of the real estate assets managed by MSREI on behalf of the firm and its clients, presented at direct ownership interest. RE AUM for certain minority interests represents MSREI's equity investment in the entity. Invested equity under management as of March 31, 2014 was \$21.5B.

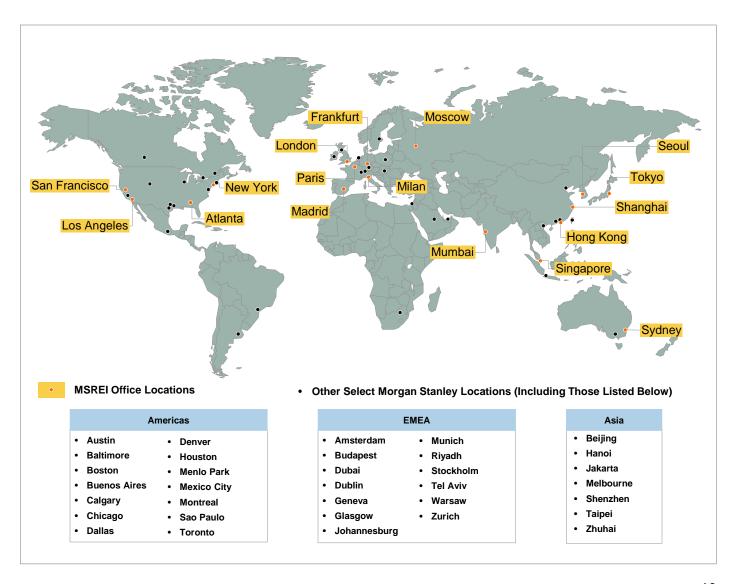
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Over 230 MSREI professionals located in 17 offices across 13 countries
- Regional teams leverage both the global MSREI platform and the broad expertise, deep relationships and powerful franchise of Morgan Stanley
  - Approximately 55,000 professionals in more than 1,200 offices in 43 countries

### EXECUTIVE SUMMARY

# **MSREI Global Reach**

As of March 31, 2014



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **EXECUTIVE SUMMARY**

## **Fund Profile**

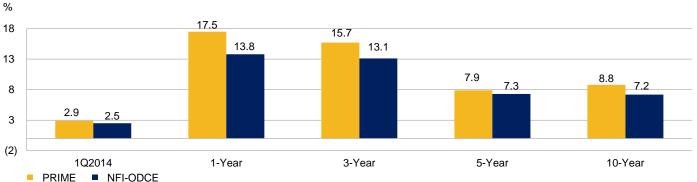
As of March 31, 2014

Gross Real Estate Assets (1) (\$B)  Net Asset Value (\$B)  Consolidated Leverage (%)
Consolidated Leverage (%)
Number of Aggets
Number of Assets
Investors (2)
Leased <sup>(3)</sup> (%)
Trailing 12-Month Dividend (%)
Return Since Inception <sup>(4)</sup> (%)

### PRIME Leveraged Total vs. NCREIF Fund Index—Open-End Diversified Core Equity ("NFI-ODCE") Total(5)(6)

Annualized Gross Return Comparison

As of March 31, 2014



### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns

- 1. Gross real estate assets represent the market value of PRIME assets, including PRIME's share of joint venture assets, before debt.
- 2. Excludes non-voting shareholders with investment(s) of less than \$10,000; feeder fund investor(s) are treated as a single investor.
- 3. Leased status is value weighted (i.e., calculated using the asset values gross of debt) and adjusted for ownership share.
- 4. Returns are presented before (i.e., gross of) investment advisory fees —specifically they do not reflect a deduction for asset management fees. Annual net returns are provided in the Performance Notes. See p.36 for Prime's net returns for the periods presented. PRIME's net return for 1Q2014 is 2.6% and since inception is 7.8%.
- 5. The NCREIF Fund Index Open-End Diversified Core Equity ("NFI-ODCE") is a fund-level, capitalization-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (i.e., returns reflect each fund's actual asset ownership positions and financing strategy). NFI-ODCE performance information is presented cross of fee
- presented gross of fees.

  6. See the Performance Notes for important information about the characteristics of the NFI-ODCE and other comparative indices in relation to PRIME and other factors relevant to such

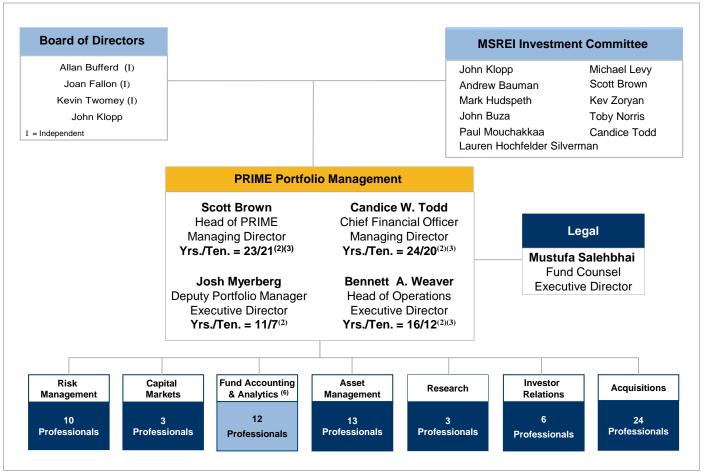
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Scott Brown and Candice Todd provide substantial experience and continuity to the Fund with each having:
  - Over 23 years in real estate
  - Over 20 years with Morgan Stanley<sup>(3)</sup>
  - Over 11 years of dedication to PRIME

### **EXECUTIVE SUMMARY**

### PRIME Resources

As of March 31, 2014<sup>(1)(4)(5)</sup>



### Notes

- 1. This chart and the data provided herein with respect to professionals that are assigned to work on matters related to PRIME are subject to change from time to time based on MSREI senior management's sole discretion regarding the needs of the MSREI business.
- 2. Yrs/Ten. = Years of real estate experience / Tenure at Morgan Stanley.
- 3. Includes years employed by Lend Lease Real Estate and its predecessor, Equitable Real Estate, prior to the acquisition of certain portions of Lend Lease Real Estate's advisory business by Morgan Stanley Real Estate Investing.
- 4. Resources are shared across all MSREI clients.
- 5. Subsequent to quarter end, Peter Harned was added to the PRIME's Investment Committee.
- 6. Fund accounting and analytics are provided by State Street Bank and Trust Company personnel; twelve professionals currently are assigned to provide fund control and analytics services relating to PRIME.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

Section 2

**Portfolio Overview** 

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- PRIME's 10 largest assets comprise 34% of the Fund<sup>(3)</sup>
- PRIME's 25 largest assets comprise 53% of the Fund<sup>(3)</sup>
- PRIME has a larger proportion of properties with a gross asset value greater than \$100M than the NCREIF Property Index ("NPI")
  - Historically, larger properties tend to outperform smaller properties
  - Over the last ten years, properties larger than \$100M have outperformed properties smaller than \$100M by 296 basis points<sup>(4)</sup>

### PORTFOLIO OVERVIEW

# Large Scale Holdings<sup>(1)</sup>



Fashion Valley Mall, San Diego, CA

- •Appraised Value \$1.45B
- •50% Ownership
- •99% Leased



Dadeland Mall, Miami, FL

- •Appraised Value \$1.02B
- •50% Ownership
- •95% Leased



Rosedale Shopping Center, Minneapolis, MN

- •Appraised Value \$335M
- •100% Ownership
- •94% Leased



Christiana Mall, Newark, DE

- •Appraised Value \$671M
- •50% Ownership
- •100% Leased



Two Park Avenue, New York, NY

- •Appraised Value \$591M
- •100% Ownership
- •99% Leased



One Post Office Square, Boston, MA

- •Appraised Value \$548M
- •100% Ownership
- •88% Leased



155 North Wacker, Chicago, IL

- •Appraised Value \$565M
- •99% Ownership
- •98% Leased



Hills Plaza, San Francisco, CA

- •Appraised Value \$410M
- •100% Ownership
- •98% Leased



One Maritime Plaza, San Francisco, CA

- •Appraised Value \$366M
- •100% Ownership
- •89% Leased



Station Place, Washington, DC

- •Appraised Value \$808M
- •40% Ownership
- •99% Leased

### Notes

- 1. Appraised value on 100% ownership basis
- 2. See pages 62-79 for a complete listing of portfolio investments.
- 3. Calculated using PRIME's share of gross asset value.
- 4. Based on same-store analysis of NCREIF Property Index historical returns from January 2004 through March 2014.

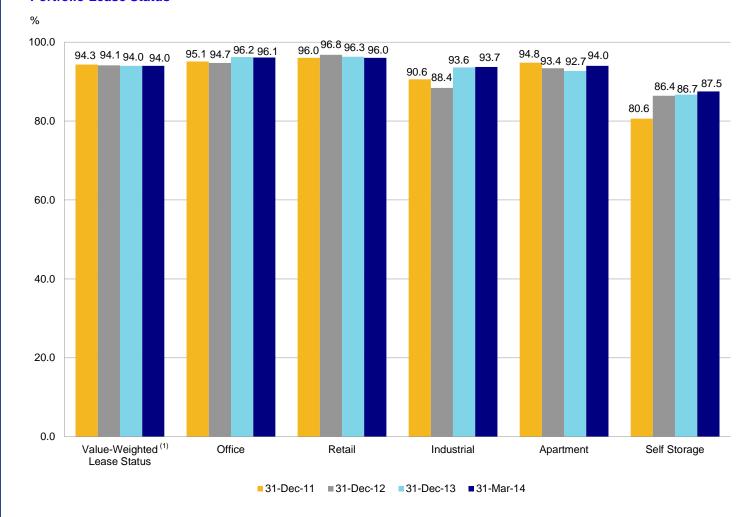
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **PORTFOLIO OVERVIEW**

# **Leased Status**

As of March 31, 2014

### **Portfolio Lease Status**



# Morgan Stanley

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Comparable Property Level Net Operating Income growth for the three months ended March 31, 2014 was 5.3% (6.0% including operating companies)
- Comparable Property Level Net Operating Income growth was 5.7%, 8.6% and 7.0% in calendar years 2011, 2012 and 2013, respectively (6.7%, 9.2% and 6.1% including operating companies)

### **PORTFOLIO OVERVIEW**

# Comparable Property Level Net Operating Income

Same-Store Analysis - As of March 31, 2014

### **Net Operating Income**

# Comparable Property Net Operating Income (\$ in millions)

	Net Operating meetine (\$\psi\$ in minoria)					
	Inc /(Dec					
	2014	2013	3/31/2014 (1)			
Apartment	30.2	29.2	3.4%			
Office	60.7	57.9	4.8%			
Retail	26.9	24.5	9.8%			
Industrial	23.0	21.9	5.0%			
Hotel	0.2	0.4	(50.0)%			
Self Storage	9.0	8.6	4.7%			
Total Property Level Net Operating Income (1)	\$150.0	\$142.5	5.3%			

### Note

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

<sup>1.</sup> To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month and excludes net operating income from AMLI operating company \$(3.3)M in 2013 \$(2.8)M in 2014 and Safeguard Self Storage operating company \$(0.4)M in 2013 and \$(0.8)M in 2014.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Broad property type diversification can reduce overall portfolio volatility
- PRIME's near-term diversification targets are<sup>(2)</sup>:

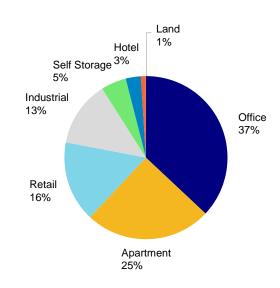
<ul><li>Office</li></ul>	30 – 40%
<ul><li>Retail</li></ul>	15 – 25%
<ul><li>Apartment</li></ul>	20 – 30%
<ul><li>Industrial</li></ul>	10 – 20%
<ul><li>Hotel</li></ul>	0 – 5%
<ul><li>Self Storage</li></ul>	0 – 5%

### **PORTFOLIO OVERVIEW**

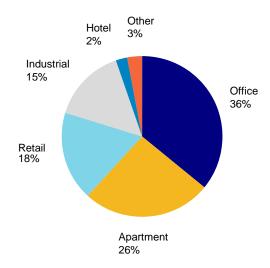
# **Sector Diversification**

As of March 31, 2014

### PRIME Diversification - Property Sector (1)



### NFI-ODCE Diversification - Property Sector (1)



### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. NFI-ODCE diversification data is presented on a gross asset value basis. The Fund's property sector targets, as set forth in its investment guidelines, are set on a gross asset value basis. Gross weightings calculated using proportionate share of assets appraised value. Due to rounding, some may not be equal to 100%.
- These are targets only. The Fund's investment guidelines include no specific limitations or requirements with regard to property type or geographic diversification. The investment guidelines, including these targets, are subject to modification from time to time by the board of directors of the Fund upon recommendation of the Adviser. Additionally, the Adviser retains discretion to vary from these targets when it deems it appropriate. There can be no assurance that these targets will be met at any time.

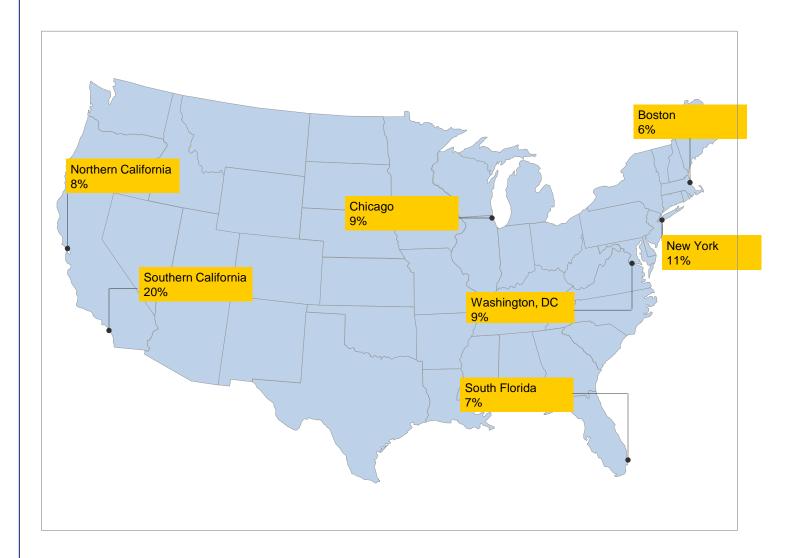
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- 70%, on a gross basis, of PRIME's holdings are concentrated in seven preferred markets<sup>(1)</sup>
  - NFI-ODCE excluding PRIME has a 57% concentration in the same seven preferred markets
- Preferred major markets have outperformed the NPI by an average of 53 basis points per annum for the last ten years<sup>(1)</sup>
  - When compared to the NPI, excluding these major markets, outperformance climbs to 92 basis points per annum over the last ten years

### **PORTFOLIO OVERVIEW**

# Concentration in Preferred Markets

As of March 31, 2014



### Note

<sup>1.</sup> The following markets were selected by the Adviser as preferred major markets for this analysis: Boston, New York, Washington DC, Miami / Fort Lauderdale / West Palm Beach, Chicago, San Francisco / San Jose / Oakland and Los Angeles / Orange County / San Diego. As of March 31, 2014, with respect to real estate assets owned by NCREIF data-contributing members, real estate assets in these markets represented \$193B of value, or 53% of the NPI (\$366B).

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **PORTFOLIO OVERVIEW**

# Representative Office Assets





Beverly Wilshire Center, Beverly Hills, CA



1601 K Street, Washington, DC



Rowes Wharf, Boston, MA



One Post Office Square, Boston, MA



Hills Plaza, San Francisco, CA

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

# Key Metrics Assets: 24 Square Feet: 9.9 Million Allocation: 37.2%

96.1%

4.8%

Leased:

2014 NOI Growth(1):

- CBD office has outperformed suburban office over 1-, 5and 10-years with more than 200 basis points per annum of outperformance over the last 10 years<sup>(3)</sup>
- Major office tenants include the SEC, State Department, Kaiser Healthcare, Parsons Corporation, Google, Putnam Investments, Skadden Arps, Cedar Sinai Hospital, Ernst & Young, Del Monte, MGM and Kirkpatrick & Lockhart

### **PORTFOLIO OVERVIEW**

# **PRIME Office**

As of March 31, 2014

### **Strategy**

To target large, high quality assets that are more resilient to given market cycles and generally attract better credit-quality tenants committing to longer-term leases

- Concentrated in major "24-hour" cities and locations
- Focus on opportunities to mitigate historically high volatility of office properties
- Average office asset value at ownership share of \$228.4M<sup>(2)</sup>
- Primary holdings in New York, Boston, Washington, DC, San Francisco, Los Angeles and Chicago
  - -Washington, DC 23.1%
  - -San Francisco 17.8%
  - -Los Angeles 15.6%
  - -New York 15.4%
  - -Boston 14.2%
  - -Chicago 11.0%
  - -Palo Alto 1.5%
  - -Seattle 1.4%

### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month.
- 2. Excludes 1945 Vaughn Road (as it is owner occupied), and The Pointe (as it is a Mezzanine loan).
- NCREIF Property Index, as of March 31, 2014.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **PORTFOLIO OVERVIEW**

# Representative Retail Assets



ADEL ACTION OF THE PROPERTY OF

Fashion Valley Mall, San Diego, CA

Dadeland Mall, Miami, FL



Christiana Mall, Newark, DE



Fox Run Mall, Newington, NH



Rosedale Shopping Center, Roseville, MN

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

# Key MetricsAssets:11Square Feet:6.3 MillionAllocation:16.3%Leased:96.0%2014 NOI Growth(1):9.8%

- Super regional malls have outperformed the overall retail index on a 1-, 5- and 10-year basis with almost 219 bps per annum of outperformance over the last 10 years<sup>(2)</sup> and almost 223 bps per annum of outperformance over the last 5 years
- In addition to the five malls, PRIME owns an interest in two freestanding buildings in the SoHo neighborhood of Manhattan, street-level retail at Wilshire Beverly Center, street-level retail in downtown Austin integrated within the Fund's Austin apartment holdings and an interest in eight building across four street blocks in downtown Coral Gables, Florida

# Morgan Stanley

### **PORTFOLIO OVERVIEW**

### **PRIME** Retail

As of March 31, 2014

### **Strategy**

To maintain focus on retaining market profile of irreplaceable retail assets and expanding or redeveloping when possible

- Primarily comprised of five super regional malls
- Over the trailing 12 months these five regional malls had average sales of \$1,265/sf
  - Fashion Valley, Dadeland and Christiana malls had average sales over the trailing 12 months of over \$1,000/sf

Average sales trends for tenants less than 12,000 square feet<sup>(3)</sup> and occupancy costs:

		Trailing 12- months		
Asset	Location	Sales PSF	YTD Sales Trends	Occupancy Costs
Dadeland Mall	Miami, FL	\$1,262	(13.7)%	13.9%
Fashion Valley Mall	San Diego, CA	\$1,096	1.0%	13.0%
Christiana Mall	New ark, DE	\$2,629	102.7%	3.6%
Rosedale Shopping Center	Roseville, MN	\$429	(8.8)%	16.3%
Fox Run Mall	New ington, NH	\$309	(6.5)%	15.2%
Total	-	\$1,265		

### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month.
- 2. NCREIF Property Index, as of March 31, 2014.
- 3. Average sales trends has been increased to tenants greater than 12,000 square feet from 10,000 square feet as many important retailers have been expanding their footprint over the course of the last few years.
- 4. Excluding Apple sales, Christiana Mall reported average sales of \$647/sf with a 6.7% YTD sales trend and average occupancy costs equal to 14.6%.

**Morgan Stanley Real Estate** Investing **Prime Property Fund, LLC** 

### **PORTFOLIO OVERVIEW**

# Representative Apartment Assets











AMLI Flagler Village, Fort Lauderdale, FL

AMLI on 2<sup>nd</sup>, Austin, TX







AMLI at Flatirons. Denver. CO

AMLI Warner Center, Woodland Hills, CA

AMLI at Escena, Dallas, TX

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

Key Metrics	
Assets:	77
Units:	19,834
Allocation:	25.0%
Leased:	94.0%
2014 NOI Growth <sup>(1)</sup> :	3.4%

- PRIME Market Concentrations
  - Chicago 16.6%
  - Southern CA 14.1%
  - Houston 12.6%
  - Atlanta 12.3%
  - Dallas 11.4%
  - Denver 11.1%
  - Austin 9.8%
  - Seattle 7.6%
  - South FL 4.3%

### **PORTFOLIO OVERVIEW**

# PRIME Apartment

As of March 31, 2014

### **Strategy**

To focus on markets with strong population and employment growth as well as supply constrained submarkets

- AMLI, wholly owned and controlled by PRIME, is a proven operator of multifamily assets
  - Heavily invested in technology allowing for revenue maximization and cost controls
  - Established culture of providing outstanding service and management to its customers
  - -All assets are managed under the AMLI brand with 72% of net new leases entered into in the prior 12 months leased on-line, making brand recognition through targeted market concentration increasingly important
- PRIME has acquired nearly 5,800 units since the beginning of 2010 with an average age of just over 3 years, while selling over 9,300 units with an average age of 12 years
- AMLI's development platform provides the opportunity for PRIME to create new product in select markets and submarkets
  - -Sites are owned or under control in nearly all target market concentrations
  - -Currently 22 projects at various stages of completion comprising nearly 6,900 units

### Note

<sup>1.</sup> To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month; excludes operating company.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **PORTFOLIO OVERVIEW**

# **AMLI Development Assets**



AMLI Uptown Orange, Orange CA



AMLI Riverfront Park, Denver CO



AMLI at the Ballpark, Plano, TX



AMLI River North, Chicago, IL



AMLI Evanston, Chicago, IL



AMLI North Point, Alpharetta, GA



AMLI Lex On Orange, Glendale, CA

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Twenty-two projects are either under construction or in lease-up
  - Seven joint ventures with third-party institutional investors
- As of first quarter 2014, total current value in excess of costs was 30.6% or \$276.4 million

### **PORTFOLIO OVERVIEW**

# **AMLI** Development and Leasing

### **Apartment Development**

As of March 31, 2014								
Property Name	Market	% Ownership Share	# of units	Budgeted Cost (\$M)	% Complete	% Leased	Cost to Date (\$M)	Current Value (\$M)
Under Construction								
AMLI Mark24	Seattle	95.0%	304	82.8	72%	0%	59.8	73.5
AMLI Lake Union	Seattle	95.0%	293	85.4	67%	0%	57.2	63.8
AMLI Lofts	Chicago	50.4%	398	111.8	57%	0%	63.2	76.3
AMLI Miramar Park	South Florida	95.0%	300	56.8	51%	0%	29.0	34.4
AMLI Ponce Park	Atlanta	95.0%	305	41.8	43%	0%	18.0	25.3
AMLI Spanish Hills	Southern CA	95.0%	384	69.9	41%	0%	28.5	38.6
AMLI Arista II	Denver	33.3%	168	27.1	40%	0%	10.9	11.9
AMLI Urban Center	Dallas	52.3%	482	58.9	38%	0%	22.2	27.7
AMLI West Plano Village	Dallas	33.3%	264	35.6	31%	0%	11.2	14.4
AMLI Sawgrass Village	South Florida	95.0%	325	64.6	27%	0%	17.4	21.2
AMLI Mueller Town Center	Austin	95.0%	279	36.8	26%	0%	9.7	11.2
AMLI Uptown Orange	Southern CA	95.0%	334	99.7	19%	0%	19.4	24.3
AMLI on Riverside	Dallas	95.0%	323	46.5	17%	0%	7.8	11.9
AMLI Deerfield	Chicago	25.8%	240	56.7	14%	0%	8.2	8.7
AMLI at the Ballpark II	Dallas	52.3%	365	52.7	13%	0%	7.1	10.4
AMLI at Covered Bridge	Austin	95.0%	360	51.2	11%	0%	5.4	12.2
Total Under Construction			5,124	\$978.3			\$375.0	\$465.7
In Lease-Up								
AMLI River North	Chicago	95.0%	409	130.1	95%	59%	124.0	186.7
AMLI Interlocken	Denver	95.0%	343	61.0	94%	74%	57.4	70.6
AMLI Evanston	Chicago	33.3%	214	60.7	93%	75%	56.5	70.9
AMLI Barrett	Atlanta	95.0%	238	26.3	93%	57%	24.4	31.9
AMLI Lex on Orange	Southern CA	95.0%	310	112.9	85%	51%	95.8	109.4
AMLI at Riverfront Park	Denver	95.0%	242	48.6	84%	73%	40.9	52.7
Total In Lease-Up			1,756 <sup>(1)</sup>	\$439.6			\$399. <i>0</i>	\$522.2
Total Under Construction & In L	ease-Up		6,880	\$1,417.9			\$774.0	\$987.9
Recently Completed								
AMLI at the Ballpark I (Q3 2013)	Dallas	52.3%	335	39.5	100%	97%	39.5	53.7
AMLI North Point (Q1 2013)	Atlanta	95.0%	366	49.9	100%	95%	49.9	69.2
AMLI Escena (Q1 2013)	Dallas	95.0%	440	41.0	100%	95%	41.0	70.0
Total Recently Completed			1,141	\$130.4			\$130.4	\$192.9
Grand Total			8,021	\$1,548.3			\$904.4	\$1,180.8

### Note

<sup>1.</sup> The percentage leased across the In Lease-Up component is based upon the available units that have received a certificate of occupancy. Across the 1,756 units, 1,355 units (77%) have received a certificate of occupancy as of March 31, 2014.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### PORTFOLIO OVERVIEW

# Representative Industrial Assets



Azusa Industrial Center, Azusa, CA



2201 E. Carson Street, Carson, CA



Turnpike Distribution Center, Medley, FL



Airport West Distribution Center, Atlanta, GA



4501 West Valley Highway East, Sumner, WA



28 Engelhard Drive, Monroe, NJ



3 South Middlesex Avenue, Monroe, NJ



2000 South Club Drive, Landover , MD

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

Key MetricsAssets:112Square Feet:25.2 MillionAllocation:13.1%Leased:93.7%2014 NOI Growth(1):5.0%

- PRIME Market Concentrations
  - Southern CA 35.3%
  - Northern NJ 15.8%
  - Seattle 10.1%
  - Northern CA 10.0%
  - South FL 7.7%
  - Dallas 6.7%
  - Baltimore/Wash DC 5.5%

### PORTFOLIO OVERVIEW

## **PRIME Industrial**

As of March 31, 2014

### **Strategy**

To continue focus on clustering holdings in key trade-oriented distribution markets or other established distribution markets

- 51% of the portfolio is in the targeted markets of southern California and northern New Jersey. An additional 33% is located in the markets of Washington,
   DC/Baltimore, South Florida, northern California and Seattle
- PRIME has acquired over 14.2M square feet across 72 buildings over the past 39 months in Seattle, New Jersey, eastern Pennsylvania, Chicago, Dallas, Baltimore, South Florida, northern California and southern California increasing the industrial allocation to 13.1%
- PRIME remains selective with respect to market selection and product quality as it is tactically increasing its industrial allocation

### Note

<sup>1.</sup> To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### **Key Metrics**

Assets: 69
Square Feet: 3.3 Million
Allocation: 4.8%
Leased: 87.5%
2014 NOI Growth<sup>(1)</sup>: 4.7%



Hialeah, Miami, FL



Juniata, Philadelphia, PA

# Morgan Stanley

### **PORTFOLIO OVERVIEW**

# PRIME Self Storage

As of March 31, 2014

- Safeguard, wholly owned and controlled by PRIME, is a proven operator of self storage assets
- All assets are managed under the Safeguard brand as brand recognition through targeted market concentration is increasingly important
- Gross asset value of the portfolio is \$653.8M (4.8 % of gross asset value)
- Safeguard Market Concentrations
  - New York 49.2%
  - South Florida 15.2%
  - Chicago 13.5%
  - New Orleans 8.2%
  - Northern NJ 7.1%
  - Philadelphia 5.2%
  - Baton Rouge 1.7%
- Same store net operating income increased 15.8% in 2013 and 4.7% YTD
- Percentage leased has increased to 87.5% from 87.2% over the last twelve months
  - Same Store REVPAF grew to \$17.58 from \$16.79 a year ago, an increase of 4.7%
- Safeguard is currently constructing five new facilities along with one expansion of an existing store in South Florida with total projected costs of approximately \$50.9M (\$22.7M incurred to date)

### Note

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. To provide a more meaningful basis for comparison, net operating income includes income before debt service and, for a given calendar month, includes only income generated by real estate investments held by the Fund for at least 13 months prior to the end of that month; excludes operating company.
- Appraisal reports for the Fund's real estate assets are prepared by independent third party appraisers based on a 100% fee interest in each asset regardless of the Fund's actual ownership interest. Appraisal assumptions by sector represent a weighted average based on the Fund's ownership interest of the individual asset appraisals. Total appraisal assumptions represent a weighted average of the appraisal assumptions for each property sector. Assets are not appraised in the quarter they are acquired. Cap rates provided above represent the assumptions used by the Fund's independent third party appraisers and may differ from the Adviser's internal projections and underwriting assumptions.

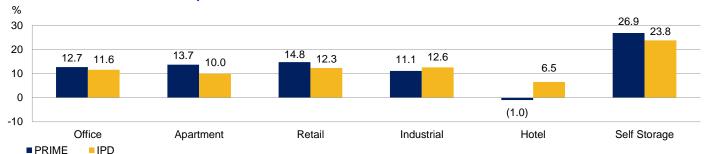
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

### PORTFOLIO OVERVIEW

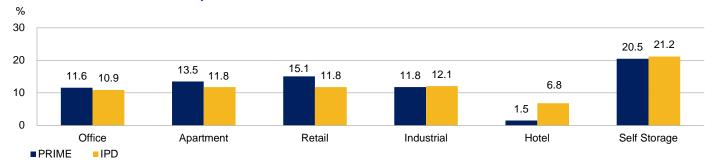
# Unleveraged Returns by Sector

As of March 31, 2014

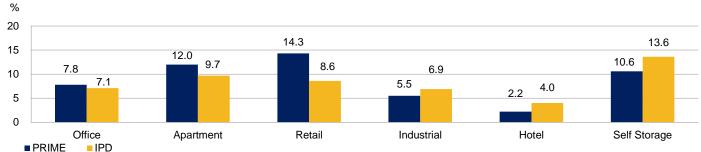
### 1-Year PRIME vs. IPD US Core Open End Fund Benchmark(1)



### 3-Year PRIME vs. IPD US Core Open End Fund Benchmark(1)(2)



### 5-Year PRIME vs. IPD US Core Open End Fund Benchmark(1)(2)



### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. The IPD U.S. Core Open-End Fund Benchmark ("IPD Benchmark") is time-weighted return index peer group benchmark used by PRIME and includes all investments owned by the peer group including real estate, cash and other investments (mezzanine loans receivable, notes receivable, forward commitments, etc.). The IPD Benchmark is gross of fees and excludes the impact of leverage.
- 2. See the Performance Notes for important information about the characteristics of the IPD Benchmark and other comparative indices in relation to PRIME and other factors relevant to such comparisons.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- PRIME's target range for leverage is 25–35%
- PRIME's debt strategy of maintaining a mix of secured and unsecured financing allows the Fund to effectively and actively manage the portfolio as well as tap into a more diverse set of lending sources
- The Fund has no outstanding forward commitments

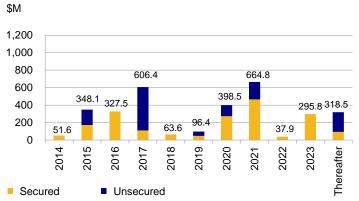
### **PORTFOLIO OVERVIEW**

# **Debt Profile**

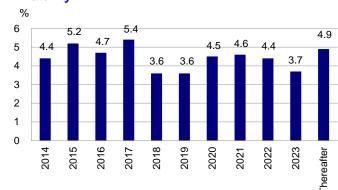
As of March 31, 2014

Leverage <sup>(1)</sup> (%)	22.7
Fund Rating (Moody's/Standard & Poor's)	Baa2/A-
Weighted Average Cost of Debt (%)	4.7
Weighted Average Debt Remaining Term	5.5 years
Unsecured Debt (%)	39.7
Fixed Rate Debt (%)	94.9
Cash to Net Assets (%)	2.7

### **Debt Maturity Schedule** (2)



# Weighted Average Cost of Debt by Year of Maturity (2)



### Notes

- 1. Includes all wholly owned debt and PRIME's proportionate share of joint venture debt.
- 2. Maturity tables do not include the Fund's line of credit, which matures in February 2017 (\$0 outstanding as of March 31, 2014), and the short-term borrowing facility (\$0 outstanding as of March 31, 2014).

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

Section 3

Performance & Capital Flows

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- PRIME's total gross return over the 40 year period since inception is 8.9% (1)
- PRIME's annual gross return has exceeded 8% in 29 of 40 calendar years

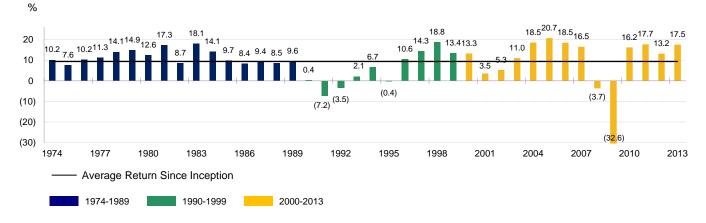
#### **PERFORMANCE & CAPITAL FLOWS**

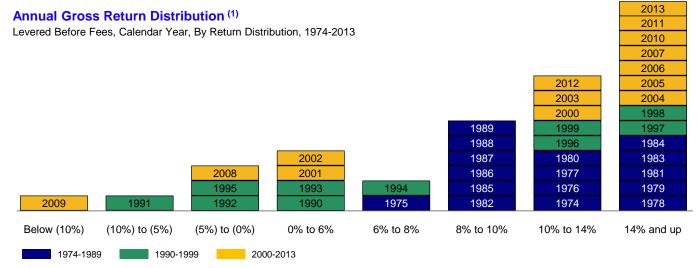
# PRIME Performance Since Inception

As of December 31, 2013

#### **Total Annual Gross Returns (1)**

Levered Before Fees, By Calendar Year, 1974-2013





#### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

<sup>1.</sup> Returns are presented before (i.e., gross of) investment advisory fees—specifically, they do not reflect a deduction for asset management fees. Annual net returns are provided in the Performance Notes. PRIME's total net return since inception is 7.8%.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- The NCREIF Fund Index -Open-End Diversified Core equity ("NFI-ODCE") is an index of investment returns reporting on both a historical and current basis the results of participating U.S. open-end commingled funds pursuing a core investment strategy
- The current portfolio leadership have together been part of the PRIME team since 2002
- Over the past 10 years, PRIME's annualized total gross return has exceeded the NFI-ODCE by 161 bps
- PRIME outperformed the NFI-ODCE on a gross basis by 170 bps or more in 7 out of the 10 calendar years

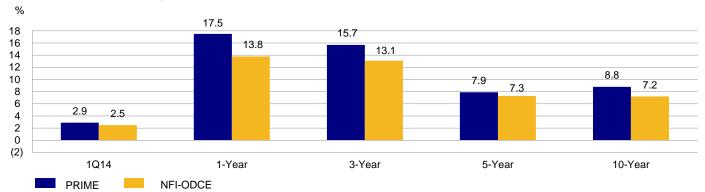
#### **PERFORMANCE & CAPITAL FLOWS**

## PRIME Performance vs. NFI-ODCE

As of March 31, 2014

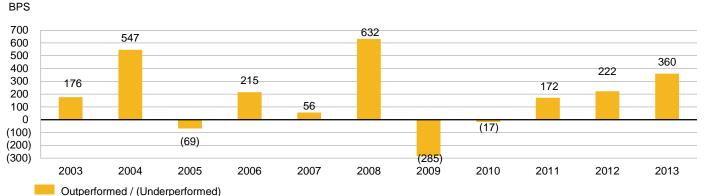
#### PRIME Leveraged Total vs. NFI-ODCE(1)

Annualized Gross Return Comparison



## **PRIME vs. NFI-ODCE Performance Comparison**

Annual Gross Return Comparison, Calendar Year 2003-2013



#### Note

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

Returns are presented before (i.e., gross of) investment advisory fees—specifically, they do not reflect a deduction for asset management fees. Annual net returns are provided in the
Performance Notes. See page 36 for net returns for the period presented herein. See the Performance Notes for important information about the characteristics of the NFI-ODCE and
other comparative indices in relation to PRIME and other factors relevant to such comparisons.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

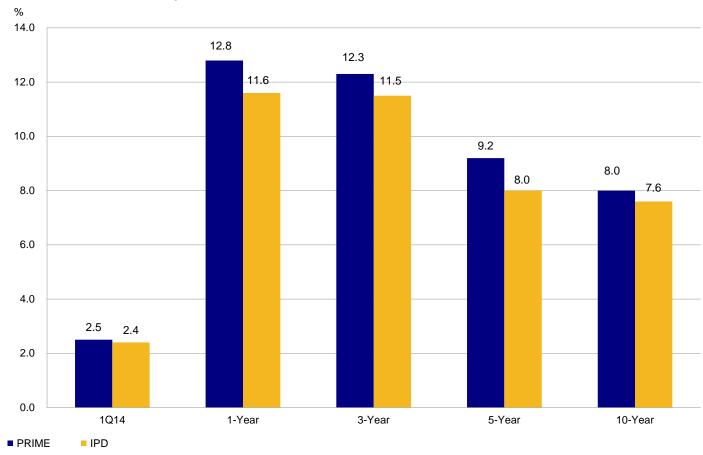
 The IPD US Core Open Ended Fund Benchmark (the "IPD Benchmark") is a nonpublished peer group consisting of 20 U.S.-based core open-end private equity real estate funds. The IPD Benchmark includes 19 of the 21 funds in the NFI-ODCE

## **PERFORMANCE & CAPITAL FLOWS**

# **Unleveraged Returns**

As of March 31, 2014

#### PRIME vs. IPD US Core Open Ended Fund Benchmark<sup>(1)(2)</sup>



#### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. Returns are presented before (i.e., gross of) investment advisory fees—specifically, they do not reflect a deduction for asset management fees. PRIME's unleveraged returns are calculated without the impact of property- and portfolio-level financing.
- See the Performance Notes for important information about the characteristics of the IPD Benchmark and other comparative indices in relation to PRIME and other factors relevant to such comparisons.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

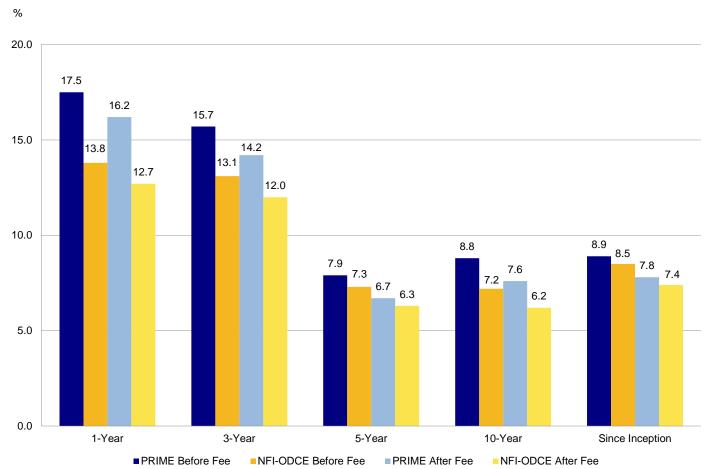
- PRIME's fee for each of the last five calendar years has been
  - -2013 120 bps
  - -2012 133 bps
  - -2011 126 bps
  - -2010 102 bps
  - -2009 90 bps
- PRIME's fee was modified, effective April 1, 2013, as detailed on page 46. The total fee is now capped at 119 bps
- PRIME's fee structure is detailed in Appendix A
- The difference between Before Fee and After Fee returns does not total the fee charged in terms of basis points on NAV given the compounding impact of the chain linking of returns

## PERFORMANCE & CAPITAL FLOWS

## PRIME Before and After Fee Performance vs. NFI-ODCE

As of March 31, 2014

#### **PRIME Total**



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

 PRIME works closely with the Fund's independent appraisers to ensure they have the most current property and capital market information possible **PERFORMANCE & CAPITAL FLOWS** 

# Valuation

- PRIME has implemented a rigorous appraisal process
  - Every asset independently appraised quarterly
  - Nationally recognized appraisal firm is engaged to manage the process with the third-party appraisal firms that provide appraisals
  - Individual appraisal assignments are rotated every three years
  - Third-party appraisal firms are engaged by PRIME's independently controlled Board of Directors
  - All valuation recommendations are formally reviewed by the Adviser's internal valuation committee

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

 Ownership structure allows for a more diversified capital base

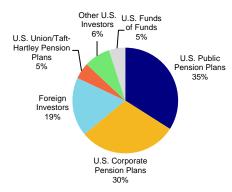
#### **PERFORMANCE & CAPITAL FLOWS**

## **Investor Profile**

As of March 31, 2014

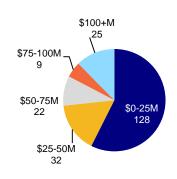
#### Investor Type - Measured in \$

\$10.5B Net Asset Value



#### **Number of Investors - Measured by Size**

\$10.5B Net Asset Value



## Sample Investor List<sup>(1)</sup>

Achmea Realty Fund - North America

Allegheny County Retirement System

Analagestiftung Testina

AXA Equitable Life Insurance Company on behalf of its SA #166

**Baptist Foundation of Texas** 

City of Cincinnati Board of Trustees of Retirement

City of Fort Myers General Employees' Pension Plan

City of Hollywood, Florida Employees Retirement Fund

City of Kissimmee Municipal Police Officers Retirement Plan

Colgate-Palmolive Retirement Trust

Common Pension Fund E (State of New Jersey)

Community Memorial Foundation

Cultural Institutions Retirement Plan Trust

Danville Regional Foundation

Employees' Retirement System of the City of Milwaukee

Fire and Police Pension Association Colorado

Georgia Municipal Employee Benefit System Retirement Fund

Georgia Power Foundation, Inc.

GlaxoSmithKline Master Retirement Trust

Macy's, Inc. Defined Benefit Plans Master Trust

Melbourne Firefighters Retirement System

Missouri Education Pension Trust

MWRA Retirement System

NECA-IBEW Pension Trust Fund

Nestle in the USA Pension Trust

Northwestern Mutual Life Insurance Company

Operating Engineers Construction Industry & Misc. Pension Fund

Orange County Employees Retirement System

PGGM Private Real Estate Fund

Policemen's Annuity & Benefit Fund of Chicago

Public Employees' Retirement Association of Colorado

Southern Company System Master Retirement Trust

Teacher Retirement System of Texas

Teamsters Local 293 Pension Fund

Texas General Land Office

Twin City Carpenters and Joiners Pension Plan

United Nations Joint Staff Pension Fund

United Steelworkers of America Staff Pension Plan

Vermont State Teachers' Retirement System

Virginia Retirement System

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

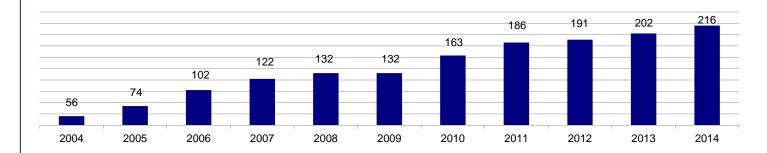
- Total inflows since January 2004 were \$9.0B<sup>(1)</sup> while outflows totaled \$3.2B over the same period
- As of March 31, 2014, PRIME has an incoming investment queue of \$879M

## PERFORMANCE & CAPITAL FLOWS

# **PRIME Client Flows**

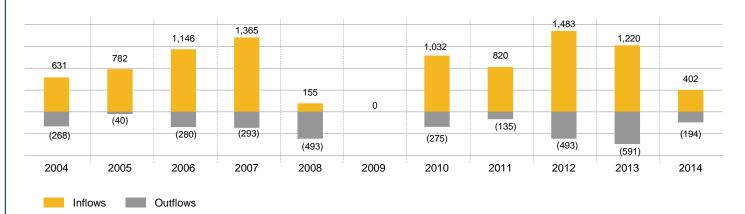
As of March 31, 2014

#### **Number of Clients**



#### Inflows and Outflows (1)

\$M



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **PERFORMANCE & CAPITAL FLOWS**

# Summary & Differentiating Attributes

#### BROAD INVESTMENT PLATFORM

- -PRIME is MSREI's only active U.S. core investment mandate
- -Provides access to deal flow, information and expertise

## EXPERIENCED AND DEDICATED TEAM

- -Providing consistency of approach to investing
- -Interests aligned with shareholders

## STRONG RELATIVE TRACK RECORD

- -Have outperformed through market cycles
- -Research supported and specific investing strategies within each sector
- -Established practices in place to manage to an attractive risk adjusted return

## HIGH QUALITY PORTFOLIO

- -Difficult to replicate and more resilient through market cycles
- -Strategically constructed and concentrated in preferred major markets

#### OPERATIONAL EXPERTISE

-Fund ownership of AMLI Residential provides experience within the apartment sector

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **PERFORMANCE & CAPITAL FLOWS**

# **Performance Notes**

Past performance is not indicative of future results. There can be no assurance that the Fund will achieve comparable, or any, returns. Losses, including a total loss of invested amounts, can result from investment in the Fund.

Unless otherwise noted, performance returns for the Fund contained herein:

- Are annualized (*i.e.*, for periods of one year or greater, the performance returns represent average annual returns). Returns for periods less than one year are unannualized.
- Are time-weighted returns calculated using a "modified Dietz method." In the absence of daily portfolio valuations, the modified Dietz method weights individual cash flows by the amount of time that those cash flows are held by (or absent from) the portfolio. The Adviser believes the modified Dietz method is a more appropriate way to measure the return on a portfolio than a simple geometric return method because the modified Dietz method identifies and accounts for the timing of all random cash flows while a simple geometric return does not.
- Are presented before (*i.e.*, gross of) investment advisory fees—specifically, they do not reflect a deduction for asset management fees. Actual returns to an investor would be lower.
- Are presented on a levered basis.
- Are presented based on finalized interim unaudited financial results (or, if available, finalized audited financial statements) available as of the stated time in the return presentation. Such results as of the end of the applicable fiscal year are generally audited by a reputable outside firm within 90 days of the Fund's fiscal year end.
- Include interest income from short-term investments.
- Include income which is based on accrual accounting.
- Include increases or decreases in net asset value arising from the Fund's marking of its debt to market in accordance with Accounting Standards Codification 825-10-25.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

**PERFORMANCE & CAPITAL FLOWS** 

# Performance Notes

The Fund's annual total returns for calendar years 1974-2013 are as follows:

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gross	10.18%	7.64%	10.20%	11.27%	14.05%	14.92%	12.58%	17.25%	8.70%	18.13%
Net	9.15%	6.54%	9.05%	10.44%	13.27%	14.08%	11.59%	16.30%	7.34%	17.52%

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gross	14.10%	9.74%	8.44%	9.40%	8.51%	9.60%	0.36%	(7.24)%	(3.52)%	2.12%
Net	13.11%	8.63%	7.30%	8.25%	7.38%	8.46%	(0.70)%	(8.23)%	(4.57)%	1.06%

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross	6.73%	(0.38)%	10.61%	14.34%	18.75%	13.40%	13.27%	3.54%	5.27%	11.04%
Net	5.68%	(1.36)%	9.54%	13.23%	17.59%	12.26%	12.20%	2.59%	4.30%	10.02%

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross	18.53%	20.70%	18.47%	16.53%	(3.69)%	(32.61)%	16.23%	17.72%	13.16%	17.54%
Net	17.56%	19.81%	17.03%	15.23%	(4.75)%	(33.22)%	15.09%	16.28%	11.68%	16.15%

The Fund's inception date was August 20, 1973. Performance information for the Fund for the period in which it was advised by Lend Lease Real Estate Investments, Inc. or its predecessors (the period prior to December 2003) is included because it has been concluded that, given the substantial overlap of personnel and other factors, reporting such information would be helpful. On June 30, 2004, the Fund became the successor in interest of an open-end institutional real estate fund organized in 1973 as a statutory insurance company separate account (known as "Separate Account No. 8 – Prime Property Fund") sponsored and maintained by The Equitable Life Assurance Society of the United States.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **PERFORMANCE & CAPITAL FLOWS**

# **Performance Notes**

The sum of the income return and appreciation return components may not equal the gross return because of the time weighting (*i.e.*, chain linking) of component monthly returns and/or quarterly returns.

Income return may or may not approximate distributed income to the investor, depending on the cash distribution policy or elections made by the investor.

As stated above, performance returns for the Fund contained herein are reported on an annualized, not cumulative, return basis. The cumulative, compounded effect of advisory fees on total returns can be significant. For example, assuming an 8% annual return to a portfolio, earned evenly over the period in question, and an annual advisory fee on equity equal to 1.15%, the total after-fee return to the client would nominally be 6.85%. Over one-, three-, five-and ten-year periods, however, cumulative actual returns would be 8.24% (gross) and 7.03% (net) for one year; 26.82% (gross) and 22.60% (net) for three years; 48.59% (gross) and 40.44% (net) for five years; and 120.80% (gross) and 97.23% (net) for ten years.

## Comparable Indices and Benchmarks - Generally

For purposes of evaluating the Fund's performance, the information contained herein includes certain comparisons to certain real estate and non-real estate indices and benchmarks. It is not possible to invest directly into an index or benchmark. Certain factors and the limited data available for such indices and benchmarks may make direct comparisons difficult, and such indices and benchmarks may have characteristics that are not be fully applicable to the Fund and may be more or less volatile than the Fund. For example, indices (or particular funds contained therein) may have dissimilar asset concentrations, appraisal standards or policies on the reinvestment of dividends or other proceeds when compared to the Fund.

Characteristics of certain indices and benchmarks commonly used in comparisons with the Fund are described below; however, the descriptions are not exhaustive. Thorough familiarity with the characteristics for each index and benchmark is advisable before one can fully understand such comparisons.

## NCREIF Fund Index - Open-End Diversified Core Equity

The NCREIF Fund Index – Open-End Diversified Core Equity ("NFI-ODCE") is a fund-level, capitalization-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (*i.e.*, returns reflect each fund's actual asset ownership positions and financing strategy). NFI-ODCE performance information is presented gross of fees. NFI-ODCE information is available beginning in the first quarter of 1978, inclusive.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

**PERFORMANCE & CAPITAL FLOWS** 

## Performance Notes

#### IPD U.S. Core Open-End Fund Benchmark

The IPD U.S. Core Open-End Fund Benchmark ("IPD Benchmark") is time-weighted return index peer group benchmark used by PRIME and includes all investments owned by the peer group including real estate, cash and other investments (mezzanine loans receivable, notes receivable, forward commitments, etc.). The IPD Benchmark is gross of fees and excludes the impact of leverage.

#### **NCREIF Property Index**

The NCREIF Property Index ("NPI") is a fund-level, time-weighted return index and includes property investments at 100% ownership and does not account for leverage (*i.e.*, returns do not reflect each fund's actual asset ownership position (if not 100%) or financing strategy). NPI performance information is presented gross of fees.

The Fund has a core-oriented investment strategy, while the NPI includes investments with a non-core orientation. The NPI performance returns exclude development, agricultural and other non-income producing properties. Also, the NCREIF Property Index is a broader index and includes assets with enhanced or more opportunistic-type strategies. The Fund's exposure to these types of assets is limited to 15% of gross assets, and the Fund's exposure to these types of assets was 7.5% of gross assets as of March 31, 2014.

#### Other Indices

Comparisons to the performance returns of other indices (e.g., NAREIT Equity REIT Index, S&P 500, Barclays Capital U.S. Government/Credit Bond Index) are subject to similar considerations concerning component product mixes, weighting, etc. In particular, when comparing the performance of asset classes, readers should keep in mind that there are differences that make direct comparisons difficult. For example, due to the appraisal methods for valuing real estate, there may be inherent issues when comparing real estate to other asset classes; stocks are more volatile than bonds; and U.S. government bonds and fixed income investments are guaranteed by the issuer as to the timely payment of principal and interest and pay a fixed rate of interest.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

Section 4

Additional Information

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Fee structure intended to create strong alignment of Adviser's interest with investors by compensating Adviser for NOI growth
  - 2008 Fees 111 bps
  - 2009 Fees 90 bps
  - 2010 Fees 102 bps
  - 2011 Fees 126 bps
  - $-2012 \text{ Fees} 133 \text{ bps}^{(2)}$
  - 2013 Fees 120 bps

#### ADDITIONAL INFORMATION

## PRIME Fee Structure

Asset Management Fee: 84 basis points per annum of the NAV (as of the beginning of each calendar quarter) payable quarterly in arrears.

Incentive Fee: Incentive Fee for each calendar year is capped at 35 basis points per annum. Accrues on a monthly basis over a calendar year. Monthly accrual will equal the product of X\*Y\*Z\*1/12, where:

- X = 5.0%;
- Y = NAV (as of the beginning of that month); and
- Z = "Comparable Property NOI Growth" for that month (expressed as a percentage) (1)

Incentive Fee is payable at or promptly after the end of each calendar year and equal to the aggregate amount of the Incentive Fee (including any negative amounts) accrued for each month of the calendar year.

- 1. "Comparable Property NOI Growth" for a given calendar month is the growth, expressed as a percentage, of (i) the aggregate income after operating expenses have been deducted, but before deducting income taxes, financing expenses, fund expenses and capital expenditures (the "NOI") generated by Included Investments that month, over (ii) the aggregate NOI generated by the same Included Investments during the same calendar month in the preceding year. For these purposes, "Included Investments" means each real estate asset held directly or indirectly by the Fund for at least 13 months prior to the end of that month (for the avoidance of doubt, including any real estate for which there was any expansion, redevelopment or similar change during the prior 13 months); provided that if any such real estate asset is a development asset (i.e., either undeveloped land or a previously developed real estate asset that is subject to a development or redevelopment project where the budgeted costs of such project exceed 50% of the value of such asset immediately prior to undertaking such project), such real estate asset will only be considered held once its development has been completed (i.e., a certificate of occupancy or equivalent document has been obtained); and provided further that "Included Investments" shall not include AMLI Operating Company, Safeguard Operating Company or any other future Investment deemed to be an operating company.
- 2. Prior to April 1, 2013, the Asset Management Fee was 90 bps per annum and the Incentive Fee was capped at 45 bps per annum and took into account NOI for AMLI Operating Company and Safeguard Operating Company.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

# Investment Environment<sup>(1)</sup>

#### **Macro Environment**

- U.S. recovery continues
  - Tech and energy sectors have emerged as strong growth drivers
  - U.S. may continue wrestling with fiscal and entitlement reform for years to come
- Treasury rates declined slightly in 1Q- from 2.9% at year-end 2013 to 2.8% in 1Q 2014
  - Benign monetary policy and relatively low interest rates remain supportive
  - Inflation still in check, but money velocity remains very low
  - With improving employment and capital markets conditions, the Federal Reserve began tapering its open market operations in January 2014

## **Real Estate Investment Take-Aways**

- Capital flows to US real estate, particularly core, have been robust
- Favorable supply/demand dynamic in property fundamentals
  - Fundamentals have been steadily improving
  - Year-on-year NOI growth is in positive territory for all property types (2)
  - Property sector fundamentals improving at varying speeds
- Earlier flight to quality has broadened out to include secondary markets and property, in addition to supporting core property pricing and demand
  - \$87 Bn of transactions in 1Q 2014, 15% higher than 1Q 2013,<sup>(3)</sup> while increased pricing means making money on the "buy" has become more challenging

#### Notes

- Readers should be aware that projections and other forward-looking statements, including statements regarding MSREI's assessment of the market, are by
  their nature uncertain insofar as actual realized returns or other projected results can change quickly based on, among other things, unexpected market
  movements, changes in interest rates, legislative or regulatory developments, errors in strategy execution, acts of God and other asset-level developments.
- 2. NCREIF, MSREI Strategy, data through 1Q 2014
- 3. Real Capital Analytics, as of 1Q 2014

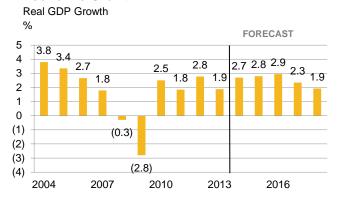
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- The U.S. economic recovery continues
  - Harsh winter weather slowed economic growth over 1Q, as GDP expanded by 0.1%<sup>(2)</sup>
  - Monthly job growth averaged 190 K over 1Q 2014, in-line with the 2013 monthly average, and surged to 288 K in April <sup>(3)</sup>
- While the U.S. government has begun to implement fiscal spending cuts, the sizable public debt burden will remain an issue for many years
- The Fed has announced that it will continue to keep interest rates down, focusing now more on a wide range of indicators instead of just the unemployment rate

## ADDITIONAL INFORMATION

# Ongoing U.S. Recovery<sup>(1)</sup>

#### **Economic Growth (1)**



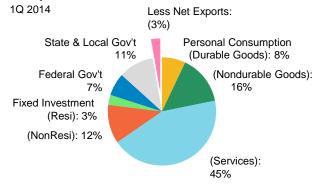
 Y-o-Y GDP Growth (actual and Source BEA, Moody's Analytics, Morgan Stanley Research, MSREI Strategy, as of April 2014

## 10-Year Treasury Yield



Source Federal Reserve Board, Bureau of Labor Statistics, Moody's Analytics, data through April 2014

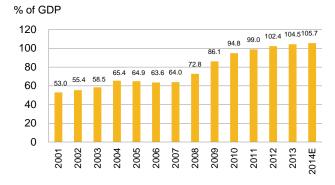
#### **Components of GDP**



Source Moody's Analytics, BEA, as of April 2014

#### Fiscal Debt

Gross General Government Debt



Source IMF, as of April 2014

#### Notes

- Readers should be aware that projections and other forward-looking statements, including statements regarding MSREI's assessment of the
  market, are by their nature uncertain insofar as actual realized returns or other projected results can change quickly based on, among other
  things, unexpected market movements, changes in interest rates, legislative or regulatory developments, errors in strategy execution, acts of
  God and other asset-level developments.
- 2. Bureau of Economic Analysis, as of April 2014
- 3. Bureau of Labor Statistics, as of April 2014

## Morgan Stanley

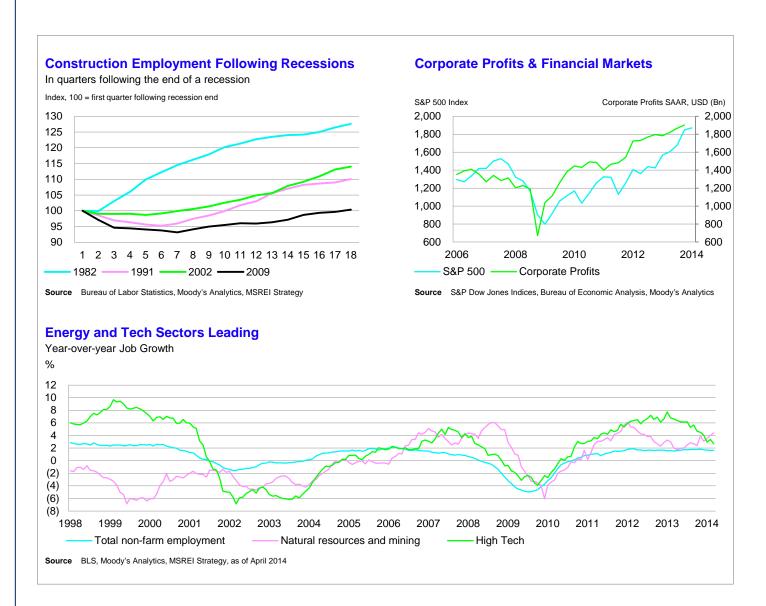
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### Slow housing market recovery

- Construction employment historically leads the labor market recovery, outpacing the total employment by an average of 8 percentage points through the 18-months following the end of a recession
- However, in the current recovery, construction employment is finally returning to the same level as when the recession ended, and has underperformed the overall labor market by 4 percentage points
- Corporate profits, tech and energy employment leading
  - The S&P 500 and corporate profits have both also fully recovered and have now surpassed the previous peak
  - Since December 2009, tech employment has increased by 20.6% and energy employment by 15.8%
  - In comparison, total nonfarm payrolls have grown by 6.4%

#### **ADDITIONAL INFORMATION**

# U.S. Market Drivers – Employment & Corporate Profits



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Real estate has been a strong performing asset class over the last ten years
- Trailing 1-year NPI returns were 11.2% as of 1Q 2014
  - Continuing to demonstrate very strong appreciation: 5.4%
  - The retail sector was the strongest 1-year performer, primarily driven by superregional malls
  - All sectors saw returns of 10% or more, with the office sector lagging
- Six out of 35 years have produced sub-6% returns for core unlevered real estate
- Real estate returns exhibit "fat tails"

# ADDITIONAL INFORMATION

# Investment Performance by Asset Class

Total Returns	%		Ret	turn per a	annum,	%	
to 1Q 2014	1Q14	1Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr
NCREIF Property Index	2.5	11.2	11.7	7.9	5.1	8.7	9.4
NFI-ODCE (3)	2.5	13.8	13.1	7.3	3.0	7.2	8.8
NAREIT Equity REIT Index	(0.2)	3.3	10.4	28.3	2.7	8.3	10.6
S&P 500 Index	10.5	21.9	14.7	21.2	6.3	7.4	9.6
Barclays Capital U.S. Govt/Credit	(0.0)	(0.3)	4.2	5.1	5.1	4.4	6.0
T-Bills (90 day)	0.0	0.1	0.1	0.1	8.0	1.6	2.9
Consumer Price Index	(0.5)	1.4	1.8	2.1	2.0	2.3	2.4

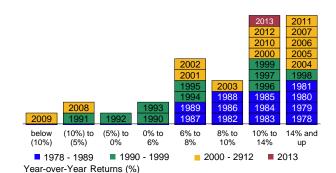
Real Estate Performance

Source NCREIF, NAREIT, Standard & Poors, Barclays, Federal Reserve, Moody's Analytics, MSREI Strategy calculations, data through 1Q 2104

#### Total Returns - NPI

Return Distribution, 1979-2013

Calendar Year, by Returns



Source NCREIF, MSREI Strategy, data through December 31, 2013

#### Notes

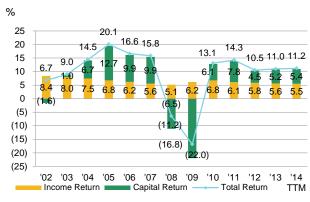
Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

- 1. When comparing the performance of asset classes, readers should keep in mind that there are differences that make direct comparisons difficult. For example, due to the appraisal methods for valuing real estate, there may be inherent issues when comparing real estate to other asset classes; stocks are more volatile than bonds; and U.S. government bonds and fixed income investments are guaranteed by the issuer as to the timely payment of principal and interest and pay a fixed rate of interest.
- See the Performance Notes for important information about the characteristics of the NPI, NFI-ODCE and other comparative indices in relation to PRIME and other factors relevant to such comparisons.

#### 3. Thru 4Q 2013

#### **Private Real Estate Performance**

Y-o-Y Return



Source NCREIF, MSREI Strategy, data through 1Q 2014

#### **Capital Value - Index Change**

%. as of 1Q 2014

70, 00 01 TQ 2011			
	Peak to Trough Decline	Recovery from Trough	Current Discount to Peak
Office	(34)	24	(19)
Industrial	(33)	24	(16)
Retail	(25)	31	(2)
Apartment	(32)	39	(5)
Hotel	(36)	9	(30)
NPI Overall	(32)	29	(12)

Source NCREIF, MSREI Strategy calculations, data through 1Q 2014

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

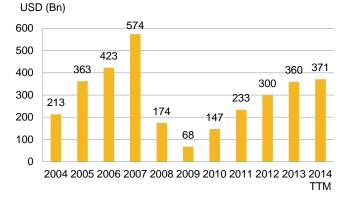
- TTM transaction activity remains more than \$200 Bn below 2007
- CMBS issuance increased by 66% in 2013, but remained nearly \$150 Bn below 2007
  - Issuance is expected to increase by 31% in 2014
- Real estate values fell by 31.5% in the downturn
  - Since the trough, real estate has appreciated by 28.6%
  - Current values are 11.9% below peak prices in 2008
  - Appreciation within the NPI has averaged 1.8% growth per year since 2000

## **ADDITIONAL INFORMATION**

# U.S. Transaction Trends

## **Transaction Activity**

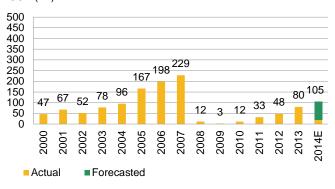
U.S. Transaction Activity



Source Real Capital Analytics, MSREI Strategy

#### **CMBS** Issuance

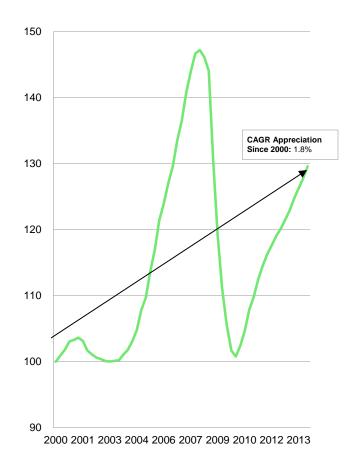
U.S. CMBS Issuance USD (Bn)



Source PREA, Commercial Mortgage Alert

#### **NCREIF Appreciation Index**

Index = 100 at March 2000



Source NCREIF, MSREI Strategy, data through 1Q 2014

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

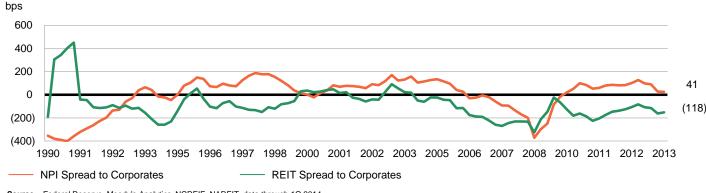
- The average private real estate income return spread over corporate debt yields since 1993 is 41 bps
  - Over 1Q 2014, the spread to private real estate stood at 41 bps
  - Now 50 bps tighter than the 1Q 2013 spread
- Leverage is still accretive based on current carrying values, at various LTVs
  - Narrowing accretive impact over the past four quarters

#### **ADDITIONAL INFORMATION**

# Income Return Spreads and Effects of Leverage

#### Corporate Debt Yields Relative to Real Estate Income Returns

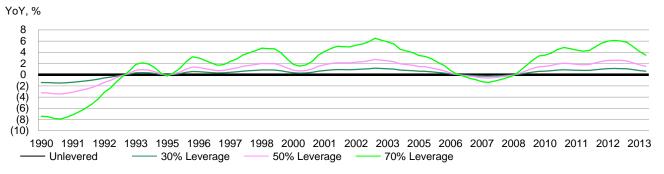
NPI and REIT Income Return Spread to Baa Corporate Debt Yield



Source Federal Reserve, Moody's Analytics, NCREIF, NAREIT, data through 1Q 2014

## Impact of Leverage

Excess Income Return, based on Leverage Employed (1)



Source NCREIF, Federal Reserve, ULI / Cushman & Wakefield Equity, Debt, and Structured Finance Commercial Mortgage Spread, MSREI Strategy Calculations, as of 1Q 2014

<sup>1.</sup> Levered income returns relative to the NPI unlevered income return history, using prevailing spreads from ULI / Cushman & Wakefield Equity, Debt, and Structured Finance Commercial Mortgage Spread.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

# • Property fundamentals continued to improve

- Demand drivers in positive territory for office, retail and industrial sectors
- Positive net absorption and falling vacancy rates in the retail, office and industrial sector
- NPI four-quarter NOI growth, through 1Q 2014:

-NPI: +4.0%

-Retail: +4.0%

-Industrial: +1.6%

-Office: +5.0%

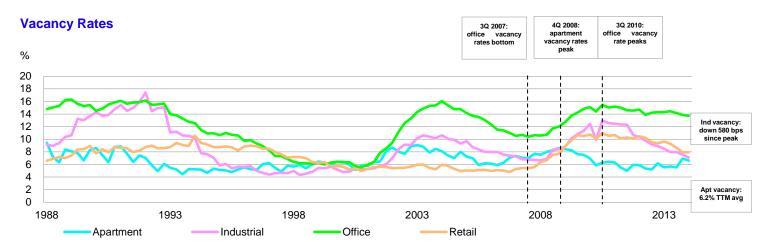
-Apartment: +4.2%

## **Vacancy Rate Change**

Property Type	Y-o-Y (bps)
Apartment	108
Industrial	-140
Office	-58
Retail	-171

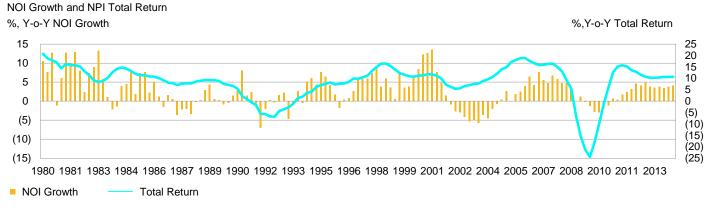
#### **ADDITIONAL INFORMATION**

# Vacancy Rates and NOI Growth



Source NCREIF, data through 1Q 2014

#### **NOI Growth and NPI Total Return**



Source NCREIF, data through 1Q 2014

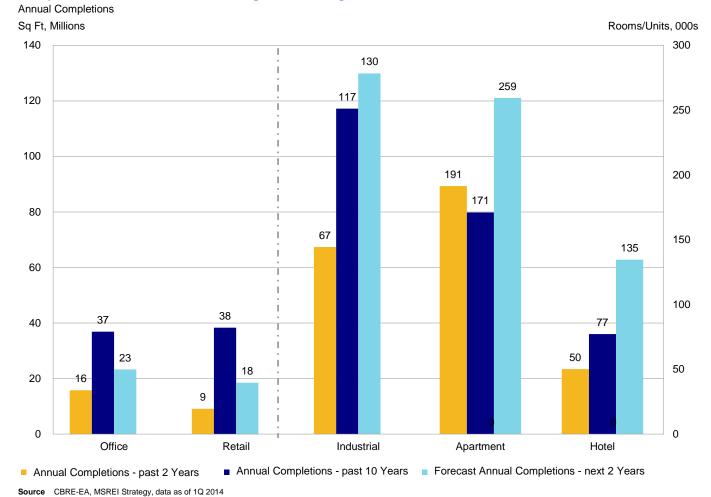
Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- New construction overall is expected to remain limited over the forecast period, while we expect demand recovery may create favorable conditions in market fundamentals
- Over the next two years, office and retail completions are expected to remain well below their 10-year average
  - Industrial construction is ramping up, with the 2-year completions forecast recently ticking above the 10-year average
  - Hotel and apartment completions, on the other hand, are well above their 10-year average

## **ADDITIONAL INFORMATION**

# **Supply Characteristics**

## Completions Remain Well Below Long-Term Averages<sup>(1)</sup>



#### Note

1. Readers should be aware that projections and other forward-looking statements, including statements regarding MSREI's assessment of the market, are by their nature uncertain insofar as actual realized returns or other projected results can change quickly based on, among other things, unexpected market movements, changes in interest rates, legislative or regulatory developments, errors in strategy execution, acts of God and other asset-level developments.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

# Total Acquisitions and Dispositions as a percent of year-ending gross asset value



#### **ADDITIONAL INFORMATION**

# PRIME Acquisitions and Dispositions<sup>(1)</sup>

## **2014**

- PRIME closed on almost \$365M<sup>(2)</sup> of new acquisitions during 1Q14
- At the Fund's share of value, the allocation for 1Q14 was:

  Office: 47.8% Land: 23.2% Apartment: 17.2% Industrial: 11.8%
- PRIME dispositions totaled \$85 million in 1Q14

## <u>2013</u>

- PRIME closed on almost \$730 million<sup>(2)</sup> of new acquisitions during 2013
- At the Fund's share of value, the allocation for 2013 was:

Office: 60.3% - Apartment: 24.1% - Land: 5.7% - Retail: 4.4% - Industrial: 3.6% - Self Storage: 1.9%

• PRIME dispositions totaled \$581 million in 2013

## **2012**

- PRIME closed on over \$820M<sup>(2)</sup> of new acquisitions during 2012
- At the Fund's share of value, the allocation for 2012 was:

Industrial: 60.5% - Apartment: 25.9% - Land: 9.1% - Office: 2.1% - Retail: 1.8% - Self Storage: 0.5%

• PRIME dispositions totaled \$305 million in 2012

#### **Notes**

- 1. For a full list of acquisitions and dispositions, please see pages 56-58.
- 2. Based on PRIME's share of purchase price from 2011, 2012, 2013 and 2014.

**Morgan Stanley Real Estate** Investing **Prime Property Fund, LLC** 

#### **ADDITIONAL INFORMATION**

# **PRIME Acquisitions**

2013 and 2014

2014		/pe %	Location	at Ownership% \$MM
01/30/14 AMLI Marina	del Rey <sup>(1)</sup> La	and 95.0	Marina del Rey, CA	49.9
02/11/14 Rollingwood	Center <sup>(7)</sup> La	and 78.7	Austin, TX	18.4
02/18/14 AMLI Walling	gford La	and 95.0	Seattle, WA	16.3
02/21/14 801 17th Str	eet <sup>(8)</sup> Of	ffice 64.1	Washington, DC	174.5
03/14/14 AMLI River 0	Daks Ap	partment 89.2	Houston, TX	62.7
03/31/14 4 Applegate	Drive <sup>(9)</sup> Inc	dustrial 25.0	Robbinsville, NJ	4.0
03/31/14 10201 NW 1	12th Avenue Inc	dustrial 100.0	Miami, FL	19.3
03/31/14 10200 NW 1	10th Avenue Inc	dustrial 100.0	Miami, FL	19.9
Total 2014	•	•	•	\$365.0
2013				
01/09/13 AMLI on Rive	erside <sup>(1)</sup> La	and 95.0	Irving, TX	6.1
01/31/13 AMLI Arista	Phase II <sup>(1)</sup> La	and 33.3	Broomfield, CO	0.8
03/19/13 35 Dauphin I	Orive Inc	dustrial 85.0	Mechanicsburg, PA	13.0
03/21/13 Albany Aven	ue Se	elf Storage 100.0	Brooklyn, NY	1.9
04/04/13 700 Second	Street <sup>(2)</sup> Of	ffice 1.0	Washington, DC	1.1
04/04/13 600 Second	Street <sup>(2)</sup> Of	ffice 1.0	Washington, DC	0.4
04/04/13 100 F Street	Off	ffice 1.0	Washington, DC	0.7
04/11/13 AMLI on Map	ole Ap	partment 100.0	Dallas, TX	46.2
04/30/13 20 South Mid	ddlesex Avenue Inc	dustrial 85.0	Monroe Township, NJ	6.0
05/03/13 Miami Desig	n II Se	elf Storage 100.0	Miami, FL	1.9
06/10/13 Thornwood	Se	elf Storage 100.0	Thornwood, NY	9.3
07/11/13 Market Place	e Of	ffice 96.5	Seattle, WA	68.7

- Acquired land for future apartment development.
   Acquired additional 1.0% interest in joint venture, bringing ownership to 40.0%.
   Acquired additional 50.0% interest in joint venture, bringing ownership to 100%.
- 4. Acquired additional 80.0% interest in joint venture, bringing ownership to 100%.
- 5. Acquired land for future industrial development.

- Mezzanine Ioan.
- Acquired land for future office development.
- Acquired an additional 64.12% interest in joint venture, bringing ownership to 99.95%.
- Acquired an additional 25% interest in joint venture, bringing ownership to 100%.

**Morgan Stanley Real Estate** Investing **Prime Property Fund, LLC** 

#### **ADDITIONAL INFORMATION**

# PRIME Acquisitions (cont'd)

2013 and 2014

Closing Date	Property Name	Туре	PRIME Ownership %	Location	Purchase Price at Ownership% \$MM
2013 (cont'd)					
07/31/13	AMLI at the Ballpark Phase II	Land	52.3	Frisco, TX	3.0
08/01/13	One Post Office Square (3)	Office	50.0	Boston, MA	273.5
08/12/13	AMLI Uptown	Apartment	100.0	Houston, TX	61.2
09/10/13	One Montgomery Way	Industrial	85.0	Robbinsville Township, NJ	3.7
09/10/13	Three Montgomery Way	Industrial	85.0	Robbinsville Township, NJ	3.1
09/12/13	AMLI Seven Bridges <sup>(4)</sup>	Apartment	80.0	Woodridge, IL	68.0
09/16/13	AMLI Piedmont Heights	Land	33.3	Atlanta, GA	2.5
09/27/13	1117 California Avenue	Office	100.0	Palo Alto, CA	65.0
10/11/13	Gables Miracle Mile	Retail	90.0	Coral Gables, FL	31.8
10/21/13	Mansell Land Tract	Land	95.0	Alpharetta, GA	2.3
11/21/13	AMLI Arts Center <sup>(1)</sup>	Land	52.3	Atlanta, GA	3.7
11/22/13	AMLI City Place – Phase I(1)	Land	52.3	Atlanta, GA	7.8
11/22/13	AMLI City Place – Phase II <sup>(1)</sup>	Land	52.3	Atlanta, GA	3.9
12/13/13	AMLI Deerfield <sup>(1)</sup>	Land	19.8	Deerfield, IL	1.2
12/19/13	965 Cranbury S. River Road <sup>(5)</sup>	Land	85.0	South Brunswick Township, NJ	10.6
12/20/13	The Pointe <sup>(6)</sup>	Office	100.0	Burbank, CA	29.5
12/20/13	West Rogers Park	Self Storage	100.0	Chicago, IL	0.7
Total 2013					\$727.5

- 1. Acquired land for future apartment development.
- Acquired additional 1.0% interest in joint venture, bringing ownership to 40.0%.
   Acquired additional 50.0% interest in joint venture, bringing ownership to 100%. 4. Acquired additional 80.0% interest in joint venture, bringing ownership to 100%.
- 5. Acquired land for future industrial development.

- Mezzanine Ioan.
- Acquired land for future office development.
- Acquired an additional 64.12% interest in joint venture, bringing ownership to 99.95%.
- Acquired an additional 25% interest in joint venture, bringing ownership to 100%.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# **PRIME Dispositions**

2013 and 2014

				Ownership	Last App Value at Ownership	Sales Price at Ownership %
Date	Property Name	Asset Type	Location	% Sold	\$MM	\$MM
2014						
01/10/14	Route 130/Exit 8A <sup>(3)</sup>	Land	South Brunswick, NJ	N/A <sup>(3)</sup>	12.4	12.4
02/07/14	AMLI at Fossil Creek II	Land	Fort Worth, TX	100.0	2.6	2.9
02/14/14	One Market Plaza	Office	San Francisco, CA	50.0	70.0	70.0
Total 2014					\$85.0	\$85.3
2013						
03/26/13	AMLI at Oakhurst North	Apartment	Aurora, IL	20.0	12.1	12.1
05/15/13	Lakeview Warehouses	Industrial	Dania, FL	100.0	15.4	17.5
05/30/13	AMLI at Cityplace	Apartment	Dallas, TX	100.0	29.5	33.5
08/06/13	13827 Carmenita Road	Industrial	Santa Fe Springs, CA	99.0	13.8	14.9
08/30/13	AMLI Lindbergh <sup>(1)</sup>	Apartment	Atlanta, GA	54.0	25.4	25.4
09/30/13	10 Universal City Plaza	Office	Universal City, CA	49.0	177.9	193.2
09/30/13	10 UCP Mezzanine Loan	Office	Universal City, CA	100.0	51.3	51.4
10/15/13	AMLI River Run	Apartment	Naperville, IL	100.0	43.0	44.0
10/30/13	AMLI Kirkland Crossing	Apartment	Aurora, IL	100.0	42.7	42.8
11/13/13	AMLI at Westcliff	Apartment	Westminster, CO	100.0	67.7	67.3
12/09/13	Redlands Industrial Center	Industrial	Redlands, CA	100.0	31.8	39.3
12/18/13	509 W 38th Street <sup>(2)</sup>	Land	New York, NY	100.0	13.6	13.6
12/20/13	AMLI Bryan Place	Apartment	Dallas, TX	48.0	26.3	26.4
Total 2013					\$550.4	\$581.1

#### Notes

<sup>1.</sup> Sold 54% interest in joint venture, bringing ownership to 21%.

Note receivable.

Partial sale of land.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- PRIME's Investment Guidelines allow a portion of the Fund's assets (generally less than 15% of gross assets) to be invested in properties with reasonable asset enhancement opportunities
- As of March 31, 2014, 7.5% of PRIME's gross assets under management are value enhancing

## **ADDITIONAL INFORMATION**

# Value Enhancing Assets

As of March 31, 2014

Asset Name	City	State	Asset Type	Life Cycle	Leased (%)	Date Acquired/ Delivered	PRIME Ownership (%)	Value (\$) <sup>(1)</sup>
Bronx II	Bronx	NY	Self Storage	Lease-up	25.8	06/13/11	100.0	13,800,000
West Farms	Bronx	NY	Self Storage	Development	-	06/14/11	100.0	10,000,000
Flagler	Miami	FL	Self Storage	Development	-	12/28/12	100.0	8,500,000
Albany Avenue	Brooklyn	NY	Self Storage	Development	-	03/21/13	100.0	4,300,000
Miami Design II	Miami	FL	Self Storage	Development	-	05/03/13	100.0	5,000,000
Safeguard Operating Company	Atlanta	GA	Self Storage	Mature/Operating	-	05/31/05	100.0	-
West Rogers Park	Chicago	IL	Self Storage	Development	-	12/20/13	100.0	1,300,000
The Pointe <sup>(3)</sup>	Burbank	CA	Office	Mature/Operating	-	12/20/13	100.0	30,920,496
Route 130/Exit 8A <sup>(4)</sup>	Cranbury	NJ	Land	Predevelopment	-	06/26/06	92.3	6,370,080
International Corporate Park Land <sup>(5</sup>	i) Orlando	FL	Land	Predevelopment	-	09/12/06	95.0	3,800,000
AMLI West Town <sup>(6)</sup>	Atlanta	GA	Land	Predevelopment	-	12/11/07	95.0	8,360,000
AMLI at Wheatlands <sup>(6)</sup>	Aurora	СО	Land	Predevelopment	-	04/16/08	95.0	5,985,000
AMLI Clear Creek Phase II <sup>(6)</sup>	Kansas City	KS	Land	Predevelopment	-	02/07/06	100.0	900,000
AMLI at Riverside <sup>(6)</sup>	Austin	TX	Land	Predevelopment	-	04/11/07	95.0	2,137,500
100 West Walnut Street Land <sup>(7)</sup>	Pasadena	CA	Land	Predevelopment	-	06/30/11	100.0	31,500,000
AMLI Piedmont Heights <sup>(6)</sup>	Atlanta	GA	Land	Predevelopment	-	09/16/13	33.3	2,826,250
Mansell Land Tract <sup>(6)</sup>	Alpharetta	GA	Land	Predevelopment	-	10/21/13	95.0	2,280,000
AMLI Arts Center <sup>(6)</sup>	Atlanta	GA	Land	Predevelopment	-	11/21/13	52.3	3,746,325
AMLI City Place – Phase I <sup>(6)</sup>	Atlanta	GA	Land	Predevelopment	-	11/22/13	52.3	8,477,563
AMLI City Place – Phase II <sup>(6)</sup>	Atlanta	GA	Land	Predevelopment	-	11/22/13	52.3	4,200,900
965 Cranbury S. River Road <sup>(4)</sup>	South Brunswick Towns	INJ	Land	Predevelopment	-	12/19/13	85.0	9,350,000
AMLI Marina del Rey <sup>(6)</sup>	Marina del Rey	CA	Land	Predevelopment	-	01/30/14	95.0	51,015,000
Rollingwood Center <sup>(7)</sup>	Austin	TX	Land	Predevelopment	-	02/11/14	78.7	18,426,026
AMLI Wallingford <sup>(6)</sup>	Seattle	WA	Land	Predevelopment	-	02/18/14	95.0	16,435,000
9281 Pittsburgh Avenue	Rancho Cucamonga	CA	Industrial	Lease-up	0.0	12/21/12	66.7	3,133,349
One Montgomery Way	Robbinsville	NJ	Industrial	Development		09/10/13	85.0	9,520,000

#### Notes

- 1. Includes all assets less than 70% leased at acquisition.
- 2. Amounts shown above are at the Fund's ownership share.
- Note receivable.
- 4. Acquired land for future industrial development.
- 5. Remaining land held for future industrial development.
- 6. Acquired land for future apartment development.
- 7. Acquired land for future development.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Value-added components
  - 38% Lease-up
  - 36% Apartment Development
  - 17% Land and Predevelopment
  - 3% Mezzanine Debt/Notes Receivable
  - 3% Self Storage Development
  - 2% Industrial Development
  - 1% Mature/Operating & Operating Companies

## **ADDITIONAL INFORMATION**

# Value Enhancing Assets

As of March 31, 2014 (cont'd)

Asset Name	City	State	Asset Type	Life Cycle	Leased (%)	Date Acquired/ Delivered	PRIME Ownership (%)	Value (\$) <sup>(1)</sup>
Three Montgomery Way	Robbinsville	NJ	Industrial	Development	-	09/10/13	85.0	4,590,000
AMLI at River North	Chicago	IL	Apartment	Lease-up	59.2	04/21/10	95.0	177,365,000
AMLI Ponce Park	Atlanta	GA	Apartment	Development	-	03/02/11	95.0	24,035,000
AMLI Lex on Orange	Glendale	CA	Apartment	Lease-up	50.9	02/27/12	95.0	103,930,000
AMLI Lake Union	Seattle	WA	Apartment	Development	-	01/30/12	95.0	60,610,000
AMLI Mark 24	Seattle	WA	Apartment	Development	-	03/30/12	95.0	69,825,000
AMLI Urban Center	Irving	TX	Apartment	Development	-	04/02/12	52.3	14,460,188
AMLI Miramar Park	Miramar	FL	Apartment	Development	-	04/04/12	95.0	32,680,000
AMLI Barrett	Kennesaw	GA	Apartment	Lease-up	56.7	02/07/06	95.0	30,305,000
AMLI Lofts	Chicago	IL	Apartment	Development	-	03/31/12	50.4	38,431,088
AMLI Spanish Hills	Camarillo	CA	Apartment	Development	-	12/28/12	95.0	36,670,000
AMLI West Plano Village	Plano	TX	Apartment	Development	-	12/27/12	33.3	4,788,000
AMLI Sawgrass Village	Sunrise	FL	Apartment	Development	-	11/14/11	95.0	20,140,000
AMLI Mueller Town Center	Austin	TX	Apartment	Development	-	12/15/12	95.0	10,640,000
AMLI Operating Company	Chicago	IL	Apartment	Mature/Operating	-	02/07/06	100.0	11,600,000
AMLI Uptown Orange	Orange	CA	Apartment	Development	-	04/01/12	95.0	23,085,000
AMLI Arista Phase II	Broomfield	СО	Apartment	Development	-	01/31/13	33.3	3,956,750
AMLI Deerfield	Deerfield	IL	Apartment	Development	-	12/13/13	25.8	2,234,352
AMLI at Covered Bridge	Austin	TX	Apartment	Development	-	06/01/11	95.0	11,590,000
AMLI on Riverside	Irving	TX	Apartment	Development	-	01/09/13	95.0	11,305,000
AMLI at the Ballpark Phase II	Frisco	TX	Apartment	Development	-	07/31/13	52.3	5,420,938
460 Bedford Road	New York	NY	Other	Mature/Operating	-	12/28/12	67.5	1,215,000
Wilshire Beverly Center Retail	Los Angeles	CA	Retail	Lease-up	61.3	03/31/11	100.0	64,900,000
Total Value Enhancing Assets								1,026,059,804
Current % of Total Fund AUM								7.5%

- 1. Includes all assets less than 70% leased at acquisition.
- 2. Amounts shown above are at the Fund's ownership share.
- Note receivable.
- 4. Acquired land for future industrial development.
- 5. Remaining land held for future industrial development.
- Acquired land for future apartment development.
- 7. Acquired land for future development.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

- Morgan Stanley Real Estate Advisor, Inc. is the investment adviser (the "Adviser") to PRIME
- PRIME's board of directors meets each quarter to review the investment performance of the Fund and monitor the Adviser's performance of its management responsibilities

#### **ADDITIONAL INFORMATION**

## Governance



## **Key Duties of Directors**

- Review quarterly investment performance of PRIME
- Monitor overall performance of the Adviser
- Remove/replace Adviser
- Review/approve investment guidelines and dividend policy
- Approve incurrence of any debt causing consolidated debt to exceed 50% of gross value of assets
- Engage/change independent appraisers and auditors
- Review/approve asset valuation policy
- Resolve certain conflicts of interest; approve certain affiliated transactions

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

#### **1Q14 Property Listing**

Asset Name	City	State	Year Acquired	Value	Ownership Share %	- A	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Office										
100 West Walnut Street	Pasadena	CA	2011	177.0	100%	177.0	396,000	447	100	6.0
150 California Street	San Francisco	CA	2007	124.8	100%	124.8	202,138	617	100	3.2
155 North Wacker	Chicago	IL	2006	565.0	99%	557.0	1,148,947	492	98	5.9
1601 K Street	Washington DC	N/A	2005	189.4	100%	189.4	216,090	877	100	5.7
1801 North Lynn Street	Rosslyn	VA	2005	224.6	100%	224.6	356,064	631	100	6.8
1945 Vaughn Road	Kennesaw	GA	2006	1.9	100%	1.9	27,000	69	100	N/A
500 Park Avenue	New York	NY	1982	187.0	100%	187.0	202,151	925	96	5.5
6500 Wilshire Boulevard	Los Angeles	CA	2010	207.0	100%	207.0	456,679	453	94	4.9
74 N. Pasadena Ave/75 N. Fair Oaks	Pasadena	CA	2011	171.3	95%	162.7	511,900	335	94	4.9
Market Place	Seattle	WA	2013	73.7	97%	71.1	126,887	364	87	3.9
801 17th Street	Washington DC	N/A	2011	240.0	100%	239.9	243,577	985	93	5.1
950 North Glebe	Arlington	VA	2007	130.6	100%	130.6	247,222	528	100	5.8
Hills Plaza	San Francisco	CA	2004	410.0	100%	410.0	631,537	649	98	4.8
One Maritime Plaza	San Francisco	CA	2007	366.0	100%	366.0	553,372	661	89	4.1
One Post Office Square	Boston	MA	1981	548.0	100%	548.0	799,967	685	88	4.8
Rowes Wharf	Boston	MA	1987	306.0	56%	171.4	365,458	837	98	4.4
Two Park Avenue	New York	NY	2007	591.0	100%	591.0	1,048,929	563	99	5.2

#### Note

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<sup>3.</sup> Mezzanine Ioan.

Asset is currently under development.

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value	Ownership Share %	Appraised Value at Ownership \$MM (1)	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Office (cont'd)						•		<u> </u>		
Wilshire Beverly Center	Los Angeles	CA	2005	210.0	100%	210.0	347,009	605	92	4.2
1101 New York Avenue	Washington DC	N/A	2011	293.0	21%	60.7	392,374	747	90	5.6
600 Second Street	Washington DC	N/A	2011	166.0	40%	66.4	361,833	459	100	6.4
100 F Street	Washington DC	N/A	2011	307.0	40%	122.8	712,851	431	100	6.6
700 Second Street	Washington DC	N/A	2011	335.0	40%	134.0	521,654	642	99	5.9
1117 California Avenue	Palo Alto	CA	2013	74.1	100%	74.1	75,875	977	100	5.6
The Pointe (3)	Burbank	CA	2013	30.9	100%	30.9	N/A	N/A	N/A	N/A
Total Office				5,929.3		5,058.3	9,945,514	\$590.30	96.1	5.2
Retail										
AMLI Downtown Retail	Austin	TX	2006	13.2	100%	13.2	41,567	318	94	7.8
Christiana Mall	Newark	DE	2003	671.0	50%	335.5	1,116,456	601	100	5.7
Dadeland Mall	Miami	FL	1979	1,018.0	50%	509.0	1,504,132	677	96	5.3
Downtown Austin Retail	Austin	TX	2006	8.7	100%	8.7	56,574	154	77	N/A
Fashion Valley Mall	San Diego	CA	1986	1,450.0	50%	725.0	1,720,724	843	99	5.0
120 - 126 Prince Street	New York	NY	2012	30.0	75%	22.5	3,482	8,616	100	4.1
Fox Run Mall	Newington	NH	1989	105.0	100%	105.0	602,232	174	95	7.1
Rosedale Shopping Center	Roseville	MN	1978	335.0	100%	335.0	1,150,527	291	94	5.1
103 Prince Street	New York	NY	2011	85.8	68%	57.9	29,900	2,870	100	3.1
Wilshire Beverly Center Retail	Los Angeles	CA	2011	64.9	100%	64.9	32,270	2,011	61	3.0

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

## 1Q14 Property Listing (cont'd)

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Retail (cont'd)										
Gables Miracle Mile	Coral Gables	FL	2013	35.7	90%	32.1	78,745	453	89	5.1
Total Retail				3,817.3		2,208.8	6,336,609	\$602.42	96.0	5.2
Industrial										
10 Applegate Drive	Robbinsville	NJ	2006	9.3	90%	8.4	151,580	61	100	6.6
10015 Waples Court	San Diego	CA	2006	13.2	99%	13.1	106,412	124	100	5.5
112-114 Melrich Road	Cranbury	NJ	2004	27.5	100%	27.5	471,776	58	79	6.3
12 Applegate Drive	Robbinsville	NJ	2006	49.4	90%	44.5	710,336	70	100	8.0
17 South Middlesex Avenue	Monroe	NJ	2011	12.3	100%	12.3	205,187	60	95	5.5
19914 Via Baron	Rancho Dominguez	CA	2006	21.5	100%	21.5	234,771	92	100	4.9
2020 Piper Ranch	San Diego	CA	2005	32.8	100%	32.8	601,417	55	100	9.4
2201 E. Carson Street	Carson	CA	2010	57.2	100%	57.2	521,856	110	100	3.6
26 South Middlesex	Monroe	NJ	2010	16.3	98%	16.0	255,996	64	100	7.7
270 Prospect Plains Road	Cranbury	NJ	2004	16.2	85%	13.8	223,936	72	100	7.8
28 Engelhard Drive	Monroe	NJ	2011	9.3	100%	9.3	144,848	64	100	7.0
2899 Mead Avenue	Santa Clara	CA	2007	14.0	100%	14.0	121,780	115	100	6.1
3 Fitzgerald Avenue	Monroe	NJ	2011	8.5	100%	8.5	151,440	56	100	1.5
3 South Middlesex Avenue	Monroe	NJ	2011	9.9	100%	9.9	169,663	58	88	5.6
32 Commerce Drive	Cranbury	NJ	2011	10.1	100%	10.1	161,496	63	100	6.3
4 Applegate Drive	Robbinsville	NJ	2011	18.2	100%	18.2	265,089	69	100	6.3

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

## 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value	Ownership Share %	Appraised Value at Ownership \$MM (1)	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Industrial (cont'd)										
425 Hartman Road	Atlanta	GA	2007	16.6	100%	16.6	354,620	47	100	6.5
45 Stults Road	Dayton	NJ	2006	28.3	90%	25.5	439,010	65	100	6.6
4501 West Valley Highway East	Sumner	WA	2011	20.5	67%	13.7	253,546	81	100	6.3
5 Fitzgerald Avenue	Monroe	NJ	2004	14.1	85%	12.0	229,726	61	100	6.3
590 Brennan Street	San Jose	CA	2007	11.2	100%	11.2	109,400	102	100	4.9
6 Fitzgerald Avenue	Monroe	NJ	2011	11.6	100%	11.6	204,000	57	100	4.8
6400-6500 Park of Commerce	Boca Raton	FL	2005	14.2	100%	14.2	139,326	102	100	6.7
6617 Associated Boulevard	Everett	WA	2011	26.6	67%	17.7	217,700	122	100	6.2
6930 San Tomas Road	Elkridge	MD	2000	10.5	100%	10.5	206,722	51	32	2.4
909 E. Colon Street	Wilmington	CA	2005	27.8	100%	27.8	223,865	124	100	5.4
9327 U.S. Route 1	Savage	MD	2000	18.8	100%	18.8	290,920	65	95	6.9
935 McLaughlin	San Jose	CA	1977	19.0	100%	19.0	194,536	98	100	5.1
9455 U.S. Route 1	Savage	MD	2000	15.6	100%	15.6	245,000	64	100	7.5
Airport West Distribution Center	Atlanta	GA	2004	19.6	100%	19.6	287,703	68	100	5.6
Auburn Logistics	Auburn	WA	2011	64.7	100%	64.6	885,333	73	100	6.0
Azusa Industrial Center	Azusa	CA	2003	34.8	100%	34.8	432,500	81	100	5.9
East Belt Business Park	Pasadena	TX	2006	17.6	100%	17.6	180,000	98	100	6.0
East Belt Business Park Phase II	Pasadena	TX	2008	16.7	100%	16.7	170,000	98	100	6.2
Harbor Distributing	Santa Ana	CA	1977	17.8	100%	17.8	149,120	119	100	6.3
	· ·									

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

## 1Q14 Property Listing (cont'd)

City	State	Year Acquired	Value		Appraised Value at Ownership \$MM (1)	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Landover	MD	1997	8.1	100%	8.1	93,770	86	100	6.6
Orlando	FL	2006	15.7	100%	15.7	234,284	67	100	8.0
Tamarac	FL	2007	8.0	100%	8.0	101,520	79	100	6.5
Renton	WA	2010	9.4	100%	9.4	119,011	79	0	(1.5)
San Diego	CA	2005	35.9	100%	35.9	665,594	54	95	6.5
Perth Amboy	NJ	2004	21.8	85%	18.5	251,250	87	100	6.0
Perth Amboy	NJ	2004	17.6	85%	15.0	203,300	87	100	7.0
Landover	MD	1997	14.1	100%	14.1	193,500	73	100	6.5
Tamarac	FL	2007	10.8	100%	10.8	116,760	93	82	4.2
Medley	FL	2005	65.4	100%	65.3	670,047	98	100	5.8
Santa Fe Springs	CA	2000	36.6	100%	36.6	447,551	82	100	3.8
McDonough	GA	2007	13.0	100%	13.0	324,102	40	78	6.3
Hayward	CA	1998	41.3	100%	41.3	444,480	81	100	4.6
North Auburn	WA	2007	13.4	100%	13.4	167,023	80	98	5.5
Hayward	CA	2011	29.1	100%	29.1	323,254	90	100	6.8
Stockton	CA	2011	31.9	90%	28.7	545,836	58	100	6.2
Everett	WA	2011	12.3	90%	11.1	91,046	135	100	6.7
Irwindale	CA	2011	30.6	90%	27.5	294,244	95	100	4.4
Everett	WA	2012	10.8	90%	9.7	77,475	139	100	6.2
	Landover Orlando Tamarac Renton San Diego Perth Amboy Landover Tamarac Medley Santa Fe Springs McDonough Hayward North Auburn Hayward Stockton Everett Irwindale	Landover MD Orlando FL Tamarac FL Renton WA San Diego CA Perth Amboy NJ Perth Amboy NJ Landover MD Tamarac FL Medley FL Santa Fe Springs CA McDonough GA Hayward CA North Auburn WA Hayward CA Stockton CA Everett WA Irwindale CA	City         State         Acquired           Landover         MD         1997           Orlando         FL         2006           Tamarac         FL         2007           Renton         WA         2010           San Diego         CA         2005           Perth Amboy         NJ         2004           Perth Amboy         NJ         2004           Landover         MD         1997           Tamarac         FL         2007           Medley         FL         2005           Santa Fe Springs         CA         2000           McDonough         GA         2007           Hayward         CA         1998           North Auburn         WA         2007           Hayward         CA         2011           Stockton         CA         2011           Everett         WA         2011           Irwindale         CA         2011	City         State         Year Acquired Acquired Acquired SMM (*)         Value SMM (*)           Landover         MD 1997         8.1           Orlando         FL 2006         15.7           Tamarac         FL 2007         8.0           Renton         WA 2010         9.4           San Diego         CA 2005         35.9           Perth Amboy         NJ 2004         21.8           Perth Amboy         NJ 2004         17.6           Landover         MD 1997         14.1           Tamarac         FL 2007         10.8           Medley         FL 2005         65.4           Santa Fe Springs         CA 2000         36.6           McDonough         GA 2007         13.0           Hayward         CA 1998         41.3           North Auburn         WA 2007         13.4           Hayward         CA 2011         29.1           Stockton         CA 2011         31.9           Everett         WA 2011         12.3           Irwindale         CA 2011         30.6	City         State         Acquired         \$MM (1)         %           Landover         MD         1997         8.1         100%           Orlando         FL         2006         15.7         100%           Tamarac         FL         2007         8.0         100%           Renton         WA         2010         9.4         100%           San Diego         CA         2005         35.9         100%           Perth Amboy         NJ         2004         21.8         85%           Perth Amboy         NJ         2004         17.6         85%           Landover         MD         1997         14.1         100%           Tamarac         FL         2007         10.8         100%           Medley         FL         2005         65.4         100%           Santa Fe Springs         CA         2000         36.6         100%           McDonough         GA         2007         13.0         100%           Hayward         CA         1998         41.3         100%           North Auburn         WA         2007         13.4         100%           Stockton         CA         20	City         State         Year Acquired         Appraised Yalue \$MM (°)         Ownership Share ownership \$MM (°)         Value at ownership \$MM (°)           Landover         MD         1997         8.1         100%         8.1           Orlando         FL         2006         15.7         100%         8.0           Renton         WA         2010         9.4         100%         8.0           Renton         WA         2010         9.4         100%         9.4           San Diego         CA         2005         35.9         100%         35.9           Perth Amboy         NJ         2004         21.8         85%         18.5           Perth Amboy         NJ         2004         17.6         85%         15.0           Landover         MD         1997         14.1         100%         14.1           Tamarac         FL         2007         10.8         100%         65.3           Medley         FL         2005         65.4         100%         65.3           Santa Fe Springs         CA         2000         36.6         100%         36.6           McDonough         GA         2007         13.0         100% <t< td=""><td>City         State         Appraised Acquired SMM***         Ownership Value SMM***         Value at SMM***         Rentable Area/Units           Landover         MD         1997         8.1         100%         8.1         93,770           Orlando         FL         2006         15.7         100%         15.7         234,284           Tamarac         FL         2007         8.0         100%         8.0         101,520           Renton         WA         2010         9.4         100%         9.4         119,011           San Diego         CA         2005         35.9         100%         35.9         665,594           Perth Amboy         NJ         2004         21.8         85%         18.5         251,250           Perth Amboy         NJ         2004         21.8         85%         15.0         203,300           Landover         MD         1997         14.1         100%         14.1         193,500           Tamarac         FL         2007         10.8         100%         10.8         116,760           Medley         FL         2005         65.4         100%         65.3         670,047           Santa Fe Springs         C</td><td>City         State         Acquired Acquired SMM(*)         Ownership Share         Value at Ownership Share         Value Share         Are All Share         All Share         Value Share         All Share</td><td>City         State         Year Acquire         Appraised SMM(1)         Ownership Share (ownership) SMM(1)         Value at Verear/Units         Sq. Ft./ Unit         Leased %           Landover         MD         1997         8.1         100%         8.1         93,770         86         100           Orlando         FL         2006         15.7         100%         15.7         234,284         67         100           Tamarac         FL         2007         8.0         100%         8.0         101,520         79         100           Renton         WA         2010         9.4         100%         9.4         119,011         79         0           San Diego         CA         2005         35.9         100%         35.9         665,594         54         95           Perth Amboy         NJ         2004         17.6         85%         18.5         251,250         87         100           Landover         MD         1997         14.1         100%         14.1         193,500         73         100           Tamarac         FL         2007         10.8         100%         10.8         116,760         93         82           Medley<!--</td--></td></t<>	City         State         Appraised Acquired SMM***         Ownership Value SMM***         Value at SMM***         Rentable Area/Units           Landover         MD         1997         8.1         100%         8.1         93,770           Orlando         FL         2006         15.7         100%         15.7         234,284           Tamarac         FL         2007         8.0         100%         8.0         101,520           Renton         WA         2010         9.4         100%         9.4         119,011           San Diego         CA         2005         35.9         100%         35.9         665,594           Perth Amboy         NJ         2004         21.8         85%         18.5         251,250           Perth Amboy         NJ         2004         21.8         85%         15.0         203,300           Landover         MD         1997         14.1         100%         14.1         193,500           Tamarac         FL         2007         10.8         100%         10.8         116,760           Medley         FL         2005         65.4         100%         65.3         670,047           Santa Fe Springs         C	City         State         Acquired Acquired SMM(*)         Ownership Share         Value at Ownership Share         Value Share         Are All Share         All Share         Value Share         All Share	City         State         Year Acquire         Appraised SMM(1)         Ownership Share (ownership) SMM(1)         Value at Verear/Units         Sq. Ft./ Unit         Leased %           Landover         MD         1997         8.1         100%         8.1         93,770         86         100           Orlando         FL         2006         15.7         100%         15.7         234,284         67         100           Tamarac         FL         2007         8.0         100%         8.0         101,520         79         100           Renton         WA         2010         9.4         100%         9.4         119,011         79         0           San Diego         CA         2005         35.9         100%         35.9         665,594         54         95           Perth Amboy         NJ         2004         17.6         85%         18.5         251,250         87         100           Landover         MD         1997         14.1         100%         14.1         193,500         73         100           Tamarac         FL         2007         10.8         100%         10.8         116,760         93         82           Medley </td

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

## 1Q14 Property Listing (cont'd)

NOI % <sup>(2)</sup>
70
5.6
6.4
5.9
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6.9
6.1
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## **ADDITIONAL INFORMATION**

# Portfolio Directory

As of March 31, 2014

## 1Q14 Property Listing (cont'd)

City	State	Year Acquired	Appraised Value \$MM (1)		Appraised Value at Ownership \$MM <sup>(1)</sup>	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
		<del></del>				•			
Rancho Cucamonga	CA	2012	4.7	67%	3.1	91,746	51	0	0.3
Rancho Cucamonga	CA	2012	1.8	67%	1.2	32,900	55	100	5.8
Rancho Cucamonga	CA	2012	14.2	67%	9.5	208,497	68	100	6.3
Rancho Cucamonga	CA	2012	25.0	67%	16.7	345,081	72	100	5.2
Rancho Cucamonga	CA	2012	13.6	67%	9.1	258,000	53	100	5.5
Rancho Cucamonga	CA	2012	2.8	67%	1.9	45,872	61	100	5.2
Huntington Beach	CA	2012	20.1	100%	20.1	167,778	120	100	2.8
Huntington Beach	CA	2012	15.4	100%	15.4	138,000	112	100	4.5
Landover	MD	2012	9.8	100%	9.8	100,575	97	100	7.0
Landover	MD	2012	10.0	100%	10.0	101,362	99	100	6.7
Landover	MD	2012	10.8	100%	10.8	83,608	129	100	6.5
Kent	WA	2012	13.2	100%	13.2	178,400	74	100	6.2
Chicago	IL	2012	10.5	100%	10.5	86,600	121	100	6.2
Chicago	IL	2012	2.9	100%	2.9	24,053	121	100	5.5
Chicago	IL	2012	3.1	100%	3.1	24,053	129	100	6.5
Chicago	IL	2012	3.0	100%	3.0	24,053	125	100	6.3
Chicago	IL	2012	2.9	100%	2.9	24,053	121	100	5.9
Chicago	IL	2012	6.6	100%	6.6	47,652	139	100	8.7
Chicago	IL	2012	5.9	100%	5.9	47,652	124	100	8.2
	Rancho Cucamonga Huntington Beach Huntington Beach Landover Landover Landover Kent Chicago Chicago Chicago Chicago Chicago	Rancho Cucamonga CA Huntington Beach CA Huntington Beach CA Landover MD Landover MD Chicago IL	City         State         Acquired           Rancho Cucamonga         CA         2012           Huntington Beach         CA         2012           Huntington Beach         CA         2012           Landover         MD         2012           Landover         MD         2012           Kent         WA         2012           Chicago         IL         2012	City         State         Year Acquired Yeam Acquired SMM (*)         Value SMM (*)           Rancho Cucamonga         CA         2012         4.7           Rancho Cucamonga         CA         2012         1.8           Rancho Cucamonga         CA         2012         14.2           Rancho Cucamonga         CA         2012         25.0           Rancho Cucamonga         CA         2012         23.6           Rancho Cucamonga         CA         2012         2.8           Huntington Beach         CA         2012         20.1           Huntington Beach         CA         2012         15.4           Landover         MD         2012         10.0           Landover         MD         2012         10.8           Kent         WA         2012         10.8           Kent         WA         2012         10.5           Chicago         IL         2012         2.9           Chicago         IL         2012         3.1           Chicago         IL         2012         3.0           Chicago         IL         2012         3.0           Chicago         IL         2012         2.9	City         State         Acquired         \$MM (1)         %           Rancho Cucamonga         CA         2012         4.7         67%           Rancho Cucamonga         CA         2012         1.8         67%           Rancho Cucamonga         CA         2012         14.2         67%           Rancho Cucamonga         CA         2012         25.0         67%           Rancho Cucamonga         CA         2012         13.6         67%           Rancho Cucamonga         CA         2012         2.8         67%           Huntington Beach         CA         2012         2.8         67%           Huntington Beach         CA         2012         15.4         100%           Landover         MD         2012         9.8         100%           Landover         MD         2012         10.0         100%           Kent         WA         2012         10.8         100%           Kent         WA         2012         13.2         100%           Chicago         IL         2012         3.1         100%           Chicago         IL         2012         3.0         100%           Chicago	City         State         Year Acquired Year Value SMM (°)         Ownership Share Value SMM (°)         Value at Wenership SMM (°)           Rancho Cucamonga         CA         2012         4.7         67%         3.1           Rancho Cucamonga         CA         2012         1.8         67%         1.2           Rancho Cucamonga         CA         2012         14.2         67%         9.5           Rancho Cucamonga         CA         2012         25.0         67%         16.7           Rancho Cucamonga         CA         2012         13.6         67%         9.1           Rancho Cucamonga         CA         2012         2.8         67%         9.1           Rancho Cucamonga         CA         2012         2.8         67%         9.1           Huntington Beach         CA         2012         2.1         100%         20.1           Huntington Beach         CA         2012         15.4         100%         9.8           Landover         MD         2012         10.0         100%         10.0           Landover         MD         2012         10.8         100%         10.8           Kent         WA         2012         10.5	City         State         Vear Acquired Acquired Acquired SMM (*)         Ownership SMM (*)         Value at SMM (*)         Value at SMM (*)         Rentable Area/Units           Rancho Cucamonga         CA         2012         4.7         67%         3.1         91,746           Rancho Cucamonga         CA         2012         1.8         67%         1.2         32,900           Rancho Cucamonga         CA         2012         14.2         67%         9.5         208,497           Rancho Cucamonga         CA         2012         25.0         67%         16.7         345,081           Rancho Cucamonga         CA         2012         13.6         67%         9.1         258,000           Rancho Cucamonga         CA         2012         2.8         67%         1.9         45,872           Huntington Beach         CA         2012         2.8         67%         1.9         45,872           Huntington Beach         CA         2012         15.4         100%         20.1         167,778           Huntington Beach         CA         2012         15.4         100%         9.8         100,575           Landover         MD         2012         10.0         100% <t< td=""><td>City         State         Year Acquired         Appraised Yalue Yalue Yalue         Ownership Share Powership Shar</td><td>City         Year Acquired City         Appraised Acquired SMM (v)         Ownership Share SMM (v)         Value at Ownership SMM (v)</td></t<>	City         State         Year Acquired         Appraised Yalue Yalue Yalue         Ownership Share Powership Shar	City         Year Acquired City         Appraised Acquired SMM (v)         Ownership Share SMM (v)         Value at Ownership SMM (v)

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need to project rental income, which is inherently unreliable, and the absence of frequent trading.

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Mezzanine Ioan.

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value	Ownership Share %	Appraised Value at Ownership \$MM <sup>(1)</sup>	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % (2)
Industrial (cont'd)										
2317 Landmeier Road	Chicago	IL	2012	8.6	100%	8.6	65,400	132	100	6.7
3010 Red Hawk Drive	Grand Prairie	TX	2012	20.4	100%	20.4	364,000	56	100	6.6
2725 S. Highway 360	Grand Prairie	TX	2012	16.1	100%	16.1	284,000	57	100	6.5
3001 Alouette Drive	Grand Prairie	TX	2012	6.9	100%	6.9	147,200	47	100	6.6
2816 Commodore Drive	Carrollton	TX	2012	6.2	100%	6.2	122,467	51	100	6.8
2840 Commodore Drive	Carrollton	TX	2012	5.8	100%	5.8	111,380	52	100	6.3
2828 Trade Center Drive	Carrollton	TX	2012	34.5	100%	34.5	710,524	49	100	5.1
7422 & 7442 and 7446 - 7472										
Orangewood Avenue	Garden Grove	CA	2012	9.6	100%	9.6	95,182	101	62	3.7
7361 - 7471 Doig Drive	Garden Grove	CA	2012	14.1	100%	14.1	157,002	90	78	3.6
7373 Hunt Avenue & 7372 Doig Drive	Garden Grove	CA	2012	15.6	100%	15.6	168,390	93	100	5.4
3440 - 3470 S. Watson Road	Arlington	TX	2012	12.3	100%	12.3	248,510	50	100	6.0
2500 E. Mayfield Road	Arlington	TX	2012	4.7	100%	4.7	65,088	72	100	6.9
2825 S. Santa Fe Avenue	Vernon	CA	2012	17.9	100%	17.9	149,145	120	100	5.0
7130 & 7180 - 7190 Miramar Road	San Diego	CA	2012	60.0	100%	59.9	452,044	133	74	5.4
35 Dauphin Drive	Mechanicsburg	PA	2013	16.5	85%	14.0	310,050	53	76	6.4
20 South Middlesex Avenue	Monroe	NJ	2013	8.8	85%	7.5	146,529	60	90	5.8
One Montgomery Way (4)	Robbinsville	NJ	2013	11.2	85%	9.5	N/A	N/A	N/A	N/A
Three Montgomery Way (4)	Robbinsville	NJ	2013	5.4	85%	4.6	N/A	N/A	N/A	N/A

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

1Q14 Property Listing (cont'd)

City	State	Year Acquired	Value		Appraised Value at Ownership \$MM (1)	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Miami	FL	2014	19.3	100%	19.3	171,668	113	100	N/A
Miami	FL	2014	19.9	100%	19.9	171,994	116	100	N/A
			1,950.6		1,782.4	25,194,936	\$76.76	93.7	5.7
Chicago	IL	2006	11.6	100%	11.6	N/A	N/A	N/A	N/A
Houston	TX	2011	105.4	31%	32.5	431	244,548	99	5.3
Austin	TX	2012	35.5	100%	35.5	154	230,520	97	5.2
Seattle	WA	2007	58.1	100%	58.1	199	291,960	100	4.7
Austin	TX	2010	32.8	14%	4.4	175	187,429	95	5.0
Chicago	IL	2006	151.0	52%	78.1	440	343,182	98	4.6
Broomfield	СО	2010	67.6	14%	9.1	358	188,827	97	5.4
Broomfield	СО	2013	11.9	33%	4.0	N/A	N/A	N/A	N/A
Fort Worth	TX	2006	29.1	100%	29.1	189	153,968	95	5.3
Bellevue	WA	2003	70.5	100%	70.5	227	310,573	96	4.8
Wheaton	IL	2006	89.2	20%	17.8	600	148,667	98	5.5
Rancho Cucamonga	CA	2002	103.5	100%	103.5	521	198,656	95	5.2
Irving	TX	2010	70.0	95%	66.5	440	159,091	96	5.2
Broomfield	СО	2011	95.4	100%	95.4	500	190,800	95	5.3
West Palm Beach	FL	2006	35.4	100%	35.4	234	151,282	97	5.2
Englewood	СО	2006	62.9	95%	59.8	309	203,560	96	5.4
	Miami Miami Miami Chicago Houston Austin Seattle Austin Chicago Broomfield Broomfield Fort Worth Bellevue Wheaton Rancho Cucamonga Irving Broomfield West Palm Beach	Miami         FL           Miami         FL           Chicago         IL           Houston         TX           Austin         TX           Seattle         WA           Austin         TX           Chicago         IL           Broomfield         CO           Fort Worth         TX           Bellevue         WA           Wheaton         IL           Rancho Cucamonga         CA           Irving         TX           Broomfield         CO           West Palm Beach         FL	City         State         Acquired           Miami         FL         2014           Miami         FL         2014           Miami         FL         2014           Chicago         IL         2006           Houston         TX         2011           Austin         TX         2012           Seattle         WA         2007           Austin         TX         2010           Chicago         IL         2006           Broomfield         CO         2013           Fort Worth         TX         2006           Bellevue         WA         2003           Wheaton         IL         2006           Rancho Cucamonga         CA         2002           Irving         TX         2010           Broomfield         CO         2011           West Palm Beach         FL         2006	City         State         Year Acquired Acquired Acquired SMM (1)         Value SMM (1)           Miami         FL         2014         19.3           Miami         FL         2014         19.9           1,950.6           Chicago         IL         2006         11.6           Houston         TX         2011         105.4           Austin         TX         2012         35.5           Seattle         WA         2007         58.1           Austin         TX         2010         32.8           Chicago         IL         2006         151.0           Broomfield         CO         2010         67.6           Broomfield         CO         2013         11.9           Fort Worth         TX         2006         29.1           Bellevue         WA         2003         70.5           Wheaton         IL         2006         89.2           Rancho Cucamonga         CA         2002         103.5           Irving         TX         2010         70.0           Broomfield         CO         2011         95.4           West Palm Beach         FL         2006	City         State         Acquired         \$MM (1)         %           Miami         FL         2014         19.3         100%           Miami         FL         2014         19.9         100%           1,950.6           1,950.6           1,950.6           Chicago         IL         2006         11.6         100%           Houston         TX         2011         105.4         31%           Austin         TX         2012         35.5         100%           Seattle         WA         2007         58.1         100%           Austin         TX         2010         32.8         14%           Chicago         IL         2006         151.0         52%           Broomfield         CO         2010         67.6         14%           Broomfield         CO         2013         11.9         33%           Fort Worth         TX         2006         29.1         100%           Wheaton         IL         2006         89.2         20%           Rancho Cucamonga         CA         2002         103.5         100%           Irving <td>City         State         Year Acquired         Appraised Value SMM (*)         Ownership Share SMM (*)         Value at Womership SMM (*)           Miami         FL         2014         19.3         100%         19.3           Miami         FL         2014         19.9         100%         19.9           L         2014         19.9         100%         19.9           Chicago         IL         2006         11.6         100%         11.6           Houston         TX         2011         105.4         31%         32.5           Austin         TX         2012         35.5         100%         58.1           Austin         TX         2010         32.8         14%         4.4           Chicago         IL         2006         151.0         52%         78.1           Broomfield         CO         2010         67.6         14%         9.1           Broomfield         CO         2013         11.9         33%         4.0           Fort Worth         TX         2006         29.1         100%         29.1           Bellevue         WA         2003         70.5         100%         70.5</td> <td>City         State         Acquired Acquired Value Valu</td> <td>City         State Vear Acquire         Appraised Value Value Value Value Share Share Share Walk (Novership) Share (Novership) Share</td> <td>City         Valar Acquired Acquired SMM(*)         Appraised Value SMM(*)         Value at Value at SMM(*)         Rentable Area/Units         Sq. Fr./ Unit SMM(*)         Leased Mere Al/Units         Leased SM, Ease SMM(*)         Sq. Fr./ Unit SMM(*)         Leased Mere Al/Units         Leased SM, Ease SMM(*)         Leased SMM(*)</td>	City         State         Year Acquired         Appraised Value SMM (*)         Ownership Share SMM (*)         Value at Womership SMM (*)           Miami         FL         2014         19.3         100%         19.3           Miami         FL         2014         19.9         100%         19.9           L         2014         19.9         100%         19.9           Chicago         IL         2006         11.6         100%         11.6           Houston         TX         2011         105.4         31%         32.5           Austin         TX         2012         35.5         100%         58.1           Austin         TX         2010         32.8         14%         4.4           Chicago         IL         2006         151.0         52%         78.1           Broomfield         CO         2010         67.6         14%         9.1           Broomfield         CO         2013         11.9         33%         4.0           Fort Worth         TX         2006         29.1         100%         29.1           Bellevue         WA         2003         70.5         100%         70.5	City         State         Acquired Acquired Value Valu	City         State Vear Acquire         Appraised Value Value Value Value Share Share Share Walk (Novership) Share	City         Valar Acquired Acquired SMM(*)         Appraised Value SMM(*)         Value at Value at SMM(*)         Rentable Area/Units         Sq. Fr./ Unit SMM(*)         Leased Mere Al/Units         Leased SM, Ease SMM(*)         Sq. Fr./ Unit SMM(*)         Leased Mere Al/Units         Leased SM, Ease SMM(*)         Leased SMM(*)

#### Notes

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Mezzanine loan.

Asset is currently under development.

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value	Ownership Share %	Appraised Value at Ownership \$MM <sup>(1)</sup>	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Apartment (cont'd)										
AMLI at La Villita	Irving	TX	2006	38.0	95%	36.1	306	124,183	97	5.3
AMLI at Lantana Hills	Austin	TX	2006	36.7	100%	36.7	264	139,015	97	5.2
AMLI at Lowry Estates	Denver	СО	2006	80.4	50%	40.2	414	194,203	97	5.4
AMLI at McGinnis Ferry	Suwanee	GA	2006	93.8	100%	93.8	696	134,770	97	5.6
AMLI at Milton Park	Alpharetta	GA	2006	69.2	25%	17.3	461	150,109	94	5.5
AMLI at Museum Gardens	Vernon Hills	IL	2006	74.5	52%	38.9	294	253,401	93	5.5
AMLI at Naperville	Naperville	IL	1999	74.6	24%	17.7	440	169,546	97	5.6
AMLI at North Briarcliff	Atlanta	GA	2006	57.4	100%	57.4	537	106,890	97	5.7
AMLI at Northwinds	Alpharetta	GA	2006	112.8	34%	38.3	800	141,000	98	5.6
AMLI at Perimeter Gardens	Dunwoody	GA	2006	33.2	24%	7.9	245	135,510	99	5.5
AMLI at Quadrangle	Dallas	TX	2006	44.2	95%	42.0	220	200,909	97	5.2
AMLI at River North	Chicago	IL	2011	186.7	95%	177.3	409	456,479	59	N/A
AMLI at Riverfront Park	Denver	СО	2012	52.7	95%	50.1	45	217,769	73	N/A
AMLI at Seven Bridges	Woodridge	IL	2006	88.8	100%	88.8	520	170,769	94	5.6
AMLI at St. Charles	Saint Charles	IL	2006	68.3	100%	68.3	400	170,750	98	5.5
AMLI at the Ballpark	Frisco	TX	2010	53.7	52%	28.1	335	160,254	97	N/A
AMLI at the Medical Center	Houston	TX	2006	53.0	24%	12.6	334	158,683	95	5.3
AMLI at Upper West Side	Fort Worth	TX	2006	24.7	100%	24.7	194	127,320	96	5.1
AMLI at Victoria Arbors	Rancho Cucamonga	CA	2007	71.2	33%	23.7	319	223,198	97	5.0

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value \$MM <sup>(1)</sup>	Ownership Share %	Value at Ownership \$MM <sup>(1)</sup>	Rentable Area/Units	Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Apartment (cont'd)			:							
AMLI at Barrett	Kennesaw	GA	2006	31.9	95%	30.3	238	134,034	57	N/A
AMLI City Vista	Houston	TX	2010	85.4	100%	85.4	404	211,386	97	5.2
AMLI Downtown Apartments	Austin	TX	2006	65.9	100%	65.9	220	299,546	97	5.0
AMLI Eastside	Austin	TX	2012	52.9	24%	12.6	290	182,414	97	5.2
AMLI Evanston	Evanston	IL	2011	70.9	33%	23.6	214	331,308	75	N/A
AMLI Flagler Village	Fort Lauderdale	FL	2011	56.8	100%	56.8	218	260,551	99	4.8
AMLI Galatyn Station	Richardson	TX	2011	40.9	100%	40.9	285	143,509	98	5.2
AMLI Interlocken	Broomfield	СО	2011	70.6	95%	67.1	343	205,831	74	N/A
AMLI Knox-Henderson	Dallas	TX	2006	26.8	100%	26.8	180	148,889	98	5.6
AMLI Lake Union (4)	Seattle	WA	2012	63.8	95%	60.6	N/A	N/A	N/A	N/A
AMLI Las Colinas	Irving	TX	2012	52.9	24%	12.6	341	155,132	96	5.0
AMLI Lex on Orange	Glendale	CA	2012	109.4	95%	103.9	106	352,903	51	N/A
AMLI Lindbergh	Atlanta	GA	2010	49.0	26%	12.9	274	178,832	98	5.8
AMLI Lofts (4)	Chicago	IL	2012	76.3	50%	38.4	N/A	N/A	N/A	N/A
AMLI Mark 24 (4)	Seattle	WA	2012	73.5	95%	69.8	N/A	N/A	N/A	N/A
AMLI Memorial Heights	Houston	TX	2006	86.6	100%	86.6	380	227,895	94	5.3
AMLI Miramar Park (4)	Miramar	FL	2012	34.4	95%	32.7	N/A	N/A	N/A	N/A
AMLI Mueller Town Center (4)	Austin	TX	2012	11.2	95%	10.6	N/A	N/A	N/A	N/A
AMLI Northpoint	Alpharetta	GA	2007	69.2	95%	65.7	366	189,071	95	5.1

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#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Apartment (cont'd)         Atlanta         GA         2010         62           AMLI Old 4th Ward         Atlanta         GA         2010         62           AMLI on 2nd         Austin         TX         2006         78           AMLI on Day Creek         Rancho Cucamonga         CA         2007         60           AMLI on Eldridge Parkway         Houston         TX         2006         88	9 95% 1 33% 1 100% 5 100%	75.0 20.0 88.1 46.5	337 231 270 668 300	185,757 341,558 222,593 131,886 155,000	99 97 96 96	5.4 5.7 5.0 5.4
AMLI on 2nd Austin TX 2006 78  AMLI on Day Creek Rancho Cucamonga CA 2007 60  AMLI on Eldridge Parkway Houston TX 2006 88	9 95% 1 33% 1 100% 5 100%	75.0 20.0 88.1 46.5	231 270 668	341,558 222,593 131,886	97 96	5.7
AMLI on Day Creek Rancho Cucamonga CA 2007 60  AMLI on Eldridge Parkway Houston TX 2006 88	1 33% 1 100% 5 100%	20.0 88.1 46.5	270 668	222,593	96	5.0
AMLI on Eldridge Parkway Houston TX 2006 88	1 100% 5 100%	88.1 46.5	668	131,886		
	5 100%	46.5			96	5.4
		-	300	155 000		
AMLI on Maple Dallas TX 2013 46	.8 100%			100,000	96	5.1
AMLI on the Boulevard Sherman Oaks CA 2006 26		26.8	105	255,238	98	4.6
AMLI on the Plaza Morristown NJ 2007 48	.0 20%	9.6	149	322,148	97	5.1
AMLI Park Avenue Denver CO 2011 52	6 100%	52.6	194	271,134	97	5.2
AMLI Parkside Atlanta GA 2011 49	6 14%	6.7	301	164,784	97	5.4
AMLI Ponce Park <sup>(4)</sup> Atlanta GA 2011 25	.3 95%	24.0	N/A	N/A	N/A	N/A
AMLI Sawgrass Village <sup>(4)</sup> Sunrise FL 2011 21	2 95%	20.1	N/A	N/A	N/A	N/A
AMLI South Shore Austin TX 2007 83	.4 95%	79.2	375	222,400	96	5.1
AMLI Spanish Hills <sup>(4)</sup> Camarillo CA 2012 38	6 95%	36.7	N/A	N/A	N/A	N/A
AMLI Uptown Houston TX 2013 61	4 100%	61.4	238	257,983	98	5.1
AMLI Uptown Orange <sup>(4)</sup> Orange CA 2012 24	.3 95%	23.1	N/A	N/A	N/A	N/A
AMLI Urban Center <sup>(4)</sup> Irving TX 2012 27	7 52%	14.5	N/A	N/A	N/A	N/A
AMLI Warner Center Woodland Hills CA 2012 140	4 100%	140.4	522	268,966	95	4.4
AMLI West Plano Village <sup>(4)</sup> Plano TX 2012 14	4 33%	4.8	N/A	N/A	N/A	N/A

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Mezzanine loan.

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

AMLI at the Ballpark Phase II (4) Fri	eerfield isco ustin ving puston	IL TX TX	2013 2013 2011	8.6 10.4 12.2	26% 52%	2.2	N/A N/A	N/A	N/A	N/A
AMLI at the Ballpark Phase II (4) Fri  AMLI at Covered Bridge (4) Au	isco ustin	TX TX	2013	10.4			·		N/A	N/A
AMLI at Covered Bridge (4) Au	ustin	TX	2011		52%	5.4	N/A			
	ving			12.2			1 N//A	N/A	N/A	N/A
AMLI on Riverside (4)		TX			95%	11.6	N/A	N/A	N/A	N/A
	ouston		2013	11.9	95%	11.3	N/A	N/A	N/A	N/A
AMLI River Oaks Ho		TX	2014	70.4	89%	62.8	275	256,000	71	N/A
Total Apartment				4,535.6		3,399.8	19,834	\$204,613	94.0	5.2
Hotel										
Boston Harbor Hotel Bo	oston	MA	1987	125.0	56%	70.0	230	543,478	N/A	5.7
Marriott East Side Ne	ew York	NY	2005	240.0	100%	240.0	646	371,517	N/A	6.0
Total Hotel				365.0		310.0	876	\$416,667		5.9
Self Storage										
Safeguard Operating Company Atl	lanta	GA	2005	-	100%	-	N/A	N/A	N/A	N/A
Addison Du	upage	IL	2005	8.0	100%	8.0	54,010	148	86	6.9
Albany Avenue (4) Bro	ooklyn	NY	2013	4.3	100%	4.3	N/A	N/A	N/A	N/A
Arlington Arl	lington Heights	IL	2005	9.4	100%	9.4	67,175	140	94	6.8
Astoria As	storia	NY	2005	8.5	100%	8.5	25,050	339	91	6.2
Baldwin Ba	aldwin	NY	2005	9.3	100%	9.3	61,580	151	85	6.0
Bridgeview Bri	ridgeview	IL	2005	7.1	100%	7.1	57,795	123	83	6.8
Bronx Bro	onx	NY	2005	11.7	100%	11.7	39,575	296	84	6.6

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Appraised Value \$MM <sup>(1)</sup>	Ownership Share %	Appraised Value at Ownership \$MM <sup>(1)</sup>	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % <sup>(2)</sup>
Self Storage (cont'd)										
Bronx II	Bronx	NY	2011	13.8	100%	13.8	56,505	244	26	2.0
Brooklyn	Brooklyn	NY	2005	11.3	100%	11.3	39,599	285	88	6.5
Causeway	Metairie	LA	2005	19.2	100%	19.2	112,202	171	89	7.8
Coconut Creek	Coconut Creek	FL	2005	7.8	100%	7.8	64,675	121	89	7.1
Coconut Grove	Miami	FL	2005	7.4	100%	7.4	31,245	237	97	6.8
Crown Heights	Brooklyn	NY	2006	15.1	100%	15.1	31,943	473	92	6.0
Darien	Darien	IL	2005	11.6	100%	11.6	65,300	178	91	6.9
Des Plaines	Des Plaines	IL	2005	7.7	100%	7.7	66,963	115	90	6.8
East New York	Brooklyn	NY	2006	15.4	100%	15.4	44,400	347	88	6.0
East Williamsburg	Brooklyn	NY	2007	17.8	100%	17.8	45,270	393	91	5.9
Ebbetts Field	Brooklyn	NY	2006	19.7	100%	19.7	40,080	492	89	6.0
Elizabeth	Elizabeth	NJ	2005	9.3	100%	9.3	53,775	173	92	6.8
Elmsford	Elmsford	NY	2005	16.2	100%	16.2	45,623	355	91	6.0
Flagler Street(4)	Miami	FL	2011	8.5	100%	8.5	N/A	N/A	N/A	N/A
Fox Chase	Philadelphia	PA	2005	4.5	100%	4.5	49,702	91	92	7.5
Frankford	Philadelphia	PA	2006	3.1	100%	3.1	42,790	72	88	7.6
Garfield	Garfield	NJ	2005	6.0	100%	6.0	45,730	131	89	6.8
Germantown	Philadelphia	PA	2005	7.9	100%	7.9	48,595	163	92	7.5
Hewlett	Hewlett	NY	2005	17.2	100%	17.2	61,375	280	86	5.9

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Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Portfolio Directory

As of March 31, 2014

#### 1Q14 Property Listing (cont'd)

Asset Name	City	State	Year Acquired	Value		Appraised Value at Ownership \$MM (1)	Rentable Area/Units	Value per Sq. Ft./ Unit \$	Leased %	YR 1 NOI % (2)
Self Storage (cont'd)										
Hialeah	Miami	FL	2005	6.9	100%	6.9	49,028	141	91	6.9
Hollis	Hollis	NY	2007	10.0	100%	10.0	41,705	240	88	6.0
Holmdel	Holmdel	NJ	2005	9.5	100%	9.5	60,955	156	86	6.8
I-10	Metairie	LA	2005	12.3	100%	12.3	69,530	177	84	7.6
Jamaica	Queens	NY	2005	10.2	100%	10.2	33,816	302	89	6.9
Jerome	Brooklyn	NY	2006	10.7	100%	10.7	35,088	305	88	6.1
Juniata	Philadelphia	PA	2005	3.8	100%	3.8	40,650	94	92	7.5
Lapalco	Marrero	LA	2005	5.8	100%	5.8	72,080	81	83	8.0
Liberty	Jamaica	NY	2008	13.6	100%	13.6	51,721	263	85	6.2
Lombard	Lombard	IL	2005	7.5	100%	7.5	50,475	149	93	6.9
Lyons	Lyons	IL	2005	6.6	100%	6.6	58,475	113	86	6.9
Manhattan	Metairie	LA	2005	3.4	100%	3.4	68,135	50	73	8.3
McCook	Chicago	IL	2011	8.8	100%	8.8	70,515	125	89	6.9
Miami Design	Miami	FL	2005	14.8	100%	14.8	58,407	253	93	6.7
Miami Design II (4)	Miami	FL	2013	5.0	100%	5.0	N/A	N/A	N/A	N/A
Miramar	Miramar	FL	2005	7.7	100%	7.7	57,815	133	89	7.1
Mountainside	Mountainside	NJ	2005	11.4	100%	11.4	72,810	157	92	6.7
New Hyde Park	New Hyde Park	NY	2005	13.5	100%	13.5	47,615	284	93	6.1
New Rochelle	New Rochelle	NY	2005	21.0	100%	21.0	62,675	335	93	6.0

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As of March 31, 2014

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Self Storage (cont'd)										
Oaklane	Philadelphia	PA	2005	6.8	100%	6.8	46,110	148	91	7.4
Ozone Park	Ozone Park	NY	2005	13.0	100%	13.0	38,170	341	88	6.1
Palatine	Palatine	IL	2005	8.4	100%	8.4	55,505	151	94	6.7
Palmetto Bay	Miami	FL	2005	6.6	100%	6.6	45,788	144	94	7.0
Palmetto Expressway	Miami	FL	2005	9.2	100%	9.2	63,272	145	91	7.0
Pompano Beach	Pompano Beach	FL	2005	10.1	100%	10.1	63,675	159	91	7.0
Power & I-10	Metairie	LA	2005	7.8	100%	7.8	60,750	128	85	7.6
Ridgefield	Ridgefield	NJ	2005	9.9	100%	9.9	66,553	149	91	7.0
Ridgewood	Queens	NY	2007	13.3	100%	13.3	42,440	313	91	6.1
Storehouse	Baton Rouge	LA	2005	4.8	100%	4.8	72,055	67	82	7.4
Tacony	Philadelphia	PA	2005	3.5	100%	3.5	41,004	85	85	7.5
Tamarac	Tamarac	FL	2005	8.7	100%	8.7	61,942	141	90	7.1
Temple	Philadelphia	PA	2005	4.4	100%	4.4	34,480	128	80	7.2
Thornwood	Thornwood	NY	2013	10.7	100%	10.7	32,718	327	92	6.1
Utica	Brooklyn	NY	2010	12.8	100%	12.8	43,775	292	78	6.2
Wabash	Chicago	IL	2005	11.9	100%	11.9	69,525	171	86	6.5
Warehouse	Baton Rouge	LA	2005	6.3	100%	6.3	49,490	127	88	7.5
Warehouse	New Orleans	LA	2005	4.8	100%	4.8	32,670	147	89	8.1
West Farms (4)	Bronx	NY	2011	10.0	100%	10.0	N/A	N/A	N/A	N/A
		_			-					

#### Notes

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Self Storage (cont'd)		-								
West Hempstead	West Hempstead	NY	2005	12.5	100%	12.5	49,600	252	93	6.0
West Miami	Miami	FL	2005	6.4	100%	6.4	40,875	157	92	6.7
West Rogers Park (4)	Chicago	IL	2013	1.3	100%	1.3	N/A	N/A	N/A	N/A
Yonkers	Brooklyn	NY	2006	10.3	100%	10.3	40,437	255	91	6.0
Total Self Storage				653.8		653.8	3,303,286	\$189.11	87.5	6.5
Land (5)										
100 West Walnut St Land	Pasadena	CA	2011	31.5	100%	31.5	N/A	N/A	N/A	N/A
AMLI at Wheatlands	Aurora	СО	2008	6.3	95%	6.0	N/A	N/A	N/A	N/A
AMLI Clear Creek PH2	Kansas City	KS	2006	0.9	100%	0.9	N/A	N/A	N/A	N/A
AMLI Riverside	Austin	TX	2007	2.3	95%	2.1	N/A	N/A	N/A	N/A
AMLI West Town	Atlanta	GA	2007	8.8	95%	8.4	N/A	N/A	N/A	N/A
International Corporate Park	Orlando	FL	2006	4.0	95%	3.8	N/A	N/A	N/A	N/A
Route 130/Exit 8A	Cranbury	NJ	2006	6.9	92%	6.4	N/A	N/A	N/A	N/A
AMLI Piedmont Heights	Atlanta	GA	2013	8.5	33%	2.8	N/A	N/A	N/A	N/A
Mansell Land Tract	Alpharetta	GA	2013	2.4	95%	2.3	N/A	N/A	N/A	N/A
AMLI Arts Center	Atlanta	GA	2013	7.2	52%	3.7	N/A	N/A	N/A	N/A
AMLI City Place- Phase I	Atlanta	GA	2013	16.2	52%	8.5	N/A	N/A	N/A	N/A
AMLI City Place- Phase II	Atlanta	GA	2013	8.0	52%	4.2	N/A	N/A	N/A	N/A

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Land (5) (cont'd)										
965 Cranbury S. River Road	South Brunswick Township	NJ	2013	11.0	85%	9.4	N/A	N/A	N/A	N/A
AMLI Marina del Rey	Marina del Rey	CA	2014	53.7	95%	51.0	N/A	N/A	N/A	N/A
Rollingwood Center	Austin	TX	2014	23.4	79%	18.4	N/A	N/A	N/A	N/A
AMLI Wallingford	Seattle	WA	2014	17.3	95%	16.4	N/A	N/A	N/A	N/A
Total Land				208.4		175.8				
Other										
460 Bedford Road	Pleasantville	NY	2011	1.8	68%	1.3	N/A	N/A	N/A	N/A
Total Other				1.8		1.3				
Total Prime Property Fund				17,461.8		13,590.2	44,780,345 <sup>(6)</sup>		94.0	5.3

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## **Key Executives**

Scott A. Brown

Head of Prime Property Fund, LLC

Scott Brown is a Managing Director of Morgan Stanley and Head of Prime Property Fund. With over 23 years of real estate experience, he is responsible for the portfolio construction and performance of PRIME as well as the direction and execution of the Fund's strategy. He serves as a member of the Fund's Investment Committee as well. Scott began working with PRIME in 1993 as part of Equitable Real Estate and then Lend Lease while becoming fully dedicated to PRIME in 2002. He transitioned to Morgan Stanley in 2003 and took a leadership position in PRIME in 2007. He is a member of the Pension Real Estate Association and Urban Land Institute. He received an MBA from Indiana University and a BS in Finance from the University of Illinois.



#### **Candice W. Todd**

Chief Financial Officer of Prime Property Fund, LLC

Candice Todd is a Managing Director of Morgan Stanley and the Chief Financial Officer of Prime Property Fund, responsible for Prime Property Fund's capital structure and REIT compliance. In March of 2014, she assumed responsibility for portfolio management across all REI funds. Prior to joining Morgan Stanley in November 2003, Candice worked for Lend Lease (predecessor The Yarmouth Group) since 1994 and has over 24 years of real estate experience. She previously worked for Prentiss Properties Limited overseeing systems and reporting related to Resolution Trust Corporation contracts. Candice started her career at Price Waterhouse working primarily on real estate clients. She also has served as the Co-Chairperson of the Accounting Committee at NCREIF and was a REIS Council member. She has served on the NAIOP Capital Markets Advisory Board. Candice received a Master of Accountancy, and a BS in Human Resources from the University of Alabama. Candice is a Certified Public Accountant.



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## **Key Executives**

#### John R. Klopp

Co-Chief Executive Officer and Co-Chief Investment Officer of Morgan Stanley Real Estate Investing

John R. Klopp is a Managing Director of Morgan Stanley and Co-Chief Executive Officer and Co-Chief Investment Officer of Morgan Stanley Real Estate. From 1997 to 2009 John was the Chief Executive Officer of Capital Trust, Inc. (NYSE: CT), a publicly-traded real estate finance and investment management company that he co-founded. Prior to this, John was the founder and Managing Partner of Victor Capital Group, L.P. from 1989 until 1997. John had previously served as Managing Director and Co-Head of Chemical Realty Corporation, the real estate investment banking arm of Chemical Bank. John serves as the Chair of Columbia Business School's Real Estate Advisory Committee and is an active member of various real estate organizations including the Pension Real Estate Association, the Commercial Mortgage Securitization Association and National Association of Real Estate Investment Trusts. He received a BA in economics from Tufts University and an MBA in finance and real estate from The Wharton School of the University of Pennsylvania.



#### Paul Mouchakkaa

Head of Global Research and Strategy of Morgan Stanley Real Estate Investing

Paul Mouchakkaa is a Managing Director of Morgan Stanley and Head of Global Research and Strategy for the Morgan Stanley Real Estate Investing business ("MSREI"). Paul was a managing director of real estate consulting services for PCA prior to joining Morgan Stanley. Prior to this, he served as a portfolio manager for real estate at the California Public Employees' Retirement System (CalPERS), where he oversaw the research, operations and analytics for CalPERS' entire real estate portfolio. Paul is an active member of various real estate organizations including NCREIF and IREI. He received a BA with Highest Honors in Economics from Carleton University and an MBA in finance from the University of Oregon.



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## **Key Executives**

#### **Josh Myerberg**

**Executive Director** 

Josh Myerberg is an Executive Director of Morgan Stanley and Deputy Portfolio Manager for Prime Property Fund. Prior to joining the Prime executive team, he was responsible for sourcing, underwriting and executing transactions on the West Coast on behalf of Morgan Stanley's real estate funds. During his tenure at Morgan Stanley, Josh has been involved in the execution and asset management of more than \$2.0BN of real estate investments across a variety of asset classes and structures. Josh joined Morgan Stanley in 2006 after previously working for Banc of America Securities' Real Estate Investment Banking group and First Union Securities. Josh received his MBA from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill and a BA in economics from Washington & Lee University.



#### Bennett A. Weaver

Head of Operations

Bennett Weaver is an Executive Director of Morgan Stanley and the Head of Operations of Prime Property Fund. Prior to joining Morgan Stanley in July 2004, Bennett worked for Lend Lease and has over 16 years of real estate experience. He played an integral role in the lift out of the accounting and finance team to State Street and rejoined Morgan Stanley in October 2013. Bennett began his career in assurance services at Ernst & Young focusing primarily on real estate clients. Bennett is a Certified Public Accountant. He is an active member of the Accounting Committee at NCREIF. Bennett received an MBA from the University of Georgia, and a BS in Accounting from Oglethorpe University.



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## **Key Executives**

#### **Megan Golder**

Vice President

Megan Golder is a Vice President in the Morgan Stanley Real Estate Investing Group. She joined Morgan Stanley in 2007 and is currently a dedicated Client Relations resource to Prime Property Fund. In this role, Megan is responsible for client and consultant relationships as well as fund marketing. Megan previously spent three years at Ernst & Young, LLP within the Assurance Advisory Business Services group working primarily on real estate clients. Megan is a Certified Public Account and a member of the Pension Real Estate Association. Megan received a Masters of Accountancy and a BBA in Accounting from the University of Georgia.



Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

### **Risk Considerations**

There are significant risk factors associated with an investment in PRIME. An investment in PRIME will involve significant risks due to, among other things, the nature of the Fund's investments and potential conflicts of interest. There can be no assurance that the Fund will realize its rate of return objectives or return any investor capital. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of investment and the lack of liquidity). The value of an investment in a fund may fluctuate. Past results do not guarantee future performance. These risk factors include the following:

- Financial Reform Legislation: In July, 2010 (the "Enactment Date"), President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, one provision of which will eventually prohibit bank holding companies and their affiliates, subject to certain exceptions (including an exemption for certain funds to which Morgan Stanley has committed no more than 3% of the capital), from investing in or sponsoring private equity funds following passage of a transition period. While the Adviser will endeavor to minimize the impact of such legislation on the Fund and the assets held by the Fund, investors may be adversely affected by the legislation and the supporting rules and regulations that have yet to be created.
- Bank Holding Company: Morgan Stanley became both a bank holding company and a financial holding company
  under the U.S. Bank Holding Company Act of 1956, as amended (the "BHCA"). As such, Morgan Stanley is subject
  on a worldwide basis to regulation (including capital adequacy regulations), examination and supervision by the
  U.S. Board of Governors of the Federal Reserve System (the "Federal Reserve"). Because it is an indirect
  subsidiary of Morgan Stanley, the Adviser of the Fund is subject to the BHCA.
- There can be no assurance that PRIME's return objectives will be realized or that there will be any return of capital.
- Investors should carefully review and evaluate the more detailed description of risk factors and conflicts of interest in the Offering Memorandum.
- General economic factors and many other conditions affecting performance (including interest rates, capital flows and employment levels) are beyond PRIME's control.
- Shareholders have no assurance of liquidity. Real estate is relatively illiquid, and redemption queues can develop.
  PRIME has fully satisfied the redemption queue at the end of the third quarter 2010. There is no guarantee that
  PRIME will have sufficient cash to fund redemptions, and PRIME is under no obligation to make cash available
  through sale of assets, borrowings, or otherwise. Also, the right to transfer shares in PRIME is subject to
  restrictions.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Risk Considerations (cont'd)

- Earthquakes, floods, other natural disasters, terrorism, war, etc., could cause significant damage to PRIME's properties and may not be adequately insurable.
- PRIME must comply with complex legal and tax rules (particularly, but not limited to, maintaining qualification as a
  tax advantaged REIT and as an ERISA-exempt "operating company"). There can be no assurance that it will be
  successful or that ensuring such compliance may not be economically disadvantageous at times. Failure to
  comply would have a material adverse impact on returns realized by PRIME's shareholders. For example, if
  PRIME fails to qualify or remain qualified as a REIT, PRIME's dividends will not be deductible by it, and its income
  will be subject to taxation at regular corporate rates.
- To the extent PRIME makes loans, it has special risks as lender (e.g., lender liability, usury, partner fiduciary issues for partner loans, etc.).
- The Adviser has various conflicts of interest, including that it and its affiliates represent other advisory and/or investment banking clients; they may provide services to PRIME or represent counterparties in transactions with PRIME, subject in some but not all cases to the need for board approval. These conflicts could adversely impact performance.
- PRIME has significant assets in joint ventures, which can keep PRIME from implementing decisions in its sole judgment, and can increase the risk of disputes and litigation with the joint venture partner.
- PRIME relies heavily on its Adviser, which can choose to vary materially from the stated investment guidelines
  and allocation targets. Shareholders have only limited voting rights, with no control over daily investment
  decisions.
- Tenant financial condition deterioration could impact performance.
- Mortgage debts and other leverage incurred by PRIME can exacerbate certain risks and, upon default, result in loss of property and cross-defaults.
- · Competition for desirable real estate assets is intense.
- Unstabilized properties, if acquired, carry extra risk, as does development of properties. Underwriting of
  acquisitions and other transactions can be an imprecise process. Litigation can also result from property level
  transactions or events.

Morgan Stanley Real Estate Investing Prime Property Fund, LLC

#### **ADDITIONAL INFORMATION**

## Risk Considerations (cont'd)

- Real estate valuations are inherently uncertain given the uniqueness of real property, the need to project rental
  income with such projections being inherently unreliable, and the absence of frequent trading. Real property can
  be subject to property and transfer taxes. The Fund makes no assurances regarding the price at which an asset
  may be sold and cautions investors that sales may occur at prices materially lower or higher than the latest
  appraised value for such asset.
- Owners/operators of real property can be subjected to significant environmental liabilities over extended periods, which may not be insurable.
- The Adviser of PRIME may face challenges as it oversees the management of AMLI and Safeguard and their businesses in conjunction with PRIME's existing investments.
- The rental growth rates in markets where PRIME currently owns many of its apartment assets have historically lagged the rental growth rates of other major U.S. markets.
- There is no guarantee that the PRIME management team, the management team of its operating companies, PRIME's property mangers, joint venture partners or other partners in PRIME's operations will remain in place.
- Additional risk factors and conflicts of interest are set forth in PRIME's Offering Memorandum.





# RREEF America REIT II An Open-End Core Real Estate Fund

Stanislaus County Employees Retirement - May 27, 2014

Passion to Perform



## Confidential – Not for public distribution



The information contained herein is for the confidential use of only those persons to whom it is transmitted by RREEF America L.L.C. or its affiliates and is presented for informational purposes by RREEF America L.L.C. on behalf of RREEF America REIT II, Inc. ("RREEF America REIT II", or the "Fund"). This information may not be distributed, circulated, quoted, or otherwise disseminated without the prior consent of RREEF America L.L.C. Each recipient, as a condition to the provision of this information and by virtue of receipt thereof, agrees not to make a photocopy or other copy or to divulge the contents hereof to any other person (other than a legal, business, investment or tax advisor in connection with obtaining the advice of such person with respect to the investment). Failure to comply with the foregoing may result in irreparable damage to the Fund, the shareholders and RREEF America L.L.C., among others. The information should be read and reviewed in conjunction with the important disclosure information entitled "Performance Notes" and "Important Information" later in these materials. Such disclosure information is applicable to all performance data throughout this presentation. This presentation contains forward-looking statements, which should be considered in connection with the statements contained in "Performance Notes" and "Important Information". These forward-looking statements include, but are not limited to, management's plans, projections, objectives, expectations, and intentions, and other similar statements. These statements are based on the current beliefs or expectations of management which are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond management's control. The ability of the Fund to successfully achieve the objectives set forth in the business plans and the initiatives described herein will be dependent, in many cases, upon the availability of financing and a market for real estate assets, each of which is uncertain in the current environment.

## **Executive Summary**



#### **Organization**

- Global real estate platform with \$48 billion of AUM across the risk spectrum
- Stable firm with strong performance, capital formation and transaction activity in 2014
- Proven Americas team; delivering outstanding core real estate returns for 30+ years
- Active management style with disciplined research-based investment management process

#### **U.S. Real Estate Market Opportunities**

- U.S. commercial real estate solidly in expansion phase
- Outlook for rent growth and NOI remains favorable with industrial and office most attractive
- Our House View encourages pro-cyclical allocations

#### **RREEF America REIT II**

- Open-end U.S. core commingled fund structured as a private REIT
- Large (\$8.0 billion), diversified, and stable fund believed to be well positioned for next phase of recovery
- Top performing fund, strong current income, with significant embedded value propositions
- Experienced, stable, and tenured team of 18 dedicated professionals

Data as March 31, 2014. Past performance is not indicative of future results. Performance compared to NPI and NFI-ODCE is on a gross basis. See "Important Information" as well as the full GIPS Composite report for additional details.

## Table of contents



### Section

01	Firm Overview
02	Market Outlook: Why Core Real Estate Now?
03	RREEF America REIT II: Flagship Core Open-End Fund

## **Appendix**

A1	Summary of Principal Terms
A2	Fund Details
A3	Biographies
A4	GIPS Composite Reports and Performance Notes

O1 Firm Overview

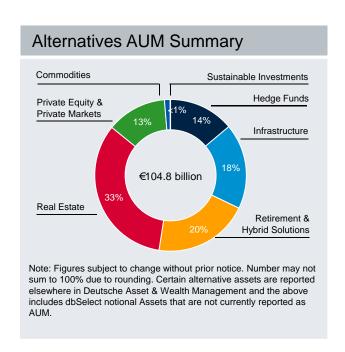
## Alternative Investments Business

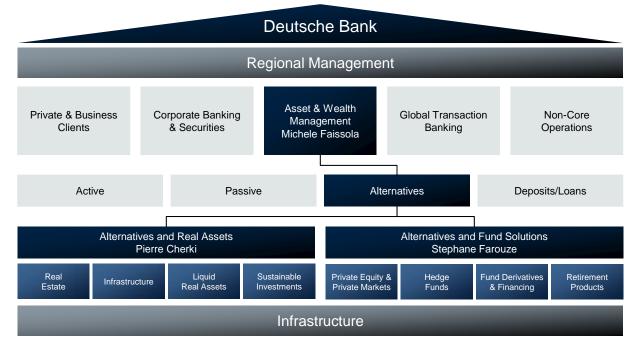


## Part of Deutsche Bank's Asset & Wealth Management (AWM) division

#### Overview

- At nearly €105 billion (+USD144 billion) of AUM and 730+ professionals and staff, Deutsche Asset & Wealth Management is one of the world's largest managers of Alternative Investments¹.
- We are one of the few asset managers with significant coverage in each sub-asset class of alternatives and our vertically integrated business model provides packaged one stop shop services for our clients.
- We utilize our extensive experience across sectors, geographies and asset life cycles to maximize client value with intelligent acquisition, management and disposal strategies





<sup>&</sup>lt;sup>1</sup> Source: Towers Watson. Global Alternatives Survey 2013, dated July 2013.

Note: Not all DeAWM products and services are offered in all jurisdictions and availability is subject to local regulatory restrictions and requirements. Numbers may not sum due to rounding. Source: Deutsche Asset & Wealth Management. As of March 31, 2014.

## Global real estate business



Long tenured manager of real estate assets across the private and public investment spectrum and around the globe

Our mission is to provide real estate investment management services consistent with our clients' objectives for diversification, preservation of capital and superior long-term risk-adjusted performance.

## Global footprint and AUM by strategy (billions) ■ RE Direct: Americas US\$16.9/€12.3 US\$19.5/€14.2 ■ RE Direct: Europe US\$48.3/€35.0 RE Direct: Asia Pacific US\$2.6/€1.9 US\$9.3/€6.7 ■ RE Securities

#### Real estate business at a glance

- A 40-year investment heritage
- Committed to local market expertise with approximately 450 employees in 22 cities worldwide
- A full service real estate manager with US\$48.3/€35.0 billion in assets under management
- More than 465 institutional clients
- Deutsche Asset & Wealth Management is an indirect wholly-owned subsidiary of Deutsche Bank AG. The real estate investment business is part of the Alternatives and Real Assets platform of Deutsche Asset & Wealth Management.

Numbers may not sum due to rounding. There is no guarantee the investment objective can be achieved. Source: Deutsche Asset & Wealth Management.

As of March 31, 2014.

### Private Real Estate – Americas

#### Overview

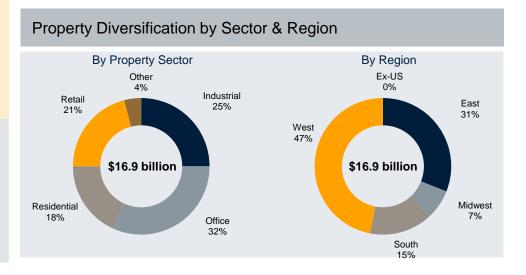


- Creating value through active management since 1975.
- Long tenured senior professionals averaging 14 years with the firm and 27 years of industry experience.
- US\$16.9 billion in total AUM¹.
- Nearly 300 institutional clients, including public, corporate, union and foundations/endowments.
- Approximately 200 professionals and staff in 9 offices.
- Dedicated teams closed more than \$40 billion (1,300+ properties) in purchase and sales transactions over the last 10 years.
- Regional asset management organization with nearly 30 asset managers.

#### **Key Distinctions**

- Four decades of experience in U.S. markets
- Long-term outperformance for core real estate
- Seasoned local teams and hands-on approach
- Industry thought leadership





<sup>&</sup>lt;sup>1</sup> Includes core, value add and opportunistic direct real estate investments in the Americas. Excludes real estate securities. Source: Deutsche Asset & Wealth Management. Diversification based on gross asset value by primary use. Numbers may not sum due to rounding As of March 31, 2014.

## Investment Approach



Over 40 years, we have developed a platform and approach to real estate investing that distinguishes us in the industry

#### Strong fiduciary focus

- Our culture is built around acting as a fiduciary to our clients.
- We pride ourselves on our responsiveness and transparency in all aspects of managing our clients' investments.

#### Thought leadership in real estate research

— The depth of insights from our integrated top-down and bottom-up approach gives us unique perspective into markets and allows us to develop actionable strategies for our clients' portfolios.

#### Proven access to transaction flow

 Our size, reputation and long standing relationships often give us access to a wide range of investment opportunities before they are broadly marketed.

#### **Risk management**

 Our rigorous lifecycle approach is designed to identify, implement and monitor investment themes and tactics to achieve competitive long-term, risk-adjusted returns for our clients.

#### Active hands-on asset management approach

 Our seasoned local teams and hands-on approach translates into better and more efficient real estate decisions, potentially increasing property income returns and adding long-term value for investors.

#### **Consistent long-term outperformance**

 U.S. Core Private Real Estate Aggregate: Outperforming NFI-ODCE on gross basis 1, 3, 5, 10, 20 and 30 years<sup>1</sup>













The photographs depicted above and on subsequent pages are not intended to be representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact us. Past performance is not indicative of future results. As of December 31, 2013.

<sup>&</sup>lt;sup>1</sup> Please see "Performance record of U.S. core strategies" for further information.

## Proven long-term results



Delivering attractive U.S. core real estate performance for over three decades

#### Supplemental Information: U.S. Core Real Estate – Leveraged Property Performance Aggregate<sup>1</sup>



<sup>&</sup>lt;sup>1</sup>Preliminary as of March 31, 2014.

Past performance is not indicative of future results. Performance is calculated using a levered property level return formula for an aggregate of all U.S. core real estate accounts. Please note that this differs from the Firm's Americas Real Estate - U.S. Direct Core Composite which is a GIPS Composite. The Composite GIPS Report is located in the Appendix. See Important Notes for additional details. Performance shown is gross of fees and actual returns earned by an investor will be reduced by advisory fees and other expenses. NFI-ODCE = NCREIF Fund Index - Open End Diversified Core Equity. Please refer to "Important Information" included in the Appendix for further information.

02

# Market Outlook: Why Core Real Estate Now?

Certain information in this research report constitutes forward-looking statements. Due to various risks, uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered by this research report may differ materially from those described. The information herein reflects our current view only, is subject to change and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as we have opined herein.

## Strategic rationale for core real estate



- Risk-adjusted performance low volatility
- Low correlation with stocks and fixed income
- High current income and cash distributions over the long run more than two-thirds of real estate total return comes from current income
- Hedge against inflation
- Real estate has outperformed broader equities during exogenous shocks

Year correlation coefficients: 3Q1993 - 3Q2013, quarterly										
	СРІ	Public REITs	Private RE	S&P 500	10-Yr Treasury					
СРІ	1.00									
Public REITs (FTSE NAREIT Equity Index)	0.17	1.00								
Private RE (NPI)	0.24	0.23	1.00							
S&P 500	0.06	0.58	0.20	1.00						
10 yr. treasury	(0.35)	(0.23)	0.01	(0.47)	1.00					







Sources: NAREIT, NCREIF, BLS, Barclays and S&P.

The photographs depicted above are not intended to be representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact Deutsche Asset & Wealth Management. Past performance is not indicative of future results.

As of December 31, 2013.

## 2013 – 2018 U.S. economic outlook

## Key drivers and risks – few changes



- Employment growth = 2.26 million in 2013; GDP revised to 1.9%<sup>1</sup>
- Robust consumer spending growth; consumer confidence is favorable; Household balance sheets in good shape<sup>2</sup>
- Corporate profits ahead of peak levels from 2007<sup>3</sup>
- Homeownership rate:<sup>3</sup> up 30bps Year-over-year (YoY)
- Industrial Production:<sup>2</sup> up 3.7% YoY
- Capacity Utilization:<sup>2</sup> up 120bps YoY
- Retail Sales: up 3.8% YoY

#### Key risks to the outlook:

- Quantitative easing wind-down
- Slower growth in China and Japan
- Escalation of Ukrainian Crisis

#### Outlook:

- More of the same, but without government drag.
- 2014: > 2.2 million new jobs, 3.0% GDP growth<sup>4</sup>

As of April 2014.

<sup>&</sup>lt;sup>1</sup> Sources: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis.

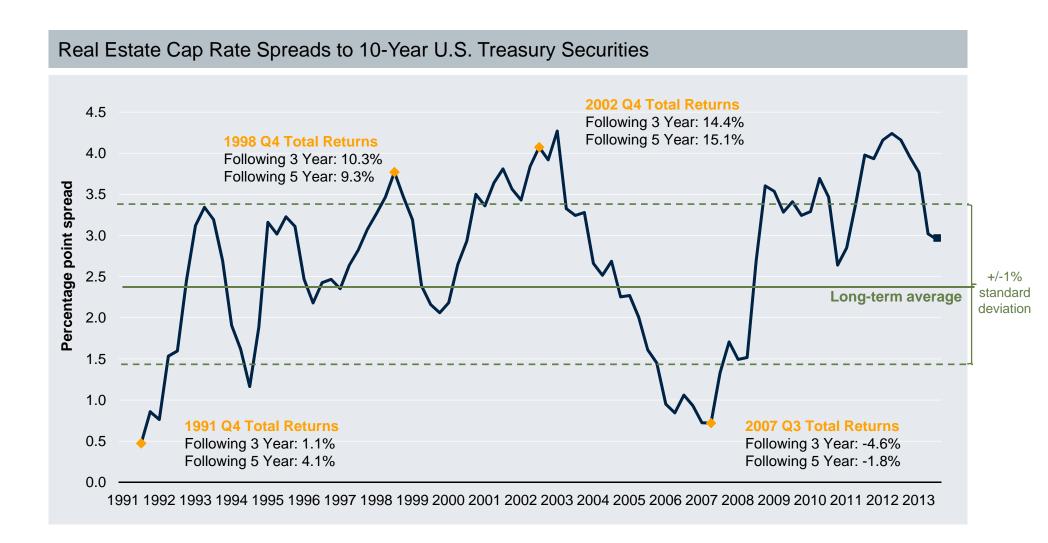
<sup>&</sup>lt;sup>2</sup> Source: Federal Reserve.

<sup>&</sup>lt;sup>3</sup> Source: Census Bureau.

<sup>&</sup>lt;sup>4</sup> Source: Deutsche Asset & Wealth Management.

## Real estate remains attractive - Periods of high spreads are usually followed by high performance<sup>1</sup>





<sup>&</sup>lt;sup>1</sup> As reflected by the NCREIF Property Index. Past performance is not indicative of future results. Sources: NCREIF, Federal Reserve. Spot rate is spread of fourth quarter 2013 NCREIF cap rate and April 2014 spot rate treasury.

## Real estate fundamentals are strong



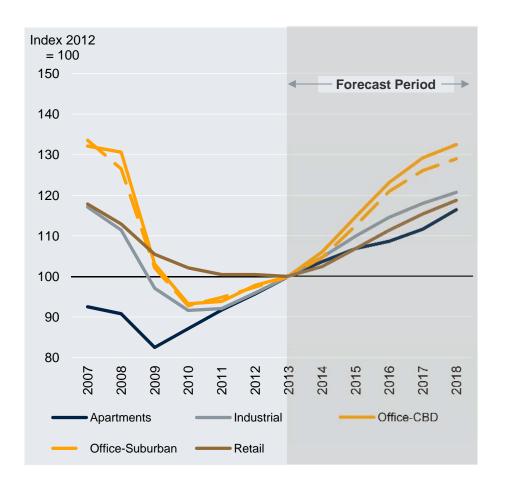


<sup>\* 1</sup>Q14 Demand is forecast for Apartments and Retail. Source: For All Charts, CBRE-EA and Deutsche Asset & Wealth Management. As of April 2014.

## U.S. average rent growth in sum of markets surveyed



Rent growth from market peak; office to outperform over long term



			Forecast Period						
Sector	2011	2012	2013	2014	2015	2016	2017	2018	
Apartments	5.3%	4.3%	4.5%	3.6%	3.2%	1.7%	2.7%	4.3%	
Industrial	0.5%	4.2%	4.2%	4.7%	5.0%	4.2%	3.0%	2.3%	
Office-CBD	0.6%	4.3%	2.2%	6.2%	8.2%	7.2%	4.9%	2.5%	
Office- Suburb	2.2%	2.7%	2.7%	5.0%	7.7%	7.3%	4.0%	2.3%	
Retail	-1.3%	0.2%	-0.5%	2.4%	4.4%	4.2%	3.6%	2.9%	

- Warehouse rents growing broadly across markets, and sharply in several markets now
- Office is likely to become a top performer as growth accelerates
- Retail rents fail to rise broadly oversupply overhand
- Apartment growth is likely to recede with new speculative supply

Note: 2012 = 100. Forecasts from 2013 through 2018.

This information is a forecast and due to a variety of uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

Source: Deutsche Asset & Wealth Management.

Data as of January 2014.



# 03

## RREEF America REIT II

## Flagship Core Open-End Fund







Note: The photographs depicted above and on subsequent pages are not intended to be representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact Deutsche Asset & Wealth Management.

## RREEF America REIT II

## Management team



Experienced, stable, and tenured team of 18 dedicated professionals

#### RREEF America REIT II Board of Directors Five Independent Directors **Todd Henderson** Americas Real Estate Investment Committee Portfolio Management Team **Kevin Howley** Lead Portfolio Manager 11 33 John Ehli Chip George Joe Cappelletti Portfolio Manager Portfolio Manager Chief Financial Officer Eastern Region Central Region, & Southern California Northern CA & Pacific 10 33 8 24 Joshua Lenhert Portfolio Management 12 Portfolio Management Support **Fund Operations Fund Finance** 3 investment professionals 5 investment professionals 5 investment professionals **Broader Real Estate Resources Asset Management** Research & Strategy Finance/Operations **Transactions** Global Client Group Capital Markets Years with firm # Years with industry

As of March 31, 2014.

## RREEF America REIT II profile



- Fund's inception in 1998
- Private REIT with independent Board
- \$8.0 billion gross real estate market value
- 226 institutional investors
- 123 investments
- 36 metro areas
- Loan-to-value = 24%

- Largest investment = 5% gross real estate value
- 2,200+ tenants
- Largest tenant = 1.4% of gross revenue



### Top 10 metros<sup>1</sup>

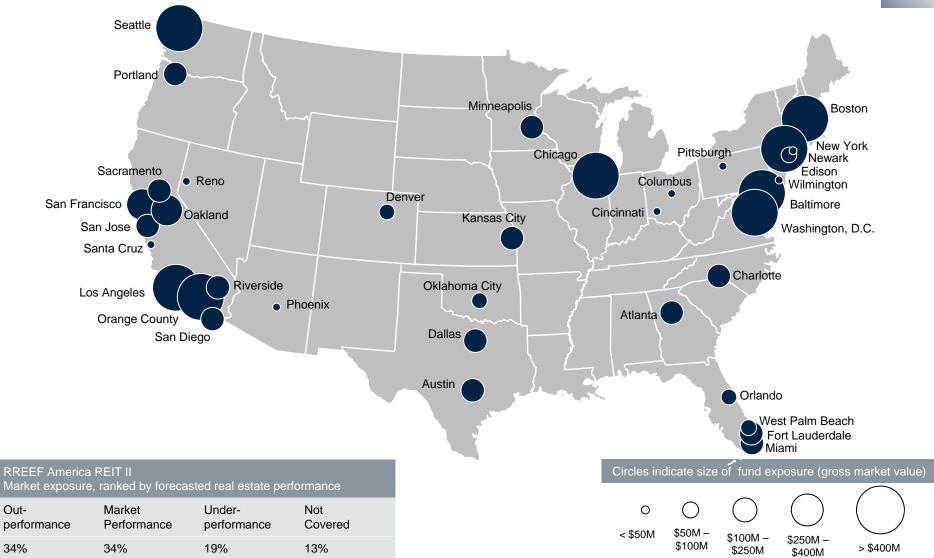
Metro Areas	% Share
Los Angeles	9%
Seattle	8%
Orange County	8%
Washington, DC	8%
Boston	7%
Baltimore	7%
New York	6%
Chicago	5%
San Francisco	5%
Oakland	5%
Total	68%

Investment Guidelines	
Maximum Leverage	30% loan-to-value, at time financing is put into place
Maximum Investment Size	The maximum initial investment in any single property will not exceed 10% of the gross real estate value of the portfolio.
Sector Exposure	No more than 50% of the portfolio's equity investment will be in any single property type.
Market Exposure	Generally no more than 30% of the portfolio's investment will be in any single metropolitan area.

<sup>&</sup>lt;sup>1</sup> Based on gross real estate market value and primary use of assets. As of March 31, 2014.

## Diversified and well positioned market profile





All assets represented on a consolidated basis. Sources: Moody's Analytics and Deutsche Asset & Wealth Management.

This information is a forecast and due to a variety of uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

As of March 31, 2014.

Out-

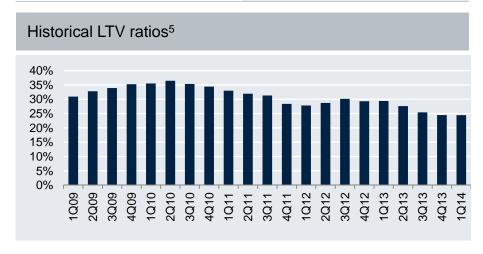
34%

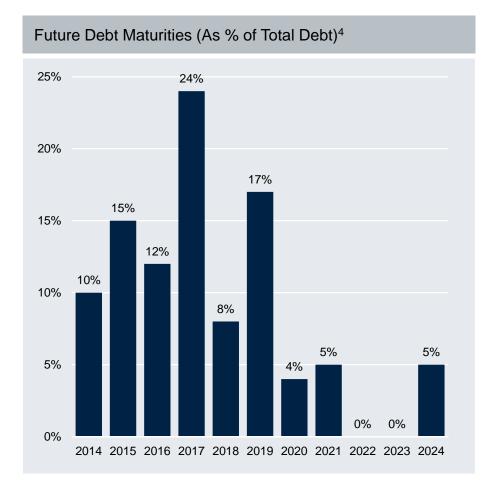
## Debt profile

### No loan or covenant defaults<sup>1</sup>



Leverage overview	
Total Book Value Debt	\$2.01 billion
Total Market Value Debt	\$2.04 billon
Unencumbered Assets	\$6.48 billion
LTV Market/Book <sup>2</sup>	24% / 24%
Debt Type	94% fixed, 6% floating
Blended Interest Rate <sup>3</sup>	4.94%





As of March 31, 2014.

<sup>&</sup>lt;sup>1</sup> Past performance is not indicative of future results.

<sup>&</sup>lt;sup>2</sup> Loan to value is a percent of total assets.

<sup>&</sup>lt;sup>3</sup> Weighted average interest rate of fixed and floating-rate debt.

<sup>&</sup>lt;sup>4</sup> Based on March 31, 2014 loan balance and includes amortization. This information is a forecast and due to a variety of uncertainties and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

<sup>&</sup>lt;sup>5</sup> Data represents debt marked-to-market as a percentage of total assets.

## RREEF America REIT II: First quarter highlights



Q1 2014 total gross return of 2.94%

### Trailing 12-month return as of 1Q 2014: 15.52%

### Top performing open end fund

- Returns ahead of ODCE trailing 1-, 3- and 5-year
- Capital inflows ahead of budget year-to-date
- Transactions ramping up
- Core occupancy: 92%

### Strong results<sup>1</sup>

	Gross total return	Net total return
2010	20.3%	18.9%
2011	14.2%	13.9%
2012	12.4%	10.1%
2013	15.0%	14.5%
1Q 2014	2.9%	2.7%

Trailing 12-month dividend yield as of 1Q 2014: 4.9%





Industrial Seattle Industrial Kent Valley, WA



Beverly Hills Retail Beverly Hills, CA



Residential Cityfront Place Chicago, IL

Note: The photographs depicted are not intended to be representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact Deutsche Asset & Wealth Management. Sources: NFI-ODCE, Deutsche Asset & Wealth Management. As of March 31, 2014.

<sup>1</sup> Past performance is not indicative of future results. Returns are fund level and gross or net of asset management and incentive fees as indicated. Individual client returns may vary from overall Fund results. Returns include significant unrealized appreciation or depreciation. See results on the Annualized Performance pages as well as "Performance Notes" and "Important Information" for further

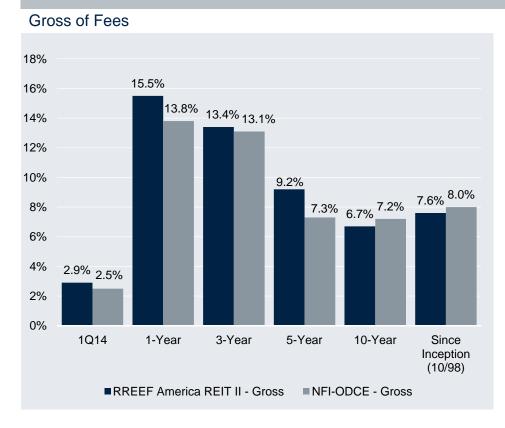
## RREEF America REIT II - Annualized performance<sup>1</sup>

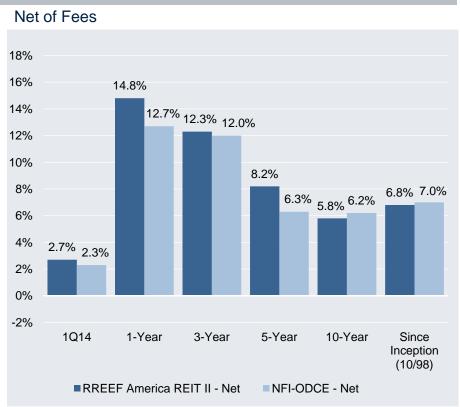
(unaudited)



RREEF America REIT II exceeds ODCE on trailing 1, 3 and 5-year returns

### Supplemental information: RREEF America REIT II – Annualized performance





<sup>&</sup>lt;sup>1</sup> Annualized performance for RREEF America REIT II and NFI-ODCE are time weighted as of March 31, 2014.
Returns are fund level, and gross and net of asset management and incentive fees, as indicated. Individual client returns may vary from overall Fund results. Returns include significant unrealized appreciation or depreciation. See "Performance Notes" for further information with respect to NFI-ODCE. See "Performance Notes" and "Important Information" for further information. Please refer to full composite notes enclosed. Past performance is not indicative of future results.

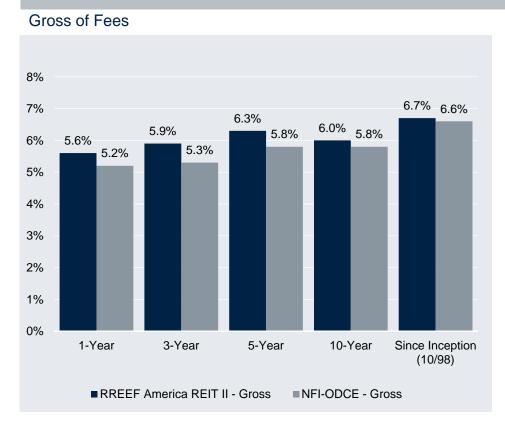
## RREEF America REIT II - Annualized income performance<sup>1</sup>

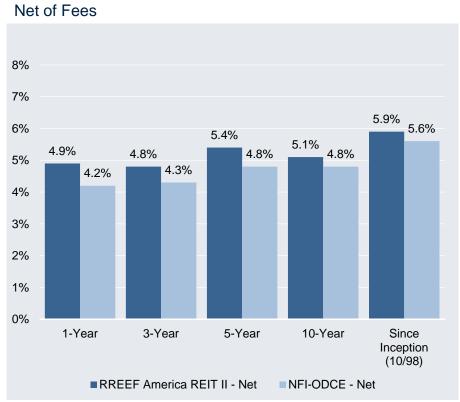
(unaudited)



- 5.8% annual dividend yield since inception; top tier in NFI-ODCE
- Fund has never missed a quarterly dividend payment to shareholders

### Supplemental Information: RREEF America REIT II vs. ODCE - Annualized Income Performance





<sup>&</sup>lt;sup>1</sup> Annualized performance for RREEF America REIT II and NFI-ODCE are time weighted as of March 31, 2014.

Returns are fund level, and gross and net of asset management and incentive fees, as indicated. Individual client returns may vary from overall Fund results. Returns include significant unrealized appreciation or depreciation. See "Performance Notes" for further information with respect to NFI-ODCE. See "Performance Notes" and "Important Information" for further information. Please refer to full composite notes enclosed. Past performance is not indicative of future results.

## RREEF America REIT II – Summary of fund flows

### Capital commitments continue to remain strong in 2014



- RREEF America II continues its strong momentum of capital inflows
- \$1.125 billion in capital raised during 2013
- Small entry queue of \$198 million as of April 1, 2014
- Approximately \$650 million in new capital raised year to date in 2014
  - Includes signed subscriptions totaling \$446 million from 36 investors (21 new and 15 existing), as well as approximately \$200 million from investors finalizing documents
  - Fund remains committed to a disciplined approach to investing
  - Next capital call anticipated for July 1<sup>st</sup>
  - 50% expected to be drawn

# Looking Ahead: Strategy and Performance Expectations

### RREEF America REIT II - 2014 Plan



	2014 Investment Plan Target	1Q 2014 Actual
Fund Total Return <sup>1</sup>	8% - 10%	2.9%
Fund Income Return <sup>1</sup>	5.0% - 5.5%	1.2%
Dividend Yield	4.0% to 4.5%	1.0%
DRIP	45%	47%
Acquisitions	\$750 million - \$1.25 billion	\$204 million
Dispositions	\$500 million	\$27 million
Leverage Ratio <sup>2</sup>	22% - 24%	24%
Average Occupancy <sup>3</sup>	92%	92%
NOI vs. Budget	-	+1%

<sup>&</sup>lt;sup>1</sup> Before fees. Please refer to the Annualized Performance pages earlier in the document for net of fees performance.

The target return is an objective only and is not a forecast, projection or prediction of the RREEF America REIT II's future performance or actual profit or cash available for distribution. Deutsche Asset & Wealth Management ("DeAWM") believes that, in view of anticipated market conditions, the Fund is expected to manage the portfolio of investments with capital appreciation and annual income yields generating a return equal to the target return. The gross target return is gross of management fees, expenses, performance fees, portfolio company taxes, fund taxes, investor taxes and related withholding taxes from portfolio investments. There can be no assurance that the assumptions underlying the target returns will prove to be accurate. DeAWM can provide no assurance that the target return will be achieved. DeAWM develops target performance range information by reference to the historical performance of assets suitable for an investment by the Fund, analyzed in the context of the investment environment(s) that DeAWM expects may be relevant to the investment program of the Fund. It is also assumed that DeAWM will be in a position to continue to identify and analyze target investments in view of information available to it at the time of the investment decision pertaining to, amongst other things, asset quality, location, tenancy and other related information that DeAWM deems relevant. In developing target performance information, DeAWM uses historical and current information related to the performance of investments currently in or that would meet the specified criteria for an investment by the Fund, adjusted to reflect any modified assumptions, such as capital markets conditions, capital flows and liquidity, relating to the investment environment that DeAWM expects for the Fund.

Past performance is not indicative of future results. See "Performance Notes" and "Important Information" for further information. As of April 2014.

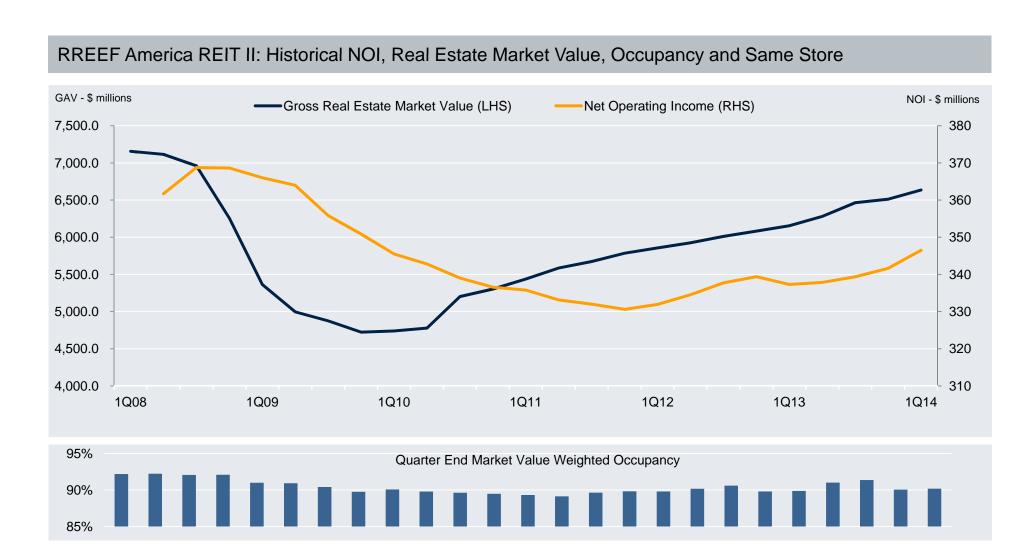
<sup>&</sup>lt;sup>2</sup> Leverage ratio is a percent of total assets and reflects debt marked to market.

<sup>&</sup>lt;sup>3</sup> Excludes Value Add Properties.

## Fund continues to move through the recovery cycle



Value, NOI and occupancy all have room to grow



Same store comparison as of March 31, 2014. NOI calculation based on trailing 12-month average. Past performance is not indicative of future results.

## RREEF America REIT II – Asset spreads to peak values



Significant embedded value remains – Particularly in office and industrial

Industrial		
	Spread to Peak Value (\$M)	Spread to Peak Value (%)
Total Industrial Portfolio	(\$428)	(16%)
Top 10 Industrial Assets	(\$132)	(11%)

Office		
	Spread to Peak Value (\$M)	Spread to Peak Value (%)
Total Office Portfolio	(\$479)	(17%)
Top 10 Office Assets	(\$359)	(18%)

Retail		
	Spread to Peak Value (\$M)	Spread to Peak Value (%)
Total Retail Portfolio	(\$83)	(6%)
Top 10 Retail Assets	(\$14)	(1%)

Residential		
	Spread to Peak Value (\$M)	Spread to Peak Value (%)
Total Residential Portfolio	\$109	8%
Top 10 Residential Assets	\$77	8%

Notes: Peak values represent peak values from 2007-2008. Excludes properties acquired after 2007. As of March 31, 2014. All \$ in millions. Past performance is not indicative of future results.

## **Key Value Drivers**

### Assets with embedded "value-add" potential



### **SF Design Center**

San Francisco, CA Retail, 497,000 sf

Peak Value: \$170M Current Value: \$170M

### Embedded value:

- Brick and beam project, SOMA location in prime SF tech corridor
- Convert 208,000 sf from retail to office use, aim to increase net rent from \$20 to \$45
- Discussions with office tenant underway

### Villa Marina

Marina Del Rey, CA Retail, 804,000 sf

Peak Value: \$216M Current Value: \$216M

### Embedded value:

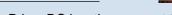
- Finishing up leasing of newly renovated phase II
- Commence entitlement process for up to 600 units of multifamily residential over retail (phase III)

### 1800 K Street

Washington, DC Office, 206,000 sf

Peak Value: \$111M Current Value: \$94M

## Current Value: \$94M Embedded value:



- Prime DC location, convert to Class A
- New lobby, curtain wall, roof terrace, mechanical
- Carry value is \$460 per sf, well below current Class-A office values

### Manhattan Village

Manhattan Beach, CA Retail, 439,000 sf

Peak Value: \$230M Current Value: \$230M

### Embedded value:

- Prime in-fill retail in high income west Los Angeles neighborhood
- Seeking approval to expand center by 125,000 square feet

### Queen Anne

Seattle, WA Mixed-Use, 131,000sf

Peak Value: \$76M Current Value: \$75M

### Embedded value:

- Forward commitment to purchase retail and residential project in Seattle CBD
- Third and final phase to be completed in 2014

As of March 31, 2014. Past performance is not indicative of future results. See "Important Information" for additional disclosures. Note: The photographs depicted are not intended to be

### **Shops Around Lenox**

Atlanta, GA Retail, 123,000 sf

Peak Value: \$74M Current Value: \$74M

### Embedded value:

- Prime Buckhead retail property, adjacent to Lenox Square, dominant fortress super regional mall
- As leases expire, re-tenant to upscale retailers, target NOI increase over 50%







representative of all assets in the portfolio. For more information on all assets, including those not shown herein, please contact Deutsche Asset & Wealth Management.

### Same store NOI



### Income growth projected to accelerate

Property Type	2011 NOI		2012 NOI 2013 NOI		2014 Budgeted NOI	E	2015 Estimated NOI	
Office	\$	88,463,865	\$	92,320,003	\$ 91,936,284	\$ 95,459,278	\$	108,603,838
Residential		64,581,622		69,777,835	74,182,854	75,624,752		77,657,227
Industrial		103,624,523		108,322,412	106,868,887	106,133,965		114,175,177
Retail		63,288,388		65,010,882	69,501,661	70,699,099		77,112,235
Other		-		-	-	-		-
Total	\$	319,958,399	\$	335,431,132	\$ 342,489,687	\$ 347,917,094	\$	377,548,477
Change in year over year NOI 4		4.8%	2.1%	1.6%		8.5%		

Note: Analysis excludes the 4Q13 and 1Q14 acquisitions, properties < \$20 million and properties scheduled to sell in 2014. As of March 31, 2014.

## **New Acquisition Pipeline**

### Disciplined activity consistent with 2014 Investment Plan



Transaction #1	Transaction #2	Transaction #3
Super-regional, open-air retail center	■ Class A office park	■ Class A mid-rise office/retail
■ Core	■ Core plus	■ Core
<ul><li>Southeast</li></ul>	■ Pacific	■ Northeast
<ul><li>Joint venture</li></ul>	■ Joint venture	Joint venture
Occupancy: 99.9%	Occupancy: 100%	■ Occupancy: 95%

- Premier properties
- Highly rated target markets... submarkets with strong momentum
- In-place rents well below market
- Joint ventures with strong partners

The information provided above is not intended to be representative of all assets in the portfolio. For further information on all assets, including those not shown, please contact Deutsche Asset & Wealth Management. Past performance is not indicative of future results. There can be no guarantee that these opportunities will come to fruition or become part of the portfolios assets. As of April 2014.

## Why RREEF America REIT II – Looking forward



- Large, diversified, stable and cycle-tested U.S. core fund
- Strong income in NFI-ODCE
  - Ability to increase income with market recovery
- Surpassed NFI-ODCE trailing 1-, 3- and 5-years
- In-line with semi-annual House View
- Significant embedded value propositions
- Independent Board with broad powers

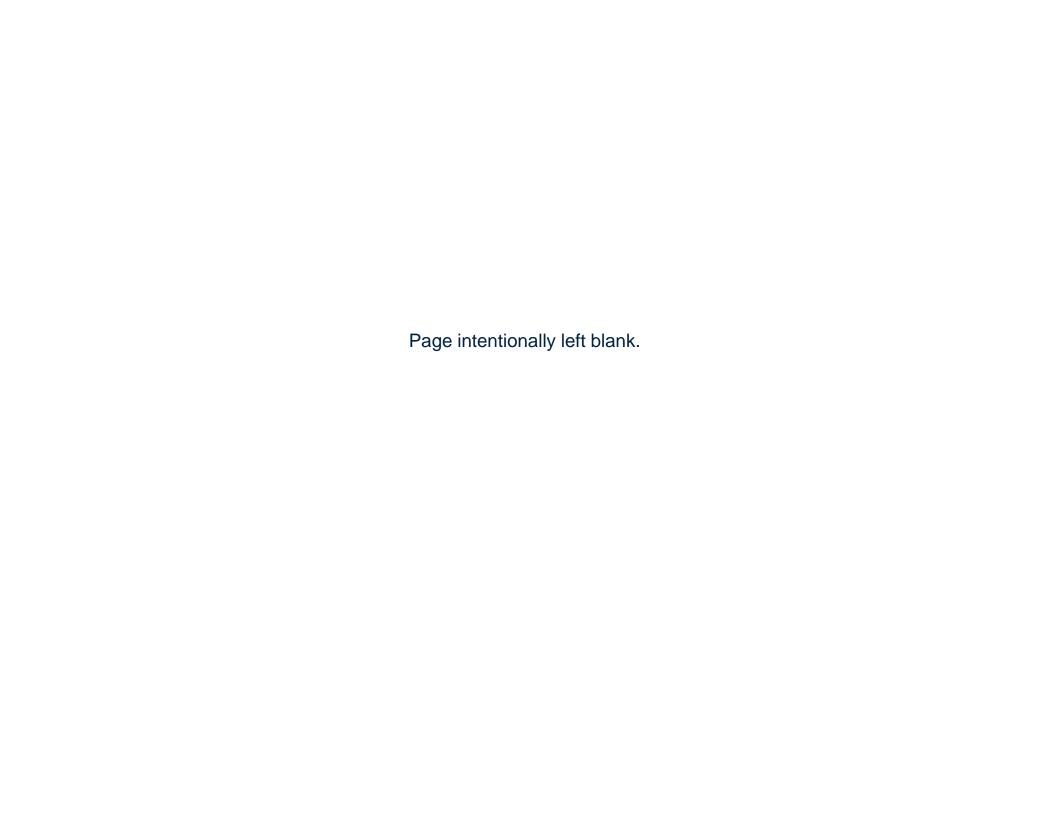






The photographs depicted are not intended to be representative of all assets in the portfolio. For further information on all assets, including those not shown, please contact Deutsche Asset & Wealth Management. Past performance is not indicative of future results. See "Performance Notes" for additional details on the NFI-ODCE index.

As of March 31, 2014.



A1

## Summary of Principal Terms

### RREEF America REIT II

### Summary of principal terms

Legal structure	RREEF America REIT II, Inc., a Maryland corporation, is organized as a private Real Estate Investment Trust (REIT). The shares are freely transferable, subject to securities laws and restrictions to protect REIT status.
Term	RREEF America REIT II, Inc. is a commingled fund with an infinite life term. However, at any time an orderly liquidation plan of the Fund can be adopted by majority of the Board of Directors and a two-thirds vote of the stockholders.
Leverage	RREEF America REIT II, Inc. (the "Fund") may incur debt or otherwise leverage its assets, provided such debt does not exceed, in the aggregate, 30% of the value of the REIT's assets at the time the leverage is placed. Due to the current market environment, downward valuation changes may cause the Fund's loan to value ratio to exceed 30 percent on a temporary basis. In April 2009, the Fund's investors approved an amendment which allows the Fund to extend maturities, restructure and/or refinance existing debt, provided that the aggregate principal amount of the Fund's indebtedness does not increase as a result of the such extension, restructuring and/or refinancing.
Dividends	Dividends will be paid on a quarterly basis and may be reinvested into the Fund.
Management fee	Annual fee of 95 bps on Fund net asset value
Redemption provisions	The notice provision for redeeming shares of RREEF America REIT II is 45 days prior to the end of the quarter, in which shares will be redeemed at the quarter ending value.  The funding of redemption requests, all or partial, will be considered and finally determined by the Board based on the best interest of all of the shareholders.
Governance	The REIT is governed by a six-member Board of Directors consisting of five independent directors and one Deutsche Asset & Wealth Management affiliated member. The Board has the ultimate authority and responsibility for the REIT's operations.
Shareholders' responsibilities	The shareholders meet annually to nominate and elect the Board of Directors.
Capitalization	Total portfolio size is unlimited.
Subscriptions	Shares in the REIT are offered and sold only to eligible investors pursuant to a Confidential Offering Memorandum. Minimum subscriptions are \$5,000,000 for new non-affiliated institutional investors. The Board, in its discretion, may accept Investor Commitments of lesser amounts.
Maximum Investment Size	The maximum initial investment in any single property will not exceed 10% of the gross real estate value of the portfolio.
Sector Exposure	The Fund is expected to be diversified across the four major property types over the long term. No more than 50% of the portfolio's equity investment will be in any single property type.
Market Exposure	Generally, no more than 30% of the portfolio's investment will be in any single metropolitan area.

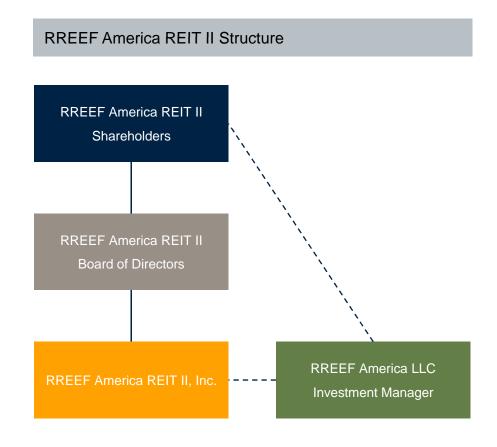
This term sheet does not constitute an offer to buy or sell the securities of the Fund. Offers are made only by delivery of a Confidential Offering Memorandum to the potential investor named on such memorandum. This offer is open only to "accredited investors" and to certain individuals affiliated with Deutsche Asset & Wealth Management.



## Fund structure & governance



- Private REIT vehicle
- Overseen by Board of Directors five independent and one Deutsche Asset & Wealth Management-related
- All Directors are elected annually by the Fund's Shareholders
- Board Powers include:
  - Approve Annual Strategic Investment Plan
  - Approve Valuations, Distributions and Redemptions
  - Approve Quarterly NAV
  - Approve Acquisitions/Dispositions/Financings/Joint Ventures
  - Hire and Oversee Auditors
  - Oversee Conflicts of Interest
  - Hire/Fire Investment Manager



## RREEF America REIT II Board of Directors



Name	Role	Background
Mr. Norman R. Bobins	Independent – Chairman	Retired chairman of LaSalle Bank Corporation and non- executive chairman of The PrivateBank and Trust Company
Mr. Nicholas C. Babson	Independent	President of NCB Ventures LLC. Former Chairman and CEO of Babson Bros. Co
Mr. Blake Eagle	Independent	Retired CEO of the National Council of Real Estate Investment Fiduciaries (NCREIF)
Mr. Philip Halpern	Independent – Audit Committee Chairman	Former CIO for the University of Chicago Endowment
Mr. Todd Henderson	Deutsche Asset & Wealth Management	Head of Real Estate, Americas
Ms. Deborah McAneny	Independent	Lead independent Director of Holliday Fenoglio Fowler, RREEF Property Trust and an Advisor at Benchmark Assisted Living, LLC

## Private Real Estate leadership team – Americas



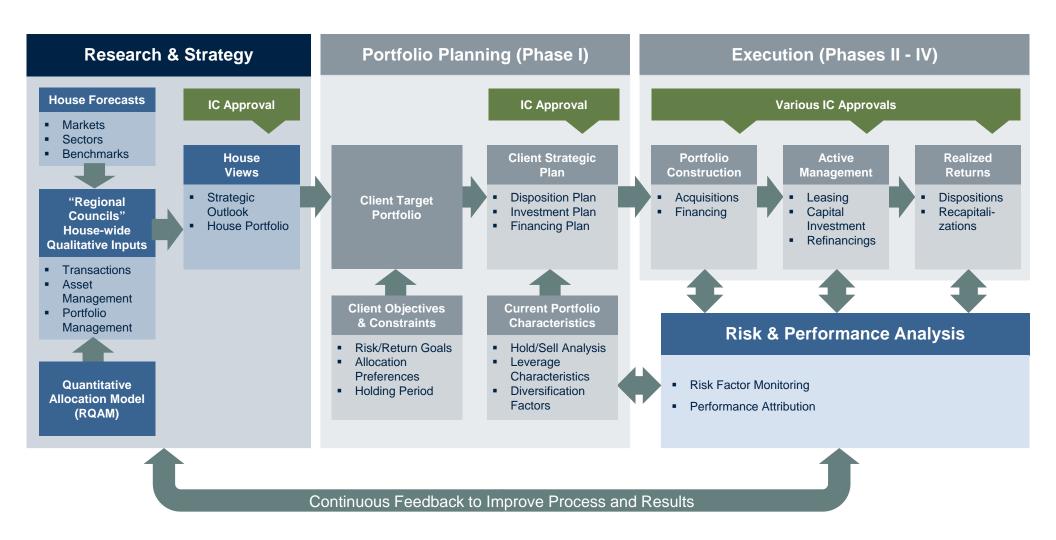
Senior leaders average 14 years with the firm and 27 years with the industry

Head of Real Estate, Americas  Todd Henderson						
			10 22			
Marc Feliciano CIO and Portfolio Management	Tim Ellsworth Transactions	Al Diaz Asset Management	Laura Gaylord Global Client Group	Jim Carbone Retail Products	Kevin Howley RREEF America REIT II	Aimee Samford COO
9 21	16 31	19 29	11 29	19 34	11 33	15 20
		Ir	nvestment Function	is .		
Asset Management	Central Functions	Fund Finance	Global Client Group	Portfolio Management	Research & Strategy	Transactions
62 employees	26 employees	34 employees	26 employees	45 employees	11 employees	15 employees
				Year	rs with firm #	Years with industry #

### **Investment Process**



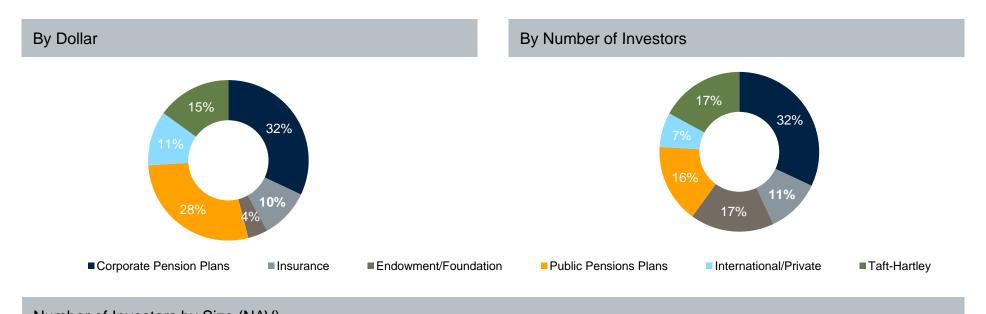
Entire platform is an integrated, interactive partnership seeking superior long-term, risk-adjusted performance on behalf of its clients

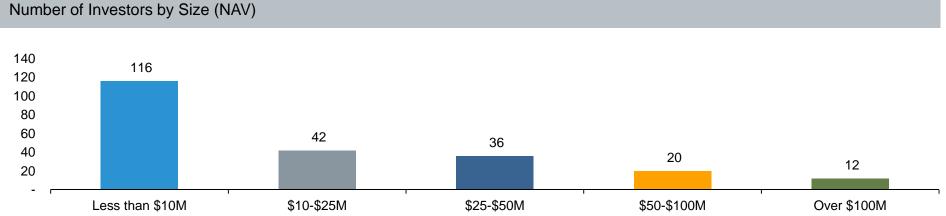


## RREEF America REIT II – Investor summary



### 226 Institutional Investors





## Historical Performance by Asset Class



Compounded Annual Rates of Return as of March 31, 2014					
Market Indices	1-Year	3-Year	5-Year	10-Year	15-Year
Consumer Price Index <sup>1</sup>	1.39%	1.84%	2.10%	2.33%	2.42%
10-Year Treasury Bond <sup>2</sup>	2.55%	2.25%	2.68%	3.48%	3.99%
Barclays US Treasury 7-10 Yr	-3.56%	5.18%	3.88%	5.05%	5.91%
Dow Jones Industrial Avg.	%	%	%	%	%
NASDAQ Composite <sup>3</sup>	%	%	%	%	%
NYSE Composite <sup>3</sup>	%	%	%	%	%
S&P 500	21.86%	14.66%	21.16%	7.42%	4.47%
NCREIF Property Index	11.18%	11.69%	7.89%	8.66%	8.87%
NCREIF ODCE <sup>4</sup>	12.69%	11.96%	6.30%	6.18%	6.90%
NAREIT Index (Equity REITs)	3.25%	10.40%	28.31%	8.27%	11.46%

 $<sup>^{\</sup>mbox{\scriptsize 1}}$  Based on the published data from the BLS (not seasonally adjusted).

Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC.

<sup>&</sup>lt;sup>2</sup> Based on the Average End of Day T-Bond Rates.

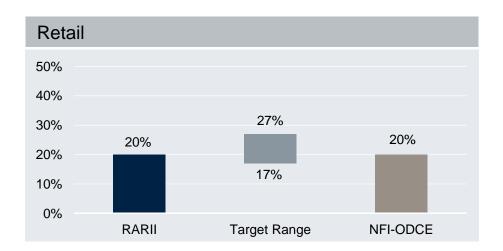
<sup>&</sup>lt;sup>3</sup> Based on Price Index, and does not include the dividend yield.

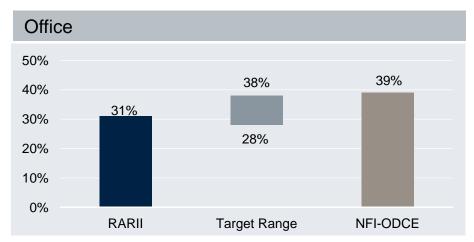
<sup>&</sup>lt;sup>4</sup> Preliminary 1<sup>st</sup> quarter 2014 returns, net of fees.

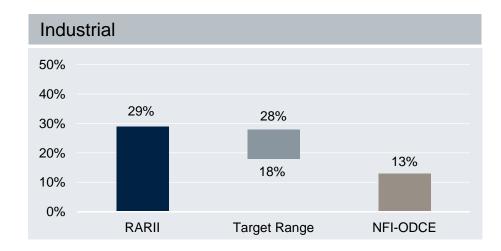
### Fund 2014 sector allocations

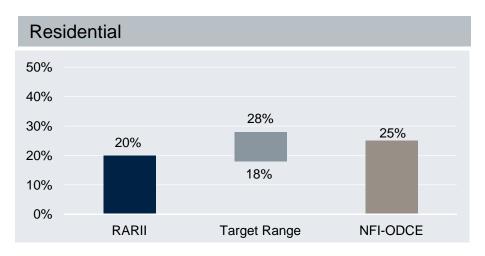
### Positioned with House View, by property type









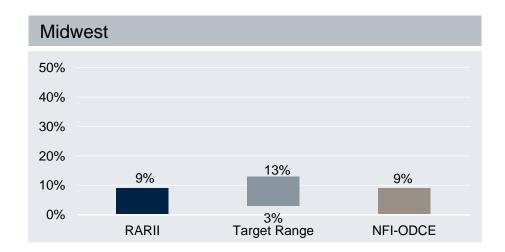


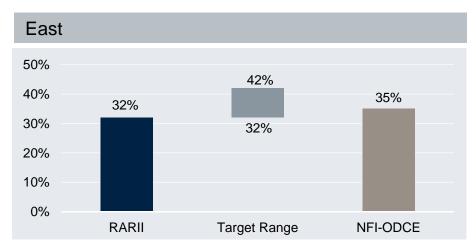
Target ranges are based on 2014 House Portfolio. There can be no assurance that the above targets will be achieved. See "Performance Notes" for further information with respect to NFI-ODCE. As of March 31, 2014.

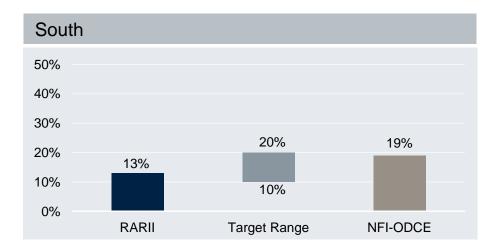
## Fund 2014 region allocations

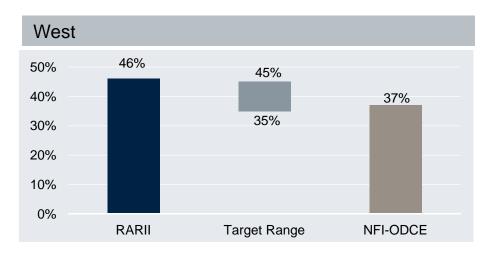
### Positioned with House View, by region









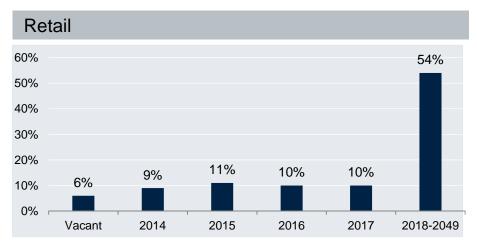


Target ranges are based on 2014 House Portfolio. There can be no assurance that the above targets will be achieved. See "Performance Notes" for further information with respect to NFI-ODCE. As of March 31, 2014.

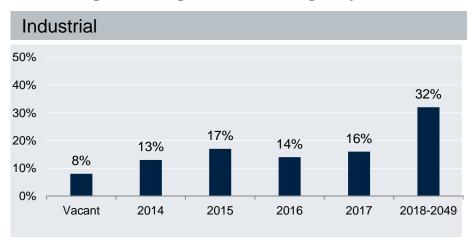
## Lease maturation summary – Market value weighted<sup>1,2</sup>



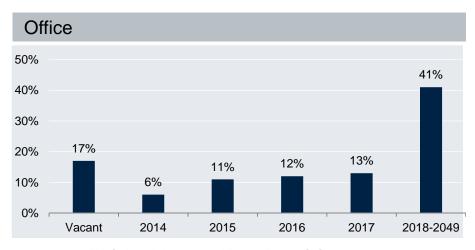
Good exposure during expected period of rising rents



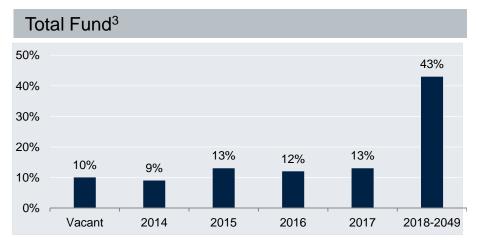
Weighted Average Years Remaining: 5.3 years



**Weighted Average Years Remaining: 3.4 years** 



Weighted Average Years Remaining: 4.2 years



Weighted Average Years Remaining: 3.8 years

<sup>&</sup>lt;sup>1</sup> Weighted Average Years Remaining is based on real estate market values as of March 31, 2014.

<sup>&</sup>lt;sup>2</sup> The lease maturation graph for residential is not presented because lease rollover for residential averages 75 to 125 percent per year.

<sup>3</sup> Does not include residential.

## In-place vs. market rents trend comparison<sup>1</sup>



	Average In-Place Rent	Average Market Rent	Variance
Mar-14	\$11.40	\$11.70	2.6%
Dec-13	\$11.30	\$11.70	3.5%
Sep-13	\$11.06	\$11.32	2.3%
Jun-13	\$11.07	\$11.11	0.4%



Please note: Represents assets held 4/1/13 - 3/31/14 and excludes assets with partial dispositions/acquisitions.

As of March 31, 2014.

<sup>&</sup>lt;sup>1</sup> Does not include Residential.

## Current appraisal metrics, core properties



	Count	Gross Real Estate Market Value (000's)	PSF	% Gross Real Estate Market Value	Going-In Cap Rate <sup>1</sup>	Stabilized Cap Rate <sup>1</sup>	IRR <sup>1,2</sup>	Exit Cap Rate <sup>1</sup>
Total Core Portfolio - 1Q 2014	119	\$7,733,662	\$159	97%	5.3%	6.3%	7.6%	6.5%
Total Core Portfolio - 1Q 2013	124	\$7,114,045	\$140	98%	5.7%	6.6%	7.9%	6.8%
Subtotal by Location								
Primary	102	\$7,128,652	\$168	89%	5.2%	6.2%	7.5%	6.4%
Secondary	17	\$605,010	\$97	8%	7.0%	7.9%	8.6%	7.7%
Subtotal by Product Type <sup>3</sup>								
Retail	19	\$1,479,100	\$345	19%	5.4%	6.4%	7.5%	6.5%
Office	25	\$2,338,341	\$305	29%	5.0%	6.6%	7.7%	6.8%
Industrial	56	\$2,298,840	\$77	29%	5.8%	6.9%	7.9%	7.0%
Residential	19	\$1,617,381	\$239	20%	5.0%	5.1%	7.2%	5.7%

### Every property appraised externally each quarter

See "Performance Notes" and "Important Information" for further information. Past performance is not indicative of future results. As of March 31, 2014.

<sup>&</sup>lt;sup>1</sup> Appraisal metrics are based on the most recent externally appraised values.

<sup>&</sup>lt;sup>2</sup> Gross, unleveraged IRR. Fees and expenses will reduce these returns.

<sup>&</sup>lt;sup>3</sup> Diversification based on primary use of asset.

### Valuation metrics

### RREEF America REIT II vs. Altus Benchmark

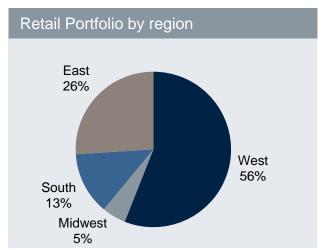
	Value Conclusion	Discount Rate	Implied Cap Rate 5-year Avg.	Implied Cash on Cash 5-year Avg.
Office				
Benchmark	\$87.1 B	7.22%	6.11%	4.49%
RREEF America REIT II	\$2.3 B	7.85%	6.43%	4.04%
Industrial				
Benchmark	\$25.8 B	7.49%	6.46%	5.50%
RREEF America REIT II	\$2.3 B	7.91%	6.82%	5.42%
Residential				
Benchmark	\$49.1 B	6.92%	5.30%	5.03%
RREEF America REIT II	\$1.6 B	7.22%	5.41%	5.22%
Retail				
Benchmark	\$50.2 B	7.26%	6.11%	5.20%
RREEF America REIT II	\$1.5 B	7.45%	6.33%	5.15%

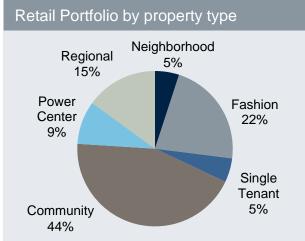
Source: Altus data as of March 31, 2014. Past performance is not indicative of future results.

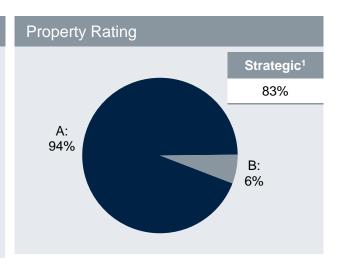
### 2014 Retail Portfolio



### 20 investments; \$1.6 billion current market value; 4 million square feet







Retail Portfolio tenant stats	
# of tenants	522
Size range (sf)	1k – 159k
Avg tenant size (sf)	7,800
Weighted avg. lease term	5.3 years

Retail Portfolio valuation metrics <sup>2</sup>	
Appraised cap rate	5.3%
Stabilized cap rate	6.4%
Appraised IRR	7.4%
Appraised exit cap rate	6.5%
Percent of peak value <sup>3</sup>	98%
Percent of peak NOI <sup>3</sup>	101%

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

<sup>&</sup>lt;sup>1</sup> Percent of portfolio considered to be a strategic asset held by the Fund.

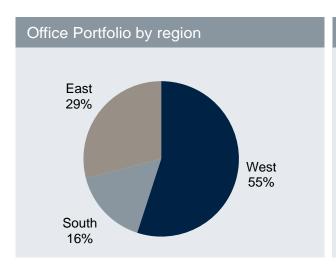
<sup>&</sup>lt;sup>2</sup> Appraisal metrics are based on the most recent externally appraised values.

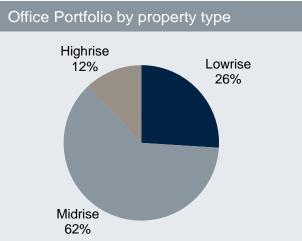
<sup>&</sup>lt;sup>3</sup> Same store comparison. Peak values as of 3Q 2007.

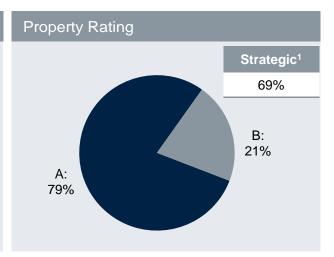
### 2014 Office Portfolio



### 26 investments; \$2.5 billion current market value; 9 million square feet







Office Portfolio tenant stats	
# of tenants	614
Size range (sf)	1k – 181k
Avg tenant size (sf)	11,200
Weighted avg. lease term	4.2 years

Office Portfolio valuation metrics <sup>2</sup>	
Appraised cap rate	4.6%
Stabilized cap rate	6.9%
Appraised IRR	7.8%
Appraised exit cap rate	6.8%
Percent of peak value <sup>3</sup>	85%
Percent of peak NOI <sup>3</sup>	84%

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

<sup>&</sup>lt;sup>1</sup> Percent of portfolio considered to be a strategic asset held by the Fund.

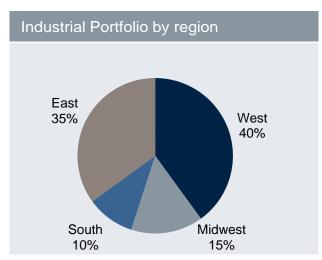
<sup>&</sup>lt;sup>2</sup> Appraisal metrics are based on the most recent externally appraised values.

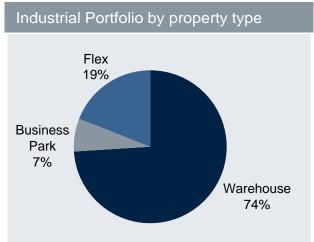
<sup>&</sup>lt;sup>3</sup> Same store comparison. Peak values as of 3Q 2007.

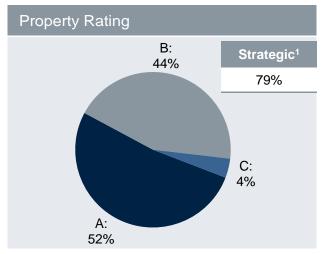
### 2014 Industrial Portfolio



### 56 investments; \$2.3 billion current market value; 30 million square feet







Industrial Portfolio tenant stats	
# of tenants	1,011
Size range (sf)	1k – 935k
Avg tenant size (sf)	26,900
Weighted avg. lease term	3.4 years

Industrial Portfolio valuation metrics <sup>2</sup>	
Appraised cap rate	5.8%
Stabilized cap rate	6.9%
Appraised IRR	7.9%
Appraised exit cap rate	7.0%
Percent of peak value <sup>3</sup>	91%
Percent of peak NOI <sup>3</sup>	95%

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

<sup>&</sup>lt;sup>1</sup> Percent of portfolio considered to be a strategic asset held by the Fund.

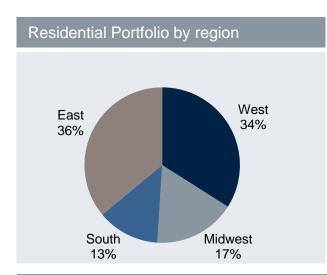
<sup>&</sup>lt;sup>2</sup> Appraisal metrics are based on the most recent externally appraised values.

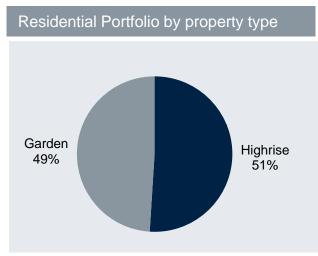
<sup>&</sup>lt;sup>3</sup> Same store comparison. Peak values as of 3Q 2007.

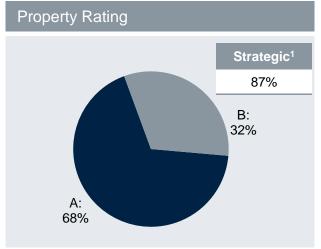
### 2014 Residential Portfolio



### 19 investments; \$1.6 billion current market value; 6,933 units







Residential portfolio valuation metrics <sup>2</sup>	
Appraised cap rate	5.0%
Stabilized cap rate	5.1%
Appraised IRR	7.2%
Appraised exit cap rate	5.7%
Percent of peak value <sup>3</sup>	120%
Percent of peak NOI <sup>3</sup>	133%

<sup>&</sup>lt;sup>1</sup> Percent of portfolio considered to be a strategic asset held by the Fund.

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

<sup>&</sup>lt;sup>2</sup> Appraisal metrics are based on the most recent externally appraised values.

<sup>&</sup>lt;sup>3</sup> Same store comparison. Peak values as of 3Q 2007.

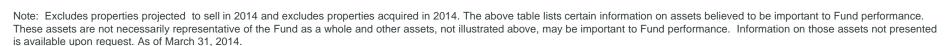
## Value drivers: Top ten properties



- The "pro cyclical" office and industrial sectors are expected to generate above average appreciation in 2014-2015 as more
  markets join an expanding recovery.
- Net income from these assets is projected to rise approximately 20% over the next two years.

Asset	Reporting Region	Property Type	Q1 2014 Gross Real Estate Market Value	Occupancy as of 3/31/14	2013 NOI	2014 Budgeted NOI	2015 Projected NOI
Riverfront Office Park	Boston	Office	\$ 412,000,000	98%	\$ 14,919,000	\$ 20,796,000	\$ 22,428,000
Manhattan Village	Los Angeles	Retail	230,000,000	91%	11,651,000	11,468,000	12,114,000
Centergate King Farm	Washington, DC	Residential	223,900,000	95%	11,739,000	11,804,000	12,384,000
MetroCenter at South Coast	Orange County	Office	218,200,000	76%	6,706,000	7,816,000	9,388,000
Villa Marina Marketplace	Los Angeles	Retail	216,200,000	91%	7,272,000	9,851,000	11,726,000
901 Fifth Avenue	Seattle	Office	185,000,000	75%	8,579,000	8,068,000	10,500,000
505 Montgomery	San Francisco	Office	173,000,000	100%	6,264,000	7,603,000	8,163,000
San Francisco Design Center	San Francisco	Retail	169,800,000	96%	8,010,000	6,821,000	7,248,000
Summerwood Apartments	San Jose	Residential	160,000,000	98%	7,576,000	7,764,000	7,811,000
Cityfront Place	Chicago	Residential	150,000,000	99%	7,065,000	7,464,000	7,795,000
	2014-2	2015 Change in NOI	\$ 2,138,100,000		\$ 89,781,000	\$ 99,455,000	\$ 109,557,000

These 10 assets total a little over \$2.1 billion, 27% of RREEF America II investments.



## RREEF America REIT II - ESG Scorecard



RREEF America REIT II - Energy Star Analysis - U.S. Office Buildings											
	Buil	dings	Gross	Sq Ft							
Energy Star Score	#	%	#	%							
75+: Energy Star Label	23	52%	4,723,696	55%							
75+: No Label	9	20%	1,928,110	22%							
75 to 100 <sup>1</sup>	32	73%	6,651,806	77%							
51 to 74	7	16%	1,263,683	15%							
26 to 50	5	11%	719,656	8%							
1 to 25	0	0%	0	0%							
Total (Eligible Buildings)	44	100%	8,635,145	100%							
% of Office: Certified		52%		55%							
% of Office Score: 75+		73%		77%							

RREEF America REIT II - LEED Certified Properties and Buildings										
Level	Properties	Buildings	Sq Ft	GAV (000)						
Platinum	1	1	539,474	\$185,000						
Gold	5	8	1,434,477	\$596,242						
Silver	4	7	1,367,444	\$567,594						
Total	10	16	3,341,395	\$1,348,836						
Total Fund: Office			8,707,660	\$2,499,172						
Total Fund			49,811,066	\$7,974,292						
% of Office Certified			38.4%	54.0%						
% of Fund Certified			6.7%	16.9%						

RREEF America REIT II - GRESB Profile							
2013 Survey Results							
Overall Score	52%						
Management & Policy Score	80%						
Implementation & Measurement Score	40%						
Average Percentile Rank by Peer Group	77%						
Average Percentile Global Rank	69%						

## **Sustainability Case Study**

#### **LEED-EB O&M Certification**



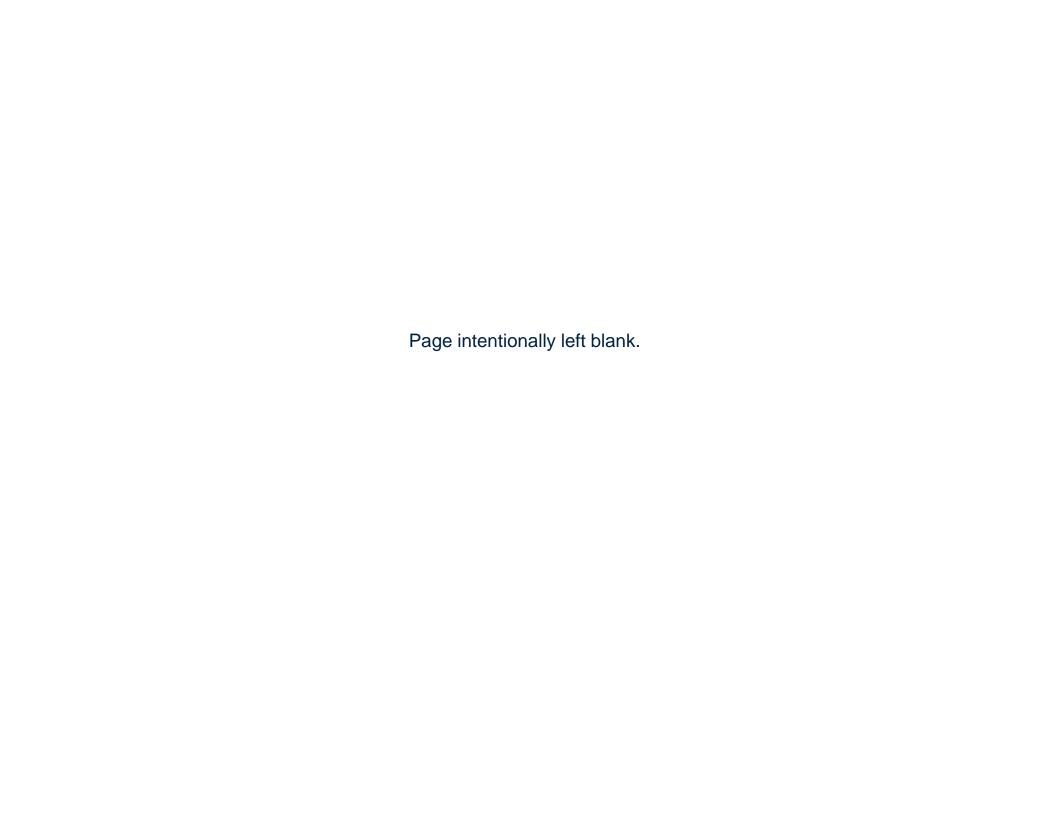
5950 Sherry Lane Dallas, TX

Certifications & Compliance							
Certifications & Labels	Compliance with Regulations						
Energy Star Score: 98	National: EPA, IECC						
Green Building Label: LEED-EB O&M GOLD	State: TAS, TDLR						
Energy Label: ENERGY STAR	Local: City of Dallas Green Building Program						
Other Awards Won: BOMA 360 Award and BOMA 7 Point Challenge Participant							

Note: This scorecard is provided for illustrative purposes only. The information provided above is not intended to be representative of all assets in the portfolio. For further information on all assets, including those not shown, please contact Deutsche Asset & Wealth Management. Past performance is not indicative of future results.

Sources: Deutsche Asset & Wealth Management, third party Property Managers, EPA Portfolio Manager. As of April 2014.

<sup>&</sup>lt;sup>1</sup> Buildings with a score of 75 or above are eligible for an ENERGY STAR label.



A3 Biographies

## Management Team



#### Kevin M. Howley, Managing Director

- Lead Portfolio Manager for RREEF America REIT II and Member of the Americas Real Estate Management and Investment Committees: San Francisco
- Joined the Company in 2002 with 22 years of industry experience. Prior to joining, Kevin served as a Portfolio Management Principal at PMRealty Advisors. Previously, he worked at MetLife and at SSR Realty Advisors in various capacities, including as the Managing Director of SSR Realty Advisors' separate account business
- BA in English from Loyola Marymount University; MBA from University of California, Los Angeles; Active member of the Pension Real Estate Association (PREA)

## John P. Ehli, Director

- Portfolio Manager, RREEF America REIT II: New York
- Joined the Company in 2005 with 16 years of industry experience. Prior to joining, John served as a Senior Vice President at KBS Realty Advisors. Previously, he worked at First Interstate Bank and as a Principal at his own independent appraisal company
- BS in Business from Loyola Marymount University

## Charles V. George, CPA, Director

- Portfolio Manager, RREEF America REIT II: Chicago
- Joined the Company in 2004 with 23 years of industry experience. Prior to joining, Charles served as a Vice President and National Leasing Director at Harbor Group International. Previously, he worked as an Asset Manager at Banyan Strategic Realty Trust, a Project Manager at Amli Realty Co., an Assistant Vice President at M&J Wilkow Ltd. and as a Controller at Homart Development Company
- BS in Accounting from Miami University; Certified Public Accountant; Member of the Urban Land Institute (ULI); Member of the International Counsel of Shopping Centers (ICSC); Member of the American Institute of CPAs (AICPA); Member of the Illinois CPA Society

## Joseph Cappelletti, CPA, Director

- Chief Financial Officer, RREEF America REIT II & III: Chicago
- Joined the Company in 1985. Prior to his current role, Joseph served as Director of Client Reporting and as Treasurer and Controller of Cabot Industrial Trust (an industrial REIT acquired by Deutsche Bank). Previously, he worked as Asset Management Controller and as a Portfolio Accountant
- BS in Accounting and MBA in Finance from DePaul University; Certified Public Accountant

## Management Team (continued)



#### Joshua Lenhert, Vice President

- Portfolio Manager, RREEF America REIT II: San Francisco
- Joined the Company in 2002. Prior to his current role, Joshua served as a Portfolio Analyst for RREEF America REIT II and for one of the Company's largest real estate separate accounts
- BA in Economics and Psychology from University of California, Berkeley

#### Tim Leske, Assistant Vice President

- Portfolio Analyst, RREEF America REIT II & III: Chicago
- Joined the Company in 2006. Prior to his current role. Tim served in Residential Accounting
- BS in Accounting from Aurora University; MBA from Northern Illinois University

#### Kristin Catalano, Associate

- Portfolio Analyst, RREEF America REIT II: Chicago
- Joined the Company in 2011 with 5 years of industry experience. Prior to joining, Kristin served as an Assistant Vice President at Inland Private Capital Corporation, where she was responsible for underwriting, financing and structuring real estate private placements. She began her career as a Financial Analyst at MB Real Estate
- BS in Finance from University of Illinois at Urbana-Champaign

#### Matthew G. Coons, Associate

- Portfolio Analyst, RREEF America REIT II: San Francisco
- Joined the Company in 2010 with 6 years of industry experience. Prior to his current role, Matthew served as a Regional Analyst for northern California and the Pacific Northwest within the Real Estate Asset Management Group. Before joining, he was a Senior Auditor at Ernst & Young, a Branch Manager at Wymac Capital and a Credit Manager at Wells Fargo Financial
- BA in Philosophy and Business from Brigham Young University; MA in Accounting from University of Southern California; Certified Public Accountant; Licensed Real Estate Salesperson

### Michelle Frank, Associate

- Portfolio Analyst, RREEF America REIT II & III: Chicago
- Joined the Company in 1999. Prior to her current role, Michelle served as a Senior Fund Accountant for RREEF Global Fund Finance and as a Senior Analyst for RREEF Client Reporting. Previously, Michelle was a Senior Accountant for RREEF Property Management
- BBA in Finance and MS in Accountancy from Lovola University Chicago

#### Janice Lee, Associate

- Portfolio Analyst, RREEF America REIT II: New York
- Joined the Company in 2011
- BS in Applied Economics and Management from Cornell University

## Management Team (continued)



## Katie Jansen, Analyst

- Portfolio Analyst, RREEF America REIT II: Chicago
- Joined the Company in 2014 with 2 years of industry experience. Prior to joining, Katie was a Leasing Broker in the Urban Retail group at CBRE
- BBA in Finance from University of Cincinnati

## Bradley Tober, Analyst

- Portfolio Analyst, RREEF America REIT II & III: Chicago
- Joined the Company in 2011
- BS in Economics from DePaul University's College of Commerce

## David K. Weiner, PMP, Analyst

- Portfolio Analyst, RREEF America REIT II: New York
- Joined the Company in 2013 with 2 years of industry experience. Prior to joining, David served as a Consultant in Strategy & Operations servicing clients in the consumer industrial products division at Deloitte Consulting LLP
- B.S. in Real Estate Finance from the School of Hotel Administration at Cornell University;
   PMP Certification

## Americas Real Estate Investment Committee



#### Marc Feliciano, Managing Director

- Chief Investment Officer of Real Estate, Americas, Head of Portfolio Management, Americas and Member of the Americas Real Estate Management and Investment Committees: Chicago
- Joined the Company in 2005 with 12 years of industry experience. Prior to his current role, Marc served as the Global Head of Risk and Performance Analysis. Before joining, he was a Portfolio Manager at Renascent Capital Management LLC and Co-founder of the Real Estate Derivatives Group at Prebon Yamane Inc. Previously, Marc served as a Senior Analyst and Portfolio Manager at R.D. Capital, LLC and in private and public real estate at Morgan Stanley, Heitman/PRA Securities Advisors and at INVESCO Realty Advisors
- BBA in Accounting and MPA in Taxation from The University of Texas at Austin

## James N. Carbone, Managing Director

- Head of Real Estate Retail Products for the Americas, Chief Executive Officer for RREEF Property Trust and Member of the Americas Real Estate Management and Investment Committees: San Francisco
- Joined the Company in 1995 with 15 years of industry experience. Prior to his current role, James served as the Head of Global Business Development for RREEF Alternative Investments. Prior to joining, James began his career in the management, brokerage, development, and disposition/acquisition of commercial real estate
- BA in Economics from University of California, Davis

## Pierre Cherki, Managing Director

- Head of Alternatives and Real Assets, Member of the Deutsche Asset & Wealth Management ("DeAWM") Executive Committee, DeAWM Alternatives and Real Assets Executive Committee, and Americas Real Estate Investment Committee: New York
- Joined the Company in 1997. Prior to his current role, Pierre served as the Global Head of the real estate investment business (formerly RREEF Real Estate). Previously, he was responsible for the development of the real estate investment business in Central and Eastern Europe
- BA in Management and Economics from Tel Aviv University; MBA from Kellogg School of Management, Northwestern University

## Al Diaz, Managing Director

- Head of Real Estate Asset Management for the Americas and Member of the Americas Real Estate Management and Investment Committees: Chicago
- Joined the Company in 1994 with 10 years of industry experience. Prior to joining, Al held various roles at The Balcor Company including Head of Retail Property Management.
   Previously, he worked as a Real Estate Broker in Florida
- BA in International Relations from Indiana University; Florida Real Estate Broker License

## Americas Real Estate Investment Committee (continued)



### Timothy Ellsworth, Managing Director

- Head of Real Estate Transactions for the Americas and Member of the Americas Real Estate Management and Investment Committees: Chicago
- Joined the Company in 1998 with 15 years of industry experience. Prior to his current role, Timothy served as the Head of Real Estate Portfolio Management in the Americas. Before joining, he was Regional Vice President of Acquisitions at Cornerstone Real Estate Advisors. Previously, he worked in Debt and Equity Finance, Asset Management and Investment Sales at General Electric Capital
- BS in Finance from Indiana University

## W. Todd Henderson, Managing Director

- Head of Real Estate for the Americas and Member of the Deutsche Asset & Wealth Management Alternatives and Real Assets Executive Committee and Americas Real Estate Management and Investment Committees: New York
- Joined the Company in 2003 with 12 years of industry experience. Prior to his current role, Todd served as the Chief Investment Officer of RREEF Real Estate in the Americas.
   Before joining, he was Director of Acquisitions for The J.E. Robert Company. Previously, he worked in restructuring and disposing of nonperforming real estate loans at First Gibraltar Bank
- BA from the University of North Texas; MBA from The Wharton School, University of Pennsylvania

## Michael J. Nigro, PE, Managing Director

- Head of Real Estate Value Add and Development for the Americas: Chicago
- Joined the Company in 2004 with 8 years of industry experience. Prior to joining, Michael served as a Senior Manager at Mesirow Financial Real Estate, where he was responsible for large public-private partnership projects. He began his career as a Project Manager
- BS in Civil Engineering from University of Illinois at Urbana-Champaign; MBA in Finance (with Distinction) from DePaul University; Professional Engineer License

## Mark G. Roberts, CFA, Managing Director

- Head of Research and Strategy and Member of the Deutsche Asset & Wealth Management Alternatives and Real Assets Executive Committee and Americas Real Estate Investment Committee: New York
- Joined the Company in 2011 with 26 years of industry experience. Prior to joining, Mark served as Global Director of Research at Invesco Real Estate and Director of Construction and Development at Club Corp International
- BA in Architecture from the University of Illinois, Urbana; MS in Real Estate from MIT; CFA
  Charterholder; Current Past-Chairman of the NCREIF Board; Wrote chapter in Handbook
  of Alternative Investments; Articles for PREA Quarterly, NCREIF Quarterly, Institute of
  Fiduciary Education

## Americas Real Estate Investment Committee (continued)



## Kevin M. Howley, Managing Director

- Lead Portfolio Manager for RREEF America REIT II and Member of the Americas Real Estate Management and Investment Committees: San Francisco
- Joined the Company in 2002 with 22 years of industry experience. Prior to joining, Kevin served as a Portfolio Management Principal at PMRealty Advisors. Previously, he worked at MetLife and at SSR Realty Advisors in various capacities, including as the Managing Director of SSR Realty Advisors' separate account business
- BA in English from Loyola Marymount University; MBA from University of California, Los Angeles; Active member of the Pension Real Estate Association (PREA)

## **Board of Directors**



Nicholas C. Babson – Nick Babson currently serves as President of NCB Ventures LLC, a private family office and investment management company. Previously, he served as Chairman and Chief Executive Officer of Babson Bros. Co., a global manufacturer and distributor of dairy farm equipment and consumable supplies. Mr. Babson has held a variety of board and leadership positions in the agricultural, real estate, and manufacturing industries. He has served as Board Chair and director of the Equipment Manufacturer's Institute (now AEA), the Farm Foundation, and the FFA Foundation, and as a past Director of the Gehl Company (Nasdaq) and CenterPoint Properties (NYSE). He currently serves as the Board Chair of the Montana Community Development Corporation, a CDFI servicing new businesses in the state of Montana, and as a Director of Zurex PharmAgra LLC, located in Madison, WI. Mr. Babson's civic commitments include service as the former Chair of the Board of Directors of the Chicago Shakespeare Theater and as a current Member of the Board of Regents of the University of the South, his alma mater, where he also founded and served as the original Director of the Babson Center for Global Commerce.

Norman R. Bobins – Norman R. Bobins serves as Chairman of the Board of Directors of RREEF America REIT II. He is chairman of Norman Bobins Consulting, LLC, which provides financial consulting services. Mr. Bobins has spent more than 40 years in banking. He retired from LaSalle Bank Corporation as Chairman, President, and Chief Executive Officer in 2007. He currently serves as the Non-Executive Chairman of The PrivateBank and Trust Company. Mr. Bobins serves on the corporate Boards of AAR CORP., AGL Resources, Inc., AVIV Reit, Inc., and Sims Metal Management, Inc. Mr. Bobins is Chairman of the Board of Trustees of WTTW Communications, Inc. He is also a Member of the Board of Directors of Navy Pier, Inc., the Brain Research Foundation, The Field Museum, The Newberry Library, and the United States Holocaust Memorial Council. Mr. Bobins earned his B.S. from the University of Wisconsin in 1964 and his M.B.A. from The University of Chicago in 1967. He has received numerous awards and honors, including the 2007 Lincoln Academy of Illinois' highest award – the Order of Lincoln.

Blake Eagle - Blake Eagle recently retired from the National Council of Real Estate Investment Fiduciaries (NCREIF) where he served as its CEO from 2001 to 2008. NCREIF is a Chicago based non-profit commercial real estate industry association focused solely on the collection, processing, validation and publication of investment performance return information on commercial real estate assets owned in the private market by pension funds, endowment funds and other categories of institutional investors. Mr. Eagle played the leadership role in the founding of NCREIF and the development of the NCREIF Property Index. The NCREIF Property Index (NPI), maintains records on the performance of nearly 6000 institutional investor owned properties with a market value in excess of \$ 330.0 billion, From 1994 through 2000, Mr. Eagle was the Thomas G. Eastman Chairman, Center for Real Estate, Massachusetts Institute of Technology. The Center offers a Master of Science in Real Estate and engages in a wide variety of research and educational programs. The Center, founded in 1985, has awarded more than 900 MS degrees in Real Estate Development. From 1971 through 1993, Mr. Eagle headed up the real estate consulting group of Frank Russell Company, a global pension fund asset strategy consultant and investment advisor headquartered in Tacoma, Washington, Mr. Eagle had senior management responsibilities for domestic and international real estate consulting for Russell's pension consulting clients. During this period. Russell clients invested in excess of \$18 billion in direct and in-direct real estate. In 1992, he was honored with Lifetime Achievement Awards from the National Council of Real Estate Fiduciaries, The Wharton Real Estate Center, University of Pennsylvania, and the Homer Hoyt Advanced Studies Institute for his contributions to the field of real estate research. Mr. Eagle received the 1993 Dr. James Graaskamp Award from the Pension Real Estate Association for his contributions to the body of knowledge about institutional investment in real estate. Mr. Eagle has served as a member of the American Society of Real Estate Counselors, the Pension Real Estate Association, National Real Estate Roundtable and National Association of Real Estate Investment Trusts. He has served on the Boards of Directors of three publicly listed real estate investment trusts, two privately owned real estate operating companies and one real estate securities mutual fund. He is a member of the Real Estate Advisory Committee of New York State Teachers' Retirement Fund. He formerly served as a Director of the Institute for Real Estate Research: Member, Board of Advisors, Fannie Mae: Faculty Member, Mortgage Bankers School, Northwestern University, He has provided testimony to the President's Commission on Housing, the Department of Labor and the U.S. Senate Banking Committee on U.S. pension fund real estate investment practices. He earned his undergraduate degree in business at the University of Washington. He pursued postgraduate studies in real estate at the University of California, Berkeley. Prior to joining Russell, Mr. Eagle was a real estate developer.

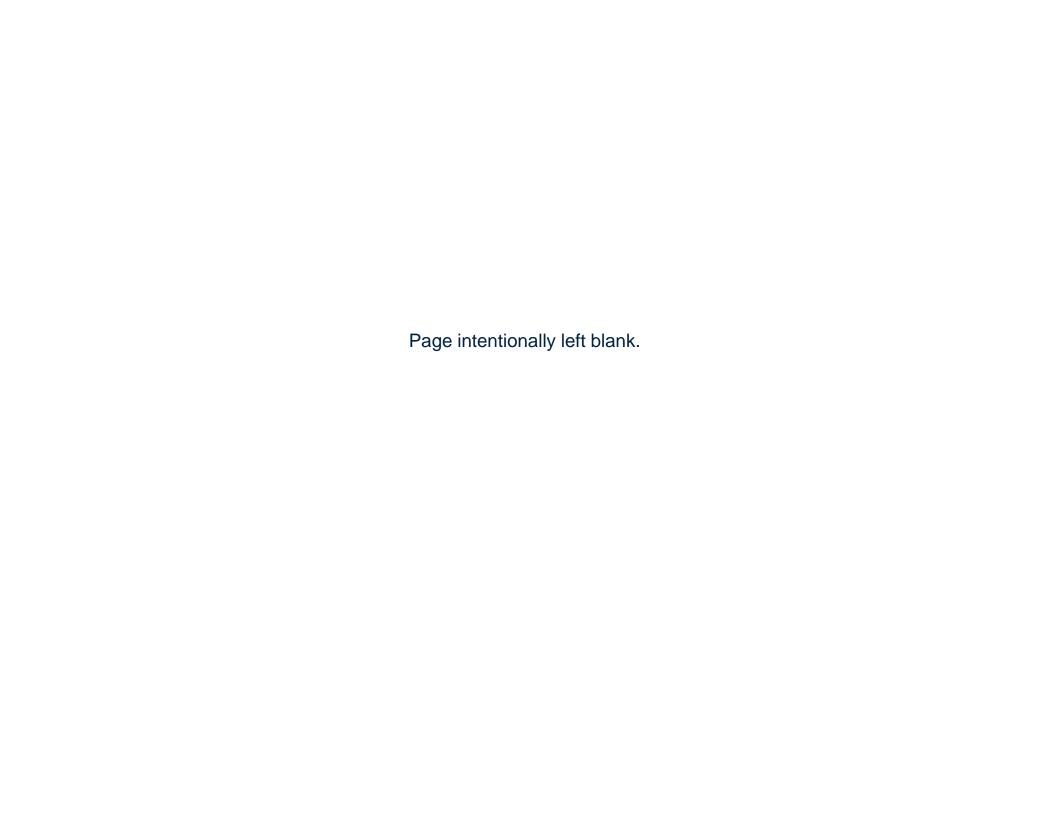
## Board of Directors (continued)



Philip Halpern – Philip Halpern has been engaged as Chief Investment Officer (CIO) of large institutional portfolios for over twenty years including for the endowments of The University of Chicago and Caltech, and The Washington State Investment Board. Since retiring from Chicago's Investment Office in 2004, he has committed to working with a select number of organizations to achieve a diverse set of strategic investment and governance objectives. Mr. Halpern serves on the Boards or Committees of investment organizations, including: Duet India Hotels (Chairman), The Frontenac Company, NationsBuilders Insurance Services, Oxford Financial Group, and RREEF America REIT II. He has consulted to institutions and families on investment matters, and occasionally has served as an expert witness. With his wife in 2012, he co-founded North Carolina Wine Gifts, LLC. He previously served on the Executive Management Committee of the Board of Chapin Hall at The University of Chicago, a foremost policy and applied research organization focused on issues effecting children's welfare. Mr. Halpern holds an M.B.A. in Finance from UCLA and an A.B. in Anthropology from Grinnell College, and completed doctoral coursework in Strategic Planning at Northwestern University.

W. Todd Henderson, Managing Director - Todd Henderson is a Managing Director and Head of Real Estate, Americas for Deutsche Asset & Wealth Management's Alternatives and Real Assets platform, based in New York. Todd joined the Company in 2003 with 12 years of experience as a Managing Director on the real estate transactions team. In his current role, he is responsible for all facets of the direct real estate investment management business in the Americas and also serves on the Alternatives and Real Assets Executive Committee. Prior to his current role, Todd was the Chief Investment Officer for the Americas real estate investment business and was responsible for directing the investment strategy. In his capacity as CIO, he served as Chairman of the Americas Real Estate Investment Committee, and served on the Americas Real Estate Management Committee. From June 2007-March 2009. Todd was responsible for the Company's Value-Added and Development group where he directed a 16person team managing a \$4.5 billion portfolio for multiple clients. While in this role, he formulated the strategy for restructuring the portfolio and the group in response to the global financial crisis. In particular, he led the RREEF America REIT III team in the restructuring of the fund. Prior to joining. Todd was a Director of Acquisitions for The J.E. Robert Company in Washington, D.C., where he was involved in the sourcing, executing and financing of over \$6 billion of real estate transactions. Previously, he worked on restructuring and disposing of nonperforming real estate loans at First Gibraltar Bank on behalf of the bank and the Resolution Trust Company (RTC). He holds a BA from the University of North Texas and an MBA from The Wharton School, University of Pennsylvania.

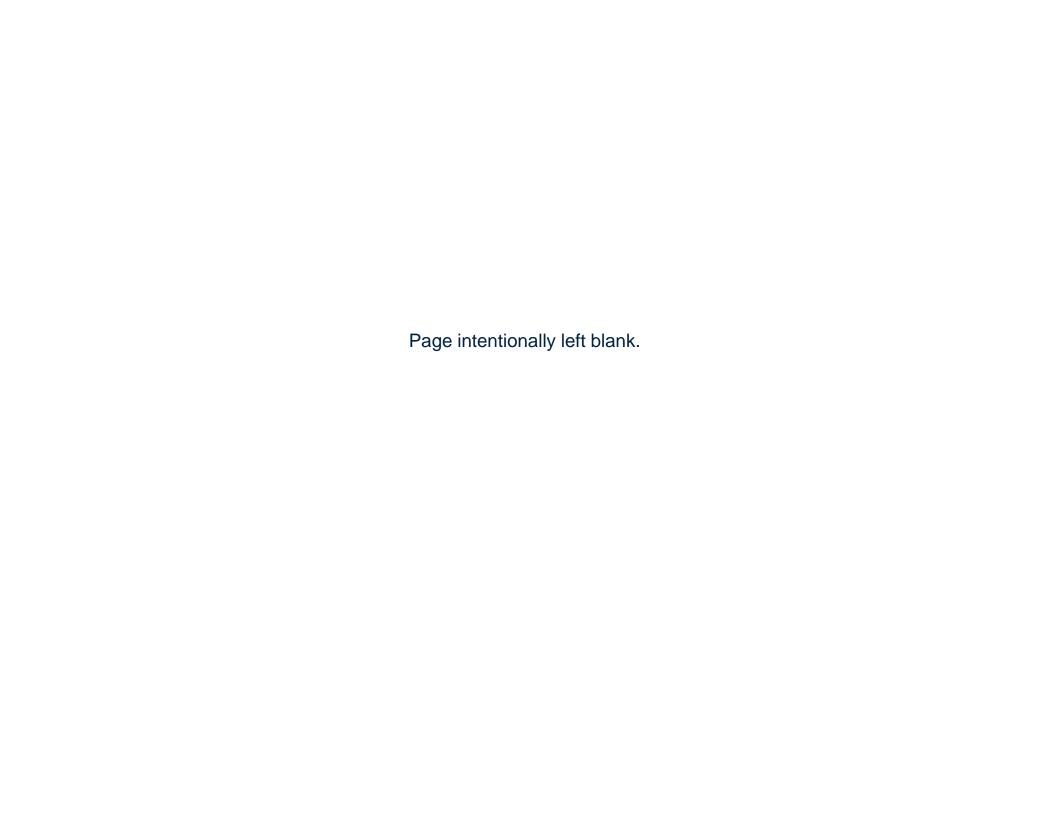
Deborah H. McAneny – Ms. McAneny was the Chief Operating Officer of Benchmark Senior Living, LLC from April 2007 to May 2009. Prior to that she was employed at John Hancock Financial Services for 20 years, including as Executive Vice President for Structured and Alternative Investments and as a Member of its Policy Committee from 2002 to 2004, Senior Vice President for John Hancock's Real Estate Investment Group and President of John Hancock Real Estate Finance from 2000 to 2002, and as a Vice President of the Real Estate Investment Group from 1997 to 2000. Prior to her years at John Hancock, Ms. McAneny was a senior auditor at Arthur Andersen & Co. She is currently the Lead Independent Director of HFF, Inc. (NYSE:HF). In addition, she is a Director of KKR Financial Holdings LLC (NYSE:KFN), RREEF America REIT II and RREEF Property Trust, and an Advisor at Benchmark Senior Living, LLC. She is a Trustee of the University of Vermont and the Rivers School and is a past President of the Commercial Mortgage Securities Association. Ms. McAneny holds an Advanced Professional Director Certification from the American College of Corporate Directors, a national public company director education and credentialing organization.





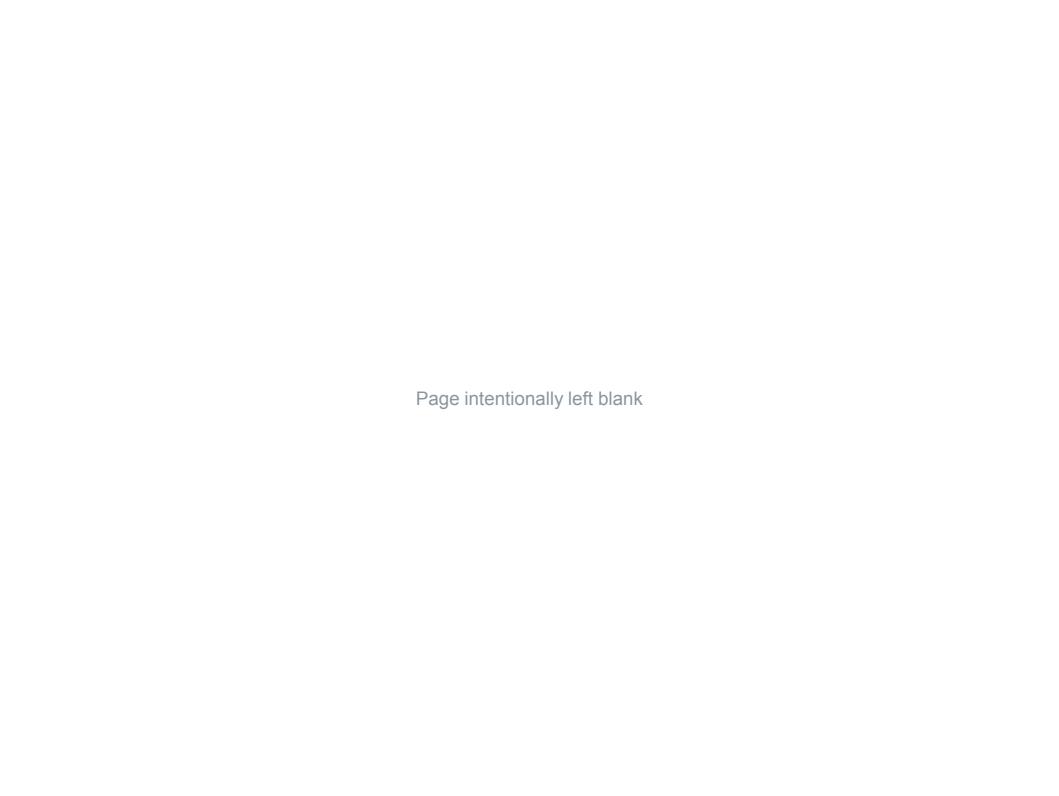


# GIPS Composite Reports and Performance Notes



# GIPS® Composite Report Americas Real Estate – U.S. Direct Core Composite

Third Quarter 2013





## Independent Accountant's Verification and Performance Examination Report

To the Management of Deutsche Asset & Wealth Management - Americas Real Estate, A Division of Deutsche Bank AG:

We have examined whether (1) Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for the periods from July 1, 2008, to September 30, 2013, and (2) the Firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards as of September 30, 2013. We have also examined the accompanying performance presentations and Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate – U.S. Direct Core Composite** for the periods from July 1, 2008, to September 30, 2013. The Firm's management is responsible for compliance with the GIPS standards, the design of its policies and procedures and for the Quarterly Performance and Schedule of Rates of Return and Statistics. Our responsibility is to express an opinion based on our examination.

## Scope of Work

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Firm's compliance with the previously mentioned requirements; evaluating the design of the Firm's policies and procedures previously referred to; examining, on a test basis, evidence supporting the accompanying composite compliant presentation; and performing the procedures for a verification and performance examination required by the GIPS standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

## Opinion

In our opinion, in all material respects,

- the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from July 1, 2008, to September 30, 2013; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of September 30, 2013.

Also, in our opinion, in all material respects, the Firm has

- constructed the Americas Real Estate U.S. Direct Core Composite and calculated the Americas Real Estate U.S. Direct Core Composite performance for the periods from July 1, 2008, to September 30, 2013, in compliance with the GIPS standards; and
- prepared and presented the Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate U.S. Direct Core Composite** for the periods from July 1, 2008, to September 30, 2013, in compliance with the GIPS standards.

This report does not contain an opinion on the accuracy of any composite presentation of the Firm other than the Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate – U.S. Direct Core Composite** for the periods from July 1, 2008, to September 30, 2013.

Ashland Partners & Company LLP

Ashland Partners & Company LLP

March 12, 2014

# DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - U.S. DIRECT CORE COMPOSITE QUARTERLY PERFORMANCE PRESENTATION INCOME RETURN

Asset-Weighted Returns Gross and Net of Management Fees Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	1.54%	1.56%	1.51%		
	Net	1.43%	1.09%	1.69%		
2012	Gross	1.50%	1.55%	1.54%	1.52%	6.25%
	Net	1.01%	0.89%	1.42%	1.13%	4.52%
2011	Gross	1.53%	1.51%	1.53%	1.48%	6.20%
	Net	1.42%	1.38%	1.59%	1.22%	5.74%
2010	Gross	1.88%	1.80%	1.84%	1.71%	7.43%
	Net	1.72%	1.66%	1.67%	1.03%	6.21%
2009	Gross	1.46%	1.66%	1.80%	1.71%	6.79%
	Net	1.35%	1.53%	1.65%	1.60%	6.28%
2008	Gross			1.34%	1.30%	
	Net			1.25%	1.97%	

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Capital Appreciation Return and Total Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.

# DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - U.S. DIRECT CORE COMPOSITE QUARTERLY PERFORMANCE PRESENTATION CAPITAL APPRECIATION RETURN

Asset-Weighted Gross Only Returns Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	0.75%	2.77%	3.02%		
2012	Gross	1.48%	1.13%	0.64%	1.72%	5.05%
2011	Gross	1.84%	3.51%	0.89%	1.47%	7.92%
2010	Gross	(0.65%)	0.43%	7.57%	2.05%	9.53%
2009	Gross	(14.92%)	(8.14%)	(4.14%)	(5.54%)	(29.23%)
2008	Gross			(2.50%)	(14.38%)	

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Income Return and Total Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.

# DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - U.S. DIRECT CORE COMPOSITE QUARTERLY PERFORMANCE PRESENTATION TOTAL RETURN

Asset-Weighted Returns Gross and Net of Management Fees Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	2.30%	4.33%	4.54%		
	Net	2.19%	3.86%	4.71%		
2012	Gross	2.98%	2.68%	2.18%	3.24%	11.54%
	Net	2.49%	2.02%	2.06%	2.85%	9.74%
2011	Gross	3.38%	5.02%	2.42%	2.95%	14.48%
	Net	3.26%	4.90%	2.48%	2.69%	13.99%
2010	Gross	1.23%	2.23%	9.41%	3.76%	17.49%
	Net	1.06%	2.09%	9.24%	3.08%	16.17%
2009	Gross	(13.47%)	(6.48%)	(2.33%)	(3.84%)	(24.00%)
	Net	(13.57%)	(6.60%)	(2.48%)	(3.94%)	(24.38%)
2008	Gross			(1.17%)	(13.08%)	
	Net			(1.26%)	(12.41%)	

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Income Return and Capital Appreciation Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.

## Americas Real Estate – U.S. Direct Core Composite

## Third Quarter 2013



## Schedule of rates of return and statistics

Year end	Income Return Gross of Fees	Capital Return	Total Return Gross of Fees	Income Return Net of Fees <sup>1</sup>	Total Return Net of Fees <sup>1</sup>	Total Return NCREIF Property Index <sup>2</sup>	Range of Returns (Low, High)	Total Composite Net Assets End of Period (USD billion)	Percent Leveraged End of Period (as a % of composite assets)	Percent of External Valuations End of Period (as a % of composite assets)	Number of Portfolios End of Period	Total Firm Assets End of Period (USD billion)	Total Firm Net Assets End of Period (USD billion)
2003	8.14	1.49	9.72	7.07	8.64	9.00	-28.08, 31.28	\$7.4	26.5	3.6	43	\$15.1	\$10.4
2004	7.88	7.33	15.64	6.50	14.19	14.49	-17.25, 41.35	\$8.1	26.3	11.2	40	\$17.7	\$11.9
2005	6.84	18.01	25.75	4.89	23.55	20.06	10.67, 83.25	\$11.7	22.7	13.0	39	\$25.1	\$16.9
2006	5.91	13.32	19.80	4.87	18.67	16.60	-3.12, 59.10	\$14.3	23.6	15.9	38	\$30.6	\$20.5
2007	5.01	12.20	17.67	3.78	16.34	15.85	0.95, 34.48	\$13.5	21.6	15.7	37	\$30.0	\$20.6
2008	5.22	-18.62	-14.13	5.86	-13.52	-6.46	-29.49, 21.02	\$10.4	27.8	65.3	35	\$25.2	\$15.4
2009	6.79	-29.23	-24.00	6.28	-24.38	-16.85	-30.42, 5.29	\$7.8	32.8	38.4	35	\$19.5	\$10.6
2010	7.43	9.53	17.49	6.21	16.17	13.11	-31.22, 64.97	\$7.3	34.3	64.1	33	\$19.4	\$10.4
2011	6.20	7.92	14.48	5.74	13.99	14.26	-2.40, 30.73	\$8.5	31.9	64.8	32	\$18.2	\$11.6
2012	6.25	5.05	11.54	4.52	9.74	10.54	-9.11, 62.10	\$7.8	32.9	66.0	36	\$16.6	\$11.1
1Q2013	1.54	0.75	2.30	1.43	2.19	2.57	-0.82, 8.50	\$7.8	33.5	63.5	36	\$17.1	\$11.3
2Q2013	1.56	2.77	4.33	1.09	3.86	2.87	-10.88, 35.23	\$7.7	32.7	67.3	36	\$16.2	\$11.0
3Q2013	1.51	3.02	4.54	1.69	4.71	2.59	0.10, 8.11	\$8.1	30.8	63.8	36	\$15.9	\$11.1

<sup>1</sup> Net of fees returns are net of investment management and performance-based fees. Actual investment management fees are used.

NCREIF benchmark not examined as part of verification.

## Americas Real Estate – U.S. Direct Core Composite

## Third Quarter 2013



#### Organization and Presentation Standards

Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") is part of the Alternatives and Real Assets platform of Deutsche Asset & Wealth Management, a division of Deutsche Bank AG. The Firm specializes in creating and managing real estate investment portfolios across the risk spectrum, including private real estate equity, private real estate debt, as well as other blended or specialized strategies for institutional, high net worth and retail investors in the U.S. and abroad.

#### Portfolios Eligible For The Composites And Types Of Portfolios

All discretionary, fee-paying portfolios are included in at least one composite. Portfolios are considered discretionary if the Firm has sole or primary responsibility for major investment decisions, including acquisitions, dispositions and financing. The existence of client-imposed investment restrictions may not preclude classification of a portfolio as discretionary where such restrictions do not inhibit the Firm from implementing its intended strategy. There is no minimum portfolio asset size requirement for inclusion in a composite and no assets are included in any composite that is not a part of the Firm.

A portfolio is included in a composite in the first full quarter after the first investment is purchased. From 01/01/2002 to 09/30/2010, a portfolio with an investment purchased on the first day of the quarter is included in a composite for that quarter. Effective 10/01/2010, a portfolio with an investment purchased on the first day of the quarter is excluded from a composite for that quarter. A portfolio with its last investment sold on the last day of a quarter is excluded from a composite for that quarter. Effective 01/01/2012, a portfolio with an investment purchased on the first day of the quarter is included in the composite for that quarter.

#### Americas Real Estate - U.S. Direct Core Composite

The Americas Real Estate - U.S. Direct Core Composite includes portfolios that consist of all or a high concentration of core investments. Core investments are defined as existing, high-quality, well-leased and income-producing properties in established real estate locations within major metropolitan areas. Core portfolios will have low to moderate leverage and achieve a large portion of their return from income. The composite was created in January 2007. From 01/01/2002 to 09/30/2010, the RREEF Real Estate – U.S. Direct Core Composite was known as the "Core Composite." This name change is effective 10/01/2010. From 10/01/2010 to 12/31/2012, the Americas Real Estate – U.S. Direct Core Composite was known as the "RREEF Real Estate – U.S. Direct Core Composite." This name change is effective 01/01/2013.

#### Performance Results

Composite returns are calculated on an asset-weighted basis using beginning of period values adjusted for time-weighted external cash flows. Cash flows are time-weighted so portfolio returns reflect the time assets are actually held in the portfolio. Contributions and distributions are weighted based on the date of cash flow. Returns include cash and cash equivalents, related interest income and when applicable, the reinvestment of income. Income returns are based on accrual recognition of earned income. Capital expenditures are capitalized and included in the cost of the property and are reconciled through the valuation process and reflected in the capital return component. Returns are calculated on a quarterly basis. Annual returns are time-weighted returns calculated by geometrically linking quarterly returns. Income and capital returns may not equal total returns due to compounding effects of linking quarterly returns. Gross returns are presented before asset management and performance fees. Net returns are presented after asset management and performance fees. Gross and Net returns are calculated net of operating and fund expenses incurred on behalf of the underlying portfolios. Returns are presented and denominated in U.S. Dollars. Returns are presented net of leverage. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. A complete list and description of the Firm's composites is also available upon request.

Portfolios may be leveraged utilizing fixed and floating rate debt. Effective 01/01/2009, the impact of marking debt to market, where called for by the client agreement, is included in the performance of the composite. Material use of leverage is defined as the use of debt of any amount on any asset. Material use of derivatives is defined as the use of interest rate swaps and caps, the amount of which totals more than 5% of portfolio assets. Total Firm assets represent the aggregate fair market value of properties under management. Total Firm net assets represent the net asset value of all portfolios under management.

## Americas Real Estate – U.S. Direct Core Composite

## Third Quarter 2013



#### Performance Results (continued)

Assets are valued quarterly by the Firm. For both internal and external property valuations, the Firm relies on the application of market discount rates to project future cash flows and capitalized terminal values over the expected holding period. Prior to January 1, 2006, real estate assets were externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 36 months, unless otherwise not required by a portfolio's Investment Management Agreement and certain properties under development. Effective January 1, 2006, all properties were externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 36 months. Effective January 1, 2011, assets are externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 12 months unless client agreements stipulate otherwise, in which case real estate investments are externally appraised at least once every 36 months or per the client agreement if the client agreement requires external valuations more frequently than every 36 months.

Composite dispersion measures represent the consistency of composite performance with respect to the individual portfolio returns within the composite. Composite dispersion is measured by the high and low returns for the periods presented.

Past performance is not indicative of future results. Other methods may produce different results and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods.

#### Fees

Asset management fees are paid to the Firm primarily based on a percentage of a portfolio's net operating income or fair market value. Some portfolios pay fees ranging from 5% to 9% of net operating income while others pay fees ranging from 0.30% to 0.75% of the portfolio's fair market value.

Some of the portfolios pay incentive fees based on either property dispositions or portfolio performance. Disposition-based incentive fees primarily range between 10% and 20% of net capital transaction proceeds or gross disposition proceeds in excess of established hurdles. Incentive fees based on portfolio performance primarily range between 10% and 20% of aggregate fair market value in excess of established hurdles.

#### NCREIF Property Index Benchmark

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) is an unleveraged property return index comprised of property level financial data which excludes cash and other assets and liabilities. Comparison of composite results with the benchmark index may be affected by, among other factors, leverage employed by the portfolios, portfolio level income, expenses and differences between the property type and geographic composition of the portfolios and the benchmark index.

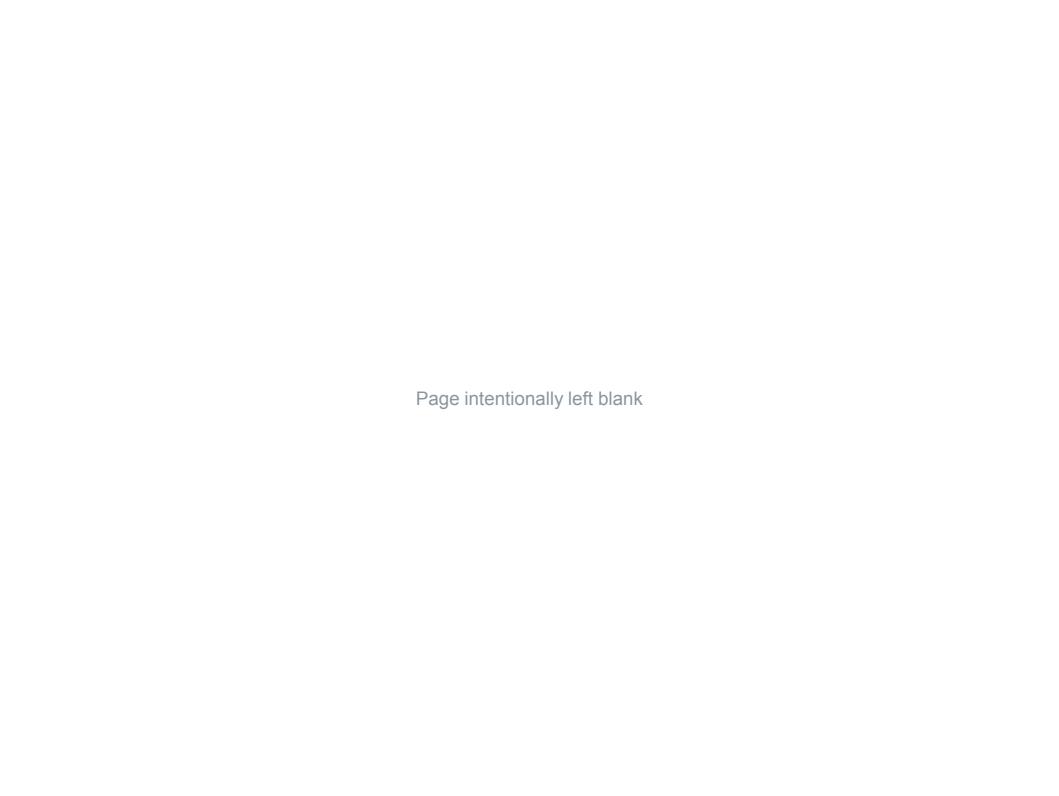
#### Compliance Statement

Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods January 1, 2002 through September 30, 2013. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Americas Real Estate - U.S. Direct Core Composite has been examined for the periods January 1, 2002 through September 30, 2013.

# GIPS® Composite Report Americas Real Estate – RREEF America REIT II Composite

Third Quarter 2013





## Independent Accountant's Verification and Performance Examination Report

To the Management of Deutsche Asset & Wealth Management - Americas Real Estate, A Division of Deutsche Bank AG:

We have examined whether (1) Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for the periods from July 1, 2008, to September 30, 2013, and (2) the Firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards as of September 30, 2013. We have also examined the accompanying performance presentations and Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate – RREEF America REIT II Composite** for the periods from January 1, 2003, to September 30, 2013. The Firm's management is responsible for compliance with the GIPS standards, the design of its policies and procedures and for the Quarterly Performance and Schedule of Rates of Return and Statistics. Our responsibility is to express an opinion based on our examination. For the periods from January 1, 2003, to June 30, 2008, the Firm was verified firm-wide by a previous verifier. Our opinion is based, in part, on work completed by this previous verifier.

## Scope of Work

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Firm's compliance with the previously mentioned requirements; evaluating the design of the Firm's policies and procedures previously referred to; examining, on a test basis, evidence supporting the accompanying composite compliant presentation; and performing the procedures for a verification and performance examination required by the GIPS standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

## Opinion

In our opinion, in all material respects,

- the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the periods from July 1, 2008, to September 30, 2013; and
- the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards as of September 30, 2013.

Also, in our opinion, in all material respects, the Firm has

- constructed the Americas Real Estate RREEF America REIT II Composite and calculated the Americas Real Estate RREEF
  America REIT II Composite performance for the periods from January 1, 2003, to September 30, 2013, in compliance with the GIPS
  standards; and
- prepared and presented the Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate RREEF America REIT II Composite** for the periods from January 1, 2003, to September 30, 2013, in compliance with the GIPS standards.

This report does not contain an opinion on the accuracy of any composite presentation of the Firm other than the Schedule of Rates of Return and Statistics of the Firm's **Americas Real Estate – RREEF America REIT II Composite** for the periods from January 1, 2003, to September 30, 2013.

Ashland Partners & Company LLP
Ashland Partners & Company LLP

March 12, 2014

## DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - RREEF AMERICA REIT II COMPOSITE QUARTERLY PERFORMANCE PRESENTATION INCOME RETURN

Asset-Weighted Returns Gross and Net of Management Fees Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	1.46%	1.48%	1.45%		
	Net	1.40%	0.89%	1.89%		
2012	Gross	1.43%	1.54%	1.48%	1.54%	6.13%
	Net	0.79%	0.62%	1.39%	1.08%	3.94%
2011	Gross	1.43%	1.39%	1.46%	1.42%	5.82%
	Net	1.35%	1.28%	1.73%	1.10%	5.58%
2010	Gross	1.88%	1.78%	1.84%	1.67%	7.36%
	Net	1.72%	1.64%	1.70%	0.91%	6.11%
2009	Gross	1.40%	1.64%	1.82%	1.66%	6.69%
	Net	1.28%	1.53%	1.69%	1.53%	6.17%
2008	Gross	1.24%	1.13%	1.27%	1.23%	4.96%
	Net	1.14%	1.04%	1.18%	2.27%	5.74%
2007	Gross	1.33%	1.26%	1.23%	1.22%	5.13%
	Net	1.23%	0.94%	0.21%	1.13%	3.55%
2006	Gross	1.44%	1.38%	1.40%	1.33%	5.67%
	Net	1.93%	0.88%	0.71%	1.53%	5.15%
2005	Gross	1.67%	1.57%	1.56%	1.51%	6.47%
	Net	1.53%	1.46%	0.76%	0.50%	4.31%
2004	Gross	1.76%	1.71%	1.72%	1.37%	6.72%
	Net	1.58%	1.57%	0.80%	1.61%	5.68%
2003	Gross	1.85%	1.76%	1.62%	1.91%	7.34%
	Net	1.69%	1.62%	1.50%	1.78%	6.75%

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Capital Appreciation Return and Total Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.

## DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - RREEF AMERICA REIT II COMPOSITE QUARTERLY PERFORMANCE PRESENTATION CAPITAL APPRECIATION RETURN

Asset-Weighted Gross Only Returns Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	1.06%	2.85%	3.69%		
2012	Gross	1.63%	1.33%	1.08%	1.83%	6.00%
2011	Gross	2.73%	2.90%	0.55%	1.62%	8.02%
2010	Gross	(0.73%)	(0.59%)	10.19%	3.20%	12.23%
2009	Gross	(18.00%)	(9.75%)	(5.48%)	(5.67%)	(34.02%)
2008	Gross	(1.92%)	(1.38%)	(3.38%)	(14.97%)	(20.53%)
2007	Gross	2.39%	2.96%	4.56%	(0.27%)	9.93%
2006	Gross	2.40%	2.29%	1.69%	2.73%	9.42%
2005	Gross	2.19%	2.78%	3.31%	3.25%	12.02%
2004	Gross	0.30%	2.11%	2.20%	0.88%	5.59%
2003	Gross	0.34%	0.58%	1.60%	0.05%	2.59%

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Income Return and Total Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.

## DEUTSCHE ASSET & WEALTH MANAGEMENT - AMERICAS REAL ESTATE AMERICAS REAL ESTATE - RREEF AMERICA REIT II COMPOSITE QUARTERLY PERFORMANCE PRESENTATION TOTAL RETURN

Asset-Weighted Returns Gross and Net of Management Fees Results have been calculated in U.S. Dollars

		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
2013	Gross	2.52%	4.33%	5.14%		
	Net	2.46%	3.74%	5.58%		
2012	Gross	3.06%	2.87%	2.56%	3.37%	12.40%
	Net	2.41%	1.95%	2.48%	2.91%	10.12%
2011	Gross	4.16%	4.29%	2.01%	3.04%	14.19%
	Net	4.09%	4.19%	2.27%	2.73%	13.94%
2010	Gross	1.15%	1.19%	12.03%	4.87%	20.26%
	Net	0.99%	1.06%	11.90%	4.11%	18.90%
2009	Gross	(16.60%)	(8.11%)	(3.66%)	(4.01%)	(29.13%)
	Net	(16.72%)	(8.23%)	(3.79%)	(4.14%)	(29.51%)
2008	Gross	(0.67%)	(0.25%)	(2.11%)	(13.74%)	(16.34%)
	Net	(0.78%)	(0.33%)	(2.20%)	(12.71%)	(15.57%)
2007	Gross	3.73%	4.22%	5.78%	0.95%	15.44%
	Net	3.62%	3.90%	4.77%	0.86%	13.77%
2006	Gross	3.84%	3.67%	3.09%	4.06%	15.48%
	Net	4.33%	3.17%	2.40%	4.26%	14.92%
2005	Gross	3.86%	4.35%	4.87%	4.76%	19.06%
	Net	3.72%	4.23%	4.07%	3.75%	16.73%
2004	Gross	2.06%	3.82%	3.92%	2.25%	12.58%
	Net	1.88%	3.68%	3.00%	2.49%	11.51%
2003	Gross	2.19%	2.35%	3.22%	1.96%	10.08%
	Net	2.03%	2.20%	3.10%	1.83%	9.47%

Past performance is not indicative of future results. The Independent Accountant's Verification and Performance Examination Report, the Income Return and Capital Appreciation Return Quarterly Performance Presentations and the Schedule of Rates of Return and Statistics are an integral part of this presentation.



Third Quarter 2013

## Schedule of rates of return and statistics

Year end	Income Return Gross of Fees	Capital Return	Total Return Gross of Fees	Income Return Net of Fees <sup>1</sup>	Total Return Net of Fees¹	Total Return NFI-ODCE Gross of Fees <sup>2</sup>	Total Return NFI-ODCE Net of Fees <sup>2</sup>	Total Composite Net Assets End of Period (USD billion)	Percent Leveraged End of Period (as a % of composite assets)	Percent of External Valuations End of Period (as a % of composite assets)	Number of Portfolios End of Period	Total Firm Assets End of Period (USD billion)	Total Firm Net Assets End of Period (USD billion)
2003	7.34	2.59	10.08	6.75	9.47	9.27	8.28	\$1.6	25.8	0.0	1	\$15.1	\$10.4
2004	6.72	5.59	12.58	5.68	11.51	13.06	12.01	\$2.5	24.0	22.2	1	\$17.7	\$11.9
2005	6.47	12.02	19.06	4.31	16.73	21.40	20.16	\$5.2	24.6	14.5	1	\$25.1	\$16.9
2006	5.67	9.42	15.48	5.15	14.92	16.32	15.27	\$7.2	25.4	25.0	1	\$30.6	\$20.5
2007	5.13	9.93	15.44	3.55	13.77	15.97	14.84	\$8.0	22.8	19.5	1	\$30.0	\$20.6
2008	4.96	-20.53	-16.34	5.74	-15.57	-10.01	-10.70	\$6.2	29.2	99.7	1	\$25.2	\$15.4
2009	6.69	-34.02	-29.13	6.17	-29.51	-29.76	-30.40	\$4.3	37.1	54.7	1	\$19.5	\$10.6
2010	7.36	12.23	20.26	6.11	18.90	16.36	15.26	\$4.6	35.5	99.7	1	\$19.4	\$10.4
2011	5.82	8.02	14.19	5.58	13.94	15.99	14.96	\$5.5	31.4	100	1	\$18.2	\$11.6
2012	6.13	6.00	12.40	3.94	10.12	10.94	9.79	\$5.1	30.7	100	1	\$16.6	\$11.1
1Q2013	1.46	1.06	2.52	1.40	2.46	2.68	2.43	\$5.1	30.8	100	1	\$17.1	\$11.3
2Q2013	1.48	2.85	4.33	0.89	3.74	3.86	3.60	\$5.1	28.3	100	1	\$16.2	\$11.0
3Q2013	1.45	3.69	5.14	1.89	5.58	3.56	3.35	\$5.5	26.2	100	1	\$15.9	\$11.1

Data shown January 1, 2003 through September 30, 2013.

<sup>1</sup> Net of fees returns are net of investment management and performance-based fees. Actual investment management fees are used.

<sup>&</sup>lt;sup>2</sup> NCREIF benchmark not examined as part of verification.



## Third Quarter 2013

#### Organization and Presentation Standards

Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") is part of the Alternatives and Real Assets platform of Deutsche Asset & Wealth Management, a division of Deutsche Bank AG. The Firm specializes in creating and managing real estate investment portfolios across the risk spectrum, including private real estate equity, private real estate debt, as well as other blended or specialized strategies for institutional, high net worth and retail investors in the U.S. and abroad.

#### Portfolios Eligible For The Composites And Types Of Portfolios

All discretionary, fee-paying portfolios are included in at least one composite. Portfolios are considered discretionary if the Firm has sole or primary responsibility for major investment decisions, including acquisitions, dispositions and financing. The existence of client-imposed investment restrictions may not preclude classification of a portfolio as discretionary where such restrictions do not inhibit the Firm from implementing its intended strategy. There is no minimum portfolio asset size requirement for inclusion in a composite and no assets are included in any composite that is not a part of the Firm.

A portfolio is included in a composite in the first full quarter after the first investment is purchased. From 01/01/2002 to 09/30/2010, a portfolio with an investment purchased on the first day of the quarter is included in a composite for that quarter. Effective 10/01/2010, a portfolio with an investment purchased on the first day of the quarter is excluded from a composite for that quarter. A portfolio with its last investment sold on the last day of a quarter is excluded from a composite for that quarter. Effective 01/01/2012, a portfolio with an investment purchased on the first day of the quarter is included in the composite for that quarter.

#### Americas Real Estate - RREEF America REIT II Composite

The Americas Real Estate – RREEF America REIT II Composite is a core, open-end commingled composite structured as a private real estate investment trust (REIT) that seeks to provide institutional investors with attractive risk-adjusted returns from both low-risk/core investments and selected moderate-risk/enhanced return investments in real estate. The composite's investment strategy includes the acquisition, active management and sale of well-located apartment, industrial, retail and office properties in major metropolitan markets across the continental United States. The strategy also pursues a defensive property-weighting approach through the over-weighting of property types with lower volatility. The composite was created in March 2009. From 01/01/2002 to 09/30/2010, the RREEF Real Estate – RREEF America REIT II Composite was known as the "RREEF America REIT II Composite." This name change is effective 10/01/2010. From 10/01/2010 to 12/31/2012, the Americas Real Estate – RREEF America REIT II Composite was known as the "RREEF Real Estate – RREEF America REIT II Composite." This name change is effective 01/01/2013.

#### Performance Results

Composite returns are calculated on an asset-weighted basis using beginning of period values adjusted for time-weighted external cash flows. Cash flows are time-weighted so portfolio returns reflect the time assets are actually held in the portfolio. Contributions and distributions are weighted based on the date of cash flow. Returns include cash and cash equivalents, related interest income and when applicable, the reinvestment of income. Income returns are based on accrual recognition of earned income. Capital expenditures are capitalized and included in the cost of the property and are reconciled through the valuation process and reflected in the capital return component. Returns are calculated on a quarterly basis. Annual returns are time-weighted returns calculated by geometrically linking quarterly returns. Income and capital returns may not equal total returns due to compounding effects of linking quarterly returns. Gross returns are presented before asset management and performance fees. Net returns are presented after asset management and performance fees. Gross and Net returns are calculated net of operating and fund expenses incurred on behalf of the underlying portfolios. Returns are presented and denominated in U.S. Dollars. Returns are presented net of leverage. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. A complete list and description of the Firm's composites is also available upon request.



## Third Quarter 2013

#### Performance Results (continued)

Portfolios may be leveraged utilizing fixed and floating rate debt. Effective 01/01/2009, the impact of marking debt to market, where called for by the client agreement, is included in the performance of the composite. Material use of leverage is defined as the use of debt of any amount on any asset. Material use of derivatives is defined as the use of interest rate swaps and caps, the amount of which totals more than 5% of portfolio assets. Total Firm assets represent the aggregate fair market value of properties under management. Total Firm net assets represent the net asset value of all portfolios under management.

Assets are valued quarterly by the Firm. For both internal and external property valuations, the Firm relies on the application of market discount rates to project future cash flows and capitalized terminal values over the expected holding period. Prior to January 1, 2006, real estate assets were externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 36 months, unless otherwise not required by a portfolio's Investment Management Agreement and certain properties under development. Effective January 1, 2006, all properties were externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 36 months. Effective January 1, 2011, assets are externally appraised by either a tax appraiser or an independent Member of the Appraisal Institute (MAI) at least once every 12 months unless client agreements stipulate otherwise, in which case real estate investments are externally appraised at least once every 36 months or per the client agreement if the client agreement requires external valuations more frequently than every 36 months.

Composite dispersion measures represent the consistency of composite performance with respect to the individual portfolio returns within the composite. Composite dispersion is measured by the high and low returns for the periods presented.

Past performance is not indicative of future results. Other methods may produce different results and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods.

#### Fees

The REIT earns an annual asset management fee as follows:

For the first \$40 million 8%
For the next \$40 million 7%
All amounts exceeding \$80 million 6%

Net operating income, as defined, is calculated as net income before depreciation, amortization, investment management fees and after deducting one-half (1/2) of the debt service (principal and interest) excluding certain principal pay downs.

The REIT also earns a performance fee, which is determined at the end of a three-year compensation period. The fee, which is payable in cash and subject to a 50% holdback, is based on 15% of the excess by which the estimated ending fair market value equity of the portfolio plus net sales proceeds held by the REIT pending distribution of reinvestment, exceeds the ending value that would result in a 6% real internal rate of return, adjusted upward 2.5 basis points for every 1% of leverage.

#### NCREIF Fund Index - ODCE Benchmark

The National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-End Diversified Core Equity (NFI-ODCE) is a fund-level capitalization-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage.



## Third Quarter 2013

#### Compliance Statement

Deutsche Asset & Wealth Management - Americas Real Estate (the "Firm") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The Firm has been independently verified for the periods January 1, 2002 through September 30, 2013. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Americas Real Estate – RREEF America REIT II Composite has been examined for the periods January 1, 2002 through September 30, 2013.

## Performance notes



The NCREIF Fund Index - Open End Diversified Core Equity Index (NFI-ODCE), is the first of the NCREIF Fund Database products and is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, including 21 current active funds, some of which have performance histories dating back to the 1970s. The NFI-ODCE is a fund-level capitalization weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (i.e., returns reflect the fund's actual asset ownership positions and financing strategy). In equal weighted performance analysis each property counts the same weight, regardless of the value of the fund. Index aggregates are typically value-weighted. Equal weighting however; is useful for statistical analysis as well as peer comparisons. Some of the NCREIF Property Index query tools and Fund Level Indices provide Equal-Weighted Return Analysis, however the overall index is published on a Value-Weighted Basis.

Gross asset value represent the total assets of the Fund, which includes real estate, cash and cash equivalents, accounts receivables, prepaid expenses and any other assets. The net asset value (NAV) and total fund returns are calculated based primarily on values from independent appraisals of real estate assets and the estimated market valuation of the Fund's debt obligations and does not purport to present the net realizable, liquidation or fair value of the Fund as a whole or the actual rate of return on an investment. In the first quarter of 2014, the Fund externally appraised 100 percent of its assets with the exception of one mid-quarter acquisition which is carried at the cost capitalized at closing plus subsequent capital expenditures. Appraisals are based on numerous assumptions which may not be realized; the appraised value of an asset may not reflect the amount that will be realized upon disposition. Accordingly, the amounts ultimately realized may vary significantly from the fair values utilized in the calculation of the NAV. The Fund has, in the past, suffered losses on assets which had significant appraised values.

Performance returns are calculated on an asset-weighted basis using beginning of period values, adjusted for contributions, including reinvested dividends, and distributions. Contributions and distributions are weighted based on the date of cash flows. Income returns are based on accrual recognition of earned income and incurred expenses, and appreciation returns are based on unrealized and realized appreciation and debt valuation adjustments. Annual returns are time-weighted and geometrically linked returns. Income and appreciation returns may not equal total returns due to compounding effects of linking quarterly returns. Note that after fee returns can be higher than before fee returns for some periods due to reversals of accrued performance fees.

The financial data herein is based, in part, on management's business plans and budgets as of the date indicated and takes into account such factors and assumptions as management deems relevant including property operations and portfolio level expenses. However, events assumed to occur may not occur, and other events may occur which were not assumed to occur or otherwise taken into account in preparing the data contained herein. Such events could materially affect the analysis. In addition, changes in a number of factors, including (without limitation) global and local economic conditions, the growing global economic crisis, the availability of credit (or lack thereof), the level of interest rates and other credit terms, demand for certain types of investments and a number of other factors may cause the actual results to vary, perhaps significantly, from the financial data contained herein. You and your advisers should consider the impact of current economic conditions, which are unprecedented, in evaluating the information contained herein.

Moreover, the information set forth above speaks only as of the date indicated; it was not revised to take account of events which have occurred subsequent to the date indicated. Accordingly, it may not be representative of values or the amount that may ultimately be received with respect of an investment. No assurance can be given as to the actual events that may occur or the appropriate assumptions to be applied. Net performance results are after asset management and incentive fees. No representation or warranty is made as to the actual amounts that will be distributed with respect to your investment. Information herein includes or is based upon certain "forward-looking statements." These forward-looking statements include, but are not limited to, the plans, projections, objectives, expectations and intentions of the Fund and its advisers and other statements contained herein that are not historical facts. These statements are based on current beliefs or expectations and are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond the Fund's control. Actual results may differ materially from these expectations due to changes in, among other things, global, political, economic, business, competitive, market and regulatory factors.

Past performance is not indicative of future results. Net performance results are after asset management and incentive fees. This information includes or is based upon certain "forward-looking statements." These forward-looking statements include, but are not limited to, the plans, projections, objectives, expectations and intentions of the Fund and its advisers and other statements contained herein that are not historical facts. These statements are based on current beliefs or expectations and are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond the Fund's control. Actual results may differ materially from these expectations due to changes in, among other things, global, political, economic, business, competitive, market and regulatory factors. The final NAV and performance results, as revised, will be published following the Fund's quarterly Board of Directors meeting in the Fund's quarterly report and shall supersede in their entirety any estimates contained herein.

## Important information



Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries. Clients will be provided Deutsche Asset & Wealth Management products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services. In the United States Deutsche Asset & Wealth Management relates to the asset management activities of RREEF America L.L.C., and Deutsche Investment Management Americas Inc.; in addition to other regional entities in the Deutsche Bank Group.

An investment in real estate involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise. Any forecasts provided herein are based upon Deutsche Asset & Wealth Management's opinion of the market at this date and are subject to change dependent on the market. Past performance or any prediction, projection or forecast on the economy or markets is not indicative of future performance.

Performance figures do not reflect the deduction of fees and expenses charged or incurred by the fund; such figures would be lower had such fees and expenses been reflected. For example, if the fund appreciated by 10% a year for five years, the total annualized return for five years prior to deducting fees at the end of the five-year period would be 10%. If total fees were .10% for each of the five years, the total annualized return of the fund for five years at the end of the five-year period would be 9.89%. The historical returns achieved by the fund are not a prediction of future performance and there can be no assurance that these or comparable returns will be achieved or that the fund's performance objective will be achieved.

The supplemental information shown for the U.S. Core real estate leveraged property performance aggregate includes all discretionary and nondiscretionary core real estate portfolios. The performance is calculated according to the National Council Real Estate Fiduciaries property formula and is based on fair value of real estate. The GIPS composite, Americas Real Estate - U.S. Core Composite includes only discretionary core direct real estate portfolios. See the GIPS Core Composite disclosures for details on the return methodology.

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