



TOWNSEND
GROUP

Dallas Police & Fire Pension System Initial Core Fund Recommendations

Second Quarter 2015

Background



Overview

- Over the long run, the DPFPS Real Estate Program will be governed by two primary documents: (i) a Strategic Plan that establishes long-term goals and (ii) and an Investment Plan that addresses near-term positioning.
- In January, the Board approved a framework for a Strategic Plan.
- Both the Strategic Plan and the Investment Plan will be taken to the Board after a new CIO has been hired. The Strategic Plan may also be impacted by the ongoing asset allocation study.

	STRATEGIC PLAN	INVESTMENT PLAN
PURPOSE	Establishes Long-Term Return Objectives Establishes Other Strategic Objectives Establishes Risk Controls Establishes Roles and Responsibilities	Frames Near-Term Objectives, Reflecting: <ul style="list-style-type: none"> - Strategic Objectives - Current Market Conditions - DPFPS' Existing Portfolio Composition
UPDATES	Typically Reviewed at Least Annually Significant Revisions are Not Common	Prepared Annually Reviewed on an Ongoing Basis Adapted to Market Conditions
APPROVAL	Reviewed and Approved by the Board	Reviewed and Approved by the Board

Strategic Plan

- In general, new investments will be very limited until the Strategic Plan and the Investment Plan have been adopted.
- However, based on the framework that has been approved and investment planning that has been conducted by Staff and Townsend, we can conclude that:
 - Significant dispositions will be required to reach targets and create capacity for new investments; and
 - The program will require additional core exposure to reach its long-term targets.
- The goal today is to lay groundwork that will provide the Board with additional flexibility once formal plans have been adopted.***

	BALANCED / TRADITIONAL
CORE EXPOSURE	Range of 40% to 60%
BENCHMARK AND RETURN OBJECTIVE	ODCE Net +75 bps Over Full Market Cycles; All in USD
DIVERSIFICATION	High Priority
INFLATION HEDGING	High Priority
OTHER RISK CONTROLS	Property Type: ODCE +/- 10% Geography: ODCE +/- 10% Ex-US Exposure: 20% Cap Loan-to-Value: Core Max of 40% Single Manager: 25% of Equity Single Fund: 20% of Equity
IMPLEMENTATION	<ul style="list-style-type: none"> Program May Differ from Plan Diversification and Return Targets During Extended Transition Periods.
REQUIRED APPROVALS	<ul style="list-style-type: none"> Strict Board Oversight, With Written Recommendations From Consultant and Staff.
TARGET ALLOCATION	<ul style="list-style-type: none"> Plan Will Work With Allocation Target Set by the Board Based on Recommendations from the General Consultant (Currently 15%).



Recommendation

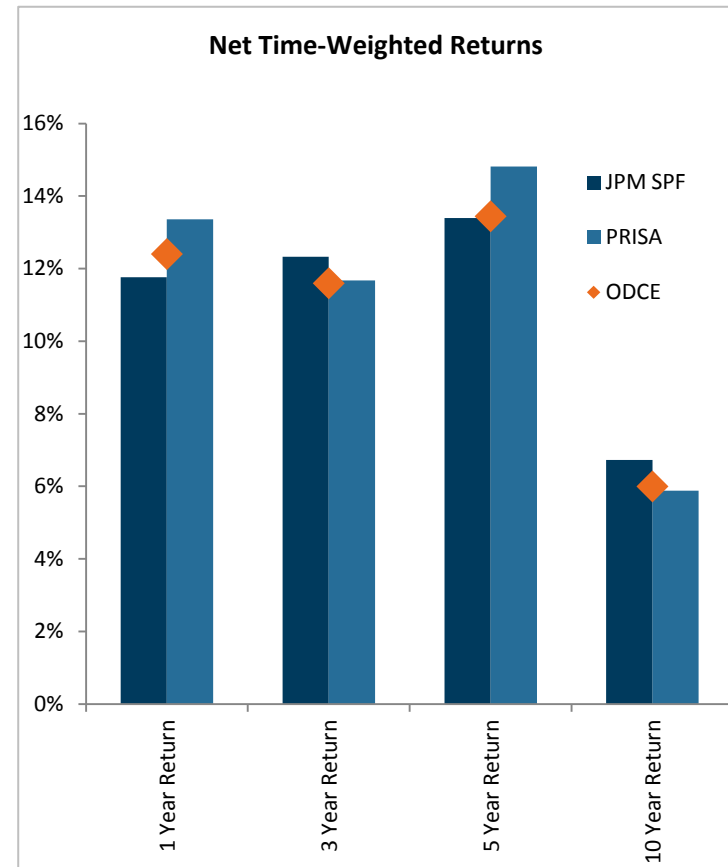
Near-Term Execution

IN GENERAL:	<ul style="list-style-type: none"> • New investments are expected to be very limited: • <i>There is no urgency to invest.</i> Market conditions are balanced. Substantial capital deployment is not compelled by either (i) a “rising tide” that increases values through shifts in capital markets or (ii) broad-based distress. • Reducing exposure is an important goal. 	
NON-CORE:	<ul style="list-style-type: none"> • Very select non-core investments may be presented in an effort to maintain vintage year diversification and capture select opportunities. 	
CORE:	Opportunity:	Access:
	<ul style="list-style-type: none"> • Open-end core funds provide a fair entry point to the market, with appraisal-based pricing. • Open-end core funds also provide access to a diversified pool of core (lower risk) investments. 	<ul style="list-style-type: none"> • Deposit queues require long waits to access the most desirable funds. • Some managers allow investors to make a “revocable” commitment. A commitment to one or both of these funds would allow DPFPS to reserve a place in line with the ability to walk away if sufficient capacity is not created in the portfolio.
LIQUIDITY:	<ul style="list-style-type: none"> • Real estate currently represents just over 13% of the total DPFPS program. If the loan program debt is treated as equity, exposure rises to nearly 23%. Based on work completed by Staff and Townsend, significant liquidity can be created in the existing portfolio over the next 3-5 years. 	



Core Portfolio Recommendation

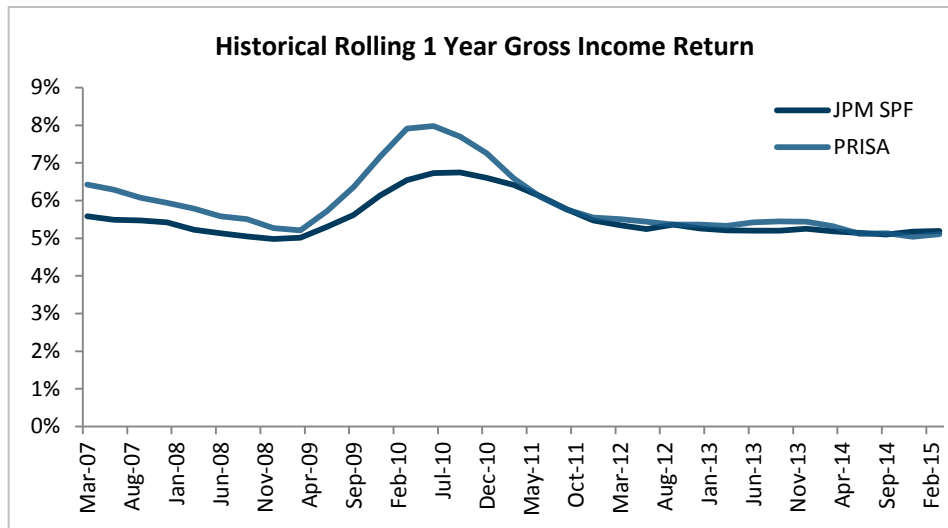
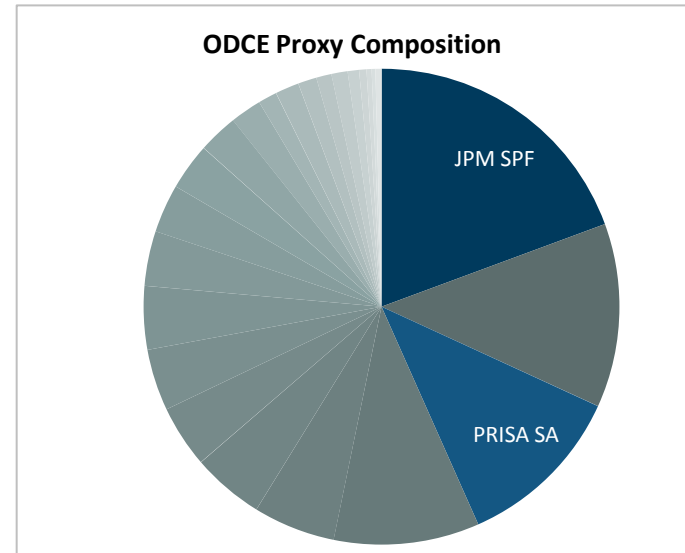
- We believe that additional flexibility can be created for the Board by reserving a place in “deposit queues” for funds that meet the following conditions: (i) apply revocable deposit queues, (ii) have a very good chance of earning a place in the DPFPS’ long-term portfolio, and (iii) are not projected to call capital from new investors for a year or more.
- **Townsend recommends that DPFPS submit revocable commitment of \$50 million to JP Morgan Strategic Property Fund and a revocable commitment of \$50 to PRISA (managed by Prudential).**
- The Board will be consulted and given the opportunity to reconsider (and the opportunity to rescind) its approval before capital is actually called. Additional investment opportunities may be presented for consideration, and additional investment planning will be conducted, before capital is called.



Selected Funds

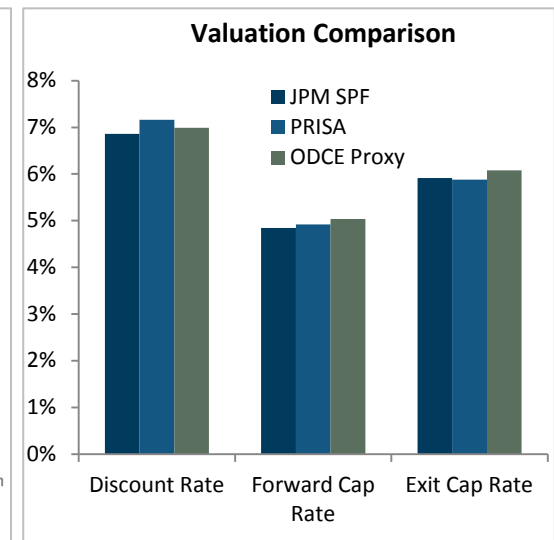
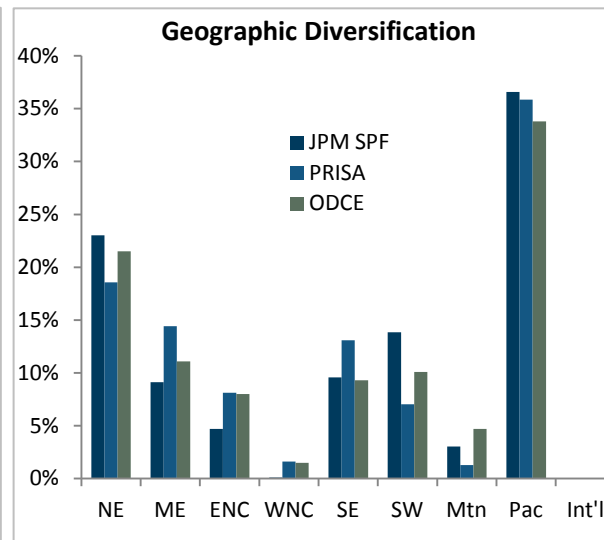
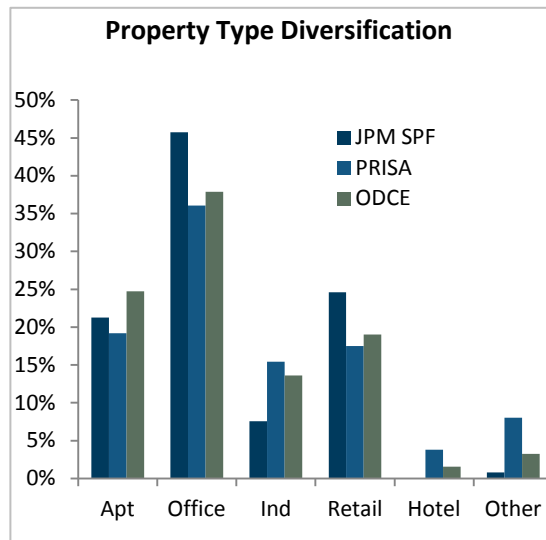
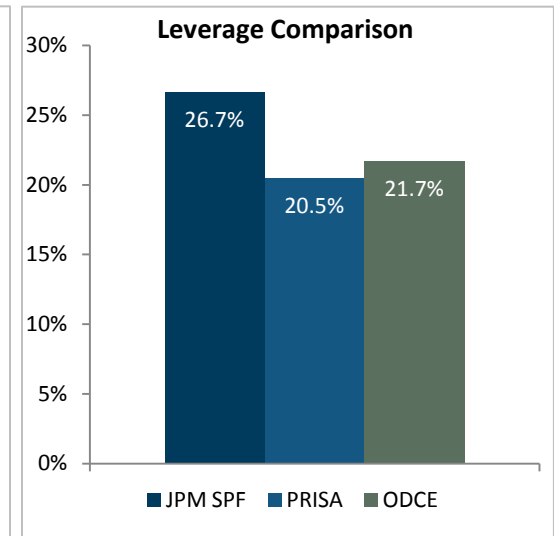
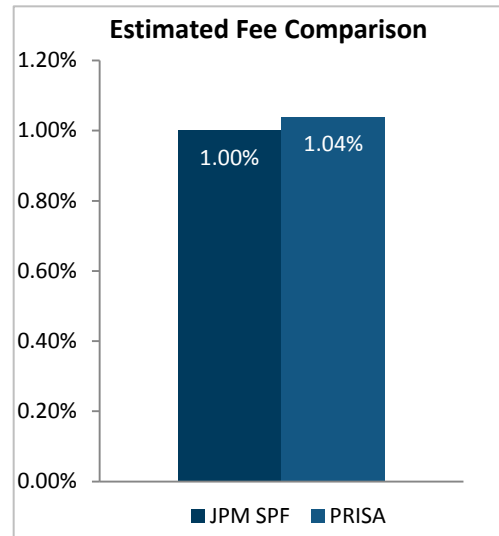
- Each recommended fund is a strong long-term performer.
- Each recommended fund has a strong portfolio management team and a deep platform.
- Each recommended fund is part of Townsend’s model core portfolio and a significant portion of the ODCE index (an index of core-oriented funds in the US).
- Each fund has a well-diversified, high-quality portfolio that is fairly valued.

A summary analysis of each fund can be found in the appendices.



Selected Funds (Continued)

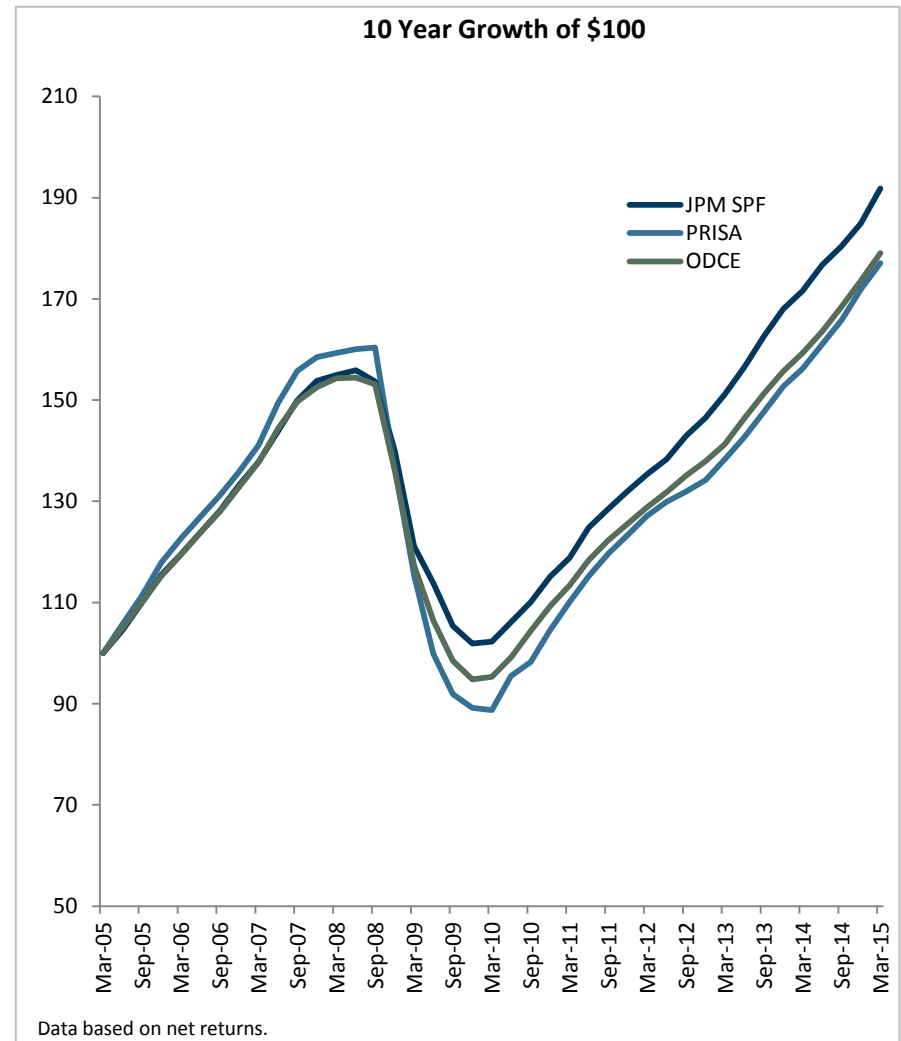
- Each fund is designed to track the ODCE (a widely used core fund index) closely.
- From a portfolio construction perspective, a portfolio consisting of both funds provides diversification benefits and attractive risk adjusted returns due to their complementary nature.
- Terms and fees are reasonable, and in-line with market practices.



Selected Funds (Continued)

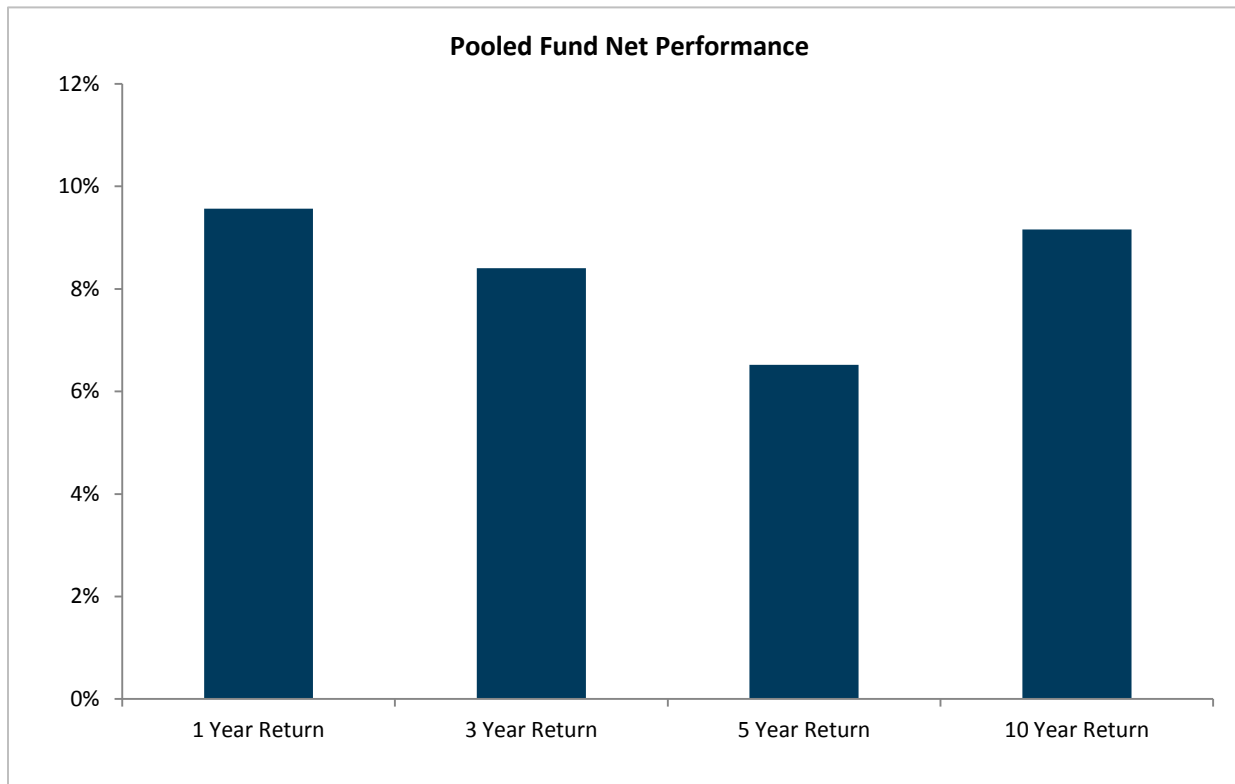
- Each fund has shown consistent execution over time and has generated strong results for investors.
- Townsend rates both managers highly as investors and as fiduciaries that operate with integrity.

NET TIME WEIGHTED RETURNS			
	JPM SPF	PRISA SA	ODCE
1 YEAR	11.8%	13.4%	12.4%
3 YEAR	12.3%	11.7%	11.6%
5 YEAR	13.4%	14.8%	13.4%
10 YEAR	6.7%	5.9%	6.0%



Fund Performance

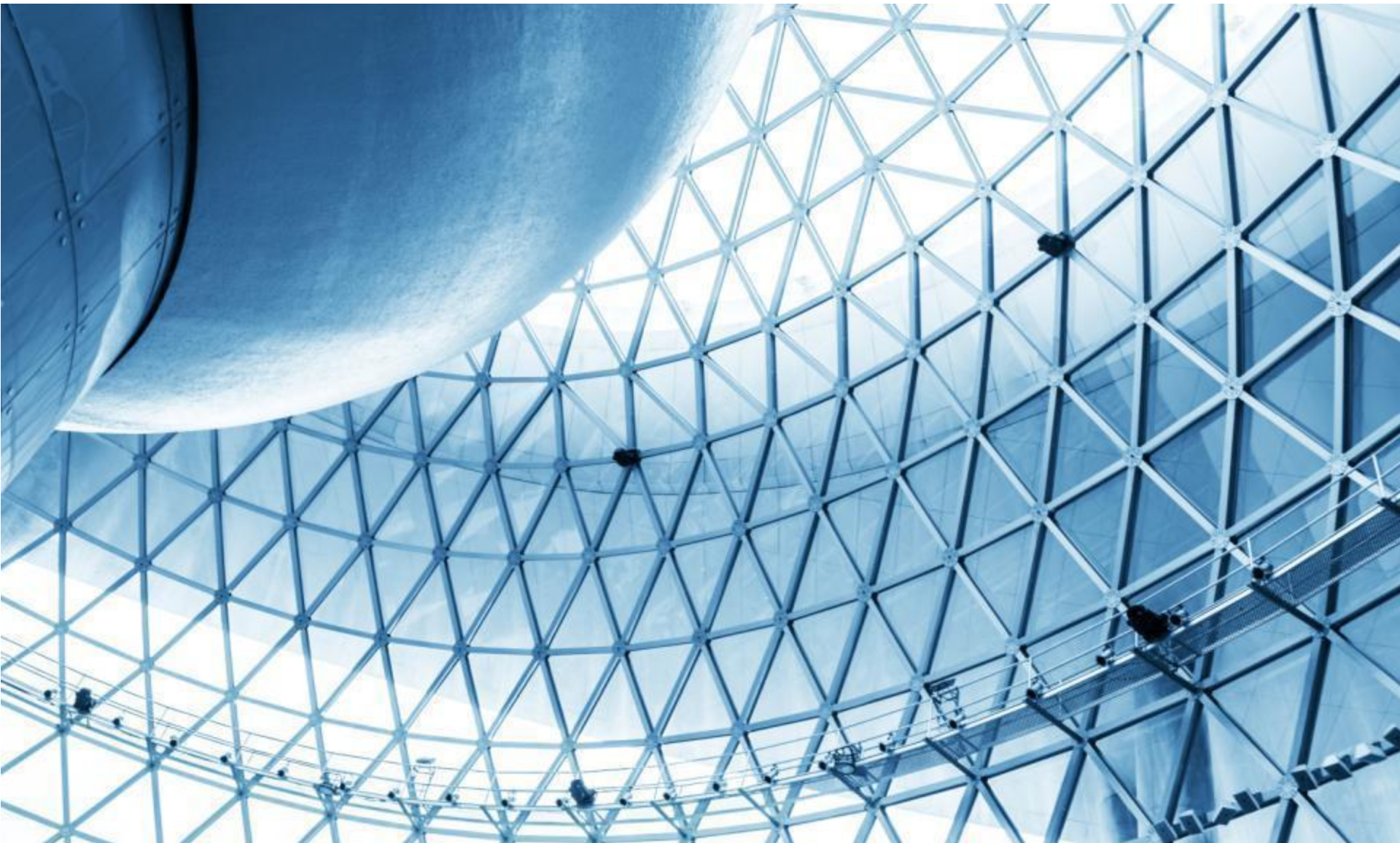
- DPFPS' pooled fund composite is positioned higher on the risk-return spectrum than the open-end core funds that are being discussed.
- However, the pooled fund composite does reflect an ability to evaluate and select pooled vehicles well over time.



Appendices:

- A. What is an Open-End Core Fund?**
- B. Summary of JPM Strategic Property Fund**
- C. Summary of PRISA**
- D. Summary of Townsend's Review Process**
- E. Liquidity Analysis**

Appendix A: What is an Open-End Core Fund?



What is an Open-End Core Fund?

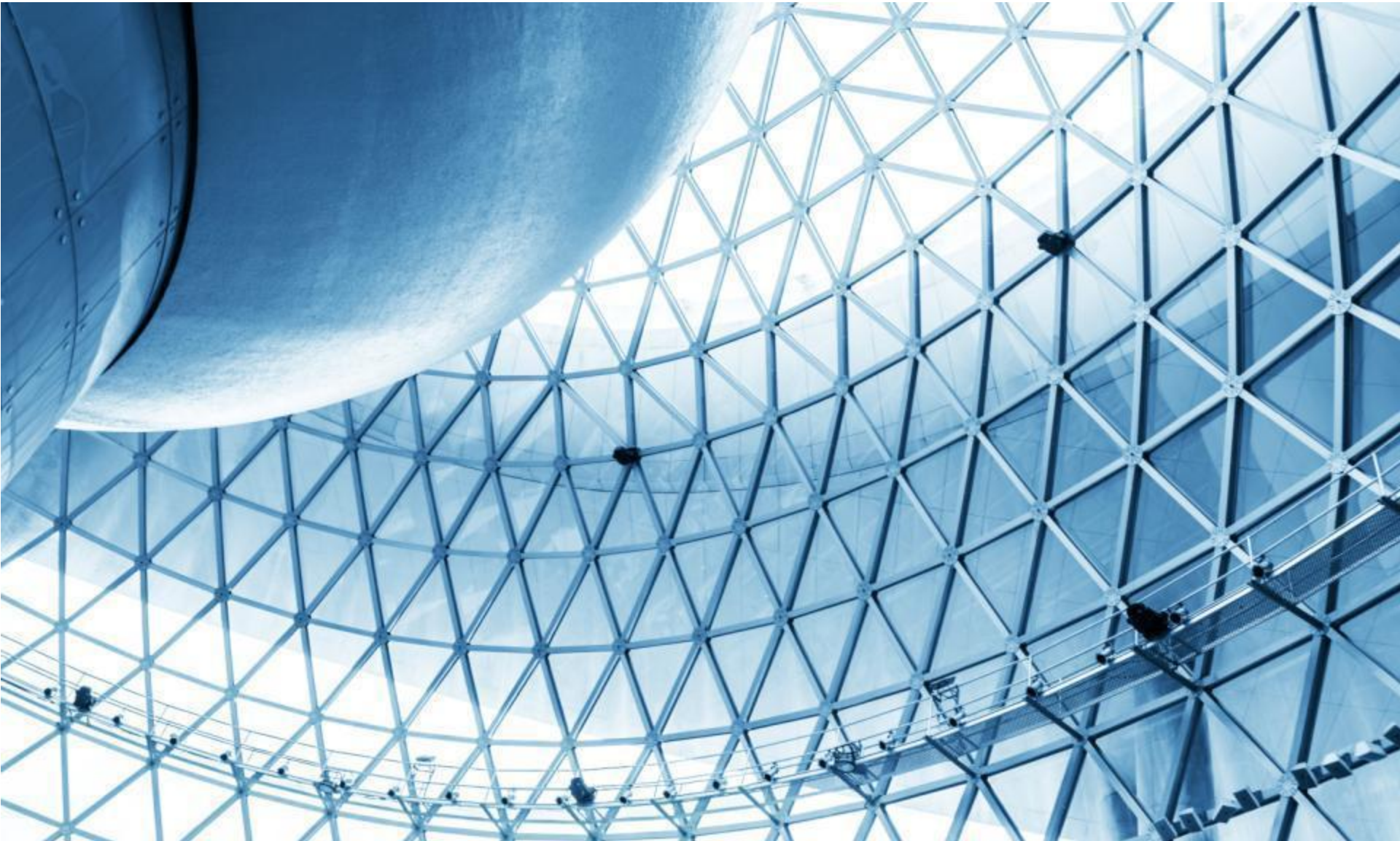
- An Open-End Core Fund (OECF) is a pooled, diversified fund of core real estate assets primarily located in the United States.
- Investments generally exhibit the following characteristics:
 - Institutional quality
 - Stabilized, income producing assets
 - Low leverage
- Investments are primarily concentrated within the apartment, office, retail, and industrial property types. Certain funds also provide exposure to difficult-to-access ‘trophy’ assets in major CBD locations across the U.S.
- Typically, OECFs have a small non-core element that provides a limited amount of exposure to higher risk/return strategies.



ADDITIONAL ATTRIBUTES	LIMITATIONS
<ul style="list-style-type: none"> • Consistent and transparent valuation policies • Deep and integrated back-office capabilities • Moderate liquidity 	<ul style="list-style-type: none"> • Limited investor control • Limited capital appreciation potential



Appendix B: Summary of JPM Strategic Property Fund



JP Morgan Strategic Property Fund

Peer Group: Core Diversified

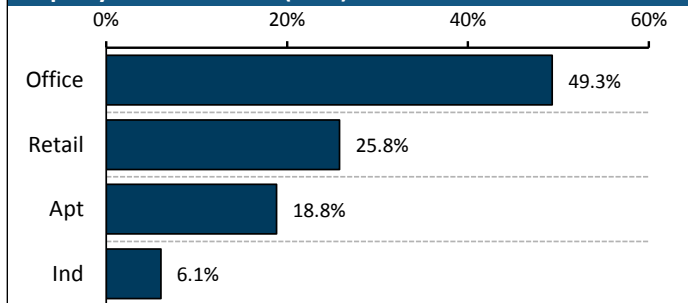
Fund Manager

Manager	JP Morgan Real Estate
Portfolio Manager	Kim Adams
Portfolio Manager	Ann Cole

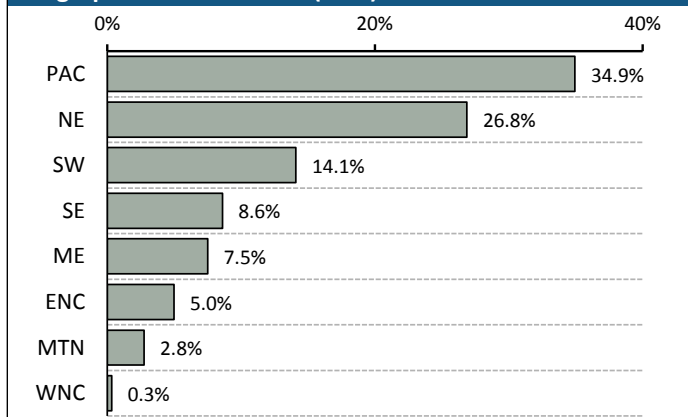
Fund Facts

Inception Date	March 31, 1998
Gross Real Estate Assets	\$33,830,194,525
Net Asset Value	\$24,175,684,675
Leverage	29.8%
Cash Balance	2.5%
Number of Investments	173
Deposit Queue	\$1,708,700,000
Timing to Invest	5 Quarters
Redemption Queue	\$0

Property Diversification (GAV)



Geographic Diversification (GAV)



Fund Snapshot

Platform

After 34 years with the firm, Anne Pfeiffer retired in October 2013. She is succeeded by Co- Portfolio Managers Kim Adams and Ann Cole, who have been part of SPF's portfolio management team since July 2012. As Co-Portfolio Managers, Ann Cole will focus on East regions and Kim Adams on West regions. Michael Kelly, Managing Director, Head of the Debt Capital Markets Group within Global Real Assets and the portfolio manager for the alternative real estate strategy and mezzanine debt strategy, replaced Anne Pfeiffer as the Head of U.S. Real Estate Commingled Funds upon her retirement. Douglas Doughty joined Global Real Assets (GRA) on January 6, 2014 as the Global Head of Business Development and Client Strategy.

Performance

The fund realized gross return of 2.74%, below the NFI-ODCE gross return of 3.26% for the quarter. Office and Retail were the best performing sectors on an unlevered basis. The Office sector returns were driven by increased valuations at assets in New York, San Francisco, and Los Angeles, while the Retail sector returns were driven by increased valuations in the fund's DSRG and Edens entity investments. The fund continues to be overweight Office with a focus on CBD/urban locations. NOI for comparable properties grew by 5.0% year-over-year through higher occupancy and rent gains in various markets.

Debt mark to market adjustment resulted in -88bps to the fund's total return for the quarter.

The fund's return objective is NFI-ODCE. The fund is lagging NFI-ODCE gross of fees over a one-year and five-year period by approximately -135bps and -9bps respectively. The fund is outperforming NFI-ODCE gross of fees over three-, seven-, and ten-year measurement periods by approximately +58bps, +91bps, and +108 bps respectively.

Portfolio Characteristics

The fund is overweight Office and Retail. The fund's portfolio leverage increased to 29.8% for the quarter, from 23.7% at the beginning of 2014. NFI-ODCE leverage is 22.2%. The increase in leverage YTD was primarily due to JV transactions where the partnership required leverage. Total occupancy for the fund was 93.7% at the end of the third quarter, versus 92.4% for NFI-ODCE.

The fund invested approximately \$707.1 million to acquire four assets during the fourth quarter. Acquisitions included investment in a 49% interest of 1345 Avenue of the Americas, a trophy office asset in New York, NY; investment of \$50 million towards the 555 11th Street NW mezzanine loan investment; Midtown Green, an apartment asset in Raleigh, NC; and Midtown Miami, a luxury high-rise apartment development in Miami, FL. The fund had \$281.7 million of dispositions during the quarter. The fund sold three apartments assets: The Residences at Springfield Station in Springfield, VA, Glenmuir in Naperville, IL, and Lindbergh Vista in Atlanta, GA.

Policies

The fund has a group trust structure, unlike the majority of the universe. Its return objective is the NFI-ODCE by pursuing a pure diversified core strategy. The fund will not invest outside the four major property types. There is flexibility for non-core investments up to 15% of the fund's NAV of which 5% may be new development. There is a limit on leverage at 35% LTV at the fund level and 65% at the asset level.

In 2013, the fund changed its benchmark from NPI to NFI-ODCE.

Processes

The investment process is both top-down and bottom-up. The fund is supported by a respectable research group. The bottom-up approach benefits from significant sourcing capabilities where most transactions are off-market. The fund is further supported by deep resources across in-house asset management, acquisitions, development & engineering, and capital markets. Asset managers have sector assignments. Acquisition teams have assigned markets. Development & Engineering contributes risk management expertise on key asset management, acquisition, and other processes. The fund will continue to outsource all leasing and property management to qualified third parties.

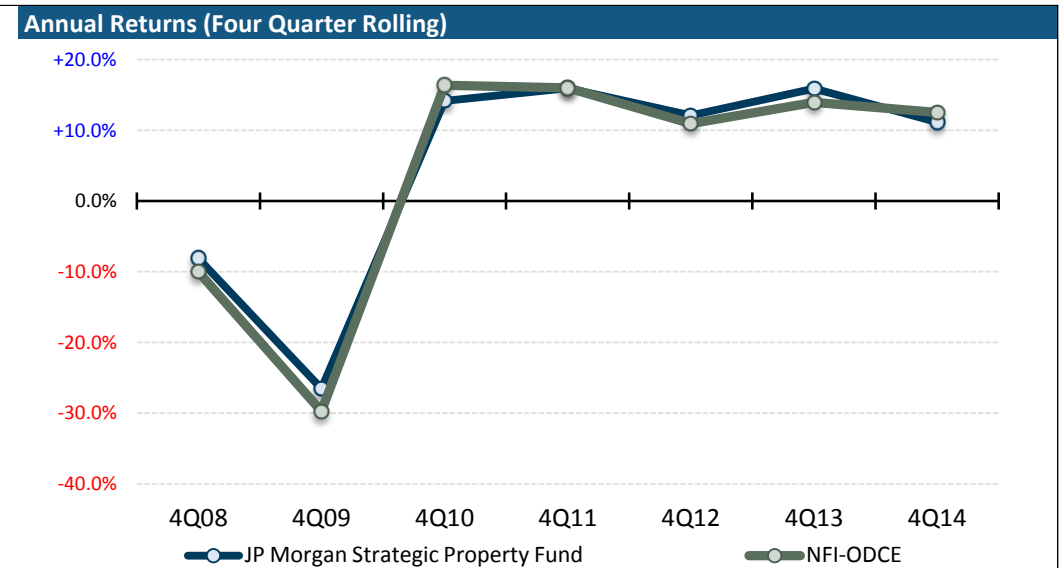


Quarterly Fund Returns							Percentile Rank	
	Income	Appreciation	Gross	Net	ODCE Gross	ODCE Net	Gross	Income
12/31/2014	1.31%	1.42%	2.74%	2.48%	3.26%	3.02%	23%	23%
9/30/2014	1.26%	1.09%	2.36%	2.10%	3.24%	3.00%	5%	5%
6/30/2014	1.26%	1.97%	3.25%	2.99%	2.93%	2.69%	77%	77%
3/31/2014	1.25%	1.11%	2.37%	2.11%	2.52%	2.29%	36%	36%

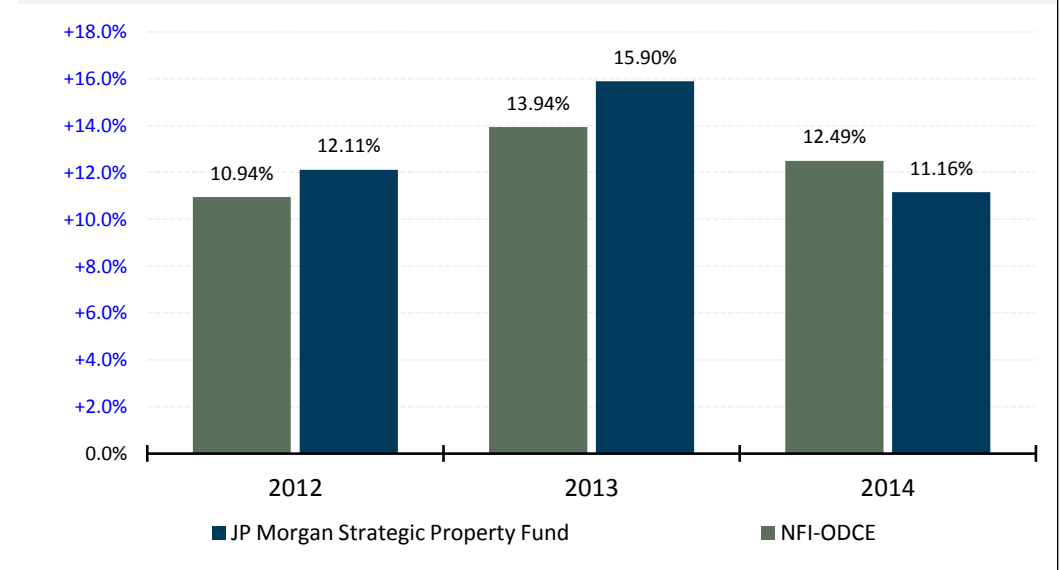
Annualized Fund Returns							Percentile Rank	
	Income	Appreciation	Gross	Net	ODCE Gross	ODCE Net	Gross	Income
1 year	5.18%	5.71%	11.16%	10.03%	12.49%	11.46%	14%	64%
3 year	5.23%	7.45%	13.04%	11.87%	12.45%	11.38%	68%	58%
5 year	5.56%	7.89%	13.84%	12.65%	13.93%	12.86%	53%	53%
7 year	5.56%	-1.75%	3.71%	2.67%	2.80%	1.86%	67%	53%
10 year	5.67%	2.40%	8.19%	7.08%	7.11%	6.11%	85%	69%
SI (1Q98)	6.76%	2.60%	9.53%	8.40%	8.69%	7.67%		

Risk Adjusted Measures							Beta	
	Std Dev	Peer Rank	Sharpe Ratio	Peer Rank	Information Ratio	Peer Rank	Beta	Peer Rank
3 year	1.23%	79%	10.086	84%	0.518	74%	0.768	58%
5 year	2.04%	80%	6.470	80%	-0.069	53%	0.820	73%
7 year	9.13%	80%	0.408	73%	0.446	80%	0.899	73%
10 year	8.36%	77%	0.840	92%	0.546	100%	0.912	77%

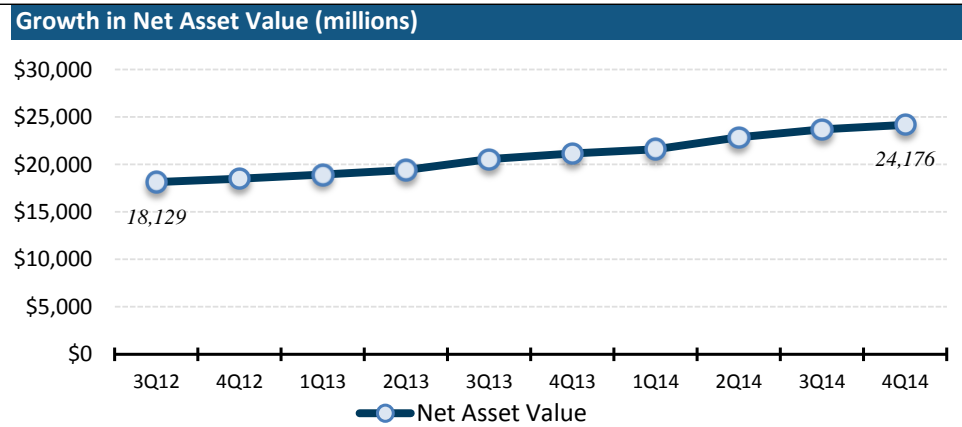
Unlevered Property Type Returns						
	1 Year		3 Year		5 Year	
	Gross	Excess	Gross	Excess	Gross	Excess
Apartment	8.6%		10.3%		14.1%	
<i>NPI Apartment</i>	10.3%	-1.7%	10.7%	-0.4%	13.1%	1.0%
Office	11.3%		12.0%		12.4%	
<i>NPI Office</i>	11.5%	-0.1%	10.3%	1.7%	11.3%	1.2%
Industrial	11.8%		12.6%		11.2%	
<i>NPI Industrial</i>	13.4%	-1.6%	12.1%	0.4%	12.1%	-0.8%
Retail	10.5%		11.9%		12.0%	
<i>NPI Retail</i>	13.1%	-2.6%	12.5%	-0.6%	12.8%	-0.8%
Hotel	N/A		N/A		N/A	
<i>NPI Hotel</i>	11.1%	N/A	9.0%	N/A	9.5%	N/A
Total	10.6%		11.5%		12.4%	
<i>NPI</i>	11.8%	-1.3%	11.1%	0.4%	12.1%	0.2%



Calendar Year Returns							
	2014	2013	2012	2011	2010	2009	2008
Total Gross	11.16%	15.90%	12.11%	15.96%	14.16%	-26.55%	-8.09%
ODCE Gross	12.49%	13.94%	10.94%	15.99%	16.36%	-29.76%	-10.00%
Peer Group	12.60%	13.71%	11.72%	16.25%	16.77%	-29.76%	-10.32%
Excess Return over ODCE	-1.34%	1.96%	1.17%	-0.03%	-2.20%	3.22%	1.91%



Balance Sheet	
Gross Real Estate	\$33,830,194,525
Net Real Estate	\$23,964,943,643
Net Asset Value	\$24,175,684,675
Leverage	29.8%
Cash Balance	2.5%
Number of Investments	173



One Year Projections	
Fund Performance	8.5%
NOI Growth	3.9%

Fund Valuation	
Discount Rate	6.9%
Peer Group Median	7.0%
Forward Cap Rate	4.8%
Peer Group Median	5.0%

	Apartment	Industrial	Office	Retail	Hotel
Apartment	6.7%	7.0%	6.9%	6.9%	
Peer Group Median	6.7%	7.1%	7.0%	6.8%	
Forward Cap Rate	4.4%	5.9%	4.9%	4.9%	
Peer Group Median	4.6%	5.4%	5.1%	5.4%	

Non-Core Exposures	
Percentage of NAV	4.2%
Non core exposure limited to several development opportunities and land holdings.	
Fund does not utilize forward commitments and does not actively invest in hotels or other non-core property types.	

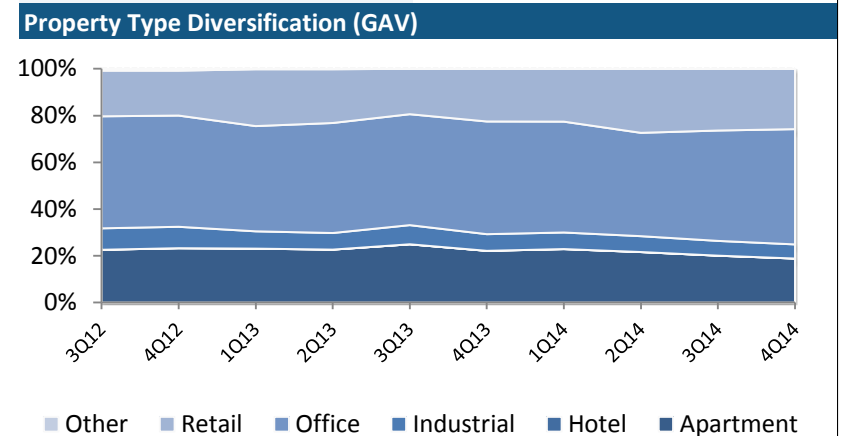
Occupancy		
	Fund	Peer Group Median
Office	93.3%	91.0%
Industrial	96.7%	93.9%
Retail	95.2%	93.8%
Apartment	92.0%	92.7%
Total:	93.7%	93.0%

Top Ten Investments					
Property	Property Type	City	State	Fund GAV	% of GAV
Edens - SPF	Retail	Various	Various	\$1,345,126,807	3.9%
Valley Fair Mall	Retail	San Jose	California	\$750,772,903	2.2%
Royal Hawaiian Center	Retail	Honolulu	Hawaii	\$709,882,455	2.1%
DSRG - SPF	Retail	Various	Various	\$1,412,193,322	4.1%
Alliance Texas - Industrial	Industrial	Fort Worth	Texas	\$769,895,000	2.2%
1345 Avenue of the Americas	Office	New York	New York	\$1,047,273,646	3.0%
1285 Avenue of the Americas	Office	New York	New York	\$724,073,794	2.1%
Water Garden II	Office	Santa Monica	California	\$506,730,464	1.5%
Southeast Financial Center - WO	Office	Miami	Florida	\$495,547,734	1.4%
NorthPark Center JV	Retail	Dallas	Texas	\$767,736,513	2.2%
Total:				\$8,529,232,638	24.8%

Geographic Diversification		
	GAV	NAV
NE	26.8%	23.2%
ENC	5.0%	4.6%
ME	7.5%	9.0%
MTN	2.8%	3.1%
PAC	34.9%	36.4%
SE	8.6%	9.1%
SW	14.1%	14.5%
WNC	0.3%	0.1%
INT'L	0.0%	0.0%

Top Ten MSA	
MSA	% of GAV
New York-Northern NJ	17.3%
Los Angeles-Long Beach	11.0%
Dallas-Fort Worth	8.5%
Boston-Cambridge	8.1%
San Francisco-Oakland	5.4%
Houston-Sugar Land	4.8%
Washington-Arlington	4.7%
Miami-Fort Lauderdale	4.3%
Chicago-Joliet	4.1%
San Diego-Carlsbad	4.0%
Total:	72.2%

Property Diversification		
	GAV	NAV
Apartment	18.8%	22.0%
Hotel	0.0%	0.0%
Industrial	6.1%	7.8%
Office	49.3%	45.4%
Other	0.0%	0.0%
Retail	25.8%	24.8%
Self-Storage	0.0%	0.0%



Rollover				
	2015	2016	2017	2018
Office	6.2%	6.9%	9.6%	8.3%
Industrial	11.4%	14.1%	10.1%	12.4%
Retail	5.0%	8.3%	9.4%	10.1%
Total	7.7%	9.8%	9.7%	10.3%
Peer Group Average	10.2%	10.0%	11.0%	10.7%

JP Morgan Strategic Property Fund

Peer Group: Core Diversified

Structure		Fee Structure		Fee Analysis		
Legal Structure	Commingled Group Trust	Acquisition	None	<i>Estimated Fee at Investment Levels (bps)</i>		
Open to a tax-exempt pension trust or other kinds of employee benefit trusts, or funds that are qualified. Not available to foundations, endowments or taxable investors.		Investment Management	Net Asset Value All investment levels 100 Bps.	Investment Level	Fund	Peer Group Median
Minimum Investment	\$10,000,000	Incentive	None	\$0 - 10 m	100	107
Benchmark		Cash Management	Fee reduced to 15 bps for cash balances in excess of 7.5% of NAV.	\$10 - 25 m	100	104
NFI-ODCE total return target, driven by income				\$25 - \$50 m	100	99
				\$50 - 100 m	100	95
				\$100 - 500 m	100	91
				\$500 + m	100	89
				<i>Actual Fund Level Fee Differential</i>		
					Fund	Peer Group Median
				1 year	1.12%	0.98%
				3 year	1.16%	0.99%
				5 year	1.19%	1.03%
				10 year	1.11%	0.92%
Investment Guidelines		Valuation Policy				
Target Leverage	25-30%	Properties		Third party appraisals completed at least once per year and twice for assets with a NAV greater than \$100 million or GAV of \$200 million. Monthly internal valuations completed to reflect significant events only.		
Maximum Leverage	35%	Debt		Mortgage debt marked to market. Third party debt adjusted to reflect the impact of the difference between the contract interest rate on the asset's indebtedness and the prevailing market interest rate at which the face amount could be refinanced. On a loan by loan basis, the mark to market may not exceed 20% of the loan balance.		
Non-Core Maximum	15%					
Property Type Targets (GAV)						
Retail	20-25%					
Office	38-45%					
Industrial	10-15%					
Apartment	18-25%					
Governance		Redemption Policy				
SPF does not have an outside investor board or committee.		Lock-out Period	None			
		Notice Requirement to the Manager	45 days			
		Timing for Withdrawals	Quarter End			
Allocation Policy		Contributions				
Rotational system. Allocation to client whose funds have been available, but not invested for the longest period.		Deposit Queue	\$1,708,700,000			
		Timing	5 Quarters			

JP Morgan Strategic Property Fund

Peer Group: Core Diversified

Sponsor

J.P. Morgan Investment Management, Inc.

Offices	15
Real Estate Professionals	403
Private Equity Core Real Estate AUM	\$34,440,935,557
Private Equity Non-Core Real Estate AUM	\$22,642,069,579

JP Morgan Real Estate operates as a unit within J.P. Morgan Investment Management Inc. ("JPMIM"). JPMIM was founded in 1861 and has been providing services to tax exempt clients for over 80 years. It is a full service global asset management firm and an indirect, wholly owned subsidiary of JP Morgan Chase. In 2004, JP Morgan Chase merged with Banc One Corporation. It is one of the largest financial services firms globally, with assets under management of over \$1 trillion. It operates in more than 50 countries and is publicly traded on the New York Stock Exchange under the symbol "JPM".

JP Morgan Real Estate is run by Joe Azelby (Head of Assets) and Ben Gifford (Chief Investment Officer). They are supported by over 200 investment professionals headquartered in New York with offices in Chicago, Houston, Los Angeles and London.

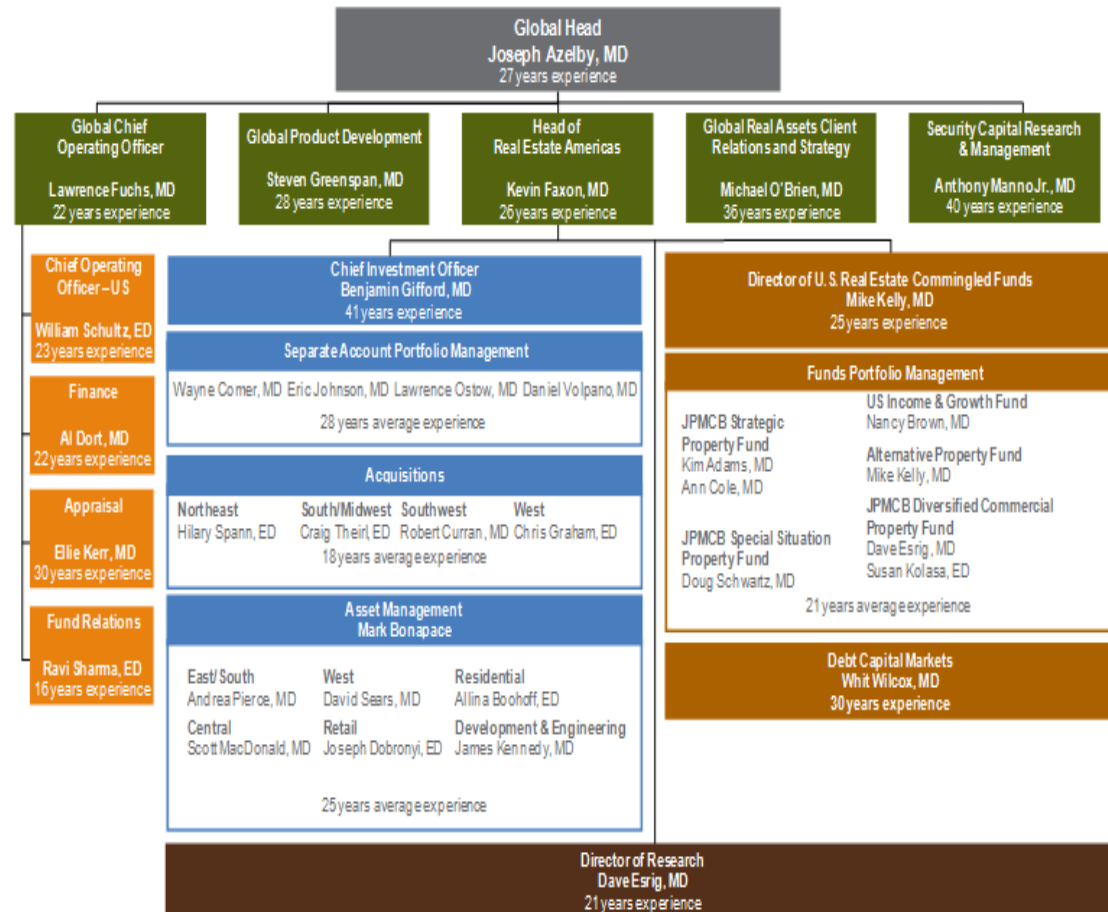
Investment Committee

Name	Title	Real Estate Exp
Benjamin Gifford	Chief Investment Officer	42
Ann Cole	Portfolio Manager	25
Kim Adams	Portfolio Manager	20
Kevin Faxon	Head of Real Estate Americas	27
Al Dort	Head of Real Estate Financial Group	23
James Kennedy	Head of Real Estate Development & Engineering Group	24
Steven Greenspan	Global Director of Product Development	29
Mark Bonapace	Head of Asset Management	21
Ellie Kerr	Director of Valuations	31
Andrea Pierce	Asset Management - East/South	26

Contact Information

Name	Title	Phone #	E-Mail
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John Faust	Marketing Contact	(415) 315-5164	john.f.faust@jpmorgan.com

Organizational Chart

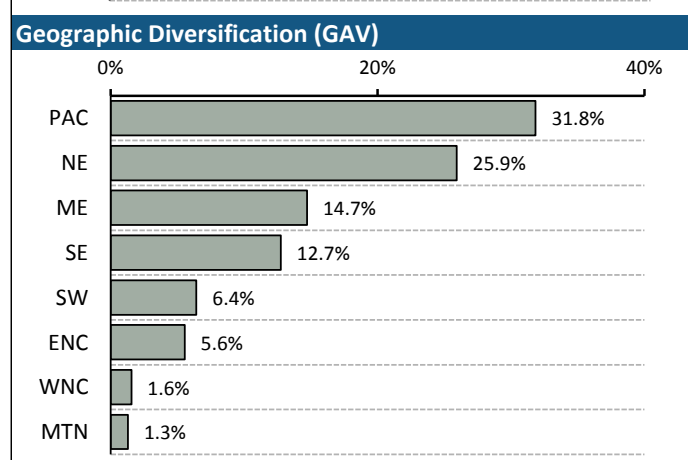
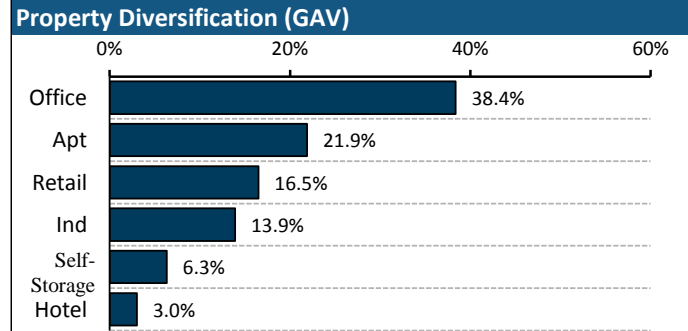


Appendix C: Summary of PRISA



Fund Manager	
Manager	Prudential
Senior Portfolio Manager	Cathy Marcus
Portfolio Manager	Joanna Mulford
Assistant Portfolio Manager	Nicole Stagnaro

Fund Facts	
Inception Date	March 31, 1978
Gross Real Estate Assets	\$17,826,691,830
Net Asset Value	\$14,579,334,462
Leverage	21.9%
Cash Balance	1.9%
Number of Investments	263
Deposit Queue	\$2,007,260,606
Timing to Invest	6 Quarters
Redemption Queue	\$0



Fund Snapshot

Platform

PREI (Prudential Real Estate Investors) has undergone significant platform changes. Effective September 2013, Eric Adler became CEO of PREI in replacement of Allen Smith who left to become CEO of Four Seasons Hotels and Resorts after 26 years of service. Mr. Adler joined PREI in 2010 and received a subsequent promotion to the role of Global CIO in January 2013 under a long-term succession effort for the CEO role. In August 2013, Frank Garcia joined PREI as Portfolio Manager for PRISA; he was previously a portfolio manager at RREEF (now "DWAM"). In May 2014, Lee Meniffee joined PREI from American Realty Advisors as Head of Americas Investment Research.

Prudential Real Estate Investors ("PREI") has combined its U.S. and Latin America businesses into one Americas platform. Kevin R. Smith, currently head of PREI's U.S. business, will become the head of the Americas platform, and Alfonso Munk, currently head of PREI's Latin America business, will become the chief investment officer of the Americas platform. Cathy Marcus, who is currently senior portfolio manager of PRISA, will be taking the role of global chief operating officer of PREI in January 2015. At that time, Frank Garcia will become senior portfolio manager of PRISA. Cathy will be aiding Frank in the transition of the Fund through the end of 2015. In the third quarter 2014, James Glen joined PREI as portfolio manager of PRISA. Mr. Glen previously served as Global Head of Research & Strategy at Blackrock's real estate group.

Performance

The Fund realized a gross return of 3.83% for the quarter, above the NFI-ODCE gross return of 3.26%. Office (38% of fund GAV) and self storage (6% of fund GAV) emerged as leading sector performers on an absolute basis. Debt mark to market adjustment was -6bps to the total return for the quarter.

The Fund's return objective is to meet or outperform NFI-ODCE over a full market cycle. PRISA is outperforming ODCE in the short and medium term, with the five-year net return +116bps ahead of NFI-ODCE. However, PRISA is underperforming ODCE for the seven- and ten-year measurement periods by -70bps and -17bps respectively.

Portfolio Characteristics

Office and Industrial exposures are neutral to NFI-ODCE. There is a small underweight to Apartment and Retail. The fund is overweight to Self Storage (NFI-ODCE doesn't report on this property type) and Hotel. The Fund's fourth quarter portfolio leverage was approximately 22%, in line with NFI-ODCE. The Fund is targeting leverage just below 30% in the upcoming quarters. Total occupancy for the fund is 90.1%, versus 92.4% NFI-ODCE.

The fund completed four acquisitions during the quarter for \$377 million across office, industrial and apartment sectors. The largest acquisition was a joint venture investment to purchase interest in Tower 46, a newly constructed office asset in Midtown Manhattan for \$300 million. The fund sold five investments during the quarter for \$147 million across office, industrial and apartment sectors. The largest disposition was Sunset Corporate Campus, an office asset in Seattle, WA, for \$91 million.

The entry queue stood at \$2.0 billion subsequent to quarter-end, which would take 5-6 quarters to deploy.

Policies

PRISA has one of the most competitive fee structures and is a market leader in investor friendly policies and transparency. Fee structure includes a low base management fee calculated on net cost with a cash flow based incentive that is capped at levels that compare favorably to the peer group. Concerns regarding leverage and forward commitments that had negatively impacted the 'Policies' ranking in prior quarters have been materially mitigated.

Processes

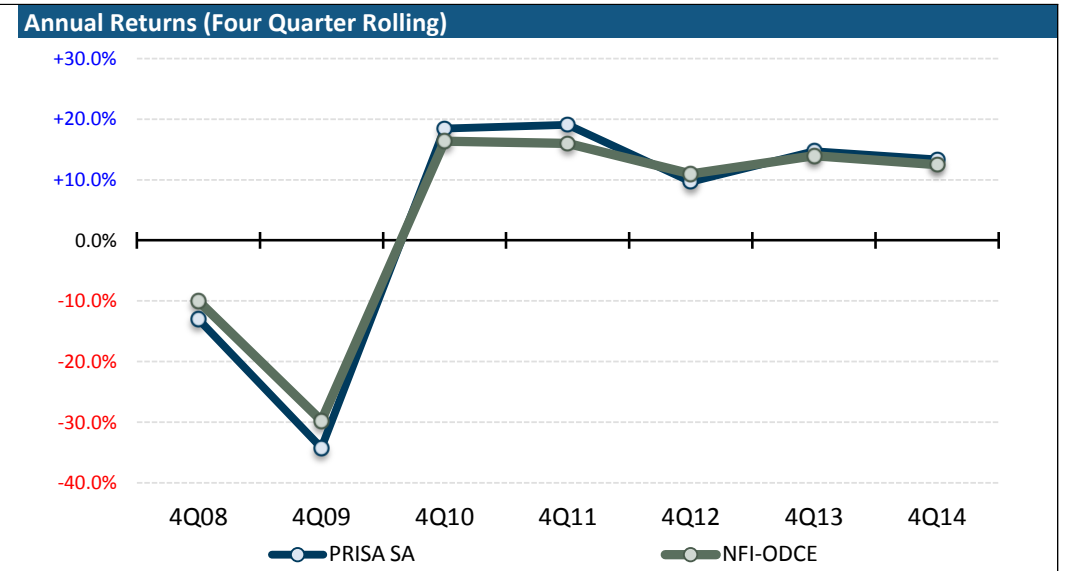
Processes information goThe Fund benefits from the ability to segment large deals and utilize other Prudential capital sources to execute the transactions. Prudential's deep network of partners has generated a significant deal pipeline, which is attractive in today's market given the heightened competition for core properties.

Quarterly Fund Returns							Percentile Rank	
	Income	Appreciation	Gross	Net	ODCE Gross	ODCE Net	Gross	Income
12/31/2014	1.25%	2.58%	3.83%	3.64%	3.26%	3.02%	82%	82%
9/30/2014	1.32%	1.84%	3.16%	2.97%	3.24%	3.00%	23%	23%
6/30/2014	1.20%	2.08%	3.28%	3.10%	2.93%	2.69%	91%	91%
3/31/2014	1.18%	1.27%	2.45%	2.27%	2.52%	2.29%	41%	41%

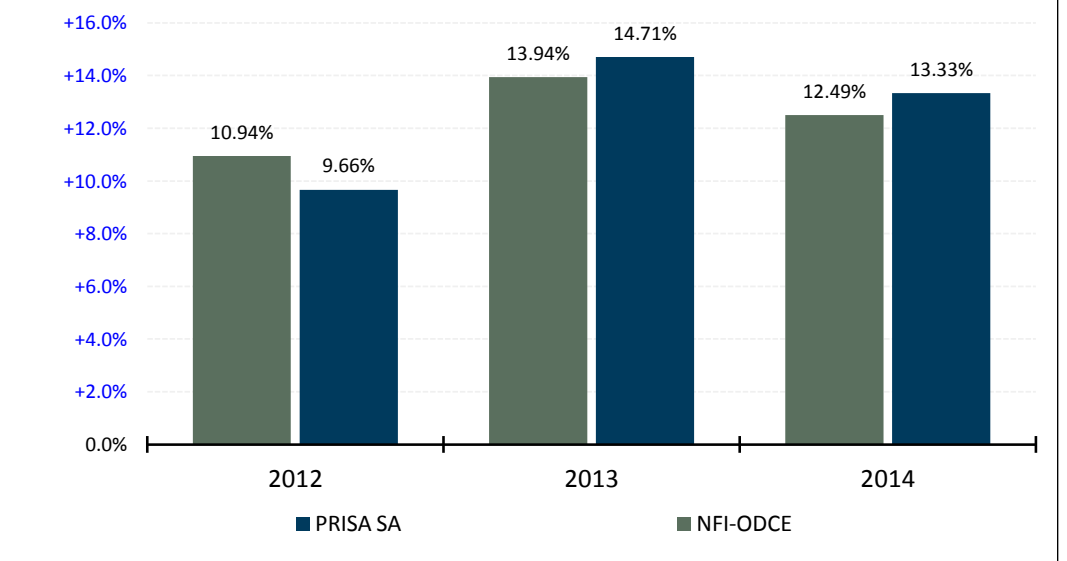
Annualized Fund Returns							Percentile Rank	
	Income	Appreciation	Gross	Net	ODCE Gross	ODCE Net	Gross	Income
1 year	5.04%	7.99%	13.33%	12.52%	12.49%	11.46%	68%	41%
3 year	5.28%	6.99%	12.55%	11.68%	12.45%	11.38%	53%	63%
5 year	5.73%	8.89%	14.99%	14.01%	13.93%	12.86%	80%	73%
7 year	5.87%	-3.70%	2.02%	1.16%	2.80%	1.86%	27%	87%
10 year	6.11%	0.68%	6.83%	5.94%	7.11%	6.11%	46%	100%
SI (1Q78)	7.86%	0.93%	8.84%	7.76%	8.59%	7.52%		

Risk Adjusted Measures							Beta	
	Std Dev	Peer Rank	Sharpe Ratio	Peer Rank	Information Ratio	Peer Rank	Beta	Peer Rank
3 year	1.39%	69%	8.544	68%	0.094	53%	1.090	26%
5 year	3.50%	13%	4.073	33%	0.422	73%	1.257	27%
7 year	12.13%	20%	0.200	20%	-0.168	33%	1.184	13%
10 year	10.76%	23%	0.549	23%	-0.028	54%	1.183	15%

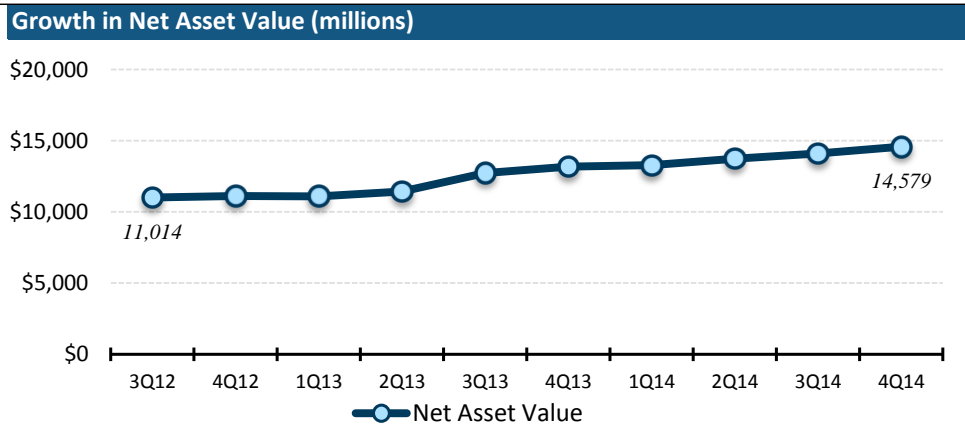
Unlevered Property Type Returns						
	1 Year		3 Year		5 Year	
	Gross	Excess	Gross	Excess	Gross	Excess
Apartment	8.0%		10.0%		13.7%	
<i>NPI Apartment</i>	10.3%	-2.3%	10.7%	-0.7%	13.1%	0.7%
Office	15.6%		10.9%		12.8%	
<i>NPI Office</i>	11.5%	4.1%	10.3%	0.6%	11.3%	1.6%
Industrial	11.2%		11.7%		11.2%	
<i>NPI Industrial</i>	13.4%	-2.2%	12.1%	-0.4%	12.1%	-0.9%
Retail	9.3%		9.9%		9.9%	
<i>NPI Retail</i>	13.1%	-3.8%	12.5%	-2.6%	12.8%	-2.9%
Hotel	0.8%		10.0%		11.9%	
<i>NPI Hotel</i>	11.1%	-10.3%	9.0%	1.0%	9.5%	2.3%
Total	11.4%		10.9%		12.3%	
<i>NPI</i>	11.8%	-0.4%	11.1%	-0.2%	12.1%	0.2%



Calendar Year Returns							
	2014	2013	2012	2011	2010	2009	2008
Total Gross	13.33%	14.71%	9.66%	19.08%	18.43%	-34.25%	-12.96%
ODCE Gross	12.49%	13.94%	10.94%	15.99%	16.36%	-29.76%	-10.00%
Peer Group	12.60%	13.71%	11.72%	16.25%	16.77%	-29.76%	-10.32%
Excess Return over ODCE	0.84%	0.77%	-1.28%	3.08%	2.07%	-4.48%	-2.96%



Balance Sheet	
Gross Real Estate	\$17,826,691,830
Net Real Estate	\$14,930,191,581
Net Asset Value	\$14,579,334,462
Leverage	21.9%
Cash Balance	1.9%
Number of Investments	263



One Year Projections	
Fund Performance	9.5%
NOI Growth	4.3%

Fund Valuation	
Discount Rate	7.2%
Peer Group Median	7.0%
Forward Cap Rate	4.9%
Peer Group Median	5.0%

	Apartment	Industrial	Office	Retail	Hotel
Discount Rate	6.8%	7.2%	6.8%	7.6%	9.5%
Peer Group Median	6.7%	7.1%	7.0%	6.8%	9.3%
Forward Cap Rate	4.6%	5.6%	4.2%	6.1%	6.9%
Peer Group Median	4.6%	5.4%	5.1%	5.4%	6.3%

Non-Core Exposures	
Percentage of NAV	7.6%
Lease-up: 65.7%	
Office - 46.8% (62.6% Leased)	
Retail - 6.9% (61.2% Leased)	
Industrial - 3.6% (28.1% Leased)	
Land: 13.7%	
Mezz & Loans: 14.5%	
Development: 14.5%	

Occupancy		
	Fund	Peer Group Median
Office	87.7%	91.0%
Industrial	91.6%	93.9%
Retail	91.6%	93.8%
Apartment	92.2%	92.7%
Total:	90.1%	93.0%

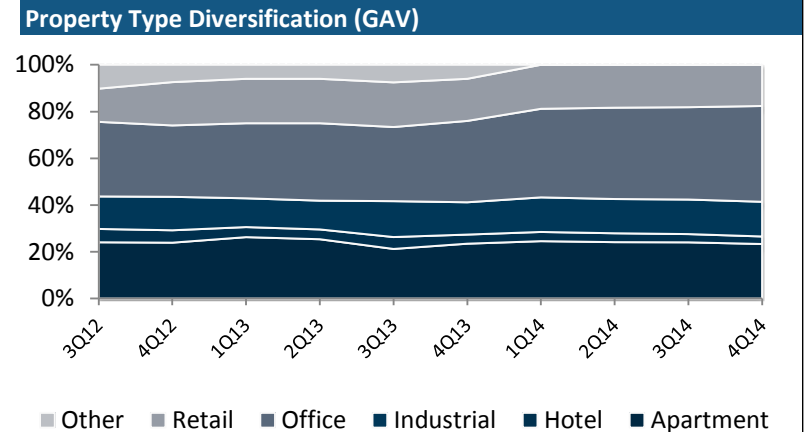
Top Ten Investments					
Property	Property Type	City	State	Fund GAV	% of GAV
Eleven Times Square	Office	New York	New York	\$1,297,683,500	7.0%
International Place	Office	Boston	Massachusetts	\$1,085,249,000	5.9%
The Fillmore Center	Apartment	San Francisco	California	\$538,900,000	2.9%
Post Montgomery Center	Office	San Francisco	California	\$514,000,000	2.8%
100 Park Avenue	Office	New York	New York	\$385,770,000	2.1%
1800 M Street	Office	Washington	District of Columbia	\$291,000,000	1.6%
Annapolis Towne Centre	Retail	Annapolis	Maryland	\$289,280,800	1.6%
Tower 46	Office	New York	New York	\$225,100,643	1.2%
1111 Brickell	Office	Miami	Florida	\$221,000,000	1.2%
Democracy Center	Office	Bethesda	Maryland	\$217,000,000	1.2%
Total:				\$5,064,983,943	27.5%

Geographic Diversification		
	GAV	NAV
NE	25.9%	21.1%
ENC	5.6%	5.6%
ME	14.7%	14.6%
MTN	1.3%	1.3%
PAC	31.8%	35.8%
SE	12.7%	13.1%
SW	6.4%	7.0%
WNC	1.6%	1.6%
INT'L	0.0%	0.0%

Top Ten MSA	
MSA	% of GAV
New York	18.6%
So. California	16.5%
Washington	12.5%
San Francisco	12.2%
Boston	7.0%
Southern Florida	6.8%
Chicago	5.2%
Dallas	3.6%
Other Florida	3.1%

Property Diversification		
	GAV	NAV
Apartment	21.9%	19.4%
Hotel	3.0%	3.9%
Industrial	13.9%	15.5%
Office	38.4%	35.8%
Other	0.0%	0.0%
Retail	16.5%	17.5%
Self-Storage	6.3%	8.0%

Total:	85.5%
---------------	--------------



Rollover				
	2015	2016	2017	2018
Office	6.8%	9.1%	8.7%	10.8%
Industrial	9.9%	13.9%	11.7%	11.6%
Retail	6.1%	12.8%	9.9%	10.1%
Total	6.9%	10.5%	8.9%	9.5%
Peer Group Average	10.2%	10.0%	11.0%	10.7%

Structure		Fee Structure	
Legal Structure	Private REIT	Acquisition	None
Open for investment by qualified pension plans, foundations, endowments, other tax-exempt institutional investors and taxable investors.		Investment Management	Based on Invested Capital And Annual Rate Paid On NAV First \$10 m: 100 bps \$10-25 m: 95 bps \$25-50 m: 90 bps \$50-100 m: 85 bps \$100m or greater: 65 bps
Minimum Investment	\$1,000,000	Incentive	3% operating cash flow for first \$100 million of NAV and 2.5% for \$100 million +.
Benchmark		Cash Management	10 Bps of proportional share of PRISA's cash position
Meet or outperform NFI-ODCE over a full market cycle.			
Investment Guidelines			
Target Leverage	22-25%		
Maximum Leverage	30%		
Non-Core Maximum	10%		
Property Type Targets (GAV)		Valuation Policy	
Retail	15-17%	Properties	
Office	35-37%	Third party appraisals completed at least once annually. Independent firm (PWC) to maintain day to day operations of appraisal process.	
Industrial	13-15%	Debt	
Apartment	23-25%	Utilizes methodology that reflects accepted practice within the industry. Mortgage debt marked to market.	
Hotel	3-5%		
Self Storage	5-7%		
Governance		Redemption Policy	
Advisory Council comprised of investors and consultants that provides input to management, but has no decision-making authority.		Lock-out Period	None
		Notice Requirement to the Manager	90 Days
		Timing for Withdrawals	Quarter End
Allocation Policy		Contributions	
Allocation Committee, comprised of the managing directors, Portfolio Management, Transactions and Research, to allocate each investment opportunity to an interested account.		Deposit Queue	\$2,007,260,606
		Timing	6 Quarters

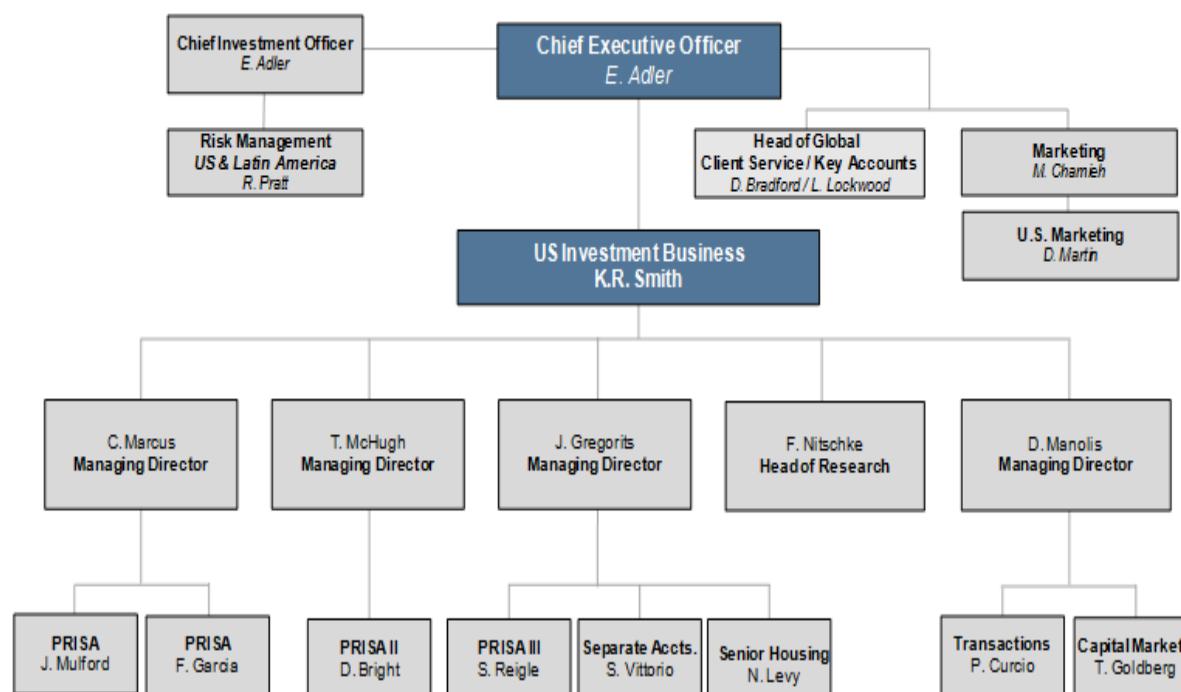
Sponsor

Prudential Real Estate Investors		
Offices		19
Real Estate Professionals		647
Private Equity Core Real Estate AUM	\$30,971,649,601	
Private Equity Non-Core Real Estate AUM	\$12,491,170,054	

Prudential Real Estate Investors (“PREI”) was founded in 1970 and operates primarily through Prudential Investment Management Inc., a registered investment advisor and a subsidiary of Prudential Financial, Inc. Prudential Investment Management, Inc. became a Registered Investment Adviser with the Securities and Exchange Commission in 1984. PREI’s parent company is Prudential Financial, Inc. which became a publicly traded company in 2001 and trades on the NYSE under the ticker symbol “PRU”. PREI is headquartered in Parsippany, New Jersey, and has seventeen additional offices located throughout the United States, Asia, and Latin America.

Contact Information			
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Nicole Stagnaro	Portfolio Manager	(973) 683-1640	nicole.stagnaro@prudential.com
Larry Teitelbaum	Marketing Contact	(973) 683-1629	larry.teitelbaum@prudential.com
Frank Garcia	Sr. Portfolio Manager	(415) 486-3802	frank.e.garcia@prudential.com
James Glen	Portfolio Manager	(973) 683-1686	james.glen@prudential.com

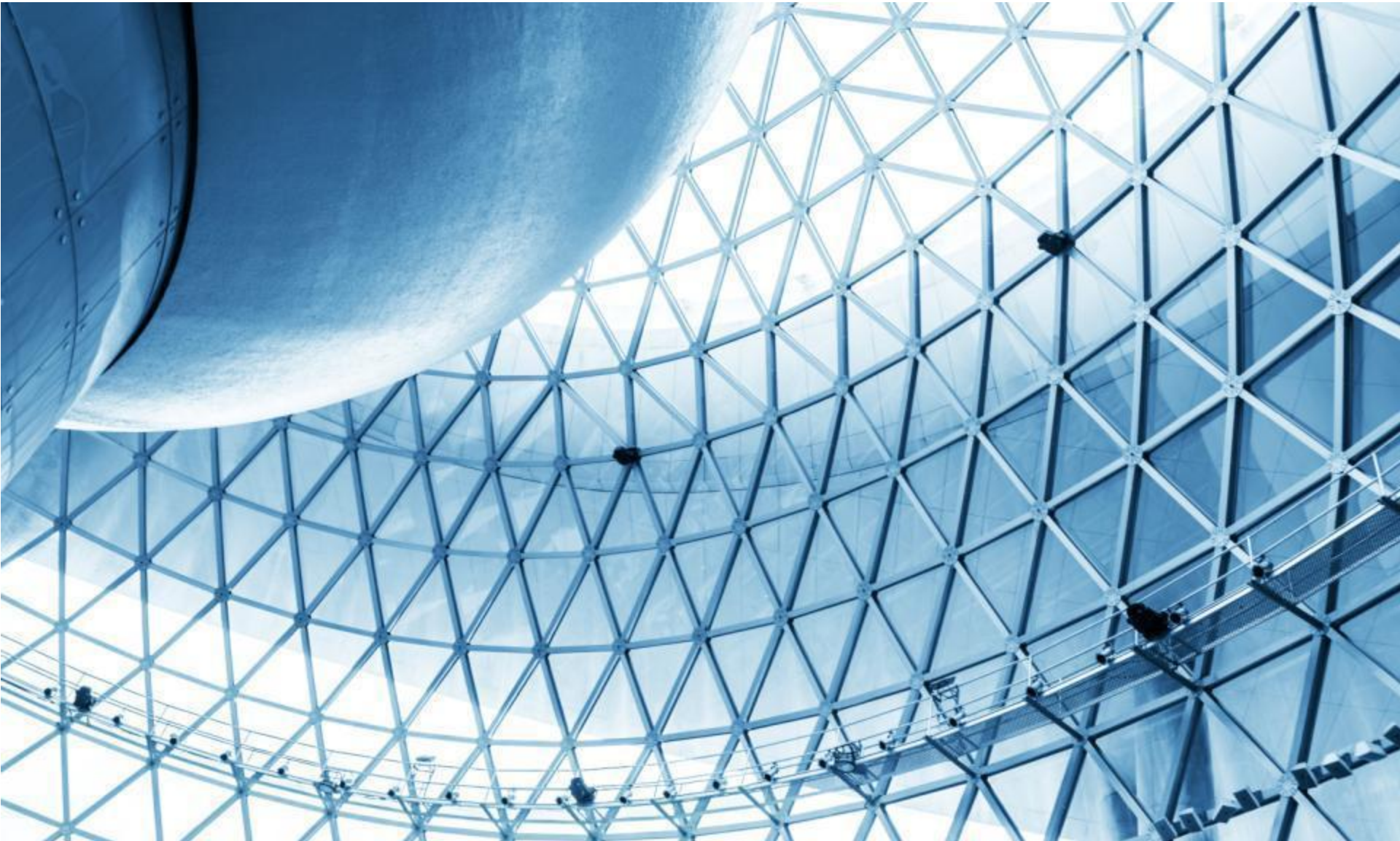
Organizational Chart



Investment Committee

Name	Title	Real Estate Exp
Philip Barrett	Chief Investment Risk Officer	22
Noah Levy	Senior PM, Senior Housing Partners	24
Damian Manolis, Chair	Head of U.S. Transactions Group	21
Cathy Marcus	Senior PM, PRISA	26
Terry McHugh	Senior PM, PRISA II & III	36
Frank Nitschke	Head of U.S. Research	21
Kevin R. Smith	Head of U.S. Investment Business	33
Steve Vittorio	Senior PM, Single Client Accounts	30

Appendix D: Summary of Townsend's Review Process



Townsend Due Diligence & Underwriting Process

RIGOROUS, SYSTEMATIC ANALYSIS YIELDS BETTER CLIENT OUTCOMES

TRACK RECORD

- Asset-by-asset review
- Peer group and vintage year (realized vs. unrealized)
- Study of mistakes
- Style drift
- Growth in fund sizes
- Capital pacing
- Pre-specified investments
- Pipeline

PEOPLE & PLATFORM

- Depth, breadth, turnover
- History, culture, ownership
- Experience in execution
- Sourcing
- Asset management
- Reference checks
- Performance attribution
- Focus on creating franchise value
- Parents/affiliates
- Prior litigation

ALIGNMENT OF INTERESTS

- Compensation structure
- Material co-invest capital
- Pooled carried interest
- Clawback provisions
- Moderate catch-up
- Sufficient carry dispersion
- Vesting schedule
- Exclusivity
- Investment allocation

RISK CONTROLS

- Portfolio constraints
- Investment guidelines
- Investment process
- Reporting and transparency
- Key person triggers
- Auditors and accountants
- Legal representation
- Insurance and liability
- Regulatory compliance

MARKET RISK

- Macro/micro economics
- Geographic focus
- Demographics
- Geopolitical issues
- Foreign direct investment
- Currency
- Concentration

Townsend Due Diligence & Underwriting Process

DISCIPLINED SELECTION DRIVES VALUE IN FUND AND DIRECT INVESTING

Robust Pipeline | Unique Deal Access and Sourcing

TOWNSEND GLOBAL INVESTMENT OUTLOOK



Townsend Global Investment Platform

A GLOBAL FOOTPRINT OF INVESTMENT SKILLS WITH REGIONAL AND SECTOR EXPERTISE

Cleveland | San Francisco | London | Hong Kong

REGIONAL EXPERTS

North America

Jay Long	Jeff Barone
John Schaefer	Ryan Komppa
Scott Booth	Zane Hemming
Chris Lennon	Mate Zuzic
Tony Pietro	
Brian Woods	

Latin America

Mike Golubic
Jack Koch

Europe

Damien Smith
Kieran Farrelly
Vanessa Sloan
Nick Rush
Lu Liu

Asia

Nick Wong
Joseph Tang
Min Lim
Daniel Choi
Kelson Cheng
Hyun Tae Yim

SECTOR EXPERTS

Public Markets

Chris Lennon
Prashant Tewari

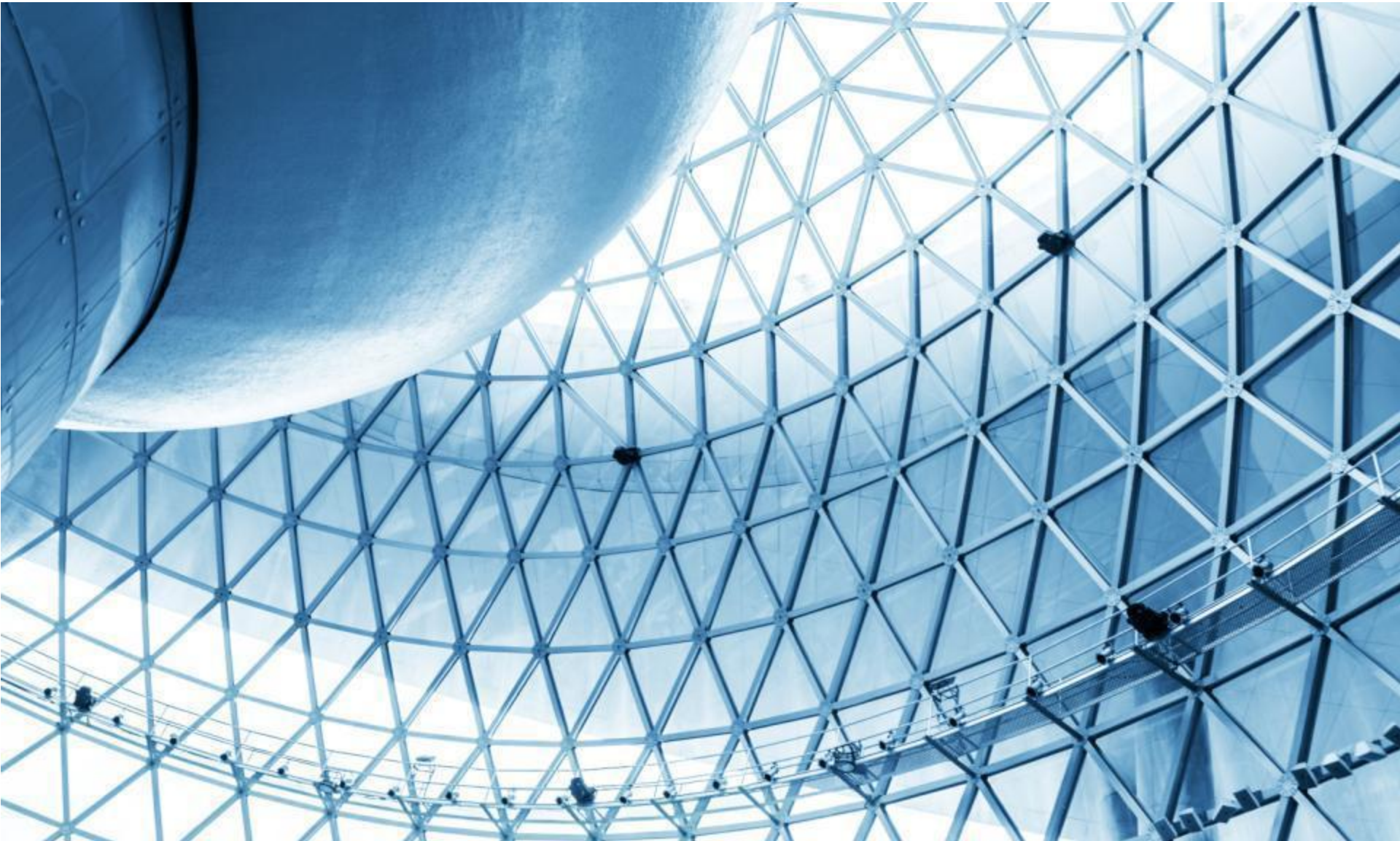
Special Situations Investing

Rob Davies	John Kropke
Rob Caravella	Zachary Segal
Clark Seiling	Disheng Lin

Infrastructure, Agriculture, and Timber

Mike Golubic	Prashant Tewari
Jay Long	Morgan Angus
Kevin Rivchun	Lilia Stoyanova
Dick Brown	Ishika Bansal

Appendix E: Liquidity Analysis



Liquidity Analysis

- We anticipate that substantial progress can be made over the next five years.
- Additional progress could be made during that time. Projections will be refined based on guidance from DPFPS' fiduciaries

Notes to Graph:

- Includes the equity investment in RCH, which is held in the private equity portfolio.
- For discussion purposes, this presentation uses portfolio classifications that differ from those used in standard reports.
- "Loans to RCH" include preferred equity investments that function as loans in many respects.
- Figures exclude (i) 4100 Harry Hines Office (which was transferred out of real estate), (ii) an Invesco asset that was sold in Q4, and (iii) assets that have been liquidated but are carrying a cash balance.
- Medium-Term Holdings includes the Museum Tower Funding Obligation.
- Excludes P&F Real Estate which was transferred to Farmland effective 2Q15.

