



***Summit Strategies Group***

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**Real Estate Overview**

**City of Jacksonville  
Police & Fire Pension Fund**

*May 2015*

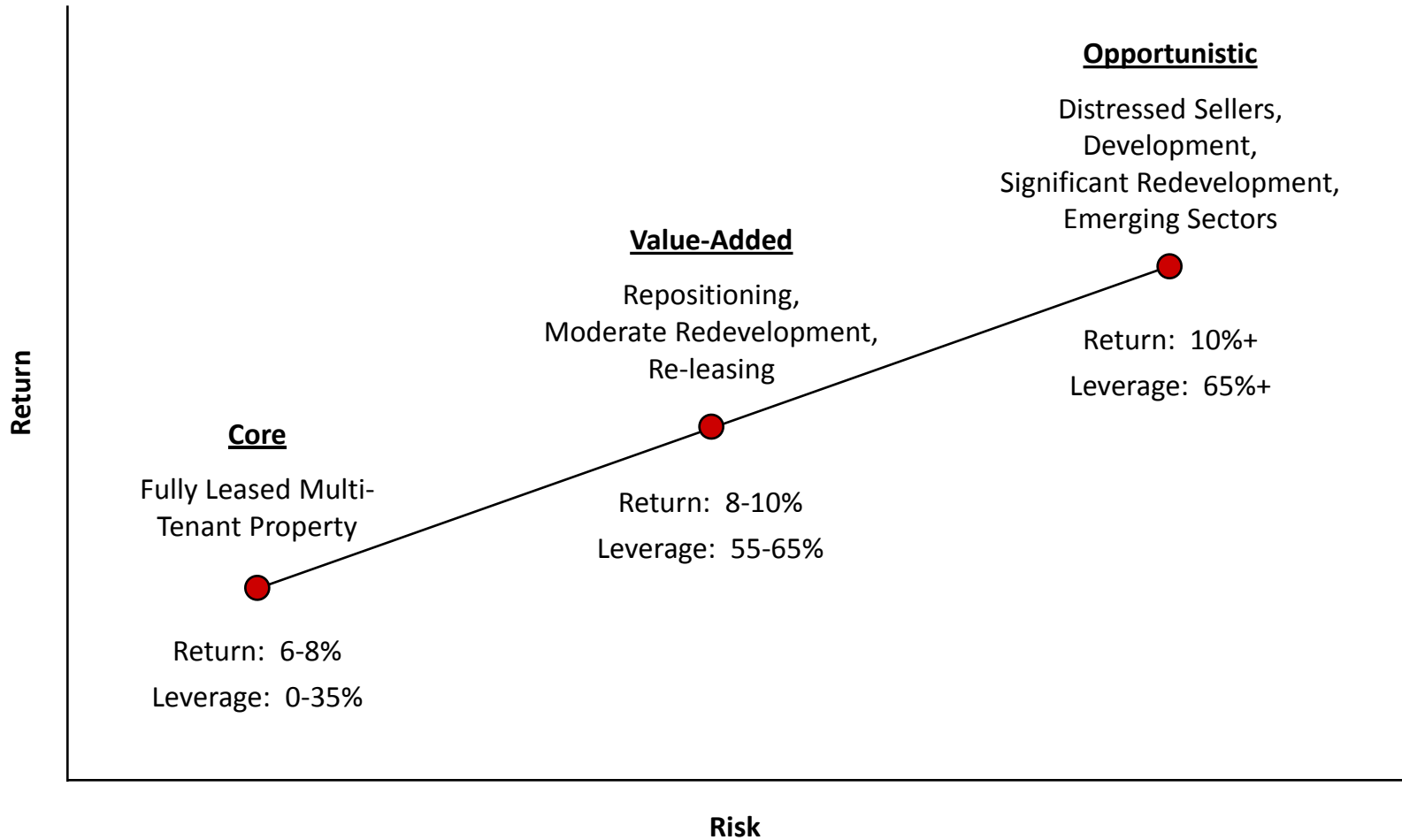
## WHY INVEST IN REAL ESTATE?

- **Good diversifier relative to stocks and bonds.**
  - 30-year correlation of 0.12 to stocks and -0.11 to bonds.
- **Long-term inflation hedge.**
  - Replacement costs (land value and labor) are inputs into property values.
  - Property leases tend to rise with CPI over the long term.
- **Current Income.**
  - Core Real Estate has an average yield spread of 300bps above U.S. Treasuries for the last 20 years.
  - Core funds currently have annual income distribution yields ranging from 4-5%.
- **Smoothed return stream.**
  - There is no continuous trading market for private real estate; the appraisal-based valuation methodology used in private real estate results in a smoothed and lagged return time series.
- **Inefficient Markets.**
  - While many properties are sold using intermediaries/brokers, a significant number of properties are traded off-market.

## THREE WAYS TO INVEST IN REAL ESTATE

- Private Real Estate
  - Open-End Core
    - Quarterly liquidity based on investment size and managers queue to invest and redeem.
  - Private Non-Core
    - Typical Private Equity structure with lock up periods that range from 8 to 10 years.
- REIT Securities
  - Most liquid form of real estate investing
  - Invest alongside multiple REITs both Domestic and Global
- Real Estate Fund of Funds
  - Similar to REIT Securities but invest in multiple private real estate funds through one manager
  - Similar terms to Private Real Estate / Private Equity Funds with lock-up periods ranging from 10-12 years

STRATEGY OVERVIEW



## HOW TO INVEST IN REAL ESTATE?

- **Implementation Considerations**

1. **Liquidity** – private real estate quarterly liquid (Core Real Estate), and illiquid (Non-Core Partnership) options.
2. **Risk/Return Profile** – Core Real Estate (Low) up to Opportunistic (High)
3. **Emphasis of Current Income** – determines mix of Core vs. Non-Core Real Estate
4. **Allocation vs. Manager Selection** – allocation decision more important for Core Real Estate, while the manager decision is more important for Non-Core Real Estate.

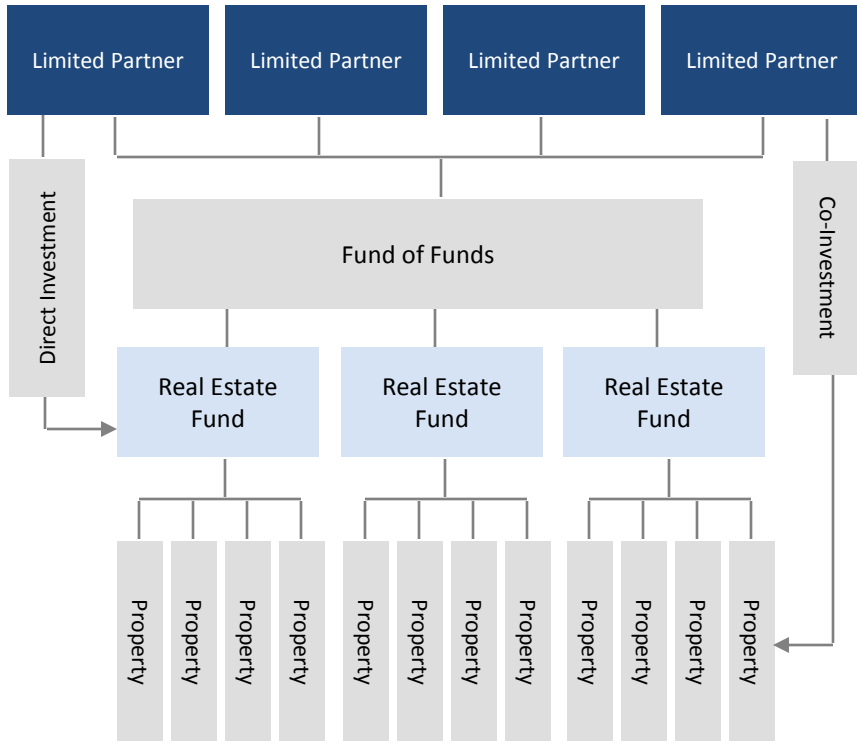
	Non-Core Real Estate		
	Core Diversified	Value-Added	Opportunistic
Risk	Low	Medium	High
Definition	A portfolio comprised of well leased buildings. Assets are purchased with cash flows in place from generally high-grade tenants. Portfolios are diversified by geographic region and property type (office, retail, multifamily, and industrial).	A portfolio that generally includes a mix of non-stabilized investments that have less reliable income streams than core assets. The portfolio will have moderate-to-high leasing risk and have higher leverage.	A portfolio of non-stabilized investments with higher risk characteristics such as exposure to development, significant leasing risk, higher leverage, or a combination of each.
Expected Return	6-8%	8-10%	10%+
Return Component	Income component will be primary source of return	Income present, but majority of return from asset appreciation	Income is not a focus; appreciation will comprise most of the total return
Portfolio Leverage	< 35%	55% - 65%	> 65%
Fee Structure	1.0% management fee only	1.5% + 20% (pref return 8-9%)	1.5% + 20% (pref return 8-9%)
Lifecycle	Operating	Operating, Leasing	Renovation, Leasing, Development

## NON-CORE REAL ESTATE: IMPLEMENTATION RECOMMENDATION

- **Summit recommends the use of direct fund commitments for clients with non-core real estate target allocations of \$25m or more.**
- Direct partnership commitments have the following benefits relative to fund of funds:
  - Lower fees and increased deployment pace
  - Customization, control of actual fund manager
  - Improved transparency and faster reporting
- Fund of funds offer the following benefits for smaller sized fund commitments:
  - A more diversified portfolio of real estate through a single manager
  - Exposure to both primary investment funds and secondary opportunities that are not available to the general public
  - Easier way to invest in global real estate

FUND OF FUNDS: OVERVIEW

PRIVATE NON-CORE REAL ESTATE DEFINED



- **Non-Core real estate commonly refers to real estate that needs some form of improvement or real estate that has the potential to further enhance its value. The sector can include multiple types of investments, ranging from property types to sector specifics like debt vs. equity.**
- **Non-Core real estate funds are made by partnerships that involve two main constituents:**
  - **Limited Partner:** Institutions or individuals who contribute capital to a private real estate fund.
  - **General Partner:** The managing partner in a real estate investment management firm who has the right to participate in its investments.
- **A typical non-core real estate fund will invest in real estate for 2 to 4 years then hold and improve the assets within the fund for another 4 to 6 years.**
- **A Fund of Funds will invest in several non-core real estate funds at the same time in order to help Limited Partner’s establish a more diversified portfolio.**

**CURRENT NON-CORE FUND OF FUNDS**

	Partners Group Global Real Estate	Metropolitan, Carlyle	LGT Group
<b>Firm</b>			
Location	Zug, Switzerland / San Francisco, CA	New York, NY	New York, NY
Year Founded	1996	2002	1920
Ownership	Publicly Traded. SIX: PGHN	Publicly Traded. NASDAQ: CG	Privately owned
Total AUM	\$45 billion	\$194 billion	\$50 billion
Contact	Jeny Nelson	David Sherman	Tommy Brown
Phone	(415) 537-8574	(212) 812-4922	(212) 336-0681

**Product / Strategy**

Fund Name	Partners Group Global Real Estate	MREP Global VII	Crown Small Cap Real Estate Fund II "CSRE II"
Target Return	12% Net IRR - 1.5x Net Multiple	13%+ Net IRR	11% - 14% Net IRR
Target Fund Size	\$1 billion	\$300 million (based on size of other MREP Funds)	\$400 million
Target Strategy	Primary Investments 50% Secondary Investments 25% Direct Investments 25%	80% Primary Investments 20% Secondaries & Co-Investments	40% - 60% Primary Investments 30% - 40% Co-Investments 0 - 25%
Target Geography	30% North America 30% Europe 30% Asia 10% Emerging Markets	60% U.S. 40% Non-U.S.	35% - 45% Europe 25% - 35% US 15% - 20% Asia 0 - 15% Emerging Markets
Current Fund Status	Open - \$71 million closed to date	Open to end of 2015	Open - ~\$200 million closed to date
Fund Description	A true Global Fund of Funds, the team is made up of 44 professionals located in the US, Europe and Asia. Currently there are 8 seeded investments in Europe, 2 in the US and 2 in Asia.	MREP Global VII is a feeder fund that will receive contributions from three of Metropolitan's other Fund of Fund vehicles; MREP X U.S., MREP SCIF (Secondaries & Co-Investments) and MREP Int'l VI. Metropolitan Real Estate was acquired by The Carlyle Group in late 2013 to help	CSRE II will focus on small cap real estate funds that are raising between \$300 and \$600 million. LGT believes these sized funds offer more upside and offer limited competition.



**CURRENT NON-CORE FUND OF FUNDS CONTINUED**

	<b>Partners Group Global Real Estate</b>	<b>Metropolitan, Carlyle</b>	<b>LGT Group</b>
<b>Fee Structure</b>			
Annual Mgmt Fee*	0.75% for Primary Investments 1.05% for Secondary Investments 1.20% for Direct Investments 0.025% Admin Fee	Charged at Underlying Metropolitan Funds Standard fee is 1%	1.0% for commitments <\$25 million 0.75% for commitments >\$25 million
GP Carried Interest	10% on Secondary Investments 15% on Direct Investments	MREP X 3% MREP Int'l VI 5% MREP SCIF 10%	5% on Direct Commitments 10% on Secondary Commitments
Preferred Return	8%	MREP X 9% MREP Int'l VI 9% MREP SCIF 8%	9%

\*Does not include stated fees from individual fund managers

**Personnel**

Key Professionals	Pam Alsterlind Marc Weiss Nan Leake	David Sherman Andrew Jacobs Felipe Dorregaray	Joanne Douvas Tommy Brown Sascha Graf
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**CURRENT NON-CORE DIRECT REAL ESTATE MANAGERS**

	Angelo Gordon	Center Square	Contrarian Capital
<b>Firm</b>			
Location	New York, New York	Philadelphia, Pennsylvania	Greenwich, Connecticut
Year Founded	1988	1987	1995
Ownership	Privately Held	Wholly owned subsidiary of BNY Mellon	Privately Held
Total AUM	\$26 billion	\$7.5 billion	\$4.1 billion
Contact	Colleen Casey	P.J. Yeatman	Tim Percarpio
Phone	(212) 692-2293	(610) 818-4608	(203) 862-8206

**Product / Strategy**

Fund Name	Angelo Gordon Fund IX	CenterSquare Value-Added Fund III	Contrarian Distressed Real Estate Fund III
Target Return	20% net IRR	15% net IRR	15% net IRR
Target Fund Size	\$1.5 billion	\$500 million	\$450 million
Fund Strategy	Opportunistic Real Estate through debt and equities	Value-Added Real Estate Equities	Distressed Real Estate debt and equities
Target Geography	80% U.S. and up to 20% Europe and Asia	U.S. only	U.S. only
Current Fund Status	\$500 million closed as of 4/1/2015	\$100 million as of 5/1/2015	\$220 million closed as of 5/1/2015
Fund Description	<p>A truly opportunistic fund that looks to acquire sub-performing real estate properties across all property types and investment themes including but not limited to ground up development. The fund always uses a local operating partner as a joint venture in all of its investments.</p>	<p>Formerly known as Urdang Real Estate, CenterSquare changed its name after the retirement of founder and CEO Scott Urdang. CenterSquare looks to invest in primary properties in secondary markets or secondary properties in primary markets. Similar to Angelo Gordon the firm will use a local operating partner as a joint venture in all of its investments</p>	<p>Contrarian focusses on inefficiently priced, small to mid-sized property markets. The fund will purchase whole loans backed by real estate or real estate properties that have already gone through the foreclosure process (REO) and are currently owned by local and regional banks.</p> <p>The team believes there are several opportunities coming forward through the large volume of CMBS debt scheduled to mature in the next 3 years.</p>

**CURRENT NON-CORE DIRECT REAL ESTATE MANAGERS CONTINUED**

	<b>Angelo Gordon</b>	<b>Center Square</b>	<b>Contrarian Capital</b>
<b>Fee Structure</b>			
Annual Mgmt Fee*	1.5% on committed and invested capital	1.5% on committed and invested capital	1.0% on committed capital **Fee is reduced based on Summit advised clients aggregate amount >\$100 million
GP Carried Interest	20%	20%	20%
Preferred Return	9%	8.5%	9%

**Personnel**

Key Professionals	Adam Schwartz, Portfolio Manager Reid Liffmann, Managing Director Dana Roffman, Managing Director	Todd Briddell, Chief Executive Officer P.J. Yeatman, Head of Private Real Estate David Rabin, Managing Director	Gil Tenzer, Portfolio Manager Brett Rowland, Co-Portfolio Manager Michael Halperin, Senior Vice-President
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**Track Record**

Previous Funds	AG RE I: (1994) 23% net IRR / 1.9x AG RE II: (1995) 25% net IRR / 2.1x AG RE III: (1997) 3% net IRR / 1.3x AG RE IV: (1999) 9% net IRR / 1.5x AG RE V: (2001) 26% net IRR / 1.6x *AG RE VI: (2005) 3% net IRR / 1.1x *AG RE VII: (2007) 13% net IRR / 1.4x *AG RE VIII: (2011) 13% net IRR / 1.2x	Urdang Fund I: (2003) 3% net IRR / 1.2x *Urdang Fund II: (2006) 6.7% net IRR / 1.3x	Pre-Fund: (1991-2003) 17% net IRR / 1.5x Fund I: (2003) 16% net IRR / 1.5x *Fund II: (2011) 14% net IRR / 1.3x
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\* Partially realized fund

**CURRENT REAL ESTATE EXPOSURE**

**PRINCIPAL REAL ESTATE: U.S. Property Account**

Quarter Ending: March 31, 2015

**General Fund Information**

Structure	Insurance Co. Separate Account
Inception Date	1/31/1982
Termination Date	Infinite Life
L/T Return Objective	Returns = NFI-ODCE Equal Weight
Eligible Property Types	Office, Residential, Industrial, Retail, Hotel, Land
# of Investors	9,005
Maximum Leverage	33%

**Fund Characteristics**

# of Investments / Assets	129
Fund NAV (\$)	\$5.7 billion
Fund GAV (\$)	\$7.3 billion
Cash & Equivalents (% of NAV)	4%
Portfolio Leverage (%)	18%
Occupancy %	93.8% (core); 92.3% (total portfolio)
# of Metro Areas Invested	41
Wtd Avg Cost of Debt	3.6%
% Debt that is Fixed	73%
Net Investor Flows this Qtr (\$)	-\$19.6 million
Size of Contribution Queue (\$)	\$414.9 million

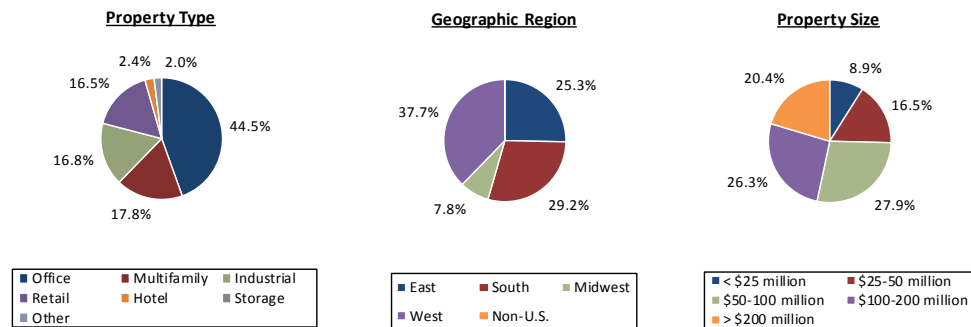
**Contact Information**

Portfolio Manager	John Berg
PM Tenure	January 1994
Address	801 Grand Avenue Des Moines, IA 50392
Phone	515-248-8261
Email	berg.john@principal.com

**General Firm Information**

Year Founded	1998
AUM (\$)	\$59.2 billion (Real Estate)

**Fund Diversification**



**Performance (% gross of fees)**

	Fund			NFI ODCE		
	Income	Apprec	Total	Income	Apprec	Total
Quarter	1.2%	1.9%	<b>3.2%</b>	1.2%	2.2%	<b>3.4%</b>
YTD	1.2%	1.9%	<b>3.2%</b>	1.2%	2.2%	<b>3.4%</b>
1-Year	5.2%	9.3%	<b>14.8%</b>	5.0%	8.2%	<b>13.5%</b>
3-Years	5.5%	8.1%	<b>13.9%</b>	5.2%	7.2%	<b>12.7%</b>
5-Years	5.8%	9.4%	<b>15.7%</b>	5.5%	8.7%	<b>14.5%</b>

**Top Six MSAs**

MSA	% of GMV
Houston, TX	9.1%
New York, NY	8.5%
Seattle, WA	7.4%
Cambridge, MA	6.8%
Los Angeles, CA	5.9%
Washington, D.C.	5.1%

**Ten Largest Investments (GMV)**

Investment Name	GMV (\$)	MSA	Type	%
Energy Center	\$457,700,000	Houston, TX	Off./Land	6.4%
1370 Ave. Americas	\$314,900,000	New York, NY	Office	4.4%
Watermark E. & W.	\$267,200,000	Cambridge, MA	MF/Ret.	3.7%
Charles Park	\$222,000,000	Cambridge, MA	Office	3.1%
Burbank Empire Ctr.	\$208,000,000	Los Angeles, CA	Retail	2.9%
112th at 12th Street	\$197,600,000	Seattle, WA	Office	2.7%
J.W. Marriott	\$176,382,892	San Antonio, TX	Hotel	2.4%
Capitol Plaza	\$174,500,000	Washington, D.C.	Office	2.4%
West Campus	\$168,600,000	Austin, TX	MF/Ret.	2.3%
150 Spear Street	\$154,200,000	San Francisco, CA	Office	2.1%

**Quarterly Fund Activity**

<b>Acquisitions</b>	
# of Investments	6
Total GMV (\$)	\$204.0 million
<b>Dispositions</b>	
# of Investments	4
Total GMV (\$)	\$130.8 million
<b>Marked to Market</b>	
# Written Up	81
# Written Down	3

**CURRENT REAL ESTATE EXPOSURE**

**JP MORGAN FLEMING: Strategic Property Fund**

**Quarter Ending: March 31, 2015**

**General Fund Information**

Structure	Commingled Pension Fund
Inception Date	1/1/1998
Termination Date	Infinite Life
L/T Return Objective	1.0% over NCREIF
Eligible Property Types	Office, Residential, Industrial, Retail, Land
# of Investors	336
Maximum Leverage	Portfolio 35%; Asset Specific 65%

**Fund Characteristics**

# of Investments / Assets	165
Fund NAV (\$)	\$25.6 billion
Fund GAV (\$)	\$35.4 billion
Cash & Equivalents (% of NAV)	2%
Portfolio Leverage (%)	27%
Occupancy %	92%
# of Metro Areas Invested	57
Wtd Avg Cost of Debt	4.3%
% Debt that is Fixed	86%
Net Investor Flows this Qtr (\$)	\$465.8 million
Size of Contribution Queue (\$)	\$1.8 billion

**Contact Information**

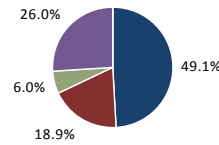
Portfolio Manager	Kimberly Adams
PM Tenure	July 2012
Address	270 Park Avenue, 7th Floor New York, NY 10017
Phone	212-648-2176
Email	kimberly.a.adams@jpmorgan.com

**General Firm Information**

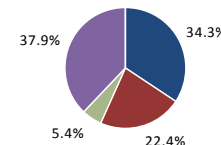
Year Founded	1871 (Firm); 1970 (Real Estate)
AUM (\$)	\$1.8 trillion

**Fund Diversification**

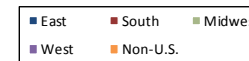
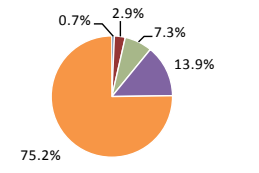
**Property Type**



**Geographic Region**



**Property Size**



**Performance (% gross of fees)**

	Fund			NFI ODCE		
	Income	Apprec	Total	Income	Apprec	Total
Quarter	1.3%	2.7%	<b>4.0%</b>	1.2%	2.2%	<b>3.4%</b>
YTD	1.3%	2.7%	<b>4.0%</b>	1.2%	2.2%	<b>3.4%</b>
1-Year	5.2%	7.3%	<b>12.9%</b>	5.0%	8.2%	<b>13.5%</b>
3-Years	5.2%	7.9%	<b>13.5%</b>	5.2%	7.2%	<b>12.7%</b>
5-Years	5.5%	8.7%	<b>14.6%</b>	5.5%	8.7%	<b>14.5%</b>

**Top Six MSAs**

MSA	% of GMV
New York-No. NJ	17.6%
Los Angeles, CA	11.0%
Dallas-Fort Worth, TX	8.5%
Boston, MA	7.9%
San Francisco, CA	5.0%
Washington, D.C.	4.7%

**Ten Largest Investments (GMV)**

Investment Name	GMV (\$)	MSA	Type	%
Donahue Schriber	\$1,469,541,728	Various	Retail	4.2%
Edens	\$1,430,154,161	Various	Retail	4.0%
1345 Ave. Americas	\$1,048,011,142	New York-No. NJ	Office	3.0%
200 Fifth Avenue	\$922,021,000	New York-No. NJ	Office	2.6%
Boston Office Port.	\$845,008,464	Boston, MA	Office	2.4%
Century Plaza Towers	\$830,246,201	Los Angeles, CA	Office	2.4%
1285 Ave. Americas	\$809,659,160	New York-No. NJ	Office	2.3%
North Park Ctr.	\$775,934,611	Dallas, TX	Retail	2.2%
Alliance Texas	\$770,986,383	Dallas, TX	Industrial	2.2%
Valley Fair Mall	\$749,338,206	San Jose, CA	Retail	2.1%

**Quarterly Fund Activity**

<b>Acquisitions</b>	
# of Investments	2
Total GMV (\$)	\$219.2 million
<b>Dispositions</b>	
# of Investments	5
Total GMV (\$)	\$299.9 million
<b>Marked to Market</b>	
# Written Up	66
# Written Down	18