

Memorandum

Date: May 22, 2013
To: CCCERA Board of Retirement
From: Timothy Price, Chief Investment Officer; Chih-chi Chu, Investment Analyst
Subject: Real Estate Investments in Value-Added Strategy

Recommendation

We recommend the Board make a capital commitment of up to \$35 million to Invesco Real Estate Fund III (IREF III) and a separate commitment of up to \$25 million to Long Wharf Real Estate Partners IV (LWREP IV), subject to successful due diligence and legal review. The resulting total commitment amount of \$60 million to Value-Added strategy is consistent to the \$240 million real estate deployment plan approved by the Board on May 1, 2013.

CCCERA has a long relationship with both firms, with the prior commitments listed below.

Fund	Commitment Date	Commitment Size
IREF Fund I	October, 2003	\$50 million
IREF Fund II	May, 2007	\$85 million
Fidelity Real Estate Fund II	February, 2004	\$50 million
Fidelity Real Estate Fund III	March, 2007	\$75 million

This memo will evaluate IREF III and LWREP IV separately, including both firms' track records compared to their vintage peer groups, the review on CCCERA's existing investments with both firms, a preview of the opportunities in IREF III and LWREP IV and the fund terms.

Invesco Real Estate Fund III

Overview

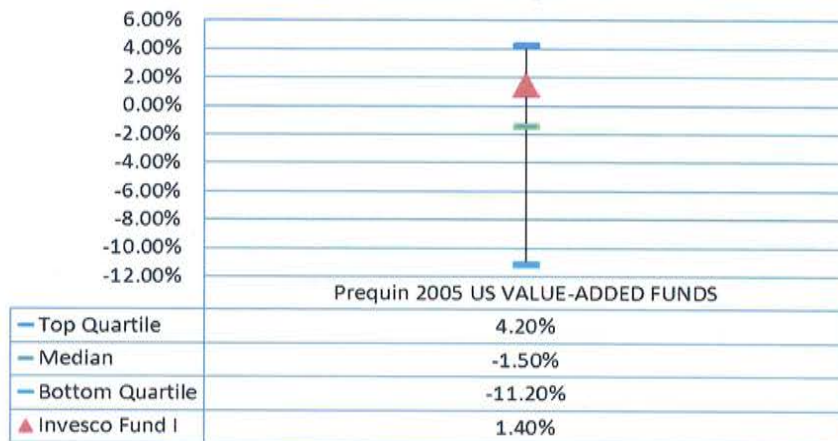
Invesco Real Estate is in the final stage of fundraising for IREF III, a Value-Added real estate closed-end fund with a target size of \$400 million. Since the fund's launch in May 2011, IREF III has had various closings and investors have committed \$305 million to the fund. The final close date is set for June 30, 2013. Due to the length of the fundraising period and the investment pace of the fund, IREF III is currently 40% committed with 6 investments acquired.

Headquartered in Dallas with worldwide regional offices, Invesco Real Estate was founded in 1983 as the real estate investment platform of Invesco Ltd. Invesco Ltd. has over \$600 billion of assets under management, including over \$50 billion in Invesco Real Estate. Invesco Real Estate has grown its assets under management from \$26 billion in 2008 to \$48 billion in 2011 and its staff from 219 to 327 during the same period. It also completed an acquisition (without incurring debt) of AIG's Asia Real Estate Group at the beginning of 2011.

Peer Comparison of IREF I & II's Investment Performance

Both Invesco Real Estate Funds I and II have come back strongly from the 2008/09 financial crisis in terms of growth of NOI (net operating income) and the number of sales of investments. However, both funds had suffered investment losses in CMBS (Commercial Mortgage-Backed Securities), with Fund I more severely impacted than Fund II. It should be noted that due to the past experiences, IREF III will be contractually prohibited from investing in CMBS. The performance of IREF I and II is shown the following charts relative to their vintage year groups.

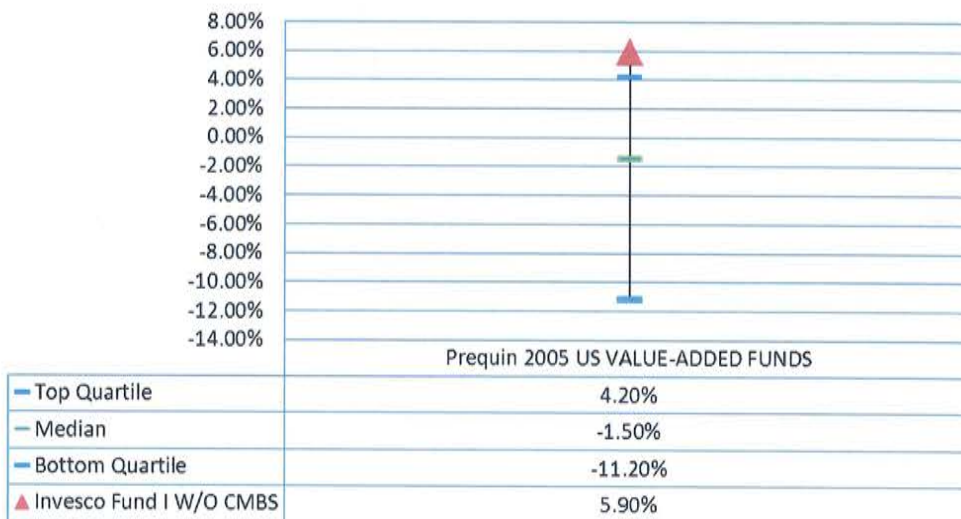
IREF I Peer Comparison Vintage Year 2005



Shown above, as of March 31, 2013, IREF I's gross IRR is 1.4%, which is placed in the second quartile among the peer group. Not shown here, its equity multiple is 1.06X, also placed between the first quartile's 1.15X and the median's 0.92X.

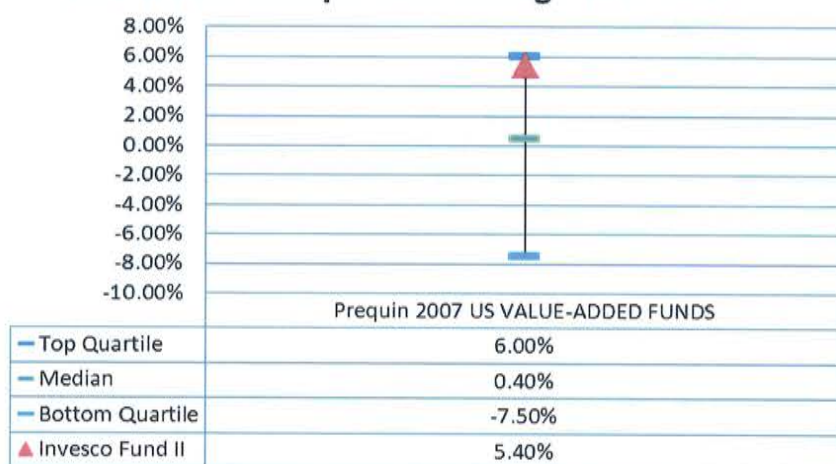
The following comparison excludes Fund I's investments in CMBS.

IREF I Peer Comparison Vintage Year 2005 (ex - CMBS)



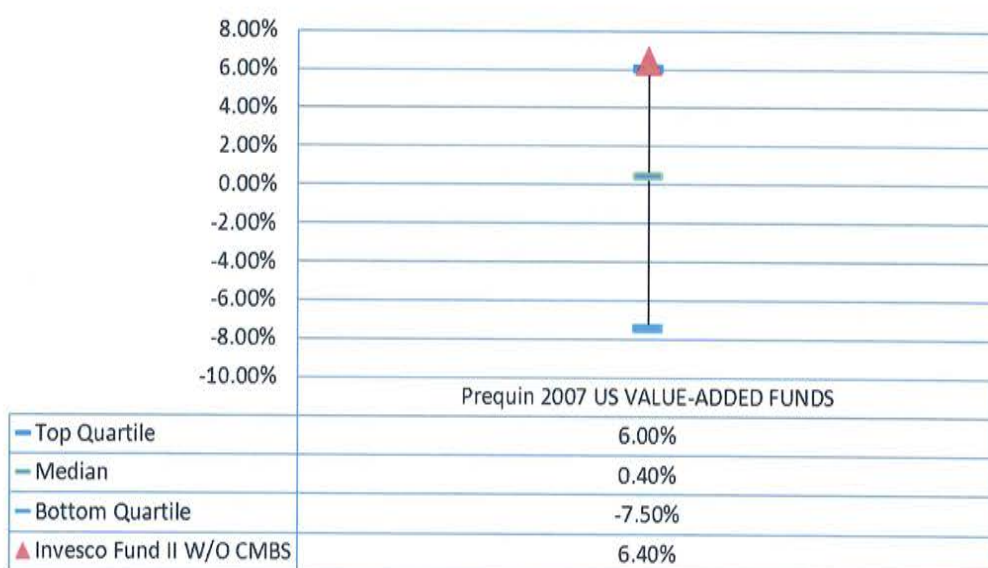
Shown above, IREF I's performance without the CMBS investments ranks in the top quartile. Not shown above, its equity multiple of 1.31X was also top quartile.

IREF II Peer Comparison Vintage Year 2007



As of March 31, 2013, IREF II's gross IRR is 5.4%, which ranks near the top of the second quartile of the peer group. The fund's equity multiple is 1.15X, ranking in the second quartile.

IREF II Peer Comparison Vintage Year 2007 (ex - CBMS)



IREF II's performance without the CMBS investments ranks in the top quartile. Its equity multiple of 1.18X ranked near the top of the second quartile of the peer group.

Review of IREF I & II

CCCERA made its first capital call to IREF I in 2005. The following table highlights information for IREF I as of March 31, 2013:

IREF I Portfolio Breakdown by Sold/Held Investments

Number of Sold Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
12	\$235 million (61% of Total)	\$230 million	\$0	0.9X / -1.4%
Number of Held Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
3	\$153 million (39% of Total)	\$104 million	\$77 million	1.2X / 4.6%
TOTAL	\$388 million	\$334 million	\$77 million	1.1X / 1.4%
PROJECTION				1.1X / 2.5%

9 out of the 15 total investments in IREF I are profitable. However, the two CMBS investments in Fund I suffered a combined capital loss of \$52.4 million; which nearly erased the fund's capital gains. A key property in IREF I, Milestone, is projected to bring in substantial profits to the fund through an IPO in the Canadian REIT market. Based on the twice oversubscribed demand to the Milestone offering, the Invesco Real Estate team believes they can sell the shares through the secondary market before the fund lock-up expires. The projected terminal gross IRR for IREF I is 2.5% (1.3% net) and gross multiple of 1.13X (1.07X net.)

CCCERA made its first capital call to IREF II in 2007. The fund activity through March 31, 2013 is highlighted below.

IREF II Portfolio Breakdown by Sold/Held Investments

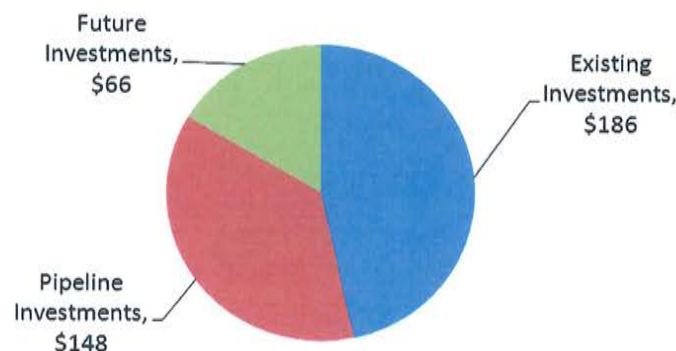
Number of Sold Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
6	\$122 million (31% of Total)	\$89 million	\$0	0.7X / -6.4%
Number of Held Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
10	\$266 million (69% of Total)	\$51 million	\$321 million	1.4X / 15.1%
TOTAL	\$388 million	\$140 million	\$321 million	1.2X / 5.4%
PROJECTION				1.3X / 8.0%

9 out of the 16 total investments in IREF II are profitable. Most of the unprofitable properties were purged during the financial crisis; the remaining portfolio looks healthy. Two New York office buildings are likely to be sold at a profit in June, 2013. A refinance of one multi-family property in Seattle is bringing back all invested capital plus a significant profit. The projected terminal gross IRR for IREF II is 8% (7% net) and gross multiple of 1.34X (1.30X net of fees.)

Preview of IREF III

IREF III has a strong initial execution. It has called \$75 million from the existing Limited Partners to make six investments. The six investments represent a \$186 million equity commitment within the context of a target \$400 million fund size. The Invesco Real Estate Team expects to maintain an aggressive investment pace, a result of their strong conviction of vintage year 2012-2013. The following chart attempts to illustrate the portfolio visibility of IREF III.

Invesco Fund III Target Size \$400 (millions)



Summary of Key Terms of IREF III

Target Return:	12% net IRR to Limited Partners
Expected Size:	\$400 million
Invesco Commitment:	\$10 million
Final Close:	June 30, 2013
Investment Period:	Runs to December, 2014
Maturity:	December, 2019, with two additional 1-year extensions to be approved by the majority of Limited Partners
Management Fee:	1.5% of invested equity
Preferred Return:	10% annual cumulative compounded to Limited Partners
General Partner Profits Interest:	20% over the preferred return with a 50% GP/50% LP catch up

Long Wharf Real Estate Partners IV

Overview

Long Wharf Real Estate Partners is raising LWREP IV, a Value-Added real estate closed-end fund with a target size of \$250 million. Since the fundraising launch in June 2011, LWREP IV has had various closings and investors have committed \$80 million to the fund. Many other investors are in the final stage of due diligence to make into the next close, set on June 30, 2013. The fund has committed \$54 million to four investments. A strong incentive to make it to the June 30, 2012 close is to participate in some upside events that are likely to happen in July.

Long Wharf was established in 2011 following the completion of the spin-out of Fidelity Real Estate Group (FREG) from Fidelity. The spin-out process began towards the end of 2008 when Fidelity announced their intention to exit the institutional real estate business. Fidelity Real Estate Group was established by Fidelity to invest in Value-Added real estate on behalf of institutional clients and began investing in 1995. In 2001, it raised Fidelity Real Estate Growth Fund (FREG I) of \$320 million, which has been fully realized with a net IRR of 17.5%. CCCERA began its commitment of \$50 million in FREG II, followed by a \$75 million commitment in FREG III. Long Wharf is managing both funds through a sub-advisory agreement with Fidelity.

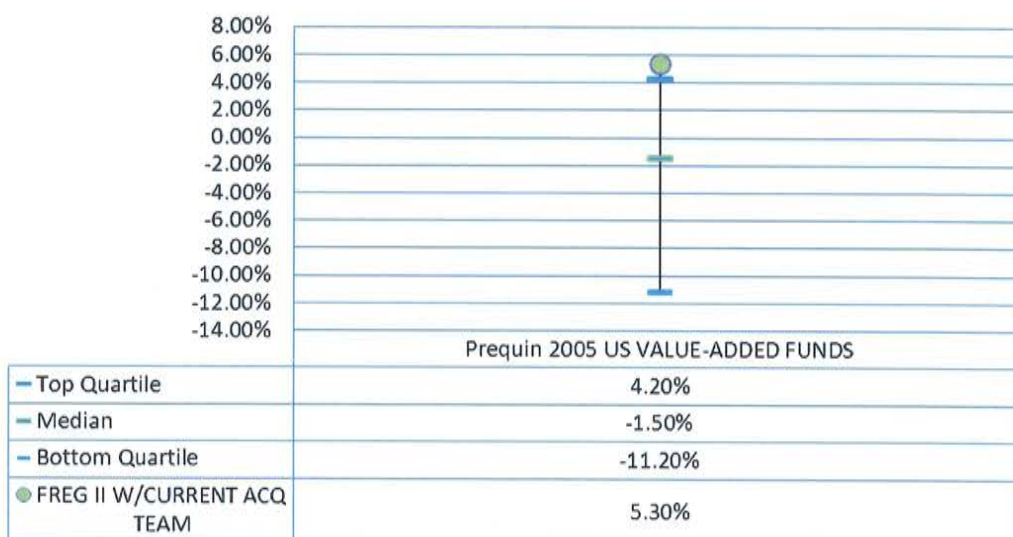
Peer Comparison of FREG II & III's Investment Performance

Both FREG II and FREG III went through the spin-out process of Long Wharf Real Estate Partners, thus both funds have mixed track records of different acquisition teams and decision-making processes. Prior to the spin-out, FREG was not allowed to have an investment committee within itself and the decision-making process was dominated by an individual, pursuant to the Fidelity belief in single portfolio manager structures. Long Wharf Real Estate Partners established an investment committee at the end of 2008. More than half of the previous acquisition team either left for performance reasons or were transferred to the asset management group. The track records of FREG II and III with the current acquisition team are included in the comparison below as this is the team that is in charge of LWREP IV's acquisitions. The chart below shows FREG II ranked versus its vintage year peer group.



Shown above, as of March 31, 2013, FREG II's gross IRR is -8.7%, which ranks in the third quartile of the peer group. The Fund's equity multiple is 0.75X, also placed in the third quartile.

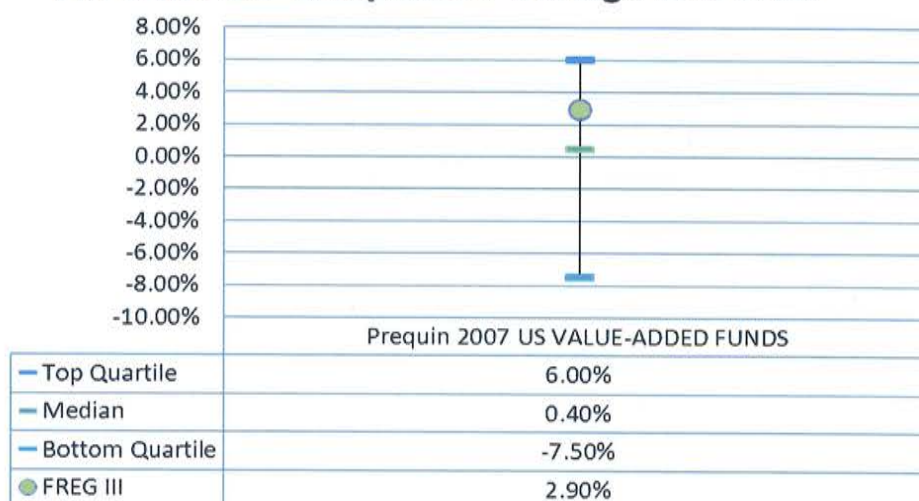
FREG II Peer Comparison Vintage Year 2005 (current investment team)



Shown above, FREG II's performance with the current acquisition team was placed in the top quartile. Not shown in the chart, its equity multiple of 1.07X ranked in the second quartile.

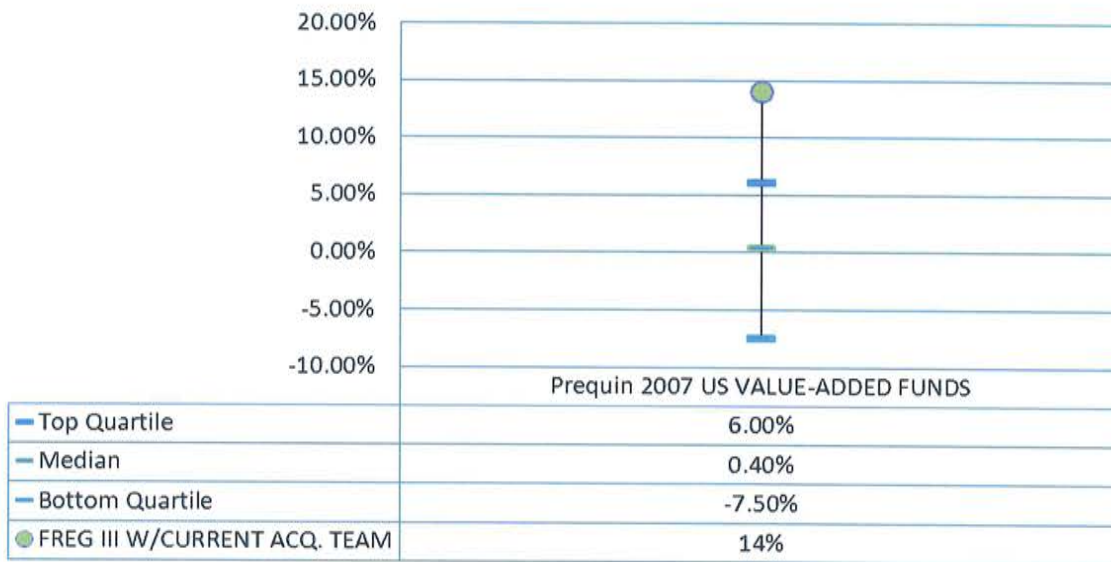
The chart below ranks FREG III among its peer group.

FREG III Peer Comparison Vintage Year 2007



Shown above, as of March 31, 2013, FREG III's gross IRR is 2.9%, which is placed in the middle of the second quartile among the peer group. Not shown here, its equity multiple is 1.07X, which also ranked in the second quartile.

**FREG III Peer Comparison Vintage Year 2007
(current investment team)**



Shown above, FREG III's performance with the current acquisition team was in the top quartile. Not shown in the chart, its equity multiple of 1.26X was first quartile.

Review of FREG II & III

The following highlights information for *FREG II* as of March 31, 2013:

FREG II Portfolio Breakdown by Sold/Held Investments

Number of Sold Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
37	\$487 million (65% of Total)	\$357 million	\$1 million	0.7X / -14.2%
Number of Held Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
12	\$268 million (35% of Total)	\$98 million	\$114 million	0.8X / -5%
TOTAL	\$755 million	\$455 million	\$115 million	0.7X / -8.7%
PROJECTION				0.8X / -7.6%

22 out of the 49 total investments in FREG II are profitable. The remaining asset is a mixed bag with both losers and winners. The projected terminal gross IRR for FREG II is -7.6% (-8.5% net) and gross multiple of 0.77X (0.68X net.)

The following highlights information for *FREG III* as of March 31, 2013:

FREG III Portfolio Breakdown by Sold/Held Investments

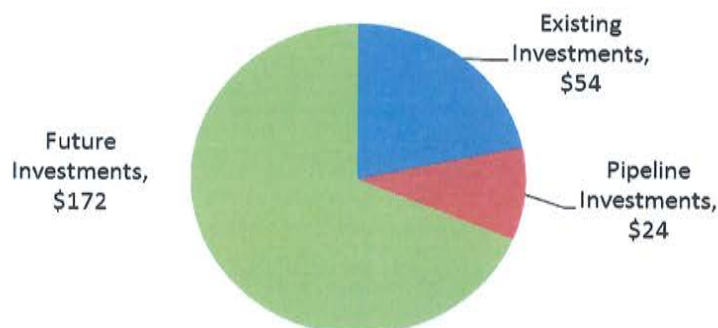
Number of Sold Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
7	\$167 million (20% of Total)	\$155 million	\$2 million	0.9X / -2.8%
Number of Held Investments	Equity Invested	Distribution	Net Asset Value	Equity Multiple / IRR
26	\$648 million (80% of Total)	\$146 million	\$568 million	1.1X / 4.4%
TOTAL	\$815 million	\$301 million	\$570 million	1.1X / 2.9%
PROJECTION				1.4X / 8.5%

23 out of the 33 total investments in FREG III are profitable. The remaining asset has more winners than losers. The projected terminal gross IRR for FREG III is 8.5% (7% net) and gross multiple of 1.35X (1.24X net.)

Preview of Long Wharf Real Estate Partners IV

Long Wharf Real Estate Partners IV has been off to an aggressive start. It has committed \$54 million to four investments, with one investment already in the process of being sold and another two to be marked up in the next quarter. The fund's pipeline of potential deals includes at least three investments that could take an additional equity allocation of \$24 million, all with very strong underwriting IRR. The following chart illustrates the portfolio visibility of LWREP IV.

LWREP IV Target Size \$250 (millions)



Summary of Key Terms of LWREP IV

Target Return:	12-15% Net IRR
Expected Size:	\$250-300 million
GP Commitments:	\$5 million
Date of Final Close:	June 30, 2013
Commitment Period:	The third anniversary of the final close
Maturity:	The eighth anniversary of the final close
Management Fee:	The sum of 1% of the unfunded commitments and 1.5% of the capital contribution; after Commitment Period 1.5% of drawn commitment
Preferred Return:	10% compounded annual return to Limited Partners
Distributions:	100% to LP contribution plus preferred return; then 50%/50% LP/GP split up to 20% of all distributions above LP contributions; then 80%/20% LP/GP

Summary

Both Invesco (Real Estate) and Long Wharf have come out of the financial crisis somewhat chastened but stronger. Invesco has excluded CMBS from future funds but has also taken advantage of adverse market conditions to gather more staff and resources. Long Wharf, completing its spin-out from Fidelity, has broadened the portfolio decision making process and is more rationally structured for future growth.

Although the absolute returns from Invesco Real Estate Funds I & II are not delivering what they originally intended, they are projected to deliver profits to investors that many other closed-end real estate managers cannot claim for these difficult vintage years. The team has successfully increased the net operating income at the property level of many investments. As a result, when the real estate market recovers, they will likely be able to sell the key properties at profits. The new fund, IREF III, is approaching half way committed.

Fidelity Real Estate Growth Fund II suffered a loss of capital like most funds of that vintage year; however Fund III is projected to earn modest profits. Fund IV is off to a strong start. The acquisition team in its current form has a strong track record. For Fund IV, among the four properties already in the portfolio, one is in the process of being sold and others will likely be marked up in the third quarter of 2012. A commitment to Fund IV now offers investors an opportunity to participate in these upside events.

With the target fund size of \$400 and \$250 million for IREF III and LWREP IV respectively, we recommend the Board to allocate up to \$35 million to IREF III and up to \$25 million to LWREP IV. If the Board approves both commitments, this would complete the \$60 million allocation to Value-Added strategies as outlined in the real estate deployment plan approved on May 8, 2013.