CFA PITTSBURGH JANUARY 16 LUNCHEON

“FINDING ALPHA AT THIS POINT IN THE COMMERCIAL REAL ESTATE CYCLE”
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Overview

Organization

- Independent management-owned real estate investment firm; registered with the SEC as an investment adviser
- Exclusively construct and manage private equity real estate funds-of-funds
- Manage $2.5B+ in discretionary capital commitments
- 150+ institutional investors and a range of high net worth investors
- Investment team of 12, including eight senior members with an average of 25 years experience
- 170+ closed investments in 14 previous MRE Partnerships
- Typical underlying funds range in size from $300MM to $700MM
- MRE Partnerships target returns of low- to mid-teens net to investors

MRE’s Advantage

- Local presence in the U.S., Europe and Asia
- Broad industry relationships to source and access top boutique and focused managers
- Rigorous manager due diligence and on-going involvement as an active partner
- Extensive experience and investment expertise through multiple real estate cycles and in all major real estate product types
**Investment Philosophy**

**Investment Strategy**

- "Value" investment style; seek to invest at below long-term replacement cost
- Focus on strategies that renovate, reposition and re-lease properties to create income growth
- Seek to capitalize on mispricing throughout capital structure during periods of dislocation

**Execution**

- Focused managers with advantages in accessing investments, properties and tenants
- Proven operators with the capability to optimize income
- Managers that understand complexity and risk, as well as real estate value
- Strong alignment of interests

**Focus on Value-Add and Opportunistic Strategies**

<table>
<thead>
<tr>
<th>Core</th>
<th>Core Plus</th>
<th>Value-Add</th>
<th>Opportunistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Leased Multi-Tenant Property</td>
<td>Stable Lease Roll, Moderate NOI Upside</td>
<td>Distressed Sellers, Repositioning, Moderate Redevelopment, Re-leasing</td>
<td>Distressed Sellers, Development, Significant Redevelopment, Complex Structures</td>
</tr>
<tr>
<td>Target Return: 5-8% Leverage: 0-30%</td>
<td>Target Return: 9-12% Leverage: 30-50%</td>
<td>Target Return: 13-17% Leverage: 60-65%(^1)</td>
<td>Target Return: 18%+ Leverage: 65-75%+</td>
</tr>
</tbody>
</table>

\(^1\) The underlying funds in which MRE Partnerships invest typically utilize leverage in the range of 40% to 75%, depending on the region and strategy.

*Please refer to End Notes, Note 1.*
Global Market Overview

Five keys to today’s opportunities in commercial real estate

1. Income is expensive, but bricks are cheap
   - Aggressive core pricing driven by relative yield buyers – non-core earlier in recovery

2. As traditional debt capital remains limited, new sources form
   - Limited availability of new debt capital, particularly in Europe and U.S.

3. A huge supply of over-leveraged assets will be coming to market
   - Continued balance sheet stress/distress; increasing pressure on lenders to resolve problem loans

4. Fundamentals have bottomed in most major markets
   - Property fundamentals stable; pockets of strength in select sub-markets and sectors (e.g., U.S. multifamily)

5. Mispriced risk creates attractive investment opportunities
   - Broadly attractive distress/value investment opportunities
U.S. Distress is Well on its Way to Being Resolved

- We are moving into the second half of the debt workout game

- Market participants agree debt workout is about halfway over

- The debt workout plus capital dislocation have led to unusually large pricing gap between core and non-core assets

- Our managers are capturing value gap by purchasing distressed, non-core assets and restoring to core condition

- With low basis plus recovering fundamentals, our managers can lease at or below market and create strong yield

- It is not easy to buy distressed assets; it takes skill, access and persistence

- With small, focused portfolios, our managers are sourcing plenty of good deals

Source: Unadjusted Real Capital Analytics, as of September 30, 2012.

NOTE: Troubled assets are defined as those in default, bankruptcy, foreclosure pending, lender forbearance, or in hands of GPs in bankruptcy.

* Please refer to End Notes, Note 2.
Asia Offers a Range of Opportunities

- We are seeing growth plays, distressed opportunities and some that are both

- **Cyclical slowdown in Japan is bottoming**
  - Good current yield; low interest, long-term debt available
  - Trough entry pricing with rents firming
  - Ongoing distressed opportunities; many competitors have left the market post-correction

- **China’s secular growth and population shift to urban areas continue to drive strong demand for real estate**
  - Emerging middle class requires housing and retail outlets; disposable income growth continues to outpace inflation (see chart on left side of page)
  - Government now easing up on deliberate policies intended to slow the real estate markets that created distress among developers

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**CHINA RESIDENTIAL PRICE & DISPOSABLE INCOME GROWTH**

Index: Year 2000=100

<table>
<thead>
<tr>
<th>Year</th>
<th>Commodity Residential Price</th>
<th>Disposable Income per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1999</td>
<td>150</td>
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</tr>
<tr>
<td>2001</td>
<td>200</td>
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<td>2009</td>
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<tr>
<td>2011</td>
<td>450</td>
<td>450</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle.
European Financial Turmoil is Creating Environment for Distressed Investment Opportunities

- So far, assets have traded at a measured pace, but the flow has been sufficient for our managers to find interesting deals.

- Pressures are mounting on bank balance sheets as non-real estate assets deteriorate.

- Basel III guidelines are likely to place high capital cost on real estate loans and encourage selling; a flood of sales could happen.

- As in the rest of the developed world, there is an outsized pricing gap between core and non-core assets. This, combined with focused selling is creating prices which are low enough for our managers to underwrite to their target returns generally without assuming market growth.
End Notes

Note 1: Targeted or expected returns as noted throughout this document are forward-looking statements and are based upon certain assumptions. Targeted or expected returns should not be construed to be indicative of future results.

Note 2: The information is included to show the general trend in the periods indicated and is not intended to imply that MRE Partnership's portfolio was, or will be, similar to the model. Past performance is not indicative of future results. Any forward-looking statements are based upon certain assumptions and should not be construed to be indicative of the actual events which will occur.