



Real Estate Investment Summary

Morgan Stanley Prime Property Fund

A U.S. diversified core fund

February 2020

EXECUTIVE SUMMARY

OVERVIEW

Date	Rating	Previous Rating
February 2020	Buy	Buy

The Prime Property Fund (“Prime”, “PPF” or the “Fund”) is a diversified, open-end Core real estate fund that targets high quality, well-leased, income-producing properties located in select primary markets in the U.S. Its goal is to outperform its benchmark (NFI-ODCE) annually and over the long-term, as well as achieve an aggregate annual total return on invested equity of 8-10% (gross). Relative to its benchmark, the Fund has been able to consistently generate alpha.

The Townsend Group, an Aon Company. (“Townsend”) has reviewed and performed an in-depth analysis of the above categories which includes, but is not limited to:

- Retention of Limited Partners
- Institutional Investor Representation
- Management Company Ownership
- Consistency/ Volatility of Returns
- Write-offs
- Transaction Experience in Strategy
- Organization Expenses
- Management Fee
- Incentive Fees/ Waterfall Distribution
- Fund Size
- Sponsor Commitment
- Ability to Create Value in Deals
- Valuation Discipline
- Reporting Transparency
- Back-Office Resources
- Investment Period
- Fund Term
- Key Person Provision
- Turnover/Tenure
- Fault Provisions
- Advisory Board
- Priority of Distributions
- Alignment of Partner Interest
- Firm Leadership

In addition, Aon Hewitt Investment Consulting’s Operational Due Diligence team has reviewed the Firm from an operating perspective and has given Morgan Stanley a Pass rating.

RECOMMENDATION

Following a detailed review of the Plan’s existing core real estate exposure, The Townsend Group (“Townsend”), an Aon Company, is recommending that the DB/CBB, Endowments, and OSERS plans reinvest proceeds received from the UBS Trumbull Properties Fund redemption into the Morgan Stanley Prime Property Fund, subject to completion of a legal review and satisfactory agreement of terms.

Firm Summary:

HQ Location	New York, NY	Parent	Morgan Stanley (NYSE:MS)
Fund Sponsor	MSREI	Founded	1931
RE Employees	200	Organization	Investment management company in private market real estate
AUM	\$41 billion	RIA	Yes

Primary Strategy: The Prime Property Fund (“Prime” or the “Fund”) is a U.S. open-end diversified Core fund that targets high quality, income-producing Class A properties located in primary markets. Its goal is to outperform its benchmark (NFI-ODCE) annually and over the long-term, as well as achieve an aggregate annual total return on invested equity of 8-10%, gross of fees. Focus is placed on current income, aiming to generate 6-8% annually. The Fund pursues a slightly higher risk strategy within the Core classification due to its relatively higher use of leverage and utilization of wholly-owned operating companies within the Fund.

SPONSOR

OVERVIEW

Prime is the flagship core real estate fund at MS. It is organized as a private REIT and is overseen by an independent Board of Directors. The Board meets quarterly to review the strategy and investment performance of Prime, as well as monitor the management responsibilities of the portfolio management team. The Board also reviews any asset related issues.

Key Staff	Position	Date Joined	Years of Experience
Scott Brown	Portfolio Manager	2003	29
Candice Todd	CFO	2001	29
Bennett Weaver	Head of Operations	2013	20

- Morgan Stanley Real Estate Advisor Inc. is a wholly-owned subsidiary of Morgan Stanley and is functionally located within Morgan Stanley Real Estate Investing (MSREI), which is part of Morgan Stanley's Merchant Banking division.
- Morgan Stanley changed its status to a bank holding company in 2008 and participated in the U.S. Treasury's capital injection program (repaid in 2009). The organization also sold off its retail asset management business to focus on its institutional client base.
- In February 2016, Morgan Stanley Investment Management ("MSIM") announced a new leadership and organizational structure which includes the realignment of investment teams across six groups: Real Assets, Solutions & Multi-Asset, Active Fundamental Equity, Private Equity & Credit, Global Fixed Income and Global Equity.
- MSREI is now part of the Real Asset group, which also encompasses the Firm's global listed real assets and private infrastructure investment teams.
- John Klopp was named Head of Real Assets transitioning out of his role as Co-CEO and Co-CIO of MSREI and Head of the Americas. Mr. Klopp continues to sit on the MSREI real estate funds' investment committee and serves as Affiliate Director of the Prime Property Fund.
- Olivier de Poulpiquet, who had been Co-CEO and Co-CIO with Mr. Klopp since 2010, now serves as sole Head of MSREI. Lauren Hochfelder Silverman is Head of the Americas.
- Scott Brown serves as the Global Head of PRIME, overseeing the PRIME series of real estate core funds globally. He is responsible for the portfolio implementation and management of the Prime Property strategy. His prior experience includes acquisition activities at Lend Lease Real Estate, which is the predecessor to Prime Property.
- Candice Todd is a Managing Director of Morgan Stanley and the CFO of Prime Property Fund, responsible for the Fund's capital structure and REIT compliance. Prior to joining Morgan Stanley in November 2003, Candice worked for Lend Lease since 1994 and has over 29 years of real estate experience.
- Bennett Weaver is the third key component of the Portfolio Management Team and is Head of Operations of Prime Property Fund. Prior to joining Morgan Stanley in July 2004, Bennett worked for Lend Lease and has over 20 years of real estate experience.
- The Fund can leverage the global MSREI platform and the broad expertise, deep relationships, and powerful franchise of Morgan Stanley, including investment banking, merchant banking, private wealth management, etc., which is a significant benefit to the Fund's deal flow.
- Investments for Prime are reviewed and voted on by a 12-member senior management investment committee, including individuals from MSREI and risk management. John Klopp, co-Chief Executive Officer of the Firm, serves as Chairman.
- The Firm's research team is shared across MSREI's products and geographies. In the U.S., the team is mostly responsible for aggregating third party research data by property type and geography. While newly designed top down models have been developed, the Fund mostly draws from bottom up resources of the broader platform to determine what assets are most attractive in each market, with research being used as a check.
- The acquisition and asset management teams, which are organized by geographic regions, are also shared resources across all MSREI products and consist of 25 and 14 members, respectively. Acquisition and asset management work closely throughout the due diligence process and during the life of an asset while sharing market information and creating business plans/exit plans for each asset.

- Prime owns AMLI Residential (“AMLI”), a multifamily private REIT. AMLI is focused on the development, acquisition, and management of luxury apartment communities across the U.S. Thus, almost all of Prime’s apartment activity is run through this group. Prime tends to focus on the 8-10 markets that were legacy AMLI strongholds, recently adding a few coastal metro-regions. AMLI is dedicated solely to Prime, with management co-investing alongside the Fund in all the apartment assets.
- To reinforce the alignment of interest of key personnel with the performance of the Fund, Morgan Stanley awards shares that vest over time in the Fund based on personal annual performance and contribution to the Fund. Prime’s performance fee is used to finance this employee incentive, which aligns the team’s compensation to the increase and decrease in the share price of the Fund.

About Townsend Group – An Aon Company

Founded in 1983, The Townsend Group provides custom real asset solutions that help clients worldwide achieve their unique investment goals. As an Aon company, The Townsend Group is now part of one of the top three outsourced chief investment officer (OCIO) providers in the world measured by global assets under management. Aon’s Investment organization, including Townsend, manages more than \$130 billion of worldwide assets under management and has advised on more than \$240 billion of real estate assets.

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