



NEPC, LLC

YOU DEMAND MORE. So do we.SM



City of San Jose Police and Fire Department Retirement Plan

Second Quarter 2014 Private Markets Review – Real Estate

Daniel LeBeau
Consultant

Allan Martin
Partner

Sean Ruhmann
Principal, Director of Real Assets
Research

Chris Hill, CFA, CAIA
Consultant, Private Markets

10-28-2014 JOINT IC PF ITEM #4

255 State Street, Boston, MA 02109
TEL: 617.374.1300 | FAX: 617.374.1313 | www.nepc.com

BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO

<u>Table of Contents</u>	<u>Page</u>
Summary Letter	1
Trailing Period Returns	7
Portfolio Value	8
Portfolio Value by Lifecycle	9
Portfolio Value by Vintage Year	10
Portfolio Value by Strategy	11
Transaction Summary	12

Information Disclosure

- NEPC, LLC uses, as its data source, the Plan's fund manager and custodian bank or fund service company, and NEPC, LLC relies on those sources for all transactions, including capital calls, distributions, income/expense and reported values. While NEPC, LLC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- The Investment Performance Analysis is provided as a management aid for the client's internal use only. Portfolio performance reported in the Investment Performance Analysis does not constitute a recommendation by NEPC, LLC.
- Information in this report on market indices and security characteristics is received from sources external to NEPC, LLC. While efforts are made to ensure that this external data is accurate, NEPC, LLC cannot accept responsibility for errors that may occur.



September 2014

Board of Administration
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street
San Jose, CA 95112

RE: Real Estate Performance – 2nd Quarter 2014

Dear Board of Administration Members:

We are pleased to present the June 30, 2014 Real Estate Performance Summary for the City of San Jose Police and Fire Department Retirement Plan (the “Plan”). The report provides a variety of performance analysis for the overall portfolio, as well as trailing performance and performance by lifecycle, vintage year and strategy.

The Plan’s real estate portfolio experienced a positive quarter, producing a nominal IRR of 2.73% for the quarter and 12.41% for the past year. The annualized IRR of the real estate portfolio since inception was 10.95% at quarter end. Since inception, the Total Value to Paid In multiple (current valuation plus cumulative distributions, divided by total capital calls) was 1.22x.

The following table presents the status of the Plan’s real estate program as of June 30, 2014:

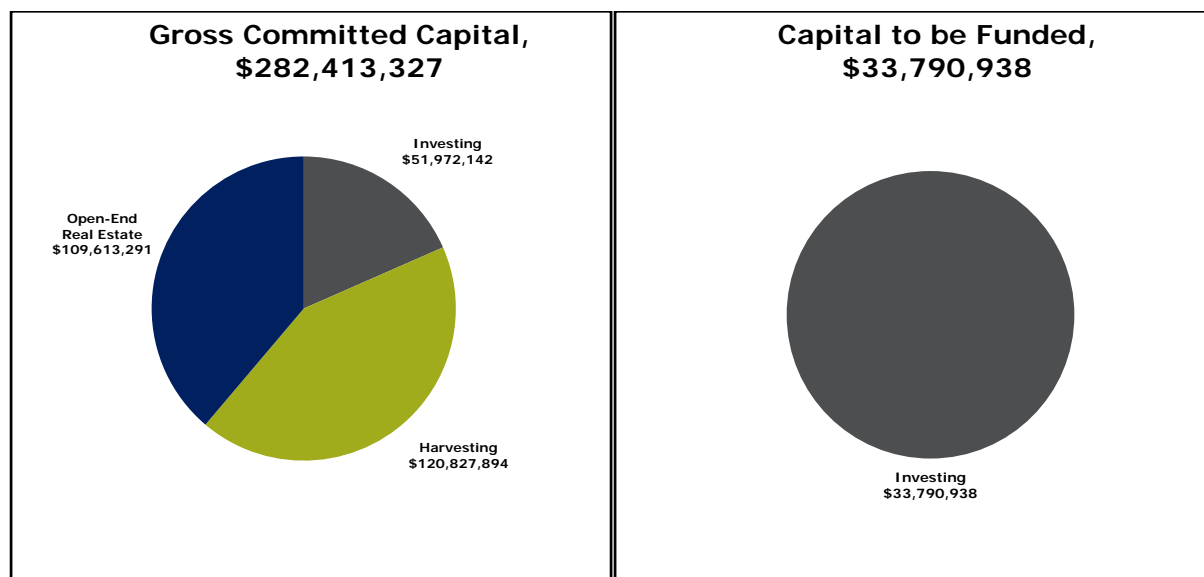
Commitments	Terminated Commitments	Amount Funded	Amount Distributed	Reported Value	Call Ratio	Distribution Ratio
\$282,413,327	\$0	\$248,622,390	\$137,389,093	\$166,070,318	88%	0.55

Unfunded Commitments	Market Exposure (Reported Value + Unfunded Commitments)	Total Fund Composite as of 6/30/2014	Real Estate Target	Reported Value as a % of Total Fund	Market Exposure as a % of Total Fund
\$33,790,937	\$199,861,255	\$3,215,214,566	7%	5.2%	6.2%

Total Value (Reported Value + Distributions)	Total Value To Paid In Capital	Internal Rate of Return IRR, Since Inception (Sept 2010)
\$303,459,411	1.22	10.95%

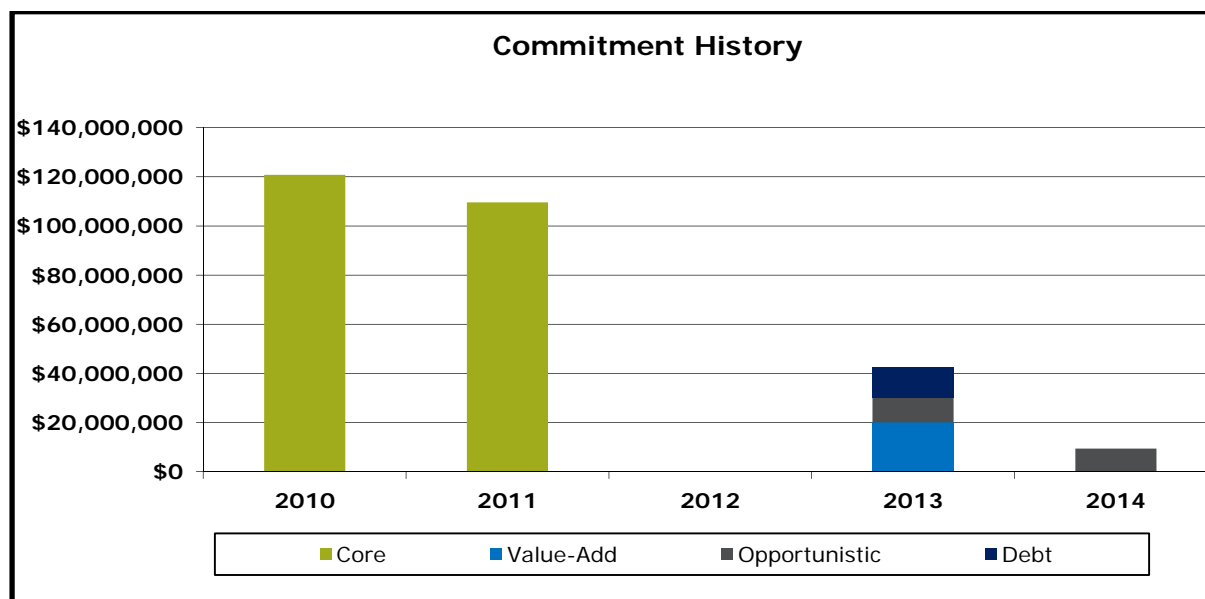


As of June 30, 2014, the Plan had net commitments totaling \$282.4 million to 7 real estate funds. Of the 7 funds in the Plan's Real Estate portfolio, 5 funds are in the investing stage, 1 fund is in the harvesting stage, and 1 fund has an open-end real estate structure. The following charts illustrate the program's current life cycle:



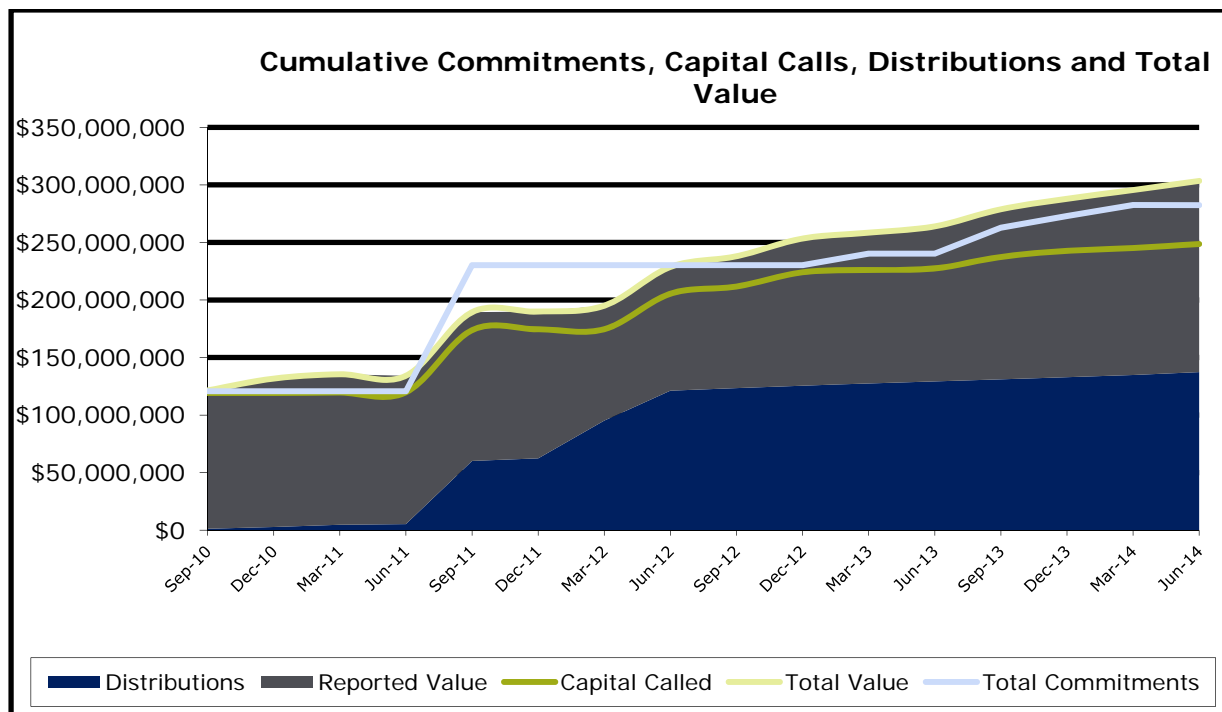
Note: "Open-End Real Estate" is the American Core Realty Fund. "Harvesting" currently represents the separately managed portfolio managed by American Realty, which consists of legacy properties from the Plan's separately managed real estate program. As the Plan's investments in real estate mature, additional funds will be classified as "Harvesting".

The following chart illustrates the commitment history of the Plan's real estate program through June 30, 2014:

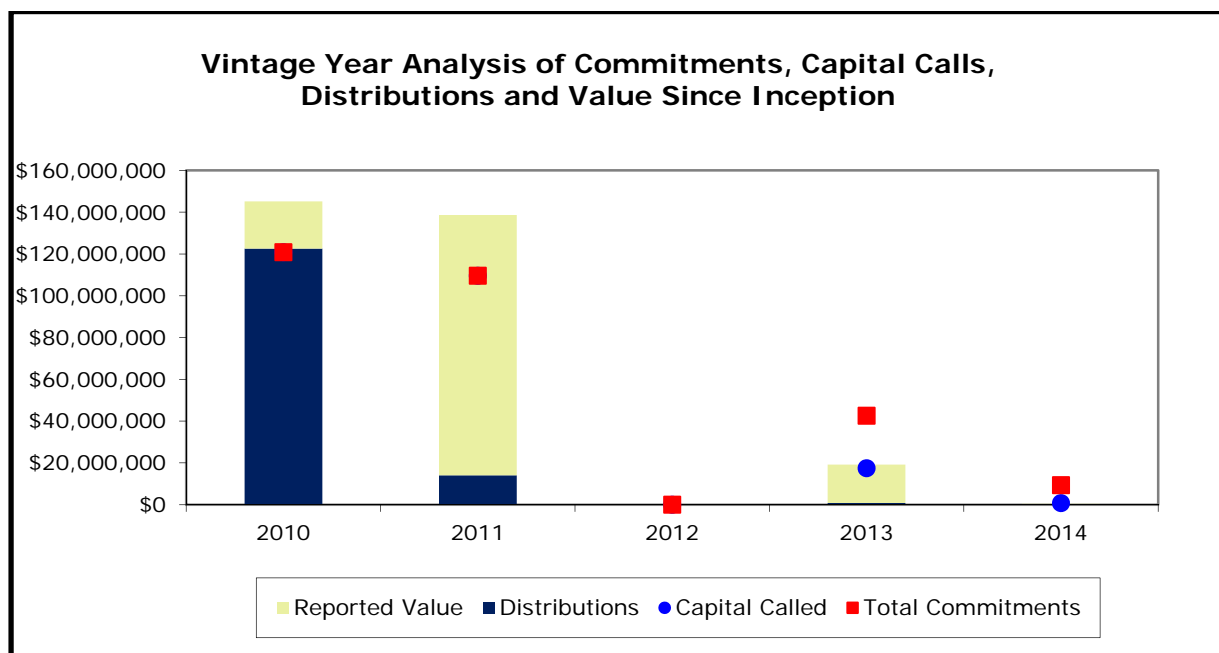




The following chart illustrates the Plan's cumulative commitment history, cumulative capital calls, cumulative distributions and reported value through June 30, 2014:



The following chart provides an analysis of the Plan's vintage year performance comparing the capital calls to the distributions and reported value through June 30, 2014:

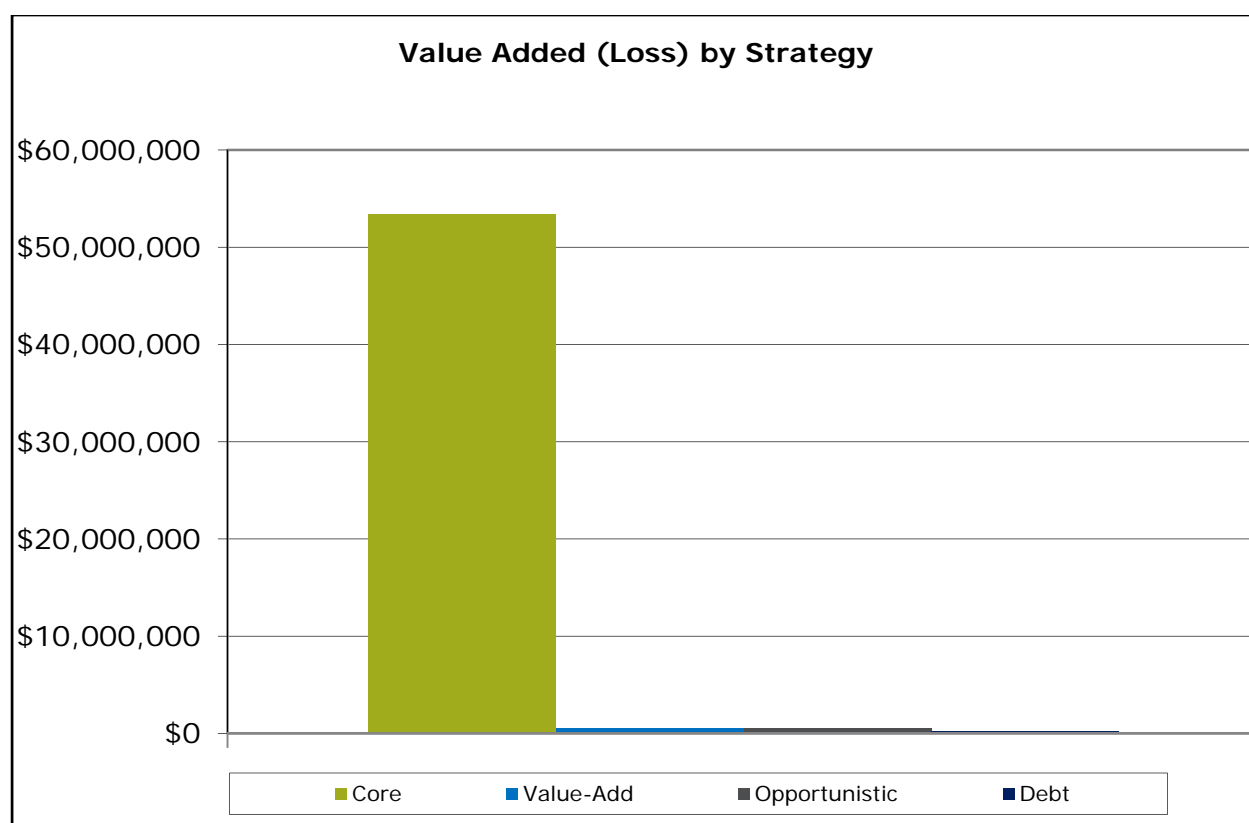




During the quarter-ended June 30, 2014, the Plan funded capital calls from 6 of the Plan's real estate funds and received distributions from 5 of the Plan's real estate funds. The summary of the cash flows follows is as follows:

Calls & Expenses Funded during the Quarter	Number of Funds Calling Capital & Expenses	Distributions during the Quarter	Number of Funds Making Distributions	Net Cash/Stock Flows for the Quarter
\$3,470,001	6	\$2,534,879	5	(\$935,122)

Since inception, the real estate program has gained \$54.7 million in value for the Plan. Core has added \$53.4 million; Value-Add has added \$0.6 million; Opportunistic has gained \$0.5 million; and Debt has added \$0.3 million.

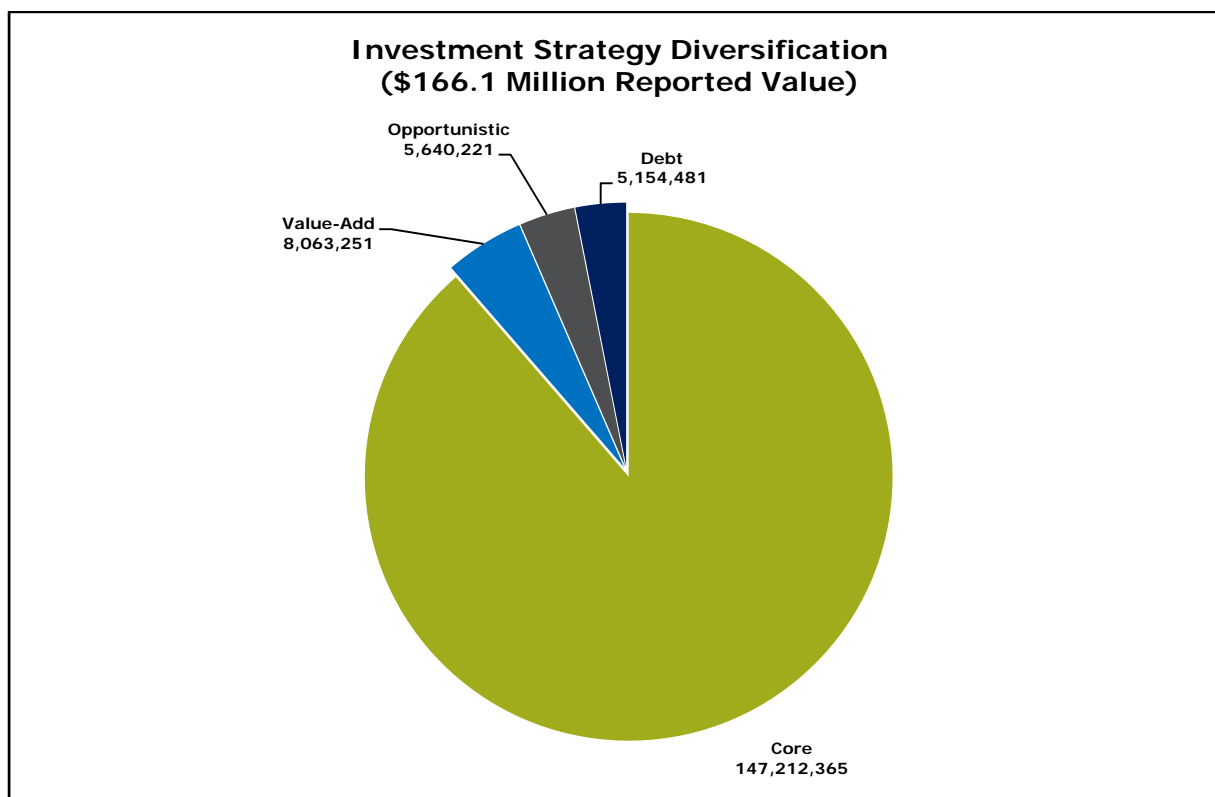




The following table compares the recommended investment strategy allocation to the Plan's actual allocation using the reported value at quarter end.

Investment Strategy	Target	Min.	Max.	Reported Value	Unfunded Commitment	Total Exposure
Core	45%	25%	65%	73.7%	-	73.7%
Value-Add	20%	0%	40%	4.0%	6.2%	10.2%
Opportunistic	20%	0%	40%	2.8%	7.0%	9.8%
Debt	5%	0%	15%	2.6%	3.7%	6.3%
REITs/REOCs	10%	0%	20%	-	-	-
Totals	100%			83.1%	16.9%	100.0%

As of June 30, 2014, the 7 real estate funds in the Plan's portfolio were invested by market value in the following strategies:





Annual Meetings Scheduled by the Real Estate Managers

- No meetings scheduled

We thank you for the opportunity to work with the City of San Jose Police and Fire Department Retirement Plan and look forward to continued success in the future.

Best regards,

Daniel LeBeau
Consultant

Allan Martin
Partner

Sean Ruhmann
Principal
Director of Real Assets Research

Chris Hill, CFA, CAIA
Consultant, Private Markets

San Jose Police and Fire
Executive Summary IRR Performance Report

6/30/2014

Investment	Vintage Year	Commitment	Qtr TD	YTD	1 Year	3 Year	5 Year	Inception
American Core Realty Fund	2011	109,613,291	2.58	5.64	11.59	N/A	N/A	11.01
American Realty Separate Account	2010	120,827,894	2.15	9.11	17.36	9.04	N/A	10.87
Blackstone Real Estate Debt Fund II	2013	12,500,000	2.08	4.60	N/A	N/A	N/A	10.32
Brookfield Strategic Real Estate Partners	2013	10,000,000	9.93	11.79	N/A	N/A	N/A	18.99
Orion European Real Estate Fund IV	2014	9,366,833	-27.58	N/A	N/A	N/A	N/A	-74.56
TA/Realty Associates Fund X	2013	10,000,000	3.54	7.80	14.23	N/A	N/A	12.34
Tristan EPISO 3	2013	10,105,309	-4.31	-3.87	N/A	N/A	N/A	-9.21
Total: San Jose Police and Fire Department Retiree		282,413,327	2.73	6.11	12.41	10.42	N/A	10.95

Note: Performance shown here and on the pages that follow for Orion and Tristan are largely impacted by the J-Curve effect, which illustrates the tendency of private real estate funds to deliver negative returns early in their investment periods as little income is generated and management fees are collected on committed (not invested) capital. We expect the impact of the J-Curve to be lessened as these funds mature and investments are realized. Strategy and vintage year diversification helps to mitigate the impact of the J-Curve on portfolio returns for the aggregate real estate program.

**San Jose Police and Fire
Performance Analysis**

6/30/2014

Partnership Name	Vintage Year	Commitment	Paid In Capital	Capital To Be Funded	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	Call Ratio	DPI Ratio	TVPI Ratio	IRR
1 American Core Realty Fund	2011	109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
2 American Realty Separate Account	2010	120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
3 Blackstone Real Estate Debt Fund II	2013	12,500,000	5,010,214	7,489,786	0	148,939	5,154,481	5,303,420	293,206	40 %	0.03	1.06	10.32 %
4 Brookfield Strategic Real Estate Part	2013	10,000,000	4,700,201	5,299,799	59,953	372,441	5,210,000	5,582,441	822,287	47 %	0.08	1.17	18.99 %
5 Orion European Real Estate Fund IV	2014	9,366,833	748,509	8,618,323	0	0	430,221	430,221	-318,288	8 %	0.00	0.57	-74.56 %
6 TA/Realty Associates Fund X	2013	10,000,000	6,500,000	3,500,000	17,425	261,839	6,902,833	7,164,672	647,247	65 %	0.04	1.10	12.34 %
7 Tristan EPIISO 3	2013	10,105,309	1,222,280	8,883,029	13,718	0	1,160,418	1,160,418	-75,580	12 %	0.00	0.94	-9.21 %
7 Total Partnerships		282,413,327	248,622,390	33,790,938	91,096	137,389,093	166,070,318	303,459,411	54,745,925	88 %	0.55	1.22	10.95 %

San Jose Police and Fire
Lifecycle Performance Analysis

6/30/2014

Partnership Name	Vintage Year	Commitment	Paid In Capital	Capital To Be Funded	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	Call Ratio	DPI Ratio	TVPI Ratio	IRR
2 Investing													
1 Blackstone Real Estate Debt Fund II	2013	12,500,000	5,010,214	7,489,786	0	148,939	5,154,481	5,303,420	293,206	40 %	0.03	1.06	10.32 %
2 Brookfield Strategic Real Estate Partne	2013	10,000,000	4,700,201	5,299,799	59,953	372,441	5,210,000	5,582,441	822,287	47 %	0.08	1.17	18.99 %
3 Orion European Real Estate Fund IV	2014	9,366,833	748,509	8,618,323	0	0	430,221	430,221	-318,288	8 %	0.00	0.57	-74.56 %
4 TAI/Realty Associates Fund X	2013	10,000,000	6,500,000	3,500,000	17,425	261,839	6,902,833	7,164,672	647,247	65 %	0.04	1.10	12.34 %
5 Tristan EPISO 3	2013	10,105,309	1,222,280	8,883,029	13,718	0	1,160,418	1,160,418	-75,580	12 %	0.00	0.94	-9.21 %
2 Investing Subtotal		51,972,142	18,181,205	33,790,937	91,096	783,219	18,857,953	19,641,172	1,368,871	35 %	0.04	1.07	11.31 %
3 Harvesting													
6 American Realty Separate Account	2010	120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
3 Harvesting Subtotal		120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
A Open End Real Estate													
7 American Core Realty Fund	2011	109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
A Open End Real Estate Subtotal		109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
7 Total Partnerships		282,413,327	248,622,390	33,790,938	91,096	137,389,093	166,070,318	303,459,411	54,745,925	88 %	0.55	1.22	10.95 %

San Jose Police and Fire
Vintage Year Performance Analysis

6/30/2014

Partnership Name	Vintage Year	Commitment	Paid In Capital	Capital To Be Funded	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	Call Ratio	DPI Ratio	TVPI Ratio	IRR
2010													
1 American Realty Separate Account	2010	120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
2010 Subtotal		120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
2011													
2 American Core Realty Fund	2011	109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
2011 Subtotal		109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
2013													
3 Blackstone Real Estate Debt Fund II	2013	12,500,000	5,010,214	7,489,786	0	148,939	5,154,481	5,303,420	293,206	40 %	0.03	1.06	10.32 %
4 Brookfield Strategic Real Estate Partne	2013	10,000,000	4,700,201	5,299,799	59,953	372,441	5,210,000	5,582,441	822,287	47 %	0.08	1.17	18.99 %
5 TA/Realty Associates Fund X	2013	10,000,000	6,500,000	3,500,000	17,425	261,839	6,902,833	7,164,672	647,247	65 %	0.04	1.10	12.34 %
6 Tristan EPISO 3	2013	10,105,309	1,222,280	8,883,029	13,718	0	1,160,418	1,160,418	-75,580	12 %	0.00	0.94	-9.21 %
2013 Subtotal		42,605,309	17,432,695	25,172,614	91,096	783,219	18,427,732	19,210,951	1,687,160	41 %	0.04	1.10	14.07 %
2014													
7 Orion European Real Estate Fund IV	2014	9,366,833	748,509	8,618,323	0	0	430,221	430,221	-318,288	8 %	0.00	0.57	-74.56 %
2014 Subtotal		9,366,833	748,509	8,618,323	0	0	430,221	430,221	-318,288	8 %	0.00	0.57	-74.56 %
7 Total Partnerships													
		282,413,327	248,622,390	33,790,938	91,096	137,389,093	166,070,318	303,459,411	54,745,925	88 %	0.55	1.22	10.95 %

San Jose Police and Fire
Investment Strategy Performance Analysis

6/30/2014

Partnership Name	Vintage Year	Commitment	Paid In Capital	Capital To Be Funded	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	Call Ratio	DPI Ratio	TVPI Ratio	IRR
610 RE Core													
1 American Core Realty Fund	2011	109,613,291	109,613,291	0	0	14,063,839	124,585,565	138,649,404	29,036,113	100 %	0.13	1.26	11.01 %
2 American Realty Separate Account	2010	120,827,894	120,827,894	0	0	122,542,035	22,626,800	145,168,835	24,340,941	100 %	1.01	1.20	10.87 %
610 RE Core Subtotal		230,441,185	230,441,185	0	0	136,605,874	147,212,365	283,818,239	53,377,054	100 %	0.59	1.23	10.94 %
615 RE Value Add													
1 TA/Realty Associates Fund X	2013	10,000,000	6,500,000	3,500,000	17,425	261,839	6,902,833	7,164,672	647,247	65 %	0.04	1.10	12.34 %
2 Tristan EPIISO 3	2013	10,105,309	1,222,280	8,883,029	13,718	0	1,160,418	1,160,418	-75,580	12 %	0.00	0.94	-9.21 %
615 RE Value Add Subtotal		20,105,309	7,722,280	12,383,029	31,143	261,839	8,063,251	8,325,090	571,667	38 %	0.03	1.07	10.11 %
630 RE Opportunistic													
1 Brookfield Strategic Real Estate Partne	2013	10,000,000	4,700,201	5,299,799	59,953	372,441	5,210,000	5,582,441	822,287	47 %	0.08	1.17	18.99 %
2 Orion European Real Estate Fund IV	2014	9,366,833	748,509	8,618,323	0	0	430,221	430,221	-318,288	8 %	0.00	0.57	-74.56 %
630 RE Opportunistic Subtotal		19,366,833	5,448,710	13,918,122	59,953	372,441	5,640,221	6,012,662	503,999	28 %	0.07	1.09	11.31 %
644 RE Debt													
1 Blackstone Real Estate Debt Fund II	2013	12,500,000	5,010,214	7,489,786	0	148,939	5,154,481	5,303,420	293,206	40 %	0.03	1.06	10.32 %
644 RE Debt Subtotal		12,500,000	5,010,214	7,489,786	0	148,939	5,154,481	5,303,420	293,206	40 %	0.03	1.06	10.32 %
7 Total Partnerships		282,413,327	248,622,390	33,790,938	91,096	137,389,093	166,070,318	303,459,411	54,745,925	88 %	0.55	1.22	10.95 %

San Jose Police and Fire

Transaction Summary

4/1/2014 - 6/30/2014

Date	Funding	Additional Fees	Cash	Stock	Net Cash Flow
American Core Realty Fund					
6/30/2014			1,576,168.65		-1,576,168.65
Total: American Core Realty Fund			1,576,168.65		-1,576,168.65
American Realty Separate Account					
4/17/2014	38,549.63				38,549.63
4/29/2014			123,500.00		-84,950.37
5/29/2014			190,000.00		-274,950.37
6/23/2014	38,686.43				-236,263.94
6/27/2014			123,500.00		-359,763.94
Total: American Realty Separate Account	77,236.06		437,000.00		-359,763.94
Blackstone Real Estate Debt Fund II					
4/17/2014	751,503.00				751,503.00
5/1/2014	318,709.00				1,070,212.00
5/30/2014			47,092.99		1,023,119.01
5/30/2014	-3,143.86				1,019,975.15
6/19/2014	362,730.00				1,382,705.15
Total: Blackstone Real Estate Debt Fund II	1,429,798.14		47,092.99		1,382,705.15
Brookfield Strategic Real Estate Partners					
6/3/2014			372,441.00		-372,441.00
6/3/2014	-840,197.00				-1,212,638.00
Total: Brookfield Strategic Real Estate Partners	-840,197.00		372,441.00		-1,212,638.00
Orion European Real Estate Fund IV					
6/12/2014	459,995.13				459,995.13
Total: Orion European Real Estate Fund IV	459,995.13				459,995.13
TA/Realty Associates Fund X					
4/7/2014	1,500,000.00				1,500,000.00
5/28/2014			102,176.00		1,397,824.00

**San Jose Police and Fire
Transaction Summary**

4/1/2014 - 6/30/2014

	Date	Funding	Additional Fees	Cash	Stock	Net Cash Flow
TA/Realty Associates Fund X						
Total: TA/Realty Associates Fund X						
		1,500,000.00		102,176.00		1,397,824.00
Tristan EPISO 3						
	4/4/2014	843,168.65				843,168.65
Total: Tristan EPISO 3						
		843,168.65				843,168.65
Total: 4 Real Estate						
		3,470,000.98		2,534,878.64		935,122.34
Total:						
		3,470,000.98		2,534,878.64		935,122.34