



Real Estate Update

Investment Advisory Committee

November 14, 2012

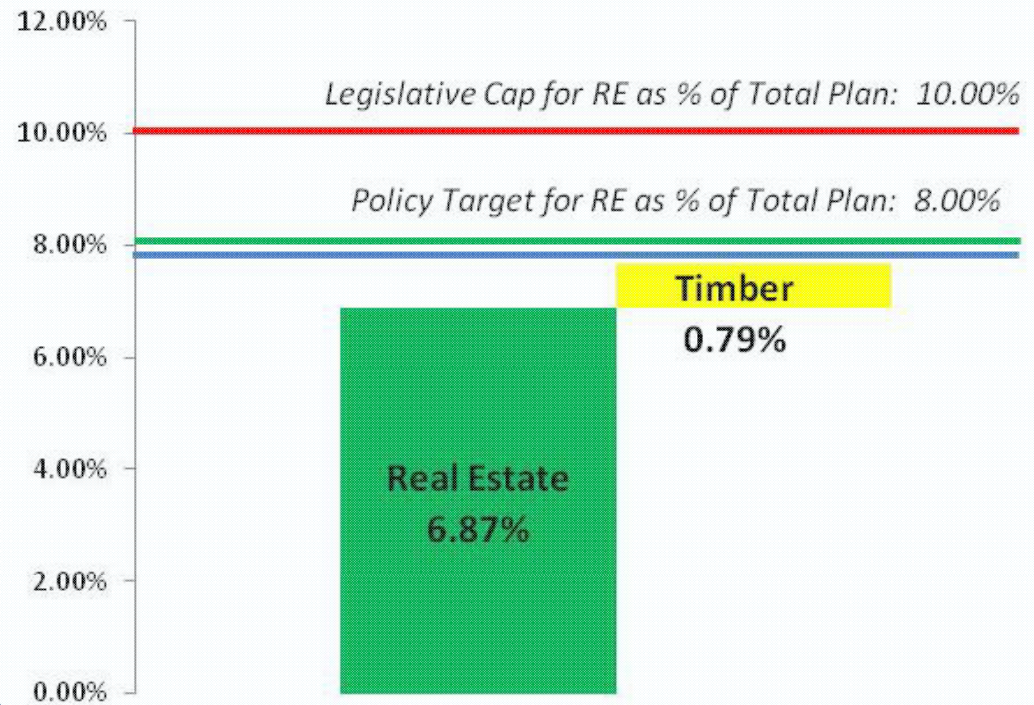
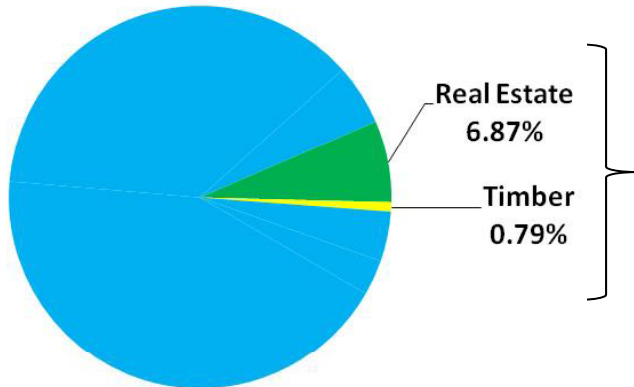
Agenda

- I. NCRS Real Estate Investment Portfolio (REIP) Review
- II. Benchmark Comparison & Review
- III. 2011/2012 Goals & Accomplishments
- IV. Real Estate Market Review
- V. Areas of Focus 2012/2013

Real Estate Allocation

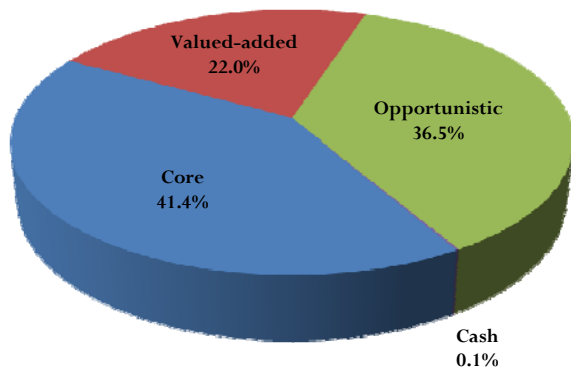
Real Estate represents 7.66% of the Total NCRS Plan, below its Policy Target and Legislative Cap.

NCRS Asset Allocation
based on 9/30/2012 MV



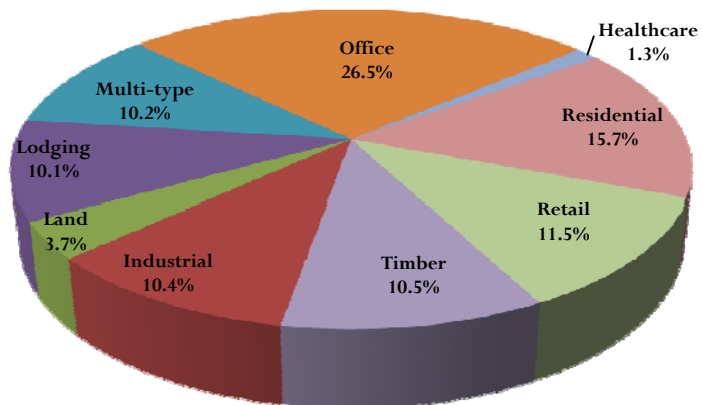
Real Estate Allocation

Strategy Allocation (based on valuation)

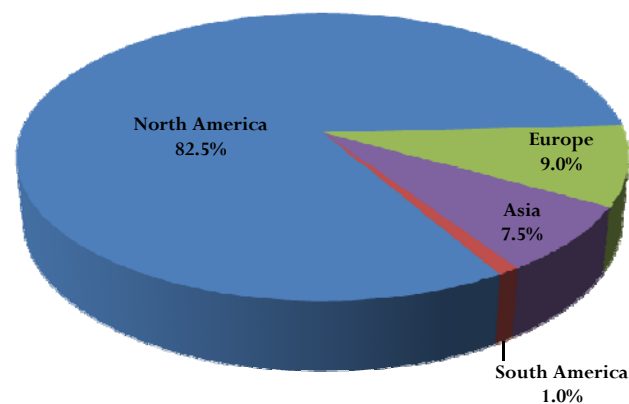


	Policy Range			Actual
Strategy:	Min	Max	Target	FMV
Core	20%	60%	40%	41.4%
Value-added	10%	50%	30%	22.0%
Opportunistic	10%	50%	30%	36.5%

Sector Allocation (based on valuation)*

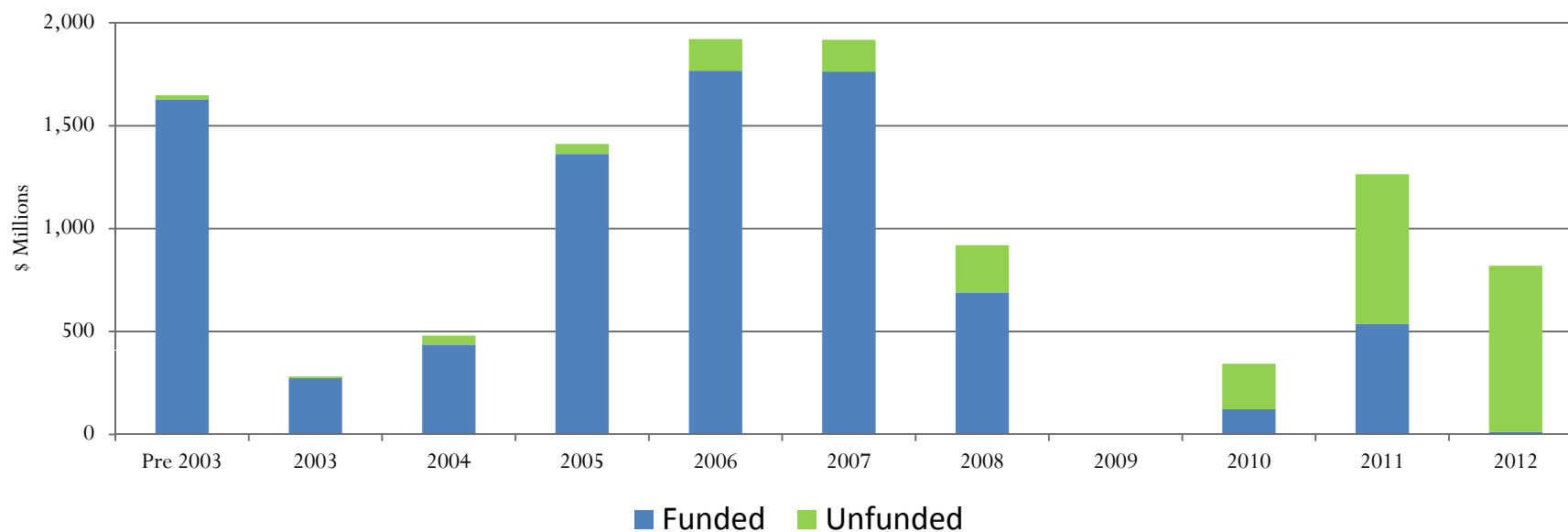


Geographic Allocation (based on valuation)*



Real Estate Performance

Real Estate Commitments by Vintage Year



As of 9/30/2012

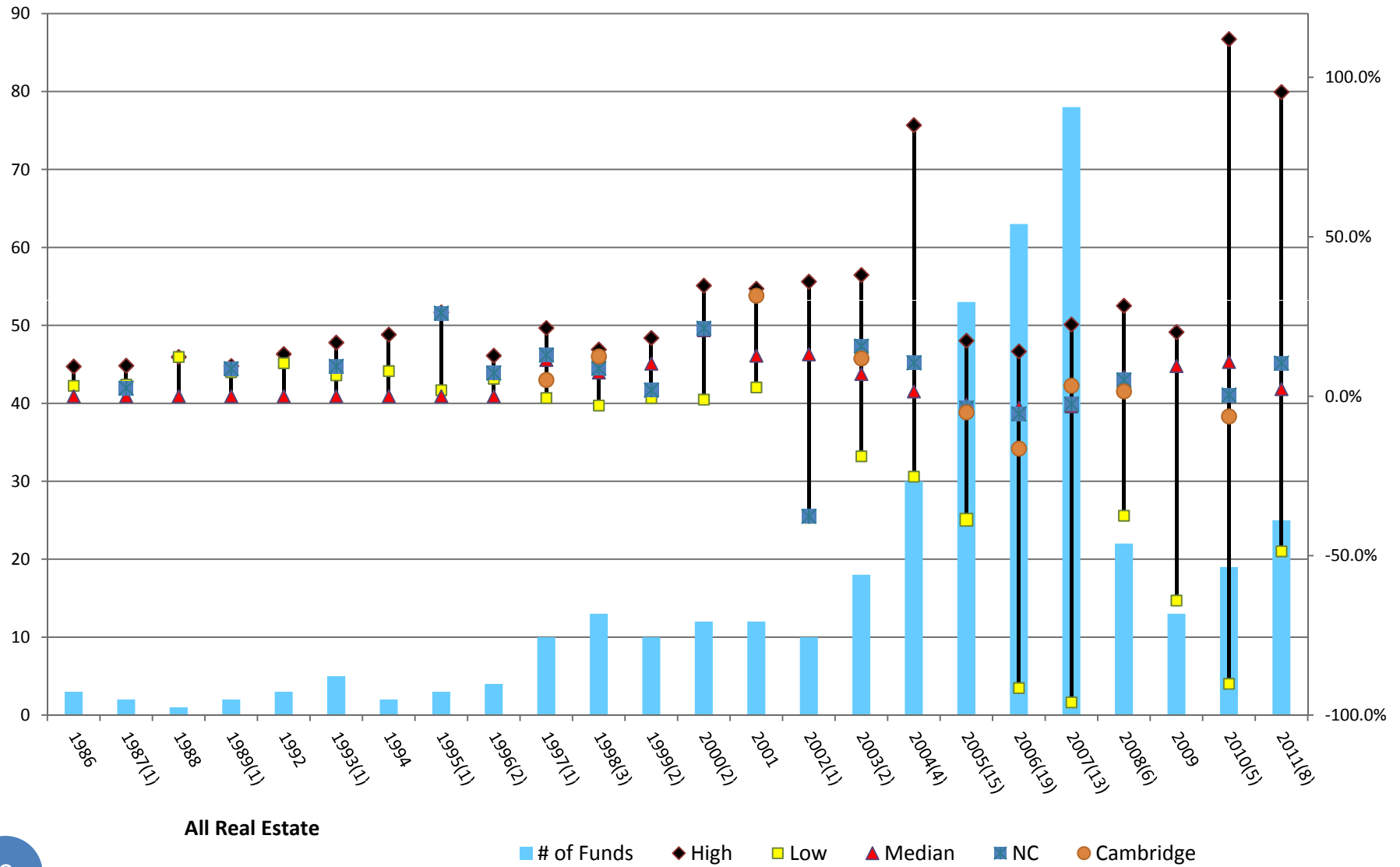
IRR by Vintage Year

	<u>Pre- 2003</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2010</u>	<u>2011</u>	<u>2012*</u>	<u>Total</u>
NCRS	7.5	15.70	10.30	-3.32	-4.85	-1.55	3.22	-0.80	5.98	-27.44	2.72
# of Funds	18	2	4	15	19	13	6	5	8	6	96

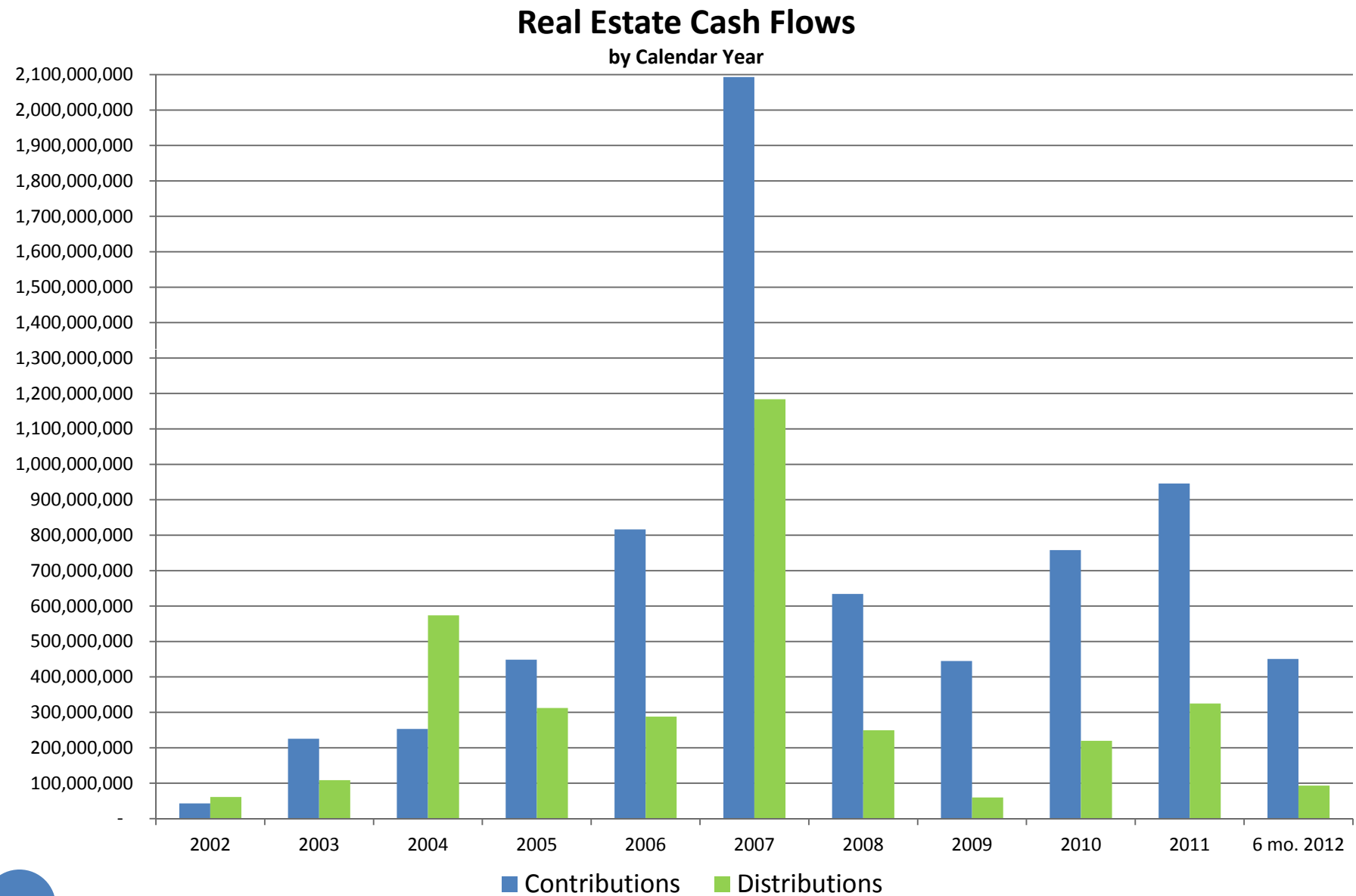
*2012 IRR by Vintage Year above not meaningful due to J-curve effect.

Vintage Year Comparisons

Courtland Partners Ltd. - Universe Comparison



Historical REIP Cash Flows



Top Ten Performing Managers by IRR and Multiple of Cost

Top Ten Managers by IRR:

As of 3/31/12

Fund	Vintage Year	IRR (%)
Westbrook Real Estate Fund I, L.P.	1995	26.07
Keystone Industrial Fund II, L.P.	2007	23.22
DRA Growth & Income Fund III, LLC	2000	22.99
RREEF Global Opportunities Fund II, LLC Senior Notes	2010	19.90
Westbrook Real Estate Fund IV, L.P.	2000	19.86
DB Real Estate Global Opps I-A/I-B, L.P.	2003	18.95
AG Core Plus Realty Fund I, L.P.	2003	18.19
Starwood SDL/SOF Co-Investment	2005	15.51
DLJ Real Estate Capital Partners II, L.P.	2000	14.54
Westbrook Real Estate Fund II, L.P.	1997	12.91

Top Ten Managers by Multiple of Cost:

As of 3/31/12

Fund	Vintage Year	Multiple of Cost (Xs)
RMK Emerging Growth Timberland Fund	1993	2.93
DRA Growth & Income Fund III, LLC	2000	2.78
UBS Trumbull Property Income Fund	1984	2.62
Westbrook Real Estate Fund I, L.P.	1995	2.16
Starwood SDL/SOF Co-Investment	2005	2.02
JP Morgan Strategic Property Fund	1989	1.93
UBS Trumbull Property Fund	1984	1.73
SRI Seven REIT	2004	1.60
DRA Growth & Income Fund IV, LLC	2003	1.56
Westbrook Real Estate Fund IV, L.P.	2000	1.56

Top Ten Managers by Market Value & Post-Crisis Commitments

Top Ten Managers by Market Value:

As of 9/30/12

Fund/Separate Account

Rockwood Capital Real Estate Partners
The Blackstone Group
The Campbell Group
Morgan Stanley Global REIT
UBS Global Real Estate
KTR Capital Partners
Timber Investment Resources
Starwood Opportunity Fund VII, L.P.
DRA Advisors
DLJ Real Estate Capital Partners

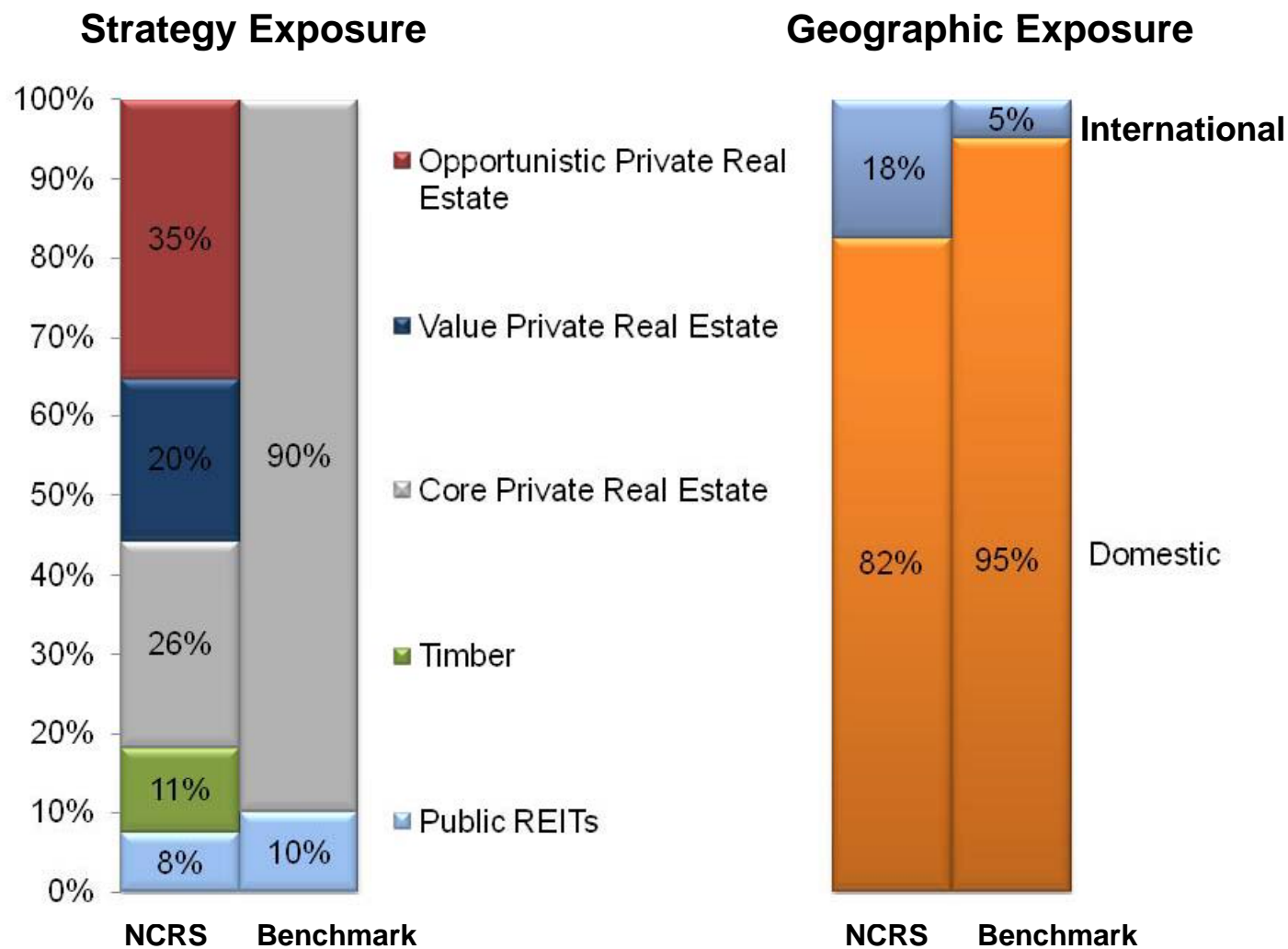
Top Ten Commitments by Manager Post-Crisis:

As of 9/30/12

Fund/Separate Account

Rockwood Capital Real Estate Partners
Blackstone Funds
Lone Star Funds
DRA Advisors
Angelo Gordon & Co.
CrossHarbor Capital Partners
Westport Capital Partners
Shorenstein Fund Manager
Hawkeye Partners
Rockpoint Group

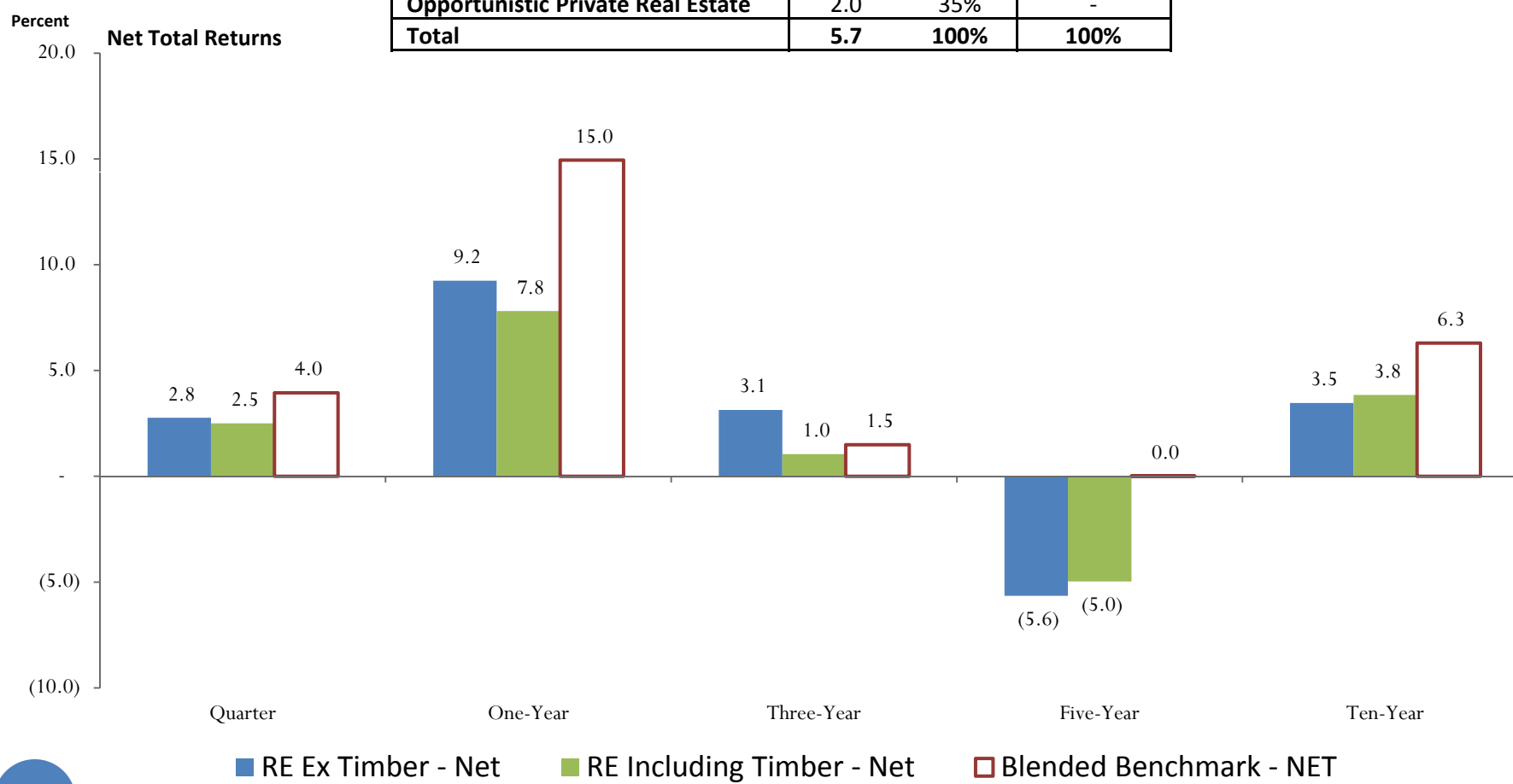
Benchmark Comparison Review – Tracking Error



Benchmark Comparison & Review – REIP Performance Excluding Timber

Timber has been a drag on returns over the past three years

Real Estate Composition	Position		Blended Benchmark %
	\$ Bil	% Wgt	
Timber	0.6	11%	-
Public REITs	0.4	8%	10%
Core Private Real Estate	1.5	26%	90%
Value Private Real Estate	1.2	20%	-
Opportunistic Private Real Estate	2.0	35%	-
Total	5.7	100%	100%

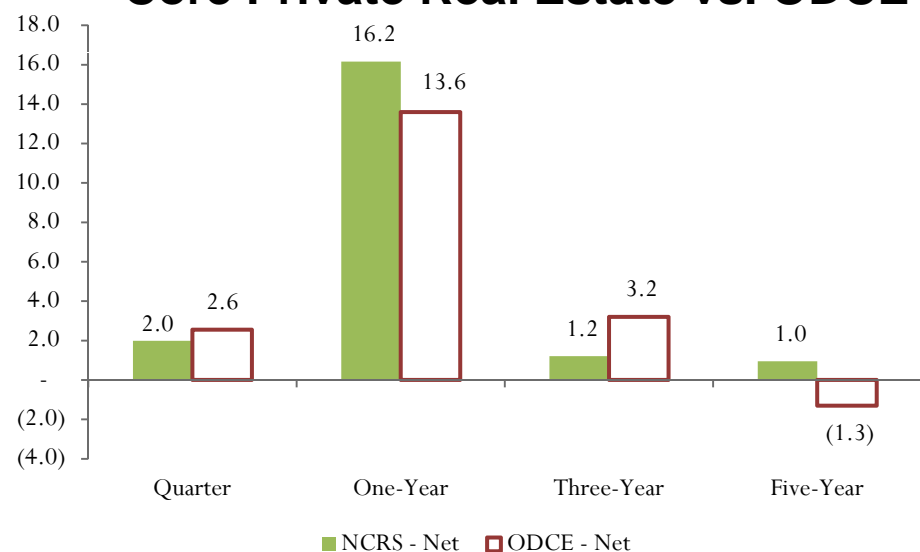


Benchmark Comparison & Review - Performance Attribution

Real Estate to Real Estate

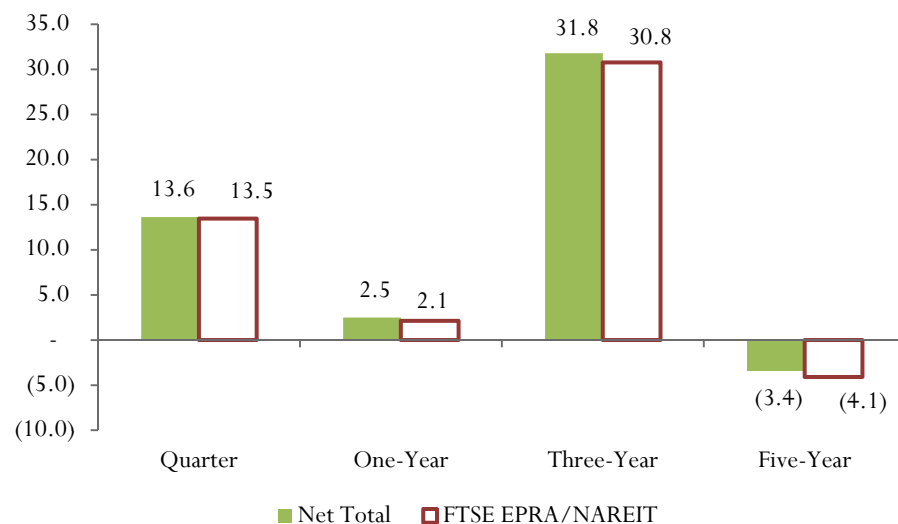
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Core Private Real Estate vs. ODCE



Outperformance in 1- and 5-year

REITs vs. FTSE EPRA NAREIT



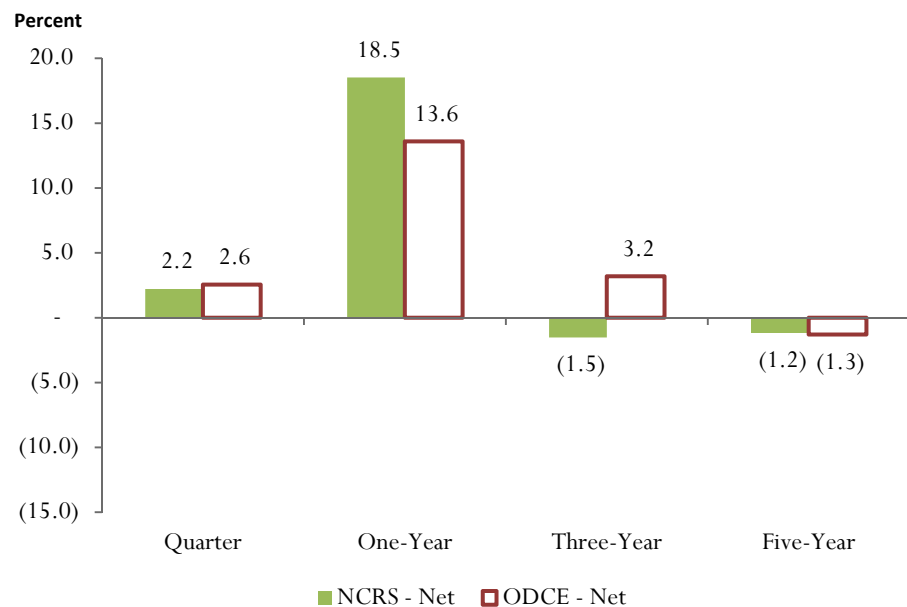
Consistent Outperformance

Benchmark Comparison & Review - Non-Core Weighing on Returns Relative to Benchmark

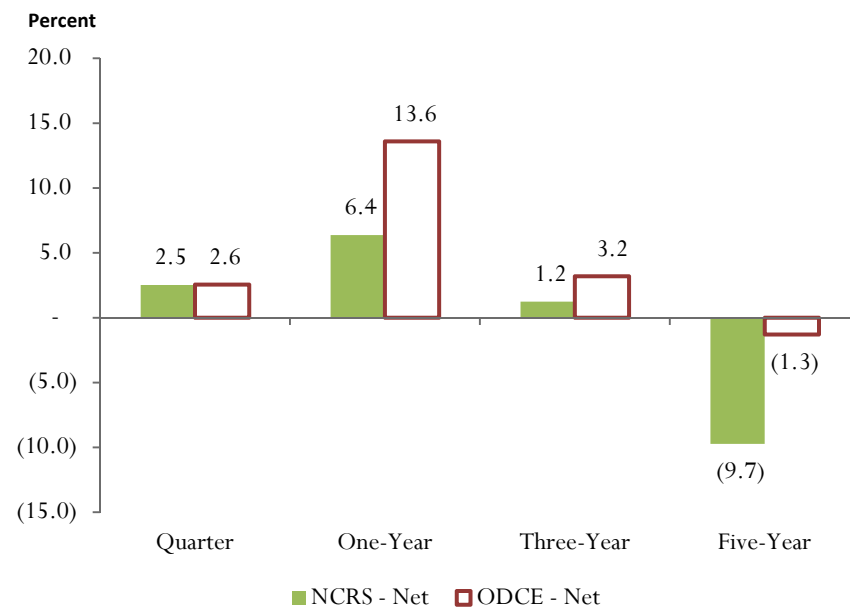
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Total	5.7	100%	100%

Non-Core portfolio underperforming when compared against the ODCE

NCRS Value vs. ODCE

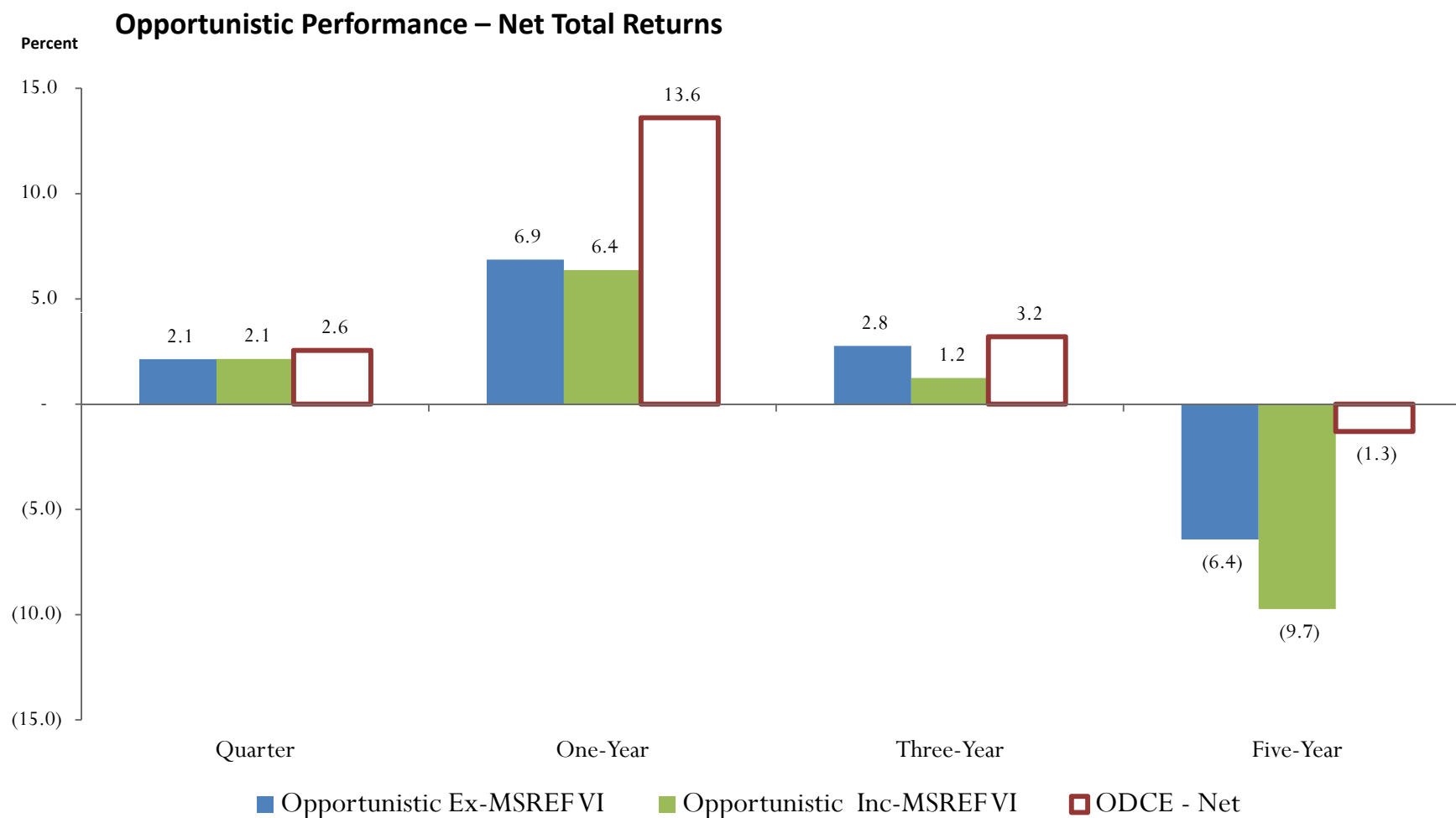


NCRS Opportunistic vs. ODCE



Benchmark Comparison & Review - Opportunistic Performance Ex MSREF-VI

MSREF VI accounts for (330bp) of performance over the 5-year period



Non-Core Benchmark Comparison & Review –Available Options

	Private iQ	Townsend	CP-I (Courtland)	Cambridge Assoc.	FTSE NAREIT	PREA- IPD
Gross Asset Value	\$395 Billion	\$324.4 Billion	\$480.1 Billion	\$514 Billion**	\$379 Billion Market Cap*	TBD
Number of Funds	638	282 Active (600 Overall)	424 Active (560 Overall)	454 Active	153 REITs	TBD
Allocation	Core, VA, Opp.	Core, VA, Opp.	Core, VA, Opp.	VA, Opp.	Public REITs	Core, VA, Opp.
Consistency	Good	Average	Good	Average	Good	TBD
Diversification	Global	Global	Global	Global	Domestic Only	Domestic Only
Leverage	Yes	Yes	Yes	Yes	Yes	Yes
Timeliness	Average	Average	Average	Average	Good	Good
Investible	No	No	No	No	Yes	Yes
Gross or Net	Net	Gross & Net	Gross & Net	Net	Gross Only	Gross & Net
Best Use	Peer Comparison	Peer Comparison	Peer Comparison	Peer Comparison	Peer Comparison	Peer Comparison
Acceptance	Growing	Growing	Client Only	Growing	Growing	TBD
Inception Year	1979	1978	1971	1986	1972	TBD

* Market Capitalization, REITs own approx. \$500 billion of underlying CRE assets.

** Estimate based on Courtland average of \$1.1 billion of gross real estate/fund.
PREA-IPD expected release date of 1Q2013

Benchmark Comparison & Review - NCRS Private Real Estate Compared With Industry Benchmarks

Private RE Portfolio w/ Timber broken out

	1 Year	3 Year	5 Year
NCRS Total	10.07	0.09	(4.20)
Total (Dynamic) ¹	9.39	1.53	(4.55)
Total (Static) ²	10.19	1.52	(3.91)
CA Real Estate	8.27	2.01	(6.72)
Private iQ Real Estate	5.92	(0.08)	(7.73)
NCRS Core	16.16	1.21	0.95
NCREIF ODCE	13.60	3.20	(1.30)
Private iQ Core	9.15	0.88	(2.72)
NCRS Opportunistic	6.37	1.24	(9.73)
CA Opportunistic	6.83	3.74	(6.26)
Private iQ Opportunistic	3.16	0.50	(9.90)
NCRS Value Add	18.52	(1.52)	(1.18)
CA Value Add	12.25	(2.58)	(8.22)
Private iQ Value-Added	10.59	(1.94)	(7.39)
NCRS Timber	(1.73)	(0.12)	1.38
NCREIF Timberland	1.18	(1.27)	4.30

Private RE Portfolio w/ Timber included in Core

	1 Year	3 Year	5 Year
NCRS Total	10.07	0.09	(4.20)
Total (Dynamic) ³	10.95	2.10	(4.97)
Total (Static) ⁴	11.57	2.04	(4.43)
CA Real Estate	8.27	2.01	(6.72)
Private iQ Real Estate	5.92	(0.08)	(7.73)
NCRS Core	9.03	0.30	0.71
NCREIF ODCE	14.66	4.14	(0.43)
Private iQ Core	9.15	0.88	(2.72)
NCRS Opportunistic	6.37	1.24	(9.73)
CA Opportunistic	6.83	3.74	(6.26)
Private iQ			
Opportunistic	3.16	0.50	(9.90)
NCRS Value Add	18.52	(1.52)	(1.18)
CA Value Add	12.25	(2.58)	(8.22)
Private iQ Value-Added	10.59	(1.94)	(7.39)

 = Outperformance of Private Indices

Conclusion: Broaden Benchmark & Make Dynamic

CA = Cambridge Associates; NCREIF = National Council of Real Estate Investment Fiduciaries; ODCE = Open-end Diversified Core (Gross)
All Data as of 3/31/12 and shown on Net basis.

1. Benchmark is dynamically weighted using NCREIF ODCE (Core), CA Opp, CA VA, & NCREIF Timberland
2. Benchmark is weighted 30% Core, 30% Opp, 30% VA, & 10% Timber
3. Benchmark is dynamically weighted using NCREIF ODCE (Core), CA Opp, & CA VA
4. Benchmark is weighted 40% Core, 30% Opp, & 30% VA

2011/2012 Goals & Accomplishments - Investments

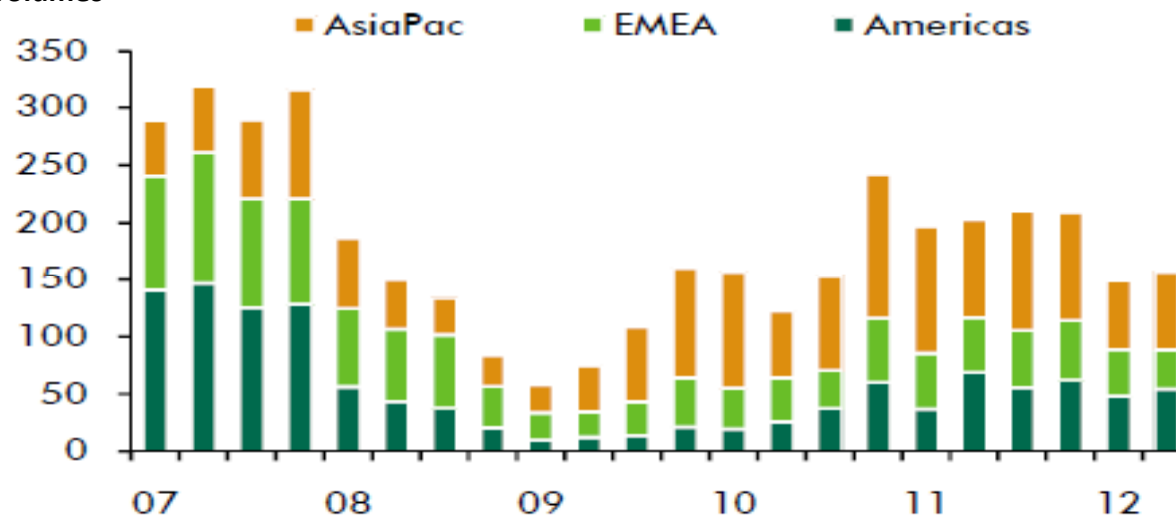
Investment Goals	Results
Platform Opportunities / Separate Accounts	Closed on \$400mm in NorthRock Fund II as a complimentary strategy to NorthCreek Fund. Increased commitment to NorthRock Core Fund by \$200mm.
Debt Program	Implemented. Total Commitments of \$706mm.
Re-up with Strongest Fund Managers	Closed on \$550mm in FY2012 and \$255mm over the summer.
Management Fee Reduction Initiative	Achieved significant savings on both management fees and promote payments to managers. Drove terms.
International / Emerging Market Opportunities	Evaluated and ultimately passed on investments in Asia, Latin America, and India. Continuing to watch opportunities in EU.
Legacy Issues	Active Advisory Board participation. Pursue exit strategies.

2011/2012 Goals & Accomplishments - Systems & Team

Goals	Results
Portfolio and Systems Optimization	<ul style="list-style-type: none"> •SAS – pushed out. •Private iQ
Real Estate Team Efficiency	<ul style="list-style-type: none"> •Systematic manager meetings. •Deal log. •New efficient filing system and purge of old files.
Customer Service Initiative	<ul style="list-style-type: none"> •Formalized investment review system.
Giving Back through Participation in Real Estate Community	<p>Active participation in:</p> <ul style="list-style-type: none"> •Pension Real Estate Association •Urban Land Institute •The Institutional Real Estate Letter •Emerging Managers Conference •Kenan-Flagler

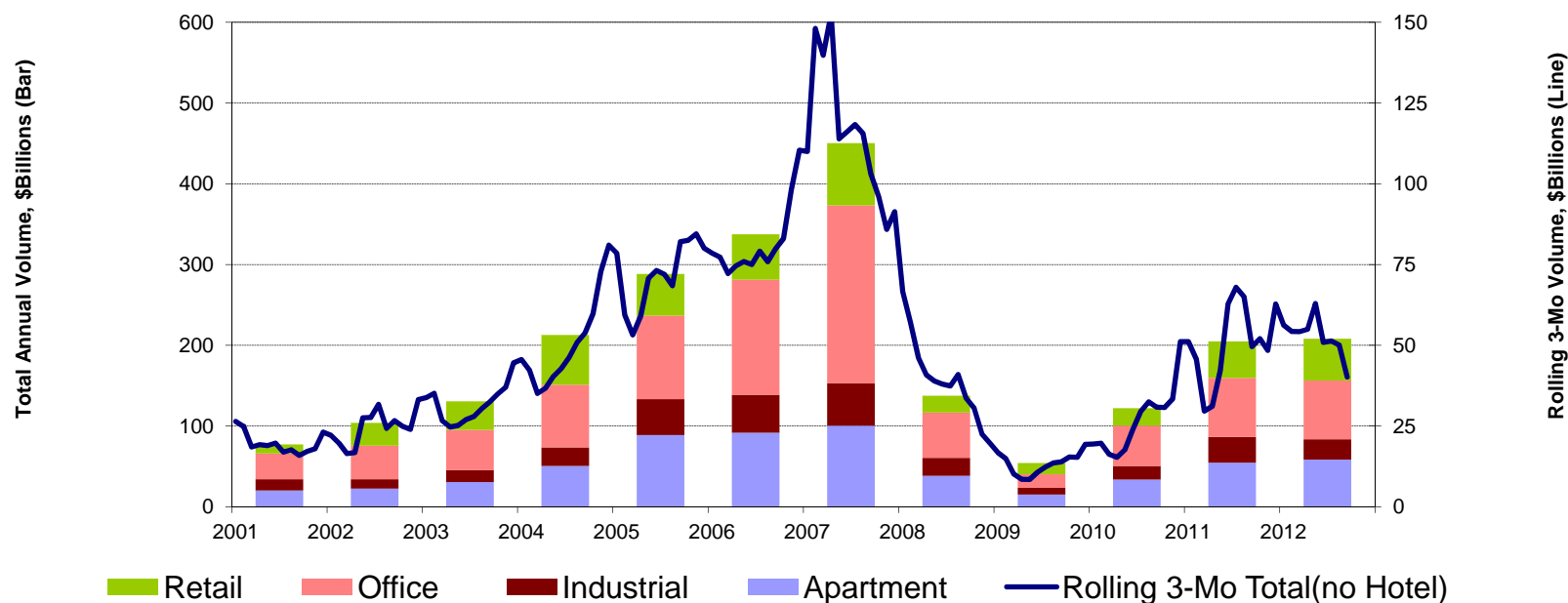
Market Improvements Have Increased Transaction Volumes

Global Transaction Volumes
\$ Bil./Quarter



Source: Real Capital Analytics

US Transaction Volumes by Sector



Source: Real Capital Analytics; 2012 annual is 12 Months thru September

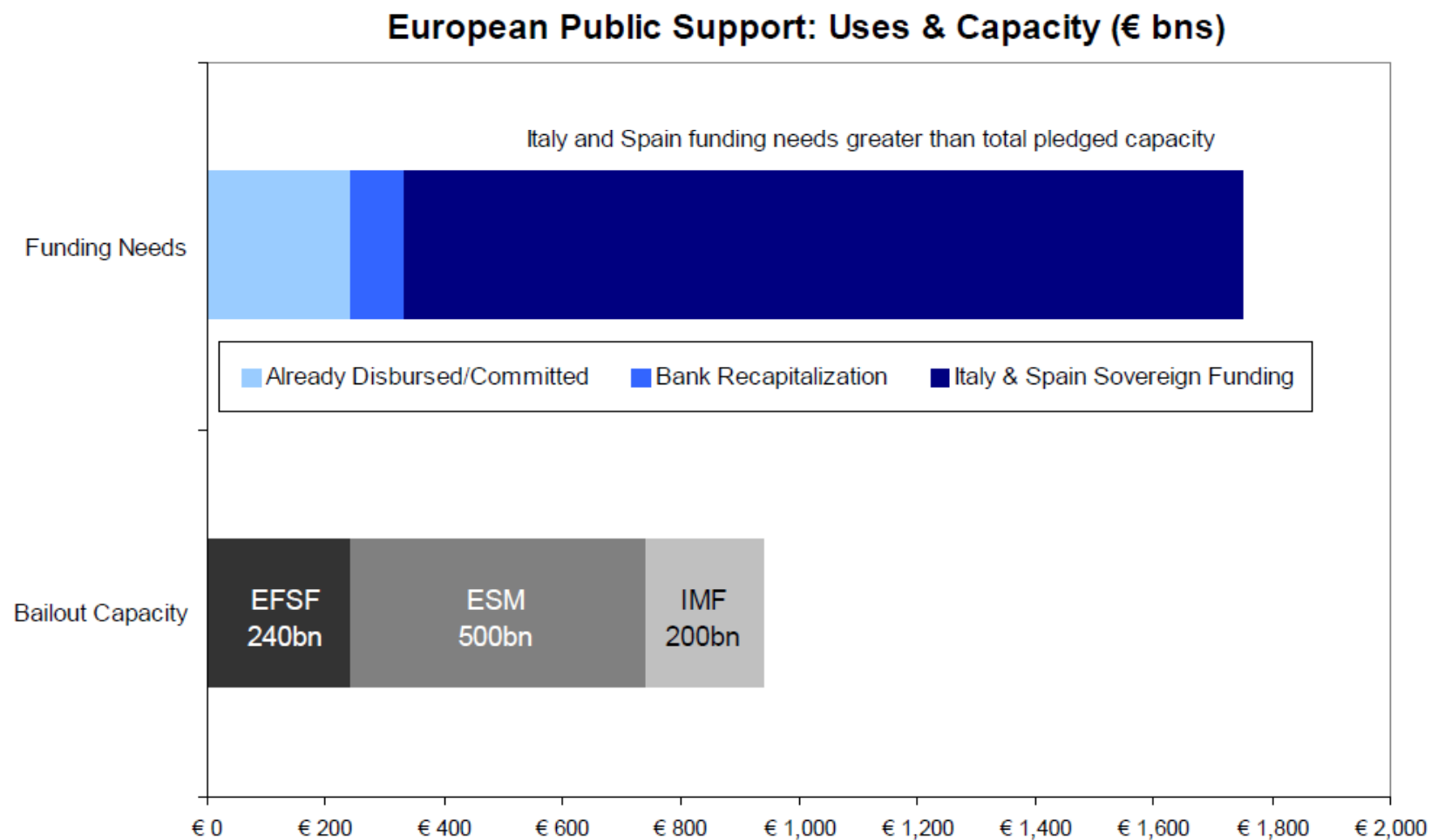
GDP Projections Across Global Markets

Projected GDP Levels (USD bn)					
	2010	2015	2020	2025	2030
World	62,876	74,221	88,140	103,440	121,563
Developed Markets (DM)	39,106	42,919	47,483	52,393	58,071
G7	31,717	34,829	38,431	42,285	46,808
Other DM	7,389	8,090	9,052	10,108	11,263
Emerging Markets (EM)	23,770	31,302	40,657	51,047	63,491
BRIC	11,080	15,453	21,007	26,994	34,117
N-11	4,905	6,192	7,744	9,555	11,750
Other EM	7,785	9,658	11,905	14,499	17,624

Projected GDP Growth Rates				
	2015	2020	2025	2030
World	3.7%	3.3%	3.3%	3.2%
Developed Markets	2.3%	2.0%	2.0%	2.1%
G7	2.2%	1.9%	2.0%	2.1%
Other DM	2.4%	2.2%	2.2%	2.1%
Emerging Markets (EM)	5.8%	4.8%	4.6%	4.2%
BRIC	7.0%	5.5%	5.0%	4.4%
N-11	4.9%	4.3%	4.3%	4.0%
Other EM	4.7%	4.1%	4.0%	3.9%

	2010	2015	2020	2025	2030	Change (2010 - 2030)
World	100.0%	100.0%	100.0%	100.0%	100.0%	
Developed Markets (DM)	62.2%	57.8%	53.9%	50.7%	47.8%	-23.2%
G7	50.4%	46.9%	43.6%	40.9%	38.5%	-23.7%
Canada	2.5%	2.4%	2.3%	2.2%	2.1%	-15.6%
France	4.1%	3.7%	3.5%	3.3%	3.1%	-24.3%
Germany	5.2%	4.8%	4.4%	4.1%	3.7%	-28.5%
Italy	3.3%	2.9%	2.6%	2.4%	2.2%	-32.1%
Japan	8.7%	8.0%	7.1%	6.3%	5.7%	-34.7%
United Kingdom	3.6%	3.3%	3.1%	3.0%	2.8%	-21.0%
United States	23.1%	21.8%	20.6%	19.6%	18.8%	-18.4%
Other DM	11.8%	10.9%	10.3%	9.8%	9.3%	-21.2%
Australia	2.0%	1.9%	1.8%	1.8%	1.7%	-12.6%
Austria	0.6%	0.6%	0.5%	0.5%	0.5%	-23.5%
Belgium	0.7%	0.7%	0.6%	0.6%	0.6%	-24.9%
Denmark	0.5%	0.4%	0.4%	0.4%	0.4%	-25.2%
Greece	0.5%	0.4%	0.4%	0.3%	0.3%	-32.6%
Hong Kong	0.4%	0.4%	0.4%	0.3%	0.3%	-5.6%
Ireland	0.3%	0.3%	0.3%	0.3%	0.3%	-18.6%
Israel	0.3%	0.3%	0.4%	0.4%	0.4%	2.0%
Netherlands	1.2%	1.1%	1.1%	1.0%	0.9%	-23.8%
Norway	0.7%	0.6%	0.6%	0.5%	0.5%	-23.0%
Portugal	0.4%	0.3%	0.3%	0.3%	0.3%	-29.9%
Singapore	0.4%	0.4%	0.4%	0.4%	0.4%	-0.4%
Spain	2.2%	2.0%	1.9%	1.7%	1.6%	-27.1%
Sweden	0.7%	0.7%	0.6%	0.6%	0.6%	-21.4%
Switzerland	0.8%	0.8%	0.7%	0.7%	0.6%	-27.8%
Emerging Markets (EM)	37.8%	42.2%	46.1%	49.3%	52.2%	38.2%
BRIC	17.6%	20.8%	23.8%	26.1%	28.1%	59.3%
Brazil	3.3%	3.5%	3.7%	3.9%	4.1%	24.0%
China	9.3%	11.7%	13.8%	15.2%	16.4%	75.8%
India	2.6%	3.1%	3.8%	4.3%	4.9%	90.7%
Russia	2.4%	2.5%	2.6%	2.6%	2.6%	8.6%
N-11	7.8%	8.3%	8.8%	9.2%	9.7%	23.9%
Bangladesh	0.2%	0.2%	0.2%	0.2%	0.3%	67.1%
Egypt	0.3%	0.4%	0.4%	0.5%	0.5%	45.0%
Indonesia	1.1%	1.3%	1.4%	1.6%	1.7%	50.6%
Iran	0.6%	0.6%	0.7%	0.7%	0.7%	9.3%
Korea	1.6%	1.6%	1.6%	1.6%	1.5%	-4.3%
Mexico	1.6%	1.7%	1.7%	1.8%	1.8%	10.2%
Nigeria	0.3%	0.4%	0.4%	0.5%	0.5%	66.9%
Pakistan	0.3%	0.3%	0.3%	0.4%	0.4%	38.8%
Philippines	0.3%	0.4%	0.4%	0.4%	0.5%	54.2%
Turkey	1.2%	1.3%	1.3%	1.4%	1.4%	21.8%
Vietnam	0.2%	0.2%	0.2%	0.2%	0.3%	71.5%
Other EM	12.4%	13.0%	13.5%	14.0%	14.5%	17.1%

EU Bailout Capacity Will Run Out Quickly Under Current Plans



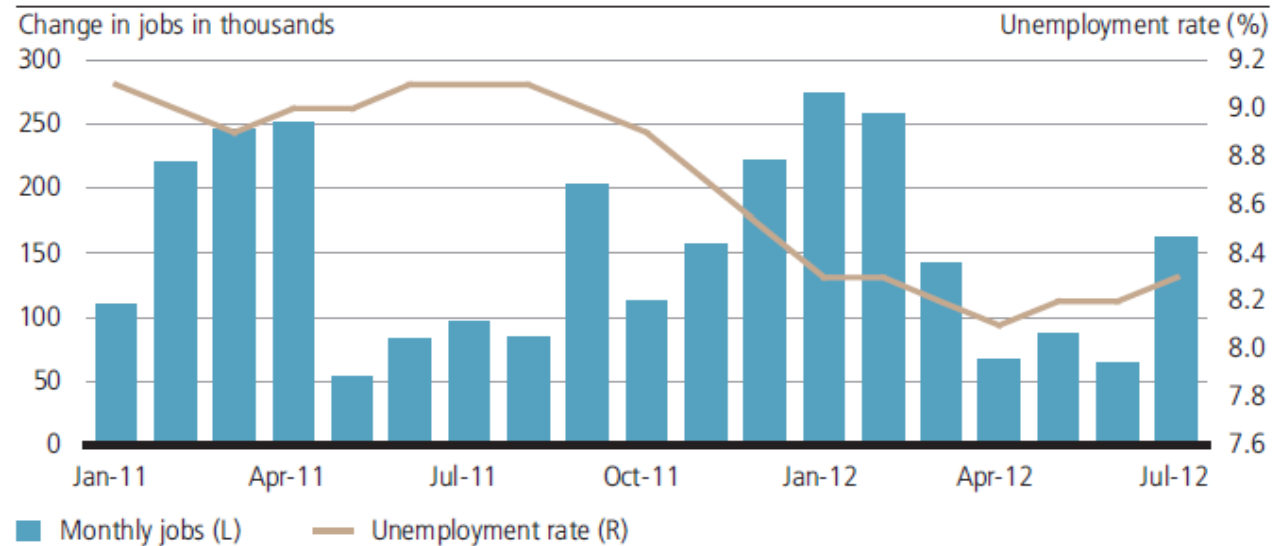
Challenging Employment Picture

**Monthly Employment
Gains/Losses Number of
Jobs (000s) M/M Change**



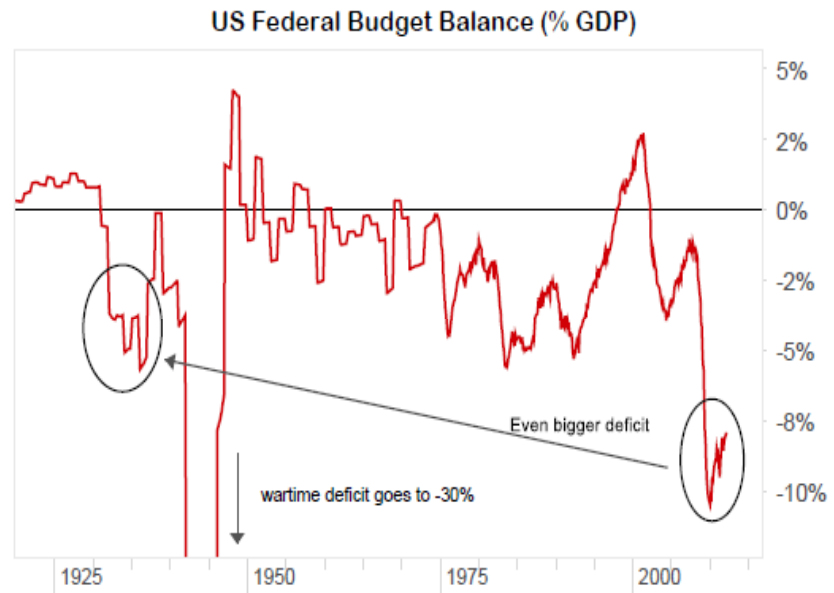
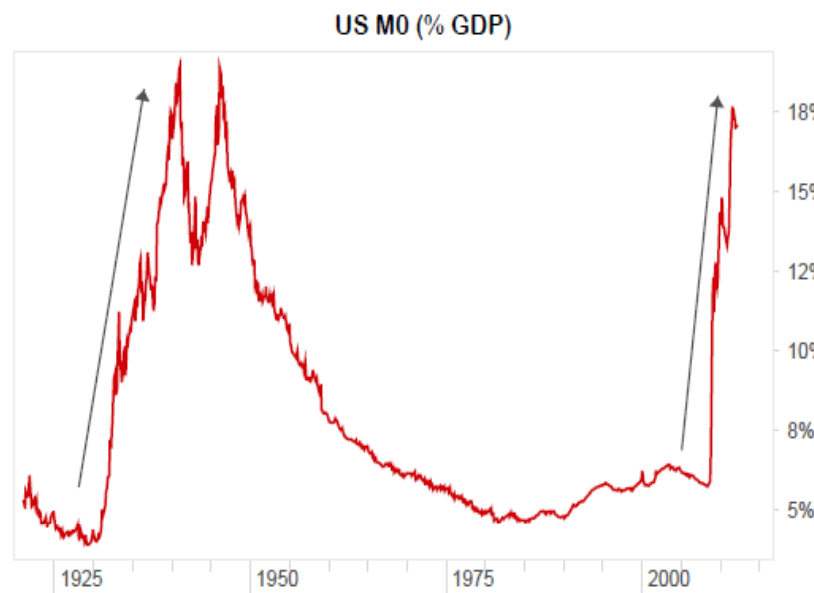
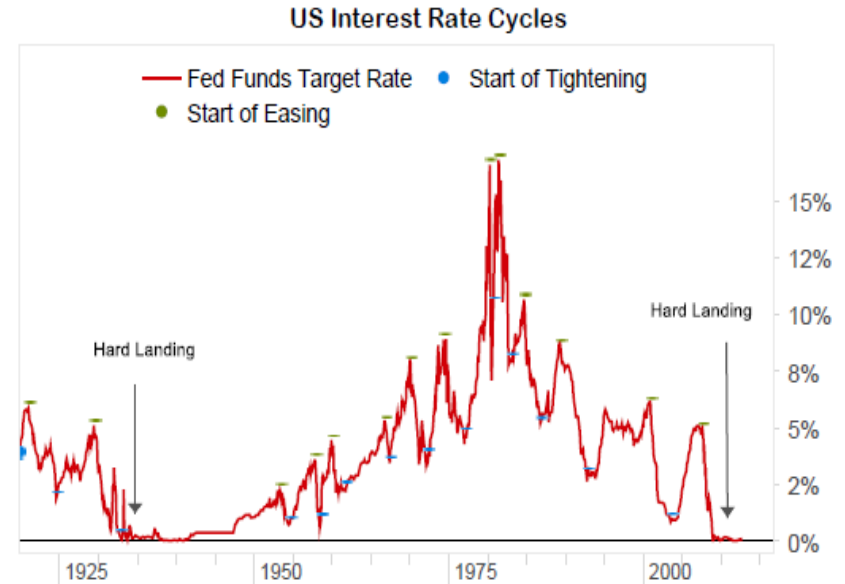
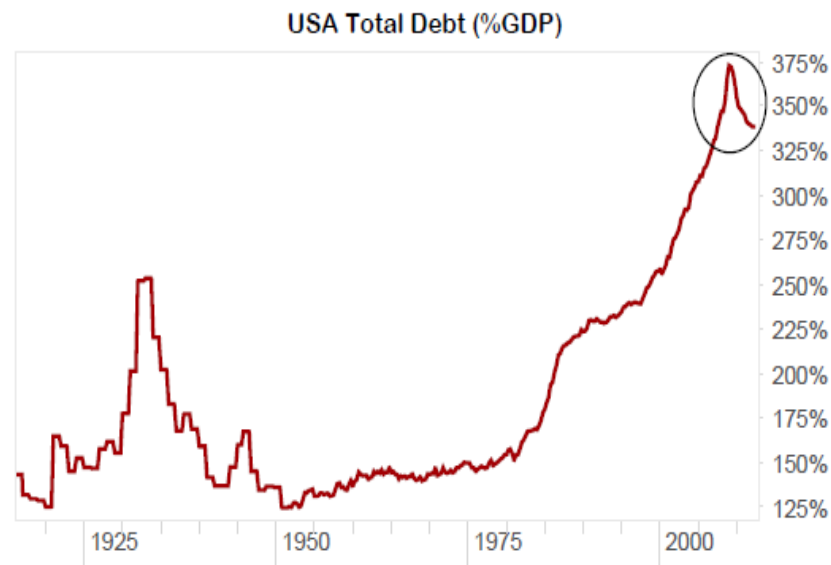
Source: Bureau of Labor Statistics

**Monthly Job Growth
Since 1/11 and
Unemployment Rate**



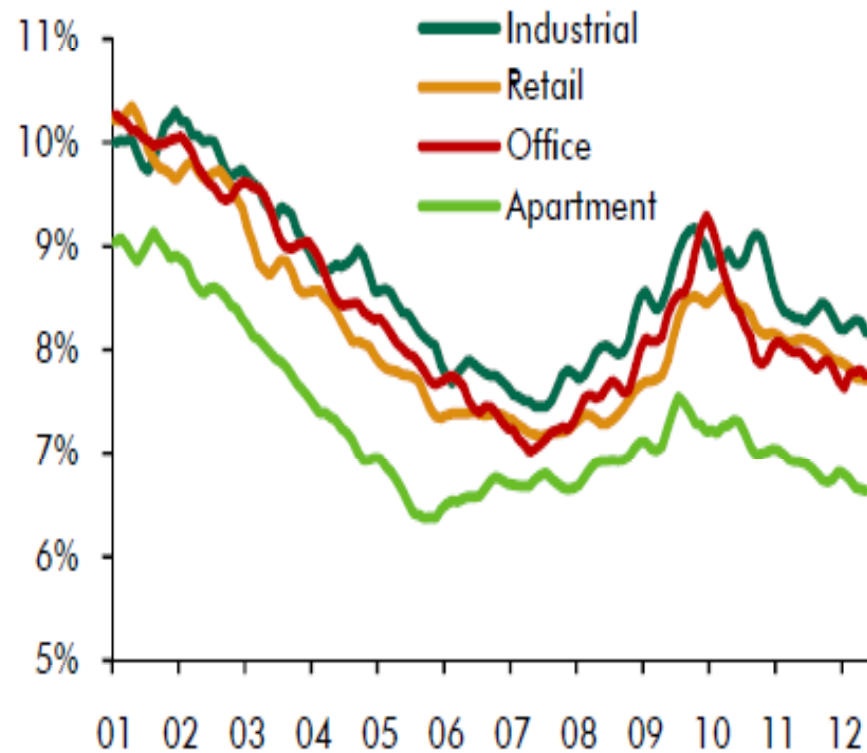
Source: Moody's Analytics as of July 2012

US Long-Term Debt Cycle



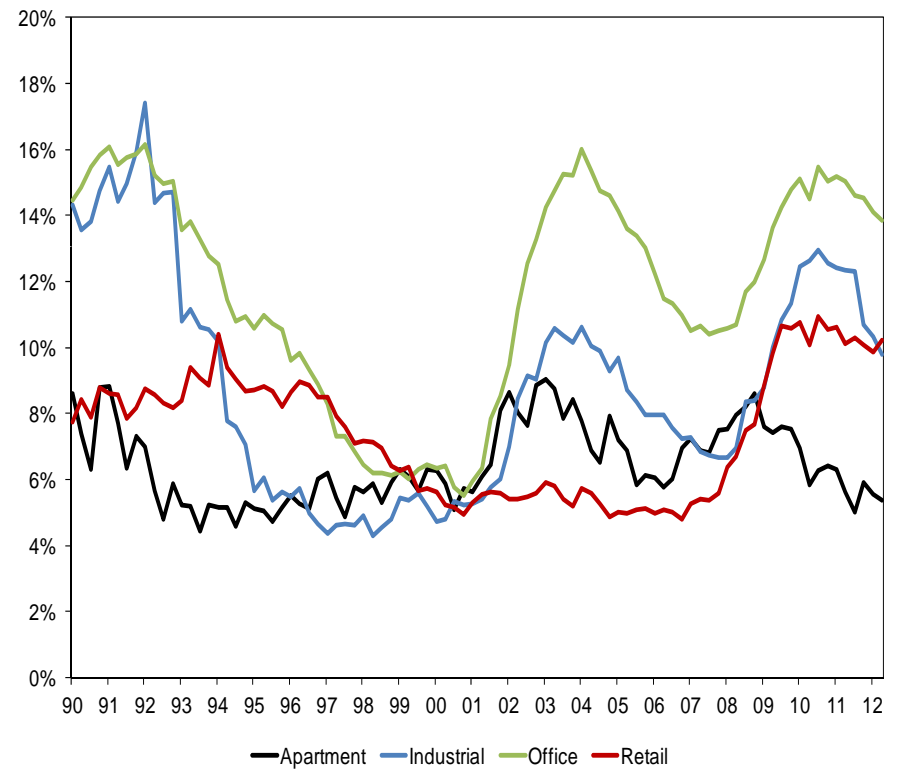
Commercial Real Estate Has Bottomed: Cap Rates Down Across All Sectors

Average Property Cap Rates (%) In US



Source: Real Capital Analytics

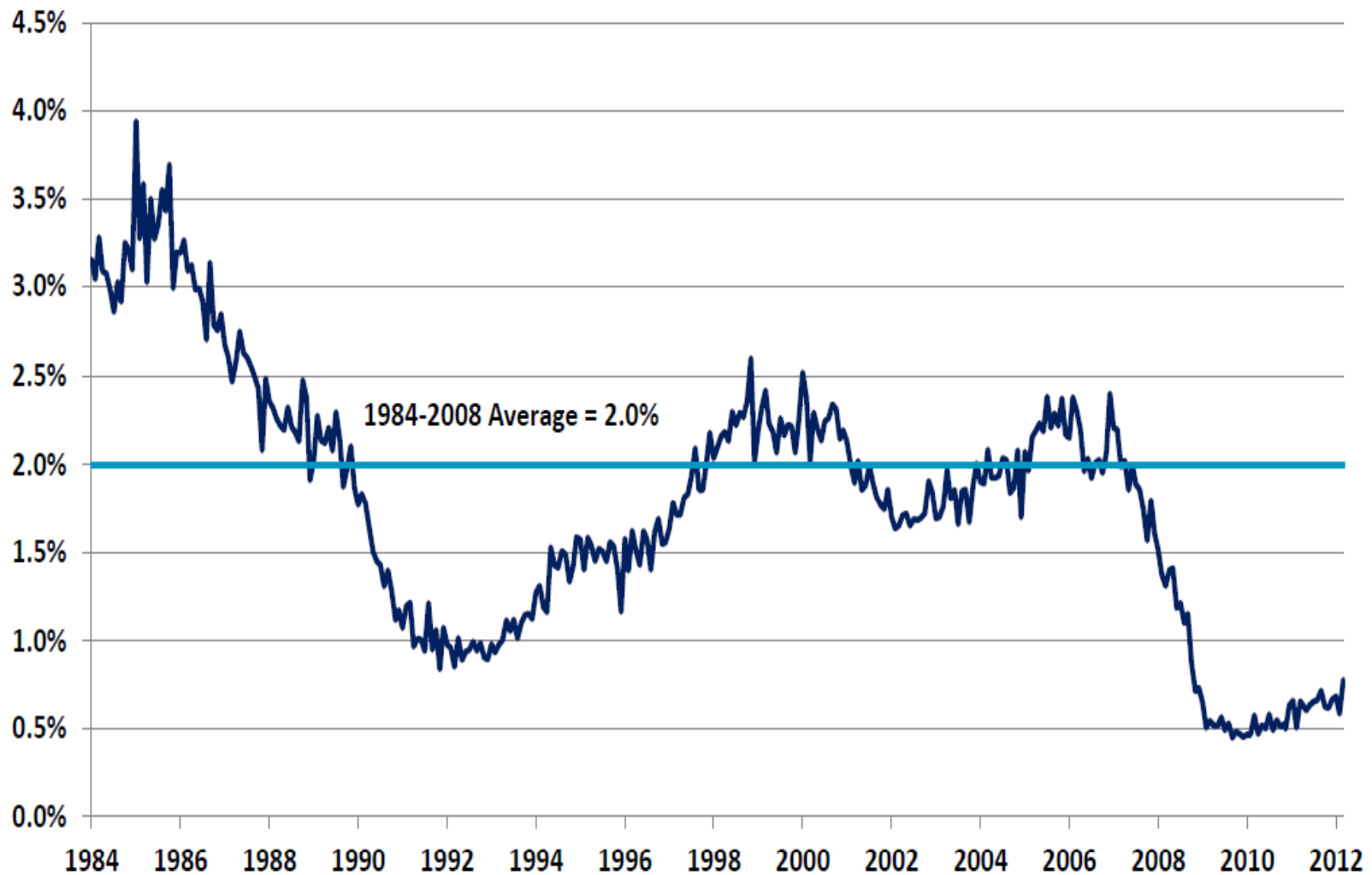
Vacancy Rates (%) In US



Source: Jones Lang LaSalle, NAREIT, NCREIF; As of June 30, 2012

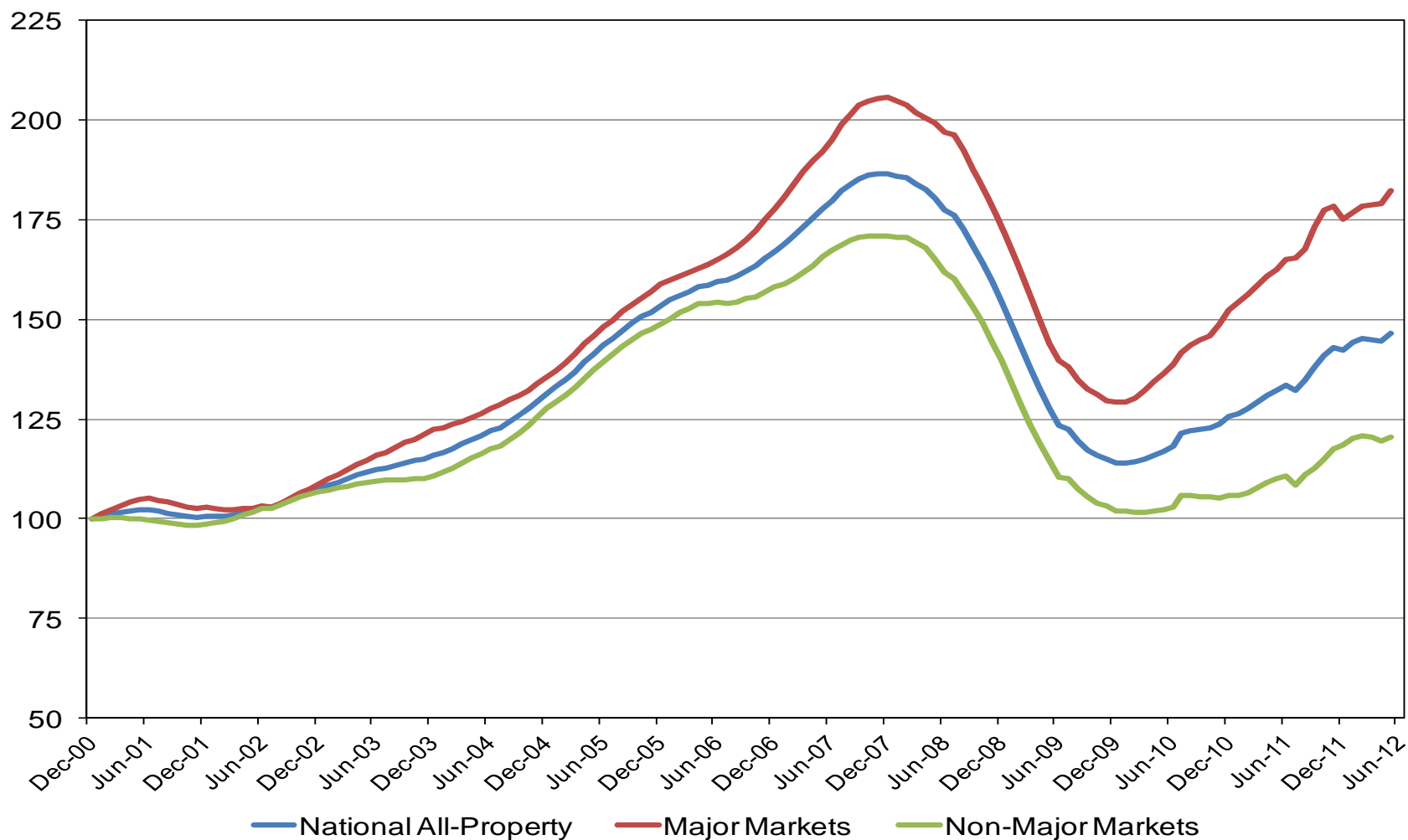
Low Levels of Construction/New Supply

U.S. Aggregate Construction Starts (Annualized)



Source: Citi (6/30/2012)

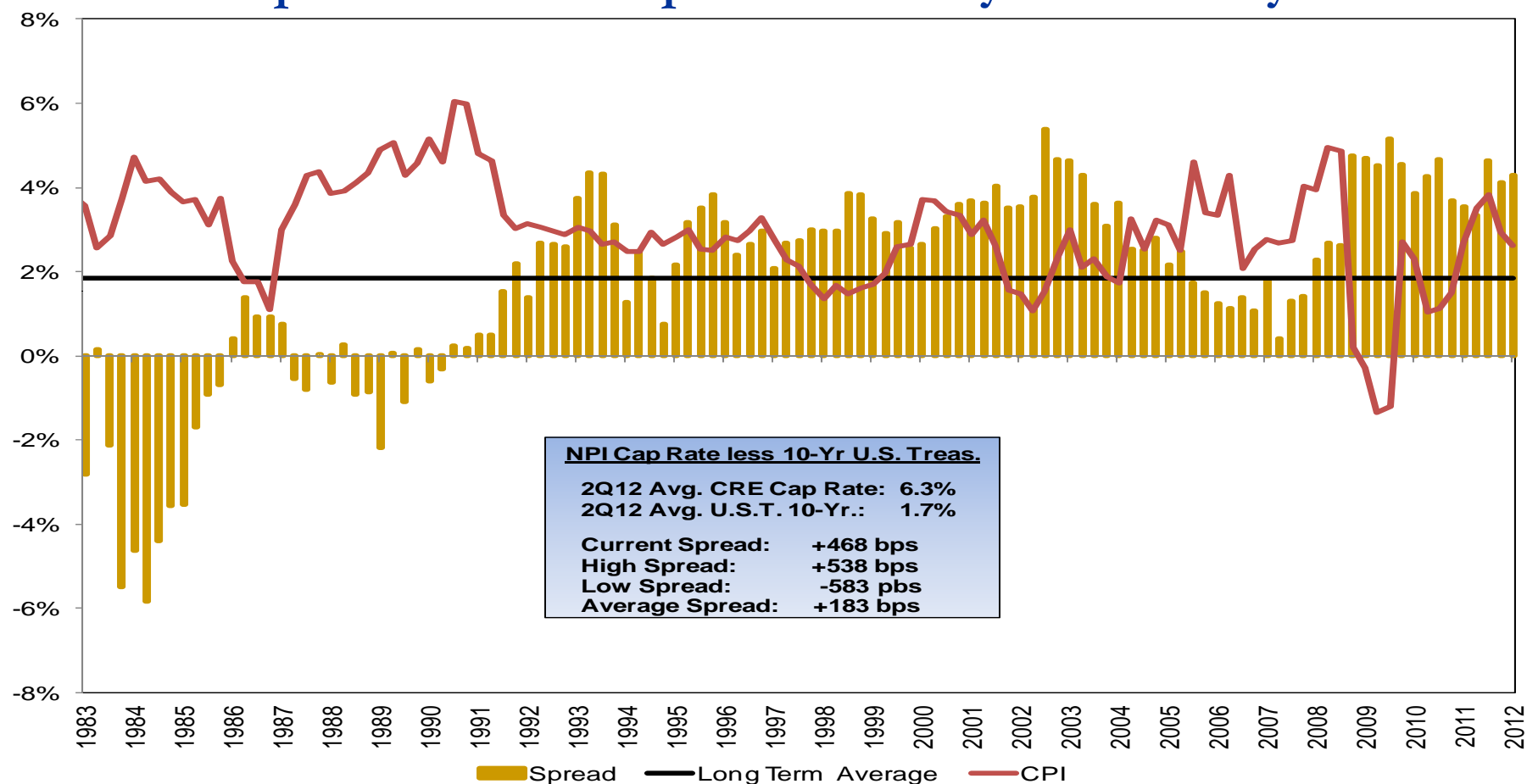
A Tale of Two Markets Has Developed As Investors Seek Fixed-Income Alternatives



The “Major Markets” are six gateway metropolitan areas: Boston, Chicago, Los Angeles, New York, San Francisco and Washington D.C.

Rising Interest Rates Not a Threat to CRE Over Short-term

CPI vs. Spread of NPI Cap-rate over 10 year Treasury



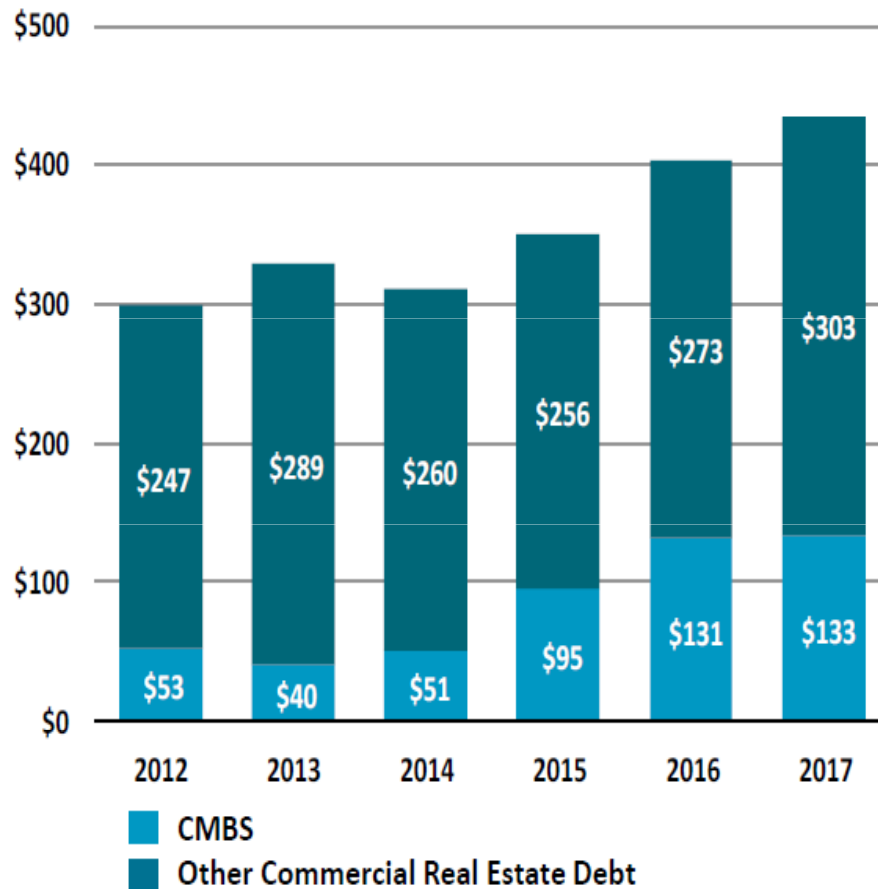
Note: 2012 data is through June 30, 2012

Source: NCREIF, Bureau of Labor Statistics, Courtland Partners

US CRE Debt Maturities & Lack of New CMBS Create Opportunities

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PROVIDED BY A VENDOR

Estimate of Total Upcoming U.S. Real Estate and
CMBS Maturities⁽¹⁾
(\$ in billions)



(1) Source: Barclays Capital anticipated schedule of CRE maturities, Sept 26, 2011. Barclays Capital information sourced from the Federal Reserve, Intex, Barclays Capital.

In general, debt markets remain constrained. This provides an opportunity for those with capital.

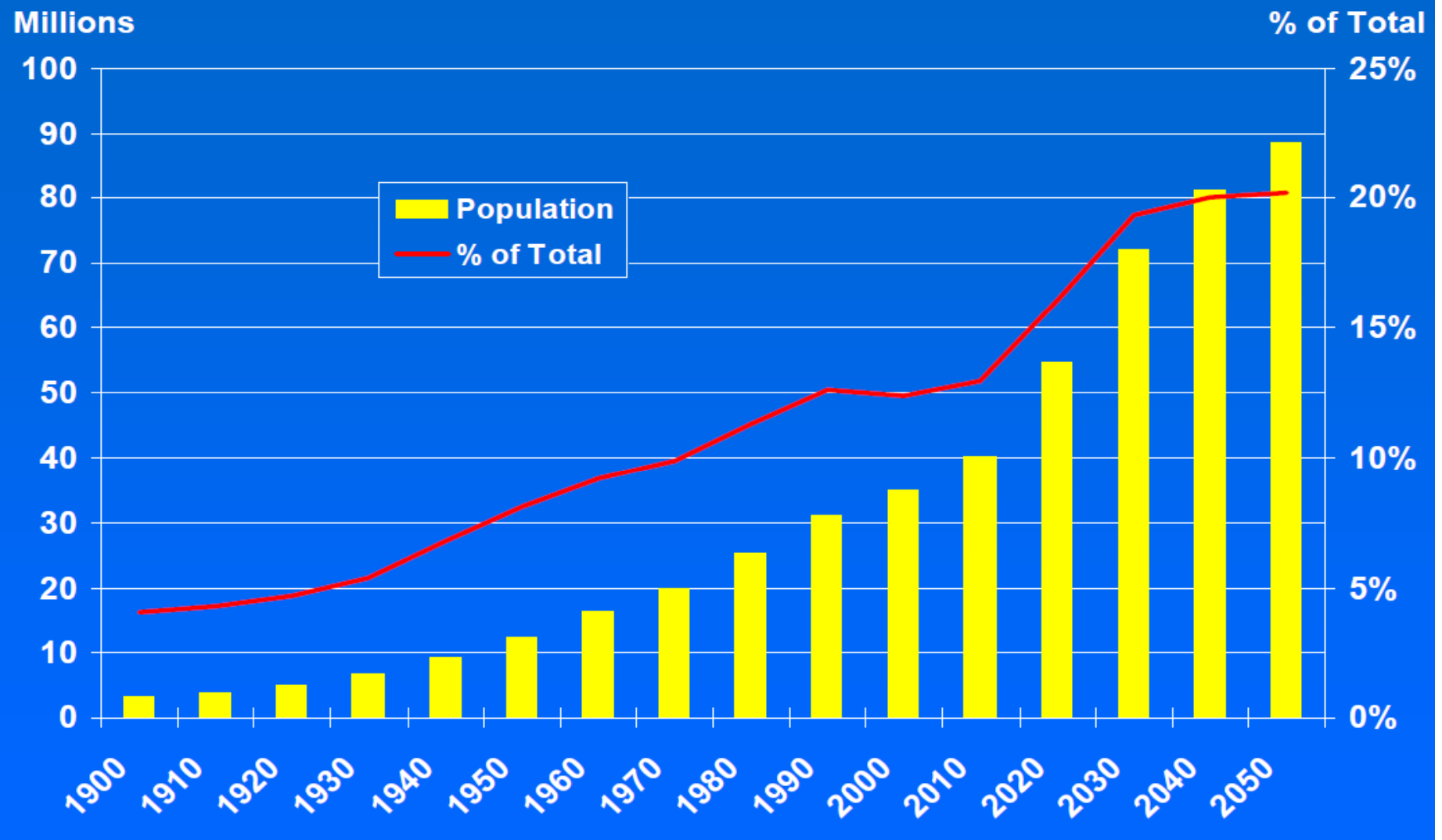
Things That Will Change the World

- Changing Demographics and the Rising Middle Class
- Bioscience
- Financial Technology

**These Will Drive Employment & Impact
Commercial Real Estate**

Demographic Picture

Growth in Population Aged 65+



Immigration Picture

U.S. Immigration by Decade

Millions



*= Estimate

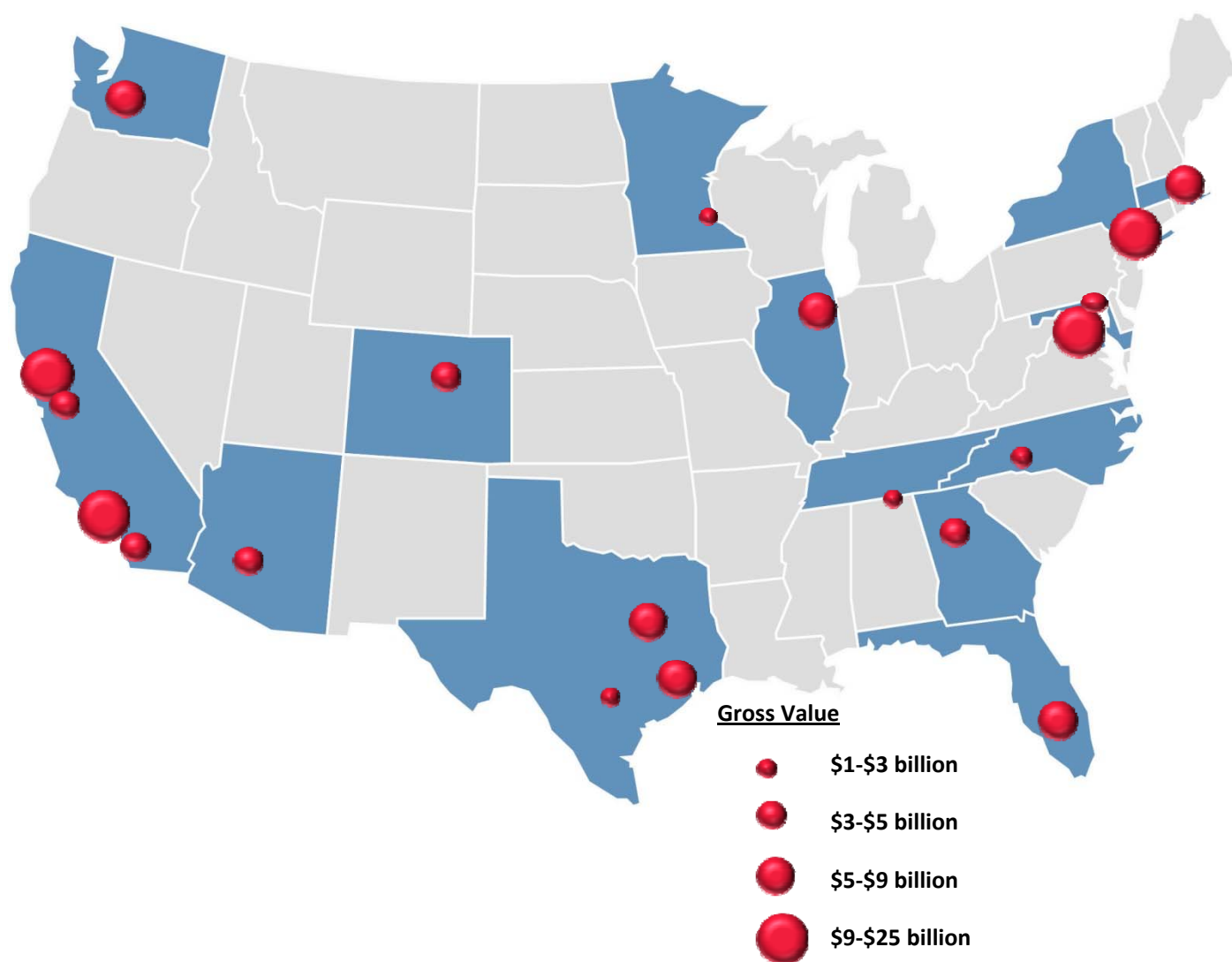
Note: Date is for person obtaining legal permanent resident status.

Sources: Immigration Naturalization Service, RCG

Top 20 Most Active US Acquisition Markets

YTD Sales Volume (8/31/2012)

Market	Volume (\$mil)
NYC Metro	24,924.1
LA Basin	16,616.2
DC Metro	12,316.2
SF Bay Area	9,432.6
Chicago	7,095.5
So Florida	6,438.7
Dallas	5,832.3
Boston	5,430.3
Seattle	5,409.7
Houston	5,160.3
Atlanta	4,804.5
Phoenix	4,547.5
San Jose	4,193.5
Denver	3,595.3
San Diego	3,571.3
Baltimore	2,241.5
Charlotte	2,094.2
Austin	1,877.1
Minneapolis	1,676.2
Nashville	1,514.2



Investor Appetites Have Narrowed

**Reduced Risk
Tolerance**

**Capital Markets
Focus on Stable
Core Assets**

**Attractive Yield
Spread to Bonds**

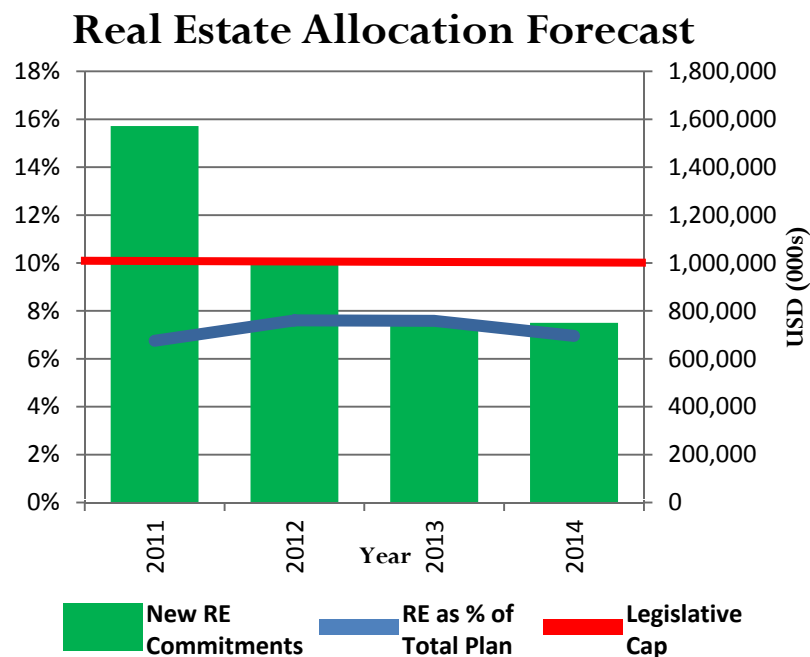
**Yield Compression:
Dominant Assets
with In-Place Rental
Income**

**Exit Strategies:
Liquidity is Greatest
for Leased Assets in
Primary Markets**

Capital Budgeting

Base Case Scenario

- Return = 5% for Total Plan
- Attains target allocation of 8% for 2012 - 2014



Stress Test Scenarios

- Shows impact of the Denominator Effect
- Maintains compliance with Legislative Cap

Real Estate as % of Total Plan		2011	2012	2013	2014
Total Plan Impairments (%)	0%	6.8%	7.6%	7.6%	7.0%
	-5%	7.1%	8.0%	8.0%	7.3%
	-10%	7.5%	8.4%	8.4%	7.7%
	-15%	7.9%	8.9%	8.9%	8.2%
	-20%	8.4%	9.5%	9.5%	8.7%
	-24%	8.9%	10.0%	10.0%	9.2%

2012/2013 Areas of Focus

Investment Focus

Re-up with strongest fund managers - \$750mm of new commitments.

Re-distribution of core capital.

Re-distribution / re-balance of REIT's.

Explore sales of existing investments.

Under consideration: Additional debt investments.

Continue to monitor EU opportunities.

Systems Focus

Improve real estate portfolio analysis systems through SAS and/or other analytical packages.