

Item 1 – Cover Page

PREI®

Prudential Real Estate Investors

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March 30, 2012

This Brochure provides information about the qualifications and business practices of Prudential Real Estate Investors, also known as PREI®. If you have any questions about the contents of this Brochure, please contact us at (973)683-1618 or [robert.denicola@prudential.com](mailto:robert.denicola@prudential.com). A copy of our Brochure is also available free of charge on our web site, [www.prei.com](http://www.prei.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

PREI® is a business unit of Prudential Investment Management, Inc. (“PIM”), which is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. PIM has elected to create separate Brochures to address each of its different advisory units. This Brochure specifically addresses only the operations of PREI.

Additional information about PREI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), and at PREI’s website at [www.prei.com](http://www.prei.com).

## **Item 2 – Material Changes**

This section identifies material changes that were made to our Brochure since its last annual update. PREI will deliver, within 120 days of the close of our fiscal year, either our current Brochure, together with a summary of material changes since the Brochure's last annual update, or a separate summary of those material changes. If we deliver a separate summary of material changes, we will offer to provide our current Brochure without charge, and will instruct our clients as to how to obtain it.

### **Material Changes to the Brochure Dated March 31, 2011:**

- Item 8, Page 16: Additional description of Risks Related to Foreign Investments.
- Item 8, Page 16: Removal of previously-included discussion on the Volcker Rule as a result of Prudential Financial, Inc's decision to consider a range of options with a view to eliminate the impact of the Volcker Rule.
- Item 13, Page 28: Updated reference to roles of Chief Risk and Investment Officer for the U.S. and Latin America, and Chief Risk and Investment Officer for Europe and Asia.

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## **Item 4 – Advisory Business**

### **PIM Generally**

Prudential Real Estate Investors, also known as PREI®, is the real estate investment advisory unit of Prudential Investment Management, Inc. (“PIM”). PIM is an SEC-registered investment adviser organized as a New Jersey corporation. When we use the terms “we,” “us” and “our” in this brochure, we are referring to PREI. In addition, any references to “our employees” or “our officers” mean PIM officers or employees who work in the PREI unit of PIM.

In addition to PREI, the other units within PIM are Prudential Capital Group (a private fixed income investment adviser) and Prudential Fixed Income (a public fixed income investment adviser). Each of these units has a separate brochure that has been filed with the SEC and provides information about its advisory business.

PIM was formed in June 1984 and was registered with the SEC as an investment adviser in December 1984. PIM’s predecessor companies began managing fixed income portfolios for affiliates in 1875. PIM is an indirect, wholly-owned subsidiary of Prudential Financial, Inc., a publicly held company (“Prudential Financial”) (NYSE Ticker: PRU).

### **Prudential Real Estate Investors**

PREI® is a leader in the global real estate investment management business, offering a broad range of investment vehicles that invest in private and public market opportunities in the United States, Europe, the Middle East, Asia, Australia and Latin America. Headquartered in Parsippany, New Jersey, PREI has other offices in Atlanta, Chicago, New York, San Francisco, Miami, London, Lisbon, Madrid, Munich, Paris, Luxembourg, Istanbul, Abu Dhabi, Mexico City, Rio de Janeiro, Singapore, Hong Kong, Sao Paulo, and Tokyo; as well as representatives in Beijing, Seoul, Milan, and Santiago. As of December 31, 2011, we managed approximately \$49.1 billion in gross real estate assets (\$30.1 billion net) on behalf of more than 490 clients and investors worldwide. Of this amount, we consider approximately \$48.9 billion to be managed on a discretionary basis, and \$194 million to be managed on a non-discretionary basis.

Since 1970, we have offered an array of real estate investment products and services in the U.S. and abroad, primarily to institutional investors. Our products and services include management of private real estate and public real estate securities, mezzanine and other forms of secured debt, and traditional core and high-return investment strategies in developed and emerging markets. We also offer investment products focused on such diverse areas as senior housing (in the U.S. and Europe) and affordable housing (in Latin America).

Our investment products include the following:

- the PRISA family of funds, including PRISA, PRISA II, PRISA III and EuroPRISA, which are structured as commingled accounts whose strategies range from core to value added and offer qualified investors the opportunity to invest in U.S. or European real estate on an open-end basis;
- the Prudential Retirement Real Estate Fund ("PRREF"), an open-end commingled fund primarily for the defined contribution market, which invests in commercial real estate through investments in the PRISA family of funds or similar funds as well as in publicly-traded real estate securities;
- various open-end and closed-end commingled funds with a variety of investment strategies and whose fund structures vary according to investor need and jurisdiction, but may include insurance company separate accounts, limited partnerships, private REITs, and other tax-efficient entities that can invest in both direct real estate and entity level investments in real estate companies, through equity or debt structures, in the United States and abroad; and
- single-client accounts, which may be structured as insurance company separate accounts, limited partnerships or other arrangements, which provide tailored real estate investment strategies to institutional investors.

As described more fully below, we also provide discretionary and non-discretionary investment advisory services to clients both directly, through express contractual relationships, and indirectly, pursuant to sub-advisory arrangements, as well as to clients of both affiliated investment advisers, including Prudential Investments LLC ("PI"), Prudential Investment Management Japan Co., Ltd., Pramerica Investment Management Limited ("PIML"), and unaffiliated advisers. PI is a registered investment adviser under the Investment Advisers Act of 1940. PIM and the other advisers referred to as its affiliates in this Item 4 are indirect, wholly-owned subsidiaries of PFI.

- PI serves as manager or co-manager of the Prudential Investments family of mutual funds, Prudential Series Fund and Advanced Series Trust, which are comprised of open-end investment companies registered under the Investment Company Act of 1940. Pursuant to sub-advisory agreements, we provide investment advice and related services to certain of these funds, subject to the supervision of PI and the board of directors of each of the investment companies. We receive advisory fees from PI under these sub-advisory contracts.
- We provide investment advisory services to a number of affiliated insurance companies, including, without limitation, The Prudential Insurance

Company of America ("PICA") and Prudential Retirement Insurance and Annuity Company ("PRIAC"), in connection with the investments of their general and separate accounts, and to the proprietary accounts of certain other affiliates. We are paid advisory fees by these affiliates pursuant to advisory agreements.

- Pursuant to an investment advisory agreement and service agreement, we also provide investment advice and related services to a fund within the Prudential Trust Company ("Pru Trust") Collective Trust and Master Commingled Investment Fund for Tax Exempt Trusts (the "Pru Trust Trusts"), which are managed by and under the supervision of Pru Trust. We receive advisory fees and service fees from Pru Trust under these agreements.
- Under various sub-advisory agreements, we provide investment advice and certain ancillary services to domestic and foreign affiliates and third parties with respect to portfolios of institutional clients managed by such advisers, under the supervision of such advisers. We are paid advisory fees by the advisers under these contracts.
- We also offer investment advisory services through direct contractual relationships with clients. We have such advisory relationships with various institutional investors, managers of mutual funds, corporations, foreign-domiciled investment companies, and private limited partnerships and other private investment vehicles.
- We also provide advice to affiliates and institutional clients on matters dealing with the acquisition, sale, development and management of real estate, as well as investments in real estate, real estate-related securities, mezzanine loans and commercial mortgages.
- We prepare research, reports and investment papers dealing with investment matters that are distributed to clients, certain prospective clients and affiliates, free of charge.
- As part of our investment advisory service offerings, we sub-advise funds and manage single client accounts that invest primarily in publicly-traded securities of real estate operating companies and REITs globally. In this context, we invest on behalf of a range of clients, including U.S. mutual funds, annuity funds, defined benefit plans and non-U.S. institutional investors. Investment strategies focus on selected countries or regions and include other client-tailored aspects such as compliance with Shariah laws.

Certain strategies and product offerings described above are advised or offered by PREI

units that are subsidiaries of PIM and are located outside the U.S.

## **Item 5 – Fees and Compensation**

### *Advisory Fees*

The fees paid by our clients under our various advisory and sub-advisory relationships vary according to a number of factors, including, among others, the fund, account type, the type of investment strategy, the investment amount, our relationship with the client and the type of services required. For example, fees for commingled vehicles, including those that we sub-advise, may differ from fees for single client accounts. Fees are generally higher for funds that are farther along the risk spectrum (outlined in more detail in Item 8 below), as such funds often require more active management. Fees are generally negotiable, so it is possible for one client to pay a different fee than another client with similar investment objectives or goals, though clients invested in the same fund pay fees based on the same rate schedule.

Fee structures may include base management fees, acquisition fees, disposition fees, incentive fees (performance-based fees), and carried-interest payments. Our base management fees are customarily offered in tiered schedules with breakpoints linked to the amount of assets in the account, so that the fee rate paid by a client decreases as the client's assets under management increase. In circumstances where a single client or investor consultant has multiple accounts managed by us, we may, in our discretion, agree with such client or consultant to aggregate the client's assets across accounts to enable the client or the consultant's clients to benefit from a lower fee tier.

We do accept performance-based fees for our advisory services on certain of our investment products, in particular, our closed-end funds. Our performance-based fee arrangements are structured to comply with Rule 205-3 under the Investment Advisers Act of 1940 and our internal policies. Fees paid by clients whose funds have performance-based fees may be higher due to the fact that such fees may increase based on the performance of a portfolio above an established benchmark.

### *Payment of Fees*

Depending on the client's preference, we either bill a client for our fees or deduct fees from the client's account. Asset-based fees are typically payable quarterly in arrears. Performance-based fees, if earned, are payable after the calculation period for such fees.

We do not require or solicit clients to pay advisory fees in advance. If a client were to pay advisory fees in advance and the client's advisory contract were to terminate before the end of a billing period, any prepaid fees would be refunded on a pro rata basis.

#### *Compensation of Our Investment Professionals*

Generally speaking, except for the carried interest payments noted above, compensation of our investment professionals (including, among others, portfolio managers and research analysts) includes a combination of base salary, a performance-based annual cash incentive bonus, and a long-term incentive grant. The base salary component is based on market data relative to similar positions within the industry as well as the past performance, experience, and responsibility of the individual. Investment professionals' annual cash incentive bonus is paid from an annual incentive pool. Each investment professional's incentive compensation, including both the annual cash incentive bonus and the long-term incentive grant, is primarily determined by how significantly he/she contributes to delivering investment performance to clients consistent with portfolio objectives, guidelines, and risk parameters, as well as the individual's qualitative contributions to the organization. Our incentive compensation program is designed to align the interests of each investment professional with those of our clients. The performance of our clients' accounts, our overall business, and the individual employee are all important factors in determining the size of the annual bonus awarded to each individual. Total compensation is designed to be competitive with the market, but an individual's actual compensation may vary. Investment professionals are all covered by the same general compensation structure, although they manage multiple accounts. All investment compensation is paid by PREI, not from any assets of managed accounts.

Certain employees of PREI are registered representatives of affiliated broker-dealers or officers or directors of certain commingled investment vehicles managed by PREI. These employees may engage in marketing efforts in such capacities on behalf of the commingled vehicles and may receive transaction-based compensation for such efforts in the form of bonuses and long term compensation that may, where permitted by law, be based directly or indirectly on the additional revenues generated from new or existing relationships.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

#### *Performance-Based Fees*

As noted above in Item 5, for certain of the portfolios and funds that we manage, we earn performance-based fees. We believe that any conflict of interest created by differences in PREI's advisory fee structures is addressed by PREI's policies and procedures, including our investment allocation process, which is designed to manage the distribution of

investment opportunities to the various investment funds and/or products managed by PREI.

#### *Investment Allocation Process – Real Estate Funds*

A detailed deal brief is created for each proposed real estate equity and equity-oriented debt investment (an “opportunity”), once it has been identified by an acquisition professional. This brief outlines the proposed investment, including the property location, preliminary return projections, proposed transaction structure, and perceived opportunities and major risks. The deal brief is distributed to all PREI portfolio managers and to PREI’s research team for review and comment. Each opportunity is then presented at the next meeting of the PREI Allocation Committee. At such meetings of the Allocation Committee, which consists of PREI’s three Senior Portfolio Managers, its head of U.S. Transactions, its head of Research and its Global Chief Risk and Investment Officer, each portfolio manager has the ability to ask questions about the proposed investment and offer input on the property, market, structure, and initial underwriting. Portfolio managers express interest in a particular opportunity based on the needs of their portfolios, subject to each portfolio’s investment guidelines. If more than one portfolio manager expresses interest in an investment opportunity, the Allocation Committee determines the best portfolio fit after giving consideration to specified criteria, and the opportunity is then allocated to that portfolio. Certain investments that meet the specialized investment criteria for portfolios investing in specific types of assets, such as mortgage debt and senior housing, are first allocated to those portfolios, to the extent the relevant portfolio has investment appetite and subject to portfolio manager approval. If such specialized investment opportunities are not allocated to those portfolios, they are then available for allocation to all other appropriate portfolios, pursuant to the allocation procedure described above.

#### *Global Real Estate Securities*

PREI’s Global Real Estate Securities Group (“GRES”) manages multiple portfolios of publicly traded real estate securities. When allocating an aggregated order, all such orders are typically allocated pro-rata, subject to account restrictions or guidelines, based on the relative size of the eligible accounts. Under such pro-rata allocation, each account pays the average unit price and bears its pro-rata share of transaction costs. After the order is executed, the trader will then allocate according to the instructions previously received from the GRES portfolio manager.

If the portfolio manager seeks to pre-allocate a trade in any manner other than pro-rata, the specific methodology is memorialized in writing and is retained consistent with the record-keeping requirements of PREI’s allocation policy. Pre-planned deviations from a pro-rata allocation may be made on the basis of certain specified conditions, including if (i)

an allocation would cause an account to receive an odd lot or “de minimis” amount, (ii) the portfolio manager determines that the account’s cash flow does not support an allocation, (iii) an account has a specialized investment mandate or style, or specific investment restrictions, (iv) an account has unique tax considerations, or (v) positions in multiple accounts need to be balanced. For any other allocation that is not pro-rata, the GRES Senior Portfolio Manager acknowledges the allocation by signing off on the allocation rationale. Any such approval is to be completed as soon as possible, but typically not later than the opening of the applicable securities market on the following trading day. Notwithstanding the foregoing, any allocation that is inconsistent with the pre-planned or pro-rata allocation methodology must be consistent with the doctrine of fair and equitable treatment of all client accounts.

### **Item 7 – Types of Clients**

Our client base is composed of many different types of investors, including corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, state and municipal plans, registered mutual funds, private investment funds, trust programs, sovereign funds, foreign funds such as UCITs and SICAVs, and other U.S. and international institutions. We provide our services to both affiliated and non-affiliated clients. Our minimum account size varies by product. Generally, single client accounts have higher minimums than investments in commingled vehicles.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

PREI aspires to be the preeminent global institutional money manager for real estate. Our product line is diverse, and includes investment opportunities in equity and debt real estate in both the public and private markets, employing a variety of financial structures.

We offer investment products to our clients in many areas of commercial real estate investment across the risk spectrum from Core to Value-Added to Opportunistic. We believe that where a product fits in this risk spectrum is a combination of the risk factors at both the property/asset level and at the portfolio level. We have set forth below some of the key characteristics that we believe are representative of real estate equity investments in Core, Value-Added and Opportunistic strategies, as well as of investments in real estate debt and securities. More detailed summaries of the investment strategies of specific funds are available upon request.

*Equity Real Estate*

*Core Investments*

A “Core” portfolio typically seeks to take no more risk than the market in general and seeks to provide investment returns similar to or slightly above the market benchmark with a similar risk profile. Typically, this means a portfolio that is diversified by property type and location. It also means that the portfolio invests primarily in existing and leased properties and that the portfolio employs limited leverage. Lease rollover is generally well balanced in a Core portfolio, on the premise that a balanced rollover schedule mitigates the adverse impact of an economic downturn on the portfolio’s income stream. Similarly, a Core portfolio will also seek to limit its single asset exposure, in the same way that many core stock funds limit their exposure to a single issuer to a stated percentage of the fund’s assets. In a Core portfolio, property income often comprises the largest share of return, with appreciation generally anticipated to result from capitalizing the growth in income and because another buyer will pay a greater multiple for the same cash flow/income stream.

At the property level, Core portfolio investments generally involve the major property types – office, retail, apartment, industrial (warehouse, R&D and flex space) and, to a lesser extent, hotels. Typical “Core” assets would include properties that were at least 80% leased, and hotels that were operating at, or near, market occupancy, when acquired by a fund. While non-traditional property types such as senior housing, self storage, medical office and investments in real estate operating companies typically have not been considered a part of a core investment strategy, niche sectors that exhibit core investment characteristics (e.g., stable, high cash yields) may play a limited role in a diversified Core portfolio. Development, redevelopment and/or rehabilitation of properties are generally not considered a meaningful part of a Core strategy, other than properties undergoing a renovation or expansion that does not have a material impact on the property’s occupancy or operation. Incidental investment activities in a “Core” portfolio may include listed REIT securities or purchase money mortgages accepted as partial consideration in a property sale, and first mortgage loans with loan-to-value ratios at acquisition of 65% or less.

### *Value-Added*

Moving further along the risk spectrum, a “Value-Added” portfolio entails additional risk with the accompanying expectation of a greater return. A Value-Added portfolio generally seeks to capitalize on the interplay of market forces and the imbalances that may arise as a result. Value-added strategies may involve some or all of the following:

- A significant overweight or even an exclusive investment of the portfolio in a particular property type or region because management sees that property type or region as a particularly attractive buying opportunity. Thus, there are generally no diversification objectives in a Value-Added fund.

- An investment strategy of identifying and meeting under-served market needs through development or renovation. A significant portion of the portfolio may be devoted to this objective.
- A specialization in non-traditional property types such as senior housing, where management sees significant new demand and inadequate skills and/or capital sources available to meet the market's needs.
- Compared to Core, a much greater use of leverage, particularly if such financing can be found at relatively attractive borrowing rates. Value-added strategies may still restrict leverage to some specified limit, such as a percentage of the portfolio value.
- A focus on investments in secondary markets and/or markets outside the United States.

#### *Opportunistic*

An "Opportunistic" portfolio moves even further out on the risk spectrum with the anticipation of even greater returns. Opportunity funds got their start in the United States following the market crash in the early 1990s, when properties were trading at steep discounts to replacement cost due to a lack of capital and poor property market fundamentals. The first opportunity funds earned attractive returns by exploiting the withdrawal from the market of traditional capital sources to acquire assets at distressed prices and then participating in the rebound in tenant demand and asset values as the economy recovered and capital returned to the asset class. As the real estate market recovered, opportunity funds expanded to include a broader range of investment and strategies including:

- Very high levels of leverage.
- Investment outside the United States, initially in the real estate recovery in other developed countries but gradually in developing and emerging markets countries.
- Investment in private U.S. real estate companies that have some particular expertise in a market niche.
- Speculative development.

#### *High Yield Debt Investing*

Our Global High Yield Debt team is responsible for investments in, and funds management for, commercial real estate debt products in geographically focused funds. Depending upon the particular fund, these investments may include performing and non-performing whole loans, mezzanine loans, B-Notes, preferred equity and CMBS. Debt investments can be

newly originated or acquired in the secondary market and secured by single assets or portfolios across all major property types. Transaction types include recapitalizations, refinancings, repositionings and acquisitions. The current geographic focus is on the United States and Europe. Our dedicated High Yield Debt team is located in offices in New York City and London.

### *Global Real Estate Securities*

We offer global real estate securities strategies to institutional investors and to retail distribution partners worldwide. Our public securities portfolios comprise mutual funds, single-client accounts, and funds designed for the defined contribution and annuities markets. The GRES team advises mutual funds investing in real estate securities offering global, U.S. only and international (ex-U.S.) mandates, for U.S. retail investors, and global mandates for non-U.S. retail investors. The GRES team also advises single client accounts in accordance with the investment strategy mandated by the client. Our dedicated GRES team is located in offices in Parsippany, London, and Singapore.

The GRES team is fully integrated into PREI's real estate business. Regional investment teams consisting of portfolio managers, analysts and traders work together daily to evaluate and implement portfolio strategy and investment decisions. We believe that the integration of our securities platform and the global scale of our real estate business provide us a competitive advantage in identifying emerging markets and quality real estate companies significantly before other investment managers. We understand local market conditions and have a unique ability to access management teams and gauge local market sentiment.

### **Primary Risks Associated with Investing in Our Products**

We have set forth below some of the primary risks that we believe are representative of those encountered by investors considering investments in commercial real estate equity, debt and securities. More detailed discussion of the specific risks associated with the investments of a particular fund may be found in the offering documents for such fund, which are available upon request.

#### *Risk of Loss*

Any investor contemplating investment in the commercial real estate investment products we offer must recognize that such investments are not guaranteed by PREI or any of its affiliates and involve potentially significant risk of loss, which the investor must be prepared to bear. We cannot assure you that you will achieve your investment objective or that you will receive any return on your investment. Our performance may be volatile and you may lose your entire investment. Our past performance and activities provide no

assurance of future results. In addition, our fees and expenses may reduce investment returns.

#### *Risks Related to Reliance on Partners and other Personnel*

We often invest through joint venture or other co-investment arrangements, the results of which may be highly dependent on the acumen and behavior of the partners we choose to invest with and other entities or individuals that they may retain, such as a property manager. If the applicable venture or management arrangements are terminated for any reason, or if key property management personnel leave or otherwise become unavailable, we may have difficulty finding a suitable replacement. In addition, our success will depend, in substantial part, upon the skill and expertise of certain PREI professionals. The death, disability or departure of any key PREI professional may adversely affect our business and performance.

#### *Risks Related to General Economic Conditions and Competitive Markets*

The manner in which we compete for investments and the types of assets in which we seek to invest can be affected by changing conditions resulting from sudden changes in our industry, the regulatory environment, the role of government-sponsored entities, the role of credit rating agencies or their rating criteria or processes, or the U.S. and global economies generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, the investment returns we generate may be adversely affected. We operate in a highly competitive market for investment opportunities, and such competition may limit our ability to acquire desirable target assets, affect the underwriting or pricing of these assets and adversely impact investment returns.

#### *Risks Related to Real Estate Investments Generally*

Most of the assets that we manage involve commercial real estate in some form, either as an equity interest in such real estate, as debt secured by the real estate or by interests in the entities that own the real estate. The value of commercial real estate is typically dependent upon the ability of the applicable property to produce cash flow (or at least its potential to generate cash flow). However, a property's net operating income and cash flow can be volatile. The net operating income, cash flow and value of the properties may be adversely affected by any number of factors, including, without limitation:

- the age, design and construction quality of the property;
- perceptions regarding the safety, convenience and attractiveness of the property;
- the proximity and attractiveness of competing properties;

- the adequacy and effectiveness of the property's operations, management and maintenance;
- increases in operating expenses (including but not limited to insurance premiums) at the property and in relation to competing properties;
- an increase in the capital expenditures needed to maintain the property or make improvements;
- costs associated with environmental liabilities or other legal liabilities;
- the dependence upon a single tenant, or a concentration of tenants in a particular business or industry;
- a decline in the financial condition of a major tenant;
- an increase in vacancy rates;
- and a decline in rental rates as leases are renewed or entered into with new tenants.

Other factors are more general in nature, such as:

- national, regional or local economic conditions (including plant closings, military base closings, industry slowdowns and unemployment rates);
- local real estate conditions (such as an oversupply of competing properties, rental space or multifamily housing);
- demographic factors;
- decreases in consumer confidence;
- changes in prices for key commodities or products;
- changes in consumer tastes and preferences, including the effects of adverse publicity; and
- retroactive changes in building codes, or other changes in governmental regulations, fiscal policy, zoning or tax laws.

The volatility of net operating income will be influenced by many of the foregoing factors, as well as by:

- the length of tenant leases;
- the creditworthiness of tenants;

- the level of tenant defaults;
- rent control laws or other laws impacting operating costs;
- the number and diversity of tenants;
- the availability of trained labor necessary for tenant operations;
- the availability of financing;
- changes in interest rate levels;
- the rate at which new rentals occur;
- the property's operating leverage (which is the percentage of total property expenses in relation to revenue);
- the ratio of fixed operating expenses to those that vary with revenues, and
- the level of capital expenditures required to maintain the property and to retain or replace tenants.

A decline in the real estate market or in the financial condition of a major tenant will tend to have a more immediate effect on the net operating income of properties with short-term revenue sources (such as hotels or other properties with short-term or month-to-month leases) and may lead to higher rates of delinquency or defaults under mortgage loans secured by such properties.

Some of the properties we acquire are newly constructed and/or recently opened and, as such, have a limited operating history. We cannot assure you that any of the properties, whether newly constructed and/or recently opened or otherwise, will perform as anticipated.

#### *Risks related to Portfolio Concentrations*

Concentrations of properties in certain geographic areas may increase the risk that adverse economic or other developments or natural or man-made disasters affecting a particular region of the country could adversely impact those properties. For example, properties located in California may be more susceptible to certain hazards (such as earthquakes or widespread fires) than properties in other parts of the country and properties located in coastal states generally may be more susceptible to hurricanes than properties in other parts of the country.

#### *Risks related to Debt Investments*

Debt investments may include commercial mortgage or mezzanine loans that we have either originated or acquired, or other investments that are secured by or supported by the cash flows from commercial property. As there is generally very limited recourse against the borrower's or sponsor's assets other than the underlying collateral, the ability of a borrower to repay a mortgage or mezzanine loan typically is dependent primarily upon the successful operation of the related income-producing property, rather than upon the existence of independent income or assets of the borrower. If the net operating income of the related property is reduced, the borrower's ability to repay the loan may be impaired.

In the event of any default under a mortgage, mezzanine or other real-estate related loan held directly by us, we would need to exercise available remedies. Foreclosure of a mortgage or mezzanine loan can be an expensive and lengthy process that could have a substantial negative effect on the value of the investment, and completion of such foreclosure may require the ownership and operation of the related property and the risks related to such ownership. In addition, there is a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage or other loan. Some mezzanine loans may restrict transfers of the equity interests securing such loans, or such transfer or foreclosure may require the consent of a senior lender or equity holders in the related real estate company. These remedial limitations may adversely affect the likelihood of repayment in the event of a default.

In the event of the bankruptcy of a mortgagee or other borrower, the loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

#### *Risks Related to Conflicts of Interest*

As further described in the section of Item 11 below addressing conflicts of interest, we encounter actual and potential conflicts of interest in connection with our investment advisory activities, including significant conflicts with respect to other activities of PIM and PREI that may negatively impact our investors. We strive to identify conflicts of interest which are inherent in our business, and when identified, seek to address them through elimination, disclosure or management.

#### *Risks Related to Financing*

We may incur leverage at a fund or portfolio level, subject to specified constraints, and we may also leverage individual assets. Incurring substantial debt could subject fund investments to a number of risks that could materially and adversely affect investors, including the risks that:

- fund or property cash flow may be insufficient to make required payments of principal of and interest on the debt;
- we may be unable to comply with all of the material covenants imposed by the lender,
- such debt may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of fund or property cash flow to payments on debt, thereby reducing funds available for property operations, investor distributions or other purposes; and
- we may be unable to refinance debt that matures on favorable terms, or at all.

Defaults under such financing could lead to (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), (ii) an inability to borrow unused amounts under other financing arrangements, and/or (iii) the loss of some or all of a fund's investments to foreclosure or sale (iv) one or more lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing.

In addition, if regulatory capital requirements imposed on our lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase financing costs to a fund, reduce available liquidity or require us to sell fund assets at an inopportune time or price.

To the extent that we choose to employ floating rate financing, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of property operations and cash flows and the market value of fund investments.

We currently use bank credit facilities to finance certain fund assets, on a portfolio by portfolio basis. These financing arrangements involve the risk that the market value of the properties may decline in value, or other loan covenants may be breached, in which case the lender may require us to provide additional collateral or to repay all or a portion of the funds advanced. The portfolio may not have the funds available to repay or pay down the debt at that time, which could lead to a default.

#### *Risks Related to Foreign Investments*

Certain funds we manage may make investments outside of the United States. With any investment in a foreign country, there exist certain economic, political and social risks that might not be found in a similar investment in the U.S. Investments are generally denominated in the currency of the jurisdiction where the investments are located and thus

are subject to fluctuation in currency exchange which can affect the value of the assets. In addition, laws, regulations and conditions in foreign countries may impose restrictions or risks that would not exist in the U.S. and may require financing and structuring alternatives which differ from those customarily used in the U.S. Foreign countries may also impose taxes on the funds and their investors.

#### *Risks Related to Financial Regulatory Reform*

Laws and regulations affecting our business change from time to time, and we are currently operating in an environment of significant regulatory reform. We cannot predict the effects, if any, of future legal and regulatory changes, both in the U.S. and globally, on our business or the services we provide.

### **Item 9 – Disciplinary Information**

Under this Item 9, we are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of us or the integrity of our management. We have no facts or events to report in response to this Item.

### **Item 10 – Other Financial Industry Activities and Affiliations**

We provide advice and consulting services to affiliates on matters dealing with the acquisition, sale, development and management of real estate. We also provide advice to our third-party clients concerning investment in real estate, real estate debt and real estate-related securities. Prudential Investment Management Services, LLC ("PIMS") (a broker-dealer and FINRA-member) provides marketing and administrative support for PREI. PIML, an SEC-registered entity domiciled in the UK and regulated by the Financial Services Authority, provides marketing, operational, and administrative support to PREI and acts as a discretionary sub-advisor to PREI. Each such entity is an affiliate of PREI.

As described in the response to Item 4 above, PI, an indirect wholly-owned subsidiary of Prudential Financial and our affiliate, serves as manager or co-manager of the Prudential Investments family of mutual funds, Prudential Series Fund and Advanced Series Trust. Pursuant to sub-advisory agreements, we provide investment advice and certain ancillary services to PI with respect to many of these funds.

As further described in the response to Item 4, we provide investment advisory services to PICA and PRIAC in connection with the investment of their general and separate accounts. We also provide advisory services to certain accounts for Pru Trust and the Pru Trust

Trusts which are managed by Pru Trust. Pru Trust, located in Scranton, Pennsylvania, is a wholly-owned subsidiary of PIM and an indirect subsidiary of Prudential Financial.

We and various affiliates or officers/employees of one of these entities may actively engage in the creation of Private Funds as vehicles for client investments.

A description of the Private Funds of which PREI or a related person is a general partner or managing member may be found in Part I, Schedule D, Section 7.B of Registrant's Form ADV, which can be viewed at [www.adviserinfo.sec.gov/IAPD](http://www.adviserinfo.sec.gov/IAPD).

## **Item 11 – Code of Ethics**

### *Code of Ethics*

#### *General*

We maintain a code of ethics as required by applicable SEC rules. Our code of ethics requires employees to conduct business in an honest and forthright manner in accordance with the highest of ethical standards. In addition, the code of ethics requires employees to put client interests ahead of our own and disclose actual and potential meaningful conflicts of interest. The code of ethics incorporates our information barrier and personal securities trading policies that are described in greater detail below. Our employees are required to report any violation of the code of ethics promptly to our Chief Compliance Officer.

We will provide a copy of our code of ethics to clients or prospective clients upon request.

#### *Information Barrier Policy*

PIM's information barrier policy, which applies to us, is designed to prevent the communication of material, non-public information across the various Prudential U.S. asset management investment sectors. Under the policy, an employee of one investment sector, including PREI, may not communicate material, non-public information to an employee of another investment sector without approval from each sector's compliance unit. The information barrier policy also restricts physical access to an investment sector's offices by employees of a different investment sector.

We maintain a restricted list of issuers about which we have material, non-public information, and our policies prohibit us from trading, either for client or personal accounts, in the securities of such issuers. Our receipt of material, non-public information most often occurs because we at times engage in real estate and other transactions with publicly traded REITs and real estate operating companies and may obtain material, non-public information about these public issuers. In an effort to avoid such restrictions on

trading, we have procedures in place to carefully consider whether or not to intentionally accept material, non-public information with respect to certain issuers, where appropriate. In addition, we maintain information barriers or “fire walls” designed to prevent the transfer of such information between units of PREI as well as between affiliates and PREI. In some instances, we may create an “isolated information barrier” around a small number of employees within an investment unit who may come into possession of material, non-public information about an issuer, whereby their knowledge is not attributed to the rest of the unit.

### *Personal Securities Trading Policy*

We maintain a personal securities trading policy that governs the trading activities of our employees as well as their household members and dependents. Subject to certain limited exceptions, employees are required by the policy to:

- report personal securities transactions to our corporate compliance unit;
- pre-clear personal securities transactions (for employees considered to be “access persons” under SEC rules);
- maintain brokerage accounts only with certain approved brokers that report transaction information to our corporate compliance unit; and
- annually report securities holdings to our corporate compliance unit.

Our access persons and investment personnel are subject to additional restrictions under the policy, including the following:

- investment personnel are generally prohibited from purchasing securities in initial public offerings;
- access persons may not trade any security on the same day that we trade such security (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- investment personnel are prohibited from trading any security within seven days before or after we trade such security (or an equivalent security) for client accounts (other than in client accounts that replicate a broad-based index);
- investment personnel must disgorge any profits from the purchase and sale (in whatever order) of the same security within 60 days; and

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- access persons may not write naked call options or buy naked put options on a security held in a client account.

We monitor personal trading activity versus firm trading and restricted list content, and any matches are investigated by our compliance unit. An ethics committee meets regularly to consider possible violations and take disciplinary action where appropriate.

All employees receive annual training regarding our personal securities trading and information barrier policies. In addition, employees must annually confirm that they have read and understand our code of ethics, including the personal securities trading and information barrier policies.

### *Conflicts of Interest*

As a result of the broad range of both our business and the businesses of our affiliates, conflicts of interest will inevitably arise in our operations. We have described below significant conflicts of interest and have organized the discussion under headings for ease of reading only. Conflicts described under one heading could appear or be repeated under one or more other headings below. We do not intend for the headings to limit the applicability of the conflict to other headings or other parts of our business.

While we follow Prudential Financial's policies on business ethics, personal securities trading by investment personnel, and information barriers and have adopted a code of ethics, allocation policies, supervisory procedures and conflicts of interest policies, among other policies and procedures, all of which are designed to ensure that clients are not harmed by these potential or actual conflicts of interests, we cannot guarantee that such policies and procedures will detect and ensure avoidance, disclosure or mitigation of each and every situation in which a conflict may arise.

### *Conflicts Arising from Our Affiliations and Portfolio Management Responsibilities*

PREI is a unit of Prudential Investment Management, Inc., an indirect, wholly-owned subsidiary of Prudential Financial, Inc. and is part of a full-scale global financial services organization, affiliated with insurance companies, investment advisers and broker-dealers. Our portfolio managers are often responsible for managing multiple accounts, including accounts of affiliates, institutional accounts, mutual funds, insurance company separate accounts, nondiscretionary model portfolios and various pooled investment vehicles, such as commingled trust funds and other unregistered funds. These affiliations and portfolio management responsibilities may cause potential and actual conflicts of interest.

Legal, regulatory and contractual restrictions may limit how much, if any, of a particular security we may purchase or sell on behalf of a client, and the timing of our purchase or

sale. Such restrictions may arise as a result of our relationship with Prudential Financial and its other affiliates. We may be prohibited from engaging in transactions with our affiliates even when such transactions could be beneficial for client accounts. Certain affiliated transactions are permitted in accordance with procedures we have adopted.

Certain of our affiliates develop and may publish credit research that is independent from the research that we develop and publish. We may hold different opinions on the investment merits of a given property, security, issuer or industry such that we may be purchasing or holding an investment for a client and an affiliated entity may be selling or recommending a sale of the same or a similar investment. Conversely, we may be selling a security or an investment for a client and an affiliated entity may be purchasing or recommending a buy of the same security or a similar investment. In addition, our affiliated broker-dealers or investment advisers may be executing transactions in the market in the same securities as we are, at the same time. It is our policy not to engage in principal transactions with affiliated broker-dealers for unaffiliated institutional accounts that we manage. We may cause securities transactions to be executed for a client's account concurrently with authorizations to purchase or sell the same securities for other accounts we manage, including proprietary accounts or accounts of affiliates. In these instances, the executions of purchases or sales, where possible, are allocated equitably among the various accounts.

We may buy or sell, or may direct or recommend that one client buy or sell, securities of the same kind or class that are purchased or sold for another client, at prices which may be different. In addition, we may, at any time, execute trades of securities of the same kind or class in one direction for an account and trade in the opposite direction or not trade for any other account due to differences in investment strategy or client direction.

#### *Conflicts from Competing Interests*

We manage investment entities, some of which may be our affiliates, which compete with each other for access to our resources, including investment opportunities. There may be conflicts of interest in allocating investment opportunities among the current and future investment vehicles and accounts we or our affiliates manage, including for the benefit of PICA and the other Prudential Financial insurance companies. Other than specific contractual restrictions that may exist, or that may be required by investors, there are no restrictions on us or our affiliates from forming, sponsoring, owning and/or managing additional investment vehicles or accounts that have overlapping investment objectives or investment criteria. We are subject to our own allocation policies, which are subject to change in our discretion. We cannot assure you that we or our affiliates will not devote more time, attention or resources to some of these potentially competing clients than to others or present an opportunity to these clients that we do not or cannot present to all.

This could have a material adverse effect on a fund's ability to acquire assets, generate cash flow and income, and make distributions.

We may confront conflict concerns when allocating scarce investment opportunities, given the benefit to us of favoring accounts that pay a higher fee or generate more income for us. To address this conflict of interest, we have adopted various allocation policies (described more fully in Item 5) as well as supervisory procedures that are intended to fairly allocate investment opportunities among competing client accounts.

Performance-based compensation may create a conflict of interest, as it can create an incentive for PREI or a supervised person to make or recommend investments that are riskier or more speculative than would be the case in the absence of such compensation structure. Certain of our supervised persons individually receive, as part of their compensation, carried interest payments, which are based on the performance of the relevant closed-end funds. To address these potential conflicts, we have policies and procedures designed to ensure that each of our funds is managed in a manner that is consistent with our fiduciary obligations, as well as with the fund's investment objectives, investment strategies and restrictions.

While we operate as a fiduciary under our various investment management agreements, investors often have agreed to indemnify us and our affiliates against certain liabilities that are not attributable to our gross negligence or fraud. As a result, investors could experience poor performance or losses for which we would not be liable.

Conflicts of interest may arise regarding proxy voting. A committee of senior PREI business representatives together with relevant regulatory personnel oversees the proxy voting process and monitors potential conflicts of interest relating to proxy voting. See our response to Item 17 for more detailed information concerning our proxy voting policy.

#### *Conflicts arising from Relationships with Large Clients*

Conflicts of interest may arise due to our relationships with especially large clients, including our own affiliates. Such clients may have needs for information, reporting, operational support, or access to other resources that may be disproportionate to the nature or amount of assets we manage for them, and the overall services we provide may be different or greater than may be more generally provided to all other clients. As an example, representatives of Prudential Financial, PICA's general account, PIM's proprietary accounts and accounts of other PIM affiliates (collectively, the "Affiliated Accounts") who are responsible for monitoring Prudential Financial's enterprise investment risk may have access to certain information about our assets under management, including for third parties, that is not typically made available to non-affiliated clients (although this access does not include specific non-affiliated client identifying information or portfolio

information for our clients who have asked for confidentiality with respect to sharing of information with our affiliates.) We believe that we manage our relationships with such Affiliated Accounts in a manner that is consistent with the best interests of all our clients.

#### *Conflicts Arising from PIM or its Affiliates' Investment and Other Activities and Relationships*

Conflicts of interest may also arise in connection with the investment or other activities of PIM and its affiliates, or through the relationships of such parties with issuers of public securities. Affiliated Accounts may at times hold various levels of financial or other interests, including but not limited to portfolio holdings, in companies whose securities may be held or purchased or sold in our client accounts. These financial interests may at any time be in potential or actual conflict with the interests of our accounts or may be inconsistent with positions we hold or actions we might take on behalf of our client accounts. These interests can include debt or equity financing, strategic corporate relationships or investments and the offering of investment advice in various forms. Thus, PIM may invest client assets in the securities of companies with which we or an affiliate has a financial relationship, including investment in the securities of companies that are our advisory clients. At times, we may be unable to invest client assets in the securities of certain issuers as a result of these investments or relationships.

A client account may have an investment in securities of an issuer, including an equity interest in a joint venture or another entity that is engaged in a business that competes with issuers whose securities are held in other client accounts, or that competes directly with our business or that of an affiliate. Examples could include investments in publicly-traded securities of insurance or financial services companies that are competitors of Prudential Financial; or certain investments of one or more of our funds in entities that are engaged in commercial mortgage lending and related activities, a business in which Prudential Mortgage Capital Company, an affiliate of PREI, is actively engaged. While these types of conflicts cannot be eliminated, we have implemented policies and procedures designed to ensure that, notwithstanding these conflicts, investments of our clients are originated and managed in their best interests.

In addition, our portfolio managers may have a financial interest in the accounts they advise, either directly through a carried interest program, or indirectly, through ownership in our PRREF account. To address potential conflicts of interest, we have procedures, including supervisory review procedures, designed to ensure that all of our accounts are managed in a manner that is consistent with the clients' investment objectives, investment strategies and restrictions, as well as with our fiduciary obligations.

#### *Conflicts arising from Side Agreements*

We sometimes enter into side agreements with investors in the accounts and funds we manage. The side agreements may require supplementary reporting requirements, and often also include provisions relating to advisory committee membership, co-investment opportunities and special investment restrictions. We do not enter into side agreements with investors that, in our judgment, would materially adversely affect the interests of other investors in the same separate account or private fund.

#### *Conflicts arising from the Use of PIM Warehouse*

PIM Warehouse, Inc. (the “PIM Warehouse”) is a separately capitalized affiliate of PREI that acquires private debt, private equity, real estate investments, asset-backed securities and public bonds to be “warehoused” temporarily until subsequently placed in certain funds managed by us or syndicated to unaffiliated investors. When investors subscribe to our funds, these “warehoused” assets are generally transferred to the funds at a price equal to PIM Warehouse’s cost plus a “cost of carry”. While historically these transfers have been beneficial to the fund investors, it is possible that the value of a “warehoused asset” that was designated for a particular fund could decline in value prior to the time it is transferred to the fund.

While the primary goal of the PIM Warehouse has historically been to provide short-term seed capital to funds that we manage, the PIM Warehouse also provides operating capital to certain funds once they have closed and are in their investment period. This operating capital is generally provided through market-rate credit facilities that are secured by undrawn capital commitments from investors (“subscription lines”) and bridge loans that are secured by assets of the funds. For both subscription lines and bridge loans, a formal policy and procedure is followed which, among other things, requires (i) justification of the loan’s economic terms through comparison to the marketplace, (ii) approval from internal credit and investment committees, (iii) full disclosure to fund investors, and (iv) if required by the fund documents, investor or investor advisory council approval. In the case of a fund’s default on a bridge loan, the PIM Warehouse will appoint an unaffiliated, third-party servicer to conduct workout or other remedial activities, as applicable.

#### *Conflicts related to Co-Investment by Affiliates*

Our affiliates may provide initial funding or otherwise invest in funds managed by us. When an affiliate provides capital for a fund, it may do so with the intention of redeeming all or part of its interest at a future point in time or when it deems that sufficient additional capital has been invested in that fund.

- The timing of a redemption by an affiliate could benefit the affiliate. For example, the fund may be more liquid at the time of the affiliate’s redemption than it is at times when other investors may wish to withdraw all or part of their interests.

- In addition, a consequence of any withdrawal of a significant amount, including by an affiliate, is that investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.
- We could also face a conflict if the interests of the affiliated investor in a fund we manage diverge from those of the fund or other investors.

#### *Conflicts arising from Valuation of Assets*

Our client accounts may at times hold illiquid or difficult to value investments. We may face a conflict of interest when making a recommendation to clients regarding the value of such investments because our investment management fees are at times based on the value of assets under management. We believe that our valuation policies and procedures enable us to value client assets fairly and in a manner that is consistent with the best interests of our clients.

### **Item 12 – Brokerage Practices**

In completing clients' securities transaction, it is our policy to seek to achieve the best price and execution.

Our GRES team selects brokers based on their ability to obtain best execution. This is determined based on a combination of commissions, market impact, trade execution and settlement, as well as research capabilities and security trading supply and demand data points. The GRES team views all trades on a net proceeds basis, and monitors broker trade execution by reviewing a securities quote recap on Bloomberg and by comparing the broker's execution versus the volume weighted average price and the closing price. Most trades are done on well established stock exchanges on an agent basis.

Our procedures require a broker to be approved for trading with GRES based on the type of transaction, corresponding risk characteristics and transaction collateral, where applicable. Our procedures also set out the nominal exposure limits a particular broker can have to us, again based on the type of transaction. Class types and corresponding dollar limits are directly related to the risk level of the transaction. Brokers who are not approved are blocked from trading.

The GRES team conducts reviews of broker performance during quarterly Best Execution Committee Meetings. Committee members include PREI professionals from multiple areas, including Risk Management, Compliance, Legal, and Portfolio Management. The GRES team also employs guidelines regarding trading with counterparties.

We do not have soft dollar relationships with any of our brokers.

We have a trade errors and corrections policy related to our investments in real estate securities that is designed to ensure that corrections of trading and operational errors are processed in a manner that is fair and reasonable. To avoid potential errors, the policy provides that trades may, where appropriate, be cancelled or modified prior to settlement, provided that we can document that the trading counterparty will not suffer any loss, and provided, for daily valued accounts, that such cancellation or modification will not change any net asset value of the account that is struck between the commission of the error and the date of cancellation. In addition, the policy provides that a trading error in one client's account involving a violation of law or of the account's investment guidelines may be corrected through a reallocation or other transfer of securities to another account, provided that such reallocation or other transfer represents a legitimate investment decision on behalf of each account involved, and provided that such reallocation or other transfer is effected without loss to the transferee account.

### **Item 13 – Review of Accounts**

We have supervisory procedures governing the investment advisory activities we perform which require our investment officers to review, on a periodic basis, the accounts of our advisory clients. Officers of mutual funds that we advise have regular contact with our investment officers with respect to PREI's day-to-day activities. The personnel referred to below are PREI personnel, who in some cases may also be officers of certain other Prudential Financial companies.

The following description of the review of accounts reflects that certain clients have different account segments which are reviewed by different supervisors.

Certain accounts have diversified portfolios and are sometimes reviewed by more than one person.

- Joel Allen Smith, Chief Executive Officer, PREI. Mr. Smith has responsibility as senior reviewer for PREI accounts.
- Roger Pratt, Chief Risk and Investment Officer for the U.S. and Latin America, and Broderick Storie, Chief Risk and Investment Officer for Europe and Asia, also have responsibility as reviewers for PREI accounts.

Our supervisory procedures governing our investment advisory activities require senior investment officers to review on a periodic basis all accounts of PREI's advisory clients.

PREI has a global management committee, five separate regional investment committees covering investments in the U.S., Europe, the Middle East, Asia, and Latin America, and two

additional investment committees covering Global Real Estate Securities and PRREF, respectively. For most real estate operations, our acquisition and disposition of assets held in discretionary PREI-managed accounts are reviewed and approved by the appropriate PREI investment committee, or a subcommittee thereof, or by the portfolio manager of the affected account under delegated authority from an investment committee. Transactions are also reviewed by the appropriate PREI investment committee for those funds that are non-discretionary, but require PREI investment committee approval prior to seeking the investor's consent. As part of the approval process, the suitability of the acquisition or appropriateness of the sale for the particular account is confirmed, with focus on the investment guidelines, restrictions and other fund requirements of the particular account. Investment guidelines are reviewed and approved for each account by the applicable investment committee. Fund investors receive quarterly and annual reports covering the assets and liabilities and net profit or net loss of the fund, as well as a review of the significant investments and/or dispositions made on behalf of the account. Some funds also have advisory councils, comprised of investors, which meet annually or semi-annually to discuss fund issues with the portfolio management team.

For the GRES funds, the GRES investment committee has responsibility for establishing geographic portfolio allocations between Europe, Asia and North America, approving risk characteristics and parameters for the fund's portfolio, reviewing geographic portfolio allocations and the risk characteristics and parameters on a quarterly basis and delegating authority to GRES to manage the funds on a day-to-day basis in accordance with the applicable prospectus or investment guidelines.

None of the PREI investment committees are responsible for the day-to-day decisions with respect to specific investments made by or on behalf of the funds. Some of the committee processes described above relate to strategies and product offerings that are advised or offered by PREI units that are subsidiaries of PREI and are located outside the U.S.

With respect to U.S. mutual funds, we are subject to oversight by the manager of each such fund, as well as by such mutual fund's Board of Directors.

With respect to accounts of PICA and other affiliates, periodic reports are made to Prudential Financial's Chief Executive Officer. Periodic performance reports are also made to the Prudential Investment Committee. Quarterly and annual performance reports, which may include summaries of purchase and sale activity, are made to our other advisory clients.

Senior investment professionals are made available on an as needed basis for client meetings.

PREI has a “client comes first” culture that permeates every aspect of our business. We deliver a high level of transparency and disclosure in our reports and communications with clients. We manage client assets with the highest standards of fiduciary care. We believe that our clients’ trust and confidence is the most critical asset of our business.

Our client service team is experienced and deeply resourced. They provide timely, in-depth communications and reports that meet and exceed clients’ standards. We are proactive in educating customers and clients on both real estate as an asset class and our product.

The frequency of meetings is at the client’s discretion, although we encourage clients to schedule face-to-face meetings at least once each year. Meetings are tailored to the client’s needs and typically include a review of the economic outlook, a review of portfolio performance and an overview of future investment objectives. Generally, client meetings are attended by a member of the fund’s Management Team and a dedicated Marketing & Client Service Representative.

#### **Item 14 – Client Referrals and Other Compensation**

While we are not currently involved in any solicitation arrangements with unaffiliated third parties, we may from time to time compensate a third party for client referrals. We will pay cross-selling commissions to marketing representatives of affiliates with respect to certain of our strategies and products pursuant to a cross-selling policy applicable to a number of PIM units.

#### **Item 15 – Custody**

If we are deemed under SEC rules to have custody of client assets and clients receive account statements from qualified custodians, we are required to make certain disclosures. We have nothing to disclose in response to this requirement. Private funds managed by PREI are subject to an annual independent audit and the audited financial statements are distributed to investors within 120 days of the end of the funds’ fiscal year.

With respect to securities portfolios managed by GRES, we do not take physical custody of the assets of our clients. Client assets are generally held in custodial accounts with banks, broker-dealers or other qualified custodians retained by our clients under arrangements negotiated by them.

## **Item 16 – Investment Discretion**

We usually receive discretionary authority from the client at the outset of an advisory relationship, which permits us to select the identity and amount of the investments to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting investments and determining appropriate investment amounts, we observe the investment policies, limitations and restrictions established by the accounts and clients we advise. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

A client's investment guidelines and restrictions must be provided to PREI in writing.

## **Item 17 – Voting Client Securities**

### *In General*

We accept the authority to vote securities held in our clients' accounts when our clients delegate this authority to us. Our investment management agreements with our clients will generally specify whether or not we have the authority to vote proxies on their behalf.

### *Our Proxy Voting Policy and Procedures*

Our policy is to vote proxies in the best economic interests of our clients, both in the long term and in the short term. In the case of pooled accounts, our policy is to vote proxies in the best long-term economic interest of the pooled account.

Our proxy voting policy contains general guidelines for voting on a wide variety of issues that shareholders are commonly asked to address. These guidelines reflect our judgment of how we can best further the economic interests of our clients through the shareholder voting process.

From time to time, ballot issues arise that are not specifically addressed by our policy, or circumstances may suggest a vote not in accordance with our established guidelines. In these cases, our voting decisions are made on a case-by-case basis taking into consideration the potential economic impact of the proposal.

We do not receive all ballots in advance of voting deadlines, but when ballots are received in a timely fashion, we strive to meet our voting obligations within industry standards. We cannot, however, guarantee that every proxy will be voted prior to its deadline. There may also be other situations where we may be unable to vote a proxy, or choose not to. For

example, with respect to international holdings, we take into account additional restrictions in some countries that might impair our ability to trade those securities or have other potentially adverse economic consequences. We generally vote foreign securities on a best efforts basis if we determine that voting is in the best economic interest of our clients.

Our GRES Investment Committee also serves as our proxy voting committee. This committee is responsible for interpreting our proxy voting policy as well as monitoring conflicts of interest, and periodically assesses the policy's effectiveness. The committee also seeks to address any issues that may come up in the proxy voting process.

For our private real estate portfolios, each proxy received is reviewed by the applicable portfolio manager and generally voted in accordance with our policy.

For our public real estate portfolios, we currently use the services of a third party proxy voting facilitator and, upon receipt of proxies, will direct the voting facilitator to vote in a manner consistent with our established proxy voting guidelines described above (assuming timely receipt of proxy materials from issuers and custodians).

We provide disclosure of our proxy voting policy, guidelines and procedures to our clients who authorize us to vote proxies, generally at the time that we are negotiating our investment management agreement. Any client may obtain a copy of these items, as well as the proxy voting records for that client's securities, by contacting the client service representative responsible for the client's account.

#### *Note with Respect to the Voting of Certain Securities*

Some of our clients may participate in securities lending programs in their accounts. We do not control or participate in any way in these programs and do not know when or which securities in our clients' accounts have been loaned. We cannot vote securities that are out of our clients' portfolios on loan or are otherwise excluded from voting privileges.

#### *Client Direction of Voting*

Although most of our clients for whom we vote proxies authorize us to vote in accordance with our proxy voting policy, a client may request that we vote its proxies in accordance with a different policy. We try to accommodate such requests. In addition, a client may direct us to vote its securities in a particular way on a particular proposal and we will seek to do so, assuming timely receipt of the instruction. However, if the ballot pertains to the client's own meeting, the ballot will be voted in accordance with our third party proxy vendor's policy. (See "Conflicts of Interest in the Voting Process" immediately below.)

#### *Conflicts of Interest in the Voting Process*

Occasionally, a conflict of interest may arise in connection with proxy voting. For example, the issuer of the securities being voted may also be a client of ours. When we identify an actual or potential conflict of interest between our firm and our clients that we are unable to resolve, the matter is referred to the proxy voting committee for resolution, which may include abstaining from a particular vote or voting in accordance with the policy of our proxy voting facilitator rather than our own policy.

#### *Accounts for Which We Do Not Vote Securities*

Some of our clients elect to retain voting authority for themselves. Those clients receive proxies and other solicitation materials from their custodians, and if we receive these materials for the account of such a client, we will forward them to the client's custodian. If a client has a question about a particular solicitation, the client may contact its client service representative and we will try to address the client's question. We will not, however, disclose how we intend to vote on an issue for other clients' accounts.

#### *Class Actions and Corporate Actions*

In addition to voting rights with respect to securities held in our clients' portfolios, there may be other rights associated with those securities, including the right or opportunity to participate in class actions and corporate actions.

We have agreed with some of our clients to file proofs of claim for class action lawsuits relating to securities held, or formerly held, in their portfolios while managed by us. Other clients may have their custodians handle proofs of claim or may handle such matters themselves.

Where we have agreed to handle proof of claim filings for a client, we will generally seek and use our best efforts to file such notices in all class action lawsuits in which the client is eligible to participate. In so doing, we will not inquire into the particular circumstances of any client. As a result, we will not seek to determine on an individual basis whether facts and circumstances relevant to that client would suggest that non-participation in the class action is appropriate or more advantageous to that client. For example, a client on whose behalf a proof of claim is filed may, as a result of having joined the class, waive or relinquish other claims that it may have against the target of the class action. The client may also have an interest or position with respect to the nature of the class action claim that is adverse to that of the class of plaintiffs. We would generally not be aware of those circumstances. Had the client elected to handle class action lawsuits for itself, it might have determined not to file the proof of claim in such a class action. We do not provide any legal advice or services in connection with class actions.

With respect to corporate actions (such as an issuer's merger, tender offer, dividend distribution, etc.), we participate on behalf of clients who authorize us to do so, taking such action as we deem to be in the best interest of the clients' accounts.

### **Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients.