

National Real Estate Advisors, LLC

Form ADV: Part 2A

The Brochure

900 Seventh Street, NW
Suite 900
Washington, DC 20001

www.natadvisors.com

Updated: March 31, 2012

This brochure provides information about the qualifications and business practices of National Real Estate Advisors, LLC (“National” or “NREA”). If you have any questions about the contents of this brochure, please contact us at 202 496-3370. 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. Additional information about NREA is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

National Real Estate Advisors' most recent update to Part 2 of Form ADV was made on March 31, 2011. NREA's business activities have not changed materially since the time of that update. In 2010, the U.S. Securities and Exchange Commission (SEC) required significant changes to the content and format of Part 2 of Form ADV. This brochure, which reflects those changes, is consistent with the brochure previously used by NREA from March 31, 2011 to March 30, 2012.

Table of Contents

Material Changes	2
Table of Contents	2
Advisory Business	2
Fees and Compensation	3
Performance Based Fees and Side-by-Side Management	3
Types of Clients	4
Methods of Analysis, Investment Strategies and Risk of Loss	4
Disciplinary Information	10
Other Financial Industry Activities and Affiliations	11
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	11
Brokerage Practices	11
Review of Accounts	11
Client Referrals and Other Compensation	12
Custody	12
Investment Discretion	12
Voting Client Securities	12
Financial Information	12

Advisory Business

National Real Estate Advisors, LLC provides real estate investment management services for Taft Hartley pension funds, governmental retirement plans, commingled investment funds, corporate pension plans, university endowment funds, charitable foundations, and certain other institutional and other clients. NREA generally invests client assets in a wide range of commercial and residential real estate and real estate related assets in the United States and Canada.

NREA was formed in December 2009 as a wholly-owned subsidiary of NREA Holdings LLC, which is wholly-owned by the National Electrical Benefit Fund (NEBF). NREA was created for the purpose of making available both to the NEBF and to other Taft Hartley plans and institutional clients the real estate investment skills, experience and expertise developed over the years by the NEBF's in-house real estate investment professionals. NREA has more than 30 employees, most of whom have been providing real estate investment management services for many years. Prior to the formation of NREA, the senior officers of NREA were long-time employees of NEBF in its real estate investment program.

NREA is able to offer its real estate expertise to other institutional clients through discretionary separate account management, and through investments in a commingled investment vehicle it manages. NREA also continues to serve as the primary real estate investment manager for NEBF, both on a commingled and separate account basis. As of December 31, 2011, NREA managed \$1.5 billion on a discretionary basis on behalf of two significant clients.

Fees and Compensation

Subject to specifically negotiated fee arrangements with certain clients, NREA charges an investment management fee based on the following:

Management Fee:

Investment Type	Fee	Payable
All types	Each client pays 1.15% per year on the first \$100 million of its Investment, and a .90% fee per year on its additional Investments exceeding \$100 million.	Quarterly in arrears.

The management fee is payable quarterly in arrears, and will be prorated daily for partial calendar quarters. Clients can either be billed for fees incurred or can have fees deducted through the sale of client shares.

Certain large initial clients for whom NREA manages a separate account, or who were initial substantial investors in a commingled investment fund managed by NREA, negotiated base fees of .90% on the entire amount of their contributed capital.

In addition, a client pays for all of its direct expenses which may include: custodial fees, audit and accounting fees, and other fees. The client also pays for various expenses related to client investments, which may include legal fees, brokers' commissions chargeable to the client in connection with transactions to which the client may be a party, appraisal or valuation fees, title company charges, and other fees and expenses.

Performance Based Fees [and Side-by-Side Management]

National Real Estate Advisors also charges a Performance Based Fee (an Incentive Fee) which is generally equivalent to 10% of the amount by which investments of clients' assets outperform the indexes as outlined in the chart below. NREA enters into this fee arrangement only with an eligible client as provided in Section 205(b)(1)-(5) of the Investment Advisers Act or a qualified client as set forth in Rule 205-3 under the Advisers Act.

Performance Fee, based on the aggregated performance of the following:

Investment Type	Index Used	Index Comparison	Payable
a. Equity and Mezzanine Debt Investments	NCREIF National Property Index	10% of the amount by which investments outperform the index	Annually
b. Mortgage Loan	Giliberto-Levy	10% of the amount by which	Annually

Investments	Index	investments outperform the index	
c. Construction Loan Investments	30-day LIBOR rate plus 150 basis points	10% of the amount by which investments outperform the index	Annually

Seventy-five percent (75%) of the performance fee is due and payable annually. Payment of the remaining twenty-five percent (25%) is contingent, and subject to forfeiture for two years in the event investment returns do not meet or exceed specified performance benchmarks. Detail of the performance fee is available upon request.

Conflicts of interest in connection with the side-by-side management of accounts with different fee structures are avoided because there is in place with NREA a rotational Investment Allocation Policy which is used in case an investment is appropriate for more than one client. The Investment Allocation Policy is available upon request.

Types of Clients

National Real Estate Advisors invests in real estate assets for Taft Hartley pension funds, governmental retirement plans, commingled investment funds, corporate pension plans, university endowment funds, charitable foundations, and other clients. NREA's minimum account size is \$1,000,000; however, NREA may accept client contributions of less than \$1,000,000 in its discretion.

Methods of Analysis, Investment Strategies and Risk of Loss

INVESTMENT OBJECTIVES AND STRATEGY

The principal objectives of NREA in managing its clients' assets are: to preserve and protect the clients' capital; to generate income and to provide the potential for capital appreciation; to provide an average annual total return on equity and mezzanine debt investments, before a particular client's management fee (as defined below), in excess of the NCREIF National Property Index; to provide an average annual total return on mortgage loan investments, before the management fee, in excess of the Giliberto-Levy Index; and to provide an average annual total return on first lien construction loans, before the management fee, in excess of the average 30-day LIBOR rate plus 150 basis points. There can be no assurance, however, that these objectives will be achieved.

Consistent with these principal objectives, NREA seeks to invest and reinvest its clients' assets in commercial real estate assets located in varying geographic areas in the United States and Canada. For a client's existing stabilized assets, NREA seeks to maximize net income from rents and property operations and dispose of investments when it is believed that maximum value can be received. NREA seeks to invest its clients' available cash (from investment activities and new capital contributions) primarily in equity and debt investments in new developments and redevelopments of properties that offer excellent opportunities to create current income and capital appreciation, while also maximizing the use of union labor and the incorporation of responsible contractor policies to the greatest extent possible consistent with ERISA fiduciary responsibility requirements. In general, each client's assets will be invested in varying types of real estate commercial properties and a variety of real estate investment structures, including

property acquisitions, joint ventures, senior and junior mortgage debt, subordinate debt and credit enhancements.

NREA's strategy for achieving the investment objectives of its clients is to invest: (i) in high quality properties, (ii) in attractive and diverse markets, and (iii) by utilizing investment structures that provide access to skilled and experienced operating partners and borrowers.

NREA intends to make investments only when attractive opportunities meeting its investment criteria exist and after careful underwriting. All investments made by NREA are actively managed to position each investment competitively in its market and to motivate each operating partner and borrower to optimize performance at the property level. Each investment property, to the extent a sale is permitted by the investment structure, is subject to a hold-sell analysis on an annual basis.

- A. Property: NREA seeks to invest in quality properties that exhibit the following characteristics:
1. *New Construction* - Investments are made primarily in properties involving entirely new construction or substantial rehabilitation, although acquisition of developed properties may also be made when circumstances warrant.
 2. *Modernity* – Investments are made primarily in modern, efficient buildings that compete effectively within the marketplace. NREA tries to divest properties that are aging and in danger of becoming obsolete. Properties in unique locations, if warranted, may be rehabilitated, renovated or otherwise modernized.
 3. *Quality Properties* – Investment are made in quality properties that NREA would be willing to own for a significant period of time. NREA expects this to be true even if the equity or mortgage investment related to the property is by design expected to be short term.
 4. *Property Types* – NREA seeks to invest at least 40% and as much as 100% of the combined mortgage, equity investments and debt investments of its clients in office, residential, retail and industrial property types. For purposes of these allocation targets, the residential property type includes all types of residential properties, such as senior housing, student housing, for sale housing, etc., and all ground leases are categorized in the property type which supports the ground lease. NREA seeks to diversify its total portfolio among these four property types such that: (i) no single property type accounts for more than 75% of a client's portfolio value; (ii) the portfolio includes at least two of the four property types; and (iii) no two property types, when added together, comprise greater than 95% of a client's total portfolio. Other property types, such as medical buildings, data centers, energy producing related facilities, land held for development

and other types of real estate may comprise up to 60% of the combined equity and mortgage investments at any time.

5. *For Sale Housing* – The for-sale residential housing market represents a very substantial segment of the overall new construction and development market. NREA believes that for-sale housing can be subject to a less competitive capital environment and, therefore, may present opportunities for enhanced returns.
6. *Senior Housing* - The residential senior housing market and senior health-related facilities currently represent an attractive property type which is expanding due to demographic pressure and social changes. In particular, many of the economic characteristics of senior housing are well matched to the economic goals of NREA, and NREA may seek appropriate investments in this sector.
7. *Real Estate Infrastructure Investments* – NREA believes that many attractive real estate opportunities are present in infrastructure projects that are supported by physical assets and real property, and that such investments can generate stable returns. Such investments would typically involve the construction, repair, or ownership of facilities generally thought of as constituting a part of, supplying or supporting the public or private physical infrastructure of the U.S. or Canada. In this broad investment area, NREA targets real estate investments in energy-producing facilities, data centers, public buildings, waste treatment plants, energy/resource delivery, transmission and storage facilities and similar properties and facilities. Such investments may take the form of construction loans, permanent loans, ground lease investments, joint ventures or other suitable equity investment structures.

B. Markets: NREA may invest in properties located in attractive and diverse markets that exhibit the following characteristics:

1. *Equity Investments in Dynamic Markets* - In general, NREA makes equity investments in markets that hold the promise of secure, long-term capital appreciation through stable and sustained growth. In particular, while not exclusively, equity investments are sought in markets with significant intellectual capital, effective local government, a progressive business community and a modern transportation infrastructure.
2. *Mortgage Investments in Secondary Markets* - Mortgage investments may be made in areas that would also warrant equity investments. However, in order to diversify a client's investment portfolio more broadly while protecting against the possibility of loss of equity in stagnant market areas, mortgage investments in secondary markets may be sought.

3. *Market Timing* – NREA pursues new investment opportunities patiently and prudently and considers investment sales and property disposition opportunities when attractive and compelling opportunities arise. NREA does not source new investments simply to fulfill allocation targets or production goals without regard to market factors and prudent underwriting criteria. The objective of NREA is to assemble a combined real estate and mortgage portfolio consisting of high quality assets that enjoy economic diversification as well as geography and property type diversification and that generally have excellent prospects for long-term success.
- C. Structure: NREA may utilize a variety of investment structures to compete effectively for investments in the capital markets with appropriate risk/return profiles, while maintaining sufficient controls and monitoring rights to protect its investment position.
1. *Significant Joint Venture Rights* – Limited liability companies are the preferred legal entity for joint ventures. Although joint ventures generally (but not exclusively) may be structured so that a client's joint venture partner (or an entity controlled by the joint venture partner) is in charge of the day-to-day management of the enterprise, NREA generally negotiates joint venture terms that provide its client with significant management decision-making rights. Occasionally, when the circumstances warrant, a client may seek to be the managing member of a limited liability company and it may wholly own a property without other partners or investors.
 2. *Use of Leverage* - Leverage may be used primarily in three circumstances: first, when capital markets create opportunities to increase yields by the prudent use of third party debt financing; second, when leverage permits desirable diversification of investments; and third, when leverage enables the making of desirable investments that might not otherwise be available.
 3. *Debt Investment Liquidity* – Where practicable, mortgage and other debt investments may be structured so that they may be marketable either as whole debt instruments or as part of a securitized package.
 4. *Debt Investment Terms* – Efforts are made to originate debt investments with maturity dates that are staggered over a reasonable period of time so that a client's debt investment portfolio enjoys significant diversity of maturity dates and interest rates and permits funds obtained from maturing mortgages to be reinvested at various interest rates available over time. However, in view of the volatility and the competitiveness of the commercial mortgage market, there is no certainty that these goals may be achieved.

5. *Debt/Equity Mix* - Depending on market conditions and available opportunities, NREA may seek to provide its clients' with 20% to 80% of their investments structured as debt and 20% to 80% structured as equity.
- D. Partners/Borrowers: NREA seeks to identify highly skilled and experienced property developers and managers with which to co-invest or to whom to provide debt financing.
1. *Quality Partners and Borrowers* - NREA attributes a high degree of importance to underwriting the integrity and expertise of partners and borrowers.
 2. *Investments with Motivated Partners and Borrowers* – NREA seeks to structure its investments so that risks are appropriately shared, and the partner's or borrower's success supports the client's success.
 3. *Maintenance of Partner, Borrower and Manager Relationships* - After an investment is closed, NREA works systematically to maintain a close and productive relationship with each partner and borrower. Frequent contacts are pursued, including face-to-face contact on a regular basis.

INVESTMENT PROCESS (METHOD OF ANALYSIS)

National Real Estate Advisors' investment team underwrites investment opportunities that are submitted to or identified by NREA. Investment submissions to NREA are encouraged to contain, at minimum, the basic information needed to underwrite the acquisition or development of the project on a preliminary basis. This includes at least the following information:

- Sponsorship – Project sponsorship is perhaps the most critical element of investment consideration. Sponsorship information should include prior real estate investment and development experience and professional experience of key principals.
- Project Description – A general overview of the project including project size, location, development plan, preliminary architectural renderings and site plan.
- Proposed Investment Structure – The proposed capital requirements of the project (i.e., amount and terms of proposed joint venture equity, mezzanine debt, etc.), including projected third-party capital.
- Monthly Development Budget – If applicable, a monthly budget detailing land, hard cost and soft cost line items over the expected construction and lease-up or sell-out period.
- Monthly Pro Forma – A monthly projection of project income and expenses including a summary of assumptions used to create the pro forma. The timeframe of the pro forma should cover the life of the investment or 10 years. An ARGUS file should be provided.
- Market Information – A brief description of the applicable market conditions and the project's profile relative to that market.

NREA's Investment Committee is responsible for approving all new investments and other investment-related decisions on behalf of NREA's clients. The Investment Committee generally meets once per month, or more frequently, as needed. The Committee is comprised of four members, all of whom are real estate investment professionals with substantial real estate investment experience. Investment Committee members include Jeffrey J. Kanne, Marshall D. Lees, Kenneth P. Riggs, Jr., and Mitchell Schneider. Please see ADV Part 2B for biographical information regarding NREA's Investment Committee.

RISKS RELATED TO THE INVESTMENT STRATEGY

Investment in real estate involves significant risks and is suitable only for clients who understand the risks and consequences and who are able to bear the risk of loss of their investment. Below is a discussion of certain material risks associated with key components of NREA's real estate investment strategy.

Real Estate Investment in High Quality Properties

NREA's investments generally bear the economic and business risks typically associated with the types of real estate investments NREA makes. A significant risk of owning real estate-related investments is the possibility that the related properties will not generate income sufficient to meet operating expenses, to service any loans that are secured by the properties or to fund adequate reserves for capital expenditures. The income from investments may be affected by many factors, including, but not limited to, fluctuations in occupancy levels, operating expenses and rental income; the supply of and demand for properties of the type in which a client invests; energy shortages; compliance by tenants with the terms of their leases; collection difficulties; the availability of financing on attractive terms; the enactment of unfavorable environmental or zoning laws; Federal and local rent controls; other laws and regulations; disruptions in the credit and capital markets; and changes in real property tax rates. The marketability and value of any client's investment will depend on a number of factors beyond the control of the client, including, but not limited to, those previously described.

Market Conditions

In response to the occurrence of several high profile bankruptcies, recent government bailouts, other negative corporate events and certain other recent events, the financial markets have been disrupted in general and the availability and cost of capital for NREA's clients and that of the clients' competitors has been adversely affected. The achievement of the investment objectives depends, at least in part, upon its clients' ability to access capital at rates and on terms NREA determines to be acceptable. If a client's ability to access capital is significantly constrained, the client's financial condition and future investments may be materially adversely affected.

The U.S. economy is still showing signs of continued weakness due to volatility and uncertainty in the credit markets, high unemployment and reduced consumer demand. Real estate asset values have declined in many markets and further corrections in real estate pricing due to declining operating fundamentals and constrained debt financing are possible. While it is expected that a client's investment program will reflect acquisition prices already impacted by these recessionary factors, there can be no assurance that prolonged weakness in the U.S. real

estate markets and the overall state of the economy will not adversely affect the value of the client's investments.

Furthermore, there can be no assurance that a ready market for the investments of NREA will exist at any particular time, since investments in real properties and related investments are relatively illiquid. Accordingly, if there are adverse changes in market conditions, it might be difficult to sell these investments. Any return to the clients on their investment will depend upon factors that cannot be predicted at the time of investment or that may be beyond the control of the clients and NREA.

Utilizing Investment Structures for Investment Protection

NREA invests, and is likely to continue investing, in properties through joint ventures, partnerships and other co-ownership arrangements (including senior and subordinate debt investments) with developers or with other persons. Such investments may involve risks not otherwise present, including, but not limited to, the use of leverage and possibility that project debt may equal or exceed the value of the investment, and a client's co-venturer or partner in an investment becoming bankrupt, that such person might have economic or business goals that are inconsistent with the business interests or goals of the client, or that such person may be in a position to take action contrary to the instructions or the requests of the client or contrary to the client's policies or objectives. Action by such a co-venturer or partner might have the result of subjecting the property to liabilities in excess of those contemplated by the client. Both the use of leverage and risks associated with a client's co-venturer or partner may also make it more difficult for NREA to sell a property or an interest in a joint venture or partnership, and the sale of some interests or assets may be subject to lock-out periods.

Disciplinary Information

Except as discussed below, neither NREA nor any of its management persons has been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of NREA's business or the integrity of its management.

Paul H. Saylor (a Board Director of NREA) and CS Capital Management Inc. (CSCM) (an entity for which Mr. Saylor is the Chairman and Chief Executive Officer) executed a Consent Order with the U.S. Department of Labor (DOL) dated December 9, 2010, which is filed in the United States District Court for the Eastern District of Virginia, to end discussions over allegations by the DOL relative to CSCM's representation of a pension fund in a real estate development project. This fund was not and is not a client of National's. The Consent Order represented full and complete resolution of all claims and issues without admission of wrongdoing or impact on CSCM's qualifications as a fiduciary. The DOL alleged a breach of ERISA-based obligations, which was adamantly denied by CSCM and Mr. Saylor. This denial was supported by CSCM's fiduciary counsel. CSCM agreed to a settlement of \$1,199,990 (in part paid by CSCM's insurer) without admission of guilt or wrongdoing, to end a process CSCM and its counsel believed was initiated without merit or basis.

Other Financial Industry Activities and Affiliations

National Real Estate Advisors and its management persons do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

National Real Estate Advisors has adopted a written code of ethics that is applicable to all employees and other supervised persons. Among other things, the code requires NREA and its employees to act in its clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. A copy of NREA's code of ethics is available upon request.

NREA makes investments in real estate and real estate related ventures. As most real estate ventures are private transactions and since the vast majority of the entities are not publicly traded, there is generally little or no securities trading related to the investments. Nevertheless, as a precautionary measure, NREA collects and monitors personal trading activities and holdings of all supervised persons. The Chief Compliance Officer monitors trading by supervised persons, relative to client trading, to ensure compliance with applicable requirements.

NREA maintains an informal watch list of securities that are related to investments and securities already held in client accounts. Any proposed personal transaction involving securities on the watch list requires preclearance from the Chief Compliance Officer. The Chief Compliance Officer would not grant preclearance when it would appear that trading by a supervised person could disadvantage NREA's clients. Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the Chief Compliance Officer might not allow the security to be purchased for client accounts in order to avoid even the appearance of improper trading by supervised persons. NREA has not yet experienced these circumstances and expects that it would be exceedingly rare for a supervised person's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time. In 2011, a principal of NREA became an investor in a client fund managed by NREA.

Brokerage Practices

Except occasionally in connection with temporary short-term investments of cash received from client contributions pending investment or the sale of client assets pending further investment or distribution, National Real Estate Advisors neither employs nor engages a securities broker-dealer for any transaction related to any of its investments. NREA does not have any soft dollar arrangements and does not expect to have this type of arrangement in the future.

Review of Accounts

Accounts under NREA's management are monitored on an ongoing basis by NREA's Chief Compliance Officer and the NREA accounting department. In addition, the accounts are subject

to an annual audit performed by a third party independent accountant, and in the case of a private client, by a PCAOB-regulated independent accountant.

NREA distributes its audited financial statements prepared in accordance with GAAP to clients within 120 days of the end of the fiscal year.

Client Referrals and Other Compensation

National Real Estate Advisors does not directly or indirectly compensate any person for client referrals. NREA does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients.

Custody

National Real Estate Advisors is considered to have possession of client funds due to the following arrangements. NREA is responsible for monitoring all wire transfers and checks received in connection with NREA's management of clients' real estate assets. NREA staff prepares receipts for any checks received for immediate deposit in a real estate depository account at a non-affiliated bank which is under the control of a third party custodian. Specific reconciling and validation procedures are applied to ensure the accuracy of wires received and checks deposited in the bank account; then, all money is swept on a daily basis by the third party custodial account into a short term investment account.

NREA's private fund client is subject to an annual audit conducted by an independent, third party accountant, and audited financial statements prepared in accordance with GAAP are distributed to clients or members within 120 days of the end of the fiscal year.

Investment Discretion

NREA has investment discretion over all clients' accounts. Clients grant NREA discretion through the execution of an investment management agreement with NREA. Subject to any restrictions on the amount of capital available to the account or other restriction that a client may have required, the investment management agreement provides broad discretion to NREA consistent with the objectives and strategies discussed above.

Voting Client Securities

NREA invests client assets in real estate. NREA neither engages in proxy voting now, nor does it anticipate engaging in proxy voting in the future.

Financial Information

National Real Estate Advisors has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.