

**Morgan Stanley Real Estate Investing  
Prime Property Fund**  
**Discussion Materials**

As of December 31, 2016



Morgan Stanley Real Estate  
Investing  
Prime Property Fund

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Past Performance. Past performance is not indicative of future results. Any projected or target returns contained herein are being provided for informational purposes only. Investments in real estate may result in the loss of principal. There can be no assurance that any projected or target returns, or any returns at all, will be achieved.

## Important Notices (cont'd)

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## Important Notices (cont'd)

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Availability of Adviser's Form ADV. Morgan Stanley Real Estate Advisor, Inc., the Adviser to the Fund, and various other Morgan Stanley affiliates that are registered with the U.S. Securities & Exchange Commission ("SEC") have filed with the SEC, and are required to update periodically, Form ADV. Form ADV Part 2A and 2B contain essential information about a given investment advisory firm, including information about firm management, clients, fee arrangements and the handling of conflicts of interest, and the SEC requires that it be sent to all prospective clients who might enter into an advisory agreement prior to execution. Upon request, the Adviser will furnish a copy of its Form ADV without charge to you. Please contact Morgan Stanley Real Estate Investor Services at (212) 761-7160 or email [msreinvestor@morganstanley.com](mailto:msreinvestor@morganstanley.com) for a copy.

Any losses in MSREI funds will be borne solely by investors in MSREI funds and not by Morgan Stanley and its affiliates. Therefore, Morgan Stanley's losses in MSREI funds will be limited to losses attributable to the ownership interests in MSREI funds held by Morgan Stanley and its affiliates in their capacity as investors in MSREI funds. Interests in MSREI funds are not insured by the FDIC and are not deposits, obligations of, or endorsed or guaranteed in any way, by Morgan Stanley. Investors should read the applicable Offering Memorandum (if available) before investing in MSREI fund. Morgan Stanley is the sponsor of MSREI funds for purposes of the Section 619 of the Dodd-Frank Act ("The Volcker Rule"). A description of the role and services of Morgan Stanley is provided in the Memorandum.

For more information contact: Scott Brown, c/o Morgan Stanley, 1585 Broadway, 37th Floor, New York, NY 10036.

## Risk Considerations

There are significant risk factors associated with an investment in PRIME. An investment in PRIME will involve significant risks due to, among other things, the nature of the Fund's investments and potential conflicts of interest. There can be no assurance that PRIME will realize its rate of return objectives or return any investor capital. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of investment and the lack of liquidity). The value of an investment in the Fund may fluctuate. Past results do not guarantee future performance.

These risk factors include the following:

- Conflicts of interests between the Fund, its investors, the Adviser and other affiliates of Morgan Stanley
- Tax considerations and regulatory matters
- Lack of liquidity of investments
- No or restricted transferability of, or market for, interests in the Fund
- Competition
- Leverage
- Market risk; minority investments in companies
- Interest rate risks
- Risks of real estate investments, which may include the following: dependency on specialized management skills, lack of diversification, fluctuations in the value of underlying properties; defaults by borrowers or tenants; market saturation; changes in general and local economic conditions; decreases in market rates for rents; increases in competition, property taxes, capital expenditures or operating expenses; and other economic, political or regulatory occurrences affecting the real estate industry

*See Risk Considerations for additional risk factors in connection with making an investment in PRIME*

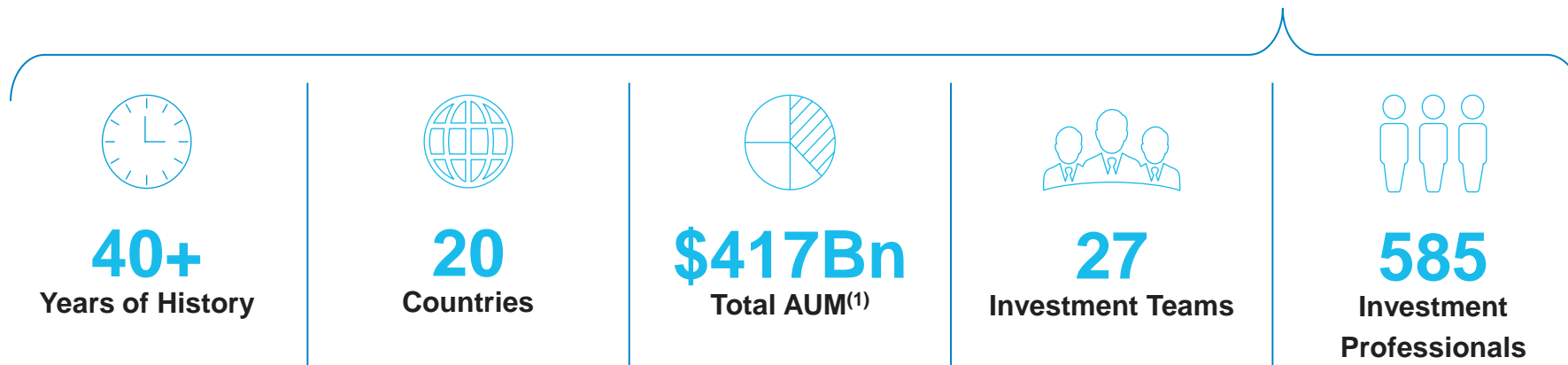
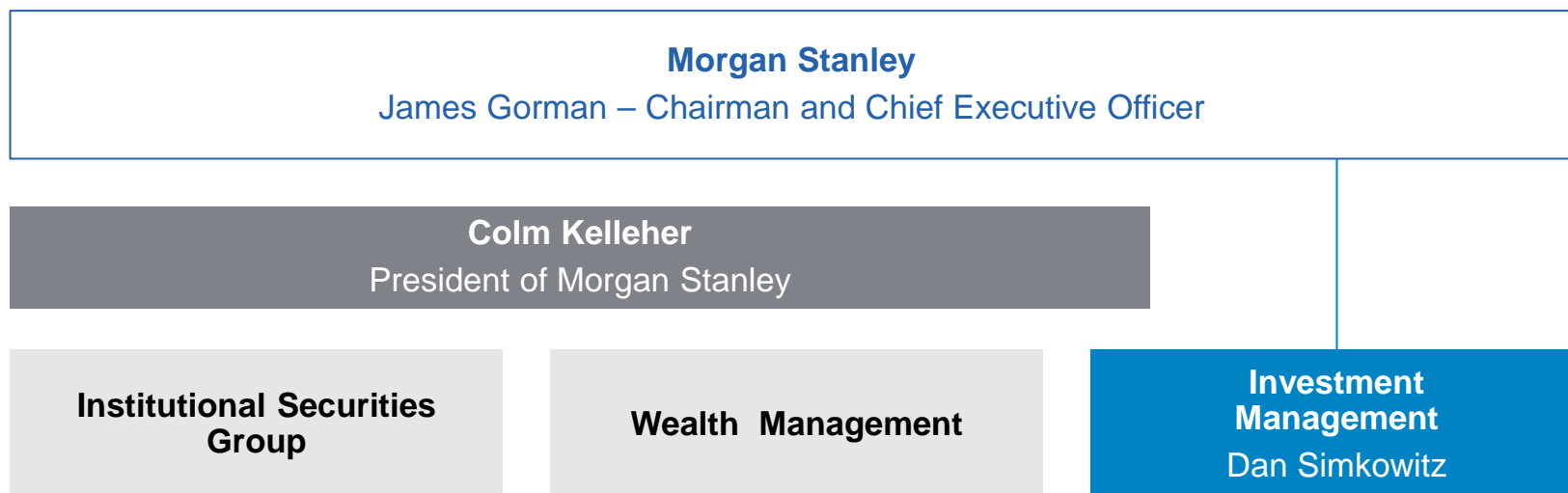
**Section 1**

## Morgan Stanley – MSREI Overview

Morgan Stanley Real Estate  
Investing  
Prime Property Fund

MORGAN STANLEY – MSREI OVERVIEW

# Morgan Stanley Overview



**Note**

1. AUM as of December 31, 2016. Fund of Fund assets represent assets under management and assets under supervision. Direct private investing assets represents the basis on which the firm earns management fees, not the market value of the assets owned.

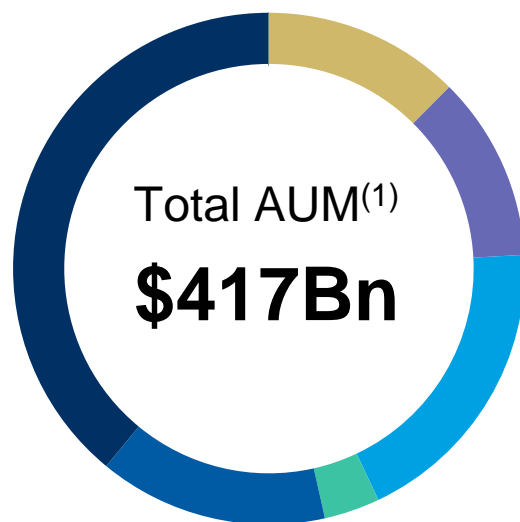


Morgan Stanley Real Estate  
Investing  
Prime Property Fund

MORGAN STANLEY – MSREI OVERVIEW

# MSIM Overview

Investment Expertise Across Public & Private Markets



**\$52Bn**

## SOLUTIONS & MULTI-ASSET

- Portfolio Solutions
- Global Multi-Asset
- Hedge Fund Solutions
- Managed Futures
- Applied Equity Advisors
- Fundamental Equity Advisors
- Private Structured Credit Solutions

**\$49Bn**

## REAL ASSETS

- Global Listed Real Assets
- Private Real Estate Investing
- Private Infrastructure

**\$79Bn**

## ACTIVE FUNDAMENTAL EQUITY

- International Equity
- Growth
- Global Emerging Markets
- European Equity
- Active International Allocation

**\$15Bn**

## PRIVATE CREDIT & EQUITY

- Credit Partners
- Private Equity Asia
- Global Private Equity
- Expansion Capital
- Energy Partners
- AIP Private Markets
- Private Opportunistic Investing

**\$60Bn**

## GLOBAL FIXED INCOME

- U.S. Fixed Income
- Global Fixed Income
- Emerging Markets Debt
- European Fixed Income

**\$163Bn**

## GLOBAL LIQUIDITY

- Global Liquidity

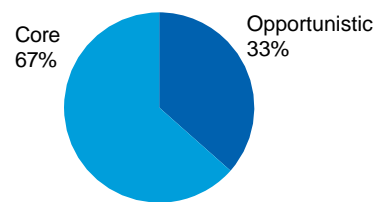
**Notes**

1. AUM figures within each business line may not sum to total AUM due to rounding. Data as of December 31, 2016. Fund of Fund assets represent assets under management and assets under supervision. Direct private investing assets represents the basis on which the firm earns management fees, not the market value of the assets owned.

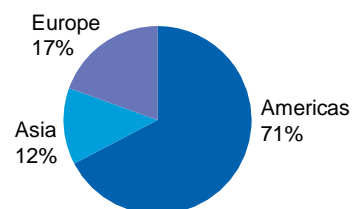
**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

- MSREI is the global private real estate investment management arm of Morgan Stanley
- Approximately 200 MSREI professionals located in 17 offices across 13 countries
- As of December 31, 2016, MSREI manages \$32Bn of global real estate on behalf of its clients<sup>(1)</sup>

**RE AUM By Strategy**



**RE AUM By Region**



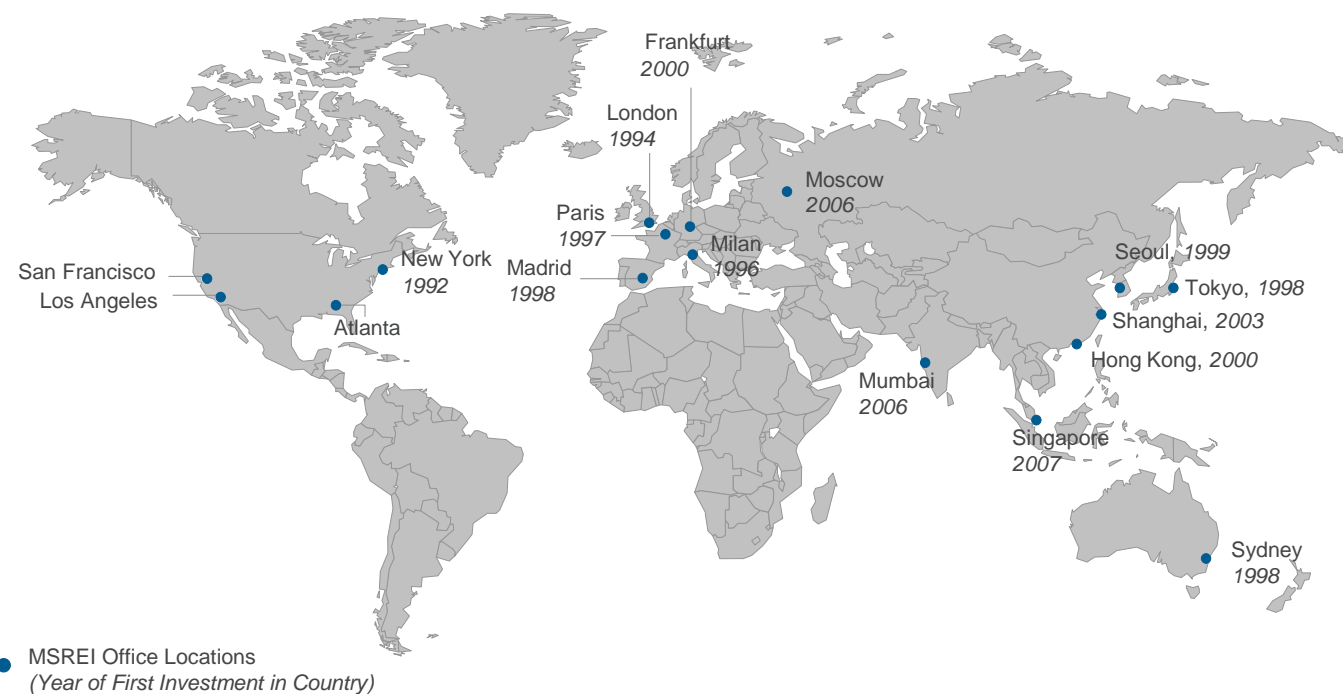
**Morgan Stanley**

**MORGAN STANLEY – MSREI OVERVIEW**

# MSREI Global Reach

As of December 31, 2016

**Uniquely positioned to offer global opportunistic and regional core real estate investment strategies**



PRODUCTS	Global Opportunistic	North Haven Real Estate Funds	
	Regional Core	Prime Property Fund (U.S.)	PRIME Asia

**Note**

1. As of December 31, 2016; real estate assets under management ("RE AUM") represents gross fair market value of the real estate assets managed by Morgan Stanley on behalf of the Firm and its clients, presented at direct ownership interest. RE AUM for certain minority interests represents the respective fund's equity investment in the entity. Global equity assets under management (fee generating accounts) as of December 31, 2016 was \$24Bn (unaudited).

**Section 2**

## Executive Summary

Morgan Stanley Real Estate  
Investing  
Prime Property Fund

EXECUTIVE SUMMARY

## Premier Assets



One Maritime Plaza, San Francisco, CA



500 Park Avenue, New York, NY



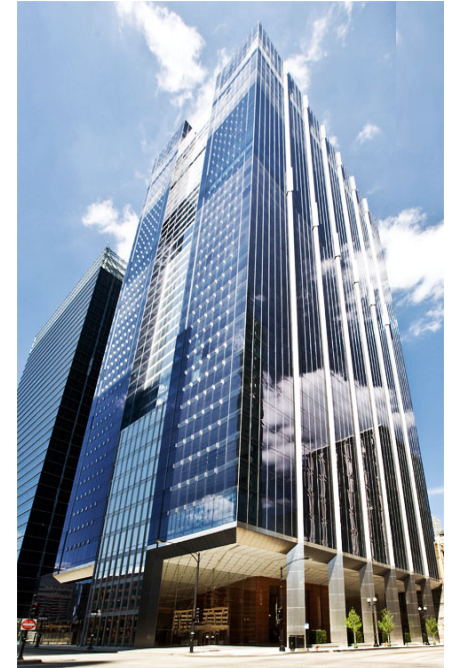
AMLI South Shore, Austin, TX



Dadeland Mall, Miami, FL



AMLI 535, Seattle, WA



155 North Wacker, Chicago, IL



801 17th Street, Washington, DC



Fashion Valley Mall, San Diego, CA



AMLI Lex on Orange, Glendale, CA



Morgan Stanley Real Estate  
Investing  
Prime Property Fund

- One of the longest-term core open-end funds – in its 44<sup>th</sup> year of operation

EXECUTIVE SUMMARY

## A Leading Core Open-End Fund

**PRIME is a core, fully-specified, open-end commingled real estate investment fund diversified by property type and location designed to provide a stable, income-driven rate of return over the long term with potential for growth of income and appreciation of value.**

### HIGHLIGHTS:

- Diversified high-quality portfolio that is difficult to replicate and constructed to be resilient through market cycles
- Consistent, research supported investment strategies employed
- Focus on high-quality office buildings, top tier super-regional malls, Class A apartment communities and distribution warehouses in major metropolitan markets
- Proven track record over the near, intermediate and long term, meaningfully outperforming the NFI-ODCE index over these time frames<sup>(1)</sup>
- Long-tenured and experienced portfolio management team dedicated to providing superior results and client service
- The largest fund across MSREI's global real estate investing platform and comprises over 90% of gross real estate assets in the U.S.<sup>(2)</sup>

#### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

1. Based on gross returns as of December 31, 2016. Please see page 25 for PRIME's before and after fee performance compared to the NFI-ODCE.

2. Gross real estate assets represents the gross fair market value of the real estate assets managed by MSREI on behalf of the firm and its clients, presented at direct ownership interest. Gross real estate assets for certain minority interests represents MSREI's equity investment in the entity. Ownership interest, as of December 31, 2016.

**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

**EXECUTIVE SUMMARY**

## Fund Profile

As of December 31, 2016

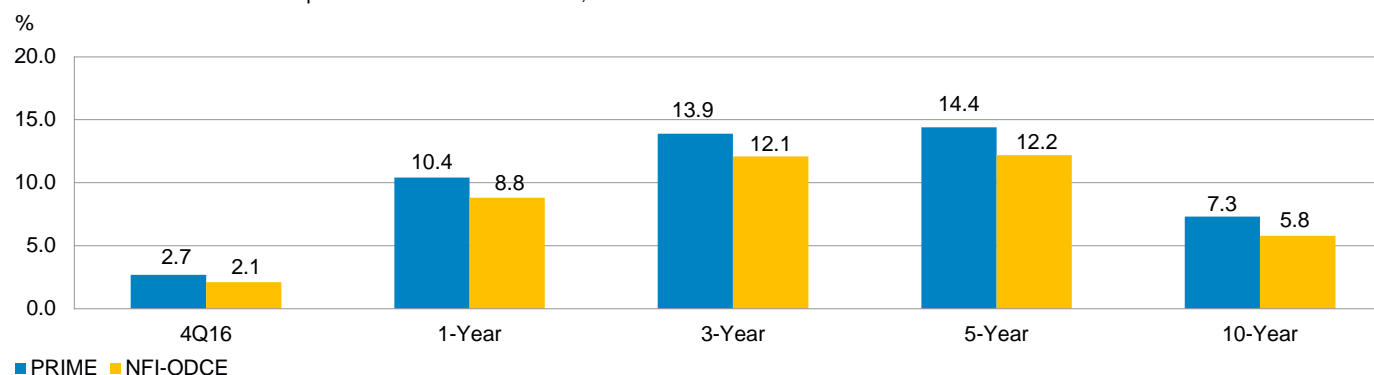
Gross Real Estate Assets <sup>(1)</sup> (\$B)	20.9
Net Asset Value (\$B)	17.5
Consolidated Leverage (%)	16.9
Number of Assets	348
Investors <sup>(2)</sup>	285
Leased <sup>(3)</sup> (%)	93.1
Trailing 12-Month Dividend (%)	4.0
Return Since Inception <sup>(4)</sup> (%)	9.2

- As of December 31, 2016, the annualized outperformance of PRIME, on a gross return basis, relative to the NFI-ODCE<sup>(5)(6)</sup>

– 1-Year	165 bps
– 3-Year	180 bps
– 5-Year	223 bps
– 10-Year	152 bps

### PRIME Leveraged Total vs. NCREIF Fund Index—Open-End Diversified Core Equity (“NFI-ODCE”) Total<sup>(5)(6)</sup>

Annualized Gross Return Comparison—As of December 31, 2016



#### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns

1. Gross real estate assets represent the market value of PRIME assets, including PRIME's share of joint venture assets, before debt.

2. Excludes non-voting shareholders with investment(s) of less than \$10,000.

3. Leased status is value weighted (i.e., calculated using the asset values gross of debt) and adjusted for ownership share.

4. Returns are presented before (i.e., gross of) investment advisory fees—specifically they do not reflect a deduction for asset management fees. Annual net returns are provided in the Performance Notes. See page 25 for PRIME's net returns for the periods presented. PRIME's net return for 4Q16 is 2.4% and since inception is 8.1%.

5. The NCREIF Fund Index—Open-End Diversified Core Equity (“NFI-ODCE”) is a fund-level, capitalization-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (i.e., returns reflect each fund's actual asset ownership positions and financing strategy). NFI-ODCE performance information is presented gross of fees.

6. See the Performance Notes for important information about the characteristics of the NFI-ODCE and other comparative indices in relation to PRIME and other factors relevant to such comparisons.

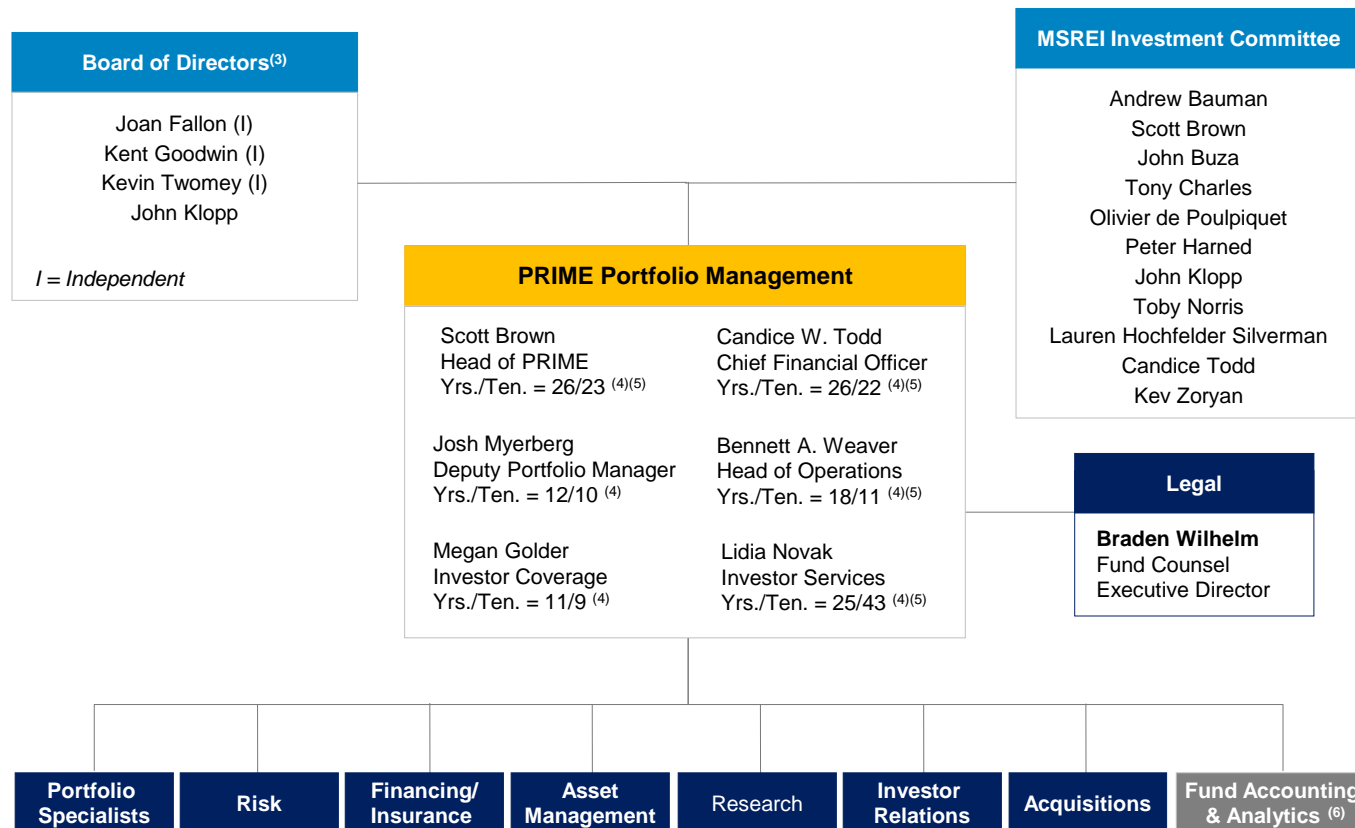
**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

- Scott Brown and Candice Todd provide substantial experience and continuity to the Fund with each having
  - Over 26 years in real estate
  - Over 22 years with Morgan Stanley <sup>(5)</sup>
  - Over 14 years of dedication to PRIME
- The officers within the portfolio management team have an average tenure with the platform of over 19 years

**EXECUTIVE SUMMARY**

# PRIME Resources

As of December 31, 2016 <sup>(1)(2)</sup>



**Notes**

1. This chart and the data provided herein with respect to professionals that are assigned to work on matters related to PRIME are subject to change from time to time based on MSREI senior management's sole discretion regarding the needs of the MSREI business.
2. Resources are shared across all MSREI clients.
3. The fourth Independent Director seat has been vacant since March 31, 2016. The slate of nominated directors for 2017 has been sent to Shareholders for their consent and includes the three current Independent Directors as well as Lynne Sagalyn, who has been nominated to fill the vacancy.

4. Yrs./Ten. = Years of real estate experience/Tenure at Morgan Stanley.
5. Includes years employed by Lend Lease Real Estate and its predecessor, Equitable Real Estate, prior to the acquisition of certain portions of Lend Lease Real Estate's advisory business by Morgan Stanley Real Estate Investing.
6. Fund accounting and analytics are provided by State Street Bank and Trust Company personnel; twelve professionals currently are assigned to provide fund control and analytics services relating to PRIME.

**Section 3**

## Portfolio Overview



Morgan Stanley Real Estate  
Investing  
Prime Property Fund

PORTFOLIO OVERVIEW

# PRIME Scale

As of December 31, 2016

## OFFICE

- \$7.0B of gross real estate<sup>(1)</sup>
- 11.0M sq. ft.
- 27 assets
- 95.7% leased
- 33.6% Allocation



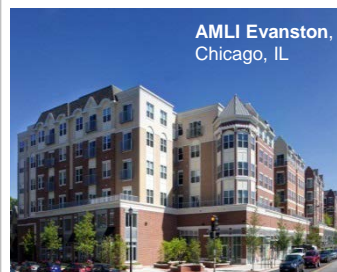
## RETAIL

- \$3.9B of gross real estate<sup>(1)</sup>
- 7.4M sq. ft.
- 22 assets
- 92.8% leased
- 18.9% Allocation



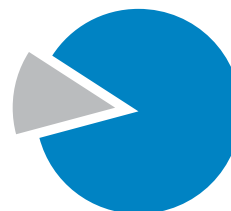
## APARTMENT

- \$5.2B of gross real estate<sup>(1)</sup>
- 22,010 units
- 80 assets
- 90.8% leased
- 25.0% Allocation



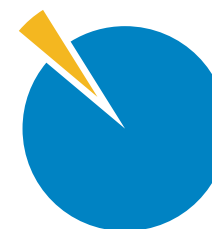
## INDUSTRIAL

- \$2.9B of gross real estate<sup>(1)</sup>
- 29.1M sq. ft.
- 124 assets
- 96.3% leased
- 14.0% Allocation



## SELF STORAGE

- \$1.1B of gross real estate<sup>(1)</sup>
- 3.8M sq. ft.
- 76 assets
- 84.1% leased
- 5.1% Allocation



**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

- PRIME's ten largest assets comprise nearly 28% of the Fund<sup>(2)</sup>
- PRIME's 25 largest assets comprise 45% of the Fund<sup>(2)</sup>
- Historically, larger properties tend to outperform smaller properties
  - Over the last ten years, properties larger than \$100M have outperformed properties smaller than \$100M by 174 basis points<sup>(3)</sup>

**PORTFOLIO OVERVIEW**

## Large Scale Holdings<sup>(1)</sup>



**Fashion Valley Mall,  
San Diego, CA**

- 50% Ownership
- 97% Leased



**Dadeland Mall,  
Miami, FL**

- 50% Ownership
- 95% Leased



**Christiana Mall,  
Newark, DE**

- 50% Ownership
- 99% Leased



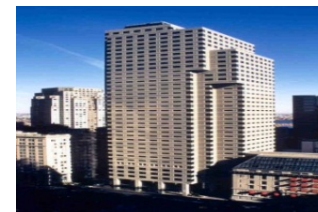
**Two Park Avenue,  
New York, NY**

- 100% Ownership
- 91% Leased



**155 North Wacker,  
Chicago, IL**

- 99% Ownership
- 98% Leased



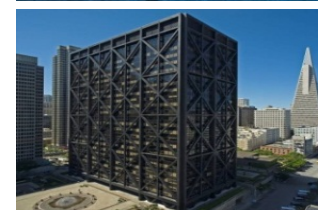
**One Post Office Square,  
Boston, MA**

- 100% Ownership
- 95% Leased



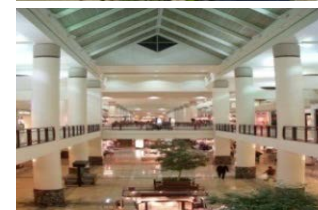
**Hills Plaza,  
San Francisco, CA**

- 100% Ownership
- 99% Leased



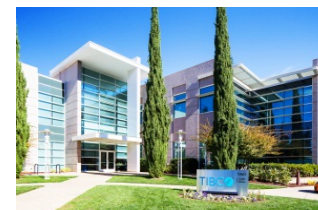
**One Maritime Plaza,  
San Francisco, CA**

- 100% Ownership
- 100% Leased



**Rosedale Shopping Center,  
Minneapolis, MN**

- 100% Ownership
- 90% Leased



**3301-3307 Hillview Avenue,  
Palo Alto, CA**

- 100% Ownership
- 100% Leased

**Notes**

1. Calculated using PRIME's share of gross asset value.
2. Based on same-store analysis of NCREIF Property Index historical returns from October 2006 through December 2016.

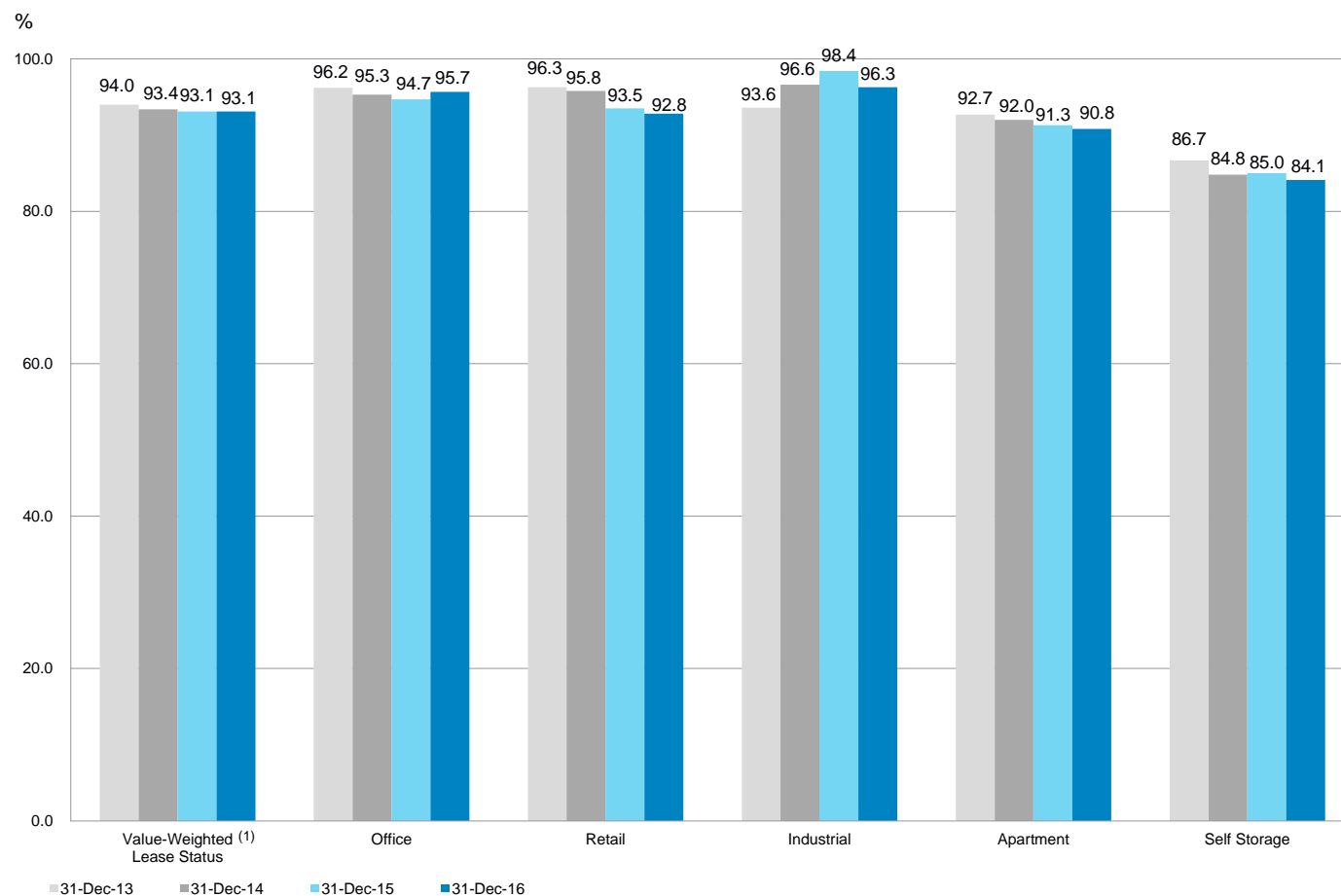
Morgan Stanley Real Estate  
Investing  
Prime Property Fund

## PORTFOLIO OVERVIEW

# Leased Status

As of December 31, 2016

### Portfolio Lease Status



**Note**

1. Leased Status is value weighted (i.e., calculated using the asset values gross of debt) and adjusted for ownership share.

**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

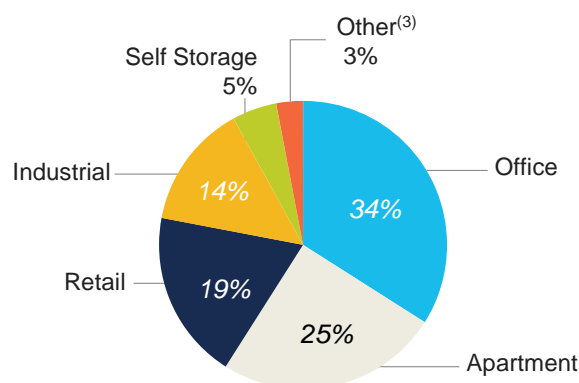
- Broad property type diversification can reduce overall portfolio volatility
- PRIME's near-term diversification targets are<sup>(2)</sup>
  - Office 30%–40%
  - Retail 15%–25%
  - Apartment 20%–30%
  - Industrial 10%–20%
  - Self Storage 0%–5%
  - Other 0%–5%

**PORTFOLIO OVERVIEW**

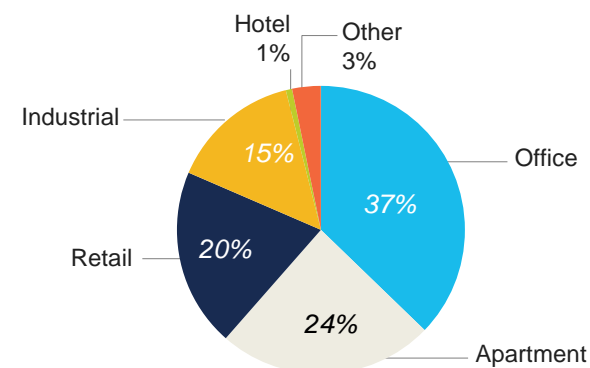
## Sector Diversification

As of December 31, 2016

### PRIME Diversification – Property Sector<sup>(1)</sup>



### NFI-ODCE Diversification – Property Sector<sup>(1)</sup>



#### Notes

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns. Diversification does not eliminate the risk of future loss.

1. NFI-ODCE diversification data is presented on a gross asset value basis. The Fund's property sector targets, as set forth in its investment guidelines, are set on a gross asset value basis.

2. These are targets only. The Fund's investment guidelines include no specific limitations or requirements with regard to property type or geographic diversification. The investment guidelines, including these targets, are subject to modification from time to time by the board of directors of the Fund upon recommendation of the Adviser.

Additionally, the Adviser retains discretion to vary from these targets when it deems it appropriate. There can be no assurance that these targets will be met at any time.

3. Other primarily includes land held for potential development, hotel and life sciences/medical office assets.

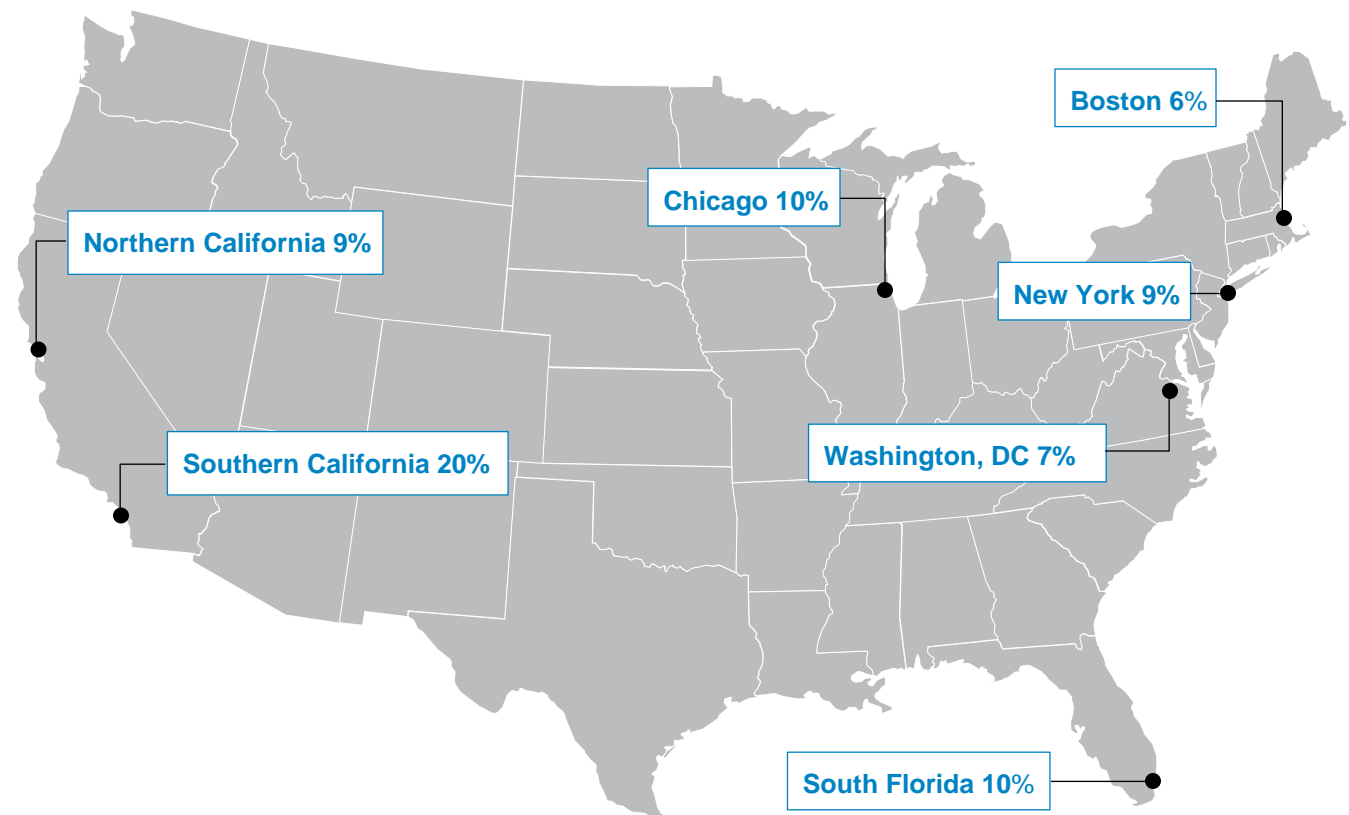
**Morgan Stanley Real Estate  
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Prime Property Fund**

**PORTFOLIO OVERVIEW**

## Concentration in Preferred Markets

As of December 31, 2016

- 71%, on a gross basis, of PRIME's holdings are concentrated in seven preferred markets<sup>(1)</sup>
  - NFI-ODCE excluding PRIME has a 63% concentration in the same seven preferred markets
- Preferred major markets have outperformed the NPI by an average of 62 basis points per annum for the last twenty years<sup>(1)</sup>
  - When compared to the NPI, excluding these major markets, outperformance climbs to 117 basis points per annum over the last twenty years



**Note**

1. The following markets were selected by the Adviser as preferred major markets for this analysis: Boston, New York, Washington, DC, Miami / Fort Lauderdale, Chicago, San Francisco / San Jose / Stockton and Los Angeles / San Diego. As of December 31, 2016, with respect to real estate assets owned by NCREIF data-contributing members, real estate assets in these markets represented \$305B of value, or 58% of the NPI (\$525B).

**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

- PRIME's target range for leverage is 20%–30%
- PRIME's debt strategy of maintaining a mix of secured and unsecured financing allows the Fund to effectively and actively manage the portfolio as well as tap into a more diverse set of lending sources
- The Fund has no outstanding forward commitments

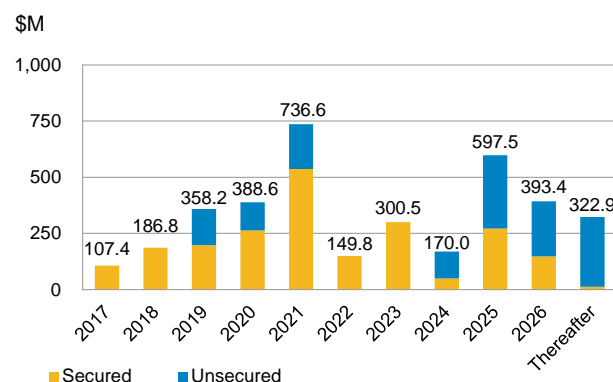
**PORTFOLIO OVERVIEW**

## Debt Profile

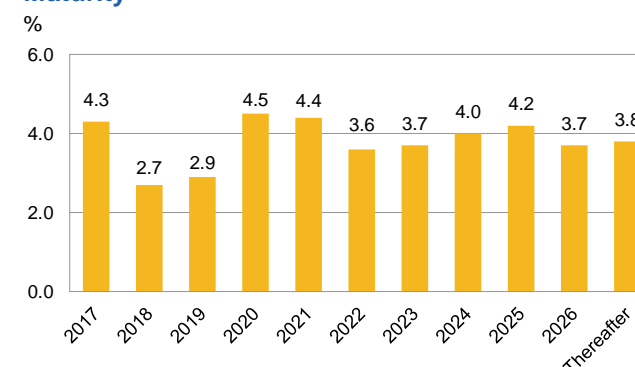
As of December 31, 2016

Leverage <sup>(1)</sup> (%)	16.9
Fund Rating (Standard & Poor's)	A
Weighted Average Cost of Debt (%)	3.9
Weighted Average Debt Remaining Term	6.0 years
Unsecured Debt (%)	40.0
Fixed Rate Debt (%)	88.6
Cash to Net Assets (%)	3.2

### Debt Maturity Schedule <sup>(2)</sup>



### Weighted Average Cost of Debt by Year of Maturity <sup>(2)</sup>

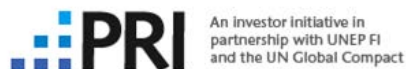


**Notes**

1. Includes all wholly-owned debt and PRIME's proportionate share of joint venture debt.
2. Maturity schedule reflects wholly owned and joint venture debt at ownership share. Excludes the Fund's \$650 million line of credit, which had zero outstanding as of December 31, 2016 and the AMLI line of credit facility which had zero outstanding as of December 31, 2016. Information is as of December 31, 2016 and is subject to change at any time.



**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**



**PORTFOLIO OVERVIEW**

# Sustainability

As of December 31, 2016

PRIME has implemented a comprehensive sustainability strategy, aimed at monitoring resources consumed by its real estate assets, thereby creating the potential for the Fund to reduce its carbon footprint in a financially responsible way. Morgan Stanley Investment Management is a signatory to the United Nations Principles for Responsible Investment (UN PRI) and has adopted Environmental, Social and Governance (ESG) Principles in keeping with the UN PRI.

## PARTICIPATION & BENCHMARKING

PRIME participates annually in the Global Real Estate Sustainability Benchmark (“GRESB”)

- In the most recent GRESB survey, PRIME improved its GRESB score from 60 to 71, earning a Green Star rating, and ranking in the top third of all U.S. Diversified participants.
- 30.2% of the Fund’s assets are LEED certified<sup>(1)</sup>

### Office

- 60.8% of the Fund’s office portfolio is LEED certified with an additional 16.4% pursuing certification<sup>(1)</sup>
- Seventeen office assets representing 77% of the Fund’s office portfolio were eligible for the Energy Star certification<sup>(1)(2)</sup>
- Energy Star average score of 80 for the 23 office assets that received a review (representing 95% of the office portfolio)<sup>(1)</sup>

### Apartment

- Twenty-five LEED certified apartment assets with an additional 16 assets pursuing certification
- AMLI Residential is the 2013 recipient of the awards for “Outstanding Commitment to LEED” and “Outstanding Multifamily Builder” by the U.S. Green Building Council (USGBC), recognizing projects, developers and homebuilders that have demonstrated outstanding leadership in residential green building
- AMLI Ponce Park received honorable mention for the 1<sup>st</sup> year of Green Awards from the Green Build & Design Magazine and the Atlanta chapter of the American Institute of Architects
- AMLI requires that all new developments attempt a minimum of LEED Silver certification or higher
- In 2017, LED retrofits will be performed at twelve properties
- AMLI employs 17 designated LEED AP individuals in-house

#### Notes

1. Based on gross asset value.
2. Energy Star certification is achieved with a score of 75 or higher.

Section 4

## Performance & Capital Flows



**Morgan Stanley Real Estate  
Investing  
Prime Property Fund**

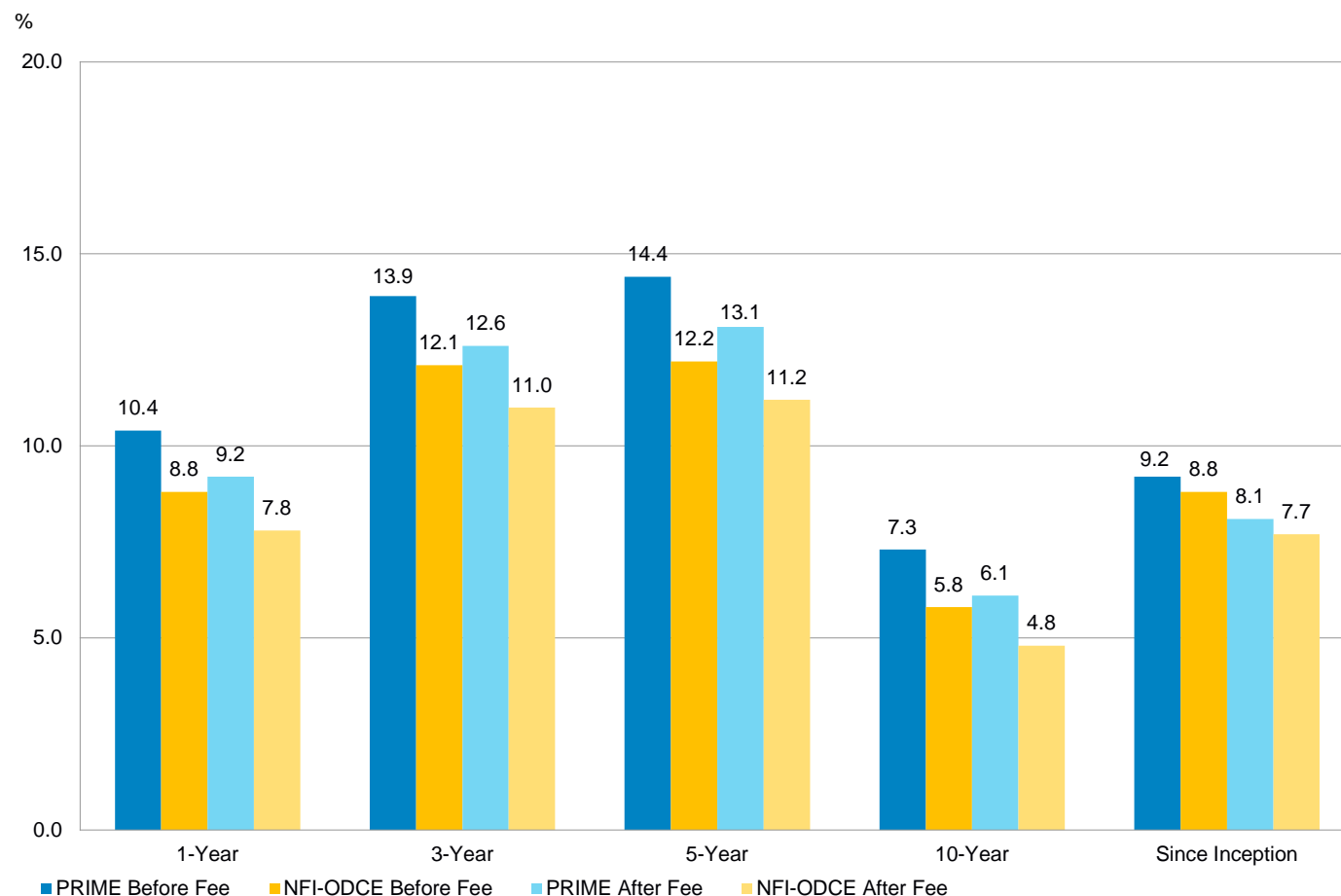
- PRIME's fee for each of the last five calendar years has been
  - 2016 112 bps
  - 2015 119 bps
  - 2014 119 bps
  - 2013 120 bps
  - 2012 133 bps
- PRIME's fee was modified, effective April 1, 2013. The total fee is now capped at 119 bps
- PRIME's fee structure is detailed on page 53 (Tab A)
- The difference between Before Fee and After Fee returns does not total the fee charged in terms of basis points on NAV given the compounding impact of the chain linking of returns

**PERFORMANCE & CAPITAL FLOWS**

## PRIME Before and After Fee Performance vs. NFI-ODCE

As of December 31, 2016

### PRIME vs. NFI-ODCE Total Returns



**Note**

Past performance is not indicative of future results. See the Performance Notes for important information about performance returns.

Morgan Stanley Real Estate  
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- PRIME works closely with the Fund's independent appraisers to ensure they have the most current property and capital market information possible

## PERFORMANCE & CAPITAL FLOWS

### Valuation

PRIME has implemented a rigorous appraisal process

- **Every asset independently appraised quarterly**
- Nationally recognized appraisal firm is engaged to manage the process with the third-party appraisal firms that provide appraisals
- Individual appraisal assignments are rotated every three years
- Third-party appraisal firms are engaged by PRIME's independently controlled Board of Directors
- All valuation recommendations are formally reviewed by the Adviser's internal valuation committee

Morgan Stanley Real Estate  
Investing  
Prime Property Fund

- Ownership structure allows for a more diversified capital base

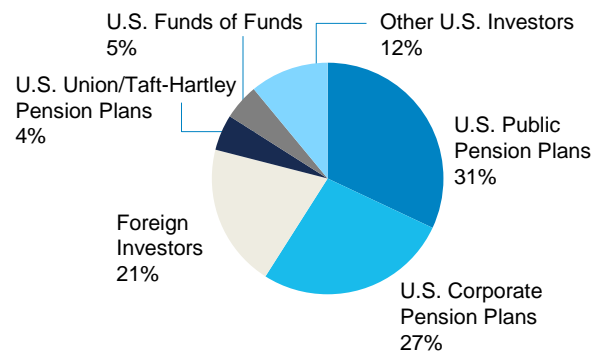
## PERFORMANCE & CAPITAL FLOWS

# Investor Profile

As of December 31, 2016

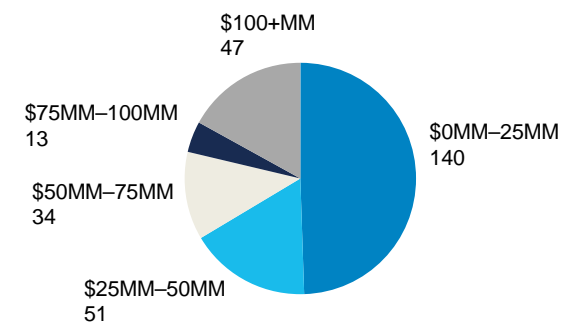
### Investor Type—Measured in \$

\$17.5B Net Asset Value



### Number of Investors—Measured by Size

\$17.5B Net Asset Value



PERFORMANCE & CAPITAL FLOWS

## Summary & Differentiating Attributes

### BROAD INVESTMENT PLATFORM

- PRIME is MSREI's only active U.S. core investment mandate
- Provides access to deal flow, information and expertise

### EXPERIENCED AND DEDICATED TEAM

- Providing consistency of approach to investing
- Interests aligned with shareholders

### STRONG RELATIVE TRACK RECORD

- Have outperformed through market cycles
- Research supported and specific investing strategies within each sector
- Established practices in place to manage to an attractive risk-adjusted return

### HIGH-QUALITY PORTFOLIO

- Difficult to replicate and more resilient through market cycles
- Strategically constructed and concentrated in preferred major markets

### OPERATIONAL EXPERTISE

- Fund ownership of AMLI Residential provides experience within the apartment sector

PERFORMANCE & CAPITAL FLOWS

## Performance Notes

*Past performance is not indicative of future results. There can be no assurance that the Fund will achieve comparable, or any, returns. Losses, including a total loss of invested amounts, can result from investment in the Fund.*

Unless otherwise noted, performance returns for the Fund contained herein:

- Are annualized (i.e., for periods of one year or greater, the performance returns represent average annual returns). Returns for periods less than one year are unannualized.
- Are time-weighted returns calculated using a “modified Dietz method.” In the absence of daily portfolio valuations, the modified Dietz method weights individual cash flows by the amount of time that those cash flows are held by (or absent from) the portfolio. The Adviser believes the modified Dietz method is a more appropriate way to measure the return on a portfolio than a simple geometric return method because the modified Dietz method identifies and accounts for the timing of all random cash flows while a simple geometric return does not.
- The modified Dietz method formula for calculating a time weighted return is as follows:
  - $$R_p = \frac{EFV - BFV - CF}{BFV + WCF}$$
  - $R_p$  = Return for the measurement period
  - EFV = Ending fair value of the investment
  - BFV = Beginning fair value of the investment
  - CF = Net cash flows for the period (add if net distribution)
  - WCF = Sum of weighted cash flows for the period
- Are presented before (i.e., gross of) investment advisory fees—specifically, they do not reflect a deduction for asset management fees. Actual returns to an investor would be lower.
- Are presented on a levered basis.
- Are presented based on finalized interim unaudited financial results (or, if available, finalized audited financial statements) available as of the stated time in the return presentation. Such results as of the end of the applicable fiscal year are generally audited by a reputable outside firm within 90 days of the Fund’s fiscal year end.
- Include interest income from short-term investments.
- Include income which is based on accrual accounting.
- Include increases or decreases in net asset value arising from the Fund’s marking of its debt to market in accordance with Accounting Standards Codification 825-10-25.

**Morgan Stanley Real Estate  
Investing  
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**PERFORMANCE & CAPITAL FLOWS**

## Performance Notes (cont'd)

The Fund's annual total returns for calendar years 1974-2016 are as follows:

Year	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gross	10.18%	7.64%	10.20%	11.27%	14.05%	14.92%	12.58%	17.25%	8.70%	18.13%
Net	9.15%	6.54%	9.05%	10.44%	13.27%	14.08%	11.59%	16.30%	7.34%	17.52%

Year	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gross	14.10%	9.74%	8.44%	9.40%	8.51%	9.60%	0.36%	(7.24)%	(3.52)%	2.12%
Net	13.11%	8.63%	7.30%	8.25%	7.38%	8.46%	(0.70)%	(8.23)%	(4.57)%	1.06%

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross	6.73%	(0.38)%	10.61%	14.34%	18.75%	13.40%	13.27%	3.54%	5.27%	11.04%
Net	5.68%	(1.36)%	9.54%	13.23%	17.59%	12.26%	12.20%	2.59%	4.30%	10.02%

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross	18.53%	20.70%	18.47%	16.53%	(3.69)%	(32.61)%	16.23%	17.72%	13.16%	17.54%
Net	17.56%	19.81%	17.03%	15.23%	(4.75)%	(33.22)%	15.09%	16.28%	11.68%	16.15%

Year	2014	2015	2016
Gross	15.46%	15.84%	10.42%
Net	14.11%	14.50%	9.20%

The Fund's inception date was August 20, 1973. Performance information for the Fund for the period in which it was advised by Lend Lease Real Estate Investments, Inc. or its predecessors (the period prior to December 2003) is included because it has been concluded that, given the substantial overlap of personnel and other factors, reporting such information would be helpful. On June 30, 2004, the Fund became the successor in interest of an open-end institutional real estate fund organized in 1973 as a statutory insurance company separate account (known as "Separate Account No. 8 – Prime Property Fund") sponsored and maintained by The Equitable Life Assurance Society of the United States.

PERFORMANCE & CAPITAL FLOWS

## Performance Notes (cont'd)

The sum of the income return and appreciation return components may not equal the gross return because of the time weighting (*i.e.*, chain linking) of component monthly returns and/or quarterly returns.

Income return may or may not approximate distributed income to the investor, depending on the cash distribution policy or elections made by the investor.

As stated above, performance returns for the Fund contained herein are reported on an annualized, not cumulative, return basis. The cumulative, compounded effect of advisory fees on total returns can be significant. For example, assuming an 8% annual return to a portfolio, earned evenly over the period in question, and an annual advisory fee on equity equal to 1.15%, the total after-fee return to the client would nominally be 6.85%. Over one-, three-, five- and ten-year periods, however, cumulative actual returns would be 8.24% (gross) and 7.03% (net) for one year; 26.82% (gross) and 22.60% (net) for three years; 48.59% (gross) and 40.44% (net) for five years; and 120.80% (gross) and 97.23% (net) for ten years.

### Comparable Indices and Benchmarks – Generally

For purposes of evaluating the Fund's performance, the information contained herein includes certain comparisons to certain real estate and non-real estate indices and benchmarks. It is not possible to invest directly into an index or benchmark. Certain factors and the limited data available for such indices and benchmarks may make direct comparisons difficult, and such indices and benchmarks may have characteristics that are not be fully applicable to the Fund and may be more or less volatile than the Fund. For example, indices (or particular funds contained therein) may have dissimilar asset concentrations, appraisal standards or policies on the reinvestment of dividends or other proceeds when compared to the Fund.

Characteristics of certain indices and benchmarks commonly used in comparisons with the Fund are described below; however, the descriptions are not exhaustive. Thorough familiarity with the characteristics for each index and benchmark is advisable before one can fully understand such comparisons.

### NCREIF Fund Index – Open-End Diversified Core Equity

The NCREIF Fund Index – Open-End Diversified Core Equity (“NFI-ODCE”) is a fund-level, capitalization-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage (*i.e.*, returns reflect each fund's actual asset ownership positions and financing strategy). NFI-ODCE performance information is presented gross of fees. NFI-ODCE information is available beginning in the first quarter of 1978, inclusive.

PERFORMANCE & CAPITAL FLOWS

## Performance Notes (cont'd)

### **IPD U.S. Core Open-End Fund Benchmark**

The IPD U.S. Core Open-End Fund Benchmark (“IPD Benchmark”) is time-weighted return index peer group benchmark used by PRIME and includes all investments owned by the peer group including real estate, cash and other investments (mezzanine loans receivable, notes receivable, forward commitments, etc.). The IPD Benchmark is gross of fees and excludes the impact of leverage.

### **NCREIF Property Index**

The NCREIF Property Index (“NPI”) is a property-level, time-weighted return index and includes property investments at 100% ownership and does not account for leverage (*i.e.*, returns do not reflect each fund’s actual asset ownership position (if not 100%) or financing strategy). NPI performance information is presented gross of fees.

The Fund has a core-oriented investment strategy, while the NPI includes investments with a non-core orientation. The NPI performance returns exclude development, agricultural and other non-income producing properties. Also, the NCREIF Property Index is a broader index and includes assets with enhanced or more opportunistic-type strategies. The Fund’s exposure to these types of assets is limited to 15% of gross assets, and the Fund’s exposure to these types of assets was 8.3% of gross assets as of December 31, 2016.

### **Other Indices**

Comparisons to the performance returns of other indices (e.g., NAREIT Equity REIT Index, S&P 500, Barclays Capital U.S. Government/Credit Bond Index) are subject to similar considerations concerning component product mixes, weighting, etc. In particular, when comparing the performance of asset classes, readers should keep in mind that there are differences that make direct comparisons difficult. For example, due to the appraisal methods for valuing real estate, there may be inherent issues when comparing real estate to other asset classes; stocks are more volatile than bonds; and U.S. government bonds and fixed income investments are guaranteed by the issuer as to the timely payment of principal and interest and pay a fixed rate of interest.



PERFORMANCE & CAPITAL FLOWS

## Risk Considerations

There are significant risk factors associated with an investment in PRIME. An investment in PRIME will involve significant risks due to, among other things, the nature of the Fund's investments and potential conflicts of interest. There can be no assurance that the Fund will realize its rate of return objectives or return any investor capital. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of investment and the lack of liquidity). The value of an investment in a fund may fluctuate. Past results do not guarantee future performance. These risk factors include the following:

- **Financial Reform Legislation:** In July, 2010 (the "Enactment Date"), President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, one provision of which will eventually prohibit bank holding companies and their affiliates, subject to certain exceptions (including an exemption for certain funds to which Morgan Stanley has committed no more than 3% of the capital), from investing in or sponsoring private equity funds following passage of a transition period. While the Adviser will endeavor to minimize the impact of such legislation on the Fund and the assets held by the Fund, investors may be adversely affected by the legislation and the supporting rules and regulations that have yet to be created.
- **Bank Holding Company:** Morgan Stanley became both a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956, as amended (the "BHCA"). As such, Morgan Stanley is subject on a worldwide basis to regulation (including capital adequacy regulations), examination and supervision by the U.S. Board of Governors of the Federal Reserve System (the "Federal Reserve"). Because it is an indirect subsidiary of Morgan Stanley, the Adviser of the Fund is subject to the BHCA.
- There can be no assurance that PRIME's return objectives will be realized or that there will be any return of capital.
- Investors should carefully review and evaluate the more detailed description of risk factors and conflicts of interest in the Offering Memorandum.
- General economic factors and many other conditions affecting performance (including interest rates, capital flows and employment levels) are beyond PRIME's control.
- Shareholders have no assurance of liquidity. Real estate is relatively illiquid, and redemption queues can develop. PRIME has fully satisfied the redemption queue at the end of the third quarter 2010. There is no guarantee that PRIME will have sufficient cash to fund redemptions, and PRIME is under no obligation to make cash available through sale of assets, borrowings, or otherwise. Also, the right to transfer shares in PRIME is subject to restrictions.

PERFORMANCE & CAPITAL FLOWS

## Risk Considerations (cont'd)

- Earthquakes, floods, other natural disasters, terrorism, war, etc., could cause significant damage to PRIME's properties and may not be adequately insurable.
- PRIME must comply with complex legal and tax rules (particularly, but not limited to, maintaining qualification as a tax advantaged REIT and as an ERISA-exempt "operating company"). There can be no assurance that it will be successful or that ensuring such compliance may not be economically disadvantageous at times. Failure to comply would have a material adverse impact on returns realized by PRIME's shareholders. For example, if PRIME fails to qualify or remain qualified as a REIT, PRIME's dividends will not be deductible by it, and its income will be subject to taxation at regular corporate rates.
- To the extent PRIME makes loans, it has special risks as lender (e.g., lender liability, usury, partner fiduciary issues for partner loans, etc.).
- The Adviser has various conflicts of interest, including that it and its affiliates represent other advisory and/or investment banking clients; they may provide services to PRIME or represent counterparties in transactions with PRIME, subject in some but not all cases to the need for board approval. These conflicts could adversely impact performance.
- PRIME has significant assets in joint ventures, which can keep PRIME from implementing decisions in its sole judgment, and can increase the risk of disputes and litigation with the joint venture partner.
- PRIME relies heavily on its Adviser, which can choose to vary materially from the stated investment guidelines and allocation targets. Shareholders have only limited voting rights, with no control over daily investment decisions.
- Tenant financial condition deterioration could impact performance.
- Mortgage debts and other leverage incurred by PRIME can exacerbate certain risks and, upon default, result in loss of property and cross-defaults.
- Competition for desirable real estate assets is intense.
- Unstabilized properties, if acquired, carry extra risk, as does development of properties. Underwriting of acquisitions and other transactions can be an imprecise process. Litigation can also result from property level transactions or events.

PERFORMANCE & CAPITAL FLOWS

## Risk Considerations (cont'd)

- Real estate valuations are inherently uncertain given the uniqueness of real property, the need to project rental income with such projections being inherently unreliable, and the absence of frequent trading. Real property can be subject to property and transfer taxes. The Fund makes no assurances regarding the price at which an asset may be sold and cautions investors that sales may occur at prices materially lower or higher than the latest appraised value for such asset.
- Owners/operators of real property can be subjected to significant environmental liabilities over extended periods, which may not be insurable.
- The Adviser of PRIME may face challenges as it oversees the management of AMLI and Safeguard and their businesses in conjunction with PRIME's existing investments.
- The rental growth rates in markets where PRIME currently owns many of its apartment assets have historically lagged the rental growth rates of other major U.S. markets.
- There is no guarantee that the PRIME management team, the management team of its operating companies, PRIME's property managers, joint venture partners or other partners in PRIME's operations will remain in place.
- Additional risk factors and conflicts of interest are set forth in PRIME's Offering Memorandum.