

September 12, 2008

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Clarification on Proposed Investment in Morgan Stanley
Real Estate Fund VII Global**

At the June 19, 2008 meeting of the State Investment Council, the Division proposed an investment in the Morgan Stanley Real Estate Fund VII Global LP ("MSREF VII Global") in the amount of \$150,000,000.

After reviewing the legal documents for this fund and the memorandum submitted to the Council in June 2008, we realized that we inadvertently failed to disclose one item that may impact our alternative investment in the fund.

As noted above, our Capital Commitment to MSREF VII Global will be \$150,000,000. After the limited partners Capital Commitments have been fully funded or otherwise are no longer available to be called, each limited partner may be required to fund a "reserve amount" by making additional contributions from time to time up to a maximum aggregate amount equal to 10% of the aggregate capital contributions funded by such limited partner in respect of its Capital Commitment, but only for the purpose of enabling the Fund to preserve or enhance the value of existing investments, to pay or establish reserves for management fees and expenses or to repay indebtedness or satisfy obligations of the Fund outstanding on the full investment date.

While the General Partner does not anticipate calling this additional capital, the potential does exist, and we felt it was appropriate to notify the Council of this fact.

Attached as exhibit 1 and 2 are the original document sent to the Council for the June meeting.