SUPPLEMENTAL INFORMATION TO STEVE THOMPSON OF DALLAS MORNING NEWS (5-24-2017)

1. **Successful Results by CDK on Other Projects for DPFP**

- CDK managed a number of real estate investments on behalf of DPFP, and increased value to DPFP's real estate investment portfolio. As of the end of 2014, the fair value of DPFP's real estate investments managed by CDK over the course of the relationship (including cash distributions returned to DPFP on projects that had been completed and sold) exceeded the net cash invested by DPFP by at least $80,000,000.

- DPFP investments managed by CDK, in the aggregate, have been profitable for DPFP. By the end of 2014, at least eight (8) DPFP development projects and investments recommended and managed by CDK had been completed and sold or paid off in full. **DPFP received 100% of its invested capital back and earned more than $65,000,000 in profits and income on those projects** (i.e., DPFP received total cash distributions and capital returns that were at least $65,000,000 more than DPFP had invested on those projects and investments).

- CDK managed in excess of 40 assets on behalf of DPFP during its time period. No assets were lost to foreclosure, even during the second worst recession in US history. CDK successfully worked with DPFP development partners to restructure debt on hundreds of millions of dollars of loans on DPFP projects, at a time when the banking industry was on the brink of collapse.

- CDK is proud of the many successful investments made for DPFP in the Dallas area. Developments include a joint venture with Matthews Southwest to revitalize the area south of the Dallas Convention Center and surrounding the Dallas Police headquarters. Projects in this joint venture include the NYLO Hotel, Southside Flats Apartments, Alamo Draft House, 1400 Belleview Work Force Apartments, and The Tribute. In addition, CDK made numerous successful investments for DPFP with RED Development, including The Union Dallas, a mixed-use project in Uptown, which is currently under construction.

2. **Allegation That CDK Did Not Mark Assets Down to Market Value**

- The Investment Management Agreement (IMA) between DPFP and CDK mandated for CDK to obtain appraisals when requested by DPFP. CDK obtained appraisals whenever DPFP requested.

- Most DPFP assets were in the development stage. During the recession, development timelines were extended due to declining market conditions.

- Under Generally Accepted Accounting Principles, there are many factors to be taken into consideration for valuing assets in development stage. These factors were regularly discussed with DPFP staff and board members as well as annual discussions with DPFP's outside auditors. Estimated fair values represent subjective estimates and in many cases, it was determined by all parties that the cost basis was a reasonable approximation.

- CDK used many outside sources of market values to compare against carrying costs. When available, values were compared to independent third-party appraisals ordered by the banks.

- In 2014, the Dallas Mayor's office and the DPFP board engaged Deloitte to look at values for a specified number of DPFP assets as of the end of 2013. DPFP staff informed CDK that the values reported by CDK for the assets CDK managed were within the range of values Deloitte determined, and differences were not significant.

- **In 2013 and 2014, at DPFP's request, CDK had all assets appraised by independent third parties**. In both years, final appraised values exceeded the amount of DPFP cash invested in the assets, as described in answer no. 1. above.

- CDK's asset management fees were based on the capital (cash) invested by DPFP and not tied to the market value of projects (with a few exceptions). One exception was Project Holdings; however, over the term in which CDK managed these assets, asset management fees were only calculated on the initial cash investment made by DPFP. During the period CDK managed these assets, the fair value of the assets did not decline below the amount of DPFP's initial cash investment (even during 2013 and 2014 when third party appraisals were obtained). Nevertheless, during the recession, beginning in the third quarter of 2009 and for a total of six quarters, CDK voluntarily cut its management fees by 25%.

- When CDK's relationship ended with DPFP, the Project Holdings assets (Eagle and Sandstone) had appraised values that were greater than DPFP's investment, according to the then-most recent appraisals by Cushman & Wakefield. Something went awry after the assets were transferred to the new asset manager. In paragraph 60 of the M3 Builders lawsuit, it mentions that DPFP invoked the buy/sell clause in the Project Holdings agreement. We believe that any buy/sell offer made by DPFP would have been substantially higher than DPFP's alleged current book valuation of the property (and probably an amount in excess of cash invested by DPFP in the project).

3. Allegation That the Structure for Distribution of Profits Would Give M3 a Greater Share of the Profits from the Project Holdings Investments (or From Eagle Project)

- The Distribution Arrangement was structured to favor DPFP, so that DPFP received 100% of DPFP's investment back, <u>*plus*</u> a preferential return on its investment, <u>*before*</u> M3 (the development partner) began to receive any profit distributions. This protected and favored DPFP and shifted a major part of the risk to M3, if the project was only marginally profitable, and rewarded M3 only if the project was very successful for everybody and DPFP did well too.

- In order for M3 to receive a larger profit percentage than DPFP, the following things would have had to happen first:

    - DPFP would receive interest and principal on any loans made by DPFP to the projects, including a Credit Enhancement Fee of 5%.

    - DPFP would receive 100% of any cash flow generated by the projects until DPFP has received 100% of its invested capital back and an internal rate of return of 10% compounded monthly on its invested capital.

- Cash flow would then be split 50% to DPFP and 50% to M3 until DPFP received a 24% IRR compounded monthly on its invested capital.

- After that, cash flow would be split 25% to DPFP and 75% to M3 until DPFP achieved a 30% IRR compounded monthly on its invested capital.

- Any remaining cash flow would be split 10% to DPFP and 90% to M3.

4. Dove Hunt

Q (THOMPSON): I understand the CDK partners took dove hunting trips with Tettamant and other pension officials. Were these trips funded by the CDK partners, or did Tettamant and the others pay their own way?

A: For more than 25 years, the three principals of CDK have participated -- along with many other companies and individuals -- in an annual Labor Day dove hunting trip in central Texas. CDK estimates there were in the range of 150 - 200 hunters in attendance each year. When CDK was formed, it began to reserve its own group of hunting slots (usually 8-16 slots) for CDK and CDK's business associates, clients, employees and invitees. Other firms and individuals do the same.

In filling CDK's allotment of slots, CDK's policy has been to invite its investor clients to attend, so no client was favored and it was not exclusive to any single client. CDK filled any remaining slots with other business associates.

Beginning several years ago, CDK investor clients who attended in CDK's group have covered their own costs. Prior to that, CDK paid for clients, unless a client expressed a preference to pay his own way.

Other companies and individuals that provide services to pension funds (including to DPFP) also reserve groups of hunting slots on the annual dove hunt for their business associates, clients, employees and guests. In some years, DPFP representatives appeared to have attended as guests of these other companies or individuals, not as participants in CDK's group. No DPFP representative has been a part of CDK's group since 2013.

5. Ski House in Park City, Utah

Q (THOMPSON): In March for several years (2011-2014), Jon Donahue rented one of the pension fund's ultra-luxury homes, Red Cloud in Park City UT, which was managed by another advisor. Payment records show he paid $1,000 per night for the stays, which he arranged through Tettamant's staff. I'm attaching a 2014 advertisement that put Red Cloud's rates for that time of year at $12,000 per night. It appears Tettamant allowed Jon a significant break on the rental rate.

A: Jon Donahue rented the house only twice, in 2013 and 2014, following a specific offer initiated by DPFP management. He was quoted a price of $1,000 a night by DPFP staff and it was offered only on days when the house was not otherwise rented to anyone else and would go unused. It was Jon's understanding that DPFP was seeking renters to offset the cost of operations and maintenance of the house. He was not aware of the price posted by the property management company. What Jon paid in those two years was revenue that DPFP would have foregone if the house had remained vacant.

It is important to note that CDK did not recommend or manage any luxury home investments by DPFP (in Park City, Utah, in Hawaii, or anywhere else) and CDK had nothing to do with any losses that DPFP may have suffered in connection with those investments, including the Red Cloud house in Park City, Utah.

6. Dinners and Parties

- CDK believes that its client entertainment expenditures were appropriate usual and customary business expenses.

- It was a DPFP custom to sponsor a Holiday Party at the Akard Street and 4100 Harry Hines buildings. These parties were for all of the tenants in the buildings as well as major vendors that provided services to the buildings. DPFP would also invite board trustees and city council members. The cost of these parties was considered a building expense. For parties held at 4100 Harry Hines, CDK paid its share of the cost through the condominium expense sharing agreement.