Value-add and Opportunistic Real Estate Manager Analysis

June 30, 2018

Bay County Employees' Retirement System

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As presented in this report, although investing in private real estate funds can be beneficial, it is also important to consider the associated risks. Investing in private real estate funds is higher risk, may involve speculation, and is not suitable for all investors. Prospective investors should be aware of the long-term nature of an investment in private real-estate funds. Investments (direct or indirect) in private real estate are typically illiquid. Other general risks and important considerations associated with private real estate funds include, but are not limited to: volatilities in political, market and economic conditions; extensive and frequently changing regulation; downturns in demand; changes to real estate values and property taxes; valuation and appraisal methodologies; interest rates; and environmental issues. The risks outlined herein do not purport to cover all risks or underlying factors associated with investing in private real estate funds. Please refer to the respective offering documents for complete information.

Introduction

Purpose for this Manager Analysis Report:

This search report reviews potential candidates for an allocation to value-add and/or opportunistic real estate strategies. Based on our research and due diligence of value-add and opportunistic real estate managers and an evaluation of fit with the existing portfolio, we present the following candidates:

Firm	Fund
Centerbridge Partners	Centerbridge Partners Real Estate Fund
Dune Real Estate Partners	Dune Real Estate Fund IV
Federal Capital Partners	FCP Realty Fund IV
Heitman	Heitman Value Partners IV
TerraCap Management	TerraCap Partners Fund IV
Torchlight Investors	Torchlight Debt Opportunities Fund VI

*Unless noted otherwise, all data is as of the date each fund was added as an approved strategy with AndCo

Strategy Overview

Definition and Characteristics:

- Value-add real estate strategies focus primarily on core property types in need of re-leasing, renovation, repositioning or redevelopment. It may also include a limited amount of development. Leverage is typically in the 40% to 60% Loan-to-Value (LTV) range. The target IRR (gross) is in the 14% to 17% range. Total return is comprised of appreciation and current income.
- Opportunistic real estate strategies focus on tactical opportunities, mispricing, or distress in the real estate and capital markets. Investments may include core and specialized property types, real estate operating companies, distressed debt and land. Leverage is typically 60% plus LTV. The target IRR (gross) is 18% plus. Total return is primarily comprised of appreciation with limited current income.

Role within a Portfolio:

- Real estate provides diversification benefits, typically reduces overall portfolio volatility, generates income and has inflation hedging characteristics. A strategic allocation to higher-return/higher-risk value-add and opportunistic strategies complements the lower-risk, income-focused core strategy that is generally a primary component of an institutional investor's real estate portfolio.

Benchmark and Peer Group:

- Performance evaluation is typically made on a relative basis with other value-add and opportunistic real estate strategies of a similar vintage. The vintage is the calendar year the manager began investing the fund's capital.

Investment Manager and Strategy Comparison

Firm Overview

Firm	RE Business Inception	Ownership	Real Estate AUM	Headquarters	Employees/ Dedicated to Fund*
Centerbridge Partners	2005	▪ 100% owned by employees	$7.5 billion	New York, NY	Firm: 300 Fund: 90
Dune	2004	▪ 100% owned by CEO Daniel Neidich, CIO Cia Buckley Marakovits, and Partner Russell Gimelstob	$5 billion	New York, NY	Firm: 22 Fund: 10
Federal Capital Partners	1999	▪ FCP is independently owned by its four Managing Partners Esko Korhonen, Lacy Rice, Thomas Carr, and Alex Marshall	$2.5 billion	Chevy Chase, MD	Firm: 46 Fund: 38
Heitman	1966	▪ 100% owned by employees	$28 billion	Chicago, IL	Firm: 300 Fund: 9
TerraCap	2008	▪ 100% owned by Managing Partner Stephen Hagenbuckle, Managing Partner Robert Gray, and Managing Director Michael Davis	$800 million	Estero, FL	Firm: 21 Fund: 9
Torchlight Investors	1995	▪ 81% owned by Founder, CEO and Co-CIO Daniel Heflin with the remainder held by senior officers and a former colleague	$4.1 billion	New York, NY	Firm: 48 Fund: 27

*Indicates number of investment professionals dedicated to the fund

Assets under Management are represented as of the date each fund was added as an approved strategy with AndCo. The most current AUM of each strategy may therefore differ from what is currently stated. Notwithstanding the foregoing, due to the short time period within which each of the private real estate funds is undergoing active capital raise, it is not anticipated that any such figures would be materially different than what is reflected on this report. Generally, AUM as of the most recent year-end can be found in their respective Form ADVs.

Team Overview

Firm	Key Decision-Makers	Team Stability	Team Experience
Centerbridge	▪ Co-founders Jeffrey Aronson and Mark Gallogly oversee all investment decisions of the 90 professional comprising the investment team. Other key professionals from the real estate group are: Senior Managing Director Billy Rahm, Managing Director Adam Burinescu, Managing Director Steven Skaar	▪ Aronson and Gallogly co-founded the firm in 2005, Rahm joined in 2006, Burinescu (2012), and Skaar (2016)	▪ 35 senior professionals of the 90-member investment team average over 20 years of experience
Dune	▪ Investment activities are led by CEO Dan Neidich, CIO Cia Buckley Marakovits, Partners Russell Gimelstob and Eric Calder, Managing Directors David Beznos and Cory Elbaum, and Director Brad Caracausa • Investment Committee comprised of Neidich, Buckley Marakovits, Gimelstob, Calder, Beznos, Elbaum, CFO Darren Berk, and General Counsel/CCO Michael Sherman, and Senior Advisor David Oliner must approve all investment activities	▪ Neidich founded the firm in 2004, Buckley Marakovits joined in 2007, Gimelstob (2005), Calder (2010), Beznos (2011), Elbaum (2018), Caracausa (2018)	▪ Senior professionals of the team average over 20 years of experience
Federal Capital Partners	▪ Managing Partners Esko Korhonen, Lacy Rice, Thomas Carr, and Alex Marshall lead the investment activities of the 31 professionals dedicated to acquisitions, asset management, development, and construction management ▪ Managing partners approve all investment decisions with a unanimous vote	▪ Korhonen and Rice have invested together for 20 years including their time at The Carlyle Group ▪ Marshall joined FCP in 2003, and Carr joined in 2009	▪ Managing partners average close to 30 years of experience
Heitman	▪ Team is led by Portfolio Manager Tom McCarthy ▪ Investment Committee is responsible for approving all major decisions. It is comprised of the following six professionals: McCarthy, CEO Maury Tognarelli, Head of Global Research Mary Ludgin, Managing Director/Portfolio & Asset Management Pete Fawcett, Senior Managing Director/Client Service Lewis Ingall, non-Executive Chairman Jerry Claeys	▪ Seven senior investment professionals average 20 years of tenure with the firm	▪ Team's seven senior investment professionals average more than 27 years of experience
TerraCap	• Founder and Managing Partner Stephen Hagenbuckle leads a team of nine investment professionals • Investment Committee is responsible for approving all investment decisions. It is comprised of: Hagenbuckle, Davis, Director of Finance Susana Alvarez Paul, National Director of Asset Management Albert Livingston, National Director of Acquisitions Steve Good, Director of Investment Analytics Matt Hart, and Director of Asset Management Matt Stewart	▪ Two of the seven senior investment professionals have been with the firm since inception ▪ Robert Gray, the other managing partner for the predecessor funds, will not be involved with Fund IV	▪ Seven senior investment professionals average 15 years of experience

Team Overview

Firm	Key Decision-Makers	Team Stability	Team Experience
Torchlight Investors	▪ Torchlight is led by the five members of the Investment Committee (IC). Supporting the IC are 10 professionals dedicated to investment management and 14 to asset management ▪ The IC is comprised of the following senior professionals: Partner/Investment Management Samuel Chang, Partner/Co-CIO and CEO Daniel Heflin, Partner/Head of Asset Management Gianluca Monalti, Partner/Co-CIO Marc Young, and Chief Credit Officer Greg Dineen	▪ Heflin founded the firm in 1995. He along with the other members of the IC average 13 years of tenure at the firm	▪ Members of the IC along with the other fiver senior professionals average 21 years of experience

Investment Strategy

Firm	Strategy Focus	Geographic Focus	Target Return (net)
Centerbridge	▪ Target opportunistic investments in real estate companies, distressed loans and securities, and direct real estate assets. The team targets real estate companies it can improve operations and/or management, invest capex or make add-on acquisitions. For investments in distressed loans and securities the firm leverages its expertise in restructuring or controlling a workout. For direct real estate the focus is on assets where capital and operational improvements can increase value	▪ U.S. primary focus with a secondary focus on Europe	15%
Dune	▪ Target opportunistic investments across the four main property types as well as hotel, for-sale residential, and senior housing. The team executes its strategy across three investment themes: 1) Distressed: acquisition, recapitalization or restructuring of debt to gain control of the equity, 2) Deep value-add: repositioning of an asset or recapitalizing a partnership, and 3) Contrarian: oversold markets or asset classes where investor behavior has created mispricing	▪ U.S. major coastal markets	15% to 17%
Federal Capital Partners	▪ Target value-add and opportunistic investments in workforce housing multifamily, class A multifamily, and office. Workforce housing, tends to have attractive initial cash-on-cash returns and stable occupancies through cycles. It serves as the foundation of each fund with an allocation of 40% to 50%. The remainder targets class A multifamily development via joint venture equity or mezzanine financing, and selective office repositioning, redevelopment, and speculative development	▪ Primary and secondary markets of the eastern half of the U.S.	12% to 15%
Heitman	▪ Target value-add investments with up to 50% in medical office, self-storage, and senior housing which tend to be less correlated with the macro economy. Multifamily and office will comprise the remainder. Properties will require some combination of renovation, redevelopment, leasing, and/or operational improvements	▪ U.S. primary and secondary markets	12% to 14%
TerraCap	▪ Target value-add and opportunistic investments in the following property types: office, multifamily, industrial, and hotels. The team will primarily invest in income and non-income generating properties that require renovation, repositioning, and/or lease-up to stabilize the property	▪ Secondary and tertiary markets located in the Southeast region	14% to 15%
Torchlight Investors	▪ Opportunistically invest across the entire spectrum of debt secured by commercial real estate including senior and mezzanine loans, CMBS, and participating mortgages. The team will also selectively acquire distressed senior mortgages and invest in properties via preferred equity or equity	▪ U.S. primary markets and secondary markets	12% to 14%

Key Differentiators

Firm	Unique Features	Points to Consider
Centerbridge	▪ A single investment team of investment professionals with expertise in credit distressed and special situations, private equity, and real estate collaborate to implement a unique strategy investing in public and private real estate companies, distressed loans and securities, and direct real estate assets	▪ First dedicated fund, however, the firm has an established track record spanning $7.8 billion of real estate investments ▪ Fund may include some exposure to investments in Europe
Dune	▪ Broad expertise of the team allows it to invest across a wide variety of property types, investment types, and positions in the capital structure Utilize the structuring expertise of the senior professionals to target complex transactions	▪ Opportunistic nature of the strategy leads to each fund having significant variation of allocations across property types and investment types
Federal Capital Partners	▪ Owner/operator background provides a high-level of operational expertise ▪ Portfolio construction of defensive income oriented workforce housing investments with selective higher risk/return multifamily and office investments ▪ Dynamics of workforce housing properties are compelling, high occupancies through cycles, inefficiently managed, rising construction costs have created a barrier to new supply at this rent level	▪ Permitted to allocate up to 30% to development ▪ Predecessor funds have allocated 20% to 30% range with a focus on class A multifamily ▪ Invest in Mid-Atlantic, Southeast, and Northeast regions ▪ Income return estimated to be 20% to 25% of total IRR
Heitman	▪ Up to 50% of the Fund will be allocated to specialty property types such as self-storage, medical office, senior housing, and potentially student housing. These performance of these property types tends to be driven more by demographics with less correlation to the macro economy	▪ May allocate up to 30% to development projects, which tend to have greater risk. The predecessor funds have allocated 15% or less. ▪ Management fee is on invested capital only
TerraCap	▪ Focused on lower market to middle-market sized assets located in secondary and tertiary markets in the Southeast region. TerraCap has demonstrated significant experience and presence in Florida where the team can best leverage its operational capabilities. With Fund IV they are looking to expand this expertise in Georgia, the Carolinas, and Texas.	▪ Geographic focus in the Southeast with a majority of past investments focused on properties in Florida ▪ Incentive fee increases to 30% above a 15% gross return ▪ Management fee is on invested capital only
Torchlight Investors	▪ Extensive track record and expertise investing in both public real estate securities such as CMBS as well as private investments across the real estate capital stack. This expertise provides the ability to invest opportunistically as different parts of the capital stack become more attractive at various points of the real estate cycle	▪ Target allocation of: 35% securitized debt such as CMBS, 20% senior loans, 10% distressed senior loans, 25% B-notes and mezzanine, and 10% preferred equity ▪ Targets a distribution of a 6% current yield at the end of the investment period

Typical Portfolio Characteristics

Firm	Property Type Focus	Expected Allocation to Development	Typical Transaction Size (Gross Asset Value)	Number of Investments	Leverage
Centerbridge	▪ Real estate operating companies, loans & securities, direct real estate	up to 20%	$50 to $125 million	25 to 35	Typical: leverage has been utilized for 25% of transactions Max: 75%
Dune	▪ Office, multifamily, retail, industrial ▪ Hotel, senior housing, and for-sale residential	up to 20%	$50 to $400 million	20 to 30	Typical: 50% to 60% Max: 75%
Federal Capital Partners	▪ Workforce housing multifamily, class A multifamily, office	20% to 30%	$15 to $50 million	30 to 50	Typical: 60% to 65% Max permitted: 70%
Heitman	▪ Office, multifamily ▪ Medical office, self-storage, senior housing, and student housing	up to 30%	$5 to $40 million	24 to 30	Typical: 50% to 60% Max: 60%
TerraCap	▪ Office, multifamily, industrial, and hotels	none	$5 to $50 million	20 to 35	Typical: 50% to 60% Max: 67%
Torchlight Investors	▪ Exposure to four primary property types via CMBS, senior loans, B-notes, mezzanine loans, preferred equity, equity, distressed senior loans	<u>Typical loan</u> Size: $5 to $75 million Rate: LIBOR + 5% to 14% Loan-to-Value (LTV): 50% to 70% senior, 65% to 90% mezzanine, 85% to 90% preferred equity Term: three to seven years Fees: origination, exit and extension		50 to 100	Typical: less than 3% Max: 30%

Fund Profile (as of Q3 2018)

Firm	Target Size	Capital Raised	First Close	Final Close	Current Investments
Centerbridge	$1.0 billion	$400 million	December 2017	September 2018	One investment to-date: ▪ Formed a corporate platform that will invest in self-storage properties throughout the U.S. ▪ Under contract to close during July - Industrial property with additional acreage that provides potential for up-zoning for development of additional industrial properties ▪ Working on the formation of a data center platform
Dune	$1.25 billion	$591 million	September 2017	December 2018	Two investments to-date: ▪ Hotel property in Manhattan ▪ Single-family residential lots in Nashville
Federal Capital Partners	$650 million	$301 million	December 2017	Q3 2018	▪ No investments acquired to-date ▪ Expect to make first investment during Q2 2018 or Q3 2018
Heitman	$750 million	$533 million	September 2017	Q3 2018	Five investments to-date: ▪ Self-storage joint venture anticipated to be comprised of 15 to 20 assets, multifamily joint venture anticipated to be three to four assets, industrial joint venture anticipated to be three to four assets, medical office joint venture expected to be 15 to 20 assets, student housing investment comprised of two assets
TerraCap	$300 million	$160 million	April 2017	April 2019	12 investments to-date: ▪ Four office investments located in suburban Atlanta and one in Orlando ▪ Four multifamily investments in Northern Atlanta, three in Greensboro, NC;
Torchlight Investors	$1.5 billion	$800 million	September 2017	December 2018	Four investments to-date: ▪ Triple-B CMBS, subordinate CMBS, and CMBS interest strip ▪ Senior loan and JV equity for a multifamily property in Buckhead, GA

Fund Terms Comparison

Terms

Firm	Minimum Commitment	Fees	Preferred Return	Investment Period	Fund Term
Centerbridge	$10 million (negotiable)	**Management fee:** 1.50% on committed during the investment period, 1.25% on invested thereafter **Incentive fee:** 20% after a return of capital and preferred return **Catch-up:** 80% Centerbridge and 20% investors	8% compounded, annually	▪ Four years from final close	▪ Nine years from final close ▪ Two, one-year extensions
Dune	$10 million (negotiable)	**Management fee:** 1.50% on committed during the investment period, on invested thereafter **Incentive fee:** 20% after return of capital and preferred return **Catch-up:** 60% Dune and 40% investors	9% compounded, annually	▪ Four-years from final close	▪ Eight-years from final close ▪ Two, one-year extensions
Federal Capital Partners	$5 million (negotiable)	**Management fee:** 1.50% on committed during the investment period, on invested thereafter **Incentive fee:** 20% after return of capital and preferred return of 8% then after 10% preferred return **Catch up:** 60% FCP and 40% investors	8% compounded, monthly	▪ Three years from final close	▪ Seven years from final close ▪ Two, one-year extensions
Heitman	$5 million (negotiable)	**Management fee:** 1.25% on invested capital **Incentive fee:** 20% after a return of capital and preferred return **Catch-up:** None	9% IRR	▪ Three years from final close	▪ 10 years from final close ▪ Two, one-year extensions

Terms

Firm	Minimum Commitment	Fees	Preferred Return	Investment Period	Fund Term
TerraCap	$1 million	**Management fee:** 1.50% on invested capital **Incentive fee:** 20% after a return of capital and preferred return 30% after a gross return of 15% **Catch-up:** 50% TerraCap and 50% investors	8% compounded, annually	▪ Two years from final close	▪ Eight years from final close ▪ Two, one-year extensions
Torchlight Investors	$10 million (negotiable)	**Management fee:** 1.50% on committed during the investment period, on invested thereafter **Incentive fee:** 20% after a return of capital and preferred return **Catch-up:** 50% Torchlight and 50% investors	8% compounded, annually	▪ Three years from final close	▪ 10 years from final close ▪ Two, one-year extensions

Track Record Review
(as of quarter-end, Q1 2018)

Centerbridge Partners

Fund	Centerbridge Real Estate Track Record					
Vintage	2007-2016					
Fund Size ($millions)	n/a					
Contributions incl. fees ($millions)	7,800					
Distributions ($millions)	10,900					
No. of investments made	78					
No. of investments realized	72					
Realized investments – IRR	23.8%					
Realized investments - MOIC	1.6x					
Average Leverage	65%**					
ITD Fund IRR (gross)	23.8%					
Preqin Non-Core IRR (median)	n/a					
ITD Fund TVPI (gross)	1.6x					
Preqin Non-Core TVPI (median)	n/a					
ITD Fund DPI (gross)	1.4x					
Preqin Non-Core DPI (median)	n/a					

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

Note: Centerbridge Partners Real Estate Fund is the firm's first dedicated real estate fund. Since 2007, Centerbridge has made real estate investments with capital from its credit distressed & special situations strategies, and private equity strategies. The track record includes investments made from 2007 to 2016. The IRR and equity multiple are gross of fees.

*Investments realized includes material realizations and partial realizations
**less than 25% of total invested capital in real estate investments has utilized leverage

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Dune Real Estate Partners

Fund	Dune Real Estate Fund I	Dune Real Estate Fund II	Dune Real Estate Fund III			
Vintage	2005	2009	2013			
Fund Size ($millions)	727	793	960			
Contributions incl. fees ($millions)	727	789	771			
Distributions ($millions)	820	1,056	7			
No. of investments made	10	22	26			
No. of investments realized*	10	20	7			
Realized investments – IRR	4.9%	26.3%	22.2%			
Realized investments - MOIC	1.4x	2.3x	2.2x			
Average Leverage	33%	48%	58%			
ITD Fund IRR (net)	2.4%	16.7%	13.2%			
*Preqin Non-Core IRR (median)**	3%	18%	15%			
ITD Fund TVPI (net)	1.2x	1.8x	1.4x			
*Preqin Non-Core TVPI (median)**	1.1x	1.9x	1.4x			
ITD Fund DPI (net)	1.1x	1.3x	0.0x			
*Preqin Non-Core DPI (median)**	0.9x	1.6x	0.7x			

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

Note: Investments realized include realized, partially realized and under contract investments

*Preqin median returns tend to be skewed higher relative to a competing non-core real estate peer group that has a more robust data set

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Federal Capital Partners

Fund	FCP Realty Fund I	FCP Realty Fund II	FCP Realty Fund III			
Vintage	2008	2011	2015			
Fund Size ($millions)	240	529	512			
Contributions incl. fees ($millions)	240	516	330			
Distributions ($millions)	526	666	91			
No. of investments made	17	42	30			
No. of investments realized	16	23	3			
Realized investments – IRR	34%	39%	44%			
Realized investments - MOIC	2.5x	2.2x	2.1x			
Average Leverage	65%	65%	65%			
ITD Fund IRR (net)	26%	22%	25%			
*Preqin Non-Core IRR (median)**	9%	22%	not available			
ITD Fund TVPI (net)	2.3x	1.7x	1.4x			
*Preqin Non-Core TVPI (median)**	1.4x	1.8x	1.2x			
ITD Fund DPI (net)	2.0x	1.3x	0.3x			
*Preqin Non-Core DPI (median)**	1.2x	1.5x	0.1x			

ITD: Inception-to-Date, IRR: Internal Rate of Return, MOIC: Multiple of Invested Capital, TVPI: Total Value to Paid-in-Capital, DPI: Distributions to Paid-in-Capital

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Heitman Capital Management

Fund	Heitman Value Fund I	Heitman Value Fund II	Heitman Value Fund III			
Vintage	2004	2007	2013			
Fund Size ($millions)	400	800	421			
Contributions incl. fees ($millions)	397	772	386			
Distributions ($millions)	508	1,131	181			
No. of investments made	13	27	15			
No. of investments realized	13	27	4			
Realized investments – IRR	4.9%	8.6%	10.8%			
Realized investments - MOIC	1.3x	1.5x	1.2x			
Average Leverage	64%	59%	53%			
ITD Fund IRR (net)	4.9%	8.6%	15.8%			
*Preqin Non-Core IRR (median)**	11%	6%	15%			
ITD Fund TVPI (net)	1.3x	1.5x	1.2x			
*Preqin Non-Core TVPI (median)**	1.3x	1.3x	1.4x			
ITD Fund DPI (net)	1.3x	1.5x	0.5x			
*Preqin Non-Core DPI (median)**	1.3x	1.1x	0.7x			

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TerraCap Management

Fund	TerraCap Partners Fund I	TerraCap Partners Fund II	TerraCap Partners Fund III			
Vintage	2009	2012	2014			
Fund Size ($millions)	26	102	120			
Contributions incl. fees ($millions)	26	102	120			
Distributions ($millions)	17	120	26			
No. of investments made	15	24	13			
No. of investments realized	7	18	2			
Realized investments – IRR	14.7%	21.6%	37.6%			
Realized investments - MOIC	1.6x	1.5x	1.7x			
Average Leverage	25%	30%	51%			
ITD Fund IRR (net)	2.6%	15.0%	13.8%			
*Preqin Non-Core IRR (median)**	18%	17%	17%			
ITD Fund TVPI (net)	1.2x	1.7x	1.3x			
*Preqin Non-Core TVPI (median)**	1.9x	1.5x	1.3x			
ITD Fund DPI (net)	0.6x	1.1x	0.2x			
*Preqin Non-Core DPI (median)**	1.6x	0.9x	0.2x			

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Torchlight Investors

Fund	Torchlight Debt Opp. Fund I	Torchlight Debt Opp. Fund II	Torchlight Debt Opp. Fund III	Torchlight Debt Opp. Fund IV	Torchlight Debt Opp. Fund V	
Vintage	2004	2006	2008	2012	2015	
Fund Size ($millions)	283	732	765	942	1,359	
Contributions incl. fees ($millions)	283	732	765	942	815	
Distributions ($millions)	435	424	1,154	630	30	
No. of investments made	21	127	105	175	117	
No. of investments realized	21	126	103	126	20	
Realized investments – IRR	39.7%	3.1%	17.7%	18.1%	14.9%	
Realized investments - MOIC	1.7x	1.2x	1.3x	1.3x	1.1x	
Average Leverage	20%	13%	0%	12%	n/a	
ITD Fund IRR (net)	25.1%	-1.6%	13.7%	10.5%	14.2%	
*Preqin Non-Core IRR (median)**	11%	3%	9%	17%	not available	
ITD Fund TVPI (net)	1.5x	0.9x	1.5x	1.4x	1.2x	
*Preqin Non-Core TVPI (median)**	1.3x	1.1x	1.4x	1.5x	1.2x	
ITD Fund DPI (net)	1.5x	0.6x	1.5x	0.7x	0.03x	
*Preqin Non-Core DPI (median)**	1.3x	1.1x	1.2x	0.9x	0.1x	

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Investment Manager and Fund Narratives

Centerbridge Partners– Centerbridge Partners Real Estate Fund

Firm Overview

Centerbridge Partners (Centerbridge), headquartered in New York City with a second office in London, was founded in 2005 by Managing Principals Jeffrey Aronson and Mark Gallogly. The firm focuses on three investment strategies: private equity, credit distressed and special situations, and real estate. Centerbridge employs approximately 300 professionals with 90 professionals comprising the investment team. It is 100% employee-owned with Aronson and Gallogly holding a combined 61% the ownership.

Team Overview

Aronson and Gallogly have oversight of all investment decisions made at the firm. Prior to founding Centerbridge, Aronson was a partner at Angelo, Gordon & Co where he led all distressed and leveraged loan investing. Gallogly was the Head of Private Equity at The Blackstone Group. Managing Director Billy Rahm leads the investment activities of the 13 real estate professionals. He also has oversight of all investment decisions for Centerbridge Partners Real Estate Fund (CPREF). Rahm (joined in 2006) was previously a member of the Real Estate Private Equity Group at Blackstone. Managing Director Adam Burinescu (2006) has focused on opportunistic real estate investing for most of his career including previously at Rockpoint Group and Morgan Stanley. Managing Director Steven Skaar (2016) is based in London where he previously led the opportunistic real estate investments in Europe for Brookfield Asset Management. It is important to note the real estate professionals are a component of the firm's investment team of 90 professionals which collaborates on investment activities across all three of the firm's strategies.

The strategy for CPREF is an extension of the firm's emphasis on cyclicality of strategies, particularly the counter-cyclical nature of private equity and distressed investments. CPREF will target investments in corporate platforms, loans and securities, and direct real estate. The flexible investment strategy is designed to leverage the investment team's diverse expertise across private equity, credit distressed and special situations, and direct real estate. Additionally, it provides a counter-cyclical opportunity set within real estate. Corporate platforms and direct real estate provide more attractive investment opportunities during a late recovery and expansion phases, while distressed loans and securities provide more attractive investment opportunities during a contraction phase.

For corporate platforms, the team will acquire or control a real estate company with a focus on improving operations and/or management, and investing additional capital into capex or add-on acquisitions. For loans and securities, the team primarily focuses on acquiring investments where it can leverage its extensive experience and expertise in restructuring by influencing or controlling a workout or reorganization. For direct assets, the team focuses on acquiring transitional assets where strategic, capital and operational improvements can be implemented to increase value.

Investments are sourced through the investment team's numerous direct relationships with real estate industry professionals such as corporate real estate advisors, local operating partners, and investment bankers. Centerbridge will also at times participate in marketed processes. Additionally, the firm's trading desk has historically been a source for investments.

Expectations

The target return for CPREF is a net IRR of 15% plus and equity multiple of 1.7x. We believe this is a reasonable target based on the firm's track record. Currently, there are no classic signs indicating a broad real estate downturn is imminent such as oversupply and excessive leverage, however, over the last three quarters there has been softness in certain sectors and geographic regions resulting in more attractive acquisition opportunities. Additionally, with a four-year investment period its likely we may experience some type of economic contraction or mild recession that will produce opportunities for acquisitions at lower valuations.

Points to Consider

CPREF will target 25 to 35 investments with an average deal size of $50 to $125 million. The investment focus on real estate companies, loans and securities as well as direct real estate assets positions it as a complementary strategy to most managers in the non-core real estate space.

This is the firm's first dedicated real estate fund. However, it has an extensive track record of investments that fall within this mandate. Since inception, it has invested $7.8 billion across 68 transactions generating a 23.0% gross IRR and 2.3x equity multiple with a loss ratio of less than 1% of invested capital.

Recommendation Summary

Co-founders and Managing Principals Jeffrey Aronson and Mark Gallogly have both built teams at highly-regarded firms, Angelo, Gordon & Co, and The Blackstone Group, respectively. Aronson led distressed investing at Angelo Gordon, while Gallogly was the head of private equity at Blackstone. The opportunity to invest with a firm lead by Aronson and Gallogly while it is still raising reasonable size funds is a positive.

CPREF is a unique real estate strategy with few firms having the resources to execute it. CPREF leverages Centerbridge's expertise in three strategies: credit distressed and special situations, private equity, and real estate. By having the resources to invest across the three investment types and across the capital structure, the team has the flexibility to pursue the most attractive opportunities on an absolute basis throughout market cycles.

Critical to implementing the CPREF strategy is the one-team structure of Centerbridge. All 90 investment professionals work collaboratively across the firm's three investment strategies. The team sits on a trading floor to create an environment conducive to sharing information and collaboration on deals. The investment team meets daily, including the London office via teleconference, for discussions of existing and prospective investments

CPREF is recommended for any client beginning a non-core private real estate program or making additional commitments to an existing program. On the risk/return spectrum we categorize CPREF as opportunistic.

Dune Real Estate Partners – Dune Real Estate Fund IV

Firm Overview

Dune Real Estate Partners (Dune), headquartered in New York City, evolved from Dune Capital Management (DCM), which was co-founded in 2004 by CEO Daniel Neidich and Steven Mnuchin. Prior to forming the firm, Neidich and Mnuchin were members of the Management Committee at Goldman Sachs. DCM was formed with two distinct business lines with Neidich leading the closed-end private equity real estate strategy and Mnuchin running the firm's hedge fund vehicle. During 2007, Mnuchin decided to wind down the hedge fund platform and pursue related opportunities with a different capital source. Dune is 100% owned by Neidich, CIO Cia Buckley Marakovits, and Partner Russell Gimelstob. Neidich holds the majority control. The firm employs 22 professionals.

Team Overview

Investment activities are governed by a 10 member Investment Committee (IC) composed of senior investment professionals: Neidich, Buckley Marakovits, Gimelstob (joined in 2005), Partner Eric Calder (2010), Managing Directors David Beznos (2011) and Cory Elbaum (2018), CFO Darren Berk (2014), General Counsel/CCO Michael Sherman (2010), Partner/Head of Investor Relations Julie Brenton (2014), and Senior Advisor David Oliner. Oliner was a partner from 2009 to 2015.

IC approval is generally required for all investment decisions. Approval requires a majority vote including approval from either Neidich or Buckley Marakovits. The IC also oversees the quarterly asset review and business planning process as well as material asset management actions. Supporting the Investment Committee are ten additional professionals.

Strategy Overview

Dune's three primary investment strategies are deep value-add, distressed, and contrarian. Investments may fall specifically within one strategy or encompass multiple strategies. The common thread across the strategies is fixing a complicated
capital structure for an asset with a business plan with a moderate level of execution risk. The deep value-add strategy involves a recapitalization to gain control of an asset and implementation of a repositioning plan to create value. The distressed strategy involves the acquisition or restructuring of sub-performing and non-performing commercial mortgages and other loan structures to gain control of an asset. The contrarian strategy focuses on markets or property types out of favor with investors.

The Dune partners' proactively source investments through their network of relationships with real estate industry participants such as lenders, special servicers, owner/operators, developers, and other investors. For investments that become a high priority, the deal team utilizes a multi-step underwriting process including an analysis of the opportunity, analysis of property assumptions, economic and market conditions, return projections, and legal, tax, and regulatory considerations. The underwriting of an investment is a collaborative process with the deal team consulting with the IC frequently until a formal presentation for approval occurs. Upon approval and closing, the partner that sourced and underwrote the investment is responsible for the development, implementation, and evaluation of the business plan through disposition with oversight from the CIO and IC.

Expectations

The target net IRR for Fund IV is 15% to 17%. We are comfortable this target. Currently, there are no classic signs indicating a broad real estate downturn is imminent such as oversupply and excessive leverage, however, there has been softness in certain sectors and geographic regions resulting in more attractive acquisitions opportunities. Additionally, a four-year investment period provides Dune with flexibility to target only five to seven investments per year to deploy its capital.

Points to Consider

The team will primarily focus on the U.S. major coastal markets and may have exposure to non-U.S. investments. As a result of the team's opportunistic strategy, investments will be spread across multiple sectors including multi-family and single-family (limited degree), retail, office, industrial, hotel, among others. The team will target 20 to 28 investments with a transaction size of $25 million or greater ($50 to $400 million of gross asset value). Consistent with the predecessor funds, a moderate level of leverage will be used in the 60% to 65% Loan-to-Value (LTV) range.

Based on the strategy, we categorize Fund IV on the risk spectrum as opportunistic.

Recommendation Summary

The experience of the Dune team is notable. The five senior partners average over 20 years of experience in real estate and have diverse backgrounds and skillsets. The level of experience provides a network of contacts which is crucial for originating deals. The senior partner that originates a deal and an additional assigned partner are responsible for managing the investment from execution to disposition. In addition, the other senior partners of the Investment Committee are involved in the decision making throughout the life of the investment.

An edge for the firm is the experience, across the team, of structuring complex real estate investments. The ability to execute complex deals has led to some of the firm's most successful investments. The team has demonstrated an ability to generate a solid return during both a challenging vintage year with Fund I (vintage: 2005) and a vintage year when its opportunistic style was heavily in favor with Fund II (vintage: 2008).

Fund IV is recommended for any client seeking a true opportunistic fund. The Fund will be broadly diversified by number of investments, property sectors and geographic regions which positions it well as a primary component of a client's non-core real estate portfolio.

Federal Capital Partners – FCP Realty Fund IV

Firm Overview

Federal Capital Partners (FCP) was formed in 1999 by Esko Korhonen and Lacy Rice, two former principals of The Carlyle Group. FCP is independently owned by its four Managing Partners Korhonen, Rice, Thomas Carr, and Alex Marshall. Korhonen and Rice made FCP's initial investments by partnering with Angelo, Gordon & Co. The initial investments provided FCP with a track record as well as capital to build a team and infrastructure prior to launching its first fund. The firm employs 47 professionals focused on acquisitions, asset management, development, and construction. It is headquartered in Chevy Chase, MD with regional offices in Raleigh-Durham, and Miami. FCP's sole investment focus is the FCP Realty series of funds.

Team Overview

FCP is led by Managing Partners Korhonen, Rice, Carr, and Marshall who average close to three decades of experience in real estate investing. Korhonen and Rice have invested together for over 20 years including their time on the Investment Committee for the initial real estate funds at The Carlyle Group. Carr, who has known Korhonen and Rice since the 1980s, joined the firm in 2008. Prior to FCP, he built CarrAmerica Realty Corporation which was founded by his father into one of the largest publicly-traded office REITs before it was acquired in 2006 by an affiliate of Blackstone for close to $6 billion. Marshall joined FCP in 2003 after working in acquisitions for JPMorgan and Clarion. The managing partners must vote unanimously to approve all investment transactions. FCP has noteworthy depth of operating capabilities including 11 professionals dedicated to acquisitions, nine to asset management, five to development, six to construction management, three to capital markets, and seven to finance/accounting/compliance.

Strategy Overview

Similar to its predecessor funds, the Fund IV strategy will focus on moderate income multifamily, class A multifamily, and office property types. The foundation of each FCP fund is a 40% to 50% of capital to moderate income multifamily investments that are cash flow driven. Moderate income properties generally are leased by tenants with an income level around 80% of the area median level. The sustainable cash flow of these investments through cycles provides a measure of stability to the portfolio should FCP need to navigate a downturn. The remaining capital is allocated to more opportunistic class A multifamily and office investments that have higher risk/return profiles driven by primarily by appreciation.

FCP typically focuses on development opportunities for class A multifamily where its five-person development team enhances its underwriting capabilities and provides the expertise to step in as the operator if needed. FCP takes a flexible approach to the capital structure, investing through either joint venture equity or mezzanine financing. For office, FCP employs a rifle shot approach seeking complex opportunities such as stressed capital structures and tenancy-in-common (TICs) ownership structures. Assets generally need improvements to common areas and building systems to increase in-place rents to market level or in need of significant leasing to reach a stabilization. Additionally, it will selectively pursue redevelopment to creative office and speculative development.

Expectations

FCP has a target of 12% to 15% net IRR and 1.8x multiple for Fund IV, which is a reasonable base case scenario for clients. It has greatly exceeded the targets in Fund I, II, and III. It will likely be difficult to match the returns of the predecessor funds, particularly with more of a focus on lower risk/return mezzanine financing opportunities rather than equity for class A development opportunities. However, in a low yield environment there should continue to be ample demand for the level of yield FCP's properties generate at stabilization. There could be some upside to the base case should recent softness in certain markets and property types continue or if there is a recession during the three-year commitment period

Points to Consider

There is flexibility to allocate up to 30% of committed capital to development projects. FCP's investments in development tend to focus on class A multifamily. The predecessor funds have allocated in the 20% to 30% range to development. Important to note, FCP will invest in development projects by providing mezzanine financing, which presents a lower risk profile than an equity position in a development project.

FCP employs has a specialized investment focus. It focuses its investment efforts in the eastern half of the U.S. The projected geographic allocation for Fund IV is 40% Mid-Atlantic, 40% Southeast, 10% Northeast, and 10% other. Additionally, it invests primarily in two property types, multifamily and office.

As a reference for pacing of called capital, Fund III (vintage: 2015) was 68% called through the first three years of its life.

Recommendation Summary

FCP is an operationally intensive investor led by senior professionals that have significant experience executing the investment strategy across multiple cycles. The team employs a barbell strategy for allocating capital with approximately half allocated to cash flow driven investments and the remainder to higher risk/return investments driven primarily by appreciation. The foundation of each fund is a 50% allocation to moderate income multifamily properties that have durable cash flows and maintain a high level of occupancy throughout cycles. Moderate income is generally defined as tenants with income equivalent to 80% of the area median level. FCP complements those investments with class A multifamily developments via joint venture equity or mezzanine financing, and opportunistic office investments that may include redevelopment to creative office, speculative development, and repositioning.

FCP IV is recommended for any client beginning a non-core private real estate program or making additional commitments to a current program. FCP will target around 30 to 50 investments with a typical equity investment of $5 to $20 million. The significant diversification positions it well to be a primary component of a non-core real estate allocation for most clients. Fund IV falls in the middle of the risk/return range of our approved funds based on its combination of cash flow driven investments and more opportunistic investments.

Heitman Capital Management – Heitman Value Partners IV

Firm Overview

Heitman was founded in 1966. The firm employs over 300 professionals across three business units: Private Real Estate Equity, Private Real Estate Debt, and Global Real Estate Securities. It manages capital across the risk/return spectrum from core to value-add. Heitman is headquartered in Chicago with a regional office in Los Angeles as well as offices in Europe and Asia. The firm is owned 100% by its employees.

Team Overview

Portfolio Manager Tom McCarthy leads the nine-person team dedicated to the Value Partners series of funds. McCarthy became a senior member of Heitman's portfolio management group in 1994 following a merger of Heitman and his previous employer JMB Institutional Realty. He is supported by six professionals dedicated to asset management and two professionals dedicated to finance. The 17-member North American acquisitions group is responsible for the sourcing and underwriting of investments. Additionally, Heitman has an 11-member Closings and Due Diligence group responsible for supporting acquisitions with legal document review, environmental surveys, and verification of financials. Heitman's Investment Committee (IC) is responsible for approving all major investments. The IC is comprised of McCarthy, CEO Maury Tognarelli, Head of Global Research Mary Ludgin, Managing Director/Portfolio Management & Asset Management Pete Fawcett, Senior Managing Director/Client Service Lewis Ingall, and non-Executive Chairman Jerry Claeys.

Strategy Overview

The Value Partners series focuses on value-add investments requiring renovation, redevelopment, and leasing, and operational improvements. The targeted property types are multifamily, office, medical office, self-storage, and senior housing. The team allocates capital based on three themes: delinked, growth, and contrarian. The delinked theme includes property types less correlated with the macro economy, have demonstrated resiliency during a recession, and generate a high-level of cash flow. Delinked investments include self-storage, senior housing, and medical office property types. The growth theme targets property types with increasing demand driven by demographic trends within the millennial and baby boomer cohorts. Growth investments will focus on renovations of Class B multifamily properties in both higher-income suburban and urban areas to provide a lower-cost alternative for tenants priced out of the new construction class A properties. It may also include development of medical office, senior housing, and self-storage properties. The contrarian theme targets markets and sectors experiencing fundamental weakness such as energy-driven markets or select suburban office properties. Heitman anticipates the allocation of Heitman Value Partners IV (HVP IV) will be approximately 50% delinked investments, 40% growth investments, and 10% contrarian investments.

Expectations

The target 12% to 14% net IRR for HVP IV is reasonable. Increasing capital flows from institutional investors and supportive demographic trends should continue to provide a tailwind for the specialty property types. Student housing is the one property type that Heitman will need to be more selective as cap rates have compressed toward traditional multifamily and new supply is an issue in certain areas. For the traditional property types, there are no classic signs indicating a broad real estate downturn is imminent such as oversupply and excessive leverage. However, over the last three quarters there has been softness in certain sectors and geographic regions resulting in more attractive acquisition opportunities. Additionally, with a three-year investment period it's likely we may experience some type of economic contraction or mild recession that will produce increased opportunities for acquisitions at lower valuations.

Points to Consider

The team has the flexibility to allocate up to 30% of committed capital to development projects. The predecessor funds have allocated 15% or less to development projects.

The fee structure for the Fund is one of the most competitive in the non-core real estate space with a 1.25% management fee on invested capital and no catch-up on carried interest.

Recommendation Summary

Heitman has an extensive history of value-add investing with a focus on medical office, self-storage, and senior housing, which are generally categorized as "specialty property types". Increasing capital flows from institutional investors along with demographic trends supporting continued demand create a compelling investment opportunity. Approximately 50% of HVP IV capital will be allocated to specialty property types. The focus on specialty property types differentiates HVP IV from most competitors in the non-core real estate space.

HVP IV is recommended for any client beginning a non-core private real estate program or making additional commitments to an existing program. On the risk/return spectrum, we categorize HVP IV as value-add with a target net IRR of 12% plus. Heitman will target 24 to 30 investments, an investment can be comprised of multiple properties, with a typical deal size of $5 to $40 million. HVP IV will have sufficient diversification to position it as a primary component of a non-core real estate allocation.

TerraCap Management – TerraCap Partners Fund IV

Firm Overview

TerraCap Management, LLC was founded in 2008 by Stephen Hagenbuckle and Michael Davis. The firm is owned by Stephen Hagenbuckle, Robert Gray, and Michael Davis. Its headquartered in Estero, FL with satellite offices in Tampa, FL and Lawrenceville, GA (near Atlanta). The firm employs 21 professionals.

TerraCap is currently forming TerraCap Partners Fund IV, LP ("Fund IV"), which is expected to invest primarily in multifamily, office, flex/warehouse and hotel properties within the Southeast United States.

Team Overview

Hagenbuckle leads a team of nine investment professionals. All investment decisions must be approved with a unanimous vote of the seven member investment committee (IC). The IC is comprised of Hagenbuckle, Davis, National Director of Acquisitions Stephen Good who joined in 2012, National Director of Asset Management Albert Livingston (2013), Director of Finance Susana Alvarez Paul, CPA (2011), Director of Investment Analytics Matt Hart (2014), and Director of Asset Management Matthew Stewart (2017).

Strategy Overview

TerraCap considers thematic factors such as business formation, population growth and employment growth on a market-by-market basis, as most metropolitan areas and submarkets have different economic-based industries and therefore move through their economic cycles differently. TerraCap makes moderate strategic overweighting or underweighting of market factors, depending on the specific economic drivers influencing supply and demand. TerraCap seeks to avoid any one economic industry base significantly impacting the Fund portfolio's performance.

Geographically, TerraCap invests primarily in the Southeastern United States, although it may pursue investments from Texas to Florida up to Washington D.C. Many of these locations are considered the fastest growing cities and states in the U.S. based on employment and population growth.

The universe is narrowed down by analyzing employment and population growth statistics in each area, tenant demand, competing supply/demand (new/old), sales comps, lease rates (existing /new product), crime statistics, home ownership rates, municipal investment in infrastructure such as roads, schools, hospitals, police force, etc. TerraCap also looks at existing land availability, land in conservation, legislative constraints on development, local zoning and entitlement details, and other factors.

Expectations

- Similar to its predecessor funds. TerraCap will target individual commercial real estate transactions ranging between $5,000,000 and $50,000,000.
- Target return is a net IRR of 14% to 15%. Should market conditions continue to improve, this should be an achievable goal. Investors should note that leverage has increased from previous funds to continue to meet return targets. A slowdown in Southeast markets (the primary target market for TerraCap) could put this return target at risk.
- The key dynamic of TerraCap's purchase discipline is the ability to purchase below replacement cost and below current lease rates for new development. Should lease rates for new development decline, the strategy could be put at risk as tenants seek new construction vs. refurbished.

Points to Consider

- Focused primarily on small to middle market size assets located in secondary and tertiary markets in the Southeast.
- The fund utilizes property level non recourse floating rate debt, which is preferred in the non-core real estate space.
- The use of debt for previous funds is at reasonable levels for a value-add strategy with a 52% LTV for Fund II and 57% LTV for Fund III. TerraCap primarily utilizes floating-rate debt with caps to mitigate interest rate risk from lenders such as Wells Fargo and Iberia Bank.
- TerraCap is growing its focus in areas such as Atlanta, Charlotte and Raleigh/Durham, predecessor funds have invested primarily in Florida.
- The opportunity for TerraCap's strategy would continue to be attractive if they can lease at rates well below what a new development project needs to lease at to generate attractive returns. The spread between the two lease rates should continue to keep new supply constrained.

Recommendation Summary

TerraCap Partners IV offers a targeted opportunity. We do not believe it is appropriate as a stand-alone investment, but may have a role within a larger real estate portfolio. The manager has definite informational and operational edges within Florida and is looking to leverage those operational edge in other states in the South such as North Carolina, Georgia, and Texas. Potential investors need to be clear that the concentration risk can create more volatility and downside potential than a geographically diversified fund. TerraCap has a demonstrated history of executing their strategy in markets not typically trafficked by large institutional real estate funds. Funds II and III are both ahead of expectations in timing of capital returns and realized IRRs.

TerraCap Partners Fund IV is appropriate for those clients seeking to complement an existing core allocation.

Torchlight Investors – Torchlight Debt Opportunity Fund VI

Firm Overview

Torchlight was founded in 1995 by CEO/Co-CIO Daniel Heflin. ING held a minority equity stake in Torchlight from 2002 to 2010. Torchlight bought back the ING stake in 2010. Presently, eight partners hold an equity stake with Heflin holding the largest stake. The firm is headquartered in New York and employs approximately 50 professionals. Torchlight has invested over $4 billion of capital in commercial real estate debt investments, since inception. Torchlight is fully integrated with sourcing, structuring and asset management capabilities. Additionally, the firm has a special servicing platform that was formed in 1998, which has been named special servicer on over $16 billion of commercial real estate debt.

Team Overview

The five members of the IC lead Torchlight's investment activities. The IC is comprised of Heflin, Partner Samuel Chang (joined in 1998), Partner Gianluca Montalti (2010), Partner Marc Young (2008), and Chief Credit Officer Greg Dineen (2016). The members have a complementary set of backgrounds including mortgage structuring and origination, portfolio management, asset management, securitization, and distressed debt workout. The responsibilities of the IC include oversight and implementation of the investment strategy, approval of acquisitions and dispositions for private investments and parameters for purchasing and selling investment grade securities.

The IC is supported by the seven professionals of the acquisitions team, 14 professionals of asset management, and 22 professionals in operational roles. An important source of market intelligence in the CMBS and real estate debt markets for the team is the firm's special servicing platform, Torchlight Loan Services, which has serviced $16.1 billion par value of commercial real estate debt and managed $2.1 billion of real estate equity across 214 properties.

Strategy Overview

Torchlight focuses primarily on loans for transitional assets that are more complex to underwrite and generally require funding at higher Loan-to-Value (LTV) levels. The focus limits competition from commercial banks which have shifted lending efforts away from transitional assets due to the enactment of Basel III. Additionally, there is approximately $1 trillion of real estate loans maturing over the next five years of which $100s of billions will need some type of creative capital that is not available from banks.

Torchlight invests across the entire capital stack including senior and mezzanine loans, distressed loans, preferred equity, and equity. Additionally, it will target opportunities in subordinated tranches of CMBS. The firm primarily provides capital to borrowers in the middle-market space with an average loan size in the $20 to $40 million range. The typical borrower is a real estate owner/operator that has navigated a complete cycle or multiple cycles with a solid track record in the market the asset serving as collateral is located in. Generally, the level of financing is within the following LTV ranges: 40% to 60% stapled mezzanine (senior loan with mezzanine), 40% to 60% mezzanine loans, 50% to 80% preferred equity or equity

Expectations

Torchlight provides base, upside, and downside return scenarios for its funds. Torchlight's base case scenario is a 12% to 15% net IRR in an environment with no change in the economy, credit markets, and real estate fundamentals. The downside scenario is a -2.0% to 0.0% net IRR in an environment of deteriorating fundamentals. The upside scenario is a net IRR of 19% to 21% in an environment of improving fundamentals.

We are comfortable with the range of outcomes Torchlight describes. Reflective of Torchlight's conservative approach to underwriting, the downside scenario assumptions include significant declines in rent and occupancy levels. Additionally, the firm's limited use of fund leverage will result in greater downside protection relative to many competitors using higher levels of leverage.

Points to Consider

Partner Steve Schwartz, who joined the firm during 2011, has departed to take a role building a real estate platform for a private equity firm that is moving into the space. Schwartz was a member of the Investment Committee (IC) and was going to lead the canceled risk-retention CMBS fund. Torchlight has invested extensively in CMBS since its inception, consequently there is ample expertise on the team for Schwartz's departure alone to impact our recommendation.

A repeal or modification of regulations providing greater flexibility for commercial banks to resume making transitional commercial real estate loans will bring more competition back into the space reducing potential return levels.

Two of the primary risks to the strategy are default and interest rate. Torchlight's asset management capabilities provide the resources needed to execute a business plan should the firm take back an asset, which mitigates some of the default risk. Most of the loans are structured as floating rate, Torchlight generally requires a borrower to purchase a LIBOR cap at the time of closing to mitigate the risk of rising interest rates.

Recommendation Summary

The diverse background of the Torchlight team with expertise across private commercial real estate debt and securities provides a broad opportunity set for TDOF VI. The team has expertise in private real estate loan structuring, asset management, restructuring and loan workouts and has been a CMBS investor since 1995. TDOF VI will invest across the private real estate capital stack with a predominate focus on debt structures such as first mortgages, B-notes, and mezzanine. Additionally, the TDOF VI will invest in CMBS, a space it has invested in since inception of the firm.

Torchlight will target 50 to 100 investments with deal sizes in the $5 to $75 million range. The target net IRR for TDOF VI is 12% to 15% with a targeted 6% plus quarterly current income distribution once fully invested. The debt focus, minimal if any use of leverage, and anticipated diversification positions TDOF VI on the lower-end of the risk spectrum of our Approved-Recommended non-core strategies. We recommend TDOF VI for any client beginning a non-core private real estate program. Additionally, it is differentiated from our existing Approved-Recommended non-core strategies, positioning it as a viable option for an additional commitment for an existing program.

Glossary of Terms

Capital Structure or Capital Stack – Refers to the legal organization of all of the capital placed into a real estate asset. There are four basic types of structures: senior debt, mezzanine debt, preferred equity and equity.

Capital Call – Occurs when a manager requests a transfer of the portion of the capital an investor has committed. The called capital is utilized by the manager to make investments and cover expenses.

Cap Rate - A measure of the income return of real estate. The cap rate for a property is generally calculated by dividing the net operating income of a property by the current market value.

Carried Interest – The manager's share of the fund's overall profits, typically 20%. It is typically received by the manager after returning called capital to investors plus a preferred return. Also known as "carry" or "promote".

Catch Up – Occurs after the manager has made distributions to investors equivalent to a return of the called capital plus the preferred return. At this point the manager generally receives 50% of future distributions until total distributions are equal to the manager's carried interest allocation.

Committed Capital – The amount of capital that an investor has agreed to invest in a private real estate fund. The capital is called on an as needed basis by the manager.

Equity – Represents the ownership interest in the property. The equity holder only receives cash flow after all of the other investors lower in the capital stack have been paid.

Equity Multiple – A performance measure for private investment funds. It represents the multiple of the called capital that is returned to investors.

General Partner (GP) – The GP is the manager of the fund while the investors of the fund are the limited partners (LPs). The GP retains liability for the actions of the partnership.

Internal Rate of Return (IRR) – A performance measure for private investment funds that accounts for the managers control of when cash flows occur and the irregular timing of cash flows.

Investment Period or Commitment Period – Refers to the established length of time a manager can make investments, generally two to three years.

Limited Partnership – The legal entity comprised of a general partner and limited partners. The general partner is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment.

Limited Partner (LP) – The investor in a limited partnership. The LP receives income and capital gains. It is also protected from legal actions and losses beyond its original investment.

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Loan-to-Cost (LTC) – A metric used by a lender to express the ratio of a loan to the total cost of completing a development project.

Loan-to-Value (LTV) – A metric used by a lender to express the ratio of a loan to the fair market value of the property.

Mezzanine Debt – A hybrid between equity and debt. It is senior to equity but subordinate to senior debt. A mezzanine investor typically receives a fixed interest payment over a specified term but may also participate in the upside of the investment.

Net Operating Income (NOI) – All revenue generated from a property minus the necessary operating expenses required to run and maintain the building

Preferred Equity – A hybrid between equity and debt similar to mezzanine debt. It is senior to equity but subordinate to debt. Investors receive cash flows ahead of equity but also participate in the upside of the investment.

Preferred Return – The "hurdle rate of return" that the limited partners must receive on called capital in order for the manager to begin receiving its carried interest.

Primary Markets – Are the major coastal markets (Boston, New York, San Francisco, Los Angeles) as well as Chicago and Washington D.C. These markets tend to be the most liquid with the highest level of transaction volume.

Repositioning – A real estate investment strategy where the owner adds value to the property by completing deferred maintenance, improving the physical appearance and/or operations in order to increase rents and/or attract new tenants.

Redevelopment – A real estate investment strategy that includes significant physical upgrades to the property which may result in a high-level of vacancy until the project is complete.

Secondary Markets – Are other sizable markets with solid transaction volumes and presence of institutional investors. Examples include Atlanta, Austin, Charlotte and Phoenix.

Senior Debt – A loan secured by the property which serves a collateral for the loan. It is senior to equity, preferred equity and mezzanine debt. The holder of the debt receives interest payments before cash flow can be distributed to the investors comprising the higher positions in the capital stack.

Tertiary Markets – Are markets with low transaction volumes and a limited presence of institutional investors. Examples are Cincinnati, Columbus and Memphis.

Vacancy Rate – The percentage of a property's space that is currently unoccupied or available for rent.

Vintage – The calendar year in which the manager begins investing the capital of a private real estate fund.

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