MEPT

QUARTERLY TRUST REPORT

Third Quarter
October 2016
Volume 32 Number 3

Street-level rendering of *Solaire*, Multi-family, San Francisco

INSIDE:

THIRD QUARTER RESULTS

(Gross of Fees)

QUARTER

2.13%

TRAILING 1-YEAR

10.41%

GROSS ASSET VALUE

$8.1b

(Net of Fees)

QUARTER

1.91%

TRAILING 1-YEAR

9.45%

NET ASSET VALUE

$6.4b

LETTER TO INVESTORS

WE ARE PLEASED TO PRESENT MEPT's Third Quarter Trust Report. As you can see, we not only updated the look of the report, but we also changed the flow and incorporated additional content. We constantly strive to improve the way we manage the Fund on behalf of, and communicate with, our investors. We hope you like the new format.

Global economic growth continues to be modest and long-term sovereign debt interest rates remain historically low. Add in uncertainty surrounding the U.S. presidential election and growth prospects for the U.S. economy are dampened. Despite these headwinds, the relative outlook for the U.S. economy remains positive; the U.S. housing market continues to rebound, unemployment remains low at 5.0%, and wage growth is steady at 2.6% year-over-year.

U.S. private real estate returns continue to moderate following six years of double-digit performance. Property values and investment activity in the U.S. remain strong due to the relative strength of the U.S. versus other developed economies and returns of U.S. real estate continue to be more attractive than those of other asset classes. While NFI-ODCE total returns have been declining, we believe this reflects a trend toward more "normal" total returns from core real estate.

MEPT's performance continues to be strong with a third quarter gross total return of 2.13%, which compares to the preliminary NFI-ODCE total return of 2.05%. Additionally, the Fund's gross of fees year-to-date total return of 7.22% exceeds the benchmark by 72 basis points, and the 1-year total return of 10.41% exceeds the benchmark by 34 basis points. MEPT's strong performance is due to strategic portfolio positioning with 85% of the Fund invested in primary markets, which historically receive an outsized share of U.S. economic growth, along with a portfolio occupancy rate of 92.1%. MEPT's portfolio construction is designed to provide durable income and more resilient values in all phases of an economic cycle.

As real estate returns continue to moderate, MEPT's constant focus on risk management and diversification becomes particularly important. We remain vigilant in our analysis of economic and real estate trends in light of economic uncertainty, both global and domestic. As always, our goal is to provide our investors with superior risk adjusted returns, and we appreciate your continued confidence in our stewardship of your capital.

David Antonelli,
MEPT Portfolio Manager

Bentall Kennedy

PERFORMANCE

U.S. REAL ESTATE MARKET: POSITIVE BUT MODERATING

THE U.S. REAL ESTATE market exhibited positive but moderating growth. Office sector fundamentals held steady, multi-family rent growth remains positive but continues to decline, retail demand tightened, and the industrial sector continued its historic run of declining vacancy rates.

The office market finished the third quarter with a vacancy rate of 13.0% according to CBRE, flat from the previous quarter, but down 40 basis points (bps) than the same time last year. Substantial, albeit slower, demand growth was reflected by the mixed performance in the top 63 office markets; there were declines in 37 office markets, rising vacancies in 22, and 4 markets unchanged. The multi-family market ended the third quarter with a rent growth rate of 2.6% nationally. According to Axiometrics, the rate has been halved in the last year, well below the 5.2% growth in September 2015.

The industrial vacancy rate decreased for the 26th consecutive quarter, dropping another 20 bps to just 8.4%. The decline continued despite robust growth of industrial inventory, with nearly 53 million square feet being added in the third quarter, according to CBRE-EA.

Once again, traditional retailers and e-commerce firms retooling their supply chains for increased online sales were behind the continued impressive performance of the sector. Strong household balance sheets and a strong labor market are slowly yielding improvement in the retail market. According to CBRE, national retail availability was down to 10.4% in the third quarter, a drop of 20 bps from the previous quarter and 50 bps from one year ago. ■

FUND OVERVIEW

GROSS ASSET VALUE	$8.1 BILLION	AVERAGE AGE OF PROPERTIES	14.4 YEARS
NET ASSET VALUE	$6.4 BILLION	MARKETS	24
INCEPTION DATE	APRIL 1, 1982	LEVERAGE AS A % OF GAV	20.8%
NUMBER OF ASSETS	102	CASH AS A % OF NAV	5.5%
TOTAL OPERATING SQUARE FOOTAGE	31.5 MILLION	UNIT VALUE	$10,019.70
PERCENT LEASED (OPERATING)	92.1%	PARTICIPATING PLANS	343

ANNUALIZED RETURNS

THROUGH SEPTEMBER 30, 2016

		MEPT		PRELIMINARY NCREIF NFI-ODCE[1] (DOLLAR WEIGHTED)
		GROSS OF FEES	NET OF FEES	GROSS OF FEES
3Q 2016	Total	2.13%	1.91%	2.05%
	Income	1.07%	0.85%	1.12%
	Appreciation	1.06%	1.06%	0.94%
1 Year	Total	10.41%	9.45%	10.07%
	Income	4.39%	3.48%	4.56%
	Appreciation	5.83%	5.83%	5.31%
3 Year	Total	12.35%	11.36%	12.45%
	Income	4.91%	3.97%	4.83%
	Appreciation	7.19%	7.19%	7.34%
5 Year	Total	10.93%	9.95%	12.40%
	Income	5.16%	4.22%	5.04%
	Appreciation	5.55%	5.55%	7.07%
Since Inception (4/1/82)	Total	8.13%	6.91%	NA
	Income	7.08%	5.86%	NA
	Appreciation	1.00%	1.00%	NA

[1] NCREIF is an industry trade association that collects and disseminates real estate performance information. NCREIF Property Index is a quarterly time series total rate of return measurement of investment performance of unlevered commercial real estate properties acquired in the private market, largely by tax-exempt institutional investors, for investment purposes only. NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) is an index of investment returns reported on both a historical and current basis for 35 open-end U.S. commingled funds with a core investment strategy. The NFI-ODCE index is capitalization-weighted and the leverage metric represents total leverage held by the open-end funds. NFI-ODCE total leverage includes loans by open-end funds to entities controlled by such funds.

MEPT PROPERTY SECTOR PERFORMANCE

INDUSTRIAL

92.7%

LEASED

4.1%

TOTAL RETURN[1]

Trimble Distribution Center
San Jose, Industrial

INDUSTRIAL

MEPT's industrial portfolio represents 15.9% of the net asset value of the total portfolio and delivered a third quarter total return of 4.1% comprised of 1.2% income and 2.9% appreciation. The average appraised cap rate for the portfolio was 5.3% and the operating assets were 92.7% leased, which was up 0.4% from the previous quarter. The industrial portfolio consisted of 23 assets; 17 had positive appreciation and 6 experienced depreciation. For the fifth consecutive quarter, the industrial portfolio was the best performing property type in terms of total return. Across the country, rent growth, occupancy, and comparative sales metrics remained strong for industrial assets.

RETAIL

94.1%

LEASED

1.3%

TOTAL RETURN[1]

Parkway Village
Houston, Retail

RETAIL

MEPT's retail portfolio represents 8.5% of the net asset value of the portfolio and delivered a third quarter total return of 1.3% comprised of 1.3% income and 0.0% appreciation. The average appraised cap rate for the portfolio was 5.5% and the operating assets were 94.1% leased, which was down 0.6% from the previous quarter. The retail portfolio consisted of 12 assets; 7 had positive appreciation, 1 had no change in value, and 4 experienced depreciation. The retail portfolio was the lowest performing property type in the portfolio due to flat appreciation; however, the Fund's retail strategy is to provide durable and consistent income, which was achieved with a 1.2% income return due to the strong occupancy of the portfolio.

Hubbard Place
Chicago, Multi-family

MULTI-FAMILY

95.5%

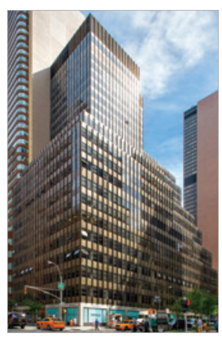
LEASED

1.8%

TOTAL RETURN[1]

MULTI-FAMILY

MEPT's multi-family assets represent 25.3% of the net asset value of the total portfolio and delivered a third quarter total return of 1.8% comprised of 0.9% income and 0.9% appreciation. The average appraised cap rate for the multi-family sector was 4.7% and the operating assets were 95.5% leased, which was down 1.0% from the previous quarter. The multi-family portfolio consists of 20 assets; 13 had positive appreciation, and 7 experienced depreciation. Top performing assets were located in New York City, Portland, and Chicago, which all benefitted from improving market conditions including rent growth and occupancy. Portfolio returns were partially muted by assets in Houston, which continues to be negatively affected by the energy sector, and San Francisco, where market fundamentals are starting to moderate following several years of considerable outperformance.



757 Third Avenue
New York, Office

OFFICE

88.5%

LEASED

1.5%

TOTAL RETURN[1]

OFFICE

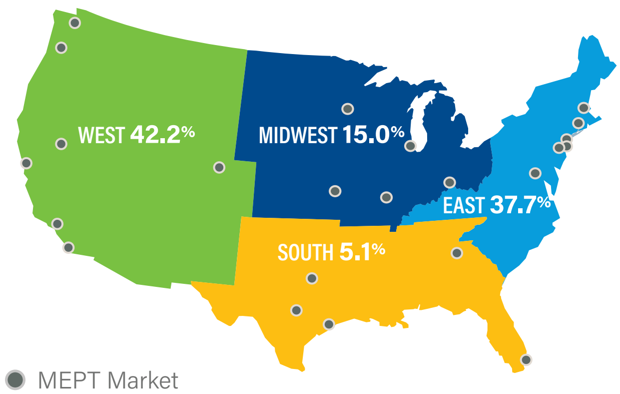
MEPT's office assets represent 46.8% of the net asset value of the total portfolio and delivered a third quarter total return of 1.5% comprised of 1.1% income and 0.4% appreciation. The average appraised cap rate for the office sector was 5.1% and the operating assets were 88.5% leased, which was down 1.8% from the previous quarter. The leased percentage is currently below target due to a recent sizable lease maturity in New York and softness in the Washington, DC portfolio. The office portfolio consisted of 38 assets; 20 had positive appreciation, 3 had no change in value, and 15 experienced depreciation. Consistent with previous quarters, the top performers were CBD office buildings in primary markets; specifically, assets in New York City and Portland, which benefitted from strong market fundamentals. Office portfolio returns were partially muted by suburban assets in various markets across the country, which continue to lag in terms of rent growth and occupancy as well as comparative sales metrics.

[1] Property sector returns are shown on an unlevered basis.

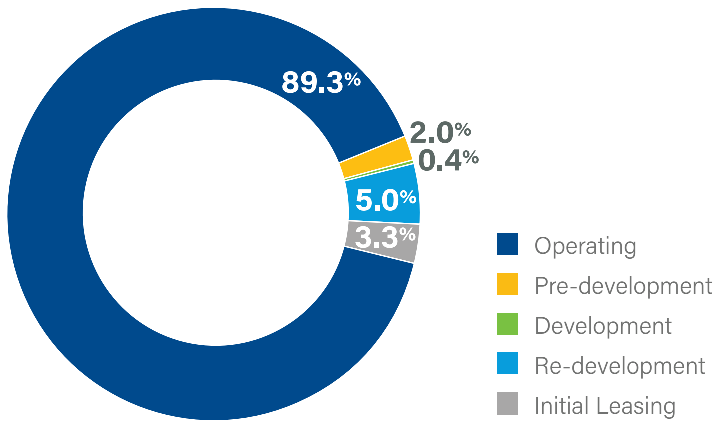
MEPT BY THE NUMBERS

Diversification and Portfolio Characteristics

DIVERSIFICATION BY GEOGRAPHIC REGION (NAV)



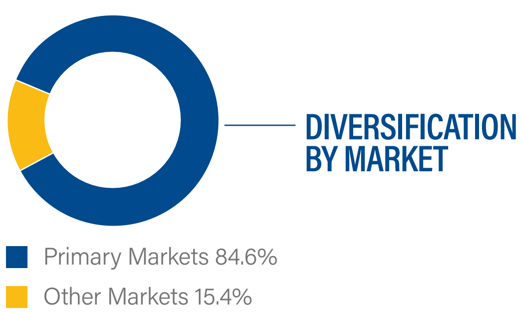
DIVERSIFICATION BY LIFECYCLE (NAV)



"As real estate returns continue to moderate, MEPT's constant **focus on risk management and diversification** become particularly important."

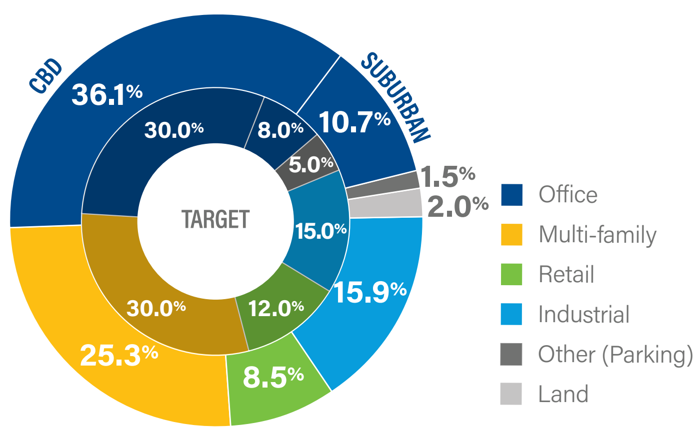
–DAVID ANTONELLI, MEPT PORTFOLIO MANAGER

MEPT TOP 10 MARKETS (NAV)



MARKET	NET ASSET VALUE IN $ MILLIONS	PERCENT OF PORTFOLIO
San Francisco	$1,003,716,137	13.2%
New York	$1,002,218,923	13.2%
Chicago	$851,531,908	11.2%
Washington, DC	$802,561,061	10.5%
Los Angeles	$687,721,639	9.0%
Boston	$684,731,824	9.0%
Portland, OR	$512,557,034	6.7%
Denver	$511,000,000	6.7%
Seattle	$240,583,686	3.2%
Other Markets	$1,315,018,806	17.3%
Total	**$7,611,641,018**	**100.0%**

DIVERSIFICATION BY PROPERTY TYPE (NAV)



LEASE ROLLOVER SUMMARY*

	2016	2017	2018	2019	2020
Percent of Net Rentable Area	1.3%	12.3%	9.0%	14.5%	9.1%
Percent of Total Revenue	1.6%	8.1%	11.2%	12.2%	9.3%

* Consolidated Operating Industrial, Office and Retail

ACQUISITION ACTIVITY (IN $ MILLIONS)

NAME/MARKET	QUARTER ACQUIRED	OFFICE	INDUSTRIAL	RETAIL	MULTI-FAMILY	TOTAL
Closed 2016						
1001 W Chicago Ave, Chicago	2Q 2016				$145.1	
147 Milk Street, Boston	2Q 2016	$33.4				
22 Boston Wharf, Boston (Re-development)	3Q 2016	$31.3				
101 Greenwich Street, New York	1Q 2016	$323.8				
9th & Thomas, Seattle (Loan Receivable)	1Q 2016	$77.0				
Closed Total						**$615.6**
In Process						
Chicago				$4.2		$4.2
Miami			$92.2			$144.2
Miami			$52.0			
In Process Total						**$148.4**

= EXISTING ASSETS = DEVELOPMENT PROJECTS

[1] Bentall Kennedy seeks investment opportunities for MEPT consistent with the Fund's investment strategy and manages the pipeline of potential investments. These acquisitions are in various stages of due diligence and many factors could affect the Fund's ability to close these transactions. This information is provided as a representative list of the type of assets that Bentall Kennedy is seeking on behalf of the Fund.
[2] The amounts committed to development projects represent fundings over the life of the project and are not expected to be funded all at one time.
[3] The amount does not reflect the additional development activity planned for the site.
[4] Existing building with approximately $100 million redevelopment budget.

DISPOSITION ACTIVITY

THIRD QUARTER 2016

ASSET NAME	PROPERTY TYPE	NET PROCEEDS (IN $ MILLIONS)
Jefferson at Plymouth	Multi-family	$53.6
Total		**$53.6**

DISPOSITIONS YEAR TO DATE 2016

QUARTER	NUMBER OF ASSETS	NET PROCEEDS (IN $ MILLIONS)
1Q 2016	0	$0
2Q 2016	3	$55.4
3Q 2016	1	$53.6
Total	**4**	**$109.0**

PORTFOLIO SPOTLIGHT

THIRD QUARTER TRANSACTION ACTIVITY

Rendering of *Capitol Hill Station*, Multi-family, Seattle

DURING THE THIRD quarter, MEPT committed $7.0 million toward pre-development costs associated with Capitol Hill Station in Seattle. Capitol Hill Station, located at the site of the Capitol Hill Link Light Rail station, is anticipated to be a LEED Platinum, 332-unit multi-family asset with 33,024 square feet of retail space. Capitol Hill Station is structured as a joint venture with Portland, Oregon-based Gerding Edlen Development, and the transaction is aligned with the Fund's focus on responsible investment in transit-oriented locations within knowledge-driven Primary Markets.

Capitol Hill is Seattle's densest residential neighborhood and offers an amenity rich district with an eclectic mix of cultural, entertainment, and dining options. Furthermore, Seattle's major employment districts, including the Central Business District (CBD), Denny Triangle, and South Lake Union, are easily accessed from the neighborhood by various modes of transit, including the light rail. In addition, there is significant employment at three major hospital systems on First Hill (the adjacent neighborhood), Seattle Central Community College, and a growing "creative-class" workforce in Capitol Hill. All these attributes contribute to strong and diverse demand for housing in the neighborhood. ■

IN-DEPTH FEATURE

INDUSTRIAL: E-SSENTIAL FOR E-COMMERCE

Aerial view of *Livermore Distribution Center*, Industrial, San Francisco

THE INDUSTRIAL PROPERTY market continues its torrid pace of high performance, achieving a remarkable 26th consecutive quarter of declining availability in the U.S. according to CBRE—the longest period of decline since CBRE began tracking the industrial market in 1989.

Much of this performance has been attributed to the rapid growth of e-commerce and increasing demand for overnight and last-mile delivery, as consumers of all ages become increasingly comfortable shopping online. Consumers today are seeking to expand their online shopping lists to include everything from fundamental consumer goods once typically purchased in grocery stores, such as disposable diapers; to more sophisticated products such as fashion and footwear, the staples of mall traffic for decades. This rapidly expanding shopping list has retailers scrambling to focus less on supplying items in bulk to stores and more on delivery of small orders directly to consumers. Handling the increase in returns through the supply chain rather than in stores has also been a significant consideration.

With the advent of the tablet and smartphone, the "m-commerce"—or mobile commerce—boom is taking hold and having a profound impact on e-commerce growth. According to E-Marketer, "by 2020, retail m-commerce will represent nearly half of all retail e-commerce sales."

The good news for industrial property owners is that there is vast room for growth, as e-commerce is currently only a small fraction of consumer spending. More specifically, according to the Census Bureau, for the second quarter of 2016, retail sales totaled $1,201.9 billion and e-commerce represented $97.3 billion, or just 8.1 percent of total retail sales in the quarter.

In their quest to keep up with consistently increasing e-commerce demand, retailers have driven the growth of industrial development in closer proximity to population centers with features that include highway access, higher ceiling clearances, wider distances between loading docks and more.

In addition, retailers have had to carefully consider their human resource and risk management requirements in their location selections. Employers are more frequently putting their industrial fulfillment centers in markets with ample access to employees on a full-time and seasonal basis—and in some cases, a well-educated workforce.

Additionally, on-site management is increasingly being called on to implement systems to accommodate growing return volume as consumers expand their shopping list. According to the consulting firm Kurt Salmon, up to one-third of e-commerce sales get returned. Returns processing is becoming a larger portion of the overall indus-

"The good news for industrial property owners is that there is vast room for growth, as e-commerce is currently only a small fraction of consumer spending."

trial footprint for retailers as they seek to effectively and efficiently recirculate returned goods to market.

While e-commerce continues to be the leading driver of on-going growth in the industrial market, it's not the only one. In fact, Bentall Kennedy is seeing additional drivers in its industrial real estate portfolio from unique manufacturing and supply chain management.

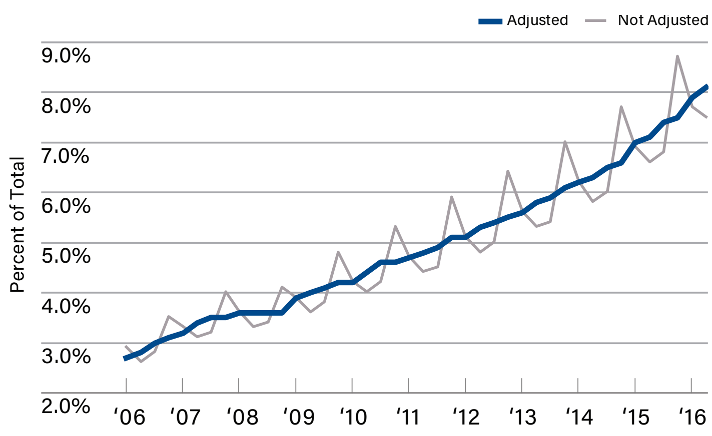
Pockets of manufacturing have emerged in locations like Silicon Valley and other markets with highly educated workforces where teams of engineers occupy industrial space to develop prototypes and concepts. As a result, industrial spaces in close proximity to leading STEM-focused academic institutions have become increasingly attractive.

Also, as select assembly line manufacturing becomes increasingly efficient and fast, the need for suppliers to be close to their manufacturing clients has become paramount. As a result, industrial properties within reasonable distance from large-scale manufacturers have become the lifeblood of the supply chain.

As e-commerce and m-commerce continue to capture a larger share of retail sales - especially as the U.S. economy experiences on-going growth that includes rising wages and spending—the future continues to look bright for the industrial property market. ■

ESTIMATED QUARTERLY U.S. RETAIL E-COMMERCE SALES AS A PERCENT OF TOTAL QUARTERLY RETAIL SALES

1ST QUARTER 2006 – 2ND QUARTER 2016



Source: Census Bureau of the Department of Commerce

RECENT STUDY FINDS TOTAL ECONOMIC IMPACTS ATTRIBUTED TO MEPT INVESTMENTS EQUATE TO $18.1 BILLION OVER LAST 34 YEARS

IN A RECENTLY completed study, The Economic and Fiscal Impacts of Multi-Employer Property Trust Investments Across the United States, by Pinnacle Economics, Inc., it was shown that MEPT has directly generated $8.5 billion in economic activity in 41 markets throughout the United States since 1982. Additionally, construction activity created by MEPT investments has generated $6.8 billion in output and 47,428 construction jobs with 91.7 million hours of work for members of the local Building Trades. Furthermore, MEPT investment spending has a multiplier effect on communities. Between 1982 and 2015, the total economic impacts attributed to MEPT investment spending amount to $18.1 billion in total economic activity. Additional details or a copy of the full Report is available by request to Vanessa Parrish at vparrish@bentallkennedy.com.

MEPT RECEIVES TOP RANKING IN GRESB BENCHMARK

MEPT ONCE AGAIN ranked 1st globally among its peer group on the Global Real Estate Sustainability Benchmark (GRESB) and has been a top tier ranked fund with GRESB for the last six years. MEPT earned five green stars, the highest possible, which reflects upper quintile performance compared with the entire universe of participants. Although participation and benchmark performance continues to increase and improve, MEPT remains significantly ahead of its peer group in all seven of the GRESB Aspects or scoring categories. Each GRESB Aspect is scored on a 0 to 100 scale and MEPT's average score was 23 points ahead of its Peer Group.

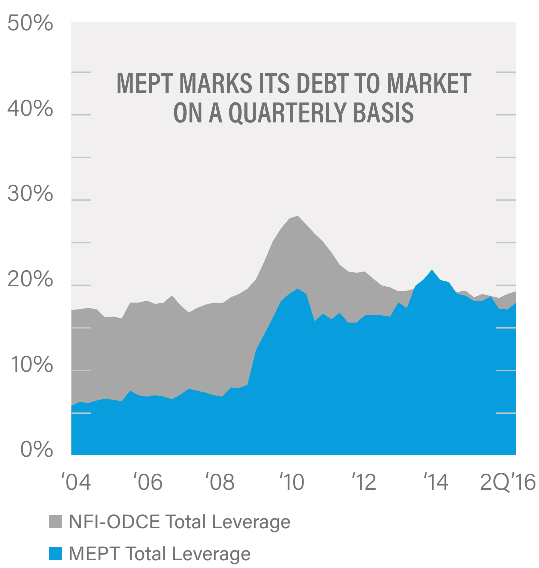
DIVERSIFIED-OFFICE RESIDENTIAL

GRESB Green Star 2016

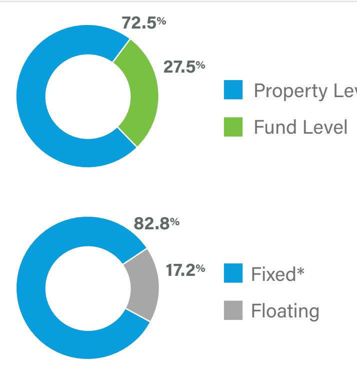
DEBT STRUCTURE

MEPT'S LEVERAGE RATIO increased to 20.8% from 19.3% during the quarter, which is within the Fund's target leverage range of 20% to 25%. The Fund closed on $245 million of new debt in two transactions and paid off a $70 million loan in the quarter. As a result of these transactions, the Fund's weighted average interest rate decreased from 3.85% to 3.68%. The new debt transactions comprised of a private placement bond offering of $150 million with 7-to 12-year maturities and interest rates of 3.43% to 3.76% and a first mortgage loan totaling $95 million with an 11-year term and 3.55% interest-only rate.

LEVERAGE AS A PERCENTAGE OF GROSS ASSETS



CURRENT LEVERAGE RATIO	WEIGHTED AVERAGE INTEREST RATE
20.8%	3.68%



*Includes Swapped Floating Rate Debt

MEPT

7315 Wisconsin Avenue
Suite 200W
Bethesda, MD 20814

REAL ESTATE ADVISOR

Bentall Kennedy

www.bentallkennedy.com

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Green Power WIND

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