Fourth Quarter February 2018 Volume 33, Number 4

TRUST REPORT

MEPT
A Bentall Kennedy Fund

Lobby of **200 West Madison**, Office, Chicago

INSIDE:

LETTER TO INVESTORS

MEPT ONCE AGAIN POSTED strong and consistent performance with a total gross return of 1.62% (1.40%, net of fees). The Fund trailed the ODCE peer group's total fourth quarter gross return of 2.07%; however, MEPT's longer-term performance remains competitive in terms of absolute return and superior from a risk perspective with first quartile standard deviation of total return (i.e., low volatility) over the past five years among benchmark peers. At this mature stage of the economic cycle, MEPT is performing as designed with its traditional core strategy in which we strive to produce superior risk-adjusted returns through an 84% allocation to primary markets, over-allocation to urban office and high-rise multi-family, significant under-allocation to retail, high-quality warehouse industrial portfolio, and conservative leverage ratio, which has been running 150-200 bps below benchmark leverage for the past five years.

Core private equity real estate is no longer producing double-digit returns; however, it continues to offer attractive returns, along with an inflation hedge, when compared to other asset classes. The Fund's 1-year total return is 6.45% (5.53%, net of fees), the 3-year return is 9.44% (8.49%, net of fees), and the 5-year return is 10.86% (9.89%, net of fees). Looking ahead in 2018, we believe MEPT's performance will be consistent with the previous year and the gross total return target is 6.0% to 8.0% (5.0% to 7.0%, net of fees). As in 2017, MEPT's performance is expected to consist of continued stable income in the 4.0% to 4.5% range and moderate appreciation driven by NOI growth comprising the balance.

The broader U.S. economy also looks poised to continue to expand in 2018 despite the mature stage of the current cycle. The passage of the GOP tax plan should produce stronger near-term economic growth through the immediate effects of corporate and personal tax cuts. Additionally, the legislation has delayed most forecasts regarding the end of the current expansion cycle to 2019 and beyond. However, there are several potential headwinds for continued economic growth. Most notably, the U.S. is near full employment, most asset classes have rich valuations, and the Federal Reserve is expected to raise rates two to three times in 2018, which could mean the end of historically low borrowing costs.

In light of the mature stage of the economic cycle and the potential headwinds, our Fund strategy continues to emphasize risk management and late-cycle positioning. We continue to look to increase MEPT's allocation to structured transactions (e.g. mezzanine loans, participating loans, preferred equity), seek to continue to increase the Fund's allocation to medical office investments given the relative inelasticity of demand for medical services, and consider certain disposition opportunities to improve fund weightings and/or take advantage of aggressive market pricing. Most importantly, however, the core Fund strategy emphasizing superior risk adjusted returns will not change and we will maintain investment discipline in light of the highly competitive transaction environment.

As always, our ongoing focus on sustainable investment practices, stable income, risk management, prudent incorporation of alpha, and emphasis on diversification remain paramount. We appreciate your continued confidence in our stewardship of your capital. ■

David Antonelli,
Executive Vice President & MEPT Portfolio Manager

FOURTH QUARTER RESULTS

(Gross of Fees)

QUARTER
1.62%

TRAILING 1-YEAR
6.45%

GROSS ASSET VALUE
$8.2B

(Net of Fees)

QUARTER
1.40%

TRAILING 1-YEAR
5.53%

NET ASSET VALUE
$6.4B

U.S. REAL ESTATE MARKET

ECONOMIC EXPANSION in the U.S. continued through the fourth quarter of 2017, as the economy added 400,000 jobs during the period and the unemployment rate dropped to 4.1% from 4.2% in the previous quarter. Other economic indicators also remained healthy: the stock market hit record highs in December; the labor-force participation rate remained stable at 62.7%; and wage growth experienced modest 2.5% growth year-over-year. With the economy near maximum employment, the Federal Reserve is likely to remain on track for continued gradual interest-rate hikes in 2018.

The U.S. industrial vacancy rate remained relatively flat at 7.4% according to CBRE, as new supply rose to meet the strong demand for warehouse and distribution space. Developers delivered 52 million sq. ft. of new warehouse space, and users rapidly absorbed 44 million sq. ft. in 4Q. The U.S. office vacancy increased modestly by 10 bps reaching 13.0% during the quarter, which marked the first year-over-year increase since 2010. Consistent with recent trends, the lowest vacancy rates were concentrated in innovation markets: Seattle (7.6%), San Francisco (7.8%), Austin (8.2%), Raleigh (8.3%), New York (9.4%), and Boston (9.8%).

The consensus outlook on the U.S. multifamily sector is stable. Effective rent growth dropped 0.9% for multifamily assets during the final quarter of 2017, according to Axiometrics, but was up 2.6% over the last 12 months. The retail sector vacancy rate increased again during the fourth quarter, up to 10.0% according to REIS, reflecting rising mall vacancies due to the continued growth of e-commerce. However, asking rents for retail neighborhood and community centers rose 1.8% during the quarter, providing a mixed sentiment on the overall health of the retail property sector. ■

Fund Overview[1]

GROSS ASSET VALUE	$8.2 BILLION	MARKETS	25
NET ASSET VALUE	$6.4 BILLION	LEVERAGE AS % OF GAV	21.6%
INCEPTION DATE	APRIL 1, 1982	CASH AS % OF NAV	1.1%
NUMBER OF ASSETS	104	UNIT VALUE	$10,722.73
TOTAL OPERATING SQUARE FOOTAGE	32.2 MILLION	NUMBER OF INVESTORS	348
PERCENT LEASED (OPERATING)	92.1%	4Q CONTRIBUTIONS	$14.8 MILLION
AVERAGE AGE OF PROPERTIES	15.2 YEARS	4Q REDEMPTIONS	$177.7 MILLION

Annualized Returns[2]

Through December 31, 2017

GROSS OF FEES RETURNS	QUARTER	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION*
INCOME	1.04%	4.07%	4.33%	4.82%	6.97%
APPRECIATION	0.58%	2.31%	4.95%	5.84%	1.05%
TOTAL	1.62%	6.45%	9.44%	10.86%	8.08%
NET OF FEES RETURNS	**QUARTER**	**1-YEAR**	**3-YEAR**	**5-YEAR**	**SINCE INCEPTION***
INCOME	0.82%	3.16%	3.42%	3.88%	5.77%
APPRECIATION	0.58%	2.31%	4.95%	5.84%	1.05%
TOTAL	1.40%	5.53%	8.49%	9.89%	6.86%
NFI-ODCE[3,4]	**QUARTER**	**1-YEAR**	**3-YEAR**	**5-YEAR**	**SINCE INCEPTION***
INCOME	1.06%	4.35%	4.54%	4.78%	6.99%
APPRECIATION	1.01%	3.15%	5.68%	6.51%	0.65%
TOTAL	2.07%	7.62%	10.42%	11.53%	7.68%

[1] Schedules of investment performance for MEPT are prepared by NewTower Trust in accordance with the guidance provided within the National Council of Real Estate Investment Fiduciaries (NCREIF) Pension Real Estate Association (PREA) Reporting Standards, as sponsored by NCREIF and PREA (the Reporting Standards). Real estate revenue is reported when contractually earned and billable to be consistent with the valuation methodology used to determine unrealized gains and losses.

[2] Please note: Past performance is not indicative of future results. Performance objectives (whether based on market conditions that affect MEPT or on MEPT itself) reflect a variety of assumptions, which may not be realized and are subject to significant uncertainties and co ntingencies. Performance goals, including investment returns (e.g., Unit Value), acquisition and dispositi on activity, leverage, portfolio diversification (including cash position), and leasing rates could be adversely affected and actual results could differ materially from the Management Team's expectations.

[3] NCREIF, the National Council of Real Estate Investment Fiduciaries, is a trade association of institutional real estate professionals that includes investment managers, plan sponsors, academics, consultants, appraisers, CPA's and other services providers with significant involvement in institutional real estate investments. NCREIF collects and disseminates real estate performance information, most notably the NCREIF Property Index (NPI) but also the NFI-ODCE. 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 open-end U.S. commingled funds with a core investment strategy. The NFI-ODCE index is capitalization-weighted and is reported gross of fees and measurement is time-weighted. Further information about this index is available at www.ncreif.org.

[4] ODCE returns (Gross of Fees).

* Inception date (4/1/82).

PERFORMANCE AND PROPERTY SECTORS

MEPT'S FOURTH QUARTER total gross return was 1.62%, which consisted of 1.04% income and 0.58% appreciation. The key drivers of appreciation included market rent growth across the industrial portfolio, particularly in California assets, and increased market demand for select office assets. MEPT continues to maintain a strategic overweight of 84% to primary markets, as compared to the benchmark weight of 75%. The Fund experienced strong leasing activity during the quarter; however, the operating portfolio leased percentage decreased to 92.1% from 93.8% primarily due to the acquisition of a recently-delivered, partially vacant industrial asset as well as seasonality in the multifamily portfolio. MEPT's occupancy remains near its 10-year historical peak and continues to be a strong indicator of the Fund's health and the durability of future performance. ■

MULTIFAMILY

91.5% LEASED

0.9% TOTAL RETURN[1]

The Hubbard, Chicago

MEPT's multifamily assets represent 28.3% of the net asset value of the total portfolio and delivered a fourth quarter total unlevered return of 0.9% comprised of 0.9% income and 0.1% appreciation. The average stabilized cap rate for the multifamily sector was 4.3% and the operating assets were 91.5% leased, which was down 1.8% from the previous quarter, largely due to seasonality. The multifamily portfolio consists of 22 assets; 9 appreciated during the quarter, 1 had no change in value, and 12 depreciated. MEPT's multifamily portfolio recognized value gains from increased market rent growth assumptions and reduced operating expenses at key assets. In particular, urban high-rise assets in the Northeast region and California recognized the largest appreciation gains; however, these gains were muted by increased capital expenses at select assets. In 2018, urban, high-rise multifamily assets are expected to continue to generate attractive risk-adjusted returns. ■

OFFICE

90.1% LEASED

0.2% TOTAL RETURN[1]

MEPT's office portfolio represents 44.2% of the net asset value of the total portfolio and delivered a fourth quarter total return of 0.2% comprised of 1.1% income and 0.8% depreciation. The average stabilized cap rate for the office sector was 5.3% and the operating assets were 90.1% leased, which was down 1.2% from the previous quarter. The office portfolio consists of 38 assets; 16 appreciated during the quarter, 3 had no change in value, and 19 depreciated. In the fourth quarter, non-recurring negative performance events such as higher than projected property taxes and capital expenses in New York and Chicago assets caused depreciation in the overall office portfolio. MEPT's high-quality California assets and strategic investment in Boston's Seaport District continue to be strengths of the Fund and saw increased market rent growth in the quarter. Additionally, MEPT's structured finance portfolio, excluded from the office return above, generated $13.6 million of appreciation due to a full-building Amazon lease of a recently delivered office asset. In 2018, MEPT's high-quality, primary market focused CBD office portfolio is well constructed given the mature stage of the current economic cycle. ■

INDUSTRIAL

93.3% LEASED

4.3% TOTAL RETURN[1]

1150 Commerce Boulevard, Philadelphia

MEPT's industrial portfolio represents 16.6% of the net asset value of the total portfolio and delivered a fourth quarter total return of 4.3% comprised of 1.2% income and 3.1% appreciation. The average stabilized cap rate for the portfolio was 5.2% and the operating assets were 93.3% leased, which was down 2.2% from the previous quarter due to the acquisition of a recently-delivered, vacant industrial asset. The industrial portfolio consists of 23 assets; 17 appreciated during the quarter, 1 had no change in value, and 5 depreciated. For the tenth consecutive quarter, industrial was MEPT's best performing property sector in terms of total return. The Fund's high-quality industrial portfolio continued to appreciate during the quarter, and California assets in particular experienced large value gains driven by market rent growth and yield compression. In 2018, strong occupancy and robust comparative sales metrics are expected to continue to drive asset values. ■

RETAIL

95.6% LEASED

1.4% TOTAL RETURN[1]

Stony Creek Promenade, Chicago

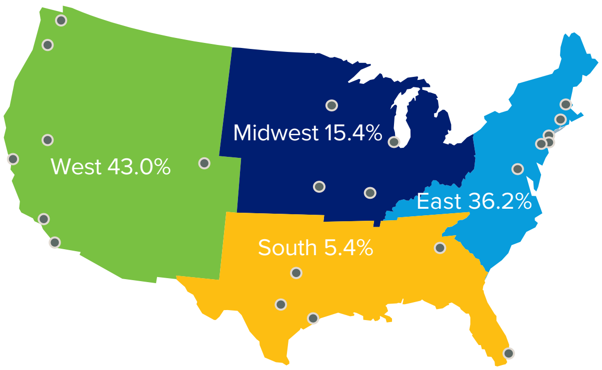
MEPT's retail portfolio represents 7.6% of the net asset value of the total portfolio and delivered a fourth quarter total return of 1.4% comprised of 1.2% income and 0.2% appreciation. The average stabilized cap rate for the portfolio was 5.5% and the operating assets were 95.6% leased, which was down 0.2% from the previous quarter. The retail portfolio consists of 13 assets; 7 appreciated during the quarter, 1 had no change in value, and 5 depreciated. Although the retail sector has faced headwinds in 2017, the majority of MEPT's retail assets appreciated during the quarter. MEPT's retail allocation is primarily comprised of grocery-anchored, necessity retail centers, which are expected to generate a stable income yield and moderate appreciation in 2018. ■

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

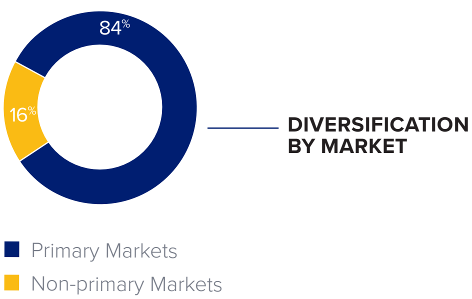
MEPT BY THE NUMBERS

Diversification and Portfolio Characteristics as of 4Q 2017

Diversification by Geographic Region (NAV)

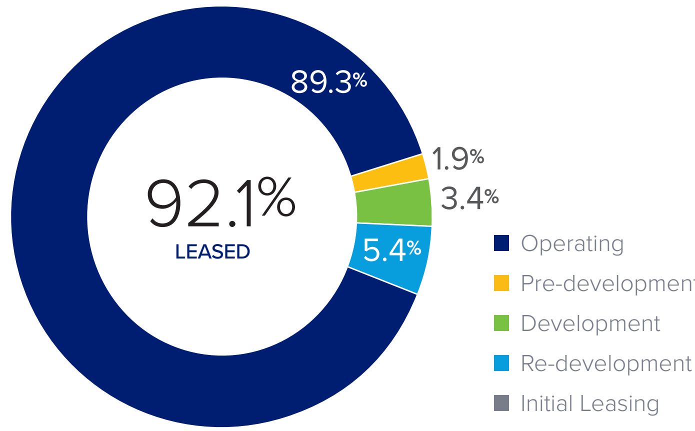


MEPT Top Markets (NAV)

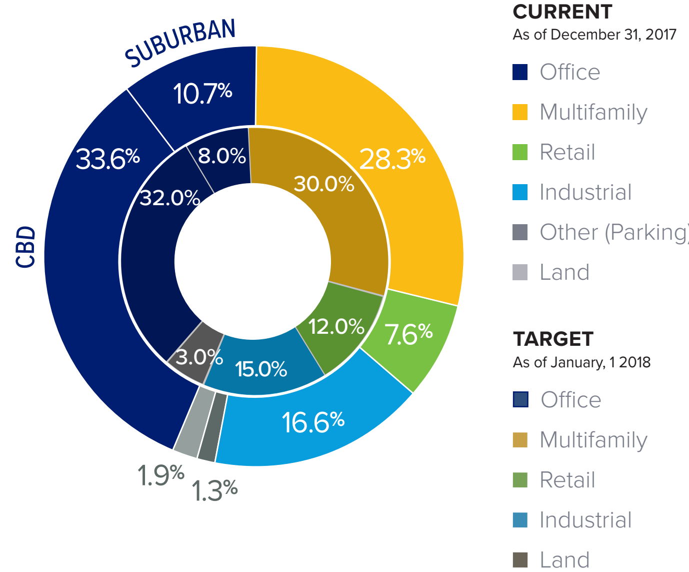


MARKET	NAV IN $ MILLIONS	PERCENT OF PORTFOLIO
NEW YORK	$ 1,184.4	13.2%
SAN FRANCISCO	1,148.1	12.8%
CHICAGO	1,024.9	11.4%
WASHINGTON, DC	934.9	10.4%
BOSTON	775.3	8.6%
PORTLAND, OR	757.3	8.4%
LOS ANGELES	724.3	8.1%
DENVER	527.0	5.9%
SEATTLE	304.1	3.4%
OTHER MARKETS	1,585.3	17.7%
TOTAL	**$8,965.5**	**100.0%**

Diversification by Life Cycle (NAV)



Diversification by Property Type (NAV)



Lease Rollover Summary*

	2018	2019	2020	2021	2022
PERCENT OF NET RENTABLE AREA	7.0%	12.3%	13.2%	8.1%	16.7%
PERCENT OF TOTAL REVENUE	9.0%	9.9%	9.7%	11.3%	14.9%

* Consolidated Operating Industrial, Office and Retail

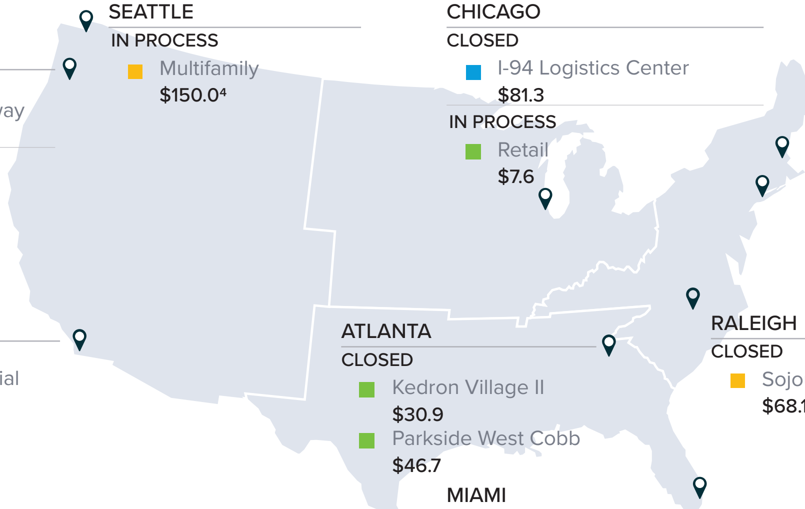
Notes

Forward looking statements found in this report are subject to change and applicable only as of the date made. Many of the factors affecting such statements are impossible to predict with certainty, and as such, are outside the control of MEPT. Further, past performance is not indicative of future results.

This report reflects the views of NewTower Trust, the trustee of MEPT, and Bentall Kennedy, the real estate advisor to the trustee, with respect to MEPT. It is prepared for distribution to existing investors in MEPT. It may not be reproduced or distributed to the public.

2017 ACQUISITION PIPELINE OF EXISTING AND DEVELOPMENT OPPORTUNITIES IN $MILLIONS

$383.4M	$605.2M	$988.6M
CLOSED	IN PROCESS	ACQUISITION PIPELINE TOTAL



[1] Buyout of JV Partner's interest
[2] Potential ground lease purchase
[3] Participating mortgage loan
[4] Mezzanine loan

DISPOSITION ACTIVITY

STAGE	OFFICE	MULTIFAMILY	INDUSTRIAL	RETAIL	NET SALE PRICE
CLOSED 2017		1	4	1	$253.6 million
IN PROCESS	1		1		$114.9 million
TOTAL	**8 assets**				**$368.5 million**
POTENTIAL	4	2			$913.9 million

KEY: OFFICE, MULTIFAMILY, INDUSTRIAL, RETAIL

FOURTH QUARTER TRANSACTION ACTIVITY

IN THE FOURTH QUARTER OF 2017, MEPT acquired I-94 Logistics Center—Building II ($30.5 M), an industrial warehouse in Chicago, IL; Prescott Industrial Center ($38.4 M), a three building industrial warehouse portfolio in San Diego, CA; and 399 Congress ($63.3 M), a mezzanine loan on a multifamily development in Boston, MA. The I-94 Logistics Center—Building II acquisition completes the purchase of a newly-built, two building modern warehouse industrial portfolio outside of Chicago. Building I is 100% leased to Amazon through 2027 and Building II is almost completely vacant, which offers upside through lease-up in a strong market. Prescott Industrial Center is a modern industrial asset that is 100% leased to a variety of tenants in the strong Southern California industrial market. Finally, 399 Congress Street is a funding commitment for a mezzanine loan on a multifamily development in Boston's Seaport District and is projected to be completed in 2019.

While the Fund maintains a disciplined and measured approach to acquisitions, MEPT continues to source attractive opportunities both in the market and off-market. The Fund currently has one multifamily asset, one retail asset, and an additional mezzanine loan investment under contract or LOI, all of which are expected to close in early 2018.

Rendering of **399 Congress Street**, Multifamily, Boston

Additionally, taking advantage of strong capital market conditions and aggressive market pricing, MEPT sold 1900 Clark Road, an industrial warehouse in the greater Baltimore area, generating $42.0 million in gross sale proceeds which represented a 11.7% premium to most recent valuation. As always, the Fund continues to evaluate its portfolio and pursue opportunities to maximize asset value through disposition activity. ■

PORTFOLIO SPOTLIGHT

INVESTING FOR RESILIENCY KEY TO WEATHERING VOLATILITY IN THE REAL ESTATE MARKET

A reflection on mature-cycle investment strategies from Amy Price, President and CIO of Bentall Kennedy

> **"Investing with resiliency in mind requires an approach that takes a longer-term outlook in a world that often seeks instant results."**

Amy Price
President and Chief Investment Officer

ALL EYES ARE ON THE U.S. real estate market for late-cycle signals that reveal fresh opportunities to generate value. As I meet with institutional investors from around the world, I am frequently asked: "How should I invest in today's market?" Our dedicated research, transactions, and asset management teams explore the answers to this question by examining counter-cyclical demand drivers and the valuable data-driven insights they produce. Our analysis and experience tell us that a little perspective goes a long way.

At Bentall Kennedy, we look beyond market fundamentals and job growth figures, focusing additionally on idiosyncratic demand drivers. Demographic trends, population shifts, and the emergence of new innovation hubs can create cycle-resilient, demand-driven investment opportunities. Investing with resiliency in mind, however, requires an approach that takes a longer-term outlook in a world that often seeks instant results.

Mature markets like New York, Chicago, and L.A. have enduring value, but they often come at a high cost. Our team dives deep into those local markets to identify the sub-markets and adjacent micro-locations that are attracting young talent, offer relative affordability, and are likely to become more in-demand in the coming years. Lower-cost markets with residential options at different price points attract younger, price-conscious residents looking for modern civic infrastructure and rich cultural amenities with future options to advance their standard of living as their careers advance, as well.

The quest for top talent is also triggering economic migration within the U.S. towards cities and regions that have access to pools of highly educated labor. The impact of this migration extends to real estate where demand for places to live, work, and shop follows in lock-step. So-called "knowledge cities," that grow or attract and ultimately retain business in the industries of the future, pave a path for attractive investment opportunities (see 1900 16th Street on the following page). Take Pittsburgh as an example — the growth of artificial intelligence and robotics centered around Carnegie Mellon University is poised to have a meaningful impact on the city over the next decade.

Deeply embedded within our leadership ethos is the value we attribute to sustainability and the role this plays in delivering value for our investors. Making sustainability a part of the value equation has been a perspective of ours for many years, and our industry is slowly awakening to the social and environmental consciousness that is shaping tenant behavior, and in turn, driving property values. On balance, properties with exceptional environmental footprints and investments in sustainability demonstrate lower vacancy, lower risk of obsolescence and lower operating costs, thus offering greater investment value over the long-term compared to assets lacking in these aspects.

I work with my team to balance our analysis of key economic metrics with often atypical, counter-cyclical sets of indicators that challenge conventional wisdom but also reveal hidden value propositions that offer stable, long-term resiliency. This informed and attentive perspective driven by local presence is how we are leading the way for our clients in a late-cycle market where value in the real estate market might just be found in places where others fail to look. ■

CASE STUDY

1900 16TH STREET, DENVER, CO

Investment Thesis

Bentall Kennedy acquired the development site in 2006 at an attractive land basis of $13.7 million, representing $18.87 per FAR sq. ft.

- Identified Denver as a "knowledge city" and a target urban market experiencing substantial population growth and residential development
- Strong LoDo/Central Platte Valley micromarket location across from Union Station and along 16th Street; well-positioned to benefit from Denver office market expansion and Union Station redevelopment

Circa 2008 development photo of **1900 16th Street**

What We Did

Developed a best-in-class modern office tower for a total cost of $140.0 M, delivered in Q4 2009, and prioritized sustainable features to create long-term value

- Achieved LEED NC: Core & Shell Gold Certification in 2010, and in 2014 was the first multi-tenant office asset to achieve LEED EB: O&M Platinum Certification in Colorado
- Enrolled in Bentall Kennedy's energy management program to monitor and reduce operating expenses. Since 2010, the property has saved over $358,000 in utility costs, representing a 7.2% reduction; additionally, the asset achieved ENERGY STAR Certification for the third year in a row, and the asset's ENERGY STAR score increased from 87 in 2014 to 93 in 2017

The Result

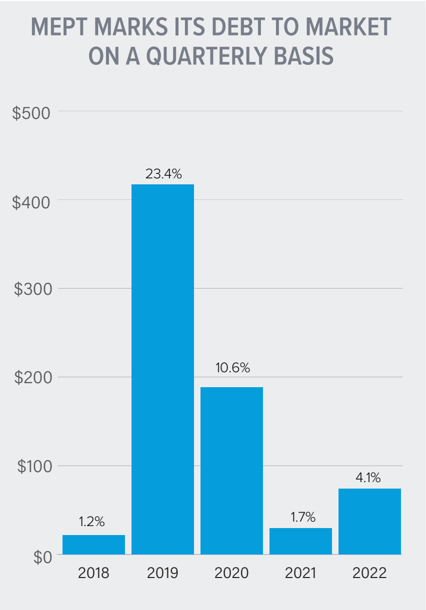
Since the start of the current cycle in 2011, the Denver office market has averaged over 4% market rent growth per year. As of Q4 2017, 1900 16th Street has a gross value of $263.0 M, and the office space is 100% leased.

1900 16th Street, Office, Denver

DEBT STRUCTURE

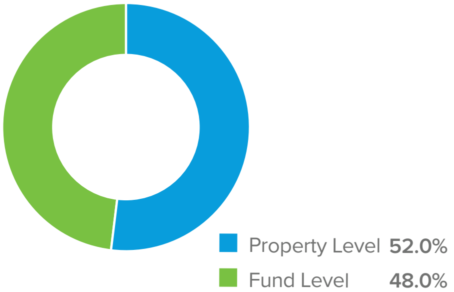
MEPT'S LEVERAGE ratio increased to 21.6% from 20.6% due to draws on the credit line during the quarter and remains within the Fund's target leverage range of 20.0% to 25.0%. MEPT also paid off the New Market Tax Credit loans on 360 State Street this quarter. The Fund's weighted average interest rate decreased to 3.5%, with a weighted average remaining term of 6.1 years. In the first half of 2018, the Fund will be pursuing an expansion of its credit facility to $650.0 M from $500.0 M, and extending the term to 2023 from 2020 while reducing borrowing costs. MEPT's management team will continue to identify and evaluate new financing opportunities to achieve the greatest flexibility to operate an individual asset's business plan while incurring the lowest cost of debt for the Fund. ■

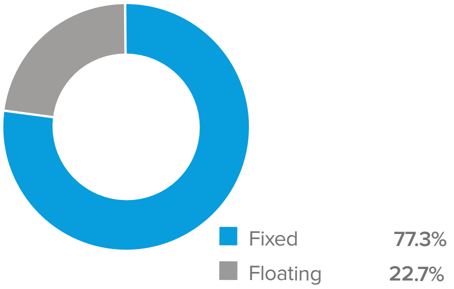
Debt Maturity Schedule (in $ millions)



CURRENT LEVERAGE RATIO
21.6%

WEIGHTED AVERAGE INTEREST RATE
3.5%





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