Memo

To: **Board of Trustees**

From: **IPS Manager Research**

Date: **February 13, 2017**

Re: **Boyd Watterson GSA (Real Estate) Fund, L.P.**

Due Diligence History: IPS first met with Boyd Watterson to review their GSA Fund, L.P. late in 2013. In conversation with Boyd Watterson, IPS suggested several terms and features that would make the GSA offering more competitive. Boyd Watterson revamped the terms and legal documents. On June 3, 2014, David Russell, Senior Investment Strategist at IPS, met with Brian Gevry, CFA of Boyd Watterson as well as Larry Christenson and Rich Reisert of Christenson Investment Partners ("CIP") to review the changes to the Fund and discuss current status.

Organizational Background:
Effective July 1, 2014 Boyd Watterson became an independent firm after a previous "merger" with National Investment Services ("NIS") and Wood Asset Management whose combined investment products were sold under the Titanium Asset Management ("Titanium") name. Boyd Watterson has 37 employees with Brian Gevry, Robert Law, Kris Jankowshi, Casey Wendein, Amanda Jacobson, Brian Convery, Jim Shirak, owning 12% each and the balance owned by other employees.

The management team for the real estate product is led by Brian L. Gevry, CEO, Robert Law, Senior Vice President, and James Shirak, Deputy CIO. They have a total of eight real estate investment professionals, four client service representatives, and six people in real estate administration and accounting. As an outside advisor, Boyd Watterson has retained Stephen Perry, former Chief Administrator for the GSA from 2001 to 2005 and recently retired as President and Executive Director of the Pro Football Hall of Fame. Prior to running the GSA, Mr. Perry ran the Department of Administrative Services for the State of Ohio.

Boyd Watterson has established an exclusive agreement for marketing the GSA Fund in the Taft-Hartley marketplace with a third party firm, Christenson Investment Partners. This arrangement does not increase the fees charged to investors.

Products and AUM:
As of December 31, 2016, Boyd Watterson has $7.5 billion in assets under management firm wide: $5.7 billion in fixed income, $260 million in equity and $1.6 billion in real estate. The $1.6 billion in real estate represents $225 million in a GSA separate account for the Michigan Carpenters, $250 million in other QPAM advised real estate, and the balance of $1.2 billion (gross) is in the GSA Fund.

Legal and Regulatory:
Boyd Watterson is registered with the SEC and has had no material litigation or regulatory issues. A copy of their current ADV and brochure are on file. The GSA Fund documents state that the fund advisor will be an ERISA fiduciary with regards to any qualified plan assets and Boyd Watterson will agree to acknowledge in writing that they are ERISA fiduciaries. According to CIP, there are no restrictions on Health & Welfare assets to invest in the GSA Fund. In early 2016, Boyd Watterson updated some of the terms of the Fund's Limited Partnership Agreement (LPA), to which existing investors needed to consent. A 50% majority was needed to consent to implement the changes to the LPA, which was received in April 2016. IPS reviewed the proposed changes to the LPA and suggested to clients that are existing investors in the Fund to sign the consent form.

Investment Strategy:
The GSA Fund strategy is to build a geographically diversified portfolio of real estate that is at least 85-90% leased to U.S Government Agencies. The U.S. Government leases all of its properties through the General Services Administration ("GSA"). The U.S. Government is the largest tenant in the world with 1.2 million employees housed in over 2,200 different geographic locations The GSA currently leases nearly 200 million square feet of privately-owned real estate for such diverse U.S. Agencies as Social Security, IRS, EPA, Dept. of Transportation, Home Land Security, US Marshals Office, FBI, DEA, NOAA, Department of Commerce, Forest Service, Immigration and Customs Service, Coast Guard, Dept. of Agriculture, Federal Courts, Dept. of Interior, Fish and Wildlife, Mine Safety, Dept. of Labor, FCC, Dept. of Energy and the GSA itself.

The GSA strongly prefers, and for many agencies, insists on, single-tenant leases, and they occupy 100% of the building. Many properties are purchased and developed in partnership with the GSA (sometimes acquired through eminent domain) as new "build to suit" facilities in or near key transportation corridors to provide for maximum public access via mass transit systems. Other key properties are acquired and developed due to their proximity to industries or businesses which the Government regulates, such as airports, harbors, parks, historical locations, etc. This results in many GSA assets being located in exceptionally valuable locations.

Lease terms are also favorable to insure both property stability and predictable long-term economics for the federal agencies. Lease payments are guaranteed and backed by the full faith and credit of the U.S. Government. Lease terms are usually for 30 years and renewal rates have been 96% from 2001 -2011, compared to 65-70% for typical institutional properties. Renewal rates on "build to suit" buildings are 100%. The leases are "net" leases, as the GSA also manages all utilities, repairs, maintenance and improvements on the buildings due to appearance concerns, liability management, access control and for security purposes. These unique safety and security requirements command lease rates that are very attractive and include inflation escalation clauses that cover rent rates and taxes. Because the leases are guaranteed by the Federal Government and have very long terms, lenders are comfortable providing more leverage, for longer terms, and at lower rates than for other more typical investment properties.

The GSA market is large but very fragmented with few dedicated buyers. The GSA market can be deconstructed into roughly three segments by property size: $1-5 million, $5 -25 million and over $25 million. Properties in the over $25 million size are generally owned by large institutional investors, and this segment is very competitive, resulting in market cap rates being paid for acquisitions. Properties in the $1-5 million dollar range are usually owned by local individual investors. It takes too many assets in this segment to build a sizable institutional portfolio. The middle market of $5 -$25 million has the same attractive characteristics as the smaller market, little competition and attractive cap rates relative to the market, but still allows for sizable diversified institutional portfolios to be constructed. The 10-year average annual cap rate at acquisition for GSA properties is 7.20% vs. the NCREIF annual average cap rate of 6.41%.

Product Overview:
The Boyd Watterson GSA Fund is an open-ended commingled fund that qualifies for tax purposes as a REIT. It is a follow-on fund based on the separate GSA account Boyd Watterson has managed for the Michigan Carpenters since 2011. The GSA Fund closed on its first two investments in December 2013. As of January 31, 2016, the Fund has $423 million in net assets from 83 investors and $740 million gross assets invested in 56 properties, with an additional $109 million in committed capital from investors. The Fund has identified additional potential acquisitions in the due diligence process and has approximately $30 million earmarked for three additional assets that are under letters of intent.

The GSA Fund is targeting an 8% current income, compared to 5.5% for Core ODCE funds, with total expected returns of greater than 10% net to investors. The fund will focus on making GSA acquisitions in the top 100 national markets. The Fund will have a loan to value target ratio of 40% with a 50% maximum. Non-GSA properties will be limited to 10% (the proposed LPA increases this amount to 15%). No more than 35% will be placed with any one agency (calculated on square footage).

Fund Terms:

- Legal Entity: Delaware Limited Partnership Commingled Investment Trust which will qualify for tax purposes as a REIT with UBTI blocker.

- Minimum Investment: $1 million.

- Subscriptions: The Fund will accept subscriptions monthly until March 1, 2017. After the March 1 effective subscription date, subscriptions will be accepted quarterly beginning on the first business day of April 2017. Thereafter, subscriptions will only be accepted quarterly in January, April, July and October.

- Distributions: Client may request the net income for distribution quarterly or reinvestment.

- Redemptions: Quarterly with 60 day notice, $250,000 minimum redemption (subject to the Fund's ability to provide liquidity from leverage, sales, new subscriptions, and cash holdings).

- Fees: - Stated fee is 1.3% annual asset management fee on invested (not committed) capital, however IPS Clients will have a discounted fee of 1.25% in perpetuity
    - No incentive fees
    - Any acquisition or other transactions fees earned will offset against the asset management fee

- Auditor: Plante & Moran, LLP

- Legal: DLA Piper, LLP

- Administrator: Courtland Fund Services, LLC

Other Factors and Terms:

Labor Friendly: The GSA abides by the Davis-Bacon Act of 1931, which is a federal law that requires all public buildings and works to pay "prevailing wages and fringe benefits." This law applies to all contractors and sub-contractors.

Appraisal Policy: The GSA Fund will arrange for a qualified MAI designation third-party independent appraisal of all properties upon acquisition, disposition, significant event, and annually, with 25% of the properties being appraised each quarter. The appraiser selection will be from a list of three qualified firms and new appraisers will be selected every three years. The fund will engage an independent CPA firm with a real estate practice to review the Fund's valuation process and compliance with procedures, assist in the selection of the appraisers, review external appraisals, and review the Fund's internal quarterly valuations.

Lines of Credit and Term Loans: IPS has on file copies of the commitment letters from KeyBank for $35 million in revolving credit for three years and a secured term loan in the amount of $33 million. Within the next few months, Boyd Watterson plans on having permanent long-term financing commitments from a Life Insurance Company for $50-60 million.

Performance:

The GSA Fund had a net income return in 2016 of 8.04% and a net total return of 9.08%. The Fund's net income return in 2015 was 7.9%, with a 2015 total net return of 9.9%.

Risks/Concerns:
The GSA Fund now has a three-year track record, which is still significantly shorter than many other core real estate funds. This concern is somewhat mitigated by the fact that the key people on the investment team, Robert Law, Casey Wendlein, and Kris Jankowski, have extensive real estate experience. So far they have been successful in acquiring GSA real estate properties at attractive cap rates and have met the stated investment objectives and client expectations.

Despite its relatively short track record, the Fund is now well diversified, with 56 properties closed or under contract. Compared to the majority of IPS's approved real estate managers, the management team is smaller, with only eight investment professionals. The fund also will have 40-50% leverage, similar to the loan to value ratio of value added real estate, but higher than the 20-25% used by most core ODCE real estate funds. Per the new LPA, the Fund can temporarily exceed 50% leverage (up to a maximum of 60%) for no more than six months. Like all open-ended commingled real estate funds, this fund is a long-term investment and is illiquid. The ability of the Fund to actually provide for a significant redemption will be limited or unavailable in a difficult real estate market, like the 2009, 2010 & 2011 periods.

Summary:
The strategy of the GSA Fund has very attractive attributes with higher than market cap rates at acquisition, high occupancy, government guaranteed rent payments, long-term favorable lease terms, exceptionally high renewal rates, and high current cash flows. The terms and fees are in line with industry standards. As the GSA Fund is a relatively new, smaller fund, with higher leverage and higher total return targets than Core ODCE funds, the GSA Fund should be considered a value-added real estate offering. For clients comfortable with a newer fund and a smaller, but experienced, management team, and who can tolerate the illiquid nature of real estate, this fund is expected to provide diversification within a real estate allocation and/or generate good income as an alternative to fixed income.

This investment is "approved" by Investment Performance Services for client use.

Recommendation: Board of Trustees should interview the manager and have Fund counsel review offering documents.

April 19 – 22, 2016

IPS does not sell products or services to investment managers. However, such managers may pay IPS to attend and to help defray the cost of IPS' annual ERISA Pension Investment Conference ("EPIC"), an educational conference devoted to various issues relating to Taft-Hartley plans. IPS will not give preferential treatment to investment managers who pay to attend and help defray the costs of EPIC.

It is important to note that no fees are paid to IPS by any investment manager to be included in a search or database. The only requirement placed upon the manager is their willingness to submit and maintain data concerning their firm, its investment products, and performance results.

Boyd Watterson attended and helped defray the cost of IPS' annual ERISA Pension Investment Conference ("EPIC").