



Investment Summary

Global Investment Management

Torchlight Debt Opportunity Fund VI

February 2018

Executive Summary

Overview

Torchlight has a depth of experience in real estate debt investing, both in the private and public markets, comparable to only a hand full of other managers in the space. The Firm has clearly shown they have the expertise to execute on these complex strategies while delivering overall solid returns spanning the course of multiple market cycles.

Category	Rating
Business	✓
Staff	✓
Process	✓
Risk	✓
Operations	✓
Performance	✓
Terms & Conditions	✓

Aon Hewitt Investment Consulting, Inc. ("AHIC") has reviewed and performed an in-depth analysis of the above categorires which includes, but is not limited to:

- Retention of Limited Partners
- Institutional Investor Representation
- Management Company Ownership
- Organization Expenses
- Management Fee
- Incentive Fees/ Waterfall Distribution
- Fund Size
- Sponsor Commitment
- Investment Period
- Fund Term
- Key Person Provision
- Turnover/Tenure
- GP Attribution Concentration
- Consistency/ Volatility of Returns
- Write-offs
- Transaction Experience in Strategy
- Ability to Create Value in Deals
- Valuation Discipline
- Reporting Transparency
- Back-Office Resources
- Fault Provisions
- Advisory Board
- Priority of Distributions
- Alignment of Partner Interest
- Firm Leadership

In addition, AHIC's Operational Due Diligence team has reviewed the Firm from an operating perspective and has given Torchlight

Recommendation

As part of its recommended 2018 Real Estate investment pacing for Nebraska Investment Council's ("NIC")'s Defined Benefit/Cash Balance Benefit Plan, AHIC supports NIC Staff's recommendation to make a \$40 million commitment to the Torchlight Debt Opportunity Fund VI, L.P. (the Fund) subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on our due diligence of this fund and is supported y our full due diligence report.

Firm Summary

Head Office Location	New York, NY	Parent Name	Torchlight Investors
Assets Under Mgmt (MBD)	\$4.1 billion	Investment Staff	48
Real Estate AUM	\$4.1 billion	Real Estate Staff	48

Strategy Summary

Team Location	New York, New York	Portfolio Manager	Daniel Heflin
Strategy Inception	1996	Team Size / Dedicated	48/18
Target Fund Size	\$1.5 billion	Target range of Holdings	50-150
Liquidity / Structure	Closed-End	Opportunity Set	U.S.
Risk Level of Strategy	Above- Average	Max/Target Leverage	30%
Valuation Policy	Quarterly	Performance Objective	12-15% net

Fund Overview

Torchlight Debt Opportunity Fund VI (“Fund VI”) is a closed- ended opportunity fund focused on high yield real estate debt investments in both the private and public markets. Torchlight is aiming to raise \$1.5 billion for the Fund which has a target of net IRR 12-15%.

Founded in 1995 by Daniel Heflin, Torchlight Investors (“Torchlight” or “the Firm”) primarily focuses on commercial real estate-related debt investments for institutional investors. The Firm has acquired and managed over \$20.0 billion in commercial real estate investments since its inception and currently has over \$4.0 billion under management across the spectrum of U.S. commercial real estate debt strategies. Torchlight also operates Torchlight Loan Services, a nationally rated special servicer, which provides asset evaluation, loan servicing, distressed loan workout and property asset management services. Torchlight Loan Services has historically managed \$2.1 billion of distressed loans.

History

Torchlight Investors formerly operated under the name ING Clarion Capital, LLC from 2002 until 2010 when Daniel Heflin used personal funds to repurchase the passive minority interests in the Firm held by both ING Group as well as individuals who were not employees of Torchlight. In 2012, the senior management team at Torchlight, including all members of both the Investment and Operating Committee, used personal funds to acquire interests in the firm through an equity purchase plan. Following the completion of these transactions, the ownership structure of the Firm now stands with 78% of the Firm’s equity being held by Daniel Heflin and the remaining 22% of equity being held by the Firm’s senior management team. Additionally, Mr. Heflin’s decision to allow buy in’s through his initial cost shows a meaningful dedication to his team.

Torchlight is well staffed for a boutique real estate debt firm with 48 professionals. Torchlight is led by its founder Dan Heflin, one of the most well respected investors in the real estate debt space. Recently Torchlight has experienced higher turnover with two of their senior executives leaving the firm to pursue other opportunities.

Business Strategy

The Fund's strategy will seek to opportunistically invest across multiple real estate debt strategies including first lien commercial mortgages, CMBS, mezzanine loans, and commercial real estate asset backed CDO's. Torchlight believes that the current market conditions create a compelling opportunity in high return debt investments as lending conditions remain depressed, loan maturities loom, and bank funding for non-standard loans is scarce. This strategy aligns with our best ideas.

The investment process is robust with a unanimous vote needed to approve an acquisition. Torchlight's level of due diligence, in which each asset is underwritten in a CMBS pool and its ability to leverage its in house special servicers, stands out compared to its peers.

Competitive Landscape

After reviewing the Aon Hewitt universe of Opportunistic real estate debt managers, the following are considered peers/competitors of Torchlight VI. (*Italics denote Funds also currently open or soon to be open for investment*).

- Cerberus – similar risk/return
- Oaktree – similar risk/return
- Lonestar – higher risk return

Investment Team

Torchlight Investors employs 48 investment professionals across five main groups: investments, distressed debt workouts, operations and finance, marketing and client service, and underwriting and asset management. The Firm's CIO, and founder, Dan Heflin, has 30 years of industry experience, and, prior to founding Torchlight in 1995, Mr. Heflin held positions with Ocwen Financial Corporation, Credit Suisse, and Arthur Andersen LLP. Torchlight has a deep group of senior professionals – 28 at the Vice President level and above as of June 25, 2017. Highly qualified, mid-career personnel regularly assume increased management responsibilities, allowing for orderly and well-planned management transitions.

The Investment Committee responsible for directing Torchlight's investment and portfolio management activities is comprised of five senior management professionals: Samuel Chang, Daniel Heflin, Gianluca Montalti, Greg Dineen and Marc Young. Each investment committee member is given veto power over investments. The Investment Committee's members average over 20 years of real estate experience. Samuel Chang has spent his entire career at Torchlight, working his way up to the investment committee level developing the disciplined investment process.

Detailed biographies of the senior investment team are included in the Appendix.

Name/Title	Years in Industry	Years with Firm	Position
Daniel Heflin	30	22	Partner, CEO, Co-CIO
Marc Young	24	9	Partner, Co-CIO
Samuel Chang	19	19	Partner, Head of CMBS

Greg Dineen	15	1	Chief Credit Officer
Gianluca Montalti	20	7	Partner, Head of Asset Management
Michael Butz	23	6	Partner
Robert Del Monaco	18	3	CFO of Funds
Richard Metsch	34	3	Chief Compliance Officer
Michael Romo	24	5	Partner
Sanford Weintraub	45	1	Partner, Chief Operating Officer
Jennifer Yuen	19	9	Partner

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