



State of New Jersey

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January 26, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Real Assets Investment – NJ – StepStone Real Assets SMA**

The Division of Investment (the “Division”) is proposing an investment of up to \$500 million in NJ –StepStone Real Assets SMA (“the SMA”), a separately managed account (“SMA”) to be managed by the StepStone Group (the “Firm”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Customized Portfolio with a Tailored Relationship Team: The customized structure of the SMA allows for the creation of a diverse set of investments within the growing and attractive infrastructure/energy transition areas. The vehicle will diversify deals by manager, deal type, sub-sector, and geography creating a well-balanced portfolio. A dedicated and experienced relationship team will guide the SMA’s portfolio construction ensuring objectives are attained.

Experienced Team with a Robust Track Record: The StepStone Real Assets and Infrastructure (“SIRA”) team is a large and integrated group with many of the senior members having worked together for over a decade. The team’s broad industry relationships facilitate significant deal flow allowing for enhanced selectivity and better performance. Since the team’s inception, SIRA has executed on hundreds of investments alongside dozens of lead sponsors generating strong and consistent performance while minimizing losses.

Fits Portfolio Objectives: The Real Assets ex-Real Estate portfolio remains underweight its target allocation as well as its exposure to infrastructure and energy transition investments. Further, the portfolio lacks a dedicated SMA necessary to execute tactical deals with multiple sponsors focused on this space. The vehicle will increase the portfolio’s exposure in a meaningful way with an attractive and diverse set of deals.

Comprehensive ESG Integration: StepStone has established a robust framework to assess manager ESG integration as well as material ESG considerations at the deal level. To the extent possible, the firm aggregates asset level key performance indicators in its proprietary database to monitor performance and drive value creation by engaging with managers on potential risks and

opportunities. Rigorous processes are in place to identify, manage and report on critical ESG incidents that may occur within the investment portfolio.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its real assets consultant, Aksia LLC, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Fund has not engaged a third-party solicitor (“placement agent”) in the fundraising of the SMA.

StepStone’s ESG-related policies and processes were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4), and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 71 of the Council’s regulations. NJ-StepStone Real Assets SMA is considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on January 23, 2024. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council’s January 31, 2024 meeting.

Attachment

NJ – Stepstone Real Assets SMA

- **Commitment:** Up to \$500 million
- **Strategy:** Real Assets
- **Investment Focus:** Diversified, Global Infrastructure
- **Target Returns:** 10%+ Net IRR
- **Investment Thesis:**
 - Customized Portfolio with a Tailored Relationship Team
 - Experienced Team with a Robust Track Record
 - Fits portfolio objectives
 - Strong ESG and Sustainability Focus

Fund Name: NJ - StepStone Real Assets SMA

January 26, 2024

Contact Info: Theodore Wong, Director of Investor Relations, 277 Park Avenue 45th floor, New York, NY 10127

Fund Details:

Total Firm Assets:	\$146 billion	Key Investment Professionals:
Strategy:	Real Assets - Infrastructure	James O'Leary – Mr. O'Leary is the Head of StepStone's Infrastructure and Real Assets team. Prior to joining StepStone, he founded KPMG's infrastructure investment advisory and asset management business, which merged with StepStone in 2016. Before that, he led Colonial First State's infrastructure, real estate, private equity and agriculture investment platform, overseeing more than A\$15 billion of investments. He is located in Sydney.
Year Founded:	StepStone Group was founded in 2007	Duane Cadman – Mr. Cadman is a partner on the infrastructure and real assets team joining from KPMG with Mr. O'Leary. He was previously at Colonial First State Global Asset Management focused on investments in infrastructure, real estate, private equity, and agriculture. He is based in Sydney.
Headquarters:	New York, NY	Stephen Kynaston – Mr. Kynaston is a partner on the infrastructure and real assets team joining from KPMG with Mr. O'Leary. Prior to KPMG, Mr. Kynaston held roles at Citi where he worked on the firm's core infrastructure fund as well as in transportation and infrastructure M&A. Mr. Kynaston serves as the Chair of SIRA's Investment Committee. He is located in London.
GP Commitment:	1% or \$5 million	Todd Lapenna – Mr. Lapenna is a partner on the infrastructure and real assets team. Prior to StepStone, he was a portfolio manager at CalPERS where he led new investments, strategy and portfolio construction for the infrastructure program. Before CalPERS, he held various investment roles at the Royal Bank of Scotland, CIT, Export Development Canada, and Westcoast Energy. He is a member of SIRA's Investment Committee. He is based in New York.
		Bryan Bedard – Mr. Bedard is a partner on the infrastructure and real assets team. Prior to StepStone, he spent 9 years at PSP Investments focusing on infrastructure assets globally. He is based in Toronto.
		Varun Kapoor – Mr. Kapoor is a partner on the infrastructure and real assets team serving as the Head of Investment Operations. Prior to StepStone, he served as the head of finance with Hastings Fund Management. He is a Chartered Accountant. He sits in Sydney.

Investment Summary	Existing and Prior Funds																
<p>The Real Assets SMA will have the flexibility to invest across the real assets ex-real estate market, with initial focus on infrastructure co-investment opportunities.</p> <p>The SMA may also pursue partnering deals, secondaries and selectively, primary funds.</p> <p>Geographically, the SMA will be global, with a focus on North America. The secondary focus will be the UK, Western Europe, Asia, as well as other select OECD countries.</p>	<table border="1"> <thead> <tr> <th><u>Funds</u></th> <th><u>Vintage Year</u></th> <th><u>Strategy</u></th> <th><u>Net Returns as of 06/30/2023:</u></th> </tr> </thead> <tbody> <tr> <td>Within StepStone SMAs: Co-Investments</td> <td>2015</td> <td>Core+/Value-Add</td> <td>12.1% IRR; 1.2x TVPI</td> </tr> <tr> <td>Within StepStone SMAs: Secondaries</td> <td>2019</td> <td>Core+/Value-Add</td> <td>15.8% IRR; 1.2x TVPI</td> </tr> <tr> <td>Within StepStone SMAs: Primaries</td> <td>2015</td> <td>Core+/Value-Add</td> <td>11.0% IRR; 1.2x TVPI</td> </tr> </tbody> </table> <p>Source of Returns - StepStone</p> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Net Returns as of 06/30/2023:</u>	Within StepStone SMAs: Co-Investments	2015	Core+/Value-Add	12.1% IRR; 1.2x TVPI	Within StepStone SMAs: Secondaries	2019	Core+/Value-Add	15.8% IRR; 1.2x TVPI	Within StepStone SMAs: Primaries	2015	Core+/Value-Add	11.0% IRR; 1.2x TVPI
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Vehicle Information:		Auditor:	Ernst & Young
Inception:	2024	Legal Counsel:	TBD
Target Fund Size:	\$505 million with annual option for NJ to upsize		
Investment:	NJ - StepStone Real Assets SMA		
Management Fee:	Tactical Investments: 0.50% Primary Investments: 0.20%		
Performance Fees:	Fees charged on invested capital only		
Hurdle:	12.5% on tactical investments, 0% on primary investments		
Additional Expenses:	8%		
	Partnership expenses		

NJ AIP Program			
Recommended Allocation (Smil.): SMA	up to \$500 million	LP Advisory Board Membership:	N/A
% of SMA:	99%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	YES

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.