



## State of New Jersey

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*Director*

January 24, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Proposed Investment in DivcoWest Fund VI-A, LP**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in DivcoWest Fund VI-A, LP (the “Fund”). The Fund is being sponsored by Divco West Real Estate Services, LLC (“DivcoWest” or 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:

**Differentiated strategy that focuses on real estate investments that serve tenants in technology and life-sciences industries:** DivcoWest has established long-standing relationships with tech and life-science companies and venture capital firms which provides a unique advantage for gaining market intelligence on real estate trends and the movement and growth of tenants to drive investment strategy.

**Long-tenured management team with extensive experience:** The Firm’s senior team is stable. Members of the management team have worked together through multiple market cycles and have an average of 20 years relevant industry experience. The Firm’s relationships extend to a network of real estate leaders that provide the means to directly source opportunities on a direct and joint venture basis.

**Vertically integrated platform with alignment of interest:** DivcoWest has grown to be a vertically-integrated, nationwide real estate platform with approximately 140 employees having extensive in-house experience in sourcing, structuring, acquiring, developing, repositioning, managing, leasing and selling assets. From acquisition to disposition, each asset is managed by a team of professionals across acquisitions, asset management, finance, and accounting. Performance allocation is expected to be distributed widely across members of the Firm.

**Strong performance through multiple market cycles:** The Firm’s strong performance and limited write-down ratio across prior funds demonstrates DivcoWest’s focus on capital preservation and ability to invest through market cycles. The Firm generated top-quartile

performance across Funds I, II, III, and IV. Particularly noteworthy is Fund II, a 2006-vintage fund that performed well in the midst of the Global Financial Crisis.

**Environmental, Social and Governance (ESG) Policy:** DivcoWest has embraced ESG and made it an integral part of company culture with a formal ESG Policy. The Firm is a member of the Global Real Estate Sustainability Benchmark (GRESB), and DivcoWest has established specific goals and targets for reducing energy consumption, utilizing renewable energy, reducing water consumption, and increasing recycling. The Firm strives to engage in fair, ethical, and effective business practices and has adopted a Corporate Sustainability Policy addressing operational efficiency (energy, water, and waste), climate impact, environment (natural ecosystem, air quality, and land usage) and people & communities (local, community, tenants, and supply chain).

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

Division Staff and its real estate consultant, Hamilton Lane, 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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

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. DivcoWest Fund VI-A, L.P. is considered a non-core real estate 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 Committee was held on January 15, 2020. 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 29, 2020 meeting.

Attachment

**Fund Name: DivcoWest Fund VI-A, L.P.** **January 24, 2020**

**Contact Info:** *Stuart Shiff, 575 Market Street, 35th Floor, San Francisco, CA 94105*

<b>Fund Details:</b>		
Total Firm Assets (\$bil.):	\$8.1 billion	<p><b>Key Investment Professionals:</b></p> <p><b>Stuart Shiff</b> - Founder and Chief Executive Officer: Mr. Shiff founded the Firm in 1993 and has built a vertically-integrated platform to own, acquire, develop and manage real estate on behalf of a broad base of institutional investors. Under his leadership, DivcoWest has acquired more than 540 properties encompassing approximately 45 million square feet. Mr. Shiff holds a Bachelor of Science degree in Civil Engineering from the University of California at Berkeley (Cal). He is a member of Cal's Executive Committee of the Policy Advisory Board for the Fisher Center for Real Estate &amp; Urban Economics as well as the Cal Rugby Advisory Board. Mr. Shiff is also a member of the American Society of Civil Engineers, Pension Real Estate Association, and Urban Land Institute. He currently serves on the University of California, San Francisco Board of Overseers Real Estate Committee.</p> <p><b>Robert Mashaal</b> - Chief Investment Officer: Mr. Mashaal has primary responsibility for investment strategy. He was the Founder and President of Yale Properties USA, a full-service, privately-owned real estate company and joint venture partner of DivcoWest since 1994, which was merged with DivcoWest in 2006. Yale USA was established in 1991 as an independent affiliate of Yale Properties Ltd., a longstanding family-owned real estate investment and development company based in Montreal, Canada. Prior to founding Yale USA, Mr. Mashaal worked in acquisitions and development with CIBC Development Corporation and Cadillac Fairview Corporation, and in investment banking with Landenburg Thalman and Bear Stearns. Mr. Mashaal holds a Master of Science degree in Management from MIT's Sloan School of Management, a Master of Science degree in Real Estate Development from MIT's Center for Real Estate Development, and a Bachelor of Science degree from the University of Pennsylvania's Wharton School.</p> <p><b>Michael Carp</b> - President &amp; Chief Operating Officer of DivcoWest and President &amp; Chief Investment Officer of DivCore: Prior to joining DivcoWest in 2012, Mr. Carp spent nearly 24 years with the real estate arm of the Government of Singapore Investment Corporation (GIC), serving as Regional Head of the Americas and Global Head of Investment for the Real Estate Group. During his tenure, GIC grew from a relatively small real estate investor to one of the largest and most respected global investors across all property sectors. Among his other duties he created and oversaw GIC's global real estate debt program. He began his career at Laventhol &amp; Horwath as an auditor. Mr. Carp received his Bachelor of Science degree in Business Administration from Boston University and is also a Certified Public Accountant.</p>
Strategy:	Non-Core Real Estate	
Year Founded:	1993	
Headquarters:	San Francisco, CA	
GP Commitment:	greater of 1% and \$15.0 million	

**Investment Summary** **Existing and Prior Funds**

DivcoWest is a vertically-integrated owner, operator and developer with 25+ years of investment experience that invests in office, R&D, and lab properties to serve technology and life science tenants within select US technology/innovation markets. Headquartered in San Francisco, the Firm has a nationwide platform and its principals have deep relationships both in the technology sector and select US innovation markets. The Fund will primarily focus on value-add opportunities through acquisition/disposition discipline, relationship-focused execution, and asset repurposing/repositioning.

Funds	Vintage Year	Strategy	Returns as of 6/30/2019
Fund I	2003	Non-Core	208.9% Net IRR; 1.8x TVPI; 1.8x DPI
Fund II	2006	Non-Core	4.6% Net IRR; 1.3x TVPI; 1.3x DPI
Fund III	2011	Non-Core	24.4% Net IRR; 1.7x TVPI; 1.7x DPI
Fund IV	2013	Non-Core	27.2% Net IRR; 1.7x TVPI; 1.5x DPI
Fund V	2016	Non-Core	5.1% Net IRR; 1.1x TVPI; 0.0x DPI

Source of Returns: Hamilton Lane

IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI = Distributions to Paid-In

**Vehicle Information:**

Inception:	2019	Auditor:	PwC LLP
Fund Size :	\$1.5 billion; \$2.25 billion (hard cap)	Legal Counsel:	Goodwin Procter LLP
Management Fee:	During commitment period: 1.25% on uncontributed capital, 1.50% on invested equity After commitment period: 1.50% on invested equity		
Carry:	20%		
Preferred Return:	7%		

**NJ AIP Program**

Recommended Allocation (\$mil.):	up to \$100 million	LP Advisory Board Membership:	YES
% of Fund:	6.67%; 4.44% (hard cap)	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	NA
		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.