



State of New Jersey

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May 27, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in TPG Real Estate Partners II, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$125 million in TPG Real Estate Partners II, L.P. Concurrently, the Division is proposing to reduce its commitment to TPG/NJ RE Partnership, L.P. (“TPG/NJ”), a separate account that invests in a range of real estate related strategies, by the same amount. The Division originally committed \$350 million to TPG/NJ in February 2013. 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:

Relationship with Global TPG Platform: TPG Holdings (“TPG”) is among the largest global private market investment firms with approximately \$65 billion in assets under management. TPG harnesses its experience and professionals across multiple strategies to capitalize on opportunities, giving its real estate group distinctive insight into macroeconomic trends, while senior executives from TPG’s 170 portfolio companies provide differentiated perspective into industry-specific trends as well. Since inception in 1992, the firm has completed more than 300 transactions representing over \$56 billion of investor equity.

Attractive Returns without Legacy Issues: Since 2009, TPG has invested \$2.7 billion of equity in 12 real estate investments. Six of the 12 investments have been fully realized, partially realized or are publicly marked, generating a 25% net Internal Rate of Return (“IRR”) and 1.9x. The aggregate portfolio is projected to generate a 23.0% net IRR and 1.7x, having already returned 49% of invested equity despite the majority of capital being invested between 2011 and 2014. The two investments made in TPG/NJ have generated a net 33.5% IRR and 1.2x, while also returning 18% of \$112 million of invested equity.

Seasoned Real Estate Team: TPG’s Real Estate Team has experience through multiple market cycles. The team is led by Kelvin Davis (27 years’ experience, 15 with TPG, Colony co-founder), Avi Banyasz (19 years’ experience, 4 with TPG, ex. Westbrook), Anand Tejani (19 years’ experience, 9 with TPG, ex. Hicks Muse). There are also 21 dedicated real estate professionals based in New York, San Francisco and London. TPG’s senior firm leadership is comprised of co-founders David Bonderman and Jim Coulter who are joined by Jonathan Coslet

(CIO) as voting members of the Real Estate Investment Review Committee. There is also broad support from the broader TPG platform including capital markets, finance, operations and legal.

Complementary Portfolio Exposure: A major advantage to investing in the Fund is strategy diversification. The Fund's primary focus is building platform investments through corporate carve-outs or spinoffs, public-to-private transactions, private placements and controlling stakes in private operators, while growing enterprise value over time. This differs from the vast majority of the Division's existing real estate investments that are focused on single assets or portfolios of assets. Platform build-outs can be executed through less competitive bidding than are single value-add assets and offer more flexibility for financing and exit opportunities.

Significant Co-Investment Opportunities: The Fund will be TPG's dedicated real estate investment vehicle and Fund co-investors will have priority before TPG Real Estate approaches other TPG vehicles. TPG estimates there will be \$1-2 billion of potential co-investment opportunities allowing the Division to selectively invest in transactions at advantageous terms.

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

Division Staff and its real estate consultant, RVK, 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 (a "placement agent") in connection with New Jersey's potential investment.

We 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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. TPG Real Estate Partners II, L.P. will be 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 May 15, 2015. 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 May 27, 2015 meeting.

Attachments

Fund Name: TPG Real Estate Partners II, L.P.

May 27, 2015

Contact Info: Meghan Reynolds, 888 7th Avenue, 38th Floor, New York, NY

Fund Details:

Total Firm Assets:	\$65 billion	Key Investment Professionals: <u>Kelvin Davis</u> , Partner. Mr. Davis is the Founder and Co-Head of TPGRE. He is based in San Francisco and is a member of TPG’s Management Committee. From 2000 to 2009, Mr. Davis led TPG’s North American Buyout Group, encompassing investments in all non-technology industry sectors. Prior to joining TPG in 2000, Mr. Davis was President and Chief Operating Officer of Colony Capital, LLC. <u>Avi Banyasz</u> , Partner and Co-Head of TPGRE and is based in New York City. Prior to joining TPGRE, Mr. Banyasz served as a Managing Principal of Westbrook Partners, where during his 13-year tenure, Westbrook invested \$8 billion of equity in over \$35 billion of real estate transactions. <u>Robert Weaver</u> , Partner based in New York City. Prior to joining TPGRE, Mr. Weaver had a 20-year career at Morgan Stanley. At the time of his departure, he was a Managing Director of Morgan Stanley’s Private Capital Markets Group, where during his 12-year tenure, he structured and distributed over \$20 billion of real estate funds, joint ventures and co-investments. <u>Anand Tejani</u> , Partner based in London. Mr. Tejani joined TPG in 2006 and has helped establish TPGRE’s effort in Europe, including leading the Firm’s recent investments in Merin Group Holding B.V., Woolgate Exchange, and PointPark Properties Limited. Prior to joining TPG in 2006, Mr. Tejani served as a Director at Lion Capital LLP
Strategy:	Non-core real estate	
Year Founded:	1992	
Headquarters:	New York, NY	
GP Commitment:	greater of 2% of capital commitments or \$20 million	

Investment Summary	Existing and Prior Funds			
<p>TPG Holdings (“TPG”) is among the largest global private market investment firms with approximately \$65 billion in AUM. TPG harnesses its experience and professionals across multiple strategies to capitalize on opportunities, giving its real estate group distinctive insight into macroeconomic trends, while senior executives from TPG’s 170 portfolio companies provide differentiated perspective into industry-specific trends as well. TPG RE II will make investments in (a) niche property sectors where it can build platforms and achieve scale; (b) investments in out-of-favor sectors; (c) distressed assets & corporate platforms; (d) real estate-intensive operating companies that have been mismanaged; and (e) situations where upgraded executive leadership can drive transformation. TPG follows a research-driven, theme-based investment approach.</p>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 12/31/2014</i>
	TPG RE I ¹	2009	Non-core	23.0% Net IRR, 1.7x Net MOIC, 49.% Net DPI
	TPG/NJ RE Partnership	2013	Non-core	33.5% Net IRR, 1.2x Net MOIC, 18% Net DPI
IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital; DPI = Distributions to Paid-In				

Vehicle Information:			
Inception:	2014	Auditor:	KPMG LLP
Fund Size:	\$2.0 billion	Legal Counsel:	Ropes & Gray LLP
Management Fee :	0.65% on committed and 1.35% on invested during investment period. The Division has negotiated a 16 month committed capital fee waiver		
Carry:	20%		
Preferred Return:	8%		
Fee Offset:	100% fee offset		

NJ AIP Program			
Recommended Allocation:	up to \$125 million	LP Advisory Board Membership:	TBD
% of Fund:	6.25%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

¹ The returns presented are assumed net returns had the investments of TPG RE I been capitalized in one vehicle (rather than across several TPG-affiliated entities with varying fee structures) with the TPG RE II fee and carried interest structure

*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.