



State of New Jersey

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March 18, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Wheelock Street Real Estate Fund V, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in Wheelock Street Real Estate Fund V, L.P. (the “Fund”). The Division previously committed \$275 million to Wheelock through two funds and a co-investment vehicle. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Fund will invest in a broad range of real estate-related assets throughout the United States, including individual properties, portfolios, and operating companies. Wheelock will invest in multiple asset classes either directly (through its current hospitality, retail, and residential verticals) or through joint ventures with leading operating partners, and as it has done in the past, Wheelock will add seasoned professionals to its staff to capitalize on opportunities in new asset classes.

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

Successful Track Record: Since its formation in 2008, Wheelock has completed 46 transactions involving 83 properties and invested approximately \$1.1 billion of equity across five investment vehicles. In total, these investments are projected to generate net returns of 24% Internal Rate of Return (“IRR”) and a 1.9x multiple of invested capital while representing top-quartile performance across all metrics for each respective vintage year.

Strong Alignment of Interest: The GP is making a significant equity commitment to the fund of 2.5%, while also employing a carry structure that is fully-pooled (European waterfall) to further protect investors.

Operating Expertise: Wheelock pursues a fundamental-driven investment strategy focused on select areas of expertise built around vertical teams headed by principals who are seasoned industry leaders. These verticals manage an investment through its life cycle (acquisition, asset management, and disposition), and give Wheelock a competitive advantage in sourcing opportunities, identifying value and driving operating performance. They are especially accretive to investors by minimizing fees paid to operating partners.

Disciplined Approach: Wheelock is raising a maximum of \$725 million for Fund V, which is only slightly larger than its prior commingled fund, while being well over-subscribed. By keeping its funds small, Wheelock can continue to patiently invest in opportunities that the manager feels are most attractive and where it can generate the best risk-adjusted returns. Wheelock also employs modest leverage (<50%), and has demonstrated strong sell discipline to provide downside protection, which is illustrated by the fact that Wheelock has been a net seller since 2013, returning \$1.259 billion vs. investments of \$644 million. In addition, Wheelock's first commingled fund ("Fund III") Distributed-to-Paid-In ("DPI") of 118% is not only top-quartile but well ahead of the median of 57.3% for US funds and 52.4% globally for the same vintage.

Flexible Strategy: Wheelock's flexible approach to investing is a benefit and should prove to be a differentiator as different economic cycles are encountered. The team's experience at their prior firms, and since 2008 at Wheelock, has afforded them the capability to complete complex transactions across the capital structure including large portfolio deals, corporate opportunities, bankruptcies and restructurings. Moreover, they view the world with a "margin of safety" lens and look to pursue high-quality assets in strong markets (providing downside protection) and out-of-favor opportunities where the firm can build a reasoned, contrarian viewpoint where pricing may not reflect intrinsic value.

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 Inc., 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. The Wheelock Street Real Estate Fund V, 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 March 11, 2016. 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 March 23, 2016 meeting.

Attachments

Fund Name: Wheelock Street Real Estate Fund V, L.P.

March 23, 2016

Contact Info: Lawrence Settanni, 660 Steamboat Road, 3rd Floor, Greenwich, CT 06830

Fund Details:

Total Firm Assets:	\$1.4 billion	Key Investment Professionals: <u>Merrick Kleeman</u> : Mr. Kleeman has over 25 years of real estate experience. Before founding Wheelock, he spent over 15 years at Starwood Capital Group, where he was one of the early partners and Head of Acquisitions. He was involved in the majority of Starwood's investments. <u>Jonathan Paul</u> : Mr. Paul is a founding partner of Wheelock. Prior to founding Wheelock, he spent 25 years in real estate private equity. Most recently, he was a Managing Member and Founder at Rockpoint Group LLC, which manages over \$5 billion in real estate equity. From 2004-2007, he oversaw Rockpoint's investments in Europe. Prior to Rockpoint, Mr. Paul was a Managing Member of Westbrook Partners. <u>Patrick Campbell</u> : Mr. Campbell joined Wheelock in 2009 and is responsible for the hospitality investments. He has 31 years of experience in hospitality and was most recently EVP, CIO and Head of Asset Management at Highland Hospitality Corporation, a public REIT. <u>Daniel Green</u> : Mr. Green joined Wheelock in 2008 and is responsible for the residential land and homebuilding investments. He has 31 years of experience and was previously Regional Vice President of Land Acquisition at KB Home. <u>Joyce Storm</u> : Ms. Storm joined Wheelock in 2013 and oversees the retail investments. She has over 29 years of retail experience.
Strategy:	Non-Core Real Estate	
Year Founded:	2008	
Headquarters:	Connecticut	
GP Commitment:	2.50%	

Investment Summary

The Fund is a US-focused opportunistic real estate fund that will invest in a broad range of real estate-related assets throughout the United States, including individual properties, portfolios, and operating companies. Wheelock focuses on counter-cyclical investment opportunities grounded in its research team's emphasis on both macro and micro economic factors. Wheelock will invest in multiple asset classes either directly (through its current hospitality, retail, and residential verticals) or through joint ventures with leading operating partners, and as it has done in the past.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage year</u>	<u>Strategy</u>	<u>Returns as of 9/30/15</u>
WS Investors I	2008	Opportunistic	21% Net IRR, 1.8x Net MOIC
WS Investors II	2010	Opportunistic	28% Net IRR, 2.4x Net MOIC
WS/UT Co-Invest	2010	Opportunistic	27% Net IRR, 2.4x Net MOIC
WS RE Fund I	2011	Non-core	26% Net IRR, 1.8x Net MOIC
WS RE Fund II	2014	Non-core	18% Net IRR, 1.9x Net MOIC

IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital

Vehicle Information:

Inception:	2016	Auditor:	PriceWaterhouseCoopers LLP
Fund Size :	\$700 mil with a \$725 mil cap	Legal Counsel:	Goodwin Proter LLP
Management Fee:	1.50% per annum on committed capital during the investment period, 1.50% of net equity thereafter until the extension periods; 1.25% on net equity during the first extension and 1.00% on net equity during subsequent extensions		
Carry:	20%		
Preferred Return:	8%		

NJ AIP Program

Recommended Allocation:	\$100 million	LP Advisory Board Membership:	TBD
% of Fund:	13.79%	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.