



**State of New Jersey**

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*Governor*

DEPARTMENT OF THE TREASURY  
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December 8, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Exeter Core Industrial Venture Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of **\$200 million** in **Exeter Core Industrial Venture** (the "Fund"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division believes an investment in the Fund is attractive for several reasons. First, as one of two prospective Limited Partners of the Fund, the Division will benefit from increased oversight and added latitude to guide decisions of the Fund. Secondly, the Fund is led by a team that has a demonstrable track record of acquiring and managing industrial real estate. The team's experience ranges from managing private, commingled investment vehicles, to overseeing the operations of a publicly-traded Industrial Real Estate Investment Trust. Finally, the venture will focus on the more stable end of the growing industrial real estate segment, and will target cash yields of 7% to 7.5% and a leveraged gross internal rate of return between 9% and 12%. This investment will provide increased diversification of the real estate portfolio by accessing an attractive market segment that is underrepresented in the real estate portfolio. A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its real estate consultant, Callan Associates Inc., undertook extensive due diligence 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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

*Proposed Investment in Exeter Core Industrial Venture I Fund*  
*Page 2 of 2*

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The Exeter Core Industrial Venture Fund will be considered a 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 November 22, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investments at the Council's December 8, 2011 meeting.

Attachments

**Exeter Core Industrial Venture**

December 8, 2011

**Contact Info:** Ward Fitzgerald, wfitzgerald@exeterpg.com, 140 Germantown Pike, Plymouth Meeting PA 19462

**Fund Details:**

<b>Total Assets (\$mil.):</b>	<b>\$708 million</b>	<p><b>Key Investment Professionals:</b> <i>Ward Fitzgerald, Managing Principal, CEO</i> - one of the founding principals who previously served as a Senior Vice President of Liberty Property Trust, a publicly traded real estate investment trust focused on industrial real estate. <b>Tim Weber, Managing Principal, CFO</b> - 26 years of real estate experience. At Exeter, Mr. Weber is responsible for managing accounting, financial reporting, budgeting, legal, operations and asset financings. Prior to Exeter, Mr. Weber worked for Terramics Property Company, where as Partner and Chief Operating Officer he oversaw all leasing, property management and certain accounting, real estate budgeting, tax preparation and asset financings. <b>Timothy Walsh, Principal*</b> - Mr. Walsh has over 22 years of real estate experience. He is responsible for capital formation, deployment and management of Exeter's Core Industrial Investment Vehicles. Prior to Exeter, Mr. Walsh worked at Wrightwood Capital for 14 years where he raised and invested three successive real estate equity funds focused on institutional grade industrial assets in primary distribution markets. *No relation to Director, Timothy Walsh</p>
<b>Strategy:</b>	<b>Core and Core plus Real Estate</b>	
<b>Year Founded:</b>	<b>2006</b>	
<b>Headquarters:</b>	<b>Plymouth Meeting, PA</b>	
<b>GP Commitment:</b>	<b>US \$4 million (1%)</b>	

**Investment Summary**

Exeter Core Industrial Venture, LP is the first core investment vehicle sponsored by Exeter Property Group. The Venture is targeting \$400 million in aggregate equity commitments from the Division and a Sovereign Wealth Fund who are each contributing \$200 million, as well as a 1% co-investment (\$4 million) from employees of Exeter. The Venture will invest in core and core plus industrial real estate and related assets within the industrial property segment. The Venture will target cash yields of 7% to 7.5% and a leveraged gross internal rate of return between 9% and 12%. Primarily focus on cash flowing assets leased to credit tenants that can generate stable long term cash flow. The Venture will invest in specific distribution markets within the United States that exhibit strong long term demand, have stable cash flow generators and serve as key regional distribution hubs. At least 66% of the equity will be invested in the ten largest domestic industrial markets including Atlanta, Chicago, Dallas, Houston, Southern California, Northern New Jersey/Pennsylvania (Metro NYC), Oakland/San Francisco, South/Central Florida, Phoenix, and Washington, DC.

**Existing and Prior Funds**

<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
<b>Exeter Industrial Value Fund I</b>	<b>Value Added</b>	<i>projected 1.50x gross, realized 24.6% gross IRR, and projected 10.1% gross irr, 7.0% net IRR</i>

**Vehicle Information:**

<b>Inception:</b>	<b>2012</b>	<b>Auditor:</b>	<b>PricewaterhouseCoopers LLP</b>
<b>Fund Size (\$mil.):</b>	<b>\$400 million</b>	<b>Legal Counsel:</b>	<b>Silverang Donohoe, LLC</b>
<b>Management Fee:</b>	<b>0.70% of invested equity capital per annum</b>	<b>Accounting Firm:</b>	<b>PricewaterhouseCoopers LLP</b>
<b>Carry:</b>	<b>15%</b>		
<b>Hurdle Rate:</b>	<b>9%</b>		
<b>Additional Expenses:</b>	<b>None</b>		

**NJ AIP Program**

<b>Recommended Allocation:</b>	<b>\$200 million</b>	<b>LP Advisory Board Membership:</b>	<b>Yes</b>
<b>% of Fund:</b>	<b>49.50%</b>	<b>Consultant Recommendation:</b>	<b>Yes</b>
		<b>Placement Agent:</b>	<b>None</b>
		<b>Compliance w/ Division Placement Agent Policy:</b>	<b>N/A</b>
		<b>Compliance w/ SIC Political Contribution Reg:</b>	<b>Yes</b>

\*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.