



State of New Jersey

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September 21, 2018

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Aermont Capital Real Estate Fund IV SCSp**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$125 million in Aermont Capital Real Estate Fund IV SCSp (“Fund”). This memorandum is presented to the State Investment Council (“Council”) pursuant to N.J.A.C. 17:16-69.9.

Aermont Capital LLP (“Aermont” or the “Firm”), will act as the Investment Advisor to Fund IV, which is the successor to Perella Weinberg Real Estate Fund I L.P. (“Fund I”), Perella Weinberg Real Estate Fund II L.P. (“Fund II”) and PW Real Estate Fund III L.P. (“Fund III”). The management of Aermont completed a consensual lift-out of their platform from Perella Weinberg Group (“PWG”) in July 2015. The Fund is, therefore, an independent fund, and is not sponsored by PWG. Fund IV is a continuation of the Firm’s strategy to execute opportunistic real estate investments across property types throughout Europe.

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

Top Quartile Investment Performance

Aermont has demonstrated its ability to preserve capital, with no realized losses since inception, and generate attractive returns in all prior funds. Solid financial returns have been achieved under a moderate risk profile with high quality real estate at relatively low leverage levels. As of March 2018, the average Loan to Value ratio for Funds II and III is 39%.

Differentiated and Disciplined Investment Approach

Research-driven themes are used to execute real estate investments including (i) direct assets, (ii) controlling interest in real estate-related companies, and (iii) real estate debt. Aermont has demonstrated the ability to source and evaluate complex equity and distressed credit transactions. The target fund size is €1.6 billion, consistent with the prior funds, with a hard cap of €2.0 billion. Aermont chooses to remain focused and does not want to increase either investment pacing or size.

By keeping its funds similar in size, Aermont can continue to invest in opportunities that the manager feels are most attractive and where it can generate the best risk-adjusted returns.

Stable, Cohesive and Experienced Team

The senior investment professionals have extensive real estate experience, many of whom have worked together for over ten years, with four out of five current partners joining around the time of the inception of the business. The senior team is supported by a junior team with both asset management and investment experience. Since the Firm's inception, Aermont has built out the investment team, which currently stands at 22 (up from 9 during Fund I). The number of investments per investment professional is low relative to competing firms, allowing Aermont to have a more "hands on" approach and to more closely monitor their management teams. The investment team's diverse professionals bring local expertise and networks to generate, execute and realize opportunities across the Funds' primary markets. Team members span ten nationalities and eleven fluently spoken languages.

Attractive Market Opportunity

The current market opportunities in Europe are attractive. Low levels of redevelopment and development volumes combined with improving economic conditions have resulted in favorable fundamentals. Various government reforms, combined with historically low interest rates, relatively low prices for oil and other commodities, a soft Euro, and other positive factors, have contributed to the economic expansion. Growth across the Eurozone is accelerating, with 2017 growth reaching its highest level since before the financial crisis, supported by employment growth, favorable consumer confidence, and higher spending. The competitive landscape is more attractive in Europe relative to the United States, leading to greater opportunities for experienced groups such as Aermont.

Environmental, Social, and Governance (ESG):

Aermont has a formal ESG policy that it uses to guide investment activities. Aermont has introduced an ESG Roadmap, a proprietary tool used to provide a framework for engagement between Aermont and the businesses/platforms they develop to ensure best practices. Aermont has also taken steps to monitor and evaluate the environmental impact of its standing investments by collecting performance data that complies with international guidelines for energy, greenhouse gas emissions, water, and waste management. Investments made in prior Funds have received, or are expected to receive recognition related to environmental performance including LEED Certification (Leadership in Energy and Environmental Design) promulgated by the U.S. Green Building Council, the most widely used green building rating system in the world.

Attached is a report summarizing the details of the proposed investment provided to the Investment Policy Committee ("IPC").

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 not engaged a third-party solicitor (a "placement agent") in connection with New Jersey'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 was 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. Aermont Capital Real Estate Fund IV SCSp 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 IPC was held on September 17, 2018. 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 September 27, 2018 meeting.

Attachments

Fund Name: Aermont Capital Real Estate Fund IV SCSp

September 27, 2018

Contact Info: Camilla Mathews, 55 St. James's Street, London, SW1A, 1LA

Fund Details:

Total Firm Assets (\$bil.):	€4 billion	<p>Key Investment Professionals: Léon Bressler, Managing Partner, Mr. Bressler has been Managing Partner of Aermont since its inception. Mr. Bressler is a member of the Investment Committee. Prior to establishing Aermont, Mr. Bressler was Chairman/Chief Executive Officer of Unibail, a Paris-based, publicly listed European property company. Paul Golding, Partner, Mr. Golding joined Aermont in 2010 and is responsible for coverage of investment activities in the United Kingdom and Nordic regions. Mr. Golding is a member of the Investment Committee. Prior to joining Aermont, Mr. Golding was Head of Real Estate Asset Strategies at Norges Bank Investment Management. Vincent Rouget, Partner, Mr. Rouget joined Aermont in 2007 and is responsible for investment activities in Continental Europe. Mr. Rouget is a member of the Investment Committee. Prior to joining, Mr. Rouget worked in Morgan Stanley's Global Capital Markets Division. Nathan Shike, Partner, Mr. Shike joined Aermont in 2007 and is responsible for strategy, risk and finance. Mr. Shike is a member of the Investment Committee. Prior to joining, Mr. Shike was an Associate with at the City Investment Fund LP., a New York real estate fund co-sponsored by Morgan Stanley and Fisher Brothers. Alison Trewartha, Partner, Ms. Trewartha joined Aermont in 2008 and is responsible for legal, compliance, tax and structuring. Ms. Trewartha is a member of the Investment Committee. Prior to joining, Ms. Trewartha was an Associate in Mergers & Acquisitions at Skadden, Ars, Slate, Meagher & Flom.</p>
Strategy:	Non-core real estate	
Year Founded:	2007	
Headquarters:	London	
GP Commitment:	At least €20 million	

Investment Summary

Aermont employs a differentiated and opportunistic investment approach of acquiring property-rich platforms and real estate operating companies, as well as direct assets and real estate credit in Western Europe. Fund IV intends to continue Aermont Capital's value-oriented investment approach focused on buying companies and assets at attractive valuations and driving returns through operational improvement. The Fund will focus on middle-market and large enterprise opportunities that are expected to require equity investments of between €75 million and €300 million.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 3/31/2018</u>
Fund I	2007	Non-core	15.1% Net IRR, 1.5x MOIC, 153% DPI
Fund II	2012	Non-core	18.2% Net IRR, 1.4x MOIC, 23% DPI
Fund III	2015	Non-core	37.2% Net IRR, 1.4x MOIC, 18% DPI

IRR = Internal Rate of Return; DPI = Distributions to Paid-In; MOIC = Multiple on Invested Capital

Vehicle Information:

Inception:	2018	Auditor:	Ernst & Young S.A.
Fund Size :	€1.6 billion target	Legal Counsel:	Linklaters, LLP
Management Fee:	1.50%		
Carry:	20%		
Preferred Return:	9%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$125 million	LP Advisory Board Membership:	TBD
% of Fund:	7.19%	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.