



## State of New Jersey

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October 19, 2023

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Real Estate Investment: Cerberus Institutional Real Estate Partners VI, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$200 million into Cerberus Institutional Real Estate Partners VI, L.P. (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 is recommending this investment based on the following factors:

### **Deploy Capital Opportunistically in a Dislocated Market to Earn Attractive Risk-Adjusted Returns**

The Fund will allow the Division to capitalize on credit dislocation to earn near-equity returns through more senior positions in the capital stack. The Fund will also provide diversification through investments in non-performing loans (NPLs), a sector that is not a focus of the Division’s existing managers. Further diversification is possible through Cerberus’ focus on some of the Division’s high conviction sectors (including industrial and multifamily) and through alternative property types (including cold storage and outdoor industrial storage).

### **Seasoned Investment Team and Platform with Specific Experience in Volatile and Dislocated Markets**

Cerberus Real Estate (the “Firm”) has deep expertise with highly structured, complicated transactions and capital structures. The senior Real Estate leadership has an average 29 years of industry experience. Thirty-eight managing directors have an average 28 years of industry experience. Cerberus Real Estate benefits from an affiliated loan servicer to assist with underwriting, managing loan portfolios, and monetizing workouts.

### **Strong Fund Series Performance under Similar Market Conditions**

The Firm performs well in periods of market dislocation. Based on our analysis, CIREP II (vintage 2008) invested during the GFC and is essentially fully realized generating a net 17.6% IRR and 1.6x MOIC. CIREP V (vintage 2020) invested during the COVID-19 Crisis and is performing on target with net returns of 16.5% IRR and 1.3x MOIC.

## **Flexible Mandate that can Pivot across Strategies and Geographies as Market Conditions Evolve**

The Fund's wide mandate and hybrid debt and equity strategy enables Cerberus to pursue investments that generate the most attractive risk-adjusted returns throughout the real estate cycle. The Fund can pursue credit, NPL and distressed real estate investments as those assets and portfolios emerge. Cerberus can pursue equity strategies (asset aggregation and direct equity) at attractive valuations.

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.

In accordance with the State Investment Council's Environmental, Social & Governance ("ESG") Policy, the Division of Investment's Corporate Governance Team completed its review of Cerberus Capital Management's ESG efforts. Cerberus has a firm-wide ESG policy and targeted sub-policies for each of its investment desks. The Firm is a signatory to the Principles of Responsible Investment (PRI) and closely follows other industry standards and best practices. ESG considerations are reviewed and analyzed during investment due diligence. The Firm has a proprietary questionnaire tailored to each strategy in which it invests. The team also reviews other third-party materials and memorializes its analysis in the Investment Committee memo or supporting documentation.

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. IPI Partners II, 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 IPC was held on October 18, 2023. 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 October 25, 2023 meeting.

Attachment

# Cerberus Institutional Real Estate Partners VI, L.P.

- **Commitment:** \$200 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund is a global, multi-strategy debt and equity real estate fund focused on opportunistic, undervalued and/or distressed real estate structured to capitalize on prevailing market conditions.
- **Target Returns:** 17-20% gross returns
- **Fund Size:** \$3 billion
- **Investment Thesis:**
  - Deploy capital opportunistically in a disrupted market to earn attractive risk-adjusted returns
  - Seasoned investment team experienced in volatile/dislocated markets
  - Strong fund series performance under similar market conditions
  - Flexible fund mandate that can pivot across strategies and geographies as market conditions evolve

**Fund Name:** Cerberus Institutional Real Estate Partners VI, L.P.

October 19, 2023

**Contact Info:** Grant Berlin, 875 Third Avenue, New York, NY 10022**Fund Details:**

<b>Total Firm Assets:</b>	\$65 billion	<b>Key Investment Professionals:</b> <b>Lee Millstein:</b> Mr. Millstein ins the President of Cerberus Global Investments and Global Head of Real Estate. In his role, he leads the Firm's global real estate franchise, which invests across the capital structure in commercial and residential properties and platforms, as well as directly into real estate operating companies and servicing platforms. From 2009 to 2017, he served as Head of European and Asian Real Estate and Distressed Assets. Prior to joining Cerberus, Mr. Millstein was Head of Corporate and Investment Banking for Aozora Bank. From 1994 to 2004, he was at Morgan Stanley, most recently as Managing Director and Head of High Yield and Distressed Principal Investing in Japan and non-Japan Asia. <b>Daniel Dejanovic:</b> Mr. Dejanovic is the Head of Real Estate Advisory, overseeing Cerberus' European investments in commercial and residential properties, real estate-related portfolios, and real estate operating companies. Since joining the Firm in 2006, he has been instrumental in establishing Cerberus as a leading real estate investor in European and played a central role in Cerberus becoming one of the largest private residential landlords in Germany. Mr. Dejanovic leads Cerberus' non-performing loan (NPL) platform in Europe, where the Firm has been the leading purchaser of NPL portfolios since 2013. Prior to joining Cerberus, he was at Ernst and Young in its corporate finance division. From 2004 to 2005, he worked for the Australian subsidiary of China Light and Power (CLP) in Business Development and Project Finance. <b>Tom Wagner:</b> Mr. Wagner is Head of North American Real Estate and is responsible for the sourcing, execution and management of Cerberus' real estate investments across North America. Since joining the Firm in 2006, he has been instrumental in driving the expansion of Cerberus' real estate activities in the United States. Mr. Wagner has more than 20 years of real estate experience, with significant expertise in investing across asset classes, property types and geographies. Prior joining Cerberus, He was a Managing Director of Real Estate at GE Real Estate from 1998 to 2006, where he was responsible for direct equity investments and was previously responsible for business development in North American. From 1987 to 1998, Mr. Wagner worked at Chemical Bank and Mitsubishi Bank in their respective real estate groups. <b>Neha Santiago:</b> Mrs. Santiago is Head of Real Estate Private Credit for Cerberus. Prior to joining Cerberus in 2020, she spent eight years at Goldman Sachs, where she was Managing Director in the Real Estate Principal Investment Area, investing both in private equity and debt. While at Goldman Sachs, she oversaw the firm's investment strategy in the Midwest, Texas, and South Florida as well as the hospitality sector. Mrs. Santiago began her real estate investing career in 2003 as a Real Estate Banking Analyst at Merrill Lynch and held principal investing positions at Lehman Brothers, Scout Real Estate Capital and H/2 Capital.
<b>Strategy:</b>	Opportunistic Real Estate	
<b>Year Founded:</b>	1992	
<b>Headquarters:</b>	New York	
<b>GP Commitment:</b>	2.0% of Capital Commitments up to \$60 million	

**Investment Summary**

Cerberus Institutional Real Estate Partners VI, L.P. (the "Fund") is a closed ended commingled fund sponsored by Cerberus Capital Management, L.P. The Fund is a global, multi-strategy, debt and equity real estate fund focused on opportunistic, undervalued and/or distressed real estate structures to capitalize on prevailing market conditions. The Fund deploys capital opportunistically in dislocated markets to earn attractive risk-adjusted returns and benefits from a seasoned investment team and platform with specific experience in volatile and dislocated markets. The Fund can also pivot across strategies and geographies as market conditions evolve.

**Existing and Prior Funds**

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2023</u>
Fund I	2004	Opportunistic	9.7% Net IRR; 1.25x MOIC; 1.2x DPI
Fund II	2008	Opportunistic	17.6% Net IRR; 1.58x MOIC; 1.58x DPI
Fund III	2012	Opportunistic	12.1% Net IRR; 1.63x MOIC; 1.37x DPI
Fund IV	2015	Opportunistic	1.9% Net IRR; 1.08x MOIC; 0.13x DPI
Fund V	2020	Opportunistic	16.5% Net IRR; 1.31x MOIC; .03x DPI

Source of Returns - Hamilton Lane

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

**Vehicle Information:**

<b>Inception:</b>	2022	<b>Auditor:</b>	Price WaterhouseCoopers LLP
<b>Fund Size :</b>	\$3.0 billion with a \$3.5 billion hard cap	<b>Legal Counsel:</b>	Schulte Roth & Zabel LLP
<b>Management Fee:</b>	1.2% on commitments between \$200 million and \$300 million during the investment period/1.2% on invested post the investment period.		
<b>Incentive Fee:</b>	20% with a 9% Preferred Return		
<b>Additional Expenses:</b>	100% Management Fee Offset		

**NJ AIP Program**

<b>Recommended Allocation (\$mil.):</b>	up to \$200 million	<b>LP Advisory Board Membership:</b>	YES
<b>% of Fund:</b>	6.67%	<b>Consultant Recommendation:</b>	YES
		<b>Placement Agent:</b>	YES
		<b>Compliance w/ Division Placement Agent Policy:</b>	YES
		<b>Compliance w/ SIC Political Contribution Reg:</b>	YES