



**State of New Jersey**

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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**CHRIS CHRISTIE**  
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Lt. Governor

**ROBERT A. ROMANO**  
Acting State Treasurer

September 23, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment PW Real Estate Fund III LP**

The New Jersey Division of Investment (“Division”) is proposing an investment up to €90 million (approximately USD \$100 million) in PW Real Estate Fund III L.P. (“Fund III”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

PW Real Assets LLP (“PWRA” or the “Firm”), will act as the Investment Advisor to Fund III, which is the successor to Perella Weinberg Real Estate Fund I L.P. (“Fund I”) and Perella Weinberg Real Estate Fund II L.P. (“Fund II”). The Firm served in a similar capacity for Fund I and Fund II. The management of PWRA 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. The Division committed €75 million to Fund II in 2013, and has a \$1.1 million exposure to Fund I through its investment in the NJDOI/GMAM Opportunistic Real Estate partnership. Fund III 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:

**European Expertise & Seasoned Team:** PWRA plans to continue the strategy it has successfully executed for Fund I and Fund II of opportunistically investing in real estate across Europe. PWRA’s founder, Leon Bressler, remains one of the most experienced real estate professionals working in Europe today, and his reputation has helped the firm gain access to certain transactions. The Firm’s team has deep experience through multiple market cycles, and has specific expertise in single asset acquisitions, portfolio transactions, redevelopment & development projects, corporate property divestitures, operating platform investments, distressed credit, and special situations.

**Ability to Source and Close Complex Transactions:** Fund I and Fund II have committed €2.2 billion of investor equity since 2007. In addition to sourcing and investing in “bricks and mortar” real estate, the Firm has taken a controlling interest in private operating companies where it can lever the Firm’s operational expertise, while providing market insights and capital to scale the platform.

**Strong Performance with Lack of Legacy Issues:** Unlike other opportunistic managers, PWRA has no legacy issues from earlier funds with which to contend. PWRA was early to assess the over-heated market conditions leading up to the financial crisis. As a result, Fund I is among the best performing 2007 vintage funds focusing on Europe with net returns of 15% IRR and 1.5x in Euro terms.

**Investment Discipline:** The target fund size is €1.25 billion, consistent with Fund I and Fund II. There is a hard cap of €1.5 billion. PWRA is comfortable with the fund size, wants to remain focused, and does not want to increase either investment pacing or size.

**Prudent Use of Leverage:** PWRA has typically had a conservative leverage approach (55% - 60% at “peak” prior to significant realizations being made in Fund I) while competing funds have reached or exceeded 75% leverage. Further, investments representing 20% of Fund I’s total commitments were entirely unlevered. Also, PWRA prudently incorporates a margin of error when making equity commitments, with approximately 6% of Fund I committed equity not being called.

**Alignment of Interest:** The partners of PWRA will contribute one of the highest GP co-investments among opportunistic funds in Europe, investing at least €20 million. In contrast, many competing funds have limited personal capital, and rely on the parent company to provide most of the GP commitment. Mr. Bressler will contribute €17 million to Fund III, which is a significant increase from the €10 million he contributed to Fund II and €5 million to Fund I. The other partners will contribute €1 million each, a significant increase from the prior funds. Carried interest from Fund III will be distributed among all members of the investment team.

**Attractive Terms:** The waterfall provides for a 9% preferred return and fully pooled carry. Additionally, there is an Initial Closing Incentive to investors comprised of (i) a reduction in the carried interest equivalent to 2.5% of total investment contribution and (ii) a 25 bp discount of the management fee. The estimated fee savings over the life of Fund III could be approximately \$5 million for New Jersey based on current foreign exchange rates.

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. PW Real Estate Fund III 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 September 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 September 23, 2015 meeting.

Attachments

Fund Name: PW Real Estate Fund III, L.P.

September 23, 2015

Contact Info: Nathan Shike, 20 Grafton St, London, W1S 4DZ

Fund Details:

Total Firm Assets:	€2.5 billion	<b>Key Investment Professionals:</b> <b>Léon Bressler</b> (Managing Partner): Mr. Bressler has been Managing Partner since inception in 2007, and is a member of the Management Committee. Prior to forming the Firm, Mr. Bressler was Chairman/Chief Executive Officer of Unibail (now Unibail-Rodamco), a publicly-listed European property company, for 14 years. <b>Paul Golding</b> (Partner): Mr. Golding joined in 2010. He is responsible for coverage of investment activities in the United Kingdom and Ireland, and is a member of the Management Committee. Previously, he was Head of Real Estate Asset Strategies at Norges Bank Investment Management. <b>Vincent Rouget</b> (Partner): Mr. Rouget joined in 2007. He is responsible for coverage of investment activities in France, as well as for certain platform investment activities, and he is a member of the Management Committee. Previously, he was with Morgan Stanley's U.S. convertible team. <b>Nathan Shike</b> (Partner): Mr. Shike joined in 2007. He is responsible for investment activities in Spain, as well as for investor relations and certain corporate development activities, and he is a member of the Management Committee. Previously, he was at the City Investment Fund LP, a NYC real estate fund co-sponsored by Morgan Stanley and Fisher Brothers.
Strategy:	Non-core real estate	
Year Founded:	2006	
Headquarters:	London, England	
GP Commitment:	Minimum of €20 million, including minimum €17 million from Leon Bressler	

Investment Summary

PW Real Assets UK LLP ("PWRA") is the investment advisor and has served in a similar capacity for the predecessor funds. PWRA was established after Léon Bressler joined Perella Weinberg Partners Group ("PWG") in 2006. PWRA recently transitioned into an independent company, solely controlled by Mr. Bressler. The Fund will target investments across Europe with a primary focus on Western Europe ("Core Europe"), particularly the UK, Germany, France and Spain. The Fund may also invest in other Western Europe and Non-Core Europe markets such as Portugal, Ireland and certain Central and Eastern Europe. Investment limitations include: 25% in any single investment, 25% in ground up development projects, 35% outside of Core Europe, and 10% in any single Non-Core Europe country (ex. Poland). The Fund will seek to capitalize on the investment proficiency, operational expertise and extensive relationships of its management team to execute investments and generate attractive risk-adjusted returns.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 06/30/2015 (in Euro terms)
PWRE I	2007	Non-core	15% Net IRR, 1.5x Net MOIC
PWRE II	2013	Non-core	11% Net IRR, 1.1x Net MOIC

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

Vehicle Information:

Inception:	2015	Auditor:	Ernst & Young LLP
Fund Size :	€1.25 Billion	Legal Counsel:	Linklaters LLP and Paul Hastings LLP
Management Fee:	1.25% on committed during Investment period; thereafter, 1.25% on invested; inclusive of Initial Closing Incentive of 25bp reduction in Management Fee		
Carry:	<20%; Carry will be reduced by 2.5% of the Division's contributions		
Preferred Return:	9%		

NJ AIP Program

Recommended Allocation:	€90 million	LP Advisory Board Membership:	TBD
% of Fund:	7.20%	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.