



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

May 10, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Perella Weinberg
Real Estate Fund II LP**

The New Jersey Division of Investment (“Division”) is proposing an investment of €75 million in Perella Weinberg Real Estate Fund II LP (“PWRE II”). This fund is a top quartile European real estate manager, with an 11% preferred return, and is managed by Leon Bressler, a former European Public REIT manager. This allocation will provide geographic diversification within the real estate portfolio and provide exposure to better risk adjusted opportunities than available in the US. 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:

European Expertise: Perella Weinberg Real Estate (PWRE) plans to continue PWRE I’s successful strategy of opportunistically investing in real estate and real estate related assets across Europe. PWRE I is projecting a gross return of 1.8x and a 21% IRR (both of which are estimates, as presented in PWRE I’s latest report to its LPs as of December 31, 2012), which is considered to be top-quartile. PWRE’s team is composed of individuals from throughout Europe and has extensive experience investing in and operating real estate assets in the region. Based on RVK and Preqin data, as of December 31, 2012, PWRE I was slated to be one of the top performing 2007 vintage European real estate funds. When considering the Division’s objective to diversify geographically, an investment in PWRE II is especially attractive. Currently, only 6.6% of the Pension Fund’s real estate investments are in Europe.

Operational Focus: PWRE’s team has substantial experience in operational repositionings, asset upgrades, leasing, managing real estate operating companies and work outs. These attractive skill-sets align well with the current environment in Europe, where the opportunities continue to be diverse and contain a wide variety of operational issues which enables PWRE to seek out the best risk-adjusted returns.

Prudent Use of Leverage: The Manager has been very conservative regarding the use of leverage while simultaneously outperforming many of its peers. In aggregate, the Fund I portfolio was 50% levered when many competitors in the space utilized 75% loan-to-value or greater financing levels. Of the ten (10) completed transactions in Fund I, eight (8) of the deals were funded entirely with equity, although several of these assets were inherently levered given their structure (i.e., investments in companies that have outstanding debt or investments in subordinated debt positions).

Attractive Terms: PWRE II contains LP-friendly terms such as a staggered incentive compensation structure to PWRE beginning at an 11% preferred return. Perella Weinberg Real Estate and Managing Partner Leon Bressler will contribute a combined €85 million to the fund, substantially aligning the Division's interests with that of the GP. At a maximum fund size of €1.5 billion, this equates to over a 5.6% co-investment percentage, which compares favorably to most competitor funds in the market today.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

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

Please note that the investment is authorized pursuant to Articles 69 and 71 of Council's regulations. The Perella Weinberg Real Estate Fund II LP will be considered a non-core opportunistic 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 May 6, 2013. 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 May 16, 2013 meeting.

Attachments

Fund Name: Perella Weinberg Real Estate Fund II LP

May 10, 2013

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

Fund Details:

Total Firm Assets (\$bil.):	\$8.7 billion	<p>Key Investment Professionals: Léon Bressler (Managing Partner): Mr. Bressler joined Perella Weinberg Partners in October 2006. Mr. Bressler is responsible for developing and executing the Firm's investment activities in real estate and is the Managing Partner of the Company. Prior to joining, Mr. Bressler was Chairman/Chief Executive Officer of the French property company Unibail-Rodamco. Paul Golding (Managing Director): Mr. Golding joined in 2010 and is responsible for all acquisitions and asset management activities in the United Kingdom and Ireland. Prior to joining, Mr. Golding was Head of Real Estate Asset Strategies at Norges Bank Investment Management. Vincent Rouget (Managing Director): Mr. Rouget joined in 2007 and is responsible for sponsoring and leading investment projects, including origination, analysis, execution and asset management, having had a particular focus on Fund I's German retail strategy and various investments in France. Prior to joining, Mr. Rouget worked with Morgan Stanley's U.S. convertible team. Nathan Shike (Managing Director): Mr. Shike joined in 2007 and is responsible for sponsoring and leading investment projects, including origination, analysis, execution and asset management, having had a particular focus on Fund I's German retail strategy and commercial real estate credit platform in Spain. Prior to joining, Mr. Shike was at the City Investment Fund LP, a NYC real estate fund co-sponsored by Morgan Stanley and Fisher Brothers. Manfred Wiesner (Managing Director): Mr. Wiesner joined in 2007 and is responsible primarily for sponsoring and originating investment projects in Germany and Central and Eastern Europe. Mr. Wiesner was instrumental to the origination of Fund I's German retail strategy. Prior to joining, Mr. Wiesner was a London based member of Credit Suisse's European Real Estate Group</p>
Strategy:	Opportunistic Non-Core Real Estate	
Year Founded:	2006	
Headquarters:	London, England	
GP Commitment:	at least €85.5 Million	

Investment Summary	Existing and Prior Funds				
<p>Perella Weinberg Real Estate Fund II LP ("PWRE II") is being formed to continue the successful strategy of PWRE I by seeking opportunistic real estate investments across asset classes and throughout Europe. The fund will focus on investments within core Europe; no more than 35% of aggregate commitments may be invested in non-core Europe (with no more than 10% in any one country in non-core Europe, except Poland). The fund is managed by Leon Bressler who started the Real Estate platform in 2006. Mr. Bressler was previously Chairman and CEO of Unibail-Rodamco, one of Europe's largest public REITs, where his 14 year tenure generated a 14x ROI and a compounded annual return of 20.7% for investors. Mr. Bressler is supported by a senior Management Committee (with four Managing Directors representing different geographies, and a Principal responsible for Legal and Tax), a CFO, and further Principals and Associates. PWRE's team has substantial experience in operational repositioning, asset upgrades, leasing, managing real estate operating companies and work outs. These attractive skill-sets align well with the current environment in Europe, where the opportunities continue to be diverse and contain a wide variety of operational issues which enables PWRE to seek out the best risk-adjusted returns.</p>	<u>Funds</u>	<u>Strategy</u>	<u>Vintage Year</u>	<u>Projected Net IRR</u>	<u>Projected Net MOIC</u>
	PWRE I	Opportunistic	2007	16.50%	1.6x

Vehicle Information:

Inception:	2013	Auditor:	Ernst & Young LLP
Fund Size (\$mil.):	€1.250 billion	Legal Counsel:	Paul Hastings LLP
Management Fee:	1.50% per annum on committed capital		
Carry:	20%		
Hurdle Rate:	11%		

NJ AIP Program			
Recommended Allocation (\$mil.):	€75 million	LP Advisory Board Membership:	Yes
% of Fund:	6.00%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	Yes
		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.