



State of New Jersey

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

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Wheelock Street Real Estate Fund**

The New Jersey Division of Investment (“the Division”) is proposing an investment of \$150 million in Wheelock Street Real Estate Fund. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9. Of the \$150 million commitment, \$100 million will be invested directly in the fund and \$50 million will be reserved for co-investment alongside future fund deals.

Wheelock Street Real Estate Fund (“WSREF”) is a U.S. based opportunistic real estate fund sponsored by Wheelock Street Capital (“Wheelock” or the “Firm”) that is currently targeting approximately \$500 million of capital commitments from a limited number of investors. Wheelock is a stand-alone private equity real estate firm founded in 2008 by Merrick “Rick” Kleeman and Jonathan Paul.

WSREF is the first commingled fund offered by the Firm. However, Wheelock’s investment activities to date have been funded by Baupost (a \$23 billion Boston-based Hedge Fund) and The University of Texas Investment Management Company (“UTIMCO”) (\$27 billion AUM) with Wheelock participating alongside those investors in the transactions. We have had positive reference calls with Baupost, UTIMCO and another potential investor regarding Wheelock’s prior investments and current strategy.

The Fund will invest in a broad range of real estate and real estate-related assets throughout the United States, including individual assets, portfolios, operating companies, and securities. The Fund will seek opportunistic returns on a portfolio basis by utilizing various capital structures, including distressed or high yielding debt, preferred equity, and equity investments. Wheelock will build a diversified portfolio by investing in multiple asset classes, either directly through its current hospitality and residential platforms or through joint ventures, recapitalizations or corporate transactions in other property types.

The Fund will target (i) situations with minimal or no competition; (ii) opportunities in areas that run counter to prevailing market thinking; and (iii) investments with intensive value-add programs such as rebranding or repositioning through capital investment, opportunities to drive operational efficiency, accretive disposition opportunities, and other sources of value that have been overlooked by buyers or sellers.

Mr. Kleeman has over 22 years of real estate experience and was a Senior Managing Director and Head of Acquisitions at Starwood Capital Group ("Starwood") a position he held from 1997-2007. Mr. Kleeman joined Starwood in 1992 shortly after the Firm was founded in 1991 and was one of the senior acquisition partners reporting directly to Barry Sternlicht for his entire tenure. Mr. Paul has over 21 years of real estate experience and was a Managing Member and co-founder of Rockpoint Group L.L.C. ("Rockpoint"), which was formed in 2003 and manages over \$5 billion in equity capital through five real estate opportunity funds. From 1994-2003, Mr. Paul was a Managing Member of Westbrook Partners, L.L.C.

The Division Staff and its consultant, Callan Associates, undertook extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

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 each investment. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 69 and 71 of the Council's regulations. The Wheelock Street Real Estate Fund will be considered a non-core real estate investment, as defined under N.J.A.C. 17:16-71.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 30, 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 Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's October 13, 2011 meeting.

Attachments

State Investment Council Investment Committee Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: October 13, 2011
Subject: Real Estate Investment Recommendation

Fund Facts

Fund Name:	Wheelock Street Real Estate Fund
Fund Type:	Co-mingled
Current Fund Offering:	\$150 million (\$100 million to Fund and \$50 million set aside for Co-investments)
Current Fund Size/Vintage:	\$500 million
Previous Fund Size/Vintage:	N/A
Final Close:	TBA
Fund Address:	52 Mason Street Greenwich, CT 06830

GP Contact Info

Name:	Merrick R Kleeman
Telephone:	(203) 413-7701
Email:	kleeman@wheelockst.com

Summary of Terms and Investment Strategy

Investment Strategy:	Opportunistic Real Estate
Geographic Focus:	US with up to 10% outside of US & Canada
GP Co-Investment Amount:	\$20 million
Terms:	
Term:	8 years with two one-year extensions at the GP's election
Investment Period:	Earlier of the (i) third anniversary of the Final Close or (ii) the date that all Commitments are fully called, committed, or reserved.
Management Fee:	1.5% on commitments during commitment period; 1.5% on net equity invested thereafter
Preferred Return:	9%
Catch Up:	First, 100% to the LPs until they have received, on a cumulative basis, a return of all capital contributed Second, 100% to the LPs until they have received, on a cumulative basis, a 9% compounded annual return on all capital contributed; Third, 50% to the LPs and 50% to the GP until the GP has received 20% of the cumulative distributions plus a cumulative return of 9% per annum, compounded annually, on any such profits ; Thereafter, 80% to the LP and 20% to the GP.
Back Office/Service:	n/a
Fund Attorney:	Goodwin Procter LLP
Auditor:	PricewaterhouseCoopers LLP

NJ AIP Program:

Recommended Allocation Current:	\$100 million to the Fund
% of investment in Fund I:	20%

LP Advisory Board Membership:	Yes
Consultant Recommendation:	Yes
Placement Agent:	No
Compliance with Division Placement Agent Policy:	N/A
Compliance with 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.