



**State of New Jersey**

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November 19, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment in Real Estate Capital Asia Partners IV L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in Real Estate Capital Asia Partners IV L.P. (“RECAP IV”). 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:

**Consistent top quartile performance:** SC Investment Management Pte. Ltd. (the “manager” or “RECAP”) has consistently demonstrated top quartile performance on a Net Total Value to Paid-In, Internal Rate of Return (“IRR”) and Distributions to Paid-In basis through various market cycles. Since 2005, RECAP has invested \$1.5 billion of total capital across 35 distinct transactions. RECAP’s 15 realized and partially realized transactions, as of June 30, 2014, have generated a 35% gross IRR and a 2.1x return with proceeds of \$600 million.

**Disciplined investment approach:** The manager is focused on optimizing portfolio liquidity by acquiring high quality, cash flow generating assets from distressed sellers. These assets offer risk mitigation in the short term through current income. Over the long term, high quality, difficult to replicate assets generally remain in demand, and enhance the portfolio’s overall liquidity.

**Conservative use of leverage:** The manager uses relatively conservative leverage to establish resilient capital structures which offer downside protection. Across all investments, as of June 2014, the average historical leverage ratio has been 53% loan to cost and a lower 35% loan to value.

**Experienced team in the region:** The Investment Team members have an average of 16 years of professional experience in Asia and 14 years in the real estate or private equity industry. Over their long tenure in the region, the members have developed extensive networks of relationships with institutional owners, local operators, financial institutions and senior corporate and government officials. In aggregate, 89% of the investments in Fund I, Fund II, and Fund III were sourced through private transactions. The firm has an on the ground presence in Singapore, Hong Kong, Shanghai, Tokyo and Bangkok.

**Investment opportunity:** Long-term demographic trends across Asia Pacific support sustained occupant and investor demand. Strong population growth, a continued migration from rural to urban areas, and the growth of a middle class are driving powerful consumer demand. While the US Federal Reserve's withdrawal of quantitative easing might lead to volatility in the near term, the strong underlying economic fundamentals in Asia should support longer term growth. Given that the Division's portfolio currently has limited exposure to Asian real estate, an investment in RECAP IV will allow the Division to maintain exposure to a top quartile manager that continues to take advantage of market dislocations in Asian real estate.

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 used third-party solicitors ("placement agents") in the fundraising of the fund but no placement agent was engaged or paid 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. The Real Estate Capital Asia Partners IV 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 November 11, 2014. 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 November 19, 2014 meeting.

Attachments

**Fund Name: Real Estate Capital Asia Partners IV, L.P.**

November 19, 2014

**Contact Info:** Suchad Chiaranussati, No. 2 Nassim Road, Singapore 258370

**Fund Details:**

Total Firm Assets (\$mil):	\$1.5 billion	<p><b>Key Investment Professionals:</b>  <b>Suchad Chiaranussati</b>, Chairman. Prior to founding RECAP at the end of 2004, Mr. Chiaranussati spent approximately six years with Westbrook as Principal and Managing Director, where he was responsible for Asian investment operations.  <b>Ian Lien</b>, Managing Director. Mr. Lien joined the firm in 2007 and is responsible for acquisition, value enhancement and realization of real estate investments primarily in Southeast Asia. Prior to joining the firm, Mr. Lien co-founded Octagon Capital Partners Pte Ltd. (“Octagon”), an Asia Pacific-focused investment and advisory firm, in 2003.  <b>Freddy Chua</b>, Managing Director. Mr. Chua is responsible for acquisition, value enhancement and realization of real estate investments in northern Asia. Previously, Mr. Chua was CEO and minority shareholder of Stonegate China Properties Limited, a Morgan Stanley affiliate.  <b>Andrew DS Heithersay</b>, Managing Director. Mr. Heithersay joined the firm in March 2013 with over 22 years of experience in real estate, including 15 years based in Asia. Mr. Heithersay previously was an International Director with LaSalle Investment Management and a founding member of LaSalle’s Asia-Pacific business from 1998.</p>
Strategy:	Opportunistic Non Core Real Estate	
Year Founded:	2004	
Headquarters:	Singapore	
GP Commitment:	1%	

**Investment Summary** **Existing and Prior Funds**

The Fund is an investment vehicle managed by SC Investment Management Pte. Ltd. (the “Manager”), a privately-owned, pan Asian real estate investment firm with offices in Singapore, Hong Kong, Bangkok, Shanghai and Tokyo. The Manager, was created in 2014 and is wholly owned by Mr. Suchad Chiaranussati. Its prior entities and affiliates were created in 2004. The investment professionals leading the fund have an average of fourteen (14) years of real estate investment experience, including development and operations of assets. The Fund will invest in real estate properties and real estate-related assets in select Asia Pacific markets, with a focus on Australia, Greater China (including Mainland China, Hong Kong, Macau and Taiwan), Indonesia, Japan, New Zealand, Singapore, South Korea, Thailand and Vietnam. The Fund will also seek to invest in other high-growth Asian markets on an opportunistic basis. Additionally, consistent with the strategy executed through its predecessor funds, the manager will focus on investments that are undervalued, under-managed or whose situations are distressed and where value creation opportunities exist by virtue of market inefficiencies and/or strong macroeconomic fundamentals.

Funds	Strategy	Vintage	Returns as of 6/30/2014
RECAP I	Opportunistic, non-core	2005	10.7% Net IRR, 1.7x Net MOIC
RECAP II	Opportunistic, non-core	2008	21.3% Net IRR, 1.5x Net MOIC
RECAP III	Opportunistic, non-core	2011	34.0% Net IRR, 1.3x Net MOIC

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

**Vehicle Information:**

Inception:	2014	Auditor:	KPMG LLP
Fund Size (\$mil):	\$800 million	Legal Counsel:	Paul Hastings LLP
Management Fee:	1.5% on committed capital during the investment period and 1.5% on invested capital after the investment period	Accounting/Fund Administrator:	State Street Fund Services (Singapore) Pte. Limited
Carry:	20%		
Hurdle Rate:	9%		
Additional Expenses:	100% fee offset		

**NJ AIP Program**

Recommended Allocation (\$mil):	\$100 million	LP Advisory Board Membership:	TBD
% of Fund:	12.5%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		Compliance w/ SIC Political Contribution Reg:	Yes