



## State of New Jersey

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**COREY AMON**  
*Acting Director*

January 25, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Acting Director

SUBJECT: **Proposed Investment in Homestead Capital USA Farmland Fund III, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Homestead Capital USA Farmland Fund III, 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 Fund will acquire and manage a portfolio of diversified U.S. farmland comprised of high-quality row and permanent cropland located throughout the Mountain West, Pacific, Midwest and Delta regions of the United States. The Fund intends to acquire farms where it believes value-add opportunities exist. The Fund is expected to consist of a number of different farms with varying risk/return profiles that combine to meet the returns targeted by the Fund.

The Division is recommending this investment based on the following factors:

**Complementary to the Pension Fund’s portfolio:** The Fund will be the first farmland manager in the Pension Fund’s portfolio and its investment strategy is consistent with the Division’s twofold objective within its Real Asset portfolio of (i) diversifying away from energy commodity price risk and (ii) identifying investments with a more conservative risk/return profile and the ability to generate an attractive cash yield. Farmland investments also have low correlations to fixed income and equities.

**Favorable downside protection:** Downside protection is provided by: (i) the inherent value of land, (ii) relative ease in converting land to other uses, such as growing different crops or repurposing the land for real estate development, (iii) crop insurance, which provides downside protection against the risk of poor harvests or low crop prices, (iv) lease structures that transfer the burden of productive yield and crop prices to the farm operator, (v) the ongoing current income of the Fund, which accelerates the return of cash back to investors, and (vi) the overall diversification of the Fund’s investments.

**Strength of team and its local presence:** The Fund has built a team of investment professionals across four regional offices that possess a combination of investment and farming experience and has then further supplemented that team with a network of regional farmland managers that act as the boots on the ground in the local markets in which Homestead invests.

**Environmental, Social and Governance (ESG) Policy:** Homestead has a formal ESG policy that is applied in their investment process revolving around three core themes of labor, sustainable farming, and the environment, with a particular focus on issues related to climate change and the scarcity of water. Homestead's focus within labor is centered around partnering with top operators that pay fair wages, actively monitor working conditions, properly train workers and supervisors, and communicate with workers to ensure they understand their rights. Homestead's commitment to worker health and safety is a top priority, and it utilizes an approach emphasizing a worker-centric model within an active monitoring framework.

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

Division Staff and its real asset consultant, TorreyCove Capital Partners, 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 ("placement agent").

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. Homestead Capital USA Farmland Fund III, L.P. is considered a real asset 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 January 22, 2019. 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 January 30, 2019 meeting.

Attachment

Fund Name: Homestead Capital USA Farmland Fund III, L.P.

January 25, 2019

Contact Info: Gabe Santos, 101 Mission Street, Suite 505, San Francisco, CA 94105

Fund Details:

Total Firm Assets:	\$575 million	<p><b>Key Investment Professionals:</b>  <b>Daniel Little</b>, Mr. Little is a Co-Founder and Portfolio Manager at Homestead Capital and is a member of the firm's Investment Committee. He was previously a Fund Manager at J.P. Morgan, leading the Global Access portfolio management team's investment efforts in Asia where he was also a senior member of the Asia Local Investment Committee and served on the Global Investment Committee and Global Portfolio Construction Committee. He holds a Bachelor of Arts in Economics and German from Hamilton College and a Master's Degree in International Affairs/International Finance &amp; Business from Columbia University. Mr. Little is from Ohio where he owns a farm near Wooster.  <b>Gabe Santos</b>, Mr. Santos is a Co-Founder and Portfolio Manager at Homestead Capital and is a member of the firm's Investment Committee. Mr. Santos was previously with the Global Natural Resources Group within the Investment Banking Division at Goldman, Sachs &amp; Co. While at Goldman, he advised clients on buy-side and sell-side transactions, public and private equity financings, and other strategic advisory initiatives. Prior to joining Goldman, Mr. Santos was a mergers and acquisitions attorney. Mr. Santos received a B.A. from the University of California, Los Angeles (UCLA) and a J.D. from Georgetown University Law Center.</p>
Strategy:	Real Assets	
Year Founded:	2012	
Headquarters:	San Francisco, CA	
GP Commitment:	\$4.0 million	

Investment Summary

Homestead Capital will seek to acquire and manage a portfolio of diversified U.S. farmland comprised of high-quality row and permanent cropland located throughout the Mountain West, Pacific, Midwest and Delta regions of the United States. The Fund intends to acquire farms where Homestead Capital believes value add opportunities exist through: (i) capital improvements, (ii) improved farm management, (iii) identifying economies of scale, (iv) efficient crop selection and rotation, (v) utilization of precision agriculture technology, and (vi) participation in government programs. Homestead Capital's investment approach pairs a bottom-up approach to value creation and a top-down investment approach to portfolio construction and risk management in an effort to ensure proper diversification and an appropriate risk and reward profile at the portfolio level. The Fund is expected to consist of a number of different farms with varying risk/return profiles that combine to meet the returns targeted by the Fund.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of June 30, 2018*
Homestead Capital USA Farmland Fund I	2014	Real Assets	0.2% Net IRR, 1.01x Net TVPI, 0.07x DPI
Homestead Capital USA Farmland Fund II	2016	Real Assets	-2.0% Net IRR, 0.99x Net TVPI, 0.01x DPI

\*Data provided by TorreyCove Capital Partners

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

Vehicle Information:

Inception:	2019	Auditor:	Deloitte LLP
Fund Size:	\$600 million target (\$700 million hard cap)	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	During investment period: 1.5% on committed (or until successor fund is raised, if earlier); Thereafter: 1.5% on invested/reserved		
Carry:	15%		
Hurdle Rate:	6%		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Recommended Allocation:	up to \$100 million	LP Advisory Board Membership:	Yes
% of Fund:	16.67% of target	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.