



State of New Jersey

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DEPARTMENT OF THE TREASURY
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January 23, 2025

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Real Estate Investment – StepStone Real Estate Separately Managed Account**

The Division of Investment (the “Division”) is proposing an investment of up to \$400 million in a Real Estate Separately Managed Account (the “Fund”) managed by the StepStone Group (“StepStone” or the “Firm”). 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:

Seasoned, Cohesive and Stable Senior Management and Investment Teams: The Firm’s three senior partners have worked together for over 19 years and grew the Firm both organically and through bolt-on acquisition. StepStone’s nine partners have an average of 26 years industry experience.

Customized SMA: The Separately Managed Account (the “SMA”) will complement the Division’s real estate portfolio. The Division maintains control of the portfolio construction and maintains approval rights over individual investments.

Favorable Fees and Terms: The Division has structured favorable economic terms for both management and performance fees.

Strong Performance & Track Record: StepStone has sponsored 21 unique SMAs totaling \$8.2 billion in capital commitments. The Firm’s investment vehicles have performed favorably compared to non-core real estate funds and real estate secondaries funds.

Differentiated Experience in GP-Led Secondaries: The senior team members were pioneers in real estate secondary fund investing. Prior to joining StepStone, the senior team raised two

secondary funds in the wake of the Global Financial Crisis. The Firm remains one of the top three GP-led secondary investors.

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

Division Staff and its consultant, Aksia LLC, 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 Firm engaged a third-party solicitor (“placement agent”) in the fundraising of SREP V, but the placement agent was not used to solicit New Jersey’s potential investment and was not compensated in connection with facilitating New Jersey’s potential investment.

StepStone’s ESG-related policies and processes were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy. StepStone incorporates ESG considerations into their investment decisions.

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. StepStone Real Estate Separately Managed Account is 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 IPC was held on January 17, 2025. 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 29, 2025 meeting.

Attachment

StepStone Real Estate SMA

- **DOI Commitment:** \$400 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund will enable the Division to access middle market primary funds ranging from \$500 million to \$2 billion as well as tactical investments that include secondaries, fund recapitalizations and asset co-investments.
- **Target Returns:** 13% net returns
- **Investment Thesis:**
 - Seasoned, cohesive & stable management and investment teams
 - Customized Separately Managed Account
 - Favorable fees and terms
 - Strong performance and track record
 - Differentiated experience in GP-led secondaries

Fund Name: StepStone Real Estate SMA **January 23, 2025 Agenda Item 4(b)(i)**

Contact Info: Yasmine Uzmez; 277 Park Avenue, New York, NY 10172

Fund Details:

Total Firm Assets:	\$176 Billion	Key Investment Professionals: Jeff Giller: (Partner) Mr. Giller is a partner and Head of StepStone Real Estate. Prior to StepStone, Mr. Giller was a Managing Partner and Chief Investment Officer of Clairvue Partners, a real estate investment manager which integrated with StepStone to establish StepStone Real Estate. Before that, Mr. Giller was a Managing Principal and Chief Investment Officer of an investment manager focused on real estate secondaries. John Waters: (Partner) Mr. Waters is a partner and Head of Investments for the real estate team. Prior to StepStone, Mr. Waters was a vice president at Clairvue Capital Partners, a real estate investment manager which integrated with StepStone to establish StepStone Real Estate. At Clairvue, Mr. Waters focused on sourcing, underwriting and managing investments in the US and Europe. Justin Thibault: (Managing Director) Mr. Thibault is a managing director and member of the real estate team and focuses on various investment and portfolio management activities. He is primarily focused on primary funds. Prior to StepStone, Mr. Thibault was a consultant at Courtland Partners, Ltd., an international real estate advisory firm which integrated with StepStone Real Estate.
Strategy:	Real Estate	
Year Founded:	2007	
Headquarters:	New York, NY	
GP Commitment:	1% (\$4 million)	

Investment Summary
 The SMA will enable the Division to access middle market primary funds ranging from \$500 million to \$2 billion well as tactical investments that include secondaries, fund recapitalizations and asset co-investments. The primary geographic focus will be US. The following are investment target allocations: Primary Funds: 60%; Tactical Investments: 40%, inclusive of a \$75 million allocation to StepStone’s flagship secondaries fund (StepStone Real Estate Partners V, or “SREP V”)

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Net Returns as of 06/30/2024</u>
StepStone Real Estate Partners III	2015	Real Estate	10.5% IRR; 1.37x MOIC, 114% DPI
StepStone Real Estate Partners IV	2019	Real Estate	10.5% IRR; 1.17x MOIC, 24% DPI
StepStone Real Estate Partners V	2023	Real Estate	n/m% IRR; n/m MOIC, n/m DPI

IRR = Internal Rate of Return; MOIC+ Multiple on Invested Capital; DPI = Distributions to Paid-In
 Source: StepStone

Vehicle Information:

Inception:	2025				
Strategy:	Primary Investments	Tactical Investments excluding SREP V	SREP V	Auditor:	TBD
Management Fee:	0.20% on Primary Investments on invested capital	0.50% on Invested Capital	1.125% on SREP V on committed during Investment Period, and 1.35% on invested capital thereafter	Legal Counsel:	Fried Frank
Performance Fee:	0% on Primary Investments	10%	15%		
Preferred Return:	8% with 50% catch-up	8% with 50% catch-up	8% with 50% catch-up		
Fee Offset:	100% Management Fee Offset for excess organizational expenses.				

NJ AIP Program

Recommended Allocation SMA (\$mil):	up to \$400 million	LP Advisory Board Membership:	N/A for SMA; YES for SREP V
		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. The Vehicle Information section is intended as a summary only.