



State of New Jersey

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SHOAIB KHAN
Director

April 19, 2024

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Real Estate Investment – Bain Capital Real Estate Fund III L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$250 million in Bain Capital Real Estate 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 Division is recommending this investment based on the following factors:

Seasoned and Cohesive Management Team: Bain Capital Real Estate, LP (“BCRE”) traces its roots to 2010 when the real estate team of Harvard Management Company (“HMC”) launched a direct investment program. In 2018, the HMC real estate team migrated to Bain Capital, LP (“Bain”), thus forming BCRE. The platform has only experienced two senior-level transitions since inception. As of March 31, 2024, BCRE comprises 80 professionals with 6 Partners and 3 Managing Directors averaging 25 years of investment experience through multiple market cycles.

Thematic and Targeted Investment Strategy: BCRE employs a thematic investment approach, identifying secular trends that are expected to drive long-term occupier demand for real estate via extensive research. Bain Capital’s other verticals (such as Private Equity, Life Sciences, and Special Situations) aid in this pursuit by providing proprietary insights that better inform investment strategy and decision-making.

Alignment with the Division: Bain Capital LP is 100% owned by its Partners with no public or third-party investors. The Fund’s \$309 million GP commitment, equating to 8.2% of the target fundraise, is well above-market and fosters strong alignment between BCRE and its Limited Partners. In addition, BCRE and the Division share high conviction in multiple property types, including life sciences, medical outpatient buildings, industrial, media/content space, and senior housing.

Strong Performance (as of Q4 2023): BCRE’s 13-year track record encompasses 358 investments totaling approximately \$6.9 billion of deployed equity, across Pre-Fund I, Fund I, and Fund II. While at HMC, the team deployed \$4.1 billion of equity into 161 investments. 142 of these investments have been fully realized, generating gross returns of 16.4% IRR and 1.6x MOIC on \$3.6 billion of invested equity. BCRE Fund I, a vintage 2018 commingled fund, made 98 investments representing \$1.3 billion of invested equity. 19 of these investments have been fully realized, generating gross returns of 31.1% IRR and 1.9x MOIC on \$277 million of invested equity. BCRE Fund II, a vintage 2020 commingled fund, has made 99 investments to date representing \$1.5 billion of invested equity. One of these investments has been fully realized, generating gross returns of 1,238% IRR and 5.4x MOIC on \$9.8 million of invested equity. All aforementioned returns are as of 12/31/2023.

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

Division Staff and its real estate consultant, Hamilton Lane, 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 engaged a third-party solicitor (“placement agent”) in the fundraising of the fund, but the placement agent was not used to solicit New Jersey’s potential investment and was not compensated in connection with facilitating the investment.

In accordance with the State Investment Council’s Environmental, Social and Governance (“ESG”) Policy, the Division’s Corporate Governance Team completed its review of the Fund’s ESG efforts. Bain’s ESG Policy Statement is reviewed and updated regularly. BCRE has adopted a Responsible Contractor Policy, which guides the selection of independent contractors. The primary responsibility of the 11-member ESG team is formally overseeing ESG issues and integration. The ESG Leadership Coordination Team, comprised of Co-Managing Partners and Business Unit Heads, was created in 2020 to further strength ESG efforts across the firm. ESG factors are considered during the due diligence process and are routinely monitored post-acquisition.

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. Bain Capital Real Estate III, L.P. 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 April 10, 2024. 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 April 24, 2024 meeting.

Attachment

Bain Capital Real Estate Fund III L.P.

- **Commitment:** Up to \$250 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund will invest in thematic real estate opportunities in North America. Investment themes are based on secular trends that drive demand for real estate including: aging of America, urbanization, penetration of technology, and decreased home ownership.
- **Target Returns:** 18% gross returns
- **Fund Size:** \$3.75 billion
- **Investment Thesis:**
 - Seasoned and cohesive management team
 - Thematic and targeted investment strategy
 - Alignment with New Jersey Division of Investment
 - Strong performance

Fund Name: Bain Capital Real Estate Fund III **April 19, 2024**

Contact Info: Attn: Patrick Sullivan, Partner, Investor Relations 200 Clarendon Street Boston, MA 02116

Fund Details:		
Total Firm Assets:	\$180 billion	<p>Key Investment Professionals:</p> <p>Ryan Cotton: (Partner, Head of Bain Capital Real Estate) Mr. Cotton joined Bain Capital in 2003 and has been a key strategic advisor to the Bain Capital Real Estate team and a member of the Investment Committee since Bain Capital Real Estate’s founding in 2018. Over his two decades at Bain Capital, Mr. Cotton led the global Consumer vertical within Bain Capital’s Global Private Equity business.</p> <p>Dan Cummings: (Partner, Chairman) Mr. Cummings joined Bain Capital in 2018 as the leader of Bain Capital Real Estate’s founding team. Prior to joining Bain Capital, Mr. Cummings was Managing Director and Head of Harvard Management Company’s (HMC) Real Estate Investment Group where he was responsible for investment strategy and management of the endowment’s \$6 billion real estate portfolio, and was a member of the Executive and Investment Committees.</p> <p>Ben Brady: (Partner, Portfolio Manager) Mr. Brady joined Bain Capital in 2018 as part of Bain Capital Real Estate’s founding team. Prior to joining Bain Capital, Mr. Brady was a Senior Vice President and Portfolio Manager in Harvard Management Company’s (HMC) Real Estate Investment Group, where he was responsible for sourcing, underwriting, structuring, negotiating and managing HMC’s real estate investments.</p> <p>Joseph Marconi: (Partner, Industry Head – Office - Life Sciences, Media Content, and Medical Outpatient Buildings) Mr. Marconi joined Bain Capital in 2018 as part of Bain Capital Real Estate’s founding team. Prior to joining Bain Capital, Mr. Marconi was a Senior Vice President and Portfolio Manager in Harvard Management Company’s (HMC) Real Estate Investment Group, where he was responsible for portfolio management oversight and the implementation of HMC’s joint venture investment program, which includes the selection, underwriting, negotiating, structuring and management of HMC’s real estate investments.</p> <p>Kavindi Wickremage: (Partner, Industry Head - Residential, Retail) Ms. Wickremage joined Bain Capital in 2018 as part of Bain Capital Real Estate’s founding team. Prior to joining Bain Capital, Ms. Wickremage was a Senior Vice President and Portfolio Manager in Harvard Management Company’s (HMC) Real Estate Investment Group where she was responsible for sourcing, underwriting, structuring, negotiating and managing HMC’s real estate investments.</p> <p>Andrew Terris: (Partner, Industry Head - Distribution and Storage) Mr. Terris joined Bain Capital in 2018 as part of Bain Capital Real Estate’s founding team. He is based in San Francisco. Prior to joining Bain Capital, Mr. Terris was a Senior Vice President and Portfolio Manager in Harvard Management Company’s (HMC) Real Estate Investment Group, where he was responsible for sourcing, negotiating, structuring and managing HMC’s real estate investments.</p>
Strategy:	Real Estate	
Year Founded:	1984	
Headquarters:	Boston, MA	
GP Commitment:	\$309 million	

Investment Summary	Existing and Prior Funds																
<p>The Fund will invest in thematic real estate opportunities in North America. Investment themes are based on secular trends that drive demand for real estate including: aging of America, urbanization, penetration of technology and decreased home ownership. Property types associated with these themes include: lab space for drug development, medical outpatient buildings, senior housing, infill industrial (last-mile logistics), self-storage, media/content/studio space and horizontal apartment development.</p>	<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Vintage Year</i></th> <th><i>Strategy</i></th> <th><i>Returns: Net IRR, Net TVPI, Net DPI</i></th> </tr> </thead> <tbody> <tr> <td>Bain Capital Real Estate Fund I</td> <td>2017</td> <td>Real Estate</td> <td>19.1% IRR; 1.4x TVPI, 0.6x DPI</td> </tr> <tr> <td>Bain Capital Real Estate Fund II</td> <td>2020</td> <td>Real Estate</td> <td>4.8% IRR; 1.1x TVPI, 0.1x DPI</td> </tr> <tr> <td colspan="3">Source of Returns - Bain Capital Real Estate</td> <td>*Net as of 12/31/2023, Fund I DPI as of 3/29/2024</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In</p>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns: Net IRR, Net TVPI, Net DPI</i>	Bain Capital Real Estate Fund I	2017	Real Estate	19.1% IRR; 1.4x TVPI, 0.6x DPI	Bain Capital Real Estate Fund II	2020	Real Estate	4.8% IRR; 1.1x TVPI, 0.1x DPI	Source of Returns - Bain Capital Real Estate			*Net as of 12/31/2023, Fund I DPI as of 3/29/2024
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Vehicle Information:

Inception:	2023	Auditor:	PricewaterhouseCoopers LLP
Fund Size :	\$3.75 billion (\$5 billion hard cap)	Legal Counsel:	Kirkland & Ellis
Management Fee:	<p>1.35% on committed capital during the Investment Period; 1.35% on net invested capital once the Investment Period ends or a successor fund begins to accrue fees.</p> <p>Note: The above reflects New Jersey Division of Investment’s scale commitment-based management fee discount. BCRE Fund III’s standard management fee is 1.50% on committed capital during the Investment Period; 1.50% on net invested capital once the Investment Period ends or a successor fund begins to accrue fees.</p>		
Performance Fee:	20% with an 8% hurdle		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program			
Recommended Allocation (\$mil):	up to \$250 million	LP Advisory Board Membership:	YES
% of Fund:	5.00%	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.