



State of New Jersey

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October 25, 2024

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Real Estate Investment - Carlyle Realty Partners X, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$300 million in Carlyle Realty Partners X, L.P. (the “Fund”) managed by Carlyle Realty (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 & Stable Investment Team: The Firm has 26 years of consistent leadership under Robert Stuckey who has 35 years of industry experience and has led the team since Fund I in 1998. The senior investment team has had limited turnover and is led by ten Partners who average 31 years of industry experience and 22 years tenure with the Firm.

Thematic Investment Strategy: The Firm executes disciplined property sector selection based on strong demographic trends and takes into consideration the impact of technology. The team has demonstrated the ability to identify trends ahead of the market and deploy capital to under-served strategies or sectors in advance of the broader market. Similarly, the team has a history of pivoting as market outlook changes.

Intentional Portfolio Construction to Minimize Risk: The Firm targets middle market assets and constructs granular portfolios to reduce risk through diversification. The Firm is able to execute a large number of middle-market transactions through a network of operating partners. Approximately 80% of investments have been sourced on a proprietary basis.

Alignment with the Division’s Portfolio Goals: The Firm’s high conviction property types align with the Division’s focus on increasing investments in residential and industrial property sectors. The Firm’s mid-cap investment strategy and execution is differentiated from the Division’s other

managers. The timing of the Fund aligns with the Division's goal to position the real estate portfolio to capitalize on post-correction market opportunities.

Strong Performance: Investing since 1998, the team has one of the longest track records among its peers. Through nine opportunistic funds comprising \$18 billion of capital, the Firm has executed 1,164 investments and realized 781 investments that generated aggregate net returns of 18% IRR. The Firm has a consistent track record of upper quartile performance through multiple market cycles.

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 Firm 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 New Jersey's potential investment.

The Firm has a formal ESG Policy. Carlyle's current ESG Policy and related due diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. Carlyle incorporates ESG considerations through their different business strategies.

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. Carlyle Realty Partners X, 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 October 21, 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 October 30, 2024 meeting.

Attachment

Carlyle Realty Partners X, L.P.

- **DOI Commitment:** \$300 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund will invest in property sectors with demographic demand drivers that are relatively unrelated to GDP. Target asset types include residential (multifamily, single family rental and active adult) and industrial (warehouses and industrial outdoor storage).
- **Target Returns:** 20%-25% gross returns
- **Fund Size:** \$8.0 billion target (\$10 billion hard cap)
- **Investment Thesis:**
 - Seasoned, cohesive & stable management team
 - Thematic investment strategy
 - Intentional portfolio construction to minimize risk
 - Alignment with New Jersey Division of Investment
 - Strong performance

Fund Name: Carlyle Realty Partners X, L.P.

10/xx/2024

Contact Info: Attn: Meghan Thomas, 1001 Pennsylvania Avenue NW, Suite 220 South, Washington, DC 20004

Fund Details:

Total Firm Assets:	\$435 billion	<p>Key Investment Professionals:</p> <p>Robert Stuckey: (Partner & Managing Director) Mr. Stuckey is Head of Carlyle’s US real estate funds and has held that position since joining in 1998. He is based in Washington, DC. From September 2010 until December 2022, he was Chairman of CoreSite, which was an NYSE-listed data center REIT organically created from CRP assets. Prior to joining, he was CIO of Carr America REIT, held senior roles at Prologis focusing on acquisitions and development, and was CFO for Trammel Crow Company Northeast as well as a member of that firm’s merchant bank affiliate, Trammel Crow Ventures.</p> <p>Chip Lippman: (Partner & Managing Director) Mr. Lippman holds portfolio management responsibilities for US real estate funds and has led investment sourcing across the US. Additionally, he is actively involved in capital raising for the CRP fund series and CPI. He joined the Firm in 1998 and is based in Washington, DC. Prior to joining Carlyle, he was a Vice President specializing in real estate investment banking with Friedman Billings and Ramsey. Prior to that he was with Carr America.</p> <p>Jade Newburn: (Partner & Managing Director) Mr. Newburn heads the US Real Estate Transactions Group. Responsibilities include developing and implementing best practices and key management initiatives; assisting investment professionals in deal analysis, strategy & capital structure; and developing & implementing risk management. Prior to joining Carlyle in 2020 he was a partner at Mayer Brown LLP where he represented Carlyle for 13 years in developing legal and risk frameworks.</p> <p>Mark Schoenfeld: (Partner & Managing Director) Mr. Schoenfeld was Carlyle’s first real estate employee and is based in Washington, DC. His responsibilities include real estate sourcing on the East Coast. He served as Portfolio Manager for CPI from its inception in 2016 through its first five years. Prior to joining Carlyle in 1992 he was a Vice President with Perpetual Savings Bank and Managing Director at MNC Investment Bank.</p> <p>Paul Brady: (Partner & Managing Director) Mr. Brady is based in Los Angeles and focuses on sourcing real estate opportunities on the West Coast. He has been active in transactions involving multiple asset classes. He joined Carlyle in 1997</p> <p>Barbara Murphy (Partner & Managing Director) Ms. Murphy is Head of the US Real Estate Asset Management Group. Based in Washington, DC, she is responsible for asset management strategies and investor reporting, and oversees operational asset management and risk management. Prior to joining Carlyle in 2000, she was with Lincoln Property Company and KPMG.</p>
Strategy:	Real Estate	
Year Founded:	1987	
Headquarters:	Washington, DC	
GP Commitment:	3% of commitments (up to \$150 million or such higher amount in the GP’s discretion)	

Investment Summary

The Fund has a thematic investment strategy targeting sectors with demographic and technology demand drivers relatively uncorrelated to GDP and with the potential to generate rent growth that outpaces inflation. The Fund constructs a granular portfolio of small- to mid-sized single-asset investments ranging from \$25 million to \$100 million (total capitalization) requiring equity checks between \$10 million and \$40 million in order to reduce portfolio risk through diversification.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns: Net IRR, Net TVPI, Net DPI
Carlyle Realty Partners V	2006	Real Estate	8.9% IRR; 1.51x MOIC, 1.51x DPI
Carlyle Realty Partners VI	2011	Real Estate	17.5% IRR; 1.50x MOIC, 1.42x DPI
Carlyle Realty Partners VII	2014	Real Estate	10.2% IRR; 1.37x MOIC, 1.15x DPI
Carlyle Realty Partners VIII	2017	Real Estate	21.8% IRR; 1.47x MOIC, 0.92x DPI
Carlyle Realty Partners IX	2021	Real Estate	NM

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

Vehicle Information:

Inception:	TBD	Auditor:	Ernst & Young LLP
Fund Size :	\$10 billion hard cap	Legal Counsel:	Simpson Thatcher & Bartlett, LLP
Management Fee:	0.90% on committed capital during the Investment Period; 0.90% on invested, committed and reserved capital post Investment Period.		
Performance Fee:	20% with an 9% preferred return		
Fee Offset:	100% Management Fee Offset for excess organizational expenses.		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$300 million	LP Advisory Board Membership:	YES
% of Fund:	3.0% (on hard cap)	Consultant Recommendation:	YES
		Placement Agent:	YES
		Compliance w/ Division Placement Agent Policy:	YES
		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.