



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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March 15, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

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

The New Jersey Division of Investment ("Division") is proposing an investment of \$500 million in Blackstone Real Estate Partners Asia L.P. (BREP Asia). 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:

Attractive Investment Opportunity: Constrained credit markets, limited opportunistic capital (i.e., Private Equity Real Estate fund raising has declined 73% from the peak in 2008, from over \$30 billion in 2008 to \$8 billion in 2012) and positive long-term growth prospects in Asia make for an attractive investment environment. The Division believes that BREP Asia will be able to capitalize upon these dislocations and will take advantage of distress in developed Asia (e.g., Japan and Australia) and growth and capital market dislocation in emerging Asia (e.g., China and India).

Strength of the BREP Asia Team and Global Blackstone Franchise: While this fund is Blackstone's first real estate vehicle focused exclusively on the Asia-Pacific region, BREP has built a dedicated team of 48 investment and asset management professionals located in six regional offices. Although there are a number of well-established managers that focus on specific markets within the Asia-Pacific region, it is the Division's belief that BREP Asia is by far the largest and best established Asia-Pacific investment manager with the widest geographic presence among its competitors. In addition to the firm's resources, the team can leverage the firm's established network of senior advisors in Asia inclusive of senior business executives and government officials to access key information/deal flow. These relationships have been particularly helpful to the team in China, where Antony Leung (Chairman, Blackstone Greater China, and former Financial Secretary of Hong Kong) was instrumental in establishing several key relationships with the Fund's largest operating partners.

Demonstrated Investment Discipline and Lack of Legacy Issues: Although BREP has had a meaningful presence in the Asia-Pacific region since 2006 and evaluated numerous investment opportunities between 2006 and 2008, the team only completed two transactions during that period with an aggregate equity commitment of \$101.9 million. However after the downturn, during the 2010-2013 period, the team deployed approximately \$1.46 billion of equity in 15 transactions which are projected to achieve a 15% net IRR and a 1.8x net MOIC.

Favorable Economic Terms: The standard fees for the Fund are a 1.5% annual asset management fee and an 80/20 catch-up over the preferred return of 8%. For limited partners investing \$200 million or more, the standard asset management fee is reduced to 1.25%. In addition to negotiating investment restrictions and parameters, Division staff and RVK have negotiated an attractive fee schedule for the Division's commitment to the Fund. The terms include an estimated asset management fee of approximately 76 basis points¹ on committed capital during the investment period, in addition to a reduced catch-up rate of 65% (to the General Partner) over the preferred return of 8% IRR.

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 not engaged a third-party solicitor (a "placement agent") 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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The Blackstone Real Estate Partners Asia L.P. Fund 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 March 12, 2013. 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 March 21, 2013 meeting.

Attachments

¹ Estimated based on asset management fee waiver for the first eight months of the Fund's life and a 1% asset management fee thereafter.

Fund Name: Blackstone Real Estate Partners Asia L.P. Fund **March 21, 2013**

Contact Info: Gary Summers, 345 Park Avenue, New York, NY 10154

Fund Details:	
Total Firm Assets (\$bil.):	\$210 billion
Strategy:	Opportunistic Real Estate
Year Founded:	1985
Headquarters:	New York, NY
GP Commitment:	\$50 million, plus up to an additional 10% in each Investment on a side-by-side basis (based on an annual election).
<p>Key Investment Professionals: Jonathan Gray (Senior Managing Director & Global Head of RE): Mr. Gray is a member of the board of directors of the general partner, Blackstone Group Management L.L.C. Since joining Blackstone in 1992, Mr. Gray has helped build the largest real estate platform in the world with more than \$50 billion in investor capital under management. Christopher Heady (Senior Managing Director & Head of Real Estate Asia): Mr. Heady has been involved in a variety of real estate acquisitions and initiatives in the U.S., Europe and Asia. Before joining Blackstone in 2000 Mr. Heady was with Morgan Stanley in London, where he was involved in real estate private equity. Alan Miyasaki (Senior Managing Director): Mr. Miyasaki is a Senior Managing Director of the Real Estate group, based in Tokyo, and oversees BREP's operations in Japan and plays a leading role in acquisitions throughout Asia. Before joining Blackstone, Mr. Miyasaki was with Starwood Capital Group. Stuart Grant (Senior Managing Director): Mr. Grant is a Senior Managing Director and Head of Real Estate Asset Management for Asia, based in Hong Kong, and has day-to-day asset management responsibility for all of the Real Estate group's investments in Asia as well as the ML Asia Real Estate Fund. Before joining Blackstone in 2000, Mr. Grant was an International Executive at the Jardine Matheson Group based in Asia. Tuhin Parikh (Senior Managing Director): Mr. Parikh is a Senior Managing Director based in Mumbai, and has oversight responsibilities for Blackstone's real estate operations in India. Before joining Blackstone, Mr. Parikh was the CFO and subsequently CEO of TCG Urban Infrastructure Holdings Ltd., a national level office developer and asset owner in India.</p>	

Investment Summary	Existing and Prior Funds		
<p>Blackstone Real Estate Partners Asia (BREP Asia) provides an attractive opportunity to access the Asian markets with one of the largest and most established global real estate fund managers, at a time when there is an undersupply of capital relative to the demand for real estate assets. While this fund is Blackstone's first real estate vehicle focused exclusively on the Asia-Pacific region, BREP has built a dedicated team of 48 investment and asset management professionals located in six regional offices. BREP Asia was founded primarily to seek private equity real estate investments in Asia, continuing the success the firm has had within its global real estate fund while investing in the region (gross IRR of 19% since inception with no realized losses). After investing or committing more than \$1.5 billion in the Asia-Pacific region through their global BREP VI and BREP VII funds, it is BREP's belief that the pipeline of additional investment opportunities in Asia will likely exceed the geographic limitations of its global fund. The Fund will target investments in the Asia Pacific region with primary focus on Mainland China, India, Australia, and Japan and to the lesser extent on Singapore, Hong Kong, South Korea, Vietnam, and Thailand. The Fund will target investments with expected returns of 20% gross internal rate of return and 2.0x gross multiple of invested equity.</p>	<u>Funds (as of 12/31/12)</u>	<u>Vintage Year</u>	<u>Projected Net IRR</u>
	BREP I	1994	40%
	BREP II	1996	19%
	BREP III	1999	21%
	BREP INTL I	2001	28%
	BREP IV	2003	14%
	BREP V	2006	10%
	BREP INTL II	2006	3%
	BREP VI	2007	12%
	BREP EUR III	2009	20%
BREP VII	2011	18%	

Vehicle Information:			
Inception:	2013	Auditor:	Deloitte & Touche LLP
Fund Size:	\$3.5 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
**Management Fee:	.76% on committed during investment period, 1% on invested thereafter		
Carry:	20%		
Hurdle Rate:	8%		

NJ AIP Program			
Recommended Allocation (\$mil.):	\$500,000,000	LP Advisory Board Membership:	Yes
% of Fund:	14.10%	Consultant Recommendation:	Yes
		Placement Agent:	None
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

**0.76% during the investment period is estimated based on an eight (8) month abatement period (no management fees)

*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.