



**State of New Jersey**

CHRIS CHRISTIE  
*Governor*

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
P.O. BOX 290  
TRENTON, NJ 08625-0290

KIM GUADAGNO  
*Lt. Governor*

ANDREW P. SIDAMON-ERISTOFF  
*State Treasurer*

March 22, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in CT High Grade Partners II, L.P. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$175 million to purchase the approximately 25% interest in CT High Grade Partners II, LLC (the "Fund") that is not currently owned by NJDOI/GMAM CT High Grade Partners II, L.P. (the "GMAM Fund") and an additional investment of up to \$1.2 million to purchase the less than 1% interest in the GMAM Fund that is not currently owned by Common Pension Fund E. Finally, the Division is proposing to convert the Division's current interest in the GMAM Fund (currently valued at \$451,615,596) into an interest in the Fund. The Division will also be paying GMAM the contractual value of their management fees of up to \$1.5 million in order to exercise their rights as an investor in the Fund. As a result of these transactions, the Division would become a direct investor in the Fund with up to \$650 million invested in the Fund. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

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

Division Staff and its real estate consultant, RV Kuhns & 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).

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Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The CT High Grade Partners II, L.P. Fund will be considered a 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 14, 2012. 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 22, 2012 meeting.

Attachment

**Fund Name: CT High Grade Partners II, L.P.** **March 22, 2012**

**Contact Info:** **Geoffrey Jervis, 410 Park Avenue, 14th Floor, New York, NY 10022, GJERVIS@CAPITALTRUST.COM**

**Firm Details:**

Firm Name	Capital Trust, Inc.	<b>Key Investment Professionals:</b> <u><b>Stephen D. Plavin</b></u> <i>Mr. Plavin is the Chief Executive Officer (CEO) of Capital Trust, Inc. and CTIMCO and has served in such capacity since December 2009.</i> <u><b>Geoffrey G. Jervis</b></u> <i>Mr. Jervis is the Chief Financial Officer (CFO) of Capital Trust, Inc. and CTIMCO and is responsible for all capital markets, finance and accounting activities.</i> <u><b>Thomas C. Ruffing</b></u> <i>Mr. Ruffing is the Chief Credit Officer (CCO) of Capital Trust, Inc. and CTIMCO and is responsible for the credit underwriting and asset management of the investment portfolios.</i>
Total Assets (\$mil.):	\$4.5 billion	
Strategy:	Commercial real estate debt finance and investment management	
Year Founded:	1997	
Headquarters:	New York, NY	
GP Commitment:	\$2.844 million Adjustment will be made based on 3/31/12 NAV	

<b>Investment Summary</b>	<b>Existing and Prior Funds</b>		
<p>In 2008, the Division invested in the Fund alongside the General Motors Pension Trust in order to opportunistically invest in high-grade real estate related debt. The Fund is invested in a diversified portfolio of fixed-rate, "core" commercial real estate debt and debt-related instruments that is managed by Capital Trust, Inc., a publicly traded REIT (NYSE: CT), co-founded by Sam Zell and John Klopp. The Fund has generated strong risk adjusted returns and has a current yield to maturity of more than 7%. The Division currently owns approximately \$473 million (75%) of the Fund through a partnership run by General Motors Asset Management, an affiliate of General Motors. In early 2012, the Division approached General Motors about the potential to purchase the two General Motors investment positions of approximately \$160 million (25%). By completing this transaction, the Division will be the primary investor in the Fund and have the ability to better monitor the investments, provide input into major decisions, and manage portfolio risk.</p>	<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
	CT High Grade Mezzanine	High grade commercial real estate debt, unlevered, senior subordinate, floating rate	

**Vehicle Information:**

Inception:	2008	Auditor:	Ernst and Young, LLP
Net Asset Value (\$mil.):	\$630.7 million as of 2/29/2012	Legal Counsel:	Paul, Hastings, LLP
Management Fee:	40 basis points per annum	Accounting Firm:	Internal
Carry:	N/A		
Hurdle Rate:	N/A		
Additional Expenses:			

**NJ AIP Program**

Recommended Allocation:	up to \$650 million	LLC Advisory Board Membership:	Yes	
% of Fund:	99.5%	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