



State of New Jersey

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DEPARTMENT OF THE TREASURY
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September 17, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

SUBJECT: **Real Estate Investment - Hammes Partners IV, L.P.**

The Division of Investment (the "Division") is proposing an investment of up to \$150 million in Hammes Partners IV, L.P. (the "Fund") to be managed by Hammes Partners ("Hammes" 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:

Experienced Senior Management Team with Established Relationships Throughout the Healthcare Industry: The senior management team has over 30 years average industry experience. Hammes Partners and its affiliates have been involved in over 750 healthcare facility engagements nationwide.

Single Focus on Healthcare-Related Real Estate: Hammes is solely focused on healthcare real estate, and has been ranked as a top developer of healthcare facilities. Hammes currently manages approximately 3 million square feet of healthcare real estate assets.

Market Opportunity Supported by Demographics, Industry Trends, and Sector Fundamentals: An aging population and increased healthcare spending support the need for healthcare services. Industry trends such as cost pressure, consolidation, and modernization emphasize the need for quality healthcare assets.

Strong Track Record: Hammes has generated top quartile returns across the Firm's two prior institutional investment funds. The credit quality of the tenants, annual rent increases, and long-term nature of the leases support strong cash-on-cash returns.

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 has not engaged a third-party solicitor ("placement agent").

Hammes has a formal Environmental, Social and Governance (ESG) policy that guides investment decisions. The ESG Policy was developed in conjunction with a third-party consultant, and training was conducted for Investment Committee and ESG Committee members. A formal ESG Committee reports to the Senior Management Team and is comprised of senior team representatives of the Investment Committee, Asset Management, Property Management, Development, Operations, and Corporate Services/Human Resources.

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. The Fund 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 September 15, 2021. 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 September 29, 2021 meeting.

Attachment

Fund Name: Hammes Partners IV, L.P.

September 17, 2021

Contact Info: Patrick Hammes, 1400 N. Water Street, Suite 500, Milwaukee, WI 53202

Fund Details:

Total Firm Assets:	\$1.286 billion	Key Investment Professionals: Jon Hammes: (Managing Principal) Mr. Hammes is the founder and Managing Principal of Hammes Partners. Mr. Hammes also founded Hammes Company Healthcare in 1993. Prior to forming the Hammes Company Healthcare, Mr. Hammes was a Managing Partner at Trammell Crow Company where he was responsible for managing its operations in the Midwestern United States and Canada and was a member of Trammell Crow's management board. Todd Kibler: (Principal) Mr. Kibler leads the investment and financing activities for Hammes Partners. Prior to joining Hammes, Mr. Kibler was a Partner with Hammes Company Healthcare and served as the company's Chief Financial and Investment Officer. Mr. Kibler was also a former Vice President of Finance and Strategic Business for Corporex Companies, a public REIT. Patrick Hammes: (Principal) Mr. Hammes leads operations and portfolio management. Prior to Hammes Partners, Mr. Hammes was with Robert W. Baird where he worked as healthcare investment banker and participated in a wide range of financial advisory transactions, including mergers and acquisitions. Before Baird, Mr. Hammes was an attorney at Strasburger & Price in Dallas, Texas.
Strategy:	Non-core Real Estate	
Year Founded:	1991	
Headquarters:	Milwaukee, WI	
GP Commitment:	2%, up to \$13.5 million	

Investment Summary

Hammes Partners specializes in healthcare real estate. The Firm acquires or develops high quality medical office buildings (MOB), ambulatory care centers (ACC), and ambulatory surgery centers (ASC) with tenancy from leading hospitals, healthcare systems, and large independent physician groups. The Firm leverages the team's established network of senior executives across multiple healthcare systems nationwide to access key market information and to generate off-market or lightly marketed deal flow.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 03/31/2021 & 12/31/2020 for Fund I*
Fund I	2001	Non-core	21% Net IRR; 3.1x Net MOIC, n/a DPI
Fund II	2015	Non-core	24% Net IRR; 1.7x Net MOIC; 158% DPI
Fund III	2018	Non-core	16% Net IRR; 1.1x Net MOIC; 53% DPI

*Source of Returns = Hammes Realty Advisors, LLC
n/a = Not applicable

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

Vehicle Information:

Inception:	2021	Auditor:	Pricewaterhouse Coopers LLP
Fund Size :	\$675 million (targeted)	Legal Counsel:	Alston & Bird LLP
Management Fee:	1.5% on committed and invested		
Carry:	20%, fully pooled		
Preferred Return:	8%		
Additional Expenses:	100% Management fee offset		

NJ AIP Program

Recommended Allocation:	up to \$150 million	LP Advisory Board Membership:	TBD
% of Fund:	22.22%	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.