



State of New Jersey

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March 25, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in KSL Capital Partners IV, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in KSL Capital Partners IV, L.P. 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 Returns: From 2005 through September 30, 2014, KSL Capital Partners (“KSL”) has invested over \$2.3 billion of equity in 22 primary investments, 11 of which have been fully realized. During this period, KSL distributed \$2.4 billion to its investors and has approximately \$1.8 billion in remaining unrealized value. KSL II, a 2006 vintage fund, has generated top quartile returns on all metrics.

Disciplined Investment History: KSL has demonstrated the ability to successfully invest through various economic cycles. Despite having reviewed over 150 opportunities in 2007, concerned by the unsustainability of prevailing leverage levels and transactions pricing, KSL made no new investments for nearly 15 months prior to the global financial crisis. KSL’s in-depth understanding of travel and leisure businesses, and ability to rotate between sectors and parts of the capital structure should allow them to avoid over-heated segments of the market.

Experienced Team: KSL is one of the few firms focused exclusively on investing in real estate as well as related travel and leisure businesses. Their deep industry knowledge is a competitive advantage in sourcing, analyzing and operating assets. Moreover, the senior team brings significant operational and investing experience in the industry and has worked together extensively in a number of capacities. Extensive operational experience is demonstrated by the aggregate 49% increase to date in adjusted EBITDA of realized investments in Fund II and III during their ownership.

Market Opportunity: Travel and tourism is a significant component of the U.S. economy, accounting for over \$856 billion of direct economic output in 2013. KSL generally targets the mass affluent leisure consumer, which includes approximately 26 million U.S. households earning more than \$100,000 in annual income. This subset of consumers has shown a relatively stable desire to travel and recreate, and during the global financial crisis, resort leisure demand

remained fairly resilient as evidenced by only a 3% decline in occupied room nights from peak to trough.

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 used third-party solicitors (“placement agents”) in the fundraising of the fund but no placement agent was engaged or paid 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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council’s regulations. The KSL Capital Partners IV, L.P. 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 17, 2015. 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 25, 2015 meeting.

Attachments

Fund Name: KSL Capital Partners IV, L.P.

March 25, 2015

Contact Info: Steven Siegel, 100 Fillmore Street, Suite 600, Denver, CO 80206

Fund Details:

Total Firm Assets (\$bil):	\$4.7 billion as of 12/31/14	<p>Key Investment Professionals: Michael Shannon, Chairman and Co-Founder of KSL Capital Partners in 2005. He founded KSL Recreation in 1992, serving as its President and Chief Executive Officer. He co-founded and became Chief Executive Officer of KSL Resorts in 2004 following the sale of KSL Recreation to CNL. Prior to establishing KSL Recreation, he served as President and CEO of Vail Associates, Inc. (owner of Vail and Beaver Creek resorts) in Vail, Colorado, from 1986 to 1992. Eric Resnick, Chief Executive Officer and Co-Founder of KSL Capital Partners in 2005. Prior to co-founding KSL Capital Partners, Mr. Resnick co-founded and became Chief Financial Officer of KSL Resorts in 2004 following the sale of KSL Recreation. Mr. Resnick became Vice President, Chief Financial Officer and Treasurer of KSL Recreation in January 2001. From May 1996 to January 2001, he was an executive with Vail Associates, where he served as Vice President, Strategic Planning and Investor Relations. Steven Siegel, Partner and Chief Operating Officer Mr. Siegel joined KSL in March 2005 as one of the founding members of the firm after serving as KSL's outside counsel since 2002. Peter McDermott, Partner, Mr. McDermott joined KSL in July 2003, and was one of the founding members of the firm. He served as Director of Acquisitions and Corporate Finance at KSL Recreation through April 2004. He served in the same position at KSL Resorts following the sale of KSL Recreation to CNL. Martin Newburger, Partner, Mr. Newburger joined KSL in July 2006. Prior to joining KSL, he was a Director at Citigroup and Deutsche Bank, focusing on lodging and leisure investment banking clients including KSL Recreation. Richard Weissmann, Partner, Mr. Weissmann joined KSL in March 2008. Previously, he was a Managing Director in the Investment Banking Division of Goldman Sachs & Co., where he led Goldman's Gaming, Hospitality and Leisure practice.</p>
Strategy:	Non-core real estate	
Year Founded:	2005	
Headquarters:	Denver, CO	
GP Commitment:	2%	

Investment Summary

KSL Capital Partners IV (the "Fund") will make equity and debt investments in real estate and related travel and leisure businesses. KSL intends to primarily invest in control equity positions across a broad range of travel and leisure businesses, such as hotels and destination resorts, high-end athletic clubs, golf courses, ski resorts, private business or country clubs, travel services, spas, and other leisure-related businesses and real estate assets. The Fund will focus on undermanaged or undervalued businesses and properties with high barriers to entry.

Existing and Prior Funds

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 09/30/2014</i>
KSL Fund II	2006	Non-core	14.6% Net IRR, 1.5x Net MOIC, 119% Net DPI
KSL Supplemental II	2009	Non-core	25.2% Net IRR, 2.1x Net MOIC, 148% Net DPI
KSL Fund III	2011	Non-core	12.9% Net IRR, 1.2x Net MOIC, 34% Net DPI

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

Vehicle Information:

Inception:	2014	Auditor:	Deloitte & Touche LLP
Fund Size (\$mil.):	\$2.25 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	1.75% on committed during investment period; thereafter, 1.25% on invested after investment period		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$100,000,000	LP Advisory Board Membership:	TBD
% of Fund:	4.44%	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.