



## State of New Jersey

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May 28, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment in Meyer Bergman European Retail Partners II-TE, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of €50 million in Meyer Bergman European Retail Partners II-TE, L.P. (“Fund II” or the “fund”). 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:

**Seed Assets:** Fund II’s portfolio is approximately one third invested with nine assets in Western Europe, two of which have been realized already. Another one third of the Fund is visible in the near-term pipeline. The Division will be buying into the portfolio at cost plus fund expenses, leading to immediate valuation uplift. Staff and real estate consultant RV Kuhns believe the seed assets to be of extremely high quality and the visibility into the portfolio also significantly reduces the risk of the proposed investment.

**Operational Capability:** Meyer Bergman’s lineage is in real estate development with its parent company, MAB Group, which was founded in 1970 and responsible for €7.5 billion of invested capital through 2004. The team leverages its operational pedigree through a very active investment management strategy, including constant monitoring of tenant requirements and trends, supplemental revenue opportunities such as signage, and large scale redevelopments. Meyer Bergman is also equipped to handle capital improvement, leasing, operating and marketing in-house, unlike many of its peers, thereby reducing fees and increasing control.

**Market Opportunity:** “High Street” retail assets are exhibiting strong performance in major European markets, driven primarily by tourist spending and wealthy individuals. In addition, there are few planned retail developments across the continent, leaving a supply shortage even though most retailers in Europe’s major cities continue to expand. It is also important to note that prime European retail valuations have experienced lower valuation declines and greater valuation recoveries through several distinct real estate 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, 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.

The fund utilized Greenhill & Co., LLC (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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 Meyer Bergman European Retail Partners II-TE, 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 May 14, 2014. 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 May 28, 2014 meeting.

Attachments

**Fund Name: Meyer Bergman European Retail Partners II-TE, L.P.**

**May 28, 2014**

**Contact Info: Tami Chuang, 16 Berkeley Street, London, WIJ 8DZ**

**Fund Details:**

<b>Total Firm Assets:</b>	€1.8B as of 12/31/2013	<p><b>Key Investment Professionals:</b>  <b>Markus Meijer</b>, CEO, Investment Committee Member.                  Mr. Meijer has extensive real estate development and investment experience and has originated, executed and exited multiple real estate and non-performing loan portfolio transactions, as well as single asset investments across France, Spain, Italy, Germany and the United Kingdom. Prior to founding Meyer Bergman in 2004, Markus joined MAB Group as CFO in 2003.  <b>Sanjiv Raykundalia</b>, CFO, Investment Committee Member.                  Since joining in 2007, Mr. Raykundalia oversees financial reporting to investors, compliance matters, and the provision of accounting supervision and tax structuring in relation to new acquisitions. Previously, Mr. Raykundalia worked at JER Partners in London as Director of Finance.  <b>Mark Gamble</b>, Head of Asset Management, Investment Committee Member.                  Based out of Poland for eight years, Mark brings extensive experience across the European Markets. Since joining in 2008, Mr. Gamble oversees the portfolio and its strategic asset management. Additionally, he is involved in all acquisitions, providing support for the acquisitions team. Prior to joining Meyer Bergman, he worked for Heitman for six years as Senior Vice President and Head of European Retail Asset Management.</p>
<b>Strategy:</b>	Non-core real estate	
<b>Year Founded:</b>	2004	
<b>Headquarters:</b>	London, England	
<b>GP Commitment:</b>	2%, up to €10 million	

**Investment Summary** **Existing and Prior Funds**

Meyer Bergman was established in 2004 from the carved-out investment and management arms of the MAB Group. The MAB Group was founded in 1970 and is one of the largest urban retail and mixed-use developers in Europe. The General Partner will seek to generate attractive risk-adjusted returns for the Fund by using its resources and expertise to acquire assets and drive value through asset management strategies including reconfiguration, refurbishment and repositioning. The Fund Team will seek to create a portfolio of retail assets for the Fund that is geographically diversified, compelling to major retail tenants and highly attractive to core and strategic real estate buyers. It will execute the above-noted strategy in select European markets, with a particular focus on “Core Markets,” (Germany, France, the Nordics, the United Kingdom, and Benelux countries) as well as “Growth Markets” (Czech Republic and Poland). In addition, the Manager will selectively evaluate other “European Opportunistic Markets,” such as Spain, Ireland, and Italy.

<u>Funds</u>	<u>Strategy</u>	<u>Vintage Year</u>	<u>Returns as of 12/31/2013</u>
Fund I	Real Estate	2008	15% Projected Net IRR 1.7x Net Projected Multiple of Invested Capital
Fund II	Real Estate	2014	18% Projected Net IRR 1.7x Net Projected Multiple of Invested Capital

IRR = Internal Rate of Return

**Vehicle Information:**

<b>Inception:</b>	2012, Final Close in 2014	<b>Auditor:</b>	<b>PricewaterhouseCoopers</b>
<b>Fund Size (\$mil.):</b>	€750 mil	<b>Legal Counsel:</b>	<b>Jones Day</b>
<b>Management Fee:</b>	1.75%, commitments of €50m and over are rebated to an effective rate of 1.50%	<b>Placement Agent:</b>	<b>Greenhill &amp; Co., LLC</b>
<b>Carry:</b>	20%		
<b>Hurdle Rate:</b>	9%; thereafter 80% to the LP, 20% GP until the LPs receive preferred return of 12%; thereafter 60% GP until the GP receives 20% of total distributions; thereafter 80% to LP, 20% to GP		
<b>Additional Expenses:</b>	100% fee offset		

**NJ AIP Program**

<b>Recommended Allocation (\$mil.):</b>	€50 million	<b>LP Advisory Board Membership:</b>	Yes
<b>% of Fund:</b>	6.7%	<b>Consultant Recommendation:</b>	Yes
		<b>Placement Agent:</b>	Yes
		<b>Compliance w/ Division Placement Agent Policy:</b>	Yes
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.