



State of New Jersey

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January 22, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Real Asset Investment - Digital Colony Partners II, LP**

The Division of Investment (the “Division”) is considering an investment of up to \$150 million to be allocated up to \$100 million to Digital Colony Partners II, LP (the “Fund”) and up to \$50 million to a co-investment vehicle alongside 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:

Experienced and Cohesive Team with Deep Industry Relationships

Digital Colony (the “Firm”) is led by co-founders who have worked together for more than 15 years and each have more than 25 years of digital infrastructure experience. The co-founders built their platform by assembling a core team of experienced senior executives with whom they worked on successful investments and by recruiting a network of Operating Partners and Senior Advisors with expertise in owning, operating, and managing businesses across the digital communications ecosystem.

Pure-Play Digital Infrastructure Platform with Broad Sector Focus

The Fund will target a well-diversified portfolio of mission critical digital infrastructure assets, including towers, fiber, small cell networks, data centers, and related assets and businesses. The Fund will focus on sector themes across multiple geographies which can provide the best risk-adjusted returns.

Defensive Asset Characteristics

The main components of the digital infrastructure ecosystem are typically resilient and uncorrelated to the broader economic cycles, evidenced by the continued growth of these businesses to date during the COVID-19 crisis. This resilient demand will help the sector remain defensible against downturns and should enhance risk-adjusted returns.

Strong Track Record

While the Firm’s predecessor fund is early in its life cycle, the members of the team have demonstrated strong performance in their prior ventures. The senior management team has a

history of starting businesses, executing timely acquisitions, growing businesses organically as well as through M&A, building platforms, creating value, and monetizing investments.

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

Division Staff and its consultant, Aksia TorreyCove Partners, 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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund, but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

The Firm has a formal Responsible Investment (RI) Policy through which it integrates Environmental, Social & Governance (ESG) factors into its investment strategy. The Firm’s Chief Administrative Officer leads a 10-member ESG Committee comprised of operating and investment professionals who set the strategic plan for ESG initiatives. The Firm is a signatory of the UN Principals of Responsible Investing (UNPRI). Relevant reporting and industry standards, best practices and global initiatives that the Firm utilizes include the Sustainability Accounting Standards Board (SASB), Global Real Estate Sustainability Benchmark (GRESB), and UN Sustainable Development Goals.

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. Digital Colony Partners II, LP and the related co-investment vehicle are considered real asset investments, 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 January 13, 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 January 27, 2021 meeting.

Attachment

Fund Name: Digital Colony Partners II, LP **January 22, 2021**

Contact Info: Kevin Smithen, 750 Park of Commerce Drive, Suite 210, Boca Raton, FL 33487

Fund Details:

Total Firm Assets (\$bil.):	\$25 billion
Strategy:	Real Assets - Infrastructure
Year Founded:	2018
Headquarters:	Boca Raton, FL
GP Commitment:	5% of Capital Commitments, up to \$200 million

Key Investment Professionals:

Marc Ganzi is President and CEO of Colony Capital, Chief Executive Officer of Digital Colony and a member of the Investment Committee. He is also co-founder of Digital Bridge, the direct predecessor of Digital Colony, which was acquired by Colony Capita in 2019. Prior to Digital Bridge he was CEO and founder of Global Tower Partners (GTP) and President and founder of Apex Site Management. He sits on the Broadband Deployment Advisory Committee of the FCC and was a board member of the Wireless Infrastructure Association. He holds a Bachelor of Science from the Wharton School of Business.

Ben Jenkins is Chief Investment Officer of Digital Colony. Prior to Digital Colony, he was co-founder of Digital Bridge and former Chairman of GTP. Prior to Digital Bridge he was a Senior Managing Director and head of the Hong Kong office for The Blackstone Group. During his tenure at Blackstone he was Head of telecom, media and technology (TMT) investing. He received a Bachelor of Arts with honors from Stanford University and an MBA with distinction from Harvard Business School.

Jeff Ginsberg is a Managing Director and Chief Administrative Officer of Digital Colony. Prior to joining Digital Colony, he was a Managing Director and Operating Partner of Mistral Equity Partners where he also served as a member of the Investment Committee. Before Mistral, he was Executive Chairman of InfoHighway Communications and CEO of its predecessor entity Eureka Broadband. Mr. Ginsberg received a Bachelor of Science, cum laude, in Finance and Accounting from The Wharton School of the University of Pennsylvania.

Kevin Smithen is a Managing Director and Global Head of Strategy and Capital Formation at Digital Colony and Colony Capital. He has over 25 years of relevant industry experience. Prior to Digital Colony, he worked in the equity research division of Macquarie Securities, most recently as Managing Director, Telecom Services and Infrastructure and as Sector Head for TMT. He received a Bachelor of Arts, magna cum laude, with distinction from Duke University.

Tom Yanagi is a Managing Director at Digital Colony. He has over 20 years of relevant experience. Prior to Digital Colony, Mr. Yanagi was the Head of the Communications Infrastructure Team in New York for Macquarie Infrastructure Partners. He received a Bachelor of Arts in Economics from Rutgers College and an MBA from Columbia Business School.

Jon Mauck is a Managing Director at Digital Colony and a member of the Investment Committee. Mr. Mauck has 20 years of experience investing in, advising and operating communications infrastructure businesses. Mr. Mauck leads the data investment strategy at Digital Colony and is responsible for the identification, evaluation, consummation and management of new investments in the data center sector on a global basis. He received a Bachelor of Arts, with honors, in Economics from George Mason University and a Juris Doctor, with distinction, from Boston College.

Steven Sonnenstein is a Managing Director at Digital Colony and a member of the Investment Committee. Mr. Sonnenstein is an experienced telecommunications infrastructure executive with over 24 years of global mergers and acquisitions, asset management and operations experience. Mr. Sonnenstein is responsible for the origination, evaluation, completion and ongoing asset management of new investments for Digital Colony on a global basis. He received a Bachelor of Commerce from McGill University and a post graduate degree in Chartered Accountancy.

Liam Stewart is a Managing Director and Chief Operating Officer of Digital Colony. Prior to Digital Colony, Mr. Stewart was the Chief Financial Officer of Macquarie Infrastructure Corporation. He has approximately 15 years of experience in acquiring, operating, and financing infrastructure assets in the U.S., Australia, and Asia. Mr. Stewart has an MBA from the Kellogg School of Management at Northwestern University and a Bachelor of Arts and Bachelor of Laws from the University of New South Wales.

Investment Summary

Digital Colony Partners II (the "Fund") will target a well-diversified portfolio across digital infrastructure assets, including towers, fiber, small cell, and data centers. The \$150 million commitment will be allocated \$100 million to the Fund and \$50 million to a co-investment vehicle alongside the Fund. Digital Colony (the "Firm") has an experienced management team and the two co-founders have worked together for 15 years and within the digital infrastructure sector for over 25 years. Digital infrastructure is expected to play an increasingly important role as rising global demand for data storage, transmission and connectivity drives substantial physical layer infrastructure requirements from Mobile Network Operators, cable operators, hyperscale tech companies, governments, business enterprises, and consumers. All the main components of the digital infrastructure ecosystem are typically resilient and uncorrelated to broader economic cycles.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 09/30/2020</u>
Fund I	2018	Infrastructure	5.5% Gross IRR; 1.1x Gross TVPI; 1% DPI

Source of Returns - Aksia TorreyCove

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2020
Fund Size:	\$6 billion (target)
Management Fee:	Fund: Less than \$100 million: 1.50% \$100 million - \$200 million: 1.35% Co-Investment: 0%
Carry:	Fund: 20% Co-Invest: 0%
Hurdle Rate:	8%
Additional Expenses:	100% Management Fee Offset

Auditor:	Ernst & Young, LLP
Legal Counsel:	Simpson Thacher & Bartlett LLP

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$150 million	LP Advisory Board Membership:	TBD
% of Fund:	2.50%	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.