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May 19, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Real Estate Investment - Prime Property Fund, LLC**

The Division of Investment (the “Division”) is proposing an investment of up to \$200 million in Prime Property Fund, LLC (the “Fund” or “Prime”), a fund managed by Morgan Stanley. 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:

Long-Tenured and Seasoned Investment Team: The senior management of the Fund have an average of more than 21 years with the Fund. The Head of Prime and CFO of Prime have been involved with Prime since the mid-1990s, and have risen through the ranks to leadership positions.

Strong Performance through Market Cycles: Prime has consistently outperformed the NCREIF Open-End Diversified Core Equity (ODCE) index across 1-year, 3-year, 5-year, and 10-year periods. Core real estate is generally stable and defensive in times of economic stress, and despite the COVID Crisis, Prime outperformed its benchmark in 2020.

Generate Current Income for the Pension Plan: A significant portion of core fund returns are generated through income growth from assets rather than relying on yield from value-add or opportunistic improvements.

Ability to Actively Rebalance the Pension Fund Portfolio: The proposed investment in Prime will increase the core strategy allocation toward the 2021 tactical allocation of 30-35% of the Pension Fund’s private real estate portfolio. As an open-end vehicle, the Fund offers the Pension Fund flexibility to rebalance its portfolio via quarterly redemption opportunities as it has successfully executed in the past.

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").

The Firm is a signatory to the United Nations Principles for Responsible Investment ("UNPRI") and has adopted Environmental, Social, and Governance ("ESG") principles in keeping with the UNPRI. The Firm also participates annually in the Global Real Estate Sustainability Benchmark ("GRESB"). The Firm has conducted climate risk analysis on its portfolio utilizing third-party vendors. ESG issues are taken into consideration in making and monitoring its investments. The Firm has implemented a comprehensive sustainability strategy, aimed at monitoring resources consumed by its real estate assets. In order to drive improvements, the Fund has sets specific goals and schedules to achieve absolute reduction in same-store energy use and greenhouse gas emissions. In accordance with the Council's ESG Policy, the Division's investment and corporate governance teams reviewed the Firm's relevant ESG policies and practices.

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. Prime Property Fund, LLC is considered a 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 May 12, 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 May 26, 2021 meeting.

Attachment

Fund Name: Prime Property Fund, LLC

May 19, 2021

Contact Info: Scott Brown, 1585 Broadway, 37th Floor, New York, NY 10036

Fund Details:

Total Firm Assets:	\$46 billion	Key Investment Professionals: Scott Brown: (President, Head of Prime) Mr. Brown has 29 years of real estate experience and oversees the Prime series of funds in the U.S. and globally. Mr. Brown is responsible for the portfolio construction and performance of Prime as well as the direction and execution of the Fund's strategy. He also serves on various investment committees across the MSREI platform. Mr. Brown started working with Prime in 1993 as part of Equitable Real Estate and then Lend Lease. He became fully dedicated to Prime in 2002 and took a leadership position in 2007. Candice Todd: (Vice President, Global CFO for MSREI, and CFO of Prime) Ms. Todd is responsible for Prime's capital structure and REIT compliance and serves on the Fund's Investment Committee. In addition, she oversees various management functions for Prime Europe and Asia. Prior to joining Morgan Stanley in 2003, Ms. Todd worked for Lend Lease since 1994 and has 29 years of real estate experience. She started her career at Price Waterhouse working primarily on real estate clients. She is a member of the Global Standards Steering Committee sponsored by PREA and NCREIF. Chevenne Sparrow: (Executive Director) During her time at Morgan Stanley, Ms. Sparrow has worked on the U. S. debt capital markets team, responsible for structuring the capital stack and securing financing on behalf of MSREI funds and individual transactions. Prior to joining MSREI, she worked in the Portfolio Analytics Group at BlackRock, focusing on Institutional Multi-Sector Fixed Income accounts as well as BlackRock's Fixed Income Retail Mutual Funds. Josh Myerberg: (Managing Director, Deputy Portfolio Manager of Prime) Prior to joining the executive team of Prime, Mr. Myerberg was responsible for sourcing, underwriting and executing transactions on the West Coast on behalf of MSREI. Mr. Myerberg joined MSREI in 2006 after previously working for Banc of America Securities' Real Estate Investment Banking group and First Union Securities. Bennet Weaver: (Head of Operations of Prime) Prior to joining Morgan Stanley in 2004, Mr. Weaver worked for Lend Lease and has over 22 years of real estate experience. Mr. Weaver began his career in assurance services at Ernst & Young focusing on real estate clients. He is a CPA and serves on the Accounting Committee at NRCEIF. Cole Ferguson-Cogdill: (Executive Director) Mr. Ferguson-Cogdill is responsible for portfolio operations and reporting for Prime. He has over 19 years of real estate experience and previously worked for Morgan Stanley from 2004-2012 as part of Prime's portfolio accounting and finance team. He departed Morgan Stanley in a lift-out to State Street and subsequently led the accounting and finance team for a national, vertically integrated real estate developer, owner and operator. He rejoined Morgan Stanley in 2020. He began his career at PriceWaterhouseCoopers and is a CPA.
Strategy:	Core Real Estate	
Year Founded:	1991	
Headquarters:	New York	
GP Commitment:	N/A	

Investment Summary

Prime Property Fund (the "Fund") is a diversified, open-ended commingled real estate investment vehicle. The Fund executes a core investment strategy exclusively focused on assets within the US and diversified by property type and geography with the goal of providing a stable, income-driven rate of return over the long term with potential for growth of income and appreciation of value. The open-end structure provides a liquidity option, which the Division utilized in 2011 and 2012 to rebalance the Pension Plan portfolio. In addition to the major property types (office, apartment, industrial & retail) the Fund has a higher allocation to non-traditional property types, such as medical office, life science and self storage, than the NCREIF ODCE index which differentiates the Fund from its peers. The Fund is also differentiated from its peers with leverage that is lower than ODCE.

Existing and Prior Funds

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns</i>
Prime Property Fund	1973	Core	10.92% (10-year net return as of 12/30/2020)

Source of Returns - Hamilton Lane

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

Vehicle Information:

Inception:	1973	Auditor:	Deloitte
Fund Size :	NAV of \$26.7 billion as of 12/31/2020	Legal Counsel:	Davis Polk & Wardwell LLP
Management Fee:	84 basis points per annum of NAV		
Incentive Fee:	based on NOI annual growth (not to exceed 35 basis points per annum)		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$200 million	LP Advisory Board Membership:	YES
% of Fund:	0.75%	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.