



State of New Jersey

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March 22, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Investment in Exeter Industrial Core Fund III, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Exeter Industrial Core Fund III, L.P. (the “Fund”) managed by Exeter Property Group, LLC (“Exeter”). 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 Investment Opportunity Driven by Market Trends: The industrial real estate market continues to benefit from the expansion of e-commerce, which has supplanted trade as the primary driver of new industrial real estate demand. Supply chains require new and expanded logistics networks to increase efficiency and accelerate the flow of goods to customers. Additionally, tenants require new Class-A warehouses that meet particular needs relating to clear ceiling height, column spacing, truck courts, and fire suppression systems.

Experienced and Stable Investment Team with a Thoughtful Succession Plan: Exeter’s co-founders each have more than 30 years real estate experience. Prior to the formation of Exeter (the “Firm”) in 2006, most of the senior professionals worked together at two predecessor companies. The management team averages 17 years working together and 25 years real estate experience. To position the firm for succession over the long term, the Exeter members have broadened ownership of the Firm.

Proven Investment Approach: The Firm has developed and refined a consistent investment approach using one-off and small portfolio acquisitions to aggregate a diversified portfolio of large, modern industrial assets. The Firm maintains 15 regional offices throughout the U.S. staffed with professionals focused on acquisitions, development, leasing, property management, and asset management. These extensive local operating capabilities provide the Firm with a differentiated ability to source, diligence, close, and manage investments.

Strong Track Record: Since inception the Firm has raised 15 commingled funds, co-investment vehicles and managed accounts representing over \$5.5 billion of investor equity. Core Fund I has

been fully monetized through a portfolio sale and generated top quartile performance of 22.3% net IRR and 1.5x MOIC within that fund's investment period. Core Fund II is marked to generate top quartile returns of 15.5% net IRR and 1.2x MOIC.

Environmental, Social and Governance (ESG) Policy: The Firm has a formal ESG policy through which it seeks to incorporate ESG-related issues into its investment decisions and asset management. The Firm intends to be fully compliant with the United Nations Principles for Responsible Investment. As an institutional real estate manager, environmental sustainability is particularly important. Specific policy goals are to: (1) reduce the environmental impact of their business, (2) reduce the environmental impact of their clients' investments, (3) exceed local environmental regulations when appropriate, and (4) collaborate with tenants, property managers, and service providers to implement sustainable business practices. Professionals within the firm are LEED-accredited. The LEED (Leadership in Energy & Environmental Design) standards were developed by the U.S. Green Building Council, and take into account building design & construction, interior design & construction, operations & maintenance, energy usage, and water efficiency.

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").

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents governing the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council's policy concerning 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. Exeter Industrial Core Fund III, L.P. 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 Committee was held on March 20, 2019. 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 27, 2019 meeting.

Attachments

Fund Name: Exeter Industrial Core Fund III, L.P.

March 22, 2019

Contact Info: Rayenne Chen, 101 West Elm Street, Suite 600, Conshohocken, PA 19428

Fund Details:

Total Firm Assets (\$bil.):	\$4.0 billion	<p>Key Investment Professionals: Ward Fitzgerald, Managing Partner, CEO, Co-Founder in 2006. Prior to forming the Firm, Mr. Fitzgerald served as Senior Vice President and Northeast Regional Director for Liberty Property Trust, a publicly-traded REIT with substantial industrial and office property investments. He oversaw all aspects of acquisitions, asset management, development, leasing, and property management of Liberty's largest region which comprised 180 assets. Prior to Liberty he worked in the Real Estate Consultancy group at Coopers & Lybrand. Tim Weber, Managing Partner, CFO, Co-Founder in 2006. Prior to forming the Firm, Mr. Weber worked for Terramics Property Company, where, as Partner and COO, he oversaw all leasing, property management and certain accounting, and asset financings. He helped orchestrate investments through a partnership with Ohio State Teachers' Retirement System. During his tenure he participated in the negotiations to sell Terramics to Prentiss Properties, a publicly-listed REIT. He started his career with Price Waterhouse. James Hoeland, US Core Co-Portfolio Manager, joined Exeter in 2013. In addition to his responsibilities as Co-Portfolio Manager of the core fund series, he is also the Head of Acquisitions responsible for investment sourcing, underwriting, and due diligence for the core strategy. Prior to Exeter, he spent six years in China working for Shui On Land, a publicly listed mixed-use developer, where he contributed to the execution of development site acquisitions, and with Blackstone in Hong Kong. Tom Meehan, US Core Co-Portfolio Manager, joined Exeter in 2017. In addition to his responsibilities as Co-Manager of the core fund series, he is responsible for all aspects of asset management for the core fund series and managed accounts. Prior to Exeter he served as Senior Vice President with DCT Industrial for 10 years until its sale to Prologis. At DCT, he oversaw all aspects of operations including acquisitions, development, and leasing. Prior to DCT he held positions with Cornerstone Real Estate Funds and Prologis.</p>
Strategy:	Core Real Estate	
Year Founded:	2006	
Headquarters:	Conshohocken, PA	
GP Commitment:	\$6.0 million	

Investment Summary

Exeter executes a bottom-up approach of one-off and small portfolio acquisitions to aggregate a diversified portfolio of large, modern industrial assets with stable in-place cash flows. Core Fund III will target bulk distribution and multi-tenant logistics facilities (75% of the portfolio) and last-mile distribution properties (25% of the portfolio) to provide for a diverse portfolio of market types geared toward regional consumption, local consumption, air cargo, and intermodal distribution. Core Fund III will seek to invest across a variety of US markets with an emphasis on primary population centers, e-commerce, and high-growth markets in an approximate 50%/30%/20% proportion respectively. The Fund will invest no more than 20% in any single market and no more than 10% in any single asset.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 9/30/2018
Core Fund I	2012	Core	22.3% Net IRR, 1.5x TVPI, 1.5x DPI
Core Fund II	2016	Core	15.5% Net IRR, 1.2x TVPI, 0.1x DPI

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

Vehicle Information:

Inception:	2019	Auditor:	PricewaterhouseCoopers LLP
Fund Size :	\$750 million to \$1 billion	Legal Counsel:	Clifford Chance US LLP
Management Fee:	0.90% on invested capital		
Carry:	15%		
Preferred Return:	8%		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Exeter Industrial Core Fund III Recommended Allocation (\$mil.):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	13.33%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	YES