



State of New Jersey

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October 25, 2024

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Real Estate Investment - Carlyle Realty Partners X, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$300 million in Carlyle Realty Partners X, L.P. (the “Fund”) managed by Carlyle Realty (the “Firm”). 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:

Seasoned, Cohesive & Stable Investment Team: The Firm has 26 years of consistent leadership under Robert Stuckey who has 35 years of industry experience and has led the team since Fund I in 1998. The senior investment team has had limited turnover and is led by ten Partners who average 31 years of industry experience and 22 years tenure with the Firm.

Thematic Investment Strategy: The Firm executes disciplined property sector selection based on strong demographic trends and takes into consideration the impact of technology. The team has demonstrated the ability to identify trends ahead of the market and deploy capital to under-served strategies or sectors in advance of the broader market. Similarly, the team has a history of pivoting as market outlook changes.

Intentional Portfolio Construction to Minimize Risk: The Firm targets middle market assets and constructs granular portfolios to reduce risk through diversification. The Firm is able to execute a large number of middle-market transactions through a network of operating partners. Approximately 80% of investments have been sourced on a proprietary basis.

Alignment with the Division’s Portfolio Goals: The Firm’s high conviction property types align with the Division’s focus on increasing investments in residential and industrial property sectors. The Firm’s mid-cap investment strategy and execution is differentiated from the Division’s other

managers. The timing of the Fund aligns with the Division's goal to position the real estate portfolio to capitalize on post-correction market opportunities.

Strong Performance: Investing since 1998, the team has one of the longest track records among its peers. Through nine opportunistic funds comprising \$18 billion of capital, the Firm has executed 1,164 investments and realized 781 investments that generated aggregate net returns of 18% IRR. The Firm has a consistent track record of upper quartile performance through multiple market 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, 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 Firm engaged a third-party solicitor ("placement agent") in the fundraising of the Fund, but the placement agent was not used to solicit New Jersey's potential investment and was not compensated in connection with facilitating New Jersey's potential investment.

The Firm has a formal ESG Policy. Carlyle's current ESG Policy and related due diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. Carlyle incorporates ESG considerations through their different business strategies.

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. Carlyle Realty Partners X, L.P. is 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 IPC was held on October 21, 2024. 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 October 30, 2024 meeting.

Attachment

Carlyle Realty Partners X, L.P.

- **DOI Commitment:** \$300 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund will invest in property sectors with demographic demand drivers that are relatively unrelated to GDP. Target asset types include residential (multifamily, single family rental and active adult) and industrial (warehouses and industrial outdoor storage).
- **Target Returns:** 20%-25% gross returns
- **Fund Size:** \$8.0 billion target (\$10 billion hard cap)
- **Investment Thesis:**
 - Seasoned, cohesive & stable management team
 - Thematic investment strategy
 - Intentional portfolio construction to minimize risk
 - Alignment with New Jersey Division of Investment
 - Strong performance

*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. The Vehicle Information section is intended as a summary only.