



State of New Jersey

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March 18, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

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

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in Exeter Core Industrial Club Fund II, L.P. The Fund, managed by Exeter Property Group (“Exeter” or the “Firm”), is the follow-on vehicle to the successful Exeter Core Industrial Venture (“Core Fund I”), which the Division committed \$200 million to in 2012. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Fund will continue the successful strategy of Core Fund I. Exeter will invest in core and core-plus industrial real estate focusing on bulk warehouse and multi-tenant logistics assets (75%) and “last mile” distribution properties (25%). Exeter is targeting six premium markets and 11 prime markets for acquisitions, in which a minimum of 66% of the Fund’s equity will be invested. The Firm has identified an additional 18 select markets with a portfolio limit of 34%

The Division is recommending this investment based on the following factors:

Significant Sector Expertise with Limited Legacy Issues: Exeter is the largest private industrial real estate manager in the US and currently has 106 million square feet of distribution and logistics assets under management. The firm is also a vertically integrated operator with in-house expertise in acquisition, asset management, property management and disposition which eliminates a layer of fees that would traditionally be paid to operating partners.

Deep and Experienced Team: The management team averages 15 years working together and 25 years of experience. The firm has 80 professionals and a nationwide platform of 11 regional offices.

Strong Track Record with Current Income: Core Fund I generated net returns of 20.1% Internal Rate of Return (“IRR”) and a 1.5x multiple with a 9% cash yield, and across its three value add funds, the firm projects net returns of 21% IRR and a 1.9x multiple. Also key to the strategy is the Fund’s investment philosophy of producing immediate current income which is expected to account for at least 75% of the projected returns for the Fund.

Attractive Terms: Management fee of 0.80% is based only on invested equity, preferred return of 8.5% and 15% carry with no catch up. RVK Inc., the Division's real estate consultant, estimates the fee structure will generate \$1.3 million in fee savings over the life of the fund compared with open-end fund alternatives and \$6 million in savings compared with traditional non-core fund structures.

Rebuild Industrial Property Sector Allocation: Following the 100% realization of Core Fund I, the Division is under-allocated to the industrial property sector (12% of total Division private real estate vs. 14% for NCREIF ODCE). With only nominal unfunded commitments in the industrial sector, exposure is anticipated to further drop. The Fund will enable the Division to rebuild its industrial sector exposure.

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

Division Staff and its real estate consultant, RVK Inc., 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 (a "placement agent") in connection with New Jersey's potential investment.

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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. Exeter Core Industrial Club Fund II will be 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 11, 2016. 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 23, 2016 meeting.

Attachments

Fund Name: Exeter Core Industrial Club Fund II **March 23, 2016**

Contact Info: *Rayenne Chen, 140 W. Germantown Pike, Suite 150, Plymouth Meeting, PA 19462*

Fund Details:		Key Investment Professionals: <u>Ward Fitzgerald</u> , Managing Principal, CEO - 27 years of commercial real estate experience. Mr. Fitzgerald is responsible for providing strategic direction, evaluating investment decisions and sourcing transactions. Prior to Exeter, Mr. Fitzgerald served as a Senior Vice President of Liberty Property Trust, a publicly traded real estate investment trust focused on industrial real estate. <u>Tim Weber</u> , Managing Principal, CFO - 32 years of real estate experience. At Exeter, Mr. Weber is responsible for managing accounting, financial reporting, budgeting, legal, operations and asset financings. Prior to Exeter, Mr. Weber worked for Terramics Property Company, where as Partner and Chief Operating Officer he oversaw all leasing, property management and certain accounting, real estate budgeting, tax preparation and asset financings.
Total Firm Assets:	\$3.0 billion	
Strategy:	Core real estate	
Year Founded:	2006	
Headquarters:	Plymouth Meeting, PA	
GP Commitment:	1% of total equity	

Investment Summary
Exeter employs a centralized decision-making process supported by local “on the ground” acquisition, asset management, and property management professionals spread throughout the firm’s regional offices. The Fund will invest in core and core-plus industrial real estate focusing on bulk warehouse and multi-tenant logistics assets (75%) and “last mile” distribution properties (25%). Exeter is targeting six premium markets and 11 prime markets for acquisitions, in which a minimum of 66% of the Fund’s equity will be invested. The firm has identified an additional 18 select markets with a portfolio limit of 34%. For each of the market types, Exeter will have “discretion in a box” with minimum requirements for going-in cap rates, clear ceiling heights, occupancy and remaining lease terms, as well as limits on the amount of office build-out. Development is restricted to forward-funding of build-to-suit properties with higher requirements on cap rates, ceiling heights and lease terms. Investments outside of the stated criteria, and equity investments over \$40 million, require super-majority limited partner consent.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Projected Returns as of 9/30/15</u>
Exeter Industrial Value Fund I	2007	Value Added	11% Net IRR, 1.7x Net MOIC
Exeter Industrial Value Fund II	2011	Value Added	31% Net IRR, 2.0x Net MOIC
Exeter Industrial Value Fund III	2014	Value Added	14% Net IRR, 1.8x Net MOIC
Exeter Core Fund I	2012	Core	20% Net IRR, 1.5x Net MOIC

IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital

Vehicle Information:

Inception:	2016	Auditor:	PricewaterhouseCoopers LLP
Fund Size :	\$600 million	Legal Counsel:	Clifford Chance US LLP
Management Fee:	0.80%, only on invested capital		
Carry:	15%		
Preferred Return:	8.5%		

NJ AIP Program

Recommended Allocation):	\$100 million	LP Advisory Board Membership:	YES
% of Fund:	16.67%	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.