State of New Jersey

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290
Telephone (609) 292-5106
Facsimile (609) 984-4425

ELIZABETH MAHER MUOIO
State Treasurer

COREY AMON
Acting Director

October 19, 2018

MEMORANDUM TO: State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Investment in KSL Capital Partners V, L.P.**

The New Jersey Division of Investment ("Division") is proposing an investment of up to $100 million in KSL Capital Partners V, L.P. ("Fund"). This memorandum is presented to the State Investment Council ("Council") pursuant to N.J.A.C. 17:16-69.9.

The Fund will target real estate equity and debt investments in travel and leisure assets and businesses. The Fund will focus on value-add opportunities in the following sectors: hospitality (hotels, resorts, restaurants, and management companies), recreation (ski, spas, family entertainment, and marinas), clubs (golf, fitness, health, social, and dining), and travel services (private aviation, adventure travel, and tour operators). The investment strategy is based on five elements: expanding each investment's enterprise value by enhancing the existing revenue base, creating new business opportunities, improving operating efficiencies, optimizing the value of real estate assets, and building sector-specific platforms. KSL Capital Partners LLC (the "Firm") has an operationally intensive investment approach and will target acquisitions of businesses that have been historically under-managed and are in need of repositioning or capital improvement.

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

Cohesive and Tenured Management Team: The Firm has significant experience investing in the travel and leisure industry. Senior management has worked together extensively in a number of capacities, with an average tenure of 13 years with the Firm and nearly 20 years of experience in the industry, and has a strong reputation of success.

Differentiated Investment Strategy: The Firm's senior investment and asset management professionals have deep operational experience in the travel and leisure industry. The reputation of the Firm and its partners often provides an advantage when sourcing opportunities. The Firm's proven ability to execute value-add improvements to properties and to scale operating platforms through multiple channels differentiates it from its peers.

Demonstrated Investment Discipline and Ability to Shift with Market Conditions: The Firm has had success investing across multiple market cycles, achieving attractive returns in both strong and difficult markets. The Firm exercised considerable discipline in deploying capital during the prior cycle. In early 2008, the Firm shifted its strategy to focus on more defensive investments based on its view of the market cycle. The Firm began to target distressed debt opportunities, private clubs, and other leisure businesses that relied more heavily on the mass affluent consumer rather than more cyclical corporate spending patterns. In 2011, the Firm capitalized on opportunities generated through cyclical growth and shifted attention to hospitality-related businesses.

Focused Investments in an Expanding Sector: As the global middle-class increases, travel and leisure spending has been increasing. Consumers increasingly value experiences over material goods. International tourist travel has been increasing steadily and is expected to continue to trend upward. Even during the global financial crisis, consumers continued to travel and invest in health, wellness, and activities for the family. According to the World Travel and Tourism Council, in 2017, the tourism sector accounted for 10% of global GDP ($8.3 trillion) and is expected to increase by 4% annually over the next decade.

Environmental, Social, and Governance ("ESG"): The Firm has a formal ESG policy that defines its approach to responsible investing and integrates environmental, social and governance risks and opportunities into investment decisions made by its funds. ESG considerations are incorporated into the due diligence and screening of investments. Environmental concerns include energy sources or generation, water sources and supply, waste generation and management, resource conservation, energy efficiency, pollution generation, and chemical safety. Social concerns include equal employment and labor laws, political risks, fair compensation, worker health and safety, charitable contributions, and community relations. Governance concerns include transparency, accountability, internal controls, risk management, executive and management compensation, workforce diversity, conflicts of interest, and regulatory compliance. The Firm's ESG committee consists of professionals across the entire platform who assist in identifying focus areas of ESG concern as well as enhancements to its ESG program. This includes measuring, tracking and reporting ESG elements at the Firm and portfolio company level. The Firm strives to operate within industry standards such as the UN Principals for Responsible Investment and works with its operating companies to identify and support ESG initiatives during the life of an asset.

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 used third-party solicitors ("placement agents") in fundraising, but no placement agent was engaged or paid in connection with New Jersey's potential investment.

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 in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) was obtained, and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

The investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. KSL Capital Partners V, 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 17, 2018. In addition to the formal written due diligence report, all other information obtained by the Division regarding the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's October 25, 2018 meeting.

Attachment

Fund Name: KSL Capital Partners V, L.P. — October 25, 2018

Contact Info: *Kenn Lee, 100 St. Paul Street, Suite 800, Denver, CO 80206*

Fund Details:

Total Firm Assets ($bil.):	$7.0 billion
Strategy:	Non-core real estate
Year Founded:	2005
Headquarters:	Denver, CO
GP Commitment:	2% of commitments, up to a max of $54 million

Key Investment Professionals:

Eric Resnick, Chief Executive Officer. Mr. Resnick co-founded KSL Capital Partners in 2005. Mr. Resnick had previously co-founded KSL Resorts and he became Chief Financial Officer of that company after the sale of KSL Recreation in 2004. Mr. Resnick joined KSL Recreation in January 200 1 and served as Vice President, Chief Financial Officer and Treasurer. From May 1996 to January 2001, he was an executive with Vail Associates, where he served as Vice Pres ident, Strategic Planning and Investor Relations.

Steven Siegel, Partner and Chief Operating Officer. Mr. Siegel joined KSL Capital Partners in March 2005 as one of the founding members of the firm after serving as outside counsel to the predecessor firms since 2002.

Peter McDermott, Partner and Chief Investment Officer. Mr. McDermott was one of the founding members of the firm. He joined joined KSL Recreat ion in July 2003 and served as Director of Acquisitions and Corporate Finance through April 2004. He served in the same position at KSL Resorts fo llowing the sale of KSL Recreation.

Coley Brenan, Partner and Head of Europe. Mr. Brenan joined KSL Capital Partners in 2005. He oversees the London office and is responsible for the coverage of Europe. Previously, he worked at Deutsche Bank Securities in the Real Estate, Gaming Lodging & Leisure Group in London.

Bryan Traficanti, Partner and Head of Strategic Operating Team. Mr. Traficanti joined KSL Capital Partners in 2006. Between 2004 and 2006 he served as Vice President of Asset Management for Destination Hotels & Resorts. From 2001 until 2004, Mr. Traficanti served as a Director of Finance for KSL Resorts. Prior to KSL Resorts, he worked alongside Mr. Resnick at Vail Resorts.

Investment Summary

KSL has targeted the hospitality, recreation, club, and travel services sectors within the travel and leisure industry since inception. The investment strategy is based on five elements: expanding each investment's enterprise value, creating new business opportunities, improving operating efficiencies, optimizing the value of real estate assets, and building sector-specific platforms. The firm has an operationally intensive investment aproach and will target acquisitions of businesses that have been historically under-managed and are in need of repositioning or capital improvement. Senior management has had success investing across multiple market cycles, and exercised considerable discipline in deploying capital during the prior cycle.

Existing and Prior Funds

Funds	*Vintage Year*	*Strategy*	*Returns as of 6/30/2018*
Fund II	2006	Non-core	14.4% Net IRR, 1.5x Net MOIC, 140% Net DPI
Fund II-S	2009	Non-core	24.4% Net IRR, 2.1x Net MOIC, 210% Net DPI
Fund III	2011	Non-core	13.0% Net IRR, 1.3x Net MOIC, 90% Net DPI
Fund IV	2016	Non-core	19.0% Net IRR, 1.2x Net MOIC, 20% Net DPI

IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2018	**Auditor:**	**Deloitte & Touche LLP**
Fund Size :	$3.0 billion hard cap	**Legal Counsel:**	**Simpson, Tacher & Bartlett LLP**
Management Fee:	1.75% on committed capital during the investment period 1.25% on invested capital post investment period		
Carry:	20%		
Preferred Return:	8%		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Recommended Allocation ($mil.):	up to $100 million	**LP Advisory Board Membership:**	**TBD**
% of Fund:	3.00%	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**Yes ****
		Compliance w/ Division Placement Agent Policy:	**N/A**
		Compliance w/ SIC Political Contribution Reg:	**Yes**

** Placement agent engaged for new investors, but was not engaged or paid in connection with NJDOI.

*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.