



State of New Jersey

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July 27, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Real Estate Capital Asia Partners III L.P, Fund and related co-investment vehicles**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$80 million in Real Estate Capital Asia Partners III L.P. (“RECAP III”) and up to \$40 million in related co-investment vehicles structured to invest alongside the main fund. 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:

Exposure to Top Decile Asian Real Estate Manager: RECAP III is being recommended due to the manager’s demonstrated capability to generate top decile returns in various real estate markets throughout Asia. Given that the Division’s portfolio is significantly underexposed to Asian real estate, an investment with RECAP III would provide the Division exposure to a high quality manager that continues to take advantage of Asian real estate market dislocation. The manager has sponsored Real Estate Capital Asia Partners, L.P. (“RECAP I”), a 2005 vintage fund and Real Estate Capital Asia Partners II L.P. (“RECAP II”), a 2008 vintage fund, both of which are top quartile performers compared to both Asian and opportunistic funds of like vintage years. Moreover, RECAP II was the top performing fund of all 2008 vintage opportunity funds, based on the projected gross IRR (30.4%) and multiple of invested equity (1.7x). Finally, the Manager has returned 96% (\$373 million) of aggregate equity invested (\$389 million) in RECAP I and II.

Extensive Asian Real Estate Expertise: The investment professionals leading the fund have an average of thirteen (13) years of investment experience with each having expertise in real estate investment, development, operations, asset management, and capital markets. Moreover, these professionals have diverse backgrounds in all target property types and geographies. This combination allows the team to identify, evaluate, and capitalize on attractive investment opportunities across Asia.

Strong Focus on Risk Management: A key component of the manager’s investment philosophy is focusing on risk management. RECAP accomplishes this through rigorous market research and a keen focus on structuring. RECAP only uses non-recourse leverage and has generally

limited overall leverage exposure to 50% LTV. Another characteristic of RECAP's risk management focus is the manager's ability to opportunistically purchase assets compared to the competition, and efficiently dispose of assets when market fundamentals shift investment opportunities throughout Asia.

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

Division Staff and its real estate consultant, R. V. Kuhns, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

The fund utilized Park Hill Real Estate Group LLC (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The Real Estate Capital Asia Partners III L.P Fund and related co-investment vehicles will be considered non-core real estate investments, 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 July 18, 2012. 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 August 2, 2012 meeting.

Attachments

Fund Name: Real Estate Capital Asia Partners III, L.P. and Related Co-Investment Vehicles

August 2, 2012

Contact Info: Suchad Chiaranussati, 390 Orchard Road #09-03/0, Palais Renaissance, Singapore 238871

Fund Details:		<p>Key Investment Professionals: Suchad Chiaranussati, Chairman: Prior to founding RECAP at the end of 2004, Mr. Chiaranussati spent approximately six years with Westbrook as Principal and Managing Director. Where he was responsible for Asian investment operations. Ian Lien, Managing Director: Mr. Lien joined the firm in 2007 and is responsible for acquisition, value enhancement and realization of real estate investments primarily in Southeast Asia. Prior to joining the firm, Mr. Lien co-founded Octagon Capital Partners Pte Ltd. ("Octagon"), an Asia Pacific-focused investment and advisory firm, in 2003. Freddy Chua, Managing Director: Mr. Chua is responsible for acquisition, value enhancement and realization of real estate investments in northern Asia. Previously, Mr. Chua was CEO and minority shareholder of Stonegate China Properties Limited, a Morgan Stanley affiliate.</p>
Total Firm Assets (\$mil.):	\$866 million	
Strategy:	Opportunistic Non Core Real Estate	
Year Founded:	2004	
Headquarters:	Singapore	
GP Commitment:	\$5 million, (No additional for co-investment)	

Investment Summary	Existing and Prior Funds									
<p>RECAP is co-owned by Suchad Chiaranussati (80%), Ian Lien (10%), Freddy Chua (10%). The investment professionals leading the fund have an average of thirteen (13) years of investment expertise with each having expertise in real estate investment, development, operations, asset and geographies. The Fund will pursue a Pan-Asian opportunistic investment strategy focused on acquiring, developing/redeveloping and operating real estate and real estate related assets in select Asian markets, including Greater China, Indonesia, Japan, Singapore, South Korea, Thailand and Vietnam. Additionally, consistent with the strategy executed through its predecessor funds, the manager will focus on investments that are undervalued, under-managed or whose situations are distressed and where value creation opportunities exist by virtue of market inefficiencies and/or strong macroeconomic fundamentals.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Returns</th> </tr> </thead> <tbody> <tr> <td>RECAP I</td> <td>Opportunistic, non-core</td> <td>14.4%, 1.9X</td> </tr> <tr> <td>RECAP II</td> <td>Opportunistic, non-core</td> <td>30.6%, 1.7X</td> </tr> </tbody> </table>	Funds	Strategy	Returns	RECAP I	Opportunistic, non-core	14.4%, 1.9X	RECAP II	Opportunistic, non-core	30.6%, 1.7X
Funds	Strategy	Returns								
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Vehicle Information:

Inception:	August 2011 (Co-investments will be on an as established basis)	Auditor:	KPMG LLP
Fund Size (\$mil.):	\$530 million, (Varies for each co-investment)	Legal Counsel:	Paul Hastings LLP
Management Fee:	1.5% (50% discounted fees for co-investment)	Accounting Firm:	KMPG LLP (Accounting)
Carry:	20% (25% discounted fees for co-investment)		State Street Fund Services (Singapore) Pte. Limited (Fund Adr
Hurdle Rate:	9% (same for co-investment)		
Additional Expenses:	None, (Pro rata sharing of expenses based on specific co-investment opportunity)		

NJ AIP Program

Recommended Allocation (\$mil.):	\$80 million to RECAP III and up to \$40 million to co-investment vehicles	LP Advisory Board Membership:	Yes
% of Fund:	15%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		Compliance w/ SIC Political Contribution Reg:	Yes