



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

SHOAIB KHAN
Director

April 21, 2023

MEMORANDUM TO: State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Proposed Investment in GCM Grosvenor Emerging Manager Separately Managed Account**

The Division of Investment (the “Division”) is proposing an investment of up to \$250 million in GCM Grosvenor Emerging Manager Separately Managed Account (the “SMA”). 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:

Diversify the Division’s Real Estate Portfolio with Middle-Market Assets: The Division’s current real estate portfolio has a concentration of large, mature managers that focus on large-scale assets or portfolio transactions. The SMA will provide exposure to investment opportunities that are below the radar of many of the Division’s existing managers.

Provide the Division with a Customized Solution to Address the Institutional Challenges in Accessing Subscale Managers: Research indicates that smaller real estate funds can outperform larger funds. Due to the Pension Fund’s size, investment restrictions and resource constraints, it is difficult to deploy capital at scale in smaller managers.

Partner with an Experienced Real Estate Platform with a Deep Emerging Manager Track Record: GCM Grosvenor’s (the “Firm”) real estate practice has predominantly focused on executing SMAs that invest with emerging managers, and has unparalleled sourcing capabilities with an established network of operating partners.

Obtain Early Access to the Next Generation of Real Estate Managers with Pre-Negotiated Economics: GCM Grosvenor has a track record for identifying and mentoring emerging managers and has graduated seventeen managers. The Firm pre-negotiates economics/rights with its operating partners that are transferrable to SMA investors.

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").

GCM Grosvenor adopted a Responsible Investment Policy ("Policy") which encompasses Environmental, Social & Governance (ESG) issues. The Firm has a formal ESG & Impact Committee. GCM Grosvenor evaluates ESG considerations at the firm level, fund manager level and investment level. Investment managers complete a questionnaire that addresses key ESG and Impact-related topics and refresh the questionnaire annually. GCM Grosvenor is a signatory of the Principles for Responsible Investment ("PRI"), a member of the Standards Board for Alternative Investments (SBAI), and a member of the Global Real Estate Sustainability Benchmark (GRESB). The Firm's Policy and related diligence disclosures were reviewed by the Division's Corporate Governance team in accordance with the Council's ESG Policy.

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. GCM Grosvenor Emerging Manager Separately Managed Account 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 April 13, 2023. 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 April 26, 2023 meeting.

Attachment

GCM Grosvenor SMA – Emerging Managers Real Estate

- **Commitment:** up to \$250 million
- **Strategy:** Non-Core Real Estate
- **Investment Focus:** The fund invests with emerging real estate managers across value-add and opportunistic strategies and higher returning credit strategies that can generate near-equity returns.
- **Target Returns:** 11-13% net returns
- **Fund Size:** \$252 million
- **Investment Thesis:**
 - Diversify the Division's real estate portfolio with mid-market assets
 - Provide the Division with a customized solution to address the institutional challenges in accessing emerging managers
 - Partner with an experienced real estate platform with a deep emerging manager track record
 - Obtain early access to the next generation of real estate managers

Fund Name: GCM Grosvenor Emerging Manager Separately Managed Account

April 21, 2023

Contact Info: Sean Conroy, 900 North Michigan Avenue, Suite 1100 Chicago IL 60611

Fund Details:

Total Firm Assets:	\$73 billion	Key Investment Professionals: Peter Braffman , Peter Braffman is a Managing Director and has been with Grosvenor for 13 years. Prior to joining the Firm, he was a Senior Vice President at Zurich Alternative Asset Management, a Vice President at Goldman Sachs, and an Associate at Kirkland and Ellis. Shawn Menz , Shawn Menz is an Executive Director and has been with Grosvenor for 9 years. Prior to joining the Firm, he was a Real Estate Investment Banker with Bank of America Merrill Lynch and a Construction Manager with T.W. Lewis and Company Mo Saraiya . Mo Saralya is a Executive Director and has been with Grosvenor for 5 years. Prior to joining the Firm, he was a Vice President with the CIM Group and worked with Friend Skoler and Company and The Boston Consulting Group.
Strategy:	Core Real Estate	
Year Founded:	1971	
Headquarters:	Chicago	
GP Commitment:	1%	

Investment Summary

The Separately Managed Account (SMA) seeks to generate strong, risk adjusted returns by investing emerging real estate managers and assisting them to develop in the institutional market. GCM Grosvenor is committed to supporting emerging managers and executes its emerging manager program exclusively through customized SMAs. GCM Grosvenor customizes each SMA based on discrete investment guidelines, objectives and constraints. The Firm focuses on value-add and opportunistic strategies and higher returning credit strategies that can generate near-equity returns. It invests in middle market assets across all commercial and residential property types with an emphasis on niche assets. It is primarily focused on the US, but has also been active in Europe in strategies that have proven to be transferable and are cap-ex light.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Net Returns</u>
Fund I	2010	Non-Core	15.2% IRR, 1.4x TVPI, 1.4x DPI
Fund II	2013	Non-Core	4.6% IRR, 1.0x TVPI, 1.0x DPI
Fund III	2016	Non-Core	9.2% IRR, 1.2x TVPI, 0.8x DPI
Fund IV	2019	Non-Core	11.4% IRR, 1.1x TVPI, 0.4x DPI
Fund V	2022	Non-Core	n/m IRR, 1.0x TVPI, 0.1x DPI

Source of Returns - Hamilton Lane

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

Vehicle Information:

Inception:	1973	Auditor:	TBD
Fund Size :	\$252 million	Legal Counsel:	Morgan, Lewis & Bockius, LLP.
Management Fee:	80 bps		
Incentive Fee:	2.5% -9.5% (varies by investment type)		
Preferred Return	8%		
Additional Expenses:	N/A		

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$250 million	LP Advisory Board Membership:	N/A
% of Fund:	99.00%	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. _____