



## State of New Jersey

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*Governor*

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*Lt. Governor*

SHOAIB KHAN  
*Acting Director*

July 9, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Acting Director

SUBJECT: **Real Estate Investment - TGM Associates Separate Account**

The Division of Investment (the "Division") is proposing an investment of up to \$300 million in a separately managed investment vehicle (the "Fund"), managed by TGM Associates ("TGM" or 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:

**Experienced and long-tenured investment team:** Since inception in 1991, TGM has acquired more than 130 properties and approximately 35,000 units across 68 markets and 28 states. The investment team averages 23 years of experience and 20 years of tenure, with the senior management team averaging 26 years of experience.

**Differentiated Investment Strategy and Execution:** TGM focuses exclusively on the U.S. multifamily real estate sector. TGM's value-add execution enables the Firm to renovate apartments in under 48 hours without displacing tenants, which enables the Firm to fully complete their interior value-add program during the first year of ownership. The Firm's value-add program positions assets to hold through market cycles and benefit from sustainable cash flow rather than rely on short-term buy-fix-sell and short term capital appreciation.

**Vertically Integrated Real Estate Platform:** The broader TGM platform encompasses research, acquisitions, financing, property management, general contracting, and dispositions, which is a major competitive advantage over advisors that outsource functions to third-party managers. TGM's deal team integrates professionals across the Firm's disciplines into the acquisitions process and capitalizes on specialized expertise.

**Disciplined Investment Process:** TGM is not motivated to increase Assets under Management. The Firm establishes a maximum acquisition price, above which the Firm will walk away from a deal. TGM monitors investment opportunities on which it was not the highest bidder, and has closed on investments at its price when top bidders were not able to close.

**Economic and Governance Terms that are Superior to a Commingled Fund:** The terms of the separately managed investment vehicle are not attainable through a traditional commingled fund. The structure of the vehicle also provides the Division with enhanced governance rights regarding acquisitions and sales.

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").

TGM integrates Environmental, Social and Governance (“ESG”) principles across their committees and the Firm’s Chief Operating Officer is overall responsible for ESG matters. The Firm has a responsible contractor policy, which requires contractors to provide fair compensation and benefits. TGM intends to adopt a formal ESG policy with the assistance of a third-party consultant by the end of 2021 and already incorporates many responsible investing principles into their diligence and management practices. TGM identifies ESG factors that may potentially facilitate value creation, including utility efficiency opportunities, green certifications, onsite renewable energy opportunities, climate risk assessments, and utility rate reviews. TGM provides training through its Learning Management System, National Special Projects & Training Managers and through peer-to-peer trainers on diversity, utility management and conservation, resident retention, community outreach, local business partnerships, sexual harassment, cybersecurity, and compliance.

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. The Fund 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 July 8, 2021. 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 July 21, 2021 meeting.

Attachment

**Fund Name: TGM Associates Separate Account** **July 9, 2021**

**Contact Info:** John Gochberg, 650 Fifth Avenue, 28th Floor, New York, NY 10019

<b>Fund Details:</b>		<b>Key Investment Professionals:</b>
Total Firm Assets:	\$2.3 billion	<p><b>John Gochberg:</b> (Chief Executive Officer) Mr. Gochberg joined TGM in 2000 as an Acquisitions Analyst, was an Acquisitions Officer from 2001 to 2003, and was Director of Property Operations beginning in 2003 until 2008 when he became Chief Operating Officer. Today, Mr. Gochberg is the Chief Executive Officer and President and he is responsible for the overall management of the firm. Mr. Gochberg is also the head of acquisitions and chairs both the Investment and Operating Committees.</p> <p><b>Zachary Goldman:</b> (Chief Operating Officer) Mr. Goldman joined TGM on the acquisitions team in 2007, served as Director of Special Projects from 2008 until 2009, and was Director of Operations from 2009 until 2019 when he became Chief Operating Officer. Mr. Goldman is a member of the Investment and Operating Committees. Prior to joining TGM, Mr. Goldman was an Associate Director at a national residential developer, where he was responsible for the entitlement, planning and development of mixed-use communities.</p> <p><b>Michael Frazzetta:</b> (Chief Financial Officer) Mr. Frazzetta joined TGM in 2002 as Chief Financial Officer, responsible for TGM's treasury, accounting, and control functions. He is a member of the Investment and Operating Committees. Prior to joining TGM, Mr. Frazzetta was Chief Financial Officer/Chief Administrative Officer for Barnard &amp; Co., LLC, a European family office, which included direct and fund investments. From 1992 to 2000, he was a Senior Manager at Arthur Andersen LLP.</p> <p><b>Steven Macy:</b> (Senior Acquisitions Officer) Mr. Macy co-founded TGM with Thomas Gochberg in 1991. He is a member of the Investment and Operating Committees. During TGM's formative years he was head of Asset and Property Management and since 2005 he has been devoted full time to property acquisitions. Prior to TGM, Mr. Macy was Senior Vice President of Integrated Resources where he was responsible for the management of that firm's national portfolio of 32,000 apartments valued at more than \$1.2 billion.</p>
Strategy:	Non-Core Real Estate	
Year Founded:	1991	
Headquarters:	New York, NY	
GP Commitment:	1% (up to \$4 million)	

Investment Summary	Existing and Prior Funds																																				
<p>TGM Associates ("TGM" or the "Firm") is a vertically integrated real estate manager focusing solely on the multifamily sector in the United States. The Fund is a separately managed investment vehicle with a customized structure that provides very favorable economic and governance terms that are not available through a traditional commingled fund. The Fund's structure minimizes fees and provides the Division with enhanced governance rights over acquisitions and sales in conjunction with a longer hold period which give the Pension Fund the benefit of strong, sustainable cash flow generated by TGM's value-add investment strategy. TGM executes a proprietary Value-Add in a Day program which allows the Firm to renovate apartment unit interiors (kitchen, bathroom, appliances, lighting fixtures) with tenants in occupancy. TGM has completed the interior renovation of over 12,200 apartment units since 2007.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Vintage Year</th> <th>Strategy</th> <th>Returns as of 03/31/2021</th> </tr> </thead> <tbody> <tr> <td>SMA II</td> <td>1993</td> <td>Non-core</td> <td>10.9% Net IRR; 2.0x MOIC; 180% DPI</td> </tr> <tr> <td>SMA III</td> <td>1999</td> <td>Non-core</td> <td>14.4% Net IRR; 2.0x MOIC; 200% DPI</td> </tr> <tr> <td>SMA IV</td> <td>2006</td> <td>Non-core</td> <td>3.2% Net IRR; 1.2x MOIC; 120% DPI</td> </tr> <tr> <td>SMA V</td> <td>2010</td> <td>Non-core</td> <td>15.9% Net IRR; 2.6x MOIC; 140% DPI</td> </tr> <tr> <td>SMA VI</td> <td>2014</td> <td>Non-core</td> <td>6.4% Net IRR; 1.3x MOIC; 20% DPI</td> </tr> <tr> <td>NJDOI</td> <td>2015</td> <td>Non-core</td> <td>8.0% Net IRR; 1.4x MOIC; 14% DPI</td> </tr> <tr> <td>SMA VIII</td> <td>2017</td> <td>Non-core</td> <td>4.5% Net IRR; 1.2x MOIC; 10% DPI</td> </tr> <tr> <td>SMA IX</td> <td>2019</td> <td>Non-core</td> <td>NM</td> </tr> </tbody> </table> <p>Source of Returns = Hamilton Lane</p> <p>IRR = Internal Rate of Return, MOIC = Multiple on Invested Capital, DPI = Distributions to Paid-In</p> <p>NM = Not meaningful, given the early age of the fund</p>	Funds	Vintage Year	Strategy	Returns as of 03/31/2021	SMA II	1993	Non-core	10.9% Net IRR; 2.0x MOIC; 180% DPI	SMA III	1999	Non-core	14.4% Net IRR; 2.0x MOIC; 200% DPI	SMA IV	2006	Non-core	3.2% Net IRR; 1.2x MOIC; 120% DPI	SMA V	2010	Non-core	15.9% Net IRR; 2.6x MOIC; 140% DPI	SMA VI	2014	Non-core	6.4% Net IRR; 1.3x MOIC; 20% DPI	NJDOI	2015	Non-core	8.0% Net IRR; 1.4x MOIC; 14% DPI	SMA VIII	2017	Non-core	4.5% Net IRR; 1.2x MOIC; 10% DPI	SMA IX	2019	Non-core	NM
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<b>Vehicle Information:</b>			
Inception:	2021	Auditor:	KPMG LLP
Fund Size :	\$300 million	Legal Counsel:	Moses & Singer LLP
Management Fee:	0.75% on invested capital		
Carry:	15%		
Preferred Return:	9%		
Additional Expenses:	100% Management Fee Offset		

<b>NJ AIP Program</b>			
Recommended Allocation (\$mil.):	up to \$300 million	LP Advisory Board Membership:	YES
% of Fund:	99%	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.