

Carlyle's Metropolitan closes debut secondaries fund

Real estate fund of funds Metropolitan Real Estate raised \$550 million for its Metropolitan Real Estate Partners Secondaries & Co-Investments Program, which had an initial target of \$450 million.

Metropolitan Real Estate, which is part of the Carlyle Group, has raised \$550 million for its Metropolitan Real Estate Partners Secondaries & Co-Investments Program, PERE sister publication Secondaries Investor has reported.

The final close for the fund, which had a \$450 million target but no hard cap, took place at the end of last week. The firm received high demand but elected not to raise a much larger fund to remain in line with its strategy of investing in high-quality managers in major markets at the mid to small end of the market.

This is the first fund Metropolitan has raised since being acquired by Carlyle in 2013 and its first secondaries fund ever. The firm already had plans to raise such a fund prior to the acquisition.

The fundraising process began in 2014 and the firm held a first close in July 2014 on \$70 million, according to the firm. Once the firm had a significant number of investments under its belt in 2015, Carlyle's sales team stepped in and started being involved in a notable manner in the middle of 2015.

"We were the new kids on the block at Carlyle," said David Sherman, Metropolitan co-founder and co-chief investment officer. "It took a while to get momentum in the market. It took a while to fully integrate with our parent Carlyle. It did not really come together until sometime in 2015."

"By that time, we had seed investments in the fund. It makes a significant difference for investors when they can actually track the actual investments and the performance those investments are generating. It proves your strategy," said Sarah Schwarzschild, a principal of Metropolitan in charge of secondaries investments.

The fund is split unevenly in three sleeves, offering investors the choice to invest only in secondaries, only in co-investments or in both, with the interest in secondaries being slightly larger. "We gave investors a wide variety of choices to mix and match to suit their different portfolio needs," said Sherman.

The fund has a 1 percent management fee and 10 percent carried interest, according to documents presented in May to the City of Jacksonville Police and Fire Pension Fund.

Metropolitan has already completed 14 transactions out of that fund, including six secondaries, the remainder being co-investments. So far, about 40 percent of the allocation for co-investments is already invested while 25 percent of the allocation for secondaries is invested.

Within secondaries, the firm has predominantly purchased limited partnership stakes but GP-led restructurings and direct secondaries are not precluded from the strategy.

"We have not found a GP restructuring to date that we feel was interesting enough to pursue but that's certainly a possibility," said Schwarzschild. "We would look at direct secondaries as well."

Limited partners in the fund, both existing and new ones, are global and include pension plans, ultra-high-net-worth individuals and insurance companies. The Nebraska Investment Council committed \$10 million to the fund at the end of 2015. The target for GP contribution was 1 percent but it was exceeded, according to the firm.

Metropolitan, which is part of Carlyle's Investment Solutions business, has \$3.2 billion in aggregate discretionary capital commitments since the firm's inception. It also makes primary investments in real estate funds.