

Program Update

Real Estate

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Program Role

- The role of Real Estate in the CalPERS portfolio is to have ownership risk in real property with stable cash yields. The major driver is income of which the majority is cash yield.
- Real Estate also provides a partial inflation hedge. The portfolio strives for moderate leverage, low risk, and low correlation to equities.

Policy Targets

Investment Parameters	Long-Term Strategic Range/Limit as % of Total	Interim (thru 6/30/13) Range/Limit as % of Total	NAV %	NAV \$ Millions	Compliance Long-Term	Compliance Interim
Strategy						
Base	60 - 100%	0 - 100%	0%	\$0	✗	✓
Domestic Tactical	0 - 30%	0 - 100%	54%	\$11,454	✗	✓
International Tactical	0 - 15%	0 - 30%	9%	\$1,796	✓	✓
Legacy	n/a	n/a	37%	\$7,843	n/a	n/a
Risk Classification						
Core	75 - 100%	20 - 100%	43%	\$8,984	✗	✓
Value Add	0 - 25%	0 - 50%	19%	\$4,078	✓	✓
Opportunistic	0 - 25%	0 - 60%	38%	\$8,030	✗	✓
REITS	5%	10%	8%	\$1,582	✗	✓
Property Type						
Office	45%	45%	14%	\$3,014	✓	✓
Industrial	45%	45%	18%	\$3,742	✓	✓
Retail	45%	45%	22%	\$4,547	✓	✓
Multifamily	45%	45%	15%	\$3,206	✓	✓
For Sale Residential & Land Dev.	10%	15%	9%	\$2,002	✓	✓
Hotels	10%	10%	6%	\$1,358	✓	✓
Mixed-Use	10%	10%	5%	\$1,100	✓	✓
Other Property Types	10%	15%	10%	\$2,122	✗	✓
Geography						
Developed Markets	75 - 100%	75 - 100%	91%	\$19,120	✓	✓
Developed - US	85 - 100%	60 - 100%	85%	\$17,947	✓	✓
Developed - ex US	0 - 25%	0 - 25%	15%	\$3,145	✓	✓
Emerging Markets	0 - 15%	0 - 15%	9%	\$1,954	✓	✓
Frontier Markets	0 - 5%	0 - 5%	0%	\$18	✓	✓
REAL ESTATE PROGRAM	7 - 13%	7 - 13%	9%	\$21,092	✓	✓

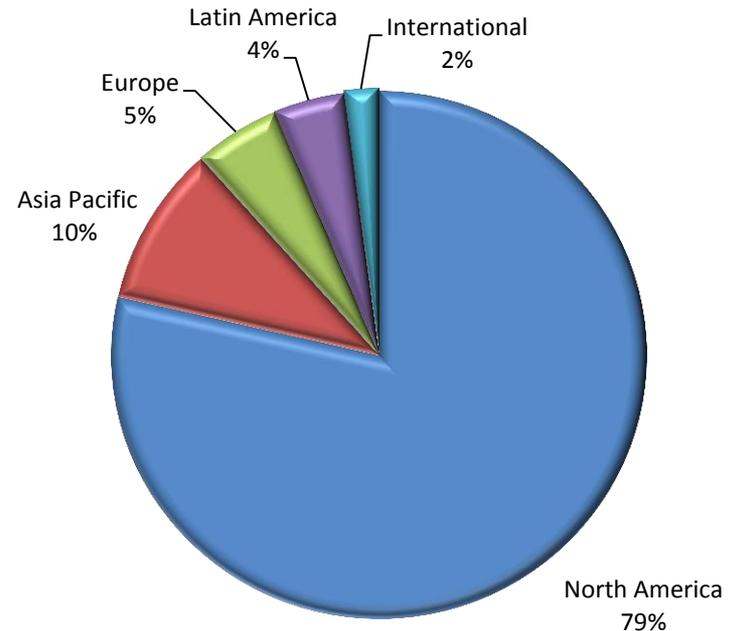
Investment Parameters	Long-Term Strategic Range/Limit as % of Total	Interim (thru 6/30/13) Range/Limit as % of Total	Actuals	Compliance Long-Term	Compliance Interim
Loan to Value (LTV)					
Total Portfolio	50%	60%	42%	✓	✓
Core	50%	50%	41%	✓	✓
Value Add	50%	65%	25%	✓	✓
Opportunistic	50%	75%	46%	✓	✓
Debt Service Coverage Ratio (DSCR)					
Total Strategic Portfolio	> 1.5	n/a	n/a	n/a	n/a
Strategic Core	> 2.0	> 1.5	2.21	✓	✓
Recourse Debt					
Total Permitted Amount	10% of lower of current NAV or Target NAV		6%	✓	✓

Characteristics: Property Type & Region Allocation

By Property Type

By Global Region

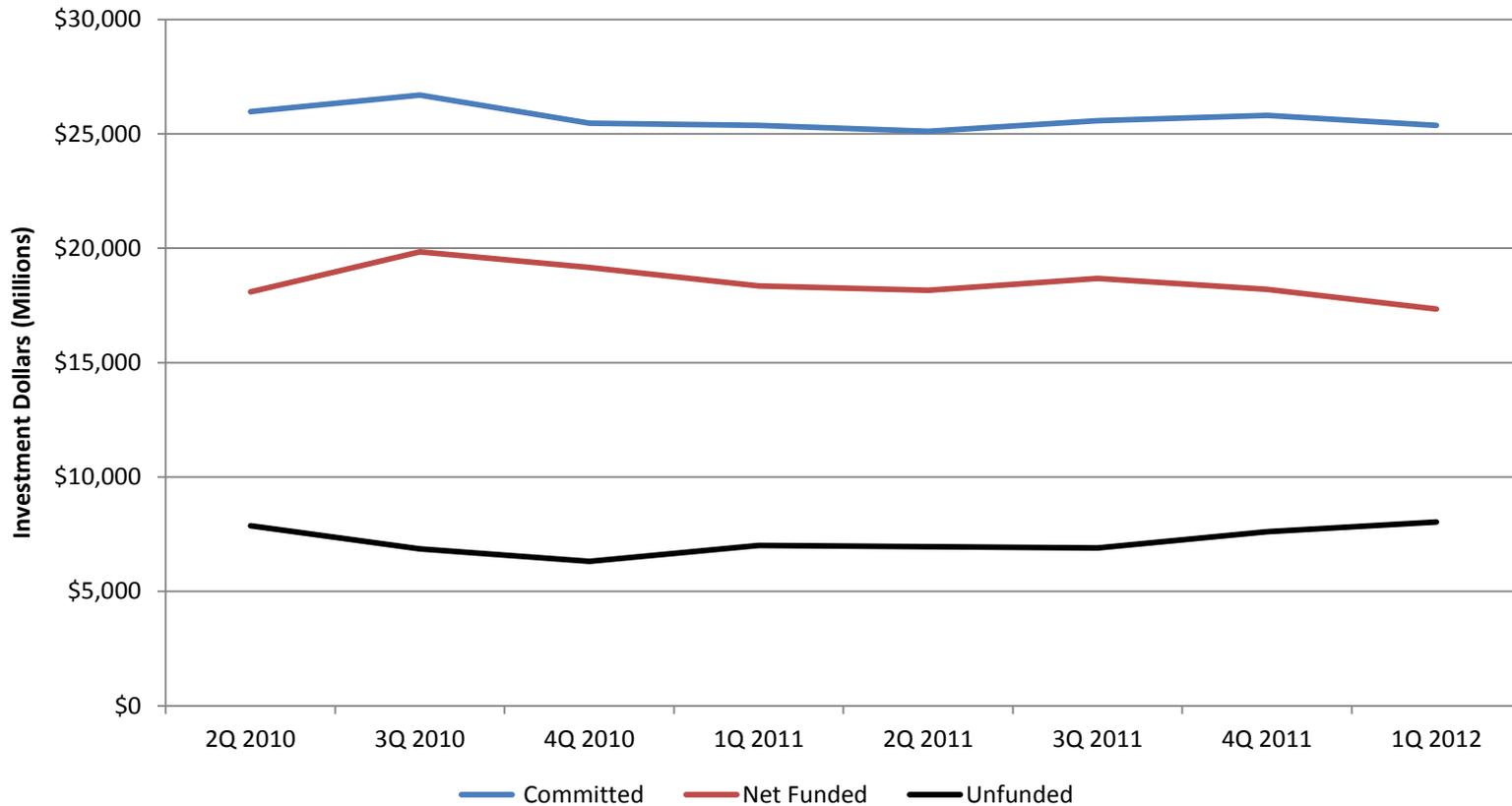
Property Type	% of Total Portfolio	NFI – ODCE ¹	Difference
Multifamily	15%	24%	-8%
Industrial	18%	15%	2%
Office	14%	39%	-24%
Retail	22%	18%	4%
Hotel	6%	2%	4%
Other ²	<u>25%</u>	<u>3%</u>	22%
	100%	100%	



¹ Benchmark: NCREIF Fund Index - Open-End Diversified Core Equity (NFI-ODCE)

² Property Type labeled "Other" includes: Entertainment, Healthcare Facilities, Housing, Land, Mixed Use, Senior Housing, etc.

Capital Allocation



Market History Snapshot

Real Estate (Quarter Trend | Annual Trend)

	Apartment	Industrial	Office	Retail
Cap Rates	↔ ↓	↔ ↔	↔ ↓	↓ ↓
Vacancy Rates	↓ ↓	↓ ↓	↔ ↓	↔ ↓
Absorption	↗ ↗	↗ ↗	↓ ↗	↔ ↗
Rent	↔ ↗	↔ ↔	↗ ↗	↔ ↔

Real Estate Market History Comments

- Fundamentals and capital markets continued to show slow and steady improvement during Q1 2012.
- Capitalization rates have leveled off for most sectors. Retail lagged in recovery but is now showing signs of cap rate improvement.
- Vacancy rates declined on an annual basis in all sectors, the Industrial sector showed the most improvement the past year.
- Apartments are leading and Office is lagging in product absorption during the past quarter and year.
- Rents remained relatively flat in all sectors except for Office which has shown steady improvement all year.

Increasing rapidly
 Increasing moderate pace
 No change or flat
 Decreasing moderate pace
 Decreasing rapidly

Commercial Real Estate Indicator Notes: Data is the most current quarterly data, which lags the Program Update Quarter End date by one quarter.
Source: CBRE Econometric Advisors

Performance: Overview

Total Real Estate Portfolio

- The total Real Estate portfolio returns exceeded the benchmark for the quarter and 1 year periods, but underperformed in the 3 year, 5 year and 10 year periods.

Strategic Portfolio

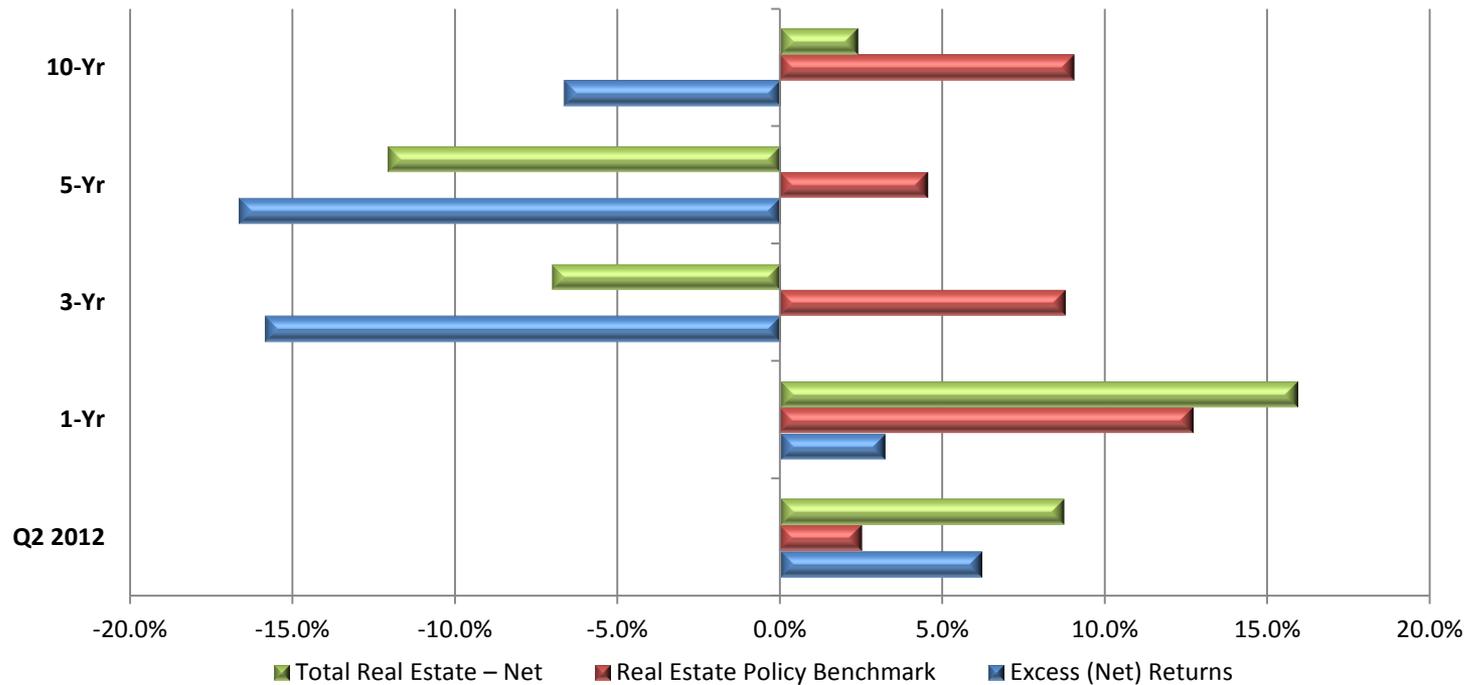
- The Strategic Portfolio, which represents 60% of the portfolio, outperformed the benchmark on a quarterly, 1 year, 5 year, and 10 year basis.

Legacy Portfolio

- The Legacy Portfolio, which represents 40% of the portfolio, and the Public Real Estate Securities outperformed the benchmark on a quarterly basis, but underperformed in all other periods.

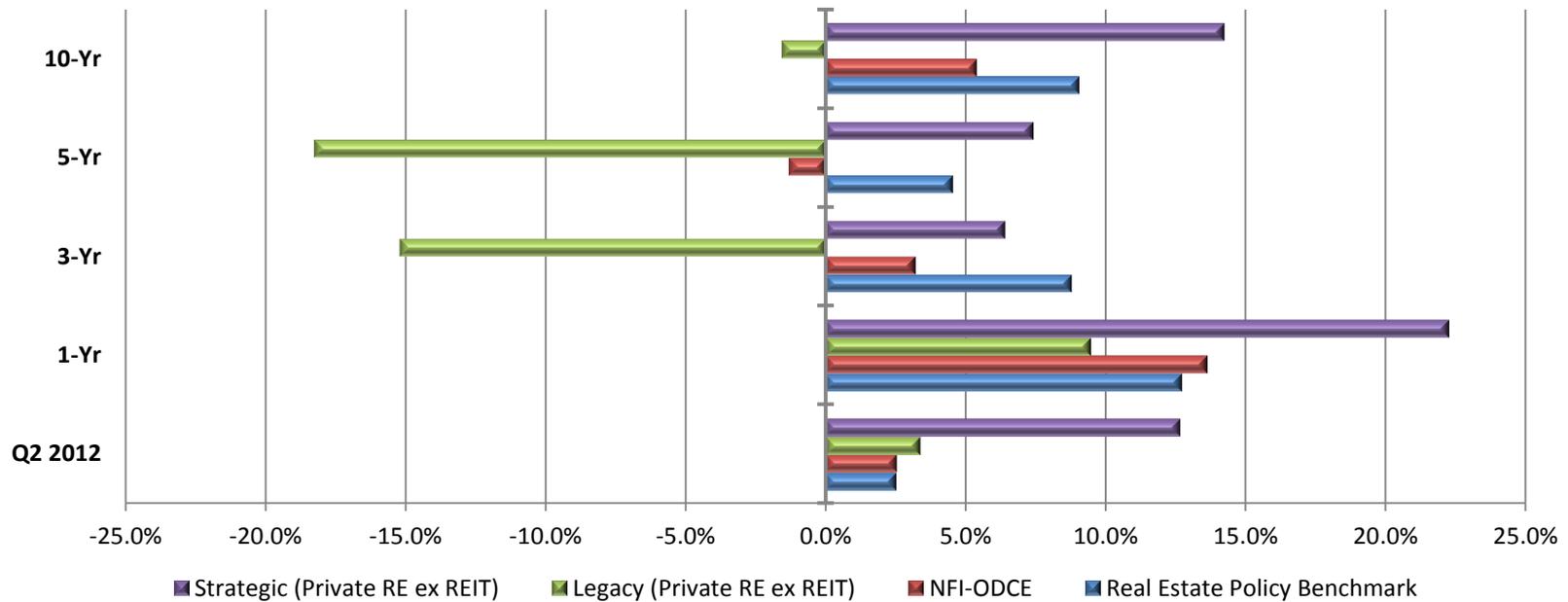
Performance: Portfolio Returns

Nominal Returns	Q2 2012	1-Yr	3-Yr	5-Yr	10-Yr
Total Real Estate – Net	8.7%	15.9%	-7.0%	-12.1%	2.4%
Real Estate Policy Benchmark	2.5%	12.7%	8.8%	4.6%	9.1%
Excess (Net) Returns	6.2%	3.2%	-15.8%	-16.6%	-6.7%



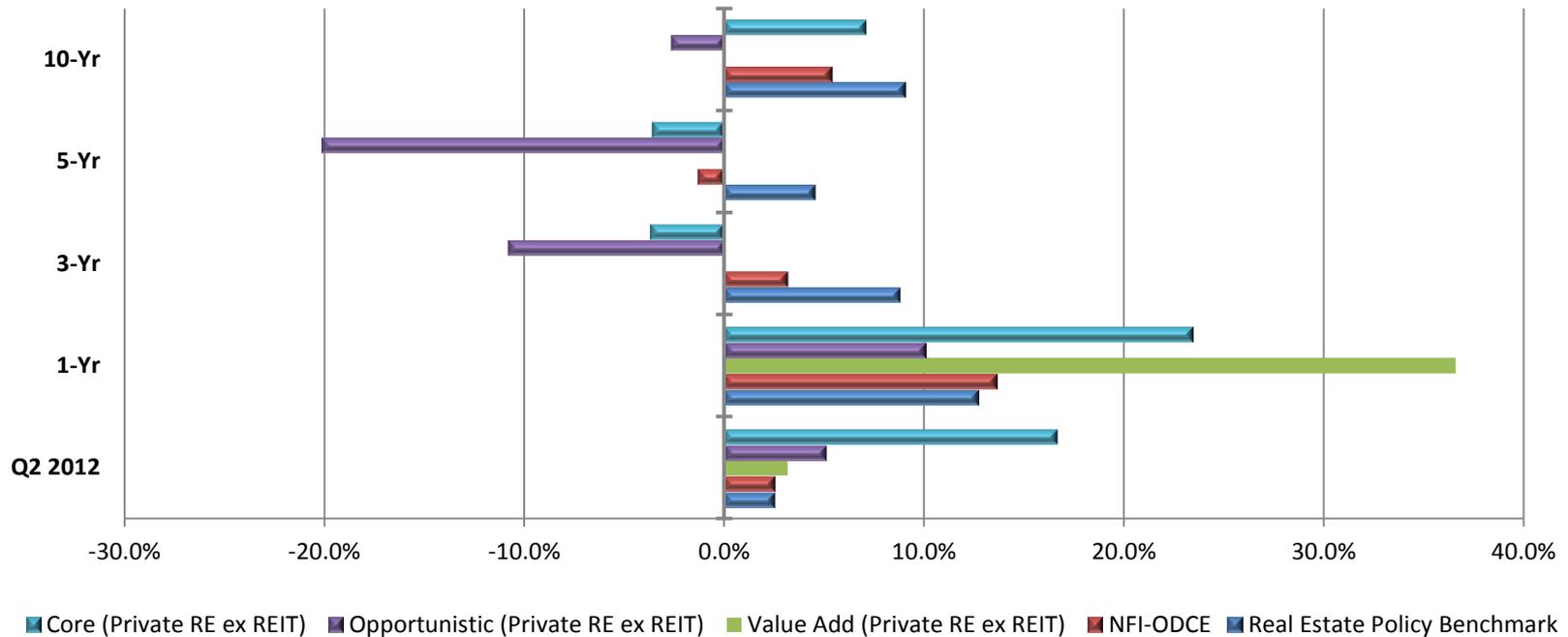
Performance: Net Returns by Strategy

Private Real Estate (RE)	Q2 2012	1-Yr	3-Yr	5-Yr	10-Yr
Strategic (Private RE ex REIT)	12.7%	22.3%	6.4%	7.4%	14.2%
Legacy (Private RE ex REIT)	3.4%	9.5%	-15.2%	-18.2%	-1.6%
NFI-ODCE	2.6%	13.6%	3.2%	-1.3%	5.4%
Real Estate Policy Benchmark	2.5%	12.7%	8.8%	4.6%	9.1%



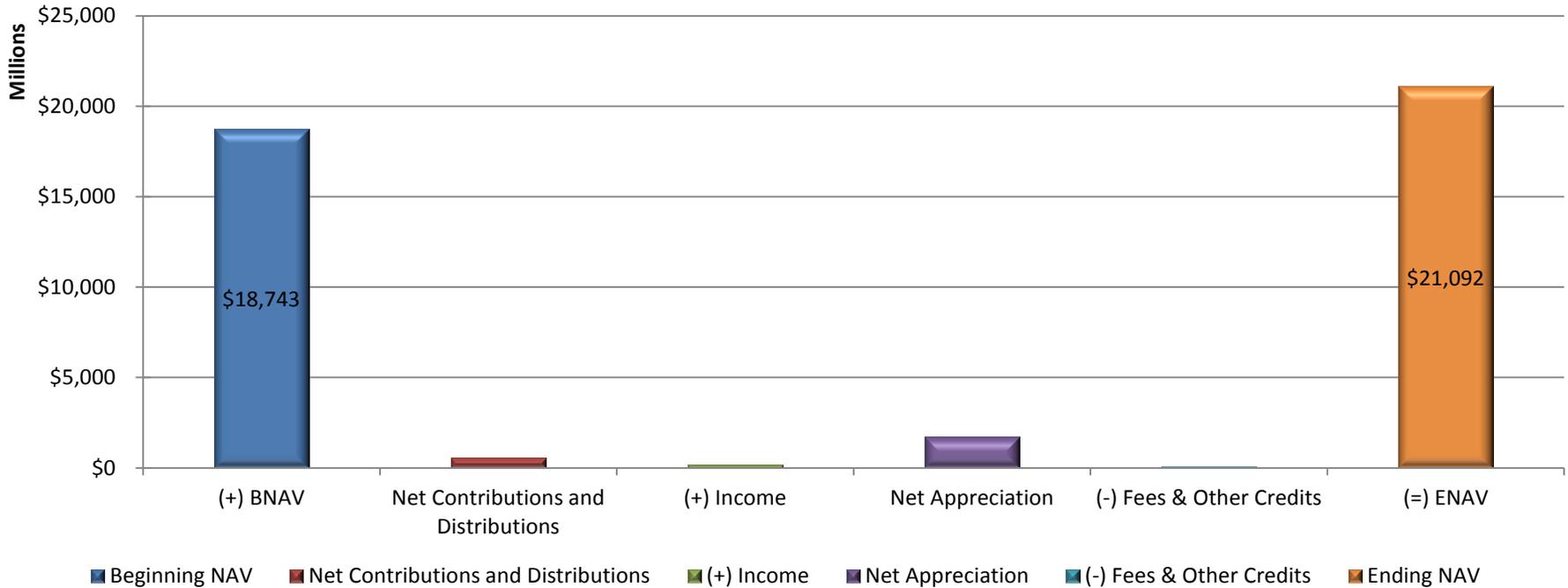
Performance: Net Returns by Risk Category

Private Real Estate (RE)	Q2 2012	1-Yr	3-Yr	5-Yr	10-Yr
Core (Private RE ex REIT)	16.7%	23.4%	-3.7%	-3.6%	7.1%
Opportunistic (Private RE ex REIT)	5.1%	10.1%	-10.8%	-20.1%	-2.7%
Value Add (Private RE ex REIT)	3.2%	36.6%	N/A	N/A	N/A
NFI-ODCE	2.6%	13.6%	3.2%	-1.3%	5.4%
Real Estate Policy Benchmark	2.5%	12.7%	8.8%	4.6%	9.1%



Continuity Schedule

Asset Class	(+) BNAV	(+) Contribution	(-) Distribution	(+) Income	(+) Unrealized Appreciation	(+) Realized Appreciation	(-) Fees	Other Credits (-)	(=) ENAV
Real Estate Investments	\$18,742,944,600	\$1,139,160,911	\$581,329,231	\$166,272,473	\$1,711,356,146	(\$14,911,635)	\$82,850,358	(\$11,499,948)	\$21,092,142,855



Investment Activity

- The Real Estate Program's capital allocation request of \$6 billion for fiscal year 2012-13 was approved by the Investment Strategy Group in June 2012.
- Held detailed strategy sessions in Sacramento with strategic partners.
- Completed the Annual Investment Plan (AIP) process as of 6/30/2012
- Allocated approximately \$4 billion to the Strategic Portfolio.