

Emerging Manager Program

Real Estate

December 3, 2012

Role of Real Estate

1. Low correlation to equities
2. Stable cash yields
3. Partial inflation hedge

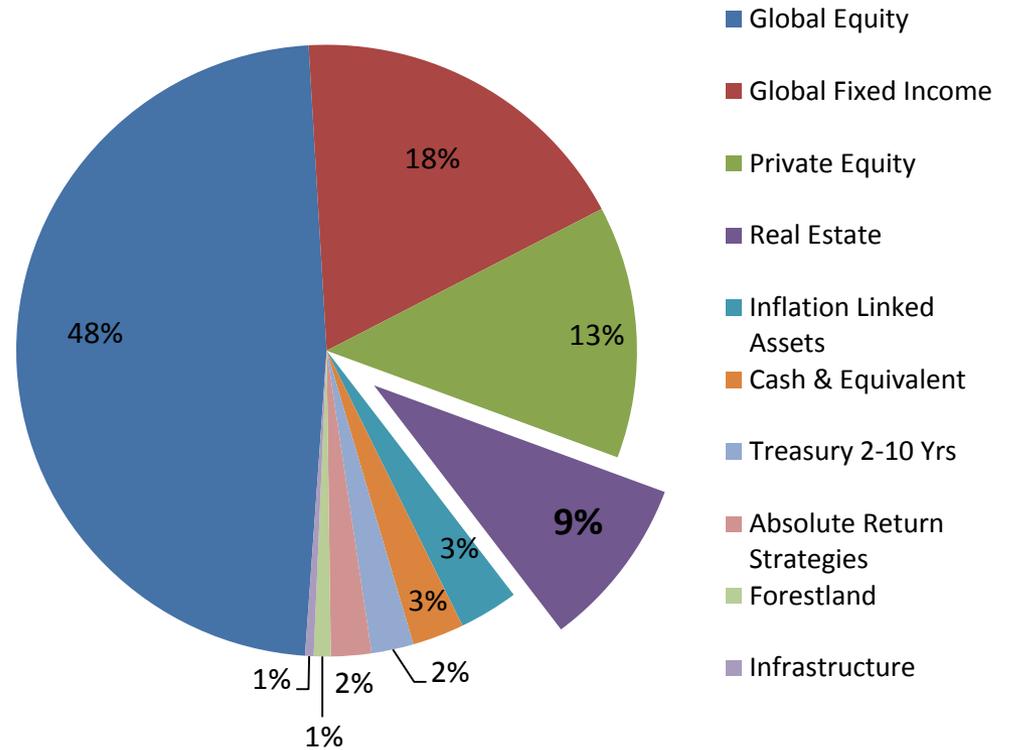
Targets

1. Return: 7% after fee return
2. Risk: Standard deviation of 14%
3. Size: 10% of total portfolio

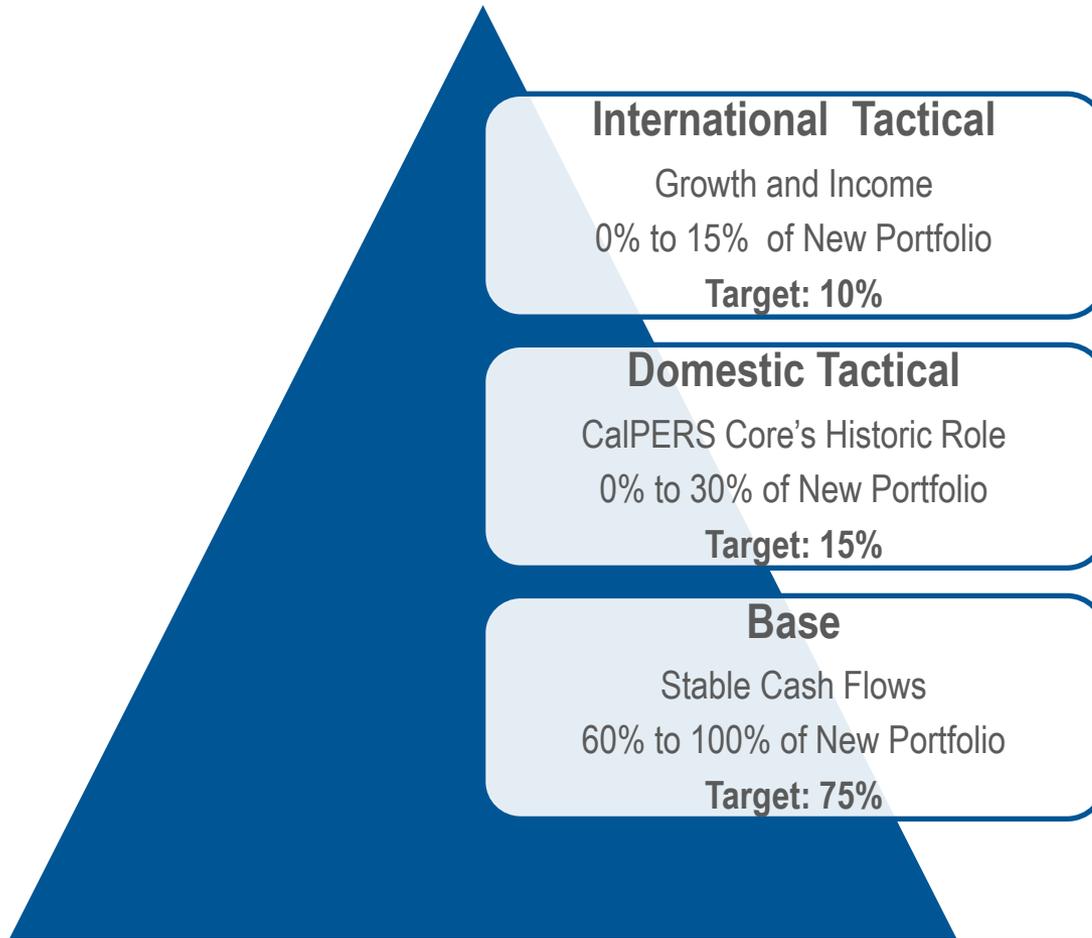
Structure

1. 100% private real estate equity
2. Focus on United States
3. Access market primarily with separate account partnerships

Allocation to Real Estate



Structure – Three Sub Portfolios



Structure Detail

Base Portfolio

Objective: Long term portfolio structure to produce predictable cash flows

Size: Tracks the total CalPERS portfolio in terms of size

Strategy:

- High quality assets in high quality locations held for long term
- Accountable for delivering cash flows to system
- Larger relationships = lower management cost
- Portfolio wide cost reduction strategies including a market leading environmental sustainability program
- Hold Period: 10 to 20 yrs

Geographic: United States Primary Markets

Incentive Program: Incentive fee based on growing NOI & Cash

Risk Profile: Core

Partners: Target five to ten partners

Domestic Tactical

Objective: Extension of existing Core Program Income and Appreciation components

Size: Varies with market opportunities

Strategies: Repositioning Distressed Situations and Development

Geographic: United States

Risk Profile: Core, Value Add and Opportunistic

Partners: *Target five to ten partners, including an Emerging Manager Program*

International Tactical

Objective: Generate alpha by capitalizing on growth in Emerging markets

Size: Varies with market opportunities

Strategies: Development and Stabilized Assets

Geographic: Ex-US / Emerging Markets

Risk Profile: Value Add and Opportunistic

Partners: Target five to ten partners

Emerging Manager Program

- CalPERS Real Estate Unit (REU) has extensive experience investing with Emerging Managers (EM) directly and through fund of fund vehicles.
- Based on our experience and through lessons learned, CalPERS Real Estate proposed a focused EM Program to the CalPERS Investment Committee on August 15, 2011.
- The objectives of an EM program are to: 1) achieve appropriate risk adjusted returns, 2) access investment opportunities that may not otherwise be pursued, and 3) increase diversity among our pool of investment managers.

Emerging Manager Program

- In August 2011, CalPERS Investment Committee approved a formal EM program with the following investment parameters:
 - EM Program will be in the Domestic Tactical portfolio
 - Up to \$200 million of equity capital
 - California focus: EMs and underlying assets will be located in California
 - Select an existing real estate investment manager with proven track records and certain competencies to select, oversee, and mentor EMs
 - EM Definition – Investment managers with less than \$1 billion AUM and limited to 1st, 2nd, or 3rd commingled fund and/or separate account investment strategy

Emerging Manager Program

- Canyon Capital was chosen as the mentoring manager. Responsibilities include:
 - To maximize returns on the underlying investments while mitigating risk consistent with the approved investment strategy
 - To source and select talented firms active in one or more major California markets
 - To mentor the EMs in the complexities and requirements of the institutional investment management business
 - To sit on a selected EM's investment committee
 - To provide back-office and other technical support, as needed by the EM
- Staff will report a program update annually to the Investment Committee and will return after two years to assess the program and consider, at that time, a second phase

Emerging Manager Program Overview

Canyon Catalyst Fund, LLC

Canyon Catalyst Fund Objectives

The Canyon Catalyst Fund is a \$200mm joint venture between Canyon Capital Realty Advisors and CalPERS that will invest in programmatic joint ventures with California-based Real Estate Emerging Managers investing in California urban real estate. The objectives of the Program are to:

- Achieve appropriate risk-adjusted returns
- Access investment opportunities that may not otherwise be available
- Increase diversity among the CalPERS pool of investment managers
- Create a scalable Emerging Manager Program that will evolve high-potential EMs into high-performing investment managers

Emerging Manager Qualifications

Emerging Managers will demonstrate the following characteristics, among others

- Operator / Developer with less than \$1B AUM and limited to 1st, 2nd, or 3rd commingled fund or separate account strategy
- Headquartered in California
- Investments in urban markets in California
- Demonstrated track record of key principals
- Ability to invest meaningful capital
- Deep property-type specific expertise

Joint Venture Structure

Allocations to Emerging Managers will be structured as programmatic joint ventures with the Catalyst Fund

- Equity allocations of \$25-50mm per Emerging Manager
- Catalyst Fund to select between 4 - 6 emerging managers
- Co-investment amount meaningful to the principals
- Market-based promote structure above a preferred return
- All deals “cross-collateralized” within the programmatic joint ventures
- No commingled funds

Deal Parameters

Deals will include major property type categories within urban markets throughout California

- Value-add / opportunistic strategies
- Office, retail, industrial, multi-family, mixed-use
- No hospitality or land entitlement
- California urban locations
- Total deal capitalization from \$5mm - 30mm
- 50% leverage across portfolio / 65% limit per project

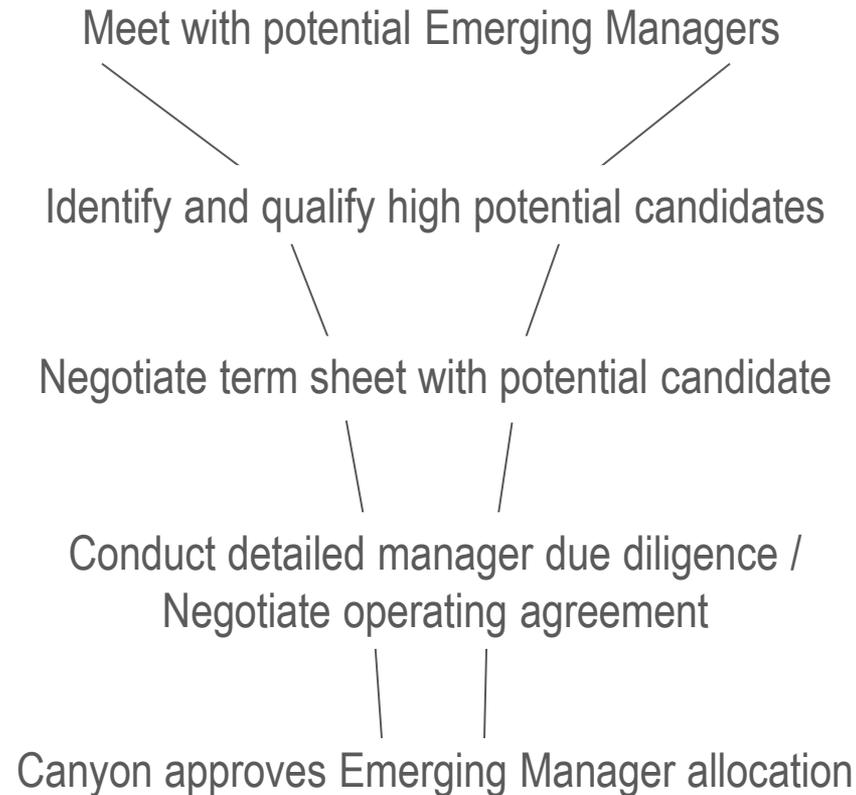
Selection Criteria

Canyon will evaluate Emerging Managers based upon the following criteria

- Fund Strategy
- Management Team
- Track Record
- Pipeline / Deal Flow
- Ownership Structure
- Infrastructure / Back Office

Selection Process

Canyon is in the manager selection process



Contact Information

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