

CalPERS Emerging and Diverse Manager Forum

Real Estate – Asset Class Breakout Session

December 3, 2012



Investment Office
Real Estate

Role of Real Estate

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

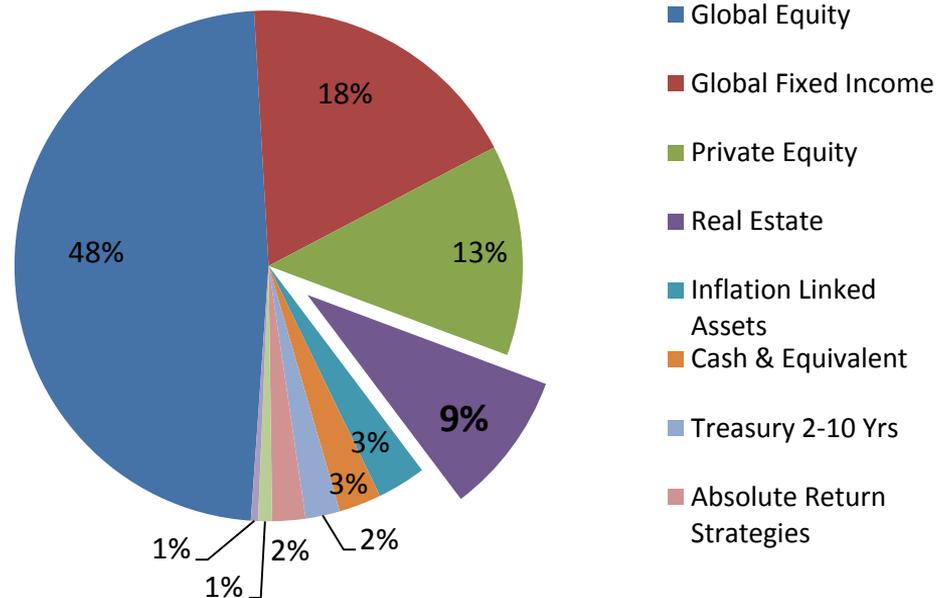
Targets

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

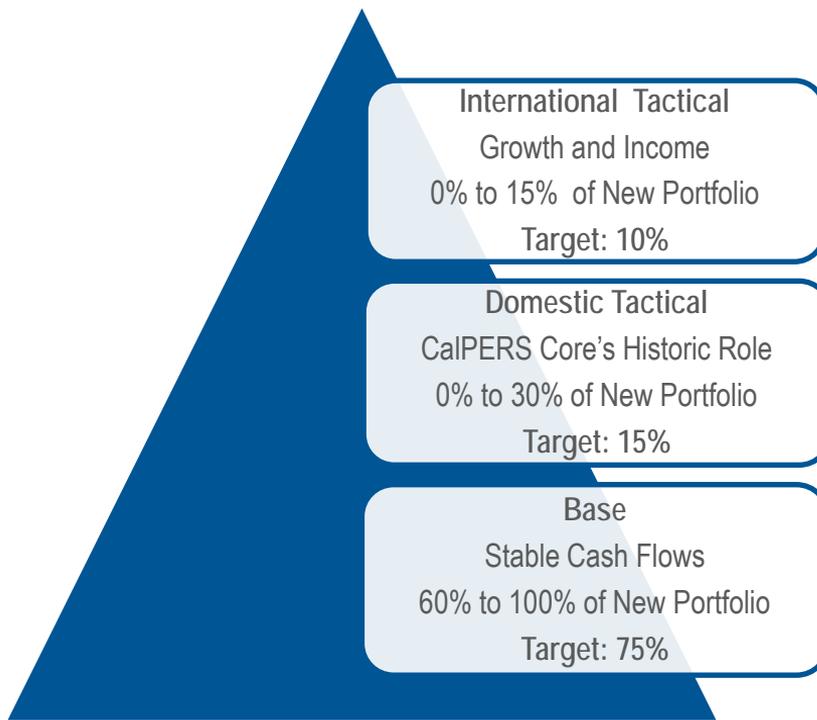
Structure

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

Meet with potential Emerging Managers

Identify and qualify high potential candidates

Negotiate term sheet with potential candidate

Conduct detailed manager due diligence / Negotiate operating agreement

Canyon approves Emerging Manager allocation

Contact Information

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