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# Investment Committee Quarterly Activity Report

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| 5. REAL ESTATE

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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### REAL ESTATE PROGRAM SUMMARY

In accordance with the CalSTRS Investment Policy and Management Plan, [Real Estate Investment Policy](#) (Teachers' Retirement Board Policy Section 1000, Page K-1), CalSTRS has established an allocation for real estate investment of 13 percent of the total investment portfolio, with a range of 10 percent to 16 percent. The primary objective for real estate investments is to improve diversification of the overall investment portfolio. The secondary objectives are to achieve a rate of return that corresponds to the amount of risk outlined in the real estate portfolio risk/return composite approved by the Investment Committee, to

provide stable cash flow to the investment portfolio and to provide a hedge against inflation. The real estate portfolio incorporated a combination of core and tactical real estate investment strategies to implement the approved plan. In the June 2010 board meeting, it was decided that the real estate portfolio would be allocated among three new classifications; core, value add, and opportunistic.

The following table shows the value of the CalSTRS Real Estate portfolio since June 2010.

	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Core	\$4,207	\$5,718	\$7,630	\$8,697	\$9,968	\$12,204
Tactical	8,928	Nav Structure				
Value Add	Prior sub-structure	3,397	3,919	3,515	3,054	3,719
Opportunistic		8,992	9,837	10,411	9,061	8,376
Public		423	385	295	37	27
Total - Real Estate	\$13,135	\$18,530	\$21,771	\$22,918	\$22,120	\$24,326
Total CalSTRS	\$118,813	\$129,773	\$154,296	\$165,820	\$189,080	\$191,409
RE % of Total	11.00%	10.12%	12.01%	13.82%	12.31%	12.71%

*\*As of 6/30/11, the Real Estate portfolio is no longer reported based on core and tactical. Reporting is based on core, value - add and opportunistic, as defined in the revised [Real Estate Investment Policy \(Section K-1\)](#), approved by the CalSTRS Investment Committee in April 2014.*

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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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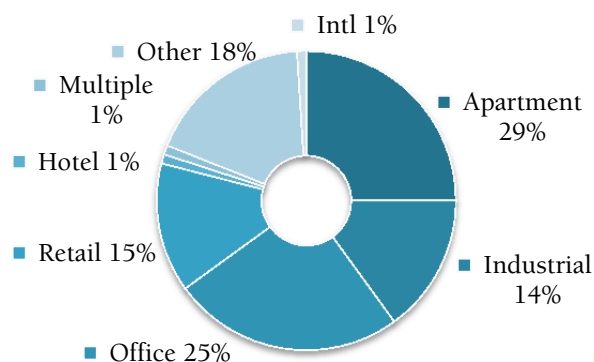
### CALSTRS Real Estate Portfolio

As of June 30, 2015

CalSTRS' Core portfolio currently holds 115 investments with a net asset value of \$12,204 million.

Core investments include existing, substantially leased, income-producing properties (typically stabilized at the time of acquisition) located principally in economically diversified metropolitan areas. Asset types typically include office, retail, industrial, multi-family residential and hotels, as well as alternative asset types, and are included in the benchmark. While core assets can be located in developed markets around the globe, investors' core properties typically have a home country bias.

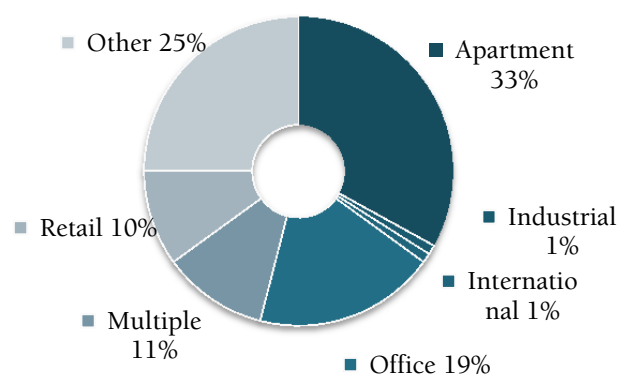
#### Core Strategy



CalSTRS' Value-add portfolio currently holds 50 investments with a net asset value of \$3,719 million.

Value-add investments will generally have expected returns and levels of risk greater than those of a typical core investment. The investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate business and leasing risks associated with the investment strategy. Investments include traditional core property types as well as specialized property types such as resort hotels, senior housing or student housing. Additional risks have historically included leasing, repositioning, redevelopment and/or certain business operating expertise. The strategy includes the curing of identified deficiencies through intensive management, increased cash flow and disposition of stabilized assets to capture value creation.

#### Value Add Strategy



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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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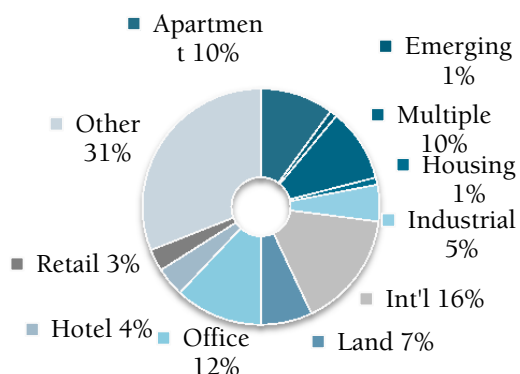
CalSTRS' Opportunistic portfolio currently holds 139 investments with a net asset value of \$8,376 million.

Opportunistic investments seek to capitalize on tactical opportunities, mispricing or distress in the real estate and capital markets and are willing to assume additional risk. Investments include direct real estate assets in office, retail, industrial, residential or specialized property types, as well as forms of investment such as land plays, operating companies, distressed debt/properties, and other specialized investments (e.g. brownfields). Opportunistic investments utilize development, extensive redevelopment, non-traditional investment vehicles (e.g. non-performing loans), entity level investments or recapitalization of assets or companies. Investment strategies may also include international/emerging markets.

CalSTRS' Public portfolio currently holds one international investment with a net asset value of \$27 million

Public investment may be comprised of investment in both U.S and non-U.S. publicly traded REITS and REOCs. It is expected to enhance the performance and liquidity of the total Real Estate portfolio, as well as contributing to the portfolio's diversification.

### Opportunistic Strategy



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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### Real Estate Commitment and Acquisition Activity

Quarter Ending 6/30/2015

#### *Core Investments*

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
PCCP Credit VI LP	PCCP	Increase	Fund	27.7	\$50	Bonuccelli

Investment Thesis: This is a follow-on investment to CalSTRS' previous commitment of \$250 million. The Fund will continue to create a portfolio of high-quality, customized loans designed to provide absolute return, current income and downside protection.

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
Datacore Fund LP	GI Partners	Increase	Fund	99.5%	\$250	Courtland

Investment Thesis: This is a follow-on investment to CalSTRS' previous commitment of \$250 million. The Fund will continue to invest in data centers and other technology advantaged real estate.

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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### *Value Add Investments*

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
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CP Logistics Platform LLC      Principal      New      Joint Venture      95%      \$400      Principal

Investment Thesis: The JV will focus on “build to core” and “lease to core” investments in major industrial markets throughout the US.

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
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PAG Real Estate Fund      PAG      New      Fund      8 - 10%\*      \$100      Bard

Investment Thesis: The Fund will focus on creating a portfolio of high quality Asian real estate in gateway markets. The Fund will purchase income producing assets and add value through leasing, repositioning and capital improvements.

\*Fund is currently raising funds, up to \$1.5 billion

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
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ParkCal, LLC      JP Morgan      New      Joint Venture      97%      \$200      Courtland

Investment Thesis: The JV will invest in well-located, dominant office assets, through value-add and development strategies, throughout the US.

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Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
Heitman Value Partners III	Heitman	New	Fund	11.9%	\$50	Callan
Investment Thesis: The Fund will focus on value-add investments in property-level partnerships with public and private real estate operating partners.						

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Purchase Price (millions)	Independent Fiduciary
CSHV 60 London Wall	LaSalle	N/A	Separate Account	100%	\$300	Bard

Investment Thesis: 60 London Wall is CalSTRS' first non-US separate account asset. It is a value-add office building located in the heart of London.

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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### *Opportunistic Investments*

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Commitment (millions)	Independent Fiduciary
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PCCP Equity VII LP      PCCP      New      Fund      20%      \$100      Bonuccelli

Investment Thesis: The Fund will focus on creating a portfolio of equity interests in the US, diversified by geography, asset class, strategy type and operating partners. The Fund will target opportunities to add value and sell to buyers of stabilized real estate.

Investment Name	Relationship	New/Increase Commitment	Ownership Vehicle	CalSTRS Ownership %	CalSTRS Purchase (millions)	Independent Fiduciary
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Lone Star Real Estate Fund      Lone Star      New      Fund      50%      \$100      Bard

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Investment Thesis: This is a follow-on investment to CalSTRS' previous commitment of \$240 million. The venture will continue to invest in the residential housing and land market.



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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### Real Estate Disposition Activity

Quarter Ending 6/30/2015

#### *Core Investments*

Investment Name	Relationship	Property Type	Ownership Vehicle	Est. Equity Multiple	Est. IRR – net of Fees
Canyon PSR II	Canyon	Debt	Fund	0.94	-2.8%
Canyon PSR III	Canyon	Debt	Fund	1.15	9.5%
Fusion 1560	Principal	Apartment	Sep Account	0.98	n/a

#### *Value Add Investments*

Investment Name	Relationship	Property Type	Ownership Vehicle	Est. Equity Multiple	Est. IRR – net of Fees
ClarionCal Tactical LLC	Clarion	Office	JV	1.38	8.03%
Heitman Value Partners LP	Heitman	Multiple	Fund	1.30	4.9%

#### *Opportunistic Investments*

*There was no opportunistic disposition activity*

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## CALSTRS INVESTMENT COMMITTEE QUARTERLY ACTIVITY REPORT

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### U.S. COMMERCIAL REAL ESTATE DASHBOARD

#### ECONOMIC INDICATORS, 2<sup>ND</sup> QUARTER 2015

GDP Growth (Annualized)		Unemployment Rate		Consumer Confidence		Retail Sales Growth (Year over Year)		ISM Manufacturing Index	
Q2 2015	Q1 2014	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14
2.3%	4.6%	5.3%	6.1%	101.4	86.4	1.4%	4.4%	53.5	55.7

#### COMMERCIAL REAL ESTATE INDICATORS

	Office		Industrial		Apartment		Retail	
	Q2 2015	Q2 2014	Q2 2015	Q2 2014	Q2 2015	Q2 2014	Q2 2015	Q2 2014
Supply	7.2 msf	4.0 msf	36.5 msf	26.4 msf	42,660 units	41,697 units	3.4 msf	3.3 msf
Demand	20.1 msf	15.4 msf	67.1 msf	15.4 msf	105,307 units	117,713 units	4.3 msf	8.7 msf
Occupancy Rate	86.5%	85.5%	90.2%	89.2%	95.7%	95.4%	88.6%	88.3%
YoY Rent Growth	5.2%	2.9%	5.5%	4.3%	5.2%	4.3%	1.1%	0.5%
Cap Rate	6.8%	7.0%	6.9%	7.2%	6.0%	6.2%	6.6%	6.9%

Note: Green indicates a strengthening of the respective economic or real estate variable. Red denotes a weakening.

Source: Bureau of Economic Analysis; Bureau of Labor Statistics; The Conference Board; CBRE Econometric Advisors; Real Capital Analytics.