MEETING DATE
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AGENDA ITEM
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Memorandum

Date: February 22, 2012

To: CCCERA Board of Retirement

From: Marilyn Leedom, Retirement CEO; Chih-chi Chu, Investment Analyst

Subject: DLJ Real Estate Capital Partners V, L.P.

Recommendation
We recommend the Board make a capital commitment of $75 million to DLJ Real Estate Capital Partners V, L.P. (RECP V), subject to successful due diligence and legal review.

Overview
At the meeting on September 7, 2011, the Board authorized an expedited search process for value added/opportunistic real estate managers. At that time staff also noted they would return with a separate evaluation of DLJ's next real estate offering outside of this search process when this opportunity came to the market. Since then, CCCERA has completed the value added/opportunistic search and committed $280 million to four new real estate closed-end funds (three of which have already made capital calls - see page 5 of this memo). DLJ is now raising its fifth real estate fund, with a target fund size around $750 million and a first close date targeted at the end of the first quarter, 2012.

DLJ Real Estate Capital Partners (DLJ RECP) was founded in 1995 as the real estate private equity platform of Donaldson, Lufkin & Jenrette, Inc. (DLJ), an investment bank on Wall Street renowned for its research. In 2000, Credit Suisse acquired DLJ and DLJ RECP became a subsidiary of Credit Suisse. In 2010, DLJ RECP became an independent company from Credit Suisse. DLJ RECP is now controlled and majority owned by its management team. All key personnel remained at the firm. CCCERA has been an investor in DLJ RECP I, RECP II, RECP III, and RECP IV, with commitments of $15 million, $40 million, $75 million, and $100 million, respectively.

RECP V's investment strategy is to make opportunistic investments in a broad range of real estate and related assets that will generate superior risk-adjusted returns over an anticipated three to five year holding period. The fund will target a gross, leveraged portfolio compounded annual internal rate of return of 18%.

This memo provides a review of CCCERA's past and current investments with DLJ RECP, an analysis of the amount of commitments available for CCCERA to make to real estate closed-end funds (after our recent commitments to Oaktree, Siguler Guff, Angelo Gordon, and LaSalle), the impacts of making a $75 million commitment to RECP V on the overall CCCERA real estate portfolio, a summary of the key terms of RECP V, and other considerations.

Review of DLJ RECP I, RECP II, RECP III & RECP IV

DLJ RECP I

CCCERA began investing in DLJ RECP I in mid-1996. The following highlights information for RECP I (as provided by DLJ RECP as of September 30, 2011):

• Number of Investments	49
• Number of Realized Investments	49
• CCCERA Gross IRR	15%
• CCCERA Net IRR	11%
• RECP I Total Invested Equity	$632 million
• RECP I Total Realized Proceeds	$1,052 million
• Total Book Value	Fully Realized
• Gross Equity Multiple	1.7 X

8 out of the 49 total investments in RECP I had negative IRRs, with the rest of the investments' IRRs ranging from 132% to 1%.

DLJ RECP II

CCCERA began investing in DLJ RECP II in September 1999. The following highlights information for RECP II (as provided by DLJ RECP as of September 30, 2011):

• Number of Investments	51
• Number of Realized Investments	47
• CCCERA Gross IRR	26%
• CCCERA Net IRR	18%
• RECP II Total Invested Equity	$1,018 million
• RECP II Total Realized Proceeds	$1,982 million
• RECP II Total Book Value	$96 million
• Gross Equity Multiple	2.0 X

The 47 realized investments generated a gross IRR of 33% and an investment multiple of 2.2 X. The four remaining investments have partially realized proceeds of $77 million and book value of $76 million, representing an estimated investment multiple of 1.0 X with the original invested equity of $147 million. The remaining investments are expected to be sold over the next 18 to 24 months.

4 out of the 47 realized investments in RECP II have had negative IRRs, with the rest of the investments' IRRs ranging from 132% to 5%.

DLJ RECP III

CCCERA began investing in DLJ RECP III in June of 2005. The following highlights information for RECP III (as provided by DLJ RECP as of September 30, 2011):

• Number of Investments	49
• Number of Realized Investments	27
• CCCERA Gross IRR	-1%

- CCCERA Net IRR -4%
- RECP III Total Invested Equity $1,283 million
- RECP III Total Realized Proceeds $618 million
- RECP III Total Book Value $606 million
- Gross Investment Multiple .95 X

The 27 realized investments generated a gross IRR of 16% and an investment multiple of 1.2 X. The 22 remaining investments have partially realized proceeds of $121 million and book value of $606 million, representing an estimated investment multiple of 0.8 X the original invested equity of $871 million. Currently, the management of DLJ RECP estimates a realizable value of $1,051 million (compared to $727 million on the book) for the remaining RECP III portfolio based on updated information and individual analysis on each underlying property. DLJ projects RECP III to do no worse than a 0.9 X investment multiple, with an anticipated outcome of 1.1 X or 1.2 X if real estate fundamentals improve.

DLJ RECP IV
CCCERA began investing in DLJ RECP IV in 2008. The following highlights information for RECP IV (as provided by DLJ RECP as of September 30, 2011):

- Number of Investments 28
- Number of Realized Investments 7
- CCCERA Gross IRR 0%
- CCCERA Net IRR -4%
- RECP IV Total Invested Equity $879 million
- RECP IV Total Realized Proceeds $238 million
- RECP IV Total Book Value $577 million
- Gross Investment Multiple .93 X

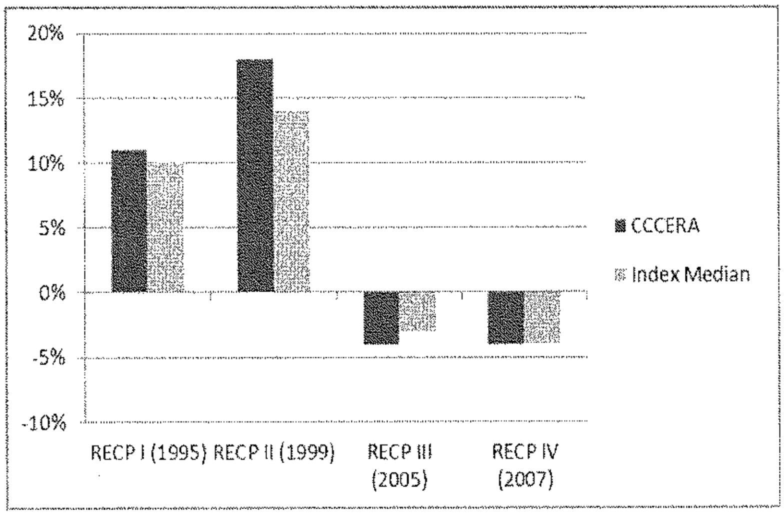
The 7 realized investments have resulted in a loss of $55 million. The 21 remaining investments have partially realized proceeds of $73 million and book value of $577 million, representing an estimated investment multiple of 0.99 X the original invested equity of $658 million. Taking into consideration updated information on follow-on investments, investments made post 09/30/2011, pending transactions, reserves, and capital available for new investments, the management at DLJ RECP estimates a realizable value of $1,786 million for the remaining RECP IV investments. Overall the management projects RECP IV can deliver 1.7 X investment multiple with a mid-teen IRR.

All DLJ RECP Funds
The combined four RECP funds have invested equity of $3,811 million, realized proceeds of $3,890 million, and have remaining book values of $1,279 million as of September 30, 2011, resulting in 1.4 X investment multiple. CCCERA's gross IRR of combined DLJ RECP investments is 11% and net IRR 4%. The following table displays *the gross IRRs* of all of RECP's investments *per vintage year* (based on 09/30/2011 book values).

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
18%	32%	7%	21%	20%	26%	52%	52%	18%	2%	-9%	0%	-21%	68%	26%	-12%

The IRR numbers per vintage year are very strong on an absolute basis, prior to the most recent real estate downturn, and remain competitive.

The chart below compares RECP Funds' net IRRs to *the median* of NCREIF/Townsend Opportunistic Funds Index in the same or similar vintage year.



To sum up, RECP I and II have successfully returned investors' capital and more; RECP III was launched in a difficult vintage year, but numerous profitable investments in China and Japan have helped the fund mitigate the domestic real estate downturn. RECP III is currently being managed to return investors' capital, with a possibility of small upside. For RECP IV, 63% of the capital was or is being deployed after 2009; therefore the majority of the fund investments are not yet realized. Given RECP IV's conservative use of leverage and concentration in prime markets, RECP's management team believes fund IV's unrealized portfolio is positioned well to capture the upside over time beyond the current book value.

CCCERA Available Commitments to Real Estate

Based on the December 31, 2011 market value of $5.1 billion and a 13.5% target allocation, CCCERA has a target of $692 million to real estate. After subtracting the adjusted target of the REIT portfolio and the Willows Property, CCCERA has a target of $453 million to closed-end real estate funds.

As of December 31, 2011, CCCERA's closed-end real estate investments had a market value of approximately $340 million. Outstanding commitments to real estate, which are likely to be drawn, total $306 million. If the dollar target of $453 million is reduced by these amounts, CCCERA has an over-commitment of approximately $192 million.

Given the nature of investing in closed-end real estate, there is a lag period from when a commitment is made until the actual dollars are invested. As portfolio holdings mature and value is recognized, properties are sold and a portfolio typically winds down as capital is returned to investors. Taking lag time into account, CCCERA needs to over-commit relative to the desired target of $453 million to closed-end real estate in order to achieve the real estate target allocation of 13.5%. Also, the recent addition of four real estate funds has provided additional progress towards CCCERA's target real estate allocation. As a conservative estimate, CCCERA can over-commit by 75% ($340 million).

Based on this analysis, the total current amount available for CCCERA to commit to closed-end real estate funds is approximately $148 million. These figures are detailed in the following table:

	Value (Millions)
CCCERA Total Fund *as of 12/31/11*	**$5,127**
Real Estate @ 13.5%	$692
less REIT Target @ 4.5%	$231
=Private R.E. Funds @ 9%	$461
less Willows Property	$8
= Closed End Target	**$453**
Market Value Closed End Investments	
DLJ RECP II, III, IV	$101
Long Wharf FREG II, III	$64
INVESCO IREF I, II	$93
Oaktree V (new)	$43
Siguler Guff (new)	$21
Angelo Gordon VIII (new)	$18
	$340
Commitments Likely to Be Drawn	
DLJ RECP I, II, III, IV	$76
Fidelity FREG II & FREG III	$10
INVESCO IREF I & IREF II	$22
Oaktree V (new)	$7
Siguler Guff (new)	$54
Angelo Gordon VIII (new)	$62
LaSalle VI (new)	$75
	$306
	$453

Closed End Target	
less Closed End Investments	$340
less Commitments	$306
Available to Commit	-$192
plus 75% Over-Commitment (reflects asset growth, lag time plus winding down)	$340
Estimated Available to Commit	**$148**

Based on this estimated amount, CCCERA would be able to make a $75 million commitment to DLJ RECP V, still leaving some capacity for other compelling opportunities that may arise in 2012/2013.

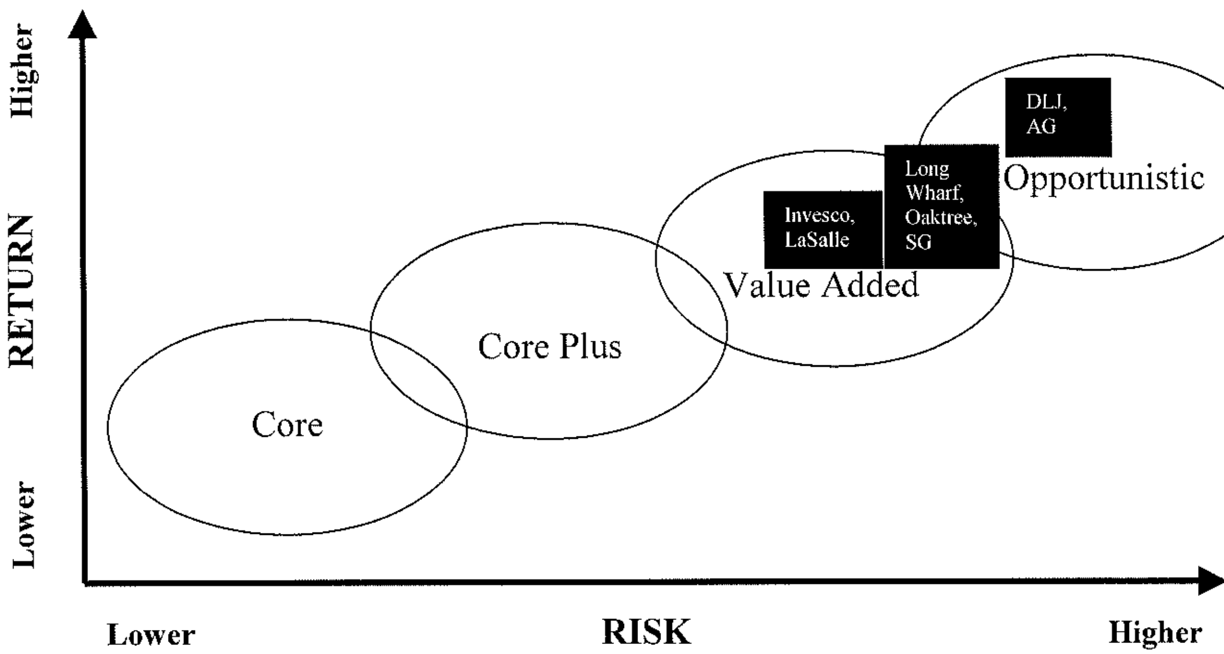
Impact on CCCERA Combined Real Estate Portfolio

The current combined CCCERA real estate portfolio is broadly diversified by both property types and geographic regions. According to the quarterly performance report provided by Milliman, the portfolio has each of the four major property types accounting for a significant portion of the combined portfolio: Multi-family at 24.1%, Industrial at 8.5%, Office at 14.5%, Retail at 14% and Other at 38.8%. Property type allocations tend to change over time when different economic cycles create different investment opportunities.

The combined RECP Funds are broadly diversified, represented by 11 different sub-categories. The largest allocation is 18% to Mixed-Use, followed by 14% to Residential (apartments and condos), and 13% each to Office and Hotel. RECP V will continue to be broadly diversified by property type. The RECP management team does not anticipate the property diversification to be materially different from the past. Therefore, it is not expected that a commitment to RECP V will significantly alter CCCERA's combined property type diversification, nor will it concentrate the combined portfolio in any one property type.

When considering geographic diversification, RECP I had a 14% allocation to international markets, RECP II had a 31% international allocation, RECP III had a 50% international allocation, and RECP IV has a 32% international allocation. Historically, DLJ RECP has been able to add strong values from investing overseas (51 realized investments resulting in 2.0 X investment multiple and a combined gross IRR of 30%). RECP funds are the only real estate funds CCCERA currently invests in (including Oaktree, Siguler Guff, Angelo Gordon, and LaSalle) which provide meaningful exposure to international real estate. International real estate investments will add another degree of diversification to CCCERA's combined real estate portfolio. As of September 30, 2011, CCCERA's combined real estate has 11% invested outside the United States. RECP V will continue to invest internationally, with a focus on China and the UK.

Lastly, the following chart displays the theoretical risk and return profile of closed end real estate funds available to institutional investors. It ranges from core (lower targeted return/lower risk) strategies to opportunistic (higher targeted return/higher risk) strategies. Core funds typically target returns in the 7-9% range, predominately from stable income streams such as apartments. Value-Added funds target IRRs in the mid-teens, while opportunity funds target returns in the high teens and above. Value-Added and Opportunistic funds will use higher leverage as well, typically above 60%, depending on the type of investments and the debt availabilities in the market. DLJ RECP has been a prudent user of leverage; the leverage ratios for RECP I, II, II and IV, are 64%, 65%, 64%, and 27% respectively. Fund level guarantee and recourse obligations never reach above 3% of total capital commitments of RECP III and RECP IV.



DLJ RECP V most appropriately fits in the opportunistic fund category, with a targeted gross IRR of 18%. DLJ RECP I, RECP II, RECP III, and RECP IV also fit in this category. For CCCERA's other closed-end real estate managers, Long Wharf (formerly Fidelity) funds fit between value-added and opportunistic, while INVESCO funds fit most appropriately in the value-added category. Oaktree and Siguler Guff are real estate fund of funds that fit between value-added and opportunistic categories. Angelo Gordon fits in the opportunistic category, and LaSalle is a value-added manager. The overall structure of these close-end real estate investments will be able to bring meaningful enhancement to CCCERA's total fund return with appropriate risk diversification if the managers execute well.

Summary of Key Terms of DLJ RECP V

The following is a summary of the key terms of DLJ Real Estate Capital Partners V, L.P.

The Fund:	DLJ Real Estate Capital Partners V, L.P.
General Partner:	DLJ Real Estate Capital V, LLC

Investment Manager:	DLJ Real Estate Capital Partners, LLC
Target Return:	18% Gross IRR
Expected Size:	$750 million
Commitments:	No less than $7.5 million will come from RECP investment professionals
Investment Period:	4 years from final closing
Term:	9 years from final closing, subject to two one-year extensions
Management Fee:	1.5% based on committed capital during the investment period, then based on invested capital thereafter.
Transaction Fees:	No acquisition or disposition fees
Distributions:	Return of Funded Commitment and Asset Management Fees plus Preferred Return; then
	Catch-up period where 60% distributions go to Special Carry Limited Partner and 40% go to Limited Partners; then
	80% to Limited Partners and 20% to Special Carry Limited Partner
Diversification:	25% cap to single asset and 35% cap to international investments

Other Considerations

DLJ RECP Funds have been CCCERA's most successful closed-end real estate investments. The firm's acquisition focus on high quality, single (compared to a portfolio of), off-market assets in prime locations is a differentiator from its competitors. The management team also works hard to bring desirable design and competitive real estate products to the markets. Its prudent use of leverage also sets it apart from most other opportunistic funds during the recent real estate downturn.