

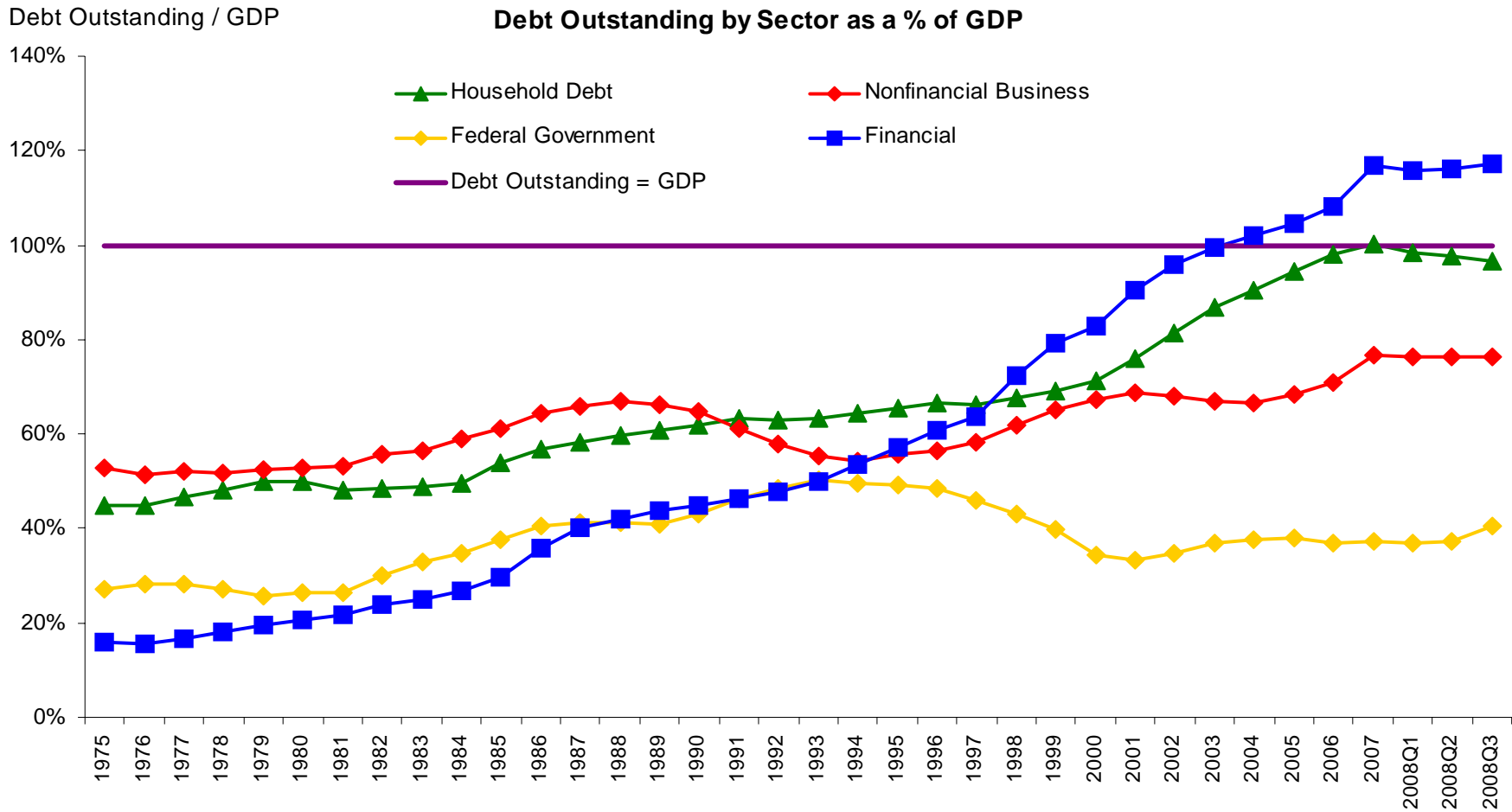
TexPERS Market Overview

TCW/Buchanan Street Partners

Austin, Texas
March 30, 2009

Tim Ballard, Chief Investment Officer
Buchanan Street Partners

MARKETS NEED TO DELEVERAGE 15 YEARS OF MASSIVE INCREASES



Sources: Federal Reserve FOF; BEA; PPR

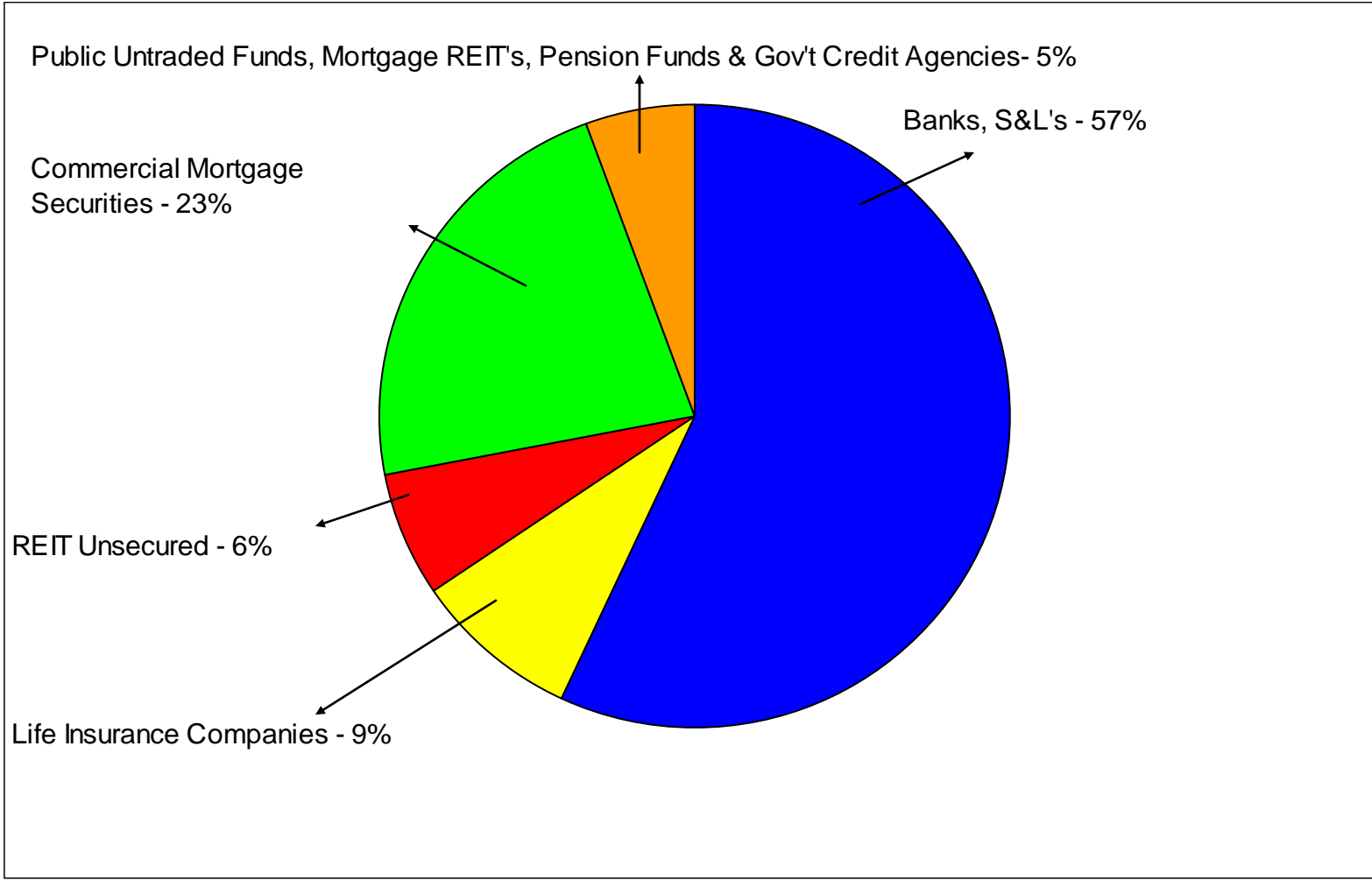
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It's All About Liquidity

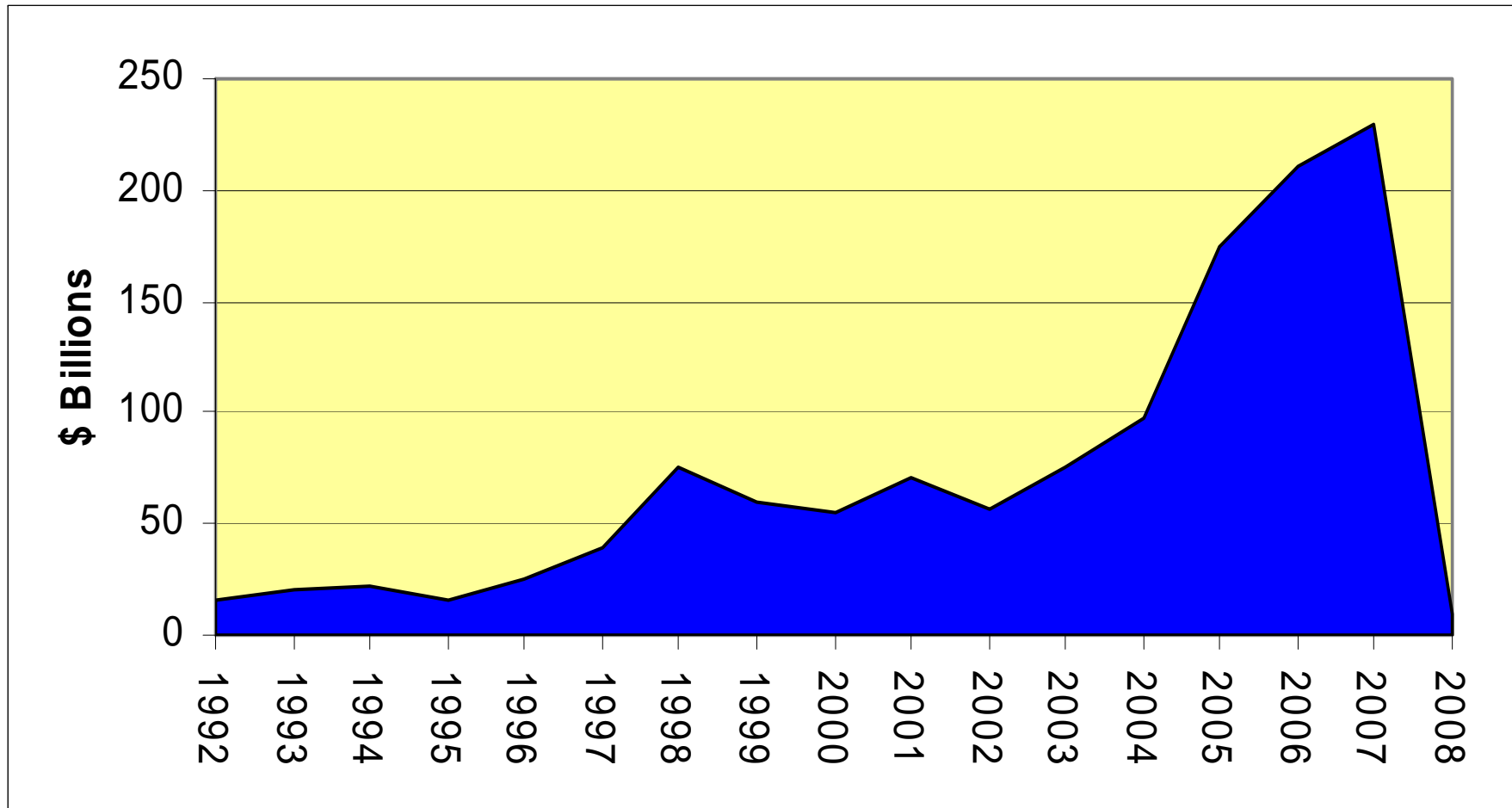
- There is none (almost)
- Where does CRE debt come from?
- When will liquidity return?

Ownership of Commercial Real Estate Debt \$3.3 Trillion in Total



Source: FDIC

US CMBS Issuance Declines 90%

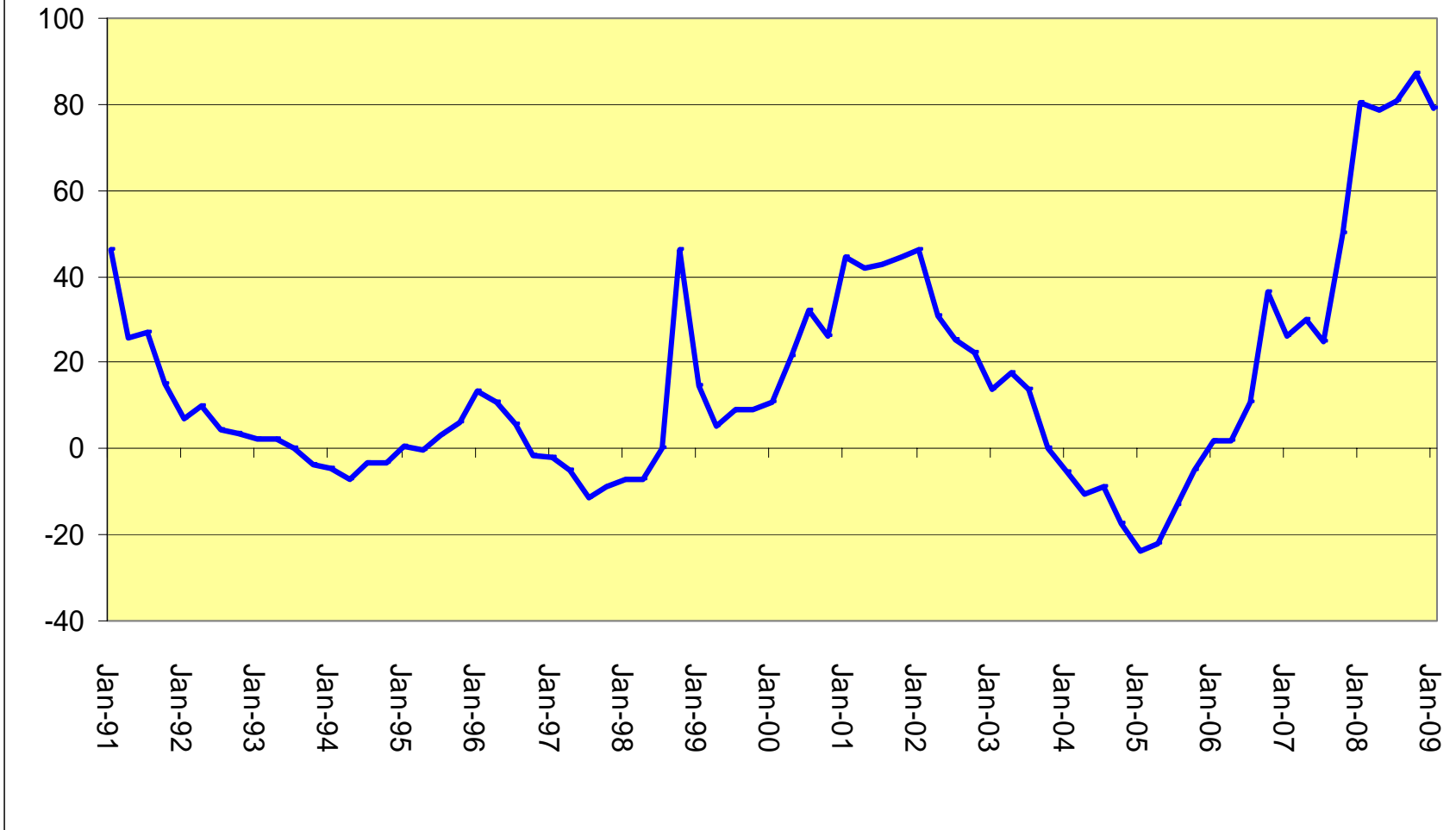


Source: Jones Lang LaSalle, Commercial Mortgage Alert

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Percentage of Banks Tightening Underwriting for Commercial Real Estate Loans



Source: Federal Reserve

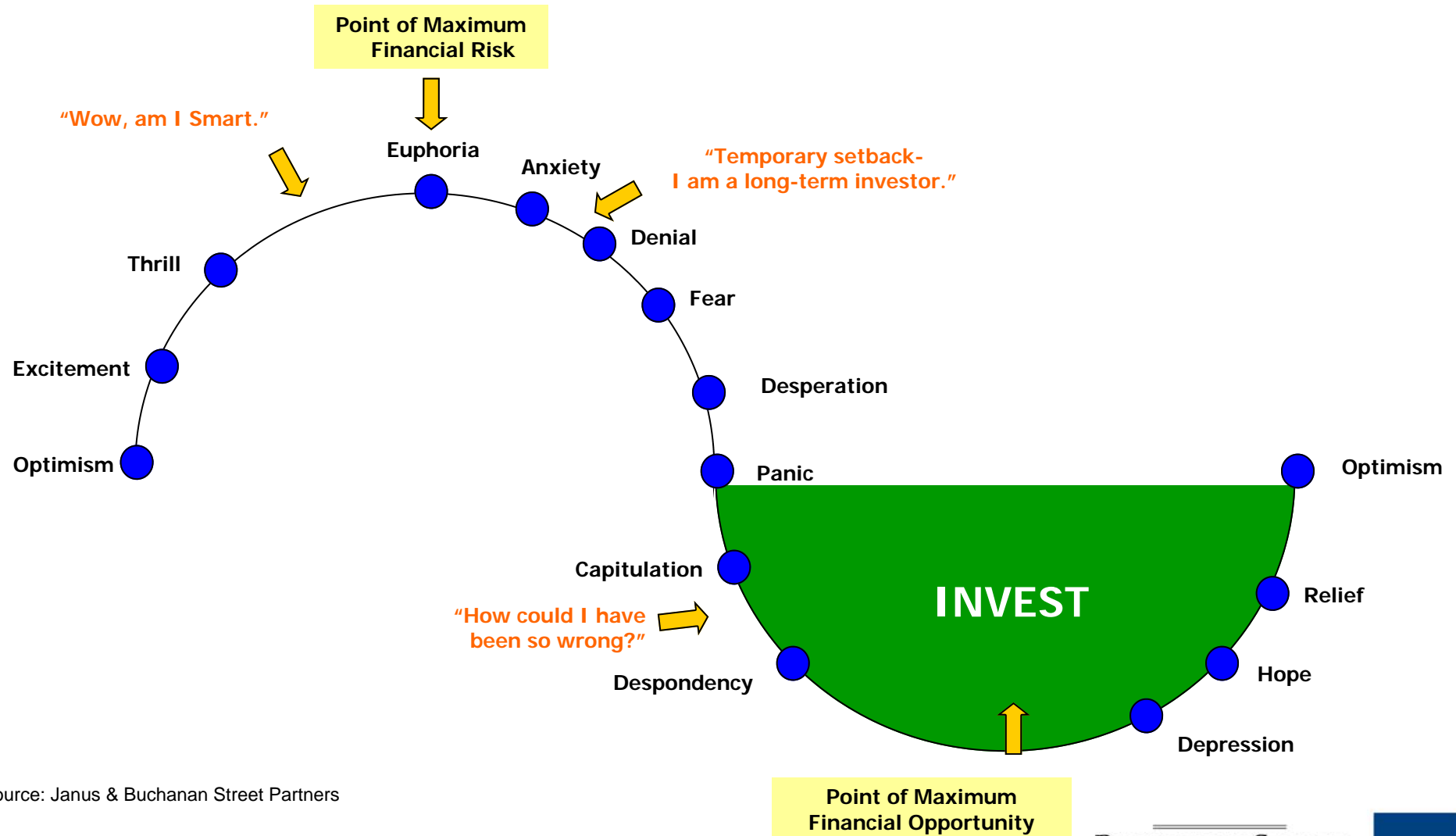
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Why Commercial Real Estate Now?

- Market timing and liquidity
- Demographics and demand
 - Buy low, sell...

Why Commercial Real Estate Now?



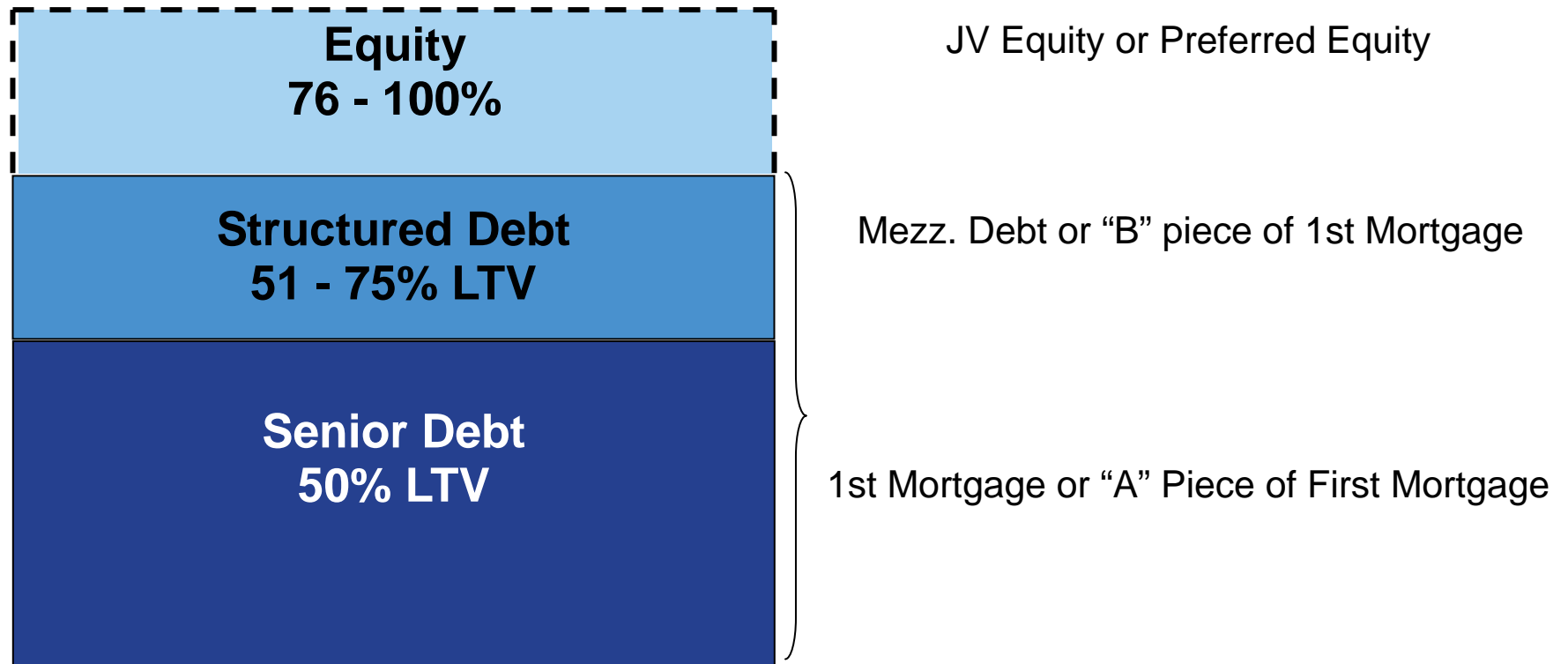
Source: Janus & Buchanan Street Partners

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INVESTMENT STRATEGY - INVEST LOWER IN THE CAPITAL STACK

Achieve value added returns with less risk



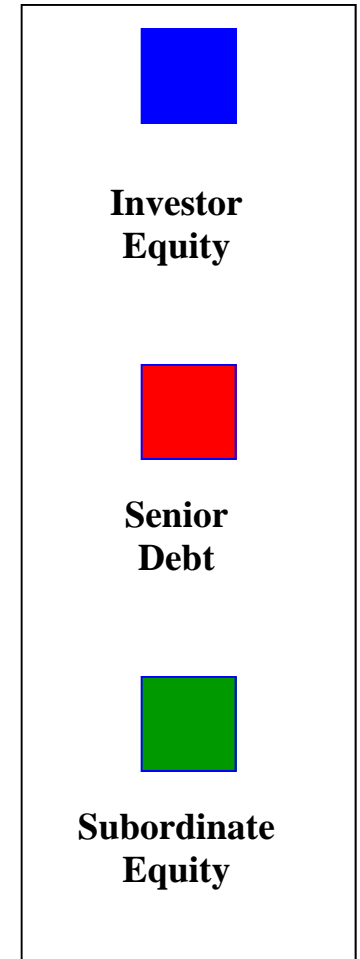
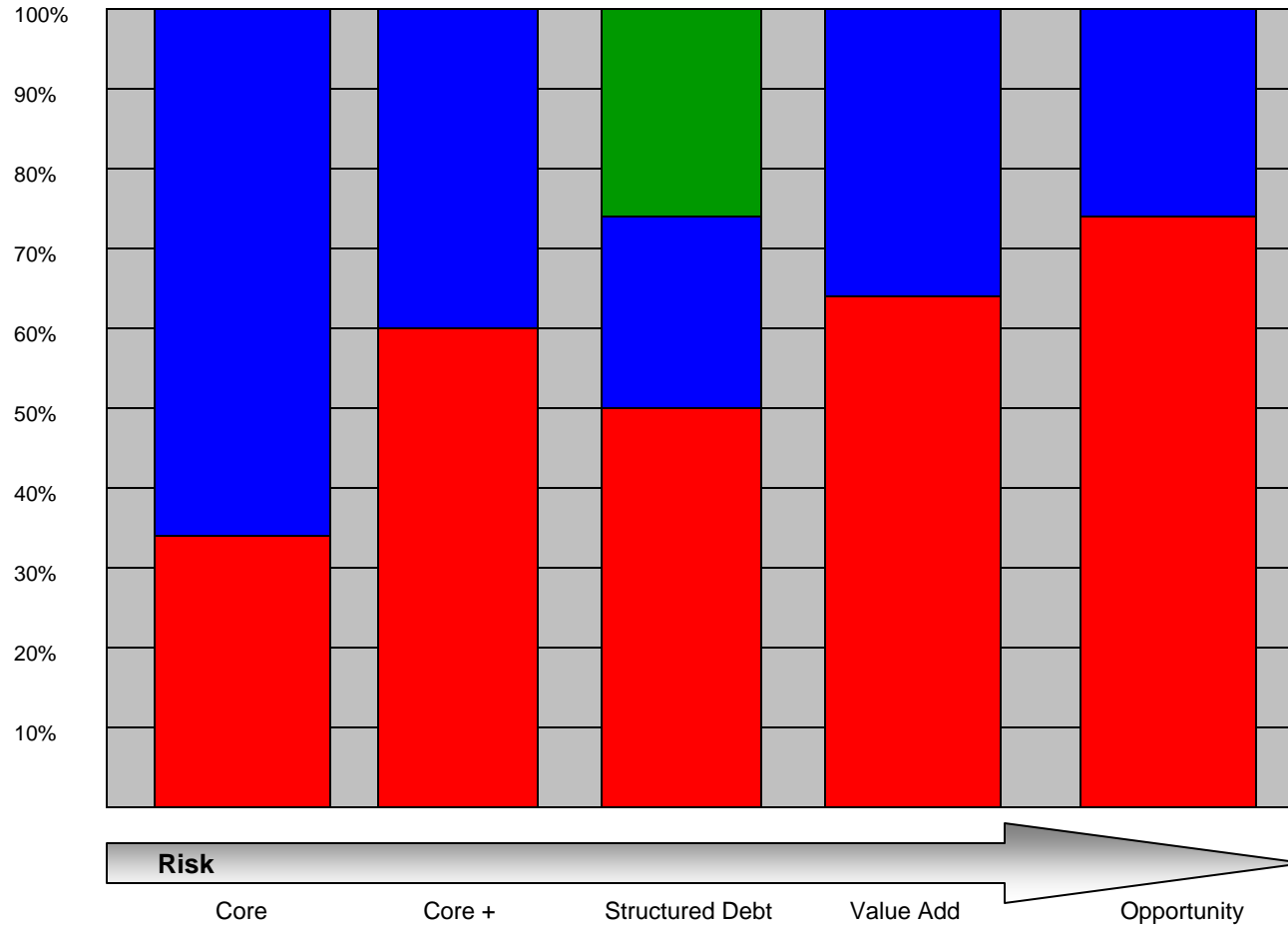
For Illustrative Purposes Only

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Market Return Expectations For Commercial Real Estate Investments

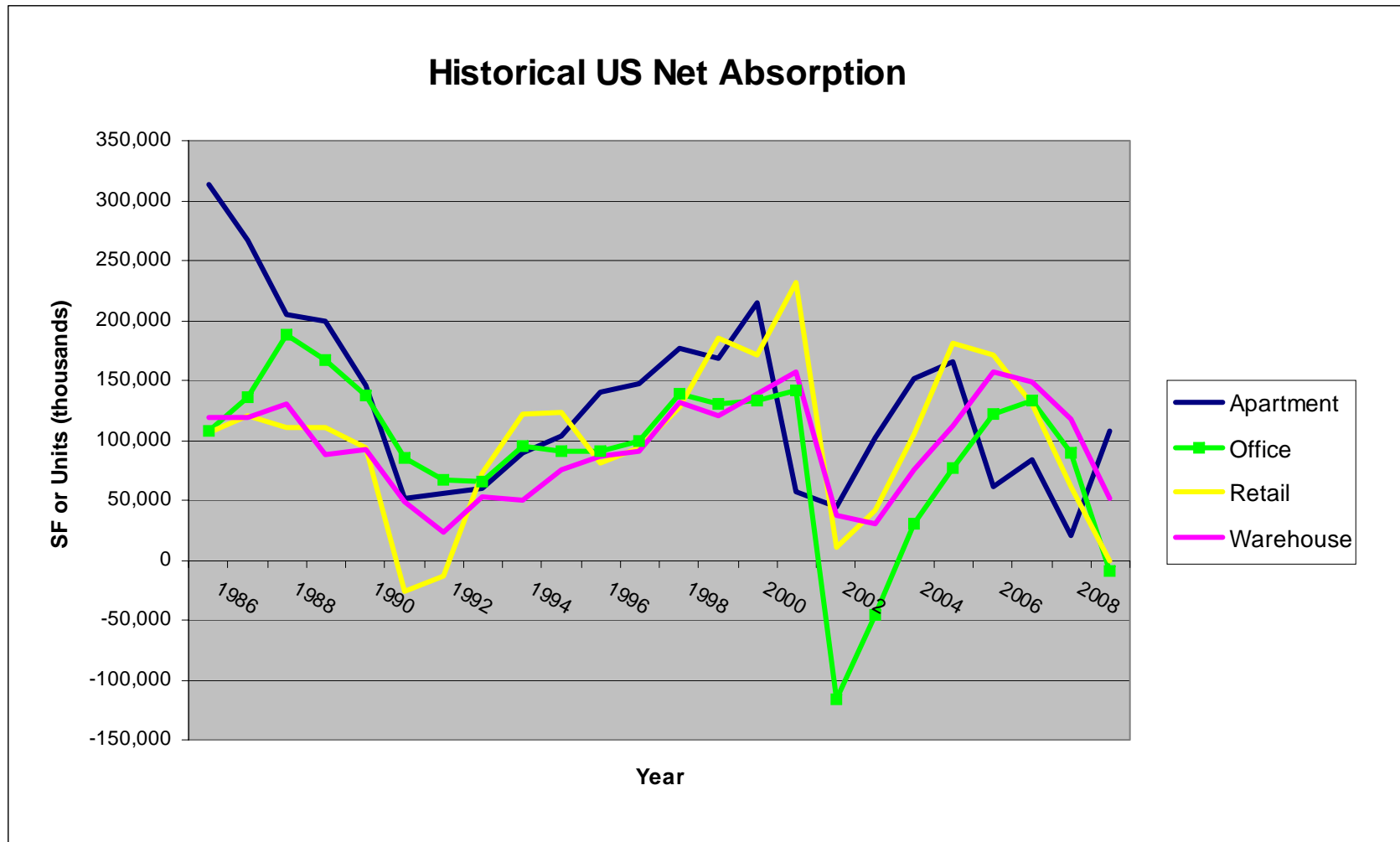
Capital Invested



Debt Today, Equity Tomorrow

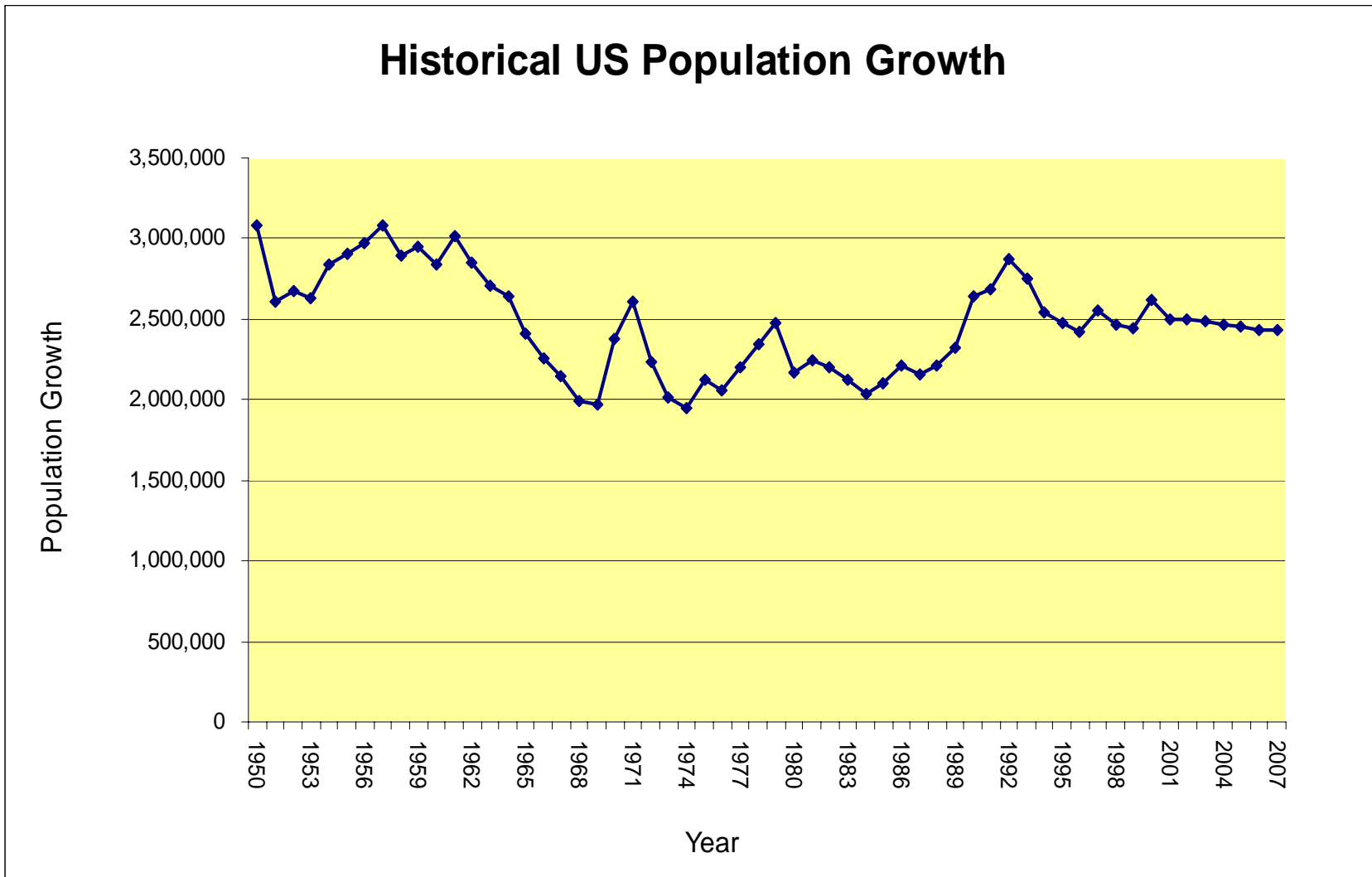
- Invest debt in special situations where equity returns can be achieved with lower risk
- Equity valuations will decline to reflect debt returns and softening demand fundamentals
- Fiscal stimulus may result in significant inflation
- Protect against inflation by investing in leveraged CRE

Average Annual Net Demand = 432MM SF



Source: PPR

People Consume Real Estate



Source: US Census

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When Economy Bottoms - Buy Low

- Invest at 40-70% of replacement costs
- Population growth increases demand
- Rents increase until new supply is created
- Result = existing RE values grow to replacement costs less obsolescence

POST RECESSIONS REAL ESTATE RETURNS ACCELERATE



Source: NCREIF, Buchanan Street

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Questions

And

Answers