

## APPENDIX - A -

### REAL ESTATE INVESTMENT POLICY

Pursuant to Iowa Code §97B, the Iowa Public Employees' Retirement System (IPERS) Investment Board (Board) is establishing this Real Estate Investment Policy (Policy) that sets forth the long-term objectives and policies for real estate investments. Included in this Policy are Exhibit A, a description of investment characteristics, and Exhibit B, the procedural policies. The Board may amend this policy in whole or in part or provide for certain exceptions to it.

#### I. INVESTMENT OBJECTIVES

##### A. Role of Real Estate

IPERS has determined that the primary role of the real estate asset class is to provide diversification to the Fund through low correlation with other portfolio asset classes; the secondary role is to provide income. The asset class has two components with complementary roles. The role of private real estate is to provide diversification and income, while the role of public real estate securities is to provide diversification and liquidity. IPERS shall invest in a consistent manner over time in order to both average in various property and space market cycles and build a portfolio that generates a consistent pattern of annual cash flow.

##### B. Allocation to Real Estate

IPERS has approved a target of 8 percent of the total Fund for real estate investments, with an allowable range of 6 to 10 percent. The target was set within IPERS' asset allocation framework and positioning within the specified range constitutes compliance with the asset allocation policy.

The total new allocation to real estate in any calendar year is subject to Board approval, and shall not exceed 1.5 percent of the total IPERS portfolio market value as of June 30 prior to the beginning of the calendar year. Allocations to real estate that are not spent or committed to specific property acquisitions by calendar year end will not carry over to the next calendar year.

Sale proceeds may be made available for reinvestment to the distributing manager at the full discretion of IPERS' staff and consultant. IPERS' staff will provide the Investment Board with annual updates on portfolio sales and reinvestment opportunities.

C. Return Objective

1. IPERS Real Estate Program

The return objective for the total IPERS real estate program is to exceed a weighted benchmark of the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and Wilshire's Real Estate Investment Trust Index (Wilshire REIT) by 25 basis points (0.25 percent), net of investment management fees, calculated on a time-weighted basis over rolling five-year periods. The NPI index will constitute 85 percent and the Wilshire REIT index will constitute 15 percent of the benchmark.

2. Private Real Estate

The return objective for the private real estate portion of the program is to exceed NPI, net of investment management fees, calculated on a time-weighted basis over rolling five-year periods. Portfolio level returns will be utilized in the evaluation of manager performance.

It is anticipated that core investments will generate at least 70 percent of their total returns from income and will constitute at least 95 percent of the private real estate program. The remainder of the private real estate program will be noncore investments, which will generate at least 50 percent of their total return from income.

3. Public Real Estate

The return objective for the public real estate securities portion of the IPERS real estate program is to exceed the Wilshire REIT Index by 150 basis points (1.50 percent), net of investment management fees, calculated on a time-weighted basis over rolling three-year periods.

**II. INVESTMENT POLICIES**

A. Portfolio Composition

IPERS has established the following portfolio composition target ranges:

<u>Portfolio</u>	<u>Target</u>	<u>Target Range</u>
Public Real Estate	15%	10%–20%
Private Real Estate	85%	80%–90%

These portfolio composition ranges are applied to the sum of the real estate investments at net asset value plus unfunded commitments (amounts that have not yet been called but are committed to pending investments) to real estate.

## B. Investment Vehicles

IPERS recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that maximize investor control are preferred. IPERS may use the following investment structures:

### 1. Individually Managed Account Vehicle

Individually managed accounts will be the preferred investment vehicle, as this vehicle provides IPERS with control, alignment of interest, and lower costs. The relationships will be managed discretionary relationships, where the manager has discretion to invest within criteria approved by IPERS' staff and real estate consultant.

### 2. Collective Investment Vehicle

Any legally permissible vehicle will be allowed, including joint ventures, limited partnerships, real estate investment trusts, and limited liability corporations.

## C. Diversification

IPERS will seek to diversify its real estate portfolio by manager, property type, and property location.

### 1. Manager Diversification

The maximum aggregate investment value for any private real estate manager shall be 30 percent of the total private real estate investment value plus unfunded commitments. Conditions or circumstances beyond IPERS' control may render this limitation untenable for a period of time.

The maximum aggregate investment value for any public equity real estate manager shall be 15 percent of the real estate portfolio's aggregate net asset value plus unfunded commitments. Conditions or circumstances beyond IPERS' control may render this limitation untenable for a period of time.

## 2. Property Type and Location Diversification

Rather than maintain specific targets by property type and property location, IPERS has determined it is appropriate to allow the portfolio to be more heavily exposed to a single property type or location by virtue of current opportunities available in the market and expectations for future optimal risk-adjusted returns. Exposure to any single property type (apartment, industrial, office, or retail) or geographic region (East, Midwest, West, or South) will be within the range of 10 to 40 percent. Exposure to other specialized property types will be within the range of 0 to 10 percent. These diversification ranges are applied to the sum of the portfolio's current investments at net asset value plus unfunded commitments. Conditions or circumstances beyond IPERS' control may render these limitations untenable for a period of time.

### D. Leverage

The preference will be to derive returns through executing real estate strategies, as opposed to financing strategies. IPERS has approved leverage limits in order to maximize returns to the total portfolio while mitigating risk. Leverage is limited to 35 percent at the manager portfolio level, 50 percent at the property level for core assets, and 60 percent at the property level for value-added assets. These limits shall apply at the time of acquisition or the placement of debt. Changing market conditions or circumstances beyond IPERS' control that occur after acquisition or placement of debt may cause these limitations to be exceeded temporarily.

### E. Investment Size

The maximum investment or coinvestment in any single property or public real estate security is 0.5 percent of IPERS' total Fund market value at the time of the commitment. IPERS shall not hold more than a 20 percent interest in any commingled fund vehicle.

**EXHIBIT A**  
**INVESTMENT CHARACTERISTICS**

Core investments are commercial and residential properties which derive their value primarily from current income production, and therefore represent lower-risk profiles than Noncore properties. Core investments are stabilized, substantially leased properties in the four major property types:

1. Office: Mixed-use, multi-tenant, and single-tenant facilities, classified as either Central Business District (CBD) or suburban.
2. Retail: Regional malls, community and neighborhood shopping centers, specialty centers, and single-tenant stores.
3. Industrial: Bulk distribution, light manufacturing, and research and development (R&D) facilities.
4. Residential: High-rise, mid-rise, and garden apartments.

Noncore investments represent a higher-risk profile than Core properties, and consist of the following types:

1. Properties which are acquired primarily for high appreciation potential, and are expected to derive their value primarily from appreciation returns.
2. Properties which would be Core except for an identifiable and correctable deficiency such as the need for lease-up, renovation, or conversion of an existing property, or the need for development adjacent to an existing owned property.
3. Properties outside defined Core property types, such as motels, hotels, timber, agriculture, and raw land.

Public Real Estate Securities represent an investment in a publicly traded security that sells on the major exchanges and invests in real estate directly, either through properties or mortgages. A distinguishing characteristic of this investment versus private real estate is the improved liquidity.

The investment program shall not include special-purpose facilities such as casinos and factories, which generally carry unacceptable business risks.

**EXHIBIT B**  
**PROCEDURAL POLICIES**

**I. DUE DILIGENCE**

Due diligence shall be performed through the selection, monitoring, evaluation, and disposition stages of the investment process. Thorough due diligence shall be accomplished by the following means:

- A. Establishing and adhering to investment evaluation criteria which shall identify key sources of risk to be monitored during the life of each investment.
- B. Reviewing the track record of the manager; evaluating the risk of loss and the potential for gain of each investment; evaluating the suitability of the financial structure; and evaluating costs, time horizon, and the manager's exit strategy.
- C. Negotiating and structuring fundamental rights and protections with each manager which shall permit remedial action when necessary. These basic rights and protections shall include where appropriate distribution covenants and specific "exit" or voting rights in the event of a change of control or material adverse change.
- D. Seeking special reporting covenants to apply throughout the life of the investment.
- E. Reviewing each investment at least annually to determine whether retaining the investment is warranted on a risk-adjusted basis within the context of IPERS' total portfolio and relative to the investment objectives established for that particular investment.
- F. Maintaining an investment Watch List. It is expected that over time some investments shall experience difficulty due to economic or market-specific factors. IPERS staff and real estate consultant shall maintain the Watch List, which will set forth the key issues to monitor and action plans to improve investment results.
- G. Specifying the valuation methodology for the life of the investment. The timing of valuations shall vary across the portfolio. In most cases, an independent third-party appraiser shall be retained by the manager for determining value. IPERS shall reserve the right to engage its own appraiser to value the investments, and may adopt and maintain its own valuation accounting conventions.

- H. Ensuring that no investment is made or held without a qualified manager or independent fiduciary under contract to provide the appropriate investment monitoring and guidance.

## II. INVESTMENT POLICIES

### A. Investment Roles and Approval Procedures

The implementation and monitoring of the real estate program shall be a coordinated effort between the Board, staff, managers, and real estate consultant. Primary responsibilities for each are outlined below:

1. The Board, based upon the recommendation of the staff and real estate consultant, shall approve the Real Estate Investment Policy (Policy) and Real Estate Investment Plan (Plan); retain qualified managers; approve commitments to investment vehicles; and review at least annually the performance of the real estate portfolio. The Board, based upon the recommendation of the staff, shall retain a qualified real estate consultant.
2. The staff shall recommend to the Board the Policy and the Plan; recommend the hiring of specific managers and commitments thereto; monitor, communicate, and meet with managers; monitor and evaluate investment performance; negotiate business terms and compensation packages; develop implementation plans; coordinate the receipt and distribution of capital between the managers with respect to investments and dispositions; and serve on any advisory boards or committees associated with the approved investments.
3. The managers shall acquire, manage, and dispose of real estate investments on behalf of IPERS in accordance with the Policy, the Plan, and a particular investment vehicle's governing documentation. They shall also communicate key issues and overall performance to the Board, staff, and real estate consultant.
4. The real estate consultant shall monitor the real estate program for compliance with the Policy and the Plan, and shall recommend revisions to the Policy, the Plan, the manager roster, and the investments. The real estate consultant shall further be responsible for identifying investment opportunities and participating with staff in conducting manager searches and negotiating business terms and performance compensation packages. Technical advice and support also shall be provided. Finally, the real estate consultant shall provide performance measurement analysis of the real estate portfolio. The Board and staff shall expand or contract these responsibilities as needed.

B. Evaluation and Review of Policy and Plan

The Policy and the Plan shall be reviewed and revised, as necessary, by the staff and real estate consultant no less than annually. Revisions shall be submitted for approval to the Board.

C. Real Estate Title Holding Entities

IPERS may act to establish and maintain real estate title holding entities for the purpose of taking title to and holding its real estate investments and/or assets. Such holding entities shall be established in accordance with applicable federal and state requirements.

D. Real Estate Investment Plan

The Plan identifies the investment needs of the portfolio for each calendar year. The particular needs for each Plan will be established in light of the structure, objectives, and performance of the existing portfolio, as well as current market opportunities. The Plan will be reviewed and revised annually.

E. Performance Measurement Report

The report shall include attributes for both the vehicles and the portfolio, including: income, appreciation, total gross, and total net returns; cash flow; diversification; comparisons with relevant industry performance indices; and Policy and Plan compliance. The real estate consultant shall prepare and forward such reports on a quarterly basis.