APPENDIX – C –

PRIVATE MARKETS INVESTMENT POLICY

Pursuant to Iowa Code §97B, the Iowa Public Employees' Retirement System (IPERS) Investment Board (Board) establishes this Private Markets Investment Policy (Policy) that sets forth the long-term objectives and policies for private market investments. Allocations to the private markets program shall be determined through the asset allocation review process.

IPERS' private markets program consists of three components: private equity, private credit, and private real assets. The portfolios serve complementary roles within the program and at the total fund level. The role of private equity is to provide excess returns over the public equity markets; private credit provides excess returns over the public credit markets, diversification, and income; while private real assets provide diversification, income, and an inflation hedge.

Each component program is described below. Also integral to this Policy is Exhibit A, a description of permitted investments for the program's three components, and Exhibit B, the program's procedural policies.

I. PRIVATE EQUITY

A. Definition

Private equity is equity capital that is not quoted or traded on a public exchange. Private equity investments are generally investments in buyout, venture capital, or special situations funds, but may include some co-investment alongside these types of funds. Exhibit A provides a more detailed description of the types of permitted investments.

B. Investment Philosophy

Traditional public equity markets have become increasingly efficient. The private equity market, however, remains inefficient and illiquid partially because of privately negotiated, non-auction pricing mechanisms. Return premiums exist for investors who accept the illiquid and inefficient characteristics of the private equity market, and who are willing to take an opportunistic investment approach.

Because of the inefficiencies found in the private equity market, successful investment requires an active, targeted, and opportunistic approach. In an inefficient market, passive investment in a broad array of market segments is likely to lead to underperformance. Therefore, IPERS will delegate investment selection to an experienced, qualified manager. The Manager will utilize a systematic approach to the identification of and participation in specific investments. The following screening criteria will be utilized by the Manager as a key element of the systematic approach to the identification of suitable venture capital and special equity investment opportunities for the System:

- Experience, qualifications, and responsibilities of the general partners
- Past investment results of the general partners
- Quality of the general partners' deal flow sources
- Demonstrated deal-exiting capability on the part of the general partners
- Special expertise of the general partner, unique deal flow source, or other competitive advantage
- Limit of liability by the pension fund to the amount of their investment (for example limited partnerships)
- General contribution of the opportunity to the diversification of the program

C. Return Objective

The long-term return objective is 300 basis points (3 percent) greater than the Wilshire 5000 Index, net of investment management fees, calculated on an internal rate of return (IRR) basis over rolling ten-year periods.

Performance on both the portfolio and the benchmark shall be calculated on an internal, or dollar-weighted, rate of return basis. In recognition of the fact that IRRs are not meaningful in the early years of a private equity investment's life, the IRR performance calculation for the benchmark may be adjusted so that contributions made in the most recent three years of the rolling ten-year period are assumed to earn 91-day U.S. Treasury Bill returns.

D. Investment Policies

1. Co-Investments and Secondaries

The Manager may utilize direct co-investments in companies alongside of IPERS' current general partners. For purposes of this Policy, a direct co-investment is defined as a direct investment in the equity of a portfolio company alongside an existing IPERS partnership deemed in good standing. A direct co-investment does not include a co-investment fund (a partnership organized with the goal of investing in multiple direct co-investments). In addition, the Manager may also participate in secondary offerings or purchase private equity interests from other investors on the secondary market.

2. Investment Limits

   a. The maximum investment in any limited partnership, group trust, or limited-liability company vehicle shall not exceed 20 percent of the total capital committed by all partners at the time of the final closing for each fund, and shall not exceed $80 million without the prior approval of the Board.

   b. The maximum investment in any single direct co-investment shall not exceed $15 million. IPERS' total investment in direct co-investments shall not exceed 15 percent of the IPERS private equity portfolio on a cost basis at the time of investment.

   c. The maximum investment commitment amount for a calendar year shall be annually determined by staff and communicated to the Manager in writing. The annual commitment amount decision will be based on current allocation, target allocation, expectations for future pace of drawdowns and distributions, expected market environment, etc. Staff will inform the Board of its annual commitment allocation decision and also of any subsequent adjustments that may occur based on market conditions or partnership fundraising schedules.

II. Private Credit

A. Definition

Private credit is generally the investment in loans to companies, individuals and organizations for a variety of transactions including asset-based and cash flow-based financings, recapitalizations, and acquisition-related financings. Exhibit A provides a more detailed list of permitted private credit investments.

B. Investment Philosophy

Traditional public credit markets offer a relatively liquid market for issuers of debt securities and buyers of debt instruments. The private credit markets, where borrower and lender agree to terms via privately negotiated transactions, are by nature illiquid. Return premiums exist for investors who accept the illiquid and inefficient characteristics of the private credit market, and who are willing to take an opportunistic investment approach throughout the credit cycle.

C. Return Objective

The long-term return objective for IPERS' private credit program is to exceed the S&P/LSTA Leveraged Loan Index plus 1 percent, net of investment management fees, calculated on an internal rate of return basis over rolling five-year periods.

D. Investment Policies

1. Credit

IPERS may commit capital to partnerships or separate account vehicles for the purpose of investing in private credit. IPERS will seek investment managers for private credit mandates that have expertise in underwriting credit and the operational resources required to adequately monitor and manage a large diversified loan portfolio.

2. Investment Size

The System's investment in any limited partnership, limited-liability company vehicle or other type of fund structure shall not exceed 20 percent of the total capital committed by all partners at the time of the final closing for each fund.

III. Private Real Assets

A. Definition

Private real assets are physical assets that have intrinsic value due to their substance or properties, and include investments in commercial real estate (real estate) and farmland, timber, and infrastructure (other real assets).

B. Investment Philosophy

The primary role of the private real assets program is to provide diversification through low correlation with other portfolio asset classes; the secondary role is to provide income; and the third role is to provide inflation protection.

C. Return Objectives

1. Private Real Assets Program

   The long-term return objective for IPERS' private real assets program is to exceed CPI-U (NSA) by 500 basis points (CPI + 5 percent), net of investment management fees, calculated on a time-weighted basis over rolling ten-year periods.

2. Program Investments

   The return objective for the real estate portion of the program is to exceed the National Council of Real Estate Investment Fiduciaries' Open-End Diversified Core Index (ODCE), net of investment management fees, calculated on a time-weighted basis over rolling ten-year periods. Portfolio level returns will be utilized in the evaluation of manager performance.

   The return objective for the other real assets portion of the program is to exceed CPI + 5 percent, net of investment management fees, calculated on a time-weighted basis over rolling ten-year periods.

D. Investment Policies

1. Investment Diversification

   Real estate investments will constitute at least 70 percent of the private real asset investment value; other real assets will not exceed 30 percent of the private real assets investment value. The 70 percent minimum and 30 percent maximum above shall be applied to the sum of the private real asset portfolio's current investments at net asset value plus unfunded commitments.

   Real estate investments shall be diversified such that core real estate constitutes at least 80 percent of the real estate portfolio and non-core and market driven opportunity investments (as those terms are defined in Exhibit A) shall not exceed 20 percent of the real estate portfolio.

   Staff will strive to ensure that IPERS' real estate portfolio has property type and regional weightings that are within +/– 5 percent of the weightings reported by NCREIF for the ODCE Index.

   IPERS will diversify its real estate investment manager structure such that no manager will manage more than 35 percent of the real estate program assets.

Timberland investments will be diversified by region, land class (raw land, pre-merchantable timber, and merchantable timber), timber type, and age-class.

Farmland investments will be diversified geographically throughout the United States and by crop type. The three primary categories of crops that shall be included are commodity crops (corn, soybeans, wheat, cotton, etc.), vegetable crops (lettuce, green vegetables, etc.), and permanent crops (fruits, nuts, grapes, citrus, etc.).

Infrastructure investments shall be diversified geographically and across the transportation, energy, and utility sectors.

2. Investment Limits

The maximum investment or co-investment in any single real estate or other real assets investment 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.

3. Leverage

Leverage on real estate investments is limited to 40 percent at the manager portfolio level, 50 percent at the property level for core investments, and 60 percent at the property level for non-core investments. 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.

Given their stable cash flow and low variability of revenue, infrastructure assets can support more debt. For this reason, infrastructure investments may utilize up to 65 percent debt at the fund level and will be expected to use no more than 70 percent on any given asset. These limits will be reviewed on a case by case basis and determination of the debt level will be dependent on the investment type and risk characteristics of the investment.

Farmland and timberland investments shall not utilize leverage.

EXHIBIT A
INVESTMENT DESCRIPTIONS

Permitted investments for each component of the private markets investment program are described below:

I. PRIVATE EQUITY

A. U.S. and non-U.S. venture capital investments

1. Early venture – Focuses on initial financing of start-up and early-stage companies. Companies at this stage often do not have fully formed management teams or completely defined products, and usually do not have sales or earnings.

2. Growth venture – Aims to provide expansion capital to mid- and late-stage companies that are increasing capacity and expanding market share.

3. Established growth venture – Focuses on investments in mature companies which are well-established in the market, operating profitably or at cash flow break-even, and growing at an above-industry growth rate. Investment is made due to an opportunity for further expansion.

B. U.S. and non-U.S. special equity investments

1. Corporate finance – Includes leverage buy-out, management buy-out, and influence-block investment strategies.

2. Recovery securities – Includes equity and debt instruments of companies involved in turnaround, restructuring, deleveraging, or bankruptcy situations.

3. Mezzanine securities – Placed between debt and equity in a company's capital structure, mezzanine securities are typically subordinated debt instruments for late-stage venture and mature companies, and offer income through a current coupon and equity participation through a warrant.

4. Other investments – Includes those investments not defined above. This category is designed to capture those innovative investment opportunities created by the marketplace that do not fit an existing category. The Manager may not invest in investments that would fall within this subcategory without specific approval from the staff.

II. Private Credit

A. Commercial Real Estate Credit

A mortgage loan secured by a lien on commercial real estate which includes any income-producing real estate that is used solely for business purposes, such as retail centers, office complexes, hotels and apartments.

B. Middle Market Direct Lending

Primarily first lien senior secured floating-rate loans to middle market companies. These loans are typically made for the purposes of leveraged buyouts, recapitalizations, acquisitions, and funding of growth strategies by investors and/or businesses.

C. Opportunistic Credit

Investments in closed-end funds or separately managed accounts that invest in specific types of credit or lending strategies, or opportunistically invest across multiple types of credit and lending strategies.

III. Private Real Assets

A. Real Estate

1. Core real estate investments are commercial properties located in the United States which derive their value primarily from current income production, and therefore represent lower-risk profiles than non-core properties. It is anticipated that core investments will generate at least 70 percent of their total returns from income. Core investments are stabilized, substantially leased properties in the four major property types:

    a. Office: Central business district or suburban.

    b. Retail: Neighborhood centers, community centers, regional/super-regional centers (malls), specialty centers, power centers, and single tenant properties.

    c. Industrial: Flex space, research and development facilities, warehouse, and other (manufacturing and office showroom).

    d. Apartments: High-rise, low-rise, and garden-type apartments.

2. Non-core real estate investments are commercial properties located in the United States that represent a higher-risk profile than core properties. It is anticipated that non-core investments will generate at least 50 percent of their total return from income over the underwriting period. These investments include the following:

   a. Properties which are acquired primarily for high appreciation potential, and are expected to derive their value primarily from appreciation returns.

   b. 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. Market driven opportunities are tactical investments in commercial properties located in the United States that have been approved by IPERS staff due to the perceived opportunity for IPERS to earn a higher risk-adjusted return than what can be provided by core private real estate investments. These investments include the following:

   a. Specialty property types including, but not limited to: hotel, self-storage, senior living, and raw land.

   b. Development of assets (build to core) on a very selective basis. IPERS will not assume construction risk but may assume lease-up risk.

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

B. Other Real Assets

1. Farmland investments are equity ownership in commercial agricultural properties. IPERS will seek to build a farmland portfolio that is well-diversified geographically throughout the United States and by crop type. The three primary categories of crops that shall be included are commodity crops (corn, soybeans, wheat, cotton, etc.), vegetable crops (lettuce, green vegetables, etc.), and permanent crops (fruits, nuts, grapes, citrus, etc.).

2. The timberland portion of private real assets may be invested in three primary regions across the United States: Pacific Northwest, Southeast, and

Northeast. In addition, this portion of the program will be diversified by land class (raw land, pre-merchantable timber, and merchantable timber), timber type, and age-class.

3. IPERS may invest in partnerships or funds that invest predominantly in stabilized, income producing infrastructure assets (aka brownfield infrastructure), which may include transportation (toll roads, bridges, tunnels, sea ports, airports, etc.) and energy and utility (gas, electricity, water, etc.) infrastructure assets.

EXHIBIT B
PROCEDURAL POLICIES

I. DUE DILIGENCE

Due diligence shall be performed through the selection, evaluation, acquisition, monitoring, 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 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. IPERS preference is to have independent third-party appraisers utilized 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. Controlling investment risks by limiting the potential of any one investment to negatively impact long-term results, IPERS and its Manager will diversify the portfolio in the following areas: manager/general partner, vintage year, geographic and economic region, industry, and investment type.

I. 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

1. The Board shall approve the Private Markets Investment Policy (Policy) and the component Investment Plans (Plans); retain qualified managers; and review at least annually the performance of the private markets portfolios.

2. The staff shall recommend to the Board the Policy and the Plans; recommend the hiring of specific managers; approve investment allocations to specific managers and investment opportunities; 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 private market investments on behalf of IPERS in accordance with the Policy, the Plans, and the terms of the investment agreement executed between IPERS and the Manager, or any applicable investment vehicle's governing documentation. They shall also communicate key issues and overall performance to the Board, staff, and consultant.

   For fund-of-fund or fund-of-one investments, the Manager shall actively negotiate partnership agreements on behalf of IPERS or the fund's investors. The foremost duty of the Manager in negotiating partnership agreements shall be to ensure that the interests of the general partner are aligned with the interests of IPERS and the other limited partners. The Manager shall negotiate terms that adequately compensate the general partner for its efforts, while ensuring that the partnership is structured so that IPERS is treated fairly and is adequately compensated for the risk taken by investing in the partnership.

4. The consultant shall monitor the private markets program for compliance with the Policy and the Plans, and shall recommend revisions to the Policy, the Plans, the manager roster, and the investments. The 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 consultant shall provide performance measurement analysis. The Board and staff shall expand or contract these responsibilities as needed.

B. Evaluation and Review of Policy

The Policy shall be reviewed, by the staff and consultant no less than annually. Any proposed Policy revisions shall be submitted for approval to the Board.

C. Investment Vehicles

IPERS recognizes that private market investments are illiquid in nature. Vehicles that maximize investor control are preferred. IPERS may utilize the following investment vehicles within the private markets program: individually managed account vehicle, private limited partnerships, limited liability companies, and other types of commingled fund structures. In addition, IPERS may act to establish and maintain title holding entities for the purpose of taking title to and holding its investments and/or assets.

D. Private Market Investment Plans

The Plans for each component of the private markets investment program are established to identify and communicate the investment goals and needs of the program's components for each calendar year. The particular needs for each Plan will be established in light of the structure, objectives, and performance of the existing program, as well as current market opportunities. The Plans will be reviewed and revised annually.