NEW MEXICO EDUCATIONAL RETIREMENT BOARD

REAL ESTATE INVESTMENT POLICY STATEMENT

April 2021

NEW MEXICO EDUCATIONAL RETIREMENT BOARD
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REAL ESTATE INVESTMENT POLICY STATEMENT

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1. REAL ESTATE INVESTMENT POLICY STATEMENT

1.1. INTRODUCTION

The New Mexico Educational Retirement Board (the "ERB") has authorized an allocation of a portion of its investment portfolio to the asset class of real estate. Real estate investments predominantly include equity, loan, hybrid, or other economic interests in real estate. This Real Estate Policy Statement (the "Real Estate Policy") sets forth the objectives, investment guidelines, and investment process governing the ERB real estate investment portfolio (the "Real Estate Portfolio"). This Real Estate Policy includes and incorporates any other applicable strategy or policy statements approved by the ERB in the future (collectively, the "Policy Statements"). This Real Estate Policy also sets forth the purpose of the Real Estate Portfolio allocation and the standard of care governing the management of the real estate portfolio. It additionally describes the roles and responsibilities of the ERB, the ERB Investment Committee (the "IC"), the ERB Staff Selection Committee ("SSC"), the ERB's investment staff (the "Staff"), and the ERB's external real estate consultant (the "Consultant") relating to the oversight and management of the Real Estate Portfolio.

1.2. PURPOSE AND STANDARD OF CARE

The purpose of the ERB's real estate allocation is to accomplish the investment objectives set forth below. These objectives include enhancing the ERB's total portfolio diversification, reducing total portfolio return volatility, and obtaining an attractive return on investment. All real estate investments shall be subject to the prudent investor rule as codified in the New Mexico statutes and shall comply with applicable local, state, and federal laws and regulations.

1.3. INVESTMENT STRATEGY

For purposes of this Real Estate Policy, "real estate" includes but is not limited to: (1) private equity investments including interests owned through joint ventures and real asset-owning and/or operating entities (e.g., corporations, limited liability companies, and limited partnerships) ("Private Equity"), (2) private debt investments potentially secured by liens on real property and security interests in tangible and intangible assets ("Private Debt"), (3) publicly-listed interests in real estate-owning and/or operating entities ("Public Equity"), and (4) publicly-listed debt real estate investments potentially secured by liens on real property and security interests in tangible and intangible assets ("Public Debt").

The Real Estate Portfolio is designed to provide returns in excess of investment grade bonds with substantially less volatility than equity markets while outperforming its benchmark net of all fees and expenses. Real estate investments predominantly include equity, loan, hybrid, or other economic interests in real estate or real estate operating companies. Portfolio risk shall be mitigated through an appropriate combination of risk factor, property type, vintage year, manager, and geographic diversification. Other risk factors, including leverage and liquidity, shall be managed consistent with the investment guidelines set forth in the Policy Statements. Reasonable due diligence is required in selecting investment managers, commingled funds, and co-investments/direct investments, and in making all investment decisions. The Real Estate Policy shall be reviewed at least every 3 years by the Staff and Consultants who shall present any recommended revisions to the IC. The IC will in turn make recommendations to the Board for final approval and adoption.

1.4. OBJECTIVES

The objectives of the Real Estate Portfolio are the following:

- **Portfolio Diversification**. Use real estate investments to enhance the diversification of ERB's total investment portfolio, given the lower return correlations historically of real estate with other asset classes.
- **Capital Preservation**. Protect investment capital through real estate investment activities that are designed to, at a minimum, preserve investment capital.
- **Attractive Returns**. Take advantage of the attractive returns offered by real estate by making investments with expected returns commensurate with their respective risk levels.
- **Portfolio Volatility Reduction**. Reduce ERB's overall return volatility by investing in real estate, which has historically provided a lower return volatility than other asset classes.
- **Inflation Hedge**. Make real estate investments that are likely to have cash flow or return profiles that are correlated with price inflation.
- **Differentiated Investment Opportunities.** Permit ERB to invest in unique opportunities that arise due to dislocations in markets that occur from time-to-time.

1.5. INVESTMENT METHODOLOGY

1.5.1. REAL ESTATE PORTFOLIO INVESTMENT AND REVIEW

The Staff, with the approval of the SSC, and with the assistance of the Consultant, shall make investment manager selection decisions that are to remain consistent with the Policy Statements.

The Staff, under the direction of the IC and with the assistance of the Consultant, shall manage and monitor the performance of the Real Estate Portfolio consistent with the Policy Statements. The Policy Statements at a minimum shall be reviewed at least once every 3 years by the Staff and Consultant for consistency with investment objectives, market conditions, and other factors affecting the Real Estate Portfolio.

1.5.2. RISK MANAGEMENT

The Real Estate Portfolio risk management activities, at a minimum, shall include but not be limited to: (1) evaluating the risk/return level of each investment at the time of the investment and at least annually thereafter to classify the investment and portfolio risk/return levels for compliance with the Policy Statements; (2) designating the investment expected returns and reviewing actual performance to determine consistency of return levels given the originally stated expected return, peer performance, and market conditions affecting performance; (3) analyzing portfolio risk factors, including property type, and geographic diversification to determine compliance with risk mitigation guidelines; (4) monitoring other risk factors that cannot be mitigated through diversification, such as leverage and liquidity, to evaluate compliance with risk mitigation guidelines; and (5) conducting portfolio investment, management, and monitoring activities, as described in more detail below in Section 1.15: Roles and Responsibilities.

1.5.3. ACCOUNTING AND REPORTING

The Staff, with the assistance of the Consultant, shall use a portfolio accounting and reporting system that: (1) accurately reports portfolio and investment returns consistent with industry accounting and reporting standards (GIPS compliant), and (2) describes and assesses portfolio risk/return attributes on a timely basis (i.e., at least quarterly). Also, if discrepancies are identified, the Staff and the Consultant shall reconcile ERB internal and/or external records with the Consultant-monitored investment manager reports, including with respect to account balances and returns, to ensure that any variances are reconciled on a timely basis.

1.5.4. INVESTMENT MANAGEMENT SERVICES

ERB Staff will recommend to the SSC for their approval external investment managers, advisors and Consultants upon the Staff's completion of a review of criteria described in Section 1.14 hereof, and will pay reasonable compensation for investment management services for the ERB Real Estate Portfolio. The SSC will refer such decisions to the ERB as informational items only.

1.6. ALLOCATION SIZE

Per the December 2020 ERB Investment Policy Statement, the ERB's real estate allocation is targeted to be 8% of ERB assets with a range of 0-15%. The Board acknowledges that the actual weighting to real estate at any given time may vary from the target as market values of the real estate investments and the overall portfolio fluctuate. The Real Estate Portfolio target is long term in nature (i.e., at least five years), and the program size will fluctuate relative to the values of real estate and the other ERB investment asset classes.

TABLE 1: REAL ESTATE PORTFOLIO ALLOCATION		
Asset Class	**Target**	**Policy Range**
Real Estate	8%	0% - 15%

1.7. PERMISSIBLE INVESTMENT STRUCTURES / VEHICLES AND PUBLIC / PRIVATE ALLOCATIONS

Investment Structures. The Real Estate Portfolio may include real estate Private Equity, Private Debt, Public Equity, and Public Debt investments. Private Equity and Private Debt investments shall be comprised of investments in commingled funds, separate accounts or co-investments/direct investments. Public Equity and Public Debt investments shall be comprised of investments in entities such as separate accounts or commingled funds that have investment features consistent with institutional quality real estate, as determined by the Staff and Consultant.

Investment Vehicles. The investment structure and vehicle exposure shall be used to mitigate portfolio risk, including enhancing portfolio liquidity. Table 2 below provides a summary of the advantages and disadvantages of the investment vehicles, which shall be considered by the Staff and Consultant in developing and managing the performance and liquidity of the Real Estate Portfolio.

TABLE 2: CHARACTERISTICS OF INVESTMENT VEHICLES			
VEHICLE	**ADVANTAGES**	**DISADVANTAGES**	**LIQUIDITY**
Open-End Fund	o Ability to potentially invest in a fund that typically already exhibits sector and geographic diversification o Lower blind-pool risk (i.e., existing portfolio to evaluate) o Existing manager and fund performance record o Very long life o Can often redeem interest	o Passive investor o Typically cannot influence manager decisions regarding acquisitions, financings, and sales o Lack of meaningful manager co-investment o Primarily only core strategies	o Typically a minimum of 90 days unless there is an investor queue. Usually on a best efforts basis to redeem. o Interests can be sold (often at a discount) in the secondary market.

Closed-End Fund	○ Ability to target skilled value-add / opportunistic management ○ May have manager organizations and track records to evaluate ○ Manager-investor enhanced alignment of interests including manager or sponsor co-investment. ○ Asset liquidations by end of term of fund	○ Passive investor ○ Typically cannot influence manager decisions regarding acquisitions, financings, and sales ○ Illiquid during the specified term and cannot redeem interest ○ Typically blind pools ○ Potentially short-term hold for long-term assets	○ Typically 10 to 20 year terms. ○ Interests can be sold, often at a discount, in the secondary market.
Separate Account	○ Lower overall fee structure than funds ○ Potential ability to influence decisions regarding acquisitions, financings, and sales ○ Greater ability to invest capital at desired pace ○ Flexibility to target assets in specific sectors or region	○ Less diversification than a portfolio of fund-only investments ○ Access may be limited by investment size ○ Potential conflicts of interest with manager and their other activities	○ For private investments, typically more liquid than fund investments. Depending on investment, may have option to sell to other shareholder(s) or third parties.
Co-Investment/ Direct Investment	○ Lower overall fee structure than funds ○ Potential ability to influence decisions regarding acquisitions, financings, and sales ○ Greater ability to invest capital at desired pace ○ Flexibility to target assets in specific sectors or regions ○ Enhanced liquidity options, as may be more liquid than Commingled fund investments ○ Potential to enhance relationships with managers by participating alongside manager	○ Less diversification than a portfolio of fund-only investments ○ Access may be limited by investment size ○ Oftentimes needs a sizeable team with experience in direct investing	○ For private investments, typically more liquid than fund investments. Depending on investment, may have option to sell to other shareholder(s) or third parties.

Open-End Commingled Funds. Open-end fund investments shall be made primarily to provide or complement the portfolio's existing: (1) real estate property, risk type and geographic diversification, (2) exposure to larger assets, and (3) liquidity (i.e., potential to redeem after 90 days). The Staff, with the assistance of the Consultant, shall complete reasonable due diligence in evaluating open-end commingled funds consistent with these objectives and the investment guidelines set forth in Section 1.14: Investment Due Diligence. No investment may be made in any open-end commingled funds with (1) less than $500 million of gross assets, or (2) diversification attributes that are inconsistent with the needs of the Real Estate Portfolio as determined by the Staff with the assistance of the Consultant. Open-end commingled fund vehicles may include, but are not limited to partnerships, group trusts, limited liability companies, single purpose corporations, or other vehicles that are determined by the Staff, with the Consultant's assistance, to be consistent with the Policy Statements.

Closed-End Commingled Funds. Closed-end fund investments shall be made primarily to obtain exposure to reasonably diversified portfolios of core, value add and opportunistic investments. The Staff, with the Consultant's assistance, shall complete reasonable due diligence in selecting closed-end fund investments, as further set forth in Section 1.14: Investment Due Diligence. Co-investment by the manager of a fund is preferred. Investment in commingled funds may take place through primary or secondary commingled fund investments:

- Primary Commingled Investment: Investment typically takes place prior to the termination of a given fund's initial fundraising process. Investor capital is committed and invested at par value.
- Secondary Commingled Investment: Traditionally investment coincides following the conclusion of the fund's initial fundraising process and is a transaction where the investor is buying out an existing investor of the fund, or participating in the recapitalization of the fund. The purchase of these interests may be at a premium, discount or at par value.

Separate Accounts. Separate accounts shall be structured primarily to provide diversification to the overall portfolio, target niche strategies not obtained or less present in the overall portfolio, and to provide greater Real Estate Portfolio liquidity. The Staff, with the Consultant's assistance, shall complete reasonable due diligence in selecting managers that manage separate accounts, as further set forth in Section 1.14: Investment Due Diligence. Separate accounts may include Private Equity, Private Debt, Public Equity, or Public Debt in vehicles such as limited liability companies, limited partnerships, special purpose corporations, or other vehicles that are determined by the Staff, with the Consultant's assistance, to be consistent with the Policy Statements.

Co-Investments/ Direct Investments. Co-investments / Direct Investments shall be made primarily through specially formed entities to obtain exposure to unique opportunities in specified, singular assets or a portfolio of assets. Co-investments offer reduced fees relative to other structures and added visibility to the investor. The manager of the co-investment portfolio shall complete reasonable due diligence in selecting co-investments/direct investments, as further set forth in Section 1.14: Investment Due Diligence.

1.8. EXPECTED INVESTMENT AND PORTFOLIO RISK / RETURNS

The risk/return categories utilized to classify investment risk/return levels are the following:

Core.

- Operating, substantially leased office, retail, industrial, or residential properties.
- Generally have institutional qualities for size, physical attributes and location.
- Target unleveraged total returns of 6.0%-8.5% per year, gross of fees, with a high proportion of the total return to be generated from current income with a smaller portion of the total return generated from appreciation.
- Core may include property types other than traditional investments when the cash flow or appreciation characteristics are similar (i.e., non-subordinated ground leases).
- Leverage for Core Property Investments is generally up to 60% loan-to-value. Core Property leverage can be higher when tenant credit and remaining lease term is long, or when operating cash flow demonstrates low volatility characteristics and the coverage ratios are high providing a margin of safety.

Value Add.

- Office, retail, industrial or residential properties that have moderate risk associated with their investment.
- The additional risk associated with Value-Added Investments is generally a deficiency that is identifiable and correctable through leasing, re-development, management and/or recapitalization.
- Other Value-Added Investments include lower risk niche property types.
- Target gross-of-fee total returns for Value-Added Investments are 150 – 300 basis points per year higher than for Core Properties.
- Leverage for Value-Added Investments is generally up to 75% loan-to-value (portfolio and property level).

Opportunistic.

- Opportunistic Investments can be comprised of any property sector. Opportunistic Investments can include office, retail, industrial, or residential properties with high-risk attributes. In addition, hotels, international and domestic non-performing loans, operating companies, development, land and distressed properties are all examples of Opportunistic Investments.
- Leverage for Opportunistic Investments can be 75% loan-to-value or higher in certain cases (property and portfolio level).
- Target gross-of-fee total returns for Opportunistic Investments are 300 basis points or higher than for Core Properties per year in order to compensate for the increased risk.

Public Real Estate Securities.

- Public REITs and REOCs (real estate operating companies) have modestly higher risk and return characteristics than Core Properties due to leverage and operating company risks.
- Daily pricing and public market trading provide liquidity. However, due to the relatively lower float and limited market capitalization of REITs and REOCs relative to the companies in other sectors of the public markets, liquidity may come at a price.
- The emergence of the international Public Real Estate Securities market has broadened the universe to include Asia, European, Australian and North and South America property companies.
- Numerous long/short managers have emerged providing an option to invest in Public Real Estate Securities in a hedge fund format.
- Historical returns are approximately 10% - 13% over 10-year periods of time.

Table 3 details return and risk expectations by risk category:

Risk Type	Expected Nominal Return (Gross)	Expected Nominal Return (Net)	Return Volatility
Core	7% – 10%	6% – 9%	Low
Value Add	12% – 15%	10% – 13%	Moderate
Opportunistic	15% – 18%	12% – 15%	High
Public Real Estate	10% – 13%	9% – 12%	Moderate - High

When evaluating real estate investment performance, the real estate portfolio is expected to generate returns, net of all fees and expenses, (i) in excess of the NCREIF Property Index over rolling five year investment time horizons for private market investments; (ii) in excess of the appropriate public market securities index as determined by Staff in consultation with ERB's real estate consultant; and (iii) on a vintage year basis, in excess of the pooled mean return for real estate fund investments as reported by ERB's real estate consultant.

Return Volatility. The investment risk/return exposure is further defined by return volatility. The return volatility guidelines are loosely defined due to lack of available, credible information with respect to private investments. The lack of relevant information is due largely to the fact that private equity real estate investments are typically valued through appraisals completed annually or less frequently, which may often rely upon a discounted cash flow methodology or "comparable" assets that may be markedly different from the underlying asset being appraised. Due to this and other factors, private equity returns are less volatile than public equity real estate returns, which are based on daily market valuations and are therefore susceptible to general market volatility. Value and opportunistic return volatilities are estimated to be greater, given the risk category and the increasing levels of appreciation of returns required.

1.9. DIVERSIFICATION AND RISK MANAGEMENT GUIDELINES

The Real Estate Portfolio's diversification is important in reducing portfolio risk and accomplishing superior risk-adjusted returns. The impact of investments on portfolio diversification, portfolio risk, and risk-adjusted returns shall be considered when evaluating prospective investments. In order to capitalize on the inefficiencies and the private market nature of real estate investments, these policies establish ranges for exposure, rather than specific targets. As such, the Real Estate Portfolio may have over-weighted exposure in select property types, capital types, geographies, investment vehicles, risk categories, etc. as desired by the Staff based on recommendations of the Consultant. ERB's intent is to adhere to these diversification guidelines while simultaneously not forcing investments in areas where the risk adjusted returns are not attractive. The Board acknowledges that the actual investment diversification parameters of the Real Estate Portfolio at any given time may vary from the policy range targets due to the pacing of investments and market value fluctuations. Furthermore, ERB acknowledges during the period of time when the Real Estate Portfolio is being established, and during times when managers may simultaneously decide to increase or lighten exposure, that investments within these diversification ranges can in the short term be inconsistent with the policy ranges. In the event of such circumstances, ERB Staff and the real estate Consultant will endeavor to reallocate capital to rebalance the Real Estate Portfolio over a 12 to 24 month period of time.

ERB Staff and the real estate Consultant have established the following investment diversification guidelines:

Risk Type. ERB will seek to control risk in the Real Estate Portfolio by diversifying its exposure to real estate through investments in varying risk types. Distribution of real estate investments by risk type shall be monitored for compliance with the broad ranges set forth in Table 4 below. Exposure to various risk types may be achieved through broad or risk type-specific funds, provided that the policy ranges are not exceeded.

TABLE 4: PORTFOLIO RISK TYPE RANGES	
Risk Type	**Policy Range**
Core	0% – 60%
Value Add	0% – 60%
Opportunistic	0% – 40%
Public Real Estate	0% – 30%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to risk type exposures. The targets shall be adjusted on an annual basis and reflected in the Real Estate Portfolio quarterly performance reports. Each of the diversification parameters in Table 4 will be calculated on a portfolio basis and include exposure, directly and indirectly, through various investment vehicles.

Property Type. The ERB shall seek diversification within the real estate asset class through investments in office, retail, residential (traditional multifamily, senior housing, student housing, mobile homes and single family rental), industrial, niche sectors (hospitality, self-storage, mixed use and land) and other non-traditional property types. Distribution of real estate investments by property type shall be monitored for compliance with the broad ranges set forth in Table 5 below. Exposure to various property types may be achieved through broad or property type-specific funds, provided that the policy ranges are not exceeded. Property type diversification guidelines apply only to the privately held investments, excluding public real estate investments.

TABLE 5: PROPERTY TYPE RANGES

Property Type	Policy Range
Office	0% – 35%
Retail	0% – 35%
Residential	0% – 60%
Industrial	0% – 35%
Niche Sectors	0% – 35%
Other	0% – 35%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to property type exposures. The targets shall be adjusted on an annual basis and reflected in the Real Estate Portfolio's quarterly performance reports. Each of the diversification parameters in Table 5 will be calculated on a portfolio basis and include exposure, directly and indirectly, through various investment vehicles.

Geography. The importance of location to the long-term value of real estate investments is based on the economic fundamentals and the other risk attributes (e.g., rule of law, governmental impact, or regulatory impact) of global regions. Distribution of real estate investments by geographic region shall be monitored for compliance with the broad ranges set forth in Table 6 below. Exposure to various geographies may be achieved through regional or country-specific funds, provided that the policy ranges are not exceeded.

TABLE 6: GEOGRAPHICAL DIVERSIFICATION RANGES

Geographies	Policy Range
United States	70% – 100%
Non-United States	0% – 30%

The Staff, with the Consultant's assistance, shall establish policy range targets with respect to geographic exposures. The targets shall be adjusted on an annual basis and reflected in the Real Estate Portfolio's quarterly performance reports. Each of the diversification parameters in Table 6 will be calculated on a portfolio basis and include exposure, directly and indirectly, through various investment vehicles.

Investment Manager Diversification. The ERB shall utilize various investment managers within the Real Estate Portfolio. ERB will limit the amount invested with one manager to no more than thirty-percent (30%) of the total allocation for real estate investments. If one manager manages a combination of investments in the real estate property-type allocations (e.g., office and industrial, or residential and retail), the limit will be increased to forty-percent (40%) of the total private real estate allocation.

Fund Diversification. The maximum investment size for any single allocation to a diversified commingled fund shall be limited to twenty-percent (25%) of the total real estate allocation. Any one property acquired by a commingled fund manager as part of a fund should generally be no greater than 25% of the manager's portfolio (subordinate to the investment guidelines of the fund). Non-diversified direct investments in a single property shall be limited to 10% of the total real estate allocation.

Vintage Year Diversification. ERB shall seek to invest in each vintage year to avoid excessive exposure to any one real estate cycle. While no formal diversification ranges are set forth, they and other factors may be monitored in assessing overall portfolio risk and expected return. This analysis will be done at the time each investment allocation is made to ensure adequate diversification is maintained across vintage years.

1.10. RISK FACTORS

Leverage. Leverage is a significant risk factor. Its importance is magnified during an economic downturn when decreasing asset values and stricter lending terms can lead to unexpected increased leverage levels. It may also be the case that the leverage level increases unduly as market conditions become better. Accordingly, the Staff and Consultants will monitor closely the leverage level of the Real Estate Portfolio.

It is highlighted that oftentimes, ERB will not have control or influence over the level of leverage ultimately used by managers and/or co-investment/direct investment partners. However, Staff and the Consultant will perform sufficient due diligence on each investment opportunity with respect to leverage levels.

Investor Control. Table 8 describes the three levels of investor control.

TABLE 8: DEFINITIONS OF INVESTMENT CONTROL
Total Control. The Staff with the Consultant's assistance has the sole discretion to replace management and/or the ability to sell, refinance, or dispose of assets.
Limited Control. For example, investments, such as in commingled funds or co-investments/direct investments, in which the ERB has minority or significant minority interests providing governance rights and positions, such as an advisory board or board member position. Also, to a lesser degree, investments with control over exit (e.g., in open-end funds with redemption rights, or public real estate securities that provide reasonable liquidity).
Passive. Investments in (e.g., closed-end vehicles) providing no exit until the manager elects to dispose of investments, consistent with investment term, and no control or influence over the underlying investments.

Control is materially defined through the ERB's ability to influence or exit an investment. To the extent possible and reasonable, investments will be made that maximize ERB's rights with respect to that investment.

Liquidity. The Staff, with the assistance of the Consultant, shall regularly review the liquidity of the portfolio. The Real Estate Portfolio will be largely illiquid. Private market investments, which are illiquid, often demand higher returns given the lack of liquidity. Therefore, the illiquid investments should demand a higher return than liquid investments in the Real Estate Portfolio. Table 9 below shows examples of different kinds of real estate by liquidity group.

TABLE 9: DEFINITIONS OF LIQUIDITY	Investment Type
LIQUID (i.e., can liquidate within 30 days – public securities)	Public Equity and Public Debt
MODERATE LIQUIDITY (i.e., investor redemption possible after one quarter, including open-end equity and debt commingled funds)	Co-Investments, Direct Investments, and Open-End Funds
ILLIQUID (i.e., closed-end fund structure not providing any liquidity until fund termination and liquidation)	Co-Investments, Direct Investments, and Closed-End Funds

Valuation Risk. Valuation policies vary from manager to manager and the lack of consistently applied mark to market mechanisms across funds/managers can impact reported portfolio performance.

Manager Risk. The success of real estate investments is often highly dependent on manager skill and timing.

Market Risk. Market risk, including unexpected changes in the overall economy, an increase in competitive supply of new producers, competing products, and a change in real estate demand patterns due to an economic slowdown or other factor reducing demand for their products.

Capital. Real estate is a capital-intensive asset class. Unexpected capital events, including repairs, may significantly impact returns.

Obsolescence. Certain real estate products or locations can become less desirable over time leading to decreases in value.

Capital market shifts. A change in capitalization rates due to, for example, an unexpected rise in interest rates or changes in currency exchange rates, may have a negative impact on real estate values.

1.11. BENCHMARK

The Real Estate Portfolio's benchmark shall be the NCREIF Property Index. The Real Estate Portfolio's performance shall be assessed on a quarterly basis against the performance of the benchmark. The performance against the benchmark shall be evaluated in light of real estate investments being long-term investments and it may take several years for returns to reflect performance given, for example, the "J-curve effect." Given the long-term nature of the asset class, performance evaluation should be performed over a market cycle or rolling five year periods.

1.12. VALUATION POLICY

The Staff shall prefer fund investments that have adopted and adhere to a valuation policy that is consistent with industry best practices and prevailing accounting standards. On an internal basis, funds shall be valued at least annually.

The Staff, with the Consultants' assistance, shall strive to participate in real estate investments that align investor and manager interests by addressing potential conflicts associated with issues pertaining to market valuations. This can be accomplished by establishing asset management fee structures that are calculated based on factors not associated with market value estimates. In addition, the Staff shall attempt, when reasonably possible, to negotiate terms allowing the Staff and/or Consultant to challenge value estimates that are used in the payment of incentive-based performance fees.

1.13. PERFORMANCE MEASUREMENT

The Consultants shall provide to the Staff and IC quarterly performance measurement reports, which reasonably describe the performance of the Real Estate Portfolio. Returns shown shall be calculated in compliance with industry standards and compared to the benchmark as outlined in Sections 1.11. Returns shall be provided in compliance with Global Investment Performance Standards ("GIPS"). The Consultant shall present to the IC on, at a minimum, semi-annual basis a combined portfolio level return summary, including quarterly, one-year, three-year, five-year and since inception time-weighted returns. Benchmarks established for the portfolio and investments shall be compared in the quarterly reports to actual performance with a focus on performance variances. Dollar-weighted internal rates of return shall also be provided for each investment.

Quarterly reports shall monitor each of the investment guidelines described herein to evaluate compliance with portfolio guidelines.

1.14. INVESTMENT DUE DILIGENCE

As part of the risk mitigation efforts previously outlined, new investments shall be made only after reasonable due diligence is completed.

Due diligence regarding all real estate investments shall be completed by the Staff with the assistance of the Consultant, and at a minimum shall include, but not be limited to, the following:

- Review the investment in light of comparable or similar opportunities in the market;
- Review the firm organization, including the professionals, staff and office locations;
- Review the financial condition of the firm, including the financial strength and motivations of significant investors, including review of existing investors in commingled funds or assets;
- Review the business backgrounds of key personnel to evaluate competence and expertise;
- Review the turnover of personnel and the succession of leadership within the organization;
- Review whether any other items may affect the organization (e.g., sale, merger, or litigation);
- Evaluate the research capabilities of the firm and whether research is incorporated into investment and management activities;
- Analyze past investment manager returns and performance, specifically including the fund under consideration or preceding funds with comparable investment strategies;
- Evaluate investment manager principals, senior and key firm personnel, and proposed team members of the fund;
- Assess the reasonableness of the proposed investment strategy given current market conditions;
- Evaluate the firm's ability to source new investments and the reasonableness of the proposed cost of such activities;
- Evaluate the reasonableness of the fund fee structure, in terms of the amount and alignment of investor and manager interests;
- Determine whether any conflicts of interest exist that may unacceptably affect investment performance; and
- Review whether the commingled fund will compete within the firm for new investments and, if so, whether the process for allocating new investments is reasonable and acceptable.

The due diligence process with respect to investments shall be regularly reviewed and revised, as determined necessary, by the Staff and Consultant.

1.15. ROLES AND RESPONSIBILITIES

The roles and responsibilities with respect to the Real Estate Portfolio are summarized in the table below.

ERB ROLES AND RESPONSIBILITIES
▪ Approve the Real Estate Investment Policy, as prepared and recommended by Staff and Consultant.
INVESTMENT COMMITTEE ROLES AND RESPONSIBILITIES
▪ Approve the Real Estate Investment Policy, as prepared and recommended by Staff and Consultant, and refer to full board for its approval. ▪

- Monitor the performance of the overall Real Estate Portfolio.

STAFF SELECTION COMMITTEE ROLES & RESPONSIBILITIES

- Review and approve external investment managers and investment consultants. Staff will share summaries of the SSC meetings with the ERB in writing or verbally, depending upon the timing of ERB meetings.

STAFF ROLES AND RESPONSIBILITIES

- Review and update, with the assistance of the Consultant, the Real Estate Investment Policy.
- Review and approve the investment evaluations and/or plans developed by the Consultant with respect to each Real Estate Portfolio investment.
- Review and approve each Real Estate Portfolio investment for consistency with the appropriate policy and for general reasonableness.
- Review each Real Estate Portfolio investment redemption or liquidation for consistency with the appropriate policy and for general reasonableness. Meet with the Consultant at least annually to update and, if necessary, to make revision recommendations regarding the Policy Statements.
- Monitor, with the assistance of the Consultant, the Real Estate Portfolio's performance.
- Represent the ERB with respect to all matters related to real estate investments.
- Select, with the assistance of the Consultant, reasonably qualified investment managers/advisors for commingled fund investments,
- Select investment managers/advisors, as described in Section 1.14: Investment Due Diligence.
- Approve the performance measurement report format prepared by the Consultant.
- Select and use the Consultant to provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks.

REAL ESTATE CONSULTANT ROLES AND RESPONSIBILITIES

- Assist Staff in preparing the Real Estate Investment Policy. Review Policy Statements annually and recommend revisions when appropriate.
- Prepare recommendations, if requested by the Staff, concerning each investment opportunity. The consultant's recommendation shall include ERB required disclosures of all placement agents or third-party marketing agents and political contributions by investment managers related to each investment.
- Review consistency with the Policy Statements and general reasonableness.
- Prior to presentations to the SSC, provide a review of key terms included in the agreements and/or memoranda associated with the prospective investment.
- Prepare recommendations, if requested by the Staff, concerning ongoing portfolio decisions (e.g. LPA amendments) and ensure consistency with the Policy Statements and for general reasonableness. Meet with the Staff at least annually to update and, if necessary, to make recommendations to IC and ERB.
- Assist the Staff, as its fiduciary, in the monitoring and management of the Real Estate Portfolio.
- Assist the Staff, to the extent requested, in representing the ERB with respect to all matters related to the Real Estate Portfolio.
- Present to the Staff, as requested, reasonably qualified investment managers for review, including all relevant due diligence information. Assist the Staff, to the extent requested, in completing investment due diligence.

- Provide performance measurement reports consistent with industry standards and that enable quarterly review of investment guidelines and benchmarks and otherwise in the format requested by the Staff and/or the ERB.
- In connection with the real estate quarterly performance report, notify the Staff of situations involving the Real Estate Portfolio's actual investments deviating from the investment guidelines established in the Policy Statements.

1.16. APPENDIX

1.16.1. CONTRACT EXECUTION

After legal review of all appropriate investment documents, the following will have contract execution authority as follows:

	Chief Investment Officer	Executive Director	Deputy Executive Director	Investment Officer, Real Estate
Fund Subscription Documents	✓	✓	✓	
Side Letters	✓	✓	✓	
Fund Amending Documents	✓	✓	✓	✓
Other	✓	✓	✓	✓