



Ohio Public Employees Retirement System

**Real Estate Policy
March 2025**

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I. SCOPE

This Policy applies to the private market Real Estate assets within the Ohio Public Employees Retirement System (“OPERS”) Defined Benefit Fund (“DB Fund”).

II. PURPOSE

This Policy provides the broad strategic framework for managing investments in the Real Estate sub-asset class for the DB Fund.

III. INVESTMENT PHILOSOPHY

The role of the Real Estate sub-asset class within the DB Fund is to:

- Gain exposure to real estate opportunities that enhance portfolio returns and diversification through less than perfect correlations with other asset classes
- Provide an expected total return that is competitive, and greater than the expected return of fixed income but less than the expected return of public equities
- Use the policy allocation and investment ranges tactically to acquire assets in capital constrained markets and sell assets into market strength
- Create a portfolio of cash flowing assets that provide a current income return
- Identify best-in-class managers with the asset management skills needed to increase asset values by growing property-level cash flows
- Provide a potential hedge against inflation.

The private market Real Estate portfolio uses active management strategies implemented through external managers. The investment strategies may use a component of non-U.S. real estate investments.

IV. ALLOCATION

The DB Fund Investment Objectives and Asset Allocation Policies establish the target allocations for private market Real Estate.

V. PERMISSIBLE INVESTMENTS

1. Investment Types

This Policy authorizes investments in all forms of private market Real Estate and Real Assets. Staff establishes property type and security type limitations at the manager or portfolio level.

2. Investment Structures

This Policy authorizes the use of investment structures that provide legal protections to OPERS commensurate with the investment opportunity, and acceptable to the OPERS Legal Services Division, such as:

- Separate Accounts
- Co-investments
- Joint ventures
- Open and closed-end funds
- Partnerships
- Limited Liability Companies
- Private REITs and Real Estate Operating Companies

3. Derivatives

The use of derivatives shall comply with OPERS' Derivatives Policy.

VI. THIRD-PARTY MARKETING

OPERS expects its general partners and investment managers to behave legally and ethically. OPERS requires that third-party marketers used by general partners or investment managers be regulated by appropriate legal authorities and subject to disciplinary actions by them. OPERS will confirm in its side letter, investment management agreement or other contractual arrangement, that a manager being engaged by OPERS has a requirement to provide the details of marketing arrangements, political contributions, or similar payments involving individuals, placement agents, third-party marketers and the like with respect to OPERS' investments with the manager.

VII. PERFORMANCE OBJECTIVES

The performance benchmark for the private market Real Estate sub-asset class is the National Council of Real Estate Investment Fiduciaries ("NCREIF") Fund Index – Open End Diversified Core Equity ("ODCE") net of fees plus 85 basis points to reflect long-term portfolio weightings to Core and Non-Core real estate. The private market Real Estate portfolio return is measured net of manager fees, not including overhead expenses. The private market Real Estate portfolio is expected to meet or exceed the net ODCE plus 85 bps over rolling five-year periods.

VIII. RISK MANAGEMENT

Private market Real Estate does not lend itself to traditional quantitative measures of risk, such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints. The following sections identify the most significant risks with private market Real Estate investments and the method of control.

1. Property Type Risk

The table below shows the OPERS investment ranges for the property types. In addition to the five standard property types, OPERS includes a Diversified category that consists of mixed-use assets that contain a combination of multiple property types. The “Other” property type includes properties outside the five major property types such as land or self-storage.

Property Type	Range
Residential	10-50%
Industrial	5-50%
Office	5-40%
Retail	0-35%
Hotel/Leisure	0-30%
Diversified	0-20%
Infrastructure	0-25%
Other**	0-35%

** May include cash held by the managers and property types classified as Education, Healthcare, and Land

Strategic and tactical property type allocations are a function of economic, capital, and property market conditions that will be addressed in the OPERS Annual Investment Plan.

2. Investment Profile Risk

The “Risk Profile” of real estate investments can generally be classified as either Core or Non-Core. OPERS will make allocations to both Core and Non-Core investments to maximize the total return to OPERS while mitigating risk.

As a moderate risk investor, OPERS’ allocation will be primarily weighted toward Core investments. Over the long term, OPERS will maintain a 60% Core target for the private markets Real Estate portfolio, within a range of +/- 10 percentage points. From time to time, the actual allocation of the portfolio may fall outside the ranges due to external market events. In these instances, OPERS will implement strategies to return the portfolio to the recommended ranges over a reasonable time frame, while considering the need to preserve investment returns.

Investments will be defined as either Core or Non-Core based on the following criteria:

- **Open-End Funds**
Investments in this channel will be considered Core investments.
- **Closed-End Funds**
Investments in Closed-End Funds will be considered Core when the following criteria are met:
 - The Fund utilizes leverage that equates to a loan-to-value of 50% or less
 - Less than 30% of the aggregate Fund commitments are committed to ground-up development.
- **Separate Accounts**
Investments made by Separate Account will be considered Core when the property-level occupancy is 80% or higher (60% for hotels) and the loan-to-value is 60% or lower. Separate Account debt investments will all be considered Core.

Staff will seek permission from the OPERS Retirement Board (“Board”) prior to enacting any investment or strategy that is expected to cause the private market Real Estate portfolio’s Core exposure to drop below 50%.

3. Liquidity Risk

Private market Real Estate investments are illiquid and should be assumed to have expected holding periods of 7-10 years or longer.

4. Geographic Risk

OPERS will endeavor to ensure the private market Real Estate portfolio is well diversified by location. OPERS will attain geographic and economic diversification by investing no more than 25% of the total private market Real Estate portfolio’s net asset value outside the United States.

5. Single Investment Risk

OPERS does not want the failure of a single investment to have a severe impact on the performance of the total Real Estate sub-asset class. The following limitations will be applied to control single investment risk at the time of purchase:

- a) For separate accounts OPERS’ equity cost basis in any single property will not exceed \$500 million.

- b) For Closed-End commingled funds, OPERS will limit its equity commitment amount to \$750 million.
- c) For Open-End commingled funds, OPERS will limit its equity commitment amount to \$1 billion.

6. Manager Risk

To control manager exposure, the allocation to a single private market Real Estate manager is limited to 20% of the private market Real Estate portfolio.

7. Leverage Risk

Leverage will not exceed 60% loan to value of the aggregate private market Real Estate portfolio.

8. Currency Risk

The Real Estate program accepts the currency risks consistent with the geographic exposures. Real Estate managers may or may not hedge currency risk but the Real Estate sub-asset class will not implement currency hedges.

9. Valuation Risk

Private Market Real Estate lacks the trading frequency to establish values and relies on an appraisal process to periodically value investments. OPERS will utilize valuation procedures consistent with industry standards for the Real Estate sub-asset class.

10. Vertical Integration Risk

A real estate investment manager has the potential to combine the asset management function with other services, such as property management, construction management, and/or leasing, for the assets under management by that investment firm. OPERS acknowledges that vertical integration, when a manager uses a service provider that is related to that manager, may offer potential benefits to the investor, such as greater control, efficiency in the decision making process, and potentially lower costs. OPERS also recognizes that the use of vertically integrated firms raises issues of potential conflicts of interest, as firms that are vertically integrated may be subject to influences on their decision making not found in firms that contract out such services to unaffiliated third parties.

OPERS will seek to identify potential conflicts of interest arising from vertical integration. Separate account managers are required to report all related party activities quarterly to OPERS. For open-end and closed-end fund investments, Staff shall review the fund documents for potential manager conflicts of interest as part of the due diligence process. If the fund has an advisory council, OPERS may request a seat on the advisory council.

11. Other Risks

The legal documents governing the real estate investment structures establish the insurance requirements for the managers. Staff considers potential environmental issues when making real estate investments.

IX. ROLES AND RESPONSIBILITIES

A. OPERS Retirement Board

The Board is responsible for reviewing and approving this Policy and any changes to it.

In addition, the Board is responsible for reviewing reports related to this Policy.

B. Investment Staff

The Board delegates authority to the Chief Investment Officer (“CIO”) to implement this Policy. Staff is responsible for monitoring the Policy and recommending changes to the Board. Staff is also responsible for managing real estate assets within the framework of the Board approved policies and within the goals and objectives adopted by the Board in the OPERS Annual Investment Plan.

Staff shall assure that investment guidelines for external public and private market real estate managers are set in accordance with OPERS’ policies, goals and objectives. Staff is also responsible for adapting the Investment Division’s Guideline Procedure to the unique circumstances of private real estate markets, consistent with the CIO’s delegation of authority to Staff.

Staff is also responsible for monitoring Real Estate investments and reporting to the Board in accordance with OPERS’ policies.

C. Investment Compliance

The Investment Compliance area of Investment Accounting, Operations and Compliance (“IC”) is responsible for monitoring compliance with this Policy (except for tracking error measurements), including guidelines established pursuant to it. If IC determines that an exception to this Policy has occurred, IC shall notify Staff, the CIO, the Executive Director and the Board.

D. Investment Advisors

OPERS may engage specialty Investment Advisors to assist in managing the Real Estate sub-asset class. OPERS Real Estate advisors shall review and approve investment guidelines and proposed guideline changes for public market real estate portfolios, whether managed internally by Staff or externally by managers retained by OPERS. Other specific responsibilities will be established with the Investment Advisors through contractual agreements.

X. MONITORING AND REPORTING

To ensure monitoring and compliance with this Policy, the following reports will be reviewed with the Board:

A. Quarterly

Performance reports – Investment Advisors

Report on compliance – Investment Compliance Staff

B. Semi-Annually

Asset class performance report - Staff

C. Annually

OPERS Annual Investment Plan – Staff