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Revision History

Real Estate Policy Established December 2002
Policy Revised June 17, 2003
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I. SCOPE

This Policy applies to investments in the Real Estate sub-asset class within the Ohio Public Employees Retirement System ("OPERS") Defined Benefit Fund ("DB Fund") and the public Real Estate Investment Trusts ("REITs") sub-asset class within Health Care 115 Trust Fund ("HC Fund").

II. PURPOSE

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

III. INVESTMENT PHILOSOPHY

The role of the Real Estate sub-asset class within the DB Fund and HC 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 public market Real Estate portfolio may engage in active and index management strategies through internal and external managers. Both strategies may use a component of non-U.S. real estate investments.

IV. ALLOCATION

The Investment Objectives and Asset Allocation Policy - DB Fund establishes the target allocation for Real Estate. The strategic direction of this allocation is toward private market Real Estate investments. The principal use of public market investments, or REITs, in the DB Fund is tactical.

The Investment Objectives and Asset Allocation Policy - HC Fund establish the target allocations for Real Estate, consisting of public market REITs.
V. PERMISSIBLE INVESTMENTS

A. Private Markets

1. Investment Types

   This Policy authorizes investments in all forms of private market Real Estate. 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.

B. Public Markets

1. Investment Types

   This Policy authorizes the holding of public market real estate equities and equity-like securities. Securities held shall be similar to those in the Dow Jones U.S. Select Real Estate Securities Index Total Return (“DJ RESI”).

2. Investment Structures

   This Policy authorizes the following investment structures:
   - Separate Accounts
   - Commingled Funds

   Individual portfolio guidelines impose limits on specific security types.
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.

VII. PERFORMANCE OBJECTIVES

A. Defined Benefit Fund Real Estate Portfolio

The performance benchmark for the DB Fund 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 DB Fund Real Estate portfolio return is measured net of manager fees, not including overhead expenses. The DB Fund Real Estate portfolio is expected to meet or exceed the net ODCE plus 85 bps over rolling five-year periods.

B. Health Care 115 Trust Fund Real Estate Portfolio

The performance benchmark for the HC Fund REITs sub-asset class is the DJ RESI. The Annual Investment Plan, which is approved by the OPERS Retirement Board, shall include the target outperformance for this portfolio.

VIII. RISK MANAGEMENT

A. Private Markets

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 property type ODCE weights, and long-term OPERS investment ranges for the benchmark property types. Staff may tactically overweight or underweight property types relative to the ODCE. OPERS includes a Diversified property type which is not in the ODCE classification. The Diversified property type accounts for assets that consist of more than a single property type, such as mixed-use assets that contain the apartment, office and retail property types.

<table>
<thead>
<tr>
<th>Property Type</th>
<th>ODCE Weights*</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td>25.0%</td>
<td>10-40%</td>
</tr>
<tr>
<td>Industrial</td>
<td>18.7%</td>
<td>5-35%</td>
</tr>
<tr>
<td>Office</td>
<td>34.0%</td>
<td>15-50%</td>
</tr>
<tr>
<td>Retail</td>
<td>17.8%</td>
<td>0-35%</td>
</tr>
<tr>
<td>Hotel/Other</td>
<td>4.5%</td>
<td>0-30%</td>
</tr>
<tr>
<td>Diversified</td>
<td>0.0%</td>
<td>0-20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

*Actual ODCE weights change over time. The current ODCE weights listed are from June 30, 2019.

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. Life Cycle Risk

Real Estate investments can generally be classified into two life cycle risks, Core and Non-Core. Core is defined as generally stabilized assets with an occupancy rate of 80% or higher (60% for hotels) and a loan-to-value of 60% or lower. Long term, OPERS will maintain 60% of the private market Real Estate portfolio in Core properties, within a range of +/- 10 percentage points.

Staff will seek permission from the OPERS Retirement Board (“Board”) prior to exceeding the Core band (adjusted for ranges), if necessary, in order to implement the Real Estate strategy.

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 directly held, private market Real Estate allocation into any single metropolitan statistical area (“MSA”) for the 20 largest MSAs in the United States, and no more than 10% of the directly-held, private market Real Estate allocation in any other single MSA. Investments outside the United States will be limited to no more than 25% of the private market Real Estate portfolio.

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 will limit the amount of equity in any single direct property to 10% of the private market Real Estate target allocation.
   - OPERS will be the dominant and controlling investor if the investment’s cost basis is greater than 5% of the private market Real Estate Portfolio’s target allocation.

b) For closed-end commingled funds, OPERS will limit its commitment amount to any single closed-end commingled fund to the maximum of the greater of $400 million or 5% of the private market Real Estate target allocation.

c) For open-end commingled funds, OPERS will limit its commitment amount to any single open-end commingled fund to 10% of the private market Real Estate target allocation.

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 have a target of 40% loan to value of the aggregate private market Real Estate portfolio, with a range of +/- 10 percentage points.
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 Real Estate Industry Standards (“REIS”) for the sub-asset class of Private Market Real Estate. Whenever REIS standards are changed, OPERS will update its written valuation procedures to comply as soon as practicable and will provide copies of its updated procedures to the Board and its Advisors.

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.
B. Public Markets

Risk is managed through a combination of quantitative and qualitative constraints. The primary approach to manage risk is to control the characteristics and risk factors of the aggregate portfolio within reasonable tolerances of the benchmarks to minimize biases and unintended portfolio mismatches. The following sections identify the significant elements of risk at the individual portfolio level. Staff shall establish reasonable parameters in each portfolio’s investment guidelines to control such risks.

1. Active Risk

Staff may, in the OPERS Annual Investment Plan, define active risk, or tracking error, ranges for specific portfolios provided the overall public market tracking error does not exceed 250 basis points. The allowable allocation range for each portfolio type and the investment guidelines defined for each portfolio are designed to assist in risk management.

2. Liquidity Risk

It is the objective of the HC Fund public market Real Estate portfolio to be fully invested in Real Estate equity and related securities notwithstanding tactical decisions to over and under-weight holdings on occasions. Allocation ranges will be maintained through disciplined rebalancing. A small allocation to cash or cash equivalents is normal to provide operating liquidity.

3. Sector Risk

The public market Real Estate investments will achieve diversification across property sectors (i.e. office, retail, apartment, industrial or other) of the benchmarks. Diversification is a primary risk control element and should be maintained through disciplined rebalancing as per the investment guidelines.

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, Compliance & Risk (“IC”) is responsible for monitoring compliance with this Policy, 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 and/or Staff

Report on compliance – Investment Compliance Staff

B. Annually

OPERS Annual Investment Plan – Staff