REAL ESTATE STATEMENT OF INVESTMENT POLICY

Amended February 15, 2019

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I. Purpose and Objectives

The purpose of this Statement of Investment Policy is to formalize the Illinois Municipal Retirement Fund ("IMRF") Board's investment objectives and policies with respect to the real estate asset class. This statement is to be considered an extension of IMRF's overall Statement of Investment Policy.

II. Investment Objectives

A. Role of Real Estate

The primary role of the global real estate program is to provide diversification benefits to the total Fund through low correlations with other portfolio asset classes. The secondary role is to generate income and provide protection against inflation.

The global real estate program will invest capital in private and public real estate debt and equity markets in order to achieve the investment objectives. The role of public real estate is to provide diversification, income and liquidity. The role of private real estate is to provide diversification, inflation protection and return enhancement. Private market real estate investments will be diversified among various return strategies including core, value-add and opportunistic in U.S. and non-U.S. markets.

Diversification with Other Asset Classes
Real Estate returns have historically behaved differently than the returns of other major asset classes. Further, IMRF believes that real estate will continue to behave differently than other asset class returns allowing IMRF to lower the risk of its overall portfolio by allocating to the asset class.

Potential Inflation Hedge
Real Estate returns have historically shown the ability to provide a hedge against rising inflation. By allocating a portion of its investments to an asset class with these characteristics the overall risk of rising inflation to the IMRF portfolio is reduced.

Current Income and Appreciation
Core and value-added real estate strategies have historically shown the ability to maintain a moderate current income component with a modest appreciation component to achieve appropriate total returns for the asset class.

Return Enhancement
Value-added and opportunistic real estate investment strategies have historically shown the ability to deliver a high appreciation component of return and higher total returns relative to industry benchmarks.

B. Distinction of Responsibilities

IMRF Board of Trustees is responsible for approving the Real Estate Statement of Investment Policy.

IMRF Board of Trustees is responsible for selecting and/or terminating investment managers for the real estate portfolio.

IMRF Staff is responsible for recommending the selection and/or termination of investment managers to the Board for approval.

IMRF Staff is responsible for managing the real estate asset class, as described by the Policy, on an on-going basis, including monitoring the investment managers and reporting to the Board.

IMRF Staff may utilize a Consultant to assist in selection, termination or monitoring investment managers.

The Consultant is responsible for presenting real estate asset class performance to Staff and/or Board.

Consultant and Staff will review and recommend the Real Estate Statement of Investment Policy and any changes to the document.

IMRF Staff and the Consultant will monitor performance and compliance of the real estate asset class on a quarterly basis.

C. Allocation to Real Estate

The current target for real estate is 9% of the total Fund, with an allowable range of ± 4%. This target was set within IMRF's asset allocation framework which is reviewed annually. Actual allocations that exceed their target by ± 4% will be noted at the next scheduled Board meeting. If deemed necessary by the Chief Investment Officer and Consultant, recommendations for rebalancing strategies will be presented to the Board for their approval.

Capital will be deployed to private real estate over an extended period of time and may take several years before reaching the current target.

D. Return Objectives

The return objective of the total IMRF real estate program is to outperform the National Council of Real Estate Investment Fiduciaries' Open-End Diversified Core Index ("ODCE"), value weighted, over a rolling three year period.

E. Permissible Investments

This policy authorizes investments in all forms of U.S. and non-U.S. private and public market real estate structures. Real estate is an illiquid asset class and vehicles that provide appropriate legal protections commensurate with the investment opportunity are preferred. Such structures include but are not limited to:

- Separate Accounts
- Joint ventures
- Open and closed-end commingled funds
- Partnerships
- Limited Liability Companies
- Public/Private REITs and Real Estate Operating Companies (REOCs)
- Foreign Limited Companies
- Unit Trusts
- Co-investments

The Board may pre-approve co-investment opportunities at the inception of an investment in a private real estate fund. Staff will generally accept co-investment opportunities on a pro-rata basis under this scenario. If the General Partner of a private real estate fund offers a compelling and appropriate co-investment opportunity to IMRF which was not pre-approved, staff may present this opportunity to the Board for their approval.

F. Diversification

IMRF will seek to diversify its private real estate portfolio which is managed by external investment management firms. The following factors will be considered by staff during due diligence before an investment recommendation is brought to the IMRF Board.

1. *Manager Diversification*
   The maximum commitment to any private real estate manager shall be 40% of the total real estate portfolio market value plus unfunded commitments at the time of the investment recommendation.

2. *Property Type Diversification*
   IMRF will seek property type diversification at the total private real estate portfolio level and any single private real estate investment may not be fully diversified. Investments may include office, retail, industrial, multi-family and other non-traditional categories such as hotels, self-storage, data centers, student housing, senior housing, medical office, land and other property types.

3. *Geographic Diversification*
   IMRF will seek geographic and economic diversification at the total private real estate portfolio level. Any given investment may not be diversified on a stand-alone basis.

   Although IMRF may invest in strategies where investments are located outside of the U.S., exposure to these dedicated strategies is limited to 40% of the total real estate portfolio market value plus unfunded commitments at the time of the investment recommendation. The denominator in this calculation is based on the total real estate value plus the total value of unfunded commitments. Real estate managers may or may not hedge currency risk. The IMRF real estate portfolio will not implement currency hedges and accepts the currency risks consistent with the geographic exposures of the underlying investments.

G. Liquidity

The real estate program generally consists of limited partnerships in which IMRF commits a fixed amount the General Partner will invest over several years. The partnership structure may cover periods of 10 years or more. IMRF understands and recognizes that the real estate asset class will not be structured in a way to provide short term cash flow needs for the Fund.

H. Portfolio Composition

1. Core real estate investments derive their value primarily from current income. These assets have a lower risk profile and can provide liquidity. IMRF's long-term strategic target to core real estate investments is 60% with a minimum of 50%. If the actual allocation falls below 50%, it will be noted at the next scheduled Board meeting. If deemed necessary by the Chief Investment Officer and Consultant, recommendations for rebalancing strategies will be presented to the Board for their approval.

2. Publicly traded real estate securities should not exceed 20% of the total real estate portfolio market value plus unfunded commitments.

3. The majority of the real estate asset class will consist of equity ownership in commercial real estate. Managers whose sole strategy is to invest in non-equity or debt strategies will not exceed 25% of the total real estate portfolio market value plus unfunded commitments at the time of the investment recommendation.

4. IMRF allows some of its managers the ability to use modest amounts of leverage in their investment strategy as a means of enhancing the overall risk adjusted returns. Leverage at the total real estate portfolio will be kept below 50% loan to value. Leverage levels will be monitored based on the quarterly real estate report provided by the Investment Consultant.

I. Investment Manager Selection

The investment manager selection policy is detailed in the IMRF Statement of Investment Policy, but is summarized here for convenience.

The availability of qualified minority and women owned business enterprises and businesses owned by a person with a disability is recognized by the Board.

It is the policy of the Board to include qualified minority managers in the selection process and to objectively evaluate all qualified investment manager candidates regardless of race, gender or disability.

All qualified investment manager candidates will be evaluated based on: demonstrated professional performance; organizational depth; institutional investment management capability; and reasonableness of fee structure, regardless of the amount of investment assets under management, or age of the investment management firm.

The Board will use professional consultants that do not use discriminatory practices in the creation and maintenance of their investment manager databases and will require the consultants used by the Fund to affirm their use of nondiscriminatory practices when recommending investment manager candidates to the Board.

J. Website Postings

As required by Section 1-109.1 and Section 1-113.14 of the Illinois Pension Code, results of manager searches conducted by RFP will be posted on the IMRF website in the Investments portal under Business Opportunities. Investments made without a formal RFP will be posted under Business Opportunities and shall name the person(s) authorizing the procurement and the reason for the exception.

Exhibit A - Definitions

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

    1. Office: Mixed-use, multi-tenant, and single-tenant facilities, classified as either Central Business District (CBD) or suburban.

    2. Retail: Regional malls, community and neighborhood shopping centers, specialty centers, and single-tenant stores.

    3. Industrial: Bulk distribution, light manufacturing, and research and development (R&D) facilities.

    4. Residential: High-rise, mid-rise, and garden apartments.

2. **Non-core investments** represent a higher-risk profile than Core properties, and have a higher return expectation. Non-core investments consist primarily of the following types:

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

    2. Properties which would be Core except for an identifiable and correctable deficiency such as the need for lease-up, renovation, or conversion of an existing property, or the need for development adjacent to an existing owned property.

    3. Properties outside defined Core property types, such as motels, hotels, medical office, student housing and raw land.

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

4. **Private real estate limited partnerships** are a fund structure which pools capital from investors in order to make equity or debt investments in real estate properties. These funds typically have a ten year life span which consists of a two to three year investment period, a holding period where properties are actively managed and a liquidation period.

5. **Co-investment opportunities** are offered at the General Partners' discretion and typically have a lower fee and carried interest expense. If a potential investment opportunity exhibits strong fundamentals and attractive returns but the main fund has a capacity constraint, the General Partner may offer current investors the opportunity to invest alongside the main fund. The Board may pre-approve co-investment opportunities at the inception of an investment in a private real estate fund. Staff will generally accept co-investment opportunities on a pro-rata basis under this scenario. If the General

Partner of a private real estate fund offers a compelling and appropriate co-investment opportunity to IMRF which was not pre-approved, staff may present this opportunity to the Board for their approval.

6. **NCREIF Property Index (NPI)** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment.

7. **NFI-ODCE** is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. As of September 30, 2018, the NFI-ODCE was composed of 38 historical open-end commingled funds pursuing a core investment strategy, 25 of which are active. Index returns are calculated on a leveraged basis and are reported at the fund level.