

REAL ESTATE INVESTMENT POLICY STATEMENT
September 2022

**THE EMPLOYEES' RETIREMENT
SYSTEM OF THE CITY OF MILWAUKEE**
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I. PURPOSE

The purpose of this statement of Real Estate Investment Policy is to formalize the City of Milwaukee Employees' Retirement System's ("CMERS") investment objectives, policies, and procedures with respect to the real estate asset class. This statement is an extension of the CMERS overall Statement of Investment Policy.

II. INVESTMENT OBJECTIVE AND CONSIDERATIONS

A. Purpose of Real Estate Allocation

CMERS allocates a portion of its total assets to real estate for the following benefits:

1. Enhance the diversification of the CMERS overall investment portfolio due to real estate's low correlation with stocks and bonds;
2. Provide high current income and a rate of return that falls between stocks and bonds;
3. Lower the volatility of the total investment portfolio considering real estate returns have historically exhibited lower volatility than other public equity asset classes; and
4. Provide a hedge against unanticipated inflation.

B. Major Considerations

Major considerations impacting the structure of the real estate portfolio include:

1. Liquidity
2. Staffing
3. Investment decision-making process
4. Diversification

C. Asset Allocation

CMERS has a current target allocation of 13% to Real Assets and 9.7% to Private Real Estate. CMERS Statement of Investment Policy permits a minimum allocation to Real Assets, defined as Private Real Estate and Public Diversified Real Assets, of 10% and a maximum allocation to Real Assets of 16%.

D. Return Objectives

CMERS seeks to achieve total net returns equivalent to the net returns of the NCREIF Fund Index Open-End Diversified Core Equity Index Value-Weighted Net ("NFI-ODCE" or "ODCE") as a minimum return for the total real estate portfolio over rolling five-year periods.

III. Portfolio Composition

CMERS's real estate allocation will be 100% invested in Core and Core plus strategies. The portfolio will primarily be invested in Core strategies, with Core Plus used as a complement. Investment in Non-Core strategies will not be pursued. Non-Core funds that are currently in the portfolio will be liquidated by the managers at their discretion and according to the provisions established in the documents governing each fund.

Core/Core Plus and Non-Core strategies are defined as follows:

	Strategy	Leverage
Core/Core Plus	<p>Existing, operational assets that are substantially leased (greater than 80%) that are core quality properties located in major markets.</p> <p>Core strategies are typically concentrated in the four main property types: office, apartment, retail and industrial, but may include mixed-use properties, self-storage, and hotels.</p> <p>Core Plus strategies may have greater exposure to property types beyond the four main property types, including mixed-use, self-storage, hotels, senior housing, and student housing.</p> <p>Total return derived from income and appreciation, with income accounting for at least 60% of the total return.</p>	<p>Core strategies generally have leverage of less than 35%.</p> <p>Core Plus strategies may have higher leverage, up to 50%, but typically 35-40%.</p>
Non-Core Value-Add	<p>Institutional quality properties located in major and secondary markets with improvement needs or opportunities to add value through asset management initiatives.</p> <p>Includes office, apartment, retail, industrial, as well as more specialized property types such as mixed-use properties, hotels, senior housing, self-storage and student housing, among others.</p> <p>Return balanced between appreciation and income, with some initial income that grows over time as value-add strategy is implemented.</p>	<p>May include the use of leverage up to 65%</p>
Non-Core Opportunistic	<p>Properties, property portfolios or real estate companies offering recapitalization, turnaround, development, market arbitrage opportunities or other specialized approaches.</p> <p>Return primarily derived from appreciation.</p>	<p>Leverage is utilized and often is not limited</p>

IV. PERMISSIBLE INVESTMENTS

A. Investment Types

To achieve the benefits of investing in real estate, investments for CMERS will consist of equity and equity-oriented ownership in commercial real estate.

B. Investment Structures

This Policy authorizes the use of investment structures that provide legal protections to CMERS commensurate with the investment opportunity subject to legal review. Investments in real estate will be made through collective investment vehicles.

Collective investment vehicles, also known as commingled funds, are generally categorized into two sub-structures: Open-end and Closed-end. Open-end commingled funds are infinite life vehicles which provide periodic liquidity by allowing the investor to contribute capital contributions or redeem capital, typically on a quarterly basis. Closed-end funds are finite life vehicles where the timing of capital contribution and distributions are at the discretion of the manager.

Investment will be made exclusively using open-end funds.

CMERS will not purchase individual properties directly.

V. RISK MANAGEMENT

The primary risks associated with equity real estate investments are investment manager risk, vintage year risk, concentration risk (manager, property type, and geographic), leverage, loss of principal and liquidity risks. The following are risk management strategies:

A. Portfolio Composition

Focusing investment in Core/Core Plus open-end funds is a primary mechanism to manage liquidity risk, leverage and loss of principal.

B. Diversification

1. Manager Diversification

Diversification by manager will be used to limit manager concentration risk. To control manager exposure, the allocation to a single real estate manager is limited to no more than 35% of the real estate portfolio. Generally, the upper limit will only be considered for managers with substantial assets under management. Lower amounts will be appropriate for managers with single product lines and small assets under management. Manager concentration will be calculated by aggregating the total real estate assets invested by CMERS across all real estate strategies managed by the manager.

2. Vehicle Diversification

To mitigate the impact of the failure of a single investment vehicle on total real estate performance, CMERS will limit its investment in any single open-end fund to 35% of the total real estate portfolio.

3. Property Type and Location Diversification

The portfolio will be broadly diversified by property type and by location. Diversification is expected to track, but not match, the diversification of the ODCE benchmark across the major property sectors (office, retail, industrial, apartments, and other) and regions (East, South, West, Midwest). The portfolio will be invested primarily in the U.S.; however up to 5% of the portfolio may be invested outside the U.S.

Each individual manager will determine the diversification of its portfolio. Most have targets relative to the ODCE benchmark weightings.

To achieve a broadly diversified portfolio, CMERS will have a preference for funds that are diversified by property type and location; however, single-sector funds may be considered.

4. Vintage Year Diversification

CMERS recognizes that real estate is cyclical and will pace its investment into the market across vintage years to the extent new allocations are made.

C. Liquidity Profile

Funds with a concentrated investor base will be avoided because they potentially reduce CMERS's ability to exercise its governance rights and/or limit liquidity.

Similarly, for liquidity management, CMERS's investment in any single commingled fund may not exceed 20% of the total net asset value of the open-end fund.

D. Leverage Limitations

CMERS will target portfolio-wide leverage of 25% of CMERS's aggregate real estate portfolio, with a maximum of 35%. CMERS will control the overall leverage amounts by investing in Funds with leverage profiles consistent with this Policy objective.

At the underlying investment vehicle level, leverage will be limited to the levels set within the investment vehicle's governing documents.

In the event that the portfolio-level and/or the style-level leverage constraint is breached due to a contraction in market values, Staff and Consultant will notify the Board and make a recommendation for action or exception.

E. Currency

Investments are expected to be made primarily in vehicles which invest in real estate in the U.S. Although non-U.S. investments are expected to be limited, CMERS accepts the currency risks inherent in the geographic exposures of the investment vehicles. Real estate managers may or may not hedge currency risk at the vehicle-level, but currency will not be hedged at the CMERS real estate portfolio level. Where possible, CMERS will make investments and receive distributions in U.S. dollars.

VI. Summary of Policy Targets and Limits

Policy Parameter	Policy Guidelines
Allocation to Real Estate	Target of 9.7% of total plan assets
Real Assets Range	10% - 16%, includes both Private Real Estate and Public Diversified Real Assets
Permissible Investments	Equity and equity-like investments in commercial real estate
Investment Vehicle <ul style="list-style-type: none">• Open-end Funds	Open-end funds exclusively for any new allocations Legacy Non-Core closed-end funds are in wind down
Investment Styles <ul style="list-style-type: none">• Core/Core Plus Private• Non-Core Private	100%; Focus on Core No new investments; 0% long term target Legacy Non-Core portfolio is in wind down
Manager Exposure	Maximum of 35% to a manager
Single Investment Exposure	Maximum of 35% of the real estate allocation to a single open-end fund
Property Types <ul style="list-style-type: none">• Office• Industrial• Retail• Apartment• Other	The portfolio will be broadly diversified and measured against ODCE property type weightings. Focus will be on the four main property types (office, retail, industrial, apartments) and other (which can include but not limited to life sciences, self-storage, etc.)
Locations <ul style="list-style-type: none">• East• South• West• Midwest• Non-U.S.	The portfolio will be broadly diversified and measured against ODCE regional weightings Non-U.S. – Up to 5% of the portfolio
Leverage	Maximum of 35% for the real estate portfolio; Target of 25% Core ≤ 35% Core Plus ≤ 50% Legacy Non-Core Funds will have leverage according to the levels allowed in their respective governing documents

VII. Benchmark

Each investment will be benchmarked against the NCREIF Fund Index Open-End Diversified Core Equity Index Value Weighted (“NFI-ODCE” or “ODCE”), Net of Fees. Peer Groups may also be used to evaluate performance.

VIII. Valuation

Investments will be valued by the underlying investment managers using the methodology approved with the selection of the particular investment. Managers are expected to conform to the real estate information standards promulgated by NCREIF.

IX. Program Management

The Board, Staff, and Consultant’s roles will be consistent with those described in the Statement of Investment Policy.

X. Compliance With Policy

Until the Non-Core portfolio is fully liquidated, the portfolio will have areas of non-compliance. The Core portfolio will be managed to comply with the Policy. New investments and strategic decisions shall be in compliance with the Policy.