

**Employes' Retirement System  
of the City of Milwaukee**

Real Estate Strategic Plan

November 2015

**City of Milwaukee Employees' Retirement System  
Real Estate Strategic Plan**

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The Real Estate Strategic Plan sets forth the objectives, policies, and procedures for CMERS' (the "Fund") allocation to real estate investments (the "Program").

**Section I – Program Objectives.**

**A. *The Role of Real Estate.***

The primary role of real estate is:

- To enhance the Fund's overall diversification, and reduce the Fund's overall volatility, through the historically low or negative correlation between real estate and other financial asset classes;
- To provide competitive risk adjusted returns relative to other asset classes;
- To serve as a hedge against inflation; and
- To provide current income.

**B. *Allocation.***

The target allocation to real estate is 7% of total Fund assets, within a permissible range of 5% to 9% of Fund assets. The permissible range is designed to accommodate fluctuations in the valuation of the Program or the total Fund and the illiquid nature of private real estate.

**C. *Performance Benchmark.***

The Program's benchmark is to generate a return, net of all fees, that matches or exceeds the NCREIF Fund Open-End Diversified Core Index (NFI ODCE) over rolling five-year periods. Performance will be measured over a rolling five year period to reflect both the long term nature of the Fund's allocation to real estate and the relatively illiquid nature of the asset class.

**Section II – Risk Management Policies.**

**A. *Real Estate Investment Sectors.***

The Board created two investment categories for real estate investments: Traditional and Specialized (these are defined in the attached Glossary). For purposes of managing risk and tracking its benchmark, a minimum of 75% of the Program will be allocated to Traditional investments. For purposes of enhancing overall Program returns or capitalizing on current opportunities in the asset class, up to 25% may be allocated to Specialized investments. These measurements will be made based upon the quarter end market value of real estate investments.

For purposes of promoting total Fund diversification and inflation hedging, the Program will target primarily domestic private real estate investments. Because international real estate investing also offers diversification benefits and unique investment opportunities, the Board permits up to 20% of the real estate allocation to be invested in overseas (non-U.S.) real estate investments. Because real estate related debt investments may also offer unique investment opportunities and returns similar to private real estate, the Board permits up to 20% of the real

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estate allocation to be committed and/or invested in real estate related debt investments. For avoidance of doubt, non-U.S. real estate investments and real estate related debt investments, respectively, are considered Specialized investments.

***B. Investment Vehicles.***

Program investments may be made by means of any legally permissible commingled investment vehicle, including, but not limited to, limited partnerships, private real estate investment trusts, group trusts, or other collective investment vehicles. Traditional investments will be made exclusively in open-end commingled fund investment vehicles. Notwithstanding the previous statements, without specific approval from the Board, Program investments may not be made to NorthStar Asset Management Group Inc. or any of its subsidiaries, if applicable.

***C. Diversification Guidelines.***

The Program will be diversified by property type, investment location, investment size and manager in order to manage risk. A maximum of 20% of the Program's target market value may be committed to any one investment vehicle pursuing a Traditional strategy. A maximum of \$20 million may be committed to any one investment vehicle pursuing a Specialized strategy. Townsend, as investment manager, is allowed to build a Program that has sector and geographic characteristics that differ from the NFI ODCE and is required to provide the Board and ERS Staff with quarterly summaries that compare the characteristics of the Program versus the NFI ODCE. Townsend has the discretion to hedge non-U.S. dollar real estate investments. Performance will ultimately be evaluated in U.S.-based net of fee returns.

**Section III – Investment Procedures.**

***A. Delegation of Responsibilities.***

The Program shall be implemented and monitored as follows:

1. Townsend, as investment manager to CMERS, shall:
  - a. Implement the Real Estate Strategic Plan goals and objectives;
  - b. On an annual basis, present an investment plan to CMERS Board, Staff, and Callan (as real estate consultant), that includes Manager's recommended pacing of new commitments for upcoming year. This investment plan requires Board approval before new commitments to Sub-Advisors can take place.
  - c. Hire Sub-Advisors to acquire, sell and manage individual real estate investments consistent with the Real Estate Strategic Plan, and, if warranted in Townsend's judgment, terminate managers or redeem investments;
  - d. Provide each quarter a performance measurement report specifying the Program's compliance with the Real Estate Strategic Plan and the performance of each investment account;
  - e. Prepare quarterly reconciliations of real estate account balances with the Fund's custodian; and

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- f. Assist CMERS in fulfilling its year-end financial statement reporting requirements for the portion of CMERS real estate Program managed by Townsend.

2. The Board shall:

- a. Set the allocation to real estate;
- b. Establish goals and objectives for the Program through the Real Estate Strategic Plan;
- c. Review and approve the investment plan authorizing Townsend to make new commitments; and
- d. Monitor Program performance and compliance at Board meetings and through Townsend's quarterly performance measurement reports.

3. The Board's investment staff shall:

- a. Assist Callan, as real estate consultant, and Townsend to draft, for the Board's approval, the Real Estate Strategic Plan and periodic revisions thereto.
- b. Assist the Board in establishing the real estate allocation and Program goals and objectives;
- c. Assist Callan, as real estate consultant, in review of annual investment plan.
- d. Prepare funding procedures and coordinate the receipt and distribution of capital through the Board's custodian with respect to funding of new and/or existing real estate investments or dispositions of investments; and
- e. Monitor Program performance and compliance.

***C. Performance Measurement Report.***

Townsend shall maintain a reporting and evaluation system addressing each investment and the overall Program. Each quarter, Townsend shall forward to each Sub-advisor a performance measurement questionnaire to be completed by the Sub-advisor. Townsend shall gather each Sub-Advisor's data and compile a Program level report that is reconciled to the Fund's custodian records within one hundred ten (110) days (subject to the availability of the managers' data) following the last day of each quarter. The report shall address Program compliance and performance attributes for each investment and the overall Program.

***D. Legal Compliance.***

Investments shall be made, managed and disposed of in compliance with applicable federal, state, and local law. Townsend is responsible for retaining qualified legal counsel to review investment commitments for compliance. All Program investments must be made in CMERS' name. This Real Estate Strategic Plan supersedes any other document providing investment parameters for the Program.

***E. Separate Account Procedures.***

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As long as the Fund continues to hold real estate investments in separate accounts, the following procedures shall apply to such accounts:

1. **New property investments.** Townsend shall review any new separate account investment proposal for compliance with the Real Estate Strategic Plan and the manager's investment criteria and plan.
2. **Annual budget and management plans.** Townsend shall cause budget and management plans to be prepared annually by the managers and approve or disapprove such plans as submitted or revised.
3. **Disposition of property investments.** Townsend shall review each disposition proposal for compliance with the Real Estate Strategic Plan and the manager's investment criteria and plan.
4. **Valuation policy.** The Program will utilize valuation policies consistent with industry standards, currently the NCREIF Real Estate Information Standards. Separate account investments will be independently valued not less than every three years by a qualified expert (an individual or firm certified MAI or its successor equivalent) approved by Townsend. During interim periods, an internal valuation shall be performed by the manager semi-annually, with significant events affecting valuations reflected every quarter.

### **Glossary of Defined Terms**

1. The **NCREIF Fund Open-End Diversified Core Index ("NFI ODCE")** is an index comprised of over 30 open-end commingled funds pursuing a core real estate investment strategy. The NFI ODCE is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Supplemental data on the NFI ODCE is provided on a net of fee returns basis for informational purposes. Open-end Funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties.
2. **Traditional Investments** are defined as operating and substantially leased (80% or more) institutional quality properties with less than 40% leverage. These investments are well-located office, retail, industrial, or multifamily properties that generally offer relatively high current income returns and, as a result, a greater predictability of returns. The income component typically represents a significant majority of the expected total return of Traditional investments. These investments are of comparatively low risk and provide a stable foundation for the Fund's real estate portfolio.
3. **Specialized Investments** are defined as all other forms of real estate investment that are not Traditional. The Specialized component has traditionally covered a wide range of investments representing different levels of risk and return derived from the underlying real estate assets. Risk attributes which may be present include higher property level risk (leasing, renovation, development or repositioning required); a degree of business or operating risk (e.g., hotels, senior housing or investments in real estate operating companies); or non-traditional formats or properties (e.g., distressed assets, international investing, private to public market arbitrage activities).