

# MONTANA

## BOARD OF INVESTMENTS

### BOARD ADOPTED POLICY

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**POLICY NUMBER:** 40.703

**EFFECTIVE DATE:** February 22, 2023

**TITLE:** Investment Objectives and Guidelines  
Real Estate Asset Class

**SUPERSEDES:** November 30, 2021

**BOARD ADOPTION:** November 30, 2021

**REVIEWED:** February 22, 2023

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#### I. Investment Objectives and Guidelines

- A. Investment Objectives and Guidelines for the Real Estate Asset Class are established in Policy 40.701.
- B. The asset class allocations established by the Board are effective upon adoption and supersedes all previous Investment Objectives and Guidelines for Core Real Estate.

#### II. Statement of Purpose

- A. The purpose of these objectives and guidelines is to:
  - 1. Establish the investment objectives and performance standards of the Real Estate Asset Class.
  - 2. Provide diversified exposure to Real Estate in a prudent and cost-effective manner.

#### III. Investment Objective

- A. The objective of the Real Estate Asset Class is to attain the highest possible return within the parameters of the Investment Guidelines set forth below.
- B. Success in achieving this objective will be measured by comparing the risk and after-fee return of the Real Estate Asset Class to the NCREIF ODCE Index (the Benchmark). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a five (5) year and ten (10) year annualized basis.

#### IV. Investment Guidelines

- A. Staff will have full discretion to manage the Real Estate Asset Class consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. State Fund will be notified of any exceptions or compliance violations within five (5) days.
- B. Most of the Real Estate Asset Class investments will be managed by external investment managers.
- C. Real Estate is classified as “Core” if it is an investment in operating, substantially leased, and positively cash flowing institutional quality real estate across property types, geographies, and markets.
- D. Permitted Investments
  - 1. The Real Estate Asset Class may only invest in the following:

- a) Separate Accounts, Open-Ended Funds, Closed-Ended Funds, ETFs, Real Estate Investment Trusts (REITs), or Master Limited Partnerships (MLPs) managing publicly traded Real Estate, where the investments are approved by the CIO and purchased and monitored by Staff.
- b) Private Investment partnership interests. These private partnerships may be direct limited partnerships, limited liability companies, or vehicles that primarily invest in partnerships, including Fund-of-Funds and Secondary Funds.
- c) Individual public or private securities received as distributions from funds are also permitted to be held in the Real Estate Asset Class.

#### E. Other Restrictions

1. The following restrictions are preferred structures and limitations, recognizing precision relative to current market value or net asset value may not be feasible due to their illiquid nature:

- a) No less than seventy-five percent (75%) of the aggregate of the Core Real Estate Asset Class net asset value plus capital shall be invested in “Core” Real Estate.
- b) Separate Accounts, Open-Ended Funds, Closed-Ended Funds, ETFs, or MLPs managing publicly traded Real Estate may not exceed twenty-five percent (25%) of the aggregate of the Real Estate Asset Class net asset value plus uncalled committed capital.
- c) The Core Real Estate Asset Class market value invested in any single mandate/portfolio shall be no greater than five percent (5%) of the SFIP Assets.
- d) Individual public securities received as distributions will be liquidated over a reasonable time period dependent on market conditions.
- e) Leverage will be monitored on an individual fund level. Total Real Estate Asset Class leverage shall not exceed fifty percent (50%).

F. If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board’s next regularly scheduled quarterly meeting, the CIO shall inform the Board of any cases that the Core Real Estate Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Core Real Estate Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five (5) days.

G. While no formal diversification ranges are set forth for property type diversification or regional diversification within the United States, it is expected that the Core Real Estate Asset Class shall remain diversified across these factors. These and other factors shall be monitored and reported to the Board at least annually.

Authority: Montana Constitution, Article VIII, Section 13  
 Section 2-15-1808, MCA  
 Section 17-1-113, MCA  
 Sections 17-6-201 through 17-6-203, MCA  
 Section 33-1-115, MCA  
 Section 39-71-2320, MCA