

# MONTANA

## BOARD OF INVESTMENTS

## BOARD ADOPTED POLICY

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POLICY NUMBER: 40.206

EFFECTIVE DATE: May 26, 2022

TITLE: Investment Objectives and Guidelines  
Real Estate Asset Class

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: May 26, 2022

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### I. Appendix II: Investment Objectives and Guidelines

- A. Schedule II-E: Investment Objectives and Guidelines Real Estate Asset Class.
- B. Approved Date of Schedule: June 9, 2020.
- C. This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for 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. Strategic
  - 1. 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. Performance
  - 1. Success in achieving this objective will be measured by comparing the risk and after-fee return of the Real Estate Asset Class to the 1QTR LAGGED NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) (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.
- C. Investment Guidelines
  - 1. 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.
  - 2. Most of the Real Estate Asset Class investments will be managed by external investment managers via private investment partnerships in which the Board will have a limited partnership interest; however, the Real Estate Asset Class may also utilize public long-only and long/short strategies.

#### D. Permitted Investments

1. The Real Estate Asset Class may invest only in the following:
  - a) Separate accounts, open-ended funds, closed-ended funds, ETFs, or real estate investment trusts 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) The Real Estate Asset Class may co-invest with private investment managers in transactions that are suitable for inclusion into a private real estate investment partnership
  - d) Separate accounts investing in private real estate direct investments
  - e) Individual public or private securities received as distributions from funds are also permitted to be held in the Real Estate Asset Class
  - f) Cash – either an investment in STIP, a vehicle available through the custodian, or an SEC registered money market fund that is considered a “US Treasury” or “US Government” money market fund per the SEC regulations

#### E. Other Restrictions

1. The Montana Public Retirement Plan assets as a percentage of Net Asset Value invested in a single investment within the Real Estate Asset Class shall be no greater than two percent (2%).
  2. No more than thirty percent (30%) of the aggregate of the Real Estate Asset Class Net Asset Value should be considered “Non-U.S.” exposure based on the dominant geographic exposure of the Fund, Partnership, Separate Account, or Index.
  3. No more than ten percent (10%) of the aggregate of the Real Estate Asset Class Net Asset Value shall be invested in direct co-investments.
  4. Individual public securities received as distributions will be liquidated over a reasonable time-period dependent on market conditions.
- F. The following table provides a guideline range with respect to the Real Estate Asset Class strategy diversification. These ranges reference the Real Estate Asset Class Net Asset Value.

<u>Strategy</u>	<u>Policy Range</u>
Core and Core Plus Real Estate	20% - 50%
Non-Core Real Estate	25% - 65%
Real Estate Debt	10% - 40%
Public Real Estate Securities	0% - 40%

1. For funds with exposure across categories, the fund will be classified in the category that is most reflective of the underlying investments in the funds.

G. Leverage

1. Leverage is a significant risk factor. On an individual fund basis, the leverage level can range up to seventy-five percent (75%). Individual fund leverage may occasionally exceed seventy-five percent (75%) and will be monitored by staff to determine the cause and whether it is a temporary or persistent issue. Leverage for Core, Core plus and Non-Core Real Estate consists of the combined borrowing at the property level and the fund level. Leverage for Real Estate Debt is only measured at the fund level. Leverage shall be monitored on an individual fund level and new investments shall be made with the intention that the total Real Estate Asset Class leverage shall not exceed sixty percent (60%).

<u>Strategy</u>	<u>Leverage Policy</u>
Core Real Estate Investments	0% - 50%
Core-plus/Non-Core Real Estate	0% - 75%
Real Estate Debt	0% – 75%

2. 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 Real Estate Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Real Estate Asset Class back within guidelines or a plan to do so
3. While no formal diversification ranges are set forth for property type diversification or regional diversification within the United States, it is expected that the 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.