Real Estate Investment Policy

Kentucky Retirement System

I. Role Of Real Estate

KRS has determined that the primary role of the real estate asset class is to provide for the following:

- ***Attractive risk adjusted*** returns through active management and ability to access managers with the expertise and capabilities to exploit market inefficiencies in the asset class.

  The illiquid nature of real estate investments combined with the complexity of investments makes it difficult for casual investors to effectively access the asset class effectively.

  It is the belief that through active management and by investing in top tier managers with interests aligned through co-investment and incentive based compensation, KRS can maximize its risk adjusted returns.

  This active management approach will be pursued.

- ***Diversification benefits*** through low correlations with other asset classes, primarily the U.S. equity markets.

- Provide a ***hedge against unanticipated inflation***, which real estate has historically provided due to lease structures and the increases in material and labor costs during inflationary periods.

- Permit KRS to invest in ***unique opportunities*** that arise due to dislocations in markets that occur from time to time.

II. Allocation to Real Estate Asset Class

KRS has approved a target real estate allocation of five percent (5%) of the total fund for real estate investments.

KRS will endeavor to achieve the target allocation over a three to five year period by averaging into the market and avoiding any concentrated vintage year risks.

III. Return Objective

The long term objective for the KRS real estate portfolio is a real rate of return (adjusted for inflation) of seven percent (7%), net of investment management fees.

This return shall be calculated on a time-weighted basis using industry standard reporting methodologies as defined by the CFA Institute and the National Council of Real Estate Investment Fiduciaries on a three, five and ten year basis.

The return objectives shall be viewed on a long term basis. For early periods of the investment program, there will likely be a "J" curve effect where investment management fees may be paid on committed capital.

Due to the emerging nature of the KRS real estate program, the first several years of the investment program will be negatively impacted by this "J" curve effect. As the program matures, the impact will diminish as returns are realized on liquidating funds to balance out fees on new investment funds.

KRS will seek, where possible, to limit the impacts of the "J" curve, although not at the expense of mid to long term performance.

IV. Investment Policies

For purposes of this investment Policy, the real estate investment universe is divided into the following sectors, with descriptive attributes to follow:

A. Core Properties

- Operating, substantially leased office, retail, industrial or apartment properties. Several alternative property types may be included in Core such as self-storage, medical office, ground leases, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes to the traditional Core property types.

- Generally have institutional qualities for size, physical attributes and location.

- Target total returns of 7%-9% per year (net of fees and promoted interest), with a high proportion of the total return

to be generated from current income and a small proportion of the total return generated from appreciation.

- Leverage for core properties is moderate with an upper limit of 50% loan to value.

B. Value Added Properties

- Office, retail, industrial or apartment properties that have moderate risk associated with their investment. Several alternative property types may be included in Value-Added such as self-storage, medical office, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes for Value-Added investments.

- Value-Added investments are targeted to capitalize on defects with specific properties that can be identifiable and correctable through leasing, re-development, management and/or recapitalization.

- Target returns for value added investments are 9% to 12% per year (net of fees and promoted interest).

- Leverage for value added investments is generally limited to approximately 65% loan to value.

C. Opportunistic Investments

- Opportunistic investments can be comprised of any property sector. Opportunistic investments can include office, retail, industrial and apartments with high-risk attributes. In addition, hotels, operating companies, development, land and distressed properties are all examples of opportunistic investments

- Leverage for opportunistic investments can be 75% loan to value or higher in certain cases.

- Opportunistic investments will generate returns in excess of 12% (net of fees and promoted interest) in order to compensate for the additional risk commensurate with the increased risk compared to core property investments.

D. Public Securities

- Real estate public securities ("Public Securities") do not allow control over the assets or management.

- Public Securities generally have higher risk and return characteristics than Core properties due to higher leverage and operating company risks. In addition, the daily pricing of securities result in additional reported volatility of returns.

- Daily pricing and public market trading provide liquidity. However, due to small float and limited market capitalization of Public Securities, improved liquidity may come at a price.

- The emergence of the international Public Securities market has broadened the universe to include Asia, European, Australian and North American property companies.

- Expected returns are approximately 9%-11% (net of fees) over a 10-year period and 11-13% (net of fees) for non-U.S. Public Securities.

E. Commercial Mortgages

- Commercial mortgage returns are sensitive to interest rates, spreads and credit quality. Duration of the commercial mortgage portfolio is generally high due to yield maintenance pre-payment penalties in most mortgages.

- Commercial mortgages have bond-like risk/investment characteristics, with real estate serving as collateral. Commercial mortgages have similar upside potential relative to other fixed income instruments.

- Investment in commercial mortgages can be accomplished through public or private market vehicles and can be investment grade or non-investment grade.

- The long-term expected return from mortgages is 200-1500 basis points or more over comparable treasuries. The proliferation of distressed debt platforms has created investment programs that range from Core to Opportunistic type risk and return characteristics.

KRS will seek to limit investments by sector diversification using the following limits:

Core:	0% to 40% of the total allocation
Value Added:	0% to 40% of the total allocation
Opportunistic:	0% to 40% of the total allocation
Public Securities:	0% to 40% of the total allocation
Commercial Mortgages:	0% to 40% of the total allocation

KRS seeks to maintain the flexibility to overweight or underweight any sector in order to capitalize on market opportunities.

V. Investment Vehicles

Due to the size of KRS's portfolio, the preferred investment structure is commingled funds. Exceptions may be for public equity accounts which may be efficiently invested through a separate account or single property investments. Single property investments shall be limited to no more than 5% of the total real estate allocation.

KRS may also consider co-investment opportunities in cases where discounted fees and appropriate diversification can be achieved for a particular investment opportunity.

VI. Diversification

KRS will seek to control risk in its real estate investment program by diversifying its investments by investment manager, property type and location diversification.

A. Investment Manager

KRS will limit the amount committed to one investment manager to no more than twenty percent (20%) of the total allocation for real estate investments.

B. Property Type Diversification

KRS will seek to limit investments by property type diversification using the following limits:

Office:	0% to 40% of the total allocation
Retail:	0% to 40% of the total allocation

Apartment:	0% to 40% of the total allocation
Industrial:	0% to 40% of the total allocation
Other:	0% to 40% of the total allocation

(other includes hotels, self-storage, parking, etc.)

VII. Leverage

KRS recognizes that leverage is an inherent component of real estate investments and use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. There will be a limit of 75% of the total portfolio placed on the use of leverage.

All portfolio leverage will be secured through the individual fund investments. There will be no recourse debt permitted.

VIII. Investment Size

The maximum investment size for any single investment shall be limited to fifteen percent (15%) of the total real estate allocation, or $100 million, whichever is greater.