



County Employees Retirement System
Real Estate Policy
Approved: March 16, 2022

A. Role of Real Estate

CERS has determined that the primary role of the Real Estate asset class is to provide for the following:

- Invest in top tier, attractive risk adjusted returns through active management.
- Utilize access to managers with the expertise and capabilities to exploit market inefficiencies in the asset class.
- Manage interests through co-investment and incentive based compensation and maximize risk adjusted returns.
- Diversify 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 increases in material and labor costs during inflationary periods.
- Permit CERS to invest in unique opportunities that arise due to dislocations in markets that occur from time to time.

B. Allocation to Real Estate Asset Class

CERS has approved a target Real Estate allocation of seven percent (7%) of the total fund for real estate investments. CERS 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.

C. Investment Policies

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

1. 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.

2. 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.

3. 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.

4. 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.

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

	Target	Range
Core:	70%	50% to 90% of the total allocation
Value Added:	20%	10% to 30% of the total allocation
Opportunistic:	10%	0% to 20% of the total allocation
Public Securities:	0%	0% to 100% of the total allocation

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

D. Investment Vehicles

Due to the size of CERS' 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.

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

E. Property Type Diversification

CERS will seek to control risk in its real estate investment program by diversifying its investments by investment manager, property type and location diversification. CERS will limit the amount committed to one investment manager to the larger of thirty percent (30%) of the total allocation for real estate investments or 1% of the total funds value at the time of commitment.

CERS 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.)

F. Total Leverage


CERS 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 65% 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.

Signatories

As Adopted by the Investment Committee

Date: 3/31/22

Signature: 

Dr. Merl Hackbart
Chair, Investment Committee

As Adopted by the Board of Directors

Date: 03/16/2022

Signature: Betty A Pendergrass

Ms. Betty Pendergrass
Chair, Board of Trustees