Table of Contents

A. Real Estate Investment Policy Review
B. Real Estate Program Overview
C. Update on FY 2021 Objectives
D. Portfolio Risk Assessment
E. Capital Projections
F. FY 2022 Recommendations for Approval
G. SDCERS Real Estate Investment Policy
A. Real Estate Investment Policy Review
• The key highlights of SDCERS’ Real Estate Investment Policy are summarized below.
• This policy is reviewed annually alongside the Annual Investment Plan.
• Townsend reviewed the policy and is not recommending any changes at this time.
• The full policy is attached in section G of this report.

<table>
<thead>
<tr>
<th>PROGRAM FRAMEWORK</th>
<th>STRATEGIC GOALS</th>
<th>RISK CONTROLS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Allocation to Real Estate</strong></td>
<td><strong>Return Objective</strong></td>
<td><strong>Investment Diversification</strong></td>
</tr>
<tr>
<td>11% of total plan assets*</td>
<td>• Generate income and provide diversification benefits to the total portfolio, while providing competitive returns relative to the benchmark.</td>
<td>Single Manager: 30% Limit</td>
</tr>
<tr>
<td><strong>Core/Non-Core Blend</strong></td>
<td><strong>Benchmark</strong></td>
<td><strong>Geographic Diversification</strong></td>
</tr>
<tr>
<td>Core: 60%-80% of Total Real Estate</td>
<td>• The Total Real Estate Portfolio Benchmark over a five-year rolling period is the net NCREIF Fund Index Open-end Diversified Core Equity Index (“NFI-ODCE”) + 50 basis points (“bps”).</td>
<td>Maximum of 25% outside the United States.</td>
</tr>
<tr>
<td>Structural Core: 56%-80% of Core</td>
<td></td>
<td>For each U.S. region: Within +/- 15% of NFI-ODCE</td>
</tr>
<tr>
<td>Tactical Core Equity: 0-24% of Core</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tactical Core Debt: 0-15% of Core</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Core: 20%-40% of Total Real Estate</td>
<td><strong>Diversification</strong></td>
<td><strong>Diversification by Property Type</strong></td>
</tr>
<tr>
<td>Value-Add: 0-100% of Non-Core</td>
<td>• Low or negative correlation with stock and bond returns.</td>
<td>For each property type: Within +/- 15% of NFI-ODCE</td>
</tr>
<tr>
<td>Opportunistic: 0-100% of Non-Core</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Long-term target. Medium-term target of 13% was approved in 2017.
B. Real Estate Program Overview
Real Estate Program Overview

**Target Allocation & Funding Status**

- SDCERS has an 11% long term target allocation to real estate.
  - 12/31/20 Market Value of $1,021 M (10.5%)
  - 12/31/20 Unfunded Commitments of $194 M (2.0%)

**Risk Classifications**

- SDCERS is outside of its target ranges for Core and Non-Core but will be within range once Core redemption requests*** are fulfilled, IMA asset sales are completed, and recent Non-Core commitments are called.

---

<table>
<thead>
<tr>
<th>Strategic Targets</th>
<th>Portfolio Composition (12/31/2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target Allocation</strong></td>
<td><strong>Tactical Range</strong></td>
</tr>
<tr>
<td>Total Real Estate</td>
<td>11%</td>
</tr>
<tr>
<td>Core Portfolio</td>
<td>70%</td>
</tr>
<tr>
<td>Structural Core</td>
<td>56% - 80%**</td>
</tr>
<tr>
<td>Tactical Core Equity</td>
<td>0% - 24%**</td>
</tr>
<tr>
<td>Tactical Core Debt</td>
<td>0% - 15%**</td>
</tr>
<tr>
<td>Non-Core Portfolio</td>
<td>30%</td>
</tr>
<tr>
<td>Value Add Portfolio</td>
<td>0% - 100%**</td>
</tr>
<tr>
<td>Opportunistic Portfolio</td>
<td>0% - 100%**</td>
</tr>
</tbody>
</table>

*Of SDCERS Total Real Estate Portfolio
**Of SDCERS Core/Non-Core Portfolio
***$80 million of redemptions outstanding: AEW Core Property Trust ($39.2 million) and UBS Trumbull Property Fund ($40.8 million)
Real Estate Compliance with Strategic Plan Guidelines

- As IMA asset sales continue, Core redemption requests are fulfilled and commitments to Non-Core are funded, the portfolio will reach compliance with tactical ranges.

<table>
<thead>
<tr>
<th>Portfolio Construction</th>
<th>Target</th>
<th>Tactical Range</th>
<th>In Compliance</th>
<th>Funded (as of 12/31/20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Real Estate Allocation</td>
<td>11%</td>
<td>6% - 16%</td>
<td>✓</td>
<td>10.5%</td>
</tr>
<tr>
<td>Core</td>
<td>70%</td>
<td>60% - 80%*</td>
<td>X</td>
<td>86.6%</td>
</tr>
<tr>
<td>Structural Core</td>
<td>56% - 80%**</td>
<td>✓</td>
<td>71.9%</td>
<td></td>
</tr>
<tr>
<td>Tactical Core Equity</td>
<td>0% - 24%**</td>
<td>✓</td>
<td>16.9%</td>
<td></td>
</tr>
<tr>
<td>Tactical Core Debt</td>
<td>0% - 15%**</td>
<td>✓</td>
<td>11.2%</td>
<td></td>
</tr>
<tr>
<td>Non-Core</td>
<td>30%</td>
<td>20% - 40%*</td>
<td>X</td>
<td>13.4%</td>
</tr>
<tr>
<td>Value-Add</td>
<td>0% - 100%**</td>
<td>✓</td>
<td>30.9%</td>
<td></td>
</tr>
<tr>
<td>Opportunistic</td>
<td>0% - 100%**/ &lt;20%*</td>
<td>✓</td>
<td>69.1% / 9.3%</td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>40%</td>
<td>&lt;50%</td>
<td>✓</td>
<td>27.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diversification</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Markets – Non-Equity Investments</td>
<td>N/A</td>
<td>&lt;30%</td>
<td>✓</td>
</tr>
<tr>
<td>Public Markets Exposure</td>
<td>N/A</td>
<td>&lt;15%</td>
<td>✓</td>
</tr>
<tr>
<td>Single Manager – Commingled Fund</td>
<td>&lt;30%</td>
<td>✓</td>
<td>Largest manager is Principal at 10.6%</td>
</tr>
<tr>
<td>Property Type</td>
<td>+/- 15% NFI-ODCE</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>Geographic Region</td>
<td>+/- 15% NFI-ODCE</td>
<td>✓</td>
<td>-</td>
</tr>
<tr>
<td>International Exposure</td>
<td>&lt;25%</td>
<td>✓</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

*Of SDCERS Total Real Estate Portfolio
**Of SDCERS Core/Non-Core Portfolio
Real Estate Performance Detail

Returns by Risk Category
Net Time-weighted Returns (%) as of 12/31/20

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Quarter 1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Net</td>
<td>1.6</td>
<td>0.8</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Value Add Net</td>
<td>-0.1</td>
<td>-1.2</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Opportunistic Net</td>
<td></td>
<td></td>
<td></td>
<td>-3.7*</td>
</tr>
<tr>
<td>SDCERS Net</td>
<td>4.6</td>
<td>7.0</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>NFI-ODCE Net</td>
<td>6.7</td>
<td>6.8</td>
<td>6.8</td>
<td>5.8</td>
</tr>
<tr>
<td>SDCERS Appreciation</td>
<td>6.7</td>
<td>6.8</td>
<td>6.8</td>
<td>5.8</td>
</tr>
<tr>
<td>ODCE Appreciation + 50 bps</td>
<td>8.4</td>
<td>8.4</td>
<td>8.4</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Income & Appreciation Returns
Time-weighted Returns (%) as of 12/31/20

<table>
<thead>
<tr>
<th>Category</th>
<th>Quarter 1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDCERS Income</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>ODCE Income</td>
<td>-1.8</td>
<td>-2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SDCERS Appreciation</td>
<td>4.0</td>
<td>3.8</td>
<td>4.1</td>
<td>4.2</td>
</tr>
<tr>
<td>ODCE Appreciation + 50 bps</td>
<td>4.5</td>
<td>4.1</td>
<td>4.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Since Inception</td>
<td>4.9</td>
<td>3.2</td>
<td>2.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

*Value Added and Opportunistic have different inception start dates than the total portfolio
C. Commitment History & Update on FY2021 Objectives
Non-Core Commitment Activity

SDCERS Non-Core Activity Over Past Five Years

Commitment Amount ($ millions)

- 2016: 1.9%
- 2017: 1.7%
- 2018: 1.6%
- 2019: 1.4%
- 2020: 1.4%
- 2021 (YTD): 1.0%

- 2016: LaSalle Asia V, 20
- 2017: Europa V, 20
- 2018: Torchlight DOF VI, 20
- 2019: PGIM SHP VI, 20
- 2020: Oaktree Real Estate Opportunities Fund VIII, 30
- 2021 (YTD): KKR Real Estate Partners America III, 30

Non Core Commitments | Non-Core Target (% of TPA) | Non-Core Actual (% of TPA)
Update on FY 2021 Annual Investment Plan Objectives

The FY 2021 Annual Investment Plan included the following capital recommendations:

**Core Real Estate Rebalancing Plan**
- Continue DWS IMA Transition Plan
  - Target sales of remaining two assets (~$27 million) once market environment improves
  - **2021 Update:** 1 of 2 remaining assets is scheduled to sell by the end of the fiscal year after COVID-19 delayed exit plans. The last remaining asset is expected to be sold in the second half of 2021.
  - No additional Core fund commitments/redemptions were recommended after significant rebalancing activity in prior years.

**Non-Core Real Estate**
- Target up to $60 million of new commitments for Non-Core strategies
  - Target 2-3 funds at $20-30M each
  - **2021 Update:** $60 million were committed to two funds:
    - A $30 million commitment to Waterton Residential Property Venture XIV and a $30 million commitment to KKR Real Estate Partners America III both closed in 1Q 2021.

**Overall Considerations**
- Decrease office exposure to reach an underweight position
  - **2021 Update:** SDCERS' office exposure decreased from 32.1% at year-end 2019 to 29.4% at year-end 2020 through funding of new non-office investments. The current underweight compared to the NFI-ODCE office exposure is 3.5%.
- Maintain retail underweight and industrial overweight
  - **2021 Update:** SDCERS has a 2.6% underweight to retail and a 5.4% overweight to industrial compared to the benchmark exposures.
- Focus on fee savings to lower gross-to-net spread across the portfolio
  - **2021 Update:** The commitment to KKR Real Estate Partners America III came with a 75 bps fee break on unused capital during the commitment period (50bps through Townsend negotiated aggregation and 25bps through timing of closing).
D. Portfolio Risk Assessment
Funds are categorized by risk style (Core Debt, Core Equity, Value-Added, Opportunistic), but within risk styles funds are not ranked in any particular order.

Source: Managers, Townsend; Actual, projected, and realized fund returns are reported net of fees and current as of 12/30/2020 unless otherwise noted.

Denotes funds with challenged vintage years 2005-2008 (see next slide).

Italic denotes new and approved commitments.

*net of all fees and expenses, but before the fund level performance fee.
### Relative Risk Positioning

**Notes**
- **Green** denotes funds with a Value-Added strategy
- **Blue** denotes funds with an Opportunistic strategy

**Vintage Years and Expected Conclusion Dates for challenged funds:**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Vintage Year</th>
<th>Estimated Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invesco Real Estate Fund I</td>
<td>2005</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Cornerstone Hotel Income and Equity Fund I</td>
<td>2006</td>
<td>Liquidated</td>
</tr>
<tr>
<td>California Smart Growth Fund IV</td>
<td>2006</td>
<td>2022 (1)</td>
</tr>
<tr>
<td>Capmark (NREP) Structured Real Estate Partners</td>
<td>2006</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Fidelity Real Estate Growth Fund III</td>
<td>2007</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Cornerstone Apartment Venture III</td>
<td>2007</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Cornerstone Hotel Income and Equity Fund II</td>
<td>2008</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Invesco Real Estate Fund II</td>
<td>2008</td>
<td>Liquidated</td>
</tr>
<tr>
<td>Colony Investors VIII</td>
<td>2008</td>
<td>2020 (2)</td>
</tr>
</tbody>
</table>

Source: Manager, Townsend

(1) Fund term expired 9/23/2014; PCCP was granted an extension of the fund term through 2018. Fund currently holds 4 remaining assets, 3 of which are expected to be sold in 2021 with the final disposition expected in 2022.

(2) Fund NAV solely comprised of cash expected to be distributed in 2021.
E. Capital Projections
Projected Exposures and Cash Flows

Real Estate % of Total Plan Assets (Including All Planned Commitments)

<table>
<thead>
<tr>
<th>% of Plan Assets</th>
<th>USD Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.5%</td>
<td>0%</td>
</tr>
<tr>
<td>10.4%</td>
<td>0%</td>
</tr>
<tr>
<td>10.0%</td>
<td>0%</td>
</tr>
<tr>
<td>10.2%</td>
<td>0%</td>
</tr>
<tr>
<td>10.6%</td>
<td>0%</td>
</tr>
<tr>
<td>11.0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Portfolio Net Cash Flow (Planned)
Real Estate % of Plan Assets (Planned)
Real Estate Target
Projected Risk Exposures

Assumptions for placeholder commitments include $70 million of new non-core commitments in FY2022 and $70 million of annual non-core commitments in FY2023, FY2024 and FY2025. The same assumptions are used in the capital projections provided on the previous page and will be refreshed quarterly.
Current and Projected Diversification

SDCERS Property Type Diversification
4Q20

SDCERS Geographic Diversification
4Q20
F. FY2022 Recommendations for Approval
Recommended FY 2022 Annual Investment Plan

The FY 2022 Annual Investment Plan includes the following capital recommendations:

Core Real Estate

• Structural Core Equity Program Actions:
  • Continue DWS IMA Transition Plan
    • Complete sales of remaining two assets (~$26 million).
  • Remain in redemption queue for UBS Trumbull Property Fund.
    • As of year-end, SDCERS’s remaining market value was $40.8 million. The current queue totals above 50% of the fund’s net asset value, and while the manager expects meaningful redemption payments in 2021, the expectation is that paying down the full queue might take 3-4 years.
    • No additional capital commitments/redemptions are recommended at this time after significant rebalancing activity in prior years.

• Tactical Core Equity Program Actions:
  • Remain in redemption queue for AEW Core Property Trust.
    • To date, SDCERS has received $50.5 million in redemptions with a remaining balance of $39.2 million. AEW currently expects to pay out the remainder by mid-2022.
    • No additional capital commitments/redemptions are recommended at this time after significant rebalancing activity in prior years.

• Tactical Core Debt Program Actions:
  • Monitor exposure relative to 15% policy limit and consider partial redemptions if necessary to remain within allowed range.
    • If partial redemptions are recommended in the future, proceeds would most likely be redeployed into Structural or Tactical Core Equity.
Recommended FY 2022 Annual Investment Plan

The FY 2022 Annual Investment Plan includes the following capital recommendations:

**Non-Core Real Estate**

- Target $70 million of new commitments to Non-Core strategies.
  - Target 2 funds at an average commitment size of $35M per fund.
    - Average commitment size is based on not only the opportunity being considered, but also the SDCERS Strategic Plan Guidelines, projected available capital for Non-Core deployment over the coming five-year period, historical average commitment size and desire to remain diversified by vintage year.
    - Number and size of actual fund commitments will depend on the opportunity set and fundraising timing for high conviction strategies over the coming fiscal year.
  - Consider re-up commitments to high conviction managers already represented in the portfolio.
  - Further explore niche investment opportunities that are expected to generate outsized risk-adjusted returns, and/or provide a level of diversification to the portfolio (downside protection, sector exposure, etc.).
    - Townsend continues to conduct manager research in niche opportunities such as U.S. cold storage, life sciences, data centers, single family residential, and Non-US industrial (Europe and Asia).
  - Continue to focus on fee savings to enhance net returns across the portfolio.
G. SDCERS Real Estate Investment Policy
TABLE OF CONTENTS

I. Introduction ........................................................................................................................ 1

II. Investment Objectives......................................................................................................... 1
    A. Asset Allocation.............................................................................................................. 1
    B. Return Objectives......................................................................................................... 1

III. Investment Policies ............................................................................................................. 3
    A. Portfolio Composition .................................................................................................. 3
    B. Risk Management......................................................................................................... 4
        1. Defined Roles for Participants .............................................................................. 5
        2. Permissible Investments ....................................................................................... 5
        3. Investment Structures ........................................................................................... 5
        4. Diversification .......................................................................................................... 6
        5. Leverage .................................................................................................................. 8
        6. Valuations ............................................................................................................... 9
        7. Monitoring of Investments .................................................................................... 9
    C. Discretionary Authority ............................................................................................... 10
        1. Commingled Funds ............................................................................................... 10

IV. Investment Procedures ..................................................................................................... 10
    A. Commingled Funds .................................................................................................... 14
        1. CF Selection Process ............................................................................................. 14
        2. CF Control and Monitoring .................................................................................. 14
    B. Performance Measurement Reports ........................................................................... 14

V. Exhibit A ............................................................................................................................ 16
I. INTRODUCTION

The San Diego City Employees’ Retirement System (the "Retirement System" or “SDCERS”) has determined that, over the long term, inclusion of real estate investments will enhance the risk/return characteristics of the Retirement System's portfolio investment.

This document establishes the specific objectives, policies and procedures involved in the design, implementation, and oversight of the Retirement System’s real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

II. INVESTMENT OBJECTIVES

A. Asset Allocation

SDCERS has approved a long-term asset allocation target of eleven percent (11%) for investment in real estate and real estate related investments with an additional 2% approved for investment in Core real estate debt over the medium term.

B. Return Objectives

The Role of Real Estate (Portfolio Objectives)
During the last twenty years, real estate has been an asset class that institutional investors typically include in their investment asset mix. The Board of San Diego City Employees’ Retirement System (“Board”) has determined that the objective of the Retirement System’s real estate portfolio will be to generate income and provide diversification benefits to the total portfolio, while providing competitive returns relative to the benchmark.

Performance Measurement (Long Term Portfolio Benchmarks)
Active management, value creation strategies and the prudent use of third party debt are approved methods for generating the expected excess return. The following benchmarks have been established for the real estate portfolio.

SDCERS Total Real Estate Portfolio. On a blended basis, the net return for the SDCERS Private Portfolio is expected to meet or exceed the Private Benchmark. The Total Real Estate Portfolio Benchmark over a five year rolling period is the net NCREIF Fund Index Open-end Diversified Core Equity Index ("NFI-ODCE") + 50 basis points (“bps”). There are no stated return objectives for each style sector. The Total Real Estate Portfolio Benchmark includes the use of public real
estate benchmarks to account for historical positions where SDCERS had significant exposure to publicly traded real estate from the first quarter of 1997 through the third quarter of 2016. The respective publicly traded real estate benchmarks are included in the Total Real Estate Portfolio benchmark and detailed below.

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>SDCERS Total Real Estate Portfolio (Net)</th>
<th>NFI-ODCE + 50 bps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historically:</strong></td>
<td></td>
<td>Weighted Private and Public Real Estate Benchmarks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Q3 2008 – Q3 2016: NFI-ODCE + 50 bps &amp; EPRA/NAREIT Global Index</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Q1 1997 – Q2 2008: NFI-ODCE + 50 bps &amp; Wilshire REIT</td>
</tr>
</tbody>
</table>

Ancillary Performance Measurement Tools
Though there are no stated return objectives for each style sector, shorter term performance and risk assessment may also be evaluated on a risk adjusted basis using the NCREIF indices in a customized index to reflect the actual composition of the portfolio.

Given the current and anticipated composition of the real estate portfolio, the following methodologies can provide a more detailed and relative measurement of the risk/return profile within segments of the Portfolio. The Core portfolio will be evaluated to the NCREIF Fund Index – Open End Diversified Core Equity (“NFI-ODCE”). The Non-Core (Value Added and Opportunistic) portfolio will be evaluated using a Private Market Equivalent (“PME”) analysis. Due to the Internal Rate of Return (“IRR”) nature of real estate performance measurement, especially within the Non-Core space, a PME analysis examines how the addition of such investments are accretive to the overall portfolio when compared to the NFI-ODCE, a Time Weighted Return (“TWR”) Core real estate benchmark. The NFI-ODCE TWR measures are essentially converted to IRRs which will then be compared to the Non-Core IRRs which are expected to provide a premium over a long term horizon.

III. INVESTMENT POLICIES

A. Portfolio Composition

The Retirement System divides the range of available real estate investment strategies (‘styles’) into three primary categories: (1) Core, (2) Value Added and (3) Opportunistic.
Together, Value Added and Opportunistic real estate strategies represent the Non-Core portfolio. These style groups are defined by their respective risk/return characteristics:

Core Characteristics

- Operating and substantially leased properties (80%);
- Modest use of leverage to enhance returns (0% to 40%); on average 20-30% for the overall core portfolio;
- Property types include, but are not limited to, office, apartment, retail, industrial, hotel;
- Total return is primarily attributable to income (40% to 65%).

  o The Core Portfolio is further defined into three separate categories: Structural Core: Comprises between 56-80% of the Core Portfolio and focuses on the NFI-ODCE Index opportunity set to build a portfolio of expected longer-term hold positions that generate a benchmark-aware composite and reduces tracking error relative to the NFI-ODCE, but also offers the potential for outperformance relative to the Index.

  o Tactical Core Equity: Comprises between 0-24% of the Total Core Portfolio and focuses on allocations to open-end fund strategies that are complementary to the Structural Core portfolio holdings (i.e. to manage property type weightings) or are attractive at the current point in cycle

  o Tactical Core Debt: Comprises between 0-15% of the Total Core Portfolio and focuses on allocations to open-end fund strategies that offer downside risk protection while still providing attractive risk-adjusted returns

Value Added Characteristics

- Value Added investments include:

  1. direct investment in properties requiring lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments, and may also include investments in operating companies collateralized by significant underlying real estate assets;

- No property types are excluded (may include office, apartment, retail, industrial, hotel or niche property types like student housing, senior housing, or public storage, etc.);

- Total return is attributable to a balance between income and appreciation;
• Investments may include both equity and debt vehicles;
• Moderate levels of leverage are generally used to enhance returns (<65%), which increases the risk profile of this category.

Opportunistic Characteristics

• Properties or other real estate-related investments (real estate operating companies, real estate debt, etc.) offering recapitalization, turnaround, development, or market arbitrage opportunities;
• No property types are excluded (may include office, apartment, retail, industrial, hotel or niche property types like student housing, senior housing, debt, public storage, etc.)
• Investments may include both equity and debt vehicles;
• Leverage is generally used to enhance returns (65-85%). Total return is primarily attributable to appreciation. Opportunistic investments have the highest risk level within the real estate investment spectrum.

With respect to the three style groups, the Retirement System has established the following portfolio composition targets for the fully funded real estate portfolio. The tactical ranges identified for each style sector may be out of compliance as the portfolio rebalances or works towards the fully funded target allocations:

<table>
<thead>
<tr>
<th>SDCERS Real Estate Portfolio</th>
<th>Target Allocation</th>
<th>Tactical Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core</strong></td>
<td>70%</td>
<td>60% to 80%*</td>
</tr>
<tr>
<td>Structural Core</td>
<td></td>
<td>56% to 80%**</td>
</tr>
<tr>
<td>Tactical Core</td>
<td></td>
<td>0% to 24%**</td>
</tr>
<tr>
<td>Tactical Debt</td>
<td></td>
<td>0% to 15%**</td>
</tr>
<tr>
<td><strong>Non-Core</strong></td>
<td>30%</td>
<td>20% to 40%*</td>
</tr>
<tr>
<td>Value Added</td>
<td></td>
<td>0% to 100%**</td>
</tr>
<tr>
<td>Opportunistic***</td>
<td></td>
<td>0% to 100%**</td>
</tr>
</tbody>
</table>

*Of SDCERS Total Real Estate Portfolio
**Of SDCERS Core/Non-Core Portfolio.
***Opportunistic should also be limited to 20% of the SDCERS Total Real Estate Portfolio.

B. Risk Management

The primary risks associated with real estate investments are investment manager risk, property market risk, asset and portfolio management risk, loss of principal and liquidity risks.
The Retirement System will mitigate risk in a prudent manner. The following policies have been established to manage the risks involved in investing in real estate.

1. **Defined Roles for Participants**

   The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee, Staff, Real Estate Consultant (“Consultant”) and Investment Managers (“Manager” or “Managers”). The major responsibilities of each participant are outlined in Appendix A.

2. **Permissible Investments**

   The real estate portfolio will consist of primarily private investments.

   **Private Markets.** The private markets real estate portfolio should consist of a majority of equity ownership of privately held institutional real estate investments. A portion of the Retirement System’s private markets real estate assets may also consist of Debt investments (e.g., first mortgages, B ‒note loans, mezzanine financing, preferred equity), not to exceed 30% of the overall real estate portfolio. Compliance with this risk parameter shall be based on a percentage of the private markets real estate portfolio's Net Asset Value at Fair Value as of each quarter end. Real Estate debt investments that are included in the Portfolio are to provide additional layers of diversification and offer a level of downside protection.

   **Public Markets.** Public market real estate may be considered from time to time for inclusion in the Total Real Estate Portfolio; but in no case to exceed 15% of the total allocation. Inclusion will generally be considered if a significant disconnect is present between private and public market pricing. It is anticipated that Public market real estate will be used tactically; and not as a long term structural investment unless total Plan liquidity considerations change.

3. **Investment Structures**

   The Retirement System recognizes that, regardless of investment structure, real estate is an illiquid asset class. The Retirement System recognizes that the Non-Core styles require the assumption of additional risks including diminished investor control and liquidity.

   The Retirement System may utilize the following investment structures:

   a) **Individually Managed Accounts (“IMA”)**
The use of IMA investment structures is no longer permitted. The Retirement System is currently in the process of winding down the existing DWS IMA portfolio. Details regarding process and duties as the IMA unwinds can be found in Section IV-A: Individually Managed Accounts.

a) Commingled Funds

For the Core component, the Retirement System may consider Open-End Commingled Funds (OECFs). OECFs are an infinite life pool of assets generally, but not always, diversified by geography and property type. There are also OECFs that target Value Added properties and provide similar diversification benefits, though closed end structures are often the preferred structure in this category.

For the Non-Core components, the Retirement System will generally purchase assets through the ownership of units or shares of Commingled Funds. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts (private), publicly traded real estate securities, and limited liability corporations.

4. Diversification

The Retirement System will seek to diversify its real estate portfolio by manager; vintage year; property type; geography; investment style; and, within the Non-Core direct segment, by investment strategy and risk level.

It is expected that at various points in time, the portfolio may be more heavily exposed to a single manager, single property type or location by virtue of opportunities available in the market, which are projected to generate the returns targeted by the Retirement System. Exposure to any single manager, property type (i.e. office, retail, apartment, industrial or other) or geography should be subject to the following guidelines. Exposures outside these guidelines should be brought to the attention of, and reviewed by the Investment Committee for exception qualification or risk mitigation. Consultant will provide estimates of when the Retirement System will be in compliance with the below guidelines.

Diversification Guidelines:

Single Manager – The Retirement System should not allocate more than 30% of the total real estate portfolio to a single commingled fund manager.

Property Type - The Retirement System seeks to minimize the risk of its real estate portfolio by allocating its assets across the spectrum of property
types. The real estate portfolio shall be diversified with the majority of investments comprised of the four traditional property types: office, industrial, retail, and multifamily (apartment). Allowable property type exposures will be within the range of +/- 15% of the NFI-ODCE weight in each property type. Property types outside of those represented in the NFI-ODCE Index are allowable up to 15% of the total fund exposure.

Geographic - The Retirement System seeks to minimize the risk of its real estate portfolio by allocating its investments across the geographic spectrum.

- Within the United States, allowable geographic exposures will be within the range of +/- 15% of the NFI-ODCE weight in each geographic region.
- The development of overseas markets and investment opportunities provide investors with alternatives to further diversify their programs. However, international investments will be limited to no more than 25% of the total targeted real estate portfolio and may include Core, Value Added and Opportunistic investments. International real estate investments will be held in commingled fund structures with aggregate exposure to multiple property types, regions and operators in order to reduce specific asset risk.

**Commingled Funds**

Diversification by vintage year, strategy and manager will be used to minimize sponsor, market, or strategy concentration. The Commingled Funds will provide reporting which will allow the Retirement System to monitor its geographic and property type diversification. Any single exposure to an Open-ended core commingled fund should be limited to 30%. The risk associated with reduced investor control and illiquidity in Non-Core strategies will be mitigated by limiting exposure to any single Non-Core manager to 20% and any single Non-Core commingled fund to 10%.

**Leverage**

The use of leverage is a prudent tool for enhancing returns and diversifying equity investments, though it does raise the risk profile of the portfolio. As such, the Retirement System has approved leverage targets and limits in order to enhance returns to the total portfolio and manage risk levels. The availability and cost of leverage will be factors considered in determining its use. For the total real estate
portfolio, the Retirement System has established a leverage maximum of fifty percent (50%), with a target of 40%. Wherever possible, third party debt should be non-recourse and should not be subject to cross collateralization. At no time shall the origination of new leverage cause the portfolio to exceed the established limits on a loan-to-value basis. In the event that either the portfolio level and/or style level leverage constraint is breached due to a contraction in market values, the Staff and Consultant will notify the Board and make a recommendation for action or exception. This also applies to the constraints set forth below.

a) Core

Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. For Core real estate, target portfolio average leverage is 20-30%. The Retirement System has established a forty percent (40%) leverage maximum for the Core real estate portfolio to allow for market dislocation periods.

b) Non-Core

Investments classified as Value Added and Opportunistic generally provide returns with a higher proportion of appreciation, as compared to income, than do Core assets. The Retirement System has determined that leverage on these real estate investments should be determined based on strategy and opportunity. Such investments will be made through commingled funds and will therefore have specified leverage maximums stated in the offering documents. The offering documents should reflect leverage limitations of no more than 65% for Value Added investments and 85% for Opportunistic investments upon expiration of the investment period. Exposures outside these limits should be reviewed and approved by the Investment Committee for exception prior to investment.

6. Valuations

Investments held in Commingled Funds will generally be marked to market quarterly but in no case valued less than annually, using the valuation methodology approved with the selection of the particular investment.

7. Monitoring of Investments

Real estate is an illiquid asset class that requires a long-term investment horizon. The Consultant and Staff recommend that SDCERS monitor each
investment relative to a manager’s performance, organizational stability, key personnel changes and other firm and fund level issues.

As outlined in Section IV.C., the Consultant prepares a Performance Measurement Report quarterly that provides detailed information concerning performance, diversification, and cash flows.

The Consultant will also provide an annual supplemental report at the end of each calendar year. The report will be a risk-based analysis providing relative and absolute assessments of the aforementioned items (e.g., performance compared to Ancillary Indices, organizational stability, key personnel changes and other firm level issues). The analysis will also review compliance with stated strategy and the impact of current market dynamics. The following categories will be used to classify SDCERS’ investments:

Exceptional: These investments are expected to exceed the originally targeted returns or returns expected of investments in the respective style category (Open End Core funds, REITs, etc.) over a market cycle and have exceeded the performance of their peer group

Satisfactory: These investments are expected to achieve returns approximately equal to those originally targeted and/or expected from an investment of a similar style and risk profile and have similar performance to their peer group

Monitor: These investments may not be expected to achieve their originally targeted returns and may risk the loss of capital. These investments may be expected to underperform their peer group. Additionally, funds may have experienced recent organizational issues

The Consultant and Staff will report to the Investment Committee and Board annually the category ranking for each investment. Investments categorized as “Monitor” will receive additional oversight and evaluation. While termination of a separate account manager is permissible at any time within the stated contractual guidelines, the assets will continue to be held by SDCERS until the assets can be liquidated or a replacement manager is hired. Commingled funds typically have language allowing for the removal of the General Partner with the approval of a set percentage of Limited Partners. Commingled fund interests may be sold on the secondary market, typically at a discount to current value, which should only be done when the outlook for a fund is significantly negative.
C. Discretionary Authority

The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk as well as to enhance the Retirement System’s ability to execute transactions.

1. Commingled Funds (“CF”)

CFs, which includes both open and closed-end vehicles, are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in CF investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to those CF vehicles extending greater investor transparency and control. Investments made in CFs are monitored for compliance with vehicle documents through quarterly performance measurement procedures and through documentation provided with capital calls and income distributions.

IV. INVESTMENT PROCEDURES

The Annual Investment Plan (“AIP”) identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The AIP will be presented to the Investment Committee/Board annually for approval. The particular needs for each AIP will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All AIPs will be consistent with the policies detailed in Section III.A-C.

A. Individually Managed Accounts (“IMA”)

The existing IMA is in the process of liquidation. The IMA Manager in its role as a fiduciary will continue to retain control over investment sales timelines and recommendations. The IMA Manager will continue to provide the Retirement System with all necessary and required reporting materials and annual asset management plans related to the Retirement System’s investments until such time as the account is fully liquidated and closed.

B. Commingled Funds

The following procedures will be utilized in the selection, closing and monitoring of specific Commingled Fund (CF) investments.

1. CF Selection Process

   a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate CF investments to Staff.
b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.

c) Staff shall verify the compliance of each recommended fund with the approved Real Estate Investment Policy and Annual Investment Plans.

d) Staff, with Consultant assistance, shall select appropriate CF investments in line with SDCERS Real Estate Investment Policy and Annual Investment Plan for presentation to the Investment Committee/Board annually.

2. CF Control and Monitoring

CF investments will be monitored quarterly by Staff, with Consultant’s assistance, to evaluate investment performance and to ensure compliance with vehicle documents.

C. Performance Measurement Report

On a quarterly basis, the Consultant will prepare a comprehensive reporting and evaluation system addressing each investment and Manager. The evaluation system shall provide such information as may be required by the Retirement System to understand and administer its investments and Managers.

The content of the report shall include attributes for the investment managers and the total portfolio including, but not limited to: income, appreciation, gross and net returns, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and Real Estate Investment Policy and Annual Investment Plan compliance. Each investment will be reviewed for significant events and projected performance and an opinion provided with respect to Manager performance. Budget and Management Plan variances, as reported by IMA Managers, will also be provided upon request.

The Consultant shall prepare and forward to the Retirement System a Performance Measurement Report within ninety (90) days following the last day of each quarter, except for year-end reporting which will be prepared and forwarded to the Retirement System within 180 days. The Year-End Report will also include an annual risk-based analysis that will allow the Consultant and Staff to rank investments according to the Consultant’s category ranking system (as described above in section B.7).
Defined Roles for Participants

Duties of the SDCERS Board

- Establishes the role of the real estate investment program in light of the total portfolio objectives.
- Approves the allocation to real estate and approves any adjustments to the allocation which may be necessary from time to time.
- Approves the Real Estate Investment Policy and the Annual Investment Plan for the real estate program.
- Controls the delegation of discretion regarding matters of manager selection, retention, termination, and management of investments.
- Reviews the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.

Duties of the Investment Committee or the Full Board in the absence of an Investment Committee

- Reviews the Real Estate Investment Policy and the Annual Investment Plan for the real estate program. Presents and recommends the Plans to the Board for approval.
- Reviews the Staff’s selection of Managers, Investment Partners or Ventures, and Commingled Fund Sponsors and reports selections to the Board.
- Reviews Staff and Consultant recommendations for removal of Managers and make recommendations to the Board.
- Reviews the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Annual Investment Plans, and reports to the Board.

Duties of the SDCERS Staff

- Reports to the Investment Committee and Board on matters of policy.
- Staff, with Consultant assistance, is responsible for the recommendation for selection, retention, and termination of managers and real estate investments that are in line with the Real Estate Investment Policy, Annual Investment Plan, and/or Board approved tactical plans that may arise from time to time.
SAN DIEGO CITY EMPLOYEES’ RETIREMENT SYSTEM
REAL ESTATE INVESTMENT POLICY

- Participates with the Consultant in the Annual Real Estate Portfolio Review, including Budget and Management Plans and Manager Investment Plans. Reports completion to the Investment Committee.
- Brings any non-conforming items or significant issues to the attention of the Investment Committee.
- Documents and monitors funding procedures.
- Completes any other activity as directed by the Committee and/or Board.

SDCERS Staff - Individually Managed Account (“IMA”) Duties (For Liquidation of IMA Account):
- Oversees preparation of annual Manager Investment Plans and reports completion to the Investment Committee.
- Reviews the Budget and Management Plans prepared by IMA Managers and reports completion to the Investment Committee.
- Reviews fees for compliance and insures that Incentive Fees are processed appropriately.
- Performs other duties required to execute the IMA Investment Procedures.
- Monitors the closing process, and with legal counsel, reviews and executes any required documentation for re-financings and other capital transactions between IMA Managers and the Retirement System.

SDCERS Staff- Commingled Fund (“CF”) Duties
- With the assistance of the Consultant, conducts screening, review, and selection of CF offerings.
- Oversees the commitment process, and with legal counsel, reviews and executes any required documentation.

Duties of the Consultant
- Reports directly to the Board, Investment Committee and Staff on matters of policy.
- Brings any non-conforming items or significant issues to the attention of the Staff and/or Board.
- Monitors the performance of the real estate portfolio and compliance with approved policy.
- Prepares/Reviews the Real Estate Investment Policy and Annual Investment Plan and, in conjunction with Staff, presents the Plans to the Investment Committee for review.
- Prepares a quarterly Performance Measurement Report (PMR) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans. Presents portfolio PMR to the Investment Committee quarterly.
- Assists Staff in the Annual Real Estate Portfolio Review.
SAN DIEGO CITY EMPLOYEES’ RETIREMENT SYSTEM
REAL ESTATE INVESTMENT POLICY

- Provides Staff and/or Board with topical research and education on investment subjects that are relevant to SDCERS.
- Screen database to identify Manager candidates that exhibit qualities consistent with the qualification criteria and work jointly with Staff to determine portfolio fit.
- Accept and evaluate recommendations made by Staff for portfolio consideration.

**Consultant - Individually Managed Account ("IMA") Duties**
- Assists Staff in overseeing the liquidation of the existing IMA.
- Oversees Manager preparation of annual Manager Investment Plans and, in conjunction with Staff, and reports completion to the Investment Committee.
- Reviews the Budget and Management Plans prepared by IMA Managers and, in conjunction with Staff, reports completion to the Investment Committee.
- Performs other duties required to execute the liquidation of the IMA.

**Consultant - Commingled Fund Duties**
- Conducts, or assists Staff in conducting analysis of Commingled Fund offerings in accordance with the Commingled Fund selection process.
- Provides written analysis of Commingled Funds as requested by Staff.

**Duties of the Manager**
- Provides performance measurement data in form and substance as requested by the Retirement System.

**Individually Managed Account Managers:**
- Disposes of assets on behalf of the Retirement System.
- Adheres to the most recent version of the Reporting Standards established jointly by the National Council of Real Estate Investment Fiduciaries (“NCREIF”) and the Pension Real Estate Association (“PREA”) (“Reporting Standards’”).
- Prepares Budget and Management Plans to be submitted to the Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review.
- Provides Consultant, when requested, Annual Review information.
- Assists the Staff in preparing funding or disposition procedures.

**Commingled Fund Managers:**
- Adheres to reporting standards established by the CFA Institute and ILPA and complies with generally accepted accounting principles (“GAAP”).
• Executes and performs its duties under the terms of the investment vehicle documents.
• Provides timely requests for capital contributions.
• Provides quarterly financial statements and annual reports.
• Conducts no less frequently than annually meetings with Staff and Consultant to discuss important developments regarding portfolio, investment and management issues.

Duties of Legal Counsel

• Outside legal counsel, selected by the Retirement System as a representative for the Plan, will review upon request, all real estate related documents and/or provide advice for special investment situations as needed.