

POLICY NUMBER: 2.10.600**EFFECTIVE DATE:** 12/16/21**TITLE:** Real Estate Investment Program**SUPERSEDES:** 4/19/18**BOARD ADOPTION:** 12/16/21**REVIEWED:**

PURPOSE

This policy sets out the general objectives and guidelines for the Washington State Investment Board's (WSIB) real estate investment program. This policy applies to the existing WSIB real estate portfolio, as well as new investments.

POLICY**Standard of Care**

Under Revised Code of Washington (RCW) 43.33A.030, trusteeship of funds under the authority of the WSIB is vested in the voting members of the Board. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the Board and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives below.

Objectives and Goals

The objectives and goals of the real estate investment program are as follows:

1. The primary goal of the WSIB real estate portfolio is to generate a long-term, high-quality, stable income stream.
2. The secondary goal of the WSIB real estate portfolio is to generate appreciation—in addition to the long-term, high-quality, stable income stream—through value-adding activities or by taking advantage of market movements.
3. The primary structure utilized in the WSIB portfolio—designed to achieve the above-described goals—is, whenever possible, to invest in or with real estate operating companies (REOCs).
4. Additional structures may be utilized when they are likely to enhance the risk-adjusted returns of the portfolio.
5. The WSIB will seek to invest with partners possessing irrefutable integrity and exceptional investment skills and who promote outstanding strategies.
6. Staff will work to build strong relationships with WSIB investment partners. The approach will be positive, proactive, and interactive. The intent is for investment partners to view the WSIB as a *partner*, not simply as a funding source.
7. Staff will strive to employ strong alignments of interest between the WSIB and its real estate partners whenever possible.
8. Staff will actively manage the portfolio to reduce the WSIB's exposure to chronically underperforming (on a risk-adjusted basis) partnerships, strategies, and investment structures where no turnaround can reasonably be expected.

Return Benchmark

The WSIB real estate program will seek to earn an 8 percent annual investment return over a rolling 10-year period. For comparison purposes (including Cost Effectiveness Management

surveys, internal risk system calculations, and implementation value added calculations) the net investment return of the WSIB real estate program will be compared to the gross investment return of the National Council of Real Estate Investment Fiduciaries (NCREIF) National Property Index (the NCREIF index) over all listed time periods, understanding that the NCREIF is not the benchmark for the real estate program. For inclusion in the CTF performance report, that comparative index will be lagged one calendar quarter in line with the valuation lag.

Targeted Investments

The WSIB may invest in any real estate investment opportunity demonstrating acceptable risk-adjusted returns, provided such opportunities are not prohibited by Board policy or by law. The WSIB will seek to establish a prudent and disciplined approach to achieving a well-diversified portfolio of real estate investments targeting appropriate risk-adjusted returns for the asset class. Staff will make best efforts to obtain personally significant co-investment from investment partners in order to improve alignment of interests. Investment structures may include the following:

1. REOCs – Most WSIB REOC investments will be owned and overseen by intermediary investment partners, whose only investment mandate is on behalf of the WSIB. While not a prerequisite, the ownership structure of these investments will generally consist only of WSIB's intermediary and the management team of the REOC as co-owners of the business.
2. Joint Ventures – Investments where the WSIB or its intermediary typically do not own the REOC or management firm overseeing the investment but co-invests with them to pursue a particular investment program.
3. Commingled funds (either closed- or open-ended) – These are investment vehicles sponsored by investment managers that may combine the equity commitments of a group of investors. In these cases, the WSIB may be a relatively smaller percentage of the ownership of the fund.
4. Co-investments (with existing WSIB real estate partners) – Occasionally, WSIB partners undertake investments that, for various reasons such as size or geographic concentration, are too large for the local partner to capitalize alone. In these cases, the WSIB is sometimes offered the opportunity to directly invest additional funds alongside the partner, in addition to the WSIB's investment in the partnership.

Diversification

While diversification is one of the reasons the WSIB invests in real estate, it is not the only driver of the strategy of the WSIB's real estate investment program. Staff will prudently seek to diversify the real estate portfolio cognizant of each partner's strategy and business plan. Investments will not be made solely to achieve product type or geographic diversification, but the diversification benefits of a strategy are considered during underwriting.

Diversification within the real estate program may be represented by, but not limited to, the following:

1. Property type: any property type, e.g., office, industrial, retail, residential, hotels, self-storage, health care properties, parking structures, land, and "other."
2. Capital structure: any equity, debt, or structured financial position, either private or public.
3. Life cycle: stabilized, vacant, redevelopment, or ground-up ("greenfield") development.

4. Geographic: diversified by markets, both domestically and internationally.
5. Partner concentration: attention to the amount that the WSIB commits to any one partnership in which it invests.
6. Property level: attention to the amount of capital invested by partners in any one property.

Materials regarding partnership, geographic, and property type diversification will be included in the real estate annual plan approved by the Board each year.

Valuation Policy

The WSIB maintains a policy of mark-to-market valuation of its real estate holdings. In general, this is completed by the partner, utilizing generally-accepted valuation processes. In cases where the partner may be compensated based on the valuation, third-party professionals are engaged to opine on or complete valuations independent of the management team.

Implementation and Due Diligence

The actual implementation and ongoing oversight of real estate investments by staff is critical to the success of the program and, as a result, a major focus of staff time and energy. To assure careful attention to these matters, staff has implemented the utilization of a desk manual highlighting procedures for the implementation of the program as well as expectations for initial and ongoing due diligence.

Individual investments (defined as equity investment plus any recourse debt) in partnerships in which staff has approval or veto rights over such investments will be limited to no more than 20 percent of the total commitment from which the investment is being made without the written approval of the Chief Investment Officer.

Investment commitments to real estate partnerships must be approved by the Board following the recommendation of the Private Markets Committee, with the following exceptions:

1. The Chief Executive Officer is authorized to execute investment transactions, consistent with policies and directives adopted by the Board, with general partners and entities that have an existing relationship with the Board. Executed transactions will be reported to the Board at its next regularly scheduled meeting.
2. The Chief Executive Officer, subject to the limitations outlined below, shall have authority to invest in the Emerging Markets Fund-of-Funds program (EMFOF) up to the amount authorized by the Board. While individual investments may have recycling provisions, EMFOF will not recycle funds returned to the WSIB from investments.
 - a. No more than \$50 million may be committed to any one investment, and no more than 33.3 percent of the total commitment to EMFOF may be invested outside of emerging markets. Developed market investments will only accompany commitments to investments that also have an emerging markets component.
 - b. No leverage will be applied at the EMFOF level; underlying investment-level leverage will be targeted in accordance with the terms of those investments.
 - c. Proposed recommendations for commitments greater than \$50 million to an individual investment in EMFOF will be brought directly to the Private Markets Committee and Board using the existing investment approval process.
 - d. Decisions to commit to investments as described above require an affirmative recommendation by EMFOF's consultant and approval of the Chief Investment Officer and Chief Executive Officer.

- e. Approval of investments through the above process will be reported to the Board at its next regularly scheduled meeting.
3. The Chief Executive Officer, subject to the limitations outlined below, shall have authority to invest in Global Co-Investment, LLC (GCI), the legal vehicle through which the WSIB will undertake co-investment with its existing real estate partners, up to the amount authorized by the Board.
 - a. No more than 20 percent of the commitment to GCI may be invested in any one transaction, and no more than 33.3 percent of the commitment to GCI may be invested in any one country other than the United States.
 - b. No leverage will be applied at the GCI level; underlying deal-level leverage will be targeted in accordance with the terms of the partnership associated with the transaction.
 - c. Transactions will be consistent with the strategy and return expectations for the associated partnership leading the transaction.
 - d. Individual investment decisions require an affirmative recommendation by GCI's consultant and approval of the Chief Investment Officer and Chief Executive Officer.
 - e. Investments approved through the above process will be reported to the Board at its next regularly scheduled meeting.

ROLES AND RESPONSIBILITIES

Board

1. Monitor the performance of the overall real estate investment program.
2. Approve Board real estate policies.
3. Approve the Real Estate Annual Plan.
4. Approve or delegate pursuant to Board-adopted Delegation of Authority policy.
5. Select qualified real estate consultants.
6. Approve commitments to new real estate investment partnerships and material changes to existing investment partnerships, except as delegated by the Board.

Private Markets Committee

1. Recommend to the Board commitments to new real estate investment partnerships and material changes to existing investment partnerships, except as delegated by the Board.
2. Recommend to the Board changes to Board real estate policies.
3. Provide oversight and review of the real estate investment program in order to report and provide recommendations to the full Board.

Staff

1. Implement Board-adopted real estate policies.
2. Develop real estate portfolio strategies.
3. Develop the Real Estate Annual Plan.
4. Source, underwrite, and present new relationship investment proposals for Private Markets Committee and Board approval.
5. Ensure compliance of all contractual partnership obligations.
6. Represent the Board with respect to all matters related to real estate investments.
7. Perform due diligence on investment transactions for investment opportunities with general partners and entities that have an existing relationship with the Board.
8. In accordance with the limitations outlined in this policy, invest through the Emerging Markets Fund-of-Funds program.

9. In accordance with the limitations outlined in this policy, undertake co-investment opportunities with existing partners through Global Co-Investment, LLC.

Real Estate Consultants

1. Provide the Board, Private Markets Committee, and staff with written opinions regarding new relationship investment proposals sourced and underwritten by staff and make an oral presentation to the Private Markets Committee regarding the same.
2. Provide the Chief Executive Officer and staff with written opinions regarding investment proposals sourced and underwritten by staff for investment opportunities with general partners, entities, and other relationships previously approved by the Board.
3. Conduct specialized research as directed by staff.
4. Provide strategic advice to the Board, Private Markets Committee, and staff as requested regarding the real estate portfolio.

Back Office Service Provider

Provide quarterly portfolio performance measurement reports.

POLICY REVIEW

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

Policy Adopted 5/20/93
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