COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Real Estate Policy

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Revision History

Public Real Estate Policy Established	**March 6, 2020**

I. SCOPE

This Policy applies to investments in the Public Real Estate asset class within the Pennsylvania Public School Employees' Retirement System ("PSERS") Defined Benefit Fund ("The Fund").

II. PURPOSE

This Policy provides the broad strategic investment framework for managing investments in the Public Real Estate asset class.

III. ROLES AND RESPONSIBILITIES

Roles and Responsibilities related to this Policy are identified within PSERS' Investment Policy Statement ("IPS").

IV. INVESTMENT PHILOSOPHY

PSERS seeks to diversify assets by obtaining broad exposure to publicly-traded real estate markets. Public Real Estate provides a strategic role within the Fund, by providing steady returns and cash yields, inflation protection, defensive growth, capital preservation, liquidity and diversification benefits. To maintain diversification within the asset class, the Fund pursues a global investment strategy across geographic regions, property sectors, market capitalization segments, and investment styles.

V. ALLOCATION

The IPS details targets and permissible ranges around targets for investments in the Public Real Estate asset class.

The asset class may include both passively and actively managed strategies, and internally and externally managed strategies. Active management seeks to produce risk-adjusted returns in excess of the benchmark, net of fees. Passive management aims to replicate an index at minimal cost and minimal Tracking Error.

VI. PERMISSIBLE INSTRUMENTS

Public Real Estate assets may be invested in instruments that provide publicly-traded real estate returns. These include, but are not limited to, US and Non-US publicly-traded real estate investment trusts (REITs). Instruments used may be exchange-traded or non-exchange-traded and may be physical securities or derivatives. Additional security type constraints may be applied in investment manager portfolio guidelines.

VII. PERFORMANCE OBJECTIVES

The Public Real Estate asset class is designed to match or outperform the asset class benchmark over the long term, while operating within risk parameters outlined in this Policy.

The performance benchmark for the asset class is shown in the IPS. A manager within the asset class may be assigned a benchmark that is different from the benchmark shown in the IPS if the manager's mandate is to one or more specific regions, sectors, and/or other benchmark component.

VIII. RISK MANAGEMENT

The primary approach to managing risk is to monitor key quantitative and qualitative risk factors relative to risk benchmarks while continuing to pursue active returns. The following sub-sections identify the key areas with risk management parameters.

A. Active Risk

Active Risk or Tracking Error is a statistical measure of the potential variability of a portfolio's return relative to that of the assigned benchmark. The Tracking Error range for the asset class is between 0 and 400 basis points.

B. Liquidity Risk

Investment structure impacts liquidity. Therefore, consideration is given to separate accounts and internally managed accounts over commingled accounts, given their greater control and transparency.

C. Single Security Risk

Imposing a Tracking Error discipline indirectly limits investment in any single company. Use of broad-based benchmarks also encourages security diversification.

D. Country Risk

The asset class is expected to be broadly diversified and may have deviations from the benchmark country allocations. The Tracking Error constraints in conjunction with the use of broad-based benchmarks will have the effect of limiting country concentration.

E. Property Sector Risk

The Public Real Estate asset class is expected to be broadly diversified and may have deviations from the benchmark sector weightings (i.e. office, retail, apartment, industrial or other). The Tracking Error constraints or passive index investment mandates and the use of broad-based benchmarks will have the effect of limiting sector concentration.

F. Currency Risk

Currency risk will be managed in accordance with the Currency Hedging Policy.

G. Manager Risk

The allocation to a single active External Manager mandate is limited to 2.5% of the Total Fund's Economic Exposure, as defined in the Leverage Policy. The CIO shall have discretion on the timing of reducing any External Manager portfolio exceeding the limit. However, the CIO is not permitted to allocate additional exposure to those portfolios currently above the limit.

H. Derivatives Risk

Derivatives usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Derivatives Policy.

I. Counterparty Risk

Counterparty risk will be as prescribed and evaluated in the Derivatives Policy.

J. Leverage Risk

Leverage usage and limitations as well as risk management are specified in manager guidelines and shall comply with the Leverage Policy.

K. Proxies

Proxy votes are considered assets of PSERS. All proxies received shall be voted in accordance with the Proxy Voting Policies.

IX. MONITORING AND REPORTING

See Monitoring and Reporting section of the IPS.