I. BACKGROUND

Open-end funds are commingled funds that continually create new shares on demand, subject to certain limitations. Investors buy and redeem shares at the Net Asset Value at the time of purchase or redemption, subject to any limitations imposed by the management company.

The types of open-end fund investments contemplated are:

- **Core** real estate investing is the financing, acquisition or investment in real estate assets, real estate companies, portfolios of real estate assets, private REITs that are broadly diversified by property type and location, focused primarily on completed, well-leased properties with modest levels of leasing risk, using relatively low leverage, and investing mainly in institutional property types and qualities allowing for relative ease of resale.

- **Value-added** real estate investing typically focuses on both income growth and appreciation potential, where opportunities created by dislocations and inefficiencies between and within segments of the real estate capital markets are capitalized upon to enhance returns. Investments can include high-yield equity and debt investments and undervalued or impaired properties in need of repositioning, redevelopment or leasing. Modest leverage is generally applied in value-added portfolios to facilitate the execution of a variety of value creation strategies.

II. OBJECTIVES

A. **Portfolio Investment Performance Objective**

The performance objective of core real estate fund investments is a long-term total real return approximating 4% to 8% and 9% to 13% for value-added.

B. **Risk Management**
1. Standard Deviation - The standard deviation of returns, one measure of the risk or volatility of real estate fund investments, is approximately 6% for core and 15% for value-added.

2. Liquidity - Open-end funds do not have a defined term. They are designed to be ongoing. Open-end funds do have liquidity mechanisms for investors; however, liquidity is not guaranteed. The majority of funds allow for investors to redeem their position on a quarterly basis coinciding with updated valuations. The majority of funds also allow investors the choice of withdrawing income or having it reinvested.

C. Open-end Real Estate Fund Portfolio Diversification

1. Asset Types - Open-end real estate funds retain discretion as to the diversification within real estate asset types. Core funds tend to be diversified by property type and geographic region. Value-added funds can be diversified or focus on one property type or geographic region.

2. Size of Investments - Investments will be diversified among a range of commingled funds of varying sizes. The minimum commitment to any single open-end real estate fund is $50 million.

3. Geography - PSERS will normally consider geographical diversification in the selection of open-end real estate funds, but may also consider funds with a specific geographic focus. The individual open-end real estate funds are typically limited to U.S. investments.

4. Diversification - The maximum investment by PSERS will be limited to no more than 25% of the total amount of any commingled fund.

D. Total Portfolio Diversification

Correlation with the returns of other asset classes is low; therefore, the inclusion of open-end real estate funds in the portfolio should provide an added means of diversification to the Fund.

E. Prudent Person Standard

The selection of opportunistic and value-added real estate fund investments will be guided by Section 8521 (h) of the Public School Employees' Retirement Code ("Code"), 24 Pa.C.S.
III. CONSTRAINTS AND GUIDELINES

A. Minimum Requirements

1. Core and value-added real estate assets under management by the sponsor should be or have been substantial.

2. The sponsor must have displayed a track record of investments transacted under a similar investment strategy to the one being considered.

3. The sponsor must have demonstrated investor acceptance by retention of other institutional clients.

4. The returns realized or projected by the sponsor for previous investments must be or have been at a level consistent with a core or value-added real estate investment strategy for the period of time referenced.

5. PSERS requires a seat on any Advisory/Valuation Committee when available.

B. Maximum Limitation

1. PSERS' Real Estate Asset Allocation Policy limits the amount of the Fund's assets allocated to open-end fund real estate investments.

2. Individual open-end real estate funds should not be permitted to have an average portfolio level of leverage that exceeds 50% for the core funds and 65% for the value-added funds.

3. PSERS, as an investor, is limited to no more than 25% of the total amount of any commingled fund.

C. Evaluation Criteria

1. The primary emphasis will be on the quality, strategy and experience of the sponsoring entity of the investment.

2. At a minimum, additional factors include:
   a) Size of the fund
   b) Maximum leverage, individually and the average for the portfolio
   c) Relationship with previous/current investors
d) Continuity and depth of the organization  
e) Property type and geographic diversification  
f) Degree of discretion given the fund  
g) Percent of time allocated to the fund by key personnel  
h) Past financial performance - risk and return  
i) Deal flow  

3. A due diligence review by the staff and/or the Real Estate Consultant comprising the following, when applicable:

a) Review of whether the proposed investment falls within the Consultant's Action Plan, constraints and guidelines, and if it complies with applicable investment policies.  
b) Discussions with key personnel of the proposed investment.  
c) Review and analysis of all pertinent offering documents including: offering memoranda, subscription agreements, private placement memoranda and operative investment agreements.  
d) Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the sponsor.  
e) Review and analysis of investment:  
   - Concept including entry and exit strategies  
   - Terms including fees, and structure  
f) Review of news articles regarding the sponsor, prior investments, and concepts.  
g) Discussions with other investors, peers and industry associates (reference checks).  
h) Review and analysis of performance for prior and current investments.  
i) Consideration of relative size of the proposed investment and other investors' amounts.  
j) Investigation of special terms and side letter agreements with past or present investors.  

4. A preliminary review by the staff and/or the Real Estate Consultant comprising, when appropriate, the following:

a) Identification of key issues stemming from certain criteria or other concerns relating to particular proposed investments, including non-standard opportunities, prior to a full due diligence review.  
b) Highlighting such issues and concerns, along with suggestions as to how they may be addressed, resolved or mitigated (through negotiation or otherwise).  

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c) Where a further review of such an opportunity is authorized and upon completion of a focused due diligence review, identification of the attractive attributes as well as the concerns relating to the proposed opportunity and possible mitigation of such concerns.

d) For new sponsor relationships, PSERS’ staff will perform an on-site visit of the sponsor’s office as part of the due diligence process.

At each stage of such a preliminary review, the Chief Investment Officer will be furnished information regarding relevant issues early in the review process to permit flexibility in considering and deciding on such proposed opportunities.

D. Legal Constraints

1. UBTI (Unrelated Business Taxable Income) - Funds should be structured to minimize UBTI.

2. Plan Assets - Many fund documents contain language that addresses ERISA's rules concerning "Plan Assets." While these regulations do not apply to PSERS, it may be affected by such ERISA-related language.

E. Guidelines

1. Method of Participation - PSERS will generally participate as a shareholder in a private REIT, LLC or insurance company separate account. Although this policy is initially designed for participation through a commingled fund structure, this policy does not preclude direct investments or partnership investments should the Board so elect.

2. Types of Allowable Investments - Open-end real estate fund investments include, but are not limited to:
   - U.S. real estate operating companies
   - U.S. real estate assets
   - Private and public REITs

3. Fees - Fees should be negotiated where prudent and without creating offsetting adverse effects.

IV. STRATEGY

A. Allocation - PSERS should endeavor to invest on a consistent basis. Annual commitments should not be budgeted, but rather meet and be
responsive to the opportunities and market dynamics of the real estate industry.

B. Size of Partnerships - All types of open-end real estate funds should be considered including smaller funds of at least $200 million, though diversity in size is recommended overall.

V. IMPLEMENTATION

A. PSERS Staff Requirements - Appropriate staff will be assigned as the workload is determined. The timing and types of investments shall be determined by the availability of staff.

B. Legal Counsel - PSERS’ internal legal counsel will review fund documents. Due to the complex structure of these open-end real estate vehicles, expert outside legal counsel may be retained.

C. Investment Process - If the investment meets the above criteria for investment recommendation, it will be scheduled as an agenda item at the next possible Finance Committee meeting for its recommendation for Board approval at the next Board meeting. Documents relating to an investment approved under this process will be executed in accordance with PSERS' standard policy; i.e., by any two of the individuals holding the positions of Executive Director, Chief Investment Officer, Deputy Executive Director or Assistant Executive Director.

D. Action Plan - On or before January 31 of each year, the Real Estate Consultant will provide the Chief Investment Officer with an Action Plan for the following calendar year. The purpose of the Action Plan is to provide PSERS with the Real Estate Consultant's outlook for the general real estate markets as well as an overview of the Real Estate Consultant's specific investment objectives and goals for PSERS for the upcoming year. The Action Plan should address the following:

1. An overview of the Real Estate Consultant's outlook for the overall real estate market for the following calendar year and for two additional years.

2. The Real Estate Consultant's recommended investment strategy for PSERS for the following calendar year. The investment strategy should specify open-end real estate fund strategies and other relevant investment characteristics.

E. Procedures - Any procedures in addition to those adopted by the Board will be developed by staff and the Real Estate Consultant according to the manner of involvement that the Board directs.
VI. MONITORING

A. Performance - Performance will be assessed relative to:

1. Objectives established by the fund.
2. Risks undertaken.
3. The general real estate market.
4. Performance will be measured by time-weighted returns relative to NCREIF and other open-end funds.

B. Adherence to Strategy - The actual strategy employed by the fund will be judged relative to the stated objectives and strategies.

C. Frequency and Types of Monitoring Reports - Reports required from open-end real estate investments will be quarterly.

D. Board Reports - Annual reports on the open-end fund investments will be provided to the Board.

VII. REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT

In the application and implementation of the Investment Objectives and Guidelines, the Chief Investment Office has the authority to interpret the guidelines to meet individual portfolio needs and to determine the appropriateness of the investment. On material policy issues and amounts, the Chief Investment Officer and/or the Executive Director, in conjunction with the Chair of the Finance Committee and/or the Chair of the Board, will evaluate and determine the appropriateness of any investment. All interpretations of material policy issues and dollar amounts will be reported to the Finance Committee at the next regularly scheduled meeting.

The Board will review the policy statement from time to time to determine if modifications are necessary or desirable.

VIII. AMENDMENTS AND ACCEPTANCE

It is the Board’s intention that the investment staff, with the support of the Consultant, reviews manager compliance with this document on a quarterly basis. Should these guidelines change in any way, the foregoing will be modified.

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If at any time the Managing Director or the Consultants believe that the objectives of this program cannot be met, or that these guidelines constrict performance, the Chief Investment Officer should be notified in writing. The Managing Director and Consultants are encouraged to suggest changes to these guidelines at any time. By signature, the Managing Director agrees to these Investment Objectives and Guidelines and shall perform in accordance herewith.

_____________________________  
Company Name

Pennsylvania Public School Employees’ Retirement System

_____________________________  
Managing Director Signature

Chief Investment Officer

_____________________________  
Managing Director Name

_____________________________  
Date Accepted

_____________________________  
Date Proposed

Approved March 13, 2009