CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

REAL ESTATE INVESTMENT POLICY

INVESTMENT BRANCH

NOVEMBER 2015

J. Real Estate Investment Policy

EXECUTIVE SUMMARY

In accordance with the CalSTRS Investment Policy and Management Plan, IPMP, the California State Teachers' Retirement System Board, has established an allocation for investment in real estate, an illiquid equity-related asset. The primary objective for investment real estate is to improve diversification of the overall investment portfolio. The Real Estate Investment portfolio will also have secondary objectives to achieve a rate of return that corresponds to the amount of risk outlined in the Real Estate portfolio risk/return composite approved by the Investment Committee, to provide a stable cash flow to the investment portfolio, and to provide a hedge against inflation.

The CalSTRS' Real Estate investment assets are to be invested, administered, and managed in a prudent manner for the sole benefit of its participants and beneficiaries, in accordance with the California Constitution, the Teachers' Retirement Law, and other applicable statutes. No investment instrument or activity prohibited by the IPMP shall be authorized for the Real Estate portfolio.

The design of the Real Estate investment policy ensures that investors, managers, consultants, or other participants selected by CalSTRS take prudent and careful action while managing the Real Estate portfolio. The purchase, management, and sale of all types of real estate investments is performed by external professionals (managers) who are monitored and evaluated by internal investment officers, an external real estate consultant, and/or independent fiduciaries. CalSTRS believes that environmental, social, and governance, ESG, issues can affect the performance of our investments. As a result, the CalSTRS 21 Risk Factors have been developed as a tool that both internal and external investment managers are expected to use to assess the impact of ESG risk when making an investment on behalf of CalSTRS. The internal investment officers and independent fiduciaries operate under the direction of the chief investment officer, CIO. The external real estate consultant reports directly to the Board.

As with all other plan assets, these policies cannot be altered without explicit direction from the Board.

POLICY

INVESTMENT STRATEGY

The strategic objectives of the Real Estate portfolio are as follows:

A. To provide improved diversification to the overall CalSTRS Investment Portfolio.

B. To generate an enhanced yield to the actuarial earnings rate assumption.

C. To provide stable cash flows; and

D. To provide a hedge against inflation.

CALSTRS REAL ESTATE PERFORMANCE OBJECTIVE

CalSTRS Real Estate portfolio includes core, value add, and opportunistic risk strategies which, in aggregate, are structured to achieve a long-term total return in excess of the Real Estate Policy Benchmark.

POLICY BENCHMARK

The benchmark for Real Estate will be the NCREIF ODCE value weighted index net of fees.

STRATEGIC ASSET ALLOCATION

The asset allocation target and range for the Real Estate portfolio shall comply with the guidelines set forth in the IPMP. Adjustments from actual to target allocation shall be implemented within a time frame consistent with the provisions set forth in the IPMP.

PORTFOLIO SUB-CLASSIFICATIONS

A. Allocation

Over the long-term, the Real Estate portfolio shall be divided into four segments: 1) Core 2) Value Add 3) Opportunistic, and 4) Public.

Allocations to the Core, Value Add, Opportunistic and Public Portfolio segments shall be made to maximize the total return to CalSTRS while mitigating risk. As a moderate risk investor, CalSTRS' long-term allocation ranges and long-term target allocations to these portfolios shall be:

Portfolio Segment	Policy Portfolio	Allocation Ranges	Permitted Deviation
Core	60%	50% - 75%	± 5%
Value Add	20%	10% - 30%	± 5%
Opportunistic	20%	10% - 30%	± 5%
Public	0%	0% - 15%	± 5%

It is recognized that the real estate asset class is cyclical. The table above depicts the targets and ranges for the various portfolio segments over the long-term. However, in response to changing market conditions, as well as other relevant factors, the actual allocation may vary within the recommended ranges.

As investments in the value add and opportunistic portfolio mature, their characteristics may become core-like. CalSTRS staff and the consultant shall monitor the portfolio for instances when changes of the classification of certain investments are warranted. Reclassifications must be mutually agreed upon by staff and consultant and reported to the Investment Committee.

B. Core Portfolio

1. Characteristics

Core investments include existing, substantially leased, income-producing properties (typically stabilized at the time of acquisition) located principally in economically diversified metropolitan areas; asset types typically include office, retail, industrial, multi-family residential and hotels as well as alternative asset types included in the benchmark. While Core assets can be located in developed markets around the globe, investors' core properties typically have a home country bias.

As investments in the value add and opportunistic portfolio mature, their characteristics may become core-like. CalSTRS staff and the consultant shall monitor the portfolio for instances when changes of the classification of certain investments are warranted. Reclassifications must be mutually agreed upon by staff and consultant and reported to the Investment Committee.

2. Target Return

Over the long term, core investments are expected to produce a return net of fees of 7 percent. The ODCE benchmark will fluctuate in shorter time periods due to changing market conditions and the effect on appraisals over short time frames. Staff underwrites core investments that are expected to be held for 7 to 15 years to achieve unleveraged returns in this range but acknowledges the ODCE benchmark will fluctuate widely over 1 to 3 year periods.

3. Diversification

To manage risk, the core real estate portfolio will diversify its exposure by property type and location. It is expected that at various points in time, the portfolio may be more heavily exposed to a single property type or location by virtue of opportunities in the market that are expected to generate excess return above long term expectations. The diversification of the real estate portfolio will be compared to the composition of its peer benchmark the ODCE Index. Single property type or location variances in excess of +/- 5 percent will be reported to the Investment Committee with recommendations for action/inaction.

While there are no specific guidelines for diversification based on exposure to geographies having similar economic profiles and/or industry concentrations, the Real Estate portfolio shall be prudently diversified and monitored in this aspect.

4. Use of Leverage

The core portfolio is intended to generate income and lower total real estate portfolio volatility. However, limited use of leverage is permissible within the core portfolio to enhance investment returns and to mirror the ODCE Index. Core portfolio leverage will have a maximum of 40 percent of the aggregate gross fair market value of the funded investments in the core portfolio. Individual strategies and/or relationships may have leverage up to 50 percent, provided the aggregate does not exceed the 40 percent limit for the core portfolio.

C. Value Add Portfolio

1. Characteristics

Investments within the value add portfolio will generally have expected returns and levels of risk greater than those of a typical core investment. The investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate business and leasing risks associated with the investment strategy. Risks have historically included leasing, repositioning, redevelopment, and/or certain business operating expertise. The strategy includes the curing of identified deficiencies through intensive management, increased cash flow, and disposition of stabilized assets to capture value creation.

2. Target Return

The value add portfolio is expected to enhance performance of the Real Estate portfolio. It may offer limited current income, and returns are often largely dependent on future appreciation. Value add strategies have a long-term expected return of 7.5 percent after fees.

3. Diversification

The value add portfolio shall not have property type or geographic location allocation range limitations but will be monitored relative to its peer index the NCREIF-Townsend Value Add Index.

4. Use of Leverage

Leverage within the value add portfolio shall have a long-term target up to 65 percent, based on the aggregate gross fair market value of the funded investments in the value add portfolio. Individual strategies and/or relationships may have leverage up to 65 percent.

D. Opportunistic Portfolio

1. Characteristics

Investments within the opportunistic portfolio seek to capitalize on tactical opportunities, mispricing, or distress in the real estate and capital markets and are willing to assume additional risk. Investments include direct real estate assets in office, retail, industrial, residential, or specialized property types, as well as forms of investment such as land plays, operating companies, distressed debt/properties, and other specialized investments (e.g. brownfields). Opportunistic investments utilize development, extensive redevelopment, non-traditional investment vehicles (e.g. non-performing loans), entity level investments, or recapitalization of assets or companies. Investment strategies may also include international/emerging markets.

2. Target Return

Although the expected returns (and risks) vary widely among these investments, generally speaking the expected returns are 10 percent after fees.

3. Diversification

The opportunistic portfolio shall not have property type or geographic location allocation range limitations but will be monitored relative to its peer group the NCREIF-Townsend Opportunistic Index.

4. Use of Leverage

Individual strategies and/or relationships within the opportunistic segment use leverage to varying degrees. Restrictions on recourse, credit facilities, cross collateralization and debt service ratios will be vetted and approved during the due diligence process. In all cases, risks associated with volatility and loss of equity will be mitigated sufficiently to allow for a reasonable risk adjusted return.

E. Public Portfolio

1. Characteristics

The public portfolio may be comprised of investments in both U.S. and non-U.S. publicly traded REITs and REOCs. It is expected to enhance the performance and liquidity of the total Real Estate portfolio, as well as contributing to the portfolio's diversification. Publicly-traded REITs and REOCs are typically more volatile than their private market counterparts; however, liquidity is generally greater. Publicly-traded REITs and REOCs are expected to utilize leverage commensurate with the market.

Public REITs and REOCs can provide the total Real Estate portfolio with greater access to property markets and assets, as well as captive and focused management in a structure that included corporate governance. Such investments may allow the Real Estate portfolio an opportunity to share in the operator's fee income and franchise value.

2. Target Return

Public investments are expected to meet or exceed the performance of specific mandate secured by each manager and detailed in the manager contract.

INVESTMENT POLICY GUIDELINES

A. Portfolio Leverage

CalSTRS shall employ leverage in the Real Estate portfolio in order to enhance investment returns. Such leverage may exist at the portfolio, manager, or investment level. Since leverage also increases the volatility of the Real Estate portfolio, careful consideration will be given to the impact of leverage on investment and portfolio risk. In addition, restrictions on recourse, credit facilities, cross collateralization and debt service ratios will be vetted and approved during the due diligence process. In all cases, risks associated with volatility and loss of equity will be mitigated sufficiently to allow for a reasonable risk adjusted return. Risk management will include a requirement that when debt is placed on wholly owned or joint venture assets, the use of leverage will require a return premium of no less than three basis points for each one percent of leverage used (eg. 50 percent leverage = 150 basis points additional premium over the unlevered return). Whenever possible, manager hurdles will be unlevered in order to compensate managers for returns generated through the operation of real estate rather than through financial structuring.

Leverage within each segment of the portfolio will be regularly monitored and reported to the Board for compliance.

B. Alignment of Interests

Preferred investments for CalSTRS will be those that exhibit the highest degree of management accountability and the greatest alignment of interests. As a matter of policy, CalSTRS will seek, but is not limited to, dedicated management teams that co-invest or have substantial ownership interest in the investment entity, controlling positions with provisions for liquidity, and disclosure, as well as the mitigation of conflicts of interest.

C. Liquidity

Real estate is an illiquid asset class and can provide no guarantees of liquidity. However, whenever possible investments shall be structured to include clearly defined redemption or termination provisions that offer investors some control. In addition, whenever possible, investments shall include features that enhance liquidity to investors such as (i) shorter investment time horizons and holding periods; (ii) provisions for interim liquidation of investments; (iii) multiple exit strategies; (iv) alignment of interests between management and investors, as well as management accountability; and (v) a readily tradable market for investor holdings.

D. Investment Prohibitions

1. CalSTRS will not invest in strategies that are intended to capitalize on the displacement of low income households; however, this section is not intended to prohibit investment in strategies that create new, or redevelop existing rent-regulated housing units, including, without limitation, strategies that include demolition of existing rent-regulated housing units, so long as:

    a. Any rent-regulated housing units that are demolished as part of such investment or project are replaced with new rent-regulated housing units; and

    b. Any persons lawfully residing in rent-regulated housing who are displaced as a result of such strategies receive relocation benefits in accordance with relocation requirements as mandated by the local housing authority or by state or federal relocation laws, if applicable.

2. This section shall not prohibit investment in existing low income housing tax credit or multifamily housing revenue bond financed assets with regulatory agreements that limit, among other things, allowable rent increases. However, such regulatory agreements do expire. Without replacement financing from regulatory authorities, this may cause certain assets to revert to market rate.

3. This prohibition shall apply to all private Real Estate investment strategies in which CalSTRS has a controlling interest.

4. Rent increases permitted by federal, state, or local ordinance for rent-regulated properties shall be deemed appropriate and consistent with this policy.

5. This Section shall not prohibit lawful eviction for cause such as illegal activity, tenant safety issues, disqualification under regulatory agreements or non-payment of rent.

6. If an investment manager makes investments with CalSTRS capital that are inconsistent with the stated prohibitions, CalSTRS will take appropriate action to enforce their policy up to and including not making any new investments with that manager.

7. Staff will report to the Investment Committee if significant unforeseen issues arise as a result of this investment prohibition.

E. Environmental Liability

Subject to the following provisions and restrictions, CalSTRS will prudently accept environmental exposure and potential liability in a manner consistent with overall industry standards applicable to institutional investors acting in a like manner under similar circumstances.

CalSTRS will not make investments in real estate with environmental conditions in the core portfolio unless: (i) the dollar value of the environmental risk can be quantified (ii) the cost of remediation can be quantified (iii) the environmental liability can be mitigated with measures already in place or to be implemented by the investment manager to effectively mitigate the risks to CalSTRS and result in an appropriate risk-adjusted rate of return (iv) any such potential environmental liability is limited to the particular real estate investment and (v) the real estate investment does not expose the entire CalSTRS portfolio to any potential liability. All environmental risks will be appropriately mitigated by factors that may include, but are not limited to, specific remediation planning, environmental insurance, indemnifications by creditworthy sellers, agreements with regulatory authorities, and the legal structure of ownership.

For investments held in separate accounts, the appropriate level of environmental risks to be assumed and the appropriate mitigation approaches shall be detailed in the CalSTRS Real Estate Guidelines. Environmental guidelines for investments in Commingled Funds and Joint Ventures will be addressed in the legal documents that control the activities and responsibilities of the Managing or General Partner of that investment opportunity.

F. Eligible Ownership Vehicles

For CalSTRS to meet its objectives in the real estate asset class, staff will select appropriate vehicles with structural aspects that provide for maximum liquidity and control while mitigating risk, and the highest level of accountability on the part of management and alignment of interests with CalSTRS. For this reason, the following ownership vehicles are allowable:

Separate Accounts

CalSTRS may enter into discretionary separate account relationships with real estate investment managers, subject to pre-approved investment guidelines, whenever possible, and/or clearly defined investment strategies. This delineation is known in the real estate industry as “discretion in a box”, which means the manager shall have the authority and discretion to execute a particular investment strategy only so long as each and every investment falls within the pre-approved guidelines for the portfolio. The director of real estate and a real estate portfolio manager must approve any deviations from the approved guidelines. For this reason, investments shall be structured to facilitate alignment of interests between management and CalSTRS, management accountability, investment monitoring, and liquidity.

In these separate accounts, CalSTRS shall have sole ownership of the asset(s) or may co-own the asset(s) with other institutional investors. CalSTRS will reserve the right to remove the real estate manager of any separate account, with or without cause, in a timely manner.

Joint Ventures

CalSTRS may invest with operating partners to execute defined investment strategies in which the operating partners have unique expertise. In these joint ventures, the operating partner shall also co-invest capital in the venture in an amount that is material to the partner. CalSTRS staff shall strive to incorporate similar governance provisions into the joint venture agreements as are obtained in CalSTRS’ separate account relationships.

Commingled Funds

To enable greater diversification and to reduce risk, investments in the Real Estate portfolio shall be made in participation with other institutional investors. Real estate investments may be made in commingled vehicles including, but not limited to (i) closed-ended funds such as group trusts, private REITs, limited liability companies, and limited partnerships; and (ii) open-ended funds (primarily bank and insurance company commingled accounts).

Investments in closed-ended commingled vehicles shall have clearly articulated and viable exit strategies through which assets can be disposed of or liquidated upon termination of the investment and on an interim basis. The term of these investments shall also be limited to no more than seven to ten years and shall provide for a winding-up and orderly liquidation within this time period. Investment agreements for closed-ended commingled vehicles shall include flexible provisions for removal of management by investors and interim liquidation of investor holdings.

Open-ended commingled fund investments shall include flexible redemption provisions, though such provisions often do not provide investors with liquidity at times when it is most needed; therefore, it is critically important that such investments be made with the most proactive of managers. In addition, to the extent possible, investments in closed and open-ended commingled fund vehicles shall include an opportunity for investors to participate on advisory boards.

To ensure adequate diversification and to reduce risk, no more than ten percent of CalSTRS' Real Estate portfolio shall be allocated to a single commingled fund in which CalSTRS does not exercise control over its capital. For the purpose of this document, "control over its capital" refers to the ability to time the exit from an investment vehicle or the termination of the manager of such vehicle.

Public REITs and REOCs

Investments in publicly-traded vehicles can offer the total Real Estate portfolio greater liquidity over private market opportunities; however, they tend to be more correlated with equities than private real estate investments. Therefore, the maximum equity investment to the public portfolio within the Real Estate portfolio shall be 15 percent.

G. Eligible Investment Types

Real estate investments may include direct or indirect equity investment in real estate (including all rights and interests incident thereto) such as (i) interests in corporations, partnerships, and other entities whose primary business is the acquisition, development, and operation of real property including publicly traded, or private real estate investment trusts ("REITs") and real estate operating companies ("REOCs"); (ii) participating or convertible participating mortgages or other debt instruments convertible to equity interest in real property based on investment terms (and not merely by foreclosure upon default); (iii) options to purchase real estate, leaseholds, and sale-leasebacks; and (iv) all other real estate related securities such as lower or un-rated tranches of pre-existing securitized or structured debt instruments such as mezzanine debt, which have equity features.

H. Discretionary Authority

The approval and rejection decision for real estate investments is delegated to staff with the following stipulations:

1. Staff has discretion to approve an initial commitment of CalSTRS equity to a new firm in a proportion up to 2 percent of the Net Asset Value (NAV) of the total Real Estate portfolio. Staff then has discretion to approve additional follow-on commitments to the same firm for up to 4 percent of the NAV of the total Real Estate portfolio.

   Thereafter, incremental allocations beyond the 6 percent, which may represent the firm's NAV plus outstanding commitment, may be approved by staff, subject to review by the Investment Committee if the Investment Committee so requests. Staff will regularly inform the Investment Committee of firms when such decisions are made.

2. For firms that the Investment Committee has selected through a request for proposal process or approved as described above, Staff has discretion to approve up to two transactions in any rolling 12-month period, which may include co-invest opportunities for up to 10 percent of the NAV of the total Real Estate portfolio. Individual transactions include all major capital decisions including but not limited to

acquisition, renovations and dispositions. Staff will regularly inform the Investment Committee when such decisions are made.

All real estate investments are subject to appropriate due diligence as defined in the CalSTRS Real Estate Guidelines. Percentage limitations specified above are based on commitments of equity made by CalSTRS.

I. Responsible Contractor Policy

The California State Teachers' Retirement System has a deep interest in the condition of workers employed by the CalSTRS and its advisors. CalSTRS, through the CalSTRS Responsible Contractor Policy supports and encourages fair wages and fair benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive returns on the CalSTRS real estate investments. The CalSTRS endorses small business development, market competition, and control of operating costs. The CalSTRS believes that an adequately compensated and trained worker delivers a higher-quality product and service. CalSTRS requires its real estate managers to abide by the Responsible Contractor policy on all applicable investments.

J. Investment Manager Diversification

To reduce risk, the real estate portfolio shall be diversified by investment manager. No single investment manager shall manage more than 30 percent of the net asset value of targeted real estate portfolio at the time of allocation.

K. Non-U.S. Investments

The allocation range for non-U.S. investments shall be 0 percent to 30 percent of the NAV of the total Real Estate portfolio. Investments outside the U.S. will be classified as core, value add, or opportunistic taking into account any additional country-specific risks.

VALUATION AND REPORTING

CalSTRS' investments in real estate shall be valued at least annually on a fair market value basis. In certain circumstances, when it is inappropriate or not possible to value investments at market, an alternate method of valuation shall be used.

On a quarterly basis, performance data shall be collected by the designated contracting entity. The entity shall calculate returns as requested by the staff and consultant. Based upon the calculated returns, the consultant shall prepare a report which evaluates CalSTRS' portfolio diversification and investment performance. The consultant report shall include comparisons to benchmarks, indices and peer groups as appropriate (see Glossary – "Indices and Peer Groups") The consultant report shall be presented semi-annually to the Investment Committee.

CalSTRS staff shall endeavor to ensure that investment valuations and returns reported to the Investment Committee are calculated in accordance with guidelines established by NCREIF, the CFA Institute (formerly AIMR), the Pension Real Estate Association ("PREA"), and the National Association of Real Estate Investment Managers ("NAREIM"); as included in the most recent editions of the Real Estate Information Standards and the NCREIF Market Value Accounting Policy Manual.

To the extent that investment managers do not report CalSTRS investments in a manner consistent with these guidelines, CalSTRS staff shall work with these investment managers to obtain the most appropriate information. CalSTRS' investment managers shall be notified at the inception of their contracts that their failure or inability to provide accurate and timely financial reporting may constitute grounds for termination.

GUIDELINES FOR SELECTION, MONITORING, EVALUATION, AND TERMINATION OF MANAGERS

The selection of real estate investments shall be guided by the "prudent expert" standard, embracing the prudent decision-making process typically employed by experts in the areas of real estate acquisition, development, operation, disposition, and portfolio management.

Selection of Investment Managers

CalSTRS seeks to retain investment managers that possess superior capabilities in the selection and management of real estate assets. With this objective in mind, prospective investment managers shall be evaluated for selection based on criteria including, but not limited to: (i) the suitability of the organization's investment, relative to CalSTRS' investment guidelines and objectives; (ii) the quality, stability, integrity, and experience of the management team; (iii) the ability and willingness of the organization to dedicate sufficient resources and personnel to optimally manage CalSTRS' investments; (iv) the reasonableness of investment terms and conditions, including provisions to align interests of management and CalSTRS; (v) the appropriateness of management controls and reporting systems; and (vi) commitment to responsible contracting policies, workplace diversity, and community involvement.

Monitoring, Evaluation, and Termination of Investment Management Organizations

CalSTRS' investment managers shall be monitored and evaluated continuously, based on their performance relative to stated objectives and benchmarks, and relative to the performance of firms managing similar investments in the marketplace. In addition, investment managers shall be monitored for compliance with investment guidelines, policies, and procedures of the Real Estate portfolio, and other contractual provisions. Manager performance should be evaluated over meaningful time intervals to ensure that performance is indicative of management's efforts. The performance of the core portfolio should be evaluated on a three-year trailing performance basis, while the performance of the value add and opportunistic portfolios should be evaluated on a three- to five-year trailing performance basis.

Consideration shall also be given to the financial strength of the investment manager, the level of client service given to CalSTRS, as well as changes within the managing organization such as the continuity of personnel assigned to CalSTRS' investments, among other items. CalSTRS shall seek to liquidate investments with management organizations found to be deficient relative to CalSTRS' investment standards.

ANNUAL BUSINESS PLAN

The Real Estate portfolio will be managed according to an annual business plan whose main business components will encompass an analysis of the investment environment, a review of the investment strategy, a review of the diversification ranges, a review of projected versus actual returns, and a resource allocation budget.

CASH TRANSFER LIMITATIONS

The following non-cumulative limits apply with respect to Real Estate Investment staff or executive officers signing for cash disbursements for Real Estate investment portfolio transactions:

Investment Officer I	$ 15 million
Investment Officer II	$ 50 million
Investment Officer III	$ 70 million
Portfolio Manager	$ 100 million
Director	$ 400 million
Deputy Chief Investment Officer	$ 1.0 billion
Chief Investment Officer	$ 1.5 billion
Chief Executive Officer	$ 1.5 billion

POLICY MONITORING AND MODIFICATION

The Consultant shall monitor the investment process for compliance with this policy and report to the CalSTRS Investment Committee as requested.

The Real Estate policy shall be reviewed periodically to determine if modifications are necessary or desirable. Any changes shall be subject to the approval of the Investment Committee.

Revised February 2, 2006
Revised to adjust allocation ranges, definitions of core and tactical portfolios, discretion limits to staff, and to introduce public-traded investments on July 13, 2007.
Revised to place the portfolio into core, value add and opportunistic categories; adjust allocation ranges for these categories and add language for leverage limitations; and add new benchmarks for these new categories on June 3, 2010.
Revised to accommodate benchmark availability and performance evaluation requirements as well as adjustments to Cash Transfer Limitations on November 3, 2011
Revised to add ESG Risks Policy reference on September 10, 2013
Revised to change benchmark to ODCE on April 4, 2014

Revised to update two sections of the policy document to align the portfolio to current market conditions and the conclusions contained in the 2015 Asset Allocation Study on November4, 2015

GLOSSARY

APPRECIATION – The percentage change in the market value of a property or portfolio over the period of analysis.

INDICES AND PEER GROUPS – A series of databases with risk/return information that allows for comparative performance evaluation within an asset class.

- **NCREIF Fund Index - Open End Diversified Core Equity ("NFI-ODCE") Index –** A capitalization-weighted return index consisting of infinite life vehicles with multiple investors and the ability to enter and exit on a periodic basis. Funds maintain low leverage; equity ownership in US stabilized office, retail, industrial, and multi-family and hotel properties.
- **NCREIF-Townsend Value Add Index –** A capitalization-weighted return index consisting of finite life vehicles with multiple investors. Manager expertise is expected to create value by correcting operational or asset deficiencies.
- **NCREIF-Townsend Opportunistic Index –** A capitalization-weighted return index consisting of finite life vehicles with multiple investors. Investments are at the higher end of the risk/return spectrum and vary greatly across intended strategies for return generation.
- **NCREIF-Townsend Vintage Year Indices –** A capitalization-weighted return index consisting of finite life vehicles across (or within) strategy segments grouped by the year in which initial real estate investments occurred.

CAPITAL IMPROVEMENTS – Expenditures that cure or arrest deterioration of property or add new improvements to prolong its life.

CO-INVESTMENT – Investments where the management organization has a capital investment and ownership share.

COMMINGLED FUND – A term applied to all open-ended and closed-ended pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, private real estate investment trust, or other multiple ownership entity.

- **Open-ended Fund –** A commingled fund with no finite life, which allows continuous entry and exit of investors, and typically engages in ongoing investment purchase and sale activities.
- **Closed-ended Fund –** A commingled fund with a stated termination date, with few or no additional investors after the initial formation of the fund. Closed-ended funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.

DISCRETION – The level of authority given to an investment manager over the investment and management of a client's capital once that capital is allocated to the investment manager.

FAIR MARKET VALUE – The highest price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties being fully informed of all the uses and purposes to which the property is reasonably adaptable and available.

HOTEL – May include budget, economy, mid-scale, upscale, luxury, extended stay and independent hotels and any other properties that provide hospitality services.

INCOME – The component of return derived from property or portfolio operations during the period of analysis.

INDUSTRIAL – May include manufacturing, R & D Flex, Office Showroom, Freight forwarding/logistics and warehouse distribution.

INVESTMENT MANAGER – A company that, by contractual agreement, provides property investment opportunities and/or property asset management services.

JOINT VENTURE – A structure wherein CalSTRS and a partner form a partnership to purchase and/or operate an investment, or investments.

LAND - Undeveloped land parcels.

LEVERAGE – The use of borrowed funds to increase purchasing power and, ideally, to increase the profitability of an investment.

LIMITED PARTNERSHIP – A partnership with both general and limited partners in which the general partner manages the business and assumes full liability for the partnership obligations with the liability of the limited partners generally restricted to their capital contributions.

MULTI-FAMILY – May include high-rise, low-rise, and garden complexes of multiple rental units in an apartment building. May also include condominiums, student-oriented complexes and senior rental housing with limited or no medical services.

NCREIF INDEX – National Council of Real Estate Investment Fiduciaries Index; a property-level performance benchmark for institutionally owned real estate, calculated on a quarterly basis.

NET ASSET VALUE (NAV) – Represents total assets at fair market value minus liabilities.

NEW FIRM - Investment Manager with whom CalSTRS Real Estate has a contractual relationship of less than one year.

OFFICE - May include multi-tenanted buildings in both central business district and suburban locations. Types of use in office buildings may include commercial banks, financial buildings that serve as office space, owner-occupied space including corporate headquarters and branch offices. Others, such as government administration buildings, medical offices and Office R & D which is used primarily for office, may also be included.

OPPORTUNISTIC – A phrase characterizing an investment in underperforming and/or undermanaged assets typically purchased from distressed sellers, utilizing high levels of leverage with the expectation of near-term increases in cash flow and value.

PROPERTY MANAGEMENT – The various functions that are performed at the property level in order to assure timely collection of rents, payment of expenses, and supervision of on-site activities.

RETAIL – May include neighborhood, community, regional, super-regional, fashion/specialty, power, theme/festival, outlet and single tenant centers in which tenants sell goods and services.

TOTAL RETURN – The sum of the income and appreciation returns.

VALUE-ADDED – A phrase commonly used by investment managers to describe a management approach to a property with the connotation that their skills will add value, which otherwise would not be realized.