

Investment Policy for Real Estate

Norway Ministry of Finance



General Summary

The Norway Ministry of Finance ("MoF") has established a long term target allocation of five percent (5%) to real estate for the Government Pension Fund – Global (the "Fund"). This document sets forth the investment policy for the real estate portfolio. This Real Estate Investment Policy (the "Policy") is designed to ensure that Norges Bank (the "Bank") exercises prudent and careful action when investing and managing the Fund's real estate portfolio. This Policy is also intended to insure that the Bank at all times acts in the interests of the overarching investment policies of the Fund. Use of this Policy provides assurance that investment risks associated with this segment of the portfolio are controlled.

The global real estate portfolio shall improve the risk adjusted performance of the Fund's overall investment portfolio by capturing the return and diversification benefits of the real estate asset class.

The real estate investment portfolio of the Fund is to be invested, managed, and sold in a prudent manner for the sole benefit of Fund, in accordance with any applicable statutes.

No investment strategy, vehicle or activity shall be permitted unless in compliance with this Policy and in compliance with any guidelines, as approved and adopted by MoF, and as amended from time to time. The Bank manages the real estate portfolio on behalf of the MoF. The Bank may use both internal and external managers. The Bank shall administer and oversee the real estate portfolio on a day to day basis.

MoF has established the asset allocation and strategic objectives for the real estate portfolio as outlined in this statement of Policy. The design of the Policy ensures that investors, managers, consultants, or other participants selected by the Bank take prudent and careful action while managing the real estate portfolio. The purchase, management, and sale of all types of real estate investments shall be performed by internal and external professionals (managers) who are monitored and evaluated by internal investment officers, external consultants, and/or independent fiduciaries.

The real estate portfolio shall be managed taking into consideration international best practices. This Policy shall be reviewed periodically to determine if modifications are necessary or desirable.



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1 Objectives

1.1 Strategic Objectives

The strategic objectives of the global real estate portfolio in the context of the overall portfolio are as follows:

- 1) To provide diversification benefits in a multi asset portfolio
- 2) To provide a hedge against inflation when compared to the fixed income asset class in the long run
- 3) To provide an overall return that provides an illiquidity premium to traditional equities and fixed income

MoF's objective is to maximize the international purchasing power of the Fund over the long term, assuming a moderate level of risk. The strategic objective of the global real estate program is to develop a diversified portfolio capable of achieving investment returns commensurate with the program's targets. The portfolio will be invested in a diversified pool of real estate investments designed to capture the return and diversification (relative to the Fund's equity and fixed income investments) benefits of the real estate asset class.

The Fund shall also be invested so as to capitalize on its position as a long term investor, the size of its portfolio, and its ability to achieve global diversification.

1.2 Return Objectives

The real estate portfolio shall be managed over the long-term to accomplish the following goals on a net-of-fees basis:

- 1) Meet or exceed, on a net-of-fees basis the IPD Global Index plus 150 basis points¹
- 2) Exceed a minimum net-of-fees Real Internal Rate of Return ("IRR") of 5%

If the real estate portfolio is invested in public real estate, the total real estate benchmark shall be a blend of the public and private benchmarks. The public and private benchmark returns shall be combined using the actual weights of the market value of the public and private real estate portfolios. Public real estate investments shall meet or exceed a customized FTSE EPRA/NAREIT Global Real Estate Index plus 50 basis points.

¹ The basis for the private real estate portfolio benchmark is the IPD Global Property Index in local currency + 150 basis points. This is based upon the premia being 30 basis points for Core (attributable to the permitted leverage), 200 basis points for Value-Added (attributable to leverage and investment strategy), and 400 basis points for Opportunistic (attributable to leverage and investment strategy).



On an investment level, Norges Bank shall attribute a custom benchmark to each individual mandate incorporating relevant factors like tax costs and risk factors, such as leverage, country risks and exposure to development and redevelopment.

1.3 Risk Management Objectives

The global real estate portfolio shall be managed over the long term to accomplish the following goals:

- 1) Maintain an appropriate level of diversification across the dimensions (i) strategy; (ii) geographic region; (iii) investment manager; (iv) investment life cycle; and (v) vintage year
- 2) Maintain an appropriate level of leverage. Sufficient consideration shall be given to the impact of debt financing for risk and return characteristics of the levered investments in total

1.4 Other Objectives

The global real estate portfolio shall be managed in such a prudent manner so as to comply with a series of ancillary but important objectives.

The ethical guidelines of the Fund shall apply to the real estate portfolio.

The Government Pension Fund – Global shall follow and contribute to the development of best practices in the integration of environmental considerations in the management of the real estate portfolio. This will apply to the areas of energy efficiency, water consumption and waste treatment in particular.

Norges Bank shall prepare and make public internal guidelines for the management of the real estate portfolio which states how the ethical guidelines and environmental concerns are integrated into the investment process, both through exercise of ownership rights and in the due diligence process.



2 Investment Policy Guidelines

2.1 Eligible Investment Vehicles

For the Fund to meet its objectives in the real estate asset class, the Bank will select appropriate vehicles with structural aspects that provide for (i) maximum liquidity (within the context of the private markets) and control while mitigating risk; (ii) the highest level of accountability on the part of management; and (iii) the alignment of interests with MoF. For this reason, the ownership vehicles listed below are allowable.

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 interests 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.

While the portfolio will primarily be exposed to developed real estate markets, investments in emerging markets and frontier markets are permitted for the Opportunistic portfolio, given appropriate review of the experience and strength of potential investment management organizations; the real estate and capital markets; the investment practices and laws of countries selected, among other factors.

2.2 Separate Accounts

The Bank 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 Bank's senior real estate investment officer and/or the Bank's CIO must approve any deviations from the approved guidelines. For this reason, investments shall be structured to facilitate alignment of interests between management and the Fund, management accountability, investment monitoring, and liquidity.

In these separate accounts, the Fund shall have sole ownership of the asset(s) or may co-own the asset(s) with other institutional investors. The Bank will reserve the right to



remove the real estate manager of any separate account, with or without cause, in a timely manner.

2.3 Joint Ventures

The Bank 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. The Bank shall strive to incorporate similar governance provisions into the joint venture agreements as are obtained in the Fund's separate account relationships.

2.4 Commingled Funds

To enable greater diversification, to reduce risk, and to provide access to certain management teams only available via commingled investment vehicles, 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 ten years (subject to reasonable annual extensions approved by the investors) and shall provide for a winding-up and orderly liquidation within this time period. Investment time horizons of certain commingled funds may extend beyond ten years, provided the governance provisions allow for the Fund to exit the vehicle in a timely manner should the Bank so decide. 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, to avoid undue concentrations, and to reduce risk, no more than 10% of the Fund's real estate portfolio shall be allocated to a single commingled fund in which the Bank does not exercise control over the Fund's capital. For the purpose of



this document, “control over its capital” refers to the ability to time the exit from an investment vehicle and/or the ability to terminate the manager of such vehicle.

2.5 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. These investments also offer tactical return opportunities with the potential to achieve higher nominal rates of return at a level of risk equal to or lower than the private markets. The maximum equity investment allocable to the public real estate portfolio shall be 25% so as to avoid the composite real estate portfolio becoming unduly correlated with the public equity markets.

2.6 Derivatives

Using indirect investments in real estate by purchasing derivatives is a comparatively new investment strategy, particularly in the European markets. It is anticipated that this market will expand dramatically over the next decade. Such instruments can be used proactively, especially in Core investment strategies, to manage a real estate portfolio. As this market becomes increasingly liquid, such instruments may be used by the Bank in its management of the Fund’s real estate portfolio.

2.7 Diversification Targets

Diversification within the real estate portfolio will reduce portfolio risk within the asset class as well as at the composite investment portfolio level. The investment approach requires the definition of a strategic asset allocation within the real estate asset class, which is designed to provide a framework for long-term portfolio diversification across the following sectors:

- 1) Geographic region - Europe, North America, Asia-Pacific and Rest of World
- 2) Value creation strategy – Core, Value-Added, Opportunistic and public real estate
- 3) Property sector – Office, Apartment, Retail, Industrial, Hotel and other
- 4) Investment life cycle – development, repositioning, lease-up, stabilized and other
- 5) Vintage year

Allocations to each of these sectors should stay within certain predefined bandwidths so as to avoid undue concentrations.

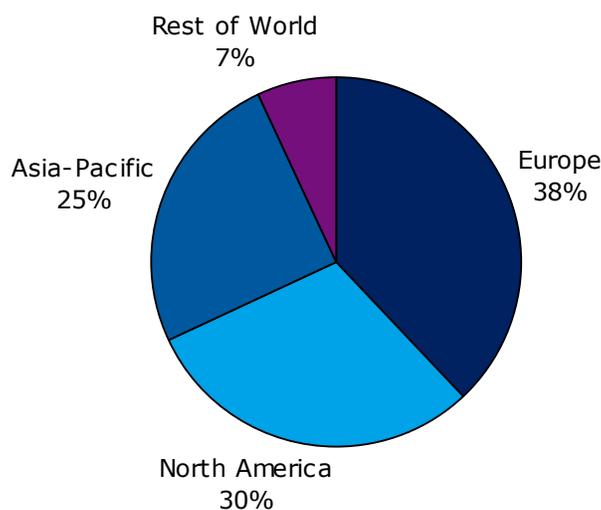


2.7.1 Geographical Region

It is anticipated that the Fund shall have a global real estate portfolio. The Fund's real estate portfolio shall be diversified across geographic regions. It is recognized these are broad ranges and from time to time the portfolio may gravitate above or below the targets. It is then anticipated that a plan will be developed to bring the portfolio back within the ranges over time.

Allocation bands in %	Min	Max	Target
Europe	25	50	38
North America	25	50	30
Asia-Pacific	10	30	25
Rest of World	0	15	7

These regional allocations are generally based upon the weightings of the approximate global investable universe as depicted in the chart below.



It is recognized these weightings will shift over time, particularly with the growth of the Asia Pacific and Emerging Markets regions.

Other concerns may warrant a different target allocation. Given that Norway's anticipated imports are skewed in favor of Western Europe, an overweight to Western Europe may be warranted. Further, an initial slight overweight to Western Europe will facilitate the initial monitoring of the portfolio.

The weightings may also be affected by the taxes imposed by other countries on the Fund. Advantageous tax treaties may cause the Bank to tilt the portfolio towards countries where



the Fund is not subject to local income and capital gains taxes. Such policies would enhance the returns achievable in that country relative to others that impose such taxes on the Fund.

“Europe” is defined to include Western European developed countries and not the Central and Eastern European (“CEE”) countries that are not yet members of the European Union. These CEE countries and countries comprising the former Soviet Union are considered to be included within the Rest of World category.

North America is defined to include the United States and Canada. Central America and Latin America are included within the Rest of World category.

Asia Pacific is defined to include developed countries in the region, including Japan, Singapore and Taiwan. China, India and other emerging markets in the region are included within the Rest of World category.

Rest of World also includes the emerging markets referenced above as well as Africa and the Middle East.

These weightings will shift over time. It is anticipated the Asia Pacific and Rest of World categories will increase significantly over the next decade. The allocation bands will be revisited from time to time as market conditions change materially and modified accordingly.

2.7.2 Strategies

The real estate portfolio shall be diversified across strategies. The flexibility to incorporate a variety of investment concepts will enhance the probability that the portfolio will achieve its overall objectives. Further, this approach is consistent with the best practices adopted by global institutional investors in real estate.

Allocation bands in %	Min	Max	Target
Core ²	0	70	50
Value-Added	10	40	30
Opportunistic	5	30	20

The Core strategy is defined as follows:

- 1) By property type: Generally, Core investments are limited to traditional property types, namely Office, Retail, Industrial, Multi-family and Hotel. The Net Asset Value (NAV) of a

² Public real estate may be included within the Core allocation as an alternative mechanism of achieving Core returns. The aggregate real estate portfolio exposure to public real estate must not exceed 25%.



Core portfolio which is invested in property types other than the ones mentioned above may not exceed 10% of the total portfolio NAV.

- 2) By location: The underlying assets are well-located within their local and regional markets.
- 3) By design: The underlying assets are of high-quality design and constructed according to international building standards acceptable to multi-national tenants.
- 4) By degree of leasing: The Core portfolio is well-occupied which means that its vacancy rate does not exceed the Net Asset Value (NAV) weighted average of the vacancy rates of its underlying markets by more than 300 basis points. The NAV of a Core investment which is invested in properties undergoing re-development, new construction, or significant re-leasing at the time may not exceed 10% of the total portfolio NAV.
- 5) By return driver: Typical Core portfolio holdings have the preponderance of the total, long term return derived from rental income.

The so-defined Core portfolio shall be well-diversified by property type and geography.

Investments within the Value-Added and Opportunistic portfolio will generally have expected returns and levels of risk greater than those of a typical Core investment. These investments are often found in “niche” opportunities (e.g., emerging markets, urban redevelopment, parking) or exist because of inefficiencies in the real estate or capital markets. The Value-Added and Opportunistic portfolios may contain investments where there is an opportunity to enhance property values through significant re-leasing, repositioning, redevelopment, development, or higher levels of debt. Investment in the Value-Added and Opportunistic portfolio shall be made tactically, based on prevailing market conditions at the time of investment. The Policy shall be modified from time to time to take advantage of new investment opportunities as they arise. Investments in the Value-Added and Opportunistic sectors typically have a shorter duration than those in the Core sector.

Private debt investment strategies may be included within each of the Core, Value-Added and Opportunistic sector depending on the level of leverage used, credit quality of the investment, duration and liquidity among other factors.



2.7.3 Property Type

The real estate portfolio shall be diversified across different property types that shall approximately mirror the allocations in the all IPD Europe Index.³

Allocation bands in %	Min	Max	Target
Office	15	40	35
Retail	10	30	30
Apartment	5	40	15
Industrial	0	15	10
Hotel	0	10	5
Other	0	20	5

2.7.4 Investment Life Cycle

The real estate portfolio shall be structured to be diversified by investment life cycles. The aggregate real estate portfolio exposure to development shall not exceed 30% in terms of gross fair market value of funded investments.

2.7.5 Vintage Year

The real estate portfolio shall be diversified across vintage years. The gross fair market value of funded investments of one vintage year in the real estate portfolio shall not exceed 30%. The real estate portfolio shall be initially invested over a minimum of three years up to the 5% allocation of the total portfolio to achieve vintage year diversity.

2.7.6 Investment Firms

The real estate portfolio shall be structured to be diversified by investment firms. No single manager shall manage more than 15% of the gross fair market value of funded investments in the real estate portfolio.

³ In Q2 2008, IPD announced the creation of the IPD Global Index. However, given the nascent aspect of the index, it has not yet been adopted by major institutions as the global benchmark for their real estate portfolios. Over time, as the index increases in size and develops an adequate track record of measuring performance, this benchmark should be considered as the overall benchmark for the real estate portfolio.



2.8 Liquidity

Real estate investments shall be structured to include clearly defined redemption or termination provisions that offer investors a minimum level of liquidity, recognizing that these are private investments. In addition, whenever possible, investments shall include features that enhance liquidity to investors such as: (i) limited investment time horizons and holding periods; (ii) provisions for interim liquidation of investments; (iii) multiple exit strategies; and (iv) a readily tradable market for investor holdings.

2.9 Leverage

Total portfolio leverage shall on average not exceed 55% Loan to Current Market Value as of the end of the relevant reporting period. Leverage within the Opportunistic portfolio shall have a targeted guideline of no greater than 75%, based on the aggregate gross fair market value of the funded investments in the Opportunistic portfolio. On the same basis, the target leverage shall not exceed 65% in the Value-Added, and 40% in the Core portfolio.

2.10 Transition Period

The Policy guidelines specified in this document shall not apply during the first three years of MoF's initial investment period in the asset class, as it will take time for the overall portfolio weightings to each major investment strategy (i.e., Core, Value-Added and Opportunistic) to be put into place. Initial investments could cause temporary imbalances compared to the longer term constraints in section 2.7-2.9.

Further, during periods of substantial market corrections, it is possible that the portfolio may not comply with the targets referenced above. During these time periods, the Bank shall prepare a plan for coming into compliance over time and present such plan to the MoF.

2.11 Discretionary Authority

The approval and rejection decisions for real estate investments are delegated to the Bank with the following stipulations. The Bank shall follow general international best practices in crafting an investment process that provides appropriate delegated authority to both internal and external managers. Appropriate checks and balances shall be adopted at various staff levels in terms of delegated authority. The Bank shall prepare an internal governance policy that shall clearly delineate the delegated authority and limits at various internal staffing levels and to external managers. Such policy shall be presented to the MoF for approval.



The Bank shall report quarterly to the MoF as to the outstanding capital commitments on both a funded and unfunded basis. Further, such reports shall include a report with regards to the use of subscription facilities and any other credit enhancements used by an external or internal manager with regards to any real estate investment or commingled vehicle.

All real estate investments shall be subject to appropriate due diligence as defined in the Bank's to be developed internal Real Estate Guidelines.

2.12 Environmental Liability

Subject to the following provisions and restrictions, the Bank will only 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.

The Bank will not make direct investments in real estate with environmental conditions in the Core portfolio unless: (i) the 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 the Fund 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 Fund 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 to-be-developed Bank's internal 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.



3 Investment Selection and Monitoring Guidelines

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.

A market analysis shall be performed as the basis for a decision on the allocations to individual geographic regions, value creation strategies, property sectors and investment life cycles.

Furthermore, each equity sponsor shall be evaluated for their skills and their potential to create value. The criteria used shall include, but not be limited to:

- a. Fit with the program Strategy, Investment Policy and Strategic Plan, and within the overall program
- b. A unique strategy that is complementary, not competitive, with existing investments
- c. Integrity of the manager, its employees, and other investors
- d. Quality of manager's overall corporate governance, management of the partnership, including controls and reporting systems
- e. Specific objectives
- f. Manager's relationship with and standing in the investment community
- g. Manager's relationship with limited partners
- h. Nature of Value-Added involvement
- i. Past financial performance of the individual investment professionals
- j. Reasonable ratio of committed capital per partner
- k. Appropriateness of terms and conditions
- l. Alignment of interests with limited partners



3.1 Market Analysis

Changing market conditions can dramatically affect the attractiveness of different segments within the overall real estate market. The investment process requires analyzing these market conditions and their effects on the value drivers for each relevant segment.

The emphasis shall be on creating a relative value framework in which global investment opportunities can be evaluated. Appropriate risk adjusted returns and risk premia for various geographic regions and investment strategies shall be developed by the Bank and be used to allocate capital around the globe with the intent of accomplishing the long term strategic investment objectives of the Fund.

A review of these factors shall be performed either by internal Bank investment officers or by external consultants at least on an annual basis with the goal of reviewing the return potential and relative attractiveness of the various market segments.

General factors to be considered are outlined below.

3.1.1 Term-Structure of Interest Rates

The absolute level of interest rates and the shape of the yield curve impacts demand for properties in several ways. Most importantly, it is one of the two main factors determining the cap rate for properties. Falling interest rates typically have a positive impact on property valuations. Therefore, falling inflation (expectations) also has a positive impact on real estate valuations. This is particularly the case in an environment where landlords are able to maintain net operating income (NOI) on their properties at their prevailing levels.

3.1.2 Real Estate Risk Premium

The cap rate spread, i.e. the difference between cap rates and interest rates, indicates the return premium investors ask to receive for taking on real estate investment risk. The higher the premium, the more attractive real estate assets are for financial investors, both in absolute terms and relative to other asset classes.

3.1.3 Capital Market Flows

Real estate's relative attractiveness versus other asset classes is probably the main factor determining capital flows into and out of the real estate market. Other factors such as the macroeconomic environment (e.g. GDP growth, currency fluctuations, political aspects) or investor specific aspects (e.g. asset allocation shifts, appetite for certain risk/return profiles, emotional factors) further impact these global flows.



3.1.4 Demand for Physical Space

This factor as well as the leasing market supply and the costs for operating properties (see below) are the main determinant for properties' net operating incomes. The demand for physical space is driven by such factors as actual and expected GDP growth, socio-demographic trends, globalization and other trends resulting from economic policies.

3.1.5 Lease Market Supply

The vacancy rate describes the availability of property space. Construction, which is determined by its cost, the availability of land as well as regulatory and legal factors, has a positive impact on vacancy rates. Areas where supply is constrained are often more attractive for investors.

3.1.6 Property Operating Costs

Supply and demand determines the gross operating income real estate investors can earn. What is ultimately relevant for investors is their net operating income. Compared to the other factors, however, the operating costs are often less volatile.

3.1.7 Availability of Debt

The availability of debt is crucial for real estate investments which use higher leverage ratios such as most Value-Added and Opportunistic assets. Typically Core managers use up to 40% leverage, Value-Added firms 40% to 70% and Opportunistic firms more than 70%. As debt financing increases, Core and Opportunistic transactions become more attractive. In contrast, as banks tighten lending practices and less debt is available, opportunities often appear for mezzanine real estate investors. Technically, a higher credit spread charged for debt is an indicator for lower availability of such financing. The lower the credit spread applied on the debt relative to the cap rate spread earned on a property investment, the more positive the impact of debt financing on a real estate equity investor's return.

3.2 Due Diligence Analysis

The Bank shall seek to retain General Partners and managers that possess superior capabilities in the selection, pricing and management of real estate assets. The Bank shall apply internally accepted due diligence best practices in underwriting individual firms. With this objective in mind, prospective firms shall be evaluated for selection based on criteria including, but not limited to:

- 1) The suitability of the organization's investment strategy and ability to execute, relative to the Fund's investment guidelines and objectives
- 2) The quality, stability, integrity, and experience of the management team

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- 3) The ability and willingness of the organization to dedicate sufficient resources and personnel to optimally manage the Fund's investments
 - 4) The reasonableness of investment terms and conditions, including provisions to align interests of management and the Fund
 - 5) The appropriateness of management controls and reporting systems
 - 6) Commitment to responsible labor practices, environmentally sensitive investment and management practices, workplace diversity, and community involvement. Preferred investments for the Fund will be those that exhibit the highest degree of management accountability and the greatest alignment of interests. As a matter of policy, the Bank 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

3.3 Monitoring

The Bank shall monitor and evaluate the Fund's external managers and investments continuously, based the stated objectives and on their performance relative to the defined benchmarks, and relative to the performance of firms managing similar investments in the marketplace. The Bank shall apply international best practices in their oversight of the Fund's real estate portfolio.

In addition, 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 of at least three year intervals to ensure that performance is indicative of management's efforts.

Consideration shall also be given to the financial strength of the investment manager, the level of client service given to the Fund and the Bank, as well as changes within the managing organization such as the continuity of personnel assigned to the Fund's investments, among other items.

As part of the MoF's monitoring of the Bank, periodic reports regarding the performance of the portfolio and compliance of the Fund with adopted policies and guidelines shall be presented to the MoF. Such reports are addressed in Section 4 regarding Reporting Guidelines.

3.4 Investment Termination

The Bank shall seek to exit investments with management organizations found to be deficient relative to the Bank's investment standards or the performance benchmark for that organization, or those who are expected to be deficient in that respect.



4 Reporting Guidelines

The Bank shall provide MoF with information, as requested by the MoF, that will enable the MoF to prudently monitor the investment performance and the Bank's management of the Fund. Such provided data shall be consistent with the best practices, as outlined below, utilized by other institutional real estate investors comparable to MoF.

MoF shall provide the Bank an initial template with regards to the reporting format and portfolio data metrics that shall be provided to MoF on a quarterly and annual basis. Further, MoF may retain additional third party service providers to assist in the monitoring of the portfolio and the Bank shall provide the requested performance information and portfolio data metrics to such organization(s). The MoF shall, at a minimum, have an annual portfolio review with the Bank of the real estate portfolio's performance and compliance with overall investment guidelines, and such other interim meetings as are necessary to prudently monitor the Fund's performance.

The Bank shall prepare an annual report and quarterly reports on the performance and characteristics, such as the diversification aspects, of the real estate portfolio. The reports shall seek to explain important contributions to the Fund's performance. These reports shall also provide commentary as to whether any aspects of the portfolio fall outside of the overall Policy guidelines for the real estate portfolio. The reports shall be made publicly available.

The real estate management performance shall be evaluated as function of (i) the return of the Fund relative to the benchmark returns as applicable to the major sub-portfolios and (ii) the appropriate exercise of risk control. The return benchmarks are specified in section 1.2. The guidelines on diligent risk management are given through the Policy in section 2.

The Fund's real estate investments shall be valued at least annually on a fair market value basis. Those investments held in separate accounts and/or direct joint ventures shall be externally appraised by qualified valuation firms, such as Chartered Surveyors or Members of the Appraiser Institute. For those investments in commingled vehicles in which the Bank does not directly control the valuation process, the Bank shall provide a summary for each such investment as to how the reported valuation was derived. If such a reported valuation was derived by a General Partner through standards other than International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB), the Bank or its external auditor shall provide an IFRS opinion as to the reasonableness of the valuation. In such a case, the Bank shall highlight that the General Partner valuation was not in accordance with IFRS, and shall possibly report the difference between the IFRS and the non-IFRS valuation to the MoF.



The Bank shall endeavor to ensure that investment valuations and returns reported to the MoF are calculated in accordance with industry accepted guidelines. Presently, these guidelines are generally established by Global Investment Performance Standards ("GIPS"). Within the real estate asset class, the overall real estate reporting guidelines are detailed in the most recent editions of the Real Estate Information Standards and the NCREIF Market Value Accounting Policy Manual.

Present industry accepted practices generally call for investments in commingled vehicles to be valued, at a minimum, at the lower of cost of the partnership interest or market value.

To the extent that managers do not report on the Fund's investments in a manner consistent with these guidelines, the Bank shall work with these managers to obtain the most appropriate information. The Fund's 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.



5 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. Such plan shall be presented to the MoF annually and shall contain such information as is necessary for the MoF to evaluate the Bank's performance and the performance of the Fund's real estate portfolio.

6 Internal Guidelines

The Bank shall develop internal guidelines for the real estate portfolio based on the Policy guidelines. The internal guidelines shall comply with internationally recognized standards and methods, for issues such as valuation, measurement of return and management and control of risk.

Prior to the implementation of investments in Real Estate, a due diligence process must have been completed. Such effort is required to include an assessment against the requirements implied by the Policy guidelines and the internal guidelines, and to be documented.



Appendix I – Glossary

APPRAISAL – An estimate or opinion of market value.

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

ASSET MANAGEMENT – The various disciplines involved with managing real property assets from the time of investment through the time of disposition. Proper asset management plans and policies include requirements for operating and capital budgets; property management; leasing; physical property analysis; operational and financial reporting; appraisal; audits; accounting policies; and asset disposition plans (hold/sell analyses).

BENCHMARK – An index derived from database information that allows for comparative performance evaluation within an asset class.

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. An open-ended fund 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.

CORE INVESTMENT - Core investments are expected to produce market level returns commensurate with the property type in the country in which the asset is located also with a commensurate level of risk of the market. Income is expected to constitute a majority of the total return of Core Investments. .



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.

DIRECT INVESTMENT – An investment in which MoF has a direct ownership interest in a property or group of properties.

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.

FIDUCIARY – A person in whom MoF reposes, and the person accepts, a special trust and confidence involving the exercise of professional expertise and discretion.

IPD Global Index – International Property Databank maintains the largest collection of property returns on a global basis.

GROUND LEASE – A lease of land only, not including any improvements on the property.

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.

INTERNAL RATE OF RETURN (IRR) – The actual (or projected) dollar-weighted holding period return produced by an asset, calculated with consideration for all items of cash in and cash out.

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

JOINT VENTURE – A structure wherein MoF 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 furthermore 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.

NET OPERATING INCOME (NOI) – Rental and other income of a property, less operating expenses, but before the deduction of capital expenditures and debt service.

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

NON-TRADITIONAL PROPERTY TYPE – Non-conventional property types such as timber, senior housing, single family housing, natural resources, land, mini-storage, etc.

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.

REAL RATE OF RETURN – Yield to the investor after adjusting for inflation (typically determined by the Consumer Price Index).



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.

TRADITIONAL PROPERTY TYPE – Conventional property types such as Office, Multi-family Residential, Industrial, Retail and Hotel real estate; which are included within the NCREIF Index.

VALUE- – 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.