Investment Policy Statement for Real Assets

Approved by the Board of Trustees

Adopted: January 22, 2015
Revised: June 20, 2019

A. Introduction

The following investment policies govern the objectives, strategies, implementation, and performance measurement of the Real Assets Program. The Real Assets Program includes investments in real estate, infrastructure, and natural resources.

B. Investment Objective

The investment objective of the Real Assets Program is to provide a real return, diversification and performance enhancement to the overall investment portfolio. The Real Assets Program is expected to outperform the ***CPI–U plus 550 basis points***, net of fees, over ten-year rolling periods. The Real Assets Program benchmark will be incorporated in the Long-Term Total Policy benchmark at the Real Assets Program target weight.

C. Real Assets Strategies

The investment policies and guidelines for these strategies follow below.

1. Real Estate

a. Investment Objective

The Total Real Estate Program will be composed of both Private Real Estate and Public Real Estate in the form of global Real Estate Investment Trusts (REITs). At maturity, the Total Real Estate Program is expected to outperform the combined benchmark of ***50% Cambridge Associates Real Estate Index Median, 30% NFI-ODCE (Net) Index Median, and 20% FTSE EPRA/NAREIT Global Index*** over five-year rolling periods. The Total Real Estate Program benchmark will be incorporated into the DCRB Total Fund Interim Policy benchmark at the actual Total Real Estate Program weight.

- Example: If the long-term asset allocation target for Total Real Estate is set at 6%, and the actual allocation to Total Real Estate is 4%, then the weight of the Total Real Estate Program represented in the DCRB Total Fund Interim Policy benchmark would be 4%.

The investment objective of the Private Real Estate Program is to enhance the total fund performance through the investment in non-publicly traded vehicles that invest in a broad array of real estate properties and ventures by generating a long-term rate of return that exceeds that of publicly traded real estate securities. Private real estate investments are expected to be illiquid and long-term in nature. At maturity, the Private Real Estate Program is expected to outperform the combined benchmark of ***62.5% Cambridge Associates Real Estate Index Median and 37.5% NFI-ODCE (Net) Index Median*** over five-year rolling periods.

The investment objective of the Public Real Estate Program is to gain exposure to the real estate asset class in a liquid and low-cost manner. As such, the Public Real Estate program will consist of passive investments in global REITs. The performance of the Public Real Estate Program is expected to equal the *FTSE EPRA/NAREIT Global Index*.

b. Investment Guidelines

Investment is authorized in vehicles that invest in a broad array of real estate properties and ventures, including but not limited to: real estate partnerships, investments in private vehicles (e.g. limited partnerships or limited liability companies) that have an ownership interest, directly or indirectly, in real estate properties through either the debt or equity, either income-producing or non-income producing.

The investment strategies may include those defined as Core, Core-plus, Value-add or Opportunistic. Core and Core-plus strategies derive their return primarily from income. Value-add strategies derive their return from both income and capital appreciation. Opportunistic strategies derive their return primarily through capital appreciation.

2. Infrastructure

a. Investment Objective

The investment objective of the Infrastructure Program is to enhance the total fund performance through the investment in non-publicly traded vehicles that invest in a broad array of infrastructure projects. Infrastructure investments are expected to be illiquid and long-term in nature.

Over the long-term, the Infrastructure Program is expected to outperform the ***Cambridge Associates Infrastructure Index Median*** over five-year rolling periods. The Infrastructure benchmark will be incorporated into the Interim Total Policy benchmark at the actual Infrastructure Program weight.

b. Investment Guidelines

Investment is authorized in vehicles that invest in a broad array of infrastructure investments, including but not limited to: investments in private vehicles (e.g. limited partnerships or limited liability companies) that have an ownership interest in physical structures, facilities and networks or ancillary services and equipment which provide essential services to the public that are owned/operated either privately or by government entities. Asset categories may include, but are not limited to transportation, ports, utilities, energy (including "renewables"), water, communications, and social infrastructure sectors. "Renewables" refers to solar, wind, biomass, and hydro power generation, storage, and transmission. Social infrastructure refers to health care (hospitals), education (schools), judiciary (courthouse), emergency response (police and fire), and recreation (parks). The Board will not make direct investments in corrections (prisons).

The investment strategies may include those defined as "core" (Brownfield) or "growth" (Greenfield). "Core" (Brownfield) strategies refer to existing projects that are producing significant cash flow and derive much of their return through income. "Growth" strategies are projects that require new construction and development and derive their return from both income and appreciation. Infrastructure investments are stable and long-term in nature, and the cash flows from the projects should have a positive correlation with inflation.

3. Natural Resources

a. Investment Objective

The investment objective of the Natural Resources Program is to enhance the total fund performance through the investment in non-publicly traded vehicles that invest in a variety of natural resource assets, including, but not limited to extracted energy (oil & gas), metals and mining, timber, agriculture, and land. Such investments are expected to be illiquid and long-term in nature.

Over the long-term, the performance of the Natural Resources Program is expected to exceed the ***Cambridge Associates Energy Upstream & Royalties and Private Energy Index Median*** over five-year rolling periods. The Natural Resources Program benchmark will be incorporated into the Interim Total Policy benchmark at the actual Natural Resources Program weight.

b. Investment Guidelines

Investment is authorized in vehicles that invest in a broad array of assets, including but not limited to: investments in private vehicles (e.g. limited partnerships or limited liability companies). Extracted energy investment strategies primarily include but are not limited to those defined as "upstream", "midstream", or "downstream." "Upstream" refers to the exploration and production ("E&P") of crude oil, natural gas, coal, and other natural resource reserves. "Midstream" refers to the processing, transportation, and storage of oil and natural gas. "Downstream" refers to the refining and distribution of oil and natural gas, as well as power generation. Metals and mining strategies include, but are not limited to, precious, base, and other mined minerals and metals. Timber strategies include, but are not limited to, managed forests and tree farms. Agriculture and land strategies include, but are not limited to, the ownership of crop-producing farms and farmland conversion and development.

D. **Investment Characteristics**

1. **Investment Vehicles:** The vehicles for private investments are typically partnerships but may include other entities such as limited liability companies or offshore corporations. These investment vehicles may invest in a broad array of projects, ventures and natural resource assets.

2. **Property Type/Geographic Concentration:** DCRB shall endeavor to limit the potential for any one investment to negatively impact the long-term results of the Real Assets Program by investing across a variety of property types and geographic locations.
3. **Investment Vehicle Concentration:** DCRB shall not comprise more than 20% of total fund commitments (including amounts committed to its parallel vehicles) at final closing, and any one investment vehicle shall not comprise more than 10% of the Real Assets Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the annual plan for the Private Markets Investment Program.

4. **Investment Restriction:** DCRB assets shall not be invested in real property located in the District of Columbia, Virginia or Maryland, or in loans, mortgages, bonds, or other certificates of indebtedness secured, in whole or in part, by real property located in such jurisdictions. However, investment vehicles in the Real Assets Program may invest without regard to such specific jurisdictional limitation provided such real assets investments in pooled vehicles do not constitute plan assets under the DCRB and U.S. Department of Labor plan asset regulations.

5. **Investment Timing:** DCRB shall strive to limit the potential for any one investment to negatively impact the long-term results of the Real Assets Program by investing across business cycles and vintage years.

6. **Liquidity:** Private real assets investments are illiquid and typically have expected holding periods of at least 10-12 years (15-20 years in the case of private infrastructure). Investments are typically held until maturity and selling prior to maturity may result in realizing a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits.

7. **Distributed Securities:** DCRB shall ordinarily direct the sale of securities which are distributed by its investment vehicles, as soon as practically possible and strive to not impair the value of the security.

8. **Fund Performance Evaluation:** Individual investment vehicle performance, as measured by the net internal rate of return and net investment multiple, will be compared to the respective vintage-year peer universe. It is recognized that many immature private market investments will ordinarily have a "J-curve effect," whereby funds exhibit low to negative returns in the initial years due to the payment of investment management fees when investments are typically still carried at cost and returns have not been realized yet.

E. Selection Criteria, Monitoring, Performance Reporting and Trustee Training

Please refer to the Governance Policy for Alternative Investments for guidance.