

State of Alaska  
ALASKA RETIREMENT MANAGEMENT BOARD  
Relating to Real Assets Investment Guidelines

Resolution 2024-14

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

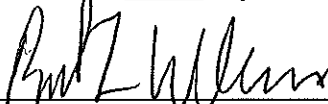
WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

WHEREAS, the Board has authorized investment in real assets for the Public Employees' Retirement System, Teachers' Retirement System, and Judicial Retirement System, including investments for those systems in the State of Alaska Retirement and Benefit Plans Trust; and

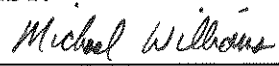
WHEREAS, the Board establishes and from time to time as necessary, modifies investment policies, procedures, and guidelines for real estate, farmland, timberland, and infrastructure;

NOW THEREFORE, BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the Real Assets Investment Guidelines, attached hereto and made a part hereof. This resolution repeals and replaces Resolution 2023-13, Resolution 2023-14, Resolution 2023-15, and Resolution 2023-16.

DATED at Anchorage, Alaska this 19<sup>th</sup> day of September, 2024.

  
\_\_\_\_\_  
Chair

ATTEST:

  
\_\_\_\_\_  
Secretary

**ALASKA RETIREMENT MANAGEMENT BOARD  
REAL ESTATE INVESTMENT  
POLICIES, PROCEDURES AND GUIDELINES**

**TABLE OF CONTENTS**

	<b>Page #</b>
<b><u>I. INVESTMENT OBJECTIVES</u></b>	<b><u>1</u></b>
A. Investments in Real Estate and Other Real Estate Related Assets	1
B. Asset Allocation	1
C. Portfolio Return Objective	1
<b><u>II. PROGRAM RISK MANAGEMENT AND IMPLEMENTATION</u></b>	<b><u>2</u></b>
A. Institutional Quality	2
B. Diversification	2
C. Implementation Approach	6
D. Prudent Leverage	6
E. Lease Structure	7
F. Separate Account Investment Manager Business Plan; Annual Strategic/Tactical Plan; Disposition/Exit Strategy	7
G. Fee Structure	7
H. Single Asset Ownership Structure (Applies to Separate Accounts Only)	7
I. Reporting System	7
J. Distribution of Current Income	8
K. Lines of Responsibility	8
<b><u>III. CONFLICTS OF INTEREST</u></b>	<b><u>8</u></b>
A. Property Valuation	8
B. Property Management	9
<b><u>IV. INSURANCE COVERAGE</u></b>	<b><u>9</u></b>
<b><u>V. UNRELATED BUSINESS INCOME TAX</u></b>	<b><u>9</u></b>
<b><u>VI. ENVIRONMENTAL EVALUATIONS</u></b>	<b><u>9</u></b>
<b><u>VII. PROCEDURES FOR INVESTMENT</u></b>	<b><u>10</u></b>
A. Delegation of Responsibilities	10
B. Investment Procedure	11
<b><u>VIII. DELEGATION OF AUTHORITY</u></b>	<b><u>12</u></b>
<b><u>IX. CONFIDENTIALITY</u></b>	<b><u>12</u></b>
<b><u>X. REVISIONS</u></b>	<b><u>12</u></b>

**ATTACHMENTS**

Attachment 1 – Delegation of Responsibilities

# ALASKA RETIREMENT MANAGEMENT BOARD REAL ESTATE INVESTMENT POLICIES, PROCEDURES AND GUIDELINES

## I. INVESTMENT OBJECTIVES

### A. *Investments in Real Estate and Other Real Estate Related Assets*

The Alaska Retirement Management Board (ARMB) will invest in real estate with the goals of portfolio diversification and attaining the optimum return on the portfolio, consistent with the assumption of prudent risk and safety of principal. ARMB recognizes the need to use active investment management in order to obtain the highest attainable total investment return (measured as income plus appreciation) within ARMB's framework of prudence and managed risk.

ARMB will select Real Estate Investment Managers who have the discretion to invest in publicly traded equity, privately placed debt, and/or privately placed equity sectors, subject to ARMB's approval of an Annual Strategic/Tactical Plan and an Annual Investment Plan. In order for real estate investments to be considered, the Investment Manager must demonstrate that it is able to: add value through its real estate knowledge, experience and strategy; underwrite the risks of the investment which is contemplated; and at the time of investment, comply with the intent of the Real Estate Investment Policies, Procedures and Guidelines (**Guidelines**).

Single property and multi property strategies will be considered as well as "pooled/commingled" fund investment vehicles.

### B. *Asset Allocation*

The ARMB allocation to real estate investments shall be determined by the Board of Trustees and reviewed annually. Allocated capital to Investment Managers will be defined as invested capital based on ARMB's cost.

### C. *Portfolio Return Objective*

#### 1. **Total Return**

Over rolling six- year periods, the ARMB real estate investment portfolio is expected to generate a net-of-fee total return between public equities and fixed-income.

#### 2. **Income Return**

Income, which is defined as cash distributed to ARMB, is expected to produce 50-60% of the total return over rolling five-year periods.

#### 3. **Index**

The overall portfolio is expected to exceed the target index. The target index is composed of 80% NFI-ODCE and 20% NAREIT All Equity Index.

## II. PROGRAM RISK MANAGEMENT AND IMPLEMENTATION

The selection and management of assets in the real estate portfolio of the ARMB will be guided by the principles of preserving investment capital, attaining the optimum return on the portfolio consistent with the assumption of prudent risk, generating current income, being sensitive to inflation, maintaining diversification of assets and diversification of management responsibility.

In real estate investment, there is an inherent risk that the actual income and return of capital will vary from the amounts expected. The ARMB will manage the investment risk associated with real estate in several ways:

### *A. Institutional Quality*

All assets must be of institutional investment quality as evidenced by a precedent of institutional investment in similar properties; expert analysis which supports the economic viability of the market; high quality construction and design features; and a potential competitive position within the property's immediate market area.

### *B. Diversification*

The real estate portfolio will be diversified as to style group, property type, industry sector, life cycle, economic driver, investment manager and geographical location. Diversification reduces the impact on the portfolio of any one investment or any single manager's investment style to the extent that an adversity affecting any one particular area will not impact a disproportionate share of the total portfolio. Portfolios for core investment managers and non-core or value added investment managers will carry the diversification characteristics set forth in the allocations and definitions set out below. Diversification compliance will be monitored on a quarterly basis for compliance with ARMB's Guidelines by staff and the real estate consultant.

For purposes of calculating diversification compliance, the overall real estate portfolio size will be considered the product of the greater of projected or target real estate allocation times the projected fiscal year-end overall plan assets as established in the Annual Investment Plan. The projected fiscal year-end overall plan assets will take into account the target allocations and projected returns of all asset classes in which plan assets are invested, and estimated net pay-outs to plan beneficiaries. Unless exceptional circumstances justify a deviation, the maximum percentage of the real estate portfolio investment for each of the identified categories is as follows:

Non-Controlled Investments: (ARMB cannot liquidate within 180 days)	50%
Non-Core Investments (See definition below):	50%
Single Manager Limit: <i>(value of both Separate Account and Commingled Fund combined, if applicable)</i>	45 %

Geographic:

ARMB will avoid over-concentration in areas of similar real estate performance. The consultant will monitor ARMB’s concentrations in this area, considering indicators such as NCREIF sub-region, metropolitan areas and economic drivers. The consultant will report its conclusions regarding the acceptability of ARMB’s concentration limits quarterly.

Outside United States:	20 %
Single Property Investment: <i>(acquisition cost plus projected capital additions and improvements)</i>	5 %
Single-Tenant (any one firm):	10 %
Property Type:	50 %

**Manager Allocation** – It is understood that Separate Account Investment Managers may exceed their Board-approved allocations by up to 5% for the purposes of capital improvements on existing assets and/or for the completion of an acquisition. A core Separate Account Investment Manager’s portfolio may be invested up to 15% in core-plus style properties to assemble a core portfolio. A value-added Separate Account Investment Manager’s portfolio shall include 70%-100% in value-added style properties, and may include up to 30% in opportunistic style properties.

Subject to CIO approval, upon the sale of a property held by a Separate Account Investment Manager in which the net sales proceeds are in excess of the property’s cumulative basis, the advisor’s allocation will increase in an amount equal to the lesser of the excess of the net sales proceeds over the property’s cumulative basis or the aggregate

portfolio net asset value over the aggregate portfolio cumulative basis adjusted to reflect actual sale proceeds. The CIO will also consider whether an allocation increase should be adjusted for any past realized losses incurred by the Separate Account Investment Manager. The intent of this provision is to allow a Separate Account Investment Manager to reinvest realized gains but only to the extent gains are greater than losses which have been experienced in other property investments in the Separate Account Investment Manager's portfolio.

**Exceptional circumstances justifying a deviation** – When circumstances arise of a temporary nature, such as an unexpected re-valuation of assets, a transfer of assets among managers, or an event in which it would be in the fiduciary interest of the ARMB to do so, the limits set forth in paragraph II.B of ARMB Policies may be exceeded provided that ARMB concurs.

**CIO Discretionary Investment Authority** – The CIO shall have the following discretionary investment authority:

- a) To increase or decrease existing separate account allocations and investments in open-end funds;
- b) To commit to new investment funds up to \$100 million for each fund; and,
- c) To engage consultants and take other action as may be necessary to ensure sufficient due diligence is performed on all investments under consideration.

The CIO shall exercise this discretion within Board approved asset allocations, investment plans, and guidelines as they may apply.

The CIO will provide prior notification to the Chair of ARMB before committing to any investments under this authority. All discretionary CIO investment actions shall be reported to the Board.

## Definitions

### Core Investments

- Primary Characteristics:
- Fully or substantially leased (85% occupancy or greater)
  - Inconsequential turnover near term
  - Inconsequential physical issues or renovation required
  - Credit tenants
  - Primary markets
  - Quality property
  - Income produces 50% or more of expected return
  - Typically longer term holds
  - Properties in markets with stable or improving economic conditions

## Core-plus Investments

- Primary Characteristics:
- Limited renovation, primarily deferred maintenance, limited physical issues or repositioning needed
  - Modest near term lease roll over; modest vacant lease up
  - Expected growth through increasing rents
  - Poor prior management
  - A- to B- quality
  - Income produces 50% or more of expected return

## Non-Core Investments

### Value-Added Investments

- Primary Characteristics:
- Asset renovation – lobbies, corridors, deferred maintenance
  - Intermediate term (6-9 months) physical issues
  - Current vacancies or rent loss
  - Near term roll over exposure
  - Repositioning, re-tenanting
  - Distressed prior management
  - Purchase of adjacent land to develop
  - Alternative, turnaround markets and property types
  - Income produces 50% or less of total return

**Opportunistic Investments** – These investments involve significant redevelopment risk, high leasing risk, and high development risk.

- Primary Characteristics:
- Empty Buildings
  - High near term turnover
  - New development – spec or limited pre-leasing
  - Significant rehabilitation and leasing, redevelopment into alternative uses
  - Capital displacement in maligned markets: lack of investment capital due to level of risk
  - Non-traditional asset type (mezzanine debt, land, etc.)
  - Wide ranging investment structures

- Investing in non-performing notes
- Cross-border investing
- Holding periods typically 1 to 5 years
- Income produces less than 50% of total return

**Note:** *Properties within a multi-property investment will be categorized as either core or non-core.*

### *C. Implementation Approach*

All allocation of funds to a manager (including additional investment with existing accounts) and investment strategy must be recommended to ARMB by Staff and the Real Estate Consultant and be accompanied by an investment report which, at a minimum, includes the following: market information; investment alternatives; fee structure and comparison to other alternatives; demonstration of compliance with Guidelines and the then current Annual Investment Plan; historical performance of Separate Account Investment Manager (cash-based internal rates of return and industry standard); projected returns (income and appreciation); and positive and negative attributes of the investment strategy.

On a selective basis, a member of ARMB may visit the site of a real estate investment for the purpose of rendering a report to ARMB supplementing reports provided by Staff, the Real Estate Consultant, or others.

### *D. Prudent Leverage*

Separate account investment managers may place leverage on properties up to a maximum of 65% at the property level and 30% at the portfolio level, measured at the time the financing is established. All debt shall be non-recourse to ARMB. Property encumbered by debt at the time of purchase, if justified on a risk-return basis by the Separate Account Investment Manager, may be acquired subject to the aforementioned leverage constraints.

The total amount of fund level leverage, at the time of investment, will not exceed 35% for core commingled funds investing in a core equity diversified asset strategy. The total amount of fund level leverage, at the time of investment, will not exceed 65% for non-core commingled funds investing in a value-add or opportunistic diversified asset strategy.

### *E. Lease Structure*

Multi-tenant and single tenant properties will be considered. When acquiring single tenant properties, consideration will be given to avoid multiple single-tenant exposure to any firm if those single tenant properties constitute more than 10% of the portfolio. A staggered lease structure for commercial properties will be emphasized.

### *F. Separate Account Investment Manager Business Plan; Annual*



### *Strategic/Tactical Plan; Disposition/Exit Strategy*

A Business Plan (including property operating budgets) will be completed by each Separate Account manager for each asset under its management. The Business Plan will identify the current and anticipated competitive position for each property in order to set tactical and strategic objectives and will prescribe in appropriate detail a disposition and exit strategy respecting the particular investments. Part of this process is to evaluate the potential timing of dispositions. A property is considered for sale when it is believed that the equity in the existing investment can achieve a higher return in another real estate investment of similar risk. The Annual Strategic/Tactical Plan will describe the expectation of the manager with respect to acquisitions and dispositions.

### *G. Fee Structure*

Involvement in any venture will be done on a fee basis that is competitive. The preferred method of calculating manager fees will be based upon a formula, which considers both 1) the cost basis of assets under management and 2) investment performance. All fee structures will be approved by ARMB. For core managers, the return-based portion of a fee will emphasize actual cash available for distribution to ARMB.

### *H. Single Asset Ownership Structure (Applies to Separate Accounts Only)*

Provided that the goals of these guidelines are followed, ARMB may invest in separate, specific real estate assets. However, such investments will be undertaken in a fashion structured to limit ARMB's liability to the amount of its investment.

### *I. Reporting System*

Staff and the Real Estate Consultant will develop and implement a comprehensive and responsive reporting and monitoring system for the entire portfolio, individual investments and individual managers. The reporting and monitoring system will endeavor to identify under-performing investments, controlled portfolio diversification deficiencies and inherent conflicts of interest, thereby facilitating active portfolio management. A cash-based internal rate of return (IRR) will be used when evaluating the long-term performance of an investment. Time-weighted returns will be used to measure comparative performance.

### *J. Distribution of Current Income*

All separate account income will be distributed immediately to ARMB or its designee and not automatically reinvested in the account.

### *K. Lines of Responsibility*

Well defined lines of responsibility and accountability will be required of all participants in ARMB's real estate investment program. Participants are identified as:

**ARMB** – The fiduciaries appointed by the Governor to represent the beneficiaries' interest which shall retain final authority over all real estate investment decisions.

**Staff** – Investment professionals on the staff of the Department of Revenue and assigned ARMB responsibilities who will assist in the Real Estate equity investment program’s design, policy implementation and administration.

**Real Estate Consultant** – Professionals retained to support Staff and ARMB through the provision of expert real estate strategic planning, implementation and performance monitoring support.

**Separate Account Investment Managers** – Qualified entities who provide institutional real estate investment management services and maintain a discretionary relationship with ARMB subject to Staff’s approval of Annual Business Plans and Annual Strategic/Tactical plans, prepared by Separate Account Investment Managers, and ARMB’s approval of the Annual Investment Plan.

**Commingled Fund Managers** – Qualified entities who provide institutional real estate investment management services through open-end and closed-end real estate pools and other pooled/commingled vehicles.

### III. CONFLICTS OF INTEREST

In real estate investment, separate and distinct from other asset classes, the Manager of a Separate Account or Commingled Fund may have direct or significant control over the operations of the assets. This inherent or potential conflict of interest if openly described and regulated may contribute to the lower volatility associated with the asset class, but it also creates a need for a higher oversight standard by the plan sponsor. Staff and ARMB will maintain this oversight in at least the following ways:

#### *A. Property Valuation*

The Separate Account Investment Manager will provide ARMB with annual appraisal valuations for all properties for which it has asset management responsibility as of the quarter ending March 31. Unless otherwise directed by ARMB, the appraisal will be prepared by a qualified independent third party entity in accordance with industry standards. Staff may waive the appraisal requirement for recent acquisitions or pending dispositions following a recommendation by the Separate Account Investment Manager that such appraisal would not be a cost effective exercise. For development assets, appraisals are to be conducted in the manner described above after substantial completion payment by ARMB is made. In addition, the Separate Account Investment Manager will mark each asset to market each quarter based on asset conditions and leasing, operations and capital market conditions for comparable properties in that market.

#### *B. Property Management*

The selection of on-site property management will generally be left to the discretion of the Separate Account Investment Manager. It is expected that the Separate Account Investment Manager will retain the highest caliber, market rate property management service either through a third party fee manager or the Separate Account Investment Manager’s affiliated property management division. This business relationship will be periodically reviewed by Staff, the Real Estate Consultant and ARMB.

#### IV. INSURANCE COVERAGE

The Separate Account Investment Manager will obtain insurance for the physical properties and assets under its control. The coverage will be in such amounts and against such risks as, in the Separate Account Investment Manager's professional judgment, shall be in accordance with sound institutional practices applicable to such properties or assets in the specific geographic area. It is expected that such insurance will include, but not be limited to, casualty loss, including where deemed appropriate by the Separate Account Investment Manager, earthquake, flood and any other disaster-type insurance coverage; comprehensive general liability; and title insurance. Separate Account Investment Managers will provide proof of insurance to Staff annually.

#### V. UNRELATED BUSINESS INCOME TAX

Prior to entering into any transaction, the Manager will assess whether income generated from the property under consideration could qualify as unrelated business taxable income. If this risk exists, the Manager will provide ARMB with an opinion of counsel satisfactory to ARMB that the transaction will not generate unrelated business taxable income under the federal income tax law or any other tax provisions that could affect ARMB's tax-exempt status existing at the time. The Manager shall investigate as to whether ARMB shall be entitled to any property tax exemptions. Managers will provide letters of opinion on UBIT and property tax exemptions to Staff.

#### VI. ENVIRONMENTAL EVALUATIONS

As a standard procedure during the pre-acquisition analysis, the Separate Account Investment Manager will initiate a formal evaluation for each property through the selection of an environmental consultant. In carrying out the review, appropriate procedures based on standards of the locale and conditions known to exist in the locale shall be undertaken and such procedures should at a minimum include:

- Appointment of an environmental consultant with specific experience in testing and removal of asbestos and other environmental hazards.
- A site survey will be conducted to determine from the available evidence whether hazardous chemicals or environmentally dangerous materials exist or have existed on the subject property, including, at a minimum, a Phase I report.

ARMB may invest in properties, which contain asbestos and other toxic substances, only if the following conditions are met:

- The substance and potential risks are thoroughly disclosed.
- The property is not in violation of any federal, state or local law, ordinance, or regulation relating to the property's environmental condition.
- The estimated cost of the removal or containment programs will be reflected in the purchase assumptions.
- The substance can be properly contained or removed in accordance with the then current Environmental Protection Agency Standards.
- The leasing rollover pattern in the property will accommodate a removal program in the future.

Separate Account Investment Managers will provide the environmental evaluation reports to staff

## **VII. PROCEDURES FOR INVESTMENT**

### *A. Delegation of Responsibilities*

The real estate investment program will be implemented and monitored through the coordinated efforts of the ARMB, Staff, the Real Estate Consultant, and the qualified Manager(s). Delegation of responsibilities for each participant is described in the following sections: A summary of the delegation is attached:

#### **1. ARMB**

ARMB will retain final authority over all real estate investment strategy decisions except for Business Plan variances as set forth in the Guidelines Section VIII; approve the Guidelines, the Annual Investment Plan and any periodic revisions to these documents which ARMB deems to be appropriate and prudent for the investment of ARMB assets; retain qualified investment managers and real estate consultants; and set investment limits.

#### **2. Staff**

Staff will coordinate program compliance among all participants and communicate the investment policies, objectives and performance criteria to the Separate Account Investment Managers and monitor diversification compliance on a quarterly basis. Staff will also coordinate the receipt and distribution of capital. Staff, in cooperation with the Real Estate Consultant, will periodically review the Separate Account Investment Managers' and portfolio's performance in relation to target returns; review and approve the Separate Account Investment Manager's Annual Business Plan and Annual Strategic/Tactical Plan; review and recommend investments in commingled vehicles; prepare and recommend an Annual Investment Plan; and recommend revisions to the Real Estate Investment Policy Procedures and Guidelines. Staff will also review and approve the detailed property operating budgets prior to the start of each fiscal year and revisions to the property operating budgets in accordance with Section VIII of these Guidelines.

#### **3. Real Estate Consultant**

In cooperation with Staff and as deemed appropriate by ARMB, the Real Estate Consultant will ensure program compliance; assist in the implementation of a multiple manager program; review all program documentation and management relationships; conduct manager searches when requested; provide performance measurement analysis of the portfolio; review the Annual Investment Plan as set forth in the Investment Procedures outlined below; and provide special project research pertaining to technical real estate issues.

The Real Estate Consultant will, as requested by ARMB, provide periodic reports for the real estate program including a performance evaluation of the total portfolio to include both ARMB's commingled fund investments and ARMB's separate account investments. The analysis will include both income and capital accounting; comparison to industry performance benchmarks (such as NCREIF); Manager reviews, and effects of "Pooled Leverage" on the real estate portfolio. The Real

Estate Consultant will prepare a quarterly performance analysis report which will provide after-fee realized and unrealized gains/losses; monitor and report quarterly diversification compliance and the geographic concentration limits; time weighted returns including both current quarter returns and annualized returns since portfolio inception; and internal rates of return since inception based on actual cash flow from and to ARMB.

Additional responsibilities may include developing selection criteria in manager search efforts, coordinating/conducting manager searches, conducting manager reviews, and other special projects.

#### **4. Managers**

Separate Account Investment Managers will acquire and manage real estate investments on behalf of ARMB and in accordance with the then current and approved Annual Business, Annual Strategic/Tactical Plans, and the objectives set forth in the Annual Investment Plan and the Guidelines. Managers will prepare Annual Business (including property operating budgets) and Annual Strategic/Tactical Plans for Staff review and approval.

Commingled fund investment managers will acquire and manage real estate investments on behalf of ARMB and in accordance with the terms of any and all agreements between each respective Manager and ARMB.

#### ***B. Investment Procedure***

Real estate investments, in compliance with ARMB's Policies, shall be acquired through the following process:

##### **1. Separate Accounts:**

Annually, Staff will prepare an Investment Plan after reviewing the Annual Business and Strategic/Tactical Plans of the Separate Account Investment Managers. This document will recommend, as appropriate, revisions to the ARMB Guidelines, additional allocations to existing managers, and revisions to the Annual Business and Strategic/Tactical Plans of each respective Separate Account Investment Manager. Any searches that may be recommended will be outlined. The Investment Plan will then be reviewed by the consultant and submitted to ARMB for final approval. Staff and the Real Estate Consultant shall review the Separate Account Investment Manager's Annual Business Plans and Annual Strategic/Tactical Plans for consistency with the Annual Investment Plan. Staff will approve all Plans prepared by Separate Account Investment Managers.

Investments will be made on a discretionary basis by Separate Account Investment Managers in accordance with their approved Annual Business and Strategic/Tactical Plans. Separate Account Investment Managers must provide staff with copies of their internal "Investment Committee" reports for each asset purchased on ARMB's behalf.

## **2. Commingled Funds:**

Investments in commingled funds will be recommended by Staff and the Real Estate Consultant on an individual fund basis in accordance with the Annual Investment Plan and the ARMB Guidelines.

## **VIII. DELEGATION OF AUTHORITY**

ARMB shall delegate authority to Staff to approve the following:

- Each Separate Account Investment Manager's detailed property operating budgets for each fiscal year;
- Annual Business Plans and Annual Tactical/Strategic Plans prepared by ARMB's Separate Account Investment Managers;
- Revised property operating budgets and variances in approved Annual Business Plans for unanticipated, significant leasing activity; and
- Line item variances in approved capital expenditure budgets in amounts up to \$300,000 with a cumulative fiscal year maximum of \$3,000,000 per Separate Account Investment Manager for other capital expenditures not related to leasing activity (such as repairs for building damage or defects).

## **IX. CONFIDENTIALITY**

Pursuant to 15 AAC 112.770, ARMB shall withhold from other persons all information furnished to it by Manager(s) or Consultant(s) which is reasonably designated by Manager(s) or Consultant(s) as being confidential or proprietary, within the meaning of Alaska Statutes regarding rights to public information, except to the extent that the information is needed by ARMB in order to adequately report on the status and performance of the portfolio, or to comply with a court subpoena or with an official criminal investigation.

Those portions of reports provided pursuant to Part II section I (Reporting System) of these Guidelines shall be considered confidential pursuant to 15 AAC 112.770 to the extent that information is reasonably designated by Manager(s) as being confidential or proprietary, or to the extent the disclosure of which would unfairly prejudice the ability of Manager(s) or ARMB to manage, lease, market or sell such property or Assets.

## **X. REVISIONS**

This document is to be reviewed no less than annually and revised as appropriate.

**Attachment 1**

<b>REAL ESTATE INVESTMENT POLICY and PROCEDURES - Delegation of Responsibilities Attachment</b>					
	<b>Frequency</b>	<b>Separate Account Investment Managers</b>	<b>Consultant</b>	<b>Staff</b>	<b>Board</b>
<b>Real Estate Investment Policy, Procedures, and Guidelines</b>			R	P&R	A
Review and Revise	Annually		R	R	A
<b>Separate Account Investment Manager Selection</b>	Periodically		G&R	G&R	A
Request For Proposal (RFP)			P&R	P&R	A
<b>Real Estate Consultant Selection</b>	Tri-Annually			G&R	A
Request For Proposal (RFP)				P&R	A
<b>Commingled Fund Selection**</b>	Periodically		R	R	A
<b>Real Estate Investment Plan**</b>	Annually		R	P&R	A
<b>Separate Account Business Plan**</b>	Annually	P	R	R&A	
<b>Detailed Property Operating Budget</b>	Annually	P	R	R&A	
<b>Separate Account Strategic/Tactical Plan**</b>	Annually	P	R	R&A	RT
Quarterly Performance	Quarterly		P	RT	RT
Portfolio/Property Diversification Compliance	Quarterly		M	M	
Geographic Concentration Limit	Quarterly		M	RT	
<p>A = Approves                      RT = Reported To                      * Grade Semi-finalists only  G = Grade                              M = Monitor                              ** Investment Decision (Shaded)  P = Prepares  R = Recommends</p>					

# APPENDIX E

## ALASKA RETIREMENT MANAGEMENT BOARD FARMLAND INVESTMENT POLICIES, PROCEDURES AND GUIDELINES

### TABLE OF CONTENTS

	Page #
<b><i>I. INVESTMENT OBJECTIVES</i></b> _____	<b><i>1</i></b>
A. Investments in Farmland and Other Farmland Related Assets _____	1
B. Asset Allocation _____	1
C. Portfolio Return Objective _____	1
<b><i>II. PROGRAM RISK MANAGEMENT AND IMPLEMENTATION</i></b> _____	<b><i>2</i></b>
A. Institutional Quality _____	2
B. Diversification _____	2
C. Implementation Approach _____	4
D. Prudent Leverage _____	4
E. Directly Operated Properties _____	5
F. Lease Structure _____	5
G. Manager Business Plan; Annual Strategic/Tactical Plan; Disposition/Exit Strategy _____	5
H. Fee Structure _____	5
I. Single Asset Ownership Structure (Applies to Separate Accounts Only) _____	5
J. Reporting System _____	5
K. Distribution of Current Income _____	6
L. Lines of Responsibility _____	6
<b><i>III. CONFLICTS OF INTEREST</i></b> _____	<b><i>6</i></b>
A. Property Valuation _____	6
B. Property Management _____	7
<b><i>IV. INSURANCE COVERAGE</i></b> _____	<b><i>7</i></b>
<b><i>V. UNRELATED BUSINESS INCOME TAX</i></b> _____	<b><i>7</i></b>
<b><i>VI. ENVIRONMENTAL EVALUATIONS</i></b> _____	<b><i>8</i></b>
<b><i>VII. PROCEDURES FOR INVESTMENT</i></b> _____	<b><i>8</i></b>
A. Delegation of Responsibilities _____	8
B. Investment Procedure _____	9
<b><i>VIII. DELEGATION OF AUTHORITY</i></b> _____	<b><i>10</i></b>
<b><i>IX. CONFIDENTIALITY</i></b> _____	<b><i>10</i></b>
<b><i>X. REVISIONS</i></b> _____	<b><i>10</i></b>
<b><i>XI. FARMLAND SEPARATE ACCOUNT INVESTMENT MANAGERS</i></b> <i>Error! Bookmark not defined.</i>	



**ALASKA RETIREMENT MANAGEMENT BOARD  
FARMLAND INVESTMENT  
POLICIES, PROCEDURES AND GUIDELINES**

**I. INVESTMENT OBJECTIVES**

*A. Investments in Farmland and Other Farmland Related Assets*

The Alaska Retirement Management Board (ARMB) will invest in Farmland with the goals of portfolio diversification and attaining the optimum return on the portfolio, consistent with the assumption of prudent risk and safety of principal. ARMB recognizes the need to use active investment management in order to obtain the highest attainable total investment return (measured as income plus appreciation) within ARMB's framework of prudence and managed risk.

ARMB will select Separate Account Investment Managers (**Managers**) who have the discretion to invest in Farmland, subject to ARMB's approval of an Annual Strategic/Tactical Plan and an Annual Investment Plan. In order for Farmland investments to be considered, the Manager must demonstrate that it is able to: add value through its Farmland knowledge, experience and strategy; underwrite the risks of the investment which is contemplated; and comply with the intent of the Farmland Investment Policies, Procedures and Guidelines (**Guidelines**).

Single property and multi property strategies will be considered.

*B. Asset Allocation*

The ARMB allocation to Farmland investments shall be determined by the Board of Trustees and reviewed annually.

Farmland Investments will be allocated 80% to row crops and 20% to permanent crops, +/- ten (10%) percent

Allocated capital to Managers will be defined as invested capital based on ARMB's cost.

*C. Portfolio Return Objective*

**1. Total Return**

Over rolling 6 year periods, the equity Farmland investment portfolio is expected to generate a net-of-fee total return between public equities and fixed income using a time-weighted rate of return calculation.

## 2. Income Return

Income, which is defined as cash distributed to ARMB, is expected to produce 4.0% returns over rolling five-year periods with a minimum of 3.0% distributed income after fees and projected capital expenditures.

## II. PROGRAM RISK MANAGEMENT AND IMPLEMENTATION

The selection and management of assets in the Farmland portfolio of the ARMB will be guided by the principles of preserving investment capital, attaining the optimum return on the portfolio consistent with the assumption of prudent risk, generating current income, being sensitive to inflation, maintaining diversification of assets and diversification of management responsibility.

In Farmland investment, there is an inherent risk that the actual income and return of capital will vary from the amounts expected. The ARMB will manage the investment risk associated with Farmland in several ways:

### A. *Institutional Quality*

All assets must be of institutional investment quality as evidenced by a precedent of institutional investment in similar properties; i.e., properties that have high percentage of Class I & II soils or other soil types appropriate for the production of the targeted commodity, adequate sources of water for irrigation (if applicable) at reasonable costs, located in well established agricultural regions.

“Eligible Properties” mean real property in which ownership in fee vests in ARMB or an ARMB Title Holding Entity. Subsurface, water or other property rights will be acquired and/or retained consistent with use of the property for Farmland, and the terms of acquisition shall include the most favorable rights and terms accorded to any other participant in any controlling or overriding master lease or utilization type agreement which might be applicable to the use of the property (for example, if the ARMB property is a portion of a larger agricultural unit). For purposes of this definition, real property includes any property treated as real property either by local law or state law or for federal income tax purposes.

Investments will be located in the United States of America. International investments are not permitted.

### B. *Diversification*

The Farmland portfolio will be diversified as to crop type, property type and geographical location. Diversification reduces the impact on the portfolio of any one investment. Diversification compliance will be monitored on a quarterly basis for compliance with ARMB’s Guidelines by staff.

For purposes of calculating diversification compliance, the overall Farmland portfolio size will be considered the allocation to Farmland. Unless exceptional circumstances justify a deviation, the maximum percentage of the Farmland portfolio investment for each of the identified categories is as follows:

Controlled Investments:	100 %
<i>(ARMB can liquidate within 180 days –targeted, not guaranteed)</i>	
Non-Controlled Investments:	50%
<i>(ARMB cannot liquidate within 180 days)</i>	
Public Equity:	0 %
Public Debt:	0 %
Private Equity:	100 %
Private Debt:	0 %

Geographic:

ARMB will avoid over-concentration in areas of similar Farmland performance. The consultant will monitor ARMB’s concentrations in this area. The consultant will report its conclusions regarding the acceptability of ARMB’s concentration limits quarterly.

Properties Within the Same NCREIF Farmland Region	40%
Single Property Investment:*	15%
<i>(acquisition cost plus projected capital additions and improvements)</i>	
Single-Tenant/Sub-Tenant (any one firm):	15%
Crop Type (with a band of +/- 10%)	
Row Crop	80%
Permanent Crop	20%
Properties Producing the Same Commodity	30%

**Exceptional circumstances justifying a deviation** – When circumstances arise of a temporary nature, such as an unexpected re-valuation of assets, a transfer of assets among managers, or an event in which it would be in the fiduciary interest of the ARMB to do so, the limits set forth in paragraph II.B of ARMB Policies may be exceeded provided that ARMB concurs.

\* Exception for high cost markets shall be approved annually by the ARMB through its Annual Investment Plan.

Reinvestment of allocation by the investment manager shall require approval by the Chief Investment Officer (CIO). The CIO has discretion in determining the reinvestment amount to authorize. Amounts may reflect the original allocation or may recognize some portion of any realized gains or losses.

**CIO Discretionary Investment Authority** – The CIO shall have the following discretionary investment authority:

- a) To increase or decrease existing separate account allocations and investments in open-end funds;
- b) To commit to new investment funds up to \$100 million for each fund; and,
- c) To engage consultants and take other action as may be necessary to ensure sufficient due diligence is performed on all investments under consideration.

The CIO shall exercise this discretion within Board approved asset allocations, investment plans, and guidelines as they may apply.

The CIO will provide prior notification to the Chair of ARMB before committing to any investments under this authority. All discretionary CIO investment actions shall be reported to the Board.

### *C. Implementation Approach*

The ARMB will endeavor to allocate specific funds to qualified managers on a separate account basis. Selected managers will seek Farmland investment opportunities in privately-placed equity sectors. Investments will be made on a discretionary basis subject to ARMB Staff approval of the Annual Strategic/Tactical Plans prepared by Managers and Staff's approval of the Annual Investment Plan.

All allocation of funds to a manager (including additional investment with existing accounts) and investment strategy must be recommended to Staff and be accompanied by an investment report which, at a minimum, includes the following: market information; investment alternatives; fee structure and comparison to other alternatives; demonstration of compliance with the Guidelines and the then current Annual Investment Plan; historical performance of Manager (cash-based internal rates of return and industry standard); projected returns (income and appreciation); and positive and negative attributes of the investment strategy.

On a selective basis, a member of ARMB may visit the site of a Farmland investment for the purpose of rendering a report to ARMB supplementing reports provided by Staff or others.

### *D. Prudent Leverage*

The total amount of leverage placed on the aggregate Separate Account assets will not exceed ten percent (10%) of the total market value of the Farmland separate account portfolio. Directly-owned properties will not be leveraged by the separate account investment manager unless, with approval from the Chief Investment Officer, the property was encumbered by debt at the time of purchase and leaving the debt in place can be justified on a risk-return basis. With authorization by the ARMB, the Chief Investment

Officer may place leverage on a pool of existing core Farmland assets held in ARMB's separate account portfolio in a manner consistent with the ARMB's Guidelines.

#### *E. Directly Operated Agriculture Properties*

Directly operated agriculture properties are permitted. Managers will select operators for agricultural properties who have relevant experience and who have demonstrated expertise in operating that property's crop type.

#### *F. Lease Structure*

All leases must be of institutional investment quality with a precedent of institutional investment in similar properties; Leases will be structured with fixed cash rents, or participating rents calculated as a percentage of gross income. A lease structure incorporating both fixed cash rent and participating rent is also acceptable.

#### *G. Manager Business Plan; Annual Strategic/Tactical Plan; Disposition/Exit Strategy*

A Business Plan (including property operating budgets) will be completed by each manager for each asset under its management. The Business Plan will identify the current and anticipated competitive position for each property in order to set tactical and strategic objectives and will prescribe in appropriate detail a disposition and exit strategy respecting the particular investments. Part of this process is to evaluate the potential timing of dispositions. The Annual Strategic/Tactical Plan will describe the expectation of the manager with respect to acquisitions and dispositions.

#### *H. Fee Structure*

Involvement in any venture will be done on a fee basis that is competitive. The preferred method of calculating manager fees will be based upon a formula, which considers 1) the cost basis of assets under management and 2) market value of the assets under management. All fee structures will be approved by ARMB.

#### *I. Single Asset Ownership Structure (Applies to Separate Accounts Only)*

Provided that the goals of these guidelines are followed, ARMB may invest in separate, specific Farmland assets. However, such investments will be undertaken in a fashion structured to limit ARMB's liability to the amount of its investment.

#### *J. Reporting System*

Staff will develop and implement a comprehensive and responsive reporting and monitoring system for the entire portfolio, individual investments and individual managers. The reporting and monitoring system will endeavor to identify under-performing investments, control portfolio diversification deficiencies and inherent conflicts of interest,

thereby facilitating active portfolio management. A cash-based internal rate of return (IRR) will be used when evaluating the long-term performance of an investment. Time-weighted returns will be used to measure comparative performance.

#### *K. Distribution of Current Income*

All separate account income less expenses and prudent operating reserves will be distributed to ARMB or its designee on a quarterly basis and not automatically reinvested in the Account.

#### *L. Lines of Responsibility*

Well defined lines of responsibility and accountability will be required of all participants in ARMB's Farmland investment program. Participants are identified as:

**ARMB** – The fiduciaries appointed by the Governor to represent the beneficiaries' interest which shall retain final authority over all Farmland investment decisions.

**Staff** – Investment professionals on the staff of the Department of Revenue and assigned ARMB responsibilities who will assist in the Farmland equity investment program's design, policy implementation and administration.

**Separate Account Managers** – Qualified entities that provide institutional Farmland investment management services and maintain a discretionary relationship with ARMB subject to Staff's approval of Annual Business Plans and Annual Strategic/Tactical plans, prepared by Managers.

### III. CONFLICTS OF INTEREST

In Farmland investment, separate and distinct from other asset classes, the Manager of a Separate Account or Commingled Fund may have direct or significant control over the operations of the assets. Additionally, Managers may now or in the future maintain or manage properties and provide discretionary or non-discretionary advisory services for a number of other accounts and clients, including accounts affiliated with the Manager. These inherent or potential conflicts of interest if openly described and regulated may contribute to the lower volatility associated with the asset class, but it also creates a need for a higher oversight standard by the plan sponsor. Staff and ARMB will maintain this oversight in at least the following ways:

#### *A. Property Valuation*

The following valuation procedures shall be applied to all farmland assets managed in separate accounts for the Alaska Retirement Management Board:

- 1) All assets shall be appraised at the time of acquisition.

- 2) All assets shall be appraised annually during the quarter ending March 31 unless the property was acquired during the preceding twelve months in which case, based on a recommendation from the advisor, staff may allow an appraisal update or waive the appraisal requirement if such appraisal would not be a cost effective exercise.
- 3) All property valuations shall be reviewed internally by advisors for the quarters ending in June, September, and December. If changes in market conditions, expected cash flows, or other factors suggest a property valuation has likely changed by more than 3% to 5% the advisor shall prepare a documented internal valuation and record the resulting value in the financial statements.
- 4) Appraisals will be prepared by a qualified independent third party entity in accordance with industry standards. Appraisers shall be selected by the advisor in a manner that achieves a high quality appraisal at a reasonable cost.
- 5) Advisor shall attempt to rotate appraisers on each property every three years.

### *B. Property Management*

The selection of on-site property management will generally be left to the discretion of the Manager. It is expected that the Manager will retain the highest caliber, market rate property management service either through a third party fee manager or the Manager's affiliated property management division. This business relationship will be periodically reviewed by Staff and ARMB.

## IV. INSURANCE COVERAGE

The Manager will obtain insurance for the physical properties and assets under its control. The coverage will be in such amounts and against such risks as, in the Manager's professional judgment, shall be in accordance with sound institutional practices applicable to such properties or assets in the specific geographic area. It is expected that such insurance will include, but not be limited to, casualty loss, including where deemed appropriate by the Manager, disaster-type insurance coverage; comprehensive general liability; and title insurance.

## V. UNRELATED BUSINESS INCOME TAX

The Manager will provide ARMB with an opinion of counsel satisfactory to ARMB that the standard lease or subsequent revisions to the standard lease used to lease Account Property will not generate unrelated business taxable income under the federal income tax law or any other tax provisions that could affect ARMB's tax-exempt status existing at the time. The Manager shall investigate as to whether ARMB shall be entitled to any property tax exemptions.

## VI. ENVIRONMENTAL EVALUATIONS

As a standard procedure during the pre-acquisition analysis, the Manager will initiate a formal evaluation for each property through the selection of an environmental consultant. In carrying out the review, appropriate procedures based on standards of the locale and conditions known to exist in the locale shall be undertaken and such procedures should at a minimum include:

- Appointment of an environmental consultant with specific experience in testing and removal of asbestos and other environmental hazards.
- A site survey will be conducted to determine from the available evidence whether hazardous chemicals or environmentally dangerous materials exist or have existed on the subject property, including, at a minimum, a Phase I report.

ARMB may invest in properties, which contain asbestos and other toxic substances, only if the following conditions are met:

- The substance and potential risks are thoroughly disclosed.
- The property is not in violation of any federal, state or local law, ordinance, or regulation relating to the property's environmental condition.
- The estimated cost of the removal or containment programs will be reflected in the purchase assumptions.
- The substance can be properly contained or removed in accordance with the then current Environmental Protection Agency Standards.
- The leasing rollover pattern in the property will accommodate a removal program in the future.

## VII. PROCEDURES FOR INVESTMENT

### *A. Delegation of Responsibilities*

The Farmland investment program will be implemented and monitored through the coordinated efforts of the ARMB; Staff and; the qualified Manager(s). Delegation of responsibilities for each participant is described in the following sections: A summary of the delegation is attached:

#### **1. ARMB**

ARMB will retain final authority over all Farmland investment strategy decisions except for Business Plan variances as set forth in the Guidelines Section VIII; approve the Guidelines, the Annual Investment Plan and any periodic revisions to these documents which ARMB deems to be appropriate and prudent for the investment of ARMB assets; retain qualified investment managers and Farmland consultants; and set investment limits.



## **2. Staff**

Staff will coordinate program compliance among all participants and communicate the investment policies, objectives and performance criteria to the Managers and monitor diversification compliance on a quarterly basis. Staff will also coordinate the receipt and distribution of capital. Staff will periodically review the Managers' and portfolio's performance in relation to target returns; review and approve the Manager's Annual Business Plan and Annual Strategic/Tactical Plan; review and recommend an Annual Investment Plan; and recommend revisions to the Farmland Investment Policy Procedures and Guidelines. Staff will also review and approve the detailed property operating budgets prior to the start of each fiscal year and revisions to the property operating budgets in accordance with Section VIII of these Guidelines.

## **3. Managers**

Separate account investment managers will acquire and manage Farmland investments on behalf of ARMB and in accordance with the then current and approved Annual Business, Annual Strategic/Tactical Plans, and the objectives set forth in the Annual Investment Plan and the Guidelines. Managers will prepare Annual Business (including property operating budgets) and Annual Strategic/Tactical Plans for Staff review and approval.

### *B. Investment Procedure*

Farmland investments, in compliance with ARMB's Policies, shall be acquired through the following process:

#### **Separate Accounts:**

Annually, Staff will prepare an Investment Plan after reviewing the Annual Business and Strategic/Tactical Plans of the separate account investment managers. This document will recommend, as appropriate, revisions to the ARMB Guidelines, additional allocations to existing managers, and revisions to the Annual Business and Strategic/Tactical Plans of each respective separate account investment manager. Staff shall review the Manager's Annual Business Plans and Annual Strategic/Tactical Plans for consistency with the Annual Investment Plan. Staff will approve all Plans prepared by the Managers.

Investments will be made on a discretionary basis by separate account investment managers in accordance with their approved Annual Business and Strategic/Tactical Plans. Investments will be approved in accordance with Managers' standard internal investment approval process, which may involve levels of authority delegated to senior officers and/or one or more investment committees. Upon the request of ARMB, separate account investment managers will provide copies of their internal Investment Committee reports for each asset purchased.

## VIII. DELEGATION OF AUTHORITY

ARMB shall delegate authority to Staff to approve the following:

- Each separate account Manager's detailed property operating budgets for each fiscal year;
- Annual Business Plans and Annual Tactical/Strategic Plans prepared by ARMB's separate account Managers;
- Revised property operating budgets and variances in approved Annual Business Plans for unanticipated, significant leasing activity; and
- Line item variances in approved capital expenditure budgets in amounts up to \$500,000 with a cumulative fiscal year maximum of \$3,000,000 per Investment Manager for other capital expenditures not related to leasing activity (such as repairs for building damage or defects).

## IX. CONFIDENTIALITY

Pursuant to 15 AAC 112.770, ARMB shall withhold from other persons all information furnished to it by Manager(s) or Consultant(s) which is reasonably designated by Manager(s) or Consultant(s) as being confidential or proprietary, within the meaning of Alaska Statutes regarding rights to public information, except to the extent that the information is needed by ARMB in order to adequately report on the status and performance of the portfolio, or to comply with a court subpoena or with an official criminal investigation.

Those portions of reports provided pursuant to Part II section I (Reporting System) of these Guidelines shall be considered confidential pursuant to 15 AAC 112.770 to the extent that information is reasonably designated by Manager(s) as being confidential or proprietary, or to the extent the disclosure of which would unfairly prejudice the ability of Manager(s) or ARMB to manage, lease, market or sell such property or Assets.

## X. REVISIONS

This document is to be reviewed no less than annually and revised as appropriate.

**Attachment 1**

<b>FARMLAND INVESTMENT POLICIES, PROCEDURES AND GUIDELINES - Delegation of Responsibilities "Attachment 1"</b>					
	<b>Frequency</b>	<b>Separate Account Investment Managers</b>	<b>Consultant</b>	<b>Staff</b>	<b>Board</b>
<b>Farmland Investment Policies Procedures and Guidelines</b> Review and Revise	Annually			P, R	A
<b>Separate Account Investment Manager Selection</b> Request for Proposals (RFP)	Periodically		P, G, R	P, G, R	A
<b>Farmland Investment Plan</b>	Annually			P, R	A
<b>Separate Account Business Plan and Strategic/Tactical Plan</b>	Annually	P, R		A	
<b>Quarterly Performance</b>	Quarterly		P		
<b>Portfolio/Property Diversification Compliance</b>	Quarterly	P		M	
<b>Geographic Concentration Limit</b>	Quarterly	P		M	
A = Approve G = Grade P = Prepare	R = Recommend M = Monitor				

## Timberland

### ARMB Investment Guidelines

#### **Section 1.**     Investment Objective

To develop a diversified portfolio of Timberland Investments with a focus on total return which will seek to produce a net-of-fee total return between public equities and fixed income over rolling six-year periods. Portfolio risk shall reflect, in each ARMB Timberland Advisor's (as defined in Section 2 below) judgment, the lowest expected risk profile required to achieve the return objectives. Each ARMB Timberland Advisor will place an emphasis on the preservation of capital and diversify the Timberland Investments to minimize risk. To the extent return objectives can be met, current income shall be given preference over appreciation.

#### **Section 2.**     ARMB Timberland Advisor Selection

ARMB will select qualified investment managers who have the discretion to invest in Timberland ("ARMB Timberland Advisors). In order for entities to be considered, the entity must demonstrate that it is able to add value through its Timberland knowledge, experience and strategy; evaluate the risks of each Timberland Investment which is contemplated; and, comply with these ARMB Timberland Investment Guidelines (the "ARMB Investment Guidelines").

Each ARMB Timberland Advisor will provide services according to an agreed upon investment management agreement (contract) and the ARMB Investment Guidelines. ARMB will endeavor to allocate specific funds to each ARMB Timberland Advisor on a separate account basis (each a "Separate Account"). ARMB Timberland Advisors will invest funds on a discretionary basis in Timberland Investment opportunities to the extent of its specific allocation and Separate Account.

Compensation for investment management services will be done on a fee basis that is competitive. The preferred method of calculating ARMB Timberland Advisor fees will be based upon a formula, which considers 1) the cost basis of assets under management and 2) market value of the assets under management.

#### **Section 3.**     Allocation

ARMB's allocation to Timberland Investments shall be determined by the Board of Trustees and reviewed annually.

Reinvestment of allocation by the investment manager shall require approval by the Chief Investment Officer (CIO). The CIO has discretion in determining the reinvestment amount to authorize. Amounts may reflect the original allocation or may recognize some portion of any realized gains or losses.

**CIO Discretionary Investment Authority** – The CIO shall have the following discretionary investment authority:

- a) To increase or decrease existing separate account allocations and investments in open-end funds;
- b) To commit to new investment funds up to \$100 million for each fund; and,

- c) To engage consultants and take other action as may be necessary to ensure sufficient due diligence is performed on all investments under consideration.

The CIO shall exercise this discretion within Board approved asset allocations, investment plans, and guidelines as they may apply.

The CIO will provide prior notification to the Chair of ARMB before committing to any investments under this authority. All discretionary CIO investment actions shall be reported to the Board.

#### **Section 4. Advisor Performance Benchmark**

NCREIF Timberland Index

#### **Section 5. Investment Constraints**

(a) Each property underlying a Timberland Investment will be commercial timberland in accordance with the standards and customs of the region in which the property is located. Although commercial attributes vary significantly across regions and among forest types, generally, properties will be characterized by adequate timber stocking, sufficient productivity, established timber markets, and ready access.

(b) Location: Timberland Investments will be located inside the United States of America.

(c) Diversification and Concentration: Each ARMB Timberland Advisor will undertake to ensure that the Timberland Investments under its control are adequately diversified. While each ARMB Timberland Advisor will seek to invest across the primary timberland regions of the United States as defined by the National Council of Real Estate Investment Fiduciaries (NCREIF) Timberland Index, geographic diversification will ultimately depend on the availability of attractive investment opportunities, as well as potential diversification by species, age classes of trees and suitability for a variety of end products.

(d) Leverage: The total amount of leverage placed on the aggregate Separate Accounts allocated to all ARMB Timberland Advisors for investment will not exceed ten percent (10%) of the total market value of all such Timberland Investments at the time such leverage is incurred. The purchase or refinance of Timberland Investments with debt and borrowing against Timberland Investments shall be permitted only with the prior consent of ARMB's Chief Investment Officer. The Advisor will not cause the Account to incur indebtedness without ARMB's prior consent.

(e) Allocation: Each ARMB Timberland Advisor may exceed its Separate Account Allocation by up to 5% for the purposes of capital expenditures on existing assets and/or the completion of an acquisition.

(f) Non-Routine Activity: Each ARMB Timberland Advisor will seek the prior approval of ARMB's Chief Investment Officer before entering into any arrangements which provide ancillary income activity from the Timberland which are not routinely associated with Timberland Investments. Examples include mining, wind farms, and utility infrastructure.

## **Section 6.**     ARMB Timberland Advisor Annual Portfolio Review

Annually, each ARMB Timberland Advisor will submit an annual portfolio review to ARMB staff (“Staff”) which shall include an annual business plan addressing each Timberland Investment in the portfolio in its Separate Account and an annual portfolio level strategic plan. The objective of this effort is to facilitate Staff’s monitoring of the Timberland Investments to ensure existing investments and future strategy are consistent with ARMB’s objectives and to recognize any program changes, which may require ARMB approval, to facilitate the efficient operation of the investment program. Each ARMB Timberland Advisor will collaborate with Staff to identify the specific content of the business plan and strategic plan for the Timberland Investments in its Separate Account, but should consider the following:

Annual business plans will focus on past performance and future performance expectations for existing assets in the portfolio. Information should include performance analysis, hold/sell analysis, and investment budgets including explanations for future capital budget items.

Annual portfolio level strategic plans will focus on overall portfolio and market performance, portfolio diversification, market conditions, and strategy for acquisitions and disposition for the upcoming year. The strategic plan should also include any recommendations to improve the ARMB Investment Guidelines and/or ARMB’s Timberland investment strategy.

## **Section 7.**     Ownership Structure

Timberland Investments will be owned in a structure designed to limit ARMB’s liability to the amount of its capital commitment to such Timberland Investment and, where feasible, to recognize and preserve tax-exempt status.

## **Section 8.**     Reporting System

Staff will develop and implement a comprehensive and responsive reporting and monitoring system for all Timberland Investments and each ARMB Timberland Advisor. In order to facilitate active portfolio management, Staff will develop a reporting and monitoring system which will endeavor to identify underperforming investments, control portfolio diversification deficiencies and manage inherent conflicts of interest. A cash-based internal rate of return (IRR) will be used when evaluating the long-term performance of a Timberland Investment. Time-weighted returns will be used to measure comparative performance.

## **Section 9.**     Lines of Responsibility

The Timberland investment program will be implemented and monitored through the coordinated efforts of the ARMB, Staff, and the ARMB Timberland Advisors. A description of the program participants and their general responsibilities are as follows:

ARMB – The statutorily created board which is the fiduciary for the retirement trust funds, comprised of trustees appointed by the Governor to represent the beneficiaries’ interest. ARMB hires qualified ARMB Timberland Advisors and consultants; approves the ARMB Investment Guidelines and revisions to them; and approves the Annual Investment Plan prepared by Staff.

Staff- Investment professionals on staff at the Department of Revenue assigned to ARMB Timberland Investments, who will assist in the Timberland investment program's design, policy implementation, and administration. Staff coordinates program and guidelines compliance among all participants and communicates the investment policies, objectives, and performance criteria to the ARMB Timberland Advisors; monitors diversification compliance on a quarterly basis; and coordinates the receipt and distribution of capital. Staff will review and approve each ARMB Timberland Advisor's annual business plan, including revisions to the investment budgets in accordance with Section 13 hereof, and annual portfolio level strategic plan. Staff will recommend, to ARMB, revisions to the Timberland Investment Guidelines as may be necessary from time to time.

Annually, Staff will prepare an Annual Investment Plan after reviewing the annual business and annual portfolio level strategic plan prepared by the ARMB Timberland Advisors. This document will recommend, as appropriate, revisions to the overall Timberland Investment strategy, revisions to the Timberland Investment Guidelines, and make recommendations for additional allocations to the ARMB Timberland Advisors as may be desirable.

ARMB Timberland Advisors – Qualified entities selected by ARMB that provide institutional Timberland investment management services to ARMB. ARMB Timberland Advisors will invest and manage the Timberland Investment portfolios in accordance with their contracts.

#### **Section 10. Property Management**

The selection of on-site property management will generally be left to the discretion of the applicable ARMB Timberland Advisor. It is expected the ARMB Timberland Advisor will retain the highly qualified, market rate property management service either through a third party fee manager or the ARMB Timberland Advisor's affiliated property management division. This business relationship will be periodically reviewed by Staff and ARMB.

#### **Section 11. Insurance Coverage**

Each ARMB Timberland Advisor shall obtain insurance coverage with respect to the Timberland and the Timberland Investments in such amounts and against such risks as, in such ARMB Timberland Advisor's professional judgment, are in accordance with sound institutional practices applicable to Timberland Investments.

#### **Section 12. Environmental Evaluations**

As part of the pre-acquisition analysis for all prospective new Timberland Investments, each ARMB Timberland Advisor shall conduct a Phase 1 Environmental Site Assessment to identify the presence or likely presence of hazardous substances or petroleum products under conditions that indicate an imminent, existing or past release, or a material threat of a release into structures, or into the ground, groundwater or surface water.

### **Section 13.** Delegation of Authority

ARMB shall delegate authority to Staff to approve the following:

- Annual business plans and annual portfolio strategic plans prepared by the ARMB Timberland Advisors;
- Revised investment budgets and variances in approved annual business plans for unanticipated activity; and
- Line item variances in approved capital expenditure budgets in amounts up to \$500,000 with a cumulative fiscal year maximum of \$3,000,000 per Advisor.

### **Section 14.** Confidentiality

Pursuant to 15 AAC 112.770, ARMB shall withhold from other persons all information furnished to it by ARMB Timberland Advisor(s) or consultant(s) which is reasonably designated by ARMB Timberland Advisor(s) or consultant(s) as being confidential or proprietary, within the meaning of Alaska Statutes regarding rights to public information, except to the extent that the information is needed by ARMB in order to adequately report on the status and performance of the portfolio, or to comply with a court subpoena or with an official criminal investigation.

Those portions of reports provided pursuant to the Agreement with ARMB Timberland Advisor(s) shall be considered confidential pursuant to 15 AAC 112.770 to the extent that information is reasonably designated by ARMB Timberland Advisor(s) as being confidential or proprietary, or to the extent the disclosure of which would unfairly prejudice the ability of ARMB Timberland Advisor(s) or ARMB to manage, lease, market or sell such property or Assets.

### **Section 15.** Unrelated Business Income Tax

Each ARMB Timberland Advisor will manage its respective Separate Account with a view toward minimizing the recognition of unrelated business taxable income (“UBTI”) to the extent consistent with the Investment Objective set forth in Section 1 above. Each ARMB Timberland Advisor will consult with ARMB prior to entering into any transaction that could reasonably be expected to result in the recognition of significant amounts of UBTI.

### **Section 16.** Revisions

The ARMB Investment Guidelines are to be reviewed no less than annually and revised as appropriate.

### **Section 17.** Definitions

(a) “Timber” means trees growing on Timberland, or trees which have been cut but not removed from Timberland.



(b) “Timberland” means real property which is to be planted with Timber or real property on which Timber is growing.

(c) “Timberland Investment” means, in general, all interests (including fee ownership, leasehold interests or management rights) in Timberland; timber deeds, timber cutting contracts and other rights, contracts or agreements relating to the ownership, cutting and/or use of Timber; options to acquire or sell Timber or Timberland or interests therein; mineral rights (including oil and gas rights), biomass or carbon credits attendant to the ownership of Timberland; and personal property, both tangible and intangible, directly associated or connected with the use of Timberland.

## Infrastructure

### ARMB Investment Guidelines

In addition to the Infrastructure Guidelines, public infrastructure investments shall comply with ARMB's Investment Guidelines for Domestic, International and Alternative Equities.

#### **Section 1. Investment Objective**

To develop a diversified portfolio of infrastructure investments with a focus on total return which will seek to produce a net-of-fee total return between public equities and fixed income over rolling six-year periods. Each ARMB infrastructure advisor will place an emphasis on the preservation of capital and diversify the infrastructure investments to minimize risk. To the extent return objectives can be met, current income shall be given preference over appreciation.

#### **Section 2. ARMB Infrastructure Advisor Selection**

ARMB will select qualified investment managers who have the discretion to invest in infrastructure. In order for entities to be considered, the entity must demonstrate that it is able to add value through its infrastructure knowledge, experience and strategy; evaluate the risks of each infrastructure investment which is contemplated; and comply with these ARMB Infrastructure Investment Guidelines.

ARMB will implement an investment process for infrastructure which will, over time, include a minimum of two private investment advisors who have been selected on a competitive basis. Each ARMB infrastructure investment advisor will provide services according to an agreed upon investment management agreement (contract) and the ARMB Investment Guidelines. ARMB will endeavor to allocate specific funds to each ARMB infrastructure investment advisor. ARMB infrastructure advisors will invest funds on a discretionary basis in infrastructure investment opportunities to the extent of its specific allocation.

Compensation for investment management services will be done on a fee basis that is competitive. The preferred method of calculating ARMB infrastructure investment advisor fees will be based upon a formula, which considers 1) the cost basis of assets under management and 2) market value of the assets under management.

#### **Section 3. Allocation**

ARMB's allocation to infrastructure investments shall be determined by the Board of Trustees and reviewed annually.

**CIO Discretionary Investment Authority** – The CIO shall have the following discretionary investment authority:

- a) To increase or decrease existing separate account allocations and investments in open-end funds;
- b) To commit to new investment funds up to \$100 million for each fund; and,
- c) To engage consultants and take other action as may be necessary to ensure sufficient due diligence is performed on all investments under consideration.

The CIO shall exercise this discretion within Board approved asset allocations, investment plans, and guidelines as they may apply.

The CIO will provide prior notification to the Chair of ARMB before committing to any investments under this authority. All discretionary CIO investment actions shall be reported to the Board.

#### **Section 4. Performance Benchmark**

The benchmark for the total infrastructure portfolio will be CPI + 4%. Investment managers for public stock portfolios will be allowed to use their preferred infrastructure benchmark. Private investment advisors will be evaluated based on the income and total return objectives of their strategies. The inflation index used to calculate the actual real rate of return is the CPI All Urban.

#### **Section 5. Investment Constraints**

- (a) Private infrastructure investment strategies shall be constrained by the partnership agreements and other agreements establishing the contractual arrangement with ARMB's infrastructure investment advisors.
- (b) Location: No more than 10% of ARMB's infrastructure investments shall be located in emerging markets.
- (c) Strategy: No more than 20% of ARMB's infrastructure investments shall be focused on development of infrastructure assets.
- (d) Diversification and Concentration: Each ARMB infrastructure advisor shall ensure that the infrastructure investments under its control are adequately diversified in the context of its investment strategy.
- (e) Leverage: The total amount of leverage utilized by private infrastructure managers shall not exceed 75% of the value of the asset as measured at the time the leverage is placed on the asset. Public infrastructure investment managers shall not use leverage.

## **Section 6. Ownership Structure**

Private infrastructure investments will be owned in a structure designed to limit ARMB's liability to the amount of its investment and, where feasible, to recognize and preserve tax-exempt status.

## **Section 7. Reporting System**

Staff will develop and implement a comprehensive and responsive reporting and monitoring system for each ARMB infrastructure advisor.

## **Section 8. Lines of Responsibility**

The infrastructure investment program will be implemented and monitored through the coordinated efforts of the ARMB, staff, and the ARMB infrastructure advisors. A description of the program participants and their general responsibilities are as follows:

ARMB – The statutorily created board which is the fiduciary for the retirement trust funds, comprised of trustees appointed by the Governor to represent the beneficiaries' interest. ARMB hires qualified infrastructure investment advisors and consultants, approves the ARMB Investment Guidelines and revisions to them, and approves the Annual Investment Plan prepared by staff.

Staff - Investment professionals on staff at the Department of Revenue assigned to ARMB infrastructure investments, which will assist in the program's design, policy implementation, and administration. Staff will recommend revisions to the Infrastructure Investment Guidelines as may be necessary from time to time to ARMB.

Annually, staff will prepare an Annual Investment Plan. This document will recommend, as appropriate, revisions to the overall infrastructure investment strategy, revisions to the Infrastructure Investment Guidelines, and make recommendations for additional allocations as may be desirable.

ARMB Infrastructure Advisors – Qualified entities selected by ARMB that provide institutional infrastructure investment management services to ARMB. ARMB Infrastructure Advisors will invest and manage the portfolios in accordance with their contracts.

## **Section 9. Confidentiality**

Pursuant to 15 AAC 112.770, ARMB shall withhold from other persons all information furnished to it by ARMB Infrastructure Advisor(s) or consultant(s) which is reasonably designated by ARMB Infrastructure Advisor(s) or consultant(s) as being confidential or proprietary, within the meaning of Alaska Statutes regarding rights to public information, except to the extent that the information is needed by ARMB in order to adequately report on the status and performance of the portfolio, or to comply with a court subpoena or with an official criminal investigation.

Those portions of reports provided pursuant to the Agreement with ARMB Infrastructure Advisor(s) shall be considered confidential pursuant to 15 AAC 112.770 to the extent that information is reasonably designated by ARMB Infrastructure Advisor(s) as being confidential or proprietary, or to the extent the disclosure of which would unfairly prejudice the ability of ARMB Infrastructure Advisor(s) or ARMB to manage, lease, market or sell such property or assets.

**Section 10. Revisions**

The ARMB Investment Guidelines are to be reviewed no less than annually and revised as appropriate.