

REAL ESTATE NON-DISCRETIONARY
CONSULTING AGREEMENT

Between

RHODE ISLAND EMPLOYEES' RETIREMENT SYSTEM

and

THE TOWNSEND GROUP

Dated December 1, 2003

The Townsend Group
Institutional Real Estate Consultants

Cleveland, Ohio San Francisco, California Denver, Colorado

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CONSULTING AGREEMENT

THIS REAL ESTATE CONSULTING AGREEMENT ("**Agreement**") is made, as of December 1, 2003, by and between Rhode Island Employees' Retirement System (the "**Client**") and The Townsend Group ("**Consultant**").

WHEREAS, the Client has a real estate allocation of five-percent (5%), approximately \$290 million for investment in real estate in the United States (the "**Portfolio**"); and

WHEREAS, the Client seeks to retain Consultant to provide real estate consulting services, as more particularly described herein, with respect to the Portfolio;

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained, the Client and Consultant do hereby agree as follows:

1. Engagement as Consultant.

The Client hereby engages Consultant, and Consultant hereby accepts such engagement, to provide real estate consulting services to the Client for the period and on the terms set forth in this Agreement.

2. Services.

Consultant will have no discretion in managing the Portfolio. Rather, the Consultant shall provide the Client real estate consulting services described in the Scope of Services attached hereto as **Exhibit A** (the "**Services**"). The Consultant shall allocate such personnel and devote such efforts as are necessary for it to carry out its duties under this Agreement. The Consultant shall at all times maintain not less than two individuals to act as primary consultants to the Client account and shall not change any primary consultant without prior consent of the Client.

3. Compensation.

As compensation for providing the Services as listed in **Exhibit A**, Consultant shall be compensated as set forth in the Fee Schedule attached hereto as **Exhibit B** (the "**Fee Schedule**").

4. Representations, Warranties and Agreements of Consultant.

Consultant:

- i) represents and warrants that it is duly registered as an investment adviser under the Investment Advisers Act of 1940;
- ii) acknowledges its status as a fiduciary with respect to the Client, and agrees to provide the Services hereunder in accordance with the fiduciary

standards set forth in the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**");

- iii) represents and warrants that it meets the bonding requirements provided by Section 412 of ERISA or that it carries at least an equivalent surety bond applicable to Consultant's actions hereunder;
- iv) represents and warrants that it has carefully reviewed the Client's investment guidelines and reporting requirements attached hereto as **Exhibit C** (the "**Guidelines**");
- v) agrees that it will endeavor to identify investment advisors that are prepared to provide investment opportunities and other investment management services in compliance with the Real Estate Guidelines, as currently in effect and as modified from time to time by Client and notified to Consultant and such investment advisors. The terms "**advisor**" and "**manager**" are used interchangeably herein and are not meant to convey any particular meaning as to the advisor's or manager's level of authority over Client's assets, it being understood that such level of authority and the identity of Client assets affected shall be the subject of an agreement to be entered into by and between Client and each such advisor or manager;
- vi) represents and warrants that it maintains at its expense an errors and omissions insurance policy providing a prudent amount of coverage for negligent acts or omissions and that such coverage is applicable to Consultant's actions hereunder;
- vii) represents and warrants that it has completed, obtained and performed all registrations, filings, approvals, authorizations, consents or examinations required by a government or a governmental authority for acts contemplated by contract;
- viii) represents and warrants that all information and statements presented to the Client in connection with this Agreement, including, but not limited to, the response to the Request for Proposal (the "**RFP**") submitted in connection herewith, are complete and true to the best of its knowledge and that no attempt has been made to include any false or misleading material;
- ix) represents and warrants that it meets all of the minimum criteria set forth in the RFP;
- x) represents and warrants that it has not paid or incurred, and shall not pay or incur, any third party marketing, broker or sales fees in the procurement or continuation of this Agreement; Consultant agrees that it shall not directly or indirectly receive any benefit from recommendations or advice made to the Client and shall disclose to the Client (a) any personal

investment or economic interest that may be enhanced by the recommendations made to the Client or (b) any situation in which the interests of the Client may be in material conflict with the interests of the Consultant or with those of other clients of the Consultant;

- xi) represents and warrants that it is an equal opportunity employer as defined by federal law;
- xii) agrees that it will promptly inform the Client (within 24 hours if possible) if any of the following events occur:
 - (a) a substantial change in the ownership structure of Consultant;
 - (b) the departure from the Consultant of any of Terrance R. Ahern, Frank Blaschka, Kevin W. Lynch, and F.C. Neil Meyer.
 - (c) a change in philosophy of the Consultant that represents a deviation from the philosophy represented at the time of the RFP;
 - (d) any material adverse development in the ability of the Consultant to provide consulting services in accordance with this Agreement;
 - (e) the commencement by any governmental regulatory or law enforcement agency of any investigation, examination or other proceeding directly involving the Consultant, any affiliate of Consultant or any of its or their owners, officers, directors or employees, except such investigations, examinations or other proceedings (1) as are routinely conducted in the ordinary course of the Consultant's business, or (2) that do not affect the conduct of Consultant's business or do not otherwise relate to the activities of any such officer, director or employee in their capacity as such; and
 - (f) any situation that has the potential to impact either the professionalism, financial position or integrity of either the Consultant or the Client.

5. Representations, Warranties and Agreements of the Client.

The Client:

- i) agrees to advise Consultant of the investment objectives of the Portfolio and of any changes or modifications therein, and to notify Consultant of any additions to, withdrawals from or other events materially affecting the Portfolio of which the Consultant would not otherwise have knowledge;
- ii) acknowledges that the Portfolio represents only a portion of the assets of the Client and that the Client may in the future acquire real estate

investments other than through the Portfolio. The parties agree that the Consultant shall have no responsibility or liability regarding the Client's overall investment policies or strategy, overall portfolio composition, or diversification of the Client's non-real estate investments;

- iii) acknowledges Consultant has delivered to the Client, Consultant's current SEC Form ADV, Part II (Consultant's disclosure statement). The Client acknowledges receipt of such disclosure statement at least five (5) business days prior to the execution of this Agreement; and
- iv) agrees to maintain the confidentiality of, and use only with respect to the Portfolio, all advice provided by Consultant.

6. Indemnification.

At all times the Consultant shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. Neither the Consultant, nor any of its principals, officers, or employees, all of which for this Section 6 shall be included in the term "Consultant," will be responsible or liable, whether to the Client or any other person or entity, for any loss, liability, cost, expense or damage incurred or sustained by the Client ("Loss") arising out of (i) any of the services provided hereunder (including the recommendation or selection of investment advisors or managers); except where such Loss arose from Consultant's lack of good faith, negligence, willful misconduct or material breach of this Agreement in performing such services, or (ii) from any action or inaction by the Client or any other person or entity besides the Consultant, including, without limitation, any failure by the Client to comply with any instructions or recommendations of the Consultant hereunder. So long as the Consultant follows the directions of the Client in accordance with this Agreement, the Consultant will not be liable for any loss, liability, cost, expense or damage incurred by reason of the Consultant's compliance with such directions unless due to the Consultant's negligence, bad faith or willful misconduct in carrying out such directions. Nothing herein shall be construed to waive any liability that the Consultant has under applicable federal or state securities laws, or ERISA. Client agrees to indemnify and hold harmless the Consultant from and against all liability, loss, damages, costs and expenses (including reasonable attorneys' fees and amounts paid in settlement) which the Consultant may incur or suffer which results from or arises out of the Client's negligence, bad faith, or willful misconduct or material breach of this Agreement.

Except to the extent provided above, the Consultant will indemnify and hold harmless the Client from and against all liability, loss, damage, costs and expenses (including reasonable attorneys fees and amounts paid in settlement) which the Client may incur or suffer which results from or arises out of the Consultant's negligence, bad faith, or willful misconduct or material breach of this Agreement.

The provisions of this Section 6 shall survive the termination of this Agreement.

7. Confidential Information.

Consultant understands and agrees that, in the performance of the Services under this Agreement or in contemplation thereof, Consultant may have access to private or confidential information which may be owned or controlled by the Client and that such information may contain proprietary or confidential details, the disclosure of which to third parties will be damaging to the Client. Consultant agrees that all information disclosed by the Client, the Client's custodian bank, investment managers, general consultant and private equity consultant to Consultant shall be held in confidence and used only in performance of the Services to be provided in connection with this Agreement.

Notwithstanding the foregoing, Consultant may disclose the identity of the Client and its client relationship with Consultant in response to requests for proposals, in presentations, and in other materials to other clients or prospective clients of Consultant. Consultant may furnish to the consultants of the Client and to statistical services any reports regarding the operations and results of investments in the Portfolio (provided, however, that the Portfolio will not be specifically identified except to the consultants of the Client).

8. Governing Law; Disputed Matters.

The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of Rhode Island.

With respect to any controversy or dispute arising out of this Agreement, interpretation of any of the provisions hereof, or the actions of the Consultant or the Client hereunder, each of the parties consents to the non-exclusive jurisdiction of all of the federal courts in the State of Rhode Island, and waives any defense of forum non conveniens.

9. Authority.

Each of the individuals whose signature appears below warrants that he or she has full authority to execute this Agreement on behalf of the party on whose behalf he or she has affixed his or her signature to this Agreement.

The Client may from time to time designate any person or persons in addition to the General Treasurer to act on its behalf in giving instructions, directions, notices or other communications to Consultant and will certify the name of such person or persons to Consultant and give Consultant a specimen of his, her or their signatures. The authority of any such person to act on behalf of the Client will continue until written notice to the contrary is given by the Client and received by Consultant.

10. Independent Contractor Status.

Consultant shall be deemed at all times to be an independent contractor and shall be

wholly responsible for the manner in which Consultant performs the service required of Consultant by the terms of the Agreement. Subject to Section 6 above, Consultant shall be liable for the acts and omissions of it, its employees and its agents. Nothing contained herein shall be construed as creating an employment or agency relationship between the Client and Consultant.

Terms in this Agreement referring to direction from the Client shall be construed as providing for direction as to policy and the result of Consultant's work only and not as to the means by which such a result is obtained, provided such means are in conformity with this Agreement.

11. Notices.

All notices to be given by the parties hereto shall be in writing and served by personal delivery, facsimile or United States mail first class, postage prepaid, addressed as follows (or to any other address that wither party designates to the other):

TO THE CLIENT:

Rhode Island Employees' Retirement System
Deputy Treasurer for Finance
Attn: Joan Caine
40 Fountain Street
Providence, RI 02903

TO CONSULTANT:

The Townsend Group
Attn: Frank L. Blaschka
1500 West Third Street, Suite 410
Cleveland, OH 44113

12. Waiver.

The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

13. Assignment.

It is understood and agreed that the services to be performed by the Consultant are personal in character and neither this Agreement nor any duties or obligations hereunder shall be assigned, sub-contracted, or delegated by the Consultant, by operation of law or otherwise, without the prior written consent of the Client.

14. Documents and Reports.

Consultant will furnish to the Client and its authorized representatives, on reasonable notice (which in no event need ever be more than five (5) business days), and during ordinary business hours, full access to the records maintained by Consultant with respect to this Agreement. Any interest of Consultant in reports, memoranda, or other documents prepared by Consultant in connection with services to be performed under this Agreement shall become the property of and will be transmitted to the Client upon demand, and shall otherwise be subject to Consultant's normal retention policy.

15. Services Not Exclusive.

The Client understands and agrees:

- i) Consultant performs consulting and/or discretionary consulting services for various clients. Consultant and its officers may act and continue to act as traditional and discretionary real estate consultants for other clients, and nothing in this Agreement shall in any way be deemed to restrict the right of Consultant to perform traditional and/or discretionary real estate consulting services for any other client.
- ii) The Client understands that Consultant may provide consulting advice to other clients which may be similar or dissimilar to any such advice provided to the Client, and Consultant may suggest action with respect to any of its other respective clients which may differ from suggestions made regarding the Portfolio. However, nothing in this section shall be construed to relieve the Consultant of any of its duties or obligations as set forth in or arising under the other provisions of this Agreement.

16. Amendments.

This Agreement sets forth the entire agreement between the parties, and supersedes all other oral or written provisions. This Agreement may be modified only by written instrument executed and approved in the same manner as this Agreement.

17. Headings.

The headings used in this Agreement are inserted for reference purposes only and shall not be deemed to limit or affect in any way the meaning or interpretation of any of the terms or provisions herein.

18. Term.

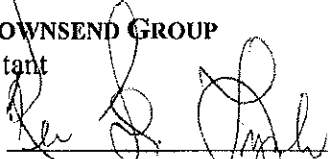
The term of this Agreement will be for a period of three years commencing from December 1, 2003 to November 30, 2006, and will renew automatically for successive one (1) year terms, provided thirty (30) days advance written notice to terminate has not been received by Consultant.

The Client may, by thirty (30) days advance written notice to the Consultant, at any time (including during the initial term), terminate this Agreement, including all of the Consultant's rights and responsibilities under this Agreement for any reason, subject to any payment due and owing to the Consultant. In addition, the Client may terminate this Agreement immediately upon notice to Consultant (i) upon any material breach by Consultant of its obligations hereunder, (ii) if Consultant files for bankruptcy or state law receivership, (iii) if in the reasonable judgment of the Client, Consultant becomes financially unstable so as to jeopardize its ability to perform the services required under this Agreement, (iv) if Consultant is the subject of criminal investigation, indictment or conviction, or (v) in the event of any material change in control of Consultant or a change in or departure of any of Consultant's key personnel that has a detrimental impact on the services to Client hereunder. Upon termination of this Agreement, Consultant will immediately and in all cases within ten (10) business days, deliver to the Client all property and documents pertaining to Client then in the custody of Consultant, including Client's portfolio status on a disk that may be retained by Client or transferred to another agent.

The Consultant, by thirty (30) days advance written notice to the Client, may terminate this Agreement and shall have no further obligation or liability to the Client. In the event of termination, the Consultant shall be paid on a pro-rata basis to the date of termination.

IN WITNESS WHEREOF, the parties have executed this Agreement as of January ___, 2004.

THE TOWNSEND GROUP
Consultant

By: 

Kevin W. Lynch, Principal

Date: 1/21/04

RHODE ISLAND EMPLOYEES' RETIREMENT SYSTEM
Client

By: 

Paul J. Tavares, General Treasurer

and Chairman of the State Investment Commission

Date: 1/20/04

EXHIBIT A

Scope of Services

THIS ATTACHMENT is subject to the terms and conditions set forth in the REAL ESTATE CONSULTING AGREEMENT entered into as of December 1, 2003, by and between Rhode Island Employees' Retirement System (the "Client") and The Townsend Group ("Consultant").

I. RETAINER SERVICES.

Phase I: Development of Real Estate Policy-Strategic Plan .

The Consultant shall consult with the Rhode Island State Investment Commission and Staff to develop and document an appropriate real estate investment policy, the "Strategic Plan" for the real estate portfolio. The Strategic Plan shall set forth the long term investment guidelines and procedures for the real estate portfolio (the "**Objectives**"), risk management policies and procedures ("**Policies**"), and investment and asset management procedures ("**Procedures**"), as described below:

1. Objectives.
 - a. Asset allocation to real estate.
 - b. Investment objectives.
 - c. Benchmark returns and measurement standards.
 - d. Risk management objectives.
 - e. Prudent investment standards.
2. Policies.
 - a. Eligible property types and related criteria.
 - b. Investment size and limitations.
 - c. Diversification objectives and policies.
 - d. Investment vehicle policies.
 - e. Eligible investment type or form.
 - f. Eligible investment managers and manager criteria.
3. Procedures.
 - a. Retention of investment and asset management.
 - b. Roles of Client and Consultant.
 - c. Roles and responsibilities of managers, advisors or partnerships selected.

Townsend will annually review the Strategic Plan and make recommendations to changes necessary or appropriate in light of changes in the market or the Portfolio.

Phase II: Policy Implementation and Procedures.

A. Investment Plan

The Consultant shall prepare an Investment Plan for the Portfolio outlining the steps required to bring the existing real estate portfolio into compliance with the objectives and policies established in the Strategic Plan. Recommended actions in the Investment Plan may include: a) manager searches; b) disposition analyses; c) workout analyses; d) development of investment criteria; and e) establishment of asset management guidelines.

The Investment Plan will evaluate real estate investment strategies including but not limited to core, enhanced, opportunistic and REITs and provide recommendations regarding the most appropriate/efficient structure for the Client relative to the total Client Fund.

Townsend will update the Investment Plan and amend as warranted by market conditions.

B. Manager Searches and Selection

Contained within the Investment Plan, policies and procedures will be developed regarding the identification and selection of fund investment advisors. These procedures will include guidelines for the proposed advisors and due diligence criteria. Consultant will provide advice and assistance in contract negotiations with investment advisors and/or funds.

If requested, Consultant will assist in the development of RFPs designed to produce recommendations of real estate investment advisors and/or funds consistent with the Strategic Plan as adopted by Client. Consultant will assist Client in the evaluation of proposals, participate in manager searches and provide recommendations and assistance in the negotiation and hiring of external real estate investment advisors/funds.

C. Portfolio Management and Performance Measurement.

The Consultant shall measure the performance of the Client's real estate Portfolio on a quarterly basis against established investment objectives and policies and institutional real estate performance benchmarks.

The Consultant will include in each quarterly report a narrative of each of Client's real estate investments relative to its anticipated performance, current market conditions, competitive environment, identify material issues which may impact

the investment's performance and provide a narrative on the real estate markets and any impact they may have on the Client real estate portfolio.

Consultant will keep full and complete records of all transactions in the Portfolio and will render a statement thereof to the Client within thirty (60) days of the close of each quarter during the term of this Agreement. Within thirty (60) days of the close of each calendar quarter and the close of each calendar year, Consultant shall provide each manager with a questionnaire. Within ninety (90) days of the close of each calendar quarter, Consultant shall prepare and present to the Client and its custodian bank a quarterly performance report. The timing of each reporting period is subject to manager compliance in responding to these quarterly requests, provided that Consultant shall use its best efforts to ensure such compliance by the managers. The report shall measure performance of the Client's real estate investment managers, fund and individual property type characteristics. Each report will include return attribution characteristics and risk analyses against investment objectives and performance benchmarks adopted by the Client as part of its Strategic Plan.

Consultant will annually provide a comprehensive written analysis of the Client goals and objectives of the real estate portfolio and the results of the current strategy.

Consultant will furnish Client with such additional reports on the Portfolio as Client may reasonably request from time to time.

D. Education and Other Responsibilities

Upon request, Consultant shall prepare a comprehensive analysis and recommendations regarding new investment strategies, vehicles and techniques as well as major changes in existing practices within the industry. Consultant will reasonably educate staff on specific issues, if requested.

Consultant will attend and present at four (4) quarterly meetings with the General Treasurer, Treasury staff and/or the SIC, as requested.

II. SPECIAL PROJECTS AND SERVICES.

Any services requested by the Client which are not specifically described or provided for in SECTION I, **RETAINER SERVICES**, herein shall be considered "Special Projects." The Consultant shall perform such Special Projects as may be requested by the Client. Special Projects typically include any one of the following key components: (i) they are specific to the Client; (ii) the sponsor is not acting as a fiduciary or intermediary to the Client; (iii) the source of the transaction is not a recognized advisor/manager who has executed like transactions on behalf of institutional investors; (iv) the proposed structure, investment vehicle, product or sponsor is unique or atypical for institutional investors.

The scope of the Additional Services shall be defined in writing in an addendum to the Agreement signed by the Client and Consultant, and shall set forth any extraordinary provisions relating to compensation or expense reimbursements. An addendum shall incorporate the Agreement by reference and become subject to the general terms and conditions of the Agreement.

EXHIBIT B

Compensation

THIS ATTACHMENT is subject to the terms and conditions set forth in the REAL ESTATE CONSULTING AGREEMENT entered into as of December 1, 2003, by and between Rhode Island Employees' Retirement System (the "Client") and The Townsend Group ("Consultant").

I. RETAINER SERVICES.

For the services described in Section I of **Exhibit A**, Consultant shall be paid a base annual fee of \$142,500, payable in arrears in quarterly installments. Reasonable travel expenses incurred by the consultant in undertaking trips to present before Client's board at Client's request that exceed four (4) per year shall be reimbursed by the Client subject to Client's guidelines related to expense documentation. Notwithstanding the foregoing, Consultant shall obtain the prior written approval of the Client of any expenses which are reasonably likely to exceed \$500. The quarterly fee payments shall be calculated on a calendar year basis. In the event the term of said Real Estate Consulting Agreement does not commence on the first day or end on the last day of a calendar quarter, the fee payable for such first and/or last partial quarter shall be prorated based upon the number of days in such partial quarter.

All payments shall be net of any applicable withholding or other taxes.

II. SPECIAL PROJECTS.

For all Special Projects services described in Section II of **Exhibit A**, Consultant shall discuss the actual scope of the services with the Client and shall be compensated at a rate determined by mutual agreement with the Client.

The scope of the Additional Services shall be defined in writing in an addendum to the Agreement signed by the Client and Consultant, and shall set forth any extraordinary provisions relating to compensation or expense reimbursements. An addendum shall incorporate the Agreement by reference and become subject to the general terms and conditions of the Agreement.

EXHIBIT C

Guidelines

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

Real Estate Investment Policy

March 24, 2004

Rhode Island Employees' Retirement System

Real Estate Investment Policy Statement

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Rhode Island Employees' Retirement System

Real Estate Investment Policy Statement

I. BACKGROUND

The Employees' Retirement System of Rhode Island (the "System") has established the Real Estate Investment Program (the "Program") overseen by the Rhode Island State Investment Commission ("RISIC" or the "Commission") to participate in attractive long-term equity real estate investment opportunities and to provide diversification to the overall investment portfolio (the "Fund"). To date, investments in this investment category have included closed-end core oriented commingled funds.

This Real Estate Investment Policy Statement ("Policy") provides the broad strategic framework for managing the Program. It defines the strategic objectives, performance objectives, asset allocation, benchmark, portfolio structure and strategy, risk management policies, roles and responsibilities, monitoring and reporting. The Program is designed to provide sufficient flexibility for Staff and investment managers to achieve the expected returns and control risks.

II. GENERAL POLICY

Real estate investments provide an appropriate addition to the System's investment portfolio and are compatible with the general objectives of the System, which include:

1. Providing a means to pay benefits to the System's participants and their beneficiaries.
2. Investing so as to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.
3. Attaining an adequate real return over the expected rate of inflation.
4. Complying with all applicable laws and regulations concerning the investment of pension assets.

Real estate investments are intended to diversify the total System's plan assets due to the low to negative correlation of private market real estate to equities and fixed income investments. In addition, real estate investments provide a potential hedge against inflation and offer a total return that is competitive on a risk-adjusted basis with the returns provided by equity and fixed income investments.

III. STRATEGIC OBJECTIVES

A. Performance Objective and Benchmark

The performance objective for Program investments is to generate long-term returns to the System above a benchmark reflecting real estate investment alternatives. The performance objective is for the gross return of the Program to exceed the NCREIF Property Index ("NPI") by 100 basis points, measured over rolling three year periods. The 100 basis point performance objective above the NPI will be evaluated as part of the periodic Program review process. The NPI measures the before fee, unleveraged return of investment-grade, non-agricultural, income-producing properties located in the United States. The NPI is not an investible benchmark, as it is the aggregation of individual properties acquired and managed by real estate investment managers providing fiduciary services.

In addition, it may be prudent to compare the Program's performance against an alternative benchmark provided by The Townsend Group, as the real estate consultant ("Consultant") to the System. The secondary performance objective is for the Program to generate performance that falls within the top thirty percent (30%) of an index of open end core funds ("OECFs) measured over rolling three year periods, before fees. The performance objective and benchmarks will be periodically evaluated by the Consultant and Staff.

B. Allocation

The allocation to the Program will be 5.0% of the System's total asset value. The System should be selective and invest such assets as are allocated to this Program prudently as opportunities become available. Diversification is important. On an annual basis, the Consultant and Staff will formally review the Program's size relative to its target allocation in order to manage to the target allocation.

C. Portfolio Structure

The portfolio structure is designed to accomplish the role defined for the Program. Within the Program, risk is managed primarily by allocations to investment sectors exhibiting differing levels of risk and return, and by adhering to prudent diversification criteria.

1. Allocation to Private Markets

The Program shall invest in private market equity real estate in order to obtain the strategic objectives of the asset class: the diversification benefit to the total System portfolio derived from the low to negative correlation real estate has with public equities and fixed income investments. These investments primarily will be in the form of private market equity and equity-oriented investments in order to provide the attributes of the asset class.

Rhode Island Employees' Retirement System

Real estate investments related to publicly traded equity securities (such as real estate investment trusts or real estate operating companies) or real estate related equity oriented debt investments (such as mezzanine loans or below investment grade commercial mortgage backed securities), may be an incidental part of pooled fund investments made by the Program, but will not be targeted as primary investment strategies. Such investments in the aggregate shall not exceed 20% of the total Program allocation.

Investments in non-US private real estate will be permitted up to a maximum of twenty percent (20%) of the Program.

The Program shall not invest in timber related or agricultural related investments, as neither of these investment categories provide private equity real estate attributes.

For purposes of calculating these commitments, the total allocation shall be used as the denominator, not invested capital. It is recognized that it will take several years for the Program to become fully diversified and mature, and to achieve the stipulated targets.

2. Allocation to Investment Sectors

Within the private market real estate program, the System seeks to create a diversified core portfolio as the foundation for the investment program but which also provides it with the flexibility to take advantage of tactical investments that can achieve the excess returns. To accomplish these objectives, the System will allocate investments across the following investment sectors that correspond to expected risk and return: Stable Return, Enhanced Return and High Return. These are defined below.

Stable Return. Stable Return investments are operating and substantially leased (80% or above at time of acquisition), institutional quality, well-located office, multifamily, retail and industrial properties located in the United States that offer a high current income return and greater predictability of total return. Typically, leverage is limited to 30% loan to value. Long term return expectations for Stable Return investments are 9% to 11%, before fees. The Stable component is intended to be broadly diversified by property type, location and investment manager.

Enhanced Return. The Enhanced Return category includes value added investment strategies executed at the property level. These investments are comprised of institutional quality traditional property types which offer the opportunity to enhance value through lease-up, rehabilitation or repositioning of the properties. The category may include specialized property types (e.g., hotels or senior housing, which include operating business components in addition to the real estate components). Enhanced Return investments are of medium risk and typically use leverage up to 50% loan to value. Long term return expectations for Enhanced Return investments are generally in the range of 12% to 15%, before fees.

Rhode Island Employees' Retirement System

High Return. High Return investments cover a broad range of risk and return, including opportunity funds and certain specialized investments. High Return investments include direct real estate assets (such as development or major redevelopment of office, retail, industrial, multifamily or specialized property types). High Return investments also include other forms of investments such as land investing, operating company investing (e.g., real estate securities), distressed debt/properties (including below investment grade CMBS or mezzanine loans secured by real estate), international real estate exposure, high leverage (usually 75% or more but could be unlimited), recapitalizations of assets or investment companies, and other specialized investments that do not fit into other categories. High Return investments generally target returns in excess of 15% before fees.

The core portfolio is represented by the allocation to the Stable Return component. The main source of excess returns is from the allocation to the Enhanced and High Return components, which are intended to provide the System with the ability to take advantage of tactical and other higher return investment opportunities to produce excess returns over the benchmark for the asset class. The System understands that High Return investments may not be appropriate at all points in the market cycle, and therefore has no targeted allocation to this sector, but only a range that may include 0%.

Table 1 depicts the target portfolio structure in the Policy:

Table 1. Target Sector Allocation (%)

	Target	Range
Core Portfolio	65%	
Stable Return		60% – 80%
Non-Core Portfolio	35%	
Enhanced Return		20% – 40%
High Return		0% – 15%
Total	100%	

D. Risk Management and Diversification

The Program will be diversified by property type, investment location, investment size and manager in order to manage risk in the portfolio. Overall Program risk is managed by the allocation between investment styles and diversification parameters to manage specific risks. This section focuses on other risk management policies.

The following sections identify the most significant risks with real estate investments and the method of control, including factors at the individual portfolio level.

1. Property Type- The System understands that it is important for its real estate program to be diversified by property type. For each of the four traditional property types of

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office, retail, industrial and multifamily, the Program shall be invested such that the weighting shall be within a range of the NPI weighting for such property type $\pm 50\%$. For all other property types, the Program shall limit the aggregate holdings of such types to no more than 10% of the total allocation.

2. Geographical - The System will diversify its investments for the purpose of attaining location and economic diversification. To the extent possible using commingled fund investments, the System will attempt to be diversified by metropolitan statistical area (MSA) in the United States.
3. Size of Investments - Investments will be diversified across a range of commingled funds of varying sizes, generally with a minimum investment size of \$5 million. Investments in a single OECF will not exceed 20% of the Program. An investment in a single commingled fund in the Enhanced and High Return categories will not exceed 15% of the Program.
4. Managers-- Manager risk consists of two elements, the exposure to a manager/product and the number of managers in real estate portfolio. The System will seek to diversify its investment managers. Total investments to any one investment manager (inclusive of all styles or products) may not exceed 50% of the Program. The System contemplates that initial investments likely will be more concentrated during the initial implementation stage, and that over time the Program will have multiple investment managers, diversified by investment style.
5. Leverage--The level of leverage shall not exceed the ratio of 45% debt to total capital allocated to the Program.

E. Investment Vehicles

Given the allocation to real estate, the size of the Program and current expectations for growth in the System's assets, commingled investment vehicles will be the primary form of investment vehicle. Direct investing in properties (either with or without a real estate advisor as an intermediary) will not be permitted without advance approval by the Commission. Program investments may be made in any commingled investment vehicles which limit liability to the amount invested. The System may make such commingled investments by means of any legally permissible investment vehicle, including, but not limited to, limited partnerships, private real estate investment trusts, insurance company separate accounts, group trusts, or other collective investment vehicles.

F. Prudent Expert Standard

The selection of Program investments will be guided by the applicable prudence standards and fiduciary duties under Rhode Island law and the investment policies of the Commission.

IV. INVESTMENT PROCEDURES AND STANDARDS

A. Investment Procedures

1. The Consultant selected specifically for Real Estate will preliminarily screen available investments and identify those that meet the Program's general strategy, selection criteria and performance goals. The Consultant will coordinate the available investments received by Staff, the Commission and the Consultant. Such proposals may be rejected by Staff if they do not meet the Program's investment strategy or criteria.
2. The Consultant will preliminarily screen the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues. The Consultant and Staff may meet with the investment manager or sponsor to discuss the investment.
3. The Consultant will identify to Staff those investments determined to best meet the Program's investment strategy and criteria for consideration for further screening and detailed review.
4. On completion of its screening and, if appropriate, full due diligence, the Consultant will provide a brief written report containing a summary of the proposed investment including a description of the investment manager/sponsor's background, track record and organization, the proposed investment strategy, the terms of the investment, the expected rate of return, the merits of the investment, issues and concerns surrounding the investment and how they might be resolved, and issues and provisions that should be subject to negotiation. Staff may determine to specifically request further screening of certain investment opportunities, including full due diligence.
5. The Consultant and Staff will discuss the investment opportunity and whether an investment is likely under the circumstances. Presentations and meetings between Staff and the investment manager or sponsor will be arranged as necessary to address issues and questions.
6. The Consultant will prepare and submit to the Commission a written recommendation advocating approval or disapproval of the proposed investment and any contingencies to final investment.
7. Appropriate legal counsel will be furnished partnership documents for those investments recommended by the Consultant and approved by the Commission, and legal counsel will further identify legal issues and discuss these with the Consultant and Staff.

B. Selection Criteria

1. The System will generally invest with experienced organizations that have managed prior investments or funds. Primary emphasis will be on the quality and experience of the investment sponsor or manager and the risk/return profile of the proposed investment.
2. Additional criteria to be considered will include:
 - a) A well developed investment focus that meets the Program's objectives and a favorable assessment of the proposed investment's strategy and market conditions;
 - b) Relevant investment experience of senior management and key staff, individually and as a team, as well as their stability;
 - c) Organizational depth and significant time commitment to the commingled fund or funds;
 - d) Well-structured decision-making and transaction processes, including:
 - Sourcing and deal flow of suitable investments
 - Pricing, selection and negotiation of investments
 - Financial structuring of investments
 - Development of exit strategies;
 - e) Consideration of relevant issues, such as conflicts of interest and alignment of interests, among others;
 - f) Experience in, and a demonstrated record of, successful prior investments;
 - g) Appropriate proposed fees, terms and structure for the investment; and
 - h) Fit with the Program's existing portfolio.

V. MONITORING AND REPORTING

A. Reports

Reports prepared by the Consultant will be furnished on a quarterly basis covering the Program's performance from inception to date, individual investment performance and highlights of investment activity.

B. Adherence to Strategy

The actual strategy employed by investment managers or sponsors will be judged relative to stated objectives and strategies. The Consultant will interact with investment managers or sponsors periodically as necessary.

VI. REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT

The Commission may review this policy statement and procedures from time to time to determine if modifications are necessary or desirable.