Attachment 2 – REVISED

REAL ESTATE INVESTMENT GUIDELINES

The purpose of the real estate investment guidelines is to define investment objectives, philosophy, specific guidelines for making investments and the benchmarks to measure performance.

Overall Real Estate Investment Program Objectives

The overall objective would seek to maximize long-term total return while maintaining appropriate risk and preserving capital. The real estate portfolio should also provide diversification benefits to the overall portfolio by offering returns that have low correlation to the returns of other asset classes and be internally diversified through the dual public and private strategy.

A. PUBLIC REAL ESTATE INVESTMENTS

Investment Philosophy - Public

The general philosophy that would direct the public investments would be as follows:

1. Invest primarily for the long term, but recognize that there are opportunities to add value through disciplined trading and short strategies.
2. Focus on larger, more liquid securities.
3. Identify companies that produce sustainable cash flow (i.e. quality assets in good locations with leases that produce the cash flow that will enable dividends to grow, on average, at least at the rate of inflation), achieve profitable growth (return on capital above cost of capital) and exhibit evidence of acting in shareholders' interests.
4. Invest in companies with reasonable absolute and relative valuation, with a primary element of valuation being stock price compared to net asset (private market) value per share.

Performance Benchmarks - Public

The proposed benchmark for measuring performance would be the Wilshire REIT Index.

Investment Guidelines - Public

The general investment guidelines for public real estate investments would be as follows:

1. At least 90% of the portfolio must be in the benchmark Index with no more than 10% of the portfolio being securities of publicly-traded companies incorporated outside the US, but in G-10 countries ex. US (UK, Germany, France, Belgium, the Netherlands, Italy, Sweden, Canada and Japan).
2. No property type may exceed two times that property type's weight in the benchmark Index.

3. The weighting of any individual security cannot exceed more than three times its weight in the benchmark index; weighting of any security not in the benchmark index cannot exceed 5% of The Regents' public real estate portfolio.
4. The Regent's investments in any given security may not exceed 5% of the equity capitalization of that security at the end of any quarter.
5. No investment with any single manager can represent more than 20% of The Regents' public real estate portfolio.
6. No investment with any single manager may exceed 20% of that manager's total assets under management.

Specific guidelines will be adopted for each manager based on their individual strategies.

B. PRIVATE REAL ESTATE INVESTMENTS

Investment Philosophy - Private
The general philosophy that would direct the private equity investments would include the following:

1. Invest for the long term, although select sponsors with a demonstrated sell discipline (average term of investments is not likely to exceed 7-10 years).
2. Select the best sponsors and emphasize alignment of interests. Prefer sponsors who can create value, rather than asset accumulators whose compensation is more closely tied to asset management fees. There must be fair and equitable sharing of rewards and risks with the sponsor and good governance structures.
3. The investment agreements shall provide for appropriate governance mechanisms, such as advisory committees, sponsor removal rights under certain circumstances, etc..

Performance Benchmark - Private
The proposed benchmark for measuring performance would be the National Council of Real Estate Investment Fiduciaries Index (NCREIF Index). This index reflects the returns from un-leveraged investments in investment-grade, non-agricultural, income-producing properties that have been acquired on behalf of tax-exempt institutions and held in a fiduciary environment. The benchmark is composed of an income return, an appreciation return, and a total return and is calculated on a quarterly basis, lagged one quarter.

Investment Guidelines - Private

The general investment guidelines for the private equity component of the Program would be as follows:

1. Investments shall be in limited liability investment vehicles ("LLIVs"), such as limited partnerships, limited liability corporations, private REITs and other pooled investment funds.
2. Investments shall be primarily equity-oriented, but may also include debt instruments secured by real estate with equity-like returns.
3. Investments shall be principally in U.S., income-producing office, industrial, retail and multi-residential properties.

   Investments in timber, and mineral, oil and gas assets would be subject to future approval by the Committee on Investments.

4. Investments in the U.S. shall be diversified by geographic location with no one region (West, Midwest, East or South) exceeding 50% of the private real estate portfolio.

5. Target sub-allocations and ranges are (a) 40% "Core" strategies within a range of 25-75% and (b) 60% "Value" and "Opportunistic" strategies combined within a range of 25-75%. Definitions are shown below. The higher allocation to "Value" and "Opportunistic" strategies is based on the premise that "Core" real estate has return and risk characteristics that are similar to public real estate and thus "Core" should be under-weighted in the private real estate strategy.
6. The Regents' investment in any one "LLIV" shall not exceed 50% of the total capital being raised for that investment.
7. No more than 20% of The Regents' private real estate portfolio may be invested with one sponsor or group of related sponsors.
8. The Regents' outstanding investment(s) with any given sponsor, or related sponsors, may not exceed 20% of that sponsor's, or related sponsors', total equity under management.

9. Leverage at the portfolio level shall not exceed 50% of the appraised value of the assets. All leverage shall be non-recourse to The Regents.

Note: compliance with some of these guidelines will not be met until a sufficient number of investments have been made. The Office the Treasurer will keep the IC/IAC periodically informed as to the status of its compliance with these guidelines and as requested.

Definitions

Core Strategy

This strategy involves investing in investment-grade, income-producing properties (apartments, office, retail, and industrial/R&D) in good condition with stabilized occupancies near or above the market occupancy levels (usually 80% and above), leased primarily to credit-worthy tenants and located in major geographic markets with above average economic growth and some constraints on future development activity. Stable income and value, that can grow modestly, are emphasized.

Value Strategy

This strategy involves investing in functional, high quality assets with good long-term potential, but they have lost value due to property specific circumstances (high vacancy, significant lease expirations, below market rents). These assets typically generate about half their income from in-place leases; the other half being dependent on new leasing and property re-positioning efforts. The properties have typically been under-managed and may also include re-development of common areas. These properties can usually be purchased at a discount to replacement cost. The emphasis is on growth in income and value.

Opportunistic Strategy

This strategy involves investing in properties that have good long-term potential, but are currently generating income from less than half the space being income-producing, or require major asset re-positioning involving more than half the leases, or require high levels of financial re-structuring, or even changes in use. These kinds of assets might also include major re-development or new building development, usually accompanies by major pre-leasing commitments. The emphasis is on growth in value.