



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**

Minutes of the PRIM Real Estate and Timberland Committee Meeting
Wednesday, May 6, 2020

Committee members present:

- Treasurer Deborah Goldberg
- Jill Hatton, CRE, Chair
- Garlan Morse, Jr., CRE
- Lydia Chesnick, Esq.
- Anthony Hubbard, Esq.
- Jack Lutz, Ph.D.
- William McCall, Jr., CRE
- Carly Rose
- Peter O'Connell
- Robert Gifford

Committee members not present:

N/A

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:34 a.m. Chair Jill Hatton, CRE, announced that the meeting was being held by internet and telephone in accordance with the provisions of the Governor's March 12, 2020 Order that allows remote participation by all members of a public body and suspends the requirement that a quorum and the chair be physically present, provided that the public has access to the meeting through technology that enables the public to clearly follow the proceedings while they are occurring. Accordingly, all members of the Committee participated remotely via telephone and/or internet enabled audio and video conferencing, and public access to the deliberations of the Committee was likewise provided via telephone.

I. Approval of the Minutes (Voting Item)

The PRIM Real Estate and Timberland Committee approved by roll call vote the minutes of its October 30, 2019 and February 5, 2020 meetings.

II. Executive Director/Chief Investment Officer Comments

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, made comments to the Committee, including:

Organizational Update

Mr. Trotsky welcomed members, guests, and staff to the Real Estate Committee meeting and stated that PRIM is 100 percent fully functional, with all employees able to work remotely, and all functions fully operating. Mr. Trotsky asked the Committee to please join him in welcoming Elizabeth (Beth) Herlihy to PRIM as Director of Communications who started on May 1. PRIM is very excited to have her join, especially at a time when good communications are so important and so challenging. Ms. Herlihy brings extensive communications experience, having served as Head of Marketing Communications at AEW Capital Management for 12 years. Since leaving AEW in 2016 to attend graduate school full time, Ms. Herlihy has worked as a marketing communications consultant. Her most recent assignment was with

Advent International in Boston. Ms. Herlihy has more than 20 years of experience in strategic marketing, public relations, branding, investor communications, and business development. Ms. Herlihy holds a Bachelor's degree in Political Science from the University of Vermont and a Master's of Fine Arts in Creative Writing from Emerson College. Mr. Trotsky continued, Ms. Herlihy will report directly to me and we are very excited to have her join.

III. Performance Review and Market Update

Timothy Schlitzer, CRE, CFA, Senior Investment Officer - Director of Real Estate and Timberland, updated the Committee on Real Estate and Timberland performance.

Mr. Schlitzer provided a summary of performance information as follows:

- PRIM has been consistent in adhering to its real estate strategy over time. PRIM's strategy is primarily a private, high-quality, equity strategy with low leverage, which has allowed us to capture returns available to equity investors while providing defensive characteristics during more difficult periods. While we do not know exactly what lies ahead, we are confident that the real estate portfolio can weather the current market volatility.
- The portfolio is well diversified. PRIM owns private assets in 24 U.S. markets, over 100 listed real estate companies in 17 countries across several property types. We control our investments through multiple separate accounts in both private and public real estate. 93% of our properties are wholly owned.
- PRIM's exposure to REITs represents 16% of the portfolio compared to 20% at the end of the calendar year. The global index is down 25.3% year-to-date, including a 7% recovery in April. All regions are down over 20% in both US dollars and local currency. Domestic companies make up approximately 55% of PRIM's exposure and are trading approximately 6% below current net asset value estimates. This represents an implied cap rate of 6.8% versus an estimated private market cap rate of 5.9% (sell-side estimate). REIT Performance has been disparate at the sector level, generally within our intuition but disparate. At the extremes, regional malls and hotels are down 55% and 50%, respectively, year-to-date, while data centers are up 16% or 32% above private market value estimates (sell-side estimate).
- Total real estate returned 1.3% for the year, 102 basis points above benchmark. Returns were -4.3% for the first quarter.
- PRIM's private real estate portfolio returned 7% for the year, 57 basis points above the NCREIF benchmark. Outperformance increased 114 basis points when the benchmark is updated for the current quarter (Q1 2019). The portfolio returned 1.5% in the first quarter. PRIM's overweight to industrial and strong asset-level performance have been two of the key drivers of manager outperformance. The underweight to retail as well as good asset selection within the sector, primarily grocery anchored centers, have also contributed.
- Like real estate, timberland has historically played an important role in diversifying PRIM's portfolio. In addition to the unique attributes of biological growth, we believe that sophisticated forest management can increase growth rates and timber quality, and influence land values over time. Housing and the broader economy are enormously important, but the biological growth and "store on the stump" characteristics are critical long term.
- PRIM's timberland portfolio represents 3.9% of PRIT or \$2.7 billion, down from 4% at year end. The timberland portfolio has virtually no debt. Our Australian investment is currently levered at 23% of the value of the company. We are confident that our managers will not have to cut timber to service debt or fixed costs. Total Timberland is down 1.5% year-over-year and 284 basis points below the

benchmark. The asset class is down 1% for the quarter. There is no material change to the relative return after applying the updated benchmark.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:07 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of October 30, 2019*
- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of February 5, 2020*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Performance Charts*