



Minutes of the PRIM Real Estate and Timberland Committee Remote Meeting
Wednesday, November 18, 2020

Committee members attending:

- Sarah Kim, Treasurer's Designee
- Jill Hatton, CRE, Chair
- Lydia Chesnick, Esq.
- Robert Gifford
- Anthony Hubbard, Esq.
- Jack Lutz, Ph.D.
- William McCall, Jr., CRE
- Garlan Morse, Jr., CRE
- Peter O'Connell

Committee members not attending:

- Treasurer Deborah Goldberg
- Carly Rose

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:35 a.m. Chair Jill Hatton 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, with presentation materials made available on PRIM's website (www.mapension.com). At the start of the meeting the names of the members participating remotely were announced.

I. Approval of the Minutes (Voting Item)

The PRIM Real Estate and Timberland Committee approved (unanimously) by roll call vote the minutes of its July 29, 2020 meeting.

II. Executive Director / Chief Investment Officer Report

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

Markets

Since September, markets have improved as two of the major uncertainties have become more certain. The election is over and there is more certainty surrounding the availability of a COVID-19 vaccine. Improvements to the economy are still modest as recent reports confirm. For example, exports are still 16% below February, and employment is still 10.5 million jobs below pre-pandemic levels. An estimated 100,000 small businesses have closed, and employment participation is lower than at any time in 40 years, except for the recession of 2008/2009. Since September, there has been a loss of momentum in job postings and industrial activity, and the current surge of virus cases will undoubtedly impact employment going forward.

We believe that diminishing prospects for economic growth and fiscal spending could create continued volatility in the markets. This is a good time to be as diversified as possible, and the fact that the PRIT Fund

is very well-diversified is paying off. On a relative basis, we did well during the correction in March and we benefitted significantly from the subsequent rebound. The PRIT Fund is structured to perform well in both up markets, and perhaps more importantly, in down markets.

New Employees

Eliza Haynes joined PRIM on September 21, 2020 as an Investment Analyst on the Private Equity team reporting to Michael McGirr. Eliza graduated from Holy Cross in 2018 with a Bachelor of Arts in International Studies and a minor in Philosophy. While at Holy Cross, she was a Founding Member of the Holy Cross Student Investment Club, a member of the Feminist Forum, and was a volunteer for the L'Arch Communities immersion project. After graduation, she worked as an Investment Analyst for the College of the Holy Cross in their Investment Office. She participated in the screening, selection and monitoring of investment managers and portfolio analysis.

Lionel Yelibi will be joining PRIM on November 23, 2020, as an Investment Analyst on the Research team reporting to Maria Garrahan. Lionel graduated with a Bachelor of Science in Physics from Indiana University and a Master of Science in Mathematical Statistics from University of Cape Town. Lionel joins PRIM from Boston Fusion as a Research Scientist, where he designed and conducted experiments in Reinforcement Learning for predictive modeling as well as Optimal Asset Allocation. Prior to that he was a Research Assistant at the University of Cape Town, involved in the development of optimization methods for data clustering algorithms with applications to financial market data. Lionel won 1st place at the South African Statistical Association 2020 Conference for his postgraduate research paper.

Interns

Tobey Tian joined PRIM in October 2020 as an intern on the research team reporting to Maria Garrahan and will be working on Strategic Asset Allocation. Tobey received a Bachelor of Economics and Master of Economics from Nankai University in Tianjin, China. Tobey is currently studying at Brandeis University International Business School where she is expected to receive a Master of Science in Business Analytics in December 2020.

Jaime Chung joined PRIM in October 2020 as an intern on the Portfolio Completion Strategies team reporting to Bill Li. Jaime is pursuing a Master's in Finance at Brandeis University International Business School. Jaime earned his bachelor's degree in Economics from Taiwan National Central University.

Three interns joined in September from UMass Amherst and are conducting research on diverse-owned investment management firms. This research is an extension of the PRIM-sponsored group project from the autumn of 2019.

Heather Stratton is expected to graduate in May 2021 with a Bachelor of Arts in Economics. Heather is currently the President of the Isenberg Undergraduate Consulting Group.

Kyle Aikman is expected to graduate in December 2020 with a Bachelor of Business Administration in Finance. Kyle is a portfolio manager at the student-run Minutemen Equity Fund, which is a hands-on learning experience within the Isenberg School of Management.

Jake Gunning is expected to graduate in May 2021 with a dual major, Bachelor of Business Administration in Finance and Bachelor of Arts in Economics.

National Recognition

On September 15, 2020, **Treasurer Deborah Goldberg** was honored by the National Association of State Treasurers with the Jesse M. Unruh Award, which is awarded to an active Treasurer in recognition of outstanding service to the Association, the profession, and his or her state. Treasurer Goldberg currently serves as the President of the Association.

Dan Eckman, Director of Finance and Administration, and **Maria Garrahan**, Senior Investment Officer - Director of Research, were honored in September at Treasurer Goldberg's Performance Recognition Program (PRP) ceremony. Dan was recognized for his contributions that allowed PRIM to continue operating seamlessly throughout the pandemic, among many other things. Maria was recognized for spearheading several industry-leading initiatives in her role at PRIM. Maria drives PRIM's innovative and proprietary, statistically-driven asset allocation framework and also worked recently to establish PRIM as the founding member of a new project with MIT Sloan School's Sustainability Initiative, a research consortium designed to solve ESG investing's most challenging issues.

For the 15th consecutive year, PRIM was awarded the GFOA's (Government Finance Officer Association's) Certificate of Achievement for Excellence in Financial Reporting. This award is for the completeness and timeliness of PRIM's Comprehensive Annual Financial Report, the CAFR. Qingmei Li, Financial Reporting Manager, manages the production of the CAFR and an increasing number of audits that have dramatically increased in complexity over time. She is the driving force behind PRIM's financial statements consistently having clean audit opinions.

Promotions

Anthony Falzone is promoted to Deputy Executive Director. As Chief Operating Officer, Tony currently oversees PRIM's entire finance, operations, reporting, compliance, human resources, and technology functions. Tony has more than 25 years of finance, investment operations, and technology experience. He joined PRIM as a Senior Financial Analyst in 2006 from BNY Mellon Custody Services, where he directly supported PRIM for seven years. As a Senior Financial Analyst, Tony was responsible for real estate, timberland, and private equity. In 2009 he was promoted to Director of Private Investment Accounting, responsible for the oversight of all of PRIM's alternative investments. During that time, Tony returned to school part-time and earned his degree in Computer Information Systems. In 2013 Tony became PRIM's Chief Technology Officer. In that role, Tony upgraded and maintained PRIM's entire information technology infrastructure and designed and deployed PRIM's disaster recovery, business continuity, mobile device management, and cybersecurity platforms. His work in this area essentially prepared us for where we are today – a fully enabled and secure remote workforce. In 2018 Tony was promoted to Chief Operating Officer. In addition to his current responsibilities, Tony will oversee PRIM's Communications team under Elizabeth Herlihy.

Deborah Coulter, CPA, who currently serves as Chief Financial Officer, has been promoted, adding Chief Administration Officer to her responsibilities. As Chief Financial Officer, Deb is responsible for managing the PRIM's non-investment financial activities, including budgeting, corporate accounting, audits, taxation, cash management, and office administration. Deb joined PRIM in 2012 as PRIM's Director of Finance and in that role also served as interim Chief Financial Officer while our former CFO was on medical leave. She briefly left PRIM to join the private sector as Assistant Controller at the Baupost Group, a Boston-based absolute return investment manager but rejoined PRIM in April 2016 as the Director of Strategic Initiatives on the Finance and Operations team. Among many other accomplishments, Deb is responsible for PRIM receiving clean audit reports and for publishing the award-winning Comprehensive Annual Financial Report (CAFR). Additionally, Deb has developed procedures to comply with the new Public Records Law and implemented new human resources policies designed to broaden the diversity of PRIM staff. Deb has more than 25 years of experience in investment management, financial management, and public accounting. Prior to joining PRIM, Deb spent 17 years at Essex Investment Management, a Boston based investment management firm, as Chief Financial Officer and Compliance Manager. In addition to her current responsibilities, Deb will assume responsibility of PRIM's Client Services team under Paul Todisco and join PRIM's Executive Management Team.

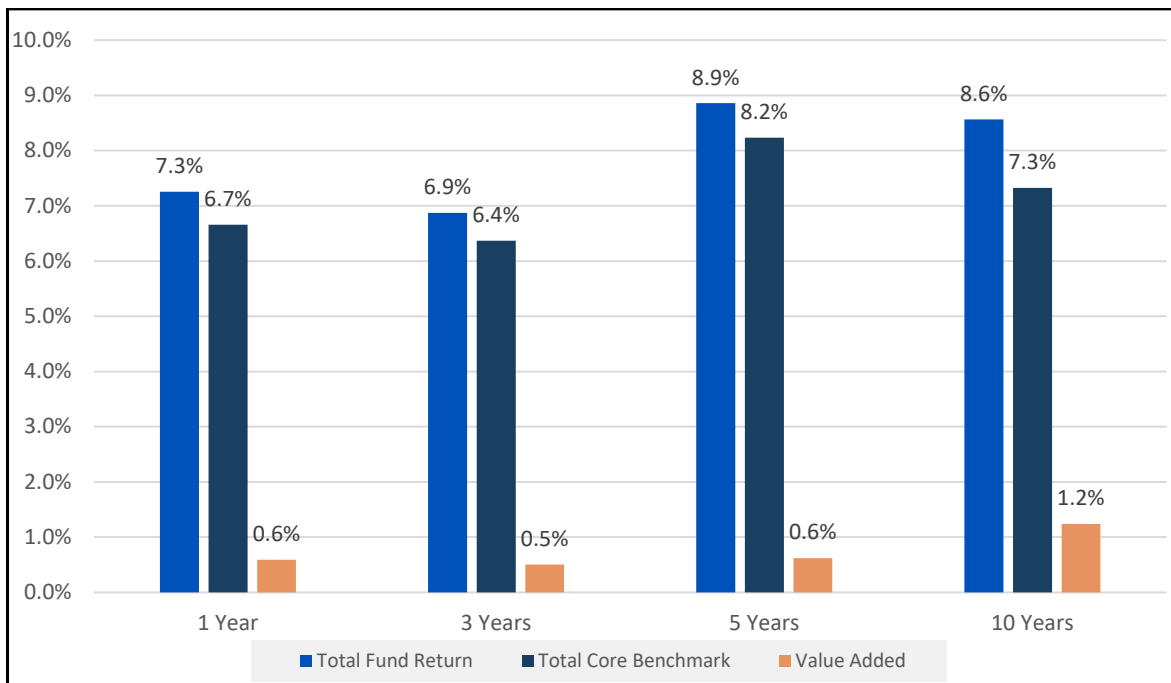
PRIT Fund Performance

Assets in the PRIT Fund grew to an all-time high of \$80 billion in the quarter ending September 30, 2020, despite the volatile investment environment and paying \$1.5 billion in benefit obligations during the last twelve months. Markets surged in the September quarter as COVID-19 cases fell during the summer months and more of the economy opened. The PRIT Fund grew 6.2% in the quarter and 7.3% for the trailing twelve-month period. Private Equity rebounded very sharply in the third quarter; it was up nearly 17% (year/year) compared to 4.4% last quarter. As expected, a private equity benchmark anomaly that accounted for much of the PRIT Fund's relative underperformance for the fiscal year ended June 30, 2020 reversed in the September quarter, just as it did when this occurred during the Global Financial Crisis in 2008/2009. For the one-year period, Private Equity outperformed the public equity benchmark by 2.6% compared to last quarter when Private Equity underperformed by 9.90%. For the one-year period, Core Fixed Income was up 10.7%, and Global Equities were up 8.7%, while other asset classes were essentially flat to slightly down.

For the one-year ended September 30, 2020, the PRIT Fund was up 7.3% (6.8% net), outperforming the total core benchmark of 6.7% by 59 basis points (14 bps net).

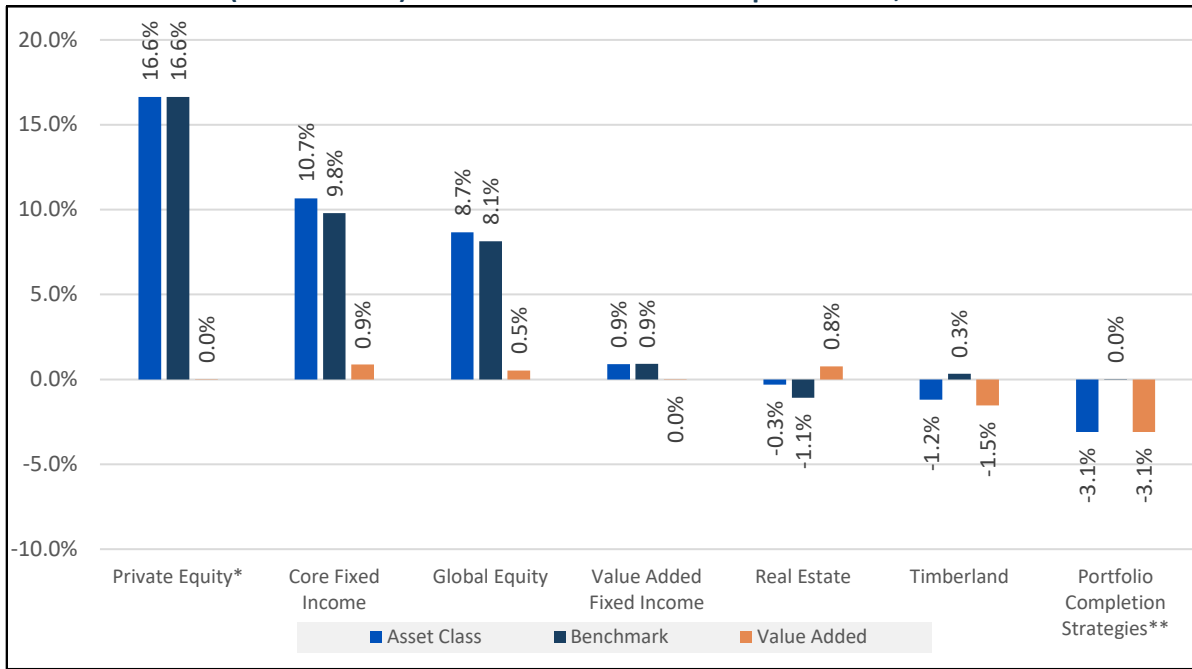
- This performance equates to an investment gain of \$5.2 billion, net of fees.
- This outperformance equates to \$106 million of value above the benchmark return, net of fees.
- Net total outflows to pay benefits for the one-year ended September 30, 2020, were approximately \$1.5 billion.

Total PRIT Fund Returns (Gross of Fees) Annualized Returns as of September 30, 2020



Source: BNY Mellon. Total Core Benchmark includes private equity benchmark.

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of September 30, 2020



Source: BNY Mellon. Totals may not add due to rounding. *Benchmark is actual performance. **Hedge Fund returns are net of fees.

PRIT Fund Periodic Table of Returns (Gross of Fees) as of September 30, 2020

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 16.6%	PRIVATE EQUITY 18.3%	PRIVATE EQUITY 17.8%	PRIVATE EQUITY 18.3%
CORE FIXED INCOME 10.7%	CORE FIXED INCOME 7.9%	GLOBAL EQUITY 10.2%	REAL ESTATE 9.8%
GLOBAL EQUITY 8.7%	GLOBAL EQUITY 6.2%	REAL ESTATE 6.8%	GLOBAL EQUITY 8.8%
VALUE-ADDED FIXED INCOME 0.9%	REAL ESTATE 5.4%	CORE FIXED INCOME 6.1%	CORE FIXED INCOME 5.4%
REAL ESTATE (0.3%)	VALUE-ADDED FIXED INCOME 3.3%	VALUE-ADDED FIXED INCOME 5.4%	VALUE-ADDED FIXED INCOME 5.4%
TIMBERLAND (1.2%)	TIMBERLAND 2.3%	TIMBERLAND 3.4%	TIMBERLAND 4.9%
PCS (3.1%)	PCS 1.2%	PCS 2.6%	PCS 3.7%

Source: BNY Mellon. Returns as of September 30, 2020

III. Performance Review and Market Update

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate updated the Committee on performance and markets. He made the following comments:

Real Estate

PRIM ended the quarter with a real estate net asset value (NAV) of approximately \$7 billion or 8.8% of the PRIT fund, within the policy range of 7-13% and underweight the 10% mid-point. Market transaction activity picked up in the third quarter but has decreased significantly during the calendar year. Fundamentals continue to vary by property type with projected rent growth difficult to find in many cases. Appraisal adjustments have varied by property type. Rents continue to grow in the industrial sector as well as some of the non-traditional property types. Life science, medical office and cold storage are examples of this. Attractive debt remains available for these property types from traditional and agency lenders. PRIM's private portfolio operations have been impacted by the pandemic, but have been resilient overall. Private portfolio occupancy is 94% with 94% of rents collected.

The U.S REIT market is down 9.3% year-to-date. Global REITs are down 12.1%. Those compare to the S&P 500 which is up approximately 13%. Both REIT indexes are up almost 10% during the 4th quarter. There continues to be wide dispersion across property types.

PRIM's total real estate portfolio returned -0.3% for the prior year, 78 basis points above the combined benchmark. Returns were 1.3% for the third quarter. Private real estate returned 3.5% for the year, 83 basis points above PRIM's lagged June benchmark. When compared to the September index, outperformance increased to 152 basis points. The non-core return, at 9% for the year, was 578 basis points above the core return. The non-core allocation is only 4% of total real estate but has been accretive. PRIM has committed an additional \$400 million to non-core opportunities in the past year that is not shown in this NAV.

Timberland

PRIM ended the quarter with an NAV of approximately \$2.8 billion or 3.5% of the PRIT fund, under the asset class mid-point of 4%. U.S. housing activity has strengthened recently as the migration to suburban, single family homes has continued and increased over the past six months. Total housing starts averaged over 1.4 million in the third quarter, led by single family starts, an increase of over 30% over the second quarter. Framing lumber prices increased significantly over the quarter. Homes sales increased 40% in the 3rd quarter. Mortgage rates have come down approximately 100 basis points to 2.8% this year.

Dr. Jack Lutz commented on market conditions and timber prices. He confirmed that while mills were closed in the U.S. for two weeks in the early phase of the pandemic, demand never slowed as expected. The construction industry was deemed essential in most locations and homeowners have continued home renovation projects during this period. Dr. Lutz noted that while employment data is improving, it has been skewed by the decrease in the labor force.

Mr. Schlitzer mentioned that the Holiday Farm fire, which impacted 174,000 acres in Oregon, impacted 20,000 acres owned by PRIM. The valuation impact is being assessed based on several variables including salvage wood prices, the cost of extraction, site clearing and preparation, and replanting and labor, which is in high demand. PRIM's manager executed well during this natural disaster.

Total timberland returned -1.2% for the year, 154 basis points below the June benchmark. Relative performance improved by 15 basis points when compared to the September Index return. The third quarter return was 0.7%. Pacific Northwest performance continues to be the detractor on the one-year measure, which is due in part to an appraisal rotation as well as log price volatility in the region, as previously discussed.

IV. Real Estate and Timberland Advisory Services Request for Proposals Recommendation (Voting Item)

John F. La Cara, Senior Investment Officer, presented the Real Estate and Timberland Advisory Services Request for Proposals (RFP) recommendation. Mr. La Cara recommended the incumbent, International Woodlands Company (IWC), for Timberland advisory services. He noted that staff has been pleased with the level of service that IWC has provided over the past three years and that IWC has demonstrated a superior level of experience and expertise during the selection process. He also noted that IWC's sole focus on timberland is advantageous.

Mr. La Cara stated that the evaluation committee is recommending that PRIM not select a general real estate advisor. The recommendation is that PRIM move to a project-based model which will allow staff to select firms that are best suited for specific tasks based on experience and expertise. Mr. La Cara also recommended the selection of 13 project consultants.

The Committee engaged in a brief discussion about the project-based model, staffing, and information and networking resources for staff. After this discussion, the Real Estate and Timberland Committee voted (by unanimous roll-call vote of all members present) to recommend to the PRIM Board to approve the recommendation as described below:

- 1) That PRIM move to a project-based model for real estate investment advisory services;
- 2) Approve the selection of The International Woodlands Company to provide General Timberland Advisory Services; and
- 3) Approve the following firms to the bench of eligible project advisory services firms: Aberdeen Asset Management; Bard Consulting; Buckhead Resources; Callan Associates; Chatham Financial Group; Coast and Harbor; Eigen 10 Advisors; Harvest Capital Partners; Hamilton Lane; Legacy Appraisal Services; Meketa Investment Group; RCLCO Fund Advisors; and Real Estate Fiduciary Services, as described in the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

V. Non-Core Real Estate Approval Process

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate, presented this item for discussion. Mr. Schlitzer provided background information on PRIM's process for selecting and approving certain non-core real estate investment managers. He stated that in accordance with PRIM's policy, PRIM's non-core investment managers are approved by the Investment or Real Estate Committee and PRIM Board before an underlying investment or co-investment is made. This process is effective for separate accounts and commingled fund investments which raise capital over longer periods or through a Request for Proposal (RFP) process. It is more challenging for certain core and non-core single transactions which may follow a shorter timeline, controlled by the seller, and often shorter than PRIM's quarterly Board meeting cycle. That is why PRIM uses a separate procedure for internally managed acquisitions. He provided a recent example of a non-core investment opportunity that provided this challenge.

Mr. Schlitzer suggested that PRIM, the Real Estate Committee and Board consider a process which would allow for greater flexibility in committing to individual investment opportunities with new investment managers while maintaining PRIM's current standards for transparency and due diligence. This process could include an approved capital allocation and preliminary approval of investment criteria and due diligence as well as a comments period. The Committee could also meet on an interim basis based on member schedules and compliance with the Massachusetts Open Meeting Law.

PRIM staff and the Committee engaged in a discussion on the topic. Multiple members of the Committee expressed a preference for having the ability to invest in attractive investment opportunities without the

constraint of the quarterly meeting cycle. The Committee agreed that there was broad consensus to update PRIM's process. Mr. Schlitzer committed to further research and a subsequent discussion in 2021. The PRIM Real Estate and Timberland Committee meeting adjourned at 11:08 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of July 29, 2020*
- *PRIT Fund Performance Report*
- *Real Estate and Timberland Advisory Services RFP Evaluation Committee Recommendation*