



Minutes of the PRIM Real Estate and Timberland Committee Remote Meeting
Wednesday, February 3, 2021

Committee members attending:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Lydia Chesnick, Esq.
- Robert Gifford
- Anthony Hubbard, Esq.
- Jack Lutz, Ph.D.
- William McCall, Jr., CRE

Committee members not attending:

- Peter O'Connell
- Garlan Morse, Jr., CRE
- Carly Rose

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:32 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 November 18, 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:

PRIT Fund Performance

The PRIT Fund stands at \$87 billion, another all-time high. That is impressive on its own, but what really stands out is that the six-month return ended December 2020 of 16.6% is the largest six-month return in PRIM's entire history, surpassing the previous high of 15.7% for the six-month period ending in June of 1986, the strongest six-month return in 37 years. Mr. Trotsky noted that while the absolute return is record-setting, the relative return for the six-month period is also the strongest in the Fund's history. For the six-month period ending December 31, 2020, which corresponds to the first half of this fiscal year, the PRIT fund outperformed its benchmark, net of fees, by 388 basis points, nearly 4%.

Mr. Trotsky mentioned that while the strong performance is great, it also seems like a hollow victory in light of what the country is going through – a raging worldwide pandemic and global economic damage that might take years to reverse. He expressed concerns that there are still so many people in the economy that have been left behind, 10 million people out of work, death and despair, and the country is still struggling in so many ways – political, economic, and social. Mr. Trotsky explained that the strong

market return seems like a cruel irony because it does not capture the hardships that so many in this country are facing and sometimes, the markets do not seem logical. He asked the Committee to review these record setting results with appropriate humility. PRIM is doing their important part to grow the assets used to support more than 300,000 beneficiaries and is proud of this accomplishment, but also mindful that these results mask the hardships and uncertainties that are still very much with us today. Mr. Trotsky expressed his hope for an end to this vicious pandemic and a quick return to a strong economy and a more normal lifestyle.

Legislative Update

Mr. Trotsky communicated to the Committee that for the past few meeting cycles, PRIM has been tracking state legislation entitled, “An Act enabling partnerships for growth.” He explained that the goal of the legislation is to increase the diversity of PRIM’s investment managers and contractors to at least 20% and increase access for minorities, women, and disabled investment managers and business partners. Mr. Trotsky credited Treasurer Goldberg for strongly advocating for the amendment and working directly with Representative Chynah Tyler and Senator Paul Feeney, who filed the bill and was pleased to report that Governor Baker signed the bill into law on January 14th, and congratulated Treasurer Goldberg and her staff for their foresight and tenacity in seeing the bill through. Mr. Trotsky said that the new legislation is a continuation of the important diversity and inclusion work PRIM has been doing to further increase access for minorities, women, and people with disabilities and sets goals and formalizes procedures and reporting requirements. He said that PRIM is currently putting in place an implementation plan, and expect to update the Committee on the plan specifics and progress at the next meeting. Mr. Trotsky identified Deputy Chief Investment Officer, David Gurtz, as the leader of the project.

Organizational Updates

Mr. Trotsky was excited to share that the Treasurer is nominating Phillip Perelmutter to become an Investment Committee member. He mentioned that the vote will take place at the Board meeting later this month. Mr. Trotsky provided the Committee with Mr. Perelmutter’s bio as follows:

Mr. Perelmutter retired from Wellington Management after 25 years. For 11 years, he served as one of the firm’s three Managing Partners in addition to his roles as a Portfolio Manager, the Director of Investment Research, and the Head of EMEA during a 5-year assignment in London. Before joining Wellington, Phil worked in Institutional Sales at CS First Boston and as a Financial Advisor at Merrill Lynch. Phil graduated magna cum laude from Princeton University and has an MBA from Harvard Business School. He has served as a member of the U.K. Diversity Project’s CEO Advisory Board and the Advisory Committee of the Boston Latino Legacy Fund, and currently serves on the National Board of the Posse Foundation. Phil is the son of Cuban immigrants and was born and raised in the Little Havana section of Miami, Florida. He and his wife currently live in Needham and have three adult children. Mr. Trotsky expressed gratitude that Mr. Perelmutter has agreed to join PRIM’s Investment Committee and has no doubt that his experience and insights will be invaluable to PRIM. Mr. Trotsky asked the Committee to join him in welcoming Mr. Perelmutter.

Mr. Trotsky mentioned that **Michael Bailey** left PRIM at the end of January to take a position at Fidelity Investments and wished him well in his new position and expressed gratitude for his service to PRIM and the Commonwealth. Mr. Trotsky commented that PRIM has had several strong contributors through the years, but Mr. Bailey’s contribution to PRIM was exceptional, and during his eight-year tenure at PRIM, Mr. Bailey cemented PRIM’s legacy as having the top Private Equity portfolio in the country and that he will be sorely missed.

Mr. Trotsky announced that **Michael McGirr** had been promoted to Director of Private Equity after nearly seven outstanding years on the team, and PRIM was fortunate to have such a strong member of the team to take over and ensure continuity. Mr. Trotsky told the Committee that Mr. McGirr has consistently been

one of the highest-performing and most valued employees at PRIM, and is highly respected by his colleagues and the entire Private Equity industry. Mr. Trotsky shared that Mr. McGirr and the team established and built a rigorous, consistent investment process to guide Private Equity portfolio construction and manager selection. Mr. Trotsky added that in addition to Mr. McGirr's daily responsibilities managing some of PRIM's most important Private Equity relationships and sourcing new ideas, Mr. McGirr has been leading Private Equity's cutting-edge research and also was responsible for managing Sarah Zatoonian and Eliza Haynes, Private Equity's two Investment Analysts, and has mentored several PRIM summer interns.

Mr. Trotsky provided the Committee with additional background on Mr. McGirr. He shared that Mr. McGirr joined PRIM on April 7, 2014 from Bain Capital in Boston where he was an investment manager, and prior to Bain, Mr. McGirr worked at the Minnesota State Board of Investment, as a portfolio manager of an alternative investment portfolio with \$9 billion in assets. After graduating with a Bachelor of Science in Finance from the University of Richmond, Mr. McGirr began his career as a professional baseball player where he was a pitcher in the Oakland Athletics system, and later earned a Master of Business Administration from the Johnson Graduate School of Management at Cornell University. Mr. McGirr is a Chartered Financial Analyst (CFA), a member of the CFA Society Boston, and a member of the Institutional Limited Partners Association (ILPA) Content Committee. Mr. Trotsky reminded the Committee that in 2018, Treasurer Goldberg awarded Mr. McGirr the Commonwealth Citation for Outstanding Performance. Mr. Trotsky asked the Committee to join him in congratulating Mr. McGirr, and in thanking Mr. Bailey.

Mr. Trotsky then announced **Shannon Ericson, CFA** recently joined PRIM as a Senior Investment Officer on the Risk team reporting to Jay Leu, Director of Risk Management. Mr. Trotsky told the Committee that Ms. Ericson brings over 20 years of investment industry experience to PRIM, including 15 years with LMCG Investments as a quantitative portfolio manager in developed international and emerging market equities. He mentioned prior to that, Ms. Ericson served as a quantitative analyst in international equities at Evergreen Investments and Independence International Associates. Most recently, Shannon was an asset allocation portfolio manager at Brighthouse Financial. He concluded by telling the Committee that Ms. Ericson earned a Bachelor of Science in Finance from Bentley College and an MBA from Bentley College, and holds the Chartered Financial Analyst designation. Mr. Trotsky welcomed Ms. Ericson to PRIM and mentioned he is very excited to have her join the team.

Lastly, Mr. Trotsky announced that **Paul Todisco**, PRIM's legendary head of Client Services, would be retiring at the end of March. Mr. Trotsky described Paul as a very special individual who has been dedicated to serving the public for almost forty years, including 31 years with PRIM. He explained that Mr. Todisco played an integral role in developing the PRIM Board's modern Client Service program, including his work on the legislation that created the highly successful "Segmentation" investment program growing PRIM's client and asset base by allowing local retirement systems to invest in the PRIM Fund's eligible asset classes as an alternative to investing in the total PRIM Fund. Mr. Todisco also served as the Executive Director of the Health Care Security Trust, and as the Research Director and Staff Supervisor at the MA State Legislature Joint Senate and House committee on Public Service.

Mr. Trotsky expressed that Paul's historical knowledge of PRIM will be sorely missed, and there is simply nobody who has Paul's total recall of all facts and matters related to PRIM. He explained that Mr. Todisco has an uncanny memory for the people, laws, events, and dates that have shaped PRIM, and is the organization's resident historian with a steel-trap memory for all things PRIM while setting the standard for superior client service who could often be heard saying, "if it's worth doing, it's worth doing well."

Mr. Trotsky mentioned that in addition to being a tremendous asset to PRIM, Mr. Todisco is also an extraordinary person. Mr. Trotsky told the Committee that he is always gracious and never loses his temper or his sense of humor. His warm and generous spirit makes everyone feel welcome and important

at PRIM. His knowledge, hard work, character, charm, and integrity have helped guide PRIM through thick and thin.

Mr. Trotsky asked everyone to join him in congratulating Mr. Todisco on a brilliant career and thanked him for his years of service and his total dedication to PRIM's success. Mr. Trotsky added that PRIM will be renaming a conference room in Paul's honor, which will remind all those who enter to aspire to the same level of excellence as Paul did.

Mr. Todisco thanked everyone for the well wishes and stated it has been an honor for him to serve and work at PRIM.

Market Update

Mr. Trotsky told the Committee that markets surged again in the December quarter despite a second wave of deadly COVID cases, a long, contested and often ugly election cycle, and more violence and unrest. He mentioned that in the December quarter, the S&P was up 12.1%, developed international markets were up 16%, emerging markets up 19.7%, while bonds were essentially flat. Mr. Trotsky continued saying that for the calendar year ended December 2020, the S&P was up 18.2%, developed international markets were up 7.8%, emerging markets up 18.2%, while bonds were up 7.4%. A 60/40 mix of stocks and bonds was up 12.7% and the PRIT Fund was in line, it was up 12.6% for the calendar year. Mr. Trotsky reminded the Committee that this 12.6% return for calendar year 2020 comes on the heels of a 16.6% return in calendar year 2019, so very strong impressive years for the fund for two straight years. He added that the PRIT Fund continues to perform well in both up and down markets – down markets like the March quarter where PRIM performed admirably, but also in up markets like they had in the September and December quarters. He continued by saying in all, it was very strong calendar year performance, and the fund is at a record high of \$87 billion despite the extreme volatility and uncertainty PRIM faced during a year that they will not soon forget.

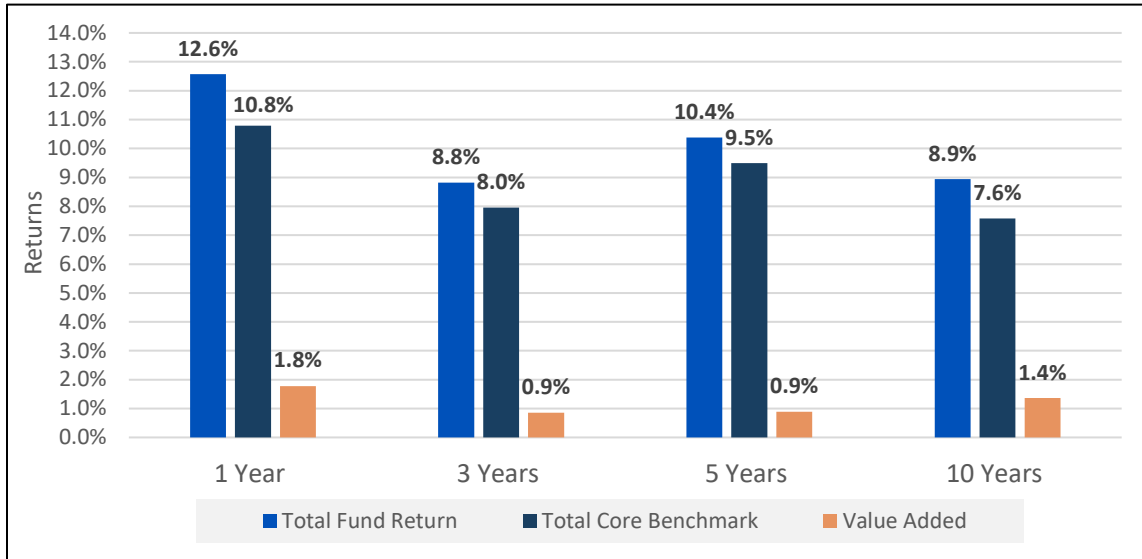
Mr. Trotsky noted that the markets seem to consistently look through any near-term bad news like spikes in positive tests and COVID-related deaths, logistical problems delivering the vaccines, and emergent variations of the virus. Despite some bright spots in economic data, such as the continuing growth of GDP, a rise in US industrial production, and a very healthy housing market, the clampdown on business and social activities has led to a slight deceleration in economic activity more recently.

Obviously, there is still a lot of economic, political, and public health uncertainty to worry about, and recently they have witnessed new market dynamics as retail investors, fueled by social media, are beginning to congregate to move markets, or more accurately, to move individual stocks in a stampede fashion without regard to underlying fundamentals.

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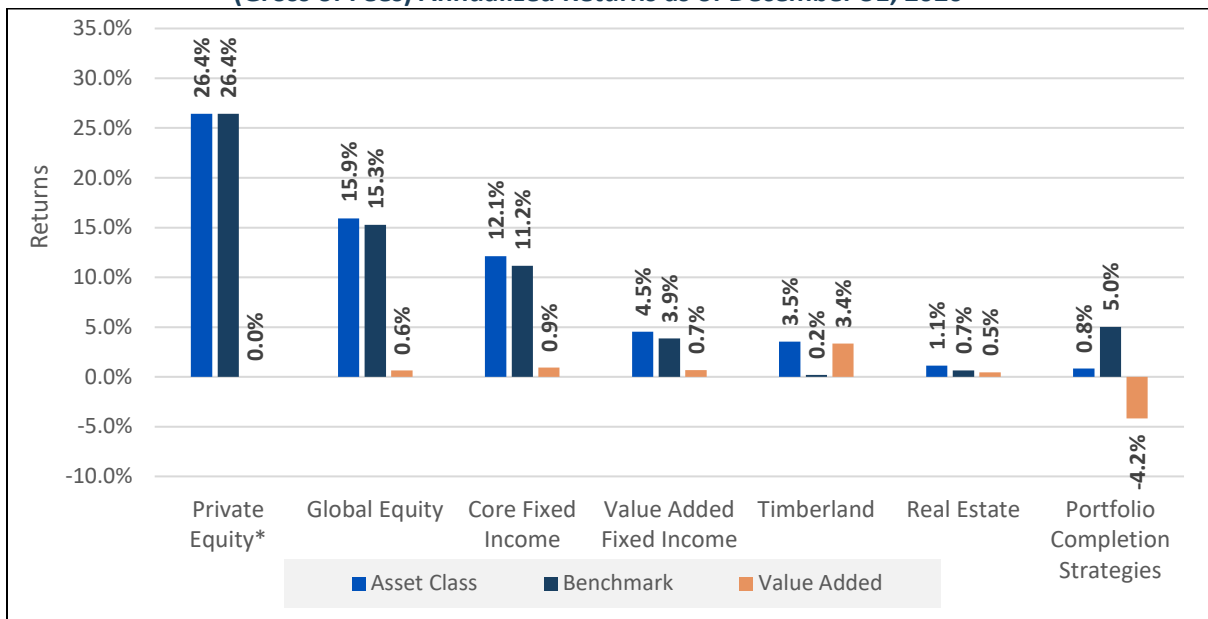
Mr. Trotsky referred to the following charts and graphs:

Total PRIT Fund Returns (Gross of Fees) Annualized Returns as of December 31, 2020



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

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of December 31, 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 December 31, 2020**

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 26.4%	PRIVATE EQUITY 21.0%	PRIVATE EQUITY 20.2%	PRIVATE EQUITY 19.1%
GLOBAL EQUITY 15.9%	GLOBAL EQUITY 9.7%	GLOBAL EQUITY 12.5%	REAL ESTATE 9.7%
CORE FIXED INCOME 12.1%	CORE FIXED INCOME 7.4%	VALUE-ADDED FIXED INCOME 6.9%	GLOBAL EQUITY 9.6%
VALUE-ADDED FIXED INCOME 4.5%	REAL ESTATE 5.9%	REAL ESTATE 6.9%	VALUE-ADDED FIXED INCOME 5.7%
TIMBER 3.5%	VALUE-ADDED FIXED INCOME 4.8%	CORE FIXED INCOME 6.3%	CORE FIXED INCOME 5.5%
REAL ESTATE 1.1%	TIMBER 2.4%	TIMBER 4.4%	TIMBER 4.7%
PCS 0.8%	PCS 2.0%	PCS 3.6%	PCS 4.0%

Source: BNY Mellon. Returns as of December 31, 2020

III. Research – Asset Allocation Update

Maria Garrahan, Director of Research, Senior Investment Officer, presented the staff’s Asset Allocation recommendation.

Ms. Garrahan noted that the 2021 Asset Allocation recommendation represents no major changes to PRIM’s prior year recommendation. The recommendation includes a 1% increase in the Private Equity target range (formerly 10-16% to 11-17%) and a 1% decrease in the Portfolio Completion Strategies target range (formerly 8-14% to 7-13%). The recommendation is an acknowledgment of the practical limitations on the pace of sourcing within Portfolio Completion Strategies – PRIM has been running at the low end of the target range for some time. As for Private Equity, we have moved up the target range to reflect PRIM’s multi-year effort to slowly grow the Private Equity allocation.

Ms. Garrahan explained that PRIM’s exposure as of the end of December 2020 was well within the ranges. PRIM’s Asset Allocation 2021 recommendation helps the staff continue on the same trajectory as past years. PRIM’s asset allocation research continues to find Private Equity as an attractive asset class.

PRIM’s asset allocation framework, Ms. Garrahan continued, uses a probabilistic based approach to maximize the likelihood of achieving the dual objective. PRIM’s return objective is defined as the probability of achieving 7.15% annualized return across the next 10-years. Additionally, PRIM has defined a measure of downside protection as no cumulative drawdown greater than 20% within the next three-years. PRIM’s asset allocation process maximizes the probability of achieving our dual objective.

Ms. Garrahan noted that PRIM's asset allocation methodology uses principal component analysis to view the underlying characteristics across the asset classes to better identify areas of diversification. Although the staff does not focus on labeling each principal component, the first principal component can be thought of as an equity market factor. In the context of the PRIT fund, the first principal component explains approximately 59% of the total PRIT fund risk. Our goal is to make the contribution to risk across principal components more balanced while maximizing the probability of achieving our dual objective.

IV. Performance Review and Market Summary

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

The real estate portfolio ended the year with a net asset value (NAV) of approximately \$7.2 billion or 8.3% of the PRIT fund, within the policy range of 7-13% and underweight the 10% mid-point. The timberland portfolio ended the year with an NAV of approximately \$2.8 billion or 3.3% of the PRIT fund, under the asset class mid-point of 4%. While there was minimal change in portfolio values for both asset classes during the year, the asset class percentages of the PRIT fund decreased due to strong performance within the public markets' portfolio.

Mr. Schlitzer commented that there were no allocations or redemptions within the public real estate portfolio during the year. Net acquisition activity in the private real estate portfolio was approximately flat. PRIM completed acquisitions in the life science and industrial sectors while taking advantage of strong capital markets for both industrial and apartments assets to complete three dispositions. PRIM maintains private real estate overweights to industrial and multifamily real estate.

Mr. Schlitzer noted that total real estate returned 1.1% for the year, 47 basis points above benchmark. Private real estate returned 2.5% for the year, 49 basis points above PRIM's benchmark. Outperformance increases 40 basis points when compared to the unlagged, December index. The public real estate portfolio returned -4.3% for the year, outperforming the benchmark by 408 basis points. Outperformance was primarily driven by U.S. stock selection. Timberland returned 3.5% during the year, 335 basis points above the asset class benchmark. Timberland outperformed by 273 basis points when compared to the unlagged December index. Outperformance was driven by updated price forecasts in the Pacific Northwest, incorporated into the year-end appraisals, and strong currency and operating performance in Australasia. There were no new timberland investments completed during 2020.

V. 2021 Real Estate and Timberland Annual Plan Summary

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate updated the Committee on the 2021 Annual Plan. He made the following comments, referencing Appendix H of the meeting materials:

Mr. Schlitzer noted that the team had an excellent year, under adverse conditions. They responded well to the pandemic, immediately focusing on operating conditions when COVID-19 impacted the global economy and real estate markets. They allocated capital prudently, collaborated well with colleagues, and spent significant time researching non-traditional property types. Life science is an example of an idea that PRIM executed on in 2020.

Mr. Schlitzer stated that the team will be focusing on a number of initiatives in 2021. Mr. Schlitzer described debt refinancing, investment sourcing, the investment equity investment program, business plan oversight, and a number of collaborative projects as areas of focus during the year.

VI. 2021 Internal Management Plan (Voting Item)

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate presented the 2021 Internal Management Plan recommendation as described in Appendix I. Mr. Schlitzer reviewed the objectives of the internal management platform and stated that the 2020 strategy has not changed for 2021. He also stated that all

future investments will be communicated to the Committee and PRIM Board in accordance with the approved policy.

Mr. Schlitzer reviewed the existing portfolio, commenting on the recent rent increase at Santa Clara Gateway and confirming that the office assets will be an area of focus for the year, given the difficult operating environment during the pandemic. He noted both of PRIM's office assets ended the year above 95% occupied and expects staff will focus on known tenant departures, future leasing prospects and capital projects during the year.

Mr. Schlitzer told the Committee that the investment strategy for the year will continue to focus on developing PRIM's relationships with potential partners and sourcing of ground leases, investments requiring low management intensity, and joint ventures with high quality operating partners. He mentioned the investment criteria, as described in Appendix I, has not changed.

The Real Estate and Timberland Committee voted (by unanimous roll-call vote of all members present) to recommend to the PRIM Board that the Board approve the 2021 Internal Management Plan as described in Appendix I of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:52 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of November 18, 2020*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *2021 PRIM Staff Annual Plans*
- *2021 Asset Allocation Presentation*
- *NEPC Asset Allocation Presentation*
- *Real Estate and Timberland Performance Charts*
- *2021 Real Estate and Timberland Annual Plan*
- *2021 Real Estate Internal Management Plan*