



Minutes of the PRIM Real Estate and Timberland Committee Remote Meeting
Wednesday, August 4, 2021

Committee members attending:

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

Committee members not attending:

- Peter O'Connell
- Carly Rose

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:31 a.m. Chair Jill Hatton announced that the meeting was being held by internet and telephone in accordance with the provisions of “An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency” which was signed into law on June 16, 2021. This Act includes an extension, until April 1, 2022, of the remote meeting provisions of the March 12, 2020, Executive 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 May 5, 2021, meeting.

II. Executive Director / Chief Investment Officer Report

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

Mr. Trotsky reported that the PRIT Fund recorded the highest fiscal year performance in its entire history with a return of 30.0% (29.5%, net), surpassing the previous high in 1986 when the Fund returned 25.6%. Moreover, the Fund outperformed its benchmark by 8.9% (net), the largest fiscal year outperformance in PRIM’s history, surpassing the previous high in 2000 when the Fund outperformed by 5.9%.

Mr. Trotsky added that this return equates to a net investment gain of \$22.1 billion for the fiscal year, \$6.7 billion above a benchmark return. Assets under management were a record \$95.7 billion, while outflows to pay pension benefits were approximately \$1.2 billion.

Mr. Trotsky mentioned that PRIM is pleased with the strong one-year performance, but more pleased that over longer periods and through strong markets and market corrections the PRIT Fund has proven to be high-performing, resilient, and cost-effective. The PRIT Fund’s trailing 3-, 5-, and 10-year returns remain strong and consistently above benchmarks, and also above the required actuarial rate of return

(7.0%). Mr. Trotsky explained that much of the success can be attributed to PRIM's individual asset class teams who are disciplined and focused on identifying the most profitable sectors and most skillful managers. He added that PRIM's innovative and acclaimed work over the last ten years, developing PRIM's own proprietary and statistically driven tools for asset allocation and also manager selection is paying off. PRIM has successfully engineered a portfolio that performs well in a variety of market conditions.

Mr. Trotsky informed the Committee that one of PRIM's principal investment beliefs is that all investment programs must be evaluated on three equally important parameters: return, risk, and cost, and while PRIM is delighted with the record return of fiscal year 2021, risk was well controlled, and PRIM's costs remain low. Excellent results in a period, when by design, PRIM invested more of the Fund in higher performing and higher cost private investments.

Mr. Trotsky continued by mentioning that too often in strong markets like PRIM just experienced, investors become more focused on returns and less focused on risk and cost. However, PRIM is still as focused as ever on risk and cost. In fact, for Fiscal Year 2021, the risk adjusted returns were at a multi-year high, while costs were at a multi-year low. The PRIT Fund's Sharpe Ratio was 4.05 and total costs, all costs, were 51 basis points. He reminded the Committee that a Sharpe Ratio over 1 is generally considered acceptable to most investors, and larger is better; and 51 basis points total cost, is very low especially for a portfolio that utilizes approximately 35% high performing and high-cost private assets such as Private Equity, Private Debt, Real Estate, and Timberland. Mr. Trotsky added that Project SAVE initiatives now total \$250 million, annually, and he believes the PRIT Fund's returns will be near the top of its peer group, even while risk will be near the bottom and costs remain low and well controlled. Mr. Trotsky reiterated that the PRIT Fund is high return, lower risk, less volatile and low cost, and he believes this is an indication that PRIM's manager selection, asset allocation and diversification techniques and tools have been working as expected since they were designed and implemented. It also indicates the success of PRIM's maniacal focus on controlling costs.

Mr. Trotsky continued, operationally, PRIM had a very productive year. PRIM staff researched and deployed more than \$4.4 billion in new investments, hired and onboarded seven new full-time employees, promoted five of PRIM's highest-performing rising stars, hired thirteen interns, and launched several new initiatives including a groundbreaking agreement with MIT Sloan School designed to improve ESG investing, and a program called the FUTURE Initiative, which is designed to implement the newly created Investment Equity law, created and championed by Treasurer Goldberg and signed into law in January 2021. The new law will help PRIM create an enhanced pathway for diverse investment managers and vendors to compete successfully for contracts, with the ultimate goal of achieving at least 20% diversity in PRIM's vendor base.

Mr. Trotsky told the Committee that there is always room to improve on Diversity and Inclusion metrics; nonetheless PRIM is extremely proud of its results to date, both regarding internal staff and external contracts. He added that last fiscal year, PRIM placed \$1.2 billion with diverse investment management firms and now has more than \$6 billion in assets deployed, and with an affirmative Board vote at the next meeting, PRIM will add another \$1 billion mandate to the program. PRIM ranks sixth in the nation in funds invested with diverse managers, according to a recent *Pensions and Investments* survey. Internally, 64% of PRIM's workforce is diverse in regard to gender, race, or both, 49% of PRIM's workforce is female, 38% of PRIM's Senior Management is diverse in regard to gender, race, or both, and 33% of PRIM's Senior Management is female. Mr. Trotsky added that importantly, PRIM continues to enhance its proxy voting guidelines to require the boards of PRIM's publicly traded companies to be diverse in terms of both gender and race, and PRIM is consistently and materially making progress each year.

Mr. Trotsky made comments on the environment of last year. He mentioned that he is extremely proud of PRIM's record setting accomplishments this year and even more pleased with PRIM's long-term

successes, but he believes this year’s achievements are particularly remarkable because the COVID pandemic was a major distraction, if not a major headwind, to PRIM’s efforts. He added that it was an extremely difficult year, and he couldn’t be prouder of the team and how everyone responded during the crisis and how everyone overcame the challenges to deliver these strong results. He thanked the entire Board, committee members, and PRIM staff for their support, dedication, and hard work over the past year.

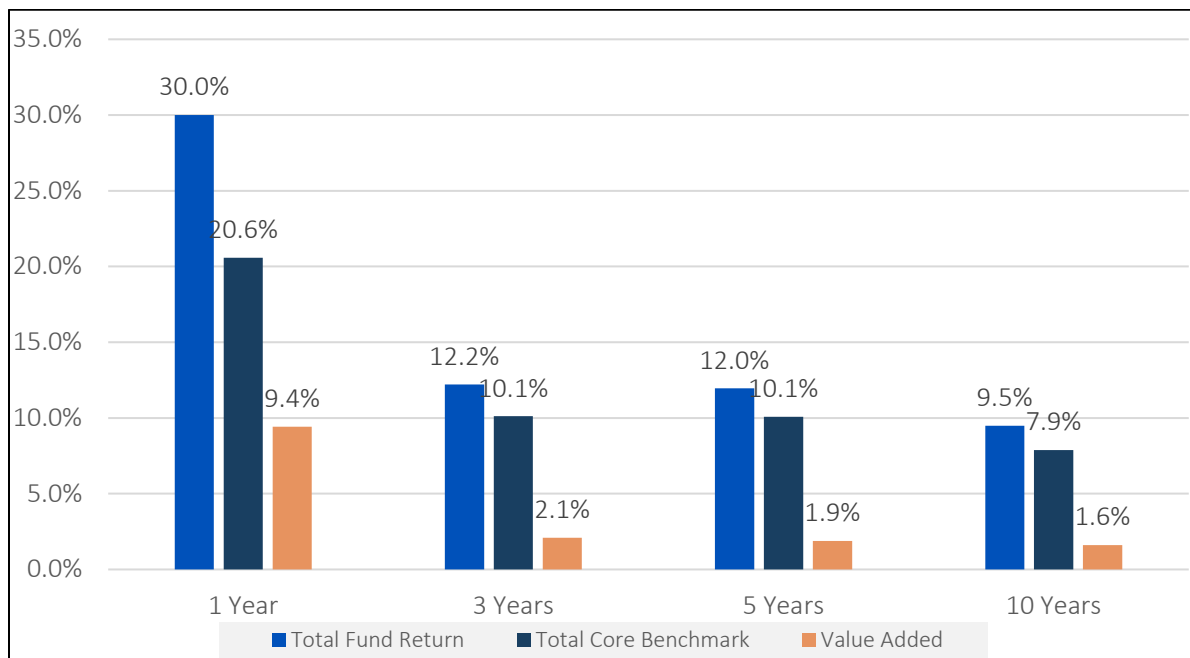
The PRIT Fund’s trailing 3-, 5-, and 10-year returns remain strong, above benchmark, and above the Actuarial Rate of Return, which is currently 7.0%.

For the one-year period ended June 30, 2021:

- The PRIT Fund was up 29.5%, outperforming the total core benchmark of 20.6% by 891 basis points, net of fees.
- This performance equates to an investment gain of \$22.1 billion.
- This outperformance equates to \$6.7 billion of value above the benchmark return.
- Net total outflows to play benefits for the one-year ended June 30, 2021, were approximately \$1.2 billion.
- Six of the seven major asset classes outperformed their respective benchmarks.

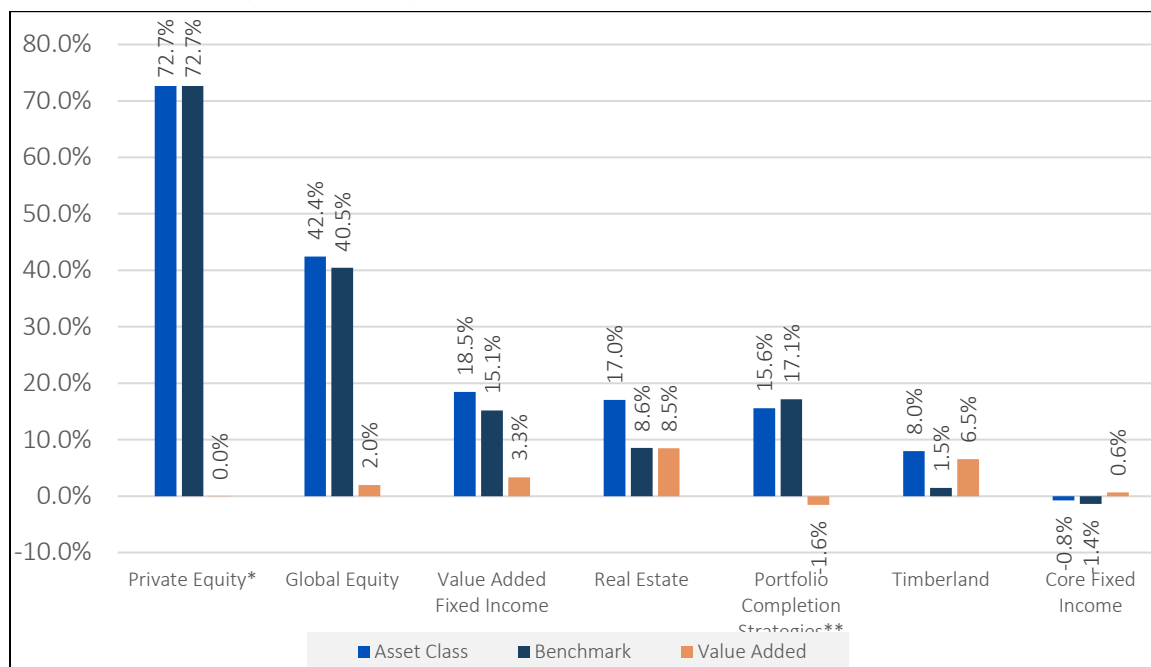
Mr. Trotsky referred to the following charts and graphs:

Total PRIT Fund Returns
(Gross of Fees) Annualized Returns as of June 30, 2021



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

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of June 30, 2021



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 June 30, 2021

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 72.7%	PRIVATE EQUITY 28.8%	PRIVATE EQUITY 25.9%	PRIVATE EQUITY 20.8%
GLOBAL EQUITY 42.4%	GLOBAL EQUITY 14.3%	GLOBAL EQUITY 15.1%	GLOBAL EQUITY 10.4%
VALUE-ADDED FIXED INCOME 18.5%	REAL ESTATE 7.9%	REAL ESTATE 7.9%	REAL ESTATE 10.0%
REAL ESTATE 17.0%	CORE FIXED INCOME 7.0%	VALUE-ADDED FIXED INCOME 7.0%	VALUE-ADDED FIXED INCOME 5.4%
PORTFOLIO COMPLETION STRATEGIES 15.6%	VALUE-ADDED FIXED INCOME 6.9%	PORTFOLIO COMPLETION STRATEGIES 5.2%	TIMBER 5.0%
TIMBER 8.0%	PORTFOLIO COMPLETION STRATEGIES 3.8%	TIMBER 4.8%	CORE FIXED INCOME 5.0%
CORE FIXED INCOME (0.8%)	TIMBER 2.6%	CORE FIXED INCOME 3.5%	PORTFOLIO COMPLETION STRATEGIES 4.5%

Source: BNY Mellon

III. Performance Review and Market Summary

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate updated the Committee on performance and markets.

Real Estate

The real estate portfolio ended the period at 8.3% of the PRIT Fund, below the 10% mid-point. The ending net asset value (NAV) was \$7.9 billion. Mr. Schlitzer commented that there were no material changes to the real estate strategic weights during the quarter.

For the one-year period ended June 30, 2021, total real estate returned 17% for the year, 847 basis points above the benchmark. All of PRIM's private and public real estate separate account managers added absolute and relative value during the year. Private real estate returned 12.5% for the year, 987 basis points over the benchmark.

Mr. Schlitzer noted that REIT portfolio performance was 38% for the year, 339 basis points over the benchmark. All sectors and global regions exhibited strong performance, with the U.S. leading along with the mall sector.

Timberland

The timberland portfolio was valued at \$2.8 billion at year-end, with no changes during the first quarter. Timberland represents 3.0% of PRIT versus the 4% midpoint. Total timberland returned 8% during the prior year, 653 basis points above PRIM's benchmark.

Sawmilling assets have performed well in an environment of record lumber prices. Housing starts were at approximately 1.6 million units (annualized) in June. Mr. Schlitzer noted that PRIM had no direct exposure to the recent fires in Oregon but that the fires could result in increased near-term log price volatility in the Pacific Northwest.

IV. Real Estate Leverage

Real Estate Leverage was presented to the Real Estate and Timberland Committee for informational purposes. The recommendation was presented to the Investment Committee for approval on August 3, 2021.

Jay Leu, CFA, Senior Investment Officer - Director of Risk Management, and John F. La Cara, Senior Investment Officer, Real Estate and Timberland, updated the Real Estate and Timberland Committee on the Internal Real Estate Financing program.

Staff provided an overview of the materials and recommendation and noted that the Investment Committee had approved the recommendation (1) to expand PRIM's financing options and (2) to utilize our current vendors eSec Lending and Parametric to achieve that using a general collateral (primarily U.S. Treasuries) securities lending program and repurchase agreements, futures, total return swaps and repos.

Staff reiterated that this presentation was not a voting item but a review of the presentation.

The PRIM Real Estate and Timberland Committee meeting adjourned at 11:02 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of May 5, 2021*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Performance Charts*
- *Real Estate Leverage Presentation*