



Minutes of the PRIM Real Estate and Timberland Committee Remote Meeting
Wednesday, February 2, 2022

Committee members attending:

- Jill Hatton, CRE, Chair
- Lydia Chesnick, Esq.
- Robert Gifford
- Anthony Hubbard, Esq.
- Jack Lutz, Ph.D.
- William McCall
- Garlan Morse, Jr., CRE
- Carly Rose

Committee members not attending:

- Treasurer Deborah Goldberg
- Peter O'Connell

The PRIM Real Estate and Timberland Committee meeting was called to order at 2:03 p.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. Minutes (Voting Item)

The PRIM Real Estate and Timberland Committee approved (unanimously) by roll call vote the minutes of its February 2, 2022, 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 began by extending deepest condolences to Treasurer Goldberg on the passing of her father, Avram Goldberg, and wished the Treasurer and her family strength and peace in this difficult time as they celebrate his full life.

Mr. Trotsky shared the December quarterly results with the PRIT Fund up 5.4% net and 1.4% above benchmark, capping another outstanding and record-setting year. For the calendar year ending December, the PRIT Fund was up 20.6% gross or 20.1% net of all fees; the fourth largest return in PRIM’s entire history. The 2021 return outperformed the benchmark by more than 8% net of fees, or \$7 billion, the strongest outperformance in our entire history, surpassing the previous record of 4% outperformance set in 1999. The fund ended the year at a record \$104 billion. He added that the PRIM staff had remained very productive during the year, deploying more than \$7.6 billion in new investments, which is another record. He mentioned that there would be more on performance later in the agenda.

Mr. Trotsky then highlighted two important initiatives on the agenda, Treasurer Goldberg's motion to create an ESG Committee and an update on PRIM's proxy voting policy. He noted that he believes the ESG Committee will build on the important work that PRIM has been doing internally and with its partners in the MIT Sloan School's Aggregate Confusion Project. He then introduced a climate change related proxy voting policy update which will keep PRIM out in front of major trends in the industry, explaining that Treasurer Goldberg is passionate about these areas.

Mr. Trotsky moved on to asset allocation, explaining that earlier in the week (Tuesday) the Investment Committee supported the staff recommendation to continue its multi-year effort to gradually increase the allocation to Private Equity, the number one performing asset class over all time periods. The recommendation includes an increase of 1% to the Private Equity range and a decrease of 1% to the Global Equity range. Mr. Trotsky reiterated that PRIM's balanced, well-diversified portfolio will continue to perform well in both strong and weaker market environments, so no material changes are being made to the long-term strategic asset allocation.

Organizational Update

Mr. Trotsky announced that Renee LeFevre joined PRIM as its new Chief Legal Officer, reporting directly to him and would also be joining PRIM's executive management team. Ms. LeFevre joined PRIM from the Boston Planning and Development Agency (BPDA), which is made up of the Boston Redevelopment Authority, Economic Development Industrial Corporation of Boston, and the Mayor's Office of Workforce Development. Ms. LeFevre was with the agency since 2000 and became General Counsel in December 2014, where she managed a 10-person legal department along with outside counsel handling all legal issues including compliance on open meeting laws, public records requests, ethics, conflicts of interest and disclosures under Massachusetts General Laws, while also being responsible for legal matters pertaining to development proposals, public hearings, disposition of property, procurement, budget, personnel matters, and more. Ms. LeFevre serves as Vice President on the Board of Directors for the Boston Local Development Corporation (BLDC), is a member of The Abstract Club, CREW (Commercial Real Estate Women Network Boston), and the Boston Bar Association. Ms. LeFevre is a recipient of GET Connected 50 Most Influential Attorneys of Color and the Henry L. Shattuck Public Service Award. Ms. LeFevre is a graduate of the University of California at Berkeley and Boston College Law School. Mr. Trotsky welcomed Ms. LeFevre to PRIM.

Mr. Trotsky then acknowledged a special PRIM anniversary. Jennifer Cole, PRIM's Manager of Client Reporting and Cash Management, was celebrating 20 years at PRIM this February. He added that Ms. Cole joined PRIM in 2002 as a Staff Accountant and over the years was promoted to Financial Analyst, Senior Financial Analyst and then Manager of Client Reporting and Cash Management, responsible for managing all cash needs for all PRIM clients. This includes all contribution and redemption activity, playing a critical role in processing all PRIM Fund purchase and sale transactions on the first business day of each month. Mr. Trotsky mentioned Ms. Cole always delivers the highest level of customer service to PRIM's clients, the Operations team, and the entire organization, and congratulated her on 20 years at PRIM.

Mr. Trotsky then acknowledged Liu Liu, Investment Analyst on the Portfolio Completion Strategies team who recently completed both her CFA and CAIA designations after passing each of the rigorous multi-year exams and also after accumulating the requisite work experience. He provided some background on Ms. Liu's contributions during her time at PRIM by explaining her work enhancing PRIM's portfolio analytics while being responsible for the hedge fund replication program, a consistent outperformer. He also mentioned her leading role with the Power Pacific China A-Shares recommendation from her last year which has been a very successful. Ms. Liu joined PRIM in September 2018 on a permanent basis as an Investment Analyst after spending 18 months as an intern working in PRIM's Strategy team. Ms. Liu received her master's degree in finance from the Brandeis International Business School and earned her bachelor's degree in finance from Shanghai Jiao Tong University in China. Mr. Trotsky congratulated her on this significant achievement.

Mr. Trotsky then discussed the markets and economy mentioning that with 2021 results in the rear-view mirror, 2022 started with a very volatile January. Markets have struggled with the Omicron surge, labor shortages, supply chain shortages, and an associated 40-year high inflation reading of 7% in December, not to mention continued geopolitical tensions as well as domestic tensions. In January, market volatility as measured by the VIX surged from 17.2 to 32 as the S&P was down 5.2%, while the tech heavy NASDAQ was down almost 10%. Developed international markets were down 4.8%, and emerging markets were down 1.9, while diversified bonds were down approximately 2%. The Federal Reserve left the target range for its federal funds rate unchanged at 0-0.25% during its January meeting. However, they indicated a desire to raise the target range beginning in March as inflation is currently running well above 2.0% and the labor market is very strong; the unemployment rate was reported at a mere 3.9% recently. And more importantly, market futures are indicating that the Fed will raise rates four or five times in 2022. The prospect of an increasingly hawkish Fed, combined with some mixed economic data likely caused by the Omicron spike, and some softening of corporate earnings is alarming to market participants.

Mr. Trotsky mentioned that at the Investment Committee earlier that week, a healthy discussion on markets and the economy took place. Specifically, he pointed out several points that Connie Everson, Investment Committee member, made to him prior to the meeting. They were as follows:

1. When the Fed gets around to the 3rd rate hike or so later in the year, conditions won't support it, key prices will be back off. Inflation readings will moderate later in the year.
2. The critical ingredient of a typical bear market is missing – there is no slowdown in demand. We are experiencing a supply problem, not a demand problem, which will also resolve itself. Workers who are on the sidelines could return to the work force, and that would be a positive.
3. Even now, parts of the equity market are holding up – like industrials, energy, materials. They could lead the way in any market rebound.
4. She acknowledges that there is a rotation of Fed Governors, and they are more hawkish than their predecessors, and there is a risk that the Fed could overdo the tightening programs, no doubt, but Fed is not going to be able to put this economy into a recession.

Mr. Trotsky added that Jay Leu, PRIM's Director of Risk, had interesting comments based on his interpretation of market futures and by examining the correlations of asset classes to inflation and growth.

Mr. Trotsky summarized Mr. Leu's points as follows:

1. The current TIPS Breakeven rate of only 2.4% indicates that the markets are less concerned about inflation and more concerned with rising rates –the equity markets are worried that the Fed is too aggressive and will choke off expansion.
2. In other words, the Fed is concerned about inflation, but the stock market is concerned about the Fed.
3. There is more worry about inflation taking hold and a possible wage-price spiral.

Mr. Leu also prepared and presented to the Investment Committee earlier that week a sensitivity analysis of the PRIT Fund to rising inflation. Mr. Trotsky provided the following points made during that discussion:

1. The PRIT Fund has a beta of 2 to GDP growth. This means that the Fund generally performs well in growth environments. Equities, Private Equities, Hedge Funds and even Real Estate do well when the economy grows.
2. Analysis shows that Real Estate has very little beta to inflation. We can discuss the reasons for this, but maybe it's because in inflationary environments rents and property values rise enough to at least partially offset increased capital costs.
3. Commodities do best in high inflation environments – perhaps good to think of Timber in this bucket.
4. Bonds do best in low inflation, low growth environments – our insurance policy against challenging economic times.

- Mr. Leu’s scenario analysis predicts that the PRIT Fund’s Core Fixed Income portfolio would be down approximately 8% with a one-time shock of an increase in inflation of 1%, nominal yields up 1%, and short-term interest rates up 1%. At 15% of the PRIT Fund, this would equate to a hit on the PRIT Fund of approximately 1%, but presumably other asset classes with a positive (or neutral) beta to growth would more than offset this decline, after all growth is often accompanied by higher inflation readings.

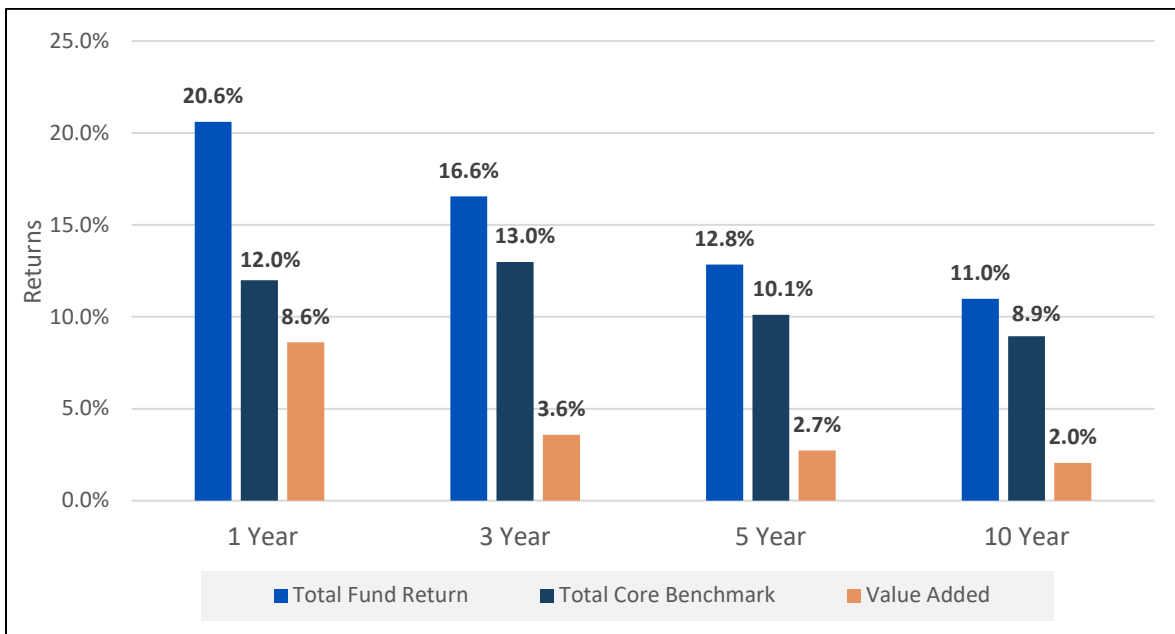
Annual Plans

Mr. Trotsky told the Committee that the 2022 annual plans are a continuation of the work the staff has been doing, with additional focus on implementing the FUTURE Initiative to comply with the Investment Equity law, supporting the establishment of an ESG Committee, and performing a full real asset portfolio review, amongst other things.

PRIT Fund Performance

Mr. Trotsky discussed December 2021 PRIT Fund performance in more detail referencing the following performance charts:

Total PRIT Fund Returns
Annualized Returns as of December 31, 2021 (Gross of Fees)

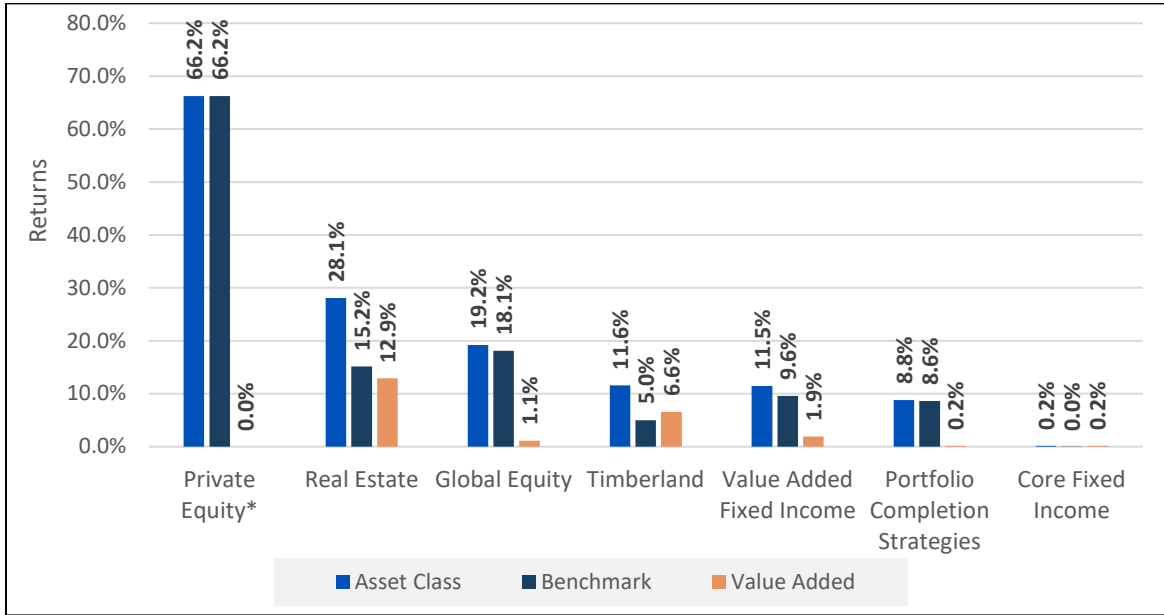


Source: BNY Mellon. Total Core Benchmark includes private equity benchmark.

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PRIT Asset Class Performance Summary

One Year ended December 31, 2021 (Gross of Fees)



Source: BNY Mellon. Totals may not add due to rounding. *Benchmark is actual performance.

PRIT Fund Annualized Returns By Asset Class

(December 31, 2021 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 66.2%	PRIVATE EQUITY 33.2%	PRIVATE EQUITY 29.6%	PRIVATE EQUITY 23.4%
REAL ESTATE 28.1%	GLOBAL EQUITY 20.7%	GLOBAL EQUITY 14.7%	GLOBAL EQUITY 12.3%
GLOBAL EQUITY 19.2%	REAL ESTATE 12.9%	REAL ESTATE 10.6%	REAL ESTATE 11.2%
TIMBER 11.6%	VALUE-ADDED FIXED INCOME 8.5%	VALUE-ADDED FIXED INCOME 7.2%	VALUE-ADDED FIXED INCOME 6.2%
VALUE-ADDED FIXED INCOME 11.5%	CORE FIXED INCOME 7.7%	CORE FIXED INCOME 5.5%	TIMBER 6.0%
PCS 8.8%	PCS 5.7%	TIMBER 5.3%	PCS 5.1%
CORE FIXED INCOME 0.2%	TIMBER 5.2%	PCS 4.6%	CORE FIXED INCOME 4.7%

Source: BNY Mellon. Returns as of December 31, 2021

III. Research – Asset Allocation Update

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, presented a summary of the 2022 Asset Allocation recommendation, which was presented for approval to the Investment Committee on February 1, 2022.

Mr. Trotsky noted the 2022 Asset Allocation recommendation represents no major changes to the prior year recommendation. The recommendation includes a 1% increase in the Private Equity target range (formerly 11-17% to 12-18%) and a 1% decrease in the Global Equities target range (formerly 34%- 44% to 33%-43%). The recommendation maintains continued alignment with PRIM's strategic initiative to slowly grow our private market allocation.

Mr. Trotsky explained that PRIM's actual exposure to Private Equity is currently 16.6% and at the higher end of the target range approved in 2021. The 2022 recommendation puts forth only a minor change to the ranges shifting up Private Equity target range by 1% and shifting down Global Equity by 1% thus providing some additional space to operate within.

PRIM's asset allocation framework, Mr. Trotsky 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% 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. Our asset allocation process maximizes the probability of achieving this dual objective.

IV. 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 8.7% of the PRIT Fund, below the 10% mid-point. The ending net asset value (NAV) rose to \$9.0 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 December 31, 2021, total real estate returned 28.1% for the year against PRIM's benchmark, which returned 15.2%. Private real estate returned 28.3% for the year versus PRIM's unlagged benchmark, which returned 17.7%. Outperformance in the private portfolio was driven by PRIM's portfolio overweights to industrial and apartments as well as PRIM's accretive capital structure. Mr. Schlitzer noted that 67% of PRIM's portfolio is invested in property types other than traditional office properties. Lastly, Mr. Schlitzer noted that REITs returned 27.2%, outperforming PRIM's benchmark by 21 basis points.

Timberland

The timberland portfolio was valued at \$3.0 billion at year-end, ending the period at 2.9% of the PRIT Fund. Total timberland returned 11.6% during the prior year, 657 basis points above PRIM's benchmark. There were no acquisitions completed in the timberland portfolio in 2021.

V. 2022 Real Estate and Timberland Annual Plan Summary

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate, updated the Committee on the 2022 Annual Plan. He made the following comments, referencing Appendix D of the meeting materials:

Mr. Schlitzer discussed several of the Real Estate and Timberland team's accomplishments, as outlined on page 15 of the presentation, including work on the FUTURE Initiative, ESG (Environmental, Social, Governance) analysis within the timberland portfolio, and substantial transaction and refinancing activity, including a \$500 million debt maturity, refinanced internally with expected savings of approximately \$1 million per year in interest costs.

Mr. Schlitzer stated that the team will be focusing on several initiatives in 2022. He described implementation of PRIM's pending FUTURE mandate with Cambridge Associates, continued ESG collaboration across the real estate and timberland portfolios, the formation of a Strategic Real Estate Working Group, RFPs for real estate and timberland appraisal services, and several additional projects during the year.

VI. Real Estate Appraisal - Issuance of Request for Proposals Recommendation (Voting Item)

The PRIM Real Estate and Timberland Committee unanimously agreed by roll-call vote to make a recommendation to the PRIM Board that it approve the issuance of a Request for Proposals (RFP) for Real Estate Appraisal Services, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

VII. Timberland Appraisal - Issuance of Request for Qualifications Recommendation (Voting Item)

The PRIM Real Estate and Timberland Committee unanimously agreed by roll-call vote to make a recommendation to the PRIM Board that it approve the issuance of a Timberland Request for Qualifications (RFQ) for Timberland Appraisal Services, 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 3:14 p.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of November 17, 2021*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *2022 PRIM Staff Annual Plans*
- *2022 Asset Allocation Presentation*
- *2022 NEPC Asset Allocation Presentation*
- *Real Estate and Timberland Performance Charts*

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