



Minutes of the PRIM Real Estate and Timberland Committee Remote Meeting
Wednesday, May 4, 2022

Committee members attending:

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

Committee members not attending:

- Peter O'Connell

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:34 a.m. Chair Jill Hatton announced that the meeting was being held by internet and telephone in accordance with the provisions of Massachusetts, "Chapter 22 of the Acts of 2022" which was signed into law on February 15, 2022, which law includes an extension, until July 15, 2022, of the remote meeting provisions of the March 12, 2020, Executive Order "Suspending Certain Provisions of the Open Meeting Law". 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 his deepest condolences to Christina Marcarelli on the passing of her uncle, wishing her and her family strength and peace during this difficult time.

Mr. Trotsky informed the Committee that conditions had changed since they met in February. At the last meeting, they met to discuss and even briefly celebrate PRIM's very strong calendar year 2021 performance: a 20% investment gain and record outperformance over our benchmark and reviewed the adjustment to PRIM's asset allocation. Also discussed was a very strong global economy and strong financial markets. Mr. Trotsky mentioned that it seemed like ancient history. The Russian invasion of Ukraine on February 24th turned the world upside down. In addition to the humanitarian catastrophe which has caused thousands of war casualties and displaced more than 8 million Ukrainian citizens, the largest refugee crisis since World War II, global financial markets and world economies have been dealt a substantial setback.

Mr. Trotsky continued by describing that the war, combined with new COVID flare-ups, rising inflation and interest rates, and continued supply chain disruptions are expected to cause global economic growth to slow significantly. In late April, the International Monetary Fund reduced its world economic growth forecast for 2022 to 3.6%, down from a projection of 6.1% only a few months ago. The IMF expects US

growth to slow from 5.7% in 2021 to 3.7% in 2022, and 2.3% in 2023. GDP contracted 1.4% in the first three months of 2022. Any projections seem to be a moving target, and the situation is expected to last for years, not weeks or months. At a meeting in late April, International Monetary Fund Managing Director, Kristalina Georgieva said that the Russian invasion is “sending shock waves throughout the globe.... We are facing crisis on top of crisis”. Moreover, referring to multilateral efforts to end the war, curtail the pandemic, reduce inflation, and secure expensive energy and food supplies for the future, Ms. Georgieva said “This is the most universally complex policy environment or our lifetime, posing tremendously difficult choices.”

Mr. Trotsky relayed that PRIM is still performing at a very high level and expressed how very grateful he was to the entire staff at PRIM. He described the environment at PRIM as “all hands on deck.” Mr. Trotsky said that the team is paying attention to every detail in the portfolio, and that he has asked the team to examine and re-examine every strategy and to increase communications with every manager.

Mr. Trotsky mentioned that for the quarter ending in March, the PRIT Fund was down only 2.1% (net) and for the trailing 12 months, the fund was up 12.6%, outperforming the benchmark by 5.5%. The 2.1% decline in the quarter compares very favorable to US stocks which declined 4.6%, Developed International stocks declined 5.9%, and Emerging Markets stocks declined 7%. Bonds were down 6% in the quarter and a 60/40 mix of stocks and bonds, a common comparison for a diversified portfolio, was down 5.6% for the quarter. He believed that the PRIT Fund decline of 2.1% was a good outcome for such a turbulent quarter.

Mr. Trotsky promised to provide more information on performance later but shared that at a time when staff obviously must concentrate its efforts on the investment program, never have we had so many non-investment initiatives underway. Some of these initiatives were planned, but many of them were not. All are important, but we are a lean organization and although we have been growing our employees by approximately 10-20% each year we still find ourselves resource constrained in nearly every aspect of our business.

Mr. Trotsky mentioned a common theme of this Board meeting cycle will be RESOURCES. He mentioned that PRIM has been very successful hiring in this environment with 15 new employees alone in the last 14 months, and that is during the COVID pandemic when hiring and onboarding were more difficult. It is becoming more difficult to hire, the employment market is very tight, and additionally, we are nearly out of office space. He mentioned Anthony Falzone, Deputy Executive Director and Chief Operating Officer, and Deborah Coulter, Chief Financial Officer and Chief Administration Officer would be introducing the 2023 PRIM budget tomorrow which requests resources to grow. He continued by stating the punchline in the budget remains very positive: even with the proposed increases in the budget, the expense ratio will remain constant at 50 basis points of assets under management. Mr. Trotsky believed this is astounding, especially considering that PRIM has deployed more assets to higher performing, but higher cost strategies like private equity over the years.

Mr. Trotsky provided the following list of non-investment projects the team are working on:

1. In addition to the regular PRIM and PRIT Fund audits conducted by KPMG, staff are currently supporting two additional audits from both PERAC, the state’s pension system regulator, and the State Auditor. These were not anticipated audits even though they occur regularly. It is difficult to plan or schedule for them, they usually arrive unannounced and then we staff a response team with both operations and investment professionals.
2. Staff began a comprehensive IT Audit and a simultaneous effort to enhance PRIM’s IT security. As you may have read in the news, both the Federal Government and the Governor have advised all companies to expect more cyber security breach attempts. We have worked to ensure the safety of our digital data and have developed and provided trainings to our clients to inform their cyber security needs. We are also simultaneously evaluating new methods to further enhance our own cash transfer protocols.

3. PRIM expects to receive a subpoena in support of the Attorney General's lawsuit against Exxon Mobile. Renee LeFevre, Chief Legal Officer, and several operations and investment staff members will be involved; support of this case will take a lot of time and effort – collecting records, preparing, responding, etc.
4. Similarly, Ms. LeFevre is coordinating the deposition of several current and former PRIM employees in support of a securities class action case on Foreign Exchange trading. The FX trading problems happened a long time ago and the preparation will also take a lot of time and effort.
5. Success and innovation generate a lot of outside attention, and as a result, PRIM is receiving an unprecedented level of media requests and public information requests for matters related to our investment program, proxy voting policies, diversity and inclusion, ESG matters, and very recently Russian divestment.
6. PRIM continues to build the FUTURE Initiative – that's the effort to deploy more capital to diverse and emerging managers in support of last year's legislation. The program is sophisticated and requires substantial partnering, contracting, and due diligence, along with new monitoring and reporting requirements.
7. PRIM is nearing completion of a draft ESG Committee charter and framework in support of the Board vote last cycle to create a new ESG Committee. We are working closely with the Treasurer's office and with our outside governance consultant. We have made a lot of progress, but there is much more left to do.
8. Like others across the financial, governmental, and diplomatic sectors, we had to assess our Russia exposures in the aftermath of the invasion. PRIM staff spent approximately 6 weeks providing technical assistance to the Legislature, the Governor, and the Treasurer's team in support of the newly passed Russian divestment law. Now that the law has passed, staff is busy implementing the divestment requirements and its associated reporting requirements. It is no small undertaking.
9. PRIM is expanding staff as quickly as possible, which is difficult in the current strong employment environment, and we have also begun our search to expand our office space requirements for the expected growth. PRIM takes great care in its hiring practices. If done right, hiring and onboarding new employees is very time consuming. There is a lot to learn here at PRIM and it takes a lot of time, training, and mentorship for new employees to become productive.

Mr. Trotsky reiterated that all these projects are vitally important and impactful, some known and planned for, others were somewhat unexpected. The focus and efforts of our team are nothing short of remarkable under these circumstances. PRIM will be successful in meeting the requirements of every one of these initiatives, but given the market environment, staff is at its limit, and may be forced to temporarily postpone or prioritize any additional non-core projects until the financial markets stabilize and our resources grow. He asked for the Committee's understanding in the coming months and for support to increase the PRIM 2023 budget to support PRIM's needs.

Organizational Update

Mr. Trotsky congratulated Vivian Liang on her transition from Research Intern to Investment Analyst – Research, reporting to Maria Garrahan. Vivian joined as a Research Intern in July 2021 where she worked within multiple areas of research: Asset Allocation, PE Replication, Manager Selection tools, and more. In March, Vivian graduated with an MS degree from the Computational Finance and Risk Management graduate program at the University of Washington.

Mr. Trotsky announced that Tim Doyle started in February as an Investment Analyst on the Private Equity team and will report to Alyssa Fiore. He joined PRIM from the Mass General Brigham investment office. Tim began his career at Cambridge Associates in their pension practice and earned a Bachelor of Science in Finance from Boston College.

Mr. Trotsky introduced Amy MacKay who also joined PRIM in February as an Administrative Coordinator for the Real Estate and Timberland team, reporting to Tim Schlitzer. Amy previously worked in the Finance Department at Meredith & Grew (now Colliers) and the Downtown Leasing Group at Whittier Partners (now CBRE). Amy grew up in Dorchester and is a graduate of Assumption College.

Mr. Trotsky shared that in late March, PRIM became a founding signatory to the CFA Institute's first-ever Diversity, Equity, and Inclusion Code for the investment profession. He added that it was a very proud personal accomplishment for him because he worked very hard as a member of the DEI Code Steering Committee for more than two years to help persuade the CFA Institute to develop this important initiative for the industry. He has also lobbied the fifteen other founding signatories to join the effort. Mr. Trotsky added that this work follows his advocacy many years ago for the CFA's Asset Manager Code of Conduct (AMCC) for which PRIM was a founding sponsor. PRIM has always advocated strongly for all investment managers to adhere to its core principles.

Mr. Trotsky added that by becoming a founding signatory of the DEI Code, PRIM cements its position as an industry leading advocate for a new and better investment industry that more closely represents the make-up of our entire society. He believes that commitment to diversity and inclusion, just like ethics, must come from the top. He added that Treasurer Goldberg shares his passion to make a difference. Many years ago, Mr. Trotsky and Treasurer Goldberg decided to make cultural changes at PRIM to foster a diverse and inclusive environment. They believe that an industry that embraces many voices and perspectives will produce better investment outcomes and a more inclusive future for the investment profession. Mr. Trotsky mentioned that signing the DEI Code means that PRIM is committed to embracing its seven core principles to improve its workplace and its industry. PRIM's human resources policies already capture these principles, and with the implementation of the FUTURE Initiative following Treasurer Goldberg's advocacy for investment equity legislation, PRIM is positioned to continue to lead in this area. While PRIM is proud of its progress there is still more to do.

Mr. Trotsky mentioned that in its February 14th, 2022, issue, Pensions & Investments reported that PRIM was ranked seventh among the largest 200 funds in the nation for assets managed by diverse managers. This is an indication that PRIM's ongoing efforts over the years, combined with its new FUTURE initiative is putting PRIM at the very top of the heap in terms of progress – and many of the funds that have more allocated are far larger than the PRIT Fund. Dave Gurtz, Deputy Chief Investment Officer, and the entire team are doing a terrific job.

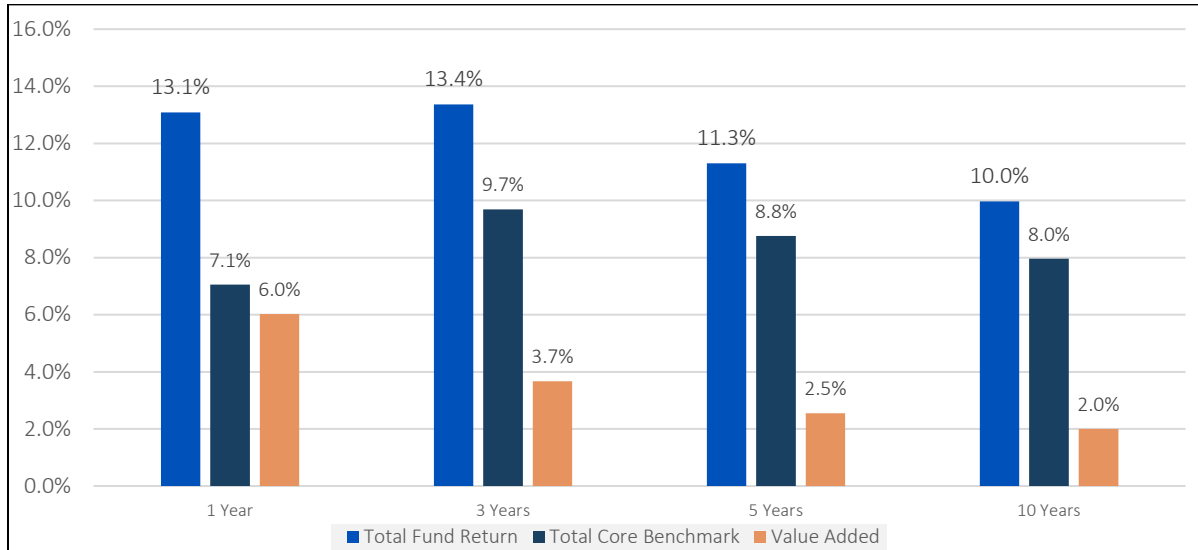
Mr. Trotsky completed his organizational update by reporting that for the 6th straight year, PRIM was nominated for Public Plan of the Year for Institutional Investor's annual HF Industry Awards ceremony. He reminded the Committee that PRIM won the award in 2016 in recognition of our groundbreaking work in separately managed accounts, which is now becoming the industry standard.

PRIT Fund Performance

Mr. Trotsky discussed March 2022 PRIT Fund performance in more detail referencing the following performance charts:

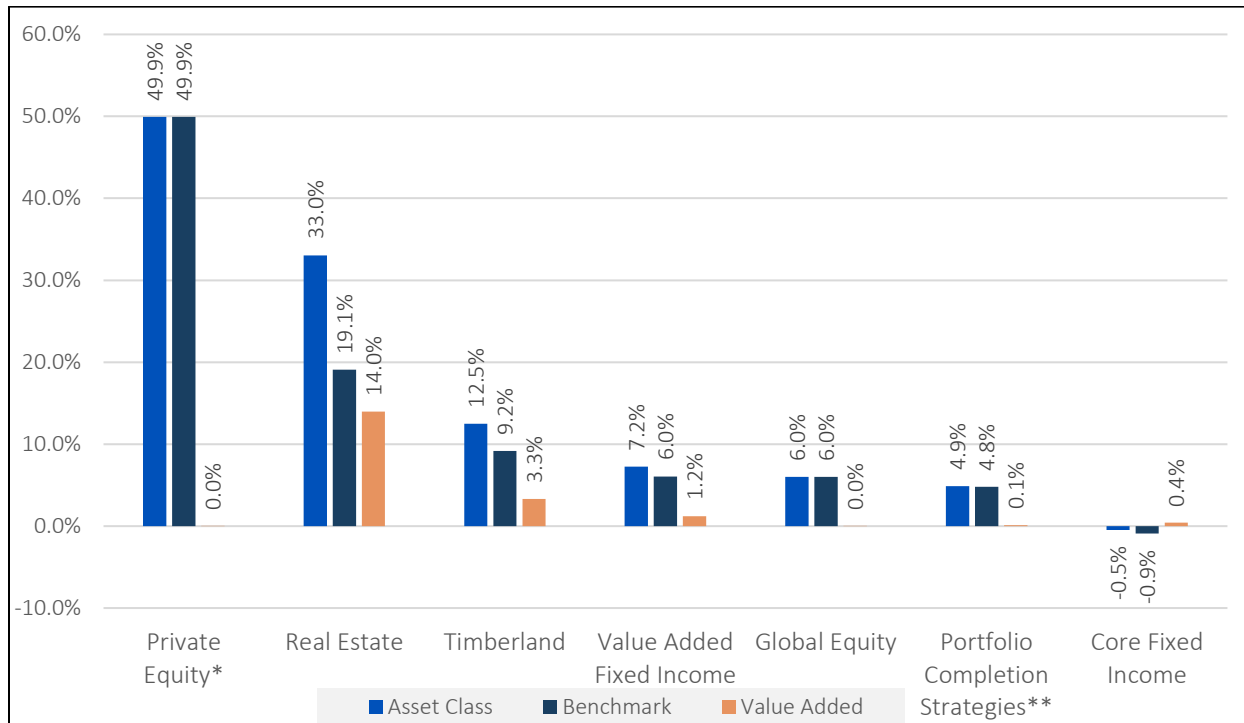
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Total PRIT Fund Returns (Gross of Fees) Annualized Returns as of March 31, 2022



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

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of March 31, 2022



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 March 31, 2022

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 49.9%	PRIVATE EQUITY 35.8%	PRIVATE EQUITY 29.3%	PRIVATE EQUITY 23.3%
REAL ESTATE 33.0%	REAL ESTATE 14.0%	REAL ESTATE 11.9%	REAL ESTATE 11.6%
TIMBER 12.5%	GLOBAL EQUITY 13.7%	GLOBAL EQUITY 11.7%	GLOBAL EQUITY 10.3%
VALUE-ADDED FIXED INCOME 7.2%	VALUE-ADDED FIXED INCOME 6.6%	VALUE-ADDED FIXED INCOME 5.9%	TIMBER 6.1%
GLOBAL EQUITY 6.0%	TIMBER 5.3%	TIMBER 5.3%	VALUE-ADDED FIXED INCOME 5.5%
PORTFOLIO COMPLETION STRATEGIES 4.9%	PORTFOLIO COMPLETION STRATEGIES 4.8%	PORTFOLIO COMPLETION STRATEGIES 4.3%	PORTFOLIO COMPLETION STRATEGIES 4.8%
CORE FIXED INCOME (0.5%)	CORE FIXED INCOME 4.1%	CORE FIXED INCOME 3.9%	CORE FIXED INCOME 4.0%

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. Mr. Schlitzer began by extending his sympathies to Christina Marcarelli and other PRIM colleagues coping with personal loss during the week of the Committee Meetings. Mr. Schlitzer also welcomed Amy MacKay to the Real Estate and Timberland team. Lastly, he congratulated and acknowledged Christina Marcarelli and Minching Kao on their efforts to implement the initial phase of the FUTURE program in real estate.

Real Estate

Mr. Schlitzer summarized real estate performance. The real estate portfolio had strong results for the prior year, returning 33% versus the benchmark at 19%. Returns were primarily driven by the private portfolio, returning 37%. PRIM's exposure to industrial properties, particularly its concentration in Los Angeles, and multifamily, life science and medical office properties were additive to relative returns. Leverage added approximately 700 basis points of additional return. PRIM's real estate position within the fund has increased meaningfully, moving from 8.2% to just under 10% over the past six months. The net asset value (NAV) has grown \$1.7 billion during this time with a significant portion of the change coming from appreciation. Two new assets have been purchased during the calendar year for approximately \$75 million. There is an additional \$300 million in net acquisitions expected over the coming months.

Mr. Schlitzer continued, explaining changes that the team is observing in the space and capital markets. Benchmark Treasury rates and credit spreads have risen over 200 basis points combined, impacting lending rates and equity yields on commercial real estate. Debt costs in many cases are above entry yields, outside of the normal relationship, and requiring future rent growth to achieve accretive leverage. Mr. Schlitzer concluded that for the time being, fundamentals and capital flows remain strong, but the team is monitoring increased risks in the economy and the drop in asset pricing across other segments of the market.

John F. La Cara, Senior Investment Officer, Real Estate and Timberland, provided the Committee with an update on public real estate (REITs) performance. Mr. La Cara noted that although U.S. REITs were down 4% in Q1 2022, it was after a strong return of approximately 43% in 2021. He noted that at the end of 2021, REIT dividend yields were approximately 120 basis points higher than treasury yields, which is consistent with the long-term average, but have compressed to 22 basis points since then. He also noted that some of the best performing sectors in 2021 experienced poor returns in Q1 2022, including regional malls and residential. Mr. La Cara concluded with an update on REIT performance in Europe and Asia.

Timberland

The timberland portfolio performed well during the year, with a return of 12.5% versus the timberland index at 9.2%. Timberland ended the quarter at 2.9% of the fund, with no recent transaction activity. Timber pricing was strong across all of the major regions in the first quarter and throughout the past year. Mr. Schlitzer explained that real discount rates have come down, leading to higher asset pricing. This reflects higher timber price expectations as well as demand from buyers looking for carbon offsetting assets. Supply chain issues still exist but are less pronounced within the logging and transportation inputs. In closing, he concluded that underbuilding in the U.S. over the past ten years should provide support for timber prices and housing demand overall. In the near term though, higher mortgage rates, supply chain issues and inflation will present challenges.

IV. Timberland Appraisal – Request for Qualifications (RFQ) Search Committee Recommendation

Minching Kao, Investment Officer, provided an overview of the Timberland Appraisal Services RFQ process, including the timeline, selection criteria, search committee members and respondents.

PRIM received nine responses. The Search Committee thoroughly reviewed all responses based on the selection criteria. Six of the responses were from appraisal firms that have an existing relationship with PRIM. The remaining three respondents were interviewed.

The PRIM Real Estate and Timberland Committee unanimously agreed by roll-call vote to make a recommendation to the PRIM Board to approve the following nine firms be placed on PRIM's list of approved timberland appraisers, and further to authorize the Executive Director to take all actions necessary to effectuate this vote:

- American Forest Management
- Forest Resource Consultants
- Legacy Appraisal Services
- Mason, Bruce & Girard
- Margules Groome Consulting Limited
- Sewall Forestry & Natural Resources Consulting
- Sizemore & Sizemore
- The Healy Company
- Timberland Appraisal Inc.

The PRIM Real Estate and Timberland Committee meeting adjourned at 11:00 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of February 2, 2022*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Performance Charts*
- *Evaluation Committee Report for Timberland Appraisal Services RFQ*