



Minutes of the Real Estate and Timberland Committee Meeting

Wednesday, November 16, 2022

Committee members attending:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Robert Gifford
- Anthony Hubbard, Esq.
- William McCall
- Garlan Morse, Jr., CRE
- Carly Rose

Committee members not attending:

- Lydia Chesnick, Esq.
- Jack Lutz, Ph.D.

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:36 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, and most recently amended on July 16, 2022, that includes an extension until March 31, 2023 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 all votes were taken by roll call. 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 August 3, 2022, meeting.

II. Executive Director/Chief Investment Officer Report

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

Mr. Trotsky congratulated Treasurer Goldberg on her recent re-election for her third term as Treasurer and Receiver General. Mr. Trotsky noted the landslide victory as Treasurer Goldberg received the most votes of any candidate running for state-wide office. PRIM staff look forward to working with Treasurer Goldberg and her staff over the next four years.

Mr. Trotsky acknowledged Anthony Hubbard who will be stepping down after 10 years of services as a board member for four years and a committee member for his entire tenure. He thanked Mr. Hubbard for his time and dedication to PRIM and thanks him for always being available as a great resource.

Mr. Trotsky noted the global challenges of the last two quarters persisted into the September quarter. During the September quarter COVID continued with a significant number of daily cases in the US and worldwide, while the flu and other respiratory illnesses, namely RSV, were on the rise. Interest rates remained stubbornly high, and inflation remained at multi-decade highs; markets digested slowing economic growth worldwide, tightening monetary policy, the Russia/Ukraine war, and continued geopolitical tensions. This provided a significant headwind for economies and financial markets in the September quarter, making it the third consecutive quarter of market declines. Through this challenging period, the PRIT Fund performance was stronger than the markets and most of our peers. We remain pleased with the resiliency of the Fund and its performance over all time periods, including in the September

quarter, and throughout several different market environments.

The Fund was down 4.7%, net, in the September quarter as compared to a 60/40 mix, which was down 6.0%. Market downturns create good buying opportunities, and the PRIM team has been busy identifying many new opportunities. Deployment of capital to new ideas of \$6.9 billion last fiscal year was a 58 percent increase over the previous year. In the current quarter, deployment of new capital is expected to total approximately \$800 million. Rebalancing trades increase during times of elevated market volatility; this ensures the deployment of capital to asset classes with the most significant declines. Rebalancing trades last fiscal year exceeded \$8 billion, and in the first five months of this fiscal year, July through November, rebalancing trades exceeded \$3.5 billion.

The deployment of capital to new ideas and rebalancing of the portfolio was timely as there has been a significant rebound in the markets since the end of the September. The S&P 500, for example, was down more than 15% for the 12-month period ending September but has gained 11.5% in October and November alone.

The outlook for the global economy is uncertain and PRIM does not trade or adjust the portfolio on any projections of the future. We remain pleased with the performance of the PRIT Fund as it is carefully constructed to perform well in a variety of market conditions.

Organizational Update

Mr. Trotsky announced that Jessica Murphy joined PRIM in October as the Manager of Performance Reporting. Jess comes to us from Bank of New York Mellon where she served as Lead Manager within the bank's Performance Reporting Group. Jessica is familiar with PRIM, having served as PRIM's main point of contact for all performance reporting matters for the past 13 years and she brings more than 16 years of performance reporting experience to the organization. At Mellon, Jess also oversaw performance reporting for many other large public pension funds, endowments, and corporate clients. She earned a Bachelor of Science degree in Economics and Finance from Bentley College, and will report into our Chief Investment Operating Officer, Matt Liposky.

Sara Coelho was promoted to Finance Manager. Sara was hired in November of 2018 and has excelled first as a Corporate Accountant and then as a Senior Corporate Accountant. Sara's work ensures that PRIM's month-end close is completed timely and accurately. Sara has also expanded her role with payroll, time and attendance, and benefits by becoming an expert on Replicon, the human resources system. She has also taken on a larger role with supervision of finance staff and reviews a large volume of their work. Sara earned a Bachelor of Science in Finance and Accounting Management from Northeastern University.

Mini Kouame was promoted to Investment Officer on the Research team. Hired in July of 2021, Mini is responsible for multiple research initiatives, including ESG research and blockchain research. Mini earned an MBA from ESCP Europe, a top university in Europe and a master's degree from Harvard's Kennedy School. Prior to the Kennedy School, Mini spent eight years in management consulting where he provided solutions to top-level executives using a strategic, data-driven approach. Mini is currently enrolled in the prestigious Certificate in Quantitative Finance (CQF) where he will continue to build upon his data science skillset.

Liu Liu was promoted to Investment Officer on the PCS team. Hired first as an intern in 2017, Liu quickly gained the confidence of her managers and was offered a full-time position in September of 2018. Liu has earned both a CFA charter and CAIA charter during that time. Liu has a master's in finance from Brandeis University and a bachelor's degree in finance from Shanghai Jiao Tong University.

Chuck LaPosta was promoted to Director of Fixed Income on the Public Markets team. Since being hired in September of 2013, Chuck has become PRIM's fixed income expert and he continues to identify unique opportunities by working collaboratively with other PRIM asset class teams. He is an excellent communicator of fixed income investments, concepts, and trends, which can be quite complex.

Recognition

On September 13th at a ceremony in New York City, *Institutional Investor* recognized PRIM for our leading work on ESG, by bestowing on PRIM and our partners on the MIT Sloan School Aggregate Confusion project the “Partnership of the Year” award. The project works to “reduce the level of noise in ESG measurement” by improving data available to managers and allocators. We extend our congratulations to the entire team, and to PRIM’s Director of Research, Maria Garrahan, who spoke on our behalf on accepting the award. This recognition reflects the leading role our team and partners are playing in driving the research in this evolving area.

Tony Falzone, PRIM’s Deputy Executive Director and Chief Operating Officer and Jay Leu, PRIM’s Director of Risk, were recently selected by Treasurer Goldberg as recipients for this year’s Performance Recognition Program. Each of them has been selected to receive a citation from the Treasurer later this month at a ceremony to recognize their outstanding performance in their respective areas.

The Governor’s office will recognize PRIM’s FUTURE Initiative, the effort to increase the use of diverse investment managers and vendors, for the Commonwealth Equity in Governance Award. The ceremony for this award will be held by the Governor’s office on December 14th at the Boston Convention Center. David Gurtz, Deputy Chief Investment Officer, and the entire team worked to create and successfully execute PRIM’s FUTURE Initiative, the program to implement the Investment Equity legislation created and championed by Treasurer Goldberg and her staff and signed into law in January of 2021.

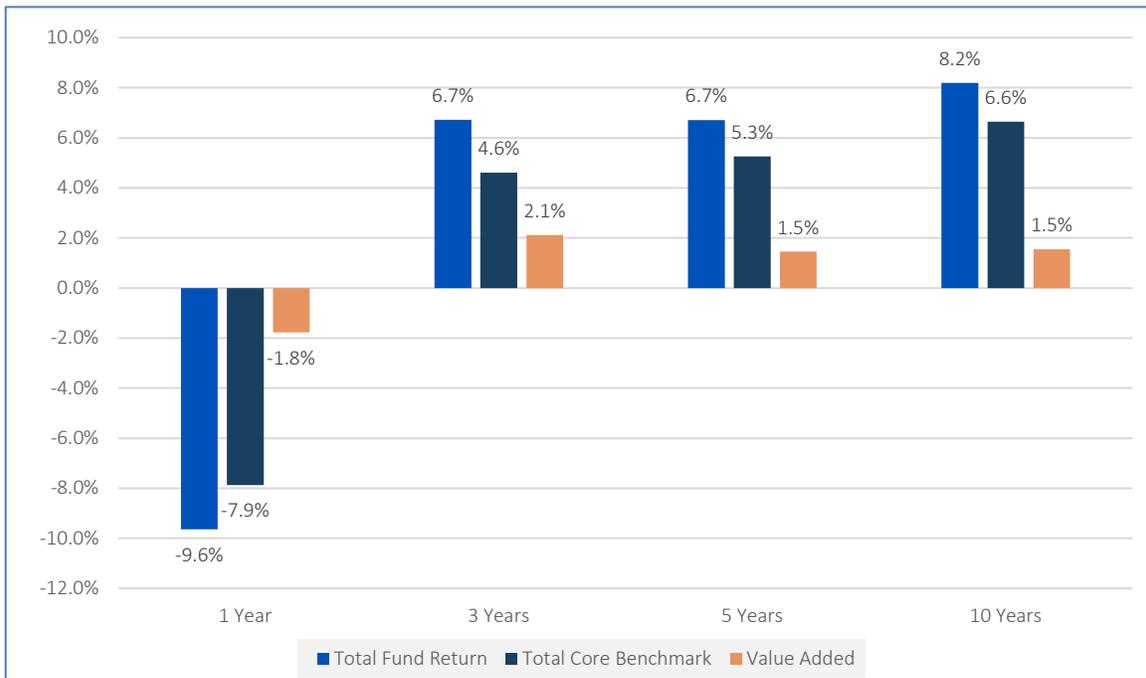
Treasurer Goldberg has been selected to receive the Northeast Women in Public Finance Freda Johnson Lifetime Achievement Award. “The award recognizes a woman serving or who has served in a position for a public or non-profit issuer who exemplifies the qualities that Freda Johnson brought to our industry as a trailblazer, leader, innovator, and mentor.”

PRIT Fund Performance

Mr. Trotsky noted for the one-year ended September 30, 2022, the PRIT Fund was down -9.6%, (-10.1% net), underperforming the total core benchmark of -7.9% by 178 basis points (220 bps net). The following chart summarizes the PRIT Fund performance for the one-year ended September 30, 2022.

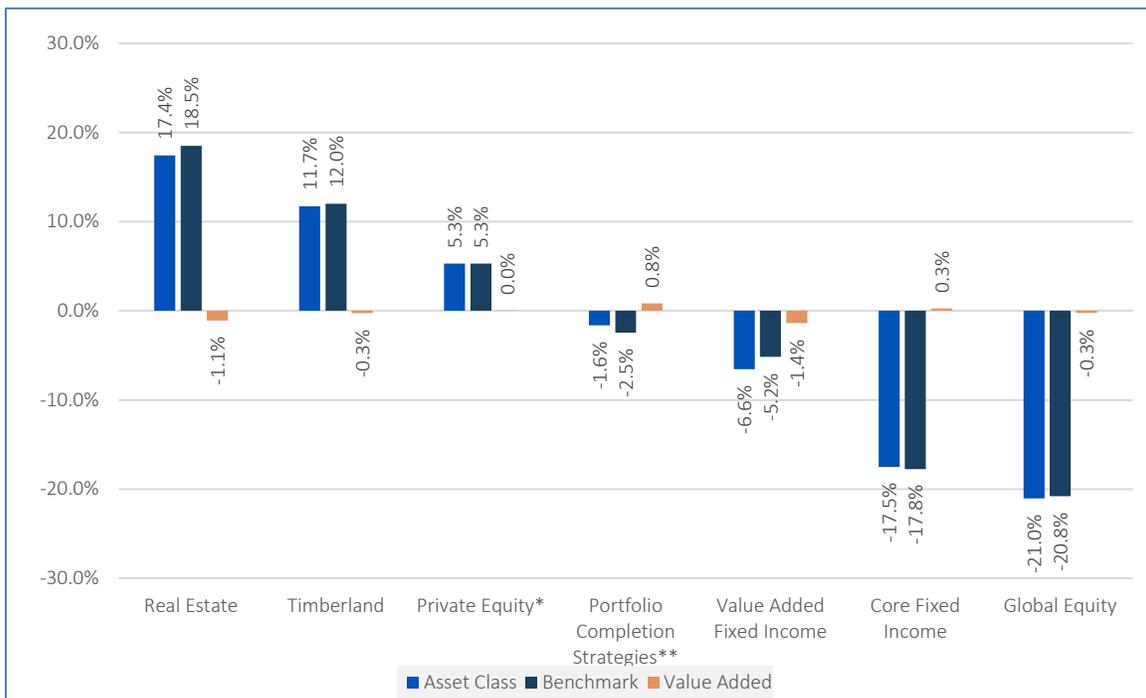
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Total PRIT Fund Returns
Annualized Returns as of September 30, 2022 (Gross of Fees)



Source: BNY Mellon. Totals may not add due to rounding. Total Core Benchmark includes private equity benchmark.

PRIT Asset Class Performance Summary
One-Year Ended September 30, 2022 (Gross of Fees)



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

PRIT Fund Annualized Returns by Asset Class
 As of September 30, 2022 (Gross of Fees)

1 Year	3 Year	5 Year	10 Year
REAL ESTATE 17.4%	PRIVATE EQUITY 27.4%	PRIVATE EQUITY 24.1%	PRIVATE EQUITY 21.5%
TIMBER 11.7%	REAL ESTATE 13.0%	REAL ESTATE 11.1%	REAL ESTATE 11.1%
PRIVATE EQUITY 5.3%	TIMBER 5.7%	TIMBER 5.1%	GLOBAL EQUITY 7.6%
PORTFOLIO COMPLETION STRATEGIES (1.6%)	GLOBAL EQUITY 4.0%	GLOBAL EQUITY 4.3%	TIMBER 6.3%
VALUE-ADDED FIXED INCOME (6.6%)	VALUE-ADDED FIXED INCOME 3.0%	VALUE-ADDED FIXED INCOME 3.6%	PORTFOLIO COMPLETION STRATEGIES 4.3%
CORE FIXED INCOME (17.5%)	PORTFOLIO COMPLETION STRATEGIES 2.6%	PORTFOLIO COMPLETION STRATEGIES 2.9%	VALUE-ADDED FIXED INCOME 4.2%
GLOBAL EQUITY (21.0%)	CORE FIXED INCOME (3.4%)	CORE FIXED INCOME 0.5%	CORE FIXED INCOME 2.0%

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. He began by acknowledging Anthony Hubbard’s service to PRIM and echoing Mr. Trotsky’s comments regarding Mr. Hubbard’s significant dedication and contributions during his tenure.

Real Estate

Mr. Schlitzer summarized Real Estate performance. At quarter end, assets were \$10.0 billion or 11.3% of the PRIT fund, an overweight to the asset class allocation mid-point. The Cornell Real Estate School recently published that one-third of public funds are above their real estate allocation ranges. PRIM has the capacity to invest in a lower price environment, a positive position to be in. The team reviewed 203 investment opportunities during the year. PRIM completed 11 acquisitions and three dispositions totaling \$300 million.

Total real estate returned 17.4% for the one-year period, 109 basis points below the asset class benchmark. Private Real Estate continues to be the primary return driver, representing 83% of assets or \$8.6 billion. Mr. Schlitzer reminded the Committee that PRIM’s private benchmark is lagged one quarter, comparing the September returns to the June NCREIF-ODCE (ODCE) Index. When the September ODCE Index is referenced, PRIM’s portfolio outperformed by 473 basis points, putting the entire asset class well above the composite real estate benchmark. PRIM’s overweight to the industrial sector and the Inland Empire submarket in Los Angeles continue to be a significant contributor to returns. The underweight to traditional office has also contributed as well as retail performance exceeding expectations. Real Estate leverage was accretive during the year, adding 524 basis points of return at a loan-to-value ratio under 20%.

REITs represent 11.8% of real estate or \$1.2 billion. Returns for the prior year were down 21.1% but PRIM’s managers added value, outperforming the REIT benchmark by 116 basis points. Mr. Schlitzer noted the disconnect between private and public market returns during the year. While it is difficult to forecast the direction of returns, real estate staff expect the two markets to converge in the future.

Timberland

The timberland portfolio ended the quarter at \$2.9 billion or 3.3% of the PRIT fund, an underweight to PRIM's policy midpoint of 4%. Timberland returned 11.7% during the prior year compared to the asset class benchmark return at 12.0%. On a three-year basis, timberland outperformed the benchmark by 68 basis points. Mr. Schlitzer pointed out that PRIM's properties will be re-appraised at year-end, updating PRIM's valuations with the most current market data available.

Mr. Schlitzer ended with some observations on market conditions. He noted that while transaction volume remains low, there have been several large trades at prices per acre exceeding PRIM's, a positive valuation signal. Interest from industrial buyers has increased, as these groups attempt to better manage supply chains and invest substantial profits following the run up in lumber prices. Timberland interest has also increased from buyers related to "Net Zero" carbon commitments as well as anticipated future inflation.

IV. Real Estate Portfolio Debt Update

John F. La Cara, Senior Investment Officer, Real Estate and Timberland, provided an update on the Real Estate Portfolio Debt. Mr. La Cara began by giving an update on the existing leverage policy guidelines and metrics. He then explained PRIM's existing real estate debt structure, broken out by secured and unsecured debt. The average blended rate is 3% and the weighted average maturity is five years with a loan-to-value (LTV) ratio of approximately 19%. He went on to explain that the leverage program has enhanced real estate returns and that internal financing activity has resulted in annual savings of over \$9 million. Mr. La Cara then stated that if one compares PRIM's real estate leverage profile to that of the NCREIF-ODCE Index, both the LTV ratio and borrowing rate are lower. Mr. La Cara also told the Committee that a \$175 million note issued 10-years ago is maturing in February 2023. He highlighted recent financing activity in the private notes and bank loan markets and noted that today's spreads are similar to the original vintage. The financing scenarios for the upcoming note maturity were reviewed. They include paying off the note, refinancing the note to maintain the existing LTV ratio, or leveraging up to an LTV level that is in line with the NCREIF-ODCE Index. At the conclusion of Mr. La Cara's remarks, Mr. Gifford indicated that he would be inclined to pay off the note and avoid issuing debt in the high 5% to 6% range.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:41 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of August 3, 2022*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Performance Charts*
- *Real Estate Portfolio Debt Update*