



Minutes of the Real Estate and Timberland Committee Meeting

Wednesday, February 1, 2023

Committee members attending:

- Jill Hatton, CRE, Chair
- Lydia Chesnick, Esq.
- Robert Gifford
- Sarah Kim
- Jack Lutz, Ph. D.
- William McCall
- Carly Rose

Committee members not attending:

- Treasurer Deborah Goldberg
- Garlan Morse, Jr., CRE
- Peter O'Connell

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 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 November 16, 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:

Markets and PRIT Fund Performance

Mr. Trotsky stated economic cycles and financial market declines will impact the PRIT Fund periodically, and calendar 2022 was one of those periods. At yesterday's Investment Committee we were pleased to announce that the PRIT Fund was up 4% for the December quarter, and the gains continued into January following three straight quarters of market declines. Returns were negative during the 12-month period ending December 2022 as equity and bond indices were down globally: domestic equities were down 18%, developed international equities were down 14.5%, and emerging equities were down 20%. Normally, PRIM would expect bonds to offer protection from a selloff in equities, but bonds were also down substantially in calendar 2022, down approximately 13%. A 60/40 mix of stocks and bonds was down 16.2%, but the PRIT Fund fared better, down 11.2% net of fees. The loss in calendar year 2022 followed a very strong calendar year 2021. Calendar year 2021 returns were the fourth largest return ever, and the outperformance of 8% net of fees relative to our benchmark in 2021 was the strongest outperformance in PRIM's entire history. It is nice to see Real Estate and Timber on top over all time periods.

Mr. Trotsky noted the PRIT Fund has performed well over the last several years while the financial markets and global economies responded to several disruptive situations. PRIM does not control geopolitical events,

slowing economic growth worldwide, monetary policy responses, wars, viruses, supply chain shortages, or the behavior of other investors. PRIM is a market taker, and the only thing we can control is the design and composition of the PRIT Fund. PRIM has carefully engineered a diversified portfolio with components that will perform well in a variety of market environments, and we are also very focused on controlling our costs. Our history of strong performance in both strong and weak markets is an indication that our portfolio is well constructed in terms of risk, return, and cost; PRIM's philosophical three pillars of investment. Our alternatives, specifically Hedge Funds, Private Equity, Timberland, and Real Estate helped anchor the PRIT Fund in this very stormy environment, an investment period when both public equities and bonds were down significantly in all markets around the globe.

The silver lining in turbulent markets is that selloffs create attractive buying opportunities. The PRIM team was busy during the year evaluating opportunities and deploying approximately \$5.7 billion in new investments. Another silver lining is that some of the uncertainties are beginning to resolve. Namely, inflation appears to have peaked, the Fed is beginning to taper interest rate increases, and the economy is still growing. PRIM hopes the positive trends continue.

The main risks going forward are familiar: that inflation spikes again or remains too high, business spending or corporate earnings could weaken more than anticipated, and unemployment or wages could spike. Any of those conditions could result in an economic slowdown that turns into a severe recession, one that is worse than the current consensus expectations. That scenario would be a headwind for financial markets. There are many moving pieces in the global economy and in the world's geopolitical situation, PRIM cannot control any of that, but PRIM does believe the PRIT Fund is well constructed to perform relatively well in any environment.

Yesterday, Investment Committee member Connie Everson, CFA, provided her comments on the economy and markets that still support stocks and inflation melting.

PRIT Fund Performance

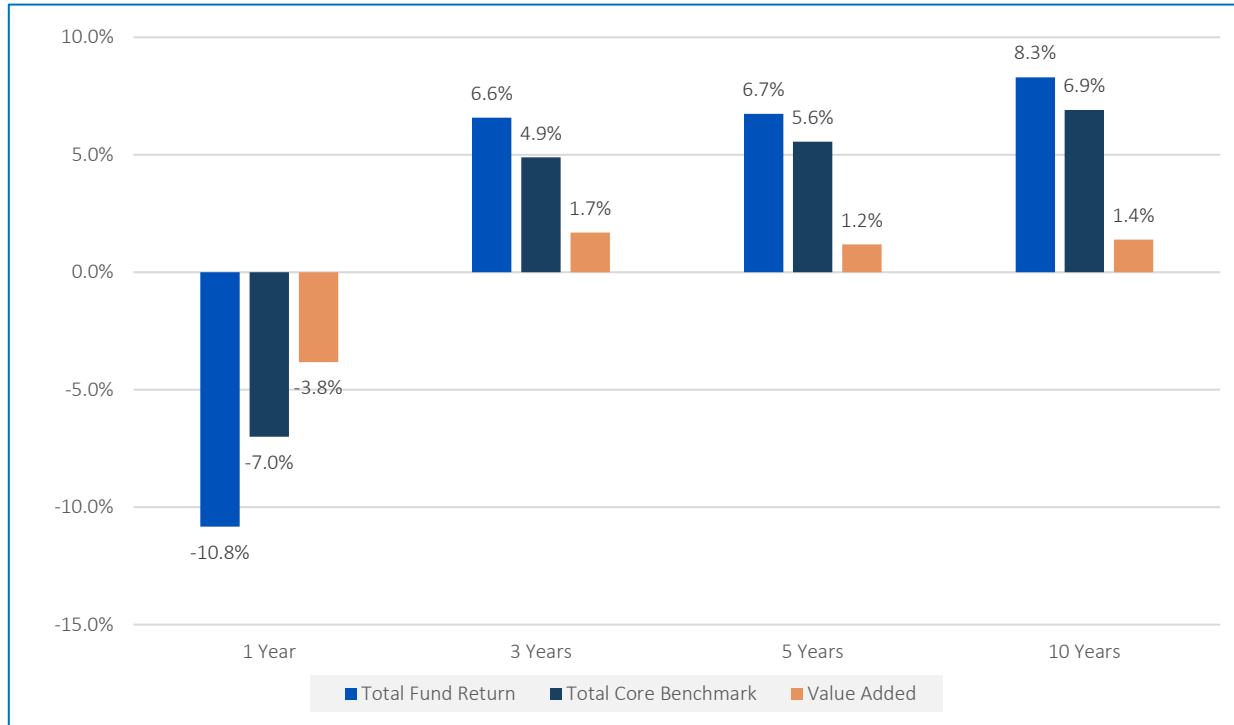
For the one-year ended December 31, 2022, the PRIT Fund was down -10.8%, (-11.2% net), underperforming the total core benchmark of -7.0% by 382 basis points (422 bps net).

- This performance equates to an investment loss of \$11.6 billion, net of fees.
- This underperformance equates to \$4.4 billion of value below the benchmark return, net of fees.
- Net total outflows to pay benefits for the one-year ended December 31, 2022, were approximately \$738 million.

The following charts summarize the PRIT Fund performance for the fiscal year ended December 31, 2022.

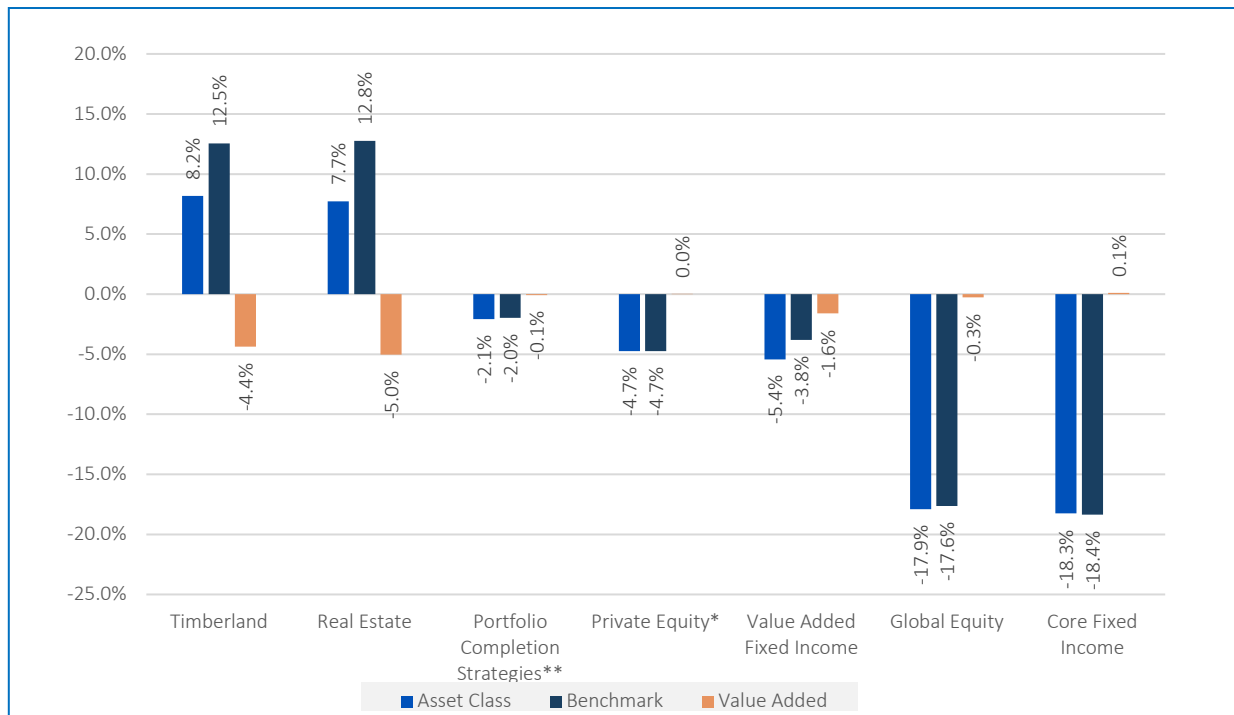
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Total PRIT Fund Returns Annualized Returns as of December 31, 2022 (Gross of Fees)



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 December 31, 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 December 31, 2022 (Gross of Fees)

1 Year	3 Year	5 Year	10 Year
TIMBER 8.2%	PRIVATE EQUITY 26.0%	PRIVATE EQUITY 22.9%	PRIVATE EQUITY 21.0%
REAL ESTATE 7.7%	REAL ESTATE 11.7%	REAL ESTATE 10.4%	REAL ESTATE 10.6%
PORTFOLIO COMPLETION STRATEGIES (2.1%)	TIMBER 7.7%	TIMBER 5.3%	GLOBAL EQUITY 8.3%
PRIVATE EQUITY (4.7%)	GLOBAL EQUITY 4.3%	GLOBAL EQUITY 5.3%	TIMBER 6.1%
VALUE-ADDED FIXED INCOME (5.4%)	VALUE-ADDED FIXED INCOME 3.3%	VALUE-ADDED FIXED INCOME 3.9%	VALUE-ADDED FIXED INCOME 4.2%
GLOBAL EQUITY (17.9%)	PORTFOLIO COMPLETION STRATEGIES 2.4%	PORTFOLIO COMPLETION STRATEGIES 2.5%	PORTFOLIO COMPLETION STRATEGIES 4.1%
CORE FIXED INCOME (18.3%)	CORE FIXED INCOME (2.8%)	CORE FIXED INCOME 0.3%	CORE FIXED INCOME 2.0%

Source: BNY Mellon

Organizational Updates and Summary of 2023 Annual Plans

Mr. Trotsky stated that customary for this Board cycle, asset allocation recommendations are approved, and annual plans are discussed. The annual plans are consistent with prior years, but this year each functional area includes plans to support the newly formed ESG committee. PRIM believes the ESG Committee will build on the important work we have been doing internally and with our partners in the MIT Sloan School’s Aggregate Confusion Project. PRIM is excited to get started with the new Committee and has reached out to the new Committee members to schedule our customary on-boarding briefings. PRIM expects the ESG Committee’s first meeting will occur at the next Board cycle.

Mr. Trotsky announced that Pengtuan Wu joined the Research team in January as an Investment Officer reporting to Maria Garrahan. Pengtuan holds a Master of Science degree in Mathematical Finance from Rutgers University, and before coming to PRIM was a principal quantitative developer at Fidelity Investments. At Fidelity he led the development of the centralized factor engine in addition to many other quantitative research initiatives.

Mr. Trotsky noted that Tianyi Shi would be joining the Research team on February 6th as an Investment Analyst reporting to Maria Garrahan. Tianyi joined PRIM as a Research intern in May 2022 and has worked within multiple areas of Research, all while finishing her degree at Boston University. Tianyi graduated from Boston University in December 2022 with a Master of Science degree in Mathematical Finance & Financial Technology. She also has a bachelor’s degree in Financial Engineering. We are delighted that she chose PRIM to start her very promising career.

Mr. Trotsky stated that PRIM deployed more than \$2.8 billion to diverse managers in 2022 as part of the FUTURE Initiative, bringing the total to more than \$9 billion. In December 2022, PRIM received the Commonwealth’s “Equity in Governance Award” for its efforts in this area. PRIM also designated more than \$340 million to 15 emerging-diverse managers as part of a \$1 billion program specifically designed to reduce

barriers between the PRIT Fund and emerging-diverse managers. This progress was reported to the state legislature as a requirement of the Investment Equity legislation, the legislation championed by the Treasurer more than two years ago. As reported by Pensions and Investments, this puts PRIM at the very top of the heap compared to other pension funds, 7th in the nation in capital deployed with diverse investment managers, far above our rank in size.

III. Research – Asset Allocation Update

Maria Garrahan, Senior Investment Officer - Director of Research, presented the staff's 2023 Asset Allocation recommendation.

Ms. Garrahan noted the 2023 Asset Allocation recommendation represents no major changes to the prior year recommendation. The recommendation includes a 1% increase in the Private Equity range to 13-19% (formerly 12-18%) and subsequently a 1% decrease in the Global Equities ranges to 32-42% (formerly 33-43%).

PRIM's asset allocation framework, Ms. Garrahan continued, uses a probabilistic based approach to maximize the likelihood of achieving the dual objective. As part of the asset allocation research program, PRIM continues to be mindful of rebalancing decisions and liquidity.

Ms. Garrahan noted PRIM's asset allocation research program is comprehensive in nature with the core framework using principal component analysis to identify areas of diversification through PRIM's actual historical experience while also conducting forward-looking analysis through an evaluation of Capital Market Assumptions. This forward-looking analysis does suggest caution with regards to Private Equity whereas it highlights the rising yield environment and subsequently a favorable fixed income opportunity set. However, this forward-looking analysis is very dependent on forward expectations. PRIM staff is cognizant of the rising yield environment and may allocate to fixed income opportunities as they arise so long as they are within the approved range.

Ms. Garrahan highlighted key findings from our core asset allocation framework and systematic tests. Private Equity remained the most additive to the PRIT Fund regarding the probability of achieving our dual objective. PRIM's Private Equity allocation recommendation has remained consistent over the years. PRIM staff acknowledges that market conditions outside of our control may lead Private Equity actual weight to be temporarily outside of the range. PRIM's liquidity risk is relatively low with our annual redemption to pay beneficiaries being less than 2%. Through a peer assessment, PRIM's allocation is in-line with other public plans and significantly lower than endowments. Private Core Real Estate also remains within the most additive to the PRIT fund via the probability of achieving the 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

Mr. Schlitzer summarized Real Estate performance. Total Real Estate ended the year at \$10.2 billion in assets. The portfolio returned 7.7% for the year, a strong return in the current environment, and evidence of the asset class's role as a diversifier and inflation hedge within PRIM's asset allocation. Market returns were driven by strong capital flows in the early part of the year, strong underlying demand from tenants, and increasing replacement cost values due to increasing rents and construction costs.

The private real estate index (NCREIF-ODCE Net) return, included in the combined asset class benchmark, returned 6.6% for the year on an unlagged basis, as compared to the reported one quarter lagged index return of 21%. Mr. Schlitzer pointed out that when referencing this return, PRIM's private and total real

estate portfolios outperform significantly. Real Estate portfolio leverage was accretive during the year, adding 304 basis points of return at a loan-to-value ratio under 20%. Non-Core Real Estate added 574 basis points of return over the private Core return, driven by strong performance in PRIM's life science and residential strategies. Mr. Schlitzer noted wider dispersion across manager performance for the year, reflecting the changing market environment and ongoing price discovery.

REITs represent 12.5% of real estate or \$1.3 billion. Returns for the prior year were down 22.2% but PRIM's managers added value, outperforming the REIT benchmark by 228 basis points. Mr. Schlitzer noted that the disconnect between private and public market returns persists. Public market pricing, when compared to private market estimates, indicates discounts of 10-20% globally.

Timberland

The timberland portfolio ended the quarter at \$3.0 billion or 3.2% of the PRIT fund, an underweight to PRIM's policy midpoint of 4%. Timberland returned 8.2% during the prior year, also exhibiting strong diversification and inflation hedging attributes. On a three-year basis, timberland outperformed the benchmark by 192 basis points at 7.7%.

Mr. Schlitzer stated that timberland was a highly sought after asset class in 2022. Public timber and industrial companies investing profits from high lumber prices and desiring greater supply chain control drove discount rates down despite an environment of rising interest rates. Capital flows were also driven by investors seeking inflation hedges as well as buyers seeking carbon solutions.

V. 2023 Real Estate and Timberland Annual Plan Summary

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate, updated the Committee on the 2023 Annual Plan. He made the following comments, referencing Appendix D of the meeting materials:

Mr. Schlitzer discussed the Real Estate and Timberland team's accomplishments during the year, as outlined on page nine of the presentation, including the Request for Proposals (RFP) for appraisal services, climate risk assessment project, FUTURE investment manager capital commitments, real estate portfolio leverage analysis, and several real estate investments during the year in both the real estate equity and debt portfolios.

Mr. Schlitzer stated that the team will be focusing on several initiatives in 2023. He described PRIM's continued commitment to growing the FUTURE Initiative portfolio, supporting PRIM's ESG Committee, growing PRIM's real estate and timberland investment team, a review of the timberland investment structures, and the team's ongoing efforts to source new investment partners and capital allocation as attractive investment opportunities are identified.

Ms. Hatton thanked Mr. Schlitzer and the Real Estate Team for their efforts during the year.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:28 a.m.

List of documents and exhibits used during the meeting:

- Minutes of the PRIM Real Estate and Timberland Committee Meeting of November 16, 2022
- PRIT Fund Performance Report (December 31, 2022)
- BNY Mellon Gross of Fees Performance Report (December 31, 2022)
- 2023 PRIM Staff Annual Plans
- 2023 Asset Allocation Presentation
- 2023 NEPC Asset Allocation Presentation
- Real Estate and Timberland Performance Charts