



## Minutes of the Real Estate and Timberland Committee Meeting

Wednesday, May 3, 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 9:31 a.m. Chair Jill Hatton announced that the meeting was being held in accordance with the provisions of Massachusetts Acts of 2022, Chapter 22, which was most recently amended on March 29, 2023, to include an extension of the 2020 Executive Order 'Suspending Certain Provisions of the Open Meeting Law' until March 31, 2025. 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](http://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 February 1, 2023, 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 introducing the Governor's new appointee to the PRIM Board, Catherine D'Amato. Mr. Trotsky described Ms. D'Amato as a deeply experienced Chief Executive Officer and provided her background as follows:

As President and CEO of the Greater Boston Food Bank, New England's largest hunger relief organization and Founder of the Hunger to Health Collaboratory, Ms. D'Amato leads a team of 150 and thousands of volunteers providing healthy food to six hundred distribution organizations, equivalent to 100 million meals annually. He explained that Ms. D'Amato has considerable board governance experience serving in a variety of roles as an elected officer, board chair, vice-chair, committee chair, and general director. Her current or completed board roles include Fidelity Charitable, Eastern Bancshares, Forsyth Institute, Federal Reserve Bank of Boston, The Boston Foundation, and Human Rights Campaign, among others. Ms. D'Amato is a well-known, highly respected public figure and sought-after public speaker and has received many local, state, and national leadership awards and honorary degrees. She received her bachelor's degree from the University of San Francisco and completed both a Strategies in Non-Profit Management Certificate from Harvard University and a Certificate of Management from Smith College. Mr. Trotsky welcomed Ms. D'Amato to the PRIM Board and looked forward to her contributions. Mr. Trotsky added that Treasurer Goldberg had nominated Ms. D'Amato to serve on the Investment, Administration and Audit and Compensation Committees.

## *Organizational Updates*

Mr. Trotsky expressed excitement in introducing five new employees as follows:

**Veena Ramani**, Director of Stewardship, started on April 28<sup>th</sup> and will report to David Gurtz, Deputy Chief Investment Officer. Ms. Ramani will head up PRIM's ESG and Stewardship efforts, filling a new position at PRIM. Ms. Ramani joins PRIM from FCLTGlobal, a nonprofit, whose mission is to focus on the long term to support a sustainable and prosperous economy. Ms. Ramani oversaw the Research Team, working with members who include asset owners, asset managers, and corporations to develop actionable research to drive long-term value creation for investors. Prior to FCLTGlobal, Ms. Ramani spent 15 years at Ceres, a leading sustainability nonprofit, holding a number of different roles including running campaigns to engage financial regulators on the systemic risk of climate change, developing an online training curriculum for corporate board members on ESG in partnership with the Berkeley School of Law, and engaging with large corporations on their sustainability and climate change strategies and disclosures. She holds a BA with honors degree from the National Law School of India University and a Master of Law degree from Washington University School of Law.

**John Fitzpatrick** started on March 1<sup>st</sup> as a Legal and Governance Analyst, a new position, reporting to Renee LeFevre, Chief Legal Officer. Mr. Fitzpatrick comes to us from Laredo & Smith, a Boston law firm, where he was an Associate Attorney. John has his Bachelor of Arts degree in Philosophy and Economics from Saint Joseph's University in Philadelphia and his Juris Doctor from Boston College Law School.

**Ethan Spencer** started on February 27<sup>th</sup> as a Sr. Investment Officer in PCS reporting to Bill Li, Senior Investment Officer. Recently, Mr. Spencer was Managing Partner at Eastern Point Capital, a global emerging and frontier market investment platform. Prior to that, he had extensive experience working at the Boston University Endowment, Cambridge Associates, and Credit Suisse First Boston. He holds a BA degree from Colby College and an MBA degree from the Johnson School at Cornell University.

**Riya Shah** also started on February 27<sup>th</sup> as an Investment Compliance Analyst, another new position, reporting to Matt Liposky, Chief Investment Operating Officer. This role will assist with investment manager guideline monitoring, regulatory and state filings, and operational due diligence. Ms. Shah comes to us from State Street where she served as Enterprise Technology Risk Analyst within the bank's compliance team. Ms. Shah has her Bachelor of Arts degree in Actuarial Science and Economics from Assumption College.

**Andrew Browne** started February 20<sup>th</sup> as an Investment Analyst, on the PE team reporting to Helen Huang, Senior Investment Officer. Mr. Browne graduated in December from Northeastern University's D'Amore-McKim School with a Bachelor of Science in Business. During his time at Northeastern, Mr. Browne completed a variety of investment management internships in venture capital, investment advisory, and private wealth investment management. He also co-founded a school-wide research and consulting group to empower NGOs.

Mr. Trotsky stated that he was pleased to have recruited such a diverse group of outstanding individuals and welcomed Ms. D'Amato and all the new employees to PRIM.

## *Markets and PRIT Fund Performance*

Mr. Trotsky began his review of the markets by telling the Committee that they should expect market drops and economic cycles to impact the PRIT Fund periodically, and the markets are in one of those prolonged, volatile periods now. Last year, in calendar 2022, stocks were down between 15 and 20% globally while bonds were down approximately 13%. Normally, we would have expected bonds to offer some protection from a selloff in equities, but last year with rising interest rates, bonds and stocks were both down substantially. He explained that the PRIT Fund fared better than both stocks and bond indices in 2022, down 11.2% net of fees. He added that PRIM is a market taker; and cannot control market returns because PRIM does not control the factors which fueled last year's difficulties: geopolitical events, slowing economic growth worldwide, monetary policy response, wars, viruses, supply chain shortages, or the behavior of

other investors. The only thing PRIM 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, with a laser focus on controlling costs. PRIM's history of strong performance in both strong and weak markets is an indication that the PRIT Fund is well constructed in terms of risk, return, and cost – PRIM's philosophical three pillars of investment. No investment decision is complete without evaluating these three equally important parameters.

Mr. Trotsky added that alternative investments have helped anchor the PRIT Fund in the very stormy environment and thankfully now the markets have provided two consecutive quarters of gains. He noted that market downturns create good buying opportunities, and the PRIM team has been very busy evaluating opportunities and deploying nearly \$6 billion in new investments across all asset classes.

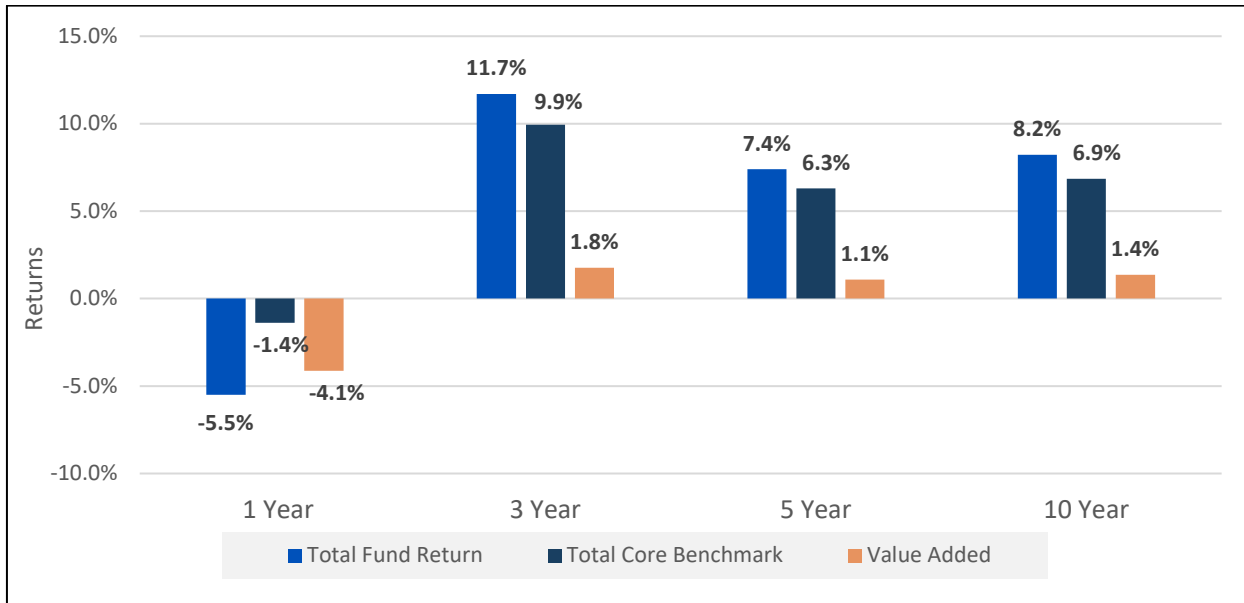
Mr. Trotsky stated that the March quarter was positive, and PRIM noticed a reversal of some of the trends witnessed last year: in the March quarter, growth stocks outperformed value stocks, technology stocks outperformed the S&P as well as Financials, Healthcare, and energy stocks. But to recap, it was a strong March quarter with the S&P up 7.5%.

Mr. Trotsky reviewed performance and mentioned that he was very pleased to report a positive return for the March 2023 quarter, the second consecutive quarter of PRIT Fund gains following the three quarters of selloffs during calendar year 2022. The PRIT Fund was up 3.6% for the quarter ended March, and that followed a positive 4.1% return in the December 2022 quarter. He viewed this as good news, two consecutive quarters of gains since the 2022 prolonged market sell-off. He added that the PRIT Fund is rebounding strongly.

Mr. Trotsky discussed March 2023 PRIT Fund performance in more detail referencing the following performance charts:

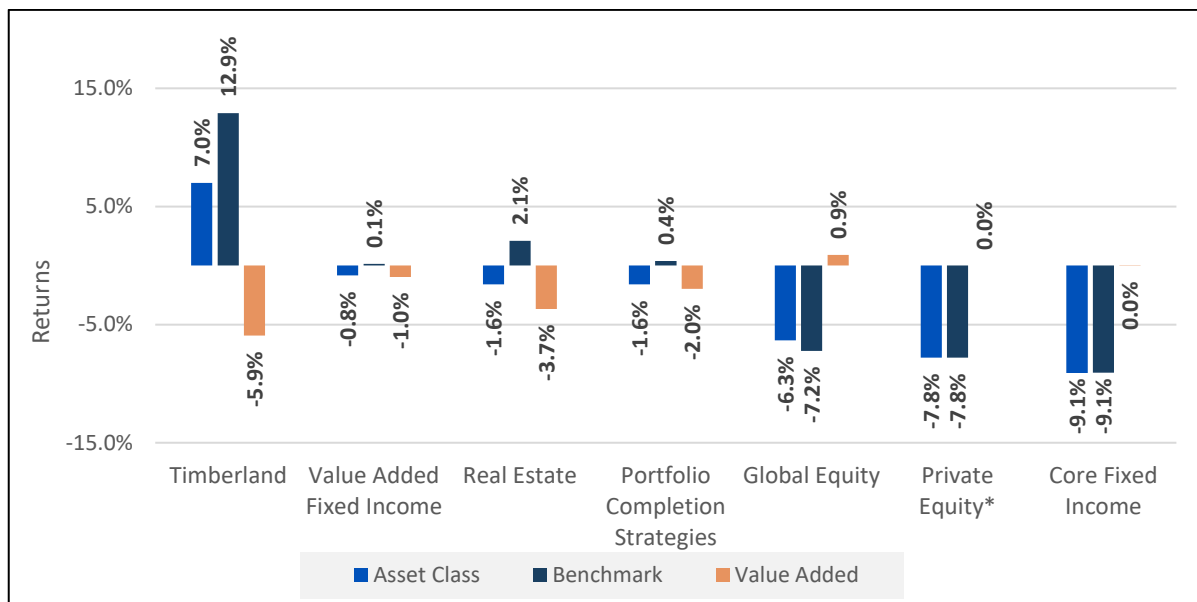
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**Total PRIT Fund Returns**  
Annualized Returns as of March 31, 2023 (Gross of Fees)



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

**PRIT Asset Class Performance Summary**  
One Year ended March 31, 2023 (Gross of Fees)



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

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**PRIT Fund Annualized Returns by Asset Class**  
(March 31, 2023 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
TIMBER 7.0%	PRIVATE EQUITY 24.0%	PRIVATE EQUITY 21.7%	PRIVATE EQUITY 20.6%
VALUE-ADDED FIXED INCOME (0.8%)	GLOBAL EQUITY 16.4%	REAL ESTATE 9.8%	REAL ESTATE 10.2%
REAL ESTATE (1.6%)	REAL ESTATE 12.9%	GLOBAL EQUITY 6.8%	GLOBAL EQUITY 8.4%
PCS (1.6%)	TIMBER 8.2%	TIMBER 5.3%	TIMBER 6.0%
GLOBAL EQUITY (6.3%)	VALUE-ADDED FIXED INCOME 7.8%	VALUE-ADDED FIXED INCOME 4.2%	VALUE-ADDED FIXED INCOME 4.3%
PRIVATE EQUITY (7.8%)	PCS 5.7%	PCS 2.8%	PCS 3.8%
CORE FIXED INCOME (9.1%)	CORE FIXED INCOME (3.8%)	CORE FIXED INCOME 1.4%	CORE FIXED INCOME 2.4%

Source: BNY Mellon. Returns as of March 31, 2023

### III. 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 returned -1.6% for the year, underperforming the lagged NCREIF-ODCE Net index. However, the unlagged (June 30) benchmark reflects strong outperformance of 577 basis points in private real estate, which represents the majority of PRIM's real estate portfolio. When combined with outperformance in the REIT portfolio, the real estate portfolio experienced significant outperformance for the year.

Staff continues to monitor the major themes in commercial real estate including changes in the sources and costs of both debt and equity capital and questions about the future of office demand. Mr. Schlitzer highlighted the resiliency of PRIM's portfolio and commented on several portfolio attributes. 65% of the portfolio is invested in multifamily and industrial assets, where fundamentals are slowing but still strong. Traditional office represents only 16% of the private portfolio, an underweight to the market index. PRIM's office assets are approximately 90% occupied with low leverage levels and upcoming maturities, and over 90% fixed rate debt.

### *Timberland*

Mr. Schlitzer stated that Timberland returned 7.0% for the year and was PRIM's only positive performing asset class for the period. The portfolio continues to provide strong diversification and inflation hedging benefits to the overall PRIT Fund.

Mr. Schlitzer commented on the market environment over the last year, highlighting several unique characteristics. The capital markets saw heightened liquidity from industrial buyers and timberland REITs that experienced higher margins as lumber prices increased after the pandemic. At the same time, lumber producers adjusted their strategies to more effectively manage their supply chains by owning the forest inputs. Timberland buyers were less sensitive to higher interest rates given the low leverage levels typical of the asset class. And finally, increasing demand from climate mitigation strategies supported higher prices, particularly in lower timber value regions.

### *Commercial Real Estate Market Update*

Michael J. Acton, CFA, Managing Director, AEW Research provided an update on the commercial real estate markets. Mr. Acton commented on several macro-economic and real estate themes including inflation, interest rates, issues in the regional bank market and the potential impacts of these on real estate cash flows and valuations in the near term. He also talked about some of the changes occurring in the office, residential, and warehouse markets which resulted from the COVID-19 pandemic.

The PRIM Real Estate and Timberland Committee meeting adjourned at 11:35 a.m.

### *List of documents and exhibits used during the meeting:*

- Minutes of the PRIM Real Estate and Timberland Committee Meeting of February 1, 2023
- PRIT Fund Performance Report (March 31, 2023)
- BNY Mellon Gross of Fees Performance Report (March 31, 2023)
- Real Estate and Timberland Performance Charts