



Minutes of the Real Estate and Timberland Committee Meeting

Wednesday, November 15, 2023

Committee members attending:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Lydia Chesnick, Esq.
- Robert Gifford
- Sarah Kim (Treasurer Deborah Goldberg designee)
- 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 9:30 a.m. Chair Jill Hatton announced that the meeting would be 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." All members of the Committee will participate remotely via audio/video conferencing, and public access to the deliberations of the Committee will likewise be provided via telephone, with all documents referenced at the meeting available to be viewed 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 2, 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:

Financial markets declined modestly in the September quarter following three consecutive quarters of robust gains from the end of last year through this past June. In the September quarter, U.S. and emerging markets equities and diversified bonds were down 3% or more, developed international equities were down 4%, while long-duration US Treasury STRIPs were down almost 20%. Mr. Trotsky added that fortunately, PRIM's alternative investments, such as Private Equity, Hedge Funds, Private Debt, Other Credit Opportunities, and Timberland, all posted gains in the September quarter, and as a result, the PRIT Fund fared better, down only 1.7% net of fees in the quarter. This is a strong result in a weak market. The PRIT Fund was down half as much as the markets in the quarter, and this comes after the June fiscal year ended at a record high level.

Mr. Trotsky reiterated that the hallmark of a well-constructed portfolio is that it has components that will perform well in any environment, up or down. Essentially, that is the definition of a diversified portfolio – it gives us the best chance of strong long-term performance, especially through turbulent markets. PRIM's trailing one-year gain of 9% through September is strong and well above the actuarial rate of return (7%). He added that the 3-, 5-, and 10-year returns also remain strong, up 7.4, 6.8, and 7.8%, respectively – again, driven mainly by the strong performance of alternative investments.

Mr. Trotsky provided as an example, the 3-, 5- and 10-year Private Equity returns that are nearly twice the return of the next best performing asset class, which is Real Estate, and nearly three times the return of global equities and ten times the return of core fixed income. The PRIT Fund is diversified and is performing well.

Organizational Update

Mr. Trotsky welcomed Richer Leung, who very recently joined PRIM as an Investment Officer on the Public Markets Team. Mr. Leung joined PRIM from DoubleLine Capital, a Los Angeles-based fixed income manager, where he was a data management analyst. He added that before DoubleLine, he was an assistant vice president working on the analytics of CDO (collateralized debt obligations) for US Bank in Boston. He received his B.S. in Business Administration and Management from Boston University and is a CFA charter holder. Richer has a strong background in data analysis and fixed income analytics and will report to Chuck LaPosta, PRIM's Director of Fixed Income.

Mr. Trotsky explained that the Treasurer awarded PRIM with two Commonwealth Citations for Outstanding Performance as follows:

Eliza Haynes was recognized as a key individual on PRIM's award-winning Private Equity team. Ms. Haynes' sourcing and underwriting work has helped establish PRIM's Private Equity portfolio as one of the very best performing in the country and the highest performing asset class in the PRIT Fund by a wide margin. He noted her strong analytical and communication skills.

The PRIM Real Estate Leverage Team was also recognized for an innovative program that works across asset classes to save the PRIT Fund an estimated \$10 million annually in borrowing costs while bolstering the returns of the \$10 billion Real Estate portfolio. The award recognizes the collective contributions of many PRIM teams, including Real Estate, Finance, Public Markets, and Risk. Mr. Trotsky noted he was very proud of the cross-collaboration. He identified the team members as Melissa Ng, Matt Liposky, and George Tsipakis from Investment Operations, Jay Leu from the Risk team, and Dave Gurtz, John La Cara, and Chuck LaPosta from several different groups on the Investment team.

Sara Coelho, Manager of Finance, has also earned the CFA Investment Foundations certificate. Mr. Trotsky noted that Ms. Coelho is very hard-working and has put in much effort studying nights and weekends over the last few years. He added that she is a rising star on the Finance team.

Mr. Trotsky completed his organizational update by congratulating those recognized and mentioning the publication Chief Investment Officer had named him to the 2023 CIO Power 100 list. The designation honors "leaders who continue to guide their funds through volatile times and are disciplined enough to navigate whatever is ahead."

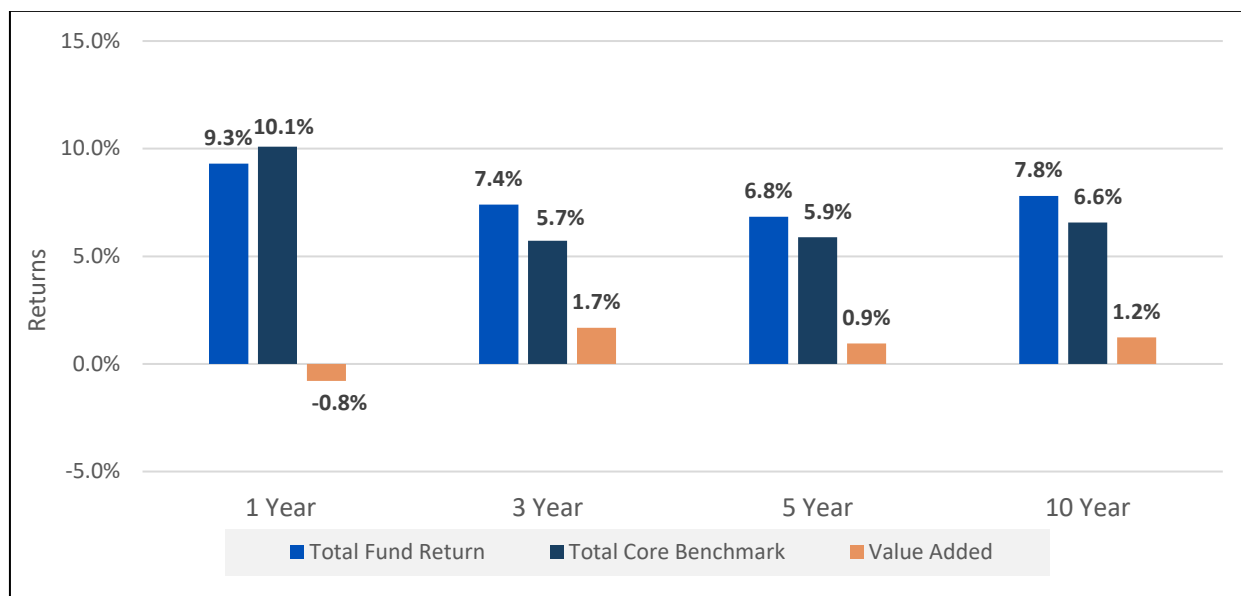
PRIT Fund Performance

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

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Total PRIT Fund Returns

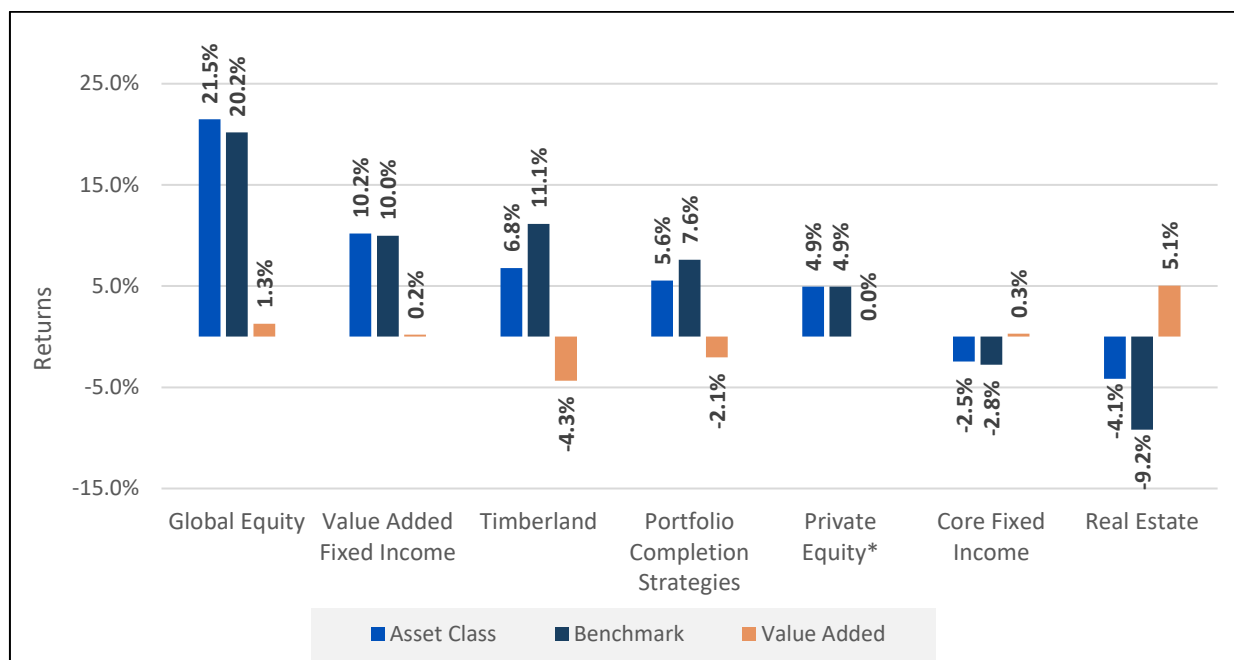
Annualized Returns as of September 30, 2023 (Gross of Fees)



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

PRIT Asset Class Performance Summary

One Year ended September 30, 2023 (Gross of Fees)



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

PRIT Fund Annualized Returns By Asset Class

(September 30, 2023 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
GLOBAL EQUITY 21.5%	PRIVATE EQUITY 23.0%	PRIVATE EQUITY 20.0%	PRIVATE EQUITY 20.0%
VALUE-ADDED FIXED INCOME 10.2%	REAL ESTATE 11.5%	REAL ESTATE 8.2%	REAL ESTATE 9.3%
TIMBER 6.8%	TIMBER 8.5%	GLOBAL EQUITY 6.6%	GLOBAL EQUITY 7.8%
PCS 5.6%	GLOBAL EQUITY 7.9%	TIMBER 5.1%	TIMBER 6.1%
PRIVATE EQUITY 4.9%	VALUE-ADDED FIXED INCOME 6.0%	VALUE-ADDED FIXED INCOME 4.9%	VALUE-ADDED FIXED INCOME 4.7%
CORE FIXED INCOME (2.5%)	PCS 5.6%	PCS 2.6%	PCS 3.7%
REAL ESTATE (4.1%)	CORE FIXED INCOME (7.4%)	CORE FIXED INCOME 0.0%	CORE FIXED INCOME 1.9%

Source: BNY Mellon. Returns as of September 30, 2023

Market Update

Mr. Trotsky told the Committee that markets across the board were down in the quarter ended September, ending a three quarter surge, and he is very happy with the long-term performance of the PRIT fund: 1-year up 9.3%, 3-year up 7.4%, 5-year up 6.8%, and 10-year up 7.8%. He added that he is very proud of the PRIT Fund's strong long-term track record and expressed it was important to remind the Committee of how steady the Fund has been. He mentioned that the PRIT Fund has only experienced two down fiscal years since the Global Financial Crisis almost 15 years ago. The PRIT Fund was down 3.4% in Fiscal Year 2022 and down 0.5% in Fiscal Year 2012, and those down years happened during very significant market dislocations.

Fiscal Year 2022 was the year most impacted by the Ukraine war, energy prices, inflation, soaring interest rates, supply chain shortages, and more. U.S. equities were down 10.6%, developed international equities were down 17.7%, emerging markets equities were down 25.2%, and diversified bonds were down 10.3%. The PRIT Fund fared far better, down only 3.4% due to our diversifying assets like Private Equity, Real Estate, and Timberland. The same is true for Fiscal Year 2012. The European Debt Crisis marked that period with Global Equities down 6%, more specifically, developed international and emerging markets equities down 12 to 17%, respectively. He added that again, the PRIT Fund's diversifying assets, such as Private Equity and Real Estate, were up, enabling the PRIT Fund to remain essentially flat (down a fraction of 1%). PRIM believes this consistent long-term performance in both up markets and down indicates that the PRIT Fund is well

constructed with components that will perform well in any environment. This is the hallmark trait of a well-diversified portfolio.

Mr. Trotsky acknowledged that navigating volatile markets like those over the last several years is difficult. He provided examples such as COVID and other viruses, geopolitical tensions, two international wars, domestic political tension and infighting, civil unrest, protests, federal budget showdowns, slowing economic growth worldwide, high inflation, monetary policy tightening across the globe, supply chain shortages, labor shortages, climate change, storms, natural disasters, immigration issues, and more adding this all leads to chaotic and challenging markets. In times like this, it is more important than ever to stay the course, look for opportunities, and remain positive and focused. He reminded the Committee of PRIM's fundamental beliefs: 1) Nobody can predict the future, so we don't try, and 2) nobody can predict the direction of the financial markets, so we don't try.

Mr. Trotsky added that nearly all companies in the S&P 500 have reported Q3 earnings and are quite strong. Reported sales growth has been +2.1%, and earnings +3.0%. More companies beat the top and bottom line than average, and earnings misses were lower than average. The average stock price remained flat after posting results. Perhaps that explains why the VIX index, a common measure of market volatility, fell from 21.7 to 14.5 last week: Markets are not particularly volatile now. 14.5 last week: This is below the 10-year average of 18 and well below the record high of 82.7 in March 2020.

Mr. Trotsky mentioned that U.S. GDP expanded an annualized 4.9% in Q3, the most since Q4 2021, above market forecasts. Consumer spending rose 4.0%, which is also the most since Q4 2021. Retail sales were up 0.7% month over month in September, and August month over month was revised up to 8%, well above expectations. The U.S. unemployment rate increased to 3.9% in October, only slightly exceeding the previous month's figure of 3.8%, and now the auto strikes are over. The U.S. Consumer Price Index remained steady at 3.7% in September. All this led the Federal Reserve to keep the target range for the federal funds rate unchanged at its 22-year high of 5.25%-5.5%. Elsewhere, housing starts rose by 7% month over month in September, and new home sales surged 12% despite higher borrowing costs.

Mr. Trotsky added that in global economic news, Chinese GDP expanded by 4.9% year over year in Q3. Monthly, the Chinese CPI unexpectedly fell by 0.2%, causing some watchers to worry about deflation. Eurozone GDP shrank 0.1% quarter over quarter in September, worse than expected, and on a year by year basis the Eurozone is posting zero growth and higher unemployment – 6.5% on average. In Japan, GDP growth of 1.2% quarter over quarter was the second consecutive quarter of growth, but still below forecast. Unemployment is low at 2.6% and inflation at 3%. Interest rates are still near zero.

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. The total Real Estate portfolio returned -4.1% for the one-year period resulting in asset class outperformance of 506 basis points, increasing when the private benchmark is unlagged. Mr. Schlitzer mentioned that Real Estate represents 11.1% of the fund, slightly overweight but near the center of the target range. PRIM's private real estate returned -5.4% for the year, equating to benchmark outperformance of 536 basis points, which grows to 751 basis points when we unlag the benchmark. Index outperformance has been driven to a greater degree by asset selection than sector weightings. The portfolio continues to have an overweight to the industrial sector, which includes some data center and self-storage exposure. Valuation metrics compared to the private market index are in line. Mr. Schlitzer noted that although leverage detracted 71 basis points from the trailing one-year return, leverage has been accretive over the long term, adding 250 basis points of return over the last three years.

He concluded his overview by noting that the REIT portfolio, which represents 9% of the portfolio, outperformed its benchmark of 2.5% by 93 basis points. Both managers outperformed.

Christina Marcarelli, CAIA, Senior Investment Officer - Director of Real Estate Debt provided a brief update on the real estate debt markets. She stated that commercial real estate lending is down by more than 50% in 2023 compared to the same period in 2022 due to the significant widening of base rates and muted transaction volume. She described average pricing for both core and transitional loans and discussed PRIM's recent construction lending activity, two industrial construction loans with strong sponsorship and well-located collateral. She stated that the lack of capital availability for such loans has made them attractive risk-adjusted investments.

John La Cara, Senior Investment Officer – Director of Listed Real Estate and Debt Capital Markets provided an update on PRIM's real estate debt structure and the borrowing environment. He updated the Committee on recent lending volume, regulatory and exposure constraints in the bank market, pricing in the private placement market, and recent comparable transactions.

Timberland

Mr. Schlitzer stated that the timberland market returned 10% for the prior year. The Southern US region drove the index which returned 11.7%. The Pacific Northwest returned 6.7%. Market transaction activity increased in the third and fourth quarters of the year, which should provide strong comparables for the appraisal process at year end. Mr. Schlitzer noted that third quarter log prices were down in both regions, with the Pacific Northwest exhibiting greater price stability.

Mr. Schlitzer ended with an update on the portfolio's performance. The trailing one-year return was 6.8%. Underperformance shrinks by 110 basis points when the benchmark is unlagged. On a three-year basis, timberland returned 8.5%, underperforming the benchmark by 66 basis points versus the unlagged index return.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:48 a.m.

List of documents and exhibits used during the meeting:

- Minutes of the PRIM Real Estate and Timberland Committee Meeting of August 2, 2023
- PRIT Fund Performance Report (September 30, 2023)
- BNY Mellon Gross of Fees Performance Report (September 30, 2023)
- Real Estate and Timberland Performance Charts

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