



**Minutes of the Real Estate and Timberland Committee Meeting
Wednesday, January 31, 2024**

Committee members attending:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Lydia Chesnick, Esq.
- Robert Gifford
- 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 9:31 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 November 15, 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 informing the Committee of the passing of Ralph White, a legendary PRIM Board member who served 24 years from 1984 to 2008. Mr. Trotsky explained that Mr. White was a founding Board member of the PRIM Board, and also served as a longtime elected member of the State Retirement Board. He explained that Mr. White was widely remembered for his unwavering and vocal advocacy for the retirees of Massachusetts. Mr. White founded Mass Retirees in 1968 at the age of 37. He served as Association President until his retirement in 2013 and is credited with having had a direct impact on the creation of nearly every public retirement law and policy over a span of more than four decades. Mr. White was a colorful and vibrant man who had a long and dedicated lifetime of public service. Mr. Trotsky provided, as an example, Mr. Whites’s military service, explaining that Mr. White saw significant combat as a US Marine during the Korean War – receiving a Bronze Star and Purple Heart.

Mr. Trotsky added that following his military service, he entered state service as a corrections officer and was among the first officers to staff Walpole State Prison. Mr. White went on to become a state Parole Officer but was forced to retire after surviving an on-the-job shooting in Boston’s South End – an attack that nearly took his life. Mr. Trotsky asked for a moment to remember Mr. White and his great contributions to our country, our Commonwealth, Mass PRIM, and the more than 300,000 beneficiaries on whose behalf he worked tirelessly for over four decades. Mr. Trotsky expressed his condolences on behalf of PRIM and the countless individuals touched by Mr. White’s lifetime of hard work and dedication.

Organizational Update

Mr. Trotsky announced four PRIM staff promotions:

Tim Doyle was promoted to Investment Officer on the Private Equity team. Mr. Doyle joined the team as an Investment Analyst in February of 2022. Prior to PRIM, he spent three years at Cambridge Associates, first as an Investment Associate, and then he was promoted to Team Leader and eventually to Senior Investment Associate in their Pension Practice. Prior to joining PRIM, he was an Investment Analyst at the Mass General Brigham Investment Office. He has made a significant contribution to new manager underwritings. He has taken over leading manager coverage responsibilities at PRIM, and his contributions to the team's market mapping and proactive sourcing efforts have been outstanding.

Eliza Haynes was promoted to Investment Officer on the PE team. Ms. Haynes joined PRIM as an Investment Analyst on the team in September 2020. Eliza graduated from Holy Cross and interned in their Investment Office. Upon graduation, she was hired as an Investment Fellow at the Investment Office and worked there for over two years. During her three-plus years at PRIM, Eliza's contributions have been impactful. She has contributed to and led the evaluation of many private equity funds and co-investment opportunities. She also leads the design and implementation of PRIM's GP-led secondary investment strategy and process. Last year, Ms. Haynes received the Treasurer's citation for outstanding performance.

John LaCara was promoted to Senior Investment Office, Director of Listed Real Estate and Debt Capital Markets. Mr. LaCara joined the Real Estate and Timberland team as an Investment Officer in 2008 and was promoted to Senior Investment Officer in 2016. He oversees private real estate and private timberland investments across various regions, property types, and investment vehicles. Additionally, he manages the listed real estate investment mandates (REITS) and the private real estate leverage program, which has issued more than \$2 billion in innovative and low-cost debt facilities since 2013. Prior to PRIM, he held positions at Fidelity Investments, New England Securities, and Citizens Financial Group. Mr. LaCara holds a Master's in Investment Management from the Boston University School of Management and is a Lesley University graduate.

Joy Seth was promoted to Senior Investment Officer on the Portfolio Completion Strategies team. He joined PRIM in March of 2020 as an Investment Officer. Joy pursued his undergraduate degree from the University of Texas, Austin, and graduate degree from the University of Washington. He started his career as a Software Engineer at Microsoft. He then worked for the Employees Retirement System of Texas as a Senior Investment Analyst and was there for almost seven years before joining PRIM. He is a CFA Charter holder. During the past four years, Joy has become a vital team member. He has become a key strategist covering Stable Value Hedge Funds; he developed PRIM's industry-leading Digital Platform by automating analytics and designing our internally designed back-testing tools; and he has emerged as a thought leader in technology topics, hosting seminars to demystify complex concepts for PRIM colleagues. He actively contributes to the FUTURE Initiative by searching and vetting emerging diverse fund managers. He also dedicates significant effort to recruiting and mentoring interns from diverse backgrounds.

Mr. Trotsky asked that the Committee join him in congratulating Mr. Doyle, Ms. Haynes, Mr. LaCara, and Mr. Seth.

Mr. Trotsky completed his organizational update by acknowledging that Colleen Nulty, an accounting team member, had passed the CFA Investment Foundations certification and congratulated her on that accomplishment.

Mr. Trotsky briefly commented on the PRIT Fund's performance, saying he was very pleased to report that despite many worldwide challenges, the markets have remained very strong, and the U.S. economy continues to grow. More importantly, the PRIT Fund returns were very strong during the December quarter and for the full calendar year. For the December quarter, the PRIT Fund was up 6.2% gross (6.1% net), and for the calendar year 2023, the PRIT Fund was up 11.4% gross (11.0% net). This return equates to a net investment gain of \$10 billion for the year, and the PRIT Fund hit a milestone of \$101 billion, adding that more details would be provided shortly.

At last year's January meeting, markets were just beginning to rebound from a double-digit downturn. The consensus of economists and market pundits last year was that the economy would dip into a mild recession in calendar 2023. Thankfully, that did not happen. The economy continued to grow, inflation fell, bond yields peaked, and the markets took off. The S&P 500, for example, returned more than 26% in calendar 2023. Mr. Trotsky mentioned that he believes last year's decisions on asset allocation were instructive. Last year, as is typical, PRIM made very small tweaks to its long-term strategic allocation – and stayed the course. Moreover, PRIM discussed that the silver lining of market downturns, like in the calendar year 2022, is that they often create good buying opportunities. During calendar year 2022, the PRIM team deployed approximately \$5.7 billion in new investments, enabled by its carefully planned commitment pacing models. PRIM was investing steadily while peers were pulling back. Obviously, that was very good timing with the strong market returns last year. Mr. Trotsky credited Connie Everson, an Investment Committee member, as she pointed to factors supporting a positive equities environment. He gave the example of Ms. Everson saying, "Inflation is melting," and pointed out that interest rates peaked in October 2022. He added that Ms. Everson's calm wisdom often gives PRIM extra confidence to stay the course when it is not so intuitive when the market pundits and economists are projecting difficult times ahead. This is a lesson learned once again: it is very difficult to predict the direction of the economy and the financial markets. PRIM does not alter its allocations based on any predictions. Instead, it has constructed a well-diversified long-term portfolio with components that will perform well in various market environments, and it is also laser-focused on controlling costs. PRIM stays the course and makes only very small changes to the portfolio each year designed to improve the probability of achieving its mandate of funding the pension liability. Mr. Trotsky added that at the Investment Committee yesterday, that Committee approved recommending to the PRIM Board a modest 1% increase in the Value-Added Fixed Income target range to 6% - 12%, and a 1% decrease in the Global Equities target range to 31% - 41%, describing the move as a small tweak in the asset allocation this year.

Market Update

Mr. Trotsky mentioned that the world is full of difficult challenges. Still, the markets have been very strong mainly because bond yields peaked in October of 2022, inflation is trending downward, the economy has avoided a recession, employment remains strong, the Fed has stopped raising rates, and corporate earnings have remained healthy. Real GDP in the U.S. rose 3.3% annualized in the fourth quarter, well above the consensus expectation of 2.0%. As measured by the December Core PCE price index, inflation dropped to 2.9%, its lowest level since the beginning of 2021. January's flash PMI surveys of business activity suggest that GDP growth among advanced economies ticked up from very low levels. The US, UK, and Japan saw readings above 50 in January, which implies expansion, but the Eurozone is still below the 50 threshold.

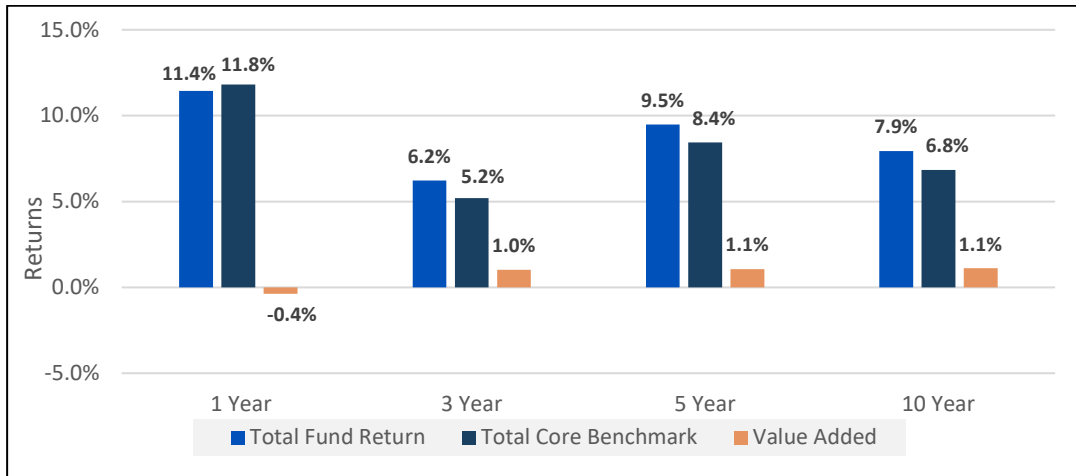
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PRIT Fund Performance

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

Total PRIT Fund Returns

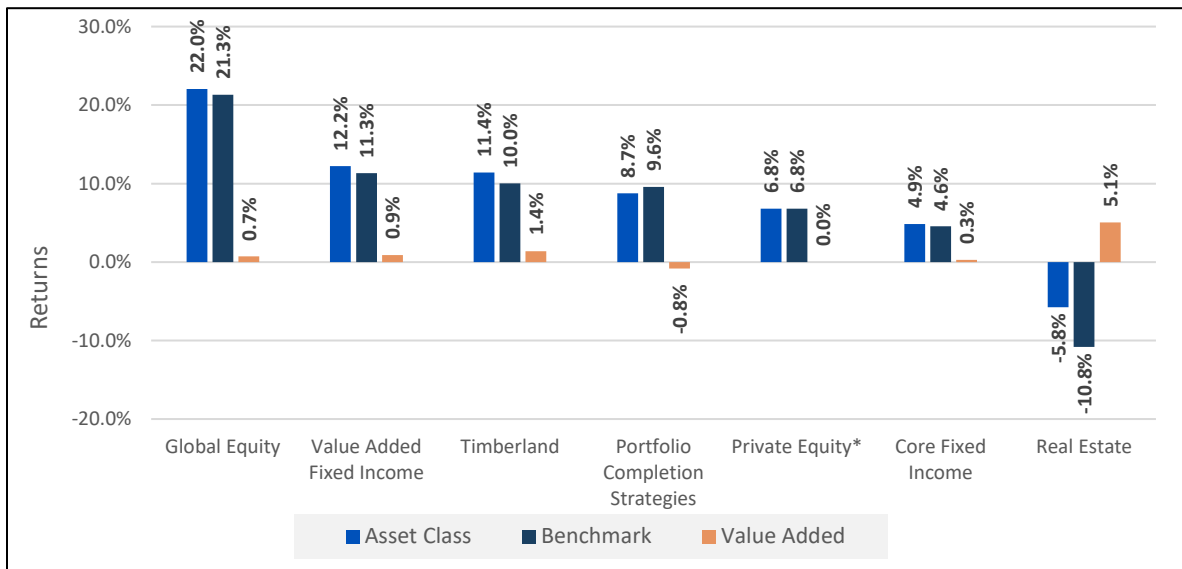
Annualized Returns as of December 31, 2023 (Gross of Fees)



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

PRIT Asset Class Performance Summary

One Year ended December 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

(December 31, 2023 - Gross of Fees)

| 1 Year | 3 Year | 5 Year | 10 Year |
|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| GLOBAL EQUITY 22.0% | PRIVATE EQUITY 19.2% | PRIVATE EQUITY 19.2% | PRIVATE EQUITY 19.5% |
| VALUE-ADDED FIXED INCOME 12.2% | TIMBER 10.4% | GLOBAL EQUITY 12.0% | REAL ESTATE 8.8% |
| TIMBER 11.4% | REAL ESTATE 9.1% | REAL ESTATE 7.9% | GLOBAL EQUITY 8.2% |
| PCS 8.7% | GLOBAL EQUITY 6.1% | TIMBER 7.0% | TIMBER 6.3% |
| PRIVATE EQUITY 6.8% | VALUE-ADDED FIXED INCOME 5.8% | VALUE-ADDED FIXED INCOME 6.3% | VALUE-ADDED FIXED INCOME 5.0% |
| CORE FIXED INCOME 4.9% | PCS 5.0% | PCS 4.7% | PCS 3.7% |
| REAL ESTATE (5.8%) | CORE FIXED INCOME (5.0%) | CORE FIXED INCOME 1.4% | CORE FIXED INCOME 2.8% |

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

2024 Annual Plans

Mr. Trotsky reminded the Committee that PRIM’s governance documents require the Executive Director to “approve divisional business plans, as appropriate.” Accordingly, as done each year, PRIM shares the plans for review and input. He added that the plans are very detailed, and invited the Committee to review them and contact him with any feedback they might have. PRIM will revise the plans as appropriate to incorporate suggestions from Committee members before presenting the final annual plans to the Board at its next meeting (February 15th).

Mr. Trotsky highlighted a few new initiatives, explaining that a common goal in all areas of PRIM will be to explore applications of Artificial Intelligence (AI), particularly large language models. AI will impact the investment management industry, and PRIM must be ready for it. He added that PRIM has been spending more time studying the potential impacts of AI on its business processes and the processes of its suppliers and partners. Mr. Trotsky added that as with everything done at PRIM, the approach will be thoughtful and deliberate, safeguarding our data. He reminded the Committee that PRIM hosted an educational session with Dr. Hod Lipson, Professor of Engineering and Data Science at Columbia University, and commented he found it very informative. Mr. Trotsky mentioned that the first PRIM AI project was underway, and it leverages the power of Generative AI and Large Language Models (LLM) to create a unique PRIM-centric knowledge source, adding that the initial implementation will combine a very limited amount of non-financial PRIM data. This will be a small example of the possibilities that AI may bring. Mr. Trotsky explained that in the longer term, PRIM sees the potential for AI to impact PRIM’s investment analysis, decision-making, and monitoring.

Mr. Trosky next mentioned continuing the work with the Stewardship and Sustainability Committee, PRIM’s newest committee, to finalize a Stewardship Policy statement and to identify Stewardship Priorities. Mr. Trosky also mentioned that across all asset classes, the focus is on finding additive investments and identifying new areas of focus that will be additive to the PRIT fund portfolio. In Risk, the team is focused on embedding with

each asset class team to identify key risks and to provide enhanced risk analytics for decision-making. Additionally, the Risk team will perform a liquidity study this year across all PRIM portfolios and conduct an internal review of the sizing of positions. He concluded his remarks by mentioning that in Operations, PRIM will continue to carefully build a deeper bench of talent by promoting our high-performing stars and selectively hiring. We will also develop and offer training opportunities for all of PRIM's employees.

III. Research – Asset Allocation Update

Maria Garrahan, Senior Investment Officer – Director of Research, presented the staff's 2024 Asset Allocation recommendation.

Ms. Garrahan noted the 2024 Asset Allocation recommendation represents no major changes to the prior year recommendation. The 2024 recommendation includes a 1% increase in Value Added Fixed Income and subsequently a decrease pro rata from Developed Market equities. Within Value Added Fixed Income, the focus will be on Other Credit Opportunities.

PRIM's asset allocation research program, Ms. Garrahan continued, utilizes both quantitative and qualitative insights into the analysis while focusing on a dual objective. The core framework used a probabilistic based approach to maximize the likelihood of achieving the dual objective.

Over the last few years, PRIM has been building further enhancements within strategic asset allocation research. PRIM's proactive approach to creating a robust set of tools and analysis has been especially useful given this higher interest rate environment. Forward-looking analysis is very dependent on forward expectations which is why it is only one component of the strategic asset allocation research program. Likewise, the core framework, driven by historical performance, has a different set of limitations.

PRIM's proposed 1% increase in the range of Value-Added Fixed Income will focus on the Other Credit Opportunities sub-asset class whereas the decrease in the Global Equities target range will come from Developed Markets. Ms. Garrahan explained further that the Value-Added Fixed Income is comprised of High Yield, Bank Loans, EM Debt, and Other Credit Opportunities. OCO includes the following strategies: consumer credit; corporate credit; and real estate debt. The OCO sub-asset class seeks to identify unique exposure to credit sectors, therefore tends to have higher credit sensitivity, lower interest rate risk, and less liquidity.

Ms. Garrahan noted that Vivian Liang, a member of PRIM's Research team, led the research to better understand potential implications of a higher interest rate environment. Tianyi Shi, also from the Research team, in collaboration with the Real Estate team researched the role of public and private real estate. This work reaffirmed PRIM's prior decision with regards to the role both public and private real estate play within the PRIT Fund.

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 returned -5.8% for the one-year period resulting in benchmark outperformance of approximately 505 basis points. Net asset value was \$10.4 billion at year-end, equating to 10.3% of the PRIT fund, near the center of the target range. The private portfolio returned -7.5% for the year, outperforming the benchmark by 543 basis points. Mr. Schlitzer noted that relative performance has been strong due to the quality of PRIM's asset base, underweights to certain west coast markets and an underweight to suburban office buildings. Negative absolute returns have been driven primarily by the steep increase in interest rates over the past two years. The REIT market rebounded in 2023, after returning -24% in 2022. PRIM's REIT portfolio returned 11.2%, 53 basis points above benchmark for the year.

The decrease in market pricing has created opportunities to allocate private capital, but PRIM has been selective. Areas of investment have been in construction lending, high quality, diversifying industrial and multifamily properties, and data centers.

Timberland

Mr. Schlitzer summarized Timberland Performance. The portfolio experienced positive results for the year on both an absolute and relative basis, returning 11.4% or 140 basis points above the asset class benchmark. Geographic return dispersion was low across the major regions of the U.S. Market transaction activity drove appraisals as broad interest in the asset class increased from both traditional and sustainability focused buyers. Fundamentals have been mixed. Certain market segments have experienced a pullback in both volume and pricing during the year, driven by a decrease in Asian demand and the impact of U.S. mortgage rates on the domestic housing market. U.S. Housing starts pulled back in December but have increased year-over-year.

V. 2024 Real Estate and Timberland Annual Plan Summary

Timothy V. Schlitzer, CFA, CRE, Director of Real Estate, updated the Committee on the 2024 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 ten of the presentation, including the addition of an Investment Officer, several Committee and industry presentations, capital allocation activities including new real estate and timberland acquisitions and dispositions, growth of the FUTURE Initiative, portfolio deleveraging, collaboration with colleagues on PRIM's Real Asset portfolio and extensive travel to visit PRIM's investments and partners.

Mr. Schlitzer stated that the team will be focusing on several initiatives in 2024. He described PRIM's continued commitment to growing the FUTURE Initiative portfolio, supporting PRIM's Stewardship efforts, conducting research on applications for Artificial Intelligence (AI), exploring new sources of research and software tools, and the team's ongoing efforts to source new investments.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:44 a.m.

List of documents and exhibits used during the meeting:

- Minutes of the PRIM Real Estate and Timberland Committee Meeting of November 15, 2023
- PRIT Fund Performance Report (December 31, 2023)
- BNY Mellon Gross of Fees Performance Report (December 31, 2023)
- 2024 PRIM Staff Annual Plans
- 2024 Asset Allocation Presentation
- 2024 NEPC Asset Allocation Presentation
- Real Estate and Timberland Performance Charts

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