



Minutes of the Real Estate and Timberland Committee Remote Meeting
Wednesday, July 31, 2024

Committee members attending:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Lydia Chesnick, Esq.
- Jack Lutz, Ph.D.
- William McCall
- Garlan Morse, Jr., CRE
- Robert Gifford

Committee members not attending:

- Carly Rose
- 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 May 8, 2024, 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 was pleased to report that the PRIT Fund ended with another record balance of \$105.3 billion, surpassing the previous record of \$96.6 billion set last year. The PRIT Fund returned 9.9% (9.5%, net) for a net gain of \$9.1 billion in the fiscal year, with five of the seven asset classes outperforming their benchmarks. PRIM Staff researched and deployed \$6.6 billion in attractive new investments during the year.

Organizational Updates

Mr. Trotsky noted that PRIM had zero turnover in the fiscal year and successfully recruited three new employees and eight interns, all of whom are diverse in terms of race and/or gender. Currently, 63% of PRIM's workforce is diverse, and 52% is female.

Katherine Kovach recently joined PRIM as an Investment Analyst on the Private Equity team. Previously, Katherine was an Alternatives Senior Analyst at Corebridge Financial, formerly known as AIG, in New York City. Katherine graduated from the University of Virginia in 2022 with a bachelor's degree in Commerce – Accounting and Finance.

PRIM's Private Equity program once again finished in the top five (#4) in the American Investment

Council's annual ranking of public pension plans based on 10-year performance. In addition, Bill Li, CFA, CAIA, Director of Portfolio Completion Strategies, received Alpha Edge Next Generation Recognition. PRIM ranked fourth in the U.S. for assets managed by diverse managers according to Pensions and Investments, and PRIM was awarded two Commonwealth Citations for Outstanding Performance.

PRIM earned the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 19th consecutive year and successfully completed the CFA Institute's Global Investment Performance Standards of Integrity and Transparency (GIPS). PRIM also completed more than 30 separate audits, all of which resulted in unmodified opinions with no findings.

Mr. Trotsky will also receive a Lifetime Achievement award in October 2024 and was named on the CIO Power 100 list.

Market and PRIT Fund Performance

Mr. Trotsky noted that markets overall remained very strong: U.S. equities were up 24.6%, developed international equities were up 11.2%, and emerging markets equities were up 12.5%. Diversified bonds were up 2.6% as interest rates (and inflation) began to decline. The highest returning PRIT Fund asset classes included Global Equities, Value-Added Fixed Income, Portfolio Completion Strategies, and Timberland, all returning more than 10% net of fees. Hedge Funds had a very strong year with the highest Sharpe ratio (risk-adjusted return) of any asset class and a return of 12.5%. Private Equity returned nearly 8%, net of fees, continuing its strong rebound. Real Estate was the weakest, down nearly 7% for the year but still far outpacing the benchmark and peers.

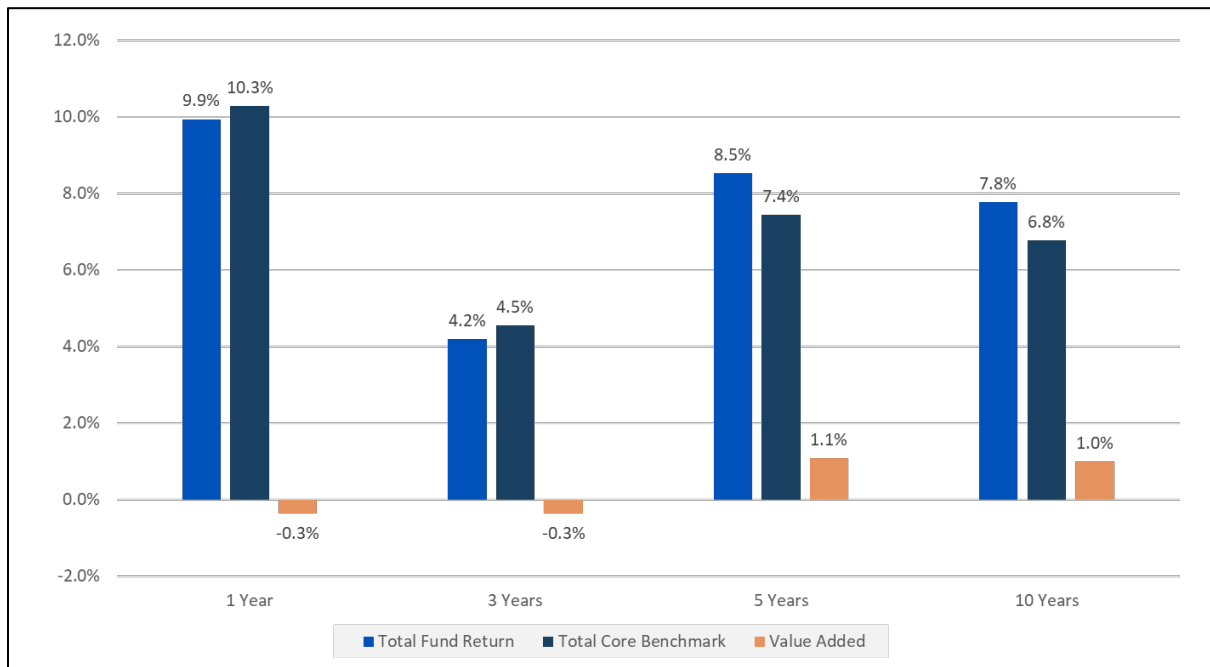
- U.S. GDP expanded an annualized 2.8% in Q2, up from 1.4% in Q1, and above forecasts of 2.0%. Consumer spending accelerated (2.3% vs. 1.5%), led by a rebound in consumption of goods, mostly motor vehicles, recreational goods and vehicles, and gasoline, while services slowed.
- The U.S. Consumer Price Index fell for a third straight month to 3.0% in June, the lowest since June 2023, compared to 3.3% in May and below forecasts of 3.1%.
- The number of Americans filing for unemployment benefits fell by 10,000 to 235,000 for the period ending July 20, slightly below market expectations, but due to a higher participation rate, the unemployment rate rose slightly to 4.1%.
- Eurozone GDP expanded 0.3% in Q1 2024, recovering from a 0.1% contraction in each of the previous two quarters, inflation fell to 2.5%, unemployment remains at an all-time low of 6.4%, and the ECB has also kept rates unchanged in July.
- Chinese GDP expanded 4.7% y/y in Q2 2024, missing market forecasts of 5.1% and slowing from a 5.3% growth in Q1.

The FUTURE Initiative, the program to increase the diversity of PRIM's investment managers, had another successful year. PRIM invested more than \$2.3 billion with diverse managers over six asset classes, including approximately \$270 million to emerging diverse managers. The PRIT Fund currently invests more than \$12.6 billion with diverse investment managers, nearly 12% of the PRIT Fund.

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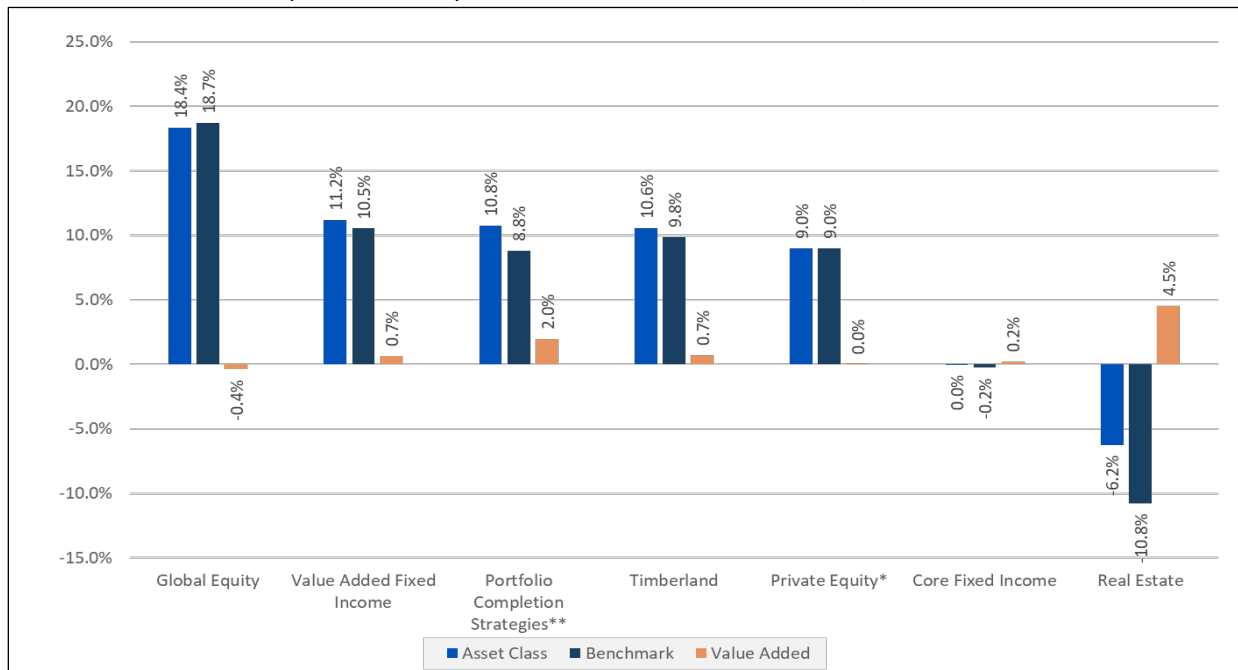
Mr. Trotsky referenced performance charts from Appendix B, a sample of which is as follows:

Total PRIT Fund Returns (Gross of Fees) Annualized Returns as of June 30, 2024



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

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of June 30, 2024



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

PRIT Fund Periodic Table of Returns (Gross of Fees) as of June 30, 2024

1 Year	3 Year	5 Year	10 Year
GLOBAL EQUITY 18.4%	PRIVATE EQUITY 10.2%	PRIVATE EQUITY 19.3%	PRIVATE EQUITY 18.5%
VALUE-ADDED FIXED INCOME 11.2%	TIMBER 9.3%	GLOBAL EQUITY 10.8%	GLOBAL EQUITY 8.6%
PORTFOLIO COMPLETION STRATEGIES 10.8%	GLOBAL EQUITY 5.2%	TIMBER 6.7%	REAL ESTATE 7.7%
TIMBER 10.6%	VALUE-ADDED FIXED INCOME 5.1%	REAL ESTATE 6.2%	TIMBER 6.2%
PRIVATE EQUITY 9.0%	REAL ESTATE 4.6%	VALUE-ADDED FIXED INCOME 5.9%	VALUE-ADDED FIXED INCOME 4.8%
CORE FIXED INCOME (0.0%)	PORTFOLIO COMPLETION STRATEGIES 4.4%	PORTFOLIO COMPLETION STRATEGIES 4.6%	PORTFOLIO COMPLETION STRATEGIES 3.8%
REAL ESTATE (6.2%)	CORE FIXED INCOME (4.9%)	CORE FIXED INCOME (0.5%)	CORE FIXED INCOME 2.1%

Source: BNY Mellon

III. Performance Review and Market Summary

Real Estate

Mr. Schlitzer summarized Real Estate performance. The portfolio's net asset value ended the quarter at \$10.1 billion, equating to 9.6% of the PRIT fund. Total Real Estate returned -6.2% for the one-year period, resulting in benchmark outperformance of approximately 453 basis points. The private portfolio returned -7.2%, outperforming the benchmark by 479 basis points. PRIM's REIT portfolio outperformed the benchmark by 46 basis points, providing a positive return of 5.9%, partially offsetting negative performance in the private portfolio.

The primary return drivers within the private portfolio, which represents approximately 93% of PRIM's real estate assets, were positive relative asset level performance coupled with PRIM's underweight to traditional office buildings, underweights to certain major gateway markets and PRIM's exposure to medical office, which outperformed traditional office buildings. Mr. Schlitzer highlighted that PRIM has no hospital exposure.

He went on to explain that the negative absolute returns were primarily driven by increases in interest rates and slowing fundamentals across many sectors. These factors have impacted the entire market as the Federal Reserve continues to target inflation, which has increased the cost of capital and negatively impacted real estate fundamentals.

The team has reviewed approximately 300 or \$28 billion in investment opportunities so far during the calendar year. Mr. Schlitzer emphasized that staff is taking a measured approach to the asset class heading into calendar year-end, particularly in the office sector, but are seeing positive signals. In addition to positive returns in the REIT market, which is often a leading indicator for private returns, equity capital is returning to the private market. The magnitude of appraisal declines is also slowing, possibly signaling a market bottom.

Timberland

Mr. Schlitzer stated that Timberland had a strong year on both an absolute and relative basis, returning 10.6% or 71 basis points above the asset class benchmark. Returns were positive across the major geographic segments, with Australia/New Zealand lagging but still positive for the year. Australia and New Zealand have been more challenged due to China related pressure, although domestic demand in Australia has been resilient, and New Zealand remains the low-cost provider to Asia, a positive going forward.

U.S. housing starts are roughly flat in both the single family and multifamily segments year to date but continue to experience volatility. Renovation activity continues to be soft due to higher interest rates and less sales activity. Mr. Schlitzer observed that while there has been a decline in raw material prices across the major log categories; prices are generally flat year over year. The capital markets continue to be optimistic on the long-term prospects for the industry, and this has driven strong asset class returns.

IV. Investment Policy Statement Update

David Gurtz, Deputy Chief Investment Officer, presented PRIM's investment Policy statement (IPS). The IPS is a fundamental document that serves as a roadmap, guiding PRIM's investment decisions. Updating the IPS is crucial to maintaining strong governance and industry best practices.

Mr. Gurtz noted this review, and update was initiated with three primary goals:

1. Align the IPS with current practices to accurately reflects the latest internal procedures and strategies. Updates included removing a Hedge Fund section as it used to be a dedicated asset class and moved the relevant portions to the Portfolio Completion Strategies section where Hedge Funds resides today and adding a new 'Risk Management' and a 'Stewardship & Sustainability' section to emphasis the importance of these areas at PRIM.
2. Incorporate industry best practices. Some best practices we incorporated, included a focus on principles-based approach and adding new 'Staff' section was to the 'Duties and Responsibilities' section.
3. Enhance the clarity and consistency of the IPS.

Mr. Gurtz noted this update has been a collaborative, firm-wide effort. PRIM has incorporated insights from various internal teams, including each asset class team, as well as the risk, research, legal, and operations teams.

Mr. Gurtz mentioned the outcome of this extensive process is an updated draft IPS, attached as Appendix E, for the Committee's review and feedback. Mr. Gurtz noted this not a voting item, rather staff is presenting this draft IPS to the Committee to review and provide feedback.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:29 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of May 8, 2024*
- *PRIT Fund Performance Report (June 30, 2024)*
- *BNY Mellon Gross of Fees Performance Report (June 30, 2024)*
- *Real Estate and Timberland Performance Charts*
- *Draft Investment Policy Statement*
- *NEPC Investment Policy Statement Review Memorandum*