



**Minutes of the Real Estate and Timberland Committee Remote Meeting  
Wednesday, November 13, 2024**

Committee members attending:

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

Committee members not attending:

- William McCall, 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 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](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 July 31, 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 told the Committee that the PRIT Fund ended with a balance of \$110.5 billion, a new record-high balance, surpassing the previous record balance set in June 2024. For the September quarter, the PRIT Fund returned 4.4% net of all fees, and for the trailing twelve months, it returned 16.4% net, which equates to an investment gain of \$15.6 billion. PRIM believes a 16.4% 12-month gain in this environment is a very solid accomplishment.

**Organizational Update**

Mr. Trotsky mentioned that PRIM's newest staff member, Katherine Kovach, Investment Analyst, Private Equity, recently passed the third and final CFA exam and is now a CFA Charter holder. Next, PRIM Director of Stewardship Veena Ramani and Director of Investment Operations George Tsipakis were named 2024 recipients of the Commonwealth Citation for Outstanding Performance by the Treasurer's Office. Veena joined PRIM about two years ago and has had a very impactful start. She has helped PRIM conceive and implement the development of its stewardship priorities. She's also enhanced PRIM's Proxy Voting Guidelines. Moreover, she has quickly become a very effective ambassador for the organization, speaking during Climate Week and other high-profile opportunities. George Tsipakis is one of PRIM's unsung heroes. A consummate, hard-working, and steady

professional, George is the person who oversees the investment cash processing and investment back office, ensuring that all reporting is timely and accurate. He is also a key member supporting PRIM's entire Real Estate leverage program, and his responsibilities include maintaining all compliance protocols on this important program. George also implemented a novel automated tool to support PRIM's investment management reconciliations, making them more efficient and thorough. Mr. Trotsky congratulated all three PRIM staff members for their achievements and hard work. Additionally, he thanked the Treasurer for recognizing them.

Mr. Trotsky concluded his organizational update by highlighting an update to the reporting materials. He reminded the Committee that PRIM staff began working with Solovis, an investment management and reporting platform provider, in January to automate and enhance the PRIT Fund's investment performance reporting. Jessica Murphy, PRIM's Manager of Investment Performance Reporting, has led this significant undertaking. The reports included in the package are the initial results of that work, and for the first time, these reports are now fully automated, whereas before, they were constructed manually. This new reporting technology saves PRIM staff considerable time. It is important to note that the performance calculations have not changed because BNYM remains our book of record. The most significant changes are that the report is now much easier to read, the reporting now includes a detailed breakdown of the PRIT Fund's asset allocation in an intuitive graphical format, and all reporting is now presented net of fees -this has become standard in our industry. PRIM expects the platform to continue to provide opportunities for automation and support the development of additional investment reporting that will help with advanced portfolio analysis. He thanked Ms. Murphy and Matt Liposky, PRIM's Chief Investment Operating Officer, for these innovations.

### **Market Update**

Mr. Trotsky mentioned a quote by legendary investor Howard Marks, who said, "The only thing worthy of certainty is the conclusion that we shouldn't be expressing any of it." PRIM continues to monitor economic and geopolitical conditions worldwide during an uncertain time. Still, PRIM can take comfort in its carefully constructed portfolio, which has demonstrated its ability to perform well in different environments.

Mr. Trotsky continued by adding that with all that said, the economic environment has remained mostly positive. U.S. GDP expanded an annualized 2.8%, slightly below the Q2 level. Inflation continues to be moderate: this morning the Consumer Price Index was reported at 2.6% compared to September's report of 2.4%. The CPI rate was up 0.2% month over month, matching the increase in September, in line with economists' forecasts. Employment remains strong, with US unemployment remaining at 4.1% in October, unchanged from the three-month low reported last month.

US retail sales increased by 0.4% month/month in October, matching September and well above August numbers. Elsewhere, industrial production fell slightly in September and October as the manufacturing sector pointed to continued contraction: The ISM Manufacturing PMI unexpectedly fell to 46.5 in October -- readings below 50 signal continued contraction. The confluence of these indicators let the Federal Reserve Bank to lower its Funds Rate by 25bps to a range of 4.50 to 4.75% following the 50bps cut in September. Chair Powell indicated that the Fed is not on any pre-set course and will continue to make decisions on a meeting-by-meeting basis after assessing incoming data.

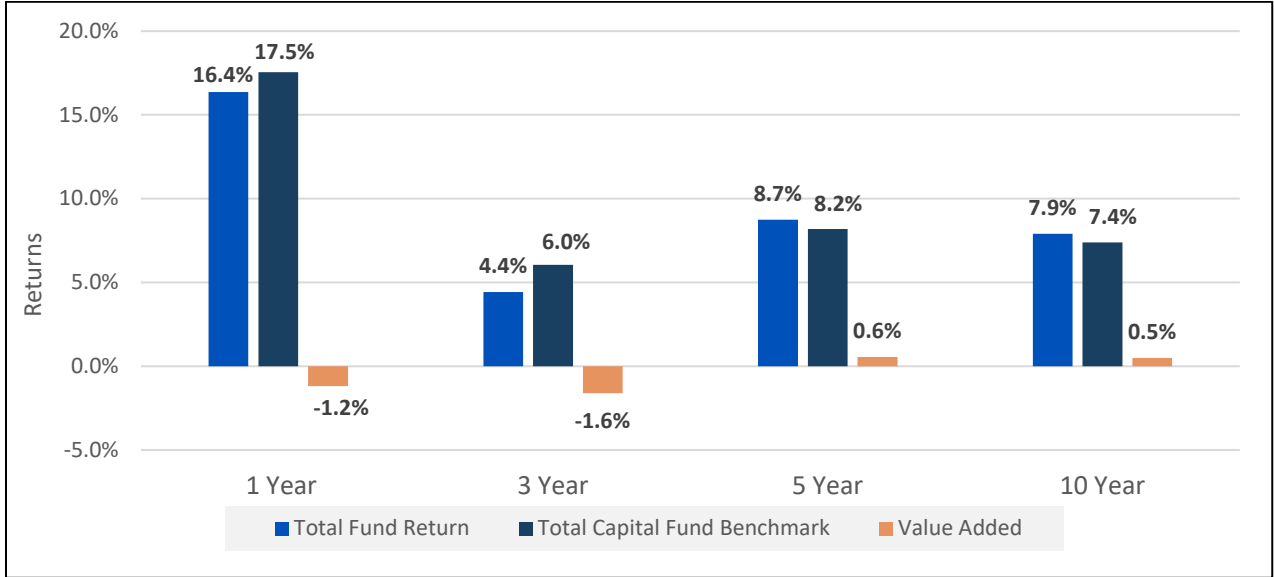
He concluded his comments on the market by mentioning that elsewhere around the world, the Eurozone continues to be afflicted with very little growth, slightly higher unemployment, and lower inflation than in the US. The ECB lowered interest rates again in October. In Japan, GDP growth resumed after falling in Q1. The Bank of Japan left rates unchanged. In China, GDP grew 4.6% in Q3, in line with expectations but the slowest growth since Q1 of 2023. The People's Bank of China cut key lending rates to new lows at the October fixing, intensifying efforts to support a weakening economy. Overall very positive results and a positive outlook.

**PRIT Fund Performance**

Mr. Trotsky discussed the September 2024 PRIT Fund performance in more detail, referencing the following performance charts:

**Total PRIT Fund Returns**

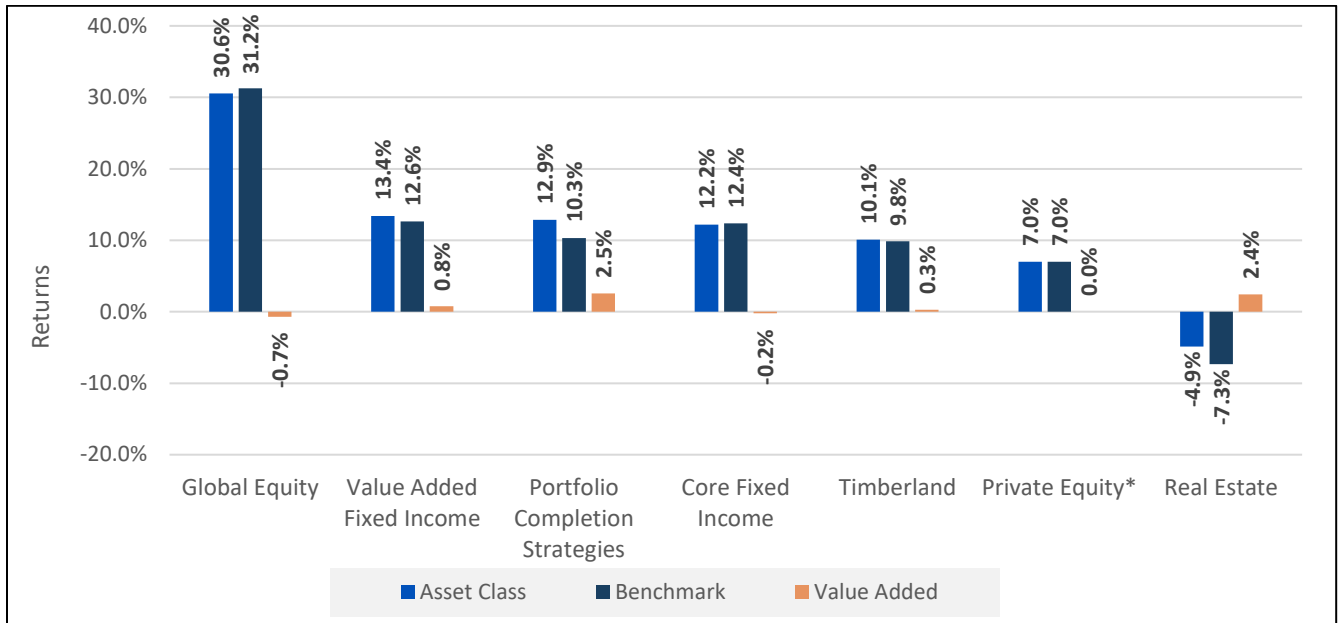
Annualized Returns as of September 30, 2024 (Net of Fees)



Source: BNY. Total Capital Fund Benchmark includes private equity benchmark.

**PRIT Asset Class Performance Summary**

One Year ended September 30, 2024 (Net of Fees)



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

## PRIT Fund Periodic Table of Returns

(Net of Fees) as of September 30, 2024

1 Year	3 Year	5 Year	10 Year
GLOBAL EQUITY 30.6%	TIMBER 9.4%	PRIVATE EQUITY 17.2%	PRIVATE EQUITY 16.7%
VALUE-ADDED FIXED INCOME 13.4%	GLOBAL EQUITY 7.6%	GLOBAL EQUITY 12.0%	GLOBAL EQUITY 9.4%
PORTFOLIO COMPLETION STRATEGIES 12.9%	PORTFOLIO COMPLETION STRATEGIES 5.3%	TIMBER 6.6%	REAL ESTATE 7.1%
CORE FIXED INCOME 12.2%	PRIVATE EQUITY 4.9%	VALUE-ADDED FIXED INCOME 5.9%	TIMBER 5.7%
TIMBER 10.1%	VALUE-ADDED FIXED INCOME 4.9%	REAL ESTATE 5.2%	VALUE-ADDED FIXED INCOME 4.7%
PRIVATE EQUITY 7.0%	REAL ESTATE 1.8%	PORTFOLIO COMPLETION STRATEGIES 5.0%	PORTFOLIO COMPLETION STRATEGIES 4.0%
REAL ESTATE (4.9%)	CORE FIXED INCOME (3.4%)	CORE FIXED INCOME (0.4%)	CORE FIXED INCOME 2.4%

Source: BNY Mellon.

### III. Performance Review and Market Summary

#### *Real Estate*

Mr. Schlitzer summarized Real Estate performance. Real Estate represented 9.1% of the PRIT fund at quarter end, below the allocation mid-point of 10%, but down slightly from fiscal year end, a result of strong equity markets. He focused on the one-year numbers, telling the Committee that Total Real Estate was down almost 5% for the year, with negative absolute performance primarily being driven by increases in the market cost of capital as well as slowing fundamentals due to lower inflation, slowing economic growth and higher levels of supply delivery in many segments of the market, but primarily in the multifamily and industrial sectors. He continued that although disappointed with the negative absolute performance, we are pleased that PRIM's portfolio is outperforming its core benchmark by approximately 240 bps and noted that this outperformance is inclusive of PRIM's Non-Core Portfolio, where more comparable benchmark data is unavailable. PRIM's outperformance continues to be driven by overall asset selection, quality, the industrial overweight, medical office within the broader office portfolio, and data centers.

PRIM's equity portfolio was up over 30% over the prior year and up almost 7% for the quarter. There have been no significant changes to the allocation risk buckets within the portfolio, which continues to be a high quality, well leased at (approximately 92%) Core portfolio with conservative leverage. He noted that later in the meeting there will be a discussion regarding the allocation of capital and some strategic changes to the REIT bucket but the size of the major buckets, including REITs, will remain

relatively stable with the contemplated commitment.

#### *Timberland*

Mr. Schlitzer stated that Timberland had a strong year on both an absolute and relative basis, returning 10.1% or 30 basis points above the asset class benchmark. U.S. returns for the year were strong in both the South and Pacific Northwest ranging from 10-11%. Returns are primarily reflective of capital demand for the asset class, which is now more actively pricing in the value of timberland as a carbon sink and wood fiber as a more valuable alternative to traditional building and packaging materials. It also continues to reflect the long-term need for housing.

About 20% of PRIM's portfolio is located in Australia and New Zealand, an out of benchmark exposure which has impacted relative performance recently. Australia and New Zealand had lower, but positive single digit returns for the year at 3.4%. As we've discussed, these countries continue to experience lower prices and export volumes, particularly New Zealand, as well as some domestic challenges, like the U.S. in many ways, in the form of higher mortgage rates and construction costs, impacting the domestic housing markets.

He concluded his remarks by telling the committee that the Australian business has been PRIM's top performing timberland investment over the past 10 years and continues to have strong long-term prospects.

#### **IV. Real Estate Request for Proposals (RFP) for U.S. REIT Investment Management Services Recommendation (Voting Item)**

John La Cara, Senior Investment Officer, Director of Listed Real Estate & Debt Capital Markets, presented PRIM's recommendation that the DWS Group ("DWS") and PGIM Real Estate ("PGIM") would each be awarded an initial allocation of \$150 million to provide U.S. REIT investment management services. Mr. La Cara began by recognizing the members of the Evaluation Committee and those that contributed to the process. He then reviewed the RFP process and noted that after completing initial screens of the RFP proposals, 10 firms were invited to meet the Evaluation Committee. During these meetings, the Evaluation Committee further explored certain aspects of each firm's proposal including: the structure of the firms and investment teams, investment approach and how they construct portfolios and manage risks. Mr. La Cara continued that after the interviews a group of finalists was determined, and site visits were scheduled at each firm's office location. During the site visits the Evaluation Committee met with key contributors to the investment decision making process, including Portfolio Managers and analysts, and reviewed how certain systems and tools are used throughout the investment process. He also stated that they met with senior leadership at each firm.

Mr. La Cara informed the Committee that after the site visits were completed, the Evaluation Committee determined that DWS and PGIM were the most qualified firms to provide U.S. REIT investment management services to PRIM. He further noted that the Evaluation Committee believes DWS and PGIM have superior public REIT investment management platforms with strong and experienced investment teams that work collaboratively with each other and adding both firms will complement the existing strategy currently managed by CenterSquare. He also stated that the REIT portfolio will benefit from increased exposure to alternative sectors that are difficult to access in the private markets. Mr. La Cara noted that by allocating \$150 million each to DWS and PGIM, the exposure to REITs, relative to Total Real Estate, will increase to approximately 11%, which is consistent with the approved objective from 2019 to reduce the exposure to REITs, which at the time was approximately 25% of Total Real Estate.

The Real Estate and Timberland Committee voted, by unanimous roll-call vote, to approve a recommendation to the PRIM Board to approve initial allocations of \$150 million each to DWS Group (“DWS”) and PGIM Real Estate (“PGIM”) to provide U.S. REIT investment management services.

#### **V. 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 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. He also noted that PRIM worked closely with NEPC, PRIM’s asset allocation consultant as well as other asset class consultants who provided invaluable insights into industry best practices.

He also told the Committee that the IPS incorporates feedback from Committee members who recommended removing ranges around the Private Real Estate and Timberland benchmarks. It was also further clarified that the Real Estate total leverage ratio excludes commingled funds and co-investments.

Mr. Gurtz concluded that with the updated IPS, PRIM has a better aligned and clearer governing document to help guide its investment strategy and decision making processes going forward.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:20 a.m.

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

- Minutes of the PRIM Real Estate Committee Meeting of July 31, 2024
- PRIT Fund Performance Presentation (September 30, 2024)
- PRIT Fund Performance Report (September 30, 2024)
- Real Estate and Timberland Performance Charts
- U.S. REIT Investment Management Services Manager Search Recommendation
- Meketa’s US REIT Manager Finalist Search Report
- Draft Investment Policy Statement