Prilago. · PDF p.74 Excerpt

Senior Private Lending Fund, Proterra Capital Fund 3 and PSOO Credit (now named PSOO 2).

- Approved the 2024 real estate investment plan
- Continued to work toward target allocation to real estate:
    - Approved commitments to AEW Partners Real Estate Fund X, Fairfield Multifamily Value Fund IV, Oaktree Real Estate Opportunity Fund IX, WCP New Cold III and continued to close on a portion of the commitment to Blackstone Property Partners made in 2023 via purchasing additional secondary interests
- Approved the 2025 real estate investment plan
- Approved the 2024 real assets investment plan
- Continued to work toward target allocation to real assets:
    - Approved commitments to Blackstone Infrastructure Partners and Grain Communications Opportunity Fund IV
- Approved the 2025 real assets investment plan

ECONOMIC ENVIRONMENT

The U.S. economy expanded at a solid pace in 2024 with U.S. real gross domestic product (GDP) rising by 2.4%. Consumer spending continued to be the main driver for the economy. Consumer spending continued to be resilient due to the continued strength in the labor market, helping consumers maintain strong balance sheets.

The U.S. economy continued to add new jobs in 2024. Although labor demand still exceeds the supply of workers, the labor market did come into better balance in 2024. As such, nominal wage growth eased materially in 2024. The nation's unemployment rate continued to remain low, ending the year at 4.1%. Given the labor market remaining solid, inflation remained above the Federal Open Market Committee's (FOMC) objective of 2.0%. As measured by the U.S. Consumer Price Index (CPI), inflation rose by 2.9% in 2024, down from an increase of 3.4% in 2023. Furthermore, the FOMC's preferred inflation measure, the U.S. Personal Consumption Expenditure (PCE) Core Price Index, rose by 2.9% last year, mostly unchanged from the year before which saw the same index rise by 3.0%. But like the U.S. CPI, this was well above the FOMC's target.

After having maintained the range for the U.S. Federal Funds Target Rate of 5.25% to 5.50% for 14 months, the FOMC began lowering the U.S. Federal Funds Target Rate beginning in September 2024 by lowering the target range 50 basis points (bps). The FOMC followed with two 25 bps cuts in the remainder of the year, one in November and one in December. The range for the U.S. Federal Funds Target Rate ended the year at 4.25% to 4.50% and remains there as of this writing. Additionally, the FOMC continued to reduce its securities holdings. Given the easing in the level of interest rates, interest rate sensitive sectors such as housing stabilized as 2024 ended.

As for the rest of the world, growth was very uneven and not consistent with prior year's growth. Eurozone real GDP in 2024 came in at 0.90%, up from an annual growth rate in 2023 of 0.40%. However, in China, real GDP grew at a 5.0% annual rate in 2024, down from 5.40% in 2023. Japan's real GDP grew by 0.10% in 2024 compared to 1.50% in 2023.

As 2025 began, economic activity continued to solidly expand. The labor market remained solid with unemployment remaining steady at a low level. Although inflation remained elevated, long-term inflation expectations remained well anchored. Despite these readings, the FOMC still projects that economic conditions will warrant policy rate cuts in 2025.

Although the probability for a U.S. recession in 2025 remains below 50%, the chances have increased due to escalating trade wars. With respect to inflation, based on history, inflation tends to come in waves and typically ends only when there is a recession. Current factors that may contribute to inflation remaining more sticky are the continued trend of de-globalization, increasing use of tariffs, elevated deficit spending, and elevated wage pressure. As an aside, it should be noted that 3.0% inflation is more typical than 2.0% as the mean U.S. CPI over the past 40 years is 2.8%.

TOTAL FUND

The total portfolio, on a trade date basis, was valued at $18.62 billion at the end of 2024, up from $17.64 billion at the end of 2023. Within OP&F's portfolio, strong absolute returns in U.S. equity, high yield, private credit, midstream energy infrastructure and commodities, especially gold, were offset by weak returns in U.S. TIPS, real estate and core fixed income. Worth noting was the absolute strength of midstream energy infrastructure as OP&F's midstream energy infrastructure composite returned 43.29% on a net of fees basis in 2024. The magnitude of the strong returns in the aforementioned asset classes, along with their weights within the total portfolio, combined to deliver a positive total portfolio return in 2024. For calendar year 2024, the total portfolio's investment return was 11.13% gross of fees, and 10.58% net, compared to a policy index return of 10.03%. This represents an outperformance of the total portfolio's policy index return by 110 bps gross and 55 bps net. OP&F's investments in U.S. equity, international equity,