

# PRIM Board Quarterly Update

## FOURTH QUARTER 2019

### Markets Overview and PRIT Fund Performance Summary

#### March 19, 2020 PRIM Statement

The series of events tied to the global COVID-19 outbreak is creating an unprecedented level of market volatility and uncertainty. I recognize the concern and hardship you are experiencing, but I want to assure you that PRIM is fully functional. PRIM managers have been communicating with their employees and vendors to ensure the business of PRIM continues uninterrupted. I am extremely proud of the entire PRIM team and our vendors and investment managers for enabling PRIM to continue to operate efficiently during this terrible situation.

PRIM is well positioned to navigate these volatile markets. The PRIM investment portfolio is a carefully constructed, broadly diversified portfolio that we expect will perform well over the long-term. Our current asset allocation was recently approved at the February 26, 2020 meeting of the PRIM Board and it reflects an investment philosophy that has consistently performed strongly in both up, and perhaps more importantly, down markets.

A few key points:

- PRIM continues to review and implement guidance from the Governor, the Treasurer, CDC, and other public health officials and resources to keep employees safe.
- PRIM has the technology in place to enable all employees to work remotely, and all are doing so.
- There have been no significant disruptions to PRIM operations. PRIM's infrastructure and business continuity plans are robust and working well.
- PRIM has been in close contact with the investment managers and vendors that support PRIM.
- PRIM has designated several employees to be in the office on a limited basis to perform tasks that require them to be on site. Their work schedules will be staggered, and they are following appropriate safety protocols.
- The PRIT Fund's liquidity needs are relatively low (approximately \$1.3 billion annually), so PRIM is not facing liquidity stress as a result of the recent market volatility.
- As usual, PRIM staff will rebalance the Fund to ensure compliance with the Asset Allocation Policy at month's end. We currently anticipate no difficulties.

*PRIM Executive Director and Chief Investor Officer Michael G. Trotsky, CFA provided the following information to the PRIM Board at its February 26, 2020, meeting:*

#### Executive Director and Chief Investment Officer Report

We would like to address the recent market volatility related to the global coronavirus outbreak. We have experienced some near record selloffs in the public equity markets, all-time lows for 10-year

Treasury yields, and highly unusual action by the Federal Reserve in making an emergency interest rate cut. At the beginning of February, as we began our PRIM Investment Committee meeting, we acknowledged the positive sentiments in the markets as indices were reaching new, all-time highs and we highlighted two investment manager headlines which predicted a, "Synchronized Global Expansion", and "The End of the Boom-Bust Cycle as We Know It." But we highlighted those headlines with some healthy skepticism. We discussed whether some modestly improving pockets of economic data would be the lasting inflection point leading to a strong and sustained worldwide economic recovery. More specifically we noted a few key points:

First, we said that while some economic indicators appeared to be bottoming, it was off very low levels and there was **not** a lot of room for economies to absorb a large shock. We specifically mentioned the possibility of the coronavirus being such a shock.

Second, we also said there was still a lot of positive spin being applied to the economic data releases. For example, Q4 GDP growth by some estimates was overstated by one-time adjustments.

And last, we highlighted that manufacturing remained very weak across the board.

It is important to note how quickly market sentiment can change, and how quickly the confidence of market participants can change. Today, the fear is about a global synchronized slowdown, whereas a month ago it was the exact opposite.

The coronavirus has been spreading and now the number of cases worldwide and in the U.S. has grown significantly every week. In addition to the great human tragedy it is causing, the virus will at least have a temporary negative impact on global economic growth, but right now there is no way to determine when the virus will be contained, how much economic slowdown it will cause, and if economies will be able to withstand the shock. In early February, we highlighted weak manufacturing trends that were largely being ignored or spun in a positive light. That has also changed as a recent measure of the manufacturing and service sector recently fell to the lowest level in six years, confirming what we already knew - continuing slowness. Sentiments were sky-high going into the Investment Committee meeting last month, and markets were hitting record highs. Now, sentiment is obviously very low, and extreme volatility has returned.

The February Board and Committee cycle featured our annual asset allocation research and a recommendation that was unanimously approved to make no changes. We think that should be reassuring to all of our clients. We remind you that our asset allocation is a strategic allocation that is built for the long-term, and we do not believe in tactical, short term asset allocation. We have observed that no one is consistently good at it. Moreover, we are very pleased that our carefully engineered PRIT Fund portfolio has been performing very well in both up and down markets. As you likely know, the PRIT Fund was up 16.6 percent in calendar year 2019, in what was a very strong year for the markets. But when we take a look at the last five years, the PRIT fund performed very well in CY 2017, another strong year when a 60/40 mix was up 15.4 percent - the PRIT Fund fared better and was up 17.7 percent. Similarly, in 2016 markets were up 6 percent and the PRIT Fund fared better, it was up 8 percent that year. Strong performance in the most recent three strongest years. But perhaps more important, the PRIT Fund has also been outperforming in down markets. In CY2015, markets were down more than 1 percent but again,

the PRIT Fund fared better and was actually up 1.1 percent, and CY2018, a very weak market where a 60/40 mix was down 5.5 percent, again the PRIT Fund fared better and was down only 1.8 percent. Strong performance in both up markets and down markets is not an easy feat and it is exactly what we strive for. It is a strong indication that our portfolio is balanced, risk controlled, and it is performing strongly in all market conditions. And that is the takeaway. We hope you can take comfort in this highly uncertain time that the PRIT Fund is a carefully constructed portfolio that we expect will continue to perform well in both up and in down markets – that is what we have been trying to engineer. No changes to the asset allocation this year means that we are confident in our current portfolio and the direction we are heading.

### Markets and PRIT Fund Performance Summary

Calendar 2019 was a very strong and surprising year. What a difference a year makes. At this time last year, we discussed the challenging and volatile financial markets of calendar 2018. Particularly, the fourth quarter of 2018 was dismal with the S&P down 13.5%, and international markets similarly very weak. A 60/40 mix of stocks and bonds was down 7% in the December quarter of 2018 and down 5.6% for calendar year 2018. The PRIT Fund was down, but much less, down 1.8% (-2.3% net of fees) for calendar 2018.

Last year at this meeting, we highlighted data that showed slowing global growth with many geopolitical and economic uncertainties. We discussed a U.S. economy still relatively strong but slowing. Europe, China, and Japan slowed to a point where we were beginning to worry about contraction. We discussed weakening worldwide manufacturing trends, slowing earnings growth, weak retail sales, weak housing, weak consumer confidence, lower industrial material prices, and tight dollar liquidity. We discussed vulnerabilities in the global economy including tariffs and trade tensions with our trading partners and political gridlock and a “war-like” atmosphere in our government.

And indeed, many of our fears and predictions played out as worldwide economies slowed dramatically last year, some to the point of contraction. Trade tensions, lower material prices, weak consumer demand, tight dollar liquidity, and political infighting continues unabated. And despite our recognition of the ominous conditions and just about everything we feared coming true, calendar 2019 was the second strongest year in the last 10 years at PRIM with the PRIT Fund up 16.6% (16.1% net) , the S&P up more than 31%, developed international markets up 22%, and emerging markets up 23%. (The PRIT Fund was up 17.7% in 2017.) What’s even more surprising, bonds were also very strong. We have often discussed that it is unusual for both the bond market and the equity markets to be simultaneously so strong. Usually falling yields and a strong bond market indicate that investors are fearful about future growth. Diversified bonds were up 9% and long bonds were up 21% in 2019, as yields fell. Today the 10-year Treasury is more than a full percentage point lower than this time last year, hardly a beacon of hope about future prospects.

The market has been climbing “the proverbial wall of worry” as the U.S. Federal Reserve Bank and central banks globally simultaneously implemented easing policies to stimulate their economies. The U.S. Federal Reserve Bank lowered rates three times during 2019. 2019 highlighted the “don’t fight the Fed” philosophy that so many on Wall St. adhere to – the belief that the Fed has and will continue to protect our economy from an economic contraction. Some hope that this is the new normal. An investment manager recently wrote a research piece entitled, "The End of the Boom-Bust Cycle as We Know It," a clear indication that some in the investment community think that this time is truly different. And these

sentiments, coinciding with some more encouraging economic news, resulted in the large and impressive rally in stocks and bonds that defined calendar year 2019. But will this be the lasting inflection point leading to a sustained and strong worldwide recovery that is needed to sustain this market strength?

We are very grateful for such a strong year for the PRIT Fund even though we didn't anticipate such strong markets going into the year. Our performance of 16.6% gross (16.1% net) in calendar 2019 means that we added a staggering \$11.1 billion to the pension fund, which now stands at \$79 billion. That is 25% of the entire budget of the Commonwealth of Massachusetts of \$43.3 billion for fiscal 2020! Moreover, our performance over the last 1-, 3-, 5-, and 10-years is comfortably above our actuarial target return of 7.25%. The PRIT Fund trailing 10-year return, net of fees, is 8.6%. All this was accomplished while we have been strategically and gradually lowering our global equities exposure (lowering our risk profile) during the past 10-year market rally. It's really reassuring that our portfolio is performing so strongly in both up markets like CY2019 and down markets like CY2018.

Perhaps even more important is that last year's very welcomed "if unexpected" strong performance underscores the importance and validity of PRIM's Core Investments Beliefs.

**1. Nobody can predict the future, so we don't try.**

**2. Nobody can predict the stock market, so we don't try.**

**3.** And remember, as a result of #1 and #2, we don't make tactical asset allocation decisions, or any investment decisions based on market or economic predictions. We haven't seen evidence that investors are consistently good at it. Instead, we engineer a strategic, long-term asset allocation policy that we hope will stand the test of our long time horizon.

**4. We believe that any investment must be evaluated on three equally important parameters: return, risk and cost.** We believe that it is incomplete to evaluate any investment on anything less than all three parameters, return, risk and cost. Too often in periods of strong returns, investors focus more on returns than they do on risk and cost.

**5. We value a basis point of cost reduction more than a basis point of return.** Why? We can count on cost savings every year, but nobody ever really knows what the markets will deliver. Project SAVE, saving costs, is an important part of our DNA at PRIM.

Recently we acknowledged the strength in some recent economic news. For example, GDP growth was reported at 2.1% in Q4 and up 2.3% in 2019. This was better than we feared last year, however it was a slowdown from the 2.9% reported in 2018. The employment picture remains strong, inflation is low and in January, US manufacturing PMI showed strength, but that was after posting 5 straight quarters of contraction including hitting a decade low in December of 47.2

However, we also highlighted some lingering risks. For example, a prominent economics firm reported the GDP growth rate in Q4 as, "an optical illusion as the most recent three quarters mark the worst performance since the 2016 slump." They point out that 70% of the reported growth in the quarter was from an artificial boost caused by the trade calculation. Imports fell 9% in a period when exports increased by 1.4%. That gives the GDP an artificial boost of 1.5%, but falling imports are not necessarily a sign of continued and sustainable economic strength. Also, government spending was up 4.3% for the year, the

highest spending growth since 2009. That adds to GDP growth, but business investment fell 1.5% in Q4 and consumer spending slowed to an annualized rate of 1.5% in Q4 versus 4% in Q2 and Q3.

Last quarter we described the strength of equity markets in terms of three possibilities:

**Scenario 1:** The recent strength in equities is a counter-trend move - a bounce from the weakness last year, a reversal.

**Scenario 2:** The recent strength in equities is an early indication of a stronger global economy. Indeed, some economic data seems to have bottomed out, but is it enough of a confirmation to indicate a sustainable recovery? We've had several starts at a worldwide synchronized recovery, is this finally a start that lasts?

**Scenario 3:** We have been worried about the narrowness of the markets and notice that some sectors have still been left behind – this is a late cycle phenomenon. We worry that unless more sectors and more types of companies show improvement, that the markets are still vulnerable. So, amid this uncertainty and some improving economic data we outlined six major points at the Investment Committee meeting on February 4th that give us confidence the PRIT Fund is appropriately positioned while we watch the economic news for more confirming data to support recently rising equity markets. The six major points:

1. There is still a lot of positive spin being applied to the economic data releases. An example of which would be the Q4 GDP report described above.
2. Some economic indicators may appear to be bottoming, but it is off very low levels and there is not a lot of room for economies to absorb a large shock.
3. Manufacturing still remains very weak across the board.
4. Hourly earnings growth and wage growth may not adequately support a consumer with the means to drive consumer spending, which is 70% of the U.S. economy.
5. A large part of the recent market rebound (especially in the second half of 2019) may have been fueled by the Fed's aggressive intervention in the REPO market (a form of back door quantitative easing), which one expert described as "rocket fuel" for leveraged investors – Hedge Funds in particular.
6. The market remains narrow, with a few stocks, mainly tech stocks like Apple and Microsoft, propelling the markets higher. Material and industrial shares, international and emerging markets have been left behind.

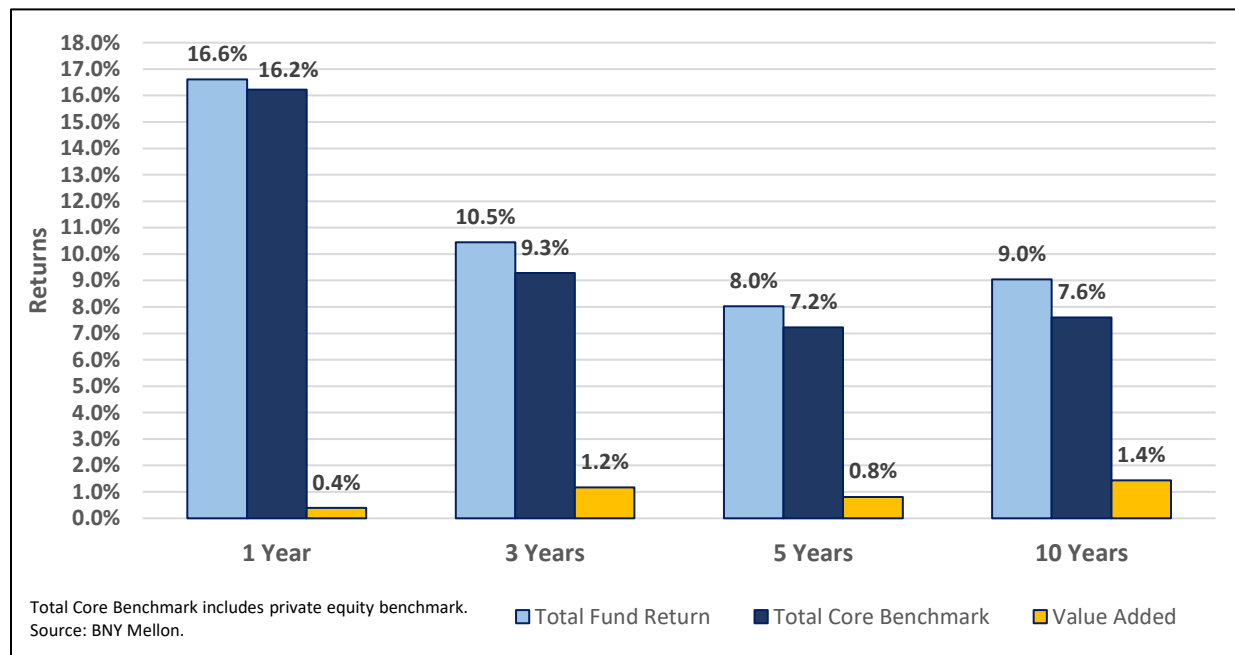
In conclusion, we are pleased with the strong calendar year 2019 performance of the PRIT Fund, continue to believe it is appropriately positioned for the long run, and we will be watching closely for more confirming data to support the recently rising equity markets.

#### **PRIT Fund Performance Summary**

- As of December 31, 2019, the PRIT Fund net asset value stood at \$79.1 billion.
- For the one-year as of December 31, 2019, the PRIT Fund was up 16.6% (16.1% net), outperforming the total core benchmark of 16.2% by 39 basis points (-9 bps, net).
- This performance equates to an investment gain of \$11.5 billion (\$11.1 billion, net of fees).

- Net total outflows to pay benefits for the one-year ended December 31, 2019, were approximately \$1.3 billion.

**Total PRIT Fund Returns (Gross of Fees)**  
Annualized Returns as of December 31, 2019

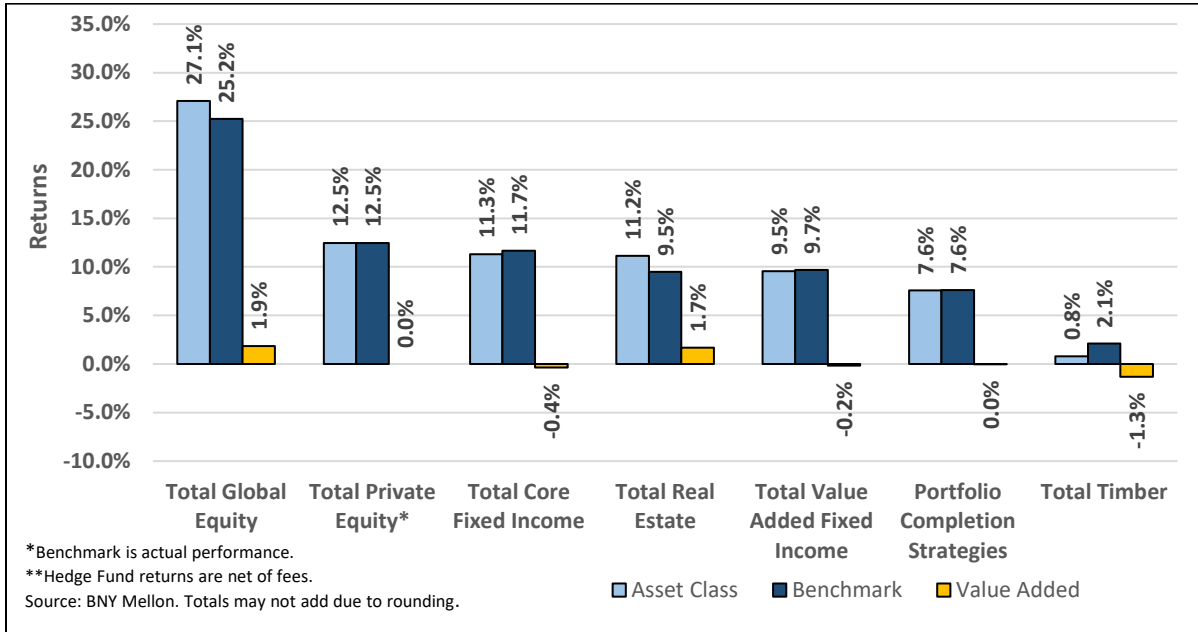


**PRIT Core Fund Performance Summary**  
**Gross of Fees Performance**  
Trailing 1-Year Performance as of December 31, 2019

Trailing 1-Year Performance: December 31, 2019	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
<b>Total PRIT Fund</b>	<b>16.6%</b>	<b>16.2%</b>	<b>39</b>	<b>79,077</b>	<b>100%</b>
<b>Total Global Equity</b>	<b>27.1%</b>	<b>25.2%</b>	<b>185</b>	<b>34,775</b>	<b>44.1%</b>
<i>Domestic Equity</i>	30.2%	29.7%	47	17,779	22.5%
<i>International Developed</i>	25.0%	22.6%	245	11,949	15.1%
<i>Emerging Markets</i>	22.6%	17.9%	475	5,047	6.4%
<b>Private Equity</b>	<b>12.5%</b>	<b>12.5%</b>	<b>0</b>	<b>8,658</b>	<b>11.0%</b>
<b>Real Estate</b>	<b>11.2%</b>	<b>9.5%</b>	<b>167</b>	<b>7,525</b>	<b>9.5%</b>
<b>Total Timberland</b>	<b>0.8%</b>	<b>2.1%</b>	<b>(131)</b>	<b>2,783</b>	<b>3.5%</b>
<b>PCS</b>	<b>7.6%</b>	<b>7.6%</b>	<b>(4)</b>	<b>7,232</b>	<b>9.2%</b>
<b>Value Added Fixed Income</b>	<b>9.5%</b>	<b>9.7%</b>	<b>(16)</b>	<b>5,889</b>	<b>7.5%</b>
<b>Core Fixed Income</b>	<b>11.3%</b>	<b>11.7%</b>	<b>(35)</b>	<b>11,627</b>	<b>14.7%</b>

**PRIT Asset Class Performance (Gross of Fees)**

Trailing 1-year Performance as of December 31, 2019



**Periodic Table of Returns by Asset Class (Gross of Fees)**

Annualized Returns as of December 31, 2019

1 Year	3 Year	5 Year	10 Year
<b>GLOBAL EQUITY</b> 27.1%	<b>PRIVATE EQUITY</b> 20.3%	<b>PRIVATE EQUITY</b> 18.2%	<b>PRIVATE EQUITY</b> 18.2%
<b>PRIVATE EQUITY</b> 12.5%	<b>GLOBAL EQUITY</b> 12.9%	<b>REAL ESTATE</b> 9.0%	<b>REAL ESTATE</b> 11.0%
<b>CORE FIXED INCOME</b> 11.3%	<b>REAL ESTATE</b> 8.5%	<b>GLOBAL EQUITY</b> 8.9%	<b>GLOBAL EQUITY</b> 9.5%
<b>REAL ESTATE</b> 11.2%	<b>VALUE-ADDED FIXED INCOME</b> 6.7%	<b>VALUE-ADDED FIXED INCOME</b> 5.1%	<b>VALUE-ADDED FIXED INCOME</b> 6.8%
<b>VALUE-ADDED FIXED INCOME</b> 9.5%	<b>CORE FIXED INCOME</b> 5.2%	<b>TIMBER</b> 3.7%	<b>CORE FIXED INCOME</b> 5.1%
<b>TOTAL PCS</b> 7.6%	<b>TOTAL PCS</b> 4.5%	<b>CORE FIXED INCOME</b> 3.5%	<b>TIMBER</b> 5.1%
<b>TIMBER</b> 0.8%	<b>TIMBER</b> 3.9%	<b>TOTAL PCS</b> 3.1%	<b>TOTAL PCS</b> 4.5%



## Organizational Update

### *New Hires*

Alyssa Fiore, CFA, has rejoined the PRIM private equity team reporting to Michael Bailey as an Investment Officer. Alyssa originally joined the team in 2016 as an Investment Analyst and was promoted in 2018 to Investment Officer. She was here at PRIM for approximately three years before leaving to join J.P. Morgan. Alyssa has a bachelor's degree in Finance and Global Perspectives from Bentley University and is a CFA charter holder. We are delighted that she has decided to come back, and we look forward to her continuing her excellent work here at PRIM. I think it is also an excellent indication that Mike Bailey and the entire team at PRIM handled her resignation at the time with respect and understanding – no burned bridges. By the way, Alyssa is the second person to leave and then come back to PRIM. You may remember that our CFO, Deb Coulter left to join Baupost, but thankfully we got her back. I believe these are things to celebrate. I think we are doing something right when that happens.

Eleni Klempner has joined PRIM as a Real Assets Investment Officer, reporting to Eric Nierenberg. She most recently worked in the Real Estate Capital Markets group of Wells Fargo Bank as a commercial real estate underwriter. Prior to that she was employed by Sabal Financial Group, Tremont Realty Capital, and DG Capital. She also spent two years as an elementary school teacher in the Brookline public schools. Eleni graduated magna cum laude and Phi Beta Kappa with a B.A. in Economics from Hamilton College, where she was also Captain of the Track & Field team, and she also holds an M.A. in Elementary Education from Boston University.

### *Promotions*

In December, PRIM announced two promotions:

Sarah Coelho was promoted to Senior Corporate Accountant. Sarah joined PRIM as a Corporate Accountant in 2018. She quickly became a valuable member of the Finance team, where she has taken the lead on streamlining the quarterly close and annual budget processes. Sarah has taken on additional responsibilities after the retirement of Finance Manager, Cathy Hodges, and will soon be responsible for PRIM's benefits administration. Sarah's role will continue to expand in the finance and benefits areas. Sarah reports to Dan Eckman, Director of Finance and Administration.

Maria Garrahan was promoted to Senior Investment Officer and Director of Research. Maria joined PRIM as an Investment Officer in 2018. She has designed a thorough asset allocation framework, helped implement PRIM's proprietary suite of analytics across the organization, developed a data infrastructure playbook, collaborated on projects such as senior housing research with the Real Estate team and the Public Markets microcap research project, and she created the ESG Primer: "A Three Pillar Approach" which was presented at the Board retreat, and she continues to work on PRIM's ESG Framework. Maria and her team are responsible for coordinating investment research across all asset classes to help drive innovation at PRIM. She will be responsible for the buildout of the PRIM research team and she will continue to report to Eric Nierenberg, Ph.D., Chief Strategy Officer. The research team will become the third pillar of the Strategy group along with Risk, headed by Jay Leu and PCS, headed by Bill Li.



Additionally, we congratulate Sarah Zatoonian on the Private Equity team for passing the CFA Level 1 exam.

### *Awards*

PRIM's Executive Director and Chief Investment Officer, Michael G. Trotsky, CFA was honored on December 3, 2019 with Institutional Investor Magazine's Lifetime Achievement award. That was a great honor for him and the entire PRIM staff and committee and Board members, whose work enabled the recognition. With nearly 10 years at PRIM, Michael is the longest serving Executive Director in PRIM's 36-year history.

Also, in December, Michael was named a Governing Trustee on the Dana Farber Cancer Institutes' Board. He acknowledged Treasurer Goldberg for her support and for her endorsement as he went through Dana Farber's screening and selection process last fall. He is extremely excited to give back to an institution that is one of the world's finest cancer centers, if not *THE* finest.

Additionally, we congratulate Lydia Chesnick, Real Estate Committee member, who was recently recognized as one of Connect CRE's Women in Real Estate honorees.

### **PRIM BOARD ACTIONS – February 26, 2020**

#### Consent Agenda

In April 2014, the Board approved the implementation of a consent agenda in order to best utilize Board meeting time to focus on deliberation on the most substantive matters. A consent agenda is a meeting practice whereby routine and other non-controversial voting items that do not require discussion are presented and approved as a single agenda item in a single motion.

If one or more Board Members identify an item from the consent agenda that they wish to discuss, it will be removed and voted on separately. Certain items are not authorized to be included in a consent agenda, including asset allocation decisions, approval to hire investment managers and significant changes to PRIM's organizational structure or policies.

At its February 26, 2020 meeting, the PRIM Board approved the following proposed consent agenda items:

1. PRIM Board Minutes of its November 14, 2019, meeting
2. Issuance of a Request for Proposals for Asset Allocation and/or Benchmarking Advisory Services
3. Issuance of a Request for Proposals for Public Markets Advisory Services
4. Issuance of a Request for Proposals for General Real Estate Consulting Services, Timberland Consulting Services and/or Project Consulting Services
5. Issuance of a Request for Proposals for Global Custody Services

#### Annual Plans

One of the duties that the Board-approved Governance Manual imposes upon the Executive Director is set forth in Section (9)(f) of the Executive Director Charter as follows: "The Executive Director shall: ... (f) approve divisional business plans, as appropriate."

In general, the plans do not depart significantly from those presented at this time last year; rather, they represent a continuation of the innovative path we are currently on.

### Strategy

- *Portfolio Completion Strategies*
  - Implement carveout of Hedge Fund portfolio into “Stable Value” and “Directional” components
  - Obtain approval for and begin implementation of new co-investment platform
  - Build an internal system to analyze and back-test option-based strategies
- *Risk*
  - Complete benchmark review and make recommendations to Board of Trustees
  - Oversee adoption of Public Markets “Playbook” governing manager selection and monitoring
  - Detail current risk measurement plans and determine areas for enhancement, including platform changes if needed
- *Research*
  - Establish a Research “Playbook” of best practices and protocols to be utilized throughout PRIM
  - Research enhancement to asset allocation framework through Black-Litterman forecasting modeling
  - Develop an integrated data infrastructure platform to ensure data reliability and research robustness

### Public Markets

- Research and implement Centralized Trading Platform
- Continue to identify Other Credit Opportunities investments, including co-investment opportunities
- Conduct routine review and update of the Investment Policy Statement
- Research concentrated equity managers
- Project SAVE – Phase II: Continue researching seeding platform opportunities
- Research high yield and fallen angel fixed income investment strategies
- Review Developed International Small-Cap Managers
- Continue to upgrade analytical tools to improve investment research/analysis
- Hire a senior investment officer and an investment analyst

### Private Equity

- Implement PRIT Fund asset allocation changes
  - Continue to increase private equity allocation to PRIT Fund
  - Commitment goal of \$1.7 billion to \$2.3 billion to funds
  - Raise co-investment capacity to \$400 million, 20% of 2020 fund commitments
- Improve portfolio quality while scaling the portfolio
  - Continue to target small and mid-cap buyout and growth equity strategies
  - Continue to source new co-investments in partnership with selected investment managers
  - Continue to incorporate research findings into investment process
  - Improve LP/GP relationship balance with selected investment managers
- Develop the team

- Hire second investment analyst
- Collaborate with other teams on investment research
- Conduct a Request for Proposals for private equity consulting services. Current contract expires September 30, 2020

#### Real Estate

- Complete real estate and timberland consulting Request for Proposals
- Increase pipeline activity in specialty property types
- Investment oversight of \$1.6 billion private committed capital
- Continue to develop investment process
- Monitor implementation of real estate and timberland asset business plans

#### Operations

- *Finance and Administration*
  - Continue to implement strategies to enhance diversity, equity and inclusion
  - Evaluate tools to help manage the Human Resource function (HRIS)
  - Administer 2020 PRIM Board Elections (MSRS and MTRS)
  - Develop and conduct staff training initiatives
- *Investment Operations*
  - Onboard the Operational Due Diligence (ODD) provider and design a standardized ODD policy that covers all asset classes
  - Issue and complete RFP for global custody services
  - Collaborate with the Risk Team to review risk and controls
- *Technology*
  - Complete the infrastructure refresh and data center migration
  - Support the development and launch of PRIM's new website and social media platform
  - Continue to evaluate PRIM's IT service model and data needs
  - Collaborate with PRIM's research team to develop a data warehouse
  - Onboard and deploy electronic Board and committee packages

#### Legal

- Legal support of contract negotiation, drafting and review
- Continue legal support of PRIM activities and initiatives, including direct real estate investment, private equity co-investment and consideration of internal asset management
- Litigation, including foreign securities litigation, domestic securities litigation claims-filing and lead plaintiff class action litigation
- Chair the Securities Litigation Committee of the National Association of Public Pension Attorneys (NAPPA)
- Review/analyze legislation and legislative initiatives (e.g., Fossil Fuel Divestment)
- "Government Law" issues (Open Meeting Law, Public Records Act, Ethics/Conflict of Interest, and the like)
- Outside Legal Counsel – continue to monitor and utilize, as necessary
- Continue to support PRIM's Executive Director as PRIM's Deputy Executive Director

#### Client Service

- Continue to strengthen current client relationships
- Develop and launch inaugural Client Service-managed webinar
- Schedule and conduct meetings of the PRIM Investor Advisory Council throughout the year

- Continue to support the State Retiree Benefits Trust Fund (SRBTF) Board
- Monitor legislation affecting PRIM
- Investigate and review the possibility to expand Net-of-Fees distributions
- Implement T+1 deadline for client transactions with PRIM's cash operations

## **Investment Report**

### Strategy Group

*Asset Allocation – 2020 Recommendation* PRIM's asset allocation framework seeks to identify the optimal mix of available investment strategies to maximize the probability of achieving the dual mandate (objective) of meeting the required actuarial rate of return (7.25%) with an acceptable drawdown risk (not more than 20%). The ranges in the PRIM asset allocation reflect the long-standing use of bands around a midpoint. The bands have not changed and any actual weighting within the range is considered acceptable and within the asset allocation policy. Managing the asset allocation to a particular midpoint in the range is not always possible, practical, or advisable.

The 2020 asset allocation study is consistent with last year's study in which we concluded that an increase in private equity and private real estate would increase the probability of meeting the dual mandate. Since their current actual weights in the portfolio are at the low end of their target ranges and rapidly increasing these investments is difficult because they are illiquid private investments, staff have concluded that no change to the strategic asset allocation is necessary in 2020. In other words, there is sufficient headroom within the current asset allocation policy to increase these investments. PRIM Board, therefore, approved the recommendation to make no changes to the current asset allocation ranges for 2020.

There is one refinement within the hedge fund allocation. The sub-asset class, directional hedge funds, which was not a focus for PRIM staff in the past, will be added and sourced from the current hedge fund allocation. The asset allocation framework has confirmed that directional hedge funds would increase the probability of achieving the PRIT Fund's dual mandate. There is no overall change to the hedge fund target allocation and, therefore, no change to the Portfolio Completion Strategies asset class range.

### *Risk – PRIT Fund Benchmark Recommendation*

The PRIM Board approved the unanimous recommendation of PRIM staff and the Investment Committee to change the benchmark weight in the total PRIT Fund benchmark from a fixed, midpoint of range (current) to actual asset class weights in the Fund. The change would (1) address the reality of illiquid investing and inability to precisely match their weights, (2) explicitly recognize that desired allocations of the PRIM asset allocations are ranges, not specific targets and (3) focus PRIM staff on manager selection. This change will not cause a change to PRIM's rebalancing approach as PRIM staff will continue to manage and rebalance asset class weights within target bands.

### Portfolio Completion Strategies (PCS)

The PRIM Board approved the staff and the Investment Committee recommendation (unanimously) to establish a PRIM Co-Investment Program for Portfolio Completion Strategies (PCS) and Other Credit Opportunities (OCO). PRIM staff recommended expanding the existing Private Equity co-investment

framework to include PCS and OCO investment opportunities affording PRIM the ability to upsize manager's best ideas in the portfolio at lower fees.

The PRIM Board approved the following items recommended by the staff and the Investment Committee (unanimously) for the following PCS investment opportunities:

Approved: An initial allocation of up to \$150 million to Serenitas Credit Gamma Strategy Separately Managed Account, subject to satisfactory ongoing contract negotiations. The Strategy seeks to take advantage of inefficient pricing in structured credit markets to generate attractive risk adjusted returns with low net risk to credit spreads and interest rates.

Approved: An initial allocation of up to \$150 million to Fir Tree SPAC Opportunities Separately Managed Account, subject to satisfactory ongoing contract negotiations. The Account seeks to take advantage of inefficient pricing in Special Purpose Acquisition Companies ("SPAC") to generate attractive risk adjusted returns with limited sensitivity to equity and credit markets.

Approved: An additional investment of up to \$50 million to CKC Credit Opportunity in the Emerging Manager Direct Hedge Fund Managed Account.

Approved: An allocation of up to \$500 million to Prudential Agricultural Investments as an investment manager for PRIM's Real Assets portfolio, subject to satisfactory completion of final contractual negotiations.

#### Public Markets

Update: Progress Investment Management Company, LLC (Progress), is a manager-of-managers, specializing in investing with emerging and/or minority or women-owned investment managers. On December 16, 2019, PRIM was notified that Progress intends to wind-down and dissolve its business by May 31, 2020. Progress manages approximately \$333 million (0.4% of the PRIM Fund) in a Core Fixed Income portfolio for PRIM, utilizing five underlying minority and/or women-owned investment managers. PRIM staff is currently conducting due diligence (operational and investment) on each of these five managers to determine which, if any, manager(s) should graduate and manage assets directly for PRIM.

#### Private Equity

PRIM Board that the Board approved the following commitments to funds managed by existing private equity managers: up to \$300 million to Thoma Bravo Fund XIV, L.P. ("Fund XIV"); up to \$150 million to Thoma Bravo Discover Fund III, L.P. ("Discover Fund III"); up to \$60 million to Thoma Bravo Explore Fund, L.P. ("Explore Fund"); up to \$20 million to Index Ventures X (Jersey), L.P. ("Index Ventures X" or "Index X"); up to \$50 million to Index Ventures Growth V (Jersey), L.P. ("Index Growth V" or "Growth V"); and up to \$150 million to Insight Partners XI, L.P. ("Fund XI").

***The Client Services team -- Paul Todisco, Francesco Daniele, and Emily Green – will continue to meet with the retirement boards of PRIM's member retirement systems throughout the year. To schedule a visit, please contact Paul at [ptodisco@mapension.com](mailto:ptodisco@mapension.com), Francesco at [fdaniele@mapension.com](mailto:fdaniele@mapension.com), Emily at [egreen@mapension.com](mailto:egreen@mapension.com), or call 617-946-8401. We look forward to seeing you soon.***