



What is Segmentation?

Over the years, many retirement boards throughout the Commonwealth have requested that the Pension Reserves Investment Management ("PRIM") Board offer an opportunity to invest in separate asset classes of the Pension Reserves Investment Trust ("PRIT") Fund. Until 1997, local Massachusetts retirement systems could invest only in the aggregate PRIT Fund, which meant that money was spread across domestic and international equities, bonds, real estate, and private equity, etc. according to the PRIM Board's asset allocation.

On May 15, 1996, Governor William Weld signed into law Chapter 84 of the Acts of 1996, which explicitly confirms retirement boards' authority to invest in individual asset classes of the PRIT Fund as an alternative to investing in the aggregate Fund. This "*segmentation*" of the PRIT Fund's investment options gives local retirement boards flexibility to pick and choose specific asset classes* in whatever proportions they believe are best suited to their needs.

The PRIM Board implemented **Phase I** of Segmentation on July 1, 1997. Phase I encompassed investments in the following public markets portfolios: Domestic Equity, International Equity, and Core Fixed Income.

On January 1, 1998, the Board implemented **Phase II**, which encompassed investments in the PRIT Fund's Emerging Markets, Core Real Estate, and Vintage Year Private Equity portfolios. In July 2005, the board implemented **Phase III**, which encompassed investments in the PRIT Fund's Hedge Funds, Public Value Added Fixed Income.

*The Private Debt component of the Value- Added Fixed Income Portfolio, the Timberland Portfolio, and certain investments within the Portfolio Completion Strategies (PCS) Portfolio (Risk Premia, Real Assets, and Equity Hedge) are currently unavailable to Massachusetts Retirement Systems through Segmentation.

Segmentation Process

Purchase of Units in the Separate Accounts

Massachusetts General Laws, chapter 32, section 23(2) (b), as amended by Chapter 84 of the Acts of 1996, provides that a retirement board may purchase shares in the PRIT Fund in accordance with the PRIM Board's Declaration of Trust, as amended on September 22, 1998. The statute confirms a retirement board's authority to purchase shares in the separate accounts of the Fund.

Any eligible retirement system that wishes to purchase units within the **Domestic Equity Portfolio**, the **International Equity Portfolio**, the **Core Fixed Income Portfolio**, **Public Value Added Fixed Income**, the **Hedge Funds**, the **Emerging Markets Portfolio** or the **Core Real Estate Portfolio** must do so on the first business day of each month. Any eligible retirement system that wishes to purchase units within the **Hedge Funds Portfolio** must do so on the first business day of each calendar quarter (January 1, April 1, July 1, and October 1). The retirement system must notify the PRIM Board in writing of its decision to purchase any of these investment units no later than five (5) business days prior to the first business day of the month in which the investment units are to be purchased.

Purchases of units in the **Private Equity Vintage Year Portfolio** shall be made only on January 1 each calendar year. Notification by a retirement system of its intention to invest in the **Private Equity Vintage Year Portfolio** must be made by December 31 in the year preceding such vintage year to allow PRIM enough time to establish the Vintage Year Account and to establish the segmented system's account on the custodian's participant recordkeeping system. Please note the following important limitations when considering whether to purchase units in the **Private Equity Vintage Year Portfolio**:

- Units purchased in the **Private Equity Vintage Year Portfolio** will represent an undivided interest in new Private Equity committed to by the PRIM Board during the calendar year in which the units are purchased and not in the existing alternative investment commitments made before that year (or new commitments made after that year). This may result in a lack of diversification.
- The interest represented by the units will be a proportionate share of the PRIT Fund's total new commitments to Private Equity for that calendar year. Annually, PRIM will notify segmented systems investing in Private Equity the range of its estimated dollar commitment to Private Equity for that vintage year. A segmented system's ownership (fixed ratio) will be set on January 1 and that ratio will not change over the life of the vintage year account, even if PRIM falls short of or exceeds its annual commitment target. The fixed ratio is the percentage of the segmented system's commitment to the Private Equity Vintage Year Portfolio in relation to the upper end of the PRIM Board's total target commitment to Private Equity during that vintage year. Purchasers of these Units (i.e., segmented systems) should bear in mind that several years may pass before the full amount is actually invested in Private Equity. This is because commitments to alternative investment partnerships typically are drawn down by the general partner in a series of funding calls that coincide with the rate at which the general partner is able to identify and make suitable investments. In addition, there is no guarantee that the general partner will draw down 100% of committed capital. A segmented system shall make "drawdowns" to the "Vintage Year" account that coincides with the capital calls PRIM receives from the general partner. A segmented system will receive a monthly draw down notice in arrears. When billed monthly in arrears, the segmented system will pay interest (at PRIM's cost of funds rate) on its contribution for the several week lag period until such system actually funds a draw down.
- As discussed below in "Payments and Withdrawals from the Separate Accounts," amounts invested in the **Private Equity Vintage Year Portfolio** cannot be withdrawn until (and then only to the extent that) the portfolio is liquidated. This is not expected to be completed until 10-15 years after the date the Units are purchased.

Separate account investments are subject to all the provisions of the *Commonwealth of Massachusetts, Pension Reserves Investment Management ("PRIM") Board, Operating Trust*, as on September 22, 1998 as amended from time to time (the "Operating Trust").

Payments and Withdrawals of Units from the Separate Accounts

Requests for payments and withdrawals from the **Domestic Equity Portfolio**, the **International Equity Portfolio**, **Core Fixed Income Portfolio**, **Public Value Added Fixed Income**, the **Emerging Markets Portfolio**, the **Core Real Estate Portfolio** or **Hedge Funds Portfolio** shall be made in accordance with Article 4, Section 7, paragraph (d) of the Operating Trust, which provides that each purchasing system may from time to time make requests of the PRIM Board for payments and withdrawals. The trustees

shall approve or deny such request within thirty (30) days of receipt of such request. If approved, distribution of the requested amount will be made on the next Valuation Date of the fund from which the withdrawal is being made. The Board may only deny such request if there is insufficient liquidity in the Fund. A partial or full liquidation of units shall be exchanged in cash.

In the case of the **Hedge Funds Portfolio**, payments and withdrawals shall be made on first business day of each calendar quarter (January 1, April 1, July 1, and October 1).

In the case of the **Core Real Estate Portfolio**, please be advised that the managers during the life of the investment determine the net asset value ("NAV") of these investments. Early withdrawal from the **Core Real Estate Portfolio** may be at a discount to the underlying value of the portfolio. PRIM shall not be held responsible for any variances in NAV if a Purchasing Retirement System withdraws early from the **Core Real Estate Portfolio** prior to the sale of any one, or all properties, held by the managers when such System participated in said Account.

In the case of the **Private Equity Vintage Year Portfolio**, the Board will not accept requests for payments and withdrawals unless and until the investments in the portfolio have been liquidated in cash. To the extent that partial liquidity exists, the Board will accept requests for payments only to the extent of a participant's proportionate interest in that portfolio. The typical horizon for liquidation of an alternative investment partnership of the type in which the PRIT Fund invests is 10-15 years. Accordingly, any purchasing system which contemplates an investment in the **Private Equity Vintage Year Portfolio** must be prepared to commit that investment in full for a period of 10-15 years, and possibly longer.

Allocation of Expenses

Expenses for management of each separate account shall be allocated in accordance with Article 3, Section 4, paragraph (b) of the Operating Trust. Expenses shall be classified in the three categories: (1) management fees, (2) targeted consultant fees and (3) operational fees. Management fees shall be those fees directly associated with the investment management of a certain investment account. Targeted consultant fees shall be those fees that are directly associated with a consultant for a certain account, except for the general fund consultant, whose fee shall be assessed on a proportionate basis across each separate account. Operational fees shall be those "overhead" costs associated with the total operations of the PRIM Board and the PRIT Fund and shall be assessed on a proportionate basis (by assets) across each investment account.

Allocation of Income

Income earned in each separate account shall be allocated to a Purchasing Retirement System based upon such system's percentage of unit ownership in each Account. Allocation of income shall be in accordance with all applicable provisions of the Operating Trust.

Declaration of Trust

Investment in the PRIT Core is subject to the provisions of the *Commonwealth of Massachusetts, Pension Reserves Investment Management* ("PRIM") Board, Operating Trust, as on September 22, 1998, as amended from time to time (the "Operating Trust").

PERAC

There is no statutory provision requiring a retirement system to seek a waiver from the Public Employee Retirement Administration Commission ("PERAC") to invest in the PRIT Core.

Further Information

Please call PRIM's Senior Client Service Officer, Paul Todisco, at (617) 946-8423, or Francesco Daniele, at (617) 946-8416 if you would like any additional information about investing in the PRIT Core or the available segmented portfolios (domestic, international equity, emerging markets equity, core fixed income, public value added fixed Income, core real estate, private equity vintage year, and hedge funds portfolios).

The PRIT Core described herein is offered to eligible local retirement systems in reliance upon an exemption from registration under federal and state securities law. Therefore, this document is not part of a registration statement filed under the federal securities laws and is not subject to the detailed requirements that govern such documents. Although the information contained in this document is believed to be correct, it does not purport to be complete. Prospective investors are urged to consult their legal and financial advisors when considering an investment in the PRIT Core.