



Minutes of the PRIM Administration and Audit Committee Remote Meeting  
Thursday, May 7, 2020

Committee members attending:

- Robert Brousseau, Chair
- Treasurer Deborah Goldberg
- Patrick Brock
- Karen Gershman, CPA
- Eileen Glovsky
- James Hearty
- Theresa McGoldrick, Esq.
- Dennis Naughton
- Michele Whitham, Esq.

Committee members not attending:

- Joseph Connolly

The PRIM Administration and Audit Committee meeting was called to order at 10:20 a.m. Chair Robert Brousseau announced that the meeting was being held by internet and telephone in accordance with the provisions of the Governor's March 12, 2020 Order that allows remote participation by all members of a public body and suspends the requirement that a quorum and the chair be physically present, provided that the public has access to the meeting through technology that enables the public to clearly follow the proceedings while they are occurring. Accordingly, all members of the Committee participated remotely via telephone and/or internet enabled audio and video conferencing, and public access to the deliberations of the Committee was likewise provided via telephone.

**I. Approval of the Minutes (Voting Item)**

The PRIM Administration and Audit Committee approved by roll call vote the minutes of its October 31, 2019 meeting. Karen Gershman, CPA, Eileen Glovsky, Theresa McGoldrick, Esq., and Michele Witham, Esq. indicated they were not present for the October 31, 2019 meeting and therefore chose to abstain. Each of the other members attending voted by roll-call vote to approve.

The PRIM Administration and Audit Committee then unanimously approved by roll call vote the minutes of its February 6, 2020 meeting.

**II. Executive Director / Chief Investment Officer Comments**

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, made comments to the Committee, including:

**Organizational Update**

Mr. Trotsky welcomed members, guests and staff to the Administration and Audit Committee meeting and stated that PRIM is 100 percent fully functional, with all employees able to work remotely, and all functions fully operating. Mr. Trotsky asked the Committee to please join him in welcoming Elizabeth (Beth) Herlihy to PRIM as Director of Communications who started on May 1. PRIM is very excited to have her join, especially at a time when good communications are so important and so challenging. Ms. Herlihy brings extensive communications experience, having served as Head of Marketing Communications at AEW Capital Management for 12 years. Since leaving AEW in 2016 to attend graduate school full time,

Ms. Herlihy has worked as a marketing communications consultant. Her most recent assignment was with Advent International in Boston. Ms. Herlihy has more than 20 years of experience in strategic marketing, public relations, branding, investor communications, and business development. Ms. Herlihy holds a Bachelor's degree in Political Science from the University of Vermont and a Master's of Fine Arts in Creative Writing from Emerson College. Mr. Trotsky continued, Ms. Herlihy will report directly to me and we are very excited to have her join.

### **III. Interim Meeting with PRIM Board Auditors**

Anthony Falzone, Chief Operating Officer, introduced Brock Romano, KPMG's Lead Engagement Audit Partner, Christine St. Hilaire, KPMG's Managing Director, and Will Belden, KPMG's Audit Manager. Mr. Falzone stated that KPMG was mainly there to discuss the audit plan for the Fiscal Year 2020 PRIM and PRIT Audits, and the plan for the agreed upon procedures review of PRIM's procurement processes and performance benchmarks.

Mr. Falzone provided an overview of the December 31, 2019 year end audits for the following alternative asset classes.

- The entire PRIT real estate portfolio
  - Six core private real estate accounts, non-core real estate, and REIT's
- PRIT's two timberland portfolios
- PRIT's 20 directly managed separate accounts
  - PRIT's 18 directly managed hedge fund portfolios
  - PRIT's two other credit opportunities portfolio
- PRIT's sole agricultural portfolio

Mr. Falzone mentioned that he appreciates the partnership PRIM has with KPMG and reiterated the amount of complexity involved in auditing these separate accounts, particularly the separately managed hedge fund accounts, where the assets are more esoteric and harder to price/value.

Mr. Romano, Ms. St. Hilaire and Mr. Belden updated the Committee on the audit plan, which includes the KPMG team and the planned test work for the June 30, 2020, audits of PRIM and the PRIT Fund.

Mr. Romano highlighted the status of the calendar year-end separate audits of the PRIT Core Realty, Timberland, Agriculture and Portfolio Completion Strategies audits, noting that all issued separate audits contained unmodified opinion and of the remaining audit(s), there were no matters that needed the attention of the Committee.

Mr. Belden provided a high-level overview of the planned audit approach for the June 30, 2020 PRIM and PRIT audits.

Ms. St. Hilaire highlighted that KPMG was anticipating some additional valuation procedures related to PRIT's non-marketable investments due to the market disruption of COVID-19.

### **IV. Draft Fiscal Year 2021 Operating Budget (Voting Item)**

Mr. Falzone and Deborah Coulter, CPA, Chief Financial Officer, presented the Draft Fiscal Year 2021 PRIM Operating Budget. Mr. Falzone and Ms. Coulter thanked Daniel Eckman, CPA, Director of Finance & Administration, Sara Coelho, Senior Corporate Accountant, and the rest of the team for its work on the proposed budget.

Mr. Falzone stated that the total Fiscal Year 2021 Budget is projected to be \$431.5 million, or 55.0 basis points (bps), of the projected average PRIT Fund assets of \$78.5 billion. PRIM's fees and expenses relate directly to PRIT Fund assets, and that higher average asset levels, and/or a larger allocation to more

complex/costly assets, results in higher costs, and as a result, the Fiscal Year 2021 Operating Budget is 1.6% (\$6.7 million) larger than last year. Mr. Falzone noted that the budget projections do not include the valuation impact of the downturn in the markets as the March 31, 2020 performance reporting was not finalized at the time the budget was being finalized.

Mr. Falzone explained the budget is comprised of 3 sections: Investment Management Fees, Third-Party Service Providers, and Operations. Investment Management Fees account for approximately 91.1% of the total budget. These fees are paid to investment managers to invest the assets of the PRIT Fund. These fees are grouped by asset class. The PRIT Fund's asset allocation mainly drives the cost allocation.

Mr. Falzone described the relationship between PRIM's asset allocation and PRIM's budget allocation. He noted that the size of any one asset class does not directly relate to the size of the expense. For example, the Global Equities target asset allocation range is 34-44% of the PRIT Fund--the largest asset class--yet its management fees make up only 18% of the total budget. This is due to the use of passive management for much of the Global Equities portfolio, which is relatively inexpensive to implement. Contrast that with Private Equity, PRIM's highest-returning asset class, that with an allocation range of 10-16% is an expensive asset class, and management fees for Private Equity requires 31% of our FY 2021 budget to implement it successfully.

Mr. Falzone went on to explain that this budget projection is based on continued projected asset growth, using NEPC's 10-year growth assumptions (6.2%), however future performance is not predictable, so PRIM's actual fees will likely vary, but PRIM's budget projection provides a very good approximation of projected expenses. He also mentioned that no performance fees, incentive fees or carried interest are projected in this budget, as it is extremely difficult to estimate future performance.

Mr. Falzone reviewed the next section of the budget as Third-Party Service Providers, which includes the projected fees for all of PRIM's advisers, consultants, custodian, audit, tax, legal, risk, and investment analytics tools. These fees sum to \$19.3 million or 4.5% of the total budget.

Mr. Falzone noted the last section of the budget is PRIM's Operations and includes expenses for PRIM staff compensation and benefits, rent, insurance, office supplies, computers, and technology, along with other goods and services necessary to run PRIM. The Operations budgeted fees amount to approximately \$18.9 million or 4.4% of the total budget.

Ms. Coulter discussed the three sections of the budget in more detail, highlighting key changes year-over-year. She explained that the Investment Management Fees section is increasing 1.2%. She noted that Project Save is embedded in all aspects of PRIM's business, but especially in the area of investment management fees. Over the past few years, assets have been moved to lower-fee types of structures such as separately managed accounts in the PCS portfolio, co-investments in Private Equity and direct investments in Real Estate. She noted that the Third-Party Service Providers section of the budget was increasing due to fees for additional analytical tools and new research initiatives. In addition, this section increased to reflect fees for PRIM's new operational due diligence (ODD) provider. The last section of the budget, Operations Expenses, increased mainly due to changes in the Compensation and Benefits section as a result of projected new hires outlined in PRIM's annual plans.

Karen Gershman, CPA requested additional information on the research and ODD line items in the budget. Ms. Coulter explained that the budget item for research includes new initiatives discussed at the PRIM Board retreat in December, along with the cost for additional data tools and market data needed to support the Research Team, managed by Maria Garrahan, Senior Investment Officer & Director of Research. Ms. Coulter then explained that PRIM had issued an RFP for ODD services last year to find a service provider to help expand that process and create a holistic approach which would standardize the ODD process across all asset classes.

Dennis Naughton inquired regarding the impact of the current environment, where no one is really traveling, and the ability to perform due diligence. Ms. Coulter mentioned that there was no increase to the travel budget line item to account for a decrease in travel. Mr. Falzone mentioned that PRIM's ODD service provider, Albourne, is the leader in the space and has a diligence book on most institutional managers. ODD is still being performed via Zoom calls and questionnaires, but onsite visits are currently on hold. If a new manager is brought forward that PRIM is not familiar with, it would be difficult to recommend investing with them without PRIM and/or Albourne having completed an onsite visit.

Eileen Glovsky asked if the technology budget could be impacted by what may be a prolonged remote work environment? Mr. Falzone mentioned that PRIM was ahead of the curve, and that the infrastructure enabling all of PRIM to work remotely was in place prior to the COVID-19 pandemic, and other than potentially increasing the number of video conference licenses, he doesn't anticipate that having a prolonged remote workforce would materially impact the technology budget. He added that if something does come up, PRIM could utilize the additional budget allocated for miscellaneous IT projects.

The Administration and Audit Committee voted (unanimously) via roll call vote to recommend to the PRIM Board that the Board approve the Draft Fiscal Year 2021 PRIM Operating Budget, as set forth at Appendix F of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

#### **V. Recommendations From 2019 PRIM Board Self-Evaluation**

Mr. Falzone reminded the Committee that at the February 6, 2020 PRIM Administration and Audit Committee meeting, and the February 26, 2020 PRIM Board meeting, the results of the 2019 PRIM Board Self-Evaluation were presented and discussed. Historically PRIM staff's practice has been to look at the recommended actions in that report and offer a response. This PRIM staff response, attached as Appendix G, will be provided to the PRIM Board at its next meeting on May 21, 2020.

#### **VI. Legal/Legislative Update**

PRIM's General Counsel indicated there were no significant updates to provide on legal and legislative matters.

#### **VII. Other Matters:**

The Committee members briefly discussed the following topics:

- a. March 2020 PRIM budget
- b. Travel Report
- c. Client Service Update

Mr. Trotsky stated that feedback received from the 2019 PRIM Board Self-Evaluation included a request for additional Client Services updates on a regular basis, and accordingly Mr. Trotsky asked Paul Todisco, Senior Client Services Officer, to provide the Committee with a Client Services update.

Mr. Todisco noted that there are currently 98 entities that invest in the PRIT Fund. In addition to Chapter 32 public employee retirement systems, other government entities legally allowed to invest in the PRIT Fund are: the State Retiree Benefits Trust Fund (SRBTF – the Commonwealth's Other Post-Employment Benefits (OPEB) liability fund), the Massachusetts State College Building Authority (MSCBA), and the MBTA Retirement Fund.

Mr. Todisco stated that the PRIM Investors' Advisory Council met on Monday, March 9, 2020, a week before the stay at-home advisory was issued by the Governor. Because of the stay-at-home advisory issued in mid-March, and subsequently extended through May 18, the Client Services team has been staying connected remotely with its member retirement systems and OPEB participants. Client

meetings scheduled for March, April, and May have either been postponed or conducted via conference call, GoToMeeting, or Zoom. Six such meetings were conducted during the month of April. The Client Services team has been meeting via GoToMeeting on a biweekly basis and has been in daily contact with each other via e-mails, texts, and telephone calls. Michael Trotsky participated in the April 24<sup>th</sup> GoToMeeting Client Services team call, as he has been doing with other PRIM teams.

In order to address client inquiries and requests from member systems regarding the market volatility that occurred in the first quarter of calendar year 2020, the Client Services team distributed the PRIM Board Quarterly Update for the Fourth Quarter 2019 letter on March 19, which included up-to-date commentary from Michael Trotsky, and a link to his webcast located on the PRIM website that addressed the recent market volatility. Mr. Todisco pointed out that as a benefit to our member and non-member retirement systems, PERAC posted the webcast on its website and is awarding three continuing educational credits to retirement board members who view the webcast.

He also reported that all client cash requests have gone smoothly and seamlessly, especially the numerous cash transactions that occurred on the first business day of April, which was the first time this was done while working remotely, and, most recently, on the first business day of May. PRIM has not identified any system experiencing liquidity problems, and we continue to communicate with them and meet with them virtually to ensure PRIM supports their needs.

All PRIT and SRBTF participants and the investment consultants that advise most of PRIM's Segmented Systems were invited to call-in to the Interim Investment Committee meeting held on April 22, 2020, and the regular meeting of the Investment Committee held on May 5, 2020. Mr. Todisco was also pleased to announce that during the volatile first quarter of 2020, the Town of Adams Retirement Board followed through with the decision it made in December 2019 to transfer all its asset to the PRIT Fund as a full Purchasing System and he thanked the Adams Retirement Board for its commitment and confidence in PRIM.

During the last week of April, the Client Services team distributed the required GASB 67 and 68 information to its participants.

The PRIM Administration and Audit Committee meeting adjourned at 11:20 a. m.

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

- *Minutes of the PRIM Administration and Audit Committee Meeting of October 31, 2019*
- *Minutes of the PRIM Administration and Audit Committee Meeting of February 6, 2020*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *KPMG Fiscal Year 2020 Audit Plan*
- *Draft Fiscal Year 2021 Operating Budget*
- *Recommendations From 2019 PRIM Board Self-Evaluation*
- *March 2020 PRIM Operating Budget*
- *Travel Report*