



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**

FISCAL YEAR 2021 OPERATING BUDGET

As Approved by the PRIM Board

May 21, 2020

**Deborah B. Goldberg, Chair
Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer**

BUDGET DISCUSSION

The Pension Reserves Investment Management (PRIM) Board's fiscal year (FY) 2021 Operating Budget reflects the investment management, advisory, and operational costs necessary to implement, measure, and monitor the approximated \$78.5 billion in investments of the Pension Reserves Investment Trust (PRIT) Fund.

Budget Highlights

The projected FY 2021 budget of \$431.5 million is 55 basis points (bps) of projected average PRIT Fund assets (\$78.5 billion), a \$6.7 million, or 1.6%, budget increase from the prior year. As is our custom, budgeted expenses for FY 2021 are conservative and foresee continued asset growth. Actual expenses incurred may vary because most expenses are a function of asset levels and investment performance is not predictable.

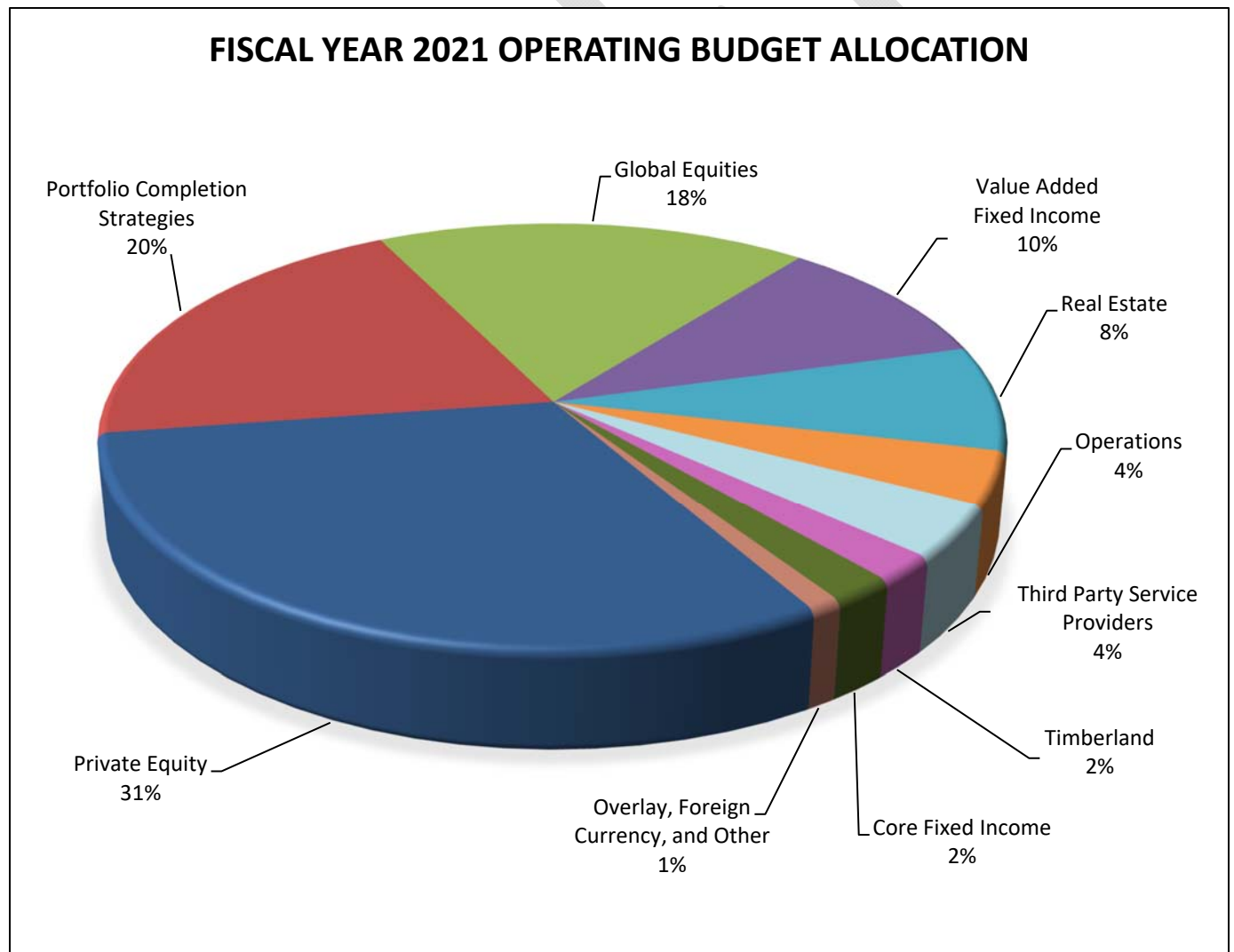
Investment Management Fees and Third-Party Service Providers comprise \$412.6 million, or 95.6%, of the projected total budget. Investment Management Fees increased by \$4.5 million, or 1.2%, due primarily to a projected growth in assets. Projected costs for Third-Party Service Providers increase by \$1.1 million, or 6.0%, mainly due to support of new initiatives.

Operations comprise \$18.9 million, or 4.4%, of the total budget. Operations increases by \$1.2 million, or 6.5%, due primarily to a projected increase in staff size.

The PRIT Fund’s current target asset allocation ranges, approved in February 2020, are as follows:

Asset Class	Range
Global Equity	34 - 44%
Core Fixed Income	12 - 18%
Value Added Fixed Income	5 - 11%
Private Equity	10 - 16%
Real Estate	7 - 13%
Timberland	1 - 7%
Portfolio Completion Strategies	8 - 14%

Based on these target asset allocation ranges, PRIM’s Fiscal Year 2021 Operating Budget allocation is projected to be as follows:



PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Fiscal Year 2021 Budget Summary

	<u>FY21</u> <u>(bps)#</u>	<u>FY20</u> <u>(bps) #</u>	<u>FY 2021</u>	<u>FY 2020</u>
<u>Investment Management Fees ^</u>				
Global Equities	24.6	24.7	79,412,000	78,500,000
Core Fixed Income	5.3	7.2	6,567,500	6,835,000
Value Added Fixed Income	71.0	73.5	41,260,000	45,410,000
Real Estate	49.9	49.4	37,151,500	35,265,000
Timberland	26.9	25.1	7,600,000	7,450,000
Private Equity	150.1	142.4	135,100,000	122,100,000
Portfolio Completion Strategies (PCS)	105.7	113.4	84,510,000	90,770,000
Overlay, Foreign Currency, and Other	21.8	29.8	1,745,000	2,515,000
	50.1	51.8	393,346,000	388,845,000
<u>Third-Party Service Providers</u>				
Custodian	0.2	0.2	1,690,000	1,660,000
General	0.2	0.2	1,630,000	1,190,000
Real Estate & Timberlands	2.5	2.5	2,550,000	2,520,000
Public Markets	0.2	0.2	1,100,000	1,100,000
Private Equity	2.1	2.2	1,900,000	1,900,000
Portfolio Completion Strategies	8.9	9.2	7,080,000	7,375,000
Research	0.1	-	650,000	-
Audit & Tax	0.1	0.1	447,000	447,000
Legal	0.1	0.1	475,000	475,000
Governance	0.0	0.0	265,000	305,000
Risk Measurement and Investment Analytics	0.2	0.2	1,500,000	1,230,000
	2.5	2.4	19,287,000	18,202,000
<u>Operations</u>				
Compensation & Employee Benefits	2.0	1.9	15,554,000	14,393,000
Occupancy	0.2	0.2	1,250,000	1,200,000
Insurance	0.1	0.1	440,000	425,000
General Office Expenses	0.0	0.0	365,000	310,000
Computer & MIS Expenses	0.1	0.1	765,000	690,000
Travel, Prof. Develop, Dues & Subscriptions	0.1	0.1	457,000	452,000
Client Service	0.0	0.0	74,000	74,000
PRIM Board Elections	-	0.0	-	200,000
	2.4	2.4	18,905,000	17,744,000
Total Operating Budget	55.0	56.6	431,538,000	424,791,000

Basis points (bps) for Investment Management Fees are calculated by dividing the budgeted fees by the estimated assets under management (AUM) for each asset class. Basis points for Advisory Services for Real Estate & Timberlands, Public Markets, Private Equity, and PCS are also calculated based upon each asset classes estimated AUM. For all other expenses, the bps are calculated based upon the total PRIT Fund AUM, which is estimated to be \$78.5 billion and \$75 billion for FY21 and FY20 respectively.

^ No investment performance, incentive, or carried interest fees are budgeted.

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Fiscal Year 2021 Operating Budget

Global Equities

<u>Domestic Equity</u>	<u>FY 2021</u>	<u>FY 2020</u>
SSgA (S&P 500 Index)	810,000	800,000
SSgA (Russell 2500 Index)	155,000	150,000
Frontier	2,800,000	2,600,000
Riverbridge	1,700,000	1,380,000
Summit Creek	3,200,000	2,800,000
GSAM – Domestic Enhanced Equity	17,000,000	14,500,000
Potential U.S. Micro Cap Manager(s)	-	200,000
Acadian	210,000	200,000
Brandywine	850,000	800,000
Lord Abbett	870,000	770,000
Driehaus	870,000	800,000
	<u>28,465,000</u>	<u>25,000,000</u>
<u>International Equity</u>		
SSgA (World Ex-US Index)	402,000	410,000
Marathon	8,300,000	8,500,000
Baillie Gifford	5,900,000	5,200,000
Mondrian Investment	3,300,000	3,100,000
The FIS Group	880,000	800,000
Acadian	1,750,000	1,650,000
AQR	1,050,000	1,000,000
LMCG	350,000	320,000
Strategic Global	760,000	720,000
TimesSquare	1,450,000	1,450,000
Potential International Equity Hedge Manager	-	5,000,000
	<u>24,142,000</u>	<u>28,150,000</u>
<u>Emerging Markets Equity</u>		
Acadian	2,535,000	2,400,000
Wasatch	1,500,000	1,200,000
Acadian (Frontier)	1,950,000	1,800,000
Baillie Gifford	4,900,000	4,400,000
City of London **	1,060,000	1,150,000
Driehaus	3,400,000	3,000,000
Harding Loevner	3,010,000	3,000,000
Pzena	5,230,000	5,300,000
AQR (Performance Fees Only) ^	-	-
T. Rowe Price	3,220,000	3,100,000
	<u>26,805,000</u>	<u>25,350,000</u>
<u>Total Global Equities</u>	<u>79,412,000</u>	<u>78,500,000</u>

** This portfolio invests in closed-end and commingled funds. Budgeted fees exclude the costs of underlying closed-end and commingled funds, which charge average fees ranging from 1% to 2% of net assets under management.

^ No investment performance, incentive, or carried interest fees are budgeted.

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	<u>Core Fixed Income</u>	
	<u>FY 2021</u>	<u>FY 2020</u>
Blackrock (BA Index)	170,000	150,000
Blackrock (TIPS Index)	240,000	270,000
Blackrock (ILB)	1,135,000	1,100,000
Blackrock (STRIPS Index)	272,000	275,000
Blackrock Short Term FI	125,000	200,000
PIMCO	1,323,000	1,300,000
Loomis Sayles	1,800,000	1,750,000
Community Capital	130,000	120,000
AFL-CIO *	180,000	200,000
Access Capital	340,000	320,000
Progress	-	1,150,000
Longfellow	275,000	-
New Century	275,000	-
Pugh	302,500	-
<u>Total Core Fixed Income</u>	<u>6,567,500</u>	<u>6,835,000</u>

	<u>Value-Added Fixed Income</u>	
Fidelity	1,340,000	1,260,000
Loomis Sayles	1,900,000	1,830,000
Shenkman	1,430,000	1,350,000
Eaton Vance *	3,700,000	5,200,000
Voya *	3,020,000	3,000,000
PIMCO	1,370,000	1,280,000
Ashmore *	3,300,000	3,500,000
Investec	-	1,350,000
Pictet	-	1,360,000
Stone Harbor	-	880,000
Private Debt – Various Managers *	18,700,000	20,000,000
Other Credit Strategies – Various Managers*	6,500,000	4,400,000
<u>Total Value-Added Fixed Income</u>	<u>41,260,000</u>	<u>45,410,000</u>

* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

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Real Estate

<u>REITs</u>	<u>FY 2021</u>	<u>FY 2020</u>
CenterSquare	3,044,000	3,000,000
Brookfield	3,150,000	3,320,000
Presima	-	590,000
	<u>6,194,000</u>	<u>6,910,000</u>
 <u>Core Strategy</u>		
AEW *	7,000,000	7,200,000
INVESCO *	9,500,000	7,500,000
LaSalle *	6,300,000	6,000,000
CBRE Global Investors*	1,600,000	2,000,000
Stockbridge Advisors*	1,800,000	2,000,000
DivcoWest Core*	1,000,000	1,000,000
	<u>27,200,000</u>	<u>25,700,000</u>
 <u>Non - Core Strategy</u>		
Various Managers *	3,750,000	2,650,000
New Boston Fund *	7,500	5,000
	<u>3,757,500</u>	<u>2,655,000</u>
 <u>Total Real Estate</u>	 <u>37,151,500</u>	 <u>35,265,000</u>

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Timberland

	<u>FY 2021</u>	<u>FY 2020</u>
Forest Investment Associates *	2,800,000	2,500,000
Campbell Group *	4,800,000	4,950,000
<u>Total Timberland</u>	<u>7,600,000</u>	<u>7,450,000</u>

Private Equity

Various Managers *	135,100,000	122,100,000
<u>Total Private Equity</u>	<u>135,100,000</u>	<u>122,100,000</u>

* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

Portfolio Completion Strategies (PCS)

	<u>FY 2021</u>	<u>FY 2020</u>
Replication Strategies	180,000	170,000
PAAMCO – Hedge Fund-of-Funds * <	4,730,000	6,600,000
Direct Hedge Funds*	60,500,000	60,000,000
Emerging Manager Program	2,600,000	4,000,000
Risk Premia *	-	5,000,000
Real Assets *	16,500,000	15,000,000
<u>Total PCS</u>	<u>84,510,000</u>	<u>90,770,000</u>

Overlay, Foreign Currency and Other

Parametric (Overlay)	435,000	415,000
Russell (Foreign Currency)	410,000	450,000
Private Natural Resources Wind-Down *	900,000	1,650,000
<u>Total Overlay, Foreign Currency and Other</u>	<u>1,745,000</u>	<u>2,515,000</u>

* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

< Excludes costs of underlying hedge funds, which charge average fees ranging from 1% to 2% of net assets under management, plus performance fees of up to 20% of excess returns. These costs are embedded in net hedge fund performance and grow in proportion to the assets under management.

Third-Party Service Providers

<u>Custody</u>	<u>FY 2021</u>	<u>FY 2020</u>
Master Custody Services	1,500,000	1,500,000
OTC Valuation	130,000	100,000
GASB Reporting and Other	60,000	60,000
	1,690,000	1,660,000

<u>General</u>		
Asset Allocation	225,000	225,000
Operational Due Diligence	415,000	-
Information Technology	360,000	360,000
Legislative Restrictions & Benchmarking	175,000	150,000
Communications	125,000	125,000
Compensation and Human Resources	130,000	130,000
Other	100,000	100,000
Compliance	100,000	100,000
	1,630,000	1,190,000

<u>Real Estate and Timberlands</u>		
Real Estate and Timberlands	1,100,000	1,070,000
Debt Compliance and Reporting	350,000	350,000
Direct Investment Advisory & Other Advisory Projects	1,100,000	1,100,000
	2,550,000	2,520,000

<u>Public Markets</u>		
Public Markets Advisor	800,000	950,000
Public Markets - Other	300,000	150,000
	1,100,000	1,100,000

<u>Private Equity</u>		
Private Equity Advisor	1,500,000	1,500,000
Private Equity - Other	400,000	400,000
	1,900,000	1,900,000

<u>Portfolio Completion Strategies</u>		
Portfolio Completion Strategies Advisor	1,000,000	1,350,000
Managed Account Platform Provider	5,700,000	5,700,000
PCS - Other	380,000	325,000
	7,080,000	7,375,000

Third-Party Service Providers (continued)

<u>Research</u>	<u>FY 2021</u>	<u>FY 2020</u>
Research Tools	650,000	
	650,000	-
<u>Audit and Tax</u>		
Annual Financial Statement Audits^	285,000	285,000
Agreed-Upon Procedures	62,000	62,000
Tax Services & Other	100,000	100,000
	447,000	447,000
<u>Legal</u>		
Outside Counsel	475,000	475,000
	475,000	475,000
<u>Governance</u>		
Proxy Voting Services	200,000	185,000
Council of Institutional Investors	35,000	35,000
Board Education	20,000	20,000
Advisory Services and Other	10,000	65,000
	265,000	305,000
<u>Risk Measurement and Analytics</u>		
Risk Measurement Systems	850,000	750,000
Investment Tools and Analytics	650,000	480,000
	1,500,000	1,230,000
<u>Total Third-Party Service Providers</u>	19,287,000	18,202,000

^Additional audit fees are incurred and are charged directly to the investments.

*Pension Reserves Investment Management Board
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Operations

Compensation & Employee Benefits

	<u>FY 2021</u>	<u>FY 2020</u>
Full-Time Staff (including vacant positions)	15,200,000	14,100,000
Dental and Vision	9,000	9,000
Disability	70,000	65,000
Medicare Tax	210,000	200,000
Miscellaneous	65,000	19,000
	<u>15,554,000</u>	<u>14,393,000</u>

Occupancy

Lease	1,170,000	1,120,000
Utilities	60,000	60,000
Leasehold Improvements and Other	20,000	20,000
	<u>1,250,000</u>	<u>1,200,000</u>

Insurance

Fiduciary	285,000	285,000
Business Insurance Policies	35,000	30,000
Workers Compensation	20,000	10,000
Errors & Omissions	100,000	100,000
	<u>440,000</u>	<u>425,000</u>

General Office Expenses

Printing, Postage, and Courier	95,000	95,000
Payroll / Employee Timesheets / HRIS	65,000	30,000
Meeting Expenses and Stenographer	30,000	25,000
Records Storage	25,000	20,000
Office Supplies, Equipment, and Other	100,000	120,000
Temporary Labor	50,000	20,000
	<u>365,000</u>	<u>310,000</u>

Computer & MIS Expenses

Hardware & Software	425,000	360,000
Support and Development	235,000	225,000
MIS Other / ISP & Remote Access	105,000	105,000
	<u>765,000</u>	<u>690,000</u>

Pension Reserves Investment Management Board
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Operations (continued)

<u>Travel, Prof. Development & Dues and Subscriptions</u>	<u>FY 2021</u>	<u>FY 2020</u>
Due Diligence Travel	215,000	215,000
Professional Development	132,000	132,000
Professional Dues and Subscriptions	110,000	105,000
	<u>457,000</u>	<u>452,000</u>
<u>Client Service</u>		
Meetings and Conferences	30,000	30,000
Auto Mileage & Parking	24,000	24,000
Printing	20,000	20,000
	<u>74,000</u>	<u>74,000</u>
<u>Board Elections</u>		
PRIM Board Members' Elections	-	200,000
	<u>-</u>	<u>200,000</u>
<u>Total Operations</u>	<u>18,905,000</u>	<u>17,744,000</u>

OPERATING BUDGET NARRATIVE

The Fiscal Year (FY) 2021 Operating Budget is presented in three broad expense categories:

- Investment Management Fees
- Third-Party Service Providers
- Operations

Investment Management Fees:

PRIM employs professional investment managers and gives them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment management fees are the fees paid to these investment managers for their services. Each investment manager operates under a contract (generally an investment management agreement or a partnership agreement) that delineates its responsibilities and appropriate performance expectations. Budget projections for investment management fees are based on the following factors and year-to-year budget fluctuations reflect changes to one or more of these factors:

- The PRIT Fund asset allocation
- Assets under management (AUM)
- Contractual fee schedules
- Capital commitments

No performance fees, incentive fees, or carried interest are included in this budget due to the difficulty in estimating these fees in advance.

Third Party Service Providers:

PRIM employs third-party service providers to support the PRIM Board, committees and staff to manage the PRIT Fund. Budget projections for third-party service providers are generally estimated based upon current service contracts and estimated future potential services.

Operations:

Operations expenses are projected based on current expenses and strategic initiatives that are deemed to be both probable and estimable.

Investment Management Fees

Global Equities

Global Equities is comprised of Domestic Equity, International Equity and Emerging Markets Equity.

Domestic Equity

The total Domestic Equity fee budget of \$28.5 million, increases \$3.5 million, or 14.0%, in FY 2021 due primarily to an increase in assets in the Domestic Enhanced Equity strategy.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom S&P 500 Index	Passive	Net Asset Value (NAV)
SSgA	Custom Russell 2500 Index	Passive	NAV
Frontier	Custom Russell 2000 Value	Active	NAV
Riverbridge	Custom Russell 2500 Growth	Active	NAV
Summit Creek	Custom Russell 2000 Growth	Active	NAV
GSAM	CustomHedgedS&P500Index	Active	NAV
Acadian	Custom Russell Microcap	Active	NAV and Performance
Brandywine	Custom Russell Microcap	Active	NAV
Lord Abbett	Custom Russell Microcap	Active	NAV
Driehaus	Custom Russell Microcap	Active	NAV

International Equity

The total International Equity fee budget of \$24.1 million, decreases by \$4.0 million, or (14.2%), in FY 2021 mainly due to not funding the International Equity Hedge strategy budgeted in FY 2020.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom World-Ex US Index	Passive	NAV
Marathon	Custom MSCI EAFE	Active	NAV
Baillie Gifford	Custom MSCI EAFE	Active	NAV
Mondrian	Custom MSCI EAFE	Active	NAV
The FIS Group	Custom MSCI EAFE	Active	NAV
Acadian	Custom MSCI EAFE – SC	Active	NAV
AQR	Custom MSCI EAFE – SC	Active	NAV
LMCG	Custom MSCI EAFE – SC	Active	NAV
Strategic Global Advisors	Custom MSCI EAFE – SC	Active	NAV
TimesSquare	Custom MSCI EAFE – SC	Active	NAV

Emerging Markets Equity

The total Emerging Markets Equity fee budget of \$26.8 million, increases \$1.5 million, or 5.7%, in FY 2021. This is mainly due to a projected increase in NAV.

Manager	Mandate	Active/ Passive	Fee Type
Acadian	EM Small Cap	Active	NAV
Wasatch	EM Small Cap	Active	NAV
Acadian	Frontier	Active	NAV
Baillie Gifford	Emerging Markets	Active	NAV
City of London	Frontier	Active	NAV
Driehaus	Emerging Markets	Active	NAV
Harding Loevner	Emerging Markets	Active	NAV
Pzena	Emerging Markets	Active	NAV
AQR	Emerging Markets	Active	Performance
T. Rowe Price	Emerging Markets	Active	NAV

Core Fixed Income

The total Core Fixed Income fee budget of \$6.6 million, decreases \$0.3 million, or (3.9%), in FY 2021. This is mainly due to lower fee structures with the movement of assets to direct SMAs.

Manager	Mandate	Active/ Passive	Fee Type
BlackRock	BA Index	Passive	NAV
BlackRock	TIPS Index	Passive	NAV
BlackRock	ILB	Active	NAV
BlackRock	STRIPS Index	Passive	NAV
PIMCO	Core FI	Active	Funded and Performance
Loomis Sayles	Core FI	Active	NAV
Community Capital	Core FI - ETI	Active	NAV
AFL-CIO	Core FI - ETI	Active	Commingled Fund – NAV
Access Capital	Core FI – ETI	Active	NAV
Longfellow	Core FI	Active	NAV
New Century	Core FI	Active	NAV
Pugh	Core FI	Active	NAV

Value-Added Fixed Income

The total Value-Added Fixed Income fee budget of \$41.3 million, decreases by \$4.2 million, or (9.1%), in FY 2021. This is mainly due to the termination of multiple Emerging Market Debt Managers.

Manager	Mandate	Active/ Passive	Fee Type
Fidelity	HY Bonds	Active	NAV
Loomis Sayles	HY Bonds	Active	NAV
Shenkman	HY Bonds	Active	NAV
Eaton Vance	Bank Loans	Active	Commingled Fund – NAV
Voya	Bank Loans	Active	Commingled Fund – NAV
PIMCO	EM Debt Hard Currency	Active	NAV
Ashmore	EM Debt Hard Currency	Active	Commingled Fund – NAV
Various Managers	Private Debt	Active	Commingled Funds – Committed Capital
Various Managers	Other Credit Strategies	Active	Committed Capital

Real Estate

Real Estate Investment Trusts (REITs)

The total REITs fee budget of \$6.2 million, decreases by \$.7 million, or (10.4%), in FY 2021. This change is mainly due to the termination of one REIT Manager.

Manager	Mandate	Active/ Passive	Fee Type
CenterSquare	Global REITs	Active	NAV
Brookfield	Global REITs	Active	NAV

Core Strategy

The total Core Strategy fee budget of \$27.2 million, increases by \$1.5 million, or 5.8%, in FY 2021 due to new acquisitions as well as budgeted growth within new managers.

Manager	Mandate	Active/ Passive	Fee Type
AEW	Core Real Estate	Active	Funded and Performance
INVESCO	Core Real Estate	Active	Funded and Performance
LaSalle	Core Real Estate	Active	Funded and Performance
CBRE Global Investors	Core Real Estate	Active	GAV and Performance
Stockbridge Advisors	Core Real Estate	Active	GAV and Performance
DivcoWest Core	Core Real Estate	Active	GAV and Performance

Non – Core Strategy

The total Non - Core Strategy fee budget of \$3.8 million, increases by \$1.1 million, or 41.5%, in FY 2021. This change is mainly due to new fund investments.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Non-Core	Active	Generally - Committed Capital
New Boston Fund	Non-Core – ETI	Active	Cost of Remaining Investments

Timberland

The total Timberland fee budget of \$7.6 million, increases by \$0.2 million, or 2.0%, in FY 2021 due to new acquisitions.

Manager	Mandate	Active/ Passive	Fee Type
Forest Investment Advisors	Timberland	Active	Funded and Performance
Campbell Global	Timberland	Active	Funded and Performance

Private Equity

The total Private Equity fee budget of \$135.1 million, increases by \$13.0 million, or 10.6%, in FY 2021 due to a budgeted increase in assets. Private Equity management fees are typically 1.0% to 2.5% of committed capital during the active investment period, and become a percentage of cost of remaining investments later in the life of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Private Equity	Active	Generally Committed Capital

Portfolio Completion Strategies (PCS)

The total Portfolio Completion Strategies fee budget of \$84.5 million, decreases by \$6.3 million, or (6.9%), in FY 2021, due primarily to the liquidation of the Risk Premia strategy and the continued sourcing and transitioning to direct SMAs. PCS and Hedge Fund management fees are typically 1.0% to 2.0% of the NAV of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	PCS and Hedge Funds	Active	Generally, NAV

Overlay, Foreign Currency and Other

The total Overlay, Foreign Currency and Other fee budget of \$1.7 million, decreases by \$.8 million, or (30.6%), in FY 2021 due to the decreasing AUM in liquidating portfolios.

Manager	Mandate	Active/ Passive	Fee Type
Parametric	Overlay	Active	NAV
Russell	Foreign Currency Trading	Active	NAV
Various Managers	Private Natural Resources Wind-Down	Active	Cost of Remaining Investments

Third-Party Service Provider Fees

The FY 2021 budget for Third-Party Service Provider Fees (including Custody and Advisors as well as Research, Audit & Tax, Legal, Governance and Risk Measurement & Investment Analytics) of \$19.3 million increases by \$1.1 million, or 6.0%. The increase is driven primarily by the expansion of PRIM's Research initiative. Costs in this category are the result of competitively bid contracts.

Custody

BNY Mellon currently provides the PRIT Fund with global custody, accounting and performance measurement services. BNY Mellon provides custody for PRIT assets, records all investment transactions for the PRIT Fund, and provides recordkeeping for all participant activity for member retirement systems, including participant performance analysis.

General

PRIM employs several professional advisors to provide comprehensive advisory services to staff and the Board including recommendations on asset allocation, communications, due diligence, information technology, compliance, human resources and compensation policies.

Real Estate & Timberlands

The FY 2021 budget reflects the advisory fees for Townsend and International Woodland Company, financial reporting costs associated with the real estate leverage program, expenses related to potential direct investments, data tools and other consulting costs.

Public Markets

The FY2021 budget reflects the advisory fees for Callan and HedgeMark. It also includes fees related to operational due diligence and other consulting costs.

Private Equity

The FY 2021 budget reflects the fees for private equity advisory services, that include private equity advisory, legal services, monthly accounting, and detailed performance reporting for the PRIT Fund's Private Equity program. The budget also includes projected fees for new data tools and other consulting costs.

Portfolio Completion Strategies

The FY 2021 budget reflects the contractual fees for Aberdeen, New Alpha, HedgeMark and Innocap. Aberdeen and New Alpha are PRIM's PCS advisors. HedgeMark and Innocap are PRIM's managed account platform service providers. The budget also includes projected fees for new data tools and other consulting costs.

Research

The FY 2021 budget reflects projected fees for new data tools, consultants and other research initiatives.

Audit & Tax

KPMG provides annual financial statement audits for the PRIT Fund and PRIM. KPMG also performs an annual examination of the internal controls surrounding PRIM's procurement of investment managers and other third-party service providers and reviews the PRIT Fund's benchmark and performance calculations in accordance with the guidance contained in the AICPA Statement on Standards for Attestation Engagements.

KPMG also provides audit services for PRIM's Real Estate, Timberland, and certain PCS investments. The audit fees for this work are charged to the underlying investments and are not included in the PRIM budget.

Deloitte provides PRIM with tax advisory services. Real Estate and Timberland property level tax return preparation fees and tax advisory fees are charged to the underlying properties and, as such, are not a part of the PRIM budget. However, the general tax advisory work is paid directly by PRIM.

Legal

PRIM retains outside counsel as necessary to provide legal services to PRIM. Outside legal expenditures can be difficult to predict and have historically fluctuated significantly based on the nature of activities of the PRIT Fund and PRIM.

Governance

Institutional Shareholder Services (ISS) provides a comprehensive analysis of proxy issues and vote recommendations for the PRIT Fund's domestic and international securities in accordance with PRIM's custom proxy guidelines. Cortex Applied Research Inc., is engaged to administer the Board self-evaluation process. The governance budget also includes annual membership fees associated with participation in the Council of Institutional Investors and anticipated costs for hosting PRIM Board Education sessions.

Risk Measurement and Investment Analytics

PRIM utilizes MSCI's BarraOne, a single platform multi-asset class investment risk measurement tool. Other investment analytical tools include FactSet, eVestment, Bloomberg, and others.

Operations

The FY 2021 Operations budget of \$18.9 million increases \$1.2 million or, 6.5%, reflecting primarily an increase in Compensation and Employee Benefits due to projected new PRIM staff positions.

Compensation & Employee Benefits

The FY 2021 Compensation budget includes allocations for additional positions and potential compensation increases for existing employees based upon the updated PRIM salary bands.

Per PRIM's Compensation Philosophy, to ensure PRIM remains competitive with market trends, a comprehensive compensation level analysis was conducted in 2018 by PRIM's compensation consultant, McLagan. To make incremental progress within these salary bands we have accordingly included allocations in the FY 2021 budget for potential base salary increases and for potential promotions. The budget for employee benefits consists primarily of dental, vision, and disability costs for employees as well as a contingency to cover potential unemployment claims since PRIM does not participate in the state's unemployment insurance pool. The budget also includes estimated Medicare taxes and Massachusetts Paid Family Medical Leave for all employees.

FY 2021 Budget Compensation	\$ 15,554,000
FY 2020 Budget Compensation	\$ 14,393,000
Year-over-year change	\$ 1,161,000
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New positions and benefits increase	\$ 916,000
Potential compensation increases	\$ 245,000
Year-over-year change	\$1,161,000

Occupancy

The occupancy budget includes expenses associated with office space, including rent, maintenance charges, and utilities.

PRIM's office building at 84 State Street is owned by PRIT Core Realty Holdings LLC and is managed by INVESCO. PRIM occupies the entire second and third floors of the building (21,500 rentable square feet).

Insurance

The budget includes insurance premium costs for various business and liability policies. PRIM's current insurance policies are summarized in the following table:

Policy Type	Coverage	Deductible
Fiduciary Liability	\$15,000,000	\$ 250,000
Commercial Crime	\$10,000,000	\$ 100,000
Employment Practices Liability	\$ 1,000,000	\$ 50,000
Workers Compensation	\$ 1,000,000	N/A
Commercial General Liability	\$ 1,000,000	N/A
Commercial Property	\$ 839,800	\$ 250
Umbrella Liability	\$ 4,000,000	\$ 10,000
Hired Auto	\$ 1,000,000	N/A

General Office Expenses

This budget category includes expenses relating to office operations including postage, office supplies, copying, printing, telephone expenses, temporary labor and office infrastructure.

Computer and MIS Expenses

The budget for Computer and MIS Expenses shows a modest increase due to the expected enhancement of PRIM's infrastructure required for the increased use of quantitative tools. This category also includes telecom, internet service providers, hardware, software and support agreements, offsite data storage, and equipment for the expected growth of staff.

Travel, Professional Development & Dues and Subscriptions

This budget category represents costs associated with due diligence travel, ongoing professional education of PRIM Board members and staff, including related travel expenses and dues & subscriptions, which includes membership dues in professional associations and subscription costs for professional journals, investment industry publications, and newspaper subscriptions. The budget includes tuition reimbursement charges (e.g., for approved CFA and higher education courses), required continuing education costs for maintaining professional licenses (e.g., CPA license), and attendance at professional conferences and seminars. PRIM is committed to supporting its Board members and staff in their pursuit of professional development.

Client Service

Currently, 98 of the Commonwealth's 104 retirement systems invest in the PRIT Fund. The client service budget allows for PRIM-sponsored client conferences and on-site client meetings. This budget includes the cost of traveling to client meetings, conferences, and related activities. Additionally, the costs associated with printing and binding the PRIT Fund's Comprehensive Annual Financial Report is included in this budget.

Key Assumptions

Estimated Assets Under Management and Asset Allocation in FY 2021

Many of the budgeted expenses for FY 2021 are based upon the estimated average assets under management and the estimated average actual asset allocation.

The estimated average assets under management for FY 2021 is \$78.5 billion. To estimate PRIM's FY 2021 average assets under management, the beginning AUM of FY 2021 (July 1, 2020) was estimated to equal the PRIT Fund assets under management as of February 29, 2020, the most current and available information when creating this budget. The ending AUM of FY21 (June 30, 2021) was estimated to increase by NEPC's expected 10 year return forecast of 6.2%. The estimated average AUM of FY 2021 is the average of the estimated beginning and ending AUM, which is approximately \$78.5 billion. Please note that future investment performance is not predictable and actual performance will vary.

The estimated asset allocation in FY 2021 is based on the current actual asset allocation of the PRIT Fund and projected future allocation changes.

Performance, Incentive, or Carried Interest Fees

No investment performance, incentive, or carried interest fees are budgeted in FY 2021. These fees vary dramatically from year-to-year and are not predictable.