



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**

Minutes of the PRIM Investment Committee Meeting
Tuesday, May 5, 2020

Committee members present:

- Treasurer Deborah Goldberg, Chair
- Joseph C. Bonfiglio
- C. LaRoy Brantley
- Constance M. Everson, CFA
- Michael Even, CFA
- Ruth Ellen Fitch, Esq.
- James B. G. Hearty
- Peter Monaco
- Philip Rotner
- Paul E. Shanley, Esq.
- Glenn P. Strehle, CFA
- Timothy Vaill

Committee members not present:

The PRIM Investment Committee meeting was called to order at 9:33 a.m. Chair Treasurer Deborah Goldberg announced that the meeting was being held by internet and telephone in accordance with the provisions of the Governor's March 12, 2020 Order, which allows remote participation by all members of a public body and suspends the requirement that a quorum and the chair be physically present, and provides public 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 also provided via telephone.

I. Approval of the Minutes (Voting Item)

The PRIM Investment Committee voted (unanimously) by roll call vote to approve the minutes of its February 4, 2020 and April 22, 2020 meetings.

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 Investment Committee meeting. He stated that PRIM is 100 percent fully functional, with all employees able to work remotely, and that all functions are 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 during this time when good communications are so important and 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 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. Public Markets

a. Investment Manager Recommendations: Longfellow, Pugh, and New Century (Voting Item)

David Gurtz, CPA, CFA, Deputy Chief Investment Officer – Director of Public Markets presented the investment manager recommendation for Longfellow Investment Management Company (Longfellow), Pugh Capital Management (Pugh) and New Century Advisors (New Century). Mr. Gurtz reminded the Committee that at the February 2020 Committee meeting PRIM staff told members that Progress Investment Management Company had notified PRIM in December 2019 that it intended to wind-down and dissolve its business, by no later than May 31, 2020. Mr. Gurtz noted that PRIM hired Progress back in 2016, and as of March 31, 2020 they managed approximately \$335 million for PRIM in a core fixed income portfolio.

Mr. Gurtz continued that Progress was a manager-of-managers and utilized five underlying investment managers to manage our core fixed income portfolio. Once Progress notified PRIM of their intention to shut down, PRIM staff began the manager selection process on each of these five managers to determine which, if any, of the managers should graduate and manage assets directly for PRIM.

Mr. Gurtz stated that based upon PRIM's manager selection process, which includes both quantitative and qualitative analysis, and due diligence by our consultants, Callan and Albourne, PRIM staff recommended graduating Longfellow, Pugh and New Century to manage assets directly for PRIM. One of the concerns PRIM staff noted at the February Board and Committee meetings, Mr. Gurtz continued, was that PRIM did not want to be Progress's last client and wait until May 31, 2020 to terminate our relationship with them. For that reason, at the February meetings, Mr. Gurtz noted that PRIM staff might seek retroactive approval to hire potential managers.

Mr. Gurtz stated that PRIM staff established direct investment management agreements with Longfellow, Pugh and New Century, effective April 1, 2020, collectively managing approximately \$250 million for PRIM. He continued to inform the Committee that the remaining Progress assets were transferred to another existing PRIM account or liquidated in April. On May 1, 2020, PRIM terminated its relationship with Progress.

Mr. Gurtz gave a brief overview of Longfellow, Pugh, and New Century. He commented that Longfellow is a 100% employee-owned, Boston-based, certified Women's Business Enterprise. Founded in 1986, Longfellow manages over \$11 billion in domestic fixed income and alternative investment strategies for institutional clients. Longfellow is led by Barbara McKenna, the Managing Principal, and Akshay Anand, the portfolio manager. Longfellow's investment philosophy is that the upside is limited, while the downside can be substantial. They focus on preserving capital and minimizing volatility through in-depth research and diversifying the portfolio across sector, industry and issuer.

Mr. Gurtz noted Pugh Capital Management was formed in 1991 and is a Seattle-based, 100% employee-owned investment management firm and a certified Minority Woman-Owned Business Enterprise. Pugh Capital, which is led by the CIO and firm's namesake – Mary Pugh, manages over \$8 billion in fixed income. Pugh Capital utilizes both a top-down and a bottom-up investment approach to achieve the dual goal of being defensive while providing capital appreciation.

New Century Advisors, Mr. Gurtz noted, was formed in 2002 by Ellen Safir, the Founder and CIO. Based in Chevy Chase, Maryland, New Century manages over \$2 billion in fixed income portfolios. New Century is an independent, 100% employee-owned investment management firm and a certified Women's Business Enterprise. New Century focuses on managing the downside risks in order to provide consistent excess returns.

Mr. Gurtz mentioned that as of the date of the Committee meeting these three firms currently manage approximately \$250 million directly for PRIM, but PRIM staff's recommendation is to increase PRIM's commitment to these women-owned firms. PRIM is recommending allocating up to \$250 million to Longfellow, up to \$250 million to Pugh, and up to \$100 million to New Century, for a total of \$600 million.

Mr. Gurtz mentioned that one benefit to working directly with these managers vs. utilizing Progress is lower fees. Progress's fee included their fee as well as fees to the underlying managers. By eliminating the Progress fee layer, PRIM's fee to these three managers will decrease by approximately 40%.

The Investment Committee voted (unanimously) via roll call vote to recommend to the PRIM Board that the Board approve initial allocations of up to \$250 million to Longfellow Investment Management Co.; up to \$250 million to Pugh Capital Management, Inc.; and up to \$100 million to New Century Advisors, LLC as described in Appendices C, D E, F, and G, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

b. Other Credit Opportunity – New Investment Recommendation: Loomis Sayles TALF Strategy (Voting Item)

Mr. Gurtz and Chuck LaPosta, CFA, Senior Investment Officer – Fixed Income, presented the investment recommendation for the Loomis Sayles TALF Strategy.

Mr. Gurtz commented that many firms contacted PRIM about this potential investment, but Loomis Sayles was the first. He mentioned that this was a direct result of the team letting our key managers know that we want PRIM to be at the top of their list to call about potential opportunities. Loomis, he continued, is also the most willing to work exclusively with PRIM and create a separately managed account on this opportunity whereas most managers are creating commingled TALF funds or utilizing existing funds.

Mr. LaPosta mentioned by way of background that on March 23, 2020, the Fed announced the launch of the Term Asset-Backed Securities Loan Facility (TALF), or TALF 2.0, to help meet the credit needs of consumers and small businesses by supporting the issuance of asset-backed securities ("ABS"). The TALF 2.0 program was modeled after TALF 1.0, which began in March 2009 during the Global Financial Crisis. Initially, the TALF 2.0 program will make up to \$100 billion of non-recourse, 3-year term loans available to borrowers, secured by eligible AAA, ABS securities. The TALF 2.0 program is scheduled to expire on September 30, 2020. Mr. LaPosta provided examples of how this program works.

Mr. LaPosta mentioned that investors in TALF 1.0 in 2009 were able to achieve double-digit returns over a short period while taking on minimal credit risk with early movers capturing much of the value that existed in the early stages of the program. Based on recent market levels for TALF eligible assets, double-digit returns may be available to first movers in the current TALF program this time around as many of the eligible asset classes model out to yields between 10-33%

Mr. LaPosta expanded on the primary risks to this strategy: default, market value change, prepayment, and execution:

- Defaults would erode returns, but all assets will be rated AAA and independently underwritten by Loomis to limit default risk. Additionally, Loomis is proactively working with issuers with whom they have relationships to create TALF eligible securitizations solely for our portfolio.
- Changes in market value will add volatility to returns but do not trigger any margin calls within the terms of the TALF loan.
- Forbearance and other payment modifications may alter the pace of principal payments available to the AAA tranche of a securitization, which may cause the assets' maturity to extend or contract
- In 2009 only 35% of capacity was utilized before the market opportunity went away. Together with Loomis, PRIM is preparing to be among the first movers in this program to deploy capital as soon as it starts up.

PRIM is recommending Loomis for the following reasons:

- **Large Fixed Income presence:** Loomis Sayles is a \$270 billion asset manager located in Boston with a deep history in fixed income investing with a credit focus.
- **Long standing history with PRIM:** Loomis currently manages \$1.7 billion for PRIM across a core fixed income account, which they have been managing for 30 years, and a high yield bond account that began in 1997. As noted earlier, the idea for this strategy came about due to a "first call" from Loomis, and we have been working together since late March to create a structure to allow us to be among the first-movers in this program.
- **Deep team supporting the strategy:** The strategy will be run by members of the Mortgage & Structured Finance team that currently oversees \$31.2 billion in assets. The team consists of 21 professionals with an average of 14 years' experience across Portfolio Management, Strategist, Trader and Analyst functions. The account will be co-managed by Alessandro Pagani, Head of the Mortgage & Structure Finance team and Strategist, Michael Meyer, both of whom has over 20-years of experience.
- **Structure and fees:** Loomis has been working exclusively with PRIM on this strategy and has agreed to a separate account and fee structure that is both lower than initially offered and compares favorably to other similar strategies. Given the short window of opportunity in this program and the potential advantage to being among the first movers, PRIM may deploy assets as soon as possible and seek retroactive Board approval at the May 21, 2020 Board meeting.

The Investment Committee voted (unanimously) via roll call vote to recommend to the PRIM Board that the Board approve an initial allocation of up to \$250 million to the Loomis Sayles TALF in a separately managed account, subject to satisfactory ongoing contract negotiations, as described in Appendix H of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

IV. Private Equity

Michael Bailey, Senior Investment Officer – Director of Private Equity, provided an update on private equity exposure and commitments pacing. Mr. Bailey stated private equity exposure was 13% as of March 31, 2020, up from 11% at December 31, 2019. The exposure is within the PRIT Fund's asset allocation range. Staff expects private equity exposure to be lower in future quarters as the portfolio reflects performance impacts related to the COVID-19 pandemic.

Mr. Bailey discussed transaction activity and private equity portfolio cash flows, including the fact that the PRIT Fund's private equity portfolio generated cash for several years prior to 2020. For the quarter ended March 31, 2020, however, the portfolio's cash needs for new investment and other purposes exceeded the portfolio's cash distributions. The pace of transactions is slowing as a result of the market dislocations,

Mr. Bailey commented. He mentioned that PRIM staff expects transaction activity to resume and that the portfolio may experience continued cash outflows if purchases outpace sales.

Mr. Bailey said that private equity commitments during the calendar year would total approximately \$1.3 billion, including approvals pending during the May Investment Committee and PRIM Board meetings. If the pending commitments are approved, then year-to-date commitments will represent more than 50% of the midpoint of the targeted \$2.0 billion for 2020. He mentioned that private equity commitments are not drawn immediately, but instead are invested over multiple years.

The PRIM Investment Committee meeting adjourned at 10:35 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Investment Committee Meeting of February 4, 2020*
- *Minutes of the PRIM Investment Committee Meeting of April 22, 2020*
- *Investment Manager Recommendations: Longfellow, Pugh and New Century Presentation*
- *Callan's Memorandum on Longfellow, Pugh and New Century*
- *Albourne Operational Due Diligence: Longfellow SMA*
- *Albourne Operational Due Diligence: Pugh SMA*
- *Albourne Operational Due Diligence: New Century SMA*
- *Other Credit Opportunity – Callan Memorandum: Loomis TALF Strategy*