Minutes of the PRIM Investment Committee Meeting (Remote)
Wednesday, April 22, 2020

Committee members present:
- Treasurer Deborah Goldberg, Chair
- C. LaRoy Brantley
- Constance M. Everson, CFA
- Michael Even, CFA
- Ruthe Ellen Fitch, Esq
- James B.G. Hearty
- Peter Monaco
- Phillip Rotner
- Paul E. Shanley, Esq
- Glenn P. Strehle, CFA
- Timothy Vaill

Committee members not present:
- Joseph C. Bonfiglio

The PRIM Investment Committee meeting was called to order at 10:02 a.m. Treasurer 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 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, with all documents referenced at the meeting available to be viewed on PRIM's website (www.mapension.com).

I. Executive Director / Chief Investment Officer Comments

Market and PRIT Fund Performance Summary

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

Mr. Trotsky welcomed members, guests and staff to the interim Investment Committee meeting and stated that PRIM is 100 percent fully functional, with all employees able to work remotely, and all functions operating normally. Mr. Trotsky stated that the interim meeting was being held in response to a large volume of inquiries requesting an update on PRIM's operations and performance given the recent volatility in the financial markets related to the COVID-19 pandemic. Mr. Trotsky stated that PRIM is well positioned to navigate these volatile markets: the PRIT Fund is a carefully constructed, broadly diversified portfolio that we expect will perform well over the long-term. It has consistently performed strongly in both up, and perhaps more importantly, down markets. The Fund fared better than its benchmark and fared better than the financial markets because of several timely asset allocation decisions implemented over the past several years designed to reduce the overall risk of our portfolio and to maximize its risk adjusted return, while still delivering on our long-term return goal. PRIM reduced its Global Equity exposure from a midpoint of 50% five years ago to a midpoint of 39% today and added several risk mitigation strategies throughout the last few years.

Mr. Trotsky stated that:

1. There have been no significant disruptions to PRIM operations.
2. PRIM continues to review and implement guidance from the Governor, the Treasurer, CDC, and other public health officials and resources to keep our employees safe.
3. PRIM has the technology in place to enable all employees to work remotely, and all are doing so. Each team meets regularly remotely, and I join many of those calls to regularly see and hear from each employee at PRIM.
4. PRIM has been in close contact with all investment managers and vendors that support PRIM.
5. PRIM is not facing liquidity stress as a result of the recent market volatility. The PRIT Fund's annual liquidity needs are relatively low compared to the size and liquidity of the Fund (approximately $1.3 billion annually) and we are able to easily meet all commitments. In fact, we rebalanced the portfolio at the end of March as we do each month, with no difficulties. Dave Gurtz will discuss the rebalancing in detail momentarily.

Mr. Trotsky stated that the scope of the interim meeting was primarily to review the March 2020 performance of the PRIT Fund, and there were no voting items on today's agenda – informational only.

Organizational Update

Mr. Trotsky stated that a PRIM employee was diagnosed with COVID-19 in mid-March and also reported that the employee is recovering and back to work.

Mr. Trotsky announced three new employees who were in the pipeline before PRIM moved to the remote work environment.

Joy Seth

Joy Seth joined PRIM as an Investment Officer on the Portfolio Completion Strategies team. Joy previously worked as Senior Investment Analyst at the Employees Retirement System of Texas, responsible for building machine learning models and developing a back-test engine for option-based strategies. Prior to that Joy was an engineer at Microsoft Corporation. Joy graduated from the University of Washington with an Master's degree in Computational Finance, and holds a Bachelor's degree in Electrical and Computer Engineering from the University of Texas, Austin.

Silas Owoyemi

Silas Owoyemi joined PRIM as a Helpdesk and Operational Support Specialist on the IT team. Silas previously worked as a Network Engineer at Ocean Spray and was responsible for planning and maintaining their data network and infrastructure. Prior to that, Silas was a Senior Support Specialist at Alkermes Biopharmaceutical Company. Silas holds a Bachelor's degree in Mathematics from the University of Ilorin in Nigeria.

Michelle Witkes

Michelle Witkes joined PRIM as Director of Human Resources. Michelle brings extensive Human Resources experience. Michelle previously worked at Beacon Health Options (a division of Anthem) as their Vice President, Human Resources, and at Enterprise Associates, LLC, as their Director of Human Resources. During her career, Michelle has been responsible for all HR related functions from strategic HR leadership to tactical employee support. Michelle holds a Bachelor's degree in Human Services and Psychology from the University of Massachusetts, Amherst.

PRIT Fund Performance Summary

Referring to the slide deck entitled "PRIT Fund Performance", Mr. Trotsky stated that the slide on page 2 depicts the 2020 market correction compared to three other major declines and stated that while this most recent sell off happened very quickly, it wasn't as deep as other recent sell- offs. Additionally, the bounce off of the bottom has to date been quicker and higher than any before.

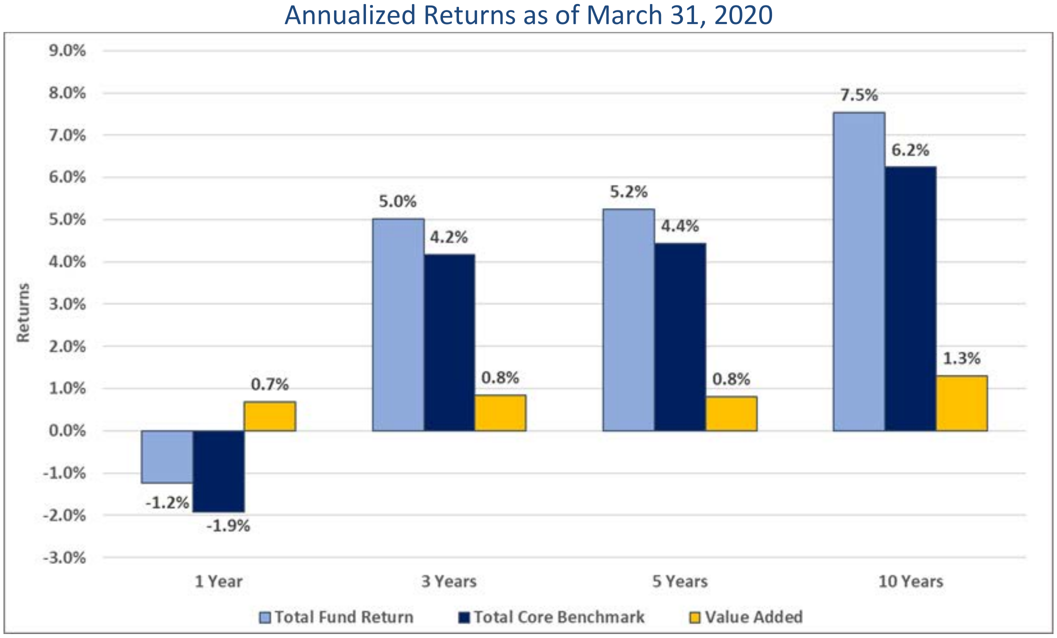
For historical context: from February 19 to March 23, 2020 the S&P500 was down 34% in 21 trading days. For comparison, the initial sell-off of the WFC was deeper, down 46%, but that took nearly 126 trading days to unfold. And during the Great Depression in 1929, the market sold off 48% in approximately 55 days. Going back to the Great Depression and examining all 14 major market selloffs since then, the average duration of a peak-to-trough market correction is 20 months, not 20 days, and the average sell off is approximately 40%. Mr. Trotsky stated that the rebound this year from the March 23 lows (a month ago) has been very sharp – a classic v-shaped rebound, so far. In fact, the S&P500 is up 22% since the March 23rd lows. He stated that it is important to realize that the future is still very uncertain and that the correction and volatility may not be over. He also mentioned for historical context that there was another second leg to the WFC sell-off and markets were eventually down 55% from peak to trough over more than 350 trading days or 17 months. Mr. Trotsky stated that, viewed in this context, we are in the early days of this correction.

- As of March 31, 2020, the PRIT Fund net asset value stood at $70.7 billion.
- For the one-year as of March 31, 2020, the PRIT Fund was down -1.2%, outperforming the total core benchmark of -1.9% by 69 basis points.
- This performance equates to an investment loss of $905 million.
- This outperformance equates to $503 million of value above the benchmark return.
- Net total outflows to pay benefits for the one-year ended March 31, 2020 were approximately $1.2 billion.

Mr. Trotsky made reference in his remarks to the following charts:

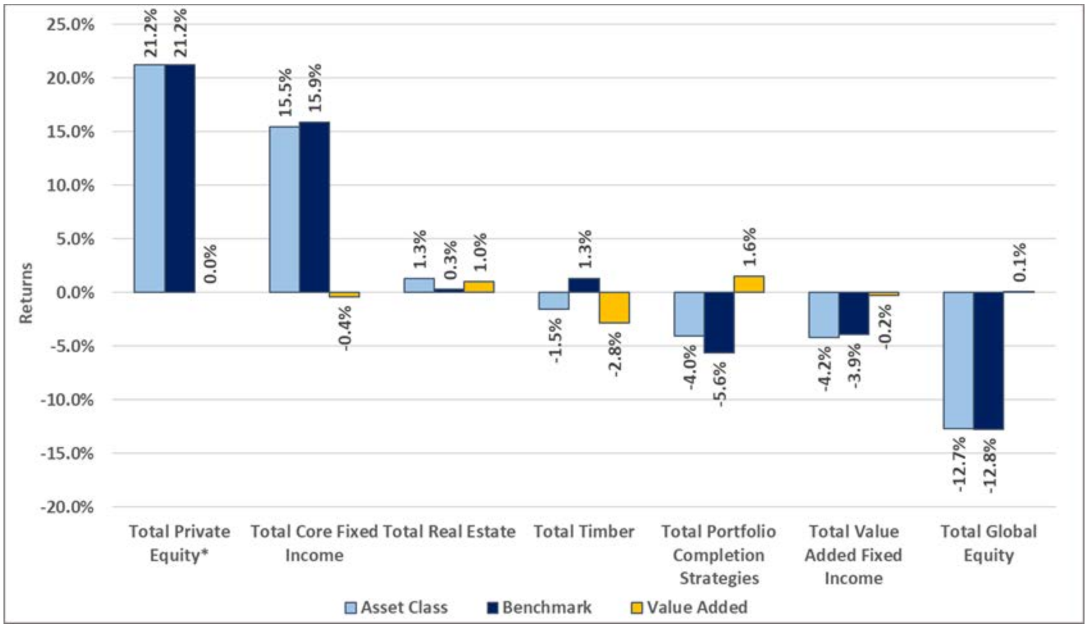
Total PRIT Fund Performance (Gross of Fees)

Annualized Returns as of March 31, 2020



PRIT Asset Class Performance (Gross of Fees)

One Year Ended as of March 31, 2020



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

Annualized Returns as of March 31, 2020

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 21.2%	PRIVATE EQUITY 20.5%	PRIVATE EQUITY 18.8%	PRIVATE EQUITY 18.2%
CORE FIXED INCOME 15.5%	CORE FIXED INCOME 7.4%	REAL ESTATE 7.4%	REAL ESTATE 10.3%
REAL ESTATE 1.3%	REAL ESTATE 6.2%	CORE FIXED INCOME 4.3%	GLOBAL EQUITY 6.3%
TIMBERLAND (1.5%)	TIMBERLAND 3.0%	TIMBERLAND 3.4%	CORE FIXED INCOME 5.7%
PORTFOLIO COMPLETION STRATEGIES (4.0%)	VALUE-ADDED FIXED INCOME 1.8%	VALUE-ADDED FIXED INCOME 3.0%	VALUE-ADDED FIXED INCOME 5.1%
VALUE-ADDED FIXED INCOME (4.2%)	GLOBAL EQUITY 1.1%	GLOBAL EQUITY 2.8%	TIMBERLAND 4.9%
GLOBAL EQUITY (12.7%)	PORTFOLIO COMPLETION STRATEGIES 1.0%	PORTFOLIO COMPLETION STRATEGIES 0.9%	PORTFOLIO COMPLETION STRATEGIES 3.5%

- The *PRIT Fund Performance Report* of March 31, 2020, is attached as **Appendix A.**
- The BNY Mellon Gross of Fees Performance Report of March 31, 2020, is attached as **Appendix B.**

II. Investment Team Performance Summary

a. Public Markets

David Gurtz, CPA, CFA, Deputy Chief Investment Officer – Director of Public Markets, noted that PRIM was able to successfully rebalance the PRIT Fund as the markets moved so dramatically. Back in December, after a record up year for Global Equities, PRIM sold $900 million of Global Equities to fund the new $1.5 billion allocation to Short-Term Fixed Income – which is a portfolio of 1-3-year U.S. Treasuries. Mr. Gurtz noted that this proved to be great timing of selling equities near the peak and buying a low risk, diversifying, core fixed income strategy prior to the sell-off.

Noting that as the markets sold off in March, Mr. Gurtz continued, the Global Equities allocation was nearing the bottom of its target range and Core Fixed Income was above its target range. Rebalancing in times of market distress is not easy – as liquidity dries up causing high trading costs or even limited ability to trade.

PRIM staff worked together and with our passive Core Fixed Income manager, to develop a liquidation plan that spread out the selling of core fixed income securities over time and focused on the most liquid securities. Thanks to that effort, PRIM effectively sold $1.5 billion in Core Fixed income throughout the month of March and even into early April, and invested $500 million into the S&P500, nearly $500 million into PCS and OCO strategies, and readied over $300 million for future Private Equity and Distressed Debt capital calls. Mr. Gurtz noted that this unemotional and methodical rebalancing ensures we remained within our target bands.

Mr. Gurtz mentioned that while the S&P 500 was down nearly 20% for the quarter, for the year ended March 31, 2020, the S&P 500 is down 6.7%. The PRIT Fund developed International portfolio was down over 23% in Q1, but for the year it is down 13.9%, outperforming its benchmark by over 100 basis points. Most of this outperformance can be attributed to a single manager, Baillie Gifford – whose stock selection contributed to a nearly 3% outperformance in Q1 and nearly 8% outperformance for this 1-year period.

For the quarter, Mr. Gurtz continued, Emerging Markets fell over 25%, underperforming the benchmark by approximately 130 basis points, gross of fees. Noting that nearly all of this underperformance can be attributed to our managers collective underweight to China, which was down 10% in Q1 and was the best performing stock market in Emerging Markets. However, over the 1-year period our Emerging Markets portfolio outperformed the benchmark by 72 basis points, gross of fees.

Mr. Gurtz noted that U.S. Small Caps underperformed Large Cap and fell approximately 28.5% this quarter and was down 21% for the 1-year period, outperforming the benchmark by nearly 150 basis points, gross of fees for the year. Much of this outperformance is due to one manager – Riverbridge who beat their benchmark by over 10% this past quarter by investing in internally financed companies and investing in companies that deliver mission critical products or services.

Mr. Gurtz noted that STRIPS returned nearly 30% for this quarter, and for the 1-year period it returned a staggering 47.8%. Core Fixed Income retuned just over 2% for the quarter, and for the year returned over 8%, underperforming the index by nearly 90 basis points. This underperformance is driven by most managers having an overweight to credit which underperformed due to the credit spreads widening.

As credit spreads widened, Mr. Gurtz continued, credit-heavy asset classes fared worse, posting negative returns. High yield fell 13% this quarter, nearly 7% for the one-year period, and Bank Loans fell over 11% this quarter, and 7.5% for the one year. Both asset classes outperformed their respective benchmarks as active managers avoided the worst performing credits.

Mr. Gurtz commented that Emerging Markets Debt was the worst performing strategy, which was down nearly 19% in the quarter, and down 14% for the year. One manager, Ashmore, caused the significant underperformance in this asset class, underperforming due to their overweight to Ecuador, Lebanon, Argentina and Venezuela. This manager has underperformed during previous market sell-offs, but rebounds, post the selloffs, very quickly. PRIM staff continues to monitor this manager very closely.

Mr. Gurtz updated the Committee on the opportunities that the staff has spent time looking into. He noted that PRIM is working on a Term Asset-Backed Securities Loan Facility "TALF" opportunity. The TALF opportunity exists because the Federal Reserve is providing inexpensive loans for investors to buy certain AAA rated securities, to improve liquidity in the market and bolster credit to consumers and other borrowers on more favorable terms.

For some background, Mr. Gurtz noted that on March 23, the Fed announced the launch of the TALF 2.0 to help meet the credit needs of consumers and small businesses by supporting the issuance of asset-backed securities ("ABS"). The program was modeled after TALF 1.0 which began in March 2009 during the GFC. The TALF 2.0 program will initially make up to $100 billion of non-recourse, 3-year term loans available to borrowers, secured by eligible AAA rated, ABS securities.

PRIM staff is currently exploring a separately managed account option with one of our existing managers to capture this opportunity. Based on market data from last week, expected returns for this range from high single digit to low double-digit type returns investing in AAA rated securities. We plan to have a recommendation at the May 5th meeting and to be among the first movers in this program.

b. Portfolio Completion Strategies

Eric Nierenberg, Ph.D., Chief Strategy Officer, and Bill Li, CFA, CAIA, Director of PCS, Senior Investment Officer, updated the Committee on Investment Strategy, Strategic Asset Allocation and Risk Mitigation. Dr. Nierenberg noted that the Strategy group closely monitors PRIM's full suite of investment strategies from both risk and return perspectives, with an emphasis on analyzing the vast and rapidly changing landscape for the economy and capital markets.

Dr. Nierenberg noted that PRIM's Asset Allocation program has served PRIM well during this crisis, and PRIM remains confident in the strategic philosophy and framework of the Dual Objective/Principal Component Analysis approach. As a reminder, Dr. Nierenberg continued, PRIM developed a robust asset allocation plan designed to meet the legislatively mandated rate of return while also reducing potential drawdown risk. Given the extreme dislocations and market moves experienced over the last two months, limiting the PRIT Fund decline to less than 10% in the quarter demonstrates the value of our approach.

Referring to the Risk Mitigation Program, Dr. Nierenberg commented that in 2017, PRIM staff described that in order to manage downside risk, its Asset Allocation program would incorporate two distinct risk mitigation elements, in approximately a 2:1 ratio: 1. Enhanced equity hedge; and 2. Long-duration Treasury STRIPS.

Dr. Nierenberg noted that this combination would allow PRIM to maintain equity exposure while reshaping the distribution of stock returns. The equity hedge would be most effective in directionless or slowly trending markets, while the long-duration Treasuries, even at low interest rates (which are of course even lower today), could serve as PRIM's cost-effective tail hedge/crash protection.

Noting that the path of market prices in the quarter has few, if any, precedents in history, Dr. Nierenberg continued, until mid-February we experienced a robust, well-performing stock market with volatility at or near its lowest levels ever, followed immediately by the steepest and fastest decline in the market since the Great Depression. Dr. Nierenberg noted that neither piece of this path represents an ideal scenario for the options-based equity hedge program, but the Treasury STRIPS allocation performed remarkably well, returning 30% for the quarter.

Dr. Nierenberg mentioned that consequently, the combined risk mitigation sleeve of our Asset Allocation plan returned -3.5% for the quarter, well above the -11.6% return for 60/40, the -13.1% return for the Risk Parity Index, and the -19.6% return for the S&P 500 Index.

Furthermore, Dr. Nierenberg noted, following PRIM's annual Asset Allocation review in 2019, the Investment Committee and Board approved the staff's recommendation that Core Fixed Income should be increased to better balance our Principal Component exposures at the PRIT Fund level. As part of that reallocation, over $700 million was moved into STRIPS by June 2019. The fund has benefited greatly from that asset allocation move (which was not a tactical call on interest rates), as since then STRIPS have returned more than 37% for Fiscal Year 2020, through the end of March.

Dr. Nierenberg also commented on relative performance of the Enhanced Equity Hedge. He noted that the enhanced equity hedge, and in fact any option strategy, by design produces nonlinear payoffs that vary based on the price path of the underlying asset (in this case the S&P 500 Index). When the equity hedge was instituted in 2017, a benchmark of 80% times the S&P return was chosen, which by contrast is a linear return relationship. Dr. Nierenberg noted that over a long enough period (e.g., years), this benchmark can provide a reasonable match to the equity hedge strategy as it represents an average of all the different types of market regimes under which the put spread collar might operate. But over shorter periods the return divergence can be more substantial.

Noting that for different types of market events PRIM will have different expectations about the performance we should expect to see from the strategy. Dr. Nierenberg noted that in sudden crash environments the STRIPS allocation mitigates risk, while we would not anticipate that the equity hedge would provide much protection. The total Risk Mitigation package of equity hedge and Treasury STRIPS successfully mitigated downside risk (-3.5% for the quarter). The equity hedge component returned -20.2%, 60 bp below the S&P 500 Index. Noting that while is not a great result, Dr. Nierenberg continued, it was also not surprising given the unprecedented magnitude of the stock market decline and the even more unprecedented surge in market volatility. Dr. Nierenberg commented that the underperformance relative to the custom benchmark was even greater, but as we have discussed at the last several Investment Committee meetings, we question whether this benchmark accurately matches the dynamics of the equity hedge strategy. A linear benchmark for a non-linear options strategy is a mismatch.

Dr. Nierenberg noted that across the organization we continually assess whether investment programs remain appropriate for the PRIT Fund, and if so, in what size allocation. Volatility, while down from its historic highs in mid-March, remains at elevated levels. Since the traded options are short-term in nature, throughout March and April we have been able to "reset" into positions with a much wider window of protection, thereby reducing associated risk. We will continue to evaluate the effectiveness of the equity hedge and report back to you.

Mr. Li commented that the Portfolio Completion Strategies (PCS) portfolio was down by -7.7% for the quarter, beating the benchmark by approximately 50 basis points. He commented that Real assets were flat; stable value types of Hedge Funds, which account for majority of PCS portfolio, was down modestly by -4.8%; Directional Hedge Funds that have more market beta exposure detracted -15.5%.

Mr. Li noted that in March, some pockets of global markets went frozen. For instance, EM credit & structured credit found it hard to trade even towards month end, when US Treasury markets already managed to catch a breath. As a result, some credit managers specialized in the subsectors suffered mark-to-market losses.

Mr. Li noted that PRIM as a whole has minimal exposure to the liquidity-troubled areas, approximately 3% of the total PRIT Fund. on the other hand, PRIM's Macro Relative Value and Event-Driven managers were less impacted by market stress, Mr. Li continued. Those groups of managers registered flat performance or even returned positively for the quarter.

Mr. Li mentioned that as part of the quarter-end rebalance exercise mentioned by Mr. Gurtz, we cautiously deployed incremental capital to a couple obvious dislocations. Of course, those were pitched by and implemented through existing managers. Mr. Li noted that one sector that we opportunistically added was in the Treasuries market. The spread between cash bonds and corresponding futures became extremely lucrative. Another notable sector is liquid high-quality credits. Temporary lack of liquidity led to immensely attractive yield, while permanent loss risk of quality credits remained remote.

Mr. Li noted that as of last Friday, we have already seen positive returns from the aforementioned trades. Even though the top-ups were of relatively small size (less than 0.5% of the total PRIT Fund), this highlights the trust managers put in PRIM's ability to filter out noise and capitalize on dislocations.

c. Private Equity

Michael Bailey, Senior Investment Officer – Director of Private Equity, provided an update on private equity performance, areas of risk to monitor, and private equity opportunities. Mr. Bailey stated the 1-year portfolio return for the year ended March 31, 2020 was 21.2%, gross of fees, contributing 43 basis points to overall PRIT fund outperformance, primarily due to the private equity portfolio outperforming its public equity benchmark. He reported that the portfolio's performance for the quarter was 5.9%.

Mr. Bailey mentioned private equity performance is forecast to weaken in future quarters. Staff expects private equity reporting in the June 2020 and September 2020 reporting periods to capture more than 50% of the drawdown in public equities that occurred in the first quarter of 2020. He described a framework that PRIM Staff developed to evaluate what are the likely COVID impacts on private equity portfolio performance.

Mr. Bailey said that Staff is monitoring financial leverage and liquidity as areas of risk to monitor in the private equity portfolio. Finally, Mr. Bailey mentioned that although the PRIT Fund has capital committed to private equity funds, the pace of new investments in private equity is slowing. PRIM Staff is working with investment managers to evaluate the private equity opportunity set for funds and co-investments.

d. Real Estate and Timberland

Timothy Schlitzer, CRE, CFA, Senior Investment Officer - Director of Real Estate and Timberland updated the Committee on the Real Estate and Timberland Portfolios. He began by providing an overview of the portfolio's composition.

Mr. Schlitzer stated that real estate is currently 9.8% of the PRIT Fund, up from 9.5% at year end. He noted that PRIM currently has minimal exposure to riskier, development based non-core strategies, representing only 4% of the portfolio. Mr. Schlitzer informed the Committee that PRIM has no hotel exposure in the private portfolio. Approximately 16% of the portfolio is invested in two global REIT mandates which provide additional country and sector exposures. Mr. Schlitzer noted that timberland is currently 3.9% of the PRIT Fund, down from 4% at year end. PRIM owns 1.4 million acres of timberland through two separate accounts.

Referring to PRIM's capital structure, Mr. Schlitzer commented that the real estate portfolio has $1.8 billion of primarily unsecured debt layered on the separate accounts assets at a low loan-to-value ratio. Mr. Schlitzer commented that timberland has virtually no debt, except for one portfolio investment.

Mr. Schlitzer noted that total real estate returned 1.3% for the year, 102 basis points above benchmark. Returns were (4.3%) for the quarter. Private real estate returned 7% for the year, 57 basis points above the NCREIF benchmark. REITs returned (20.5%) for the year, 290 basis points above benchmark. The first quarter return was (25.9%), 246 basis points above benchmark.

Mr. Schlitzer noted that timberland returned (1.5%) year-over-year, 284 basis points below benchmark and (1%) for the quarter. He noted that one of PRIM's managers had a negative return of 4.7% in December, the result of appraisal write-downs which PRIM attributes partially to changes in methodology after an appraiser rotation. There were no significant valuation changes in the first quarter. The negative return is primarily attributed to currency translation on PRIM's Australian investment which cost approximately $42 million.

Referencing a number of portfolio themes, Mr. Schlitzer noted that the private transaction markets are virtually frozen in both real estate and timberland. Mr. Schlitzer noted that PRIM is tracking rent relief requests representing less than 5% of forecast revenue.

In the timberland portfolio, Mr. Schlitzer noted that logging operations are proceeding and that forest products have been deemed essential in most cases. He stated that timber prices increased slightly in the first quarter. Housing starts were relatively strong during the first two months of the year at approximately 1.6 million (annualized). Over the past couple of weeks, several mills have announced curtailments as they adjust to market demand. PRIM staff will continue to monitor these themes and report back as market behavior evolves.

e. Risk Management

Jay Leu, Director of Risk, updated the Committee on the following topics: Federal Reserve response; Fiscal response (Congress); PRIT Fund observations; and Risk observations.

Mr. Leu noted that the Federal Reserve response can best be describe as massive, fast, and broad in scope. Noting that on March 3rd the Fed did an inter-meeting, 50 basis point cut of the Fed Fund rate from 1.75% to 1.25% for the first between-meeting cut since 2008. On March 16th, the Fed cut the Fed Funds rate to zero and announced Quantitative Easing of $500 billion in U.S. Treasuries and $200 billion in Agency MBS. Quantitative Easing is the Fed buying assets like they had in previous crises.

Mr. Leu noted that after continued worsening financial conditions and markets, the Fed, on March 23rd, seemed to announce a "Do whatever it takes" moment by announcing multiple initiatives. The Fed announced unlimited QE or purchases of Treasury and MBS, increasing its balance sheet from $4 trillion to $6 trillion in the next four weeks and continues to grow it. For perspective, the Fed grew its balance sheet from $900B to $2.2 trillion from Sep 2008 to Dec 2008. The Fed committed $750 billion to buying investment grade corporate bonds (maturities less than 5 years) through a special purpose vehicle run by BlackRock. The Fed has not bought corporate bonds before. The Fed announced a new TALF program, resurrecting a 2008 program where the Fed provides non-recourse, non-mark-to-market financing of AAA rated ABS (credit card, auto loan, equipment loans, et al) and the Main Street lending and Municipal lending programs.

Mr. Leu noted that the purpose of these programs is to restore market functioning, improve liquidity and ease financial conditions. The result has been a "don't fight the Fed" rally causing credit spreads to ease, and bid ask spreads to retreat. Mr. Leu noted that the Fed is now lending to corporations, consciously not trying to set the (price) level, but instead focused on restoring market functioning and distancing itself from picking winners and losers. The Fed stopped short of buying equity like the Bank of Japan has. Mr. Leu noted that on April 9th the Fed provided further details on the lending programs. At a high level, the Fed has (1) rates, (2) QE, and now (3) lending, with lending commitments of $2.3 trillion.

Mr. Leu commented that Main Street Lending program has $600 billion to provide 4-year loans to small and medium sized businesses of up to 10,000 employees or revenues below $2.5 billion. The loans are designed to provide "reasonable efforts to maintain payroll and employment", not for buybacks or dividends and with banks retaining 5% of loans to prevent adverse selection ("skin in the game').

Mr. Leu noted that with the Municipal Liquidity Facility, the Fed is lending $500 billion to potentially to all states and large cities and counties. Loans will be available to all states (all), big counties (> 2 million people) and cities (> 1 million people), with no credit rating threshold and to be used for tax filing delays, interest and principal on existing debt and COVID financial strains. Additionally, $750 billion for buying corporate bonds, $100 billion for TALF and $350 billion for the Paycheck Protection Program have been announced.

Mr. Leu noted that in summary the massive, $2 trillion balance sheet expansion of QE in 4 weeks, $2.3 trillion potential lending to investment grade corporate bonds, high yield ETFs, states, large cities, large counties, and main street lending to small and medium sized companies, all in six weeks. Massive, fast and broad in scope measures taken by the Fed.

Mr. Leu noted the fiscal response can also be explained as massive, fast, and broad in scope. With the "stay at home" orders and closure of non-essential business arising out of the COVID pandemic has caused a "sudden stop" in many sectors of the economy. Mr. Leu noted that Fed Official, Mr. Bullard, estimated the shutdown was causing $25 billion per day in lost output ($750 billion per month). The country had massive layoffs, Mr. Leu continued, with 22 million new unemployment claims amounting to about 14% of the U.S. labor force.

Mr. Leu noted that the goal of fiscal relief was to keep people employed, get money to unemployed, aid to states, healthcare and some industries. On March 27rd, the CARES Act (Coronavirus Aid Relief & Economic Stimulus) provided $2.1 trillion, representing 10% of GDP, of stimulus. The Cares Act, $2.1 trillion of stimulus is split-up in the following:

a) $500 billion to households via direct stimulus checks ("$1,200 checks") amounting to roughly $290 billion and $260 billion to improved unemployment insurance.
b) $490 billion to small businesses via the $350 billion Payment Protection Plan which are loans to small businesses for rent, utilities, and payroll. The PPP loans are forgiven if small companies maintain payroll, but the program ran out of money within two weeks and is currently being expanded further. Another $140 billion in modification of loss limits.
c) $500 billion to all businesses via a delay of payroll taxes estimated at $350 billion, NOL modification estimated at $90 billion and an employee retention credit estimated at $60 billion.
d) $75 billion of specific industry aid with $50 billion going to Airlines, $17 billion going to National security and $8 billion going to Cargo.
e) $135 billion to State and local aid
f) $100 billion to Public health received
g) $455 billion to Treasury capital for Federal reserve facilities

Mr. Leu noted that the Government response was massive and fast. With $2 trillion in new Fed QE so far in four weeks; the $2.1 trillion in fiscal CARES Act (10% of GDP); and $2.3 trillion in new Fed lending to corporation, state, and local governments.

Mr. Leu remarked on the PRIT Fund and commented on risk observations in three categories: 1) liquidity risk; 2) credit risk; and 3) reopening risk. Mr. Leu made the following observations:

1. The PRIT fund returned -9.89% for the quarter and the 60/40 stock bond mix returned -11.6% (MSCI ACWI/Barclays Aggregate). PRIM's strategic asset allocation framework has served well.
2. Credit risk equals equity risk – corporate bond has interest rate risk and credit risk. The credit risk is highly corelated, if not identical, to equity risk. At PRIM, we think of assets in terms of risk factors and principal components. When Maria Garrahan, Director of Research, Senior Investment Officer, and Grace Gao, Investment Analyst, are doing asset allocation work they look at the principal components or nutrients in the soup. That distinction is critical for building a robust portfolio. Mr. Leu noted that for the first quarter: US Treasury Index 8.20%, Barclays Aggregate 3.15%, US Corporate -3.63% High yield -12.68%. The specification of components is critical. The inclusion of short-term Treasury and long-term Treasury STRIPS is by strategic design.
3. US equity and US Treasury rate correlation observation, which is an important factor in portfolio diversification. At the height of the crisis in March, stock-Treasury yield correlation broke down. Between March 9th and March 18th, the S&P 500 dropped 12.63% and US 10-year Treasury yields ROSE 65 basis points. Full blown financial contagion was starting to take hold. Liquidity strains and forced selling. People were selling what they could. When the Fed came in with unlimited QE, the situation functioned more normally.
4. Monitoring risk – identify trouble spots and also opportunities. Within downgrade risk many companies downgraded by credit rating agencies already; more downgrades, especially from certain industries, will follow. PRIM will continue to monitor areas in Fixed Income and Portfolio Completions Strategies. Downgrades into high yield or fallen angels create pressure on the high yield market. Downgrades to CCC affect the CLO structured product. Several payment triggers in CLO structures are based on CCC concentration. Downgrades to CCC could lead to equity tranche cashflows being diverted to the trust to buy more assets or in more extreme cases to start to pay down the senior tranches. PRIMs exposure to structured product is very minimal.
5. Default risk defaults will rise especially in certain industries
6. Orphaned asset classes: Some sectors are not being directly supported or purchased by the Fed. For private mortgages, for example, what will happen to newer and growing market? USD denominated emerging market debt is not being bought by the Fed – Argentina and Ecuador are heading toward restructuring. Other emerging market countries are struggling. This will put a burden on the IMF and China to bail them out. PRIM's exposure is very minimal.
7. Banks are in much better shape than in the GFC, with 2.5 times more capital.
8. Liquidity is probably the most important element to be monitoring in this "sudden stop" economy. In each of the asset classes we look at: 1. flow of money in the markets; and 2. flow of money in the real economy. In the markets, the Fed's unlimited QE program and $2 trillion balance sheet expansion has dramatically eased liquidity strains in most areas of the market. Bid ask spreads narrowed; some orphaned areas remain challenged. There are no liquidity issues at PRIM. PRIM's unfunded capital commitments in PE are fully planned as we continue to grow our weighting. PRIM will continue monitoring portfolio companies.

   Mr. Leu noted that in the real economy, the two most important questions for many impacted companies are 1. how much cash do I have; and 2. how fast am I burning cash. With government bailouts, mortgage forbearance, rent forbearance, and government loans it is important to monitor the flow of cash in the real economy to identify "pressure points" like mortgage servicers or mall properties and opportunities.

9. PRIM is also looking at the flow of goods in the real economy. Supply chains have been broken. In other instances, the supply chains for the office and restaurant market is separate and distinct from the retail market. Sometimes food targeted for restaurants cannot be delivered or packaged.
10. Reopening risk – when does the economy or country reopen and how? The restart of the economy and reopening of business may ease liquidity strains but this needs to be balanced against the risk of a second wave or resurgence of infections; a V-shaped or U-shaped recovery could become a W-shaped or double dip. The reopening question will also be tied into the need for more fiscal relief the longer the shutdown lasts. The availability of 1. testing for the virus; 2. testing for the antibodies; and 3. the use of contact tracing become important implementation questions in addition to isolation and social distancing rules
11. Our balanced strategic approach at PRIM has worked well so far. The careful specification of components has been important in this crisis. PRIM continues to 1. monitor risks; and 2. seek out opportunities.

Replying to questions, Committee member Constance M. Everson, CFA provided her perspective on the recent stock market rally, the credit markets and clues for the leaders in the next cycle.

The PRIM Investment Committee meeting adjourned at 12:01 p.m.

List of documents and exhibits used during the meeting:

- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*