



Minutes of the PRIM Administration and Audit Committee Remote Meeting
Thursday, July 23, 2020

Committee members attending:

- Robert Brousseau, Chair
- Treasurer Deborah Goldberg
- Karen Gershman, CPA
- Eileen Glovsky
- James Hearty
- Theresa McGoldrick, Esq.

Committee members not attending:

- Patrick Brock
- Joseph Connolly
- Dennis Naughton
- Michele Whitham, Esq.

The PRIM Administration and Audit Committee meeting was called to order at 10:06 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, with presentation materials made available on PRIM's website (www.mapension.com).

I. Approval of the Minutes (Voting Item)

The PRIM Administration and Audit Committee approved by unanimous roll call vote the minutes of its May 7, 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 announced three new summer interns:

Claire Xie (Zia) joined PRIM on June 22nd and is working on the Real Estate and Timberland team, reporting to Christina Marcarelli, Senior Investment Officer. Claire comes to PRIM through the CFA Boston Internship program and is a rising senior at Bentley University and a candidate for a Bachelor of Science in Corporate Finance and Accounting with a minor in Data Technology. Honors include the Dean's List and the Women in Leadership Scholarship. For fun, Claire likes to go sky diving!

Olivia Larder joined PRIM on July 6th and is working on the Public Markets team, reporting to Andre Abouhala, Investment Officer. Olivia comes to PRIM through the Girls Who Invest Scholar program and is a rising junior at the Boston College, Carroll School of Management. She is a candidate for a Bachelor of Science in Management, with a concentration in Finance and Managing for Social Impact and the Public Good. Honors include the Dean's List, and the ACC Academic Honor Roll. Leadership and activities include the BC Women's Rowing team, member of Consultants for Social Impact and Smart Women's Securities, and Secretary of the Student Government Association. For fun, Olivia enjoys travel, sailing and skiing.

Siyuan (C Juan) Yang joined PRIM on July 20th and is working on the PCS team, reporting to Bill Li, Senior Investment Officer. Siyuan comes to PRIM through the Brandeis University International Business School. He is a candidate for a Master of Science in Finance. Relevant coursework includes Python and Application to finance, Corporate Financial Modeling, Credit Risk Analysis, Advanced Corporate Finance and Investments. Activities include Boston Startup Week Volunteer, Co-President Global Market Investment Club, student assistant for Business School Development and Alumni Relations and member of the Flag Football team.

Mr. Trotsky offered an update on the re-openings of PRIM's 84 State Street offices. All employees were invited to return to the PRIM offices beginning on Monday, June 29th and everyone has been encouraged to adopt an approach that works for them and their own personal circumstances. It was made very clear that returning to the office is entirely voluntary. Mr. Trotsky was very pleased that approximately 30 to 40% (between 15 to 20 people) of the staff is back in the office each day.

Mr. Trotsky emphasized that the re-opening was made possible by the Governor's directives and guidance. The operations team at PRIM studied the guidance and protocols thoroughly and determined that PRIM's office configuration and spacing permits PRIM to adhere completely and comfortably to the applicable safety and health protocols. PRIM is well within the directives and guidance, but PRIM has the benefit of being on the 2nd and 3rd floors, which greatly reduces the need to use elevators.

Mr. Trotsky made specific mention of Deb Coulter, PRIM's CFO, Michelle Witkes, PRIM's HR Director, Dan Eckman, PRIM's Director of Finance and Administration, and Tony Falzone, PRIM's COO, who have really enabled the reopening. Together they prepared specific guidance regarding office safety protocols and Michelle prepared and conducted a detailed training, along with written training materials. No PRIM employee may return to the office prior to receiving that training. Mr. Trotsky expressed his gratitude toward all staff, committee and Board members - for their commitment, dedication, hard work and understanding while PRIM adapts to the new way of conducting business – all while navigating a very difficult and volatile investment landscape.

Before moving to markets and PRIT Fund performance, Mr. Trotsky reported that on Tuesday, July 21, 2020, the American Investment Council announced that PRIM Private Equity ranked #2 in private equity returns among 176 U.S. public pension funds based on 10-year performance. PRIM is the only fund that has been in the top five of all private equity portfolios in every year the American Investment Council has performed the study – including #1 rankings in 2019, 2018, 2015 and 2013. The 10-year performance of our private equity portfolio was 16.4% net of fees and was only 30 basis points behind the #1 ranked fund in the country. Private Equity is an important return driver at PRIM; it is PRIM's highest performing asset class by more than 5% annualized. Mr. Trotsky congratulated Mike Bailey and the PRIM PE team for this accomplishment and recognition.

Markets and PRIT Fund Performance Summary

Mr. Trotsky told the Committee that we have seen a complete reversal in the markets in just five months --a near 90% swing-- down 34% from mid-February to mid-March, and up more than 50% since the lows on March 23rd. A 90% swing in a short period and extreme market volatility is difficult to navigate. He reminded the Committee that as a result of our strategic, long-term asset allocation studies, we have gradually decreased the PRIT Fund's exposure to equities from a midpoint of 50% five years ago to 39% today. Lower exposure to equities contributed to our relatively strong performance in the March quarter, but the lower exposure to equities was a headwind in the June quarter when equities soared.

Nevertheless, in the context of a very difficult, volatile, and uncertain investment environment, we were very pleased to report that PRIM made money during fiscal year 2020, and the PRIT Fund continues to have no liquidity issues – we are fully able to meet all benefit obligations.

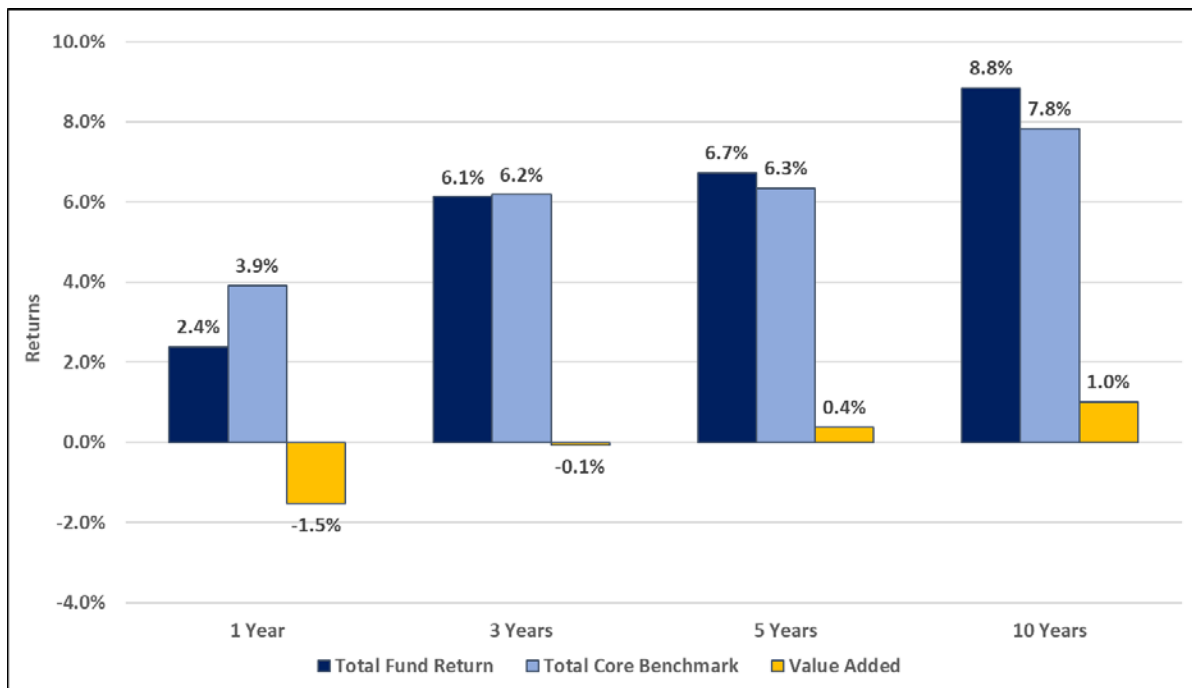
Mr. Trotsky continued, while PRIM's Private Equity portfolio is garnering national recognition and continues to be PRIM's best performing asset class over the long-term and the second best performer in the fiscal year, it is also the primary reason the PRIT Fund underperformed its benchmark by approximately 150 basis points in the fiscal year. The relative underperformance was due almost entirely to a private equity benchmarking anomaly in the June quarter. It is in no way indicative of the underlying strength of our Private Equity portfolio, but these anomalies happen from time to time and are exaggerated during periods of extreme volatility. The Private Equity one-year performance of 4.4% is compared to a long-term, seven-year average public markets benchmark return of 14.3%, in a period when public markets have been strong. This is a mismatch in time periods. If we were to compare similar time periods, the 7-year average return of the PRIM PE portfolio of 18.8% to the 7-year average return of the benchmark (14.3%), the PRIT Fund outperformed by more than 4%. Comparing short-term performance (1-year) to a longer-term benchmark (7-year average) can result in dramatic differences, especially during volatile markets, which is what occurred during this reporting period. We expect this phenomenon to reverse over time, just as it did during the Global Financial Crisis in 2008/2009 when the PRIT Fund last exhibited the same benchmarking anomaly.

PRIT Fund Performance Summary

- As of June 30, 2020, the PRIT Fund net asset value stood at \$75 billion.
- The PRIT Fund one-year return as of June 30, 2020 was 2.4% gross of fees (2.0% net).
- The PRIT Fund net asset value grew \$1.5 billion in fiscal year 2020.
- Net total outflows to pay benefits for the one year ended June 30, 2020, were approximately \$1.3 billion

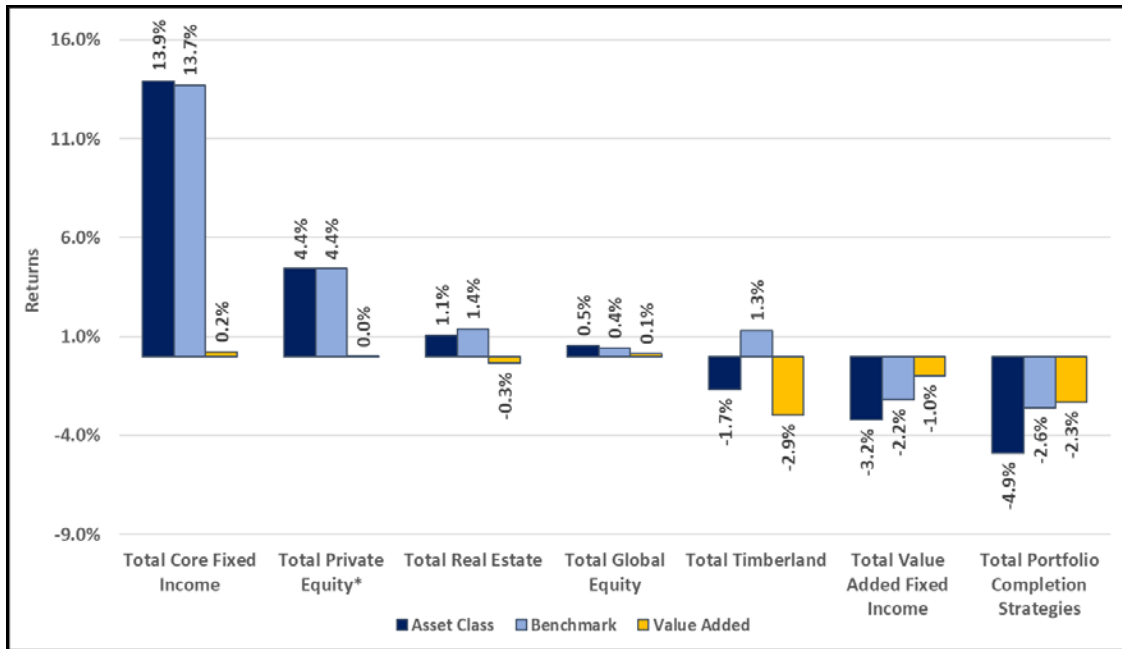
Total PRIT Fund Returns (Gross of Fees)

Annualized Returns as of June 30, 2020



PRIT Asset Class Performance (Gross of Fees)

One Year Ended June 30, 2020



*Benchmark is actual performance

PRIT Fund Periodic Table of Returns (Gross of Fees)

Years Ended June 30, 2020

1 Year	3 Year	5 Year	10 Year
CORE FIXED INCOME 13.9%	PRIVATE EQUITY 14.7%	PRIVATE EQUITY 15.4%	PRIVATE EQUITY 16.9%
PRIVATE EQUITY 4.4%	CORE FIXED INCOME 7.8%	REAL ESTATE 7.0%	REAL ESTATE 10.3%
REAL ESTATE 1.1%	GLOBAL EQUITY 5.5%	CORE FIXED INCOME 6.5%	GLOBAL EQUITY 9.5%
GLOBAL EQUITY 0.5%	REAL ESTATE 5.5%	GLOBAL EQUITY 6.4%	CORE FIXED INCOME 5.6%
TIMBER (1.7%)	TIMBER 2.6%	VALUE-ADDED FIXED INCOME 3.6%	VALUE-ADDED FIXED INCOME 5.3%
VALUE-ADDED FIXED INCOME (3.2%)	VALUE-ADDED FIXED INCOME 2.3%	TIMBER 3.3%	TIMBER 4.9%
PORTFOLIO COMPLETION STRATEGIES (4.9%)	PORTFOLIO COMPLETION STRATEGIES 1.1%	PORTFOLIO COMPLETION STRATEGIES 1.3%	PORTFOLIO COMPLETION STRATEGIES 3.8%

Eileen Glovsky asked Mr. Trotsky what he has learned or taken away from the past few month's experience dealing with the market volatility and COVID-19. Mr. Trotsky said he takes comfort that PRIM's philosophy is sound and that staying the course during up and down markets has benefitted PRIM. He added another take away about the importance of rebalancing the portfolio and having a disciplined rebalancing program.

Karen Gershman commented that the anomaly with Private Equity also happened about 10 years ago during the global financial crisis when the benchmark issue and the quarter lag had a similar impact on relative performance in the short term.

III. Executive Director's Fiscal Year 2021 goals and Objectives (Voting Item)

Robert Brousseau, Chair, noted that the Administration and Audit Committee, pursuant to the PRIM Charters, is tasked with reviewing and potentially revising the Executive Director's proposed goals and objectives, and recommending them to the PRIM Board for approval. Mr. Trotsky noted that his fiscal year 2021 Goals and Objectives are largely consistent with prior years. Mr. Trotsky highlighted a few of his new fiscal year 2021 goals and objectives, including an organization-wide talent assessment, several diversity and inclusion initiatives, and safely reopening the PRIM offices consistent with applicable COVID-19 guidelines and protocols.

Treasurer Deborah Goldberg asked that the goals related to diversity, equity, and inclusion be more pronounced to better align these goals with their level of importance to PRIM.

The Committee voted (unanimously) by roll call vote to recommend to the PRIM Board that the Board approve the Executive Director and Chief Investment Officer's fiscal year 2021 Proposed Goals and Objectives, as contained in Appendix B of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

IV. Proposed 2021 PRIM Board and Committee Meeting Schedule

Anthony Falzone, Chief Operating Officer, mentioned to the Committee that the proposed meeting schedule was not a voting item and that a final draft will be included in the November Administration and Audit Committee meeting materials for a recommendation to the Board at its December meeting.

V. Diversity, Equity, and Inclusion Update

Michelle Witkes, Director of Human Resources, provided the Committee with an update on PRIM's diversity, equity, and inclusion efforts. Ms. Witkes began by telling the Committee that having been with PRIM for a few months now, and coming from the private sector, she was impressed with PRIM's focus and progress. Based on her HR experience in financial services, healthcare and management consulting, diversity, equity, and inclusion are consistently prioritized in company and individual goal setting, but the results do not always match the priority. She acknowledged that PRIM has a ways to go and will continue to find ways to increase all types of diversity and keep diversity, equity, and inclusion at the forefront of all operational activities.

Ms. Witkes reviewed data gathered from a McKinsey study that showed that the investment management industry has some work to do in this area. She then reviewed PRIM employee data covering the last three fiscal years (2018-2020) and was impressed with the progress PRIM has made. Ms. Witkes also mentioned that PRIM is not satisfied with these results and assured the Committee that PRIM will continue to make diversity, equity, and inclusion a priority.

Ms. Witkes discussed the sourcing of interns and candidates from a variety of diverse affinity groups such as the Treasurer's Women in Finance Fellowship, Girls Who Invest, and the CFA Institute's Global Diversity and Inclusion Advisory Committee, of which Mr. Trotsky is a founding member and has been described as a thought leader.

Ms. Witkes discussed the challenges PRIM has experienced recruiting diverse senior-level candidates. She told the Committee PRIM's culture provides top-performing, diverse candidates a career path to senior positions and Mr. Trotsky has promoted diverse candidates into senior-level positions.

Ms. Witkes reviewed the many different diversity, equity and inclusion activities PRIM has and told the Committee that PRIM will continue to look for ways to increase diversity as this remains a priority. A few examples of the activities Ms. Witkes mentioned in her presentation were as follows:

- All interns over the past three years have been diverse in gender, race, or both, and approximately 85% of all PRIM new hires have been diverse.
- As of June 30, 2020, \$4.1 billion or 5.5% of the PRIT was invested with women or minority-owned investment managers and rising. (PRIM invests with 33 women- or minority-owned investment managers)
 - Portfolio Completion Strategies (PCS) invests more than \$1.3 billion or nearly 19% of this asset class in diverse-owned firms.
 - Private Equity invests nearly \$1.2 billion or nearly 14% of this asset class portfolio in diverse-owned firms.
- PRIM utilizes a formal process to review the Directory of Certified Businesses maintained by the Massachusetts Supplier Diversity Office (SDO) for suitability. The directory includes all registered minority-, women-, LGBT-, veteran- and disability-owned companies.

In summary, Ms. Witkes told the Committee that these activities are some of the first steps in what is a much longer journey. PRIM has made progress, but is not satisfied, and will continually assess how existing programs and strategies can be improved upon to influence lasting, positive change.

Treasurer Goldberg mentioned that she has championed the diversity effort since she arrived at PRIM and emphasized the importance of getting in front of these diversity issues and being a leader in the industry. An industry that is woefully lacking in diversity and has created barriers to entry for women and minority owned firms. Treasurer Goldberg also suggested that PRIM start looking at diversity in a more granular way because using the term diversity is very vague, and PRIM should have a better idea of how different groups are represented.

Ms. Glovsky added that given the #metoo movement, PRIM should look at ways to identify those places that are hostile work environments for women that prevent women from rising to the top ranks of companies in the financial services industry. PRIM should be asking the right questions during procurement in order to identify these firms.

Mr. Trotsky told the Committee that while PRIM does not advertise manager terminations, two investment managers have been terminated over the past two years for that same reason. PRIM has a zero-tolerance policy for any culture that is fraternity-like in nature. PRIM is very aggressive in monitoring the funds it works with has been in front of these decisions.

Treasurer Goldberg mentioned that she has received pressure not to have a zero-tolerance policy, but these issues are important to her, and PRIM has recently created proxy voting guidelines that demonstrate the level of tolerance for these issues.

Mr. Trotsky thanked Treasurer Goldberg for her support and for remaining consistent on this issue.

VI. Legal/Legislative Update

PRIM's General Counsel indicated that there was a piece of relevant legislation to discuss, and introduced Emily J. Kowtoniuk, Director of Policy & Legislative Affairs, Office of the Treasurer and Receiver General. Ms. Kowtoniuk provided the Committee with an overview of the proposed Investment Equity legislation that the Treasurer's office has been working on with the legislature. Ms. Kowtoniuk explained there have

been several conversations at the State House on issues relating to race. As part of that conversation, the issue of economic equity and investment equity has come up. Ms. Kowtoniuk continued that the Treasurer's team drafted some language similar to legislation in Illinois that looks at pension funds and requires that they have an aspirational goal of 20% diversity in terms of investment managers and contractors. The state, across all agencies and departments, is intentionally leveraging its resources to make sure that it addresses the issue of racial equity, and this is one way that PRIM can be proactive by this bill.

Treasurer Goldberg mentioned a large local minority coalition of businesspeople, very established activists, who are organizing and have specific focus on all areas associated with the Treasurer's office. She reminded the Committee that because she is not a sole trustee, she cannot make investment decisions on her own and that the legislature determines investment restrictions or mandates, for example, past divestment directives regarding tobacco, Iran and Sudan. As mentioned before, she noted that she would rather that PRIM not be pushed by mandates on this and would rather PRIM have goals that it wants to achieve versus having things pushed on PRIM by mandates. The language in this bill has goals, and this is what Illinois is doing, and the Illinois Treasurer said he would be happy to come and speak with the PRIM Board and explain how well it operates. There is pressure on the legislature in regard to equality, and they in turn, reach out to the Treasurer's office for guidance on ways to incorporate equality into pension investing.

James Hearty mentioned he had not yet seen or heard of this proposed legislation and requested the Board receive a copy of it so they can have a discussion.

VII. Other Matters:

The Committee members briefly discussed the following topics:

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

Paul Todisco, Senior Client Services Officer, provided the Committee with a brief update and was excited to announce that the MBTA Retirement Fund (MBTARF) had selected PRIM's Emerging Markets Equity (EME) portfolio for its \$30 million-dollar Emerging Markets Equity mandate. Mr. Todisco thanked those PRIM staff members who met with representatives of the MBTARF staff during the procurement process.

The PRIM Administration and Audit Committee meeting adjourned at 11:44 a. m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Administration and Audit Committee Meeting of May 7, 2020*
- *Executive Director and Chief Investment Officer's Fiscal Year 2021 Proposed Goals and Objectives*
- *Proposed 2021 PRIM board and committee Meeting Schedule*
- *PRIM Diversity, Equity, and Inclusion Update*
- *Travel Report*