



Minutes of the PRIM Investment Committee Remote Meeting  
Tuesday, July 28, 2020

Committee members attending:

- Treasurer Deborah Goldberg, Chair
- Joseph C. Bonfiglio
- C. LaRoy Brantley (joined at 9:35 a.m.)
- Constance M. Everson, CFA
- Michael Even, CFA (joined at 9:35 a.m.)
- Ruth Ellen Fitch, Esq.
- James B. G. Hearty
- Peter Monaco
- Philip Rotner
- Paul E. Shanley, Esq.
- Glenn P. Strehle, CFA
- Timothy Vaill

The PRIM Investment Committee meeting was called to order at 9:31 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 (by unanimous roll-call vote of all members present), to approve the minutes of its May 5, 2020 meeting.

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

C. LaRoy Brantley and Michael Evan, CFA joined the meeting at 9:35 a.m.

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 22<sup>nd</sup> and is working on the Real Estate/Timberland team, reporting to Christina Marcarelli. Claire comes to PRIM through the CFA Boston Internship program and is a rising senior at Bentley University, as well as a candidate for a Bachelor of Science in Corporate Finance and Accounting with a minor in Data Technology. Honors include the Dean's List, Women in Leadership Scholarship, Forte Foundation. For fun, Claire likes to go sky diving!

**Olivia Larder** joined PRIM on July 6<sup>th</sup> and is working on the Public Markets team, reporting to Andre Abouhala. Olivia comes to PRIM through the Girls Who Invest Scholar program and is a rising junior at

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 Dean's List, ACC Academic Honor Roll. Leadership and activities include BC Women's Rowing team, member of Consultants for Social Impact and Smart Women's Securities, and Secretary of Student Government Association. For fun, Olivia enjoys travel, sailing and skiing.

**Siyuan (C Juan) Yang** joined PRIM on July 20<sup>th</sup> and is working on the PCS team, reporting to Bill Li. Siyuan comes to PRIM through Brandeis University International Business School. He is a candidate for a Master of Science in Finance (STEM Designated). 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, Business School Development, and Alumni Relations and member of the Flag Football team.

Mr. Trotsky offered an update on the reopening of PRIM's 84 State Street offices. All employees were invited to return to the PRIM offices beginning on Monday, June 29<sup>th</sup> 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 reopening 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 second and third floors, which greatly reduces the need to use elevators.

Mr. Trotsky gave special recognition to 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 detailed training, along with written training materials. 50 PRIM employees have received that training from Michelle and 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 (PE) 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.

### **Market and PRIT Fund Performance Summary**

The market correction in March 2020, when equities fell 34% in 20 days, was the fastest on record going back to the Great Depression, but it was not the deepest. The deepest correction in history was during the Great Depression when stocks fell 86% over 34 months. The March 2020 market correction lasted only 20 days, not 20 months, which is the average of the 14 major corrections since the Great Depression. The March correction was unusually sharp and steep, and the rebound, the bounce off the bottom, was also unusually fast and steep. Since the lows on March 23<sup>rd</sup> the S&P is up 47%, very near the levels in February, before the COVID pandemic. Stocks were down 20% or more in the March quarter (the three

months ended March 2020) and in the June quarter (the three months ended June 2020), stocks were up 20%. Nearly a complete reversal in three months.

A 40% swing in a short period and extreme market volatility is difficult to navigate. Despite this extreme market volatility, the PRIT Fund returned a positive 2.4% (gross) for fiscal year 2020. PRIM continues to believe that the carefully constructed, broadly diversified PRIT Fund will continue to perform well over the long term as it has consistently performed strongly in both up, and perhaps more importantly, down markets. 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. For the fiscal year, PRIM's Core Fixed Income portfolio returned nearly 14%, providing downside protection when we needed it. An important component of Core Fixed Income is the U.S. Treasury STRIPs position, long-duration Treasuries, which returned more than 35% in FY2020, making it the top performer for the fiscal year. PRIM's second-best performing asset class was Private Equity, which returned 4.4% for the fiscal year, which is valued on a quarter lag, meaning that Private Equity was valued as of March 31, 2020, which was near the bottom of the market. Notably, the PRIT Fund continues to have no liquidity issues and we are fully able to meet our benefit obligations.

Ironically, while PRIM's Private Equity portfolio is garnering national recognition and continues to be our 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 1-year performance (4.4%) is compared to a long-term, 7-year average public markets benchmark (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.

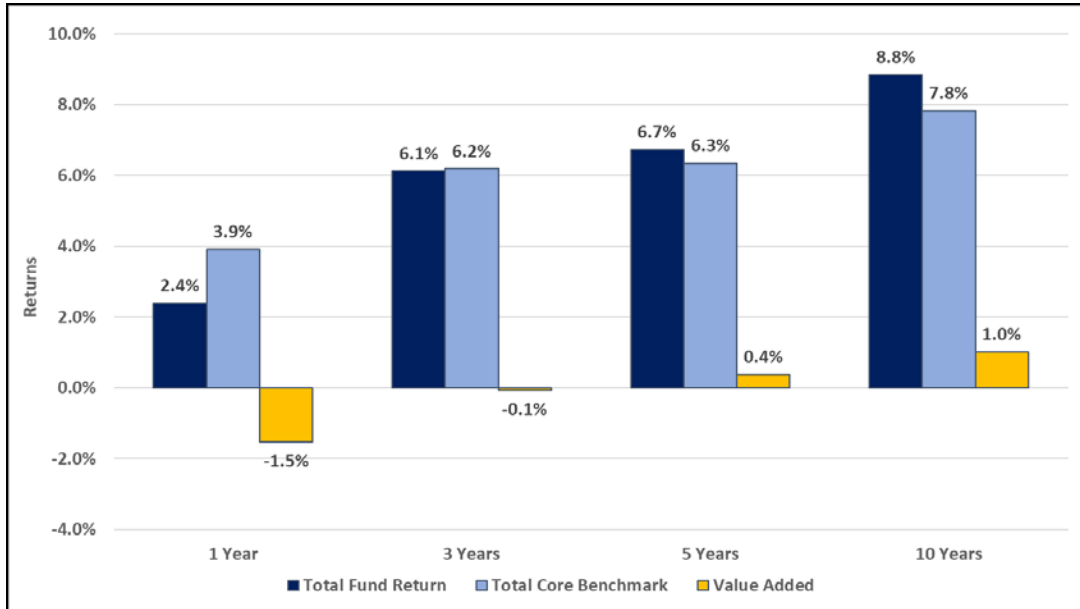
We expect this phenomenon to reverse over time, just as it did during the Global Financial Crisis in 2008/2009, when the PRIT Fund last exhibited the same benchmarking anomaly. Based on early reports, we are optimistic that in September, private equity performance will rebound faster than we expected when we reported the June performance. In fact, we expect the June quarter gains may more than offset the March quarter decline, and we are now more confident that the benchmarking anomaly, which impacted relative performance last quarter, will reverse materially this quarter.

We continue to believe that the pandemic has caused severe economic damage, and the challenges this economy faces in restarting are enormous. We believe it will likely take a long time. In the meantime, we expect more volatility, and believe that the PRIT Fund is appropriately positioned.

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

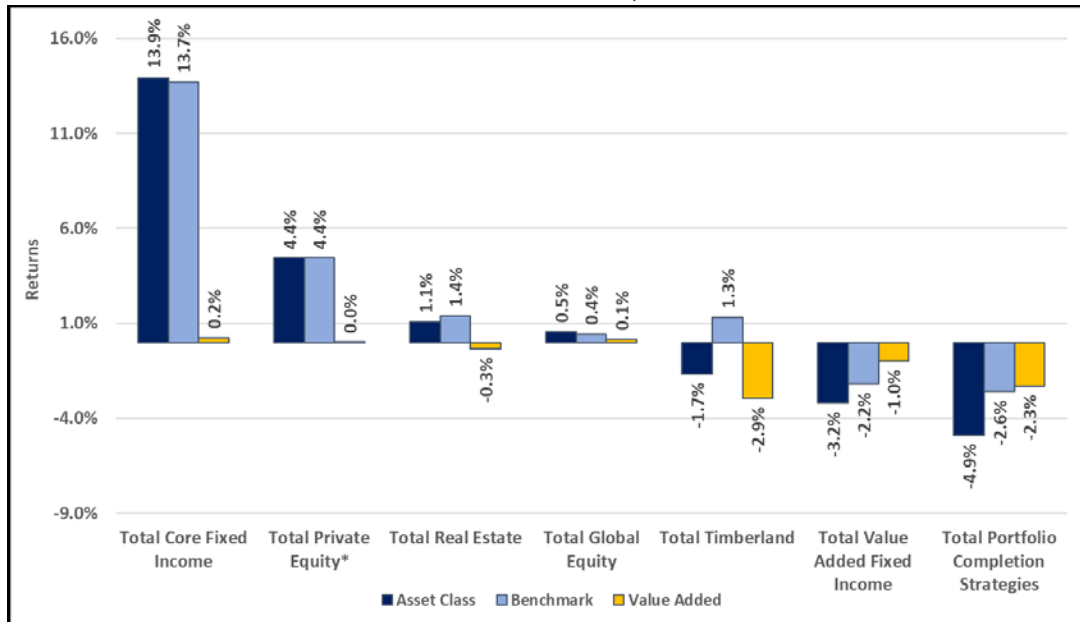
## Total PRIT Fund Returns (Gross of Fees)

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%

Constance M. Everson, CFA, Investment Committee member, discussed the improvement in unemployment and the Fed's impact on the credit and equity markets.

### **III. Public Markets Performance Summary**

David Gurtz, CPA, CFA, Deputy Chief Investment Officer – Director of Public Markets, Andre Clapp, Ph.D., CFA, Senior Investment Officer – Public Equities, and Chuck LaPosta, CFA, Senior Investment Officer – Fixed Income, provided the Committee with the Public Markets Performance Summary.

Mr. Gurtz noted that over this extremely volatile year, PRIM staff is very pleased with the performance of the Public Markets portfolio, in both absolute and relative returns. In absolute returns the Core Fixed Income portfolio returned 13.9%, PRIM's best performing asset class for the fiscal year. This was led by long-duration U.S. Treasury STRIPS, which returned over 35% over the year. Commenting on PRIM's Global Equity portfolio, Mr. Gurtz noted that it was essentially flat for the fiscal year, up 54 basis points, gross of fees, but the portfolio did perform very well on a relative return basis. Mr. Gurtz noted strong performance by growth vs. value managers.

Dr. Clapp noted that U.S. Equity, Emerging Markets Equity, and International Equity all outperformed with U.S. Small Cap outperforming by 2.3%, Emerging Markets outperforming by 1.2%, and International Equity outperforming by 1.8%. Dr. Clapp mentioned that collectively, the Public Markets Equity portfolio outperformed by 1.26% gross, or 1.02% net, noting that over half of the portfolio is indexed. He continued that PRIM does not expect this kind of outperformance every year.

Mr. LaPosta commented that interest rates have fallen considerably since a year ago, but much of that move occurred during the immediate reaction to the pandemic in March. Rates have remained consistently low since then. Credit spreads gapped out in March, however, credit spreads have narrowed since the trough in March. Mr. LaPosta commented that the strategies with the greatest sensitivity to interest rates (STRIPs, Agg, TIPS) are the better performers while the ones with more credit exposure (High Yield, Bond Loans, Emerging Markets Debt) struggled.

Mr. LaPosta noted PRIM's STRIPs portfolio returned 35.6% which equates to an investment gain of about \$850 million from the 3% allocation within the PRIT Fund. Importantly the long-term correlation with equities remains negative (-0.31) and has been -0.42 during the COVID-related period (February 19 to June 30). Mr. LaPosta noted that as STRIPs rallied, PRIM rebalanced \$600 million out of this account since March.

PRIM's Agg based accounts, Mr. LaPosta continued, also performed well thanks to the fall in treasury rates. Returns for this portfolio were 8.8% and slightly ahead of the benchmark. Mr. LaPosta noted that inflation linked bonds also benefited from the fall in rates but falling inflation expectations led to a little underperformance there.

Mr. LaPosta noted PRIM's High Yield managers were essentially flat, returning 0.2%, but beating the benchmark by 140 basis points, while Bond Loans returned -1.8%, outperforming the benchmark by 20 basis points for the fiscal year. Mr. LaPosta noted that PRIM's Emerging Markets Debt portfolio returned -5.3% and lagged its benchmark by almost 7%. This allocation is being weighed down by the performance of Ashmore, which has exposure to Argentina, Ecuador, Lebanon and Venezuela. They were able to claw back almost 6% in Q2 as some of those countries rebounded but are still almost 13% behind the benchmark for the trailing year.

Mr. LaPosta also updated the Committee on the approved strategy designed to take advantage of the TALF program. The first TALF loans were issued in mid-June however activity has been minimal. Loomis Sayles has not participated in any of the eligible deals. The spread improvements that have buoyed our core Fixed income strategies have also diminished the return and investment opportunities in the TALF program.

#### **IV. Strategy Group**

##### **a. Portfolio Completion Strategies Performance Summary**

Eric Nierenberg, Ph.D., Chief Strategy Officer, and Bill Li, CFA, CAIA, Director of PCS, Senior Investment Officer, updated the Committee on the PRIT Hedge Fund (HF) portfolio noting that the plan going forward is to continue to upgrade the portfolio, focusing on recycling capital into new managers/strategies with clearly high barriers to entry, while identifying existing funds with organizational or performance issues.

Mr. Li noted that the Hedge Fund portfolio underperformed the benchmark by 194 basis points (-5.4% vs. -3.5%) with the negative performance concentrated in credit related mandates, particularly Emerging Market debt and structured credit. Mr. Li highlighted some of the major contributors include activists, macro relative value, and SPACs.

Mr. Li noted that the Put Spread Collar was flat in the fiscal year. Although it performed better than most other equity sub-asset classes, it still lagged the benchmark by 670 basis points. PRIM has experienced an abrupt, steep increase in the volatility of the markets, an environment in which the strategy struggles in relative terms. Mr. Li reminded the Committee that as described at length in the email to them in mid-June, PRIM staff recommended downsizing the strategy to 1%, which is the low end of the Board-approved range of 0-6%, consistent with other active equity strategies. Since last

month, the downsizing has been progressing in an orderly manner. Assets are being converted to S&P index exposure, and the transition is expected to be completed next month.

**b. Risk Management Update**

James Leu, CFA, Senior Investment Manager - Director of Risk Management, noted his positive cross asset class collaboration saying he spends a good portion of his time working closely with the asset class groups on manager monitoring, holdings-based attribution, risk attribution, risk measurement, identifying systematic factor bets to make sure the managers are doing what we're doing and identifying and systematic bets.

Mr. Leu then reported on risk statistics and his perspectives on the first half of calendar 2020 on (1) total PRIT Fund risk, (2) equity risk, (3) interest rate risk, and (4) credit risk.

PRIT Fund risk statistics*	December 31, 2019	May 31, 2020	Comment
Total PRIT Fund risk	7.1%	14.6%	Doubled
PRIT Global Equity sleeve	9%	Almost 17%	Doubled
PRIT Private Equity sleeve	19%	Almost 38%	Doubled
PRIT Real Estate sleeve	8+%	21%	2.5 times

\*MSCI long term model

Market statistic*	December 31, 2019	Wides / highs	June 30, 2020	Comments
VIX (equity volatility)	Under 14	Almost 83 (March 23)	30	doubled
MOVE (interest rate volatility)	58	164	54	doubled
10-year Treasury yield	1.92%		0.66%	Fell > 100basis points
BBB yield credit spreads	125 basis points	462 basis points	198 basis points	Retraced 80%
High yield credit spreads	336 basis points	1100 basis points	626 basis points	Retraced 60%

Source: Bloomberg and Bloomberg Barclays Indices

Mr. Leu noted that the increase in Total PRIT Fund risk is not due to changes in exposure or asset allocation but rather it is due to the rising volatility in the market, specifically in the equity market. It is important to put this doubling of PRIT fund risk into perspective. Increases in risk are expected when there are market downturns. Not only is the increase in equity market risk expected, but the increase in equity market risk does also not cause the need for any actions for the PRIT Fund. PRIM has a strategic asset allocation approach to meet the fund's dual objectives: (1) a return objective of 7.15% over ten years and (2) avoiding large drawdowns of 20% in the next three years. If we ran a constant risk portfolio, we would be forced to cut risk in a market drawdown as risk rise by selling global equities. So, while the PRIT Fund risk has risen, it is expected given the higher market volatility.

Mr. Leu mentioned that another component to remember is that the Total PRIT Fund has a high concentration in equity risk. The PRIT Fund return objective of 7.15% necessitates a lot of equity risk or growth assets. While 52% of the market weight of the total PRIT Fund is in global equity and private equity, 75% of the risk can be attributed to equity factors, so a high concentration of equity risk.

Mr. Leu noted that the Total PRIT Fund risk has doubled over the course of 2020 mostly due to the rise in equity market volatility and not by a change in exposures. This is not cause for concern or action given PRIM's strategic allocation approach. Implied equity market risk has roughly doubled. Implied interest rate risk is actually lower for the calendar year. Interest rate risk spiked with the equity market sell-off but then declined dramatically when the Federal Reserve announced its open-ended quantitative easing "in whatever amount is needed". Implied real estate risk has more than doubled. Broad credit risk has recovered more than 80% of the widening in investment grade aided by the stimulus measures, including the direct purchase of corporate bonds by the Fed. High yield has recovered more than 60% of the widening. Despite the dramatically improved credit market tone, there are winners and losers. Default risk is rising, especially in the retail and energy sectors. The second quarter of 2020 had the second highest amount of defaults on record, second only to the first quarter of 2009.

### **c. Research Update**

Maria Garrahan, Senior Investment Officer, Director of Research, provided an update on the buildout of PRIM's research team and then provided a research update for both Asset Allocation and ESG. PRIM continues to make progress toward talent recruitment and data infrastructure, two key priorities as we continue to grow our internal research capabilities to drive innovation at PRIM.

Ms. Garrahan continued that PRIM is in the final stages of signing a deal with the MIT Sustainability Initiative where PRIM would become the founding member of an ESG research consortium led by MIT. Ms. Garrahan noted that stemming from PRIM's internal research findings, the most crucial path forward within the ESG space is to address the lack of quality in ESG data by helping develop principles regarding the construction of these metrics. The pursuit of consistent and reliable ESG data is quite daunting, however, it is achievable with the correct talent and resources aimed at solving these issues. And this is why it is so imperative to create this unparalleled research initiative with MIT.

Ms. Garrahan noted that the PRIM research team recognized a novel opportunity to work with MIT's researchers, which can be thought of as an extension of staff, to address these data concerns. MIT Sustainability Initiative, with PRIM's help, has developed a proposal to create a consortium of institutional investors who recognize the need to address these concerns before implementing different strategies. The consortium will be an extension of MIT's initial project, Aggregate Confusion, where MIT hopes to recruit 4-8 members comprised of asset owners and asset managers.

Ms. Garrahan continued that this research will enable PRIM to confidently identify ESG-related investment strategies using our proprietary suite of analytics to further enhance the PRIT Fund's risk-adjusted return. PRIM will lead the industry as we drive for reform and best practices within the ESG space.

Ms. Garrahan noted that as for asset allocation, the research team continues to explore methods of robustness to help build additional confidence in the overall robustness of our strategic asset allocation framework. As an extension of the asset allocation research, Grace Gao led the exploration of incorporating the Black-Litterman methodology as a means to test how external views may alter the recommendation. This research contribution adds yet another tool to PRIM's suite of analytics.



## V. Private Equity

### a. Performance Summary

Michael Bailey, Senior Investment Officer – Director of Private Equity, provided an update on private equity performance, private equity markets, and commitments pacing. Mr. Bailey stated the PRIT Fund Private Equity portfolio recently earned the American Investment Council’s # 2 ranking for public pension fund private equity performance. He said the long-term performance on which the award is based is more meaningful for investment strategies such as private equity than short-term performance measures. He noted that the Private Equity portfolio performance of 4.4% (gross) underperformed PRIM’s benchmark for the one-year ended June 30, 2020. Mr. Bailey said that the benchmark returned 14.3% for the 1-year, is based on public equity performance over a 7-year period, while the PRIT Fund private equity portfolio includes only performance for the 1-year ended June 30, 2020, an apples to oranges comparison over short time periods. Due to PRIM’s quarter lagged accounting methodology, the private equity portfolio, the second-quarter performance (as of June 30, 2020) reflected COVID-19 related markdowns in private equity partnerships as of March 31, 2020, the first quarter that included the pandemic-related asset markdowns. Mr. Bailey also explained that the markdowns in private equity partnership values as of March 31, 2020, are temporary valuation adjustments that reflected the challenging investment environment at the end of March 2020, not permanent valuation impairments. Staff believes that a small portion of the private equity assets are likely to have permanent impairment due to the COVID-19-related markdowns.

Mr. Bailey said that private equity commitments during the calendar year will total approximately \$1.5 billion, including approvals pending during the August 28, 2020 investment committee and September 9, 2020 PRIM Board meetings.

### b. Request for Proposals (RFP) for Private Equity Advisory Services Recommendation (Voting Item)

Alyssa Fiore, CFA, Investment Officer, presented the Private Equity Advisory Services Request for Proposals (RFP) recommendation. Ms. Fiore recommended the incumbent Hamilton Lane for Private Equity advisory services noting that PRIM has been working with Hamilton Lane since 2007. She noted that Hamilton Lane has been instrumental in helping PRIM staff with investment due diligence, strategic portfolio planning, investment sourcing, monitoring, and reporting, performance analysis and benchmarking, and legal work. Ms. Fiore noted Hamilton Lane’s fee proposal was also the lowest among all respondents.

The Investment Committee voted (by unanimous roll-call vote of all members present), by roll call, to recommend to the PRIM Board to approve the recommended selection of Hamilton Lane to provide Private Equity advisory services as described in Appendix D of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

The PRIM Investment Committee meeting adjourned at 11:51 a.m.

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

- *Minutes of the PRIM Investment Committee Meeting of May 5, 2020*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Private Equity Advisory Services RFP Evaluation Committee’s Recommendation*