



Minutes of the PRIM Investment Committee Remote Meeting  
Tuesday, November 17, 2020

Committee members attending:

- Treasurer Deborah Goldberg, Chair
- Joseph C. Bonfiglio
- C. LaRoy Brantley (joined at 9:40 a.m.)
- Constance M. Everson, CFA
- Michael Even
- 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 9:33 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 (by unanimous roll-call vote of all members present), to approve the minutes of its July 28, 2020 meeting.

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

C. LaRoy Brantley joined the meeting at 9:40 a.m.

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

*Markets*

Since September, markets have improved as two of the major uncertainties have become more certain. The election is over and there is more certainty surrounding the availability of a COVID-19 vaccine. Improvements to the economy are still modest as recent reports confirm. For example, exports are still 16% below February, and employment is still 10.5 million jobs below pre-pandemic levels. An estimated 100,000 small businesses have closed, and employment participation is lower than at any time in 40 years, except for the recession of 2008/2009. Since September, there has been a loss of momentum in job postings and industrial activity, and the current surge of virus cases will undoubtedly impact employment going forward.

We believe that diminishing prospects for economic growth and fiscal spending could create continued volatility in the markets. This is a good time to be as diversified as possible, and the fact that the PRIT Fund is very well-diversified is paying off. On a relative basis, we did well during the correction in March and we benefitted significantly from the subsequent rebound. The PRIT Fund is structured to perform well in both up markets, and perhaps more importantly, in down markets.

#### *New Employees*

**Eliza Haynes** joined PRIM on September 21, 2020 as an Investment Analyst on the Private Equity team reporting to Michael McGirr. Eliza graduated from Holy Cross in 2018 with a Bachelor of Arts in International Studies and a minor in Philosophy. While at Holy Cross, she was a Founding Member of the Holy Cross Student Investment Club, a member of the Feminist Forum, and was a volunteer for the L'Arch Communities immersion project. After graduation, she worked as an Investment Analyst for the College of the Holy Cross in their Investment Office. She participated in the screening, selection and monitoring of investment managers and portfolio analysis.

**Lionel Yelibi** will be joining PRIM on November 23, 2020, as an Investment Analyst in the Research team reporting to Maria Garrahan. Lionel graduated with a Bachelor of Science in Physics from Indiana University and a Master of Science in Mathematical Statistics from University of Cape Town. Lionel joins PRIM from Boston Fusion as a Research Scientist, where he designed and conducted experiments in Reinforcement Learning for predictive modeling as well as Optimal Asset Allocation. Prior to that he was a Research Assistant at the University of Cape Town, involved in the development of optimization methods for data clustering algorithms with applications to financial market data. Lionel won 1st place at the South African Statistical Association 2020 Conference for his postgraduate research paper.

#### *Interns*

**Tobey Tian** joined PRIM in October 2020 as an intern on the research team reporting to Maria Garrahan and will be working on Strategic Asset Allocation. Tobey received a Bachelor of Economics and Master of Economics from Nankai University in Tianjin, China. Tobey is currently studying at Brandeis University International Business School where she is expected to receive a Master of Science in Business Analytics in December 2020.

**Jaime Chung** joined PRIM in October 2020 as an intern on the Portfolio Completion Strategies team reporting to Bill Li. Jaime is pursuing a Master's in Finance at Brandeis University International Business School. Jaime earned his bachelor's degree in Economics from Taiwan National Central University.

Three interns joined in September from UMass Amherst and are conducting research on diverse-owned investment management firms. This research is an extension of the PRIM-sponsored group project from the autumn of 2019.

**Heather Stratton** is expected to graduate in May 2021 with a Bachelor of Arts in Economics. Heather is currently the President of the Isenberg Undergraduate Consulting Group.

**Kyle Aikman** is expected to graduate in December 2020 with a Bachelor of Business Administration in Finance. Kyle is a portfolio manager at the student-run Minutemen Equity Fund, which is a hands-on learning experience within the Isenberg School of Management.

**Jake Gunning** is expected to graduate in May 2021 with a dual major, Bachelor of Business Administration in Finance and Bachelor of Arts in Economics.

#### *National Recognition*

On September 15, 2020, **Treasurer Deborah Goldberg** was honored by the National Association of State Treasurers with the Jesse M. Unruh Award, which is awarded to an active Treasurer in recognition of

outstanding service to the Association, the profession, and his or her state. Treasurer Goldberg currently serves as the President of the Association.

**Dan Eckman**, Director of Finance and Administration, and **Maria Garrahan**, Senior Investment Officer - Director of Research, were honored in September at Treasurer Goldberg's Performance Recognition Program (PRP) ceremony. Dan was recognized for his contributions that allowed PRIM to continue operating seamlessly throughout the pandemic, among many other things. Maria was recognized for spearheading several industry-leading initiatives in her role at PRIM. Maria drives PRIM's innovative and proprietary, statistically-driven asset allocation framework and also worked recently to establish PRIM as the founding member of a new project with MIT Sloan School's Sustainability Initiative, a research consortium designed to solve ESG investing's most challenging issues.

For the 15th consecutive year, PRIM was awarded the GFOA's (Government Finance Officer Association's) Certificate of Achievement for Excellence in Financial Reporting. This award is for the completeness and timeliness of PRIM's Comprehensive Annual Financial Report, the CAFR. Qingmei Li, Financial Reporting Manager, manages the production of the CAFR and an increasing number of audits that have dramatically increased in complexity over time. She is the driving force behind PRIM's financial statements consistently having clean audit opinions.

#### *Promotions*

**Anthony Falzone** is promoted to Deputy Executive Director. As Chief Operating Officer, Tony currently oversees PRIM's entire finance, operations, reporting, compliance, human resources, and technology functions. Tony has more than 25 years of finance, investment operations, and technology experience. He joined PRIM as a Senior Financial Analyst in 2006 from BNY Mellon Custody Services, where he directly supported PRIM for seven years. As a Senior Financial Analyst, Tony was responsible for real estate, timberland, and private equity. In 2009 he was promoted to Director of Private Investment Accounting, responsible for the oversight of all of PRIM's alternative investments. During that time, Tony returned to school part-time and earned his degree in Computer Information Systems. In 2013 Tony became PRIM's Chief Technology Officer. In that role, Tony upgraded and maintained PRIM's entire information technology infrastructure and designed and deployed PRIM's disaster recovery, business continuity, mobile device management, and cybersecurity platforms. His work in this area essentially prepared us for where we are today – a fully enabled and secure remote workforce. In 2018 Tony was promoted to Chief Operating Officer. In addition to his current responsibilities, Tony will oversee PRIM's Communications team under Elizabeth Herlihy.

**Deborah Coulter, CPA**, who currently serves as Chief Financial Officer, has been promoted, adding Chief Administration Officer to her responsibilities. As Chief Financial Officer, Deb is responsible for managing the PRIM's non-investment financial activities, including budgeting, corporate accounting, audits, taxation, cash management, and office administration. Deb joined PRIM in 2012 as PRIM's Director of Finance and in that role also served as interim Chief Financial Officer while our former CFO was on medical leave. She briefly left PRIM to join the private sector as Assistant Controller at the Baupost Group, a Boston-based absolute return investment manager but rejoined PRIM in April 2016 as the Director of Strategic Initiatives on the Finance and Operations team. Among many other accomplishments, Deb is responsible for PRIM receiving clean audit reports and for publishing the award-winning Comprehensive Annual Financial Report (CAFR). Additionally, Deb has developed procedures to comply with the new Public Records Law and implemented new human resources policies designed to broaden the diversity of PRIM staff. Deb has more than 25 years of experience in investment management, financial management, and public accounting. Prior to joining PRIM, Deb spent 17 years at Essex Investment Management, a Boston based investment management firm, as Chief Financial Officer and Compliance Manager. In

addition to her current responsibilities, Deb will assume responsibility of PRIM’s Client Services team under Paul Todisco and join PRIM’s Executive Management Team.

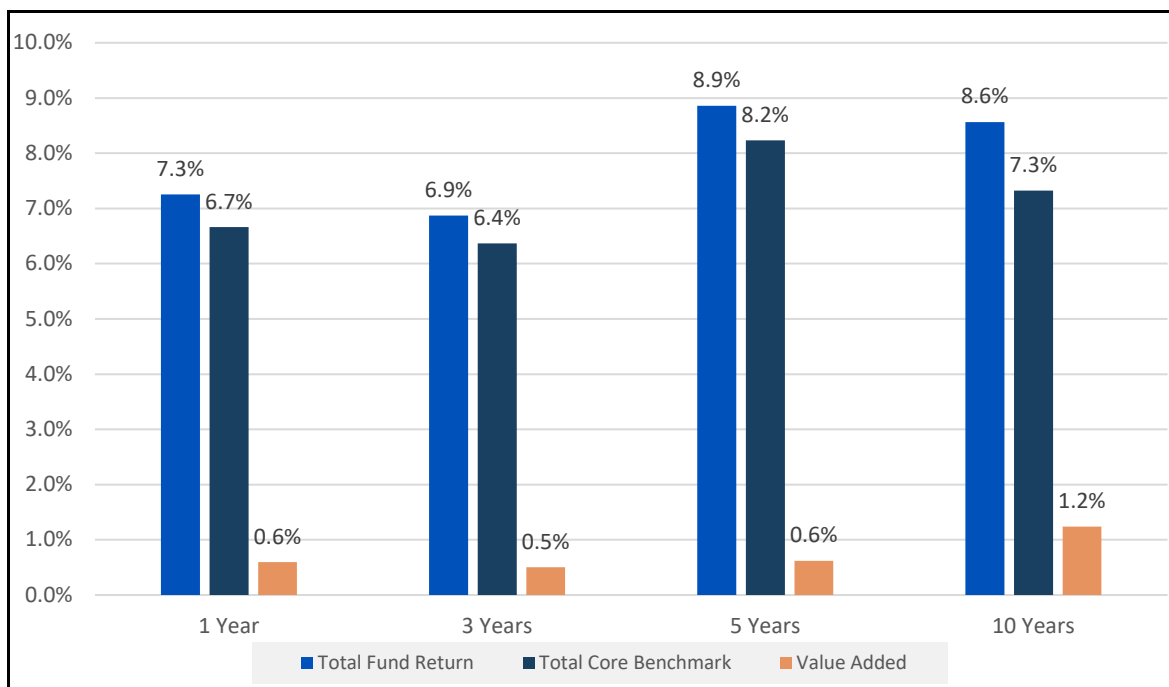
*PRIT Fund Performance*

Assets in the PRIT Fund grew to an all-time high of \$80 billion in the quarter ending September 30, 2020, despite the volatile investment environment and paying \$1.5 billion in benefit obligations during the last twelve months. Markets surged in the September quarter as COVID-19 cases fell during the summer months and more of the economy opened. The PRIT Fund grew 6.2% in the quarter and 7.3% for the trailing twelve-month period. Private Equity rebounded very sharply in the third quarter; it was up nearly 17% (year/year) compared to 4.4% last quarter. As expected, a private equity benchmark anomaly that accounted for much of the PRIT Fund’s relative underperformance for the fiscal year ended June 30, 2020 reversed in the September quarter, just as it did when this occurred during the Global Financial Crisis in 2008/2009. For the one-year period, Private Equity outperformed the public equity benchmark by 2.6% compared to last quarter when Private Equity underperformed by 9.90%. For the one-year period, Core Fixed Income was up 10.7%, and Global Equities were up 8.7%, while other asset classes were essentially flat to slightly down.

For the one-year ended September 30, 2020, the PRIT Fund was up 7.3% (6.8% net), outperforming the total core benchmark of 6.7% by 59 basis points (14 bps net).

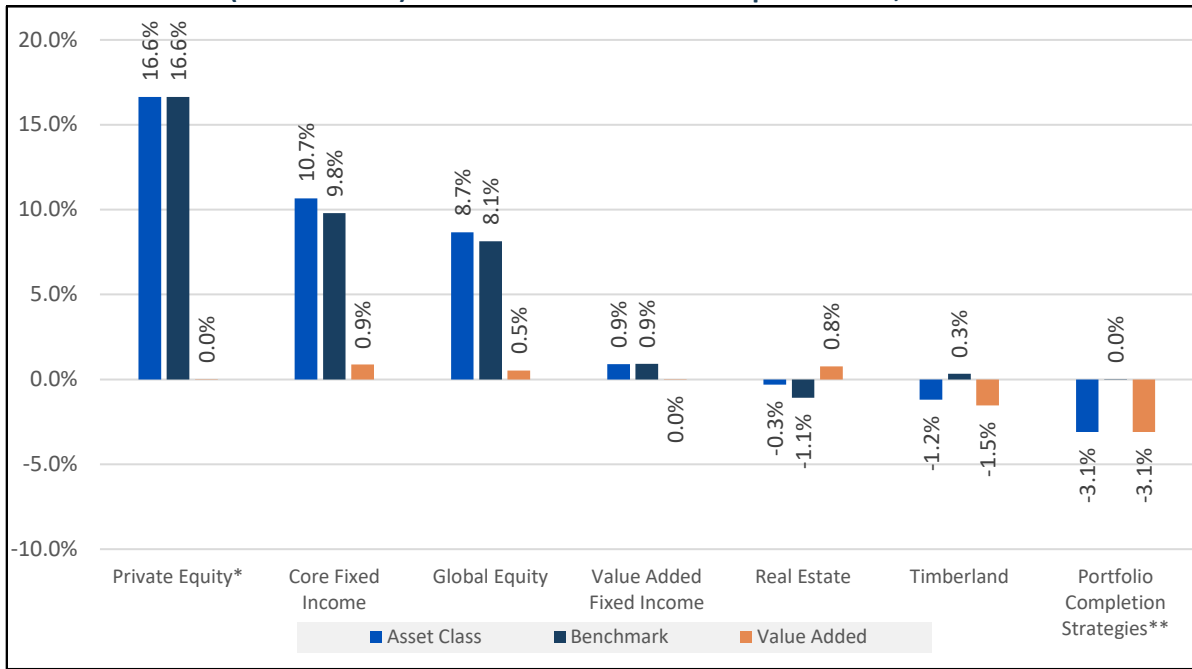
- This performance equates to an investment gain of \$5.2 billion, net of fees.
- This outperformance equates to \$106 million of value above the benchmark return, net of fees.
- Net total outflows to pay benefits for the one-year ended September 30, 2020, were approximately \$1.5 billion.

**Total PRIT Fund Returns**  
(Gross of Fees) Annualized Returns as of September 30, 2020



Source: BNY Mellon. Total Core Benchmark includes private equity benchmark.

## PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of September 30, 2020



Source: BNY Mellon. Totals may not add due to rounding. \*Benchmark is actual performance. \*\*Hedge Fund returns are net of fees.

## PRIT Fund Periodic Table of Returns (Gross of Fees) as of September 30, 2020

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 16.6%	PRIVATE EQUITY 18.3%	PRIVATE EQUITY 17.8%	PRIVATE EQUITY 18.3%
CORE FIXED INCOME 10.7%	CORE FIXED INCOME 7.9%	GLOBAL EQUITY 10.2%	REAL ESTATE 9.8%
GLOBAL EQUITY 8.7%	GLOBAL EQUITY 6.2%	REAL ESTATE 6.8%	GLOBAL EQUITY 8.8%
VALUE-ADDED FIXED INCOME 0.9%	REAL ESTATE 5.4%	CORE FIXED INCOME 6.1%	CORE FIXED INCOME 5.4%
REAL ESTATE (0.3%)	VALUE-ADDED FIXED INCOME 3.3%	VALUE-ADDED FIXED INCOME 5.4%	VALUE-ADDED FIXED INCOME 5.4%
TIMBERLAND (1.2%)	TIMBERLAND 2.3%	TIMBERLAND 3.4%	TIMBERLAND 4.9%
PCS (3.1%)	PCS 1.2%	PCS 2.6%	PCS 3.7%

Source: BNY Mellon. Returns as of September 30, 2020

Constance M. Everson, CFA, Investment Committee member, discussed her views on the economy and market outlook. Ms. Everson noted that the COVID vaccine is a game-changer for the economy and markets. She noted the equity markets can be broken down into three categories: 1) Stocks deep off their highs such as financials, energy (oil) and real estate companies; 2) Speculative stocks such as the mega-cap technology stocks have thrived in this environment and hitting new highs; and 3) Stocks in the middle that have reversed some of their losses but are off their highs.

## **Public Markets**

### **a. 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 reported the continuing strong absolute and relative performance of the Public Markets portfolio, which represents nearly 2/3 of the PRIT Fund. Core Fixed Income was PRIM's second-best performing asset class for the 1-year period, returning a strong 10.7%, outperforming its benchmark by 78 bps, net of fees.

Mr. Gurtz noted that the key themes for Global Equities, which represent about 40% of the PRIT Fund, continue to be: 1) The strong market recovery; and 2) Technology and Growth stocks continue to outperform. Noting that for this 1-year period ending September 30<sup>th</sup> - within the Global Equities portfolio – PRIM's growth managers posted terrific returns – both in absolute and relative terms – as many of PRIM's growth managers seek out innovative companies with good balance sheets and these stocks have been highly rewarded this year.

Dr. Clapp noted that PRIM has seen the impact of the virus accelerate recent trends of companies moving more business to on-line transactions as well as a focus on medical innovation and the continued growth of the bio-tech industry. Dr. Clapp noted that Global Equities represent 41% of the PRIT Fund. With continued Market Recovery in Q3 of 2020, the S&P 500 was up nearly 9%, Emerging Markets up nearly 10%, and Developed International up close to 5%.

Dr. Clapp noted the large dispersion between Growth and Value over the last few years. Dr. Clapp also noted that active managers outperformed over the last year, with PRIM's U.S. Small/SMID/Micro-portfolio outperforming by 302 bps, Developed International portfolio outperformed by 426 bps and Emerging Markets portfolio outperformed by 37 bps.

Mr. LaPosta updated the Committee on Core and Value-Added Fixed Income, which represents 22% of the PRIT Fund. Mr. LaPosta noted that interest rates remain low since the Fed dropped rates to near zero in March, while credit spreads continue to narrow since they widened dramatically in March. Investment Grade credit spreads tightened by 15bps in Q3 (+20 LTM), while High Yield spreads tightened by 100bps in Q3 (still 140 wider LTM).

Mr. LaPosta commented that STRIPS, PRIM's best performing asset class, returned over 21% thanks to rates falling 67bps. While TIPS/ILBS also benefited from falling rates as yields in this category are 120bps lower for the last 12 months, which led to a return of 8.9% for the portfolio.

Mr. LaPosta continued that Agg portfolios returned 7.8% besting the index by 80 bps as rates fell by 110 bps. In addition to interest rates, Agg portfolios are also impacted by changes in credit spreads which are 20 bps wider for LTM and would pose a bit of a headwind to managers who rely on IG credit as a return generator. PRIM's managers have used the liquidity provided by various Fed programs, improvement in credit fundamentals and an active primary issuance market to add value.

Mr. LaPosta mentioned that High Yield returned 3.9%, which is 160 bps ahead of benchmark, while Bank Loans returned 0.6% and lagged the benchmark by 40 bps. Mr. LaPosta noted that EMD continues to lag the benchmark, but the gap has narrowed.

Regarding Other Credit Opportunities (OCO), Mr. LaPosta noted that it consisted of the six mandates with \$660 million, representing 0.8% of PRIM Fund AUM in deployed capital. OCO's one-year return of 5.3% exceeded its benchmark by nearly 3% but trailed the 8-12% return target PRIM generally uses when considering these strategies. Given the disruptions in the credit market from February to April, the return of 5.3% is impressive and PRIM's managers are seeing opportunities to either earn higher returns or more commonly meet their target returns with higher quality investments.

Mr. LaPosta noted that within the \$660 million deployed capital, there are currently no investments in the recently approved TALF strategy. The market opportunity has quickly dried up as spreads in AAA-rated ABS have returned to pre-COVID-19 levels. According to Loomis only about \$3.3 billion subscriptions to the \$100 billion TALF program have been processed. The program has been extended to December 31<sup>st</sup> (and possibly longer), and PRIM and Loomis are ready to go if opportunities present themselves.

**b. New Co-Investment Managers Recommendation (Voting Item)**

Mr. LaPosta presented the staff's recommendation to approve Fidelity, Loomis Sayles & Company, PIMCO, and Shenkman Capital as co-investment managers. Noting that at its February 4, 2020 meeting, the Board approved co-investment guidelines for Portfolio Completion Strategies (PCS) and Other Credit Opportunities (OCO) to allow PRIM staff access to managers' best ideas in the portfolio at lower fees. Adding these Value-Added Fixed Income investment managers to the co-investment bench will allow PRIM staff to be nimble should co-investment opportunities arise.

Mr. LaPosta noted that to expand upon PRIM's co-investment program, the staff recommends the inclusion of PRIM's Public Markets Value-Added Fixed Income managers in the co-investment lineup. Co-investments from these managers will follow the same PCS & OCO guidelines which were approved in February of this year.

Mr. LaPosta mentioned some of the co-invest guidelines:

- Investment needs to fit with managers strength
- Main account is an SMA
- Be offered at better fee terms than main account
- Capped at 30% of accounts NAV
- Be an investment alongside the manager's main fund
- Subject to review by PRIM Staff and its advisors
- Approved by PRIM's CIO

Mr. LaPosta mentioned that three of the recommended managers, Fidelity, Loomis Sayles and Shenkman, currently manage High Yield Bond strategies for PRIM while the fourth, PIMCO, manages an Emerging Markets Debt strategy. PRIM has recently had conversations with each of these managers about ways in which we may expand the relationship. More specifically we are in initial discussions with Fidelity about a co-investment structure which will allow access to the firm's best ideas. Also, Shenkman presented us with a one-off transaction they have in their pipeline that may present a co-investment opportunity.

The Investment Committee voted (by unanimous roll-call vote by all members present), to recommended to the PRIM Board that it approve the addition of Fidelity, Loomis Sayles & Company,

and Shenkman Capital to the Board-approved bench of co-investment managers described in the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

### **III. Strategy Group**

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

Eric Nierenberg, Ph.D., Chief Strategy Officer, Bill Li, CFA, CAIA, Director of PCS, Senior Investment Officer and, Eleni Klempner, Portfolio Completion Strategies, Investment Officer, updated the Committee on the PCS portfolio.

Mr. Li noted that PRIM staff continues to upgrade the Hedge Fund portfolio, focusing on recycling capital into new managers/strategies with clearly high barriers to entry, while identifying existing funds with organizational or performance issues. PRIM's Hedge Fund managers have been actively presenting co-investment ideas to PRIM and staff has been diligently vetting co-investments per the guideline the Committee approved earlier this year. Mr. Li noted staff continues to source directional funds, or unconstrained stock pickers targeting high alpha on top of market betas. PRIM staff is working across teams, especially Mr. Andre Abouhala, public equity colleague, on this.

Mr. Li commented that as for performance in Q3, the PRIT Hedge Fund Portfolio delivered 2.7%, vs. the benchmarks 2.8%. For the trailing one year, the Hedge Fund portfolio detracted by -2.7%, vs. the benchmarks -0.5%. Mr. Li noted the troubled sectors mentioned this last Committee meeting – Emerging Market Credits and Structured Credits - came back strongly with high single-digit figures. They have yet to recover all losses incurred earlier, but we remain optimistic. Event-Driven and Asian Macros continued to perform reasonably well. Performance of Systematic Funds has been somewhat muted and as mentioned at the last Committee meeting, we continue to be less constructive here, as we want to emphasize clear edge and high barrier-to-entry, while most systematic CTAs don't exhibit those characteristics anymore.

Speaking on PSC Enhanced Equity, Mr. Li commented that as communicated to the Committee in mid-June, PRIM staff proposed to downsize the strategy to 1% of the PRIT Fund, a size more in line with other active equity mandates. Downsizing was finalized in August. For 3Q, the strategy returned 3.4% vs. the benchmark of 4%.

Ms. Klempner updated the Committee on Real Assets performance. Noting that for the quarter, Real Assets were down half a percent, but the benchmark was up one percent. Agriculture, which is just over half of Real Assets was down 3%, but its benchmark was up 1.25%. Ms. Klempner noted that the variance is because of the development j-curve effect: the benchmark index has a decent income component because it is mature in contrast with our properties that are still in the development stage. As such, there is a mismatch with the benchmark. Ms. Klempner informed the Committee that the staff would be performing a comprehensive benchmark review.

#### **b. Risk Management: Benchmarking Advisory Services Request for Proposals (RFP) Recommendation (Voting Item)**

James Leu, CFA, Senior Investment Manager - Director of Risk Management, presented the Benchmarking Advisory Services RFP recommendation. Mr. Leu noted that the Benchmarking Advisory Services is a new mandate for PRIM. PRIM is seeking a benchmark consultant to conduct a comprehensive benchmark review at the start of the year and then every three years. The consultants will go over the benchmarks at (1) the manager level, (2) the sub-asset class level, (3) the asset class level, and (4) the total PRIT fund level. Also, the consultant will review the framework and rationale of the benchmarks as it relates to the philosophy of the PRIT Fund portfolio.



Mr. Leu also noted that the benchmark consultant would conduct an annual benchmark review and report to PRIM staff, the Investment Committee, and the Board any findings, changes, or recommendations over the course of that year. The benchmark consultant will provide additional benchmark guidance and analysis on a case-by-case basis as issues arise.

Mr. Leu noted that PRIM issued a Request for Proposals (RFP) for benchmarking advisory services on August 24, 2020. By the deadline on September 25, 2020, PRIM received three proposals for benchmarking advisory services, with respondents including: NEPC, RVK and Verus. The Evaluation Committee consisted of Michael Trotsky, Eric Nierenberg, Maria Garrahan, David Gurtz, Jay Leu, Matt Liposky, and Investment Committee member Glenn Strehle. Mr. Leu thanked Mr. Strehle for his participation and greatly appreciate his input.

Mr. Leu noted that all of the RFP responses were thoroughly reviewed with all three firms selected as finalists for interviews based on criteria detailed in the RFP. The interviews were held in a virtual format on October 13, 2020. The Evaluation Committee unanimously recommended the selection of Verus for the benchmarking mandate.

Mr. Leu summarized the Evaluation Committee rationale in the selection of Verus. Verus has been offering investment advisory services since 1986, when it was founded as Wurts. Verus distinguishes itself from the other respondents by being the only respondent with a dedicated benchmarking advisory mandate as opposed to offering benchmarking advisory services as part of general consulting services. Verus' other benchmarking mandate is similar to PRIM's in terms of scope of services. In addition, the client of this dedicated mandate is a large public plan, similar in size and complexity to PRIM. Due to this mandate, Verus has an established framework and process for conducting benchmarking advisory services, including performing a comprehensive benchmark review.

Mr. Leu commented on the quality of the proposal, both in terms of content and presentation. Verus' written proposal and presentation each exhibited greater depth of thought and analysis than the other respondents. In discussing their approaches to benchmarking, Verus described relevant tradeoffs and use cases for alternative solutions. Verus demonstrated an approach that thoughtfully considered client-specific situations to arrive at a tailored solution. Examples they gave also illustrated the incorporation of risk analytics. Verus discussed the tradeoffs in determining private equity benchmarking solutions. Also, Verus' discussion of finding an alternative to LIBOR for a client was illustrative of their approach and incorporation of risk analytics. Verus' "benchmark fit" analysis used both a holdings-based approach and a returns-based approach and incorporated more technical detail than other respondents.

Mr. Leu noted that on the proposed team will be Eileen Neill as the primary client contact. Ms. Neill is also the primary client contact with Verus' other dedicated benchmarking mandate with another large public pension plan.

Mr. Leu noted that the Evaluation Committee reviewed Verus' references. The references confirmed Verus' technical depth and willingness to work with clients to develop tailored solutions to meet a client's needs. References also remarked on Verus' use of risk analytics. The Committee also reviewed Verus' Fee Proposal. The initially proposed fee by Verus of \$130,000 annually was a competitive fee bid and was the midpoint for the fees proposed by the three respondents. In the spirit of our ongoing Project Save efforts, the revised fee proposal after contract negotiations is \$115,000 annually.

The Investment Committee voted (by unanimous roll-call vote by all members present), to recommended to the PRIM Board that it approved Verus for Benchmarking 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.

### **c. Research Update**

Maria Garrahan, Senior Investment Officer, Director of Research, announced that Lionel Yelibi would be joining the research team on November 23, 2020, as an Investment Analyst. Mr. Yelibi brings a solid quantitative background in clustering and dimension reduction techniques which will be incredibly valuable to PRIM's Strategic Asset Allocation efforts as well as other complex research initiatives. Ms. Garrahan informed the Investment Committee of a recent departure, Grace Gao, who recently left PRIM for a new opportunity in New York City.

Ms. Garrahan noted that the Research team is currently deep into work on Strategic Asset Allocation. PRIM has signed a one-year extension with NEPC to continue to act as our Asset Allocation Advisory Consultant into the second quarter of next year. The Evaluation Committee for the Asset Allocation Advisory Services RFP will resume the search initiative in 2021 to determine the best path forward for asset allocation advisory services.

Ms. Garrahan updated the Committee on its ESG efforts, noting that PRIM continues to work closely with MIT as they conduct the recruiting process for additional members of the ESG research consortium called Aggregate Confusion Project.

Ms. Garrahan announced a new internal ESG research initiative. In September 2020, PRIM hired Kyle Aikman, Heather Stratton, and Jake Gunning, as part-time interns on the Research team to focus on 'Sourcing Diversely owned Investment Management Firms', an extension of their PRIM-sponsored student project from the Fall 2019 semester at UMASS Amherst led by Eric Nierenberg. Ms. Stratton, Mr. Gunning, and Mr. Aikman are creating a database of diversely owned investment management firms as well as identifying diversely staffed investment management teams to better explore areas of opportunity.

## **IV. Private Equity Performance Summary**

Michael Bailey, Senior Investment Officer – Director of Private Equity, provided an update on a new member of the Private Equity team, Private Equity performance, Private Equity markets, and the pace of commitments to new investments.

Mr. Bailey said that he is excited to welcome Eliza Haynes, Investment Analyst, to the Private Equity team, and that she already has contributed to important projects and investment underwritings.

Regarding performance, Mr. Bailey said that for the one-year ended September 30, 2020, portfolio performance increased to 16.6%, up from 4.4% for the one-year ended June 30, 2020. Private Equity contributed 25% of the PRIT Fund's one-year performance ended September 30, 2020 of 7.3%. He also mentioned that Private Equity outperformed over longer periods: the 10-year return is 18.3%, compared to U.S. equity returns of 13.5% as measured by the Russell 3000 index, outperforming that index by more than 4.5%.

Mr. Bailey mentioned that broadly diversified sources drove performance in the Private Equity portfolio in contrast to a narrow group of stocks that were mentioned earlier in the meeting, which drove performance in segments of the public equity market. Contributors to Private Equity performance included privately held companies across the business services, healthcare, and logistics sectors. Publicly traded holdings in the private equity portfolio also boosted performance, including companies in the biotech and software sectors.

In private markets, Mr. Bailey said that valuations for buyouts of private companies rose over the past year, supported in part by accommodative credit markets, and that transaction volumes are rising. In the third quarter of 2020, the private equity portfolio generated more cash from distributions than were required from new cash contributions, in part due to sales activity by PRIM's private equity managers.

PRIM's Private Equity commitments during the calendar year totaled approximately \$2.1 billion, including approvals pending during the November 17, 2020 investment committee and December 1, 2020 PRIM Board meetings. If the pending commitments are approved, then year-to-date commitments will be in line with the midpoint of the \$1.7 billion to \$2.3 billion target range for 2020 Private Equity commitments. He explained that Private Equity exposure rose to 12.5% during the reporting period, from 11.4% at the end of the second quarter. The pipeline of potential investments is full, including co-investments that the private equity team hopes to discuss at a future meeting.

## **V. Operational Due Diligence**

Matthew Liposky, Chief Investment Operations Officer and Devinder Sangha, Albourne Partners, updated the Committee on PRIM's operational due diligence process. Mr. Liposky noted that it had been roughly a year since this Committee made the recommendation to the Board to engage Albourne to oversee operational due diligence for the entire PRIT Fund. As this is the first mandate of its kind for PRIM, the staff wanted to provide the Committee with an update and overview of what we have accomplished over the past 12 months.

Mr. Liposky noted that PRIM hired Albourne to provide operational due diligence support to PRIM Staff. The engagement began in November 2019. PRIM staff has taken a number of steps to establish an ODD framework across the entire external manager program, to implement policies, procedures and safeguards for the PRIT Fund. Mr. Liposky noted that when PRIM thinks about operational risk, PRIM is referring to a broad set of risks outside of the investment strategy of a proposed investment. This can be in the form of identifying things like frauds, misappropriation of cash/assets; inadequate performance calculations, conducting background checks to identify adverse legal/regulatory/media against the managers or key principals, as well as newer concepts like cybersecurity controls. In short, our external managers are compensated for assuming market risk, not for operational risk.

Mr. Liposky noted that Albourne's process is to request comprehensive documentation, conduct manager interviews to verify and validate their claims and conclude with a detailed research report that includes a summary of ratings at the overall level and across a variety of sub-factors. As it relates to PRIM's program in conjunction with Albourne — PRIM's goal was to establish a framework that has a consistent, repeatable process.

Mr. Liposky noted that PRIM formalized this through the establishment of an ODD Policy. The document provides an overview of the ODD methodology including an approach for initial assessments and ongoing monitoring, identifying thresholds for escalation, and decision points based on the assessments. PRIM is taking a risk-based approach whereby we aim to conduct full ODD reviews of all new investments, as well as a layered monitoring program for the existing investments. To date, Albourne has conducted over 40 full ODD assessments on PRIM's behalf in the last year.

Continuing, Mr. Liposky noted that the ongoing monitoring includes a two-legged approach. First there is daily monitoring of news, regulatory, and legal notices. Albourne has pushed out over 5,000 unique notices across the 200 or so managers in the portfolio. The goal here is to ensure that we are staying on top of developments with our managers, everything from routine turnover, portfolio company updates, to more serious matters that introduce headline risk to our program. The second leg to the ongoing monitoring is an annual ODD questionnaire that is sent out across all external managers annually. It includes general data collection, attestation of any operational incidents within the past year, and confirmation of any changes to the manager's operational control environment within the past year. PRIM has completed this exercise over the summer and has begun to draw conclusions from some of the data.

Mr. Liposky noted that the investment teams have been important partners in working with the managers to cooperate with the Albourne ODD process and assist in areas when needed. Going forward, PRIM will continue to refine the process for initial and ongoing reviews and expect continued integration of ODD into the process.

Mr. Sangha provided an update on the impact COVID-19 has had on investment managers' operations and Albourne's due diligence process.

The PRIM Investment Committee meeting adjourned at 11:39 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Investment Committee Meeting on July 28, 2020*
- *PRIT Fund Performance Report (September 30, 2020)*
- *BNY Mellon Gross of Fees Performance Report (September 30, 2020)*
- *Benchmarking Advisory Services RFP Evaluation Committee's Recommendation*