



Minutes of the PRIM Administration and Audit Committee Remote Meeting  
Thursday, February 4, 2021

Committee members attending:

- Robert Brousseau, Chair
- Treasurer Deborah Goldberg
- Patrick Brock
- Karen Gershman, CPA
- James Hearty
- Theresa McGoldrick, Esq.
- Dennis Naughton

Committee members not attending:

- Michele Whitham, Esq.

The PRIM Administration and Audit Committee meeting was called to order at 10:04 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](http://www.mapension.com)). At the start of the meeting the names of the members participating remotely were announced.

**I. Approval of the Minutes (Voting Item)**

The PRIM Administration and Audit Committee approved by roll call vote the minutes of its November 19, 2020 meeting. Theresa McGoldrick, Esq. was not present for the November 19, 2020 meeting and therefore chose to abstain.

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

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

*PRIT Fund Performance*

The PRIT Fund stands at \$87 billion, another all-time high. That is impressive on its own, but what really stands out is that the six-month return ended December 2020 of 16.6% is the largest six-month return in PRIM's entire history, surpassing the previous high of 15.7% for the six-month period ending in June of 1986, the strongest six-month return in 37 years. Mr. Trotsky noted that while the absolute return is record-setting, the relative return for the six-month period is also the strongest in the Fund's history. For the six-month period ending December 31, 2020, which corresponds to the first half of this fiscal year, the PRIT fund outperformed its benchmark, net of fees, by 388 basis points, nearly 4%.

Mr. Trotsky mentioned that while the strong performance is great, it also seems like a hollow victory in light of what the country is going through – a raging worldwide pandemic and global economic damage that might take years to reverse. He expressed concerns that there are still so many people in the economy that have been left behind, 10 million people out of work, death and despair, and the country is

still struggling in so many ways – political, economic, and social. Mr. Trotsky explained that the strong market return seems like a cruel irony because it does not capture the hardships that so many in this country are facing and sometimes, the markets do not seem logical. He asked the Committee to review these record setting results with appropriate humility. PRIM is doing their important part to grow the assets used to support more than 300,000 beneficiaries and is proud of this accomplishment, but also mindful that these results mask the hardships and uncertainties that are still very much with us today. Mr. Trotsky expressed his hope for an end to this vicious pandemic and a quick return to a strong economy and a more normal lifestyle.

#### *Legislative Update*

Mr. Trotsky communicated to the Committee that for the past few meeting cycles, PRIM has been tracking state legislation entitled, “An Act enabling partnerships for growth.” He explained that the goal of the legislation is to increase the diversity of PRIM’s investment managers and contractors to at least 20% and increase access for minorities, women, and disabled investment managers and business partners. Mr. Trotsky credited Treasurer Goldberg for strongly advocating for the amendment and working directly with Representative Chynah Tyler and Senator Paul Feeney, who filed the bill and was pleased to report that Governor Baker signed the bill into law on January 14th, and congratulated Treasurer Goldberg and her staff for their foresight and tenacity in seeing the bill through. Mr. Trotsky said that the new legislation is a continuation of the important diversity and inclusion work PRIM has been doing to further increase access for minorities, women, and people with disabilities and sets goals and formalizes procedures and reporting requirements. He said that PRIM is currently putting in place an implementation plan and expect to update the Committee on the plan specifics and progress at the next meeting. Mr. Trotsky identified Deputy Chief Investment Officer, David Gurtz, as the project’s manager.

Mr. Trotsky provided a brief summary of the asset allocation discussion that took place at the Investment and Real Estate and Timberland Committee meetings. He explained that there are no material changes, only a minor change, raising the Private Equity allocation range by one percent and lowering the Portfolio Completion Strategies (PCS) allocation range by one percent.

Dennis Naughton mentioned that the market activity is unprecedented and asked at what point will the actuarial rate of return of 7.15% need to be adjusted?

Mr. Trotsky explained that the PRIT Fund’s return has been above the actuarial rate of return over the 1, 3, 5, and 10 year periods, and PRIM’s job is utilize the asset allocation that has the best probability of reaching that 7.15% actuarial rate of return.

#### *Organizational Updates*

Mr. Trotsky was excited to share that the Treasurer is nominating Phillip Perelmuter to become an Investment Committee member. He mentioned that the vote will take place at the Board meeting later this month. Mr. Trotsky provided the Committee with Mr. Perelmuter’s bio as follows:

Mr. Perelmuter retired from Wellington Management after 25 years. For 11 years, he served as one of the firm’s three Managing Partners in addition to his roles as a Portfolio Manager, the Director of Investment Research, and the Head of EMEA during a 5-year assignment in London. Before joining Wellington, Phil worked in Institutional Sales at CS First Boston and as a Financial Advisor at Merrill Lynch. Phil graduated magna cum laude from Princeton University and has an MBA from Harvard Business School. He has served as a member of the U.K. Diversity Project’s CEO Advisory Board and the Advisory Committee of the Boston Latino Legacy Fund, and currently serves on the National Board of the Posse Foundation. Phil is the son of Cuban immigrants and was born and raised in the Little Havana section of Miami, Florida. He and his wife currently live in Needham and have three adult children. Mr. Trotsky expressed gratitude that Mr. Perelmuter has agreed to join PRIM’s Investment Committee and has no

doubt that his experience and insights will be invaluable to PRIM. Mr. Trotsky asked the Committee to join him in welcoming Mr. Perelmuter.

Mr. Trotsky mentioned that **Michael Bailey** left PRIM at the end of January to take a position at Fidelity Investments and wished him well in his new position and expressed gratitude for his service to PRIM and the Commonwealth. Mr. Trotsky commented that PRIM has had several strong contributors through the years, but Mr. Bailey's contribution to PRIM was exceptional, and during his eight-year tenure at PRIM, Mr. Bailey cemented PRIM's legacy as having the top Private Equity portfolio in the country and that he will be sorely missed.

Mr. Trotsky announced that **Michael McGirr** had been promoted to Director of Private Equity after nearly seven outstanding years on the team, and PRIM was fortunate to have such a strong member of the team to take over and ensure continuity. Mr. Trotsky told the Committee that Mr. McGirr has consistently been one of the highest-performing and most valued employees at PRIM, and is highly respected by his colleagues and the entire Private Equity industry. Mr. Trotsky shared that Mr. McGirr and the team established and built a rigorous, consistent investment process to guide Private Equity portfolio construction and manager selection. Mr. Trotsky added that in addition to Mr. McGirr's daily responsibilities managing some of PRIM's most important Private Equity relationships and sourcing new ideas, Mr. McGirr has been leading Private Equity's cutting-edge research and also was responsible for managing Sarah Zatoonian and Eliza Haynes, Private Equity's two Investment Analysts, and has mentored several PRIM summer interns.

Mr. Trotsky provided the Committee with additional background on Mr. McGirr. He shared that Mr. McGirr joined PRIM on April 7, 2014 from Bain Capital in Boston where he was an investment manager, and prior to Bain, Mr. McGirr worked at the Minnesota State Board of Investment, as a portfolio manager of an alternative investment portfolio with \$9 billion in assets. After graduating with a Bachelor of Science in Finance from the University of Richmond, Mr. McGirr began his career as a professional baseball player where he was a pitcher in the Oakland Athletics system, and later earned a Master of Business Administration from the Johnson Graduate School of Management at Cornell University. Mr. McGirr is a Chartered Financial Analyst (CFA), a member of the CFA Society Boston, and a member of the Institutional Limited Partners Association (ILPA) Content Committee. Mr. Trotsky reminded the Committee that in 2018, Treasurer Goldberg awarded Mr. McGirr the Commonwealth Citation for Outstanding Performance. Mr. Trotsky asked the Committee to join him in congratulating Mr. McGirr, and in thanking Mr. Bailey.

Mr. Trotsky then announced **Shannon Ericson, CFA** recently joined PRIM as a Senior Investment Officer on the Risk team reporting to Jay Leu, Director of Risk Management. Mr. Trotsky told the Committee that Ms. Ericson brings over 20 years of investment industry experience to PRIM, including 15 years with LMCG Investments as a quantitative portfolio manager in developed international and emerging market equities. He mentioned prior to that, Ms. Ericson served as a quantitative analyst in international equities at Evergreen Investments and Independence International Associates. Most recently, Shannon was an asset allocation portfolio manager at Brighthouse Financial. He concluded by telling the Committee that Ms. Ericson earned a Bachelor of Science in Finance from Bentley College and an MBA from Bentley College, and holds the Chartered Financial Analyst designation. Mr. Trotsky welcomed Ms. Ericson to PRIM and mentioned he is very excited to have her join the team.

Lastly, Mr. Trotsky announced that **Paul Todisco**, PRIM's legendary head of Client Services, would be retiring at the end of March. Mr. Trotsky described Paul as a very special individual who has been dedicated to serving the public for almost forty years, including 31 years with PRIM. He explained that Mr. Todisco played an integral role in developing the PRIM Board's modern Client Service program, including his work on the legislation that created the highly successful "Segmentation" investment program growing PRIM's client and asset base by allowing local retirement systems to invest in the PRIM Fund's eligible asset

classes as an alternative to investing in the total PRIT Fund. Mr. Todisco also served as the Executive Director of the Health Care Security Trust, and as the Research Director and Staff Supervisor at the MA State Legislature Joint Senate and House committee on Public Service.

Mr. Trotsky expressed that Paul's historical knowledge of PRIM will be sorely missed, and there is simply nobody who has Paul's total recall of all facts and matters related to PRIM. He explained that Mr. Todisco has an uncanny memory for the people, laws, events, and dates that have shaped PRIM, and is the organization's resident historian with a steel-trap memory for all things PRIM while setting the standard for superior client service who could often be heard saying, "if it's worth doing, it's worth doing well."

Mr. Trotsky mentioned that in addition to being a tremendous asset to PRIM, Mr. Todisco is also an extraordinary person. Mr. Trotsky told the Committee that he is always gracious and never loses his temper or his sense of humor. His warm and generous spirit makes everyone feel welcome and important at PRIM. His knowledge, hard work, character, charm, and integrity have helped guide PRIM through thick and thin.

Mr. Trotsky asked everyone to join him in congratulating Mr. Todisco on a brilliant career and thanked him for his years of service and his total dedication to PRIM's success. Mr. Trotsky added that PRIM will be renaming a conference room in Paul's honor, which will remind all those who enter to aspire to the same level of excellence as Paul did.

Mr. Todisco thanked everyone for the well wishes and stated it has been an honor for him to serve and work at PRIM.

#### *Markets*

Mr. Trotsky told the Committee that markets surged again in the December quarter despite a second wave of deadly COVID cases, a long, contested and often ugly election cycle, and more violence and unrest. He mentioned that in the December quarter, the S&P was up 12.1%, developed international markets were up 16%, emerging markets up 19.7%, while bonds were essentially flat. Mr. Trotsky continued saying that for the calendar year ended December 2020, the S&P was up 18.2%, developed international markets were up 7.8%, emerging markets up 18.2%, while bonds were up 7.4%. A 60/40 mix of stocks and bonds was up 12.7% and the PRIT Fund was in line, it was up 12.6% for the calendar year. Mr. Trotsky reminded the Committee that this 12.6% return for calendar year 2020 comes on the heels of a 16.6% return in calendar year 2019, so very strong impressive years for the fund for two straight years. He added that the PRIT Fund continues to perform well in both up and down markets – down markets like the March quarter where PRIM performed admirably, but also in up markets like they had in the September and December quarters. He continued by saying in all, it was very strong calendar year performance, and the fund is at a record high of \$87 billion despite the extreme volatility and uncertainty PRIM faced during a year that they will not soon forget.

#### *2021 Annual Plans*

Mr. Trotsky told the Committee that the 2021 annual plans are a continuation of the work they have been doing, with additional focus on implementing the Investment Equity legislation and performing an overall PRIT Fund benchmark review.

Mr. Falzone provided the Committee with a summary of the Operations team's past year (2020) that included the following accomplishments:

- Overcame the challenges brought on by COVID-19, ensuring PRIM's work could continue uninterrupted and that PRIM staff could safely and gradually transition back into the office.
- Completed the Global Custody RFP and implementation of Albourne's Operational Due Diligence (ODD) platform.

- Migrated PRIM's data center to a more hardened facility with more robust business continuity capabilities.
- Completed the rollout of PRIM's new website and redesigned PRIM's meeting materials and charts and graphs used for Board and committee meetings.
- The Client Service team continued to serve PRIM's clients and transitioned to a remote service model.
- The Legal team worked on many different co-investment agreements, separately managed accounts, other investment management agreements, and vendor contracts.

Mr. Falzone then provided an overview of the 2021 Operations Annual Plans that included the following items:

- Support the Investment Equity legislation by continuing the work we have been doing on the enhanced reporting discussed at prior meetings.
- We will be examining all vendors, looking for ways to partner with minority, women, and disabled owned businesses.
- Perform the talent assessment to help assist with succession planning across the organization.
- Host an Investor conference and create educational opportunities for Board and committee members.
- Issue an RFP for Proxy voting services.
- Review and implement new reporting requirements for GIPs, GASB, and Margin rules for prime brokers.
- Continue to provide excellent legal support in the areas of contract review, litigation, government law issues etc. to the increasingly sophisticated PRIM investment and operational initiatives.

### III. 2021 Proxy Voting Guidelines (Voting Item)

Ellen Hennessy, Compliance Analyst, joined Mr. Falzone along with representatives from PRIM's proxy voting consultant, Institutional Shareholder Services (ISS) in presenting the 2020 proxy voting review and proposed proxy voting changes for 2021, proposed by Treasurer Goldberg. Ms. Hennessey reviewed the enhancements made to PRIM's proxy voting guidelines in 2020, along with PRIM's proxy voting statistics in several key areas including but not limited to board diversity and over-boarding.

Representatives from ISS presented changes to their broader proxy voting policy along with several proposed changes to PRIM's custom policy for 2021. The proposed changes for 2021 were as follows:

- Director Competence/Diversity: Board Diversity  
 CHANGE: - Vote AGAINST/WITHHOLD from all board nominees if less than 35 percent of the board is diverse in terms of gender and race. –  
 TO: - Vote AGAINST/WITHHOLD from all board nominees if less than 35 percent of the board is diverse in terms of race.  
 ADD: - Vote AGAINST/WITHHOLD from all board nominees if less than 35 percent of the board is diverse in terms of gender.
- Equal Employment Opportunity  
 ADD: - Vote FOR shareholder proposals requiring that not less than 20 percent of individuals employed by a company be diverse in terms of race.  
 ADD: - Vote FOR shareholder proposals requiring that not less than 20 percent of individuals employed by a company be diverse in terms of gender.

ADD: - Vote FOR shareholder proposals requiring that not less than 20 percent of suppliers, contractors, and vendors used by a company are minority-owned businesses.

ADD: - Vote FOR shareholder proposals requiring that not less than 20 percent of suppliers, contractors, and vendors used by a company are women-owned businesses.

- General Corporate Issues

Change subsection: 'Health Pandemics' to 'Healthcare and Health Pandemics'

ADD: - Vote FOR shareholder proposals requiring companies to guarantee health insurance coverage that meets the requirements of the Affordable Care Act as enacted, regardless of change in law or Supreme Court ruling.

ADD: - Vote FOR shareholder proposals in which companies offer hazard and/or overtime pay for essential workers during a pandemic.

Theresa McGoldrick, and Dennis Naughton both commented that they are in support of the proposed proxy voting policy changes that increase diversity requirements.

Mr. Naughton asked for more information on the mandatory arbitration portion of the 2021 benchmark proxy voting guidelines. Mr. Falzone mentioned he would follow up with more information after the meeting.

Mr. Naughton also asked if an amendment to the custom policy in the Healthcare/Pandemic section of the 2021 custom proxy voting policy would be appropriate in the event the Affordable Care Act is revised? Treasurer Deborah Goldberg replied that with everything going on in Washington it is unlikely the Affordable Care Act would be amended this year and if a change takes place it could be addressed in 2022.

Mr. Naughton was called away from the meeting at 11:30 AM.

James Hearty asked ISS to confirm that if approved, the proposed 2021 custom proxy voting guideline on Board diversity, would result in PRIM voting against management over 90% of the time? ISS confirmed that based on the votes that occurred this past year, the proposed guideline would have that impact as opposed to the current guideline which in 2020 resulted in voting against management approximately 65% of the time.

The Administration and Audit Committee voted by roll call vote to recommend to the PRIM Board, to adopt the enhancements to PRIM's Custom Proxy Voting Guidelines as described in Appendix G of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote. Mr. Naughton was not available to vote, and James Hearty abstained and asked for additional information related to the proposed changes.

#### **IV. Results of PRIM Board Self-Evaluation**

Mr. Falzone and Robert Brousseau, Chair, introduced Tom Iannucci, President of Cortex Applied Research, Inc. (Cortex). Mr. Iannucci presented the Committee with the results of the PRIM Board self-evaluation.

Some key points Mr. Iannucci and Mr. Brousseau discussed were as follows:

- There was 100% Board member participation. All nine Board members completed the survey and six Board members also submitted additional comments by telephone.
- It was unanimous that all Board members provided a highly positive assessment of the performance of the Board, PRIM management, and staff. The Board assessed all issues in the survey positively.
- Of the 489 survey question responses, 91% were very positive (e.g., 4 or 5 on a 5-point scale).
- The need to continue focusing on succession planning with the Executive Director and other senior staff.

- The request to Increase the number of Board education opportunities and/or meetings.
- The suggestion to consider how the Board can best stay up to date on trends and issues that are developing externally (e.g. at the SEC and DOL) and among large pension fund peers, and consider making one individual responsible for this task.

Mr. Brousseau told the Committee that he will be presenting the self-evaluation results to the PRIM Board at its February 24, 2021 meeting.

Mr. Falzone mentioned that as the 2021 annual plans are executed, succession planning and educational opportunities will be addressed, both were mentioned as action items in the 2020 PRIM Board self-evaluation.

Theresa McGoldrick, Esq. was called away from the meeting at 11:45 AM.

## **V. Legal/Legislative Update**

PRIM's General Counsel provided the Committee with an update on two recently promulgated federal Department of Labor rules for ERISA fiduciaries (both of which have been mentioned at previous meetings of this Committee and Board), one of which relates to proxy voting (regarding which PRIM submitted a comment letter to the DoL) and the other relates to consideration of ESG factors. The incoming administration's DoL announced recently that both of those rules will be reviewed, and that implementation/enforcement of those rules would be suspended while that review was underway.

## **VI. Other Matters:**

The Committee members briefly discussed the following topics:

- a. December 2020 PRIM budget
- b. Client Service Update

Paul Todisco provided a Client Service update and thanked the Committee for their kind words and well wishes on his upcoming retirement.

The PRIM Administration and Audit Committee meeting adjourned at 12:07 p.m.

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

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 19, 2020*
- *2020 Proxy Voting Review*
- *2021 ISS' Benchmark Policy Updates*
- *PRIM Custom Policy Matrix – 2021 Proxy Voting Policy Update*
- *December 2020 PRIM Operating Budget*
- *2020 PRIM Board Self-Evaluation Summary of Findings*