



Minutes of the PRIM Investment Committee Remote Meeting
Tuesday, February 2, 2021

Committee members attending:

- Treasurer Deborah Goldberg, Chair
- C. LaRoy Brantley
- Constance Everson, CFA
- Michael Even
- Ruth Ellen Fitch, Esq.
- James Hearty
- Peter Monaco
- Philip Rotner
- Paul Shanley, Esq.
- Glenn Strehle, CFA
- Timothy Vaill

Committee members not attending

- Joseph Bonfiglio

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 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 also provided via telephone, with presentation materials made available on PRIM's website (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 Investment Committee approved, by unanimous roll-call vote, the minutes of its November 17, 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:

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 leader of the project.

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 PRIT 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.

Market Update

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.

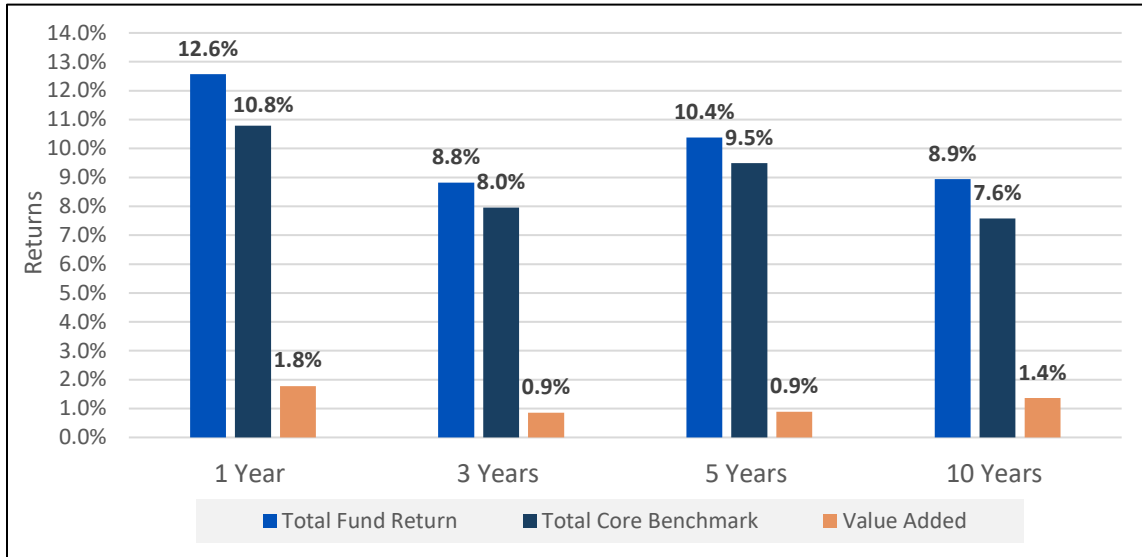
Mr. Trotsky noted that the markets seem to consistently look through any near-term bad news like spikes in positive tests and COVID-related deaths, logistical problems delivering the vaccines, and emergent variations of the virus. Despite some bright spots in economic data, such as the continuing growth of GDP, a rise in US industrial production, and a very healthy housing market, the clampdown on business and social activities has led to a slight deceleration in economic activity more recently.

Obviously, there is still a lot of economic, political, and public health uncertainty to worry about, and recently they have witnessed new market dynamics as retail investors, fueled by social media, are beginning to congregate to move markets, or more accurately, to move individual stocks in a stampede fashion without regard to underlying fundamentals.

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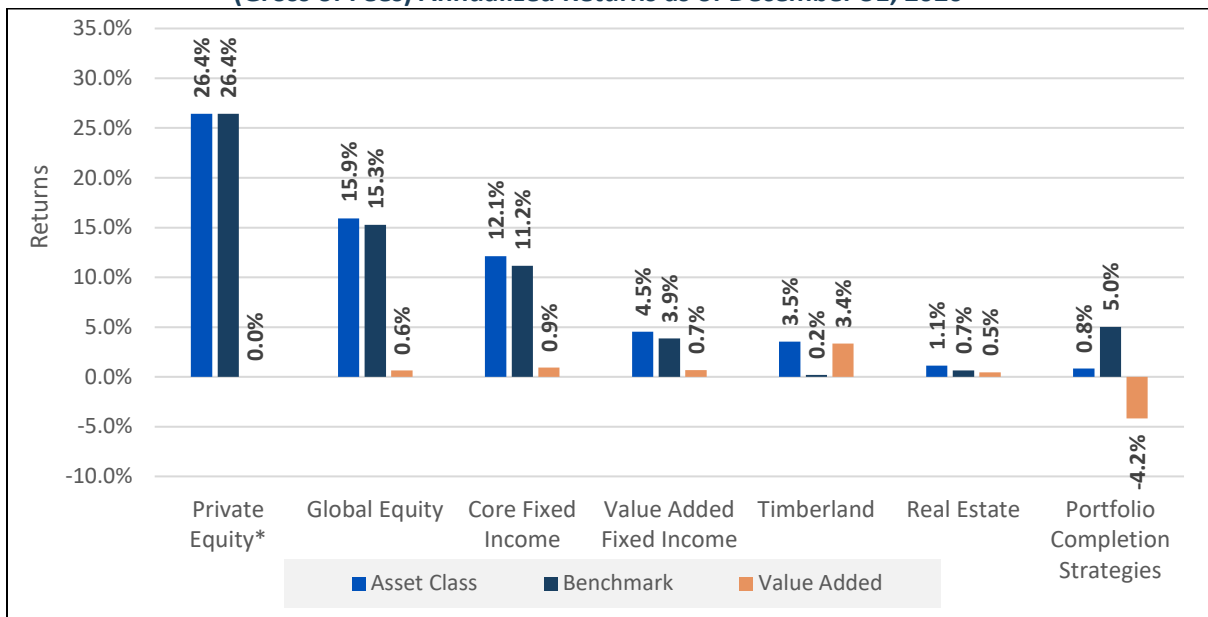
Mr. Trotsky referred to the following charts and graphs:

Total PRIT Fund Returns (Gross of Fees) Annualized Returns as of December 31, 2020



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

PRIT Performance by Asset Class (Gross of Fees) Annualized Returns as of December 31, 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 December 31, 2020**

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 26.4%	PRIVATE EQUITY 21.0%	PRIVATE EQUITY 20.2%	PRIVATE EQUITY 19.1%
GLOBAL EQUITY 15.9%	GLOBAL EQUITY 9.7%	GLOBAL EQUITY 12.5%	REAL ESTATE 9.7%
CORE FIXED INCOME 12.1%	CORE FIXED INCOME 7.4%	VALUE-ADDED FIXED INCOME 6.9%	GLOBAL EQUITY 9.6%
VALUE-ADDED FIXED INCOME 4.5%	REAL ESTATE 5.9%	REAL ESTATE 6.9%	VALUE-ADDED FIXED INCOME 5.7%
TIMBER 3.5%	VALUE-ADDED FIXED INCOME 4.8%	CORE FIXED INCOME 6.3%	CORE FIXED INCOME 5.5%
REAL ESTATE 1.1%	TIMBER 2.4%	TIMBER 4.4%	TIMBER 4.7%
PCS 0.8%	PCS 2.0%	PCS 3.6%	PCS 4.0%

Source: BNY Mellon. Returns as of December 31, 2020

Mr. Trotsky then asked Investment Committee member Constance Everson, CFA, to say a few words on the economy and market.

Ms. Everson discussed her views on the economy and the market outlook. Ms. Everson noted that during Janet Yellen’s Senate hearing, she made it clear that “We’re coming in. We’re coming in big.” Ms. Everson mentioned that if fiscal policy takes over from monetary policy as the key economic driver, which these comments imply, then we could have some very different conversations.

Ms. Everson told the Committee that the Coronavirus is still putting employment at risk due to continued lockdowns, causing about 800 new unemployment claims every week. She mentioned that over the past decade J.P. Morgan Global Manufacturing PMI has hovered around 50 and noted in the cycle before that, global growth was a lot faster giving global markets the edge, along with currencies and multiple commodities.

Ms. Everson commented on the pace of recovery and that at the moment, the big spender is China, and reminded the Committee that the US relations with China are strained. China is leading the way in projected GDP citing agriculture as an area that is significantly impacted by Chinese demand along with technology firms reporting 25-50% of their revenue originating in China, and a third of industrial orders for export to China.

Switching to retail data, Ms. Everson noted that national retail sales had been vulnerable to cash shortages in 4Q, with cash from the \$2 trillion CARES Act running short by October. Ms. Everson emphasized that

the economy would rebound substantially later this year, but that is not the same as boom times fueled by global credit.

Ms. Everson noted that it is helpful to think of two stock market cycles that intertwine sometimes. One relates to the economy, which has a favorable market outlook, while the other is driven by speculative activity.

Current economic reality was taking a back seat, she continued, because the potential was so favorable. Markets were looking through the possibility that reopening could take an extra quarter or more, employment contracted in December, and retail sales were negative in the two big-spending months of the year.

III. Strategy Group

Eric Nierenberg, Ph.D., Chief Strategy Officer, provided some comments on the Strategy Group and Asset Allocation.

Mr. Nierenberg welcomed Shannon Ericson to the Strategy Group. In the last year, the Strategy Team welcomed Eleni Klempner, Joy Seth, and Lionel Yelibi. He noted that it's important to take a long view towards strategy and asset allocation.

Mr. Nierenberg commented that as Ms. Everson mentioned, some of the structured elements that PRIM is paying attention to include weakening dollar, negative real interest rates, and large government budget deficits and national debt. Some of these themes are somewhat inconsistent with each other. Mr. Trotsky mentioned the importance of private market investments to PRIM's long-term results, and while PRIM's Asset Allocation will not be changing significantly, he noted that Maria Garrahan would be explaining the rationale for raising that target range.

Mr. Nierenberg noted that there had been a rebound in performance in Portfolio Completion Strategies in the most recent quarter, and Mr. Bill Li and Ms. Eleni Klempner would be updating the Committee on that. Mr. Jay Leu would also be providing an update on the PRIT Fund Risk.

a. Research – Asset Allocation

Maria Garrahan, Senior Investment Officer – Director of Research, presented the staff's Asset Allocation recommendation along with representatives from New England Pension Consultants (NEPC).

Ms. Garrahan noted that the 2021 Asset Allocation recommendation represents no major changes to PRIM's prior year recommendation. PRIM's recommendation includes a 1% increase in the Private Equity target range (formerly 10-16% to 11-17%) and a 1% decrease in the Portfolio Completion Strategies target range (formerly 8-14% to 7-13%). The recommendation is an acknowledgment of the practical limitations on the pace of sourcing within Portfolio Completion Strategies. Ms. Garrahan noted that PCS has been running at the low end of the target range for some time. As for Private Equity, we have moved up the target range to reflect PRIM's multi-year effort to slowly grow the Private Equity allocation.

Ms. Garrahan explained that PRIM's exposure as of the end of December 2020 was well within the ranges, and PRIM's Asset Allocation 2021 recommendation helps the staff continue the same trajectory as past years. PRIM's asset allocation research continues to find Private Equity as an attractive asset class.

PRIM's asset allocation framework, Ms. Garrahan continued, uses a probabilistic-based approach to maximize the likelihood of achieving the dual objective. PRIM's return objective is defined as the probability of achieving 7.15% annualized return across the next 10-years. Additionally, PRIM has defined a measure of downside protection as no cumulative drawdown greater than 20% within the

next three years. PRIM's asset allocation process maximizes the probability of achieving our dual objective.

Ms. Garrahan noted that PRIM's asset allocation methodology uses principal component analysis to view the underlying characteristics across the asset classes to better identify areas of diversification. Although the staff does not focus on labeling each principal component, the first principal component can be thought of as an equity market factor. In the context of the PRIT fund, the first principal component explains approximately 59% of the total PRIT fund risk. PRIM's goal is to make the contribution to risk across principal components more balanced while maximizing the probability of achieving our dual objective.

Ms. Garrahan noted the systematic experiment continues to yield favorable results regarding additional allocation to Private Equity. However, the asset allocation methodology bridges quantitative research with qualitative analysis in order to address practicality concerns. The research team works closely with the asset classes to determine the practicality of making asset allocation changes prior to finalizing an asset allocation recommendation.

Mike Manning, CFA, CAIA, Managing Partner NEPC, Phillip Nelson, CFA, Partner, Director of Asset Allocation at NEPC, and Jennifer Appel, CFA, Research Consultant, presented to the Committee a summary of NEPC's 2021 asset class overview, NEPC's asset class return assumptions and key market themes.

The PRIM Investment Committee voted, by unanimous roll-call vote, to approve a recommendation to the PRIM Board to approve the 2021 Asset Allocation Recommendation as described in Appendices E and F of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

b. Portfolio Completion Strategies Performance Summary

Bill Li, CFA, CAIA, Senior Investment Officer - Director of Portfolio Completion Strategies, and Eleni Klempner, Investment Officer - Portfolio Completion Strategies, updated the Committee on the PCS portfolio.

Referring to PCS Enhanced Equity, Mr. Li noted that the strategy had fully adapted to the new market regime. In the fourth quarter it delivered 12.9%, outperforming its benchmark by 320 basis points, starting to quickly catch up on relative losses that occurred earlier in 2020.

Mr. Li noted that the PRIT Hedge Funds account for 80% of the PRIT PCS portfolio, with the remaining 20% made up of Real Assets. The PRIT Hedge Funds for the fourth quarter had a good quarter as they were up by 6% vs. the benchmark of 7%

Mr. Li stated that 2020 started with an unprecedented shock scenario that sent the Hedge Fund portfolio into the red, but it made up for all the temporary losses and ended up with a positive 1.4% return for the calendar year. As reviewed in December, the Hedge Fund portfolio is comprised of two types of investments, Stable Value: those with low sensitivity to market betas; and Directional: namely stock and bond pickers that inherently have somewhat beta exposures.

Mr. Li continued that for calendar year 2020, Stable Value managers, which represent three-quarters of the book, generated a return of 3.6%, with a realized beta of 0.1. Directional funds, which are one quarter of the Hedge fund book, had a flat year – this is also where most underperformance came from, largely attributable to one Emerging Market Credit mandate and a Financial Activism mandate.

Mr. Li continued that Hedge Fund performance was highly dispersed, especially within the Directional funds' universe. Looking back, differences in the outcome largely depended on the degree of risk assumed after the March sell-off. The more cautious managers were more likely to be still stuck in the

trough, while the more aggressive ones likely had better returns. Therefore, we would look at the industry's 2020 figures, especially those high performers, with a grain of salt – it's a mix of skill and luck and, in some cases, even unwarranted risks.

Ms. Klemptner updated the Committee on the Real Assets fourth quarter performance noting that it was a good quarter with Agriculture outperforming and Real Assets overall outperforming. The Real Asset portfolio was up 1.4% while the benchmark was up 80 basis points. Agriculture, which is just over half of the Real Assets portfolio, was up 2.1%, while its benchmark was up 1%.

Ms. Klemptner noted that this quarter we successfully completed the winterization prep across our agricultural properties, including the mummy sanitation on the nut properties. In addition, JEN VII closed, a re-up approved last committee cycle. She noted that PRIM staff continues to spend time looking at Impact Investing and Infrastructure and will provide updates in the coming months.

c. Risk – PRIT Fund Risk Update

James Leu, CFA, Senior Investment Officer - Director of Risk Management, presented an update on the PRIT Fund risk, focusing on two items. The first, a high-level review of the total PRIT Fund risks and second, a review of Market risk statistics over the course of 2020.

Mr. Leu noted that the total PRIT Fund risk on November 30th, 2020 was about 15.04. This represents an annualized volatility or standard deviation of returns. This is also an expected risk using a risk model, in this case the MSCI Barra risk model. The total PRIT Fund risk is broken down by risk factors. There are four main risk factors: (1) equity risk (2) interest rate risk (3) credit risk and (4) currency risk. There are two private risk factors: private equity and private real estate. These private risk factors represent additional risks not explained by equity risk or the other factors.

Mr. Leu noted the following regarding risk contributions:

- Equity risk contributed 75% of the total PRIT Fund risk as of November 30th. The Fund has a very high concentration of equity risk to meet PRIM's return objective of 7.15%.
- Interest rate risk had a negative 1.37% contribution meaning it is diversifying or reducing the other risks within the fund.
- Credit risk contributed about 8% of the total PRIT Fund risk.

Referring to the total PRIT Fund risk as broken down by asset classes, Mr. Leu noted that focusing on just the private equity and global equity asset classes added together represent 55% of the market value, and 77% of the risk of the fund.

Mr. Leu referred to market statistics on (1) equity risk (2) interest rate risk and (3) credit risk. Stating that these risks moved over the course of 2020, and that they each show a similar pattern. Each spiked sharply during the first quarter of 2020 and then retraced to finish the year at or near the same level as the start of 2020.

Mr. Leu noted that in regard to equity risk, the VIX Index (VIX) looks at the options market and what are the expectations of equity volatility. The VIX started 2020 at about 14; peaked at 83 on March 16th and then finished the year at about 23. So expected equity volatility was modestly elevated at the end of the year compared to the beginning.

Mr. Leu noted that interest rate risk, the MOVE Index, looks at the options market and what are the expectations of interest rate volatility. The MOVE Index started 2020 at 58; peaked at almost 164 on March 9th and then finished the year at about 49. So expected interest rate volatility is actually lower than at the end of last year. The Fed's new Quantitative Easing program launched in April has dampened interest rate volatility.

Mr. Leu commented on credit risk, noting that BBB yield spreads started 2020 at 125 basis points; peaked at 462 basis points on March 23rd and then finished the year at 124 basis points. So, BBB credit spreads have returned to the levels at the end of last year. Referring to high yield bonds, yield spreads started 2020 at 336 basis points; peaked at 1100 basis points on March 23rd and then finished the year at 360 basis points. So, high yield bond yield spreads are only slightly wider than the levels at the end of last year.

Mr. Leu conclude that in summary, we broke the PRIT Fund risk into four major factors: (1) equity risk (2) interest rate risk (3) credit risk and (4) currency risk. Equity risk contributes about 75% of the total PRIT Fund risk. PRIM's significant equity risk is driven by our return objective. Interest rate risk diversifies the PRIT Fund; and credit risk contributes about 8%. In terms of market statistics, equity risk, interest rate risk, and credit risk all spiked sharply during the first quarter of 2020 and then retraced to finish the year at roughly the same level as the start of 2020.

IV. Public Markets Performance Summary

David Gurtz, CPA, CFA, Deputy Chief Investment Officer – Director of Public Markets, provided the Committee with an update on the implementation of the new legislation that represents a continuation of the important diversity and inclusion work that PRIM has been doing for many years. Mr. Gurtz noted that his first task is to create an implementation plan, which he will present at the next Committee meeting.

Mr. Gurtz reported that despite a very volatile year, the Public Markets portfolio ended with very strong absolute and relative returns. At the end of 2020, Global Equities comprises 43.3% of the PRIT Fund, slightly below the upper target range of 44%. Global Equities returned 15.9% (15.7%, net), outperforming the benchmark by 64 basis points (38 basis points, net). All Global Equities sub-asset classes produced double-digit returns and added significant relative value, noting most of the relative return was driven by our growth managers.

Mr. Gurtz noted that PRIM's U.S. Small Cap and Developed International portfolios generated the best relative returns in 2020. The PRIT Fund's best asset class in 2020 was the \$4 billion U.S. SMID/Small/Micro-cap portfolio, which returned 27.5% and outperformed its benchmark by an impressive 414 basis points (372 basis points, net), even more impressive when you consider that approximately 45% of this portfolio is passively managed. The \$12.5 billion Developed International portfolio also posted double-digit returns in 2020, returning 11.7%, thanks to PRIM's managers outperforming the benchmark by 353 basis points (327 basis points, net), noting that 40% of this portfolio is passively managed.

Mr. Gurtz said that yields fell in 2020 due to the Fed rate cuts and bond-buying programs, which began in March 2020, and credit spreads remaining relatively flat, despite extreme volatility in 2020. Mr. Gurtz noted that similar to PRIM's Global Equities portfolio, all PRIM's Fixed Income strategies returned positive absolute returns and nearly all strategies posted positive relative returns.

Mr. Gurtz noted that PRIM's STRIPs portfolio was the best returning fixed income strategy, returning 24%, playing its primary role as a diversifier to the PRIT Fund. TIPS and ILBs posted double-digit returns, returning 10.7% again thanks to intermediate rates falling. PRIM's Core Fixed Income aggregate managers returned 8.5%, outperforming the benchmark by 1%, while High Yield returned a similar 8.2% return, outperforming its benchmark by 2.2%. Mr. Gurtz noted that Short-Term Fixed Income, which comprise 1–3-year U.S. Treasuries, returned over 3% this year and provided a great source of liquidity to the PRIT Fund in March 2020 as PRIM rebalanced the PRIT Fund.

Investment Committee member Peter Monaco commented that one manager, where PRIM has a 12-to-13-year relationship, has underperformed during the duration, and simultaneously underperformed with other managers in that bucket. He continued saying that one manager in the international small cap

allocation also underperformed during the last 3 to 4-year period. He asked if there were any quick thoughts on those two managers?

Mr. Gurtz commented that this relates to the work PRIM is doing with Jay Leu in the benchmarking review to ensure we use the appropriate benchmark to measure our managers. These managers have a value tilt, while the benchmarks do not reflect these tilts. Based on the standard index these managers don't look great but compared to a value benchmark they look much better. We are working with our benchmark consultant for best practices. In the international small cap space, we have had some frustrations in that asset class. PRIM has terminated a couple of managers in the last year, down from 5 to 3, but all of our managers have struggled in this asset class. We continue to monitor these managers and the universe of peer managers very closely.

V. Private Equity Performance Summary

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

Mr. McGirr addressed the departure of Mike Bailey, PRIM's former Director of Private Equity, noting that Mike has been a mentor and a good friend, and he wished him well in his new opportunity.

Turning to performance, Mr. McGirr noted that the Private Equity portfolio returned 11.5% for the quarter ending December 31, 2020. For the one-year period the portfolio returned 26.4%, which compares favorably to public market indices. Mr. McGirr mentioned that Private Equity outperformed over longer periods including the 10-year return of 19%. The strong returns helped bring the Private Equity portfolio to \$10.9 billion which is the highest in PRIM's history.

Mr. McGirr mentioned that the team had a productive year in terms of new investments. In calendar year 2020, the Private Equity team made 17 fund investments and closed on 6 co-investments.

Mr. McGirr mentioned that the team plans to add additional members over the course of the year to help execute the team's successful private equity strategy. Mr. McGirr acknowledged the Investment Committee's vote to increase the target range of Private Equity to 11% to 17% of the PRIT Fund. Mr. McGirr mentioned that it would roughly translate into \$2.1 to \$2.7 billion of new investments for the calendar year 2021. The pipeline of potential investments is full, including co-investments that the Private Equity team hopes to discuss at a future meeting.

The PRIM Investment Committee meeting adjourned at 11:49 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Investment Committee Meeting on November 17, 2020*
- *PRIT Fund Performance Report (December 31, 2020)*
- *BNY Mellon Gross of Fees Performance Report (December 31, 2020)*
- *2021 PRIM Staff Annual Plans*
- *2021 Asset Allocation Presentation*
- *2021 NEPC Asset Allocation Presentation*
- *PRIT FUND Risk Presentation*

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