

# PRIM Board Quarterly Update Second Quarter 2021



*PRIM Executive Director and Chief Investor Officer Michael G. Trotsky, CFA provided the following information to the PRIM Board at its August 17, 2021, meeting:*

## **Executive Director and Chief Investment Officer Report**

The PRIT Fund recorded the highest fiscal year performance in PRIM's entire history with a return of 30.0% (29.5%, net), surpassing the previous high in 1986 when the Fund returned 25.6%. Moreover, the Fund outperformed its benchmark by 8.9% (net), the largest fiscal year outperformance in PRIM's history, surpassing the previous high in 2000 when the Fund outperformed by 5.9%.

The return equates to a net investment gain of \$22.1 billion for the fiscal year, \$6.7 billion above a benchmark return. Assets under management were a record \$95.7 billion, while outflows to pay pension benefits were approximately \$1.2 billion.

We are pleased with the strong one-year performance, but more pleased that over longer periods and through strong markets and market corrections the PRIT Fund has proven to be high-performing, resilient, and cost-effective. The PRIT Fund's trailing 3-, 5-, and 10-year returns remain strong and consistently above benchmarks, and also above the required actuarial rate of return (7.0%). Much of the success can be attributed to our individual asset class teams who are disciplined and focused on identifying the most profitable sectors and most skillful managers. We also believe our innovative and acclaimed work over the last ten years, in which we developed our own proprietary and statistically driven tools for asset allocation and also manager selection is paying off. We have successfully engineered a portfolio that performs well in a variety of market conditions.

One of PRIM's principal investment beliefs is that all investment programs must be evaluated on three equally important parameters: return, risk, and cost, and while we are delighted with the record return of fiscal year 2021, we are equally pleased that risk was well controlled, and our costs remain low. Excellent results in a period, when by design, we invested more of the Fund in higher-performing and higher-cost private investments.

Too often in strong markets like we have just experienced investors become more focused on returns and

less focused on risk and cost. However, PRIM is still as focused as ever on risk and cost, too. In fact, for FY21 the risk adjusted returns were at a multi-year high, while costs were at a multi-year low. The PRIT Fund's Sharpe Ratio was 4.05 and total costs, all costs, were 51 basis points. As a reminder a Sharpe Ratio over 1 is generally considered acceptable to most investors, and larger is better; and 51 basis points total cost, is very low especially for a portfolio that utilizes approximately 35% high-performing and high-cost private assets such as Private Equity, Private Debt, Real Estate, and Timberland. Project SAVE initiatives now total \$250 million, annually. Importantly, we believe our returns will be near the top of our peer group, even while risk will be near the bottom and costs remain low and well controlled. In short, the PRIT Fund is high return, lower risk, less volatile and low cost. We believe this is an indication that our manager selection, asset allocation and diversification techniques and tools have been working as expected since they were designed and implemented. It also indicates the success of our maniacal focus on controlling costs.

Operationally, we had a very productive year; we researched and deployed more than \$4.4 billion in new investments, hired and onboarded seven new full-time employees, promoted five of our highest-performing rising stars, hired thirteen interns, and launched several new initiatives including a groundbreaking agreement with MIT Sloan School designed to improve ESG investing, and a program called the FUTURE Initiative, which is designed to implement the newly created Investment Equity law, the law created and championed by Treasurer Goldberg and signed into law in January 2021. The new law will help PRIM create an enhanced pathway for diverse investment managers and vendors to compete successfully for contracts, with the ultimate goal of achieving at least 20% diversity in PRIM's vendor base.

There is always room to improve on Diversity and Inclusion metrics; nonetheless we are extremely proud of our results to date, both in regard to internal staff and external contracts. Last fiscal year, PRIM placed \$1.2 billion with diverse investment management firms and now has more than \$6 billion in assets deployed. We will add an additional \$1 billion mandate to the program in September bringing our total to more than \$7 billion. PRIM ranks sixth in the nation in funds invested with diverse managers, according to a recent Pensions and Investments survey. Internally, 64% of PRIM's workforce is diverse in regard to gender, race, or both, 49% of PRIM's workforce is female, 38% of PRIM's Senior Management is diverse in regard to gender, race, or both, and 33% of PRIM's Senior Management is female. And importantly, we continue to enhance our proxy voting guidelines to require the boards of our publicly traded companies to be diverse in terms of both gender and race. Clearly, there is room to improve, but we are consistently and materially making progress each year.

Last, a word about the environment of last year. I am extremely proud of our record setting accomplishments this year and even more pleased with our long-term successes, but I believe this year's achievements are particularly remarkable because the COVID pandemic was a major distraction, if not a major headwind, to our efforts. It was an extremely difficult year. I could not be prouder of this team and how we responded during the crisis and how we overcame the challenges to deliver these strong results. I am thankful to the entire PRIM staff and to our Board and committee members, for their support, dedication, and hard work over the past year -- a year we will not soon forget.

### **PRIT Fund Performance Summary**

The PRIT Fund recorded its single best year in our history, setting records in three metrics: absolute return, relative return, and assets under management. The PRIT Fund returned 29.5% (net) for the fiscal year ended June 30, 2021, outperforming the benchmark by 8.9% (net) of fees. The outperformance was widespread as six of the seven major asset classes outperformed their benchmarks. Assets under management at year end were \$95.7 billion and net outflows to pay benefits were \$1.2 billion. Risk adjusted returns were at a multi-year high, while costs were at a multi-year low. (Sharpe Ratio of 4.05, cost of 51 basis points.)

The PRIT Fund's trailing 3-, 5-, and 10-year returns remain strong, above benchmark, and above the Actuarial

Rate of Return, which is currently 7.00%.

For the one-year period ended June 30, 2021:

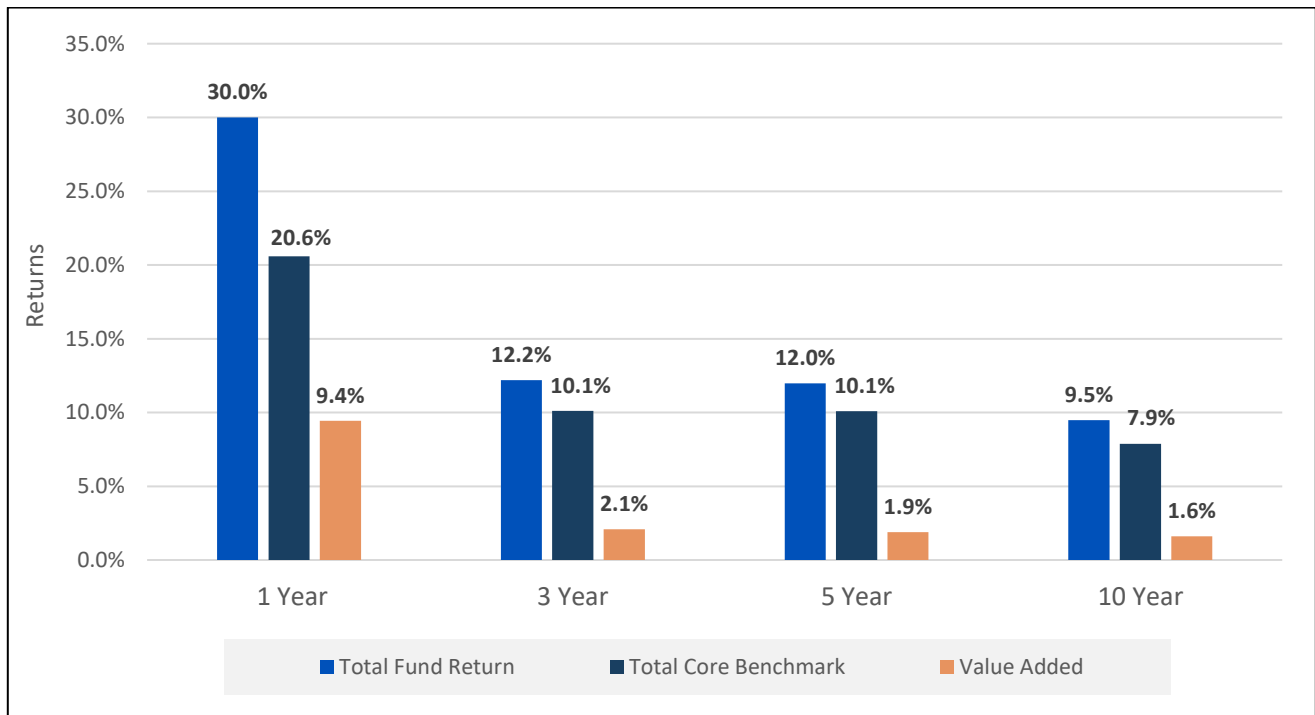
- The PRIT Fund was up 29.5%, outperforming the total core benchmark of 20.6% by 891 basis points, net of fees.
- This performance equates to an investment gain of \$22.1 billion.
- This outperformance equates to \$6.7 billion of value above the benchmark return.
- Net total outflows to play benefits for the one-year ended June 30, 2021, were approximately \$1.2 billion.
- Six of the seven major asset classes outperformed their respective benchmarks.

*Risk*

The one-year realized Sharpe Ratio of the PRIT Fund was 4.05; this compares to a Sharpe Ratio of 2.32 for a 60/40 mix of stocks and bonds, indicating that overall return, manager selection, asset allocation and diversification is achieved in a risk efficient manner. (A Sharpe Ratio of 1 is considered acceptable to most investors; larger is better.) More important, the risk return efficiency of the PRIT Fund is also observed looking at longer time periods. For example, the five-year trailing Sharpe Ratio for the PRIT Fund has been higher than a 60/40 mix in each fiscal year since 2014, while the five-year trailing Sharpe Ratio for the PRIT Fund had been lower than a 60/40 mix for each of the five fiscal year ends prior to 2014.

**Total PRIT Fund Returns**

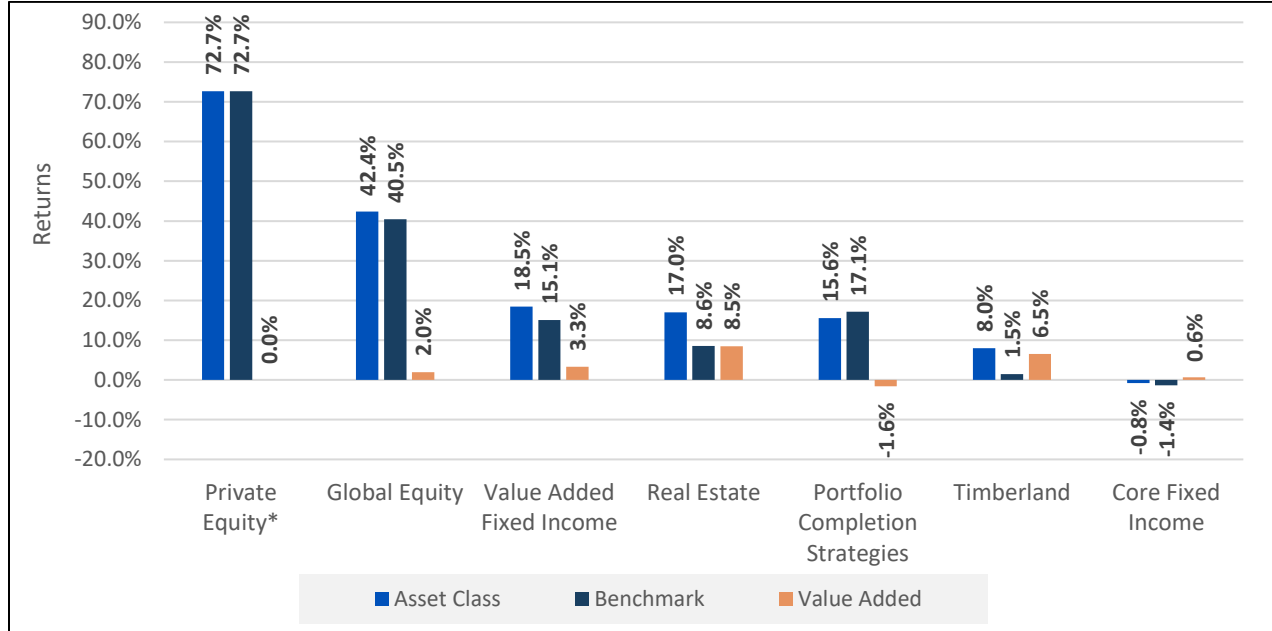
Annualized Returns as of June 30, 2021 (Gross of Fees)



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

### PRIT Asset Class Performance Summary

One Year Ended June 30, 2021 (Gross of Fees)



Source: BNY Mellon. Totals may not add due to rounding. \*Benchmark is actual performance.

### PRIT Fund Periodic Table of Returns

(Gross of Fees) as of June 30, 2021

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 72.7%	PRIVATE EQUITY 28.8%	PRIVATE EQUITY 25.9%	PRIVATE EQUITY 20.8%
GLOBAL EQUITY 42.4%	GLOBAL EQUITY 14.3%	GLOBAL EQUITY 15.1%	GLOBAL EQUITY 10.4%
VALUE-ADDED FIXED INCOME 18.5%	REAL ESTATE 7.9%	REAL ESTATE 7.9%	REAL ESTATE 10.0%
REAL ESTATE 17.0%	CORE FIXED INCOME 7.0%	VALUE-ADDED FIXED INCOME 7.0%	VALUE-ADDED FIXED INCOME 5.4%
PCS 15.6%	VALUE-ADDED FIXED INCOME 6.9%	PCS 5.2%	TIMBER 5.0%
TIMBER 8.0%	PCS 3.8%	TIMBER 4.8%	CORE FIXED INCOME 5.0%
CORE FIXED INCOME (0.8%)	TIMBER 2.6%	CORE FIXED INCOME 3.5%	PCS 4.5%

Source: BNY Mellon.

## Organizational Updates

### New Hires

**Seth Gitell** will join the leadership team in late August as PRIM’s Chief External Affairs Officer. Seth is a seasoned public strategist, experienced in strategic communications and media relations as well as being a trusted counsel to senior leaders. Most recently, Seth was the Chief of Staff for the Office of Massachusetts House Speaker Robert DeLeo. His responsibilities included directing and coordinating the daily and long-term operations of the Speaker’s office and overseeing the office’s communications efforts. Prior to this role, Seth served as Speaker DeLeo’s Director of Communications, and, before that, in what was the top communications role in City Hall, Seth was Mayor Menino’s Press Secretary.

Seth is a talented writer, having begun his career in political journalism. A former reporter with *The Boston Phoenix* and *Forward*, he has been published in *The Atlantic Monthly*, *The Wall Street Journal*, *The Boston Globe*, and *The Los Angeles Times*. Seth is well-known for his sound judgment and professionalism. He has a Bachelor of Arts, Magna Cum Laude in American History from Harvard College and a law degree from New York University School of Law.

**Helen Huang** joined PRIM on June 1, 2021, as a Senior Investment Officer on the Private Equity team, reporting to Michael McGirr. Helen has more than twelve years of investment management experience and will be responsible for portfolio construction, manager selection, and contributing to PRIM’s cutting-edge private equity research. Helen joined PRIM from China Growth Capital, where she was a senior advisor. Prior to that she worked for Harvard Management Company and Summit Partners in investment roles, and started her career at Merrill Lynch/Bank of America. Helen has a Bachelor of Science degree in Finance from the University of Virginia and an MBA from Harvard Business School.

**Mini Kouame** joined PRIM on July 26, 2021, as an Investment Analyst on the Research team reporting to Maria Garrahan, PRIM’s Director of Research. Mini comes to us from Potomac Group LLC, a sovereign advisory firm, as a Senior Associate. He has prior experience as a Consultant for the World Bank and was a Project Manager at KPMG Advisory. Mini recently received his Master’s in Public Administration in International Development, with a major in Financial Economics from Harvard University. Mini also has his Master’s in Management with a major in Finance from ESCP Europe Business School in Paris, France, and a Bachelor of Science in Statistics from ENSEA in Ivory Coast.

**Joseph Kamotho** joined PRIM on August 16, 2021, as a Business Systems Analyst on the IT Team. He will be working to help IT support PRIM’s systems and onboard new technologies. Joseph previously worked at Man Numeric as a Database Administrator where he was responsible for database design, management, and administration. Previously, Joseph was a Systems Administrator at Numeric Investors. Joseph holds a Bachelor of Science in Management Information Systems from Northeastern University.

### Recognition

The American Investment Council announced in July that PRIM **Private Equity** ranked #4 in private equity returns among nearly 200 U.S. public pension funds based on 10-year performance. PRIM is the only fund that has been in the Top 5 of all private equity portfolios in every year the American Investment Council has performed the study – including #1 rankings in 2019, 2018, 2015 and 2013. We are extremely proud of this accomplishment. Congratulations to the Private Equity team for this outstanding accomplishment.

The **Portfolio Completion Strategies** team is one of four finalists for “Partnership of the Year” at the 2021 *Institutional Investor* Allocators’ Choice Awards, to be held in New York in September. This is the sixth time PRIM has been recognized for outstanding innovation by *Institutional Investor*, as nominated by our industry peers and colleagues, including “Plan of the Year” – winner 2016, “Plan of the Year” – nominee 2017, 2018, 2019, and *Lifetime Achievement Award* in 2019 – winner Michael G. Trotsky, CFA.

This year PRIM is being recognized for our PCS partnership with Fir Tree Partners, because as Institutional Investor noted *“PRIM kicked off a SPAC investment mandate before SPAC became a buzz.”* The deal made MassPRIM money while *“reinvigorating Fir Tree’s business.”*

## **PRIM Board Actions**

### **Public Markets**

#### **New Investment Recommendation: Rhumblin Advisers, LP – Passive S&P 500 Index**

The PRIM Board approved an initial allocation of up to \$1 Billion to Rhumblin Passive S&P 500 Index. Rhumblin is a Boston-based diverse (women and minority) institutional investment management firm specializing in the development, management, and customization of index-based strategies.

#### **Other Credit Opportunities - New Investment Recommendation: Newmarket IIFC III Fund-of-One**

The PRIM Board approved an initial allocation of \$150 million to Newmarket IIFC III Fund-of-One LLC, subject to satisfactory contract negotiations. If approved, Newmarket will be added to the OCO co-investment program in accordance with the Board-approved PCS and OCO co-investment guidelines in assessing the opportunities.

### **Strategy Group**

#### **Research: Asset Allocation Advisory Services Request for Proposals (RFP) Recommendation**

The PRIM Board approved the selection of NEPC to provide asset allocation advisory services to PRIM.

#### **Real Estate Leverage Recommendation**

The PRIM Board approved the following:

1. eSecLending, PRIM’s current securities lending manager, to manage a general collateral (primarily U.S. Treasuries) securities lending program, Repurchase Agreements (Repos), as needed; and
2. Parametric, PRIM’s current overlay manager, to manage Futures, Total Return Swaps, and Repos as needed.

PRIM’s Real Estate Leverage Program currently utilizes direct financing through property-level mortgages, bank loans, private notes, and internal financing through PRIM’s securities lending program. PRIM staff recommends expanding its sources of internal financing options to include the use of:

- General collateral (primarily U.S. Treasuries) on PRIM’s securities lending.
- Repurchase Agreements (Repo).
- Futures (Equity and U.S. Treasury futures).
- Total Return Swaps (Equity and U.S. Treasury total return swaps).

PRIM staff will continue to ensure that the use of leverage remains in compliance with Board approved Real Estate Leverage policy and guidelines, as detailed in the Investment Policy Statement.

### **Real Estate & Timberland**

#### **Non-Core Real Estate – New Investment Recommendation: Berkshire Multifamily Value Fund V and Co-Investment**

The PRIM Board approved the following, subject to satisfactory completion of due diligence and successful contract negotiations:

- \$25 million commitment to Berkshire Multifamily Value Fund V (“BMVF V”);
- Up to \$75 million investment in the Texas Multifamily Co-Investment Opportunity (the “Co-Investment Portfolio”)

## **Private Equity**

### **Follow-on Investment Recommendation: Stone Point Trident IX, L.P.**

The PRIM Board approved a commitment of up to \$150 million to Trident IX, L.P. (“Trident IX”). PRIM has invested in two prior Stone Point Capital (“Stone Point”) funds since 2017. Stone Point is an established private equity manager and will primarily make investments in large and middle market financial services companies in North America. Stone Point’s senior team has worked together for an average of 16 years. The majority of Stone Point’s funds are either in Cambridge Associates’ first or second quartile for fund performance.

### **New Investment Recommendation: Tidemark Fund I, L.P.**

The PRIM Board approved a commitment of up to \$75 million to Tidemark Fund I L.P. (“Fund I”). Fund I will be led by David Yuan, former General Partner at Technology Crossover Ventures (“TCV”), with whom PRIM has invested since 2006. In January 2021, Mr. Yuan founded Tidemark Capital (“Tidemark”), a San Francisco-based private equity firm. Tidemark is an emerging manager and is a diverse investment manager. Tidemark Fund I will target growth equity investments in the technology industry. PRIM has no prior investments with Tidemark as Fund I is the firm’s inaugural investment product.

### **New Co-Investment Manager Recommendation: Tidemark**

The PRIM Board approved the addition of Tidemark Capital to the Board-approved co-investment manage bench because Tidemark meets PRIM’s co-investment criteria. Those criteria include: a superior track record; a strong co-investment history; and a willingness to partner with PRIM.

## **Finance & Administration**

### **Request for Proposals (RFP) for Board Governance Consulting and Fiduciary Education Services**

The PRIM Board approved the issuance of an RFP for Board governance consulting and fiduciary education services. PRIM’s current governance consultant, Cortex Applied Research, will be winding down their governance consulting practice by the end of the year.

### **Request for Proposals (RFP) for Information Technology Consulting and Support Services**

The PRIM Board approved the issuance of an RFP for information technology consulting and support services. The contract extension with PRIM’s current information technology consultant, Edge-Tech Consulting, expires on December 31, 2021.

*The Client Services team -- Francesco Daniele, Laura Strickland, and Emily Green – will continue to meet with the retirement boards of PRIM’s member retirement systems throughout the year. To schedule a visit, please contact Francesco at [fdaniele@mapension.com](mailto:fdaniele@mapension.com), Laura at [lstrickland@mapension.com](mailto:lstrickland@mapension.com), Emily at [egreen@mapension.com](mailto:egreen@mapension.com), or call 617-946-8401. We look forward to seeing you soon.*