



Minutes of the PRIM Administration and Audit Committee Remote Meeting
Thursday, February 3, 2022

Committee members attending:

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

Committee members not attending:

- Karen Gershman, CPA
- Michele Whitham, Esq.

The PRIM Administration and Audit Committee meeting was called to order at 10:03 a.m. Chair Robert Brousseau announced that the meeting was being held by internet and telephone in accordance with the provisions of “An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency” which was signed into law on June 16, 2021. This Act includes an extension, until April 1, 2022, of the remote meeting provisions of the March 12, 2020, Executive 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). 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 (unanimously) by roll call vote the minutes of its November 18, 2021, meeting.

II. Executive Director / Chief Investment Officer Report

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

Mr. Trotsky began by extending condolences to Treasurer Goldberg on the passing of her father, Avram Goldberg, and wished the Treasurer and her family strength and peace in this difficult time as they celebrate his full life.

Mr. Trotsky shared the December quarterly results with the PRIT Fund up 5.4% net and 1.4% above benchmark, capping another outstanding and record-setting year. For the calendar year ending December, the PRIT Fund was up 20.6% gross or 20.1% net of all fees; the fourth largest return in PRIM’s entire history. The 2021 return outperformed the benchmark by more than 8% net of fees, or \$7 billion, the strongest outperformance in our entire history, surpassing the previous record of 4% outperformance set in 1999. The fund ended the year at a record \$104 billion. He added that the PRIM staff had remained very productive during the year, deploying more than \$7.6 billion in new investments, which is another record. He mentioned that there would be more on performance later in the agenda.

Mr. Trotsky then highlighted two important initiatives on the agenda, Treasurer Goldberg's motion to create an ESG Committee and an update on PRIM's proxy voting policy. He noted that he believes the ESG Committee will build on the important work that PRIM has been doing internally and with its partners in the MIT Sloan School's Aggregate Confusion Project. He then introduced a climate change related proxy voting policy update which will keep PRIM out in front of major trends in the industry, explaining that Treasurer Goldberg is passionate about these areas.

Mr. Trotsky moved on to asset allocation, explaining that earlier in the week (Tuesday) the Investment Committee supported the staff recommendation to continue its multi-year effort to gradually increase the allocation to Private Equity, the number one performing asset class over all time periods. The recommendation included an increase of 1% to the Private Equity range and a decrease of 1% to the Global Equity range. Mr. Trotsky reiterated that PRIM's balanced, well-diversified portfolio will continue to perform well in both strong and weaker market environments, so no material changes are being made to the long-term strategic asset allocation.

Organizational Update

Mr. Trotsky announced that Renee LeFevre joined PRIM as its new Chief Legal Officer, reporting directly to him and would also be joining PRIM's executive management team. Ms. LeFevre joined PRIM from the Boston Planning and Development Agency (BPDA), which is made up of the Boston Redevelopment Authority, Economic Development Industrial Corporation of Boston, and the Mayor's Office of Workforce Development. Ms. LeFevre was with the agency since 2000 and became General Counsel in December 2014, where she managed a 10-person legal department along with outside counsel handling all legal issues including compliance on open meeting laws, public records requests, ethics, conflicts of interest and disclosures under Massachusetts General Laws, while also being responsible for legal matters pertaining to development proposals, public hearings, disposition of property, procurement, budget, personnel matters, and more. Ms. LeFevre serves as Vice President on the Board of Directors for the Boston Local Development Corporation (BLDC), is a member of The Abstract Club, CREW (Commercial Real Estate Women Network Boston), and the Boston Bar Association. Ms. LeFevre is a recipient of GET Konnected 50 Most Influential Attorneys of Color and the Henry L. Shattuck Public Service Award. Ms. LeFevre is a graduate of the University of California at Berkeley and Boston College Law School. Mr. Trotsky welcomed Ms. LeFevre to PRIM.

Mr. Trotsky then acknowledged a special PRIM anniversary. Jennifer Cole, PRIM's Manager of Client Reporting and Cash Management, was celebrating 20 years at PRIM this February. He added that Ms. Cole joined PRIM in 2002 as a Staff Accountant and over the years was promoted to Financial Analyst, Senior Financial Analyst and then Manager of Client Reporting and Cash Management, responsible for managing all cash needs for all PRIM clients. This includes all contribution and redemption activity, playing a critical role in processing all PRIM Fund purchase and sale transactions on the first business day of each month. Mr. Trotsky mentioned Ms. Cole always delivers the highest level of customer service to PRIM's clients, the Operations team, and the entire organization, and congratulated her on 20 years at PRIM.

Mr. Trotsky then acknowledged Liu Liu, Investment Analyst on the Portfolio Completion Strategies team who recently completed both her CFA and CAIA designations after passing each of the rigorous multi-year exams and also after accumulating the requisite work experience. He provided some background on Ms. Liu's contributions during her time at PRIM by explaining her work enhancing PRIM's portfolio analytics while being responsible for the hedge fund replication program, a consistent outperformer. He also mentioned her leading role with the Power Pacific China A-Shares recommendation from her last year which has been a very successful. Ms. Liu joined PRIM in September 2018 on a permanent basis as an Investment Analyst after spending 18 months as an intern working in PRIM's Strategy team. Ms. Liu received her master's degree in finance from the Brandeis International Business School and earned her

bachelor's degree in finance from Shanghai Jiao Tong University in China. Mr. Trotsky congratulated her on this significant achievement.

Mr. Trotsky then discussed the markets and economy mentioning that with 2021 results in the rear-view mirror, 2022 started with a very volatile January. Markets have struggled with the Omicron surge, labor shortages, supply chain shortages, and an associated 40-year high inflation reading of 7% in December, not to mention continued geopolitical tensions as well as domestic tensions. In January, market volatility as measured by the VIX surged from 17.2 to 32 as the S&P was down 5.2%, while the tech heavy NASDAQ was down almost 10%. Developed international markets were down 4.8%, and emerging markets were down 1.9, while diversified bonds were down approximately 2%. The Federal Reserve left the target range for its federal funds rate unchanged at 0-0.25% during its January meeting. However, they indicated a desire to raise the target range beginning in March as inflation is currently running well above 2.0% and the labor market is very strong; the unemployment rate was reported at a mere 3.9% recently. And more importantly, market futures are indicating that the Fed will raise rates four or five times in 2022. The prospect of an increasingly hawkish Fed, combined with some mixed economic data likely caused by the Omicron spike, and some softening of corporate earnings is alarming to market participants.

Mr. Trotsky mentioned that at the Investment Committee earlier that week, a healthy discussion on markets and the economy took place. Specifically, he pointed out several points that Connie Everson, Investment Committee member, made to him prior to the meeting. They were as follows:

1. When the Fed gets around to the 3rd rate hike or so later in the year, conditions won't support it, key prices will be back off. Inflation readings will moderate later in the year.
2. The critical ingredient of a typical bear market is missing – there is no slowdown in demand. We are experiencing a supply problem, not a demand problem, which will also resolve itself. Workers who are on the sidelines could return to the work force, and that would be a positive.
3. Even now, parts of the equity market are holding up – like industrials, energy, materials. They could lead the way in any market rebound.
4. She acknowledges that there is a rotation of Fed Governors, and they are more hawkish than their predecessors, and there is a risk that the Fed could overdo the tightening programs, no doubt, but Fed is not going to be able to put this economy into a recession.

Mr. Trotsky added that Jay Leu, PRIM's Director of Risk, had interesting comments based on his interpretation of market futures and by examining the correlations of asset classes to inflation and growth.

Mr. Trotsky summarized Mr. Leu's points as follows:

1. The current TIPS Breakeven rate of only 2.4% indicates that the markets are less concerned about inflation and more concerned with rising rates –the equity markets are worried that the Fed is too aggressive and will choke off expansion.
2. In other words, the Fed is concerned about inflation, but the stock market is concerned about the Fed.
3. There is more worry about inflation taking hold and a possible wage-price spiral.

Mr. Leu also prepared and presented to the Investment Committee earlier that week a sensitivity analysis of the PRIT Fund to rising inflation. Mr. Trotsky provided the following points made during that discussion:

1. The PRIT Fund has a beta of 2 to GDP growth. This means that the Fund generally performs well in growth environments. Equities, Private Equities, Hedge Funds and even Real Estate do well when the economy grows.
2. Analysis shows that Real Estate has very little beta to inflation. We can discuss the reasons for this, but maybe it's because in inflationary environments rents and property values rise enough to at least partially offset increased capital costs.

3. Commodities do best in high inflation environments – perhaps good to think of Timber in this bucket.
4. Bonds do best in low inflation, low growth environments – our insurance policy against challenging economic times.
5. Mr. Leu’s scenario analysis predicts that the PRIT Fund’s Core Fixed Income portfolio would be down approximately 8% with a one-time shock of an increase in inflation of 1%, nominal yields up 1%, and short-term interest rates up 1%. At 15% of the PRIT Fund, this would equate to a hit on the PRIT Fund of approximately 1%, but presumably other asset classes with a positive (or neutral) beta to growth would more than offset this decline, after all growth is often accompanied by higher inflation readings.

Annual Plans

Mr. Trotsky told the Committee that the 2022 annual plans are a continuation of the work the staff has been doing, with additional focus on implementing the FUTURE Initiative to comply with the Investment Equity law, supporting the establishment of an ESG Committee, and performing a full real asset portfolio review, amongst other things.

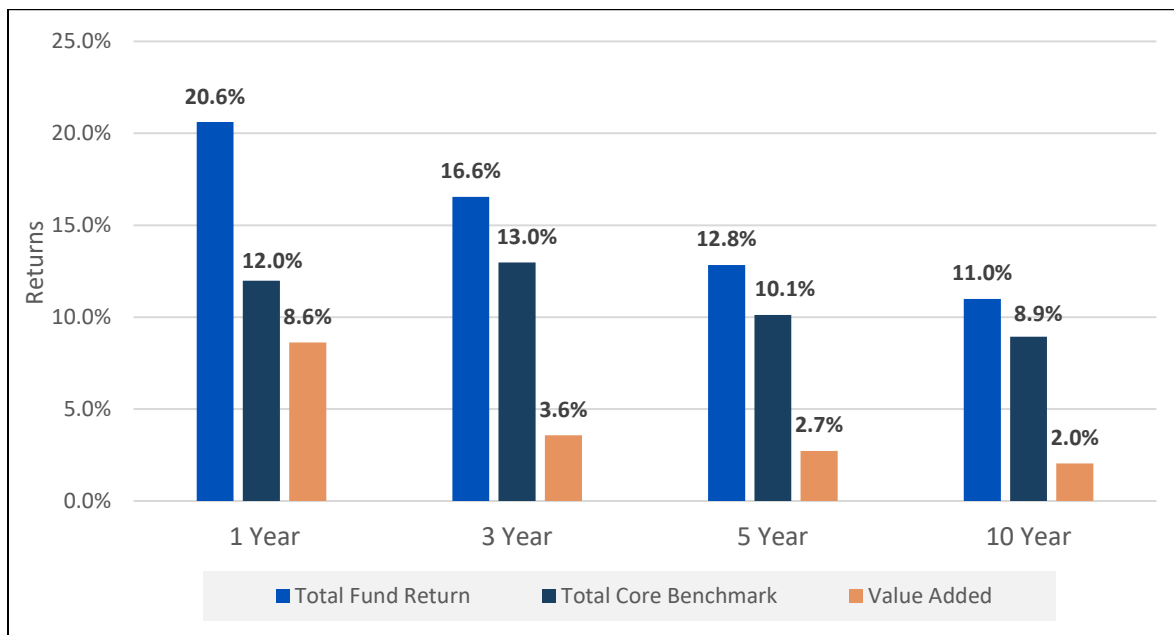
Anthony Falzone, Deputy Executive Director and Chief Operating Officer, then provided an overview of the 2022 Operations Annual Plans and highlighted the following key items:

- Support the establishment of an ESG Committee and other governance work.
- Complete the RFP for Board Governance and Fiduciary Education Consulting Services.
- Improve access to diverse vendors and develop enhanced reporting
- Review PRIM’s disaster recovery and business continuity solution

PRIT Fund Performance

Mr. Trotsky discussed December 2021 PRIT Fund performance in more detail referencing the following performance charts:

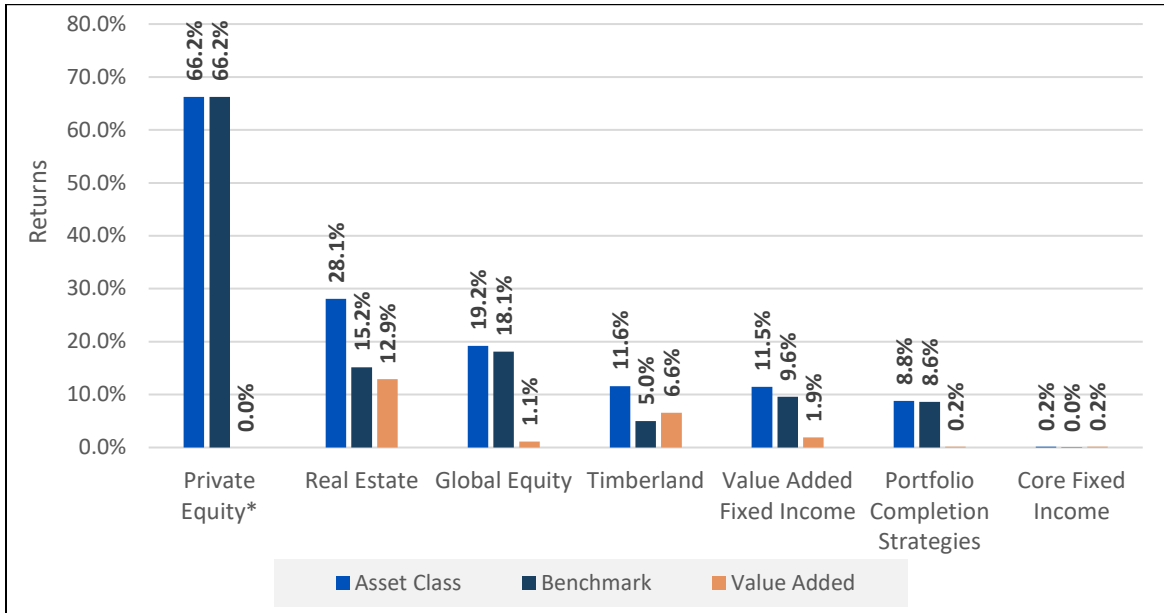
Total PRIT Fund Returns
Annualized Returns as of December 31, 2021 (Gross of Fees)



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

PRIT Asset Class Performance Summary

One Year ended December 31, 2021 (Gross of Fees)



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

PRIT Fund Annualized Returns By Asset Class

(December 31, 2021 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 66.2%	PRIVATE EQUITY 33.2%	PRIVATE EQUITY 29.6%	PRIVATE EQUITY 23.4%
REAL ESTATE 28.1%	GLOBAL EQUITY 20.7%	GLOBAL EQUITY 14.7%	GLOBAL EQUITY 12.3%
GLOBAL EQUITY 19.2%	REAL ESTATE 12.9%	REAL ESTATE 10.6%	REAL ESTATE 11.2%
TIMBER 11.6%	VALUE-ADDED FIXED INCOME 8.5%	VALUE-ADDED FIXED INCOME 7.2%	VALUE-ADDED FIXED INCOME 6.2%
VALUE-ADDED FIXED INCOME 11.5%	CORE FIXED INCOME 7.7%	CORE FIXED INCOME 5.5%	TIMBER 6.0%
PCS 8.8%	PCS 5.7%	TIMBER 5.3%	PCS 5.1%
CORE FIXED INCOME 0.2%	TIMBER 5.2%	PCS 4.6%	CORE FIXED INCOME 4.7%

Source: BNY Mellon. Returns as of December 31, 2021

III. 2022 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 2021 proxy voting review and proposed proxy voting changes for 2022, proposed by Treasurer Goldberg. Ms. Hennessey reviewed the enhancements made to PRIM's proxy voting guidelines in 2021, along with PRIM's proxy voting statistics in several key areas including but not limited to board diversity, executive compensation, and overboarding.

Representatives from ISS presented changes to their broader proxy voting policy along with their impact to PRIM's custom policy for 2022.

Mr. Brousseau asked if these large companies are now getting the message that these issues are important and are the guidelines in place having an effect?

Treasurer Goldberg offered to answer and explained that the changes made especially those made since her tenure as Treasurer began offer true fiduciary duty and that PRIM's guidelines similar to those of PRIM's peers, are driving change, and engagement is a much more productive way to create that change. Treasurer Goldberg mentioned that more investors are looking at the data and consider these issues business risks.

Theresa Goldberg added that although it is early regarding the climate change guideline, the guidelines addressing diversity and governance are clearly making a difference in their respective areas.

Mr. Falzone then introduced Treasurer Goldberg's proposed climate change proxy voting update for 2022 as follows:

- *Climate Change/Greenhouse Gas Emissions*
 - *Vote AGAINST directors at companies targeted by the Climate Action 100+, and vote CASE-BY-CASE on directors at companies not included on the Climate Action 100+ action list, that have failed to align their business plans with the goals of limiting global warming to 1.5 degrees Celsius, as set forth in the Paris Climate Agreement, and/or that have failed to establish a plan to achieve net zero emissions by 2050.*

Mr. Falzone reminded the Committee that at the last Administration and Audit Committee meeting in November, and then the Board meeting in December a sneak preview of proposed climate change proxy voting language was provided. He mentioned staff also provided this language to ISS, PRIM's provider, so they could plan the implementation. Due to disclosure limitations and current best practice, ISS recommend using the Climate Action 100+ to implement the climate change guideline. He explained this accounts for why the language on page 8 of the expanded agenda was slightly different than the language provided at the last round of meetings. Mr. Falzone provided the following information on the Climate Action 100+:

Climate Action 100+

The Climate Action 100+ initiative was formed in the wake of the 2015 Paris Agreement, a global accord signed by nearly 200 countries (and ratified by 170), aiming to keep the increase in global average temperatures to well below two degrees Celsius above pre-industrial levels, and pursuing efforts to limit warming further to 1.5 degrees Celsius. The investor signatories of Climate Action 100+ believe that engaging and working with the companies in which they invest, to secure greater disclosure of climate

change risks and robust company emissions reduction strategies, is consistent with their fiduciary duty and essential to achieve the goals of the Paris Agreement.

The Administration and Audit Committee voted (unanimously) 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.

IV. Environmental, Social, and Governance (ESG) Update (Voting Item)

Mr. Falzone mentioned that during the committee meetings and at the Board meeting last cycle Treasurer Goldberg spoke about discussions between PRIM staff and Treasury staff around creating an ESG committee within PRIM that would advise the board on ESG-related matters. Mr. Falzone expressed that he wanted to be mindful of PRIM's existing charters and governance policies, past and best practice, and therefore the proposal presented was that the Administration and Audit Committee make a recommendation to the PRIM Board that the Board establish an Environmental, Social, and Governance (ESG) Committee, for the purpose of advising the Board on ESG-related matters. Additionally, Mr. Falzone proposed that PRIM engage with Funston Advisory Services, on a limited scope engagement, to develop a proposal for the ESG Committee's structure and charter.

Mr. Falzone added that this vote is an important first step that will allow work to begin utilizing one of the leading public pension fund governance advisors in the space. He reiterated that it is a small engagement, but he felt strongly about working with a governance expert on this very important issue.

Mr. Falzone reminded the Committee that Cortex Applied Research, PRIM's legacy governance consultant, had begun to wind down their governance practice last year so PRIM now has a short and a long-term need. The limited scope engagement allows PRIM to "kick the tires" with Funston, addressing the short term need before issuing the larger scale RFP for governance consultant to address the longer-term need.

Additionally, Mr. Falzone mentioned he had spoken to other firms, collected pricing, and ultimately is recommending Funston Advisory Services due to their experience and positive feedback from pension fund peers. He added Funston's rates were in line with Cortex.

Mr. Falzone added that the delay in issuing an RFP for governance consulting was partly related to the open General Counsel position along with limited bandwidth. He assured the Committee that now with PRIM's new Chief Legal Officer, Ms. LeFevre in place, PRIM is well positioned both in the short and long term.

Mr. Falzone described Funston as having 40 years of experience and are nationally recognized for providing these types of services, including more specific experience implementing ESG governance, with a knowledge base of over 80 public retirement system charters and policies for reference. They work with many larger public pension funds (CALPERS, Texas Teachers, Florida, Ohio, Pennsylvania, Wisconsin, Maryland, New York, Rhode Island, etc.) PRIM staff has communicated with them recently and over the years and have been in contact with many of their clients who have been very happy with the results.

Patrick Brock asked how we will define small and limited?

Mr. Falzone responded that the engagement will be limited to the development of the structure and charter of an ESG Committee. That is the only scope. He added that when PRIM takes on a project we try and be thoughtful about it and usually work with an expert to guide the process. A more robust governance review will be completed which is a longer-term need.

Mr. Brock asked how this engagement impacts the issuance of the RFP?

Mr. Falzone mentioned it would give staff some experience working with a different firm and will provide PRIM with some additional insight when evaluating RFP proposals for the longer-term governance relationship.

The Administration and Audit Committee voted (5-1) by roll call vote to recommend to the PRIM Board that the Board approve establishing an Environmental, Social, and Governance (ESG) Committee, for the purpose of advising the Board on ESG-related matters, and to engage Funston Advisory Services LLC to assist with developing a proposal for the ESG Committee's structure and charter, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

V. Legislative Update

Emily Kowtoniuk, Director of Policy & Legislative Affairs in Treasurer Goldberg's office, provided a legislative update. Ms. Kowtoniuk commented that her team are still waiting for much of the paperwork to come through for public service due to the volume of bills being brought forward. She mentioned that her team is tracking several PRIM related bills regarding divestment, PRIM Board membership, and incorporating ESG factors into fiduciary review. Ms. Kowtoniuk also mentioned watching a supplemental budget move through the legislature that would extend the open meeting law provision allowing remote participation from April 1st to July 15th. Ms. Kowtoniuk concluded her remarks by mentioning a FY 2023 budget proposal for a supplemental transfer to the PRIT Fund of \$250,000,000.

VI. Other Matters:

The Committee members briefly discussed the following topics:

- a. December 2021 PRIM Operating Budget
- b. Travel Report
- c. Client Services Update

Mr. Falzone mentioned that Client Service would be hosting several educational webinars for its clients, one on cash processing and one on IT security.

The PRIM Administration and Audit Committee meeting adjourned at 11:24 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 18, 2021*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *2022 PRIM Staff Annual Plans*
- *2021 Proxy Voting Review*
- *2022 ISS' Benchmark Policy Updates*
- *PRIM Custom Policy Matrix – 2022 Proxy Voting Policy Update*
- *December 2021 PRIM Operating Budget*
- *Travel Report*