

PRIM Board Quarterly Update

First Quarter 2023



PRIM Executive Director and Chief Investment Officer Michael G. Trotsky, CFA provided the following information to the PRIM Board at its May 18, 2023, meeting:

Executive Director and Chief Investment Officer Report

We are pleased to report a positive return for the March 2023 quarter, the second consecutive quarter of PRIT Fund gains following the three quarter sell-off during calendar year 2022. The PRIT Fund was up 3.6% in the quarter ended March, and that followed a positive 4.1% return in the December 2022 quarter.

We expect market drops and economic cycles to impact the PRIT Fund periodically. Last year, in calendar 2022, stocks were down 15-20% globally while bonds were down approximately 13%. Normally, we would have expected bonds to offer some protection from a selloff in equities, but last year with rising interest rates, bonds and stocks were both down substantially. The PRIT Fund fared better than both stock and bond indices in 2022, it was down 11.2% net of fees. We cannot control market returns because we don't control the factors which fueled last year's difficulties: geopolitical events, slowing economic growth worldwide, monetary policy response, wars, viruses, supply chain shortages, or the behavior of other investors. The only thing we can control is the design and composition of the PRIT Fund, and we have carefully engineered a diversified portfolio with components that will perform well in a variety of market environments. We are also focused on controlling our costs. Our history of strong performance in both strong and weak markets is an indication that our portfolio is well constructed in terms of risk, return, and cost – PRIM's philosophical three pillars of investment. We believe that no investment decision is complete without evaluating these three equally important parameters.

Our alternative investments have helped anchor the Fund in the very stormy environment and thankfully now the markets have provided two consecutive quarters of gains. Additionally, market downturns create good buying opportunities, and the PRIM team has been very busy evaluating opportunities and deploying nearly \$6 billion in new investments across all asset classes.

Last August, we observed a peak in bond yields and signs that inflation had begun to moderate, and more recently those trends have been reconfirmed. GDP growth declined, but remained positive, corporate

revenue growth and earnings reports were positive and well above expectations. Inflation, as measured by the Consumer Price Index, slowed for a ninth consecutive period in March to 5%, the lowest since May of 2021, and down from 6% in February, and the Unemployment Rate fell again to 3.5%, which was better than expected. The consensus of investors and economists is still for a mild recession, no change from last quarter.

The March quarter was somewhat chaotic, it wasn't a straight line upwards, and volatility remains elevated. In mid-March, Silicon Valley Bank (SVB) and Signature Bank failed. U.S. authorities took extraordinary steps to prevent a contagion from developing as Treasury Secretary Yellen instructed the FDIC to make whole all depositors regardless of size; all depositors had access to their funds immediately.

PRIM's exposure to SVB, an S&P 500 component, was very low and immaterial, but we are mindful that SVB played an important role in the financial plumbing of the Private Equity and Venture Capital ecosystem. We are closely monitoring several ongoing concerns including the possibility that other banks will develop similar problems. Wall Street analysts say wide-spread contagion is unlikely, but smaller regional banks that are disproportionately tied to cash-strapped industries like tech and crypto or have loans to underperforming commercial real estate, may be in for more volatility. First Republic Bank failed during the last week of April, the bank seized and sold to JP Morgan. PRIM's net exposure to First Republic and Signature Bank was also very low and immaterial. Markets have repriced in the wake of these failures: In the equity markets regional banks and REITs were very weak while technology, large cap, and growth stocks were very strong; interest rates have fallen.

More broadly, the main risks going forward are familiar. The risks are that inflation spikes again or remains too high – after all, there are geopolitical situations that could disrupt the supply chain again - consumer and business spending along with corporate earnings could weaken more than anticipated, and unemployment or wages could spike. Any of these conditions could result in an economic slowdown that turns into a severe recession. There are many moving pieces in the global economy and in the world's geopolitical situation, but we believe the PRIT Fund is well-diversified and carefully engineered, with components that will perform well in any future environment.

PRIT Fund Performance

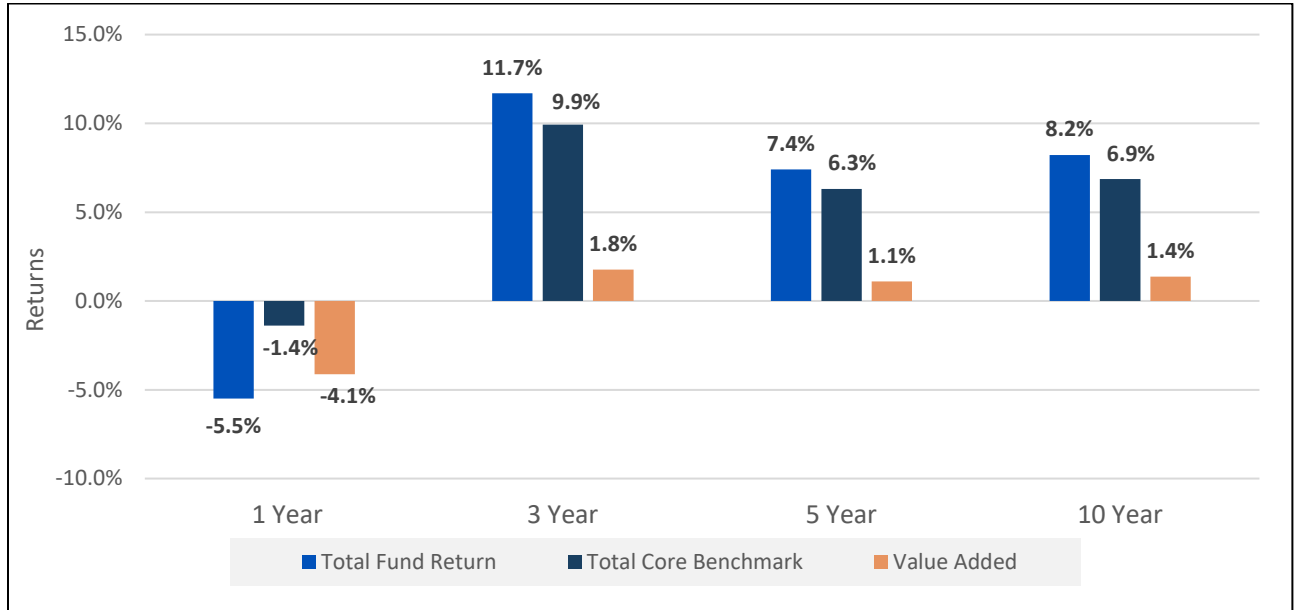
For the one-year ended March 31, 2023, the PRIT Fund was down -5.5%, (-5.9% net), underperforming the total core benchmark of -1.4% by 412 basis points (451 bps net).

- This performance equates to an investment loss of \$6.0 billion, net of fees.
- This underperformance equates to \$4.6 billion of value below the benchmark return, net of fees.
- Net total outflows to pay benefits for the one-year period ended March 31, 2023, were approximately \$816 million.

The following charts summarize the PRIT Fund performance for the one year ended March 31, 2023.

Total PRIT Fund Returns

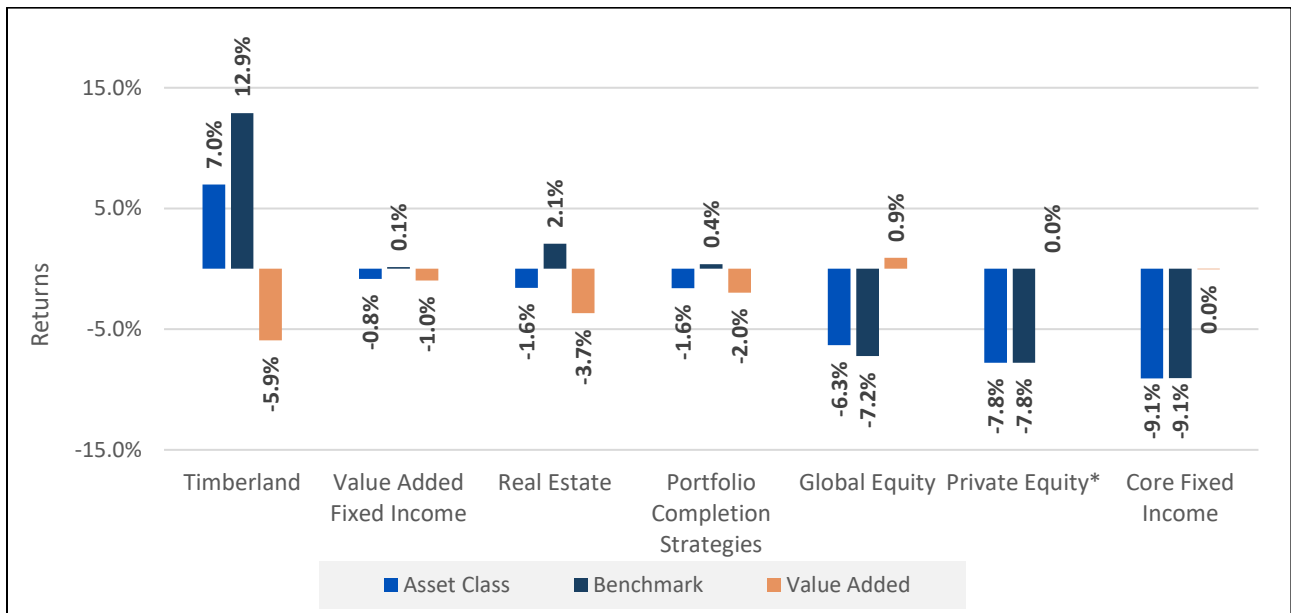
Annualized Returns as of March 31, 2023 (Gross of Fees)



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

PRIT Asset Class Performance Summary

One Year ended March 31, 2023 (Gross of Fees)



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

PRIT Fund Annualized Returns By Asset Class

(March 31, 2023 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
TIMBER 7.0%	PRIVATE EQUITY 24.0%	PRIVATE EQUITY 21.7%	PRIVATE EQUITY 20.6%
VALUE-ADDED FIXED INCOME (0.8%)	GLOBAL EQUITY 16.4%	REAL ESTATE 9.8%	REAL ESTATE 10.2%
REAL ESTATE (1.6%)	REAL ESTATE 12.9%	GLOBAL EQUITY 6.8%	GLOBAL EQUITY 8.4%
PCS (1.6%)	TIMBER 8.2%	TIMBER 5.3%	TIMBER 6.0%
GLOBAL EQUITY (6.3%)	VALUE-ADDED FIXED INCOME 7.8%	VALUE-ADDED FIXED INCOME 4.2%	VALUE-ADDED FIXED INCOME 4.3%
PRIVATE EQUITY (7.8%)	PCS 5.7%	PCS 2.8%	PCS 3.8%
CORE FIXED INCOME (9.1%)	CORE FIXED INCOME (3.8%)	CORE FIXED INCOME 1.4%	CORE FIXED INCOME 2.4%

Source: BNY Mellon. Returns as of March 31, 2023

Organizational Updates

PRIM Board

Governor Healy recently appointed **Catherine D’Amato** to the PRIM Board. Catherine is a deeply experienced Chief Executive Officer. As President and CEO of the Greater Boston Food Bank, New England's largest hunger relief organization, and Founder of the Hunger to Health Collaboratory, Catherine leads a team of 150 employees and thousands of volunteers. Her work provides food to six hundred distribution organizations, who in turn provide 100 million meals annually to those in need. Catherine has considerable board governance experience serving in a variety of roles as an elected officer, board chair, vice-chair, committee chair, and general director. Her current or completed board roles include Fidelity Charitable, Eastern Bancshares, Forsyth Institute, Federal Reserve Bank of Boston, The Boston Foundation, the Human Rights Campaign, and others. Catherine is a well-known, highly respected public figure, a sought-after public speaker, and has received many local, state, and national leadership awards and honorary degrees. She received her bachelor’s degree from the University of San Francisco and completed both a Strategies in Non-Profit Management Certificate from Harvard University and a Certificate of Management from Smith College. We welcome Catherine to the PRIM Board and look forward to her contributions.

Robert Brousseau and **Paul Shanley, Esq.** were both recently re-elected to a new three-year term on the PRIM Board, representing the Massachusetts Teachers’ Retirement System and the State Employees’ Retirement System, respectively. We congratulate them on their victories and thank them for their many years of dedicated service.

Karen Gershman has resigned her seat on the Administration and Audit Committee. Karen served on the Administration and Audit Committee for more than ten years and prior to that served as PRIM's COO and CFO for approximately 10 years (2001 – 2011). Karen possessed a unique combination of institutional knowledge and industry experience that will be greatly missed. We thank Karen for her many contributions to PRIM over the more than 20 years of service and wish her the best in her retirement.

New Hires

Veena Ramani joined PRIM in late April as Director of Stewardship, which is a new position within the organization. Veena will head PRIM's ESG and Stewardship efforts and support the newly formed ESG Committee. She joins PRIM from FCLTGlobal, a nonprofit whose mission is to focus on the long term to support a sustainable and prosperous economy. As Director of Research at FCLTGlobal, Veena oversaw the Research Team, working with members who include asset owners, asset managers, and corporations to develop actionable research to drive long-term value creation for investors. Prior to FCLTGlobal, Veena spent 15 years at Ceres, a leading sustainability nonprofit, holding several different roles including running campaigns to engage financial regulators on the systemic risk of climate change, developing an online training curriculum for corporate board members on ESG in partnership with the Berkeley School of Law, and engaging with large corporations on their sustainability and climate change strategies and disclosures. She holds a BA with honors degree from the National Law School of India University and a Master of Law degree from Washington University School of Law.

John Fitzpatrick joined the team in March as a Legal and Governance Analyst. John comes to PRIM from Laredo & Smith, a Boston law firm, where he was an Associate Attorney. John has his Bachelor of Arts degree in Philosophy and Economics from Saint Joseph's University in Philadelphia and his Juris Doctor from Boston College Law School.

Ethan Spencer joined PRIM in February as a Senior Investment Officer in Portfolio Completion Strategies. Ethan was Managing Partner at Eastern Point Capital, a global emerging and frontier market investment platform. Prior to that, Ethan had extensive experience working at the Boston University Endowment, Cambridge Associates, and Credit Suisse First Boston. He holds a BA degree from Colby College and an MBA degree from the Johnson School at Cornell University.

Riya Shah joined the team in February as an Investment Compliance Analyst. This is another new position at PRIM. Riya will assist with investment manager guideline monitoring, regulatory and state filings, and operational due diligence. Riya comes to us from State Street where she served as Enterprise Technology Risk Analyst within the bank's compliance team. Riya has her Bachelor of Arts degree in Actuarial Science and Economics from Assumption College.

Andrew Browne joined PRIM in February as an Investment Analyst, on the Private Equity team. Andrew graduated in December from Northeastern University's D'Amore-McKim School with a Bachelor of Science in Business. During his time at Northeastern, Andrew completed a variety of investment management internships in venture capital, investment advisory, and private wealth investment management. He also co-founded a school-wide research and consulting group to empower NGOs.

We are very pleased to have recruited this diverse group of outstanding individuals and we look forward to their contributions. Each of them is off to an outstanding start.

PRIM Board Actions

Committee Membership Recommendation

The PRIM Board appointed Catherine D’Amato to the following PRIM Board committees:

- Investment Committee
- Administration and Audit Committee
- Compensation Committee

Public Markets

Global Equities Benchmark Recommendation

The PRIM Board approved changing the Domestic Equity and Global Equity benchmarks to the MSCI USA IMI and the MSCI All Country World Index (ACWI) IMI indices, respectively.

These new benchmarks move from a ‘fixed weight’ sub-asset class benchmark to a cap-weighted benchmark, which is considered best practice and reflects PRIM’s current strategic asset allocation. Additionally, changing to a cap-weighted from a fixed weighted benchmark reduces trading costs associated with rebalancing back to fixed weights and employing a single Global Equity benchmark reduce operational complexity by utilizing a well-known, single benchmark.

Private Equity

Follow-on Investment Recommendation: CVC Capital Partners IX, L.P.

The PRIM Board approved a commitment of up to €250 million to CVC Capital Partners IX, L.P. (“Fund IX”). PRIM has invested in eight prior CVC Capital Partners (“CVC”) Funds since 1996. CVC is a large, global asset management firm, and Fund IX will target control-oriented buyout investments in Europe and North America.

Follow-on Investment Recommendation: PSG VI L.P.

The PRIM Board approved a commitment of up to \$150 million to PSG VI L.P. (“Fund VI”). PRIM has invested in three prior funds managed by PSG Equity since 2018. Fund VI will target private equity investments in growth-oriented, lower middle market companies in the software and tech-enabled services industries primarily located in North America.

Follow-on Investment Recommendation: American Industrial Partners Capital Fund VIII, L.P.

The PRIM Board approved a commitment of up to \$150 million to American Industrial Partners Capital Fund VIII, L.P. PRIM has invested in one prior American Industrial Partners fund starting in 2019. American Industrial Partners is led by three senior investment professionals with an average tenure of 23 years at the firm. American Industrial Partners targets buyouts of middle-market industrial businesses headquartered in North America.

Follow-on Investment Recommendation: KPS Special Situations Mid-Cap Fund II, L.P.

The PRIM Board approved a commitment of up to \$75 million to KPS Special Situations Mid-Cap Fund II, L.P. PRIM has invested in four prior KPS funds starting in 2009. KPS Capital Partners has a stable and highly experienced team and a strong and consistent track record and targets buyouts of industrial and manufacturing businesses headquartered in North America and Western Europe.

Finance and Administration

Information Technology Consulting and Support Services Request For Proposals (RFP) Recommendation

The PRIM Board voted to retain the incumbent EdgeTech Consulting for information technology consulting and support services, and RSM US, LLP for additional backup and project work, as needed.

PRIM Board Fiscal Year 2024 Budget

The PRIM Board approved the Fiscal Year 2024 Budget. The budget reflects the investment management, advisory, and operational costs necessary to implement, measure, and monitor the approximated \$95 billion in investments of the Pension Reserves Investment Trust (PRIT) Fund.

The Client Services team 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, Laura at lstrickland@mapension.com, Emily at egreen@mapension.com, or call 617-946-8401. We look forward to seeing you soon.

