



Minutes of the PRIM Administration and Audit Committee Remote Meeting  
Thursday, May 4, 2023

Committee members attending:

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

Committee members not attending:

- Michele Whitham, Esq.

The PRIM Administration and Audit Committee meeting was called to order at 10:01 a.m. Chair Robert Brousseau announced that the meeting was being held in accordance with the provisions of Massachusetts Acts of 2022, Chapter 22, which was most recently amended on March 29, 2023, to include an extension of the 2020 Executive Order 'Suspending Certain Provisions of the Open Meeting Law' until March 31, 2025. Accordingly, all members of the Committee participated remotely via telephone and/or internet enabled audio and video conferencing, and public access to the deliberations of the Committee was likewise provided via telephone, with presentation materials made available on PRIM's website ([www.mapension.com](http://www.mapension.com)). At the start of the meeting the names of the members participating remotely were announced.

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

The PRIM Administration and Audit Committee approved by roll call vote the minutes of its November 17, 2022, 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 introducing the Governor's new appointee to the PRIM Board, Catherine D'Amato. Mr. Trotsky described Ms. D'Amato as a deeply experienced Chief Executive Officer and provided her background as follows:

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, Ms. D'Amato leads a team of 150 and thousands of volunteers providing healthy food to six hundred distribution organizations, equivalent to 100 million meals annually. He explained that Ms. D'Amato 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, and Human Rights Campaign, among others. Ms. D'Amato is a well-known, highly respected public figure and 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. Mr. Trotsky welcomed Ms. D'Amato to the PRIM Board and looked forward to her contributions. Mr. Trotsky added

that Treasurer Goldberg had nominated Ms. D’Amato to serve on the Investment, Administration and Audit and Compensation Committees.

Treasurer Goldberg added that Ms. D’Amato brings an incredible breadth of experience, specifically her relevant experience in the banking industry due to her work on the Boards of the Federal Reserve Bank of Boston and Eastern Bancshares along with her management track record at the Greater Boston Food Bank that will very much enhance the work being done at PRIM.

Mr. Trotsky mentioned that Ms. D’Amato’s appointment is timely as Karen Gershman has resigned her seat on the Administration and Audit Committee. He mentioned that Ms. Gershman has retired and plans to travel over long stretches in the months and years ahead, which conflicts with many of the upcoming Committee dates.

He added that Ms. Gershman served on the Administration and Audit Committee for over ten years (August 2011), and prior to that served as PRIM’s COO and CFO for approximately ten years (2001 – 2011). He explained that Ms. Gershman possessed a unique combination of institutional knowledge and industry experience that will be greatly missed. Mr. Trotsky thanked Ms. Gershman for her many contributions to PRIM over her more than 20 years of service and wish her the best in her retirement.

### **Organizational Update**

Mr. Trotsky expressed excitement in introducing five new employees as follows:

**Veena Ramani**, Director of Stewardship, started on April 28<sup>th</sup> and will report to David Gurtz, Deputy Chief Investment Officer. Ms. Ramani will head up PRIM’s ESG and Stewardship efforts, filling a new position at PRIM. Ms. Ramani joins PRIM from FCLTGlobal, a nonprofit, whose mission is to focus on the long term to support a sustainable and prosperous economy. Ms. Ramani 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, Ms. Ramani spent 15 years at Ceres, a leading sustainability nonprofit, holding a number of 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** started on March 1<sup>st</sup> as a Legal and Governance Analyst, a new position, reporting to Renee LeFevre, Chief Legal Officer. Mr. Fitzpatrick comes to us 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** started on February 27<sup>th</sup> as a Sr. Investment Officer in PCS reporting to Bill Li, Senior Investment Officer. Recently, Mr. Spencer was Managing Partner at Eastern Point Capital, a global emerging and frontier market investment platform. Prior to that, he 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** also started on February 27<sup>th</sup> as an Investment Compliance Analyst, another new position, reporting to Matt Liposky, Chief Investment Operating Officer. This role will assist with investment manager guideline monitoring, regulatory and state filings, and operational due diligence. Ms. Shah comes to us from State Street where she served as Enterprise Technology Risk Analyst within the bank’s compliance team. Ms. Shah has her Bachelor of Arts degree in Actuarial Science and Economics from Assumption College.

**Andrew Browne** started February 20th as an Investment Analyst, on the PE team reporting to Helen Huang, Senior Investment Officer. Mr. Browne graduated in December from Northeastern University's D'Amore-McKim School with a Bachelor of Science in Business. During his time at Northeastern, Mr. Browne 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.

Mr. Trotsky stated that he was pleased to have recruited such a diverse group of outstanding individuals and welcomed Ms. D'Amato and all the new employees to PRIM.

### **Markets and PRIT Fund Performance**

Mr. Trotsky began his review of the markets by telling the Committee that they should expect market drops and economic cycles to impact the PRIT Fund periodically, and the markets are in one of those prolonged, volatile periods now. Last year, in calendar 2022, stocks were down between 15 and 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. He explained that the PRIT Fund fared better than both stocks and bond indices in 2022, down 11.2% net of fees. He added that PRIM is a market taker; and cannot control market returns because PRIM does not 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 PRIM can control is the design and composition of the PRIT Fund. PRIM has carefully engineered a diversified portfolio with components that will perform well in a variety of market environments, with a laser focus on controlling costs. PRIM's history of strong performance in both strong and weak markets is an indication that the PRIT Fund is well constructed in terms of risk, return, and cost – PRIM's philosophical three pillars of investment. No investment decision is complete without evaluating these three equally important parameters.

Mr. Trotsky added that alternative investments have helped anchor the PRIT Fund in the very stormy environment and thankfully now the markets have provided two consecutive quarters of gains. He noted that 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.

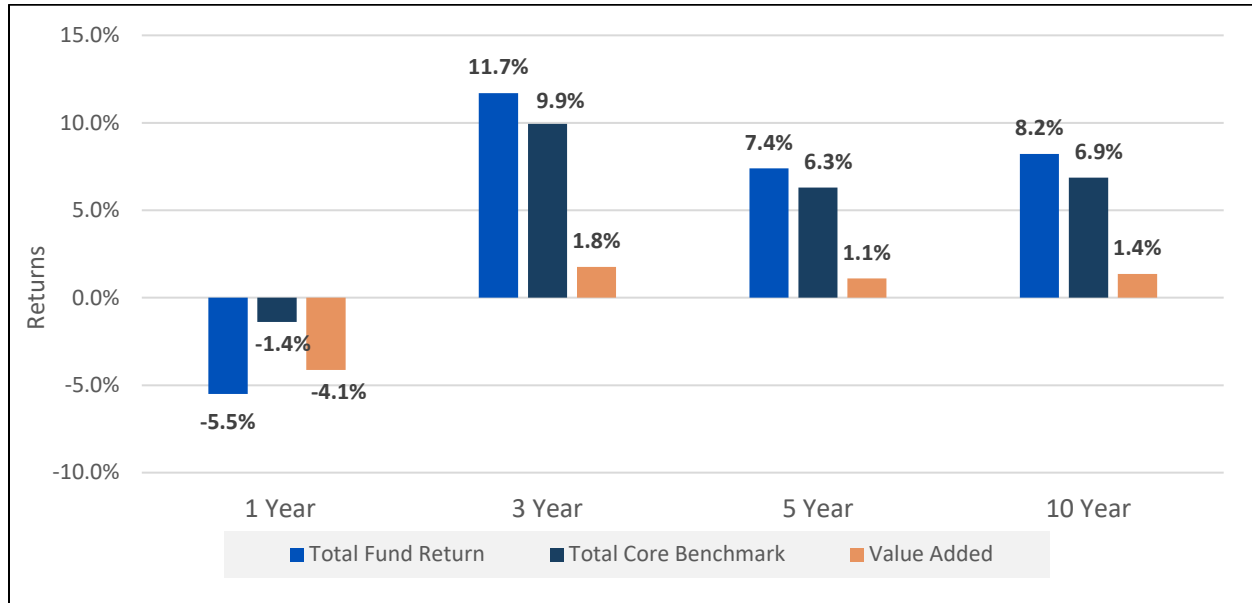
Mr. Trotsky stated that the March quarter was positive, and PRIM noticed a reversal of some of the trends witnessed last year: in the March quarter, growth stocks outperformed value stocks, technology stocks outperformed the S&P as well as Financials, Healthcare, and energy stocks. But to recap, it was a strong March quarter with the S&P up 7.5%.

Mr. Trotsky reviewed performance and mentioned that he was very pleased to report a positive return for the March 2023 quarter, the second consecutive quarter of PRIT Fund gains following the three quarters of selloffs during calendar year 2022. The PRIT Fund was up 3.6% for the quarter ended March, and that followed a positive 4.1% return in the December 2022 quarter. He viewed this as good news, two consecutive quarters of gains since the 2022 prolonged market sell-off. He added that the PRIT Fund is rebounding strongly.

Mr. Trotsky discussed March 2023 PRIT Fund performance in more detail referencing the following performance charts:

## Total PRIT Fund Returns

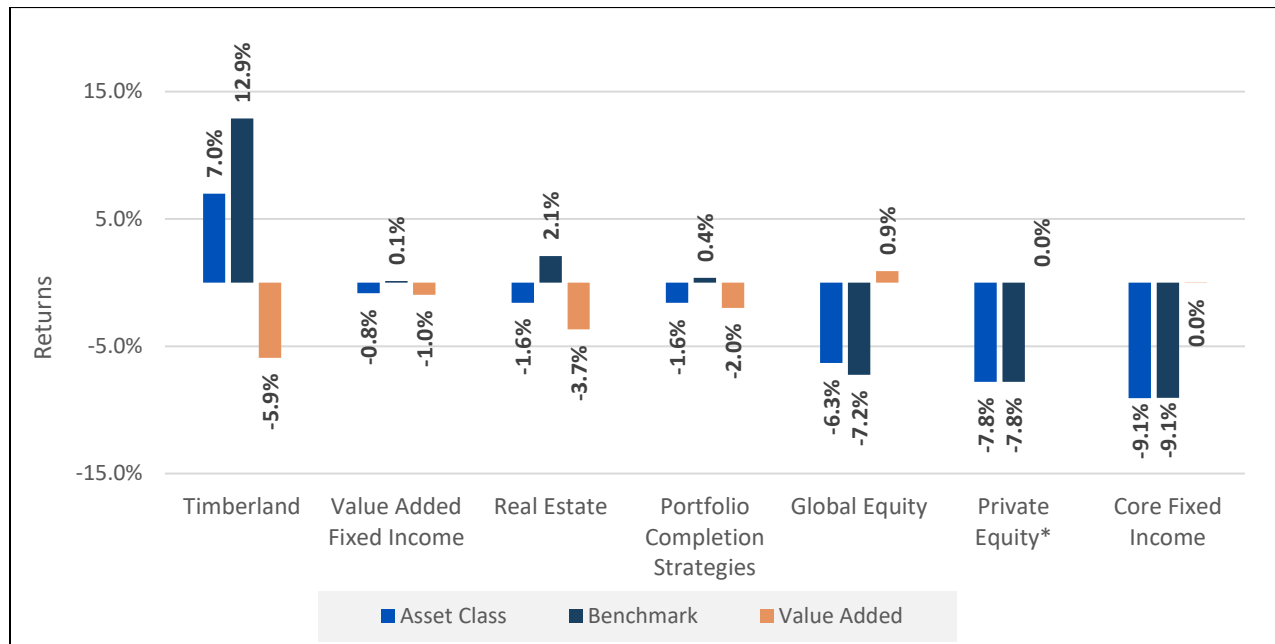
Annualized Returns as of March 31, 2023 (Gross of Fees)



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

### III. Interim Meeting with PRIM Board Auditors

Deborah Coulter, PRIM's Chief Financial Officer and Chief Administration Officer, introduced KPMG audit partners Brock Romano and Christine St. Hilaire. She stated that KPMG was mainly present to discuss the audit plan for the Fiscal Year 2023 PRIM and PRIT Audits, and the plan for the agreed upon procedures.

Ms. Coulter then provided an overview of the December 31, 2022, year-end audits for the following alternative asset classes.

- The entire PRIT real estate portfolio
  - Six core private real estate accounts, non-core real estate, and REIT's
- PRIT's two timberland portfolios
- PRIT's 22 directly managed separate accounts, and
- PRIT's sole agricultural portfolio

Ms. Coulter mentioned that these audits are required by PRIM's real estate leverage program and by counterparties for PRIM's direct hedge fund program. She noted that approximately 20% of the PRIT Fund portfolio was audited off cycle on 12/31/2022.

Ms. Coulter then noted that all of the calendar year-end audits, except two, had been completed and they had all resulted in clean, unmodified opinions. She then mentioned that the two remaining audits—the agricultural portfolio and one timber portfolio—were expected to be issued in May and June, respectively, and that the timing was in line with prior years.

Ms. Coulter added that there is an increasing amount of complexity involved in auditing these accounts, particularly the separately managed hedge fund accounts, and thanked the administrators, KPMG and PRIM staff for their work. Ms. St. Hilaire provided an audit overview that included the following:

- The audit approach, use of technology, and an evaluation of changes in the industry, PRIM and PRIT that could impact the audits;
- An overview of the KPMG audit engagement team;
- The roles and responsibilities of management, the Administration and Audit Committee and KPMG as it relates to the fiscal 2023 audits of the PRIM Board and the PRIT Fund, and
- A review of the audit timetable, approach and risk assessments

Mr. Romano summarized the audit approach and the areas of emphasis highlighting that the majority of the audit effort is related to investment valuations, testing of manager fees, and review of internal controls.

Mr. Romano informed the Committee that he will be retiring in the next 18 months and Ms. St. Hilaire will act as lead audit partner for FY 2024 audits.

Ms. St. Hilaire summarized the agreed upon procedure services (procurement and performance measurement) as well as summarized KPMG's approach to addressing fraud risks and the two-way communications between auditor and auditee.

Ms. St. Hilaire also reviewed the new GASB guidance and standards for the upcoming three years (2023, 2024, and 2025).

Mr. Naughton asked the KPMG representatives for more information about their Clara audit platform.

Ms. St. Hilaire stated that the Clara platform is more of an internal tool that is used to better streamline the audit process.

#### **IV. Information Technology Consulting and Support Services Request for Proposals (RFP) Recommendation (Voting Item)**

Anthony Falzone, Deputy Executive Director and Chief Operating Officer introduced David Griswold, PRIM's Information Technology Director who presented the recommendation.

Mr. Griswold reminded the Committee that the RFP for Information Technology Consulting and Support Services was issued in October of last year and four responses were received by the RFP deadline date of November 21, 2022. The four respondents were EdgeTech Consulting, Bredy Network Management Corporation (BNMC), Radius Executive IT Solutions, and RSM US.

Mr. Griswold told the Committee that the Evaluation Committee consisted of PRIM staff members: Anthony Falzone, David Gurtz, Silas Owoyemi, Joseph Kamotho, George Tsipakis and himself.

Mr. Griswold explained the objective of the RFP was to identify a firm that has the appropriate resources and expertise to support the infrastructure and technology in place at PRIM as well as the appropriate skills to provide application development and support services for PRIM business systems. The Evaluation Committee also considered who would be able to help PRIM navigate the changing environment as it relates to cloud technologies, systems integration as well as continually improving PRIM's overall security posture adjusting to the changing threat landscape. Three of the four responding firms were invited to interview with PRIM, via Zoom, during the week of December 12th.

Mr. Griswold continued that after careful analysis and interviews, the Evaluation Committee was unanimously recommending the selection of the incumbent, EdgeTech Consulting for Information Technology Consulting and Support Services for a 5 year contract with two optional one-year extensions, and that RSM US be approved as a vendor to be engaged for additional backup for both project work and initiatives requiring specific expertise.

Mr. Griswold added that all of the providers presented their fee schedules in a variety of ways and his team did their best to level set the bids and, in the end, Edgetech Consulting was very competitive. He noted that the IT budget is staying flat for next year, FY 2024.

The Administration and Audit Committee voted (unanimously) by roll call vote, to recommend to the PRIM Board, retaining the incumbent, EdgeTech Consulting, for IT consulting and support services, and the approval of RSM US, LLP as a vendor to be engaged for additional backup and project work as set forth at Appendix E of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

#### **V. Draft Fiscal Year 2023 Operating Budget (Voting Item)**

Mr. Falzone and Ms. Coulter presented the Draft Fiscal Year 2024 PRIM Operating Budget. Mr. Falzone and Ms. Coulter thanked Daniel Eckman, CPA, Director of Finance & Administration, Sara Coelho, Finance Manager, and the rest of the team for their work on the proposed budget.

Mr. Falzone stated that the total Fiscal Year 2024 Budget is projected to be \$520.3 million, or 52.6 basis points (bps), of the projected average PRIT Fund assets of \$99 billion. PRIM's fees and expenses relate directly to PRIT Fund assets, and higher average asset levels, and/or a larger allocation to more complex/costly assets, results in higher costs. He explained that the budget has a modest increase of \$2.3 million, or 0.4% from the prior year. He explained that while PRIM continues to carefully increase allocation to higher performing, higher cost, asset classes, costs are managed in a way where we have kept expense ratios consistent year over year.

Mr. Falzone spoke to the allocation of budget that covers the investment program at approximately 95%, paid to managers and consultants outside of PRIM's four walls. He mentioned the need to continue to look for ways to add transparency and detail that will help communicate where PRIM is allocating budget. Additional transparency helps management perform analytics that can aid in measuring where PRIM spends.

Mr. Falzone explained the budget is comprised of 3 sections: Investment Management Fees, Third-Party Service Providers, and Operations. Investment Management Fees account for approximately 90% of the total budget. These fees are paid to investment managers to invest the assets of the PRIT Fund. These fees are grouped by asset class. The PRIT Fund's asset allocation mainly drives the cost allocation.

Mr. Falzone described the relationship between PRIM's asset allocation and PRIM's budget allocation. He noted that the size of any one asset class does not directly relate to the size of the expense. Higher performing private alternatives will have higher fee structures than the public markets, but historically that has been money well spent, specifically in the case of Private Equity, as Mr. Trotsky mentioned earlier Private Equity is PRIM's highest performing asset class. Mr. Falzone acknowledged that no one at PRIM likes to pay high fees but these alternatives are a critical component of PRIM's asset allocation that historically has allowed the PRIT Fund to exceed that 7% actuarial rate of return that Michael mentioned during his remarks. Mr. Falzone reminded the Committee of PRIM's investment belief that no investment decision is complete without evaluating three equally important parameters: risk, return, and cost.

Mr. Falzone went on to explain that this budget projection is based on continued projected asset growth, using NEPC's 10-year growth assumptions (7.0%), however future performance is not predictable, so PRIM's actual fees will likely vary, but PRIM's budget projection provides a very good approximation of projected expenses. He also mentioned that no performance fees, incentive fees or carried interest are projected in this budget, as it is extremely difficult to estimate future performance.

Mr. Trotsky added that PRIM's budget is not necessarily intuitive in that fees often trend in the same direction as asset levels. If asset levels are up fees will normally increase. That means that assets are growing, and we want that to happen.

Dennis Naughton asked for some additional information on diverse manager fees. Mr. Falzone mentioned that the Investment Equity legislation, championed by Treasurer Goldberg, sets goals for PRIM to increase the use of diverse investment managers and vendors to at least 20%. He added, as the number of diverse managers increases the fees paid to diverse managers will increase.

Ms. Coulter discussed the three sections of the budget in more detail, highlighting key changes year-over-year. She explained that the operating budget was only increasing \$2.3 million, or 0.4%. She noted that PRIM is constantly looking for ways to save money and the Fiscal Year 2024 budget reflects many of those cost saving measures, such as no-fee co-investments in Private Equity and direct investments in Real Estate. She stated that the Investment Management Fees section of the budget was increasing \$1.9M as Private Equity and Real Estate & Timber fees were expected to increase, due to projected increases in commitments and acquisitions in those asset classes. She then noted that the Third-Party Service Providers section of the budget was decreasing due to lower budgeted PCS platform provider fees and Real Estate consulting fees, along with cost savings identified by the Research team as they build out their data infrastructure. The last section of the budget, Operations Expenses, increased mainly due to changes in the Compensation section to support projected new hires.

Dennis Naughton and Theresa McGoldrick both thanked the PRIM team for such a thorough presentation and commended PRIM staff for their work. Mr. Naughton also commented that with all the growth and different initiatives to basis point fee amount stay level is quite an accomplishment.

Mr. Brousseau noted that with over 60 full-time employees and all the new initiatives he commended PRIM staff for keeping costs so low.

The Administration and Audit Committee voted (unanimously) by roll call vote to recommend to the PRIM Board that the Board approve the Draft Fiscal Year 2024 PRIM Operating Budget, as set forth at Appendix E of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

Before moving on to the next item, Mr. Falzone wanted to formally welcome Ms. D'Amato and thank Ms. Gershman for her contributions and mentorship over the years.

## **VI. Legislative Update**

Emily Kowtoniuk, Director of Policy & Legislative Affairs in Treasurer Goldberg's office, provided a legislative update. Ms. Kowtoniuk commented that her team continues to monitor and track several items that are related to PRIM. Ms. Kowtoniuk told the Committee that the items fall into three categories: divestment, PRIM administration, and Board composition.



Ms. Kowtoniuk mentioned the recent House budget did include by way of amendment the language that could alter the PRIM Board membership by requiring the public safety union representative on the PRIM Board to be chosen from a list of three nominees submitted by MACRS.

Treasurer Goldberg expressed her support for the current public safety union representative Carly Rose and would not want to see such a tremendous and deserving Board member be removed from the Board.

Mr. Brousseau asked if the current public safety member would be allowed to finish her term?

Ms. Kowtoniuk mentioned it would be forward looking so she would be able to finish her term.

Mr. Naughton asked Ms. Kowtoniuk if there were any additional divestment bills other than fossil fuels and firearms.

Ms. Kowtoniuk responded that she was not aware of any others.

## **VII. Other Matters:**

The Committee members briefly discussed the following topics:

- A. March 2023 PRIM Operating Budget
- B. Travel Report
- C. Client Services Update

The PRIM Administration and Audit Committee meeting adjourned at 12:14 p.m.

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

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 17, 2022*
- *PRIT Fund Performance Report (March 31, 2023)*
- *BNY Mellon Gross of Fees Performance Report (March 31, 2023)*
- *KPMG's Fiscal Year 2023 Audit Plan*
- *Evaluation Committee Report for Information Technology Consulting and Support Services RFP*
- *Draft Fiscal Year 2024 Operating Budget*
- *PRIM Operating Budget (March 31, 2023)*
- *Travel Report*