

# PRIM Board Quarterly Update

## Third Quarter 2022



*PRIM Executive Director and Chief Investment Officer Michael G. Trotsky, CFA provided the following information to the PRIM Board at its December 1, 2022, meeting:*

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

The global challenges of the last two quarters persisted into the September quarter. During the September quarter COVID continued with a significant number of daily cases in the US and worldwide, while the flu and other respiratory illnesses, namely RSV, were on the rise. Interest rates remained stubbornly high, and inflation remained at multi-decade highs; markets digested slowing economic growth worldwide, tightening monetary policy, the Russia/Ukraine war, and continued geopolitical tensions. This provided a significant headwind for economies and financial markets in the September quarter, making it the third consecutive quarter of market declines. Through this challenging period, the PRIM Fund performance was stronger than the markets and most of our peers. We remain pleased with the resiliency of the Fund and its performance over all time periods, including in the September quarter, and throughout several different market environments.

The Fund was down 4.7%, net, in the September quarter as compared to a 60/40 mix, which was down 6.0%. Market downturns create good buying opportunities, and the PRIM team has been busy identifying many new opportunities. Deployment of capital to new ideas of \$6.9 billion last fiscal year was a 58 percent increase over the previous year. In the current quarter, deployment of new capital is expected to total approximately \$800 million. Rebalancing trades increase during times of elevated market volatility; this ensures the deployment of capital to asset classes with the most significant declines. Rebalancing trades last fiscal year exceeded \$8 billion, and in the first five months of this fiscal year, July through November, rebalancing trades exceeded \$3.5 billion.

The deployment of capital to new ideas and rebalancing of the portfolio was timely; there has been a significant rebound in the markets since the end of the September. The S&P 500, for example, was down

more than 15% for the 12-month period ending September but has gained back nearly 11% in October and November alone.

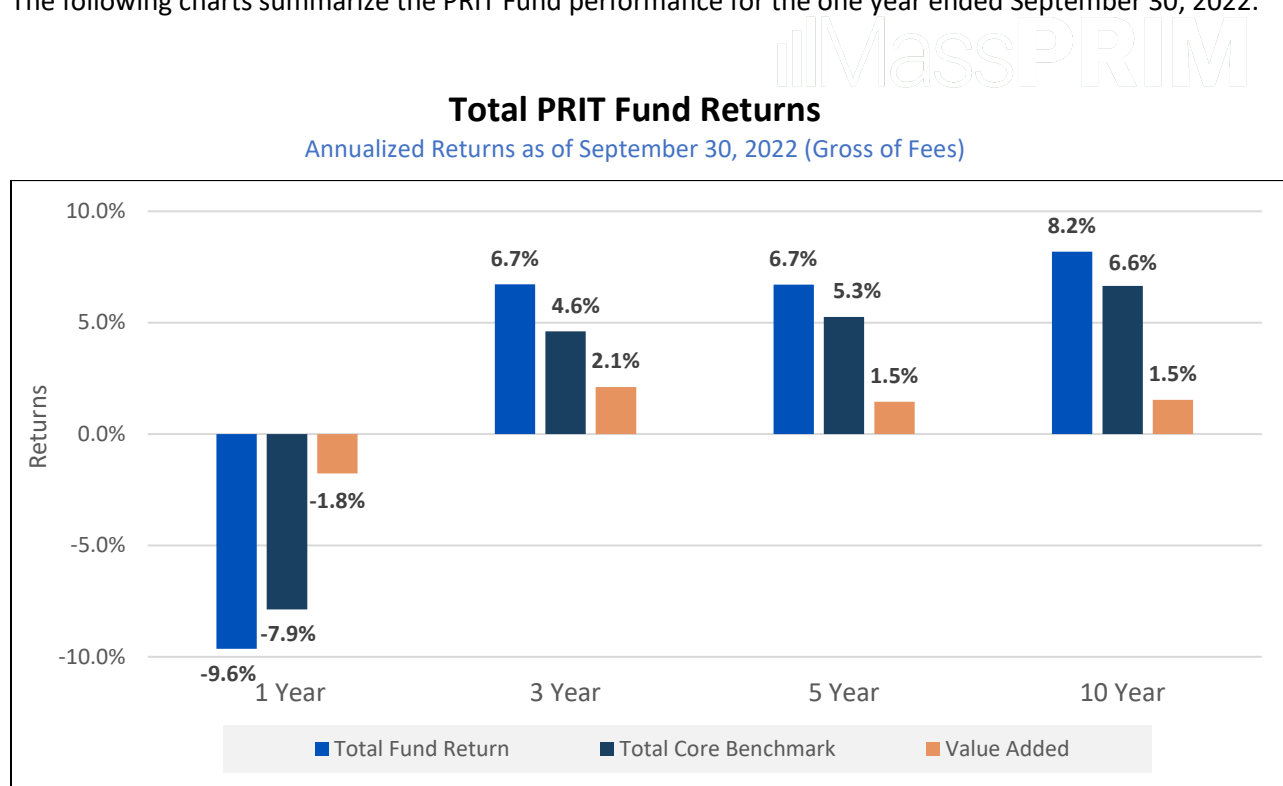
The outlook for the global economy is uncertain and PRIM does not trade or adjust the portfolio on any projections of the future. We remain pleased with the performance of the PRIT Fund as it is carefully constructed to perform well in a variety of market conditions.

### PRIT Fund Performance

For the one-year ended September 30, 2022, the PRIT Fund was down -9.6%, (-10.1% net), underperforming the total core benchmark of -7.9% by 178 basis points (220 bps net).

- This performance equates to an investment loss of \$9.9 billion, net of fees.
- This underperformance equates to \$2.2 billion of value below the benchmark return, net of fees.
- Net total outflows to pay benefits for the one-year ended September 30, 2022, were approximately \$29 million.

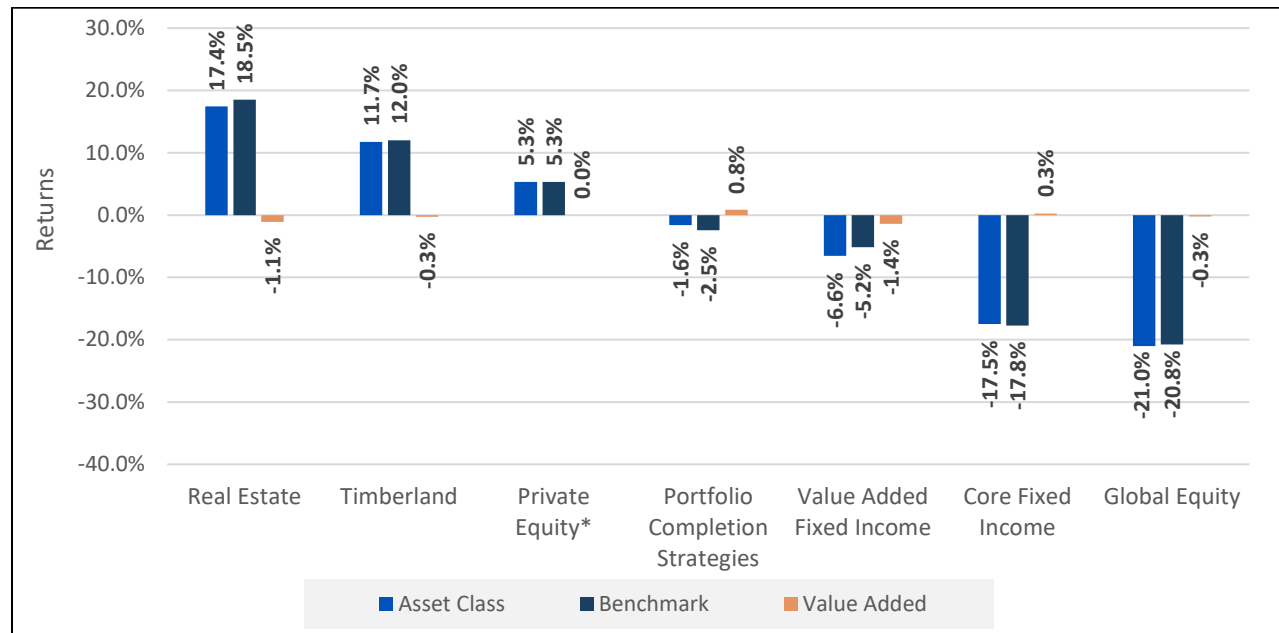
The following charts summarize the PRIT Fund performance for the one year ended September 30, 2022.



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

## PRIT Asset Class Performance Summary

One Year ended September 30, 2022 (Gross of Fees)



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

## PRIT Fund Annualized Returns By Asset Class

(September 30, 2022 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
REAL ESTATE 17.4%	PRIVATE EQUITY 27.4%	PRIVATE EQUITY 24.1%	PRIVATE EQUITY 21.5%
TIMBER 11.7%	REAL ESTATE 13.0%	REAL ESTATE 11.1%	REAL ESTATE 11.1%
PRIVATE EQUITY 5.3%	TIMBER 5.7%	TIMBER 5.1%	GLOBAL EQUITY 7.6%
PCS (1.6%)	GLOBAL EQUITY 4.0%	GLOBAL EQUITY 4.3%	TIMBER 6.3%
VALUE-ADDED FIXED INCOME (6.6%)	VALUE-ADDED FIXED INCOME 3.0%	VALUE-ADDED FIXED INCOME 3.6%	PCS 4.3%
CORE FIXED INCOME (17.5%)	PCS 2.6%	PCS 2.9%	VALUE-ADDED FIXED INCOME 4.2%
GLOBAL EQUITY (21.0%)	CORE FIXED INCOME (3.4%)	CORE FIXED INCOME 0.5%	CORE FIXED INCOME 2.0%

Source: BNY Mellon. Returns as of September 30, 2022

### **Organizational Updates**

**Jessica Murphy** joined PRIM in October as the Manager of Performance Reporting. Jess comes to PRIM from Bank of New York Mellon where she served as Lead Manager within the bank's Performance Reporting Group. Jessica is familiar with PRIM, having served as PRIM's main point of contact for all performance reporting matters for the past 13 years and she brings more than 16 years of performance reporting experience to the organization. At Mellon, Jess also oversaw performance reporting for many other large public pension funds, endowments, and corporate clients. She earned a Bachelor of Science degree in Economics and Finance from Bentley College, and will report into our Chief Investment Operating Officer, Matt Liposky.

**Sara Coelho** was promoted to Finance Manager. Sara was hired in November of 2018 and has excelled first as a Corporate Accountant and then as a Senior Corporate Accountant. Sara's work ensures that PRIM's month-end close is completed timely and accurately. Sara has also expanded her role with payroll, time and attendance, and benefits by becoming an expert on Replicon, the human resources system. She has also taken on a larger role with supervision of finance staff and reviews a large volume of their work. Sara earned a Bachelor of Science in Finance and Accounting Management from Northeastern University.

**Mini Kouame** was promoted to Investment Officer on the Research team. Hired in July of 2021, Mini is responsible for multiple research initiatives, including ESG research and blockchain research. Mini earned an MBA from ESCP Europe, a top university in Europe and a master's degree from Harvard's Kennedy School. Prior to the Kennedy School, Mini spent eight years in management consulting where he provided solutions to top-level executives using a strategic, data-driven approach. Mini is currently enrolled in the prestigious Certificate in Quantitative Finance (CQF) where he will continue to build upon his data science skillset.

**Liu Liu** was promoted to Investment Officer on the PCS team. Hired first as an intern in 2017, Liu quickly gained the confidence of her managers and was offered a full-time position in September of 2018. Liu has earned both a CFA charter and CAIA charter during that time. Liu has a master's in finance from Brandeis University and a bachelor's degree in finance from Shanghai Jiao Tong University.

**Chuck LaPosta** was promoted to Director of Fixed Income on the Public Markets team. Since being hired in September of 2013, Chuck has become PRIM's fixed income expert and he continues to identify unique opportunities by working collaboratively with other PRIM asset class teams. He is an excellent communicator of fixed income investments, concepts, and trends, which can be quite complex.

### **Recent Recognition**

We congratulate Treasurer Deborah Goldberg on her recent reelection for her third term as Treasurer and Receiver General. We look forward to working with her over the next four years and are thankful to her for her unwavering support of PRIM and our important mission.

Treasurer Goldberg has also received the Northeast Women in Public Finance Freda Johnson Lifetime Achievement Award. "The award recognizes a woman serving or who has served in a position for a public or non-profit issuer who exemplifies the qualities that Freda Johnson brought to our industry as a trailblazer, leader, innovator, and mentor."

*Institutional Investor* recognized PRIM for our leading work on ESG, by bestowing on PRIM and our partners on the MIT Sloan School Aggregate Confusion project the "Partnership of the Year" award. The project works to "reduce the level of noise in ESG measurement" by improving data available to managers and allocators. PRIM's Director of Research, **Maria Garrahan**, spoke on behalf of PRIM when accepting

the award. This recognition reflects the leading role our team and partners are playing in driving the research in this evolving area.

**Tony Falzone**, PRIM's Deputy Executive Director and Chief Operating Officer and **Jay Leu**, PRIM's Director of Risk, were recently selected by Treasurer Goldberg as recipients for this year's Performance Recognition Program. Each of them has been selected to receive a citation from the Treasurer at a ceremony to recognize their outstanding performance in their respective areas.

On December 14<sup>th</sup> at the Boston Convention Center, the Governor's office recognized PRIM's FUTURE Initiative, the effort to increase the use of diverse investment managers and vendors, for the Commonwealth Equity in Governance Award. **Dave Gurtz** and the entire team worked to create and successfully execute PRIM's FUTURE Initiative, the program to implement the Investment Equity legislation created and championed by Treasurer Goldberg and her staff and signed into law in January of 2021.

## **PRIM Board Actions**

### **ESG Committee Membership Recommendation**

The PRIM Board appointed the following individuals to the ESG Committee:

- Treasurer Deborah B. Goldberg
- Ruth Ellen Fitch, Esq.
- Theresa F. McGoldrick, Esq.
- Dennis J. Naughton
- Michael Even
- Poonam Patidar
- Mary Cerulli
- Marcella Pinilla

### **Public Markets**

#### **Other Credit Opportunities – New Investment Recommendation: BentallGreenOak US Value-Add Lending Fund**

The PRIM Board approved an initial commitment of up to \$100 million to BentallGreenOak US Value-Add Lending Fund (the "Fund") as part of the Other Credit Opportunities ("OCO") allocation. The approval will be subject to satisfactory contract negotiations. BentallGreenOak ("BGO") 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. The Fund's strategy will be to originate whole loans and mezzanine loans secured by US commercial properties. This is BGO's first fund of this strategy in the United States. BGO has been executing a similar strategy in Europe, UK, and Canada.

#### **Other Credit Opportunities – New Investment Recommendation: KKR Opportunistic Real Estate Credit Fund II**

The PRIM Board approved an initial commitment of up to \$150 million to KKR Opportunistic Real Estate Credit Fund II ("ROX II" or the "Fund") as part of the Other Credit Opportunities ("OCO") allocation. The approval will be subject to satisfactory contract negotiations. KKR 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. The Fund's strategy will be to originate senior loans on high-quality, transitional assets owned by institutional sponsors and located in major markets.

### **Private Equity**

#### **New Investment Recommendation: Altor Fund VI, AB**

The PRIM Board approved a commitment of up to \$ €100 million to Altor Fund VI, AB. Founded in 2003, Altor Equity Partners ("Altor") is an established Northern European private equity firm with a strong track record and deep local presence in its core geographies. Altor invests in lower middle market businesses that have transformational value creation potential and seeks to build industry leaders with best-in-class

operations in partnership with highly capable management teams. Altor continues to refine its successful approach to investing, targeting companies in the Nordic and DACH regions operating across the industrials, financial services, technology, consumer, and business services sectors. PRIM has not invested in Altor's prior funds.

#### **New Co-Investment Recommendation: Altor Equity Partners**

The PRIM Board approved the addition of Altor Equity Partners to the Board-approved bench of co-investment managers. Altor Equity Partners meets PRIM's co-investment criteria, which include: a superior track record; a strong co-investment history; and a willingness to partner with PRIM.

#### **Follow-on Investment Recommendation: Waterland Private Equity Fund IX C.V. & Waterland Partnership Fund I C.V.**

The PRIM Board approved a commitment of up to €130 million to Waterland Private Equity Fund IX C.V. and a commitment of up to €20 million to Waterland Partnership Fund I C.V. PRIM has invested in two prior Waterland Private Equity Investments B.V. ("Waterland") funds since 2018. Waterland has a stable and highly experienced team and a strong and consistent track record. The firm is an established private equity manager and will make investments in small and middle market companies primarily in Western Europe.

#### **Follow-on Investment Recommendation: WestView Capital Partners V, L.P.**

The PRIM Board approved a commitment of up to \$125 million to WestView Capital Partners V, L.P. ("Fund V"). Founded in 2004, WestView Capital Partners ("WestView") is a Boston-based private equity firm with a strong track record of investing in healthy, growing, and profitable companies in the lower end of the middle market. Fund V will continue to target growth opportunities across the business services, IT services, healthcare IT, software, and growth industrial sectors. PRIM has invested in three prior WestView funds since 2009.

#### **Follow-on Investment Recommendation: Lovell Minnick Equity Partners VI, L.P.**

The PRIM Board approved a commitment of up to \$150 million to Lovell Minnick Equity Partners VI, L.P. ("Fund VI" or "LMEP VI"). PRIM has invested in two prior Lovell Minnick Partners ("LMP") funds and three co-investments since 2015. LMP is a small, highly focused firm with an experienced and motivated team. LMP has a strong and consistent track record. Fund VI will target control and non-control oriented private equity investments in middle market financial services companies.

### **Finance and Administration**

#### **Consent Agenda**

In April of 2014, the Board approved the implementation of a consent agenda to best utilize Board meeting time to focus on deliberation on the most substantive matters. A consent agenda is a meeting practice whereby routine and other non-controversial voting items that do not require discussion are presented and approved as a single agenda item in a single motion.

The PRIM Board approved the following proposed consent agenda items:

- 1) Approval of the Draft Fiscal Year 2022 Annual Comprehensive Financial Report
- 2) Approval of the PERAC Examination Report for the Period July 1, 2014 – June 30, 2019
- 3) Approval of the Proposed 2023 PRIM Board and Committee Meeting Schedule
- 4) Approval of the Information Technology Consulting Services Recommendation
- 5) Approval of the Investment Legal Services Request for Qualifications (RFQ) Recommendation

#### **Fiscal Year 2022 Audit Results**

The Prim Board accepted the Fiscal Year 2022 PRIM and PRIT Audited financial statements.



*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](mailto:fdaniele@mapension.com), Laura at [Istrickland@mapension.com](mailto:Istrickland@mapension.com), Emily at [egreen@mapension.com](mailto:egreen@mapension.com), or call 617-946-8401. We look forward to seeing you soon.*

|||MassPRIM