MassPRIM

Minutes of the PRIM Investment Committee Remote Meeting
Tuesday, May 7, 2024

Committee members present:

- Treasurer Deborah Goldberg, Chair
- Joseph Bonfiglio
- C. LaRoy Brantley (joined at 9:39 a.m.)
- Catherine D'Amato
- Michael Even
- Constance Everson, CFA
- Ruth Ellen Fitch, Esq.
- James Hearty
- Peter Monaco (joined at 9:37 a.m.)
- Phillip Perelmuter
- Philip Rotner
- Paul Shanley, Esq. (joined at 9:55 a.m.)
- Glenn Strehle, CFA

Committee members not present:

- Timothy Vaill

The PRIM Investment Committee meeting was called to order at 9:32 a.m. Chair Treasurer Deborah Goldberg announced that the meeting was being held by internet and telephone in accordance with the provisions of Massachusetts Acts of 2022 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 all votes were taken by roll call. 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 Investment Committee approved, by unanimous roll-call vote, the minutes of its January 30, 2024, meeting.

Peter Monaco and C. LaRoy Brantley joined the meeting at 9:37 a.m. and 9:39 a.m., respectively.

II. Executive Director/Chief Investment Officer Comments

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

Mr. Trotsky was pleased to report that the PRIT Fund achieved a record balance of $104.2 billion for the quarter ended March 31, 2024, the largest balance in the history of the PRIT Fund. For the March quarter, the PRIT Fund was up 3.7% gross (3.6% net) and for the trailing twelve months the PRIT Fund was up 11.4% gross (10.9% net). This return equates to a net investment gain of $10.3 billion for the trailing twelve months and net outflows to pay benefits were $655 million.

Organizational Updates

Mr. Trotsky noted PRIM welcomed one new employee during the quarter. Raluca Zelinschi joined the Real Estate and Timberland team as an Investment Officer. She will help the team cover the private and public real estate portfolios and the timberland investments. Prior to joining PRIM, Raluca was an Associate Director of Portfolio Management at Intercontinental Real Estate where she worked on a $3 billion private real estate portfolio invested across various sectors and geographies. Raluca also previously held positions at STAG Industrial, a publicly traded real estate company, and AEW Capital Management. Raluca is a Chartered Financial Analyst (CFA), and she earned a Master's degree in International Economics & Finance from the International Business School at Brandeis University and a Bachelor's degree in Economics & Political Science from Whittier College.

Eliza Haynes on the Private Equity team recently passed the CFA Institute's level three exam, the final one, and having also attained the requisite work experience, Eliza is now a Chartered Financial Analyst.

The Allocator from With Intelligence announced that they will honor PRIM's Executive Director and Chief Investment Officer, Michael Trotsky, with its Lifetime Achievement Award in October. The publication called MassPRIM "a beacon of public service and investment prowess for the people of the Commonwealth of Massachusetts." It also lauded PRIM as "one of the country's best public investment operations over nearly 15 years of service."

Paul Shanley, Esq. joined the meeting at 9:55 a.m.

Markets and PRIT Fund Performance

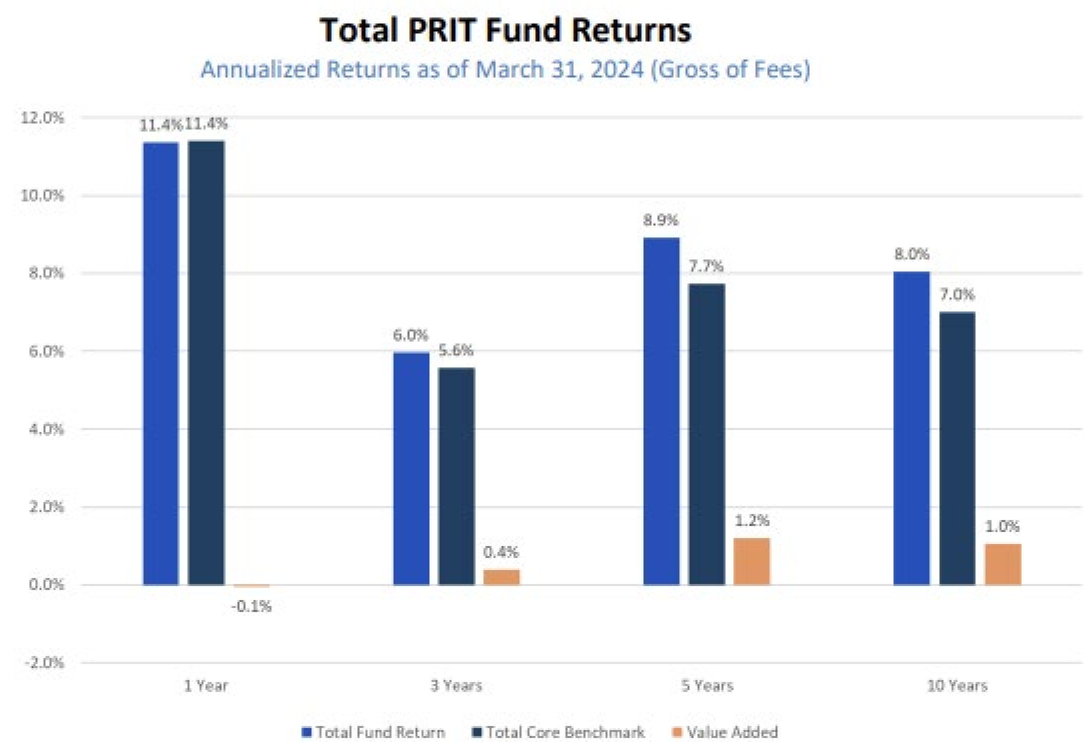
Mr. Trotsky noted that the fundamentals in the economy that were strong and propelled the markets in the March quarter recently turned more tepid. GDP growth was reported lower, inflation was higher, and the unemployment rate was slightly higher. This caused a change in consensus among Fed watchers who now believe there will be only one rate cut this year where previously they were expecting four to six cuts this year.

- U.S. GDP expanded an annualized 1.6% in Q1 2024, compared to 3.4% in the previous quarter and below forecasts of 2.5%. It was the lowest growth since the contractions in the first half of 2022.
- The U.S. Consumer Price Index accelerated for a second straight month to 3.5% in March, the highest since September, compared to 3.2% in February and above forecasts of 3.4%.
- The U.S. Unemployment Rate edged up to 3.9% in April from 3.8% in the previous month and surprising market expectations, which had forecasted the rate to remain unchanged.
- The Federal Reserve kept the target range for the Federal Funds Rate at its 23-year high of 5.25%-5.50% for a sixth consecutive meeting in May, in line with expectations. Policymakers acknowledged that while inflation has moderated over the past year, it remains elevated, and there has been a notable lack of further progress towards achieving the central bank's goal in recent months. Still, Chair Powell stated that he does not foresee a hike as likely and believes that the current policy is sufficiently restrictive to achieve the 2% inflation target.
- Market volatility has risen slightly year-to-date as the VIX Index increased slightly from 12.45 to 13.49, as of May 3, 2024. This is well below the 5-year and 10-year averages of 21 and 18, respectively.
- The ISM Manufacturing U.S. PMI fell back below 50 again to 49.2 in April after hitting 50.3 in March. A reading below 50 indicates contraction.
- U.S. Housing Starts plunged 14.7% month over month to an annualized rate of 1.321 million in March. It is the lowest reading since August and the largest decline since April 2020, as a rise in mortgage rates weighed on potential buyers.

- The University of Michigan's Consumer Sentiment was revised lower to 77.2 in April. Both current conditions and expectations declined more than initially expected.
- Season Earnings Stats: More than 90% of S&P 500 companies have reported 1Q 2024 results, and sales growth was +4.1% and earnings growth was +5.4% – surprising on the upside and better than expected.

Mr. Trotsky discussed his recent meeting with legendary bond investor, Dan Fuss, of Loomis Sayles. At this meeting, Mr. Fuss noted that for nearly 70 years, his speeches were always focused on the economy, unemployment, inflation, interest rates, the Fed and other such typical topics. However, Mr. Fuss noted that for the first time in his career, he wouldn't lead with these typical subjects, but rather would focus on the biggest risks investors face today: 1. Climate risks; 2. Geopolitical risks; and 3. Domestic political risks. Mr. Fuss noted this is a much different investment environment where these large risks are very hard to analyze and forecast. One solution discussed at this meeting was to focus on diversification. Mr. Trotsky noted PRIM does not try to forecast the future, instead PRIM tries to focus on having components in the portfolio that will perform well no matter what the future brings, and for each investment we focus on its risk, return, and cost. PRIM's portfolio is carefully designed to weather whatever the future brings.

Mr. Trotsky referred to the following charts:

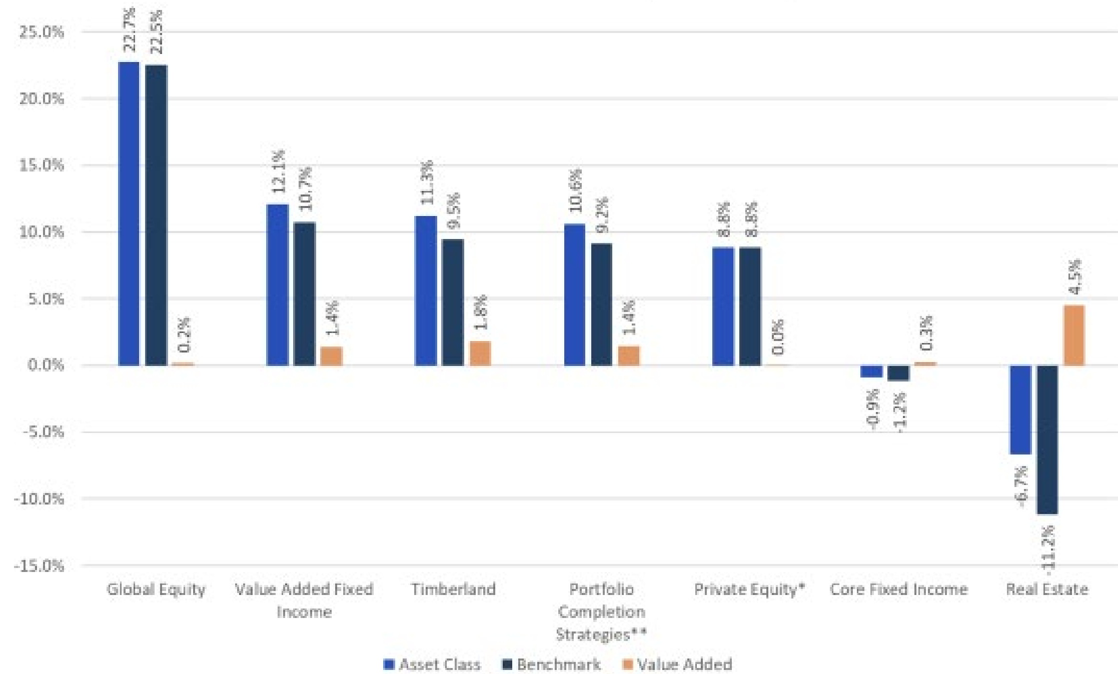


Source: BNY Mellon. Totals may not add due to rounding. Total Core Benchmark includes private equity benchmark.

(The remainder of this page was intentionally left blank.)

PRIT Asset Class Performance Summary

One Year ended March 31, 2024 (Gross of Fees)



Source: BNY Mellon. Totals may not add due to rounding. *Benchmark is actual performance. **Hedge Fund returns are net of fees.

PRIT Fund Annualized Returns by Asset Class

(March 31, 2024 - Gross of Fees)

1 Year	3 Year	5 Year	10 Year
GLOBAL EQUITY 22.7%	PRIVATE EQUITY 14.6%	PRIVATE EQUITY 20.2%	PRIVATE EQUITY 18.7%
VALUE-ADDED FIXED INCOME 12.1%	TIMBER 10.2%	GLOBAL EQUITY 11.1%	GLOBAL EQUITY 8.9%
TIMBER 11.3%	REAL ESTATE 6.9%	TIMBER 6.8%	REAL ESTATE 8.2%
PORTFOLIO COMPLETION STRATEGIES 10.6%	GLOBAL EQUITY 6.8%	REAL ESTATE 6.3%	TIMBER 6.1%
PRIVATE EQUITY 8.8%	VALUE-ADDED FIXED INCOME 6.0%	VALUE-ADDED FIXED INCOME 6.1%	VALUE-ADDED FIXED INCOME 5.0%
CORE FIXED INCOME (0.9%)	PORTFOLIO COMPLETION STRATEGIES 4.5%	PORTFOLIO COMPLETION STRATEGIES 4.6%	PORTFOLIO COMPLETION STRATEGIES 3.8%
REAL ESTATE (6.7%)	CORE FIXED INCOME (3.6%)	CORE FIXED INCOME 0.3%	CORE FIXED INCOME 2.4%

Source: BNY Mellon

Investment Committee member Constance Everson, CFA, provided her comments on the economy and the markets.

III. Public Markets

A. Performance Summary

Michael McElroy, CFA, Senior Investment Officer - Director of Public Markets, provided an update on the Public Markets performance.

Mr. McElroy noted the first quarter of 2024 delivered positive absolute returns in most public market allocations. Global Equity returns were positive in all major geographies, with the U.S. markets the highest at approximately 10%, primarily driven by U.S. large capitalization stocks. Non-U.S. stocks were up between 2% to 5% in the quarter. Larger stocks generally outperformed around the world. In U.S. markets, growth-oriented stocks were the best performers, and in non-U.S. markets the less expensive value stocks led. For the one-year period, equity returns were strong, returning between 10-29%, with U.S. large capitalization stocks performing the best.

Mr. McElroy noted that fixed income returns were mixed in the first quarter. Core Fixed Income declined approximately 1.6%, while the more credit-sensitive mandates were up approximately 2.2%. Rates increased at the longer end of the yield curve, and credit spreads narrowed. Over the last 12 months, Core Fixed Income declined by just over 1%, and Value-Added Fixed Income is up about 11%.

Results for the PRIT Fund in Q1 were ahead of benchmarks. Global Equities outperformed slightly, driven mainly from Emerging Markets manager performance. For the 1-year period, Global Equity performance was slightly ahead of the benchmark, with Emerging Markets relative performance (more than 7% ahead of benchmark) the main contributor. For Fixed Income investments in Q1, both Core and Value-Added were ahead of benchmarks. Emerging Market Debt and High-Yield bond managers performed well. The results for the 1-year period were also good, with PRIM's Core Fixed Income and Value-Added Fixed Income managers delivering relative outperformance, with credit managers providing the largest contributions to this outperformance.

The Public Markets portfolio delivered outperformance at a similar risk level to global markets. The Public Markets portfolio remains well-diversified across geographies, styles and sectors, and demonstrates this during market stress periods. The aggregate risk of the overall Equity and Fixed Income portfolios remains low, and managers continue to deliver benchmark-relative value-added.

Prior to the two Public Markets manager recommendations, Shannon Ericson, Senior Investment Officer – Risk Management, explained the Risk team's participation in the due diligence process. Ms. Ericson explained how the Risk team is embedded within the asset class groups and acts as an internal consultant. They participate in manager due diligence meetings as well as internal discussions about prospective managers and provide guidance on benchmarking and investment guidelines. In addition to these discussions, the Risk team conducts an independent risk analysis to assess whether there is evidence that a manager has skill.

For public equity, they perform a holdings-based analysis using a risk model to see if a manager has any style tilts and whether those tilts are in line with the manager's philosophy and process. Then they build a proposed portfolio and measure changes in risk versus the current portfolio. For fixed income, they assess the credit and interest rate risk for a given manager to see if there are any persistent exposures that could lead to additional risk. For both fixed income and equity managers, they look at their performance attribution over different time periods to assess where a manager's value added is coming from and whether it is consistent.

Ms. Ericson noted the Risk team also does returns-based analysis comparing tracking error versus the benchmark as a measure of volatility and what outcomes to expect in different market environments.

A manager's correlation with PRIM's existing managers is also considered. PRIM seeks to avoid hiring managers that behave similarly to those PRIM already has in its portfolio.

B. Manager Recommendations – Developed International Growth Equity (Voting Item)

Andre Abouhala, Investment Officer, presented PRIM's recommendation for allocating up to $400 million each to C WorldWide Asset Management, PineStone Asset Management, and Walter Scott & Partners in separately managed accounts. The sourcing of such funds comes primarily from PRIM's existing active portfolio. The goal is to diversify PRIM's lineup of growth managers, reduce manager and style-specific risks, and ultimately improve stability and risk-adjusted returns.

Mr. Abouhala noted these managers stand out due to their impressive, long, and consistent track records in international equities, demonstrating their expertise and ability to navigate various market conditions. They each have a clear, unified philosophy and process that permeates their entire firm and strategies. Generally, they all employ bottom-up, fundamental approaches to identify best-of-breed companies with sustainable competitive advantages and attractive growth potential. Additionally, these firms have been thoroughly vetted by Meketa and Albourne and met their stringent criteria.

Mr. Abouhala briefly highlighted the three recommended firms:

<u>C WorldWide Asset Management</u>

C WorldWide is a Copenhagen-based equity boutique investment management firm founded in 1986, with a single investment style, philosophy, and process across its nine strategies. The firm, majority-owned by Altor Equity Partners since 2009 with a 20% management and employee stake, has grown its assets under management to more than $17 billion, primarily from institutional clients. C WorldWide's portfolio managers are supported by a collaborative, generalist investment team of 17 professionals with an average tenure of over 13 years, focused on identifying businesses with durable moats, strong governance, and clear long-term strategies that can sustain consistent growth. The concentrated portfolio of 25-30 stocks is constructed qualitatively, emphasizing diversification across themes rather than geographic regions, with position sizes based on conviction.

<u>Pinestone Asset Management</u>

PineStone, an employee-owned investment management firm founded by CEO and CIO Nadim Rizk in 2021, spun out of Fiera while maintaining a sub-advisory arrangement. The firm, headquartered in Montreal, manages more than $47 billion in assets, with more than $11 billion in the International Equity strategy (primarily institutional). The investment team, led by Nadim Rizk and Andrew Chan as Head of Research, consists of 26 employees. The portfolio typically holds between 20-35 positions. Portfolio construction is driven by bottom-up stock selection, with position sizes determined by conviction and risk/reward profile, as assessed by their proprietary scoring system.

<u>Walter Scott & Partners</u>

Walter Scott, an Edinburgh-based investment management firm founded in 1983 and fully acquired by Mellon Corporation in 2006, operates autonomously as a subsidiary of Bank of New York Mellon. Under the leadership of Managing Director Jane Henderson, the firm has grown to 180 employees while maintaining a collaborative culture and consistent investment philosophy and process. Walter Scott manages over $82 billion in assets with more than $30 billion in the EAFE equity strategy (primarily institutional.) Portfolios are constructed based on a bottom-up stock selection process, typically holding 40-60 equally weighted positions.

The Investment Committee voted, by unanimous roll-call vote, to approve a recommendation to the

PRIM Board to approve initial allocations of up to $400 million to C WorldWide Asset Management; up to $400 million to PineStone Asset Management; and up to $400 million to Walter Scott & Partners to provide active investment management services for a World-ex U.S. Growth equity mandate, as described in the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate the vote.

C. Multi-Asset Class Credit Investment Strategies RFP Recommendations (Voting Item)

Chuck LaPosta, Senior Investment Officer - Director of Fixed Income, and Richer Leung, Investment Officer, presented the recommendations of the Request for Proposals (RFP) for Multi-Asset Class Credit Investment Strategies.

Mr. Leung noted the Multi-Asset Class Credit Investment Strategies RFP Evaluation Committee recommended selecting Anchorage Capital Advisors, LLC (Anchorage), HPS Investment Partners (HPS), KKR Credit (KKR), and Shenkman Capital Management (Shenkman). The Evaluation Committee recommends that the Investment Committee make a recommendation to the PRIM Board to approve an initial allocation of up to $2.0 billion across Anchorage, HPS, KKR, and Shenkman to provide active investment management services for a Multi-Asset Class Credit Investment Strategies.

These recommended managers showed favorable risk-adjusted returns as compared to other respondents to the RFP, portions of PRIM's existing portfolio, as well as other options within the dedicated High Yield or Bank Loan strategy universes. Risks will increase slightly but remain within an acceptable level and be offset by the increased expected return. The estimated cost of this allocation will be 33.5 basis points which is lower than the 39 basis points median of RFP respondents, the 46 basis points mark in Meketa's universe median and lower than the current Value-Added Fixed Income portfolios which average in the 36-43 basis points range.

While each of these strategies invests in publicly traded, non-investment grade credit instruments, PRIM has identified unique attributes of each strategy that support positive results and allow for some diversification benefit when combined.

Mr. LaPosta briefly highlighted the four recommended firms:

<u>Anchorage Capital Advisors, LLC</u>

Anchorage was founded in June 2003 and began as a long/short hedge fund, primarily focusing on credit investing across a wide range of products including loans, bonds, credit derivatives, defaulted debt, and restructured equity. Anchorage combines strong fundamental credit research with highly active trading and frequent repositioning of the portfolio to capture relative value across adjacent credit asset classes.

<u>HPS Investment Partners</u>

HPS was founded in 2007 as a subsidiary of Highbridge Capital Management, LLC. In March 2016, senior executives of HPS acquired HPS and its subsidiaries from JPMorgan and Highbridge. HPS Governing Partners and other senior members of the firm own 100% of the voting interest in the company. The team is highly selective and limits the number of credits in the portfolio, leading to more concentrated exposures – while less diversified, they believe their credit selection ability helps them avoid defaults and outperform the broader index on a risk-adjusted basis. The firm is active in the private credit space as well, HPS will often leverage the knowledge gained in the private side of the HPS platform to inform decisions in the public space.

<u>KKR Credit (Multi-Asset Credit "KMAC" & Global Credit Opportunities Fund "GCOF")</u>

KKR is a global investment firm founded in 1976 by Kohlberg, Kravis, and Roberts and began as a leading private equity business. KKR Credit was formed in 2004 so the firm could pursue credit investments as part of its asset management strategy. KMAC is a diversified credit strategy that invests across bank loans, high yield bonds, structured credit, and convertible bonds to generate consistent income across a large pool of assets. GCOF is a high conviction strategy that analyzes a similar opportunity set to KMAC but takes on relatively larger position sizes, especially in companies that show favorable attributes, tilting towards lower rated, mispriced credits. While KMAC will maintain a portfolio of roughly 400-500 issuers, GCOF will aim to hold 100-150 issuers, with individual position sizing up to 5%. This concentrated portfolio leads to a higher risk and return profile with more upside but also more drawdown risk. An allocation to each KKR strategy will allow PRIM to capitalize on the best ideas of KKR Credit in GCOF while also leveraging KKR's scale to gain broad market exposure through KMAC.

Shenkman Capital Management

Shenkman was founded by veteran Mark Shenkman in 1985 as a pioneer in the high yield and leveraged finance markets. The MAC strategy began in 2010 and was built around the belief that dynamically making tactical allocations across non-investment grade credit can result in superior returns for investors when compared to siloed allocations. In addition to their top-down view on asset allocation, a key element of their portfolio construction is the use of convertible bonds, which provide a return-seeking equity optionality with controlled downside, limiting risk but allowing the strategy to enhance returns.

The Investment Committee voted, by unanimous roll-call vote, to approve a recommendation to the PRIM Board to approve an initial allocation of up to $2.0 billion into separately managed accounts as follows: $300 million to Anchorage Capital Advisors, LLC; $600 million to HPS Investment Partners; $500 million to KKR Credit – KMAC Strategy; $200 million to KKR Credit – GCOF strategy; and $400 million to Shenkman Capital Management to provide active investment management services for Multi-Asset Class Credit Investment Strategies, as described in the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate the vote.

IV. Portfolio Completion Strategies

Bill Li, CFA, CAIA, Senior Investment Officer - Director of Portfolio Completion Strategies, ("PCS") presented the performance of the PCS portfolio, noting the strong performance in both the last quarter and during the trailing one-year period.

Mr. Li noted for the quarter ending March 31, 2024, PCS returned 3.1% vs. the benchmark's 2.7%. For the trailing one-year, PCS returned 10.6%, outperforming the benchmark by 140 basis points. Hedge Funds returned 12.3%, outperforming the benchmark by nearly 300 basis points. Both Stable Value and Directional Hedge Funds contributed meaningfully.

V. Private Equity Performance Summary

Michael McGirr, CFA, Senior Investment Officer - Director of Private Equity, presented PRIM's Private Equity performance, which remains strong in the long-term with the 3, 5, and 10-year returning 14.6%, 20.3%, and 18.7% respectively, gross of fees. This is the 5th straight positive quarter of performance.

For the September 2023 - December 2023 period, Private Equity was up 2.7% gross (2.4% net). For the one-year, Private Equity sits at 8.8% gross (7.5% net). Buyouts and Growth Equity were up this quarter while Venture Capital was flat. The Venture Capital portfolio was down 46 basis points for the quarter but remains down 8.6% for the year. Growth Equity was up 2.8% for the quarter and up 6.6% for the one-year period.

Buyouts had another positive quarter. Small/MID buyouts were up 3.3% for the quarter and were up 10% for one-year. Mega/Large buyouts were the strongest performing sub asset class for the quarter and the trailing year, up 4.0% in the quarter and 12.8% for the trailing one-year.

For cash flows, in Q1, distributions outpaced contributions and we were net cash flow positive. There was more than $500 million in distributions and net cash flows was a positive $147 million. With the positive performance and cash inflow, Private Equity assets grew to $17.5 billion, a new high watermark, but decreased as a percent of the PRIT Fund (16.8%).

The PRIM Investment Committee meeting adjourned at 11:25 a.m.

List of documents and exhibits used during the meeting:

A. Minutes of the January 30, 2024, PRIM Investment Committee Meeting

B. PRIT Fund Performance Report (March 31, 2024)

C. BNY Mellon Gross of Fees Performance Report (March 31, 2024)

D. Developed International Growth Equity Recommendation Presentation

E. Meketa's Developed International Growth Equity Manager Search Report

F. Albourne's Developed International Growth Equity Manager Operational Due Diligence Memorandum

G. Multi-Asset Class Credit RFP Recommendation Presentation

H. Meketa's Multi-Asset Class Credit Manager Search Report

I. Albourne's Multi-Asset Class Credit Manager Search Operational Due Diligence Memorandum