



Minutes of the PRIM Administration and Audit Committee Remote Meeting
Friday, May 10, 2024

Committee members attending:

- Robert Brousseau, Chair
- Treasurer Deborah Goldberg
- Patrick Brock
- Catherine D'Amato
- Dennis Naughton

Committee members not attending:

- James Hearty
- Theresa McGoldrick, 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. All members of the Committee that participated did so remotely via audio/video conferencing, and public access to the deliberations of the Committee was provided via telephone, with all documents referenced at the meeting available to be viewed 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 February 1, 2024, 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 reporting to the Committee how pleased he was that the PRIT Fund achieved a record balance of \$104.2 billion for the quarter ended March 31, 2024, PRIM's third fiscal quarter. This is the largest balance in the history of the PRIT Fund. The markets were strong, and the U.S. economy continues to grow, albeit at a slower pace. 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; net outflows to pay benefits were \$655 million. He mentioned he would talk more about performance later in his presentation.

Organizational Update

Mr. Trotsky announced that **Raluca Zelinschi** joined the Real Estate and Timberland team as an Investment Officer, reporting to John La Cara, Senior Investment Officer, Director of Real Estate Debt Capital Markets, and Listed Securities. She will help the team cover the private and public real estate portfolios and the timberland investments. Before joining PRIM, Ms. Zelinschi 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. Prior to that, Ms. Zelinschi held positions at STAG Industrial, a publicly traded real estate company, and AEW Capital Management. In addition to holding a CFA, she earned a Masters 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. She is off to an outstanding start, and PRIM is delighted to have her.

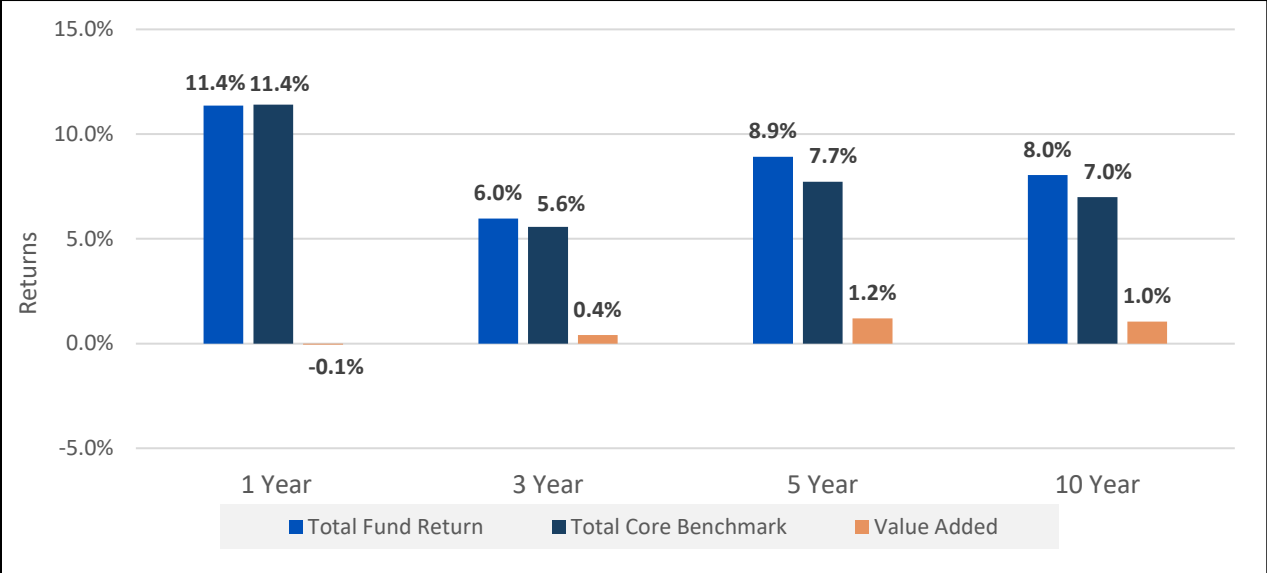
Eliza Haynes on the Private Equity team recently passed the CFA Institute’s level three exam and Ms. Haynes is now a Chartered Financial Analyst. He reminded the Committee that at the last Board cycle, Ms. Haynes was promoted to Investment Officer on the Private Equity team. He congratulated her on all her hard work and described her as one of PRIM’s rising stars.

He completed his organizational update by informing the Committee that in April, The Allocator from With Intelligence Media would be honoring him with its Lifetime Achievement Award in October. Mr. Trotsky continued stating that this recognition reflects everyone’s work at PRIM and is a collective accomplishment and thanked the Committee for their dedication and support. Mr. Trotsky added that 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.” He thanked Treasurer Goldberg and Robert Brousseau for providing complimentary quotes for the publication’s announcement.

PRIT Fund Performance

Mr. Trotsky discussed the March 2024 PRIT Fund performance in more detail, referencing performance charts from Appendix B of the Expanded Agenda, a sample of which is as follows:

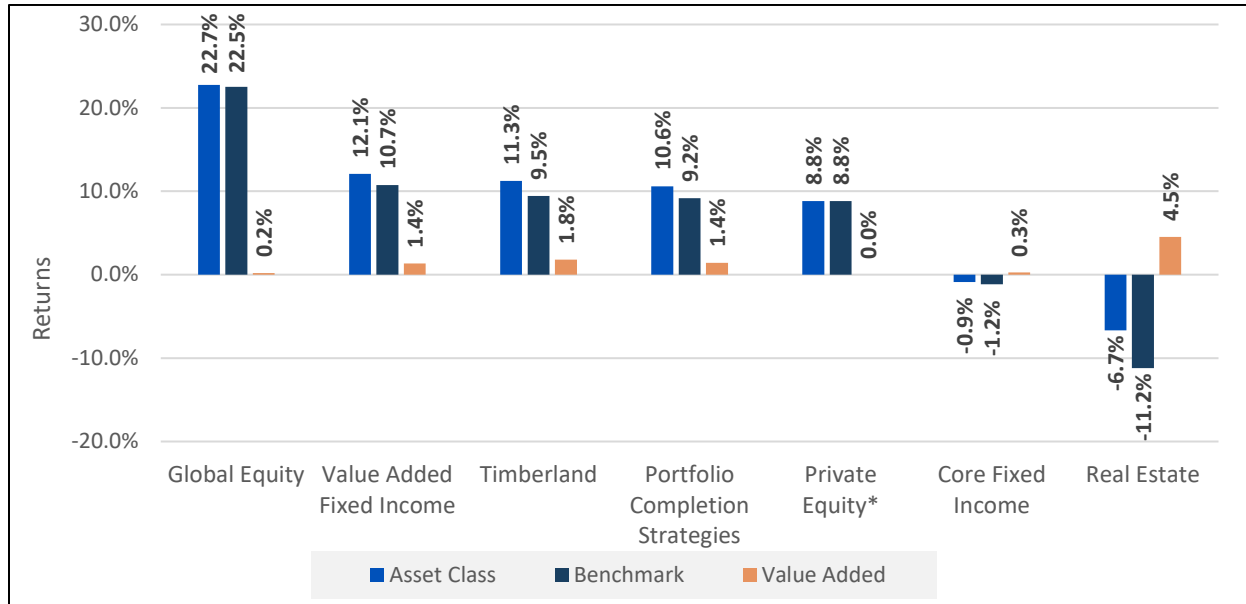
Total PRIT Fund Returns
Annualized Returns as of March 31, 2024 (Gross of Fees)



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

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.

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

Markets

Mr. Trotsky mentioned that the economy's strong fundamentals, which propelled the markets in the March quarter, recently turned more tepid. He added that GDP growth was reported lower, inflation was higher, and the unemployment rate was slightly higher, causing 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 or more.

Mr. Trotsky made note of the following:

- 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%. 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. This was compared to 3.2% in February and forecasts of 3.4%. Compared to the previous month, the CPI rose by 0.4%, the same as in February, but it was above forecasted at 0.3%.
- The U.S. unemployment rate edged up to 3.9% in April from 3.8% in the previous month, surprising market expectations, which forecasted the rate to remain unchanged. The number of unemployed individuals increased by 63,000 to 6.492 million. The labor force participation rate was also unchanged at 62.7%, and the employment-population ratio decreased to 60.2% from 60.3%.
- 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, which was 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 toward achieving the central bank's goal in recent months. Still, Chair Powell stated that he does not foresee a hike as likely and believes the current policy is sufficiently restrictive to achieve the 2% inflation target.
- Market volatility has slightly risen 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 to 49.2 in April from 50.3 in the earlier month, firmly below market expectations of a stall.
- U.S. retail sales rose 0.7% month over month in March, following an upwardly revised 0.9% gain in February, which was much higher than forecasted at 0.3%, suggesting consumer spending remains robust.
- U.S. Housing Starts plunged 14.7% month over month to an annualized rate of 1.321 million in March. This 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.

Mr. Trotsky concluded his remarks by sharing with the Committee a conversation he had with Dan Fuss, the legendary bond investor who spent most of his career at Loomis Sayles. He explained that at 92 years old, Mr. Fuss continues to come into his office in downtown Boston every day, attending the Loomis

morning investment team meeting. Mr. Trotsky explained how Mr. Fuss is an important voice to the investment industry and has been a sought-after speaker for investment conferences and events for almost 70 years. Mr. Trotsky mentioned that if Mr. Fuss were going to give a speech today, for the first time in his career, he would not lead with the typical subjects (interest rate risk, GDP, the FED, etc.). Instead, he would outline what he currently believes to be the three biggest risks that investors face today, and they are very different from what he would have typically focused on in the past. Mr. Trotsky added that Mr. Fuss mentioned the main risks as follows: 1) climate risk, 2) geopolitical risks, and 3) domestic political risks. He relayed that Mr. Fuss added that we live in a much different investment environment where the largest risks are hard to analyze and forecast. Mr. Trotsky mentioned that they agreed the only thing investors can do, considering these new major risks, is to diversify their portfolios— engineer a portfolio with components that will perform well regardless of the future. Mr. Trotsky concluded his comments by saying this is exactly what PRIM tries to do. PRIM does not try to forecast the future and focuses on having components in the portfolio that will perform well no matter what the future brings. PRIM focuses on risk, return, and cost for each investment. PRIM’s portfolio is carefully designed to weather whatever the future brings.

III. Interim Meeting with PRIM Board Auditors

Deborah Coulter, PRIM’s Chief Financial Officer and Chief Administration Officer, introduced KPMG lead audit partner Christine St. Hilaire and lead audit senior Zachary Penfold. She stated that KPMG was mainly present to discuss the audit plan for the Fiscal Year 2024 PRIM and PRIT Audits and the plan for the agreed-upon procedures.

Before KPMG’s presentation, Ms. Coulter provided an overview of the December 31, 2023, 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 12/31/2023.

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

Ms. Coulter added that there is an increasing 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 and Mr. Penfold provided an audit overview that included the following:

- The audit approach, use of technology, and an evaluation of changes in the industry 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 2024 audits of the PRIM Board and the PRIT Fund, and
- A review of the audit timetable, approach, and risk assessments

Mr. Penfold mentioned that, similar to prior years, the majority of the audit effort is related to investment valuations, testing of manager fees, and review of internal controls.

IV. Draft Fiscal Year 2025 Operating Budget (Voting Item)

Mr. Falzone and Ms. Coulter presented the Draft Fiscal Year 2025 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 began by informing the Committee that approximately 95% of the total budget covers expenses for external investment manager fees, advisors, service providers, and consultants outside of PRIM's four walls, expenses required to manage the PRIT fund successfully.

He stated that the total Fiscal Year 2025 Budget was projected to be \$559.2 million, or 52.7 basis points (bps), of the projected average PRIT Fund assets of \$106 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 increased by \$38.9 million, or 7.5%, 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 PRIM has kept expense ratios consistent year over year.

Mr. Falzone mentioned that the Finance team continues looking for ways to add transparency and detail that will help communicate where PRIM is allocating the budget. He also mentioned that adding more detail helps the team perform analytics that can aid in measuring where PRIM spends.

Mr. Falzone explained that additional transparency was added this year by breaking out Investment versus Non-Investment Expenses. He added that investment expenses are mainly related to the PRIT Fund, which is the expense incurred directly by the actual investments. These expenses are predominantly investment management fees.

The Non-Investment Expenses reflect costs incurred to run the agency, PRIM, allowing for proper management and oversight of the PRIT Fund. These expenses include rent, governance, legal, tax, and audit, among other expenses.

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 Private Equity has historically been 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. 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 the FY 2025 budget projection is based on continued projected asset growth, using NEPC's 10-year growth assumptions (6.6%). However, future performance is unpredictable, so PRIM's fees will likely vary. 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 the budget, as it is extremely difficult to estimate future performance.

Ms. Coulter discussed the budget in more detail, highlighting key changes for Fiscal Year 2025. She explained that the operating budget was increasing \$38.9 million, or 7.5%. She noted that PRIM is constantly looking for ways to save money and the Fiscal Year 2025 budget reflected many cost saving measures that have been put in place over the past decade as a result of Project SAVE, a firmwide initiative to decrease costs while enhancing value.

She stated that the Investment Management Fees section of the budget was increasing approximately \$36M based on projected growth in net asset values, commitments, contributed capital and acquisitions. She then noted that Investment Service Provider fees were increasing by approximately \$1.7 million, mainly due to an increase in fees for PRIM's platform providers and also to support PRIM's due diligence work and to provide staff with additional investment analytics tools.

She concluded her remarks by stating that the Non-Investment expenses accounted for only 5.5% of the total PRIM budget and that this section was increasing by approximately \$1.3 million, due to a projected increase in hiring as well as budgeted amounts to upgrade the technology in PRIM's data center and to support the IT budget for multiple ongoing projects. In summary, Ms. Coulter noted that the FY25 budget was increasing due to projected asset growth, new strategic initiatives, and the increasing need for advanced technology support.

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 2025 PRIM Operating Budget, as set forth in Appendix E of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

V. Legal/Legislative Update

Renee E. LeFevre, PRIM's Chief Legal Officer, provided the Committee with an update on a large securities litigation recovery related to an investment in BlueCrest Capital from 2011-2015. Ms. LeFevre mentioned that this was unlike most recoveries in that the recovery was due to an SEC finding, and the diligence work was done in-house, saving the PRIT Fund on legal costs. Ms. LeFevre added that the recovery (\$9.5 million) was the second largest in PRIM history.

Emily Kowtoniuk, Director of Policy & Legislative Affairs in Treasurer Goldberg's office, provided a legislative update. Ms. Kowtoniuk mentioned that the policy team is monitoring the House and Senate budget process and is following several budget amendments that could impact PRIM, adding that the House had adopted budget amendment H.105, which impacts the PRIM Board seat currently held by Carly Rose, a representative of a public safety union appointed by the Governor. The House budget final language would have the Governor choose her appointment from a list of three candidates nominated by the executive board of the Massachusetts Association of Contributory Retirement Systems, Inc.

VI. Other Matters:

The Committee members briefly discussed the following topics:

- A. March 2024 PRIM Budget
- B. Travel Report
- C. Client Service

The PRIM Administration and Audit Committee meeting adjourned at 11:05 a.m.

List of documents and exhibits used during the meeting:

- Minutes of the PRIM Administration and Audit Committee Meeting of February 1, 2024
- PRIT Fund Performance Report (March 31, 2024)
- BNY Mellon Gross of Fees Performance Report (March 31, 2024)
- KPMG Fiscal Year 2024 Audit Plan
- Draft Fiscal Year 2025 Operating Budget
- PRIM Operating Budget (March 31, 2024)
- Travel Report