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# Mass PRIM's Bailey Reflects on the Pandemic's 10% Haircut on PE Values

The Massachusetts pension system's focus on midmarket buyout funds helped buffer its portfolio against virus-related damage



Protestors calling for an end to business shutdowns converged on the Massachusetts State House last month.

PHOTO: JOSEPH PREZIOSO/AGENCE FRANCE-PRESSE/GETTY IMAGES

By **PREETI SINGH**

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The Massachusetts Pension Reserves Investment Management Board's \$9.2 billion private-equity portfolio has been its top-performing asset class for several years but is expected to take a 10% hit on asset values because of the coronavirus pandemic.

Michael Bailey, the \$70.7 billion public pension system's director of private equity, recently reflected on how the coronavirus pandemic has affected the portfolio he oversees, and how it has shaped his job, in a conversation with WSJ Pro Private Equity's Preeti Singh. Mr. Bailey's responses have been lightly edited for clarity.

**WSJ Pro:** How has Mass PRIM's private-equity portfolio held up since January?

**Mr. Bailey:** Given the circumstances, we believe it has held up pretty well, though we do anticipate an aggregate markdown of approximately 10% in the coming two quarters. In the last few years we moved our investment focus to midmarket buyouts and growth equity funds, and in the current crisis we found that midmarket buyouts with companies in more resilient sectors had less liquidity concerns than the larger ones. In fact, the smaller businesses they invest in tend to be less levered, giving midmarket funds more headroom to work through problems like this where you might have a short-term demand shock.

We launched co-investments in 2015 and are really pleased; the strategy has met our expectations so far. We are feeling good about the dialogue we have with investment firms and are proactively talking to them to make sure they know that we're open for business. I just think the challenge now is that co-investments, always a lumpy business, is going to be lumpier because of a lower frequency of deal activity.

**WSJ Pro:** What has it been like to manage investments remotely during the pandemic?



Michael Bailey.

PHOTO: MASS PRIM

**Mr. Bailey:** The current environment is definitely testing the limits of what we can do. The technology is great and we have gotten used to the different functions of Zoom and how to maximize our productivity. One silver lining is that we are able to do things we couldn't do earlier because of all the travel and can have pretty substantive conversations in a shorter period of time. On the same day I can speak to a manager in Stockholm, another in California and also participate in a limited partner advisory committee meeting. We cross a lot of time zones without getting on an airplane and that is pretty valuable in our kind of work.

But in some ways it is tougher. When you have 30 people on a Zoom call it becomes difficult to have a meaningful conversation.

**WSJ Pro:** Has the coronavirus pandemic produced opportunities for Mass PRIM?

**Mr. Bailey:** We are actively investing and putting new capital to work and seeking co-investments. Before Covid-19 the market had been pretty tight with high demand from limited partners for funds and when we were trying to establish new relationships, some general partners might have said: “Look we get a lot of investor calls and we’ll kind of put you on the list.” As this coronavirus situation rolls we can convert some of those conversations into potential relationships.

We’ve been thinking a lot about how capital will be repriced and new opportunities will emerge from the crisis. The current market environment better reflects the risks than the market that preceded it. We are optimistic we can put our capital to work. Funds with fewer problems in their portfolios will be better positioned to invest in these opportunities, and part of our criteria will be to identify those funds.

**Write to Preeti Singh at [preeti.singh@wsj.com](mailto:preeti.singh@wsj.com)**

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