



**PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD**

**FISCAL YEAR 2020 OPERATING BUDGET**

**As Approved by the PRIM Board**

**May 14, 2019**

**Deborah B. Goldberg, Chair  
Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer**

## BUDGET DISCUSSION

The Pension Reserves Investment Management (PRIM) Board's fiscal year (FY) 2020 Operating Budget reflects the investment management, advisory, and operational costs necessary to implement, measure, and monitor the approximated \$75 billion in investments of the Pension Reserves Investment Trust (PRIT) Fund.

### *Budget Highlights*

The projected FY 2020 budget of \$424.8 million is 56.6 basis points (bps) of projected average PRIT Fund assets (\$75 billion), a \$16.5 million, or 4%, budget increase from the prior year. As is our custom, budgeted expenses for FY 2020 are conservative and foresee continued asset growth. Actual expenses incurred may vary because most expenses are a function of asset levels and investment performance is not predictable.

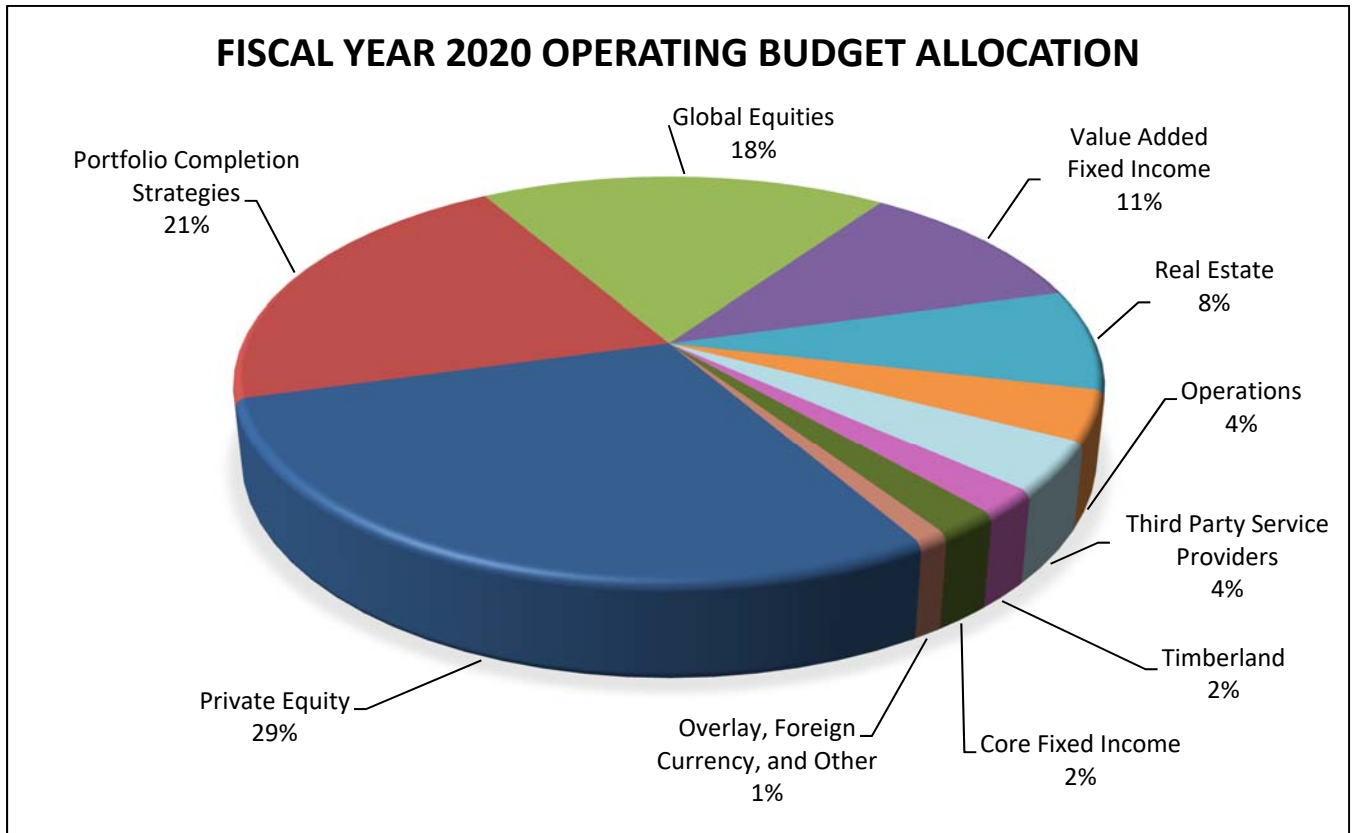
Investment Management Fees and Third-Party Service Providers comprise \$407 million, or 95.8%, of the total budget. Investment Management Fees increased by \$11.4 million, or 3%, due primarily to growth in assets. Projected costs for Third-Party Service Providers increases \$2.8 million, or 18.3%, mainly due to increased custodian expense and support of new initiatives.

Operations comprise \$17.7 million, or 4.2%, of the total budget. Operations increases by \$2.3 million, or 14.9%, due primarily to projected increased staff size.

The PRIT Fund’s current target asset allocation ranges, approved in February 2019, are as follows:

Asset Class	Range
Global Equity	34 - 44%
Core Fixed Income	12 - 18%
Value Added Fixed Income	5 - 11%
Private Equity	10 - 16%
Real Estate	7 - 13%
Timberland	1 - 7%
Portfolio Completion Strategies	8 - 14%

Based on these target asset allocation ranges, PRIM’s Fiscal Year 2020 Operating Budget allocation is projected to be as follows:



**PENSION RESERVES INVESTMENT MANAGEMENT BOARD**

**Fiscal Year 2020 Budget Summary**

	<u>FY20</u> <u>(bps)#</u>	<u>FY19</u> <u>(bps) #</u>	<u>FY 2020</u>	<u>FY 2019</u>
<b><u>Investment Management Fees ^</u></b>				
Global Equities	24.7	21.5	78,500,000	73,160,000
Core Fixed Income	7.2	7.0	6,835,000	6,110,000
Value Added Fixed Income	73.5	76.3	45,410,000	43,332,500
Real Estate	49.4	54.5	35,265,000	33,635,000
Timberland	25.1	26.7	7,450,000	6,825,000
Private Equity	142.4	157.4	122,100,000	114,600,000
Portfolio Completion Strategies (PCS)	113.4	118.5	90,770,000	96,675,000
Overlay, Foreign Currency, and Other	29.8	28.1	2,515,000	3,135,000
	<b>51.8</b>	<b>51.0</b>	<b>388,845,000</b>	<b>377,472,500</b>
<b><u>Third-Party Service Providers</u></b>				
Custodian	0.2	0.1	1,660,000	805,000
Advisory Services – General*	0.2	0.2	1,190,000	1,157,000
Advisory Services - Real Estate & Timberlands	2.5	2.5	2,520,000	2,200,000
Advisory Services - Public Markets**	0.2	0.1	1,100,000	540,000
Advisory Services - Private Equity	2.2	2.1	1,900,000	1,500,000
Advisory Services - Portfolio Completion Strategies	9.2	8.3	7,375,000	6,800,000
Audit & Tax	0.1	0.1	447,000	436,000
Legal	0.1	0.1	475,000	450,000
Governance	0.0	0.0	305,000	295,000
Risk Measurement and Investment Analytics	0.2	0.2	1,230,000	1,200,000
	<b>2.4</b>	<b>2.1</b>	<b>18,202,000</b>	<b>15,383,000</b>
<b><u>Operations</u></b>				
Compensation & Employee Benefits	1.9	1.7	14,393,000	12,559,500
Occupancy	0.2	0.2	1,200,000	1,110,000
Insurance	0.1	0.0	425,000	324,200
General Office Expenses	0.0	0.0	310,000	290,000
Computer & MIS Expenses*	0.1	0.1	690,000	613,000
DD Travel, Prof. Develop, Dues & Subscriptions	0.1	0.1	452,000	452,000
Client Service	0.0	0.0	74,000	94,000
PRIM Board Elections	0.0	-	200,000	-
	<b>2.4</b>	<b>2.1</b>	<b>17,744,000</b>	<b>15,442,700</b>
<b>Total Operating Budget</b>	<b>56.6</b>	<b>55.2</b>	<b>424,791,000</b>	<b>408,298,200</b>

# Basis points (bps) for Investment Management Fees are calculated by dividing the budgeted fees by the estimated assets under management (AUM) for each asset class. Basis points for Advisory Services for Real Estate & Timberlands, Public Markets, Private Equity, and PCS are also calculated based upon each asset classes estimated AUM. For all other expenses, the bps are calculated based upon the total PRIT Fund AUM, which is estimated to be \$75 billion and \$74 billion for FY20 and FY19, respectively.

^ No investment performance, incentive, or carried interest fees are budgeted.

\*Budgeted fees for Information Technology consultants were moved from the Operations section of the budget to Advisory Services–General.

\*\*Budgeted fees for Advisory Services – Public Markets have been broken out from Advisory Services – General.

FY19 amounts have been updated to reflect changes in FY20's presentation.

Pension Reserves Investment Management Board  
Fiscal Year 2020 Operating Budget

**Global Equities**

<b><u>Domestic Equity</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
SSgA (S&P 500 Index)	800,000	1,020,000
SSgA (Russell 2500 Index)	150,000	150,000
Frontier	2,600,000	3,170,000
Huber	-	3,040,000
Riverbridge	1,380,000	1,670,000
Summit Creek	2,800,000	2,940,000
GSAM Equity Hedge>	14,500,000	-
Potential U.S. Micro Cap Manager(s)	1,000,000	3,500,000
Acadian Micro Cap	200,000	-
Brandywine Micro Cap	800,000	-
Lord Abbett Micro Cap	770,000	-
	<b>25,000,000</b>	<b>15,490,000</b>
<b><u>International Equity</u></b>		
SSgA (World Ex-US Index)	410,000	470,000
Marathon	8,500,000	9,710,000
Baillie Gifford	5,200,000	6,560,000
Mondrian Investment	3,100,000	3,740,000
The FIS Group	800,000	870,000
Acadian	1,650,000	1,840,000
AQR	1,000,000	1,170,000
LMCG	320,000	380,000
Strategic Global	720,000	840,000
TimesSquare	1,450,000	1,550,000
Potential International Equity Hedge Manager	5,000,000	-
	<b>28,150,000</b>	<b>27,130,000</b>
<b><u>Emerging Markets Equity</u></b>		
Acadian	2,400,000	2,860,000
Wasatch	1,200,000	1,340,000
Acadian (Frontier)	1,800,000	2,140,000
Baillie Gifford	4,400,000	5,990,000
City of London **	1,150,000	1,020,000
Driehaus	3,000,000	3,790,000
Harding Loevner	3,000,000	3,670,000
Pzena	5,300,000	6,450,000
AQR (Performance Fees Only) ^	-	-
T. Rowe Price	3,100,000	3,280,000
	<b>25,350,000</b>	<b>30,540,000</b>
<b><u>Total Global Equities</u></b>	<b>78,500,000</b>	<b>73,160,000</b>

\*\* This portfolio invests in closed-end and commingled funds. Budgeted fees exclude the costs of underlying closed-end and commingled funds, which charge average fees ranging from 1% to 2% of net assets under management.

>GSAM Equity Hedge account moved to Domestic Equity from PCS for FY20.

^ No investment performance, incentive, or carried interest fees are budgeted.

*Pension Reserves Investment Management Board  
Fiscal Year 2020 Operating Budget*

---

	<b><u>Core Fixed Income</u></b>	
	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Blackrock (BA Index)	150,000	160,000
Blackrock (TIPS Index)	270,000	260,000
Blackrock (ILB)	1,100,000	1,670,000
Blackrock (STRIPS Index)	275,000	200,000
Potential Short Term FI Manager (Passive)	200,000	-
PIMCO	1,300,000	970,000
Loomis Sayles	1,750,000	1,650,000
Community Capital	120,000	120,000
AFL-CIO *	200,000	200,000
Access Capital	320,000	320,000
Progress	1,150,000	560,000
<b><u>Total Core Fixed Income</u></b>	<b><u>6,835,000</u></b>	<b><u>6,110,000</u></b>

	<b><u>Value-Added Fixed Income</u></b>	
Fidelity	1,260,000	1,240,000
Loomis Sayles	1,830,000	1,910,000
Shenkman	1,350,000	1,320,000
Eaton Vance *	5,200,000	4,630,000
Voya *	3,000,000	3,000,000
PIMCO	1,280,000	1,280,000
Ashmore *	3,500,000	3,220,000
Investec	1,350,000	1,380,000
Pictet	1,360,000	1,440,000
Stone Harbor	880,000	712,500
Distressed Debt – Various Managers *	20,000,000	21,000,000
Other Credit Strategies – Various Managers*	4,400,000	2,200,000
<b><u>Total Value-Added Fixed Income</u></b>	<b><u>45,410,000</u></b>	<b><u>43,332,500</u></b>

\* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

Pension Reserves Investment Management Board  
 Fiscal Year 2020 Operating Budget

---

**Real Estate**

<b><u>REITs</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
CenterSquare	3,000,000	2,890,000
Brookfield	3,320,000	3,220,000
Presima	590,000	580,000
	<u>6,910,000</u>	<u>6,690,000</u>
<b><u>Core Strategy</u></b>		
AEW *	7,200,000	7,500,000
INVESCO *	7,500,000	3,900,000
JP Morgan *	-	3,300,000
LaSalle *	6,000,000	5,600,000
Potential New Core Manager	-	2,500,000
CBRE Global Investors*	2,000,000	-
Stockbridge Advisors*	2,000,000	-
DivcoWest Core*	1,000,000	-
	<u>25,700,000</u>	<u>22,800,000</u>
<b><u>Non - Core Strategy</u></b>		
Various Managers *	2,650,000	4,085,000
New Boston Fund *	5,000	60,000
	<u>2,655,000</u>	<u>4,145,000</u>
<b><u>Total Real Estate</u></b>	<b><u>35,265,000</u></b>	<b><u>33,635,000</u></b>

\* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

Pension Reserves Investment Management Board  
 Fiscal Year 2020 Operating Budget

---

**Timberland**

	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Forest Investment Associates *	2,500,000	2,450,000
Campbell Group *	4,950,000	4,375,000
<b><u>Total Timberland</u></b>	<b><u>7,450,000</u></b>	<b><u>6,825,000</u></b>

**Private Equity**

**Venture Capital**

Domestic Venture Capital *	27,500,000	27,500,000
International Venture Capital *	3,800,000	3,500,000
	<u>31,300,000</u>	<u>31,000,000</u>

**Special Equity**

Domestic Special Equity *	66,300,000	60,600,000
International Special Equity *	24,500,000	23,000,000
	<u>90,800,000</u>	<u>83,600,000</u>

**Total Private Equity**

<b><u>122,100,000</u></b>	<b><u>114,600,000</u></b>
---------------------------	---------------------------

\* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.



**Portfolio Completion Strategies (PCS)**

	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Replication Strategies	170,000	350,000
PAAMCO – Hedge Fund-of-Funds *<	6,600,000	6,825,000
Direct Hedge Funds*^	60,000,000	61,500,000
Emerging Manager Program	4,000,000	2,500,000
Risk Premia *	5,000,000	7,300,000
Real Assets *	15,000,000	10,500,000
Equity Hedge >	-	7,700,000
<b><u>Total PCS</u></b>	<b><u>90,770,000</u></b>	<b><u>96,675,000</u></b>

**Overlay, Foreign Currency and Other**

Parametric (Overlay)	415,000	475,000
Russell (Foreign Currency)	450,000	660,000
Private Natural Resources Wind-Down *	1,650,000	2,000,000
<b><u>Total Overlay, Foreign Currency and Other</u></b>	<b><u>2,515,000</u></b>	<b><u>3,135,000</u></b>

\* Investments are in investment structures (commingled funds, partnerships, etc.) where management fees are not directly paid to the investment managers by PRIM, but rather fees are indirectly paid via a reduction of PRIM's investment.

< Excludes costs of underlying hedge funds, which charge average fees ranging from 1% to 2% of net assets under management, plus performance fees of up to 20% of excess returns. These costs are embedded in net hedge fund performance and grow in proportion to the assets under management.

^For FY20 Direct Hedge Funds and Separately Managed Hedge Fund Accounts have been combined into one category for budget purposes. In FY19, the Separately Managed Hedge Fund Accounts budget was \$30,000,000.

>GSAM Equity Hege account moved to Domestic Equity from PCS for FY20.

**Third-Party Service Providers**

<b><u>Custody</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Master Custody Services	1,500,000	650,000
OTC Valuation	100,000	95,000
GASB Reporting and Other	60,000	60,000
	<b><u>1,660,000</u></b>	<b><u>805,000</u></b>

**Advisory Services – General**

Investment Advisor - Asset Allocation	225,000	225,000
Information Technology*	360,000	447,000
Legislative Restrictions & Benchmarking	150,000	110,000
Communications	125,000	100,000
Compensation and Human Resources	130,000	200,000
Currency Trading Analysis, Other	100,000	75,000
Compliance	100,000	-
	<b><u>1,190,000</u></b>	<b><u>1,157,000</u></b>

**Advisory Services - Real Estate and Timberlands**

Investment Advisor - Real Estate and Timberlands	1,070,000	800,000
Debt Compliance and Reporting	350,000	300,000
Direct Investment Advisory & Other Advisory Projects	1,100,000	1,100,000
	<b><u>2,520,000</u></b>	<b><u>2,200,000</u></b>

**Advisory Services – Public Markets\*\***

Advisor – Public Markets	950,000	540,000
Public Markets Advisor – Other	150,000	-
	<b><u>1,100,000</u></b>	<b><u>540,000</u></b>

**Advisory Services - Private Equity**

Investment Advisor - Private Equity	1,500,000	1,500,000
Private Equity Advisor – Other	400,000	-
	<b><u>1,900,000</u></b>	<b><u>1,500,000</u></b>

**Advisory Services – Portfolio Completion Strategies**

Investment Advisor - Hedge Funds & PCS	1,350,000	1,300,000
Managed Account Platform Provider	5,700,000	5,500,000
PCS Advisor – Other	325,000	-
	<b><u>7,375,000</u></b>	<b><u>6,800,000</u></b>

*Pension Reserves Investment Management Board  
Fiscal Year 2020 Operating Budget*

---

**Third-Party Service Providers (continued)**

<b><u>Audit and Tax</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Annual Financial Statement Audits <sup>^</sup>	285,000	276,000
Agreed-Upon Procedures	62,000	60,000
Tax Services & Other	100,000	100,000
	<b><u>447,000</u></b>	<b><u>436,000</u></b>
<b><u>Legal</u></b>		
Outside Counsel	475,000	450,000
	<b><u>475,000</u></b>	<b><u>450,000</u></b>
<b><u>Governance</u></b>		
Proxy Voting Services	185,000	180,000
Council of Institutional Investors	35,000	30,000
Board Education	20,000	20,000
Advisory Services and Other	65,000	65,000
	<b><u>305,000</u></b>	<b><u>295,000</u></b>
<b><u>Risk Measurement and Analytics</u></b>		
Risk Measurement Systems	750,000	720,000
Investment Tools and Analytics	480,000	480,000
	<b><u>1,230,000</u></b>	<b><u>1,200,000</u></b>
<b><u>Total Third-Party Service Providers</u></b>	<b><u>18,202,000</u></b>	<b><u>15,383,000</u></b>

\*Budgeted fees for Information Technology consultants were moved from the Operations section of the budget to Advisory Services – General.

\*\*Budgeted fees for Advisory Services – Public Markets have been broken out from Advisory Services – General. FY19 amounts have been updated to reflect changes in FY20's presentation.

<sup>^</sup>Additional audit fees are incurred and are charged directly to the investments.

*Pension Reserves Investment Management Board  
Fiscal Year 2020 Operating Budget*

**Operations**

<b><u>Compensation &amp; Employee Benefits</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Full-Time Staff (including vacant positions)	14,100,000	12,300,000
Dental and Vision	9,000	8,500
Disability	65,000	58,000
Medicare Tax	200,000	178,000
Unemployment Contingency	19,000	15,000
	<b>14,393,000</b>	<b>12,559,500</b>

<b><u>Occupancy</u></b>		
Lease	1,120,000	1,040,000
Utilities	60,000	60,000
Leasehold Improvements and Other	20,000	10,000
	<b>1,200,000</b>	<b>1,100,000</b>

<b><u>Insurance</u></b>		
Fiduciary	285,000	285,000
Business Insurance Policies	30,000	30,000
Workers Compensation	10,000	9,200
Errors & Omissions	100,000	-
	<b>425,000</b>	<b>324,200</b>

<b><u>General Office Expenses</u></b>		
Printing, Postage, and Courier	95,000	75,000
Payroll / Employee Timesheets	30,000	30,000
Meeting Expenses and Stenographer	25,000	21,000
Records Storage	20,000	20,000
Office Supplies, Equipment, and Other	120,000	134,000
Temporary Labor	20,000	10,000
	<b>310,000</b>	<b>290,000</b>

<b><u>Computer &amp; MIS Expenses</u></b>		
Hardware & Software	360,000	306,000
Support and Development*	225,000	218,000
MIS Other / ISP & Remote Access	105,000	89,000
	<b>690,000</b>	<b>613,000</b>

\*Budgeted fees for Information Technology consultants were moved from the Operations section of the budget to Advisory Services – General for FY19 and FY20.

Pension Reserves Investment Management Board  
 Fiscal Year 2020 Operating Budget

---

**Operations (continued)**

<b><u>Travel, Prof. Development &amp; Dues and Subscriptions</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2019</u></b>
Due Diligence Travel	215,000	215,000
Professional Development	132,000	132,000
Professional Dues and Subscriptions	105,000	105,000
	<b><u>452,000</u></b>	<b><u>452,000</u></b>
<b><u>Client Service</u></b>		
Meetings and Conferences	30,000	55,000
Auto Mileage & Parking	24,000	24,000
Printing	20,000	15,000
	<b><u>74,000</u></b>	<b><u>94,000</u></b>
<b><u>Board Elections</u></b>		
PRIM Board Members' Elections	200,000	-
	<b><u>200,000</u></b>	<b><u>-</u></b>
<b><u>Total Operations</u></b>	<b><u>17,744,000</u></b>	<b><u>15,442,700</u></b>

**OPERATING BUDGET NARRATIVE**

The Fiscal Year (FY) 2020 Operating Budget is presented in three broad expense categories:

- Investment Management Fees
- Third-Party Service Providers
- Operations

**Investment Management Fees:**

PRIM employs professional investment managers and gives them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment management fees are the fees paid to these investment managers for their services. Each investment manager operates under a contract (generally an investment management agreement or a partnership agreement) that delineates its responsibilities and appropriate performance expectations. Budget projections for investment management fees are based on the following factors and year-to-year budget fluctuations reflect changes to one or more of these factors:

- The PRIT Fund asset allocation
- Assets under management (AUM)
- Contractual fee schedules
- Capital commitments

No performance fees, incentive fees, or carried interest are included in this budget due to the difficulty in estimating these fees in advance.

**Third Party Service Providers:**

PRIM employs third-party service providers to support the PRIM Board, committees and staff to manage the PRIT Fund. Budget projections for third-party service providers are generally estimated based upon current service contracts and estimated future potential services.

**Operations:**

Operations expenses are projected based on current expenses and strategic initiatives that are deemed to be both probable and estimable.

### Investment Management Fees

#### Global Equities

Global Equities is comprised of Domestic Equity, International Equity and Emerging Markets Equity.

#### *Domestic Equity*

The total Domestic Equity fee budget of \$25 million, increases \$9.5 million, or 61.4%, in FY 2020 due primarily to reallocation of the GSAM Equity Hedge account from Portfolio Completion Strategies to Domestic Equity.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom S&P 500 Index	Passive	Net Asset Value (NAV)
SSgA	Custom Russell 2500 Index	Passive	NAV
Frontier	Custom Russell 2000 Value	Active	NAV
Riverbridge	Custom Russell 2500 Growth	Active	NAV
Summit Creek	Custom Russell 2000 Growth	Active	NAV
GSAM Equity Hedge	CustomHedgedS&P500Index	Active	NAV
Potential U S Micro Cap Manager(s)	Custom Russell Microcap	Active	NAV
Acadian Micro Cap	Custom Russell Microcap	Active	NAV and Performance
Brandywine Micro Cap	Custom Russell Microcap	Active	NAV
Lord Abbett Micro Cap	Custom Russell Microcap	Active	NAV

#### *International Equity*

The total International Equity fee budget of \$28.2 million, increases by \$1 million, or 3.8%, in FY 2020 mainly due to the addition of a new International Equity hedge strategy.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom World-Ex US Index	Passive	NAV
Marathon	Custom MSCI EAFE	Active	NAV
Baillie Gifford	Custom MSCI EAFE	Active	NAV
Mondrian	Custom MSCI EAFE	Active	NAV
The FIS Group	Custom MSCI EAFE – EM	Active	NAV
Acadian	Custom MSCI EAFE – SC	Active	NAV
AQR	Custom MSCI EAFE – SC	Active	NAV
LMCG	Custom MSCI EAFE – SC	Active	NAV
Strategic Global Advisors	Custom MSCI EAFE – SC	Active	NAV
TimesSquare	Custom MSCI EAFE – SC	Active	NAV
Potential International Equity Hedge Manager	Custom MSCI EAFE – SC	Active	NAV

*Emerging Markets Equity*

The total Emerging Markets Equity fee budget of \$25.4 million, decreases \$5.1 million, or (17.0%), in FY 2020. This is mainly due to changes in NAV.

Manager	Mandate	Active/ Passive	Fee Type
Acadian	EM Small Cap	Active	NAV
Wasatch	EM Small Cap	Active	NAV
Acadian (Frontier)	Frontier	Active	NAV
Baillie Gifford	Emerging Markets	Active	NAV
City of London	Frontier	Active	NAV
Driehaus	Emerging Markets	Active	NAV
Harding Loevner	Emerging Markets	Active	NAV
Pzena	Emerging Markets	Active	NAV
AQR	Emerging Markets	Active	Performance
T. Rowe Price	Emerging Markets	Active	NAV

**Core Fixed Income**

The total Core Fixed Income fee budget of \$6.8 million, increases \$0.7 million, or 11.9%, in FY 2020. This is mainly due to NAV changes.

Manager	Mandate	Active/ Passive	Fee Type
BlackRock	BA Index	Passive	NAV
BlackRock	TIPS Index	Passive	NAV
BlackRock	ILB	Active	NAV
BlackRock	STRIPS Index	Passive	NAV
Potential Manager	Short Term Fixed Income	Passive	NAV
PIMCO	Core FI	Active	Funded and Performance
Loomis Sayles	Core FI	Active	NAV
Community Capital	Core FI - ETI	Active	NAV
AFL-CIO	Core FI - ETI	Active	Commingled Fund – NAV
Access Capital	Core FI – ETI	Active	NAV
Progress	Core FI – Emerging Managers	Active	NAV



**Value-Added Fixed Income**

The total Value-Added Fixed Income fee budget of \$45.4 million, increases by \$2.1 million, or 4.8%, in FY 2020. This is mainly due to a projected increase in investments in other credit opportunities.

Manager	Mandate	Active/ Passive	Fee Type
Fidelity	HY Bonds	Active	NAV
Loomis Sayles	HY Bonds	Active	NAV
Shenkman	HY Bonds	Active	NAV
Eaton Vance	Bank Loans	Active	Commingled Fund – NAV
Voya	Bank Loans	Active	Commingled Fund – NAV
PIMCO	EM Debt Hard Currency	Active	NAV
Ashmore	EM Debt Hard Currency	Active	Commingled Fund – NAV
Investec	EM Debt Local Currency	Active	NAV
Pictet	EM Debt Local Currency	Active	NAV
Stone Harbor	EM Debt Local Currency	Active	NAV
Various Managers	Distressed Debt	Active	Commingled Funds – Committed Capital
Various Managers	Other Credit Strategies	Active	NAV

**Real Estate**

*Real Estate Investment Trusts (REITs)*

The total REITs fee budget of \$6.9 million, increases by \$.2 million, or 3.3%, in FY 2020. This change is mainly due to changes in NAV.

Manager	Mandate	Active/ Passive	Fee Type
CenterSquare	Global REITs	Active	NAV
Brookfield	Global REITs	Active	NAV
Presima	Global REITs	Active	NAV

*Core Strategy*

The total Core Strategy fee budget of \$25.7 million, increases by \$2.9 million, or 12.7%, in FY 2020 due to the addition of new Core Managers.

Manager	Mandate	Active/ Passive	Fee Type
<b>AEW</b>	Core Real Estate	Active	Funded Amount
<b>INVESCO</b>	Core Real Estate	Active	Funded Amount
<b>JP Morgan</b>	Core Real Estate	Active	Funded Amount
<b>LaSalle</b>	Core Real Estate	Active	Funded Amount
<b>CBRE Global Investors</b>	Core Real Estate	Active	Funded Amount
<b>Stockbridge Advisors</b>	Core Real Estate	Active	Funded Amount
<b>DivcoWest Core</b>	Core Real Estate	Active	Funded Amount

*Non – Core Strategy*

The total Non - Core Strategy fee budget of \$2.7 million, decreases by \$1.5 million, or (35.9%), in FY 2020. This change is mainly due to changes in NAV.

Manager	Mandate	Active/ Passive	Fee Type
<b>Various Managers</b>	Non-Core	Active	Generally - Committed Capital
<b>New Boston Fund</b>	Non-Core - ETI	Active	Cost of Remaining Investments

**Timberland**

The total Timberland fee budget of \$7.5 million, increases by \$0.6 million, or 9.2%, in FY 2020 due to an increase in NAV.

Manager	Mandate	Active/ Passive	Fee Type
<b>Forest Investment Advisors</b>	Timberland	Active	NAV
<b>Campbell Global</b>	Timberland	Active	NAV

**Private Equity**

The total Private Equity fee budget of \$122.1 million, increases by \$7.5 million, or 6.5%, in FY 2020 due to a budgeted increase in asset allocation. Private Equity management fees are typically 1.0% to 2.5% of committed capital during the active investment period, and become a percentage of cost of remaining investments later in the life of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Private Equity	Active	Generally Committed Capital

**Portfolio Completion Strategies (PCS)**

The total Portfolio Completion Strategies fee budget of \$90.8 million, decreases by \$5.9 million, or (-6.1%), in FY 2020, due primarily to the reallocation of the GSAM Equity Hedge account to Domestic Equity. PCS and Hedge Fund management fees are typically 1.0% to 2.0% of the NAV of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	PCS and Hedge Funds	Active	Generally, NAV

**Overlay, Foreign Currency and Other**

The total Overlay, Foreign Currency and Other fee budget of \$2.5 million, decreases by \$.6 million, or (19.8%), in FY 2020 due to the decreasing AUM in liquidating portfolios.

Manager	Mandate	Active/ Passive	Fee Type
Parametric	Overlay	Active	NAV
Russell	Foreign Currency Trading	Active	NAV
Various Managers	Private Natural Resources Wind-Down	Active	Cost of Remaining Investments

### **Third-Party Service Provider Fees**

The FY 2020 budget for Third-Party Service Provider Fees (including Custody and Advisors as well as Audit & Tax, Legal, Governance and Risk Measurement & Investment Analytics) of \$18.2 million increases by \$2.8 million, or 18.3%. The increase is driven primarily by increased custodian fees and the continued expansion of PRIM's managed account initiative. Costs in this category are the result of competitively bid contracts.

#### **Custody**

BNY Mellon currently provides the PRIT Fund with global custody, accounting and performance measurement services. BNY Mellon provides custody for PRIT assets, records all investment transactions for the PRIT Fund, and provides recordkeeping for all participant activity for member retirement systems, including participant performance analysis.

#### **Advisory Services – General**

PRIM employs several professional advisors to provide comprehensive advisory services to staff and the Board including recommendations on asset allocation, communications, information technology, compliance, human resources and compensation policies.

#### **Advisory Services - Real Estate & Timberlands**

The FY 2020 budget reflects the advisory fees for Townsend and International Woodland Company, financial reporting costs associated with the real estate leverage program, expenses related to potential direct investments, data tools and other consulting costs.

#### **Advisory Services – Public Markets**

The FY2020 budget reflects the advisory fees for Callan and HedgeMark. It also includes fees related to the potential internal management project as well as operational due diligence and other consulting costs.

#### **Advisory Services - Private Equity**

The FY 2020 budget reflects the fees for Hamilton Lane. They provide advisory, legal services, monthly accounting, and detailed performance reporting for the PRIT Fund's Private Equity program. The budget also includes projected fees for new data tools and other consulting costs.

#### **Advisory Services – Portfolio Completion Strategies**

The FY 2020 budget reflects the contractual fees for Aberdeen, New Alpha, HedgeMark and Innocap. Aberdeen and New Alpha are PRIM's PCS advisors. HedgeMark and Innocap are PRIM's managed account platform service providers. The budget also includes projected fees for new data tools and other consulting costs.

**Audit & Tax**

KPMG provides annual financial statement audits for the PRIT Fund and PRIM. KPMG also performs an annual examination of the internal controls surrounding PRIM's procurement of investment managers and other third-party service providers and reviews the PRIT Fund's benchmark and performance calculations in accordance with the guidance contained in the AICPA Statement on Standards for Attestation Engagements.

KPMG also provides audit services for PRIM's Real Estate, Timberland, and certain PCS investments. The audit fees for this work are charged to the underlying investments and are not included in the PRIM budget.

Deloitte provides PRIM with tax advisory services. Real Estate and Timberland property level tax return preparation fees and tax advisory fees are charged to the underlying properties and, as such, are not a part of the PRIM budget. However, the general tax advisory work is paid directly by PRIM.

**Legal**

PRIM retains outside counsel as necessary to provide legal services to PRIM. Outside legal expenditures can be difficult to predict and have historically fluctuated significantly based on the nature of activities of the PRIT Fund and PRIM.

**Governance**

Institutional Shareholder Services (ISS) provides a comprehensive analysis of proxy issues and vote recommendations for the PRIT Fund's domestic and international securities in accordance with PRIM's custom proxy guidelines. Cortex Applied Research Inc., is engaged to perform charter review and to administer the Board self-evaluation process. The governance budget also includes annual membership fees associated with participation in the Council of Institutional Investors and anticipated costs for hosting PRIM Board Education sessions.

**Risk Measurement and Investment Analytics**

PRIM utilizes MSCI's BarraOne, a single platform multi-asset class investment risk measurement tool. Other investment analytical tools include FactSet, eVestment, Bloomberg, and others.

### **Operations**

The FY 2020 Operations budget of \$17.7 million increases \$2.3 million or, 14.9%, reflecting primarily an increase in Compensation and Employee Benefits due to new PRIM staff positions.

#### **Compensation & Employee Benefits**

The FY 2020 Compensation budget includes allocations for additional positions and potential compensation increases for existing employees based upon the updated PRIM salary bands.

Per PRIM's Compensation Philosophy, to ensure PRIM remains competitive with market trends, a comprehensive compensation level analysis was conducted in 2018 by PRIM's compensation consultant, McLagan. To make incremental progress within these salary bands we have accordingly included allocations in the FY 2020 budget for potential base salary increases and for potential promotions. The budget for employee benefits consists primarily of dental, vision, and disability costs for employees as well as a contingency to cover potential unemployment claims since PRIM does not participate in the state's unemployment insurance pool. The budget also includes estimated Medicare taxes for all employees.

FY 2020 Budget Compensation	\$ 14,393,000
FY 2019 Budget Compensation	\$ 12,559,500
Year-over-year change	\$ 1,833,500
<hr/>	
New positions and benefits increase	\$ 1,283,500
Potential compensation increases	\$ 550,000
Year-over-year change	\$ 1,833,500

#### **Occupancy**

The occupancy budget includes expenses associated with office space, including rent, maintenance charges, and utilities.

PRIM's office building at 84 State Street is owned by PRIT Core Realty Holdings LLC and is managed by INVESCO. PRIM occupies the entire second and third floors of the building (21,500 rentable square feet).

**Insurance**

The budget includes insurance premium costs for various business and liability policies. PRIM's current insurance policies are summarized in the following table:

Policy Type	Coverage	Deductible
<b>Fiduciary Liability</b>	\$15,000,000	\$ 250,000
<b>Commercial Crime</b>	\$10,000,000	\$ 100,000
<b>Employment Practices Liability</b>	\$ 1,000,000	\$ 50,000
<b>Workers Compensation</b>	\$ 1,000,000	N/A
<b>Commercial General Liability</b>	\$ 1,000,000	N/A
<b>Commercial Property</b>	\$ 839,800	\$ 250
<b>Umbrella Liability</b>	\$ 4,000,000	\$ 10,000
<b>Hired Auto</b>	\$ 1,000,000	N/A

**General Office Expenses**

This budget category includes expenses relating to office operations including postage, office supplies, copying, printing, telephone expenses, temporary labor and office infrastructure.

**Computer and MIS Expenses**

The budget for Computer and MIS Expenses shows a modest increase due to the expected enhancement of PRIM's infrastructure required for the increased use of quantitative tools. This category also includes telecom, internet service providers, hardware, software and support agreements, offsite data storage, and equipment for the expected growth of staff.

**Travel, Professional Development & Dues and Subscriptions**

This budget category represents costs associated with due diligence travel, ongoing professional education of PRIM Board members and staff, including related travel expenses and dues & subscriptions, which includes membership dues in professional associations and subscription costs for professional journals, investment industry publications, and newspaper subscriptions. The budget includes tuition reimbursement charges (e.g., for approved CFA and higher education courses), required continuing education costs for maintaining professional licenses (e.g., CPA license), and attendance at professional conferences and seminars. PRIM is committed to supporting its Board members and staff in their pursuit of professional development.

**Client Service**

Currently, 97 of the Commonwealth's 104 retirement systems invest in the PRIT Fund. The client service budget allows for PRIM-sponsored client conferences and on-site client meetings. This budget includes the cost of traveling to client meetings, conferences, and related activities. Additionally, the costs associated with printing and binding the PRIT Fund's Comprehensive Annual Financial Report is included in this budget.

## **Key Assumptions**

### **Estimated Assets Under Management and Asset Allocation in FY 2020**

Many of the budgeted expenses for FY 2020 are based upon the estimated average assets under management and the estimated average actual asset allocation.

The estimated average assets under management for FY 2020 is \$75 billion. To estimate PRIM's FY 2020 average assets under management, the beginning AUM of FY 2019 (July 1, 2018) was estimated to equal the PRIT Fund assets under management as of February 28, 2019, the most current and available information when creating this budget. The ending AUM of FY20 (June 30, 2020) was estimated to increase by NEPC's expected 5-7 year return forecast of 6.8%. The estimated average AUM of FY 2020 is the average of the estimated beginning and ending AUM, which is approximately \$75 billion. Please note that future investment performance is not predictable and actual performance will vary.

The estimated asset allocation in FY 2020 is based on the current actual asset allocation of the PRIT Fund and projected future allocation changes. Projected allocation changes include a decrease in Global Equity, Value Added Fixed Income and an increase in Private Equity, Core Fixed Income and Portfolio Completion Strategies.

### **Performance, Incentive, or Carried Interest Fees**

No investment performance, incentive, or carried interest fees are budgeted in FY 2020. These fees vary dramatically from year-to-year and are not predictable.