



Minutes of the PRIM Administration and Audit Committee  
Thursday, May 2, 2019

Committee members present:

- Robert Brousseau, Chair
- Treasurer Deborah Goldberg
- Patrick Brock
- Karen Gershman, CPA
- Eileen Glovsky
- James Hearty
- Dennis Naughton

Committee members not present:

- Joseph Connolly
- Theresa McGoldrick, Esq.
- Michele Whitham, Esq.

The PRIM Administration and Audit Committee meeting was called to order at 10:08 a.m.

**I. Approval of the Minutes (Voting Item)**

The PRIM Administration and Audit Committee unanimously approved the minutes of the November 15, 2018, and February 14, 2019, Administration and Audit Committee meetings, as amended.

**II. Executive Director / Chief Investment Officer Comments**

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

**Organizational Update**

For an unprecedented fourth year in a row, PRIM has been nominated for “Public Plan of the Year” at the Institutional Investor Hedge Fund Industry Awards, to be held in New York on June 27, 2019. PRIM won this award in 2016. The other nominees this year are Ontario Municipal, New Mexico, Wisconsin, Texas Teachers and Illinois Teachers.

PRIM continues to receive recognition for its innovative hedge fund program that produces very high risk-adjusted returns while saving approximately \$100 million annually on hedge funds fees. PRIM led the industry with the use of direct hedge fund investments replacing fund-of-funds. We also lead in our pursuit of separately managed accounts (SMA’s), which give us complete transparency, more control and lower fees than comingled funds that are the norm for most investors. SMAs now comprise more than 75% of the PRIM Fund’s hedge fund assets. PRIM’s SMA program and more recently, our Emerging Manager Program are being emulated by peers across the globe.

Last month, PRIM’s PCS Director **Bill Li** was inducted into the EQDerivatives Investing Hall of Fame, which “recognizes those individuals that have led the line in volatility and alternative risk premia thought leadership.”

We announced his promotion last cycle, but this cycle we announced that **Andrew Gromer**, Investment Officer on the Public Markets team, was recently accepted into the Yale School of Management and will be leaving PRIM this summer to begin the MBA program. We are happy for Andrew and support his pursuit of higher education, but at the same time, we are sorry to see him go. He has been a valuable

employee on the Public Markets team and more recently he has been a valuable contributor to the Private Equity team.

We also announced that in March, **Alyssa Fiore**, Investment Officer on the Private Equity team, resigned to accept a position at JP Morgan. Alyssa joined the Private Equity team in 2016 as an Investment Analyst and was promoted last year. Alyssa was a valuable contributor to our fund underwriting effort and she helped manage the co-investment program. Alyssa’s potential was well-recognized in the industry. We wish her well in her new endeavors. The Private Equity team is currently interviewing strong candidates for two open positions.

PRIM currently has four active investment staff job openings: Senior Investment Officer on the Public Markets team, an Investment Analyst on the Real Estate team, and two Investment Analysts on the Private Equity team. We have received more than 1,000 applications for those four slots. It is a compliment to all of us that so many highly qualified candidates want to work for PRIM.

And last, I’d like to highlight that we have added a third women-focused summer internship partner, the **CFA Society Boston**, to supplement our current efforts with **Girls Who Invest** and the Treasurer’s **Women in Finance Fellowship**. We are excited to welcome three new summer internships at PRIM this summer.

### PRIT Fund Performance Summary

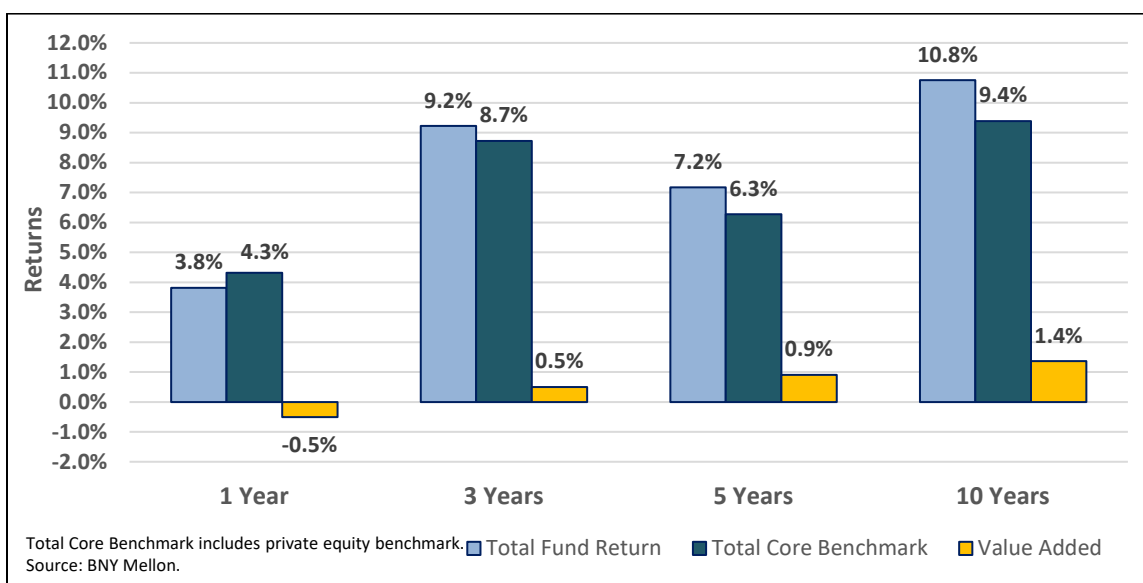
Mr. Trotsky reported investment performance as follows:

As of March 31, 2019, the PRIT Fund net asset value stood at \$73.1 billion. For the one-year ended March 31, 2019, the PRIT Fund was up 3.8% (3.4% net), underperforming the total core benchmark of 4.3% by 49 basis points (93 bps net).

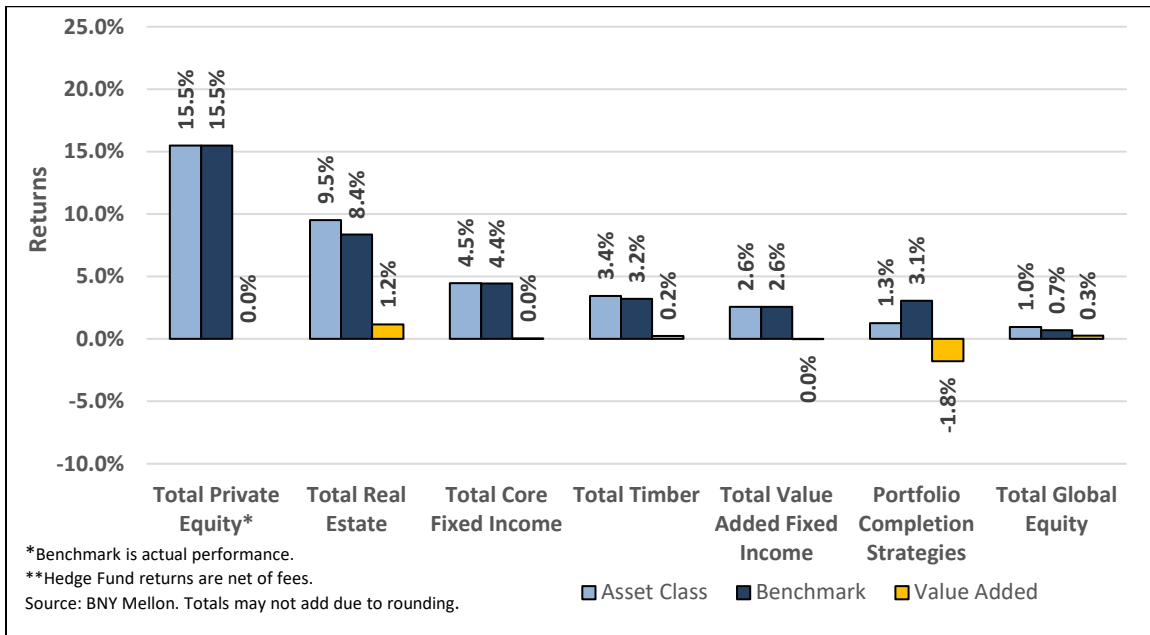
- This performance equates to an investment gain of \$2.4 billion, net of fees.
- Net total outflows to pay benefits for the one-year ended March 31, 2019, were approximately \$956 million.

Mr. Trotsky made reference in his remarks to the following charts:

**Total PRIT Fund Returns (Gross of Fees)**  
Annualized Returns as of March 31, 2019



**PRIT Asset Class Performance (Gross of Fees)**  
Trailing One Year Performance as of March 31, 2019



**PRIT Asset Class Performance (Gross of Fees)**  
Annualized Returns as of March 31, 2019

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 15.5%	PRIVATE EQUITY 18.4%	PRIVATE EQUITY 17.2%	PRIVATE EQUITY 17.4%
REAL ESTATE 9.5%	GLOBAL EQUITY 11.1%	REAL ESTATE 10.0%	GLOBAL EQUITY 12.8%
CORE FIXED INCOME 4.5%	REAL ESTATE 8.2%	GLOBAL EQUITY 6.7%	REAL ESTATE 10.7%
TIMBER 3.4%	VALUE-ADDED FIXED INCOME 7.0%	TIMBER 5.5%	VALUE-ADDED FIXED INCOME 9.4%
VALUE-ADDED FIXED INCOME 2.6%	TIMBER 5.9%	CORE FIXED INCOME 4.6%	CORE FIXED INCOME 5.5%
TOTAL PCS 1.3%	TOTAL PCS 5.2%	VALUE-ADDED FIXED INCOME 3.9%	TOTAL PCS 5.2%
GLOBAL EQUITY 1.0%	CORE FIXED INCOME 2.1%	TOTAL PCS 3.0%	TIMBER 3.2%

**PRIT Core Fund Performance Summary**  
**Gross of Fees Performance**  
Trailing 1-Year Performance as of March 31, 2019

Trailing 1-Year Performance: March 31, 2019	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
<b>Total PRIT Fund</b>	<b>3.8%</b>	<b>4.3%</b>	<b>(49)</b>	<b>73,067</b>	<b>100%</b>
<b>Total Global Equity</b>	<b>1.0%</b>	<b>0.7%</b>	<b>30</b>	<b>31,783</b>	<b>43.6%</b>
<i>Domestic Equity</i>	8.6%	8.4%	28	15,805	21.7%
<i>International Developed</i>	-4.1%	-4.1%	(1)	11,400	15.6%
<i>Emerging Markets</i>	-7.4%	-8.3%	88	4,579	6.3%
<b>Private Equity</b>	<b>15.5%</b>	<b>15.5%</b>	<b>0</b>	<b>7,997</b>	<b>11.0%</b>
<b>Real Estate</b>	<b>9.5%</b>	<b>8.4%</b>	<b>116</b>	<b>6,971</b>	<b>9.6%</b>
<b>Total Timberland</b>	<b>3.4%</b>	<b>3.2%</b>	<b>23</b>	<b>2,863</b>	<b>3.9%</b>
<b>PCS</b>	<b>1.3%</b>	<b>3.1%</b>	<b>(180)</b>	<b>7,346</b>	<b>10.1%</b>
<b>Value Added Fixed Income</b>	<b>2.6%</b>	<b>2.6%</b>	<b>(2)</b>	<b>5,955</b>	<b>8.2%</b>
<b>Core Fixed Income</b>	<b>4.5%</b>	<b>4.4%</b>	<b>4</b>	<b>9,316</b>	<b>12.8%</b>

### III. Interim Meeting with PRIM Board Auditors

Anthony J. Falzone, Chief Operating Officer, introduced Dave Gagnon, KPMG’s Lead Engagement Audit Partner, and Matt Dipisa, KPMG’s Lead Audit Manager. Mr. Falzone informed the Committee that Jennifer Daly, KPMG’s Senior Lead Manager, left the firm and that Mr. DiPisa would be leading the audits moving forward. Mr. Falzone noted that Ms. Daly did a great job and recognized her for her past contributions. Mr. Falzone explained that representatives from KPMG were present to review the following:

- The audit plan for the Fiscal Year 2019 PRIM Board and PRIT Fund audits
- The plan for the agreed upon procedures review of PRIM’s procurement process and performance benchmarks
- The December 31, 2018 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 20 directly managed separate accounts
    - PRIT’s 18 directly managed hedge fund portfolios
    - PRIT’s two other credit opportunities portfolio
  - PRIT’s sole agricultural portfolio

Mr. Falzone mentioned that in total—KPMG will have audited the financial statements for approximately 19% of the PRIT Fund as of December 31, 2018.

Mr. Gagnon and Mr. DiPisa updated the Committee on the audit plan, which includes the KPMG team and planned test work for the June 30, 2019, audits of PRIM and the PRIT Fund. Mr. Gagnon noted that the June 30, 2019, audited financial statements of PRIM and the PRIT Fund, and the Comprehensive Annual Financial Report (CAFR), will be presented at the November 2019 Committee meeting.

Mr. Gagnon informed the Committee that the PRIT Core Realty Holdings, LLC (PRIT Core Realty) financial statements audit as of December 31, 2018, resulted in an unmodified opinion. PRIM’s real estate leverage

program--which encompasses the PRIT Fund's entire real estate asset sleeve including core and non-core properties, commingled fund investments, and real estate investment trust (REIT) securities--requires this audit.

Mr. Gagnon noted that the audit of the timberland portfolio managed by the Campbell Group resulted in an unmodified opinion, while the audit of the other timberland portfolio, managed by FIA, is underway and FIA fully expects to meet all reporting deadlines without issue.

Mr. Gagnon updated the Committee on the Hedge Fund/PCS managed account portfolio financial statement audits, all resulting in clean opinions.

Mr. Gagnon noted that the audit of PRIT's one agricultural portfolio is ongoing, and that this asset class, in particular, is very complex and challenging and that the financials are expected to be complete by mid-May.

Mr. Falzone added that KPMG had identified, for the agriculture manager AgIS, several areas that could be improved, and once the financials are issued, PRIM staff will meet with AgIS to discuss how they can improve their audit process and internal controls.

Mr. Falzone reminded the Committee that all financial statement audits are clean, with unmodified opinions, and that agriculture is a very small piece (0.5%) of the PRIT Fund.

#### **IV. Draft Fiscal Year 2020 Operating Budget (Voting Item)**

Mr. Falzone and Deb Coulter, CPA, Chief Financial Officer, presented the Draft Fiscal Year 2020 PRIM Operating Budget. Ms. Coulter thanked Dan Eckman, CPA, Director of Finance and Administration, and Sara Coelho, Corporate Accountant, and the rest of the team for its work on the proposed budget.

Mr. Falzone noted the total Fiscal Year 2020 Budget is projected to be \$424.8 million, or 56.6 basis points (bps), of the projected average PRIT Fund assets of \$75 billion. PRIM's fees and expenses relate directly to PRIT Fund assets, and that higher average asset levels, and/or a larger allocation to more complex/costly assets, results in higher costs, and as a result, the Fiscal Year 2020 Operating Budget is 4% (\$16.5 million) larger than last year.

Mr. Falzone explained the budget is comprised of 3 sections: Investment Management Fees, Third-Party Service Providers, and Operations. Investment Management Fees account for approximately 91.5% of the total budget. These fees are paid to investment managers to invest the assets of the PRIT Fund. These fees are grouped by asset class. The PRIT Fund's asset allocation mainly drives the cost allocation.

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. For example, the Global Equities target asset allocation range is 34-44% of the PRIT Fund--the largest asset class--yet its management fees make up only 18% of the total budget. This is due to the use of passive management for much of the Global Equities portfolio, which is relatively inexpensive to implement. Contrast that with Private Equity, PRIM's highest-returning asset class, that with an allocation range of 10-16% is an expensive asset class, and management fees for Private Equity requires 29% of our FY 2020 budget to implement it successfully. Through Project SAVE, PRIM staff has worked to drive down these costs.

Mr. Falzone went on to explain that this budget projection is based on continued projected asset growth, using NEPC's 5-7-year growth assumptions (6.8%) however, future performance is not predictable, so PRIM's actual fees will likely vary, but 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 this budget as it is extremely difficult to estimate future performance.

Mr. Falzone reviewed the next section of the budget as Third-Party Service Providers, which includes the projected fees for all of PRIM's advisers, consultants, custodian, audit, tax, legal, risk, and investment analytics tools. These fees sum to \$18.2 million or 4.3% of the total budget.

Mr. Falzone noted the last section of the budget is PRIM's Operations and includes expenses for PRIM staff compensation and benefits, rent, insurance, office supplies, computers and technology, along with other goods and services necessary to run PRIM. The Operations budgeted fees amount to approximately \$17.7 million or 4.2% of the total budget.

Ms. Coulter discussed the three sections of the budget in more detail, highlighting key changes year-over-year. She explained that the Investment Management Fees section is increasing due to a projected growth in assets as well as the asset allocation changes approved at the February Board meeting. She noted that the Third-Party Service Providers section of the budget was increasing due to a contracted increase in custodian fees and budgeted amounts for new software and data tools for each asset class. The last section of the budget, Operations Expense, increased mainly due to changes in the Compensation and Benefits section as a result of projected new hires outlined in PRIM's annual plans.

Karen Gershman, CPA requested additional information on the costs budgeted for internal management specifically compliance and other administrative expenses. Mr. Falzone explained that expenses for compliance, research, and middle/back office administration are place holders to support the next stage of Project Save Phase II. He informed the Committee that PRIM staff would be taking a very deliberate and measured approach when reviewing the internal management initiative, and to be conservative staff added these potential costs to the budget knowing they may not ultimately be realized.

Eileen Glovsky asked what drove the decision to relocate PRIM's IT consultant expense to the Third-Party Service Providers section of the budget. Mr. Falzone explained that to provide improved reporting and add transparency, PRIM has relocated expenses to better reflect how the business is using resources and that in addition to this move, additional categories were added to this section to track costs by asset class. Mr. Falzone mentioned that this would help his team identify spending patterns and perform analysis on how each asset class uses resources.

The Administration and Audit Committee voted (unanimously) to recommend to the PRIM Board that the Board approve the Draft Fiscal Year 2020 PRIM Operating Budget as set forth at Appendix F of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

#### **V. Audit Services Request for Proposals (RFP) Issuance (Voting Item)**

Mr. Falzone informed the Committee that there are contracts in place for audit services for PRIM and PRIT for this fiscal year ending June 30, 2019, and for audit services for PRIT's real estate, timberland, and agriculture portfolios along with the tax work through December 31, 2019.

Mr. Falzone requested that both audit and tax services be combined into one RFP for administrative purposes.

The Administration and Audit Committee voted (unanimously) to recommend to the PRIM Board that the Board approve the issuance of an Audit and Tax Services RFP, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

#### **VI. Legal/Legislative Update**

PRIM's General Counsel indicated that the House budget amendment proposal to increase the size of the PRIM Board from 9 to 11 trustees appears to have not passed.

## **VII. Other Matters:**

The Committee members briefly discussed the following topics:

- a. March 2019 PRIM budget
- b. Travel Report
- c. Client Service Update

The PRIM Administration and Audit Committee meeting adjourned at 11:10 p.m.

### *List of documents and exhibits used during the meeting:*

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 15, 2018*
- *Minutes of the PRIM Administration and Audit Committee Meeting of February 14, 2019*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *KPMG Fiscal Year 2019 Audit Plan*
- *Draft Fiscal Year 2020 Operating Budget*
- *March 2019 PRIM Operating Budget*
- *Travel Report*