



**PENSION RESERVES  
INVESTMENT  
MANAGEMENT BOARD**

Minutes of the PRIM Real Estate and Timberland Committee Meeting  
Wednesday, May 1, 2019

Committee members present:

- Jill Hatton, CRE, Chair
- Treasurer Deborah Goldberg
- Anthony Hubbard, Esq.
- Jack Lutz, Ph.D.
- William McCall, Jr., CRE
- Garlan Morse, Jr., CRE
- Peter O'Connell
- Carly Rose

Committee members not present:

- Lydia Chesnick, Esq.
- Robert Gifford

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:33 a.m.

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

The PRIM Real Estate and Timberland Committee (unanimously) approved the minutes of its February 13, 2019 meeting.

**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 investment staff active 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 1000 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:

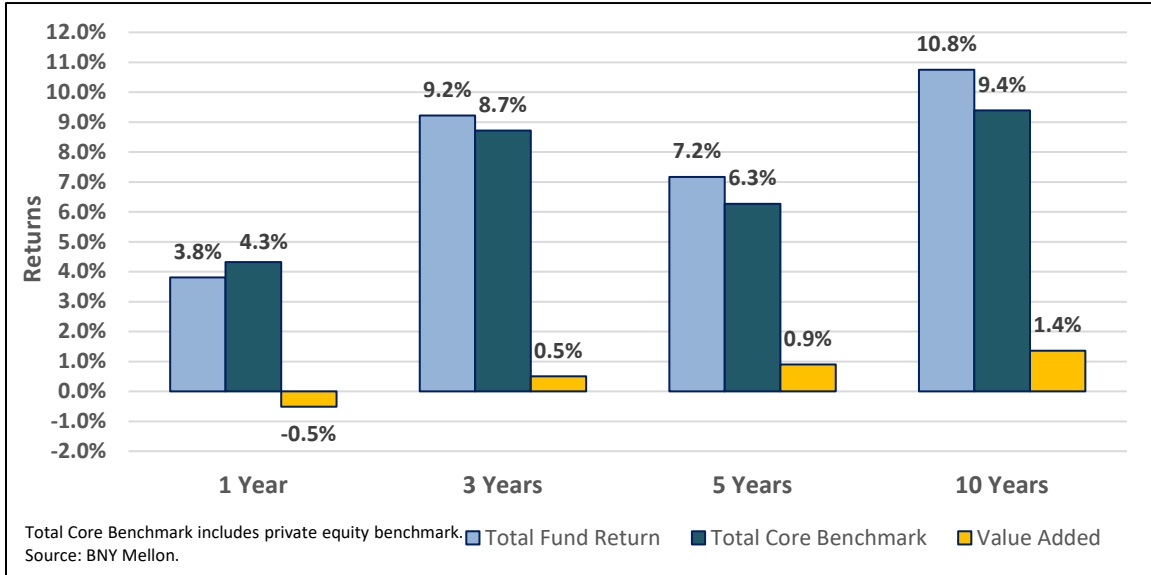
As of March 31, 2019, the PRIT Fund net asset value stood at \$73.1 billion. For the one-year ended March 31, 2019, the PRIT Fund was up 3.8% (3.4% net), underperforming the total core benchmark of 4.3% by 49 basis points (93 bps net).

- 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.

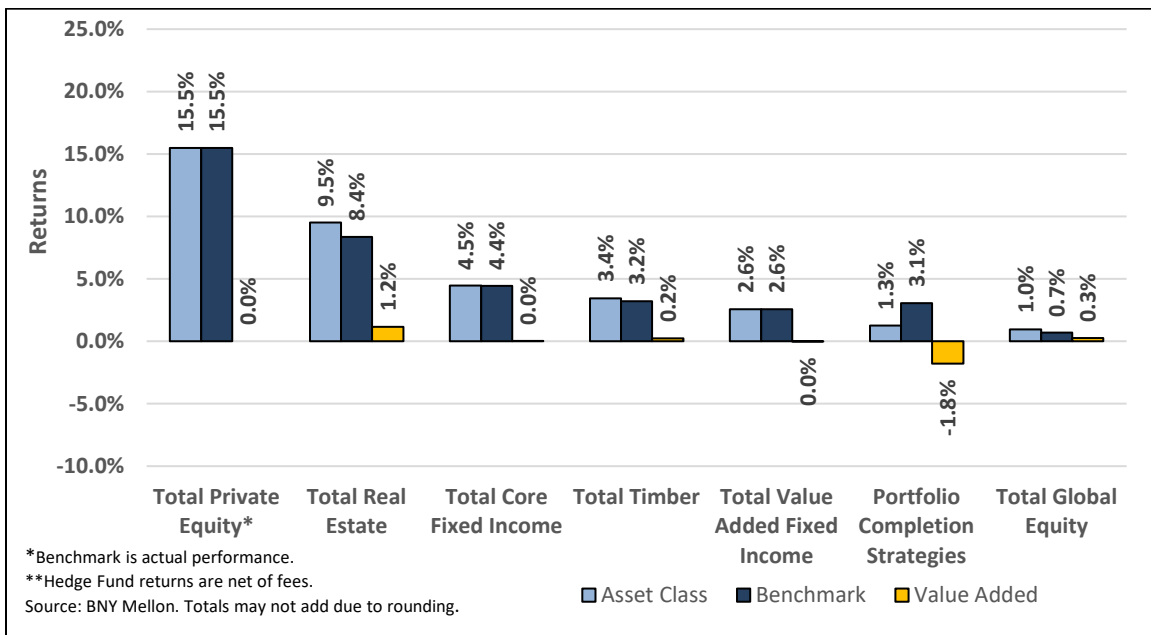
*(The rest of this page was left intentionally blank.)*

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

### **III. Performance Review and Market Update**

Timothy Schlitzer, CRE, CFA, Senior Investment Officer - Director of Real Estate and Timberland, updated the Committee on real estate and timberland performance.

Mr. Schlitzer provided a summary of performance information as follows:

- Real estate was valued at \$7.0 billion or 9.6% of the PRIT Fund at quarter end.
- Timberland was valued at \$2.8 billion or 3.9% of the PRIT Fund at quarter end.
- Total Real Estate returned 9.5%, 116 basis points higher than the asset class benchmark during the previous 12-month period.
- The private real estate portfolio returned 8.4%, 165 basis points above benchmark.
- PRIM's capital structure continued to be accretive with levered returns adding approximately 64 basis points to the private core return.
- Non-core real estate outperformed the NCREIF benchmark by 593 basis points.
- Timberland returned 3.4% during this period, 23 basis points above the asset class benchmark.

Garlan Morse Jr., Committee Member, asked if staff were reviewing existing investments for potential dispositions in an environment exhibiting late cycle characteristics. Mr. Schlitzer stated that there were a number of sales candidates for 2019 and that staff would maintain its efforts to oversee PRIM's investment managers in completing them.

Mr. Morse asked about the impact of foreign currency fluctuations on the overall PRIT Fund. Mr. Trotsky confirmed that PRIM did have foreign currency exposure. He described a white paper written by staff establishing PRIM's view of currency exposure as a long-term diversifier that is cost prohibitive to hedge.

### **IV. Timberland Appraisal – Request for Qualifications (RFQ) Search Committee Recommendation (Voting Item)**

John F. La Cara, Senior Investment Officer, Real Estate and Timberland, reviewed the process for the Timberland Appraisal Services RFQ. He stated that the RFQ was issued on March 18th with a response deadline of April 1st. An evaluation committee was formed that included John La Cara, Tim Schlitzer, Matt Liposky, and George Tsipakis. Mr. La Cara stated that all the respondents met the minimum criteria and qualifications stated in the RFQ and that each firm was interviewed to discuss their experience and areas of expertise. Mr. La Cara stated that PRIM's timberland consultant, International Woodlands Company (IWC), reviewed and confirmed the qualifications of each responding firm. He further explained that after a thorough review of the responses, the evaluation committee recommends to the Real Estate and Timberland Committee that they recommend to the Board the selection of the following firms to provide timberland appraisal services:

- American Forest Management
- Forest Resource Consultants
- Legacy Appraisal Services
- Mason, Bruce & Girard
- Sewall Forestry & Natural Resources Consulting
- Sterling Consulting
- Terra Source Valuation
- The Healy Company

- Timberland Appraisal Inc.

Jill S. Hatton, CRE, Chair, agreed that it is advantageous to have multiple vendors when resourcing appraisals in the various timberland regions.

The Real Estate and Timberland Committee (unanimously) approved the recommendation that the PRIM Board approve the selection of timberland appraisal vendors as highlighted in Appendix B of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:10 a.m.

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

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of February 13, 2019*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Performance Charts*
- *Timberland Search Committee Recommendation*