



Minutes of the PRIM Administration and Audit Committee
Thursday, February 1, 2018

Committee members present:

- Robert L. Brousseau, Chair
- Treasurer Deborah B. Goldberg
- Eileen Glovsky
- James Hearty
- Theresa T. McGoldrick, Esq.
- Dennis J. Naughton
- Michele A. Whitham, Esq.

Committee members not present:

- Ted C. Alexiades, CPFO
- Patrick E. Brock
- Joseph A. Connolly
- Karen E. Gershman, CPA

The PRIM Administration and Audit Committee meeting was called to order at 10:07 a.m.

I. Approval of Minutes (Voting Item)

The PRIM Administration & Audit Committee unanimously approved the minutes of its November 2, 2017, meeting.

II. Executive Director/Chief Investment Officer Report

Michael G. Trotsky's, CFA, Executive Director and Chief Investment Officer, comments to the Committee included:

Market Summary

The final quarter of 2017 was strong, and it capped an outstanding year in the financial markets. In 2017, domestic equities rose 21.8%, developed international equities rose 25.0%, and emerging markets equities rose 37.3%. The moderate improvement in global economic indicators during the year failed to produce a corresponding increase in interest rates and inflation, and as such, diversified bonds rose 3.5% and long duration bonds rose 13.7%.

While global economic indicators have improved, we still monitor several risks in the market, including many we first identified more than a year ago. The economic cycle is more than 9 years old and there are many uncertainties ahead – the impact of tax reform, the debt ceiling, federal budget appropriations, North Korea, immigration reform, currency manipulation, tariffs and trade agreements, to name a few. We believe that our carefully constructed, diversified portfolio is appropriate for this environment and we are very proud of our strong performance in 2017 even while, for the last five-plus years, we have systematically de-risked our portfolio.

The asset allocation recommendations recently approved by the Investment Committee are a modest evolution of the path we have been on for the past several years, and our top core beliefs that guide our investment decisions are as follows:

1. We are guided by our mandated rate of return, the actuarial rate of return, which currently is 7.5%. That makes it necessary to have a relatively aggressive portfolio with significant equity risk.
2. We make sure that every active manager we hire has skill, and we have developed tools to identify managers with skill. We only pay active fees for managers with skill – an attractive manager will produce strong returns that cannot be explained by persistent factor tilts.

3. We believe that any investment must be evaluated on three equally important parameters: risk, return and cost. Too often, especially in years like we just had, investors are focused more on return than they are on risk and cost.
4. We value a basis point of cost reduction more than a basis point of return. Why? We can count on cost savings every year, but nobody ever really knows what the markets will deliver.
5. Nobody can predict the future, so we don't try.
6. Nobody can predict the stock market, so we don't try.
7. Every strategic decision we make on asset allocation complies with our "do no harm" rule. We try to find assets or strategies that improve the risk/return profile of the entire fund.

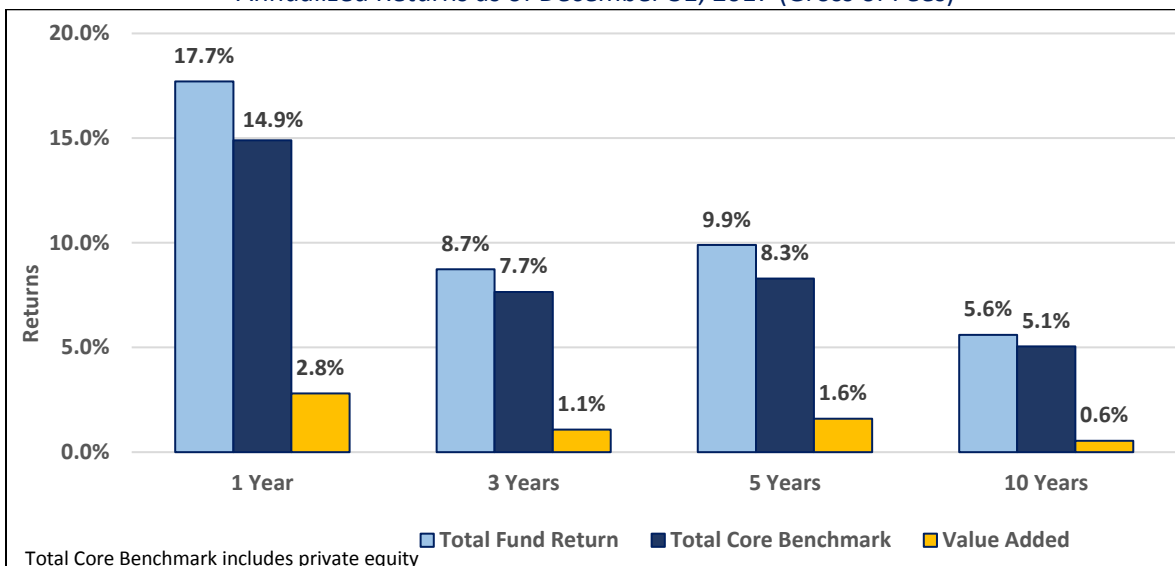
PRIT Fund Performance Summary

As of December 31, 2017, the PRIT Fund net asset value stood at \$71.9 billion. For the one-year ended December 31, 2017, the PRIT Fund rose 17.7% gross (17.2% net), outperforming the total core benchmark of 14.9% by 281 basis points (232 bps net).

- This performance equates to an investment gain of \$10.8 billion, net of fees.
- This outperformance equates to \$1.4 billion of value above the benchmark return, net of fees.
- Six of the seven major asset classes outperformed their respective benchmarks.
- Net total outflows to pay benefits for the one-year ended December 31, 2017, were approximately \$1.4 billion.

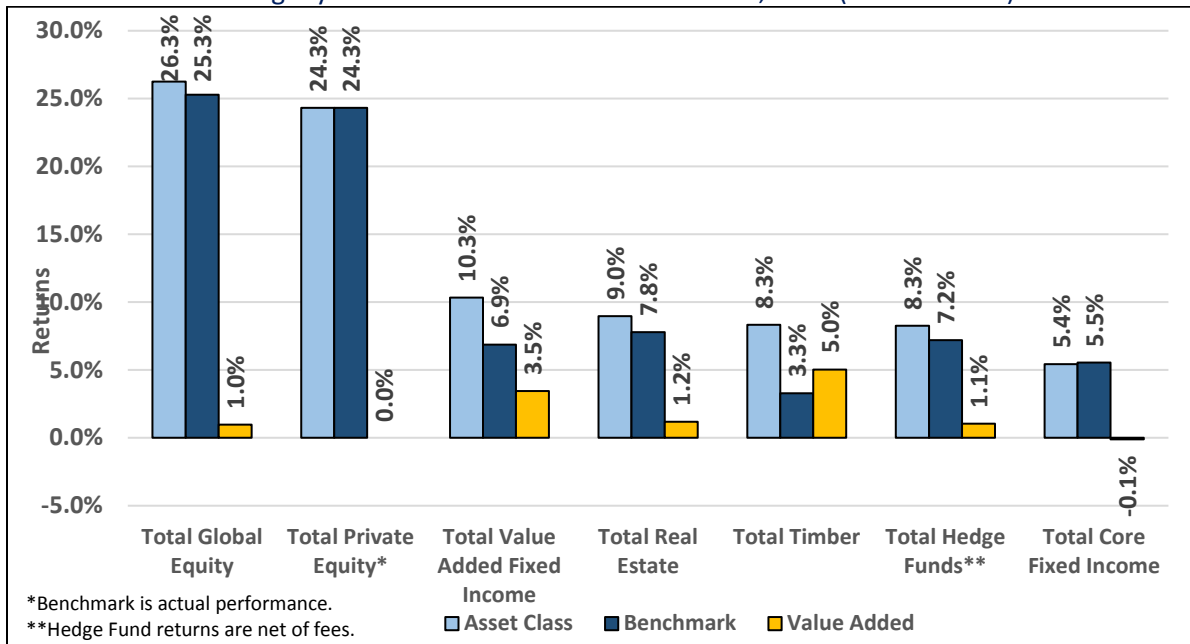
Mr. Trotsky referred to the following charts:

Total PRIT Fund Returns
Annualized Returns as of December 31, 2017 (Gross of Fees)



PRIT Asset Class Performance

Trailing 1-year Performance as of December 31, 2017 (Gross of Fees)



PRIT Core Fund Performance Summary

Trailing 1-Year Performance as of December 31, 2017 (Gross of Fees)

Trailing 1-Year Performance: Dec. 31, 2017	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
Total PRIT Fund	17.7%	14.9%	281	71,894	100%
Total Global Equity	26.3%	25.3%	97	32,615	45.5%
<i>Domestic Equity</i>	<i>20.9%</i>	<i>20.6%</i>	<i>22</i>	<i>13,723</i>	<i>19.1%</i>
<i>International Developed</i>	<i>26.7%</i>	<i>25.6%</i>	<i>104</i>	<i>12,965</i>	<i>18.1%</i>
<i>Emerging Markets</i>	<i>40.4%</i>	<i>37.4%</i>	<i>294</i>	<i>5,928</i>	<i>8.3%</i>
Private Equity	24.3%	24.3%	0	7,331	10.2%
Real Estate	9.0%	7.8%	119	6,110	8.5%
Total Timberland	8.3%	3.3%	504	2,542	3.5%
Hedge Funds	8.3%	7.2%	105	5,876	8.2%
Value Added Fixed Income	10.3%	6.9%	345	5,625	7.8%
Core Fixed Income	5.4%	5.5%	(10)	8,796	12.3%

PRIT Asset Class Performance

Annualized Returns as of December 31, 2017 (*Gross of Fees*)

1 Year	3 Year	5 Year	10 Year
GLOBAL EQUITY 26.3%	PRIVATE EQUITY 18.1%	PRIVATE EQUITY 19.1%	PRIVATE EQUITY 12.8%
PRIVATE EQUITY 24.3%	GLOBAL EQUITY 10.4%	GLOBAL EQUITY 11.5%	VALUE-ADDED FIXED INCOME 6.7%
VALUE-ADDED FIXED INCOME 10.3%	REAL ESTATE 9.5%	REAL ESTATE 10.8%	REAL ESTATE 6.5%
REAL ESTATE 9.0%	VALUE-ADDED FIXED INCOME 5.2%	TIMBER 6.8%	GLOBAL EQUITY 5.4%
TIMBER 8.3%	TIMBER 4.9%	HEDGE FUNDS (NET OF FEES) 5.7%	CORE FIXED INCOME 4.7%
HEDGE FUNDS (NET OF FEES) 8.3%	HEDGE FUNDS (NET OF FEES) 3.5%	VALUE-ADDED FIXED INCOME 4.4%	TIMBER 4.3%
CORE FIXED INCOME 5.4%	CORE FIXED INCOME 2.5%	CORE FIXED INCOME 3.8%	HEDGE FUNDS (NET OF FEES) 3.0%

Organizational Update

Mr. Trotsky provided the Committee with an organizational update, including:

Bill Li, CFA, CAIA on the Portfolio Completion Strategies team was promoted to Senior Investment Officer. Bill was hired in May of 2016 as an Investment Officer and has been an extremely hardworking and valuable member of the investment team focused primarily on developing innovative initiatives from PCS and Strategy, including Alternative Risk Premia Harvesting strategies, the hedged equity program and asset allocation. With Eric Nierenberg, Ph.D., he is also responsible for ongoing due diligence and manager sourcing in our Hedge Fund portfolio. Bill has a master's degree in economics and finance from Brandeis and a Bachelor of Science degree from Dongbei University in China.

Maria Garrahan joined PRIM in January of 2018 as an Investment Officer. She reports to Eric Nierenberg and joins Bill Li on the Portfolio Completion Strategies team. Maria joins PRIM after 2½ years at Columbia Threadneedle Investments as a research analyst focused on global asset allocation. Her prior experience includes working as a research assistant for Professor Ken Froot of the Harvard Business School where she focused on factor-based investment techniques, an element of investing that is becoming increasingly important to us at PRIM. Maria holds a master's degree in applied economics from Northeastern University and a Bachelor of Arts degree in economics, magna cum laude, from Eastern Connecticut State University.

In November, **Ed Caron** joined PRIM as an Investment Operations Analyst. He will work on accounting and reporting on PRIM's private investments. Ed joins PRIM from BNY-Mellon, where he serviced two large public plans; and before that, he worked at State Street Bank. Ed is a graduate of UMass-Amherst, from which he holds a Bachelor of Arts in finance.

Alyssa Fiore, a member of PRIM's private equity team, and **Andrew Gromer**, a member of the public markets team, received their CFA Charters in November. This is a major accomplishment that requires passing three difficult exams over three years and working for four years in the investment sector. This brings the number of PRIM investment staff who have earned their CFA Charters to nine. That's about two-thirds of PRIM's investment staff.

Christina Marcarelli, Investment Officer – Real Estate and Timberland, has volunteered to lead PRIM's diversity initiatives. PRIM recognizes the value of diversity of thought in decision-making and of having a diverse staff. We are excited to have Christina continue a long legacy of recruitment and retention programs aimed at diverse employees. Christina has played an important role in direct real estate investments and in performing in-house analysis of real estate markets and due diligence on PRIM's real estate holdings.

Summary of 2018 Annual Plan Highlights

Mr. Trotsky told the Committee, as we do each year, senior staff members and asset class heads prepare an annual plan for 2018. We will present a summary of the plans to the Committee for feedback and comment, so the plans may likewise be presented to the Board for its feedback. We will revise the plans as appropriate to incorporate feedback received from the Board, and at that point we will then approve the plans in accordance with the directive of the Charters.

Mr. Trotsky noted that the plans do not depart significantly from those presented at this time last year; rather, they represent a continuation of the innovative path we are currently on. Mr. Trotsky directed the Committee to Appendix D of the expanded agenda and highlighted a few of the important new initiatives including; active/passive split in emerging markets equities; micro-cap equities; review and update of the investment policy statement; Project SAVE, Phase II; asset allocation; PRIM University, which is Dr. Nierenberg's program of seminars for PRIM staff; the emerging managers direct hedge funds program; private equity investments; and risk-reporting.

Anthony Falzone, Chief Operating Officer discussed annual plans that are especially appropriate for consideration by the Administration and Audit Committee. Key points included:

Finance and Administration

- PRIM management is actively interviewing candidates for positions heading Human Resources and Information Technology.
- PRIM will be partnering with a consultant that specializes in developing and implementing diversity and inclusion strategies.
- The PRIM Board Governance Manual, Charters and Policies will be reviewed and updated.

Investment Operations

- The Investment Operations team will work in conjunction with the Investment team on many of their initiatives including the launch of the Emerging Manager Direct Hedge Fund Platform.

Technology

- The IT team will complete an audit of PRIM's Wi-Fi capabilities and enhance the network.
- The IT team will work closely with the Investment team to refresh PRIM's current CRM and fee systems focusing on the alternative asset classes.

Client Services

- The Client Services team will soon begin preliminary planning for the 2019 Investor Conference.

- The Client Services team will be holding quarterly calls with Retirement Board and System administrators to review PRIM's policies and procedures around cash processing and instructing cash movements.

Legal Services

- PRIM's General Counsel will support the review of the PRIM Board Governance Manual, Charters, Policies and Employee Handbook, and continue to focus on improving the quality and efficiency of the utilization of the lawyers and law firms on PRIM's approved list.
- PRIM's General Counsel has been asked to serve as chair of the Securities Litigation Committee of the National Association of Public Pension Attorneys. He has served as co-chair the past two years.

Ms. Glovsky said PRIM does a wonderful job with investment-related graphics and asked whether staff could create dashboards to reflect goals and related achievements. Mr. Trotsky said he was open to the idea and added that staff goals become his goals, and he watches performance against them closely.

Mr. Brousseau asked for an update on the relatively new Client Advisory Council. Mr. Todisco said the Council has been very well received by clients and more want to join it. Mr. Trotsky said PRIM staff has received "great feedback" during Council meetings.

Dennis Naughton distributed a magazine article to Committee members and commented on the articles view that diversity training in today's workplace can often be ineffective. Mr. Falzone mentioned that by engaging with a diversity and inclusion consultant to help create a strategy that fits PRIM, rather than a one size fits all training initiative, should help increase the effectiveness of any training that takes place.

Mr. Falzone also informed the Committee that in December, PRIM was notified by the office of the State Auditor that its staff would soon begin conducting an audit of PRIM for fiscal years 2016 and 2017, primarily focusing on procurement and travel. The auditors have been on site for more than a month, Mr. Falzone said, and have indicated the process will take approximately four to six months.

III. 2018 Proxy Voting Guidelines (Voting Item)

Ellen Hennessey joined Mr. Falzone along with four representatives from PRIM's proxy voting consultant, ISS, participating via conference call: Andrew Linberg, Marie Clara Buellingen, Adam Lee and Valerie Sullivan. Ms. Hennessey reviewed the enhancements made to PRIM's proxy voting guidelines back in 2017 along with voting statistics in several key areas including but not limited to board diversity and over-boarding.

Representatives from ISS went over changes to their broader proxy voting policy along with one change to PRIM's custom policy for 2018. The one change impacts the current policy that states: Vote against shareholder proposals that seek to eliminate protection already afforded to gay and lesbian employees. The new policy effective in 2018 would state: Vote against shareholder proposals that seek to eliminate protection already afforded to lesbian, gay, bisexual, transgender and queer/questioning (LGBTQ) employees.

The Administration and Audit Committee voted (unanimously) to recommend to the PRIM Board that the Board adopt the enhancements to PRIM's Custom Proxy Voting Guidelines, as described in Appendices G and H, as amended, of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

IV. Board Governance Manual, Charters, and Policies Review

Mr. Falzone introduced Tom Iannucci, President of Cortex Applied Research, Inc. (Cortex), PRIM's governance consultant since 2004. Mr. Falzone noted that Cortex developed PRIM's first Board

Governance Manual in 2004, which included Charters and Policies, and that the Manual was reviewed again in 2007 and 2011.

Mr. Iannucci described his process, which includes:

- A review of PRIM's current Board Governance Manual, Charters and Policies relative to Cortex's experience working with other public funds;
- Telephone interviews with members of the Board, a number of outside committee members, and senior management of PRIM;
- Collection of additional data on the practices of comparable public funds; and
- Preparation of an outline of key findings and subsequent discussions at the Administration and Audit Committee meeting.

Mr. Iannucci told the Committee that all interviewees indicated high levels of satisfaction with the Board's current governance practices, and with the performance of the Board, committee members, and management. He continued, they also indicated that the governance charters and policies are sufficiently clear, easy to use, and generally comprehensive. Cortex and interviewees identified only three substantive findings and improvement opportunities:

- The lack of explicit guidance in governing documents regarding the appointment of advisory committee members and the length of members' terms as well as the size of, and appropriate role for, each Advisory Committee. Mr. Iannucci said PRIM's written policies are virtually silent on these matters.
- A lack of clear understanding as to who should speak on behalf of the Board – and whether anyone should speak on behalf of the Board – regarding ESG matters.
- Whether the selection of managers and consultants might be finalized by committees rather than the Board, in part so the Board could focus on long-term matters.

Some Committee members, who are also Board members, mentioned the process was confusing and didn't feel they had been given an opportunity to provide input to Cortex and that they would like the opportunity to do so. The Committee requested that Cortex invite all Board members to provide comment on the PRIM governance manual, both in writing and by telephone interview.

The Committee agreed that Cortex should 1) first complete the Board self-evaluation process (as the input received in the self-evaluation could benefit the Board Governance Manual review as well), and then upon completion of the Board self-evaluation, Cortex should 2) continue the Board Governance Manual review process and invite all Board members to provide comment on the PRIM Governance Manual, both in writing and also in a telephone interview. Cortex would then present this same opportunity to PRIM Committee members, and then Cortex will present its findings and recommendations at a subsequent meeting of the Administration and Audit Committee.

V. Board Self-Evaluation Process Update

Mr. Falzone said Cortex will administer the Board Self-Evaluation Questionnaire to each Board member. Upon completion of the Questionnaire, Cortex will invite Board members to expand on their survey responses during a one-on-one telephone discussion with a representative from Cortex.

Cortex will receive and tabulate the responses and present an anonymous summary of the results directly to the Administration and Audit Committee Chair. The self-evaluation results will then be presented at the April 30, 2018 Administration and Audit Committee meeting.

Committee members discussed concerns that Cortex's process of interviewing Board members as part of the latest review may have left some Board members confused about the proper opportunities for

providing feedback. Treasurer Goldberg said she was worried that the process may not have provided all nine PRIM Board members with sufficient opportunities for input.

Mr. Falzone assured the Committee that Cortex would make it very clear how feedback would be collected and make every effort to ensure all Board members are given an opportunity to provide input.

VI. Legal/Legislative Update

PRIM's General Counsel indicated there were no significant updates to provide on legal and legislative matters. Treasurer Goldberg made the Committee aware of an omnibus energy legislative proposal that was expected to be released soon from the Senate Committee on Global Warming and Climate Change.

Mr. Falzone indicated that when the proposal was released he would distribute it to all committee members.

VII. Other Matters

The Committee members briefly discussed the following topics:

- a. December 2017 Operating PRIM Budget
- b. Travel
- c. Client Service

The PRIM Administration and Audit Committee meeting adjourned at 12:32 p.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 2, 2017*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *2018 Investment Team Annual Plans*
- *2018 Finance and Administration, Investment Operations, Technology, Client Services and Legal Services Annual Plans*
- *2017 Proxy Voting Update*
- *ISS' Executive Summary of 2018 Global Proxy Voting Guidelines Updates and Process*
- *PRIM Custom Policy Matrix – 2018 Proxy Voting Policy Update*
- *December 2017 PRIM Operating Budget*
- *Travel*
- *Joanne Lipman, 2018, The View, Time Magazine, February 5, 2018, pgs. 17-19*