COMMONWEALTH OF MASSACHUSETTS

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the May 15, 2018, Board Meeting

Commencing at 9:33 a.m.

in the

PRIM Board Offices

at 84 State Street

Boston, Massachusetts

I N D E X

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APPROVAL OF MINUTES
EXECUTIVE DIRECTOR/CHIEF INVESTMENT
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COMPENSATION COMMITTEE REPORT
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A P P E N D I C E S *

A. Minutes of the PRIM Board Meeting on February 15, 2018

B. PRIT Fund Performance Report, March 31, 2018

C. BNY Mellon Gross of Fees Performance Report, March 31, 2018

D. Real Estate and Timberland Performance Charts

E. Real Estate Project SAVE II Presentation

F. Real Estate Investment Approval Process

G. PRIM 2012 Board-Approved Compensation Philosophy

H. PRIM 2012 Board-Approved Incentive Compensation Plan

I. McLagan's Salary Range and Comparative Review - 2017

J. Massachusetts State Auditor's Official Audit Report

K. Draft Fiscal Year 2019 Operating Budget

L. March 2018 PRIM Operating Budget

M. Travel

A T T E N D E E S

BOARD MEMBERS:

Treasurer Deborah B. Goldberg, Chair

Robert L. Brousseau

Ruth Ellen Fitch

James B.G. Hearty

Theresa F. McGoldrick, Esq.

Peter Monaco

Dennis J. Naughton

Carly Rose

Paul E. Shanley, Esq.

OTHER ATTENDEES:

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer

Kevin Blanchette, Worcester Regional Retirement Board

Patrick Brock, Hampshire County Retirement Board

Matthew Coburn, BNY Mellon

Dyice Ellis-Beckham, INVESCO

Millie Viqueira, Callan

Bud Pellechia, Callan

Marietta Fieger, Hamilton Lane

Susan Perez, TRE

Nick Favorito, MSRB
Thomas J. O'Donnell, PERAC
Michael DeVito, PERAC
Chuck Kostro, ERRS
Cosmo Macero, O'Neill & Associates
Phillip Nelson, NEPC
Mike Bergquist, TRE
Sam Oliver, PRIM
Liu Liu, PRIM
George Tspakis, PRIM
Cathy Hodges, PRIM
Ellen Hennessey, PRIM
Maria Garrahan, PRIM
Bill Li, PRIM
Eric Nierenberg, PRIM
Alyssa Fiore, PRIM
Michael McGirr, PRIM
Michael Bailey, PRIM
Andre Clapp, PRIM
Chuck LaPosta, PRIM
David Gurtz, PRIM
Andre Abouhala, PRIM
Christina Marcarelli, PRIM
John LaCava, PRIM

Tim Schlitzer, PRIM
Paul Todisco, PRIM
Franceso Daniele, PRIM
Matt Liposky, PRIM
Deborah Coulter, PRIM
Anthony Falzone, PRIM
Jennifer Kuhn, PRIM
Grace Mamo, PRIM
Daniel Eckman, PRIM
Dave Falcone, TRE
Andrew Gromer, PRIM
Chris Supple, PRIM
Steffanny Rosario, PRIM

P R O C E E D I N G S

A meeting of the Pension Reserves Investment Management Board (PRIM Board) was held on May 15, 2018, at the PRIM Board offices located at 84 State Street, Boston, Massachusetts.

Call to Order:

The meeting was called to order and convened at 9:33 a.m. Treasurer and Receiver-General Deborah Goldberg chaired the meeting.

TREASURER GOLDBERG: The Massachusetts open meeting law permits meetings to be recorded and states the chair shall inform the attendees at the beginning of meeting of such recordings.

So, accordingly, I'm informing you all that Darlene Sousa, seated here to my left, is transcribing and also recording this meeting. If anyone else in attendance today is recording the meeting, I would ask that you identify yourselves.

Okay. Also for the benefit of our stenographer and all those who are listening, please identify yourself by name and speak clearly and audibly. Thank you very much.

The first item on the agenda is the minutes, and so I would seek a motion that the PRIM Board approve the minutes of the February 15, 2018, meeting and further to authorize the executive director to take all actions necessary to effectuate this vote. I see a motion. Is there a second?

MR. BROUSSEAU: Bob Brousseau, make the motion.

TREASURER GOLDBERG: And Ruth Ellen Fitch, the second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve the minutes of the February 15, 2018, meeting)

TREASURER GOLDBERG: Executive director record, I'm going to catch you if you don't say every word.

MR. TROTSKY: Thank you, Treasurer. Treasurer, welcome everyone. It's spring, I think, finally.

TREASURER GOLDBERG: I heard it's snowing tomorrow.

MR. TROTSKY: I do want to acknowledge a few clients and committee members who are here. Patrick, I know you're hiding in the back.

TREASURER GOLDBERG: Where are you, Patrick?

MR. TROTSKY: Patrick Brock on the Admin and Audit Committee and Comp Committee is here from Hampton County. Kevin Blanchette, front row, from Worcester Regional Retirement System. Next to him is Chuck Costra from Essex. Welcome, gentlemen.

I think we also have two representatives of PERAC today. Mike DeVito, where are you, Mike? Mike and Tom O'Donnell in the back. Nick Favorito also from Mass. State Employees Retirement System. Welcome, everybody. Did I get everybody? Thank you for attending.

We have a busy agenda today with 13 total voting items remaining today, 14 in total. You just did the minutes, 13 left. Ten of them are in the investment area where, with your approvals today, we will deploy nearly $600 million in new investment ideas.

First, an organizational update today. I'm delighted to announce, after a long search, we have hired our new director of human resources. Yesterday, Jennifer Kuhn, who is behind me, Jennifer joined the PRIM team. So welcome to PRIM. Jennifer joins us after almost 15 years at Big Brothers Big Sisters of Massachusetts Bay where she was most recently their director of human resources.

During her time there Jennifer was responsible for all HR-related activities from strategic HR leadership to tactical employee support to work closely with each business unit to develop and support the organization's strategic growth and directional planning and with the executive team, to provide counsel and leadership in the areas of organizational planning, talent development, employee engagement, culture development and employee relations.

She also importantly led and developed

the organization's first diversity and inclusion effort. Jennifer began her career as a portfolio administrator at the Colony Group here in town and also the assistant director of development at Horizons for Homeless Children.

Jennifer holds a bachelor's degree in business from Elon University. Welcome, and we're excited to have you.

MS. KUHN: Thank you.

(Applause)

MR. TROTSKY: Also I'm pleased to announce that we have completed our search for a director of information technology, IT. I believe we now have the signed acceptance letter back from our new director of IT, and he will join us next month. Is that correct, Tony?

MR. FALZONE: That's correct.

MR. TROTSKY: Congratulations on that. And last, Mike Bailey has narrowed a large field of applicants from the open investment analyst position on his team. An offer was made to one of the finalists last week, and we're hoping to hear from her very, very soon.

Is that correct? So congratulations.

I'd like to note that for these three positions that I just mentioned, we received approximately 585 applications, 585. And as I've said before, we should all feel there is no real greater compliment that we can receive to receive so many highly qualified applications. The best and the brightest from around the country really want to join the PRIM team.

In other organizational news, earlier this month, we began an in-depth study on diversity and inclusion at PRIM. Our COO, Tony Falzone, CFO, Deb Coulter next to him. Christina Marcarelli on the real estate team and I are working closely with outside consultants from IBIS Consulting Group to conduct this organizational assessment.

This is a very important issue to us and to the board, we know, because the more we can embrace our differences within PRIM, diversities of thinking style, experience, race, gender, sexual orientation, faith, ability and more, the better we can serve the diverse citizens of Massachusetts, both now and in the future. We'll report back to you and future board and committee members on our progress and our analysis and our work with IBIS Consulting.

Also as an update, Christina Marcarelli and I participated in a CFA Institute's diversity and inclusion roundtable event in New York City last week or two weeks ago.

MS. MARCARELLI: Last Friday.

MR. TROTSKY: Last Friday? Two weeks ago.

As you may remember, after my term ended as a governor of the CFA Institute last September, the CFA asked me to join an advisory committee of CIOs, CEOs and other investment industry executives from across the nation really to study ways to increase the diversity in the investment industry.

As many of you know, this industry lags most others in terms of diversity, but I hope you'll be pleased to know that other CEOs from around the country are finally serious about addressing this important issue. I'll be able to share some of the results of this work this fall.

As I mentioned, they will be developing -- CFA will be developing a guide to best practices. And I have to say, working on this project with the CFA Institute and other CEOs has been very fulfilling and very interesting. And I think it was a very interesting day from our perspective.

Increasing the diversity of PRIM staff is a priority for us here at PRIM, and we've been actually very successful. Of the seven new permanent hires over the last 12 months, six are diverse in either race, gender or both. That's six out of seven.

The intern pool, as you know, is similarly very diverse. Of the 10 interns hired over the last year, all were diverse in either race, gender or both. This year our five expected interns are all diverse in either race, gender or both.

And I can tell you that this year's class of five are all women. So in total, of the 17 new employees hired over the last year, 16 were diverse in either race, gender or both; that's 16 out of 17.

But I also need to remind you that our experience shows that turnover and recruitment efforts disproportionately affects our diverse candidates because all private sector employers in our space are targeting diverse candidates, and the pool from which to choose is not large. It's really hypercompetitive for diverse employees in the investment industry right now.

Turning briefly to markets and PRIT fund performance, U.S. GDP growth was 2.3 percent annualized in the first quarter of 2018 from 2.9 percent in the final quarter of 2017. Consumption growth was weak in the quarter despite the surge in real disposable income, causing some economists to question the extent to which recent tax cuts have stimulated any meaningful boost in business activity, but it still may be early for that to show up.

Recent business surveys and some data such as weaker-than-expected growth in jobs, manufacturing and consumer spending, last week consumer spending was reported, and it was the weakest report in five years. This suggests that advanced economies lost some momentum at the beginning of 2018.

This morning, if you read the newspapers, China reported weaker than expected investment and retail sales growth, suggesting a slowdown there. However, the consensus is still for a strong improving worldwide economy. And the U.S. Fed is more focused now on the low employment rate in the U.S.

The unemployment report dipped below 4 percent last week. It came in at 3.9 percent. Some first signs of wage growth in the market finally appeared, and there was a stronger-than-anticipated pickup in inflation. The Fed watches the PCE indicator, and that dipped 1.9 percent in March within, you know, very close to their target of 2.0.

Consensus is predicting three federal rate hikes this year, but at least a few economists are still projecting four increases. We talked about this at the investment committee. Financial markets don't typically respond well to rising interest rates and tighter monetary policy, especially if the data doesn't consistently confirm an expansion.

Add to that the continued geopolitical concerns around a possible trade war with China and other trading partners, reciprocal tariffs that are being put into place, the Iran nuclear pact news of last week, other stresses in the Middle East and negotiations to denuclearize North Korea, and it is easy to understand why volatility spiked in the first quarter of 2018 and the markets sold off.

Perhaps this sell-off was due or even past due after the outstanding year we had in 2017 and a strong start to the markets in January of 2018.

At the Investment Committee, we discussed how the first quarter sell-off might have been an indication of the famous "don't fight the Fed" mentality among investors. There may have been a building fearing that the Fed was tightening more quickly than was supported by the underlying business activity. And the Fed might, in fact, overshoot on the tightening which is not good for economic growth.

Conversely, now, over the past couple of weeks, the markets have rallied despite the string of weaker-than-expected news. So what's going on? Sometimes bad news, weaker-than-expected news like we've just had, is good for the markets.

Maybe some believe that the Fed, observing some of this underlying weakness, will begin to act less hawkishly. It bears watching both the underlying economic indicators and the Fed.

Again, the consensus is for economic strengthening; that's what everyone is expecting. And some of the indicators are not so positive right now. This is what makes a market, and it is actually what gives us comfort in our portfolio, which is designed for just this type of environment.

In the first quarter, to remind you, domestic stocks were down. Developed international equities were down, and bonds were down as yields and interest rates continued to rise modestly.

A 60/40 mix of stocks and bonds which is a common benchmark for diversified portfolios like ours was down more than 1 percent in the first quarter. And the lone bright spot was in emerging markets equity which was up 1.3 percent in the first quarter.

Our commitment to emerging markets equity served us well. It was only equity sleeve that wasn't cut last year as a result of our asset allocation decision. So let me review just a few numbers.

It's hard to remember, but January was very, very strong. The S&P was up almost 6 percent. The developed international markets were up 5. Emerging markets up over 8 percent in January alone, and bonds sold off. February, March sold off, and by the end of the quarter, the S&P was down almost one percent.

Developed international markets were down almost 2 percent, but, as I mentioned, emerging markets were up 1.3 percent. And, again, diversified bonds and STRIPS sold off.

April and May have been much more

tranquil. April was up slightly in both stocks and bonds, and May so far has been up strong, particularly the S&P 500, which, through yesterday, was up 3.1 percent.

Developed international equities up 1 percent and bonds relatively flat. And for the year, for the calendar year, a 60/40 mix of global stocks and bonds was essentially flat despite all these ups and downs with global equities up approximately 2 percent, and bonds down about 2 percent. So about a flat year so far.

Turning to PRIT fund performance, the PRIT fund performed very well in the March 2018 quarter. For the quarter, the PRIT fund was up 0.6 percent gross or 0.5 percent net, outpacing our benchmark by 23 basis points.

As I said earlier, 60/40 split of stock and bonds was down 1.3 percent in the quarter, and we believe -- and I'll share it momentarily -- that this performance was very strong competitively.

Private equity -- we'll talk about this later -- private equity was up 6 percent in the first quarter last year, an outstanding result. And Mike Bailey will review that momentarily.

Remember that this strong performance in Q1 follows a very, very strong calendar year 2017 when the PRIT fund was up 17.7 percent gross and 17.2 percent net.

We still know of no other fund in the country of our size or larger that outperformed us. As I mentioned in the past, this outperformance was achieved with a significantly lower risk profile than our peers.

We have a 40 percent allocation to global equities when our peers have a 50 percent allocation to global equities which means we have a lower risk profile, and we're still outperforming them.

2017 was impressive, no doubt, and we are thankful for that very strong performance in and up market, but what I think is even more interesting is that in the last 12-month downturn which occurred in global equities were down more than 5 percent our fiscal year ending

2016, we were up 2.3 percent that year while most other funds in the country were either flat or down. In the down market of fiscal year 2016, we also know of no other fund in the country our size or larger that outperformed us.

Incidentally, we also significantly outperformed the endowments and foundations in those various years. This shows that our carefully constructed and derisked portfolio is working exactly as intended, providing us with substantial outperformance in both down markets like fiscal year 2016 and in the first quarter of this year in and up markets like we had last year in calendar 2017.

Let me turn your attention to Appendix B, the performance handouts. If you don't have one, we have extra copies. I'll turn to page 2 of Appendix B. For the one-year period, the PRIT fund again was up 12.9 percent gross or 12.5 percent.

Net, this compares very favorably to the 60/40 mix; it is up 9.4 percent. In the middle of the chart, we can see on the left emerging markets equity and private equity and even developed international equity led the way for that 12-month period. You can see on the right side of the chart that bonds were much weaker as interest rates were rising.

Page 3, the PRIT fund ended with a balance of $71.6 billion. The one-year period up 12.9 percent or 12.5 percent net. We outperformed by 192 basis points net. This equates to investment gain of $8.1 billion net -- $8.1 billion in 12 months -- and $1.2 billion above a benchmark return in one year, $1.2 billion.

Net outflows to pay benefits were $1.5 billion for the 12 months ended March. And I'd like to point out if you take a look at the 1-, 3- and 5-year numbers, they're all healthily above the actuarial rate of return. We just got our peer rankings last week, and we're very pleased to announce that they're very, very consistent.

For the past 1-, 3- and 5-year periods, we are in the very top 15 percent of all funds in this country, and that's a sharp improvement over our results 10 years ago. So we've been improving these rankings steadily since the world financial crisis, and we're happy about that.

Turning to page 4, all major asset classes were up, and all either met or exceeded their benchmark. You can see on the left that private equity, global equity and real estate led the way where fixed income returns were more modest.

And I'll end on page 5. You can see the quilt chart. What really drives the bus here at PRIM, private equity across all time period was very, very strong. And in private equity we know of no funds in the country that outperformed us over the 10-year period, and we think that when rankings come out later next month that we'll be ranked very, very favorably.

We're anxiously awaiting those rankings. Again, we know of no funds that beat us in private equity. You can see global equity also for the 5-year period very strong, but you can see over a longer period of time volatility of global equity in the 10-year period.

Real estate, a very strong and consistent performance. We're proud of our very strong results. I'll take any questions that you might have. And keep in mind that each asset class head will be going through their sleeve in a little more detail.

MR. BROUSSEAU: Just one fast question. You emailed us a couple of weeks ago that PERAC had now changed actuarial rate from 7.50 to 7.35.

MR. TROTSKY: Right.

MR. BROUSSEAU: Any impact on us other than driving the unfunded liabilities even higher?

MR. TROTSKY: No. We think that's a minor enough change not to affect our asset allocation. And if you remember, our capital markets assumptions are projecting a difficult 5- to 7-year period. When we've had, you know, longer periods of outperformance like we've just had for the past seven years really, you might think of it as borrowing from the future, borrowing returns from the future.

Now, our capital markets assumptions for our asset allocation is projecting something below 7 percent for passively managed funds, so we believe making even 7.3 over the next 5 to 7 years would be quite a challenge.

TREASURER GOLDBERG: All set. Okay. Any other questions? All right. So next on the agenda. Here we go, David.

MR. GURTZ: Good morning, everybody. I'm David Gurtz.

Before I get into the performance of the public markets portfolio, I just want to give the board a quick update on some of the key projects that we've been working on over the last quarter or so.

First, there's nothing on the U.S. Micro-cap equity RFP. We issued that RFP, and as of the April 19 deadline, we received 54 responses. The team being led by Andre Abouhala is busy logging and evaluating these proposals.

If any board member wants to join the evaluation committee, please let us know. We plan to make recommendations, any recommendations at the November meetings, but if you're interested, let us know.

The next item the team has been spending a fair amount of time is on our state of the industry research project. The genesis of the project is that the industry has changed, we think, rather dramatically over the last 10 to 15 years. Quite frankly, we expect it to continue to change quite dramatically over the next 10 to 15 years.

Since PRIM is a big buyer of these asset management services, we wanted to take a step back and understand how the industry is changing, and, therefore, how it might impact PRIM as a buyer of services.

So in order to gain insights about future changes, the public markets team has been speaking with senior executives at all types of asset management firms from very large to the very small emerging-type managers.

We are asking them for their perspectives on how they think the industry has changed and how their business more specifically has changed over the last 10 to 15 years. But then more importantly how are they planning and managing their business for future growth over the next decade?

Where are they actually spending their capital, both human and in dollars terms, to generate the growth they're expecting over the next decade. These conversations have been very unscripted. They're very interesting and fascinating insights to how these firms work and think.

Andrew Gromer is helping lead this project. We're hoping that later this year we plan to summarize these conversations and, more importantly, how these conversations link to how they impact PRIM going forward in the future. Then last, and certainly not least, we've been spending a lot of time working with Mike Even on Project SAVE Phase II, the search for or the research into internal asset management.

We've been researching possible areas that we can manage internally and, quite frankly, more importantly, the necessary logistics that we would need to do to implement a program here at PRIM. We plan to update the board pretty soon on this work.

Any questions? If not, then I can move quickly on to performance. So back to Appendix B that you were just referring to. As Michael just mentioned, volatility came back to reality in Q1 this year.

After being, frankly, almost completely absent in 2017, the VIX average just 11 in 2017, and so far in the first few months the average is closer to 18 with a long-term average of the VIX being close to 20.

And, frankly, if you took out the first few weeks of January, the average of Q1 is closer to 20, our long-term average. It doesn't feel great after having such a quiet 2017, but it's sort of back to normal, if you will.

Moving on to page 7 of Appendix B, public market equities. That team is led by Andre Clapp sitting over here. And over this one-year period ending in March, global equity performed strongly, returning 17.3 percent gross, 17.1 net of fees, outperforming its benchmark by 70 basis points.

However in Q1 of 2018, only emerging markets had positive performance with domestic and international equities posting negative returns for the quarter. This was the first negative quarter for domestic equities in over two years. The last negative quarter was in Q3 of 2015. We had quite a nice ride there.

Emerging markets led both international and domestic equities returning 26.5 percent for the one-year period ending in March. Emerging markets was buoyed by a weaker U.S. dollar, stable rising commodity prices and a tailwind of global growth with particular strength China. Emerging markets outperformed the benchmark by a little over 1 percent net of fees. As a reminder, we just completed this month our transition to 100 percent active management from 75 percent active, 25 passive.

We successfully reallocated just about a billion dollars out of our passive portfolio into three of our active managers.

International equities performed well

over the trailing one-year period returning 16 1/2 percent net of fees with much of this gain, approximately 9 percent, due to currency appreciation. When you compare and contrast that to emerging markets, where less than 3 percent of the 26 percent return was due to currency appreciation.

As you may recall, about a year ago, or exactly a year ago we made a $900 million allocation to international small cap which is included in this international number. International small cap outperformed large cap for the one-year period returning 24 percent versus 15 percent for large cap.

On top of that our international small cap active managers outperformed the small cap benchmark by 2.3 percent. So the $900 million allocation that we made a year ago in small cap has been a positive decision both in absolute and relative terms.

In the U.S. large cap domestic equity is 100 percent passively managed to the S&P 500. Our SMID and small cap managers did well over the trailing one-year period. All four of our active managers outperformed over the time period.

Moving on to page 8, fixed income led by Chuck LaPosta had a good solid year as well. Emerging markets also led the way in PRIM'S fixed-income portfolio. Emerging markets, debt or EMD in local currency returned 13 percent over the last year.

Currency appreciation contributed 5 percent to the returns while the coupon of these bonds returned 6 percent and then, finally, bond price appreciation added an additional 2 percent. Dollar-denominated EMD also performed well, and PRIM's managers beat the benchmark by 120 basis points.

For the most part rates have risen over the trailing 12-month period, but with the exception of 30-year yields actually were 4 basis points lower and that contributed to the 6.7 percent return in STRIPS.

In credit sensitive sectors like bank loans, high-yield and core fixed income, PRIM's managers returned positive but lower absolute and relative returns as credit spreads tighted by 10, 15, basis points. So I'm brief today in fairness to the rest of the busy agenda, but I'm happy to take any questions.

TREASURER GOLDBERG: Anyone, any questions?

MR. GURTZ: Thank you.

TREASURER GOLDBERG: Thank you. Eric? Thank you.

MR. NIERENBERG: Good morning, everyone. It's been a busy time in Portfolio Completion Strategies. You know, I think to start off, as Michael mentioned in his comments, the asset allocation plan that you adopted earlier in the year is serving PRIM well. So we continue to see good results from the overall asset allocation that is in place.

Specifically in terms of performance in PCS, I'm happy to say that the results have been pretty strong so that virtually all of the areas within portfolio completion we have had strong outperformance relative to the benchmarks. Hedge funds for the fiscal year are above, and our direct hedge fund program which has the managed accounts is continuing to perform quite well.

The one exception to that is the PAAMCO fund of which I mentioned at the Investment Committee meeting. We are looking into that more closely. It is a sustained period of underperformance for PAAMCO, and that's something that we're monitoring.

Risk premia has rebounded very strongly over the last year and a half, so that is good validation of that program as well. And our burgeoning real assets program which includes agriculture and land banking, is also showing outperformance.

A couple of words on the put spread collar. Remember, this strategy is designed to preserve capital in the market downturn by reshaping the nature of stock returns. You have a tighter range of potential outcomes. And the strategy, remember, consists of three options that sit on top of S&P 500 exposure.

You have an out-of-the-money put, and an out-of-the-money call that you're selling. And then you're buying a put which is closer to being in the money. As I mentioned at the

Investment Committee, the events of the first quarter were a real life stress test for the portfolio.

We had the rally of January up until January 26 where the S&P was up over 7 percent in that time. That's not going to be a good time for selling calls because that's exactly when a call is going to get exercised against you.

There was underperformance during that time and not unexpected. In fact, that's exactly what you would expect. And then, of course, we saw a very sudden reversal from that date where we had the massive volatility spike.

Now, when you put a package of options together, you wind up having a mildly short volatility exposure. Fortunately, we had calibrated this program well for this kind of scenario knowing that we did not want to be very short volatility in case we could get a large volatility spike.

Compared to some of our peers that were in the market selling volatility and got hammered really, really hard, I think our put spread collar program actually performed better than expected. And in the period since January 26, it's outperformed the S&P by several hundred basis points.

If you include the April results, we're actually back above our benchmark for the put spread collar. It's heartening that we have had a program that lived through the stress test, and I think did quite well. That gives us greater conviction in the program going forward.

That's pretty much what I have on performance. If there aren't any questions, I'll invite Bill to come up with the investment recommendations.

TREASURER GOLDBERG: I have a question.

MR. NIERENBERG: Yes.

TREASURER GOLDBERG: Do you teach put spread collar in your classes?

MR. NIERENBERG: I do, yes.

TREASURER GOLDBERG: So we could attend the lectures and refresh.

MR. NIERENBERG: Yes.

MR. BROUSSEAU: We'll have a board retreat.

MR. NIERENBERG: Yes. I used the put spread collar as I'm teaching Options and Derivatives at Brandeis. It's, you know, always great when --

TREASURER GOLDBERG: How do they do on the questions on the exam without it? I'm not actually joking because you've explained it to us on multiple occasions, and it's still hard even for someone who is in this business to put their hands completely around. It's such a unique device.

MR. NIERENBERG: The question I ask on the exam involves the Patriots. I call it the Gronkowski put and the -- yeah, I --

TREASURER GOLDBERG: Really.

MR. NIERENBERG: I have Gisele Bundchen as the options trader. I'll show you the exam questions.

TREASURER GOLDBERG: All right. Great.

MR. NIERENBERG: Unfortunately, many of the students are foreign so they have no idea. They can't appreciate that. You know, the people who were from Boston laughed at the question. Many of the others don't really know what I'm talking about. I throw in Rob Gronkowski and Julian Edelman in the questions.

Bill is going to present the recommendation on Complus. I don't know, did you want to -- what the procedure is. Do you want to make a motion first?

TREASURER GOLDBERG: Yes. Thank you. Okay. I would seek approval of an initial allocation of up to $200 million to the Complus Asia Macro Fund; that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of up to $200 million in Complus Asia Macro Fund to be invested through a PRIM-managed account and further to authorize the executive director to take all actions necessary to effectuate this vote.

I think you'll find it very interesting to those who weren't at the Investment Committee to hear about this. Bill, you really have done a superb job.

MR. LI: Thank you, Chairwoman. I'll be brief at this meeting. But, you know, if you have any questions, feel free to ask after the brief introduction of the fund. So we're recommending up to $200 million investment to Complus Asian Macro strategy to be invested through a dedicated managed account for PRIM. Founded in 2011, Complus is a discretionary global macro and relative value fund focusing on Asia-Pacific. The strategy targets to generate a high single-digit annualized return with strong consistency and very limited drawdowns.

Based in Hong Kong, the fund trades interest rates and foreign currencies across 13 countries in the Asia-Pacific region. We like the focus and the experience of this manager, and we believe Complus will continue to benefit from the divergent fundamental and high language barriers in this region for other global macro managers.

Performance of the manager has also been consistently solid. The uncorrelated nature of the global macro strategy could also be a great diversifier for the broader PRIM portfolio. For PRIM, we have negotiated very favorable terms and fees with the manager, and this is going to be managed in a dedicated account.

With that, we open it up for questions and comments.

MR. TROTSKY: I will mention that Investment Committee member Glenn Strehle, who was attending the CFA Institute annual conference and taking a vacation with his wife on his own dime, was in Hong Kong last week and visited with Complus as part of his recreation, came back, and sent us a very favorable email from Hong Kong.

MS. FITCH: Are we among the first investors to invest with Complus?

MR. LI: No.

MS. FITCH: When I say "among the first," I mean in the U.S.

MR. LI: We're not. There are -- I believe there are two other endowments, U.S. endowments that have already invested with this manager. And based on our information collected from on the ground, there is another U.S. pension that is in conversation with this manager to take -- hopefully, to take the last capacities of $200 million.

MS. FITCH: Okay.

TREASURER GOLDBERG: So our position, the amount that we're investing in there, are the other two that are invested, do they have bigger positions? Are they equivalent? Are we the largest? Where are we in scope?

MR. LI: Currently, we're definitely one of the bigger tickets among all the investors. So for this manager, this whole strategy has one billion and a half in asset under management, when $880 million is in commingled format versus the rest of the one billion and a half spread across three dedicated accounts from investors like us, the size like ours. So to answer your question, Treasurer, we are of a bigger size. We're not the biggest, though.

TREASURER GOLDBERG: Okay. Thank you. Any other questions? Yes, Dennis.

MR. NAUGHTON: I have a question. My

name is Dennis Naughton. So I'm just curious, what seems interesting, what's the relative liquidity of the investment?

MR. LI: So for this manager for the securities traded in this account, they're fairly liquid because the manager only trades currencies and interest rates, so that's government bonds related. Those are pretty liquid. So in terms of the liquidity of the securities, we can -- we could liquidate them within three to five business days.

However, for liquidity term in contract -- of course, we can disclose that after the meeting -- we have a term in that event where we wanted to liquidate. We would liquidate in a pace that will be mutually agreed between PRIM and them, so at maximum one to three months.

MR. NAUGHTON: Thank you.

TREASURER GOLDBERG: Thank you. Any other questions? So we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank you.

(VOTED: Approval of an initial allocation of up to $200 million to the Complus Asia Macro Fund; that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of up to $200 million in Complus Asia Macro Fund to be invested through a PRIM-managed account)

MR. LI: Thank you.

MR. NIERENBERG: Thank you.

TREASURER GOLDBERG: Michael Bailey.

MR. BAILEY: Good morning, everybody.

BOARD MEMBERS: Good morning.

MR. BAILEY: I thought I'd spend a few minutes talking about performance because I know we've got a lot of voting items ahead. So just to amplify some of the things that Michael mentioned.

Private equity brings a lot of good news to the portfolio this quarter and this year. The portfolio appreciated 25 percent. I thought I'd put that into context of, you know, really strong long-term performance for the portfolio, so that outperformed its five-year performance by 5 percent a year.

So really extraordinary outperformance. So if you think about it against public equities which is, I think, a good relevant way to think about it, you know, it pulled ahead of public equities for that very strong calendar year ending December by 4 percentage points. You recall our benchmark is 3 percentage points over public equity, so we outperformed our benchmark with a good margin.

Then third, thinking about other peers, and Michael mentioned this a little bit, other folks who are trying to solve the same problem. We look at some industry benchmarks like the widely read Cambridge Associates benchmark, and our performance is 600 basis points ahead of that very strong one-year performance or 6 percentage points ahead of that one-year performance for the Cambridge benchmark.

So by all measures portfolio outperformed against itself, against public equity benchmark and against what we think other firms are trying to do. And as Michael alluded to -- touch wood -- I think we're going to have a very strong peer group performance that we'll be able to talk about next week.

Talking a little bit about why it outperformed, you know, I think the main highlights for last year are that technology continued to benefit us. The portfolio has a number of software-related businesses in it. And last year managers took advantage of good market conditions to sell out of some of those positions.

We also, as you recall from some of the work we shared with you a few months ago, have growth equity in the portfolio which is largely technology based. That performed very well. And looking ahead, we're becoming more optimistic that venture capital, which had a lull in performance for a long period of time, is starting to show some signs of performance in 2018.

We haven't seen it yet, but we're optimistic that with continued, you know, openings in the IPO market and sales of technology companies to larger tech companies, that may purchase some companies from the venture capital portfolio. And I'd say that it's even more remarkable that the portfolio has done this well with venture really underperforming. So the rest of the portfolio has been carrying the venture portfolio.

There's just two other quick notes. One was that our contract with Hamilton Lane will come up for renewal at the end of this year. We're planning, instead of RFP'ing that work, to go ahead and use the option you all gave us three years ago to extend that contract by one year.

We just don't think it makes a lot of sense to review, you know, and do a full-blown process when we're very pleased with the performance of Hamilton Lane, and we have other priorities to tackle this year.

Then lastly, I'd just say a word to build on what Michael talked about in the beginning. We shared with the Investment Committee a few weeks ago. You know, as I said to you all in the fall, I'm really privileged to be working with the strongest team I worked with, you know, in my tenure here at PRIM which has been five years now. And, you know, in our world in private equity the stability of the team is really important to our success, and we shared an example of that with the committee a few weeks ago that one of the firms who we've worked with closely for a number of years called to say that they'd be glad to give us more allocation in their new fund, even though there are a lot of folks trying to sort of beat down their door and, you know, kind of take that spot away from us.

They doubled their allocation with us. And they said in no small part because of our strong relationship with them and the stability, you know, this strong team. So I appreciate the support you've given us, and Michael has given us to add one more person to the team.

We're going to go up by -- I did the math; it's a big jump -- 33 percent. And we're excited about adding to the team and really pleased to have your support for that, Paul.

MR. SHANLEY: Paul Shanley. Michael,

this week -- I think it was this week in the Globe there was a business article --

TREASURER GOLDBERG: Yeah.

MR. SHANLEY: -- about because of all your success and there's like a herd mentality getting into the private equity. So, obviously, things are going to tighten up, I would assume.

MR. BAILEY: Yes. My wife brought that up, Paul.

TREASURER GOLDBERG: I was going to be bringing it up, so there you go.

MR. BAILEY: Yes. We're going to work on some more thoughtful response. My first response to that is, you know, like we've shared with you, part of the challenge is a lot of folks are trying to invest in private equity.

And we're seeing a lot of evidence that folks who don't have a long track record that we've had are trying to get involved in private equity. And, you know, asset managers are happy to accommodate that, right? That's just that business model is, you know, bigger is better. So we are seeing a big growth in the industry.

I put that in the context of, you know, the public equity market which is still a lot larger than the private equity market. I'd also talk about -- you know, one of the few things the article talked about was valuation which we've been concerned about.

You know, I give our managers a lot of credit for being thoughtful and careful and trying to avoid overheated option situations. And I think there's no doubt that there's some risk-taking going on in private equity. I think we're very -- trying to be very careful about manager selection to avoid that.

I think one of the things the article -- and I respect the article. I know the person did a great job writing it. I felt that it might have -- you know, I think one of the things we have to think about when we invest in this asset class is that we wouldn't be satisfied investing in what we call the median or average asset manager.

And like in other things we do here at

PRIM, it's really important that we only select managers who can outperform those median or average performances. So I think that that's a skill set that we've really honed over the years. And we think we've got great tools to improve our ability to do that.

But I would argue that if, you know, if your mission is to go out and sort of throw darts and get to the median manager, you probably shouldn't do that, especially in an overvalued environment like the one we're in right now. I think you're going to be disappointed.

We wouldn't be satisfied bringing managers to you all who we think are going to be median managers. We're bringing managers who we think are going to outperform their competitors. And, you know, so far we've done a really good job of that.

As I mentioned a few minutes ago, even against very strong public market performance, you know, the portfolio is outperforming by, you know, 3- to 500 basis points a year over long periods of time net of fees.

So that's the bogie we set for it. It's been able to achieve that. So those are some of my thoughts.

MR. SHANLEY: Any potential impact on the negotiations with so many in the --

MR. BAILEY: Yes, it makes it harder. Yes, it makes it harder. This is a place where -- this is one of the places where our long commitment to this type of investing and the size of the investments we're making helps us a lot.

So the fact that we've been able, with your support, to have larger commitment sizes tend to give us a bit more negotiating leverage in those. And, you know, one of the things I talked about a minute ago, our reputation and relationships with those folks. It's a tough negotiation right now.

MR. SHANLEY: Thank you.

MR. NAUGHTON: I was just looking at the article that Paul brought to our attention and there's a statement in there that we're liable to overpay for second-rate opportunities which will cut into our returns.

TREASURER GOLDBERG: It says it was referring to --

MR. NAUGHTON: A quote from the article.

MR. SHANLEY: In general.

TREASURER GOLDBERG: Well --

MR. NAUGHTON: I don't believe that's going to happen.

TREASURER GOLDBERG: I was going to say, I don't think that Mike Bailey is willing to do that.

MR. NAUGHTON: And that's exactly why I brought that up.

MR. BAILEY: And the other thing I thought about when I read that and talked to my wife about, frankly, was I had this very conversation.

MR. BROUSSEAU: Is she an analyst?

MR. BAILEY: She is tough too. As we've talked to you about, the portfolio has been a net seller not a net buyer for the last seven years. So if anything, I'd be more concerned if we were a net buyer, and we've been selling more than buying.

So I guess if you feel the market's high priced, you'd be good -- you feel pretty good about selling, you know, but if you were a net buyer, I think you would. But we are buying, to be fair. You know, you're about to talk about five-year commitments. Those are going to be going into the market. I think the managers have shown great discipline about selling of the markets too. And as you all know, they only get paid when they sell. They only get their incentive fee when they sell. So we feel like we've got pretty strong alignment with them and a good -- I think so far -- touch wood -- a good track record of choosing managers who have that discipline to sell into market strength. So I hope that's helpful.

MR. BROUSSEAU: Also, in relation to Michael, a lot of these managers I see for the last year, last 10, 15 years, we've been doing business with them for years and years. I would say probably more than 50 percent of this portfolio are with managers that we've had for, you say, many years. And so we have a track record with them which I think is a big plus.

MR. BAILEY: Uh-huh.

MR. TROTSKY: What might be interesting is what you discussed yesterday at the investment team meeting, how difficult it is to reach the funding stage. So your pipeline is you say no to a lot of firms. Maybe you can give some statistics that might take comfort in that.

MR. BAILEY: Sure. As that article points out, there are thousands of private equity firms, so we're being very careful about sticking to the strategy. We're only focusing on smaller buyouts and growth equity. Those are the two efforts we're paying attention to in sourcing. We're seeing hundreds of candidates, and we're really only doing serious work on probably two dozen a year.

And then, you know, we're going to hopefully -- touch wood -- see half of those maybe come to the finish line, so, you know, very low hit ratio. I think our team has agreed that having a lot of targets and making these targets compete for capital at our table and really pushing these managers to be the best managers among a bunch of choices, we think, gives us a better chance of success.

And we worked really hard to improve the amount of kind of through-put in the system so we can make great comparisons from one firm to the other. We really appreciate it when we have choices. This week we looked at six candidates, and one came through to the next stage.

So we turned down five candidates at what we call our stage-two process. So we feel like we are being really careful and disciplined and thanks, Michael, for that question.

TREASURER GOLDBERG: Okay. Great. So I would seek a motion that the PRIM Board approve a commitment of up to $150 million to Thoma Bravo fund 13 LP; that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $150 million to Thoma Bravo fund 13 LP and further to authorize the executive director to take all actions necessary to effectuate this

vote. Is there a motion?
MR. BROUSSEAU: So moved.
TREASURER GOLDBERG: A second?
BOARD MEMBER: Second.
MR. BAILEY: Alyssa is going to lead.
MS. FIORE: I'll try to be brief since we have a decent amount of voting on our team. So Thoma Bravo, is an existing manager for PRIM, we have made 10 commitments since 2001.
Thoma Bravo is a sector specialist in technology and software companies out in San Francisco, and this investment is in their flagship fund series which will invest in upper middle market and large software companies.
They have a really talented team, great market reputation. We're excited to continue our relationship with Thoma Bravo. I'll take any questions.
TREASURER GOLDBERG: That's it?
MS. FIORE: Short and sweet.
TREASURER GOLDBERG: All right. Questions from the board?
MR. SHANLEY: I always ask. Do you think we'll get the $150 million?

MS. FIORE: We will.

TREASURER GOLDBERG: That was short and sweet. We will is the answer. Any other questions on behalf of the Board?

MR. BROUSSEAU: We've been -- we know Thoma Bravo for --

TREASURER GOLDBERG: Okay. Hearing none. We have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: That the PRIM Board approve a commitment of up to $150 million to Thoma Bravo fund 13 LP; that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $150 million to Thoma Bravo fund 13 LP)

TREASURER GOLDBERG: Okay. I would seek a motion on the approval of a commitment of up $150 million to TowerBrook Investors 5 LP, and a commitment of up to $75 million to TowerBrook's structure opportunities 2 LP; that the PRIM Board approve the Investment

Committee's recommendation and approve the commitment of $150 million in TowerBrook Investors 5 LP and a commitment of up to $75 million to TowerBrook structured opportunities 2 LP and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

BOARD MEMBER: Second.

MS. FIORE: This is another existing manager for PRIM. TowerBrook has two fund products. As the Treasurer mentioned, they have the TowerBrook Investors fund series, and they also have the TowerBrook structured opportunities fund. TowerBrook has a transatlantic strategy with offices in New York and London as well as some other western European offices they use to get folks on the ground for sourcing.

The TowerBrook private equity fund, which is the fund that PRIM committed to previously, is making investments in companies that usually have a little bit of complexity around them. And usually these companies are within the industries of healthcare, consumer, financial services, aerospace and diversified industrials.

And the second product that TowerBrook has is their structured opportunities fund. And in this product they're able to make noncontrolling equity investments. And this is a new investment for PRIM in this product offering.

TREASURER GOLDBERG: So another short but sweet. Any questions? Hearing none, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Motion carries.

(VOTED: To approve a commitment of up $150 million to TowerBrook Investors 5 LP, and a commitment of up to $75 million to TowerBrook's structure opportunities 2 LP; that the PRIM Board approve the Investment Committee's recommendation and approve the commitment of $150 million in TowerBrook

Investors 5 LP and a commitment of up to $75 million to TowerBrook structured opportunities 2 LP)

TREASURER GOLDBERG: Seek a motion for approval of a commitment of up to $55 million to the Thompson Street Capital Partners 5 LP; that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $55 million to Thompson Street Capital Partners 5 LP and further to authorize the executive director take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: Duly moved.

TREASURER GOLDBERG: Second.

MR. BROUSSEAU: Mine $50 million.

MS. FIORE: I'll address that.

MR. BROUSSEAU: Okay.

TREASURER GOLDBERG: Is there a motion?

MS. FITCH: So moved.

MS. FIORE: So, as Bob just pointed out, the materials have $50 million. After the Investment Committee, we got a call from

Thompson Street. They had some additional capacity in their funds, so they were able to increase our allocation to $55 million. So that's what we're recommending today.

Thompson Street is a new manager doing SMID buyouts. They're located out in Saint Louis which we think is an attractive opportunity for us. You know, they're looking at companies that are headquartered in the midwest and midsouth which are areas that are traditionally overlooked by the private equity firms in our portfolio.

We also like this opportunity since they're investing in small companies, and the industries that they're targeting are life sciences, business services and software and technology services. Any questions?

MR. NAUGHTON: Who did the due diligence?

MS. FIORE: Mike Bailey and I worked on it.

TREASURER GOLDBERG: Additional questions? People comfortable?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: All right. Then we have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve a commitment of up to $55 million to the Thompson Street Capital Partners 5 LP; that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $55 million to Thompson Street Capital Partners 5 LP)

TREASURER GOLDBERG: I would seek a motion of an approval of a commitment of up to $35 million to Polaris growth fund 1 LP. Motion that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $35 million to Polaris growth fund 1 LP and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. MCGIRR: PRIM has invested in four Polaris Partners funds going back to 2000. However, this is a different strategy. This is called the growth funds which is going to be led by partner Bryce Youngren who has worked with Polaris for over 16 years focused on this particular strategy. This fund will target buyouts in lower middle market software and tech-enabled services in North America.

This is a smaller commitment for PRIM. We view this as a new manager because it's a new team, although we have done business with Polaris in the past. And it lines up nicely with our focus on small growing private companies. With that I'll take comments or questions.

TREASURER GOLDBERG: Any questions?

MS. FITCH: What's the amount?

MR. MCGIRR: 35 million -- up to 35 million.

TREASURER GOLDBERG: Okay. We have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve a commitment of up to $35 million to Polaris growth fund 1 LP. Motion that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $35 million to Polaris growth fund 1 LP)

TREASURER GOLDBERG: This is your last one. You're doing the bench also.

MR. BAILEY: There's a small bench recommendation.

TREASURER GOLDBERG: All right. I would seek a motion for the approval of a commitment of up to $75 million to Providence future growth 3 LP that the PRIM Board approve the Investment Committee's recommendation to approve the commitment of up to $75 million to Providence Strategic Growth 3 LP and further to authorize the executive director to take all actions necessary to effectuate the vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second.

MR. BROUSSEAU: Second. That's you again.

MR. MCGIRR: Michael McGirr again speaking. Our recommendation is up to $75 million to Providence Strategic Partners strategic growth 3. This is a growth equity investment. And as you recall, we chatted in depth about growth equity as a particular strategy within our portfolio.

So think of younger businesses with very strong growth rates. This investment is somewhat similar to Polaris, where PRIM has invested with Providence equity partners in the past with five investments.

However, this is a new strategy. It's a different team. So we view this as a new manager. This effort is going to be led by Mark Hastings and Peter Wild who both have very strong track records targeting smaller growth investments.

We expect PSG 3 to continue its successful strategy of growth equity investing in lower middle market companies primarily located in the U.S. and, again, focusing on technology investments. With that, I'm happy to take any questions or comments.

TREASURER GOLDBERG: Questions?

MR. BROUSSEAU: Are we likely to get the whole $75 million where it's new?

MR. MCGIRR: You know, probably not. What we have negotiated with them was $50 million, and there's a chance that we could soak up some additional capacity here.

We had this on our radar and in our pipeline last summer, and it sort of got away from us. They couldn't find us room. The deployment pace and the distribution pace of this organization was pretty rapid so they called us back earlier in the spring and said, We think we can find you $50 million. So that's where our expectation is. And the recommendation is up to 75 in the case that another investor falls out due to timing or other reasons. So it gives a little bit more flexibility. I'd love to invest more here.

TREASURER GOLDBERG: Okay, then. We have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve a commitment of up to $75 million to Providence future growth 3 LP; that the PRIM Board approve the Investment Committee's recommendation to approve the commitment of up to $75 million to Providence Strategic Growth 3 LP)

TREASURER GOLDBERG: So now we have the bench. Seek approval of a coinvestment manager bench addition. I would like a motion that the PRIM Board approve the Investment Committee's recommendation to approve the addition of Thompson Street Capital Partners, Polaris Partners, and Providence Equity Partners to the board approved bench of coinvestment managers and further to authorize the executive director to take all objections necessary to effectuate this vote.

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Anything more to say about these folks?

MR. MCGIRR: The only thing I'll mention is we're viewing these as consistent with both our growth equity and our buyout coinvestment frameworks that we've shared in detail with you.

The coinvestment program has picked up, and I think it's a function of adding more managers to the bench. So these are new managers; that's why we're asking for a vote. And I think what this does is it gives us a mechanism to look at coinvestment transactions with these organizations.

And as a reminder, we're only looking at and investing in these direct transactions when there's zero management fees and zero carried interest, so very, very favorable terms.

TREASURER GOLDBERG: Great. Any other questions on that?

MR. BROUSSEAU: Almost like favored nation status.

MR. MCGIRR: Yes. These oftentimes

are -- not all investors can coinvest with these groups or with all groups in general.

TREASURER GOLDBERG: So a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve the Investment Committee's recommendation to approve the addition of Thompson Street Capital Partners, Polaris Partners, and Providence Equity Partners to the board-approved bench of coinvestment managers)

TREASURER GOLDBERG: Any further questions for this group? Thank you very much. Continue the good work.

MR. MCGIRR: Thank you.

TREASURER GOLDBERG: Tim. Blueberries, acorns, chestnuts.

MR. SCHLITZER: Trees. Eric and I were just out there last week. We toured a bunch of the properties.

TREASURER GOLDBERG: Okay. Did you taste anything?

MR. SCHLITZER: A little. Right. Well, it's nice to see everybody. I'll be brief. So before I get into performance, let me just start off, I would certainly be remiss if I did not thank my team for recent efforts. We have pretty good results, I think, like, you know, really all the asset classes right now. We have pretty good results to report today.

And John and Christina are both working very hard, not just on real estate and Timberland. John is working on a couple of PCS opportunities. Christina obviously led the recent Berkshire investment which was OCO.

And this is a very hard environment to be making decisions in. So, again, I just want to reiterate that everybody is working hard, in particular John and Christina, and I thank them for that.

So with that said, let me just point out that performances in the agenda, the Mellon performance in Appendix C and chart in Appendix D, if you do want to follow along with my comments, which will be brief, you can start at Appendix D, page four.

So we continue to be underweight in both real estate and Timberland, about $1 billion under in real estate and $350 million in Timberland as of the end of the quarter. You know, I made the point at the committee that, you know, for better or worse, it's not great for acquiring, but there probably is some support for these values.

You know, for one thing, we are not unique in our underallocation right now. There's a Cornell study that comes out every year. Our peers in general, including PRIM, are at about 9 percent versus an average 10 1/2 percent target allocation.

And then, you know, we also look at Preqin data. Preqin is a big private equity database that you've probably heard of. There's about $250 billion in dry powder available for real estate right now and another close to $200 billion being raised. So it's a competitive environment, but from a valuation perspective we think that that probably bodes well.

The money is there. People are not

going to be as inclined to sell with an underweight. Let me comment -- and this is not in the deck -- but let me comment on acquisition activity. There's probably some echoes of some things that Mike Bailey said here, but we've reviewed about 47 investment opportunities year to date.

And that's not the five-minute cursory review; there's a lot more of those. But that's the kind of opportunities that we're really looking at, manager pipeline and then some things on the direct side as well. I'll talk about that more.

A wide range of opportunities. We can continue to feel that pricing and underwriting are more and more just reflective of what we feel is a very late cycle environment. And I thought I'd just give a quick list of evidence for that.

You know, we're seeing more joint venture structures that are not priced properly. We're also not getting control. We don't mind JVs, but we want control; we're not getting that. We're not getting the returns that we need.

We're seeing more ground leases, and not the ground leases that we like where we own the ground, but where someone else is basically looking for liquidity on their building itself and holding on to the ground. A late cycle indicator there.

An inappropriate spread to debt cost, I mentioned that previously, with the risk-free rate which I really mean the 10-year treasury at around 3 percent. The deals are continuing to price in the low 4s at this point. 4 percent, you know, for core equity risk is not high because there's equity risk and liquidity risk.

To be getting 125 basis point for that is worrisome to us. And the same comment on the cost of the real estate debt itself as well. When you are in an environment where real estate debt is barely or, you know, often not accretive, that is worrisome to us.

And then lastly, in terms of where people are forecasting their exits, we're not seeing any increases in yields. So people are basically assuming that interest rates are not going to rise over the next five years. We don't believe that.

So, you know, that's kind of what we're dealing with. We continue to look at opportunities. And, you know, I expect that we will invest this year, but it continues to be hard so I wanted to mention that.

Let me talk about performance, and that's on page 6 of Appendix D. Total real estate returned 8 percent. Over the past year that's 155 basis points above benchmark. The private portfolio returned 9.1 percent. That's about 220 basis points above benchmark.

The REIT portfolio was at 4.9 percent for the last year, outperforming -- roughly flat, outperforming by about 7 basis points. It's probably worth noting that the REIT market has declined in the first quarter. You may be aware of that particularly in the U.S.

The U.S. was down 7 percent, I think, probably coming in last out of all the asset classes in the public markets at least. Europe was down slightly at .8 percent and Asia actually up a little bit through the first quarter.

So it's probably important to note that our diversification internationally is helping us in this environment. This is why we have the international REIT portfolio. And so we're glad that's working. U.S. REITS are trading at about a 10 percent discount to private market values.

We don't think that those are levels where you sort of, you know, jump in hard and fast, but you certainly take notice of it. There are sectors that are trading at 20 to 25 percent discounts.

And we've been talking to our managers a little bit about how to capitalize on those potential dislocations. Let me just move to Timberland. Happy to answer any question, obviously. Timberland returned 7.2 percent. I'm on page 19.

Over the last 12 months that's 360 basis points above PRIM's benchmark in the northwest where PRIM continues to be overweight by almost 20 percent. The northwest outperformed the south at 8.1 percent versus 2.6 percent in the south.

Both of PRIM's managers outperformed their respective regional benchmarks. We have not completed any Timberland acquisitions year to date. But as I mentioned in the past, that shouldn't come as a surprise. It's an infrequently trading asset class.

And then, you know, a couple of points on the market. We continue to see similar dynamics. Prices have risen a little bit in the south, but there does continue to be supply there. The pacific northwest, again, where we're overweight is much stronger.

Timber prices are up 30 percent year over year really with just less supply on the ground. And then Chinese demand has been pretty consistent. So we've got kind of good supply and demand dynamics. I'm going to leave it at that.

TREASURER GOLDBERG: Okay. We do not have any voting items here.

Oh, the real estate internal -- that's a vote. Project SAVE II. Okay. Sorry.

I would seek a motion for the approval of Project SAVE II real estate internal management update recommendation; that the PRIM Board approve the real estate Timberland committee recommendation to accept a strategy recommendation for PRIM's real estate internal management as set forth in Appendix E to the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

MR. NAUGHTON: Second.

TREASURER GOLDBERG: Any questions or comments?

MR. SCHLITZER: I was just going to go through a couple of slides, but I'm happy to do whatever.

TREASURER GOLDBERG: No, go ahead.

MR. SCHLITZER: So just a couple of initial comments. So you're all aware of Project SAVE II which, at the risk of oversimplifying, I think is effectively an incremental move into internal management here at PRIM.

I've been working with Michael Trotsky, David Gurtz, Mike Even on implementation. You're aware that we've already made an investment in real estate, but I'm going to talk a little bit more about the strategy and platform here.

The goals, I think, are clear. We're looking for fee savings, but in my mind, equally or more importantly, we're looking for synergies, I think, with our separate account portfolio.

By, you know, doing 5 percent on the internal side, we can really enhance what we're doing on the other 95 percent in terms of the separate account acquisition. So we think that's a strong rationale.

So we made the initial investment about a year ago. Since then we've continued to look at opportunities, but we've also been working on building out the platform. We've even looked at some entity investments. We cast a fairly wide net and are looking to focus in on that a little bit more today.

Let me make one point on the fees which I think is important. And, you know, I think this probably relates to something that Mike Bailey said as well. This is a great environment for anybody to be doing private real estate, and this is, obviously, a fee business.

I don't want the board to come away from this presentation thinking that we're going from 100 percent market level fees to no fees at all. This is more of a spectrum, and our feeling is that if we can buy good real estate and save maybe 30 percent to a 100 percent of what we'd be paying a manager, and feel really good about the investment, I think that's a win for us. That's the way we're looking at it.

Let me move to page four, and I think what I'll do is I'll speak to page four and five. I'm happy to answer any questions, and we'll go from there.

MR. BROUSSEAU: Appendix E, right.

MR. SCHLITZER: Yes, sorry. Appendix E.

So on page 4, what I've done is sort of laid out a somewhat wide strategic box is what I'll call it. And I'll go through this, and then on the next page there's some detail that I'll get into.

So in terms of objectives, you know, these standard returns could certainly vary, but the way we think about acceptable returns is 10-year treasury plus 250 basis points. I mentioned a minute ago the market is not there right now, but it could be for certain acquisitions.

These are broad-brush numbers. Whole real estate pricing about 5 to 6 percent return. With leverage we could enhance that. The next bullet allocation is important, obviously, and so I want to be very clear about this.

We're asking for a $300 million allocation that's equity which could move to $750 million including leverage. It's important to state that this number will be updated every year, and every investment opportunity would be reviewed by the committee and the board.

But we want to give ourselves some latitude here, and this is really only about 5 percent of the total portfolio. Leverage, we're giving ourselves up to 65 percent with a target of 40 to 60 percent. This is very standard, I think, leverage levels.

You would have seen higher than this pre GFC. I'd be surprised if we're even getting 65 percent, but that's where we're capping ourselves. Geography, primarily East Coast, that's actually a very kind of pragmatic geographical selection. Frankly, we want to be within markets that we can get to in a day trip, so that we can spend more time there.

We're going to be in core top tier product markets across the board. To a certain extent, those, you kind of know them when you see them, but Boston, New York, DC. We've been focused on Miami. These are the types of markets that we want to be in.

Property type, again, for the most part, the four food groups, but I'm even going to hone in on that a little bit more in a second on the next page. High-quality, low-management intensity assets. So we want to buy assets where there isn't that much to do. We're going to be very focused on them but not complex business plans.

Portfolio construction will be simplistic at the beginning. We will focus on diversification, but this isn't a liquid asset class. You know, do I think that we're going to do another ground lease in San Jose like we did a year ago? Probably not.

But, you know, there's not going to be a lot of focus on the diversification. And then time horizon sounds a bit generic, but we want to invest in things that we can own long term. We will sell if the opportunity presents itself, but we're long term here. We'll continue to do so.

So let me move on to page five --

MR. BROUSSEAU: Tim, just one question or comment. In all of this real estate, there's one word that sends fear through my body, and I've been there too long -- is the word "leverage." And I go back prior to

Michael when I think it was in -- were you here when in about 2007 or '8 we made the decision to get rid of all leverage in real estate? And we paid it down completely, if I'm right, Jim. And it saved us a lot of paying when 2008 and '9 came. And in terms of from all of it, this seems very high to me, but, again, I guess in the market today, I guess 60 and 65 percent leverage is becoming standard. Have you absolutely no concerns with this high number?

MR. SCHLITZER: I think that's a fair comment, and I think that we should keep it in mind. A couple of points that I'll make. I was here in '07/'08 when we paid down that debt.

MR. BROUSSEAU: We sure did.

MR. SCHLITZER: We were probably mid 40s, approaching 50 on the loan-to-value ratio at that time. Our overall portfolio is low 20s loan-to-value ratio today. Even if we were to go up to 65 percent on this incremental capital out the door, it would not move the needle that much.

That being said, I think your point is

a good one. So we will certainly be moderate with our leverage and make sure it's good leverage. If that sounds fair.

MR. MONACO: Just a point of clarification, Tim. The reference to leverage here on this page is almost invariably going to be the first mortgage debt employed as part of the financing of an acquisition?

MR. SCHLITZER: Yes, I would say so. I mean, we have different sources of things, and we have our external portfolio level lines which are unsecured, again, more portfolio level. We have an internal facility which is probably at capacity now.

MR. MONACO: Right.

MR. SCHLITZER: Yes, I would say that we should probably be thinking of these as first mortgages.

MR. MONACO: Where, obviously, there's a lot of stress testing involved where you can look at what could happen to occupancy and see how your cash flow coverage, fixed charges change in different scenarios.

MR. SCHLITZER: Yes. I mean, we would

run multiple scenarios at both the investment level and the leveraged investment level in anything we do and present that to the board.

So let me just define a little bit more this low-management intensity core property type that we're focused on. I'm up in the upper left-hand box in page five. I mentioned that we're going to focus on primary markets.

We'd like ground leases, which we did about a year ago in Santa Clara. We also like triple net properties. And what that means is basically -- and I'll just reference the next bullet point which is warehouse because I think the two go hand in hand.

We would look very favorably at situations where we could buy a standalone industrial warehouse building with a single credit tenant who pays all their expenses, manages the building on their own. We're monitoring, and there's term on the lease. And it more or less runs itself.

And so we've been spending a fair amount of time looking at those types of situations and have bid on a couple of them which we did not win. But I think that will be a significant part of the strategy up front.

TREASURER GOLDBERG: Can I ask a question about that, please? Do you feel it's a niche that you've identified, or is this one that everybody is going to be chasing because you said you went after a few and then you didn't get them.

MR. SCHLITZER: I think that everybody is chasing warehouse right now. We're well aware of that; I think for good reason. You know, everything is expensive, but the fundamentals are there for industrial so as long as you get comfortable with what you're paying, I think it can work. I'd say the triple net dynamic was something we came up with internally because we knew that it fit our desire to have a low level of management.

And then multifamily which is more complex operationally but generally very defensive. There are skilled property managers in the market we could work who could manage a property and could also partner on multifamily.

And we really like multifamily right now. This is a good time in the cycle to be doing multifamily, so that's going to be next.

I think you're aware that we bid on a parking garage a couple of years ago in Boston. And we'll continue to look at those types of niche property types. You know, parking is an area where you effectively bring in an operator who will manage the building for you, and they're parking cars and collecting money and just making sure everything is running smoothly.

And that would be something that would fit our strategy as well. So that's kind of how we're defining, as it says here, ultra core. There could be noncore strategies that could go along with that box, and I've got those over on the right. And really just that means a little bit more complexity in the investment. We would probably partner with a joint venture operator on those types of things.

MR. TROTSKY: So this discussion is really meant to identify the 2018 direct investment strategy where our wheelhouse is, where's focus for the real estate team, but, again, as Tim said, we'll be updating this yearly and perhaps expanding geography, property type, whatever, but this is year's wheelhouse, if you will.

MR. SCHLITZER: Correct. And again, this goes along with the next agenda item which describes our approval process. And part of the approval process is having this strategic box approved by the board every year so everybody is on the same page in terms of the benchmarks.

MR. NAUGHTON: The joint venture, who would have control?

MR. SCHLITZER: There's a spectrum of control. We would be very focused on liquidity and the major decisions which would include financing and approval of the budgets, operating budgets, major leases, that sort of thing.

MR. NAUGHTON: Okay.

MR. BROUSSEAU: I guess we're behind the curve. 15 years ago when the legislature in its great wisdom gave us the Boston Common garage, which I'm sure you've used, that's part of their contribution to the unfunded liability. I could envision myself collecting tolls.

MR. SCHLITZER: I saw the appraisals on those. I'm not sure about that.

MR. BROUSSEAU: Jim, you remember that.

TREASURER GOLDBERG: So we have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion passes.

(VOTED: To approve Project SAVE II real estate internal management update recommendation; that the PRIM Board approve the real estate Timberland committee recommendation to accept a strategy recommendation for PRIM's real estate internal management as set forth in Appendix E to the expanded agenda)

TREASURER GOLDBERG: Next.

MR. SCHLITZER: Let me, if I could, just briefly go through Appendix --

TREASURER GOLDBERG: Wait. We need a motion. And this is the investment approval process that the PRIM Board approval of Project SAVE II real estate internal management update recommendation; that the PRIM Board approve the real estate Timberland committee recommendation to accept a strategy recommendation for PRIM's real estate internal management as set forth in Appendix E to the expanded agenda be authorized to approve investments after they are approved by PRIM staff and an outside real estate investment advisor and after an interim meeting recommendation that has been mailed to all real estate committee and board members for discussion prior to making an investment as set forth in Appendix F to the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

This is kind of -- even though it sounds complicated, it's pretty clear on its face what the rationale is, but go ahead, Tim, and give a quickie on it.

MR. SCHLITZER: Yes, I'll be brief. I

think probably the best thing I can say about this process is that what we've really tried to do and, I think, accomplished here is we're mirroring the private equity interim approval process.

The only difference, I think, is that this probably could move at an accelerated case depending on the situation. So we've been open about timing in the document. But, you know, I'll just very quickly go through the steps.

We approve an annual strategy which we just did. Staff finds an opportunity which fits that box. We're able to make an offer, nonbinding, up front and begin to move through a bidding process. While we're doing that, we're doing due diligence and putting together materials.

We have an outside advisor in a fiduciary role who's also putting together a recommendation. We send those to the committee and board at the same time and ask for feedback within a certain period of time which could be 24 hours, or it could be a week.

It depends on the situation.

Practically speaking, we'll also be working the phones and reaching out to certain folks to talk to them about the opportunity. If we don't hear back from anybody negatively, we're going to assume that PRIM and the executive director are empowered to move forward for the investment. So that's how this is going to work.

TREASURER GOLDBERG: Now, who else on the real estate Timberland besides Carly on our board?

MR. TROTSKY: You.

TREASURER GOLDBERG: Well, I know, but I'm wondering who else. I know about me. I just want to add that we have some really outstanding real estate professionals on the real estate Timberland who -- and a range of backgrounds and experiences. So they're pretty tough on Tim and the crew when they're questioning and looking at deals. So I wanted to just repeat that if you -- some of the ones we've added are really terrific.

MR. SCHLITZER: No doubt.

TREASURER GOLDBERG: Yes.

MR. SCHLITZER: This is, you know, a great --

TREASURER GOLDBERG: Lydia, Rob Gifford.

MR. SCHLITZER: -- real estate people.

MR. TROTSKY: Very hands-on.

TREASURER GOLDBERG: Yes, very much so. Are there any questions on this?

MS. FITCH: Well, I'd just make a plea maybe that if we get to the point where you are seeking either approval -- I guess it would be approval from the board that it not get so complex that we -- that it be kept as simple as possible is the question for the vote or the approval be kept as simple as possible so that we have a high level of confidence of what we're being asked to vote on.

MR. SCHLITZER: Completely agree. I mean, if you can't explain it simply, you don't understand it.

MS. FITCH: Right. Sometimes clauses, et cetera, get overwhelming, not anything specific, but I think it would be helpful if we know that we've got to get something that we can get our hands on.

MR. SCHLITZER: Yes.

TREASURER GOLDBERG: Very good. So we have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve Project SAVE II real estate internal management update recommendation; that the PRIM Board approve the real estate Timberland committee recommendation to accept a strategy recommendation for PRIM's real estate internal management as set forth in Appendix E to the expanded agenda)

TREASURER GOLDBERG: Now, RFP. Real estate appraiser issuance of a request for proposals which is a voting item that the PRIM staff and the real estate Timberland committee recommended unanimously to the PRIM Board that the board approve the issuance of a request for proposal for real estate appraisal services. The private real estate appraisal service engagement with Altus Group expires at the end of 2018. So we need to get to work.

Is there a motion? By the way, "we need to get to work" is not part of the motion.

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MR. NAUGHTON: Second.

TREASURER GOLDBERG: Pretty obvious, but go ahead.

MR. SCHLITZER: The contract ends at the end of the year, so we need to --

TREASURER GOLDBERG: It's a request required by law, as a matter of fact.

MR. SHANLEY: How long have we had Altus?

MR. SCHLITZER: I think we're in our sixth year with them. And so, you know, I think you always want to consider a fresh set of eyes. They do a great job. So we're going to be balancing a lot of considerations.

TREASURER GOLDBERG: Okay. There was a motion and a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Okay.

(VOTED: To approve the issuance of a request for proposal for real estate appraisal services. The private real estate appraisal service engagement with Altus Group expires at the end of 2018)

TREASURER GOLDBERG: That's it for real estate. Bob?

MR. TROTSKY: Michelle, I think, is dialed in.

TREASURER GOLDBERG: Is Michelle on?

MR. BROUSSEAU: Michelle, are you with us?

I will -- I thought she was going to be here. The item you have before you is the Compensation Committee report. And to just give a little framework for this, if you recall, this came under great discussion last fall.

And the committee at that time decided that we would meet in the -- during the first quarter of 2018 which we did on March 6. And at that point the committee held a meeting with our very good consultant Adam Barnett from

McLagan, and we discussed the entire issue.

And it came, again, after refinement to the Administration and Audit Committee on April 30, and this is the recommendation that came out of that. And, of course, our whole discussion -- Adam will get to it -- centered around whether or not we were looking at compensation.

We should be looking not just at public funds but where we are in the Boston, you know, financial market area. We considered the cost of living here and the need to retain a strong staff that we probably looked at some combination or mixture of public and private, and that's where we are at right now.

And I think probably Michelle would have said that. I don't know if Michael has anything he wants to add before Adam takes over and directs it. In fact, we're going to be looking through probably G -- I guess, yeah, Appendices G, I think, H and I are all in here that deal with the compensation. Adam, go ahead.

MR. BARNETT: Essentially, what we did

-- thank you for having us, Bob. Essentially what we did is we looked at PRIM's pay level for all positions, both investment positions and non-investment position, at senior levels and mid levels and junior levels compared to the competitive market because, as you know, PRIM's ongoing success is based upon its ability to recruit and retain qualified, seasoned talent, both investment talent and investment services or support talent.

The topic is complex because one can define the competitive market multiple ways, and the PRIM's -- In PRIM's pay philosophy, which was implemented in 2012, the competitive market was defined as other public funds of comparable size.

And essentially what was done is the salary levels were focused on that peer group at essentially the high quartile, the upper quartile. And the quartile pay philosophy for salaries was, in large part, meant to reflect the fact that PRIM is located in Boston.

PRIM is located -- which is a relatively high-cost label market versus the peers. PRIM is not located in Salem, Oregon, or Harrisburg, Pennsylvania, or Albany, New York, where the other public funds that represent the peer group are located.

So that was the principal reason for focusing on the upper quartile. What we did is looked at the competitive market several ways. We looked at PRIM's pay levels versus other public funds. And we when say "pay levels," we're looking at not just the salary levels but the bonus opportunities.

And we looked at PRIM's pay levels versus other public funds. We looked at PRIM's pay levels versus private sector firms entirely. So how does PRIM pay versus private sector firms. And then we also looked at how PRIM pays versus various weighted combinations of public funds and private sector firms.

Private sector firms, a broad range of private sector firms that included investment management firms and banks, insurance companies, endowments and foundations, but explicitly exclude what can be considered among the highest-paying private sector firms, hedge funds or private equity funds.

Those were excluded. Essentially saying how are PRIM's pay levels versus public funds on one end of the continuum and private sector firms on the other end of the continuum and various weight commendations of the two.

What we discovered was essentially that PRIM's pay levels were pretty competitive versus public funds. And PRIM's pay levels versus the private sector on the other end of the continuum, as I mentioned, for the less highly paid people, the administrative positions, PRIM's pay levels are generally good, were fully competitive, where the real risk, and I use that word deliberately because real risk observed at the senior levels.

And for investment positions, PRIM's pay levels, not so much salary, which were close to the competitive market of private sector, but at total compensation levels lagged the private sector by significant margins. So PRIM were -- and that was really the essence of the discussion that we had with the -- with Bob's committee and Michelle's committee, was essentially recognizing that PRIM's pay levels are, for the senior investment positions, insufficient versus the private sector.

To what extent should PRIM act to close that gap, and that was -- we had lengthy discussions essentially focused on that topic. There's an acknowledged pay gap. There's an acknowledged recruiting and retention risk for senior investment talent at those levels, and how should PRIM act?

And, again, it's a complex topic, a difficult topic because you want to -- on the one hand, you clearly want to retain this talent which has delivered investment excellence to the Commonwealth, for the Commonwealth and the delivery stakeholder groups.

But on the other hand, there's -- if we're honest with ourselves, there's the challenges that you live in a public fishbowl, so you're not, unfortunately, a midsized endowment that could pay people much better and no one would necessarily see this.

We live in a public fishbowl to

compete with endowments and foundations for top talent; yet you have the constraints of working in a quasi public organization. So the punch line in our work, if I just could get to that -- that was the preamble.

The punch line of our work, there were two proposals that were recommended by the committee. One is shown on page three, and that was to adjust the salary midpoints -- that's on page three of the materials. So we show -- this is the base salary midpoint.

So if you look on the chart, the current midpoints were put in place in 2015. And then they were recommended for the new midpoints implemented for March -- implemented for this year, 2018, which for the group across the whole population represents about a 5 percent point-to-point per year change, a three-year increase in the midpoints which is about an annualized adjustment of 1 to 2 percent.

So essentially the adjustments and the salary midpoints were still consistent with the upper quartile of the public fund peer group.

And they were -- I believe the committee considered this to be, you know, fairly reasonable and acceptable.

This was the first motion upon the committee for approval. Any questions on the salaries? May I proceed?

TREASURER GOLDBERG: Yes.

MR. BARNETT: Thank you. When we looked at incentives, if you go to page five, on page five, this is where -- lots of numbers on page five, but if you look at, as an example, the second group where you see the chief strategy officer, the deputy CIO, the senior investment officer, the director, senior investment officers, and you see that number 40 percent. Currently, those roles have a 40 percent bonus potential.

So essentially what that means is that if the PRIT funds trailing three-year results are at the upper end of the range essentially equivalent to $1.2 billion of value added on a three-year basis or $400 million in value added, not investment gains, but value added in excess of a benchmark.

And that's really important. That's the important concept just to reinforce. It's the incentive levels that we're looking at. Even the current incentive program, it's not saying that people get 40 percent bonus opportunity for coming to work. It's that people get 40 percent bonus opportunity if they beat, essentially, since it's an above benchmark returns, half the people, making this in a colloquial sense, you have to beat half the people in the room to start earning anything from your bonus.

You have to be above average to start earning anything, and you have to be well in success of average to basically get the maximum bonus. So, again, if there's performance not better than half, what's described as half the people in the room, half not better than the benchmark, then the zero payout. That's the current arrange.

What you see there is different reference points, and, essentially, we're looking at if the proposed peer group, which was right now 100 percent public funds was to be a blended peer group of 75 percent public funds, 25 percent private sector firms, a broad segment for private sector firms, this shows that essentially for those top investment executives, their bonus opportunity now 40 percent of salary would increase to 80 percent of salary.

Now, on the one hand, you look at this and say, what's happening here? How can we have a doubling of the incentive opportunity, albeit it's for above benchmark results? It's a challenge to say that if the labor market for these people is generally not other public funds, but it's the private sector.

It's endowments and foundations principally. It's investment management firms. And if the peer groups were defined entirely for investment management firms, and if you were to pay consistent with investment management firms and banks, insurance companies, endowments and foundations, the incentive opportunity could be 170 percent.

So we're saying as much as there's a significant increase from the current levels, we have to be aware and honest with ourselves that where PRIM is becoming more competitive and taking some of the risk off the table relative to this movement, but it's basically it's a step, but it's not a full step relative to full competitiveness.

That's where you see on the slide that this is showing the range of alternatives. Where if we look at the next slide on page six, it really, hopefully, in short order lays out that if we follow -- the blue arrow shows the movement of the incentive potentials from that second column, and you follow the blue arrow across, essentially showing that these are the bonus potentials that would be required as a percentage of salary in order for PRIM to provide fully competitive pay with a peer group defined as 25 percent private sector, 75 percent public sector firms.

If PRIM were to modify its peer group for purposes of benchmarking total compensation opportunities, this shows the change in the bonus maximums for PRIM staff. And looking, again, at these numbers, it's important to recognize that these bonus maximums are only earned if performance is well in success of benchmark.

If performance is not above benchmark, payouts are zero. When we look at this in aggregate terms, what this shows is that this would represent for PRIM staff in total on a spend-weighted basis an increase of about 18 percent at maximum levels.

If, again -- but that's maximum levels assuming $1.2 billion in value added. If we think about this in a -- is this a -- how does this -- is this a commercially -- how does this feel? Is this right or wrong, subjective? The bonus that would be earned would represent approximately maximum 1 percent of value added.

So, in other words, if PRIM performs at exceptional levels, the aggregate bonus to its staff would represent about 1 percent of that excess performance. 99 cents of that value added would be retained by the Commonwealth.

TREASURER GOLDBERG: Can you please repeat those percentages?

MR. BARNETT: If PRIM's performance is below benchmark, there are zero bonuses. Zero. If PRIM is above benchmark, which, again, is above benchmark, what does that mean? You have to be better than half the -- better than average. Not average, better than average. You have to be better than average to start getting paid a bonus.

And if PRIM -- at maximum bonus levels, PRIM's bonuses would represent approximately 1 percent of the value added with 99 cents being retained by the Commonwealth.

TREASURER GOLDBERG: I think that's a very, very critical --

MR. BARNETT: As much as we can all look at these numbers and say, these numbers are high. We can't deny the numbers are for the -- for all the stakeholders that you represent, we can not back away and we can't say that these numbers are not high.

TREASURER GOLDBERG: The raw numbers are high.

MR. BARNETT: The raw numbers --

TREASURER GOLDBERG: But not in

contrast to our environment.

MR. BARNETT: And the risk of instability are higher. It's really -- this is -- as uncomfortable as this might be, this is a commercial transaction that you're making to ensure stability.

MS. FITCH: Is what you just said in this dec?

MR. BARNETT: Yes. The relationships are not there, but Michael or Tony may be able to comment on them, but that's how the numbers work.

MS. FITCH: I guess I think it's really important to have those words.

TREASURER GOLDBERG: I just wrote them down.

MS. FITCH: Because we are a public body, and everybody is going to be looking at them. And all they're going to see is something -- they can make whatever case they want from these numbers.

MR. BARNETT: Michael and Tony, you reviewed this. Do you want to comment on some of those numbers?

MS. FITCH: It's not -- I don't want to review the numbers. I want kind of a succinct statement about what it means.

MR. TROTSKY: We have it.

MS. FITCH: Because that's what I think is important. I appreciate all this, but what is important for public consumption is two brief sentences.

MR. BARNETT: Two brief sentences. There are no bonuses, zero bonuses if you're not better than average, so you have to be better.

MS. FITCH: And then the bonus, if they're better than average.

MR. BARNETT: Maximum bonuses equate to approximately 1 percent of the excess value added.

MS. FITCH: And that's what needs to be really stated succinctly and then underneath of it all is to prove it. But the public is only going to see these two sentences, or is only going to pay attention to those two sentences. If we don't have that kind of conciseness, we are shooting ourselves in the foot.

TREASURER GOLDBERG: Right.

MR. BROUSSEAU: It can't be complex. It's got to be simple.

MS. FITCH: Understanding that it is complex.

TREASURER GOLDBERG: It is.

MR. BROUSSEAU: Keep it simple.

TREASURER GOLDBERG: I think there's one more sentence. The risk -- the raw numbers may appear high, but the risk of instability is even higher. Cosmo? I'm pointing to someone back there.

MR. BROUSSEAU: The question phase or the discussion phase, I don't know if we're in it. I'll add just a few comments there. I go back a long time, probably too long. But prior to Michael arriving here, we have lost, if I count, correctly we've lost 12 individuals, 11 prior to his taking the helm as ED.

All 11, with the exception of one, went to private sector for more money. That's a given. Under Trotsky regime, we've lost, thank God, only one major person. Where did they go? To an endowment. I'm sure if we look at these higher figures, that's what the endowment is paying for, that person's services.

So, you know, we can look and say it isn't going to happen, but it could happen. And Michael could be in a situation, as you know, we sit here and we compliment staff that we know is doing a job that places us in the top of the industry.

And it could happen and we begin losing people, you know, when they raid our staff and offer them these high salaries. I don't think 75 or 25 is anything that is out of whack with what industry is paying, you know, for these services.

I looked -- if you look in your agenda, you said the peer groups we have used, if you look at it, it's on page 8, when we did this originally, we wanted 15 funds, 7 larger than PRIM, 7 smaller than PRIM. Here they are.

You can't pick one out there that lives in a high financial market area or capital. And as you see, we came in when they did this -- was it 2016, Adam? -- at $62.7 billion which was the PRIM meet. We were right in the middle of this group.

And being the only one in a high financial market area, I think, it behooves us to look at our compensation, you know, as to how we're going to retain people. And that is the most important thing that is going to bring high rewards and high performance is retaining quality staff.

You know, as you heard me say before, a friend of mine on the board many years ago said, Bob, good things aren't cheap, and cheap things aren't good. And I think that we've got to look at that in doing this.

MR. NAUGHTON: Just following up on what Bob had to say, you know, we listen to such good things, such good proposals, such standing among our peers here at this table on a consistent basis. You could almost get complacent about what's really going on and the level it's going on here.

And I'm glad to see this proposal because it's a substantial and, I think, tangible recognition the stuff going on needs to continue to go on. And this is the key to helping us to continue to go on. And I'm very much in favor of this proposal.

MR. BROUSSEAU: I think when Adam presented this, they came to the AA meeting or the Compensation Committee meeting on April 30, I think five out of nine Board members were there, four of them sitting on the Administration Audit Committee. They remained -- the Compensation Committee has only -- is it five individuals on it, Madam Treasurer, including yourself? I believe so.

TREASURER GOLDBERG: Yes.

MR. BROUSSEAU: Yes. Five individuals including the treasurer.

TREASURER GOLDBERG: Right.

MR. BROUSSEAU: So these board members remained so they could get a feel for this. We had five out of the nine there. And I know probably the ones who were not there have some important questions that Ruth Ellen just raised one, and I think it's very valid.

MS. FITCH: Having said that, I

absolutely agree that this is the key to our success in the future.

TREASURER GOLDBERG: I think that I'm just going to repeat one thing that -- I think that the whole issue where the bonuses are zero unless you exceed benchmark, the second item, it only rises to 1 percent of value added with 99 percent retained by the fund.

And that of the risk of instability is uniquely challenging in the Greater Boston area. Particularly, how many states can say they have the amount of university endowments in their 10-mile geographic area, and the university endowments which are all -- typically, a public pension fund can say, well, this is a better lifestyle than working at a private equity fund or somewhere else.

And you can't say that in Boston because you have all the options of going to the university endowment fund which also have lots of benefits and far higher salaries. So we have a uniquely competitive environment, uniquely competitive environment.

So I think the risk of instability can

add multiple stars next to it. And instability is not good for a public pension fund.

MR. BROUSSEAU: People get overall figures -- Madam, if you're through -- we're going to be approving in a few minutes a fiscal year '19 budget of, am I right, $409 million, Tony?

MR. FALZONE: 406.

MR. BROUSSEAU: $406 million. This proposal, total salaries and bonus will account for really about 2 to 2 1/2 percent of that $406 million. I mean, most of this we're sending to Wall Street, as Michael likes to say, in terms of fees for the consultants and managers.

And we're retaining 2 1/2 percent to compensate a staff that everybody said is the best in the industry. To not do so, we're being derelict in our duty as a board, people.

TREASURER GOLDBERG: Any other comments? We have a couple of voting items here.

MR. BROUSSEAU: You do. The first one is the range, compensation range update. This is a voting item, I think, it's the one, Adam, on page three as Appendix I. That's what I have here.

TREASURER GOLDBERG: So I am going to seek approval of the compensation consultant's comparator data update. Motion that the PRIM Board approve the Compensation Committee's recommendation to the PRIM Board to adopt the 2017 compensation range update as set forth on page three of Appendix I and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

BOARD MEMBER: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries.

(VOTED: To approve the compensation consultant's comparator data update; that the

PRIM Board approve the Compensation Committee's recommendation to the PRIM Board to adopt the 2017 compensation range update as set forth on page three of Appendix I)

TREASURER GOLDBERG: The next vote is the approval of the incentive compensation recommendation. I seek a motion that the PRIM Board approve the Compensation Committee's recommendation to adopt updated incentive compensation potentials consistent with total comp levels of the peer group weight 75 percent public and 25 percent private as set forth at page five of Appendix I to the expanded agenda. And further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MS. FITCH: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

MS. MCGOLDRICK: Opposed.

TREASURER GOLDBERG: Okay. Motion carries. Okay.

(VOTED: To approve the Compensation Committee's recommendation to adopt updated incentive compensation potentials consistent with total comp levels of the peer group weight 75 percent public and 25 percent private as set forth at page five of Appendix I to the expanded agenda)

MR. TROTSKY: Thank you very much.

TREASURER GOLDBERG: Thank you.

MR. FALZONE: Good morning, everyone. I feel like I'm a little ahead of schedule here so I can spend all the time in the world. I'll be brief. So I'm going to focus on page 17 of the expanded agenda to start. And the first item on the agenda is the Massachusetts state audit results.

So we received notice in December that the office of the state auditor would be conducting a performance audit of the PRIM Board for the period July 1, 2015, to June 30, 2017, and their official audit report is attached as Appendix J.

They were here in December, here for about three to four months. And they focused specifically on procurement and travel. And I'm happy to announce that the state auditor recorded no findings and offered no recommendations.

So as I mentioned at the Administration and Audit Committee meeting, you couldn't have asked for a better outcome, and the credit goes to everyone here at PRIM that fills out the forms that we require and does their due diligence in preparing their travel.

MR. TROTSKY: They were here for a long time. How many months?

MR. FALZONE: Three and a half to four months.

MR. TROTSKY: Yes, they were here for three and a half to four months.

MR. FALZONE: And, of course, Qory Mei Li who is our audit manager. She manages all our audits, and she does a fantastic job, so I'd be remiss if I didn't mention her. That's just for your information. There's no voting item here. It's just for your own information.

My next item is the draft fiscal year 2019 operating budget. I don't know if we want -- that is a voting item, so I don't know if we want to read a motion. And there's a wrinkle here because the audit committee approved the budget prior to the Compensation Committee meeting on April 30, and, therefore, the budget does not reflect the board votes that took place a few minutes ago.

TREASURER GOLDBERG: Okay. And you didn't -- did you update the --

MR. FALZONE: I know what the numbers are, but I don't have --

TREASURER GOLDBERG: But they're not included in the draft budget?

MR. FALZONE: They're not included in the draft budget. We didn't have it available at that time.

TREASURER GOLDBERG: Okay.

MR. FALZONE: So that means the only item that would change is the salary line item, and I have the information.

TREASURER GOLDBERG: Let me seek the

motion.

MR. FALZONE: Sure.

TREASURER GOLDBERG: Let me get the second, and then -- all right?

So I would seek an approval of the draft fiscal year 2019 PRIM operating budget, that the PRIM Board approve the Admin and Audit Committee's recommendation to approve the draft fiscal year 2019 PRIM operating budget as set forth in Appendix K to the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Now, we seek a motion and then a second, and then we would need to seek an amended motion, from what I understand.

MR. TROTSKY: Yes.

MR. FALZONE: Yes.

TREASURER GOLDBERG: So, Chris, are you sort of -- do you agree with that?

MR. SUPPLE: Yes, that makes perfect sense.

TREASURER GOLDBERG: Now --

MR. SUPPLE: I think it's Appendix L,

is it not?

TREASURER GOLDBERG: Appendix K, it says. In the vote I have, it says Appendix K.

MR. FALZONE: It is.

MR. SUPPLE: Yes.

TREASURER GOLDBERG: All right. Now you're going to explain all that, and then we're going to have to amend it.

MR. FALZONE: Yes.

TREASURER GOLDBERG: Right, Chris?

MR. SUPPLE: Correct.

TREASURER GOLDBERG: Thank you.

MR. FALZONE: I will keep in mind the amendment when I'm presenting so that we get an idea what's going on. It's a small piece of the pie.

TREASURER GOLDBERG: Yes, I understand. Go ahead.

MR. FALZONE: Thank you. So as everyone knows, PRIM's budget is designed to provide an estimate of our expenses and costs for fiscal year 2019. In a traditional budget there is income and expenses, but in our case, investment returns are extremely difficult to predict, if not impossible.

And the theory behind Project SAVE essentially was you can't really predict what the market will give you, but we can predict what our cost structures is going to be. So that, in fact, is how we fill out our budget.

So the total fiscal year 2019 budget, and I'm going to be on page four of Appendix K, which is the summary page, the total fiscal year 2019 budget is projected here as about $406 million. So I think the new amount would be about $408 million, so a change of $1.8 million.

And we'll amend the budget to reflect that. But that still keeps us at 55 basis points of projected average PRIT assets.

MR. TROTSKY: And for the budget, it's important to note that we budget maximum payouts and --

MR. FALZONE: That's right. We budget very conservatively, so our budget includes a maximum earning potential. That does not guarantee that. It just accrues for it from an accounting standpoint.

MR. TROTSKY: And that position's filled and no turnover.

MR. FALZONE: Yes. So that number actually reflects a lot of open positions that we still have and things of that nature, and I can speak a little bit more to that when I get to that particular section.

So this year's budget is based on projected average PRIT fund assets of $74 billion which is a 15.6 percent increase of assets compared to last year's projected average assets of $64 million. So, obviously, there's been a lot of asset growth.

Most of PRIM's fees relate directly to our assets, so, obviously, higher assets mean higher fees. And as a result, the budget is, let's see, 13.2 percent or $47.3 million larger than fiscal year 2018. And my new numbers, if I can do the back-of-the-envelope calculation, it's about $49 million and 13.7 percent. Like I said, not drastically different.

And basis points, though, the budget actually decreased from 56.1 basis points to 55.2 basis points, so you can tell the fees from a budgeting and basis points standpoint decreased. And a lot of that has to do with Project SAVE and how we continue to negotiate fees down.

TREASURER GOLDBERG: Yes.

MR. FALZONE: Eric Nierenberg's presentation earlier was a good example of that. So he negotiated -- for his investment opportunity, he negotiated lower fees, but they would scale up if we would divest and go through to liquidate part of that fund.

The budget is comprised of three sections. So it's investment management fees, third-party service providers and operations. So on the investment manager fee section, it's comprised approximately 92 percent or 92.5 percent of the total budget which is about flat from last year.

These are the fees that are paid to investment managers to manage the assets of the PRIT fund, and they're grouped here by asset class. So the increase is basically due to asset growth as well as a switch from passive to active in the emerging market space, as well as the U.S. Micro-cap allocation.

So we're going to be -- so that's what accounts for a lot of that increase as well as PCS. We have some higher fees due to additional separate accounts and real assets, and now we have a new emerging manager direct hedge fund program so that's what accounts for much of that.

The budget is based on asset growth using NEPC's 5- to 7-year growth assumptions; however, future performance is not predictable and our fees will vary. But I think the budget gives you a very good approximation of our projected values.

I also want to remind everyone that the PRIT fund asset allocation drives our fee structure. It's important to note that the size of the asset allocation doesn't necessarily reflect the size of the expense.

So, for example, the global equity makes up 39 percent of the PRIT fund but requires only 18 percent of the operating budget while the private equity allocation, which is traditionally our highest-performing asset class at 12 percent, but it happens to be expensive and requires 28 percent of the fiscal year 2019 operating budget.

In the second section of expenses which is third-party service providers, these are projected fees we pay to all advisors, consultants, custodians, audit, tax, legal, risk, investment analytical tools. These fees come to about $14.9 million of the total budget which is about two basis points the same as last year.

Ultimately, the change here is related to an increase in PCS advisory and performance fee and platform fees related to the emerging manager direct hedge fund platform. Moving to the last section, which is operations, the operations budget is right at over $14 million, and that's going to increase to $15.8 million based on the vote that took place earlier.

And, again, as Michael mentioned, this number is conservative as it assumed all incentive. And I will stop there unless there are any questions.

TREASURER GOLDBERG: Any questions?

So now seek an amendment to include the adjustment and the salary impact which we've now heard the explanation of and the standards have been adopted in the prior votes in terms of the recommendation from the Compensation Committee. So is there a motion to amend the original vote?

MR. BROUSSEAU: So move.

MR. NAUGHTON: Second.

TREASURER GOLDBERG: Okay. So all those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none, the motion carries. Thank you.

(VOTED: To approve the draft fiscal year 2019 PRIM operating budget; that the PRIM Board approve the Admin and Audit Committee's recommendation to approve the draft fiscal year 2019 PRIM operating budget as set forth in Appendix K to the expanded agenda with amendment to include the adjustment and the salary impact which we've now heard the explanation of and the standards have been adopted in the prior votes in terms of the recommendation from the Compensation Committee)

MR. FALZONE: The next item, to keep us rolling along, is the results of the PRIM Board self-evaluation. And I believe Bob is going to go over that.

MR. BROUSSEAU: Okay. Thank you, Tony.

MR. FALZONE: You're welcome.

MR. BROUSSEAU: This is the project that we have had for many years with Cortex Services through the last several years have assisted us in the board self-evaluation, which, as I told you last year, and I told the committee, I greatly appreciated because for many years I was, I guess, before Cortex board people sent their evaluations to me, and I had to do the figures and write up the narrative.

And now this is in Cortex's hands which I think is very good because I think it adds one more layer of objectivity to this. But you all received, I believe, in an email because this document came to the board directly and did not come in your packet.

You received it on your email. If you

did not print it out, there was a copy placed here on the table. And what I'm going to go do --

TREASURER GOLDBERG: There isn't a copy here.

MR. BROUSSEAU: There was one here. It was right --

TREASURER GOLDBERG: Okay. Yes. All right. Right. Here we go.

MR. BROUSSEAU: So --

TREASURER GOLDBERG: Did everyone find the copy? Okay. Good.

MR. BROUSSEAU: I'm just going to make a few general comments and some of the background. A self-evaluation process was initiated in February of this year, as you know. And it was intended to address the board's performance during the 2017 calendar year.

You have to note the review of the board governance manual which began in 2017 was put on hold pending the completion of our self-evaluations for 2017, and is expected to start up again after this process is finished and we approve what we do in our self-evaluation.

And then Cortex will move into the second phase which is going to be looking at our charters and the governing documents. And, again, you'll have ample opportunity to express your views in telephone conversations with Tom Iannucci.

Cortex applied research assisted in the administration of the self-evaluation. As a reminder, only board members participate in the self-evaluation. Unlike the review of the governance documents, where committee members of the four committees will be asked to also provide input when we do that review.

The self-evaluation process is set out in a board policy and consists of a number of steps. First one, board members provide initial input using an online survey. Cortex invited all board members to participate in optional follow-up one-on-one telephone calls to allow them to expand upon or clarify their survey responses.

All but one of the board members

participated in the telephone call, but all nine board members did return their surveys. Cortex summarized the survey responses and interviews and prepared a summary report including recommended actions that were identified during the process.

The above report that you have today before you was reviewed and discussed by the Administration and Audit Committee on April 30 of this year. The committee made no changes to the report. The report is now before the full board for discussion, that is, the board should consider whether it wishes to undertake any of the possible actions identified in the report, appendix B, which are aimed at further enhancing the board's performance.

With those few comments, just a summary of the findings. The findings were the same as in past years, very, very positive. And I don't like to go through and read documents to people, but in the report finding that you have before you of how positive it was, and Tom listed each question and the percentages of people who voted either four or five because they thought that, you know, they were excellent. So that went through.

There were only a few comments that will elicit probably some action on the part of the board, and those are the ones that I simply want to highlight today. Your report shows significant achievements. A lot of people wanted to improve.

They wanted to include the achievements. And investments, for instance, in human resources, in relations with stakeholders, all of these were comments we did put into the report. And you also had in the report a listing of the education areas on page 8 of the report.

The board education needs assessment which didn't vary much from last year. They are listed in bold print. But the last part that I want to go through is the findings. Okay. And you have the findings here in your report on page 9. It says "planning."

The first one, A, board education, there were several board people who felt that we should consider directing staff to develop and recommended an annual board education plan. And we realized in looking at this, one recommendation was that we go to a two-day retreat instead of one.

Some of the comments at the AA meeting was, you know, a lot of people have other responsibilities and to commit to two days might be a bit of a stretch for people who have other commitments so probably a full day that might be expanded and a longer day in order to get a good board retreat.

There'd be other components in the plan also, but that an annual board education plan be prepared and brought before the board. In terms of planning, under B that you have, number 1, "They wanted to continue to develop a proactive approach to succession planning at PRIM to ensure that PRIM will be as well positioned as possible in the event of planned or unexpected staff turnover."

Fortunately, we have not seen that, only one turnover this past year. But we have to be prepared for that eventuality. Number 2, "Consider extending the length of the annual board retreat to two days." And I just referred to that. Two days might be a little too much, but, again, we can do a one-day retreat.

Number 3, "Consider making greater use of ad hoc committees to deal with longer-term strategic issues as they arise. And discussed in the body of the report, the topic of committee structure and practices will be further discussed during the board governance manual."

Last year that was a big issue that came up. The numbers, not on the committees, but membership on the committees, term, things of that nature we have to probably deal with, and it will be in the review coming forward.

Number 4, "Consider reviewing the benchmarks being used to evaluate PRIM's staffing and compensation needs to ensure they are consistent with and support PRIM's long-term strategic needs." And we did move on that this morning in many respects.

Number 5, "Consider working with staff to determine how the board may further engage in the area of operational risk management without even crouching into management operational responsibilities."

And finally, number 6 here, which I think is one we're going to have to deal with relatively -- not relatively soon, but we should be working on it. Number 5, "Consider an initiative designed to fully define and assess the range of options and perspectives that exist regarding the board's approach to shareholder activism and ESG and to arrive at a consensus view that can then be documented in the board policy or strategy. This issue will likely also be addressed during the review of the board governance manual."

Those are the recommended actions that came out of the board report, and people have questions that, Madam Chair, I think they can ask them, and we can all try to answer them. But I will have a comment further on number 6.

I don't know -- in thinking with this, thinking we want to move on this. And I think in your discussions at the Administration and Audit Committee your interest in doing this also. So when the questions are over, I was going to suggest that the Administration and Audit Committee -- you don't need a motion -- the Administration and Audit Committee be charged with the task of working on number 6 to bring something back to the board in the future. And, hopefully, it will be in the near future if we can work on number 6 on ESG, shareholder activism.

TREASURER GOLDBERG: I don't know that I agree with that. I think it should be a board issue.

MR. BROUSSEAU: Well, it will be a board issue. If you want an ad hoc committee or committee to work on this and come back to the board later, the full board could work on it. Maybe you have some suggestions maybe for the annual retreat.

TREASURER GOLDBERG: I think that at the Admin and Audit Committee we had a robust discussion on the definition of fiduciary duty, and John Nixon had made that -- done that presentation for us. And subsequent, Michael, did you speak to him or someone else contacted him? Was it Dave Gurtz?

MR. SUPPLE: I spoke with him.

TREASURER GOLDBERG: You did, Chris. And we got some additional information. There is an opinion that came out of the Trump administration that tries to dampen what we learned last September, but not -- it's still wiggly. And so -- part of their overall reach. But I think that -- I know that there are members of the board who are not on Admin and Audit who very strongly have opinions about this. I don't think that they should be forced to have to attend Admin and Audit Committee meetings if they cannot.

MR. BROUSSEAU: No.

TREASURER GOLDBERG: And so I think this is either we have the retreat in September. We're going to have the charter process. I think that if -- there are some frustration that some folks feel that sort of the board self-evaluation process has turned into -- some have said to me maybe shouldn't be happening annually, has turned into a vehicle that -- I know that you mentioned to me -- that isn't useful or should be done every other year or the like.

The charter is way late on being looked at, and I think that overall I know that you and others have been meeting with Tom Iannucci to better define how all of this should be looked at. But I think that the board members should feel that they can engage and can express their opinion.

There are some who feel their opinions weren't even really incorporated into the board self-evaluation. Theresa, you're nodding.

MS. MCGOLDRICK: Well, what I wanted to say in addition to what you're saying is, what happened previously was I felt, and I raised it at that time at the committee level, that the comments we made in response to an evaluation which was supposed to be about our own self-evaluation were taken out of context.

And I felt that the study conducted was really interviewing us on the next step of the process which was the charter and looking at redoing the charter provisions, which I was unprepared for and felt that it was very unfairly utilized since that was thrown at us.

And, you know, if we're going to have a self-evaluation process, it should be just that and not any other hidden agenda items within it. And I think, you know, it can be divisive the way that some board members respond in these contexts, and I think it should be more of an open discussion.

Some of the comments coming out of it show that we all have very different opinions on how quickly we're moving with diversity initiatives and other -- and how we feel about how narrowly our fiduciary duty versus whether we can look at things like diversity and inclusiveness.

I think you all know how I feel about that, and I would like to continue to move forward, but I think those are discussions that we should have outside of an evaluation process and as a board.

MR. BROUSSEAU: I think those are -- that we heard that last year, and this process is completed now with these recommendations.

TREASURER GOLDBERG: You heard what

last year?

MR. BROUSSEAU: Well, I think we had a meeting of the committee.

MS. MCGOLDRICK: Last meeting.

MR. BROUSSEAU: Last committee meeting when these views were expressed by members of the board who came. We're doing the self-evaluation, and after that we'll move into the board governance policy which will be totally separate.

MR. NAUGHTON: Yes, it seems to me the discussions we've had that, you know, the concerns that Theresa very rightly raises were made more than clear to the representatives of Cortex.

TREASURER GOLDBERG: When will we see the minutes from the Admin and Audit Committee meeting? Because I think that if that were to be distributed to the other board members, then we don't have to have continue with this discussion now because I'm assuming it will incorporate all the conversation that took place.

MR. TROTSKY: We can get those out

quickly.

MR. FALZONE: We try to get them done as soon as we can after that committee meeting while everything was fresh.

MR. TROTSKY: Sometime next week maybe?

MR. FALZONE: Next week.

TREASURER GOLDBERG: Okay. And it will include all the conversations. And then I think what we should do is also give an update on the work that you guys have been doing on this because it includes some of the stuff around the discussions around the charter and taking a fresh look at who the comps are, how we're so differentiated and the like. So I think that would be helpful.

MR. BROUSSEAU: Item D lays it out. The board governance policy would be the next stage of this.

TREASURER GOLDBERG: On page --

MR. BROUSSEAU: It's on page 18 of the agenda.

TREASURER GOLDBERG: On the agenda.

MR. BROUSSEAU: Board governance

policies and charter review update.

TREASURER GOLDBERG: Right, but we're talking about self-evaluation.

MR. BROUSSEAU: Right. I think the two dovetail as we talked about it now. Self-evaluation is what we evaluated ourselves. It is what it is.

MR. FALZONE: What PRIM staff will do, like we do after every self-evaluation, we'll look at the findings and we'll come up with items that address the self-evaluation items. And there are other items that bleed over into the governance manual and charter review, and that process should start immediately now that the self-evaluation is complete.

MR. NAUGHTON: I just want to be clear. When the Chair talks about the minutes of the AA meeting, they come as a draft, right, because they wouldn't have been approved?

TREASURER GOLDBERG: Right.

MR. NAUGHTON: Also, my recollection, it's not like the minutes of this meeting where, you know, if somebody sneezes, it makes it into the minutes. It's a summary. I don't know if there are specific comments.

MR. FALZONE: We try to be mindful of any meaningful discussion. You're right, though, Dennis, it is difficult, and I talked with Michael about this. It's really hard to keep up with conversations, unless you're a stenographer, if we're just trying to do meeting minutes for the committee meetings.

So we do try to capture, and some of you are on that committee, so you've seen what the minutes look like. I think they're fairly complete, I would agree not verbatim. Let's see what we come up with, and if people have other considerations that they feel were missed, we can incorporate them.

MR. NAUGHTON: I don't recall, and I --

MR. FALZONE: They're not verbatim minutes, you're absolutely right.

MR. NAUGHTON: Yes, I don't recall seeing, quote/unquote, comments in there that would define individual people's, you know, what they said about this issue or that issue. So if you are looking to use that avenue, I think it's primitive.

MR. FALZONE: I have notes from the meeting that I have to put together in an outline of minutes.

MR. TROTSKY: It's up to staff to take this feedback on your approval and come up with a plan that brings us to completion on some of these items. Each is relatively straightforward. I think actually number 6 is straightforward with the Chair's guidance to think of a way to get the board together to discuss ESG and shareholder activism and to come up with a plan that everyone is comfortable with.

TREASURER GOLDBERG: Right. But the other issue besides that one was also business practices and diversity. Theresa, you just mentioned it, but I think that it was -- I know I stated -- I'm happy to say I stated it at the meeting -- that 3 1/2 years of working on this is not necessarily intensity from my point of view, particularly when we're doing catch-up. And that it's very clear from management's perspective that they take this seriously as a business initiative and are continuing to work very hard on it.

MR. TROTSKY: Right.

TREASURER GOLDBERG: I'll give you an example. I recommended the hiring of HR director in my very first meeting, and now we have one whom we welcome. But we took time and thoughtfulness prior to adding that individual because you don't want to just bring someone if you haven't thought through the kind of role for that individual, but it's over three years.

MR. BROUSSEAU: I think probably my concern was also that this is a board self-evaluation. We rely on staff to take a lot of the recommendations and present plans to us in order to see that this self-evaluation is implemented.

That's why I highlighted number 6 knowing that we are going to have work done on it. And the way it comes to us, and staff can work on this. But it's the board self-evaluation. This is a board issue. And you're right, the full board has to be involved.

There was no intent of excluding the board from this. The thing was to be inclusive and see that the board was involved in this because it is a very important issue. ESG, diversity, all of this we've been talking about, we can't put it aside. We've got to deal with it. We have to have a plan to do it. That was why I said number 6, how he want to attack it. I think we've settled that.

MR. TROTSKY: So as I understand it, staff will come up with some recommendations. We'll work with you to come up with recommendations for each of these as a way to move forward quickly.

MR. FALZONE: Yes.

TREASURER GOLDBERG: And I know that Tony has already started --

MR. FALZONE: Yes, exactly.

TREASURER GOLDBERG: -- with Chris.

MR. FALZONE: Is that all for the self-evaluation?

TREASURER GOLDBERG: Yes.

MR. BROUSSEAU: Are you going to take the next one?

TREASURER GOLDBERG: We've sort of rolled in that ourselves anyway.

MR. TROTSKY: Is there a vote necessary on that?

TREASURER GOLDBERG: No, no vote on that. No vote on -- it's an update on governance policy.

MR. FALZONE: The only one item I will add is that the Administration and Audit Committee also requested that Cortex immediately proceed with a general cosmetic cleanup of the existing PRIM Board governance policy and charters and provide a redline version of these changes to the next Admin and Audit Committee meeting.

MS. MCGOLDRICK: That's in advance of --

MR. FALZONE: Yes. So there's a lot of cosmetic cleanup that needs to take place in the documents.

MS. MCGOLDRICK: Clerical, that means?

TREASURER GOLDBERG: Yes. And Michael Berquist from my office is working with them because we looked at a lot of those too.

MR. BROUSSEAU: Tony, Tom verbally will be starting the phone conversations within the next --

MR. FALZONE: I'm sorry, he will begin another outreach program to make sure that we capture every board member's --

MS. MCGOLDRICK: We'll have the redlined in advance of that conversation.

MR. FALZONE: We can send out the initial one, but the redline version is, like you said, only going to be clerical changes, whether that be gender-neutral language that needs to be updated or some other, I guess, legal language.

MR. SUPPLE: Pretty much.

MR. BROUSSEAU: I think what Theresa is saying, you don't want the phone conversations with Tom until they got the documents with all the charters redlined and the updates so they have --

MR. FALZONE: Would the board prefer that, that we send out that redline version to the full board?

TREASURER GOLDBERG: To the full

board.

BOARD MEMBERS: Yes.

MR. FALZONE: That's direction so that's perfect. We'll get the redlined version out, and then you can commence --

MR. BROUSSEAU: Tell Tom to hold on contacting -- some of this is going to include committee members also.

TREASURER GOLDBERG: I want to make a point that I feel that if people -- I don't want those to feel this is just a rubber stamp. I think that people really need to articulate their positions because charter -- I gather the last time all this occurred there was a great deal of debate and then nothing occurred. Am I correct?

MR. TROTSKY: Not a lot occurred.

MR. BROUSSEAU: My recollection is that we did the last one, Tony, is it four years ago?

TREASURER GOLDBERG: No, it's 2012.

MR. BROUSSEAU: 2012.

TREASURER GOLDBERG: Six years ago.

MR. BROUSSEAU: We did it in 2004 when

we first hired Cortex when we did it. We did it in 2007. We had an update in 2012. And I think with the recommendations that came, the board at that time, made up of different individuals, did not want to take any major changes and approved the governance charters.

TREASURER GOLDBERG: You guys were going through a lot then anyway.

MR. BROUSSEAU: Well, it wasn't a pleasant few years.

TREASURER GOLDBERG: The other thing --

MR. BROUSSEAU: To put it mildly.

TREASURER GOLDBERG: So different time, different states, different era. A lot of things have happened in a lot of these spaces, so I really encourage everyone to participate. Do not feel that your words will not be taken seriously. I mean, I've heard some of, Well, I talk and talk, and no one listens. So I don't want to hear that either. I want -- I know I'm going to be interested in what everyone has to say. I think it's important to have an overall consensus.

MS. MCGOLDRICK: May I ask a question? Will the findings be based solely on what we recommended, or are they going to look at other funds across the country to see what their charter looks like? It says that we'll present findings and recommendations at the Admin and Audit Committee meeting so --

MR. FALZONE: The way I view it is I've seen findings as the output from the discussions he has with the board and committee.

MS. MCGOLDRICK: Just that, okay.

MR. FALZONE: Recommendations are based on their experience in the field as well as information that he's acquired from the board and the committee; is that right?

MR. TROTSKY: Yes.

MR. BROUSSEAU: Tony, also, my understanding, for clarity, my understanding is that this process or this report may not be ready for the August, early August meeting of the Admin Committee. It could go into the one that we have in early November or late October, whatever the next committee meeting is.

There's a lot of work to do with this.

MR. FALZONE: Well, I think we need to get the redline version out. We need to make sure the redline version is complete. We need to allow people to digest the redline version. And then we can have -- I don't see August as a --

MR. BROUSSEAU: As a feasible time.

MR. FALZONE: I think the redline version can come to the August cycle, and we can get those changes made which are just -- but I think for the more substantive --

MR. SUPPLE: If I understood what his recommended approach is going to be, that the cosmetic changes, so to speak, which we didn't do last time around because of some of the reasons that were just mentioned, those will be presented to the August meeting. But the substantive issues will still likely be on the discussion, and those will not be presented in any amendment format yet.

TREASURER GOLDBERG: Right.

MR. BROUSSEAU: For the November cycle.

MR. FALZONE: To be clear, Cortex will not pick up where they left off on the governance manual and charter review until everyone has a redline version of --

MR. TROTSKY: Right. We just decided that.

TREASURER GOLDBERG: The other thing I want to mention is that Tony and I, and I think Chris was involved in these conversations and discussed with Tom Iannucci is that to take a double look at the comparators we had originally used because we did a thorough analysis of them, and we didn't see a lot of comp. So one of the things that we have said is how he may need to customize us. Look at different funds, and you can't just compare directly to other funds. Some of them have no treasurers on them. Some of them -- I mean, it was so -- the ones you used weren't even comparable. So that was part of the -- that's why Tony feels it's going to take time, and I know he's working very hard with Tom on this because this is not typical for Tom's way of thinking about the strategy on how to do this.

MR. FALZONE: And that was a point that was brought up at the Administration and Audit Committee which I know is in the minutes because I wrote it down myself. I know it will be in the minutes I have.

MR. BROUSSEAU: I've had several conversations with Tom during this last couple of months even up to last night.

TREASURER GOLDBERG: Okay.

MR. FALZONE: That's all for me for voting items. The rest, I think, is legal legislative update. Chris?

MR. SUPPLE: Yes. Good afternoon, Madam Chair and members of the board. The legislative session and the budget session are both underway. Some of the issues that seem to come up annually are in play again in these processes, and I can update you on any in particular, if there's any that are of particular interest to any of the members, or I can just run through them. Whatever you like.

MR. BROUSSEAU: The amendment is out?

MR. SUPPLE: The board composition?

MR. BROUSSEAU: Yes.

MR. SUPPLE: In the House budget process, there was an amendment offered to increase the size of the PRIM Board in the manner that we've seen in the past, and that amendment was withdrawn. And so that provision is not in the House budget. The Senate Ways and Means budget was released last week. It did not contain that provision. An amendment has been offered and has not been acted on yet. We expect that to resolve shortly.

MR. BROUSSEAU: We contacted the Ways and Means?

MR. SUPPLE: Correct.

MR. BROUSSEAU: Okay. Committee on Ways and Means.

MR. NAUGHTON: Zombie amendment it's going to be known as from now on.

MR. BROSSEAU: What?

MR. NAUGHTON: The zombie amendment.

TREASURER GOLDBERG: Now, now, now. Anything else?

MR. NAUGHTON: Are you admonishing me, Madam Treasurer?

TREASURER GOLDBERG: I'm just saying

now, now, now. There are people you know and actually like who make those final details.

MR. NAUGHTON: I'm sure they have senses of humors just as we do.

TREASURER GOLDBERG: Travel update, nothing unusual.

MR. FALZONE: More informational.

TREASURER GOLDBERG: And so client services update. We're all set. Okay, then.

So I would seek a motion to adjourn. I want to compliment everyone. We are 12 minutes early. And is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? Hearing none. Thank you, everyone, for your kind participation.

(VOTED: To approve the adjournment of the May 15, 2018, board meeting at 12:20 p.m.)