Pension Reserves Investment Management Board
84 State Street
Boston, Massachusetts 02109
Board Meeting
Tuesday, February 26, 2019
9:30 a.m.

Board Members:
Deborah B. Goldberg, Chair
Robert L. Brousseau
Paul E. Shanley, Esq.
Theresa F. McGoldrick, Esq.
Carly Rose
James B.G. Hearty
Ruth Ellen Fitch, Esq.
Dennis Naughton – via phone

-------Reporter: Michelle Keegan, RMR, CRR-------
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B O A R D M E E T I N G

MS. PEREZ: I'm Sue Perez. I'm deputy treasurer. I'll be starting the meeting off for the treasurer, who will be here momentarily.

The Massachusetts Open Meeting Law permits meetings to be recorded and states that the chair shall inform attendees at the beginning of the meeting of any such recordings.

So accordingly, I am informing you all that Michelle Keegan, seated here to my left, is transcribing and also recording this meeting. And if anyone else in attendance today is recording the meeting, I would ask that you identify yourself.

Anyone else recording?

Okay. I see none.

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

The PRIM board has adopted the provision of the Massachusetts Open Meeting Law that permits remote participation in meetings by a member if physical attendance would be unreasonably difficult, as is the case today with Dennis Naughton, who accordingly will participate in today's meeting remotely by telephone.

Good morning, Dennis.

MR. BROUSSEAU: Good morning, Dennis.

MR. NAUGHTON: Good morning, Sue. Good morning, Bob.

MS. PEREZ: How are you?

MR. NAUGHTON: Doing good, very good. Better than you guys.

MR. BROUSSEAU: It's 6:30 in the morning out there in Palm Springs, isn't it?

MR. NAUGHTON: It is.

MS. PEREZ: Much better than we are.

MR. BROUSSEAU: I hope it rains.

MR. HEARTY: That's the spirit.

MS. PEREZ: All right. We will start with the approval of the minutes.

So I will ask for a motion that the PRIM board approve the minutes of the November 29th, 2018, meeting.

MR. NAUGHTON: Sue, may I interrupt? There's just a housekeeping measure. But Erika Glasser, the name of Erika Glasser on page 12 should be spelled with a K, not a C.

MR. TROTSKY: We'll make that correction.

MR. HEARTY: Okay. You read the minutes.

MS. PEREZ: It's a long flight out there.

MR. BROUSSEAU: That interfered with your golf game.

Move to accept the minutes.

MS. PEREZ: Okay. Move to accept the minutes.

Second?

MR. SHANLEY: Second.

MS. PEREZ: All those in favor?

BOARD MEMBERS: Aye.

MS. PEREZ: Any opposed?

MS. ROSE: I'm abstaining because I wasn't here.

MS. PEREZ: All right. With that, I will move on to Michael.

MR. TROTSKY: Thank you very much. And welcome back to PRIM.

The treasurer is getting over the flu.

And it seems like the flu is moving around PRIM. Dave Gurtz is out today. And it will be the first committee or board meeting he's missed in twelve years due to the flu. But we have his able staff who will fill in for him, Chuck and the Andres, the two Andres.

Also in attendance we have Jon Osimo, assistant executive director from the MASS Teachers, is here.

Next to him is Kevin Blanchette, Chairman of the Worcester Regional Retirement Board, also a PRIM advisory committee member.

Next to him, Patrick Brock, Chairman of the Hampshire County Retirement System, also on the admin and audit committee and compensation committee. Chuck Kastro next to him from Essex County. Welcome back. And then Tom O'Donnell from PERAC is here.

Thank you, everyone, for coming.

And welcome, Treasurer.

TREASURER GOLDBERG: Treasurer plus plague.

MR. TROTSKY: Treasurer plus plague.

And I just mentioned that Dave Gurtz is

out with the flu.

TREASURER GOLDBERG: I'm not contagious, but I've had the flu.

That doesn't have to go in the notes.

MR. TROTSKY: It's Dave's first missed meeting in twelve years.

We miss you, Dave, if you're listening in.

We have a very full agenda today, as you know. During the committee meetings we reviewed approximately $1.7 billion in new investments that we'll be seeking your approval on today, $1.7 billion. Along with asset allocation recommendations. We will go through that quickly. We went through it in a lot of detail at the committee's annual plans. And as required, a 2019 communications strategy.

But before reviewing markets and PRIT fund performance, a quick organizational update. As you remember, in December we announced six promotions. I'd like you to meet each one of them very quickly, if they're here.

First, Andre Abouhala. Andre, please stand so everyone can see you. Was promoted to investment officer. Andre joined in 2014 as an investment analyst and has become a valuable resource to the public markets team, most recently leading the U.S. micro cap research, which you'll hear about today, and becoming the team's expert in utilizing e-Vestment manager database, FactSet portfolio databases and the PCS team's proprietary quantitative tools. He's done a great job.

Also, this past May Andre earned his MBA from Boston University.

Next, Alyssa Fiore. Alyssa was promoted to investment officer. Since joining the private equity team in 2016 as an investment analyst, Alyssa has made valuable contributions supporting new fund commitments to existing managers, new investment managers, and supporting the ever expanding coinvestment program in private equity.

She also supported the team's growth equity research and investment underwriting. Alyssa earned her CFA designation this past November.

Next, Andrew Gromer. Andrew? Thank you. Was promoted to investment officer. He joined the public markets team in October 2016 as an investment analyst supporting fixed income investments, and more recently he has been supporting the private equity team.

He's responsible for PRIM's state of the industry research project, which you'll be hearing about shortly. Not today but at a future meeting. And that will help guide PRIM's long-term investment strategy.

He has participated in several investment industry conference panels where he's spoken on fixed income topics. And he also earned his CFA charter in November.

Next, Bill Li. Bill, can you stand? Was promoted to senior investment officer and director of portfolio completion strategies.

He joined the strategy team in 2016 as an investment officer and was promoted to senior investment officer in 2017. He has expanded and refined PRIM's distinctive suite of analytical tools, manager sourcing processes, idea generation and portfolio construction across several asset classes.

He really combines impressive thought creativity and ingenuity with strong technical skills and conceptual understanding. Along with that, an unparalleled work ethic, I might add.

He spearheaded the creation of PRIM's hedge fund emerging manager program, which has been very successful, among many other things. So he'll report -- continue to report to Eric Nierenberg and now have oversight responsibility for the entire PCS portfolio.

Next -- and I know she's not here -- Christina Marcarelli was promoted to senior investment officer. She actually had a baby boy yesterday.

TREASURER GOLDBERG: She did?

MR. TROTSKY: Leo Marcarelli. He was three weeks early.

TREASURER GOLDBERG: That's the second --

MR. TROTSKY: Everyone is healthy. Maybe the doctor had it wrong because everything was fine.

TREASURER GOLDBERG: How big was he?

MR. TROTSKY: I'm not sure how big he is.

Does anyone know? Do you guys know? No.

He was good.

So Christina joined the real estate and Timberland team as an investment officer in 2016 with expertise in asset management, acquisitions, and development projects.

She's been extremely productive since joining PRIM. No pun intended, I guess. And this past year she successfully led the private real estate RFP process, which resulted in awarding $1 billion to three investment managers. She's been great to have onboard.

Next, George Tsipakis. George, behind the treasurer, was promoted to director of investment operations. George joined the investment operations team in 2016 as manager of real estate and Timberland reporting.

He quickly demonstrated great analytical skills necessary to enable the team to innovate, particularly in the direct real estate program, which you'll hear more about in a minute.

He also restructured PRIM's investment cash operations and improved the team's investment support capacity. George will report to Matt Liposky, also behind the treasurer, and manage a team of four finance professionals responsible for asset class reporting.

And next, this is the fun one. I think most of you have heard this already. In the back of the room, please, Morgan Burns.

I'd like to make a special call out to Morgan Burns on the accounting team who appeared on the television show Jeopardy two weeks ago.

And as you know, it is a very select group of participants who make it into the television rounds. Contestants must first take an exam and then have in-person screening, including playing test rounds.

And his results were impressive and admirably finished second that night to a guy who was, like, really a machine. But we watched you.

TREASURER GOLDBERG: Rumor has it he's not a real person, that he's actually, you know, one of those you-know-whats.

MR. TROTSKY: So this is no easy feat. You have a great television way about you. And it was really fun to watch you. So congratulations.

Next I'd like to announce an important accomplishment from the finance team. We're excited about this. It really sets us apart from nearly all our peers around the country and in our space, in the asset owner space in particular, pension funds, endowments, foundations.

I'm happy to report that PRIM has adopted the CFA Institute's Global Investment Standards of Integrity and Transparency effective January 1st.

This performance standard is commonly known as "GIPS." It's been around for decades. They're a universal voluntary standard based on fundamental principles of full disclosure and fair representation of investment performance.

Many asset owners require investment managers to comply with GIPS standards; however, it is far less common, as I mentioned, for asset owners, such as PRIM and other large pension funds, to apply these principles to our own financial performance reporting.

More than 1700 asset managers across the world are GIPS compliant, but, in fact, PRIM is now only one of a very small handful of large public pension plans to comply with GIPS.

This is an important part of our commitment to maintain the highest level of integrity and transparency possible.

And we are proud -- very proud to be a

part of the CFA Institute's goal to bring about standard ethical global reporting in the investment management industry.

And I'd especially like to thank Matt Liposky, our chief investment operating officer, who oversaw the adoption of the GIPS standards. It took a lot of effort and work from his entire team.

So thanks for that.

(Applause)

MR. TROTSKY: There was a lot of, you know, trade media coverage of that fact. So it's one of those accolades that we're really proud of.

And last, I want to highlight some exciting news from our real estate team. Tim Schlitzer, in the corner, who oversees real estate and Timberland, along with John LaCara next to him, and Christina Marcarelli, who I mentioned is out.

As you know, they've been focused on increasing the direct real estate purchases, really leading PRIM's Project Save II initiatives, the initiative that focuses on direct investment outside of traditional asset management fees.

We are very excited to announce that PRIM closed on its acquisition of 53 State Street, also known as "Exchange Place," in December.

That's the building right outside our window. You can see the base of it. That used to be the old Boston Stock Exchange, but it's now, what, a 33-story, 40-story office tower above that. You can't see it.

There's a picture of it in the corner, a new picture of the building.

It's 1.2 million square feet of office and retail space that is 95 percent leased to high-quality tenants such as Hill Holiday, Nixon Peabody, Morgan Stanley, and The Boston Globe.

And today Tim told me that you can see on entranceways and various places around the building that our logo is on it as the owner, which is kind of exciting.

We've partnered with a world-class, Boston-based operating partner, Beacon Capital, just down the road, and a large sophisticated capital partner, Allianz Real Estate, to purchase the building.

PRIM owns 49 percent of the investment;

Allianz, the other 49 percent; and then the operating partner, Beacon, owns 2 percent.

In addition to the accretive returns offered by the investment, PRIM expects to save $6.6 million through its direct ownership of the asset.

The purchase price was $845 million. Our share of equity was $210 million. And the share of the debt about the same because there's 50 percent leverage on the property.

Also on the real estate front, as part of the J.P. Morgan portfolio transition, we have moved our ownership stake in 125 High Street here in Boston, another marquis Boston office building, also to our direct portfolio.

There we have a great operating partner, Tishman Speyer, although it's a smaller investment than the one across the street.

And last, the team will be asking for approval today to deploy 15 percent of the assets in direct purchases without an investment manager. That is nearly a billion dollars. You'll hear about that today.

The potential fee savings on that is

approximately $5 million per year. And to put that in perspective, $5 million represents approximately one-third of our total yearly PRIM operating budget.

So this stuff is very meaningful, this direct Project Save Phase II initiative. And of course, the real estate team is doing a great job. This stuff adds up.

I'll take any questions on organization, but that's a quick update.

I'll turn now to markets and PRIT fund performance.

The S&P 500 was down 13 and a half percent in the fourth quarter of 2018. Developed and international markets were down 12 and a half percent. And emerging markets were down 7 and a half percent.

A 60/40 mix of global stocks and bonds was down 7 percent in the quarter. And the PRIT fund fared better but was still down 6 percent in the December quarter.

For the calendar year 2018, the S&P was down 4.4 percent. A 60/40 mix of global stocks and bonds was down 5.6 percent. And the PRIT fund was down much less. It was down 1.8 percent.

December was the worst month in the market since the global financial crisis with the S&P down 9 percent in December. October of 2018, same quarter, was almost as weak with the S&P down 6.8 percent.

And for similar large selloffs you have to go back to September 2011 and May 2010 when the S&P was down 7 or 8 percent.

Volatility also increased in the quarter compared to a five-year average of approximately 15. The volatility index, also known as the VIX or the fear index, spiked to more than 36 in December after reaching a low of 11 in August.

Now, in Q1 -- I'll give you an update on Q1 in a minute. It has normalized back to near its five-year average. Yesterday it was at 14.2, I believe, right around 14.

So quarterly selloffs of this magnitude realized in the December quarter are not too unusual.

There have been 23 large quarterly losses since the Great Depression back in the '30s. 23 in approximately 90 years, meaning that on average there's a selloff of this size once every four years.

And since it has been seven years since the large -- the last large quarterly selloff, perhaps the markets were actually due for a correction.

And if there is a silver lining, it may be comforting to know that we have been preparing the PRIT fund for some market weakness.

As a reminder, we have reduced our global equity position from 50 percent eight years ago -- 50 percent -- to a target of 39 percent in 2018. And we're bringing that down further today in asset allocation, which you'll see.

During the last several quarters we identified the risks in the market and we compared the current economic picture to the markets of mid 2014 through early 2016 when there was a global economic slowdown that led to a correction in the world financial markets. That was the last downturn that we had.

We explored the past four major market corrections since 2000 and we noted that all occurred with an economic slowdown or even a contraction.

We highlighted some visible signs that global growth is slowing.

While the U.S. economy is still relatively strong but still slowing, Europe, China and Japan are slowing to a point where we begin to worry about a contraction in those areas.

But even in the U.S. manufacturing is weak. Retail sales are weak. Housing is weak. Consumer confidence has eroded from an 18-year high. Material prices are weak. And dollar liquidity is tight.

We mentioned -- and I'll mention again -- that there are vulnerabilities in the global economy before there were tariffs. Tariffs and trade tensions with our trading partners are an additional negative for global growth.

And more than half of -- and with more than half of the S&P 500 earnings reports in now for the December quarter, growth rates are well below the 20 percent or greater rates posted in Q2 and Q3 of last year.

And growth rates are expected to slow considerably throughout the remainder of 2019.

This will be a formidable headwind for equity markets going forward.

What's more is that political gridlock has become a reality. And most think it will last for at least another two years.

We've recently endured one of the longest government shutdowns in history as Congress and the president tried to work out border security and immigration policy differences. Now the issue seems to be headed to the courts for them to decide.

And as we said before, President Trump warned of a, quote, war-like atmosphere in Washington during the midterm elections. And really both sides have delivered on that. There is a war-like atmosphere in Washington right now.

Now, even though we've reduced our global equity position, again, from 50 percent eight years ago to a target of 39 percent today and we have increased our exposure to many high-performing, risk-reducing assets, it is important to emphasize again that the PRIT fund is not completely immune to a global equities downturn because in order to achieve our long-term target return rate of 7.35 percent -- that's high -- our fund is necessarily growth and equity focused. You all know that.

PRIM's strong performance in both up markets, such as fiscal 2018 and calendar 2017, where we had industry nation-leading performance, combined with our strong outperformance in down markets, like we had last year and then again in fiscal year 2016, gives us a lot of confidence that our investment program is really performing as designed.

And I'll end these remarks with yet another silver lining in today's report.

Markets have strengthened materially this year to a point where we now believe we've earned back everything we lost in the fourth quarter perhaps.

I will remind you that since our portfolio is more than a third alternatives that only price at the end of a quarter, we do not have an accurate assessment of performance today.

But I can give you a reading of what the markets have done since the December lows and for the quarter.

Since the December lows, the S&P is up nearly 20 percent. Developed and international markets are up 12 percent. Emerging markets are up more than 12 percent. Bonds are up slightly. A 60/40 mix of stocks and bonds is up 12.2 percent.

For the quarter -- for the first quarter this year, the S&P is up 12 percent. Developed international markets are up 9 and a half percent. Emerging markets are up 10 and a half percent. Bonds are up slightly. And a 60/40 mix of stocks and bonds is up more than 7 percent for this quarter alone.

So we're off to a good start for this quarter, and we're hopeful that it will continue.

I won't spend much time reviewing the charts in your Appendix B, but I'll just go through them very quickly starting on page 2.

And by now this report is somewhat stale because the markets have moved so quickly.

TREASURER GOLDBERG: It is true.

MR. TROTSKY: But it is incumbent on me to at least review the year end 2018 results with you.

So on page 2, you can see what did well and what didn't for the year. You can see private equity, distressed debt, real estate and Timber were the strong performers.

And on on the right of the chart, equities were quite weak. In the middle, you can see our fund was down 1.8 percent gross. That compares to a 60/40 mix, which was down 5.6 percent.

The next page shows you a longer time horizon for the year; however, the PRIT fund was down 1.8 percent gross. And that equates to 2.3 percent net. That's a loss of $1.6 billion. And it was in line with our benchmark net of all fees.

Longer term the numbers look better and they're above benchmark. As you can see, the three- and five- and ten-year numbers are all solidly above benchmark.

Page 4, again, you can see what did well, what didn't do so well. Private equity, real estate, and Timberland strong and equities were weak, on the right.

Each asset class will go through a little -- into a little more detail during their presentations to you later this morning.

And I'll end on page 5 that shows the Quilt chart. And it shows what has done well over a long period of time. You can see private equity leads in performance for one, three, five and ten years. Real estate and Timber also very strong contributors.

And what I like about this chart is it does highlight why we've been taking down our global equity position.

You can see that global equity is the most volatile performer. It's kind of all over the map, particularly on the one-year number.

So I'll end there on performance. And again, you'll hear from each asset class a little more detail. And also, again, these numbers are stale by now. And we hope to have much better information for you later in the year.

Any questions on any of that?

We are good. All right.

The next part of my presentation has to do with the 2019 annual plans. And one of the duties in the charters is that the executive director approve divisional business plans each year as appropriate.

Each staff member and each asset class head prepares an annual plan for 2019. We are presenting a summary of those in the expanded agenda and also in Appendix B, which we also presented to each appropriate committee for their feedback.

Later in the agenda each asset class head will highlight one or two significant components of their annual plans.

I'd like to say that these annual plans are really a continuation of the work that we've been doing over the last several years. There are no major departures from the mission we're on or the direction we've been heading.

I'd invite you all to review Appendix D in the coming days and contact me with your feedback and comment so that the plans may likewise be revised and I can finalize them.

Those annual plans become our marching orders for the rest of this year.

Any questions on that?

You'll hear a little more from the asset class heads on that. But it's a duty.

Next and last in my section is a

communications plan summary. And from that -- for that I will be referring to Appendix E.

And let me know if you don't have a copy of that.

And I'll begin on page 2.

The charters also direct that the executive director, quote, shall recommend a stakeholder communications plan to the board for approval at least every three years.

And the time has expired for me to do that. So I'd present this plan to you for approval.

This has gone to the admin and audit committee. I presented it in a little more detail for them. And now it comes to you for ultimate approval.

In November 2018 we did launch a review of our current external communications strategy. We defined messaging points and a strategy to reach our key audiences.

Page 3, I'll just highlight that we do have several challenges. First, it's difficult to really accurately communicate PRIM's complex and successful mission and our innovative ways.

It's very complicated to communicate that mainly because we have many different constituents with varying degrees of financial proficiency. That's a challenge for us.

And also the media landscape and channels are complex and constantly changing. We read about major business newsrooms being a fraction of what they were. And we need to begin to reach out to new media channels to get our message out.

Page 4, this is our basic communications approach. We want to raise awareness of our success, innovation, and track record and how it contributes to the state.

We want to educate our target audiences so they have a better understanding of what we do here. And most important, we want to develop advocates to raise awareness and educate PRIM's key stakeholders.

"Develop advocates" means you guys. So in the coming years we hope to be able to train you and help you communicate to your constituents and whoever else you may want to talk to. We want to give you the ammunition and the talking points, if you will, to help us advocate and raise awareness for what we do here at PRIM.

Our target audiences in alphabetical order -- not in any other order -- are on page 5. And on page 6 -- and these kind of things take a while. We did develop a key message. And the key message is meant to really encapsulate everything that we want to communicate to our constituent audiences. And I'll just read it.

"PRIM is a well run, trusted organization that aims to deliver consistently high risk-adjusted returns using a cost-efficient approach."

We think that's what we're all about here, and that's what we try to do every single day.

Page 7 is a list of key support points to that target statement: history of strong performance, optimized portfolio, cost efficient, award winning, transparent. You heard about GIPS today. And of course, highly qualified, expert board and committee members.

But I like the last one, and it's really what I like to talk about most. It's that "PRIM's success will enable the Commonwealth to meet its pension obligations and alleviate any potential additional taxpayer burden."

What we like to say around here is that to the extent we are all successful, that we are the taxpayer's friend. So if we're successful, we are absolutely the taxpayer's friend.

Page 11 -- I'll skip around a little bit. The strategy really is to produce digital content, to diversify the content that we now have, to discuss and promote our key messages.

We need to create a social media presence, establish a presence on Twitter, Facebook, and LinkedIn. Expand and reach our target audiences better, provide expert resource. We do that a lot in the media and at conferences we're going to do more of that. And use you really as ambassadors to communicate the good work we do here at PRIM.

And I'll end on page 12 with a timeline. And I'm not sure if one of these things got updated.

This is basically the plan to accomplish everything I just set out. One of the things that we'll be accelerating -- and this became vividly clear this board cycle, as Ruth Ellen pointed out to me.

What we do here is very complex. And the amount of materials we produce here, it's almost impossible for everyone to go through everything. And it's really rich in content. There's a lot of educational materials that you're exposed to every quarter, but there's really not enough time to go through it.

So one of the things we've discussed is to create an educational platform using Webinars primarily in which you'll be able to dial in and learn about some of the things we're doing here.

For example, this -- you'll hear about it shortly. But the aircraft leasing opportunity that you'll hear about today was really well researched.

And in your books you'll see a primmer on it that we simply didn't have time to go through in its entirety. But we do want to make that available to you. And in the future, for educational purposes, we will be doing more of that through Webinars.

So that's the communications plan. I appreciate the time you took to listen to me. It is one of my duties.

And I think it is a voting item. And with your approval, that will become our communications policy for the next three years.

And you'll see progress made on those goals throughout the next three years.

TREASURER GOLDBERG: So do you want us to vote on it now? Are you done with the rest of the executive --

MR. TROTSKY: Sure. I'm done.

MR. BROUSSEAU: A comment. In terms of training people here -- because the trustees primarily are the face of PRIM when we go out. And I know Dennis, myself, any of the other trustees, we commonly get asked to do presentations on PRIM.

And I rely very heavily again on my good friend Paul.

Where is he?

TREASURER GOLDBERG: He is out.

MR. BROUSSEAU: He is out today. He is among the fallen, the sick, probably.

But I depend upon Paul, of course, and with Francesco. They provide us with the materials that we need.

Like, three weeks ago we had to do a PRIM annual report that we do every year before the board of directors for the Massachusetts Teachers Association. And annually we do that. And we have about a half an hour space in their meeting to answer questions and give a presentation.

So we get a lot of this stuff. The education that we get is tremendous because Paul provides the update, everything we need.

And I'm wondering, how many of the other trustees besides the public sector people who are -- we're elected. And we get asked to -- we present before our organizations. And I get asked several times during the year to do teacher organizations.

Do any of the other trustees do that?

MR. SHANLEY: I do with the retirees at their annual meeting and things like that.

MS. MCGOLDRICK: Anything that is released by PRIM via newsletter or whatever, Mass. Retirees usually share it.

I'm happy to share anything on Facebook once we get Facebook underway. We email 16,000 people in the state every -- with everything. So

I would love to share more information.
MR. BROUSSEAU: Do they have a good understanding of what PRIM is?
MS. MCGOLDRICK: No, not at all. Our membership doesn't.
MR. BROUSSEAU: Our people, the teachers, are very much knowledgeable of PRIM.
MS. ROSE: Ours aren't.
MS. MCGOLDRICK: Mine are not.
MR. TROTSKY: So we'll get to work on that. Perfect.
MS. FITCH: I get questions kind of like from the general public, big picture. And I have maybe 45 seconds to explain PRIM.
TREASURER GOLDBERG: You mean, you want an elevator speech for PRIM?
MS. FITCH: Several different kinds of elevator speeches.
You know, I watch eyes as I'm talking. And when they start to glaze I think "I'm done." But I need something short.
MR. BROUSSEAU: They don't need figures. They need the overall picture.
I know that we have O'Neill & Associates

with the communication strategy, which is becoming more and more important.

Is it in your plan probably to bring on another communications director? We had Eric.

MR. TROTSKY: Yes. In fact, I think today I have to -- as part of this exercise we've redefined the communications role.

And I have a job description on my desk that Jennifer wants me to look at and approve quickly so we can get that out.

So that is on the plan to bring someone in. And we will -- Cosmo is in the back of the room. We will be working very closely with O'Neill on several aspects of this plan. And they helped us devise this plan.

Thank you very much.

MR. HEARTY: I just was going to add, I think you're going to have to be quite aggressive in terms of communication.

I don't know how many of the board members read the Pioneer Institute article that came out, which was factually correct but a little bit critical.

I think a response to that --

MR. BROUSSEAU: They want to privatize.

MR. HEARTY: -- would have been appropriate.

I don't think they want to privatize. They're just concerned.

And there is going to be a tremendous amount of negative press of other states that are really facing -- I'm not going to pick on them, but there's three or four other state funds that are in real trouble.

And I think as they get bad press, I think we should have a strategy of putting out why we're different, why we're better.

MS. MCGOLDRICK: The MBTA pension problem is in the paper. Sometimes people get confused and think that we're one and the same.

MR. BROUSSEAU: Dennis and I always do a big push on defined benefit pensions not only for their -- the advantage they have to employees, but also what they add to the economy in terms of the billions of dollars in pensions that flows into the economy. A lot of these people don't even think about that.

MS. MCGOLDRICK: It would be nice to have a think tank that works. Not for us, but I'm sure the other side of the story. Pioneer will continue to do that and others like it.

MR. TROTSKY: It's probably incumbent on us to work with our clients, such as the teachers and their retirement system, as well as other clients, to give you guys the tools to defend why you're in PRIM.

And we'll have to -- that's the goal is to do a better job on that.

MR. BROUSSEAU: And not -- to praise Michael, every year he goes before the Teachers' Retirement Board and does an in-depth presentation on PRIM and what we've accomplished during the year. So this gets out to our membership.

And it's through the teachers' organization. And I believe the state employees probably do the same thing.

Do you go before their board also?

MR. TROTSKY: Yeah. Well --

MS. MCGOLDRICK: Not for some time, but he has.

MR. TROTSKY: I was scheduled to go this week, and we have to push it to March.

But I do. At least once a week I'm out in front of clients. I love doing it, as many of you know. It's one of the things that makes my job fun.

And I just can't be the only person that does it. So we need to -- I get great help from Francesco and Paul. I don't mean to diminish that.

But we need to make more of us advocates and ambassadors for PRIM so we can reach a wider audience. And that is the goal.

I love doing it. I do as much as I can. We don't have a marketing department. We have three people.

MS. MCGOLDRICK: Even digitally just sharing information I think makes it easier.

Most people are happy when they hear about -- the report about how well we've done. Most people have very minimal knowledge about it. So the only thing they're going to read is something maybe negative if it's in the press or positive, and then they'll come to me with questions.

But they're more interested in their own retirement pension than the retirement board side of things.

But to the extent you can share information, it's the easiest way. And everybody is looking at Facebook and email.

TREASURER GOLDBERG: I do think one of the positive things that the Pioneer Institute article said -- and I'm very good friends with Greg Sullivan, so he and I can talk about this a lot -- was that some of the increased unfunded liability is because since I've been reducing the rate of return. And that is -- and he mentioned that's a good thing. And so that needs to get a lot of applause.

And in fact, the rating agencies care a lot about that. They would rather see you being realistic. And that is something we'll be looking at again shortly.

MS. MCGOLDRICK: He was quick to say it was artificial inflation of the unfunded liability because of that reduction, which was smart.

TREASURER GOLDBERG: Right. So in my mind --

MR. SHANLEY: -- the mortality tables.

TREASURER GOLDBERG: So it was two things that we've done that are smart.

MS. MCGOLDRICK: Positive.

TREASURER GOLDBERG: And I also think the ten-year numbers say a lot.

MR. TROTSKY: Uh-hmm.

MR. SHANLEY: Yes.

TREASURER GOLDBERG: I mean, I talk to a lot of the other treasurers. We're in a lot better shape than many states.

MR. BROUSSEAU: I give them the 30-year number. Over 30 years we're still over 9 percent annualized returns since inception of PRIM in 1984.

TREASURER GOLDBERG: I'm not -- I think --

MR. TROTSKY: That was a good year to start.

TREASURER GOLDBERG: Why? Is that when you -- no.

MR. HEARTY: I was thinking of what the markets have done since the early '80s. It was a great year to start.

MR. BROUSSEAU: I think you look at the annualized return, they are over -- about 9.1 to

9.2 percent over that 30-year period. We've had the ups and the downs. But annualized, that's a good statistic.

TREASURER GOLDBERG: Anyway, we actually have a voting item.

MR. BROUSSEAU: I move to adopt the communications plan.

TREASURER GOLDBERG: So I want to mention before we vote that it was -- I recognized when I came in that we have someone on the phone.

Dennis, are you still there?

MR. NAUGHTON: I certainly am, Madam Treasurer. I'm here.

TREASURER GOLDBERG: So in that case, we are required to do roll call votes. And even if you have a quorum present, you are required to do roll call votes.

So I just wanted to explain to you why we're going to be doing a roll call vote.

So you made a motion.

Any seconds?

MS. FITCH: Second.

MR. SHANLEY: Second.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.
MR. SHANLEY: Yes.
MS. MCGOLDRICK: Yes.
MS. ROSE: Yes.
MR. HEARTY: Yes.
MS. FITCH: Yes.
TREASURER GOLDBERG: Yes. You can't vote.
MS. PEREZ: I don't have to vote here.
MR. TROTSKY: And Dennis?
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: Thank you.
All right. So we've got that done.
Next?
MR. TROTSKY: Next is asset allocation. I'm going to invite Maria Garrahan and Eric up.
Before I do that, I think it's important for the record and the rest of the audience, I know many of you have heard this a couple of times, but to set the stage, we do asset allocation work every year at this time and we make modest changes.
And it's important to outline our core philosophical investment beliefs before we get

into this discussion.

We have five core investment beliefs that guide our asset allocation work every year. The first is that nobody -- we believe that nobody can predict the future, so we don't try.

The second is that nobody can predict the stock market, its direction. So we don't try to do that either.

And as a result, number 3, we don't make tactical asset allocation decisions or any investment decisions based on market or economic predictions.

We haven't seen any evidence that investors are consistently good at it. Every so often you'll see an investor that is right once, twice, about markets, about the economy. But eventually we believe they are all wrong at some point in their career.

And in fact, I've seen many careers shortened by too many investment professionals investing on predictions of the market or the economy. So we don't do that here.

But we do believe, number 4, that any

investment must be evaluated on three equally important parameters. And the parameters, as you are well aware at this point, are return, risk and cost.

That's great. It's music to my ears to hear Bob paraphrasing that with me.

Furthermore, we believe that it is incomplete to evaluate any investment on anything less than all three parameters: return, risk, and cost.

Too often, especially in good years like we've been through for the past ten years, investors become more focused on return than they are on risk and cost.

And we have been super focused, as you know, on risk return of the PRIT fund, trying to optimize that every single year.

And number 5, this comes through in Project Save I and Project Save II. Number 5 is that we value a basis point of cost reduction more than we value a basis point of return.

Now, of course we value them both. But it's in our DNA to really look at each and every investment opportunity in terms of its cost.

And why is that? Why do we valuate a basis point of cost reduction more? It's that we can really count on those cost reductions every single year. And those cost reductions, cost savings, compound every year.

And again, it relates back to our number 1 and number 2 points, that nobody can really predict the direction of an economy or the direction of the stock market.

So what we do. Number 1, as we mentioned earlier, we are guided by our mandated rate of return, the actuarial rate of return, which in Massachusetts is now 7.35 percent.

And as I mentioned, that makes it necessary to have a relatively aggressive portfolio with lots of equity risk to drive returns.

Number 2, we make sure that every active manager we hire has skill. And we have developed proprietary tools to identify managers with skill.

You're going to hear from Maria about one of those tools.

We pay only active management fees, higher fees for managers with skill, managers whose returns cannot be explained by persistent factor tilts that we can buy inexpensively elsewhere.

Number 3, every strategic decision we make on asset allocation complies with our, quote, do no harm rule.

Each year we identify assets or strategies that improve the risk return profile of the entire fund. We make gradual changes -- you'll see that today -- to improve the overall risk return profile of the fund.

Number 4, we use statistical tools, such as principal component analysis, which you'll hear about momentarily, appraisal ratios and factor decomposition to identify strategies that will diversify our existing portfolio.

Our goal is always to minimize overall risk and cost while maintaining our ability to meet our return objective.

And so that's what we do every year. And that is the starting point for your discussion of asset allocation.

MR. NIERENBERG: Thanks, Michael. Eric Nierenberg, chief strategy officer.

As Michael has already alluded to, I'm

very pleased that we can introduce our latest enhancements to the proprietary strategic asset allocation framework that we first introduced last year.

Michael mentioned some of the specific components. It's a look through traditional asset class categories into underlying factor exposures through a methodology known as principal component analysis. Maria will be speaking more about that.

I do want to emphasize again -- and I said this at the investment committee and also at the real estate committee -- this is a strategic asset allocation plan, not a tactical one. The focus is on ranges and bands for asset class types. We're not trying to time the market here in any shape or form.

Sitting to my left is Maria Garrahan, investment officer, who joined us in January of 2018.

I would be remiss if I didn't also mention other members of the strategy team that worked really hard on this presentation as well, including Grace Gao over here, who joined PRIM just last October, as well as the rest of the team, Bill Li, Shijia Chen, and Anita Huang.

This research, as Maria will take you through, was done in conjunction with NEPC. And the NEPC materials are included in your packet as well.

So with that, I'll turn it over to Maria.

MS. GARRAHAN: Great. So what is our number 1 goal here at PRIM? It is unlike other managers in the industry where asset managers are focused on outperforming their given benchmark.

You can see in different endowments or other pension plans that they focus on matching assets and liabilities.

But at PRIM we focus on really a dual objective here. You can see on slide 2 this highlights this dual objective that we're going to be talking about throughout the presentation.

The left-hand side is the return objective where we're seeking to achieve the 7.35 percent annualized return that is mandated upon us.

On the right-hand side you can see the downside protection measure. And although it's not necessarily a legislative mandate, this is something that we should be concerned with when we are allocating at the PRIT fund.

And so how we define this right-hand downside protection is looking at the probability of no drawdown greater than 20 percent within the next three years.

And so The combination of these two objectives creates a dual objective measure that we then talk about throughout the presentation here.

Slide 3 shows the asset allocation research process. And as Eric mentioned, we explore this asset allocation exercise through a different lens called "principal component analysis."

And some of you may be thinking what is principal component analysis or how might we use principal component analysis in asset allocation?

To better understand this process, I like to think about the portfolio as a soup.

The ingredients are the asset classes: equities, bonds, real estate, timberland, etc. You can see these on the first row.

Step 2 focuses on the principal component analysis. This can be thought of as the nutrients within the soup. And so each individual nutrient would then be called a principal component, which is why we have it denoted as PC 1 through PC 12 here.

Moving to steps 3 and 4, this is really the cooking process that gets us from this nutrient space into trying to understand the soup in general.

Ultimately our main concern is, whether this soup is a well-balanced soup in regards to the nutrients? Have we accessed all off the nutrients or are we loaded up in sodium, for example?

What we do is try to tie this back to our dual objective. That is step 5 where it's saying, what is the probability of this soup being a well-balanced soup, well-balanced across all the nutrients.

The goal of this exercise is to add different asset classes or different investment strategies to balance out this picture overall.

Another way to think about this is that we care not only about diversification from the asset class perspective that we traditionally know -- stocks and bonds being diversifiers -- you can think about this as well from this principal component lens, this nutrients-based approach. We're trying to achieve high risk-adjusted returns using diversification in this context.

In slide 6 here, we're looking at the portfolio. And you can see that this is a view of the top 10 contributions to risk from the nutrients-based lens.

Unsurprisingly, we have a high concentration of risk in PC1 and that could be something -- we can start to think about, well, we know that there is a lot of equity exposure in our portfolio or things that behave in an equity growth aspect.

And that's not necessarily saying that principal component 1 is equities. It's just saying there's a lot of nutrients that are behaving in a certain way. And so, yes, too much salt.

On slide 7, we start to design this asset allocation proposal and try to use this approach to add or reduce some exposures in parts of the portfolio.

We can skip past slides 9 and 10, which are showing one of the portfolios that we have put through this framework, to slide 12.

Slide 12 is just talking about the framework that we've developed. And this is more of a systematic framework to help us isolate or understand which nutrients are the most meaningful additions and/or reductions to our portfolio as a whole.

The next slide shows a snapshot of looking at one of the examples, making only one change -- say an a increase of U.S. large cap -- and trying to understand how that drives this probability of achieving the dual objective.

And slide 14 is principally a summary of this part of the analysis. We examined many different parameters during our analysis. This is more like a trailer of the actual movie that's taking place at PRIM on a day-to-day basis.

I think slide 15 is the slide that I like the most and it's really because we're combining quantitative and qualitative analysis.

It's important to take a step back from the systematic framework and say, okay, these are the results, but what are the real world implications of these results? How would the results be potentially slightly different when we're factoring in other inputs that we don't necessarily have in our model?

Thus in this allocation process we blend the systematic result on the left-hand side with insights from NEPC, which is in our packet that we have here, while we also address feasibility and practicality concerns from the PRIM asset classes.

This last part is crucial. We want to make sure that with the systematic results and the insights from NEPC, we're not creating a portfolio that then cannot be implemented in the next year. Maybe over 30 years. But we're looking to try to propose something that is actionable.

And so we use that, the interviews with the different asset classes, to tease out what can we do and what's realistic for just this annual change that we have here.

Slide 16 uses this asset allocation framework that we have and we put through the new target proposal the recommendation changes that we have here in the research.

At the bottom of this slide, on the left, we look at the probabilities of achieving the dual objective currently, as the portfolio that we have as of December 31st.

On the right you can find the new target proposal, which is very conservative in the changes that we're making, with only slight changes across the portfolio. That still increases our probability of achieving the dual objective here by 60 percent.

That's one of the most interesting parts of the summary takeaway.

Slide 17 goes into a bit more of the details of the target range changes that we're making in the portfolio.

The following slide I think is the most important slide probably for the purposes of this presentation and voting item per se.

This puts forth what the target range proposals were last year, what we're now discussing, which is a slight decease in the range of global equities, and then a slight increase in the range of core fixed income and also a slight increase in the range for portfolio completion strategies as well as private equity.

This then is what we would like to put forth for your vote. If we need -- any questions or any other comments, maybe we'll do that first. But this is what we're trying to put forth.

MR. TROTSKY: And this was discussed in a lot of detail along with NEPC's findings with the investment committee and was adopted unanimously.

TREASURER GOLDBERG: Any questions from members of the board?

MR. BROUSSEAU: Is this our three-year --

MR. TROTSKY: No. That's an asset liability study that we do every three years.

MR. BROUSSEAU: Will that come next year?

MR. TROTSKY: I'm not sure when it comes.

Did we do it last year? Do you remember, Phil?

I think we did it last year.

MR. NELSON: We did it last year.

MS. FITCH: Is it annual?

MR. TROTSKY: This is annual. We do a more in-depth asset liability study every three years.

TREASURER GOLDBERG: Any other questions?

MS. FITCH: Do you check back during the

year to see where you are on your -- on the target range proposal?

MS. GARRAHAN: I think that in terms of looking at how much we've achieved over time, I think that that will be part of our process of trying to, check in with everyone.

The idea is focusing on this range per se. Realistically, although we're suggesting an increase in the range of these asset classes, we want to make sure that we're not saying well maybe the markets moved significantly and things have decreased and now add more or rebalance the portfolios.

It's more about making sure that we're all within this range. We focus on this strategic aspect.

MS. FITCH: I'm guess what I'm just trying to understand is how this is used during the year in real life. And I think that's the answer.

MS. GARRAHAN: Yeah. Exactly.

And even more, to directly answer that, I think using -- having these guideposts, when the teams are sourcing certain deals and they're trying to get cash from elsewhere, they can have this discussion of let's try to use the sources that we have, an asset allocation resource.

MR. NIERENBERG: One of the goals we're going to have is to make sure the asset class heads have sufficient flexibility within their portfolios.

One of the reasons that we don't -- that you have a band as opposed to one specific number is that if you have one number, then there's a lot of running in place that goes on to try to reach that specific target.

And with a fund the size of ours and given the lumpiness associated with alternatives in terms of sourcing deals and how money goes called, it's just not possible to do that.

The overarching goal here is to nudge the portfolio in the direction where that exposure balance is best achieved. Using Maria's analogy, you've got the right nutrients. But doing it in a way that you're not jerking the plane really wildly.

MS. FITCH: Thanks. That's helpful.

MS. PEREZ: I'll do the motion.

MR. TROTSKY: Yes.

MR. BROUSSEAU: Does NEPC do any -- Are they here? Do they do any presentation on --

MR. TROTSKY: NEPC is here if we want to hear from them. They did present in detail at the investment committee.

If you'd like to hear any part of that, we can certainly ask Phil, who is here.

MR. BROUSSEAU: I'm looking at their presentation. G, page 4. I always look at their forecast.

MR. TROTSKY: Do you want to come up, Phil, quickly?

MR. BROUSSEAU: The forecast in tab G.

Do you have -- increase your assumption in terms of markets slightly what they were last year. What basis do you use for making that determination? I know a lot goes into it.

MR. NELSON: Yes. I'm Philip Nelson from

NEPC. I head the asset allocation group there.

You know, in terms of what goes into that, it's primarily market prices. So when we set return assumptions, especially with our public market equity models, the two biggest inputs are valuation -- terminal valuation and then frankly just prices flowing through like that.

So the December selloff is significant enough that it raised our return assumptions for U.S. equities and EM in a fairly decent amount.

And you'll see the same thing is true for high-yield bonds as well. In December you see that flow through in terms of market action flow through into our numbers.

MR. TROTSKY: And also interest rates are higher.

MR. NELSON: Interest rates are. Yes.

MR. TROTSKY: So everything is somewhat built up with a risk-free rate of return. If the risk-free rate of return goes up, everything goes up. That's a secondary effect.

MR. NELSON: So at its core, there's core building blocks that we rely upon. So there is an income component, valuation component, a real growth component.

And in many ways we saw each of those increase relative to the beginning of last year.

TREASURER GOLDBERG: Any other questions?

MR. TROTSKY: Thank you, Phil.

TREASURER GOLDBERG: So it is a voting item. And so I would seek a motion that the PRIM board approve the investment committee's recommendation to adopt the 2019 asset allocation as described in Appendices F and G of the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

MR. BROUSSEAU: Second.

TREASURER GOLDBERG: Again, roll call.

Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa? Oops. No Theresa.

Carly?

MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me.
Okay. Very good. Motion carried.
All right. Next, public markets.
MR. TROTSKY: Is Dave on the phone?
Dave, I hope you're feeling better. I did announce that this is the first time in nearly 12 years you've missed any meeting. So you must be feeling poorly. And I wish you a speedy recovery. I'm told he's here.
Are you here, Dave?
MR. GURTZ: Yes. Can you guys hear me?
TREASURER GOLDBERG: Yes.
I wish I were home too.
MR. GURTZ: Bad time of year.
MR. BROUSSEAU: Did you have your flu shot?
TREASURER GOLDBERG: Yes.

MR. GURTZ: I did get my flu shot.
TREASURER GOLDBERG: I did, too.
MR. GURTZ: But it's kind of weird talking to you guys in my sweatpants.
TREASURER GOLDBERG: I also wish I were in my sweatpants.
MR. GURTZ: I'm happy to go through a couple of bullet points of annual goals before I turn it over to the rest of the team to talk through performance and then ultimately our voting item if you'd like after that.
MR. BROUSSEAU: Okay.
MR. TROTSKY: Sure.
MR. GURTZ: So real briefly, I just wanted to highlight a couple of -- one of our projects last year was the state of the industry project. And that was led by Andrew Gromer, who as Michael mentioned, was newly promoted to investment officer.
And the focus of the project was to identify key trends in the asset management industry and how PRIM should plan for these trends.
The team -- we interviewed dozens of

senior level executives at over 20 different asset management firms of different sizes. And we've read lots of different articles and studies on the industry. And we've worked with Peter Monaco as well. And he's been a great resource on this project as well.

We planned to present it today, actually. But given the long agenda of today, Michael Trotsky thought that this would be a great presentation that we could do through a webinar. So look for that in the next month or so.

One of the goals that we wrote in this year's annual plan for the public markets team was really a fallout of our state of the industry work, which was be the first phone call.

And what that really means is, in order to increase the flow of new ideas into our portfolio, we want to partner with the best in class asset managers.

And when these firms are looking to launch new products or seeking coinvestment capital or have a product that had been closed for capacity reasons but now is open, we want PRIM to be their first phone call.

So we plan to identify some key asset managers this year. We want to let them know that we want to be their first phone call when they have got good ideas on products or when new capacity becomes available.

Finally, another key project that we've been working on for a while and it is going to come to fruition for the public markets team this year is the Project Save Phase II initiative, internal management. As you just voted, the new asset allocation includes a short duration fixed income portfolio. We're going to be looking to implement that internally. Chuck LaPosta has managed a similar portfolio in his career.

So that's something that we're very excited about and we're going to be -- we have been working closely with Mike Even as well as the rest of the PRIM organization -- operational, legal, et cetera -- to implement this.

We'll be bringing back a more fully in depth implementation plan at the next meeting cycle.

So if you have any questions, I'm happy to take them. Otherwise, I'll turn it over to whoever is sitting at the table, Andre or Chuck, to go through performance briefly.

MR. LAPOSTA: Thanks, Dave. I hope you feel better. Thanks for participating remotely.

I'm going to talk very briefly about performance. And I'm going to address page 6 of the performance handout, which has the garden chart in it, as it's been referred to.

And it has occurred to me, we had set up the asset allocation, as described earlier, to have a balance of nutrients.

And we think of the portfolio in kind of growth and inflation quadrants. And we're at the point now with GDP at 3 percent and core CPI above 2 where we're at kind of a higher growth and higher inflation environment than we've been in.

And it's encouraging to see the assets that are in the top right quadrant have the best performance, best reaction to that kind of high growth and high inflation environment.

So again, speaking to the balance, we have assets in all different types of environments. We build a portfolio to generate long-term returns.

And this is evidence that the assets allocation contingent is behaving as it should be.

I won't get too much into -- specifics into equity or fixed income portfolio. We discussed fourth quarter results. Certainly equity markets who suffered in the fourth quarter rebounded a bit early, days throughout the year.

And fixed income returns have been generally muted as interest rates have risen and credit spreads have widened. Returns have been around 1 percent or so plus or minus. Certainly not as volatile as other asset classes.

I'm happy to take any specific questions you have on performance. But I just wanted to provide a high-level update before we move on to other agenda items.

Seeing none, I'll turn it over to Dr. and Mr. Andre to talk about a portion of our equity portfolio.

TREASURER GOLDBERG: Getting very clever here, "Dr. and Mr."

MR. CLAPP: I'm Andre Clapp, senior investment officer in public markets. And given the long agenda, I'm going to jump right to the voting item for today.

Attached as Appendix H is our presentation regarding our U.S. small cap recommendations. Attached as Appendix I is Callan's memo supporting these recommendations.

And in order to be brief, I will not go through the whole presentation but rather walk through our recommendations, only one of which requires you vote today. And then I'm going to focus on page 14 in Appendix H.

Our first recommendation is to terminate Huber Capital, a small cap value manager who has consistently underperformed their benchmark since we hired them over five years ago.

Our second recommendation is to hire three U.S. micro cap managers, Acadian, Brandywine and Lord Abbett, allocating $100 million to each of them.

And I'd like to introduce Andre Abouhala to talk about this recommendation now. As you've heard, Andre is newly promoted to investment officer. And he headed up our U.S. micro cap RFP search and did an excellent job, in my opinion.

MR. ABOUHALA: Thank you, Andre.

Good morning, everyone. I'm Andre Abouhala, investment officer, on the public markets team. Today I'll just be providing the key points of the recommendation. And the recommendation is on page 12 of Appendix H.

As you may recall, we issued a U.S. micro cap equity RFP last April, receiving 55 responses. The search was probably the most collaborative search that I've been a part of at PRIM.

In addition to the public markets team and the experts at Callan, Michael Bailey joined the team as part of his rotation in PRIM's professional development program.

Not only did he bring a unique perspective to the team, but he was also in the trenches in every call, every meeting, asking tough questions, sharing his notes, reading through RFPs. And it was an overall great experience for the team to learn from him and vice versa.

Paul Shanley was kind enough to join us on the evaluation committee. Paul attended our on site due diligence trips throughout Boston as well as interviews at PRIM offices.

We also had members of the PCS team --

Bill Li, Eric Nierenberg, Maria and Liu -- join the team to help teach us their quantitative screens, which we found to be very compelling and efficient.

This search was really a total team effort, and we're proud of the outcome.

As a result of this collaboration, we took the opportunity to enhance our active manager selection process by incorporating the PCS screening tools as a quantitative minimum criteria within our process.

This screen seeks to quantify two very important but basic questions: Does a manager have alpha capability and is a manager additive to the existing portfolio?

And if the answer to both of those questions is yes, then we'll move forward with due diligence on that specific manager.

The high level of overlap between this PCS screen and our existing or traditional process was high. And the three recommended managers we selected today were finalists -- were selected as finalists by both processes.

Therefore, we think the inclusion of this

PCS screen within our process is an effective and efficient way to analyze the universe of managers over one specific manager, which brings us to the voting item.

And today we are recommending a total allocation of $300 million for three active U.S. micro cap equity managers: Acadian Asset Management, Brandywine Global Investment Management, and Lord Abbett & Company.

These three managers we are recommending each offer what we believe are unique and complimentary characteristics. They are exceptional firms with talented staff, dedicated resources and a very good track record of managing U.S. micro cap equities.

Collectively we believe they will enhance the risk return profile of the existing SMID small cap portfolio. And I'd also like to mention Matt Liposky, Chris Supple and George Tsipakis's efforts. They were really instrumental in the operational and legal onboarding of these managers.

And that's it. Thank you.

MR. CLAPP: So as Andre mentioned, the

hiring of these three managers does require your vote and was unanimously approved by the investment committee.

Our last recommendation is that we plan to continue sourcing the best managers. This is on page 14 of Appendix H.

Historically, once the RFP was completed, the public markets team stops looking for the best managers in that space, given that there was no opportunity to make an investment recommendation without issuing a new RFP.

Today I want to assure you that PRIM staff will continue to monitor the universe of investment managers to constantly identify skillful, complimentary managers in U.S. micro cap, as well as in all other public market sub asset classes, and bring those recommended firms to the investment committee and the board for recommendation and approval.

RFPs are a great way to source managers when seeking to hire multiple managers all at once, like we just did for the U.S. micro cap. However, when seeking one to two managers a process that sources managers more nimbly is required.

In order for PRIM to take advantage of opportunities, we need a more efficient sourcing process or a non-RFP sourcing process.

A perfect example of this arose during the U.S. micro cap RFP process. Prior to issuing the RFP we identified a very high-performing micro cap manager who we know very well as they currently manage assets for us in another strategy.

Unfortunately, this manager did not respond to this RFP because their micro cap strategy was closed due to capacity reasons when the RFP was issued back in the spring of 2018.

A month ago this manager called us and said that due to mutual fund redemption, this strategy was -- now had room for PRIM if we were interested. We were their first call.

Now we plan to perform due diligence on this strategy. And we will bring this manager to the investment committee and then to you, the board, as the recommendation if it passes through our due diligence process.

By not limiting our sourcing to those firms that respond to an RFP, we expand PRIM's opportunity to invest with the best managers and their best products.

Now, I want to assure you that public markets will continue to use an RFP process to hire multiple managers, but we want to enhance the RFP process by adding a non-RFP process for sourcing individual managers.

This enhancement to our sourcing will allow PRIM staff to constantly be in the market evaluating potential investment managers across all our asset classes.

So in summary, our recommendations are to, one, terminate one manager, Huber Capital; two, hire three micro cap managers, this is a voting item; and three, enhance our sourcing of managers by adding a non-RFP process.

Thanks.

TREASURER GOLDBERG: Is that it, Dr. Andre?

MR. CLAPP: That's it. Thank you.

TREASURER GOLDBERG: Okay. So we do have the -- the wording of the vote does not describe the non-RFP process.

Chris, is that okay?

MR. SUPPLE: Yeah, that's fine. I think, as Dr. Andre said, you'd be coming back to the committee for further recommendations?

TREASURER GOLDBERG: If we were to vote on --

MR. SUPPLE: For further recommendations?

MR. ANDRE: That's right. Any further recommendations.

TREASURER GOLDBERG: Theresa, you wanted to ask something?

MS. MCGOLDRICK: I had a question on the non-RFP process. I just wanted to know if the legal department, if you've reviewed that?

MR. SUPPLE: Yes. Oh, yes. There's no legal impediment to proceeding in the way he's described.

MS. MCGOLDRICK: And other funds do this, non-RFP?

MR. SUPPLE: Absolutely.

MS. MCGOLDRICK: All the time?

Okay. Fair enough. Thank you.

MR. TROTSKY: We're still using RFPs.

MR. SHANLEY: They're letting us know in advance that going forward --

MS. MCGOLDRICK: I know.

MR. BROUSSEAU: Is this all in one motion, or do we have to vote to terminate Huber separately and then to allocate --

TREASURER GOLDBERG: No.

MR. BROUSSEAU: Okay. It's all one motion?

TREASURER GOLDBERG: We're voting to approve. We don't need to vote to terminate.

MR. ANDRE: Only the hiring of managers.

MR. BROUSSEAU: Only the hiring of managers. Okay. The staff can terminate a manager.

TREASURER GOLDBERG: So I'm going to seek a motion that the PRIM board approve the investment committee's recommendation to approve the selection of three firms -- Acadia, Brandywine and Lord Abbett -- for a combined $300 million allocation to the U.S. small cap equity as described in Appendices H and I of 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: This is a roll call. Bob?
MR. BROUSSEAU: Yes.
TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
TREASURER GOLDBERG: Theresa?
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: Me, yes. Done. Thank you.
MR. TROTSKY: Thank you. Well done.
TREASURER GOLDBERG: Other credit opportunities.
MR. LI: Other opportunities for

investment.

And good morning, everybody. My name is Bill Li. I'm the senior investment officer for PCS.

For this investment, it's a collaboration between the PCS team and the public markets team.

I'm going to briefly talk about the relationship between PRIM and the investment manager versus Chuck, who will talk a little more about the details of the investments.

Anchorage Capital is based in New York City, one of the world's most sophisticated corporate credit specialists.

PRIM has an established history with the manager since 2011 through the alternative investment buckets.

And throughout the years we have developed a high conviction in the manager, specifically its structured credit team, through our investment interactions formally and informally.

You may notice that this team has been one of the major drivers of Anchorage's hedge fund product.

And so then together with the public markets team we started asking ourselves is there any possibility of cherry-picking this team's expertise in a separate account.

In the meanwhile, we will be able to secure good economics for transparency. Those are better than the flagship hedge fund product offered by the firm.

So that's the synopsis for this investment. And I'll hand it over to Chuck for more details.

MR. LAPOSTA: Sure. Thank you, Bill.

A complete write-up can be found starting on page 12 of the agenda. I will summarize some of the high points in addition to those that Bill made about the relationship with the firm and the expertise that they bring.

And it's also important to note that this was discussed at the investment committee and voted unanimously to bring before you today.

So as Bill mentioned, the strategy will focus on the structured credit expertise at Anchorage.

The proposed strategy will primarily focus on creating structured credit investment opportunities within the primary market while allowing for flexibility to purchase secondary market positions based on market evolution.

And it's important to note that the structured credit market today -- and when I say "structured credit market," it's kind of a combination of assets and liabilities structured together to create a certain investment opportunity.

But the structured credit world today is different in many ways than it was certainly in 2008 in the global financial crisis.

These investments allow a broader opportunity set of high-yield bonds, bank loans, etc. rather than just residential mortgage-backed securities, which were prevalent in 2008 vintage structured credit vehicles.

And by allowing broader opportunity you get more diversification among credit, among industry, among sector, among credit quality as well, and up and down the capital structure certainly.

It's also important to note that within this structured credit there are no synthetic structured credit exposures, which were referred to as "CDO-Squared" back in 2008, where they were investing in other CDO structures.

So there's a lot of things that are different and more -- serve to reduce the risks of investments in this world.

Additionally, in addition to the structural elements, Anchorage certainly has its own benefits that it brings to this. Certainly the credit expertise that they bring, the trading acumen that they have on staff.

They have a 100-name focus list and then another 100 names or so that they target. And they actively manage the exposures underlying that.

In 2016 they turned the portfolio over 100 percent to take advantage of market disruptions.

They've demonstrated their expertise in building structured credit portfolios, trading them, turning them over, and generating returns that Bill has alluded to. It's been kind of the shining star within their hedge fund business.

And then to have the opportunity to create this separate account, to isolate this particular expertise that they have and take advantage of it and do so on kind of PRIM's terms in a separate account with negotiated fees, is a benefit to us.

So that's a quick summary of the strategy. Again, we've discussed it in the investment committee. I'm happy to take any questions or move on to the motion.

TREASURER GOLDBERG: Are there questions?

So I'm going to seek a motion of the approval of an initial allocation of $150 million to the Anchorage structured credit separately managed account, that the PRIM board approve the investment committee's recommendation to approve an initial allocation of $150 million to the Anchorage structured credit separately managed account as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: I'll move.
TREASURER GOLDBERG: Is there a second?
MR. BROUSSEAU: Second.
MS. FITCH: Second.
TREASURER GOLDBERG: Again, Bob?
MR. BROUSSEAU: Yes.
TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
TREASURER GOLDBERG: Theresa?
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: Me, yes.
Thank you. Okay. Next?
MR. BROUSSEAU: I just had a question. I didn't know whether to bring it up because it doesn't apply to what was done here because this is public markets.

There was in the newest issue of Pensions & Investments, the front page had quite an article on how State Street -- SSGA has fallen down to third place in the passive market.

Does that have any impact -- how do we -- we have large sums in the passive strategy. Does that impact us at all?

I don't know if anybody saw the article. It was in the newest issue.

MR. CLAPP: I would say it really doesn't impact us. SSGA does an excellent job for us, and their fees are really very small. They track their indices very well, which is basically the performance metric for --

MR. BROUSSEAU: So this is only a size thing that the article was going after, how they have fallen behind a band of two other firms now into third place. And they were restructuring or going to plan some restructuring so that they could regain some kind of --

MR. CLAPP: Our experience with them has been excellent. And really we've seen no reduction in performance.

UNIDENTIFIED SPEAKER: I believe the other two firms were BlackRock and Vanguard.

MR. BROUSSEAU: Yeah, BlackRock and Vanguard were the other two.

MR. CLAPP: We use BlackRock for our passive fixed income. So we have exposure to two of the top three. And again, they're -- in any given list, they're going to be your index providers. They're the marquis players.

MR. TROTSKY: The only time where it might impact us is if it fell to such a level that we were being -- we would have too much of their -- too much exposure to them as a percent of their assets.

But they are so gigantic, trillions of dollars, that that rule won't apply.

TREASURER GOLDBERG: All set?

MR. BROUSSEAU: Yup.

MR. NIERENBERG: Hello again. Eric Nierenberg, chief strategy officer, here with my colleague, Bill Li.

We have some items to discuss with you for portfolio completion strategies, starting with a couple of highlights from the 2019 annual plan.

As you know, Bill has taken over the PCS portfolio and will talk about that in a second.

I wanted to mention a couple of things that we have highlighted as our goals and objectives for 2019 within asset allocation, research and risk management.

Focusing on risk management first, we're in the final stages of hiring a risk director to join PRIM.

And once that occurs I think we'll be able to achieve more regular reporting of the drawdown vulnerability analysis, which Maria referenced in part of the asset allocation plan, and we'll also be able to conduct a full review of our risk system architecture here at PRIM.

On the asset allocation and research side, we want to continue to refine the asset allocation framework that you heard about earlier today.

It may be better to incorporate some of the fundamental and qualitative views that might be out there and expand the framework.

Also, Bill will touch upon it briefly,

we're going to expand the scope and size of the equity hedge risk mitigation strategy. And near and dear to my heart is this research collaboration across the different asset class groups here at PRIM.

There are a number of internal management-related research projects that we are -- already have kind of conducted kickoffs for in short-term fixed income, within concentrated equities, alternatives replication, real estate mergers and acquisitions.

So that's something we'll be talking about a lot more over the coming months. And we're very excited about that throughout the organization.

I'll turn it over to Bill for PCS.

MR. LI: Thank you, Eric.

So briefly on PCS, of course aside from the ongoing effort in reviewing and vetting -- reviewing existing managers and vetting new managers, we are going to be focused on the emerging manager program that you voted on and started last September.

Ever since then there has been $150 million put into work across three managers.

However, this is a program targeting under-the-radar investment talents around the globe. And we are hoping to run this up to $500 million in the near future. So that would be another eight to ten managers to be heavily vetted in the next one to two years.

And along with that, emerging markets. We're getting increasing amount of pitches from other markets outside of the U.S. There's a high dispersion in those markets as well as in investment managers.

We will spend a little bit more time on those fronts as well from an alpha perspective.

Next, we are going to talk about investment process and streamlined repeatable metrics for the illiquid investments.

One of our efforts in 2019 is to design metrics for the less liquid assets spectrum so that we can have a repeatable process there as well to overweigh some of the human biases.

MR. NIERENBERG: And I think that we can turn to -- we have three different investment recommendations for you. Bill will take you through those.

MR. LI: Relative to most public markets, the hedge fund industry in general had an okay year measured by HFRI index.

The industry returned -1.3 percent for last calendar year versus PRIM's direct hedge fund portfolio returned 3.5 percent.

So that's a quite significant outperformance versus the industry norm. Of course, we use U.S. hedge fund in a very different way as it will be a dampener for the whole PRIM fund.

Versus our custom benchmark, it's outperformance of 20 percent. So that's performance above the direct hedge funds.

If you don't have any questions, we can switch gears to new investment recommendations.

The first investment recommendation in PCS is related to Italy. And I'm going to be joined by our colleague, Francesco, as well.

TREASURER GOLDBERG: Who had a distinct advantage while they were there.

MR. DANIELE: Good morning.
MR. LI: For this investment, it's an interesting backdrop. In short, Italian banks have been selling a flush of nonperforming loans, or NPLs, over recent years. And along with that, there is also increased conversations with managers across different buckets on this specific thing.

Fortunately, we have an internal expert, Francesco, who is also PRIM's senior client service officer.

For over a decade in his previous life Francesco used to broker bank loans on the ground in Italy and other southern European countries.

For this investment we had over half a year's vetting process. With Francesco's help we were able to narrow it down to one specific manager, Investcorp, where we believe it has more advantages versus other larger peers.

So before going into the manager specifics, I'll let Francesco speak.

MR. DANIELE: Thanks, Bill.
Francesco Daniele, senior client services officer.

As Bill mentioned, we were looking at Italy for quite some time. It was my great pleasure to work with the investment team.

It was really great to see how the engine worked under the hood, the engine on the investment team. I was a great opportunity for me. Thanks for letting me participate.

Italy, the Italian nonperforming loan sector, like most banks, challenged through the global financial crisis.

Banks are typically great at originating loans, not so much at recovering them when they become nonperforming.

So you had a mismatch between the staffing and the size of the supply within Italian financial institutions, specifically banks.

Second, why is the opportunity interesting now? Well, there have been some changes. A huge removal of one of the bottlenecks is, in Italy foreclosures happen through the judicial process. And the ability to get to a clearing price has now become easier because you can lower your price for a piece of real estate collateral by up to 25 percent, which was not the case traditionally.

So you can get to a market clearing price much more efficiently, and that's a huge bottleneck removal.

And then third, the ECB has really changed their tone as of January 1st of this year. It is now calendar provisioning.

So once a loan becomes nonperforming it's nondiscretionary. You have to each year set reserves aside against the nonperforming loans on the calendar. So zero discretion.

That's a big factor which we've seen in the market where nonperforming loans have become enabled there.

Those are the three major themes in the Italian market.

MR. LI: Thank you, Francesco.

For this specific fund, it will be structured by Investcorp, a New York-based firm, and it will be managed by Eidos, a Milan-based specialist.

Basically, the manager sources nonperforming loans from predominantly smaller banks at a discount and then it will try to recover as much residual value as possible. And that difference would be our return.

Unlike other larger funds, mega billion funds, that in Italy purchase distressed commercial mortgages -- so those are the bigger buildings --and tried to take over those buildings before reselling them or repositioning them, Investcorp -- this fund managed by Investcorp, it will create -- primarily target smaller loans backed by secondary or tertiary residential mortgages.

And also, they will target a consensual resolution with the borrower instead of trying to take -- really taking over the collateral in people's homes.

It's worth again mentioning that the collateral behind those targeted loans will not be -- will not be primary homes. The reason being that if a borrower has multiple properties, then very likely when communicated the right way, he or she will be able to find the cash to pay back their debt.

That's a strategy we find more

favorable than targeting primary homes or targeting bigger buildings, which takes further time, longer time to monetize.

With that said, we're happy to take any questions that you may have.

MR. BROUSSEAU: General questions just on Investcorp. Eidos Partners has been appointed by them. Is there a business relationship other than they've chosen them to carry out this mandate or what they're going to do?

They're not related? It's separate? Eidos is a separate company?

MR. LI: Eidos is a separate company. They have a business relationship.

So Eidos, their expertise is the sourcing and the recovering of loans on the ground versus Investcorp is good at structuring funds. That comprises operations, fund marketing, interaction with investors as well as legal and compliance.

Basically Investcorp is the master manager in this case versus Eidos the advisor in this accountI hope that helps answer your question.

MR. BROUSSEAU: Secondly, I've been

reading a lot of articles that the financial situation in Italy is so bad in terms of the banks, the debt, that the European Union might take strong actions in the near future to deal with this issue.

Would this impact these banks, this debt, these nonperforming loans?

MR. DANIELE: That's a great question, Bob.

I think in terms of liquidity in the Italian market, that's one of the reasons why they're forcing the calendar provisioning.

I think the ECB's tone has been quite strong because they know they have to help some of these institutions clear some of these nonperforming loans.

MR. BROUSSEAU: Any EU actions against Italy, per se, would not impact this kind of an investment?

MR. DANIELE: It could actually increase the supply of nonperforming loans

MR. LI: So that would give the buyers more bargaining power in that case because if the banks aren't forcing the sale to more accurately provision their bad loans.

TREASURER GOLDBERG: Any other -- you're finished with the presentation?

Any other questions?

So let me find the wording. Okay. So we would seek an approval of -- I'd seek a motion for approval of up to $125 million to the Investcorp Special Opportunities Italian Distressed Loan Fund II, that the PRIM board approve the investment committee's recommendations to approve a commitment of up to $125 million to the Investcorp Special Opportunities Italian Distressed Loan Fund II, as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. HEARTY: So moved.

TREASURER GOLDBERG: Is there a second?

MS. FITCH: Second.

TREASURER GOLDBERG: Are there any additional questions before we take the vote?

Then, Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
TREASURER GOLDBERG: Theresa?
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me, yes. Thank you.
Next?
MR. NIERENBERG: Thank you very much.
I have two different investment recommendations. I'm going to actually talk about them more or less in tandem since they're pretty closely related.
TREASURER GOLDBERG: They are two votes.
MR. NIERENBERG: They are two separate votes. I'll make some distinctions between them.
The similarities are that if you think

about what we try to do in portfolio completion strategies, it's identify investments that have attractive rates of return with fundamentally low correlations to the rest of the PRIT portfolio.

And in these two investments here we do think we have identified a set of opportunities in the hard asset space.

What I mean by "hard assets" is that these are strategies that involve acquiring true physical assets which are then leased out to different operators.

In the case of both Sightway and BlackRock, the primary component of that is aircraft leasing.

Fundamentally these strategies involve the purchasing of actual physical metal aircraft and then leasing them to, for instance, airlines.

Sightway has another component to it which is very similar in concept, that being railcar leasing. You buy the metal railcars and then you lease them out to different companies that need to transport their goods.

We have a lot of research on this.

Again, a lot of thanks to my team because they've put a lot of work into delving into this market, into this industry, in great detail to make sure that it had the characteristics that we were looking for.

One of the interesting features of the aviation market more generally is that it's actually one of the best ways to tap into global growth.

We talk a lot about having exposure to the growth factor within our portfolio, but that's really more thinking about stock market data.

What we really would like to have is more exposure to just growth throughout the world. Emerging market stocks is one way and international stocks is another way of achieving this, but you're still investing in stocks.

What's interesting about the global aviation market is as you see the emergence of the middle class in countries like China, in India, in Indonesia, air travel is one of the goods that people consume in increasingly almost exponential-type fashion. It actually grows faster than global GDP growth.

By investing in a diversified portfolio of aircraft on lease to airlines throughout the world, we feel that you can have a -- with the correct managers -- and I want to stress that. We've talked to a lot of different managers in this space before selecting these two that we thought had the right strategies -- and their strategies are different; I'll highlight those in a second -- to participate in this market.

So let me focus first on Sightway.

Sightway is a unit of Two Sigma. Two Sigma is one of the largest hedge funds in the world. The Sightway unit started when the principals of Two Sigma wanted to have a proprietary vehicle for investing the money they made from their own hedge fund.

They decided to focus on cash flow generating industries. They didn't want to just focus on the companies that they thought were going to grow in the future. They wanted companies that would produce cash in both the short and long term.

There are a number of different operating companies that Sightway has seeded and started over the last few years. But the ones, again, that we are most interested in are the ones that are backed by real assets.

Their aviation platform, aircraft leasing platform, is called "Wings." It's based in California. And it pursues a strategy of buying the workhorse airplanes of the industry, basically the Boeing 737 and the Airbus 320.

I guarantee if you've been on a plane in the last few years, there's probably a 90 percent chance you've been on one of those two planes.

They acquire these planes and then they re-lease them to airlines, again, throughout the world.

Sometimes it will be American airlines, sometimes they will be in emerging markets, sometimes in Europe. The idea is to build a consistent set of returns.

It is a technically intricate business. There are different operators that have come in, that have tried to participate here.

And if you don't really understand planes, if you don't really understand the metal, if you don't really understand how engines can decline in value over time, then you have the potential to get hurt.

And we do feel that these are among the two most experienced teams that we met.

The Sightway strategy is focused on these kind of workhorse models of the aviation industry, releasing them and obtaining attractive returns.

The other element to the Sightway strategy which I alluded to before will be railcar leasing. Railcars cost much less, of course, than planes, but they're no less needed.

There are a million and a half railcars in North America alone. 97 percent of those are leased. Most of them are actually used as effective storage bins by companies like DuPont and Dow Chemical to just store their items before they're transported somewhere else.

The BlackRock aviation strategy is a little bit differentiated. Sightway focuses on midlife aircraft, aircraft anywhere from about seven to 15 years old.

The BlackRock strategy is more of what I call a chop shop type of approach. You're taking airplanes that are towards the end of their useful life and you're figuring out what to do with them.

Sometimes that can mean converting them from a passenger plane to a cargo plane, which extends their life another 10 or 15 years. Sometimes it involves taking the engines off the plane and putting them onto another plane.

And much the way that a -- someone who goes to car auctions and figures out how to buy used cars and then resell them. It's a similar strategy on a broader scale with BlackRock.

Those are my highlevel comments. I'm happy to take any specific questions on the two strategies.

TREASURER GOLDBERG: It gives me absolute confidence in flying.

MR. BROUSSEAU: I'll check how old the plane is and if it has a leased engine on it.

TREASURER GOLDBERG: That's the new question when you board.

MR. NIERENBERG: Engines, as it turns out, get transferred all the time between planes.

So one of the technical items that you have to ask is that companies need to track where their engines are at any point in time across the world.

MR. NAUGHTON: This is Dennis. I have a quick question, Eric, if I may. And maybe this is more for Chris. But this is sort of a different investment, and it sounds very attractive.

What legal liabilities will we incur if things that we had leased failed?

MR. NIERENBERG: You're saying if the planes fail?

MR. NAUGHTON: Yeah. Are we insulated from that?

MR. SUPPLE: Yeah. I don't think we would have any operational control or liability as a result of this investment, Dennis.

MR. NAUGHTON: Okay. I just wanted to be sure.

MR. NIERENBERG: Just to clarify, all maintenance is required to be done by the operators of the planes, so by the lessee of the plane.

To the extent that there is any sort of

issue with the plane, that would go to the actual lessee who is required to maintain the plane and/or the manufacturer, which would be Boeing or Airbus.

As the owner of the plane, if something were to happen to the plane, you would actually be more likely to be a claimant than have any sort of liability.

MR. NAUGHTON: Okay. I just wanted to be sure. Thanks.

TREASURER GOLDBERG: Any other questions on this?

MS. FITCH: Up to $500 million seems like a lot. Is there a reason why it's that big an amount as opposed to 250, 350?

MR. NIERENBERG: Yes. To be clear, what's going on here is that the first two investments -- this is designed to be an ongoing relationship with Sightway.

As new platforms are introduced by Sightway, we have the opportunity but not the requirement to add capital to those.

For instance, if there's $500 million, about $300 million has been -- would be allocated through the first two platforms, one of which is the Wings and aircraft leasing and the other is the InStar railcar leasing.

MS. FITCH: Say that again.

MR. NIERENBERG: The aircraft leasing platform and then the railcar leasing platform. Between the two of those, that's about $300 million.

The $500 million commitment allows us to have -- to gain sufficient capacity should we want it in subsequent platforms relative to the commingled fund that Sightway is also raising.

I just want to be clear, the $500 million does not mean that we would -- that all of that is being invested right away.

And furthermore, to the extent that there would be other investments, those would be things that would be -- that would come to the Board as well.

MS. FITCH: I guess that's kind of what I'm getting at is, it doesn't need an additional approval, but I think it's good for us to know how -- you know, this is a big investment, costly. And we should know.

MR. NIERENBERG: I totally concur.

MR. SHANLEY: This is part of the strategy of first call, after you get with them and -- we get the first call?

MR. NIERENBERG: Yes.

TREASURER GOLDBERG: Any other questions?

So this is two separate votes, one for each strategy. So I would seek a motion of an approval of an initial allocation of up to $500 million to the Sightway Capital Fund of One, that the PRIM board approve the investment committee's recommendation to approve an initial allocation of up to $500 million, the Sightway Capital Fund of One, as described in 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?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Okay. Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa?

MS. MCGOLDRICK: Yes.

TREASURER GOLDBERG: Carly.

MS. ROSE: Yes.

TREASURER GOLDBERG: Jim?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Ruth Ellen?

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: Me, yes.

Second vote. I seek a motion of an approval of an initial allocation of up to $100 million to the BlackRock Aviation Holdings Fund of One, that the PRIM board approve the investment committee's recommendation to approve an initial allocation of up to $100 million to the BlackRock Aviation Holdings Fund of One, as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

TREASURER GOLDBERG: Second?
MR. BROUSSEAU: Second.
TREASURER GOLDBERG: Okay. Bob?
MR. BROUSSEAU: Yes.
TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
TREASURER GOLDBERG: Theresa?
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me, yes. Thank you.
MR. TROTSKY: Thank you.
MR. BAILEY: Good morning. I'm going to spend a couple of minutes on performance before we come up to the private equity voting item.
And as Michael I think is walking you

through, we have decided to try to consolidate some of the voting items to make this vote similar to the vote we took at the investment committee meeting.

TREASURER GOLDBERG: Yes. Which we're all fine with.

MR. BAILEY: Great.

Let me spend a moment on performance. The private equity portfolio continued to provide very strong performance for the overall pension plan.

So it moved up from 10.9 percent to 12.1 percent of the total portfolio, as you've seen in the performance reporting.

And the performance was, again, very strong at 24.5 percent. To remind you, we're looking back to the quarter that ended in September.

So we're looking, to Michael's point, on where these numbers are stale but still continue to show very strong performance.

And also, as you'll note, the materials, really

strong liquidity where the portfolio has generated about more than 25 percent of its initial valuation, or about $2 billion, came back to the pension plan in cash, which I think is a good leading indicator that these were not just accounting gains, what we call mark to market gains, but actual -- kind of think about selling your house.

If you sell your house, you kind of know what it's worth after you sell it. These portfolio companies actually got sold, so we know what they were worth because we got the cash for them.

So I consider that a high kind of quality of earnings number at 24.5 percent. And it -- I like to think about it in terms of how it performs against other people who are trying to choose private equity funds like we are.

And it outdistanced one of the widely viewed industry competitors -- I'm sorry -- industry research groups, Cambridge Associates, by about 4 percentage points.

And I don't need to remind you that it very widely outperformed -- continued to widely outperform public markets, which took a real down draft in the fourth quarter.

And I would say that given the lag here, we're going to see the private equity performance also ease off a little the next quarter, but I think it's going to continue to outdistance public equities.

I would think about that number really not on a one-year basis but more over longer periods of time. That's how we're thinking of that. It continues to outdistance our goal, which is for it to beat the public markets by at least 3 percentage points a year.

And so with that, I'll tell you that with your approvals last year, we, as you see from that chart that Paul is looking at on page 23, about $1.6 billion of new commitments.

And that lets me touch on our goals for 2019, which are to -- based on the good work and the collaboration with Eric and Maria's group to bump up that asset allocation by 1 percent from last year's approval of 12 percent to a midpoint of 13 percent.

One of our goals is to increase the capacity of our investments in private equities with that dual goal of continuing to increase the quality of the private equity portfolio.

So I think you're going to hear us continue to come with new investment ideas. And in a couple of minutes Michael is going to walk through one of those ideas, which is to ask you to give us a little more capacity to increase our coinvestment base.

A couple of other goals for 2019 are to -- you know, I'm really proud of the work the group has done to continue to make improvements on how we make decisions about these investments.

And we're really redoubling our efforts and collaborating with the research team, Eric's team, Maria and Grace, to improve our decision-making process, to be data driven and objective when we make these decisions, and try to take away that human component that Bill alluded to.

And then finally, the team was really busy last year with 15 fund investments and a record number of coinvestments. We had ten coinvestments last year.

So this is the team, the three of us. So it's a pretty stretched resource. And we've been trying hard to add resources to the team.

And I think we're going to really work hard to try to expand the size of the team we've been blessed to have, some of Andrew Gromer's time. It's been recognized he has a full-time job.

So we're trying to find a full-time resource to help to backfill for what's a really challenging fundraising market.

With that, unless you have questions about performance, I'm prepared to turn to the voting items.

I'm happy to take any questions about performance or what we're planning to do in 2019.

So we're going to go over to page 24 where we begin to talk about the voting items.

And Sue, I don't know if you want to help.

MR. TROTSKY: Which are you going to take first?

Mr. Bailey: We're going to take the four incumbents first, if that's okay, and then we're going to take one new investment.

MR. TROTSKY: Just in time. You're perfectly on time. Like, right on cue.

TREASURER GOLDBERG: Okay, then. I would seek a motion of the approval of the commitments to four existing private equity managers, that the PRIM Board approve the investment committee's recommendation to approve the following commitments to funds managed by existing private equity managers, as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

First, Blackstone Capital Partners, up to $250 million; Providence Strategic Growth, up to $100 million; Spark Capital, up to $10 million; Spark Capital Growth III, up to $20 million; and Lovell Minnick Equity Partners V, a $25 million additional commitment.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: I want everyone to repeat exactly what I just said.

Is there a second?

MS. FITCH: Second.

TREASURER GOLDBERG: Okay, then. Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me, yes. Thank you.
UNIDENTIFIED SPEAKER: And then we were going to ask if we could take up the item related to American Industrial Partners VII. And if we could, Alyssa Fiore from our team was going to introduce that investment.
TREASURER GOLDBERG: Go ahead, Alyssa.
MS. FIORE: Hi, everyone. So we're back on page 25. And as you might know, this is a new investment for a private equity portfolio.
We're recommending a commitment of up to $75 million to American Industrial Partners Fund

VII.

This is a value-oriented middle market firm located in New York City with one team and one strategy. They invest in industrial businesses as well as industrial services companies.

Fund VII will be $3 billion in commitments. The senior team has been working together since 2005 and has lead operating and engineering expertise.

Their AIP strategy is that they look for industrial companies that are good companies on a bad day.

So for example, AIP recently purchased GE's lighting business. So this was a business that was kind of orphaned inside GE. So a really good business.

And AIP now will be able to go in and transform the business to be more attractive. They have really deep operating expertise. And we're really excited to add this as a new investment to our portfolio.

Happy to answer any questions.

TREASURER GOLDBERG: Any questions at all?

MR. BROUSSEAU: No.

TREASURER GOLDBERG: Okay. I would seek an approval of a commitment of up to $75 million to American Industrial Partners Capital Fund VII, that the PRIM board approve the investment committee's recommendation to approve a commitment of up to $75 million to American Industrial Partners Capital Fund VII, as described in 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: Second?

MR. HEARTY: Second.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa?

MS. MCGOLDRICK: Yes.

TREASURER GOLDBERG: Carly?

MS. ROSE: Yes.

TREASURER GOLDBERG: Jim?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Ruth Ellen?

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: I vote yes.

TREASURER GOLDBERG: And I, Yes. Thank you.

Okay.

MR. BAILEY: And there is a companion motion then relating to the American Industrial Partners.

TREASURER GOLDBERG: Is that the new coinvestment manager motion?

MR. BAILEY: Yes.

TREASURER GOLDBERG: I seek a motion for approval of the new coinvestment manager, that the PRIM board approve the investment committee's recommendation to approve the addition of American Industrial Partners to the board-approved coinvestment manager bench --

That would be a good idea since we just gave them money.

-- as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

TREASURER GOLDBERG: Second?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa?

MS. MCGOLDRICK: Yes.

TREASURER GOLDBERG: Carly?

MS. ROSE: Yes.

TREASURER GOLDBERG: Jim?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Ruth Ellen?

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: Me, yes.

Next?

So do you want to say --

MR. BAILEY: We would like to

just say a word on this.

TREASURER GOLDBERG: Yes. Go ahead.

MR. MCGIRR: I'm Michael McGirr, senior investment officer on the private equity team.

We've been talking through some of our recommended changes to the coinvestment program with really the goal in mind to expand and prioritize coinvestment, as Mike had mentioned.

As a reminder, coinvestments are direct investments in private businesses alongside our existing private equity managers. It's internally managed. It's direct. And there's no fees and there's no carry. So it's very cost-effective.

As you all voted on earlier to the asset allocation changes to increase private equity, really the goals here with the three bullet points on page 28 are to expand and prioritize the coinvestment program.

The first bullet point is to increase the coinvestments from 10 percent to 20 percent of the private equity annual commitments.

The second being to increase the maximum size from $30 million to $75 million.

And the third bullet point is really to

delegate additional authority to staff when recommending coinvestments to the executive director and chief investment officer.

Again, all in line with the goal of expanding and prioritizing the coinvestment program.

So I'm happy to take any questions about these proposed changes or any questions in general about the coinvestment program as it exists today.

MR. BROUSSEAU: Fast question, Mike. The third point here, the recommended changes, that means that you could recommend a coinvestment to Michael and he has authority through this to implement it?

MR. MCGIRR: That's right.

MR. BROUSSEAU: We don't need the approval of the board?

MR. MCGIRR: That's the existing mechanic so far. So all of the coinvestments can be as quickly -- happen as quick as two weeks from start to finish. Very, very time sensitive.

So the program that we designed and developed in 2014 delegated authority to the executive director and CIO in order to make these quick decisions.

MR. TROTSKY: Provided they meet certain criteria,

MR. MCGIRR: Absolutely.

MR. TROTSKY: And that was approved by the committee and board.

So there's a checklist that we go through. And as long as it's compatible with the board-approved policy, we approve it.

TREASURER GOLDBERG: Any other questions?

MR. BROUSSEAU: No.

TREASURER GOLDBERG: Again, this --

MR. NAUGHTON: I have one question, Madam Treasurer.

TREASURER GOLDBERG: Go ahead.

MR. NAUGHTON: So I'm trying to remember. Do we get reports on those in between times, or do we just get reports on those quarterly?

MR. BAILEY: We report on those at the following quarterly meeting after the investment has actually closed.

And they are -- they are reported on in a memo that is the same memo that the executive director approves, that gives us authorization to make the investments.

So those are part of your materials on a quarterly basis.

MR. TROTSKY: It's in the second part of the --

MR. NAUGHTON: So how often do these investments take place?

MR. BAILEY: Last year -- they're very lumpy.

THE TREASURER: I like the way he describes it.

MR. BAILEY: They sort of relate to kind of how often the private equity firms find a coinvestment -- sorry -- find an investment and then find one that they think fits with our coinvestment program.

So you're sort of threading a narrow needle. And we were surprised last year that we had the pace increase to ten. Ten in total over the year. We probably saw roughly twice that number.

So probably ten failed to meet the criteria and ten passed the criteria, Dennis.

So it's hard to predict. We're right now working on three. We have three pieces of live ammunition we're working with right now on coinvesting.

MR. NAUGHTON: Well, the reason I ask, Michael, is because I wondered if it would be, you know, a great inconvenience to just email the members of the board as those took place and just let us know.

MR. TROTSKY: It's in the materials for the second half of this meeting.

MR. NAUGHTON: Yeah. I'm just looking forward, you know, as those things are done.

So could we just be, like, notified, okay, we completed a coinvestment at this time?

MR. BAILEY: Yeah. I guess we'll talk to -- yeah. We can take that up, Dennis, and come back to you.

I just want to be careful. I think what you're saying is in addition to what we're providing every quarter, or are you asking for something different?

We're providing those every quarter. Are you saying you'd like them on a different pace than that?

MR. TROTSKY: Contemporaneous?

MR. SUPPLE: We can give whatever notification anyone wants.

MR. BAILEY: I think the answer is yes. I'm looking at Chris. And I think the answer is yes.

TREASURER GOLDBERG: Okay.

MR. NAUGHTON: Thanks.

MR. BAILEY: Yes. The answer is yes. Thanks for the question.

MS. FITCH: It sounds like what you want to be able to be is more nimble in making decisions and less constrained.

MR. BAILEY: Yeah. I think we're feeling that -- I think the way we tried to describe this is, we sort of had the training wheels on in 2014, '15, when we put this in place. It was a little bit of an experiment.

I think now we know that the experiment has worked well in the sense that we have now 17 of these in the portfolio. 17 individual companies.

So far I think there's strong evidence they've met all of our expectations. But I would still say we're in the early innings of the experiment.

But I feel like we have enough confidence now that we should take some of the training wheels off.

I think our recommendation is that you widen our scope a little bit. I don't think we'll use the $75 million, for example, but I think we'd like to have a little more flexibility.

And then on the 10 to 20 percent, I think that we actually did get pretty close to that 10 percent limit last year. And it felt a little uncomfortable to us because these are attractive investments with no fees and carry.

So I think that our view as a team -- and we'd like your input on it -- is that all things equal, we'd rather do a little more of this and a little less of the fully loaded fund investing, but we are a little constrained.

So I think if you can give us a bit more runway, we'll see how we do. And I think these changes are incremental.

MS. FITCH: And I think that's absolutely the right way to do it in a sense.

I think it would be really good for us to hear how it's going. And not necessarily even on a regular basis by demand but as it happens. Four or five sentences probably should keep us informed.

MR. BAILEY: Sure. I think the high level, Ruth Ellen, is it's pretty good.

It's sort of sitting inside the sort of boundaries of the expectations we had for it. It's still early. These are still relatively young companies in the portfolio. The oldest one was the middle of '15.

MS. FITCH: I think it's absolutely the way to go. I think we ought to --

MR. BAILEY: We know one thing. We've saved a lot of fees we would have paid otherwise.

MS. FITCH: That's good to hear.

TREASURER GOLDBERG: We like that.

MR. BAILEY: Rest assured.

So far the performance has been within our expectations. Happy to report we have no -- I'll jinx this now. We have no real underperformers in the portfolio from a reporting point of view. But they're still young companies. They're private.

They're living entities. They've got a lot of work to do.

We'll keep you informed. It's a great idea to come back to you more regularly on that.

TREASURER GOLDBERG: Any other?

MR. NAUGHTON: Just if I may, I just wanted to -- I just wanted to say, Michael, that I'm very, very supportive of this. And I get all the advantages of it. I just -- I just want to stay educated as we go along. And that's why I made that request.

MR. TROTSKY: We'll make those reports to you contemporaneous with the investment itself.

MR. NAUGHTON: Thank you.

TREASURER GOLDBERG: So this is a voting item. And I would seek a motion of the approval of changes to PRIM's coinvestment program and guidelines, that the PRIM board approve the investment committee's recommendation to approve the changes to PRIM's coinvestment program and guidelines, as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

MR. BROUSSEAU: So moved.
TREASURER GOLDBERG: Second?
MR. SHANLEY: Second.
TREASURER GOLDBERG: Bob?
MR. BROUSSEAU: Yes.
TREASURER GOLDBERG: Paul?
MR. SHANLEY: Yes.
TREASURER GOLDBERG: Theresa?
MS. MCGOLDRICK: Yes.
TREASURER GOLDBERG: Carly?
MS. ROSE: Yes.
TREASURER GOLDBERG: Jim?
MR. HEARTY: Yes.
TREASURER GOLDBERG: Ruth Ellen?
MS. FITCH: Yes.
TREASURER GOLDBERG: Dennis?
MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me.
Okay. That's it for you guys.
We have the owner of 53 State coming on.
That doesn't have to go in there. That was a joke.
MR. BROUSSEAU: A lot of cherry wood up there.

TREASURER GOLDBERG: A lot of cherry wood. A lot of cherry wood. That's very funny. That is funny. That was a good one, Bob. Cherry wood. It's a requirement for any office space that comes in that they buy cherry furniture.

MR. SCHLITZER: I agree wholeheartedly.

Good morning, everyone. I'm Tim Schlitzer, director of real estate. Materials are in Appendices J through L. We have two voting items.

I just want to quickly also congratulate Christina. We're thrilled for her. And she is an incredible colleague and had a great year last year. So I just wanted to mention that.

Let me just make a few comments on performance, which is in Appendix J. I'm just going to summarize for you really what's going on.

So real estate, end of the year, is $6.5 billion. That's 9.4 percent of the fund. There really were no significant changes to the portfolio allocation weights.

On the private side, we were net acquirers for the year. We made seven investments for $661 million. Five assets were sold for $401 million.

That's in separate accounts.

We only made one small noncore investment during the year. We're pretty bottoms up in the way that we see things and look at things.

That being said, I think we're very happy with what we expect to happen, which is a certain amount of shrinking of the noncore portfolio over the next year as we derisk and move assets to the core portfolios we're selling.

Leverage remains slightly below 25 percent of assets. Interest coverage is just over five times. So our capital structure remains conservative.

I did want to mention that one of our initiatives for this year in the plan is to put together a little bit of a playbook for a situation where we may feel that we want to delever. I think we're very well positioned to get through a period of turmoil.

But we may wake up one day -- the collective "we" here -- and say it's time to pay off some debt. And we want to be ready to make that decision and be ready for the mechanics of how we do it.

Just to touch on real estate performance lastly, private real estate, which is about three quarters of the portfolio, returned 9.5 percent. That's versus the unlagged benchmark of 6.7 percent.

So we had strong outperformance on both the unlevered and levered performance lines.

REITs, which is roughly the remaining quarter of the portfolio, did move more in line with the broader equity markets, down 5.2 percent.

PRIM's managers underperformed a little bit, by about 22 basis points primarily on stock selection.

So with that said, total real estate was at 5.6 percent for the year. That's 80 basis points over the combined index.

So let me leave real estate at that. I'm happy to answer questions as we go, though.

MR. BROUSSEAU: Tim, one question, on the issue of REITs. We started I think in the late '90s, I believe.

Jim, am I right? That we started investing in REITs?

Over the last 20 years, with the ups and

the downs that we've seen --
MR. NAUGHTON: Good question.
MR. BROUSSEAU: -- have REITs been a positive or a negative overall if we took the 20 years? I know we can get the charts, what we've earned.
It just seems to me that REITs have been more in the negative territory over the last 20 years than in positive territory. And I know they move with the equity markets.
MR. SCHLITZER: Happy to answer that. Would it be okay if we waited until the first vote? Because that is a direct question that pertains to what John is going to be talking about.
So just give us a couple of minutes. And we'll certainly get back to that.
So Timberland ended the year at $2.8 billion or 4.1 percent of the fund. PRIM did complete two large acquisitions in Timberland this year, one in New Zealand, which we've talked about, the other one being in Louisiana and Texas. Those totalled $492 million in invested capital. We also sold an asset in the south for $150

million. So we're a net acquirer there as well.

In terms of performance, Timberland returned 2.8 percent for the year. That's approximately 60 basis points below the unlagged benchmark of 3.4 percent.

And we did talk about I think at the last meeting cycle the fact that Hurricane Michael did go through basically the -- directly through PRIM's Florida investment, which is in FIA's portfolio, leading to a $70 million loss.

So that was, again, kind of a driver for underperformance. I just wanted to reiterate the attribution there.

I'm just going to mention I guess really just one other key item from our investment plan. And this is something that really has been taking place over the last year, which is the RFP that Christina completed.

We are in the process of implementing three new managers with a billion dollars in new capital. So that's going to give us a lot more fire power on the acquisition side, more irons in the fire, so to speak.

So we're finishing up contracting there.

And we're going to really start running with those guys to find new acquisition opportunities in an environment where it is tough to find good acquisition. So I just wanted to mention that.

John is going to mention something else that is in the investment plan. I'll talk about internal management in a minute.

So why don't I leave performance there. And again, happy to answer any questions.

TREASURER GOLDBERG: Any questions?

Okay. First voting item?

MR. LACARA: Thank you, Tim.

I'm John LaCara, senior investment officer on the real estate Timberland team. I'll be working off Appendix K; however, I'm only going to anchor everybody to page 3 of that deck, which is the recommendation.

And I'd also like to thank Bill Li and Maria Garrahan for their efforts on this project as well. It's always a pleasure to work with them.

As a reminder to everyone, the real estate portfolio is comprised of two components. One is private real estate, which we traditionally have targeted for 80 percent of the real estate portfolio, and then the other 20 percent towards REITs.

Today we're recommending giving us the ability to allocate 100 percent of the real estate portfolio to the private side equation and reduce REITs to roughly 0 percent over time.

We have a lot of REIT exposure, so it would take a long time to allocate that -- those monies elsewhere.

The allocation to REITs has a lot for us to benefit from its liquidity and maintain real estate allocation levels, which is one of the reasons why it would be implemented in the first place, Bob.

As we were ramping up real estate exposure, people thought REITs were a good way to gain access to that back in the late '90s, early 2000s. But they do present disadvantages to the overall diversification of the PRIT fund.

Although REITs do invest in underlying private real estate, like 53 State, 75 State, 60 State, buildings like that, they behave too much like equities.

Over 20 years, Bob, just to answer your question real quick, I think the performance of private relative to public is roughly the same.

However, if you look at it on a risk-adjusted basis, public never wins. REITs never win. Privates just -- there's a smoothing effect to privates due to how we value the real estate. And there's a lot of noise associated with anything that's traded publicly, if I could be frank.

By increasing the PRIT fund's exposure to private real estate, we'll reduce the fund's equity beta exposure and improve our ability to meet two objectives: our return objectives and our downside protection objective.

And there's some slides in the back where Bill and Maria did some work. And they'll show you the incremental higher likelihood of achieving that dual objective by making this move.

So I'm ready to answer any questions related to this.

TREASURER GOLDBERG: Any questions at all? It is a voting item.

I would seek approval of the change to

PRIM's investment policy, that the PRIM board approve the real estate and Timberland committee's recommendation to approve the change to PRIM's investment policy statement as described in Appendix K of the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

MR. BROUSSEAU: Second.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

MS. MCGOLDRICK: Yes.

MS. ROSE: Yes.

MR. HEARTY: Yes.

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: We were trying to fool you. We didn't do the names.

Me, yes.

Next?

MR. SCHLITZER: Okay. Thank you. So I'm just going to move to Appendix L, which is our internal management plan for real estate.

And as a reminder, we think this is a great practice anyway to put this in front of you. But we are required to present the board and committee with an annual strategy as part of our approval process, which was approved by the board last year.

And so I'm just going to quickly go through this. I think -- and I'll start -- I'll really kind of focus on page 3 here.

The big change that we are recommending is really more on the capital side, which is -- and Michael mentioned this earlier -- effectively targeting over time, as little or as long as it takes, a 15 percent up-to allocation of real estate.

We do think that a percentage is a better approach than a dollar-based target.

I do also want to remind everybody that individual investments do go through the board and the committee in this program.

But strategically -- and our first

strategy was presented to you in May of last year. There really are no changes being recommended in terms of what we are looking for.

We are casting a fairly wide net. But there are really kind of two ends to the barbell here. We're looking for very low management intensity assets in the ground lease.

In our portfolio, the assets are described on page 2 of the presentation, just as a reminder. The ground lease that we have in the portfolio now is a perfect example of this.

We are certainly overseeing it, but we are rent collectors on that investment and not paying any fees.

Probably the other side of the barbell is more like 53 State, which is is a core real estate asset but a more complicated capital structure, partnership structure, and a more intensive business plan, which is why we do have a partner, but we have eliminated a layer of fees.

So we are going to be looking for any investments like that, but we'll continue to I think implement our broad philosophy, which is to look for good core -- kind of core plus assets.

So, you know, I have one to three direct investments listed here. We do need to start thinking about monitoring and making decisions on the investments that we have. So that's obviously an important piece of this.

For sourcing, we are going to try to hire an analyst this year. We've been trying. I think we're really going to double our efforts to make sure that we can grow the team this year.

And we're also doing more on the business side in terms of IT, making sure that we're working with the right groups from a due diligence and legal perspective.

Chris Supple has been incredibly helpful with a lot of these things on both the investment side and the business side.

So, you know, we have a broad team here working on this -- George and Matt -- and we're just going to keep pushing forward.

So I'm going to leave it at that and ask for your approval. I'm certainly happy to answer any questions as well.

TREASURER GOLDBERG: Any questions for the team here before we vote?

MS. FITCH: I guess it's not a question. It's -- I guess we're increasing the importance of this work in PRIM, just generally, kind of big picture, with the -- if it's voted, in the 15 percent and adding staff, which is really -- well, really different in the four years that I've been a board member, which I think is a positive thing, but it's kind of taking us in a new direction.

MR. TROTSKY: Absolutely. This is part of Project Save II. It's an evolution, not a transformation.

We've gained conviction now after a few years that this is the way to go. It's going to be done at a measured pace. And we will need more resources.

MS. FITCH: And I think that that's absolutely right. But I think we ought to recognize it in a way that really -- that we just have, basically, that really states it clearly on the table and not having to kind of put it together by thinking it through too much for board members. I know you're thinking it through.

MR. TROTSKY: Maybe it makes sense at a future board meeting to recap our progress on

Project Save II, which probably makes sense.

I mean, we did that maybe one or two board cycles ago. This isn't one of the major directions. We're just implementing it now. Coinvestments, as you've just heard. And private equity is another.

MS. FITCH: Right.

MR. TROTSKY: And then Dave mentioned internal management on one aspect of the fixed income portfolio as a possibility to move forward.

But we said that this is going to grow organically. And maybe it's a good time to check in at the next board cycle or so to tell you the progress we've made on all fronts.

MS. FITCH: I agree. I think that's important. And we'd really appreciate it.

MR. TROTSKY: Just to put your mind at ease with regard to what we do versus our public pension peers, many of our public pension peers do a far larger amount internally than we do. We're basically less than -- far less than 5 percent.

And when we did the study probably four years ago, on average, more than 25 percent of pension assets are managed internally by our

peers. The most successful ones manage far more than 50 percent of their funds internally.
So it's a direction we're going. We're going to grow it organically as we see it makes sense. But we'll probably need to update you along the way.
MS. FITCH: I think that makes sense. MR. TROTSKY: It's still pretty small now, honestly, but it's growing.
MS. FITCH: I -- I shouldn't say "I." I think we can feel it growing and changing.
MR. TROTSKY: Yes. Yeah, you can feel it. MS. FITCH: And we should acknowledge that and kind of understand and be a part of the change, which we are.
MR. TROTSKY: So I've updated you piecemeal. I think maybe a more comprehensive here-we-are presentation makes sense at a future meeting. And we'll do that.
MS. FITCH: That would be helpful. Thank you.
TREASURER GOLDBERG: Any other questions?
Again, it's a voting item. So I would seek a motion of the approval of the 2019 real

estate internal management plan, that the PRIM board approve the real estate and Timberland committee's recommendation to approve the 2019 real estate internal management plan, as described in Appendix L of 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?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa?

MS. MCGOLDRICK: Yes.

TREASURER GOLDBERG: Carly?

MS. ROSE: Yes.

TREASURER GOLDBERG: Jim?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Ruth Ellen?

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: Yes.
TREASURER GOLDBERG: And me.
Okay. We have the last item on the agenda.
MR. TROTSKY: And thank you for making it in today, Tony. Tony was out with the flu yesterday. I hope you're feeling better.
MR. FALZONE: I'll sit right here.
MR. TROTSKY: Theresa, do you want to switch chairs?
TREASURER GOLDBERG: I know she doesn't want to sit next to me.
MS. MCGOLDRICK: I think it's pretty much a done deal now.
TREASURER GOLDBERG: You know, and I have news for you, if you're on Earth right now you're exposed.
MR. FALZONE: Okay. So good afternoon, everyone.
TREASURER GOLDBERG: It is afternoon.
MR. FALZONE: I'm at the bottom of page 28. So I do only have the one voting item, which is the 2019 proxy voting guidelines.
So in your materials there are two

appendices, Appendix M and N. And I'm going to focus mainly on Appendix N. Specifically, on the last page. I think it's page 7 at the bottom, the changes.

At the administration and audit committee, representatives from ISS highlighted updates being made to ISS's benchmark proxy voting policy. And those updates specifically don't require changes to be made to PRIM's custom proxy voting policy.

The committee did discuss three changes that would require an enhancement to PRIM's custom policy. And these changes are categorized as harassment training and disclosures by ISS on page 7 of their report in Appendix N.

So I'll read through those three and then we can have a discussion.

So number 1 is to vote for shareholder proposals seeking to prohibit management from requiring individuals to sign confidentiality agreements as part of settlements of employee allegations of sexual harassment, assault, and/or discrimination.

Number 2 would be to vote for shareholder proposals seeking disclosure of legal, buyout, compensation or other costs related to employee complaints of sexual harassment, assault and/or discrimination.

And number 3 would be vote for shareholder proposals that require companies to provide mandatory employee harassment training.

And those are the three updates to our custom proxy voting policy guidelines.

TREASURER GOLDBERG: So any questions for Tony?

MR. HEARTY: I have.

MR. HEARTY: I had concerns, Tony, when these were presented at the administration committee meeting.

And my concern, which perhaps I didn't explain as well as I might, I want to make sure that we're -- if an individual working for a corporation wishes to sign, wants to sign a confidentiality agreement, that we are not taking away the ability of that person to do so.

I've had personal experience with these matters where an individual had a legitimate complaint against the firm but at the same time didn't want to disclose.

And I just want to make sure we're not taking away that right to nondisclosure of a settlement. That's my concern.

And I think the first -- as I read this, the first item seeking to prohibit managers from requiring individuals to sign, I think that's okay. Right?

TREASURER GOLDBERG: That's unilaterally where management would require them. So that should be okay.

MR. HEARTY: That doesn't take away the individual's right?

TREASURER GOLDBERG: Right.

MR. HEARTY: The second one -- and the third thing is okay, obviously. I'm confused by the second one: "Vote for shareholder proposal seeking disclosure of legal buyout, compensation, or other costs related to employee complaints for sexual harassment, assault, or discrimination."

As I read that, it doesn't necessarily protect the individual from disclosure, as I read it.

MR. TROTSKY: It doesn't -- as I read it, it doesn't say that the individual's name will be disclosed but rather the dollar amount. Right?

TREASURER GOLDBERG: It's a financial disclosure.

MR. HEARTY: I think it's a little ambiguous. That's my only concern.

MR. BROUSSEAU: Was this language, Tony, that ISS provided?

MR. FALZONE: So to remind those members of the board that are members of the administration and audit committee, there was some discussion about clarifying some of the language -- some of the language that exists in these three proposals.

And if you look at item number 1, for example, that Jim was speaking to, we made that a little bit more concise from what it originally read. Maybe we need to go back on item 2. I'm not sure.

MR. HEARTY: I'm fine with the spirit. It's just, I just want to make sure that individuals don't have something disclosed about them that they don't want disclosed by anything

that we do.
TREASURER GOLDBERG: It's -- it could be "and other costs."
Well, "costs" was the operating word in here.
MICHAEL BERGQUIST: That's how I see it. So it's legal buyout, compensation, and other proposed modified costs. The word "costs."
MR. TROTSKY: Can we add a sentence that takes care of that? I mean, do we all agree that we don't want to disclose the person's name?
MR. HEARTY: If they don't want it disclosed.
MR. TROTSKY: Can we think of something on the fly to that effect to make it clear?
TREASURER GOLDBERG: Well, I don't see how it's not clear.
MR. TROTSKY: Or is it perfectly clear?
TREASURER GOLDBERG: It's related to costs. Disclosure of legal buyout, compensation or other costs.
We're trying to list all the cost-related items, but it doesn't involve anyone's name.
MR. HEARTY: Well, it's not totally clear

to me how that disclosure would be.

I understand what you're getting to.

MR. NAUGHTON: Madam Chair, couldn't we simply rely on Chris to carry out the will that's being expressed here without wordsmithing?

TREASURER GOLDBERG: Chris, what is your comment here?

MR. SUPPLE: Yeah. I would defer to the folks who have had more involvement in it than I have.

But the concern that I've heard addressed today at the meeting, I think you could add a phrase -- we're talking about that second clause?

MR. HEARTY: Correct.

MR. SUPPLE: After the word "legal," comma, you could add the phrase "in a nonindividual-specific context" or something to that effect.

MR. HEARTY: That's fine.

TREASURER GOLDBERG: But then "vote for shareholder proposal seeking disclosure of legal" -- I don't know how that flows with "buyout, compensation or other costs."

MR. SUPPLE: I'm sorry. So "vote for shareholder proposal seeking disclosure," what we could do is add there "not in relation to any specific individual" or something to that effect.

TREASURER GOLDBERG: But it doesn't fit in the sentence there because then you're breaking up the hanging together of the costs.

MR. BROUSSEAU: Why not add that sentence right after that as a separate entity?

MR. SUPPLE: We could certainly do that.

MICHAEL BERGQUIST: So was there not disclosure of nonindividualized legal buyout, compensation or other costs?

TREASURER GOLDBERG: No, that doesn't work. Not nonindividualized legal buyout.

Vote for shareholder --

MR. TROTSKY: How about saying "provided individual names of those involved are not disclosed"?

TREASURER GOLDBERG: No, you wouldn't put that in the proxy that way. You'd go "or other costs related to" --

MR. TROTSKY: I'm not a lawyer. We have plenty of lawyers here.

TREASURER GOLDBERG: Well, I am, so that's why I'm working on this right now.

MS. MCGOLDRICK: Isn't it required that you report over a certain amount when there's a settlement of these kinds of cases to the Attorney General? I thought that there was a statutory requirement to do that.

MR. SUPPLE: I don't think so. And this would relate to companies in which we own shares, so I don't think that would apply.

I'm certain that if I put my head together with the folks who drafted this we could figure it out.

We could add a sentence that would say something like "nothing herein shall be construed to require any individual's name be disclosed."

I mean, there's a million ways.

TREASURER GOLDBERG: That's what I'm saying. You don't put it in the middle of the first sentence.

MR. SUPPLE: That's fine.

MR. HEARTY: That would be fine. I'm fine with allocating the direction to staff to just cover the concern we've expressed here.

MR. TROTSKY: I think we have the spirit of the concern. And we're all in agreement. Right? Okay.

MR. HEARTY: Thank you.

MR. TROTSKY: And you could delegate that to us and we'll work through it.

TREASURER GOLDBERG: Well, Chris just said he wanted to work with people who had drafted the language.

I think an additional sentence is better than sticking it in the middle of the sentence and making it more confusing.

MR. TROTSKY: That's fine.

TREASURER GOLDBERG: I mean, I like this "nothing herein," by the way.

SARAH KIM: You're specifically talking about the sum and nothing else. Put it before "legal, buyout, compensation." The sum of . . .

TREASURER GOLDBERG: It gets confusing.

MR. TROTSKY: I think they want to make it more specific, that no names are -- the sum could come with a name. We want to make it specific.

So we'll figure it out. It's not rocket

science, I don't think.

MR. HEARTY: We're not going to figure it out now. So I'm fine with the motion with the assumption that --

TREASURER GOLDBERG: They'll add on a second sentence that will make that statement.

MR. HEARTY: Yeah. Okay.

TREASURER GOLDBERG: All right. So are we going to do the vote, then?

All right. Seek a motion on proxy voting guidelines that the PRIM board adopt the 2019 proxy voting guidelines as described in Appendices M and N of the expanded agenda with additional amended language --

MR. TROTSKY: As discussed.

TREASURER GOLDBERG: -- as discussed 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.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa?

MS. MCGOLDRICK: Yes.

TREASURER GOLDBERG: Carly?

MS. ROSE: Yes.

TREASURER GOLDBERG: Jim?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Ruth Ellen?

MS. FITCH: Yes.

TREASURER GOLDBERG: Dennis?

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: And me, yes.

I believe that is the end.

MS. FITCH: Are we done here?

MR. TROTSKY: We are done.

I misspoke earlier when I said we were having a closed meeting. We're not. I don't know what I was thinking but something else.

TREASURER GOLDBERG: And I'm always cognizant of the fact that Jim has to leave by 12:30.

MR. HEARTY: Thank you, Madam Chair.

MR. BROUSSEAU: Could Tony give a brief update on the fact that we did not have a quorum at the A&A meeting.

So what happened, of course, there was a lot of discussion of the cortex of documents that we had.

Tony, could you briefly --

MR. FALZONE: Yes. I've been looking forward to talking about this.

TREASURER GOLDBERG: Bob, we adjourned the meeting.

MR. BROUSSEAU: We didn't adjourn yet. Did we?

TREASURER GOLDBERG: Yeah.

MR. BROUSSEAU: I just asked Tony to give the board an update.

TREASURER GOLDBERG: I mean, we're working on stuff.

MR. FALZONE: We're working on it.

MR. HEARTY: That's an excellent update. Thank you.

MS. FITCH: So how about them Red Sox?

TREASURER GOLDBERG: What about the Red Sox? The big news that I learned after -- when I went to the ladies room was that Lon Povich is retiring.

Motion to adjourn. Is there a second?MS. FITCH: Yes.

TREASURER GOLDBERG: Bob?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: Paul?

MR. SHANLEY: Yes.

TREASURER GOLDBERG: Theresa, Carly, Jim?

MS. MCGOLDRICK: Yes.

MR. HEARTY: Yes.

TREASURER GOLDBERG: They didn't open the meeting with a roll call.

MS. FITCH: Yes.

TREASURER GOLDBERG: Ruth Ellen? Dennis?

MS. FITCH: Yes.

MR. HEARTY: He already said yes.

MR. TROTSKY: Thank you, everyone.

(Off the record at 12:27 p.m.)