COMMONWEALTH OF MASSACHUSETTS

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the August 14, 2018, Board Meeting

Commencing at 9:35 a.m.

in the

PRIM Board Offices

at 84 State Street

Boston, Massachusetts

I N D E X

ATTENDEES

Board Members:

Treasurer Deborah B. Goldberg, Chair

Michael G. Trotsky, Executive Director

Robert L. Brousseau

Ruth Ellen Fitch

James Hearty

Peter Monaco

Dennis J. Naughton

Carly Rose

Theresa McGoldrick

Paul E. Shanley, Esquire

Other Attendees:

Marietta Fieger

Doreen Wolf

Deirdre Guice Minus

Bud Pellecchia

Charles Schwartz

Cosmo Macero

Patrick Brock

Philip Nelson

Nick Faruzitu

Matt Liposky

David Grisswold
Michael DeVito
Glenn Strehle
Chuck Kostro
Ellen Hennessy
Andre Abouhala
Andrew Gromer
Maria Clements
Lia Liu
Sylvia Argiropoulos
Jennifer Kuhn
Maria Garrahan
Bill Li
Eric Nierenberg
Michael McGirr
Michael Bailey
Alyssa Fiore
David Gurtz
Chuck Laposta
Andre Clapp
Christina Marcarelli
Tim Schlitzer
John LaCara
Paul Todisco

Francesco Daniele
Anthony Falzone
Deborah Coulter
Iris Sousa
Daniel Eckman
Emma Sands
Chandra Allard
Mike Bergguist
Michael Even
Chase Schwab
Chris Supple
Steffany Roserio

TREASURER GOLDBERG: 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 Megan Castro (sic), seated here to my left is transcribing and also recording this meeting, and if anyone else in attendance is recording the meeting, I would ask that you identify yourself now. Anybody? Okay.

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

So with that, I would begin the meeting seeking a motion of approval of the minutes, that the PRIM board approve the minutes of its May 15, 2018, meeting 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. TROTSKY: Second.

TREASURER GOLDBERG: Are there questions, comments, corrections?

Hearing none, seeing none, all those in favor?

BOARD MEMBER: Aye.

TREASURER GOLDBERG: Any opposed? The motion carries.

(Voted: To approve the minutes of its May 15, 2018, meeting.)

TREASURER GOLDBERG: Okay. So next on the agenda is the executive director CIO report.

MR. TROTSKY: Thank you, Madam Treasurer, and welcome to the August meeting. Thank you for taking time out of your summer to be with us. It's a busy agenda. Not my favorite agenda of the year, it's a little private in my mind, but anyway.

First, I want to acknowledge some of the clients that are here. I see Chuck Kostro from Essex. I see Patrick Brock from Hampton County and also --

MR. BROCK: Hampshire.

MR. TROTSKY: I'm sorry. Hampshire county.

And also on the admin and audit committee and compensation committee. Next to him is Glenn Strehle on the Investment Committee.

Behind me is Michael Even on the Investment Committee. You'll hear a Project SAVE update from Michael Even who's been working with us very diligently.

Mike DeVito is here from PERAC. Thanks for joining us.

Nick Favorito. Another big client. The Mass. State Retirees. Thanks for joining us.

Do I have everybody? So thank you for joining us. Thank you for taking the time.

Before I review really what our outstanding 2018 fiscal year results are, a quick organizational update. First, I'm very excited to introduce to you our new executive assistant, Iris Sousa, who's sitting behind me.

MS. SOUSA: Hi everybody.

MR. TROTSKY: Iris' first day was yesterday, and I told her that today her only job is to meet you. So please take some time to meet her. We're really very excited to have you.

MS. SOUSA: Thank you, Michael.

MR. TROTSKY: Iris joined us yesterday after 15 years as the executive assistant to the CEO of Santander Bank. And prior to that, she was executive assistant to the executive director at the Boston Housing Authority.

So please, if you haven't already done so, hey hello to Iris.

Next David Grisswold, behind Theresa, joined us in June as director of IT, information technology. David has over 20 years of IT experience and communications experience and he joins us after almost 12 years at the Hancock Natural Resource Group and Forest Capital Partners.

During his time there, he was responsible for a large international team of engineers and analysts covering a variety of technology and communications functions.

You're off to a great start. How many weeks so far?

MR. GRISWOLD: Just about eight.

MR. TROTSKY: Just about eight weeks.

David holds a bachelor's degree in business management with a concentration in computer science from Bentley.

Sylvia Argiropoulos. Sylvia, a couple of seats down, joined us in June as a joint administrative assistant for two teams, for the real estate and Timberland team and also for the PCS portfolio completion team.

She'll be supporting Tim Schlitzer and his team and also Eric Nierenberg and his team. She comes to us with 25 years of experience, most recently as an executive assistant at Ernst & Young supporting their audit and consulting partners. She has a degree from Cape Cod Community College. Welcome.

Last week -- this is great news and I'm actually surprised to see you here, Francesco -- we welcomed and Francesco welcomed a new baby boy to the PRIM family, Lorenzo Francesco Daniele.

(Applause.)

MR. TROTSKY: He was born at 12:01 midnight. That must have been a long night, August 6th. Mom, Suzanne, two-year-old sister, Sofia, and, of course, Francesco, we are all elated for you.

MR. DANIELE: Thank you.

MR. TROTSKY: Welcome to Lorenzo Francesco.

I would also like to publicly thank our terrific summer interns. Two of them graduated from the program last Friday so they aren't with us, but I want to take a minute to thank you, Treasurer. They come from your program, the Treasurer's Women & Finance internship program.

Anmei Zhi, who is a rising junior at Smith College, ended her internship with us just last Friday. And she was supporting the real estate and Timberland team.

Isabelle Tabeck, rising junior from Babson College, was with the public markets team. And they were really outstanding additions to our team. We loved having them around and I think they got a lot out of the program.

And let me please introduce Alexis Sabagian. Alexis are you here? Alexis is in the back of the room. She joins us for a little while longer from Girls Who Invest. That's the national program to encourage women to enter this field.

She's a rising junior from Boston College and has been working with the private equity team. And I know you're working hard because you were here with the private equity team at about 8:30 last night, last I looked. So that's great. I hope you're getting a lot out of it and we're really happy to have you.

TREASURER GOLDBERG: What I want to add is that the former treasurer of North Carolina, Janet Cowl, is very, very involved in Women Who Invest. She and I spoke a great deal about the challenges and difficulty of women breaking through the brick ceiling of the financial services world.

And so consequently we are coming at this in so many different ways. We don't just place these young women in different areas of treasury. We also have a mentoring program and expose them to a great -- a range of different opportunities and -- in order to try to feed that pipeline with people who can persevere and understand what their challenges will be because they are extraordinarily challenging.

MR. TROTSKY: And I'd like to add a special call out to Christina Marcarelli, on the real estate and Timberland team, who has really done an outstanding job in mentoring these young interns and really helping us plan out both this year and next year in terms of our internships. You did a great job and you're a great mentor to these women, too.

Next I want to congratulate Andre Abouhala. Where are you, Andre? Way down in the corner. So Mr. Andre earned his MBA from Boston University in May. That's a great accomplishment. Congratulations to you as well.

In the area of national recognition, Mike Bailey and his excellent private equity team notched another one. As many of you already know, the American Investments Council ranked PRIM Private Equity number one in private equity in the country among 163 U.S. public plans based on 10-year performance.

This is an outstanding achievement. Importantly, PRIM is the only fund that has been in the top five of all private equity portfolios in every single year that the council has performed this study, including number one rankings, again, in 2015 and 2013.

So congratulations.

(Applause.)

MR. TROTSKY: A lot of hard work there.

Mike McGirr, on the PE team, also -- and thank you, Treasurer -- was awarded the treasurer's 2018 Citation for Outstanding Performance. Those selected for this honor have made notable contributions to the office of the treasurer, her agencies, and, obviously, PRIM here, and the citizens of Mass.

Mike, you're doing a fantastic job. You're very hardworking. You're a very capable guy and, of course, we love having you around and we love that you have been recognized for this award. Congratulations.

In May, and for the 13th consecutive year, PRIM was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting. 13 straight years now. And that really recognizes the completeness and timeliness of our comprehensive annual financial report that we put out every year.

Thank you so much to Paul Todisco, Qingmei, Tony, Matt, the entire team. It takes a lot of work to put that together for 13 straight years. That's quite an accomplishment, and it's really a testimony to our financial staff that we can do that year after year after year.

And last, it was an honor for me to be elected to vice chair of the CFA Society of Boston for this fiscal year. I was elected in late June and in the ordinary course of succession, if I don't screw up, I will be the chair of the board in the following year.

And here -- I've mentioned this to a few people, but I am very proud to follow in the footsteps of Glenn Strehle on the Investment Committee, who is a former chair of the Society himself.

So it's nice to have such a strong presence in history with the CFA Society of Boston. And Glenn, as always, this is just another area where I'll look forward to your sage advice.

As a reminder, the CFA Society of Boston serves over 5,700 members. And also please remember that last August my term as governor at the CFA Institute, the worldwide organization, ended. My term ended and I rolled off of that board. The CFA is the parent organization with more than 150,000 members worldwide.

And so I am really proud and eager to turn my attention more locally with the CFA organization.

Any questions about the organization before I move on to markets and fund performance?

MR. BROUSSEAU: Just one thing, Michael, and the treasurer brought it up. We're talking a lot about what we've been doing here with women in leadership positions and investment. I know our national union organizations have become very involved in an organization called DAMI, the Diverse Asset Management Institute.

And we've gone to a couple of workshops. I think you also have, Dennis. They've had them, and there are some very good programs that they had. And it's all about diversity. Women in investments and -- not in management but in the investment world. It might be something we can look at.

MR. TROTSKY: And I'll have more to say when we go through my goals. I'll have some more to say about our diversity and inclusion goals in my comments later on.

First, fund performance. Fiscal 2018, as I said, was another exceptionally strong year for PRIM. The PRIT Fund was up 10 percent gross. That's 9 1/2 percent net for the fiscal year. That was 140 basis points above benchmark, net of fees.

And importantly, we know of no other fund in the country, our size or larger, that outperformed us last year, last fiscal year. We ended the year with assets of nearly $72 billion. An all-time high. Six of the seven major asset classes outperformed their benchmarks, net of fees.

Private equity returned 20 percent for the year. We'll go over some of these numbers in more detail shortly.

Global equities returned 11.7 percent. Real estate returned 8.9 percent. Timberland returned 7.4 percent; and portfolio completion strategies, the bucket that includes hedge funds, which is now 13.4 percent of the total fund, returned 6.8 percent net of fees, 78 basis points above the benchmark.

And, importantly, it exhibited extremely low realized volatility of 2.8 percent, which gives it a Sharpe ratio of 1.9 percent. That's exactly what it's designed to do. Good returns with low volatility. You'll hear more detail on that later.

But I also wanted to highlight for you a really astounding milestone that I've been highlighting over the last couple of weeks. With your approval -- with the board's approval, during the Fiscal Year 2018, PRIM staff researched and deployed approximately $5.4 billion -- $5.4 billion dollars -- in new investments in one year.

And for a staff our size -- and we are small in comparison to our peers -- we're an extremely productive, hard-working group here. We've been very busy and productive. And the $5.4 billion in new investments doesn't even contemplate the investments we turned down, and we turn down a lot before any idea gets to this table.

Performance and productivity is very

important, but I also want to remind you again of our investment philosophy. We evaluate the performance of any investment and the PRIT Fund on three equally important parameters, three metrics: Return, risk, and cost. We believe that evaluating an investment opportunity or the fund on any one of those metrics -- return, risk or cost -- is incomplete. You have to look at all three.

And as I have just described, the returns of each asset class and the entire PRIT Fund were very strong, both relative to the benchmark and in absolute terms and that's great. But more importantly, expenses and risk remain tightly controlled.

And even with the board-approved larger allocation in the fiscal year to high-performing and high-fee actively managed alternative asset classes, such as private equity and PCS, we are pleased to report that the ratio of total expenses was 53 basis points in Fiscal Year 2018 compared to 54 basis points in 2017.

This decrease highlights our continuing efforts related to Project SAVE and Michael Even will be on the agenda after me to describe our new efforts in Project SAVE.

So this decrease in our expense ratio really reflects our continuing efforts on Project SAVE, as well as our focus on separately managed accounts in our PCS portfolio and also the success of private equity co-investments, which is building, and also direct real estate investments.

Moreover, the 9.5 percent net return of the PRIT Fund for the year was achieved with a very low realized volatility, in total, of 4.3 percent, producing a very high Sharpe ratio, a risk-adjusted return measure, of approximately 1.8 percent.

And we believe that this Sharpe ratio, which again measures the risk adjusted return of the PRIT Fund, would be among the highest in the country. Many of our peers in the country have much more exposure to higher volatility asset classes like global equity.

PRIT's strong performance in both up markets, like Fiscal Year 2018 and the calendar year 2017, combined with our strong outperformance in down markets, like we had during our Fiscal Year 2016 -- remember, we had nation-leading positive performance in that 12-month period when global equities were down about 5 percent -- we were up.

This all gives us confidence that our investment program is really performing as it's designed to perform.

So let's review near-term markets and performance. And I mentioned during the Investment Committee and the other committee meetings that the first two quarters of the calendar year was really a tale of two markets.

In Q1, emerging markets led the way and we highlighted that during the last board meeting. And in Q2, we saw just the opposite. So as a reminder, in Q1 the S&P 500 domestic stocks were down, developed international stocks were down, and in emerging markets stocks were up.

In Q2, just the opposite. The S&P was up nearly 3.4 percent. Developed international markets were down about a percent, and emerging markets got really slammed, down 8 percent in the second quarter.

The 60/40 split of global stocks and bonds was up about 0.3 percent in Q2, and the PRIT Fund, which I'll review, was up 1.1 percent in the second quarter.

For the fiscal year things looked a little brighter. The S&P 500 was up 14.4 percent. Developed international markets were up 6.8 percent. Emerging market equities were up 8.2 percent. A 60/40 split of stocks and bonds were up 6.3 percent. And, again, we were up 10 percent.

Now, a few words about economic indicators, and we did speak a lot about this during the Investment Committee meeting. I'll try to go quickly.

As you know, the U.S. economy seems to be quite healthy. At the June meeting the Federal Reserve raised its target range for the federal reserve funds up 25 basis points. The Fed has raised rates twice this year and have penciled in two more increases for 2018 and three more for 2019.

On the positive side, U.S. GDP growth

increased at an annual rate of 4.1 percent in the second calendar quarter, which was a strong pick up from the first quarter's revised growth of 2.2 percent.

Personal consumption expenditures rose to their strongest rates since the fourth quarter of 2014 and now stands at a 4 percent annualized rate of growth. U.S. retail sales growth rose 0.5 percent in June from the prior month.

Additionally, U.S. industrial production increased more than expected in June.

Inflation is on the rise. We saw some news of this last week when the CPI increased to 0.2 percent from June's 0.1 percent, in line with estimates. But that is an annualized growth rate of 2.9 percent, unchanged from June's high level.

Core prices, which is the measure for all items excluding food and energy, increased 2.4 percent, and that's the biggest 12-month gain since September of 2008. So prices are on the rise and wages are barely keeping up.

Weekly earnings, adjusted for inflation, are flat year over year and that's not great. When retail sales are up and wages are flat, it means that personal savings aren't as strong and, in fact, we saw that in the data when personal savings ticked down to 6.8 percent from 7.2 percent in the first quarter.

The housing sector continued to underperform with higher mortgage rates as well as low stock of houses, low inventory, and that translated into a reduction of residential investment, which actually fell 1.1 percent.

But all in, the U.S. seems to be strong and most experts believe the economy is showing at least a temporary sign that tax overhaul and deregulation has provided some stimulus.

Some also think that spending is increasing now for fears that prices will continue to rise in the future because of escalating trade tensions globally. Last week we saw new tariffs and sanctions on Turkey and next week, on August 23rd, a new round of tariffs go into effect on imports from China.

At the Investment Committee meeting we also discussed how this current economic picture is very reminiscent of the markets mid-2014 through early 2016. And that's, again, when global equities were down in the fiscal year ended June of 2016. That last 12 months.

And back then, from mid-2014 to 2016, we had really an unprovoked correction in world financial markets. No major event really caused that downturn back then, but today we can observe some of the same market characteristics.

Namely, one, a narrowing of the stock market. The equity rebound since early May has left many global markets, as I've outlined, and many U.S. sectors behind.

Liquidity issues, where it became difficult to secure U.S. dollars from outside the U.S. in 2015. Symptoms such as a sell off in emerging markets currency. You read a lot about that. Currencies last week, especially with Turkey, are suggesting liquidity difficulty again now.

And three, the economic situation. There were vulnerabilities in the global economy before there were tariffs, but with tariffs, tariffs really are an additional negative for global growth for the long-term and we worry about that.

Equity markets generally peak at the

peak acceleration of earnings, not on the earnings themselves. In this quarter, S&P earnings are expected to be up 20 percent on an 8 percent increase in revenues. That's a very high number and it's unlikely to be sustained. So we worry that when that rolls over, that will be a headwind for the equity markets.

So, yes, the U.S. is currently strong, but the general consensus is that the U.S. economy is likely to slow significantly due to the temporary nature of the boost from tax reform and continued trade tensions.

And just last week -- I'd like to read this. I showed this to a bunch of people, but I got this across my desk. It says -- you can't read it. I'll read it to you. It says:

"Strong growth in Q2 unlikely to last."

So that's a headwind. I think that's the consensus that this kind of growth rate will not be maintained.

And we also discussed some recent weakness in Germany and in China. In other words, we concluded there's still good reason to be cautious, and I will remind you that over the past year we have deployed lower risk strategies at PRIM. Primarily, increasing the PCS bucket. So, hopefully, we will be better prepared for a downturn if one materializes.

Any questions on the environment before turning quickly to performance?

MR. HEARTY: It's just concerning to me when you think about the fact that interest rates are going to bump twice perhaps in the rest of this year and wages are flat; what happens to people who have these variable interest rates on home equity loans and on credit cards? What's the impact of that going to be domestically?

TREASURER GOLDBERG: They're going to get killed.

MR. HEARTY: At the same time, it's pretty clear that the tax reform, so-called, resulted in very little more than buying back stock as opposed to expanding businesses and creating new jobs. So, I mean, those things are all very concerning to me.

I don't know how that factors into the domestic future of the economy, never mind the unpredictability of overreach on tariffs.

MR. TROTSKY: I think your concerns are shared by many.
MS. MCGOLDRICK: I would add to that. Just reducing credit, and credit cards that were paid off at some point in the past 18 months are starting to be used again.
MR. BROUSSEAU: The historian in me -- all of this has gone on several times. The classic time, of course, was the 1920s. You have all these ingredients from the end with the high tariffs and after that, between nations, low income. Wages were --
People never enjoyed the boom, they said, of the roaring '20s. And it came roaring to an end in the '30s. And we hope we had that correction as part of this century but more could be on the way if this kind of a disparity continues between those who have and those who have not.
It has been a transfer of wealth, Dennis, this tax reform thing. It wasn't a reform. It was a transfer of wealth. That's exactly what it was.
When you drop rates from 31 down to 25

percent -- 21 percent, the corporate tax rate, eventually that's a transfer of wealth. And when the rest of the population are enjoying it, sooner or are later it catches up with us.

MR. TROTSKY: Okay. And now I'll be referring to Appendix B, the PRIT Fund performance summary. And I'll begin with page 2.

You can see, again, the PRIT Fund up 10 percent. Appendix B. If someone doesn't have one, we do have extra copies.

Up 10 percent gross; 9.5 percent net. That compares to a 60/40 mix of global stocks and bonds, up 6.3 percent. We can see on the left what did really well and on the right, what was more muted. We'll have more detail on that later.

But in a rising interest rate environment, with liquidity and currency issues, you can understand what was on the right of that chart.

Page 3. The PRIT Fund ended with $72 billion. For the one-year period, 9.5 percent net, outperforming its benchmark by 140 basis points net of fees. This equates to an investment gain in one year of $6.4 billion in total and 935 million above a benchmark return.

That's an indication to us that our managers are doing a good job. Earning their keep, so to speak.

You can see very consistent-type performance over the one-, three-, and five-year period. Very high on both an absolute and relative basis. The 10-year numbers are improving as each month we roll off some ugly numbers from the world financial crisis.

And we just got our TUCS ratings. We are comfortably in the top quartile of all periods. One-, three-, and five-year periods. We're in the top decile for the three-year period.

I mentioned the one-year period. We're at the very top of funds our size. And even among smaller funds, we're in the top 15th percentile. So at the very top of the heap. So we feel very good about that competitively.

Page 4. You can see all major asset classes either met or exceeded their benchmark. Private equity, which you'll hear about momentarily, led the way with a nation-leading performance, followed by global equity and real estate. Very strong-performing asset class.

Timber, again, year in and year out, very consistent.

And I'll end with the quilt chart, which is somewhat unchanged from prior quarters. The quilt chart shows that private equity leads the way, really drives the bus here at PRIM with outstanding performing performance over one, three, five, and 10 years at the top of the heap.

Global equity a little more volatile but still pretty good.

Real estate. Very good job in real estate. Very consistently at the top.

And Timberland. Low volatility. Just keeps chugging along. Does a really nice job for us.

So I'll end my comments there because I know we have a busy agenda. I'll take any questions now, and we'll have a little more detail on each asset class continuing through the agenda today.

TREASURER GOLDBERG: Thank you. So --

MR. TROTSKY: Do I do my goals and

objectives now? No. I guess that's after.

TREASURER GOLDBERG: No. We do that after.

MR. TROTSKY: Okay.

TREASURER GOLDBERG: So the next thing on the agenda is the performance evaluation. Bob, do you want to take that away?

MR. BROUSSEAU: I certainly will, Madam Treasurer.

TREASURER GOLDBERG: The evaluation is not a voting item. The goals and objectives are.

MR. BROUSSEAU: First of all, it seems strange for the administration and audit committee to do a presentation before noontime because we're usually, of course, at the tail end. So sometimes, you know, it is pleasant to do that.

As you all heard, of course, and after Michael's report, I guess my job has been done this morning. But as you know, this is Michael's least favorite day and we all have those. And when you're in the public sector, as we know, the law requires that the evaluation of the executive director must be done in open session.

You know the process. You all received, within the last two weeks, Michael's self evaluation and you were invited to participate, either by e-mailing or using U.S. mail, with your own evaluation so I could lead this discussion.

This is the board's evaluation and I'm only the person that was going to, more or less, be a scribe and report on the things that people told me.

The board evaluation is both objective and subjective. And you could take the sheet that you had or the talking points and go in and see Michael. I know some of you have availed yourself of that opportunity to talk about things you're concerned with or to amplify some of the items in his self evaluation.

Okay. First of all, the evaluation. I was going to think, "Where in the world do I start?" And I was thinking, well, you know, I'd like to probably quote that famous American philosopher Yogi Berra who once said, "It is déjà vu all over again."

And as far as Michael's evaluation, it is déjà vu all over again. Because if I had gone and pulled out the last two, three, or four years of his evaluation, it would mirror exactly things that I'm going to tell you this morning and what was reported to me by the -- not only by the trustees but by committee people.

I received 11 evaluations, until yesterday afternoon, and last evening I sat down with them and put some talking points together. And six of them were board people. And, again, it was not mandated that you send me anything. You may choose to do that at the end of this meeting in open session here, which should be done and any comments or amplifications of what I'm going to say. Okay?

Michael's -- when I look at the total evaluations, every single one of the 11 evaluations that I received either gave Michael -- here are the terms used: "A plus," "outstanding," or "exceptional." And they did not vary from that.

And I think when we see that for all these years -- Michael has been here now since 2010. So this is his -- the end of his eighth year at PRIM, and we've seen a complete transformation of the PRIM organization from what we were back in 2010 to what we are today in terms of how we operate, the size of our staff, and the success of the organization.

A few things that I'd like to mention and the notes that I took. One of the evaluations says "Michael has assembled the best team we have ever had at PRIM." This person said, "I would put our team against any of their peers in the public sector."

The term that came up on many of the evaluations was innovation. It says "Innovation defines Michael and his team."

They mentioned Project SAVE. They mentioned the vision as well as the culture here at PRIM. Because there has been a new culture developed here at PRIM over the last five years.

One evaluation said this person was very proud to be a member of the PRIM board because he was working with an organization that was the leader led by example, and he pointed out the national recognition that we had received.

Michael supports staff. He urges them to be creative problem solvers but also he does this with a very calm demeanor. Michael is also -- most of them said he is very responsive to the board's concerns.

Excellent communications. It says "Michael is an excellent listener. He's open at all times to the board and committee members who have ideas, and he keeps in contact with them. On a regular basis Michael calls board members and committee members and talks to them about what is going on here at PRIM to solicit our ideas."

"He has hired a highly qualified staff but he gives them the latitude to do their job."

The turnover here has come to an end. The turnover was brought to an end here at PRIM and this has now become a very attractive place to work. As Michael says, with all these jobs we have, we get hundreds of applications. And, of course, that is a credit to Michael and also the organization he's built. That people want to come here and work.

Staff and the board are confident in his leadership. And one person said "A good leader is known by the people he attracts to his side, and Michael has been very good in doing this here at PRIM."

He deals very well with political issues. He's had excellent relationships with the Commonwealth and also with the treasurer and also with the general public and the stakeholders.

The fact is that Michael has been invited to serve on CFA boards nationally and now locally. He is highly respected internally, as well as externally, in this organization.

Another quote said "Michael's vision has become the direction and motivational guidepost for PRIM. He has a relentless drive to innovate and to keep PRIM in a leadership position."

Now, a few mentioned that one of the major challenges that Michael is going to face -- and it could happen this year or next year -- is going to be attracting, maintaining, and compensating staff adequately so we can keep the staff intact.

This has been a problem that this board tackled at least six years ago. And after, with the new compensation schedules that we have, hopefully Michael has had the latitude to attract, and let's hope, to retain this excellent staff.

Several people mentioned the collaboration, the interteam collaboration here and gave examples of the collaborations with portfolio completion strategy, real estate, and private equity, and working together.

And some of the recommendations -- we're going to see in our agenda today that we'll be voting on -- mentioned that Michael is very approachable. Communicates well with the board and committee members. It says "The PRIM culture is one to be emulated."

"The staff has -- takes the initiative to undertake what has had to be done here at PRIM."

Finally, I just want to read to you a summary. It's a statement that I received from someone. I thought it summarized everything and put it together. It said:

"The Commonwealth is very fortunate to have such a skilled, thoughtful, and talented leader of PRIM. In addition, Mr. Trotsky's integrity is of the highest level and it is a pleasure to work with him and the broader team he leads.

"The accomplishments of the staff are a great reflection of the leadership at PRIM."

I mean, that probably puts this all together. And at this point, Madam Chair, I guess I can turn it back to you. But first of all, I would like to thank everybody who participated in this annual evaluation. And it's your turn now to offer any additional comments or any questions you might have, either of myself or actually of the process that we used.

And I hope people do make comments and -- because it's not limited to the board. There are committee members here who participated and may also add comments. Thank you, Madam Chair.

TREASURER GOLDBERG: Thank you very much. So I didn't submit anything to you, Bob, but I did have -- I do meet regularly with Michael. And, in fact, we met yesterday to talk about the overall evaluation and goals and objectives for the coming year.

And we have a very collaborative working relationship, and the only thing I encourage Michael to do is to elaborate on some of the things that he has included in goals and objectives. Because sometimes it can feel like we are repeating the same things that we've said before.

So you used the term déjà vu, but that doesn't mean that we're stagnant. It means that we are continuing to work on certain items, and that we have achieved some of the goals, but that doesn't mean that we have finished what we're working on.

And so I don't want anyone to think that when they read them, that there's any kind of cut-and-paste going on here. It is -- that it is a progression of events moving forward.

And so I think that the -- as I look back on over three years now, moving almost into the fourth year, I feel that we have had challenges but that we -- not between us but in the world and yet we have continued to progress.

I think that the achievements by the entire fund at the Sharpe ratio that we operate at and the creativity involved is incredibly critical at a time of uncertainty. And, you know, Dennis, you mentioned that. And I continue to feel that we are at a time of uncertainty financially, economically. The world just feels that way to me.

And so watching our risk profile is so, so important. And I know that that's important to everyone here who works here.

And so we will continue, please God, for the next 4 1/2 years working on the team building, working on strategies, making sure at the end of the day that we have the kind of returns that we need to keep on filling that bucket faster than the water is going out the hole in the bottom.

And that is our -- everyone at this table's and everyone in this room's joint desire. And so I don't know if anyone else wants to comment before we move onto what is actually the voting item, but I want to open the floor to anyone who feels the need to add to this.

MS. MCGOLDRICK: I just want to echo your comment, Treasurer, that in such a time of uncertainty to have someone at the helm and to have the team that you've assembled at the helm of this fund gives me great solace and confidence in unpredictable times. And that, to me, is worth its weight in gold. For us and for the beneficiaries of the fund.

And so I thank you for all the work and commend you on a successful year. We're past that ten year -- we're over the crash, and I see that improving, cautious approach --

(Simultaneous crosstalk.)

MS. MCGOLDRICK: And looking at risk, that it makes me feel confident that we can navigate risky waters. Thank you.

MR. HEARTY: Theresa, I think you're right. I have the same feeling when I wake up in the morning and buck up the courage to put the news on and to see what the latest happenings are. And I think of Michael at the helm here with his cool head, with his personality that I think is always welcoming with the staff that he's put together here.

And I made a comment, that Bob mentioned there, along the lines of giving people the latitude to do their jobs. You hire smart people and then you don't micromanage them. You let them do their jobs. And that's the sense that I have that that is what goes on here.

And therein lies just a small portion of Michael's value but an important one.

TREASURER GOLDBERG: I think also, Dennis, is sometimes you get people at the helm who have -- can't tolerate having others around them who are equal to them in intelligence and ability. And Michael, in fact, loves having brilliant people in the room.

And I think that that's an interesting dynamic that not a lot of egos can tolerate.

MR. HEARTY: Are you sufficiently embarrassed now?

TREASURER GOLDBERG: He's getting there. I'm working on the redness. I'm trying hard here.

Any other comments from members of the board before we move on to goals and objectives?

So the administrative and audit committee's role, pursuant to the PRIM charters, is to review and revise as appropriate the executive director's proposed goals and objectives and recommend them to the PRIM board for its consideration and approval.

The admin and other committee reviewed the Fiscal Year 2019 goals and objectives -- it's attached as Appendix D -- at its most recent meeting and recommends unanimously that the PRIM board approve the executive director's Fiscal Year 2019 goals and objectives.

That is a voting item that we -- I would initially seek a motion on and a second. I know that Michael and Bob have things to add to that. So first I would seek a motion.

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: And a second.

MS. FITCH: Second.

TREASURER GOLDBERG: Bob, are you kicking it off or is Michael?

MR. BROUSSEAU: I think they're his goals. So I think Michael should kick it off.

MR. TROTSKY: Before I get into that, I want to just thank everyone for that wonderful review. It makes my job very easy, first and foremost, to have such a fantastic staff. So a big call out to all of you who make it possible. You guys really do all the work and I'm just the conductor, if you will.

And it is a pleasure to have such an incredible staff. We're so innovative and hard working and really more deserving of the good review than I am. So thank you very much.

(Applause.)

MR. TROTSKY: And also it goes without saying that we could not be as successful as we've been without the support of our committee members and the board. I think we're just firing on all cylinders. We get along very well. We work productively together. We support each other.

We have members on the committee and board who really feel the mission in their heart, know how critically important our success is to the Commonwealth of Massachusetts, and I think, really, we have our priorities correct where risk, return, and cost are the number one priorities. And we seem to be delivering quite well on that, so thank you to everybody.

My goals and objectives are very consistent with past years. It's really just a continuation of the work we've been doing. They appear in Appendix D of your agenda. I won't go into any in great detail but I do want to highlight a few changes.

First, we are planning a board retreat in September and I think the major topic of that board retreat will be ESG and matters associated with ESG investing. So please mark that on your calendar. The date, I believe, is September 24th? 25th. I'm sorry.

It's a Tuesday, the 25th. So mark your calendars and we hope to have good attendance there. It's mainly educational as it is a retreat. So no policy can be deliberated. It's educational in nature, and we plan to discuss the whole landscape of ESG investing. What it means to different people and, hopefully, that will bring us one step closer to deciding what it means to us and how to implement.

In November of 2019 -- correct, Paul?

MR. TODISCO: Yes.

MR. TROTSKY: -- we will be holding a client conference. Again, that will be at Holy Cross in Worcester. Do we have a date for that? November --

TREASURER GOLDBERG: I'm pretty sure we

do.

MR. TROTSKY: November 14th. Mark your calendars there.

Project SAVE II. You're going to hear in a second from Michael Even. Project SAVE Phase II is our direct investment initiative. We've made great progress on that. And before Mike even starts, I want to thank you for your hard work there.

Mike has been living in the office next to me, supporting me on that effort, working collaboratively with staff. And we're so lucky that you retired and have time to spend with us now.

TREASURER GOLDBERG: We're really lucky.

MR. TROTSKY: We are too lean for what we do. You've heard me say that before. We have very ambitious hiring plans in each and every operating entity here at PRIM, and we will be focused on hiring quality people rather than just bodies. So it's going to take us a while, but we have key vacancies in each operation here at PRIM and we will being seeking to fill those.

And last, I want to amplify what's at the end of my goals and objectives, bullets 12 and 13, and provide you a little more detail on what we intend to do with diversity and inclusion efforts here at PRIM.

Really this is an area of extreme focus for us and we're working very collaboratively with the treasurer and her office on increasing the profile of PRIM to include diverse candidates. We'll continue to focus on building pipeline for diverse candidates so that we can really make headway and build a more diverse team here at PRIM.

We recognize that PRIM needs to be an inclusive work environment that allows all our employees to feel comfortable and valued. I have a philosophy, and I think we share that philosophy, Treasurer. We talked about it yesterday. That once we become more diverse, we will attract more diversity.

And I think I've mentioned to several that it's kind of the snowball effect. Once you get that snowball rolling and you're known as a diverse organization, it will be easier to attract and hopefully retain diverse candidates.

But we first need to build the core of that snowball, if you will. And to that end, as you know, we've engaged the leading outside consultant and together we are developing and rolling out a comprehensive diversity and inclusion strategy. We've been working on it for four months. You'll be hearing more about it at a future board meeting, but here are some of the components.

First, we're providing diversity and inclusion training for everybody here at PRIM. That includes conducting unconscious bias training for all employees. We will provide individualized coaching for leaders and managers to become diversity champions for underrepresented employees here to make PRIM a more inclusive culture.

We will explore creating an appropriate mentoring program here at PRIM. And in this area -- I know the Treasurer has very strong feelings about mentoring programs. And in this area we're very glad for the help you've offered us in this regard.

We're going to continue to develop a

robust recruitment and hiring strategy. We will develop and implement a targeted and intentional recruitment plan for women and minorities here at PRIM. Already -- you may not know this, but already each job search must have a slate that includes candidates of color, women, or both.

We encourage all employees to participate in industry and other affinity groups to increase PRIM's profile with underrepresented groups. And we will form a new partnership with the CFA Society of Boston to create a brand new 2019 summer internship pilot for undergraduate women, and that expands our summer internship program beyond the two organizations we currently support: the Treasurer's program and also Girls Who Invest, the national program.

Several other firms around Boston, in the financial services sector, are joining this effort with the CFA Institute, the local society, and we're excited about that. Jennifer Kuhn and Christina Marcarelli had been involved with some of the planning of that and I thank you for that.

And last, I will continue my involvement with the CFA Institute parent organization, the international group. I'm a member of the national advisory committee of CEOs, CIOs, and other investment industry execs across the nation, and we're developing a best practices guide for companies in our industry, in the investment management industry, to use in order to increase diversity in our industry.

I've seen a draft. It looks pretty good. And that will be rolled out in September with a lot of publicity, and I think you'll see me as a signatory of a letter to the industry. It will probably go in the Wall Street Journal and other areas.

As many of you know, this industry lags most others in terms of diversity, but we're working locally, we're working internally here at PRIM, and we're also working nationally to make the industry more inclusive and more diverse. So it's going to take some time, but those are some of the things we're planning for 2019.

It's a busy agenda. I'm happy for the support that Jennifer, the Treasurer, your team, and Christina are providing me. It's going to take some time, but we are very focused and it's very high on my agenda.

The goals and objectives also include the annual plans. I won't go through those. You've already approved those at a prior board meeting, but those annual plans become the checklist for my 2019 progress.

MR. BROUSSEAU: Fast question, Michael. When you become more involved in trying to solicit diverse asset management firms, which is an area that is now -- investing has become really a national initiative, many large companies or endowments or pension funds that invest.

MR. TROTSKY: Yes. We ask each and every respondent to our RFPs what they do to increase their diversity in their own organizations. We have an emerging managers program designed to encourage us to do business with emerging managers, which means either small asset size or women- or minority-owned.

The private equity team, it's quite a secret, but they have a lot of emerging managers in there. And you'll hear today, later in the agenda, from PCS' a new effort on emerging managers in the hedge fund space.

So we are trying to increase our breadth of investment managers and also just vendors in general of diverse ownership or composition.

TREASURER GOLDBERG: So what I want to comment on is that Michael is absolutely right. You create a critical mass and it does have a snowball effect. Because all the data shows that it is uncomfortable for people to be the only person in the room or one of two people in the room.

And what's been very interesting at treasury is this approach has been incredibly successful and we are still able to hire the most qualified people. And what happens is there are a lot of qualified people out there but they -- particularly, the very qualified people are able to select where they want to be.

And the goal on this is multi-fold. Number one, again, the data shows that organizations that are diverse, that have more women, are more successful because they're more innovative and more creative and more profitable. We have at least four different groups who've done studies on this.

But also, it ties back into our economy. And when we make sure that everyone gets opportunities to advance, we are spreading the wealth and that is very fundamental to me. I really become a grocer when I think about the economy and that we need everybody in Massachusetts to have the resources to be part of our consumer base.

And when we look at the revenue numbers for the state, you can see what is actually going on here. When we had those gas prices go way down, we did not see increased spending because we know that folks are so incredibly in debt and even more so for women and people of color.

So it is our way in which we are not only making ourselves internally a better firm, which when you -- when we hear the performance, it's hard to image but it is true. That we can be and we do have lots of great people here, and we have become more diverse and we do have more women.

But we want to make sure this is sustainable because -- and so making all these different efforts work. They actually work. A perfect example is my last incoming new employees group was 62 percent diverse and 57 percent women, and that wasn't because we put in the ads only women and people of color should apply. It's best qualified.

We get an enormous amount of applicants for all of our postings at treasury and because it -- you know the old expression "If you build it they will come"? So we're in a building mode here and it takes time and particularly in the financial services world, which has been very, very restrictive.

So thank you all for all your efforts. Do you want to add anything, Bob and Michael, before we vote?

MR. BROUSSEAU: No. The administration committee very carefully reviewed the goals and objectives and -- I'll say it today -- asked Michael questions, and we're very pleased to recommend this item to the board for its approval.

TREASURER GOLDBERG: Any other questions or comments by members of the board?

MS. MCGOLDRICK: I have just a really

quick comment. I think what you have reported and described is really important in the diversity. I think that we're making absolutely the right efforts, and I think that what would be really helpful -- not only to us, but to the outside world seeing us do it and being successful -- is pulling the pieces together.

And I'm talking now probably over the next one to three years as opposed to something that we do now and get ready for the next fiscal year because it takes time. But I think it's really important to this industry to see the success that we -- the efforts that we make and then return on those efforts.

And I don't know that -- I mean, I can envision the kind of reporting and commenting on what we're doing that will be helpful to us but also to others. So I'd like to see us begin to think about how we evaluate and report on what we're doing.

MR. TROTSKY: Okay.

MS. MCGOLDRICK: You know, all the pieces together.

MR. TROTSKY: We can talk about that.

MR. BROUSSEAU: I'm sure with all of this, these goals and our accomplishments, what concerns me as a board member is that I'm sure Michael gets a lot of people trying to solicit him away from PRIM, I'm sure, with the success that we've had here.

And my absolute goal is to make sure that Michael stays in this position and continues his work. It's certainly been a blessing to the Commonwealth, to the beneficiaries, and also to this organization.

TREASURER GOLDBERG: So with that, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

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

(Voted: To approve the Administration and Audit Committee's recommendation to approve the executive director's Fiscal Year 2019 goals and objective.)

MR. TROTSKY: Thank you everyone.

TREASURER GOLDBERG: Mike, we start with the investment report and Project SAVE Phase II update.

MR. EVEN: So I'll be brief, as Mike asked me to be. I've been working with Mike and various people here for a while, and what I really want to do is give you an overview.

I think this is a very long-term project that will have, hopefully, a lot of impact but the impact will be slow. The spending on it will be slow. So it's a step-by-step project. So start with that. Okay?

So let's just agree on the goals very quickly. Always a primary goal is to enhance returns and optimize risk. Every project within this that we'll evaluate will hopefully have an impact on both our ability to improve returns and control risk.

The second goal is management fee saving, SAVE II. And the third goal is to attract and maintain top-notch employees. We hope this will be an additional, kind of, plus when you think about joining PRIM in terms of what you can do when you join here.

Better insight into managing the external investment managers, which remains our primary goal. We're going to be focused on external. Having some internal money management will give us new insights into what it's all about and how to do that as well.

And finally -- and it's last -- but I think it's extraordinarily important. Continued thought leadership and innovation, both from an internal point of view and an external position.

So a lot of goals. Big charter for this project and it's a big -- again, as I repeat -- long-term project.

I'd like to spend, if we need to, the most time on this page. If you have any questions, it's supposed to be a graphic representation of what I have incorporated as of various inputs, particularly from Michael, as to what we want to accomplish here.

I'm going to use a term called "a seeding platform" in order to think about this and that's kind of the decor of what we're trying to do here. But what the seeding will encompass is, first of all, a back-office structure and the ability to trade and to do compliance and do operations. To do everything that's required in order to manage money.

And again, that's a tall order, and we're going to start it slowly and do it in a very, very judicious way as needed. But what we hope to do is offer that capability so anybody who wants to have a great idea for running money could come in, not have to worry about these things, and focus primarily on running money.

Then we're going to create an ability to -- we already have it really -- to provide seed capital and operating capital for teams, again, either internal or external, who have the interest and the ability to manage money for us.

So kind of a back-office infrastructure for running money, seed capital, and operating capital. A captive focus on PRIM. So most -- all of these teams will start with a focus directly on what we need and what we need done. And therefore, they'll get -- that's what we'll provide the seed capital for, as well as provide the operating.

But the potential -- if the team is particularly successful and capable of managing itself, we'll potentially allow them to do third-party business as well as they mature and as they grow. All, hopefully, to the benefit of PRIM.

So that's the idea of a seeding platform. What we will try to do with the seeding platform -- those are the box around it. The immediate focus is on PRIM's internal team. I'll cover this on the next page, but there's a whole set of ideas that are generated internally to potentially fit into this platform, to potentially take advantage of the infrastructure.

And I'm talking about the back office and the seeding gap. Again, I'll cover that briefly in a second.

There's also the ability to lift out or find externally available teams. And it's a very common, common happenstance, particularly now in the industry today, that there are teams out there that are very capable that are looking for new or better homes than they have right now. And we might be a very, very interesting place for them to park, to our benefit as well as theirs.

There's another potential to pick up

external, what I call, undersized managers. Managers who've been doing interesting things but for whatever reason they haven't handled the business side as well as they've handled the investment side and would like to join us.

And finally, it has actually been -- Mike has had some conversations along this line. There could be some very interesting partnerships. And I think Mike has had some conversations, for example with the Harvard real estate team, that may have been easier to have if we had had this kind of process in place already and the ability to have this discussion with more meat, if you will.

So that's the idea of the seeding plan. So that is perhaps the most important page. Again, this does not exist today and it will not be created overnight. What we will do is if opportunities come, we'll bid little pieces of each of these units as becomes necessary and over time we'll build this whole thing.

So this is the vision not the immediate project.

MR. BROUSSEAU: Are we making this

vision, or are there other organizations that are already doing this and using a similar plan?

MR. EVEN: So I think the specifics might be somewhat unique because we've learned from the experience of others, but there are definitely folks doing this. The one that comes to mind -- it's not directly comparable -- is Ontario Teachers. Canada is very active in this space in a slightly different way than we're proposing.

But it is not uncommon. The only thing I will say is most of the people who have preceded us have sunk a lot of cost into this back-office side upfront and have then had fewer opportunities to populate the rest of this chart.

So we're doing it kind of -- I hope we're learning from other mistakes that have been made in that space and doing it in a more measured, less aggressive way.

MR. BROUSSEAU: There must be a down side, especially with the back office trading that exists in this kind of a program.

MR. EVEN: Again, I don't know the details so take this for what it's worth. My understanding is that some of the other big public funds have sunk a very significant amount of cost into building this back office and then had problems finding good candidates to actually use it. So, yes, I think caution is very much --

MR. TROTSKY: I think our -- first of all, in answer to your direct question, I would -- we did a survey a number of years ago that -- of our peers around the country and we learned that on average, our peers manage over -- more than 25 percent of their assets are managed internally and we're essentially at zero.

And that number has only gone up since we did that study. There are some, like CalPERS and State of Wisconsin, and Texas teachers and others, that do the majority of their money management in-house.

We've visited a number of those plans over the years, and I was recently with the CIO of SWIB, the State of Wisconsin, on a panel in New York, Delivering alpha conference, last month. And what I thought was interesting was when we first visited him, he suggested that we first begin by building the back office and putting passive money on a back-office structure that we built.

This time when I saw him, he said, "You don't have to do that anymore. You can -- and we know this already -- you can buy back-office services. You can find third-party vendors, many of whom we already do business with, like State Street, for example, to outsource that component."

Because I believe the real added value is on the front end, not on the back end. So trading and back-office reporting is something that you can outsource. You don't have to sink a lot of money in it right now. Companies are building business plans to accommodate this, whereas maybe five, 10 years ago, when some of our peers across the country were building this capability, they had to built it themselves.

It's really a lot of costs that I think we can avoid. It may make sense, if we have enough investment ideas, to build it eventually, but we don't have to do it right away. And SWIB is up to 60 percent or more internal and might even be 80 percent.

MR. BROUSSEAU: They're also a fully

funded system. Correct?

MR. TROTSKY: Nearly.

MS. FITCH: What's the size of their staff, though? You know what I mean? Our staff is small.

MR. TROTSKY: Well, every staff across the country is way larger than us. Mike's going to cover that.

MR. EVEN: That's a very good question.

MR. TROTSKY: You know, in this regard, I believe we have a competitive advantage, especially when you look at SWIB, Wisconsin, and even the California systems and even Texas.

I mean, being in Boston, we're in an academic and financial capital, and a lot of financial money management jobs have been leaving Massachusetts and Boston. But I know, because my friends and our friends in the industry, they don't want to leave Boston.

So I think there's an ability to attract people who have proven themselves as good money managers and provide them a really great, interesting platform.

I mean, think about it. There's a ton of assets here. There's essentially no marketing. We have all the capital that anyone could want. We have a long-term business horizon. We don't look at monthly and even quarterly results of our managers. We always say we'll give them one business cycle to prove themselves, and we have a great organization with a great lifestyle.

I think that makes a great job for a person who wants to stay in Boston and is a money manager who doesn't want to spend their time on an airplane marketing. And you know, Mike, from your role that that's what a lot of the firms end up doing. They build and build assets and we're looking for the pure money managers. So I'm pretty hopeful.

MR. EVEN: By the way, one potential test of our discipline will be if we do hit a downturn. It will be an ideal time to find teams for something like this, but it will be a very difficult time for us to make those decisions.

MR. TROTSKY: And the last thing I want to say is that I know -- and I think our results show it -- is that I believe this organization is very skilled at identifying managers with skill.

So, you know, through the work that Eric and strategy have done in terms of factored and composition work and principal component analysis, we believe we can identify managers with true skill. Not luck but skill. And we'll apply those same tools to filter any teams that we may wish to sponsor here at PRIM.

And in the end -- I mean, people have asked me about this -- we'll measure any internal team exactly like we measure any external team and expect the same.

MR. EVEN: If you go over to the next page with me, it just covers, in a very high level, the basic challenges. We'll have to create a larger governance and legal structure. And I'll go through exactly how we hope to move ahead with some of these.

So both a legal structure for the seeding class and its employees, as well as a governance structure for decision making versus external management process. We need to build the seeding platform itself and that will require, we hope, low expenses but expenses up front with benefits on the back end, and a lot of time, effort, and expertise as we start to build it out.

And finally, we'll have to balance PRIM -- in the seeding platform, as I said earlier, our main business is probably always going to be external management. And we don't want to either create massive pressure on people to move to the seeding platform, nor do we want to make the seeding platform so threatening as to have no one come up with ideas and move to it. So it's going to require a nice management balance.

If you go to the next -- any questions?

If you go to the next page, what we hope to do is create three steering groups: The back office one, headed by Tony; an investment one headed by David; and finally a legal governance one, which might be the most complicated one, headed by Chris.

And we have not started this process yet but with your permission, we hope to kind of start the process of planning this in a slightly more hands-on way. And there have been some preliminary projects selected. The real estate group has started moving gradually towards sourcing and executing deals themselves.

The private equity group, for quite some time, has been increasing its capacity for co-investment, which begins to look more and more like direct investing as it moves along that gradient.

There are a few ideas floating around public markets, which I will let Dave report on later. Not today but later on on the calendar.

And finally, for PCS, there's a lot of possibilities that we will -- again, you will be hearing about as we progress and as time goes by. And the key point, which you so thankfully helped us with, we definitely will need staffing as we move ahead with this.

And the last page of this deals in a very high-level way with the staffing question. In my opinion, having now been kind of very involved directly for almost a year, each asset group could enhance its current capabilities. It would be nice to hire folks simply to enhance the business as existing today.

And focus on current demands. Focus on strong management structure and staff up for new projects. So when we start looking at our hiring needs, we will start by making sure that the assets groups are able to handle -- more than handle the current demand.

Each asset class group can enhance with a vision for internal management. So one of the things we're hoping to do is allow existing personnel to add internal management to the docket. It will increase the resources. And, opportunistically, hire specific skill sets.

So, for example, if David or Eric, or anybody else for this matter, is hiring and they come across a person who seems particularly well skilled to run an internal portfolio, that might sway us towards that person within the SAVE II structure.

And finally, we're going to beef up the research team. New hire is available for projects for all the asset class heads. So create a basic ability to move capable people around in support projects and, obviously, the potential to move these folks into specific asset class groups or into specific internal management projects if they're particularly well suited or particularly well-liked for those.

And we'll hire, for the seeding platform back office, on the tail end. That gives you a very high overview. Very quick overview too.

Any questions I can answer?

MR. BROUSSEAU: Michael, at time horizon do you see us being able to implement this in the next three to five years? And also, hiring the right people to do these jobs?

MR. EVEN: So it depends on how -- let me answer carefully.

We're already managing some money in-house. Okay? There's a project with PCS which is replication. I think you could argue that part of private equity and part of real estate is really right in-house. So the answer is, yes, we're already doing it.

I think that we have -- we're weighing the simplicity versus speed question mark. If we do some simple things up front, we might be able to get off the ground very quickly in the public market space. If we aim for more complicated things, it will take a little longer to build.

But I think the goal is to have some

things up and running and have a little bit of momentum certainly within a year.

Mike, would you agree? I don't want to speak out of turn.

MR. TROTSKY: Yeah. Certainly within a year we're going to build on what we've done, but I think three to five years is a good time window. It is going to take a while and we're going to do this very carefully and deliberately.

MR. BROUSSEAU: Do you have any idea how many new staff people might be required?

MR. EVEN: Between 500 and 1,000.

(Laughter.)

MR. BROUSSEAU: We'll take over the building. We're at 45. How many more would you envision?

MR. EVEN: I think it depends very much on (a) the kind of people we find out there and (b) the kind of projects that come along. So I don't think we should aim for a particular number. I think that hiring at PRIM has been very carefully done historically and, if anything, we've under hired and I don't think that culture should change.

So I think we should be opportunistic in the project we do and not aim for a specific number of people and see what comes along.

TREASURER GOLDBERG: Any other questions or comments?

SPEAKER 1: Thank you all for your time.

TREASURER GOLDBERG: Mike, very happy that you retired.

SPEAKER 1: So far I'm happy too. Thank you.

TREASURER GOLDBERG: Public markets.

MR. GURTZ: Back to go Appendix B. Good morning. I'm David Gurtz. I'm joined by my colleagues, Chuck Laposta and Andre Clapp. We'll be going through the public market performance first and then Chuck is going to go through the investment recommendation.

So again, starting on Appendix B, page 6, very, very briefly given the time, the one-year period ended June 30th was very positive looking at the bubble chart here. You can see lots of green thanks to continued global growth and relatively modest inflation in the past 12 months ending June 30th.

The second half of 2017 performed significantly better than the first half of 2018, especially in the emerging markets, which my colleagues will walk through now. So with that, I turn it over to Andre.

MR. CLAPP: Thank you, David. So I'll be speaking to page 7, which looks like this. Equity returns were strong in the Fiscal Year 2018 as the global equity portfolio returned 11.7% net of fees, outperforming its benchmark by 40 basis point.

Our active managers did well with all three major areas: U.S. SMID, developing international, and emerging markets generating significant outperformance both gross and net of fees.

Now, I'd be remiss if I didn't mention the last quarter of Fiscal Year 2018, Q2, which showed a dramatic risk-off trend in the wake of trade war fears. The S&P 500 rose 3.4 percent last quarter whereas EAFA fell 1.2 percent and the MSCI EM Index dropped 8 percent.

Our EM managers have been adding a great deal of value in the strong EM bull market of last year, and it was reassuring to see them continuing adding value in the sharp downturn of Q2, as we outperformed by 53 basis points net of fees last quarter.

In the fourth quarter of 2017 and the first quarter of 2018, prior to the downturn last quarter, PRIM moved over $2 billion out of emerging markets and developed international as part of PRIM's normal rebalancing.

So now two weeks ago at the Investment Committee meeting, we gave an overview of the global equity portfolio during which we discussed our active management philosophy. I'd just like to take a minute to summarize that presentation.

Our active management philosophy, in a nutshell, is to be more active the less efficient the markets and conversely, less active the more efficient the markets. You can see this active management philosophy at work in this relative performance bar chart on page 7.

The most value added is in emerging markets, an inefficient asset class where PRIM has recently gone to 100 percent active. Developing international is also fairly inefficient, and here we are 60 percent active. In our recently added sub-asset class of developed international small cap, we are 100 percent active.

U.S. SMID cap equity is relatively more efficient. Here we are only 40 percent active. Our U.S. SMID managers had a good year this year, but have done poorly over the last five years and this allocation is under review.

Lastly, in 2016 the board and committee voted to shift 100% indexed in U.S. large cap following many years of mediocre performance by our U.S. large cap active managers. Here you can see that we've matched the benchmark.

So we've been steadily moving forward following our active management philosophy, adding more active management in markets like emerging markets and international small cap, where active management can add significant value net of fees.

Conversely, we've become more indexed -- 100% indexed, in fact -- in the U.S. large cap market, the most efficient equity market in the world where active management struggles to add value and where active management is more likely to add significant extra risk than to add meaningful excess return.

Thank you. I'd be happy to take any questions.

MR. LAPOSTA: Seeing no questions from my colleagues, I'll turn the page over to page 8. So here in the fixed income markets results have been much more muted. I think for the last 12 months we've been in an environment where growth is positive but still below 3 percent.

CPI inflation measures are ticking up, finally, above the 2 percent targets that the Fed had set as their threshold for inflation.

We are now firmly above that level and, of course, the Fed has raised rates 100 basis points since June of 2017, which has led to a flatter yield curve with shorter rates coming up and longer term rates remaining -- are rising by less than short-term rates.

Some of the important things. If you look at the results, the two assets classes on the left -- the two best performing fixed income asset classes -- are two in which we made a increased allocation in 2017 for -- as part of our asset allocation.

We wanted to get more assets that were protected from rising inflation, and those two asset classes are bank loans and inflation-linked bonds. Bank loans maturing 4.7 percent for the trailing 12 months. Inflation-linked bonds returned 2.9 percent for the trailing 12 months.

And importantly, bank loans are floating rates so they react to rising interest rates. Interest rates are 104 basis points over the last 12 months and that's benefited bank loan strategy.

Inflation-linked bonds have a direct pass-through on inflation. As inflation increases, these bonds perform better. Inflation is 120 basis points higher over the trailing 12 months, and that is reflected in the results of our portfolio.

On the far right end of page 8 is our worst performing asset classes, both in emerging markets. And as we've described, emerging markets have really been a tale of two halves, even within the first half of 2018 where it is --

through Q1, emerging markets have performed reasonably well.

And then in the second quarter and continuing today, emerging markets have sold off. In fact, emerging markets -- in dollar-denominated terms, emerging market debt was 3 1/2 percent off in just Q2 alone and 10.4 percent negative returns for local currency emerging market debt.

Our managers in the emerging market dollar-denominated-debt side have provided excess returns of 90 basis points, whereas our local currency denominated managers returned negative 60 basis points of excess return, being more volatile and being on the wrong side of some currency trade.

Those are the highlights, again, for fixed income. If there are any questions, I'm happy to take them now.

TREASURER GOLDBERG: Any questions?

I like the way you call it the "tale of two halves." The best of times and the worst of times.

Seeing no questions, thank you. We have

the voting items. Chuck, you're presenting on 400 Capital Management, LLC.

First up, I would seek a motion of approval of an initial allocation of up to $100 million to the 400 Capital Asset Based Term Fund. That the PRIM board approve the Investment Committee's recommendation to approve an initial allocation of up to $100 million to the 400 Capital Asset Based Term Fund to be invested in a PRIM managed account.

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: Thank you.

MR. LAPOSTA: So this is an investment in 400 Capital. This would be for our other credit opportunities allocation. Again, another allocation we set out a few years back to find new ideas that fit within our total value and portfolio.

It is with a high conviction manager who we currently employ for strategy within our portfolio completion strategy team. And it's another example of the collaboration at PRIM between a PCS team and the public markets team.

The proposed managed account will be a broad structure and will provide long-term capital, take advantage of high conviction themes within the structured credit universe. The structured credit universe has many of the characteristics of our other credit opportunities, allocations.

The underlying asset, in this case single-family homes, tend to benefit from rising growth and high inflation. It is differentiated from the corporate credit and interest rates found in the other parts of our fixed income portfolio. Importantly, returns can be in the low double digits.

The structured credit universe is a $10 trillion opportunity set, in which 400 Capital has demonstrated considerable skill to our existing PCS investments.

The proposed managed account will focus on core trade ideas. Core trades will take advantage of the ongoing theme of risk transfer programs enacted by government sponsored enterprises such as Fannie Mae and Freddie Mac.

These core trades are similar to investments we have made in other parts of our credit opportunities bucket.

It can be first-look pieces of Fannie Mae or Freddie Mac transactions secured by residential properties with stable improving credit fundamentals that require direct partnership with Fannie Mae or Freddie Mac; require patient and stable capital, which PRIM has; take advantage of attractive financing levels for the senior part of the capital structure; and target returns between 12 and 13 percent, with a range of outcomes from 6 to 15 percent depending on future performance.

An example of the core trade is a Freddie Mac seasoned-risk transferred securitization, which transfers seasoned re-performing single mortgages off of Freddie Mac balance sheets and into the hands of private capital.

Freddie Mac has established this as an ongoing securitization program in which

400 Capital will continue to be involved.

The account may also take noncore transactions, which will have similar elements of this transfer and capital relief but may be in markets other than those covered by government funds or enterprise.

Both core and noncore transactions, 400 Capital has demonstrated the ability to identify market inefficiencies, analyze and engage strategically, and deploy capital opportunistically.

With that I'll open it up to any questions.

TREASURER GOLDBERG: Any questions on behalf of the board members?

MR. TROTSKY: This was approved unanimously at the committee.

TREASURER GOLDBERG: I'm just wondering if there are any additional questions. Seeing none, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion cares.

(Voted: To approve an initial allocation of up to $100 million to the 400 Capital Asset Based Term Fund to be invested in a PRIM-managed account.)

MR. TROTSKY: Madam Chair, I've been made aware that our stenographer has a neck issue and would like a couple minutes break.

TREASURER GOLDBERG: Absolutely.

(Recess taken at 11:11 a.m.)

(Board meeting resumed at 11:17 a.m.)

MR. NIERENBERG: Good morning, everyone. I'm Eric Nierenberg. I'm Chief strategy officer. Good morning.

I'm here to give you a Strategy/PCS update and then -- we do have, I think, the busiest agenda we've had in PCS ever. We have several items for your approval.

Let me start off from a strategy standpoint. Mike Even talked about internal management initiatives and, personally, I'm very pleased with the desire to build our research strategy.

This really will help develop the cross asset class collaboration that we've talked about so much, and it really is one of the hallmarks of PRIM. It's, you know, our manager evaluation and asset allocation frameworks that involve everyone across the organization.

And then also timing with Mike's presentation on project safety, the emerging manager direct hedge fund platform, that Bill will be discussing in just a minute, represents another step towards further internal management.

And as always, I think the achievement that we've had, I can't do that without my team. We have Bill, Maria, and Liu, and also the help of operations, particularly Matt Liposky.

I'm not going to -- Michael Trotsky already went over the risk-adjusted performance of hedge funds and also of the PRIT Fund. Again, just from a strategy standpoint, I think it's very appropriate and very important that we be talking about risk-adjusted performance all the time.

It's great when we have good performance relative to our peers but really, at the end of the day, it's what are the returns for the amount of risk that you're taking on. That really is what investors should care about. But what I think we're particularly proud about is that in PCS all of the different subcomponents of PCS outperformed the benchmarks over the course of the fiscal year.

And just as a quick update on the hedge fund portfolio, about 3.2 billion of our 5 billion in direct hedge fund investments are now in managed accounts where we have full control and transparency. With the reduced fee terms that we negotiate, those fee savings alone come to about $50 million a year.

Once you add on the previous savings from moving away from fund of funds, within just the hedge fund program alone we've taken a run rate of over $100 million a year out of the costs. That's something we're very proud about. It's great to have good performance but, as Michael often says, getting those cost savings out of the structure of the organization is really important.

And so let me turn it over to Bill for a discussion of the Put Spread Collar.

MR. LI: Hi my name is Bill, Bill Li, and

I'm a Senior Investment Officer on the Portfolio Completion Strategies team. I'm going to update you on the Put Spread Collar Equity Hedge program, which dynamically utilizes options to shift the S&P 500 return distribution.

And with a more preferable return profile, we are enabled to more comfortably assume equity exposures. So to summarize Fiscal Year 2018, for this strategy, $2.25 billion was put into the strategy. And for the full fiscal year the strategy generated 10.5 percent return, outperforming the benchmark by 80 basis points. That is adjusted for cash drag.

However, that performance did come with a significantly lower volatility, and translates into a Sharpe Ratio of 1.4. So we have a relatively superior risk-adjusted return here.

If you look at the strategy, we were wondering where the performance really came from and we kept monitoring that. 380 basis points could be attributed to a design that incorporates dynamic signals and thoughtful trading.

With that update, we are happy to answer any questions you may have regarding either the portfolio or this equity hedge strategy.

TREASURER GOLDBERG: Any questions? Okay then. Bill, are you ready to now move on to the voting items?

MR. LI: Yes.

TREASURER GOLDBERG: So I'm going to seek a motion on the first voting item. Motion for approval of the Emerging Manager Direct Hedge Fund program. That the PRIM board approve the Investment Committee's recommendation to approve the implementation of the $500 million Emerging Manager Direct Hedge Fund Program, the process and investment guidelines, which are described in Appendix F of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

Is there a motion?

BOARD MEMBER: So moved.

TREASURER GOLDBERG: Second?

BOARD MEMBER: Second.

TREASURER GOLDBERG: Okay. Go ahead.

MR. NIERENBERG: Thanks very much. And Appendix F in your packet is the presentation for this proposal.

It's been 2 1/2 years since we started our investigation into the emerging manager hedge fund platform. Back in 2016 we presented some research to you that showed that smaller managers were typically outperforming larger ones. They're able to be more nimble. They're able to pursue more differentiated strategies.

And, in particular, it was the defensive nature of Macro and Relative Value strategies we thought could improve PRIT's overall risk return profile most significantly.

That being said, as we highlighted at the time, an emerging manager program doesn't come without some intricacies. For one, manager performance dispersion can be high, and you need a thoughtful manager selection process to identify the funds that you'd like to invest in.

Second, you also need a robust operational setup in order to house the managers. There is also the need for good communication to persuade capable managers to come to our managed account platform.

So over the year -- over the last almost two years we've been researching this topic quite a bit. Earlier this year you approved the hiring of Innocap and New Alpha to help manage our emerging manager program, and we're pleased that that has gone well enough that for this cycle we're ready to bring the proposal to you.

As I said, this really took a huge amount of work, both from our investment side where Bill headed up that effort and the operational side with Matt Liposky. Fortunately, we've had a very strong managed account program already, which we talked about a couple of minutes ago, to build upon, and I think we've modified that to reflect the kind of unique nature of the emerging manager universe.

We're very excited about the proposal we have for you today. Let me turn it over to Bill. He'll give a brief summary of the investment process.

MR. LI: Thank you, Eric. The program will represent a fluid and dynamic process of hiring, balancing, and terminating managers. And we're going to regularly update the board on the investment progress every meeting cycle.

I will walk you through the investment

process design as a proof of concept first, while my colleague, Matt Liposky, will talk about the operational setup.

So earlier this year you authorized the hiring of New Alpha, as advisor, and Innocap as managed account provider for the program. Both firms are experienced and highly regarded in the emerging manager space.

As you can see on page 3, since February we have gone through a lengthy process of setting up the framework and infrastructure for the program. And I'm not going to elaborate here, but if you could turn to page 5, I'll walk you through the exercise that we have done with the manager sourcing, which is quite a fluid and dynamic process.

We maintain a focus group where managers are continuously sourced into the group, while others are dropped out -- by the end of June, eight managers actually dropped out of the focus group. Four were passed due to red flags identified in the due diligence process, while the other four managers rejected us because they didn't like the business terms.

So as of current, we're at various stages with the managers. We're now ready to fund three managers. The advisory team -- the New Alpha team -- is trying to source other funds into the focus group in the meanwhile.

Page 6 draws from the initial sourcing experience and proposed an ongoing investment process. Starting from the top, New Alpha continuously sources strategies based on the prespecified criteria. Going clockwise, once preliminary analysis is done, New Alpha will communicate the manager's key characteristics to PRIM staff and, collectively, we will decide whether to add the manager into the focus group.

The next step is to proactively reach out to the managers, communicating our preferred terms. Some might agree, while some others may say no, which is fine.

Then full due diligence will be performed. Should everything go fine, we will seek the Chief Investment Officer's approval for onboarding the manager.

So basically, PRIM CIO would have to approve any decision related to hiring, rebalancing, and termination, and we will update the board on the progress of that on an ongoing basis.

As mentioned, there are already three managers that are ready for onboarding, and page 9 illustrates how those three managers will fit into the investment guidelines that you will vote on.

With that, now we open the floor for any questions that you may have.

MR. NIERENBERG: Let me just interject one thing. The characteristics on page 9 are really important. These are continued within the guidelines because these are exactly the kind of things that we're trying to get here.

These managers are going to be much smaller than even the small managers that we've been hiring over the last few years, and that's intentional. We really want to try to get these very niche, very idiosyncratic sources of alpha.

But, again, the structure of the program is one where if you have a lot of small managers together, individually these managers are not really ready for, say, a normal-sized allocation that we might do of 150 to $200 million like we'll see with the other two hedge fund recommendations in a couple of minutes.

So that's why we're talking about maybe a $50 million allocation to these managers. But collectively, if you have, as you build the program, enough managers, it becomes a meaningful source of alpha. Some people like to use the term "it's your bench" or "your farm team," where if managers do particularly well and you're able to grow with them and you're able to increase the allocation and, in a sense, graduate them to the regular direct hedge fund program.

It's a -- it's kind of an extension of the process that we've already been doing in hedge fund investing for quite a while, but I think we've learned a lot of lessons along the way and I think we feel good about the process.

MS. FITCH: Do you have a length of time or term in mind? And I know it varies, but a year? 18 months? Less than that? Do you have a sense of that?

MR. NIERENBERG: In terms of how long it takes to fund the program?

MS. FITCH: To get them up and running and determine success or not.

MR. LI: So before onboarding the manager, listed in the investment guidelines, we would require at least one year and a half track record from managers so that we can carry out a meaningful analysis on their capability.

MS. FITCH: Before they're into the program?

MR. LI: That's before onboarding to the program. However, within the program, that would be a very dynamic process where we will monitor them on a monthly basis to see if they're really investing, and their risk taking is within parameters as well.

So this will be a continuous -- really, a process. In the downside scenario, where a manager didn't perform for one or two years, we would terminate them versus in another case, hopefully, you know, most of the managers will perform and grow.

In that case we will consider even graduating them to our main hedge fund program with further allocation.

MS. FITCH: So there's no set time in a sense. It really depends upon the progress.

MR. NIERENBERG: It depends. And keep in mind, there are also other considerations, and Matt can go into more details if desired.

Operationally, there's more fences around what they're doing. What you really want is performance control. You always have that in a managed account anyways, but I think the controls are even more enhanced here because there is a risk that some of these firms, even with good investment ideas, just don't really make it operationally.

You know, they may not get to that next hurdle. So we have the protection that we're not going to lose money here. But if we find that they're just not ready to move to the next level and be truly institutional, we can -- we have full control of the assets.

MS. FITCH: Okay.

MS. MCGOLDRICK: Something that I don't see from the list of guidelines is a correlation category. You talk about specific niches. Is that something that you're looking at as well?

You're not investing in all the same -- to make the --

MR. LI: That's included in the investment strategy.

MS. MCGOLDRICK: No. I mean -- so under the strategy, you're looking at what?

MR. LI: We're looking at both. Categorization of the strategy. On the other hand, there is the established track record. We conduct an analysis to see how correlated they are with our overall PRIM portfolio.

And the threshold of that is specified in the guideline. That they have to have at most a 0.3 correlation with the PRIT fund.

MR. BROUSSEAU: On page 7, we've seen a lot of articles about the fees, and I see you talk about the 2/20 fee structure of these, sort of, hedge funds. Is this a fee that we were able to negotiate or is this something that they offered before you were to invest?

MR. NIERENBERG: No. This is something that we're negotiating. And, you know, we're -- the fee savings are even more significant than what we've been doing with our regular hedge funds. The managers are even smaller and so these investments are more consequential for their business development.

We're talking about a ballpark of 50 to 60 percent savings off of the rack rate for these funds. Now, there's reasons why managers would agree to this. And then in some cases, as Bill mentioned at the outset, there are some managers who just say, "You know what? I can't go that low for fees."

The question has come up: How do you know you've got the right number for fees? How do you know that you're not leaving money on the table or being too tough?

I think we said, "Well, if some people are agreeing to the terms and some aren't, it will take some time to calibrate it exactly."

But I think we're finding that as long as we can build a program of good managers, not having adverse selection, we don't feel like the best managers are walking away, then I think we'll keep pursuing it the way we are. We have the ability to change course and try to push fees even lower or even raise them in some cases if we

think it's necessary.
MR. BROUSSEAU: Eric, you said these are all small managers. What size are they when you say "small"?
MR. LI: Again, that's specified in the investment guideline that the managers' strategy size, total AUM, has to be under $500 million. However, with those three managers that we have crossed the finish line with, their AUM ranges from $15 million to $300 million.
MR. NIERENBERG: $15 million. I just want to point out this is pretty -- I mean, for us, at least, this is pretty cutting edge stuff. We're pretty excited about this because we won't find too many other pensions out there in the world that would be willing to identify -- and, again, we have conviction in these managers.
They're small but we think this is where you can actually make a lot of money. This is exactly the kind of profile we were looking for and hoping to find when we first proposed the program.
MR. MONACO: Mine is probably a little follow up or extension to the prior couple of

questions. But in thinking about this, is this program more about finding early a few managers that over the next few years you can graduate and have really big allocations to, or is it about always having an exposure to a cohort of emerging managers that, if carefully selected, on a blended aggregate basis, will consistently outperform, or is it both?

MR. NIERENBERG: It has elements of both, but that's too wishy-washy an answer. So I'll say that it leans more towards the latter one, where I think the idea is to build a cohort of managers that could -- with the diversification it's going to build in in creating this program, it's designed to give you some really nice risk-adjusted returns with low volatility and, hopefully, zero correlation or very low correlations.

That being said, I think that if the managers do well and they're able to grow and they're able to expand capacity and it's not inconsistent with their strategy, then I think a nice side effect -- you know, a bonus of the program is being able to graduate some of those managers and being able to put more capital into them over time.

MR. MONACO: So if it is the latter, how big could the emerging manager program be given their capacity and operational constraints and given the needle-in-the-haystack effect? You had to look at 230 to get to whatever -- 4 or 5 here.

MR. NIERENBERG: I think, as Bill said, the process is still ongoing. And I think with the advisor, there's been a nice flow of managers coming in. And it's one of these things that -- even like the capital introduction teams at the investment banks -- now that they know we have this program in place, we're getting a lot of interesting flow from them.

Now they understand the kind of characteristics that we're looking for. And, of course, most of those prospects are not going to pan out, but it's helping build that pipeline.

So I think with this -- are you ever going to have a $5 billion emerging manager program? No. Not when you're allocating $50 million each, but I think $500 million -- or we think $500 million is a reasonable target to get to in the next two years or so. And from there, we'll see.

I guess it just depends on how robust it is. How these managers perform. Whether there is room to expand it further. Whether you have to downsize it some. It's a little bit of an unknown, truthfully. We're hopeful that -- at least at the $500 million level we think that, based on the pipeline we see, we can build out a good stable of 10 managers and then continually reassess.

MR. MONACO: The research suggests that there's alpha to be found prospecting in this manager cohort. Does it -- is that more about you can find a few great managers or that, in fact, if you really are good at manager selection, you can assemble a consistently good portfolio? Because there is kind of a difference.

I'm going to get this wrong but directionally you'll probably understand it. Venture capital might be a great performing asset class over a long period of time, but the returns are really concentrated in a real small cohort of managers. And so those who set out to build themselves a really diversified pool of managers end up with kind of a zero-sum effect.

The top decile gets negated by the bottom and you get really mediocre returns.

MR. NIERENBERG: Bill can expand on it, but I would say it's definitely not likely here. That's not what we think the research suggests. That the average fund in the small end of the spectrum will outperform the average large hedge fund, but there's a huge amount of dispersion within that. So, you know, there's extra juice to be gained, I guess is one way of putting it.

But you have to have even more conviction in your selection process because there's an even higher cost of getting it wrong.

Now, one thing that we can have, I think, conviction in, based on our experience so far, is our manager selection process. So we're not trying to identify home runs here. Especially in a lot of these strategies. They're not shoot for the fences.

They might be volatility-based strategies or relative-value strategies where they're trying to get a high single-digit return with very little down-side volatility to that. It is -- almost definitionally you're not going to --

It's not going to be from an absolute return perspective, star performers like a long/short equity fund, But we do think that with the careful selection over time you can consistently outperform. And that's what we're trying to get here.

The overall goal of the program is not different than the direct hedge fund program. We just thought there is a sort of untilled alpha at this end of the spectrum that almost nobody out there is prospecting because you need the right kind of tools to be doing that kind of digging.

And now we think we have those tools. So we've set up the right process to maybe strike some gold.

TREASURER GOLDBERG: Any other questions? I think this is a fascinating approach. And what I do like is the controls that are in place in order to evaluate and choose the right opportunities.

I love the expression "small and nimble" and the liquidity issues. So I think this is one of the things that we talked about that differentiates this. So I thank you both for the work that you've put into this.

This part of the presentation is not actually a voting item. We really don't start voting until you make a specific investment presentation.

MR. NIERENBERG: Well, in this case, I think there is -- the voting item is to approve the platform because --

TREASURER GOLDBERG: Is it here? I'm sorry. I didn't see it under -- on the expanded --

MR. BROUSSEAU: Approve the direct hedge fund program. It's a voting item.

TREASURER GOLDBERG: Okay. Got it.

Did we already say it? So we have it on the table. We have a motion. Do we have a second? All those in favor.

BOARD MEMBERS: Aye.

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

(Voted: To approve the implementation of the $500 million Emerging Manager Direct Hedge Fund Program, the process and investment guidelines, which are described in Appendix F of the Expanded Agenda.)

TREASURER GOLDBERG: The next item on the agenda. I would seek a motion for the approval of a commitment of up to $250 million to Silver Creek Aggregates Reserves Fund, LLC. That the PRIM board approve the Investment Committee's recommendation to approve a commitment of up to $250 million to Silver Creek Aggregates Reserves Fund I, LLC, as described in Appendix 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. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

BOARD MEMBER: Second.

TREASURER GOLDBERG: I'm going to get this one right. Don't worry.

MR. NIERENBERG: I'm joined here by my colleagues, Maria Garrahan from the PCS team, and John LaCara from the Real Estate and Timberland team. Again, this is an example of the kind of project we've worked on that goes across asset classes here at PRIM.

It's a very unique opportunity, and I will let John and Maria take it away.

MR. LACARA: Thank you, Eric. A brief summary of the deal is in Appendix G, I believe. This investment will be structured as a club transaction with other institutions that are similar to PRIM.

The strategy will invest in aggregate reserves that are controlled by construction material operators within markets with attractive characteristics such as high barriers to entry or pricing control.

Specifically, the fund will enter into long-term sale/leaseback-type arrangements with quarry operators whereby the fund will receive royalty or lease payments tied to the gross revenue generated by the quarry.

This arrangement allows operators to monetize assets to fund higher growth opportunities within the firm. It's important to note that although we're engaging with operators, we're not assuming the operating responsibilities, liabilities, or costs associated with a quarry. That remains with the operator.

Silver Creek Partners will be the manager for this fund. Silver Creek is based in Seattle, and has a 24-year history as a manager, with $6.5 billion AUM and 41 employees.

Graystone Capital Partners will be the asset manager for this deal, and their key responsibility will be to source deals, underwrite investments, and negotiate contracts with operators.

After investments are made, Graystone will be responsible for ongoing due diligence at the quarries, and Maria will go into a little bit about what the aggregates are and how they fit.

TREASURER GOLDBERG: My new favorite thing, by the way. It's replaced nuts and grapes.

MS. GARRAHAN: Let's build a foundation for this investment opportunity. Aggregate reserves are comprised of crushed stone, sand, and gravel. Unlike other mining efforts, the operators are able to determine the quality, quantity, and depth of subsurface rock with a high degree of accuracy.

You can find these aggregate reserves in infrastructure projects, commercial, and residential construction. In relation to our strategy, one highway mile contains roughly 38,000 tons of aggregate reserves.

The fund will target quarries within privileged markets. And what that means relates to market dynamics where consumers are price takers. High barriers to entry, few market participants, economies of scale, and even high transportation costs relative to profit margins all contribute to pricing power in the hands of construction materials operators.

PRIM is confident in the managers' ability to select within these privileged markets due to the first mover advantage, their vast network for sourcing and the level of expertise within the industry.

The question of relevance within the PCS bucket becomes quite clear in a historical scenario analysis. The strategy provides downside protection, thus experiencing positive correlation in good times and slightly negative correlation in bad times with equity, fixed income, and commodities.

MR. NIERENBERG: We'll take any questions.

TREASURER GOLDBERG: Are there questions?

MR. HEARTY: Am I right in understanding that even if the construction economy goes down, these things can remain fairly stable?

MS. GARRAHAN: Yes. This relates to the operator's ability to increase price in an environment where the construction economy is struggling. As quantity decreases during said event, the price increases offset the lack of demand, thus creating stable total revenue.

We explained this concept through a scenario analysis. Specifically, the event-driven effects of the housing crisis on projected fund return. During the housing crisis, our analysis shows an increase in price to compensate for the quantities that deteriorated due to the negative demand shock of the housing crisis.

From a total revenue perspective, you're actually seeing the returns remain relatively constant due to this nature of price stability. The scenario analysis results show an element of downside protection as the strategy has slightly negative correction with other asset classes during these difficult times.

MR. NIERENBERG: I think the key to it is it's rock and it's not -- it doesn't make sense to haul this stuff long distances because you're just filling up dump truck after dump truck with it. Individually, the rocks themselves are not expensive but you need a lot of them.

So these are very localized markets and what -- again, what Maria was referencing was when you look at the downturn, construction demand dropped off the cliff. So demand was done but when you -- in the right market, the operator of the quarry doesn't have to lower the price.

They really have no incentive to lower the price because they're the only game in town. So they keep price constant or raise it with inflation. And, yeah, you're told the amount of demand goes down, but it's a buffer. You're not facing, sort of, a double whammy of price and demand because the demand is relatively going to last.

If you're going to build something, you're going to need this stuff.

TREASURER GOLDBERG: Well, I have to assume this is also used in roads a great deal.

MS. GARRAHAN: Yes. Exactly.

TREASURER GOLDBERG: So whether you have a recession or not, with aging infrastructure, you're still having to repair roads and rebuild roads.

MR. NIERENBERG: Yes. And the other thing I should say is in the underwriting, when John and Maria were doing this, we weren't factoring in any sort of, kind of, major infrastructure spending bill.

There's clearly a replacement cycle that will need to happen. The pace of it is, obviously, not going to be swift but it will happen. To the extent there were much greater infrastructure build, that would certainly help on the demand side, but that's not being modeled into the returns in any appreciable way.

TREASURER GOLDBERG: Are you raising your finger, Peter?

MR. MONACO: Yes. The Aberdeen report spoke to the privileged category of acts as being a 10 billion bucket within the total, and it does note that it might be a bit of a challenge for the managers to deploy one billion because it's 10 percent of the market.

They're probably also likely to employ some leverage given the stability of the cash flows, which you guys point to. So does this become a challenge of having to deploy 2 billion of capital?

MR. NIERENBERG: No, it's not.

MS. GARRAHAN: First of all, it's an unlevered opportunity. Regarding Aberdeen's assessment on the breadth of the privileged market relative to the industry, the results of the historical scenario analysis helped us determine the existence of price stability even at a national level. Upon reflection of our scenario analysis, Aberdeen's targeted privileged assets of $10BN can be thought of more from a relative basis as the scenario results show the total industry exhibits privileged, pricing dynamics to a certain degree.

Our return projections for this fund do not price in the manager's ability to select within these more privileged assets of $10BN - thus we are not concerned with their ability to deploy capital across privileged assets as the industry itself tends to be privileged.

MR. LACARA: There is also an opportunity to create a privileged market by requiring another operator in the area and consolidate them.

MR. NIERENBERG: Let me ask the expert on antitrusts.

MR. MONACO: So what's the difference between cash yield and targeted IRR? Is it the expected annual price inflation in the output? Is it some function of exit multiple or it is both?

MR. LACARA: It's mostly price growth. It's modeled at a 4 percent price increase and volume increase at less than 1 percent throughout the life.

TREASURER GOLDBERG: And the historical

data.

MR. NIERENBERG: It's a little conservative on the sales.

TREASURER GOLDBERG: Okay. Any other questions? Okay.

We have a motion made to second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(Voted: To approve a commitment of up to $250 million to Silver Creek Aggregates Reserves Fund, LLC.)

MR. NIERENBERG: I think we can get through these relatively quickly.

TREASURER GOLDBERG: I would seek a motion of approval of an initial allocation of up to $150 million to Summit Partners Concentrated Growth L/S Fund. That the PRIM aboard approve the Investment Committee recommendation to approve an initial allocation of up to $150 million to Summit Partners Concentrated Growth L/S Fund, to be invested through a PRIM managed account, and further to authorize the Executive

Director to take all actions necessary to effectuate this vote.

BOARD MEMBER: So moved.

TREASURER GOLDBERG: Second?

BOARD MEMBER: Second.

TREASURER GOLDBERG: Take it away, Bill.

MR. LI: So I'm going to quickly present this Summit Partners strategy. Based in Boston, just a couple of stops away in Back Bay, Summit Partners Concentrated Growth is an equity long/short fund. The fund invests in best ideas across growth and industries.

Phil Furse has been PM of this strategy since 2005, and he leads a cohesive team of six. Please note that the same team and the same strategy has been in place under Alydar since 2005 before being merged into the Summit Partners platform in 2015.

There are three aspects of the strategy we find quite differentiated from their long short hedge fund peers and, thus, could be additive to the PRIM platform.

First, Summit Partners tends to invest in non-crowded groups. Most of the profit came from mid-cap stocks across TMT, health care, and the consumer sectors. Second, we like the firm's internal business intelligence system, which provides industry and company insights that are really difficult to gain in the public domain.

Third, risk management is well integrated in the full investment process. The director of trading strategies, Bob Macaulay, is impressively skilled at using options to hedge out unwanted risks. The investment will be through a dedicated managed account where PRIM has negotiated favorable business terms.

We're happy to answer any questions that you have.

TREASURER GOLDBERG: Any questions?

MR. NIERENBERG: I should just add that Summit is a well-known private equity firm in town, but they have, as Michael mentioned, been involved in the hedge fund business for over 20 years.

MR. BROUSSEAU: We've invested with them anyway.

MR. NIERENBERG: It's the first on the hedge fund side. I don't know about the private equity side.

TREASURER GOLDBERG: I want to also remind everyone that when we talk about hedge fund here, it's different than what people visualize as hedge funds. We have our own unique approach to the hedge funds. We're not fund of funds. We're not pooled with others. I just want to emphasize that.

So seeing no more questions at the table, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

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

(Voted: To approve an initial allocation of up to $150 million to Summit Partners Concentrated Growth L/S Fund.)

TREASURER GOLDBERG: So next I would seek a motion of the approval of an initial allocation of up to $150 million to the Basswood Financial Fund. That the PRIM board approve the Investment Committee's recommendation to approve an initial allocation of up to $150 million to the Basswood Financial Fund, to be invested through a PRIM managed account, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

Is there a motion?

BOARD MEMBER: So moved.

TREASURER GOLDBERG: Second?

MR. BROUSSEAU: Second.

TREASURER GOLDBERG okay. Thank you.

MR. LI: Based in New York City, Basswood is another equity long short hedge fund; however, specialized in the financial sector only. Founded by the Lindenbaum brothers in 1994, Basswood's track record is actually the longest among the financial specialists.

The fund primarily invests in stocks in the U.S. banking sector, and we find the strategy attractive from various aspects. To start with, the current regulatory environment is quite favorable for banking growth and consolidations.

Secondly, as a specialist with nine investment staff dedicated to the same sector, Basswood is able to carry out truly in-depth fundamental analysis that other generalist fund managers are really jealous of.

Occasionally, Basswood could also take an activism approach and urge banks to improve strategic planning if necessary.

Lastly, unlike other peers that have limited portfolio protection, Basswood's net position is well controlled between 40 to 60 percent and, thus, is not as vulnerable to sector drawdown as other hedge fund peers.

As a result, although Basswood didn't deliver the highest return among peers, the quality of the return is much better than others on a risk-adjusted basis. The investment would be through a dedicated managed account where, again, PRIM has negotiated very favorable business terms with the manager as part of the Project SAVE program.

With that, we're happy to take any questions.

TREASURER GOLDBERG: My only question is that the regulatory environment -- and I didn't ask this during the Investment Committee meeting -- the regulatory environment is favorable now towards growth.

These guys have been at this a long time.

They probably will know very early on whether or not there's been overgrowth. What's going on now is every single bank is trying to expand and knock the other ones out, and the environment is supportive of that, but at some point there will be a rationalization.

But I'm assuming with their expertise, with their experience, and their liquidity that we're in good shape with this investment.

You're nodding, Eric. Bill, you haven't nodded yet. Are you nodding?

MR. NIERENBERG: So I'll let Bill expand on it.

TREASURER GOLDBERG: You understand what I'm referring to.

MR. NIERENBERG: I do. And there's a couple of key pieces to that. One is that the focus -- and I want to be clear. They're focused on the smaller end of the banking sector here. So they're not, for the most part --

TREASURER GOLDBERG: It's not a JP Morgan.

MR. NIERENBERG: -- and Wells Fargos of the world. They're the first ones to say "We don't have any more clue what's going on inside those organizations than anybody else."

But what they're very good at doing, because they helped build the data in some of the data providers back in the 1980s, is taking loan-level data or composition of banks balance sheets. What kind of loans do they have? Commercial or industrial versus mortgages?

You know, where are their deposits coming from? It's kind of like the blocking and tackling of the banking sectors, which you would think all bank analysts would do, but not all of them actually do it.

And to your point, Bennett and Matthew were very candid about saying, "Hey, sometimes this industry gets way overstretched and that's when we move to more -- almost like a net short bias."

So that was one of the things -- and Bill had mentioned it in the summary, that they produce alpha on both the long side and the short side. And even in a market like this one, they've still identified banks that they think are overvalued and --

(Simultaneous crosstalk.)

MR. NIERENBERG: -- or overpaying for acquisitions in particular.

TREASURER GOLDBERG: Well, go ahead, Bill. You have something.

MR. LI: I just want to point out that you're definitely right in pointing out that the current regulatory environment is really progrowth and to some extent might also be pro-irrational growth. So that's actually the fund manager's job to find --

TREASURER GOLDBERG: When you see East Boston Savings Bank over in -- I'm making it up -- Dover, you have to wonder what's going on here. I mean, I look around and I see branches just opening everywhere.

MR. LI: That's a fascinating thing to observe. That's the manager's job to really find the better performance .

TREASURER GOLDBERG: I look at their track record and I look at their experience and I figure they know it better than I do. But, again, I mentioned earlier about being a grocer and I have that vision and I see the banks the same as grocery stores. So anyway.

MR. BROUSSEAU: I'll ask. The last paragraph on page 19, it's interesting to see that Basswood does not appear to position top losses but their analysts spend a disproportionate period of their time on the investments that aren't working.

TREASURER GOLDBERG: Yes. I like that.

MR. BROUSSEAU: That's a --

TREASURER GOLDBERG: Telltale.

MR. BROUSSEAU: That tells how right it is.

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

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank you.

(Voted: To approve an initial allocation of up to $150 million to the Basswood Financial Fund.)

TREASURER GOLDBERG: Now we've got Michael, et al. Here we go. Moving along.

Now, you were here until 8:30 last night?

MR. BAILEY: So I'm Michael Bailey. On my left is Michael McGirr and on my right is Alyssa Fiore. I'll spend a minute -- I know we have a lot to cover later in the meeting, so I'll be brief on performance.

Michael Trotsky already mentioned the performance of the portfolio against a good set of peers, over 160 other pensions where the pension outperformed and got the number one performance. So that's --

TREASURER GOLDBERG: For the third time.

MR. BAILEY: So that's as good as it gets.

And then on the longer term way, we think about performance and how we judge this. How did it do against public equities or stocks that we can own instead of these smaller private businesses?

And the performance in this one-year period, again, as you know from talking -- hearing from Andre Clapp and others, really outperformed the public equity market by a strong margin of over 6 percent. And we try to get it to outperform by at least 3 percent a year so it's more than doubling its relative outperformance.

Just briefly on what we're seeing in the markets. It sort of relates to Treasurer Goldberg's comment. This is a growth market. Businesses are being bought and sold at a rapid pace. We're seeing a lot of liquidity still coming out of the portfolio.

On the positive side, these small businesses, many of which are domestically focused, continue to benefit from this tailwind in the economy. So we're seeing really strong earnings growth supporting higher and higher valuations of businesses. But as owners of those businesses, we're benefiting from those strong growth characteristics.

I think on the negative side, this market has attracted a lot of capital from other pensions, families. We're seeing really unprecedented amounts of capital being raised by private equity firms.

Another firm announced yesterday it's going to raise its largest ever pool of capital. So there's going to be a lot of competition for these businesses going forward. So against that earnings tailwind, we're seeing high prices being paid for businesses.

And then just a word on what the team is doing to construct the portfolio to continue to outperform going forward. I would highlight a couple of things. With your approvals today, we will have committed almost $1.4 billion of capital to 13 new funds.

Three of those are firms that we identified in the last couple of years as new firms that are focused on smaller businesses and what we call growth equity, which is a term we talked about with you a few months ago.

So I'm pleased to say we're able to get access to some of these high-performing firms and a couple of these areas of private equity we identified as places we wanted to deploy more capital. So 3 of those 13 investments this year are in those two areas of smaller buyouts and growth equity.

And then secondly -- I think Michael mentioned this too or Mike Even did -- we had a really strong year here so far with this co-investment program that you all approved in late 2014.

We have about five co-investments finished this year, which is a high number for us, and we've got five more in the pipeline. So that could, together, total about 160 to $200 million of new capital. As you know, those come without any fees.

So a zero-fee opportunity to commit capital to some of our highest performing, highest conviction managers. So we're pleased to see that co-investment project really take off this year.

And we think that's, again, as a result of our outbound efforts to tell the managers what we're up to. We've created a really good program there. The private equity firms like what they hear from us. We're responsive. We give them a quick yes or a quick no.

And, you know, with your help, we'll continue to push that and that will, we think, not only improve performance but significantly reduce the cost of this high-cost part of the portfolio.

So without -- unless there are questions, I'll stop there and turn it over to the voting items.

TREASURER GOLDBERG: Are there any questions for Michael?

MR. BROUSSEAU: No.

TREASURER GOLDBERG: I want to congratulate you again. All of you. So why don't -- we'll turn to the first voting item.

I seek a motion for the approval of a commitment of up to $300 million to Hellman & Friedman Capital Partners IX, LP. That the PRIM board approve the Investment Committee's recommendation to approve a commitment of up to $300 million to Hellman & Friedman Capital Partners IV, LP, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

BOARD MEMBER: So moved.

BOARD MEMBER: Second.

MS. FIORE: So this is Hellman & Friedman IX, $300 million recommendation. Hellman & Friedman is an existing manager with a longstanding relationship. We've made six prior fund commitments.

Hellman & Friedman is headquartered out in San Francisco with offices in London as well as New York. They have a large team, they're stable, and their senior investment professionals have been working together for over 20 years.

Fund IX will target large buyouts in North America and Europe in Hellman & Friedman's core sectors, including health care, financial services, business services, industrials, as well as retail.

One of Hellman & Friedman's -- what they're really known for is investing in high-quality companies. These companies have strong and durable competitive advantages in their industries. As a result, these companies are usually growing faster than GDP in their respective industries and also offer a downsize protection for the portfolio.

So with that, I'll take any questions.

TREASURER GOLDBERG: Any questions on this?

MR. BROUSSEAU: Chances are we're not

going to get 300 million.
MS. FIORE: We will get 300 million, which is a little less than our pro rata.
MR. BROUSSEAU: That's one of the largest, I think -- I know they draw it down, but we have 300 million. That's unusual.
TREASURER GOLDBERG: Any other questions? Hearing none, we have a motion. We have a second. All those in favor.
BOARD MEMBERS: Aye.
TREASURER GOLDBERG: Any opposed? The motion carries.
(Voted: To approve a commitment of up to $300 million to Hellman & Friedman Capital Partners IX, LP.)
TREASURER GOLDBERG: I would seek a motion of approval of up to $150 million to Technology Crossover Ventures X, LP. That the PRIM board approve the Investment Committee's recommendation to approve a commitment of up to $150 million to Technology Crossover Ventures X, LP, and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

TREASURER GOLDBERG: Michael.

MR. MCGIRR: Thank you. This is another re-up opportunity for PRIM. We're recommending $150 million to the fund. PRIM has invested in four prior funds with Technology Crossover Ventures, or TVC, going back to 2006.

Very established growth equity firm and they're also a firm that we added to our co-investment bench earlier in the year. TVC specializes in both public and private technology investments.

We see a very stable investment process, very stable firm, and a high level of consistency with this investment organization.

I'm happy to take any questions or comments.

TREASURER GOLDBERG: Questions?

Seeing none, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(Voted: To approve up to $150 million to Technology Crossover Ventures X, LP.)

TREASURER GOLDBERG: Now I would seek a motion for an approval of a commitment of up to $150 million to Lovell Minnick Equity Partners V, LP. That the PRIM board approve the Investment Committee's recommendation to approve a commitment of up to $150 million to Lovell Minnick Equity Partners V, LP, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. MCGIRR: This is also a re-up opportunity for us. $150 million commitment to Fund V.

We started our investing relationship with Lovell Minnick in 2015, where we invested in their Fund IV. Lovell Minnick is a small, middle market buyout firm and they focus exclusively on financial services.

Fund V targets control and non-control oriented investments in that sector. We see strong consistent performance, highly stable, and talented investment organization. And we also added this group to our co-investment bench and recently completed our first co-investment with this organization.

With that, I'm happy to take any questions or comments.

TREASURER GOLDBERG: Any questions from the members of the board?

Hearing none, we have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed? The motion carries.

(Voted: To approve a commitment of up to $150 million to Lovell Minnick Equity Partners V, LP.)

TREASURER GOLDBERG: That was it on private equity.

MR. BROUSSEAU: When you're number one in the country, there's no need for us to double guess you.

TREASURER GOLDBERG: It's always good to push the envelope, Bob.

MR. BROUSSEAU: Okay.

TREASURER GOLDBERG: It's not a -- we have plenty to talk about in the investment group.

Are we going to do real estate and Timberland? Tim, anything?

MR. SCHLITZER: I can give the quick version of the quick version.

TREASURER GOLDBERG: You can do the quick version of the quick version.

How are trees, Tim?

MR. SCHLITZER: Everything is good. As we say, the trees are always growing. So that's why the returns are usually pretty good year in and year out.

TREASURER GOLDBERG: How are they selling after we cut them?

MR. TROTSKY: Prices are up.

MR. SCHLITZER: Well, they're up across the board. They're up a lot more in the Pacific Northwest than they are in the south, but they're up year over year pretty significantly.

TREASURER GOLDBERG: How's our cherry doing?

MR. SCHLITZER: Our cherry is doing pretty well as well. Those prices are up over 10 percent year over year. The market for black cherry is coming back after a number of years, as we've discussed.

MR. TROTSKY: It was out of fashion for a while but it is beautiful.

TREASURER GOLDBERG: I like mahogany myself.

MR. SCHLITZER: So I'm not going to go through any exhibits or appendices, but performance is in C and H. So a good year in real estate. We ended up a little bit under target at 9 percent but strong outperformance at 240 basis points. The annual return was 9.4 percent.

Timberland was a little bit under target at 3.4 percent. Strong returns there as well, especially on a relative basis. 450 basis points above benchmark. The return for the year was just under 8 percent.

The private book, which is where we spend most of our time -- that's our roughly 80 or so properties owned directly in separate accounts -- very strong results there. 10.7 percent. That's 360 basis points of outperformance.

About two thirds of that was due to our capital structure so our portfolio leverage continues to work very well, but our managers, which is more or less unlevered, did outperform by 100 basis points as well.

We're well positioned on the sector side. Overweight to industrial, underweight to retail. As we've discussed, those two are playing off each other and we believe that will continue to happen.

Noncore, a little bit of underperformance there primarily due to our project in Cambridge, Massachusetts, Mass and Main. That's really just probably the best way to say it. It's sort of a J curve, but that project is up and running. I'm sure anybody that has walked by it has seen the elevator core up and they're building structural steel around it.

We're on time, on budget. There's a long way to go, but we're feeling pretty good about that project.

We had outperformance by the managers within the REIT portfolio. The portfolio returned 7.5 percent last year. That's above benchmark by about 100 basis points.

We're roughly net even in terms of acquisitions in private real estate last year. That was more or less the plan. We continue to be selective but always look to be reinvesting sales. But we've been able to find some investment opportunities as well.

Moving on to Timberland. I mentioned strong performance there. Our values are not completely current given that it is year -- fiscal year end. We typically appraise in December. We did see very strong appreciation in two of our large investments with the Future Fund.

Our one investment in Australia. We also have a U.S. partnership with Future Fund. Those appraised at just under 10 percent. We expect that some of those metrics will be applicable to the December appraisals.

As I just mentioned, a big part of that is price increases. Prices were up 25 percent year over year. That's timber prices I'm talking about in the Northwest. In the south up about 9 percent where they continued to struggle with some supply issues.

But prices have come up. And, you know, I won't get into housing. We've all seen those headlines. I think we continue to share some of the concerns of the broader marketplace, but we also think there are some demand drivers that are probably not being as recognized in this environment, and they may be a little bit more long-term as well.

No acquisitions in Timberland during the fiscal year, but I've mentioned our relatively large acquisition in New Zealand, which is through our existing investment in Australia. They're sort of going across the pond with that company buying a large asset in New Zealand. I expect that to close in the next few weeks.

So that wraps up my performance comments. I'll make -- give you two other quick updates, which is really just that we were expecting to present a recommendation for a direct -- I'm sorry -- a private real estate RFP at this meeting. That has been pushed for all good reasons.

We're well down the road in due diligence with some very good firms, but there's a lot of moving parts with this search and we're in no rush. Christina has been doing a fantastic job. She's really running it, and this is going to result in what could be up to $1 billion in new capital allocated.

So we'll be back to you at the next meeting cycle.

TREASURER GOLDBERG: Great.

MR. SCHLITZER: Actually, I'm going to leave it at that. Happy to answer any questions.

TREASURER GOLDBERG: Any questions for Tim?

MR. SCHLITZER: Thank you.

MR. FALZONE: I'm on page -- the bottom of page 23 on the agenda, and there are three items here. The first two are not voting items. They're more housekeeping items.

So the first item would be the proposed 2019 PRIM Board and Committee meeting schedule. So this looks very similar to the 2018 calendar.

We won't vote on it today. I will be asking for a vote in November at the next Board meeting. So take a look at it. Let me, Steffanny, or Iris know if there are any conflicts.

I've already received some feedback of an issue in February. I guess the Board meeting is on school vacation week. So we may need to move that set of meetings up a week or back a week.

MR. BROUSSEAU: Back up to the end of January?

MR. FALZONE: No. It would -- that's not enough time for us to get our performance report for the quarter, so we may be moving it to the week of February 12th, 13th, and 14th and then the board meeting would be on the 26th.

But that's very preliminary. I don't know if that's going to happen or not yet. I wanted to relay the information that I had.

TREASURER GOLDBERG: So February 19th is during the public school vacation.

MR. FALZONE: That's my understanding, and it's the day after Presidents' Day.

MR. BROUSSEAU: And that does impact us?

MR. FALZONE: That may impact peoples'

availability to make those meetings. That's what I would say, and it may not. I've only heard it once or twice so far. So it's something we'll keep an eye on. I wanted to make you aware that I have heard some people with some conflicts there.

So, again, look it over and let us know if you have any conflicts. We'll deal with them as best we can.

The second item is a recommendation as a result of the 2017 PRIM Board self-evaluation. And, again, this isn't a voting item but in the past, PRIM staff has created a list of recommended action items based upon the Board self-evaluation.

As you know, Cortex administered the Board self-evaluation earlier this year and the summary of findings were discussed at the April 30th meeting and then at the last Board meeting on May 15th. So this list is at Appendix J.

I plan to go through each one quickly. I think I can do that. Most of these are a rehashing of what's been discussed today. I figured I would do it in this context of the four items on my list. And again, Appendix J.

So the first one is around Board education and an education plan. I know there was some discussion about extending the Board retreat. I know there were some mixed feelings about that. So we are planning the Board retreat, scheduled for September 25th. We will be adding it to our annual calendar every year so that we are insured of a Board educational retreat as part of an education plan.

We'll also be looking at ways to extend that day a little past lunch so we'll get more information, and Mike talked a little bit about ESG being a primary topic of discussion.

MR. BROUSSEAU: Tony, do we have an agenda for that meeting with people already committed?

MR. FALZONE: We're in the process of creating it now.

MR. BROUSSEAU: I know, Dennis, you had an e-mail sent to me and Michael about that.

MR. FALZONE: We've reached out to a few people that could be presenting. We're waiting to hear back from them to make sure they're available. We hope to have some more information soon.

So that's the Board education item, which is number one.

Number two is succession planning, which I think we talked a little bit about adding staff. So Michael continues to talk with managers about adding staff to their teams. We'll be working with all our managers.

We'll be working closely with Jennifer Kuhn, who is PRIM's HR director, to identify and develop the new leaders who can potentially step in and fill vacancies. So she's going to be working closely with the business on that item.

The third item would be staffing and compensation. Again, something that was discussed already. Staffing: most of our initiatives are going to require new staff. So we're continuing to look at that.

Again, this is where having a dedicated HR resource is going to be a huge help, not only in administering the search process but helping with our diversity and inclusion initiatives and partnering with PRIM's people managers to determine each team's needs. So that's critical in staffing up the right way.

As far as compensation goes, we feel we already have a process for that. The 2012 Board approved Compensation Philosophy directs staff to periodically perform a comprehensive analysis, and we're going to make sure that that continues to happen so staff can continue to support PRIM's mission and long-term needs. So that's number three.

The fourth item is, again, ESG, which is the topic du jour, if you will. This is constantly being discussed among Board and committee members and will be a major topic at our Board educational retreat.

I also want to mention this is an area where we may need help. So we're working with Cortex, but we may need an additional resource to kind of wrap our heads around what we're trying to accomplish here. Whether it's to build strategy, to build a policy, or any other areas or topics we tackle.

So that's the fourth and final item which is -- again, not a voting item. It's more of a response from staff so that, formally, we can provide some feedback on the Board's self-evaluation.

I'm happy to answer any questions.

TREASURER GOLDBERG: Any questions from folks?

MR. FALZONE: This next one is a voting item.

TREASURER GOLDBERG: Yes. Okay.

So I would seek a motion approval of the Board Governance Manual Update. That the PRIM Board approve the Administration and Audit Committee's recommendation to approve Cortex's proposed cosmetic revisions to the Board Governance Manual (as set forth 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: Second?

BOARD MEMBER: Second.

MR. FALZONE: Great. So there are three

items in your package that you're going to want to look at. One is Appendix K, which is a memo from Cortex that introduces these changes. Appendix L is the red-lined version and Appendix M is the clean version.

So I want to make everyone aware that at the April 30th Administration and Audit Committee meeting, the committee requested that Cortex commence with a general cosmetic cleanup of the existing PRIM Board Governance Manual.

Once that was approved, to continue on with our governance manual review. So PRIM's general counsel, Chris Supple, along with myself and help from the Treasurer's office, specifically, Michael Bergquist reviewed the changes proposed by Cortex.

We've had several discussions with Cortex during the process to ensure those changes were truly going to be cosmetic. I know there was some concern about what cosmetic changes meant; but we made sure that, as we reviewed the process with the Administration and Audit Committee, there were no substantive changes being proposed and that this was truly a round of cosmetic edits.

I know we all feel confident that that's the case, and I'm happy to answer any questions.

MR. BROUSSEAU: I think this is one of the areas that we had to do before we move onto any proposed changes or updates to the governance charters.

MR. FALZONE: That's correct. So just to make everyone aware, if this gets approved today, we'll clean it up, make sure it's up to date. Then we will distribute it to the Board, and then we will give you time to take it in.

MR. BROUSSEAU: The plan is not to complete this by the November meeting.

MR. FALZONE: No. I don't think so.

MR. BROUSSEAU: It's going to take time.

MR. FALZONE: I view this as some progress. We still have a lot of work to do.

TREASURER GOLDBERG: So we have a motion. Any other questions or comments on this?

We have a motion. We have a second. All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(Voted: To approve the Board Governance Manual update.)

TREASURER GOLDBERG: Anything, Chris?

MR. SUPPLE: Good afternoon. I'm pleased to report the legislative session has recently concluded. The budget process has concluded. We had issues in play in both of those and nothing emerged.

TREASURER GOLDBERG: Sounds familiar.

Okay then. Other matters? Any questions on other matters? Okay.

Travel update is in Appendix O. I don't think there are any questions on that.

MR. BROUSSEAU: If there were, you'd hear from the administration about it.

TREASURER GOLDBERG: Right.

Client services?

MR. TODISCO: No further updates on that either.

TREASURER GOLDBERG: So I am very proud of us. We moved right along, and so I would seek a motion to adjourn.

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

BOARD MEMBER: Second.

TREASURER GOLDBERG: All those in favor.

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Thank you all for a very productive meeting, and thank you all for your hard work.

(Whereupon the meeting was adjourned at 12:36 p.m.)