



Minutes of the PRIM Administration and Audit Committee
Thursday, February 2, 2017

Committee members present:

- Robert L. Brousseau, Chair
- Treasurer Deborah B. Goldberg
- Patrick E. Brock
- Karen E. Gershman, CPA
- Eileen Glovsky
- James B. G. Hearty
- Dennis J. Naughton
- Michele A. Whitham, Esq.

Committee members not present:

- Ted C. Alexiades, CPFO
- Theresa T. McGoldrick, Esq.
- Joseph A. Connolly

The PRIM Administration and Audit Committee meeting was called to order at 10:05 a.m.

I. Approval of the Minutes

The Administration and Audit Committee unanimously approved the minutes of the November 17, 2016 meeting. Mr. Naughton abstained from the vote.

II. Executive Director/Chief Investment Officer Report

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, updated the Committee on numerous matters, including:

Michele A. Whitham arrived at 10:09 a.m.

Market Summary

Since early November, equity markets have been strong while bonds, particularly long-duration bonds, have been weak. Markets continue to be focused on several expansionary aspects of the Trump policy platform: tax reform, fiscal stimulus, infrastructure spending and deregulation are expected to boost growth in the near term, and combined with mostly positive current economic data, have driven equity markets and bond yields higher.

More recently, we have seen some glimpses of policies which may reduce growth longer term. In recent weeks, we have seen aggressive new policies on immigration, tariffs and trade. President Trump has officially abandoned the Trans-Pacific Partnership (TPP) global trade agreement and has indicated that the North American Free Trade Agreement (NAFTA) will be renegotiated.

PRIM staff still believes there are many risks to the economy longer term; PRIM staff is recommending modest changes to the PRIT Fund asset allocation targets, which we believe will enable the PRIT Fund to perform well in all market environments.

PRIT Fund Performance

As of December 31, 2016, the PRIT Fund net asset value was \$62.7 billion.

For the one-year ended December 31, 2016, the PRIT Fund was up 8.0%, underperforming the total core benchmark of 8.9% by 83 basis points.

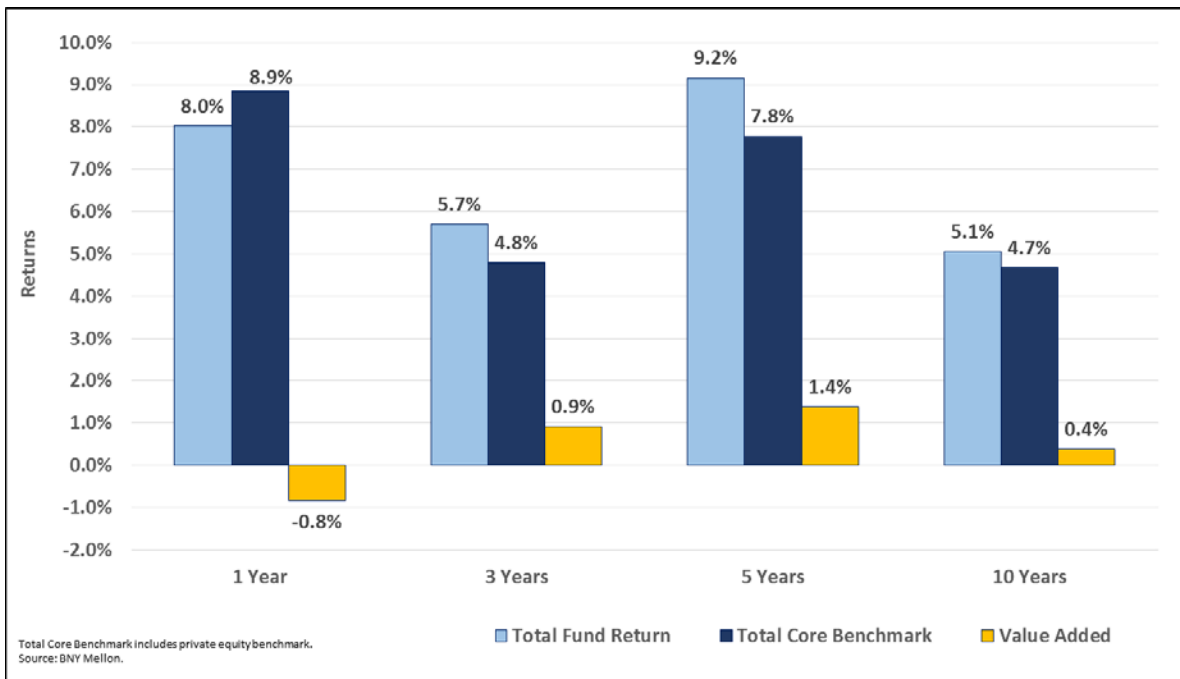
- This performance equates to an investment gain of \$4.8 billion.
- This underperformance equates to \$494 million of value below the benchmark return.
- Four of the seven major asset classes outperformed their respective benchmarks.
- Net total outflows to pay benefits for the one-year ended December 31, 2016 were approximately \$1.4 billion.

For the quarter ended December 31, 2016, the PRIT Fund was down -0.2%, underperforming the total core benchmark of 0.1% by 32 basis points.

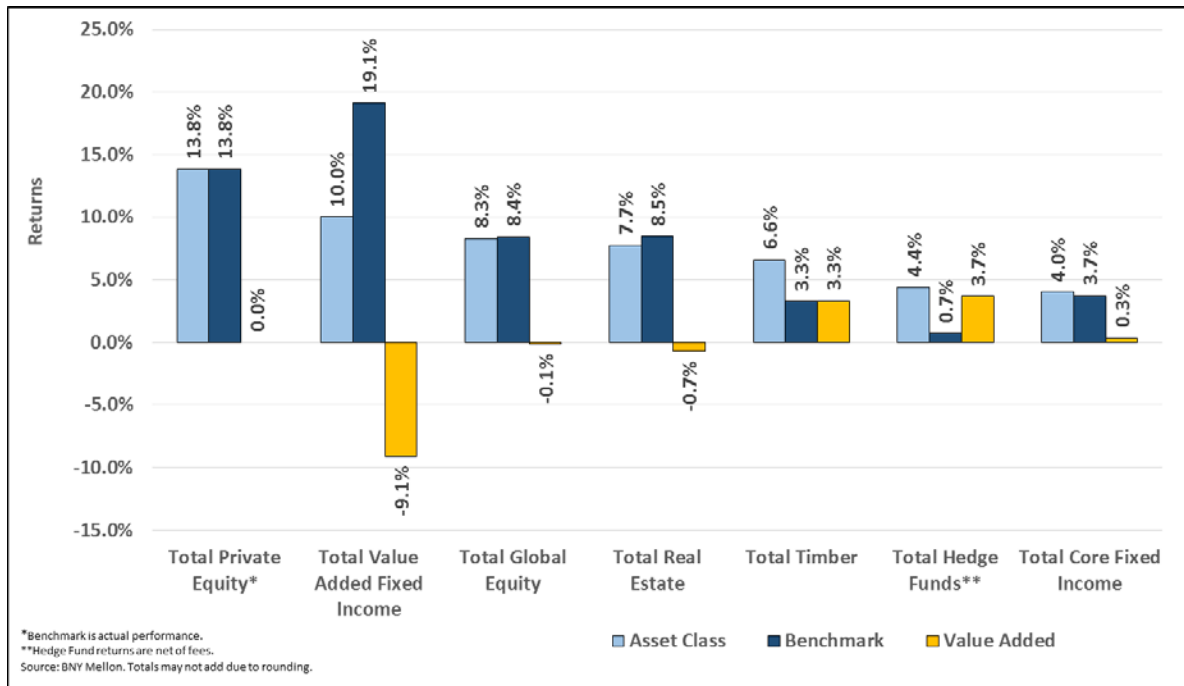
- This performance equates to an investment loss of \$126 million over the quarter.
- This underperformance equates to \$202 million of value below the benchmark return.
- Four of the seven major asset classes outperformed their respective benchmarks.

Mr. Trotsky referred to the following slides in describing the PRIT Fund’s performance:

Total PRIT Fund Returns (Gross of Fees)
Annualized Returns as of December 31, 2016



PRIT Asset Class Performance (Gross of Fees)
Trailing 1-year Performance as of December 31, 2016



PRIT Core Fund Performance Summary
Gross of Fees Performance
Trailing 1-Year Performance as of December 31, 2016

Trailing 1-Year Performance: Dec. 31, 2016	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
Total PRIT Fund	8.0%	8.9%	(83)	62,491	100%
Total Global Equity	8.3%	8.4%	(14)	27,009	43.2%
Domestic Equity	12.9%	13.7%	(81)	12,175	19.5%
International Developed	1.8%	1.9%	(9)	10,492	16.8%
Emerging Markets	11.9%	9.8%	205	4,342	6.9%
Private Equity	13.8%	13.8%	0	6,935	11.1%
Real Estate	7.7%	8.5%	(71)	6,256	10.0%
Total Timberland	6.6%	3.3%	332	2,251	3.6%
Hedge Funds	4.4%	0.7%	369	5,623	9.0%
Value Added Fixed Income	10.0%	19.1%	(911)	5,204	8.3%
Core Fixed Income	4.0%	3.7%	32	7,657	12.3%

PRIT Asset Class Performance (Gross of Fees)

Annualized Returns as of December 31, 2016

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 13.8%	PRIVATE EQUITY 16.8%	PRIVATE EQUITY 17.4%	PRIVATE EQUITY 14.1%
VALUE-ADDED FIXED INCOME 10.0%	REAL ESTATE 11.4%	REAL ESTATE 11.8%	TIMBER 6.9%
GLOBAL EQUITY 8.3%	TIMBER 5.6%	GLOBAL EQUITY 9.9%	REAL ESTATE 6.5%
REAL ESTATE 7.7%	CORE FIXED INCOME 5.5%	TIMBER 6.7%	VALUE-ADDED FIXED INCOME 6.5%
TIMBER 6.6%	GLOBAL EQUITY 3.3%	HEDGE FUNDS (NET OF FEES) 5.7%	CORE FIXED INCOME 5.1%
HEDGE FUNDS (NET OF FEES) 4.4%	VALUE-ADDED FIXED INCOME 2.8%	VALUE-ADDED FIXED INCOME 5.3%	GLOBAL EQUITY 3.9%
CORE FIXED INCOME 4.0%	HEDGE FUNDS (NET OF FEES) 2.7%	CORE FIXED INCOME 4.0%	HEDGE FUNDS (NET OF FEES) 3.3%

Organizational Update

In December, PRIM closed on its first ever direct real estate investment. The \$112 million investment consists of 21 acres of land and a 60 year-plus ground lease in Santa Clara, California. The land is leased to the largest real estate developer in California and there are three buildings on the land. PRIM expects to save \$11 million in investment management fees.

Christina Satcher, Accounting Assistant on the finance team, studied for and passed the CFA Investment Foundations exam. The CFA Investment Foundations program provides a comprehensive understanding of finance, ethics and the investment industry. Christina joins more than 20 PRIM colleagues who have similarly studied for and passed the Investment Foundations exam.

Summary of the 2017 Annual Plans

Mr. Trotsky then proceeded to highlight PRIM’s 2017 Investment Team’s Annual Plans. The Public Markets team will be doing an in-depth liquidity study to evaluate liquidity needs of the PRIT Fund and will also be building a new allocation within Value-Added Fixed Income called Other Credit Opportunities. Eric R. Nierenberg, Ph.D., Senior Investment Officer – Director of Hedge Funds and Low Volatility Strategies will research a new form of equity hedging within Portfolio Completion Strategies. Private Equity is going to recommend increasing its allocation. In order to fulfill the increased allocation, Michael R. Bailey, Senior Investment Officer - Director of Private Equity, will fill an open Investment Officer position. David M. Gurtz, CPA, CFA, Chief Operating Officer and Chief Financial

Officer is close to filling the open Director of Risk Management position. PRIM will continue to research if internal asset management is appropriate for PRIM as part of Project SAVE Phase II with Mr. Trotsky noting that Committee member Michael Even will be spending more time at PRIM working on this project. Also, the Risk Team will be conducting a review of asset class benchmarks to make sure benchmarks are appropriate and follow best practices.

III. 2017 Proxy Voting Guidelines

David M. Gurtz, CPA, CFA, Chief Operating Officer and Chief Financial Officer, introduced ISS members on the phone as Fassil Michael, Executive Director, Custom Research; Eric Conrad, Associate Vice President, Client Service and Consultants; Valerie Sullivan, Senior Associate, Client Service and Consultants; Adam Lee, Senior Associate, Custom Research. Mr. Lee from ISS noted ISS's Executive Summary of 2017 Proxy Voting Guideline Updates and Processes was contained at Appendix E but referenced Appendix F – PRIM's Custom Policy Matrix - which describes the recommended enhancements to PRIM's custom proxy voting guidelines.

Mr. Lee noted that PRIM's current over-boarding custom guideline is stricter than ISS's recommended policy guideline. Regarding Board Diversity, Mr. Lee noted the proposed guideline change would require 30% Board Diversity up from 25%. Mr. Lee stated that Western Europe is the leader in board diversity and noted that in the U.S., about 15% of board members are female, up from 9% in 2011. Mr. Lee also noted that ISS expects an increase in climate change shareholder proposals in 2017.

Treasurer Goldberg noted the decision to increase the Board Diversity guideline to 30% from 25% follows similar decisions by other like-minded investors. Two years ago, when the 25% diversity guideline was first proposed and implemented by PRIM, 25% was the appropriate level at that time and was set to encourage other investors to follow, she said. Today, the next step would be to increase the guideline to 30%, a threshold other investors have set.

Treasurer Goldberg also noted that for PRIM to continue to be a leader on wage equality, the PRIM Board should adopt a proxy voting guideline to support shareholder resolutions requiring companies to perform internal wage audits and furthermore, to share the results of wage audits publicly, so PRIM and other shareholders are aware of the pay practices at the companies in which they invest. Therefore, Treasurer Goldberg introduced two new guidelines to be recommended to the Board. These guidelines were: 1) Vote FOR shareholder proposals requesting an internal wage audit; and 2) Vote FOR shareholder proposals requiring the company to share the results of an internal wage audit with shareholders.

The Administration and Audit Committee unanimously approved a recommendation to the PRIM Board to adopt the two-new proposed proxy voting guidelines: 1) Vote FOR shareholder proposals requesting an internal wage audit and 2) Vote FOR shareholder proposals requiring the company to share the results of an internal wage audit with shareholders, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

The Administration and Audit Committee then voted unanimously to recommend the PRIM Board adopt the enhancements to PRIM's Custom Proxy Voting Guidelines, as amended, as contained in Appendix F of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

IV. Board Self-Evaluation Questionnaire and Process Review (Voting Item)

Mr. Gurtz reported that per PRIM's Charters, this Committee is responsible for approving the Board Self-Evaluation Questionnaire. This Questionnaire is prepared by Cortex, PRIM's Governance consultant. Once this Committee approves this Questionnaire – Cortex will administer it to the nine

Board members. Cortex will also follow up with a phone call to each Board member in case any member wishes to provide more information to their responses. This is an anonymous process.

Mr. Gurtz also noted that this Committee and the Board will also be reviewing and updating the Board Governance Manual (our Charters) in 2017, and Cortex has suggested that the follow-up phone interviews will be expanded to provide Board members an opportunity to raise any issues or suggestions they may have in regards to the Manual. Cortex hopes this will enhance the efficiency of the Charters review process.

Cortex will then tabulate the results and provide a summary of the results to the Chair of the Administration and Audit Committee, who along with Cortex will report the results back to this Committee at the next Committee meeting in May.

The Administration and Audit Committee unanimously approved the 2017 Board Performance Self-Evaluation Questionnaire, as contained in Appendix G of the Expanded Agenda, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

V. Results of the PRIM Board Election Service RFP

Mr. Todisco presented the Committee with the results of the PRIM Board Election Service RFP. Mr. Todisco stated that PRIM received only two proposals in response to the RFP and noted that the incumbent firm did not submit a proposal and appears to no longer be in business. The two respondents were Broadridge Financial Services, Inc. (Broadridge) and Elections-America, Inc. (E-A). Mr. Todisco noted that one of the respondents, Broadridge, did not meet a core requirement of the RFP, which was to include a response to the RFP questionnaire in its proposal. Therefore, the Evaluation Committee deemed the Broadridge proposal incomplete and did not advance to the finalist stage.

The Evaluation Committee conducted a telephone interview with E-A, and as a result of the interview, the quality of E-A's response, its competitive fee bid, and positive feedback from client references (which included the Massachusetts State Retirement Board and the Boston Retirement Board) the Evaluation Committee determined that E-A was the best qualified firm.

The Administration and Audit Committee unanimously approved a recommendation to the PRIM Board to hire Election-America as the provider of election services to administer the 2017 election of the elected members of the PRIM Board, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

VI. 2017 Annual Plans for Finance and Administration, Investment Operations, and Technology

Mr. Gurtz highlighted a few key goals and objectives for the Finance and Operations team for calendar year 2017. Mr. Gurtz noted that the Finance and Operations staff will continue to work closely with the investment staff to implement all the asset allocation changes the Board may approve as well as all future new investments. Mr. Gurtz plans to complete the Employee Handbook. The Operations team plans to research private accounting and reporting solutions as well as researching the ILPA reporting template, noting the need for more information on our private investments is requiring staff to look for better tools that allow us to capture more data and provide better reporting options. PRIM will complete the PRIM Board Charters review this year. Mr. Gurtz noted that staff plans to complete and present PRIM's wage gap analysis at the May Committee meeting. PRIM is expanding into the rest of the 3rd floor providing enough space for all our staff currently, and also allowing room to grow. And finally, Mr. Gurtz noted his plans to hire two to three accounting staff over the course of the year in order to keep pace with the investment team's activity and needs.

Mr. Naughton asked if the additional staff growth will save PRIM money in the long run. Mr. Gurtz responded that he hopes so, noting that the additional staff on the investment team and operations team is being added to continue sourcing and investing in unique and innovative strategies and investments.

Ms. Gershman asked if the additional private equity reporting was to satisfy auditors or was internally driven. Mr. Gurtz responded that the additional private equity data was not driven by auditors, rather it was driven internally.

Ms. Whitham asked how PRIM's diversity initiatives goals are proceeding. Mr. Gurtz responded that at the last Administration and Audit Committee meeting he presented an update on PRIM's diversity initiatives. Mr. Gurtz noted that PRIM is now tracking applicants for posted positions at PRIM, and PRIM staff proactively posts job positions with affinity networks in an effort to increase the number of diverse candidates.

VII. 2017 Annual Plans for Client Services

Paul W. Todisco, Sr. Client Services Officer, presented his annual plan for Client Services. Mr. Todisco highlighted his team's 2016 accomplishments, which included the hiring of Sam Olivier as Client Service Analyst and Francesco Daniele as Senior Client Services Officer, and the launch of the Investor Advisory Council. Mr. Todisco noted that he plans to hold the 2017 PRIM Investors' Conference in November.

Ms. Gershman asked for an overview of the Investor Advisory Council. Mr. Trotsky responded that the Investor Advisory Council allows interested clients a direct line of communication to him so he may better understand their needs and concerns. The Investor Advisory Council plans to meet quarterly and includes seven members who each serve a two-year term.

VIII. 2017 Annual Plan for Legal Services

PRIM's General Counsel presented his annual plan for Legal Services, noting that Legal Services at PRIM usually fall into four categories: contracts; litigation, both offensive and defensive; so-called "government law" matters; and organizational matters. Mr. Supple explained that whenever the investment team makes a new investment or enters into a new contract, a legal review is necessary. Mr. Supple provided the example of PRIM's first direct real estate investment that required specialized real estate legal services. Mr. Supple said he was happy to report that the recent RFQ for Legal Services allowed him to utilize a newly added law firm to PRIM's list of qualified law firms. This law firm specializes in real estate transactions, charges significantly lower fees than other law firms, and is significantly women-owned.

Mr. Supple noted he and other PRIM staff have spent considerable time to ensure PRIM is in compliance with, and able to implement effectively, the new public records law that was signed into law in June 2016 and took effect on January 1, 2017.

IX. Legal/Legislative Update

PRIM's General Counsel provided status updates on a legislative proposal regarding the MBTA retirement fund.

X. Other Matters

The Committee members briefly discussed the following topic:

- a. November 2016 Operating PRIM Budget
- b. Travel and Staff Development
- c. Client Service

The PRIM Administration and Audit Committee meeting adjourned at 11:44 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Administration and Audit Committee Meeting of November 17, 2016*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *2017 Investment Team Annual Plans*
- *ISS's Executive Summary of 2017 Proxy Voting Guideline Updates and Process*
- *PRIM Custom Policy Matrix – 2017 Proxy Voting Policy Update*
- *PRIM Board Self-Evaluation Performance Questionnaire*
- *PRIM Board Election Services RFP Recommendation*
- *2017 Annual Plan for Finance and Administration, Investment Operations, and Technology*
- *2017 Annual Plan for Client Services*
- *2017 Annual Plan for Legal Services*
- *November 2016 PRIM Operating Budget*
- *Travel and Staff Development*