COMMONWEALTH OF MASSACHUSETTS
PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the February 14, 2017 Board Meeting commencing at 12:08 p.m.

in the
PRIM Board Offices
at 84 State Street
Boston, Massachusetts

I N D E X

D O C U M E N T S*

A. Minutes of the December 6, 2016 PRIM Board Meeting
B. Securities Lending Financing Program
C. PRIM Board Election Services RFP Recommendation
D. PRIT Fund Performance Report (December 31, 2016)
E. BNY Mellon Gross of Fees Performance Report (December 31, 2016)
F. 2017 Annual Plans of PRIM Staff
G. NEPC Asset Allocation Presentation
H. 2017 Asset Allocation Presentation by PRIM Staff
I. International Small-Cap Equity RFP Recommendation
J. Callan International Small-Cap Equity RFP Recommendation
K. Real Estate and Timberland Portfolio Report
L. ISS's Executive Summary of 2017 Proxy Voting Guideline Updates and Process
M. PRIM Custom Policy Matrix - 2017 Proxy Voting Policy Update
N. November 2016 PRIM Operating Budget
O. Travel and Staff Development Report

*Referred to and/or used at the meeting and retained at the PRIM Board offices.

A T T E N D E E S

Board Members

· Treasurer Deborah B. Goldberg, Chair
· Robert L. Brousseau
· Ruth Ellen Fitch
· Theresa F. McGoldrick, Esq.
· Dennis J. Naughton
· Carly Rose
· Paul E. Shanley, Esq.

Other Attendees:

· Chandra Allard, Treasury
· Kevin Blanchette, Worcester Regional Retirement
· Patrick Brock, Hampshire County Retirement
· Megan Costa, Standard Life
· Hugh Drummond, OA
· Beth Healy, Boston Globe
· Svea Herbst, Reuters
· Mike Koenig, Hamilton Lane
· Phillip Nelson, NEPC
· Jon Ostrowsky, Treasury
· Rico Oyola, SEIU
· Paul Quirk, LLC
· Dan Stenger, Townsend
· Millie Viqueira, Callan
· Michele Whitham, PRIM Committee Member
· Darren Wolf, Aberdeen

P R O C E E D I N G S

A meeting of the Pension Reserves Investment Management Board (PRIM Board) was held on February 14, 2017 at the PRIM Board offices located at 84 State Street, Boston, Massachusetts.

Call to Order:

The meeting was called to order and convened at 12:08 p.m. Treasurer and Receiver-General Deborah Goldberg chaired the meeting.

TREASURER GOLDBERG: Before we begin, I would like to read the Open Meeting Law.

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 recording. So accordingly, I am informing you all that Virginia Dodge, seated here to my left, is transcribing and also recording this meeting.

If anyone else in attendance today is recording the meeting, I would ask that you would identify yourself.

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

So the meeting has begun. And I would seek a motion that the PRIM Board approve the consent agenda as described in the expanded agenda, which includes the approval of the PRIM Board minutes of December 6, 2016 meeting, approval of the securities lending financing program and approval of the results of the PRIM Board election services RFP, and further to authorize the executive director to take all actions necessary to effectuate this vote.

MR. BROUSSEAU: So moved.

MR. NAUGHTON: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the consent agenda as described in the expanded agenda, which has the approval of the PRIM Board minutes of December 6, 2016 meeting, approval of the securities lending financing program and approval of the results of the PRIM Board election services RFP, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Executive director/chief investment officer report.

MR. TROTSKY: Thank you, Madam Chair.

And thank you all for coming and

accommodating the schedule change.

I'd like to acknowledge several committee members in the room today. Thank you for coming.

Michele Witham, hello. Patrick Brock. Joe Connolly. Treasurer Joe Connolly is here. All on the Admin and Audit Committee.

Kevin Blanchette is also here from the Worcester Regional System, a client of ours.

And a special guest, former executive director of PRIM Paul Quirk, who was executive director sitting in my chair from '84 to '90, is here with us.

Welcome. I hope you find it interesting.

Good morning. We definitely have a lot to cover, and I know several people have to catch trains a little later, so I'll try to be very brief.

I will begin with an organizational update, and then I'll review markets and PRIT Fund performance, as well as a summary of the 2017 annual plans. Later, I will cover asset allocation recommendations very quickly, and asset class heads are available to take questions on asset allocation, should we have any.

We spent a lot of time at the Investment Committee meeting and the Real Estate and Timberland Committee reviewing the asset allocation changes. In fact, six of the nine board members were present during those detailed discussions. And hopefully that makes the asset allocation decisions move quickly today.

But first, a brief organizational update. You may notice that Sarah Samuels is out today. She's on maternity leave after --

TREASURER GOLDBERG: Paid parental leave.

MR. TROTSKY: Paid parental leave. I'm sorry. Is that what we call it?

TREASURER GOLDBERG: Because men take it also, and they're not typically taking maternity leave.

MR. TROTSKY: Paid parental leave. I'm sorry.

Everybody is healthy and happy. Sarah will be back in April. I'm not exactly sure what day in April, but sometime in April. And Chuck LaPosta, our fixed income expert, will be filling in for Sarah, and you'll hear from him today.

Next, I want to announce that Christina

Satcher in the back of the room, an accounting assistant on Dave's finance team, successfully completed the CFA's Investment Foundations curriculum. That's formerly known as the Claritas program, a program designed as an educational foundation for those in support of investment decision-makers.

She joins more than 20 colleagues, including some committee members, who have similarly studied and passed the exam.

So congratulations. I'm sure it will help you, and I appreciate the hard work involved in taking that test. Thank you.

Next, I want to highlight to the full Board an interesting new investment in the real estate portfolio that you may have already heard about through media outlets.

In December, PRIM closed on its first ever direct real estate investment. And we're very proud of that. The $112 million investment is in 20 acres of prime land in a long-term 60-plus-year ground lease in Santa Clara, California. That's in the heart of Silicon Valley. The land is leased to the largest developer in California, the Irvine Company. And there are three new

Class A buildings on the property, leased currently to prime tenants.

PRIM expects to save $11 million by avoiding investment management fees by going direct. This deal is underwritten to return approximately 8 percent per year for more than 20 years. So it's a great deal for us.

The lease also adjusts upward in terms of its pricing. The lease adjusts upward with Bay area CPI. So that's great news.

Congratulations to Tim and the whole entire real estate team and also to the Real Estate Committee for completing that transaction.

Turning to the markets and economy, and I'll go through this rather quickly because we did discuss this in great detail at the Investment Committee, there's no doubt that the Presidential election has had a major impact on global markets.

Since the election and through yesterday, domestic stocks are up 9.9 percent, almost 10 percent. Small cap domestic stocks up 17 percent. Developed international markets -- that's Europe and Japan primarily -- are up 6.5 percent. Emerging markets are up 4.9 percent. Diversified bonds are down 2 percent.

(Ms. McGoldrick left the meeting.)

We've talked about a bond headwind for quite some time. And long-duration bonds really took a hit. As interest rates rise, long-duration bonds are down almost 10 percent.

We've seen a continuation of this strong performance in the months of January and February to date. Domestic stocks are up over 2 percent per month in those two months, January and February. Developed international markets, also up very strong, up 2.9 percent in January. Up a percent in February to far.

Emerging markets very strong in January, up 5.5 percent and up another 2.9 percent so far in February.

(Ms. McGoldrick rejoined the meeting.)

Bonds and long-duration bonds are about flat for the calendar year through yesterday.

We have seen the Dow rise to above 20,000. In fact, yesterday, it closed at a record 20,412.

And with the backdrop of some slightly better economic news, we have seen economists raise their forecasts for GDP growth, inflation and bond yields. And this is also in the wake of a quarter point hike in interest rates by the Fed in December, and the Fed just stood pat in January.

For 2018, we're seeing GDP growth rate estimates rising to 3 percent from about 2 percent currently. Inflation estimates rising to 2.5 percent from about 1.5 percent currently.

And the 10-year Treasury is expected to yield about 3.25 percent in 2018, up from 2.4 percent now.

Economic indicators have been mostly positive. Manufacturing up. Nonfarm payrolls jumped to 227,000 in January versus an expectation of 175,000, very strong. Wage growth of 2.8 percent reached a seven-year high. CPI is adjusting upward, almost 2 percent now.

Consumer confidence also very high, 98.5 in December. That was a decade high, only to have come back down a little bit this month to 95.7.

Mortgage applications are ticking higher. S&P earnings have come in very strong. So companies are doing well, and leading indicators are generally strong.

On the negative side, fourth quarter GDP growth fell to 1.9 percent from 3.5 percent. Now, some of this was due to a spike in soybean exports in Q3 that readjusted. But still, 1.9 percent in the fourth quarter meant that growth for the year, 2016, came in at just 1.6 percent, not a very strong year. And that's the 11th straight year below 3 percent and actually the worst economic growth since 2011.

You may have noticed that the Eurozone posted 1.7 percent growth for the year very recently. That's the first time since 2008 that the growth rate in the Eurozone exceeded that in the U.S.

At the last meeting, we spoke of the fact that the markets were focused on several stimulative effects of the Trump platform. Tax reform, fiscal stimulus, infrastructure spending and deregulation are expected to boost growth and have driven both equity markets and bond yields higher.

Just last week, we heard President Trump say that he would announce something, quote, "phenomenal" on taxes in the coming weeks. We don't know what that will be, but --

TREASURER GOLDBERG: Well, actually, I just got back from DC, and we got a lot of information.

We met with one of the deputy chiefs of staff yesterday. So I'll share that when you're done.

MR. TROTSKY: Okay.

But we are also seeing some glimpses of policies which may reduce growth longer term. We've seen aggressive new policies on immigration, tariffs and trade. In the last few weeks alone, the TPP is dead. The Trans-Pacific Pact agreement, NAFTA, will be renegotiated. We don't know what the outcomes will be.

And longer term, we here at PRIM still believe there are many, many risks. And you will hear our asset allocation plans, which hopefully enable our portfolio to perform well in all environments.

So turning to PRIT Fund performance, there's a report in front of you, also at Appendix D. Please turn to page 1.

On page 1, you'll see the December 31 quarterly results. You can see that despite the election and despite a lot of volatility, the PRIT Fund and the markets were relatively flat in the entire December quarter. The PRIT Fund was down fractionally -- 0.2 percent versus a 60/40 mix which was down 0.5 percent. You'll see that in the middle of the chart.

On the left, you can see what did well. You'll see that U.S. equities, private equity, distressed debt, timberland and hedge funds were strong performers in the quarter.

And on the right, you can see what didn't perform so well. As I mentioned before, long-duration bonds, STRIPS, were down significantly. Emerging markets debt also down significantly. Diversified bonds also weak. We've talked a lot about this bond headwind in light of the fact that interest rates are going up.

Next page, page 2, you can see the one-year performance. The calendar year picture was strong in nearly every single asset class. Everything is positive on this particular chart.

On the left, you can see what did well. U.S. equities, small cap U.S. equities in particular, were up nearly 17 percent. Private equity very strong. High yield bonds also very strong.

On the right, you can see what didn't do as well. And you can see that bonds and in particular long-duration bonds were not quite as strong.

Turning to the next page, you can see PRIT Fund performance. For the one-year period, the PRIT Fund stood at $62.7 billion and was up 8 percent for the calendar year. That's 83 basis points below our internal benchmark. I'm going to explain that in a minute.

The performance equates to an investment gain of $4.8 billion in the year and $494 million below our benchmark return. And for the year, we paid benefits out of this pool of assets. We paid $1.4 billion in outflows to pay benefits in the calendar year.

The 8 percent, of course, follows a fiscal year of up 2.3 percent ending in June. 2.3 percent was very, very strong competitively. And I've said before and I'll say again that we know of no other public funds in the country our size or larger that posted that kind of performance for the fiscal year, and certainly was competitive with most endowments and foundations as well. Very few came close to 2.3 percent.

All other time periods are strongly above benchmark. The five-year number is strong, up 9.2 percent. The 10-year number is

5.1 percent. And of course that includes the world financial crisis. We can't wait until that rolls off of these performance numbers.

And I want to address the underperformance of 83 basis points for the calendar year. 85 basis points of the 83, so more than 100 percent of the underperformance, can be explained by our private distressed debt portfolio. Private distressed debt is the private equity sister, if you will, to our private equity portfolio. Even though it was up 5.8 percent, we compare that private portfolio to a public markets high yield index. So it's not a very good index, but it's our only option.

And the high yield index for the calendar year was up 17.4 percent. So we're comparing the performance of distressed debt to a public markets index which had a very, very strong year.

You should know that the high yield index in any year is more than two times more volatile than our private market portfolio. So in times when high yield is performing very well, we actually expect to underperform. And conversely, when high yield is being hit, as it has in prior years, we will outperform. So it's a bit of a benchmark mismatch, if you will.

So we'll hear more from each individual asset class head on the performance of their sleeves when I'm done with my remarks.

But ending on page 4, you can see what did well for the year. Private equity value-added fixed income was up strongly, but as you know, distressed debt falls in this bucket.

Total global equity was very strong for the year. U.S. small caps, I've mentioned; emerging markets equity was very strong, as was U.S. large cap.

I'll take any questions on markets and performance before moving on to the next part of the agenda. And again, you'll get to ask any questions of the individual asset class heads in a few minutes.

Now, please turn back to your expanded agenda, page 7, for a summary of our annual plans. And I'm sorry to keep jumping back and forth.

Each year, we ask senior staff members and each asset class head to prepare an annual plan. They've done that. The annual plans are presented in summary form in the expanded agenda, beginning on page 7, and in more detail as Appendix F.

We have reviewed these plans at the appropriate committees, and we present them to you today for any feedback and comments that you might have. And of course you can deal with me privately as well.

We will revise the plans as appropriate to incorporate any of this feedback, at which point, I will approve the plans as our marching orders for calendar 2017.

Importantly, the plans don't really depart significantly from those presented last year. They're a continuation of the innovative path that we're currently on. And as such, I'll just briefly go through a few highlights, mainly differences from last year, beginning with public markets, page 7.

What's on the agenda for public markets, I'll just highlight two quick things. We will be doing an in-depth liquidity study. We haven't done that in quite a while. As I mentioned before, we pay approximately $1.5 billion out of our fund every year. $1.5 billion out of $63 billion isn't an extreme liquidity need, and we will be studying whether that should affect our asset allocation into more illiquid asset classes going forward.

Number 2, and we'll be talking about this in a moment, we'll build out a new credit opportunity allocation, a new asset class that we'll mention in a minute. That will take some significant work.

Moving to portfolio completion strategies, you'll see that we'll be reducing our STRIPS allocation. STRIPS was meant to be an insurance policy against a volatile equity market, but we're going to research and potentially implement a new equity hedging strategy. Eric is going to be in charge of that and may actually allude to that in some of his comments later.

And then at the last Board meeting, you approved an RFP to search for an emerging hedge fund manager platform, focusing on global macro strategies. So that's on the agenda for portfolio completion strategies.

In private equity, you'll see in a moment that we're increasing our private equity allocation from 10 to 11 percent. We have to implement that change. And Mike and his group will be expanding the co-investment program, targeting up to $140 million in co-investments that come at zero fee. We're excited about that.

In risk management, we're going to complete our search for a Director of Risk Management. We're in the final stages on that. As you know, Dave Gurtz was Director of Risk Management, and we've promoted him to CFO/COO. So we've been searching for his replacement.

And then Project SAVE, we're moving into Project SAVE Phase II, which is to evaluate whether or not internal management makes sense here at PRIM. And I'm happy to announce, and I just met with him yesterday, that Michael Even on the Investment Committee is actually retiring from Numeric effective June, and he's pretty much part-time now. And he is really going to help us spearhead this research project. I think it will be great to have him.

And you'll be hearing more from him in the future, very much like Tim Vaill, who has an office here and came in and out a couple times a week. I think we'll see Michael Even pursuing that project in much the same vein.

In real estate, we're going to continue

to look for direct real estate investments very similar to the one I just highlighted in California. Tim and group will be targeting an additional $200 million to direct real estate investments that also come without fees. He also has to do a consulting RFP because the current contract expires.

In finance, I'll just highlight a couple of things. This is on page 9. Every three years, we are required to complete a PRIM Board charter review. So we'll be doing that this year, a charter review.

And secondly, we'll be completing and presenting a wage gap analysis for PRIM. We're well along with that and should have that shortly.

Client services: Paul is very busy with two new employees. Sam Olivier and Francesco Daniele join Paul as our client base expands and not only in pensions, but also in OPEB clients. So we'll be on-boarding our two terrific new employees there.

Secondly, Paul will conduct the board election as is required every three years for Bob's and Paul's seats. We do conduct that election. So that will happen this year.

And third, we're planning to have another PRIM investor conference in November. So that will be something that Paul and his group will be planning for.

That's a highlight of some of the annual plans. I don't want to go into too much detail, but please take the time to look at your appendix for more detail on everything. I tried to highlight just what's new in that area.

I'll be happy to take questions on any of that.

Go ahead.

MR. SHANLEY: Just something small. We have a bunch of open positions. I think it's reflective of this organization, of the number of applicants you've had for those positions. If you could --

MR. TROTSKY: Yes. Thank you.

I always say that the best compliment I can receive and that any of us can receive is when highly qualified candidates apply for our job openings, and we get tons and tons of them.

In fact, for the last four job openings, four job openings, we received more than 1,200 applications to come work here. And they're all coming from the best companies with great educations. And there's no doubt that that's a huge compliment to all of us, that people want to come here and work.

MS. FITCH: And national and international?

MR. TROTSKY: Yes.

So it's a great chore to weed through all these applicants, but we do it. That's why sometimes it takes us a little time. But we're able to hire well and -- knock on wood -- retain.

Good question.

Anything else?

MR. NAUGHTON: I'm just curious. When it comes to the applicants, Michael, do you have a standard number that you want to see? In other words, "give me three; give me five," when it comes to your final interviewing?

MR. TROTSKY: I generally interview the last three to five finalists, and then we pick from that.

But I definitely don't interview personally 1200 folks.

MR. NAUGHTON: Would not be a good use of your time. That's good.

MR. BROUSSEAU: You wouldn't be here today if you did.

MR. TROTSKY: So I generally leave hiring decisions up to the managers, but I do like to see the finalists. And generally three to five.

Anything else?

I think that completes my opening comments. Thank you for your patience. I know many of you have heard it a few times already or a version of it.

TREASURER GOLDBERG: Actually helps stick when you hear it a few times. So it's not a bad thing.

MR. BROUSSEAU: Again, for some people who think "What is the board doing?" most of us have been to the Investment Committee meetings, Real Estate, Admin and Audit. So we've gone through all of these things two and three times. So the questions have been answered in the committees really.

TREASURER GOLDBERG: Plus quite a number of the committee members have attended other committees.

In that context, I think what's really great is that everyone is trying to educate themselves on the entire portfolio and particularly as we look toward sort of uncertain times.

And so I mentioned that I'm just back from DC. And quite a number -- including a meeting yesterday in the White House executive offices with one of the deputy chiefs of staff with the state treasurers throughout the country.

And so of course a lot of the questions were around economic policy, in particular tax reform, infrastructure investment and the impact of tax reform potentially on bonds and municipal bonds. And although there were no conclusions to the conversations and we also had quite a number of speakers who are legislative experts, it's very clear that there are four primary areas that the incoming administration is focused on.

There is a priority for a domestic agenda, meaning tax reform, on the part of the Speaker of the House and the head of the Senate, Mitch McConnell and Paul Ryan. They're more focused on tax reform, whereas the administration has a lot of focus on immigration and some other issues.

But what I did learn, which was in a way frightening, was that there is something called the budget reconciliation process, where they can tag some of these things onto budget reconciliation, which requires less votes in the Senate than if it is an individual bill, and that tax reform may be tacked onto budget reconciliation.

So for those who have been following the votes for Cabinet posts and the like, you've seen that it's coming down to one vote because you only need 51 senators. Well, typically the spending bills and the like require 60. But if they tack it onto budget reconciliation, it's the same as a Cabinet post.

So some of the things that could affect us are in tax reform because they affect all sorts of things that will impact the markets. And so I think that's something to really watch.

That was what we advocated for extremely -- I'm now on the treasurers tax committee. And we have two superb leaders of it, who have been through this kind of thing before, since 1986. And there are unintended consequences that negatively impact businesses, business growth and the economy.

So we're trying to keep open lines of

communication because this is all fiscal stuff. So it's not partisan. And so that's one of the things that we're really pushing.

Why are you laughing? It's not partisan.

MR. BROUSSEAU: Well --

TREASURER GOLDBERG: Municipal bonds is not a partisan issue. We consider it as treasurers as an outstanding infrastructure funding --

MR. BROUSSEAU: And I agree with you.

TREASURER GOLDBERG: -- device that should not be -- the tax-exempt status should not be meddled with.

But there are a lot of very, very conservative Republicans who don't think that way because they think the overall tax rate coming down will benefit private investment in infrastructure. It is something they're looking at.

So we've got a very complicated arena. And I think, given that, what I saw last week, both in our Investment Committee and the other committees, the strategies of how we will ride out the uncertainty -- and that was the big word of all these meetings was "uncertainty" -- I think is a solid one and one that we should continue on.

MS. FITCH: Do you believe -- and this is going to sound negative, but I don't mean it as negative as it sounds.

Do you believe that you have the information that you can trust to make decisions and to be an advocate or not an advocate?

TREASURER GOLDBERG: One of the treasurers was the cochair of the Trump committee. He was the first elected official to endorse Donald Trump. He was there with us, one of the --

MS. FITCH: This is the pre-election committee?

TREASURER GOLDBERG: Yes.

MS. FITCH: Post election committee?

TREASURER GOLDBERG: Yes. Pre.

And the individuals we all met with were originally campaign people for Trump.

Did I trust what I heard? Well, if I step back, because I'm still trying to absorb everything I heard, I don't know that Congress and the President have all sorted out which way they're going on what.

I think that the topics, they've absolutely got on the table. Tax reform is on the table. It's absolutely on the table. Whose plan ultimately prevails is the question, and what that will look like at the end is the question.

What I wasn't aware of is how fast it can move because of this budget reconciliation process.

Tariffs and looking like what we would call VAT taxes are on the table, and they have a different name for them. And that is not necessarily seen as a positive for large equity stocks. So that is something we should watch.

And so yes. I think the things that I heard are trustworthy to the degree that they're true today.

MS. FITCH: Right, right.

TREASURER GOLDBERG: But I think that it's still a very volatile environment.

And what I also found, as you walked through the -- I'm comparing it to two years ago. There are a lot of empty offices, and people aren't even really sure what floor they're walking toward. So I think that there's -- I mean, we're talking three weeks here. So I think that's --

What I did hear is that the deputy chief of staff for intergovernmental relations was speaking to a majority because the majority of the treasurers are Republicans, was saying, "We need to hear from you. We need to know what we're doing and how it impacts your jobs at the state level."

I did hear a lot about states' rights.

So it's an interesting balance on how they're viewing everything, but I don't think any of it is written in stone. I think that's the way you have to look at it.

There was no discussion of interest rates or the Fed, what the Fed is doing, but Janet Yellen's term continues for several years. So they can't really control that.

So those are the kind of things I picked up. I actually was quite quiet and just listened.

MR. BROUSSEAU: Did you leave upbeat or very concerned?

TREASURER GOLDBERG: I left puzzled.

MR. NAUGHTON: Did you have a sense that there was agreement among the people who represented the administration? Aside from maybe agreement with Congress.

TREASURER GOLDBERG: Given that also you're hearing that there are still leadership power struggles right in the West Wing and the Oval Office, it's hard to know how empowered each group is right now.

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: And so as this deputy chief of staff -- he was highly confident. He was extremely open. He even said that "We want to be bipartisan, so we want to hear from you Democratic treasurers -- how what we're doing impacts every state," and shared business cards.

But we have to see how it all goes.

I sat there listening. Literally did not say a word.

MS. FITCH: Can I ask a quick follow-up as to how you get information as the Commonwealth's Treasurer?

TREASURER GOLDBERG: All right. So there's two ways. The National Association of State Treasurers works with a firm that is our legislative lobby. And it's called Williams & Jensen. And they are experts on the Hill, and they work directly both with -- they are the ones who arranged the meeting with the deputy chief of staff.

And they meet with both sides of the

aisle, and their job is to represent treasurers' issues with whatever administration is in place and follow where the bills are moving in terms of the issues that impact local states where we all agree on the same issues.

I mean one of the issues that we brought up yesterday with the deputy was around college savings plans. So we have a lot of listed issues that impact treasurers that aren't pension-related, but a lot of them are. And a lot of them impact the economy.

And tax reform does impact us directly and indirectly. And so that is a commonality, and that's why we have this *ad hoc* committee of about -- I would say there were about a half dozen treasurers, of which I'm one, but with two who are real tax experts, the Treasurer of Tennessee, David Lillard, and the Controller of Minnesota, Controller Frans.

So we're meeting, and we're going to be having conference calls. We'll also be in touch with NAST and Williams & Jensen and trying to follow this and stay on top of it.

MS. FITCH: Thanks.

TREASURER GOLDBERG: You're welcome.

Very complicated. Different times we're in. So thank you for letting me share that. I think it's actually relevant to our work.

MR. TROTSKY: It's actually a great segue into the next item on the agenda.

TREASURER GOLDBERG: Yes. Which is --

MR. TROTSKY: Asset allocation. What do we do in this environment?

TREASURER GOLDBERG: We stay the course in many ways, and we adjust to the environment.

MR. BROUSSEAU: Never overreact. Stay the course.

TREASURER GOLDBERG: So next up --

MR. TROTSKY: So next on the agenda is a voting item. It is our asset allocation recommendation.

And this work began several months ago. It involved all asset class heads. Dave Gurtz, of course, most of the investment staff, our consultant, NEPC, and several board and committee members.

Additionally, many of you have had briefings or several briefings on our asset allocation work throughout the year. There were over a dozen separate meetings to arrive at the changes that I will present to you today.

The changes were discussed vigorously and approved unanimously at the Investment Committee and the Real Estate Committee. Importantly, six of the nine board members here today were present at those more detailed discussions.

So I will provide you with an overview, but asset class heads will be able to step in and answer any particular, specific questions you have when the time comes.

The asset allocation discussion is located at Appendix G and H. And please turn to Appendix H, page 1. I'll give you a second to get there.

First, let me briefly recap our return parameters along with a brief market backdrop used to arrive at our asset allocation recommendations.

Number 1, we are guided by the 7.5 percent required rate of return. And therefore, the portfolio requires a heavy equity and growth focus. This means global equities, private equity, real estate and value-added fixed income play a very important role in the portfolio and drive return.

Most other asset classes serve to dampen the inherent volatility of those equity-centric and volatile asset classes.

Number 2, the economic cycle is nearly nine years old, and there are many uncertainties ahead, as we've just discussed.

Number 3, equity valuations are relatively expensive compared to history. Now there's a great deal of debate over how expensive they are. Some may argue that they are just fairly valued relative to the low interest rate environment we find ourselves in, but I think everyone can at least agree that equities, at least, are not cheap.

TREASURER GOLDBERG: You actually sent that great article on Seth Klarman's comments. And Seth thinks they're way overvalued.

MR. BROUSSEAU: 30 percent of his money is in cash.

TREASURER GOLDBERG: He's a cranky guy, though.

MR. TROTSKY: Number 4, inflation, while still relatively subdued, is increasing. We talked about wage growth, for example, is finally ticking up.

Number 5, interest rates are still near historic lows, but we have spoken in great detail in the past about this bond headwind. We question the correlation benefits of our long rates, of our STRIPS portfolio, to equities going forward, whether they'll be a good insurance policy against a turbulent equity market.

Number 6, private equity valuations are high, admittedly, and there's a lot of capital chasing private equity currently. But the return premium to public equities has been positive historically in all environments, and we still have conviction in private equity.

7, Real Estate: Valuations are somewhat elevated, but the market is still very healthy, and we are finding some unique opportunities such as the land deal in California.

Number 8, hedge funds and portfolio completion strategies. These two groups really continue to emphasize strategies uncorrelated to equities. We use hedge funds differently than many plans across the country, and I'll get into some details on that. But again, we continue to emphasize strategies uncorrelated to equities in both hedge funds and portfolio completion strategies.

Now let's get into some specific themes of the changes. And I will first identify the key themes and provide you a summary of the recommendations that were approved at committee.

So on page 1, you can see that there are five key themes of our asset allocation recommendations: Number 1, maintain equity exposure, but consider alternative equity hedging strategies that I alluded to. We have been using STRIPS. We're going to cut back on STRIPS.

Theme number 2, reposition core fixed income to reflect inflation risk.

Theme 3, restructure our value-added fixed income allocation and introduce a new asset class called Other Credit Opportunities.

4, I mentioned this already. We have conviction in private equity, so we will be raising our private equity target.

5, Combine hedge funds and portfolio completion strategies into a single allocation. As I mentioned, each has the same mission: to focus on strategies uncorrelated to equities.

Now, please let me describe the elements of the changes we're recommending on this page.

And at the end, once I go through this, I'll be happy to invite the asset class heads to answer any particular questions, but these were well-discussed in the committees, and we think they make a lot of sense.

Number 1, in public equity, we are recommending maintaining the 40 percent global equity target. As I mentioned, this target is necessary in order to achieve the 7.5 percent target return.

Number 2, in core fixed income, we're recommending reducing U.S. long-duration Treasury STRIPS from our current allocation of 5 percent to a new allocation of 2 percent. We're concerned that the negative correlation benefits between equities and Treasuries may not continue in the future. That's why we are reducing it.

Number 4, we're recommending an increase in U.S. TIPS Treasury protected bonds by 2 percent. U.S. TIPS provide inflation protection as well as a floor, should deflation start to occur.

And value-added fixed income, point number 5, we're maintaining a 10 percent allocation to value-added fixed income, which provides good diversifying exposures to high inflation and rising growth environments, such as we're entering.

We're going to introduce, as I mentioned, a 2 percent allocation to other credit opportunities. This is unique. This provides staff the ability, similar to portfolio completion strategies, to source and invest in strategies that don't really fit neatly into any other bucket. We're currently tracking 30 opportunities here. Direct lending, private debt, structured credit and real estate debt are just a few examples of other credit opportunities.

And private equity, I mentioned, we're increasing the target from 10 to 11 percent. We continue to believe that private equity offers a premium to public equities, a premium, even though it's more of an illiquid asset class. I mentioned before that we don't have tremendous liquidity needs, and we can take advantage of that illiquidity premia private equity.

And real estate and timberland remaining the same at 10 percent and 4 percent allocation, respectively.

Last, in hedge funds, we're merging

hedge funds into PCS -- portfolio completion strategies. That's creating a 13 percent target allocation, 9 percent hedge funds plus 4 percent PCS.

We will be breaking out performance, and you will have the same transparency that you enjoyed in the past. We just are grouping it into one bucket that's more consistent.

We believe that hedge funds are not really an asset class here at PRIM. They're not an asset class. Rather, they are an investment strategy that trade in a wide variety of instruments, credit instruments, equity instruments, et cetera.

PRIM's hedge fund objectives, as I said, are very similar to PCS anyway. They're meant to identify non-correlated assets to equities.

Last, the PCS team is looking at other equity hedging strategies as part of PCS to replace STRIPS. And we discussed this a little bit in the Investment Committee, but we're well along in pursuing a portfolio overlay strategy using options and derivatives. A put spread collar is high on our list of things to investigate and come back to the committees with.

So that's a highlight of the changes that were discussed in much more detail. They're not huge changes, but they are incremental. And of course, we're trying to build a portfolio that will perform well in all environments, including the very uncertain environment that we're facing now.

So I'll take any other questions, or else we can move to take a vote to approve.

MS. McGOLDRICK: I just wanted to add a comment that in light of what the Treasurer is reporting and all the research and work that you're doing in these uncertain times, I think we're well-positioned, and that's how we have to do it is plan for whatever's coming, to stay the course.

Thank you.

MR. TROTSKY: You're welcome.

MS. McGOLDRICK: One thing is we feel less uncertain with you at the helm. I appreciate all the work everyone here does.

MR. TROTSKY: Thank you.

TREASURER GOLDBERG: I think everyone who --

Dennis, I'm not sure you got a chance to hear Connie.

MR. NAUGHTON: I didn't. No. Actually, I had to take Claire for her eye appointment that day.

TREASURER GOLDBERG: Right.

I think we're really fortunate on top of all the work that everyone is doing here to have a truly outstanding economist who works with us.

MR. NAUGHTON: Bob and I did speak about it. He was here.

TREASURER GOLDBERG: Very good.

She really seems to grasp the gestalt of this uncertain environment. And since I've been here and been listening to her, she is always right on. And so I feel that we have very good advice in terms of her seeing opportunities that may be short term and then also preparing for the uncertainty that can impact the long term.

And so last week's meetings were long, thorough and critical and inform today's meeting very much so.

MR. TROTSKY: It's a good point. Connie and the Investment Committee, for those of you who weren't here, really stress that the vulnerability of the current economy is not yet over and that you can't take an economic growth rate for granted, as the main point.

She did say that expectations are soaring. You can see that in market activity. It's almost euphoria. And things are getting more expensive, despite earnings coming in quite strong.

And then the second point that was discussed, which is very interesting to us, is that it may finally be possible, in Connie's opinion, for international markets to outperform. And since she said that, of course we saw that the Eurozone GDP came in even above ours.

And I gave you some figures as to international and emerging markets equity performance. It's been very strong in the last year. And that serves us well because we've maintained our high international equity exposure, both in developed international markets and in emerging markets.

So a couple of tidbits from what we were discussing in that part of it.

MR. BROUSSEAU: Wage growth has not been -- she mentioned has not been growing.

MR. TROTSKY: Wage has been picking up.

MR. BROUSSEAU: But it's not what it should be.

MR. TROTSKY: Right.

MR. NAUGHTON: Well, it's going to take a hit if the VAT thing comes into being. Or if tariffs go on.

TREASURER GOLDBERG: Well, those sort of hang together.

MR. NAUGHTON: Yes.

TREASURER GOLDBERG: And they do impact the way goods move. And that will impact American companies. And also them importing parts for their own manufacturing. I mean, it's such a complicated arena.

And that is the one thing that concerned me a little, speaking back to what -- is the sort of not understanding the importance of global markets. That's a real issue and its connection to sustainable growth in our country. I think that has to --

But I do think a lot of people in Congress do understand that, so we'll be monitoring -- I mean anything I hear, I will share, including giving --

Michael and I meet and speak all the time. We can always send out emails.

MR. BROUSSEAU: In the morning, there was a segment this morning on TV about the number of companies that have come out in opposition to these probable taxes, what it's going to do to their businesses and their companies.

I think Amazon was one of them. I think --

MR. TROTSKY: Major retailers.

MR. BROUSSEAU: Amazon, major retailers. They are absolutely opposed to this kind of --

TREASURER GOLDBERG: There is one other thing that came out of the meetings. There's this commitment to infrastructure, but at the same time, there's a commitment to building the wall. And there's a lot of spending on the table and a lot of tax cuts. So how all that plays out is another question too.

MS. McGOLDRICK: Madam Treasurer, did they announce the CPI yesterday, the FY '18? I thought that I saw that on the Bureau of Labor Statistics. They were announcing the projections for --

MR. TROTSKY: I don't think so.

TREASURER GOLDBERG: I didn't hear about that.

MS. McGOLDRICK: It was supposed to be on the

13th.

MR. TROTSKY: We can check into that.

Does anyone on staff know?

MS. McGOLDRICK: That and wage growth.

TREASURER GOLDBERG: This actually is a voting item.

MR. TROTSKY: We'll get back to you on that.

MS. McGOLDRICK: Okay. Thanks.

TREASURER GOLDBERG: And so I would seek a motion for the approval of the 2017 asset allocations, that the PRIM Board approve the Investment Committee's recommendation to adopt the 2017 asset allocation recommendations as 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?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the Investment Committee's recommendation to adopt the 2017 asset allocation recommendations as described in Appendix F of the expanded agenda, and further to authorize the executive director to take all actions

necessary to effectuate this vote.)

MR. TROTSKY: Thank you.

TREASURER GOLDBERG: So next.

MR. TROTSKY: Chuck.

TREASURER GOLDBERG: Chuck is going to talk about the garden.

MR. LaPOSTA: I was planning on skipping the garden, but I can allude to it if you would like.

TREASURER GOLDBERG: No. You don't have to.

MR. LaPOSTA: Good afternoon, everybody. Thank you all for coming in.

Turning back to Appendix D, I will speak to public market performance. And we've talked about markets quite extensively already so I will give you the highlights within our public markets.

And turning to page 7 of Appendix D, you can look at the equity portfolio, which is 43 percent of our total assets at the moment.

TREASURER GOLDBERG: He skipped the garden and the quilt.

MR. LaPOSTA: Skipping over the quilt and the garden, going right into the performance.

And as you've seen and as we've said, public market equities have performed quite well with three of our four subasset classes returning more than double-digit returns over the trailing 12 months, which is great to see.

It's been very kind of euphoric postelection. A lot of these returns have occurred in the fourth quarter as well, where small cap equities were up 7 percent in the quarter. Large cap U.S. equities were up 4 percent in the quarter, while international markets were down in the fourth quarter as a result of dollar strength and foreign currency weakness.

But speaking to the small cap equities, which returned 16.8 percent and underperformed their benchmark by 260 basis points, this is the result of a couple of factors.

Two of our managers underperformed their respective benchmarks by more than 10 percent each. And one was due to security selection. They lost about half of their relative return on one particular marine tanker company that underperformed significantly.

The other manager, which is a growth manager, but value stocks even within the growth universe performed better. In fact, value across all equity classes has outperformed growth over the last quarter and last 12 months.

So even within the growth universe, stocks with value characteristics performed better, and our manager was underweight that. So that's where the underperformance came from in our small cap portfolios.

Emerging market equity performance still continues to do quite well, outperforming its benchmark by 2.1 percent. This has been fairly consistent. They've been making some very good decisions in that asset class and as a result of our recent repositioning of that portfolio, so we're happy to see that return there.

And then the last asset class, international equities, total returns are underwhelming relative to others, but positive. So that is a good thing to see. And our managers are generally tracking the benchmark in that asset class.

And then I will turn to page 8 and talk about fixed income for the last 12 months. And here, we've seen similar themes. So I often think of small cap equities and high yield as being kind of corollaries to one another in stock and bond space. And high yield assets performed quite well in the last 12 months.

So the second chart from the right, high yield, the benchmark returned 17.5 percent. Our managers lagged significantly by 3.8 percent with a total return of 13.7 percent.

But within that high yield return, the riskiest part of high yield has had the most outsized returns. CCC-rated credits, which are the lowest kind of going-concern credit quality assets in high yield space, returned 37 percent for 2016.

And the energy sector, which is another subcomponent of the high yield world that had been beaten up, had returned 38 percent for 2016. So these two segments of the market returns higher for the universe, and our managers trailed because they were underweight those sectors.

And if you think back a year ago almost to the day actually is when the market kind of turned, but a year ago from now, things were looking a little bit different. There was a lot more stress in the market, being conservatively positioned, in high yield was actually beneficial, but then the market recovered quickly and has continued along that path to this date.

Other asset classes we've spoke about, we talked about the STRIPS portfolio certainly has come under pressure as rates have backed up and inflation concerns have manifested themselves more in the marketplace.

So STRIPS returns total for the year of 1.5 percent; still positive, even with the negative 16.7 percent return in the fourth quarter. They were still able to generate a positive return for the year. That's encouraging to see. It shows that even though as rates move, the asset class will react. But you do get a cushion from the yield. And over the long run, they kind of ebb and flow over time and still can give you a positive return.

So those are the highlights for public market returns. Happy to take any questions, if you have any.

Seeing none, I'll turn it over to my colleague, Dr. Clapp, to talk about a new asset class within equities.

DR. CLAPP: Today I'll be talking about the active developed small cap equity recommendation. And this is a voting item.

It's in Appendix I. And I'm going to

start on page 6. This is a little bit into Appendix I. Page 6 looks like this. It's after the evaluation committee meeting memo.

So let me start with the punchline. On page 6, you can see the recommendation. We are recommending funding five managers for active developed international small cap for a total of $900 million, 9 percent of the total international equity allocation or 1.5 percent of the PRIT Fund.

These managers are Acadian, which is a quant manager with a value tilt; TimesSquare, which is a fundamental growth manager; AQR, which is a quant manager with a value tilt; and LMCG and SGA, both of which combined quant and fundamental techniques.

The larger pie chart in the bottom left shows that this allocation would represent 9 percent of the total developed international allocation.

The smaller blue pie chart on the bottom right shows the allocation of the 900 million split up between the five managers. So 300 million would be allocated to Acadian, 250 million would be allocated to TimesSquare, 150 million to AQR and 100 million each to both

LMCG and SGA.

And on page 7, you will see the public markets investment process funnel chart. Now, this is a very dense slide that is intended in the role of a table of contents or for reference purposes.

On the right, you can see the investment process for the international small cap equity recommendation. The top level of the funnel chart is the investment thesis. The next level is quantitative and qualitative analysis. The third level is due diligence. The fourth level, portfolio construction, and the fifth and final level is the Investment Committee and board proposal and then funding.

I'm going to be going through each level in this funnel chart during this presentation.

The investment thesis for the international small cap equity allocation is described on page 8. And here you can see the funnel chart on the top right and that we are on the top level of the funnel here on page 8.

Now, we did a lengthy presentation on this in June, and there is a slide in Appendix B of this packet, which is on page 26, of the PRIM public market active management philosophy.

EAFE small cap has had about a 4 percent historical return premium over the EAFE standard since the inception of the EAFE small cap index in 1998. This has come from higher growth rates for EAFE small cap companies, rather than multiple expansions. Actually, the PE ratio for EAFE small cap is quite similar to EAFE.

In addition, international small cap is an inefficient asset class, where active management can add significant excess return. The five-year median excess return is 1.4 percent net of fees with a median fee of 82 basis points. So 2.2 percent gross excess return roughly for the median manager.

The role of this allocation within the fund is primarily as an alpha or return generator, as we already have exposure to this asset class within SSGA.

Page 9 shows what we are looking for in high conviction managers. We are looking for expert, insightful, knowledgable managers, whether they are quantitative or fundamental. Stability, credibility and a proven track record, which includes downside protection, are important.

Page 10 briefly describes our proprietary quantitative manager model. This is useful as a screen, and it's an important part of our process, but we do not follow it blindly. The qualitative portion of our analysis is also very important. In the quant model, we look for activeness, consistent risk-adjusted performance and results in down markets.

Now, page 11 shows what we are looking for during our qualitative analysis. Many of these items focus on the present state of the manager and product, whereas the quantitative analysis looks largely at the manager's past record.

Qualitatively, we want to see a stable organization and team with a commitment to a consistent process, even when the process is out of favor.

We want to avoid asset gatherers or firms that will accept too much money such that performance will be impaired. This is a moral or fiduciary hazard, and we want to make sure we are hiring managers that will protect their existing clients by closing products when they reach a reasonable capacity limit. This is particularly important in less liquid asset classes like international small cap, like this asset class.

Page 12 is a summary of our search. We received 45 responses to the RFP. Our process, which includes our quantitative and qualitative analyses, as well as an independent analysis of the respondents by Callan, produced 10 semifinalists.

The evaluation committee interviewed the semifinalists on October 18 and 19 here at PRIM, and eight finalists were selected.

And I'd particularly like to thank Jim Hearty for participating in the process and for his insightful comments and helpful observations.

After the meeting here at PRIM, we conducted due diligence visits to the eight finalist firms. Of the eight, five were selected for the proposed portfolio. The evaluation committee recommendation memo, which is at the beginning of this appendix, Appendix I, provides further details on the international small cap manager search.

Now, the next two pages illustrate our portfolio construction process. Page 13 is the returns-based analysis for the recommended international small cap portfolio. And page 14 shows the holdings-based analysis.

On page 13, in the blue table on the right are the overall characteristics of the proposed international small cap portfolio. We expect the recommended portfolio to have an information ratio of about one with a tracking error of 2 to 4 percent and an excess return gross of fees of 2 to 4 percent.

We have persistently negotiated PRIM's effective fee down to 53 basis points, which is quite reasonable compared to the 82-basis-point median for the international small cap asset class and constitutes a savings of about one and a quarter million dollars per year to the PRIT Fund.

MR. BROUSSEAU: Is that for all five of them?

DR. CLAPP: That's for all five in a weighted average.

Key takeaways for this chart are in orange in the top left. The portfolio has had good excess return, has better risk-adjusted returns than the MSCI EAFE small cap benchmark, and has favorable up and down market capture.

For reference, the proposed portfolio is in green in the bottom left. Above is the excess return correlation matrix for the five managers, which looks good as these cross-correlations are fairly low.

On page 14 is the holdings-based analysis of the proposed portfolio, for which we utilize our BarraOne risk system.

Now, the first box, box 1, shows the total risk, the active risk and the beta. Box 2 breaks down where the active risk is coming from. In box 3, we have worked together with a risk team on scenario analysis.

So back to box 1, the total risk or absolute volatility of the proposed portfolio is predicted to be similar to the MSCI EAFE small cap benchmark with a beta below one.

In box 2, the primary contributors to active risk are manager stock selection and manager style, which is what we would expect.

Now, we have high conviction that this portfolio with a down capture of roughly 90 percent will outperform in down markets, but in box 3, we feel that it's important to illustrate that we have used the BarraOne scenario analysis capability to confirm these results.

So page 15 is a qualitative assessment

of the risk to this and most active equity portfolios. You're all familiar with these risks. So I'd like to focus on two manager risks: team turnover and capacity management.

And here, we feel that we have been very diligent and done a good job at making these risks as small as possible. We've put a great deal of effort into minimizing the risk of team turnover. And we have been quite frank with firms about the importance of closing strategies when a reasonable capacity limit is reached.

So I feel we've done a good job at really keeping these manager-specific risks to a minimum.

Page 16 is the summary of the proposed investment portfolio. We are proposing $900 million to five active managers. Acadian is a quantitative manager with a value tilt. TimesSquare, the next largest allocation, is a fundamental growth manager. AQR is a quantitative manager, also with a value tilt, while LMCG and SGA both combine quantitative and fundamental techniques and are both core managers.

The active developed international small cap portfolio would total 1.5 percent of the PRIT

Fund. This $900 million would be sourced from the SSGA World Ex-U.S. IMI Index account, which already has exposure to this asset class.

So this allocation would change the active index split within developed international from roughly 50/50 currently to roughly 60/40 active indexed.

With this portfolio, we are looking for 250 basis points of gross excess return relative to the index. We're looking for superior risk-adjusted returns relative to the index, good up and down market capture, and low correlation of excess return between the managers.

We have created a balanced portfolio in terms of investment approach and investment style. We are not going to go through each firm in detail, but there is additional information on each manager in Appendix A and in the evaluation committee memo.

In this universe with 2200 names in the benchmark alone, quant makes sense. We use a similar approach of combining quantitative and fundamental managers in emerging markets small cap, and it has been very successful.

So these are my prepared comments.

And lastly, I'd like to thank Andre Abouhala for all of the excellent work you've done on this project.

TREASURER GOLDBERG: "Mister" as opposed to "Doctor."

DR. CLAPP: We have two Andres in public markets.

I'd be happy to take any questions.

TREASURER GOLDBERG: Yes. Go ahead.

MS. FITCH: Just really big picture, what are our exit strategies?

DR. CLAPP: For the different asset classes?

MS. FITCH: Yes. I guess it is. Or for these asset managers as we keep up with their work, review their work. What's our exit strategy?

DR. CLAPP: So that's a very good question, and that's one of the reasons that we have five managers here is because if we have a problem with one of them, we can exit that strategy, and we'll still have four managers. I think we could even have three in this asset class.

But right now, we feel very confident in all five of them. But we will review them quarterly or even more often than that.

We have had to exit a manager in one of our other asset classes, but we had sufficient number of managers within that asset class.

MR. TROTSKY: That's 30-day notice, right?

DR. CLAPP: Right.

MS. FITCH: Takes a while to get there.

MR. TROTSKY: And these are separate accounts too.

DR. CLAPP: Right. These are all separately managed accounts.

MR. TROTSKY: So that means there are assets we can turn the manager off and --

MS. FITCH: And move it to another.

MR. TROTSKY: Or transition.

But no gates. That's the beauty of a separate account.

DR. CLAPP: Right. We actually own the assets at all times.

MS. FITCH: I think that's important to note.

MR. TROTSKY: You're right.

MS. FITCH: Thanks.

MR. SHANLEY: I agree.

MR. BROUSSEAU: Two fast questions. How long it would take to put this $900 million out there to work?

DR. CLAPP: So we're targeting April 1 funding date, and we'll fund in two tranches. So we'll do 450 million approximately the first tranche and roughly the same the second tranche.

MR. BROUSSEAU: Second question is I didn't see in the descriptions of the firms. Apparently these have been very stable firms in terms of team turnover.

DR. CLAPP: That's right. We've made a big point of that during the search, and so we feel very confident that these teams are intact and incentivized to stay for a very long time. In many cases, they're partners in the firm where they reside.

MR. BROUSSEAU: Okay.

TREASURER GOLDBERG: Any other questions?

This is a voting item, and so I would seek a motion for approval of the recommendation for active developed international small cap equity investment management services, that the PRIM Board approve the Investment Committee's recommendation to hire, subject to successful contract negotiations, five firms (Acadian, AQR, LMCG, Strategic Global Advisors or SGA, and TimesSquare) for a combined $900 million allocation to active developed international small cap equity in the following amounts as listed in the chart below and as described in Appendices I and J of the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

MR. BROUSSEAU: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the Investment Committee's recommendation to hire, subject to successful contract negotiations, five firms (Acadian, AQR, LMCG, Strategic Global Advisors and TimesSquare) for a combined $900 million allocation to active developed international small cap equity in the following amounts as listed in the chart below and as described in Appendices I and J of the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Thank you, Doctor.

DR. CLAPP: Thank you very much.

MR. NIERENBERG: Good afternoon, everyone.

I'm going to give you an update on hedge funds, now part of portfolio completion strategies.

2016 was actually quite a good bounce-back year for hedge funds. In particular, credit strategies came roaring back after having a very tough time in the second half of 2015. We produced strong returns from the credit funds within our portfolio. We also had solid returns from fixed income relative value and some of our event-driven and systematic macro strategies.

In general, equity-based strategies lagged, but we intentionally don't have a lot of assets in those strategies in order to increase diversification of the portfolio.

Performance results for the year were impressive. Our direct hedge fund portfolio returned 5.2 percent, which outpaced the benchmark by a full 4.5 percent. That's a lot of alpha that was generated.

The volatility stayed impressively low. It was only 3 percent for the year. Our risk-adjusted return ratio -- and you've heard me mention this before, but one measure of that is the Sharpe ratio. For the year, we had a Sharpe ratio of 1.6, which is very, very strong. Anything above 1 is excellent. So we're happy about that. That compared to a 0.1 Sharpe ratio for the benchmark, the HFRI Fund of Funds Index.

And actually, on that risk-adjusted basis, hedge funds actually outperformed equities. The S&P 500 Sharpe ratio was 1.1. It was 0.6 for the Barclays Aggregate.

Again, once you adjust for the lower volatility of hedge funds, that's really quite a strong result.

Over the longer time period, the results are almost identical. In the five years we've had the direct hedge fund program, the returns have been 5.7 percent with a volatility of less than 4 percent, yielding a Sharpe ratio above 1.5. And that compares quite favorably again to equities and fixed income.

Thus the short message is is that over the time we've had hedge funds, in particular the direct hedge fund program, it's met and really exceeded the objectives that you the Board have set out in the sense of being a diversifying asset class, with very low volatility, and with returns that are more than commensurate with the low risk that's being taken on.

We have expectations that market volatility will probably rise in the coming years, though it hasn't happened yet. Volatility has still been quite low, but we do believe that these managers have shown a consistent ability to produce returns in whatever volatility regime we're in. If volatility goes up, we would expect that the returns would increase as well.

In fact, I think the news is actually even better because our managed account sleeve has really shot the lights out in terms of performance. For the year, the managed account portion of our portfolio, which is getting close to 50 percent of the total hedge fund portfolio, exceeded 10 percent in returns. That's almost a 10 percent outperformance versus the benchmark.

The hedge fund replication also contributed quite strongly to this result, and we're going to be looking to expand that as well over the course of 2017.

In total, that's a lot of alpha generation. We think the portfolio is in a good place. We've been redeploying capital as we continue to expand the managed account program.

I'd be remiss if I didn't mention our operations team, which is critical for making sure that our managed account platform is well-managed and that the cash is properly accounted for. Thanks to Matt Liposky, Dave Gurtz and the rest of the team.

And I also want to mention our risk team, who help with performance reporting. We've really built out that aspect in that we can take in daily holdings and get a much better sense of the enterprise risk of the entire hedge fund portfolio.

In addition to good returns, we now have much more granular detail on what's actually in the portfolio, and that's a good thing to have.

Those are my comments on hedge funds. I'm happy to take any other questions you might have.

MR. BROUSSEAU: Just one question, Eric. I know Dennis sees it and I do. We get a lot of things across our reports and computers how defined benefit pension plans, because of our large unfunded liabilities, are taking risks that are inordinate for what we should be doing, especially in alternatives that are many times not very liquid. And they specifically point out hedge funds and say that right now, there is way too much money chasing too few hedge funds. And consequently, they talk about a depressed return or problems down the road.

I'm asking for your -- this is what you do. I'd like your educated best reaction to that kind of criticism because I can't do it. I can only go by the information that we get here.

MR. NIERENBERG: Sure. I think a lot of it comes from a misunderstanding of what hedge funds are about and in particular the way that we invest in hedge funds.

One of the things that we have been trying very hard to do is make our program differentiated and find smaller managers that have a niche in which they operate. This makes it more likely that they can produce unique return streams that are worth capturing.

The fees are a big part of that. We have to negotiate the fees down because, as we've talked about before, just blindly investing in hedge funds at a 2 and 20 structure will not work going forward.

And I think some of the criticism that has come up about hedge funds can be justified. When people say, "Well, if it's a 5 percent return and it's a 2 and 20 fee structure, how does that math work?" And it doesn't really work.

I think part of the problem, though, is an expectational one, that people still associate hedge funds with producing 20, 25, 30 percent returns that they did maybe 15 years ago. But the industry has changed. The volatility of hedge funds is much, much lower than it was before.

So when people talk about the risk of hedge funds, it's not an investment risk because, as we've seen, hedge funds actually have lower risk than any other asset class, including core fixed income over the last several years.

I think when people are concerned about higher risk with hedge funds, there is some sense of an operational risk or reputational risk that could be associated with investing in a commingled fund.

We don't do that anymore because we have our separate accounts. We control the assets. And so I think we've mitigated all of these different pieces of risk.

Now, like any investment, we have to be skilled with the underwriting to make sure that we're finding managers that can perform. But I think we've gotten off to a great start and will continue to deploy that capital wisely.

You have to look at both the return and the risk when you're assessing hedge funds, or any other investment, for that matter. A lot of the criticism I've seen about hedge funds forgets about the risk part and just addresses lower returns, but you can't look at it in a vacuum.

And then if you actually delve into the risk of the investment, there I think the story is a lot more positive than people probably give it credit for.

I'm not trying to be a hedge fund defender here. As I've said before, probably 95 percent of the hedge funds out there probably shouldn't exist and don't merit our investment --

MR. BROUSSEAU: I'm glad we have the other 5 percent.

MR. NIERENBERG: -- but we try to be in that other group. And if you have the right underwriting process, you can continue to find good investments that are additive to the overall pension fund.

MR. BROUSSEAU: Is there too much money flowing into hedge fund asset classes?

MR. NIERENBERG: I don't think anything's flowing in now.

MR. BROUSSEAU: Within the last few weeks, I read something again.

MR. NIERENBERG: Yes. I mean, flows have been mildly -- there have been mild outflows over the last 12 to 18 months. I think within the public pension community, it's probably been a bit more negative. Money continues to come in from some of the endowment and foundations. I think it's stabilizing, now that hedge fund returns have kind of stabilized as well.

A lot of it truthfully is return chasing. So if something's having a bad year, money flows out of it. Something is having a good year, money flows back in.

We've seen a lot of stress in the largest hedge funds, the ones that have $30 billion or $40 billion in assets. Funds at that size can -- I won't say in every case, but can have more difficulty producing consistently higher returns.

And again, it comes down to underwriting. When I talk to peers, more and more are starting to follow our approach of pursuing managed accounts with smaller, more differentiated managers.

Over time, you'll probably see more assets flowing into the smaller manager space. We want to continue pushing on that front with our emerging manager RFP, which we'll be issuing in the next couple months.

Flows will probably stabilize, but where those flows are going is definitely changing.

MR. BROUSSEAU: Thank you.

MR. NIERENBERG: Sure.

TREASURER GOLDBERG: Any other questions?

There are no voting items today. This was just to bring us up to date.

MR. NIERENBERG: Great. Thank you.

TREASURER GOLDBERG: I just want to compliment Eric again. I think that we were way ahead of the curve on our strategy of how we approached portfolio completion strategies.

(Ms. Rose left the meeting.)

And I, two years ago, spoke up when someone tried to suggest that -- they misrepresented our, quote/unquote, "hedge fund strategy." And so we've been sort of in our own place with that for -- how many years now, Eric?

MR. NIERENBERG: We've been doing --

TREASURER GOLDBERG: Four?

MR. NIERENBERG: Yes. We've been investing in managed accounts for over two years, and other initiatives have been in place close to four years now.

TREASURER GOLDBERG: Right. So way ahead.

Thank you.

MR. NIERENBERG: Thank you.

TREASURER GOLDBERG: Private equity. Mike Bailey, and would you please do us the honor of introducing your highly regarded cohort there.

MR. BAILEY: Absolutely. My highly regarded colleague is Alyssa Fiore, who I think you all have met. And Alyssa is going to present in a few minutes our first new investment for 2017 in the portfolio.

Let me start by thanking you for the vote earlier today to approve the asset allocation. And on behalf of the team and I will work hard to get that extra 1 percent to work in driving the portfolio forward.

Let me say a few words about the performance of the portfolio before we turn to the investment and the voting item on the agenda. As Michael and Chuck pointed out earlier, the portfolio performance advanced to about 13.8 percent for the one-year period, which is a number we're pleased about.

Part of what we like about that number is it's a strong absolute number. It goes to the top of the quilt chart again, so we like to see that.

I'd say we're less excited about how it looks compared to public equities because our alternative is obviously to invest in the stock market, and stocks have been on a real tear, especially in the United States, where the portfolio is still about 100 basis points ahead of its public equities benchmark for the one-year period, but recall we're sort of measuring it to 300 or 3 percent outperformance. So when it's only 1 percent outperforming, we're a little behind in what is admittedly a very fast race here as equities continue to reflate.

And I would expect that if equities keep this pace, it will be difficult for a private portfolio like this to keep up, given the way private companies mature more slowly and just don't have that type of market sensitivity to upside like this in short periods of time.

But we'll take the 13.8. We're very pleased about that.

I would say briefly on the markets, similar to what we've talked about before, this is sort of a market that's good for sellers and not so good for buyers. So if you're out there trying to buy a company, I think you're seeing challenging conditions as prices grind higher, similar to other markets in the developed world.

I think two new things we're hearing concern about are regulatory changes. Treasurer Goldberg alluded to some of those. Taxation is a question mark for private firms as well as public companies.

(Ms. Rose rejoined the meeting.)

And secondly, I think some of the managers are starting to comment that although it looks like growth will continue here, especially in the United States where three quarters of the portfolio is, so growth will continue, maybe forestalling a slowdown in growth, but still conceivable that within a private investment's holding period of five to seven years, you may see another recession.

So if you're planning to hold something

for five to seven years and you think that a recession may occur, even though we've pushed off recession maybe by another year or two, it's conceivable that you're going to have to hold that company through a downturn. And so caution if you're a buyer.

On the selling side, sort of the flip side of that, if you can sell your asset, very good conditions. So as prices are inuring to your benefit, and as Chuck alluded to, credit market conditions, so buyers who are using financing to finance the acquisition of businesses are benefiting from that with high yield markets and other credit markets at historically very good conditions, that's continuing to fuel selling activity. So that's the mixed bag.

On the details of the performance, sort of similar to that, we saw the large cap buyouts, the larger part of our portfolio, be the real contributor in this last quarter. That helped us move up to 13.8 percent.

And similar to what I've said before, kind of right now in the shade is venture capital. Less good conditions. Sun's not shining there. And that's just sort of back to kind of a garden chart. We expect that to perform over a long period of time, but this doesn't happen to be one of the periods when that 15 percent that we have in venture capital is adding much value to the portfolio.

And our allocation to privates drifted down a bit over this last year to about 11.1 percent. We're setting our goal to be about $1.4 billion of new commitments this year to try to glide slope towards that 11 percent target allocation.

And we've got a good robust pipeline of new investments this year that we think will help us get to that 1.4 billion, but you never know. We'll take those one step at a time and see where we end up. We obviously don't feel any pressure to invest the 1.4 billion.

So those are my prepared comments. I'm glad to take any questions on the portfolio or the performance. Otherwise, we can turn it over --

TREASURER GOLDBERG: Are there any questions in general?

Then go ahead.

MR. BAILEY: So Alyssa will lead us through the voting item.

MS. FIORE: So we're recommending a new investment with a new manager for PRIM in Stone Point Capital in Trident VII. The private equity team and the Investment Committee is recommending a commitment of up to 75 million. Our writeup is on page 12 of the materials.

We are recommending an investment in Stone Point Capital for the following reasons. Stone Point is an experienced and tenured team in the financial services space. They have a strong and consistent track record. And they have a low loss ratio, indicating that they have an ability to manage downside risks.

Based on these reasons, we're recommending a commitment of up to 75 million in Trident VII.

So we're also recommending Stone Point to be on our board-approved co-investment manager bench for the following reasons. Stone Point has a strong co-investment history and has also shown willingness to partner with PRIM in our co-investment program.

Happy to take any questions or comments on --

TREASURER GOLDBERG: So these are two

separate votes, though. Trident is one vote; Stone Point is the second vote. Right?

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: I saw some confusion down at this end.

MR. BAILEY: Sorry. There's some naming confusion here because Trident is the name of the fund. Stone Point's the name of the firm that manages the fund. So it's the same manager, but different names.

TREASURER GOLDBERG: But it is two separate votes.

MR. BROUSSEAU: It is two separate votes.

MS. FIORE: Correct.

TREASURER GOLDBERG: Right.

Are there any questions about that, now that I've spelled it out?

Any questions about the investment?

We are going to vote for them separately. So first, I would seek a motion for the approval of a capital commitment of up to $75 million to Trident VII, L.P.; that the PRIM Board approve the Investment Committee's recommendation of a capital commitment of up to $75 million to Trident VII, L.P. 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. NAUGHTON: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the Investment Committee's recommendation of a capital commitment of up to $75 million to Trident VII, L.P. and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: And then the second vote is I seek a motion of the approval of a new co-investment manager, Stone Point; that the PRIM Board approve the Investment Committee's recommendation to approve the addition of Stone Point Capital to the board-approved bench of co-investment managers and further to authorize the executive director to take all actions necessary to effectuate this vote.

By this vote, the board will authorize PRIM's staff to source potential co-investment transactions of up to 30 million each, sponsored by Stone Point Capital, pursuant to the co-investment program approved by the board in February 2014.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MR. BROUSSEAU: Fast question. Do you see some possible, Alyssa, recommendations coming down as co-investment?

MS. FIORE: With Stone Point?

MR. BROUSSEAU: Yes.

MS. FIORE: So putting that on the bench just gives us the opportunity to look at the co-investments.

MR. BROUSSEAU: There's nothing right there immediately. They're on the bench, but we could be adding --

MS. FIORE: Right. So we have the opportunity to look in the future.

MR. BROUSSEAU: I know, but whether we'd be getting more recommendations down the road or not so --

MR. TROTSKY: Hopefully.

MR. BAILEY: We hope so. Yes. It's lumpy. A lot of things have to line up for us.

But we're pleased. We've completed

three now, Bob -- well, actually we've completed three, and we're about to finish our fourth since you-all approved that program in late '14.

But they're lumpy. They're lumpy. But we're geared up and ready to go if they call.

Treasurer Goldberg, with your permission, I have one other item to mention.

TREASURER GOLDBERG: We didn't vote yet.

MR. BAILEY: Oh, sorry.

TREASURER GOLDBERG: We had a question. We had a second -- I didn't hear the second.

MR. NAUGHTON: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the Investment Committee's recommendation to approve the addition of Stone Point Capital to the board-approved bench of co-investment managers and further to authorize the executive director to take all actions necessary to effectuate this vote. By this vote, the board will authorize PRIM's staff to source potential co-investment transactions of up to $30 million each sponsored by Stone Point Capital, pursuant to the co-investment program approved by the board in February 2014.)

TREASURER GOLDBERG: Now you can continue.

MR. BAILEY: Sorry to jump the gun. One administrative item.

We learned in early February that the consulting firm we've worked with since 2007, a firm called Hamilton Lane, made filings with the federal government to register to become a public company, to sell shares to the public.

So we will learn more about this. The offering is currently in the quiet period, so there's not a lot of information that we can share with you.

But we benefit greatly from Hamilton Lane's excellent service to us. You-all approved Hamilton Lane as our consultant again when we reviewed their services in late 2014. And you voted in early 2015, I believe it was, to hire them again. We're currently in the middle of a three-year contract with them that will expire in late 2018.

So we are going to keep an eye on this. And I sort of think the proof is in the pudding. We have a very high level of service, great team working for us. We don't anticipate any material changes as a result of this offering, but we'll monitor that, and we'll keep you informed. So I wanted to just let you know.

MR. SHANLEY: Thank you.

TREASURER GOLDBERG: That's very fascinating. I'll be interested to see how that goes. It doesn't necessarily mean that their services will be any less valuable, but it's something to watch.

MR. TROTSKY: Right.

MR. BAILEY: Thank you.

(Mr. Shanley left the meeting.)

TREASURER GOLDBERG: Finance and administration report. No. Real estate.

Sorry. You're at the very top of page 13 in the expanded agenda.

MR. SCHLITZER: No problem. I will be brief.

TREASURER GOLDBERG: One single sentence for such an important area, one of our great alternative investment strategies.

MR. SCHLITZER: Nice of you to say.

TREASURER GOLDBERG: With a highly, highly qualified, who passes very important exams.

MR. TROTSKY: Secretly.

MR. SCHLITZER: No. Thank you for that.

And I'm going to start by saying we did have a good year in this portfolio, and I want to thank my team in particular --

TREASURER GOLDBERG: That's nice of you.

MR. SCHLITZER: -- for all of their

contributions.

And thank you for your compliments as well. But John and Christina, both fantastic contributions this year.

So Appendix K is where performance is held, and I'm just going to make a few comments on the portfolio, and then I will move on.

So starting with real estate, so from an allocation perspective, we're at 6.3 billion, and that's at target at 10 percent. We've had no change in the real estate weights. We continue to be in line with a little bit of an overweight to REITs and then offset by a slight underweight to non-core.

Just in terms of investment activity this year, relatively slow year, I would say, on the transaction front. We did acquire four properties for 214 million, which includes the investment that Michael mentioned, Santa Clara Gateway, for 112 million.

We had five dispositions for 258 million. Two of those are about 40 million, were non-core development opportunities.

We did fund two new REIT managers in February with 300 million. This was taken from the existing takeover account. And then another current manager account as well.

(Mr. Shanley rejoined the meeting.)

And then lastly, just as a reminder, we did commit a hundred million dollars to DivcoWest Fund V during the year.

Moving on to performance, total real estate returned 7.7 percent during the year. That is 70 basis points below PRIM's lagged benchmark.

The private portfolio returned 8.3 percent, 90 basis points below again the lagged benchmark.

And so I'll make one point on timing there. When we do unlag the benchmarks -- that simply means actually including the fourth quarter, which is not included in the Mellon report -- the benchmark comes down 125 basis points, which essentially implies outperformance, if you were to run those numbers based on our current portfolio construction. So we feel better about that unlagged relative data.

Then to wrap up, the REIT portfolio returned 5.6 percent over the year, 77 basis points above benchmark. U.S. REITs returned 8.5 percent in 2016. So it was really the non-

U.S. companies that detracted from performance. The UK was down 8.5 percent. That was related to Brexit. And then Hong Kong and Singapore also had negative returns during the year, really related to policy-related cooling in the housing market.

So that's the commentary there.

If there are no questions, I'll just quickly move on to timberland.

So timberland is valued at 2.3 billion or 3.6 percent of the PRIT Fund. That leaves us with about 260 million free for additional investments to get to target. I'll note that we did complete 300 million in acquisitions in the fourth quarter. A couple of fairly large acquisitions, one in the south and then one in the Pacific northwest.

On to performance, total timberland did return 6.6 percent during the year. That's 332 basis points above again the lagged benchmark. Both managers did outperform. When we unlag the benchmark, the benchmark also comes down 70 basis points, so that increases the outperformance to 400 basis points.

Appraisals were up 2 percent, which is about $40 million in additional value.

So that is the commentary on timberland. Again, I'm happy to answer any questions, if there are any.

TREASURER GOLDBERG: I just think everyone at this table should make a commitment to buying cherry. Black cherry.

MR. SCHLITZER: I like that. Cherry prices were up 11 percent last year. So we were pleased to see that.

TREASURER GOLDBERG: Well, we're doing our part in this room.

MR. SCHLITZER: There you go. Thank you.

TREASURER GOLDBERG: Thank you, Tim.

Okay. Now, David Gurtz.

MR. GURTZ: Good afternoon, everybody.

TREASURER GOLDBERG: Afternoon.

MR. GURTZ: So we're going to be talking about proxy voting guidelines. There's Appendix L, but I'm going to be specifically referring to Appendix M in your packet. And Appendix M is PRIM's custom policy matrix, which describes the recommended enhancements to PRIM's custom proxy voting guidelines.

At the Administration and Audit Committee, representatives from ISS highlighted each of the proposed changes to PRIM's custom proxy voting guidelines found in Appendix M. But in the interest of time today, I will just highlight a few of the key enhancements that the committee discussed and unanimously recommended the board adopt today.

So first is a reminder, more or less, of PRIM's overboarded directors policy, which is found on the bottom of page 4 and 5 of this Appendix M.

And as you may recall, last year, this board voted to change our guidelines to voting against directors who sit on more than five public company boards.

Then effective February 1 of this year, a couple weeks ago, that guideline is now down to four or more public company boards. This policy was approved last year as a two-step process to bring the number of public companies a director can sit on down in a more measured approach.

The bottom of page 5 follows a similar measured approach, the committee is recommending that the board diversity threshold increase from 25 percent to 30 percent. The recommended policy is for PRIM to vote against or withhold from all board nominees if less than 30 percent of the board is diverse in terms of gender and race.

The committee discussed that two years ago when this policy was first introduced and implemented here at PRIM, the 25 percent threshold seemed like the appropriate number at the time. It was a number that would encourage other like-minded investors to join PRIM in sending the message that diversity of thought at boards is important and financially beneficial to shareholders.

Now other like-minded investors have pushed that threshold up to 30 percent, and the committee is recommending the PRIM Board join others and vote for a policy requiring 30 percent board diversity.

And then finally on page 8, the committee discussed and is recommending our guidelines specifically state that PRIM votes for shareholder proposals requesting internal wage audits and proposals requiring the company to share the results of an internal wage audit with shareholders.

Now, currently and historically, PRIM's guidelines have stated, quote, "PRIM urges companies to lead on the issue of wage equality, ensuring that men and women receive equal pay for like and comparable work," end quote.

With this existing guiding principle, the committee voted to recommend adding these two specific guidelines found on page 8 to encourage wage studies and wage audits and the transparency thereof.

So with that, I'm happy to try and answer any of your questions.

TREASURER GOLDBERG: I can add a little bit of commentary to this, which is firstly, at the time that we did the 25 percent, there were others doing 30.

I felt that we wanted to actually encourage those who were moving towards that. And if you went immediately to 30, you were not finding very many people who had achieved that goal.

So we wanted to support those who were approaching the 25 percent mark, which then did create a cohort of companies who did achieve that. And so now we want to join in and encourage them to keep on moving and have others join in.

And so very similar strategy was used

with the overboarding, which we did in two tiers. This is the next step on the diversity for boards.

Now, I want to remind everyone that the whole concept behind this is that boards make a lot of business decisions and need a diversity of ideas when those take place, but also that it encourages the workforce below it within that entity to have more women and more people of color and that statistically speaking, the data now proves that those companies are more profitable, which makes them better investments.

So there are business strategies for why we are doing this.

In addition, that the question around the expansion of our position with respect to wage practices shows the exact same data. And you see right here at PRIM a lot of work has come into play to get qualified people and support the advancement of wage equality and diversity of a workforce. And it's not easy, and a lot of good people want to do this, but don't understand it.

And what we have found is that the audit actually helps. We did it internally at the Treasurer's office. We've encouraged others and that it helps people understand the issue better.

And I had a wonderful conversation. I watched a debate between two HR professionals in a traditional old-line bank have that conversation. Two men. And they were trying to figure out how do we get this done.

And I thought that was really an outstanding thing to be observing, them doing that without me involved. And struggling. How do we do this? How do we address it? How do we find -- what is the same job for the same person?

But people are starting. And you have to start the conversations because it's going to make everyone more profitable. More stable workforce also. And it affects our overall economy.

So that's kind of the color behind David's description of the technical nature of what we voted for and supported unanimously at the Admin and Audit Committee.

Consequently, are there any other questions for me or David?

MS. McGOLDRICK: I don't have a question. I just have a comment.

I just want to say that I wholeheartedly support the enhancements to the proxy voting policy. I think it's both thoughtful and progressive as we have been, and it further enhances the stance that we've taken.

Not only is it the right thing to do, I feel, and I think that's pretty clear, that gender diversity and pay equity are all fairness and equity principles, but it's supported by data, as the Treasurer has spoken to, and we have exhaustively looked and researched that data. And it is our fiduciary role and responsibility to put this forward.

MR. BROUSSEAU: And also to note that the Administration and Audit Committee at our meeting on the 2nd of February voted unanimously to go into decision, very, very carefully to recommend this to the board.

TREASURER GOLDBERG: So this is a voting item actually.

MR. BROUSSEAU: Yes, it is.

TREASURER GOLDBERG: So I would seek a motion of the adoption of the 2017 proxy voting guidelines, that the PRIM board approve the Administration and Audit Committee's recommendation to adopt the enhancements to PRIM's custom proxy voting guidelines as contained in

Appendix M of the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. SHANLEY: So moved.

MR. NAUGHTON: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve board approve the Administration and Audit Committee's recommendation to adopt the enhancements to PRIM's custom proxy voting guidelines as contained in Appendix M of the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Thank you, David.

MR. GURTZ: The next item is just a process update for you. It's the board's self-evaluation questionnaire.

So per our charters, the Administration and Audit Committee is responsible for approving the board's self-evaluation questionnaire. They did so at the February 2 committee meeting. The questionnaire is prepared and created by Cortex, PRIM's governance consultant.

So as a result, I believe Cortex has sent that questionnaire to you. It is due by

February 24. Cortex will follow up with each of you with a phone call so you can describe or discuss anything more fluidly, rather than doing it in the questionnaire.

Also the Administration and Audit Committee and this board, as Michael mentioned earlier as part of our annual plans, will be reviewing and updating the board governance manual, which is our charters, this spring.

And Cortex also helps us create the charters. And Cortex has suggested that the follow phone interviews include an opportunity for members to raise any issues or suggestions that you may have in regards to the charters.

And again, Cortex really just hoping that this will make the charters review that much more efficient.

Cortex will obviously tabulate these results, it is anonymous, and will provide a summary of the results to Bob, the chair of the Administration and Audit Committee. And he will be presenting that, along with Cortex, to the admin meeting on May 4. And then obviously it comes to the board at the next meeting, May 16.

MR. BROUSSEAU: And also, last year, if you recall, with the cajoling of the Treasurer, myself and others, we had 100 percent return in the evaluation --

TREASURER GOLDBERG: Anything other is not acceptable.

MR. BROUSSEAU: Unacceptable.

That was the first time in quite a few years that we had a full report. Hopefully, David -- we have two trustees not here, probably a reminder.

MR. GURTZ: That's right.

MR. BROUSSEAU: I know that two days ago, Cortex did send you your last year's evaluation with how you -- if you want to compare last year's with this year's, it can be done.

It's important to get that in.

TREASURER GOLDBERG: Two people have already done their questionnaires. I know I was one of them.

MR. GURTZ: Yes.

TREASURER GOLDBERG: I just found out who the second one was. You can raise your hand.

Oh, then we have three. Okay. Now we have three.

So I have six people to abuse.

MS. ROSE: I'll do it tonight for Valentine's Day. How's that?

TREASURER GOLDBERG: So people will hear from me nicely, with incentive rewards, if they don't get it done.

It's really critical. There are only nine board members. If you have one person who doesn't do it, that's a huge percentage of non-return because there are only nine of us. And it skews the results.

So thank you very much for bringing that up.

MR. GURTZ: Thanks.

TREASURER GOLDBERG: And to be continued.

Thank you. And with that, the meeting is adjourned.

I seek a motion.

MR. BROUSSEAU: Anything from Chris?

TREASURER GOLDBERG: Chris?

MR. SUPPLE: I don't have any --

TREASURER GOLDBERG: No. That's what I thought.

So I seek a motion.

MS. FITCH: So moved.

TREASURER GOLDBERG: Second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: All in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Good job, everybody.

(VOTED: To approve the adjournment of the December 6, 2016 board meeting at 2:05 p.m.)