



**PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD**

Minutes of the PRIM Real Estate and Timberland Committee Meeting
Wednesday, November 1, 2017

Committee members present:

- Jill S. Hatton, CRE, Chair
- Sarah Kim, Esq., Treasurer Goldberg's designee.
- Lydia Chesnick, Esq.
- Robert Gifford
- Anthony E. Hubbard, Esq.
- William F. McCall, Jr., CRE
- Garlan Morse, Jr., CRE
- Carly Rose

Committee members not present:

- Treasurer Deborah Goldberg
- Jack Lutz, Ph.D.
- Peter O'Connell

The PRIM Real Estate and Timberland Committee meeting was called to order at 9:36 a.m. Committee Chair Jill S. Hatton, CRE, began by praising PRIM's staff work on the Mass+Main development in Cambridge.

I. Approval of the Minutes (Voting Item)

The PRIM Real Estate and Timberland Committee unanimously approved the minutes of the May 8, 2017 and August 2, 2017 meetings.

II. Executive Director/Chief Investment Officer Comments

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, comments to the Committee included:

The September quarter was strong, and despite the frequent weather and political storms affecting the United States, the overall economy is little changed since the last Board meeting. Economic indicators are still mostly strong, equity markets continue to move higher, to new records, while bond yields remain low and inflation is absent. The overall health of the economy remained on an upswing, even while several economic indicators were affected by the storms. National employment measures, automobile sales, retail sales and home building statistics all exhibited anomalies in the quarter, but are expected to rebound. More important, the September 2017 quarterly Gross Domestic Product (GDP) growth came in at 3%, annualized, beating expectations of 2.5% and only slightly below the 3.1% reported in the June 2017 quarter, which was revised upward. The consensus GDP forecast for the year remains at approximately 2.1%, up from 1.6% reported last year. Financial markets around the world have performed strongly.

PRIT Fund Performance Summary

In this environment, the PRIT Fund has performed well:

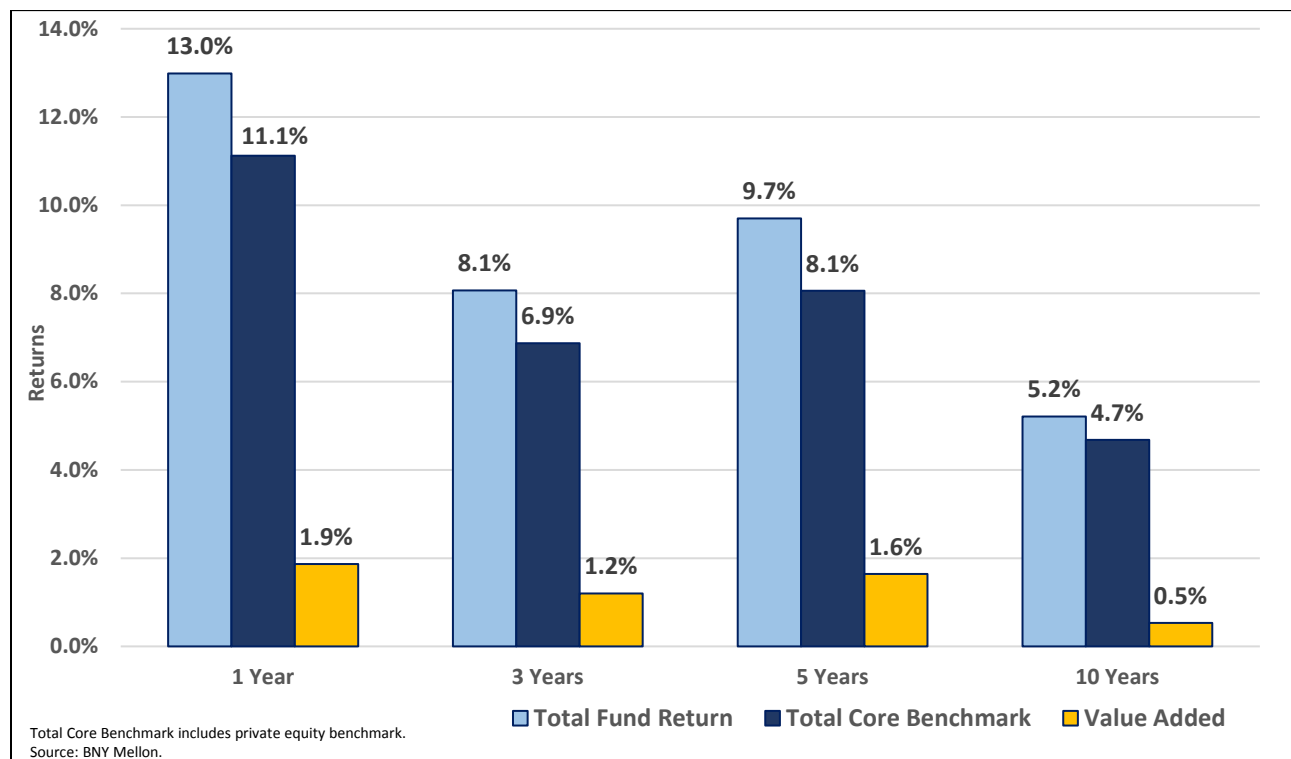
As of September 30, 2017, the PRIT Fund net asset value stood at \$69.5 billion.

For the one-year ended September 30, 2017, the PRIT Fund was up 13.0% gross (12.5% net), outperforming its benchmark by 187 basis points (138 net).

- This performance equates to an investment gain of \$7.9 billion, net of fees.
- This outperformance equates to \$872 million of value above the benchmark return, net of fees.
- Six of the seven major asset classes outperformed their respective benchmarks.
- Net total outflows to pay benefits for the one-year ended September 30, 2017, were approximately \$1.5 billion.

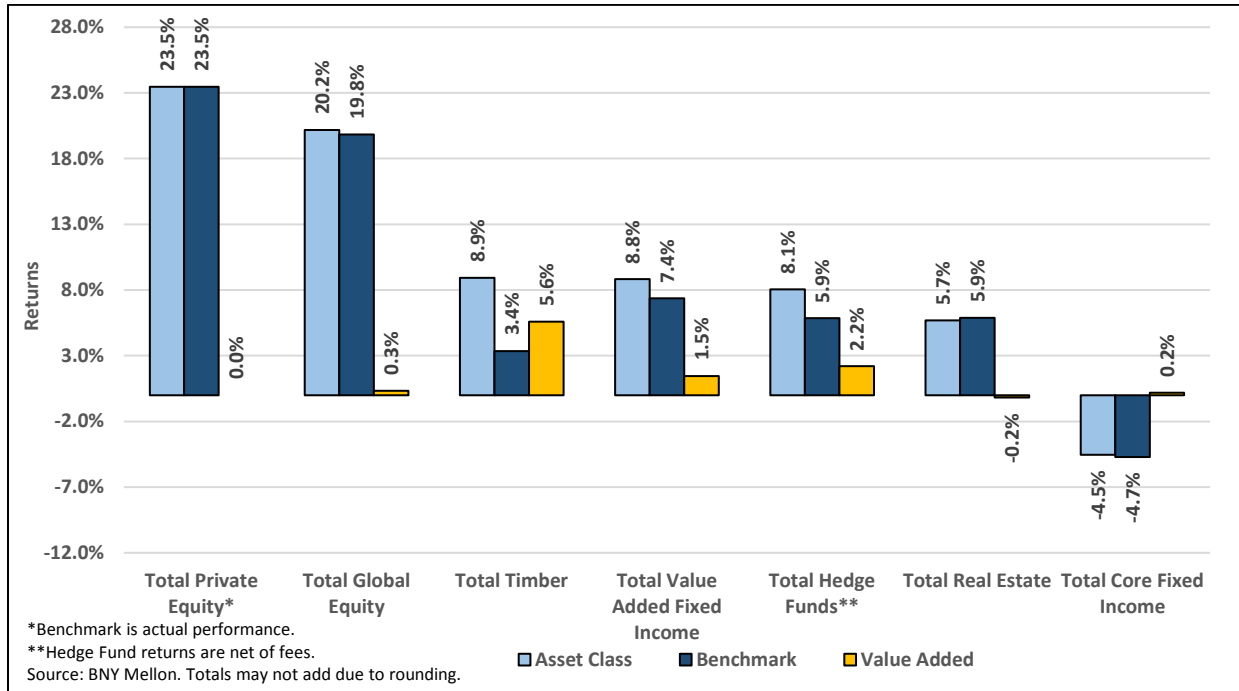
Mr. Trotsky referred to the following charts:

Total PRIT Fund Returns
Annualized Returns as of September 30, 2017 (Gross of Fees)



PRIT Asset Class Performance

Trailing 1-year Performance as of September 30, 2017 (Gross of Fees)



PRIT Core Fund Performance Summary

Trailing 1-Year Performance as of September 30, 2017 (Gross of Fees)

Trailing 1-Year Performance: Sept. 30, 2017	Return	Benchmark Return	Over/(Under) Benchmark (bps)	\$Value (millions)	% of PRIT Fund
Total PRIT Fund	13.0%	11.1%	187	69,496	100%
Total Global Equity	20.2%	19.8%	34	30,877	44.5%
Domestic Equity	18.6%	18.8%	(12)	12,910	18.6%
International Developed	18.9%	19.7%	(74)	12,411	17.9%
Emerging Markets	26.9%	22.2%	463	5,556	8.0%
Private Equity	23.5%	23.5%	0	7,350	10.6%
Real Estate	5.7%	5.9%	(19)	6,045	8.7%
Total Timberland	8.9%	3.4%	558	2,506	3.6%
Hedge Funds	8.1%	5.9%	220	5,536	8.0%
Value Added Fixed Income	8.8%	7.4%	145	5,446	7.8%
Core Fixed Income	-4.5%	-4.7%	18	8,653	12.5%

PRIT Asset Class Performance

Annualized Returns as of September 30, 2017 (*Gross of Fees*)

1 Year	3 Year	5 Year	10 Year
PRIVATE EQUITY 23.5%	PRIVATE EQUITY 17.2%	PRIVATE EQUITY 19.0%	PRIVATE EQUITY 12.8%
GLOBAL EQUITY 20.2%	REAL ESTATE 10.6%	REAL ESTATE 11.1%	VALUE-ADDED FIXED INCOME 6.7%
TIMBER 8.9%	GLOBAL EQUITY 8.6%	GLOBAL EQUITY 11.0%	REAL ESTATE 6.4%
VALUE-ADDED FIXED INCOME 8.8%	TIMBER 5.9%	TIMBER 7.5%	TIMBER 5.9%
HEDGE FUNDS (NET OF FEES) 8.1%	CORE FIXED INCOME 4.4%	HEDGE FUNDS (NET OF FEES) 5.7%	CORE FIXED INCOME 4.9%
REAL ESTATE 5.7%	VALUE-ADDED FIXED INCOME 4.0%	VALUE-ADDED FIXED INCOME 4.9%	GLOBAL EQUITY 4.6%
CORE FIXED INCOME (4.5%)	HEDGE FUNDS (NET OF FEES) 3.0%	CORE FIXED INCOME 3.6%	HEDGE FUNDS (NET OF FEES) 3.0%

Organizational Update

Sarah Samuels, CFA, CAIA, Deputy Chief Investment Officer, left PRIM to take a position as Managing Director at the Investment Office of Wellesley College, effective September 1, 2017.

Soon after Sarah's departure, David Gurtz, CFA, CPA, returned to the investment team to fill the role of Deputy Chief Investment Officer – Director of Public Markets, after more than two years as Chief Operating Officer (COO) and Chief Financial Officer (CFO).

Prior to serving as PRIM's COO and CFO, Dave served as Deputy Chief Investment Officer – Director of Risk Management, and is largely responsible for building the risk management program at PRIM. Additionally, as Deputy Chief Investment Officer, Dave played an important role in the due diligence and manager selection processes across PRIM asset classes, including in the public markets portfolio. His knowledge of the managers in the public markets portfolio will ensure continuity. Dave joined PRIM in 2008 and has been an invaluable team member in a variety of key roles.

Anthony (Tony) Falzone was promoted to Chief Operating Officer (COO). Tony will oversee PRIM's entire finance, operations, reporting, compliance and technology functions. Tony has more than 25 years of finance, investment operations and technology experience. He joined PRIM as a Senior Financial Analyst in 2006 from BNY Mellon Custody Services, where he directly supported PRIM for seven years. As Senior Financial Analyst at PRIM, Tony was responsible for real estate, timberland and private equity valuations,

fee calculations and reporting. He served in that role until 2009, when he was promoted to Director of Private Investment Accounting, responsible for the oversight of PRIM's alternative investments, including real estate, private equity, hedge funds and timberland. Also during that time, Tony returned to school part-time and earned his degree in Computer Information Systems. In 2013, Tony became PRIM's Chief Technology Officer. In that role, Tony upgraded and maintained PRIM's entire information technology infrastructure and designed and deployed PRIM's disaster recovery, business continuity, mobile device-management and cyber-security platforms. Tony is a consummate team-player, is well-regarded by the entire PRIM staff and brings a unique combination of skills and experience to his new role.

Deborah Coulter, CPA, was promoted to CFO. Reporting to the COO, Deb will be responsible for managing the PRIM Board's non-investment financial activities including: budgeting, corporate accounting, audits, taxation, cash management and office administration. Deb rejoined PRIM in April 2016, as the Director of Strategic Initiatives on the finance and operations team, to focus on a variety of initiatives, including developing procedures to comply with the new Public Records Law and implementing new human resources policies designed to broaden the diversity of PRIM staff. Deb has more than 25 years of experience in investment management, financial management and public accounting. Immediately prior to rejoining PRIM, Deb was the Assistant Controller in Corporate Accounting at the Baupost Group, a Boston-based absolute return investment manager. Prior to that, Deb was PRIM's Director of Finance and served as Interim Chief Financial Officer when our former CFO was on a medical leave of absence. And prior to that, Deb spent the majority of her 15-year career at Essex Investment Management as Controller and Compliance Manager.

Matthew Liposky was promoted to Chief Investment Operating Officer (CIOO). Also reporting to the COO, the CIOO is responsible for managing the PRIT Fund's financial activities including: investment performance reporting; investment accounting; compliance; and investment manager onboarding, including contract negotiation and administration (with PRIM's General Counsel). Matt joined PRIM in 2013 and has more than 10 years of experience in investment operations. Prior to joining PRIM, Matt was Senior Operations Analyst at Liberty Mutual Investment Group and Supervisor at BNY Mellon, where he directly serviced PRIM. Matt has been invaluable in the operational implementation of PRIM's award-winning managed account platform. During his tenure at PRIM, he has worked closely with the entire PRIM investment staff to successfully onboard all new investments and initiatives and to ensure that PRIT Fund performance reporting is timely and accurate.

PRIM will soon commence a search to fill two important roles, the Director of Human Resources (HR) and the Director of Information Technology. Deb and Dan Eckman, Director of Finance and Administration, have been splitting the role of HR effectively for the past 18 months.

In other organizational news:

Tim Schlitzer, CRE, CFA, Senior Investment Officer – Director of Real Estate and Timberland Investments, was honored earlier this fall with the Treasurer's Citation for Excellence. Prior recipients of the award include Chris Supple, Dave Gurtz and Paul Todisco.

Morgan Burns, an accounting assistant at PRIM, received his CFA Charter. This is a major accomplishment that requires passing three difficult exams and working in the industry for a requisite four years.

Carlo Scarpa, PRIM's help-desk specialist, passed the examination for the CompTIA Security+ certification. Carlo adds this credential to his existing A+ and Net+ certifications from the same highly-regarded organization.

Maria Clements joined PRIM as an Administrative Assistant where she will work closely with the Private Equity team. Maria joins PRIM from State Street Global Advisors where she was an Executive

Administrative Assistant, and prior to that Maria worked in administrative support and special education in the Rockport Public Schools. Maria has degrees from Endicott College and Salem State University.

Catalina Marino joined PRIM as an Administrative Assistant and will be at the front desk where she will serve as receptionist and also perform other office administration duties. Catalina started in July on a temporary basis before coming on board full-time in September. Catalina is a graduate of Eastern Nazarene College.

In the area of national recognition:

PRIM has been nominated for **“Team of the Year”** by Institutional Investor Magazine. The award will be announced in late November in New York at the magazine’s “Allocators’ Choice Awards.” The list of the half-dozen finalists includes some extremely well-regarded investment teams from endowments, foundations and corporate pension offices. The only other public fund finalist is the State of Wisconsin Investment Board (SWIB), which is another very innovative public fund. In fact, during the first phase of Project SAVE, SWIB was one of the funds PRIM staff (and Investment Committee member Tim Vaill) visited.

Eric Nierenberg, Ph.D., Chief Strategy Officer, has been nominated for the **“Next CIO”** at the same Institutional Investor Magazine awards event. He and other nominees will answer questions from audience members at the beginning of the evening. Audience members will then vote, based on the nominees’ answers, for the **“Next CIO.”** The winner will be announced at the awards dinner later that evening.

Trusted Insight, a global network of institutional investors, recently named Michael Trotsky, CFA, Executive Director and Chief Investment Officer, one of its 2017 **“Top 30 Public Pension Chief Investment Officers.”** After reviewing the performance of public pension funds across the country, Trusted Insight selected honorees based on superior 1-, 3, and 5-year performance and **“industry leading investment strategies.”**

Committee member Garlan Morse Jr., CRE, said to Mr. Trotsky: **“I totally support your efforts in compensation...it’s very important.”**

Ms. Hatton praised Mr. Trotsky for the quality of his succession planning around PRIM positions.

Mr. McCall said there are there is **“really no great momentum in the real estate market right now.”**

III. Performance Review and Market Update

Timothy Schlitzer, CRE, CFA, Senior Investment Officer - Director of Real Estate and Timberland, updated the Committee on performance in the asset classes.

Mr. Schlitzer informed the Committee that PRIM has been acquiring real estate very selectively and is a net seller year-to-date.

Non-core investments are generating strong returns for PRIM, while public REIT returns vary widely by property type and country.

Committee member Robert Gifford asked about PRIM’s search for a new real estate manager. Mr. Schlitzer said he planned to launch the search early in calendar year 2018.

Mr. Schlitzer said his team is focusing on: business planning, managing the investment pipeline and growing its sourcing network on the direct side.

Mr. Trotsky acknowledged the Real Estate & Timberland team for the quality of its direct investment business plan.

Regarding timberland investments, Mr. Schlitzer described that the United States market has become more “bifurcated” between the Southern and Pacific Northwest. He also described increased demand in Europe for black cherry wood.

The PRIM Real Estate and Timberland Committee meeting adjourned at 10:03 a.m.

List of documents and exhibits used during the meeting:

- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of May 8, 2017*
- *Minutes of the PRIM Real Estate and Timberland Committee Meeting of August 2, 2017*
- *PRIT Fund Performance Report*
- *BNY Mellon Gross of Fees Performance Report*
- *Real Estate and Timberland Portfolio Report*