COMMONWEALTH OF MASSACHUSETTS

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the November 14, 2017 Board Meeting

Commencing at 9:34 a.m.

In the

PRIM Board Offices

At 84 State Street

Boston, Massachusetts

I N D E X

I N D E X (Continued)

A P P E N D I C E S *

A. Minutes of the PRIM Board Meeting of August 15, 2017
B. PRIT Fund Performance Report
C. BNY Mellon Gross of Fees Performance Report
D. PRIM Board-Approved Compensation Philosophy
E. PRIM Board-Approved Incentive Compensation Plan
F. PRIT Fund Strategy Update Presentation
G. Reinsurance Market Overview
H. Risk Management Presentation
I. Real Estate and Timberland Performance Charts
J. KPMG 2017 Audit Results Report
K. Draft Fiscal Year 2017 Comprehensive Annual Financial Report
L. Proposed 2018 PRIM Board and Committee Meeting Schedule
M. September 2017 PRIM Operating Budget
N. Travel

*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
. James B.G. Hearty
. Peter Monaco
. Dennis J. Naughton
. Carly Rose
. Paul E. Shanley, Esq.

OTHER ATTENDEES:

. Michael Bailey, PRIM
. Patrick Brock, Admin. and Audit Committee Member
. Anthony Falzone, PRIM
. Nick Favorito, MSRB
. Alyssa Fiore, PRIM
. David Gurtz, PRIM
. Chuck LaPosta, PRIM
. Bill Li, PRIM
. Matt Liposky, PRIM
. Michael McGirr, PRIM
. Eric Nierenberg, PRIM

. Sue Perez, Treasurer's Office
. Luis Roman, PRIM
. Tim Schlitzer, PRIM
. Paul Todisco, PRIM
. Michele Whitham, Chair, Compensation Committee

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 November 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 9:34 a.m. Treasurer and Receiver-General Deborah Goldberg chaired the meeting.

TREASURER GOLDBERG: The Massachusetts open meeting law permits meetings to be recorded and states that the chair shall inform the attendees at the beginning of the meeting of any such recording; so accordingly, I am informing you all that Joan Cassidy, seated here to my left, is transcribing and also recording this meeting. And if anyone else in attendance today is recording the meeting, I would ask that you identify yourself now.

(No response.)

TREASURER GOLDBERG: I don't see anyone so far. Okay. Also, for the benefit of our stenographer and all those who are listening -- and I believe we have someone on the speakerphone, do we

not?
MS. WHITHAM: Yes.
MR. BROUSSEAU: Yes, Michele.
TREASURER GOLDBERG: Okay. Please identify yourself by name and speak clearly and audibly when you speak. Thank you, everyone.
And so the first item on the agenda, I would seek approval of the minutes, that the PRIM Board approve the PRIM Board minutes of its August 15, 2017, meeting, and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?
MR. SHANLEY: So moved.
TREASURER GOLDBERG: Is there a second?
MR. BROUSSEAU: Second.
TREASURER GOLDBERG: Discussion, questions, comments on the minutes?
Seeing none, all those in favor?
BOARD MEMBERS: Aye.
(VOTED: To approve the PRIM Board minutes of its August 15, 2017 meeting, and further to authorize the executive director to take all actions necessary to effectuate the vote.)
TREASURER GOLDBERG: Okay.

MR. TROTSKY: Thank you, Madam Treasurer.

TREASURER GOLDBERG: And now I'm going to echo your presentation.

MR. TROTSKY: Most of you in the room have already heard my organizational and performance updates either at prior committee meetings or at the very successful, I think, Client Conference last week, so I'm going to go through this very briefly.

Chris Supple is at a family funeral today, so he will not be with us, but we're in very good hands with the Treasurer and her general counsel, Sarah Kim, behind me if any legal issues should come up.

I want to acknowledge some committee members in the crowd. Patrick Brock is here. Patrick is on the Administration and Audit Committee, the Comp. Committee, and on the Hampshire County Retirement Board. Jim Quirk represents 11 systems throughout the state. Welcome Kevin Blanchette, behind him, from Worcester Regional. And also Nick Favorito I think is here -- yes -- from the Mass. State Teachers Retirement Board. And Erica Glaster, nice to see you, from the teachers, nice of you to be here. And am I missing anybody?

(No response.)

MR. TROTSKY: Good. Well, welcome.

MS. WHITHAM: Michele Whitham on the phone.

MR. TROTSKY: Michele Whitham's on the phone. Thank you. She is also on the Administration and Audit Committee and Comp. Committee. Thanks for joining us.

So as I said, the Client Conference -- I saw many of you there last week -- was well-attended and well-organized. Thank you to Paul Todisco and Francesco and everybody else who helped organize it. I think it came across really well. Some of you were there. And thank you for your kind words of support in the introduction to the agenda.

One last advertisement, for a groundbreaking this Thursday afternoon for our real estate development project called Mass + Main in Central Square, Cambridge. The Treasurer will also be offering some comments, and it will be well-attended by several committee members.

TREASURER GOLDBERG: And there will be good food.

MR. TROTSKY: I think they will have good food. It's a great project. And again, if any of you wants to come, please see me about it, and we'll sign you up. It's at 3:30, I believe, on Thursday.

TREASURER GOLDBERG: Yes.

MR. TROTSKY: As you know, the September quarter was strong. I'll quickly review markets and the PRIT Fund's performance shortly, but also another opportunity to give those who haven't heard it a quick recap of some of the organizational changes we made in the quarter. And it was a busy quarter.

I remind you that we are very fortunate to have had only one senior departure on our team in the last four years; but as you know -- it was announced already -- we recently had our second departure. Sarah Samuels, our former deputy chief investment officer, left PRIM to take a position as managing director at the investment office of Wellesley College effective September 1. You know her well; you know her contributions were truly exceptional, and we miss her deeply.

Soon after Sarah's departure, we

announced that Dave Gurtz -- Dave, where are you? Oh, you changed seats today.

TREASURER GOLDBERG: He's trying to get tricky with you.

MR. TROTSKY: Dave returned to the investment team as deputy chief investment officer -- director of public markets after two years, more than two years as our COO and CFO. As you remember, Dave served as deputy chief investment officer -- director of risk management here prior to that role and is largely responsible for building our entire risk management program.

Dave joined PRIM in 2008, and he has been an invaluable team member in a variety of key roles and a very trusted and close advisor to me personally. I have the utmost confidence that Dave will lead this group effectively. And we're going to hear from Dave today in that role.

We also announced three promotions to fill the vacancy created by Dave Gurtz's return to the investment team. We're fortunate to have a deep bench of talent on the finance team from which to fill these roles; and as manager -- I've said it before, and I'll say it again -- there's no greater feeling than when I can promote from within into areas of leadership positions here at PRIM. And we were able to do that.

First, Tony Falzone -- where is Tony? Tony is behind me. Very, very apropos taking Dave's seat.

(Laughter.)

MR. TROTSKY: Dave moves to the investment side, and here's Tony. He was promoted to chief operating officer. Tony will report to me and 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 the PRIM account for seven years prior to joining PRIM.

He is the consummate team player, is well-regarded and well-loved by the entire PRIM staff; and he brings a unique set of skills and experience to his role. And we will also hear from him today.

Deb Coulter, next to Tony, was promoted

to chief financial officer. She reports to Tony. Deb will be responsible for managing PRIM's non-investment financial activities, which include budgeting, corporate accounting, audits, taxation, cash management and office administration.

Deb rejoined PRIM in 2016 as the director of strategic initiatives on the finance and operations team. She has more than 25 years of experience in the investment management, financial management and accounting fields.

Matt Liposky, next to Tony on the other side, was promoted to chief investment operating officer, CIOO. He also reports to Tony. Matt is responsible for managing the PRIT Fund's financial activities, including investment-performance reporting, investment accounting, compliance, and investment manager onboarding, including contract negotiations, where he works very closely with members of the investment staff and also our general counsel, Chris Supple.

Matt joined PRIM in 2013 and has more than ten years of experience in investment operations. Prior to joining PRIM, he was also a senior operations analyst at Liberty Mutual, and before that he worked for BNY Mellon Custody Services where he also serviced the PRIM account, so he's very familiar with that.

And the way I like to describe this is, think of Deb as the CFO for the PRIM Board and all our activities and Matt as the CFO for the PRIT Fund. In our parlance the PRIM Board manages the PRIT Fund, so it's a nice delineation of responsibilities. I went briefly through their backgrounds. Their complete work experience is detailed in your expanded agenda if you need more detail.

And last, please note that we'll soon commence a search to fill two new important roles, the director of human resources and the director of information technology to fill Tony's last role. Deb Coulter and Dan Eckman -- Dan, are you here? I think he's actually working on something for me in this regard in HR. Deb and Dan have been splitting the role of HR effectively for the past 18 months, but with these moves it is time to hire a full-time HR professional, and we're excited to do that.

Quickly, in other organizational news, Tim Schlitzer -- Tim, where are you? -- who heads

PRIM's real estate and timberland operation, was honored earlier this fall with the Treasurer's Citation for Excellence. Thank you, Treasurer. Prior recipients of this award include Chris Supple, David Gurtz and Paul Todisco.

Morgan Burns, an accounting assistant at PRIM, has received his CFA charter. Carlo Scarpa, PRIM's help desk specialist, just passed an examination for the CompTIA Security+ certification. A lot of work went into that.

Maria Clements -- Maria, are you in? Behind me, thank you. Maria Clements joined PRIM as an administrative assistant, where she will work very closely with the private equity team.

And Catalina Marino is new to the front desk. I hope you've had a chance to meet her. She started in July on a temporary basis, and we liked her so much in that role that we hired her permanently, and she's terrific.

In the area of national recognition, PRIM has been nominated for Team of the Year by Institutional Investor Magazine. The award will be announced later this month in New York at the magazine's Allocator's 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 we've often discussed with this board and the Investment Committee as another very innovative and successful public fund.

In fact, during the first phase of Project SAVE, SWIB was one of the funds that our staff, together with Tim Vaill, the father of Project SAVE, visited for two days to see how they do things, and we learned a lot. And as I've mentioned before, our team at PRIM is as skilled and innovative as any investment office of any type around the nation, and it is gratifying to be recognized with these kinds of awards so consistently.

Additionally, at the same Institutional Investor award event, Eric Nierenberg has been nominated for the Next CIO Award. We wish him luck as he answers questions from the audience. The audience will vote on who wins.

And lastly, in late-breaking news, Trusted Insight, a global network of institutional investors, recently named me as one of its Top 30 Public Pension Chief Investment Officers for 2017. After reviewing the performance of public pension funds across the country, Trusted Insight selected honorees based on superior one-, three- and five-year performance and, quote, "industry-leading investment strategies."

So that's the organizational update. I'm very happy to introduce the new people and some of the national recognition we've received. I was going to go briefly through markets and performance, but I'll stop here to answer any questions on organization.

TREASURER GOLDBERG: Any questions at all?

Hearing none --

MR. TROTSKY: Thank you. So moving on to markets and PRIT Fund performance, the September quarter was strong; and despite the frequent weather and political storms affecting the United States and the world, the overall economy is little changed. Economic indicators are still mostly strong, equity markets continue to move higher, often to new records, while bond yields remain low and inflation is largely absent.

The overall health of the economy remained on an upswing, even while several economic indicators were impacted by the storms recently. National employment measures, automobile sales, retail sales and home-building statistics all exhibited anomalies in the quarter but are expected to rebound, and many have already rebounded.

More importantly, the September 2017 quarterly GDP growth came in at 3 percent annualized, and that beat expectations of 2.5 percent and was only slightly down from the June quarter, which was reported at 3.1 percent and was also revised upward. The consensus GDP forecast for the year remains at approximately 2.1 percent, up from 1.6 percent reported last year. So slow, steady growth.

And just to remind you, financial markets around the world have performed very strongly, and I want to remind you of just how strong the performance has been. For calendar year to date, through September, the S&P is up 14.2 percent. Developed international markets -- that's primarily Europe and Japan -- are up 20 percent.

Emerging markets equity are up almost 30 percent, 27.8 percent, while bonds, diversified bonds, are up 3 percent and long-duration bonds in particular are up almost 9 percent.

And Q4 is also shaping up to be quite strong. Through yesterday the S&P is up another 2.8 percent; developed international markets up 0.7 percent; emerging markets up 4 percent for the quarter through yesterday; and bonds again are flat; and even long-duration bonds are up slightly.

So what's going on? What is the bond market telling us? Why are bond yields so stubbornly low while the economy appears to be strengthening? This is an issue that we discussed at great length at the Investment Committee earlier this month, and I offer a few conclusions for those who missed it.

Number one, economic growth is still quite moderate for a recovery: 2.1 percent projected for 2017, 1.6 percent for last year, and that compares to 2015, which showed growth of 2.6 percent. It's still a slow-growth environment. In fact, sentiment -- as we discussed, sentiment may be more robust than the actual underlying activity.

Number two, even after Fed tightening, bond yields try to go up, but quickly revert with a slowdown of credit issuance. We're seeing commercial and industrial lending slow every time interest rates try to creep up, and this is not a good sign of health in the economy.

Number three -- and I'm sure we all know this in the room -- incomes are low for most of the labor market. A higher percent of income is being used for shelter, rent and housing and insurance, health insurance in particular. And the savings rate around the nation is very low.

So we discussed that rates in this environment will probably stay lower for longer, which might in fact be good for our portfolio, as investors still have nowhere to turn but to equities, and that's why we think we're seeing continued relative strength in equities. But still, valuations of equities in particular are moving higher across the globe.

In conclusion, we believe our carefully constructed portfolio is appropriate for this environment. We are performing well even while for the last five years we have systematically been derisking our portfolio. And we know that periods like this can last for a very long time and it's possible to make a lot of money in these environments, but we also believe -- and this is important -- that it is not a good time to be taking on more risk, to be risking up the portfolio.

We are beginning to plan for our asset allocation study. I had some things to say at the Client Conference. I won't bother you with that today, but stay tuned in the coming months. I will have more to say about our asset allocation as we make these decisions in the early part of next year.

So let me now briefly go to PRIT Fund performance. I'll be referring to Appendix B, the performance report, and I'll start on page 2. And I won't go through every one of these slides; I'll just try to recap.

Page 2. You can see the PRIT Fund was up 13 percent gross for the year, and 12.5 percent net for the one year ended September 30, and that compares very favorably to a 60/40 mix of global stocks and bonds, which was up only 8.9 percent in the trailing year.

On the left you can see what worked, and you'll be hearing more about this from our asset class heads. That's later in the program. Emerging markets, private equity, international equities, very strong. On the right you can see for the one-year period duration sold off.

The next page, page 3, we ended September at an all-time high of $69.5 billion in the fund. We're over $70 billion now, sitting here today, so that's a milestone, an all-time high. You can see in the one-year period the PRIT Fund was up 13 percent gross, 12.5 percent net, and that outperformed the benchmark by 187 basis points gross and 138 basis points net. That translates for the year to a net investment gain of $7.8 billion, nearly $8 billion for the coffers, and importantly, $872 million above an index return.

You can see in the middle the three- to five-year numbers were very strong. In fact, the 8.1 percent is in the top 10 percent of our peer group, and we're proud of that. And even the five-year number is in the top 20 percent of our peer group. And of course, the ten-year numbers -- we're still suffering from the hangover and the sharp downturn caused by the world financial crisis.

I will remind you again that we're particularly proud of this performance, especially over the past five years, because we have systematically taken a lot of risk out of the portfolio, mainly by reducing our allocation to global equities to a target of 40 percent today.

The next page, page 4, you'll see that six of the seven asset classes outperformed their index. Again, you'll hear from each asset class in more detail, the asset class head, later in more detail on their portfolios.

You can see that private equity, global equities and hedge funds were relatively strong, and I wanted to point out that they lead the way. They are, in fact, the largest three contributors to our relative outperformance.

And I'll end the recap of performance by looking at my favorite slide, the quilt chart, on the next page. You can see private equity consistently at the top of all time periods. Global equities are strong for all periods except the ten-year number, where you can see it's near the bottom. That's a reminder to all of us, or should be a reminder to all of us, that equities are very volatile, and we have that in mind as we go forward with our asset allocation decisions.

You can also see that timber and real estate were very strong performers in all time periods, and I find timber very interesting because timber was a very strong performer even for the ten-year number, which includes the world financial crisis. And if you remember, the world financial crisis was largely caused by a housing crisis, which has -- housing has a huge demand on timber. So we're proud of that performance. And you can see that hedge funds -- and Eric will be talking about this later -- are improving.

So I will stop there and take any questions on performance, and then I have a few general comments on compensation, our next topic. I am required to give you an update yearly on our compensation. I'll do that next following any questions on performance.

MR. BROUSSEAU: Fast question, Michael. Maybe you have a figure; I don't know; maybe you or Paul have it. Since inception of PRIM in 1984, what are our returns on an annualized basis? Do you have that figure?

MR. TODISCO: 9.4 percent. I think it's 9.4.

MR. BROUSSEAU: It's still at 9.4 percent. Even with the ups and downs and all the things that have happened with our expected returns, 9.4 percent over 30 years is very good. I think we've been meeting our objectives.

MR. TROTSKY: Anything else?

(No response.)

MR. TROTSKY: Shall we move on?

TREASURER GOLDBERG: Yes. Well, I do want to make one comment. It's exciting that we can now say 70 --

MR. TROTSKY: Yes, it is.

TREASURER GOLDBERG: -- because I've been avoiding saying it. I'd say, "Well, just about 70." I was waiting for the magic number to pop up. So congratulations on that.

MR. TROTSKY: I remember crossing 40, 50, 60 and 70 since I've been here, so it's been exciting. And that was in the aftermath.

MR. HEARTY: I can remember crossing 10.

MR. TROTSKY: It's nice.

TREASURER GOLDBERG: Jim, you're way too

young to remember that.

MR. HEARTY: Thank you.

TREASURER GOLDBERG: You're welcome.

Okay. So since there are no questions on that, we will turn to the Compensation Committee report, and I'm assuming -- oh, wait.

MR. TROTSKY: I do have some comments on that as well.

TREASURER GOLDBERG: Oh, I'm sorry.

MR. TROTSKY: I am required to update the board on --

TREASURER GOLDBERG: What am I missing?

MR. TROTSKY: Nothing.

TREASURER GOLDBERG: Okay, all right.

MR. TROTSKY: Yes, will do. So just some general comments regarding our compensation philosophy and plan here at PRIM. As you know, we're fortunate to have the talented staff that we have today. Others in the industry are emulating our innovations, and many envy our high performance.

Our fund has consistently outperformed, and even outperformed substantially in a very strong market; and our team, as you know, continues to receive worldwide recognition for the innovation and success of our investment program and for the transparency and completeness of our financial reporting.

As you know, I'm able to announce at virtually each and every board meeting the new accolades and awards that our staff members receive and the credentials that they have earned over the last quarter.

Many of you have worked closely with this staff. It's second to none in the industry, both private and public, in my opinion. And it has been called the best staff in PRIM's history -- sorry, Jim, but it has been called that; I didn't call it that, the best staff in PRIM's history. And we should all be very proud of this.

But as I've reported to you, retention and recruitment of key employees remains my primary concern, and I am spending more and more of my time on retention and recruitment issues. In fact, I spent several hours last night with one particular issue.

The employment environment in the nation and in the region is very strong. There are ample and numerous opportunities for our employees outside of PRIM. The success of our program and the talent within our organization are very well-recognized both locally and across the nation and even globally in some cases.

The challenging part of being so successful is that the recruiters, peers and poachers take notice. They take notice. We must be vigilant to ensure we provide a challenging and rewarding opportunity for all our employees and a culture and a work environment that our employees value.

It's not all about compensation. I get that; I know that. And we have developed, and we continue to develop, internal programs such as the PRIM Professional Development Program, where we rotate high-performing staff members through different areas at PRIM. We've extended parental leave. We have flexible work hours for some, and a unique and satisfying internal culture that is built on internal promotions such as those I announced today; investment program innovation, nation-leading investment returns, continuing education for all; and, above all, I think we have a very interesting and satisfying workload here across a variety of different investment strategies and, most importantly, a group of people here around the periphery of the room who are likeable and interesting and like each other and bring out the best as we work as a team. It's really a great place to be.

But we never rest on our laurels. We strive to be better investors every single day. And that's fun for most high-performing people in this industry. They always want to try new things, learn new things and push the program forward, and we do that every day. It's part of who we are.

But make no mistake, please make no mistake; compensation does matter, and in that regard we can ill-afford to be complacent. We have been lucky with relatively low turnover, but it is becoming more difficult to attract and retain talent in this market.

What we all need to recognize, unfortunately, is that turnover will occur with our highest-performing staff members first as they will likely be the first targets of the recruiters, peers and poachers.

I also believe that turnover will

disproportionately impact our diverse candidates and diverse employees because all private sector employers in our space, in the investment management industry, are targeting diverse candidates, and that pool from which to choose is not large. It is hyper-competitive for diverse candidates and diverse employees.

I was just at a CFA-sponsored diversity and inclusion roundtable last week -- Tony and I were both there -- where at least ten very high-paying, competitive firms from the Boston area were in a room identifying the same problem. So that's what we're up against.

The compensation philosophy and plan that was first approved in December of 2012 and reaffirmed in 2015 is generally working well, but I worry about its long-term effectiveness, and I recommend -- and you'll hear later today -- that it be reviewed early next year with an eye toward enhancing it.

The philosophy itself is nearly six years old, the ranges are more than two years old, and we have been told by our compensation consultant that the current ranges, on average, have increased.

The problem is more acute with senior investment professionals here, where I expect these individuals to be at or near the high end of their ranges after adjustments this year, which we're making this month. However, the current ranges do not reflect where these employees often end up. These employees do not leave PRIM for another public pension plan around the country; they leave PRIM for opportunities in endowments, foundations or the private sector investment management industry, where there is still a significant compensation gap.

An Investment Committee member once said to me, and I love to quote this every year -- it's important to remember this -- quote, "Having almost 50 years to think about retention issues in the investment business, I have concluded that the ability to attract talent does not assure you of superior results, but consistently failing in retention and recruiting efforts is a sure method of achieving poor results and even failure." And I couldn't say it better. I love to say that every year. The 50 years kind of gives away who it might be.

And last, I want you to please remember

that compensation here at PRIM is a very small component of our overall cost structure. It is approximately 2 percent of our total cost structure, which is $350 million a year, or 1.34 basis points in total. The remaining 98 percent of our cost structure is essentially paid to Wall Street, to our outside investment managers, consultants and other providers outside these four walls of PRIM and, in most instances, outside the Commonwealth of Massachusetts.

However, even though compensation is a very small part of our overall cost structure, it is the single best and most important investment we make every year, I believe. We are asset managers above all other things here, and our staff is our most valuable asset. They have enabled -- every one of them has enabled -- the innovation and success that we all enjoy.

So thank you for providing the tools necessary to help me build this great team here at PRIM, but let's not ever get complacent. I think we all have a little work to do in this regard.

TREASURER GOLDBERG: Okay. So the next item on the agenda, which is a voting item, is the individual performance.

MR. BROUSSEAU: Well, we'll do a report of the committee, and I'll be offering the motions.

TREASURER GOLDBERG: Okay.

MR. BROUSSEAU: Thank you very much. This is the annual report of the Compensation Committee. And before I even get started, the chair could not be here today, but she's on the speakerphone. And I would say, Michele, would you like to say anything before we get started?

(No response.)

MR. BROUSSEAU: Michele? I thought she was on.

MR. TROTSKY: She was on.

MR. BROUSSEAU: I don't know whether she hung up or not, but anyway, what I would like to do, first of all, is introduce the members of the Compensation Committee.

Michele Whitham, who is on speakerphone, or should be on speakerphone, is the chair of the committee and has been since its inception in 2011, when we did the massive amount of work for about a year and a half that produced the plan that we have now.

Also serving on the committee is -- the Treasurer is a member of the committee. I'm a member of the committee. Patrick Brock also is a member of the committee, and Joseph Connolly, who is not here but is in Norfolk County, is a member of the committee. So there are five of us.

And annually, of course, we meet, and we have to make a recommendation, according to our charters and also by law, on the salary of the executive director; and that is done annually because you must approve his incentive compensation, as well as his salary. And those are the things that I'm going to be talking about today.

First of all, I think if you're --

MS. WHITHAM: Bob?

MR. BROUSSEAU: Yes, Michele. I introduced you to say a few things. Go ahead, Michele.

MS. WHITHAM: No, that's fine. I was knocked off the line, so you should continue, but I'll jump in as I feel is appropriate.

MR. BROUSSEAU: Okay. I just introduced the committee.

MS. WHITHAM: Excellent.

MR. BROUSSEAU: Okay. You want me to continue?
MS. WHITHAM: Yes, please.
MR. BROUSSEAU: Okay, thank you, I will.
For those of you who are looking at the appendices, we have -- Appendix D and E are the two that you would find these documents; but actually, in your expanded agenda it should be pages 8, 9 and 10. And really the meat of it is on pages 8, 9 and 10. We put D and E in there for your information, if you wanted to look at it. One of them is the compensation philosophy. The other one is the incentive compensation plan that we have for all of our employees.
First of all, 80 percent of the incentive compensation is based on the PRIT Fund's trailing three-year policy return performance versus the PRIT Fund's benchmark.
Also, there is a second component. There's an individual performance component with a weight of 20 percent, and this is determined as part of the employee's annual performance review.
The Compensation Committee voted unanimously on November 2 by a vote of 5 to 0 to

recommend that the board approve 1.00 as the executive director/chief investment officer's performance multiplier based on his exceptional and outstanding performance.

Those of you who were here in August when I did the annual report for you or led the discussion on Michael's annual evaluation know some of the things that I mentioned, and also those of you who were at the November 2 meeting of the Compensation Committee would have heard this. So I'm being rather brief here because I don't want to be repetitious because you heard this.

But in the assessment of Michael's performance, we heard many, many terms; and a few of the ideas that came through are: That Michael is innovative; our peers are emulating us, as we heard here again today, and that is only a sign of the best flattery they can give you; accolades to our staff, the awards -- and again, congratulations, Michael, on being nominated as the CIO of the year; he's open to new ideas; he works well with committees; he's established a client committee of client members so they can bring input into PRIM through him; he excels in his role as both the executive director and the chief investment officer; he's intelligent, hard-working, prudent, thoughtful, bold; he's a mentor. And I think we could go on. And you can see, PRIT is in the top quartile of all public pension funds with the returns we've had over the last three years, I believe. Okay? So he's done very well.

So the motion I'd offer today is that the first thing that we do is vote for the incentive compensation component in his salary of 1.0, and I will entertain a motion to that effect.

MR. SHANLEY: So moved.

MR. BROUSSEAU: Is there a second?

TREASURER GOLDBERG: Second.

MR. BROUSSEAU: Thanks, Deb.

TREASURER GOLDBERG: All those in favor -- or any discussion -- excuse me -- discussion or comments before we do that? Discussion? Comments?

Seeing none, all those in favor?

BOARD MEMBERS: Aye.

(VOTED: To approve the incentive compensation component in the executive director/chief investment officer's salary of 1.0.)

MR. BROUSSEAU: Now, the second part here is Michael's final salary. The Compensation Committee, we met for a long time, because as Michael mentioned earlier, this plan has been in effect since 2012. We have employed a very, very capable consultant, McLagan Associates. They assisted us originally with establishing the plan that we have and with the idea that this should be reviewed at least every three years because we know, and as Michael mentioned this morning, the market changes.

And as you all know, Boston is the second largest financial market in the country; and having said that, we know that the competition for talent is unbelievable. We witnessed it again this fall. We saw the deputy, our deputy CIO, leave PRIM to go to a college endowment and left, and I'm quite sure -- I do not know, but I'm quite sure that salary was a big component of this, which possibly we could not meet.

So after considering all this, the committee, in discussing salaries and Michael's salary, we were unanimous in our understanding of what we should do, but the question was more a feeling of the committee that this is an issue that we have to probably revisit soon.

Well, the Compensation Committee voted unanimously, 5-0, on November 2 to recommend that the board approve an increase of $40,000, which is a 9.3 percent increase, to the executive director/ chief investment officer's annual salary, effective December 1, 2017.

Now, to add a little bit to this, the Compensation Committee again noted that -- the committee recognized the performance, the accomplishments, the expertise, and the experience that Michael has of more than 25 years in the investment industry, and that being the executive director requires that he be placed at the very top of the salary range in the range that we have.

The committee agreed that the executive director/chief investment officer's salary should be adjusted to move nearer to the top of the range over time, based on continued high achievement and outstanding performance. Michael has earned outstanding performance evaluations over the last three years, both for his roles as executive director running a complex organization and chief investment officer overseeing a fund that we heard today is now at $70 billion.

The PRIT Fund is performing extremely well both in absolute terms and relative terms to its benchmarks. Michael has assembled what is widely regarded in the organization today as probably one of the finest staffs that we've ever had and in the industry.

PRIM's investment program, our finance operations, our legal operations, are earning frequent national recognition -- again, as we heard today -- and the relationship Michael has cultivated with the board and the committee is extremely productive and healthy.

For all of these reasons, Michael deserves a salary at least at the top quartile of his peer group. The salary increase the Compensation Committee is recommending is a step in that direction.

And as you know, a few years back the ranges that McLagan gave us for his position went from I believe $345,000 to $525,000; and two years ago we agreed we couldn't make this giant leap in one step. So we granted Michael a $35,000 increase as of December 1 of 2015, and in 2016 we added the other 35,000 to bring him where it is now, I believe at $430,000, if I'm not mistaken. So the range goes to $525,000. Michael is still far below the range of where the raise should be for this salary.

So the motion that I'm making and asking for today is that the board approve a salary adjustment of $40,000 -- an increase of $40,000 per year in the executive director/chief investment officer's salary.

MS. WHITHAM: And Bob, if I could add --

MR. BROUSSEAU: Yes.

MS. WHITHAM: -- I've been able to get back on -- I think it's important also to put this in the context of the Compensation Committee having established -- and I think Michael referenced this earlier, that in 2018, we really are obligated to take a fresh look. We haven't sat on the plan; we've reviewed it every three years, and we'll be doing that again soon.

MR. BROUSSEAU: Thank you, Michele.

Madam Chair, we offer that as a motion, if somebody would make it.

TREASURER GOLDBERG: So moved.

MR. SHANLEY: Second.

MR. BROUSSEAU: Okay. Is there any discussion?

MR. NAUGHTON: No, I just want to comment.

TREASURER GOLDBERG: And I will at the end have a comment.

MR. NAUGHTON: Okay. I think always here we look for value as opposed to cost or front cost, and I think Michael is maybe the best example of a great investment for the de minimis cost out of the whole amount the PRIT Fund has and brings in. A $40,000 raise is like nothing for the value that he brings. That's my comment.

MS. FITCH: Can I make a comment?

TREASURER GOLDBERG: Yes.

MS. FITCH: I think that especially for investing for public employees, which PRIM does, it's important to be at the top of the house, in a sense, with all of the skills and compensation that our PRIM employees have and should get, because these investments that we're making and the work that we are doing is aimed at public employees, which is very different than private investors. So

I think that this is more than deserved. So that's my comment.

TREASURER GOLDBERG: Any other comments?

MR. BROUSSEAU: I would add one more thing. The comments I just went through came out of the Compensation Committee, but personally, having been here a very -- I hate the words "very, very," because it reminds me of somebody who is using them more than possibly the person should at this point, so I will abstain from using it.

But from 2000 until 2011 -- and Jim was here and he knows -- we had, as far as I'm concerned, a flood of people who left this organization, which amounted to eleven top people. Don't tell me it wasn't because they weren't happy here. Salary was a big part of that. Of the eleven who left, only one went back to the public sector. All the others were hired in the private sector at salaries that we could not match.

And with this change in 2011 and the new philosophy and the incentive compensation plan and the fact that we gave Michael the tools to deal with this and with the staff is when the turnaround started. And there's the fact that in the last seven years that he's been here, we've lost one key person, and that was this fall, unfortunately. And I think salary becomes a part of it, so I think that's important to note.

TREASURER GOLDBERG: My turn? Anyone else want to say anything before I speak?

MR. BROUSSEAU: Your turn.

TREASURER GOLDBERG: Okay. The loss of this key person was brewing over time. And from the beginning of those discussions, which were for two years, we were painfully aware of the dichotomy in salaries locally to what we were paying here.

I want to share that I get a lot of feedback from people on the Investment Committee and other committees -- real estate and timberland -- about their concern about our -- and these are people out in the private sector who really see a snapshot of what's going on here in Massachusetts and who were very, very concerned -- about keeping the stability of our staff here at PRIM.

People are the key to our success. There is absolutely no doubt about it. The stability that's occurred, the talent that you see around this room, the innovation that we have here that you see in every individual that -- you know, I can't see behind me, but I'm talking about all of you.

Part of the reason for that is because of who leads the organization, and we are battling a -- you know, it's sort of like we're the folks that are on the other side of the dike, and we're like the little Dutch children sticking our fingers in the dike.

Now, we've got to remember, at the end of the day, we have a duty to both our retirees and our taxpayers. Our percentage of compensation to our total expense structure is minimal. Yes, if you're going to compare it to something completely different in state government, it may not look appealing to you; but then again, there are very few people in state government managing $70 billion in assets and having returns at the level that we're having.

And so for me, observing this over time and being acutely aware of hiring policies and investment in people and what turnover does to an organization, and why I've expanded within treasury overall so many HR policies to make sure that doesn't happen to us too often, is we've noted that outside of PRIM talent is being courted and snatched away, and it's always very disruptive to us in so many ways.

So Michael is not at the hundred percent, at least not based -- and definitely not based -- on the McLagan study, because I have a feeling with what's going on in the world, the value of those managing is going upward, because in this volatile and sort of strange environment we're in, and I think it's great that we've derisked the portfolio, because I am getting two-times-a-day reports on the progress of this tax bill down in Washington and what that may do to so many things going on there, and it's not all good, trust me -- that having stability and derisking in this portfolio is a key component.

So consequently, my basis for supporting this and voting for this is that it's our job as a board to have stable and experienced and secure staff to succeed in this extraordinarily competitive and uncertain environment. And the results that we're seeing, and being in those upper centiles, whatever those words are -- I say 10 percent --

MR. TROTSKY: Deciles.

TREASURER GOLDBERG: Deciles -- where we are in terms of our peers -- I am an officer of the National Association of State Treasurers. I have people coming to me and saying, "What is PRIM doing? We're really interested."

MR. TROTSKY: Don't tell 'em.

(Laughter.)

TREASURER GOLDBERG: You laugh. I actually threatened a couple of them last week, "Hands off."

But I also have to talk to people around Boston, because Marty Walsh just stole Sue Perez's second in command, Drew Smith. So I'm living this, and I don't want to see any more of it; and if this is one step in the right direction, I absolutely -- and Michele mentioned that we must have McLagan back in here to redo this so we stay up to date. For those reasons I absolutely support this, and I recommend it to everyone on the board.

MR. BROUSSEAU: Now we need a motion.

TREASURER GOLDBERG: All right. So no one else wants to comment?

MR. BROUSSEAU: No.

TREASURER GOLDBERG: Then we have a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve an increase of $40,000 per year in the executive director/chief investment officer's salary.)

MR. BROUSSEAU: One last thing.

TREASURER GOLDBERG: Yes.

MR. BROUSSEAU: Right in line with what you were stating, Madam Treasurer, the committee also had a discussion as -- we usually meet once a year in November. It dovetails with the Admin. meeting.

TREASURER GOLDBERG: Right.

MR. BROUSSEAU: And looking at the information we got from Michael and the fact that we have not had an update from McLagan in three years, the committee decided unanimously, again, 5 to nothing, that we need to fast-track a review of the compensation philosophy and plan with an eye toward improving it. The committee voted unanimously to begin this work in the first quarter of 2018.

So we'll be contacting McLagan, the committee will be meeting, and we'll decide what we're going to do, if we're going to alter the philosophy on incentive costs. And we need information from McLagan. So stay tuned. The committee will report back to the board as soon as we have information and if we have to make some changes or recommend changes.

MS. WHITHAM: And relating to that, Bob, if I can add to that, this is now our -- we've done a three-year review. We're about to do another three-year review. But that's six years. And my view as chair of that committee is we ought to step back and not be afraid to open all the kimonos and take a fresh look at what we're doing.

TREASURER GOLDBERG: Let's let Mr. Monaco reply.

MR. MONACO: Yes, if I may, Bob. It's slightly tangential but nevertheless germane, I think. As long as we're talking about intellectual capital, resources and compensation, I would like to add that even though there is a little bit of a movement afoot to add to our resources, I personally think there should be even greater emphasis on that.

In the time I've been here, I've been an advocate for PRIM being top of broad class in compensation not only among our senior investment officers, but across the organization, whatever the role, and it sounds like there's consensus around that.

I think we also all generally agree that PRIM does an awful lot with relatively little, and the organization would be really well-served and so, too, all its constituents, if we could deepen the resources and deepen the bench. And if we do so, we actually leverage the skill set and the time of all our senior people. We also help develop more our senior people because they get to manage people. And however competitive we are on pay, there's always going to be turnover, and the deeper the bench we have, the more prepared we are for that eventuality.

It's a bit of a statement of the obvious, but as we're talking about senior-level pay here mostly today, I just think we should be looking to add more talent across the board.

TREASURER GOLDBERG: I totally agree. And one of the things we've talked about in the meeting, but because it wasn't a voting item today, is that as we go down, a lot of those folks are at the very upper level of pay scale and so why it's even more important that we do this work for this coming year.

Public pension funds tend to lag because of the visual, and that's why I clarified that you really can't compare this to other places within state government. It's not a fair analogy because of the responsibilities we have and what we have to accomplish.

So I thank you for that added value, and it's definitely -- I want to make it very clear; I get emails from a lot of people who become engaged in this organization and then look at the compensation structure versus how talented and how deeply people are involved in the work itself.

So with that I think that we have a consensus here on moving forward. Michele, I thank you for joining this part of the conversation. Can you hear me?

MR. BROUSSEAU: Michele?

MS. WHITHAM: Yes.

MR. BROUSSEAU: Yes.

MS. WHITHAM: Yes.

TREASURER GOLDBERG: And so, Bob, conclusion?

MR. BROUSSEAU: That is all I have to say.

MR. TROTSKY: Well, thank you very much for your support. Thank you very much for the raise. It means a lot to me. It's symbolic to the rest of the staff as well, and I appreciate everything you've said and the support that you continue to give PRIM. So thank you.

TREASURER GOLDBERG: Thank you. So next on the agenda is the investment report, which is exactly why we're doing this again.

MR. GURTZ: Good morning, everybody. I'm David Gurtz.

BOARD MEMBERS: Good morning.

TREASURER GOLDBERG: And you didn't want to walk from back here.

MR. GURTZ: I know, that's right. In my previous role I think I would normally say good afternoon, but --

(Laughter.)

TREASURER GOLDBERG: But Tony has

learned -- Tony and Deb know how to say good afternoon.

MR. BROUSSEAU: When you were there last, you said we were going to change this order so that Administration and Audit could go first so we weren't always in the afternoon.

MR. GURTZ: I was not very successful in that. But good morning, and before I highlight, very briefly -- as Michael mentioned, we've got a full agenda, so I'm going to be very brief on the public market performance update -- but I just wanted to highlight some of my key initiatives and areas of focus and research that we're going to be embarking upon in the public markets area.

I'm excited to join the team. We've got a great team. I'm joined by Chuck LaPosta over here to my left and Dr. Andre Clapp over there, and we've got -- the two other analysts are -- oh, right over here -- Andre Abouhala and Andrew Gromer over here. So the public markets team is an impressive group of people.

But as Peter Monaco just mentioned, my first initiative and my first step as director of this team has been to assess our needs in terms of staffing on the public markets team.

I've spoken with each member of this team to get a better sense of their workload and their areas of interest in order to present to Michael any staffing needs I think we have. So I'll be doing that later this year.

Second is to continue to source other credit opportunities. We've had great success so far in working across asset class teams and risk to meet, discuss, vet and ultimately present investment recommendations for this new bucket. Chuck will be recommending our very first one in a few minutes.

Other credit opportunities is a new 2 percent allocation within our value-added fixed income asset class. And as I said, Chuck will be presenting the first one today.

Researching other credit opportunities is having the added benefit of cross-team collaboration. The private equity team, real estate team, PCS team and risk have all been working together with the public markets team to meet, review, and to conduct due diligence on all these potential OCO investment managers. The close collaboration in and of itself has been a great success as we all collectively learn from each other, but more importantly, I hope that the PRIT Fund will obviously benefit from great managers that we will be recommending in the future. Frankly, I see it as one of my jobs, my key jobs, to ensure that we work very closely across all asset classes to present new good investments to this board.

Third is simply just a review of what's working and what's not working within our equities and fixed income portfolio. With Project SAVE embedded in my DNA and the organization's DNA, that's simply asking are there better ways to invest in these asset classes. Specifically, we are researching enhanced beta or smart beta products, the use of global managers versus country or even sector specialist managers, our passive/active split within equities, and researching the use of U.S. micro-cap equities. So we'll be presenting our findings and recommendations in the coming meetings to this board.

And lastly, I'm working very closely with Mike Even on Project SAVE, Phase II, to do the research for internal investment management, so he and I have been working very closely to decide if there's ways to bring in investment management here at PRIM within public markets.

So I'm happy to answer any questions on these initiatives but, more importantly, talk offline with all of you about these initiatives, and I'm excited to be working more closely with the Investment Committee going forward.

So with that, Im going to be very brief and highlight a few of the key themes that drove performance of the PRIT Fund, specifically the public markets. I'll be referring to Appendix B. On page 6 is our Sarah Samuels's perennial garden chart; and as you can see, there's a lot of green, which is fantastic for us. And certainly the themes that I'm going to be highlighting are not new. These are the same things we've been talking about for the last 12, 18 months now.

First, there's a lot of green, and that's really thanks to steady global growth continuing to boost risk assets.

Second, the Fed continues to tighten very slowly and methodically, and thus our interest-rate-sensitive investments have fallen over this time, i.e., the long U.S. Treasurys there at the bottom

And third, which is not necessarily shown directly on this, but volatility has been extremely low over this time period. In fact, a number of different metrics and measurements are near historical lows in terms of volatility.

Flipping very quickly to page 7, our global equities portfolio, you can see on the left-hand side emerging markets posted the strongest one-year performance, returning nearly 27 percent gross of fees, with strong performance both in absolute and relative terms. Nearly all of our emerging market equity managers have beaten their benchmarks over this time period net of fees, so they did a fantastic job over this last year.

Flipping on to page 8, you can see that credit managers on the left-hand side have done very well during this period of time while interest-rate-sensitive assets on the right-hand side did not perform as well. So in particular, STRIPS for the one year fell over 9 percent; however, as Michael mentioned, in the calendar year to date through yesterday, it's actually up 9 percent, so the fourth quarter of 2016, which was very -- was a difficult time period for STRIPS, but since then it's done very, very well and performed very strongly.

So with that -- it was very brief, very quick -- I'm happy to answer any questions, myself or my team.

MR. BROUSSEAU: David, question: Is it your responsibility -- I guess there is a -- you're working on considering bringing more of our investment stuff in-house? Where is that?

MR. GURTZ: Yes, I'm working with Michael Even to kind of see how our peers do it and does it make sense for us to do it, and if it does make sense, where would we start. And so that's really the conversation that we're at right now.

A lot of our peers, being of similar size or larger, manage assets internally. They manage a lot of assets, passive equity and cash products internally, and we don't necessarily think that's a great use of our time and energy, so we're looking at other areas that would be more useful and impactful to the organization. So that's kind of where we are at right now.

MR. TROTSKY: And I think where we're leaning, really, is to grow it organically as ideas come forward; and the best example really is in Tim Schlitzer's area, in real estate, where he acquired some properties directly without paying investment manager fees. We get helpful due diligence from consultants, and we buy properties, including that parcel of land in Santa Clara, California. This is direct investment, and it saves -- in this particular case it saves $11 million over the course of the investment, and I don't think we lose anything.

So that's an easy lay-up kind of an example where you're looking for more in real estate. And then Dave's team -- it's a little more thought-provoking, if you will, because, you know, Dave mentioned passive management. We pay very, very low fees for passive management. It's below one basis point for some of our index funds. The cost of making a mistake in a $30 billion index portfolio versus that kind of fee savings is probably not worth it. So we're more focused on high-cost areas rather than low-cost areas, and our general thinking now is that we're going to continue to identify one-offs and build it organically.

TREASURER GOLDBERG: That is a good,

cautious way to do things.

MR. TROTSKY: Yes.

MR. NAUGHTON: I have a question, and before I ask it, I want to say that I appreciate the tremendous care that the team takes in selecting all of our investments.

The question is, in terms of our targeted 40 percent for equities, do you have any sort of projection as to when we're going to get to that level?

MR. GURTZ: Obviously, we're overweight right now, and that overweight is really driven by the fact that we're underweight in all the illiquid asset classes of the organization, so private equity, real estate, PCS. So the challenge is where you put the money, and so -- because really the only two leverages out that we have in terms of liquid asset classes are equities and core fixed income. We have been overweight in global equities for a while. As we see more investments on the PCS front, that will come down naturally, but we're not going to make any dramatic shifts just to bring it down. It will be a slow process.

MR. NAUGHTON: I appreciate what you're

saying.

MR. TROTSKY: Yes. If you remember, some of the PCS opportunities were contingent opportunities. We have an allocation of 4 percent to portfolio completion strategies, which includes those orthogonal or diversifying asset classes that Eric is so focused on, but the 4 percent is contingent upon Eric and Bill Li becoming comfortable with these investments. We're not just going to make them for the sake of hitting the 4 percent. And as Dave said, because we're underweight in that, in particular we're overweight in global equities -- we're also overweight in global equities because as I mentioned they've done so well.

But today, you're going to hear about at least two new investments that will be funded largely from public equities, and if you approve them, then we're moving in the right direction.

And just so you know -- just a tidbit to think about, we've been systematically derisking the fund. And there's no one in the room who thinks that's a bad idea, probably, but I'm actually looking at the next chapter and trying to find out or develop a thought process of when we actually take on more risk.

So what are the triggers? I'm starting to think about the next chapter in that. We're positioned well now, I think, and we're doing lots of things with the put spread collar portfolio completion strategies, hedge funds are very low volatility in our portfolio, and I think that will serve us well if we have a correction or a downturn, relatively low.

But then what? You know, what if we get that? What are the types of things that will give us conviction to move that 40 percent higher? And honestly, I don't have an answer to that today, but I'm thinking about it. And if you have an answer, I'm all ears.

(Laughter.)

TREASURER GOLDBERG: Peter's on the hot seat.

MR. MONACO: Not today.

TREASURER GOLDBERG: But you will, I know you will.

MR. BROUSSEAU: He's processing that.

MR. GURTZ: Thank you very much, and

we'll move right into the other credit opportunities investment recommendation by Chuck LaPosta.

MR. LAPOSTA: Thank you. Good morning as well, everybody. Thanks for being here, and thanks for all you do as well in support of our efforts.

As David alluded to, we've focused a great deal on other credit opportunities between the public markets team and across all the investment teams as well. Just as a reminder for the other credit opportunities allocation, it is a 2 percent allocation that was approved as part of our most recent asset allocation in February and within our value-added fixed income portfolio.

The objectives are to achieve comparable risks and return, risk-adjusted returns to our existing value-added fixed income allocation, to get unique exposure to credit sectors in which PRIM is under-allocated or to get differentiated approaches to investing in credit sectors in which we're currently allocated, and finally, to seek credit investments that don't fit neatly within our existing allocation buckets and straddle PRIM asset classes.

As David mentioned already, the private equity team, real estate team, portfolio completion strategies team, public markets team, as well as our risk and operations teams, have all contributed to the analysis and specifically to the recommendation we're making today. I'm the one fortunate enough to present it, but there are many others behind the scenes, as well as our advisor, Aberdeen, who have contributed to this

so our recommendation is for Mudrick's distressed senior secured strategy; and Mudrick, as you know, is a firm with an existing strategy that we employ in our portfolio completion allocation that focuses on distressed credit opportunities. And as an extension of the research that is done in those distressed credits, they have found an opportunity set, senior in the capital structure that may or may not offer the returns sufficient for the distressed opportunity fund but still offers a reasonable return opportunity for them.

And these investments are focused on senior secured loans primarily of companies that are in pre-bankruptcy, current bankruptcy, or post-bankruptcy; but again, as I mentioned, it offers a commensurate return for what we're trying to achieve even if it doesn't meet the returns of the main fund that Mudrick manages on our behalf.

So how does this fit within our other credit opportunity strategy? So the first objective, as I said, is comparable risk-adjusted return. And this strategy targets a 6-10 percent net return with risk that is commensurate with that. Actually, risk in our current low-risk environment has been significantly lower than that, but we anticipate it to be about a one-to-one relationship between risk and return, so a Sharpe ratio of around 1.

It also provides unique exposures to credit sectors to which we are under-allocated. So we have exposures to senior security investments within our bank-loan strategy, distressed debt and portfolio completion strategy, but these are unique inasmuch as they are focused on smaller entities, lower credit quality, and companies that, as I mentioned, are centered around a bankruptcy event. So that is unique and something that we don't currently have in our existing portfolio.

Finally, a differentiated approach to

investing, and as I mentioned, focusing in and around bankruptcy events; however, the securities in which Mudrick will invest are priced differently than you would expect in a bankruptcy event. These loans trade somewhere in the $85 to $100 price, so very close to par, not quite like distressed opportunities, which would be in the $60 to $70 price and have a 17 to 20 percent yield. These would have an 8 to 10 percent yield.

Those more distressed opportunities may exist in some of our credit portfolios that we already have in place, so it's again unique and, like I said, straddling many investment classes, so it kind of ticks the box on all four of the objectives and provides a reasonable return for what we're trying to do.

So that's the background, and more materials can be found in your agenda and in the protected materials if you're interested. And with that I'll open it to questions.

TREASURER GOLDBERG: Well, this is a voting item, so I'm going to seek a motion in a second, and then we can have a discussion.

So approval of an initial allocation of

up to $150 million for the Mudrick Capital Management distressed senior secured strategy. I seek a motion that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of up to $150 million to Mudrick Capital Management's distressed senior secured strategy through a PRIM-managed account, and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Discussion? Questions?

(No response.)

TREASURER GOLDBERG: The only comment I'm going to make is we had a robust discussion, and we've vetted this with the Investment Committee, and so therefore, we have a motion, we have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank

you.

(VOTED: To approve the Investment Committee's recommendation to approve an initial allocation of up to $150 million to Mudrick Capital Management's distressed senior secured strategy through a PRIM-managed account, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: On the agenda, if you turn to page -- if you are looking on the expanded agenda, it's page 14.

MR. NIERENBERG: Good morning, everyone.

BOARD MEMBERS: Good morning.

MR. NIERNEBERG: I'm here with my colleague Bill Li. We're going to have a couple different things we're going to talk about today, but first Bill is going to proceed on the portfolio completion strategies performance, specifically on the hedge fund piece.

MR. LI: Hi. Good morning, everyone. I'm going to give you an update --

THE COURT REPORTER: I'm sorry. Can you speak up? I cannot hear you very well.

MR. LI: Sure.

THE COURT REPORTER: Thank you.

MR. LI: I'm going to give you an update on the hedge funds -- now part of the portfolio completion strategies -- and please feel free to interject if you have any questions or comments.

For the third quarter PRIT hedge funds were quite solid and posted a nice return, and that was 1.7 percent. Our direct portfolio exceeded the benchmark by 30 basis points. For the past one year, our direct hedge fund return was 8.3 percent, and that represented an alpha of 260 basis points. Of our $4.6 billion direct program, we now have $2.7 billion in separately managed accounts. That's 60 percent of the direct program plus another few hundred million dollars in the risk premium program in separately managed accounts. Managed accounts are transparent, and that transparency enables us to regularly monitor the portfolio on a truly literal basis.

If you zoom in into the portfolio, most fund strategies in general had a nice quarter. Equity and credit long, short managers led performance. Macro CPA and the risk premia strategies have seen a solid bounce-back and delivered nice returns for the quarter.

In the meanwhile, we will continue to monitor and reevaluate some of the legacy event-driven hedge fund managers that have seen some challenges over the past few months.

Over the past one year, the total hedge fund portfolio realized a beta close to zero against major stock market and bond market indices. The hedge fund portfolio had a low volatility of 1.4 percent, and that's less than half of the bond volatility measured by Barclay's agg.

Our risk-adjusted ratio or Sharpe ratio was 5.2. Clearly, we saved -- you know, any Sharpe above 1 or 1.5 is excellent, and we're quite pleased with this performance. And that concludes our options on hedge funds, and I open the floor to any questions or comments.

MR. TROTSKY: Still the highest risk-adjusted return in the PRIT Fund portfolio overall, right?

MR. LI: Yes, that's right.

MR. NIERENBERG: Great. Thanks, Bill. And I just wanted to give an update also on the put spread collar. Michael made reference to it earlier. Just to refresh your memory, earlier this year you approved the funding of the put spread collar strategy; we started implementation of that in July. As of September, we had fully funded that first allocation, so about $1 billion in national value. And so far so good. It's actually performed ahead of expectations, even with the rising equity markets.

Remember, this is designed to give the most kind of bang for your buck when the equity markets go down but without kind of lagging too much when equity markets are rising, and it's actually doing quite well even in this market. We're pleased with that, and we'll continue to have discussions with you in the coming months about whether there are next steps for that program.

Unless you have other questions about that, I just wanted to turn very briefly to Appendix F, which is the strategy update. It's been a few months since I took the position of the Chief Strategy Officers, and I just wanted to -- I know many of you have heard a lot of these points already, so I'm not going to belabor it.

If you have any comments or questions,

I'm very open to them. The way we think about kind of developing a mission statement or strategy for PRIM involves three different areas: Asset allocation; overall investment strategy; and staff and operations.

On asset allocation, we've introduced the concept of organic asset allocation, which is an idea that your investments should evolve somewhat naturally, looking for -- and I'll use that word "orthogonal" again -- sources of return that can help diversify the overall fund while making sure that you still are achieving your mandated target rate of return. A lot of the things we do here are designed to meet that objective, and we're going to continue to do that.

Closely related is the concept of factor-based models. One of the issues is how do you identify potentially additive investments to bring into to the overall pension fund. And having a factor lens, which is a little bit different than what we're usually used to doing, looking exclusively at asset classes, helps give a different framework for evaluating investments.

On the investment side we've talked a

lot about the alpha evaluation framework that we've used, how important it is to take individual managers' returns and try to determine how much of that is exposure to different beta factors, whether it's traditional betas or alternative betas, and how much of it is what we think is true alpha.

This is really the secret sauce, if there is one, to what we do. I think it's worked to good effect in the hedge fund program, and we've already taken that lens and started looking at it in other parts of the PRIT Fund portfolio as well.

The concept of unconstrained investing is an interesting and potentially actionable idea as well. It reduces your reliance on a benchmark to the degree that we've historically had that. It maybe allows you to build more efficient portfolios, giving more diversification of exposures, without necessarily sacrificing any returns.

Internal management. Dave Gurtz mentioned this already, so I won't spend much time on that, but from a strategic standpoint, if we can achieve good results, there almost certainly can be cost savings. There are operational complexities which we have already had a lot of discussions about, but that's potentially a very attractive path forward.

Risk-adjusted performance. You just heard Bill talk about a Sharpe ratio of 5.2 for the year; and I think it's really, really important that for all of our asset classes and for all of our investments, that we talk not just about returns, but also about risks.

Now, volatility is one measure of risk, but it's not the only kind of risk. There's operational risk, there's legal risk. I think the more that we continue to introduce this concept both in our reporting framework but also just in all of our discussions, we'll be much better off for it.

And the last piece is dynamic risk modeling. As the Treasurer mentioned before, there are enhanced or increased risks in the economy, some of which are not necessarily quantitatively modelable. For instance, what will happen with the tax policy plan? We want to try to develop a more dynamic risk modeling system that can perhaps react a little bit better and in a more-timely way to potential crises that arise.

On staff and operations, the best

organizations in the world have happy workforces that also feel like they have the education -- have the opportunity -- to consistently improve themselves. One of the things we've done is to establish a learning curriculum whereby staff has a chance research different topics. We'll have lively case discussions. We already had one a few weeks ago. We have one scheduled for this Friday. And I think so far it looks to be going well.

And finally, there's a need for a lot of collaboration between the investment team and the operations staff. That's something we've done a lot of in the last few years with managed accounts, and I think all of the investment team is looking forward to working real closely with Tony and Deb and Matt Liposky to make sure that -- especially if you look at things like internal reporting -- that we have all our bases covered both from the investment side, but also to ensure we have those operational issues covered.

That's what I have on strategy. Unless you have any questions, I'll move on.

The next item Appendix G, and there also are two investment recommendations associated with it. These are investment opportunities in the reinsurance market.

TREASURER GOLDBERG: Which I am hearing is really hot.

MR. NIERENBERG: It is a hot market.

TREASURER GOLDBERG: Yes.

MR. NIERENBERG: So what I would like to do is just spend a couple of minutes on an overview of the reinsurance market; and before we get to --

TREASURER GOLDBERG: And I know this will sound crazy to people, but his overview is amazing.

(Mr. Trotsky left the room.)

TREASURER GOLDBERG: And I didn't understand reinsurance until you explained it before.

MR. NIERENBERG: It's a complicated sector.

TREASURER GOLDBERG: Yes, but it's really interesting.

MR. NIERENBERG: It is interesting, and Darren Wolf from Aberdeen is here, and he is also able to answer any questions about reinsurance.

Hurricanes are something I've had a lot

of experience with, unfortunately.

(Laughter.)

MR. BROUSSEAU: Personally?

MR. NIERENBERG: Personally. I grew up in Miami. I went through Hurricane Andrew in 1992. Our house was destroyed by the hurricane.

TREASURER GOLDBERG: Wow, you lived in South Dade?

MR. NIERENBERG: I lived in South Miami, yes. So this is a little -- I've always had a bit more of an interest in natural disasters. My first summer internship was actually as a reinsurance actuary. So that was the other -- so these things have kind of aligned a little bit over time.

TREASURER GOLDBERG: Interesting.

MR. NIERENBERG: Over the last few years here at PRIM, we, along with Aberdeen, have looked at the insurance market very closely. The insurance-linked securities market has a lot of compelling attributes, which is why institutional investors have been committing some capital to it over the last few years. And what is that? What are those attributes?

Well, foremost among them is if you can

write policies at an attractive rate of return, the risk associated with insurance investments is uncorrelated with the asset markets.

(Mr. Trotsky entered the room.)

MR. NIERENBERG: In the case of property and casualty, the risk is natural disasters -- hurricanes, earthquakes, wildfires, et cetera. As best we can tell, there is no correlation between the stock market going up or down and whether a hurricane hits, so that structural aspect of zero correlation is very attractive.

Now, this hasn't been a mystery to investors over the last few years, to the extent that Warren Buffet has complained that too many pension funds and other institutional investors were getting into the reinsurance space and lowering returns, because remember, Berkshire Hathaway, its major business is reinsurance.

We've looked at the sector over the last few years and seen the amount of capital that has been in the market, and seeing that there have been, effectively, no losses, reinsurance pricing has come down over the last few years. It just wasn't at levels where we thought you were actually getting properly compensated for the risk you take on.

Now, what is this insurance? Well, if you think about the structure of an insurance market: If you're a homeowner with a house, you buy an insurance policy to insure you against some sort of disaster. It could be something specific to your house like a fire, or it could be a much larger natural disaster like a hurricane or an earthquake.

An insurance company like Allstate or State Farm will take a lot of those risks onto its own book. Now, if there are idiosyncratic things like house fires, the insurers don't really need to do much more than that. They know that those things will balance out. But for major risks like a hurricane, an earthquake, they know they could have a sizable exposure that could hit not only their earnings, but if it's a big enough disaster, it could basically eat into their capital. So they in turn turn to the reinsurance market.

Reinsurance is insurance for insurance companies. And so a company like State Farm will have some layer of insurance for those relatively rare events where you have a major natural disaster that can have very significant losses for its portfolio.

The reinsurance market is quite large, several hundred billion dollars in size; however, even the reinsurers have exposure to those really, really, really large events, not just the Category 1 or 2 hurricane; we're talking about the Category 5 hurricane that hits downtown Miami or New York. We're talking about the 8.8 earthquake that hits downtown San Francisco.

Reinsurers, because they have funded on-balance-sheet, still have the need for that kind of catastrophic protection, and this is where a very specialized form of reinsurance called retrocession comes in. As Michael likes to call it, it's re-reinsurance. It's the very top of the pyramid structure, and you're talking about the most risk-remote events, but when those events happen, the losses can be large.

The opportunity that we see in the retrocession market arises in part from the very active hurricane year we saw in 2017, the most active since 2005 with Hurricane Katrina.

Between the losses from Harvey, Irma, Maria, and Nate -- and on top of that you had the

Mexican earthquake and California wildfires -- it was a not very good year for the insurance industry, not a catastrophic year, but not a good year from a loss perspective.

The retrocession market is what we call fully collateralized, meaning that in order to satisfy the rating agencies, if you are writing policies in this re-reinsurance market, you put up all the capital to fund potential claims, and that sits in an escrow account for the balance of the year.

When you have a year like 2017, where there are a lot of claims, the reinsurance companies will hold on to a lot of that collateral for some period of time until they can work through what the exact level of claims will be. We call that trapped collateral.

As a result, coming into this 2018 renewal year, a lot of the capital that was in the retrocession market for 2017 is not available to be rolled over to new policies. So there's a decreased supply of capital, at the same time where all of these events of the past year lead a lot of reinsurance companies to say, "You know what? We actually need more coverage than we have. The losses that we're taking to our earnings, even to our capital, are higher than we projected." So you create a bit of a perfect storm in that what you have is an increase in pricing that's very substantial.

Now, depending on what part of the insurance market you're in, if you're talking about the homeowner just getting primary insurance from their -- State Farm or Allstate, the price increase they might be seeing might be minimal. However, as you work your way up that pyramid, when you get to this retrocession market, the price increases for this January 1 renewal that we're seeing are on the order of 25 to 50 percent, leaning toward the higher end of that range.

At those levels of price increases, we believe that this now represents an attractive risk-adjusted opportunity. Remember, the risk here -- right? -- where this does lose money is that if you have major events in 2018 -- another Japanese earthquake, another Category 5 hurricane.

That's where the risks of this strategy are, but we think you're being more than well-compensated for that, and given that you have had very low, or no, meaningful losses, which has been much of the last decade, the returns for this strategy could be very high.

That, in a nutshell, is what we see as the reinsurance, or more specifically the retrocession, market opportunity. I can answer any questions about that, and then we can talk about the two specific investment recommendations.

MR. TROTSKY: So I think you mentioned that these are one-year contracts, and you will take a look at the pricing every year.

MR. NIERENBERG: (Nodding.)

MR. TROTSKY: And you mentioned that capital gap that exists today that's creating the opportunity for this year, but this is the kind of thing that we'll have to evaluate every year to see if we want to roll into the next year.

MR. NIERENBERG: Yes. So it's a one-year contract, so you're not worrying about any sort of long-term trends. You're not writing a policy that 20 years from now is going to look like it's underpriced. These are, as Michael said, one year.

MR. TROTSKY: And you also in your mind have to agree that there is -- even though there may be long-term changes in our environment -- if you believe that, what you really have to believe, and we believe, is that there's no real statistical difference between the risk this year, in 2017, and the risk next year, in 2018. You have to kind of believe that. And we believe that; we've proven that to ourselves. There's no statistical difference between the risk this year and next year. Maybe there's a difference in the risk this year and 20 years from now, but in this particular case we're able to keep evaluating, and the pricing will adjust, so...

MR. BROUSSEAU: Well, actually --

TREASURER GOLDBERG: Well, Jim has been patiently raising his hand.

MR. HEARTY: Eric, you talked about the rates going up as much as 50 percent. What is the base for that? What was the rate in 2017? What is it going to go up to?

MR. NIERENBERG: Well, the rate, I mean, the way that rates are quoted -- there's something called rate on line or ROL, and it's going to be very, very specific to the individual kind of coverage, so depending on -- most of these policies are customized, so when you say the rate, it's not like there's a base rate of 5 percent per hundred dollars of peril or something like that; it's a wide range of rates that existed in 2017 customized to each individual cedent's loss exposures.

But what we're seeing on average is that whatever those rates were in 2017, they're going up by large proportions.

MR. HEARTY: So if you blended a bunch of the rates, what -- I'm just trying to get a handle on whether this is -- we're going to get a 10 percent return or a 20 percent or a 50 percent return.

MR. NIERENBERG: Oh, I see. I'm sorry. I misunderstood the question. So from 2017 to 2018, the way you can think about it is the mean return, mean expected return, taking into account the big -- you know, the tail of potential losses. You would expect about a 10.5 percent gross return coming into 2017 based on the premiums they were obtaining.

Because of those rate increases, we're underwriting that now for a gross return of about

15.5 percent, so about 500 basis points higher. And that's, I think, a meaningful difference.

On a no-loss basis, which is kind of like the pie in the sky, you know, nothing happens, you're talking about rates -- returns going from the low 20s to 30 to 35 percent or higher. Now, I mean, that's an attractive number, but you don't want to count on that.

From a median perspective, meaning like 50 percent of the time your return should be higher, 50 percent of the time it should be worse, you're looking at, with this increase in rates, probably something in the low-to-mid 20s.

MR. HEARTY: Okay.

MR. NIERENBERG: But there is that tail where events happen and you could -- I mean, let's be clear. You could have a loss to the strategy if that big event or multiple big events occur.

MR. SHANLEY: No problem with the access to this market, getting --

MR. NIERENBERG: No. I think because of that trapped collateral -- we were in Bermuda and met with all of the major participants in the market; we also talked with the different insurance brokers -- and the insurance brokers really are kind of the glue that holds the insurance market together -- both to confirm that these are the rate increases that seem to be sticking for the year, but also to get a sense of how much capital is actually coming back into the market.

There's definitely interest, given the rate increases. We talked to other investors. But part of what maybe works to our advantage here is just the time in which we put this together, because there's a very short window between when these events happened in September and October and then having everything together for the renewal period where contracts start to be bound at the end of this month.

MR. TROTSKY: And there is a capital gap in that. Some of the money that would have been rolled is being held, trapped, trapped capital in escrow, so they're trying to attract new players like us.

MR. SHANLEY: Okay.

TREASURER GOLDBERG: With that...

MR. NIERENBERG: So with that, turn to -- there are two investment recommendations, CATCo

Diversified Fund II and the Aeolus Keystone Fund. I don't know if you want me to start talking about it first or --

TREASURER GOLDBERG: Why don't I propose the vote, so approval of an initial allocation of up to $150 million to the CATCo Diversified Fund II, that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of up to $150 million to the CATCo Diversified Fund II, and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. SHANLEY: So moved.

TREASURER GOLDBERG: Is there a second?

MR. HEARTY: Second.

TREASURER GOLDBERG: Take it away.

MR. NIERENBERG: Thank you, Treasurer.

So I'll talk about these two together since there are definitely similarities. Both of these are Bermuda-based firms. Much of the reinsurance industry and basically the entire retrocession market is based in Bermuda.

TREASURER GOLDBERG: And you were

planning a field trip for all of us?

MR. NIERENBERG: Absolutely.

TREASURER GOLDBERG: But not till spring.

MR. NIERENBERG: When I was in Bermuda, it rained 69 of the 72 hours I was there.

(Laughter.)

TREASURER GOLDBERG: Spring, spring.

MR. NIERENBERG: Both of these firms are based in Bermuda. They're both participants in the retrocession market. They do have some slightly different strategies in how they approach it. CATCo has kind of a unique structure, what we call a multi-pillared structure, which allows them to -- it's almost like regulatory or ratings agency arbitrage in a way. They're able to -- they crafted a retrocession structure that specifically meets the needs of cedants, the reinsurers, to satisfy Moody's and A.M. Best criteria for obtaining a superior rating. It's a very novel structure.

Aeolus is a little bit more, I'd say specialized contracts, trying to get into the weeds of a particular reinsurer's portfolio and write a policy that kind of meets exactly what their capital shortfall could be, and both of these companies -- one of the reasons we're attracted to them is that they have premium products for which they have premium pricing. These two are really price setters. They're not price takers in the market like you see in much of other reinsurance.

In each case they have robust underwriting systems. They both utilize the two major risk-management or risk-modeling vendors, one of which is AIR based here in Boston. The other is RMS. Those are the two main writers of natural catastrophe risk modeling, but they also have their own enhancements that they put upon that to try to find particular value in reinsurance sectors.

To give you an example, Aeolus believes that the standard risk models don't do a great job in pricing Australian perils, so they will be more aggressive in writing certain kinds of reinsurance retrocession contracts for, say, Australian wildfires, but will not write other kinds of contracts for, say, Australian earthquakes because they think these things tend to be mispriced. So it's that kind of level of specific detail which we think gives you a leg up in this area.

Both of -- CATCo was independent. It was recently bought about a year and a half ago by Markel, which is one of the larger publicly traded insurance companies, so they already had a strong capital base, but now they have the full backing of the Markel organization.

Aeolus was owned by Allied World, which was another large reinsurance company. And actually, interestingly, in late 2015, the majority interest in Aeolus was bought by Elliott, the hedge fund. And in fact, it's not owned by Elliott Management; it's owned by Elliott the hedge fund, in which we are, of course, an investor. So we have very indirectly a very small stake in Aeolus. I'm just putting that out there.

So I think I'll leave it there. I'd rather -- if you have specific questions about either of these firms or the strategies, I'll just take those as they come.

MR. TROTSKY: But the idea in choosing two investments is to diversify the risk exposure. That's also an important thing.

MR. NIERENBERG: Yes. The way that they construct their portfolios is different, and we do think that having both of these firms in the portfolio is better than just picking one. We do see returns -- we do see potential scenarios where, for instance, if you have a big string of hurricanes, we could see one doing better than the other versus if there's one massive hurricane, we might expect one firm to actually perform a bit better than the other one.

So keeping that in mind, we thought that there was some natural diversification and it made sense to kind of split the bets accordingly.

TREASURER GOLDBERG: Right. So those are two separate votes, though. So our first vote is specifically for CATCo. That's the motion, and that's the second that we have on the table.

So, Jim, you have a question?

MR. HEARTY: I do.

TREASURE GOLDBERG: So let's continue to focus on -- are the questions for both of them --

MR. HEARTY: Either.

TREASURE GOLDBERG: -- or for the strategy in general?

MR. HEARTY: Yes.

TREASURER GOLDBERG: Okay. Go ahead,

Jim.

MR. HEARTY: I just want to understand what we're voting on. So we're voting on approving these -- for staff to go down -- or not for the staff to -- wait to hear what the pricing is, and then, given the staff is going to be comfortable with the pricing levels, go ahead and execute the --

MR. NIERENBERG: I think we're getting very close to the end of the kind of negotiation cycle toward where pricing is bound, so we've been following this just in the last few weeks since the Investment Committee meeting, trying to get a better sense of whether pricing is really firming up.

And while it still is not -- nothing has been concluded, we have a lot of indications from both the brokers and from the firms itself and from external analysts that this high end of pricing that we were anticipating is in fact developing that way.

So I would say that at this point, unless something very unexpected happens in the next couple of weeks, we have every intention of us moving forward and funding these funds.

MR. TROTSKY: Is there a condition where we wouldn't -- I mean, can you talk in broad terms about what would cause you to change your mind?

MR. NIERENBERG: So, for instance, all of the reports that we've seen so far have typically said for retrocession expect price increases in the 25 to 50 percent and 30 to 50 percent ranges. Again, for these particular strategies we've actually seen a lot of evidence that it really is at the high end of that range with some very concrete data points on that.

If it were to come in below that, so, for instance, not at 25 or 30 percent -- and I said I don't think it's even going to be that low, but if it were to come in at 15 percent or 20 percent and that looked like kind of the consensus, I would say the risk-adjusted return is no longer sufficient to really warrant the investment.

I don't believe that that's going to happen, but -- you can ask Darren; I ask him every day, "What" -- "Have we talked to the managers again," "Who else have we talked to in the industry to try to keep firming that up?" I don't think you'll ever get perfect information on this, but I think every data point so far has been...

MR. TROTSKY: So I think what you're

voting on is, if the pricing comes in as expected, up 25 to 50 percent, we will move forward.

MR. SHANLEY: Calendar-year investments?

MR. NIERENBERG: Yes. So the retrocession contracts that we're contemplating here are all calender year 2018.

MR. TROTSKY: A one-year contract?

MR. NIERENBERG: One-year contract. So you only have exposure to events that happen in 2018, and then any decision to -- if you wanted to renew for 2019, you can; or if you didn't want to renew, for instance, capital can be withdrawn or a redemption request can be made toward the end of the year.

MR. HEARTY: Are --

MR. BROUSSEAU: That would be pending -- go ahead.

MR. HEARTY: So are we voting on a one-year contract? Are we voting to give you authority to do it in 2019 as well, or this is just for 2018?

MR. NIERENBERG: We think the idea here is to just ask for approval for this year, for the 2018 year, and then we can certainly revisit it and discuss whether or not it would make sense to do it for 2019.

MR. HEARTY: Very good. Thank you.

MS. FITCH: So this sounds to me, from my low-level position, very, very creative and thoughtful and new. Or is it new?

MR. NIERENBERG: It's not really that new. I mean, there are other peers of ours like Texas Teachers and Indiana that have been invested in the reinsurance base for a few years. As I said, we looked at it; I just avoided coming to you because I just didn't think that the pricing was appropriate.

MS. FITCH: But the storm circumstance set up a pricing for -- I don't want to call it an industry, but a circumstance -- that it gives us an opportunity?

MR. NIERENBERG: That's the way I would see it, yes.

MS. FITCH: Okay, thanks.

MR. NAUGHTON: So as I understood it -- maybe I was wrong -- there are two times in the year these contracts renew; one is at the beginning of the year in January, and the other is midyear. So if something renews in midyear, when does it terminate?

MR. NIERENBERG: So the midyear would be like a June 1 to May 30 or July 1 to June 30 contract. The difference between the calendar year and midyear portfolios really has to do with the amount of hurricane risk in them, so the midyear portfolios tend to be more heavily weighted toward Atlantic and Gulf hurricanes. The full year, calendar-year portfolios, while there's still a pretty healthy dose of hurricane risk in them, there's also a higher share of earthquake risk and wildfires.

The way we looked at this, I think we like the profile of the calendar-year portfolios more just because there's a bit more diversification of the risk. Some years that works in your favor; some years it doesn't. So, for instance, 2017 with all the hurricanes, it would be better to be in the calendar-year portfolio than the midyear. 2011, though, where you had the Japanese earthquake and tsunami and then the New Zealand --

TREASURER GOLDBERG: I can't believe we're discussing this. And you're using the Farmers' Almanac to help you figure that out, correct?

MR. NIERENBERG: -- the New Zealand earthquake in 2011, that year the calendar-year portfolio underperformed the midyear because the midyear didn't have exposure -- as much exposure to those two earthquakes, right? Because this is a global portfolio. There is a lot of concentration in U.S. risk just because the pricing is so good there, but I do want to emphasize, this is insured risks around the world.

Now, there has to be insurance, so you take an earthquake like the one just in Iran and Iraq the other day, that's not going to cause any insured losses to the industry. Even Hurricane Maria in Puerto Rico, despite the magnitude of the earthquake, just the path of devastation of the entire island, the insured losses were not nearly as large as if that hurricane had hit South Florida instead, because the amount of insured homes there wasn't the same, the value of the homes wasn't the same as well.

So these are all variables that are put into it. But to answer your question more specifically, what we are asking for and what we'd be investing in is only the calendar-year contracts.

MR. BROUSSEAU: These are annual contracts, meaning next year at this time, if we go with this, you will be coming back to us with a renewal?

MR. NIERENBERG: Correct.

MR. BROUSSEAU: Because it's an annual thing. And I see up to $150 million. Say we have no catastrophic events. $150 million returns to the fund?

MR. NIERENBERG: (Nodding) With whatever premiums --

MR. BROUSSEAU: Plus premiums?

MR. NIERENBERG: Yes. So if there are no losses, and let's just say hypothetically you got a 25 percent return on the $150 million, so coming back at the end of the year would be that $150 million plus another $38 million, and that would be the source of the return.

TREASURER GOLDBERG: Okay. Any more questions? Yes, Peter?

MR. MONACO: I'm trying to better understand the risk-adjusted return profile here. Take CATCo, for example, where the statement is made that gross returns to investors on a no-loss basis are being modeled in the 35-to-40 percent range. Clearly, a no-loss scenario is the best possible case.

MR. NIERENBERG: Best-possible case.

MR. MONACO: What's the worst-possible case, and how are those then probability-adjusted so that we know we have whatever you require, like a two-to-one or three-to-one reward-for-risk profile?

MR. NIERENBERG: Absolutely. So what's nice about assessing risk with this kind of contract as opposed to trying to assess risk of, say, the equity markets or bond markets, is that you have a lot of history about these events; and then you can also I think better model statistically the probability that these events could occur in the same year.

So what each of these firms does is it will run a simulation with 20,000 to 50,000 event years, and look at all -- based on the probabilities that are embedded within the risk model, this is the likelihood of a Category 5 hurricane hitting Tampa in the same year that a Category 3 hurricane hits New Orleans at the same time that there's an earthquake in Missouri, et cetera.

And then they create a loss curve based on that. So they'll say, all right, on 90 percent of those 20,000 event-year simulations, the portfolio incurs or achieves a profit, it doesn't lose any money. In 10 percent of those simulation years, you lose money, and then they can specifically state: What's our 95 percent VAR, what's our 99 percent VAR, what's our 99.7 percent VAR.

For instance, to give a specific answer to your question, let's take Aeolus, such that with the current price increases, you would see a 0.3 percent chance of a 50 percent decline, meaning that of those 20,000 years they modeled, in about 60 years, where because of the potential for these big events, you would lose 50 percent of your capital. Ninety percent of the time -- or I should rephrase it -- 10 percent of the time, you would have a loss.

And one of the things we find attractive about that is, we can say -- and, of course, we never know exactly what will happen, but if you were to compare that to equities, do we think that there's a more than 10 percent chance that equities will go down in 2018? I would think the answer is yes, so -- but it's really then a question of how big the tail is and how good are these two managers at building their portfolio to kind of mitigate that real far end of the tail.

You could get unlucky. There are big events and you could lose 20 percent, 30 percent of the capital in the portfolio; but when we looked at the loss curve relative to what it was coming into 2017, it's materially higher because of the price increases, and the tail isn't any worse. In fact, it's a little better, because you're able to write better policies now because the cedants have more need and are willing to kind of take a little bit less coverage than they otherwise would have in the past.

There's obviously risk associated with this, but I think the takeaway, at least in our view, is that you're being properly compensated or more than properly compensated for that risk.

TREASURER GOLDBERG: Any other questions?

(No response.)

TREASURER GOLDBERG: So again, we have a

motion and we have a second for the first investment only at this time. So all those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve the Investment Committee's recommendation to approve an initial allocation of up to $150 million to the CATCo Diversified Fund II, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: And I'm just going to go ahead -- I think our conversation covered both of them pretty thoroughly, so I'm going to seek approval of an allocation of up to $100 million for the Aeolus Property Catastrophe Keystone PF Fund L.P. -- that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of up to $100 million to the Aeolus -- I couldn't hear you; you were facing that way -- Aeolus Property Catastrophe Keystone PF Fund, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. SHANLEY: So moved.
TREASURER GOLDBERG: Is there a second?
MR. HEARTY: Second.
TREASURER GOLDBERG: Discussion?
MR. BROUSSEAU: Just a fast question: Does Elliott, the hedge fund, own 51 percent of the asset, the --
MR. NIERENBERG: So it's not Elliott, the management company; it's the hedge fund itself. It's the Elliott funds. So all the investors in the funds collectively own 51 percent. Elliott doesn't take a management role in the company. They basically bought this as an investment because they like the long-term investment potential.
But we did clarify that. It is not the Elliott Management Company, the hedge fund management company that owns it; it is the investors through the Elliott funds that indirectly own Aeolus or own the controlling interest in Aeolus. The partners own about 30 percent.
TREASURER GOLDBERG: Okay. So we have a motion and we have a second. All those in favor?
BOARD MEMBERS: Aye.
TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank you, Eric.

MR. NIERENBERG: Thank you very much.

(VOTED: To approve the Investment Committee's recommendation to approve an initial allocation of up to $100 million to the Aeolus Property Catastrophe Keystone PF Fund, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Okay. And it would be Mr. Bailey, et al.

MR. BROUSSEAU: Yes.

MR. BAILEY: Thank you, Treasurer Goldberg. And good morning. I'll briefly comment on the performance of the private portfolio, and then we'll shift gears because we've got five new investment recommendations to make this morning.

On the performance, as Michael mentioned, the portfolio again advanced its performance to about 24 percent in the second quarter, which we're reporting into the third quarter results. That's an advance of over 10 percent -- about 10 percentage points from the December 31 quarter. It's the highest performance we've seen in the private portfolio since late 2014, so really strong performance against itself.

And I think in the context of the public equity markets that Michael and Chuck talked about, it's also a very strong performance in public equities, and that's a little surprising, because public equities have rallied so strongly here post election.

We see this performance a little surprisingly high against about a 19 percent move upwards in public equities; and I think that's for a couple of reasons. On the markets, the volume of transactions advanced again in the third quarter. It went up to about $190 billion, up about 25 percent over the second quarter. I think this high pricing that we've talked about in this market -- think about a real estate market where buildings or homes are selling for high prices. I think that's attracting sellers coming off the sidelines and being willing to sell at these high prices. And I think there are two principal reasons for that. One we've talked about before: Large U.S. and European corporations have pretty strong balance sheets and want to continue to add to their earnings by acquiring smaller businesses, and our private equity firms, as you know, are out there developing attractive targets for these strategic acquirers.

And secondly, the private equity firms themselves, because of pensions and endowments and folks like that, they're sitting on large amounts of what the industry calls dry powder to continue to acquire businesses.

And third -- and we've talked about this before, and it relates to what we own in the credit space -- the credit markets have been really white hot and continue to be willing to lend into these growth businesses at very attractive rates. Borrowing spreads have been as low as they've been since the last nine years, so spreads or borrowing costs are hitting nine-year lows, so that's attracting a lot of buying activity.

And the way that feels for us is we've had to be more careful. You are going to see five new investments today, but we've sifted through a lot of other investments to get to these five. We have to be careful to avoid making mistakes in this aggressive market where we see more risk-taking behavior, where private equity firms are leaning into riskier and riskier strategies to generate returns because they're having to pay high prices.

So rest assured that the team has worked really hard to find these five opportunities against a more difficult environment than we've seen in the last two or three years.

And on that, I think I just mentioned that we'll -- with your approval today -- we'll have approved a little over $1.4 billion. Remember, our target was 1.4, so we're going a little over the 2017 target with these five approvals; but as Michael and Dave mentioned, our long-term exposure to private equity is still about 10.6 percent. So despite our pace of investing, we've been getting so much capital back, and the denominator, the public equity markets and the other assets the fund owns, has advanced faster than that, so our allocation is still hovering around 10.5 percent, so we don't feel that constraint against that long-term target of 11 percent. We're still a little under target.

So those are my high-level comments on performance and the exposures. I'm glad to take any questions before we shift gears to the investment recommendations.

TREASURER GOLDBERG: Any questions for Michael, generally speaking?

(No response.)

TREASURER GOLDBERG: Okay, then. Then we should move to the actual vote. So with that -- what page is that on, Michael?

MR. BAILEY: That is on --

MR. BROUSSEAU: 25.

TREASURER GOLDBERG: Shall we start with Nordic?

MR. BAILEY: Yes.

TREASURER GOLDBERG: Okay. So I'm going to seek a motion and a second, and then you can go into the details. And who will be making the presentation?

MR. BAILEY: Michael will be the first to --

TREASURER GOLDBERG: Michael, okay. So approval of a commitment of up to €100 million to Nordic Capital Fund IX, L.P., that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to €100 million to Nordic Capital Fund IX, 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?

MS. FITCH: Second.

TREASURER GOLDBERG: Go ahead, Mike.

MR. MCGIRR: This is a re-up opportunity for PRIM. PRIM has invested in four prior Nordic Capital Funds over the last 14 years. Senior leaders of the firm -- with over 21 years of industry experience, Nordic's among the oldest private equity firms in the Nordic region, in northern Europe, and it has a track record of successful investing, primarily in healthcare, technology and payments, financial services, industrial goods and services and consumer and retail, so you can think of them as a larger northern European regional-focused private equity firm.

We think this team is highly disciplined in its investment approach and very focused on their target geographies and their target industries. They have a large and experienced team, and their sector focus and regional focus really helps them with sourcing.

In the interest of time, I'll open it up to any questions or comments.

TREASURER GOLDBERG: Any questions or comments?

MR. NAUGHTON: I'm just curious; it's kind of an esoteric question, but under Risks/ Concerns, it talks about a concern about sustained material weakening of those currencies, European currencies. Is that strictly the euro, or is that other currencies too?

MR. MCGIRR: Well, this investment will be denominated in euros, but they -- so think of the fund as being a euro-based fund, but they will invest in companies with -- for example, the Swedish krona. They can buy a company denominated there. So there are some cross- correlations associated with the underlying portfolio that we'll get, but then there's also the dynamic where that company based in Sweden is going to have their revenue and their costs and their earnings coming from a global mix of currencies and countries.

So I think the primary risk here is if the dollar continues to strengthen. We've seen that, and Mike's talked about that in our portfolio.

That's across all of our European investments. And actually, it's reversed recently, which has been nice. Our research indicates that that can be -- it can have an impact on IRR and a much smaller impact on net multiple or total sort of profit generation, which I think is more important to us.

MR. NAUGHTON: Thank you.

TREASURER GOLDBERG: Any other questions?

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

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

(No response.)

TREASURER GOLDBERG: The motion carries. Thank you. Thank you, Michael.

(VOTED: To approve the Investment Committee's recommendation to approve a commitment of up to €100 million to Nordic Capital Fund IX, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: I'm going to seek a motion and a second, approval of a commitment of up to $75 million to WestView Capital Partners IV, L.P., that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $75 million to WestView Capital Partners IV, 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.

MR. MCGIRR: On page 26, this is another re-up opportunity in WestView Fund IV. We're recommending up to $75 million. We're in two prior WestView Capital funds going back to 2009. The WestView senior team has all worked together since the firm's inception. All the WestView funds are performing nicely, including the two that we're invested in. And WestView really focuses on growth opportunities in very small companies in business services, software, IT, industrial, healthcare, and technology and consumer sectors.

Performance of this firm has been very strong. They have a flexible investment approach that allows them to obtain either minority or majority ownership in these small growth companies that helps them get access to some of these companies that wouldn't be available for sale for a control buyer, for example. We think they have a highly talented organization with proven investment skills.

So with that, I'll open it up to any questions or comments. And this is a Boston-based firm.

MR. BROUSSEAU: We've been doing business with them for a dozen years anyway.

TREASURER GOLDBERG: Any questions?

MR. BROUSSEAU: No.

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

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank you, Michael.

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

TREASURER GOLDBERG: Now, approval of a commitment of up to $50 million to Thomas H. Lee VIII, L.P. I would seek a motion that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $50 million to Thomas H. Lee Fund VIII, 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?

MS. FITCH: Second.

MR. BAILEY: Alyssa is going to speak to this.

MS. FIORE: I'm going to page 27. So Lee is also a re-up opportunity for PRIM. We've invested in six funds since 1989, so a longstanding relationship. Lee is located down the street here in Boston, and they invest in middle-market companies in North America. The target four sector verticals are healthcare, consumer, business and financial services, and media and information services.

Lee has had strong performance in the middle market, which is an area of the portfolio that our team has been working to increase our exposure. And the firm has a really talented investment organization, and they're really well-resourced compared to other middle-market firms.

So with that, I would take anybody's questions.

(No response.)

TREASURER GOLDBERG: I think we all know the Tom Lee portfolio very well. Don't we, Peter? Yes. Everybody here does. So although leadership has changed there about -- what is it, ten years now?

MS. FIORE: 2004?

TREASURER GOLDBERG: Pretty close.

MR. BROUSSEAU: This says 22 years.

TREASURER GOLDBERG: Yes. All right, then. We have a motion, we have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve the Investment Committee's recommendation to approve a commitment of up to $50 million to Thomas H. Lee Fund VIII, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Next vote: Approval of a commitment of up to $125 million to Anchorage Illiquid Opportunities VI, L.P. A motion that the PRIM Board approve the Investment Committee's recommendation to approve a commitment up to $125 million to Anchorage Illiquid Opportunities VI, 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.

MR. BAILEY: Thank you, Treasurer Goldberg. I'm going to speak to this one and the next one.

We're recommending an investment up to $125 million in AIO VI. This is our third time to speak to you about this particular investment. This is a firm that we began investing with in 2011 in the PCS portfolio, and I worked closely with Eric on the initial decision to make this investment in 2014.

That decision has proven to be a good one. We've had two good initial investments with this firm, and we're seeking your approval to make a third investment in this portfolio, investments that Anchorage makes, and it's the same team that we're investing with with the hedge fund in Anchorage, still in the credit space primarily in the U.S. and Western Europe, but think of these as higher risk-adjusted returns, less-liquid situations, where we can afford to take some illiquidity and less traded credit and earn that excess return that we need to justify putting this into the private investments portfolio.

So I'm happy to take any questions on Anchorage.

TREASURER GOLDBERG: Questions? Comments? Observations?

(No response.)

TREASURER GOLDBERG: There's a motion. We have a second. All those in favor?

BOARD MEMBERS: Aye.
TREASURER GOLDBERG: Any opposed?
Hearing none, the motion carries.
(VOTED: To approve the Investment Committee's recommendation to approve a commitment up to $125 million to Anchorage Illiquid Opportunities VI, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote.)
TREASURER GOLDBERG: So our next one is approval of a commitment of up to $20 million to Berkshire Fund IX Co-Investment, L.P., that the PRIM Board approve the Investment Committee's recommendation to approve a commitment of up to $20 million to Berkshire Fund IX Co-Investment, 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: Second?
MR. HEARTY: Second.
TREASURER GOLDBERG: Michael, you said you're going to do this?
MR. BAILEY: Yes, I'm going to speak to

this one. Thank you.

This is another firm that the board is very familiar with. We made our first investment with this Boston-based buyout firm in 2002, and recently they asked us to consider investing in a vehicle they're calling the Co-Investment Fund to invest alongside Fund IX.

So we can think of this similar to how we talked about co-investing at this table before, where some of our leading firms are giving us opportunities to invest alongside them in some of their best ideas but at reduced fees.

So this is fitting inside that vein. The difference is, as you know, you authorized us to make a few of those co-investments alongside these firms in a separate program that we will manage ourselves, and we're seeing some of that transaction flow come across our desks, and we're actually making some of those investments with your approval. Those have been $10 million-to-$20 million investments in some of those smaller business, and I'm happy to say that's off to a good start.

Berkshire decided to organize this differently, and rather than call us on specific investments, they're going to organize a pool of investments in one fund -- they're going to call that the Co-Investment Fund IX -- and we'll be able to invest with them in those transactions at lower fees than in the main fund until the main fund is finished investing.

So we're asking your approval in starting this at $20 million, which we thought was consistent with how you thought about co-investing generally. We think this is a good alpha-generating activity partly because we've come at this with the benefit of lower fees, which is unusual in our industry, I might say.

So we're asking for your approval to make this commitment to this Co-Investment Fund.

TREASURER GOLDBERG: Any questions for Mike?

MR. BROUSSEAU: Just a general question: All these investments we've been doing this morning, up to 75, up to what have you, pass like -- they draw down the entire 20 million, or might we get a lesser amount?

MR. BAILEY: On this specific one, I think that it's more likely than not, but I think it's unlike some of the other commitments we've discussed where once we make the commitment, the whole amount is very likely to be drawn down over the six-year period.

MR. BROUSSEAU: Co-investments are --

MR. BAILEY: This is a little different because of the way it's structured.

MR. BROUSSEAU: Because it's a co-investment?

MR. BAILEY: Yes, and the way they design it, it's not going to invest in all of their transactions, only in a select portion of their transactions, so they may not need the money, which is one of the reasons they're giving us a more favorable fee structure.

MR. BROUSSEAU: Will there be more than one party involved in the co-investment other than PRIM?

MR. BAILEY: Yes. We'll be joining a number of other institutional investors.

MR. BROUSSEAU: So it's a large number?

MR. BAILEY: Yes.

MR. BROUSSEAU: That's why the "up to" maybe --

MR. BAILEY: Yes, I think we'll get to $20 million. Now, whether or not they'll draw the $20 million --

MR. BROUSSEAU: Is another story.

MR. BAILEY: -- is a different question.

Sorry. I thought you were asking about -- I think on this we'll be able to get the $20 million in our legal commitment. Whether they need the capital is still -- we'll have to see how the market -- what the market tells us. It's a good question.

TREASURER GOLDBERG: Any other questions? We have a motion -- oh, go ahead.

MR. MONACO: It's just a general question, Mike. Each of the three private equity authorizations today, or the four, inclusive of the Berkshire co-invest, are consistent with the middle-market theme that's been expressed over the last year and a half or longer.

According to the pie chart in the annual, you're kind of touching 30 percent in middle-market and 35 inclusive of small buyout.

MR. BAILEY: Yes.

MR. MONACO: Where is it ultimately

going?

MR. BAILEY: Using that number, you're saying 35 is too large and 30 too small?

MR. MONACO: The way I added it up, large and mega is 40, mid and smaller, 33, and then venture capital and growth equity are 27-something.

MR. BAILEY: Yes. Thank you for paying attention to that pie chart. I think that that's a good question, and I think that we are trying, and you're noticing we're trying hard, to push that 40/33 mix up so that it's more like 40/40. And these efforts to invest more in middle-market, Peter, are intended to do that; and we're on a path to try to rebalance that toward equal weighting to the middle and the large. So that's the goal, and I appreciate that question.

TREASURER GOLDBERG: Any other questions? We have a motion, we have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. That's Berkshire.

(VOTED: To approve the Investment

Committee's recommendation to approve a commitment of up to $20 million to Berkshire Fund IX Co-Investment, L.P., and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Private Equity is done.

MR. BAILEY: Thank you.

TREASURER GOLDBERG: So thank you very much.

MR. TROTSKY: Good job.

(Ms. Goldberg and Mr. Trotsky confer.)

TREASURER GOLDBERG: All right. Where is Tim?

MR. TROTSKY: Is Luis first?

MR. BROUSSEAU: Risk Management first.

MR. ROMAN: Good morning, everyone.

BOARD MEMBERS: Good morning.

TREASURER GOLDBERG: All right. So it's all his fault. If I seem confused, it's because of him. He wrote me a note that says "Tim" on it. This is an FYI, but you are not Tim.

MR. TROTSKY: "And Luis." It says "Tim and Luis" rather than "Luis and Tim."

TREASURER GOLDBERG: Right. Luis, welcome to the table. Please share with us.

MR. ROMAN: Thank you very much. So I will be working off Appendix H, and this is a small presentation about risk in the PRIT Fund. I certainly expect this presentation to evolve over time, mainly because I welcome feedback and comments, and second, because there are many different ways to look at risk, so over time I would expect for us to get familiar with the different lenses and views and agree on a framework that would be meaningful and helpful to the board.

With that said, the highlights are actually in Slide No. 2. I have only three bullet points. The first one is that the PRIT Fund -- the risk in the PRIT Fund -- continues to decline gradually. This is as of August 31 compared to one year ago. Also that the risk in the portfolio is mostly systematic as opposed to specific. And last, that the largest contributor to risk in the portfolio is coming from equities, which I think is not a surprise to anyone on the investment team.

With that said, I'm going to ask you please to go, in the interest of time, to Slide No.

4. So this is a first take on some of the metrics that are used to quantify risk. I made an arbitrary selection of the risk metrics and provide volatility, VAR numbers estimated by two different methodologies, and expected shortfall or conditioned VAR. Again, four metrics. All of them have pros and cons, and all of these calculations are also subject to assumptions in the model and the strength of the models.

But taking those numbers into consideration, we see that compared to the end of Q2 this year, when the fund was at 8.6 percent volatility, it compares to 8.10 as of August 31 of the year, so that it is a decline of 50 basis points in risk.

The other metrics involved, the VARs and expected shortfall, are ways of quantifying that uncertainty around the returns, the potential of achieving the returns per investment guidelines.

Any questions so far?

(No response.)

MR. ROMAN: Okay. So I'll move on. And I guess an interesting observation that I made to the Investment Committee that I would like to make today is in Slide 5, the chart on the left shows two different ways of looking at the exposures in the fund. I'm going to start with the blue bar, which is the market value allocation to the different asset classes, and the orange one is in terms of contribution to risk or contribution to volatility in this case.

As you can see, they do not translate in the same way. Market value allocation is not the same as risk allocation, for example, even though we have an allocation in global equity of about 44 percent. That translates into 61 percent contribution to risk from that asset class.

But even more interesting, because all of these asset classes correlate and the contribution to risk is a combination that takes into consideration the market value of allocation to the asset class of the volatilities of these factors and correlations, when you calculate the actual contribution to risk in the entire portfolio, when you look at factor links, the equity factor amounts to 77 percent.

So again, these are two different lenses; and as I said at the beginning, over time, please, I welcome any comments, advice. And at some point over time we will decide together which views will be more helpful to the board.

Last, and also another way of looking at the sensitivities in the portfolio: If you can go to Slide No. 8, that is also a view of how this portfolio would perform under three different scenarios. And this case is only assuming a decline of 5, 10 and 15 percent in the MSCI ACWI, which is representing global equities.

And I'm showing the results for two days as of August 31 of this year and a year ago; and as you can see, the very first row, which is the total impact of those declines, in that sense we are probably very comfortable as of last year in terms of the impact of those shocks with losses in the range between 3.29 percent all the way to 9.99 percent in the face of a 15 percent decline.

So I'm going to pause there, being mindful of the time, and see if there are any questions.

TREASURER GOLDBERG: Any questions? Peter?

MR. MONACO: Could we just go back to

page 4 for a second, Luis?

MR. ROMAN: Sure.

MR. MONACO: Can you just give us a slightly expanded feel for the risk profile? I guess it's comforting, on a level, that there's a 95 percent chance that the annualized P&L wouldn't lose more than 3.3 percent -- 13.3 percent or, conversely, that there's only a 5 percent chance that that could materialize. What are the probabilities associated with a 10 percent drawdown, for example? And if you don't have it off the top of your head, it's fine.

MR. ROMAN: A 10 percent drawdown in the P&L of the portfolio?

MR. MONACO: Yes.

MR. ROMAN: I certainly don't have it off the top of my mind, but it's something that can be calculated. But this loss is about 13 percent, so yes, I think that there's (inaudible) different confidence levels (inaudible) 10 percent.

MR. MONACO: I'd be interested in that when you have a chance.

MR. ROMAN: So you would like to see, again, the chance of a loss no greater than 10 percent?

MR. MONACO: Correct.

MR. ROMAN: Good, I got it.

MR. TROTSKY: Maybe we can do that calculation and as a follow-up, just circulate it to the board.

MR. ROMAN: Yes.

TREASURER GOLDBERG: Okay, great.

MR. TROTSKY: And this is exactly the kind of thing that I would like your input on. If you want us to calculate certain scenarios and you know we have the ability to do that, and also any kind of risk information you'd like. Our job really is to try to communicate to you what the portfolio looks like and how it might behave and to set expectations for that. So we want those kinds of questions, and we'll tailor the risk information to what you want to know about the portfolio. It's really meant to do that.

MR. ROMAN: Thank you.

TREASURER GOLDBERG: Okay. Thank you, Luis. So now --

MS. FITCH: I would also say that suggestions to the board on additional scenarios are welcome too.

MR. TROTSKY: Yes, absolutely. In prior years we've done all sorts of different scenarios -- fiscal cliff, we've done Greek financial crisis, the hard landing, war in Iran. We've done all sorts of stuff. And they're not meant to be precise, but to give you an idea of what to expect. That's what these tools are for.

MS. FITCH: That's exactly what I was looking for.

MR. TROTSKY: Yes, if something is bothering you, if you're worried about something, a certain event, we can think about it, and we can explore a scenario and get back to you.

TREASURER GOLDBERG: All right. Now Tim.

MR. SCHLITZER: Very brief, very, very brief. Appendix I. I'm going to go through it, for reference.

TREASURE GOLDBERG: Yes, and I'm assuming everyone on the board, if they have not looked at it yet, can go through it. And we've already announced the exciting event we have on Thursday.

MR. SCHLITZER: That's right.

TREASURER GOLDBERG: Yes. So any and all are welcome.

MR. SCHLITZER: Absolutely.

We are underweight on both real estate and timberland, which is really a function of the denominator effect. The PRIT Fund is basically running at a performance rate that's more than twice real estate as determined year-to-date. So that's the reason there -- we have no strategic deviations from our policy. We are net sellers in real estate, which was the plan, so that does add to the sort of underweight problem, I'll call it. But again, that was our expectation going into the year.

We have not acquired any new timberlands this year. As I always say, it is a very lumpy sort of asset class in terms of the frequency in deal flow.

So real estate returns, 5.7 percent over the past year through September. Private real estate was at 7 percent. REITs returned 1.7 percent during that period. REITS are actually up about 12 percent on a global basis year to date, so I think Q4 of last year, and I've said this, factors into that relatively low absolute return.

Our managers are outperforming, and we continue to see a lot of diversity in returns across property types.

(Mr. Trotsky left the room.)

MR. SCHLITZER: In terms of timberland performance, 8.9 percent over the past year. Very strong relative performance, but I'll caution you not to read into that too closely. But we continue to have positive relative performance from our overweight to the Pacific Northwest, which we've had in place purposefully for a while now. And Australia continues to perform very well. So if I had to point to a reason, that's it, but I, again, would say: Look at the longer-term numbers, which are also good.

I'm going to leave it at that and answer any questions.

TREASURER GOLDBERG: Questions? Questions, anyone?

(No response.)

TREASURE GOLDBERG: I guess not, Tim. You were so clear.

MR. SCHLITZER: Happy to do it. Thank

you.

TREASURER GOLDBERG: And he elected to be after noontime, because he knew he would be even clearer.

Tony, welcome.

MR. FALZONE: Good afternoon, everyone. I'm Anthony Falzone, for the record.

TREASURER GOLDBERG: Thank you.

(Mr. Trotsky entered the room.)

MR. FALZONE: I'm excited for the opportunity to be here. I look forward to working more closely with all of you. And as Michael mentioned, I've been involved with PRIM for quite a long time in a lot of different roles, and I couldn't have inherited a better team and couldn't have better direct reports like Deb and Matt to support me, so I'm really excited about that.

In the interest of time, I think we should go right into the agenda item. So I'm on page 30 here today of the agenda, and the KPMG report on the fiscal year audits and the audited financial statements for both PRIM and PRIT are at Appendix J.

So I'd be remiss if I didn't first thank the finance staff for doing a fantastic job all year round, ensuring PRIM's accounting meets our high standards. Qingmei Li is our financial reporting manager. She did an excellent job of drafting the financial statements.

(Discussion off the record.)

MR. FALZONE: So Dave Gagnon and Jen Serrano from KPMG were here to go through the audit presentation. They met with the Administration and Audit Committee also, separately, as part of Audit Committee best practices, and that allows the committee to ask any questions directly, if they have any, without staff being present.

So I'll wrap this up. A lot of work goes into this, a lot of effort, to achieve clean opinions from KPMG on their audits, and we both have clean opinions on the audits as well as no issues with the agreed-upon procedures.

So I'm ready for a vote.

TREASURER GOLDBERG: Yes. So I'm going to seek a motion for the acceptance of fiscal year 2016 audit results, that the board approve the Administration and Audit Committee's recommendation to accept, one, the fiscal year 2017 PRIM and PRIT financial statement audits, as well as, two, the agreed-upon procedures report on PRIM's procurement process for investment management and other professional services, and three, the PRIT Fund's benchmark calculation attached as Appendix J to 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: Yes, so moved.

TREASURER GOLDBERG: Is there a second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Conversations, questions, et cetera?

MR. BROUSSEAU: No.

TREASURER GOLDBERG: Then all those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve the Administration and Audit Committee's recommendation to accept, one, the fiscal year 2017 PRIM and PRIT financial statement audits, as well as, two, the agreed-upon procedures report on PRIM's procurement process for investment management and other professional services, and three, the PRIT Fund's benchmark calculation attached as Appendix J to the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

MR. BROUSSEAU: I would also say, Madam Chair, that as Tony mentioned, the committee, the head, as is customary, met with the auditors without --

TREASURER GOLDBERG: Right, without management.

MR. BROUSSEAU: -- without management present for a discussion that we do every year, and everything is fine. No issues or anything like that that were discussed.

MR. FALZONE: And if I'm going too fast, slow me down, ask questions. So again, I'm continuing on page 30 of the expanded agenda, and this is the fiscal year 2017 Comprehensive Annual Financial Report, and that is at Appendix K. This is PRIM's 13th annual CAFR. The CAFR, as a report, goes above and beyond a standard set of financials.

It creates a more-complete picture of what a governmental entity is, and the reporting therein.

It is composed of four different sections: The introductory section, which includes a transmittal letter from Michael Trotsky as executive director and chief investment officer. It includes a listing of the PRIM Board and committee members, along with an org chart.

The financial section has the financial statements in it. The investment section has performance information, asset allocation information. And then the statistical section has financial highlights and expense and financial ratios.

Again, this is a huge undertaking. It's a team effort. Paul helps write the transmittal letter. The investment team writes some of the investment section. The finance team works all year round on the audited financial statements. Again, Qingmei Li is a rock star in terms of putting everything together, completing a 40-page checklist for submission, and I'm more than certain we will get the designation again --

TREASURER GOLDBERG: I think we will.

MR. FALZONE: It would bad for me if we did not.

TREASURER GOLDBERG: Maybe, maybe, we hope so.

MR. FALZONE: We hope to get the award again.

TREASURER GOLDBERG: Okay, then. Did I ask for a motion? I don't -- so approval of the draft fiscal year 2017 PRIT Fund Comprehensive Annual Financial Report, better known as CAFR, that the PRIM Board approve the Administration and Audit Committee's recommendation to approve the draft CAFR, which is what I'm going to call it, attached as Appendix K of the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote. Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MR. HEARTY: Second.

TREASURER GOLDBERG: Any more questions or comments?

(No response.)

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve the Administration and Audit Committee's recommendation to approve the draft CAFR attached as Appendix K of the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: Okay. We're getting there.

MR. FALZONE: So this is my final voting item, and it is the proposed 2018 board and committee meeting schedule, and that is at Appendix I in the packet.

TREASURER GOLDBERG: I'll also state the motion and get a second and then see if there are any questions. All right. Adoption of the proposed 2018 board and committee meeting schedule, that the PRIM Board approve the Administration and Audit Committee's recommendation to adopt the proposed 2018 board and committee meeting schedule as amended attached as Appendix L to 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: Any comments or questions?

MR. BROUSSEAU: No. The Compensation Committee meeting is going to be determined. That's why there's no date there.

TREASURER GOLDBERG: All right. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

(VOTED: To approve the Administration and Audit Committee's recommendation to adopt the proposed 2018 board and committee meeting schedule as amended attached as Appendix L to the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.)

TREASURER GOLDBERG: This has been a very meaty meeting. I think that we have no updates or other matters.

MR. TROTSKY: We'll just take any questions you may have.

TREASURER GOLDBERG: I want to congratulate the entire board. I think it was a very thoughtful meeting. A lot of good questions were asked. We covered a lot of ground, and we did it in a good period of time. With that, I'll take a motion to adjourn the meeting.

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Is there a second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Questions or comments?

Hearing none, the motion carries.

(VOTED: To approve the adjournment of the November 14, 2017, board meeting at 12:16 p.m.)

MR. TROTSKY: Thank you again, everybody. Thanks for your support and hard work, and have a Happy Thanksgiving.

BOARD MEMBERS: Thank you.

(Adjourned at 12:16 p.m.)