COMMONWEALTH OF MASSACHUSETTS

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the Board Meeting

Tuesday, May 14, 2019

Commencing at 9:33 a.m.

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In the

PRIM Board Offices

at 84 State Street

Boston, Massachusetts

I N D E X

A P P E N D I C E S

A. Minutes of the PRIM Board Meeting on February 26, 2019

B. PRIT Fund Performance Report

C. BNY Mellon Gross of Fees Performance Report

D. Driehaus U.S. Micro-Cap Growth Equity Presentation

E. Callan’s Memo on Driehaus U.S. Micro-Cap Growth Equity

F. PCS Advisory and Managed Account Platform Services Recommendation

G. Real Estate and Timberland Performance Charts

H. Timberland Appraisal Evaluation Committee Recommendation

I. Draft Fiscal Year 2020 Operating Budget

J. March 2019 PRIM Operating Budget

K. Travel Report

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

Paul Shanley

Theresa F. McGoldrick, Esq.

Peter Monaco

Dennis J. Naughton

P R O C E E D I N G S

MS. PEREZ: We'll get started. I'm Sue Perez. I'm deputy treasurer. I'm going to kick it off for the treasurer, who will be here shortly.

I'm going to start with the Massachusetts open meeting law permits meetings to be recorded and states that the chair shall inform attendees at the beginning of the meeting of any such recordings.

So, accordingly, I'm informing you all that Janet Sambataro, 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.

Anyone?

Okay. Seeing none. Also for the benefit of the stenographer and all those who are listening, please identify yourself by name and speak clearly and audibly.

Okay. Now we will start with the approval of the minutes. So I need a motion that the PRIM Board approved the minutes of its

February 26, 2019 meeting and further to authorize the executive director to take all actions necessary to effectuate this vote.

Do I have a motion?

MR. BROUSSEAU: So moved. Bob made the motion, okay, for the stenographer.

MR. TROTSKY: Bob Brousseau.

MR. BROUSSEAU: Yes. Bob Brousseau.

TREASURER GOLDBERG: Okay. Any discussion? All right. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Okay. Seeing none, we'll move to the Executive Director's comments.

MR. TROTSKY: Thank you. Thank you very much for being here today. I'd like to recognize our three dignitaries today who made it to our meeting. Sean Nealon, on my left, from the Mass. Teachers. Welcome. Patrick Brock, who we all know from Hampshire County, also on the admin and audit committee and the compensation committee, and to Patrick's left, Jim Quirk, an attorney who represents 11 or 12 --I never get this right -- 11 or 12 of our clients around the state. Thank you for making the effort to be here.

Today, we will review the March quarterly results, the March quarterly results, and we'll vote on 12 separate items. I think we're going to take a couple of the items in a consent agenda later.

As you know, the March quarter was quite strong, as markets worldwide rebounded strongly from a very weak, dismal December quarter. The PRIT Fund was up 6.4 percent gross in March. That's 6.3 percent net for the quarter, which was a very welcome reversal on almost an exact reversal from the 6 percent loss in the fourth quarter of last year.

I'll review the markets and results next. But first, as is normal, I'll give you an organizational update.

First, for an unprecedented fourth year in a row, PRIM has been nominated for "Public Plan of the Year" at the Institutional Investor Hedge Fund Industry Awards to be held in New York on June 27th, next month.

We continue to receive recognition for

our innovative hedge fund program that produces very high-risk adjusted returns while it saves approximately $100 million annually on hedge fund fees alone. And that's part of the Project Save initiative that we started several years ago.

Welcome, Dennis.

MR. NAUGHTON: Thank you.

MR. TROTSKY: We led the industry with our use of direct hedge fund investments, replacing hedge fund of funds and we also lead in our dogged pursuit of separately managed accounts in hedge funds, which gives us complete transparency of the holdings and more control and lower fees than commingled funds that are the norm for most investors.

Separately managed accounts at PRIM now comprise more than 75 percent of total hedge fund assets. Our separately managed account program and more recently our emerging manager program are being emulated by peers across the globe. And you may recall that PRIM won this award, the Institutional Investor Award in 2016. Other nominees this year are Ontario municipal, New Mexico, Wisconsin, Texas teachers and Illinois teachers. So good luck with that PCS team.

Additionally, last month, our PCS director, Bill Li, Bill right there on the left, was inducted into the EQDerivatives Investing Hall of Fame, which "recognizes those individuals that have led the line in volatility and alternative risk premia thought leadership." You've done a lot of great work in that area. Thank you and congratulations.

On a more sobering note we announced that Andrew Gromer, investment officer on the public markets team, Andrew, right near the clock, will be leaving PRIM to begin an MBA program at the Yale School of Management. It's a bittersweet moment for us. Of course, we're happy for Andrew in your pursuit of advanced higher education, but at the same time, we're sorry to see you go.

You've been a very valuable employee to us on the public markets team and more recently you've helped Mike Bailey, right beside you, on the private equity team. Best of luck to you, obviously. And as I said before and I'll say again today, maybe we'll be lucky enough to see you on the flip side of things in a couple of years.

In March, we announced that Alyssa Fiore, an investment officer on the private equity team resigned to accept a position at JPMorgan. She frequently presented at the Investment Committee meetings and we all thought she was terrific. She joined the private equity team in 2016 as an investment analyst and she was promoted last year to investment officer. Alyssa was a valuable contributor to our fund underwriting and also to our co-investment program.

And, as you know, many of you who attend Investment Committee meetings, she was doing really well and had great potential. Unfortunately, this was not unnoticed in the industry and she was hired away into the private sector. The departure came as a surprise to us and we wish her well in the new endeavors.

The good news is Mike is in the final stages of interviewing strong candidates for two open positions on his team. And I think I meet a couple of them next week, right? The finalists.

MR. BAILEY: Yes.

MR. TROTSKY: So I'm looking forward to that.

Also, PRIM has four active ongoing searches, a senior investment officer on Dave Gurtz's public markets team.

Dave, where are you?

MR. GURTZ: Right here.

MR. TROTSKY: Oh. Okay.

An investment analyst on the real estate team with Tim Schlitzer. And as I mentioned, two open positions on the private equity team. The good news is we've received more than a thousand applications, a thousand applications for those four slots.

And, as I said before, I'll say it again, we are more than ten times more selective than even Harvard is. Harvard admits roughly 6 percent of their applicant pool. You'll like this, Peter, but we hire less than 0.6 of our applicants.

It's tough work to sort through them all and we're doing that now. But, again, it's a huge compliment to all of us when so many people apply to work here.

Last, I'd like to highlight that we have added a third woman-focused summer internship partner, the CFA Society of Boston to supplement our current efforts with Girls Who Invest and the treasurer's Women in Finance Fellowship. We are excited to welcome three new summer interns to PRIM this summer as part of those programs.

And just as an aside, I'm currently vice chair of the CFA Society of Boston, and effective July 1st I'll become chair for a year. So -- and we have an annual meeting in early June if any of you would like to come, please let me know. I think I need to give a speech there.

Any questions on organizational changes?

MR. BROUSSEAU: Not a question. Just a comment. It appears that we've become victims of our own success with the departure of Alyssa, we have not had any major positions that people go into the private sector, Paul, since I guess as we approved our new compensation program. But we've lost now two in two years. And I think that PRIM has been so successful that our people are going to be probably taken away back to the private sector, which is our greatest problem. And I hope that we don't have many more of these, because you certainly assembled a team up here that is second to none, I think, in the industry. And we don't want to lose these good people. But when opportunities come, we are going to lose them. So we're the victims of our own success.

MR. TROTSKY: Yes. You're right. We're pleased with the low level of attrition, obviously, in such a tight labor market, particularly around here in the financial community. It is particularly difficult in attracting and retaining diverse or female candidates really. That's been a big area of focus for us, as it is for most companies in the Boston area.

Thank you for those comments, Bob.

I'll turn next to markets and PRIT Fund performance quickly. At the last meeting of the board, we reviewed calendar 2018, which you remember was a very challenging year, particularly the fourth quarter. Last year, volatility spiked to 36, last December, after bottoming at 11 last August.

The VIX was approximately 12.7 two weeks ago today at the Investment Committee meetings and we can see really how quickly things can change in the market.

We commented on low volatility at the committee meetings only two weeks ago, but now, after yesterday's very large 2-1/2 to 3-1/2 percent selloff in the U.S. markets, the VIX is approximately 20.5 now, which again is above the five-year average of 15 and the ten-year average of 18.5. So we've been warning about volatile markets. We go through periods of calm, and then we see a spike in the VIX or the fear index.

Markets were strong in the first quarter and into April of this year with growing optimism of normalizing trade tensions with China and the announcement that the fed will curtail interest rate hikes for the remainder of the year.

That changed abruptly last week as the trade deal with China collapsed and new tariffs took effect amid some very sharp rhetoric between our elected officials and China's leaders.

Welcome.

(Discussion off the record.)

MR. TROTSKY: However, even despite yesterday's sharp selloff, markets are still up strongly for the calendar year, which I'll review in a minute, amid a stream of positive economic news.

Headline economic figures were very strong last quarter and into this quarter, and we discussed at length at the committee how some of those headline figures actually belie some still cautious signals once you dig a little deeper into the data.

For example, the first quarter GDP report of 3.2 percent growth was well above the consensus expectation at the time of 2 percent, and of course a positive headline surprise of this magnitude is always very welcomed and very well received. The markets went higher. However, the three largest drivers of the strength are expected to reverse in coming months. Net exports, the largest positive surprise in that report, added a full 1 percent to the reported GDP growth number in Q1. Exports exceeded imports in Q1 but with the backdrop of a still slowing global economy and trade tensions escalating this is not likely to continue.

Also, some think that last year's imposition and threats of new tariffs on imports into the U.S. caused an acceleration of import activity in the preceding quarters. In other words, Q1 may have normalized the unusually high-import activities in the preceding quarters of last year, primarily. The GDP growth report was also enhanced by inventory building, not sales to end users and by an increase in government spending. Those things are unlikely to be sustained going forward.

Stripping out these positive, yet transitory contributors, and underlying GDP growth was approximately 1.4 percent in the first quarter and that's really nothing to write home about.

Corporate earnings results for Q1 have been strong so far. And of the companies reporting, nearly 80 percent of them beat estimates. That's the good headline. The less optimistic underbelly is that most of them are also predicting a slowdown in future quarters.

And, last, it is important to note that the bond markets, which are usually a better indicator of investors' long-term economic expectations, are far more cautionary. Bond yields have been falling. They fell last week again, which means that investors are becoming more pessimistic about long-run economic prospects. For example, the bellwether ten-year treasury, now at 2.4 percent, compares to 3 percent one year ago. That's down 60 basis points. This is not what you'd expect to see in a strengthening economy.

And there is little core inflation and most now think that the next move of the fed will be to lower, not raise interest rates. Again, this is not what you'd expect to see in a strengthening economy.

While we were generally pleased with some of the bright spots in Q1 and we would prefer to be optimistic on this good news, we still believe there is cause for concern about the strength of the global economy and at the

Investment Committee two weeks ago now, even amid all the positive news and the strength in the markets, we spoke at length about the many reasons to remain cautious.

And, in summary, we concluded that we believe our portfolio is appropriately positioned for the uncertainty ahead. And that was two weeks ago. And now you've seen some of that uncertainty and trade tensions escalate.

I'll stop there before moving into a little bit more about performance. Of course, you'll hear some performance summaries from each asset class in a minute. But I'll pause there for any questions.

TREASURER GOLDBERG: I don't really have a question. I have a comment.

MR. TROTSKY: Sure.

TREASURER GOLDBERG: Actually, the activity and the reaction this week has me greatly concerned. I'd love to hear -- I wish Connie were here, just because I would love to ask her how she feels.

MR. BROUSSEAU: Yeah. Agreed.

TREASURER GOLDBERG: First of all, we

know that an ongoing battle between China and us on the tariff issue is going to, I think, consistently negatively impact the markets. And that's not a good thing for us, because we, you know, had -- we got everything back and more from the end of last year.

I know our portfolio is positioned to withstand, you know, negative markets and impacts. I just -- I'm concerned about two things. I'm concerned about something that isn't being talked about that could be impactful, and that is potentially some dangerous activities in the Middle East also.

MR. TROTSKY: That's right.

TREASURER GOLDBERG: I think the Iran situation is more volatile than people are really giving it credit for, quote/unquote. And I also feel that the Middle East situation with Israel and its neighbors is more volatile than people are giving it credit for.

So -- and then we don't know the ultimate outcome with BREXIT. So I think it behooves us to not have a very sort of conservative outlook as we're continuing to keep the portfolio on track.

I mean, we have a lot of positive indicators in our portfolio also, and many things that do not react to immediate markets.

MR. TROTSKY: Right.

TREASURER GOLDBERG: We have long-term strategies. But I think it would be unwise to think of it in any other way right now.

MR. TROTSKY: Right. And we did speak at the Investment Committee about the U.S. being really the sole bright spot in the global economy. Many global purchasing manager indexes have turned negative, global economies around the world have negative interest rates and they're introducing stimulative packages. Of course, Japan, South Korea, Canada and Germany are working through contractions, even China.

Those summary -- recent reports have been strong, is implementing stimulus that pales in comparison to the amount of stimulus that they put into effect in 2015, '16. So, you know, we spent a lot of time discussing the global economic situation as you've mentioned.

TREASURER GOLDBERG: It's certainly

changed in the last two weeks.

MR. TROTSKY: These tensions worldwide could even exacerbate that, so you're right.

MR. NAUGHTON: Even on the domestic end of things, when it comes to whatever the backlashes are on our economy and on our consumers, even there, there's no telling where this is going to go.

MR. TROTSKY: Right.

MR. NAUGHTON: You know, I mean, it's been ratcheted up consistently.

MR. TROTSKY: Yes.

MR. NAUGHTON: The tariff business is a bargaining chip.

MR. TROTSKY: Yeah.

MR. NAUGHTON: Really all of us are on the table as chips.

MR. TROTSKY: Yeah.

MR. NAUGHTON: In this thing and the treasurer's view is very concerning in addition to all the things that she has mentioned. I think we have our own potential problems right here.

MR. TROTSKY: Yes.

MR. NAUGHTON: I mean, if consumers --

TREASURER GOLDBERG: Yes. I mentioned.

MR. NAUGHTON: -- are feeling, you know, parsimonious in the future, where does that leave domestic, many domestic agendas.

TREASURER GOLDBERG: Well, even just in Massachusetts, for example, you know, the sales tax is a critical piece of our revenue. And I'm sure it is in other states too. But, you know, I sit here worrying about Mass School Building Authority, because it's a penny on the sales tax and then -- but revenues. I just -- it will be -- we're heading into summer so it will be interesting to see if the Middle East situation affects gas prices at all. So just keep a watchful eye is my...

MR. HEARTY: Aren't tax revenues up?

TREASURER GOLDBERG: Tax revenues were up. They were way down in January, but that was prior to this week. And they are, the last two months are the first time they were up. We were -- in fact, the governor and I will be meeting later today. But we had a lot of concerns in January and February.

MR. TROTSKY: Okay.

MR. NAUGHTON: One other thought. I mean, with regard to, you know, obviously Canada is a major trading --

TREASURER GOLDBERG: And by the way, they were up because of capital gains, not because of regular revenues.

MR. NAUGHTON: And The Globe reported yesterday that almost 900 people who man the checkpoints, personal checkpoints between the U.S. and Canada have been moved to the southern border, which is going to hold up all sorts of tourist traffic, all sorts of commercial traffic.

TREASURER GOLDBERG: Oh, really? They were moved, all of the people up at the Canada border?

MR. NAUGHTON: They moved 900 of them to the southern border.

TREASURER GOLDBERG: Really? I didn't know that.

MR. NAUGHTON: And there's a belief there will be massive delays at the Canadian-U.S. border.

TREASURER GOLDBERG: Will that keep

people from going?

MR. NAUGHTON: It will keep me from going. I think it will. And it will keep Canadians from --

TREASURER GOLDBERG: From coming here and spending. Because they go to Maine, Vermont and New Hampshire.

MR. NAUGHTON: It will be problematic for the northeast.

TREASURER GOLDBERG: I didn't even know about that.

Plus the other thing, I mean, we want to talk about New England or Massachusetts, the other issue, does everyone know that Encore's opening is delayed because they can't hire enough people to work there? And that -- and that Cape Cod businesses are not getting -- don't have enough staff for the restaurants and the retail operations?

MR. BROUSSEAU: That's true almost every year down there.

TREASURER GOLDBERG: No, no. But it's because they used to get those H1 visa people and those aren't available.

MS. FITCH: Right. They've been cut.

TREASURER GOLDBERG: I'm just thinking about Massachusetts. I see all the nodding over there in the corner. We have an expert here.

STAFF MEMBER: Yes. I agree with you. I go to the Cape often and there's so many jobs open for the summer. I always tell my kids to go down and do that.

TREASURER GOLDBERG: If I had kids.

MR. BROUSSEAU: I live there, so I know.

STAFF MEMBER: Yeah. Exactly.

TREASURER GOLDBERG: Anyway...

MR. BROUSSEAU: Unfortunately, the comments you made earlier, I agree with you fully. Sometimes there has not been -- it's not been unusual to have military actions and war preceding a general election in this country for various purposes, whatever purposes they serve, unfortunately sometimes that's a policy that's pursued by the government. It's very unsettling to me, I know.

MR. TROTSKY: So that's all the bad news, but thank goodness --

TREASURER GOLDBERG: Now we can talk about the good news.

MR. TROTSKY: Thank goodness for the Bruins, they're resurging.

TREASURER GOLDBERG: And what about the Celtics? The Celtics blew it.

MS. FITCH: That's on the bad side. That's done.

TREASURER GOLDBERG: It's still too cold to go to a Red Sox game. I mean, I sat -- I always go on Mother's Day, which is also my birthday weekend, just saying, and I sat there and watched the rain with my "Red Sox Number One Mom" shirt on and watched and watched and watched and finally didn't go because it was just too cold and I was sure I would get sick again. So that was a disappointment.

MS. FITCH: That was smart.

TREASURER GOLDBERG: I think people were in my seats, except that they didn't own those seats.

MR. TROTSKY: All right. To quickly review some numbers, as I mentioned the first quarter was very strong. I'll review some numbers for the first quarter and then the second quarter to date.

In the first quarter, the S&P was up 13-1/2 percent, developing international markets were up 10 percent. Emerging markets, up 10 percent. Diversified bonds, up 2.9 percent. And a 60/40 mix of global stocks and bonds was up 8-1/2 percent for the first quarter and the PRIT Fund was up 6.4 percent.

April was up strongly. The S&P was up 4 percent, but May now has been down 4-1/2 percent. The gains across the board in April have largely vanished in May now. But still for the calendar year to date, markets have been strong with the S&P up through yesterday, now the S&P is up 13 percent, developing international markets up 9 percent, emerging markets, up 6 percent. Diversified bonds, as I mentioned, when yields fall, prices rise. Diversified bonds up 3-1/2 percent. Long bonds up over 6 percent. And a 60/40 mix of stocks and bonds calendar year to date through yesterday is up 8 percent.

Turning to Appendix B now, I'll review

PRIT Fund performance and we'll start on Page 2. I'll give you a second to get there. It's a chart that shows, on the left, what did well, private equity, U.S. large cap equities and real estate led the way. On the left.

International equities and emerging markets debt and local currency did poorly, primarily because of currency translations. That's all for a one-year period. Can you see in the middle, the PRIT Fund is up 3.8 percent versus a 60/40 mix of global stocks and bonds that was up 3.4 percent.

Page 3, you can see analyzed returns through Q1. Again, the one-year PRIT Fund return was up 3.8 percent gross. That's 3.4 percent net.

Underperforming, and I'm not used to saying this, underperforming by 50 basis points for the year. That's an investment gain of 2.4 billion even though it was 600 million below benchmark. We know the reasons for underperformance. We'll discuss some of that shortly. We discussed it at length at the Investment Committee meeting. I'll draw your attention to the three-, five-, and ten-year numbers, all very positive and above benchmark.

Peter, you might take a look at the ten-year number now, which has gone up as we predicted, as we roll off the global financial crisis numbers. The ten-year return of 10.8 percent is well above the actual rate of return. And then net outflows to pay benefits for the 12 months was approximately a billion dollars.

Next page, all asset classes either met or exceeded benchmarks, except for PCS. PCS was the one area of relative underperformance but the underperformance was contained and we know the causes very well, in fact. Just as a reminder, PCS is comprised of 83 percent hedge funds and those are doing well. We're pleased with our hedge fund performance. The weakness came from two areas. 8 percent of PCS is risk premia strategies and 9 percent are from real assets, agriculture and also retrocession insurance. Eric will talk to you a little bit about the areas of underperformance and we're comfortable that we're taking appropriate measures to alleviate that.

And then I'll end on the quilt chart on Page 5. You can see, again, that private equity and real estate lead the way over all time periods. You can see global equity over the long-term is very strong, but you can see its volatility in the one-year number.

And that's why we've been looking for assets that enable us to trim our global equity position while still giving us the opportunity to meet our dual mandate of achieving our rate of return requirement and also having low drawdowns.

So I'll stop there and take any questions. But you will hear more performance details from each of the asset class heads.

MR. BROUSSEAU: Michael, just a fast question. We haven't met since February, but -- and I haven't heard any talk of changing the actuarial rate of 7.35. Probably the treasurer knows. Are you leaving that alone?

MR. TROTSKY: No. No.

TREASURER GOLDBERG: No. No. It changed.

MR. TROTSKY: It came down in January,

I believe.

TREASURER GOLDBERG: Yeah.

MR. BROUSSEAU: To where?

MR. TROTSKY: 7.25.

MR. BROUSSEAU: Oh, 7.25.

MR. TROTSKY: A slight change down.

MR. BROUSSEAU: We're raising our unfunded liabilities even further.

TREASURER GOLDBERG: Well, you know, that can't really -- in fact, the rating agency visit, which we did, the rating agencies were glad to hear that we did that and that they also expect us to do it even further. So you have to sort of balance it. We -- when we were at 7.5, we went down to 7.35 instead of 7.25, to be a little less impactful on the increased liability, but the reality is, is that we should be below 7.

MR. BROUSSEAU: So we can see further adjustments every year?

TREASURER GOLDBERG: Maybe not every year, but we will see further adjustments. All the pension funds are doing that.

MR. SHANLEY: Yes.

TREASURER GOLDBERG: And foundations.

You name it. There has to be -- not just on the rating agency side, but, in general, you really want to have a firm grasp on what is reality. And on top of that it also -- we're working with the governor and the secretary of administration and finance on looking at the funding schedule moving forward so that if you are giving them a more and more realistic perception of what the unfunded liability is, then that's a better strategy. Yes.

MR. SHANLEY: And coupled with that realistic thing we needed to do, we changed the mortality tables. And that also adds that impact.

TREASURER GOLDBERG: Right. That had a huge -- that had a huge -- that, in a way, a bigger impact.

MR. SHANLEY: That's realistic. We have to be realistic of what is going on.

TREASURER GOLDBERG: But you know what, the mortality is not changing. It's sort of stabilized where it is. So it was a huge quantum jump because it was -- people were living longer but now what is interesting is it's flattened out. And in some cases, women are living less long and acquiring some of the diseases that men have typically had.

MR. SHANLEY: Wow.

MR. GURTZ: Good morning, everybody. My name is David Gurtz. I'm going to walk through briefly the public markets portfolio and then we've got a couple of voting items. So before we talk about performance, I just wanted to give my congratulations to Andrew Gromer as well. He's been a real asset to the team. Great guy to work with and I just wish you the very best. You know, with his departure, I'm going to use that opportunity to talk about the team dynamics right now. We've got a four-person team plus myself makes it five. With Andrew's departure we're in the process of looking for another senior investment officer. I've received over 300 resumes for his position. I'm in the process of interviewing some folks.

TREASURER GOLDBERG: Are you interviewing all 300?

MR. GURTZ: Not even a fraction of that, a small fraction of that. But early stages of the interview process, I'm really hoping that by the next board meeting we'll have somebody to introduce you to.

And then probably in a month or two, looking to post a position for investment analyst to the team. So with that, why don't we talk briefly about performance.

Again, if you refer to Appendix B. I'm going to start on Page 6, very briefly. A lot of green on that page, but there are a few pink spots. And those are all of our asset classes that had exposure to foreign currency. I'm going to highlight that a little bit. Everything else is positive for the one year ending March 31st except for those areas that have foreign currency exposure.

So turning to Page 7, our global equity portfolio had a very strong Q1, returning 12.4 percent, beating the benchmark by 64 basis points, gross achieved 68 basis points, net of fees. However, the trailing one year returns were much lower, up 1 percent, thanks to the very weak fourth quarter and the negative returns from international and emerging markets.

Most of the underperformance of international and emerging came during Q2 and Q3 of last year when domestic equities had fairly strong positive returns. International emerging had flat or negative returns. A significant portion of this underperformance was due to currency effects. For the trailing year, the international equities portfolio underperformed domestic by 13.8 percent. So the net between the 9.7 U.S. and the 4.1 on the international is a difference of 13.8. Of this, about half, 7.1 percent, was due to currency. In emerging the underperformance of domestic was even larger, 18 percent. About a third of that was due to currency. 5.8 percent.

So for the trailing year, relative performance was positive though, however, particularly in U.S. SMID Cap and emerging market equities. In U.S. SMID, our manager with the largest allocation outperformed by 13 percent another SMID manager outperformed by 4 percent.

As a reminder, we are in the U.S. SMID small cap, we are roughly 40 percent active, 60 percent passive. In emerging markets we're

100 percent active. Our two best performers, one was a quality growth manager, Baillie Gifford, and the other was a value manager, Pzena. So Baillie Gifford outperformed by 5 percent for the year and Pzena outperformed by 4 percent.

So, again, it kind of gives you that emerging markets have been a difficult market, but our active managers in both growth and value have done very well.

Turning to Page 8, our fixed income portfolio, starting on the right-hand side, similar to emerging market equities, emerging markets debt and local currency was the worst performing asset class over the last 12 months, returning a negative 9.1 percent. In this case, FX contributed approximately 80 percent of this negative performance.

As a reminder, we've been reducing our exposure to emerging market, debt local currency. It represents a little less than 1 percent, about 70 basis points today of the PRIT Fund. This is lowering as we seek investments to fund other credit opportunity investments.

On the positive side, on the left-hand

side, long duration U.S. Treasury STRIPS have returned 6.8 percent for the year, as 30-year yields fell 15 basis points over this one-year period. Our STRIPS allocation continues to perform as we hoped. Since the inception about five years ago, it has annualized return of a little over 7 percent with a volatility of 15.2 percent. But most importantly, it's retained its negative correlation to the U.S. equities. It's got a correlation of negative 0.15 to global equities.

They've done their job of protecting the equities on the downside. A couple of examples of that, in Q4, when the equity markets were down significantly, STRIPS, were up 8 percent in Q4 last year. And just this past couple of weeks, May markets, S&P is down 4-1/2 percent. Treasury STRIPS are up 2.9 percent during this time period. So they are moving in opposite directions which is how we designed the portfolio.

So with that, I'm just going to stop there and if you have any questions, I'm happy to answer. Otherwise we can move into the voting.

TREASURER GOLDBERG: Peter.

MR. MONACO: Can you remind me, what is the philosophy with respect to currency hedging or not, the international equity portfolio?

MR. GURTZ: Yeah.

MR. MONACO: You could say that, you know, we -- you know, we hire our managers to pick great equities --

MR. GURTZ: Right.

MR. MONACO: -- which are representative of exposure to great companies.

MR. GURTZ: Yes.

MR. MONACO: We don't pay them to --

MR. GURTZ: Manage currency.

MR. MONACO: Currency investors and traders. Maybe hindsight is 20/20 but for a multi-year period and maybe for the foreseeable future, developed market interest rates ex-U.S. are lower than our own, notwithstanding how low ours are. So we could be hedging at little or no cost.

MR. GURTZ: Yeah. So I'm glad you brought it up because it was actually mentioned at the Investment Committee as well. So Andre

Clapp did a study of equity -- or currency hedging a couple of years ago. We're going to kind of dust it off and revisit it. But essentially emerging market hedging is expensive. So that's why we just haven't even attempted to do it. It's just too expensive to hedge.

International development, hedging, the thesis of the research that we did a few years ago was, one, it really didn't protect you on the downside of currency moves. It did lower the volatility of currency impact to your portfolio, but it really didn't help on the downside. It sort of kind of capped the upside. So ultimately it wasn't very helpful to us.

The second component of that is it's extremely expensive to keep through these markets. So it requires a lot of money. So we're in the process of dusting off that study and reevaluating it with kind of the new information which you said the last couple of years have been a little different maybe and we'll be presenting that hopefully or sending it out this summer, I hope.

MR. MONACO: Then the second question

relates to the local effects denominated fixed income portfolio. Understanding that the decision to divest that was made some time ago.

MR. GURTZ: Yeah.

MR. MONACO: And that it is such a small percentage of the portfolio, why hasn't it been fully harvested and just parked in liquid high-quality fixed income --

MR. GURTZ: Yeah. Yeah.

MR. NAUGHTON: -- rather than --

MR. GURTZ: Yes. And I think the answer is we sort of expected to ramp up other credit opportunities a little bit quicker. But the realization has been it hasn't been ramped up very quickly. And so we've kind of taken that same spirit, though, that it's about time to kind of just move this out, out of this asset class. So even just beginning last month we moved $150 million out of this thing. So I think going over the next coming months, we're just going to start taking this thing down, regardless of whether or not we have money in other credit opportunities but just put it to your point in more stable fixed income portfolios.

TREASURER GOLDBERG: Any other questions or comments?

So we have a voting item, which I will -- will move and I will ask for a motion and second and then we can get the explanation. So I would ask for approval of an initial allocation of 100 million to Driehaus U.S. Micro Cap that the PRIM Board approve the Investment Committee's recommendation to approve an initial allocation of 100 million to Driehaus U.S. Micro Cap as described in Appendices D and E of the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Go ahead.

MR. GURTZ: Great. Thank you.

TREASURER GOLDBERG: Thank you.

MR. GURTZ: We're at Appendix D, page 2. Appendix E is a memo from Callan also recommending this.

So I'm going to start and then have my colleague, Andre Abouhala, investment officer, go through the recommendation. So on Page 2, Appendix D, just a reminder, last cycle we recommended and the board approved the hiring of three U.S. Micro Cap equity managers: Acadian, Brandywine and Lord Abbett as part of our 2018 RFP. We have been slowly funding these three managers and expect them to be fully funded by the end of June.

As I mentioned at the last meeting, the team will be continuously looking and sourcing the best managers by being constantly in the market for great managers. By utilizing a more nimble process to source managers, we are able to recommend high-performing managers when the opportunities present themselves. So today is our first recommendation utilizing this enhanced process and truly a perfect example of how PRIM was able to capitalize on an opportunity.

So, with that, I'm going to hand it over to Andre.

MR. ABOUHALA: Thank you, Dave. Good morning, everyone. I'm Andre Abouhala. Today the public markets team will be recommending a $100 million allocation to Driehaus Capital Management U.S. Micro Cap Growth Equity strategy and we're on Page 3 of the presentation. Funding for this investment will be sourced from our existing passive U.S. SMID Cap equity portfolio. Therefore, this allocation will not change our overall exposure to equities. The addition of Driehaus to Acadian, Brandywine and Lord Abbett will bring our total exposure to U.S. Micro Caps to 400 million. PRIT has an existing relationship with Driehaus. They're an emerging markets equity mandate in which they manage 660 million in assets and they've outperformed since inception and net of fees.

Turning to Page 4 of the presentation. The strategy has demonstrated excellent alpha capability with an enhanced risk-return profile since inception of their Russell Micro Cap benchmark. Driehaus has outperformed in 17 out of the last 18 years by at least 150 basis points annualized and net of fees.

Driehaus employees enacted earnings growth momentum investment philosophy. The strategy focuses on identifying company-specific growth inflection points and exploring how these companies trade in such fund periods of strong growth. Driehaus believes markets tend to misprice stuff on positive growth inflections and these inefficiencies often follow predictable and exploitable patterns. As active managers they look to exploit these inefficiencies by using fundamental research in concert with their technical skills. The proposed strategy is overseen by Jeff James, who has been managing the strategy for 22 years, and assistant PM Michael Buck, who has been with Jeff for 17 years. Together, they oversee all domestic U.S. small and SMID cap growth portfolios at Driehaus and they are supported by an additional five sector specialists, research analysts and two risk management professionals. For this mandate PRIM has negotiated an 80-basis point fee on all assets and Driehaus will close the strategy to new and existing investors upon our allocation.

As Dave said, the Callan memo is on Appendix E. And with that I'll take any questions on the recommendation.

Thank you.

TREASURER GOLDBERG: Any questions? None?

MS. FITCH: That sounds right.

TREASURER GOLDBERG: Pardon?

MS. FITCH: That sounds right.

TREASURER GOLDBERG: Hearing none, we have a motion. We have a second.

All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

Thank you.

MR. GURTZ: One more voting item.

TREASURER GOLDBERG: Okay. Hang on.

All right. I would seek an approval of the issuance of an RFP for passive short-term fixed income investment management services that the PRIM Board approved the Investment Committee's recommendation to approve the issuance of a request for proposals for passive short-term fixed income investment management services as described in the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. GURTZ: This is very routine. Back in February, the board approved our new asset allocation, which included a new 2 percent allocation to short-term fixed income and so we're looking to issue an RFP to procure passive investment management services for short-term fixed income investment management services.

TREASURER GOLDBERG: Any questions?

Hearing none, we have a motion. We have a second.

All those in favor?

BOARD MEMBERS: Aye.

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

Next. Hello, Eric.

MR. NIERENBERG: Good morning, I'm joined by my colleague Bill Li.

So I'm going to begin with a

few comments on the performance of Portfolio Completion Strategies. Michael already talked about it a bit. We'll give a little more detail on the hedge funds and risk premia. At a high level, I want to also give you an update on some of the other developments within PCS.

As Michael mentioned, for the last year PCS did underperform its benchmark by 180 basis points, returning 1.26 percent for the year versus just over 3 percent for its custom benchmark.

That said, our hedge fund program, which is the lion's share of PCS assets, did outperform by 33 basis points over the past year. So the hedge fund program is -- granted it was not a great year from a return perspective for hedge funds, but our program did outperform its benchmark and still had a good risk-adjusted return ratio.

Also noteworthy, though, on the hedge fund side, our fee level has dropped to its lowest level ever. Our fees are now approximately 1 percent management fee and 13 percent incentive. That compares to the industry standard of 2 and 20 or 1-1/2 and 20. And, as Michael mentioned earlier, when we take all of our fee saving initiatives, whether it comes from managed accounts, whether it comes from having direct relationships, our run rate of savings comes to about a hundred million dollars a year, just from our hedge fund program. So that's very meaningful.

And also noteworthy, of our 4-1/2 billion in direct hedge fund assets, almost 75 percent of that, just about $3 billion, reside in our managed account platform, which is now one of the largest of its kind in the world. We continue to be emulated by others.

It's the two smaller areas of PCS, the risk premia and the real assets, which we will discuss, has a few different components, but the two main ones that I'll talk about today are agriculture and reinsurance that are responsible for the recent underperformance.

We take these disappointing results seriously, and we have been in dialogue with the managers to try to understand what happened. I think we have a good handle on it.

In some cases, we're probably going to make some changes in the near future.
Some things are -- you could attribute to just bad luck and I'll go into that and some things I think are more concerning maybe from an operating perspective.

Before I turn it over to Bill for the discussion on hedge funds, put spread collar and risk premia, just a few comments on those real assets. With reinsurance returns, remember we're investing in retrocession policies. This is the top of the reinsurance pyramid. We were negatively affected by three events in the fall of 2018. First was Hurricane Michael, which was the first Category 5 storm to make landfall in the U.S. since 1992. And then the Camp and Woolsey wildfires in California, which together were the most severe wildfires in reported history. There was also Typhoon Jebi in Japan.

The California wildfires in particular, took the reinsurance industry by surprise. The scope of the damage estimates exceeded pretty much everyone's underwriting models by a considerable margin. This was kind of a worrying development for the reinsurance sector overall. It's worth noting that the Camp Fire in Northern California that wiped out the Town of Paradise, appears to have been caused by PG&E negligence. PG&E is the California utility and has subsequently filed for bankruptcy. In theory, there would be the potential for us to recoup some money in the future. I wouldn't really put a lot of weight on that, for if it happens, it could be decades from now. We're not underwriting any sort of recovery for that.

85 percent of wildfires are caused by some sort of human action, whether it's arson or negligence. Many of the reinsurance and retrocession participants are starting to pull back from wildfire coverage as a result, because it's -- in some ways it's not truly a natural disaster. It's something more manmade, which is just harder to underwrite.

On the agriculture side there are a couple of things going on. First of all, end-of-year appraisals. We have our farmland properties appraised on an annual basis. Many of -- most of the properties we have in the portfolio are development-based, which means that we're planting trees with the idea that in two or three or five or seven years, depending on the crop, whenever they reach maturity, is when you will start to generate more substantial cash flow.

Most of these properties are at an early stage of development and the appraisers, generally speaking, did not give full credit for some of the capital improvements that went into the land. For example, putting in an irrigation system. Because they say if you sold the land today you wouldn't really get any money for that. Which is, I suppose, a reasonable contention.

We do expect that as these properties continue to mature that they'll get back up off that J curve and kind of recoup it from just an appraisal standpoint.

That being said, the purpose of these properties is really to generate cash flow in the future. Appraising has to be done because we need to be able to mark our assets for accounting purposes. But the appraisals alone are not really super meaningful in terms of the long-range prospects for the properties. There were some operating concerns.

There was weaker than expected pricing in blueberries and in certain varieties of wine grapes that took, I think, a lot of the industry by surprise, and also took our manager by surprise. And that contributed to some weaker operating results.

Again, most of our portfolio is development based so most of the kind of negative performance we saw over the last year was due to the appraisal issue. But we are concerned about the operating results and we are looking into a lot of actions that we potentially could take, in terms of trying to rectify that piece.

That's what I have on the real assets side. I can take any questions on that piece now or I can hand it over to Bill to walk you through the rest of PCS pieces.

MR. TROTSKY: And we should probably mention that a team of us will be visiting some of these properties and the manager for an in-depth review next week.

TREASURER GOLDBERG: Oh, I didn't know that. That's news.

MS. FITCH: A team being three or four? A team being --

MR. TROTSKY: I think there are four of us.

MR. NIERENBERG: Mike will be joining us as well.

MR. TROTSKY: It's getting a lot of attention.

MR. NIERENBERG: We're actually going to Georgia to visit a newly acquired blueberry property, which the idea is now we have our blueberries in Michigan, and we have a blueberry property in Georgia. Those are different growing seasons. And we also had, from the Michigan property, established a brand so that there could be sort of a brand presence, which is easier then to market to the growers because they like to have a specific brand that they're dealing with and they also like to have a continuous supply throughout the kind of growing season.

MR. TROTSKY: But we'll be reviewing the entire portfolio with their most senior management too, so we're going to do a property tour first followed by a full day of meetings to review everything.

MS. FITCH: So that sounds like a two-day visit.

MR. TROTSKY: Yeah.

MS. FITCH: Which they are taking, I'm assuming, seriously?

MR. TROTSKY: Oh, I hope they're taking it seriously. We are.

MS. FITCH: Yeah.

MR. BROUSSEAU: To what extent, Eric, are these folks taking into consideration climate change? None of us have control over that. It seems to be not only a growing issue, I think with all of these investments that we can't predict what is going to happen, the fires, the droughts. Eleven inches of rain in Mississippi this weekend. Floods. I mean, I think it would be -- becomes a volatile investment; I would think.

MR. NIERENBERG: So actually I'm glad you raised that. Let me answer two different pieces.

On the agriculture side, weather is always going to be a primary risk. We saw that in Michigan, and it's not just the weather in the place where you have the property itself, but also what the weather is in other areas that might be competing to supply the product that you're growing.

For instance, the first year in Michigan, the harvest was affected because of dramatic amounts of rain that they had in Michigan that impacted the yield of the crop and also affected the quality.

The second year, the yield was fine but there was a lot of supply from British Columbia because their growing season was much later that year. They had an unusual weather pattern in Canada but the weather in Michigan was fine. Yet to some extent, weather risk is one of the reasons that we wanted things like agriculture in the portfolio because it's diversifying to the rest of the fund. It's not correlated to the stock market or the bond market.

The reinsurance side is different and that's where I think the weather issue is potentially more serious and we're reevaluating whether or not we want to be in that industry at all.

MR. BROUSSEAU: I agree.

MR. NIERENBERG: It's not even so much -- there's clearly always going to be the risk of events. Some of that is a lot of randomness, right? It's been two years of a lot of events. But that, in and of itself, doesn't necessarily constitute a trend.

However, what I think has been most perturbing has been that the estimates that the modeling agencies come out with when an actual disaster occurs. Historically those were pretty accurate. Now there was always noise about them but if a hurricane were to hit South Carolina, they would look through their models, they'd look through the database of insured properties and say, all right, we expect there to be $15 billion of insured damages. Sometimes there's $20. Sometimes there's $10. But their estimate tended to be reasonably accurate from an average perspective.

In the last couple of years we've seen the damages came in considerably higher than what the modeling agencies were expecting. In the industry, that's called loss creep. The losses keep creeping up.

That's concerning because you're not really sure what you're underwriting. Your pricing policy is based on a certain expectation of loss if an event occurs. If the damages continue to be systematically greater than what you are modeling, well then you need to raise prices, which is happening. The prices are going up, but it is concerning from the standpoint that you don't necessarily know the distribution of outcomes anymore.

And from an investment perspective, at least for us, that's not as attractive. It's one thing to have risk in the sense that we think we understand the distribution of potential outcomes. Sometimes you have bad luck and you have a lot of events. That, in and of itself, having a loss, isn't necessarily disqualifying it as an investment. But when you no longer have a lot of confidence in the distribution of potential outcomes and how much it's moved in one direction or another, that's a bigger problem.

I mentioned to the Investment Committee, there's one manager of the two in the reinsurance portfolio, in particular, that I think had grossly misunderestimated liabilities of damage, particularly due to wildfires. That manager is not going to be continuing in our portfolio but we are looking into over the next few months whether we want to remain in this retrocession area at all, quite frankly, going forward.

MR. BROUSSEAU: I'm glad you're looking at it.

MR. NAUGHTON: Just following up. I had the same question. How long would it take us to extricate ourselves from it?

(Theresa McGoldrick now present.)

MR. NIERENBERG: The reinsurance is invested on a year-by-year basis.

We have less exposure for 2019 than in 2018. The policies end as of December 31st, 2019. And then depending on the amount of losses that were incurred during the year, if there are no losses then your capital starts to get returned to you once all the books are closed over the course of 2020.

Effectively you would say that the vast majority of the capital would be returned during the 2020 calendar year, but the economic exposure to the insurance risk would not last beyond the end of 2019. If we decided to exit.

MR. NAUGHTON: A question about agricultural investments as well. Is my recollection correct that our agricultural investments are all within the United States up to now?

MR. NIERENBERG: Yes.

MR. NAUGHTON: Has any thought been given to -- I mean, when I go into the market in the wintertime and I look at where things come from. Chile, for example, is discussed a lot. Are we ever going to consider going in that direction?

MR. NIERENBERG: So the manager has brought up the potential for that. Particularly with something like blueberries, where if we want to maintain a year-round supply, you would need to have some South American assets like in Chile, Argentina or Peru because that's where blueberries are grown during the winter months here.

We have not really looked at that too intensely. First of all, there are a lot of properties, potential properties to acquire in the U.S.

Second, even though I think the rule of law, particularly in Chile and Peru is very strong from an agriculture land owning perspective, you are still owning land in an emerging market which can't be moved and I think that is an important consideration.

We have discussed it, but we haven't considered anything actionable in that regard. And, quite frankly, when you approved the agricultural manager initially, we said that we were only going to start with U.S. properties. If we were going to pursue international properties, which as I say is not on the table at the moment, but if we were, that would be something that we would discuss with you first, because that would be a modification to the initial program that we proposed.

MR. NAUGHTON: I have to say, you know,

I just realized I'm completely ignorant about how climate change has affected places like Argentina, Peru and Chile, as just an aside.

MR. NIERENBERG: I mean, it's a very difficult question to answer, because while you have that kind of specter of climate change overall, a lot of what goes on in individual areas is based on individual microclimate and then just based on natural year-to-year variance. So it can be very difficult over the course of a couple of years to say is this happening because of global warming or is this happening just because some years you get a lot more sun, you know, in central Peru than others and that's just within normal variation or it's hotter than it normally is.

It's only after the fact and with a lot more years of data that you can then more definitively conclude that was due to global warming. But when you're in the midst of it, it's very difficult to identify that.

More generally speaking, when a manager is underwriting the agricultural properties, things like the water rights are very, very important. Obviously, that's a huge issue in California. And on the climate change, if we were to look at properties that were very low lying by the sea, we would probably say why would we be doing something like that because you would have potentially more global warming exposure.

Most growing areas are not right along the ocean, they're usually at a higher elevation. That, in and of itself, isn't an issue. But the global warming is difficult because you don't always know what effect it will have on certain growing microclimates.

We know what effect it might have for large regions. But for the individual properties, we don't know.

MR. NAUGHTON: We do know that hurricanes are going to continue to affect the southeastern part of the United States though.

MR. NIERENBERG: Yes.

MR. NAUGHTON: Whereas that isn't a factor for, as far as I know, certain risks of South and Latin America.

MR. NIERENBERG: As far as the hurricanes, it's the same El Niño phenomenon that can contribute to the hurricanes in the southeast U.S. also because they originate off the coast of South America. It can also produce either intense monsoon-like rains on the Peruvian coast or possibly cause it to be completely dry. While it's not necessarily a storm, the same weather event can have consequences for them.

MR. TROTSKY: Okay. This is very interesting, but we need to move on.

MR. NIERENBERG: Let me turn it over to Bill.

TREASURER GOLDBERG: Yeah, we have a couple of voting items.

Go ahead, Bill.

MR. LI: Thank you. My name is Bill Li. Good morning, everybody.

So in terms of hedge funds, as my friend Eric mentioned that there has been continuous operating effort in terms of both operation and governance as well as investment composition in the portfolio. And some recent portfolio upgrading has been through the emerging manager direct hedge fund program.

In March, after half a year since the

program inception, we just onboarded the fourth manager. Following the guidelines as approved by you, 50 million was deployed to Tiber Capital. This is a London investment manager, which has 300 million assets under management, and it specializes in short-term momentum trading.

Now let's zoom out to the overall PRIM hedge fund portfolio. In Q1, PRIM hedge fund delivered 3.1 percent, underperforming the benchmark by 29 basis points. Our trailing three-year, however, the hedge fund portfolio returned 5.6 percent on an annualized basis and that represents outperformance of 160 bps every year. Together with a 2.8 percent volatility, that translates into a shape ratio of 1.5, way higher than both S&P 500 and Barclay's aggregate in terms of a risk-adjusted return.

Outside of the hedge fund portfolio, Q1 was a strong quarter for alternative risk premia as well, which returned 4.6 percent. Yet looking back, performance was not encouraging since inception. Actually, it has been flat since inception in 2015. And such bland performance has been in line with most other conventional quant managers in this industry.

Incrementally, we have become less constructive on alternative to risk premia strategies, majorly because this space has been increasingly crowded. And that crowdedness has compressed the prospective returns. Because of that, this program is under very close scrutiny.

Switching gears to put-spread-collar equity hedge as approved by you during the asset allocation review session, we have been upsizing the portfolio and reporting it under the domestic equity bucket since March, and we're targeting to upsize it to 6 percent of the PRIT total portfolio by end of the month, May.

The strategy targets to reshape the distribution of S&P 500 and moderate the volatility risk. Because of this thesis, it might limit some of the very extreme movement both to the left side, or, to the downside as well as to the right side, or to the up side.

The way the market rallied in Q1 actually represented one of those unfavorable market environments for this strategy. Even though put-spread-collar returned 8.3 percent, that's still 260 basis underperformance relative to the benchmark which behaved, in our opinion, a little bit extreme in Q1.

Nevertheless, we don't have reason to doubt that this strategy will not catch up with the benchmark in the near future and we appreciate your patience and understanding as you had in Q1 last year.

With that said, we're happy to answer any questions you may have regarding hedge fund and other topics.

TREASURER GOLDBERG: Any questions for Bill?

Hearing none, we'll move right along.

MR. LI: The next is a voting item. And I'm joined by Matt Liposky, PRIM's chief investment operating officer.

TREASURER GOLDBERG: So I will ask that we approve -- move approval of a PCS Advisory and Managed Account Platform Services RFP Recommendation that the PRIM Board approve the Investment Committee's recommendation, approve the selection of Aberdeen Standard Investments as primary advisor, NewAlpha Asset Management as a specialist advisor and HedgeMark Advisors to provide managed account platform services for the PCS managed account platform program, as described in Appendix F of the expanded agenda, for a five-year period, plus up to two additional one-year extensions, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. LIPOSKY: Thank you. We're at Appendix F to go with the recommendation for PCS Advisory and Managed Account Platform Services. This board approved the issuance of an RFP for PCS Advisory and Managed Account Platform Services in November of last year. As both contracts were the advisory Aberdeen and PRIM's managed account platform provider HedgeMark were set to expire this year.

The RFP was issued January 7, 2019. And by the deadline of February 8th, PRIM received a total of 11 proposals: Seven were submitted for advisory services, three for managed account platform services, and two responses were for dual services, were for offering both.

The responses were reviewed thoroughly by the evaluation committee and seven firms were selected and invited to PRIM's offices for interviews on March 19th and March 20th. Three advisory firms, three platform firms, and one firm which presented both services.

The evaluation committee consisted of board of trustee member Paul Shanley, PRIM staff Eric Nierenberg, Tony Falzone and Bill Li and myself. I want to thank all participants for their time and feedback during the process.

I will be presenting the recommendation for managed account platform services and then I'll turn it over to Bill to provide the advisory recommendation.

The Investment Committee approved the evaluation committee's recommendation of the selection of incumbent HedgeMark Advisors. The evaluation committee unanimously felt that HedgeMark was the best firm to provide managed account platform services. HedgeMark is a wholly owned subsidiary of Bank of New York Mellon and has been offering separately managed account platform services to investors since 2009.

Over the last four-plus years, HedgeMark has been instrumental in onboarding, operating and monitoring PRIM's 20-plus separately managed accounts. The team that HedgeMark has servicing the PRIM relationship is truly HedgeMark's A-Team and on a daily basis act as an extension to PRIM staff.

HedgeMark brings industry expertise in all facets of the directly managed account operations including a strong in-house legal team with deep outside law firm relationships and with specialized expertise and experience in structuring of investment vehicles, IMA negotiations and drafting, as well as negotiating and drafting of counterparty trading documentation.

In addition to bringing top-level talent and services to PRIM's relationship, HedgeMark will continue to offer PRIM one of the lowest fees among all respondents.

And I'll pause and take any questions.

Bill?

MR. LI: Turning to advisory service providers, Aberdeen, the proposed, the primary PCS advisor has been working with PRIM in an advisory capacity since 2014. Aberdeen is owned by the parent firm Standard Life Aberdeen, which is publicly traded in London. Aberdeen has around 650 billion assets under management and there are 43 investment consultants based in London and the New York offices covering a wide spectrum of investment strategies.

The Aberdeen team has been very instrumental in helping PRIM upgrade their hedge fund portfolio by vetting new managers and converting legacy commingled holdings into separately managed accounts. And we expect the team to continue to provide high-quality advisory services to the PRIM PCS portfolio.

In the meanwhile, we recommend hiring NewAlpha as a specialist advisor with the focus on global macro, relative value trading, and systematic strategies.

Based in Paris, France, NewAlpha is one

of the most active advisors and investors in the boutique manager space. The firm is primarily owned by La Française Asset Management, a leading French asset management group with a 75 billion under management.

We should note that NewAlpha was hired last year to advise on PRIM's emerging manager direct hedge fund program. As part of the 13-people advisory team actually used to trade relative value type of hedge fund strategists they, themselves, we expected that they would draw from that past experience and deliver a high-quality, in-depth investment due diligence in global macro and relative value type of strategies.

And we think that kind of in-depth specialty in those focus, those strategy types, will well complement the Aberdeen team's broad experience.

And I will open the floor for any questions.

TREASURER GOLDBERG: Questions of the board?

Hearing none, we have a motion. We

have a second. All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries. Thank you.

MR. LI: Thank you.

MR. TROTSKY: Matt stays for the next?

TREASURER GOLDBERG: Matt stays for the next.

So this will be on operational due diligence.

MR. TROTSKY: Are you going to read the motion?

TREASURER GOLDBERG: Yes, I'm going to read the motion. Thank you for suggesting that.

Could you tell me what to say, please?

MS. FITCH: No, you're on your own.

TREASURER GOLDBERG: I would seek a motion for Request for Proposals for Operational Due Diligence Services as -- wait a minute, where is the motion? It starts differently. Let me find it.

That the PRIM Board approve the Investment Committee's recommendation to approve the issuance of a Request for Proposals for Operational Due Diligence Services, as described in the expanded agenda, and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

TREASURER GOLDBERG: Matt.

MR. LIPOSKY: This will be brief. As PRIM continues to explore, invest in more complex assets throughout our various asset classes the need for a specialized operational due diligence provider is required. PRIM staff is seeking approval to issue an RFP for operational due diligence services to gauge and scope out best offerings for PRIM moving forward. I'd like to highlight that PRIM to date does utilize a third-party specialized operational due diligence vendor.

This RFP would allow -- would be helpful in allowing PRIM staff to view and compare other service providers and potentially use these services for a larger scope.

With that, I'll take any questions.

MR. BROUSSEAU: How long do you think this will take to process, by November or --

MR. LIPOSKY: Yeah, that's my plan. I plan to skip one cycle and have this ready for November.

MR. BROUSSEAU: Okay.

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.

Thank you, Matt.

MR. LIPOSKY: Thank you.

TREASURER GOLDBERG: Okay. Finish with the votes on Page 1. Next.

MR. TROTSKY: Well, we'll do performance first and then take the vote.

MR. BAILEY: I have a few words on performance and answer any questions, then we'll have three recommendations for new investments for the private equity portfolio.

As Michael mentioned and we talked about already a little bit, the portfolio gave back some performance of the fourth quarter of 2018. It seems like a long time ago, but we're reporting that fourth quarter '18 performance where the portfolio gave back about 1.7 percent of its valuation for that quarter. That lowered its one-year return to about 15-1/2 percent so it still has a really strong one-year result but that minus 1.7, we think looked a little worse than some other peer groups that we've seen in the industry and we think that that's partly because the portfolio has about 12 percent of its holdings in public companies. You can kind of think of those companies as being in the parking lot, getting ready to exit but they haven't quite gotten to the point where they can leave the portfolio. So with the down draft in public equities in the fourth quarter we saw our performance get hit by that public component, that publicly traded component of private equity.

I'd also say, as we talked about before, that portfolio has a relatively high leaning to the technology industry, and as you recall, while it had a really -- seemed to have a single direction last year until the fourth quarter, meaning it was only going up, by the fourth quarter those valuations and technology companies really reversed themselves and we got some of that underperformance reflected in our private equities portfolio. But looking at it from a longer term perspective, we talked about it's 15.5 percent. That puts us in a good strong position against public equities, which in the U.S., as you know, with that fourth quarter down draft and even into the first quarter still had only a positive performance in the single digits. So we still are outperforming public equities which is our long-term horse race by a significant distance with that 15-1/2 percent.

And then just talking a minute about sort of what we're seeing in the credit markets we'll see what happens this month with this volatility. But credit markets continue to provide a real tailwind for private equity because as you recall, PE firms we work with often use debt to acquire companies and those markets were really supportive. Even though there was a small blip in the end of the fourth quarter, early part of '19, those markets came roaring back by the early part of this year. And I think continue to be supportive for these buyers to purchase fast-growing businesses.

And related to that, we continue to see a lot of liquidity from the portfolio. You'll see that on Page 8 of your open meeting materials, where the portfolio generated about $360 million of cash in the first quarter.

On a run-rate basis, that means it's generating about 15 percent of its valuation in cash every year. So we're getting about 15 percent of the capital back. We think that's a good strong indicator that these markets are wide open and our private equity firms are able to sell these businesses at attractive valuations. And with that first quarter number being at 360, we'll probably see a -- and the early signs are that the first quarter '19 numbers, which we will be reporting later in the summer to you, will probably have a positive rate of return, a pretty strong return similar to the public markets in the first quarter.

With that said, we approved in the last meeting about $600 million of new investments and those are listed on Page 8 of the open meeting materials and we'll talk in a few minutes about three investments with firms that we've been working with for a number of years that would almost double that commitment space to about $1.1 billion. And as you recall, back in the January, February meetings, we had talked about a run rate base of about $1.7 billion for the year, 1.4 to $2 billion on Page 8. So midpoint that would be 1.7.

And we're here sitting here today with about 1.1 billion. So well along -- well on the way to that midpoint of 1.7 and we're only halfway through the year.

And then just one quick sort of quick footnote. We don't show these numbers on your Page 8 but the coinvestment windows continue to be active for us. You remember we had a very active year in '18 and the first quarter of '19 and going to the second quarter has also been pretty active so we're still seeing a fair amount of deal flow coming through that co-investment part of our portfolio with three deals here to date and a total of 21 investments in that portfolio since we kicked that off in 2015.

And still a small part of the PE portfolio, from an exposure point of view, but a meaningful part of our dialogue with managers. And as you recall, those investments are all being made without any fees or any -- any carried interest. So they're very attractive from a compensational point of view, meaning the private equity's firm compensation.

So unless -- I'll stop there. Take any questions. Comments.

TREASURER GOLDBERG: Any questions or comments for Michael?

MR. BROUSSEAU: Just keep up the good work.

MR. BAILEY: Thanks, Bob.

All right. Should we shift? Do you have the voting items?

TREASURER GOLDBERG: I do have a voting item. I bet you would like me to seek a motion on that?

MR. BAILEY: Thank you.

TREASURER GOLDBERG: So we're going to do three of them together, which we did at the Investment Committee.

And I would seek approval of commitments of up to 300 million to Advent International, GPE IX, L.P., of up to 250 million to TA XIII, L.P., and up to Euro 35 million to Medicxi III, L.P.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MR. SHANLEY: Second.

TREASURER GOLDBERG: Take it away.

MR. BAILEY: We will just say brief words, then, Madam Treasurer.

So Advent and TA are both firms that we've invested in the buyouts segment of the portfolio. Those are both long-standing relationships that actually began with a similar, similar genealogy. They began with the same sort of branch and branched out to different firms years ago. They've been very successful components of our buyouts portfolio.

And the Medicxi is on the other side of the pond and on the other side of the portfolio. It's in Europe and it invests in biotech drug discovery. Something you all have a lot of familiarity with living here in Boston. This is our, one of our three firms that we've continued to support in that segment of venture capital where these are trying to discover unique and innovative molecules that will some day be used to address human health issues.

And this is our third investment with this firm since they spun out of another successful private equity firm called Index Ventures that was focused on both information technology and biotechnology and the two firms parted ways years ago.

So this will be our third -- fourth investment with them. Fourth investment with them in this biotech segment of the portfolio.

Happy to take any questions.

TREASURER GOLDBERG: Questions on these? None? Okay. Then we have a motion. We have a second. All of those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

Oh, that's it for you.

MR. BAILEY: Thank you.

TREASURER GOLDBERG: Here we go. Tim.

MR. SCHLITZER: Good morning, everyone.

MR. BROUSSEAU: Good morning, Tim.

MR. SCHLITZER: Just for the record I'm Tim Schlitzer, director of real estate. So our materials are in Appendix G and Appendix H. Let me just make a couple of comments on performance. And we have two voting items.

Just quickly on capital allocation, real estate is at $7 billion or 9.6 percent of the fund. Timberland is at 2.9 billion or 3.9 percent of the fund.

As you know, we are less focused on specific targets at this point, but I think it's safe to say that we are generally right where we want to be from an allocation standpoint.

We've recently signed agreements, you're aware that we did a search for private real estate managers. We just signed those contracts. The last one was done within the last few weeks. So with that, we have committed an additional billion dollars, $1 billion to those three managers. And we're beginning to I think very actively look at opportunities with them.

And there's a real kind of getting-to-know-each-other process that goes on. We have a lot of confidence in their abilities but it's really a matter of just talking about as many real estate investment opportunities as possible. And we're doing that and getting to know each other.

And I expect that that will be -- all of them will be a great source of new investment opportunities.

But, again, there's really no capital pressure here. And that's a good spot to be in. We can be selective.

Our managers are transacting as we speak. We've sold a building and bought a building this year. We have five investments, acquisitions in the process.

But that really equates to a net number of about $300 million. So I think a very measured approach to investing in this environment.

I would make a similar comment on the Timberland side. I think we're being even more measured there. We have a good portfolio, two good managers.

We do see some dysfunction in the housing markets and I think that is translating into a little bit of dysfunction and lower prices in the forest materials market. And we don't think that that is translated necessarily into real discount rates, which is really just returns on forestry assets.

So we're going to be pretty conservative this year and I think spend more time on due diligence with our managers and really continuing to understand what is happening on the ground with our existing portfolio.

Just moving over to a few comments on performance, total real estate return, 9.5 percent for the year versus the asset class benchmark at 8.4 percent. So strong, I think, relative and absolute performance there.

Private real estate returned 8.4 percent. That's 170 basis points above benchmark. And from a manager alpha perspective, a leveraged perspective, the non-core category, which is a small piece of our portfolio, but everything was working in accretive, and that's good to see.

On the public real estate side, very strong absolute performance for the past year at 13.6 percent. Our managers collectively were under the benchmark by 51 basis points. And that's really attributable to stock selection, which is not by definition, not thematic. I think the only thing that I could say is more than one of our managers I think took a position on the retail space which has been difficult over the past couple of years, as you know.

And, in particular kind of on the lower quality end of that company universe. And that has not worked out particularly well. And I think that's probably one thing that we could point to for the underperformance. But longer term, our managers are all doing well so we're pleased with that.

And then just lastly, on Timberland, which returned 3.4 percent for the year, that's

20 basis points above benchmark. Our positioning in the Pacific northwest and Australia and New Zealand I think continue to work pretty well.

Our Florida holding, which I mentioned previously, which was significantly impacted and impaired by Hurricane Michael has been a detractor.

I will mention that our manager on that asset, who came in a few weeks ago right after the real estate committee meeting, we really think is doing a great job in dealing with a very difficult situation and really looking for every innovation that they can find to quickly and relatively inexpensively clear tens of thousands of impacted acres in this property. So we will continue to monitor that.

And, with that, I'm happy to answer any questions.

TREASURER GOLDBERG: Any questions at all for Tim? Okay.

Hearing none, we do have two voting items. Two; correct?

MR. SCHLITZER: Yes.

TREASURER GOLDBERG: Two.

I would seek approval of the Timberland Appraisal Request for Qualifications Recommendation that the PRIM Board approved the Real Estate and Timberland Committee's recommendation to approve the selection of a whole bunch of people, as noted in your meeting notes for placement on list of approved Timberland appraisers as described in Appendix H, which is where they're all listed, of the expanded agenda and further to authorize the executive director to take all actions necessary to take this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second.

MS. FITCH: Second.

TREASURER GOLDBERG: Hit it.

MR. LA CARA: Thank you, Treasurer Goldberg, it's quite a list, quite a mouthful.

TREASURER GOLDBERG: I could read it off, but I think you all are capable of reading it.

MR. LA CARA: All, yeah.

TREASURER GOLDBERG: And you're capable

of copying it; correct?

(Following list taken from Appendix H)

1. American Forest Management
2. Forest Resource Consultants
3. Legacy Appraisal Services
4. Mason, Bruce & Girard
5. Sewall Forestry & Natural Resources Consulting
6. Sterling Consulting
7. Terra Source Valuation
8. The Healy Company
9. Timberland Appraisal Inc.

MR. LA CARA: As was mentioned, this is going to claim recommendation in Appendix H, this RFP goes out every three years or so, we're refreshing our list of qualified current appraisers to the Timberland properties across the United States. This represents about over 900,000 acres of timber and $2 billion in value. Pretty significant, micromarket that they bring us annually. This is -- no bidding occurs at this stage. Once these firms get on the approved list, then we do a competitive bidding process, shortly thereafter. They compete against each other to bid on certain assets throughout the

U.S.

An evaluation committee was formed that included Tim Schlitzer, Matt Liposky, George Tsipakis and myself. I'd like to thank everybody for participating on this.

We did receive nine responses before the deadline. They came from -- and I will read it for the record -- American Forest Management, Forest Resource Consultants, Legacy Appraisal Services, Mason, Bruce & Girard, Sewall Forestry and Natural Resources, Sterling Consulting, Terra Source Valuation, the Healy Company and finally Timberland Appraisal, Inc.

Collectively this group covers the entire United States and all the markets that we invest in and although a few of them would be new to the list we do have experience with all of these firms in the past because they were presently represented on past approval lists.

I'll leave it there. If there's any questions, I'd be happy to answer them.

MR. BROUSSEAU: What is the length? Is it two years, three years?

MR. LA CARA: Three years.

MR. BROUSSEAU: Three years.
MR. LA CARA: Starting this year, '19, '20 and '21.
MR. BROUSSEAU: And have you used all these firms in the past --
MR. LA CARA: We have, yes.
MR. BROUSSEAU: -- for appraisals?
So they're new to you -- they're not new to you.
MR. LA CARA: None of them are new. Some are new to this list but in the past they have provided appraisal services to us. We're familiar with all of them.
TREASURER GOLDBERG: Any other questions?
Hearing none. We have a motion. We have a second. All those in favor?
BOARD MEMBERS: Aye.
TREASURER GOLDBERG: Any opposed?
Hearing none, the motion carries.
The next voting item we have is approval of an additional capital commitment of up to 100 million to the AEW Industrial Separate Account that the PRIM Board approved the Real

Estate and Timberland Committee's recommendation to approve an additional capital commitment of up to 100 million to AEW's existing industrial development separate account as described in the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. HEARTY: So moved.

TREASURER GOLDBERG: Second?

MR. BROUSSEAU: Second.

MR. SCHLITZER: As you said, we're recommending a 100-million-dollar commitment to an existing AEW separate account with the strategy industrial development located just in the U.S. As you know, we have a large relationship with AEW which began in 2011. They currently manage approximately 1.8 billion for PRIM and outperform their perspective benchmark by 150 basis points.

I'll note that we actually had AEW come into the Real Estate Committee meeting and I think I can fairly safely say it was very well received. And the support for this was unanimous.

Again, the strategy is to build and lease industrial buildings using specialized development partners. We feel that industrial development is attractive due to the shorter development schedules and strong demand driven by a robust economy and in particular the growing E-commerce segment. This will, like everything else, be a very important commitment for us. But I would note that in the grand scheme it's relatively small. It's another iron in the fire, as I like to say. We have a great industrial portfolio already, but it can be difficult to source. So smaller allocation with a high conviction manager. We do have full control so we tour and we meet with all of these development partners, we tour the assets. I was in Atlanta last week touring one of them and it's really just a matter of spending a day on the ground, looking at the site, and getting a better understanding of the market and meeting with other market participants. So it's very hands-on.

The returns are more attractive by

definition. We are taking more risk, but the returns are more attractive and the spread makes sense on a risk-adjusted basis. And I'll say that the fees are competitive as well.

MR. TROTSKY: Tim, you call it industrial, but it really is warehouse.

MR. SCHLITZER: It's warehouse and it's smaller bay warehouse, so we -- I'm glad you brought that up. We are going to be particularly focused on the E-commerce segment. We have developed very large -- I mean, the type of buildings you would never see around here, million square foot warehouse buildings. That is not going to be part of this next iteration. I would think that we will be anywhere from 200- to maybe upwards of 500,000 square feet. And we are really looking for -- looking to build buildings that will suit this E-commerce demand which is smaller footprint, higher ceilings so more volume packed into a smaller footprint building, lots of truck space, lots of doors on the building so they are constantly moving goods through these buildings, unlike your more traditional, just sort of move-it-in-and-store-it-for-a-while type model. This is much more dynamic, lots of technology in these buildings. And there's a lot of obsolescence in the space right now. So that's the market that we're looking to serve. And the bite sizes will be smaller.

MS. FITCH: This is national as opposed to international?

MR. SCHLITZER: Yes. We will not be investing outside the U.S.

MS. FITCH: Okay.

MR. SCHLITZER: We will be looking at your primary markets, your Chicagos and LAs and Jersey. But E-commerce lends itself fairly well to smaller markets as well if you can get closer to population centers, find that smaller footprint and be that last mile distribution center for Amazon, for example.

MS. FITCH: Right.

MR. SCHLITZER: We will be very focused on those newer markets to make sure that the liquidity is there and the tenant demand is really there. And that's in many ways a research exercise in dealing with good markets.

MS. FITCH: And then it's going to last

and stay there?

MR. SCHLITZER: Oh, yes. The demand side should be sustainable.

MS. FITCH: Exactly. Right.

MR. SCHLITZER: I agree with that. Yeah.

MS. FITCH: Thanks.

MR. BROUSSEAU: Tim, do we have, through these investments, investments like Amazon, who I see yesterday is going to offer employees $10,000 exit credit of three months salary to turn around and start their own E-commerce, lots of little businesses? Would that be something that would be controlled by Amazon, was that somebody like -- somebody like this would invest in.

MR. SCHLITZER: Would we invest in those? We think that those tenants could be a source of demand, certainly.

MR. BROUSSEAU: Okay.

MR. SCHLITZER: Amazon is so, as you know, so enormous from a demand perspective. And you know, I think there may be opportunities with Amazon directly. I don't know, frankly a lot about how this outsourced model would play out but we think that Amazon is important. And we think that that's reflective of what is happening in the space, in general. And whether it's outsourced, an outsourced model or just a need to attract that labor pool, which is really important, you need better buildings. You need better lighting. You need better cafeterias. This is not your traditional model where you've got kind of the little lunch room with the old file cabinet and the old calendar on the wall. The buildings that we tour are nice. Great facilities for the employees and we think that that's where the demand is going to be. And you have to build these things, so...

MR. TROTSKY: Tim, for clarification, I'm not sure Amazon is a tenant or a large tenant in any of our existing holdings, are they?

MR. SCHLITZER: They are a large tenant in one of our office buildings in Seattle.

MR. TROTSKY: Office but not warehouse.

MR. SCHLITZER: Not warehouse.

MR. TROTSKY: Yeah. Thank you.

MR. NAUGHTON: Tim, when it comes to

building buildings --

MR. SCHLITZER: They do their own.

MR. NAUGHTON: So is it union labor or nonunion labor?

MR. SCHLITZER: It depends on the market. Sometimes it is, sometimes it isn't.

TREASURER GOLDBERG: Any other questions? Okay, 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.

That would be it for Real Estate and Timberland. Thank you.

MR. SCHLITZER: Thank you.

TREASURER GOLDBERG: So now Mr. Palazzone.

MR. FALZONE: I can be very thorough, if you like.

MR. TROTSKY: Would you like us to read the motion first?

TREASURER GOLDBERG: Okay. Approval of the Draft Fiscal Year 2020 PRIM Operating Budget that the PRIM board approved the Administration and Audit Committee's recommendation to approve.

The Draft Fiscal Year 2020 PRIM Operating Budget as set forth at Appendix I of the expanded agenda and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. FALZONE: Thank you. Good morning, everyone.

BOARD MEMBERS: Good morning.

MR. FALZONE: I just had to say that.

So Deb helped me out with this presentation at Administration and Audit Committee meeting but to save some time I'm going to go through most of this presentation myself.

So preparing the annual budget, it's a pretty significant undertaking so I think it's important to thank Deb Coulter, PRIM's Chief Financial Officer, for her hard work and along with her team, Dan Eckman, Sara Coelho and her whole team, so I just want to express that.

So, as a reminder, PRIM's budget is designed to provide an estimate of our expenses and costs for fiscal year 2020. We do not budget for income, for any period. In PRIM's case, income is our investment returns and they're extremely difficult if not impossible to predict.

With that in mind, we can predict what our cost structure is going to be. And the Project Save initiative continues to help us impact fees driving them down and will continue to look for ways to reduce costs and add value.

So I was going to start again on Appendix I on Page 4. The Budget Summary. So the total fiscal year 2020 budget is projected to be 424.8 million or 56.6 basis points. The projected average PRIT Fund assets of 75 billion.

As you know, most of PRIM's fees relate directly to our assets. So higher average assets or a higher allocation to more complex assets result in higher fees. As a result, the fiscal year 2020 budget is 4 percent or $16.5 million larger than fiscal year 2019's budget.

So PRIM's budget is comprised of three sections, as you see there. It's Investment

Management Fees, Third-Party Service Providers, and Operations. The first section is Investment Management Fees, which are variable costs. These costs are typically based on the value of our investments as our investments' values rise or fall, or transition from passive to more active strategies, our actual costs will either increase or decrease.

Our point of view is that if Investment Management Fees in dollar terms are above budget that's a good thing. That means our investments are growing. So the PRIT Fund's asset allocation drives our investment management budgeted layers. It's important to note that the size of any particular asset allocation or that asset class does not directly relate to the size of the expenses.

So, for example, Global Equities with an allocation range of 34 to 44 percent is PRIM's largest asset class but ranks third as far as budgeted expenses due to the availability and inexpensive passive management. Now if you contrast that to private equity, which is PRIM's most expensive and highest performing asset class, it has a significantly smaller allocation range of 10 to 16 percent but requires much more of PRIM's budget to implement successfully.

There is currently no way to passively replicate private equity and as I mentioned we have one of the top performing private equity portfolios in the country. And that performance is not inexpensive.

So Investment Management Fees make up approximately 91.5 percent of the total budget, which is about 52 basis points. These fees are paid to our investment managers, to manage the assets of the PRIT Fund and these fees are grouped by asset class within the budget.

So this budget is based on continued asset growth using NEPC's five- to seven-year growth assumptions, which is 6.8 percent. However, that future performance is not predictable so the fees may vary. But I think this budget gives you a very good approximation of our projected expenses.

So the increase in Investment Management Fees is due to the projected growth in assets as well as the asset allocation changes approved at the February board meeting and the PCS team had mentioned some of those changes. As a reminder, this plan called for the relocation of the equity hedge account from PCS to Global Equities to better align the account and the performance with the assets it's designed to hedge. And that accounts -- so that accounts for the reduction in PCS fees and the corresponding increase in Global Equities.

Also as a reminder there are no performance fees or incentive fees or carried interest budgeted for. As I mentioned earlier it's very difficult to estimate that type of performance.

So our second section of the budget is Third-Party Service Providers. These are the projected fees we paid to all our advisors, consultants, custodians, audit, tax, legal, and also our investment analytics tools. These fees sum to 18.2 million or 4.3 percent of the total budget. This section of the budget is increasing due to a contractual increase in custodian fees and also budgeted amounts for new software and data tools for each of the asset classes.

So you may recall again going back to the annual plans we talked about increasing the technology capabilities within each asset class. And on the investment teams and this budget reflects the expenses required to make that happen.

We added an additional Advisor Services category for public markets which will allow to better track expenses attributed to each asset class, and this category includes approximately $500,000 for the internal management initiative which is part of Project Save Phase II. So we are taking a very measured and slow cautious approach as we explore this possibility. But I did want to have these budgeted costs in the budget to be conservative. I'm not sure that they will actually be realized though. I want to say that.

So let's see. I also made a change to move IT consultant expenses into the Advisor Services general group, and this was done basically to group all of PRIM's consultants into one bucket. We're looking for ways to add transparency and make it easier to perform analysis on our expenses and both those that are shared by the entire organization and those that are specific to each asset class so that's why you see some of those geographic changes in the budget.

And the last section is PRIM's Operations, and this includes PRIM's staff compensation, benefits, rent, insurance, hardware, software, infrastructure, and other expenses necessary to run PRIM. And the Operations budget fees sum to about 17.7 million or 4.2 percent. This number is very conservative as it assumes all incentive hurdles will be met. The increase in this section is mainly due to changes in the compensation and benefits section as a result of projected new hires. And, again, I have to go back to our annual plans that were approved in February. Those annual plans have new hires in most of the different teams within the organization on the investment team. So I think, I believe there's seven or eight open positions or new positions in that budgeted item.

Again, trying to be conservative. I can't say we'll fill all those positions throughout the course of the year but we'll certainly try to. So I'll stop there. Offer myself up for any questions. I may phone a friend if I need to.

TREASURER GOLDBERG: Offer yourself up. Okay. Here he is, everyone.

MR. FALZONE: We had a fairly robust discussion of the administration --

TREASURER GOLDBERG: Yes, we did.

MR. FALZONE: -- at the Administration and Audit Committee, but I'm happy to answer any questions.

MR. NAUGHTON: One thing I want to make sure that I have straight. The Investment Management Fees section, you mentioned five- to seven-year projections.

MR. FALZONE: Yes.

MR. NAUGHTON: You said 6.8 percent?

MR. FALZONE: Correct.

MR. NAUGHTON: Okay. Thanks.

MR. TROTSKY: The 30-year number, if you remember, is higher.

MR. NAUGHTON: I know it. I won't live to see it, though, Michael. It's no good to me.

MR. FALZONE: We use that same assumption that we do in the asset allocation studies.

MR. BROUSSEAU: Tony, it's good, as I say every year, to see the basis points up every year. Every asset class and the increases in them and to run the whole fund for 56.6 basis points, to me is, really, we are really tight. We are --

MR. NAUGHTON: Yes.

MR. FALZONE: I think we are. Project Save is now part of our DNA. We're always looking for ways to reduce cost, add transparency, add value. That's why we made some of the changes this year. You may see continued changes as we try to do more analysis on where we're spending money, where can we spend less. And as Michael said earlier, the hedge fund program alone is saving hundreds of millions of dollars annually.

MR. NAUGHTON: Thanks to you and Deb for a good job.

MR. FALZONE: Thank you. Again, thanks to the team. It doesn't work without them.

MR. BROUSSEAU: A dollar saved is better than a dollar of return; right, Michael?

TREASURER GOLDBERG: Any other questions or comments? Okay. This is a voting item. And we have a motion. So all those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

Hearing none, the motion carries.

Boy, this was easier than admin and audit, wasn't it?

So then we have a second voting item, the approval of the issuance of an Audit and Tax Services request for proposals that the PRIM Board approved the Admin and Audit Committee's recommendation to approve the issuance of an Audit and Tax Services RFP, as described in the expanded agenda and further to authorize the executive director to take all actions necessary to effectuate this vote.

Is there a motion?

MR. BROUSSEAU: So moved.

TREASURER GOLDBERG: Second?

MS. FITCH: Second.

MR. FALZONE: Thank you.

So this is more of a housekeeping item. We have contracts for audit services for PRIM and PRIT that carry us through fiscal year end June 30, 2019, which is this year.

We also have contracts for audit services for PRIT's real estate, Timberland and agriculture portfolios, along with the tax work for PRIT through calendar year ending December 31st, 2019.

So for administration purposes, we'd like to roll all these services into one RFP for audit and tax. And we should -- I assume we probably will be issuing and share the outcome of that at some point.

TREASURER GOLDBERG: So any questions? Pretty straightforward. Okay. 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.

MR. FALZONE: Thank you.

TREASURER GOLDBERG: Okay.

MR. SUPPLE: I have one quick item.

Good Morning Madam Chairman, members of the board, Chris Supple, it's related to an item that we've -- in recent years, we discuss every year at this time of the year related to the legislative budget process that's underway in the state house. There has been in recent years a proposal to increase the membership of the PRIM Board from 9 members to 11 members. And in the House budget process this year that recently concluded, that proposal was made in the form of an amendment. It did not carry. So it did not emerge in the house budget that was enacted recently. The Senate budget process is now underway. The Senate Ways and Means budget proposal was released a couple of weeks ago. Amendments were due this past Friday. There were nearly 1200 proposed amendments filed. And as far as we can tell through a thorough search, this proposal has not been filed, in the Senate budget process. So it should be an issue, it is concluded and no longer alive for this year's budget process.

TREASURER GOLDBERG: I wouldn't assume that because --

MR. BROUSSEAU: Yes.

TREASURER GOLDBERG: -- with what went on with this budget, basically anything that is policy, which this would fall under, were not included in the house budget at this time. And could come up later.

Don't you agree with me?

MS. KOWTONIUK: Wasn't there an amendment filed in the Senate?

TREASURER GOLDBERG: Right. There was no amendment in the Senate.

MS. KOWTONIUK: No amendment filed in the Senate.

TREASURER GOLDBERG: But the House hasn't --

MS. KOWTONIUK: It will still go to conference, so...

MR. SUPPLE: It will go to conference, and you're right, you can never really -- you can never say never. But if they follow their rules, given that it's in neither budget, it should not be in play in the conference committee.

MR. BROUSSEAU: Could it be offered in discussions?

MR. SUPPLE: It could be. But it

wouldn't be following traditional rules and process.

MR. BROUSSEAU: It has to be a filed amendment that has already been submitted to in the budget process.

TREASURER GOLDBERG: Okay.

MR. SUPPLE: It should be. Yes.

MR. BROUSSEAU: Okay. It's an issue I've monitored for many, many years as chair of the committee and have strong feelings about it.

TREASURER GOLDBERG: You do?

MR. BROUSSEAU: No.

MR. NAUGHTON: Would you miss it if it went away, Bob?

MR. BROUSSEAU: I'd help it.

MS. FITCH: Who would be the appointing authority?

TREASURER GOLDBERG: I believe when it's looking for adding someone, isn't it from MACRS?

MR. BROUSSEAU: MACRS. The one from local I think it went from a regional system. Am I right?

MR. SUPPLE: You're right. The proposal we've seen most recently would be two members appointed by MACRS.

MS. FITCH: Okay.

TREASURER GOLDBERG: Is that it? Anything else? Other business? Are we kidding? All right, then. I would seek a motion to adjourn.

MR. BROUSSEAU: So moved.

MS. FITCH: Second.

TREASURER GOLDBERG: All those in favor?

BOARD MEMBERS: Aye.

TREASURER GOLDBERG: Any opposed?

MR. TROTSKY: Thank you very much, everyone. We'll see you later in the summer.

(Whereupon the meeting was adjourned at 11:30 a.m.)