



PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

FISCAL YEAR 2017 OPERATING BUDGET

BUDGET DISCUSSION

The Pension Reserves Investment Management (PRIM) Board's fiscal year (FY) 2017 Operating Budget reflects the investment management, advisory and operational costs necessary to implement, measure and monitor the approximately \$60 billion in investments of the Pension Reserves Investment Trust (PRIT) Fund.

Budget Highlights

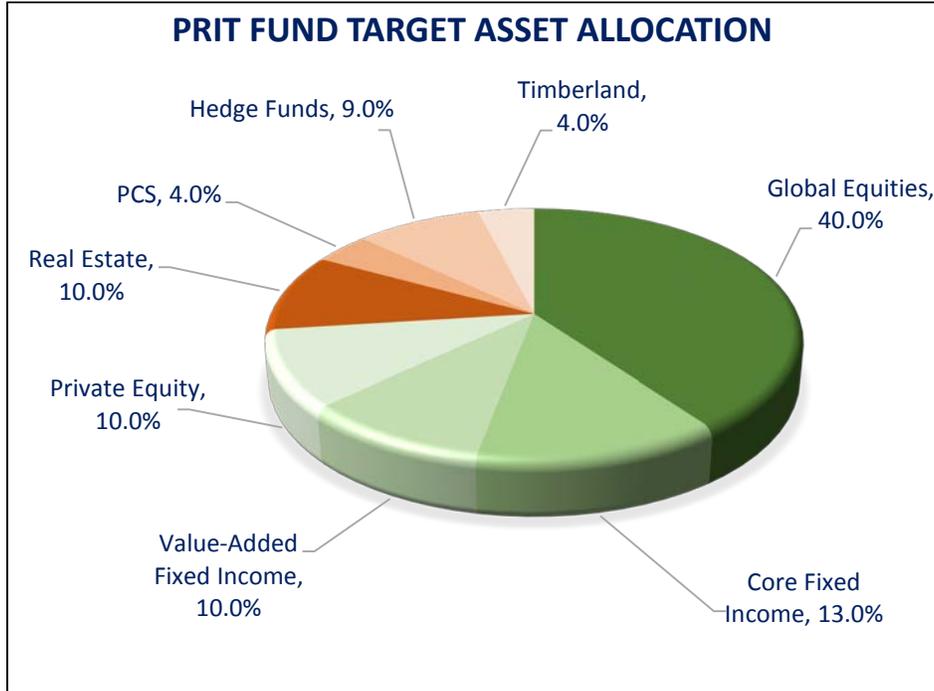
The projected FY 2017 budget of \$345.6 million is 58 basis points (bps) of projected average PRIT Fund assets (\$60 billion), a \$2.1 million, or 0.6%, decrease from the prior year. As is our custom, budgeted expenses for FY 2017 are conservative and foresee continued asset growth. Actual expenses incurred will vary because most expenses are a function of asset levels and therefore extremely difficult to predict on a short-term basis.

Investment Management Fees comprise \$323.2 million, or 93.5%, of the total budget. Investment Management Fees decrease in the FY 2017 budget by \$5.1 million or 1.5%, due primarily to the move out of active US large cap equities into less-expensive indexed management and the continued implementation of managed accounts in our hedge fund portfolio.

Projected payments to Third-Party Service Providers comprise \$11.1 million, or 3.2%, of the total budget. Third-Party Service Providers increases \$1.5 million, or 15.8%, in support of the managed account investment initiative. This increase in third-party service providers is more than offset by the approximately \$6 million in budgeted Hedge Fund investment management fee savings PRIM's managed accounts program is projected to generate.

Operations comprise \$11.3 million, or 3.3%, of the total budget. Operations increases by \$1.5 million or 14.8%, due to additions in staff and potential compensation increases reflecting the December 2015 Board-approved PRIM salary bands.

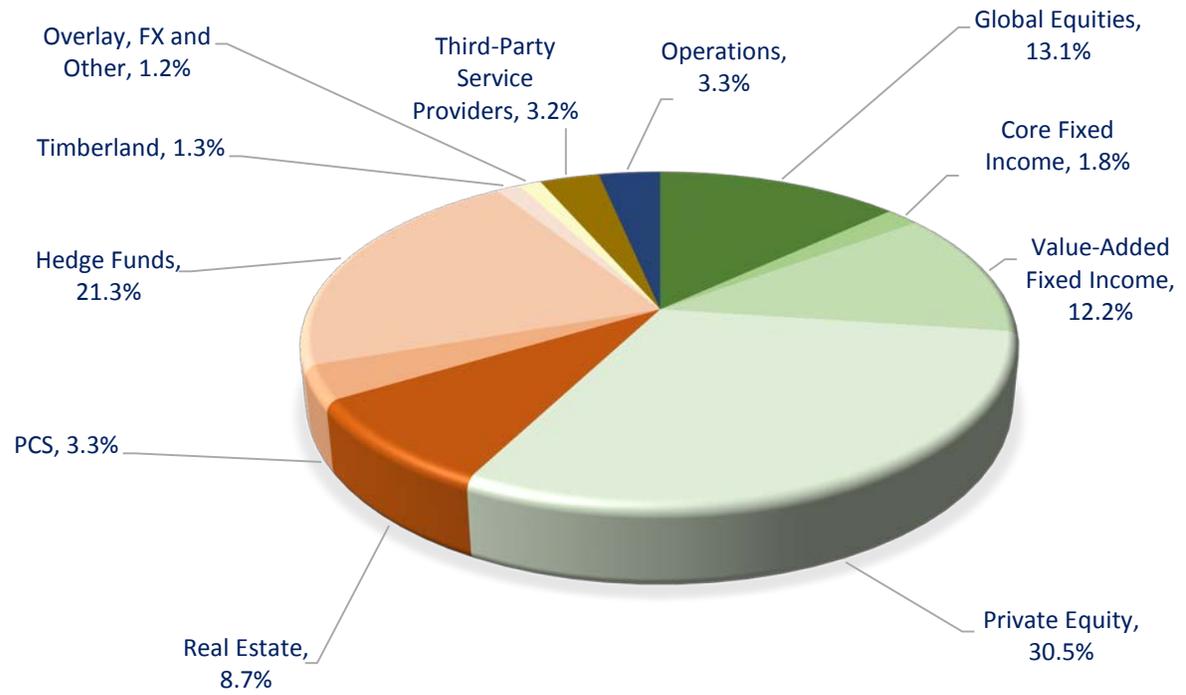
The PRIM Board's current target asset allocation, approved in February 2016, is as follows:



Based on this target asset allocation, PRIM's FY 2017

Operating Budget is projected to be as follows:

FY 2017 OPERATING EXPENSES



PENSION RESERVES INVESTMENT MANAGEMENT BOARD
Fiscal Year 2017 Budget Summary

	<i><u>Basis</u></i> <i><u>Points</u></i>	<i><u>FY 2017</u></i>	<i><u>FY 2016</u></i>
<u>Investment Management Fees</u>			
Global Equities	18.9	\$ 45,446,000	\$ 51,362,882
Core Fixed Income	7.5	6,298,000	5,619,798
Value Added Fixed Income	82.8	42,035,000	41,341,060
Real Estate	49.6	30,206,000	29,351,233
Timberland	22.6	4,635,000	4,599,473
Private Equity	154.8	105,400,000	106,147,087
Hedge Funds	134.0	73,610,000	79,885,832
Portfolio Completion Strategies (PCS)	95.4	11,450,000	2,787,377
Overlay, Foreign Currency, and Other	46.2	4,158,000	7,226,385
	53.9	323,238,000	328,321,127
<u>Third-Party Service Providers</u>			
Custodian	0.1	805,000	790,000
Advisory Services - General	0.1	883,000	786,375
Advisory Services - Real Estate & Timberland	1.1	645,000	585,000
Advisory Services - Private Equity	2.2	1,500,000	1,500,000
Advisory Services - Hedge Funds and PCS	7.1	4,750,000	3,617,784
Audit & Tax	0.1	470,000	444,000
Legal	0.1	450,000	375,000
Governance	0.1	300,000	259,184
Risk Measurement and Investment Analytics	0.2	1,300,000	1,231,226
	1.9	11,103,000	9,588,569
<u>Operations</u>			
Compensation	1.3	7,975,000	6,822,823
Employee Benefits	0.0	179,000	167,500
Occupancy	0.2	976,000	855,464
Insurance	0.1	311,000	303,336
General Office Expenses	0.0	241,000	246,072
Computer & MIS Expenses	0.1	860,000	866,980
Due Diligence Travel & Prof. Development	0.1	340,000	315,000
Client Service	0.0	88,000	86,787
Dues & Subscriptions	0.0	80,000	80,000
Temporary Labor	0.0	65,000	65,000
PRIM Board Elections	0.0	150,000	-
	1.9	11,265,000	9,808,962
Total Operating Budget	57.6	\$ 345,606,000	\$ 347,718,658

Basis points (bps) for Investment Management Fees are calculated by dividing the FY 2017 budgeted fees by the estimated assets under management (AUM) for each asset class. Advisory Services for Real Estate & Timberland, Private Equity, and Hedge Funds & PCS are also calculated based upon each asset classes estimated AUM. For all other expenses, the bps are calculated based upon the total PRIT Fund with an estimated AUM of \$60 billion.

Global Equities

<u>Domestic Equities</u>	<u>FY 2017</u>	<u>FY 2016</u>
SSgA (S&P 500 Index)	\$ 850,000	\$ 689,567
SSgA (Russell 2500 Index)	145,000	141,520
Frontier	2,275,000	1,651,253
Huber	2,600,000	3,374,767
Riverbridge	1,125,000	1,201,614
Summit Creek	2,150,000	1,868,222
Former Managers	-	6,121,071
	9,145,000	15,048,014
<u>International Equity</u>		
SSgA (World Ex-US Index)	300,000	436,197
Marathon	7,700,000	7,807,126
Baillie Gifford	4,800,000	5,033,646
Mondrian Investment	2,650,000	2,938,159
The FIS Group	660,000	696,875
Potential Small Cap Managers	2,500,000	-
	18,610,000	16,912,003
<u>Emerging Markets Equity</u>		
SSgA (EM Index)	341,000	340,786
Acadian	1,500,000	1,626,153
Wasatch	1,050,000	1,141,490
Acadian (Frontier)	1,450,000	1,483,530
Baillie Gifford	3,750,000	4,090,012
City of London	700,000	760,729
Driehaus	2,800,000	3,070,170
Harding Loevner	2,800,000	3,050,632
Pzena	3,300,000	3,466,482
AQR (Performance Fees Only)	-	372,881
	17,691,000	19,402,865
<u>Total Global Equities</u>	\$ 45,446,000	\$ 51,362,882

Pension Reserves Investment Management Board
Fiscal Year 2017 Operating Budget

	<u>Core Fixed Income</u>	
	<u>FY 2017</u>	<u>FY 2016</u>
Blackrock (BA Index)	\$ 108,000	\$ 66,042
Blackrock (TIPS Index)	85,000	117,552
Blackrock (ILB)	1,590,000	1,543,649
Blackrock (STRIPS Index)	450,000	536,453
PIMCO	830,000	810,777
Loomis Sayles	1,850,000	1,571,543
Community Capital	120,000	112,782
AFL-CIO *	205,000	195,000
Access Capital *	685,000	666,000
Progress	375,000	-
	<u>6,298,000</u>	<u>5,619,798</u>

	<u>Value-Added Fixed Income</u>	
Fidelity	1,110,000	1,113,254
Loomis Sayles	1,545,000	1,575,505
Shenkman	1,165,000	1,176,380
Eaton Vance *	2,600,000	2,034,000
Voya *	1,700,000	1,655,000
PIMCO	1,100,000	1,097,723
Ashmore *	2,900,000	3,208,000
Investec	1,915,000	1,821,178
Pictet	2,100,000	2,185,346
Stone Harbor	1,650,000	1,773,863
Distressed Debt *	24,250,000	23,700,811
	<u>\$ 42,035,000</u>	<u>\$ 41,341,060</u>

* Investments are in structures (commingled funds, partnerships, etc.) in which management fees are not directly paid to the investment managers by PRIM, but rather are indirectly paid via a reduction of PRIM's investment.

Pension Reserves Investment Management Board
 Fiscal Year 2017 Operating Budget

Real Estate

<u>REITs</u>	<u>FY 2017</u>	<u>FY 2016</u>
INVESCO (Transition)	\$ -	\$ 767,897
INVESCO	1,380,000	1,379,881
CenterSquare	2,758,000	2,757,882
Brookfield	1,335,000	-
Presima	550,000	-
	6,023,000	4,905,660

Core Strategy

AEW *	7,443,000	3,336,431
INVESCO *	4,353,000	2,781,714
JP Morgan *	3,344,000	3,810,070
LaSalle *	5,233,000	4,620,236
Former Manager *	-	5,057,013
	20,373,000	19,605,464

Non - Core Strategy

Non-Core Investments *	3,634,000	4,295,109
Canyon Johnson *	77,000	270,000
Intercontinental *	21,000	125,000
New Boston Fund *	78,000	150,000
	3,810,000	4,840,109

Total Real Estate

\$ 30,206,000 **\$ 29,351,233**

* Investments are in structures (commingled funds, partnerships, etc.) in which management fees are not directly paid to the investment managers by PRIM, but rather are indirectly paid via a reduction of PRIM's investment.

Pension Reserves Investment Management Board
Fiscal Year 2017 Operating Budget

Timberland

	<u>FY 2017</u>	<u>FY 2016</u>
Forest Investment Associates *	\$ 2,055,000	\$ 2,202,268
Campbell Group *	2,580,000	2,397,205
	<u>4,635,000</u>	<u>4,599,473</u>

Private Equity

Venture Capital

Domestic Venture Capital *	28,000,000	28,379,060
International Venture Capital *	2,400,000	2,410,809
	<u>30,400,000</u>	<u>30,789,869</u>

Special Equity

Domestic Special Equity *	55,000,000	55,346,646
International Special Equity *	20,000,000	20,010,572
	<u>75,000,000</u>	<u>75,357,218</u>

Total Private Equity

<u>\$ 105,400,000</u>	<u>\$ 106,147,087</u>
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Hedge Funds

	<u>FY 2017</u>	<u>FY 2016</u>
Replication Strategies	\$ 100,000	\$ 50,000
PAAMCO - Hedge Fund-of-Funds *<	7,760,000	10,281,332
Direct Hedge Funds *	44,750,000	49,133,564
Separately Managed Accounts *	21,000,000	20,420,936
	<u>73,610,000</u>	<u>79,885,832</u>

Portfolio Completion Strategies (PCS)

Portfolio Completion Strategies *	<u>11,450,000</u>	<u>2,787,377</u>
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Overlay, Foreign Currency and Other

Parametric (Overlay)	550,000	296,553
Russell (Foreign Currency)	120,000	120,000
Portable Alpha Wind-Down <	8,000	10,000
Former Managers - Public Natural Resources	-	2,149,832
Private Natural Resources Wind-Down *	3,480,000	4,650,000
	<u>\$ 4,158,000</u>	<u>\$ 7,226,385</u>

* Investments are in structures (commingled funds, partnerships, etc.) in which management fees are not directly paid to the investment managers by PRIM, but rather are indirectly paid via a reduction of PRIM's investment.

< Fees listed here exclude costs of underlying hedge funds, which typically charge fees ranging from 1% to 2% of net asset values, plus performance fees of up to 20% of excess returns. These costs are embedded in net hedge fund performance.

Third-Party Service Providers

<u>Custody</u>	<u>FY 2017</u>	<u>FY 2016</u>
Master Custody Services	\$ 650,000	\$ 650,000
OTC Valuation	95,000	80,000
GASB Reporting and Other	60,000	60,000
	805,000	790,000
<u>Advisory Services - General</u>		
Investment Advisor - Public Markets	320,000	317,375
Investment Advisor - Asset Allocation	225,000	202,500
Legislative Restrictions	60,000	52,000
Communications	78,000	94,500
Benchmarking	35,000	35,000
Currency Trading Analysis	40,000	40,000
Compensation and Human Resources	50,000	25,000
Other	75,000	20,000
	883,000	786,375
<u>Advisory Services - Real Estate and Timberlands</u>		
Investment Advisor - Real Estate and Timberlands	370,000	370,000
Debt Compliance and Reporting	175,000	165,000
Other Advisory Projects	100,000	50,000
	645,000	585,000
<u>Advisory Services - Private Equity</u>		
Investment Advisor - Private Equity	1,500,000	1,500,000
	1,500,000	1,500,000
<u>Advisory Services - Hedge Funds & PCS</u>		
Investment Advisor - Hedge Funds	750,000	750,000
Managed Account Platform Provider	4,000,000	2,867,784
	\$ 4,750,000	\$ 3,617,784

Third-Party Service Providers (continued)

<u>Audit and Tax</u>	<u>FY 2017</u>	<u>FY 2016</u>
Annual Financial Statement Audits	\$ 280,000	\$ 260,000
Agreed-Upon Procedures	90,000	84,000
Tax Services	75,000	75,000
Accounting – Other	25,000	25,000
	470,000	444,000
<u>Legal</u>		
Outside Counsel	450,000	375,000
	450,000	375,000
<u>Governance</u>		
Proxy Voting Services	180,000	177,684
Council of Institutional Investors	35,000	31,500
Board Education	20,000	20,000
Advisory Services and Other	65,000	30,000
	300,000	259,184
<u>Risk Measurement and Analytics</u>		
Risk Measurement Systems	700,000	630,438
Investment Tools and Analytics	600,000	600,788
	1,300,000	1,231,226
<u>Total Third-Party Service Providers</u>	\$ 11,103,000	\$ 9,588,569

Pension Reserves Investment Management Board
 Fiscal Year 2017 Operating Budget

Operations

Compensation

	<u>FY 2017</u>	<u>FY 2016</u>
Full-Time Staff (including vacant positions)	\$ 7,975,000	\$ 6,822,823
	<u>7,975,000</u>	<u>6,822,823</u>

Employee Benefits

Dental and Vision	7,000	6,679
Disability	45,000	43,821
Medicare Tax	112,000	105,000
Unemployment Contingency	15,000	12,000
	<u>179,000</u>	<u>167,500</u>

Occupancy

Lease	826,000	709,076
Parking	50,000	46,319
Utilities	65,000	60,069
Leasehold Improvements and Other	35,000	40,000
	<u>976,000</u>	<u>855,464</u>

Insurance

Fiduciary	275,000	271,314
Business Insurance Policies	30,000	26,672
Workers Compensation	6,000	5,350
	<u>311,000</u>	<u>303,336</u>

General Office Expenses

Printing, Postage, and Courier	80,000	73,000
Payroll / Employee Timesheets	11,000	10,872
Meeting Expenses and Stenographer	35,000	33,500
Records Storage	15,000	14,000
Office Supplies, Equipment and Other	100,000	114,700
	<u>241,000</u>	<u>246,072</u>

Computer & MIS Expenses

Hardware & Software	220,000	166,580
Support and Development	550,000	612,400
MIS Other / ISP & Remote Access	90,000	88,000
	<u>\$ 860,000</u>	<u>\$ 866,980</u>

Operations (continued)

<u>Due Diligence Travel & Prof. Development</u>	<u>FY 2017</u>	<u>FY 2016</u>
Due Diligence Travel	\$ 215,000	\$ 215,000
Professional Development	125,000	100,000
	340,000	315,000
<u>Client Service</u>		
Meetings and Conferences	55,000	55,000
Auto Mileage & Parking	21,000	19,787
Printing	12,000	12,000
	88,000	86,787
<u>Dues & Subscriptions</u>		
Professional Dues and Subscriptions	80,000	80,000
	80,000	80,000
<u>Temporary Labor</u>		
Temporary Labor	65,000	65,000
	65,000	65,000
<u>Board Elections</u>		
PRIM Board Members' Elections	150,000	-
	150,000	-
<u>Total Operations</u>	\$ 11,265,000	\$ 9,808,962

OPERATING BUDGET NARRATIVE

The Fiscal Year (FY) 2017 Operating Budget is presented in three broad expense categories:

- Investment Management Fees
- Third-Party Service Providers
- Operations

Investment Management Fees:

PRIM employs professional investment managers and gives them discretion, consistent with specified objectives and guidelines, to manage the PRIT Fund's assets. Investment management fees are the fees paid these investment managers for their services. Each investment manager operates under a contract (generally an investment management agreement or a partnership agreement) that delineates its responsibilities and performance expectations. Budget projections for investment management fees are based on the following factors and year-to-year budget fluctuations reflect changes to one or more of these factors:

- The PRIT Fund asset allocation
- The market value of assets under management
- Contractual fee schedules
- Capital commitments

No performance fees, incentive fees, or carried interest are included in this budget due to the difficulty of effectively estimating these fees in advance.

Third Party Service Providers:

PRIM employs third-party service providers to support PRIM staff, Committees, and the Board to manage the PRIT Fund. Budget projections for third-party service providers are generally estimated based upon current service contracts and estimated future potential services.

Operations:

Operations expenses are projected based on current expenses and strategic initiatives that are deemed to be both probable and estimable.

Investment Management Fees

Global Equities

Global Equities consists of Domestic Equity, International Equity and Emerging Markets Equity. PRIM's target asset allocation for Global Equities is:

Domestic Equity:	18.0%
International Equities:	16.0%
Emerging Markets Equities:	<u>6.0%</u>
Global Equities:	40.0%

Domestic Equity

The total Domestic Equity fee budget of \$9.1 million decreases \$5.9 million, or 39.2%, in FY 2017 due to a reallocation of assets from active managers to passive managers with significantly lower fees.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	S&P 500 Index	Passive	Net Asset Value (NAV)
SSgA	Russell 2500 Index	Passive	NAV
Frontier	Russell 2000 Value	Active	NAV
Huber	Russell 2000 Value	Active	NAV
Riverbridge	Russell 2500 Growth	Active	NAV
Summit Creek	Russell 2000 Growth	Active	NAV

International Equity

The total International Equity fee budget of \$18.6 million, increases by \$1.7 million, or 10.0%, in FY 2017 due to the potential new allocation to International Small Cap Equities.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom World-Ex US Index	Passive	NAV
Marathon	Custom MSCI EAFE	Active	NAV
Baillie Gifford	Custom MSCI EAFE	Active	NAV
Mondrian	Custom MSCI EAFE	Active	NAV
The FIS Group	Custom MSCI EAFE – Emerging Managers	Active	NAV
Potential Managers	Small Cap	Active	NAV

Emerging Markets Equity

The total Emerging Markets Equity fee budget of \$17.7 million decreases \$1.7 million, or 8.8%, in FY 2017 due to lower estimated AUM compared to the AUM budgeted for FY 2016.

Manager	Mandate	Active/ Passive	Fee Type
SSgA	Custom MSCI EM IMI Index	Passive	NAV
Acadian	EM Small Cap	Active	NAV
Wasatch	EM Small Cap	Active	NAV
Acadian	Frontier	Active	NAV
AQR	Emerging Markets	Active	Performance
Baillie Gifford	Emerging Markets	Active	NAV
City of London	Frontier	Active	NAV
Driehaus	Emerging Markets	Active	NAV
Harding Loevner	Emerging Markets	Active	NAV
Pzena	Emerging Markets	Active	NAV

Core Fixed Income

The total Core Fixed Income fee budget of \$6.3 million increases \$678,000, or 12.1%, in FY 2017 due primarily to the addition of an active investment manager, lowering our passive allocation.

Manager	Mandate	Active/ Passive	Fee Type
BlackRock	BA Index	Passive	NAV
BlackRock	TIPS	Passive	NAV
BlackRock	ILB	Active	NAV
BlackRock	STRIPS	Passive	NAV
PIMCO	Core FI	Active	Funded and Performance
Loomis Sayles	Core FI	Active	NAV
Community Capital	Core FI - ETI	Active	NAV
AFL-CIO	Core FI - ETI	Active	Commingled Fund – NAV
Access Capital	Core FI - ETI	Active	Commingled Fund – NAV
Progress	Core FI – Emerging Managers	Active	NAV

Value-Added Fixed Income

The total Value-Added Fixed Income fee budget of \$42.0 million increases \$694,000, or 1.7%, in FY 2017. Partnership level management fees for Distressed Debt range from 1.0% to 2.5% of capital commitments.

Manager	Mandate	Active/ Passive	Fee Type
Fidelity	HY Bonds	Active	NAV
Loomis Sayles	HY Bonds	Active	NAV
Shenkman	HY Bonds	Active	NAV
Eaton Vance	Bank Loans	Active	Commingled Fund – NAV
Voya	Bank Loans	Active	Commingled Fund – NAV
PIMCO	EM Debt Hard Currency	Active	NAV
Ashmore	EM Debt Hard Currency	Active	Commingled Fund – NAV
Investec	EM Debt Local Currency	Active	NAV
Pictet	EM Debt Local Currency	Active	NAV
Stone Harbor	EM Debt Local Currency	Active	NAV
Various Managers	Distressed Debt	Active	Commingled Funds – Committed Capital

Real Estate

Real Estate Investment Trusts (REITs)

The total REITs fee budget of \$6.0 million increases by \$1.1 million, or 22.8%, in FY 2017 due to an increased allocation and the addition of two new investment managers.

Manager	Mandate	Active/ Passive	Fee Type
Invesco	Global REITs	Active	NAV
CenterSquare	Global REITs	Active	NAV
Brookfield	Global REITs	Active	NAV
Presima	Global REITs	Active	NAV

Core Strategy

The total Core Strategy fee budget of \$20.4 million increases by \$768,000, or 3.9%, in FY 2017 due to the reallocation of assets among the remaining investment managers.

Manager	Mandate	Active/ Passive	Fee Type
AEW	Core Real Estate	Active	Funded Amount
INVESCO	Core Real Estate	Active	Funded Amount
JP Morgan	Core Real Estate	Active	Funded Amount
LaSalle	Core Real Estate	Active	Funded Amount

Non – Core Strategy

The total Non - Core Strategy fee budget of \$3.8 million decreases by \$1.0 million, or 21.3%, in FY 2017 due to the aging of existing Non-Core investments.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Non-Core	Active	Generally - Committed Capital
Canyon Johnson	Non-Core - ETI	Active	Cost of Remaining Investments
Intercontinental	Non-Core - ETI	Active	Cost of Remaining Investments
New Boston Fund	Non-Core - ETI	Active	Cost of Remaining Investments

Timberland

The total Timberland fee budget of \$4.6 million increases by \$35,000, or 0.8%, in FY 2017.

Manager	Mandate	Active/ Passive	Fee Type
Forest Investment Advisors	Timberland	Active	NAV
Campbell Global	Timberland	Active	NAV

Private Equity

The total Private Equity fee budget of \$105.4 million decreases by \$747,000, or 0.7%, in FY 2017. Private Equity management fees are typically 1.0% to 2.5% of committed capital during the active investment period, and become a percentage of cost of remaining investments later in the life of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Private Equity	Active	Generally Committed Capital

Hedge Funds

The total Hedge Funds fee budget of \$73.6 million decreases by \$6.3 million, or 7.9%, in FY 2017 due to continued successful fee negotiations with new and existing hedge fund managers. Hedge Fund management fees are typically 1.0% to 2.0% of the NAV of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	Hedge Funds	Active	Generally NAV

Portfolio Completion Strategies (PCS)

The total Portfolio Completion Strategies fee budget of \$11.5 million increases by \$8.7 million, or 310.8%, in FY 2017 due to continued investments in Portfolio Completion Strategies. PCS management fees are typically 1.0% to 2.0% of the NAV of the partnership.

Manager	Mandate	Active/ Passive	Fee Type
Various Managers	PCS	Active	Generally NAV

Overlay, Foreign Currency and Other

The total Overlay, Foreign Currency and Other fee budget of \$4.2 million decreases by \$3.1 million, or 42.5%, in FY 2017 due to the decreasing allocation in liquidating and terminated portfolios.

Manager	Mandate	Active/ Passive	Fee Type
Parametric	Overlay	Active	NAV
Russell	Foreign Currency Trading	Active	NAV
Various Managers	Portable Alpha – Wind-Down	Active	NAV
Various Managers	Private Natural Resources Wind-Down	Active	Cost of Remaining Investments

Third-Party Service Provider Fees

The FY 2017 budget for Third-Party Service Provider Fees (including Custody and Advisors as well as Audit & Tax, Legal, Governance and Risk Measurement & Investment Analytics) of \$11.1 million increases \$1.5 million or 15.8%. The increase is driven by the continued expansion of PRIM’s managed account initiative. Costs in this category are the result of competitively bid contracts.

Custodian

BNY Mellon currently provides the PRIT Fund with global custody, accounting and performance measurement services. BNY Mellon provides custody for PRIT assets, records all investment transactions for the PRIT Fund, and provides recordkeeping for all participant activity for member retirement systems, including participant performance analysis.

Advisory Services – General

PRIM employs professional advisors to provide comprehensive advisory services to staff and the Board, including recommendations on asset allocation, investment analysis, manager selection and oversight, negotiation of investment manager contracts, communications, governance and compensation policies and benchmarking services.

Advisor Name	Advisor Role
NEPC, LLC	Asset Allocation
Callan Associates	Public Markets
Institutional Shareholder Services (ISS)	Restricted Securities Lists
O’Neill and Associates	Communications
FX Transparency	Foreign Currency Cost Analysis
Cortex Research	Governance
McLagan	Compensation
CEM Benchmarking	Benchmarking

Advisory Services - Real Estate & Timberland

The FY 2017 budget reflects the contractual fees for Townsend, financial reporting costs associated with the real estate leverage program, and an allowance for potential project advisory services. Townsend's current contract runs through June 2017. The Townsend Group (Townsend) is the advisor for the PRIT Fund's Real Estate and Timberland program.

Advisory Services - Private Equity

Hamilton Lane provides advisory, legal services, monthly accounting and detailed performance reporting for the PRIT Fund's Private Equity program.

Advisory Services - Hedge Fund and PCS

The FY 2017 budget reflects the contractual fees for Aberdeen (formerly Arden) and HedgeMark. Aberdeen is PRIM’s hedge fund advisor and HedgeMark is PRIM’s managed account platform service provider.

Audit & Tax

KPMG provides annual financial statement audits for the PRIT Fund and PRIM. KPMG also performs an annual examination of the internal controls surrounding PRIM's procurement of investment managers and other third-party service providers and reviews the PRIT Fund's benchmark and performance calculations in accordance with the guidance contained in the A1CPA Statement on Standards for Attestation Engagements.

KPMG also provides audit services for PRIM's Real Estate, Timberland, and certain Hedge Funds and PCS investments. The audit fees for this work are charged to the underlying investments and are not included in the PRIM budget.

Deloitte provides PRIM with tax advisory services. Real Estate and Timberland property level tax return preparation fees and tax advisory fees are charged to the underlying properties and, as such, are not a part of the PRIM budget. However, general tax advisory work is paid directly by PRIM.

Legal

PRIM retains outside counsel as necessary to provide legal services to PRIM. Outside legal expenditures can be difficult to predict and have historically fluctuated significantly based on the nature of activities of the PRIT Fund and PRIM.

Governance

Institutional Shareholder Services (ISS) provides a comprehensive analysis of proxy issues and vote recommendations for the PRIT Fund's domestic and international securities in accordance with PRIM's custom proxy guidelines. The governance budget also includes annual membership fees associated with participation in the Council of Institutional Investors and anticipated costs for hosting PRIM Board Education sessions.

Risk Measurement and Investment Analytics

PRIM utilizes MSCI's BarraOne, a single platform multi-asset class investment risk measurement tool. Other investment analytical tools include FactSet, eVestment, Bloomberg, and others.

Operations

The FY 2017 Operations budget of \$11.3 million increases \$1.5 million or 14.8% reflecting the increase in compensation due to new PRIM staff positions and compensation adjustments within salary bands approved by the Board in December 2015.

Compensation

The FY 2017 compensation budget includes allocations for additional positions, potential compensation increases for existing employees based upon the December 2015 Board-approved PRIM salary bands and the increase in compensation for currently open positions.

A comprehensive compensation peer review and analysis was conducted in 2015 by PRIM's consultant, McLagan. Based upon this peer review analysis, the PRIM Board approved adjusted salary bands in December 2015. To make incremental progress toward these adjusted salary bands, we have included allocations in the FY 2017 budget for potential base salary increases and for potential promotions (a 4.2% year-over-year increase). PRIM also has existing positions that are open due to employee turnover. These open positions' salaries increased as well to reflect the approved salary bands.

FY 2017 Budget	\$ 7,975,000
FY 2016 Budget	<u>\$ 6,822,823</u>
Year-over-year change	\$ 1,152,177

Reasons for year-over-year change:

New positions	\$ 725,000
Potential compensation increases (existing staff)	\$ 285,177
Salary-band adjustments for open positions	<u>\$ 142,000</u>
	\$ 1,152,177

Employee Benefits

The budget for employee benefits consists primarily of dental, vision, and disability costs for employees as well as a contingency to cover potential unemployment claims since PRIM does not participate in the state's unemployment insurance pool. The budget also includes estimated Medicare taxes for all employees.

Occupancy

The occupancy budget includes expenses associated with office space, including rent, maintenance charges, and utilities.

PRIM's office building at 84 State Street is owned by PRIT Core Realty Holdings LLC and is managed by INVESCO. PRIM occupies the entire second floor of the building (10,794 rentable square feet) and additional office space on the third floor (4,483 rentable square feet). The increase in occupancy reflects the potential for the continued expansion of office space on the third floor.

Insurance

The budget includes insurance premium costs for fiduciary liability, commercial crime, employment practices, commercial property, and workers' compensation policies. PRIM's current insurance policies are summarized in the following table:

Policy Type	Coverage	Deductible
Fiduciary Liability	\$15,000,000	\$ 250,000
Commercial Crime	\$10,000,000	\$ 100,000
Employment Practices Liability	\$ 1,000,000	\$ 50,000
Workers Compensation	\$ 1,000,000	N/A
Commercial General Liability	\$ 1,000,000	N/A
Commercial Property	\$ 617,100	\$ 250
Umbrella Liability	\$ 4,000,000	\$ 10,000
Hired Auto	\$ 1,000,000	N/A

General Office Expenses

This budget category includes all expenses relating to office operations including postage, office supplies, copying, printing, telephone expenses, and office infrastructure.

Computer and MIS Expenses

The Hardware and Software category includes offsite data backup, licensing, hardware, and equipment for current and new staff. The Support & Development category includes maintenance, support, and enhancement of PRIM's core IT infrastructure and applications at both PRIM's primary and backup sites.

Due Diligence Travel & Professional Development

This budget category represents costs associated with due diligence travel and ongoing professional education of PRIM Board members and staff, including related travel expenses. The budget includes tuition reimbursement charges (e.g., for approved CFA and higher education courses), required continuing education costs for maintaining professional licenses (e.g., CPA license), and attendance at professional conferences and seminars. PRIM is committed to supporting its Board members and staff in their pursuit of professional development.

Client Service

Currently, 94 of the Commonwealth's 104 retirement systems invest in the PRIT Fund. The client service budget allows for PRIM-sponsored client conferences and on-site client meetings. This budget includes the cost of traveling to client meetings, conferences, and related activities. Additionally, the costs associated with printing and binding the PRIT Fund's Comprehensive Annual Financial Report is included in this budget.

Dues & Subscriptions

The budget for dues and subscriptions includes membership dues in professional associations and subscription costs for professional journals, investment industry publications, and newspaper subscriptions.

Temporary Labor

Included in this budget are expenses associated with potential internships and temporary professional help.

Board Member Elections

The PRIM Board consists of nine members, two of whom are elected, one by active and retired Massachusetts teachers and the other by active and retired Massachusetts state employees. PRIM administers and pays the expenses associated with the election. Elections are held every three years with the next election occurring in FY 2017.

Appendix

Appendix I

Key Assumptions

Estimated Assets Under Management and Asset Allocation in FY 2017

Budgeted investment management fees for FY 2017 are based upon the estimated average assets under management and the estimated average actual asset allocation.

The estimated average assets under management for FY 2017 is \$60 billion. To estimate PRIM's FY 2017 average assets under management, the beginning AUM of FY 2017 (July 1, 2016) was estimated as equaling the January 31, 2016, AUM – relying on an assumption of flat performance for the remainder of FY 2016. The ending AUM for FY 2017 (June 30, 2017) was based on NEPC's expected 5-7 year return forecast of 6.8%. Please note that future investment performance is not predictable and actual performance will vary.

The estimated asset allocation in FY 2017 is based on the actual asset allocation of the PRIT Fund as of January 31, 2016, and projected future allocation changes. Projected future allocation changes include the increase in PCS by approximately \$600 million funded out of Global Equities and the addition of developed international small cap equities.

Performance, Incentive or Carried Interest Fees

No investment performance, incentive, or carried interest fees are budgeted in FY 2017. These fees vary dramatically from year-to-year and are not predictable.

Appendix II

Indirect Budget Summary

	<u>FY 2017</u>	<u>FY 2016</u>
Core Fixed Income		
Commingled Funds	\$ 890,000	\$ 861,000
	<u>890,000</u>	<u>861,000</u>
Value Added Fixed Income		
Commingled Funds	7,200,000	6,897,000
Distressed Debt	24,250,000	23,700,811
	<u>31,450,000</u>	<u>30,597,811</u>
Real Estate		
Core Strategy	20,373,000	19,605,464
Non-Core	3,810,000	4,840,109
	<u>24,183,000</u>	<u>24,445,573</u>
Timberland		
Timberland	4,635,000	4,599,473
	<u>4,635,000</u>	<u>4,599,473</u>
Private Equity		
Venture Capital	30,400,000	30,789,869
Special Equity	75,000,000	75,357,218
	<u>105,400,000</u>	<u>106,147,087</u>
Hedge Funds		
Funds of Hedge Funds	7,760,000	10,281,332
Direct Hedge Funds	44,750,000	49,133,564
Separately Managed Accounts	21,000,000	20,420,936
	<u>73,510,000</u>	<u>79,835,832</u>
Portfolio Completion Strategies		
Portfolio Completion Strategies	11,450,000	2,787,377
	<u>11,450,000</u>	<u>2,787,377</u>
Other		
Private Natural Resources Wind-Down	3,480,000	4,650,000
	<u>3,480,000</u>	<u>4,650,000</u>
Total Indirect Budget	<u>\$ 254,998,000</u>	<u>\$ 253,924,153</u>

This Indirect Budget Summary represents investment management fees that are deducted directly from the funds in which PRIM invests and are netted against investment income. Indirect expenses are budgeted and recorded by PRIM in order to provide full transparency.