

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Minutes of the Meeting of May 22, 2001

Call to Order:

A meeting of the Pension Reserves Investment Management Board was held on Tuesday, May 22, 2001, in the PRIM Board offices located at 84 State Street, Boston, Massachusetts. All current Board members were present, except Mr. Alexander Aikens, Mr. Robert Brousseau, and Mr. A. Michael Mullane. Also present were members of the PRIM Board staff; First Deputy Treasurer Michael Travaglini; Mr. Dennis Sugino of Wilshire Associates; Mr. Jim Reinhardt of Pathway Capital Management; Mr. Bruce Shain of Mellon Trust; Mr. John Dufulas of PricewaterhouseCoopers; Mr. John Regier of Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, P. C.; Mr. Robert Dennis and Mr. Frank Valeri of PERAC; and interested members of the public.

The meeting convened at 9:38 A.M. Treasurer & Receiver General Shannon P. O'Brien chaired the meeting. Treasurer O'Brien noted that the first action taken by the Board would be the acceptance the Minutes of the March 27, 2001 meeting.

I. Approval of the Minutes

The Board took the following action on a motion made by Mr. George McSherry to approve the Minutes, which was duly seconded by Mr. Glenn Johnson.

Voted: To approve the Minutes of the Meeting of March 27, 2001.

II. Financial Report

Mr. Dennis Sugino reported that as of April 30, 2001 the PRIT Fund's total assets were nearly \$30 billion. He noted that the Fund reached its peak on a quarter-end basis in June of last year when the Fund was slightly more than \$32 billion. Mr. Sugino further noted that Mr. Stan Mavromates informed him that as of yesterday, the Fund was at \$30.7 billion (unaudited), so PRIT is essentially flat for the year.

Mr. Sugino stated that for ten months of the fiscal year, PRIT has returned -5.8%. With two months to go, it is possible that the Fund could end the fiscal year with a positive return, although it would be a great challenge to do so. If things do not turn around, it would be the first time in PRIM's history that the Fund would end the fiscal year with a negative return.

Mr. Sugino reported on the calendar year-to-date returns. Although many of the numbers are negative, they are actually good on a relative basis. PRIM's Domestic Equity portfolio returned -3.75% compared to -5.12% for the Wilshire 5000, the overall market index, which means that PRIM's managers as a group have outperformed the index by 140 basis points. International Equities returned -4.9% for the calendar year, compared to the market at -7.7%, or about 280 basis points above the index. Emerging markets were at almost -1%, which was close to the market. Fixed Income returned 2.7% return compared to the benchmark return of 2.6%. Alternative Investments returned approximately -6% on a calendar year-to-date basis. Mr. Sugino cautioned that it is quite possible that returns may remain soft in alternative investments over the next six to nine months. Real Estate returned 4% for the calendar year-to-date. The calendar year-to-date return for the total PRIT Fund Core was -1.74%.

Mr. Sugino then reviewed manager performance. He reported that the large cap domestic equity manager hired by PRIM last year, Legg Mason, continues to perform well compared to the S&P 500. He noted that the portfolio manager, Bill Miller, has beaten the S&P 500 every year for the past ten years and has extended his record into this year. Over the past year, the S&P500 returned -12.97%, and some of PRIM's other large cap managers were pretty near that, but Legg Mason returned a positive 4% for the one-year.

Mr. Sugino reported that Marathon has done substantially better than the EAFE index, and has outperformed PRIM's other international equity managers. Emerging Market Management returns were 800 basis points better than PRIM's other emerging markets managers, Capital Guardian and Schroder.

In his concluding statement, Mr. Sugino noted that although there have been double-digit negative returns in some asset classes, PRIM should "stay the course" and maintain its current policy.

BUDGET:

Mr. Wakeman reported on PRIM's Operating Budget as of March 31, 2001. The PRIM Board expenses to date total \$84.4 million verses an approved budget of \$85.6 million. PRIM was slightly under budget in management fees and that should continue until the end of the fiscal year. PRIM is slightly over budget in the custody and outside advisors area, driven primarily by alternative investment consulting and legal fees. Mr. Wakeman noted that the variance would continue to widen until June. Within the operations area, PRIM is significantly under budget in salaries due to staff vacancies, and PRIM has used less than half the allotted budget for MIS expenses and business travel.

III. Executive Director's Report

Mr. Hearty reported that since the last meeting, PRIM been working on the high yield RFP, which would be discussed later in the meeting. Staff was also working on implementing the TIPS allocation, the annual client conference, advertising and working to fill vacant positions, and providing documentation to the State Auditor's Office.

Mr. Hearty stated that the annual client conference was the first one he had ever attended and it was terrific. He noted that the staff did a great job and commended Mr. Paul Todisco for putting together and pulling off a very successful meeting. Mr. Hearty stated that conference seemed to be informative as well as enjoyable for PRIM's clients. He noted that the quality of the speakers was very high, especially the keynote speaker, Bill Miller of Legg Mason, who gave a terrific presentation.

Mr. Hearty reported the battle continues with regard to the pension appropriations. There was good news on the fiscal year 2002 pension appropriation from the House of Representatives, which approved an appropriation of \$986 million. The budget would soon be before the Senate. With regard to the 2001 state appropriation for the local participating systems, Treasurer O'Brien continues to advocate on behalf of those systems. The matter is now before the Governor.

Mr. Hearty reported on the state audit. Mr. Peter Looby from the State Auditor's Office spent two weeks at PRIM going over virtually all the material he requested. Mr. Looby did say at the outset that he was going to conduct a limited scope review. He was very careful to say he was conducting the audit of PRIM in relation to a wider audit of other boards. Treasurer O'Brien noted the broader audit was the result of what was going on at the Teachers Retirement Board. Mr. Hearty noted that an exit interview had yet to be conducted so there was little to comment on at this point. He stated that he would keep the Board apprised of any further developments.

Mr. Hearty reported that he was happy to introduce Mr. Jerry Mitchell, PRIM's new Chief Investment Officer. Mr. Mitchell has had a very distinguished career at Wellington Management. Treasurer O'Brien stated that PRIM was very fortunate to have Mr. Mitchell as its CIO.

Mr. Hearty reported that PRIM is required to transfer a total of \$286.4 million dollars to the Commonwealth's General Fund to cover a portion of the fiscal year 2001 annual pension appropriation.

PRIM received a copy of PERAC's actuarial valuation report for the State Employees' System as of January 1, 2001.

Mr. Hearty reported on staff travel. He noted that in terms of travel, there is a fair amount more that the Board and the staff should be doing, which is something he would cover with the auditors. Mr. Hearty stated that he would be speaking to each Board member about potential ways to continue the education of both Board and staff.

Mr. Travaglini noted that the Attorney General's Office should be issuing its opinion in the dispute between PRIM and PERAC about the appropriate scope of PERAC's audit. When that opinion is received, it will be distributed to all Board members.

IV. Investment Committee

Mr. Hearty reported that the Investment Committee met on May 10, 2001 and had several recommendations.

A. High Yield Bond RFP

Mr. Mavromates reported that the PRIM Board has not issued a comprehensive high yield bond RFP since 1989. Since that time, the high yield bond market capitalization has tripled in size, from \$200 billion dollars to \$650 billion dollars, and the advisors providing high yield bond services has doubled in size. Accordingly, the Investment Committee recommends the issuance of a high yield bond RFP. PRIM's current high yield bond managers, Fidelity and Loomis, will be asked to respond to the RFP.

The Board took the following action on a motion made by Mr. McSherry and duly seconded by Mr. Angelo Amato.

Voted: Voted that the PRIM Board issue an RFP for active high yield investment management services to select one or more investment advisors to manage up to \$600 million; further, that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

B. Review of Currency Overlay Program

Mr. Mavromates reported that staff and Wilshire Associates performed a thorough review of the currency overlay program that was adopted in 1992 and presented the results to the Investment Committee. The Committee requested that staff and Wilshire conduct further analysis with the hope of having a recommendation for the July Board meeting

C. TIPS Implementation Update

Mr. Mavromates reported on the TIPS implementation. The Board previously approved a 5% allocation to TIPS, and Barclays has adjusted their investment objectives to include that allocation. Barclays has already begun to invest and it is expected that they will be fully funded at the 5% level by the end of June.

Mr. Hearty noted that a question raised at the Investment Committee meeting as to whether or not PRIM was implementing the strategy at the right speed. Staff spent some time with Barclays discussing this matter and we are comfortable with the implementation process. Treasurer O'Brien asked for a further explanation. Mr. Hearty stated because there is a relatively small float on TIPS in terms of available securities, if you buy a lot of them quickly you can affect the price of your own securities.

D. Interim & Long-Term Policy Benchmark Adjustments

Mr. Mavromates reported that there were two benchmark adjustments that the Investment Committee recommends be implemented on July 1, 2001 due to the asset allocation decisions made earlier in the year. Specifically, the allocation of the core fixed income portfolio is 18% core fixed income and 5% US TIPS. Therefore, the Investment Committee recommends that the benchmark for fixed income be changed to those proportions effective July 1, 2001.

The Board took the following action on a motion made by Mr. Johnson and duly seconded by Mr. Ralph White.

Voted: That effective July 1, 2001, the PRIM Board change the fixed income portfolio's interim policy benchmark to 18% Lehman Brothers Aggregate Bond Index and 5% Lehman Brothers U. S. Tips 5+ Year index; and change the long-term policy benchmark to 16% Lehman Brothers Aggregate Bond Index and 5% Lehman Brothers U. S. Tips 5+ Year Index; and further, that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

Mr. Mavromates reported that the second benchmark adjustment would be for the high yield debt portfolio. The allocation approved by the Board is 2% high yield bonds and 1% distressed debt. The Investment Committee recommends that effective July 1, 2001, the high yield bond portfolio be benchmarked to CSFB High Yield Bond Index. Further, the Committee recommends that due to the absence of an appropriate benchmark for distressed debt, the benchmark will be the actual performance of that portfolio.

The Board took the following action on a motion made by Mr. White and duly seconded by Mr. McSherry.

Voted: That effective July 1, 2001, the PRIM Board establish the benchmark for the high yield debt portfolio's investment performance compliance in the interim and long-term policy benchmark to be 2% CSFB High Yield Index and 1% actual distressed debt performance; and further, that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

E. State of Israel Bonds

Mr. Mavromates reported on the State of Israel bonds. Between 1989 and 1994, the former MASTERS Trust purchased about \$26 million in face value bonds. All of these holdings were transferred to the PRIT Fund when the Funds merged in 1997. Since that time, about \$15 million of these bonds have matured. As of the end of April, PRIM held about \$11 million of these bonds. The bonds are used for infrastructure projects in Israel and must be held to maturity. They have an investment grade rating and are currently rated A- by S&P and A2 by Moodys. The Investment Committee recommends a commitment of \$5 million dollars per year over the next five years. The total

commitment total over the next five years is \$25 million – \$11 million of that will come from the proceeds of the maturing bonds PRIM currently holds.

The Board took the following action on a motion made by Mr. White and duly seconded by Mr. Amato.

Voted: That the PRIM Board renew, upon maturity, the current holdings of State of Israel Bonds, and when necessary commit additional funds to achieve an investment of up to \$5 million per year over the next five years; and further, that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

Mr. Mavromates noted that for informational purposes, Abbe Johnson has been named the President of Fidelity Management & Research effective June 15, 2001, taking over for Bob Pozen. PRIM does not foresee any impact to its Fidelity portfolios as a result of this organizational change.

F. Summary of Year 2001 Alternative Investment Commitments

Mr. Wayne Smith reported that if today's opportunities are approved, PRIM will have committed \$435 million, or about 60% of its \$750 million budget for vintage year 2001.

G. Alternative Investment Opportunities

1. Increased Commitment to Boston Ventures VI, L.P.

Mr. Smith reported that PRIM staff initially recommended an investment of up to \$50 million for Boston Ventures VI in July 2000, but due to asset allocation considerations, cut back its recommendation commitment to \$40 million. Boston Ventures has requested and the Investment Committee recommends an additional investment of \$10 million to Boston Ventures VI.

The Board took the following action on a motion made by Mr. White and duly seconded by Mr. McSherry:

Voted: That the PRIM Board approve an investment of up to \$10 million in Boston Ventures VI, subject to the satisfactory negotiation of terms and conditions; and further that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

2. New Enterprise Associates 8A

Mr. Smith reported that New Enterprise Associates (NEA) is currently raising \$150 million for NEA 8A with an anticipated June closing schedule. NEA 8A is being formed to provide follow-on financing for NEA 8's 65 remaining portfolio companies. Currently, NEA 8 only has \$74 million remaining for follow-on investments. Therefore,

NEA 8A will invest \$50 million to purchase 3% - 5% of NEA 8's 65 portfolio companies and going forward NEA 8 and NEA 8A will both invest in any subsequent financings. PRIM invested \$15 million in NEA 8, which was a \$560 million fund raised in 1998.

NEA 8A is being offered to NEA 8's existing investors at lower fees and on a pro-rata basis, which would represent a minimum commitment of \$4.0 million for PRIM. The Investment Committee recommends that the Executive Director and PRIM staff be given discretion to make an investment up to \$15 million in New Enterprise Associates 8A, LP.

The Board took the following action on a motion made by Mr. McSherry and duly seconded by Mr. Amato:

Voted: That the PRIM Board approve an investment of up to \$15 million in New Enterprise Associates 8A, subject to the satisfactory negotiation of terms and conditions; and further that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

IV. Real Estate Committee

A. Outlook for Core and Value Real Estate Investing

Mr. Hearty introduced Lynn Thurber, the Chief Executive Officer of LaSalle Investment Management, and George Duke, Managing Director of LaSalle Investment Management.

Ms. Thurber stated that she would discuss LaSalle's views of what will drive the real estate markets over the coming years, and her firm's expectations for those markets. In the early days of the PRIM-LaSalle relationship, real estate was viewed in the context of a very strong growth economy with relatively moderate interest rates. The growth in the economy was allowing the demand to eat up the excess of over-supply that was left over from the building of the 1980's. The resulting increased occupancy gradually moved rental rates up, so there were great expectations for real estate returns looking forward. More recently in the last few years, we have been looking at moderate growth in the economy. We have been talking about strong fundamentals on the real estate side, with supply and demand in balance even later in the recovery. We have seen that the capital markets were being disciplined and we were not seeing too much new development or new construction. Therefore, vacancies were low and with the strong growth in the economy, we were continuing to see modest level of rental growth increasing current returns and proving some appreciation.

Today people talk about soft landings or recessions, slow growth in the economy, a very volatile stock market, corporations announcing successively disappointing earnings, and cutbacks in staffing and jobs. It sounds like a gloomy picture for real estate, but LaSalle believes the glass is more than half full as we look forward to the future. There are two strong reasons: 1) as we enter this time of slow growth, real estate is in a very strong position to weather this slow growth, soft landing, or recession – vacancies are low,

tenancies are still strong, and in general, we are seeing good current incomes and reason for stability of those income levels; 2) relative to alternative investment categories, LaSalle believes real estate will be attractive going forward.

Ms. Thurber stated LaSalle believes that the strongest signal for real estate is job growth. Employment growth certainly was the reason for the very strong performance for real estate in the 1990's. As we go forward – to the extent that we have positive job growth, and as we look market by market some areas with more opportunity for job growth – we would expect those markets to perform well and again maintain this stability of low vacancy rates in the real estate sector.

We are entering this slow growth period in a favorable position in terms of low vacancy rates. Ms. Thurber noted that looking back to the recession of 1990 and 1991, the office property type was close to 20% vacancy, and that was an average number, making it a very difficult time to go into a recession. As a result of the capital discipline in the late 1990's, we enter this soft period with office vacancies at about 7.5%, and vacancies in the other property types lower than that. As we came through the late 1990's and began to see demand eating up some of that supply, it was a glorious day when we hit 10% vacancy. So coming from the south side of 10% with a slowdown in the economy, we may, on average, hit somewhere around 10.5% to 11% vacancies. We are not overly concerned about the impact of that on real estate rental rates or valuations.

LaSalle's view has been that if you are south of 12% vacancies, the tendency is to keep rental rates stable. If you are north of 12%, you are likely to see some declines in rental rates. If you are south of 9% vacancy, you will begin to see rising rental rates. Those are the parameters LaSalle looks at, as they express some comfort for the performance of real estate going forward.

Favorable interest rates going forward also helps the real estate market with mortgage rates at high spreads to ten-year treasuries. But you still have positive leverage for the performance in PRIM's value added program. PRIM provides for having leverage and this adds incremental return for investors in the real estate category.

Ms. Thurber then discussed the US construction cycle. She referenced a recent article in the Wall Street Journal that said there would be a very high level of completions of new construction in many markets in 2001, resulting in additional supply, which would increase vacancy rates in some markets. It is certainly correct that there will be increases in vacancy rates, however, that was in terms of construction completions. In terms of construction starts, which peaked last year, they will be dramatically reduced this year. The capital for new construction is extremely limited and lenders have pulled back dramatically from providing financing for new development.

Ms. Thurber stated that the slow down in the economy and particularly the impact on the technologies companies, is first affecting office. The demand side for office is weaker but is also weaker in very focused markets, i.e., markets that benefited the most from the technology boom – the San Francisco area, Austin, Denver, Boston, and Northern

Virginia. Rental rates are dropping in those markets and sublet space is coming on the market for many of these technologies companies, and companies that have made commitment for expansion space are walking away. That is not a national trend, but it is very specific to those markets. However, it does impact the impression of investors in the marketplace, and there is a dramatic capital slowdown in office sector investing. The major CBD markets – New York, Chicago and Washington D.C. – are still greatly favored, but the suburban markets are not, and capital is at a five-year low entering into real estate markets. Five years ago there was about \$170 billion dollars in capital – public and private debt and equity – flowing into the real estate markets. In 2001, the market is down over 30% in 2001, expecting less than \$115 billion of capital to enter the office sector.

With respect to other property types, there is still great softness in retail. The quote of the month in Ms. Thurber's mind is "Retail in the United States is not over supplied, it is under demolished." LaSalle is very concerned about retail, and the market in general does not in favor retail, even though the consumer continues to spend, we just have an incredible amount of retail space in the country – twice as much space per capita in this country as in Europe.

Ms. Thurber noted that warehouses continue to perform well, tending to stay in supply/demand balance. Warehouses are a very favored property type on the part of investors, so pricing remains fairly competitive, which is a good income play, but there really isn't any expectation of improved performance there. Conversely, multi-family is a favorite asset property type both from a supply and demand characteristic, as well as a capital characteristic. It is an interesting push/pull effect of the demographics today – the aging baby boomer going back to multi-family, the young families coming along living in apartments – and LaSalle believes there will be great demand for multi-family. In a softening economy, there will be more of a pull back from moving out of multi-family to single family residential, keeping the occupancy and demand for multi-family high. This is a very favored property type by investors – very strong, stable current income levels – When they are put on the market, there are many bids, versus the suburban office categories on the market today that are either B properties or secondary or tertiary locations, getting one or two offers when they are put on the market for sale.

Bidding prices are at an all time highs, so there no impact on softening the economy in the multi-family sector. Going forward, multi-family is appealing from a supply/demand perspective, but very careful about in which market and what price levels. Office, being out of favor, may very well turn out to be the contrarian play if this is a short and not to deep a slowdown in growth. Office, as it is repriced in the marketplace, may perform extremely well over the coming years.

Ms. Thurber reiterated that real estate it is going into this economic slowdown in an attractive position in terms of low vacancies, and is well positioned for the future. The expectation for returns going forward relative to PRIM's other assets classes should be in the 9% to 11% arena. This should be possible because we are buying today with current income numbers in the 8.5% to 9.5% area.

LaSalle believes that in 2001, there will be some declines in values, particularly in the office sector, but probably not in the other three property types. Going out over five years, LaSalle's view is that as the economy recovers, and as the GDP grows 2% to 3% with inflation at a 3% to 3.5% level, rental rates will rise and that increase in the income level will provide for the additional 100 to 200 basis points of return over the current income number. This will provide for stability in the real estate sector, a negative correlation to what's happening in stock and bond sectors, and a very strong level of current income for the portfolio. She added that despite the troubling news in the economy and the volatility of the stock market, LaSalle still has a very positive outlook for real estate performance and for PRIM's real estate portfolio.

There was some discussion following Ms. Thurber's presentation.

B. Portfolio Update

Mr. George Wilson reported that Terry Ahearn and Frank Blaschka of The Townsend were present at today's meeting to review with the Board the proposed annual real estate plan.

C. Proposed Annual Real Estate Plan

Mr. Blaschka reported that PRIM's real estate portfolio has almost reached its 6% target allocation because of the combination of investment activity and, unfortunately, the stock market correction. As a result, based upon the existing commitments made to PRIM's real estate managers, both on the core and value side, Townsend does not anticipate any new allocations available in this upcoming fiscal year plan. Using the March plan asset numbers, PRIM's allocation would be over 6.8% on a total allocated basis. If we assume that the plan's assets grow at the 8.25% actuarial rate over the next year, PRIM still would have an allocation to real estate that would exceed the 6% target. As a result, Townsend is not recommending any new allocations to the real estate program. However, Townsend is recommending that PRIM continue to invest selectively and fund the commitments that have been made to the existing real estate investment managers. The rebalancing policy will allow PRIM's managers to continue to invest, provided that they notify PRIM once the 6% target is reached.

Currently, there is a lot of activity happening in the portfolio in terms of dispositions and potential acquisitions that are occurring. This annual plan does not offer new capital for investment, but it does continue to recommend that PRIM fund what it has in place with its core and value managers, which is about \$455 million dollars in total, about \$355 million of which is in the core program, PRIM's lowest risk real estate category.

Mr. Blaschka reported that it appears that real estate is meeting PRIM's needs. The policy calls for real estate to provide a stable high income return with relatively low risk and control. The allocation target by style is 75% to 100% in core. Currently, the core allocation is about 85%, which at this point in the real estate cycle and economy is

probably a good place to be and where a lot of other pension funds are try to get to by increasing their investment in core real estate. PRIM may have up to 25% of its allocation invested in complementary strategies. The ones that have been executed in the last couple of years are a fairly low risk value enhancement program that is being implemented by LaSalle and Invesco and publicly traded REITs. It's early in both of those programs to tell how well they have been performing. The value program has been slower paced in terms of investments over the last couple of years because there has been fairly competitive environment in the value enhancement market.

Mr. Blaschka noted that PRIM's real estate performance has been relatively good. Over most time periods the core portfolio has lagged the NCREIF Property Index ("NPI"), which is, for lack of a better alternative, the main index that most real estate investors look to in measuring performance. However, the NPI is not the benchmark that Townsend has been assigned to build a strategy around. He noted that PRIM's real estate portfolio is more conservative than the properties contained in the NPI database.

Mr. Blaschka reported that going forward, PRIM's real estate portfolio can continue to can generate attractive returns that will certainly hit PRIM's actuarial assumption rate. Because there is no new capital to allocate this year, Townsend is recommending that PRIM allow its managers to invest committed funds with prudence and selectivity, which will be the key, particularly over the next 6 to 12 months. Townsend also recommends that PRIM should be vigilant about how its manages the diversification of property type by location.

Mr. Johnson stated that the Real Estate Committee met on May 9 and spent several hours discussing the annual plan, scrubbed it down, and the Committee is very comfortable with the plan as proposed.

D. Increase in Core Property Purchase Size

Mr. Wilson reported that currently, PRIM has a maximum limit of \$70 million of the total purchase price for any one property acquisition. This limit was set at the time when the size of the core real estate program was \$1 billion. Over the past few years, there has been a substantial increase in the size of the PRIT fund and a corresponding increase in its real estate portfolio. With this increase in the real estate portfolio, the Real Estate Committee believes that a larger property purchase size is now appropriate. A larger purchase price will give PRIT the ability to purchase assets of a size that not many separate accounts can make. In addition, there are operating efficiencies afforded in the ownership of larger properties, both for the core manager and for PRIM in its oversight of the core real estate program.

Reasonable portfolio diversification is attained when no more than 5% to 6% is invested in one property. Accordingly, given the current \$1.8 billion (6%) allocation to real estate, the Real Estate Committee has adopted an \$100 million investment limitation per property for the core program, and The Townsend Group concurs with the Real Estate Committee's new policy.

E. Use of Investment Management Agreements by Value Managers

Mr. Wilson reported that currently, PRIM's real estate properties are managed by local property managers under contracts that can be canceled upon thirty days written notice. The Real Estate Committee has adopted a new policy in which PRIM's Value managers can use incentive management agreements with the local property managers. This should expand the universe of investment opportunities in the Value program. In addition, it will allow PRIM's managers to offer proper incentives to property managers when large-scale renovations of properties are undertaken.

Under most incentive management agreements, there may be a period of time where the investment manager will not be able to terminate the local property manager without cause. In addition, some element of shared control is likely, although we anticipate that PRIM's investment managers would control all major decisions (capital budgeting, leverage, refinance or sale). However, legal title to a property will be with a PRIM owned entity. The Townsend Group concurs with the Real Estate Committee's new policy.

F. Request for Proposals for Timber Investment Management Services

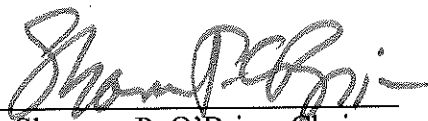
Mr. Wilson reported that as part of the fund's long-term asset allocation plans, the PRIM Board approved a 2% allocation to timber at its January 2001 meeting, subject to implementation constraints. In order to evaluate properly those implementation constraints, the Investment and Real Estate Committees recommend that an RFP be issued for timber investment management services.

The Board took the following action on a motion by Mr. Johnson and duly seconded by Mr. McSherry.

Voted: That the PRIM Board authorize the issuance of a Request for Proposals to provide timber investment management services; and further that the Board authorize the Executive Director to take all actions necessary to effectuate this motion.

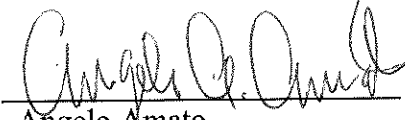
VII. Other Business

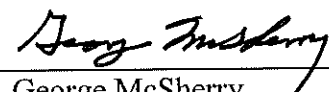
There being no further business, the meeting was adjourned at 10:53 AM.


Shannon P. O'Brien, Chair


Ralph White

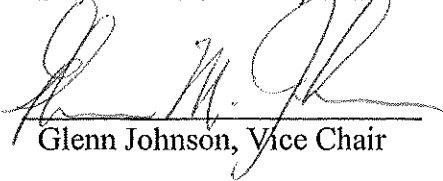
Glenn Johnson, Vice Chair


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