



Minutes of the PRIM Compensation Committee
Meeting on March 6, 2018

Meeting attendees:

- Michele A. Whitham, Esq., Chair
- Treasurer Deborah Goldberg
- Robert L. Brousseau
- Patrick E. Brock

Committee members not present:

- Joseph Connolly

The meeting of the PRIM Compensation Committee was called to order at 10:05 a.m.

I. Approval of the Minutes

The Compensation Committee unanimously approved the minutes of the November 2, 2017, meeting.

II. Executive Director's Report

Michael G. Trotsky, CFA, Executive Director and Chief Investment Officer, provided the Committee with the following update:

Mr. Trotsky reminded the Committee that when they met in November, the consensus was to meet again in Q1 2018, for two purposes:

1. to consider updated salary range data for PRIM's peer Public Pension Funds comparator group, as compiled by PRIM's compensation consultant McLagan; and
2. to consider whether PRIM's peer Public Pension Funds comparator group continues to be the appropriate comparator, or whether changes to the comparator group might be in order.

Mr. Trotsky informed the Committee that Adam Barnett of McLagan was present and would review the comparator group data and options with them, but first provided the following thoughts:

Mr. Trotsky began: "Our investment performance has been outstanding in recent years, both in up and down markets (CY17 up 17.7% gross, we know of no other fund of our size in the country that beat us, FY16 when global equities were down more than 5%, we were up 2.3% and again nation-leading, and again we know of no other fund of our size in the country that beat us). What this shows is that our carefully constructed and de-risked portfolio is working exactly as intended, providing us with substantial outperformance in both challenging markets (down markets) like FY16 and in rewarding markets (up markets) like CY17. Outperforming in up and down markets is in large measure the result of having been able to stabilize staff turnover and to recruit and retain outstanding investment staff, who in turn have been supported by outstanding finance and operations professionals. And this success in recruitment and retention has been due to a number of factors, not the least of which is the benefit of the substantially reformed and improved PRIM compensation system that this Committee - - you all - - and the Board provided me in 2012 as a result of some excruciatingly challenging work. Thank you for that. It was time and effort well spent."

Mr. Trotsky continued: "You all already know that compensation is a small component of our overall cost structure here at PRIM. It is approximately 2% of our total cost structure. The remaining 98% of our cost

structure is paid to Wall Street -- investment managers, consultants, and other providers – outside these four walls of PRIM, and in most instances outside of the Commonwealth of Massachusetts.

However, even though compensation is a very small part of our overall cost structure, I believe, and most on the Board have indicated they agree, that it is the single best and most important investment we make every year.”

Mr. Trotsky said: “As I have reported to you, retention and recruitment of key employees remains my primary concern and I continue to spend a very significant amount of time on retention and recruitment. The employment environment in the nation and in the region is strong and there are ample and numerous opportunities for our employees outside of PRIM. The success of our program and the talent within our organization are very well recognized.

We have worked hard to provide a rewarding opportunity for all our employees and a culture and work environment that our employees value. We have developed and we continue to develop internal programs to improve our work environment, such as the PRIM PDP, extended parental leave, flexible working hours for some, and a unique and satisfying internal culture that is built on internal promotions, investment program innovation, nation-leading investment returns, continuing education, and above all, very interesting and satisfying work across a variety of innovative, interesting and high-performing investment strategies.

But, as you know, compensation does matter a lot and we can ill afford to be complacent. We have been fortunate with relatively low turnover, but it is becoming more difficult to attract and retain talent in this market.”

Mr. Trotsky explained: “We all need to recognize that turnover will occur and, naturally, our highest performing staff members are the first targets of recruiters, peers and poachers.

Also, our experience shows that turnover and competitor recruitment efforts to steal employees from PRIM disproportionately affects our diverse candidates, because all of the private sector employers in our space are targeting diverse candidates just like we are, and the pool from which to choose is not large. It is hyper-competitive for diverse employees in the investment industry.

The actual experience of recruitment and retention at PRIM is that we don’t draw our people from - - or lose our people to - - other peer Public Pension Funds, which is our comparator group in our current compensation plan, but rather from and to private sector investment management companies, endowments and foundations.”

Mr. Trotsky concluded: “I want to repeat that I am very, very grateful for your past work. The plan that you and the Board put in place in 2012 has resulted in the recruitment and retention successes we had hoped for, and resulting superior investment performance. So, even as you consider today McLagan’s suggestions for further improvements to that plan, please also make note of - - and enjoy - - the successes that your current plan has brought about. And again, I thank you, and I know every employee at PRIM thanks you for your attention to this sensitive, but critically important subject.”

III. Compensation Philosophy Review

Mr. Barnett presented to the Committee his analysis on compensation at peer public pension funds along with compensation at private sector firms for comparison purposes. Mr. Barnett works with asset management companies in North America, including public funds, endowments, and asset-management firms.

Mr. Barnett noted that PRIM’s compensation system was implemented in 2012 and, per its guidelines, the salary ranges are to be reviewed and updated at least every 4 years to ensure PRIM remains competitive with current market trends.

Mr. Barnett's presentation included two main sections. One section included 2017 data to update the salary ranges for the Board-approved public peer group, and the second section included several comparator group alternatives.

The alternative peer groups presented by Mr. Barnett were as follows: 75% Public Funds/25% Private Sector Firms, 50% Public Funds/50% Private Sector Firms, and 100% Private Sector Firms.

Mr. Barnett explained that PRIM's updated base salary mid-points and potential bonus are generally competitive with public funds but lag the private sector cash compensation levels by significant margins, and lag private sector total compensation levels (salary + bonus + long term incentives) by even wider margins.

Mr. Barnett concluded that for PRIM's most senior staff, incentives represent a significant portion of pay within competitor firms, and if PRIM's staff were to leave, from a pay perspective they would likely be recruited away based on far more significant incentive opportunities, not base salaries.

The Compensation Committee unanimously approved a recommendation to the PRIM Board for the approval of the 2017 Compensation Range Update as set forth on page 6 of Appendix D, and further to authorize the Executive Director to take all actions necessary to effectuate this vote.

The Compensation Committee unanimously approved a motion requesting McLagan to prepare and present data and analyses and recommendations associated with adopting a blended peer group of 75% public funds and 25% private sector firms for total compensation purposes, and in particular to focus this work on new incentive compensation potentials that would serve as companions to the updated 2017 salary ranges.

The meeting of the PRIM Compensation Committee adjourned at 11:15 a.m.

List of documents and exhibits used during the meeting:

Minutes of the PRIM Compensation Committee meeting of November 2, 2017

PRIM Board Approved Compensation Philosophy

PRIM Board Approved Incentive Compensation Plan

McLagan's Comparator Data Salary Range Update and Review - 2017