



Minutes of the PRIM Compensation Committee
Meeting on November 17, 2016

Meeting attendees:

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

The meeting of the PRIM Compensation Committee was called to order at 11:20 a.m.

I. Approval of the Minutes

The Compensation Committee unanimously approved the minutes of the November 19, 2015, meeting.

II. Executive Director's Report

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

The compensation philosophy and plan that was first approved in December 2012 and reaffirmed last year is working well and has helped us to attract and retain the top talent we need to implement a first-class investment program, Mr. Trotsky said. Mr. Trotsky noted that the PRIM Board is required to update salary ranges at least every four years and accordingly, in December 2015, three years since the last salary range update, the PRIM Board approved new salary ranges recommended by PRIM's compensation consultant. Additionally, the existing compensation philosophy and plan were both reaffirmed by a vote of the Board at the same December 2015 meeting.

Mr. Trotsky reminded the Committee that a few years ago, PRIM had 11 key top-level vacancies on staff, but today there are none. There has been virtually no staff turnover and job postings attract literally hundreds of highly qualified candidates. Mr. Trotsky said PRIM's high performance, innovation and success are drawing the best in the industry. There is no greater compliment a manager can receive -- there is no better compliment that any of us can receive -- than having the best and brightest in the industry apply for our job openings and to be able to hire and retain them, he said

Mr. Trotsky stated that PRIM is very lucky to have the talented staff it has today. Others in the industry are emulating our innovations and PRIM staff continue to receive worldwide recognition for the innovation and success of our investment program and for the transparency and completeness of our financial reporting, he said, describing the current team as the best staff in PRIM's history. "PRIM should be very proud of that," he said.

Mr. Trotsky explained that having a strong staff is important in that it ultimately translates into strong investment performance. Performance of the PRIT Fund is strong on an absolute and relative basis. Mr. Trotsky noted that staff is not aware of any other plan in the country of our size that beat PRIM's 2.3% return last fiscal year. Furthermore, the PRIT Fund outperformed nearly all endowments in the country, most of which produced losses for the year. PRIM's *Wilshire Trust Universe Comparison Service* (TUCs)

rankings are now in the top 15th percentile for both the 1- and 3-year periods ending September 30, 2016. PRIM's 2-year performance return is at the very top – the top 2% in the country. Mr. Trotsky noted that five years ago PRIM was in the bottom 10% of these same TUCs rankings.

Mr. Trotsky reminded the Committee that compensation is a small component of PRIM's overall cost structure. Compensation is less than 2% of our total budget. The remaining 98% of our budget is paid to PRIM's outside investment managers, consultants, and other providers – outside the four walls of PRIM, and in the majority of cases outside the Commonwealth of Massachusetts.

Mr. Trotsky stated, that however, even though compensation is a very small part of our overall cost structure, it is the single best investment PRIM makes every year. PRIM is an asset manager above all other things here, and PRIM staff is our most valuable asset. PRIM staff has enabled the innovation and success of PRIM .

Mr. Trotsky noted that in his recent self-assessment and in conversations with several of Board and Committee members individually, retention of employees remains his primary concern right now at PRIM. Labor markets are tightening both locally and nationally and the success of PRIM and the talent of our staff has not gone unnoticed. PRIM employees are being heavily recruited and I spend more and more of my time in retention situations, Mr. Trotsky said.

Mr. Trotsky stated that PRIM must continue to make the investment in human capital that will be fundamental to its future success. Mr. Trotsky said, a Committee member once said to me, *“Having almost 50 years to think about retention issues in the investment business, I have concluded that the ability to attract talent does not assure you of superior results, but consistently failing in retention and recruiting efforts is a sure method of achieving poor results and even failure.”* Mr. Trotsky thanked the Committee members for providing him the tools necessary to build a great team here at PRIM, but reminded the Committee to not ever get complacent.

III. Administration and Audit Committee Chair's Report on the Executive Director's Fiscal Year 2016 Performance Evaluation

Administration and Audit Committee Chair Robert Brousseau presented for the Committee a summary of the Board's October 6, 2016, evaluation of the Executive Director. Mr. Brousseau stated that Mr. Trotsky “surpassed his evaluation from last year, and that losing him would be a great void to this organization.” Mr. Connolly stated he “wish(ed) we weren't limited in what we could do for not only Michael, but the staff as well because of the work they do. Investors like continuity and PRIM provides that – (I) wish we didn't have our hands tied on what we could do.”

Treasurer Goldberg stated that “last year we spoke on retention and hiring and it has been one of our key successes.” Treasurer Goldberg noted that Mr. Trotsky and PRIM have earned “5 out of 5 stars on its diversity initiatives” and that Mr. Trotsky “takes seriously the challenges we put in front of him.”

Mr. Brock said, “one of the reasons I accepted this position is to watch what we do (at PRIM) so I can transfer it to my local Board, and see how Michael manages to excel with the more challenges he gets – I can't wait to see how they handle the challenges ahead.”

IV. Executive Director's Fiscal Year 2016 Individual Performance Component

Ms. Whitham explained the Committee's responsibility to recommend to the Board the Executive Director's Individual Performance Incentive Multiplier for FY 2016 based upon the Board's October 6, 2016, evaluation. Mr. Brousseau made a motion to recommend the Executive Director's FY 2016 Individual Performance Incentive Multiplier be “1.0.” Mr. Brock seconded this motion.

The Compensation Committee voted (unanimously) to recommend to the PRIM Board that it approve the Executive Director's FY 2016 Individual Performance Multiplier of “1.0.”

V. Executive Director's Compensation

Mr. Brousseau reviewed Mr. Trotsky's compensation history at PRIM and explained the Committee's responsibility for recommending to the Board the Executive Director's compensation. Mr. Brousseau reminded the Committee of the 2015 Committee recommendation and discussion, which included that Mr. Trotsky's performance warranted his salary to continue to be kept not lower than the midpoint of the 2015 Board-approved salary range and that at the time, they were uncomfortable making the salary adjustment all at once, and rather wished to do so in two equal moves, the first being approved in 2015 and the second to be discussed today. Committee members expressed the view that the Executive Director/Chief Investment Officer's performance warranted an even higher increase beyond the midpoint of the range, with Mr. Brock saying Mr. Trotsky is "very deserving of much more than we can give." Mr. Brousseau made a motion that the Committee recommend to the PRIM Board to adjust the Executive Director/Chief Investment Officer's salary from \$395,000 to \$430,000, effective December 1, 2016, bringing it to the midpoint of the salary range.

Mr. Brock stated that "though this would put Michael's salary at the midpoint of the 2015 analysis, and it is recommended that those salary ranges be reviewed every 3 to 4 years, I believe we need to have a trend analysis done. The last thing we would want to do is fall so far behind that it would be difficult to catch up." Mr. Trotsky said, "I would like to point out that currently about 70% of our staff is at or below the midpoint mark of the current salary ranges," explaining that the salary ranges are not necessarily the problem, but rather PRIM may need to review its total compensation budget.

The Compensation Committee voted (unanimously) to recommend to the PRIM Board that it increase the Executive Director/Chief Investment Officer's salary to \$430,000, effective December 1, 2016.

VI. Meeting Held Independently of Management

Pursuant to M.G.L. Chapter 29, Section 29K(b)(2) and 801 CMR 53.02, PRIM staff left the room at 11:53 a.m. and the Committee continued its discussions. One staff member remained to record the minutes.

The Compensation Committee discussed the proxy voting guidelines, asset allocation, divestment, new Board members and asking PRIM's compensation consultant for an update on trends.

The meeting of the PRIM Compensation Committee adjourned at 12:06 p.m.

List of documents and exhibits used during the meeting:

Minutes of the PRIM Compensation Committee meeting of November 19, 2016

PRIM Board Approved Compensation Philosophy

PRIM Board Approved Incentive Compensation Plan

Draft Minutes of the Board's FY 2016 Performance Evaluation of the Executive Director.