Minutes of the meeting held on Tuesday April 21, 2015

Present: Francis Murphy – Chairman, James Monagle, Michael Gardner, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Absent: Nadia Chamblin-Foster and John Shinkwin.

Ghazarian provided an overview of the four managers selected to interview. He emphasized Segal's recommendation that Cambridge adopt a blended approach to this asset, either by hiring a blended manager, or by hiring both a hard currency and local currency manager. BlueBay is the only blended manager selected to interview. Ghazarian stated that Stone Harbor does offer a blended product, but that it is now closed to new investors. The product they will be presenting today is a hard currency portfolio. Pyramis is also hard currency and Wellington is local currency. Ghazarian stated that he would not anticipate any significant difference in fees by splitting the allocation between two managers.

Bill Irvine and Anna Troup represented BlueBay Asset Management. A written portfolio summary was reviewed by the Board. Irvine stated that BlueBay is a wholly owned subsidiary of RBC Global Asset Management. RBC currently manages funds for Cambridge in the International Equity sleeve and also manages funds for PRIT, Bristol County, Hampshire County and the MBTA. Troup reviewed the composition of the emerging market debt investment universe. The hard currency segment consists of sixty-two countries which issue debt in US dollars. She noted that many countries in the space are frontier countries, such as Kenya and Tanzania. Less than 70% of hard currency debt is considered investment grade. The local currency segment consists of sixteen countries, which issue debt in their own currency. These tend to be more established markets, such as Mexico. In reviewing local currency investments, one must consider currency fluctuations and real interest rate risk. Local currency bonds have shown weak returns over the last year, as the dollar has appreciated. Troup stated that the local currency segment has historically been more volatile and that a blended portfolio is generally more stable. She also stated that she feels that local currency bonds are approaching a bottom, but will likely continue to fall for another six to twelve months before rebounding. The fund uses derivatives to hedge currency risk, and has also used credit swaps to minimize the impact of local taxation. BlueBay employs 34 investment professionals, all based in London. All their analysts speak the language of the area they cover, and travel frequently. The portfolio holds no bonds from Venezuela or Russia. Russian bonds have rallied over the last several months, but Troup stated that the firm still considers them too risky, and illiquid. The portfolio is now somewhat overweighted toward the hard currency portion, due to the firm's analysis that local bonds will continue to fall in the near future. Troup stated that the firm does not intend to buy Venezuelan bonds, which have rallied over the last few months. She anticipated that Venezuela would be forced to default within the next two years. Irvine stated that fees for a pooled fund would be 75 basis points, plus management expenses of 16 basis points. Irvine stated that this was a discount from their usual fee of 125 basis points.

Marcy Rappaport and David Oliver represented Stone Harbor Investment Partners. A written portfolio summary was reviewed by the Board. The firm was founded in 2006, and is 100% employee owned. Stone Harbor manages funds for PRIT and the Mass. Housing Finance Agency. The portfolio is measured against a hard currency index, although the firm does invest a portion of assets in local currency bonds. The portfolio consists of sovereign debt as well as some corporate bonds. At present the fund has 7% invested in local currency, although the fund has had holdings as high as 22% in the past. Corporates comprise 3% of the portfolio. Oliver reviewed the firm's investment process and the analysis of the likelihood of receiving repayment from various sovereign debt issues. He reviewed the firm's investment in Venezuela, noting that while analysts have predicted a default for several years, Venezuela has made payments to date, and at an attractive rate. Oliver stated that the firm has a strong preference for owning bonds directly. The firm may occasionally hedge currency, but does not use interest rate swaps. The firm's analysts meet weekly to review each country in the index, with emphasis on growth, cash flow and inflation. After this analysis, the firm may opt to underweight a country, and keeps a number of countries at a zero weighting. The firm would rarely opt to overweight a country more than 6% above the index holding. Gardner noted that over the last ten years, the firm has returned 8.86% vs. the index at 8.28%. Oliver stated that the firm substantially underperformed the benchmark over the last year, and stated it was due to poor timing of investments in Russia and Venezuela. He stated that he was confident that returns would improve and emphasized that the portfolio would be subject to higher volatility than other asset classes.

James Zadrozny, Mark Botelho and Brian Drainville represented Pyramis Global Advisors. A written portfolio summary was reviewed by the Board. Zadrozny thanked the Board for their continued investment in the domestic fixed income portfolio. He stated that he felt that Pyramis had been able to deliver superior client service over the years working with Cambridge, and stated that Pyramis would offer a 10% discount from their standard fee due to the established relationship. Pyramis manages approximately $13 billion in the EMD portfolio. This consists of about $12 billion in retail assets and $1 billion for institutional clients. The institutional funds are held in a separate pool, and Zadrozny stated that redemptions from retail clients would not impact the liquidity of the portfolio. Drainville reviewed the portfolio's investment philosophy and research process, and the firm's ability to seek out market inefficiencies. The portfolio does not use derivatives. The portfolio invests primarily in hard currency sovereign bonds, though up to 10% may be invested opportunistically in local currency bonds, and between 15-25% in corporate bonds. Drainville noted that the corporate space in particularly subject to inefficiencies where Pyramis feels there are good opportunities for returns. Drainville reviewed the portfolio's history of returns. Returns lagged the benchmark over the last year, although the firm has outperformed over the long term, returning 9.24% vs. the benchmark at 8.04% over the last ten years. Zadrozny stated that the fees would be 58.5 basis points annually, plus investment fees of between 1 and 2 basis points. The portfolio remains invested in Venezuela, and Drainville stated that he felt they are not likely to default.

Timothy Maul and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. Neely reviewed the fee structure for their pooled fund. Management fees are 60 basis points, plus an additional fee for operating expenses. This fee is capped at 25 basis points, but is currently 18 or 19 points. Neely noted that this fee could be reduced as the total pool grows in size. Maul reviewed the history, culture and experience of the firm and discussed the depth of their research platform. The firm has $31.7 billion under management in the EMD sleeve. At present, the local currency strategy is the only fund open to new investors. The local debt strategy consists of 150-200 holdings, in 39 countries. The benchmark portfolio consists of only 16 countries. Neely noted that the portfolio does make some investments in countries that have "graduated" out of the emerging markets category. The portfolio does see significant volatility vs. the benchmark. The portfolio uses derivatives and currency forwards in order to reduce risk. The portfolio invests up to 25% of the fund in corporate bonds, and currently invests 7% in corporates. Neely stated that the local currency corporate bond market was still largely undeveloped, but that setting a limit at 25% gives the portfolio room to expand in this area as this segment of the market matures. Neely reviewed the roles of the portfolio managers, researchers and analysts. She noted that Wellington brings a much greater depth of experience than is found among their competitors. Since inception, the fund has returned 5.34% annually vs. the index at 2.28%. The portfolio has seen significant losses over the last year, losing 11.13%, which was in-line with the benchmark. Neely stated that this was an issue throughout the EMD universe, due to the strengthening US dollar, likelihood of higher interest rates and decline in commodity prices. She stated that she felt that EM currencies were close to a bottom, and would likely rally soon.

Gardner stated that he was concerned that all of the managers were charging a separate expense fee on top of the management fee. Ghazarian stated that such fees are usually withheld at the fund level, rather than being invoiced. The disclosed performance would be net of the expense fee.

Monagle stated that the returns from this asset class seem to be lower than others in the portfolio. Ghazarian noted that all fixed income products would tend to provide lower returns, but were necessary in order to manage risk in the portfolio. He also stated that EMD investments have shown better returns that domestic fixed income.

Ghazarian stated that, in evaluating BlueBay, he would characterize the portfolio as having some characteristics of a hedge fund, due to the firm's extensive use of derivatives and interest rate swaps. The portfolio is significantly more complicated than the other candidates, and may partially explain BlueBay's higher fees. He also noted that he was not especially concerned by Wellington's performance. He stated that the last three years have been very difficult in the EMD universe, and that this might be a good time to start a new investment in the asset class.

The Chairman stated that he would favor hiring Pyramis, given that they have the lowest fee structure and the most consistent returns. Gardner stated that, given the recommendation from Segal that the system should favor a blended approach, he would favor splitting the mandate between Pyramis and Wellington. Ghazarian noted that Pyramis did disclose involvement in a lawsuit, but that he did not feel it was an important consideration.

Ghazarian stated that would be willing to approach BlueBay to attempt to negotiate their management fees, but that he did not expect that they would be willing to offer a further discount. Gardner stated that he was concerned that the BlueBay product was overly complicated, and subject to too much risk. Ghazarian stated that, if the Board opts to split the mandate between two managers, they may wish to consider allocating $20 million to each.

Motion by Gardner, seconded by Monagle to hire Pyramis and Wellington, investing $20 million with each manager. Gardner offered an amendment to his motion, to instruct Ghazarian to attempt to negotiate a fee reduction from BlueBay. The Chairman stated that he would prefer not to prolong the process. Monagle stated that he felt that BlueBay had already made their best offer. Gardner withdrew his amendment. On a roll call vote, the motion carried unanimously.

Ghazarian stated that he has prepared a preliminary report of returns for the first quarter of 2015. Returns for the quarter were 2.6%. He stated that he was still waiting for reports from the real estate and alternatives managers, and that he would have the complete report prepared soon.

Ghazarian stated that he was made aware that Scott Powers, President and CEO of State Street Global Advisors, will retire in August. Segal's research department is monitoring the situation, and Ghazarian stated that he was not concerned about the change at this time. Ghazarian distributed a memorandum describing the retirement, and the succession plan.

Ghazarian stated that Segal has completed their analysis of the responses to the RFPs for an International Equity manager and an Emerging Markets Equity manager. Both searches were issued due to Chapter 176 requirements, not due to the performance of either manager. In both cases, Segal has rated the incumbent manager highly. Ghazarian stated that he does not believe that the legislation requires the Board to interview other managers, if the Board feels that the analysis is sufficient to demonstrate that the current managers should be retained. However, if the Board feels that they would benefit from further review, Segal could schedule interviews with other managers. The Chairman requested that the analysis be placed on the agenda for the May meeting. Without objection, the Board agreed to start the May 11 meeting at 4:00 pm.

Monagle moved to adjourn at 2:50 pm.