Minutes of the Meeting held on Wednesday, August 29, 2018

Present: Francis Murphy – Chair, James Monagle, Michael Gardner, John Shinkwin, David Kale, Ellen Philbin, Rafik Ghazarian, and Chris Burns.

Absent: Nadia Chamblin-Foster

The meeting was called to order at 11:00 AM. The meeting was digitally recorded.

Agenda Item #1 – Segal Rogerscasey
The Board reviewed a written analysis of investment performance for the period ending June 30, 2018. Ghazarian thanked the Board for their continued confidence in Segal after renewing the system's contract. The broad market performance in the last quarter was mixed. US equity markets showed strong returns. International equity, emerging markets and fixed income were all negative. Hedge funds continued to show very modest gains.

Ghazarian reviewed the asset allocation as of the end of the second quarter. The system funded the JP Morgan real estate fund with $35 million on July 5th. The system remains somewhat overallocated to equities. Gardner noted that the system has targeted slightly more to the Emerging Markets Equity sleeve than to International Equity. Ghazarian stated that this was intentional, and that Segal believes that emerging markets has the potential for higher returns, although with more risk. The system continues to move closer to meeting the target allocation to private equity. Hedge funds are slightly below the target allocation, although Ghazarian stated that he would not recommend that the system move to rebalance, due to the low returns from that asset class.

The portfolio was flat over the last quarter. Overall, the total fund was valued at $1.31 billion, representing a gain of 0.16% during the quarter. The fund underperformed the policy index return of 0.58%. In reviewing individual managers, the fund saw significant underperformance from the two emerging markets equity managers.

Ghazarian reminded the Board that he is about to issue an RFP concerning the funds in the domestic equity sleeve. He noted that he could expand the criteria to seek index funds in the emerging markets equity class. He stated that EM index funds are increasingly able to provide something close to a replication of the universe of available stocks, at a much lower fee than an active manager. The Chairman stated that he would favor adding a third manager to this sleeve, which would be an index fund. Ghazarian also reviewed the performance of the PRIT hedge fund portfolio. PRIT has performed significantly better than their benchmark.

The Board reviewed Segal Marco's analysis of the core fixed income candidates. Thirty-five firms submitted proposals. Segal rated seven managers, including the two incumbents, as highly advantageous. They also gave high ratings to Garcia Hamilton & Associates, Longfellow Investment Management, PGIM Fix Income, Pugh Capital Management and Wells Capital Management. Garcia Hamilton and Pugh are minority-owned firms and Longfellow is a majority women-owned firm. In comparing fees, Fidelity charges the lowest fee and IRM and Wells charge the highest fees. The fees for Garcia Hamilton are also lower than average. Ghazarian confirmed that Segal does use IRM as one of the managers for their clients who invest through Segal, and that he believed some of the other firms are also in the Segal portfolio. In comparing performance, Pugh and Wells have delivered somewhat lower returns than the other managers. Garcia Hamilton has delivered higher returns than their peers. Ghazarian stated that they are a more risky manager, and that the portfolio has some volatility. Longfellow has delivered lower returns, but has the lowest level of risk of any of the managers. IRM has the highest level of risk, although their returns are not significantly different from the other six managers.

Ashley Cassel and Devan Kaloo represented Aberdeen. A written portfolio review was submitted to the Board. Cassel provided an update on the merger with Standard Life PLC. In early 2018, the two equity teams were combined. Kaloo remains the head of the emerging markets fund, and two employees were added from the Standard Life side. Over the last year, the fund has returned -1.11% vs. the benchmark at 4.74%. Kaloo described issues with the portfolio's style. He stated that there has been a momentum market in place for the last several years. The momentum market was characterized by buying into rising stocks, which causes further price increases. Kaloo stated that he felt this market could not be sustained because of declining liquidity as the Federal Reserve and European Central Bank reduce their balance sheets. He noted that the big Chinese technology firms, Alibaba, Tencent, Baidu and JD.com have been part of the EM index since 2015. Collectively, the four firms now comprise 15% of the index. Kaloo stated that he felt the risks were too high due to restrictions on foreigners owning shares of these firms. It is possible to own shares through offshore holding firms, although under Chinese law, the legal status of such arrangements is murky. Aberdeen reviewed the investing possibilities, hiring a private investigation firm to assist. Kaloo stated that they reached the conclusion that the Chinese government prefers the ambiguity of the current law, seeing it as a means to exercise control over the firms. Aberdeen began investing in Tencent at the end of 2017. The portfolio still does not invest in Alibaba, as they believe the company has a tendency to abuse minority shareholders, and does not report transparently. Currency positions have also been a significant detractor since inception. The firm does not typically hedge currencies, with Kaloo noting that in emerging markets the cost of hedging tends to be prohibitive. The last few months have seen a sell-off in the Chinese stock market, and Aberdeen has moved to take advantage of lower prices for quality stocks.

Abigail Howland and Paul Nasser represented Intercontinental Real Estate Corporation. A written portfolio review was submitted to the Board. There have been no changes to the portfolio management or investment strategy. The fund gained 80 new accounts since the beginning of 2017. Nasser described the structure of the fund, noting that approximately 80% of the fund is invested in income-generating properties. The remaining 20% is in value-added properties, usually new construction of hotels or apartments. The fund remains underweighted to retail properties. Over the last year, the fund has worked to reduce leverage, as a means of controlling risk. The fund is now 34% leveraged, mainly in fixed-rate loans. Nasser stated that he feels it is likely that they are approaching the end of the current expansion cycle, and the firm is positioning to weather a downturn. The firm has also moved to exit properties in tertiary markets, selling 12 properties over the last two years. The net asset value of the fund is $4.5 billion. The fund has a queue consisting of $142 million in uncalled capital. Cambridge invested $20 million, which was called in April 2017. Over the first year, the fund returned 11.37%. As of June 2018, the fund has been added to the ODCE index. Looking forward, the portfolio will look to acquire new industrial properties, noting that these facilities remain in high demand by e-commerce firms. The fund primarily invests in major US cities. Nasser noted that the firm has avoided rust-belt locations. The fund may choose to invest in Canadian properties, but has not yet closed any deals there. Nasser stated that, if Cambridge chose to increase their investment, the funds could likely be called within one quarter.

Michael Henry, Michael Marino and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. Marino stated that the SEC investigation of the firm is still ongoing, and that he will report back when it is resolved. Michael Henry was elevated to co-Portfolio Manager, working alongside Jim Valone. There have been no changes to the portfolio's investment strategy. Over the last year, the fund returned -3.58% net of fees, vs.

the benchmark at -2.5%. Currency depreciation was a significant drag on performance. Argentina, Brazil and Turkey showed the most currency weakness. Security selection was a contributor to performance, as the fund has bought into countries offering higher yields, such as Russia, Egypt and Indonesia. The portfolio does use currency hedges in some cases, although Neely noted that hedging a position is expensive and can detract from performance. Henry discussed returns from Hungary and Poland. He noted that both countries remain stable, despite a weakening of democratic institutions from their governments. Henry described the appreciation of the US dollar in the Spring of 2018. He stated that he believed the appreciation had played itself out, and a weaker dollar was likely going forward, which would benefit EM investments in local currency. Henry noted that there was significant value in high yielding markets, some of which are paying record high rates. The portfolio has cut its exposure to Turkey, with Henry stating he was concerned about the possibility of the country instituting capital controls, although the weakness of the currency does make it appear to be an attractive opportunity.

Jeff Kusek represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. There have been no changes to the portfolio management or investment strategy. The portfolio is well into the harvesting phase, and has now returned $4.85 million on $3.4 million in contributed capital. He stated that he would expect significant distributions at the end of the year and the beginning of 2019. The firm will look at terminating the fund in early 2020. The firm is currently raising a fourth fund, which should have a final close in the summer of 2019. The fourth fund will have more of a focus on direct investments, rather than fund of funds. Kusek stated that the firm remains very bullish on apartments, stating that there is heavy demand for living space in urban areas from people who prefer not to own a single family home. He also described increasing demand for industrial space as the needs of e-commerce firms expand. Kusek stated that he feels retail continues to be a very risky area, although one fund performed very well investing in a series of grocery-anchored retail centers. The majority of underlying funds have performed well. He noted some issues with two funds in Brazil, where currency issues and instability in the government have been a drag on performance.

Walter Dick and Geoff Oblak represented Ascent. A written overview of the portfolio was presented to the Board. There have been no changes to the portfolio management or investment strategy. Cambridge has investments in four Ascent funds. In Fund II, Ascent has exited the last company in the portfolio. ZoomInfo was acquired in August for $240 million, which represents a 32x multiple. A small amount will remain in escrow until August 2019. Fund III has one firm remaining, Exchange Solutions. Ascent is exploring an opportunity to merge the firm with another privately-held company as a means of exiting the investment. Any return from this exit is likely to be modest, as the company currently operates on a break-even basis. In Fund IV, there are four companies remaining in the portfolio, three of which have significant upside potential, and could be candidates for IPOs or acquisition in the next few years. Oblak described a number of issues which have hurt performance of this fund, including high leverage and poor timing, as companies were maturing during the 2008 recession. Fund V has ended the investment phase, having now called 91% of committed capital. It made ten investments and has completed four exits. Four of the remaining six companies appear to be likely fund drivers. Oblak described the process of assigning a value to companies in the portfolio and of how Ascent conducts post-mortem reviews of companies after an exit. The firm is currently preparing to raise Fund VII. Oblak stated that he felt that Ascent was better positioned to make investments in smaller start-up firms than bigger managers, and that there was less competition to close deals in this space.

Mark Andrew and Lee Tesconi represented Lexington Capital Partners. A written review of the portfolio was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. Tesconi reviewed the history and growth of the firm, noting their history of strong returns. He emphasized the importance of maintaining close relationships with general partners as a way of sourcing new deals and evaluating the value of underlying funds. Tesconi reviewed the LCP VIII portfolio. Most of the funds are buyout-focused and based in the United States. The fund closed with $10.1 billion in commitments, and has made investments totaling $9.2 billion to date, of which $6.5 billion has actually been called from investors. Funds were acquired at an average discount of 17%. The fund has now made $2.1 billion in distributions. Lexington used a credit facility to fund early investments, at a very favorable interest rate. Lexington anticipates that they will pay down the loan from the facility over the next year, and will call capital from investors to make those payments. All capital should be called within the next three years. The net IRR on the Cambridge investment is 39%. Andrew discussed which sellers are in the market to dispose of fund positions. He stated that Lexington has closed a number of deals with large pension funds who are looking to reduce the number of managers that they are monitoring. The fund is well diversified by vintage year. Strategically, the fund is weighted toward buyouts and US funds. The fund is likely to terminate around 2026.

The Chairman stated that he would like to consider investing additional money with Intercontinental. Ghazarain reviewed the real estate sleeve, noting that closed end funds with Rockwood, Landmark and Penn Square have all stopped calling funds. He noted that these funds have performed well, and that all of them would be raising new funds. He stated that he would be comfortable with the system investing up to $10 million more with Intercontinental. He noted that the Intercontinental fund has some value-add exposure. Motion by Gardner, seconded by Shinkwin to invest an additional $10 million with the Intercontinental real estate fund. Voted unanimously.

Gardner stated that he would be interested in interviewing Fidelity, IRM and Garcia Hamilton. Ghazarian stated that he also felt that Longfellow has a very interesting approach to risk management and the Board might benefit from meeting with them. Ghazarian stated that he would prefer further analysis of the likely fees for each manager. Without objection, the Board agreed to invite the four managers to interview for the Core Fixed Income mandate. The Board agreed to conduct the interviews on September 24th, starting at 11:00 AM.

Monagle moved to adjourn at 4:00 PM.