Minutes of the Meeting held on Wednesday, August 31, 2016

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

Absent: Nadia Chamblin-Foster

The meeting was called to order at 11:02 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, 2016. The broad market performance in the last quarter was strong, with the exception of some losses in the developed international space. Ghazarian stated that this was likely attributable to concerns over Brexit.
Ghazarian reviewed the current asset allocation. The system has terminated MFS and Columbia, although both managers had small residual holdings at the end of the quarter which will be moved soon. These moves leave Wedge as the only active manager in the domestic equity sleeve. He noted that Wedge's performance over the short term has been poor, although their long term performance is stronger. He stated that the Board may wish to consider further consolidation in this sleeve. Ghazarain stated he might also recommend that the system combine the various index accounts into two holdings. One would be the Russell 1000, consisting of large cap stocks. The other would be the Russell 2000, consisting of small and mid cap stocks. This would result in some fee savings on the custody side, by cutting the number of accounts. Ghazarian also stated the Board may wish to consider terminating Wedge. The Chairman requested that Ghazarian provide additional information on the overlap between the Russell 1000 growth and value indexes, and to determine if the system's returns are being hurt by the duplicate holdings.

The system remains overweighted in the Equity sleeve. Ghazarain stated that the system will draw down money from equities in order to fund the new infrastructure manager, and to fund capital calls from the PRIT private equity funds. Ghazarian stated that he planned to ask Donna Rosequist to attend the next quarterly review, to provide information on projected capital calls, and to prepare a recommendation on how much to commit to the 2017 private equity fund.

Ghazarian stated that Segal has not been able to identify a promising timber manager. He stated that if no funds begin raising money by the end of the year, he would expand the search to consider natural resources funds, which would include timber.

The Director stated that Jim Quirk is reviewing contracts with the new real estate managers. The contract with IFM, the new infrastructure manager, has been finalized and the system is waiting for the first capital call.

The portfolio saw good returns over the last quarter. Overall, the total fund was valued at $1.093 billion, representing a gain of 2.01% during the quarter. The fund slightly underperformed the policy index return of 2.24%. Ghazarian stated this was primarily due to manager underperformance. Several managers have underperformed over the last year, including Wedge. The system also saw poor returns from RBC, although their long-term performance remains very strong. Lazard has provided significantly better returns over the last year, after a period of poor performance. The hedge fund allocation has continued to underperform, although Ghazarian stated that he feels that the present benchmark may not be an accurate guide to their performance. He stated that he would prepare a recommendation at the next meeting for changing it.

Peter Falco represented Rockwood Capital. A written review of the portfolio was submitted to the Board. There have been no changes to the portfolio management over the last year. Falco noted that the fund was still early in its life, but that he was very pleased with results to date, with a projected net IRR of 14.9%. The fund has now completed the investment cycle, with the final acquisitions closing in Spring 2016. Cambridge has committed $18 million to the fund, with approximately 80% called to date. Falco stated that he expected the fund to eventually call 90% of the commitment. The fund has closed on 23 investments, made three sales, and has two other properties under contract to sell. Falco reviewed the investment strategy and risk management. The majority of the targeted properties are planned to generate income within 12 to 18 months. A number of properties generate income immediately. The firm attempts to control risk by holding longer renovations (24-36 months) to between 15-30% of the fund. IN making purchases, the fund spends approximately two-thirds of their budget on the initial acquisition, and one-third on repairs and improvements to the properties. The portfolio does use leverage, approximately 52% of the portfolio. Most of this is 3-5 year floating rate loans. Falco reviewed several of the individual properties. He noted that the apartments planned for the 88 Schermerhorn, Brooklyn property would likely not proceed due to higher than expected construction costs. He also described possible issues with a hotel renovation in Miami. He noted that tourism in Miami has been down slightly due to fears about the Zika virus. He stated that construction is close to finished on Empire Stores, Brooklyn which is the largest property in the portfolio, and they have pre-leased most of the property.

Scott Humber and Paul Mehlman represented Landmark Partners. A written portfolio report was submitted to the Board. There have been no significant changes to the portfolio team over the last year. The Board is now invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. Mehlman reviewed the structure of secondary funds, noting that Landmark continues to acquire fund interests at a significant discount. He also discussed the reasons why investors may choose to sell on the secondary market, including a need for liquidity or a change in investment strategy. The firm is now fundraising for Real Estate Fund VIII, and will begin fundraising for Private Equity Fund XVI by the end of the year. Mehlman explained that the firm typically begins raising a new fund when the prior fund is 75% committed.
Mehlman reviewed the performance of the real estate fund. This fund is now fully subscribed. The portfolio closed 30 transactions, acquiring 83 partnership interests. It is generating a net IRR of 23.3%. Cambridge committed $5.5 million, and $4.6 million has been called to date. The fund has now generated about $5.3 million in distributions. Most of the remaining value should be distributed within 36 months.
Humber reviewed the performance of the private equity fund. This fund is now nearing the end of its investment period, with 86% of funds committed. The portfolio has closed 45 transactions, acquiring 159 partnership interests. It is generating a net IRR of 16.5%. Not all of the committed funds have been called since Landmark must wait until the underlying managers call the funds. Humber estimated that over the next 2-3 years, Landmark would call 90-95% of Cambridge's commitment. The full life of the fund will be 7-9 years.

Geoff Oblak and Luke Burns represented Ascent. A written overview of the portfolio was presented to the Board. Oblak discussed the performance and strategy across Ascent's funds. The firm focuses on early-stage enterprise IT investing. Cambridge has investments in four Ascent funds. Oblak noted that funds II and III are currently winding down. Ascent does not anticipate further capital calls on these funds, and is not charging any management fees on them. Zoominfo is the last fund left in Fund II. The company is profitable, and Oblak stated it has attracted interest from various buyers. A sale is possible in the next twelve months. There are two companies left in Fund III and one, Exchange Solutions, has some potential for upside. Oblak stated that the partners are considering a number of exit options, and anticipated an exit within 12-24 months. In Fund IV, there are three companies remaining in the portfolio that have significant upside potential, and could be candidates for IPOs or acquisition in the next few years. Ascent has reduced management fees by 50% on this fund, effective July 1, 2015. Oblak reviewed the transaction with Fort Washington to buy out SBA interests. He stated that this transaction allows Ascent to maintain control of the portfolio and protects the interests of the limited partners. Burns reviewed the performance of Fund V. The fund has ended the investment phase. It made ten investments and has completed four exits. The most recent exit was the sale of CloudLock to Cisco in August. The sale closed at a 6.7x multiple. Oblak stated that three of the remaining investments are potential fund drivers.

Jackie Rantanen and Tim D'Arcy represented Hamilton Lane. A written overview of the portfolio was presented to the Board. Cambridge has investments in Fund VI and Fund VIII. Cambridge made a $10 million commitment to fund VI. Hamilton Lane has called $8.9 million. The firm has returned $8.1 million in distributions and the remaining assets are valued at $5.3 million. The fund has a 9.3% net IRR. The fund is well into the harvesting phase. Rantanen stated that is was likely that distributions in 2016 would likely be lower than 2015, as the portfolio begins to wind down. The portfolio should be largely closed within three years. Cambridge has committed $6.5 million to Fund VIII. The fund has drawn $3.3 million, returned $500,000 in distributions and the remaining assets are valued at $3 million. The fund is now fully committed and has entered the holding phase, as the underlying managers are making investments. She noted that this portfolio includes a number of investments in the energy sector, which tends to be more volatile than other sectors. She also stated that the energy managers have been somewhat slower to draw down their commitments. She stated that some funds have been invested in sub-funds run by Hamilton Lane. They do not charge an additional management fee for those investments. Rantanen described the fee structure. She stated that fees were reduced during the investment phase, were higher in the holding phase and phased down again as the fund is harvested.

Charles Grant and Mark Andrew represented Lexington Capital Partners. A written review of the portfolio was presented to the Board. Grant discussed Lexington's deal sourcing process, emphasizing their close relationships with general partners at the various private equity firms, and their ability to negotiate purchase discounts. There have been no changes to the portfolio management or strategy over the last year. The firm opened a new office in Santiago, Chile. Grant stated that the firm has a number of limited partners in Latin America, and the firm also hopes to develop more of a presence in that region. Tesconi stated that, while purchase discounts have been lower than in prior funds, the firm is happy with the way deals are being closed. At present, the average discount is 16% less than market value, compared to an 11% discount in comparable funds at other firms. Grant reviewed the LCP VIII portfolio. Most of the funds are buyout-focused and based in the United States. The fund closed with $9.2 billion in commitments, and has made investments totaling $5.3 billion to date. This comprises 34 separate transactions, acquiring 274 fund interests. Cambridge's commitment to the fund was $20 million, with $4.4 million called to date, and $800,000 paid back in distributions. The firm used a credit facility in order to fund purchases during the fundraising stage. At this time, the firm has no plans to close the facility unless there is a significant rise in interest rates. The firm is currently paying less than a 2% interest rate. This is the first time that Lexington has made use of leverage in one of their funds.

The Chairman reminded the Board that he had invited the Future of Life organization to address the Board at the next regular meeting. He stated that he would be interested in investigating the costs of shifting some investments into funds that could be considered socially responsible. Gardner stated that, based on his experience with socially responsible funds under the City's deferred compensation plan, he has found that they charge higher fees, and their performance tends to lag. He also stated that very few employees choose to invest with them. He stated that if the Board chooses to move toward socially responsible funds, he would prefer to use index funds which screen out problematic companies, rather than active managers. The Chairman stated that the City Manager has requested that the Board provide a written update on their consideration of socially responsible investing. Gardner suggested that the Board instruct Segal to prepare an analysis of the options for socially responsible index funds, to describe the various screens that are used, and to compare fees and returns to the funds the Board currently uses. Monagle stated that he would prefer to meet with various groups, including Future of Life, and hear their concerns before asking for analysis from Segal. The Director stated that she would draft correspondence to update the City Manager.

The Director stated that she received a request for information from Andrea Estes, a reporter for the Boston Globe. She requested information on pending securities litigation. The same request has been sent to every retirement system in the State. The Director stated that she responded after consulting with the portfolio monitoring firms, but that Labaton Sucharow inadvertently omitted one case from their list. Estes has responded with follow-up questions about how the Board decides whether or not to participate in a given case. Gardner suggested that the Director respond by saying that the Board follows the recommendation of their Board counsel.

Monagle moved to adjourn at 2:45 PM.