Minutes of the meeting held on August 6, 2020

Present: Francis Murphy – Chairman, James Monagle, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, David Kale, Ellen Philbin, Rafik Ghazarian and Chris Burns.

The meeting was called to order at 11:05 AM. The meeting was digitally recorded.

Agenda Item #1 – Segal Marco Advisors
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending June 30, 2020. Markets bounced back strongly following the losses in the early part of the year, but still remain negative on a year-to-date basis.

Ghazarian reviewed the system's current asset allocation. The system funded the investment with the Pinebridge bank loans fund in July. The system is slightly short of the target allocation in real estate. The hedge fund allocation was cut and is now targeted to 5% of the portfolio.

Overall, the total fund was valued at $1.322 billion, representing a gain of 9.94% during the quarter. The fund underperformed with the policy index return of 13.99%. Ghazarian stated that part of this underperformance was attributable to the underperformance of value stocks. Another issue was the drop in the price of Cambridge Bancorp stock, which dragged down the entire equity sleeve. Lazard has also continued to underperform. The hedge fund sleeve also saw poor performance, returning 1.25% in the last quarter, vs. the benchmark at 7.25%. Ghazarain stated that a number of his clients had asked about "recovery funds" which have advertised returns of 15-20%. He noted that some similar funds had very strong performance after the 2008 financial crisis. Segal has not invested in any of these funds on behalf of their fully-managed clients.

Ghazarian distributed a report showing the system's investment in private prison companies. He noted that a number of infrastructure funds have exposure to private prisons, although IFM does not. The system's only exposure comes from two firms in the Mellon small cap index fund. The two firms, Corecivic, Inc and GEO Group, comprise about 0.05% of the Mellon portfolio.

Ghazarian stated that he felt that the public markets have already priced in the likelihood of a quick development of a COVID vaccine, and that he would be concerned about volatility if nothing is developed by the end of the year. He also stated he did not think it would affect share prices if a foreign company were first to market with a vaccine. Ghazarian also stated that he was aware that the legislature was considering legislation related to fossil fuel divestment, but that he did not have any insight about how likely it was that any new law would be passed.

Scott Conlon and John Grybauskas represented Aberdeen. A written portfolio review was submitted to the Board. Grybauskas noted that Keith Skeoch has announced his retirement. His departure had been planned, and Stephen Bird will transition into the CEO role over the next year. There has been no change to the emerging markets portfolio team. Conlon described the portfolio's bottom-up approach to stock selection. He noted that the portfolio's focus on quality can fall out of favor during periods of high volatility. He stated that markets appear to have priced in an expectation of a V-shaped recovery. The emerging markets index is now slightly positive for the calendar year. Over the last year, the fund has returned -5.33% vs. the benchmark at -3.05%, although the fund has outperformed the benchmark over the last six months. The Chairman requested that future reports show the balance of the account at one year intervals. Conlon reviewed new investments for the portfolio. He described the decision to invest in Meituan Dianping, a Chinese e-commerce firm, which is also the largest food delivery company in the world. He also noted an investment in a Chinese natural gas company, saying this would be a good buy as China moves toward cleaner sources of energy. Conlon described the risks of investing in markets without strong corporate governance, accounting practices and requirements for transparency. He stated that China has made significant progress in those areas over the last ten years. Conlon stressed that Aberdeen does a close review of available accounting before investing in a company. Investments in Latin America detracted form performance. The area saw steep losses during the early days of the COVID pandemic and prices have been slower to recover than is other parts of the world. Valuations in emerging markets continue to look more attractive than equity markets in the USA.

James Donald, Frank Sposato, Stephanie van Hengel and Ben Wulfsohn represented Lazard Asset Management. A written portfolio review was submitted to the Board. There have been no changes to the portfolio management or strategy over the last year. Lazard has been operating remotely since March, although some offices outside the USA have resumed normal operations. Sposato discussed the difficulty in running a value strategy and noted that Lazard's growth portfolio has been generating strong returns. Returns to date in 2020 have been driven by the health care and communications sectors. Donald noted that the portfolio had been positioned for a significant rebound at the beginning of the year, but that the pandemic has elongated the environment in which value investing remains out of favor. The stocks in the Lazard portfolio continue to yield higher dividends and lower P/E ratio than the benchmark. Donald stated that he intends to maintain this disciplined approach despite the current volatility. He also discussed the situation in China, which has been the top-performing country in the portfolio in 2020. He noted their decisive response to the pandemic, including lockdowns of affected cities. Lazard still feels that Tencent and Alibaba are overpriced, relative to their profitability.

Marena Hnat-Dembitz and Ken Solano represented Wellington Management. A written portfolio summary was reviewed by the Board. There have been no changes to the portfolio's management or investment strategy. The office has been working fully remote since the onset of the pandemic, with some employees returning to the office starting in mid-July. Solano discussed the firm's diversity practices, including the use of boutique headhunting firms in order to hire minority employees. Hnat-Dembitz reviewed the portfolio strategy, noting that currency exposures are actively managed, and may be hedged in some cases. The portfolio moved to extend durations significantly at the beginning of the year, in anticipation of interest rate cuts. The portfolio has since moved to a more neutral position on durations. The firm also reduced currency exposure in order to manage risk, before bringing the currency level back to neutral in the middle of the year. The firm saw some outflows from the local debt portfolio in March. Over the last year, the fund has returned -4.31% vs. the benchmark at -2.82%. The portfolio outperformed slightly over the most recent quarter. Hnat-Dembitz discussed the amount of stimulus money being issued around the world. Looking forward, she said that valuations look very attractive, and that the portfolio now has a pro-risk lean. The Chairman requested that future reports show the balance of the account at one year intervals.

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. All employees are currently working remotely and will continue to do so for the forseeable future. The portfolio is approaching its termination date. There are 14 active investments remaining in the portfolio, although two of those investments make up 70% of the fund value. The fund has now returned $5.6 million on $3.4 million in contributed capital. Kesek stated that the pandemic has changed the timetable for closing out the fund, as liquidation activity has largely stopped. He said he did not anticipate there would be any further distributions paid in 2020. Kusek reviewed the two large holdings remaining in the portfolio. The CITIC China Retail Fund consists of three malls. The malls are operating and are 87% leased. The target date to sell the properties is now in 2022. The VBI Brazil Real Estate Fund is a more distressed situation. The fund wrote down the value earlier in the year. The fund consists of retail, office and an industrial property and the retail space has struggled. The value could be marked down further, although Kusek stated that there would be some recovery from the fund. Kusek stated it was difficult to gauge the long term impact of COVID on real estate investments. Retail would likely continue to struggle. Apartments could also be hurt if there is no further government stimulus and tenant are unable to pay rent. The outlook for office space remains unclear, as it remains a question to what extent moves to work from home will last.

The Chairman asked if it was necessary for closed-end funds to continue making annual presentations as they approach liquidation. Ghazarian stated that PERAC has stated that every manager should make an annual presentation for as long as they hold any amount of money.

Walter Dick and Thomas Scanlon represented Ascent. A written overview of the portfolio was presented to the Board. Cambridge has investments in three Ascent funds. Every firm within the portfolio has been affected by COVID. Ascent has moved to cut costs across all portfolio companies, through reductions in staffing, salary cuts and furloughs. Ten firms applied for PPP loans. The firm took write downs for firms in Fund V. Ascent ceased fundraising for their next fund in order to focus on the remaining funds. Geoff Oblak joined another VC firm, although he will continue to work with Ascent on managing three companies in Fund V. Fund III has one firm remaining, Exchange Solutions. The firm continues to break even. In 2019, Ascent had a signed letter of intent to merge Exchange Solutions with another company, but that deal fell through. Ascent continues to explore other exit opportunities for this company. In Fund IV, there is one company remaining in the portfolio. Two companies were sold in early 2020, with distributions paid to investors. The last remaining company is BryterCX, which was formerly ClickFox. Ascent brought in a new CEO in March to run BryterCX. Regardless of the outcome of the remaining firm, this fund will close at a significant loss. Fund V has ended the investment phase, having now called 97% of committed capital. It made ten investments and has completed four exits. Four of the remaining six companies appear to be likely fund drivers. Scanlon stated that he would not anticipate any exits from Fund V before the end of 2021.

Andrew Blanchard and Tara McCann represented Rockwood Capital. A written review of the portfolio was submitted to the Board. McCann stated that David Becker, the firm's General Counsel, was promoted to the management committee. Blanchard noted that the firms is now raising Fund XI, which will be primarily focused on office and residential properties. Cambridge is currently invested in Fund IX, having committed $18 million in 2013. The fund is well into the harvesting phase. Overall, the fund closed on 23 properties and has now sold 19. The fund projects a net IRR of 11%. Blanchard noted that the current environment was extremely volatile, and the disposition of remaining assets could move the IRR 100 basis points in either direction. The fund is targeting mid-2022 to sell the remaining properties. The fund made the decision in early 2020 to sell the James NoMad hotel in New York City. Blanchard noted that this was a defensive move following the start of the COVID outbreak, when it appeared that hotels would be hard hit by the shutdown. Blanchard reviewed the remaining properties in the portfolio. The Cannery is a retail/office property in California. A pending sale was delayed due to the bankruptcy of the largest tenant. There is also a hotel in Seattle and two other retail locations in California. The sales process on all of the properties has been delayed, but Blanchard anticipated that some could be brought to market at the end of the year.

Gardner noted that Lazard's poor performance has continued, and their explanation for the performance blamed market conditions. Ghazarian stated that value managers have struggled, although they can perform very well when their style is in favor. He stated that he would not recommend changing Lazard's benchmark. He recommended that the system consider adopting a schedule to draw down the allocation to Lazard and to place the money in the MSCI Emerging Markets index. Ghazarian offered to prepare a written recommendation within the next week.

Onnie Mayshak 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. Landmark is now launching their second Infrastructure fund, targeted at $1.5 billion. The real estate fund consists mainly of US-based funds, with some investments in Europe and Asia. This fund is now fully subscribed. The portfolio closed 30 transactions, acquiring 83 partnership interests. It is generating a net IRR of 18.76%. The total fund invested $681 million and has now made $964 million in distributions. The remaining value of the fund is $47 million. The private equity fund closed in 2014 and has now finalized its investments. The portfolio closed 56 transactions, acquiring 179 partnership interests. It is generating a net IRR of 17.17%. The portfolio is well diversified in terms of vintage year, industry and strategy. He reviewed the life cycle of a typical fund, noting that investments are made over seven years, and the held for up to ten years.

Peter Palandjian and Kristin Phalen 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. Palandjian stated that he was very pleased with the stability of the portfolio. Rent collections in 2020 are running at 95%. Intercontinental is now the top-performing fund in the NCREIF index over the last seven years. The fund has received a number of redemption requests since March, but all were met within ten days. The firm is holding about $299 million in cash, budgeted for maintenance on properties. The net asset value of the fund is $6.5 billion and consists of 132 properties. The fund is now 29% leveraged. Palandjian noted that for most of the life of the fund, leverage has been at least 40%. The firm made a decision four years ago to begin reducing leverage. The portfolio is 92% leased. Palandjian discussed the queue for new investors. There is about $400 million of investor money waiting to be drawn down. He described the firm's decision to allow investors to enter the fund while delaying the capital contribution by several quarters, since many investors were not in a position to put up their full commitment in early 2020. Palandjian stated that he does not expect to make any significant acquisitions for the rest of 2020. He hopes that if prices continue to fall, he will be ready to buy in 2021. He reminded the Board that management fees are calculated only on the initial investment, rather than on current value. The fund maintains an overweight to office, which now comprise 47% of the portfolio. Retail properties comprise 2.2% of the portfolio. Palandjian stated that the underweight has been a significant driver of performance. The mall properties in the portfolio are all grocery-anchored locations. As an example, he noted that the fund would not invest in a mall like CambridgeSide but would buy into something like the Porter Square shopping center. Most properties are located in the largest urban areas of the United States, particularly areas with large universities. Palandjian stated that the firm has some of its largest holdings in Austin, Boston/Cambridge and San Francisco/Oakland. Palandjian stated that he anticipated a very difficult environment in 2020 and 2021. The worst effects have thus far been masked by government stimulus. The portfolio has only 3% of leases expiring in 2020 and 6% in 2021. Palandjian stated that he was pleased with the way the fund had been able to stagger leases and debt maturities. He also stated that the office tenants are extremely stable, and anchored by government, university and top private-sector firms. Looking ahead, he stated that over the long term, he expects that the pandemic will result in some reduction in the demand for office space. He noted that some firms are looking for additional office space in order to allow for more social distancing. But it is likely that this will be more than offset by firms looking to save money by allowing employees to work from home. Palandjian discussed the difficulty in repositioning offices into apartments. He also discussed the recent pushback against parking minimums in Cambridge and Boston, and that this will make urban locations more competitive with the suburbs.

Ghazarian distributed a report showing Lazard's performance vs. the MSCI EAFE Value Index. Compared against that benchmark, Lazard's performance appears somewhat stronger. They have underperformed the value index over the last ten years but have outperformed by nearly 300 basis points since inception. The Chairman stated that he would like to wait for the third quarter results before making any move to cut back or replace Lazard.

Monagle moved to adjourn at 3:40 PM.