Minutes of the meeting held on December 5, 2019

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

Left Early: Michael Gardner (Left following JP Morgan presentation), Nadia Chamblin-Foster (Left following Campbell presentation).

The meeting was called to order at 10:09 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 September 30, 2019. Overall returns were mixed, with US Equities up slightly, and losses in International Equities and Emerging Markets. Fixed Income and Private Equity have performed very strongly.

Ghazarian reviewed the fund's asset allocation, which reflect the new allocation strategy adopted by the Board. A number of new mandates were funded in the fourth quarter. The system moved money into the index funds managed by RhumbLine and Mellon. The system also completed the termination of the accounts held by SSGA and Wedge, with those funds transferred to the index funds. The new strategy cut the allocation to fixed income, and the system is now overallocated to that segment. Ghazarian said that he would advise that the system draw down any funding needs from the fixed income managers until the portfolio is closer to the target allocation. The system has targeted additional funds to go into private equity. Ghazarian stated that he felt the system could reach the new target within two years. The portfolio will also begin cutting the allocation to the hedge fund strategy, with those funds being pulled out by the end of the first quarter of 2020.

Ghazarian discussed the performance of the overall fund and individual managers. In the last quarter, the fund returned 0.14%, which slightly underperformed the policy index of 0.39%. The fund has underperformed the policy index over the last year. Most notably, the fund has seen significant underperformance from UBS, which returned -0.46% over the last year, vs. the benchmark at 6.17%. The holding of Cambridge Bancorp has also seen a steep decline, returning -16.65% over the last year, vs. the S&P 500 at 4.25%. He reminded the Board that the policy index was based on the target allocation. This means the performance can vary from the index either because of manager performance or due to misallocation.

Ghazarian reviewed a private equity cash flow study prepared by Segal Marco. After calculating likely capital calls and expected returns, Segal has recommended that the system commit $45 million to the PRIT private equity fund in 2020, and the same amount in 2021. This should allow the system to reach the 10% allocation target by the end of 2021. Motion by Gardner, seconded by Chamblin-Foster to commit $45 million to the PRIT 2020 Private Equity Fund.

Ann Cole represented J.P. Morgan Asset Management. A written portfolio report was submitted to the Board. The system began investing with JP Morgan in July 2018. Over the last year, the firm has brought on two additional portfolio managers on the Strategic Property Fund. Also, Kevin Faxon was promoted to CEO on JP Morgan Real Estate. Since inception, the fund has returned 3.6% net of fees, vs. the ODCE index at 6.2%. Cole stated that this was partially attributable to the portfolio having a lower risk profile than the index. New development accounts for about 3% of the portfolio vs. 7-8% in the index. Another factor was the underperformance of the retail sector. The portfolio had included eleven regional malls, and the fund took write-downs on several of the properties. Four malls were sold in October, and Cole noted that the sale price of those properties justifies the current valuation on the remaining seven malls in the portfolio. The sale included all of the lower-tier malls. Cole stated that the remaining malls would be considered among the top 5% of mall properties in the United States. Retail now constitutes about 23% of the portfolio, consisting of high-performing malls and grocery-anchored shopping centers. The portfolio contains no Power Centers or High Street retail. Cole stated that she felt those property types would probably be the next to see significant write downs. She reviewed the metrics used to evaluate the health of a retail property, noting the malls in their portfolio have double the sales per square foot vs. the industry average. The fund is diversified geographically, and slightly overweight to properties on the West Coast. Dallas is currently the market where the portfolio has the most properties. Looking forward, the fund intends to increase investment in Industrial and Residential properties. The office portfolio remains focused on high end properties in major cities.

The Chairman stated that he planned to have the Board discuss the Portfolio Monitoring candidates at the regular January meeting. He asked that, in addition to completing the ranking sheet, that each Board member prepare a list of their top 5 candidates, in order to help trim down the list.

Randi Mail appeared before the Board, representing MassDivest.org. She stated that she formerly served as Recycling Director for the City of Cambridge, and that she remains a member of the System. She stated that she was working to support a bill which would give local systems the right to divest from fossil fuel companies. The bill was filed in response to the Somerville Retirement System taking a vote to divest, which PERAC then forced the system to reverse. The bill has 80 sponsors, and Somerville Mayor Michael Curtatone testified in support of the bill. Two members of the Somerville Retirement System also submitted written testimony. Mail said she hoped to encourage members of the Cambridge Retirement System to submit written testimony as well. She submitted a case study prepared by MassDivest which shows that the Somerville Retirement System would have seen 5% higher returns had they divested from fossil fuels.

Francesco Daniele represented the PRIT Fund. A written portfolio report was submitted to the Board. PRIT has expanded their staff, adding seven new positions over the last year. One of the new hires is Jay Leu, who will serve as Director of Risk Management, who will assist in the management of the Hedge Fund sleeve, working under Bill Li. The fund is working to de-risk the portfolio in anticipation of the end of the current market cycle. In 2019, PRIT was recognized as the top Private Equity portfolio in the public sector. The private equity fund has taken advantage of their flexibility to make direct co-investments. Existing managers may approach PRIT with an opportunity to make a direct investment, which would come with no management fee. PRIT has now made ten such investments. Over the last six months, the Hedge Fund sleeve has invested $200 million into emerging fund managers, who lack the size to attract large institutional investors. He reminded the Board that hedge funds are not intended to be a driver of returns, but rather to mitigate risk. Looking at the returns on a risk-adjusted basis, Daniele stated that he felt that the hedge fund sleeve was functioning as intended. Reviewing the private equity sleeve, he noted that returns were very strong. PRIT has benefitted from a long history of investing in private equity, going back to the 1980s and maintains strong connections with fund managers. The fund continues to take a very conservative approach to making private equity commitments. The system has added new rules, to prevent investments with fund managers entering a new investment space, and to prevent investments in funds where the managers more than double the size of a fund.

Eric Dooley and John Perda represented Hancock Timber. A written overview of the portfolio was presented to the Board. Cambridge currently invests in two Hancock funds. Hancock

Timberland X is a closed-end fund with a 2004 inception date. The Hancock Timberland and Farmland Fund is an open-ended fund with a 2018 inception date. Dooley stated that Brent Keefer, Head of Timberland Investments, opted to leave the firm in October. He will be replaced by Court Washburn on an interim basis. Dooley reviewed the performance of Fund X. The portfolio is now fully invested, and in the holding period. The fund will begin to wind down in 2023. Cambridge committed $6 million and the entire amount has been called. The fund has made $1.8 million in distributions. The current value of the fund is appraised at $8.7 million. The total portfolio consists of just under 500,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund has returned 10% annually since inception and outperforms the NCREIF Timberland index since inception. Over the last year, the fund has been hurt by flat prices for timber in the US. The Australian properties have performed well.
Perda reviewed the performance of the Timber/Farmland fund. Cambridge committed $15 million to HTFF. The fund has drawn $6.5 million to date. The fund has a number of acquisitions pending, and Perda stated that he expected to commit about 90% of capital by the end of 1Q 2020. In 2019, the fund acquired a hardwood plantation in Australia. The fund also acquired an almond orchard in California, and additional row crop farms in the Midwest. Perda stated that he is looking to add more apple orchards, which could be processed through the facility that the company already owns. The fund has also looked at acquiring an almond orchard in Australia and a cherry farm in Chile. Perda discussed the advantages of being positioned in both the Northern and Southern hemispheres. The fund will be reopened to new investors in January 2020, with a second closing in June. Tariffs imposed by the current administration have been a drag on performance, but Perda stated that he hoped that a quick resolution would limit losses.

David Greenberg, David Altshuler and Chris Falzon represented IFM Investors. The IFM representatives participated by phone and a written portfolio review was presented to the Board. Altshuler reported that Joe Tremblay has moved into a new position at IFM, based in Sydney, Australia and that Chris Falzon would take over many of his responsibilities. Falzon reviewed the performance of the fund. Over the last year, the fund has returned 11.7%, running well ahead of their target. The fund has returned 15.72% annually since inception. Greenberg reviewed the composition of the Global Infrastructure Fund. The fund consists of 17 portfolio companies, across 43 countries. The total value is $23.7 billion. On November 1, IFM completed the acquisition of Buckeye Partners, an energy firm which includes pipelines and terminals, primarily located in the United States. He stated that IFM sees significant value in mid-stream assets such as pipelines and terminals. He also stated that he felt it was unlikely that the firm would invest in any fossil fuel power generation plants going forward. The firm has looked into acquisitions of wind or solar generation and storage. He stated that the Buckeye acquisition would be helpful in that regard. He also described IFM's attention to health and safety concerns with regard to assets such as pipelines and airports. Also in 2019, IFM acquired port facilities in New York; Vancouver; and Gdansk, Poland. Looking ahead, IFM will be bidding to take the St. Louis Airport private. IFM allows existing investors to add funds on a quarterly basis. The fund drew down their entire queue to fund the Buckeye acquisition, so there is currently no wait to add funds.

Steven King represented Campbell. King participated by phone and a written portfolio review was presented to the Board. King stated that the past year had been very busy for Campbell, as the firm is in discussions on several potential acquisitions. He said he is currently doing due diligence on a hardwood plantation and sawmill in Chile. He stated that deal could close in the first quarter of 2020. The firm is also reviewing three acquisition opportunities in Brazil. King stated he would travel to Brazil in January to perform on-the-ground due diligence. He noted that the investment window for the fund would close at the end of 2020. He stated that he anticipated having at least one property in Chile and one in Brazil before the portfolio is finalized. The fund is also considering one acquisition in the United States, although King stated that this might be difficult due to tax treatment of their fund structure. The fund also reviewed a number of assets in Uruguay, but ultimately opted not to invest due to the difficulty of moving timber to market. King stated that he did not have information on capital calls and distributions available, but offered to send them after the meeting. The properties in Australia and New Zealand continue to perform well. King emphasized the advantage of being able to integrate the sawmill into the plantation operation. The fund has seen some headwinds due to slowing demand from Australian housing market and the US-China trade war.

The Board reviewed a memo prepared by Segal Marco regarding the UBS Trumbull Property Fund. Ghazarian said that Segal has changed their rating on this manager to “Hold”. The manager has consistently underperformed their benchmark, and recently took write-downs on a number of retail properties. He noted the manager is working to reposition a number of retail properties, including CambridgeSide. The fund pays quarterly distributions, which Cambridge has always opted to reinvest in the fund. Ghazarian stated that the system may wish to consider taking future distributions in cash. Should UBS’ performance improve, the system could begin reinvesting distributions at any time. The fund currently has a redemption queue, so if Cambridge opted to terminate the manager, the funds would likely not be returned for 8-10 quarters. If Cambridge did opt to stop reinvesting distributions, over time the fund would likely fall short of the target allocation to real estate. Ghazarian stated that it might be necessary to perform a search for a new real estate manager. UBS has offered to waive incentive fees for existing clients who stay in the fund, and will take new funds from existing clients with no management fee. Ghazarian stated that he would not recommend adding any new funds to UBS. Shinkwin moved to take future distributions from UBS as cash payments. Monagle seconded the motion. On a roll call, the motion carried on a 3-0 vote, with Chamblin-Foster and Gardner absent.

Shinkwin moved to adjourn at 2:45 PM.