Minutes of the meeting held on December 6, 2023

Present: Francis Murphy - Chair, Michael Gardner, Nadia Chamblin-Foster, Joseph McCann, James Monagle, Michelle Kincaid, Ellen Philbin, Rafik Ghazarian, and Chris Burns.

The meeting was called to order at 11:01 AM. The meeting was digitally recorded. The entire meeting was conducted by Webex videoconference.

Agenda Item # 1 – Segal Marco Advisors
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending September 30, 2023. Returns were negative across most asset classes during the quarter, although year-to-date returns remain strong in the equity segment. Returns were very strong in November, and Ghazarian stated that the fund could end the year with returns of around 7.5%.

Ghazarian reviewed the fund's asset allocation. Segal has now incorporated the new allocation targets that were adopted by the Board. The system is now short of the new target for fixed income. Ghazarian stated that he would work on a plan to rebalance assets.

Monagle asked if Segal could provide their latest research on the environment for investing in real estate. Ghazarian noted that real estate transactions had fallen off, especially on the commercial side, due to higher mortgage interest rates. Funds which are highly leveraged may have difficulty refinancing. Segal has lowered their outlook on likely returns from 8% annually to 5%. He also noted that many funds have long exit queues. Investors who try to withdraw funds may have to wait up to five years to get their money back. The office sector remains very much in flux as firms struggle to determine how best to use remote workers. Ghazarian noted that Segal had two analysts resign after they were required to start working from the office. He also noted that Segal has seen savings by trimming their office footprint.

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 $50 million to the PRIT private equity fund in 2024. The system is already overallocated to private equity but as distributions pick up with older funds, it is necessary to continue allocating more money each year in order to keep up.
Motion by Gardner, seconded by McCann to commit $50 million to the PRIT 2024 Private Equity Fund. Voted unanimously.

Ghazarian reviewed the responses to the Custodial Bank search. There were two responses to the RFP. They were from Wilmington Trust, the incumbent, and from Comerica Bank. Ghazarian noted that Wilmington Trust is significantly larger, with $148 billion in assets under management vs. Comerica with $33 billion. Wilmington Trust has 34 retirement systems as clients vs. Comerica with 7. Wilmington charges an annual fee of 1.5 basis points on domestic assets. Comerica charges 0.6 basis points. Ghazarian recommended that the Board not assign too much weight to the fee comparison. In dealing with a custodian, questions around customer service, reliability and security become much more important. The Director stated that she was extremely happy with the service from Wilmington. She noted that Wilmington is locally owned, with offices in Andover, and they have always been responsive to any concerns. Ghazarian stated that Segal uses both Wilmington and Comerica for the fully managed clients, although the structure of those accounts is somewhat different from Cambridge. Motion by Gardner, seconded by Monagle, to renew the contract with Wilmington Trust. Voted unanimously.

Theodore Bair and Daved Langguth represented Mellon. A written portfolio review was presented to the Board. The firm currently has $1.8 trillion in assets under management, including $436 billion in index assets. These numbers are largely flat over the last year. Langguth noted that there has been some appreciation due to market action, and that clients have also moved to shift assets from equities into fixed income. There were no changes to the management team or strategy in the index portfolio. Bair discussed the firm's efforts to cut costs by minimizing trades and executing trades at the lowest cost. Trades will typically be triggered by index changes or client cash flows. He noted that Mellon completed a multi-year process of moving the operating platform to a new system called Aladdin.

Cambridge is currently invested in two index funds through Mellon. The system invests $79.8 million in a small cap index and $71.9 million in an Emerging Markets index. Both funds are securities lending products, which generates a small extra return. Since inception, the small cap index has returned 2.93% annually net of fees. Over the last year, the fund returned -8.36%. Financials and Utilities were a significant drag on performance as they were hurt by higher interest rates. The small cap product is a full replication of the Russell 2000 index. The Emerging Markets fund has returned -0.89% annually since inception. The fund performed strongly over the last year, returning 10.87%. Poland, Hungary and Egypt were among the strongest contributors. This EM product uses some sampling in order to provide representative exposure to the companies in the index but does not replicate the full portfolio. Bair stated that Russian securities were part of the Emerging Markets index at the beginning of 2022, but MSCI removed them from the index after the invasion of Ukraine. Mellon continues to hold 26 Russian stocks and is unable to sell them. They are currently marked at zero value. Gardner asked how Mellon could be distinguished from other index managers and how the Board could measure that. Bair responded that the low trading costs are one of Mellon's strongest features. He also noted that the firm has managed index funds for 40 years, and has a great deal of experience in that work. He recommended that the Board should compare the positive tracking error vs. other index funds.

Amy Haynes, Julie Keoninger and Jackson Weiss represented Manulife Investment Management. A written overview of the portfolio was presented to the Board. Cambridge currently invests in two Manulife funds. Hancock Timberland X is a closed-end fund with a 2010 inception date. The Hancock Timberland and Farmland Fund is an open-ended fund with a 2018 inception date.

Haynes reviewed the performance of Fund X. Cambridge committed $12.3 million, and the entire amount has been called. The fund has made $3.6 million in distributions. The current value of the fund is appraised at $18.9 million. Haynes reviewed the new investment from Stafford Capital partners. This will extend the fund for at least another 12 years and lower the management fee. The investment terms have also changed, with more focus on US properties. The fund is now authorized to invest up to 75% of the portfolio inside the United States. The total portfolio consists of 470,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund returned 9.7% net over the last year and 8.5% annually since inception.

Haynes reviewed the performance of the Timber/Farmland fund. Cambridge committed $15 million to HTFF in 2018 and an additional $30 million in 2021. All commitments have now been fully drawn down. The farmland consists of both row crops and permanent crops. Manulife operates nearly all the permanent crop farms directly. For row crops, some properties are leased out to farmers who manage them independently. Manulife does restrict tenant farmers from growing tobacco or cannabis, and they must adhere to protocols to maintain soil health. Over the last year, the fund returned 1.9% net of fees and has returned 3.7% annually since inception. Ghazarian asked about the underperformance relative to the NCREIF index. Keoninger stated that the row crops have performed largely in-line with the index. She stated that some permanent crops have not developed as well as expected. This was a combination of poor weather and low prices for those crops. Weiss noted that NCREIF is not a perfect indicator, as it is US-only and HTFF has significant foreign holdings. Foreign currency effects were a drag on performance for the Australian holdings. Gardner noted that there seemed to be a significant disparity between the numbers reported by Segal and by Manulife. Ghazarian asked what Manulife targeted fund returns to be. Keoninger stated that, at inception, Manulife expected returns of 8-11% annually over the long term. The fund is pursuing several strategies for boosting returns. That includes land sales for private development and disposing of underperforming land.

Mark Delaney, Jeffrey Detwiler and Stephanie Roberts represented Garcia Hamilton. A written portfolio report was submitted to the Board. Roberts reviewed the history of the firm. They were founded in 1988 and based in Houston. The firm is 100% employee owned. There are 39 employees, of whom 17 have an equity stake. They have $20 billion in assets under management. The firm also manages an account for MWRA. Cambridge invested $40 million as of September 2022. Delaney reviewed the composition of the portfolio. The portfolio is mainly comprised of US Treasuries, an agency guaranteed MBS, and corporate bonds rated A- or higher. The portfolio now consists of 48% mortgages, vs. the index at 27%. The portfolio is now underweighted to Treasuries and Corporates. The portfolio will typically include no more than 50 bonds. Over the last year, the portfolio has returned -2.63% vs. the index at -1.21%. In November, the fund returned 5.52% vs the index at 4.53%. The fund has been positioned with a longer average duration than the index. Delaney presented an analysis showing likely returns over the next year, assuming certain declines in interest rates, which show returns of between 3% and 5% above the benchmark. Detwiler stated that with inflation now much better controlled and no supply chain issues, it is likely that interest rates will come down. He discussed the strategy of underweighting corporates and overweighting mortgages, showing their historical spreads and noting that corporates are now paying a lower rate than usual.

Francesco Daniele represented the PRIT Fund. A written portfolio report was submitted to the Board. Daniele stated that the 2024 private equity fund would be largely similar to the prior year's funds. The exact size will be announced at a later date but will likely fall between $2.8 and $3.2 billion. The focus of the fund will be on North America and Western Europe. Daniele noted that the private equity team made a presentation at the last PRIM client conference which included a deep dive into their strategy. Daniele noted that the fund continues to see fee savings from using direct co-investments rather than managed funds. Up to 40% of the portfolio will be in co-investments. Daniele discussed PRIT's involvement with the Aggregate Confusion Project. This is a study run by MIT, which seeks to clarify ESG measurement tools. The overall PRIT fund is within all asset allocation targets. Daniele described the fund's rebalancing process, noting that it was done on a monthly basis. Monagle asked about systems that were required to invest in PRIT due to underperformance. Daniele stated that he had been with PRIT for seven years and in that time, no new systems were forced into PRIT. The requirement is triggered if a system underperforms the PRIT fund by 200 basis points over a ten-year period. The Real Estate fund was PRIT's worst performing asset class in 2023, returning -4.1%. Ghazarian noted that PRIT has not adjusted the target allocation to real estate, which remains in the range of 7 – 13%. The Chairman asked if PRIT was now a net buyer or seller of real estate, and Daniele offered to report back with a complete breakdown. Ghazarian asked about the process for performing real estate appraisals. Daniele stated that this is done by an independent appraiser, and that each property is appraised annually. The private equity sleeve showed some negative performance over the last year, but remained the strongest part of the portfolio over the trailing ten years. Ghazarian stated that the hedge fund allocation was now completely liquidated, with PRIT returning all funds in October and November.

Joy Booker and Jeremy Burton represented PineBridge Investments. A written portfolio review was presented to the Board. Booker discussed the firm's diversity initiatives, including an internship program and specific DEI goals for each senior manager. PineBridge now has $155 billion in assets under management, and 700 employees. At the end of 2022, the firm laid off 3% of staff in an effort to trim costs. The firm completed a move to a new office space in November 2023. The firm had been operating out of a temporary space for seven months. The new space is smaller, reflecting the hybrid workforce plan. Employees will come to the office 60% of the time and use hotdesking to save space. Burton described the investment strategy. He noted that they invest in bank loans, mainly floating rate debt, and all broadly syndicated. He noted that all the loans are actively traded, and the strategy does not involve originated loans and holding them to maturity. The portfolio will typically include 175-200 loans. Burton discussed how the firm analyzes a borrower's credit trend, with PineBridge focusing primarily on how the borrower will perform over the next six to nine months. The firm tends to be very cautious about investing in companies in turnaround or transition. Looking ahead, Burton said he would forecast strong returns over the next 2-3 years. He said that we were anticipating a recession, but not a long or severe one. He said he did not expect defaults to exceed 3% of the portfolio. Defaults over the last two years have been close to zero. In 2023, the fund has returned 9.36% vs. the index at 10.14%. Since inception, the fund has returned 3.78% annually vs. the benchmark at 4.21%.

Travis Funk, Andy Hoyt and Katharine Jesse represented Campbell. A written portfolio review was presented to the Board. Campbell continues to raise funds for a new Climate Solutions & Forestry fund. This fund will have a final close by the end of 2024. In 2023, Denny Hill, the Director of Valuation, retired and was replaced by Lori Summers. Funk also announced that Kim Foley, Director of Portfolio Management, resigned during the summer. Hoyt is covering her responsibilities while the firm recruits her replacement. There has been no change in the portfolio holdings over the last year. The fund owns properties in Chile, Australia and New Zealand. Funk reviewed a report on the carbon impact of the forest holdings, which has resulted in 41,800 tons of retained carbon. The fund returned -7.5% over the last year. Jesse stated that this was driven by the 2022 acquisition of the Bosques del Maule property in Chile. The third-party appraisal on this property came in lower than expected. The fund was also hurt by currency effects. Funk discussed the outlook for the timber market. In 2023, both Australia and New Zealand have seen a softening of their timber markets, driven by higher interest rates and lower housing construction. China has lifted the ban on timber imports from Australia, which should lead to higher demand. The fund is scheduled to terminate at the end of 2028, or no later than 2031 if an extension is approved. In Chile, the economy contracted by 0.3% in 2023. A recovery in 2024 is anticipated. The demand for timber could be hurt by lower housing construction in the United States. Losses from the 2023 wildfire season were approximately 1% of value, after accounting for salvage and insurance. Funk noted that Chileans will vote on a significant constitutional reform in December. He described the new constitution as pragmatic and business friendly.

Ghazarian reminded the Board that they have been participating in a loyalty program with UBS. This offers a lower management fee to clients who commit to keeping their funds invested with UBS. Cambridge has been in the program since December 2019. UBS has offered to extend the program through the end of 2024. Ghazarian recommended that Cambridge stay in the loyalty program. Motion by Gardner, seconded by McCann to extend the fee loyalty program with UBS. Voted unanimously.

Gardner stated that he remains concerned with the performance of Manulife and he requested that Segal provide additional information at the next quarterly review on the outlook for this manager and the investment strategy for the PRIT timber allocation.

McCann moved to adjourn at 3:25 PM.