Minutes of the Meeting held on Thursday, January 3, 2019

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

Absent: Michael Gardner

The meeting was called to order at 1:03 PM. The meeting was digitally recorded.

Thomas Durante and Richard Travers represented Mellon. A written overview of the proposal was submitted to the Board. The firm rolled out a rebranding effort, effective as of January 1. This is the result of the merger of three separate units, Standish, Mellon Capital and The Boston Company. All are now collectively Mellon. The firm has $568 billion in assets under management, including $300 billion in equity index strategies. The firm has several Massachusetts public funds as clients, including Plymouth County, New Bedford, Holyoke and Westfield. Travers described Mellon as having a strong HR department and a long track record of promoting diversity. He stated that during the merger process, Mellon added three women to the executive team. He offered to follow up with specific numbers around employee diversity. He also described Mellon's commitment to the Girls Who Invest program, and the hiring of diverse interns. Durante discussed the history of the firm, noting extensive experience in managing index funds. He described processes for keeping trading costs as low as possible. He noted the difficulty in keeping up with changes to the Emerging Markets index, and restrictions on US investors. He also reviewed compliance and risk management processes. He noted that the firm can boost returns through securities lending, although returns from US equity funds have dropped off. Returns from securities lending on the EAFE and EM funds are higher. Ghazarian reviewed Mellon's fee quote. Travers stated that the firm would be willing to offer a 20% discount if Cambridge hired them for all four mandates.

Denise D'Entremont, Jeff Kusmierz and Wayne Owen represented RhumbLine. A written overview of the proposal was submitted to the Board. D'Entremont reviewed the history of the firm, noting they have always worked exclusively on index fund products. The firm has $56 billion in assets under management and includes 31 Massachusetts public funds as clients. The firm is 100% employee owned. 53% of the firm is owned by women or minorities. Kusmierz described the construction of the index portfolios. The Russell 1000 and S&P 600 products are full replication of the index. For the Russell 2000, EAFE and EM indexes, RhumbLine would use optimization, using a risk model to match the characteristics of the benchmark, rather than owning every security. The firm works to use minority and women owned firms to execute trades. In 2018, 41% of trading commissions went to MWBE brokers. Kusmierz reviewed the characteristics of the four proposed portfolios. He noted that the firm also offers an S&P 600 index, which also covers the small cap space. The returns from this fund have been stronger than the Russell 2000, and it has a lower management fee. He described the method of optimizing the EM portfolio, noting that not every country could be included in the replication and that some assets would be purchased through offshore entities. Owen stated that, in light of the long relationship with Cambridge, he would be willing to discount the quoted fee for the domestic equity products by an additional quarter of a basis point.

Philip Deeney, Craig DeGiacomo and Karl Schneider represented State Street Global Advisors. A written overview of the proposal was submitted to the Board. DeGiacomo thanked the Board for their continued investment over the last twenty years. SSGA now has $2.8 trillion in assets under management. Approximately 80% of this consists of index products. DeGiacomo described the size of the firm as an advantage in that a large base of clients maximizes the firm's ability to save by crossing trades. SSGA crosses about 90% of trades, avoiding transaction costs from trading on the open market. SSGA has 24 Massachusetts public funds as clients. Deeney discussed the firm's diversity and inclusion programs. He reviewed the increase in hiring of women and people of color over the last five years and their hiring goals over the next five years. He described efforts to eliminate unconscious bias in the hiring process. SSGA has voted against over 500 companies who failed to address board diversity. 301 of these firms have added women to their Board. Schneider discussed his role as portfolio manager. He emphasized the specialized nature of index managing and stated that his team did not consider their role to be a stepping stone to a career in active management. He described the role of the research division, and the possibility of trading ahead of index events. He said that SSGA had been able to add value, particularly in the international funds, by pre-trading. DeGiacomo reviewed the fee proposal, noting the it represented a slight discount on the EAFE account from the current fee. He also stated that SSGA would be willing to consider a further discount if Cambridge awarded them three or four of the current mandates.

Ghazarian stated that upon making a decision, he was most concerned about making a smooth and quick transition to the new manager so that the Board wouldn't be out of the market for any length of time. He stated he did not expect there to be significant transaction costs. In evaluating fees, Mellon provided the lowest quote for each fund. However, RhumbLine and SSGA were competitive. Chamblin-Foster stated that she felt the question of responsiveness and service from the managers was an important consideration, and that RhumbLine has clearly demonstrated their expertise in that area. Ghazarian stated that he has experience working with Mellon through other clients, and that they have a good reputation for customer service. He noted that the EM portfolio is a new product for RhumbLine, and there is the possibility of a higher tracking error for that portfolio. He also said that Segal would have no issue with the Board hiring one manager for all four portfolios, because the products are index funds. With Rhumbline, a $525 million investment would mean that Cambridge would still represent less than 1% of their total assets. Ghazarian stated that he reviewed RhumbLine's proposal to use the S&P 600 as a small cap portfolio. He stated that the S&P 600 is a plausible option. The Director stated that she was concerned that the RFP specifically requested proposals for the Russell 2000, and that PERAC might object to the Board switching to the S&P 600 without issuing a new RFP. The Chairman stated that he felt the Board should only consider the Russell 2000 portfolio. He also stated that he was not comfortable awarding all the mandates to one manager. Ghazarain stated that if the Board were to award mandates to two managers, they should consider that RhumbLine has established Russell 1000 and MSCI EAFE funds. RhumbLine's fees on those products are also closely competitive with Mellon. In the Russell 2000 and Emerging Markets indexes, RhumbLine would be moving into new products, and Ghazarain stated that the new funds might see a larger tracking error.
Ghazarian stated that the Board has not taken any vote to terminate either of the incumbent Emerging Markets managers. He suggested that the new EM fund could be seeded with up to $10 million until the Board decides on a strategy for this sleeve. The hiring of the new managers would also eliminate the current S&P 500 account, which the Board historically used to access liquidity. Ghazarian suggested that, going forward, the Board should use the Russell 1000 fund for that purpose.
Motion by Chamblin-Foster, seconded by Monagle to hire Mellon to manage the Russell 2000 and MSCI Emerging Markets funds, and to hire RhumbLine to manage the Russell 1000 and MSCI EAFE funds. Voted unanimously.

Ghazarian distributed a preliminary overview of the system's returns in 2018. Once all managers have reported, it appears that the system will finish the year with a 5% loss.

Monagle moved to adjourn at 3:20 PM.