Minutes of the meeting held on July 13, 2016

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

Absent: Nadia Chamblin-Foster

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

Agenda Item #1 – Custodial Bank Interviews
Dan Berd and Sandra Miller represented Comerica. A written proposal was reviewed by the Board. Miller thanked the Board for the opportunity to interview. The bank is headquartered in Dallas and is the 25th largest holding company in the US. At present, the bank does not have a significant presence in Massachusetts. Miller reviewed the bank's diversity initiatives and charitable activities. Berd stated that, if hired, he would be the primary point of contact on the account. He noted that in his role, he handles only municipal clients. Berd noted that all the different banking functions are in the same location, making it easier for him to coordinate with colleagues. Cambridge would be the firm's largest public client if hired. Miller stated the firm has sufficient capacity to handle Cambridge, and would not need to hire anyone new to service the account. Berd described the bank's ongoing training of employees and investments in new technology. The firm has seven Massachusetts clients. He noted that some clients have all their funds in pooled accounts, while others have a number of separate accounts. Comerica has transitioned three accounts from State Street in 2016. Berd stated that he has had some issues getting information from State Street during the transition process. If hired, Berd stated that he believed the account could be transitioned within 30 days, and that Comerica would be able to handle 2016 year-end statements. Comerica estimated annual fees of $89,500. The bank offers an option for a securities lending account. Berd stated that he estimated potential revenue of $117,000 annually, and stated he would be happy to have a further meeting with the Board to discuss the risks of securities lending.

Anthony Teberio, Jaclyn Callison and Kevin Smith represented People's United Bank. A written proposal was reviewed by the Board. The bank is headquartered in Bridgeport, CT. The bank was founded in 1842, and has been in the custodial business for eighty years. People's is the largest independent bank in New England, and Smith stated that the bank intends to remain independent. The bank has just begun to take on custodial clients in Massachusetts, and now has eight municipal systems as clients. Teberio stated that all eight were accounts that he had managed while he was employed at State Street. Smith states that the bank views increased business in Massachusetts as key to its growth. At present, Teberio and Callison handle all Massachusetts custodial clients, and they are prepared to hire additional staff as needed. Teberio stated that the first Massachusetts system to hire People's was Attleboro, in September 2015. He stated that he felt the conversion went very smoothly, and that State Street was helpful during the process. Teberio stated that, if hired, he would be able to convert Cambridge in time to prepare 2016 year-end statements. He stated that he has been able to construct a system at People's bank in order to meet all PERAC reporting requirements, and that he had done the same at State Street and Bank of Boston earlier in his career. Callison stated that the form strives to be pro-active about making sure that monthly transfers happen on time, and is able to remind systems of upcoming deadlines. Monagle stated that he has worked with Teberio in the past, and always found him to be helpful and responsive. Gardner noted that People's is estimating that their fees will be about double that quoted by Comerica. Smith stated that he hoped that the quoted price represents a long-term commitment, and that he does not anticipate any price increase in the near future. He stated that he understood that his competitors had quoted much more aggressively, and he stated that he did not believe that such a price would be profitable. Teberio stated that such aggressive discounting may be a sign that Comerica may be planning to put itself up for sale, and hopes to have a large a client base as possible. Gardner noted that one significant expense was that People's will charge $10 per DTC transaction, where Cambridge incurs approximately 6100 transactions each year. Ghazarian noted that People's charges a fee based on total plan assets, where other banks might charge a lower rate for money in pooled funds. Smith stated that he would be open to negotiating fees.

Agenda Item #2 – Core Real Estate Manager Interviews
Peter Palandjian and Devin Sullivan represented Intercontinental. A written proposal was reviewed by the Board. Sullivan stated that 28 Massachusetts public funds have invested with Intercontinental. The firm is headquartered in Boston. Palandjian reviewed the history of the firm. He stated that his father founded the firm in 1959, with a focus on construction and general contracting. The firm started an investment program in 1972, and in 1995 transitioned entirely into real estate investment. Palandjian stated that, while the firm is no longer directly involved in construction, that he feels that their experience allows them to work more effectively with contractors. The firm has run four closed-end funds in the past, but now runs a single open-end fund. He also noted that the fund has a large client base, and would not be subject to disruption from the withdrawal of a single large client. He stated that he felt that any new investment could be fully committed within one quarter. Investors may be subject to a gate before taking a withdrawal, but Palandijan stated that the firm had only had this happen twice in their history. The portfolio consists of 102 properties, throughout the United States. The portfolio was primarily east coast properties at first, but has added more geographical diversity over the last ten years. At present, the fund is selling off properties located in secondary markets. Palandjian stated he would anticipate a real estate downturn within the next five years, and he feels that primary markets will be better able to recover. The fund invests in all property types, including hotels, student housing and assisted living facilities. The portfolio consists of 45% core properties, 45% core-plus properties and 10% value-add properties. He stated that he feels that an advantage of a multi-strategy fund is the ability to avoid buying core properties at the height of the market, and instead spend those periods investing in core-plus and value-add properties. At present the fund is 42% leveraged. Palandjian stated that he anticipates lowering this to 35% in the next few years.

Kimberly Adams, Rebekah Brown and Peter Kenny represented J.P. Morgan. A written proposal was reviewed by the Board. Brown described the portfolio. She noted it was a pure core strategy, investing only in the four major property types, with no hotels, assisted living or self-storage. It invests only in primary markets. The total fund is valued at $40.9 billion, which is 50% larger than the next largest fund of this type. Adams described the advantage of large sized funds being able to invest in many large profitable properties, which still remaining diversified. The fund consists of over 500 properties, including 11 super regional malls. Adams noted that super regional malls, in urban centers, have tended to continue to thrive despite competition from online shopping. She stated that such malls, anchored by retailers like Tesla and Apple, as well as restaurants and theaters, are able to offer experiential shopping to customers. The fund is currently overweight to office and retail. Going forward, the fund will likely cull the office holdings somewhat. Adams stated that she feels that real estate is now late in its cycle, and the firm hopes to take some profits off the table in anticipation of the next downturn. Since inception the fund has returned 9.8% annually vs. the benchmark at 9%. The fund uses low leverage, currently 25.8% of the portfolio. Adams stated that she expects that will be further lowered to 24% by the end of the year. Any new commitment would likely be fully invested within one quarter. The fund has never gated investors who wish to withdraw, through there has been more redemption requests than usual over the last year. Adams reviewed the fund's holdings in Cambridge and Boston, noting the firm's focus on top-quality assets.

Keri Hepburn, Bill Grubbs and Laler DeCosta represented Invesco. A written proposal was reviewed by the Board. DeCosta reported that the Chief Operating Officer would retire within one year, and his successor has been selected. Grubbs described the firm's national focus, with five offices in the United States. He described the firm's philosophy of focusing on income-producing properties and maintaining low leverage in the portfolio. He stated that this strategy resulted in strong performance during the 2008 downturn. The portfolio consists of 93 properties, all in primary markets. The portfolio has undergone a significant transition in the last six years, as the firm has sold off properties in secondary markets. He described the retail segment of the portfolio, noting that they are anchored by either dominant grocery chains or by high end, experiential retailers. Both strategies make the retail spaces less vulnerable to online competition. The portfolio has trailed the index over the last three quarters, but has strong returns since inception, returning 7.36% net vs. the ODCE at 6.75%. Grubbs stated that the recent underperformance is due to write-downs on several lower-tier properties, and claimed that other managers might be reluctant to take these write-downs. He also noted that Invesco has consistently had lower leverage than the index. The recent underperformance has dragged down the performance over the past seven years to slightly under the benchmark. Grubbs stated that he felt that the portfolio, having completed the secondary market sales, was now well positioned for the future. He noted the portfolio's rental income is completely secure.

The Board reviewed draft correspondence to the Cambridge City Council regarding divestment from firms which produce nuclear weapons. After, discussion, the Board agreed to various changes to the draft. Monagle stated that he believed the Council would want to see the response prior to their August 1 meeting, and that Board members may wish to attend that meeting of the City Council. Without objection, the Board agreed to begin their August 1st meeting at 1:00 PM.

The Director stated that she would favor hiring People's Bank as the system's custodian. She stated that she had a comfort level working with Teberio from his time with State Street. Gardner stated that he would like to attempt to negotiate fees with People's Bank as part of the hiring process. Ghazarian stated that the People's quote is slightly less than the system is currently paying State Street. Gardner moved to recommend hiring People's United Bank, and to instruct Ghazarian to attempt to negotiate over their fees. Shinkwin seconded the motion and it was voted unanimously.

Ghazarain reviewed the system's present real estate investments. The system now has $58 million with UBS, $35 million with Invesco and smaller amounts in four closed-end funds. He stated that Segal typically advises clients to invest 30% of the real estate sleeve in value-add properties, with the remainder in core funds. In the past, the system has always used closed-end funds to get exposure to the value-add segment. He stated that the Intercontinental fund offers an opportunity to get some value-add exposure in an open-end fund. At the same time, this portfolio utilizes higher leverage and may be more risky. This firm has consistently has the highest returns over the last seven years. J.P. Morgan has also posted strong returns, with moderate risk. Gardner noted that Segal's analysis shows that Invesco has had the highest level of risk, and the lowest returns. In comparing fees, Ghazarian noted that UBS has the lowest fees, and that the other three managers higher, but roughly similar to each other. Gardner suggested hiring JP Morgan and Intercontinental, investing $30 million with each, drawing UBS down to about $30 million, and terminating Invesco. Shinkwin stated that he agreed with Gardner's suggestion. Ghazarian stated that the real estate sleeve was currently in-line with the target allocation, and that Rockwood would continue to call more money into their fund. He recommended that the system not overcommit to the real estate sleeve at this time. The Chairman stated that he was pleased with UBS' performance and that he would prefer not to draw them down significantly. Ghazarian suggested that the system invest $20 million each with JP Morgan and Intercontinental, and the system could allocate more to them if their performance warrants it. Gardner moved to terminate Invesco, to drawn down $5 million from UBS and to invest $20 million each with JP Morgan and Intercontinental. Shinkwin seconded the motion and it was voted unanimously. Ghazarian disclosed that former Segal Rogerscasey employee, Ross Vaillancourt, is now working at Intercontinental and may have participated in the preparation of the RFP.

Monagle moved to adjourn at 3:30 PM.