Minutes of the meeting held on June 1, 2023

Present: Francis Murphy – Chairman, Michael Gardner, John Shinkwin, Joseph McCann, David Kale, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Absent: Nadia Chamblin-Foster

The meeting was called to order at 11:00 AM. This was a hybrid meeting held in-person at 125 CambridgePark Drive, and via Webex videoconference. The Webex was digitally recorded.

Agenda Item #1 – Segal Marco Advisors
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending March 31, 2023. In the first quarter, most asset classes performed well. Equities showed very strong returns. Real estate and private equity were both down.

Ghazarian reviewed the system's current asset allocation. The system remains overallocated to private equity, and somewhat underallocated in other asset classes. Ghazarian suggested that once the annual appropriation payment is received, that money could be used to shift additional money into the equity sleeve. Equities have seen the most significant market losses over the last twelve months. Segal will complete its analysis of the RFPs for High Yield and Emerging Market Debt in time for the second quarter review.

Overall, the total fund was valued at $1.665 billion, representing a gain of 3% during the quarter. The fund underperformed the policy index return of 3.6%. Ghazarian noted that although equities as a whole performed well, the Russell 2000 had lower returns. This was largely due to the index's exposure to small, regional banks. Financials saw losses due to concerns about bank stability following the collapse of Silicon Valley Bank. Cambridge Bancorp was down 21.3% in the first quarter. Loomis Sayles has continued to underperform. They are now below their benchmark over the trailing five years. Ghazarian stated that Segal continues to rate this manager as "Recommended". This was one of the managers who is up for reevaluation in the most recent round of RFPs. Returns from the hedge fund sleeve have been flat over the last year. The portfolio currently holds 2.2% of assets in hedge funds, with a 3% target. Ghazarian stated that during the next asset allocation study, he would consider adjusting the target allocation. The Chairman stated that he has found that hedge funds have been a significant drag on performance going back to the inception of the investment in 2006, and that he would favor eliminating the asset class. Gardner noted that the fund has held hedge funds through several market cycles and the overall performance has been disappointing.

Ghazarian stated that he consulted with his research department on the question of the capitalization of the system's custodial bank. Segal feels that M&T Bank is well capitalized and there was no concern about their stability.

Devan Kaloo and Matt Murdoch represented Aberdeen. A written portfolio review was submitted to the Board. There have been no changes to the emerging markets portfolio team. Kaloo discussed the firm's stock picking process and their focus on quality. Over the last year, Aberdeen has expanded their offices in Hong Kong and Shanghai. In the first quarter, developed markets outperformed emerging markets. He noted that there was waning enthusiasm that China would have a strong recovery. Rising interest rates and the collapse of Credit Suisse also hurt returns. Kaloo discussed the banking sector in the Emerging Markets spaces, noting that many banks are run more conservatively, with tighter lending standards and stricter regulations around capitalization. They did not suffer the same deposit flights that many US banks saw over the last

six months. He did state that many Emerging Markets countries do not have an FDIC equivalent. This has tended to lead to more consolidation in the banking industry.
Over the last year, the fund returned -10.74% net of fees, which underperformed the MSCI EM Index return of -10.3%. Kaloo described the fund's investment in KFC franchises in Saudi Arabia. He stated that the investment has performed quite well as the society has liberalized, and now has more women consumers. Another new investment is CICC, a leading investment bank in China. The firm has also invested in Li Auto, a luxury EV manufacturer in China.
Kaloo discussed the underperformance over the last year. The portfolio was overweight in Russia at the time of the invasion of Ukraine. Irvine stated that at that time, they saw good value in Russia, with high-quality energy companies. They attempted to sell some stocks in late February and were able to significantly trim their position. The firm has now written down the value of all remaining Russian assets to zero. These assets include LNG exporters, but they cannot now be sold due to sanctions. Further, the firm was hurt by an underweight position in Saudi Arabia, as many Middle East oil companies rallied as Western nations attempted to cut imports of Russian oil. Murdoch noted that the firm does still hold the Russian stocks. Based on quoted prices within Russia, it is likely that these shares comprise approximately 3% of the portfolio's value. Looking ahead, Kaloo stated that he felt a recession in the US was likely. This could help the portfolio through lower interest rates and a weaker dollar.

Elise Jadhav and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. There have been no changes to the portfolio management or strategy. Wellington recently announced that they would lay off 5% of their workforce, but no employees on the Emerging Local Debt team were let go. Over the last year, the fund returned 9.06% net of fees. This outperformed the benchmark return of 6.56%. The emerging markets space has seen some easing of interest rates over the last six months, which was a positive driver of returns. The portfolio is positioned to anticipate further cuts, particular in Mexico, Peru, Poland and Romania. The portfolio remains underweight in Turkey due to political instability. In October, the portfolio was able to sell all remaining Russian bonds, salvaging about 40% of their pre-war value. The portfolio has not taken any significant currency bets, but did benefit from overweight positions in Poland and Hungary. The portfolio is positioned in such a way as to weather a mild recession. Neely said she saw that as likely to happen in the near term. Looking ahead, Jadhav felt the portfolio was likely to benefit from further interest rate cuts. She noted rates over 10% in Brazil, Hungary, Chile, Colombia and Mexico. The portfolio is positioned to benefit as those rates begin to fall. The fund has underweighted Asian markets where interest rates tend to be much lower.

Paul Nasser 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. The gross asset value of the fund is $14.4 billion and consists of 155 properties. The firm is headquartered in Boston. The fund is now 25% leveraged. As of January 2023, Cambridge is no longer reinvesting dividends from the fund. Nasser stated that the last year has been a difficult environment for the real estate industry. New money coming into the fund has slowed. Nasser stated that transactions have been largely frozen due to uncertainty around interest rates and rent values. He described the difficulty in appraising properties when there are so few comparable sales. Nasser stated that he was anticipating that when real estate prices bottom out, it would be somewhere in the range of 13%-20% below the peak. Declines in office values will be especially sharp. Nasser stated that he expected the price bottom to come in 12-15 months. The firm has had requests for redemptions, particularly during the decline in equities in 2022, but some requests have been rescinded. The current redemption queue is approximately $750 million. Nasser stated that the firm was well positioned to weather a recession. The leverage in the fund is low, and the portfolio remains 93% leased. Fewer than 10% of leases are up for renewal in the next year. The fund has continued to trim the number of offices in the portfolio. Nasser noted that at the start of the COVID pandemic, the fund was 48.6% allocated to offices. The fund is now at 31.4% offices, targeted to be below 30% by the end of the year. Nasser described positive developments in the retail spaces as malls have updated to include more gyms, medical offices and hotels, with fewer big-box stores. He stated that A-level offices were not being hurt as badly as other buildings. Buildings with updated amenities and HVAC seem to be in higher demand, and managers are better able to convince employees to come to work in those buildings. He stated that B and C level offices would continue to struggle with vacancies and it was unclear if they could continue to function.

Andrew Blanchard represented Rockwood Capital. A written review of the portfolio was submitted to the Board. There have been no changes to the management team or fund strategy. In 2022, Colliers acquired 65% ownership of Rockwood. Rockwood continues to operate independently but now has access to the Colliers research network. Cambridge is currently invested in Fund IX, having committed $18 million in 2013. The fund is nearing termination. Overall, the fund closed on 23 properties and has now sold 20. Blanchard reviewed the remaining properties in the portfolio. The Fairmont Olympic Hotel in Seattle is currently open. The fund was able to complete renovations in 2020 while the hotel was shut down due to COVID. South Coast Collection is a retail center in Costa Mesa, CA. Both Fairmont and SOCO have been generating good cash flow, which has allowed the fund to be patient in picking the time to bring them to market. The Cannery is a retail/office property in Campbell, CA. The space is 40% leased and Rockwood continues to actively market it for leasing. The fund has set a target to sell the remaining three properties by June 2024. He noted that real estate transactions have fallen sharply in the last six months. Sales that do go through are typically being sold at a discount. Blanchard stated that he hopes to wait out this environment but balances this against the desire to terminate the fund in a timely manner.

Geoff Mullen represented Landmark Partners. A written portfolio report was submitted to the Board. The Board is invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. The real estate fund closed in 2011. The portfolio closed 30 transactions, acquiring 83 partnership interests. It is generating a net IRR of 17.9%. The total fund invested $681 million and has now made $987 million in distributions. The remaining value of the fund is $3 million. Cambridge's remaining value in the fund is $16,000. This comprises one retail property in Poland. The fund has been unable to dispose of the property due to tax issues involving a UK-based buyer. Mullen stated it may take until mid-2024 to wind down the fund. Ghazarian requested that Mullen provide a written summary of the issues involving the property in Poland. The private equity fund closed in 2014 and has now in the harvesting phase. The portfolio closed 60 transactions, acquiring 183 partnership interests. It is generating a net IRR of 12.5%. The fund raised $3.3 billion and called $2.7 billion. Cambridge has received $9.2 million in distributions. The portfolio is well diversified in terms of vintage year, industry and strategy. Landmark has targeted 2027 for fund termination. Mullen stated that Landmark is currently raising Real Estate fund IX. They are also preparing to launch their first infrastructure secondaries fund. He noted that it is an excellent environment for secondaries as many funds are seeking liquidity.

Kale stated that this would be his last meeting of the Retirement Board due to his pending retirement. He stated that he was confident that Michelle Kincaid would be able to work with the Board on any issues going forward.

John Albro represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. The fund has now returned $5.6 million on $3.4 million in contributed capital. Albro projected the fund would end at a 1.7x multiple. There are seven active investments remaining in the portfolio, and the fund is in the wind-down phase. The CITIC

China Retail Fund is the largest position remaining and consists of three malls. The retail sector in China has been difficult and the manager is seeking buyers to try to dispose of the properties at a respectable value. Albro stated that the fund should be terminated in 12-18 months.

Gardner noted that in several of the present investments, the Board had committed relatively small amounts, and it required some effort to monitor every manager. Ghazarian noted that many of the commitments were made more than ten years ago, when the fund was smaller, and the Board may have had more concern about maintaining liquidity.

Walter Dick and Thomas Scanlon represented Ascent. A written overview of the portfolio was presented to the Board. Cambridge has an active investment in one fund managed by Ascent. Scanlon stated that Ascent will not be making any new investments going forward. The firm is now focused only on managing their two existing funds. Over the last three years, two partners left Ascent to take jobs with another funds. They remain under contract with Ascent and will continue to manage the portfolio companies under their purview. This arrangement has been working smoothly. Scanlon discussed the firm's financial position, noting that Ascent had used First Republic as their bank. Ascent was not harmed by the collapse of that bank since they were part of a program that spread their deposits over several banks, keeping everything under the limit where all deposits were insured by FDIC. He also reported that Ascent has not undergone a recent audit due to staffing issues at KPMG. Fund V is now in the harvesting phase. It made ten investments and has completed five exits. The portfolio has a gross IRR of 26.6%. In 2022, RapidMiner was acquired by Altair, resulting in a distribution in October. Three of the remaining five companies appear to be likely fund drivers. Scanlon discussed Invaluable, a company which provides services to the live auction market. He stated that Ascent had been in discussions about a sale, but the deal was terminated around the time of the stock markets declines in late 2022. Dick discussed Nova Scientific, which provides precision measurement tools. A distribution was paid after one division of the company was sold off in December 2021. The company has had some challenges due to rising costs of raw materials. Ascent continues to consider exit options for the rest of Nova Scientific, including selling off individual divisions.

McCann moved to adjourn at 3:15 PM.