Minutes of the meeting held on June 3, 2021

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

Left Early: Nadia Chamblin-Foster (left after Rockwood presentation)

The meeting was called to order at 11:00 AM. 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 March 31, 2021. Most asset classes continued to show strong returns, as the economy rallied strongly following the COVID pandemic. Fixed income was a poor performer as interest rates started to rise. In the last quarter, value stocks began to outperform growth stocks.

Ghazarian reviewed the system's current asset allocation. The system is somewhat overallocated to equities and underallocated to fixed income and real estate. The private equity sleeve is now in-line with the current allocation target.

Overall, the total fund was valued at $1.651 billion, representing a gain of 4.8% during the quarter. The fund outperformed the policy index return of 2.7%. RBC Capital performed very well. The Cambridge Bancorp stock also rallied, gaining 21.8% in the quarter. Lazard also performed well, returning 5.2% vs the benchmark at 2.3%. However, they remain behind the benchmark over the last ten years. Monagle noted that all of the real estate managers have shown poor returns over the last year. He noted that the industry appears to be struggling due to lower demand for office space. Ghazarian offered to send Segal's paper with their most recent outlook on the real estate markets.

The Board reviewed an Asset Allocation study prepared by Segal Marco. Ghazarian noted that the investment return assumption has been reduced from 7.5% to 7.25%. He described how Segal makes projections about likely returns from various asset classes. One of the guiding assumptions for 2021 is that markets are overvalued, with very high equity prices and low returns from fixed income. Return assumptions for all asset classes have fallen since the last asset allocation study. In reviewing different asset classes, Ghazarian called out Developed Market Fixed Income as a "weak link" which is projected to return less than Core Fixed Income, but with significantly higher risk. The Brandywine portfolio falls under this asset class. Ghazarian reviewed six proposed asset mixes. Under each model, the allocation to Developed Markets Fixed Income was cut to 0%. Some models also call for cutting the Hedge Fund allocation from 5% to either 3% or 0%. Every model increases the private equity allocation from 10% to 12%.

Scott Conlon and Matt Murdoch represented Aberdeen. A written portfolio review was submitted to the Board. Murdoch stated that he has taken over from John Grybauskas as the relationship manager on the Cambridge account. Grybauskas remains with Aberdeen in a different role. There has been no change to the emerging markets portfolio team, although the firm opted to close their office in Indonesia. Murdoch discussed the firm's diversity initiatives. The firm has met targets set in 2017 for increased gender diversity and has set new targets to increase diversity further by 2025. By 2025, the firm has committed to have at least 40% women at the level of Investment Director and above. Conlon described the portfolio's bottom-up approach to stock selection. He noted a significant dispersion of returns in 2020. Overall, emerging markets performed very well. This was driven by returns in South Korea, Taiwan and

China, which were able to quickly control COVID outbreaks. Countries such as Brazil, Greece and Colombia showed steep losses. The ability to distribute vaccines quickly will be a key factor in 2021. Conlon stated that they were also watching inflation measures closely, but that he did not expect to see high inflation as he believes pent-up demand will be offset by continued unemployment. The firm is also focused on efforts to address climate change, installation of new wind and solar power generation and adoption of electric vehicles. Ghazarian noted that 35% of the portfolio is currently invested in China. He asked about the impact of trade tensions between China and the USA. Conlon stated that this was a risk, and that he did not anticipate the Biden administration being significantly more accommodating than the previous administration, although it would be less erratic. He also noted that Chinese firms are increasingly focused on their domestic market and less reliant on international trade than in the past.

James Donald, Frank Sposato, and Ben Wulfsohn represented Lazard Asset Management. A written portfolio review was submitted to the Board. There have been no changes to the portfolio team or investment strategy. Returns in the portfolio have been strong since the 4Q2020 as value stocks appear to be moving back into favor. Donald stated that he would identify Pfizer's announcement of a vaccine in November 2020 as the start of the value turnaround. Wulfsohn added that he had analyzed the returns from growth and value stocks on a daily basis since November. He noted that days when growth outperformed were correlated to reports of poor vaccine rollouts or fears about COVID variants. He stated that while most developing countries have not been able to access vaccine supplies yet, a strong rollout in the USA and Europe can still cause optimism and move markets in the developing countries. He stated that value stocks will tend to outperform in a more normal environment. He also noted that rising consumer demand and rising inflation will also tend to favor growth over value. Gardner asked how Lazard compares to the MSCI value index and Wulfsohn reported they have run behind that benchmark across the last five years. The Chairman stated that he still feels that the portfolio is far too volatile to make for a viable investment vehicle and that he would favor terminating the manager. Sposato stated that he would be willing to propose a reduction in management fees from 87 basis points to 72 basis points if the system retains Lazard.

Darren Capeloto and Elisa Jadhav represented Wellington Management. A written portfolio summary was reviewed by the Board. Jadhav stated that Brendan Swords would retire as CEO on June 30. Jean Hynes will succeed him. The transition has been planned for over a year. Hynes will be the first woman to serve as CEO at Wellington. Jim Valone will also retire as portfolio manager, effective at the end of 2021. Over the trailing one year period, the portfolio has returned 11.48% net, vs. the index at 11.22%. Capeloto reminded the Board that the portfolio can be volatile, as in the most recent quarter, the fund was down 7.41% net. Losses in the most recent quarter were mainly attributable to higher interest rates, and to currency depreciation. Earlier in 2020, the fund was able to benefit from a position toward longer durations as interest rates fell. Capeloto said this was the main driver of returns in 2020. He said that he expected currency effects to be a major contributor to returns in 2021. Capeloto discussed the amount of stimulus money being issued around the world, and the outlook for growth appears good. Looking forward, he said that valuations look very attractive, and that the portfolio maintains a pro-risk lean.

Jeff Kusek represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. There have been no changes to the portfolio management or investment strategy. There are 14 active investments remaining in the portfolio, although three of those investments make up 76% of the fund value. The fund has now returned $5.6 million on $3.4 million in contributed capital. The portfolio is approaching its termination date, although the pandemic has changed the timetable for closing out the fund, as liquidation activity largely stopped in 2020. The fund extended the liquidation timeline into 2022. Kusek stated that by later in the summer, he should have a firmer sense of the final liquidation date. Kusek reviewed the three large holdings remaining in the portfolio. The CITIC China Retail Fund consists of three malls. They showed strong returns in the 4th quarter as China has moved quickly to control COVID outbreaks and their reopening has been smooth. The VBI Brazil Real Estate Fund is a more distressed situation. The fund wrote down the value in 2020 and Brazil has been hit hard by the pandemic. Waterton is a USA-based apartment portfolio. This fund has done well and is in the process of liquidating. The remaining properties are all being marketed for sale. Kusek stated that he anticipated the fund would make a distribution toward the end of the year. He projected the fund would end at a 1.8x multiple. Kusek reviewed the commitment process, and noted that Penn Square was able to recycle some distributions so they did not have to call all of investor's commitment.

Maria Bascetta and Paul Canning represented UBS. A written overview of the portfolio was presented to the Board. There have been no changes to the portfolio management or investment strategy. Returns were positive in the first quarter of 2021 and the fun saw slight appreciation in the overall value of the fund properties. Apartments and industrial properties appreciated enough to offset falling values for office and retail properties. Canning described the sale of assets designated as non-strategic. This comprises about 25% of the portfolio, valued at $4 billion. This process was planned in early 2020, although sales activity was muted during the pandemic. The fund plans to sell 25 assets in 2021, ten more in 2022 and three in 2023. The bulk of the sales are retail and office properties, and the portfolio plans to reinvest in more industrial properties. The fund will maintain a focus on properties on the coasts. The fund is renovating some offices to allow them to be used as lab space. The only mall property the fund intends to keep is CambridgeSide. Thompson described the work of redeveloping CambridgeSide. One floor of retail space will be converted to offices. Three new buildings have been planned for the lot, which will include apartments and lab space. The fund is looking to move into buying self-storage properties to add further diversification. In the past, the fund made a strategic decision to use less leverage than the index. Canning noted that this strategy has clearly cost investors money as higher-leveraged funds were able to generate higher returns over the last ten years. Going forward, UBS plans to match the level of leverage used in the ODCE index. The fund still has a queue for redemption requests, and some of the money raised through property sales will go to paying out investors. Redemption requests will likely be filled within three years.

Andrew Blanchard and Tara McCann 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. Cambridge is currently invested in Fund IX, having committed $18 million in 2013. The fund is well into the harvesting phase. Overall, the fund closed on 23 properties and has now sold 19. The fund projects a net IRR of 10.2%. The fund is scheduled to terminate in June 2022, although the firm has the option of extending the liquidation period out to 2025. Blanchard stated that he felt it would not be necessary to take an extension and it seems likely that the remaining properties can be sold within a year. Blanchard reviewed the remaining properties in the portfolio. The Fairmont Olympic Hotel in Seattle is currently being operated on a limited basis and will reopen fully once demand picks up. The fund was able to complete renovations in 2020 while the hotel was shut down. 64 West Colorado is a four suite retail property in Pasadena, CA. It is now fully leased. South Coast Collection is a retail center in Costa Mesa, CA. It is 94% leased and generating strong cash flow. The Cannery is a retail/office property in Campbell, CA. A pending sale was delayed due to the bankruptcy of the largest tenant. It is now 45% leased by Blanchard said he was optimistic about filling leasing the vacant suites quickly. McCann discussed the firm's diversity initiatives. She stated that 80% of hires over the last three years were diverse. Blanchard stated that their Fund XI is now closed and has begun its investment phase. For Fund XI, the strategy is more focused of properties with existing cash flow. The fund is also more focused on gateway markets just outside of major cities.

Maryellen Doyle and Paul Mehlman represented Landmark Partners. A written portfolio report was submitted to the Board. Doyle reported that Landmark has been acquired by Ares Management, with the transaction closing on June 2. The Board is invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. The real estate fund closed in 2011. It consists mainly of US-based funds, with some investments in Europe and Asia. The portfolio closed 30 transactions, acquiring 83 partnership interests. It is generating a net IRR of 18.6%. The total fund invested $681 million and has now made $969 million in distributions. The remaining value of the fund is $37 million. Mehlman said that he expected the fund to be fully liquidated by the end of 2023. The private equity fund closed in 2014 and has now finalized its investments. The portfolio closed 60 transactions, acquiring 182 partnership interests. It is generating a net IRR of 12.2%. The fund raised $3.4 billion and has made $1.97 billion in distributions. The portfolio is well diversified in terms of vintage year, industry and strategy.

The Chairman asked for Ghazarian's recommendation as to where to invest money currently held by Lazard should the Board opt to terminate them. Gardner stated that he would favor adding the money into the Emerging Markets index managed by Mellon. Ghazarian stated that Lazard offers monthly liquidity, so any request to withdraw would not be honored until July. Gardner stated that he did not find the Lazard presentation to be persuasive and felt they had not adequately explained why they had underperformed their peer group, or why the current value environment was likely to last. The Chairman stated he would prefer to draw down Lazard over a period of six months, rather than all at once. He suggested one third in July, one third in October and one third in late December. Gardner requested that Segal continue to monitor Lazard to determine if their performance improves and recommend if the withdrawal schedule should be altered. Gardner moved to reduce the allocation to Lazard to zero on the schedule as discussed. Shinkwin seconded the motion. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

In reviewing the asset allocation proposals, the Chairman stated he would favor keeping the hedge fund allocation at 3%. Gardner stated that he would favor cutting the hedge fund allocation to zero. He noted that their fees remain high and they have not demonstrated an ability to cushion losses during a downturn. Ghazarian discussed the importance of keeping a portion of the portfolio allocated to fixed income products, stating that these funds provide stability during a downturn. He stated that with most hedge fund-of-funds products, he would not hesitate to recommend eliminating the asset class entirely. However, given that the PRIT hedge fund is well managed, with a number of direct investments, and has lower fees, he said that he would recommend keeping a 3% allocation. He also said he would recommend the asset mix which targets at 7.4% return, since this will give the Board a higher likelihood of returning at least 7.25%. Gardner moved to adopt the asset mix recommended by Segal and to request that Segal manage the necessary transactions to bring the system in line with the new targets. Shinkwin seconded the motion. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

The Chairman requested that the Executive Director place an update to the investment policy statement on the agenda for approval at the next regular meeting.

Monagle moved to adjourn at 3:20 PM.