Minutes of the meeting held on Tuesday June 30, 2015

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

Left Early: Nadia Chamblin-Foster (Left following Lazard presentation)

The meeting was called to order at 10:31 AM. The meeting was digitally recorded.

The Board reviewed a written analysis of the responses to the Emerging Markets Equity search. Ghazarian provided an overview of the three managers selected to interview. Ghazarian reminded the Board that the current asset allocation strategy calls for increasing the allocation in this sleeve from 5% to 10% of the portfolio. Segal has recommended that the mandate be split between two managers in order to avoid the risk of a single active manager holding 10% of the portfolio. In reviewing the materials, Ghazarian noted that the research department had omitted information on Lazard from some of the comparisons, assuming that the Board would already be familiar with Lazard's information. Gardner requested that information on all candidates be included going forward. Ghazarian urged the Board to take note of the fact that Aberdeen has $44 billion under management in the Emerging Markets Equity portfolio, vs. Wells at $10 billion. Ghazarian stated that he feels that Aberdeen's size could present a liquidity risk. He also noted that Aberdeen has a more concentrated portfolio, of 30-70 stocks vs. Wells at 90-120. Comparing fees, Ghazarian stated that on a $50 million investment, Aberdeen would charge 95 basis points, Lazard at 101 points, and Wells at 115 points annually. Ghazarian stated that he felt that while Wells quoted the highest fee number, that they would probably be willing to negotiate. Ghazarian stated that an index alternative does exist, but noted that it would not be a full replication of the investment universe. It would also be somewhat more expensive than other index funds, at around 15 basis points annually. He stated that if the Board were interested in reviewing index funds, they would have to issue another RFP.
In comparing performance, Ghazarian noted that Lazard has shown poor returns over the last year. Aberdeen's performance has been stronger across all time periods.

Jack Kirkpatrick and Maree Mitchell represented Aberdeen. A written portfolio review was submitted to the Board. Aberdeen was founded in 1983. The firm now has 37 offices in 26 countries. The Emerging Markets team consists of 51 employees is seven offices. The firm manages funds for four Massachusetts public funds. Kirkpatrick reviewed efforts to promote diversity. He noted that the firm strives to promote from within, starting with the annual hiring of 15-20 interns. In 2013, 20% of the interns were women, and 20% were minorities. The class of 2015 is 46% women and 46% minorities. Kirkpatrick reviewed the firm's investment process and philosophy. The firm does all research in-house. The portfolio is highly concentrated, and has very low turnover of only one or two stocks each year. The portfolio underperformed in 2013, returning -6.01% vs. the index at -2.27%. Mitchell stated that markets in that period were driven by macroeconomic issues, rather than corporate fundamentals. She noted that the firm has tended to underperform in a momentum-driven market. Aberdeen responded by adding to existing investments during the down period. In 2013, the Financials sector was the weakest performer. Aberdeen felt that the fundamentals within those companies were still strong, and in 2014, Financials were their strongest performing sector. Mitchell stated that she felt that the firm has historically been able to take advantage of short term downturns. She stated that she felt that the current size of the portfolio does not constitute a liquidity risk, particularly given their low trading volume. The portfolio did have a soft close in 2013, when the total portfolio value was about $59 billion. The portfolio opened again about one year later, following the market correction. Mitchell reviewed the stock selection process, noted that Aberdeen's analysts always meet with firms before investing. The analysts also meet with all firms in the portfolio at least twice each year. Aberdeen is an active shareholder, and fully exercises their proxy voting. The firm does not invest in companies where the shares offer no voting rights. The portfolio is significantly underweight to China, Korea and Taiwan, primarily because of poor corporate governance. The portfolio is overweight to Hong Kong and India. The portfolio does not hedge currency. Mitchell stated that, over the long term, she believes any currency fluctuations will cancel out. Kirkpatrick stated that their quoted fee could not be discounted any further.

Gerry Colleary, Ann Larson and Jerry Zhang represented Wells Capital Management. A written portfolio review was submitted to the Board. The firm is wholly owned by Wells Fargo Bank. The Emerging Markets Equity team is based on Berkeley Street in Boston. Colleary reviewed the firm's investment philosophy. All research is conducted in-house. The portfolio currently has $10 billion in assets, and the firm plans to close the portfolio upon reaching $12 billion. Colleary described the compensation structure for employees, with bonuses based on 1- 3- and 5-year returns. Zhang reviewed the portfolio construction and risk management processes. He emphasized that the firm is looking for long-term profitability when making new investments. The portfolio is an all-cap strategy, with no target allocations for each capitalization level. The firm closely monitors about 300 investment-quality companies, and the portfolio typically ranges between 90-120 stocks. Turnover is typically under 10 stocks per year. In reviewing performance, Colleary emphasized that the portfolio has outperformed the index across every rolling five-year period. He stated that over the last two years, the marketplace has seen results driven by macroeconomic factors rather than company fundamentals. Larson stated that the company takes diversity very seriously. She noted that the firm is a client of the Federal government and subject to their affirmative action requirements. She also stated that management fees could be negotiated, and offered to email an updated offer.

Frank Sposato and Ben Wulfsohn represented Lazard Asset Management. A written portfolio review was ubmitted to the Board. The Emerging Markets Equity strategy now has $40 billion in assets under management and has been closed to new investors. Wulfsohn reviewed the decision to close the portfolio, noting that their risk management analysis chose a closing point at which they felt the portfolio could continue to outperform. He also described the firm's investment philosophy of bottom-up, value-driven stock picking. Wulfsohn reviewed the portfolio's performance history. He noted that the portfolio outperformed the benchmark on a net-of-fees basis every year from 2010 to 2013. He stated that performance between June 2014 and March 2015 has been poor, Lazard's worst showing since 2007. He stated that he attributed much of this underperformance to geopolitical factors, particularly in Russia, Brazil and China. He stated that there was a significant run-up in Chinese stocks. Lazard has not participated in that, feeling that most of those stocks are overpriced. Wulfsohn added that the firms in question are often profitable, but still too expensive for Lazard to consider buying them. Wulfsohn reviewed Lazard's investments in Russia. He anticipated that soft sanctions will remain in place for the near future, or be tightened. He also stated that, because the stocks are so cheap, Lazard felt that there was still a good buying opportunity. However, the firm failed to anticipate a sharp drop in oil prices, which resulted in significant losses. Lazard sold several positions in Russian firms, but continues to hold others. Sposato stated that their performance in the second quarter of 2015 has improved. He emphasized that he felt this was a short-term anomaly in their management history. Since inception, the portfolio has generated an average of 261 basis points of excess return annually. The firm still feels that their investment philosophy is sound, and will generate strong returns over the long term. Sposato stated that, if the Board were to review reports from June 2014, they would show a dramatically different history of returns. Sposato stated that he would review the management fees to see if he could offer a reduction. Sposato stated that he was not familiar with the firm's efforts to promote diversity, but that he could have additional information forwarded.

Ghazarian stated that he received an email stating that Wells would be willing to reduce their fee from 110 to 85 basis points annually. In comparing performance, Ghazarian stated that Aberdeen has had notably stronger, more consistent returns. Gardner suggested that the Board might consider hiring Aberdeen to manage half of the mandate, and putting the other half into an index fund. He stated that he was disappointed in the presentation from Lazard, in that he felt that they were not particularly nimble in dealing with the change in oil prices, and the impact on their Russian stocks. The Chairman stated that he would be comfortable hiring Aberdeen, comparing their performance against Lazard over the next two years, then making a decision as to whether to index a portion of the asset class. Motion by Gardner, seconded by Shinkwin to hire Aberdeen, investing $55 million. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

Ashley Hyotte and Emily Moran represented RBC Global Asset Management. A written portfolio review was submitted to the Board. Hyotte stated that Bernard Horn regretted that he was unable to attend the meeting. There have been no changes to the portfolio management in the last year. In 2014, the portfolio was able to defend in a down market, returning -3.79% vs. the index at -4.92%. The portfolio showed stronger returns to date in 2015, returning 8.62% vs. the index at 7.79%. Over the past five years, the firm has placed in the top 10% within their fund universe. Hyotte reviewed the holding of Meiji Holdings, which was the top contributor to performance in 2014. This is a Japanese dairy company. They have seen increased profits as they have cut expenses at the same time they increased prices. British homebuilders have also continued to perform well, as the government loosens regulations and makes more land available for development. RBC has trimmed their holdings of the homebuilders somewhat over the last year as these stocks have continued to appreciate. The energy sector was the biggest detractor in 2014, due to falling oil prices. The portfolio remains underweight in Financials, due to wariness about Eurozone issues. Hyotte stated that she feels any changes in the Euro, including a Greek exit, would likely be a short-term event that would not significantly impact their holdings. Hyotte stated that she would review the system’s fees, although she noted that, as a commingled account, it would be difficult to make any changes.

Gardner stated that after reviewing the June 2014 Segal analysis, it appears that Lazard was generating much stronger returns as of that date.

Richard D’Auteuil and Kenneth Hedgebeth represented Columbia Threadneedle Investments. A written review of the portfolio was presented to the Board. Hedgebeth noted that the firm has changed its name due to the collaboration with Threadneedle, based in London. Although they collaborate on their products, they remain two separate companies. D’Auteuil stated that performance over the last year has been poor. In 2014, the fund returned 1.17% vs. the index at 8.21%. There have been no changes to the firm’s investment philosophy. Columbia maintains a focus on valuation, investing in both small cap and micro cap firms. Columbia also continues to avoid biotech stocks. D’Auteuil noted that these companies can spend years in a R&D phase with no earnings, and that he feels they are too risky. He compared these stocks to the dotcom bubble in 1999-2000, noting that Columbia had also avoided those stocks, to the benefit of their investors. Since 2012, biotech stocks have contributed between 200-300 basis points of performance annually in the Russell 2000. Another significant performance detractor was significant selling in the micro cap space. Due to limited liquidity, small transactions in this class can have an outsized impact on share prices. D’Auteuil stated that he had seen a similar fall in prices in 2008, which rebounded quickly due to insider transactions. The Columbia portfolio has about double the exposure to the micro cap space vs. the Russell 2000. Columbia has also teamed with shareholders activists and reached out to corporate boards in order to protect their portfolio. D’Auteuil also stated that there have been fewer mergers and acquisitions in the small cap space over the last year. Columbia typically sees 12-15 acquisitions each year, which usually results in a boost to the share prices of the companies involved. In 2014, there were only five acquisitions and only three thus far in 2015. He noted that Columbia does not intentionally seek out takeover targets, but that it is a natural fallout of their portfolio construction. Finally, D'Auteuil noted that he believed that the portfolio would perform better in a higher interest rate environment. He anticipated that rates would rise in the coming months, but also acknowledged that he had been expecting higher rates for three years. D'Auteuil stated that he did not feel that Peter Larson's retirement in 2009 had any impact on performance, stating that he had worked with Larson for 16 years, and had run the majority of the portfolio before his departure. The Chairman stated that the Board may wish to consider exiting the small cap space entirely, due to the risk in this sector. Hedgebeth distributed a written agreement to reduce Cambridge's management fee from 65 basis points to 48.6 points annually, retroactive to January 1, 2015.

John Norman represented Wedge Capital Management. A written review of the portfolio was presented to the Board. There have been no changes to the portfolio management or strategy. The total assets under management in the midcap portfolio is now $3.4 billion. Norman stated that while the firm is focused on trying to build diversity in their hiring, that they have not been able to attract qualified minority candidates. The portfolio consists of 43 stocks and Wedge has maintained a lower price-to-earnings ratio than the index, and also has a higher dividend yield. Over the last year, the portfolio has had somewhat higher turnover than usual. Wedge has moved to take profits from some of their high performers, selling off stocks in the capital goods and industrial sectors, and redeploying into consumer durables. Norman stated that he feels these firms are likely to generate strong returns as the economy continues to improve. The portfolio is currently underweight in the health care sector, as two firms were acquired by larger companies, and forced out of the midcap portfolio. Wedge is looking for new buying opportunities in this sector, but is having trouble as many of the firms are overvalued. Over the last year, the portfolio has returned 17.78% vs the index at 11.7%. Norman stated that it was an excellent year, and likely to be unsustainable. In the last quarter, the fund has run about even with the index. Wedge does not offer a dedicated small/mid blend product, but has taken funds from clients looking for such a product and split the funds 50/50 between their small and mid-cap portfolios. Norman stated that Cambridge was now paying the lowest possible fee, based on the most-favored-nation clauses in their client contracts.

Ghazarian stated that he found Columbia's presentation to be reasonable. He stated that the Board may wish to consider waiting until the end of the year before considering replacing them. This would give the Board time to see if Columbia's predictions regarding higher interest rates turn out to be correct. He stated that if the Board does wish to terminate Columbia, they might consider consolidating the portfolio by placing the funds in the Russell 2500 index fund, or in the Wedge small-cap fund. He noted that moving the funds to Wedge would require going through the full RFP process. He stated that it may be difficult to fund a strong active manager in this space, as many of the top funds are closed to new investors. Gardner noted that Columbia included an attribution analysis in their presentation, although it was not discussed during their presentation. He requested that Segal perform their own attribution analysis of the last three years of performance to check to see to what extent their avoidance of biotech is affecting performance.

DePasquale stated that he found the manager's responses on their diversity programs to be very disappointing. He stated that the response from Wedge was especially poor, as they failed to describe any efforts to attract more qualified minority candidates. The Director reported that Chamblin-Foster had also been disappointed, and requested that managers include more formal, written information.

Ghazarian stated that Segal has finished their analysis of the infrastructure and high yield proposals. Segal is also working on looking for a new timber manager, but has found very few who are raising new funds.

Ghazarian stated that PRIT has been somewhat slow to call the funds committed to the private equity fund. They have now called $600,000 out of $40 million committed. Ghazarian stated that he would have Donna Rosequist consult with PRIT to see if they are making fewer investments than anticipated. If PRIT is unable to invest a significant portion of Cambridge's 2015 commitment, the Board should consider increasing its commitment for 2016. The Director stated that the Board would have to indicate a commitment amount by late fall.

Monagle moved to adjourn at 3:30 pm.