Minutes of the meeting held on March 1, 2023

Present: Francis Murphy - Chair, Michael Gardner, John Shinkwin, Joseph McCann, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Absent: Nadia Chamblin-Foster

The meeting was called to order at 11:01 AM. The meeting was digitally recorded. This was a hybrid meeting, held in-person in the Sheila Tobin Conference Room at 125 CambridgePark Drive, with some participants joining via Webex videoconference.

Agenda Item # 1 – 2022 Performance Review
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending December 31, 2022. Most asset classes posted strong returns in the fourth quarter but returns for the full year were still down sharply. Real Estate was the only asset class to show positive returns. Returns in January 2023 were mainly positive.

Ghazarian reviewed the system's current asset allocation. As of December 31, the system was overallocated to private equity, with that sleeve now making up 16% of the portfolio vs. the target allocation of 12%. The equity sleeve is now 3% short of its target. Ghazarian stated that he was not concerned with the allocation to private equity, as the system is able to maintain sufficient cash flow from other accounts in order to pay benefits. He also noted that the system will allocate less money to private equity funds in future years in order to bring down the allocation.

Reviewing Cambridge's returns in 2022, the total fund was valued at $1.629 billion, representing a gain of 4.5% in the last quarter. For the full year, the fund returned -10.6%, which outperformed the policy index return of -10.8%. Ghazarian noted that Loomis has underperformed, now returning 1.7% annually over the trailing five years, vs. the benchmark at 2.3%.

Ghazarian discussed the process of insuring adequate cash flow for the system's payroll needs. Typically, the fund requires about $9 million monthly. Segal reviews the fund's allocation to determine which managers are overallocated and can be drawn down. Segal also considers each fund's liquidity policies. Some funds can be drawn down in a matter of days, while others offer redemptions only on a monthly or quarterly basis. To account for this, Segal will plan out redemptions several months in advance. Segal uses a similar process when appropriation payments are received. They will make a recommendation as to which managers should have additional funds allocated to them.

Ghazarian reported that he would prepare a schedule for RFPs which must be issued in 2023. He noted that it should not be necessary to issue an RFP for the IFM infrastructure fund, as it was reviewed as recently as 2019. New accounts with Acadian and RBC should be funded by April 1.

Alexandra Eckles represented RBC Global Asset Management. A written portfolio review was submitted to the Board. There have been no changes to the investment strategy or portfolio management over the last year. Eckles reported that Bernard Horn has no plans to retire. In the event he did leave the firm, he is well-supported, with any of three portfolio managers qualified to step into his role. In 2021, the fund underperformed the benchmark, returning -15.1% net of fees, vs. the MSCI-EAFE Index at -14.01%. The fund has outperformed over the longer term. The fund is now overweighted to consumer discretionary stocks and holds a zero weight to energy and utilities. She noted that China has abandoned its "zero COVID" policy but has still been hurt by supply bottlenecks. The fund expects that there will be further interest rate increases in an effort to bring down the rate of inflation. The firm does not expect a major recession. Gardner asked if the underweight to energy hurt performance and Eckles confirmed that it did. She stated that the fund still finds many energy stocks to be overpriced and not worth buying. Ghazarian noted that the total value of the Cambridge fund and recent additions and redemptions were not included in the presentation. He asked that this information be forwarded. Gardner noted that the fund is significantly underweight in Japan. Eckles stated that she would have to get more information from the portfolio managers as to the rationale for that position. Burns asked about the overweight position in China in light of deteriorating relations between China and the United States. Eckles responded that the firm reviews each holding on a case-by-case basis, focused on the fundamentals of each firm. Eckles stated that the fund has no holdings of Russian companies.

Teresa Woo and David Zielinski represented Loomis Sayles. A written portfolio review was submitted to the Board. There have been no changes to the portfolio team or investment strategy. Ghazarian reviewed the decision to hire Loomis. He noted that they had been selected to replace MacKay Shields. He noted that the high yield asset class was very difficult to replicate in an index fund, and that if Cambridge did try to hire an index fund, the management fee would likely not be significantly lower. He stated that he expected that Loomis' performance would improve once the economy enters a more favorable situation. Loomis now holds $282 billion in assets under management, which is down 22% over the last year. The fund has seen some recovery in January, with about $10 billion in expected inflows from investors. The firm has hired Colleen Denzler to be Head of ESG. Woo noted that has moved to incorporate more ESG factors into their research process. Woo described the firm's mentorship and internship program. Zielinski reviewed the high yield portfolio. He noted that one investment director, Fred Sweeney, has retired. Over the last year, the portfolio returned -11.86% net of fees, vs. the BARC High Yield Index at -11.18%. Zielinski stated that the portfolio was not prepared for the aggressive moves to hike interest rates in 2022. He stated that while the firm expected some increase, the Fed moved very aggressively after the Russian invasion of Ukraine to raise rates and fight inflation. Sweeney stated that the main reason for the underperformance was issue selection. Two of the biggest detractors were CSC Holdings and DISH Network. CSC is in the process of building out a broadband network, and Loomis maintains strong confidence in the firm. DISH Network has invested $5 billion in buying up wireless spectrum in order to build out a 5G network. Again, Loomis feels the firm is undervalued and intends to hold the bonds. T-Mobile and Morgan Stanley were among the top performers over the last year. The fund also saw good returns from Ford Motor Company and Kraft Heinz. Both bonds are fallen angels, which Loomis bought after they were downgraded from investment grade to junk status. Looking ahead, the firm sees a likelihood of very slow growth, or a mild recession. The firm has moved to shift some of the portfolio into investment grade bonds. Gardner asked how the firm might go about detecting a corporate fraud similar to FTX. Zielinski noted that much of their research focuses on fundamental aspects of each business they invest in, and making sure that their balance sheet appears legitimate. He stated that continued high inflation would be the most significant threat to the portfolio.

Brian Drainville, Earl McKennon and Melissa Moesman represented Fidelity Institutional Asset Management. A written portfolio report was submitted to the Board.
Drainville reviewed the Emerging Markets Debt strategy. There have been no changes to the portfolio management team, or investment strategy over the last year. Over the last year, the portfolio returned -14.78% vs. the benchmark at -15.93. Drainville stated that he was pleased by the outperformance although the absolute return was obviously disappointing. In 2022, the average yield within Emerging Markets went from 5% to over 8%. This was primarily due to

interest rate increases, although the spread for emerging markets also increased as investors became more risk-adverse. The portfolio did outperform the benchmark because they were positioned for a significant rise in interest rates. The portfolio was also underweight to Russia in the start of 2022. Since the Ukraine invasion, all major indices have removed Russia from their holdings. Finally, the fund had an overweight exposure to energy, which was helped by higher oil prices. The fund was hurt by an underweight position in China, although Drainville stated that he still feels that Chinese bonds do not offer good value. Looking ahead, the portfolio has lengthened durations, feeling that there will not be significant interest rate increases going forward.
McKennon reviewed the fixed income portfolio. There have been no changes to the portfolio management team, or investment strategy over the last year. Over the last year, the portfolio returned -12.92% net of fees vs. the Barclays US Aggregate at -13.01%. He noted that everything in the portfolio is investment grade, US Dollar-denominated bonds. As with the emerging markets portfolio, the fixed income portfolio was able to outperform the benchmark because they had shorter durations and were not hurt as much as their peers by the rise in interest rates. Looking ahead, McKennon stated there was a good likelihood of a mild recession before the end of 2023, but there could still be one or two interest rate increases before that. At present the fund holds 29.9% US Treasuries vs. the index at 40.6%. The portfolio's average duration is now tightly correlated with the benchmark. Gardner noted that the fund currently holds no TIPS bonds. McKennon stated that the fund has held TIPS as recently as 2020, but he has not found them to be attractively priced over the last few years.

Mike Sheldon and Sarah Spencer represented Income Research & Management. A written portfolio report was submitted to the Board. There have been no changes to the portfolio management or strategy over the last year. Spencer stated that Sue Brengle has been hired as Head of Client Relationships. O'Connell reviewed the firm's hiring practices, noting that IRM has increased its hiring of racial minorities in each of the last four years, and conducting training around unconscious bias. Over the last year, the fund returned -13.79 % net of fees, vs. the benchmark at -13.58%. Sheldon stated that he was disappointed in the last year of performance but was excited by the portfolio's positioning, maximizing yield to take advantage of higher interest rates. In the last year, the yield has increased from 1.89% to 5.08%. The portfolio has a significant underweight to government bonds, and an overweight to securitized bonds. Sheldon noted that consumer spending has been very strong and repayments on home and auto loans have not seen significant defaults, which he credited to a continued strong job market.

Denise D'Entremont and Julie Lind represented RhumbLine. A written portfolio report was submitted to the Board. Rhumbline now manages two index portfolios for Cambridge, the Russell 1000 Pooled Index Fund and the MSCI EAFE Pooled Index Fund. The Russell 1000 has returned -8.54% in the last year, and 11.96% annually since inception. Cambridge currently invests $312 million in this fund, which comprises 14% of the total portfolio. The Saugus Retirement System and Lexington Retirement System are also investors in the same fund. Lind noted that half of the brokers used for trading are diverse firms. The fund has been able to limit commissions to 0.6 cents per share. The EAFE fund has returned -2.58% over the last year and 4.83% annually since inception. Cambridge has $136 million invested in this fund. RhumbLine now has 17 investors in this fund, with Cambridge as the largest single investor, comprising 32% of the fund value. Ghazarian stated he was not concerned about Cambridge having such an outsized role in the portfolio, although he might feel differently about an active manager. Lind stated that RhumbLine has launched a new fund, which invests in short-term treasury bonds at a lower fee than other fixed income managers.

Gardner noted that Loomis seems to have benefitted from a very high position in cash and US Treasuries, which was one of the few bright spots in their performance. Ghazarian stated that holding a certain amount of the portfolio in cash was typical for a fixed income manager, and that it allowed them to position themselves to buy when attractive opportunities appear.

McCann moved to adjourn at 2:25 PM.