

## Minutes of the meeting held on March 2, 2015

Present: Francis Murphy - Chairman, Jim Monagle, Nadia Chamblin-Foster, John Shinkwin, Ellen Philbin, Louis Depasquale, Rafik Ghazarian, Attorney James Quirk and Chris Burns.

Absent: Michael Gardner

The meeting was called to order at 2:02 PM. The meeting was digitally recorded.

### **Agenda Item # 1 – Segal Rogerscasey**

The Board reviewed a written analysis of investment performance for the period ending December 31, 2014. The most recent quarter saw strong performance in the domestic markets, with some losses in international funds and commodities. Ghazarian reviewed the asset allocation schedule, and noted that the system is still in the process rebalancing to the new allocation strategy and funding new managers. Overall, the total fund was valued at \$1.093 billion, representing a gain of 2.58% during the quarter. The fund performed in-line with the policy index return of 2.54%. Over the calendar year, the fund returned 6.6%, which underperformed the policy index of 7.01%. In the domestic equity sleeve, the fund saw significant underperformance from MFS and Columbia over the last year. The international equity sleeve was also a detractor from performance, as the entire sector experienced losses. Ghazarian noted that RBC Capital did outperform the EAFE Value Index. There were also losses in the emerging markets equity sleeve, with Lazard underperforming its benchmark. In the fixed income sleeves, all managers outperformed their index. Real estate also generated strong returns.

Ghazarian reviewed a chart comparing Cambridge's performance to PRIT. Over the last year, the PRIT fund returned 8.15%. Ghazarian attributed this primarily to strong performance in their alternatives segment, and also due to their move to index funds. Although PRIT had higher returns over the last year, the chart shows that Cambridge has generated higher returns over the last seven years.

Ghazarian stated that in the first quarter of 2015, the fund has generated largely flat returns in January, and stronger returns in February.

The Board reviewed the analysis of the Emerging Markets Debt manager proposals, and educational materials prepared by SegalRogerscasey on the EMD asset class. Ghazarian noted that the proposals take different approaches to buying bonds. Some candidates invest only in local currency, others invest in dollar-denominated (hard) bonds, and some managers take a blended approach. 23 candidates submitted responses to the RFP. Segal eliminated two candidates (HSBC and MFS) who did not certify their adherence to PERAC regulations. Ghazarian added that he was somewhat concerned by MFS' response, although they did certify their compliance at the time that the Board invested in their large cap fund. In evaluating the remaining candidates, Segal recommended interviewing four managers. They are BlueBay Asset Management, Stone Harbor Investment Partners (both blended), Wellington Trust Company (local currency) and Pyramis Global Advisors (hard currency). Ghazarian stated that Segal does recommend adopting a blended approach, either by hiring one of the blended managers, or both Wellington and Pyramis. Ghazarian also stated that Segal did not have complete information on the Alliance Bernstein product. He stated that their returns appear to be good, and that if the Board wished to interview an additional candidate, that he could have his research group review them more closely.

Ghazarian noted that the reasons for eliminating the other candidates are detailed in their report. Segal identified one minority-owned firm that submitted a response to the RFP, Payden & Rygel. This firm was eliminated due to weaker performance and higher volatility vs. their peers. Motion by Shinkwin, seconded by Monagle to interview the four managers recommended by Segal Rogerscasey. Voted unanimously.

Chamblin-Foster asked that Segal include a page in their report showing what percentage of assets are currently invested with minority-owned firms.

#### **Agenda Item #2 – State Street Global Advisors**

Gregory Balewicz and Derek Lightburn represented State Street Global Advisors. A written portfolio report was submitted to the Board. There have been no significant changes at SSgA. State Street now manages approximately \$255 million for the Cambridge Retirement Board, across three funds. Cambridge is presently invested in an S&P 500 index, MSCI EAFE index, and Russell 2500 index. Lightburn discussed the system's contributions and redemptions over the last year, and noted State Street's ability to minimize trading costs. Returns in the S&P 500 and Russell 2500 funds have been very strong over the last year, while the EAFE fund was flat. All three funds had minimal tracking error.

#### **Agenda Item #3 – Pyramis Global Advisors**

Earl McKennon and Jim Zadrozny represented Pyramis. A written portfolio report was submitted to the Board. There have been no changes to the portfolio management team, or investment strategy over the last year. The portfolio continues to outperform across all time periods. Over the last year, the portfolio returned 7.07% vs. the Barclays US Aggregate at 6.61%. McKennon characterized the portfolio as maintaining a defensive posture. The portfolio retains a duration-neutral position. US Treasuries now make up 22% of the fund. Historically, the fund has held as low as 5% holdings of Treasuries. The portfolio is overweight in corporate bonds, particularly in the financial sector, which was a significant driver of performance.

#### **Agenda Item #4 – MFS Investment Management**

Kate Mead, Gary Hampton and Paul Garbe represented MFS. A written portfolio report was submitted to the Board. Garbe reviewed the firm's current succession planning and various changes at the C-level. There have been no changes to the portfolio management or strategy. Returns in 2014 ran well behind the benchmark, with the fund returning 10.8% vs. the Russell 1000 Value Index at 13.5%. Hampton reviewed the structure of the portfolio, noting that the average holding for a stock is seven years and emphasizing the firm's long-term approach. He attributed the underperformance in 2014 to strong performance by REITs, technology stocks and utilities, all areas where MFS is underweighted. The fund avoided some struggles in the energy stocks, as the decision to underweight GE and Exxon avoided some losses. The fund continues to see strong returns from the holding of Lockheed Martin, but has further trimmed the holding as the price has risen. Mead stated that the firm is comfortable with their current positioning. She noted that the firm has generally underweighted technology stocks, due to the short product cycles which make it difficult to assess long-term potential. She also stated that the fund has generally underperformed during strong equity rallies, as was the case in 2014. Mead emphasized the portfolio's ability to provide downside protection by using a disciplined approach to sell when a stock rises significantly. The fund has made a number of purchases in the financial sector. US Bancorp now constitutes 2% of the portfolio. Mead stated that 2014 has been a poor year for most active managers in this segment, with the Russell 1000 Value outperforming 91% of managers. She stated that this could be attributed to high correlation in the equity market, with all stocks moving together, which leaves little room for active managers to differentiate from the index.

#### **Agenda Item #5 – Income Research & Management**

Matt Drasser and Jim Gubitosi represented Income Research & Management. A written portfolio report was submitted to the Board. Drasser stated that there have been no changes to the management of the firm or the portfolio team. The portfolio has outperformed the benchmark across all time periods, both on a relative and absolute basis. In 2014, the portfolio returned 6.93% vs. the Barclays G/C Index at 6.01%. Drasser credited the firm's security

selection with driving performance. Holdings in the securitized sector remain high at 24% of the portfolio. This area was another driver of returns of the last year, as riskier assets significantly outperformed Treasuries. The portfolio is significantly underweight to Treasuries. They make up 20% of the portfolio, vs. the index at 52%. The portfolio is overweighted to utilities and CMBS. Gubitosi stated that it has been the policy of the firm to take a neutral view of average duration in the portfolio, due to the difficulty of predicting future interest rates.

#### **Agenda Item #6 – RhumbLine Advisers**

Wayne Owen and Julie Lind represented RhumbLine Advisers. A written portfolio report was submitted to the Board. Owen reminded the Board that RhumbLine manages the Russell 1000 Growth index fund. The account was funded on September 1, 2014 following the termination of Fred Alger. There have been no changes at the firm since they were hired. As of February 28, 2015, the fund has returned 8.45% since inception. RhumbLine runs a full replication of the index, with minimal tracking error. Lind reviewed the composition of the index, and sector weightings. She also reviewed trading costs, noting that the average commission is 1.3 cents per share.

Ghazarian reviewed a potential schedule for upcoming RFPs. He noted that responses have now been received for the International Equity and Emerging Markets Equity managers. He stated that Segal was currently working on their analysis of those candidates.

Segal plans to issue two RFPs on March 16, for Infrastructure and Large Cap Value. Ghazarian stated that, after consulting with the Director, he moved up the date of the Large Cap Value RFP due to the recent poor performance from MFS. Ghazarian requested guidance from the Board as to whether to issue a search for an active manager, passive manager, or both, in the Large Cap Value space. He stated that a request for active managers would likely generate at least fifty responses, and that the vast majority of active managers would not have beaten the index over the last few years. Motion by Monagle, seconded by Chamblin-Foster to instruct Segal Rogerscasey to seek only passive managers in the Large Cap Value space. Voted unanimously. Ghazarian added that he would recommend that the Board continue to maintain separate allocations to the Russell 1000 Growth and Value indices.

The Board agreed to schedule a meeting to interview the Emerging Markets Debt candidates at the Segal office at 116 Huntington Avenue on April 21 at 11:00 am.

#### **Agenda Item #7 – Minutes**

Motion by Chamblin-Foster, seconded by Monagle to accept the regular minutes of the meeting held on February 17, 2015. Voted unanimously

Motion by Monagle, seconded by Chamblin-Foster to accept the executive session minutes of the meeting held on February 17, 2015. Voted unanimously.

#### **Agenda Item #8 - Warrant**

Motion by Shinkwin, seconded by Monagle to accept payment of warrant #4 in the amount of \$5,897,153.92 and Warrant #5 in the amount of \$785,905.07. Voted unanimously.

#### **Agenda Item #9 – Superannuations**

Motion by Chamblin-Foster, seconded by Shinkwin to accept the superannuation retirement applications submitted by Clifton Adamson, Custodian, School Dept. with eighteen years eight months, Frank Alfano, Laborer, Dept. of Public Works with fourteen years seven months, Sarah S. Boyer, Oral History Project Coordinator, Historical Commission with seventeen years two months, Gregory M. Carter, Fire Captain/Paramedic, Fire Dept. with thirty years, Philip Gianatasio, Driver, Dept. of Public Works with twenty-six years five months, Darlene Lynch, RN, Cambridge Health Alliance with thirty-one years eleven months and Stephen A. Vesce,

Director of Veterans Services, Veterans Office with twenty-nine years three months. Voted unanimously.

**Agenda Item #10 – Redeposits / Make up / Liability**

The Board reviewed make-up and redeposit worksheets for three members.

Motion by Shinkwin, seconded by Chamblin-Foster to allow the make-up of contributions requested by Aral Lecorps, 10 months, Michael N. Wyche, 9 months (pro-rated), to allow the redeposit of refunds requested by Mary Ellen McCarthy, 8 years. Voted unanimously.

**Agenda Item #11 – Refund Applications**

The Board reviewed a list of refund applications received in February 2015.

Motion by Chamblin-Foster, seconded by Monagle to accept two refund applications. Voted unanimously.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session at the conclusion of the executive session.

On a roll call, the vote was as follows:

Nadia Chamblin-Foster	YES
John Shinkwin:	YES
James Monagle:	YES
Francis Murphy:	YES

**Agenda Item #12 - Accidental Disability Application – Carol Cammon**

The Board reviewed the member’s application. Treating physician’s statement and employer’s statement pertaining to Carol Cammon’s Accidental Disability application.

Motion by Monagle, seconded by Chamblin-Foster to accept the Accidental Disability application filed by Carol Cammon, Registered Nurse at Cambridge Health Alliance and to request that PERAC convene a medical panel. Voted unanimously.

**Agenda Item #13 - 12 (2) (d) Benefit - Katherine C. Murphy**

The Board reviewed Brian Murphy’s death certificate, and the application for survivor benefits submitted by Katherine Murphy.

Motion by Chamblin-Foster, seconded by Monagle to grant survivor benefits pursuant to Sec. 12 (2) (d) to the surviving spouse of Brian P. Murphy, Assistant City Manager for Community Development. Voted unanimously.

**Agenda Item #14 – PERAC Memos**

The Board reviewed PERAC Memo #8.

Quirk stated that the decision of the Superior Court would seem to place the burden on affected to members to apply to have their benefits reinstated. The Director stated that she does not have any records of which retirees had their benefits terminated due to remarriage.

**Agenda Item #15 - Old Business**

Quirk stated that he has been in touch with Garrett Bradley regarding the securities case involving Diamond International Resorts. In order to continue as a party to the suit, Cambridge must retain ownership of their shares. Motion by Monagle, seconded by Shinkwin to amend the investment guidelines to authorize the continued holding of the shares. Voted unanimously.

The Director stated that the contract with Lexington Investment Partners is ready for the Board to sign.

**Agenda Item #16 - New Business**

Quirk reviewed his brief in a case involving a Boston Police Officer who applied for Accidental Disability benefits. The benefit was denied, with the magistrate finding that a police officer who is injured while working a paid detail cannot be considered to be in the performance of her regular duties, and would be ineligible for Accidental Disability benefits. Quirk stated that this would have a tremendous impact if the decision is upheld.

The Director stated that she received notification from PERAC of a City employee who has been arrested. She stated that she will make a note in his file, but no immediate action is required as he has not been convicted, nor has he applied for any benefits.

**Agenda Item #17 - Executive Session**

Agenda Item #12 – adopted

Agenda Item #13 – adopted

**Agenda Item #18 - Chairman's Report**

Not needed.

**Agenda Item #19 - Executive Director's Report**

The Director reminded Board members to submit their financial disclosure statements to PERAC by May 1.

The Director reported that she has been appointed the Election Officer for the MWRA Retirement Board.

The following documents were also reviewed by the Board:

- Notice of Retiree Death.
- Correspondence from Attorney James H. Quirk re: Boston Police Department vs. Boston Retirement Board.

Monagle moved to adjourn at 6:10 PM.