Minutes of the meeting held on March 2, 2021

Present: Francis Murphy - Chair, Jim Monagle, Nadia Chamblin-Foster, David Kale, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Absent: John Shinkwin

The meeting was called to order at 11:00 AM. The meeting was digitally recorded.

Agenda Item # 1 – 2020 Performance Review
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending December 31, 2020. Markets recovered strongly in late 2020, making up all the losses from the early part of the year. US Equities were up 20.9%. International Equities were also strong, returning 7.8%. Real Estate was the worst performing asset class, returning on 1.2% over the year. Ghazarian noted the continuing gap between the performance of growth managers vs. value managers. In 2020, the Russell 1000 Growth index returned 38.49% vs the Russell 1000 Value index at 2.8%.

Ghazarian reviewed the system's current asset allocation. The system is now somewhat overallocated to equities as a result of that sleeve's strong performance. The system is underallocated to fixed income and real estate. Ghazarian stated that he would not recommend any moves to add more money to the real estate sleeve. He noted that this asset class has struggled in the post-COVID environment, and it remains unclear how much demand for retail and office space will fall. He reminded the Board that they had voted to cut the real estate allocation by 1% and to put the additional money into infrastructure. Ghazarain stated that he intended to conduct an asset allocation study later in the year, and that the study might call for additional cuts to the real estate target. Gardner requested that as part of the asset allocation study that the Cambridge Bancorp stock be moved into the equity sleeve.

Reviewing Cambridge's returns in 2020, the total fund was valued at $1.59 billion, representing a gain of 13.6% in the last quarter. For the full year, the fund returned 11.9%, which underperformed the policy index return of 13%. Lazard showed very poor performance over the last year, returning 0.4% in 2020, vs. the benchmark at 6%. Ghazarian stated that if the Board opts to terminate Lazard, they may wish to consider adopting a schedule to redistribute their holdings. Lazard now holds $67.3 million, which represents 4.2% of the portfolio. Ghazarian suggested that the Board may wish to draw those funds down in three tranches over a period of time. The Chairman stated that he would like to make a decision on Lazard after hearing from them at the next quarterly review. He also stated that he would like to have Segal prepare a recommendation as to where and when to redistribute those funds. Ghazarian stated that he would likely recommend that the funds be shifted into the Mellon EM index fund. He stated that he would be prepared to offer a more long-term recommendation once the asset allocation study is completed. Ghazarian reported that Segal does not use Lazard for their fully-managed accounts and that Segal currently rates this manager as "hold". Ghazarian also noted that the hedge fund portfolio significantly underperformed in 2020, returning 1.6% vs. benchmark at 10.4%.

Bernard Horn and Michael Schantz 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. Horn reviewed the performance of the portfolio. In 2019, the fund underperformed the benchmark, returning 3.54% net of fees, vs. the MSCI-EAFE Index at 8.28%. Horn noted that the last decade has seen growth stocks significantly outperform value stocks, but that RBC has managed to outperform in nine of the last eleven years despite that headwind. Horn described significant changes to the portfolio in January and February of 2020, as they cut back on holdings that they anticipated might be hurt by the pandemic. The portfolio held between 15-20% in cash during that period. The United Kingdom was the worst performing country, and all five of the portfolio's biggest detractors were in the UK. He noted that Greencore, a ready-to-eat food maker, was by more people working from home. The portfolio was also hurt by the holding of Cineworld as movie theaters were shut down. As the fund moved to cut back certain holdings, they added new companies, including Dometic Group, Antofagasta PLC and Zhongsheng Group, which were three of the best performing stocks in the portfolio. Zhongsheng and Dometic were cut back after reaching their price targets. Horn stated that he is looking to trim the portfolio back to 60-65 stocks. Horn described the continuing reasons for underweighting Japan. The country continues to have low-to-negative population growth and little innovation. The portfolio has an overweight toward the Industrials and Materials sectors. Horn noted that many materials firms hold significant pricing powers as very little new capacity has been added over the last ten years. Looking ahead, Horn stated that he was watching the travel industry closely as there could be excellent values there as the industry begins to rebound. He also noted that surviving companies would be in a better position as competitors go out of business. He noted that RBC still holds Cineworld stock, as they feel that they will be well positioned as people start going to movies again.

Michael Finocchi and Todd Vandam represented Loomis Sayles. A written portfolio review was submitted to the Board. There have been no changes to the portfolio team or investment strategy. Finocchi reported that Loomis continues to operate remotely, although about 2% of employees have started working in their offices. He stated that it was likely that the firm would give up some portion of their office space. The firm continues to grow, and now has $347 billion in assets under management. In the last year, the firm hired Marques Benton as Chief Diversity & Inclusion Officer. Over the last year, the portfolio returned 7.6% net of fees, vs. the BARC High Yield Index at 7.05%. The firm moved to take up more risk in the portfolio, adding credits that had been hurt by the pandemic, but seemed to be likely survivors. Consumer Cyclicals were the best performing sector. Communications also performed well, with Vandam noting the firm had overweighted cable providers. Those firms performed well as people moved to upgrade their home networks to allow remote work. The firm had an underweight to the Transportation sector and was able to avoid losses when Hertz declared bankruptcy. The best performing credit in the portfolio was General Motors. Vandam noted that although the rating on the bond had declined, it never actually fell below investment grade. Looking ahead, the firm will move to de-risk slightly. Loomis now holds about 5.8% of the portfolio in investment grade bonds. The portfolio's average duration is 4.27 years vs. the benchmark at 3.49 years. Vandam stated that the fund had moved to reduce their duration as a hedge against rising interest rates. Vandam noted an error in the report listing the number of securities in the portfolio and offered to report back with a correction.

Brian Drainville, Earl McKennon and Sarah Weddleton represented Fidelity Institutional Asset Management. A written portfolio report was submitted to the Board.
Drainville reviewed the Emerging Markets Debt strategy. One portfolio manager retired within the last year, and a replacement was hired. There were no other changes to the portfolio management or strategy. He noted that at the start of 2020, the portfolio was positioned with an overweight toward the lower-quality segment of the market. Drainville said that lower-quality securities have tended to outperform in the Emerging Markets space. However, in 2020, higher quality assets outperformed. The portfolio was overweight in Lebanon and Argentina bonds, both of which experienced defaults. Bonds from Ecuador and the Dominican Republic performed well. The portfolio was also hurt by an underweight position to China and Indonesia, both of which performed well. In the last year, the fund returned 0.17% vs. the benchmark at 2.81%. Presently, the portfolio holds overweights to Mexico, Turkey, Russia and Brazil. Drainville stated that the portfolio hade the decision to maintain shorter durations than the benchmark in anticipation of higher interest rates. He stated that the environment for EMD remains difficult, and he anticipated low returns in 2021. The portfolio experienced a small gain from currency effects, though Drainville stated that currency

was not intended to be a driver of returns. Drainville discussed investments in Brazil. He stated that most of the holdings are corporate bonds, which are positioned to perform well due to strong domestic demand.
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 7.6% net of fees vs. the Barclays US Aggregate at 4.72%. The portfolio has a strong record of outperformance since inception. He reviewed activity in the portfolio over the last year. He noted that in late March 2020, credit spreads were as wide as at any time since 2008. The portfolio was positioned to be able to pick up bonds at very attractive valuations. McKennon stated that markets have reacted positively to the election of President Biden, due to hopes for a large fiscal stimulus. At present the fund holds 20.5% US Treasuries vs. the index at 36.9%. This represents a substantial reduction from the position one year ago. The portfolio continues to keep average duration tightly correlated with the benchmark. The portfolio now has a significant overweight to corporate bonds. McKennon reminded the Board that the fund invests almost exclusively in investment-grade bonds with little risk of default. He noted that defaults have been rising in the high-yield space and should peak within the next three months. The portfolio now holds 5.18% in TIPS bonds. McKennon stated that given the likelihood of significant fiscal stimulus and pent-up consumer demand, there is a possibility of rising inflation later in the year.

Brian Giuliano and John Nelson represented Brandywine. A written portfolio report was submitted to the Board. Nelson reported on the acquisition by Franklin Templeton, which closed in July. Brandywine remains an independent affiliate, operating with complete autonomy. Nelson stated that one of the portfolio managers, Stephen S. Smith, retired at the end of 2020. He stated that the change was planned and Anujeet Sareen would take over many of his functions. Nelson reported that assets under management fell in 2020 with about $15 billion in net outflow. This was mainly caused by portfolio trims and rebalancing following the equity selloff in March. There were also a number of portfolio terminations, although Nelson attributed this to strategy changes rather than concerns about performance. Nelson stated that Brandywine launched a Diversity and Inclusion council in June 2020. Over the last year, the portfolio returned 8.5% net of fees, which underperformed the benchmark return of 10.78%. Giuliano stated that the portfolio has a policy not to own any negative-yielding bonds. The index does hold such bonds from Germany and Japan, which performed well as yields fell further into the negative. The Brandywine portfolio has performed well in the first quarter of 2021as economies in the G-7 countries have reopened. The portfolio now holds no G-7 sovereign debt. Performance was driven by Emerging Markets, with Mexico, Chile, Brazil and Indonesia showing strong returns. Currency hurt the portfolio as underweight positions to the Euro and Yen cost about 450 basis points of returns. Ghazarian noted that the portfolio operates as an International Fixed Income manager, not restricted to developed markets, and they are permitted to invest opportunistically in emerging markets. The portfolio now has a large overweight position to the British Pound Sterling, with Giuliano noting that the currency has fallen sharply due to Brexit and now appears undervalued.

Matt O'Connell and Mike Sheldon represented Income Research & Management. A written portfolio report was submitted to the Board. The staff is continuing to work from home, with no firm plans to move back into their office. Matt Drasser left the firm, and O'Connell has taken over his role. Over the last year, the fund returned 9.77% net of fees, vs. the benchmark at 8.93%. O'Connell stated that the fund was able to take advantage of buying opportunities following the March 2020 volatility, and that returns were driven by falling interest rates. Sheldon reviewed the composition of the portfolio. In early 2020, the portfolio moved to add more risk, cutting the allocation to treasuries and buying up more corporates. The fund is now moving to de-risk and is cutting back exposure to the transportation sector. He noted that the airline industry has recovered somewhat and it appeared to be an opportune time to lock in gains. He also noted that as spreads have widened between BBB rated bonds and Treasuries, the fund opted to reduce exposure to the lowest-rated bonds in the portfolio. Sheldon discussed the holding of Agency RMBS. He noted that the portfolio has typically not held such securities, although they now constitute 5.7% of the portfolio. He noted the risk of holding them due to refinance activity, however IRM has opted to buy due to the attractive valuation. Looking ahead, Sheldon stated that he did not anticipate the kind of weakness that the markets saw in Spring 2020. He noted that the Fed appeared positioned to restart lending programs if the economy were to stall. O'Connell stated that given those conditions, it was unlikely that the portfolio would continue to show 9-10% returns.

Denise D'Entremont and Jeff Kusmierz represented RhumbLine. A written portfolio report was submitted to the Board. Kusmierz reviewed recent allocation changes and the performance of the portfolio. RhumbLine now manages funds held in the Russell 1000 fund, resulting from the combining of two other mandates in October 2019. RhumbLine also manages an MSCI EAFE Index fund, since November 2019. This replaced a similar fund managed by State Street. The Russell 1000 has returned 19.82% in the last year, and 23.43% since inception. He reviewed the firms in the portfolio, noting that four companies now have over $1 trillion in market capitalization. The index is somewhat top heavy, with the top ten firms making up nearly 25% of value, and the top 100 firms making up 88% of the value. The EAFE fund has returned 9.04% since inception. RhumbLine now has 15 investors in this fund, with Cambridge as the largest single investor. Kusmierz noted that RhumbLine holds an ETF in each fund in order to smooth transactions. That aside, each portfolio is a full replication of the index. The EAFE index is mush less top-heavy, with the top ten firms comprising only 11.75% of the fund value. He also reminded the Board that the EAFE index has no exposure to Emerging Markets. 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. The Chairman asked about how the firm might notify clients about legal issues involving one of their holdings. Kusmierz stated that RhumbLine has exposure to over 4000 stocks and does not notify investors about various legal issues they may be involved with, and their contracts do not require them to do so. He did note that in some cases firms with legal problems might be removed from the benchmark.

Ghazarian reported on Segal's adjustment to the pandemic. He stated that Segal would be moving to a new office in the same building and reducing their footprint by 50% as the company shifts to allowing more employees to work from home on a permanent basis. He noted that as more companies make similar adjustments, there could be serious implications for commercial real estate. He stated that Segal remains neutral-to-optimistic on timber investments, as demand for timber for construction appears to be stable.

Monagle moved to adjourn at 2:50 PM.