Minutes of the meeting held on March 3, 2016

Present: Francis Murphy - Chair, Jim Monagle, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, Ellen Philbin, Rafik Ghazarian, Chris Burns and Christopher McLaughlin.

The meeting was called to order at 11:02 AM. The meeting was digitally recorded.

Agenda Item # 1 – 2015 Performance Review
Ghazarian reviewed Segal Rogerscasey's written analysis of investment performance for the period ending December 31, 2015. Over the last year, the equity markets have not performed well, with significant losses in the emerging markets sector. Fixed income was mostly flat, with losses in the International fixed income market. Real Estate and Private Equity performed very well. Hedge Funds had small losses.

Ghazarian reviewed the system's current asset allocation. The system remains significantly overweighted to equities, but some of these funds will be drawn down as new managers are funded. The contract with Aberdeen has been finalized, and this manager should be funded within a week. The system also remains underweighted to Private Equity. Ghazarian stated that the system has made a commitment to invest $40 million with the PRIT 2016 vintage private equity fund, although it would likely take at least four years to completely draw down this commitment. Monagle noted that the system was overweight to equities in a year in which they performed poorly. He asked if it would be possible for Segal to perform an analysis of what the return would have been if the system were in line with the target allocation. The Chairman noted the difficulty of such a calculation, given the need to assume a particular date for the transaction, and not knowing the performance of the manager who would have taken over the funds.

Overall, the Total Fund was valued at $1.074 billion, representing a gain of 2.59% during the quarter. The fund underperformed with the policy index return of 3.32%. Over the full year, the fund returned -0.36% vs. the policy index at 0.45%. Ghazarian noted that this number does not include returns from some of the real estate and secondary funds, which may push the return slightly higher. Over the last year, the fund has seen poor returns from Columbia, Lazard and Brandywine. All of these managers have significantly underperformed in 2015. The Hedge Fund sleeve also underperformed their benchmark. Ghazarian stated that Segal still believes that this asset class will show stronger returns in a rising interest rate environment. Ghazarain reviewed a chart showing the overall performance of the entire private equity program. Since 1995, the system's private equity investments have a net IRR of 12.69%.

Ghazarian reviewed a written recommendation of proposed actions to bring the portfolio closer to target allocations. He stated he would recommend taking the following actions immediately:

- Transfer the large cap value fund managed by MFS to the Rhumbline Russell 1000 Value Index
- Transfer the small cap fund managed by Columbia to Aberdeen Emerging Market Equity
- Reduce the SSgA Small/Mid Cap Growth Index by $40 million, then transferring $10 million to the Russell 1000 Value Index and $15 million to each of the Emerging Markets Debt managers, Pyramis and Wellington

He stated that he would also recommend that the Board consider these other actions in the near future:

- Combine SSgA Small Cap Growth fund and Wedge Capital Mid-Cap value fund to a passive Small/Mid Cap Core Index portfolio such as Russell 2500
- Transfer the assets from S&P 500 Index fund managed by SSgA to Rhumbline Russell 1000 Value and Russell 1000 Growth Indexes

Ghazarian stated that these changes would result in a more streamlined portfolio, with fewer managers to track, and save on management fees.

Gregory Balewicz represented State Street Global Advisors. A written portfolio report was submitted to the Board. State Street now manages approximately $210 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 Growth index. The S&P 500 fund and EAFE fund are both non-lending accounts. Balewicz stated that SSgA does not typically charge a higher fee for investing in a lending fund. Ghazarian stated that there was additional risk in using a securities lending account, and that the system has opted to invest only in non-lending accounts. Balewicz 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 were flat, while the EAFE and Russell 2500 funds experienced losses. All three funds had minimal tracking error. Gardner requested that Balewicz provide information on how the returns of an equal-weighted index compare to the current S&P 500 fund. Balewicz discussed State Street's commitment to hiring a diverse workforce. He also noted that the firm plans to launch a new investment product, focused on companies with strong track records on diversity. He stated he would be free to provide more details once the product is publically announced. Chamblin-Foster requested that Balewicz provide more information on this product, as well as on their training and recruitment programs. Balewicz reviewed changes in the firm's management, with Ronald O'Hanley taking the role of President and CEO. There have been no changes to the management of Cambridge's portfolio. Balewicz also reported that State Street Bank settled a case with the SEC involving a former employee who made illegal contributions to a political campaign.

Earl McKennon, Mark Botelho and Jim Zadrozny represented Fidelity Institutional Asset Management. 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. Over the last year, the portfolio returned -1.04% vs. the Barclays US Aggregate at -0.16%. The last year has seen significant volatility in the fixed income market. McKennon noted that much of this can be attributed to inconsistent central bank moves, as European banks have been easing while US and emerging market central banks have been tightening. US yields remain higher than those in other developed markets. The portfolio continues to overweight corporate bonds, and has added to this sector over the last year. Corporates now comprise 47% of the portfolio. US Treasuries now make up only 9% of the fund. The portfolio retains a duration-neutral position. McKennon noted that the portfolio has benefited from this strategy, as rates have not risen as was predicted over the last year. McKennon stated that the default rate for investment-grade bonds is very low, typically a few basis points annually. Ghazarian asked about the portfolio's exposure to oil exploration and fracking. Fidelity has increased its holdings of energy companies, from 1% to about 4% of the portfolio. McKennon stated that he felt that low oil prices were unsustainable, and would rise over the next three years. Zadrozny distributed written information on the firm's diversity practices, which were not included in the presentation books.

Carolyn Lucey represented MFS. A written portfolio report was submitted to the Board. Lucey stated that she was sad to hear that the system planned to terminate the mandate. She thanked the Board for their business over the last fifteen years. The last year saw poor returns across the equity markets, but Lucey stated that she was pleased that the MFP portfolio was able to provide some downside protection. The portfolio returned -0.54% vs. the index at -3.83%. Being underweighted to the energy sector was a strong driver of performance. Lucey stated that MFS intends to assist the Board in making a smooth transition to the new manager. Gardner noted that the fund does seem to have been well-positioned to outperform in a down market. Lucey stated that the firm was offering a new value product, aiming for reduced volatility.

Matt Drasser, Katy Galford and Kara Maloy represented Income Research & Management. A written portfolio report was submitted to the Board. Drasser stated that there have been no significant changes to the management of the firm or the portfolio team. The firm has 156 employees, of whom 43 have an equity stake in the company. The portfolio underperformed the index slightly over the last year, but has outperformed across longer time periods. Galford noted that the corporate market has underperformed treasuries over the last few months. Drasser reviewed the current composition of the portfolio. Average yield in the portfolio is 2.82% vs. the index at 2.28%. This is achieved with little sacrifice in quality. Nearly half the portfolio consists of AAA rated bonds. Drasser stated that is 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. The portfolio is underweight to Treasuries, but also has significant holdings of SBA loans. Holdings in the securitized sector remain high at 20% of the portfolio. Galford stated that she felt that rating agencies were more diligent about evaluating issues in the securitized sector. She also stated that IRM performs its own analysis before buying anything. Drasser stated that IRM has never experienced a principal loss in this sector.

Wayne Owen, Denise D'Entremont and Julie Lind represented RhumbLine. A written portfolio report was submitted to the Board. There have been no changes to the portfolio management over the last year. The firm remains 100% employee-owned, divided between twelve employees. RhumbLine currently manages the Russell 1000 Growth index fund. In 2015, the index returned 5.67%, with no tracking error. The portfolio has seen losses in the first two months of 2016, with Apple and Amazon both showing negative returns. The portfolio is a full replication of the index. Lind reviewed the composition of the index, and sector weightings. She also reviewed trading costs, noting that the average commission is 0.3 cents per share. She noted the bulk of trading happens on one day each year, when the index is reconstituted. D'Entremont described new products offered by RhumbLine, including an equal-weighted S&P 500 fund and equal-weighted S&P 100 fund. She noted the firm could apply an equal-weighting strategy to any published index.

Shinkwin moved to accept the first three recommendations offered by Segal. Monagle seconded the motion and it was voted unanimously.

Ghazarian reviewed a chart comparing the returns from Cambridge with those of the PRIT Fund. PRIT has outperformed Cambridge over the last two years, although Cambridge has had stronger returns over the last ten years. He stated that Segal has done some research regarding equal-weight index funds, and offered to forward additional information to the Board. He noted that their returns over the last five years has not been good, as small-cap stocks have underperformed.

Ruth Hubbard and Dr. David Kelly represented J.P. Morgan. A written presentation was submitted to the Board. Kelly stated that the last year has been difficult for investors and his presentation would be an attempt to diagnose the causes of the present downturn. He described unusually high levels of cash savings, which have starved markets of investment. He discussed the increase in oil production, which has resulted in a sharp drop in the price of oil. Since then, there has been an increased demand for new cars and trucks and higher vehicle-miles travelled. The availability of electric vehicles and more fuel-efficient cars has not yet significantly reduced demand for oil. He also reviewed the Chinese economy. He stated that the Chinese government claimed GDP growth of 6.9% in 2015, but this is almost certainly not true. The government has attempted to impose a number of controls over their stock market in an attempt to avoid a sudden collapse in prices. Kelly predicted that the government would be able to manage a steady slowdown, which would not have a major impact on the global economy. He stated that he expected corporate earnings to rise over the next year. He noted that the fall in earnings was attributable to low energy prices, and the strong US dollar affecting foreign profits. He attributed slow growth in the US economy over the last ten years to a slowdown of productivity growth, but also to fewer people entering the workforce. He described demographic reasons for the reduction, but also noted that 12% of working-age men have criminal convictions which make it extremely difficult to find work. He noted that given this rate of US growth, achieving a 7.5% annual return from domestic bonds and equities is likely impossible. Kelly reviewed the current political situation and discussed the likelihood of the election of either Hillary Clinton or Donald Trump. Looking forward, Kelly stated that he felt it was more likely than not that a recession would start within the next three years. Over the next few years, he stated that he would expect good returns from high yield bonds, and particularly European high yield. IN the equity markets, he stated that he felt there was much greater potential for growth in European markets, because they are still in the early stages of their recovery. Emerging markets are also currently priced cheaply.

Monagle moved to adjourn at 3:00 PM.