Minutes of the meeting held on March 6, 2018

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

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

The meeting was called to order at 11:01 AM. The meeting was digitally recorded.

Agenda Item # 1 – 2017 Performance Review
Ghazarian reviewed Segal Rogerscasey's written analysis of investment performance for the period ending December 31, 2017. Over the last year, virtually all asset classes showed very strong returns. Overall, the Total Fund was valued at $1.334 billion, representing a gain of 3.96% during the quarter. The fund was in-line with the policy index return of 3.98%. Over the full year, the fund returned 16.75% vs. the policy index at 16.07%.

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 system is waiting on capital calls from JP Morgan, Hancock and Campbell. Ghazarian reviewed the current allocation to the real estate sleeve. He noted that the system had made a $20 million commitment to the JP Morgan fund, and he expected that it would be called in the second or third quarter of 2018. However, even after making this investment, the system would still be about $20 million short of the target allocation. Ghazarain recommended that the system inquire if JP Morgan could increase the commitment from $20 to $35 million. Gardner stated that the system had originally intended to split the commitment evenly between Intercontinental and JP Morgan. He asked why Segal was recommending that the additional money be invested only with JP Morgan. Ghazarian stated that JP Morgan is a core fund, and less risky than Intercontinental. The Intercontinental fund is more highly leveraged, and invests in more value-add properties. He stated that conditions in the real estate market have changed over the last year, and that Segal would now recommend a bias toward core, income generating properties. Intercontinental does have an entry queue, and any additional commitment would likely not be drawn for six months. The Chairman stated that he would favor investing the additional $15 million only with JP Morgan, assuming that they could invest the money in a timely manner. Ghazarain stated that he would make a recommendation as to where to take the money from once it is called. Motion by Shinkwin, seconded by Monagle to inquire if JP Morgan could take an additional $15 million commitment. The motion carried on a 3-0 vote. Gardner and Chamblin-Foster abstained. Gardner stated that he did not feel that the analysis from Segal was sufficiently thought out.

Reviewing the performance of individual managers, Ghazarian noted that both Lazard and Aberdeen underperformed their benchmark over the last year. He attributed Lazard's performance to their underweight position in China. Their long-term performance still outperforms their benchmark. In the case of Aberdeen, Ghazarian stated that the fund tends to underperform in very strong markets. Over the last year, the fund returned 30.01% vs. the index at 37.75%. Ghazarain said he would adjust the report to measure both managers against the same benchmark. He also offered to send additional research regarding both managers.

Ghazarian reviewed the status of pending searches. The system will issue RFPs for the core fixed income allocation, currently managed by Pyramis and IRM. The RFPs should be advertised within the next few weeks. Following that, the fund will also issue searches for Russell 1000 and Russell 2000 index funds. Those should be advertised in the second quarter of

2018. Ghazarian reviewed the vote taken at the meeting on December 11 to consolidate the domestic equity sleeve into two index funds.

The Board reviewed a report comparing Cambridge's return vs. PRIT. The system continues to outperform over the last ten years, but fell short of PRIT's return in 2017. Ghazarian stated this could be attributed to underperformance by the two Emerging Markets Equity managers. He stated that the fund could look at buying an ETF which attempts to replicate the emerging markets benchmark.

Ghazarian reviewed returns to date in 2018. He noted that even after the market correction, returns were still positive for emerging markets and the S&P 500. Returns across other asset classes are either flat or negative.

Ghazarian said that he had received correspondence from IFM. Due to several large pending investments, they are requesting additional investments from current clients. They have requested $4.5 million from Cambridge. The funds would have to be committed by March 31, and would be drawn immediately. Cambridge is slightly short of the target for the infrastructure sleeve. Ghazarian stated that Segal would take a neutral position on a further investment. Investing the requested funds would push Cambridge slightly over the target allocation.

Ghazarian reminded the Board that the meeting with Ullico was intended to be educational. They are not currently being considered for any investment. Luke Howe and Rohit Syal represented Ullico. A written portfolio report was submitted to the Board. Howe reviewed the history of the firm, noting that it was founded in 1927 as a life insurance firm for union workers. The firm started an investment strategy in 1977. The firm remains union-owned. All real estate and infrastructure projects are built with 100% union labor. Locally, the firm is involved in the construction of Yawkey Station. The infrastructure fund has $675 million in assets under management. The fund invests only in the United States and Canada. The entry queue was as long as fifteen months, but Howe said this was getting shorter as the firm is preparing to close on two large projects. The management fee is 175 basis points for the first $50 million invested. Howe stated that this fee was all-inclusive with no additional charges for expenses or performance bonuses. Syal described how the firm structures deals, noting that it tends to take the majority position in investments up to $200 million, with minority positions in larger projects. He described several individual projects, including a wastewater treatment plant, a school bus group and an electrical transmission system. He also noted that the firm has been focused on wind and solar electrical generation, and described the tax credits available to renewable energy projects.

Philip Deeney and Michael Finocchi represented State Street Global Advisors. A written portfolio report was submitted to the Board. State Street now manages approximately $200 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. Deeney noted that State Street now has $2.78 trillion in assets under management, and continues to show strong growth, particularly in passive strategies. He described the firm's diversity initiatives, acknowledging that the firm has struggled with diversifying its own top ranks. Gardner asked about the use of ETFs among institutional clients. Deeney stated that they are more expensive than commingled or separate accounts. Typically, they might be used by smaller investors, or as a temporary way of holding funds during a transition. Finocchi also stated that the firm is working on rolling out more ESG-focused commingled options. Some investors looking for ESG funds will also use an ETF. The Chairman requested that State Street provide more information on how their low-carbon ETF has performed vs. the S&P 500. Gardner noted that SSGA has all but exited the custodial business for smaller funds, and asked if the firm was looking at moving away from smaller investors more generally. Deeney stated that the firm remains focused on serving all institutional investors. Finocchi described the cash flow in 2017, noting the system made $74 million in contributions and $112 million in withdrawals. He stated that, using the firm's crossing mechanism, there were significant savings on fees for these transactions.

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. The portfolio consists primarily of US dollar denominated sovereign and quasi-sovereign bonds. The portfolio invests 15-25% of the fund in corporate debt, and up to 10% in local currency. The portfolio has exposure to fifty different countries. Cambridge has now invested in the EMD strategy for almost two years. Since inception, the fund has returned 10.26% annually vs. the benchmark at 7.3%. Drainville described a general improvement in the EM marketplace, as various countries have improved governance and market access. He noted this can vary significantly from country to country, but that the overall trend is positive. He stated that this portfolio would be less correlated to a EM equity portfolio, because most of the bonds are dollar-denominated, with eliminates any currency effects. The portfolio continues to overweight Argentina, Brazil and Ukraine. Mexico is underweighted. The portfolio has reduced holding of Venezuela bonds. That holding is now roughly equal to the index. As of December 31, the firm was holding about 8% of the portfolio in cash. This holding has been halved over the last eight weeks. The firm made additional purchases in an effort to lengthen the average duration. He stated that biggest risk to the portfolio going forward would be interest rate volatility.
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 2.59% vs. the Barclays US Aggregate at 2.15%. The portfolio has consistently outperformed since inception. McKennon stated that the portfolio has been de-risking, and positioning for the likelihood of further interest rate increases. US Treasuries now comprise 34% of the portfolio, roughly even with the index. Exposure to corporates was reduced from 40% to 27%. TIPS comprise 8% of the fund. The fund continues to underweight mortgage-backed securities. Defaults are not an issue within the portfolio. 98% of the bonds are investment grade.

John Norman represented Wedge Capital Management. A written review of the portfolio was presented to the Board. Performance in 2017 was very strong, and Norman stated that the Board has clearly benefitted from its patience during the underperformance in 2015-16. Over the last year, the fund returned 18.63% vs. the benchmark at 13.34%. He noted that higher volatility is a natural consequence of a concentrated portfolio. The portfolio now consists of 44 stocks. There were no significant changes to the fund's strategy, and the fund saw strong returns form sectors that suffered in 2015, including consumer durables and basic materials. Gardner reviewed Segal's analysis of the firm's investment strategy, noting that the firm's style seems to drift toward a growth manager. Norman described the strategy as "traditional value" rather than "deep value" and stated that the strategy has not changed in the last twelve years. Ghazarian reviewed his analysis, noting that the portfolio seems to have a bias toward smaller firms. Norman described how he feels that portfolio can benefit from the additional volatility in the market since the start of 2018 by taking a longer term perspective.

Matt Drasser, Sean Patterson and Mike Sheldon represented Income Research & Management. A written portfolio report was submitted to the Board. Drasser stated that there have been no changes to the portfolio team or strategy. The portfolio's returns have outperformed the benchmark across all time periods, adding about 30 basis points of returns annually over the benchmark since inception. Sheldon reviewed the current composition of the portfolio. Average yield in the portfolio is 2.76% vs. the index at 2.64%. This is achieved with little sacrifice in quality. The portfolio has increased holdings of Treasuries over the last year in an effort to control risk. Treasuries now make up 40% of the portfolio. Sheldon reviewed the basic structure of the bond market. He noted that prices for existing bonds will fall as interest rates increase. He also described how, as a long term investor, the fund will benefit from rising interest rates. He noted that coupon payments will be reinvested in bonds that pay a higher interest rate. He noted it is not generally the firm's practice to sell bonds due to changes in interest rates. The portfolio consists solely of investment grade bonds, so there is minimal default risk. He described their selection process, noting that the firm looks for corporate bonds that pay a premium over treasuries. He also observed that bonds with the same credit rating may not pay the same return. The Chairman noted that the projected income analysis seems to be weighted toward the end of the year. Drasser offered to review the maturity schedule further and report back.

Wayne Owen, Denise D'Entremont and Antonio Ballestas represented RhumbLine. A written portfolio report was submitted to the Board. RhumbLine currently manages two indexed portfolios for Cambridge, the Russell 1000 Growth Fund and the Russell 1000 Value Fund. Over the last year, the growth fund has shown much stronger returns than the value fund. D'Entremont described the composition of the indices. The pools do include tobacco stocks, because PERAC regulations allow that the weight of the tobacco stocks be measured against the entire pool. She also noted that the Growth fund is particularly top-heavy, with the ten largest stocks comprising 30% of the index. She also noted that the firm holds a small percentage of funds in a ETF. This allows them to handle client's liquidity needs without selling individual stocks. D'Entremont noted there was some overlap between the two funds. Owen stated that by owning both growth and value funds, it gives investors the flexibility to shit money into a favored strategy. Gardner stated that he would be opposed to making those sorts of style bets. D'Entremont stated that investing in both funds adds a certain level of risk, and possibly higher returns. She stated that combining the funds into one core fund would not result in a fee savings. She added that it would make the annual rebalancing somewhat simpler to have only one account, and there might be a commission savings, although RhumbLine always strives to keep commissions as low as possible for all clients. Owen estimated the saving might be one basis point. Gardner asked if RhumbLine was able to control trading costs as well as a larger competitor. D'Entremont noted that some investment firms are able to offer low trading costs, but make up for the discount through fees charged by their custodial arm. Ghazarian stated that he could provide an analysis of returns, had Cambridge been invested in a core fund, and that he anticipated that the returns would be virtually identical to the current growth/value split. He added that he would not recommend that the fund place style bets by overweighting either growth or value, and that the fund has frequently rebalanced in an effort to keep both sides even. Moving to a core fund would eliminate the need to adjust the weightings of the two funds. Owen noted that there was one retirement of a partner within the last year. The firm reacquired and redistributed the shares. The firm is now 53% women and minority owned. The firm also hired an outside firm to manage cybersecurity. The firm also passed its most recent SEC audit with zero deficiencies.

The Board agreed to hold the next investment review meeting on May 21 at 11 AM.

Gardner moved to invest the additional $4.5 million requested by IFM, drawing money down from the equity sleeve. Shinkwin seconded the motion. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

Monagle moved to adjourn at 4:15 PM.