Minutes of the meeting held on March 6, 2024

Present: Michael Gardner, Nadia Chamblin-Foster, Joseph McCann, James Monagle, Claire Spinner, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Left Early: Francis Murphy, Chair was absent for the presentations from Loomis Sayles and Ascent. James Monagle served as Acting Chair during those items.

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 Zoom videoconference.

Agenda Item # 1 – 2023 Performance Review
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending December 31, 2023. Returns in all asset classes other that real estate were strong throughout the year, with the S&P 500 returning 26.29%.

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 13%. Gardner noted that the fixed income sleeve is now 3% short of the target allocation. Ghazarian stated that Segal will typically not move to rebalance unless the funds move at least 5% away from the target, although he stated that the Board was free to set a policy to hold the allocation within a tighter range. He also noted that the system would receive appropriation payments at the end of the second quarter, which will be placed in the fixed income accounts.

Reviewing Cambridge's returns in 2023, the total fund was valued at $1.776 billion, representing a gain of 6.6% in the last quarter. For the full year, the fund returned 10.6%, which underperformed the policy index return of 11.4%. The PRIT fund return in 2023 was also 11.4%. Ghazarian described the function of the policy index, noting that it assumes perfect correlation with the target allocation and then measures the return of index funds within that space. The fund can underperform either due to managers underperforming their index or due to an unfavorable tracking error vs. the target allocation. He noted that the domestic equity sleeve is fully indexed, but the fund still fell short of the policy index due to the poor return from Cambridge Bancorp/Eastern.

Ghazarian stated that the system was now finalizing a contract with Acadian in the Emerging Markets Debt/Hard Currency mandate. Acadian will replace Fidelity. The system is also finalizing the contract with Mesirow in the High Yield mandate. Mesirow will replace Loomis Sayles. Both Fidelity and Loomis are scheduled to present to the Board, which should be their final meeting. Ideally, both new managers will be funded by April 1. Ghazarian reported that he would prepare a schedule for RFPs which must be issued in 2024.

Devan Kaloo and Matt Murdoch represented Aberdeen. A written portfolio review was submitted to the Board. There have been no changes to the emerging markets portfolio team. Kaloo discussed the firm's stock picking process and their focus on quality. Kaloo noted that value strategies have outperformed since 2021, which has been a strong headwind holding back Aberdeen's returns. Over the last year, the fund returned 7.58% net of fees, which underperformed the MSCI EM Index return of 7.93%. Another drag on performance was China. Aberdeen maintains a neutral weight to Chinese stocks, but was still hurt by a number of specific holdings, particularly within the IT and Materials sectors. The single worst performer in the portfolio was China Tourism group, which cost the portfolio 130 basis point of performance.

The post-COVID reopening in China continues to go slower than anticipated. Kaloo stated that he was optimistic that new construction starts appear to have hit a bottom and may be poised for recovery. Kaloo stated that some of the trends he was anticipating at the start of 2023 have played out, including a somewhat weaker US Dollar, increased spending on "Green transition" and nearshoring, which has boosted returns in Mexico and Latin America. He stated that Aberdeen was not looking to make any immediate change to their China strategy and would likely maintain a neutral weighting going forward. He noted that China had taken moves at the most recent party conference to shore up consumer confidence with easier credit. Murdoch stated that Aberdeen does offer an EM ex-China fund if the Board were interested in reducing exposure to the Chinese market.

Elise Jadhav and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. There have been no changes to the portfolio management or strategy. Over the last year, the fund returned 14.51% net of fees. This outperformed the benchmark return of 12.7%. Jadhav stated that she was very pleased with the outperformance. Latin America was the strongest region for driving returns. A weaker US Dollar boosted returns from currency effects and interest rates began to fall which also helped returns. Columbia was the largest positive driver of returns. The portfolio also saw a strong relative return from the underweight position in Turkey. Turkey experienced a steep drop in its currency as well as rising interest rates which hurt the value of existing bonds. Jadhav stated that she would anticipate further rate cuts in Latin America and the portfolio will maintain that overweight position. The fund has underweighted Asian markets where interest rates tend to be much lower. Neely stated that she would take maternity leave and her position would be covered by another client service representative.

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 11.92% vs. the benchmark at 11.09%. The fund remains short of the benchmark over the trailing five years, returning 1.24% annually vs. the index at 2.19%. The top performer over the last 12 months was Venezuela. Drainville noted that the United States has eased some sanctions on Venezuela which allowed for the recovery of some assets that Fidelity had been holding. Ukraine was another strong performer as their economy has performed better than expected in spite of the continuing war with Russia. United States treasuries were the worst performing bonds, with Drainville noting that the fund only holds those bonds to manage liquidity and duration. 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 6.29% net of fees vs. the Barclays US Aggregate at 5.53%. He noted that everything in the portfolio is investment grade, US Dollar-denominated bonds. At present the fund holds 39.4% US Treasuries, nearly in line with the index. This is a significant increase over the positioning from a year prior. 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. Looking ahead, McKennon stated there was a good likelihood of a mild recession before the end of 2024. He noted that the yield curve has now been inverted for over a year, which has been a good historical predictor of a recession. He noted that he was not anticipating a steep drop in interest rates. While many of his colleagues have predicted up to six interest rate cuts before the end of the year, McKennon stated that he felt two cuts was much more likely.

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 noted that Cambridge has now been investing with IRM for nearly thirty years, with fund inception on July 1, 1995. The fund has maintained a consistent outperformance since inception. Since 1995, the fund has returned 4.68% annually, net of fees. This outperforms the index return of 4.43% annually. Over the last year, the fund returned 5.98% net of fees, vs, the index at 5.72%. Over the last year, the fund has increased holdings of US Treasuries, up from 25% of the portfolio to 39%. This is still underweight relative to the Bloomberg index at 58.4%. The fund maintains an overweight to mortgages. Sheldon noted that the Treasuries position offers good liquidity to pursue other opportunities as they arise. He stated that he did not anticipate a rapid round of rate cuts from the Fed.

Denise D'Entremont and Julie Lee 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 20.19% in the last year, and 13.79% annually since inception. Cambridge currently invests $378 million in this fund, which comprises 15.8% 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 0.5 cents per share. The EAFE fund has returned 10.32% over the last year and 6.09% annually since inception. Cambridge has $131 million invested in this fund. RhumbLine now has 18 investors in this fund, with Cambridge as the largest single investor, comprising 27.5% 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. D'Entremont noted that RhumbLine recently closed a $1 billion investment commitment with MassPRIT.

Cheryl Stober, Todd VanDam and Teresa Woo represented Loomis Sayles. A written portfolio review was submitted to the Board. There have been no changes to the portfolio team or investment strategy. Loomis now holds $335 billion in assets under management, which is a significant recover after a decline in 2022. VanDam reviewed the high yield portfolio. Over the last year, the portfolio returned 11.8% net of fees, vs. the BARC High Yield Index at 13.44%. He described the firm's cycle-based approach to security selection, based on the theory that companies exiting a downturn and moving into credit repair have the greatest potential for strong returns. He noted how Teva Pharmaceuticals, one of the best performers in the portfolio has emerged from a downturn and is now well into the process of repairing credit. VanDam stated that the main reason for the underperformance was issue selection. The biggest detractor (other than US Treasuries) was DISH Network. DISH Network has invested $5 billion in buying up wireless spectrum in order to build out a 5G network. Loomis still feels the firm is undervalued and intends to hold the bonds. 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.

Walter Dick and Thomas Scanlon represented Ascent. A written overview of the portfolio was presented to the Board. Cambridge has an active investment in one fund managed by Ascent. Scanlon stated that Ascent will not be making any new investments going forward. The firm is now focused only on managing their two existing funds. Fund V is now in the harvesting phase. It made ten investments and has completed five exits. The portfolio has a gross IRR of 26.6% on the realized investments. The total IRR on Fund V is 12.4%. Three of the remaining five companies appear to be likely fund drivers. Scanlon discussed Invaluable, a company which provides services to the live auction market. The Board and management of the firm are in agreement to seek an exit in the near future. Dick discussed Nova Scientific, which provides precision measurement tools. Ascent is looking to exit the firm by selling off the company's three divisions as separate entities. A sale on one division may be closed by June. A second division has been on the market since January and Dick stated that he was optimistic it could be closed by the end of the year. Scanlon discussed Start.io, which is not currently for sale. Management is focused on improving metrics to make the company a more attractive acquisition candidate. Dick reviewed a proposal to extend the term of the Ascent V partnership until December 31, 2027. Under this proposal, fees would be capped at the lesser of 0.5% of net assets or $250,000 in 2024, $150,000 in 2025, $75,000 in 2026 and no fee in 2027. Scanlon stated that 50% of limited partners would need to approve the extension and he stated that 72.4% of limited partners have already approved it. Monagle asked if the proposed fee included expenses. Scanlon noted that he was performing all accounting functions himself and that the fee for the auditor would be paid out of Ascent's own funds. Philbin stated that she has not received year end numbers from Ascent and requested that Scanlon provide them as soon as possible. Scanlon clarified that he has only received verbal approval from some limited partners and that only 38% have transmitted a written approval. He stated that without approval from the partners, the firm might be forced to wind down early and would not be able to extract the maximum value from the remaining firms in the portfolio. Gardner stated that he would oppose taking a vote on the matter right away as the full written proposal was not included on the agenda. Dick stated that he anticipated that he would have more than 50% approval soon and that he would submit a copy of the proposal after that threshold was reached. He stated that he still hoped that Cambridge would take a vote to approve the extension.

Gardner moved to adjourn at 3:30 PM.