

## **Minutes of the meeting held on Monday May 11, 2015**

Present: Present: Francis Murphy – Chair, James Monagle, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, Ellen Philbin, Attorney James Quirk, Rafik Ghazarian, Chris Burns and Attorney Thomas Gibson.

The meeting was called to order at 4:02 pm. The meeting was digitally recorded.

### **Agenda Item # 1 - Segal Rogerscasey - Investments**

The Board reviewed Segal Rogerscasey's analysis of the International Equity manager candidates. Ghazarian reminded the Board that the search was conducted due to Chapter 176 requirements. The funds are currently managed by RBC Global Asset Management. The Board received 28 proposals. Segal rated two managers as "advantageous". They were RBC and HGK Asset Management. The analysis also showed that there was no likely advantage to splitting the mandate between two managers. HGK has quoted fees of 112 basis points for annual management fees, and RBC quoted at 95 basis points. Ghazarian stated that RBC has been an excellent manager for the fund, although the portfolio has shown significant volatility at times. He stated that the Board could opt to conduct interviews with both RBC and HGK. He also noted that Board could also opt to renew the contract with RBC, and stated that he had confirmed with Tom O'Donnell at PERAC that it would not be necessary to conduct interviews in order to comply with the Chapter 176 requirement. Motion by Gardner, seconded by Shinkwin to renew the contract with RBC. Voted unanimously.

The Board reviewed Segal Rogerscasey's analysis of the Emerging Markets Equity manager candidates. Ghazarian reminded the Board that the search was conducted due to Chapter 176 requirements, and because the Board opted to increase the allocation to this investment class. The incumbent manager is Lazard Asset Management, which currently manages \$54 million. The Board will increase this allocation to \$100 million. The Board received 29 proposals. Segal rated two managers (Aberdeen and Lazard) as "advantageous to highly advantageous" and one manager (Wells) as "advantageous". Ghazarian recommended that the mandate be split between two managers, noting that if the entire amount were managed by Lazard, they would hold nearly 10% of the portfolio. Ghazarian stated that he would not recommend that a single active manager control such a high percentage of the portfolio. He also noted that he would not be concerned about a single index fund holding that much. Aberdeen has a slight fee advantage, charging 95 basis points on the first \$50 million, vs. 101 basis points for Lazard and 115 basis points for Wells. Motion by Gardner, seconded by Chamblin-Foster to interview Aberdeen, Lazard and Wells. Voted unanimously.

The Board reviewed Segal Rogerscasey's analysis of the Passive Large Cap Value manager candidates. The search was conducted to potentially replace MFS, due to poor performance. The Board received three proposals, from RhumbLine, State Street and TIAA-CREF. TIAA-CREF has proposed a mutual fund vehicle, and Ghazarian noted that he was not comfortable with that type of investment. State Street quoted fees of 4.25 basis points annually, and RhumbLine quoted 6 basis points in their proposal. Ghazarian stated that he spoke with RhumbLine and they indicated that they would be willing to match State Street's fee. The Chairman noted that State Street's fee structure requires a minimum of \$80,000 in fees across all investments. Ghazarian stated that State Street has always included a relationship minimum, but that it wasn't always \$80,000. The Chairman requested that Ghazarian review the current investments with State Street, and determine if the system would be subject to higher fees should Cambridge opt to terminate some of the present investments with State Street. Ghazarain noted that he has been very pleased with the customer support from RhumbLine since Cambridge hired them to manage the Russell 1000 Growth fund. He also stated that he has not been pleased with

State Street, and that the company seems to be excessively focused on their share price, at the expense of customer service and their own employees. Ghazarian stated that, given that Cambridge has existing relationships with both RhumbLine and State Street, that it would not be necessary to conduct interviews. Motion by Gardner, seconded by Chamblin-Foster to hire RhumbLine to manage the Large Cap Value sleeve, contingent on their commitment to match State Street's fees. Voted unanimously. Ghazarian noted that Segal has disclosed as part of their analysis which managers paid to attend their annual conference.

The Board reviewed a City Council order related to the UBS Trumbull Property Fund, and a written response from UBS. Ghazarian noted that UBS has been one of the top-performing open ended real estate funds in the country. Gardner stated that he does not feel that UBS' response addresses one of the central concerns of the City Council order. The allegation made by Unite Here Local 11 is that UBS has inflated the appraised value of their properties in order to charge higher management fees. Ghazarian noted that UBS is required to use outside appraisers every three years in order to assess property values. The fund may perform internal appraisals more frequently. The Chairman proposed that the system could review the prices of properties that have been sold against their appraised value while they were held in the portfolio. Shinkwin noted that the City Council order alleges inflated values at "three different properties," but does not provide specific locations. He stated it would be helpful to know which buildings the Council was referring to. Without objection, the Board agreed to request that UBS provide a list of all properties in the portfolio that have been sold within the last five years, the internal and external valuations for these properties, as well as the final sale price. Monagle stated that he was concerned that the real estate market was inherently volatile, and that the assessments would be likely to change from year to year. The Chairman also requested that the Director contact the City Council office to attempt to get further information about the three properties mentioned in their order.

The Board reviewed an article from Chief Investment Officer magazine. The article notes that the New York City pension funds will begin demanding staff demographic data from fund managers in order to promote diversity. Gardner stated that he did not feel that the demand for data was likely to promote diversity, and he also felt that the information would be a distraction from evaluating managers based on performance. He also stated that he had no objection to Board members asking questions when managers come in for an annual review. Chamblin-Foster requested that managers be asked to provide the demographic data as part of the information they provide at each annual review. The Chairman asked that Ghazarian include that request as part of the annual review process, and that he also make the request of candidates invited to interview.

The Board reviewed a written analysis of investment performance for the period ending March 31, 2015. The portfolio saw strong returns over the last quarter, particularly in the International Equity sleeve. Overall, the total fund was valued at \$1.119 billion, representing a gain of 2.72% during the quarter. The fund outperformed the policy index return of 2.41%. Ghazarian noted that the asset allocation schedule in the report still lists the targets from 2014. He stated that the report will shift to the new targets once more of the new managers are hired and funded. Gardner stated that he remains concerned that listing Cambridge Bancorp under the Alternatives sleeve is misleading. He stated that he feels it should be part of the Small Cap Equity sleeve. Ghazarian stated that, as a single stock, he does not feel that it should be categorized with diversified portfolios in the Small Cap sleeve. He proposed that it should be listed with the portfolio's cash position.

Ghazarian stated that Columbia has continued to underperform. It returned 1.99% over the last year versus the index at 8.21%. They have also underperformed on a five-year basis. Gardner requested that the manager be scheduled for a review as soon as possible. The Board agreed to

schedule a meeting on Tuesday, June 30 at 10:30 am at Segal's office in Boston. Ghazarian stated that he would schedule interviews with the International Equity candidates, and annual reviews for Columbia and other managers for that day.

#### **Agenda Item #2 – Minutes**

Motion by Chamblin-Foster, seconded by Monagle to accept the regular minutes of the meeting held on April 6, 2015. Voted unanimously.

Motion by Chamblin-Foster, seconded by Shinkwin to accept the executive session minutes of the meeting held April 6, 2015. Voted unanimously.

Motion by Monagle, seconded by Gardner to accept the minutes of the investment manager interviews held on April 21, 2015. Voted unanimously.

#### **Agenda Item #3 - Warrant**

Motion by Chamblin-Foster, seconded by Shinkwin to accept payment of warrant #8 in the amount of \$5,650,999.14 and Warrant #9 in the amount of \$47,728.87. Voted unanimously.

#### **Agenda Item #4 – Superannuations**

Motion by Shinkwin, seconded by Monagle to accept the superannuation retirement applications submitted by Kevin G. Clark, Recreation Manager, Human Services Department with thirty-four years, Patricia Lewis, Administrative Assistant, License Commission with eleven years one month, Paul F. Mahoney, Jr., Fire Lieutenant, Cambridge Fire Department with thirty-nine years nine months, Lillian Orchard, Commercial Review Appraiser, Assessing Department with thirty-four years two months, Linda Smith, OSS Paraprofessional, School Department with thirty-four years ten months, Elizabeth Traumann, Social Worker, Cambridge Health Alliance with thirteen years, seven months, Martha Walsh, Secretary, School Department, with twenty years one month and Christopher Weller, Senior Planner, Cambridge Housing Authority with sixteen years nine months. Voted unanimously.

#### **Agenda Item #5 – Redeposits / Make-up / Liability**

The Board reviewed make-up and redeposit worksheets from ten members.

Motion by Gardner, seconded by Shinkwin to allow the redeposit of refunds requested by Audrey Gautreau, four years ten months, Jean M. Rogers, three years four months, to allow the make-up of contributions requested by Robert F. Foote, one month (pro-rated), Clare M. MacDonald, four months (pro-rated), Jamie O'Connell, four months (pro-rated – Middlesex denies liability), Donna M. Pope, three years nine months (pro-rated), Aracelys Salcedo, eleven months (pro-rated), William Simmons, two months, Jay W. Toppan, nine months (pro-rated) and Marie Viola, one year two months (pro-rated). Voted unanimously.

#### **Agenda Item #6 – Make up of contributions**

The Board reviewed correspondence from Attorney Quirk, CRAB's decision in the Cadigan case and a calculation of her make-up.

The Director reviewed the history of the case. CRAB has found in favor of Cadigan, stating that she should not be subject to the IRS cap on withholding. Quirk stated that he would not recommend a further appeal. With this decision, Cadigan would not have the right to make-up contributions on her earnings that were not previously subject to withholding.

Gardner moved to allow the make-up of contributions, and to waive interest on the repayment. Monagle seconded the motion and it was voted unanimously.

#### **Agenda Item #7 – Refund Applications**

The Board reviewed a list of refund application submitted in April.

Motion by Chamblin-Foster, seconded by Monagle to accept seven 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:

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

**Agenda Item #8- Accidental Disability Application – Daniel Turner**

The Board reviewed the member’s application, treating physician’s statement and employer’s statement pertaining to Daniel Turner’s Accidental Disability application.

Motion by Shinkwin, seconded by Monagle to accept the Accidental Disability application filed by Daniel Turner, a Deputy Fire Chief and to request that PERAC convene a medical panel. Voted unanimously.

**Agenda Item #9 – Accidental Death Benefit – Ernest C. DeAngelis**

The Board reviewed correspondence from two of Mr. DeAngelis’ treating physicians, his death certificate, correspondence from his wife and the certificate and narrative report of his 1997 medical panel.

Motion by Monagle, seconded by Shinkwin to grant Accidental Death benefits to the surviving spouse of Ernest C. DeAngelis, retired Deputy Fire Chief. Voted unanimously.

**Agenda Item #10 - Accidental Disability Benefit – Suzanne Quinn**

The Board reviewed the certificate and narrative report of Suzanne Quinn’s medical panel, the member’s application, treating physician’s statement and employer’s statement pertaining to her application.

Monagle moved to request clarification from the medical panel on a number of specific points. The Chairman confirmed with Quinn that the questions as discussed satisfied her concerns. The motion was voted unanimously.

The Chairman requested that the Director contact PERAC to verify if a feedback form was sent to Quinn, and to arrange to have a second form sent to allow her to provide her input on the panel to PERAC.

**Agenda Item #11 - Accidental Disability Benefit – Paul Poisson**

The Board reviewed the certificate and narrative reports of Paul Poisson’s medical panel, the member’s application, treating physician’s statement and employer’s statement pertaining to his application.

Motion by Monagle, seconded by Gardner to seek clarification from the medical panel. The motion carried on a 4-1 vote, with Shinkwin voting in the negative. The Chairman requested that Quirk forward a draft of his correspondence to Gibson before sending his request to the medical panel.

**Agenda Item #12 – Accidental Disability Benefit – Carol Cammon**

The Board reviewed the certificate and narrative report of Carol Cammon’s medical panel, the member’s application, treating physician’s statement and employer’s statement pertaining to her application.

Motion by Shinkwin, seconded by Monagle to accept the findings of the medical panel and grant Accidental Disability benefits to Carol Cammon, a Registered Nurse at Cambridge Hospital. Voted unanimously.

**Agenda Item #13 - 12 (2) (d) Survivor Benefit – Joanne Killion**

The Board reviewed Joanne Killion's 12 (2) (d) application, and Stephen Killion's death certificate.

Motion by Gardner, seconded by Chamblin-Foster to grant survivor benefits pursuant to Sec. 12 (2) (d) for the surviving spouse of Stephen Killion, Police Officer with Cambridge Police Department. Voted unanimously.

**Agenda Item #14 - Accidental Death Benefit – Joanne Killion**

The Board reviewed correspondence from two of Killion's treating physicians.

Shinkwin moved to grant Accidental Death benefits to Joanne Killion, surviving spouse of Stephen Killion, Cambridge Police Officer. Monagle seconded the motion. Gardner stated that he found the letters from the doctors to be somewhat unclear, and he stated that he would prefer to have the case reviewed by a medical panel. The motion carried on a 4-1 vote, with Gardner voting in the negative.

**Agenda Item #15 - Accidental Death Benefit – Katherine Murphy**

The Board reviewed correspondence and medical records from Brian Murphy's physician.

Motion by Gardner, seconded by Monagle to grant Accidental Death benefits to Katherine Murphy, surviving spouse of Brian Murphy, Assistant City Manager for Community Development. Voted unanimously.

**Agenda Item #16 – 2014 Annual Statement**

Motion by Shinkwin, seconded by Chamblin-Foster to approve the 2014 Cambridge Retirement System Annual Statement. Voted unanimously.

**Agenda Item #17 – PERAC Memo**

The Board reviewed PERAC memos numbered from 9 through 11.

**Agenda Item #18 – Old Business**

Not needed.

**Agenda Item #19 - New Business**

Not needed.

**Agenda Item #20 - Executive Session**

Agenda Item # 8 – adopted

Agenda Item # 9 – adopted

Agenda Item # 10 – requested clarification

Agenda Item # 11 – requested clarification

Agenda Item # 12 – adopted

Agenda Item # 13 – adopted

Agenda Item # 14 – adopted

Agenda Item # 15 – adopted

**Agenda Item #21 - Chairman's Report**

The Chairman distributed the NCPERS Code of Conduct for Public Pension Service Providers.

The Chairman stated that there was discussion at the NCPERS conference that various investment firms who manage funds on behalf of public pension funds are also making

contributions to organizations who lobby against the interests of public pension funds. The Chairman requested that the matter be placed on the agenda at the June meeting. He stated that he would like to ask that all existing managers sign the pledge, and that it be included as part of future RFPs. Monagle requested that the Chairman provide additional materials on the Code of Conduct. He stated that he was concerned about the Board taking a position on financial manager's activities. Gardner stated that he was also concerned about the impact on freedom of speech. The Chairman noted that the Code of Conduct would only require disclosure of contributions, not prohibit any activities. Chamblin-Foster noted that, since the Board pays dues to NCPERS, they have already indicated a degree of support for NCPERS' policy. The Chairman stated that the impact of new mortality tables was also discussed at the NCPERS conference. He reported that the newest table was developed based on a survey of pension plans that did not include any public plans, and using a small sample size of private plans. Revised tables should be developed and made available in 2017 or 2018 which would include police, fire and other public employees. NCPERS recommended that Boards make no changes until those tables are released.

### **Agenda Item #22 - Executive Director's Report**

Not needed.

The following documents were also reviewed by the Board:

- Notice of Retiree Deaths.
- Correspondence from Attorney James H. Quirk re: Barnstable County Retirement Board (Robert W. Tompkins vs. Denise M. Tompkins).
- Correspondence from Attorney James H. Quirk re: Diane Holt vs. CRB.
- Correspondence from Attorney James H. Quirk re: CRB Althlon Settlement.
- Correspondence from Attorney James H. Quirk re: CRB Derivatively on Behalf of Nominal Defendant Amtrust Financial Services, vs. Donald D. Decarlo.
- Correspondence from Attorney James H. Quirk re: CRB Procurement Related Issues.
- January Financials - General Ledger, Summary of Accounts, Trial Balance, Adjustments, Cash Disbursements, Cash Receipts, Wire Transfers.
- MACRS – Proposed amendment to the constitution and Bylaws.
- Pension & Investments-CalPERS Investment Committee approves Neutrality on Coal Divestment Bill.
- BLB&G 1<sup>st</sup> Quarter 2015 Report.
- PRIM – Reduces Budget.
- Lazard Asset Management – Portfolio Review.
- MacKay Shields – Quarterly Report.
- Pyramis Global Advisors re: Monthly Investment Review.
- RBC Global Asset Management – Quarterly Report.

Monagle moved to adjourn at 8:20 pm.