Minutes of the meeting held on November 16, 2020

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

Absent: John Shinkwin

The meeting was called to order at 11:04 AM. The meeting was digitally recorded. The entire meeting was conducted by Webex videoconference.

Agenda Item # 1 – Segal Marco Advisors
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending September 30, 2020. Returns in the third quarter were very strong across all asset classes. Equity returns are now slightly positive for the year. There has been a significant disconnect between returns for value and growth stocks since January. The Russell 1000 Growth index has returned 24.33% YTD, while the Value index has lost 11.58%. Ghazarian noted that the FAANG stocks have thrived since the start of the pandemic, while other firms have struggled.

Ghazarian reviewed the fund's asset allocation. Most asset classes are in-line with the target allocations. Real estate is now 1.5% below the allocation target. The private equity sleeve now matches the target allocation. PRIM reported that they would be unable to take the system's full allocation of $45 million for private equity. The report now reflects that Cambridge will only invest $29 million in the 2020 vintage fund. The portfolio cut the hedge fund allocation to 5%, and that target has now been achieved. The system is now 1% overallocated to Infrastructure. Ghazarian noted that the IFM Infrastructure fund has been one of the fund's strongest performers. He also noted that the investment environment for Real Estate seems unfavorable. Ghazarian recommended that the system reduce the target allocation for Real Estate from 11% to 10% and increase the allocation for Infrastructure from 3% to 4%. This would reflect the actual allocation within the fund as of September 30, and Ghazarian felt that it would be a more strategic position for the portfolio. Monagle stated that he felt that, given the struggling retail sector, and the likelihood of reduced demand for office space as more people work from home, that the system might want to consider further reducing the Real Estate allocation. Chamblin-Foster stated that she believed that retail properties in Europe and Asia have continued to perform well. Ghazarian stated that he would not recommend more than a 1% reduction to the Real Estate sleeve, and that Segal remains optimistic that real estate can deliver strong returns over the long term. Ghazarian reminded the Board that Rockwood is currently in their liquidation phase and should terminate within two years, further reducing the allocation to real estate. Gardner moved to accept Segal's recommendation and change the target allocation to Real Estate to 10% and the target to Infrastructure to 4%. Chamblin-Foster seconded the motion and it was voted unanimously.

Ghazarian discussed the performance of the overall fund and individual managers. In the last quarter, the fund returned 5.44%, which outperformed the policy index of 4.57%. The Cambridge Bancorp stock continues to decline, dropping 10.26% in the last quarter. Ghazarian stated that this reflects weakness in the entire small cap sector. Lazard also continues to underperform, returning 2.26% in the last quarter, vs. the benchmark at 4.68%. Gardner stated that he would like to set a date for further review of Lazard. Ghazarian stated that his research department has advised that, given the troubles throughout the Value sector, that the Board make no move to cut back or terminate this manager before the end of the year. Gardner stated that he would favor moving the funds held by Lazard into the Emerging Markets index fund as soon as possible.

Ghazarian reviewed a private equity cash flow study prepared by Segal Marco. After calculating likely capital calls and expected returns, Segal has recommended that the system commit $30 million to the PRIT private equity fund in 2021, and the same amount in 2022. This should allow the system to maintain the 10% allocation target. Ghazarian stated that he has been in contact with PRIT, and that they are confident they will be able to draw the full commitment from participating systems in 2021. Motion by Gardner, seconded by Monagle to commit $30 million to the PRIT 2021 Private Equity Fund.

Maria Bascetta and Pam Thompson represented UBS. A written overview of the portfolio was presented to the Board. Cambridge has been an investor since 1988, gaining an 8.04% annual return since that time. The firm has worked to diversify their management committee, adding two women and one person of color over the last year. Thompson stated that she serves on the diversity committee and has been working to reform hiring practices to be more inclusive. The fund maintains a focus on properties on the coasts. The portfolio remains overweighted to apartments, with Thompson stating the firm feels apartment properties are more stable. The fund has underperformed in the current market cycle, with most of the underperformance attributable to retail properties. The fund wrote down retail assets by approximately 25% over the last year. Thompson noted that some competing funds have limited writedowns to 5%. In 2020, the fund sold one apartment for slightly above appraised value. The fund also sold two malls, both at a discount to appraised value. The fund now has three malls remaining in the portfolio. The fund intends to sell two more malls by the end of 2021. Thompson stated that she anticipated that these properties could be sold at their full appraised value. The only mall property the fund intends to keep is CambridgeSide. Thompson described the work of redeveloping CambridgeSide. One floor of retail space will be converted to offices, and First Street will altered in order to make it more friendly to pedestrians. The fund maintains a strategy of using less leverage than the index. The fund is now 18.8% leveraged, vs. the ODCE at 23%. The fund continues to experience net outflows, with a redemption pool of $8.2 billion. This is a higher amount than comparable funds in the index.

Elizabeth McManus, Theodore Bair and Mary Santiano represented Mellon. A written portfolio review was presented to the Board. McManus thanked the Board for their investment with Mellon. The firm currently has $557 billion in assets under management. The firm is headquartered in Boston, with 450 employees. McManus described the firm's diversity efforts, noting that the Diversity and Inclusion committee meets weekly to develop new initiatives. Cambridge is currently invested in two index funds through Mellon. The system invests $108 million in a small cap index and $15 million in an Emerging Markets index. Both funds are securities lending products, which generates a small extra return. Cambridge began investing effective in October 2019. Since inception, the small cap index has returned 8.9% net of fees. The small cap product is a full replication of the Russell 2000 index. The Emerging Markets fund has returned 4.62% since inception. This EM product uses some sampling in order to provide representative exposure to the companies in the index, but does not replicate the full portfolio. Ghazarian noted that Mellon uses the same benchmark that the active EM managers are measured against. Bair discussed the different regulatory regimes in the Emerging Markets space. He also noted higher trading costs and commissions in some smaller countries. He also discussed the underperformance of small cap stocks and value stocks. He noted that growth stocks were being driven by technology stocks, which benefitted from a shift to work-from-home policies. He also noted that government relief programs seem to have benefitted large firms at the expense of smaller ones.

Rebekah Brown and Blake Morris represented J.P. Morgan Asset 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. Morris noted that in 2019, the portfolio had been positioned defensively in anticipation of the end of the current growth cycle. Over the last five years, the fund has turned over 45% of their holdings, shifting out of office and retail properties and into residential and industrial. The fund has also shifted out of cities like New York, Chicago and Houston and into cities like Dallas and Boston. Brown described a preference for cities with a highly education population, strong wage growth and presence of biotech firms. The firm has made a strategic decision to add more lab space within the office sector. Performance year to date has been essentially flat, as income was offset by negative appreciation in office and retail properties. The residential sector also saw some difficulties. Brown noted that many young professionals opted to leave cities during COVID. She stated that she did not expect to see this sector fully recover until 2022. Suburban apartments may recover to their pre-COVID levels by the end of 2020. Brown stated that she was optimistic that the portfolio would not see any further deprecation going forward. The industrial sector has been, by far, the strongest performer. Brown described the development pipeline for new industrial properties, noting that 75% of their development is urban infill. The fund has made an investment in developing truck terminals located near major cities. Brown reviewed the retail, sector, noting that four malls were sold in 2019. Brown stated that the remaining malls would be considered among the top 5% of mall properties in the United States. Retail now constitutes about 21% of the portfolio. 83% of the retail properties are anchored by a grocery store. Brown discussed the fund’s investment in development of new single family homes intended for rental, noting a demand among young families for affordable single family homes. Brown compared them to horizontal apartments, with a large group of homes clustered around a pool and run by a professional management firm. These development are mainly located in the Southeast and the Sun Belt. The office portfolio is still 90% leased. Brown stated that the offices are high-quality assets, such as a corporate headquarters. Although there has been a shift toward working from home, Brown stated that the portfolio was well-protected. The fund has no investments in hotels or assisted living facilities. The fund now has a redemption queue of $3.1 billion.

Michael Riccobono and Trey Smith represented BlackRock. A written review of the portfolio was presented to the Board. There were changes to the organization structure at BlackRock, but no changes to the portfolio management or strategy over the last year. Riccobono reviewed the firm’s diversity initiatives, including a number of scholarship programs in place since 2013. Cambridge currently has investments in DivPEP Fund II and DivPEP Fund V. Riccobono reviewed the construction of the portfolios. The DivPEP portfolios are primarily fund-of-funds, but about one-third of the portfolio is direct co-investments, and a smaller amount in secondaries. Fund II is a 2002 vintage fund, now approaching termination. Cambridge committed $10 million to the fund. The portfolio currently has a net IRR of 10.4% and has returned $16.9 million in distributions to Cambridge since inception. Riccobono stated that he was optimistic about closing the fund by selling the remaining assets on the secondary market. That sale could be closed as early as the first quarter of 2021. The liquidation of these tail-end assets could result in a final distribution to Cambridge of about $500,000.
Fund V is a 2012 vintage fund, now in the harvesting phase. Cambridge has committed $6.5 million and paid in $4.9 million. To date, the fund has returned about $800,000 to Cambridge. Riccobono stated he did not feel that the firm would have to draw the rest of the uncommitted capital. As distribution activity has picked up, he now feels that any cash flow needs could be deducted from distributions. The fund is not likely to wind down prior to 2027. The fund is about 6% in secondaries, 17% direct co-investments, with the rest structured as a fund-of-funds. In fund-of funds investments, the underlying managers typically collect a 1% management fee. These fees are avoided with the co-investments. The fee paid to BlackRock is about 85 basis points.

Pratt Templeton and Kristen Carmona represented Hamilton Lane. A written overview of the portfolio was presented to the Board. There have been no changes to the investment strategy or the management team at Hamilton Lane. Templeton described the firm's diversity initiatives. He noted that the firm supports Girls who Invest, Big Brothers/Big Sisters, and the Cristo Rey Philadelphia High School. Chamblin-Foster asked if Girls who Invest works at Cambridge Rindge and Latin High School. Carmona offered to look into their partnerships and report back. Cambridge has investments in Fund VI and Fund VIII.
Cambridge has committed $6.5 million to Fund VIII, which is a 2012 vintage fund. The fund is now fully committed although the underlying managers are still making investments. Some of the earlier investments are now making distributions. The portfolio has a net IRR of 5.1%. This fund is not as heavily weighted toward buyouts, with larger amounts of distressed debt, venture capital and exposure to emerging markets. The portfolio saw a steep drop in valuations during the first quarter, and some recovery during the second quarter. Carmona said that she anticipated further recovery and growth in the second half of the year. The fund has run behind the public markets since inception.
Cambridge made a $10 million commitment to fund VI, which is a 2007 vintage fund. The fund has an 8.6% net IRR. The fund is well into the harvesting phase. The fund is weighted toward buyouts, and to investments in North America. The portfolio still has significant value remaining and continues to make distributions. The fund term is scheduled to end in December 2020. Hamilton Lane intends to extend the term for one year, as the firm feels that will be the best way to reap the remaining value. After 2021, they may consider selling off tail end assets on the secondary market.

Francesco Daniele, Emily Green and Paul Todisco represented the PRIT Fund. A written portfolio report was submitted to the Board. Daniele reported that PRIT has adjusted quickly to shift operations to work-from-home and all functions have continued to run smoothly. He also discussed a new initiative where the fund has partnered with MIT/Sloane School around sustainable investing. He said that PRIM would begin to issue more detailed reports on ESG investing going forward. Daniele reviewed the extreme volatility in the equity markets in 2020 and stated that he expected volatility to continue for the foreseeable future. One the last year, Private Equity was the strongest performing asset class, and Hedge Funds showed the lowest returns. Todisco reviewed the history of Cambridge's investments with PRIT. Cambridge began investing in the Hedge Fund sleeve in 2006 and took redemptions in 2019 and 2020 in order to trim back the allocation. The hedge fund investment has returned 3.76% annually over the last ten years. Cambridge has also invested in every private equity fund dating back to 2015. The private equity funds have delivered consistently strong returns. Todisco stated that he was aware that the Board was concerned about private equity funds not being drawn quickly. He noted that PRIT was able to invest the full commitment in 2017, 2018 and 2019. Todisco stated that the Investment Committee will meet on November 17 to finalize the rest of the private equity commitments for 2020, and it appears that the system will come close to meeting their investment target.

Eric Dooley, Harley Burton and John Perda represented Hancock Timber. A written overview of the portfolio was presented to the Board. Dooley discussed C-suite changes following the planned retirements of CEO Bill Peressini and CIO Court Washburn. Cambridge currently invests in two Hancock funds. Hancock Timberland X is a closed-end fund with a 2004 inception date. The Hancock Timberland and Farmland Fund is an open-ended fund with a 2018 inception date. Dooley reviewed the performance of Fund X. The portfolio is now fully invested, and in the holding period. He noted that distributions were down somewhat in 2020, noting that there was reduced demand due to COVID. Appraisals were also somewhat down in 2019. The fund will begin to wind down in 2023. Cambridge committed $6 million and the entire amount has been called. The fund has made $1.9 million in distributions. The current

value of the fund is appraised at $8.5 million. The total portfolio consists of just under 500,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. Dooley noted that the Acadia property in Louisiana suffered damage during Hurricane Laura, costing about $7 million. He also noted that there could be reduced demand at the HQPlantations property in Queensland, due to trade issues between Australia and China.
Perda reviewed the performance of the Timber/Farmland fund. Cambridge committed $15 million to HTFF. As of October, the full amount has been called. The fund had a second closing in August 2020, and Perda stated that going forward the fund will likely have two closings per year for new investors. With new acquisitions in 2020, the fund now has exposure to almonds, apples, cherries and pears. The fund also has a number of row crops in the Midwest, and timber plantations in the US South and Australia. The fund anticipates further acquisitions in the fourth quarter, with further row crops, softwood timber in Oregon, various fresh fruits in Chile and an almond plantation in Australia. Perda discussed his optimism about the timber markets going forward and new construction techniques allow for high-rise construction made entirely from wood.

David Greenberg and David Altshuler represented IFM Investors. A written portfolio review was presented to the Board. Altshuler announced that CEO Brett Himbury will retire in December. He will be replaced by David Neal, after a worldwide search. IFM also announced a new initiative to reduce carbon emissions, targeting net-zero emissions by 2050. Altshuler discussed the acquisition of Buckeye Partners, an energy firm which includes pipelines and terminals, primarily located in the United States. He stated that IFM sees significant value in mid-stream assets such as pipelines and terminals. He noted that IFM has expanded Buckeye's footprint with the acquisition of additional pipelines and a marine terminal. In 2020, the fund also completed an addition to the Indiana Toll Road. Over the last year, the fund has returned 4.1%. The fund has returned 12.26% annually since inception. Greenberg reviewed the composition of the Global Infrastructure Fund. The fund consists of 17 portfolio companies with a total value of $29.6 billion. Greenberg discussed the firm's response to COVID. Employees went to remote work in March, but have been slowly phasing back into offices, in accordance with local health guidelines. Looking at the portfolio, the transport sector was hard hit by the pandemic, with airline demand dropping by 90%. Greenberg stated that he did not expect demand to return to 2019 levels before 2023. Pipelines, seaports and utilities also saw reduced demand. Toll road demand also dropped, due to passengers staying at home. Freight shipping remained fairly stable. Altshuler emphasized the importance of a diversified portfolio, noting that he would consider all of the assets to be essential in some sense. The losses in the transport sector were offset by gains elsewhere.

Steven King and Neil Radzins represented Campbell. A written portfolio review was presented to the Board. King stated that the past year had been very busy for Campbell, as the firm is in discussions on two potential acquisitions. King described the impact of COVID on forestry operations. He noted that timber processing was not considered an essential industry in New Zealand and all operations were shut down for a brief period. There was no interruption to operations in the USA, Australia or Chile. Timber demand in the United States has been strong, with rising prices during 2020. King discussed some of the difficulties with Australian timber, as they have been undercut by European timber providers. In 2020, China also imposed new restrictions on importing timber from Queensland. Plantations in New Zealand could benefit if Chinese importers need to find new sources of timber. In August, Campbell closed on a hardwood plantation and sawmill in Chile. The fund formed a strategic partnership with a local operator. King said that he saw this is a very promising investment and emphasized the advantage of being able to integrate the sawmill into the plantation operation. King said that he anticipates further acquisitions to at least double the size of holdings in Chile. He also reviewed a recent acquisition in Brazil, noting that the firm now benefits from a very favorable exchange rate. The fund may also make one acquisition in the United States before the end of 2021. Ghazarian noted that returns have been somewhat negative, losing 2.22% over the first year. Ghazarian also noted that this was not unusual for a new timber investment.

Murphy requested that the Director reschedule Lexington to present at the December 7 meeting, as they were not able to keep their appointment time. The Director noted that Cambridge Bancorp would also make their annual presentation in December.

Monagle moved to adjourn at 4:35 PM.