Minutes of the meeting held on November 19, 2014

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

Absent: Nadia Chamblin-Foster

The meeting was called to order at 9:38 AM. The meeting was digitally recorded.

Agenda Item # 1 – Manager Reviews
Rafik Ghazarian reviewed the system's investment performance for the third quarter of 2014. The most recent quarter saw somewhat negative returns across most asset classes, although the start of the fourth quarter has been positive.

Ghazarian reviewed a written analysis of investment performance for the period ending September 30, 2014. Overall, the Total Fund was valued at $1.066 billion, representing a loss of 1.76% during the quarter. The fund underperformed with the policy index return of -1.52%.

Over the last year, the system experienced significant underperformance within the domestic equity sleeve. This segment returned 13.84% over the last year, vs. the Russell 3000 index at 17.76%. MFS and Columbia have both underperformed their benchmarks, and Wedge has run slightly ahead of their benchmark. Since 1996, the entire domestic equity segment has returned 8.64% annually, vs. the index at 8.53%. Gardner noted that, after accounting for management fees, the system appears to be running behind the index over the entire period.

In the international equity sleeve, RBC Capital continues to show strong returns, although with high volatility. The system has also seen good performance from the emerging markets, fixed income, real estate and hedge fund managers.

Jeff Kusek represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. Kusek reviewed Penn Square's relationship with the Townsend Group. Both companies are co-general partners on the portfolio, and Townsend is not paid a separate management fee. Kusek noted that due to Townsend's size, the firm is able to negotiate lower fees paid to underlying managers. The portfolio was constructed between 2009 and 2011. To date, the fund has called 61% of committed capital, and Kusek stated that he anticipated that the firm would not call any further capital.
Ghazarian confirmed that he was aware that Penn Square did not plan to make any further capital calls. Gardner requested that Segal make a notation in their report when a manager stops making capital calls. The Director stated that the committed funds remained in the S&P 500 account until called. The Chairman requested that Segal include a schedule showing committed funds which are being held in other accounts, pending a capital call.
To date, the system has paid $3.4 million into the account, and the current portfolio value is $5.1 million. Kusek stated that the firm plans to make substantial distributions in early 2015. He stated that the portfolio was able to generate early returns with five secondary investments. The portfolio also generated from the timing of investments, and many purchases were made at the bottom of the real estate market. The firm is currently raising Fund III. Kusek noted that new funds could not benefit from the market timing that drove results in Fund II. The newest fund has seen good returns from apartments, as the rental market remains strong, and from office space with government clients. Ghazarian requested written information on the calculation of management fees. Kusek stated that fees are based on committed funds during the investment period, and on invested capital thereafter.

Walter Dick and Luke Burns represented Ascent. A written overview of the portfolio was presented to the Board. Dick discussed the performance and strategy across Ascent's five funds. The firm focuses on early-stage enterprise IT investing. Dick stated that he felt that it was an excellent time to be investing in this space as mobile and cloud-based applications become more popular. Cambridge has investments in four Ascent funds. Dick noted that funds II and III are currently winding down. Ascent does not anticipate further capital calls on these funds, and is not charging any management fees on them. Fund II has one company left in the portfolio. Bizo was acquired by LinkedIn in September, leaving Zoominfo as the last company in the fund. Dick stated that he anticipated there would be a distribution paid before the end of the year from the Bizo sale. Dick stated that he anticipated an exit from Zoominfo within 12-18 months. There are two companies left in fund III and one has some potential for upside. In Fund IV, Ascent has active investments in eleven companies, and completed two exits over the last year. Four of the eight remaining companies have significant upside potential. This fund has drawn 95% of committed capital. The remaining capital is being held back to support existing portfolio companies. Fund V is coming to the end of the investment phase. The firm has drawn 73% of committed capital. There are eight companies in the portfolio, and Dick stated that one more could be added before the investment period ends. The firm will likely complete an exit from one company, Cargometrics, within a week. Dick stated that he was aware that Cambridge plans to commit to invest in the PRIT private equity fund. He noted that PRIT has invested in Ascent funds V and VI. Dick stated that he would encourage Cambridge to make a direct investment in fund VI. He stated that Ascent's funds have performed significantly better than their peers in the venture capital space. Fund VI is targeted to $150 million, and will have a final close in the first quarter of 2015.

Stephen Kelly represented BlackRock. A written review of the portfolio was presented to the Board. There have been no changes to the investment strategy or the management team at BlackRock. The acquisition of Swiss Re was completed two years ago has resulted in a smooth integration of their business. Cambridge currently has investments in DivPEP Fund II and DivPEP Fund V. Kelly 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 well into the harvesting phase. Cambridge committed $10 million to the fund. The portfolio currently has a net IRR of 11.7%, and has returned over $11 million in distributions to Cambridge since inception. The fund has called 91% of committed capital, and the fund will likely not call more than 93% of the commitment. Fund V had its final close with $311 million in commitments. Cambridge has committed $6.5 million. The fund has called 20% of committed capital, and is still in the investment phase. The fund differs from fund II, in that it includes some investments in energy funds, and also includes more Asian investments. Kelly stated that he would be happy to provide more information on the portfolio's energy investments.

Jackie Rantanen and Tim D'Arcy represented Hamilton Lane. Both representatives participated in the meeting via telephone. A written overview of the portfolio was presented to the Board. D'Arcy noted that Cambridge now has investments in Fund VI and Fund VIII. The firm continues to grow and now has over $32 billion of assets under management. Rantanen reviewed the performance of Fund VI. Cambridge made a $10 million commitment. Hamilton Lane has called $8.6 million. The firm has returned $5.2 million in distributions and the remaining assets are valued at $6.9 million. Rantanen stated that Fund VI will not call any further capital. Fees for this fund are still calculated based on the $10 million commitment. The fund is well into the distribution phase. Since inception, the fund has returned 9.9% annually net of fees, vs. the S&P 500 at 6.6%. Buyout funds and direct co-investments have been the largest drivers of performance.

Cambridge has committed $6.5 million to Fund VIII. The fund had a final close in April 2014, with a total of $426.8 million committed. Rantanen stated that the distributions from Fund VI have exceeded the capital calls from Fund VIII. The fund has drawn 22% of committed capital to date. The fund has made significant investments in secondary funds, which has enabled it to make very early positive returns. The firm has committed $376 million to underlying managers. Rantanen stated that she expected that the fund would make its final commitments in the first quarter of 2015, after which the portfolio would be complete and enter the holding phase. In response to a question from Ghazarian, Rantanen stated that the firm does recycle distributions from funds in order to offset the need for additional capital calls. These recycled funds are reported on the account statements.

The Chairman stated that he intends to consider an increase in the Section 101 benefit at the December meeting. He distributed an actuarial analysis of the cost of the increase prepared by Kathy Riley. The Director noted that the analysis was prepared prior to the adoption of the last funding schedule, but that she would ask Riley to provide an update.

Ghazarian reminded the Board that the asset allocation strategy adopted by the Board in September called for a new investment in Emerging Markets Debt. The system allocated 3% of assets to this strategy. Motion by Gardner, seconded by Shinkwin to instruct Segal Rogerscasey to issue an RFP for an Emerging Markets Debt manager, with a $30 million mandate. Voted unanimously.

Ghazarian stated that he would not recommend making an investment with Ascent Fund VI. He stated that Segal would advise that future private equity investments be made through PRIT or through a fund-of-funds manager. The Chairman requested that Ghazarian communicate with Ascent, and inform them that the system would not invest in the next fund.

Ghazarian stated that he would incorporate additional information about capital calls and the investment of committed funds not yet called into the next report. He also stated that intends to seek additional information from closed-end fund managers about their fee calculations on committed funds that were never invested.

Ghazarian stated that he felt that the assets in the Penn Square and Landmark real estate funds should be moved from the alternatives sleeve into the real estate sleeve. The Chairman stated that he had no objection to Segal making that change. Gardner requested that Segal provide a recommendation on moving the Cambridge Bancorp stock into the equities sleeve.

Monagle moved to adjourn at 12:20 PM.