Minutes of the meeting held on November 30, 2015

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

Absent: Nadia Chamblin-Foster

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

Agenda Item # 1 – Manager Reviews
Ghazarian reviewed Segal Rogerscasey's written analysis of investment performance for the period ending September 30, 2015. He stated that the third quarter saw very poor returns across most asset classes, with real estate and fixed income as the only positive performers. The fourth quarter has been stronger to date, with the system making up about 80% of the losses from the third quarter.

Ghazarian stated that he has been in contact with the candidates from the high yield search. He reviewed the transition process, and stated that he expected it to be completed in the first quarter. Since the system is moving from a separate account to a commingled fund, Loomis will likely not take assets in-kind.

Ghazarian reviewed the system's current asset allocation. The system is in the process of finalizing contracts with Aberdeen, Pyramis and Wellington. Once this is done, the managers can be funded. Ghazarain stated that the money would likely be taken from Columbia and the S/Mid Index fund. Ghazarian stated that he will also prepare a recommendation to consolidate the six accounts in the domestic equity sleeve. The present report moves the Landmark and Penn Square funds into the real estate sleeve. With this adjustment, the real estate sleeve is even with the target allocation. Segal is continuing to review options for making new investments in timber.

Overall, the Total Fund was valued at $1.052 billion, representing a loss of 5.81% during the quarter. The fund underperformed with the policy index return of -5.39%. The PRIT fund showed a return of -3.8% in the last quarter. Ghazarain noted that there has been significant underperformance from Lazard over the last year. He also noted similar underperformance from Brandywine, though this manager has shown better returns over the long term. The PRIT hedge fund portfolio has had a weak year as well.

Walter Dick and Geoff Oblak 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. Cambridge has investments in four Ascent funds. Dick stated that Ascent has not yet closed Fund VI to investors, and that he hoped Cambridge would consider participating. The Chairman stated that Cambridge would not invest directly, primarily due to the lengthy procurement process. 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. Zoominfo is the last fund left in Fund II. The company is profitable, and Dick stated that he felt it would be a good acquisition target. There are two companies left in fund III and one, Exchange Solutions, has some potential for upside. Oblak stated that the partners are considering a number of exit options, and anticipated an exit within 12-24 months. In Fund IV, Ascent completed three exits over the last year. Three of the six remaining companies have significant upside potential, and could be candidates for IPOs or acquisition in the next few years. The recent write-offs have triggered SBA impairment. The SBA will take 100% of the next $58 million in distributions. Ascent now estimates the remaining value of the portfolio at $75 million. Ascent has reduced management fees by 50% on this fund, effective July 1. Fund V is now at the end of the investment phase. The firm has drawn 84% of committed capital. The fund made the final investment in October. Oblak described some of the portfolio companies, and stated that the firm was very pleased with the performance of this fund to date.

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. Cambridge currently has investments in DivPEP Fund II and DivPEP Fund V. Both funds have performed well. 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 11.3%, and has returned over $13 million in distributions to Cambridge since inception. The fund called 90% of the capital commitment, and Kelly stated that he did not anticipate any further calls on this fund. The firm is considering various options for terminating the fund, including selling the remaining interest on the secondary market. Fund V is still in the investing stage. Cambridge has committed $6.5 million, and paid in $2.1 million. There have been no meaningful returns to date, although Kelly stated that he was very pleased with the selection of underlying funds. BlackRack has largely completed selection of primary and secondary funds, and will make several more direct co-investments. He stated that the investment process has slowed somewhat, since prices have been high. The fund differs from fund II, in that it includes some investments in energy funds, and also includes investments in Asia and Latin America. The Chairman asked if any process exists to allow limited partners to sell interests to each other, rather than going through the secondary market. Ghazarian stated that he did not believe the system could legally make such a transaction, without going through the usual RFP process.

Jackie Rantanen and Tim D'Arcy represented Hamilton Lane. A written overview of the portfolio was presented to the Board. Cambridge has investments in Fund VI and Fund VIII. Cambridge made a $10 million commitment to fund VI. Hamilton Lane has called $8.7 million. The firm has returned $7.2 million in distributions and the remaining assets are valued at $6.1 million. The fund has a 10.1% net IRR. The fund is well into the harvesting phase. Buyout funds and direct co-investments have been the largest drivers of performance, although all of the sub-strategies have generated positive returns. Cambridge has committed $6.5 million to Fund VIII. The fund has drawn $2.8 million, returned $400,000 in distributions and the remaining assets are valued at $2.5 million. Rantanen stated she was pleased that the fund was able to make some early distributions. The fund is now fully committed and has entered the holding phase. The fund is weighted primarily to North America, but has made a number of investments in Europe and Asia. Rantanen stated that she expected that the fund would call the entire commitment within the next few years. She stated that Fund VIII has made more investments in smaller funds, and that this has allowed the firm to avoid some of the higher priced assets.

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. Within the past year, 85% of the Townsend Group was sold to NorthStar Asset Management Group. The transaction will have a final close in the first quarter of 2016. There have been no changes to the portfolio management. The portfolio has stopped calling committed funds on this account, with the last call in 2013. Kusek stated that the portfolio was able to generate early returns with five secondary investments, which allowed them to recycle distributions rather than calling funds. The total portfolio consists of 19 investments. The portfolio has performed very well, with Kusek projecting a net IRR of 15%. To date, the system has paid $3.4 million into the account, received $2.3 million in distributions, and the current portfolio value is $3.4 million. Kusek reviewed the various fund investments, noting the highest and lowest performers. He also discussed Townsend's research and risk analysis process. The firm anticipates making substantial distributions in 2016 and 2017, with the fund winding down in 2018 or 2019.

Lee Tesconi and Mark Andrew represented Lexington Capital Partners. A written review of the portfolio was presented to the Board. Within the past year, the firm opened a new office in Santiago, Chile. There have been no changes to the portfolio management over the last year. Tesconi discussed their deal sourcing process, emphasizing their close relationships with general partners at the various private equity firms. Andrew reviewed the LCP VIII portfolio. The fund closed with $9.2 billion in commitments, and has made investments totaling $4.3 billion to date. The underlying funds were purchased at an average discount of 18%. Cambridge made a commitment of $20 million, with $2.2 million called to date. The firm used a credit facility in order to fund purchases during the fundraising stage. At this time, the firm has no plans to close the facility unless there is a significant rise in interest rates. The firm is currently paying less than a 2% interest rate. This is the first time that Lexington has made use of leverage in one of their funds. Going forward, the firm does not expect to call more than $10 million of Cambridge's remaining commitment. The majority of money will be called over the next 4-5 years, with smaller amounts in years 6-8 as the funds reach maturity. Andrew discussed the composition of the portfolio. Most of the purchases have been either exclusive or limited competitive deals. Most of the funds are buyout-focused and based in the United States. There have been 24 deals closed to date. Tesconi described a large transaction involving the purchase of a number of funds from JP Morgan, using it as an example of the firm's ability to source exclusive deals.

Jonathan Aggett and Logan Roise represented Hancock Timber. A written overview of the portfolio was presented to the Board. Dan Christensen, CEO has announced his retirement. It was a planned retirement, and his successor has been identified. Aggett stated that he would be leaving the firm in order to complete an MBA program. He stated that he intends to return to Hancock in some capacity in two years. Aggett's replacement has not been finalized. The Hancock Timberland X portfolio is now fully invested, and in the holding period. Cambridge committed $6 million and the entire amount has been called. The fund has made $500,000 in distributions. The current value of the fund is appraised at $8 million. The fund has seen some losses in the value of the Australian holdings, due to the appreciation of the US dollar. The firm does not make currency hedges, although Aggett noted that some investors make such hedges on their own. The firm is now holding the Australian assets, so the value reduction is based only on the appraised value. The value of the US assets is up. The total portfolio consists of over 500,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund has generated an IRR of 8.2%. Roise described the appraisal process. Hancock uses independent appraisers, and changes appraisers every three years. Aggett reviewed the economic outlook for timber products. He noted that US housing starts continue to trend upward, although they remain below their long-term average.

Paul Todisco and Eric Nierenberg represented the PRIT Fund. A written portfolio report was submitted to the Board. Todisco stated that there were two new appointees to the PRIM Board, and changes to some sub-committees. Within the PRIT office, David Gurtz was promoted to CFO and COO. Todisco stated that PRIT will fall somewhat short of its target allocation for the 2015 private equity fund. This means that they will not be able to draw Cambridge's full commitment of $40 million. Nierenberg reviewed the performance of the hedge fund sleeve. He reminded the Board that the objective of the portfolio is to provide a return between equites and fixed-income, but with volatility similar to the fixed-income portfolio. 80% of the portfolio is now invested with direct hedge funds. 20% is invested with a fund-of-funds specializing in smaller managers. At present, there is no move to replace this manager. Nierenberg stated that this manager has agreed to fee reductions, making them competitive with the direct investments. Over the last year, the fund has returned 0.4%, vs. the benchmark at 1.46%. The performance over the last five years has been better. He stated that there was no systemic reason for the underperformance over the last year, and this it was primarily attributable to several individual managers who had difficult years. He noted that several managers had holdings of Valeant Pharmaceuticals, which saw a collapse in its stock price over the summer. This stock alone accounted for 60 basis points of losses. The portfolio also lagged because long/short managers in the index performed well. PRIT has opted to underweight this strategy, because it tends to correlate strongly with the equity portfolio. Nierenberg has continued to work on shifting more of the investments into separate accounts. This gives PRIT more control over the assets, greater transparency, and more flexibility to negotiate fees. The performance of these accounts has been stronger than the commingled accounts. Separate accounts now comprise about 25% of the portfolio. Nierenberg described his process for evaluating the composition of a manager's returns. The purpose of this analysis is to identify situations where a manager is generating returns that could be replicated more cheaply in a different asset class. Gardner stated that he would be interested in getting more information on their process, and seeing how it could be applied to equity managers. PRIT also is developing a program to use their analysis to replicate various strategies in-house, at a very low cost. The replication strategy currently comprises about 4% of the hedge fund sleeve, and Nierenberg stated that he intends to increase this allocation over the next year. He stated that he believed that CALPERS decision to exit the hedge fund space was primarily driven by concerns over size, in that CALPERS had nearly $30 billion allocated to this sleeve. Nierenberg stated that it would be extremely difficult to find enough strong managers to invest that much money.

Monagle moved to adjourn at 3:30 PM.