Minutes of the meeting held on October 16, 2014

Present: Francis Murphy – Chair, James 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 11:03 AM. The meeting was digitally recorded.

Agenda Item # 1 – Manager Interviews
Chad Alfeld and Scott Humber represented Landmark Partners. A written proposal was submitted to the Board. Landmark was formed in 1989, and is currently raising its fifteenth private equity secondary fund. Alfeld reviewed the process and advantages of secondary investing. He stated that by buying positions in existing funds, the firm shortens the investment duration, avoids early management fees, and may cut out the down portion of the J-curve. The firm typically holds the funds until they terminate. Up to 10% of the capital may be invested in primary funds. Over the previous 14 funds, the firm has achieved a net IRR of 18.7%. The present fund is targeted to $2.5 billion, with $2.25 billion committed to date. The fund began investing in March and has closed on nine secondary transactions, with $1.1 billion committed. Investors may choose to sell their positions on the secondary market for a variety of reasons, including need for liquidity, regulatory issues or a change in investment strategy. Alfeld reviewed the composition of the prior fund, noting that the underlying funds were spread across thirteen vintage years, and well diversified by industry and strategy. In the last fund, 78% of the acquisitions were done through exclusive sales, and only 1% bought at auction. Landmark strives to maintain close contact with potential sellers, ahead of the time that a decision to sell is taken, which allows the firm to negotiate exclusive sales. Humber reviewed the growth of the secondary market, noting that 2014 is on pace to have record transaction volume. He stated that the firm was comfortable with the size of the fund, noting that the firm can close between four and six transactions each year, in the range of $200 to $500 million each. Transactions in this range can often be negotiated on an exclusive basis. The final close of the fund will be on December 31, 2014. Alfeld stated that the firm may request that the limited partners approve an increase in the fund size to about $3.25 billion.

Lee Tesconi and Mark Andrew represented Lexington Capital Partners. A written proposal was submitted to the Board. The present fund is targeted to $8 billion and has raised $2.3 billion. The fund has closed on ten transactions, committing 30% of available capital. Tesconi noted that Lexington has remained independent, and stated that he feels this is a competitive advantage when dealing with banks who may not want to sell a holding to a firm which is owned by a direct competitor. Over their previous funds, the firm has generated a net IRR of 17.4%. The present fund uses a line of credit to pay for commitments during the fundraising stage. Once the fund is closed, the fund will start calling capital from limited partners in order to clean up the credit line. Tesconi estimated that the first capital call would be at the end of March 2015, and would likely call about 20% of the commitment in the first call. Andrew estimated that secondary market transactions in 2014 would fall between $25 and $30 billion. He estimated that over the next five years, between 6% and 8% of limited partner interests would be offered on the secondary market. Tesconi stated that he felt that there was a sufficient volume of transactions to allow a larger fund to thrive without buying into more marginal transactions. Andrew reviewed the transaction process. He stated that Lexington negotiates an average discount of 24% on purchases, vs. the industry average of 15%. Approximately one-third of returns are generated by the purchase discount. Tesconi reviewed the performance of their most recent completed fund. The fund raised $7 billion, and has generated a net IRR of 20.7%. The present fund has negotiated a 19% purchase discount to date, generating a 1.2x net multiple. Tesconi stated that Boston, Braintree and Brookline have all committed to invest in the present fund.

The Board reviewed an analysis of the candidates prepared by Segal Rogerscasey. Donna Rosequist participated in the discussion by telephone. Rosequist summarized her analysis of the firms, and the decision to interview only Landmark and Lexington. She reviewed the operations of the secondary market, and confirmed that sellers rarely use the secondary market due to concerns about the performance of the underlying fund. More commonly, the decision to sell is driven by concerns about liquidity, regulatory issues, or a change in strategy. She noted that secondary funds were negotiating smaller discounts than usual, and that this is likely due to high prices in the public equity markets.

In evaluating the candidates, Rosequist stated that there were few substantial differences between them. Landmark is majority-owned by an outside company, Religare. Lexington is substantially larger, with $23 billion under management, compared to Landmark at $9.4 billion. Lexington also has a larger staff. Their strategy is somewhat different, with Lexington buying more positions through auctions, and Landmark buying mostly through exclusive negotiations. Rosequist noted that neither strategy was necessarily better than the other. Lexington may allocate slightly more money into venture capital than Landmark. Their geographic focus is likely to be similar, with both funds investing primarily in the US. Across all predecessor funds, returns are largely similar. Rosequist stated that Landmark has higher average returns, although Lexington has higher returns when comparing funds raised within the same vintage year. Investment fees are similar, with Landmark likely to be slightly cheaper over the life of the fund. Both funds have made a number of commitments already. Cambridge would be entitled to share in the returns generated to date, after paying an interest charge. Rosequist stated that returns to date were not publically available, although she could make an inquiry to determine if investments were being held above cost.

In comparing the two candidates overall, Rosequist felt that there was little to differentiate the two, and that either of them would be likely to be a solid investment. She also stated that there would be no disadvantage to hiring both managers and investing $20 million with each.

In response to a question from Monagle, the Director stated that she did not see any administrative issues in hiring two new managers. She also stated that she was pleased with the customer service from Landmark in their real estate fund. Gardner stated that he would favor hiring both managers for additional diversification. He also noted that he believed that the system had never invested such a large amount in a single private equity fund.

Gardner moved to hire both Landmark and Lexington, investing $20 million with each manager. Shinkwin seconded the motion and it was voted unanimously.

Monagle moved to adjourn at 1:25 PM.