Minutes of the meeting held on October 26, 2023

Present: Francis Murphy – Chairman, Michael Gardner, Joseph McCann, James Monagle, Michele Kincaid, Ellen Philbin, Rafik Ghazarian and Chris Burns.

Left Early: Nadia Chamblin-Foster (left following MacKay Shields presentation.)

The meeting was called to order at 11:05 AM. This was a hybrid meeting held in-person at 125 CambridgePark Drive, and via Webex videoconference. The Webex was digitally recorded.

Agenda Item #1 – Segal Marco Advisors
The Board reviewed Segal Marco's analysis of responses to the Emerging Markets Debt RFP. Ghazarian reminded the Board that they have already voted to select Wellington to manage the local currency segment of the Emerging Markets Debt allocation. The two managers selected to interview are competing to manage the hard currency segment. The reports have been updated to include returns through the third quarter of 2023. Segal rated Marathon as "Highly Advantageous". The incumbent manager, Fidelity was rated as "Advantageous". Ghazarian stated this was due to a change in their Chief Investment Officer a year ago, as well as other staffing changes. Marathon's returns have been higher than Fidelity, although with somewhat more risk. Fidelity has proposed a fee of 58.5 basis points on the first $50 million. This constitutes a 10% discount from their usual rate. Marathon has proposed a fee of 50 basis points on all assets. This consists of a management fee of 38 basis points and an expense fee, capped at 12 basis points. Ghazarian recommended that the system should budget assuming that the total fee would come in at 50 basis points.

The Board reviewed Segal Marco's analysis of responses to the High Yield RFP. Segal rated three firms as "highly advantageous". They are Loomis, the incumbent firm; MacKay Shields; and Mesirow. All three have been invited to interview. Over the last ten years, both Mesirow and MacKay Shields have shown better returns than Loomis. The Mesirow fund is benchmark agnostic, able to buy into any type of high yield debt, and has shown more volatility than the other funds. Ghazarian noted that Cambridge had previously used MacKay to manage a high yield bond portfolio. However, that was a more conservative portfolio, managed by a different team than the group presenting today. Ghazarian also pointed out that the Mesirow fund had a spectacular return in 2021, returning 12.12%, which put them in the third percentile within their universe. The returns from that one year have pushed up their average return over the last ten years. Loomis has proposed at fee of 40 basis points on all assets. MacKay charges 37 basis points on all assets. Mesirow charges 55 basis points on the first $25 million in assets and 48 basis points on investments over $25 million. Mesirow could also offer a separate account with lower fees.

Agenda Item #2 – Emerging Markets Debt (Hard Currency) Manager Interviews
Brian Drainville, Timothy Gill and Melissa Moesman represented Fidelity. A written proposal was submitted to the Board. Moesman stated that Cambridge currently has approximately $22 million invested with this manager. Cambridge originally invested $20 million. Moesman stated that Attleboro, Holyoke and Lexington have invested in the same portfolio. Drainville noted that the last five years have been a difficult period for emerging markets debt. He noted that COVID, rising interest rates and various country challenges have all been a drag on performance. He also stated that the portfolio management had seen some transition, but that he was confident that the current team was better than ever. He discussed recent hires and noted their close working relationship with people working on equity teams, who can provide a good insight on local markets. Gill reviewed his work history, noting that he has been in the lead portfolio manager

role since 2020. He discussed Fidelity's long history of managing an emerging markets debt portfolio, noting their consistent investment strategy with no style drift. Gill noted that the fund has no exposure to the Chinese housing markets and was not hurt by depressed assets in that sector. The portfolio is typically invested with between 65% and 75% of assets in sovereign debt. The remainder is in corporate debt. The fund invests in a universe of approximately 80 countries. The fund will generally invest half of the portfolio in non-investment grade bonds. Gill stated that he remains very conscious of controlling risk and finds this to be a reasonable way to drive returns on a risk-adjusted basis. Gardner asked for discussion around the firm's underperformance over the last five years. Gill conceded that the fund had underperformed between 2018 and 2020. The fund has rebounded since 2021. Gill urged the Board to focus on the last three years, which corresponds to his time as lead portfolio manager. He noted that he has been able to implement better risk controls and improve average credit quality. Prior to 2021, the fund was hurt by overly large positions in Argentina and Venezuela. Gill stated that, under his management, the fund would not make such questionable investments.

Ana Jelenkovic, Andrew Szmulewicz and Audrey Wang represented Marathon Asset Management. A written proposal was submitted to the Board. Wang stated that there are no other Massachusetts public funds in the Emerging Markets portfolio, although Marathon does have Massachusetts clients in other portfolios. Marathon was founded in 1998 and currently holds $22 billion in assets under management. The EMD portfolio has $3.5 billion in assets. The majority of the firm is owned by nine partners. Blackstone also holds a minority stake. Szmulewicz reviewed the members of the portfolio team. He noted that he is the Senior Portfolio Manager, although the final say on the portfolio comes from Gaby Szpigiel, the Head of Emerging Markets. Szmulewicz reviewed his work experience and then discussed the fund's portfolio construction strategy. Marathon attempts to replicate key aspects of the index, including country weights, sector allocation and average duration. This controls risk and tracking error very tightly. Based on their analysts view of each country, Marathon then makes a decision as to take more of less risk in each country, while staying withing the bounds of the index as described. Jelenkovic described her role as the Director of research and strategy. The portfolio team holds weekly meetings to review the outlook for each country and to formulate strategy. She noted that she had recently travelled to attend meetings of the World Bank where she had the opportunity to meet a number of central bankers and finance ministers. Szmulewicz stated that the strategy has allowed the fund to outperform the index in nine of the last ten years. He described some of the ways in which the fund might opt to take more or less risk in a given country. Marathon now has a positive view of Mexico, by taking a larger position in the national oil company, and less exposure to short-duration sovereign bonds. For a country where the fund takes a negative view, the fund would tend to avoid corporates and invest more in shorter duration sovereign bonds. Szmulewicz also gave an example of a position that did not work out. The fund took a negative view on El Salvador. In this case, they sold off a number of bonds, which subsequently increased in value. Jelenkovic gave her outlook on future markets conditions. She stated that markets are adjusting to the likelihood of interest rates remaining high for the foreseeable future, and yields will likely be unchanged.

Brian Kennedy and Teresa Woo represented Loomis Sayles. A written proposal was submitted to the Board. Woo gave an overview of Loomis Sayles, noting the firm now has $310 billion in assets under management. She discussed how the firm evaluates ESG factors in their research process. She noted that it was one of several factors considered and that it could be seen as another form of risk, such as liquidity or leverage. Kennedy described the firm's investment strategy. He discussed the fund's method for calculating enterprise value, measuring a firm's debt, equity and cash in order to determine the risk of buying a particular bond. He also discussed how the fund can profit by picking bonds with improving credit fundamentals. He noted several fallen angel bonds, such as Ford and Occidental Petroleum that were downgraded to junk status but then rebounded. He also discussed the holding of Dish Network and his optimism that they will be able to compete in the mobile space with AT&T, Verizon and T-Mobile. He also described the holding of Altice and his conviction that, having built out a new fiber network, they will be able to compete with Comcast in cable/internet service. He described rising credit spreads for high yield bonds, while defaults have remained low. He stated that in 2024, a great deal of debt will need to be refinanced, and interest rates are likely to remain high into 2025. This could be challenging for lower-rated firms, and Loomis has taken a more conservative position by adding more highly rated bonds.

Therese Hernandez, Joseph Maietta and Andrew Susser represented MacKay Shields. A written proposal was submitted to the Board. Hernandez gave an overview of MacKay Shields. The firm was founded in 1938 and is now wholly owned by New York Life Insurance Company. There are 200 employees and $129 billion in assets under management. The high yield fund has $23 billion in assets. There are currently no Massachusetts public pension funds invested in the high yield portfolio. Maietta described the investment process, and how the firm evaluates risk. MacKay requires that all investments have 1.5x asset coverage, which is intended to ensure that sufficient assets exist to allow payment in the event of a default. He reviewed his experience and that of other members of the portfolio team. He noted low turnover over the last several years and highlighted that many of the analysts had started as interns and been promoted. Susser described his method of credit analysis, focusing on the firm's business strategy and capital structure. He noted that he does focus on lending covenants, although these have become less important over the last several years. Finally, the firm also evaluates ESG factors, and noting how the firm might be impacted by climate change, or if they have a questionable governance structure. MacKay assigns bonds to one of four different risk buckets, with a minimum required credit spread to buy a bond with a given risk. The balance between the four different buckets can change significantly from quarter to quarter as the fund makes decisions to shift to a risk-on or risk-off strategy. The fund has generated consistent positive returns, returning 4.9% annually over the last ten years, vs. the index at 4.3%. The fund also has less risk than other high yield funds. Chamblin-Foster asked about the holding of Hologic, a women's medical device company, and if they had been affected by a political environment which places a lower priority on women's health. Susser noted that Hologic was involved in developing a COVID diagnostic test, which was very profitable in 2021, but has seen less demand more recently. However, their core business has continued to grow.

Thomas Hynes, Servia Rindfleish and Robert Sydow represented Mesirow. A written proposal was submitted to the Board. Hynes discussed Mesirow's history. They were founded in 1937, headquartered in Chicago and are employee-owned. They have 508 employees and $14.6 billion in assets under management. The high yield portfolio has $1.4 billion in assets but should be at $1.9 billion by year end due to inflows. The fund includes Plymouth County, Norfolk County, Taunton and Danvers as clients. Mesirow's investment strategy focuses on the smaller end of the high yield market, which is more inefficient and offers better opportunities for returns. Sydow described his investment philosophy in more detail. His strategy involves taking a top-down view of various industry sectors and then opting to exclude sectors which seem excessively risky. In doing so, the fund will typically eliminate up to a third of the investment universe from any consideration of investing. The portfolio usually consists of no more than 100 bonds. By focusing on the smaller segment of the market, the fund has consistently been able to identify bonds paying higher rates, with their average yield being 158 basis points above the benchmark. At the same time, Mesirow has been able to achieve lower defaults than the index. The firm's strategy has also been extremely successful in preserving capital during downturns. He noted that Mesirow had no investments in Financials during the Great Recession. As a result, Mesirow outperformed the index by 18.7% between May 2007 and November 2008. Rindfleish discussed the small company focus, noting that most of the major players in high yield, such as BlackRock and PIMCO don't invest in the sub-$500 million asset class. She noted that many firms this size don't employ an investor relations specialist but Mesirow is able to conduct research by speaking with owners and managers directly. Hynes noted that there would be little correlation between Mesirow's holdings and any other manager in this space. He emphasized that he relies on his own research process and puts little stock in data from the ratings agencies. He noted that they had a tendency to underrate small firms and to inflate ratings on large firms. The fund has consistently outperformed the index, returning 7.76% annually over the last ten years, vs. the index at 6.09%. Hynes stated that it was his intention to close the fund to new investors at $5 billion. Sydow stated that he hopes to keep close contact with his clients and offered to speak to Board members at any time about any type of concern. He said that once a contract was executed, the fund could invest at least 90% of Cambridge's commitment within 30 days.

The Chairman stated that he would favor hiring Marathon for the EMD mandate. He stated that the recent returns from Fidelity had been poor and he felt that it was time to move to a different manager. McCann moved to award the Emerging Markets Debt/Hard Currency mandate to Marathon, taking funds from Fidelity. Monagle seconded the motion. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

The Chairman stated that he would favor hiring Mesirow for the High Yield mandate. He said that he was disappointed with Loomis Sayles' returns, and respected that Mesirow has several Massachusetts clients. Finally, he stated that he appreciated the firm's philosophy around investing in specific sectors and minimal reliance on ratings agencies. Gardner asked to clarify if Segal agreed with Mesirow's claim that they have been able to maintain a lower default rate than the index despite investing in lower-rated offerings. Ghazarian stated that he believed that the claim was true. Gardner asked if there was publicly available data to compare the size of the companies that Mesirow invests in vs. the index. Ghazarian stated that there are very few managers that invest in the small-cap side of the bond universe. He noted that he did not believe that there was a small-cap bond index but offered to check and report back. Motion by Gardner, seconded by Monagle to hire Mesirow as the High Yield manager, taking money from Loomis Sayles. The motion carried on a 4-0 vote, with Chamblin-Foster absent.