Minutes of the Meeting on Tuesday September 1, 2015

Present: Francis Murphy – Chair, James Monagle, Michael Gardner, John Shinkwin, Ellen Philbin, Rafik Ghazarian, Attorney James Quirk and Chris Burns.

Absent: Nadia Chamblin-Foster

The meeting was called to order at 1:04 PM. The meeting was digitally recorded.

Agenda Item #1 – Segal Rogerscasey

The Board reviewed a written analysis of investment performance for the period ending June 30, 2015. The broad market performance in the last quarter was largely flat in the equity space, with some losses in the fixed income space. Private equity and real estate performed well.

Ghazarian reviewed the current asset allocation. He stated that he intends to shift Landmark Real Estate and Penn Square Real Estate from the Alternatives sleeve into the Real Estate Sleeve. He also moved Cambridge Bancorp out of the Alternatives sleeve and into a new "Other" category. Gardner stated that he did not feel this this change was an improvement. He noted that the Board did not consider creating an "Other" asset class when approving the new asset allocation schedule. The Chairman stated that he would prefer to keep the new category for two more quarters, until the Board is able to complete some of the moves in order to bring the system in line with the new asset allocation schedule. Ghazarian estimated that it would likely take from 6-12 months in order to bring the system in line with the allocation targets.

The system is now significantly overallocated to the domestic equity segment. Ghazarian stated that these managers will be trimmed back as the system funds some of the new managers. The system is now in the process of finalizing contracts with Aberdeen, Pyramis and Wellington. He stated that the system is currently underallocated to the hedge fund sleeve. Ghazarian recommended that the system take money from equities and move it to the PRIT hedge fund portfolio.

Gardner reminded Ghazarian that he had requested information on the fees charged by the PRIT hedge fund portfolio. He was particularly interested in knowing if PRIT is charging an administrative fee on top of the fees charged by the underlying managers. Ghazarian stated that he had reviewed the fees, but had not prepared a written report. He stated that PRIT's fee was very competitive, and that high fees are typical in this asset class. Ghazarain stated he was unable to provide the exact number of basis points paid in fees, and offered to perform more research and report back. Gardner stated that he had no objection to reallocating assets into hedge funds before getting a final report on fees. Motion by Monagle, seconded by Shinkwin to rebalance the portfolio by moving money into the PRIT Hedge Fund account. Ghazarian recommended taking $10 million each from Columbia and from the S/Mid Index fund. He noted that this was due to Columbia's poor performance and because of the overallocation to small cap funds. The motion carried unanimously.

The portfolio saw flat returns over the last quarter. Overall, the total fund was valued at $1.108 billion, representing a gain of 0.18% during the quarter. The fund slightly underperformed the policy index return of 0.34%. The report includes a new chart showing all managers performance on a net-of-fees basis. Columbia has continued to underperform over the last quarter. Ghazarian stated that he would recommend expediting a search to replace this manager. He also stated that he felt that managers within this space could be consolidated, and that he would prepare a recommendation in time for the next meeting.

Ghazarian reviewed a memorandum regarding the fees charged by UBS and various documents regarding their appraisals and dispositions of the properties in their portfolio.

The Director reminded the Board that the City Council adopted a resolution in April, requesting that the Board review allegations that UBS inflated their property appraisals in order to charge higher fees.
Ghazarian stated that found that UBS was very open in their willingness to provide the information requested by the Board. He noted that UBS was a very strong performing manager, one of the top funds in their universe. Segal's research division has reviewed the list of transactions over the last five years, and found the appraisals are fair, with no pattern of inflated appraisals. Their management fees are in-line with those charged by comparable managers. Gardner requested that Segal revise their memo to provide more specific information as to how UBS' fee is calculated, how much Cambridge has actually paid each year, and how often UBS' returns trigger an additional incentive fee.

Ghazarian reviewed Segal's analysis of the responses to the Infrastructure RFP. Six firms submitted responses. Segal has recommended interviewing three firms. IFM and JPMorgan have proposed open-end funds. GCM Grosvenor has proposed a closed-end fund. In reviewing the fund's performance history, Ghazarian noted that all the managers experienced significant losses in 2008, but that their losses were not as great as the losses in the equity markets during the same period. Without objection, the Board agreed to interview the three managers recommended by Segal.

Agenda Item #2 – MacKay Shields
Won Choi, Virginia Rose and Joseph Maietta represented MacKay Shields. A written overview of the portfolio was presented to the Board. There have been no changes to the management or investment strategy. Rose reviewed a slide describing the firm's diversity initiatives. 51% of the total work force is composed of women and minorities. Choi reviewed MacKay's investment process and risk analysis. He stated that the firm does not buy a bond unless they believe that the value of the firm is at least 150% of the value of outstanding debt. He noted that after reviewing the risk, MacKay sorts their portfolio into four risk classes, with group 1 as the strongest credit profile and group 4 as the riskiest. Group 1 is about 50% of the portfolio and group 4 is about 1%. The portfolio remains in a defensive posture, with a higher average quality than the index. Maietta stated that, within their investment universe, the default rate is about 3.1%, and MacKay's default rate is about 1.6%. Choi stated that he does not feel that looking at the default rate is a particularly good way of measuring performance. He observed that a firm could exit a bond by selling at a steep discount before a firm defaults, without taking a hit to their default rate. Performance over the last year has been strong, with the fund returning 2.35% vs. the benchmark at -0.13%. Choi noted that high yield returns do tend to correlate with equity markets, and particularly small cap stocks. In the last year, energy and commodity firms have been the strongest drivers of performance. Telecommunications and gaming have been the biggest detractors.

Agenda Item #3 – Brandywine Global Investment Management
Jack McIntyre and Craig Scott represented Brandywine. A written portfolio report was submitted to the Board. The Director distributed an additional page describing diversity at Brandwine which was not included in the report. Scott stated that the firm tries to maintain a culture of diversity. In considering the senior staff, 28% are women and 20% are minorities. In January, the firm hired Chen Zhao as Co-Director of Global Macro Research. There have been no other changes to the portfolio team or investment strategy. The portfolio has performed well on a relative basis over the last year, returning -8.41% vs the benchmark at -13.49%. The primary reason for the poor absolute performance has been the increasing value of the US Dollar. The portfolio maintains the strategy of having zero holdings of Japanese bonds, as it has for the last several years, and also maintains a significant underweight to the Euro. These positions helped significantly in reducing losses. McIntyre reviewed the investment process, noting that

the firm takes two separate decisions as to whether in invest in a particular country, and then to invest in the local currency. The firm does not always hedge against currency fluctuations, when a strengthening local currency might be able to add additional performance. In the past year, the strengthening dollar has resulted in losses in most foreign currency positions. Within the last two years, the firm has increased investments in corporate bonds. These now constitute 8.4% of the portfolio. Sovereign bonds constitute 84.2% of the portfolio. McIntyre noted that in the current environment, corporate bonds appear to offer greater value. Historically, the portfolio has had minimal investments in this area. The portfolio maintains an overweight position in Mexico. McIntyre stated this was due to low cost of labor and shipping to the US, as well as high bond yields.

Agenda Item #4 – AEW Capital Management, LP
Mark Davidson represented AEW. A written overview of the portfolio was presented to the Board. Davidson stated that he anticipates that the fund will be fully liquidated by the end of October. There are three properties remaining in the portfolio, all of which are under contract to be sold. Following liquidation, the fund will hold back $10 million for potential contingent liabilities. Assuming no unanticipated liability, this last piece will be returned to investors in late 2016 or 2017. The fund should terminate with a net IRR of 2.1%. Davidson noted that this was significantly less than he had anticipated at the time of the investment, but that he felt that the fund had performed strongly given the timing of the investments in 2005 and 2006. He reminded the Board that the firm had stopped investments in 2007. He stated that some firms had been able to make investments post-crash and saw gains from them, but he felt that the assets that were offered for sale in 2008 and 2009 were of lesser quality and represented poor investments. He stated that he believes that holding back funds in order to protect the existing portfolio was the correct decision. With the termination of the portfolio, Davidson stated that he would most likely not provide another update on this investment. Their subsequent fund, vintage year 2010, is currently producing an IRR of 18%. He stated that he felt that the fund's performance shows the firm's ability to generate a profit is the worst of times, and that he hoped to work with Cambridge again in the future.

Agenda Item #5 – UBS Realty Investment
Maria Bascetta represented UBS. A written overview of the portfolio was presented to the Board. Bascetta also distributed a copy of UBS' diversity policy, which was not included in the report. Bascetta stated that she was familiar with the claims made by UNITE HERE. She stated that the properties they are concerned with are part of the portfolio in a different fund. There have been no changes to the firm's management or investment strategy. She noted that the fund has maintained a strategy of low leverage and higher exposure to apartment properties. The majority of the properties are located on the east and west coasts, with smaller holdings in the south and Midwest. The portfolio is focused on income, with 85% of the total return generated from income and 15% from appreciation. The total portfolio is now $20.1 billion, with an additional $1 billion in a deposit queue. The queue is smaller than it was a year ago, as the firm has made several new acquisitions. The portfolio has acquired 11 new properties to date in 2015. The portfolio was ranked second within the ODCE universe for sustainability. The firm uses an independent appraiser to assess the value of each property on a quarterly basis. The fund has underperformed the index over the last five years. Bascetta stated this was primarily due to the higher level of leverage in the ODCE index. The fund has about 13% leverage, vs. the ODCE at approximately 22%. The average interest rate is now 3.9%. 99% of the debt is carried at a fixed rate. Bascetta reviewed a chart showing annual sales, and the last appraised value prior to the sales. She noted that the sales come in consistently close, and generally higher, than the appraisals.

Agenda Item #6 – INVESCO
Keri Hepburn and Michelle Foss represented Invesco. A written review of the portfolio was presented to the Board. Hepburn also distributed a copy of Invesco's diversity policy, which was not included in the report. Hepburn highlighted the formation of a diversity council under the head of Human Resources. There have been no changes to the investment strategy or portfolio team. Historically, the firm has been strategically overweight to apartments. Over the last three years, the firm has trimmed holdings of apartments and redirected new investments into office space. Foss noted that apartments were a very defensive strategy during and following the recession. During the recovery, Invesco felt that office space was a stronger investment. Over the next two years, the firm is likely to make more investments in the apartments sector. The fund has a loan to value ratio of 20.4%. This is somewhat lower leverage than the ODCE index, although the fund has moved over the last few years to increase the use of leverage to more closely match ODCE. Value-add properties comprise 9.8% of the portfolio. The portfolio is now 95.2% leased, and the fund has worked to push out lease terms. In reviewing performance, the fund has outperformed ODCE across all time periods. Foss stated that the firm uses an independent appraiser. A full appraisal of each property is performed annually, and there are also quarterly updates. Appraisers are rotated every three years.

Agenda Item #7 – Rockwood Capital
Tyson Skillings and Walter Schmidt represented Rockwood Capital. A written review of the portfolio was submitted to the Board. In the last year, Arthur Flashman replaced Jennifer Levy as CFO. There were no other changes to the firm's management or investment strategy. Schmidt reviewed the firm's diversity program, noting that the firm has had difficulty attracting female employees, particularly in executive roles. The portfolio is now coming to the end of the investment cycle. The fund closed in November 2013 with $678 million in capital commitments. The fund has closed on 20 investments, committing $482 million. There are two additional investments under contract which will close before the end of the year, bringing the total investment to $559 million. The fund will likely conclude several more purchases in 2016 before the investment period ends. The fund has closed its first sale at a 1.9x multiple, and has begun to market several other properties for sale. Schmidt stated that he was pleased with the portfolio so far, noting that they were projected to deliver a net IRR of 14%. Schmidt reviewed the investment strategy and risk management. The majority of the targeted properties are planned to generate income within 12 to 18 months. A number of properties generate income immediately. The firm attempts to control risk by holding longer renovations (24-36 months) to between 15-30% of the fund. The fund generates most of its profits from appreciation, rather than from rent. Schmidt stated that while the strong real estate market has made it difficult to find reasonably priced properties to purchase, the firm has opted to stay in the largest cities, rather than looking to buy in secondary markets.

Agenda Item #8 – Landmark Partners
Chad Alfeld represented Landmark Partners. A written portfolio report was submitted to the Board. There have been no significant changes to the portfolio team over the last year. The Board is now invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. The firm had one planned retirement of an investment committee member. Alfeld stated that Landmark is a minority-led firm, with Frank Borges as CEO since 1999. Landmark has an active relationship with the Robert Toigo Foundation, which supports bringing minority candidates into the finance industry.

The real estate fund is now fully subscribed. The fund has committed 103% of the invested capital. Alfeld stated that the fund overcommitted based on the understanding that one underlying fund will not actually call all the committed capital. There were a total of 30 transactions, involving 80 underlying fund interests, and approximately 1900 properties. The

fund has now made $487 million in distributions back to investors. This has resulted in a net IRR of 26.3%
The private equity fund has a final close on December 24, 2014 with $3.3 billion committed. Landmark has now made investments totaling $1.8 billion of this money, with about $686 million actually called. The fund has closed 21 transactions to date. The net IRR is now 43.7%. Alfeld emphasized that this is a function of purchase discounts on their initial investments, and he would expect that return to erode as the fund matures.

Ghazarian reviewed Segal's analysis of the responses to the High Yield Fixed Income RFP. 29 firms submitted responses. In reviewing the responses, Ghazarian stated that Segal had insufficient information to evaluate five of the candidates. With further due diligence, Segal might be able to provide a recommendation. In reviewing the other responses, Segal recommended conducting interviews with three managers. They are Hotchkis & Wiley, Loomis Sayles and MacKay Shields. Segal has ranked Hotchkis & Wiley and Loomis Sayles as "Recommended". Segal has rated MacKay Shields as "Hold". This was due to some turnover in their fixed income team, not because of performance issues. Without objection, the Board agreed to interview the three managers recommended by Segal.

Agenda Item #9 – Minutes
Motion by Shinkwin, seconded by Monagle to accept the minutes of the meeting held on August 3, 2015. Voted unanimously.
Motion by Monagle, seconded by Shinkwin to accept the executive session minutes of the meeting held on August 3, 2015. Voted unanimously.

Agenda #10- Warrant
Motion by Monagle, seconded by Shinkwin to accept payment of warrant #16 in the amount of $5,819,087.34 and Warrant #17 in the amount of $198,140.79. Voted unanimously.

Agenda Item #11 – Superannuations
Motion by Gardner, seconded by Shinkwin to accept the Superannuation retirement applications submitted by Teresa A. Chase, Teacher after School, Cambridge School Department with seventeen years eight months, Sharleen M. Johnston, RN, Cambridge Health Alliance with fourteen years, Michael J. Nicoloro, Deputy Building Commissioner, Inspectional Services with forty- seven years five months, Rosemary Pereira, Bilingual Liaison, Cambridge School Department with thirty-three years one month, Denise H. Toomey, Paraprofessional, Cambridge School Department with twenty-eight years five months, Vinton B. Turner, Lead Mechanic/Building Maintenance, Cambridge Housing Authority with forty-one years ten months and Marie Vieira, Paraprofessional, Cambridge School Department with twelve years ten months. Voted unanimously.

Agenda Item #12 – Redeposits / Make up / Liability
The Board reviewed make-up and redeposit worksheets for eight members.
Motion by Gardner, seconded by Monagle to allow the redeposit of refunds requested by Luisa T. Furtado, four years ten months (pro-rated), Laurie B. Gaines, two years seven months, Patricia A. Lewis, three years, Patricia A. Lewis, nine years four months, to allow the make-up of contributions requested by Stephen A. Ahern, five months (pro-rated), Elizabeth E. Guilherme, two years one month, Alice Johnson, one year one month (pro-rated), Erica Modugno, one year one month (pro-rated) and Maria E. Ribeiro, five years (pro-rated). Voted unanimously.

Agenda Item #13 – Refund Applications
The Board reviewed a list of refund applications submitted in August.

Motion by Gardner, seconded by Monagle to approve eight refund applications. Voted unanimously.

Agenda Item #14- Joseph Tulimieri
The Board reviewed a signed disposition agreement between Joseph Tulimieri and the State Ethics Commission, and information submitted by Mr. Tulimieri regarding his salary history. Joseph Tulimieri and Anne Tulimieri appeared before the Board. The disposition agreement required Tulimieri to repay $21,245.00 in unauthorized compensation to the Cambridge Redevelopment Authority. Tulimeiri noted that the agreement breaks out the calculation of the overpayment in some detail, and that most of this amount was attributable to his payout for accrued time, and part-time work following his retirement. As these amounts were not used in calculating his pension, he stated that they should not be included in the recalculation. The Director stated that the Redevelopment Authority had informed her that all over the overpayment was retirement eligible.
Without objection, the Board agreed to table the matter to allow the Director time to verify how much of the overpayment was retirement eligible. The Chairman requested that Tulimieri share any relevant records or calculations he may have with the Director.

The Chairman requested to adjourn the open meeting and go into executive session for the purpose of discussing disability retirement applications. The Chairman stated that the meeting would reconvene in open session at the conclusion of the executive session.

On a roll call, the vote was as follows:

Michael Gardner:	YES
John Shinkwin:	YES
James Monagle:	YES
Francis Murphy:	YES

Agenda Item #15 - Accidental Disability Application – Thomas Kotowski
The Board reviewed the member's application, treating physician's statement and employer's statement filed in connection with Thomas Kotowski's Accidental Disability application. Motion by Gardner, seconded by Shinkwin to accept the Accidental Disability application submitted by Thomas Kotowski, a Lieutenant in the Fire Department, to request that PERAC convene a medical panel and to make certain specific inquiries of the medical panel about Kotowski's medical history. Voted unanimously.

Agenda Item #16 - Accidental Disability Application – John Rapoza
The Board reviewed the member's application, treating physician's statement and employer's statement filed in connection with John Rapoza's Accidental Disability application. Burns distributed a revised version of Rapoza's physician' statement, which Mr. Rapoza had submitted earlier in the day.
Motion by Gardner, seconded by Shinkwin to accept the Accidental Disability application filed by John Rapoza, a Maintenance Mechanic Aide with the Cambridge Housing Authority and to request that PERAC convene a medical panel. Voted unanimously.

Agenda Item #17 - Accidental Death Benefit – Mary Paolillo
The Board reviewed Anthony Paolillo's death certificate, correspondence from his treating physician, and the records of his 1991 retirement.
Motion by Gardner, seconded by Monagle to accept the application for Accidental Death benefits from Mary Paolillo, surviving spouse of Anthony Paolillo, a retired Police Chief. Voted unanimously.

Agenda Item #18 – PERAC Memo
The Board reviewed PERAC Memo # 18.
Quirk stated that the memo describes changes to the law which allow Boards to maintain a contract with an investment manager for up to seven years without issuing a new RFP.

Agenda Item #19 – Old Business
Gardner stated that he was disappointed that Segal had been unable to prepare a more complete report on PRIT's fees in the hedge fund sleeve.

Agenda Item #20 - New Business
The Board agreed to move the date of the October meeting to Tuesday, October 13 at 11:00 am.
Quirk stated that Garrett Bradley has provided him with updates in his securities litigation cases.

Agenda Item #21 - Executive Session
Agenda Item #15 – approved
Agenda Item #16 - approved
Agenda Item #17 - approved

Agenda Item #22 - Chairman's Report
None offered.

Agenda Item #23 - Executive Director's Report
The Director stated that the system issued the RFP for custodial banking services, with responses due on September 21.

The following documents were also reviewed by the Board:

- Notice of Retiree Death
- Correspondence from attorney Jim Quirk re: Wicklow's Case 87.
- Correspondence from attorney Jim Quirk re: 2016 State Budget.
- Correspondence from attorney Jim Quirk re: Lawrence Retirement Board vs. CRB & Others.
- PERAC Note re: Waiver of Submitting Superannuation Retirement.
- Cambridge Bancorp re: Q2 Earnings Release 2015 – Final.
- Lazard Asset Management – re: July 2015 Portfolio Review.

Monagle moved to adjourn at 6:10 PM.