Minutes of the Meeting held on Monday, September 24, 2018

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

Absent: Nadia Chamblin-Foster

The meeting was called to order at 11:00 AM. The meeting was digitally recorded.

Ford O'Neil, Celso Muñoz, Earl McKennon and Sarah Weddleton represented Fidelity. A written overview of the proposal was submitted to the Board. Weddleton stated that Fidelity has now managed funds for Cambridge for over 14 years, and thanked the Board for the continued relationship. O'Neil discussed the role of fixed income in a diversified portfolio, noting the importance of providing an anchor against market volatility. Muñoz described the firm's investment process. He also described the firm's risk analysis platform, noting that Fidelity used a proprietary, patented system in order to measure risk. Muñoz stated that he was pleased that the portfolio has been able to generate a consistent return since inception, averaging 64 basis points annually over the benchmark. O'Neil noted that Fidelity's size provides a significant advantage over competitors, giving them access to a broad staff and research tools. He noted that Fidelity is one of the largest bondholders for a number of Fortune 500 firms, and that this status gives them unique access to executives at those firms. McKennon stated that Fidelity is prepared to offer a 10% fee discount due to the length of the relationship, contingent on the system maintaining the investment in Fidelity's Emerging Markets fund. He noted that there were virtually no defaults in the portfolio, and the firm is more conscious of avoiding ratings downgrades.

Matt Drasser and Mike Sheldon representing Income Research and Management. A written overview of the proposal was submitted to the Board. Drasser reviewed the history of the firm. IRM currently has $72.1 billion in assets under management and 165 employees. He described the advantages of a medium-sized firm. He stated the IRM's risk management system was the same as that or larger firms, but that a smaller size allows the firm to be more nimble. The firm is headquartered in Boston, and has a number of Massachusetts public clients. Drasser discussed the firm's charitable efforts. Sheldon discussed the firm's investment philosophy, noting the firm does not try to predict interest rate movements. He also discussed the firm's positioning, noting an underweight to treasuries and an overweight to securitized bonds. The securitized segment usually comprises 15-20% of the portfolio. Drasser stated that he was aware that Cambridge had concerns about fees. He stated that he received approval that morning to offer an additional discount, which he would provide to the Board. Sheldon described how IRM's strategy might compliment the core bond fund managed by Fidelity. He noted that Fidelity is much more likely to invest in mortgages, which IRM tends to avoid. Over the last year, one bond in the portfolio was downgraded below investment grade.

Gilbert Garcia and Ruby Muñoz Dang represented Garcia Hamilton & Associates. A written overview of the proposal was submitted to the Board. Garcia reviewed his own biography and the history of the firm. Garcia Hamilton is 100% employee-owned and is a certified MBE firm. The firm has 33 employees and $10.5 billion in assets under management. The firm has a focus on smaller clients, with the median client investing $13 million. All the employees work out of the firm's office in Houston. The firm only manages fixed income funds, having eliminated their equity business in 2016. The majority of clients are public funds. The firm has been recognized by P&I Magazine as one of the best places to work. The firm manages funds for three Massachusetts Public Funds, Medford, Dukes County and the MWRA. Garcia described the firm's investment strategy. He noted the firm does take some interest rate risk. All corporate securities are rated A or better. The firm buys only 15 and 20-year mortgages. They also avoid "sin names" involved in alcohol, tobacco or gambling. The portfolio will typically consist of between 35 and 45 bonds. He noted that a smaller portfolio makes it significantly easier to manager interest rate exposure.

Akshay Anand, Barbara McKenna and Corinne Larson represented Longfellow Investment Management. A written overview of the proposal was submitted to the Board. Larson reviewed her biography, noting that she previously worked at State Street, where she was the Relationship Manager on the Cambridge account. She described the history of the firm. Longfellow is 100% employee-owned. There are 37 employees and $10.6 billion in assets under management. Longfellow is a certified WBE firm. Longfellow currently manages funds for the MHFA Retirement Board and previously managed funds for the Danvers Retirement Board. Danvers terminated their account when Danvers opted to change their investment strategy. Larson stated that Longfellow has never lost a client due to performance or client service issues. She described the firm's diversity and recruitment efforts. McKenna described the firm's approach to risk management, focusing on strong independent research. She described the actions the firm had taken leading up to the 2008 recession, which enabled them to minimize losses. The majority of gains are made through sector and security allocation, with smaller amounts from managing durations. The portfolio typically consists of 100-125 bonds. McKenna noted that the firm's research process takes ESG factors into account, even for clients without a specific screen. She described how concerns about poor governance led them to reduce exposure to financials in 2006-2008. Anand described the firm's sector positioning, with an underweight to Treasuries and an overweight to Agencies, CMBS and Municipals. McKenna stated that the firm typically has two or fewer downgrades each year, but also sees ten times as many upgrades. The Chairman noted that Longfellow is charging the highest fees of any of the finalists. Larson stated that she believes that the fees are justified by level of research, and reinvestment in new technology which enables higher returns.

Monagle stated that he was concerned about the allocation to fixed income, noting that it brings a significantly lower return than other asset classes. Ghazarian stated that he anticipates completing an asset allocation study by early 2019. He stated that, while he did not want to prejudge the results, it was likely that the study would suggest significant changes to the hedge fund allocation. The fixed income allocation is likely to remain similar, though the allocation to core bonds might drop by 1-2%. The system might look at somewhat riskier fixed income products, such as bank loans, which offer higher returns. He noted that Segal's models predict that returns from core fixed income will be about 4% annually over the next ten years.

Ghazarian reviewed the current allocation to the core fixed income sleeve. The sleeve currently has $132 million in assets. The incumbent managers have a history of strong returns. The Chairman stated that he would favor adding Garcia Hamilton as a third manager. Ghazarian noted that IRM's fees are somewhat higher than Fidelity and Garcia Hamilton. He offered to go back to IRM to see if they would agree to a further reduction. Kale noted that Fidelity has lower fees, and has slightly better returns than IRM. He stated that he does not feel the mandate should be split evenly between the three managers, but that Fidelity should manage a larger share. Gardner moved to hire Fidelity, Garcia Hamilton and IRM, leaving the decision on the division of assets to a later date. Monagle seconded the motion and it was voted unanimously.

The Board agreed to hold the next quarterly review meeting on December 10, 2018, starting at 11:00 AM.

Monagle moved to adjourn at 2:30 PM.