Minutes of the meeting held on September 9, 2021

Present: Francis Murphy – Chairman, 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 entire meeting was conducted by Webex videoconference.

Agenda Item #1 – Segal Marco Advisors
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending June 30, 2021. Most asset classes continued to show strong returns, as the economy rallied strongly following the COVID pandemic. In this quarter, growth stocks outperformed value, reversing the trend from the first quarter.

Ghazarian reviewed the system's current asset allocation and he noted that the report reflects the new allocation targets adopted by the Board. The system remains overallocated to domestic equities. He noted that the fixed income sleeve would need to be rebalanced, as the system is dropping the allocation to International Fixed Income. The Brandywine fund will be terminated by the end of the year, and money shifted to a new Core Fixed Income portfolio managed by Garcia Hamilton. The system is somewhat overallocated to equities and underallocated to fixed income and real estate. The system is currently in-line with the new target of allocating 12% of the portfolio to private equity. Ghazarian noted that he would prepare a recommendation as to how much to commit in 2022 to private equity funds, which the Board could consider at the next quarterly review. The system is somewhat underweighted to Real Estate, but Ghazarian stated that he would not recommend adding more money to this sleeve in the short term. He stated that Segal is making this recommendation to all their clients, while they monitor the real estate markets to try to gauge the long-term impact from COVID.

Kale asked about the possibility of rising inflation and interest rates. Ghazarian described the potential impact on the fixed income portfolio, noting that he did not anticipate the kind of rapid rise in interest rates that could result in large losses in that portfolio. He also cautioned against any quick move to move out of fixed income and any losses would likely be temporary.

Overall, the total fund was valued at $1.727 billion, representing a gain of 5.4% during the quarter. The fund outperformed the policy index return of 4.2%. Ghazarian noted that Cambridge has outperformed PRIT over the last year, returning 32.9% vs. PRIT at 30%. Lazard had another strong quarter, returning 5.9% vs. the benchmark at 5%. The private equity portfolio continues to generate string returns. The total portfolio has generated an IRR of 16.8% annually. Ghazarian noted that this was well ahead of Segal's assumption that private equity should generate an 11% return. The Chairman stated that he would like to pause further reduction of the Lazard portfolio until after reviewing third quarter returns. Without objection, the Board agreed.

Peter Palandjian and Kristin Phalen represented Intercontinental Real Estate Corporation. A written portfolio review was submitted to the Board. There have been no changes to the portfolio management or investment strategy. Palandjian discussed the formation of a Diversity, Equity & Inclusion Council at Intercontinental in February 2020. He also discussed support of local charities, including Food for Free. The net asset value of the fund is $7.2 billion and consists of 137 properties. The fund is now 29% leveraged. Palandjian noted that for most of the life of the fund, leverage has been at least 40%. The firm made a decision five years ago to begin reducing leverage. The portfolio is 92% leased. The fund has outperformed the NCREIF benchmark since inception. He reminded the Board that management fees are calculated only on the initial investment, rather than on current value. The fund maintains an overweight to office, which now comprise 42% of the portfolio. Retail properties comprise 2% of the portfolio. Palandjian stated that he was not comfortable with the overweight position to offices and has been moving to reduce it. He said he expected to reduce the office exposure below 40% over the next year. The office holdings in the portfolio continue to perform well, but Palandjian said that going forward he planned to focus on acquiring other types of properties. Most properties are located in the largest urban areas of the United States, particularly areas with large universities. Palandjian stated that the firm has some of its largest holdings in Austin, Boston/Cambridge and Seattle. The firm has little exposure to New York or San Francisco. Intercontinental is now considering acquiring 1000 Massachusetts Avenue, Cambridge and converting the space to labs. The fund has acquired six Amazon distribution centers over the last year, and Palandjian stated that he would continue to look for new industrial properties. Amazon is now the largest tenant in the portfolio. The Amazon properties are generally leased for fifteen years. Palandjian stated that the biggest threat facing the portfolio would be an antitrust action that resulted in the breakup of Amazon. The portfolio has collected 98.5% of rents due and has been able to stagger leases and debt maturities.

Rebekah Brown, Susan Kolasa and Blake Morris represented J.P. Morgan Asset Management. A written portfolio report was submitted to the Board. There have been no changes to the portfolio management or strategy over the last year. Brown presented an overview of the portfolio. JP Morgan real estate now has $64 billion in assets under management and 362 properties. Kolasa discussed the fund strategy. She noted that JP Morgan had moved quickly at the start of the COVID pandemic and completed sales of $3 billion in office properties in order to position the portfolio more defensively. The fund returned 6.8% over the last year and 6.4% annually over the three prior years. Kolasa stated that she expects annual returns of 8-10% over the next three years, due to the completion of ongoing construction and a recovery in the apartment and retail sectors. The portfolio now has a significant overweight to the West Coast as they have sold a number of properties in New York over the last several years. Kolasa described a preference for cities with a highly educated population, strong wage growth and presence of biotech firms. In the residential sector, the portfolio is focused on suburban apartments, which have recovered faster than urban buildings. The fund has expanded the single family rental program, focusing on southern cities like Nashville, Atlanta, Charlotte and Phoenix. Industrial properties remain the biggest driver of performance in the post-COVID environment. Kolasa described the development pipeline for new industrial properties, noting that 70% of their development is urban infill. The portfolio is now 24.5% leveraged, and Kolasa stated that the firm would likely take advantage of low interest rates and increase the amount of leverage over the next two years. The firm now has no redemption queue. Kloasa stated that every asset is the fund is independently valued on a quarterly basis. The retail holdings are focused on either grocery-anchored shopping centers or on top performing malls.

Walter Dick and Thomas Scanlon represented Ascent. A written overview of the portfolio was presented to the Board. Cambridge has active investments in two Ascent funds. Every firm within the portfolio has been affected by COVID. Ascent has moved to cut costs across all portfolio companies, through reductions in staffing, salary cuts and furloughs. Ten firms applied for PPP loans, and all were approved for loan forgiveness. Fund III has now closed. The final company, Exchange Solutions, was bought out by management. The final distribution was paid on June 30. In Fund IV, there is one company remaining in the portfolio. The last remaining company is BryterCX, which was formerly ClickFox. Regardless of the outcome of the remaining firm, this fund will close at a significant loss. Fund V has ended the investment phase, having now called 97% of committed capital. It made ten investments and has completed four exits. Four of the remaining six companies appear to be likely fund drivers. One of the most promising firms is Start.io. Ascent is now exploring having the firm listed on the Tel Aviv stock exchange. The firm is moving to sell one division of another firm, Nova Scientific, by the end of September.

Mark Andrew represented Lexington Capital Partners. A written review of the portfolio was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. Andrew reviewed the history and growth of the firm, noting their history of strong returns. He emphasized staff experience and longevity, as well as the importance of maintaining close relationships with general partners as a way of sourcing new deals and evaluating the value of underlying funds. The firm has $55 billion in assets under management and has acquired interests in over 1800 funds from 800 sponsors. The firm is now launching Fund X, which is targeted to raise $15 billion. Deal flow has recovered after a lull in 2020. He noted that the most significant growth in the secondary markets has been from GP-led transactions. However, Lexington still sources the majority of their deals from limited partners. Andrew reviewed the LCP VIII portfolio. Most of the funds are buyout-focused and based in the United States. The fund is well diversified by vintage year. He reported verbally that Cambridge had committed $20 million in 2015. $18.3 million has been drawn, and Cambridge has received back $14.3 million in distributions. The remaining value of Cambridge's share of the fund is $16 million. The current IRR was calculated at 20.1%.

The Board reviewed a draft Investment Policy Statement. The draft incorporates changes to the system's target rate of return, asset allocation target and the public fund benchmark. Monagle noted that the language around consideration of ESG factors and hiring of women/minority owned firms describes favoring such managers "when all other selection criteria are equal". Gardner stated that he did not feel the language should be changed, as it reflects an appropriate standard for evaluating managers. Monagle stated that he would like to take time to review the language and that he would forward his suggestions to the Chair. The Chairman stated that he would table the matter until the regular October meeting and it was agreed without objection.

Michael Riccobono and Trey Smith represented BlackRock. A written review of the portfolio was presented to the Board. There were no changes to the portfolio management or strategy over the last year. Cambridge currently has investments in DivPEP Fund II and DivPEP Fund V. Riccobono 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 a 2002 vintage fund, now approaching termination. Cambridge committed $10 million to the fund. The portfolio currently has a net IRR of 10.4% and has returned $16.4 million in distributions to Cambridge since inception. Riccobono stated that Fund II will terminate by the end of the year, with the final distribution paid out no later than early 2022.
Fund V is a 2012 vintage fund, now in the harvesting phase. Cambridge has committed $6.5 million and paid in $5.2 million. To date, the fund has returned about $1.4 million to Cambridge. The portfolio has a net IRR of 10.9%, with distributions expected to pick up over the next two years. Riccobono stated he did not feel that the firm would have to draw the rest of the uncommitted capital. As distribution activity has picked up, he now feels that any cash flow needs could be deducted from distributions. The fund is targeted to terminate in 2026. The fund is about 6% in secondaries, 17% direct co-investments, with the rest structured as a fund-of-funds.

Tim D'Arcy and Jackie Rantanen represented Hamilton Lane. A written overview of the portfolio was presented to the Board. There have been no changes to the investment strategy or the management team at Hamilton Lane.

Cambridge has investments in Fund VI and Fund VIII. Cambridge has committed $6.5 million to Fund VIII, which is a 2012 vintage fund. The fund is now fully committed and some of the earlier investments are now making distributions. The portfolio has a net IRR of 7.3%. This fund is not as heavily weighted toward buyouts, with larger amounts of distressed debt, venture capital, emerging markets and energy. The energy and emerging markets sectors have struggled and the returns from this fund have been lower than an equity portfolio.
Cambridge made a $10 million commitment to fund VI, which is a 2007 vintage fund. The fund has an 8.1% net IRR. The fund is well into the harvesting phase. The fund is weighted toward buyouts, and to investments in North America. The portfolio still has some value remaining and continues to make distributions. Rantanen stated that the tail-end assets are in high-performing funds, and the final return may be higher. The fund term had been scheduled to end in December 2020. Hamilton Lane extended the term for one year and is now likely to extend it for an additional year, meaning the final termination will now be in December 2022.

Monagle moved to adjourn at 2:30 PM.