Minutes of the meeting held on December 2, 2021

Present: Francis Murphy - Chair, Jim Monagle, Michael Gardner, Nadia Chamblin-Foster, John Shinkwin, David Kale, Ellen Philbin, Rafik Ghazarian, and Chris Burns.

The meeting was called to order at 11:06 AM. The meeting was digitally recorded. 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 September 30, 2021. Returns in the third quarter were largely flat across the domestic equity, international equity and fixed income spaces. Emerging market equities saw significant losses. The strongest returns came from real estate and private equity.

Ghazarian reviewed the fund's asset allocation, noting that he would provide several recommendations in order to bring the portfolio in line with allocation targets. The system is presently overweighted to equities and underweight in other asset classes.

Ghazarian discussed the performance of the overall fund and individual managers. In the last quarter, the fund returned 1%, which outperformed the policy index of -0.4%. The Cambridge Bancorp stock was one of the strongest performers over the last quarter, returning 6.8% vs. the Russell 2000 index at -4.4%. Returns in International Equities were flat for the quarter, although RBC has performed strongly over the last year, returning 39.4% vs the MSCI EAFE Value index at 30.7%. Lazard has outperformed their benchmark over the last year, although they have still underperformed over the trailing ten year period. The Chairman stated that he still believes the portfolio is too volatile and the Board should move to complete the liquidation of this fund. Ghazarian recommended that the money be placed in the Emerging Market Equities index fund. Gardner moved to terminate Lazard, transfer all funds to the Mellon Emerging Markets account, and to complete the process before the end of the month. Monagle seconded the motion and it was voted unanimously.

Ghazarian reviewed a private equity cash flow study prepared by Segal Marco. After calculating likely capital calls and expected returns, Segal has recommended that the system commit $20 million to the PRIT private equity fund in 2022, and to plan to allocate the same amount each year through 2025. This should allow the system to maintain the 12% allocation target. Motion by Gardner, seconded by Shinkwin to commit $20 million to the PRIT 2022 Private Equity Fund. Voted unanimously.

Theodore Bair and Daved Langguth represented Mellon. A written portfolio review was presented to the Board. The firm currently has $448 billion in assets under management. The firm is headquartered in Boston, with 218 employees. The firm recently shifted actively managed assets comprising about $150 billion to a subsidiary, Insight. There were no changes to the management team or strategy in the index portfolio. Langguth described the firm's diversity efforts, and reviewed the number of women and ethnic minorities among the workforce, management and Board of Directors at Mellon. By the end of 2023, the firm aims to achieve a 15% increase in Black and Latin American representation in the workforce and a 30% increase at the level of senior management. Cambridge is currently invested in two index funds through Mellon. The system invests $128 million in a small cap index and $37 million in an Emerging Markets index. Both funds are securities lending products, which generates a small extra return. Bair described efforts to reduce expenses in index portfolios. Since inception, the small cap index has returned 20.96% net of fees. The small cap product is a full replication of the Russell 2000 index. The Emerging Markets fund has returned 12.61% since inception. This EM product uses some sampling in order to provide representative exposure to the companies in the index, but does not replicate the full portfolio. Bair stated that Mellon's use of sampling in their funds was quite similar to other index managers. Chamblin-Foster complimented Mellon on their comprehensive review of their hiring and promotion targets. She also stated that she hoped to discuss the impact of the COVID pandemic on emerging markets countries at a future presentation.

Joy Booker and Jeremy Burton represented PineBridge Investments. A written portfolio review was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. Booker reviewed charts showing the number of female and minority hires and promotions over the last five years. This information had not been previously released by PineBridge and shows that the number of diverse hires has trended down since 2017. Booker stated that she found this disappointing. She stated that she serves on both the Corporate Responsibility committee and the Diversity & Inclusion committee. PineBridge also has a number of employee organizations to promote diversity. She discussed the firm's work with The Opportunity Network, which assists in providing education and professional opportunities for young people. The firm also conducts mandatory training around diversity, harassment and unconscious bias. PineBridge now has $142 billion in assets under management, and 700 employees. The firm is headquartered in New York and has 25 offices across 17 countries. Due to COVID, all employees have been working remotely since March 2020. The firm plans to bring employees back to work some days from the office starting in January 2022. Burton reviewed the portfolio and discussed the firm's credit analysis process. He stated that during the early months of the pandemic, the analysis focused on firms' liquidity. He stated that the majority of the portfolio is adjustable rate loans, which would benefit from an anticipated rise in interest rates. The portfolio is overweighted toward the B and B- loans, with an underweight to BBB and BB+ loans. Burton stated that higher yields on the lower rated loans justified the additional risk. Defaults have run at 0.4%, and Burton anticipated that they would stay low.

David Greenberg and Alex Morales represented IFM Investors. A written portfolio review was presented to the Board. There have been no changes to the portfolio management or strategy over the last year. In 2021, the firm sold a 15% stake in the Indiana Toll Road at a significant premium. They also completed the acquisition of Enwave Energy Corporation. This is a firm providing energy to Toronto and several other large cities in Ontario. IFM has also announced the acquisition of a 10% stake in Naturgy Energy Group. This is a gas and electric supplier, operating primarily in Spain, but with interests in nineteen other countries. They are expanding their operations of wind, solar and hydroelectric generation. IFM also announced a 50/50 partnership with Deutsche Telekom to expand broadband service in rural Germany. IFM in proceeding on their initiative to acheive net-zero carbon emissions by 2050. They have now targeted a 40% reduction by 2030. Greenberg discussed the firm's response to COVID. Employees went to remote work in March 2020, but have been slowly phasing back into offices, in accordance with local health guidelines. Over the last year, the fund has a net return 18%, and has now returned 12.7% annually since inception. Cambridge has opted to reinvest all distributions in the fund. Greenberg discussed the fee structure, noting that IFM takes a 10% incentive fee on all returns over 8% annually. Gardner requested that IFM provide written detail on how the fee is calculated. The fund does have a queue for new investors, currently running about 18 months to draw down commitments. Greenberg reported that IFM has hired 111 women since 2018 and promoted 112. The firm has hired 22 minority employees and promoted 29 since 2018. He discussed various diversity initiatives, including efforts to provide internships for indigenous Australians. The firm has targeted that all hiring panels include a diverse employee, and has now begun to remove names and educational details from resumes before review. IFM now has $35.9 billion in assets, spread across 18 portfolio companies. The fund is 35% leveraged. Greenberg stated that air travel remains below the peak of 2019, although it continues to rebound. He also noted that the Indiana Toll Road investment has performed well, due to heavy commercial traffic. Passenger travel has been lower than 2019.

Devon Baker, Harley Burton and John Perda represented Manulife Investment Management. A written overview of the portfolio was presented to the Board. Baker reported that the firm was formerly Hancock Timber but is now Manulife. Cambridge currently invests in two Hancock funds. Hancock Timberland X is a closed-end fund with a 2004 inception date. The Hancock Timberland and Farmland Fund is an open-ended fund with a 2018 inception date.
Perda reviewed the performance of the Timber/Farmland fund. Cambridge committed $15 million to HTFF in 2018, which has been fully called. Cambridge committed an additional $30 million in July 2021 which has not been called. In 2021, the fund acquired two separate timber properties in Brazil and new farmland property in Chile, while selling a timber property in the US South. The fund anticipates making further acquisitions in 2022, and stated that Cambridge's additional commitment could be drawn by July. The fund is diversified by geography and crop type. He also discussed farmland-plus strategies which may include processing facilities and marketing. Over the last year, the fund has returned 4% net, and 2.9% annually since inception. Currency effects have been a drag on returns throughout 2021.
Baker reviewed the performance of Fund X. The portfolio is now fully invested, and in the holding period. The fund is scheduled to terminate in 2024, although Manulife is likely to request an extension of the fund term. Cambridge committed $6 million and the entire amount has been called. The fund has made $2.3 million in distributions. The current value of the fund is appraised at $8.5 million. The total portfolio consists of 477,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund has been able to generate some returns by leasing land to gas, solar and wind energy operators without affecting the timer operations. The fund returned 4.3% net over the last year and 8.4% annually since inception. The fund is exploring opportunities to sell one of the PNW properties within the next year.
Perda stated that one of the limited partners in the Timberland X fund is attempting to sell their interest. They currently hold 3.6% of the total fund. They have reached an agreement to sell their interest for $18 million. Existing limited partners have the option to buy out their interest before it can be sold on the secondary market. Any decision to buy must be made by December 10. If more than one limited partner wishes to buy, the interest would be divided evenly between them.

Steven King and Ingrid Olsen represented Campbell. A written portfolio review was presented to the Board. In August, Campbell was acquired by JP Morgan Asset Management. There have been no changes to the portfolio management team or strategy. Timber prices worldwide have been quite strong. There has been strong demand due to home remodeling and new construction. King stated that a number of investment firms have opted to own timberlands directly, which has driven up land prices. He also stated that buyers are investing in timber in an effort to meet objectives for carbon neutrality. In 2022, Campbell intends to close on new acquisitions in the United States and Chile. Campbell is targeting off-market opportunities, and especially family-owned forests, where there is less competition from other buyers. The fund's investment period ends on December 31, 2021 although the fund will close any deals where they have a legal commitment by that date, even if the final close is in 2022. King stated that the fund will likely call another $4 million from Cambridge in the next year. This would leave about $4 million uncalled. King discussed some of the difficulties with Australian timber. In 2020, China also imposed new restrictions on importing timber from Queensland. This situation does not appear likely to be resolved soon, and the firm is attempting to pivot to exporting timber to India. The fund has also seen some difficulties with rising shipping costs and delays at ports. In the last year, the fund returned 22.4% net and has now returned 6.9% annually since inception. King attributed the recent performance to strong returns at the OneFortyOne property. The appraised value of that property increased 12% over the last year. The fund does not hedge currency risk, and there was some drag on returns due to a weakening Australian Dollar. All the New Zealand assets are denominated in US Dollars.

Ghazarian reviewed a written recommendation for rebalancing the portfolio. He stated that the allocation to International Equity is short of the target and recommended adding $15 million to one of the managers in this sleeve. The fund is also short of the target in Core Fixed Income and must add money in order to fund a new manager, Garcia Hamilton. He also recommended adding $10 million to the Bank Loans fund. The fund remains underallocated to Real Estate and Timber, while being overallocated to Hedge Funds.

Gardner asked if Segal was aware of succession planning for Bernard Horn at RBC. Ghazarian stated that he has not had any conversations with him about his possible retirement. The Chairman stated that he would be most comfortable adding money to the RhumbLine index fund until Segal has a chance to consult with RBC. Motion by Gardner, seconded by Monagle to add $15 million to the RhumbLine EAFE Index fund on an interim basis, taking funds from the domestic equity sleeve. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

Motion by Gardner, seconded by Shinkwin to terminate Brandywine and reallocate those funds between three Core Fixed Income Managers, Fidelity, IRM and Garcia Hamilton so as to give each manager an equal amount of money. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

Motion by Gardner, seconded by Shinkwin to shift $10 million from domestic equities and add to the PineBridge bank loans fund. The motion carried on a 4-0 vote, with Chamblin-Foster absent.

In reviewing the Real Estate allocation, Ghazarian noted that all the existing managers have a queue to add new funds. He recommended that Cambridge invest an additional $30 million into this asset class. He noted the system could wait to add money to an existing manager, or conduct a search for a new manager, or invest with the PRIT Real Estate fund. Ghazarian stated that PRIT has a diversified portfolio. They offer good liquidity, so funds could be removed within sixty days. It appears they would be able to take a new investment immediately. Segal currently invests their fully-managed accounts with JP Morgan and Intercontinental. The Segal fund also invests with UBS, although it no longer recommends adding new funds to that account.

Shinkwin moved to allocate $30 million to the PRIT real estate fund. Monagle seconded the motion. Ghazarian noted that PRIT would attend the meeting on December 6 to discuss the private equity and hedge fund investments. The Chairman requested that PRIT be asked to also give a brief overview of their real estate fund. Gardner requested that the matter be tabled until after PRIT's presentation and Shinkwin withdrew his motion.

Gardner stated that he was somewhat concerned with Manulife's investment performance over the last year. Ghazarian stated that he consulted with his research department about the Manulife secondary offering. They believe that it is a well-managed portfolio and recommended that Cambridge make the purchase. They also believe that the remaining assets in the Timberland X portfolio are likely to perform well before the fund terminates. Motion by Gardner, seconded by Shinkwin to authorize Segal to attempt to purchase the secondary offering from Manulife, taking the first $10 million from the hedge fund portfolio, and any additional amount from domestic equity.

Monagle requested that Segal provide an update on the system's investments with fossil fuel companies. Ghazarian stated that he was working on a report, and that he would update it on an annual basis going forward.

Monagle moved to adjourn at 2:45 PM.