Minutes of the meeting held on December 3, 2024

Present: Francis Murphy - Chair, Michael Gardner, Nadia Chamblin-Foster, Joseph McCann, Claire Spinner, Chris Burns, and Rafik Ghazarian.

Absent: James Monagle, Christopher McLaughlin

The meeting was called to order at 11:05 AM. The meeting was digitally recorded. The entire meeting was conducted by Zoom videoconference.

Agenda Item # 1 – Segal Marco Advisors
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 $35 million to the PRIT private equity fund in 2025. The system is already overallocated to private equity. The portfolio is now 14.8% invested in private equity, vs, the target allocation of 13%, so this recommendation represents a lower commitment than 2024. Ghazarian noted that PRIT's practice is to call the majority of this money within 18 months. Motion by Gardner, seconded by McCann to commit $35 million to the PRIT 2025 Private Equity Fund. Voted unanimously.

Ghazarian reviewed a report from Segal Marco on the outlook for real estate investments. Ghazarian noted a number of headwinds affecting real estate including a lower demand for office space in the post-COVID environment and higher interest rates. Ghazarian stated that he did not anticipate a return to 8-9% annual returns any time in the foreseeable future. Values for office properties have been written down 40% since 2020. The decrease in property values appears to have ended, although appreciation will likely be flat or slightly positive over the next five years. The system currently has an allocation target of 9% to real estate, although the actual allocation is now 7.5%. The system has made a conscious decision not to attempt to rebalance that allocation. Other pension plans have allocations to real estate between 5% and 12% with the median at 8.5%. Ghazarian noted that all the system's current real estate managers have lengthy exit queues. Any withdrawal request would not be paid for 12 to 18 months. Ghazarian stated that, for Segal's discretionary clients, they have been advised to reduce their allocation to core real estate, and invest more in value-add properties.
Gardner noted that the decision not to rebalance contradicts orthodox portfolio theory, which would advise rebalancing in an attempt to buy undervalued assets. He stated that if the system wants to add money into real estate, that he would recommend doing so through the PRIT real estate fund, which remains relatively liquid. He also stated that, within the next year, the system may want to issue an RFP for a real estate manager which focuses on value-add properties.

The Board reviewed a schedule for upcoming manager searches. Without objection, the Board agreed to list another review of the three incumbent real estate managers in the first quarter of 2027.

Monagle asked if Segal could provide their latest research on the environment for investing in real estate. Ghazarian noted that real estate transactions had fallen off, especially on the commercial side, due to higher mortgage interest rates. Funds which are highly leveraged may have difficulty refinancing. Segal has lowered their outlook on likely returns from 8% annually to 5%. He also noted that many funds have long exit queues. Investors who try to withdraw funds may have to wait up to five years to get their money back. The office sector remains very much in flux as firms struggle to determine how best to use remote workers. Ghazarian noted that Segal had two analysts resign after they were required to start working from the office. He also noted that Segal has seen savings by trimming their office footprint.

Ted Bair, Linda Keefer and Daved Langguth represented Mellon. A written portfolio review was presented to the Board. The firm currently has $2.1 trillion in assets under management, including $507 billion in index assets. There were no changes to the management team or strategy in the index portfolio. Cambridge is currently invested in two index funds through Mellon. The system invests $95.8 million in a small cap index and $93.5 million in an Emerging Markets index. Both funds are securities lending products, which generates a small extra return. Over the last year. The Emerging Markets fund returned 24.98% over the last year and has now returned 4.68% annually since inception. Bair noted that returns were slightly lower in this fund due to the need for withholding against tax liability in India. Investments in India now make up 20% of the EM portfolio. Mellon continues to hold 26 Russian stocks and is unable to sell them. They are currently marked at zero value.
The small cap fund returned 26.92% over the last year and has returned 9.02% annually since inception. The fund tracks the index very closely and uses minimal sampling to replicate some smaller securities. Bair stated that, looking ahead, returns in the EM portfolio will hinge on the next administration's tariff policy.

Georgette Baxter and Julie Lee represented RhumbLine. A written portfolio report was submitted to the Board. Rhumbline manages two index portfolios for Cambridge, the Russell 1000 Pooled Index Fund and the MSCI EAFE Pooled Index Fund. There were no changes to the management team or strategy in the index portfolio. The firm did make additional hires for IT and compliance roles. RhumbLine secured ten new clients over the last year, and now holds $122 billion in assets under management. The Russell 1000 has returned 37.99% in the last year, and 15.47% annually since inception. Cambridge currently invests $422 million in this fund, which comprises 15.46% ownership of the total portfolio.
The EAFE fund has returned 23.05% over the last year and 6.47% annually since inception. Cambridge has $129 million invested in this fund. RhumbLine now has 21 investors in this fund, with Cambridge as the largest single investor, comprising 20% of the fund value. Lee noted that there had been significant trading in this index over the last year, but RhumbLine has been able to hold commissions to less than one cent per share.

David Bowser, Jeremy Burton and Tom Cosmer represented PineBridge Investments. A written portfolio review was presented to the Board. PineBridge now has $200 billion in assets under management, and 700 employees. There were no changes to the management team or strategy in the bank loans portfolio. Burton described the investment strategy. The portfolio includes both bank loans and high yield bonds. The bank loans are mainly floating rate debt, and all broadly syndicated. He noted that all the loans are actively traded and the strategy does not involve originating loans and holding them to maturity. The portfolio will typically include 175-200 loans. Burton discussed how the firm analyzes a borrower's credit trend, with PineBridge focusing primarily on how the borrower will perform over the next six to nine months. The firm tends to be very cautious about investing in companies in turnaround or transition. Burton discussed how the fund evaluates ESG factors for borrowers. The fund does have an outreach program and is currently engaged with fifteen borrowers to prod them to improve their ESG ranking. Over the last year, the fund returned 5.7% net of fees, which underperformed the Morningstar benchmark return of 6.54%. Looking ahead, Burton stated that the incoming administration's tariff policy was likely to be inflationary, which makes it unlikely that there would be significant interest rate cuts in 2025. He predicted the fund would be able to generate 8% - 8.5% returns over the next year. The fund is now overweighted to B, B+ and BB- bonds, while underweighted at the higher and lower ends of the quality spectrum. Burton noted that this was typically how the portfolio would be positioned and that the fund does not make significant adjustments based on the market cycle. Gardner asked about turnover in the portfolio. Burton responded that this varies based on the number of loans being originated and refinanced. The fund may turn over as little as 25% of the portfolio in the year, or as much as 70%.

Devan Kaloo and Paul Mohr represented Aberdeen. A written portfolio review was submitted to the Board. Mohr reported that CEO Stephen Bird resigned as CEO in May, replaced by Jason Windsor, who formerly served as CFO. On the emerging markets team, Joanne Irvine retired as Deputy Head of EM and was replaced by Nick Robinson. The fund hired three new analysts, focused on India and IT companies. Kaloo discussed the firm's stock picking process and their focus on quality. Kaloo noted that value strategies have outperformed since 2021, which has been a strong headwind holding back Aberdeen's returns. Another drag on performance was China. Aberdeen maintains a neutral weight to Chinese stocks, but was still hurt by a number of specific holdings, particularly within the IT and Materials sectors. The fund has refocused away from the largest Chinese firms and now invests more in the mid-cap segment. Kaloo also reminded the Board that the portfolio had been hurt by an overweight position to Russia in the start of 2022. Those holdings were written down to zero following the invasion of Ukraine. The fund has since been able to divest two-thirds of the Russian holdings and recover some of the value. Kaloo stated that the next administration would likely present a significant headwind against returns in Emerging Markets, as China and Mexico may be targeted for higher tariffs. Kaloo stated that he is watching China's response very closely, seeing how much the government moves to shore up their own industries. Over the last year, the fund returned 24.98% net of fees, which underperformed the MSCI EM Index return of 26.54%. Kaloo focused on the last three months, which shows the fund outperforming the benchmark. He noted that the fund had moved to invest more in Middle East countries which pegged their currency to the US Dollar, and won't be hurt by a stronger dollar. Ghazarian stated that Segal has changed their rating on Aberdeen to "hold" due to turnover on the portfolio team and that his research team had made inquiries to get a fuller explanation.

Alexandra Eckles and Alyssa Howard represented RBC Global Asset Management. A written portfolio review was submitted to the Board. This is an emerging markets portfolio, with an inception date on August 29, 2023. Cambridge invested $52.3 million in the fund. Howard noted that the last decade has been a difficult environment for emerging markets, particularly in comparison with the strong US equity markets. She noted that the period since 2010 has been something of a lost decade for Emerging Markets, with markets now at historical lows. She stated that strong GDP growth in EM countries should be a driver of strong growth in the next five years. The strong US dollar has also been a headwind holding back returns. She stated that she was encouraged that recent returns have been coming from nations other than China, with Mexico, India and Indonesia all showing the potential for consistent returns. The portfolio has historically been overweight to India, but is now underweight due to high valuations there. In China, valuations are now much lower, and the fund is taking a neutral approach. She stated that the portfolio was unlikely to be significantly hurt by a potential trade war as the fund focuses on firms in China with a strong domestic market. She also stated that the next administration seems likely to reach an accommodation with China. Since inception, the fund has returned 13.08% vs the benchmark at 13.87%. The top performer over the last year was Taiwan Semiconductor, which is a major supplier to NVIDIA. The fund currently has no exposure to Saudi Arabia, which Howard stated was due to there being no firms that fit their criteria for quality. The fund was hurt by a decision not to own various state-managed enterprises in China. This is due to serious concerns about governance and accountability, although those firms did show strong returns in 2024. Howard noted that geopolitics was a significant concern going forward, as the Russia-Ukraine war and Israeli military actions go on.

Gardner asked Ghazarian to describe how the RBC and Aberdeen funds differ from each other. He responded that RBC has more of a core focus. Aberdeen takes more of a focus on companies' debt ratio, which they describe as a "quality" strategy. He reminded the Board that they had opted to trim the allocation to Aberdeen by $28 million, and move some of that into an index fund. The Board came out ahead over the last year due to that move.

Francesco Daniele represented the PRIT Fund. A written portfolio report was submitted to the Board. Daniele noted that PRIM was recognized as the #4 private equity portfolio among public funds, based on 10-year performance. They have achieved a top five ranking in every year the study was conducted. In 2024, PRIT adjusted their asset allocation to add 1% to Fixed Income and take 1% from Global Equity. They will consider changes for 2025 in February. Daniele stated that PRIT would make an announcement about investments with two new REITs within the next week. There have been no major changes to the real estate portfolio within the last year. Real estate now makes up 9.1% of the PRIT fund. Core properties make up 85% of real estate holdings, with smaller amounts in REITs or properties under development. Daniele noted that the real estate fund has outperformed across both good and bad markets. Over the trailing ten years, real estate returned 7.12% annually vs. the benchmark at 5.3%. Daniele attributed the recent outperformance due to an overweight to industrial and medical office/laboratory properties.
Daniele stated that the 2024 private equity fund would likely only draw about half of committed capital. This was due to favored managers not bringing new funds to market due to PRIT's negative analysis of the funds that were raised in 2024. The 2025 private equity fund will be largely similar to the prior year's funds. The focus of the fund will be on North America and Western Europe. The fund will include buyout and venture capital funds, diversified across a number of business sectors. Daniele noted that the fund continues to see fee savings from using direct co-investments rather than managed funds. Up to 40% of the portfolio will be in co-investments. The overall private equity segment is cash-flow positive, as distributions from managers were more than capital paid into active funds.
Gardner asked if PRIT still allowed cities and towns to invest OPEB funds through PRIT. Daniele stated that they could. He noted that PRIT has $110 billion in assets under management, of which $107 billion is retirement assets and $3 billion is OPEB funds. OPEB clients can invest in the PRIT core fund. There is no segmentation available for targeted investments to real estate or private equity. Spinner stated that she was not prepared to make a change immediately but that the City is considering other investment options.

Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending September 30, 2024. Returns were very strong across most asset classes during the quarter, and year-to-date returns now exceed 10%. Returns were down in October but then rallied again in November. Ghazarian stated that his research department will monitor Aberdeen closely. That aside, Ghazarian said he had no concerns with any of the managers who presented.

Ghazarian reviewed the fund's asset allocation. The fund is underallocated to real estate. Ghazarian stated that he would look for value-add funds coming to market and notify the Board if he felt there were favorable investment opportunities.

Ghazarian stated that the analysis of the Timber RFP is nearly complete and will be ready for review at the next investment meeting. He noted that Segal still considers Manulife to be a recommended manager.

McCann moved to adjourn at 2:50 PM.