Minutes of the meeting held on March 5, 2025

Present: Francis Murphy, Nadia Chamblin-Foster, Joseph McCann, James Monagle, Claire Spinner, Chris Burns, Rafik Ghazarian and Christopher McLaughlin.

Vacant: The seat for the City Manager's appointee was vacant at the time of the meeting.

The meeting was called to order at 11:02 AM. The meeting was digitally recorded. This was a hybrid meeting, held in-person in the Sheila Tobin Conference Room at 125 CambridgePark Drive, with some participants joining via Zoom videoconference.

Agenda Item # 1 – 2024 Performance Review
Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending December 31, 2024. The US Equity Markets showed very strong returns in 2024, with the S&P 500 returning 25%.

Ghazarian reviewed the system's current asset allocation. As of December 31, the system remains overallocated to private equity, with that sleeve now making up 15.27% of the portfolio vs. the target allocation of 13%. The system was underallocated to fixed income and real estate.

Reviewing Cambridge's returns in 2024, the total fund was valued at $1.933 billion, representing a loss of 0.7% in the last quarter. For the full year, the fund returned 9.4%, which outperformed the policy index return of 8.8%. Cambridge also outperformed the PRIT fund return of 9.2%. Domestic Equity was the best performing asset class over the last year, with the Russell 1000 index returning 24.5% and the Eastern Bank stock returning 27.5%. Ghazarian stated that Segal has recommended that clients hold their real estate assets. He stated that before the end of the year, Segal would likely advise clients to invest additional money into real estate as some managers are doing well by buying up undervalued properties.

The Board reviewed Segal Marco's analysis of the responses to the Timber RFP. The Board received eight responses. The incumbent manager, Manulife, was one of the responses and was rated as "Highly Advantageous". Three other managers were rated as "Advantageous". They are BTG Pactual, Lyme Timber and Resource Management Services. Lyme is 36% female owned and RMS is 8% minority owned. Manulife is the only fund which includes both timber and farmland assets. Ghazarian noted that BTG, Lyme and RMS are excellent funds and all would be rated as Highly Advantageous within the universe of dedicated timberland funds. Since the Cambridge mandate is for both timber and farmland, their rating is lower. Manulife is the largest firm, with $15 billion in assets under management. BTG is the next largest with $7 billion. Ghazarian said that Segal would recommend renewing the contract with Manulife. The Chair noted that the fund already invests in two closed-end timber funds and that he sees the farmland component as being crucial to this investment. He stated that he would favor renewing with Manulife since they are the only fund with farmland holdings. Motion by Monagle, seconded by McCann to renew the contract with the Manulife Timber and Farmland Fund. Voted unanimously.

The Board reviewed a memo prepared by Segal Marco which reviews the recent acquisition of the Mesirow and PineBridge funds by MetLife. Segal believes it is likely that both teams will be kept together and that MetLife is interested in keeping employees at both funds happy and independent. The Chair stated that he would be concerned if MetLife seeks to replace senior managers or to move employees to different cities. He stated that he intends to monitor both managers closely over the next year to be sure that they do not show any drop in performance.

Ghazarian reminded the Board that the core fixed income managers are due for a seven-year review. Motion by Monagle, seconded by Chamblin-Foster to instruct Segal Marco to issue an RFP for the core fixed income mandate. Voted unanimously.

Earl McKennon and Melissa Moesman represented Fidelity Institutional Asset Management. A written portfolio report was submitted to the Board. McKennon reviewed the fixed income portfolio. There have been no changes to the portfolio management team, or investment strategy over the last year. Over the last year, the portfolio returned 1.65% net of fees vs. the Bloomberg US Aggregate at 1.25%. He noted that everything in the portfolio is investment grade, US Dollar-denominated bonds. The fund has outperformed the benchmark in eight of the last ten years. Since the start of the year, returns have been higher, driven by falling yields for US Treasuries. The portfolio continues to take a risk-off approach, with US Treasuries now comprising 52.3% of the portfolio, significantly more than the index holding of 43.98%. The portfolio has never had such a large holding of US Treasuries. The portfolio is underweight to corporates and Agency MBS, with McKennon noting that the spreads on these bonds do not justify increased risk. Ghazarian noted that the fund invests 5% of the portfolio in CLOs. McKennon stated that these are collateralized loan obligations, which are backed by loans, and have a AAA rating. There have been no defaults in this segment, and they pay a premium over other bonds. The Chair asked for the current fee structure. Moesman stated that system pays 20 basis points annually on the first $50 million and 17.5 basis points on the next $50 million. At present the aggregate fee is 19 basis points.

Gilbert Andrew Garcia and Stephanie Roberts represented Garcia Hamilton. A written portfolio report was submitted to the Board. There have been no changes to the portfolio management or strategy. The firm was founded in 1988 and based in Houston. The firm is 100% employee owned, with sixteen employees holding an equity stake. The firm is 75% minority owned. Cambridge invested $40 million as of September 2022. Garcia acknowledged that there has been significant underperformance over the last year, and particularly in the last quarter. Since inception, the fund has returned 3.06% vs. the Bloomberg US Aggregate at 3.84%. Over the last year, the return was 0.09% vs. the index at 1.25%. In the last quarter, the return was -4.52% vs. the index at -3.06%. He noted that there has been some recovery since the start of 2025 due to falling interest rates, and he stated that he anticipates that rates will go still lower. He stated that data over the last forty years shows a significant correlation between high debt levels and lower interest rates. He also stated that he did not feel that tariffs imposed by the Trump administration would be inflationary because the USA’s major trading partners have significant incentives to negotiate. He also noted that the inflation rate for housing prices should come down significantly over the next year. Given the likelihood of low inflation and falling interest rates, Garcia has opted to position the portfolio with longer duration bonds. He also noted that US Equities now appear to be significantly overvalued. The portfolio is mainly comprised of US Treasuries, agency guaranteed MBS, and corporate bonds rated A or higher. The portfolio now consists of 47% mortgages, vs. the index at 25%. The portfolio is now underweighted to Corporates.

Mike Sheldon and Sarah Spencer represented Income Research & Management. A written portfolio report was submitted to the Board. Spencer stated that within the next few days, the firm would announce a change to senior management, with Mike Sheldon promoted to co-CIO, and Bill O’Malley will focus solely on serving as CEO. Spencer noted that Cambridge has now been investing with IRM for nearly thirty years, with fund inception on July 1, 1995. The firm is based in Boston and now has 13 Massachusetts public clients. The fund has maintained a consistent outperformance since inception. Since 1995, the fund has returned 4.57% annually, net of fees. This outperforms the index return of 4.32% annually. Over the last year, the fund returned 1.58% net of fees, vs, the index at 1.18%. Over the last year, holdings of high quality corporates and mortgages were major drivers of performance. The fund maintains an underweight to US Treasuries. Sheldon noted that the Treasuries position offers good liquidity to pursue other opportunities as they arise. He discussed the volatility in the markets over the recent weeks, largely in reaction to announcements about tariffs from the Trump administration. He stated that he would not make trades based on news headlines, and that he would take a longer term approach based on the stability of the companies under consideration.

Stephen Driscoll, Alex McCauley and Bob Sydow represented Mesirow. A written portfolio review was submitted to the Board. Ghazarian noted that funds that had been previously managed by Loomis Sayles were transferred to Mesirow in June 2024. The initial funding totaled $88 million. The Chair noted that this was the first time that Mesirow had given an update since they were hired, and he requested that the representatives appear in person for their next presentation. Sydow stated that MetLife acquired both the High Yield and Core Fixed Income portfolios, with the deal closing on February 28. MetLife was interested in adding those strategies into their own funds. Sydow stated that all his employees, and all existing clients, moved over to MetLife. Mesirow will continue to operate independently as a boutique within MetLife. The portfolio consists mainly of high yield bonds, but 15% of the portfolio is made up of leveraged loans. Sydow noted that 2024 was an unusual year, with US Treasury rates dropping in the third quarter and then rising sharply again in the fourth quarter. Spreads on high yield bonds also fluctuated but ended the year historically tight. Defaults remain low. Since inception, the fund returned 4.4%, which underperformed the Bloomberg US Corporate High Yield Index return of 5.74%. Sydow noted that this was somewhat connected to the funding date, as the fund had significantly better returns in the year prior to June 2024. In late 2024, the fund opted to sell off exposure to radio broadcasting, with Sydow noting that the industry now appears to be in secular decline and a turnaround is unlikely. This included bonds with a CCC rating that significantly underperformed. Sydow stated that B and CCC bonds are normally their biggest drivers of performance. Looking ahead, Sydow did not anticipate major changes to the portfolio. He stated that he expects spreads to remain tight, and that there would not be a recession in 2025. He stated that he was concerned about recent court rulings which have allowed private equity funds to subordinate first lienholders in the event of a default and that he hoped the issue would be taken up by the Supreme Court. The largest industry in the portfolio is oil field services. Sydow stated that this mainly consists of pipelines, which are not as exposed to fluctuations in the price of oil as drillers are. The Chair asked how Mesirow is approached about new offerings. Sydow stated that typically they will hear about new bonds when they are announced. However, over the last year, the firm has also been invited to previews, which allow them to negotiate reasonable terms and covenants before the bond is finalized. The Chair asked if MetLife would seek to have Mesirow focus more on retail investors. Sydow stated that they would not and that his focus would remain on institutional clients.

Fernando Phillips, Andrew Szmulewicz and Audrey Wang represented Marathon. A written portfolio review was submitted to the Board. This is an Emerging Markets Debt fund, headquartered in New York, with Cambridge having invested $25 million on May 1, 2024. Szmulewicz reviewed the portfolio strategy, noting that they seek to generate higher returns than the benchmark without additional risk. The portfolio now holds 159 securities, vs. the benchmark at 978. They are closely correlated by geographic region and bond ratings. Phillips reviewed activity over the last year. He noted that there were a number of key elections in emerging market nations in 2024, and the outcome appeared to largely reflect a continuity of existing policies. Since inception, the fund outperformed the EMBIGD index, returning 7.07% net of fees, vs. the index at 6.62%. Mexico, Sri Lanka and Ukraine were the top drivers of performance. China was the biggest detractor. The portfolio consists of about 45% investment grade bonds. The rest consists of BB, B and firms in restructuring. Looking ahead, the portfolio will likely remain tightly correlated with the benchmark. Phillips noted that the Trump administration's actions on tariffs have been inconsistent and that the firm did not want to take undue risk until the policy becomes more clear. The Chair requested that Marathon include more information on cash flow and the present value of the portfolio in future reports. Ghazarian asked how the changes in interest rates could affect the portfolio. Szmulewicz noted that the fund will generally match the average duration in the benchmark. He added that restructuring firms are particularly sensitive to higher interest rates as it restricts their ability to refinance their debt.

Hillary Goldberg and Maura Neely represented Wellington Management. A written portfolio summary was reviewed by the Board. There have been no changes to the portfolio management or strategy. Goldberg stated that Wellington is employee owned, with 191 partners, all actively employed at the firm. The firm is structured without a CIO or investment committee. Each investment team has direct control over their portfolios. The Chair noted that returns over the last five years for Emerging Markets Debt have been poor, and with high volatility. He stated that the returns from the index have also been lackluster, and questioned if the Board should look into moving money into a different asset class. In the last year, Wellington returned -4.15% net of fees, vs. the benchmark at -2.38. Overall returns have been negative for the trailing five years. Returns have also been volatile, with returns of over 14% in 2023, 2019 and 2017, and negative returns in most other years. Neely stated that the outcome of the US election, as well as the decision to pause interest rate cuts led to a stronger dollar and a headwind to the portfolio. Neely stated that she felt these were temporary effects and that 2025 would see lower interest rates and a weaker dollar. Latin America was the largest detractor from returns, with rising interest rates in Brazil, Colombia and Mexico. Neely was optimistic that counties which had raised interest rates were seeing lower inflation, which should result better returns in 2025. The portfolio maintains a longer duration vs. the index, which hurt returns in 2024 but looks to be a positive in 2025. Egypt and Turkey were the two biggest drivers of returns in 2024. Neely stated that she feels the future outlook for emerging markets is strong. She noted improving corporate governance and that the universe of bonds had more ratings upgrades than downgrades.

McCann moved to adjourn at 3:20 PM.