Minutes of the meeting held on May 30, 2024

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

The meeting was called to order at 11:08 AM. This was a hybrid meeting held in-person at 125 CambridgePark Drive, and via Zoom videoconference. The meeting was digitally recorded.

Agenda Item #1 – Segal Marco Advisors
Ghazarian reviewed the process of terminating the High Yield account held by Loomis Sayles. The assets must be liquidated before the funds can be transferred to Mesirow. Ghazarian stated that Loomis had not provided clear information about how the liquidation would work. At one point, Loomis had stated that they would charge an "impact fee" of approximately $170,000. They also suggested that one way to avoid the impact fee would be to draw down the portfolio in segments over a period of three months. Ghazarian reported that he had a conversation with Loomis that morning and he clarified that Cambridge would only be charged normal transaction costs with no additional impact fee. Ghazarian described the typical manner for assessing costs in a commingled account. Transaction costs are divided among all the investors in a pooled fund. These fees are described in the system's contract with Loomis. Ghazarian reminded the Board that Segal does not review contracts. That part of the process is handled by Attorney Quirk. Ghazarian noted that the transaction costs in a high yield bond fund are somewhat higher than an equity fund because the high yield fund is more illiquid. He also clarified that Cambridge would pay 100% of the cost of the liquidation. The cost would not be shared among other participants in the pool. He stated that this was a very typical industry practice.
Monagle moved to liquidate the assets held by Loomis Sayles at the earliest possible date and to pay the transaction costs associated with the termination. Gardner seconded the motion and it was voted unanimously.

Julie Pierro represented UBS. A written overview of the portfolio was presented to the Board. Over the last twelve months, the fund showed relative outperformance against the benchmark, returning -10.72% net of fees, vs. the ODCE at -11.28%. The fund tends to be overweighted to coastal cities, and toward apartment properties. The fund has moved to invest more in Industrial properties, as well as adding some exposure to self-storage and laboratories. Pierro reported on the effort to sell properties that have been designated non-strategic, which has now largely been completed. The portfolio now consists of 124 properties with a gross value of $13.7 billion. Currently, UBS has targeted the portfolio at 35% each to apartments and industrial, 10% to retail and 5% each to offices, life science, self storage and "other". The other category might include student housing or single-family rentals. Pierro reviewed the firm's exit queue. The high water mark was in January 2021 when there were $8.2 billion in redemption requests. Due to payments and recissions, the exit queue is now $6.2 billion. Cambridge is currently in a loyalty program where they receive a 25% fee discount, contingent on taking no redemptions before 2027. Pierro described a new loyalty program which offers the same discount, but with no guarantee as to the amount of time the fees will remain discounted. Ghazarian requested that UBS forward written information on their new loyalty program. Pierro reviewed various asset classes. She noted that apartments remain very strong due to high demand and a shortage of new housing. The apartment portfolio is now 94% leased. Office demand remains soft. Pierro stated that she believes that many of the companies that shifted to work-from-home arrangements will never go back to requiring workers in the office five days per week. This results in firms downsizing their office space requirements. She stated that offices continue to sell below asking price and that UBS would likely take additional write-downs over the next year. Pierro stated that there are no suburban shopping malls in the retail portfolio. Urban community centers with strong anchor tenants have been performing very well. Pierro described the work of redeveloping CambridgeSide. One floor of the retail space was set aside to be converted to office space and that has now been leased to SmartLabs. Construction has been completed on a new life science building. Construction continues on converting a parking garage to apartments. In the retail space, new leases were signed with Zara and a Harry Potter exhibition. The fund is now 22.2% leveraged, compared to the ODCE at 26.9%. The average interest rate is 4.6%. The portfolio will likely borrow more as interest rates come down and will move to match the leverage rate in the index. Pierro noted that UBS was historically one of the lower-leveraged funds but that this resulted in poorer performance during the period of low interest rates in the 2010s. Ghazarian asked if UBS was considering offering seller financing for buyers of office properties and Pierro confirmed that UBS would be willing to offer terms to buyers. Ghazarian requested that UBS forward information on the financing terms that UBS was offering.

Rebekah Brown and John Maughan 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 stated that there has been significant depreciation in the real estate sector over the last seven quarters. She noted the high cost of borrowing was a major factor. She stated that she felt there could be some further depreciation over the next six months, but that she felt that the bottom of the market was now in sight. In 2024, the fund will look to reduce exposure to office and retail properties. Four office properties have already been put on the market. The fund will look to buy into additional industrial, outdoor storage, single family rentals and self-storage. Outdoor storage and single family rentals are targeted to comprise 20% of the fund by 2026. The fund currently has a redemption queue of $7.3 billion and they have planned to pay out $2 billion in 2024 and another $2 billion in 2025. Retail has been the strongest performing sector over the last two years. The fund has been hurt by having more leverage than their peers. The fund is now 31% leveraged vs. the ODCE at 26%. Brown stated that the higher leverage position would help the portfolio once the recovery in real estate values begins. Brown reviewed the current positioning of the portfolio. The fund targets infill and port-proximate properties which have notably higher rents than more remote locations. The rental property is geared towards affordability, with rents averaging in the 65th percentile within the local markets. Brown said that she is now projecting returns of 13% annually over the next three years, although this assumes no further interest rate increases. Maughn noted that the view at JP Morgan is that the Fed will approve one or two interest rate cuts before the end of the year. Brown reviewed the current office portfolio, noting that it was all tier-one properties. She stated that the portfolio does not hold “commodity office” properties, which likely will never be sold. JP Morgan has announced that they will offer a 30% fee discount to all clients who do not have a pending redemption request, to be effective starting July 1, 2024. The discount will run through the end of 2025.

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 stated that the returns over the last six quarters have been quite poor, although they remain largely in-line with the benchmark returns. The gross asset value of the fund is $12.1 billion and consists of 154 properties. The firm is headquartered in Boston. The fund is now 28% leveraged. Palandjian reviewed the firm’s history, noting their use of union crews on construction projects. He stated that the portfolio is healthy and has been performing well, other than the office properties. Net income has increased in each of the last three years however the higher interest rates have been a drag on property values. He stated that he expected that the depreciation in property values would end by the beginning of 2025, although offices values could continue to fall for another year. Palandjian noted that the fund was closing on a property in Stockton, CA. The purchase will give Intercontinental full control over a five-building campus. This will be the first purchase by the fund in the last seven quarters. Palandjian stated that he expects that the fund will move to buy more aggressively by mid-2025. The fund currently has an exit queue of $1.1 billion. This comprises about 11% of the total fund value, which is the third best within the index. Palandjian stated that he did not intend to sell properties to pay down the queue, and there is little money from new investors to use. The fund has used excess income to make some payments. He also stated that he has made personal appeals to clients to rescind their redemption requests and to make new investments. He also stated that he may consider borrowing against unleveraged property in order to free up more cash. The portfolio remains overweighted to offices, which now comprise 27.8% of the portfolio. At the start of 2020, the fund was 44% offices. The fund is also overweighted to apartments. He noted that apartments remain very strong due to high demand and a shortage of new housing. The fund is underweight to industrial and retail and Palandjian stated that he intends to buy into both of these classes. Palandjian stated that a full recovery of office demand could take seven years. He noted that many firms seem to have settled on allowing employees to work from home two days per week. As leases come up for renewal, tenants will opt to reduce their footprint. Monagle asked about the portfolio's exposure to Amazon, and Palandjian responded that they now own five Amazon distribution centers, all with fifteen year leases.

Andrew Blanchard represented Rockwood Capital. A written review of the portfolio was submitted to the Board. There have been no changes to the management team or fund strategy. Cambridge is currently invested in Fund IX, having committed $18 million in 2013. The fund is nearing termination. Overall, the fund closed on 23 properties and has now sold 21. The fund has generated a net return of 8.7% annually. He noted that real estate transactions have fallen sharply in the last eighteen months. Sales that do go through are typically being sold at a discount. Blanchard stated that he hopes to wait out this environment but balances this against the desire to terminate the fund in a timely manner. The fund now has $17 million in cash, as well as $38 million in callable capital. Blanchard noted that this was a very conservative approach as the fund moves to liquidate but that he felt it was necessary to guard against unforeseen circumstances. The cash balance will be returned to investors upon final termination. Blanchard reviewed the remaining properties in the portfolio. The Fairmont Olympic Hotel in Seattle is currently open. This will likely be brought to market in the summer. The Cannery is a retail/office property in Campbell, CA. The space is 40% leased and Rockwood continues to actively market it for leasing. The property will be difficult to sell due to higher interest rates and the unwillingness of banks to give loans on office buildings.

Ghazarian reviewed Segal Marco's written analysis of investment performance for the period ending March 31, 2024. In the first quarter, most asset classes performed well. Equities showed very strong returns. Real estate and fixed income were both down.

Ghazarian reviewed the system's current asset allocation. The system remains overallocated to domestic equity and private equity, and somewhat underallocated to fixed income and real estate. Ghazarian stated that he did not feel it would be necessary to rebalance the portfolio right away.

Scott Humber and Michael Scanlon represented Ares. A written portfolio report was submitted to the Board. The Board is invested in two secondary funds, Real Estate Fund VI and Private Equity Fund XV. Humber reviewed the private equity portfolio. He noted that Landmark Partners had been acquired by Ares, and the changeover had gone smoothly. The new firm has allowed the fund to streamline deal sourcing and due diligence. The fund closed in 2014 and is now in the harvesting phase. The portfolio closed 60 transactions, acquiring 183 partnership interests. It is generating a net IRR of 11.7%. Humber stated that this number was likely steady and should terminate between 11 and 13%. The fund raised $3.3 billion and called $2.7 billion over 34 secondary transactions. Cambridge has received $9.4 million in distributions. The

portfolio is well diversified in terms of vintage year, industry and strategy. Ares has targeted 2027 for fund termination.
Scanlon reviewed the real estate fund. It closed in 2011, having made 30 transactions and acquiring 83 partnership interests. It is generating a net IRR of 18%. The total fund invested $681 million and has now made $987 million in distributions. The remaining value of the fund is $3 million. Cambridge's remaining value in the fund is $15,000. This comprises one retail property in Poland. Scanlon stated that final termination of the fund was imminent.

Anna Farley and Michael Riccobono 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 one active investment in DivPEP Fund V. Riccobono provided an overview of BlackRock, noting their global footprint and experienced management team. He described BlackRock's current fund offerings, noting that clients can now invest in multiple strategies and specify the amount to be placed into primaries, secondaries and co-investments. Riccobono reviewed the construction of the DivPEP V portfolio. It is primarily fund-of-funds, but about one-third of the portfolio is direct co-investments, and a smaller amount in secondaries. Fund V is a 2012 vintage fund, now in the harvesting phase. Cambridge has committed $6.5 million and paid in $5.4 million. To date, the fund has returned about $5.4 million to Cambridge, with about $4.2 million in value remaining. The portfolio has a net IRR of 9.1%. Riccobono stated he did not feel that the firm would have to draw the rest of the uncommitted capital. This fund will likely wind down in 2029 and BlackRock is considering options for liquidating the fund on the secondary market as was done with Fund II. He noted that in a secondary transaction, not all of the general partners may consent to the transaction.

Thomas Scanlon represented Ascent. Michael St. Germain, private equity specialist from Segal Marco, also attended. The Board reviewed a proposal to extend the life of the Ascent V fund, as well as a written analysis prepared by Segal. Ghazarian stated that Cambridge has $3.2 million in remaining value in that fund. Scanlon reviewed a proposal to extend the term of the Ascent V partnership until December 31, 2027. Under this proposal, fees would be capped at the lesser of 0.5% of net assets or $250,000 in 2024, $150,000 in 2025, $75,000 in 2026 and no fee in 2027. Ascent now has written approvals from 73.1% of limited partners, so the extension will go into effect. Cambridge is the largest LP not to have approved the extension. St. Germain asked for the exit strategy for the firms remaining in the fund. One firm is Nova Scientific, which provides precision measurement tools. Ascent is looking to exit the firm by selling off the company's three divisions as separate entities. Another company is Invaluable, which provides services to the live auction market. The Board and management of the firm are in agreement to seek an exit in the second half of 2024. The last firm is Start.io, which is not currently for sale. Management is focused on improving metrics to make the company a more attractive acquisition candidate. St. Germain stated that he felt that, given the maturity of the fund, the proposed management fees seemed high. The Board agreed to take no action on the request, since the extension has already been approved by a majority of limited partners.

Ghazarian reported that he received 24 responses to the RFP for core real estate managers. The three incumbent managers, UBS, JP Morgan and Intercontinental, all submitted proposals. Segal is doing an analysis of the candidates which should be ready for consideration at the next quarterly meeting.

The Board reviewed a memo prepared by Segal Marco which describes their process for outreach to women and minority owned firms, encouraging them to respond to RFPs. He noted that he has participated in a number of conferences put on by minority-owned firms which provides a good opportunity to network. Segal maintains a list of recommended

women/minority owned firms, which now includes fifty names. Burns requested that Segal provide a copy of the current list.
Burns noted that the disparity study that was recently conducted by the City of Cambridge included recommendations around improving opportunities for women and minority owned businesses to win contracts with the City. One suggestion was that RFPs should be publicized up to a year in advance. Gardner suggested that any public schedule include language that states that it would be subject to change. He noted that the fact that the system has contracts with various vendors was already a public record and so it should not be an issue to post that information, including when the contract would be up for review. The Chairman asked that Burns and Ghazarian work to develop a way to post the information in a helpful format.

Gardner asked if Ghazarian has reviewed the system's asset allocation strategy. Ghazarian stated that Segal's position is that the financial markets conditions have not changed significantly since the last review and he would not recommend any changes at this time.

Ghazarian returned to the discussion of the fund's recent performance. Overall, the total fund was valued at $1.811 billion, representing a gain of 3.3% during the quarter, which was in-line with the policy index. Aberdeen has continued to underperform and is now behind their benchmark over the trailing five years. He stated that Segal's research department has conducted several calls with Aberdeen and will prepare a memo describing their findings. The report should be ready for review at the next quarterly meeting.

McCann moved to adjourn at 4:00 PM.