Minutes of the meeting held on November 28, 2016

Present: Francis Murphy - Chair, Jim Monagle, Michael Gardner, John Shinkwin, Ellen Philbin, Rafik Ghazarian, Donna Rosequist and Chris Burns.

Left Early: Nadia Chamblin-Foster (Left following BlackRock presentation)

The meeting was called to order at 10:05 AM. The meeting was digitally recorded.

Agenda Item # 1 – Manager Reviews
Ghazarian reviewed Segal Rogerscasey's written analysis of investment performance for the period ending September 30, 2016. He stated that the third quarter saw strong returns across most asset classes, with the exception of commodities. Overall, the Total Fund was valued at $1.143 billion, representing a gain of 4.09% during the quarter. The fund underperformed with the policy index return of 4.24%. He noted that a number of active managers have underperformed their benchmark over the last year, including Wedge and Brandywine.

Rosequist reviewed a written analysis of the system's investments in Private Equity. She noted that the system has made a number of large commitments since 2015, but remains underallocated to this asset class. She stated that, based on her conversations with PRIT, they have committed less than targeted to their own funds, and have been slow to draw down their commitment. She stated that it appears that the 2015 fund will draw only 65% of committed capital, and the 2016 fund will draw 50%. In order to correct for this issue, Rosequist recommended that the system overcommit to future funds. She also reviewed the specific investments within the underlying funds. The system has appropriate allocations to venture capital and to international funds, but does not have significant investment in Special Situations, which can include distressed debt, mezzanine debt or debt for control. Rosequist stated that PRIT does not make these types of investments in their private equity fund. Based on the cash flow model that Segal has prepared, the system will likely remain underallocated to private equity until 2019 or 2020. The model assumes new investments of $25 million each in 2017 and 2018, and $20 million in 2019. Given the low investment levels in the two prior PRIT funds, Rosequist stated that the Board may wish to invest up to $40 million for 2017. She stated that, in the current macroeconomic environment, many fund managers are choosing to sell, rather than buy high-priced assets. Given those conditions, PRIT's undercommitment may be prudent. Rosequist also reviewed the performance of prior funds where Cambridge has invested. 40% of funds are posting top quartile returns. Rosequist stated that the system may wish to consider issuing an RFP for an investment manager focused on Special Situations, but that many of the top funds are currently not raising money. The system would likely get a better response by waiting until the end of 2017 to issue the RFP.

Chamblin-Foster requested that Segal include information in their quarterly report showing the amount invested with women and minority owned funds.

Mitch King, Morgan O'Loughlin and Simon Dwyer represented BlackRock. A written review of the portfolio was presented to the Board. There have been no changes to the investment strategy or the management team at BlackRock. Cambridge currently has investments in DivPEP Fund II and DivPEP Fund V. Both funds have performed well. Dwyer 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 well into the harvesting phase. Cambridge committed $10 million to the fund. The portfolio currently has a net IRR of 10.9%, and has returned over $14 million in distributions to Cambridge since inception. The fund called 90% of the capital commitment, and Dwyer stated that he did not anticipate any further calls on this fund. The firm is considering various options for terminating the fund, including selling the remaining interest on the secondary market. Fund V is coming to the end of the investment phase. Dwyer stated there may be a few more underlying funds added. Cambridge has committed $6.5 million, and paid in $3.1 million. The fund is still in the J-curve, with no meaningful returns to date. The fund has been calling between 10% and 20% of the commitment each year, and Dwyer stated that the fund will likely call close to 90% of the commitment. The fund differs from fund II, in that it includes some investments in energy funds, and also includes investments in Asia and Latin America. The fund is heavily weighted toward buyouts, with smaller amounts in energy, venture capital and distressed debt. Dwyer stated that the market for traditional buyouts has tightened as company values have risen. Blackrock has reacted by making different types of investments, including corporate carve-outs, when a firm spins off a portion of its business, which may be undervalued.

Eric Dooley represented Hancock Timber. A written overview of the portfolio was presented to the Board. Dooley reviewed the structure of the Hancock Natural Resource Group, noting different subgroups investing in timber, farmland and renewable energy. Following the retirement of CEO Dan Christensen, Bill Peressini has taken over as CEO. Dooley stated that he has taken over as Portfolio Manager following Jonathan Aggett's decision to take a leave of absence. The Hancock Timberland X portfolio is now fully invested, and in the holding period. Cambridge committed $6 million and the entire amount has been called. The fund has made $700,000 in distributions. The current value of the fund is appraised at $8.6 million. Distributions are made based on sales of harvested timber, as well as some small land sales. The total portfolio consists of over 500,000 acres of timberland. The properties are located in the Pacific Northwest, Louisiana and Queensland, Australia. The fund has generated a nominal IRR of 8.5%, and outperforms the NCREIF Timberland index since inception. The fund does use some leverage, totaling approximately 20% of the portfolio. There is currency risk in the fund, due to the exposure to the Australian Dollar. The portfolio does not hedge this risk. Dooley stated that he expected increased distributions over the next few years, as the fund has delayed harvesting timer in the US South due to low prices. The harvest will pick up in 2017. Dooley reviewed the economic outlook for timber products. He noted that US housing starts continue to trend upward, although they remain below their long-term average. US timber exports to China have fallen since 2014, due to slower demand and the strengthening US dollar. At present, there has been a slowdown in investment throughout the timberland industry due to lower returns. Within the next month, Hancock will begin raising an open-ended fund, investing in both timber and farmland. Hancock has also moved into renewable energy investing, although at present, it is not open to outside investors.

Paul Todisco represented the PRIT Fund. A written portfolio report was submitted to the Board. The Chairman stated that he was concerned that PRIT had been unable to invest a significant portion of Cambridge's private equity commitment. Todisco stated that the fund did fall short of their target allocation in 2015 and 2016. He stated that the fund strives to invest prudently, and prefers to undercommit, rather than to invest in questionable funds. In 2015, PRIT committed $1.492 billion, short of the target of $1.7 billion. To date in 2016, PRIT has committed $688.3 million, short of the target of $1.4 billion. Todisco noted that the PRIM Board is likely to approve one additional investment at their December meeting, bringing the 2016 commitment to $760 million. Todisco stated that the fund has had commitment shortfalls going back several years, although the 2016 shortfall was unusually large. He anticipated that 2017 may also be a difficult year to meet their target allocation. The Private Equity strategy varies from year to year, with some years overweighted to buyouts or venture capital, and investors must invest over several consecutive years in order to properly diversify. The private equity fund does not invest in secondaries, or in special situations. PRIT does have some distressed debt investments in the value-added fixed income sleeve.

Todisco also reviewed the performance of the hedge fund sleeve. He reminded the Board that the objective of the portfolio is to provide a return between equites and fixed-income, but with volatility similar to the fixed-income portfolio. 84% of the portfolio is now invested with twenty-eight direct hedge funds. 16% is invested with one fund-of-funds specializing in emerging managers. Eric Nierenberg, the hedge fund portfolio manager has worked on developing a hedge fund replication strategy. PRIT now has approximately $200 million invested in this strategy. The fund has also shifted into managed accounts, which has also resulted is significant fee savings. Managed accounts now comprise about 50% of the portfolio. Todisco stated that PRIT intends to terminate underperforming commingled funds in order to shift more money into managed accounts. The fund has now returned 5.37% annually over the last five years, vs the benchmark at 3.34%.

Jeff Kusek represented Penn Square Real Estate. A written review of the portfolio was presented to the Board. The portfolio has stopped calling committed funds on this account, with the last call in 2013. Kusek stated that the portfolio was able to generate early returns with five secondary investments, which allowed them to recycle distributions rather than calling funds. In the end, the fund called 61% of Cambridge's commitment. The total portfolio consists of 19 investments. The portfolio has performed very well, with Kusek projecting a net IRR of 15%. To date, the system has paid $3.4 million into the account, received $3.6 million in distributions, and the current portfolio value is $2.4 million. Kusek noted that the portfolio was well timed, as they were able to buy while prices were still depressed, and are now selling into a very strong market. Kusek reviewed the various fund investments, noting the highest and lowest performers. He noted that a UK manager had taken a 5% write-down following the Brexit vote. Brazilian investments have performed very well, due to currency appreciation and an improved political situation. The fund is now winding down, and the majority of assets should be returned by the end of 2017 and the fund will consider various exit strategies in 2018. Penn Square is not currently raising a new real estate fund, with Kusek noting concern about deteriorating underwriting standards. Instead, they are looking at opportunities in structured credit and residential mortgages.

Ghazarian stated that Segal would change the hedge funds benchmark from the 90-Day T-Bill+5% to the HFRI Fund of Funds Index. Mesaured against this benchmark, PRIT has outperformed across all time periods on a relative basis, although the performance on an absolute basis remains questionable. Ghazarian reviewed an analysis of the system's asset allocation, including proposals to cut or eliminate the hedge fund allocation and to redistribute those funds into other asset classes. He noted that Segal has estimated the long term returns from hedge funds to be 5.6% annually, lower than every other asset class other than fixed income. Segal's model recommends that if money is taken out of hedge funds, it be redistributed first to private equity, and then to emerging markets debt. Eliminating the hedge fund allocation entirely would require moving funds into US equity, developed equity, real estate, timber and infrastructure. The model predicts that any of these moves would result in slightly higher returns, but with an increase in risk. Gardner noted that the system is well below the target allocation to private equity, so it would likely be impossible to make the shift in the proposed allocation in the near future.

Gardner moved to invest $40 million in the PRIT 2017 private equity fund. Shinkwin seconded the motion and it carried on a 4-0 vote, with Chamblin-Foster absent. Rosequist stated that she felt it would be prudent to review private equity investments in detail on an annual basis. Ghazarian suggested that the Board wait until the end of 2017, when PRIT is able to report how much of the 2017 allocation is actually committed, before considering an additional allocation to a special situations fund.

Ghazarian stated that it continues to be difficult to find dedicated timber funds for new investments. Given that, he stated that a timber/agriculture hybrid, such as the one proposed by Hancock, could be an appropriate investment. He stated that he would not recommend an investment in a dedicated agriculture fund.

Ghazarian stated that Cambridge remains in the queue with IFM. They should be able to draw the entire commitment within two or three quarters. Gardner moved to make no change to the present hedge fund allocation, but to continue to monitor performance closely. Shinkwin seconded the motion and it carried on a 4-0 vote with Chamblin-Foster absent.

Ghazarian reviewed Segal's analysis of the responses to the International Fixed Income RFP. The RFP was issued due to Chapter 176 requirements. Five managers submitted responses, including Brandywine, the incumbent manager. Ghazarian stated that Segal has rated Brandywine as "Recommended". Segal has not issued ratings for the other managers. He noted that one manager, PIMCO, has generated strong returns but their portfolio hedges currency risk. He stated that this style has been in favor over the last three years, but it may not generate returns over the longer term. Ghazarian recommended that the system could opt to extend the contract with Brandywine immediately, or conduct interviews with Brandywine and PIMCO. He stated that if the system did opt to move to a new manager, the transaction costs would likely be minimal. Ghazarian stated that a number of managers in this space have had poor returns, and may have opted not to submit proposals. Gardner moved to extend the contract with Brandywine. Monagle seconded the motion and it carried on a 4-0 vote with Chamblin-Foster absent.

Gardner stated that a speaker at the IFEBP conference had recommended that trustees may wish to monitor the performance of managers after they are terminated as a way of assessing if the reasons for termination make sense in retrospect. Ghazarian stated that he has done this type of reporting for clients in the past. He noted that, when managers are terminated at the bottom of a market cycle, their performance is likely to rebound over the short term. Over the longer term, he noted that most decisions to terminate turn out to be correct.

Monagle moved to adjourn at 2:20 PM.