

FALMOUTH RETIREMENT BOARD
Open Session Meeting Minutes
Thursday, September 28, 2017

Board members in attendance: Russell R. Ferreira, Chairman; Ellen K. Philbin, Vice Chairman; Jennifer P. Petit; Gary W. Anderson and Craig B. O'Malley

Staff members in attendance: Francis St. Germaine who recorded the minutes of the meeting

At approximately 9:45 a.m., with a quorum present, Chairman Ferreira called the meeting to order, and Michael Dwyer of Wainwright Investment Counsel joined the meeting. Mr. Dwyer noted for the board members that the focus of today's meeting is for the various investment professionals to give a brief presentation on their particular fund as part of P.E.R.A.C.'s annual investment manager review.

The first investment manager to join the meeting and present was David Collon and Chris Heatley of Seizert Capital Partners. Mr. Heatley began with a brief firm overview. He noted that, in the past year, there have been no significant changes in their organization. Seizert Capital Partners uses a quantitative and qualitative investment discipline to drive concentrated core and value equity strategies. As a reminder, their firm, founded in 2000, is headquartered in Birmingham, MI. They have approximately \$2.9 billion in total assets under management of which approximately \$1.2 billion is in their mid-cap equity product. Mr. Collon picked up with their discussion and more specifically the investment by the Falmouth Retirement System. As of June 30, 2017, the market value of this portfolio is approximately \$7.9 million. This is on an initial investment of \$5.0 million with about \$2.5 million in withdrawals over the years. Since inception, they are up about 12.47%. It is a fairly concentrated portfolio with 20 – 30 stocks in the fund. Their process is still the exact same process. They are looking for very strong businesses that are inexpensively priced which they can own for an extended period of time. They noted that they have a very experienced investment management team in place that is disciplined, focused, and have a history of success. Mr. Collon noted that they are very happy with the portfolio; however, he did emphasize that "there is no fear in the markets which would create better prices". Thus, they will continue to work very hard to find the right opportunities and to try to improve each day. After some additional discussion with the board members, Mr. Collon and Mr. Heatley exited the meeting.

Then, Bob King from Baring Asset Management joined the meeting. To start, he noted that our long time relationship manager, Barbara Cassidy, is no longer with their firm. In addition, he noted that, in 2016, a merger was completed which put Babson Capital Management, Wood Creek Capital Management, and Cornerstone Real Estate Advisers under the Baring Asset Management name. With this merger, Baring Asset Management is a \$288+ billion global financial services firm with a history dating back for centuries dedicated to meeting the evolving investment and capital needs of their clients. This merger has brought together four complimentary investment strategies under one unified brand which provides an economies of scale with really no overlap in their investment capabilities. There has been little change to their fixed income, global investment team. It continues to be a well-resourced and specialized team with no change in their philosophy. In terms

of performance for the year, the fund is doing well. As of June 30, 2017, it has outperformed its benchmark. He discussed some of their portfolio positions by currency and by market, noting that this continues to be a great diversifying product to have in a portfolio. He discussed some different scenarios that, going forward, they believe could play out in the markets. These scenarios are as follows:

1. **Global Moderation** – moderate economic outcomes become a prolonged feature of the global economy with fiscal stimulus such that is enacted failing to make a meaningful impact upon growth. The U.S. dollar unwinds some of its more recent appreciation on the back of diminishing expectations of widening policy rate differentials.
2. **Reflationary Trends Gain Traction** – a firmer recovery in the global economy is underpinned by the lagged effects of the prior period’s loose monetary policy settings and a gravitation towards more expansive fiscal policy.
3. **Inflation-like Growth Resumes** – a maturing of the recovery phase at slightly higher levels of growth than that presently evident in the contemporaneous environment. In the U.S., attention turns to the country’s international trade relationships where an increasingly more hawkish orientation is developed.

He believes that their strategy going forward will likely maintain a heavy weighting in “peripheral Europe” versus “core Europe”. After some additional discussion with the board members, Mr. King exited the meeting.

Next, Denise D’Entremont joined the meeting to update the board members on RhumbLine Advisers and their Russell 1000 Value Pooled Index Fund as well as their Russell 1000 Growth Pooled Index Fund. Ms. D’Entremont began by reminding the board members that their firm continues to be 100% employee-owned. As of July 31, 2017, their firm has about \$48.2 billion in assets under management with approximately \$30.5 billion in assets being managed for public funds. She noted that they continue to launch and fund new products as well as add new public clients. In terms of the funds, the large cap value fund, year-to-date, is up approximately 4.83%. As of August 31, 2017, the market value for the retirement system’s account was approximately \$8.6 million. Overall, this pooled index fund has approximately \$441.4 MM in assets spread between 719 holdings. The Falmouth Retirement System owns about 1.95% of this fund, and the system is one of seventeen participants in the Russell 1000 Value Pooled Index Fund. She then discussed their large cap growth index fund. Year-to-date, this fund is up approximately 19.15%. As of August 31, 2017, the market value for the retirement system’s account was approximately \$7.7 million. Overall, this pooled index fund has approximately \$760.8 MM in assets spread between 553 holdings. The Falmouth Retirement System owns about 1.01% of this fund, and the system is one of twenty-one participants in the Russell 1000 Growth Pooled Index Fund. Lastly, Ms. D’Entremont explained their commission structure and their trade strategy. She noted that they try to be very focused and careful about when they trade, and as a result, they are able to keep their fund costs down. After some additional discussion with the board members, Ms. D’Entremont exited the meeting.

Then, Matthew Kosara of HGK Asset Management joined the meeting to discuss their international equity fund. He began by noting that there are no significant changes to their organization's team and then he provided a performance update of their portfolio. As of August 31, 2017, the net asset value of the retirement system's account was approximately \$9.5 million. Year-to-date, the portfolio was up approximately 27.16% gross of fees. He reviewed their international commingled fund second quarter trades. He shared some of their insights on the global markets. He discussed some of the key performance data through Q2 2017. It was noted that the contribution to performance by individual companies is comfortably diversified by country and sector, and while there were many strong performers, there was no distortion coming from a few outsized winners. In entering the second half of 2017, the macro-economic background as ever is mixed: the administration in Washington may deliver some structural reform on taxation which may have a positive impact on company investment decisions; the German election should enhance stability in Europe if the current government is re-elected; France, under its new President, is promising a great deal (and there is huge potential for reform), and his achievements in creating a new party from scratch within one year are extraordinary, but all will depend on whether he will have the ability to overcome the inevitable battles on the streets; interest rates are due to continue rising, led by the Federal Reserve, but uncertainty on growth has raised questions here and the U.S. 10-year bond yield has fallen back; energy prices have remained subdued as shale based production in the U.S. has acted as an effective cap on the upside; and China has been showing steady growth at a more moderate level. He noted that the Trinity Street team will continue to search for long-term investment ideas which are undergoing structural change and where the impact of the changes on the cash flows of the businesses are under-recognized by the market. These ideas will be implemented in a concentrated, index agnostic approach. After some additional discussion with the board members, Mr. Kosara exited the meeting.

Next, Patrick Hearne and Arman Palian of State Street Global Advisors joined the board meeting. To begin, Mr. Hearne provided the board members with a current overview of their firm. S.S.g.A. is the investment management arm of State Street Corporation which is a global leader in financial services with a heritage dating back over two centuries. S.S.g.A. is entrusted with over \$2.6 trillion assets worldwide. Their investment team seeks to offer broad-based market exposure in highly specialized active and passive strategies across the risk-return spectrum. He discussed the "new" investment reality and reviewed their organizational chart. Mr. Palian then discussed with the board members the current market value of our two fixed income strategies. As of August 31, 2017, the High Yield Bond Index Fund had a market value of approximately \$2.7 million and the Passive Bond Market Index Fund had a market value of approximately \$18.6 million. Year-to-date, the High Yield Bond Index Fund was up approximately 5.21% gross of fees and the Passive Bond Market Index Fund was up 3.64% gross of fees. Also, he provided the board members with an overview of the global fixed income arena including their investment philosophy, their investment process, and their risk management. After some additional discussion with the board members, Mr. Hearne and Mr. Palian exited the meeting.

Then, Brian Devine and Shannon Ericson from LMCG Investments joined the meeting. They have been scheduled to give a brief presentation on their Mid-Cap Core Equity strategy and their

International Small Cap Equity strategy. Mr. Devine began by providing the board members with an overview of their firm. Founded in 2000, LMCG Investments, formerly known as Lee Munder Capital Group, is headquartered in Boston, MA and the firm has 63 employees. Investment management is the firm's sole focus. He noted that they are proud to have a diverse client base with approximately \$8.0 billion in assets under management. Both their assets and their revenues continue to grow which is always a positive. He reminded the board members that their Mid-Cap Core Equity strategy is a combination investment strategy. This combination strategy provides two very separate, distinct teams and portfolios...the mid-cap value strategy and the small / mid-cap growth strategy. These two distinct philosophies are combined to form their mid-cap core fund which provides for lower volatility than a concentrated single strategy. He reviewed the style, the investment process, and the portfolio construction. As of August 31, 2017, the retirement system's share of this portfolio, which year-to-date is up 7.2%, had a market value of approximately \$10.2 million. Ms. Ericson then discussed their International Small Cap Equity strategy. She reviewed their investment research team. She discussed, in some detail, their investment process and their portfolio construction. As of August 31, 2017, the retirement system's share of this portfolio, which year-to-date is up 22.1%, had a market value of approximately \$4.7 million. After some additional discussion with the board members, Mr. Devine and Ms. Ericson both thanked the board members for the relationship and they exited the meeting.

The final presentation for the morning was from Trey Greer and Kevin Pope of Earnest Partners who joined the meeting to discuss their small cap core equity portfolio. Mr. Pope began by reviewing the current guidelines and investment policy with the board members to affirm that their firm remains in compliance, and also, to confirm that there have been no changes to our policy. He noted for the board members that there have been no material changes within their organization, and that they continue to be a 100% employee-owned firm. As of June 30, 2017, it was noted that the portfolio was, for the most part, fully invested, and that the ending portfolio value for the Falmouth Retirement System was approximately \$18.9 million. He reviewed the performance measurements, the asset growth, the sector weightings, and the equity portfolio characteristics. Mr. Greer provided a review of their investment process as well as a brief overview of the equity markets which he noted were generally positive through the second quarter of 2017. It was noted that investors have paid close attention to the U.S. Federal Reserve in anticipation of rate hikes, and the Fed met the market's expectations with their fourth rate increase since the end of 2015. Also, it was noted that a strengthening labor market, expanding business fixed investment, and a declining unemployment rate contributed to the decision. As the economy continues to improve, inflation is expected to pick up and further increases in the federal funds rate will be warranted. Still, Mr. Greer noted that "all is good." After some additional discussion with the board members, Mr. Greer and Mr. Pope exited the meeting.

Next, the Chairman asked for a motion to suspend the open session meeting so that the board members could recess for lunch. Chairman Ferreira noted that, at 1:00 p.m., the board members would reconvene their open session meeting. In addition, Mr. Anderson noted that he would not be able to attend the afternoon portion of the board meeting.

Ms. Philbin moved to suspend the open session meeting so that the board members could recess for lunch. Mr. O'Malley seconded the motion, all board members present voted in the affirmative.

At approximately 11:40 a.m., the board members suspended the open session meeting so that they could recess for lunch.

At approximately 1:00 p.m., the board members concluded their lunch recess and the Chairman asked for a motion to reconvene the open session meeting.

Ms. Petit moved to reconvene the open session meeting. Ms. Philbin seconded the motion, all board members present voted in the affirmative.

With a quorum present, the Chairman called the open session meeting back to order, and again, Michael Dwyer of Wainwright Investment Counsel noted for the board members that the focus of today's meeting is for the various investment professionals to give a brief presentation on their particular fund as part of P.E.R.A.C.'s annual investment manager review.

For the first presentation of the afternoon, Darren DeAngelis of Siguler Guff & Company joined the meeting. Mr. DeAngelis began with a quick reminder of their firm....a multi-strategy private equity investment firm with a specialization of investing in distressed opportunities. The firm has a dedicated team of investment professionals that is deep with experience. He reminded the board members that the Falmouth Retirement System had committed \$5.0 million to their Distressed Opportunities Fund III, a fund that buys all things distressed. To date, \$4.85 million of the total commitment has been called, and they have distributed back to the retirement system about \$6.1 million. As of March 31, 2017, the Falmouth Retirement System's share of this portfolio had a remaining value of approximately \$1.4 million. He discussed with the board members the firm's investment philosophy and their approach to distressed investing. He provided an overview of the fund including its cash flow to the limited partners. He discussed the funds return as compared to some major indices; however, it was noted that there is no true index to benchmark this particular fund. Lastly, he provided a brief summary of the holdings within this portfolio. After some additional discussion with the board members, Mr. DeAngelis exited the meeting.

Jim McMillan and James Lange of Principal Global Investors then joined the meeting so that they could give a brief informational update on their U.S. Property Account. To start, Mr. McMillan reassured the board members that the initial inspections indicate that their properties did not sustain any material damage due to the recent hurricanes. He then reminded the board members that the firm is involved in all four quadrants of the real estate platform; private equity, private debt, public equity and public debt. He noted that they have approximately \$74.7 billion in total real estate assets under management and they are able to draw from six decades of real estate investment experience. He highlighted their "very consistent and stable" portfolio management team. Mr. Lange provided the board members with an account overview as well as an account summary for the Falmouth Retirement System. As of August 31, 2017, the market value of the

retirement system's investment was around \$4.8 million. It was noted that the real estate fundamentals are stable and performing well....properties continue to appreciate and the occupancy is nearly 92.8%. It is a positive aspect, but he did caution against a more "normalized" environment given the real possibility of interest rate pressures. He provided to the board members some highlights of their top 10 assets. In addition, he shared some thoughts on their 2017 strategic themes, their diversification by region and by property type, and their performance summary. Also, Mr. MacMillan did acknowledge their investment queue, and when they are able to invest the \$1.0 million which has been allocated to them, they will notify the retirement system. The latest indications are that this queue may take several months to resolve. After some additional discussion with the board members, Mr. McMillan and Mr. Lange exited the meeting.

Next, Courtney Haynes of Mesirow Financial joined the meeting. Ms. Haynes began by providing the board members with a brief overview of Mesirow Financial. She noted that there have been "no major changes" within their firm. They are a diversified, independent, employee-owned premier provider of alternative asset solutions with their headquarters located in Chicago, IL. They have approximately \$33.0 billion in assets under management which includes hedge funds, private equity and real estate. Their private equity investment team is deep and very experienced with a focus to optimize capital under management to maximize opportunity. She noted that that Falmouth Retirement System had committed \$1.5 million of which \$1.4 million has been called and \$1.4 million has been distributed back to the retirement system. The Partnership Fund IV is 100% committed with about 39 underlying managers. She briefly summarized some of the significant portfolio drivers in which the Partnership Fund IV has invested. She discussed their investment strategy and their portfolio construction. It is a moderately sized portfolio designed to provide diversification by manager, by vintage year and by sub-asset class strategy. The investment team tends to emphasize a highly selective and rigorous manager selection process. In closing, she noted that this fund should be completely drawn down in the not too distant future. Conversely, as the capital calls wind down, the rate of distributions should begin to increase. After some additional discussion with the board members, Ms. Haynes exited the meeting.

Then, Gary Gustovich of Dimensional Fund Advisors joined the meeting to give a brief presentation on their International Core Equity Fund and their Global Real Estate Securities Fund. Mr. Gustovich began with a brief update of the firm. They are a global investment firm with a long history of managing time-tested investment strategies for clients. With \$518.0 billion in global assets under management, they have a global investment team with strong ties to leading academics and a high degree of practitioner's knowledge and experience across market cycles. He discussed some recent organizational changes, but he noted that these changes will not affect their investment philosophy which he reviewed with the board members. In terms of the funds, the international core equity portfolio, year-to-date, is up 18.99%. As of August 31, 2017, the account value for the Falmouth Retirement System was approximately \$9.2 million. He discussed the portfolio characteristics, the sector allocations, and the country allocations. Then, he turned his discussion towards their global real estate securities portfolio. He noted the portfolio characteristics and the sector allocations for this fund. Year-to-date, this portfolio is up 6.15%. As of August 31, 2017, the account value for the Falmouth Retirement System was approximately

\$6.5 million. In closing, he noted that Dimensional Fund Advisors will continue to work tirelessly to maintain the confidence that the board members have entrusted in them. After some additional discussion with the board members, Mr. Gustovich exited the meeting.

Lastly, Mr. Dwyer shared two separate emails that he had received...one with regards to the Intercontinental Real Estate Fund III and one with regards to the INVESCO Partnership Fund III as the remaining underlying interests for both of these funds are being liquidated. First, it was noted that Devin Sullivan has recently moved on from Intercontinental Real Estate. However, an email received from Mr. Sullivan noted that, as of Q2 2017, the NAV of the Intercontinental Real Estate Fund III was \$28,061. In October, they will have "reps & warranties" coming to an end on the sale of the Regency (Cary, NC) property. So, at that time, they will look to distribute the majority of the remaining cash. It was noted that they will need to hold some cash to pay any potential taxes, any legal bills for the dissolution, and any accounting fees to prepare the final tax returns. Additionally, there are some residual A/R balances that their asset managers are attempting to collect, but if they want to close Fund III by the end of the year, they may have to write-off some of these balances. Next, the email from INVSECO noted that they are still working out a few matters regarding the liquidation of the Partnership Fund III which has two remaining positions.

1. KPCB IX-A (this is too small of a position to sell so it will remain a holding until the General Partners liquidate)
2. Oak XI (working to find an adequate secondary buyer for this position)

The Partnership Fund III will likely be "wound down" by the end of 2018...although they are still pushing to get it done by the end of 2017. INVESCO has indicated that, unfortunately, much of this is out of their hands and in the control of the underlying General Partners. However, as updates become available, they will continue to provide communication with their Limited Partners.

After some additional discussion with the board members, Mr. Dwyer exited the meeting.

Finally, having no additional business to discuss, the Chairman asked for a motion to adjourn the open session meeting.


Ms. Petit moved to adjourn the open session meeting. Ms. Philbin seconded the motion, all board members present voted in the affirmative.

At approximately 2:05 p.m., the Falmouth Retirement Board concluded their open session meeting.

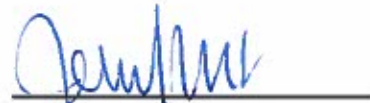
The next scheduled board meeting will begin at 2:00 p.m. on Thursday, October 19, 2017 at the office of the Falmouth Retirement System which is located at 80 Davis Straits, Suite 102 in Falmouth, MA.

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ATTEST:



Russell R. Ferreira
Chairman, Elected Member



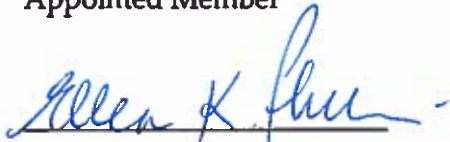
Jennifer P. Petit
Ex-Officio Member




Gary W. Anderson
Appointed Member



Craig B. O'Malley
Elected Member



Ellen K. Philbin
Vice Chairman, Fifth Member



Francis X. St. Germaine III
Director