

**FALMOUTH RETIREMENT BOARD**  
**Open Session Meeting Minutes**  
**Thursday, September 29, 2016**

Board members in attendance: Russell R. Ferreira, Chairman; Paul D. Brodeur; Gary W. Anderson; Jennifer P. Petit and Ellen K. Philbin

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

At approximately 9:45 a.m., Chairman Ferreira called the meeting to order, and Michael Dwyer of Wainwright Investment Counsel joined the meeting. It was noted that Mr. Anderson would not be able to attend the morning portion of the board meeting, but he is expected to be in attendance for the afternoon session. 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.

First to present for the day was Paul Todisco of the P.R.I.M. Board. Mr. Todisco began with a review of their mission. He then provided a brief organizational update. He noted that they have a few new board members and several new committee assignments. In addition, he noted some new hires and promotions within their organization. There are two open client service positions to be filled. Still, they seem to maintain a low rate of employee turnover. Also, they have implemented a professional development program and created an investor advisory council. He discussed some of the national recognition that they have received over the past year which included Project SAVE (Strategic Analysis for Value Enhancement). This project has realized over \$120 million in annual value enhancement initiatives. Lastly, as of August 31, 2016, the Falmouth Retirement System has a total investment in the P.R.I.T. fund with a market value of approximately \$11.3 million. Overall, the Absolute Return program accounts for approximately \$5.0 billion of the P.R.I.M. Board portfolio. After some additional discussion with the board members, Mr. Todisco exited the meeting.

David Collon and Chris Heatley of Seizert Capital Partners then joined the meeting. Mr. Heatley began with a brief firm overview. He noted that, other than the ownership transition in 2014, there have been no significant changes in their organization. Seizert Capital Partners is a specialized value investment management firm founded in 2000. As a reminder, they are headquartered in Birmingham, MI. They have approximately \$2.8 billion in total assets under management of which approximately \$1.1 billion is in their mid-cap equity product. Mr. Collon picked up with the discussion specific to the investment by the Falmouth Retirement System. As of August 31, 2016, the market value of the portfolio is approximately \$6.4 million on an initial investment of \$5.0 million with about \$2.5 million in withdrawals over the years. Since inception, they are up about 10.53%. It is a pretty 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 areas of the portfolio that have been perceived as a misstep or up against a "head wind." He noted that they are working

very hard to learn from their missteps and to try to improve every day. After some additional discussion with the board members, Mr. Collon and Mr. Heatley 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 June 30, 2016, their firm has about \$35.4 billion in assets under management with approximately \$22.3 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 10.10%. As of August 31, 2016, the market value for the retirement system's account was approximately \$8.1 million. Overall, this pooled index fund has approximately \$362.1 MM in assets spread between 692 holdings. The Falmouth Retirement System owns about 2.26% of this fund, and the system is one of fifteen 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 5.56%. As of August 31, 2016, the market value for the retirement system's account was approximately \$6.8 million. Overall, this pooled index fund has approximately \$541.6 MM in assets spread between 604 holdings. The Falmouth Retirement System owns about 1.26% of this fund, and the system is one of seventeen 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 with a brief update on changes to their organization's team and then provided a performance update of their portfolio. As of August 31, 2016, the net asset value of the retirement system's account was approximately \$7.1 million. Year-to-date, the portfolio was down approximately 0.38% gross of fees. He reviewed their international commingled fund holdings by geographic location. Lastly, he shared some of their insights on the global markets. He discussed some of the key performance data for Q2 2016 and their theories for some of the portfolio fluctuation, specifically "Brexit" for which they were not well positioned. While one particular bad day should not detract from what has been a strong long-term performance, they will continue to look for businesses which have been overly punished in the weakness and which provide good long-term opportunities. They believe that the outlook for the remainder of 2016 should include some significant and positive contributions from Japan. Global growth may be lower in the short term but investment opportunities are not lacking. He noted that their investment approach and their decision making move along independently from macroeconomic considerations in developed markets. 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 \$2.3 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. They have a global perspective with local experience. In addition, he discussed some changes to 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, 2016, the High Yield Bond Index Fund had a market value of approximately \$2.5 million and the Passive Bond Market Index Fund had a market value of approximately \$18.5 million. Year-to-date, the High Yield Bond Index Fund was up approximately 11.17% gross of fees and the Passive Bond Market Index Fund was up 5.88% 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 Gordon Johnson 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 61 employees. Investment management is the firm's sole focus. He noted that they are proud to have a diverse client base with approximately \$7.4 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 combined 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. He reviewed the style, the investment process, and the portfolio construction. As of August 31, 2016, the retirement system's share of this portfolio had a market value of approximately \$9.3 million. Mr. Johnson then discussed their International Small Cap Equity strategy. He noted some changes to their investment research team. He discussed, in some detail, their investment philosophy and their investment process. This strategy is fully invested, and typically, this portfolio will have about 90 – 125 holdings. The annual turnover is expected to be around 100 – 150%. As of August 31, 2016, the retirement system's share of this portfolio had a market value of approximately \$3.7 million. After some additional discussion with the board members, Mr. Devine and Mr. Johnson both thanked them for the relationship and they exited the meeting.

The final presentation for the morning was from Mark Andrew of Lexington Capital Partners. Mr. Andrew joined the meeting to give a brief presentation on their Lexington Capital Fund V and their Lexington Capital Fund VII as part of P.E.R.A.C.'s annual investment manager review. Mr. Andrew began with a brief overview of the firm, Lexington Capital Partners. He highlighted their leadership position within the secondary markets, their global platform, their experienced team, and their substantial capital base. He noted that Fund V has been one of their better performing funds. As of 2005, this fund was 100% committed, and to date, it has distributed 171% of the contributed capital. Currently, this fund is in "sell down" mode. The expectation is that, in the not too distant future, the remaining assets (approximately \$148.9 million) will be sold, and the income received will be distributed to the limited partners. After some additional discussion with

the board members regarding Lexington Capital Fund V, Mr. Andrew turned his discussion to Lexington Capital Fund VII. This fund has total capital of \$7.05 billion. It has completed 56 secondary purchases with a total committed capital of \$7.02 billion. To date, \$5.95 billion or 99% of contributed capital has been distributed back to the limited partners. He discussed the current portfolio diversification, the current portfolio exposure, and the recent liquidity events. Lastly, he discussed with the board members the investment performance of this fund. After some additional discussion with the board members, Mr. Andrew exited the meeting.

Next, the Chairman asked for a motion to suspend the open 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 meeting.

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

At approximately 11:40 a.m., the board members suspended the open 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 meeting.

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

The Chairman called the meeting back to order, and Mr. Anderson joined the meeting. 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.

The first presentation for the afternoon was from Josephine Shea, Patmon Malcom and Regina Martyanova of Earnest Partners who joined the meeting to discuss their small cap core equity portfolio. Ms. Martyanova 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. She 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, 2016, 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 \$17.8 million. She reviewed the performance measurements, the asset growth, the sector weightings, and the equity portfolio characteristics. Mr. Malcom provided a review of their investment process as well as a brief overview of the equity markets which he noted were generally positive during the second quarter of 2016. It was noted that the Fed has decided to use caution and maintain the current target range for rates. It noted uncertainty about the U.S. economic outlook citing slower employment gains, low productivity growth and the low rate of inflation as reasons for caution

going forward. Also, the ongoing volatility in energy prices as well as the so-called "Brexit" have been a deciding factor. Still, the markets will be closely watching for inflationary pressures. After some additional discussion with the board members, Ms. Shea, Mr. Malcom and Ms. Martyanova exited the meeting.

Next, Michael Sharp of Siguler Guff & Company joined the meeting. Mr. Sharp 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 \$5.4 million. As of March 31, 2016, the Falmouth Retirement System's share of this portfolio had a remaining value of approximately \$1.9 million. He discussed with the board members the firm's investment philosophy and their approach to distressed investing. He provided to the board members 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. Sharp exited the meeting.

James McMillan of Principal Global Investors then joined the meeting so that he could give a brief informational update on their U.S. Property Account. Mr. McMillan began by reminding 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 \$69.9 billion in total real estate assets under management and they draw from six decades of real estate investment experience. He highlighted their "very consistent and stable" portfolio management team. He provided the board members with an account overview as well as an account summary for the Falmouth Retirement System. As of August 31, 2016, the market value of the retirement system's investment was around \$4.4 million. It was noted that the real estate fundamentals are stable and performing well....properties continue to appreciate and the occupancy is nearly 95%. It is a very positive trend, but he did caution against a more "normalized" environment given the 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 2016 strategic themes, their diversification by region and by property type, and their performance summary. After some additional discussion with the board members, Mr. McMillan exited the meeting.

Next, Martha Payne of Mesirow Financial joined the meeting. Ms. Payne began by providing the board members with a brief overview of Mesirow Financial. They are a diversified, independent, employee-owned premier provider of alternative asset solutions with their headquarters located in Chicago, IL. They have approximately \$31.6 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 \$1.0 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. Payne exited the meeting.

Then, Barbara Cassidy from Baring Asset Management joined the meeting. To start, she had their Head of Global Aggregate, Guy Dunham, join the meeting by telephone from London. Ms. Cassidy reminded the board members that Baring Asset Management is a global asset management firm with a history dating back for centuries. She discussed their recent merger with MassMutual Financial Group. With the merger, they now have approximately \$275+ billion in assets under management with offices in 17 countries. Their headquarters has shifted from London to Charlotte, NC. The 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. In terms of performance for the year, the fund is doing very well. Still, as of August 31, 2016, it is trailing its benchmark. She 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. Next, Mr. Dunham discussed some different scenarios that, going forward, they believe could play out in the markets. These scenarios are as follows:

1. **Slowing to Stagnation** – this scenario describes a prolonged period of more modest economic outcomes across the global economy. Recession risks remain remote and inflation levels stabilize below those which would typically be met by an aggressive monetary policy response.
2. **Fiscal and Monetary Policy in Harmony** – this scenario is themed upon a renewed recovery in the global economy under the influence of an adequate supply of monetary policy accommodation. Each major bloc comes to the conclusion that expansionary policy is appropriate for slightly different reasons.
3. **Market Misperception of Policy Trajectory** – the background for this scenario is one of a severe negative market reaction to policy missteps. The shock is occasioned by market participants over-extrapolating an overt move towards a tightening bias. Asset prices adjust to discount the market's new belief that rates are set to rise beyond that which was previously expected.

He believes that the more likely outcome is biased towards a combination of the first two scenarios. After some additional discussion with the board members, Mr. Dunham ended his telephone call and Ms. Cassidy exited the meeting.

Next, 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 \$415.0 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 then reviewed their investment philosophy with the board members. In terms of the funds, the international core equity portfolio, year-to-date, is up 3.73%. As of August 31, 2016, the account value for the Falmouth Retirement System was approximately \$7.6 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 characteristics by country and sector allocations for this fund. Year-to-date, this portfolio is up 13.83%. As of August 31, 2016, 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.

Then, Devin Sullivan of Intercontinental Real Estate was introduced to the board members so that he could give a brief presentation on their particular fund. He noted that the fund is nearing its final stages and that their fund performance continues to steadily improve. By way of a firm update, there is not really much in the way of change to share with the retirement system. There have been no material changes to the organization of their firm. This investment has been a long-term investment for the Falmouth Retirement System, and he noted that Intercontinental Real Estate appreciates the relationship and our patience. He reminded everyone that the I.R.E.I.F. III is a closed-ended commingled investment vehicle. This fund was approximately \$350 million in total assets with 73 investors. The fund had a maturity date of March 31, 2014. But, the fund had the option for two one-year extensions which they did initiate, and the market conditions have proven to be favorable. The Falmouth Retirement System has committed \$2 million, and the entire amount has been called. Over the course of this relationship, they have distributed approximately \$3.6 million back to the retirement system. As of June 30, 2016, the net asset value of the retirement system's account was approximately \$268K. Lastly, it was noted that there is one last property that remains to be sold sometime within the next several months or so. The hope is that the fund's return on investment will continue to improve. After some additional discussion with the board members, Mr. Sullivan exited the meeting.

For the final presentation of the day, Keri Hepburn from INVESCO joined the meeting by telephone. A presentation on the INVESCO Private Capital Partnership Fund III was handed out to each of the board members, and Ms. Hepburn began with a quick summary of the retirement system's account. As of June 30, 2016, the Falmouth Retirement System had made a commitment to this fund in the amount of \$2.7 million of which \$2.4 million has been called. She noted that \$3.48 million has been distributed back to the retirement system in the form of cash. At present, the estimated NAV of this fund is approximately \$334,875.00. In addition, it was noted that INVESCO has accepted an offer and signed an agreement with Strategic Partners to sell to them the remaining underlying interests

held by the three sector portfolios of INVESCO Private Capital Partnership Fund III. The pending process of transferring the assets to the buyer is tedious and will likely stretch into 2017. After some additional discussion with the board members, Ms. Hepburn concluded her presentation and her telephone call.

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 meeting.

Mr. Anderson moved to adjourn the open meeting. Mr. Brodeur seconded the motion, all board members present voted in the affirmative.

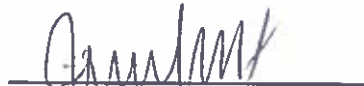
At approximately 2:55 p.m., the Falmouth Retirement Board concluded their open meeting.

The next scheduled board meeting will begin at 2:00 p.m. on Thursday, October 20, 2016 at the office of the Falmouth Retirement System which is located at 80 Davis Straits, Suite 102 in Falmouth, MA.

ATTEST:



Russell R. Ferreira  
Chairman, Elected Member



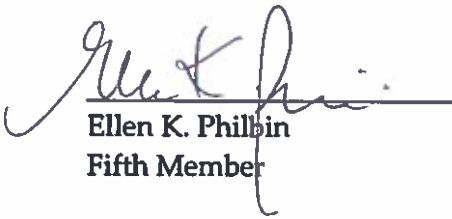
Jennifer P. Petit  
Ex-Officio Member



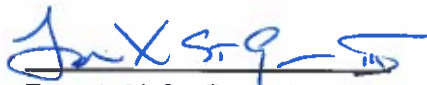
Gary W. Anderson  
Appointed Member



Paul D. Brodeur  
Elected Member



Ellen K. Philbin  
Fifth Member



Francis X. St. Germaine III  
Director