

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, January 25, 2013
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of December 14, 2012

- II. Status of the MERF Portfolio as of December 31, 2012
 - Inventory of Assets
 - MERF's Overall Performance

- III. NEPC Update
 - Revised Time Line

- IV. Report on Annual Performance Review Meeting
 - First Eagle Investment Management

- V. MERF Update
 - Closed Deals/Progress
 - Long Duration Fixed Income

- VI. Other Business



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: January 14, 2013
Subject: Review of Minutes from the Meeting of December 14, 2012

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, December 14, 2012.

**INVESTMENTS
AGENDA ITEM I**

**Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, December 14, 2012
9:00 a.m.**

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord, Commissioner; Gene Goldman, Commissioner; Marc Nelson, Employee Representative; Adam M. Cloud, Secretary and Carmen Sierra, Assistant Secretary

STAFF PRESENT: Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst; Terry Williams, Senior Administrative Assistant; Donna Parker, Plan Administrator and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Kristin Finney-Cooke, NEPC; Lisa Silvestri, Assistant Corporation Counsel, George Zoltowski, Principal Accountant and Jose Sanchez, Director of Management and Budget

I. Review of Minutes: Meeting of November 16, 2012

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

A motion was made, seconded and adopted to accept the minutes as presented.

II. Status of the MERF Portfolio as of November 30, 2012

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at November 30, 2012, the MERF portfolio had a market value of approximately \$962.8 million, and had generated a positive 1.0% return gross of fees for the month, slightly outperforming the benchmark return of positive 0.8%, by 20 basis points.

Mr. Antoine then stated that the MERF's alternatives portfolio had reported a flat return for the month, underperforming the benchmark return of positive 1.0%, by 100 basis points. He noted that the equity portfolio reported a gross return of positive 1.6% for the month, outperforming the benchmark return of positive 1.3%, by 30 basis points.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a net return of positive 0.6% for the month, outperforming the benchmark return of positive 0.4% by 20 basis points.

Mr. Antoine then reported that the MERF's global tactical asset allocation portfolio posted a net return of positive 0.7% for the month, matching the benchmark return. He asked if there were any questions on this report, there were none.

Gary Draghi, the MERF's Director of Investments, then stated his belief that the financial markets would endure significant volatility through year end, owing to concerns over the "Fiscal Cliff". He stated that the MERF was relatively well positioned for this. Discussion ensued.

Secretary Cloud then discussed current market events, noting that the "Fiscal Cliff" might be unavoidable and would result in some level of volatility if a compromise was not reached. He noted that the financial markets might not react positively with this potential issue looming, which could have negative effects on performance. He stressed that he and staff were in constant contact with the MERF's active managers regarding Fiscal Cliff and related issues that may affect the MERF's performance.

Chairman Stevens asked about the market's current volatility with the Fiscal Cliff looming. Secretary Cloud stated that he did not foresee a prolonged situation and that issue should be resolved by the first quarter of 2013.

Commissioner Lord asked if staff thought it would be prudent to raise additional funds to address this situation. Mr. Draghi responded that staff had raised additional cash for the benefits payment fund and also to fund the new real estate mandate. Discussion ensued.

The Commission accepted the report for advice.

III. Real Estate Value Add Investment Recommendation

Chairman Stevens introduced the item. Secretary Cloud asked Ms. Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission. Ms. Finney-Cooke reported that she and staff had been working on the value add real estate mandate and that, through NEPC's vigorous screening and due diligence process, it had identified two strong candidates from approximately 40 managers in the space. These were TA Associates Realty ("TA Realty") and Urdang Capital Management. Of the two, she stated that NEPC recommended that the MERF invest \$6-\$8 million in the Realty Associates Fund X, L.P. managed by TA Realty.

Ms. Finney-Cooke noted that TA Realty had delivered more consistent performance through past market cycles and had outperformed most of its peers. She also added that TA Realty represented a strong first investment into the value add real estate space because of its broad diversification by property type and geography and because of TA Realty's conservative management style. Discussion ensued.

Secretary Cloud added that he and staff recommended a \$6 million investment in Realty Associates Fund X, L.P. and concurred with NEPC's evaluation of TA Realty noting that NEPC knew them very well and had subjected the firm to a rigorous due diligence process.

A motion was made, seconded and unanimously adopted to authorize the Secretary to execute the necessary documents to enable the MERF to invest \$6 million in the Realty Associates Fund X, L.P. subject to the successful conclusion of contract negotiations.

IV. Report on Annual Performance Review Meeting with Atlanta Capital Management and Hartford Investment Management Company

Chairman Stevens introduced the item. Secretary Cloud stated that the reports were self-explanatory. He asked if there were any questions, there were none.

The Commission accepted the report for advice.

V. Other Business

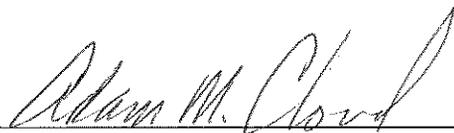
Chairman Stevens introduced the item. Secretary Cloud thanked Employee Representative Marc Nelson, for filling in at the City's Boards and Commissions meeting at the Hartford Public Library. He also mentioned that he had asked the Mayor to reappoint the current Commission members and stressed to the Mayor that Pension Commission continuity at this important juncture in the MERF's investment period would be crucial.

Secretary Cloud then mentioned that City officials were beginning to discuss other post employment benefits ("OPEB") funding and strategizing on how to implement the process going forward. Discussion ensued.

The Commission accepted the report for advice.

Chairman Stevens thanked the Treasurer, staff and NEPC for their exemplary work throughout the year and wished all present happy holidays and a happy New Year.

There being no further business, Chairman Stevens adjourned the meeting.

ATTEST: 
Adam M. Cloud, Secretary



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: January 14, 2013
Subject: Status of MERF Portfolio as of December 31, 2012

MERF portfolio report for the month of December 2012.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: January 14, 2013
Subject: NEPC Update

NEPC representatives will attend the Pension Commission meeting on January 25, to discuss the MERF's revised time line. The related materials are attached.



NEPC, LLC

YOU DEMAND MORE. So do we.™



**City of Hartford Municipal
Employees' Retirement Fund**
Updated Road Map

January 2013

Kristin Finney-Cooke, CAIA
Senior Consultant

Doug Moseley
Partner

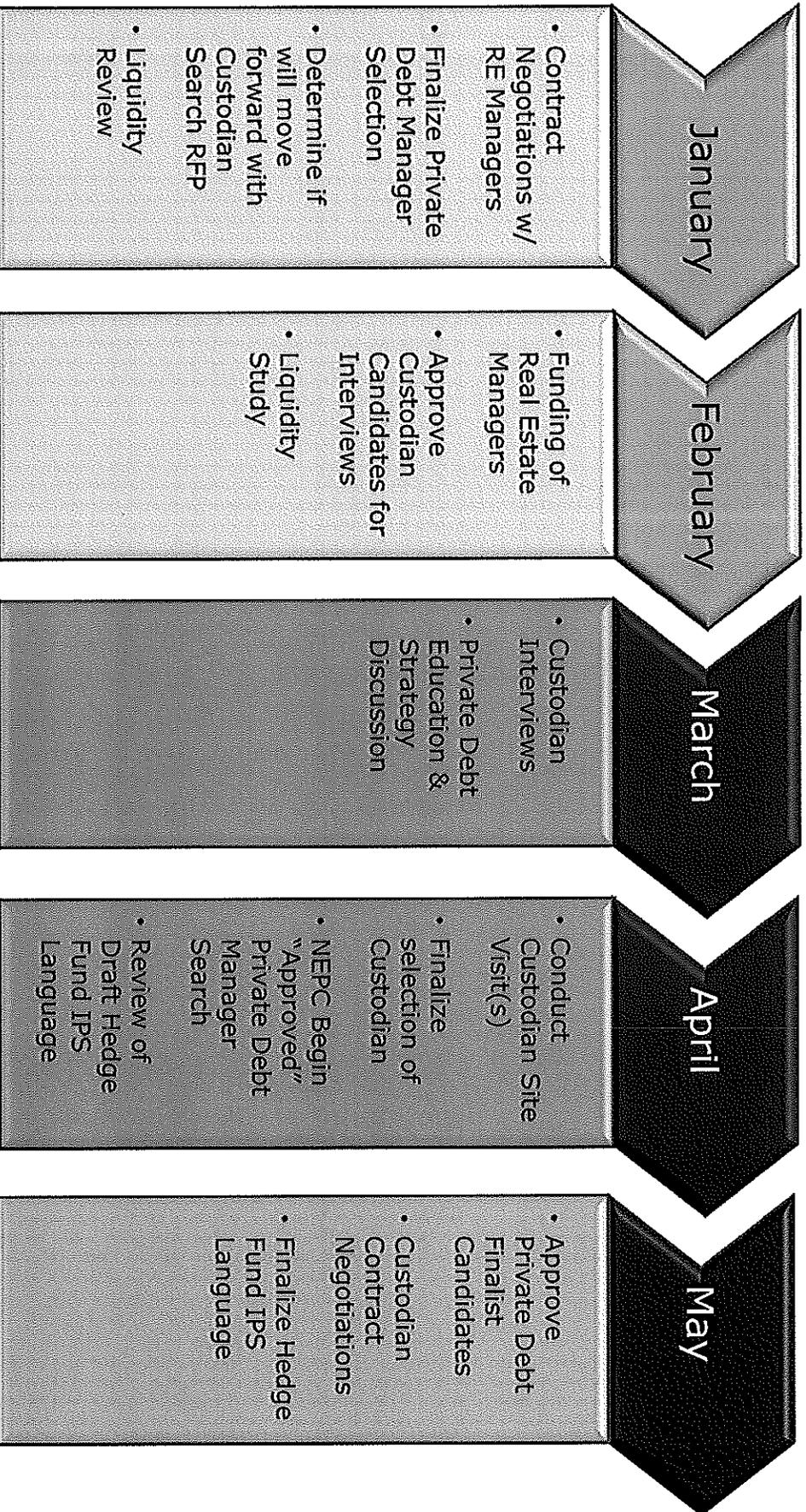
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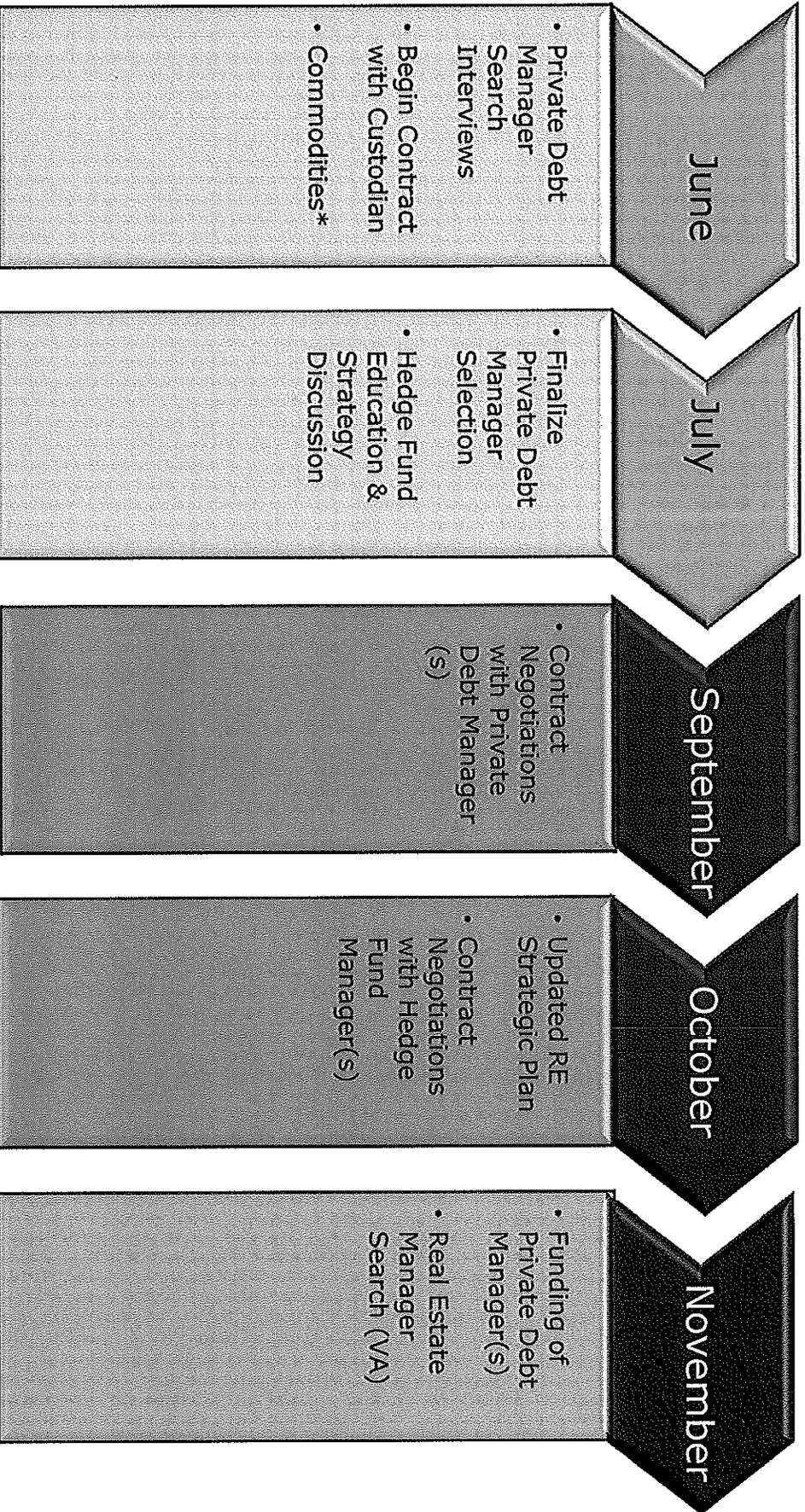
Completed Items & Updated Implementation Plan

- **Since August 2011 MERF has completed the following:**
 - Global Asset Allocation Search
 - Emerging Manager Education
 - IPS Policy Update – General Provisions & Traditional Asset Classes
 - Emerging Markets Equity Search
 - IPS Private Equity & Debt Policy Language
 - IPS Policy Update - Real Estate, Commodities & ETI
 - Small-mid Cap Growth Search (Replaced Tygh with ING)
 - Core Real Estate Search (Hired Cornerstone & Heitman)
 - Value Add Real Estate Search (Hired TA Realty)
- **Proposed Revised Order of Searches**
 - Custodian (to be confirmed)
 - Private Debt
 - Hedge Funds
 - Commodities
 - Value Add Real Estate (additional investments)

Road Map Time – Line 2013



Road Map Time – Line 2013



**Commodities moved back in calendar due to priority of Custodian Search*



Updated IPS Work Plan

Investment Policy Statement (IPS) Work Plan

Date	Action	Status
October/Beg. November	General Provisions Reviewed w/ Staff	Complete
November/December	Traditional Asset Class Guidelines Reviewed w/ Staff	Complete
November/December	GAA Guidelines Reviewed w/ Staff	Complete
April / May	Private Equity Guidelines Reviewed w/ Staff	Complete
April / May	Private Debt Guidelines Reviewed w/ Staff	Complete
July / August	Real Estate Guidelines Reviewed with Staff	Complete
July/August	Review ETI Guidelines created by Staff	Complete
October / November	Commodities Guidelines Reviewed w/ Staff	Complete
April / May 2013	Hedge Fund Guidelines Reviewed w/ Staff	Complete





CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

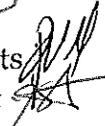
To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: January 14, 2013
Subject: Report on Annual Performance Review Meeting

Attached for your review is the report on our recent annual performance review meeting with the following investment manager:

- **First Eagle Investment Management**

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

To: Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

From: Gary B. Draghi, Director of Investments ^{9/13/13}
P. Wayne Moore, Assistant Director of Investments 
J. Sean Antoine, Principal Administrative Analyst 

Date: January 10, 2013

Re: Report on Annual Performance Review Meeting with First Eagle
Investment Management

The Pension Commission held an annual performance review of First Eagle Investment Management ("FEIM"), a small-to-mid cap international value equity manager for the MERF, on Tuesday, January 8, 2013. Present from First Eagle Investment Management was Abhay Deshpande, Portfolio Manager (via conference call) and Greg Cassano, Vice President.

Mr. Cassano began the meeting by briefly providing an overview of the firm. He thanked the Commission for their continued confidence in FEIM. He stated that the firm was an independent asset manager owned and controlled by the Arnhold family and key employees of the firm. Mr. Cassano noted that FEIM's sole focus was the asset management business and that the firm's core principle was to achieve real returns while preserving investor capital over time.

Mr. Deshpande discussed FEIM's investment philosophy and process. He noted that FEIM looked for quality businesses that it believes are selling at a discount to intrinsic value. He stated that FEIM often finds these opportunities in companies that have temporarily disappointed investors, industries in turmoil and/or countries in economic downturns. He stated that FEIM sought to understand a business, including the nature of its products, its market share, and its business contingencies, and was looking for business models that offered simplicity and clear perspective.

In response to a question regarding the amount of time spent visiting companies, Mr. Deshpande stated that the analyst and portfolio managers visit each company once a year, but noted that at times circumstances may warrant more visits to any one firm.

Mr. Deshpande then noted that the most important criteria in FEIM's security selection process was its determination of a stock's intrinsic value, which it defined as what a knowledgeable buyer might pay for the entire business in cash.

When asked about the portfolio's cash position, Mr. Deshpande stated that it would fluctuate but that FEIM is not afraid to hold cash if market conditions warrant such action.

With regard to the portfolio's exposure to gold, Mr. Deshpande stated that, in volatile market conditions, gold is a store house of value that assists in the objective of preserving capital for investors. Mr. Deshpande also stated that holding gold serves as a potential 'hedge' against extreme market events. He stated that such events most recently had taken the form of currency devaluations and major stock market declines.

Mr. Deshpande then addressed the portfolio's underperformance relative to its peers and benchmark for the past year. He attributed this underperformance to its relatively high allocation to gold and cash during a period of rising equity markets. He added that, due to FEIM's defensive and benchmark agnostic style, its portfolio returns often lag in broadly advancing markets.

In closing, Mr. Cassano provided an outlook on 2013 and thanked the Commission for its continued business.