

City of Hartford Pension Commission  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, March 22, 2013  
9:00 a.m.

**AGENDA**

**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of February 22, 2013
  
- II. Status of the MERF Portfolio as of February 28, 2013
  - Inventory of Assets
  - MERF's Overall Performance
  
- III. NEPC Update
  - Update to Road Map Time Line
  - Update to MERF Asset Allocation
  
- IV. Private Debt Strategy Discussion
  
- V. Report on Annual Performance Review Meetings
  - Eagle Capital Management
  
- VI. Deferred Compensation Annual Investment Review
  - Summary
  - Recommendations
  
- VII. Other Business



**CITY OF HARTFORD**

PENSION COMMISSION

MEMORANDUM

**To:** Pension Commission  
**From:** *AMC*  
Adam M. Cloud, Secretary  
**Date:** March 6, 2013  
**Subject:** Review of Minutes from the Meeting of February 22, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, February 22, 2013.

City of Hartford Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, February 22, 2013  
9:00 a.m.

**MINUTES**

**INVESTMENT PROGRAM**

**MEMBERS PRESENT:** Peter Stevens, Chairman; Frank Lord, Commissioner; Gene Goldman, Commissioner; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

**MEMBER EXCUSED:** Marc Nelson, Employee Representative

**STAFF PRESENT:** Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst and Terry Williams, Senior Administrative Assistant;

**OTHERS PRESENT:** Kristin Finney-Cooke and Doug Moseley, NEPC; Lisa Silvestri, Assistant Corporation Counsel and Tad Fergusson, Pension Consulting Alliance

**I. Review of Minutes: Meeting of January 25, 2013**

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.

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## **II. Status of the MERF Portfolio as of January 31, 2013**

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at January 31, 2013, the MERF portfolio had a market value of approximately \$978.2 million and had generated a 1.5% return net of fees for the month, underperforming the benchmark return of 1.9%, by 40 basis points. He asked if there were any questions. There were none.

**The Commission accepted the report for advice.**

## **III. PCA Update**

Chairman Stevens introduced the item and asked Mr. Tad Fergusson of Pension Consulting Alliance ("PCA"), the MERF's private equity consultant, to report to the Commission. Mr. Fergusson reported that the MERF is currently above its long-term target allocation of 5% to private equity, which was recently reduced from 7%, due to the adoption of new asset allocation targets. He stated that the MERF program has been in place for 10 years, was mature and has been cash flow positive over the past two years. Mr. Fergusson noted that, in order to maintain the long-term allocation and slowly transition to the 5% target, PCA recommends targeting \$10 million per year in aggregate commitments while opportunistically committing up to \$15 million, depending upon the attractiveness of the opportunity set. He added that this may result in the private equity asset class being slightly overweight (but still within target ranges) while the new private asset classes are funded over time.

Mr. Fergusson reported that PCA also examined the impact of transferring the mezzanine and real estate partnerships in the program to the new private debt and real estate sleeves. He stated that PCA's analysis indicated that transferring these holdings would not significantly change the current commitment pacing targets. Discussion ensued.

**The Commission accepted the report for advice.**

## **IV. NEPC Update**

### **Investment Performance Analysis Report**

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 on the MERF's investment performance for the periods

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ended December 31, 2012. After recapping the MERF's goals and objectives and recent activities, Ms. Finney-Cooke praised the strong results and stated that the MERF portfolio's return of 2.4% outperformed its policy benchmark and ranked in the 14<sup>th</sup> percentile of its peer group universe (the IFDB Public Fund Universe) for the quarter ended December 31, 2012. She went on to state that the MERF portfolio generated returns of 13.2%, 9.2% and 3.8% for the trailing one, three and five year periods, respectively. She noted that these results ranked at the 19<sup>th</sup>, 24<sup>th</sup> and 36<sup>th</sup> percentiles of its peer group for these periods. She emphasized that these results were accomplished with a lower risk profile than its peers.

Ms. Finney-Cooke then reviewed the MERF's asset allocation, highlighting the fact that the portfolio was overweight to domestic equities, international equities, fixed income and Treasury Inflation Protected Securities ("TIPS") while being underweight to alternatives, global tactical asset allocation and emerging markets equity, relative to long term targets. Discussion ensued.

**The Commission accepted the report for advice.**

#### **Capital Markets Assumptions and Actions**

Chairman Stevens introduced the item. Secretary Cloud asked Doug Moseley of NEPC, to report to the Commission. Mr. Moseley noted that NEPC believed that, after the broad rally at the end of 2012, opportunistic trades would be less compelling in 2013. He stated that most markets have recovered from the pull back in 2011, noting that the NEPC market outlook presented an opportunity for clients to revisit overall investment objectives and confirm long-term strategic allocations.

Mr. Moseley stated that, looking forward, interest rate expectations were lower, causing expected returns in credit and U.S. equity and most other markets to be lower. Discussion ensued.

Mr. Moseley went on to note that NEPC believed that its clients should focus on strategic allocations since few tactical opportunities existed. Clients should also position for a continuation of macro-driven themes, use risk parity as a stable foundation of a diversified program, continue building allocations in emerging markets and real assets and allocate to less liquid strategies with patience. Discussion ensued.

**The Commission accepted the report for advice.**

**V. MERF Update**

Chairman Stevens introduced the item and asked Gary B. Draghi, the MERF's Director of Investments, to report to the Commission. Mr. Draghi provided a status update on the MERF's progress implementing its target asset allocation. He reported that as of December 31, 2012, four of the MERF's asset classes had been moved into compliance within their interim target ranges, while one, emerging markets debt moved out of its target range. He stated that the emerging markets debt allocation was, however, in line with its long-term target range. Mr. Draghi then noted that all asset classes in which the MERF was actively investing in had been moved closer to their target allocation. Discussion ensued.

**The Commission accepted the report for advice.**

**VI. Report on Annual Performance Review Meetings**

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

**The Commission accepted the report for advice.**

**VII. Other Business**

Chairman Stevens introduced the item. Secretary Cloud reported that he would be sending the Commission an article on investing in storage facilities (as does one of the MERF's real estate managers) and that he would circulate the article to the Commission later that day. Discussion ensued.

Secretary Cloud stated that NEPC had reviewed the impact of recently announced changes to the ING small capitalization growth equity portfolio management team. NEPC's review had found no cause for concern, but Secretary Cloud noted that he had scheduled a meeting with the head of ING's client group to express his concerns. He asked if there were any questions. There were none.

**The Commission accepted the report for advice.**

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

ATTEST: Adam M. Cloud  
Adam M. Cloud, Secretary



**CITY OF HARTFORD**

PENSION COMMISSION

MEMORANDUM

**To:** Pension Commission  
*AMC*

**From:** Adam M. Cloud, Secretary

**Date:** March 6, 2013

**Subject:** Status of MERF Portfolio as of February 28, 2013

Portfolio report for the month February 2013 will be handed out at the meeting.



**CITY OF HARTFORD**  
PENSION COMMISSION

MEMORANDUM

**To:** Pension Commission  
*AMC*  
**From:** Adam M. Cloud, Secretary  
**Date:** March 6, 2013  
**Subject:** NEPC Update

NEPC representatives will attend the Pension Commission meeting on March 22, to discuss the MERF's revised time line and the MERF's Asset Allocation. The related materials are attached.



**CITY OF HARTFORD**  
**PENSION COMMISSION**

**MEMORANDUM**

**To:** Pension Commission  
**From:** Adam M. Cloud, Secretary *AMC*  
**Date:** March 6, 2013  
**Subject:** Private Debt Strategy Discussion

NEPC representatives will attend the Pension Commission meeting on March 22, to discuss the investment plan for the MERF's private debt allocation. Please see the following materials which they will utilize in their presentation.



**CITY OF HARTFORD**  
PENSION COMMISSION

**MEMORANDUM**

**To:** Pension Commission  
**From:** *AMC*  
Adam M. Cloud, Secretary  
**Date:** March 6, 2013  
**Subject:** **Report on Annual Performance Review Meetings**

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

- **Eagle Capital Management**

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

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

From: Gary B. Draghi, Director of Investments   
P. Wayne Moore, Asst. Director of Investments  
J. Sean Antoine, Principal Administrative Analyst 

Date: February 27, 2013

Re: Report on Annual Performance Review Meeting with Eagle  
Capital Management

The Pension Commission held an annual performance review meeting with Eagle Capital Management, a fundamental large cap value equities manager for the MERF, on Tuesday, February 26, 2013. Present from Eagle was John Holman, Managing Director.

Mr. Holman began the meeting by providing a brief overview of the firm and its staff. Mr. Holman stated that the firm continues to grow all aspects of the business. He stated that Eagle added two new employees during 2012, including one analyst and a research staff person, and that Eagle's business fundamentals remain sound.

In response to a question regarding the unique compensation and ownership structure of the firm, Mr. Holman stated that Eagle's compensation structure consisted of a competitive salary and potential partnership, but that the firm does not pay annual bonuses. Mr. Holman elaborated that Eagle believes its structure promotes long-term thinking, benefitting both the firm and investors like the MERF.

Mr. Holman reported on the performance of the portfolio managed on behalf of the MERF. He stated that the portfolio's year to date return through December 31, 2012 was 15.8% gross of fees, which trailed its benchmark the Russell 1000 Value Index return of 17.5%, by 170 basis points. Mr. Holman noted that, over longer period and since inception, the portfolio has outperformed its benchmark.

With regard to cash, Mr. Holman stated that Eagle's cash position approximated its 5% guideline limit. He then explained the firm's sell discipline, noting that the current cash position resulted from recent sales.

Mr. Holman discussed the Firm's investment process and philosophy noting that it seeks to achieve superior investment returns in both up and down markets, with superior downside protection as measured by downside capture. He stated that Eagle looks for undervalued companies with growth potential, using a bottom-up, research-driven approach to identify potential opportunities. He stated that Eagle's focus is on long term (3 to 5 years) growth potential, setting it apart from its peers who focus on shorter term fundamentals. Mr. Holman stated that this approach allows Eagle to achieve a price advantage as a company's long term growth is often underpriced relative to its short term potential. He noted that the portfolio currently consisted of thirty holdings and featured low turnover. He stated that higher weighted positions were those in which the team had the highest conviction.

Mr. Holman then discussed Eagle's investment process noting that the firm strives to follow a consistent investment strategy and a generalist, team-oriented, repeatable, research-driven investment process to identify and invest in undervalued stocks.

In response to a question regarding the key man risk of the founder/CIO Ravanel Curry, Mr. Holman stated that Mr. Curry has no plans to retire. Mr. Holman then described a general framework under which the firm would move forward in the absence of Mr. Curry.

Treasurer Cloud asked about the growth exposure in the portfolio. Mr. Holman stated that Eagle analyzes valuations for each stock it considers and takes a point of view on whether that stock is cheap or expensive. He noted that its point of view is solely formed by Eagle's understanding of the company's opportunities, risks and current price levels. He stated that Eagle is benchmark agnostic and does not rely on Russell style boxes. Mr. Holman stated their belief that if a company is undervalued and its risk is low while its potential for return is high, then it is an attractive investment for the portfolio regardless of the label placed on that company by an index methodology. Mr. Holman also added that volatility over the past year resulted in the portfolio holdings being classified in other buckets, including growth.

Mr. Holman thanked the Treasurer and Commission for their continued business and confidence in the firm.



## CITY OF HARTFORD

OFFICE OF THE CITY TREASURER

ADAM M. CLOUD  
CITY TREASURER

### MEMORANDUM

**TO:** Pension Commission  
**FROM:** Adam M. Cloud, Secretary *AMC*  
**DATE:** March 8, 2013  
**SUBJECT:** Deferred Compensation Plan Recommendation

Retirement Plan Advisors ("RPA"), The City of Hartford's Deferred Compensation Plan investment consultant, has recommended that the BlackRock Capital Appreciation Fund option be placed on probation. This fund, a large capitalization growth equity offering, has failed to achieve the Plan's guideline performance standards.

The City's deferred compensation committee, at its February 8, 2013, meeting, approved this recommendation. Accordingly, I recommend that the Pension Commission also approve this action.

I look forward to discussing this matter with you at our upcoming meeting.