

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, June 28, 2013
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of May 31, 2013
- II. Status of the MERF Portfolio as of May 31, 2013
 - Inventory of Assets
 - MERF's Overall Performance
- III. Securities Lending
- IV. NEPC Update
 - Private Debt
- V. Report on Annual Performance Review Meetings
 - BlackRock
 - Parametric Eaton Vance
 - Sherkman Capital Management
 - Wellington Management
- VI. Other Business
 - MERF Update

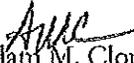
INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: June 19, 2013
Subject: Review of Minutes from the Meeting of May 31, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, May 31, 2013.

*INVESTMENTS
AGENDA ITEM I*

City of Hartford Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, May 31, 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

MEMBERS 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; Donna Parker, Plan Administrator and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Kristin Finney-Cooke, NEPC and Lisa Silvestri, Assistant Corporation Counsel

I. Review of Minutes: Meeting of April 26, 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.

II. Status of the MERF Portfolio as of April 30, 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 April 30, 2013, the MERF portfolio had a market value of approximately \$1 billion and had generated a 1.8% return net of fees for the month, matching the benchmark return. He asked if there were any questions. There were none.

Mr. Antoine then reported that the MERF's global tactical asset allocation portfolio posted a net return of 1.9% for the month, underperforming the benchmark return of 2.4%, by 50 basis points.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a net return of 2.1% for the month, underperforming the benchmark return of 2.3%, by 20 basis points. He asked if there were any questions on the report, there were none.

The Commission accepted the report for advice.

III. NEPC - Quarterly MERF Performance

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 quarter ended March 31, 2013. After recapping the MERF's goals and objectives and recent activities, Ms. Finney-Cooke stated that the MERF portfolio's return of 3.0% matched its policy benchmark and ranked in the 95th percentile of its peer group universe (the ICC Public Fund Universe). She noted that the MERF's trailing portfolio return ranked above median for the one and three year time periods.

Ms. Finney-Cooke stated that the MERF can be expected to trail in up markets, due to the defensive nature of its current asset mix. Ms. Finney-Cooke noted, however, that this asset mix provided downside protection to the MERF's portfolio when the markets are in decline. Discussion ensued.

Ms. Finney-Cooke then reviewed the MERF's asset allocation, highlighting the fact that it was overweight to domestic equities, international equities, core fixed income and Treasury inflation-protected securities, and underweight to emerging markets equities, global asset allocation and alternatives relative to long term targets.

Ms. Finney-Cooke went on the note that NEPC was working with staff to bring all assets classes within their target ranges, explaining that this was an ongoing process.

Secretary Cloud asked if the MERF needed to make any changes in light of the negative outlook for fixed income markets. Ms. Finney-Cooke stated that NEPC was advising clients to give managers more flexibility and noted that the MERF was in the process of doing this.

Lastly, Ms. Finney-Cooke stated that NEPC continued to evaluate potential managers for the MERF to consider for its private debt allocation and that she would be updating staff as more NEPC evaluations of potential investment opportunities in this space were identified. Discussion ensued.

The Commission accepted the report for advice.

IV. Investment Policy Statement Recommendations

Revision to Target Asset Allocation

Chairman Stevens introduced the item. Secretary Cloud asked Gary B. Draghi, the MERF's Director of Investments to address the Commission. Mr. Draghi explained that the proposed edits to the MERF's Funding and Investment Policy Statement ("FIPS") reflected changes to the MERF's target asset allocation and asset class policy benchmarks. He noted that these changes incorporated the recommendations proposed by NEPC and, if approved, would take effect July 1, 2013.

Specifically, Mr. Draghi mentioned that cash would be added to the asset allocation with a range of 0-3% and a target of 1.5%. He noted that this adjustment would reflect the Pension Commission's requirement that a minimum two-month cash reserve be maintained for the payment of pension benefits, a practice currently being followed by the MERF. Mr. Draghi stated that the policy benchmark for the cash allocation would be the return on the U.S. Treasury 3 Month Treasury Bill. Mr. Draghi noted that, to offset this addition, the long-term policy targets for the high yield bond and long government/credit fixed income asset classes would be reduced, with the high yield bond target moving to 4% from 5% and the long government/credit fixed income target moving to 8.5% from 9%, noting that the ranges around the high yield bond and long government/credit fixed income targets would remain the same at 1.5% and 2%, respectively. Discussion ensued.

Mr. Draghi noted that the MERF's interim asset allocation targets would also be revised to accommodate the addition of a 1.5% cash target, stating that the global bonds and long government/credit interim targets had been reduced to 3% and 9.5%, respectively, from 4% and 10%.

A motion was made, seconded and adopted to authorize the Secretary to execute the investment policy statement revisions to add a 1.5% cash allocation, to decrease the high yield bond target to 4% from 5%, respectively, and to reduce the long government/credit fixed income target to 8.5% from 9% and to reduce the global bonds and long government/credit interim targets to 3% and 9.5%, respectively, from 4% and 10%, respectively.

Hedge Fund Section

Mr. Draghi then discussed the proposed hedge fund section for the FIPS. He stated that this proposed draft for the hedge fund investment asset class was modeled on the existing alternative investment sections and addressed the implementation, management, monitoring and strategic direction of this asset class. He noted that he would be happy to address any specific questions or concerns that the Commission had. Discussion ensued.

Secretary Cloud asked whether the MERF would need an accounting firm to handle the hedge fund portfolio or whether the MERF's custodian had adequate capacity to handle the asset class' operational issues. Mr. Draghi stated that the MERF's custodian was capable of handling all operational issues related to the tracking of transactions and holdings for the hedge fund asset class.

P. Wayne Moore, the MERF's Assistant Director of Investments, concurred noting that hedge funds were becoming more and more institutionalized and BNY Mellon had adequate capabilities to track such investments. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute the Investment Policy Statement section for the hedge fund asset class.

V. Master Custodian Contract Extension

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi stated that NEPC and MERF staff recommended the extension of the BNY Mellon ("BNYM") master custodian contract for a five year period, effectively immediately. He stated that the terms of the extension would continue essentially as before, except that the annual fee for BNYM's services will decline by approximately \$100,000, from approximately \$400,000 to approximately \$300,000. Mr. Draghi explained that the decrease in fees was a result of fee concessions by BNYM and the elimination of certain performance and analytics services that have been made redundant by NEPC's upgraded reporting. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute the extension of the master custodian and performance and analytics contract with BNYM for five years.

VI. PIMCO Long Duration Fixed Income Guidelines

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi referred to the enclosed memo and stated that its purpose was to recommend that the Commission approve the changes to the Pacific Investment Management Company ("PIMCO") Long Duration Fixed Income investment guidelines to allow the manager to adjust exposure to government securities and duration risk in the MERF's portfolio. He stated that this would allow PIMCO to respond to concerns resulting from the historically low interest rates on long duration U.S. Treasuries and other fixed income securities.

Mr. Draghi noted that the guidelines would reduce the target exposure to government securities and increase the credit target. He pointed out that these changes would reduce the portfolio's interest rate risk while preserving most of its yield advantage over shorter maturity fixed income.

Lastly, Mr. Draghi stated that both NEPC and MERF staff supported the guideline changes. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to implement guideline changes for the MERF's long duration government/credit portfolio managed by PIMCO to adjust exposure to government securities and duration.

VII. Report on Annual Performance Review Meeting

ING Investment Management

Chairman Stevens introduced the item. Secretary Cloud stated that the report was self-explanatory and asked if there were any questions.

Chairman Stevens asked if ING's communications with the MERF had improved. Secretary Cloud responded that reporting was better since the annual meeting.

The Commission accepted the report for advice.

VIII. Other Business

Chairman Stevens introduced the item. Mr. Draghi reported that staff had received information from the New Boston Fund, the general partner of the New Boston Urban Strategies America Fund, a real estate fund that the MERF was invested in regarding the curtailment of New Boston Fund's fund management business. He opined that New Boston Fund would most likely not be raising another fund, given its current and past performance. Mr. Draghi stated that staff was working with NEPC to gather additional information on the situation and would follow up on this with the Commission. Discussion ensued.

Secretary Cloud mentioned that the securities litigation firm, Motley Rice, informed him that they were looking at the acquisition of Smithfield Foods by a Chinese company that might result in class action litigation and that the MERF would be updated as more information became available.

Lastly, Secretary Cloud noted that he had conversations with the City of Hartford's Development Services Group regarding the potential sale of the vacant lot located at 36 Edward Street owned by the MERF. He stated that he would keep the Commission updated as the process moved forward. Discussion ensued.

The Commission accepted the report for advice.

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

ATTEST:



Adam M. Cloud, Secretary