

**City of Hartford Pension Commission**  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, August 2, 2013  
9:00 a.m.

**AGENDA**

**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of June 28, 2013**
- II. Status of the MERF Portfolio as of June 30, 2013**
  - Inventory of Assets
  - MERF's Overall Performance
- III. PCA Reporting**
  - Private Equity Performance Summary
  - Landmark Equity Partners XV, L.P. Recommendation
  - Fairview Private Markets Fund IV, L.P. Phase I Due Diligence Report
- IV. NEPC Update**
  - Hedge Fund Education and Investment Strategy Discussion
- V. Consideration of Proposed Schedule of Annual Performance Review Meetings with Investment Managers for FY 2013-2014**
- VI. Other Business**

INVESTMENTS:  
AGENDA ITEM I



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

**MEMORANDUM**

**To:** Pension Commission  
**From:** Adam M. Cloud, Secretary  
**Date:** July 17, 2013  
**Subject:** Review of Minutes from the Meeting of June 28, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, June 28, 2013.

*INVESTMENTS  
AGENDA ITEM I*

City of Hartford Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, June 28, 2013  
9:00 a.m.

**MINUTES**

**INVESTMENT PROGRAM**

**MEMBERS PRESENT:** Peter Stevens, Chairman (via phone); Frank Lord, Acting Chairman; 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:** Doug Moseley and Kristin Finney-Cooke, NBPC, Lisa Silvestri, Assistant Corporation Counsel and Cynthia Steer and Tom Daniels (via phone), BNY Mellon

**I. Review of Minutes: Meeting of May 31, 2013**

Acting Chairman Lord 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 May 31, 2013

Acting Chairman Lord introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at May 31, 2013, the MERF portfolio had a market value of approximately \$981.9 million and had generated a -1.3% return net of fees for the month, slightly underperforming the benchmark return of -1.2%. 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 -0.3% for the month, outperforming the benchmark return of -3.3%, by 300 basis points.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a net return of -3.3% for the month, matching the benchmark return of -3.3%. He asked if there were any questions on the report, there were none.

Acting Chairman Lord asked about the status of the fixed income markets given the recent rise in interest rates and the potential impact on the MERF if investors were to liquidate their investments. Mr. Doug Moseley, partner-NEPC, the MERF's general consultant, responded that fixed income had experienced volatility recently, and that investors seem to have overreacted in the short-term. He noted that, by contrast, the MERF's fixed income managers appeared to be more tactical by reducing duration in the face of potential increases in interest rates. Lastly, Mr. Moseley stated that the MERF's managers were well positioned to weather this market volatility.

Gary Draghi, the MERF's Director of Investments, stated that staff had raised \$15 million from State Street Global Advisors, in order to reallocate into the benefits payment fund and also to maintain the MERF's 1.5% cash allocation to cash.

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

## III. Securities Lending

Acting Chairman Lord introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi stated that, along with the extension of the custody contract with BNY Mellon ("BNYM"), the MERF decided to consider the reinstatement of its securities lending program and worked with BNYM to understand the current securities lending market and the potential benefits of participating in the program.

Treasurer Cloud stated that, in light of the improvements to limit risks in BNYM's securities lending program, and based on the projections of incremental earnings to the MERF, he recommended that the Commission

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authorize him to reinstitute the MERF's securities lending program with BNYM. He noted that both NEPC and MERF staff have reviewed BNYM's securities lending capabilities and support this recommendation. He then turned the meeting over to BNYM to address the Commission.

Cynthia Steer, Executive Vice President-BNYM, stated she believed that it was a good time for the MERF to re-enter securities lending based on the overall improvement in the environment and on the improvements made to BNY Mellon's securities lending program. Discussion ensued.

Mr. Tom Daniels, Managing Director-BNYM, introduced himself and then gave a brief description of securities lending. He noted that BNYM is the industry's largest securities lending program with approximately \$3 trillion in lendable assets and close to 500 global clients. He noted that BNYM combines its investment services and investment management capabilities to create collateralized transactions where BNYM lends out its clients' assets for collateral, often cash. This cash collateral was, in turn, invested to generate incremental income. Mr. Daniels stated that typical borrowers were broker/dealers, banks and hedge funds. He noted that such entities borrow for different reasons such as covering short sales or to capitalize on profitable transactional opportunities such as mergers or acquisitions. He explained that lenders, such as the MBRF, received a fee for each security lent and also income from the reinvestment of collateral.

Mr. Daniels recounted that, since 2008, BNYM made a number of significant improvements to its securities lending program, including centralizing all short-term cash management, discontinuing the offering of more aggressive cash collateral reinvestment pools, offering more customized guidelines and using centralized credit analysis technology. Mr. Daniels added that BNYM had also established overnight funds for clients that did not wish to take the risk of loss on collateral reinvestment and also added program features that enhanced transparency and liquidity.

In response to a question regarding the MERF's ability to recall securities on loan, Mr. Daniels stated that, since BNYM's trading and securities lending systems are tied in together, the system would automatically identify a specific security transaction and BNYM would reallocate this loan to another client. He noted that if a loan could not be reallocated, BNYM would recall the security.

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In response to a question regarding proxy voting of shares on loan, Mr. Daniels responded that the borrower would have voting rights until the shares were recalled or returned to the lender.

A motion was made, seconded and adopted to authorize the Secretary to reinstitute the securities lending program with BNY Mellon, pending successful contract negotiations.

#### IV. NEPC Update - Private Debt

Acting Chairman Lord introduced the item. Secretary Cloud commented on his memorandum to the Commission, noting its purpose was to recommend that the Commission approve commitments to private debt funds consistent with the MERF's target allocation and its private debt asset class strategic plan. He noted that the funds identified for investment were the Monroe Capital Senior Secured Direct Loan Fund, L.P. ("Monroe") and the Alcentra European Direct Lending Fund ("Alcentra") and that he recommended a commitment of \$10 million to each fund. He then asked the representatives from NEPC to address the Commission.

Ms. Kristin Finney-Cooke, senior consultant-NEPC, stated that NEPC had been working with staff to review and conduct due diligence on both Monroe and Alcentra. She then gave a brief description of each investment, noting that Monroe seeks to provide investors with current income and long term capital appreciation by directly originating senior secured direct loans to middle markets companies in North America. She added that Monroe will primarily invest in U.S. companies with less than \$25 million in earnings before interest, taxes, depreciation and amortization that require financing to fund a corporate event such as a buyout, refinancing, recapitalization, ownership transfer or acquisition.

Ms. Finney-Cooke then stated that Alcentra focuses on direct lending to European middle market companies with enterprise values that can range as high as 100 million euros. She noted that Alcentra will target individual transactions with expected gross returns of 6% to 12% per annum for senior and uni-tranche investments. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to commit \$10 million each to Monroe and Alcentra, pending successful contract negotiations.

**V. Reports on Annual Performance Review Meetings: Blackrock, Parametric Eaton Vance, Shenkman Capital Management and Wellington Management**

Acting Chairman Lord introduced the item. Secretary Cloud stated that the reports were self-explanatory and asked if there were any questions.

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

**VIII. Other Business**

Acting Chairman Lord introduced the item. Mr. Draghi reported that the MERF's Funding and Investment Policy Statement changes had been made and that the Pacific Investment Management Company ("PIMCO") guidelines were amended during June 2013. Discussion ensued.

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

There being no further business, Acting Chairman Lord adjourned the meeting.

ATTEST:   
Adam M. Cloud, Secretary