

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, September 27, 2013
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of August 2, 2013
- II. Status of the MERF Portfolio
 - Inventory of Assets as of July 31, 2013 and August 31, 2013
 - MERF's Overall Performance
- III. NEPC Update
 - MERF Investment Summary - For Fiscal Year Ended June 30, 2013
- IV. MERF Update
 - Progress on Target Asset Allocation
- V. Other Business

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: September 19, 2013
Subject: Review of Minutes from the Meeting of August 2, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, August 2, 2013.

**INVESTMENTS
AGENDA ITEM I**

City of Hartford Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, August 2, 2013
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 I. Sierra, Assistant Secretary

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, Terry Williams, Executive Assistant to the Treasurer and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Kristin Finney-Cooke, Alex Kamunya and Richard Pszenny, NEPC, Lisa Silvestri, Assistant Corporation Counsel

I. Review of Minutes: Meeting of June 28, 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 June 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 June 30, 2013, the MERF portfolio had a market value of approximately \$959.1 million and had generated a -2.3% return net of fees for the month, outperforming the benchmark return of -2.7%, by 40 basis points. He asked if there were any questions. There were none.

Mr. Antoine then reported that the MERF's alternative portfolio posted a net return of 2.2% for the month, outperforming the benchmark return of -1.5%, by 370 basis points.

Mr. Antoine also reported that the MERF's equity portfolio posted a net return of -2.6% for the month, matching the benchmark return.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a net return of -3.1% for the month, outperforming the benchmark return of -3.3%, by 20 basis points. He asked if there were any questions on the report, there were none.

Commissioner Lord asked how the MERF performed relative to its peers for the fiscal year ended June 30, 2013. Kristin Finney-Cooke, senior consultant, NEPC, the MERF's general consultant, stated that for the short term the MERF returns were ranked relatively low, however, over the longer term the MERF's returns generally exceeded those of most of its peers. Discussion ensued.

The Commission accepted the report for advice.

III. PCA Reporting

Private Equity Performance Summary

Chairman Stevens introduced the item. Secretary Cloud asked Tad Fergusson, managing director, of Pension Consulting Alliance ("PCA"), the MERF's alternative investment consultant, to review the Alternative Investment Program Performance Report prepared by PCA. Mr. Fergusson summarized that as of year-end 2012, the MERF private equity program had committed \$131 million across 16 partnerships, with approximately 89% of capital (\$104.7 million) drawn down. He noted that long-term performance results were attractive with an 11.3% net internal rate of return (IRR) since inception. He also noted that, since inception, the MERF's private equity program had received approximately \$71.5 million in distributions and had a

reported value of approximately \$67.2 million as of December 31, 2012 resulting in a 1.3x multiple of the MERF's invested capital.

Mr. Fergusson noted that the MERF's program was well diversified across investment strategies, including buyouts, opportunistic, venture capital, mezzanine and real estate. He noted that, while PCA believes that all of these strategies remained attractive, the opportunistic strategy was well-placed to have the most growth given current market conditions.

Mr. Fergusson stated that the program has been cash flow positive over the past two years. He also noted that, given the maturity of the underlying holdings and a measured commitment pace targeting the long-term 5% allocation, the MERF's alternative investment program was expected to remain cash flow positive over the next several years.

Mr. Fergusson discussed the performance for the alternative portfolio, noting that the since inception return has done well, however, the portfolio has underperformed its benchmark of the Russell 3000 plus 300 basis points for the trailing one, three and five year periods. He noted that the rally in public markets over this time period made it very hard to beat this benchmark over these time periods but that the MERF portfolio had exceeded it over longer periods.

In summary, Mr. Fergusson stated that the MERF's private equity performance results were attractive and that the portfolio was well positioned. He noted that PCA continued to review a broad spectrum of potential opportunities on behalf of the MERF, including primary and secondary funds of funds in attractive segments of the market as well as direct partnerships that are complementary to the MERF's existing private equity program exposures. Discussion ensued.

The Commission accepted the report for advice.

Landmark Equity XV, L.P. Recommendation

Chairman Stevens introduced the Item. Secretary Cloud noted his recommendation to make a \$7.5 million commitment to Landmark Equity Partners XV, L.P. ("Landmark XV") and then asked Mr. Fergusson to report to the Commission regarding PCA's written evaluation of Landmark XV. Mr. Fergusson stated that Landmark XV was an attractive opportunity to continue to invest with an experienced team in the secondary market. He stated that Landmark Partners ("Landmark"), the General Partner of Landmark XV, featured a large and experienced team that had generated attractive performance results for the MERF in its prior funds. He noted that Landmark had undergone a material ownership change in early 2011, but that this change had broadened ownership among its

employees and that, since this change, Landmark had exhibited organizational stability and maintained its investment process, mitigating PCA's concerns. He stated that PCA recommended that the MERF commit \$7.5 million to Landmark XV. In response to a question regarding the reduction from prior commitments levels of \$10 million, Mr. Fergusson stated that this was a reflection of the MERF's reduced target allocation to private equity and the slower pacing required, rather than a negative statement on the opportunity. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit \$7.5 million to Landmark Equity Partners XV, L.P. pending the satisfactory conclusion of contract negotiations.

Fairview Capital Private Equity Markets Fund IV, L.P. Phase I Due Diligence

Chairman Stevens introduced the item. Secretary Cloud stated that PCA had concluded Phase I due diligence on Fairview Private Equity Markets Fund IV, L.P. ("Fairview IV"). Based on PCA's favorable review, Secretary Cloud recommended that the Commission authorize him to direct PCA to proceed with Phase II due diligence on Fairview IV. He then asked Tad Ferguson from PCA to comment on Fairview IV.

Mr. Fergusson stated that PCA had performed a Phase I review on Fairview IV and recommended that the MERF proceed to a full (Phase II) due diligence review. He added that it was a challenging fundraising environment for venture fund of funds and that Fairview IV has been slow in raising capital. Mr. Fergusson stated that PCA was proceeding with the expectation that any potential commitment from the MERF would be contingent upon Fairview IV achieving at least \$50 million in aggregate commitments. Mr. Fergusson noted that other areas of concern raised in the Phase I review that would be addressed more fully in the Phase II review included the fund's venture strategy evolution towards more focus and to include some growth opportunities as well as a detailed performance analysis and a further review of terms and conditions.

In order to address potential concerns about the MERF's existing investment in Fairview Ventures III, L.P., Gary Draghi, the MERF's Director of Investments, noted that Fairview Partners, Fairview IV's General Partner, would be financially stable even if they were not able to raise Fairview IV by virtue of its broad investment platform. Discussion ensued.

Treasurer Cloud added that Fairview had a long tenure with the MERF and that its prior fund represented the MERF's only dedicated venture capital exposure.

A motion was made, seconded and adopted to authorize the Secretary to direct PCA to conduct Phase II due diligence on the Fairview Capital Private Markets Fund IV, L.P.

IV. NEPC Update - Hedge Fund Education and Investment Strategy Discussion

Chairman Stevens introduced the item. Secretary Cloud asked the representatives from NEPC to address the Commission. Ms. Finney-Cooke stated that this was an educational discussion on hedge funds and that NEPC could come up with a recommended strategy for implementation at a later date. She then turned the meeting over to her colleague, Alex Kamunya.

Mr. Kamunya gave a brief overview of the hedge fund space noting that, on a risk adjusted basis, hedge funds had done well, but that, on an absolute return basis, long only equity products had outperformed but with more risk.

Mr. Kamunya stated that the rationale of including hedge funds in the MERF portfolio continued to be both the potential diversification and return enhancement. He noted that, however, the changing investment landscape and the focus on fees warranted a careful review of the underlying strategic value add that hedge funds could provide to the MERF. Discussion ensued.

Mr. Kamunya stated that the Hedge Fund Index had had strong risk-adjusted returns over the past 15 years when compared to the S&P 500, MSCI World and a typical 60-40 equity-fixed income portfolio. He added that during the strong market rally from 2009-2012 the hedge fund indices and most hedge fund of funds lagged the S&P 500, MSCI World and the 60-40 portfolio but that during this same period, the volatility of hedge fund returns had been considerably less than that of the S&P 500, MSCI World and the 60-40 portfolio. He stated that it was important to note that hedge fund indices were broad and represented an average of all hedge fund returns and not those of superior hedge fund performers. He then cited NEPC's buy list hedge fund managers as having provided significantly better return and volatility results when compared to average hedge fund results. Discussion ensued.

Mr. Kamunya concluded by stating that, over the last two years, NEPC had worked diligently to help create a diversified investment program for the MERF. As part of this process hedge funds could be viewed as a diversifier, but more importantly could also allow the MERF to gain exposures not currently expressed in its existing investment program.

The Commission accepted the information for advice.

V. Consideration of Proposed Schedule of Annual Performance Review Meetings for Calendar Year 2013-2014

Chairman Stevens introduced the item. Secretary Cloud provided the Commission with a proposed schedule of annual investment manager performance review meetings for fiscal year 2013-2014. He asked the Commission to review the dates and let him know if there were any conflicts. Discussion ensued.

The Commission accepted the information for advice.

VI. Other Business

Chairman Steven introduced the item. Secretary Cloud noted his recommendation to withdraw the MERF's contingent commitment to Smith Whiley Pelham Fund IV, L.P. ("Pelham IV" or the "Fund"). He stated that, as the Commission was aware, Pelham IV has had difficulty raising capital. He noted that the firm has also been losing senior staff and previously committed investors and that NEPC had brought up some additional concerns. As a result, he noted, NEPC recommended that the MBRF withdraw its contingent commitment. He then asked Ms. Finney-Cooke to address the Commission.

Ms. Finney Cooke stated that NEPC recommended that the MERF pull its contingent investment commitment from Pelham IV, citing the reasons listed by Secretary Cloud. She then noted the MERF's existing \$5 million investment in Smith Whiley Pelham Fund III, L.P. ("Pelham III") and stated that NEPC was comfortable that Smith Whiley, the General Partner of the Fund and of Pelham III, had adequate staffing and expertise with the personnel currently at the firm to continue to manage Pelham III. She cautioned, however, that NEPC was still in the process of evaluating the firm at a deeper level, noting that, to date, Pelham III had done well for investors. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to withdraw the MERF's \$5 million contingent commitment to Smith Whiley Pelham Fund IV, L.P.

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

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