

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

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of October 24, 2013
- II. Status of the MERF Portfolio
 - Inventory of Assets as of October 31, 2013
 - MERF's Overall Performance
- III. NEPC – MERF Quarterly Performance Report
- IV. Pension Consultant Alliance
 - Mid-Year 2013 Private Equity Performance Report
- V. Other Business

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: November 13, 2013
Subject: Review of Minutes from the Meeting of October 24, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Thursday, October 24, 2013.

*INVESTMENTS
AGENDA ITEM I*

City of Hartford Pension Commission
Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, October 24, 2013
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord, Commissioner (via on-line Skype); 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; Donna Parker, Plan Administrator and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Lisa Silvestri, General Council; Sean Ruhmann and Richard Pzenny, NEPC; and Kurt Summers and David Richter, Grosvenor Capital Management

I. Review of Minutes: Meeting of September 27, 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 September 30, 2013

Chairman Stevens introduced the item. Secretary Cloud asked the NEPC representatives to report to the Commission. Richard Pszenny, Senior Analyst reported that, at September 30, 2013, the MERF portfolio had a market value of approximately \$987.4 million and had generated a 3.2% return, net of fees, for the month, outperforming the benchmark return of 2.9%, by 30 basis points.

Mr. Pszenny then reported that the MERF's alternative portfolio posted a 1.4% return for the month, underperforming the benchmark return of 4.0%, by 260 basis points. He also reported that the MERF's equity portfolio posted a net return of 5.3% for the month, matching the benchmark return.

Lastly, Mr. Pszenny reported that the MERF's fixed income portfolio posted a net return of 1.2% for the month, matching the benchmark return of 1.2%. He asked if there were any questions on the report, there were none.

The Commission accepted the report for advice.

Secretary Cloud asked Gary B. Draghi, the MERF's Director of Investments to give an update on the most recent private debt transactions with Monroe Capital and Alcentra and to also give a report on Tristan Capital Partners, a real estate manager with a focus on the European markets.

Mr. Draghi stated that Monroe Capital called a significant piece of their allocation and stated that they intended to begin paying out income in the very near future. He stated that, while Alcentra European Direct Lending Fund has been slower to deploy capital, they should be committing capital in the near future.

Mr. Draghi stated that in regards to the potential Tristan Capital Partners European Property Investors Opportunities 3, L.P. ("Tristan 3") investment, staff had included a recommendation to the Treasurer for up to a \$10 million allocation, pending full due diligence and legal work. He stated that NEPC and staff had both had calls with representatives from Tristan Capital Partners, the General Partner of Tristan 3, and developed a strong level of comfort that Tristan 3 represented a solid investment for the MERF. He added that Tristan's strategy was well-suited for the European market, given its current stage of economic recovery

Secretary Cloud asked about the recent conferences and meetings that the staff had attended. Mr. Draghi reported that he and Mr. Moore had attended the annual meeting for Pegasus V and that they both felt comfortable with the proceedings. Mr. Draghi stated that the Pegasus V investments were performing well and that it was very helpful to interact directly with the top management of Pegasus V portfolio companies. He noted that staff also attended the recent Smith Whiley annual client meeting. He added that, although Pelham III was performing well, Smith Whiley still required close monitoring. In response to a question regarding whether staff felt that Smith Whiley would be doing additional investing, Mr. P. Wayne Moore, the MERF's Assistant Director of Investments, reported that the main focus of the annual meeting was Pelham III, but that Smith Whiley did mention that it planned to convert its proposed Fund IV into an SBIC fund. Mr. Moore also mentioned that Smith Whiley might attempt to extend Pelham Fund III, to allow for another transaction to close within the fund. Mr. Draghi added that staff would be working with other limited partners and the MERF's consultant to review any such request.

Lastly, Mr. Draghi added that New Boston Fund was working on transactions that might result in a need to extend its fund. He added that, before that would happen, the matter would be discussed by the limited partners, along with NEPC.

The Commission accepted the report for advice.

III. Contract Extensions

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to speak to the issue. Mr. Draghi stated that the purpose of the memorandum was to recommend that the Commission extend Institutional Shareholders Services ("ISS") contract until December 31, 2014. He noted that the MERF's contract with ISS for proxy voting services was set to expire on December 31, 2013 unless the Commission decided to extend the contract. He added that the cost of the contract would be the same as last year and the contract terms would remain the same.

A motion was made, seconded and unanimously adopted to extend the Institutional Shareholders Services contract for one year ending December 31, 2014.

Contract Extensions (continued)

Mr. Draghi stated that, as previously discussed, the existing contract for the private equity consulting services with Pension Consulting Alliance ("PCA") was due to expire October 31, 2013. He noted that he and staff had negotiated a five-year extension at a rate of \$150,000 per year, which was a \$24,000 reduction from the previous year and a \$40,000 savings from the contractual rate. Mr. Draghi stated that staff had a very good working relationship with PCA and noted that PCA has been a strong partner in building the MERF's successful private equity program. He added that the services would remain the same, including the provision that the MERF could terminate the agreement on 30 days' notice. Discussion ensued.

A motion was made, seconded and unanimously adopted to approve a five-year extension of the contract with Pension Consulting Alliance at a rate of \$150,000 per year.

IV. NEPC Update

Real Estate Strategic Plan

Chairman Stevens introduced the item. Secretary Cloud asked the representative from NEPC to address the Commission. Mr. Sean Ruhmann, Senior Consultant, NEPC, reported that the MERF was on pace with its 2012 real estate investment plan. He stated that the MERF's target allocation of 8% was currently 3.7% committed with additional potential commitments anticipated by the end of calendar 2014. Mr. Ruhmann stated that NEPC's recommendation to the MERF was to commit an additional \$66 million over the next three years to a mix of core, value add, debt and opportunistic funds. He stated that the MERF was currently halfway to its target allocation and that NEPC was recommending approximately \$10 million be committed to core investment vehicles and an additional \$16 million to value add and opportunistic funds by December 2014. Discussion ensued.

Mr. Draghi asked, if the Commission approved the recommendation to invest in Tristan, would it be considered a value add vehicle. Mr. Ruhmann responded that the investment in Tristan would be a good value add investment and could also be considered opportunistic based on its investment strategy.

In response to a question regarding NEPC's view on core investment, Mr. Ruhmann stated that NEPC was currently neutral on core. He noted that there were both positives and negatives on this sub asset class but that NEPC saw the potential for growth in this area. Discussion ensued.

Real Estate Strategic Plan (continued)

Chairman Stevens asked about the road map over the next quarter relative to the new allocations. Mr. Draghi stated that it would depend on the pace of specific investment recommendations from NEPC and the timing of when these funds were holding their closings. He added that he was hopeful that the allocation to these funds could be completed as projected over the next two years. Discussion ensued.

A motion was made, seconded and unanimously adopted to approve the NEPC's recommended Real Estate Strategic Plan.

Real Estate Investment Recommendation-Tristan

Secretary Cloud stated that the purpose of his memo was to recommend that the MERF to invest \$9-\$10 million in the Tristan 3. He asked Mr. Ruhmann to comment. Mr. Ruhmann stated that NEPC concurred with the Treasurer's recommendation. He added that NEPC had identified European real estate investment as a strong opportunity for its clients and reviewed approximately 90 managers in the space. After eliminating less compelling opportunities and reviewing detailed track record data on 18 of them, two firms were identified as top performers and were reviewed and approved by NEPC's alternative asset committee for inclusion on NEPC's Focus Placement List. After consulting with MERF staff, it was determined that the most appropriate of these two for the MERF was deemed to be Tristan 3.

Noting that Tristan 3 would focus exclusively on European real estate, Mr. Ruhmann stated that this non-core real estate investment would seek to take advantage of current conditions in Europe. He noted that European real estate markets resembled the conditions seen in the US market following the global financial crisis. He observed that the U.S. real estate market had rebounded more quickly, while significant distress remained in Europe as assets were continuing to experience both operational and capital structure distress as European banks have been slow to unwind distressed properties. Mr. Ruhmann stated this was a situation that Tristan had the capability to take advantage of while avoiding taking on undue risk. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute documents to commit up to \$10 million to Tristan Capital Partners European Property Investors Special Opportunities 3, L.P., pending final staff due diligence and successful contract negotiations.

V. Report on Annual Performance Review Meeting with Hartford Investment Management Company

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

The Commission accepted the information for advice.

VI. Hedge Fund Education

Chairman Stevens introduced the item. Secretary Cloud stated that representatives of Grosvenor Capital Management, L.P. ("Grosvenor") had been invited to address the Commission, in order to review how a targeted Fund of Hedge Funds (FoHF) operated, and how the FoHF structure might benefit the MERF.

Kurt Summers, Senior Vice President, gave a brief overview of the firm and then began discussing how a FoHF like Grosvenor worked. He stated that they design, implement and manage portfolios that satisfy clients' core and opportunistic hedge fund asset allocation needs. He stated that Grosvenor specialized in creating customized funds to meet specific client investment objectives. He noted that, as a large FoHF, Grosvenor had an advisory services group that could take a client from beginning to end, depending on the amount of involvement required by that client. Discussion ensued.

Mr. Summers then went on to note that when investing within the hedge fund asset class, size and reputation gets the FoHF direct access to many firms and investments that might not be available to investors like the MERF on a direct basis, or at reduced fees. He stated that Grosvenor, for its part, passed along all fee savings that it achieved to its clients.

David Richter, Managing Director, stated that FoHFs were responsible for knowing which hedge funds have the best talent, spending significant time analyzing the investments within the portfolios of its underlying hedge fund managers.

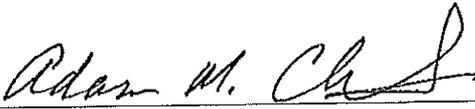
Mr. Richter stated that Grosvenor had reviewed the MERF's portfolio and developed a prototype customized portfolio consisting of a mix of approximately 17 of Grosvenor's highest conviction hedge funds, for staff review. He noted that such a portfolio would include 5 minorities managed funds, 4 women managed funds and 2 emerging funds, demonstrating that a FoHF could build a sound portfolio that also addressed key MERF diversity objectives. Discussion ensued.

The Commission accepted the information for advice.

VII. Other Business

Chairman Stevens introduced the item. Secretary Cloud stated that there was no other business.

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

ATTEST: 
Adam M. Cloud, Secretary