

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, December 20, 2013
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of November 22, 2013

- II. Status of the MERF Portfolio
 - Inventory of Assets as of November 30, 2013
 - MERF's Overall Performance

- III. NEPC - Reporting
 - Hedge Fund Program Proposal - Finalist Candidate Recommendation
 - Private Debt Investment Opportunity-Brightwood Capital Fund III

- IV. Report on Annual Performance Review Meetings
 - Atlanta Capital Management
 - SouthernSun Asset Management

- V. Other Business
 - Tristan Update
 - Smith Whiley Pelham Update

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AAC*
Adam M. Cloud, Secretary
Date: December 12, 2013
Subject: Review of Minutes from the Meeting of November 22, 2013

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

**INVESTMENTS
AGENDA ITEM I**

City of Hartford Pension Commission
Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, November 22, 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; Terry Williams, Senior Administrative Analyst; Donna Parker, Plan Administrator and Anne Coleman, Assistant Plan Administrator

OTHERS PRESENT: Lisa Silvestri, General Council; Kristin Finney-Cooke, NEPC; and Tad Ferguson, Pension Consulting Alliance

I. Review of Minutes: Meeting of October 24, 2013

Chairman Stevens introduced the item and asked for questions, comments or corrections. Commissioner Lord noted that he was in attendance via Face Time, not via Skype. There were no additional corrections or comments.

A motion was made, seconded and adopted to accept the minutes as corrected.

II. Status of the MERF Portfolio as of October 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 October 31, 2013, the MERF portfolio had a market value of approximately \$1 billion dollars and had generated a 2.3% return, net of fees, for the month, slightly underperforming the benchmark return of 2.5%, by 20 basis points. Secretary Cloud highlighted the fact that the MERF portfolio had ended the month above the billion-dollar level noting that this had not been achieved since 2008. Mr. Antoine asked if there were any questions. There were none.

Mr. Antoine then stated the relative performance of each of the MERF's asset classes noting that fixed income outperformed its benchmark while equity, alternatives and global tactical asset allocation underperformed.

He asked if there were any questions on the report, there were none.

The Commission accepted the report for advice.

III. NEPC-MERF Quarterly Performance Report

Chairman Stevens introduced the item. Secretary Cloud asked the representative from NEPC to address the Commission. Ms. Kristin Finney-Cooke reported the MERF's performance for the quarter ending September 30, 2013. After recapping the MERF's goals and objectives and recent activities, Ms. Finney-Cooke provided an overview of the markets. She stated that the decision taken by the Commission to fund the MERF's hedge fund portfolio within the next 6-12 months represented very good timing and should prove very beneficial, in NEPC's opinion.

Ms. Finney-Cooke stated that the MERF portfolio had lagged its peers over the past year, due to its overall defensive nature and, specifically, the portfolio's lower allocation to public equity investments compared to its peers. Ms. Finney-Cooke stated that, while the MERF returned 7.9% for the 12 months ending September 30, 2013, and outperformed the policy index return of 7.6%, the performance lagged its peer group.

Secretary Cloud asked Ms. Finney-Cooke whether the MERF's 8% assumed rate of return remained realistic given the current investment environment. Ms. Finney-Cooke replied that most of NEPC's clients used a 7.5% annual return assumption and that 8% had become harder to achieve given the state of the global economy.

NEPC-MERF Quarterly Performance Report (continued)

In response to a question regarding the line-up of hedge funds, Ms. Finney-Cooke stated that NEPC was preparing a recommendation for the MERF, which may consist of a fund of one hedge fund of funds, customized for the MERF to offer lower fees and a high degree of diversification. Discussion ensued.

In response to a question regarding a conference call held among limited partners of Smith Whiley Pelham Fund III, L.P., ("Pelham III", or the "Fund"). Gary Draghi, the MERF's Director of Investments, stated that staff, NEPC and Pension Consulting Alliance (PCA) were on the conference call. He noted that staff and the consultants were continuing to gather facts relating to operational difficulties experienced by the Fund, including asking Smith Whiley to prepare detailed budgets and projections. He stated that the limited partners had expressed the intent to work together on next steps once Smith Whiley provided the requested information.

Ms. Finney-Cooke concurred with Mr. Draghi's comments and added that NEPC had been in contact with Smith Whiley as part of its own due diligence process. Ms. Finney-Cooke noted that Pelham III which has performed well, consisted of eight remaining investments, and that Smith Whiley would likely be able to manage these investments with limited staffing and other resources. Discussion ensued.

The Commission accepted the report for advice.

IV. Pension Consulting Alliance - Mid-Year 2013 Private Equity Performance Report

Chairman Stevens introduced the item. Secretary Cloud asked the representative from Pension Consulting Alliance ("PCA"), the MERF's private equity consultant, to address the Commission. Mr. Tad Fergusson, Managing Director, reported that the performance of the MERF's private equity portfolio continued to be strong, with an 11.0% net internal rate of return since inception.

Mr. Fergusson pointed out that this was the first report reflecting the transfer of the Pelham III (private debt) and New Boston Urban Strategy America (real estate) portfolios to their new allocations. Mr. Fergusson informed the Commission that the performance history for these partnerships prior to December 31, 2013 would continue to be included in the private equity performance report.

Mr. Fergusson stated that the portfolio's performance exceeded its benchmark, the return of the Russell 3000 index plus 300 basis points on a since inception basis, although it trailed over shorter time periods due to the extreme strength of the public equity markets as represented by the Russell 300, over those time periods. He

noted the portfolio's strong cash generation over recent years. He then went on to report that the sector allocations within the private equity portfolio shifted somewhat due to the transfer of the Pelham III and New Boston assets and the recent commitment to direct opportunistic private equity funds, but that the MERF exposures remained appropriately diversified. He commented that venture capital, at 33%, was currently above its optimum allocation but that the underlying composition of these investments was favorable. He also noted that the MERF's overall private equity allocation remained above its long-term target, but would decline over time as other new MERF asset classes were funded. He cautioned that the MERF's future commitment activity would need to be more limited requiring that new commitment decisions would need to balance "re-ups" to strong performing existing relationships with opportunistic commitments to new funds. Discussion ensued.

Mr. Fergusson concluded by noting that the MERF's private equity program remained well diversified with strong performance.

The Commission accepted the report for advice.

V. Other Business

Chairman Stevens introduced the item. Secretary Cloud stated that there was no other business. In response to a question regarding how the recently approved MERF commitment to the Tristan European Property Investors Special Opportunities Fund 3, L.P. investment was progressing, Mr. Draghi reported the he and P. Wayne Moore, the MERF's Assistant Director of Investments, and NEPC representatives had conducted a due diligence meeting with Tristan's chief executive at NEPC's Boston offices. Mr. Draghi stated the meeting was informative and reinforced the decision to move forward with Tristan. He added that the related legal work was proceeding and that discussions with other limited partners were supportive of Tristan. Discussion ensued.

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

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