

*INVESTMENTS
AGENDA ITEM I*

Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Wednesday, August 8, 2012
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 Sierra, Assistant Secretary

STAFF PRESENT: Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; Terry Williams, Executive Assistant; J. Sean Antoine, Principal Administrative Analyst; Anne Coleman, Assistant Plan Administrator and Lisa Silvestri, Assistant Corporation Counsel

STAFF EXCUSED: Donna Parker, Plan Administrator

OTHERS PRESENT: Kristin Finney-Cooke and Sean Ruhmann, of NEPC

I. **Review of Minutes: Meeting of June 27, 2012**

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, 2012

Chairman Stevens introduced the item and asked the Investment Unit to report. Mr. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at June 30, 2012, the MERF portfolio had a market value of approximately \$930.5 million, and had generated a return of positive 2.2% gross of fees for the month, slightly underperforming the benchmark return of positive 2.4%, by 20 basis points.

Mr. Antoine then stated that the MERF's alternatives portfolio had reported a gross return of positive 0.2% for the month, underperforming the benchmark return of positive 3.9%, by 370 basis points. He noted that the equity portfolio reported a gross return of positive 4.1% for the month, underperforming the benchmark return of positive 4.7%, by 60 basis points.

Mr. Antoine then reported that the MERF's fixed income portfolio posted a gross return of positive 0.8% for the month, slightly outperforming the benchmark return of positive 0.7%, by 10 basis points.

Mr. Antoine noted that the Benefits Payment Fund had been replenished subsequent to month end. He then asked if there were any questions. There were none.

The Commission accepted the report for advice.

III. Funding and Investment Policy Statement-Alternative Investment Sections

- **Draft Guidelines for Private Equity**
- **Draft Guidelines for Private Debt**
- **Draft Guidelines for Real Estate**
- **Draft Guidelines for Commodities**
- **Draft Guidelines for Economically Targeted Investments**

Chairman Stevens introduced the item. Secretary Cloud stated that the draft Alternative Investment Sections ("AIS") of the MERF's Funding and Investment Policy Statement ("FIPS") represented compilations of the efforts of both staff and NEPC. He noted that these AIS would bring the MERF up to date with current industry practice and ensure that its investment managers were managing the MERF's portfolio as effectively as possible. He then asked Gary Draghi, the MERF's Director of Investments, to address the Commission on the AIS.

Mr. Draghi stated that the draft AIS incorporated NEPC's best thinking. He noted that risk management was an important factor in these sections of the FIPS and that risk mitigation steps were tailored specifically to each asset class.

**Funding and Investment Policy Statement-Alternative Investment Sections
(continued)**

Kristin Finney-Cooke added that NEPC's edits reflected an emphasis on managing risk in the MERF's overall portfolio.

Mr. Draghi went on to state that the level of investment in the alternative investment asset classes would be consistent with the MERF's strategic asset allocation policy and would subject to review on a periodic basis.

Mr. Draghi then indicated that the AIS required the outsourcing of due diligence on a non-discretionary basis to the MERF's consultants although staff would also participate. He stated that the MERF would continue to utilize outside legal counsel for assistance in such due diligence and in the negotiation of the related legal agreements. He summarized by noting that this process would be similar to that used by the MERF for its private equity asset class.

With regard to the section on private equity, Mr. Draghi noted that the current draft consisted primarily of updates to and streamlining of the original wording and that the substance remained the same. Discussion ensued.

In response to a question regarding the benchmarks for the alternative asset classes, Ms. Finney-Cooke stated that the specific benchmarks for each asset class would be determined during the manager selection process. Mr. Draghi added, for example, that the benchmark for the real estate portfolio would be the National Council of Real Estate Investment Fiduciaries Index plus any appropriate premium for illiquidity. Discussion ensued.

Chairman Stevens noted the thoroughness, consistency and quality of the AIS materials and commended staff and NEPC for the good work done on the alternatives section of the FIPS. Discussion ensued.

Secretary Cloud closed the discussion by suggesting that the Commission review the materials and consider them for adoption at the September Pension Commission meeting.

The Commission accepted the report for advice.

IV. NEPC Update - Real Estate Strategic Plan

Chairman Stevens introduced the item. Secretary Cloud asked the representative from NEPC to address the Commission. Ms. Finney-Cooke introduced her colleague Sean Ruhmann, a senior consultant in NEPC's Private Markets group, and asked him to speak to the issue.

Mr. Ruhmann reviewed the fundamental characteristics of real estate investments. He highlighted the real estate investment universe noting the related characteristics of the varied elements involved, focusing primarily on areas most appropriate for institutional investment. As a background to NEPC's ultimate investment recommendation, he described the investment vehicles, property types and risk-reward profiles of possible components of the MERF's real estate portfolio.

In response to a question regarding the nature of value-added funds, Mr. Ruhmann stated that typical value-added strategies included investing in properties requiring lease-up, repositioning, renovation or rehabilitation. He also stated that these investments typically generated returns from both current income and from capital appreciation with historical average returns in the 8-10% range and with leverage in the 40-70% range. Discussion ensued.

In response to a question regarding tax liens sales as an investment, Mr. Ruhmann stated that this type of investment would be more opportunistic in nature.

Mr. Ruhmann summarized by recommending that the MERF consider NEPC's recommendation to adopt target real estate allocations of 55% to core, 20% to value-added, 15% to opportunistic and 10% to debt strategies. With regard to implementation, NEPC recommended that the MERF contribute \$32 million to a core open-ended strategy within the next three years, and commit \$8 million to a value-added closed-end fund, \$6 million to an opportunistic closed-end fund and \$5 million to a real estate-backed debt closed-end fund during 2012. During 2013, Mr. Ruhmann recommended that the MERF commit \$6 million to a value-added closed-end fund while continuing thereafter to increase real estate exposure to reach an 8% target allocation. Discussion ensued.

In response to a question regarding potential candidates to invest the real estate allocation, Mr. Ruhmann briefly discussed NEPC's usual process and noted that NEPC currently has investment managers on its focused placement list that have been thoroughly vetted through its due diligence process. Discussion ensued.

A motion was made, seconded and unanimously adopted to authorize the Secretary to adopt target real estate allocations of 55% to core, 20% to value-added, 15% to opportunistic and 10% to debt strategies and implement NEPC's

recommendation for the MERF's real estate allocation to contribute \$32 million to a core open-ended strategy within the next 3 years, and commit \$8 million to a value-added closed-end fund, \$6 million to an opportunistic closed-end fund and \$5 million to a real estate-backed debt closed-end fund in 2012 with the MERF committing \$6 million to a value-added closed-end fund in 2013 with additional increases in real estate exposure to reach the 8% target allocation over the next few years. This authorization was pending approval of the draft real estate section of the MERF's Funding and Investment Policy Statement by the Commission.

V. Other Business

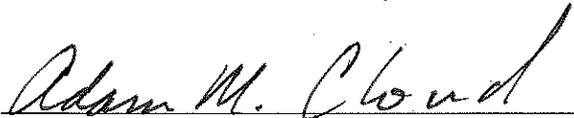
Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi then updated the Commission on the progress on a number of MERF items. He stated that the master custodian and performance analytics contract with Bank of New York Mellon was set to expire in January and would likely require a six month extension to allow for a proper search process. He also noted that Tygh Capital Management had been terminated and that this portfolio was being transitioned to ING and that this process would be completed in August. Mr. Draghi then noted that Conning was in the process of taking over the former Columbia run-off portfolio and that this would also be completed in August. Discussion ensued.

He then asked if they were any questions, there were none.

The Commission accepted the report for advice.

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

ATTEST:



Adam M. Cloud, Secretary