

City of Hartford Pension Commission  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, December 14, 2012  
8:00 a.m.

**AGENDA**

**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of November 16, 2012
  
- II. Status of the MERF Portfolio as of November 30, 2012
  - a. Inventory of Assets
  - b. MERF's Overall Performance
  
- III. Real Estate Value Add Investment Recommendation
  
- IV. Report on Annual Performance Review Meetings
  - Atlanta Capital Management
  - Hartford Investment Management Company
  
- V. Other Business



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

**MEMORANDUM**

**To:** Pension Commission  
**From:** *AMC*  
Adam M. Cloud, Secretary  
**Date:** December 7, 2012  
**Subject:** Review of Minutes from the Meeting of November 16, 2012

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, November 16, 2012.

Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, November 16, 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; J. Sean Antoine, Principal Administrative Analyst; Terry Williams, Senior Administrative Assistant; Donna Parker, Plan Administrator and Anne Coleman, Assistant Plan Administrator

**OTHERS PRESENT:** Kristin Finney-Cooke and Doug Moseley, NEPC; Lisa Silvestri, Assistant Corporation Counsel, George Zoltowski, Principal Accountant and Jose Sanchez, Director of Management and Budget

**I. Review of Minutes: Meeting of October 26, 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 October 31, 2012**

Chairman Stevens introduced the item and asked the Investment Unit to report. Gary Draghi, the MERF's Director of Investments, reported that, at October 31, 2012, the MERF portfolio had a market value of approximately \$955.1 million, and had generated a flat return for the month, outperforming the benchmark return of negative 0.3%, by 30 basis points.

Mr. Draghi then stated that the MERF's alternatives portfolio had reported a net return of positive 0.6% for the month, outperforming the benchmark return of negative 1.7%, by 230 basis points. He noted that the equity portfolio reported a net return of negative 0.8% for the month, matching the benchmark return.

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

Mr. Draghi then reported that the MERF's global tactical asset allocation portfolio posted a net return of negative 0.4% for the month, slightly outperforming the benchmark return of negative 0.6%, by 20 basis points. He asked if there were any questions on this report, there were none.

Mr. Draghi then stated his belief that the financial markets would endure significant volatility through year end owing to concerns over the "Fiscal Cliff". He stated that the MERF was relatively well positioned for this. Discussion Ensued.

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

**III. NEPC Quarterly Performance Report**

Chairman Stevens introduced the item. Secretary Cloud asked Ms. Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission. Ms. Finney-Cooke reported on the MERF's investment performance for the quarter ended September 30, 2012. After recapping the MERF's goals and objectives and recent activities, Ms. Finney-Cooke stated that the MERF portfolio's return of positive 5.0% matched its policy benchmark and ranked in the 34<sup>th</sup> percentile of its peer group universe (the ICC Public Fund Universe). She noted that the MERF portfolio return ranked above median for the quarter and five and ten year periods, but trailed the median over the last one and three year periods. Ms. Finney-Cooke then reviewed the MERF's asset allocation, highlighting the fact that it was overweight to international equities and fixed income and underweight to

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alternatives and emerging markets equity relative to long term targets.  
Discussion ensued.

Ms. Finney-Cooke concluded by discussing the MERF's asset allocation, noting that the current investment structure was significantly different from the new policy. She stated that the shift to the new policy weights would take time, but that the changes had begun and would become increasingly more evident. She added that the MERF had made strong progress to date and that the remaining moves into alternatives investment had to be made in a prudent and measured manner.

In response to a question regarding the cash allocation, Ms. Finney-Cooke noted that the MERF currently had no policy allocation to cash but, consistent with Commission's mandate, maintained minimum cash reserves representing two months' worth of projected benefits payments. She stated that NEPC would be working with the Secretary and staff to develop a policy for liquidity and add a cash allocation to the policy benchmark. Discussion ensued.

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

#### **IV. Core Real Estate Recommendation**

Chairman Stevens introduced the item. Secretary Cloud stated that, as the Commission was aware, core real estate finalist candidate interviews were held earlier in the week and that he believed that the interviews went well. He added that he, staff and NEPC recommended the pairing of the Cornerstone Patriot Fund ("Cornerstone") and Heitman American Real Estate Trust ("Heitman") for the MERF's core real estate mandate. He further noted that while all four finalist firms were strong candidates, Cornerstone and Heitman were the strongest combination and that they complemented each other well.

Secretary Cloud went on to note that Heitman had a specialty in the self-storage space, which was different from the other finalists and an attribute that NEPC believed would benefit the MERF's real estate program. He also noted that Cornerstone used the least amount of debt, making it very attractive to investors. Discussion ensued.

Commissioner Lord asked what would be the size of these portfolios if the Commission were to approve the recommended managers. Secretary Cloud stated that funding to each would approximate \$10 million to \$12 million and that the MERF could likely invest this over a one to two year period.

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**Core Real Estate Recommendation (continued)**

Mr. Draghi stated that the total commitment for this mandate for 2012 and 2013 was \$22 million and that this amount could be easily invested by either of the recommended managers. He added that Cornerstone would be funded first and Heitman second.

In response to a question regarding why Cornerstone was selected over the UBS Trumbull Property Fund ("UBS"), Ms. Finney Cooke stated while UBS was the largest of the four finalists, it had that longest entrance queue, whereas Cornerstone had similar characteristics with a shorter queue. She also cited the shorter queue as the reason that Cornerstone should be funded first.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to enable the MERF to invest \$12 million in the Cornerstone Patriot Fund and \$10 million in Heitman America Real Estate Trust subject to successful contract negotiations.

**V. Other Business**

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to report. Mr. Draghi noted that ING U.S., a small cap growth manager for the MERF, had begun the process of filing for its initial public offering. He noted that the move was expected and that it would represent a welcome move away from its ownership by a European bank. He closed by noting that staff would be monitoring this situation.

Secretary Cloud then noted that he and Chairman Stevens would be meeting with the Mayor to discuss MERF funding.

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

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



**CITY OF HARTFORD**  
PENSION COMMISSION

MEMORANDUM

To: Pension Commission  
From: *AME*  
Adam M. Cloud, Secretary  
Date: December 6, 2012  
Subject: Status of MERF Portfolio as of November 30, 2012

Portfolio report for the month of November 2012 will be handed out at the meeting.

CITY OF HARTFORD

MEMORANDUM

TO: Pension Commission  
FROM: Adam M. Cloud, Secretary *A.M.C.*  
DATE: December 7, 2012  
SUBJECT: Recommendation Regarding Investment in The Realty Associates Fund X, L.P.

Attached please find a report from NEPC, LLC ("NEPC"), the MERF's general investment consultant, recommending that the MERF commit to invest between \$6 million to \$8 million in The Realty Associates Fund X, L.P. ("TA Fund X") or the "Fund").

TA Associates Realty ("TA Realty"), the investment manager and General Partner, is a real estate investment firm that focuses on U.S. value-added real estate investing. TA Realty is headquartered in Boston, Massachusetts and has offices in Newport Beach, California. TA Fund X is TA Realty's' tenth fund. Consistent with past practice, the Fund will pursue its value-added investment approach to target control-oriented real estate investments.

Given the compressed time period involved, NEPC has performed a full due diligence review of both TA Realty and TA Fund X. The results of this work are presented in the attached NEPC reports.

Based on NEPC's recommendation and on TA Realty's consistent track record and attractive investment strategy, staff and I recommend that a \$6 million commitment be made to TA Fund X and that I be authorized to execute the necessary documents to consummate this commitment. As is standard practice, this commitment will be subject to staff's and outside counsel's satisfactory review of the specific business and legal terms of the Fund.

I look forward to discussing this recommendation with you next week.



**CITY OF HARTFORD**

**PENSION COMMISSION**

**MEMORANDUM**

**To:** Pension Commission  
**From:** *AMC*  
Adam M. Cloud, Secretary  
**Date:** December 7, 2012  
**Subject:** Report on Annual Performance Review Meetings

Attached for your review are the reports on our recent annual performance review meetings with the following investment managers:

- Atlanta Capital Management
- Hartford Investment Management Company

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

To: Adam M. Cloud, Secretary  
Carmen I. Sierra, Assistant Secretary

From: Gary B. Draghi, Director of Investments *GB Draghi*  
P. Wayne Moore, Assistant Director of Investments *PWM*  
J. Sean Antoine, Principal Administrative Analyst *JS Antoine*

Date: November 20, 2012

Re: Report on Annual Performance Review Meeting with Hartford  
Investment Management Company

The Pension Commission held an annual performance review meeting on Thursday, November 8, 2012, with Hartford Investment Management Company ("HIMCO"), a domestic core plus fixed-income manager for the MERF. Present for HIMCO were Tracy Eccles, SVP and Portfolio Manager, Christopher Zeppieri, VP and Portfolio Manager and John Cardinali, Senior Vice President.

Mr. Cardinali began by thanking the Commission for its continued business and then discussed the MERF's concerns about organizational changes that had taken place within HIMCO. He then addressed the fact that Joseph Portera, the lead portfolio manager for the MERF's account, was leaving HIMCO for another opportunity. He noted that Tracy Eccles, Executive Vice President and Senior Portfolio Manager had taken over leadership of the multi-sector team that manages HIMCO's core, core plus, intermediate core, long duration, short duration and other broad-based fixed income styles. Mr. Cardinal stated that HIMCO maintains a talented and experienced team, ensuring that HIMCO is in a strong position to continue managing the MERF's portfolio despite Mr. Portera's departure.

Mr. Cardinali noted that HIMCO's multi-sector strategies relied heavily on the expertise of sector teams consisting of and over 100 investment professionals. He added that Christopher Zeppieri, Vice President and Portfolio Manager on the MERF's portfolio since 2006, would retain the day-to-day management responsibilities for the MERF's portfolio. In this role he would report to Ms. Eccles. Mr. Cardinali also added that Robert Crusha, Senior Vice President and Senior Portfolio Manager, and Martin Engstler, Vice President and Portfolio Manager, would also remain in their current roles on the multi-sector team, reporting to Ms. Eccles.

Mr. Cardinali then gave a brief introduction of Ms. Eccles, noting that she has been with HIMCO since 1986 and has been a member of the multi-sector team

since 1992. He noted that she was directly responsible for several core and long duration strategies. He noted that Ms. Eccles was the original portfolio manager on the MERF's account when HIMCO was hired in October 2002.

Mr. Zeppieri then discussed portfolio performance. He stated that the MERF's portfolio achieved an excess return of 276 basis points over the benchmark for the one year period ending September 30, 2012. He attributed the excess performance primarily to sector and security selection decisions made by HIMCO. He identified duration decisions as a smaller contributor to excess performance.

In response to a question about the large cash balance in the portfolio, Mr. Zeppieri stated that most of the position was being held in anticipation of the settlement of mortgage security trades that had not yet closed. Apart from this, he stated, the actual cash position was within range.

Secretary Cloud asked if there was anything HIMCO might have done differently over the past 12-18 months. Ms. Eccles mentioned that, although it increased its exposure to "risk" assets (credit, ABS, CMBS, etc) during 2011 to take advantage of spread tightening, HIMCO might have added more exposure to these asset classes, which would have further increased performance.

Mr. Zeppieri gave a brief outlook on the current economy. He noted that a major hurdle that could potentially cause market volatility was the approaching "fiscal cliff", with potential outcomes that could result in a "risk-off" market environment. Mr. Zeppieri noted that these risks included a failure to reach meaningful compromise on fiscal cliff issues that could result in tax increases and spending cuts that would hurt the U.S. economy. He added that HIMCO was being cautious as significant potential for increased market volatility existed in the coming months and had positioned the portfolio accordingly.

Mr. Cardinali then thanked the Commission for its continued business and confidence in HIMCO.

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

To: Adam M. Cloud, Secretary  
Carmen I. Sierra, Assistant Secretary

From: Gary B. Draghi, Director of Investments *GB Draghi*  
P. Wayne Moore, Assistant Director of Investments *PW Moore*  
J. Sean Antoine, Principal Administrative Analyst *JS Antoine*

Date: November 28, 2012

Re: Report on Annual Performance Review Meeting with Atlanta Capital Management

The Pension Commission held an annual performance review meeting on Thursday, November 8, 2012, with Atlanta Capital Management ("Atlanta"), a large cap growth equity manager for the MERF. Present for Atlanta were Peggy Taylor, Investment Specialist, and Lance Garrison, Vice President.

Ms. Taylor introduced her colleague, Mr. Garrison, and gave a brief overview of the current status of the firm, noting that there had been no professional turnover since the last review meeting. In addition, she reported that employee ownership of the firm would increase over the next 3 - 5 years, from the current level of 18% to between 20 - 25%. She confirmed that Atlanta is majority owned by Eaton Vance, but noted that Eaton Vance was not involved in the management of Atlanta's portfolios.

Treasurer Cloud asked Ms. Taylor to comment on the MERF's staff report which shows that Atlanta's peer universe ranking has deteriorated from a year ago. Ms. Taylor stated that part of the reason for the portfolio deterioration could be attributed to the continued outperformance of low quality securities in the index. She noted that more aggressive and momentum driven growth managers have benefited over this time period. Ms. Taylor added that Atlanta, as a quality oriented manager, tended to be more defensive relative to its benchmark, the Russell 1000 Growth index. She noted that Atlanta generally outperformed its peers during more normal periods and also during down markets.

Treasurer Cloud asked if the current team was poised to take advantage of current market environments. Ms. Taylor stated that the team had not changed and that she believed that future market movement would benefit the MERF's portfolio. She added that, in anticipation of market turbulence, the firm had positioned the portfolio more defensively.

Ms. Taylor discussed two investments that hurt performance for their clients, Netflix and Green Mountain. In both cases, Atlanta determined that it had held

positions too long in the face of strong competition and hedge funds shorting these stocks. These experiences caused Atlanta to pay more attention to institutional ownership and to more actively adjust position size.

Ms. Taylor then addressed the MERF's concern regarding the value exposure in the portfolio, citing the mid-year benchmark change that reclassified Exxon, a significant holding, and other energy stocks as "value". These had previously been classified as growth.

In response to a question regarding the energy sector, Mr. Garrison handed out a white paper he had prepared for Atlanta on energy and discussed Atlanta's approach to investing in the sector.

In response to a question regarding Atlanta's sell discipline, Mr. Garrison stated that if Atlanta's analysts believed earnings would deteriorate, or they expected a decline in value, holdings would be sold. Also, if Atlanta lost faith in management or saw a change in a company's business model, it would be sold. He noted that a partial sale would occur if a security's weight within the portfolio exceeded the maximum limit.

Ms. Taylor stated that while Atlanta remained positive on its long-term outlook for the U.S. economy and stock markets, it was more cautious on the outlook for stocks over the balance of the year, citing uncertainties surrounding government spending and tax rates. She cited this looming "fiscal cliff" as a major concern along with other potential economic headwinds.

In closing, Ms. Taylor thanked the Commission for its business and continued confidence in Atlanta.

Questions and inquiries regarding the RFP should be directed to Operations Analyst **Richard Kurylo** via e-mail at [richard.kurylo@sfgov.org](mailto:richard.kurylo@sfgov.org). Kurylo was out of the office and unavailable to provide additional information.

### **Chicago Park Retains Marquette**

The \$410 million **Chicago Park Employees Annuity & Benefit Fund** rehired **Marquette Associates** as its general investment consultant, Executive Director **Dean Nledospial** said, in an e-mail.

At a board meeting on Nov. 15, the plan retained Marquette over finalists **Callan Associates**, **NEPC** and **R.V. Kuhns & Associates**.

The plan issued an RFP in May because Marquette's contract was slated to expire at the end of the year (fin|daily, 5/1).

The plan first hired Marquette in 2007 to replace previous consultant **Emis Knupp + Associates** (fin|daily, 10/25/07).

Managing Director **Brett Christenson** serves as the plan's lead consultant at Marquette.

### **Hartford Makes Real Estate Hires**

The \$955 million **City of Hartford Municipal Employees Retirement Fund** hired two core real estate managers at its meeting on Friday, Director of Investments **Gary Draghi** said.

Draghi said the plan approved investing a total of \$22 million in core, open-end commingled funds managed by **Cornerstone Real Estate Advisers** and **Heltman**. The plan will invest \$12 million in the **Cornerstone Patriot Fund** and \$10 million in the **Heltman America Real Estate Trust**.

The commitments are the plan's first in real estate, which has an 8% target (fin|daily, 5/8; 11/16/11).

General investment consultant **NEPC** assisted.

Draghi said the plan is also in the process of considering value-added strategies and could discuss potential investments at its Dec. 14 meeting. **NEPC** is the contact for managers, however interested firms should already be on **NEPC's** buy list.

### **Pa. County Makes PE, Real Estate Hires**

The \$79 million **Lycoming County (Pa.) Employees Retirement Fund** hired two private equity fund-of-funds and two core real estate managers at a board meeting earlier this month.

County Controller **Krista Rogers** said the plan hired private equity fund-of-funds **Fort Washington Investment Advisers** and **Private Advisers** and core real estate managers **ASB Capital Management** and **Heltman**.

**Rogers** said **Fort Washington** and **Private Advisers** will handle \$2 million each and **ASB** and **Heltman** will manage \$4 million each.

The plan issued RFPs for the two strategies in August (fin|daily, 8/17).

General investment consultant **Dahab Associates** assisted.

### **Lubbock Selects International Equity Replacement**

The \$157 million **Lubbock (Texas) Firemen's Relief & Retirement Plan** made an international equity manager change at its Nov. 14 meeting, Plan Administrator **Jack Watkins** said, in an e-mail.

According to **Watkins**, **Lazard Asset Management** was selected to handle approximately \$9.2 million in international equity for the plan. The hire was the result of the termination of incumbent **Tradewinds Global Investors**, which also took place at the Nov. 14 meeting.

The plan had been looking for potential replacements for **Tradewinds** over the last several months following the board's decision in May to direct its consultant, **Tim Sharpe** of **Graystone Consulting**, to conduct a search (fin|daily, 8/10; 5/24).

**Watkins** added that **Graystone** will be facilitating the transition of funds to **Lazard**, which is subject to successful contract negotiations.

### **Nevada Conducting Strategy Review, Postpones Large-Cap Growth Search**