

**City of Hartford Pension Commission**  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, January 31, 2014  
9:00 a.m.

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| <b>AGENDA</b> |
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**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of December 20, 2013**
  
- II. Status of the MERF Portfolio**
  - **Inventory of Assets as of December 31, 2013**
  - **MERF's Overall Performance**
  
- III. Executive Session**
  
- IV. Other Business**



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

**MEMORANDUM**

**To:** Pension Commission  
**From:** *AAC*  
Adam M. Cloud, Secretary  
**Date:** January 22, 2014  
**Subject:** Review of Minutes from the Meeting of December 20, 2013

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, December 20, 2013.

**INVESTMENTS  
AGENDA ITEM I**

**City of Hartford Pension Commission  
Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, December 20, 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, MERF's General Council; Doug Moseley, Kristin Finney-Cooke and Alex Kamunya all from NEPC; Nick Carbone, Bill Cibes and Donald Kirchbaum from the Healthcare & Pension Benefits Task Force and David Pappalardo, Consultant to the Healthcare & Pension Benefits Task Force

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

Acting Chairman Lord introduced the item and asked for questions, comments or corrections. There were no comments.

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

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## II. Status of the MERF Portfolio as of November 30, 2013

Acting Chairman Lord introduced the item and asked the Investment Unit to report. P. Wayne Moore, the MERF's Assistant Director of Investments, reported that, at November 30, 2013, the MERF portfolio had a market value of approximately \$1 billion and had generated a 0.5% return net of fees for the month, outperforming the benchmark return of 0.3%, by 20 basis points. He asked if there were any questions. There were none.

Mr. Moore then reported on the performance of the asset classes within the MERF's portfolio. Discussion ensued.

Secretary Cloud noted that, for the benefit of the guests, the MERF's asset value had not been above \$1 billion dollars since 2008, and asked Gary Draghi, the MERF's Director of Investments, to comment on the MERF's asset allocation status. Mr. Draghi explained the MERF's process for developing its target asset allocation, noting that it was developed in relation to the pension liability with the assistance of specialized consultants and had been adopted by the Pension Commission. He noted that the MERF was moving its asset allocation towards its policy allocation over time, a process that involved the Treasurer, staff and the MERF's consultants. Discussion ensued.

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

Secretary Cloud introduced NEPC, the MERF's general consultant. He explained that NEPC had originally been selected over three other nationally recognized consulting firms pursuant to an RFP process. He went on to describe the general consultant's role in assisting the MERF with asset allocation, investment manager selection and monitoring and investment performance analysis and reporting. He then asked NEPC to give a brief overview of the market environment. Doug Moseley, Partner at NEPC, introduced his colleagues Kristen Finney-Cooke, Senior Consultant and the MERF's day-to-day contact, and Alex Kamunya, Senior Research Consultant-Hedge Fund analyst. Mr. Moseley stated that NEPC saw improvement in the U.S. economy noting that the Federal Reserve had enacted stimulus measures which it hoped would continue to drive the economy. He also noted that despite the recently announced tapering of its quantitative easing policy, the Fed funds rate would likely remain at or near zero for an extended time. He added that other accommodative policies would remain in place while the Fed monitors the effects of its policies and the state of the economy.

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Mr. Moseley noted that U.S. equities had been the major driver of strong investment returns while non-U.S. equities performed well also. He then pointed out that NEPC clients had not fared as well as some others over the past year since equities had significantly outperformed the diversifying asset classes that NEPC had recommended.

Mr. Moseley stated that NEPC was studying the economic environment and was in the process of developing its annual asset class recommendations. These recommendations provide NEPC clients with guidance regarding the best potential investment opportunities during the coming year. Discussion ensued.

The Commission accepted the report for advice.

### III. NEPC- Reporting

#### Hedge Fund Program Proposed - Finalist Candidate Recommendation

Chairman Stevens introduced the item. Secretary Cloud noted his recommendation that the MERF interview finalist candidates Aetos Alternative Management, LLC; Grosvenor Capital Management, LP; Pacific Alternative Asset Management Company, LLC; and Prisma Capital Partners as finalist candidates for the MERF's customized hedge fund of fund mandate. He noted that these firms were determined based on a review of candidates from NEPC's focused placement list which was supplemented with two woman-owned firms at the MERF's request.

Secretary Cloud then asked the representative from NEPC to address the Commission. Commissioner Lord asked whether the MERF should seek to split the hedge fund mandate among two firms, on a complimentary basis. Mr. Alex Kamunya, Senior Research Consultant-Hedge Funds stated that, due to the nature and sizing of the hedge fund mandate, the MERF should not split the allocation. Mr. Kamunya also stated that, since the allocation would be to a customized fund of funds, there would be complimentary allocations among the individual hedge fund managers underlying the customized fund structure. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to set up interviews with the four recommended customized hedge fund of funds candidates.

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### **Private Debt Investment Opportunity-Brightwood Capital Fund III**

In regards to the Brightwood private debt investment opportunity, Ms. Kristin Finney-Cooke began by providing some background information on the MERF's progress in investing its new private debt allocation. She noted that the MERF's prior commitments to Monroe and Alcentra collectively had moved the MERF close to its 3% allocation to this asset class. Ms. Finney-Cooke also noted that another private debt manager, Smith Whiley, was continuing to wind down its Pelham Fund III. She stated that all three managers were performing as expected with the newer investments already generating cash flow to the MERF.

Ms. Finney-Cooke then moved on to state that NEPC was recommending up to a \$10 million dollar investment in Brightwood Capital Fund III, L.P. She stated that Brightwood Capital Advisors was the General Partner for the fund and that, while the firm was new, NEPC had fully vetted this opportunity through its due diligence committee and had determined the strategy was sound and a good fit for the MERF. She noted that Brightwood was looking to raise a \$500 million dollar fund and that fundraising was currently projected to be at the 50% of its target.

In response to a question regarding Brightwood's investment strategy, Ms. Finney-Cooke stated that Brightwood focuses on middle market companies based in the U.S. Discussion ensued.

Commissioner Gene Goldman asked if Brightwood was an emerging manager. Ms. Finney-Cooke replied that Brightwood was classified as an emerging manager.

Ms. Finney Cooke added that, given the MERF's withdrawal of its contingent commitment to Smith Whiley Pelham Fund IV, the allocation to Brightwood would round out the MERF's private debt investment program.

A motion was made, seconded and adopted to authorize the Secretary to commit up to \$10 million to Brightwood Capital Advisors Fund III, L.P. pending the satisfactory conclusion of contract negotiations and fund documentation.

#### **IV. Report on Annual Performance Review Meetings with Atlanta Capital Management and SouthernSun Asset Management**

Acting Chairman Lord introduced the item. Secretary Cloud asked Mr. Draghi to report. Mr. Draghi stated that the MERF conducts annual meetings with each of its public securities managers in order to review investment performance and operational matters. He noted that staff created a written record of the annual meetings, which was available to anyone who wished to review the information.

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Secretary Cloud added that the Pension Commission and staff generally look for managers who protect assets on the down side and do not take excessive risk seeking high returns. Accordingly, he noted that these meetings also consider whether there has been any change in a manager's investment style. Discussion ensued.

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

The Commission accepted the information for advice.

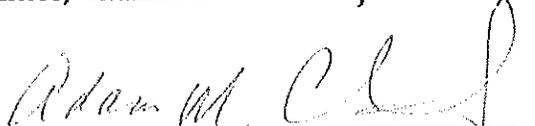
V. Other Business

Acting Chairman Lord introduced the item. Secretary Cloud asked Mr. Draghi to comment. Mr. Draghi stated that, at a previous meeting, the Commission had authorized up to a \$10 million investment in Tristan Capital Partners, a European value add property fund. He stated that the MERF was in the process of completing its due diligence and was in the final stages of working with both the Corporation Counsel's office and outside counsel on the fund documents. He noted that this firm was brought to the MERF by NEPC and that it would increase diversification of the overall portfolio.

Secretary Cloud asked Mr. Draghi to briefly describe the MERF's due diligence process regarding the Tristan investment. Mr. Draghi stated that, following initial review by the MERF's consultant, Treasurer Cloud, Assistant Director Moore and he had conducted in-depth conference calls with the firm's senior management. In addition, Mr. Draghi noted that he and Mr. Moore had traveled to NEPC's Boston office to meet Tristan's president in person, and that Treasurer Cloud also participated by conference call. The result of the meeting was increased comfort on the part of the MERF with the firm and its management.

Mr. Draghi also commented on Smith Whiley, noting the firm's ongoing operational issues. In doing so, Mr. Draghi distinguished between the investment manager's issues and the MERF's investment in Pelham Fund III, which has continued to perform well. He noted that staff, as is its practice in its private investments, has been very proactive in working with the other limited partners to address the fund's operating issues to the benefit all parties involved. Discussion ensued.

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

ATTEST:   
Adam M. Cloud, Secretary