

**City of Hartford Pension Commission**  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, April 25, 2014  
9:00 a.m.

<b>AGENDA</b>
---------------

**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of March 21, 2014**
  
- II. Status of the MERF Portfolio**
  - Inventory of Assets as of March 31, 2014
  - MERF's Overall Performance
  
- III. General Investment Consultant**
  - RE Investment Recommendations
    - Oaktree Real Estate Debt Fund, L.P.
    - Och-Ziff Real Estate Fund III, L.P.
  
- IV. Funding and Investment Policy Statement**
  - Private Debt Benchmark
  
- V. Report on Annual Performance Review Meetings**
  - Eagle Capital Management
  - Mondrian Investment Partners Limited
  - Shenkman Capital Management Inc.
  - Walter Scott Global Investment Management
  
- VI. Other Business**



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

**MEMORANDUM**

**To:** Pension Commission  
**From:** Adam M. Cloud, Secretary  
**Date:** April 15, 2014  
**Subject:** Review of Minutes from the Meeting of March 21, 2014

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, March 21, 2014.

**INVESTMENTS  
AGENDA ITEM I**

**City of Hartford Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, March 21, 2014  
9:00 a.m.**

**MINUTES**

**INVESTMENT PROGRAM**

**MEMBERS PRESENT:** Peter Stevens, Chairman; Frank Lord, Commissioner; Gene Goldman, Commissioner; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

**MEMBERS 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; Terry Williams, Senior Administrative Analyst and Chelsea Mott, Accountant

**OTHERS PRESENT:** Lisa Silvestri, MERF's General Council; Kristin Finney-Cooke and Richard Pzenny, both from NEPC, the MERF's general consultant and Tad Fergusson of Pension Consulting Alliance, the MERF's private equity consultant

**I. Review of Minutes: Meeting of February 21, 2014**

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 February 28, 2014

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at February 28, 2014, the MERF portfolio had a market value of approximately \$1 billion and had generated a 2.7% net of fees return for the month, underperforming the benchmark return of 3.0%, by 30 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 4.4% net of fees return for the month, underperforming the benchmark return of 4.9%, by 50 basis points.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 1.6% net of fees return for the month, lagging the custom benchmark return of 1.7%, by 10 basis points. Lastly, he reported that the MERF's global tactical asset allocation portfolio posted a 3.3% net of fees return for the month, underperforming the benchmark return of 3.6%, by 30 basis points.

Lastly, he noted that alternative portfolios experienced a flat return for the month.

Gary B. Draghi, the MERF's Director of Investments, added that portfolio had generated an 8.8% net of fees return for the fiscal year to date ending February 28, 2014.

The Commission accepted the report for advice.

## III. Private Equity Recommendation -Vista Equity Partners V, L.P.

Chairman Stevens introduced the item. Secretary Cloud asked Tad Fergusson of Pension Consulting Alliance ("PCA"), the MBRF's private equity consultant, to address the Commission. Mr. Fergusson stated that PCA had completed its phase II due diligence on Vista Equity Partners Fund V, L.P. ("Vista Fund V") and was recommending that the MBRF commit to invest up to \$10 million in the fund. He noted that the MBRF has an existing investment in Vista's prior fund and that this investment had performed well. He went on to explain that Vista was focused on the software sector and that Vista Fund V was a continuation of its successful strategy of making control-oriented acquisitions of middle- and upper-middle market enterprise software technology companies. Mr. Fergusson noted that Vista sought to identify software companies that offer mission-critical products, have an established client base, have high recurring revenue (or the potential for high recurring revenue), and have a strong competitive position. He mentioned that Vista uses its proprietary Vista Standard Operating Procedures to add value. Mr. Ferguson summarized by stating

\*\*\*\*\*

**Private Equity Recommendation -Vista Equity Partners V, L.P. (continued)**

that PCA believes Vista Fund V represents an attractive investment strategy, backed by a strong track record. He also stated that Vista has exhibited strong organizational stability even while increasing its staff and product offerings

A motion was made, seconded and adopted to authorize the Secretary to commit up to \$10 million to Vista Equity Partners Fund V, L.P. pending contract negotiations and terms.

**IV. Hedge Fund Recommendation -NEPC Hedge Fund Manager Search Book**

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 asked Alex Kamunya, Senior Research Consultant at NEPC, to present the recommendation to the Commission. Mr. Kamunya began by reviewing the MERF's process leading up the recommendation. He noted that the MERF had previously approved interim and long term target allocations of 5% and 10%, respectively, to hedge funds. He also noted that NEPC had worked with investment staff during the last year to review various options to access hedge funds, including hedge funds of funds, direct hedge funds, multi-strategy hedge funds and fund of one hedge fund vehicles. He noted that both NEPC and staff determined that the best structure for the MERF's initial 5% investment into this asset class was through a customized, fund of one structure.

Mr. Kamunya recounted that NEPC had originally identified twelve hedge fund firms from its Focused Placement List for the MERF's review and consideration. From this list, NEPC and staff chose four managers (Aetos, Grosvenor, Prisma and PAAMCO) to make presentations to the Pension Commission. From this group, two firms (Grosvenor and PAAMCO) were selected as finalists. He noted that each firm was asked to respond to a detailed questionnaire customized to address the MERF's specific investment needs. Each finalist then submitted detailed proposals and, subsequently, responses to related follow-up questions.

Mr. Kamunya went on to state that, based on the specific needs and objectives of the MERF's hedge fund program, NEPC recommended that the MERF retain Grosvenor. This recommendation was based on Grosvenor's "fit" as a core position within the MERF allocation, as well as Grosvenor's ability to offer a broader and more diverse universe of hedge fund managers. NEPC also commented that Grosvenor has a strong risk management process and expertise in developing emerging managers. Discussion ensued.

**Hedge Fund Recommendation -NEPC Hedge Fund Manager Search Book (continued)**

In response to a question regarding of Grosvenor's track record, Ms. Finney-Cooke stated that Grosvenor was one of the oldest hedge funds managers in the industry and that its track record was solid. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit \$50 million to Grosvenor Capital Management, pending the conclusion of satisfactory contract negotiations.

**V. Asset Allocation Review -NEPC 2014 Outlook**

Chairman Steven introduced the item. Secretary Cloud asked Ms. Finney-Cooke to report to the Commission. Ms. Finney-Cooke began by describing NEPC's process for developing its annual asset class return and risk assumptions. She stated that NEPC relied on a combination of historical data and forward looking analysis to develop them. She then pointed out several key themes that underpinned NEPC's 2014 asset class assumptions. In particular she noted that global inflation was an important component underlying these assumptions.

With regard to the MERF's target asset allocation, Ms. Finney-Cooke stated that NEPC was not recommending any changes for 2014. She then reviewed the MERF's target asset allocation and its related risk and return statistics based on NEPC's updated assumptions. Ms. Finney-Cooke highlighted that the asset classes that the MERF was in the process of adding, most notably hedge funds, were expected to provide the best risk adjusted returns. She then noted that the returns indicated were based on those anticipated to be achieved by passive benchmarks and that the MERF could reasonably be expect to generate up to 50 basis points of excess return from its use of active management.

Ms. Finney-Cooke then discussed NEPC's general advice to clients to (i) remain disciplined and continue to rebalance portfolios after the strong market run in 2013 and (ii) resist the temptation to chase returns. She emphasized that investors should remain focused on their goals and objectives. Specifically, Ms. Finney-Cooke suggested that clients consider taking gains on US equities and re-allocate proceeds to 2013's underperforming assets classes, thereby reducing market risk in their portfolios.

Ms. Finney-Cooke went on to note that NEPC recommended maintaining a long-term commitment to emerging markets, expecting that such allocations would prove beneficial over the long-term and that NEPC favored opportunities such as private debt and real estate, both in the U.S. and Europe.

\*\*\*\*\*

**Asset Allocation Review -NEPC 2014 Outlook (continued)**

Ms. Finney-Cooke closed by citing the need for public funds such as the MERF to reassess current and future liquidity needs. Mr. Draghi commented that staff would be working with NEPC to conduct a liquidity review in 2014. Discussion ensued.

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

**VI. Deferred Compensation Plan Annual Investment Review**

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi stated that he was providing the annual investment review of the City of Hartford's deferred compensation plan (the "Plan"). He stated that the deferred compensation committee (the "Committee") had met with Retirement Plan Advisors ("RPA"), the City of Hartford's deferred compensation plan investment consultant, quarterly throughout the year to review the Plan's investments. He noted that RPA also reviewed the Plan's investment policy statement and recommended no changes be made at this time. Regarding the Plan's investments, he stated that both RPA and the Committee recommended that the Lord Abbott Value Opportunities A Fund be placed on probation, as it had not met the Plan's performance criteria. He noted that the two other funds that were currently on probation, The Hartford Capital Appreciation Fund and BlackRock Capital Appreciation Fund, had experienced improved performance over the past year and that The Hartford Fund's performance had improved significantly. Mr. Draghi then noted that a significant majority of the funds were performing as expected and that RPA continuously monitored these funds for compliance with the Plan's policy. Discussion ensued.

**A motion was made, seconded and adopted to authorize the Secretary to place Lord Abbott Value Opportunities A Fund on probation.**

**VII. Other Business**

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi informed the Commission that Institutional Shareholders Services ("ISS"), the MERF's proxy voting agent, was recently bought by Vestar Capital Partners, a private equity firm. He noted that he had spoken to the MERF's ISS representative, who assured him that there would be no changes to ISS' management, its proxy voting process or to the team assigned to the MERF. Mr. Draghi noted that the ISS contract was set to expire at the end of 2014. Discussion ensued.

\*\*\*\*\*

**Other Business (continued)**

Mr. Draghi went on to inform the Commission that the limited partners (the "LPs") of S.W. Pelham Fund III, LP, a private debt fund the MERF is invested in, had finalized an agreement with the fund's General Partner (the "GP") that would enhance the LPs' economics as well as improve fund governance and transparency in return for the release of a portion of the GP's escrowed carried interest to the GP. He noted the significance of this outcome and that it was the result of many months of negotiation and thanked NEPC for its assistance in this matter.

Mr. Draghi closed by noting that Grosvenor had announced plans to offer a hedge fund mutual fund product to retail investors and that this was part of a trend where more and more hedge fund managers were offering similar products to investors. Mr. Kamunya commented that NEPC has been seeing similar offerings, but had yet to study these new products in detail. Discussion ensued.

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

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

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

City of Hartford Pension Commission  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, March 21, 2014  
9:00 a.m.

**AGENDA**

**INVESTMENT PROGRAM**

- I. Review of Minutes: Meeting of February 21, 2014
  
- II. Status of the MERF Portfolio
  - Inventory of Assets as of February 28, 2014
  - MERF's Overall Performance
  
- III. Private Equity Recommendation
  - Vista V Phase II Due Diligence Report by PCA
  
- IV. Hedge Fund Recommendation
  - NEPC Hedge Fund Manager Search Book
  
- V. Asset Allocation Review
  - NEPC 2014 Outlook
  
- VI. Deferred Compensation Plan Annual Investment Review
  
- VII. Other Business