

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, May 30, 2014
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of April 25, 2014

- II. Status of the MERF Portfolio
 - Inventory of Assets as of April 30, 2014
 - MERF's Overall Performance

- III. General Investment Consultant Update
 - Quarterly MERF Performance

- IV. Funding and Investment Policy Statement
 - Due Diligence - Ongoing Monitoring

- V. Other Business

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: May 23, 2014
Subject: Review of Minutes from the Meeting of April 25, 2014

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, April 25, 2014.

*INVESTMENTS
AGENDA ITEM I*

City of Hartford Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, April 25, 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

MEMBER 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, MBRF's General Council and Kristin Finney-Cooke, NEPC, the MBRF's general consultant (via telephone)

I. Review of Minutes: Meeting of March 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 March 31, 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 March 31, 2014, the MERF portfolio had a market value of approximately \$1 billion and had generated a 0.50% net of fees return for the month, underperforming the benchmark return of 0.60%, by 10 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 0.80% net of fees return for the month, outperforming the benchmark return of 0.50%, by 30 basis points.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 0.40% net of fees return for the month, outperforming the custom benchmark return of 0.30%, by 10 basis points. Lastly, he reported that the MERF's global tactical asset allocation portfolio posted a -0.20% net of fees return for the month, underperforming the benchmark return of 0.10%, by 30 basis points.

Mr. Antoine also reported that the MERF's alternative portfolios experienced a flat return for the month.

Gary B. Draghi, the MERF's Director of Investments, added that the MERF's portfolio had generated a 9.30% net of fees return for the fiscal year to date, ending March 31, 2014.

The Commission accepted the report for advice.

III. General Investment Consultant RE Investment Recommendations

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 discussed the MERF's real estate implementation plan for 2014. She noted that the asset allocation target for the MERF's real estate program is 8%, and that the MERF's current allocation is at 2.8%. She stated that NEPC had recommended that the MERF's 2014 allocation include a total of \$10 million to existing core managers (\$6 million to Cornerstone and \$4 million to Heitman) and \$11 million going to two opportunistic managers (\$6 million to Och-Ziff and an additional allocation to be determined in the future). Lastly, she noted that \$5 million was earmarked for a real estate debt fund managed by Oaktree.

General Investment Consultant RE Investment Recommendations (continued)

Regarding Oaktree, Ms. Finney-Cooke stated that Oaktree is a preferred NEPC manager and that the Oaktree Real Estate Debt Fund ("ORED") was focused on originating/purchasing performing real estate loans including junior mortgage debt, mezzanine debt, whole loans, commercial mortgage backed securities and preferred equity, mainly in the US. She added that ORED would also include up to 30% in non-US transactions primarily in Europe. She added that ORED is a closed-end fund that has a 6% hurdle rate. Ms. Finney-Cooke stated that NEPC favors Oaktree based on its strong team and its capability to execute its strategy, its global mandate, and the fact that a significant portion of the fund's return will derive from current income. She added that the fund's debt positioning would provide downside protection. Discussion ensued.

A motion was made, seconded and unanimously adopted to authorize the Secretary to execute the necessary documents to commit \$5 million to Oaktree Real Estate Debt Fund, L.P., pending the conclusion of satisfactory contract negotiations.

Regarding Och-Ziff, Ms. Finney Cooke reviewed NEPC's recommendation that the MBRF invest \$6 million into the Och-Ziff Real Estate Fund III ("ORED III"). She stated that ORBD III would be investing in gaming, multi-family residential, condos, hotels and other non-traditional real estate transactions. Ms. Finney-Cooke stated that the fund would also have limited non-US exposure, a target fund size of \$1 billion, a 4 year investment period, a target net IRR of 15-20% and a target net return multiple of 1.8 times. Discussion ensued.

Ms. Finney-Cooke stated that NEPC recommends that the remaining \$6 million allocated for opportunistic real estate be deployed later during the year when NEPC completed its evaluation of investment opportunities that it was presently vetting. She added that these opportunities included funds managed by Landmark, Westport, Almanac, Blue Vista and a number of emerging real estate investment firms. Ms. Finney-Cooke concluded by stating that NEPC hoped to be able to discuss these opportunities in more detail prior to calendar year end.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit \$6 million to Och-Ziff Real Estate Fund III, L.P., pending the conclusion of satisfactory contract negotiations. Chairman Stevens abstained from this vote.

IV. Funding and Investment Policy Statement

Chairman Stevens introduced the item. Secretary Cloud asked P. Wayne Moore, the MERF's Assistant Director of Investments to address the Commission. Mr. Moore stated that, as part of its ongoing effort to identify and utilize the most appropriate benchmarks for the MERF's respective assets classes, Treasurer Cloud, in conjunction with staff and NEPC, recommended that the private debt asset class benchmark be changed to the Credit Suisse Leveraged Loan Index (the "CSLLI") from the Russell 3000 Equity Index plus 200 basis points, and reflect the change in the MERF's funding and investment policy statement ("FIPS"). He noted that the CSLLI was a more appropriate benchmark and would result in more relevant comparisons to the MERF's investments in this asset class. Discussion ensued.

A motion was made, seconded and adopted to accept the proposed change to the MERF's Funding and Investment Policy Statement to reflect the change in the private debt benchmark from the Russell 3000 Equity Index plus 200 basis points to the Credit Suisse Leveraged Loan Index.

V. Reports on Annual Performance Review Meetings

- Eagle Capital Management
- Mondrian Investment Partners Limited
- Shenkman Capital Management Inc.
- Walter Scott Global Investment Management

Chairman Steven introduced the item. Mr. Draghi stated that the reports were self-explanatory.

The Commission accepted the reports for advice.

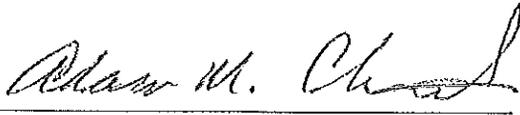
VI. Other Business

Chairman Stevens introduced the item. Secretary Cloud informed the Commission that staff was making progress on the Grosvenor hedge fund of one contract and hoped to finalize a decision on outside counsel to represent the MERF on this transaction very soon. He stated that the target funding date was June 1. Mr. Draghi added that the MERF would be carrying out a significant rebalancing toward its long term asset allocation targets in conjunction with the funding of this transaction.

Mr. Draghi then went on to note that the MERF was working with NEPC to identify and contract with two transition management firms since its former provider, BNY Mellon, exited the business. In response to a question, he also noted that there had not been any recent updates from PIMCO, the MERF's long duration fixed income manager, since its annual review meeting regarding the departure of a key PIMCO executive. Discussion ensued.

The Commission accepted the report for advice.

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

ATTEST: 
Adam M. Cloud, Secretary