

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, June 27, 2014
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes: Meeting of May 30, 2014

- II. Status of the MERF Portfolio
 - Inventory of Assets as of May 31, 2014
 - MERF's Overall Performance

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

- IV. Report on Annual Performance Review Meetings
 - BlackRock
 - VOYA Investment Management
 - Wellington Management Company, LLP

- V. Other Business
 - 457 Deferred Compensation Plan Update
 - Vista V Update

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: June 19, 2014
Subject: Review of Minutes from the Meeting of May 30, 2014

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, May 30, 2014.

INVESTMENTS
AGENDA ITEM I

City of Hartford Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, May 30, 2014
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Frank Lord, Acting Chairman; Gene Goldman, Commissioner; Marc Nelson, Employee Representative; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

MEMBER EXCUSED: Peter Stevens, Chairman

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

STAFF EXCUSED: Lisa Silvestri, MERF's General Council

OTHERS PRESENT: Kristin Finney-Cooke, NEPC, the MERF's general consultant (via telephone) and George Zoltowski, City of Hartford Finance Dept.

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

Acting Chairman Lord 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 April 30, 2014

Acting Chairman Lord introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at April 30, 2014, the MERF portfolio had a market value of approximately \$1 billion and had generated a 0.70% net of fees return for the month, underperforming the benchmark return of 0.80%, by 10 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 0.40% net of fees return for the month, underperforming the benchmark return of 0.50%, by 10 basis points.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 1.00% net of fees return for the month, lagging the custom benchmark return of 1.50%, by 50 basis points.

In closing, he reported that the MERF's global tactical asset allocation, private equity and private debt portfolio all posted positive returns for the month. He highlighted the fact that the private equity portfolio returned 2.90%, outperforming the custom benchmark return of 0.30%, by 260 basis points.

Treasurer Cloud noted that the private debt portfolio had begun to generate positive income flows, a key objective from this asset class. Discussion ensued.

The Commission accepted the report for advice.

III. General Investment Consultant Update-Quarterly MERF Performance

Acting Chairman Lord introduced the item. Secretary Cloud asked Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission. Ms. Finney-Cooke stated that she believes that the MERF's investment objectives are being met as the MERF continues to move towards its long-term asset allocation targets.

She noted that the MERF returned 1.5% for the quarter ended March 31, 2014, which ranked in the 60th percentile in the IF Public Defined Benefit Fund Universe. On a one-year basis ending March 31, 2014, she noted that the portfolio generated a return of 7.7%, ranking in the 93rd percentile amongst its peers. She attributed the peer-relative performance to the MERF's lower allocation to domestic equity versus its peer universe. She explained that NEPC generally recommends lower equity exposure as a means of reducing volatility of returns and the risk of significant investment losses. Accordingly, she noted that NEPC clients with lower allocations to domestic equities

were generally lagging the performance of their peers in recent years due to the significant outperformance of U.S. equities relative to other asset classes.

Ms. Finney-Cooke stated that NEPC was continuing to work with the Treasurer and staff to implement the MERF's long term target asset allocation. In response to a question from Commissioner Goldman, she noted that the peer rankings do not consider the impact of pension distributions. Discussion ensued.

Gary Draghi, the MERF's Director of Investments, stated that there was an illustration in the NEPC booklet that showed the MERF's asset class allocations versus its peer group and that it illustrated the significant extent of the MERF's underweight to domestic equities as well as its overweight to cash relative to its peers. He noted that both of these factors hurt performance and explained that the overweight to cash was indicative of the MERF's need to maintain adequate liquidity to pay benefits and, at times, to fund investments when plan sponsor contributions are in doubt.

Treasurer Cloud noted that the Commission's ongoing commitment to ensure that cash is maintained at a level adequate to cover future benefit payments gives the beneficiaries of the MERF piece of mind.

The Commission accepted the report for advice.

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

Acting Chairman Lord introduced the item. Secretary Cloud asked Mr. Draghi to address the issue. Mr. Draghi noted that the Treasurer and staff periodically review the MERF's Funding and Investment Policy Statement ("FIPS") and, in so doing, noted the opportunity to improve the manager due diligence process as described in the FIPS. Mr. Draghi explained that the proposed changes would improve the oversight of MERF managers by the Treasurer, staff and the Pension Commission, by formally recognizing the need for on-site due diligence of MERF managers.

Treasurer Cloud added that this would clarify the role that on-site due diligence plays in manager evaluation and ongoing monitoring, explaining that the potential involvement of the Pension Commissioners in this process would be welcome. Ms. Finney-Cooke noted that NEPC supported the proposed change and stated that it would be consistent with the practices of her other clients.

The Commission accepted the report for advice and tabled this item for the next Pension Commission Meeting.

V. Other Business

Acting Chairman Lord introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi gave a high level summary of the recent moves in the portfolio noting that the Vista Fund V, Oaktree and Och-Ziff investment contracts were nearly completed and that these new private investment allocations would begin to be funded in the coming months. He also noted that the Treasurer and staff, in consultation with NEPC and outside legal counsel, finalized the contractual documentation for the MERF's \$50 million investment in the Grosvenor hedge fund of one portfolio. He went on to state that the Treasurer and staff recently set in motion a significant rebalancing of the MERF's portfolio that would move it closer to the overall long-term target allocation by fiscal year end. Discussion ensued.

Treasurer Cloud then took the opportunity to congratulate staff on its recent efforts relating to this investment and rebalancing activity and thank staff for its assistance in evaluating the proposed purchase of the City's parking assets. Commissioner Goldman agreed and also cited the Secretary's role in the process of evaluating the parking proposal, noting the professionalism and timeliness of the due diligence performed.

The Commission accepted the report for advice.

There being no further business, Acting Chairman Lord adjourned the meeting.

ATTEST:



Adam M. Cloud, Secretary