

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

AGENDA

INVESTMENT PROGRAM

- I. **Review of Minutes: Meeting of June 27, 2014**
- II. **Status of the MERF Portfolio**
 - **Inventory of Assets as of June 30, 2014**
 - **MERF's Overall Performance**
- III. **Pension Consulting Alliance Update**
 - **Private Equity Performance Report**
- IV. **NEPC Update**
 - **Revised Timeline**
- V. **LISC Loan**
 - **Extension Recommendation**
- VI. **Report on Annual Performance Review Meeting**
 - **Parametric Clifton**
- VII. **Other Business**

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INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: July 18, 2014
Subject: Review of Minutes from the Meeting of June 27, 2014

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, June 27, 2014.

**INVESTMENTS
AGENDA ITEM I**

**City of Hartford Pension Commission
City of Hartford Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, June 27, 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; Lisa Silvestri, MERF's General Council; Donna Parker, Plan Administrator; Anne Coleman, Assistant Plan Administrator and Chelsea Mott, Accountant

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

I. Review of Minutes: Meeting of May 30, 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 May 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 May 31, 2014, the MERF portfolio had a market value of approximately \$1 billion and had generated a

Status of the MERF Portfolio as of May 31, 2014 (continued)

2.10% net of fees return for the month, outperforming the benchmark return of 1.90%, by 20 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 2.10% net of fees return for the month, matching its custom benchmark return.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 1.80% net of fees return for the month, lagging the custom benchmark return of 2.00%, by 20 basis points.

In closing, he reported that the MERF's global tactical asset allocation, private equity and real estate portfolios all posted positive returns for the month. He highlighted the fact that the private equity portfolio returned 6.90%, outperforming the custom benchmark return of 2.40%, by 450 basis points.

Treasurer Cloud noted that, with regard to the MERF's equity portfolio, VOYA Investment Management, the MERF's small cap growth manager, seemed to be struggling for the quarter, year-to-date and one year periods ending May 31, 2014. He asked Doug Moseley, Partner NEPC, the MERF's investment consultant, to speak to any concerns it might have on VOYA.

Mr. Moseley noted VOYA's underperformance and stated that, even though this manager had experienced some turnover, NEPC did not feel there was need for concern.

Commissioner Goldman questioned whether, in light of the current and past issues with VOYA, NEPC was considering putting them on its watch list. Mr. Moseley stated that, although the short-term performance was weak relative to its benchmark, NEPC was not considering such action but would continue to work with MERF staff to closely monitor this manager. Discussion ensued.

Treasurer Cloud asked about the importance of having a small cap value manager as part of the MERF line up for the long term, and asked Gary Draghi, the MERF's Director of Investments, to weigh in on this issue.

Mr. Draghi stated that, historically, the MERF has had a small cap value bias in its equity portfolio and had moved away from this because of changing markets and the process of implementing its new target asset allocation. He then suggested that the MERF consider the current small capitalization exposure in the context of a comprehensive equity portfolio review. Discussion ensued.

The Commission accepted the report for advice.

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

Chairman Stevens introduced the item. Secretary Cloud noted that investment staff periodically reviewed the MERF's Funding and Investment Policy Statement ("FIPS") for potential updates and, in so doing, noted the opportunity to improve the manager due diligence process as described in the FIPS. He explained that the proposed changes would improve the oversight of MERF managers, by formally recognizing the need for periodic, on-site due diligence meetings. He noted that this process should include himself, staff and the Pension Commission.

Mr. Draghi stated that this had been implicit in the existing FIPS but that it should be made explicit, noting that on-site due diligence had been done in the past. He went on to emphasize the importance of on-site due diligence noting that it was consistent with industry best practices. He closed by noting that NEPC had endorsed the change.

Chairman Stevens asked whether the related travel costs would be included in the MERF budget. Secretary Cloud replied affirmatively and noted that the MERF has consistently been well below budget regarding travel. Despite this, Secretary Cloud noted that the MERF's profile had been raised nationally by participation in industry conferences. Additional discussion then ensued relating to the incorporation of on-site due diligence in the MERF's annual manager monitoring plan. It was agreed to document feedback from such meetings and investment conferences attended as part of a formal investment monitoring process.

A motion was made, seconded and unanimously adopted to update the language in the Due Diligence and Ongoing Monitoring section of the Funding and Investment Policy Statement.

IV. Reports on Annual Performance Review Meetings: BlackRock, VOYA Investment Management and Wellington Investment Management Company, LLP

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

The Commission accepted the reports for advice.

V. Other Business

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi updated the Commission on the activities of the deferred compensation committee noting that it had recently met with MassMutual, the City of Hartford's deferred compensation plan administrator, and Retirement Plan Advisors ("RPA"), the City of Hartford's deferred compensation plan consultant, to discuss the City's interest in extending MassMutual's contract. Mr. Draghi stated that MassMutual made a very strong offer. He went on to state that a "punch list" of items had been developed that MassMutual would get back to the committee on before more formal consideration of the contract extension would occur.

Mr. Draghi continued by noting that MassMutual had subsequently pulled together the requested items and that another deferred compensation committee meeting would be scheduled to carry out a final review and develop a recommendation in time for the next Pension Commission meeting.

Mr. Draghi then gave a brief overview of the status of the MERF's recent private investment commitments. He began by discussing Vista Equity Partners Fund V ("Vista"). He stated that Vista had reduced the MBRF's proposed \$10 million commitment by half due to the oversubscribed status of the fund. He stated that the MERF had fared better than some other would-be investors in that some of them had had their proposed commitments cut by more. He attributed this to the timeliness of the MERF's efforts to finalize its documentation and to its prior investment in Vista Equity Partners IV. He noted that Pension Consulting Alliance, the MERF's private equity consultant, was comfortable with this change and that PCA felt that a \$5 million allocation to this fund would be consistent with the MERF's efforts to reduce its overweight to private equity over time.

Mr. Draghi then discussed the Och-Ziff and Oaktree real estate commitments noting that negotiations had been wrapped up and legal documents were set and that staff was waiting to receive the capital call notices to begin funding these portfolios.

Mr. Draghi closed by noting that Monroe Capital, LLC, the General Partner of one of the MERF's private debt funds had notified staff that it had sued a former employee. This employee had worked on Monroe's small business investment company products. Mr. Draghi stated that MERF staff and NEPC had spoken independently with Monroe and, based on these discussions, did not believe this situation would have any significant impact on the MERF's investment. He then explained that the issue was unrelated to the strategy the MERF had invested in and did not involve the team managing the MERF's investment. Discussion ensued.

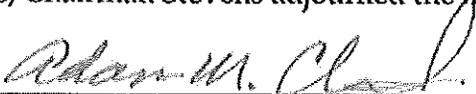
Other Business (continued)

Lastly, Secretary Cloud asked Mr. Antoine to speak about the MERF's brokerage program. Mr. Antoine stated that the MERF's brokerage program has been in existence for over ten years and has helped many of the local and minority firms over the years. He mentioned that the most recent addition to the program was Sturdivant & Company, a New Jersey-based, women-owned firm with over ten years of trading experience. Discussion ensued.

The Commission accepted the report for advice.

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

ATTEST:



Adam M. Cloud, Secretary