

City of Hartford Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, September 26, 2014  
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; Lisa Silvestri, MERF's General Counsel; Donna Parker, Plan Administrator; Anne Coleman, Assistant Plan Administrator and Terry Williams, Senior Administrative Assistant

OTHERS PRESENT: Kristin Finney-Cooke, Senior Consultant, and Sean Ruhmann, Principal, NEPC, the MERF's general and real estate consultant; Chelsea Mott, Accountant; Lauren Fecha, Treasury Intern; George Zoltowski and Richard Pokorski, both from the City of Hartford; John Welch and Charlie Peterson, retired Fire Fighters

I. **Review of Minutes: Meeting of July 25, 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 July 31, 2014 and August 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 July 31, 2014, the MERF portfolio had a market value of approximately \$1.04 billion and had

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generated a negative 0.8% net of fees return for the month, matching the MERF's policy benchmark. Discussion ensued.

**The Commission accepted the report for advice**

#### **Status of the MERF portfolio as of August 31, 2014**

Mr. Antoine then reported that, at August 31, 2014, the MERF portfolio had a market value of approximately \$1.06 billion and had generated a positive 1.5% net of fees return for the month, slightly underperforming the benchmark return of positive 1.70%, by 20 basis points.

Mr. Antoine went on to report that the MERF's equity portfolio posted a 2.70% net of fees return for the month, outperforming its custom benchmark return of 2.30%, by 40 basis points.

Mr. Antoine reported that the MERF's fixed income portfolio posted a 1.00% net of fees return for the month, lagging the custom benchmark return of 1.60%, by 60 basis points.

In closing, he reported that the MERF's private equity, private debt and hedge fund portfolios all posted positive returns for the month.

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

### **III. Update from MERF's General Investment Consultant--NEPC**

#### **Quarter ended June 30, 2014**

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 reported on the MERF's investment performance for the periods ended June 30, 2014. After recapping the MERF's goals and objectives and recent activities, Ms. Finney-Cooke reviewed the MERF's performance results, reporting that the MERF had generated a 4.3% return for the quarter ended June 30 and a return of 14.3% for the last twelve months ended June 30, 2014, with the last year's performance underperforming the policy benchmark by 30 basis points, while ranking in the 82<sup>nd</sup> percentile of its peer group universe (the IFDB Public Fund Universe). She went on to state that the MERF portfolio generated returns of 8.4% and 10.7%, respectively, for the annualized three and five year periods. She noted that these results ranked at the 82<sup>nd</sup> and 77<sup>th</sup> percentiles, respectively, of the MERF's peer group universe for these periods. She then praised the MERF's risk adjusted performance emphasizing that the MERF's peer relative performance resulted

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from the MERF's lower allocation to equities compared to its peer group noting that this was consistent with other NEPC clients that had adopted less volatile asset allocations. Discussion ensued.

Commissioner Goldman explained that, since the MERF is a mature pension plan, its asset allocation was necessarily less risky (from a volatility perspective) than other plans. As such, he pointed out that the 82<sup>nd</sup> percentile ranking had much less meaning compared to other plans in the MERF's peer group universe that were invested in much riskier investments than the MERF. Discussion ensued.

In response to a question regarding CalPERS shift away from hedge funds, Ms. Finney-Cooke stated that several issues were involved in that decision, including staffing, implementation and fees. Discussion ensued.

Ms. Finney-Cooke added that NEPC anticipated that the potential addition of commodities to the MERF portfolio would be among the next steps for the MERF to consider. In this regard, Ms. Finney-Cooke stated that NEPC would plan to conduct education on investing in commodities, with the exact timing to be determined in consultation with staff and would be subject to Pension Commission availability.

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

### **Liquidity Study**

Ms. Finney-Cooke stated that, as part of its annual process, NEPC had performed a liquidity study of the MERF investment portfolio and that NEPC believed that the MERF had sufficient liquidity to maintain its existing investment policy. She noted that NEPC had run a number of analyses on the MERF's portfolio. These analyses considered a variety of factors (e.g., pension payments, investment commitments, actuarial assumptions, etc.) under various economic scenarios in order to evaluate the ability of the MERF to adequately fund its liquidity needs. She summarized the study's results noting that the MERF's liquidity was deemed sound with 83% of the MERF's portfolio available for daily, weekly or monthly liquidity and that an additional 5% could be liquidated within three months to one year while the remaining 12% was considered relatively illiquid. Gary Draghi, the MERF's Director of Investments, pointed out that the Pension Commission's policy, requiring that two months of pension payroll payments be held in cash and cash equivalents, served as a liquidity buffer. Discussion ensued.

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

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### **Real Estate Recommendation -- Opportunistic**

Sean Ruhmann, Principal at NEPC, presented the MERF's updated Real Estate Implementation Plan, as developed by NEPC. He began by providing a brief review of the real estate market, the MERF's real estate portfolio and then provided a summary of the plan for the year.

Mr. Ruhmann then discussed NEPC's views on best-in-class managers that had been considered for the MERF's opportunistic real estate allocation for 2014. He then highlighted NEPC's recommendation that the MERF commit to invest this allocation in the Landmark Real Estate Fund VII ("Landmark VII"). Secretary Cloud addressed the matter and stated that a commitment by the MERF to invest at least \$6 million in Landmark VII would satisfy this part of the MERF's opportunistic real estate allocation. He then asked Mr. Ruhmann to discuss the recommendation.

Mr. Ruhmann provided the MERF with an overview of the research and selection process, identifying several other firms that NEPC had also approved for its clients' opportunistic real estate mandates. He stated that NEPC judged Landmark VII as the best fit for the MERF, given its superior performance, its focus on a secondaries strategy and its strong operational platform.

Mr. Draghi, concurred, and added that MERF staff was very familiar with Landmark through the MERF's investments in Landmark's private equity funds and staff's due diligence on its real estate platform. He also stated that Landmark was a very sophisticated organization with a proven team and ability to execute investments in the secondary market. Discussion ensued.

P. Wayne Moore, the MERF's Assistant Director of Investments, added that Landmark had very thorough portfolio research, monitoring and reporting tools, which carry over seamlessly from its private equity platform to its real estate platform.

In response to a question regarding any overlap in investments, Mr. Draghi stated that there would be none noting that the Landmark real estate and private equity teams were separate but do utilize the same research platforms.

In response to a question regarding site visits to the other firms on NEPC's high conviction list, Mr. Draghi stated that staff had not visited them, but that NEPC had conducted significant research and due diligence on each.

Mr. Ruhmann then added that, since the MERF had recently invested in Och-Ziff Real Estate Fund III and the Alcentra European Debt Fund, only two of NEPC's high-conviction opportunistic real estate managers were deemed to be appropriate fits for the MERF. He stated that, based upon strategy, performance and team, Landmark VII

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ultimately stood out and was put forward as the recommended product for the MERF. Discussion ensued.

Secretary Cloud praised the process noting that the best investment ideas for the MERF were fully vetted by NEPC, with consultation from MERF staff. He summarized that NEPC had helped the MERF select a very good firm with an outstanding track record. Discussion ensued.

Chairman Stevens asked for additional information on Landmark VII.

Secretary Cloud stated that he would direct staff to arrange a meeting with Landmark VII representatives to allow them to more fully present Landmark VII to the Pension Commission and would wait until after that meeting to finalize his recommendation. Discussion ensued.

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

#### **IV. MERF Asset Allocation**

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to report. Mr. Draghi discussed the memo noting that it was an analysis prepared by the investment management unit summarizing the MERF's progress in rebalancing to its long-term asset allocation adopted in July 2011. He noted that, after approximately three years, significant progress had been made and that staff had moved from evaluating the MERF's asset allocation relative to interim ranges to the longer-term asset class ranges.

Mr. Draghi noted that the MERF had nine asset classes within their long-term target range, up from seven a year before. He added that all asset classes have moved closer to their target ranges except for commodities, investment in which had been intentionally deferred.

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

**V. Proxy Voting Services Request for Information**

Chairman Stevens introduced the item. Secretary Cloud asked Mr. P. Wayne Moore to report to the Commission. Mr. Moore discussed the memo which recommended that the Commission approve of the MERF issuing a Request for Information from qualified vendors to provide proxy voting services. He stated that Institutional Shareholders Services is the MERF's current provider and that its contract is set to expire on December 31, 2014.

**A motion was made, seconded and unanimously adopted to authorize the Secretary to issue a Request for Information for proxy voting services.**

**VI. Proposed Schedule of the MERF's Investment Managers Annual Performance Review Meetings Dates for Fiscal 2014-2015.**

Chairman Stevens introduced the item. Secretary Cloud provided the Commission with a proposed schedule of regular Pension Commission meetings for fiscal year 2014-2015. He asked the Commission to review the dates and let him know if there were any conflicts. Discussion ensued.

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

**VII. Other Business**

Chairman Stevens introduced the item. Secretary Cloud stated asked Mr. Draghi to report to the Commission. Mr. Draghi started by discussing the MERF's need to contract with a transition management services provider. He stated that the number of viable providers had declined and that NEPC had provided staff with a list of recommended transition management firms for consideration. He asked whether or not the Commission would want to be involved in the selection process and suggested that the Secretary and staff review the list from NEPC and then make a recommendation to the Commission. He noted that transition managers were paid when services were provided and did not get paid directly, but from commissions generated from the transaction activity generated by the transition process. Discussion ensued.

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

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**LISC Amendment**

Mr. Draghi then updated the Commission on the status of the LISC amendment. He stated that the amendment had been completed thanks to Assistant Director Moore and Assistant Corporation Counsel Lisa Silvestri. Mr. Moore added that, upon completion of the amendment, LISC asked that a representative from the Treasurer's office serve on the LISC advisory board. He reported that he had attended the most recent meeting, which provided a good opportunity for staff to monitor the MERF's investment in LISC and engage with a local Hartford organization.

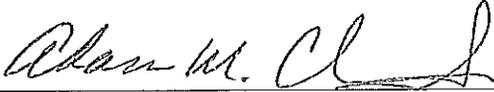
**The Commission accepted the report for advice.**

**Deferred Compensation Contract Extension**

Mr. Draghi updated the Commission by noting that the extension of the deferred compensation plan administration contract had been reviewed by staff and was being reviewed by corporation counsel. He went on to note that the extension, once finalized, would ultimately be replaced by a new contract with MassMutual embodying the terms of the extension. He stated that this process was expected to be finalized within the next few months. Discussion ensued.

**The Commission accepted the report for advice**

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

ATTEST:   
Adam M. Cloud, Secretary