

City of Hartford Pension Commission  
City Conference Room  
260 Constitution Plaza  
Hartford, Connecticut  
Friday, January 30, 2015  
9:00 a.m.

<b>AGENDA</b>
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**INVESTMENT PROGRAM**

- I. **Review of Minutes**
  - Meeting of December 19, 2014
  
- II. **Status of the MERF Portfolio**
  - Inventory of Assets as of December 31, 2014
  - MERF's Overall Performance
  
- III. **Report on Annual Performance Review Meetings**
  - Atlanta Capital Management
  - Eagle Capital Management
  - Prudential Investment Management
  
- IV. **Other Business**



**CITY OF HARTFORD**

**PENSION COMMISSION**

**MEMORANDUM**

**To:** Pension Commission

**From:** Adam M. Cloud, Secretary

**Date:** January 15, 2015

**Subject:** **Review of Minutes from the Meeting of December 19, 2014**

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, December 19, 2014.

City of Hartford Pension Commission  
City of Hartford Conference Room  
260 Constitution Plaza  
Hartford, CT 06103  
Friday, December 19, 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

**STAFF PRESENT:** Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst

**STAFF EXCUSED:** Terry Williams, Senior Administrative Assistant

**OTHERS PRESENT:** Kristin Finney-Cooke, Senior Consultant (via telephone), Donna Parker, Plan Administrator; Lori Mizerak, Assistant Corporation Counsel; George Zoltowski and Richard Pokorski, both from the City of Hartford

**I. Review of Minutes of November 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.**

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## **II. Status of the MERF Portfolio as of November 30, 2014**

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, as of November 30, 2014, the MERF's portfolio had a market value of approximately \$1.03 billion and had generated a positive 0.50% net of fees return for the month, matching the MERF benchmark.

Mr. Antoine reported that the MERF's equity portfolio generated positive returns with the exception of emerging markets equities, which trailed its benchmark (-1.60% vs. -1.10%) by 50 basis points.

Mr. Antoine then reported that the MERF's fixed income portfolio displayed mixed performance during the month, lagging its custom benchmark by 30 basis points (0.10% vs. 0.40%).

Lastly, he reported that the MERF was within target ranges for all asset classes except for domestic equity, hedge funds, real estate and commodities.

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

## **III. Update from the MERF's General Investment Consultant—NEPC: Education on Currency Hedging**

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 noted that the MERF is exposed to currency risk as a result of its non U.S. investments. She stated that while currencies are volatile, most U.S. institutional investors like the MERF have traditionally focused on the diversifying elements of this exposure while tolerating the related volatility in their portfolios, leaving a potential risk exposure unhedged. Discussion ensued.

Mr. Finney-Cooke went on to note that, as part of NEPC's recommended actions for 2015, it would recommend that its clients take a proactive approach to managing non-U.S. developed market currency risk. She went on to note that NEPC also recommended that its clients not hedge exposure to emerging markets currencies. She explained the difference noting that emerging markets currencies were expected to have a positive return versus the U.S. dollar over time and, therefore, should remain unhedged.

Ms. Finney-Cooke discussed the extent of the MERF's currency exposure and both the theory and practice of hedging. She reviewed NEPC's research on the topic and then introduced two approaches to implementing a currency hedging program, an overlay program and a

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**Update from the MERF's General Investment Consultant—NEPC: Education on Currency Hedging (continued)**

currency hedging commingled fund. She added that both approaches require significant due diligence and very capable managers.

In response to a question regarding the potential cash flow impact of a hedging program, Ms. Finney-Cooke stated that it depended on the size and scope of the hedging program.

In response to a question regarding the difference between the two approaches, Ms. Finney-Cooke noted that with the commingled fund approach, management costs would be lower but the hedge might not be fully aligned with the MERF's actual exposure. She then stated that the overlay would cost more to run but would result in better alignment. Discussion ensued.

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

**IV. Deferred Compensation Plan Recommendation**

Chairman Stevens introduced the item. Secretary Cloud asked Gary Draghi, the MERF's Director of Investments, to address the Commission. Mr. Draghi stated that BlackRock Capital Appreciation ("BlackRock") option had been on the City's deferred compensation plan's "Watch List" for three years, and continued to underperform. As such, the compensation plan committee (the "Committee") recommended a switch to the Alger Capital Appreciation Institutional Fund ("Alger").

Mr. Draghi reported that Retirement Plan Advisors ("RPA"), the City's deferred compensation plan investment consultant, assisted the Committee in the search for an alternative to Blackrock. He stated that RPA's due diligence resulted in three potential replacement options, Alger, American Funds AMCAP and T. Rowe Price Growth Stock. The Committee, based upon RPA's analysis, selected Alger. Mr. Draghi noted that, of the three funds, Alger had the better annualized returns and favorable peer relative performance for the one, three, five and ten year periods ending November 30, 2014. Discussion ensued.

**A motion was made, seconded and unanimously adopted to authorize the Secretary to take the necessary actions to replace the BlackRock Capital Appreciation Investment A Fund with the Alger Capital Institutional Appreciation Fund on the City's deferred compensation plan platform and to allow adequate time to make the change and provide appropriate communications.**

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**V. Reports on Annual Performance Review Meeting: SouthernSun Asset Management**

Chairman Stevens introduced the item and asked Mr. Draghi to report. Mr. Draghi stated that the report was self-explanatory and asked if there were any questions. Discussion ensued.

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

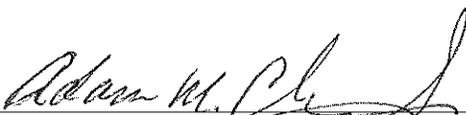
**VI. Other Business**

**SW Pelham Fund III Update**

Chairman Stevens introduced the item. Secretary Cloud asked Gary Draghi to report on the matter. Mr. Draghi began by noting recent publicity about Smith Witley and Company ("Smith Witley"), the General Partner ("GP") of one of the MERF's private debt fund investments. He then reported that the MERF had reviewed and evaluated its options under the limited partnership agreement which he then discussed along with their relative merits. He went on to note that, at present, the MERF's investment in SW Pelham Fund III was performing well but that staff was working in conjunction with other limited partners to closely monitor the Fund and the GP. Discussion ensued.

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

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

ATTEST:   
Adam M. Cloud, Secretary



**CITY OF HARTFORD**

**PENSION COMMISSION**

**MEMORANDUM**

**To:** Pension Commission  
**From:** Adam M. Cloud, Secretary  
**Date:** January 15, 2015  
**Subject:** Status of MERF Portfolio as of December 31, 2014

The portfolio report for the month of December 2014 will be distributed at the meeting.



**CITY OF HARTFORD**  
PENSION COMMISSION

**MEMORANDUM**

**To:** Pension Commission  
**From:** Adam M. Cloud, Secretary  
**Date:** January 15, 2015  
**Subject:** **Report on Annual Performance Review Meetings**

Attached for your review are the reports on our recent annual performance review meetings with the following investment managers:

- **Atlanta Capital Management**
- **Eagle Capital Management**
- **Prudential Investment Management**

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

**To:** Adam M. Cloud, Secretary  
Carmen I. Sierra, Assistant Secretary

**From:** Gary B. Draghi, Director of Investments  
P. Wayne Moore, Assistant Director of Investments  
J. Sean Antoine, Principal Administrative Analyst

Handwritten initials and signatures in black ink, including 'GBD', 'PMM', and 'JSA'.

**Date:** January 13, 2015

**Re:** Report on Annual Performance Review Meeting with Atlanta Capital Management

The Pension Commission held an annual performance review meeting on Tuesday, December 9, 2014, with Atlanta Capital Management ("Atlanta"), a large cap growth equity manager for the MERF. Atlanta was represented by Peggy Taylor, Investment Specialist, and Jeff Miller, Technology Analyst and Principal.

Ms. Taylor thanked the Commission for its business and continued confidence in Atlanta, noting its 15 year partnership with the MERF. Ms. Taylor introduced her colleague, Mr. Miller, and gave a brief overview of the current status of the firm, noting that Atlanta continues to grow in personnel and assets under management. She added that there had been no investment professional turnover since the last review meeting.

In response to a question regarding the cash inflows and outflows, Ms. Taylor stated that for the twelve months ending September 30, 2014, Atlanta's growth equity product experienced net outflows primarily attributed to a single institutional client which terminated all of its active managers. Ms. Taylor added that, on an overall basis, Atlanta had experienced gains in assets, led by its core product. Discussion ensued.

Ms. Taylor briefly discussed the firm's investment process. She noted that Atlanta analysts screen for high quality companies in the Russell 1000 universe and identifies long-term investment themes. The analysts eliminate 40% of the universe by discarding companies without a ten-year history of earnings growth or that are deemed "low quality". She also stated that Atlanta focuses on fundamental research and has never changed its investment style or philosophy.

In response to a question regarding Atlanta's sell discipline Mr. Miller explained that stocks are sold based on specific factors, including declining earnings forecast, declining value, loss of confidence in management or change in a company's business model. Mr. Miller also added that a sale or reduction in

holding will occur if a security's weight within the portfolio exceeds the maximum limit.

In response to a question regarding idea generation, Mr. Miller noted that investment ideas are driven by Atlanta's analysts based on their research of company fundamentals.

Treasurer Cloud asked about the importance of compliance at Atlanta. Ms. Taylor stated that compliance is a high priority for Atlanta. She added that the compliance process ensures that client portfolios remain in line with their client's goals and objectives.

Ms. Taylor reported that, for the 1-year period ending September 30, 2014, the MERF portfolio achieved a net of fees return of 17.5%, underperforming the benchmark return of 19.1%. Ms. Taylor attributed the underperformance primarily to security selection within the technology sector. She added that low quality stocks have continued to outperform the high quality stocks that Atlanta favored. Ms. Taylor added that Atlanta's performance since inception remained solidly ahead of the benchmark, by approximately 130 basis points on an annualized basis.

In response to a question regarding the value exposure in the portfolio, Ms. Taylor mentioned that Atlanta focuses on stocks that have the potential for earnings growth and does not limit itself to the stocks within the Russell 1000 Growth Index. She then noted that, among such stocks, there are many securities that are classified as value but still feature growth characteristics that fit Atlanta's investment criteria

In closing, Ms. Taylor thanked the Commission for its business and continued confidence in Atlanta.

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

To: Adam M. Cloud, Secretary  
Carmen I. Sierra, Assistant Secretary

From: Gary B. Draghi, Director of Investments *GBD*  
P. Wayne Moore, Asst. Director of Investments *PWM*  
J. Sean Antoine, Principal Administrative Analyst *JA*

Date: January 12, 2015

Re: Report on Annual Performance Review Meeting with Eagle  
Capital Management

The Pension Commission held an annual performance review meeting with Eagle Capital Management ("Eagle"), a fundamental large cap value equities manager for the MERF, on Thursday, January 6, 2015. Present from Eagle was John Holman, Managing Director.

Mr. Holman began the meeting by thanking the Commission and Treasurer for their continued business and confidence in the firm. He then provided a brief overview of the firm and its staff, stating that the firm continues to seek improvement in all aspects of its business. He noted that the firm manages only one investment strategy which has low turnover and a concentrated number of holdings (25-35 stocks). Mr. Holman also noted that very little has changed within the firm and that the investment team remains unchanged.

In response to a question on Eagle's growth, Mr. Holman stated that the increase in Eagle's assets under management is looked at relative to the potential impact upon operations and performance. He stated that, given its style of investing, Eagle's current asset size places no constraints on its ability to access investment opportunities and maintain strong performance. Discussion ensued.

In response to a question regarding the key man risk associated with founder and CIO Ravenal Curry, Mr. Holman stated that, despite his age, Mr. Curry has no plans to retire. Mr. Holman then described a general framework succession plan which would govern the firm in Mr. Curry's absence. Discussion ensued.

Mr. Holman discussed the firm's investment process and philosophy. He noted that the Eagle continues to seek to achieve superior investment returns in both up and down markets, using a bottom-up, research-driven approach to find undervalued companies that will experience long-term positive secular change. He noted that by identifying change early, ahead of the general market, Eagle should be able to minimize risk and maximize upside potential. He also mentioned that, in order to reach its investment goals, Eagle does not deviate from its investment strategy.

In response to concerns about potential style drift, he noted that Eagle's approach was benchmark agnostic but that its focus on buying undervalued companies was generally consistent with its value mandate. He went on to note, however, that the unrecognized growth capability of the portfolio sometimes produced results that appeared "growthy".

Mr. Holman reported on the performance of the MERF portfolio stating that its 13.1% gross year to date return, through December 31, 2014, underperformed its benchmark, the Russell 1000 Value Index, by 40 basis points. He noted that the recent underperformance was due to the robust broad market returns pointing out that Eagle's approach generally trailed in such markets while protecting value in down markets. Mr. Holman stated however that over the three, five, seven and ten year periods, and since inception, the portfolio has outperformed its benchmark.

In response to a question regarding the ownership structure of the firm, Mr. Holman noted that it was 100% employee-owned with Beth and Ravenel Curry holding over 50% of the firm and that the remaining nine partners owned the balance.

Mr. Holman closed by thanking the Treasurer and Commission for their continued business and confidence in the firm.

**CITY TREASURER'S OFFICE  
INTERNAL MEMORANDUM**

**To:** Adam M. Cloud, Secretary  
Carmen I. Sierra, Assistant Secretary

**From:** Gary B. Draghi, Director of Investments   
P. Wayne Moore, Assistant Director of Investments   
J. Sean Antoine, Principal Administrative Analyst 

**Date:** January 13, 2015

**Re:** Report on Annual Performance Review Meeting with Prudential Investment Management Co.

The Pension Commission held an annual performance review with the Prudential Investment Management, Inc. (Prudential), an emerging market debt manager for the MERF, on Thursday, December 11, 2014. Present from Prudential were Mariusz Banasiak, CFA, Principal; Jeffrey Alt, CFA, Principal and Emete Hassan, Vice President.

Mr. Alt gave a brief overview of the firm and an update of its activities over the past year. He noted that the firm was very stable despite recent market turbulence. He stated that Prudential had no significant client losses for the year ended October 31, 2014 and that there were few personnel changes, none of which had a direct effect on the MERF's portfolio.

Mr. Banasiak reported that for the one year period ended October 31, 2014 the Fund returned 9.61% net of fees, outperforming the benchmark return of 8.55%, by +106 bps. He noted that since the MERF's initial contribution to the Fund, the portfolio has outperformed its benchmark by +213 bps on an annualized basis.

Mr. Banasiak then provided an overview of the investment philosophy and process. He stated that Prudential Fixed Income develops an overall strategic risk budget for each client portfolio reflecting the client's long-term objectives and risk parameters. Prudential also develops a tactical risk budget that permits it to incorporate its day-to-day views of market risk tolerances and opportunities within the broader strategic risk budget.

Mr. Banasiak added that Prudential's investment approach seeks to add value primarily through research-based country allocation, security selection and, to a lesser extent, yield curve management. Mr. Banasiak noted that Prudential's approach is duration-neutral and that its Emerging Markets Team's yield curve decisions are largely a function of Prudential's assessment of the global appetite for risk, the first step in its investment process. He stated that when Prudential

interprets that the global appetite for risk is positive (i.e. global investors appear willing to assume more risk), Prudential will implement a slightly more aggressive yield curve positioning.

In response to a question regarding the global appetite for risk in the portfolio, Mr. Banasiak stated that Prudential was continuously assessing whether investors are increasing or decreasing the amount of risk in their portfolios. He noted that Prudential has observed that the yield required by investors to compensate for credit/market risk changes over time.

Mr. Alt added that through its evaluation of the "global appetite for risk" Prudential tries to assess the forward looking trend in yield required for a given level of credit risk. He stated that Prudential has found that observing indicators such as the outlook for global growth, global liquidity, commodity price trends, valuations in other markets, and market "technical" factors, helps provide a context to determine how market participants feel about risk.

Mr. Banasiak gave an overview of Prudential's current global economic outlook. The outlook forecast contains significant uncertainty relating to global financial institutions and their prospects for growth. He stated that Prudential's outlook on emerging markets is modestly positive despite the uncertainty regarding Fed policy going into 2015 and potential risk in some countries associated with declining commodity prices and other geopolitical pressures.

Ms. Emete closed by thanking the Treasurer and Commission for their continued business and confidence in the firm.



**CITY OF HARTFORD**  
PENSION COMMISSION

**MEMORANDUM**

**To:** Pension Commission

**From:** Adam M. Cloud, Secretary

**Date:** January 15, 2015

**Subject:** **Other Business**