

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, April 24, 2015
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Meeting Minutes
 - Minutes of March 27, 2015

- II. Status of the MERF Portfolio
 - Inventory of Assets as of March 31, 2015
 - MERF's Overall Performance

- III. Funding and Investment Policy Statement Revisions

- IV. Update from MERF's General Investment Consultant-NEPC
 - Update of Road Map
 - Fixed Income Manager Structure Review
 - Unconstrained Fixed Income

- V. Report on Annual Performance Review Meetings
 - Mondrian Investments Partners
 - Shenkman

- VI. Other Business

INVESTMENTS:
AGENDA ITEM I



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: April 16, 2015
Subject: Review of Minutes from the Meeting of March 27, 2015

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, March 27, 2015.

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, March 27, 2015
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord, Commissioner; Gene Goldman, Commissioner; Nicholas Trigila, Employee Representative; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

STAFF PRESENT: Gary B. Draghi, Director of Investments; J. Sean Antoine, Principal Administrative Analyst and Terry Williams, Senior Administrative Analyst

STAFF EXCUSED: P. Wayne Moore, Assistant Director of Investments

OTHERS PRESENT: Lisa Silvestri, MERF's General Council; Chelsea Mott, City of Hartford Accountant; Colin London, Intern; Kristin Finney-Cooke and Douglas Moseley, NEPC, the MERF's general consultant

I. **Review of Minutes**
Meeting Minutes of January 30, 2015

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.

Review of Minutes (continued):

Meeting Minutes of February 27, 2015

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 February 28, 2015

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at February 28, 2015, the MERF portfolio had a market value of \$1.04 billion and had generated a 2.1% return for the month, which underperformed the benchmark return of a 2.4%, by 30 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 5.1% net return for the month, underperforming the benchmark return of 5.5%, by 40 basis points. He also reported that the MERF's global tactical allocation portfolio posted a 3.3% net return for the month, outperforming the benchmark return of positive 3.1%, by 20 basis points.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a flat return for the month, exceeding the custom benchmark return of negative 0.8%, by 80 basis points. He noted that the MERF's hedge fund portfolio posted a return of 1.6%, slightly underperforming its benchmark returns of 1.7%, by 10 basis points. Mr. Antoine also reported that the MERF's real estate, private equity and private debt portfolios underperformed their respective benchmarks but that this was primarily due to valuation timing. Discussion ensued.

Lastly, Mr. Antoine reviewed the MERF's asset allocation positioning relative to its targets and target ranges.

The Commission accepted the report for advice.

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

Asset Allocation Review

Chairman Stevens introduced the item. Secretary Cloud asked the representatives from NEPC to report. Kristin Finney-Cooke, senior consultant, stated that, consistent with MERF policy, NEPC conducts an asset allocation study for the MERF annually. She then described NEPC's asset allocation review process and noted that the MERF may be due for an asset/liability study in 2016. She differentiated this from the annual asset allocation review stating that, as part of an asset/liability study, NEPC evaluates the appropriateness of current and prospective asset mixes relative to the expected progression of liabilities and cash flows. She noted that the resulting asset/liability management framework seeks to evaluate all risks in terms of their impact on a plan's funded status. Discussion ensued.

She then reported the results of the asset allocation review, noting that NEPC incorporated its 2015 asset class assumptions into the MERF's target asset allocation. She highlighted the fact that a drop in expected returns had resulted. In response to the MERF's concerns, NEPC worked with the Secretary and investment staff to review higher returning options. The results of these efforts were then discussed and Ms. Finney-Cooke observed that these proposed changes significantly increased investment risk in terms of both the volatility of returns and the likelihood that the MERF would fall short of its target returns. She summarized by noting that NEPC did not recommend such an approach but instead proposed that the MERF make changes to its target asset allocation that further reduced risk and had the potential to improve near to intermediate term performance.

Ms. Finney-Cooke then described the proposed changes, noting that, based on NEPC's forward looking capital markets assumptions, it recommended the adjustment of the MERF fixed income portfolio to lower duration and add additional diversification to the MERF's portfolio in the face of a rising interest rate environment. Specifically, she stated that the MERF should add a 5% target allocation to unconstrained fixed income and reduce its global fixed income target to 0% from 3%. Additionally, NEPC recommended that the MERF reduce its long duration fixed income target to 6.5% from 8.5%.

With regard to other recommended changes, Ms. Finney-Cooke turned next to equities and other assets. She stated that, in order to take advantage of near to intermediate term trends, NEPC recommended that the MERF add to its target allocations to large capitalization domestic equities (to 10% from 9%), small-to-mid capitalization domestic equities (to 5% from 4%) and to international developed markets equities (to 11% from 10%). She then noted that these increases would be partially offset by a proposed reduction in the MERF's allocation to emerging markets equity (to 6% from 9%).

Asset Allocation Review (continued):

Ms. Finney-Cooke concluded by addressing the MERF's alternative and other asset categories, relating that NEPC recommended that the MERF replace its 3% target allocation to commodities with a 3% allocation to real asset strategies. She then referred to previously presented educational information on real assets and their potential role in the MERF's portfolio and reviewed the different options available for implementation.

Ms. Finney-Cooke then summarized NEPC's belief that the recommended changes offered opportunities to potentially generate higher returns relative to the current portfolio positioning while reducing the overall level of risk. Secretary Cloud added that he concurred with this recommendation and Gary Draghi, the MERF's director of investments, noted that staff also concurred.

A motion was made, seconded and adopted to accept the recommended changes to the MERF's target asset allocation as described by NEPC and to move forward with their implementation.

Emerging Markets Debt Blended Currency Manager Review

Doug Mosely, Partner, reported that NEPC and MERF investment staff had worked together to consider whether a blended currency emerging markets debt product would be preferable to the MERF's existing "hard currency" focused approach in the emerging market debt ("EMD") space. As a result of this work, NEPC compiled a blended currency emerging markets debt manager review for the Commission and Secretary's perusal.

Mr. Moseley noted that the EMD universe could be segmented into three broad categories: external or hard currency sovereign debt, local currency sovereign debt and corporate debt. He reported that local currency sovereign debt was the largest component of the EMD opportunity set followed by external sovereign and corporate debt. Accordingly, he stated that utilizing a blended currency strategy would expand the MERF's investment universe. Discussion ensued.

Mr. Moseley then discussed NEPC's investment manager research process relating to EMD blended currency products and described how this allowed NEPC to identify qualified managers for its focused placement list. He noted that this was the list of preferred strategies that NEPC expected to provide superior investment performance over time.

Emerging Markets Debt Blended Currency Manager Review (continued):

He stated that the MERF's current EMD manager, Prudential, has been doing very well with its external currency oriented strategy. However, he noted that NEPC believed that the MERF would be better served by adopting a blended currency approach in that this would better position the MERF to take advantage of a larger investment opportunity set and favorable underlying trends in emerging market economies. Noting that Prudential now had a commingled blended currency product, he stated that it compared favorably to those on the NEPC focused placement list. He explained that NEPC had not recommended this product previously because it was not offered as in a cost effective commingled fund structure until recently. He then reviewed NEPC's analysis of its blended currency EMD focused placement list managers alongside of Prudential. Discussion ensued.

The Commission accepted the report for advice.

IV. Report on Annual Performance Review Meetings: Pacific Investment Management and Walter Scott Global Investment Management

Chairman Steven introduced the item and asked staff to speak to the report. Mr. Draghi stated that the reports were self-explanatory and asked if there were any questions. Discussion ensued.

The Commission accepted the reports for advice.

V. Other Business

Proxy Voting Services Recommendation

Chairman Stevens introduced the item and asked staff to speak to the report. Mr. Draghi stated that, as the Commission had been informed previously, the MERF conducted interviews with the two candidates that responded to its request for information to provide proxy voting services. These were Institutional Shareholders Services ("ISS") and Glass Lewis. He noted that the MERF representatives were impressed with each firm and believed that both were well qualified. Despite this, and after a thorough review, Mr. Draghi stated that the Secretary and staff recommended ISS, the existing provider, be contracted with.

Other Business (continued):

Mr. Draghi then explained that this decision was based on the better economics of ISS' proposal as well as its proven capabilities and depth of resources. He then described economics of the proposal noting that the annual fee was reduced through this process. Discussion ensued.

Commissioner Lord asked if a review of proxy voting guidelines was included in the deliverables. Mr. Draghi responded affirmatively and reported that both candidates were asked to discuss this capability and had been informed it was a required part of the service.

A motion was made, seconded and adopted to authorize the Secretary to enter into an agreement with Institutional Shareholders Services for proxy voting services, subject to the successful negotiation of legal terms.

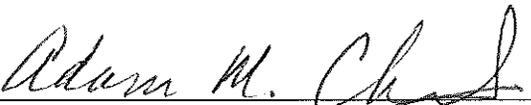
Freedom of Information Act Request

Mr. Draghi reported that staff has been receiving an increased number of freedom of information act ("FOIA") requests relating to the MERF's private investments. He noted that most of the MERF's private investment agreements required advance communications with the general partners of the funds the MERF invested in before releasing information required under FOIA. He went on to state that staff was working with internal and external legal counsel regarding what information can be distributed and what type of notice was required. He added that staff was working on a matrix to ensure that the MERF is able to both properly fulfill its contractual obligations and satisfy its obligations under FOIA. Discussion ensued.

The Commission accepted the report for advice.

In closing, Secretary Cloud stated that there was no other business.

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

ATTEST: 
Adam M. Cloud, Secretary



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

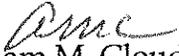
To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: April 16, 2015
Subject: Status of MERF Portfolio as of March 31, 2015

The portfolio report for the month of March 2015 will be distributed at the meeting.



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

TO: Pension Commission
FROM:  Adam M. Cloud, Secretary
DATE: April 17, 2015
SUBJECT: Investment Policy Statement Revision Recommendation

Attached please find draft edits to the MERF's Funding and Investment Policy Statement ("FIPS"). While some are minor edits (e.g., the removal of the "Interim Policy Target" column which is no longer relevant) most emanate from the revisions to the MERF's target asset allocation adopted at the March 27, 2015 Pension Commission meeting. These include the following:

Public Equities Allocations:

- Domestic large cap target increased to 10% from 9%
- Added domestic small/mid cap equities with a target of 5% and a range of +/- 2%
- International developed markets equities increased to 11% from 10%
- Emerging markets equities reduced to 6% from 9%

Fixed Income Allocations:

- Added unconstrained fixed income with a target of 5% and a range of +/- 1.5%
- Global bonds decreased to 0% from 3%
- Long government/credit fixed income decreased to 6.5% from 9.5%.

Alternative Allocations:

- Added private real assets at 3% with a range of +/- 2%

Other Allocations:

- Commodities decreased to 0% from 3%

Staff and I recommend that you approve the proposed changes to the FIPS and look forward to discussing this matter with you at our upcoming Pension Commission meeting.

Article VII. Asset Allocation

The MERF's asset mix shall be set by the Commission from time to time based upon (1) the structure of the MERF's pension liabilities, (2) Capital Markets Theory, (3) the MERF's full funding policy and (4) MERF liquidity needs. The following table shows the current strategic policy targets and permissible ranges for the allocation of assets within asset classes, as adopted by the Commission. These ranges are intended to serve as boundaries for the MERF's individual asset classes as more particularly described in the table below. They will help signal the need to rebalance such classes when allocation weights fall outside these ranges.

The Commission believes that its adoption of these targets and ranges will provide an appropriate mechanism for maintaining the integrity of the asset allocation policy.

**City of Hartford
Municipal Employees' Retirement Fund
Strategic Asset Allocation Policy and Relative Ranges**

Asset Class	Interim Policy Target	Policy Target	Range Around Policy Target
U.S. Large Cap Equities	16	10	+/- 3%
U.S. Small/Mid Cap Equities		5	+/-2%
International Developed Markets Equities (unhedged)	12	11	+/-3%
Emerging Markets Equities	9	6	+/-2%
Total Public Equity	37	32	+/-5%
Core Bonds	10	5	+/-1.5%
Unconstrained Fixed Income		5	+/-1.5%
High Yield Bonds	4	4	+/-1.5%
Global Bonds	3	0	+/-1%
Emerging Markets Debt	5	6	+/-2%
TIPS	5	4	+/-1.5%
Long Gov't/Credit	9.5	6.5	+/-2%
Total Fixed Income	36.5	30.5	+/-5%
Real Estate	5	8	+/-3%

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Private Equity	5	5	-2% /+3%
Private Debt	2	3	+/-2%
Private Real Assets		3	+/-2%
Hedge Funds	5	10	+/-2%
Total Alternatives	17	26	+2/-4%
Global Asset Allocation	5	7	+/-2%
Commodities	3	0	+/-1%
Total Other	8	10	+/-2%
Cash	1.5	1.5	+/-1.5%

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During the period of transition from the Interim Policy Targets to the Long-term Policy Targets the range constraints shall apply relative to the Interim Policy targets.

The asset allocations will be reviewed quarterly for rebalancing purposes with the maximum interval between necessary rebalancing being one year (as of fiscal year end) such that, if an asset class exceeds the ranges noted in the preceding table, there will be at least one rebalancing transaction per fiscal year. In addition, rebalancing transactions will generally occur no more than once per quarter with a preference for no more than semi-annual activity.

It is understood that for all asset classes, exceptions to preferred policy weights may be acceptable given certain market and other conditions, providing that such exceptions are made consciously, monitored carefully by the City Treasurer and Investment Staff and reported to the Pension Commission.

The asset classes will be compared to the appropriate benchmarks on a monthly, quarterly, annual basis in addition to annualized 1, 3, 5 and since inception time periods. Appropriate policy benchmarks are indicated in the table below:

**City of Hartford
Municipal Employees' Retirement Fund
Asset Class Policy Benchmarks**

Total MERF	Custom Policy Index*
Total Public Equity	40% Russell 3000/ 60% Russell Global ex-U.S.
Domestic Equity	Russell 3000 Index
International Equity	Russell Global ex-U.S. Index
Total Fixed Income	Custom Fixed Income Benchmark**
Domestic Fixed Income	Barclays Aggregate Bond Index
International Fixed Income	Barclays Global Aggregate Bond Index
Total Alternatives	Custom Alternatives Benchmark***
Private Equity	Russell 3000 Index plus 300 basis points

Private Debt	Credit Suisse Leveraged Loan Index
Real Estate	NCREIF ODCE
Real Assets	Consumer Price Index + 4% (Unadjusted)
Hedge Funds	HFRI Fund of Funds
Other	N/A
Global Asset Allocation	60% MSCI World/ 40% Citigroup WGBI
Commodities	Standard & Poors GSCI
Cash	U.S. Treasury 3 Month T-Bills

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* The custom MERF benchmark will be comprised of the relative weights of each component of the asset allocation listed above.
** The custom fixed income benchmark will be comprised of the relative weights of each component of the fixed income portion of the asset allocation listed above
*** The custom alternatives benchmark will be comprised of the relative weights of each component of the alternatives portion of the asset allocation listed above

The Commission anticipates that it will revise these targets only when it is clear that significant changes have occurred in the demographics of the participant group and/or in the capital markets such that assumptions upon which the present allocations have been made no longer appear reasonable, or as may be necessary from time to time pursuant to the findings of a periodic asset/liability study of the MERF. Accordingly, the MERF's investment managers should pursue a strategy of being fully invested in the market consistent with the foregoing guidelines to ensure that cash-equivalent positions do not interfere with the overall asset allocation strategy. In addition, in order to meet the MERF's cash disbursement needs, the Commission may direct that dividends and interest income from the investment managers' accounts be swept into the MERF's short-term investment fund ("STIF") account.

Article VIII. Asset Class Guidelines

The permissible investments included within each asset class, and special limitations or other considerations governing the investment of any funds therein, are set forth below:

A. Domestic Equities

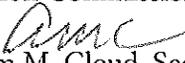
Investments in domestic equities are defined as commitments to U.S. dollar denominated, publicly-traded common stocks of U.S. domiciled companies and securities convertible into common stock. The domestic equity portfolio should be diversified by the number of stocks, industries, economic sectors and other appropriate investment characteristics.

The aggregate domestic equity portfolio is expected to produce, over time, a total, risk-adjusted return greater than that of the Russell 3000 Index. To accomplish this objective, a combination of different investment styles and capitalization ranges may be employed in the portfolio's management. An investment in any single issue may not exceed 5% of the outstanding shares. In the case of small or illiquid companies, the MERF's commitment to any single issue may not exceed 5% of the average daily float. The securities of any single issuer may not exceed 5% of the manager's total portfolio market value. Finally, total investment by domestic equity managers in non-U.S. holdings and



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: April 16, 2015
Subject: Update from the MERF's General Investment Consultant – NEPC

NEPC representatives will attend the Pension Commission meeting on April 24, to discuss the following topics. Please see the enclosed materials which they will utilize in their presentation.

- Update of Road Map
- Fixed Income Manager Structure Review
- Unconstrained Fixed Income



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: April 16, 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:

- Mondrian Investment Partners
- Shenkman

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

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

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

Date: April 15, 2015

Re: Report on Annual Performance Review Meeting with Mondrian
Investment Partners Limited

The Pension Commission held an annual performance review meeting with Mondrian Investment Partners, a global fixed-income and emerging markets equity ("EME") manager for the MERF, on Thursday, March 5, 2015. Present from Mondrian were David Wakefield, Deputy Chief Investment Officer, Boris Veselinovich, Senior Portfolio Manager, Kevin Fenwick, Portfolio Manager and E. Todd Rittenhouse, Senior VP-Client Services.

Mr. Rittenhouse thanked the Commission and Treasurer for their business and then gave a brief overview of the firm. He stated that Mondrian is 100% employee owned, with approximately 80 Mondrian employees as equity owners representing about 50% of total. Mr. Rittenhouse stated that all of the firm's products utilize an income-oriented value discipline which has been consistently applied since the firm was founded in 1990.

Mr. Veselinovich then discussed Mondrian's investment process and philosophy, noting the firm's value approach that emphasizes real (after inflation) yield and future real growth in dividends. He noted that the firm also uses a consistent dividend discount methodology which compares value across all securities, markets and sectors, uncovering a diverse group of ideas for potential investments. He stated that the process is designed to preserve capital during global market declines. He added that Mondrian continues to focus on well capitalized companies with relatively strong and stable cash-flows to support growth and dividend payments.

Mr. Veselinovich then reviewed the performance of the MERF's EME portfolio. He stated that, for the one year period ending January 31, 2015, the portfolio's return of 8.4% has outperformed the benchmark return of 5.2%, by over 300 basis points. He attributed this to the portfolio's currency weightings, security selection and market fluctuation. Discussion ensued.

Mr. Veselinovich then turned to the firm's economic outlook. He stated Mondrian's belief that there is a debt overhang in developed economies that will prolong the global economic recovery. He noted that global demand and trade will likely remain modest, especially against the backdrop of the tepid global growth. He then opined that many EM economies will no longer be able to rely on export led growth. Instead, he noted that Mondrian's outlook for 2015 and beyond anticipates an era where the majority of emerging market countries would embrace structural and fiscal reforms and undertake much needed infrastructure projects both of which would serve to drive continued economic growth within these economies.

Mr. Rittenhouse then moved the discussion to global fixed income. He began by noting that leadership in Mondrian's global fixed income and currency team would undergo a transition in September 2015, when current, CIO Chris Moth, will be retiring and be replaced by David Wakefield (currently Deputy CIO). He noted that this transition has been well planned and widely anticipated. He continued, stating that the rest of the team remains unchanged and that the team will continue to apply the same investment philosophy and process.

Mr. Fenwick then discussed the global fixed income portfolio philosophy. He stated that Mondrian is a value-oriented defensive manager. As such, he stated that Mondrian invests in global fixed income markets which offer high income in real terms, measured by a market's prospective real yield. Mr. Wakefield added that Mondrian utilizes a proprietary quantitative model to drive its process and provide structure to the portfolios it manages.

Mr. Fenwick then reviewed the performance of the MERF's global fixed-income portfolio. He stated that, over the last 12 months ending January 31, 2015, the portfolio achieved a return of 1.0%, outperforming the benchmark return of -0.2, by 120 basis points. He attributed that outperformance to currency allocation.

With regard to performance over longer periods and peer group relative results, the Mondrian representatives noted that its defensive, value focused style suffered relative to broad benchmarks and other, more aggressive managers. This was attributed to central bank stimulus and the general easing of interest rates in a manner that belied the market fundamentals on which Mondrian based its investment decision making.

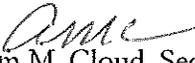
Mr. Veselinovich concluded by saying that he concurs with his colleague's outlook and added the strategic case for global fixed income remains as strong as ever with the asset class continuing to display low correlation against other major asset classes and thus acting as an excellent diversifier. Discussion ensued.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: April 16, 2015
Subject: **Other Business**