

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, October 23, 2015
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Meeting Minutes
 - Minutes of September 25, 2015

- II. Status of the MERF Portfolio
 - Inventory of Assets as of September 30, 2015
 - MERF's Overall Performance

- III. PCA Update
 - Private Equity Performance through June 30, 2015
 - Phase II Due Diligence Report on Ares Corporate Opportunities Fund V, L.P.

- IV. Other Business



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
ame
From: Adam M. Cloud, Secretary
Date: October 15, 2015
Subject: Review of Minutes from the Meeting of September 25, 2015

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, September 25, 2015.

**City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, September 25, 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; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst; Donna Parker, Plan Administrator and Rebecca Crowley, Assistant Plan Administrator

OTHERS PRESENT: Lisa Silvestri, Corp. Council; George Zoltowski, Management and Budget; Terry Williams, Senior Administrative Assistant; Chelsea Mott, City of Hartford Accountant and Kristin Finney-Cooke, of NEPC, the MERF's general consultant

I. Review of Minutes as of July 24, 2015

Chairman Stevens introduced the item and asked for questions, comments or corrections. There were none.

A motion was made, seconded and unanimously adopted to accept the minutes as presented.

II. Status of the MERF Portfolio as of July 31, 2015 and August 31, 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 July 31, 2015, the MERF portfolio had a market value of \$1.02 billion and had generated a positive 0.1% net of fees return for the month, which matched the benchmark return. He asked if there were any questions there were none.

The Commission accepted the report for advice.

Mr. Antoine then reported that, at August 31, 2015, the MERF portfolio had a market value of \$997 million and had generated a negative 2.2% net of fees return for the month, which outperformed the benchmark return of negative 3.3%, by 110 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a negative 6.6% return for the month, outperforming the benchmark return of negative 6.8%, by 20 basis points. He also reported that the MERF's international developed equities outperformed for the month, while emerging equities underperformed its benchmark.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a negative 1.0% net return for the month, lagging the custom benchmark return of negative 0.8%, by 20 basis points. He noted that the MERF's global bond portfolio did best for the month, while inflation linked and high yield bonds outperformed despite negative absolute returns. Discussion ensued.

With regard to alternative investments, Mr. Antoine noted that the MERF's private equity, real estate and private debt portfolio all exceeded their respective benchmarks for the month.

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

Secretary Cloud voiced his opinion on the negative impact the investment markets were having on the MERF's overall portfolio and noted that Kristin Finney Cooke, Senior Consultant from NEPC, the MERF's general consultant, would address these concerns as part of her report on the MERF's quarterly performance. Discussion ensued.

The Commission accepted the report for advice.

III. NEPC - MERF Quarterly Performance

Chairman Stevens introduced the item and asked NEPC to speak to the issue. Ms. Finney-Cooke discussed the quarter ending June 30, 2015 performance analysis. She provided a brief summary of what drove the capital markets for the first two quarters. Ms. Finney-Cooke explained that the US equities faced headwinds, but without major economic concerns, NEPC was advising clients to be patient in the face of evolving opportunities. Ms. Finney-Cooke's market review focused on the poor performance of international markets highlighting those that had a significant impact such as Greece and China.

Ms. Finney-Cooke then highlighted that the MERF's portfolio returned 0.8% for the quarter ending June 30, 2015 and 2.10% for calendar 2014. She provided peer rankings based on the Investor Force Public DB Gross Median universe, noting that the MERF ranked in the 10th percentile for the quarter ending June 30, 2015 and in the 74th percentile for calendar year 2014. She attributed these rankings to the MERF's low risk approach noting its lower allocation to equities relative to its peer group. She also noted that active management positively affected performance in the last quarter as the MERF's long/gov't credit and private equity manages outperformed their benchmarks. Over longer-term periods, she highlighted the fact that the MERF had exceeded its actuarially assumed rate of return with low risk and low volatility of returns. Discussion ensued.

The Commission accepted the report for advice.

IV. MERF Update: Rebalancing Progress

Chairman Stevens introduced the item. Secretary Cloud asked Gary Draghi, Director of Investments, to report to the Commission. Mr. Draghi noted that the MERF executed a significant portfolio rebalancing toward its recently revised asset allocation targets over the summer. As part of this process, roughly \$80 million was reallocated from equities and fixed income. Of this total, \$45 million was used to fund the MERF's new unconstrained fixed income mandate. The remaining funds, he noted, were used to increase the MERF's asset allocation and liquidity funds. Mr. Draghi concluded by reviewing the MERF's updated investment allocation relative to its target allocation noting that all assets classes were within range with the exception of cash, which was increased in response to heightened market volatility; real assets, which will fund according to a long term pacing schedule; and hedge funds, which are below target for tactical reasons. Discussion ensued.

The Commission accepted the report for advice.

V. Real Assets

Proposed Real Assets Guidelines

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to speak to the issue. Mr. Draghi gave a brief overview of the real assets guidelines stating that they were modeled on those currently in place for the MERF's other private investment asset classes. He then noted that the guidelines stated that the MERF would seek to build a diversified and mature real assets program featuring appropriate risk controls. Accordingly, the MERF's real assets portfolio would be diversified by economic sectors, investment style, vintage year and geographic location. Discussion ensued.

Mr. Draghi stated that the MERF, as it had done in the past with its more complex asset classes, would outsource the oversight and management of its private real assets program to its general consultant, noting this would not limit the ability of the MERF to perform initial and ongoing due diligence as it deems appropriate.

Mr. Draghi continued stating that the Pension Commission, Treasurer and investment staff would review all proposed investments and may participate in monitoring activities. Discussion ensued.

A motion was made, seconded and unanimously adopted to adopt the real assets guidelines as presented.

Real Assets Investment Pacing Plan

Ms. Finney-Cooke began by recapping the MERF's recent adoption of a 3% allocation to the private real assets asset class. She then reviewed the investment pacing plan that NEPC recommended for this allocation. Ms. Finney-Cooke highlighted the fact that the plan was developed with consideration for the MERF's overall liquidity and was intended to achieve vintage year diversification and a level of flexibility necessary to facilitate opportunistic investing. With regard to the actual funding of investments, she noted that, based on historical closed-end fund drawdown schedules, NEPC recommended that the MERF slightly over-commitment to real assets at a rate of 1.4 times the target allocation. She stated that this would imply a total real assets commitment target of approximately \$42 million. Ms. Finney-Cooke then reviewed the projected annual commitment and funding assumptions noting that the plan allowed for flexibility to react to market conditions and attractive manager opportunities. Discussion ensued.

The Commission accepted the report for advice.

VI. Private Equity Due Diligence: Ares Corporate Opportunities Fund V

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to report to the Commission. Mr. Draghi referred to a summary recommendation from Pension Consulting Alliance ("PCA"), the MERF's private equity consultant, and a related recommendation from the Secretary to authorize PCA to perform Phase II due diligence on Ares Corporate Opportunity Fund V, L.P. He noted that staff supported the Secretary's recommendation.

Mr. Draghi explained that this would be a re-up commitment as the MERF has invested in the four prior Ares funds. He reported that these investments have performed very well with a combined current market value of just over \$14 million and net returns ranging from 8% to 23%.

Mr. Draghi closed by adding that there were no additional fees for the Phase II due diligence. Discussion ensued.

A motion was made, seconded and unanimously adopted to authorize the Secretary to instruct Pension Consulting Alliance to perform Phase II Due Diligence on Ares Corporate Opportunities Fund V, L.P.

VII. Proposed Schedule of MERF's Investment Managers Annual Performance Review Meeting Dates for FY 2015-2016

Chairman Stevens introduced the item. Secretary Cloud provided the Commission with a proposed schedule of annual performance review meetings with the MERF's investment managers for FY 2015-2016. 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 that, as previously reported, he had considered asking a private management company to maintain the MERF's property at 36 Edward Street property. He then related his belief that the City of Hartford's public works department ("DPW") should maintain the property since the MERF is an instrumentality of the City. He continued noting that he had directed staff to contact DPW to arrange a meeting in the coming weeks to attempt to resolve this matter. Discussion ensued.

The Commission accepted the report for advice.

In closing, Treasurer Cloud stated that there was no further 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: October 15, 2015
Subject: Status of MERF Portfolio as of September 30, 2015

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



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *ame*
Adam M. Cloud, Secretary
Date: October 15, 2015
Subject: Pension Consulting Alliance Update

- Private Equity Performance Summary
- Ares Corporate Opportunities Fund V, L.P Phase II Due Diligence Report
- Ares Corporate Opportunities Fund V, L.P. Recommendation

Attached for your review is a presentation booklet prepared by Pension Consulting Alliance ("PCA"), the MERF's private equity consultant, containing the Private Equity Performance through June 30, 2015 for discussion at our meeting on Friday.

In addition, PCA will present its Ares Corporate Opportunities Fund V ("ACOF V") Phase II Due Diligence report and a recommendation to commit to the ACOF V. PCA's representative will attend the Pension Commission meeting on October 23, 2015 to discuss this report with you and receive the benefit of your thinking.

CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

TO: Pension Commission

FROM: 
Adam M. Cloud, Secretary

DATE: October 16, 2015

SUBJECT: **Consideration of Recommendation Regarding Investment in Ares Corporate Opportunities Fund V, L.P.**

Attached please find the Phase II due diligence report from Pension Consulting Alliance, Inc. ("PCA"), the MERF's private equity consultant, on Ares Corporate Opportunities Fund V, L.P. ("ACOF V" or the "Fund"). PCA recommends that the MERF commit to invest up to \$10 million in the Fund.

Ares Management ("Ares"), the General Partner of ACOF V, is a private equity firm headquartered in Los Angeles, California. ACOF V is Ares' fifth institutional fund. Consistent with past practice, ACOF V will target opportunistic investments in under-capitalized middle-market companies. The ACOF V offering represents an opportunity for the MERF to make a re-up commitment to one of its more successful general partners. As you are aware, the MERF has invested in all four prior Ares Corporate Opportunities Funds and that they have generated strong results.

Based on our review of the work of PCA and the MERF's past success with Ares, both staff and I recommend an investment of \$8 million (the same amount that the MERF committed to Ares' prior fund) to ACOF V. I request that you formally approve this recommendation, subject to staff and MERF counsel finalizing due diligence on the business and legal terms of the ACOF IV partnership agreement, at next week's meeting.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *amc*
Adam M. Cloud, Secretary
Date: October 15, 2015
Subject: **Other Business**