

City of Hartford Pension Commission
License & Inspection Conference Room
260 Constitution Plaza
Hartford, Connecticut
Thursday, March 24, 2016
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

I. Review of Meeting Minutes

- Minutes of January 29, 2016 and February 26, 2016

II. Status of the MERF Portfolio

- Inventory of Assets as of January 31, 2016
- MERF's Overall Performance

Status of the MERF Portfolio

- Inventory of Assets as of February 29, 2016
- MERF's Overall Performance

III. General Investment Consultant

- PIMCO Long Duration Fixed Income Guidelines
- Emerging Markets Debt Strategy Recommendation
- MERF Liquidity Study

IV. Report on Annual Performance Review Meetings

- Brown Brothers Harriman
- First Eagle Investment Management

V. Other Business

**City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, January 29, 2016
9:00 a.m.**

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Gene Goldman, Commissioner; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

MEMBERS EXCUSED: Frank Lord, Commissioner; Nicholas Trigila, Employee Representative;

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; Terry Williams, Senior Administrative Assistant; Tad Fergusson, Managing Director, Pension Consulting Alliance, the MERF's private equity consultant

I. Review of Minutes as of December 18, 2015

Chairman Stevens introduced the item and asked for questions, comments or corrections. Gary Draghi, the MERF's director of investments, stated that Mr. Fergusson's title as listed in "OTHERS PRESENT" was incorrect and should be listed as "Managing Director".

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

II. Status of the MERF Portfolio as of December 31, 2015

Chairman Stevens introduced the item and asked the Investment Unit to report. P. Wayne Moore, the MERF's Assistant Director of Investments, reported that, at December 31, 2015, the MERF portfolio had a market value of \$978 million and had generated a negative 1.1% net of fees return for the month, which outperformed the benchmark return of negative 1.2%, by 10 basis points.

Mr. Moore then reported that the MERF's equity portfolio posted a negative 1.8% return for the month, matching the benchmark return. He also reported that the MERF's international developed and emerging markets equities both outperformed for the month, while domestic equities underperformed its benchmark.

Mr. Moore went on to report that the MERF's fixed income portfolio posted a negative 1.1% net return for the month, also matching its custom benchmark return. Discussion ensued.

With regard to alternative investments, Mr. Moore noted that the MERF's private equity portfolio outperformed its benchmark for the month, along with the private debt portfolio while the real estate and global tactical allocation portfolios underperformed.

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

The Commission accepted the report for advice.

III. Private Equity Consultant

2016 Private Equity Investment Plan

Chairman Stevens introduced the item. Secretary Cloud asked the representative from Pension Consulting Alliance ("PCA") to report to the Commission. Tad Fergusson, Managing Director, reported that the MERF's private equity investment program currently represents 8.1% of the MERF's total portfolio, above the 5% target weight. He noted that the MERF's portfolio has \$146.5 million of commitments across 18 partnerships and a cash flow adjusted market value of \$79.2 million as of December 31, 2015.

Mr. Fergusson then reported that the program's overweight position has been maintained over the past several years as other asset classes were funded. He added that, over time, the MERF has consistently committed \$5 million to \$10 million per private equity opportunity and has successfully diversified across vintage years. Mr. Fergusson then stated that, in order for the portfolio to continue to progress towards its 5% target

weighting, PCA recommends targeting \$10 million per year of commitments (opportunistically up to \$15 million in the event of an attractive opportunity set) across one to three partnerships. Mr. Fergusson added that this pacing schedule is designed to maintain diversification of portfolio commitments while controlling the number of partnerships. Lastly, Mr. Fergusson noted that the MERF should continue to review its pacing plans on at least an annual basis, incorporating updated market information into the process. Discussion ensued.

The Commission accepted the report for advice.

Vista Equity Partners Fund VI, L.P. Recommendation

Chairman Stevens introduced the item and stated that executive session would be required for the purpose of discussing commercial or financial information given to the MERF in confidence, and not required by statute.

A motion was made, seconded and adopted to enter into executive session.

A motion was made, seconded and adopted to exit executive session.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit the MERF to invest up to \$8 million in Vista Equity Partners Fund VI, L.P., contingent on the completion of successful contract negotiations.

IV. Real Assets – Energy Recommendation

Chairman Stevens introduced the item and stated that executive session would be required for the purpose of discussing commercial or financial information given to the MERF in confidence, and not required by statute.

A motion was made, seconded and adopted to enter into executive session.

A motion was made, seconded and adopted to exit executive session.

A motion was made, seconded and adopted to authorize the Secretary to execute the necessary documents to commit the MERF to invest up to \$10 million in MTP Energy Opportunities Fund II, LLC and \$5 million in Riverstone Credit Partners, LP, contingent on the completion of successful contract negotiations.

V. Report on Annual Performance Review Meetings:

- Atlanta Capital Management
- Eagle Capital Management
- Prudential Investment Management
- SouthernSun Asset 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.

VI. Other Business

Chairman Stevens introduced the item. Secretary Cloud stated that he and staff had received some communication from Hartford Investment Management Company ("HIMCO"), the MERF's core plus fixed income manager, regarding its intention to exit the institutional asset management business. He noted that HIMCO had expressed its desire to continue to manage the MERF's portfolio, given its connection to the City and its long-standing tenure as a manager of MERF assets. Secretary Cloud stated that he has asked staff and NEPC to investigate potential options for the MERF based on HIMCO's notification, to be reviewed at a later meeting with the Commission. Discussion ensued.

The Commission accepted the report 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 *AMC*
Date: March 18, 2016
Subject: Review of Minutes from the Meetings of January 29 and February 26, 2016

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, January 29, 2016 and Friday, February 26, 2016.

**City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, February 26, 2016
9:00 a.m.**

MINUTES

INVESTMENT PROGRAM

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord, Commissioner; Adam M. Cloud, Secretary and Carmen I. Sierra, Assistant Secretary

MEMBERS EXCUSED: Gene Goldman, Commissioner; Nicholas Trigila, Employee Representative

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, Assistant Corp. Council; Terry Williams, Senior Administrative Assistant; Kristin Finney-Cooke and William Forde, both from NEPC

I. Review of Minutes as of January 29, 2015

Chairman Stevens introduced the item and asked that the item be tabled until the Commission's March meeting.

A motion was made, seconded and adopted to table the acceptance of the minutes until the next Pension Commission meeting.

II. Status of the MERF Portfolio as of January 31, 2016

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, noted that, BNY Mellon, the MERF's analytical provider, was not able to provide a final performance report for the month due to a problem relating to the re-allocation of the MERF's asset allocation account and, accordingly, staff was unable to produce its standard monthly written report. He stated that, once finalized, this report would be emailed to the Commission.

Mr. Antoine continued and reported that, at January 31, 2016, based on preliminary information provided by BNY Mellon, the MERF portfolio had a market value of \$950.4 million and had generated a negative 2.3% net of fees return for the month, which outperformed the benchmark return of negative 2.8%, by 50 basis points.

Mr. Antoine then reported that the MERF's total equity portfolio posted a negative 5.4% net of fees return for the month, outperforming the benchmark return of negative 6.4% , by 100 basis points.

Mr. Antoine went on to report that the MERF's total fixed income portfolio posted a negative 0.1% net return for the month, lagging its custom benchmark return of a positive 0.7%. Discussion ensued.

The Commission accepted the report for advice.

III. General Consultant

Quarterly Total Plan Performance for Quarter End 12/31/2015

Chairman Stevens introduced the item and asked the representative from NEPC to report. Kristin Finney-Cooke provided the Commission with a high level review of the MERF's fourth-quarter 2015 investment performance. Specifically, she reported that the MERF gained 2.1% for the quarter, which ranked in the 81st percentile of the IF Public Defined Benefit Fund Universe. Ms. Finney-Cooke stated that, despite the positive result, the MERF's risk averse positioning, evidenced by its lower than average U.S. equity allocation, contributed to low peer group relative performance for the quarter. She then highlighted the fact that the MERF outperformed its custom benchmark noting that, relative to this benchmark, the MERF featured an overweight to domestic equities which was additive to relative performance as this was one of the strongest performing asset classes for the quarter. Ms. Finney-Cooke also noted that active management detracted from performance in the quarter and that the MERF's private equity funds struggled to keep pace with the strong public equity market returns against which they are benchmarked. She then stated that a more detailed analysis on the MERF's performance

and on individual MERF managers' performance could be found in the quarterly booklet. Discussion ensued.

The Commission accepted the report for advice.

Real Estate and Private Debt Quarterly Reports Quarter Ended 9/30/15

Ms. Finney-Cooke presented the third quarter real estate and private debt reports for 2015 and asked her colleague William Forde to report. Mr. Forde noted that both programs, despite not being fully mature, are cash flow positive with strong returns since inception. Mr. Forde also noted that, while the real estate program currently consists predominantly of core focused real estate funds, the impact of the MERF's more aggressive opportunistic and value add investments would become more evident over time. Discussion ensued.

The Commission accepted the report for advice.

NEPC Asset Class Assumptions and Actions For Clients

Ms. Finney-Cooke then presented NEPC's annual Asset Class Assumptions and Actions for Clients. She touched on the MERF's risk/return expectations using NEPC's recently updated asset class assumptions and highlighted that both the 5 to 7 Year and 30 year return expectations were below the MERF's assumed rate of return.

In response to a question from Secretary Cloud regarding the MERF's liquidity needs, Ms. Finney-Cooke responded that NEPC would develop and present a liquidity study in the near future. In addition, the group proposed that NEPC move forward with an asset liability study in order to provide a detailed look at the MERF's liquidity profile under a variety of future scenarios. Discussion ensued.

The Commission accepted the report for advice.

IV. Other Business

Chairman Stevens introduced the item. Secretary Cloud informed everyone that he, along with deceased former Treasurer Kathleen Palm Devine's daughter, would be holding a memorial service for the late former Treasurer on March 16, 2016 at The Artist's Collective in Hartford. He encouraged staff and others to attend and pay their respects to former Treasurer Palm Devine. Discussion ensued.

Secretary Cloud then informed the Commission that he has been tracking certain economically-targeted investment opportunities and was considering the potential merits of such opportunities along with procedures and structures that could be used to implement them. Discussion ensued.

The Commission accepted the report for advice.

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

ATTEST: 
Adam M. Cloud, Secretary