

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, April 29, 2016
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. **Review of Meeting Minutes**
 - **Minutes of March 24, 2016**

- II. **Status of the MERF Portfolio**
 - **Inventory of Assets as of March 31, 2016**
 - **MERF's Overall Performance**

- III. **General Consultant**
 - **Quarter ended 3.31.2016 Performance**
 - **Large cap growth search review**
 - **Work Plan**

- IV. **Batterson Park**

- V. **Deferred Compensation Plan Recommendations**

- VI. **Other Business**



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: April 22, 2016
Subject: Review of Minutes from the Meetings of March 24, 2016

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, March 24, 2016.

City of Hartford Pension Commission
License & Inspections Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, March 24, 2016
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; Donna Parker, Plan Administrator and Rebecca Crowley, Assistant Plan Administrator

STAFF EXCUSED: J. Sean Antoine, Principal Administrative Analyst

OTHERS PRESENT: Luke Bronin, Mayor; 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, 2016

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 as of February 26, 2016

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 29, 2016

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 February 29, 2016, the MERF portfolio had a market value of \$948 million and had generated a positive 0.1% net of fees return for the month, which lagged the benchmark return of positive 0.2%, by 10 basis points.

Mr. Moore then reported that the MERF's equity portfolio posted a flat return for the month, outperforming the benchmark return of negative 0.5%, by 50 basis points. He also reported that the MERF's international developed and emerging markets equities portfolios both posted positive absolute returns for the month, while domestic equities underperformed its benchmark.

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

With regard to alternative investments, Mr. Moore noted that the MERF's private real estate and private debt portfolios also posted strong absolute returns that exceeded their benchmarks, while private equity and hedge fund unperformed versus their benchmarks.

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. General Investment Consultant

PIMCO Long Duration Fixed Income Guidelines

Chairman Stevens introduced the item. Secretary Cloud asked Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission. Ms. Finney-Cooke began by noting that in June of 2013, PIMCO began the implementation of an overlay with the goal of shortening the duration¹ of the portfolio from roughly 14 to 7 years, in

response to investor sentiment that suggested the likelihood of a potential rise in rates. Additionally, the shortening of duration was designed to reduce volatility and downside risk resulting from any such rise in rates.

Ms. Finney-Cooke stated that, since the implementation of the overlay, the MERF, consistent with NEPC's advice, has trimmed its allocation to long duration fixed income from 10% to 6.5%. She noted that, in recent periods, performance of the overlay has been challenged in large part due to rates remaining low and other factors.

Ms. Finney-Cook summarized that based on consultations with PIMCO and MERF staff, NEPC recommended the removal of the overlay on the PIMCO portfolio while retaining PIMCO to manage the MERF's Long Gov't/Credit portfolio. Ms. Finney-Cooke stated that NEPC remained supportive of PIMCO's continued management of the portfolio. She noted NEPC's confidence in PIMCO's current long duration fixed income investment team structure and senior management. She also cited PIMCO's demonstrated ability to add value over time and its reputation as a premier fixed income manager.

Lastly, Ms. Finney-Cooke reported that NEPC will work with Staff and PIMCO to implement investment guidelines that would allow for the removal of the overlay and to ensure the process is completed in the most prudent fashion. Discussion ensued.

A motion was made, seconded and unanimously adopted to remove the underlay on the PIMCO long duration fixed income portfolio pursuant to NEPC's 2015 Asset Allocation review and to implement the corresponding changes in the PIMCO investment guidelines.

Emerging Market Debt Strategy Recommendation

Chairman Stevens introduced the item. Secretary Cloud asked Ms. Finney-Cooke to report to the Commission. Ms. Finney-Cooke reported that the MERF's existing emerging market debt ("EMD") mandate is managed by Prudential and primarily focused on hard currency (e.g., debt instruments issued by emerging market countries but denominated in developed market currencies) securities. However, pursuant to the MERF's asset allocation review, NEPC recommended moving from a hard currency product to a blended (debt instruments issued in the currencies of the emerging market issuers as well as those issued in developed market currencies) product, thereby capturing the full EMD opportunity set of external sovereign and corporate debt issuances.

Ms. Finney-Cooke stated that given the MERF's existing relationship with Prudential, the Prudential team's emerging market expertise and the Prudential blended EMD product's favorable investment performance and relatively low fees, NEPC was supportive of

transitioning the existing MERF EMD portfolio to the blended mandate managed by Prudential. Discussion ensued.

In response to a question regarding the possibility of interviewing candidates on NEPC's Focused Placement List, Ms. Finney Cooke stated that Prudential's performance was comparable to that of the firms on the FPL. She then stated that implementing a blended approach with an existing manager would shorten the search process and allow the manager to be fully invested sooner, thereby enhancing the MERF's ability to take advantage of the current opportunity in this area. Discussion ensued

A motion was made, seconded and adopted to transfer the assets of the MERF's existing emerging markets debt portfolio to the Prudential emerging markets debt blended currency strategy.

MERF Liquidity Study

Chairman Stevens introduced the item. Secretary Cloud asked Ms. Finney-Cooke, to report to the Commission. Ms. Finney-Cooke described NEPC's current year study of the MERF's liquidity. She began by describing the process NEPC uses to evaluate the MERF's liquidity noting that base and stressed case scenarios were developed. For the base case, NEPC's five to seven year expected MERF investment return of 6.4% per year was used as were benefit payments of \$106 million per year (based on actuarial estimates) and private investment commitments and funding projections based on consultant estimates and industry standards. The stressed case scenarios, by contrast, utilized returns that ranged from zero to minus two standard deviations from the annual expected returns used in the base case. In addition, benefit payments were projected to be 10% higher, contributions 10% lower, and funding for private investments increased relative to base. She noted that the study also utilized a variety of scenarios relating to the level of contributions made to fund the MERF.

Moving on, Ms. Finney-Cooke described the MERF's current liquidity position as having over 77% of its assets available to be liquidated within a month with another 5% available within a year. Illiquid investments in the form of private equity, real estate, real assets and certain debt funds made up the balance of the MERF's allocation. She noted that under normal circumstances, this was deemed to represent adequate liquidity.

Describing the impact of funding on the MERF, Ms. Finney-Cooke noted that sustained low funding of the MERF at a \$20 million annual level while achieving the 7.75% assumed rate of return resulted in the MERF dropping below a 65% funded rate in 2018. However, the combination of sustained underfunding of \$20 million per year for five consecutive years and a stressed market environment (i.e. investment returns below the 7.75% assumed rate of return), she noted, could result in a decline in MERF assets to

roughly \$400 million by 2020. At that point, the percentage of illiquid assets could rise to roughly 55% of the MERF, leaving just over \$100 million of liquidity available to the MERF in 2021. Ms. Finney-Cooke noted that the MERF's allocation to private investments could and would be reduced in the event of any such decline in MERF funding but stated that a reduction in such investments would, in turn, reduce the MERF's expected returns and correspondingly increase the need for funding. Discussion ensued.

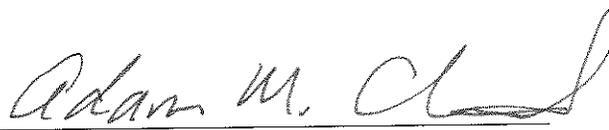
The Commission accepted the report for advice.

IV. Other Business

Chairman Stevens introduced the item. Secretary Cloud stated that there was no further business.

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

ATTEST:



Adam M. Cloud, Secretary