

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, June 24, 2016
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. Review of Minutes**
 - Meeting of May 27, 2016

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

- III. General Consultant**
 - MERF Hedge Fund Review

- IV. Report on Annual Performance Review Meetings**
 - Parametric Eaton Vance Trust Company
 - Walter Scott Investment Management
 - Wellington Management

- V. Other Business**



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
AMC
From: Adam M. Cloud, Secretary
Date: June 15, 2016
Subject: **Review of Minutes from the Meetings of May 27, 2016**

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, May 27, 2016.

**City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, May 27, 2016
9:00 a.m.**

MINUTES

INVESTMENT PROGRAM

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

MEMBERS EXCUSED: Peter Stevens, Chairman;

STAFF PRESENT: Gary B. Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst and Donna Parker, Plan Administrator

OTHERS PRESENT: Lisa Silvestri, Assistant Corp. Council; Kristin Finney-Cooke and William Forde, both from NEPC

I. Review of Minutes as of April, 2016

Acting Chairman Lord 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 April 30, 2016

Acting Chairman Lord introduced the item and asked the Investment Unit to report. P. Wayne Moore, the MERF's Assistant Director of Investments, reported that, at April 30, 2016, the MERF portfolio had a market value of \$991.3 million and had generated a positive 1.4% net of fees return for the month, outperforming the benchmark return of positive 1.3%, by 10 basis points.

Mr. Moore then reported that the MERF's equity portfolio posted a positive 1.8%, net of fees return for the month matching the benchmark return. He also reported that the MERF's international developed and emerging markets equities portfolios both posted positive relative returns for the month.

Mr. Moore went on to report that the MERF's fixed income portfolio posted a positive 1.5% net return for the month, lagging its custom benchmark return. Discussion ensued.

With regard to alternative investments, Mr. Moore noted that the MERF's real assets posted strong absolute returns, however, lagging its benchmark, while the other private asset classes had strong relative returns.

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

Real Estate Pacing Plan

Acting Chairman Lord introduced the item. Secretary Cloud asked Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission. Ms. Finney-Cooke presented the MERF's 2016 real estate pacing plan which outlined the existing structure of the real estate program along with the proposed commitment amount for the upcoming years. She also noted that NEPC recommends that the MERF commit \$3 million in 2016 to a value-add fund to further diversify and complement its program. In addition, Mrs. Finney-Cooke provided an overview of NEPC's general market thoughts related to real estate. Discussion Ensued.

Real Estate and Private Debt Quarterly Reports

Ms. Finney-Cooke presented the fourth quarter real estate and private debt reports for 2015 and asked her colleague William Forde to report to the Commission. Mr. Forde noted that both programs, despite not being fully mature, are trending towards being cash flow positive with fairly strong interim internal rate of returns. Mr. Forde also noted that within the Real Estate program, the MERF's portfolio predominately consists of core funds and NEPC will look to include more opportunistic and value add investments moving forward. Discussion ensued.

Large Cap Growth Search Interviews

Ms. Finney-Cooke reported that NEPC was coordinating dates with staff for the large cap growth candidates and that once the dates were final they would let the Treasurer and Commissioner know. Discussion ensued.

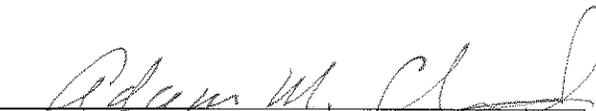
The Commission accepted the reports for advice.

IV. Other Business

Acting Chairman Lord introduced the item. Secretary Cloud reported that he was working with internal and outside legal counsel to come up with language regarding the Batterson Park transaction between the City and the MERF. Discussion ensued.

The Commission accepted the reports for advice.

There being no further business, Acting Chairman Lord adjourned the meeting.

ATTEST: 
Adam M. Cloud, Secretary



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *Amc*
Adam M. Cloud, Secretary
Date: June 16, 2016
Subject: Status of MERF Portfolio as of May 31, 2016

The portfolio report for the month of May 2016 will be distributed at the meeting.



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: June 16, 2016
Subject: NEPC Update — MERF Hedge Fund Review

NEPC representatives will present the enclosed MERF hedge fund review materials that are enclosed for your review.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *Auc*
Adam M. Cloud, Secretary
Date: June 15, 2016
Subject: **Report on Annual Performance Review Meetings**

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

- **Parametric Eaton Vance Trust Company**
- **Walter Scott Global Investment Management**
- **Wellington Management**

**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, Assistant Director of Investments *PWM by GBD*
J. Sean Antoine, Principal Administrative Analyst *JSA by GBD*

Date: June 10, 2016

Re: Report on Annual Performance Review Meeting with Parametric

The Pension Commission held an annual performance review meeting with Parametric Portfolio Associates LLC ("Parametric"), a subsidiary of Eaton Vance Corp., on Thursday, June 2, 2016. Parametric manages an emerging markets equity mandate for the MERF.

Mr. Jason Chalmers, Parametric's Director of Client Relations, opened the meeting by giving a brief introduction to the firm. He thanked the Commission and Treasurer for their continued business and confidence in the firm. He then gave an overview of the firm, noting that the Eaton Vance Trust Company owned Parametric. Mr. Chalmers reported that the firm had replaced its Chief Investment Officer, who had retired as planned, since the MERF's last annual meeting. There were no other significant changes to the team responsible for the MERF's portfolio. Mr. Chalmers then turned the meeting over to his colleague Greg Johnson, Director of Institutional Portfolio Management.

Mr. Johnson provided an overview of Parametric's investment strategy, explaining that the process is quantitative and based on rules-based methods and proprietary technology. Mr. Johnson stated that Parametric determines an initial group of model countries, assigning each country to one of four tiers, with each tier determined based upon its size and liquidity characteristics. Mr. Johnson stated that within each tier, countries are equally weighted such that every country in Tier 1, for example, has the same weight in Parametric's model portfolio. He stated that the larger, more liquid emerging market countries, such as Brazil and China, were assigned to Tier 1 and carried a higher percentage of the overall allocation while the smaller, less developed markets, such as Vietnam and Morocco, were assigned to lower tiers and carried a lower exposure in the portfolio. Discussion ensued.

Mr. Johnson then reviewed the performance of the MERF's portfolio, stating that while emerging markets had rallied of late, the asset class' one year returns at April 30 have been challenging with the MSCI Emerging Market index returning -17.9%. He also noted that, for this time period, the MERF's portfolio had fared

relatively well as it returned -12.5%, net of fees, outperforming the index by 5.4%. Mr. Johnson attributed the outperformance to the portfolio's underweight to China and over weights to Hungary and Turkey. Discussion ensued.

Mr. Johnson then cited the portfolio's goal of outperforming the broad emerging markets index with lower volatility stating that Parametric had been successful in doing so over time.

In regards to a question regarding Parametric's sell discipline; Mr. Johnson described the rebalancing processes utilized to implement the firm's rules-based strategies and the related triggers used to determine the appropriate timing and extent of trading. He then noted the portfolio's very low turnover,

Mr. Johnson closed by discussing the product's benchmark. He noted the MSCI Emerging Markets Index changes over time as countries are added and removed. He then cited the potential expansion of China's level of inclusion as well as Saudi Arabia's.

Mr. Chalmers then thanked the Commission for its continued business and confidence in Parametric.

**CITY TREASURER'S OFFICE
MEMORANDUM**

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

From: Gary B. Draghi, Director of Investments *AGD*
P. Wayne Moore, Asst. Director of Investments *PWM by SBD*
J. Sean Antoine, Principal Administrative Analyst *JSA by SBD*

Date: June 13, 2016

Re: Report on Annual Performance Review Meeting with Walter Scott
Global Investment Management

The Pension Commission held an annual performance review with Walter Scott Global Investment Management ("Walter Scott"), an international growth equities manager for the MERF, on Thursday March 17, 2016. Present from Walter Scott was Margaret Foley, Relationship Manager.

Ms. Foley began the meeting by thanking the Commission and Treasurer for their continued business and confidence in Walter Scott. She then gave a brief overview of the firm, noting that the firm has experienced very low investment professional turnover and has not changed its investment process or philosophy since 1993. She also noted that there had been no changes to the firm's ownership structure since the last annual review.

In response to a question regarding Walter Scott's investment process, Ms. Foley reported that its fundamental, bottom-up investment approach combines detailed financial research with business and industry analysis. She stated that the focus was on finding profitable companies with strong balance sheets, low debt, sustainable wealth generation and the ability to grow earnings over the long term. Lastly, she stated that the firm has applied this philosophy and process successfully throughout its existence. Discussion ensued.

In response to a question regarding the capitalization size of portfolio, Ms. Foley stated that Walter Scott tends to buy larger capitalization companies partly because of their enhanced capabilities.

Ms. Foley then discussed investment performance. She stated that the MERF portfolio returned -6.1% net of fees, outperforming the MSCI EAFE Index -8.4%, by 200 basis points for the one year period ending January 31, 2016. She stated that the outperformance could be attributed to security selection within the healthcare, technology and consumer discretionary sectors.

In response to a question regarding the affect of currency on the portfolio, Ms. Foley stated that while Walter Scott has the ability to hedge and has hedged currency in the past, it generally does not do so, noting that Walter Scott tends to be a long term shareholder and that the impact of currency movements after adjusting for the costs of hedging has been a wash within their clients' portfolios over time. Discussion ensued.

Ms. Foley then reviewed the portfolio's holdings and trends affecting its composition. She noted that banks and financial exposure had been reduced, energy was being reconstituted and was poised for additions and that emerging market positions were slightly in excess of 6%. Ms. Foley explained these positions and then gave a brief outlook on the global economy. She stated that Walter Scott continues to see improving fundamentals within the global economy, with growth coming from the emerging markets sectors.

Ms. Foley concluded by again thanking the Commission for its continued business and confidence in Walter Scott.

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

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

From: Gary B. Draghi, Director of Investments *ABD*
P. Wayne Moore, Assistant Director of Investments *PWM 6, 9BD*
J. Sean Antoine, Principal Administrative Analyst *JSA 5, 9BD*

Date: June 13, 2016

Re: Report on Annual Performance Review Meeting with Wellington Management Company, LLP

The Pension Commission held its annual performance review meeting with Wellington Management Company, LLP ("Wellington"), a global tactical asset allocation manager for the MERF, on Thursday, May 12, 2016.

Ms. Alice Fong, Wellington's Relationship Manager, opened by thanking the Commission and Treasurer for their business and the opportunity to manage the MERF assets. She then gave a brief introduction of the firm noting its partnership structure, business and investment models, culture and the firm's advantages relative to other managers. She emphasized the continuity embedded in the firm's process and noted that, since the last review, that there were no changes in key investment personnel on the global tactical asset allocation team that manages the MERF's assets. Ms. Fong also noted that the firm is owned by 162 active partners and that Wellington is aligned with their clients by investing their own asset alongside them.

In response to a question regarding competitive advantage, Ms. Fong answered that Wellington has a very strong proprietary research platform, with dedicated resources. She added that having multiple offices locations across the world provided better global diversity and inclusion versus its peers. She then introduced her colleague Sal Henry, Investment Director, to discuss portfolio performance.

Mr. Henry reviewed the performance of the MERF's global tactical asset allocation portfolio. He stated that for calendar 2015 the portfolio returned 1.3%, gross of fees, outperforming the benchmark by 210 basis points. He noted that Wellington was starting to see signs in the market environment that would provide enhanced returns to Wellington's strategy going forward.

Treasurer Cloud asked when the portfolio's performance turn around would occur. Mr. Henry stated that the prior three years had been among the worst experienced by this product from a benchmark relative perspective but that

market conditions were shifting in ways that were favorable and that gave the team strong conviction that its portfolio positioning and investment process would succeed in outperforming the benchmark in the future.

Mr. Henry then discussed various aspects of Wellington's investment process and philosophy. He stated that the portfolio's opportunistic investment approach seeks to outperform core markets by concentrating exposure in long-term themes characterized by the intersection of investor apathy and meaningful structural change. As a result, the portfolio tends to serve as an effective diversifier that emphasizes dislocated non-core areas that are underrepresented in most traditional investor portfolios.

Gary Draghi, the MERF's Director of Investments, asked how a theme gets out of the portfolio. Mr. Henry stated that there are a few ways this happens; when the theme hits its valuation, when the theme is no longer in favor and/or when a better idea replaces it. Discussion ensued.

Mr. Henry then provided an outlook on the global economy. He reported that Wellington continues to believe that exposures to non-core international equity markets offer better risk reward potential in the years ahead given their significantly lower valuations.

Ms. Fong closed by thanking the Commission for its continued business.



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: June 15, 2016
Subject: Other Business