

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

AGENDA

INVESTMENT PROGRAM

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

- II. Status of the MERF Portfolio**
 - Inventory of Assets as of June 30, 2016
 - MERF's Overall Performance

- III. General Consultant:**
 - Draft Asset/Liability Study and Project Update
 - Large Cap Growth Manager Search Review

- IV. Private Equity Consultant**
 - Semi-annual Performance Report

- V. Report on Annual Performance Review Meetings**
 - Brown Brothers Harriman
 - Pacific Investment Management Company
 - Mondrian Investment Partners
 - Shenkman
 - BlackRock

- VI. Other Business**



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: July 18, 2016
Subject: **Review of Minutes from the Meetings of June 24, 2016**

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

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Friday, June 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; Donna Parker, Plan Administrator and Wendy Bond, Assistant Plan Administrator

STAFF EXCUSED: P. Wayne Moore, Assistant Director of Investments; J. Sean Antoine, Principal Administrative Analyst

OTHERS PRESENT: Lisa Silvestri, Assistant Corp. Council; Melissa McCaw, Management and Budget Director City of Hartford; George Zoltowski; Management Analyst; Kristin Finney-Cooke, William Forde and Salifa Joseph, from NEPC and Chelsea Mott, Accountant

I. Review of Minutes as of May 27, 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 May 31, 2016

Chairman Stevens introduced the item and asked the Investment Unit to report. Gary B. Draghi, the MERF's Director of Investments, reported that, at May 31, 2016, the MERF portfolio had a market value that approximated \$990 million and had generated a positive 0.2% net of fees return for the month, outperforming the benchmark return of positive 0.1%, by 10 basis points.

Mr. Draghi 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 posted negative returns but beat their respective benchmark returns for the month.

Mr. Draghi went on to report that the MERF's fixed income portfolio posted a negative 0.6% net return for the month, lagging its custom benchmark return by 40 basis points. Discussion ensued.

With regard to alternative investments, Mr. Draghi noted that the MERF's real estate, hedge fund and private debt portfolios posted strong absolute returns, outperforming their benchmarks, while private equity and real assets underperformed their respective benchmarks. Discussion ensued.

Mr. Draghi then reviewed the MERF's asset allocation positioning relative to its targets and target ranges, stating that most of the asset classes were within asset ranges but noting that cash, at 4.5% exceeded its target. Mr. Draghi explained that this was a tactical move made in anticipation of volatility from the summer events (U.S. Federal Reserve meetings and the British referendum on European Union membership or "Brexit"). He continued stating that staff, in conjunction with the Secretary, decided to raise sufficient cash to fund benefit payments and private investments in order to avoid the need to sell assets in periods of volatility that might occur during the remainder of the summer.

Treasurer Cloud stated his concerns over the latest news regarding the leave victory in the Brexit vote in the United Kingdom ("UK"), and the Federal Reserve news and the resulting increase in financial risk and market volatility. He highlighted the MERF's relatively limited direct exposure to investments in the UK but noted that financial markets would likely suffer over the foreseeable future as a result of this vote. In this regard, he stressed the benefits of the MERF's long term, risk aware perspective on investing stating that this approach along with the MERF's allocation to hedge funds and other alternative investments would cushion the blow from such events. Mr. Draghi added that the MERF had built a low volatility portfolio and that certain managers had significant holdings of cash and gold, which might now pay off given the heightened level of global uncertainty.

Will Forde of NEPC then discussed NEPC's review of the broader capital markets in May and June 2016. He stated that the headwinds of the past few years have now turned to tailwinds as emerging markets and commodities have rebounded sharply. Mr. Forde also touched on Brexit noting that NEPC viewed the vote to leave the European Union as another challenge for markets not only in Europe but globally. He noted, however, that it could present a buying opportunity for investors over the long term. Discussion ensued.

The Commission accepted the report for advice.

III. General Investment Consultant – MERF Hedge Fund Review

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 presented a summary of the role of hedge funds within a portfolio and the risks and benefits of a hedge fund allocation. She then asked her colleague Mr. Forde to report. Mr. Forde touched on the downside protection of hedge funds and their tendency to be uncorrelated to other parts of a diversified investment portfolio. He then discussed the challenges that hedge funds have faced over the years since the global financial crisis noting that hedge funds had not performed well in contrast to their long-term track record. NEPC attributed this underperformance to quantitative easing enacted by the Fed and other global central banks. Discussion ensued.

Ms. Finney-Cooke then specifically spoke about MERF's hedge fund of funds manager, Grosvenor. She described the strategy allocation of the Grosvenor fund and its investment style characterizing the MERF's portfolio as having a low volatility, downside protecting profile. She then contrasted the positioning of the MERF portfolio with that that NEPC was currently recommending. Ms. Finney-Cooke then stated that NEPC would follow up with potential asset allocation mixes as part of its upcoming asset liability study and that these mixes would include options featuring increases and decreases to MERF's current hedge fund allocation. She noted that once the size of the MERF's future allocation was determined, it would be appropriate to revisit the nature of how it should be invested. Discussion ensued.

The Commission accepted the reports for advice.

IV. Report on Annual Performance Review Meetings

Chairman Stevens introduced the item. Secretary Cloud stated that the review reports with Parametric Eaton Vance Trust Company, Walter Scott Investment Company and Wellington Asset Management were self-explanatory.

The Commission accepted the reports for advice.

V. Other Business

Chairman Stevens introduced the item. Secretary Cloud reported that due diligence relating to the potential Batterson Park transaction between the City and the MERF was moving forward, noting that he had retained legal counsel on behalf of the MERF and had scheduled a meeting with Farmington officials in this regard. Discussion ensued.

Mr. Draghi reported that PIMCO, a fixed income manager for the MERF, had recently announced layoffs and that staff discussions with PIMCO indicated that the individuals and capabilities relating to the MERF's account were not affected. He continued noting Landmark Partners, a private equity and real estate manager for the MERF, had announced a change in its ownership structure. Mr. Draghi stated that the MERF had been in touch with Landmark management and the MERF's consultants on this matter, noting that preliminary indications were that the change would not impact the management of existing MERF investments and that there were likely benefits from the proposed transaction. Discussion ensued.

The Commission accepted the reports for advice.

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

ATTEST: Adam M. Cloud
Adam M. Cloud, Secretary



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: July 18, 2016
Subject: Status of MERF Portfolio as of June 30, 2016

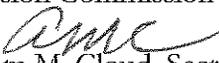
The portfolio report for the month of June 2016 will be distributed at the meeting.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: July 18, 2016
Subject: Update from the MERF's General Investment Consultant

NEPC representatives will attend the Pension Commission meeting on July 29, to discuss the draft asset/liability study and provide a project update. They will also discuss the MERF large cap growth manager search.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: 
Adam M. Cloud, Secretary

Date: July 18, 2016

Subject: **Private Equity Semi-Annual Performance Report with Presentation by Pension Consulting Alliance**

Attached for your review is a presentation booklet prepared by Pension Consulting Alliance ("PCA"), the MERF's private equity consultant, containing the MERF's semi-annual private equity performance for discussion at our meeting on Friday.

PCA's representative will attend the Pension Commission meeting on July 29, 2016 to present this report and receive the benefit of your thinking.



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: July 18, 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.

- **Brown Brothers Harriman**
- **Pacific Investment Management Company**
- **Mondrian Investment Partners**
- **Shenkman**
- **BlackRock**



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: July 18, 2016
Subject: **Other Business**