

City of Hartford Pension Commission
Development Services Conference Room, 4th Floor
250 Constitution Plaza
Hartford, Connecticut
Friday, October 28, 2016
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

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

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

- III. General Consultant:**
 - Asset/Liability study

- IV. Private Equity Consultant**
 - Private equity performance report
 - Private equity allocation target information

- V. Deferred Compensation Plan**
 - Fund Option recommendations

- VI. Other Business**



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: October 20, 2016
Subject: **Review of Minutes from the Meetings of September 27, 2016**

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

City of Hartford Pension Commission
City Conference Room
260 Constitution Plaza
Hartford, CT 06103
Tuesday, September 27, 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; J. Sean Antoine, Principal Administrative Analyst

OTHERS PRESENT: Lisa Silvestri, Assistant Corp. Council; Kristin Finney-Cooke, Senior Consultant, Phil Nelson, Director of Asset Allocation and William Forde, Consultant, from NEPC, the MERF's general consultant

I. Review of Minutes as of July 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.

II. Status of the MERF Portfolio as of July 31, 2016 and August 31, 2016

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, 2016, the MERF portfolio had a market value of \$1 billion and had generated a 2.4% net of fees return for the month, underperforming the benchmark return by 20 basis points. Mr. Antoine asked if there were any questions, there were none.

The Commission accepted the report for advice.

Mr. Antoine then reported that, at August 31, 2016, the MERF portfolio had a market value of \$1 billion and had generated a 0.6% net of fees return for the month, outperforming the benchmark return by 10 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a flat return for the month, underperforming the benchmark return of 0.5%, by 50 basis points. Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 0.60% net return for the month, lagging the custom benchmark return by 10 basis points. He noted that the MERF's fixed income portfolio exhibited positive absolute returns for the month, but that emerging markets debt and high yield both trailed their respective benchmarks. Discussion ensued.

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

Gary B. Draghi, the MERF's Director of Investments, reported that staff was in the final stages of funding the two managers hired to manage the MERF's large cap growth mandate and that he expected the new managers to be fully funded by month end. Discussion ensued.

The Commission accepted the report for advice

III. Update from the MERF's General Investment Consultant

Asset/Liability Study

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 introduced her colleague Phil Nelson, Director of Asset Allocation, to report to the Commission. Mr. Nelson gave a brief overview of the NEPC asset/liability study process and its methodology for developing the asset allocation options. He noted that NEPC's study was based on liability information provided by Hooker and Holcombe, the MERF's

actuary. He then stated that NEPC's outlook on asset returns were grounded in its expectation that interest rates will remain low, limiting return potential despite improvements in the U.S. economy and in global economic activity. Ms. Finney-Cooke then addressed the asset allocation scenarios that NEPC had developed for the MERF. She noted that they were similar in many respects to the MERF's existing policy targets but featured strategic differences that focused on limiting volatility, maximizing return and varying asset class line-ups. Discussion ensued.

In response to a question Mr. Nelson indicated that all return assumptions presented in the NEPC's asset liability study report were net of fees.

Commissioner Lord asked whether the proposed Batterson Park land parcel transfer from the City would be considered part of the real asset or real estate asset class. Ms. Finney-Cooke stated that purchased land would likely be considered real estate.

Secretary Cloud asked whether NEPC could present an allocation that could achieve the MERF's targeted rate of return of 7.75% over the intermediate (five to seven year) term. Mr. Nelson replied that such an allocation would feature significant risk and illiquidity. Secretary Cloud then asked NEPC to develop certain additional asset allocation mixes and investment return assumptions. He also expressed concerns about City contributions and their impact on MERF liquidity. Mr. Draghi then asked NEPC to incorporate a variety of cash flow scenarios. Ms. Finney-Cooke stated that NEPC would perform additional work, in conjunction with MERF staff, to address these requests. Discussion ensued.

The Commission accepted the reports for advice.

Second Quarter Performance Results for Real Estate and Private Debt

Will Forde, NEPC consultant provided NEPC's estimate of the MERF's overall performance for September noting that it was likely to be a positive month. In addition, he reviewed the quarterly reports for the MERF's real estate and private debt portfolios. Mr. Forde noted that, despite the relatively immature nature of both programs, significant gains had already been realized in terms of distributions back to the MERF and in terms of strong (in excess of 8% annually) performance. Discussion ensued.

The Commission accepted the reports for advice.

IV. Report on Annual Performance Review Meetings:

- Blackrock
- Brown Brothers Harriman
- Mondrian Investment Partners
- Shenkman

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 report for advice.

V. Consideration of Proposed Schedule of Annual Performance Review Meetings with Investment Managers for FY 2016-2017

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 2016-2017. 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

VI. Other Business

Secretary Cloud then gave an update on the Batterson Park transaction between the City and the MERF. He noted that he and MERF counsel has had several meetings with City officials and that they supported the transfer of land to the MERF in exchange for a \$5 million reduction in the City's pension contribution for the 2016-2017 fiscal year. He reported that there would be a public hearing on the matter in October, 2016. 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: Adam M. Cloud, Secretary *AMC*
Date: October 20, 2016
Subject: **Status of MERF Portfolio as of September 30, 2016**

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



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
AMC
From: Adam M. Cloud, Secretary
Date: October 20, 2016
Subject: Update from the MERF's General Consultant

NEPC representatives will attend the Pension Commission meeting on October 28, to discuss the following:

- Asset/Liability study results



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: October 20, 2016
Subject: **Private Equity Investment Plan With Presentation by Pension Consulting Alliance**

PCA's representative will attend the Pension Commission meeting on October 28, 2016 to discuss the following reports with you and receive the benefit of your thinking.

- **Private Equity Performance Report**
- **Private Equity Allocation Target Information**



CITY OF HARTFORD

OFFICE OF THE CITY TREASURER

ADAM M. CLOUD
CITY TREASURER

TO: Pension Commission
FROM: *AMC*
Adam M. Cloud, Secretary
DATE: October 13, 2016
SUBJECT: Deferred Compensation Plan Recommendations

Attached please find recommendations and supporting materials from Retirement Plan Advisors ("RPA"), The City of Hartford's Deferred Compensation Plan (the "Plan") investment consultant. Specifically, RPA recommends that the Plan take the following actions:

Category	Fund to be Replaced	Replacement
High Yield Fixed Income	Metropolitan West High Yield Bond M	MassMutual Premier High Yield Svc.
Large Cap Equity Blend	Hartford Capital Appreciation HLS IA	Hartford Core Equity I

The City's deferred compensation committee, at its October 13, 2016 meeting, approved both of these recommendations.

Consistent with the foregoing, I recommend that the Pension Commission authorize me to implement the proposed actions described above. I look forward to discussing this matter with you at our upcoming meeting.

1. Ten funds failed the investment returns performance test; six funds failed the Sharpe Ratio test. All funds are recommended to remain open, with the exception of those listed in section 3 below, and those previously approved by the City for deletion.

2. The following funds are recommended for watch:

a. The Lord Abbett Developing Growth A Fund was recommended for watch at the end of 1Q16. It fails the investment return peer rankings for the trailing 1-, 3-, and 5-year periods and the Sharpe Ratio test for both the trailing 3- and 5-year periods.

Recommendation: Maintain the Lord Abbett Developing Growth A Fund on watch.

b. The Invesco Growth and Income A Fund was recommended for watch at the end of 1Q16. It fails the investment return peer rankings for the trailing 1-, 3-, and 5-year periods and the Sharpe Ratio test for both the trailing 3- and 5-year periods.

Recommendation: Maintain the Invesco Growth and Income A Fund on watch.

3. The following funds are recommended for deletion:

a. The Metropolitan West High Yield Bond M Fund has been on watch since 1Q14. It fails the investment return peer rankings for the trailing 3- and 5-year periods and the Sharpe Ratio test for both the trailing 3- and 5-year periods.

Recommendation: Replace the Metropolitan West High Yield Bond M Fund with MassMutual Premier High Yield Svc.

b. The Hartford Capital Appreciation HLS IA Fund has been on watch since 3Q14. It fails the investment return peer rankings for the 1-, 3-, and 5-year periods and the Sharpe Ratio test for both the trailing 3- and 5-year periods.

Recommendation: Replace the Hartford Capital Appreciation HLS IA Fund with Hartford Core Equity I.

We will continue to monitor all funds on an ongoing basis and make recommendations as needed.

Retirement Plan Advisors' Investment Committee has reviewed your current Investment Policy Statement, and no changes are recommended.

Respectfully submitted,

Zachary Karas, Principal
Retirement Plan Advisors, LLC

Recommendations

City of Hartford as of 6/30/2016

High Yield Bond Recommendation

Proposed Fund Selection	Proposed Fund Name	Ticker	Minimum Investment	Rating	120-1 Expense Ratio	Assets	Category Peer Rankings										Returns					Risk-Adjusted Returns				
							1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year				
Metropolitan West High Yield Bond M	Metropolitan West High Yield Bond M	HWYTX	High Yield Bond	***	0.25	\$284,470.07	32	75	84	28	28%	0.80%	2.32%	3.89%	6.56%	65	81	0.53	0.02							
Recommendation	Barclays High Yield	BARFX	High Yield Bond	****	0.00		46	24	31	35	2,644%	0.18%	3.88%	5.19%	6.88%	7	5	1.09	1.21							
	Fidelity High Yield Service	FHYTX	High Yield Bond	****	0.00		41	4	1	1	7,044%	0.34%	4.95%	6.88%	7.98%	27	24	0.77	0.87							
	Fidelity Capital & Income	FCPIX	High Yield Bond	****	0.00		81	3	27	2	2,88%	-2.13%	5.14%	5.26%	7.70%	21	63	0.83	0.70							
Recommendation	Mutual Shares Premier High Yield Svc	DLVYX	High Yield Bond	****	0.00		14	4	1	15	6.89%	1.89%	4.93%	7.75%	8.92%	14	14	0.94	1.17							
	Mutual Shares Premier High Yield Svc	DLVYX	High Yield Bond	****	0.00		14	4	1	15	6.89%	1.89%	4.93%	7.75%	8.92%	14	14	0.94	1.17							

Large Blend Recommendation

Proposed Fund Selection	Proposed Fund Name	Ticker	Minimum Investment	Rating	120-1 Expense Ratio	Assets	Category Peer Rankings										Returns					Risk-Adjusted Returns				
							1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year				
Hartford Capital Appreciation HLSJA	Hartford Capital Appreciation HLSJA	HILAX	Large Blend	**	0.00	\$14,871,182.45	83	74	77	49	-1.35%	-4.30%	8.35%	8.81%	6.59%			0.89	0.89							
Recommendation	Columbia Constant Core Z	SMGX	Large Blend	****	0.00		39	6	5	1	2.28%	2.28%	11.95%	12.45%	9.55%	11	21	1.03	0.97							
	Hartford Core Equity I	HGIK	Large Blend	****	0.00		12	1	1	10	2.55%	4.49%	14.22%	13.25%	7.50%	2	2	1.29	1.12							
	Hartford Disciplined Equity HLSJA	HILGX	Large Blend	****	0.00		42	1	1	5	2.57%	4.49%	14.67%	13.79%	8.25%	2	2	1.30	1.14							
Recommendation	T. Rowe Price US Large-Cap Core	TRULX	Large Blend	****	0.00		6	1	2		3.40%	7.32%	13.28%	12.90%	-	2	3	1.22	1.18							
	Hartford Core Equity I	HGIK	Large Blend	****	0.00		12	1	1	10	2.25%	4.49%	14.22%	13.25%	7.80%	2	2	1.28	1.12							





CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
AMC

From: Adam M. Cloud, Secretary

Date: October 20, 2016

Subject: **Other Business**