

City of Hartford Pension Commission
Constitution Plaza Conference Room
260 Constitution Plaza
Hartford, Connecticut
Friday, November 18, 2016
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. **Review of Meeting Minutes**
 - Minutes of October 28, 2016

- II. **General Consultant:**
 - Draft work plan

- III. **Batterson Property Update**

- IV. **Report on Annual Performance Review Meeting**
 - Hartford Investment Management Company

- V. **Other Business**



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: *AMC*
Adam M. Cloud, Secretary
Date: November 14, 2016
Subject: **Review of Minutes from the Meetings of October 28, 2016**

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, October 28, 2016.

**City of Hartford Pension Commission
Development Services Conference Room
250 Constitution Plaza, 4th Floor
Hartford, CT 06103
Friday, October 28, 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; Wendy Bond, Assistant Plan Administrator

OTHERS PRESENT: Lisa Silvestri, Assistant Corporation Council; Terry Williams, Senior Administrative Assistant; Tad Fergusson, Managing Director, Pension Consulting Alliance, the MERF's private equity consultant and Kristin Finney-Cooke from NEPC, the MERF's general consultant

I. Review of Minutes as of September 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 September 30, 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 September 30, 2016, the MERF portfolio had a market value of \$1 billion and had generated a 0.4% net of fees return for the month, underperforming the benchmark return by 10 basis points.

Mr. Antoine then reported that the MERF's equity portfolio posted a 0.6% net of fees return for the month, underperforming the benchmark return of 0.9%, by 30 basis points. He noted that all equity sub-sectors underperformed their respective benchmarks with the exception of domestic equity, which matched its benchmark return for the month.

Mr. Antoine went on to report that the MERF's fixed income portfolio posted a 0.20% net return for the month, exceeding its custom benchmark return by 10 basis points. 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 had fully funded Edgewood Capital and Holland Capital portfolios. He also noted that the Atlanta Capital Management portfolio had been fully liquidated and that the proceeds were used to fund the two new managers and pension payroll. Discussion ensued.

The Commission accepted the report for advice.

III. Update from the MERF's General Investment Consultant

Asset/Liability Study Results

Chairman Stevens introduced the item. Secretary Cloud asked Kristin Finney-Cooke of NEPC, the MERF's general consultant, to report to the Commission on the preliminary asset liability study results developed by NEPC. Ms. Finney-Cooke reported that NEPC's liability calculations follow a roll-forward methodology and are based on the July 1, 2015 actuarial valuation and benefit payment projections by the MERF's actuary, Hooker and Holcombe. Ms. Finney-Cooke noted that the actual asset returns through December 31, 2015 were used along with NEPC's 2016 assumptions.

Under the study, Ms. Finney-Cooke noted that City pension contributions ranged from \$41 million to \$51 million per year and that benefit payments increased over time, from approximately \$100 million to approximately \$118 million by 2026, averaging 10.1% of total plan assets per year over the next 10 years. Discussion ensued.

Ms. Finney-Cooke also discussed the potential changes to the MERF's funded status and pension liabilities over time, taking into account NEPC's five to seven year return expectation of 6.5%. Discussion ensued. Ms. Finney-Cooke concluded by discussing various potential scenarios regarding the City's pension contribution amounts. Discussion ensued.

Treasurer Cloud thanked Ms. Finney-Cooke for the report; noting it was thought provoking and good information for future reference.

The Commission accepted the reports for advice.

IV. Private Equity Consultant

2016 Private Equity Performance Report

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 as of June 30, 2016, the MERF's private equity program consisted of 18 active partnerships and had a market value of approximately \$79 million. He noted that the net since inception internal rate of return ("IRR") remained strong at 12.2%. Mr. Fergusson noted that the program has outperformed over the latest one-year, three-year, and since inception periods ending June 30, 2016. He noted that the ten-year time period was flat versus the benchmark while the five-year time period underperformed by 1.3%. Mr. Fergusson stated that the program remains cash flow positive, providing funds to the MERF as it has done for the past six and a half years. He then highlighted the continued diversification of the portfolio across structure, sector, geography, industry, vintage year, and manager. Discussion ensued.

Commitment Pacing Scenarios

Mr. Fergusson continued by reporting on the variety of target allocations the MERF was considering for its private equity asset class and the corresponding levels of investment commitments necessary to achieve them. He reminded the Commission that the private equity asset class currently has a 5% target and that the 2016 investment plan modeled a commitment pacing plan of \$10 million per year (opportunistically allowing for commitments of up to \$15 million). He then discussed a scenario in which the target allocation was changed to 8%. In this case, he stated that the required level of investment commitment would rise to a range of \$25 million to \$30 million per year. This commitment level, he reported would flip the MERF's projected net cash inflows from private equity to a net outflow in the reasonably near future. Discussion ensued.

The Commission accepted the report for advice

V. Deferred Compensation Plan - Fund Option Recommendations

Chairman Stevens introduced the item. Secretary Cloud asked Mr. Draghi to address the Commission. Mr. Draghi presented the Secretary's recommendation regarding changes to the City's deferred compensation plan's investment options. As background, he stated that Metropolitan West High Yield Bond M ("Metropolitan") and Hartford Capital Appreciation HLS IA ("Hartford Capital") investment options had been on the deferred compensation plan's "Watch List" for some time, and continued to underperform. As such, following due diligence, the deferred compensation plan committee (the "Committee") recommended a switch to the MassMutual Premier High Yield Svc. ("MassMutual") from Metropolitan and to Hartford Core Equity I ("Hartford I") from Hartford Capital. Mr. Draghi added that Retirement Plan Advisors ("RPA"), the City's deferred compensation plan investment consultant, assisted the Committee in this process and supported this recommendation. Discussion ensued.

A motion was made, seconded and adopted to authorize the Secretary to take the necessary actions to replace the Metropolitan West High Yield Bond M and Hartford Capital Appreciation HLS IA with MassMutual Premier High Yield Svc. and Hartford Core Equity I Fund, respectively, on the City's deferred compensation plan platform and to allow adequate time to make the change and provide appropriate communications to plan participants.

VI. Other Business

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

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: November 14, 2016
Subject: **General Consultant Update**

Attached please find the updated draft work plan for the MERF.

MERF Proposed 2016-2017 Work Plan

| | November | December | January | February | March |
|--|----------|--------------------|--------------------|----------------------------|----------------|
| TOTAL PLAN | | | | | |
| Asset Allocation/Portfolio Review | | | | Asset Allocation Review | |
| Quarterly Performance Review | | Q3 JPA | | Q4 & Year End Perf. Review | |
| Education Pieces | | | | | |
| TRADITIONAL ASSETS | | | | | |
| Searches & Reviews | | | | | GAA Review |
| PRIVATE Debt | | | | | |
| PD Program Planning | | | | | PD Pacing Plan |
| PD Search/Presentations (as required) | | | | | |
| PD Performance Report | | Q2 | | Q3 | |
| REAL ESTATE/REAL ASSETS | | | | | |
| RE/RA Program Planning | | RE Pacing Plan | | | |
| RE/RA Search/Presentations (as required) | | MWBE RE Discussion | MWBE RE Interviews | | |
| RE/RA Performance Report | | Q2 | | Q3 | |
| HEDGE FUNDS | | | | | |
| Hedge Fund Program Planning | | | | | |
| HF Search/Presentations (as required) | | | | | |



CITY OF HARTFORD
PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: November 14, 2016
Subject: Batterson Property Update

Secretary Cloud will update the Pension Commission on the progress of this transaction.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: 
Adam M. Cloud, Secretary
Date: November 14, 2016
Subject: **Report on Annual Performance Review Meeting**

Attached for your review is the report on our annual performance review meeting with the following manager:

- **Hartford Investment Management Company**

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

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

From: Gary B. Draghi, Director of Investments 
P. Wayne Moore, Assistant Director of Investments 
J. Sean Antoine, Principal Administrative Analyst 

Date: November 8, 2016

Re: Report on Annual Performance Review Meeting with Hartford Investment Management Company (HIMCO)

The Pension Commission held an annual performance review meeting with Hartford Investment Management Company (HIMCO), a core plus fixed-income manager for the MERF, on Thursday, November 3, 2016. Present for HIMCO were Christopher Zeppieri, CFA, Senior Vice President and Senior Portfolio Manager and Scott Bontempo, Vice President, Product Specialist.

Secretary Cloud opened the meeting and asked the HIMCO representatives to begin their presentation. Mr. Bontempo began by giving a detailed overview of the firm over the past year. He noted that HIMCO is in the process of completing (expected by mid-2017) a substitution order with the SEC to add approximately \$17 billion of Hartford Variable Insurance Trust (HVIT) assets to the existing HIMCO platform. Importantly, approximately \$1.2 billion of the total will be allocated to the Core Plus mandate in which the MERF is invested, reducing the concentration of product assets represented by the MERF. Mr. Bontempo also reviewed HIMCO's status given its withdrawal from managing certain third-party assets. He indicated that significant personnel reductions had been made associated with this decision.

Mr. Zeppieri then reviewed HIMCO's investment process, noting an emphasis on sector rotation, duration and security selection as primary sources of relative value. He added that HIMCO incorporates a fundamental component to the process by continually performing research to identify potential event risk or trend changes that may affect portfolio performance. He described a daily process in which research analysts, sector specialists and portfolio managers meet to discuss industry trends, spreads and trade opportunities.

Mr. Zeppieri then reviewed the performance of the MERF's fixed income portfolio. He observed that the MERF's portfolio's return for the one-year period ending September 30, 2016 exceeded the benchmark by 133 basis points, 6.52% vs. 5.19%. He noted that most of the outperformance was due to sector allocation, particular HIMCO's decision to overweight credit sectors while underweighting Treasuries. On a peer-relative basis, Mr. Zeppieri noted that HIMCO could have done better by selecting more below investment grade bonds for the MERF's portfolio.

In response to a question regarding potential issues between the way that HIMCO managed investments for its parent company's (The Hartford) general account and its third party institutional accounts (e.g., the MERF), Mr. Zeppieri stated that the general account was managed like any other of HIMCO's external client accounts.

Mr. Zeppieri gave his outlook on the economy. He noted that there may be moderate U.S. economic growth in 2017 and that employment growth will likely slow as the economy edges closer to full employment. He concluded by noting that central bank policies will likely keep interest rate movements contained and continue to compress spreads.

Mr. Bontempo then thanked the Commission for its continued business and confidence in HIMCO.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission
From: Adam M. Cloud, Secretary *AMC*
Date: November 14, 2016
Subject: **Other Business**