

City of Hartford Pension Commission
JCJ Architecture
120 Huyshope Avenue, Suite 400
Hartford, Connecticut
Wednesday, February 26 2020
9:00 a.m.

AGENDA

INVESTMENT PROGRAM

- I. **Review of Regular Meeting Minutes**
 - Minutes of January 31, 2020

- II. **Status of the MERF Portfolio**
 - Inventory of Assets as of January 31, 2020
 - MERF's Overall Performance

- III. **General Investment Consultant Update – NEPC**
 - Quarterly Performance
 - Private Debt Review
 - Real Estate Review
 - Real Assets Review

- IV. **Reports on Annual Performance Review Meetings**
 - First Eagle Investment Management
 - Pacific Investment Management Company

- V. **Deferred Compensation Report by Voya**
 - Review of plan transition and update on operational matters

- VI. **Executive Session**
 - Fienemann Road Property Update

- VII. **Other Business**



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020

Subject: **Review of Minutes from the Meeting of January 31, 2020**

Enclosed for your review are the minutes of the investment portion of the Pension Commission meeting of Friday, January 31, 2020.

*INVESTMENTS
AGENDA ITEM I*

City of Hartford Pension Commission
JCJ Architecture
120 Huyshope Avenue, Suite 400
Hartford, CT 06103
Friday, January 31, 2020
9:00 a.m.

MINUTES

INVESTMENT PROGRAM

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

STAFF PRESENT: Gary B. Draghi, Chief Investment Officer; P. Wayne Moore, Deputy Chief Investment Officer and J. Sean Antoine, Principal Administrative Analyst

OTHERS PRESENT: Lisa Silvestri, General Counsel; Jolita Lazauskas, Revenue Manager and Acting Director of Management and Budget; Chelsea Mott, Principal Accountant; Mary Watson, Member Services Specialist; Kristin Finney-Cooke NEPC, MERF's general consultant; Bill Beccaro, attorney; Tad Fergusson and Andrew Gilboard, Meketa, MERF's private equity consultant and Cynthia Steer and John Nawrocki, Fiduciary AI

I. Review of Minutes as of November 22, 2019

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 October 31, November 30 and December 31, 2019

Chairman Stevens introduced the item and asked the Investment Unit to report. J. Sean Antoine, the MERF's Principal Administrative Analyst, reported that, at October 31, 2019, the MERF portfolio had a market value of \$1.05 billion and had generated a net return of 1.3% for the month, underperforming the policy benchmark by 20 basis points.

Mr. Antoine then reported that at November 30, 2019 the MERF's portfolio had a market value of \$1.05 billion and had generated a net return of 0.9% for the month, underperforming the policy benchmark by 20 basis points. Discussion ensued.

Mr. Antoine then reported that, at December 31, 2019, the MERF portfolio had a market value of \$1.075 billion, a new high, and had generated a net return of 2.0% for the month, underperforming the policy benchmark by 80 basis points. Discussion ensued.

Mr. Antoine then detailed sector performance, noting that the MERF's equity portfolio generated a net return of 3.7% for the month, underperforming its custom benchmark by 60 basis points. Mr. Antoine reported that all public equity asset classes produced very strong absolute returns. Regarding fixed income, Mr. Antoine reported that the asset class generated a net return of 1.3% for the month, outperforming its custom benchmark by 30 basis points. He pointed out that the long duration, unconstrained and emerging market debt subsectors outperformed. Gary Draghi, the MERF's Chief Investment Officer, noted the MERF's calendar year net of fees return of 14.9%. He then discussed December's result stating the underperformance of the MERF's private equity portfolio was a major factor. He attributed this to timing explaining that the private equity benchmark, the Russell 3000 plus 300 basis points, is based on the return of publicly traded equity securities which experienced a strong increase in December as the stock market rallied. He contrasted this to the inherent delay in pricing of the private equity portion of the MERF's portfolio noting this resulted in a mismatch that would likely reverse itself when these private equity investments are valued. Discussion ensued.

Lastly, Mr. Antoine reviewed the MERF's asset allocation positioning relative to its targets and target ranges, confirming that the MERF's portfolio was positioned as intended. Discussion ensued.

The Commission accepted the report for advice.

III. Private Equity Consultant – Meketa

Performance Report – June 30, 2019

Chairman Stevens introduced the item and asked the representatives from Meketa Investment Group (“Meketa”), the MERF’s private equity consultant, to address the Commission. After a brief review of the private equity investment market, Tad Fergusson reported that, as of June 30, 2019, the MERF’s private equity program represented \$188 million of commitments across 23 partnerships, with a current market value of \$75 million, representing 7.1% of the total MERF portfolio, slightly below the long-term target of 8%. Mr. Fergusson noted that the net since inception internal rate of return (“IRR”) was 12.2% as of mid-year 2019, representing a 1.6x multiple of invested capital. He went on to note the program has returned 112% of contributed capital to date. Mr. Fergusson stated that the private equity program continues to be appropriately diversified across sector and geography. Lastly, he noted that continued commitment activity will be necessary to reach and maintain the long-term 9% target allocation. Discussion ensued.

The Commission accepted the report for advice.

Investment Recommendation -Wellington Hadley Harbor III

Mr. Fergusson introduced his colleague Andrew Gilboard and asked him to address the Commission. Mr. Gilboard reported on the investment recommendation for Wellington Hadley Harbor III (“WHH III”), a late stage venture capital/pre-IPO stage fund, being considered by the MERF for a commitment of up to \$10 million. Citing Meketa’s Phase II due diligence review, he stated that WHH III has an experienced and expanding management team, a focused and unique value-add proposition targeting pre-IPO stage private investments, a differentiated venture capital return profile and strong performance results to date. He noted the previous funds sponsored by this team have invested over \$2 billion, generating a net IRR in excess of 20% and a 1.6x multiple of invested capital. Discussion ensued.

A motion was made, seconded and adopted to authorize Secretary Cloud to commit \$10 million to Wellington Hadley Harbor III, subject to the execution of the related legal documents.

Phase II Due Diligence: ACOF VI

Mr. Fergusson reported on Meketa's Phase I review of Ares Corporate Opportunities Fund VI ("ACOF VI"). He reminded the Commission that the MERF has had an ongoing relationship with Ares with whom \$34 million has been committed across five prior funds, generating a net since inception IRR of 15.0% and a 1.6x multiple of invested capital in aggregate. Mr. Fergusson noted that Ares has also generated consistent fund level returns.

Mr. Fergusson then discussed Ares' latest fund offering stating that ACOF VI would continue Ares' strategy of opportunistically investing in middle market and upper-middle market companies. He added that this strategy would include control buyouts, growth equity, rescue capital, and distressed-for-control capital with the objective of generating returns in a variety of market conditions. Lastly, he noted that additional performance analysis would be conducted as part of Meketa's Phase II Review. Discussion ensued

A motion was made, seconded and unanimously adopted to authorize the Secretary to instruct Meketa Investment Group to perform Phase II due diligence on Ares Corporate Opportunities Fund VI.

IV. General Investment Consultant - NEPC

Capital Markets Review and Assumptions

Chairman Stevens introduced the item and asked the representative from NEPC to address the Commission. Kristin Finney-Cooke gave a brief overview of the investment markets, noting that 2019 was a year of robust returns across virtually all asset classes. She then discussed NEPC's outlook for future investment returns and highlighted NEPC's four key market themes including late cycle dynamics, permanent interventions, China transitions, and globalization backlash. Lastly, Ms. Finney-Cooke discussed the MERF's asset allocation and reviewed potential alternative structures. Discussion ensued.

The Commission accepted the report for advice.

Work plan

Ms. Finney-Cooke presented an updated work plan for calendar 2020, highlighting the private credit search and the small cap emerging markets equity review listed for the second quarter. Other items included a master custodian review and the MERF's annual liquidity review. Discussion ensued.

The Commission accepted the reports for advice.

V. Report on Annual Performance review meetings with Eagle Capital Management and Brown Brothers Harriman

Chairman Stevens introduced the item and asked the investment unit to report. Mr. Draghi stated that the reports were self-explanatory. Discussion ensued.

The Commission accepted the report for advice

VI. Executive Session - Fienemann Road Property Update

Chairman Stevens introduced the item and recommended that the Commission enter executive session to discuss commercial or financial information given in confidence, not required by statute.

A motion was made, seconded and adopted to enter executive session.


A motion was made, seconded and adopted to exit executive session.

The Commission accepted the report for advice.

VII. 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



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020

Subject: **Status of MERF Portfolio as of January 31, 2020**

The portfolio report for the month of January 31, 2020 will be distributed at the meeting.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020

Subject: **Update from the MERF's General Investment Consultant – NEPC**

NEPC representatives will conference call into the Pension Commission meeting to discuss the following topics. Please see the enclosed materials which they will utilize in their presentation.

- **Quarterly Performance**
- **Private Debt Review**
- **Real Estate Review**
- **Real Assets Review**



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020




Subject: **Reports on Annual Performance Review Meetings**

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

- **First Eagle Investment Management**
- **Pacific Investment Management Company**

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

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

From: Gary B. Draghi, Chief Investment Officer 
P. Wayne Moore, Deputy Chief Investment Officer 
J. Sean Antoine, Principal Administrative Analyst 

Date: February 19, 2020

Re: **Report on Annual Performance Review Meeting with First Eagle
Investment Management**

The Pension Commission held an annual performance review of First Eagle Investment Management ("FEIM"), an international all cap value equity manager for the MERF, on Tuesday, February 11, 2020. Present from FEIM was Claire Miller Hare, Head of Relationship Management.

Ms. Hare began the meeting by thanking the Commission for its continued confidence in FEIM and the 18-year relationship with the MERF. She then provided an overview of FEIM, noting its sole focus on asset management and its core investment objective of achieving real returns while preserving investor capital. She also noted that there had been no significant changes to the investment team since the last annual review.

Ms. Hare then reviewed FEIM's investment philosophy and process, noting that FEIM is a fundamental value oriented investor whose country and economic sector weightings are a by-product of its security selection process and not formulated relative to index weightings.

Ms. Hare reported that the MERF's international value equity portfolio returned 17.88% for the calendar year 2019, underperforming its blended benchmark, by 413 basis points. She attributed the underperformance to the portfolio's overweight to cash and cash equivalents and also to its gold exposure. Discussion ensued.

In response to a question regarding the portfolio's gold position, Ms. Hare stated that FEIM holds both physical gold and gold mining stocks and that this exposure can comprise 10% to 12% of the portfolio at any given time. She

explained that FEIM holds gold in the portfolio as a tactical hedge. Discussion ensued.

In response to a question regarding FEIM's portfolio turnover, Ms. Hare noted that the portfolio turnover is 10-20%, by design. She stated that FEIM typically holds a position for a market cycle or until it reaches a predetermined price point or percentage of overall holdings. Any decision on liquidation is also subject to FEIM's evaluation of company fundamentals at the time.

Ms. Hare reported that FEIM's market outlook is for narrow markets with stretched valuations, leading to lower expected returns from stocks and bonds. She added that, in an environment of elevated risk, lower market returns and higher volatility, FEIM continues to believe that selectivity is key along with its focus on finding resilient businesses trading at attractive valuations.

In closing, Ms. Hare again thanked the Commission for its continued business and the ongoing confidence in FEIM.

**CITY TREASURER'S OFFICE
INTERNAL MEMORANDUM**

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

From: Gary B. Draghi, Chief Investment Officer *GBD*
P. Wayne Moore, Deputy Chief Investment Officer *PWM*
J. Sean Antoine, Principal Administrative Analyst *JSA*

Date: February 20, 2020

Re: Report on Annual Performance Review Meeting with Pacific Investment Management Company (PIMCO)

The Pension Commission held an annual performance review meeting with Pacific Investment Management Company (PIMCO), a long duration fixed-income manager for the MERF, on Thursday, January 23, 2020. Present for PIMCO were Chloe Kelley, CFA, Senior Vice President; Priya Bishen, Vice President and Account Manager and Collin Kroeger, CFA, Senior Account Associate.

Ms. Kelley thanked the Commission and Treasurer for their continued business relationship with and confidence in PIMCO. She then introduced her colleagues, Ms. Bishen and Mr. Kroeger noting they are part of the team and primary points of contact with PIMCO.

Ms. Kelley discussed matters relating to the firm reporting that PIMCO is continuing to invest in technology and human resources. She added that the firm continues to support environmental, social and governance initiatives and has partnered with a technology firm to bolster PIMCO's cloud technology platform. She also added that over the past several months the firm has increased its emphasis on internet and cyber security. Discussion ensued.

Mr. Kroeger then reviewed the performance of the MERF's long duration account. He stated the portfolio returned 20.7% (net of fees) during calendar year 2019, slightly underperforming the benchmark return of 20.8%. Mr. Kroeger attributed the underperformance to defensive positioning. Specifically he cited an underweight to investment grade corporate credit and to security selection within municipals as key factors.

Mr. Kroeger then discussed portfolio positioning, noting that PIMCO was duration neutral relative to its benchmark and underweight to investment grade credit. With regards to over weights, he cited mortgage-backed securities and emerging markets external debt denominated securities.

In response to a question regarding the use of "street" research, Ms. Kelley reported that the investment team utilizes street research in addition to PIMCO's proprietary research, in order to have access to valuable fundamental information from multiple sources.

With regard to PIMCO's outlook, Ms. Bishen stated that PIMCO expects slower growth near term with the Federal Reserve more likely to cut interest rates rather than hike them. While describing the risk of recession as having been extended out further into the future, Ms. Bishen stated PIMCO's belief that it would be more severe when it occurs. She noted that, with the effects of monetary policy near exhaustion, additional fiscal stimulus might be required in order to realize further growth during 2020. Discussion ensued.

Ms. Kelley closed by thanking the Commission for its continued business and its confidence in PIMCO.



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020

Subject: **Deferred Compensation Report by Voya**

Voya representatives will attend the Pension Commission meeting to discuss the following topics.

- **Review of plan transition and update on operational matters**




CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

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

Date: February 20, 2020

Subject: Executive Session – Fienemann Road Property Update



CITY OF HARTFORD

PENSION COMMISSION

MEMORANDUM

To: Pension Commission

From: *AMC*
Adam M. Cloud, Secretary
Carmen I. Sierra, Assistant Secretary

Date: February 20, 2020

Subject: **Other Business**