Chairman Peter Stevens called the Investment portion of the meeting to order.

I. Review of Minutes: Regular Meeting of February 27, 2009

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 of the meeting of February 27, 2009 as presented.

II. Status of the MERF Portfolio as of February 28, 2009

Chairman Stevens introduced the item. Secretary Devine requested that the Investment Unit report. J. Sean Antoine, the MERF’s Principal Administrative Analyst, reported that at February 28, 2009, the market value of the MERF’s investment portfolio approximated $796.2 million. He stated that the portfolio generated a negative 4.3% return net of fees for the month, outperforming the MERF policy benchmark return of negative 5.6%.
Mr. Antoine stated that the primary contributor to the relative outperformance was the MERF’s positioning in non-U.S. and emerging market equities.

Mr. Antoine reported that the MERF’s domestic equity portfolio reported a negative 7.9% net return for the month, outperforming the Russell 3000® Index return of negative 10.5%. Mr. Antoine then noted that the MERF’s international equity portfolio generated a net return of negative 7.2% for the month, also outperforming the Russell Global ex-U.S. Equity Index return of negative 9.0%.

Lastly, he reported that the MERF’s total fixed income portfolio posted a negative 1.8% net return for the month, lagging the custom fixed income benchmark return of negative 1.5%, and that the Liquidity Fund generated a negative 5.4% net return for the month, slightly outperforming its custom benchmark return of negative 5.6%.

The Commission accepted the report for advice.

III. Consideration of Recommendation Regarding Phase II Due Diligence on Lexington Capital Partners, VII, L.P.

Chairman Stevens introduced the item. Secretary Devine recommended that the Pension Commission approve the pursuit of Phase II Due Diligence on Lexington Capital Partners, VII, L.P. (LCPVII). She stated that Pension Consulting Alliance (PCA), the MERF’s private equity consultant, had conducted a Phase I review of the opportunity and recommended the fund for further consideration, including the completion of a full Phase II due diligence review.

Secretary Devine noted that Lexington Partners specializes in secondary fund of funds management and has been a strong performer with good returns and good cash flow generation. She stated that acceptance of her recommendation would authorize the performance of rigorous, thorough due diligence in advance of a final recommendation, at no additional cost and with no additional role for the Commission until all due diligence was completed.

Chairman Stevens asked if there was an investment timetable associated with the fund closings. Secretary Devine stated that the first closing had been in February 2009, but that there would be several additional closings, leaving ample time to conduct the Phase II due diligence.

A motion was made, seconded and unanimously adopted to authorize Secretary Devine to direct Pension Consulting Alliance to conduct Phase II due diligence on Lexington Capital Partners, VII, L.P.
IV. Annual Review of the Section 457 (Deferred Compensation) Plan
   • Consideration of Recommendation Regarding Retention of Mesirow Financial Services for Investment Monitoring
   • Consideration of Recommendation Regarding Fund Offerings

Chairman Stevens introduced the item. Secretary Devine reported that the Commission’s Deferred Compensation Committee had met in February and identified two important issues, the first of which was that contrary to the terms of the contract between the City of Hartford and The Hartford, The Hartford would no longer make recommendations or provide analysis of the Plan’s investment fund offerings. Secretary Devine noted that The Hartford had informed her and staff that its attorneys advised that such advice was no longer permissible in the current regulatory environment.

Secretary Devine noted that The Hartford had suggested that the City enter into an arrangement with Mesirow Financial Services (“Mesirow”) to provide the oversight function, with such services to be provided to the City at no cost, as Mesirow was an affiliate of The Hartford, which would pay its fees. She noted that while she and staff were currently developing a Request for Proposals (“RFP”) for section 457 Deferred Compensation Plan services, their first duty was to consider which providers could serve as an investment advisor for the Plan until the RFP could be issued and a new provider selected. Secretary Devine stated that Mesirow would provide quarterly reports to the City, to be shared with Plan participants. Ms. Amy Humphrey, representing The Hartford, added that it would be the City’s responsibility to decide whether any option was added or removed from the Plan’s platform.

Secretary Devine stated that the second issue that emerged from the City’s Deferred Compensation Committee meeting was the recognition that the number of investment options for participants appears to be excessive. She noted that while the City had always desired to offer participants a broad range of investment choices in a variety of different investment style boxes, the Plan may now have too many fund options to allow for effective monitoring. Many of the choices, she said, had attracted few or no participants in any case.

Ms. Humphrey then provided an administrative review of the Plan’s status as of December 31, 2008. She stated that Plan assets had decreased by approximately 26% over the past year, to approximately $54 million from approximately $72 million on December 31, 2007. She attributed the decrease to a lower level of contributions relative to distributions and negative investment returns. She stated that the employee participation rate increased by 2% in 2008 from the prior year, with contributions outpacing withdrawals by 6% for the year. Ms. Humphrey stated that as of December 31, 2008, the Plan had 1,395 participants with account balances, above average for such plans, with 928 active employees contributing to the Plan.
On the investment side, Ms. Humphrey then noted that the Plan’s participants have 39 investment options available to choose from. Of these, 38 were market sensitive and one, The Hartford’s Stable Value Account (“HSVA”), is a fixed rate account guaranteed by The Hartford, paying approximately 4% interest. In response to a question from the Commission, Ms. Humphrey responded that plan participants would continue to receive a minimum of 4% if The Hartford were re-selected to run the Plan for the City.

Secretary Devine then noted the many questions she had received from participants concerned about what would happen to funds invested in the HSVA if The Hartford became insolvent. She informed the Commission that Denise Aguilera, General Counsel for the MERF, had researched the issue and learned that the State of Connecticut manages a fund that essentially insures participants living in Connecticut who are invested in insurance company general accounts. Such participants are insured for up to $500,000 each if the insurance company were to default or go bankrupt, she said. Secretary Devine then asked Ms. Humphrey who would pick up the HSVA obligation if The Hartford was purchased by another company, and Ms. Humphrey responded that no potential purchaser would be able to buy The Hartford unless it agreed to honor the obligations of the HSVA. Discussion ensued.

Secretary Devine then referred to a memorandum from Gary L. Carter, the MERF’s Director of Investments that recommended the elimination of certain fund offerings and the placement of certain other fund offerings on the Plan’s watch list, based on his due diligence. Specifically, she said, Mr. Carter had recommended the elimination of the Hartford Index, Van Kampen Mid Cap Growth, Skyline Special Equities, Hartford Money Market, Hartford Government Securities and Hartford Total Return options. Secretary Devine noted the lack of coverage of these funds by the Morningstar rating service, saying that without such coverage it was difficult to track these options and perform the necessary degree of due diligence. She further noted Mr. Carter’s recommendation that the Fidelity Advisor Leveraged Company Stock, Alliance Bernstein Balanced Shares and Calvert Social Balanced Funds be placed on watch due to performance issues and that the Putnam Global Equity be removed from the Plan because of business stability concerns. Secretary Devine endorsed Mr. Carter’s recommendations, noting that they served the dual purposes of eliminating underperformers and reducing the number of Plan investment options.

Ms. Humphrey then suggested that the City may wish to retain the Hartford Money Market Fund despite its low returns as it was the only money market offering within the Plan and is another avenue for investment for risk-averse participants who might prefer the Money Market Fund over the Stable Value Fund. Discussion turned to the question of whether, if the Pension Commission were to agree with the recommendations, current participants would be mapped to similar funds. Ms. Humphrey stated The Hartford would give participants 30 days’ notice to move their invested balances to another option or be automatically transferred to a similar investment option. Further discussion ensued.
A motion was made, seconded, and unanimously adopted to reduce the number of offerings in the Plan platform by way of termination of underperforming funds as recommended, except for The Hartford Money Market Fund, approve the designation of watch list candidates as outlined above, retain Mesirow Financial Services to provide investment advice subject to contract negotiations and any necessary modifications related thereto and to amend the service contract with The Hartford regarding the provision of investment advice.

V. Report on Establishment of New “Liquidity” Funds:
   • Benefits Payment Fund
   • Asset Allocation Fund

Chairman Stevens introduced the item. Secretary Devine reported that she, staff and Rogerscasey had been working to structure the new Benefits Payment Fund approved by the Commission, with the challenge of raising $120 million from the various MERF portfolios despite a reduced asset base of approximately $786 million. Secretary Devine then presented proposed equity asset class changes entailing the liquidation of the investment portfolios managed by Ariel Capital Management (“Ariel”), Brandywine Global Management (“Brandywine”), Acadian Asset Management (“Acadian”), Franklin Templeton Institutional (“Franklin Templeton”) and the State Street Global Advisors (“SSGA”) Rebalancing Fund. Discussion ensued.

Secretary Devine then noted that, for the fixed income asset class, the proposed liquidations involved the portfolios managed by Pacific Investment Management Investment Company (“PIMCO”) in the Diversified Fixed Income strategy, Loomis Sayles & Company (“Loomis”) in the Long Duration Fixed Income area, and Western Asset Management (“WAMCO”), involving a Treasury Inflation-Protected Securities portfolio. She noted that the PIMCO portfolio was no longer needed since the MERF had other portfolios that overlapped the investment strategies incorporated in that product. In general, she said, the recommendations were intended, to the maximum extent possible, to keep the MERF within its target asset allocation guidelines while raising the cash necessary to fund the Benefits Payment Fund. Discussion ensued.

Commissioner Goldman asked whether the intention was to maintain the Benefits Payment Fund for eighteen to twenty-four months. Consultant Cynthia Steer answered that the fund should be maintained until the financial markets return to a more normal state. She also noted that when the investment environment changed, the MERF would have, by virtue of the creation of its Benefits Payment Fund, “dry powder” for potential future investments. Secretary Devine noted that this fund would be invested in a laddered maturity structure to maximize the funds available to fund benefits.
A motion was made, seconded, and unanimously adopted to authorize the implementation of the new Benefits Payment and Asset Allocation Funds as recommended.

VI. Other Business

Chairman Stevens introduced the item. Secretary Devine noted the provision of miscellaneous communications for the Commissioners’ information.

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

ATTEST: _________________________________
Kathleen Palm Devine, Secretary