

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
March 26, 2009
Final Agenda**

- 7:30 a.m. Call to Order**
Approval of February 26, 2009 Board Meeting Minutes
Approval of February 26, 2009 Executive Session Minutes (litigation)
Consent Calendar
Approval of Boulder Old Hire Plan Amendment
- 7:35 a.m. Thomson, Horstmann & Bryant, Inc. – Portfolio Review**
*Alexander J. Thomson, President & Chief Executive Officer
Chad M. Nelson, Chief Investment Officer*
- 8:20 a.m. Cortina Asset Management - Portfolio Review**
*Lori Hoch, Principal & Chief Operations Officer
Brian Bies, Portfolio Manager & Principal
Steve Lilly, Portfolio Manager*
- 9:05 a.m. BREAK**
- 9:20 a.m. Investment Report**
1. Review of February 2009 Performance
2. Review of Managers
3. Update on Rebalancing Activity
4. Year-end Valuation Adjustments for Alternative Investments
5. Stabilization Reserve Account (SRA) Earnings Allocation Procedures
6. Update on Sudan Divestment
7. Other Matters
- 9:50 a.m. PCA Presentation**
Asset / Liability Study
Absolute Return/Opportunity-Oriented Classes
Neil Rue, PCA Consultant
- 10:35 a.m. BREAK**
- 10:45 a.m. Legal Report**
1. Litigation Update
2. Legislative Update
3. Other Matters
- 11:00 a.m. Staff Report**
1. ASPEN Project Update
2. Other Matters
- 11:15 a.m. Chairman's Report**
1. Monthly Discussion with CEO and Staff
2. Other Matters
- 11:30 p.m. LUNCH**

**FIRE AND POLICE PENSION ASSOCIATION
MINUTES - BOARD OF DIRECTORS MEETING
March 26, 2009**

**FPPA Office
5290 DTC Parkway, Suite 100
Greenwood Village, CO**

BOARD MEMBERS PRESENT: Chairman Kirk Miller, Leo Johnson, Stan Sponsel, Monica Cortez-Sangster and Todd Bower. Vice Chairman Mark Sunderhuse and Kris Gardner participated by conference call.

BOARD MEMBERS ABSENT: Tim Nash.

STAFF MEMBERS PRESENT: Dan Slack, Kevin Lindahl, Gina McGrail, Scott Simon, Kim Collins, Austin Cooley, Claud Cloete, Jeff Kaszubowski and Janette Hester.

OTHERS PRESENT: *Alexander J. Thomson, President & Chief Executive Officer, and Chad M. Nelson, Chief Investment Officer, Thomson, Horstmann & Bryant, Inc.; Lori Hoch, Principal & Chief Operations Officer, Brian Bies, Portfolio Manager & Principal, and Steve Lilly, Portfolio Manager, Cortina Asset Management; Neil Rue, PCA; Cliff Stanton, nominated director awaiting confirmation.*

Notice of this meeting and a copy of the agenda were posted in the building lobby of the FPPA office and on the FPPA website at least twenty-four hours prior to the meeting.

At 7:32 a.m., Chairman Kirk Miller called the meeting to order and noted that there was a quorum present. He welcomed Clifford Stanton, newly nominated by Governor Ritter to be an FPPA director. Chairman Miller called for a motion to approve the minutes of the February 26, 2009, Board meeting. Leo Johnson made a motion to approve the minutes. Stan Sponsel seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Mark Sunderhuse and Kris Gardner abstained due to their absence from the February meeting.

Mr. Johnson made a motion to approve the executive session minutes of February 26, 2009, (litigation). Mr. Sponsel seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Mr. Sunderhuse and Ms. Gardner abstained due to their absence from the February meeting.

Mr. Johnson made a motion to approve the Boulder Old Hire Plan amendment on the Consent Calendar. Mr. Sponsel seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

PORTFOLIO REVIEWS

Thomson, Horstmann & Bryant, Inc.

Scott Simon introduced Al Thomson and Chad Nelson, who presented a review of the small cap stock portfolio that THB manages for FPPA. They responded to questions from Board members and staff and left the meeting at 8:24 a.m.

Cortina Asset Management

Mr. Simon introduced Lori Hoch, Brian Bies and Steve Lilly, who presented a review of the small cap stock portfolio that Cortina manages for FPPA. They responded to questions from Board members and staff and left the meeting at 9:18 a.m.

The meeting recessed briefly.

INVESTMENT REPORT

Mr. Simon reviewed total fund performance for February 2009. Mr. Simon reported that the December and January asset and performance numbers are overstated and that the balance sheet will be adjusted to reflect market value write-downs in alternative investments during the roll-forward period from September 30, 2008, to December 31, 2008. Mr. Simon stated that this process of a proactive write-down of the portfolio value will be applied at year-end in the future, when warranted by market conditions. Mr. Simon referred Board members to a memo regarding the Stabilization Reserve Account (SRA) Earning Allocation Policy. The earnings accruing to a member's SRA will be based upon the gross total performance of the Members' Benefit Investment Fund. If final performance is not available at the time of allocation, preliminary or estimated performance may be used, but adjustments will be made as final performance becomes known. Mr. Simon requested Board approval to formalize the new policy.

Todd Bower made a motion to approve the new earning allocation policy that allowed FPPA staff to estimate a current month's gross SRA allocated earnings for any cumulative performance differences. Mr. Johnson seconded the motion. **MOTION CARRIED IN FAVOR UNANIMOUSLY.**

Mr. Simon reviewed asset allocation for February and the managers on watch status. He stated that Gottex Fund Management has informed us that the fund will be re-opened for redemptions between April and June 2009, but Gottex has indicated that they will propose a new structure for the fund at that time. Because Gottex is underperforming and continues on watch status, FPPA staff has scheduled operational due diligence to assess the agreement with Gottex and determine future options with this manager. Mr. Simon also reported on an article regarding Western Asset Management, which recently announced operational layoffs. Scott answered questions from Board members.

Mr. Bower made a motion to extend watch list status for Cortina and for Thomson, Horstmann & Bryant, Inc., for one year. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon reported on a memo regarding watch list status of State Street Global Advisors and answered questions from Board members.

Mr. Johnson made a motion to remove State Street Global Advisors from watch. Mr. Sponsel seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon gave an update on the portfolio rebalancing activities. He reported on the Sudan Divestment requirement and the Scrutinized Companies List, which is updated every six months. Mr. Simon stated that FPPA owned two stocks on this list within a portfolio account at Morgan Stanley. Staff initiated action to divest these two stocks and replace them with suitable alternatives. Another security on the Scrutinized Companies List was found in an FPPA international equity account with Artio Global. This security was removed and reimbursement was made to the FPPA account for the loss incurred.

At 10:02 a.m., Mr. Stanton left the meeting.

Mr. Simon referred Board members to a memo regarding new allocations to be considered. Mr. Simon and Neil Rue explained the new framework of two separate asset classes being developed that would go beyond the single concept of an inflation hedge class. The new framework would give staff flexibility to accomplish risk diversification in the portfolio. Mr. Simon and Mr. Rue answered questions from Board members.

PCA PRESENTATION

Review of Asset/Liability Study and Considering New Strategic Classes

Mr. Rue reviewed the three objectives of the asset/liability study. He explained the importance of establishing risk tolerance terminology that reflects the priorities and concerns of the Board. Mr. Rue compared the current asset-based framework of the portfolio with the new strategy-based framework being considered. He explained the allocation options of the proposed absolute return class and the allocation options of the proposed opportunity-oriented class. Staff would be more accountable in monitoring and structuring these strategic classes so that return and risk profiles can be met; and the Board's focus would be on the success of the strategic allocations in meeting their intended objectives. Mr. Rue answered questions from Board members.

Mr. Simon then reviewed his handout, entitled Resources Implications of Moving to a New Strategic Investment Structure, which addressed the issues of managing the addition of two new strategic classes. Mr. Simon reported that the most immediate resource need will be the shift of staff time to focus on the development effort. Staff will coordinate existing resources and continue to evaluate existing and potential resources for implementing new strategic classes. The Board indicated its assent that PCA incorporate the two new strategic classes in the

asset/liability modeling. The Board requested a review of the strategic plan goals in light of this and other initiatives, such as ASPEN, as a part of the regular quarterly strategic planning report that will be presented at the April meeting.

At 11:54 a.m., the meeting recessed for break. Mr. Rue left the meeting.

LEGAL REPORT

Kevin Lindahl reviewed the March Litigation Report, noting that there were no significant developments since the last report. In the Legislative Report, Mr. Lindahl reported that HB 1030, requiring old hire pension plans to meet IRS qualifications, had been signed by the Governor; SB 017, affecting survivor benefit plans, was signed by the Governor; and SB 227, concerning old hire state funding and amortization, has been approved by both houses but not yet signed by the Governor. Mr. Lindahl reported that the confirmation hearing for the nominations of Sue Eaton, Kirk Miller and Clifford Stanton was scheduled for 2:00 p.m. on March 31, 2009. Mr. Lindahl reported that HR 1349, which creates a new Federal Accounting Oversight Board (FAOSB) to oversee the application of Generally Accepted Accounting Principles (GAAP) to the financial markets, had been introduced by Colorado Representative Ed Perlmutter. Vice Chairman Sunderhuse encouraged the Board and staff to study this bill to decide if FPPA, or individual Board or staff members, wanted to go on public record in support of it.

STAFF REPORT

Kim Collins reported on the ASPEN Project and noted that Sagitec has set the project end date for 4/27/09 for the benefit calculators and 6/1/09 for the self-service installation.

Dan Slack reported on the PIMCO Institute Client Conference 2009 that he attended. Dan gave an overview of the key takeaways of the conference sessions:

- Asset class diversification is not the same as risk diversification;
- Mean reversion will not take us back to the “old normal”, instead we are moving to a “new normal” from which there may be future mean reversion;
- Distributions are not “normal”, and the efficient frontier is not efficient; and
- Risk allocation is the best way to analyze and look at portfolio allocation.

Mr. Slack also reported that nominated director Sue Eaton could not attend the March Board meeting because of a prior commitment.

CHAIRMAN’S REPORT

Mr. Slack reported that security in the FPPA lobby was a continuing concern. Staff is investigating methods and costs for making changes and improvements to the system. Mr. Slack also reported that federal tax withholding amounts will change beginning April 1, 2009, in conjunction with the economic stimulus plan’s new federal tax credit. Retirees will be

encouraged to review the tax table changes with a qualified tax advisor to determine the impact this might have on their monthly benefit disbursements.

At 12:17 p.m., Mr. Sponsel made a motion to adjourn the meeting. Monica Cortez-Sangster seconded the motion. **MOTION CARRIED IN FAVOR UNANIMOUSLY.**