

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
April 22, 2010
Final Agenda**

- 7:30 a.m. Call to Order**
Approval of March 16, 2010 Special Board Meeting Minutes
Approval of March 18, 2010 Board Meeting Minutes
- 7:35 a.m. Investment Report**
1. Review of March Performance (estimated)
2. Review of Managers
3. Sudan Divestment Report
4. Other Matters
- 8:15 a.m. Master Investment Policy Statement - Discussion**
- 9:30 a.m. BREAK (15 minutes)**
- 9:45 a.m. GRS Presentation on the Actuarial Smoothing Process**
Joseph P. Newton, Senior Consultant - GRS
- 10:15 a.m. Legal Report**
1. Litigation Update
2. Legislative Update
3. Other Matters
- 10:30 a.m. Continuation of Hearing for Jennifer M. Browne
Regarding the Denial of On-Duty Status Related to her
Award of Disability Benefits**
- 10:40 a.m. Approval of Application Downgrade – Bruce E. Sturtevant**
- 10:50 a.m. BREAK (10 minutes)**
- 11:00 a.m. Clifton Gunderson LLP – 2009 FPPA Audit**
*William A. Petri, Partner
Steve Shanks, Senior Manager*
- 11:30 a.m. Staff Report**
1. CEO Report
2. Review of DRAFT Governance Manual
3. Discussion: Strategic Plan 1Q Update
4. Other Matters
- 12:00 p.m. Chairman’s Report**
1. Monthly Discussion
2. Stanford Law School Fiduciary College Evaluation (Lyle Hesalroad)
3. Other Matters
- 12:15 p.m. ADJOURN and LUNCH**

**FIRE AND POLICE PENSION ASSOCIATION
MINUTES - BOARD OF DIRECTORS MEETING
April 22, 2010**

FPPA Office
5290 DTC Parkway, Suite 100
Greenwood Village, CO 80111

BOARD MEMBERS PRESENT: Chairman Leo Johnson, Vice Chairman Tim Nash, Kirk Miller, Jack Blumenthal, Todd Bower, Sue Eaton, Lyle Hesalroad, and Monica Cortez-Sangster.

BOARD MEMBERS ABSENT: Cliff Stanton (excused).

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

OTHERS PRESENT: Neil Rue and John Linder, Consultants - Pension Consulting Alliance (PCA); Joseph P. Newton, Senior Consultant – Gabriel Roeder Smith & Company (GRS); William A. Petri, Partner, and Steve Shanks, Senior Manager, - Clifton Gunderson LLP; Timothy J. Parsons, Attorney and FPPA Outside Counsel.

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 7:34 a.m., Chairman Leo Johnson called the meeting to order and noted that there was a quorum present. Chairman Johnson called for a motion to approve the minutes.

Lyle Hesalroad made a motion to approve the minutes as amended of the March 16, 2010, Special Board Meeting. Kirk Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Miller made a motion to approve the minutes of the March 18, 2010, Board Meeting. Todd Bower seconded the motion. MOTION CARRIED IN FAVOR. Mr. Bower abstained.

INVESTMENT REPORT

Scott Simon provided the monthly investment report for March and a market summary update. He reported the continued economic recovery in the U.S., with the unemployment rate holding steady at 9.7% and improved bank lending conditions. Through March, the global equity was up 3.24% YTD, emerging markets were up 2.45% YTD, and fixed income was up 2.04% YTD. Mr. Simon reported that the Total Fund was up 3.36% YTD, and the Fund closed the month of March with \$2.91 billion in assets.

Mr. Simon reported that the respective performances of the FPPA equity managers were in line with their benchmarks, with the exception of Fiduciary (Domestic Large Cap Equity) and ClariVest (Small Cap Value Equity). He reported strong growth in assets for PIMCO (Core-Plus Fixed Income) and indicated that manager risk exposure with PIMCO would be evaluated in implementing the new investment structure.

Mr. Simon reported that the existing mandate with GAM (hedge fund-of-funds) will likely be transitioned to their Global Macro strategy. Recognizing that its redemption request can be rescinded, FPPA staff created flexibility to transition the exposure by giving notice of a full redemption, effective June 30, 2010.

Mr. Simon reported that the Venture Investment Managers Fund has been 70% committed to high quality venture capital and expects to offer its next fund-of-funds later this year. Staff will be assessing this opportunity. Mr. Simon reported that Staff approved Hamilton Lane's recommendation of a \$10 million private equity fund commitment in Gilde Buy-Out Fund IV.

Mr. Simon reported that 130 responses had been received to the global equity RFP. Staff will assess these responses and further diligence will be conducted.

Mr. Simon reported that the FPPA staff committee of Dan Slack, Gina McGrail and Scott Simon completed a formal selection process for a defined contribution plan consultant. Bidart & Ross was selected on a project basis to assist with the strategic plan project of assessing the current plan service provider (Fidelity), the plan structure and the investment options. The effective date of the consultant agreement is April 1, 2010.

Mr. Simon provided an update on FPPA's Sudan Divestment requirements. In accordance with legislative mandate, compliance is determined every six months. As of March 31, 2010, two of FPPA's equity managers (LSV and Morgan Stanley) had exposure to the same scrutinized company (JX Holdings). Both managers were notified and have confirmed that divestment of the exposure would be accomplished in a prudent manner.

Mr. Simon reported that State Street Global Advisors Securities Lending Funds liquidation restrictions continue, and he anticipates restrictions will be lifted in the near future. Mr. Simon referenced articles in the board packet regarding the top venture-backed companies in the U.S. and trends within the industry. Mr. Simon answered questions from the board. The investment report concluded at 8:07 a.m.

Master Investment Policy Statement

Mr. Simon presented an initial draft of a new Master Investment Policy Statement of the Fire and Police Members' Benefit Investment Fund (New IPS) and a memo

summarizing the investment decision-making process that best supports FPPA's new investment allocation structure. The Old IPS (71-page document) included details of investment guidelines, processes, definitions and execution procedures. The New IPS (20-page document) focuses more on higher level policy issues of the new investment program.

Mr. Simon reported that the New IPS formally defines the roles and responsibilities of the entities involved in the investment process. The New IPS defines the roles of the general consultant to the Board and the investment consultant to the Staff. He stated that FPPA's current practice remains appropriate - PCA serves as the general consultant and is also utilized as an investment consultant in certain circumstances. In serving as general consultant whose formal line of accountability rests with the FPPA board, PCA will provide unbiased, independent perspective and advice. PCA and FPPA staff will work closely together to develop investment-related recommendations for the board to consider.

Mr. Simon reviewed the background for creating the Investment Risk Committee (IRC), whose purpose would be to assist the board in monitoring and implementing the investment portfolio and to concur that investment recommendations are in compliance with board policies. The IRC would have a reporting obligation by memo to the entire board in the monthly board packet. The secure board website could also be used to keep the board updated. The IRC would have as members: two trustees, the CEO and the general counsel. One additional trustee would be named as an alternate. Mr. Simon requested immediate appointment of the IRC, as the investment staff was seeking to move forward with implementing several areas of the portfolio.

Mr. Simon stated that broad investment portfolio objectives have not changed within the structure of the New IPS. The portfolio construction process (target allocations to underlying investment strategies) is clearly defined, and staff and consultants have the responsibility to develop investment recommendations. Investment allocation, interim ranges and benchmarks require board approval.

The New IPS requires a formal asset liability study every 5 years and an annual investment allocation review. At the annual review, the board will revisit the investment assumptions and risk management issues. During that review, the board can make adjustments to targets and benchmarks, according to current market and economic conditions.

Mr. Simon reviewed the manager selection and termination authority for liquid and illiquid asset classes. He reported that staff would have authority to conduct diligence and make illiquid fund commitments no larger than 1.5% of the portfolio, with a concurrence opinion from a consultant before any investment could be made. He reported that the rigid watch list process has been replaced with a more flexible manager review process with specific performance and risk expectations developed for each manager.

Mr. Simon reported that the Old IPS incorporated a customized proxy voting policy specific to FPPA. Risk Metrics, the current FPPA proxy voting service provider, offers a Public Fund Policy which is more comprehensive and based upon the best practices among public pension funds. Risk Metrics reviews and updates this policy annually. Staff recommended utilizing the Public Fund Policy offered by Risk Metrics.

Neil Rue and John Linder expressed PCA's support of the New IPS draft and indicate that PCA will remain available to assist staff with further revisions. Mr. Rue suggested that the New IPS should contain tighter definitions of proposed investment caps and clearer language regarding staff's increased authority in manager selection, retention and termination. Mr. Rue also suggested that staff provide monthly documentation for the IRC and that PCA provide a quarterly report to the board.

Mr. Simon and Mr. Slack answered questions from the board. The board established next steps in the review process of the New IPS. PCA and staff will present the annual investment allocation review at the May meeting. The board requested to receive a final red-lined draft of the New IPS with suggested revisions, tables, ranges and benchmarks for advance review. The final draft of the New IPS will be discussed and approved at the May board meeting.

At 9:46 a.m., the meeting recessed for break. Austin Cooley, Claud Cloete, Jeff Kaszubowski and Sean Ross left the meeting. At 10:00 a.m., the meeting reconvened and Joe Newton (GRS) and Attorney Tim Parsons joined the meeting.

Gabriel Roeder Smith & Company Presentation **Asset Smoothing Period**

Joe Newton, FPPA consultant and actuary, gave a presentation on FPPA's asset smoothing period and methodology. Mr. Newton's presentation focused on the impact of recent market volatility and the use of asset smoothing to determine the actuarial value of defined benefit pension plans. Mr. Newton stated that the goal of smoothing is to reduce volatility in asset valuations; to generate a stable rate of contribution; and to maintain consistency in reporting, consistency in funding, and consistency in benefit payments. Mr. Newton reported that FPPA's current asset smoothing method is 3-year smoothing with a 20% corridor. He suggested that the board consider changing one of these or dropping the corridor. He reviewed the actuarial standards of practice and examined the asset valuation methods of other pension systems. He provided several projection examples, each with varying smoothing time periods.

Mr. Newton explained the advantage of considering together the smoothing caused by the asset valuation method and the amortization of asset gains and losses. He compared the "individual" deferral recognition and the "aggregate" deferral

recognition methodology. He recommended changing to the "aggregate" deferral method in which a new gain or loss can be offset against the remaining deferral bases immediately. The "aggregate" method lowers volatility up to 35% and creates the anticipation for a trend in only one direction. The "aggregate" method would allow the board to lower the contribution rate volatility for employers, but still maintain the 3-year smoothing period. Mr. Newton said that 3-year smoothing can create a "soft" corridor, and a "soft" corridor provides protection without volatility, particularly in the old hire plans. Mr. Newton recommended changing to the 3-year aggregate smoothing with no corridor. He answered questions from the board.

At 10:33 a.m., Vice Chairman Nash made a motion to use 3-year aggregate smoothing with no corridor, effective January 1, 2010. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Continuation of Hearing for Jennifer M. Browne
Regarding the Denial of On-Duty Status
Related to her Award of Disability Benefits

Mr. Lindahl reported that post-hearing briefs regarding case arguments were presented to the board for consideration prior to today's meeting. These briefs, which the board previously had requested from Richard Radabaugh, on behalf of Jennifer M. Browne, and from Mr. Lindahl, on behalf of the FPPA Death and Disability Committee (DDRC), were available in the board packet. Mr. Lindahl acknowledged Timothy J. Parsons, attorney and FPPA outside counsel, who was present to offer legal advice and any assistance to the board in making their required decision. Mr. Radabaugh and Ms. Browne were not present.

At 10:35 a.m., Chairman Johnson called to order the continuation of the previous hearing for Jennifer M. Browne regarding the denial of on-duty status related to her award of disability benefits. Mr. Lindahl reported that additional evidence and testimony submitted to the board at the hearing on March 18, 2010, further supported the findings, conclusions and recommendation issued by the hearing officer on April 10, 2009. Mr. Lindahl and Mr. Parsons answered questions from the board.

Mr. Miller made a motion to approve the previous board hearing minutes from the board meeting of February 25, 2010. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR. Monica Cortez-Sangster abstained.

Mr. Miller made a motion to include the post-hearing briefs in the record as part of the hearing packet. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Chairman Johnson called for questions or any discussion regarding the post hearing briefs.

At 10:42 a.m., Sue Eaton made a motion to deny an award of on-duty disability status. Ms. Eaton based her motion on the evidence before the board of directors, including the medical evidence submitted with the member's application for disability retirement benefits, the member's workers' compensation records, contemporaneous employer records submitted by the member, the opinions of FPPA's physicians, the testimony of the applicant, and the post-hearing brief submitted by Richard Radabaugh, attorney for Ms. Browne, and the post-hearing brief submitted by Mr. Lindahl, FPPA's General Counsel on behalf of the FPPA Death and Disability Review Committee, which support the denial of the application for a determination of on-duty disability status pursuant to C.R.S., 31-31-806.5,

Ms. Eaton moved that the board deny Ms. Browne's application and find that the disability for which she has been awarded a disability retirement is not the result of an injury received while performing official duties, nor an occupational disease arising out of and in the course of her employment. Ms. Eaton further moved that staff be directed to prepare written findings as a result of this hearing, and that those findings be presented to the board for consideration at a subsequent board meeting. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. At 10:43 a.m., Chairman Johnson declared the hearing closed.

Hearing to Approve Disability Downgrade Application Of Bruce E. Sturtevant

At 10:45 a.m., Chairman Johnson called the hearing to order. Mr. Lindahl reviewed the case of Bruce E. Sturtevant, firefighter for the Cunningham Fire Protection District. Mr. Lindahl reported that Mr. Sturtevant was placed on permanent occupational disability, effective December 30, 2006. Mr. Lindahl reported that Mr. Sturtevant is now applying for a disability downgrade to "not disabled," stating that his condition has now resolved and he is physically fit for return to duty as a firefighter. Mr. Lindahl and Ms. McGrail answered questions from the board.

At 10:50 a.m., Mr. Bower made a motion to grant Bruce E. Sturtevant's request to change his disability status from permanent occupational disability to no longer disabled. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Chairman Johnson declared the hearing closed.

The meeting recessed for break until 11:00 a.m. Melanie Winters and Jeff Kaszubowski joined the meeting.

Clifton Gunderson LLP – 2009 FPPA Audit Report

Chairman Johnson welcomed the representatives of the independent audit firm of Clifton Gunderson LLP to the meeting. Kim Collins formally introduced Bill Petri and Steve Shanks to the board. Ms. Collins acknowledged Melanie Winters, FPPA accounting manager, who had prepared a large part of the FPPA financial statements and worked diligently with the Clifton Gunderson staff auditors in

supplying documentation in support of the audit of the financial statements for the year ended December 31, 2009.

Mr. Petri congratulated FPPA for being awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for 2008. Mr. Petri and Mr. Shanks gave a review of the 2009 audit process. Mr. Petri stated that FPPA had received an unqualified, or "clean," audit opinion. He reviewed the advisory comments and recommendations regarding investment disclosures and answered questions from the board. Mr. Slack and Ms. Collins stated that staff understands and agrees with the areas of suggested change and that staff will take steps to implement Clifton Gunderson LLP recommendations. Mr. Petri and Mr. Shanks concluded their presentation and left the meeting at 11:29 a.m.

Mr. Slack reported that the board will conduct a written evaluation of the independent auditors at the May meeting. Mr. Blumenthal stated that best practices would suggest the creation of an audit committee, working with an internal audit program. Mr. Slack suggested placing the discussion of this issue on the agenda for the annual planning meeting in July.

STAFF REPORT

Mr. Slack reported on a letter received from an FPPA member in which the member expressed appreciation for the dedication of the FPPA staff, particularly in processing claims for disability benefits.

Mr. Slack reported that staff is progressing with the strategic plan projects and goals, and he referred to 1Q Update of the FPPA Strategic Plan 2010-2012, available in the board packet.

Mr. Slack provided a red-lined draft update of the FPPA Board Governance Manual. He praised the fiduciary and board conduct guidance it offers.

Mr. Slack briefly reviewed the most significant proposed changes and requested feedback. Mr. Slack and Mr. Lindahl answered questions from the board. It was the consensus of the board to approve this first draft update. Mr. Slack requested that further comments and suggestions be emailed to him. The board requested that a second draft with additional red-lined changes and updates be submitted at the board's annual planning meeting in July for final review and approval.

LEGAL REPORT

Mr. Lindahl reported on the litigation update and the activities of the legal department. He gave an update on HB -10-1354, which eliminates the Pension Reform Committee and interim committees. Mr. Lindahl reported that the bill has passed in the House and will be heard in the Senate on Monday. He stated that the

bill remains in its original form with the amendment that replaces interim committees with a joint committee to which FPPA would report.

Mr. Lindahl reported that the legal department is currently developing a document retention policy and corresponding program. He anticipates hiring a consultant to assist with determination of retention for electronic documents. Legal is preparing the return to work rules adopted by recent legislation; the simplification of the SWD&D hearing officer process; and the draft request for proposal regarding outside investment counsel. These projects will be presented to the board at the May meeting. Mr. Lindahl answered questions from the board.

CHAIRMAN'S REPORT

Chairman Johnson asked Mr. Hesalroad for his evaluation of the Fiduciary College 2010 at Stanford Law School. Mr. Hesalroad reported that the seminar was well-attended and offered valuable fiduciary education and insightful panel discussions. He commended Mr. Slack's moderation of a panel discussion regarding building effective relationships with fellow board members, staff and stakeholders. Mr. Hesalroad provided a bound copy of the conference materials and other pertinent fiduciary articles supplied at the seminar for board review.

Chairman Johnson reported on his recent attendance at the OPAL Public Funds Pensions Forum in Jacksonville, FL. He stated that the conference had excellent guest speakers who addressed today's turbulent financial environment and the critical issues facing the investment success of pension funds.

Chairman Johnson led a discussion of the duties and responsibilities of the IRC. It was the consensus of the board to appoint Kirk Miller and Todd Bower to serve as IRC members and Cliff Stanton to serve as alternate member.

At 12:32 p.m., Mr. Blumenthal made a motion to adjourn the board meeting. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.