

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS**

**January 21, 2010**

**FINAL Agenda**

- 7:30 a.m. Call to Order**  
Approval of December 3, 2009 Board Meeting Minutes  
**Consent Calendar**  
Approval of Resolution 2010-1 Posting Notice of Public Meetings
- 7:35 a.m. Fidelity Presentation - Defined Contribution Plans**  
*Suzanne Rogers, Senior Managing Director*  
*David Thompson, Investment Consultant*
- 8:25 a.m. Investment Report**  
1. Review of November and December Performance  
2. Review of Managers  
3. Alternatives Investments Year-End Valuation Adjustment  
4. BNY Mellon Securities Lending – Account Structure  
5. Update on Foreign Exchange Trading Execution Analysis  
6. Other Matters
- 9:15 a.m. BREAK (15 minutes)**
- 9:30 a.m. Investment Decision-Making Process Discussion**
- 10:30 a.m. Lombard & Clayton Presentation**  
*Tony Lombard, FPPA Lobbyist*  
*Bill Clayton, FPPA Lobbyist*
- 11:00 a.m. BREAK (15 minutes)**
- 11:15 a.m. Legal Report**  
1. Litigation Update  
2. Legislative Update  
3. Other Matters
- 11:25 a.m. On-Duty Status of Disability Hearing for Angelo L. Keranen**
- 12:00 p.m. Staff Report**  
1. Resolution to Disaffiliate: Del Norte FPD Volunteer Pension Plan  
2. Colorado Springs Actuarial Study Request  
3. Other Matters
- 12:25 p.m. Chairman's Report**  
1. Monthly Discussion  
2. Other Matters
- 12:45 p.m. LUNCH**

**FIRE AND POLICE PENSION ASSOCIATION  
MINUTES - BOARD OF DIRECTORS MEETING  
January 21, 2010**

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

**BOARD MEMBERS PRESENT:** Chairman Leo Johnson (8:11), Vice Chairman Tim Nash, Kirk Miller, Jack Blumenthal, Lyle Hesalroad, Todd Bower, Cliff Stanton, Monica Cortez-Sangster, and Sue Eaton.

**BOARD MEMBERS ABSENT:** None.

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

**STAFF MEMBERS ABSENT:** Kim Collins

**OTHERS PRESENT:** Neil Rue and John Linder, Pension Consulting Alliance (PCA); Suzanne Rogers and David Thompson, Fidelity Investments; Tony Lombard and Bill Clayton, Lombard & Clayton Inc.; Angelo L. Keranen, retired West Metro Fire Protection District.

*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 7:31 a.m., Vice Chairman Tim Nash called the meeting to order and noted that there was a quorum present. Vice Chairman Nash called for motions to approve the minutes and the consent calendar.

Kirk Miller made a motion to approve the minutes of the December 3, 2009, Board meeting. Todd Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Bower made a motion to approve Resolution No. 2010-1 (Posting Notice) as written. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

## **FIDELITY INVESTMENTS PRESENTATION**

Scott Simon summarized the services offered by Fidelity Investments, a recordkeeping and service provider for the FPPA defined contribution plans. Mr. Simon welcomed Suzanne Rogers, Senior Managing Director, and David Thompson, Vice President-Investment Consultant. Mr. Thompson presented an overview of the investment portfolio and Ms. Rogers presented the annual plan review. The FPPA average plan balance in 2009 increased 28% over 2008.

Mr. Thompson provided a market recap of 2009. Investors were rewarded for taking on risk; the closest comparison is to 2003. Growth oriented sectors did best. The investment spectrum has been covered very efficiently by FPPA's fund lineup. Like others, we partition the fiduciary oversight. We have a streamlined core, where we maintain fiduciary oversight and a brokerage window for those who want to go beyond that. Jack Blumenthal expressed concern about how we educate our members to understand how to invest. Ms. Rogers responded that education of members is key and noted that Fidelity works with Gina McGrail and her staff to provide targeted education for FPPA members. Mr. Thompson commented that less than 50% of plans have a brokerage window; about 31% of plans our size offer the brokerage window. It was also noted by Ms. Rogers and Ms. McGrail that the West Metro affiliation could not have occurred without having a brokerage window – it was insisted on by those members. Ms. Rogers also noted that Fidelity does provide the Portfolio Advisory Service where, for a fee, Fidelity can manage participants' money for them. In addition, the Fidelity lifecycle funds are offered to FPPA participants.

Dan Slack asked about Fidelity's philosophy on asset mix at retirement in lifecycle funds. Mr. Thompson responded that Fidelity's philosophy is that lifecycle funds do not go to cash-like risk at age 65 (the age that lifecycle funds are designed around), but are at about 50% stocks at that age, ratcheting down over 15 years to about 20% stocks and 80% cash. In response to questions from Cliff Stanton, Mr. Thompson responded that Fidelity targets a 5-7% annual return for the lifecycle funds. Mr. Thompson noted, however, to meet income needs in retirement, people may need to have a withdrawal rate that is higher than they might prefer. In response to a question from Mr. Bower, Ms. Rogers and Ms. McGrail noted that the FPPA lifecycle funds are specifically designed with a roll down to an age 55 retirement to accommodate the demographics of our membership.

Mr. Simon asked what Mr. Thompson thought about the idea of unitizing interests in our DB plan. Mr. Thompson said his opinion is that FPPA is at the size where we could do that, but there is a transparency issue, as those units would not be publicly quoted.

Mr. Thompson and Ms. Rogers concluded their presentation at 8:33 a.m. and left the meeting.

## **INVESTMENT REPORT**

Mr. Simon provided a handout summary of FPPA defined contribution mutual fund monthly monitoring. He reported that watch criteria for several lifecycle & balance funds were currently under review and that watch list status was triggered by Fidelity's International Equity Fund. Mr. Stanton asked about qualitative aspects of our watch list for DC investments. Mr. Simon acknowledged that the watch list criteria are mostly quantitative at this time, but staff is planning to update the DC watch list criteria.

Mr. Miller made a motion to place Fidelity Diversified International Fund on Watch. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon provided a review of the FPPA Total Fund net performance for November 2009, reporting the month's strong ending performance of 3.38% and a preliminary year-end portfolio performance estimate of 19.9%. He reported continued positive performance of equity and bond markets into early January. Mr. Simon reported that the investment staff had conducted on-site diligence with FPPA's public equity managers and Staff continues to analyze the fit of each manager into the new Global Equity strategy of the FPPA portfolio.

Mr. Simon reviewed the recent organizational changes within Metropolitan West Asset Management, LLC (MetWest) and Trust Company of the West (TCW). FPPA investment staff and PCA consultants recommended placing both managers on watch status. The investment staff will continue to monitor the situation with TCW, reporting back to the Board should circumstances warrant any immediate action, and to evaluate whether TCW is an appropriate fit within FPPA's fixed income allocation. In response to a question from Neil Rue, Mr. Simon discussed our investments with WAMCO and TCW. Mr. Simon commented that the investment portfolios of these two managers are not really core – they take on more credit risk than would be expected in a core portfolio. Mr. Blumenthal asked about our ability to act on investments when we see excessive credit risk being taken. Mr. Simon said that analyzing credit risk will be a priority in looking at our existing manager lineup and determining how the existing managers fit in the new asset allocation.

Mr. Simon reported that the real estate portfolio continues to show negative performance. Mr. Simon reviewed historical industry standard roll-forward methodology in valuing private equity and real estate investments. Following the market turmoil during the fourth quarter of 2008, the investment staff solicited analyses from FPPA's alternative asset consultants regarding the impact public markets had on private asset values. Staff had discussions with Bondi & Co, FPPA external auditors. The investment staff elected to adjust the roll-forward valuations downward by the consultant estimates. Staff met recently with the new external

audit firm, Clifton Gunderson LLP, and it was agreed that the market impact analysis is current best practices and should be adopted by FPPA as an ongoing practice. The investment staff recommends that this practice of marking portfolio values up or down be placed in the Master Statement of Investment Policies and Objectives, according to the amendment provided for board review and approval.

Mr. Bower moved to allow FPPA staff the flexibility to change the Master Statement of Investment Policies and Objectives and to adjust the Valuation of Partnership Investments and the Valuation of Real Estate Fund Investments sections of the portfolio as written in the amendment. Mr. Blumenthal seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon reviewed the background and account structure of FPPA's securities lending manager, BNY Mellon. The investment staff continues to evaluate moving to a pooled vehicle structure for the program. Mr. Simon provided an update on staff's analysis of BNY Mellon's foreign exchange trading execution. Staff continues to pursue more information on how foreign exchange transactions are conducted. Mr. Simon, Mr. Rue and John Linder answered questions from the board.

Mr. Miller moved to ratify the prior action taken to place MetWest and TCW on watch status. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

At 9:12 a.m., the meeting recessed for Break and reconvened at 9:30 a.m.

### **INVESTMENT DECISION-MAKING PROCESS**

Mr. Simon reviewed background of the framework for a new investment decision-making process. He provided documentation of policies and procedures from other pension organizations similar to FPPA to aid the development of a "best practices" model for board approval. Mr. Simon reviewed the existing investment process that operates under a solid governance structure, as guided by the FPPA Master Statement of Investment Policies and Objectives. The Master Statement implements best practices in many areas of investments and the Board reviews and approves any changes to these guidelines.

Based upon staff's research of governance resources and policy examples of other institutions, Mr. Simon reported on the proposed changes to investment policies, as suggested by FPPA investment staff and consultants:

- (1) Manager selection/termination (liquid asset classes) would be the responsibility of the board.
- (2) Manager/fund selection (illiquid asset classes) would be conducted primarily by external consultant(s), with FPPA investment staff maintaining

involvement in the diligence, portfolio construction process and the right to veto fund selection.

(3) Authorizing limited FPPA investment staff discretion to conduct diligence and make fund commitments no larger than 1.5% of the portfolio. This process would require that there be a concurrence of opinion from a consultant before an investment could be made and that the board monitor, review and approve the investment process.

(4) Creation of an Investment Risk Committee (IRC) to assist the board in monitoring and ensuring that the FPPA investment staff is following established policies and procedures. The IRC would be made up of the CEO, General Counsel and 1-2 Board members. The IRC would meet approximately every two weeks and would not have authority to approve investments.

(5) Separation/clarification of the roles of the board consultant(s) and external investment consultant(s).

(6) Enhancement of manager monitoring procedures, allowing FPPA investment staff the flexibility to modify the watch list criteria to include risk assessments and to reconsider the formal process of notification to managers on watch list. Content of manager presentations to the board will shift to being more educational.

Mr. Blumenthal asked about the role of the consultants in the new process, and Mr. Simon further explained the distinction between the roles of the board consultant(s) and the staff consultants. Mr. Slack reiterated his support of the proposed process.

Mr. Rue indicated that PCA is supportive of the basic concept. He agrees with granting more authority to staff, particularly with manager selection and fund selection. The responsibility for asset allocation won't change. Mr. Rue isn't necessarily opposed to the staff being responsible for portfolio construction, but this is the area which studies indicate matter most to fund returns, second only to asset allocation. PCA prefers more of a joint recommendation process.

Mr. Blumenthal said his fear is that we wake up one day with a large loss of assets, and raised various questions to be considered as we proceed. How do we manage the risk of something like that happening? Should we be hiring a firm to come in once a year and give a "30,000 foot" look at the program, and also have the analytics to make sure these private investments are doing what they should do? Is the proposed Investment Risk Committee on the phone during the meetings? Does the committee present to the board? Mr. Bower noted that there is always risk in the investment process, and that can't be totally eliminated, and he is comfortable with what the staff proposes.

Mr. Slack suggested possible quarterly or annual board consultant review of the portfolio. Mr. Rue said that PCA believes that the general (board) consultant should at a minimum concur regarding portfolio construction issues. Mr. Bower suggested that Mr. Rue, Mr. Slack and Mr. Simon meet to further discuss the portfolio construction issue. Kevin Lindahl was asked if it would be permissible to have a board member on the proposed Investment Risk Committee. He said that it would be.

It was the general consensus of the board members to give the staff approval to proceed with drafting revisions to the Master Statement of Investment Policy and Objectives. The revised document will be presented to the board for review and approval at a later date. The investment staff left the meeting.

### **LOMBARD & CLAYTON, Inc. PRESENTATION**

Chairman Johnson welcomed Tony Lombard and Bill Clayton, FPPA's lobbyists, who presented a 2010 Legislative Overview. They reported that this session of the legislature will be dominated by budget shortfall issues, term limits and resignations of legislative leadership in both the House and the Senate, and 2010 election year politics. Mr. Lombard and Mr. Clayton reviewed three general election ballot initiatives that could have significant implications on state and local governments (Proposition 101, Amendment 60, and Amendment 61). They reported on the FPPA 2010 legislative agenda, which includes: HB10-016, FPPA Retired Board Member Term Extension; SB10-022, Authority for an election to approve an increase in the member contribution rate; SB10-023, Return to work by an FPPA Member Participating in the Defined Benefit System; and SB10-024, Elimination of the local money purchase plan affiliation. Also on the agenda are SB10-01, Eliminate PERA's unfunded liability (concerning modifications to the public employee retirement system necessary to reach a 100% funded ratio within the next 30 years) and SB10-021, Volunteer firefighter pension plans (not an FPPA bill). Mr. Lombard reported that the date for Senate confirmation hearings will be announced early next week. Mr. Lombard and Mr. Clayton answered questions from the Board and staff. The board requested that the lobbyists provide legislative bill status updates to the board. The lobbyists will send that information to Mr. Lindahl and he will ensure that it is forwarded to the board. Mr. Lombard and Mr. Clayton concluded their presentation and left the meeting.

At 11:07 a.m., the meeting recessed for Break and reconvened at 11:15 a.m.

### **LEGAL REPORT**

Mr. Lindahl reported that the fraudulent conveyance action against FPPA and others as Noteholders in the G-1 Holdings case has been stayed indefinitely pending the outcome of related matters in Bankruptcy Court. The Bankruptcy Court adopted

the final reorganization plan of the Debtors and the Asbestos Claimants Committee. The IRS appealed the adoption of the plan and that appeal is now pending. Mr. Lindahl gave a legislative update and explained the passage process through the House and Senate of the FPPA bills. Mr. Lindahl will continue to seek a date for the confirmation hearings of trustees Todd Bower, Jack Blumenthal and Lyle Hesalroad, and he will notify all board members when the date is confirmed.

**ON-DUTY STATUS of DISABILITY HEARING**  
**For Angelo L. Keranen**

Chairman Johnson called to order the On-duty Status of Disability Hearing for Angelo L. Keranen, retired Deputy Fire Marshal for West Metro Fire Protection District. He welcomed Mr. Keranen, who was in attendance at the hearing. Mr. Lindahl reported that Mr. Keranen filed for on-duty status of disability benefits on April 1, 2009, and Mr. Keranen was granted permanent occupational disability benefit by administrative decision on September 22, 2009. Mr. Keranen's application was referred to Hearing Officer Michael W. Sutherland and an evidentiary hearing was held on October 30, 2009. Hearing Officer Sutherland concluded that Mr. Keranen had not met his burden of proving that his permanent occupational disability arose out of and in the course of his employment as a firefighter. The application was referred to the Board for final decision. Hearing Officer Sutherland recommended that the Board find and determine that the permanent occupational disability of Mr. Keranen does not meet the statutory and regulatory requirements of an on-duty disability. Chairman Johnson allowed comments from Mr. Keranen, who reviewed evidentiary data and documents in support of his on-duty disability application. Mr. Keranen testified that he felt his condition is a cardiac condition, caused by stress causing cortisol release, which in turn caused plaque buildup and damage to his arteries and heart muscles. Mr. Keranen stated that he did not have any new supporting evidence to submit for consideration by the board.

Mr. Stanton moved to affirm the written Findings, Conclusions, and Recommendation of Hearing Officer Sutherland, dated November 24, 2009, with respect to the on-duty status of Angelo L. Keranen and that the board enter an order finding that Angelo L. Keranen's disability was not due to a work-related injury, as recommended by the Hearing Officer. Lyle Hesalroad seconded the motion. Chairman Johnson called for a roll call vote. The votes cast by Trustees were: Todd Bower – No; Jack Blumenthal – Yes; Monica Cortez-Sangster – No; Sue Eaton – Yes; Lyle Hesalroad – Yes; Leo Johnson – No; Kirk Miller – No; Tim Nash – Yes; Cliff Stanton – Yes. THE ROLL CALL VOTE PASSED IN FAVOR.

At 12:15 p.m., Chairman Johnson declared the Hearing closed, and Mr. Keranen left the meeting.

## **STAFF REPORT**

Gina McGrail reported on the receipt of the Resolution of intent to terminate the affiliation agreement and disaffiliate Del Norte Fire Protection District Volunteer Pension Plan from FPPA, with an effective date of April 1, 2010. Ms. McGrail reported that the FPPA communication staff contacted the District and offered to attend a meeting to address the Volunteer Pension Board's concerns regarding the 2009 investment fund performance, the economic environment, and the asset value of the Del Norte FPD Volunteer Pension Plan. There has been no response from the Pension Board.

The board expressed concern for the members of the Del Norte FPD Volunteer Pension Plan. Upon questioning whether FPPA was required to accept the disaffiliation, Mr. Lindahl advised the board that there is no statutory mechanism for stopping or preventing disaffiliation. The board expressed concern about the retirees no longer receiving benefit checks from FPPA, and staff was directed to write the benefit recipients and advise them of this change.

Mr. Hesalroad made a motion to approve the disaffiliation from FPPA of the Del Norte Fire Protection District, effective on April 1, 2010, and send written notification to the impacted retirees and survivors. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Slack reported on the Colorado Springs Actuarial Study Request and provided background regarding his presentation to the City Council of the City of Colorado Springs on September 21, 2009. He subsequently received a letter from the city's Chief Financial Officer, Terri Velasquez, requesting information regarding the transfer of the Colorado Springs New Hire Pension Plan – Police Component and the Colorado Springs New Hire Pension Plan – Fire Component (collectively the "New Hire Plan") to the Statewide Defined Benefit Plan (SWDB). Mr. Slack cited statutes, rules and regulations that allow FPPA and the employer to amend the Plan and allow members to voluntarily transfer their benefits to the SWDB Plan on terms that are mutually agreeable and without an election of the members. In his letter to Ms. Terri Velasquez, Mr. Slack explained that the plan document does not allow the employer to require members to switch plans. He suggested that if the city wished to pursue the concept of actuarial necessity to change the plan document that the employer sponsoring the plan would need to seek its own legal counsel. Mr. Slack noted that there have been further developments since his memorandum to Ms. Velasquez. The city has requested that an actuarial study be done by the plan's actuary, at the city's expense, to determine the actuarial cost of transferring all existing New Hire members to the Statewide Defined Benefit Plan, effective January 1, 2011.

In other Staff matters, Mr. Slack reported: (1) Financial Reports will be changing effective with the January 2010 reports to be easier to read and understand, with defined benefit financial information separated from defined contribution financial

information; (2) the first FPPA Employee of the Year was announced at the December holiday party, when Chairman Johnson presented the 2009 Award to Michelle Romano, FPPA Payroll Accountant; (3) the FPPA internal auditor's next audit will report on the Disability Program; and (4) the structure of the defined contribution plan and the service provider is under review by staff. The Strategic Plan calls for a periodic Request For Proposal (RFP) for the service provider for the defined contribution plan. Staff is conducting a search for a DC consultant to assist with this process. Mr. Slack stated that eleven RFP's have been received, from which 3 finalists have been selected for interview. These interviews will be conducted in the next week.

### **CHAIRMAN'S REPORT**

Chairman Johnson and Vice Chair Nash reported that the CEO review had been conducted with Mr. Slack. All trustees' ratings were excellent and comments were positive. Mr. Slack provided a new format in the board packet that listed educational events for 2010 in three categories: (1) independent conferences or meetings; (2) client conferences; and (3) underwritten conferences. Mr. Slack urged trustees to take advantage of the educational and networking opportunities by attending the educational events listed in the monthly board packet.

At 12:49 p.m., Mr. Miller made a motion to adjourn the board meeting. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.