

**Board Education Session  
Emerging Markets**

**November 19, 2010**

**Agenda**

**9:00 Emerging Markets Overview**

*Neil Rue, PCA*

*John Linder, PCA*

Evolution of emerging markets, country exposures, anticipated growth, institutional investors' exposure.

**9:30 Public Markets – Emerging Markets (via webex)**

*Tim Campbell, Baillie Gifford*

*Susan Swindells, Baillie Gifford*

*Amy Dymock, Baillie Gifford*

Public markets, benchmarks, investment flows, valuations, currency. Specific discussion on China, India and Emerging Markets Debt.

**10:30 Break**

**10:45 Private Markets – Emerging Markets**

*Scott Higbee, Partners Group*

*David Hunter, Partners Group*

Market opportunity, private vs. public markets, investment/country themes, case studies.

**12:00 Lunch**

**FIRE AND POLICE PENSION ASSOCIATION**  
**Board of Directors**  
**Educational Training Session: Emerging Markets**  
**November 19, 2010**

BOARD MEMBERS PRESENT: Chairman Tim Nash, Vice Chair Kirk Miller, Lyle Hesalroad, Jack Blumenthal, Leo Johnson and Todd Bower.

BOARD MEMBERS ABSENT: Monica Cortez-Sangster, Cliff Stanton, and Sue Eaton (all excused).

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

OTHERS PRESENT: Neil Rue and John Linder, Pension Consulting Alliance; Scott Higbee and David Hunter, Partners Group; Tim Campbell, Susan Swindells, and Amy Dymock, Baillie Gifford (via webex).

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

At 9:05 a.m., Chairman Tim Nash called the Educational Training Session to order. Mr. Nash welcomed the trustees and presenters to the Educational Training Session focusing on Emerging Markets. Dan Slack reported that the audit committee would meet at 7:30 a.m. on December 9<sup>th</sup>, delaying the start of the regularly-scheduled board meeting until 8:30 a.m.

Scott Simon opened the second board training session for 2010 and briefly reviewed the presentations on emerging markets. He reported that the recent investment move to a global equity portfolio strategy made the focus of FPPA exposure to emerging markets a timely and beneficial discussion topic for the education session. He provided a short video entitled *Did You Know?*, highlighting the technological, statistical and cultural changes evident in today's world.

**PCA Presentation: A Brief Introduction to Emerging Markets**

Mr. Simon welcomed Neil Rue and John Linder, who presented a three-part education of emerging markets.

1. *A brief historical review of emerging markets of what has occurred over time*

Mr. Linder stated that the definition of emerging market has shifted. While these capital markets in less developed nations were once characterized as risky and unproven, they are now characterized by rapid economic growth, expanding populations, and well-run economies with potential for high returns. He noted the changing composition of emerging markets, which is now led by the BRIC

countries (Brazil, Russia, India and China). Mr. Linder reported growth rates of emerging markets have been higher since 2000, showing a 70% increase over the last decade but with more volatile performance than developed markets. He noted that US institutional investors have been slow to embrace a global equity approach, but potential portfolio flow could be large, if they do. Mr. Linder reviewed the significant risks associated with emerging markets.

2. *An examination of future prospects for emerging markets*

Mr. Linder reported that emerging markets' share of world GDP may exceed 50% by 2020. He reported the projected economic growth within emerging markets over the next decade is expected to be more than three times faster than growth in advanced economies. Mr. Linder reported that with population growth, the economy of China and India could surpass that of the US within 40 years. Mr. Linder compared the distinctive investment approach between US companies with exposure to emerging markets and large global companies based in emerging markets. Mr. Rue noted that a total global orientation would be important in the future.

3. *Conclusions concerning the facts*

Mr. Linder reported that emerging markets are growing in worldly significance, will have an effect on FPPA's portfolio and cannot be ignored. He noted that, while emerging market are compelling and rapidly changing, they still pose a great investment risk and warrant heightened investment due diligence. PCA does not believe that the volatility of emerging markets will subside and may present a future bubble.

**Baillie Gifford Presentation: Public Markets – Emerging Markets**

Mr. Simon and Claud Cloete welcomed via webex three presenters with Baillie Gifford, the investment firm in Edinburgh, Scotland, that manages the emerging markets equity portfolio for FPPA. Tim Campbell reported that the FPPA portfolio has been exposed to the fast-changing asset class of emerging markets since 2002. Mr. Campbell reported that emerging markets weighting in MSCI All Country World Index is currently 14%, and the average emerging markets total equity exposure is 6%. He noted that exposure to emerging markets should be approached with caution and due diligence. Mr. Campbell noted that emerging markets are in a better position to address the quantitative easing inflows than in recent years. He also noted that the economic growth of any particular emerging market country does not necessarily translate to a strong stock market in that country. Mr. Campbell reported that China has emerged as one of the largest global investment opportunities and cannot be overlooked. China consumes 20-50% of the world's commodities and long-term growth prospects in China will dominate the investment world in the future.

Amy Dymock provided a comparison of investment opportunities in India to those in China. Ms. Dymock noted the growth of India's youthful workforce and increasing number of consumers within the next 15 years. She reported that the rural population is in transition with real income growth and credit availability. The Indian government is struggling to bring about change, and overall the country offers huge investment opportunities in banking, domestic consumption and attractive companies, such as those that sell cars and motorcycles.

Susan Swindells reported on the attractiveness of investing in local currency and emerging market debt. The debt level in emerging markets is lower than in developed economies, which makes it quite attractive in the portfolio.

Ms. Swindells reported that emerging markets local currency debt is growing and credit quality is improving. Baillie Gifford expects that trend to continue.

Ms. Swindells noted that exposure to local currency affords a higher yield than currency hedging.

The education session recessed for break.

### **Partners Group Presentation: The case for building Emerging Markets private equity exposure**

Mr. Simon introduced Scott Higbee and David Hunter of Partners Group, a global private markets investment manager, who presented the case for investing in emerging markets private equity. Mr. Hunter presented background information on the Partners Group firm, and Mr. Higbee presented a comparison of exposure opportunities within private equity versus public equity in emerging markets. Mr. Higbee noted that his firm has global offices with managers who reside in-country, speak the language, know the local customs, and who conduct due diligence on-site. He provided the global investment process and secondary buyout investment strategy of Partners Group. He described the firm's monthly committee meetings to assess the opportunities within each emerging marketplace to determine where they will allocate capital.

Mr. Higbee noted that economic power is shifting from the U.S. and Western Europe to the BRIC countries, with future growth driven by domestic consumption in China and India. Mr. Higbee emphasized the length of time necessary for private equity firms to negotiate lower prices and better terms, to build team and provincial relationships, and to align interests between investors and private companies that ensure investments are as risk-reduced as possible. He stated that the transparency created in private equity investments leads to more informed decisions and diversified exposure for real growth than is commonly available with larger, more competitive public markets investors. Mr. Higbee noted that the structure and the expected holding period of private equity investments allow long-term planning with lower volatility. He reported that private equity typically targets companies that are at the growth capital stage of the company life cycle. He reported that in the last decade the number of capital transactions in emerging

markets private equity have increased significantly. Accordingly, Mr. Higbee recommends a combination of both public and private equity exposure.

Mr. Nash thanked the presenters for their time and informative presentations. He requested that all board self-evaluation forms be sent to him and he will provide a summary at the December board meeting. Mr. Nash noted that he had forwarded by email the CEO evaluation forms which should be completed prior to the December meeting. Leo Johnson provided information about several future conferences of interest to trustees. Mr. Simon announced that the Investment Risk Committee would meet immediately following the education session. Mr. Nash stated that no final action, votes or motions were made or taken during the education session.

At 12:10 p.m., the education session adjourned.