

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
October 28, 2010  
Agenda**

<b><u>Time</u></b>	<b><u>Agenda item</u></b>
7:30 a.m.	<b>Call to order</b> Approval of September 30, 2010 Board Meeting Minutes Approval of Executive Session Minutes <b>Consent Calendar</b> Approval of Certification of Compliance - West Metro FPD
7:35 a.m.	<b>Investment Risk Committee Report</b>
7:50 a.m.	<b>Investment Report</b> <ol style="list-style-type: none"><li>1. Review of September 2010 Performance</li><li>2. Review of managers</li><li>3. Update on rebalancing activity</li><li>4. Update on manager searches</li><li>5. PCA Risk Metrics Report</li><li>6. Other Matters</li></ol>
8:35 a.m.	<b>Audit Committee Report</b>
8:50 a.m.	<b>Legal Report</b> <ol style="list-style-type: none"><li>1. Litigation update</li><li>2. Legislative update</li><li>3. Other Matters</li></ol>
9:05 a.m.	<b>Staff report</b> <ol style="list-style-type: none"><li>1. CEO report</li><li>2. ERISA Exculpatory Provisions discussion</li><li>3. Other matters</li></ol>
9:20 a.m.	<b>Break</b>
9:35 a.m.	<b>2010-2012 Strategic Plan Update</b>
10:05 a.m.	<b>2011 Budget Discussion</b>
11:35 a.m.	<b>Chairman's report</b> <ol style="list-style-type: none"><li>1. 2010 Conference Evaluation – IMN Public Funds Summit (Kirk)</li><li>2. Approval of proposed 2011 Board Schedule</li><li>3. Distribution of board self-evaluation forms</li><li>4. Other matters</li></ol>
11:50 p.m.	<b>Adjourn and Lunch</b>

**Fire and Police Pension Association  
Board of Directors Meeting Minutes  
October 28, 2010**

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

**Board Members Present:** Chairman Tim Nash, Vice Chairman Kirk Miller, Jack Blumenthal (via telecom until 10:54 a.m.), Lyle Hesalroad, Sue Eaton, Leo Johnson, Cliff Stanton, Monica Cortez-Sangster and Todd Bower.

**Board Members Absent:**

**Staff Members Present:** Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Claud Cloete, Jeff Kaszubowski, Sean Ross, Diane Braaton and Janette Hester.

**Others Guests Present:** John Linder, PCA; Chris J. Murphy, Vice President, McLagan; Detective Nikki Thomas, Pueblo, CO, Police Department.

*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 7:36 a.m., Chairman Tim Nash called the meeting to order and noted that there was a quorum present. Chairman Nash called for a motion to approve the minutes and the consent calendar.

Leo Johnson moved to approve the minutes of the September 30, 2010, board meeting. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved to approve the minutes of the September 30, 2010, executive session. Cliff Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved that the board approve the resolution for coverage under the FPPA Defined Benefit System and form of certification of compliance as submitted by the West Metro Fire Protection District, such coverage to be effective on March 1, 2011. Kirk Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

### **Investment Risk Committee Report**

Investment Risk Committee (IRC) Chairman Todd Bower reported that the IRC had met via webcast on October 12, 2010. Chairman Bower reported that the IRC discussed the following matters: Commonfund Capital Venture Partners investment and BlackRock Transition Management. Chairman Bower stated that details of the meeting would be provided in the investment report. Chairman Bower reported that, after discussion, the IRC and PCA had provided concurrence that staff's recommendations were in compliance with board policies. Chairman Bower stated that details of all investment matters discussed by the IRC are available for review on the board website.

### **Investment Report**

Scott Simon provided the monthly investment report for September. He reported the strongest September stock market performance in decades, pulling global equities into positive year-to-date territory. Despite challenges of fiscal sustainability in Europe, a slowdown in Chinese activity, global financial sector regulation and a faltering economic recovery in the U.S., Mr. Simon reported that the September rally was encouraged by the anticipation of additional monetary easing by the Federal Reserve and the results of midterm elections. He reported emerging markets outpaced developed markets, commodity markets soared, credit spreads tightened, and government bonds rose. Unemployment remained at 9.6% and the U.S. foreclosure process made the headlines. Mr. Simon reported the FPPA Total Fund increased 5.33% in September, bringing its performance to 5.98% year-to-date. The Total Fund closed the month of September with \$2.94 billion in net investible assets.

Mr. Simon reported that Baillie Gifford named Gerald Smith as its new CIO and that this change will not have a material impact on FPPA's exposure to their emerging markets portfolio. He reported the investment staff continues to evaluate a portion of the WAMCO portfolio to assess potentially holding it as an opportunistic investment, and staff will come back to the board with a recommendation in the future. Mr. Simon provided an update on alternative investments. He reported that September showed a healthy level of capital call outflows, although distributions kept pace, with large distributions coming from MetWest, Nordic and Leapfrog.

Mr. Simon reported on staff's recommendation to the IRC of a \$12 million commitment to Commonfund Capital Venture Partners, IX, L.P., a \$450 million fund-of-funds focused on investing in top-tier venture capital firms. He reported that PCA was engaged to conduct a review of staff's investment process and, subsequently, provided concurrence to the recommendation. The IRC reviewed the due diligence and legal review processes and provided concurrence that the recommendation was in compliance with board policies.

Mr. Simon reported that FPPA successfully transitioned its large cap equity exposure to a global mandate in September with minimal trading costs. He noted that staff was pleased with the execution of the transition by SSgM. Mr. Simon provided an overview of staff's recommendation to the IRC to approve BlackRock Transition Management as an acceptable transition manager for FPPA, noting in particular their capabilities with fixed income transition. He noted that at the September 30, 2010, meeting, the board had delegated to the IRC the authority to approve BlackRock as a transition manager, pending the satisfactory review and negotiation of a legal agreement.

Mr. Simon provided a memo from PCA regarding continuation of their 10% retainer fee reduction policy for another year, which initially began on October 1, 2009. He noted that the retainer fee reduction policy reflected PCA's views that many government-sponsored benefit plan clients were facing significant budgetary pressures. Mr. Simon provided a memo updating the list of scrutinized companies with active business operations in Sudan. He reported that as of August 2010, FPPA had no holdings on the updated list of companies and that FPPA is in compliance with the 2007 legislation.

Mr. Simon further reported that staff has conducted several diligence calls evaluating potential manager candidates for the open fixed income, non-U.S. small cap and emerging markets mandates. Mr. Simon reported that the November 19<sup>th</sup> board educational training session would focus on emerging markets. He answered questions from the board.

### **PCA Presentation - Market Risk Metrics**

John Linder provided a handout with investment charts and historical information for understanding risk measurement in current market conditions. He stated that there is volatility and instability in the market because the Federal Reserve has announced plans to buy risk assets. Significant takeaways in the October risk overview included the following:

- US public equity market valuations remain above their historical average.
- Emerging markets equity valuations have risen relative to developed markets.
- Private equity and private real estate valuation metrics indicate these sectors never got cheap. Few transactions are occurring.
- Credit spreads have narrowed from summer levels and are slightly above historical average levels.
- Equity volatility has come down from May highs.
- While still steep, the yield curve pitch has declined due to a drop in the 10-year Treasury yield, a sign of pessimism about economic growth.

- Market measures of inflation expectations have ticked up as real rates have dropped faster than nominal interest rates and commodity prices in dollar terms have risen on dollar weakness.
- Treasury yields are historically low, with 10-year expected real yields dropping to a 30-year low.
- Duration of the 10-year Treasury is near a 30-year high.

Mr. Linder answered questions from the board and concluded his presentation. The investment staff left the meeting.

### **Audit Committee Meeting Report**

Audit Committee Chairman Jack Blumenthal provided a review of the October 25<sup>th</sup> audit committee meeting. He reported the committee established the 2011 audit committee goals: (1) to thoroughly discuss audit issues prior to board meetings and present a concise overview and proposed position to the board; and (2) to monitor and coordinate the relationship between the internal auditor's plan and the independent auditors' plan. The committee also established the goals of the internal audits: (1) to keep the FPPA organization financially sound; (2) to coordinate the activities of internal audit and the independent auditors; and (3) to ensure accuracy of all benefits paid by the organization.

Mr. Blumenthal reported that the committee reviewed and prioritized the internal audit plan draft, as presented by Tim O'Brien, FPPA internal auditor. By consensus, the committee approved the following three audits in 2011:

- Audit of non-retiree payroll expenditure (operating and payroll);
- Audit of retirement, death and survivor benefits;
- Audit of disability retirement benefits.

Mr. Blumenthal reported the committee reviewed the 2011 internal auditor's contract and recommended total annual compensation not to exceed \$25,000. He stated that Mr. Slack would establish the scope of audits with Mr. O'Brien. Mr. Blumenthal noted that the next audit committee meeting is scheduled to immediately precede the December 9<sup>th</sup> board meeting. The committee will meet again in March 2011 to review the independent auditors' report. Mr. Blumenthal answered questions from the board and concluded his report.

### **Legal Report**

Mr. Lindahl provided the litigation report, stating that there had been no changes since the last report. Mr. Lindahl provided a copy of the lobbyist's 2011 contract, noting there had been no increase in total compensation. He recommended approval of the contract. Mr. Blumenthal suggested deferring action until after the budget discussion.

### **Staff Report**

Mr. Slack provided the CEO Report. He reported that the number of affiliations and re-entries into FPPA is increasing and that the communications team has scheduled informational meetings at the request of several fire and police departments. Mr. Slack reported that a retiree payroll reconciliation matter between the Statewide Defined Benefit Plan and the Statewide Hybrid Plan - Defined Benefit Component had been discovered and was being corrected. He noted that the internal auditor and external auditor had been notified and that resolution on this matter will be completed as part of the October financials. Mr. Slack provided information regarding the Employee Retirement Income Security Act of 1974 (ERISA) and the volunteer fiduciary insurance policy, which protects board members who have discretionary control or advisory authority over plan assets or investments. He stated that there is a provision in ERISA authorizing volunteer insurance policies to fiduciaries which would protect the fiduciaries against a pension fund's requirement that fiduciaries pay back legal fees involving claims of breach of fiduciary duty. Mr. Slack noted that FPPA cannot pay the premium and he offered the option of this individual insurance policy for trustees who elect coverage. Mr. Johnson asked for information regarding workers' compensation coverage for trustees involved in accidents while in service to FPPA. Kim Collins will investigate this matter and provide additional information at the December meeting. Mr. Slack answered questions from the board.

The meeting recessed for break.

Diane Braaton and Chris Murphy joined the meeting.

### **2010-2012 Strategic Plan Update**

Mr. Slack discussed the 2010-2012 Strategic Plan 3Q update in the board packet. He and staff reviewed the status of each goal and answered questions from the board.

1. Staff is in the process of developing web-based videos to explain benefits and to utilize technologies to conduct visitation presentations. Staff is working to implement approved rule changes for administering disability and survivor benefits, the administrative hearing process, and work after retirement. Staff continues to conduct final site visits regarding the defined contribution service provider search and will make a recommendation to the board by year-end.
2. Investment staff continues to consider and implement new asset allocations within the portfolio construction. Global equity implementation has been completed and significant work has been completed on the absolute return asset class.
3. Staff continues to develop the help feature and enhance the member account portal for rollout in the near future. Staff continues to work to formalize

4. technology security policies, and the reception area remodel plans are moving forward. The disaster recovery plan (DRP) has been updated and a test of the DRP for mission critical applications was successfully completed. Staff is completing contracts for implementation of the generator system and the upgrade of the computer room air conditioner system. Staff completed review of the invoice ID and comments within accounts payable to assist in determining duplicate invoices and incorporated new procedures. Rules changes have been implemented into ASPEN. Analysis with BNY Mellon has been completed and changes in the FPPA general ledger with a new format of financial reports has been completed. Review of financials has been completed and staff is moving towards a stylistic report to mirror changes in the investment policy.
5. Staff implemented processes to inventory records and are working on a content management/records management system project. Staff continues to develop model Old Hire plan document and seek to obtain IRS approval.
6. A new SWD&D hearing process has been adopted by rule and will be implemented by year-end. Rewrite of the SWD&D statutes has been deferred until 2012.
7. External survey of investment staff compensation and a survey of compensation of non-investment staff was completed by Human Resources. Successful payroll conversion was completed. CEO has been appointed to Standing Advisory Group of Public Company Accounting Oversight Board for two-year term, and he was elected vice chair of the Investment Committee of the City of Centennial. CEO, CBO and General Counsel have participated in numerous public speaking opportunities and professional presentations to broaden the expertise of staff and to educate members and the public on FPPA programs. An FPPA video showcasing how FPPA is "getting it right" is being planned.

Mr. Slack concluded the strategic plan update.

### **2011 Budget Discussion**

Mr. Slack discussed the proposed 2011 budget prepared by staff for board review. Mr. Slack noted that staff has worked hard to create transparency using best practices in the budgeting process and to ensure the accuracy of the numbers presented. Staff has laid the groundwork for accountability in measuring the performance and costs of the investment program and the new investment strategy. Staff has tried to set priorities related to the current economic environment and maintain focus on FPPA budget decisions, not the budget issues faced by municipal or state entities. Mr. Slack reported that FPPA continues to accumulate assets and members because the FPPA defined benefit plan provides security to public safety officers. He stated that FPPA is a well-funded, growth organization and the proposed 2011 budget supports that. Mr. Slack noted that staff will apply board guidance and comments received today, refine the budget numbers and present a final budget at the December board meeting.

Ms. Braaton provided a compensation and benefits overview and answered questions from the board. Mr. Murphy provided a competitive compensation analysis for the FPPA management and investment positions and answered questions from the board. Ms. Collins provided a memo and a detailed overview and explanation of planned expenses within several budget categories. Mr. Slack, Ms. Collins, and Mr. Lindahl answered questions from the board. Board members provided comments and opinions on the budget and requested additional specific information from Mr. Slack regarding the benefits provided to employees of FPPA.

Mr. Bower moved to approve the 2011 lobbyists' contract, effective October 1, 2010. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

### **CHAIRMAN'S REPORT**

Chairman Nash referred the board to a list of proposed 2011 dates for board meetings available in the board packet. Chairman Nash noted that the strategic planning session had been combined with the June educational training session. It was the consensus of the board to approve the 2011 dates as presented. Chairman Nash asked Mr. Miller to provide an overview of the IMN Public Funds Summit. Chairman Nash asked each board member to complete the board self-evaluation forms and return them to the FPPA office or bring them to the educational training session on November 19<sup>th</sup>. He will compile the data and provide it at the December board meeting.

Mr. Johnson moved to adjourn the meeting at 12:25 a.m. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.