

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
September 30, 2010
Agenda**

<u>Time</u>	<u>Agenda item</u>
8:00 a.m.	Call to order Approval of August 26, 2010 Board Meeting Minutes
	Consent Calendar Approval of Montrose FPD OH Plan Amendment Approval of Red, White and Blue FPD OH Plan Amendment
8:05 a.m.	Rulemaking Hearing
8:35 a.m.	Investment Risk Committee Report
8:50 a.m.	Investment Report <ol style="list-style-type: none">1. Review of August 2010 Performance2. Review of managers3. EnerVest investment recommendation4. Update of rebalancing activity5. Update on manager searches6. Other Matters
9:20 a.m.	Consideration of Hearing Officer Recommendation Regarding a Request for Change in Disability Status For Dallas J. Huber
9:30 a.m.	Break
9:45 a.m.	Legal Report <ol style="list-style-type: none">1. Litigation update2. Legislative update<ol style="list-style-type: none">a. 2011 legislative proposal3. Other Matters
10:00 a.m.	Staff report <ol style="list-style-type: none">1. CEO report2. Other matters
10:15 a.m.	Chairman's report <ol style="list-style-type: none">1. Monthly discussion2. Other matters
10:30 a.m.	Adjourn

**Fire and Police Pension Association
Minutes – Board of Directors Meeting and
Rule-Making Hearing
September 30, 2010**

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

Board Members Present: Chairman Tim Nash, Vice Chairman Kirk Miller, Jack Blumenthal, Lyle Hesalroad, Sue Eaton, Leo Johnson, Cliff Stanton and Todd Bower.

Board Members Absent: Monica Cortez-Sangster (excused).

Staff Members Present: Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Claud Cloete, Gina Witsell and Janette Hester.

Others Present: Robin McGee, Court Reporter; Tony Lombard, FPPA lobbyist.

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 8:01 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 approval of the minutes of the August 26, 2010, board meeting, as corrected. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Todd Bower abstained.

Mr. Johnson moved that the board find that the Montrose Fire Protection District's Old Hire Fire Pension Plan amendments, as set forth in Resolution 2010-5, will maintain the actuarial soundness of the plan and, further, that the board permit the plan modifications. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved that the board find that the Red White and Blue Fire Protection District's Old Hire Fire Pension Plan amendments, as set forth in Resolution 2010-10 and Resolution 2010-11, will maintain the actuarial soundness of the plan and, further, that the board permit the plan modifications. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Rule-Making Hearing

Notice of the Proposed Rule-Making Hearing was advertised in the *Denver Post* on September 9, 2010. Notice was mailed to all municipalities and fire protection districts employing full-time police officers and firefighters and to any persons and entities who requested that they receive such notice. Notice was posted on the FPPA website at www.fppaco.org, in the building lobby of FPPA, and in the reception lobby of FPPA offices at least twenty-four hours prior to the meeting. A copy of the Proposed Rules for Public Review has been available through the legal department and the website.

Chairman Nash convened the public Rule-Making Hearing to order at 8:03 a.m. to consider the proposed rules. Kevin Lindahl introduced Gina Witsell, FPPA paralegal who had assisted in the preparation of the rules and exhibits for the hearing. Mr. Lindahl stated that FPPA had met the requirements of state law and FPPA Rule 702.01 to provide public notice of the hearing. Mr. Lindahl outlined the basis and purpose for the proposed rules changes and reviewed additions and changes made to the amendments since the date of Notice and since the draft of proposed rules changes was presented at the August board meeting. Mr. Lindahl, Gina McGrail and Kim Collins answered questions from the board.

Mr. Johnson moved that the board adopt Resolution 2010-4, which sets forth amendments to the FPPA Rules and Regulations, Statewide Hybrid Plan Rules and Regulations, and the Colorado Springs New Hire Pension Plan Rules and Regulations and which states the basis and purpose of each of the amendments. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Chairman Nash declared the Rule-Making Hearing closed at 8:38 a.m.

Investment Risk Committee Report

Investment Risk Committee (IRC) Chairman Todd Bower reported that the IRC had met via webcast on September 1, 2010, and on September 16, 2010. Chairman Bower reported that the IRC discussed the following matters: global inflation-linked securities manager search finalists; EnerVest energy fund; emerging markets manager search process; international small cap manager search process; fixed income portfolio construction and manager search; Townsend proposal; and global equity transition – trade analysis. Chairman Bower reported that after discussion and further direction to the investment staff, the IRC and PCA had provided concurrence that staff's recommendations were in compliance with board policies. He stated that Cliff Stanton (trustee) participated as a newly-appointed member of the committee. Chairman Bower stated that details of all investment matters discussed by the IRC are available for review on the secure board website.

Investment Report

Scott Simon provided the monthly investment report for August, reporting that the markets were down due to several economic factors: the GDP growth for the second quarter was revised down to +1.6%; home sales plummeted by 27%; home price appreciation was negative; and unemployment was back up to 9.6%. Mr. Simon reported that the Fed continues to show a strong position of support for economic recovery by re-purchasing securities as they mature and this action has impacted the markets positively in early September. He reported equity markets up 9.5% and bond yields declining. Mr. Simon provided a memo from Pension Consulting Alliance (PCA) which explained that PCA has found it necessary to lower their long-term capital market assumptions for core fixed income, TIPS, cash and inflation. Mr. Simon reported that, although international equity markets have outperformed U.S. markets in the past few months, the equity portfolio has generally benefited from relatively higher exposure to the U.S. markets. Mr. Simon reported the FPPA Total Fund declined 1.88% in August, bringing its performance to 0.62% year-to-date. The Total Fund closed the month of August with \$2.80 billion in net investible assets. Mr. Simon noted that the portfolio continues to transition from asset class allocation into a global equity framework.

Mr. Simon reported that State Street Global Advisors (SSgA) suggested consideration of alternative weighted indexes, and staff will evaluate diversifying its passive exposure into such strategies. He noted that Prudential has set forth new investment guidelines to de-lever assets and return their portfolios to core real estate exposure. He reported that, although Prudential has an optimistic prediction of a recovery, staff will stay the course with its redemption requests of PRISA II and PRISA III. FPPA will still participate in two more quarters of any real estate appreciation until redemptions are complete. Mr. Simon provided a memo from SVB Capital explaining SVB's decision to restructure personnel. He reported that SVB will face a potential issue with the Volcker Rule, which may restrict the bank's ability to participate in private equity investments. He reported that staff will address these issues through further diligence and will assess the option to participate in the next SVB fundraising process. Mr. Simon reported MetWest Enhanced TALF Strategy recently liquidated holdings (for a profit) with maturities greater than three years. He reported that a special dividend will be made in September ahead of the next quarterly distribution. Mr. Simon noted that the TALF investment decision by the Board enabled staff to move quickly and participate in a profitable investment opportunity of short duration. He reported that the search for small/mid cap non-U.S. and emerging markets managers continues.

Mr. Simon provided an update on alternative investments. He reported that staff recommended a \$20 million commitment to EnerVest Energy Institutional Fund XII, a fund focused on the operation and production of traditional oil and gas assets. The IRC reviewed the due diligence and legal review processes and provided concurrence that the recommendation was in compliance with board policies.

PCA was engaged to conduct a review of staff's investment process and provided concurrence that the recommendation was in compliance with board policies. Mr. Simon noted that the EnerVest investment process fulfilled the requirements of the Master IPS and that it did not require approval of the full board. He answered questions from the board.

Mr. Simon reported that the transition of assets from four terminated equity managers was well-executed by SSgM. He provided an update on the following manager search processes:

1. Global inflation-linked securities manager search has identified three finalist candidates: BlackRock, PIMCO, and Fischer Francis. PCA and staff will jointly conduct on-site diligence in September and will recommend a single manager and the appropriate mandate to the IRC and board.
2. Emerging markets manager search list has narrowed the candidates from 380 to 21. Further quantitative and qualitative analysis will be conducted.
3. International small cap manager search list has been narrowed from 279 to 19. Further analysis will be conducted.
4. Fixed income manager search list has narrowed from 2497 to 16. Further analysis will be conducted.

Mr. Simon reported that The Townsend Group has received notification of the termination of their contract. The staff indicated the need to be flexible on maintaining Townsend's services through the transition of the back office and reporting of the real estate portfolio. The timing may work to simply let Townsend's contract expire at year-end. He, subsequently, provided a memo from The Townsend Group and updated the board on Townsend's proposal to modify the existing contract from a retainer basis to a project basis at lower fees. Mr. Simon reviewed the alternative, ad-hoc ways Townsend could continue to provide products or services to FPPA on a project basis for a pre-determined fee and with no contract required. He explained concerns expressed by the IRC and, after discussion, the IRC provided support to staff's recommendation to keep the Townsend relationship open for future diligence work on a project basis. Mr. Simon noted that the IRC and staff remain confident with the capabilities of Hamilton Lane to conduct diligence on private equity real estate managers. Mr. Simon and Mr. Slack answered questions from the board.

Mr. Simon provided an update on the transition of a portion of FPPA's terminated fixed income managers. These transitions could occur in October. He noted that SSgA is an approved transition manager and that BlackRock, with more diligence, could be recommended as another transition manager. Mr. Simon explained that the previous process for hiring transition managers was to recommend a pool of managers on annual basis. The new process would put each recommendation before the board for approval prior to each transition. Mr. Simon noted the board has the flexibility to delegate to the IRC the responsibility of approving staff's final

recommendation. It was the consensus of the board to delegate to the IRC the authority to approve the recommendation of a transition manager.

Mr. Simon referred the board to articles regarding the structure and revenue sharing of defined contribution plans. Mr. Simon concluded his report and Mr. Cooley and Mr. Cloete left the meeting.

**Consideration of Post-Remand Hearing Officer Recommendation
Regarding a change in disability status
for Dallas J. Huber**

Chairman Nash convened the hearing and noted that neither Ms. Huber nor any public guests were present. Mr. Lindahl provided a memo and reviewed background information of the hearing process. Mr. Lindahl reported that Dallas J. Huber was granted temporary occupational disability benefits on December 8, 2009. At Ms. Huber's request, Hearing Officer (H.O.) Michael W. Sutherland conducted an evidentiary hearing on March 9, 2010, to determine whether Ms. Huber was temporarily occupationally disabled or permanently occupationally disabled. Mr. Lindahl reported that on April 10, 2010, H.O. Sutherland issued written findings, conclusions and recommendation that the board find and determine that Ms. Huber be granted temporary occupational disability; that Ms. Huber undergo a psychological evaluation; and that FPPA medical advisor's outlined treatment plan be implemented. Mr. Lindahl reported that Ms. Huber, through her attorney Richard Radabaugh, submitted written objections to the hearing officer's findings, stating that she had reached maximum medical improvement (MMI) and, therefore, should be granted permanent occupational disability. The recommendation was remanded by the board and sent to the hearing officer for reconsideration. Mr. Lindahl reported that on June 29, 2010, H.O. Sutherland issued written findings, conclusions and recommendation on remand recommending the board determine that Ms. Huber be granted temporary occupational disability. The hearing officer notes that, although Ms. Huber has undergone the psychological evaluation, no report of the evaluation is in the record. The hearing officer also notes that, since Ms. Huber is appealing the final admission of liability in the Worker's Compensation system and is seeking further medical care, this suggests that Ms. Huber may continue to improve from her February 8, 2009, on-the-job injury. The hearing officer recommendation on remand of a finding of temporary disability is unchanged from the April 10, 2010, recommendation. Ms. Huber, through her attorney Richard Radabaugh, submitted written objections on August 25, 2010, stating that the medical records reviewed by the hearing officer were stale; that Ms. Huber is appealing the final settlement offer from worker's compensation, not the fact that she is at MMI. Mr. Lindahl noted that the psychological evaluation and additional new medical records were attached to Ms. Huber's written objections, and all these items were included in

today's hearing packet. Mr. Lindahl and Ms. McGrail answered questions from the board.

Mr. Johnson moved that the board affirm the written findings, conclusions, and recommendation on remand of H.O. Sutherland, dated June 29, 2010, with respect to Dallas J. Huber's request for a permanent occupational disability and that the board enter an order affirming the hearing officer's recommendation to grant temporary occupational disability status, and to implement any treatment plan as determined by the Death and Disability Review Committee upon the advice of FPPA's Medical Advisor. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

The meeting recessed for break and reconvened at 9:47 a.m. Tony Lombard, FPPA lobbyist, joined the meeting.

Legal Report

Mr. Lindahl provided the litigation report. In the G-1 Holdings case, he reported that the IRS's appeal of the final plan adoption is still pending. In the Countrywide Derivative case, he reported the case is still on hold pending matters unrelated to FPPA's issue. In the Tronox Kerr-McGee settlement, Mr. Lindahl reported that motions to dismiss the amended Complaint have been filed and responses have been filed. He noted that the Defendants did not move to dismiss with regard to the amended claims related to the bonds.

Mr. Lindahl provided the legislative report and a memo regarding two pieces of proposed 2011 legislation for the board's consideration. Mr. Lindahl reported on the proposed legislation regarding contribution audit, which would give clear authority to FPPA to conduct audits of contributions to plans administered by FPPA. He stated that currently the statute requires each employer in the statewide defined benefit plan to furnish such information and to keep such records as the board may require to the discharge of its duties. The proposed statutory change would further provide that the board, or its designee, may perform periodic audits of employer records, as necessary, to ensure that proper contributions are made to plans administered by the board. Mr. Bower asked for clarification of the audit methods used by PERA and whether they have express authority to conduct audits.

Mr. Lombard noted that the legislature would probably support an audit of contributions. Mr. Bower suggested that FPPA proactively offer assistance to employers to ensure compliance and maintain the viability of the fund, and to start the audit process in the near future. Chairman Nash suggested that FPPA begin the audit process with employers and turn to stronger legislative support, if necessary. Ms. McGrail stated that employers often seek guidance and information from FPPA staff when there are questions. Ms. Collins noted that FPPA payroll and contribution staff work closely with employers to calculate contributions. It was the consensus of the board to table this proposed piece of legislation in 2011. Jack Blumenthal

stated that the audit committee will meet on October 25, 2010, and the committee can discuss the 2011 audit activities planned by the FPPA internal auditor.

Mr. Lindahl provided background for the proposed legislation for Sudan divestment amendment. He reported that as the investment staff began to implement the new global asset allocation, a problem had been discovered with regard to the Sudan Divestment Act of 2007. Mr. Lindahl reported that the investment staff discovered that a passive fund with indirect holdings in scrutinized companies must be divested from the public fund's portfolio. The current statute allows a public fund to accomplish something through actively managed investments which it cannot do through passively managed investments. He noted that FPPA has substantial investment in passively managed funds and the language has become an issue for asset allocation of the new global portfolio. Mr. Lombard noted that PERA could possibly be affected by this legislation and suggested partnering with PERA to address the issue and how it restricts the portfolio. Mr. Lindahl, Mr. Lombard, Mr. Slack and Mr. Simon provided additional information and answered questions from the board. It was the consensus of the board to draft appropriate legislative language, to contact PERA to get their view, and to determine PERA's level of support for this piece of legislation.

Mr. Lindahl asked Mr. Lombard to provide his view of the current political situation and the effects this might have on the legislative body and legislative activity in 2011. Mr. Lombard reported that there is not much activity at the statehouse currently, because everyone is focused on the upcoming election. Mr. Lombard noted that all interim committees have been cut and FPPA's 2011 bills will be taken to the Senate Finance Committee for sponsorship. He noted that the results in the governor's race could potentially change the major party status and present political implications in the legislature. Mr. Lombard stated that redistricting will occur in 2011, which could also affect seating in the Senate and the House. He reported on information regarding Amendments 60 and 61 and Proposition 101. Following the November election, Mr. Lombard suggested FPPA might benefit from inviting legislators to meet with board and executives for an education session. Mr. Lombard and Bill Clayton, FPPA lobbyist, can attend the December board meeting to determine future legislative direction.

Staff Report

Mr. Slack provided the CEO Report. He reported on having received a letter from the City of Colorado Springs (City) requesting that FPPA provide a cost and time estimate on three items:

1. A 2011 voluntary transfer of participants from the Colorado Springs New Hire Pension Plan (CSNHPP) - Police and Fire Components to the Statewide Defined Benefits Plan (SWDB), to be completed by the end of October 2011.

- The City will offer those who make the switch a one-time 5% retention bonus at the end of 2011.
2. Increase the participant contribution in the CSNHPP – Police Component to 10% of pay.
 3. Explore raising the maximum DROP period within the CSNHPP -Police and Fire Components to 7 years, rather than 5 years. The City will want an actuarial update as to whether there would be any cost to this item.

Mr. Slack provided a copy of his response and the proposed engagement letter from Gabriel Roeder Smith & Company (GRS). Mr. Slack outlined the process, administrative costs and steps involved in moving forward on the requested items.

1. City and FPPA Board approval of a plan amendment;
2. individual member choice or plan-wide election by members in the affected plan(s);
3. costs of printing disclosure statements, handouts, DROP agreements, ballots and election forms;
4. member education meetings;
5. computer programming costs;
6. revisions to all print and web-based communication materials;
7. printing of new member brochures (if election passes);
8. impact upon actuarial soundness of the plan(s).

Mr. Slack noted that each of these plan changes requires approval by the FPPA Board. He has informed Colorado Springs that the FPPA Board may consider, among other things, the impact upon the actuarial soundness of the plan(s), the benefit to the members of the affected plan(s), plan administration feasibility, including parity with and impact upon other plans administered by FPPA, and relevant statutes and regulations. Mr. Slack answered questions from the board.

Mr. Slack reported that both retirement applications and service purchases are increasing. He also reported that staff continues to respond to increased affiliation and re-entry inquiries because of the stability of contributions of the SWDB plan. Aurora Fire will be coming into FPPA Defined Benefit System on a partial entry basis in 2011. The remaining West Metro FPD members will be coming into FPPA Defined Benefit System on a full-entry basis. Other departments have also expressed interest in entering the FPPA Defined Benefit System.

Mr. Slack reported on the Verification of Eligibility (VOE) process and addressed the issue of complaints and objections that had been voiced by members. He explained that the procedures have been streamlined to be as painless as possible for our membership and staff, but he noted FPPA has a fiduciary duty to protect the benefits of all members. The board expressed support for the VOE process and the efforts of staff to secure the information annually.

Mr. Slack referred the board to several articles of interest regarding scrutiny of pension fund assumptions, hybrid DB plans, and future investment returns. Also included was the signed response letter to the Government Accounting Standards Board (GASB) from the public pension community regarding issues related to pension accounting and financial reporting by employers. Mr. Blumenthal provided an article predicting that future pension investment returns are expected to be far lower than historical averages. Mr. Slack reported that the current strategic plan calls for an actuarial experience study to be completed to examine economic and demographic assumptions. He noted that the costs for this study will be presented as part of the 2011 budget.

Mr. Johnson suggested that the board consider inviting Clarence E. Henke, M.D., newly-hired FPPA Medical Advisor, to attend a board meeting in the near future.

Mr. Lindahl explained the QDRO application and approval process.

Ms. Collins explained the Denver Old Hire Fire plan benefit improvement recently implemented as a result of the Sundgren lawsuit. She also explained a 2003 contribution issue possibly impacting 55 members within the Denver Police plans. Denver Police HR is currently investigating this matter.

CHAIRMAN'S REPORT

Chairman Nash stated he had been contacted by John Gross, CFO for the City of Aurora. Mr. Gross had requested information about the completion of a sensitivity analysis (i.e., actuarial assumptions), how SRA balances listed in the financial statement are reported, and several other questions. Chairman Nash suggested that Mr. Gross submit his questions in writing to the board for a comprehensive response to all his questions.

Mr. Slack requested a CEO session with the board. He then asked the board to consider going into executive session to discuss confidential issues regarding a meeting with representatives of the governor's planning and budgeting staff.

At 11:09 a.m., motion was made by Mr. Johnson to adjourn into executive session pursuant to Section 24-6-402 © C.R.S. to discuss confidential matters presented by the governor's office. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

At 11:19 a.m., Mr. Bower made a motion to come out of executive session. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Chairman Nash stated that no final action, vote or motions were made or taken during the executive session.

All FPPA staff members left the meeting, except Mr. Slack. During the CEO Session, Mr. Slack discussed organizational and budget issues with the board.

Mr. Bower moved to adjourn the meeting at 11:50 a.m. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.