

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
December 8, 2011  
Agenda**

<b><u>Time</u></b>	<b><u>Agenda item</u></b>
7:30 a.m.	<b>Call to order</b> <i>Kirk Miller, Chair</i>
	<b>Approval of October 27, 2011, board meeting minutes</b> <b>Approval of November 17, 2011, education session minutes</b> <b>Approval of Resolution No. 2011-4 CEO authority</b>
7:35 a.m.	<b>Investment Risk Committee report</b> <i>Todd Bower, Chair</i>
7:40 a.m.	<b>Investment report</b> <i>Scott Simon</i> <ol style="list-style-type: none"><li>1. Review of October 2011 performance</li><li>2. Review of managers</li><li>3. Other matters</li></ol>
8:25 a.m.	<b>Portfolio &amp; Capital Market Review – Third Quarter 2011</b> <i>Neil Rue and John Linder, Pension Consulting Alliance</i>
8:55 a.m.	<b>Break</b>
9:10 a.m.	<b>Audit Committee report</b> <i>Jack Blumenthal, Chair</i>
9:25 a.m.	<b>Approval of “Board hire” contracts</b> <ol style="list-style-type: none"><li>1. Pension Consulting Alliance</li><li>2. Internal Auditor</li><li>3. Medical Advisor</li><li>4. Hearing Officers</li></ol>
9:55 a.m.	<b>2012 Budget approval</b> <i>Dan Slack and Kim Collins</i>
10:25 a.m.	<b>Break</b>
10:40 a.m.	<b>Staff report</b> <ol style="list-style-type: none"><li>1. CEO report - <i>Dan Slack</i></li><li>2. Legal report and legislative update - <i>Kevin Lindahl</i></li><li>3. Other matters</li></ol>
10:55 a.m.	<b>Chair’s report</b> <i>Kirk Miller, Chair</i> <ol style="list-style-type: none"><li>1. Board self-evaluation</li><li>2. CEO annual evaluation</li><li>3. Other matters</li></ol>
11:55 a.m.	<b>Adjourn</b>

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
December 8, 2011**

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

**Board Members Present:** Chair Kirk Miller, Vice Chair Cliff Stanton, Jack Blumenthal, Pam Feely, Lyle Hesalroad, Todd Bower, and Sue Eaton.

**Board Members Absent:** Monica Cortez-Sangster (excused) and Tim Nash (excused).

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

**Guests Present:** John Linder and Neil Rue, Pension Consulting Alliance (PCA).

*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 7:30 a.m., Chair Kirk Miller called the meeting to order and noted there was a quorum present. Chair Miller called for motions to approve the minutes and the consent calendar.

Pam Feely moved to approve the minutes as amended of the October 27, 2011, board meeting. Todd Bower seconded the motion. The motion carried.

Mr. Bower moved to approve the November 17, 2011, education session minutes. Ms. Feely seconded the motion. The motion carried.

Mr. Bower moved to approve Resolution No. 2011-4 for CEO authority. Mr. Hesalroad seconded the motion. The motion carried.

**Investment Risk Committee Report**

Mr. Bower reported the Investment Risk Committee (IRC) has not met since the last board meeting. Scott Simon stated there are approximately four IRC meetings planned for December.

**Investment Report**

Scott Simon provided an economic and market summary. Following five consecutive months of declines, equities rallied in October upon positive economic data in the U.S. and improvement in sentiment toward the European debt crisis. U.S. small cap stocks outpaced large caps and emerging markets rose more than developed markets. Commodities rose in price, Treasury yields rose, credit markets

rallied with high yield bonds, and emerging market debt was up strongly. The first week in November the markets declined, indicating volatility is still persistent. The first week in December, retail sales after the holiday were strong and the coordinated efforts of the global central banks to support Europe helped the markets to rally.

Mr. Simon reported that the Total Fund performance was +4.94% in October and +1.70% YTD. He reported on solid relative outperformance YTD by Walter Scott and Cortina. Baillie Gifford rebounded in October but lags YTD. FPPA's fixed income portfolio has exceeded benchmark returns YTD with positive contribution coming from PRIVEST. Private Capital showed negative performance for October, now that the portfolio reflects 3Q valuations. Absolute Return performance was slightly negative and Real Assets experienced positive performance, given the mark-up of core real estate strategies.

#### BNY Mellon

Mr. Simon reported that BNY Mellon continues to experience close legal scrutiny and has begun to offer clients alternative pricing methods for standing instruction foreign exchange transactions. BNY Mellon clients will soon see increased transparency on their foreign currency trades.

#### Lehman Brothers bankruptcy

In 2008 FPPA recognized an approximately \$5.0 million loss on its Lehman exposure through its securities lending portfolio. A settlement proposal currently being considered would provide a recovery of 21%. In addition, BNY Mellon agreed to reimburse FPPA for 20% of the realized loss, approximately \$790,000.

#### Commonfund

Mr. Simon reported that FPPA's Venture Capital Fund-of-Funds exposure would not be impacted by the \$50.3 million judgment in a lawsuit brought against Commonfund Realty Investors, LLC, a separate private real estate investment fund in which FPPA is not an investor. The Investment Staff supports that Commonfund Capital can implement the strategy in which FPPA participates.

#### MF Global

Mr. Simon reported that MF Global, a counterparty with BNY Mellon in FPPA's securities lending portfolio, filed for bankruptcy. The FPPA portfolio is diversified and should not experience any losses as positions are closed out. FPPA did have equity exposure to MF Global through a hedge fund manager within the Aetos allocation. An approximate loss of 39 bps on the Aetos portfolio is anticipated.

#### Alternative Investments

Mr. Simon reported that cash flow activity within the alternatives portfolio remained robust in October with capital calls of \$15.8 million outpacing distributions of \$5.9 million.

Mr. Simon stated that the IRC will conduct several meetings during December to discuss CLOs, real estate, private equity and hedge fund portfolio construction. He introduced and welcomed Curt Huntsman, newly-hired investments accountant. Mr. Simon reported the Self-Directed Plans Committee met on December 7<sup>th</sup> and minutes of that meeting will be provided at the January 2012 meeting. Dan Slack reported that the Self-Directed Plans Committee has done much work to create a new lineup of investment options, to appropriately allocate plan expenses, and to ensure proper oversight by staff of the self-directed plans. Mr. Simon answered questions from the board and concluded his report.

*Pension Consulting Alliance (PCA) presentation*

John Linder presented PCA's 3Q 2011 Portfolio & Capital Markets Review. He reported that the investment portfolio outperformed both its policy benchmark and the Median Public Fund over the latest 1-year period. Outperformance of the Total Fund policy benchmark was largely attributable to outperformance of Private Capital (+3.1%) versus its benchmark. This outperformance was due to timing differences, as manager performance data is lagged by one quarter, while the benchmark data is not.

Mr. Linder reported that PCA and Investment Staff would recommend that the portfolio be moved to a lagged policy benchmark reporting position. Mr. Simon stated that Private Equity and Hedge Funds are long term asset classes and need to be compared to benchmarks over long periods. The new policy benchmark recommendations will be presented for consideration by the board at the January 2012 meeting.

Mr. Linder reported that the 3-year and 5-year Total Fund analysis showed underperformance in Global Equity and outperformance in Fixed Income, largely attributable to the portable alpha experience during the 2008 financial crisis. He reported that the current global equity managers are doing quite well. The asset allocation targets adopted by the Board on April 28, 2011, are fully implemented and the Total Fund transition to new interim targets is complete. He provided the 2010-2011 benchmark implementation schedule and an overview of investment performance. Mr. Linder and Neil Rue answered questions from the board.

*Investment Market Risk Metrics – December 2011*

Mr. Linder reviewed the November and December 2011 Investment Market Risk Metrics charts and historical information for understanding risk measurement in current market conditions. He reported that the U.S. equity markets are behaving differently than the bond market, and there is continuing concern regarding sovereign debt issues in Eurozone. Significant takeaways in the December risk overview included the following:

- The bond market is signaling more concern about risk than the equity market, as investment grade credit spreads rose to their highest level of the year.
- The 10-year Treasury yield of approximately 2% remains historically low.

- The 10-year Treasury real yield (net of inflation) is estimated at -0.5%.
- Bond sensitivity to interest rates (duration) remains at 30 year highs.
- Equity market valuations remain reasonable; however, equity market volatility remains elevated.
- Private market valuation metrics are high, likely due to low interest rates.
  - Private real estate markets are at top decile cap rates.
  - Private equity multiples are approaching a top decile reading, while pricing is up volume is down.

Mr. Linder and Neil Rue answered questions from the board. Mr. Linder, Mr. Rue and the Investment Staff left the meeting. The meeting recessed for break.

### **Audit Committee Report**

Chair Jack Blumenthal reported the committee met on October 28, 2011. The committee's recommendation for board consideration for the 2012 budget was to increase the annual internal auditor's contract from not to exceed \$25,000 to not to exceed \$33,000. Mr. Blumenthal reported there were four routine projects on rotation for the internal auditor and another more important project was substituted. The committee recommended substituting as the fourth project for the internal auditor to proactively monitor the investment accounting function and suggest and review proposed procedures in bringing some investment functions in-house. The purpose of this recommendation is to minimize any operational risk on the front end. Mr. Blumenthal, Mr. Slack, and Kevin Lindahl answered questions from the board.

### **Approval of "Board hire" Contracts for 2012**

Mr. Slack noted that the four contracts for board approval are entities that are hired by and have duties directly to the board and not to staff. Mr. Slack and Mr. Lindahl reviewed the duties and responsibilities of each contract.

### **Pension Consulting Alliance**

Mr. Simon discussed his memorandum regarding the Pension Consulting Alliance (PCA) contract, noting that PCA had served as general consultant to FPPA since 1991. He explained PCA's responsibilities to the Board and its advisory role to the Investment Risk Committee (IRC). He noted that the current 3-year contract with PCA expires on December 31, 2011, and said that the Investment Staff recommends the approval of a three-year contract with an increase in the annual retainer fee from \$175,000 to \$195,000 with the anticipation of their increased responsibilities in alternatives expansion, IRC participation, and attendance at twelve board meetings, strategic planning and education sessions in 2012. This new contract would be eligible to receive the client discount of 10% that PCA is currently voluntarily providing its clients. Mr. Simon stated that it is likely that, should PCA remain the general consultant, FPPA would engage PCA for an asset liability study within the next three years at an additional cost of approximately \$150,000. He noted that PCA's IRC concurrence fee is \$5,000 for each opinion.

These costs are in addition to the contract fee, resulting in a total annual cost of about \$230,000.

Mr. Simon stated that a formal RFP mandate was conducted six years ago comparing PCA to other candidates. At the discretion of the board, a new RFP process could be conducted during 2012. He stated a one-year contract extension with PCA would allow sufficient time to conduct a full RFP search. He compared the PCA annual cost to a new consultant cost of approximately a \$300,000-\$500,000 annual retainer fee. Mr. Simon listed some of the advantages and disadvantages of retaining PCA versus hiring another consulting firm. Mr. Simon stated that staff is comfortable with the oversight and diligence provided by PCA. Mr. Slack stated that the relationship with PCA as an investment consultant has been a long-term one and it is advisable to conduct an RFP periodically to determine the available options. He stated, however, that continuity in oversight during the transition process of the investment department would be prudent. Mr. Lindahl stated that PCA's reputation as an ethical firm is above reproach at a time when other firms are facing accusations and legal review. Mr. Simon, Mr. Slack and Mr. Lindahl answered questions from the board.

Mr. Hesalroad moved to approve a 3-year contract without conducting a formal RFP. Mr. Bower seconded the motion. The motion carried.

Mr. Blumenthal reported on an article he had read regarding a group of public pension plans who were invited to participate in a meeting in early 2009 at Denver International Airport. The group, informally known as the Denver Group, was comprised of public pension plans that assembled to address industry issues like hedge fund fees. Mr. Blumenthal suggested that FPPA should be included in any future meetings of the Denver Group in order to take advantage of any fee structure and term benefits in the industry that a consortium might offer. Mr. Slack noted that the old investment model was in place at the time of that meeting. Mr. Slack and Mr. Simon reported on FPPA's membership in certain associations and noted that FPPA's profile has been elevated since that time, and FPPA would likely be invited to participate in future meetings of this type. Mr. Lindahl discussed the legal aspect of group-buying issues.

#### Internal Auditor Contract

Mr. Lindahl reviewed the draft 2012 contract with Tim O'Brien. He stated that the audit committee would set the projects to be completed by Mr. O'Brien. The 2012 contract is not to exceed \$33,000.

Ms. Feely moved to approve the 2012 Internal Auditor contract. Mr. Bower seconded the motion. The motion carried.

Medical Advisor Contract

Ms. McGrail reviewed the 2012 one-year contract and reported that there had been no change to the 2012 fee for the one-year contract for Dr. Clarence Henke, M.D.

Mr. Bower moved to approve the 2012 Medical Advisor contract. Ms. Feely seconded the motion. The motion carried.

Hearing Officers Contracts

Mr. Lindahl reviewed the two hearing officer contracts, one for Stacy Tarler and one for Tom Kanan. He reported there had been no increase in the rate, which is \$140 per hour, and he had been very satisfied with their work as hearing officers. Mr. Lindahl noted that a couple of unusual, historic hearings this year have resulted in over-budget expenditures in this area.

Mr. Hesalroad moved to approve the two hearing officers' contracts. Ms. Feely seconded the motion. The motion carried.

**2012 Budget Approval**

Mr. Slack stated that the board's feedback following the draft budget presentation in October had been incorporated in the final proposal. Mr. Simon reviewed his memorandum regarding an update of the investment department resources, as requested by the board at the October meeting. Mr. Simon also reviewed a spreadsheet comparing the original and current projected costs, savings, and timeline of the transition. Mr. Simon reviewed the organizational chart for the investment department. He reviewed highlights in the following areas:

- *Personnel:* The early implementation of hiring staff positions will realize cost savings relative to the original budget proposal.
- *Private Capital:* The transition is targeted to take place six months earlier than originally scheduled.
- *Hedge Funds:* FPPA staff is working with a hedge fund advisor on the portfolio construction, manager selection and monitoring process for the global equity long/short portfolio.
- *Travel:* Travel expenses were increased for the first year, given the acceleration in hiring staff and the implementation of the global equity long/short portfolio.
- *Technology Expenses:* There is potential risk of under-estimating technology needs to accommodate internal oversight.

Mr. Simon and Mr. Slack answered questions from the board regarding conversion management and the resources required for implementation and transition. Mr. Slack provided a first draft copy of FPPA's commitment to cost-effective money management in the transition to a new risk-reducing investment portfolio structure. He will continue to revise this document to address third-party questions or as a

footnote in the CAFR regarding FPPA's increasing operating budget and the investment transition process. Mr. Simon concluded his presentation.

Kim Collins discussed her memorandum regarding the Proposed 2012 Operating & Capital Budget, which reflects changes made to the budget presented at the October meeting. Ms. Collins reviewed in detail the summary pages of the final budget, which reflected decreases at board request. Ms. Collins also reviewed adding Network Security insurance to provide network security and breach protection, due the current internet environment as well as to the expansion of FPPA's systems and the inclusion of the Member Account Portal (MAP). Ms. Collins and Mr. Slack reported that staff reviewed this option further and recommends this coverage based on the administrative services available pursuant to this policy. Ms. Collins reviewed the administrative features included in this insurance policy. She reported the investment consulting area increased by \$18,500 for additional monitoring of FPPA's alternative investments. Ms. Collins reported the net decrease to the proposed 2012 Operating and Capital budget was \$26,347.

Mr. Slack discussed the letter to the board from the Retired Firefighters Association of Denver regarding the discontinuation of mailing deposit advices to retirees beginning in March 2012. Mr. Slack reported that retirees: (1) will continue to receive a deposit advice in the mail whenever their deposit amount changes; (2) may continue to receive a deposit advice for a charge of \$3.00 per month; and (3) can access their monthly deposit advice online through MAP at no charge. Mr. Bower will work with the group to explain this proposed budget change, and Mr. Slack will offer to address the issue at a 2012 meeting of the retired firefighters' group. Ms. Collins reviewed the changes for the Proposed 2012 Asset Based Fees Budget since the October presentation. She reported a decrease to this budget of \$59,000. Ms. Collins answered questions from the board.

Mr. Bower moved to approve the final 2012 Budget as presented. Mr. Hesalroad seconded the motion. The motion carried.

Mr. Blumenthal requested a three to five-year budget projection for monitoring purposes. Mr. Slack affirmed this request and stated the agenda for the strategic planning session planned for 2012 could include this as a part developing the strategic vision for the organization. The meeting recessed for break and reconvened at 10:40 a.m.

### **Staff Report**

#### **CEO report**

Mr. Slack gave the CEO report. He that reported the Self-Directed Plans Committee met on December 7<sup>th</sup> and the minutes will be provided in the January board packet. Mr. Slack reported the SWDB Task Force on Member Contributions held its initial meeting on November 18<sup>th</sup>. The task force, co-chaired by Mr. Bower and Mr. Miller, heard presentations from Gina McGrail, Mr. Slack and Joe Newton, FPPA actuary, regarding SWDB plan trends and ad hoc benefit adjustments that can be expected

at current contribution rates. The second task force meeting is scheduled for January 6, 2012.

#### Litigation report

Mr. Lindahl gave the litigation report and updated the board on *FPPA v. Guyman*. He reported that FPPA has received an order from the court recognizing the ex-spouse's right to a portion of the disability benefit once the member reached 55 years of age. The court ordered FPPA to draft and submit to the court a proposed order. Mr. Lindahl reported an objection by Mr. Guyman to FPPA's proposed order has been received.

#### Legislative report

Mr. Lindahl gave the legislative report, stating the bills approved in October by the Pension Reform Commission were approved in November by the Legislative Council. These bills will be introduced in the 2012 Legislative Session. He stated there might be close scrutiny of the bill giving more authority to the FPPA board. Mr. Lindahl, Mr. Slack and Ms. McGrail stated they will prepare an explanation response to the legislature that will address concerns regarding the changes set forth in the bill.

#### Federal legislative report

Mr. Lindahl reported that the Internal Revenue Service issued a Notice of Proposed Rulemaking that would define governmental plans. Mr. Lindahl and Mr. Slack expect to provide a comment letter to the IRS regarding language clarity and potential misinterpretation.

#### Other matters

Mr. Slack requested board permission to volunteer as track coach for his daughter's track team for the spring 2012 season only. His participation will require his time away from the office during normal business hours to attend a few afternoon track meets. Mr. Slack assured the board that he will devote other time during the week to ensure that his obligations to FPPA are fulfilled.

Mr. Slack reported he has been invited to attend and to speak at a hedge fund conference in Brazil in March 2012. His airfare travel and hotel expenses will be covered. Mr. Slack requested board approval on both matters. It was the consensus of the board to approve both requests.

### **Chair Report**

#### 2011 Board self-evaluation and 2011 CEO annual performance review

Chair Miller asked staff to leave the meeting. The board members conducted the board self-evaluation and the CEO performance evaluation.

At 11:22 a.m., Mr. Bower moved to adjourn the meeting. Mr. Hesalroad seconded the motion. The motion carried.