

**Fire and Police Pension Association
Board of Directors
January 20, 2011
Agenda**

- 7:30 a.m. **Call to order**
Approval of December 9, 2010 Board Meeting Minutes
Consent Calendar
- Approval of Resolution No. 2011-1 (Posting Notice)
 - Approval of Resolution - Partial entry into the FPPA DB System, City of Fountain Fire Department
- 7:35 a.m. **Lombard & Clayton presentation**
Tony Lombard, FPPA Lobbyist
Bill Clayton, FPPA Lobbyist
- 7:50 a.m. **GAM presentation**
David Smith, CIO
Arvin Soh, Investment Manager
- 8:50 a.m. **Break**
- 9:00 a.m. **J.P. Morgan presentation by teleconference**
Greg Mattiko - Portfolio Manager, Emerging markets equity funds (London office)
Richard A. Sampson - Managing Director, Client Advisor
John Q. Frank - Associate, Strategic Client/Alternative Strategies Groups
- 10:00 a.m. **Investment Risk Committee report**
- 10:05 a.m. **Investment report**
1. Review of November and *preliminary* December 2010 performance
 2. Review of managers
 3. Update on rebalancing activity
 4. Update on manager searches
 5. Other matters
- 10:40 a.m. **Defined contribution and 457 plan review**
1. Plan administration
 2. Plan consultant recommendation
- 11:10 a.m. **Legal report**
1. Litigation update
 2. Legislative update
 3. Other matters
- 11:20 a.m. **Break**
- 11:30 a.m. **Staff report**
1. CEO report
 2. 4Q 2010 Strategic Plan Update
 3. Colorado Springs- Request for New Hire Plans- voluntary transition
 4. Other matters
- 11:45 a.m. **Chairman's report**
1. Board conference evaluation updates
 - *Tim Nash (Public Funds Summit)*
 - *Kirk Miller (Super Bowl of Indexing)*
 - *Leo Johnson (Guns & Hoses & Public Boards Funds Forum 2010)*
 2. Board self-evaluation
 3. CEO annual review
 4. Other matters
- 12:45 p.m. **Adjourn and Lunch**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
January 20, 2011**

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

Board Members Present: Chairman Tim Nash (8:15), Vice Chairman Kirk Miller, Jack Blumenthal, Leo Johnson, Todd Bower (10:35), Sue Eaton, Cliff Stanton and Monica Cortez-Sangster.

Board Members Absent: Lyle Hesalroad (excused).

Staff Members Present: Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Sean Ross, Claud Cloete and Jeff Kaszubowski (7:59), and Janette Hester.

Other Guests Present: Tony Lombard and Bill Clayton, Lombard & Clayton; David Smith (by video-conference), Kathryn Cicolletti, and Arvin Soh, GAM; Greg Mattiko (by video-conference), Richard Sampson, and John Frank, J. P. Morgan; John Linder, 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., Vice Chairman Kirk Miller called the meeting to order and noted that there was a quorum present. Vice Chairman Miller called for motions to approve the minutes of the December meeting and to approve the items on the consent calendar.

Cliff Stanton moved to approve the minutes of the December 9, 2010, board meeting with the addition that there was discussion by the board about authorizing a study to review and evaluate the compensation structure of the entire FPPA organization. Leo Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved to approve the items on the consent calendar. Jack Blumenthal seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Lombard & Clayton, Inc., Presentation

Kevin Lindahl welcomed Tony Lombard and Bill Clayton, lobbyists for FPPA, who presented a legislative update to the board. Mr. Lombard and Mr. Clayton provided the board with a copy of Governor John Hickenlooper's cabinet appointments. Mr. Lombard reported on bills introduced during the 2011 legislative session.

Mr. Lombard reported that one bill would modify the composition of the board of trustees of the Public Employees' Retirement Association (PERA), so that a majority of the board members are not also retirees or current members of that association. Mr. Lombard and Mr. Clayton will investigate how future FPPA legislation (FPPA has none in 2011) will be introduced, if there is no active Pension Reform Commission. Mr. Lombard and Mr. Clayton reported on a recent editorial in the *Glendale Cherry Creek Chronicle* regarding the alleged enormous costs to municipalities of the deferred retirement option plans (DROPs). Mr. Clayton provided a copy of his letter of response. A copy of the response letter previously written by Dan Slack was provided in the board packet. Mr. Lindahl provided historical background regarding the Denver DROP program for non public safety employees. He explained that the unique features of the FPPA DROP plan, without a guaranteed rate of return, offer protection to employees and employers. The board and lobbyists discussed the status of the historical state funding provided to certain of the Old Hire plans and how the new administration might honor the state obligation. Mr. Lombard and Mr. Clayton stated that they will seek to obtain possible dates for FPPA to appear before the Senate Finance Committee. They will also seek dates for confirmation hearings for trustees. Mr. Lombard and Mr. Clayton answered questions from the board and staff and concluded their presentation.

GAM U.S.A., Inc., Multi-Manager Presentation

Scott Simon and Austin Cooley provided background information leading up to the recommendation to retain GAM to manage Global Macro exposure within FPPA's Absolute Return allocation. Mr. Cooley reported that GAM has maintained a consistent return, takes a diversified approach to sub-strategy allocation, and has been running multi-manager hedge fund of funds portfolios for over 20 years. Mr. Cooley provided key risk information and reviewed the process of how staff will work with GAM to manage the global macro mandate and to actively rebalance the account. He explained the fee agreement for this mandate and the structuring of the investment. Mr. Cooley provided the board with information regarding the staff's due diligence, explained the time-sensitive funding of the mandate, and reviewed next steps. Mr. Simon and Mr. Cooley answered questions from the board.

Mr. Simon welcomed and introduced David Smith (via video conference from London), Kathryn Cicolleti and Arvin Soh from GAM. Ms. Cicolleti provided FPPA portfolio specifics and GAM's investment approach to identifying and evaluating global opportunities. Mr. Smith explained how macro funds are managed and how economic events can affect this strategy. He provided GAM's 10-year trading composite performance. Mr. Soh reviewed the proposed FPPA portfolio and the results of the investment process. Mr. Soh reported on GAM's highly discerning research process to find talented new and established managers. Mr. Smith, Ms. Cicolleti and Mr. Soh answered questions from the board and staff.

At 8:46 a.m., Vice Chairman Miller left the meeting. The meeting recessed for break.

J.P. Morgan Asset Management Presentation – Global Emerging Markets (GEM) Discovery

Claud Cloete provided background information regarding the search for an additional emerging markets manager to complement FPPA's existing allocation to Baillie Gifford. Following diligence, staff is recommending J.P. Morgan, with an additional emerging markets manager to be determined in the near future to complement Baillie Gifford and J.P. Morgan. Mr. Cloete provided comparative research on two small emerging markets managers, Glovista and Oldfield, which have the potential for an additional allocation within FPPA's portfolio, pending further diligence. Mr. Cloete welcomed and introduced Greg Mattiko (via video conference), Richard Sampson and John Frank with J.P. Morgan. Mr. Sampson reviewed the background of J.P. Morgan and the firm's emerging market investing experience. Mr. Mattiko explained the emerging markets equity team structure and how local and regional experience contributes to portfolio management. He reviewed the intranet-based JFirst research database available to all J.P. Morgan team members. Mr. Mattiko explained J.P. Morgan's investment philosophy and how the team identifies companies that have the ability to grow. Mr. Mattiko answered questions from the board and staff.

Investment Risk Committee Report

Mr. Stanton reported that the FPPA Investment Risk Committee (IRC) conducted a meeting on December 14, 2010, via webcast to discuss an EnerVest Secondary recommendation. Mr. Simon reported that FPPA did not win the bid for the secondary offering of EnerVest Fund X and Fund XI. Mr. Stanton reported that the IRC met again on December 16, 2010, via webcast to discuss and approve the final fund line-up of the self-directed plan, as delegated by the board at the December 9, 2010 board meeting. Mr. Stanton reported only one change in a share class regarding the target date funds. Mr. Stanton reported that the IRC met again via webcast on January 7, 2011, to discuss the emerging markets manager search recommendation, the recommendation for portfolio construction and the Absolute Return – Global Macro, GAM Manager recommendation. The IRC sought additional clarification on the mechanics of the recommended separate account structure relative to a commingled fund structure. After discussion, the IRC provided concurrence that the recommendations were in compliance with board policies. PCA also supported the recommendations. The supporting documents discussed are available on the board website.

Investment Report

Mr. Simon provided the monthly investment report for November and gave preliminary information for December. He reported falling developed market government bond yields, outperformance in emerging market equities, a depreciating dollar and monetary tightening from the larger Asian economies. The Eurozone debt crisis continued, with Ireland being the latest concern. He reported the U.S. stock market's outperformance relative to international markets and rising U.S. Treasury yields. Global equity markets finished strong in December.

Mr. Simon reported the FPPA Total Fund decreased 0.53% in November, bringing the YTD performance to 7.70%. While December performance is preliminary, an approximate 4.0% return should put Total Fund performance above 13% YTD. He reported that FPPA transitioned its large cap equity exposure to a global mandate in September. Relative to a global benchmark, the FPPA equity portfolio would now appear to lag a global benchmark YTD, given the relative under-exposure in emerging markets and the relative performance of recently terminated active managers. Pimco underperformed in November but is still in line with its benchmark YTD. The Total Fund closed the month of November with \$2.98 billion in net investible assets and an estimated \$3.1 billion in net assets at year-end. Mr. Simon answered questions from the board. He stated that an accurate Total Fund year-end performance against the benchmark will be reported in the near future.

Following presentations by GAM and J.P Morgan, Mr. Simon presented the two recommendations from staff. He noted the IRC provided concurrence that the recommendations were in compliance with board policies. Mr. Simon requested board approval. Mr. Simon, John Linder and Mr. Cooley answered questions from the board.

Mr. Johnson moved to approve the hiring of GAM to manage a \$100 million Global Macro allocation in a separately managed account format, as recommended by staff. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved to approve the hiring of J.P. Morgan as an additional emerging markets equity manager to manage a \$100 million mandate, as recommended by staff. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon and Sean Ross provided a memo regarding a U.S. Passive Fixed Income Manager search and recommendation. Mr. Ross reviewed the background of hiring BlackRock as a manager in August 2010 to fulfill a Barclays Capital U.S. Aggregate Index mandate. He reported that the subsequent hiring of Prudential to invest in private placement investment grade fixed income securities created an overweight in credit when compared to the benchmark. Staff recommended that the credit portion be removed from the passive fixed income vehicle that BlackRock was

managing. However, BlackRock was not able to automatically rebalance among its various commingled subfunds and it would become the responsibility of FPPA to rebalance those funds to their appropriate allocation percentages. Furthermore, because the changed mandate would result in higher fees, staff determined it was appropriate to engage FPPA's existing index provider State Street Global Advisors (SSgA) to manage a BC U.S. Aggregate ex-Credit mandate in the amount of \$100 million. Mr. Simon answered questions from the board and requested board approval.

Mr. Johnson moved to approve using State Street Global Advisors (SSgA) as FPPA's U.S. Passive Fixed Income Index provider, benchmarking the BC U.S. Aggregate Index ex-Credit, pending the completion of a legal review of the fund documents. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Defined Contribution and 457 Plan Review

Mr. Simon presented a memo in the board packet regarding the structure and service providers of the Fire & Police Members' Self-Directed Investment Fund. He reviewed the RFP and evaluation process, which was conducted by FPPA staff with the assistance of Bidart & Ross beginning in April 2010. In December 2010 the board approved the retention of the incumbent provider Fidelity to provide recordkeeping and administrative services to FPPA's self-directed plans. The board also approved a new investment fund line-up. He reviewed beneficial changes to the self-directed fund, which included a reduction of recordkeeping and investment fund management fees and enhanced the investment options for members.

Mr. Simon reported that a goal of the staff review of the self-directed plans was to assess costs which should appropriately be charged between the self-directed fund and the members' benefit fund and other duties. The staff determined that a salary-weighted average of 3.08% of employee time was spent exclusively on self-directed plan matters. Staff determined that this was an appropriate basis to allocate costs to administer the self-directed plans.

Mr. Simon reported that while Bidart & Ross was engaged on a project basis, the original consultant RFP process conducted by FPPA contemplated the possibility of an annual retainer relationship. He stated that FPPA staff believes that the firm of Bidart and Ross provided exceptional service and advice throughout the project and could continue to add value in implementing and monitoring the self-directed plans. Mr. Simon reviewed the reasons why staff recommended an on-going retainer relationship with Bidart & Ross:

- The firm has developed and maintains expertise in the defined contribution industry, including costs, trends and regulatory requirements;
- The firm can assist FPPA to develop best practices and policies in overseeing the plans;

- The firm will continue to assist FPPA in monitoring the Fidelity relationship and holding them accountable to their deliverables;
- The firm will assist with investment fund selection and monitoring;
- The firm will produce a quarterly performance report of the investment options and meet with the FPPA staff on the results. The firm will report to the board (alongside Fidelity) on an annual basis;
- The firm will assist with reviewing communications to participants;
- The firm will assist in providing information to prospective plans during the recruitment process and meeting with plan representatives as needed;
- Having a consulting firm that accepts fiduciary responsibility over the portfolio helps protect FPPA and lends credibility to our plans;
- The oversight of the self-directed fund can be provided more economically by an outside party than by using or adding internal resources of FPPA.

Mr. Simon reported that FPPA has negotiated a flat annual retainer fee of \$80,000 and staff supports this fee as a reasonable expense of the self-directed plans. Mr. Simon reported that staff anticipates a current annual expense for the self-directed plans in the amount of \$534,000. He reported that FPPA can charge participants either through flat fees and/or through revenue sharing, whereby mutual funds rebate back a portion of their management expense fees. Mr. Simon reported that the accounting department will identify FPPA's expenses between the Member's Benefit and Self-Directed Funds and report these to the board on a quarterly basis. Mr. Simon reviewed other changes:

- FPPA will now allow third-party trading for all its plans.
- FPPA will require a minimum 5% of a participant's assets to be held in standard plan options relative to brokerage window assets.
- FPPA will form a self-directed plan staff committee which will meet regularly to oversee the implementation of the plan.
- FPPA will draft a new Master Investment Policy Statement reflecting the changes to the plan, structure and review process.

Gina McGrail reviewed next steps in the implementation process. Dan Slack, Mr. Simon and Ms. McGrail answered questions from the board. Mr. Simon requested board approval.

Todd Bower moved to engage Bidart & Ross on annual retainer in the annual amount of \$80,000 for a three-year contract with a 30 day termination notice clause, and a provision for itemized work and hours expended. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Legal Report

Mr. Lindahl provided the litigation report. There has been no change in the G-1 Holdings f/k/a GAF Corp. case, where the Bankruptcy Court has rejected the IRS

objections to the plan and has adopted the final plan. The IRS's appeal of the adoption is now pending. There has been no change in the Countrywide Derivative litigation, which is on hold pending matters unrelated to FPPA's issue. In the Tronox and Kerr-McGee case, Mr. Lindahl reported favorable rulings from the court. He stated that the judge has ruled to deny on the Motions to Dismiss. Corbett's Motion to Dismiss for the period after August 10, 2006, was granted. Mr. Lindahl stated that discovery continues and FPPA is likely to be deposed in March regarding FPPA's claimed losses on class bonds.

Mr. Lindahl reported two new cases are in litigation. He reported that Dallas J. Huber has filed a complaint appealing the award of temporary disability benefits. Mr. Lindahl reported that Ms. Huber has failed to exhaust her administrative remedies in that she has the ability to apply for an upgrade to Permanent Occupational Disability. He noted that her award of benefits was based on her condition at the time of application and examination by the physician panel. Mr. Lindahl reported that FPPA has filed an answer to the complaint.

Mr. Lindahl reported that Glenn D. Guyman was granted disability benefits effective in 2005. He reported that Mr. Guyman made no objection to his benefits being split in 2002 under a domestic relations order. Mr. Guyman now demands that FPPA cease the division of benefits and claims continuing damages. Mr. Lindahl reported that, as a precautionary measure and in order to address any potential claim from either Mr. Guyman or the alternate payee, FPPA filed a Petition for Declaratory Judgment regarding the payment of benefits, seeking a judgment declaring that FPPA's interpretation of the DRO is final and not subject to judicial review. Mr. Lindahl reported that FPPA has served the parties with the Petition and is awaiting the parties' answers to the Petition.

Following the legislative presentation by Mr. Lombard and Mr. Clayton, Mr. Lindahl provided additional legislative update. He stated that he would follow up on scheduling a date for the confirmation hearings for Mr. Blumenthal, Monica Cortez-Sangster and Sue Eaton.

Mr. Lindahl reported that FPPA will make presentations to both the House Finance Committee and the Senate Finance Committee in late February or early March. He also reported that under the Dodd-Frank Act, which passed in July 2010, the Securities Exchange Act of 1934 has been amended to require certain Municipal Advisors to register with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board. Mr. Lindahl stated that this new proposed SEC Rule under these Acts would include certain pension board members in the definition of Municipal Advisors and require pension board members to complete this registration subject to certain exemptions. Mr. Lindahl stated that FPPA meets the definition of a Municipal Entity that provides advice with respect to Municipal Financial Products (to include plans, programs, and pools of assets funded by pension contributions from employees and state and local government employers). Mr. Lindahl reported that certain exemptions from registration requirements would

include "ex officio" board members who serve the board by virtue of their elected office and any person serving as an elected member of the pension board. Neither of these exemptions would apply to FPPA board members, who are appointed by the governor. Mr. Lindahl reported that the SEC has commented that it does not believe that appointed members of the pension board should be excluded from the definition of a "municipal advisor" because they are not otherwise accountable to the citizens for their decision-making. Mr. Lindahl reported his interpretation is that pension board members are "advisees" and not "advisors." He reported that he anticipates the National Association of State Retirement Administrators (NASRA) and the National Conference on Public Employees Retirement System (NCPERS) will be filing comments on this issue. Mr. Lindahl recommended that FPPA also file comments about this rule which oppose the registration requirement for pension board members. Mr. Lindahl requested board direction. Mr. Blumenthal provided clarification of the SEC issue and stated his support that FPPA join other organizations with written opposition to the proposed rule. It was the consensus of the board that FPPA write a letter to the SEC and to the MSRB opposing the proposed SEC Rule.

Mr. Lindahl reported that he will be attending National Association of Public Pension Attorneys (NAPPA) annual conference and other legislative meetings in Washington, D.C., next week and will get Federal updates. He reported on a bill that was introduced in the 111th Congress called the Public Pension Transparency Act. This bill would require that pension liabilities be calculated based on a "risk-free" discount rate rather than using plans' expected return assumption as the discount rate. That would dramatically change the calculations of pension fund liabilities. Mr. Lindahl stated that he would continue to monitor this bill and keep the board informed.

Mr. Johnson stated that currently there is no offset in FPPA's death and disability pension plan to what employees are getting under Workers' Compensation. He stated that he had been informed that Workers' Compensation cannot be offset based upon what is given to disabled employees by FPPA. Mr. Johnson requested the board consider this issue. The board directed Mr. Lindahl to look into this matter.

Mr. Simon reported to the board and noted for the record that Mr. Ross had checked on the question raised by the board earlier regarding any underlying fee for SSgA and found that there was none. The meeting recessed for break.

STAFF REPORT

Mr. Slack provided the CEO report. He reported that Mr. Simon and he will undertake a due diligence trip arranged by Pantheon Ventures with respect to their Asian private equity fund of funds during March 7-11, 2011. The tentative agenda includes an overview of the Chinese and Indian private equity markets, meetings

with general partners, CEOs and portfolio companies in Shanghai, China, and Mumbai, India.

Mr. Slack provided an update of the 2010-2012 strategic plan and stated that staff is on schedule with completion of the goals set forth in the current strategic plan. He noted that more discussion on strategic planning will take place at the June board meeting.

Ms. McGrail provided a memo regarding the request from the City of Colorado Springs (City) to explore re-opening a window of opportunity for the members of the Colorado Springs New Hire Pension Plan (CSNHPP) – Police and Fire components, to voluntarily transfer into the Statewide Defined Benefit Plan. Ms. McGrail reported that the City conducted a survey to gauge the level of interest from the members in the CSNHPP. The survey was provided to 513 police officers and 302 firefighters (815 total members) and twenty percent of these members (165) responded to the survey. Of those members responding, 50 identified themselves as interested in transferring to the SWDB Plan (43 were firefighters and 7 were police officers). Ms. McGrail reported that staff believes that the survey indicates sufficient interest to consider this request. She reported that it is essential to understand the actuarial impact prior to board approval. Ms. McGrail recommended board approval to direct Gabriel Roeder Smith (GRS) to study the actuarial impact to both the SWDB plan and the CSNHPP if the 50 members who expressed interest actually joined the SWDB plan. Kim Collins will prepare the annual data and provide this to GRS. Ms. Collins reported that this study will provide additional information on the impact to the SWDB plan too. Mr. Slack recommended approval of the actuarial study to provide the City with information that might reduce their pension costs. Mr. Slack stated that the City has indicated it will pay for the cost of this study and the project. Ms. McGrail listed several next steps regarding staff time and education, if the board decides to move forward with the project. Staff requested board approval to move forward with the actuarial study so that actuarial data and recommendation can be provided at the March 17th board meeting.

Mr. Bower made a motion to approve that an actuarial study be conducted at the expense of the City of Colorado Springs to determine the impact to the Statewide Defined Benefit Plan (SWDB) and the Colorado Springs New Hire Pension Plan (CSNHPP) – Police and Fire Components if 50 members migrate from the CSNHPP to the SWDB Plan. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Ms. Collins reported on a capital improvement item in the 2011 budget that allocated \$220,000 to replace the chiller (original to building) by April 1st. She reported that bids had come back and the cost will be \$50,000 higher than the estimate, partly because asbestos had been found while removing the existing equipment. A portion of this excess amount involves labor.

Mr. Slack noted that a draft copy of the minutes for the December 9, 2010, audit committee meeting was available in the board packet. These minutes will be reviewed and approved at the next audit committee meeting.

CHAIRMAN'S REPORT

Chairman Tim Nash noted that conference evaluation forms for Mr. Miller and Mr. Johnson are available for review in the board packet. Chairman Nash called for a motion to adjourn into executive session to discuss matters regarding personnel reporting to the board.

At 12:13 p.m., Mr. Bower moved to adjourn into executive session to discuss personnel matters. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. All staff members left the meeting.

At 12:42 p.m., Mr. Johnson made a motion to come out of executive session. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Chairman Nash stated that no final action, votes or motions were made or taken during the executive session.