

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
July 14, 2011
Agenda**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Tim Nash, Chair</i>
	Consent Calendar <ol style="list-style-type: none">1. Certification of Compliance - Partial Entry into the FPPA Defined Benefit System- City of Aurora Fire Department2. Certification of Compliance - Partial Entry into the FPPA Defined Benefit System, City of Fountain Fire Department
	Approval of minutes <ol style="list-style-type: none">1. Approval of May 26, 2011, board meeting minutes2. Approval of June 9, 2011, board meeting minutes3. Approval of June 9, 2011, education and strategic planning session minutes
7:35 a.m.	Board Determination – In the Matter of Jeffrey J. Christ
8:05 a.m.	Decision on Actuarial Assumptions <i>Joe Newton, Gabriel, Roeder, Smith & Co.</i>
8:35 a.m.	Determination of contribution rates, SRA and COLAs for certain plans administered by FPPA <i>Kim Collins</i>
9:05 a.m.	Legislative report <ol style="list-style-type: none">1. 2011 session wrap-up <i>Tony Lombard, Lombard & Clayton</i> <i>Bill Lombard, Lombard & Clayton</i>2. Discussion of memorandum re proposals for 2012 legislation <i>Kevin Lindahl</i>
9:50 a.m.	Break
10:05 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
10:10 a.m.	Investment Report <i>Scott Simon</i> <ol style="list-style-type: none">1. Review of May & June 2011 performance2. Review of managers3. Other matters
10:40 a.m.	BNY Mellon presentation on foreign exchange <i>Laurin Moore, Executive Director</i> <i>David K. Nichols, Managing Director</i> <i>Carlos Pacheco, Relationship Management</i>

- 11:25 a.m. **Governance Manual review**
 Dan Slack
- 11:55 a.m. **Lunch Break**
- 12:45 p.m. **Prioritization of 2012 strategic plan initiatives**
 Dan Slack
- 1:15 p.m. **Staff report**
1. CEO report
 Dan Slack
 2. Litigation report
 Kevin Lindahl
 3. Approval of Medical Advisor Contract
 Gina McGrail
 4. Other matters
- 1:45 p.m. **Chair's report**
 Tim Nash, Chair
1. Election of Board Officers
 2. Conference Evaluation Update
 - a. Fiduciary College 2011
 Todd Bower
 - b. Market Makers 2011
 Tim Nash
 3. Other matters
- 2:15 p.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
July 14, 2011**

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

Board Members Present: Chair Tim Nash, Jack Blumenthal, Leo Johnson, Lyle Hesalroad, Sue Eaton, Monica Cortez-Sangster, and Cliff Stanton.

Board Members Absent: Vice-Chair Kirk Miller (excused) and Todd Bower (excused).

Staff Members Present: Dan Slack, Scott Simon, Kevin Lindahl, Gina McGrail, Kim Collins, Jeff Kaszubowski and Sean Ross (10:32), Diane Braaton (12:42) and Janette Hester.

Guests: John Linder, Pension Consulting Alliance (PCA); Joe Newton and Dana Woolfrey, Gabriel Roeder Smith & Co (GRS); Tony Lombard and Bill Clayton, Lombard & Clayton; Laurin Moore, David Nichols, and Carlos Pacheco, BNY Mellon; Laurel S. Tubbs, Court Reporter.

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 7:32 a.m., Chair Tim Nash called the meeting to order and noted there was a quorum present. Chair Nash called for motions to approve the consent calendar and the minutes.

Leo Johnson moved to approve the consent calendar. Cliff Stanton seconded the motion. The motion carried.

Mr. Johnson moved to approve the minutes of the May 26th board meeting. Lyle Hesalroad seconded the motion. The motion carried.

Mr. Johnson moved to approve the minutes of the June 9th board meeting. Mr. Hesalroad seconded the motion. The motion carried.

Mr. Johnson moved to approve the minutes of the June 9th education and strategic planning session. Mr. Hesalroad seconded the motion. The motion carried.

Board Determination Hearing in the Matter of Jeffrey J. Christ

At 7:40 a.m., Chair Nash called the hearing to order and welcomed Mr. Sean Velarde, attorney with Burns Figa & Will P.C., and Ms. Julie Zecchino to the board hearing. Kevin Lindahl summarized his procedural review memorandum in the board packet with background information regarding the Hearing Officer's Findings, Conclusions and Recommendations in the matter of Jeffrey J. Christ. He answered questions from the board. Mr. Velarde was allowed approximately ten minutes to

present arguments to the case and to explain Mr. Christ's personal planning decisions for disbursement of his benefit following his death. At the board's request, Ms. Zecchino gave the names and ages of her children.

At 7:53 a.m., Mr. Johnson moved that the board go into executive session to discuss confidential matters regarding a decision in the matter of Jeffrey J. Christ. Monica Cortez-Sangster seconded the motion. The motion carried. Mr. Velarde and Ms. Zecchino left the hearing. At 8:35 a.m., Mr. Johnson moved that the board come out of executive session. Mr. Hesalroad seconded the motion. The motion carried. Mr. Velarde and Ms. Zecchino re-joined the hearing. Chair Nash stated that no final action, votes or motions were made or taken during executive session. He called for any discussion and a motion.

Mr. Johnson moved that the Board of Directors affirm the written Amended Findings, Conclusion, and Recommendation of Hearing Officer Thomas Kanan, dated February 7, 2011. Mr. Hesalroad seconded the motion. The motion carried. The hearing concluded at 8:37 a.m. Mr. Velarde and Ms. Zecchino left the board room.

Decision on Actuarial Assumptions

Joe Newton and Dana Woofrey, actuaries with Gabriel Roeder Smith & Company, joined the board meeting. Mr. Newton reviewed the assumptions and recommendations presented to the board at the June 9th strategic planning session based on the experience study completed in the spring of 2011.

Economic Assumptions:

- Reduce the inflation assumption from 3.5% to 3.0%.
- Reduce the nominal investment return assumption from 8.0% to 7.5%.
- Reduce the productivity component of the salary scale assumption from 1.25% to 1.0%.
- Slightly modify the service-based promotional/longevity component of the salary scale.
- Reduce the payroll growth rate assumption from 4.25% to 3.5%.

Mortality Assumptions:

- Update the post-retirement mortality tables for non-disabled retirees to the RP-2000 generational mortality tables with blue collar adjustment. In addition, add an explicit assumption for continuously increasing longevity by projecting future mortality expectations by scale AA.
- Update the occupationally disabled post-retirement assumption to the RP-2000 generational mortality tables with blue collar adjustment projected by scale AA with a 110% load.
- Update the totally disabled post-retirement mortality assumption to the RP-2000 disabled generational mortality tables projected by scale AA.

- Update the pre-retirement non-duty mortality tables to 50% of the RP-2000 mortality tables.
- Adjust the duty mortality rate downward from 0.00025 to 0.00020.

Other Demographic Assumptions:

- Slightly increase the age-based retirement rate at age 55. Reduce age-based retirements at ages 56 through 59. Slightly reduce service-based retirement rates.
- Slightly reduce termination rates for both police and fire.
- Reduce the rates of occupational and total disability to reflect less incidence of disability for members covered under the Statewide Defined Benefit plan. Reduce the rates of total disability for members covered under the MP plans.

Actuarial Methods and Policies:

- No change in the use of 3-year smoothing technique to determine the actuarial value of assets.
- Continued use of the entry Age Actuarial Cost Methods for all plans except Statewide Death & Disability plan, which uses the Aggregate Cost Method.
- Continued use of the current amortization periods for experience gains and losses for the plans using the Entry Age Actuarial Cost Method.

Implementation:

- Recommend that these assumptions be effective with the actuarial valuations beginning January 1, 2012.

Mr. Newton answered questions from the board regarding raising contribution rates to assure ad hoc benefit adjustments in the future. Dan Slack stated that a task force could be appointed to determine what the membership wants. He will prepare a letter to upload to the website to alert members regarding the change in actuarial assumptions, if approved by the board. Mr. Slack stated that the effective date of implementation of the recommended assumptions within the benefit calculations will be determined in the near future by staff and will be presented to the Board for approval. The changes will be significant, as there are many related issues to address in order to achieve a smooth transition, particularly in publications of the organization and the online benefit calculators.

Jack Blumenthal moved to accept the recommendations of Gabriel Roeder Smith & Company (GRS) within the 2011 actuarial experience study but to reduce the nominal investment return assumption from 8.00% to 7.25%. Mr. Johnson seconded the motion. After discussion on the motion, Mr. Hesalroad moved to amend the motion to revise the nominal investment return assumption from 8.00% to 7.50%, as recommended by the actuary. Mr. Blumenthal and Mr. Johnson accepted the amendment to the motion. The motion carried.

**Determination of contribution rates, SRA and benefit adjustments
for certain plans administered by FPPA**

Kim Collins reviewed her memorandum regarding the results of the January 1, 2011, actuarial valuations. Ms. Collins stated the assumptions are reviewed against actual experience each year and are based upon analysis of FPPA's past experience and expectations of the future. These actuarial assumptions position FPPA very conservatively going forward. Ms. Collins requested board approval of contribution rates, SRA and benefit adjustments for the following plans.

Defined Benefit System: Statewide Defined Benefit Plan (SWDB)

1. *Benefit Adjustment for the SWDB plan (including members of departments that have re-entered the plan and members of the Supplemental Social Security plan):*

There is a surplus of \$31 million in this plan using smoothed assets under current law. The current contribution rate of 16% would support a 1.34% permanent benefit adjustment (smoothed assets). The CPI-W for 2010 was 2.1%. The Social Security Administration did not grant a cost-of-living adjustment on January 1, 2011. Last year the FPPA board did not grant a benefit adjustment. An ad hoc 1.34% benefit adjustment would cost the plan approximately \$2.5 million. The benefit adjustment would apply to benefits paid October 1, 2011, through September 30, 2012.

Mr. Johnson moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Defined Benefit Plan at 1.34%, effective October 1, 2011, through September 30, 2012. Mr. Hesalroad seconded the motion. The motion carried.

Defined Benefit System: Statewide Hybrid Plan – Defined Benefit Component (SWH)

2. *Statewide Hybrid Plan – Defined Benefit Component Contribution Rate:*

The Board determined at its April meeting to decrease the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 11.3% effective July 1, 2011, through December 31, 2011. The contribution rate from January 1, 2012, through June 30, 2012, was deferred until the results of the actuarial experience study were presented.

At the June planning meeting, GRS presented their recommendations for changes to the actuarial assumptions based on the results of the experience study. Within that presentation, GRS also provided information on how the assumption changes would affect the plans based on the January 1, 2011, valuation results. GRS reported the Defined Benefit Component required contribution rate is 12.91%. This rate is based on the Normal Cost for benefits with benefit adjustments of 12.30% plus an additional 0.61% to amortize the unfunded liability applicable to future

benefit adjustments. GRS recommends that FPPA consider changing the SWH contribution rate to 12.9% effective January 1, 2012, through June 30, 2012.

Mr. Johnson moved to change the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 12.9%, effective January 1, 2011, through June 30, 2012. Mr. Stanton seconded the motion. The motion carried.

3. Benefit Adjustment for the Statewide Hybrid Plan – Defined Benefit Component:

GRS reported the cost of a one-year 3.0% benefit adjustment for current retirees is 0.05% of pay or \$82,900. The CPI-W for 2010 was 2.1%. The Social Security Administration did not grant a cost-of-living adjustment on January 1, 2011. Last year the FPPA board did not grant a benefit adjustment. GRS noted that an 11.3% contribution rate would support a 3.0% permanent benefit adjustment (smoothed assets). The benefit adjustment would apply to benefits paid October 1, 2011, through September 30, 2012.

Mr. Johnson moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Hybrid Plan – Defined Benefit Component at 3.0%, effective October 1, 2011, through September 30, 2012. Mr. Hesalroad seconded the motion. The motion carried.

Defined Benefit System: Colorado Springs New Hire Pension Plans

4. Colorado Springs New Hire Pension Plan for Police Component Contribution Rate:

GRS reported that the Police Component actuarial required contribution should be \$9.6 million or 28.544% of pay, effective January 1, 2012. The current actuarial required contribution is \$10.3 million or 28.906% of pay. The minimum contribution rate for the plan is 16%. Staff recommends the board establish a contribution rate of 28.544% for this plan, effective January 1, 2012. The split between employer and member will be 20.544% employer and 8.0% member.

Mr. Johnson moved to change the Colorado Springs New Hire Pension Plan for Police Component contribution rate to 28.544%, effective January 1, 2012, which will be split as follows: an 8% member contribution rate and a 20.544% employer contribution rate. Mr. Hesalroad seconded the motion. The motion carried.

5. Colorado Springs New Hire Pension Plan for Police Component Stabilization Reserve Account Contribution Rate:

The board may allocate additional deposits to the new hire benefits account between the actuarial account and the stabilization reserve account ("SRA"), based upon the results of the actuarial study for the previous year. GRS is recommending an SRA rate of 0%, effective January 1, 2012. The current SRA rate is 0%.

Mr. Johnson moved to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Police Component at 0%, effective January 1, 2012, through December 31, 2012. Mr. Hesalroad seconded the motion. The motion carried.

6. Cost-of-Living Adjustment for the Colorado Springs New Hire Pension Plan for Police Component:

Per the Colorado Springs New Hire Pension Plan Document for Police Component, on an annual basis, certain retired members will receive an additional benefit, if there is an increase in the Cost of Living. The increase will be the product of the monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit times the increase in the Cost of Living. The additional amount shall start on the October 1 immediately prior to the earlier of (i) the date on which the member reaches age sixty (60), or (ii) the date on which the member has received a monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit for a period of ten (10) years, and shall be re-determined effective October 1 of each year thereafter.

"Cost of Living" (COLA) means an increase of not more than three percent (3%) in the cost-of-living over the previous year, rounded (i) for purposes of the Fire Component, down to the nearest one-half percent (0.5%), or (ii) for purposes of the Police Component, to the nearest one-half percent (0.5%). The increase will be determined as of December 31 of each year by the Plan Administrator by using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Ms. Collins reported that the CPI-W as of December 31, 2010, was 2.1%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Police Component at 2.5%, effective October 1, 2011, through September 30, 2012. She stated that no board action was required.

7. Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate:

Per the Colorado Springs New Hire Pension Plan, each member shall contribute at a contribution rate established by the employer and the board. The board shall have the authority to establish the funding rate as it determines to be appropriate to eliminate or reduce any current or anticipated underfunding of the plan. The board may consider actuarial reports and any other information in establishing the funding rate. The employer shall specify how much of the required rate of contribution is to be paid by the employer and how much shall be paid by the member. Any member in the Fire Component shall contribute at least eight percent (8%) and not more than ten percent (10%). The employer shall make contributions in an amount sufficient to fund the plan in an actuarially sound manner, which contributions shall not be less than the member contributions.

The City of Colorado Springs has agreed to fund the additional funding requirements of closing this plan. All other costs of the plan will continue to be equally shared by the members of the plan and the City of Colorado Springs. The difference between the open and closed plan contribution rate is 4.263%.

GRS reported the Fire Component actuarial required contribution should be \$5.2 million or 25.542% of pay, effective January 1, 2012. The current actuarial required contribution is \$5.6 million or 25.095% of pay. The minimum contribution rate for this plan is 16%. Staff recommends the board establish a contribution rate of 25.542% for this plan, effective January 1, 2012. The split between employer and member will be 15.542% employer and 10% member. The contribution split is determined as follows: 1) The contribution rate of 25.542% is reduced by the amount of the additional funding requirement (4.263%); 2) This rate is then divided equally between the member/employer, but the member's rate cannot exceed 10%. Since the divided rate exceeds 10% in this case (10.64%), the member rate will be 10%. The employer rate (15.542%) equals the actuarial contribution rate minus the member rate.

Mr. Johnson moved to increase the Colorado Springs New Hire Pension Plan for Fire Component contribution rate to 25.542%, effective January 1, 2012, which will be split as follows: a 10% member contribution rate and a 15.542% employer contribution rate. Mr. Hesalroad seconded the motion. The motion carried.

8. Colorado Springs New Hire pension Plan for Fire Component Stabilization Reserve Account Contribution Rate:

The Board may allocate additional deposits to the new hire benefits account between the actuarial account and the stabilization reserve account ("SRA") based upon the results of the actuarial study for the previous year.

GRS is recommending an SRA rate of 0%, effective January 1, 2012. The current SRA rate is 0%.

Mr. Johnson moved to set the SRA contribution rate for members of the Colorado Springs New Hire Pension Plan for Fire Component at 0%, effective January 1, 2012, through December 31, 2012. Sue Eaton seconded the motion. The motion carried.

9. Cost-of-Living-Adjustment for the Colorado Springs New Hire Pension Plan for Fire Component:

Per the Colorado Springs New Hire Pension Plan Document for Fire Component, on an annual basis, certain retired members will receive an additional benefit, if there is an increase in the Cost of Living. The increase will be the product of the monthly retirement, reduced monthly retirement, or vested separation benefit times the increase in the Cost of Living. The additional amount shall start on the October 1 immediately prior to the earlier of the date on which the member reaches age

sixty-five (65) or the date the member has received a monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit for ten (10) years, and shall be re-determined effective October 1 of each year thereafter.

"Cost of Living" (COLA) means an increase of not more than three percent (3%) in the cost-of-living over the previous year, rounded (i) for purposes of the Fire Component, down to the nearest one-half percent (0.5%), or (ii) for purposes of the Police Component, to the nearest one-half percent (0.5%). The increase will be determined as of December 31 of each year by the plan administrator by using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Ms. Collins reported that the CPI-W as of December 31, 2010, was 2.1%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Fire Component at 2.0%, effective October 1, 2011, through September 30, 2012. Ms. Collins stated that no board action was required.

Statewide Death & Disability Plan (SWD&D)

10. Benefit Adjustment for the Statewide Death & Disability Plan (including members of the Supplemental Social Security Plan):

Per the Statewide Death & Disability Plan, on an annual basis, the benefits for occupational disability retirees and their beneficiaries and for survivors of active members shall be increased by a percentage to be determined by the board but not more than 3%. The statutes require an annual 3% benefit adjustment for totally disabled retirees and their beneficiaries.

GRS reported that this plan has a surplus of \$21 million using smoothed assets under current law. GRS noted that the current contribution rate of 2.6% would support a 0.5% permanent benefit adjustment (smoothed assets). An ad hoc 0.5% benefit adjustment would cost the plan approximately \$0.8 million.

Ms. Collins reported the CPI-W for 2010 was 2.1%. The Social Security Administration did not grant a cost-of-living adjustment on January 1, 2011. Last year the FPPA board did not grant a benefit adjustment. This benefit adjustment would apply to benefits paid October 1, 2011, through September 30, 2012.

Mr. Johnson moved to set the ad hoc benefit adjustment for the Statewide Death & Disability Plan for occupational disability retirees and their beneficiaries and for survivors of active members at 0.5%, effective October 1, 2011, through September 30, 2012. Mr. Stanton seconded the motion. The motion carried.

The meeting recessed for break and reconvened at 9:53 a.m.

2011 Legislative Session Report

Chairman Nash welcomed FPPA lobbyists, Tony Lombard and Bill Clayton, to the board meeting. Mr. Lombard and Mr. Clayton reported on the 2011 legislative session and the outlook for the 2012 session. Mr. Clayton reported the Joint Budget Committee has developed a re-payment schedule for the state's liability for old hire plans, and FPPA lobbyists would work to facilitate a Pension Reform Commission meeting to continue to educate legislators on details of this liability obligation and other issues. Mr. Lombard noted that Cary Kennedy is expected to be named Denver's new chief financial officer. Mr. Clayton reviewed the recently-passed House Bill 1211 limiting travel expenditures to twice the federal daily rate per diem for food and lodging. Mr. Lombard reported on the audit of the Public Employees Retirement Association (PERA). Mr. Lombard and Mr. Clayton answered questions from the board and concluded their report.

Memo re 2012 Legislation Proposals

Mr. Lindahl discussed his board packet memorandum regarding 2012 legislation. He reported that the Legislative Council has contacted FPPA regarding the annual Pension Reform Commission meeting to be held in September or October. Mr. Lindahl stated that no appointments have been made to the Pension Reform Commission (PRC) at this time. He noted that 2012 legislation and sponsorship work will soon begin, and staff is seeking board direction in drafting proposed 2012 legislation. Mr. Lindahl reviewed four issues recommended by staff:

- Open record requirement for certain investments
- Expand members' ability to designate beneficiaries
- Allow board approved revision to plan documents
- Elimination of affiliation for Statewide Death & Disability Only

Mr. Lindahl reviewed other issues with a lower priority:

- Immunization/defeasance of liabilities
- Simplify Chief Opt Out to Statewide Hybrid or Statewide Hybrid – Money Purchase Component
- Statewide Death & Disability statute rewrite
- Clarify and provide for new methods of payment of benefits to minors and disabled adults

Mr. Lindahl noted that Senator John Morse's bill on civil unions or domestic partners would probably be reintroduced in the legislature in the next session. Mr. Lindahl requested board direction on how FPPA should proceed regarding this bill. Mr. Lindahl, Mr. Slack, Ms. McGrail, Mr. Lombard and Mr. Clayton answered questions from the board. It was the consensus of the board to move forward in drafting proposed 2012 legislation on the four issues recommended by staff. It was the consensus of the board to offer support and technical assistance to Senator Morse in drafting his bill so that any legislation can be effectively administered by FPPA.

Mr. Slack stated that the draft of rules and legislation will be presented by staff at a future board meeting.

BNY Mellon Presentation on Foreign Exchange

Scott Simon reviewed his board packet memorandum regarding custodian banks, including BNY Mellon, who continue to receive scrutiny, or are even being sued, for their trading practices in foreign currencies. Mr. Simon reported that the issue of controversy surrounds the practice of "standing instructions" that delegates trading authority to the custodial bank for smaller transactions, dividend repatriations and unregulated currency markets transactions, rather than negotiating each individual foreign currency trade. He reported that BNY Mellon publishes a daily guaranteed range for executing trades and assumes the risk of execution on a principal basis. Transactions are often aggregated with other clients to achieve wholesale pricing before execution. Mr. Simon reported that FPPA investigated the issue with BNY Mellon early in 2010 and again in 2011, reviewing custodial agreements and foreign exchange procedures with respect to foreign currency trades. Mr. Simon reported that BNY Mellon appears to be in compliance with their procedures and staff sees no fraud. However, the lack of trade detail makes it difficult to fully ascertain the level of trade execution FPPA is receiving. Mr. Simon reported that standing instruction activity, although not insignificant, is relatively small compared to overall trading activity. Mr. Simon stated that, given the recent scrutiny, BNY Mellon is in the process of developing greater transparency for its clients regarding foreign exchange transactions. He believes the increased transparency should allow for more effective monitoring by FPPA and its investment managers.

Mr. Simon welcomed Laurin Moore, Carlos Pacheco and David Nichols of BNY Mellon. Ms. Moore expressed appreciation for the eight-year relationship with FPPA and the opportunity to address the board regarding the "standing instruction" foreign exchange program that BNY Mellon offers its clients. Mr. Nichols addressed the controversy of recent months over whether "custody" banks like BNY Mellon, which handle securities and back-office tasks for institutional investors, have improperly priced currency trades in the foreign exchange market and overcharged state and local pension funds by choosing an exchange rate that is a least-favorable rate range of the day, rather than the actual time the bank executed a currency trade.

The currency trades at dispute are called "standing instruction" trades, in which the investing clients allow banks to negotiate foreign exchange trades that potentially get a better rate and which shift the significant costs and risks associated with these transactions to the bank. Mr. Nichols stated there has been fundamental misunderstanding of the foreign exchange market execution process. He stated there was nothing improper about the practice of major banks buying and selling foreign currencies at rates that are beneficial to the bank.

He explained how pricing and bank services are determined. Mr. Nichols explained the BNY Mellon foreign exchange program and the bank's dual roles as client

custodian and as a banking institution in the business to make money. Mr. Nichols explained the "standing instruction" program that provides competitive rates in more than 100 currencies; the trading restrictions within the global securities markets monitored to minimize risk; and the cost-effective option for managing foreign exchange trades by aggregating exposures into one market position. He stated "standing instruction" has daily guaranteed price which benefits the small and difficult-to-execute transactions. The "standing instruction" foreign exchange program provides value to all clients.

Mr. Nichols stated that BNY Mellon offers attractive, favorable rates to pension fund investors like FPPA and assured the board that the bank is transparent about the rates at which it executes client trades. He stated BNY Mellon is aware of client concern and their desire for a higher level of transparency and formal disclosure. Mr. Nichols listed changes BNY Mellon will make to the "standing instruction" program in the future, including the following:

- Objective market source for developed currencies
- Reference rate that approximates the Cost of Funds for restricted market and other currencies
- Defined spreads
- Time stamps
- Enhanced post-trade reporting that presents all elements of rate
- Daily rate guarantee, representing absolute floor or ceiling for standing instruction rates

Mr. Nichols and Mr. Pacheco answered questions from the board, staff and PCA consultant John Linder. The presentation concluded at 11:28 a.m.

Investment Risk Committee Report

Mr. Stanton reported that Investment Risk Committee (IRC) conducted a meeting on June 23, 2011. He provided an overview of staff's recommendation for a \$20 million commitment to ArcLight Energy Fund V, to be included in the real assets portfolio. John Linder reported that PCA provided concurrence that the due diligence procedure was properly conducted by staff in reaching its recommendation. Mr. Stanton reported that, following discussion, the IRC provided concurrence that staff's recommendation was in compliance with board policies. The full investment recommendation and supporting documents discussed are available on the board website.

Investment Report

Mr. Simon provided an economic and market summary. He stated that May, June and July were plagued by similar crisis themes that have the U.S. economy on edge: European Union debt concerns; high unemployment in the U.S.; cautious consumer sentiment; weak housing market; and continued volatility in the capital markets.

Weaker economic data and renewed fears about sovereign debt loads (Greece) combined to unsettle the market rally. Global equity markets struggled to find momentum in May amid signs that the pace of global growth was slowing, triggered by indications of weakening emerging market growth, particularly in China. Commodities markets lost momentum and crude oil prices declined, as the markets digested the effects of ending QE2 and the U.S. government debt ceiling issues. Mr. Simon reported the Total Fund performance was -0.58% in May, bringing YTD to +5.66%. The FPPA custom benchmark was +5.99% YTD. FPPA's public equity and fixed income portfolios continue to perform well relative to their benchmarks. Relative underperformance of the Total Fund is due primarily to the lagged and flat returns in private equity relative to the new public equity benchmark, which has seen positive performance. The Total Fund closed the month of May with \$3.3 billion in net investible assets.

Mr. Simon referred the board to correspondence from K2 Advisors denying the media rumor that K2 is engaged in discussions regarding the potential sale of the hedge fund firm to a private equity buyer. K2 assured clients they had no intention to sell the firm at this time and clients would receive proper communication in the event of any significant changes. Mr. Simon reported that the MetWest opportunistic investment was on plan and producing positive returns. He reported that the alternatives portfolio produced strong positive cash flows in May. Due to the uncertainty of winding down the remaining assets and the uncertain timing of cash flows, staff is exploring the sale in the secondary market of the remaining interest in the Gottex Market Neutral Fund, valued at approximately \$7.1 million. The IRC is aware of the circumstances and supports the potential transaction. Mr. Simon provided asset detail and investment performance in the packet for the self-directed plan as of May 31st. He reported that the Self-Directed Plans Committee met on June 29, 2011, and conducted a planning meeting with Fidelity and reviewed the Q1 2011 report with Bidart & Ross. Minutes of that meeting will be provided in the August board packet. Mr. Simon answered questions from the board.

Governance Manual Review

Mr. Slack reported that, according to board policy, the contents of the board's Governance Manual were to be reviewed by the full board on an annual basis and updated as necessary. He provided red-lined pages of only those sections containing changes in the Governance Manual that were suggested by the board at the July 9th meeting. Mr. Slack reviewed the draft changes and answered questions from the board. He noted that the updated 2011 manual would be available on the board website and paper copies would be provided for any board member upon request.

Mr. Johnson moved to approve the changes to the 2011 Board Governance Manual as presented in the board packet. Ms. Eaton seconded the motion. The motion carried.

Chairman's Report

Chair Nash noted that some board members needed to leave at the lunch break. He suggested the election of board officers for 2011-2012 be moved up on the agenda. Chair Nash stated that, in accordance with board policy, Vice-Chair Kirk Miller would become the new board chairman. Chair Nash called for discussion and nomination for the new vice-chair.

Mr. Johnson moved to nominate Cliff Stanton as the 2011-2012 vice-chair. Mr. Hesalroad seconded the motion. Mr. Stanton agreed to serve in that capacity. The motion carried unanimously.

Staff Report

Mr. Slack referred the board to the memo regarding FPPA's medical advisor agreement, amendment 1, in the board packet. Ms. McGrail reported that Dr. Clarence Henke is currently serving as the FPPA medical advisor. She commended Dr. Henke's medical expertise and his knowledge of workers' compensation. She reported that his current agreement expires August 31, 2011. Staff is recommending that the amendment be extended until December 31, 2011, so that renewal would move to calendar year and coincide with annual budget planning. She answered questions from the board. Mr. Johnson requested that Dr. Henke address the board in the near future and Ms. McGrail stated she would schedule his appearance.

Mr. Johnson moved to approve the Medical Advisor Agreement and authorize the chairman to execute Amendment 1. Ms. Eaton seconded the motion. The motion carried.

At 11:53 a.m., the meeting recessed for lunch break until 12:45 p.m. Mr. Stanton left the meeting.

Prioritization of 2012 Strategic Plan Initiatives

Mr. Slack discussed his board packet memorandum regarding prioritization of 2012 strategic plan initiatives. Staff reviewed and prioritized the proposed initiatives for 2012 and requested feedback and direction from the board to prepare the 2012 budget for approval later this year. Mr. Slack provided background on major projects for 2012, that will need to be undertaken separate and apart from strategic plan initiatives:

- Implementation of changes to actuarial assumptions, as approved by the board
- Re-entry, affiliation and related issues of eligible departments

- If included in the 2012 initiatives, a second choice to elect to participate in the Statewide Defined Benefit Plan by members who chose another option in the past. If the board elects to pursue this, staff will craft legislation and/or rules for inclusion in 2012 legislation. The process of administering this option would begin in 2012.

Mr. Slack listed the following categories of strategic plan initiatives, based on staff's assessment of the needs of the organization. He reviewed each item in detail.

"Must Do" items:

- Security penetration testing
- Document retention program
- Improved security for FPPA data accessed from smartphones and tablets
- Information technology infrastructure
- Legislative initiatives for 2012
- Consideration of a member election on contribution rates

High priority items:

- RFP for custodian bank
- Model Old Hire plan document
- Actuarial audit
- Continued discussion and education on options regarding immunization of liabilities
- Benchmarking by peer comparison the effectiveness and efficiency of staff
- Increased staff oversight of the alternative and absolute return portfolios
- Increase employer outreach
- Improved member self-service internet functionality

Low priority items:

- Business continuity planning (deferred pending completion of the document retention program, which is a component of business continuity planning)
- Development of web-based video
- Re-write of the Statewide Death & Disability Plan statutes and rules
- Improved facilitation of benefit payments to minors and disabled adults
- Simplify chief opt-out provisions

Mr. Slack and staff answered questions from the board. There was a board consensus to include a second choice plan election process in legislative or rulemaking initiatives, as may be appropriate, for 2012.

Staff Report (continued)

CEO Report

Mr. Slack reported on the Self-Directed Plans Committee meeting conducted on June 29th. The committee heard from Fidelity and Bidart & Ross on many aspects of administration of the self-directed plans. Mr. Slack reported on meetings he

attended regarding FPPA's insurance coverage. He reported a web link had been set up for the Colorado Springs voluntary transition project to provide updated information for members. In response to board inquiry, Mr. Slack reported that the Waters Consulting Group (WCG) is currently collecting data from public and private organizations regarding the compensation survey and that the results will be presented at the September meeting. Mr. Slack and staff answered questions from the board.

Litigation Report

Mr. Lindahl discussed his board packet memorandum regarding litigation issues. He reported no change in the G-1 Holdings case and the Countrywide Derivative case. He reported that he gave deposition testimony in New York on June 14, 2011, in the Tronox and Kerr-McGee case, in which FPPA is representing a class of bond holders. In the Huber litigation, Mr. Lindahl reported the Court has ruled in FPPA's favor, finding that the decision by the board was not arbitrary, capricious or an abuse of discretion. Ms. Huber has 30 days to file an appeal. He reported that FPPA has filed a Motion for Reconsideration with the Court in the Guyman case and there has been no response to date. Mr. Lindahl answered questions from the board.

Chair Report

Market Makers Conference update

Chair Nash updated the board on his attendance at Market Makers 2011, a seminar organized by the Institute for Fiduciary Education. He stated the group forums discussed how defined benefit pension plans will survive and focused on the changes that may be necessary to ensure their survival. Other topics of interest included: investment strategy and risk, real estate investment opportunities, and issues related to market volatility. Chair Nash explained the technological devices in use during the seminar to poll attendees for questions, register their responses and to instantly display results. Chair Nash strongly recommended the board chair attend this well-organized annual conference. The conference evaluation form he submitted will be available in the August board packet.

Mr. Slack stated that the board information sheet, including dates of service, is being updated and requested any changes be submitted. He noted that staff believes Mr. Hesalroad was given a 6-year term, and he asked Mr. Lindahl to confirm the term of Mr. Hesalroad's appointment.

At 1:38 p.m., Mr. Johnson moved to adjourn the meeting. Ms. Eaton seconded the motion. The motion carried.