FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
March 17, 2011
Agenda

Time	Agenda item
7:30 a.m.	**Call to order** Approval of February 24, 2011 Board Meeting Minutes **Consent Calendar** Approval to Amend City of Sterling Old Hire Fire Pension Plan
7:35 a.m.	**Investment Risk Committee report**
7:40 a.m.	**Absolute Return – Long / Short Equity Manager Recommendation – Aetos Capital** *Anne Cassells, Chief Investment Officer* *Michael Klein, Co-president and Chief Risk Officer* *Brad Rudner, Vice-President Client Relations*
8:40 a.m.	**Investment report** 1. Review of February 2011 performance 2. Review of managers 3. Other matters
9:00 a.m.	**Staff report** 1. Legal report and legislative update 2. CEO report 3. GRS Actuarial Memo re Colorado Springs 4. Memo re 2011 Supplemental Actuarial Study – Colorado Springs 5. June strategic planning meeting topics 6. Other matters
9:30 a.m.	**Chairman's report**
9:35 a.m.	**Adjourn**

Fire and Police Pension Association
Minutes – Board of Directors Meeting
March 17, 2011

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

<u>Board Members Present</u>: Chairman Tim Nash, Vice Chairman Kirk Miller, Jack Blumenthal, Leo Johnson, Lyle Hesalroad, Sue Eaton, Todd Bower and Cliff Stanton (via conference call until 8:56 a.m.).

<u>Board Members Absent</u>: Monica Cortez-Sangster.

<u>Staff Members Present</u>: Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Jeff Kaszubowski, Sean Ross and Janette Hester.

<u>Guests</u>: John Linder, Pension Consulting Alliance (PCA); Anne Cassells, Michael Klein and Brad Rudner, Aetos Capital, LP; Joe Newton, Gabriel Roeder Smith & Company (via conference call beginning at 9:10 a.m.).

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., Chairman Tim Nash called the meeting to order and noted there was a quorum present. Chairman Nash called for motions to approve the minutes and the consent calendar. Lyle Hesalroad moved to approve the February 24, 2011, board meeting minutes. Leo Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Johnson moved to approve the consent calendar. Todd Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

<u>Investment Risk Committee Report</u>

Investment Risk Committee (IRC) Chairman Bower stated that the investment team continues to implement the strategy of the Absolute Return portfolio. Chairman Bower referred the board to summaries provided in the board packet of the IRC meetings held via webcast. He noted that the details and background of all recommendations presented to the board were available on the board website for review. Chairman Bower stated that Aetos Capital would be making a presentation to the board today regarding their long/short equity strategy.

Aetos Capital
Absolute Return – Long/Short Equity Manager Recommendation

Scott Simon reported that Aetos Capital (Aetos) is the second portion of the Absolute Return portfolio, following the $100 million Global Macro mandate approved with GAM in January 2011. He reported that Long/Short Equity and Discretionary Commodities exposures are intended to be funded in April and May, respectively. At the request of Dan Slack, Austin Cooley reviewed the risk and return characteristics of the Absolute Return portfolio. Subsequently, Mr. Cooley provided a memo regarding the ongoing research into the Absolute Return allocation, appropriate sub-strategy allocations, and potential investment managers. He reported that during 2010, staff solicited separate account proposals for strategy-specific separate accounts and managers with the ability and willingness to build a customized solution for FPPA. Mr. Cooley reported that staff began discussions with Aetos in 2007. He provided the organizational structure of the firm and explained the comingled ownership of the two subsidiaries that operate independently within Aetos. He reported that the depth and experience of the firm, combined with its separate account experience and its fundamental discretionary bias, were key differentiators in selecting Aetos for the Long/Short Equity allocation within the Absolute Return allocation. Mr. Cooley reviewed the portfolio structure proposed by staff as a separately managed account. He reported that the strategic sub-strategies within this mandate will be hedged equities, market neutral/low net, and short biased. Mr. Cooley noted that at the February meeting the board approved staff's recommendation to increase the Absolute Return interim allocation from 10% to 11%, and staff proposes allocating the additional 1% ($30 million) to the Long/Short Equity strategy. He reported that staff is targeting an April 1st funding of the Aetos mandate. Mr. Simon and Mr. Cooley answered questions from the board, staff, and PCA consultant John Linder.

Aetos Capital L.P. – Alternatives Management Presentation

Mr. Simon introduced Anne Cassells, Michael Klein and Brad Rudner with Aetos, who presented a review of Aetos and their Long/Short Equity investment capabilities. Mr. Rudner provided an overview of the experience and expertise of the firm and reviewed their client base. Ms. Cassells provided an overview of the investment philosophy and manager evaluation and selection process. She also reviewed the proposed Long/Short Equity separate account portfolio customized for FPPA. Ms. Cassells stated that Aetos is committed to transparency, to working closely with staff on building a fundamental portfolio, and to maintaining a research process that is sustainable. Mr. Klein provided an overview of risk management capabilities, tools and systems that focus on reducing volatility and increasing goal achievement. Ms. Cassells and Mr. Klein answered questions from the board and staff and concluded their presentation. Mr. Simon requested board authorization to hire Aetos.

Mr. Johnson made a motion to approve hiring Aetos to manage a $130 million Long/Short Equity allocation in a separately managed account format. Mr. Bower seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Investment Report

Mr. Simon provided the February performance report with the current available data, due to the early date of the monthly meeting. Mr. Simon reported the FPPA Total Fund performance at +3.31% in mid-February, following the transition of assets to GAM, JP Morgan Emerging Markets, and Driehaus. In his economic and market summary, Mr. Simon reported tumultuous markets, driven primarily the turmoil in the Middle East and Japan's earthquake and tsunami. Mr. Simon reported that direct market exposure to Japan in the equity portfolio is about 8%, which is right on the benchmark. Claud Cloete reported that staff is maintaining close contact with its managers regarding this exposure. Mr. Simon reported briefly on his attendance at a recent Asian conference where discussion topics focused on sound infrastructure within Asian companies and corporations, despite continued debt burdens. Mr. Simon and Mr. Slack will provide details of the Pantheon Asia trip and report on potential future investment opportunities in the future.
Mr. Simon, Mr. Slack and Mr. Linder answered questions from the board.

Staff Report

Kevin Lindahl reported that there had been no new litigation developments since the last meeting. Mr. Lindahl reported on a senate bill regarding civil unions which, if passed, could have an impact on FPPA-administered plans. He reported that the greatest impact would occur within the Statewide Death and Disability Plan (SWD&D) by expanding the rights of partners who have entered into a civil union. While other plans have a designated beneficiary, the SWD&D plan recognizes only the spouse or child as the beneficiary. Mr. Lindahl requested board direction to authorize the FPPA actuary to analyze the potential impact on the plans if this bill passes. He reported that this analysis could be added to the supplemental study already in progress and would incur no additional cost to the organization.
Mr. Slack reported that there are indications that this bill will pass and, although there may be no measurable cost involved, the actuary can determine any potential impact so that the organization can begin planning. Mr. Bower asked if there was a fiscal limit to the bill, further stating that the state had grandfathered in death and disability coverage for all members hired prior to 1997. Ms. McGrail reported that there could be an impact to the Colorado Springs plan, because they have an automatic spousal survival benefit. Jack Blumenthal expressed concern for any retroactive liability for the Colorado Springs plan should there be changes in the applicable laws. Kim Collins stated that authorizing further study by the actuary should include all plans administered by FPPA – Statewide Hybrid (SWH), SWD&D, SWDB and the two Colorado Springs plans.

Mr. Johnson moved to authorize a supplemental study of this issue by the actuary, including study of all plans administered by FPPA. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Lindahl reported that Senator John P. Morse had contacted him regarding a bill he plans to introduce that would adjust the way FPPA allows members in the SWDB plan and the SWD&D plan to designate a new beneficiary after the member has entered retirement. Mr. Lindahl explained that members in the SWDB, SWD&D and SWH plans can name a designated beneficiary at the time they separate service and take a reduced benefit. The benefit is paid out over that beneficiary's lifetime and the member's lifetime, and there is a remaining benefit when one predeceases the other. He explained that in order to change the beneficiary designation one of three things must occur: marriage/remarriage, divorce, or death. Mr. Lindahl requested advice from Joe Newton, FPPA actuary with Gabriel Roeder Smith & Company, regarding determining the cost to the plans. Mr. Newton and Mr. Lindahl presented possible scenarios. They explained how staff could administer such changes and how the member's benefit would be recalculated by the actuary. Mr. Lindahl reported that Senator Morse would be open to assistance with drafting the language. Mr. Slack suggested that providing assistance in drafting bill language could benefit FPPA by guarding against adverse selection to the plans. It was the consensus of the board to authorize Mr. Lindahl to work with Senator Morse in drafting narrow legislation to establish an additional designated beneficiary option within the plans.

Mr. Slack reported that a new contract had been executed with Fidelity. He reviewed disclosure documents related to the plan changes: 1) a letter to participants regarding new investment options effective April 6, 2011; and (2) a Fidelity notice to participants in self-directed plans regarding important plan enhancements.

Ms. McGrail discussed the memorandum regarding the City of Colorado Springs' request to allow voluntary transfers from the Colorado Springs New Hire Pension Plan (CSNHPP) to the SWDB plan. She also provided a memo from Gabriel Roeder Smith & Company (GRS) addressing the results of the actuarial study approved by the board at the January meeting. Ms. McGrail and Mr. Newton reviewed the actuarial study of the impact of allowing voluntary transfers to the SWDB plan. Mr. Newton reported that the actuarial study was based on the results of the survey issued by the City of Colorado Springs and was limited to those 51 members who had indicated interest in moving to the SWDB Plan. Ms. McGrail listed next steps in the process should the board direct staff to pursue the matter. Mr. Newton reported that, because the number of transferring members represents less than 1% of the current active membership in the SWDB Plan and because the liabilities are being offset by an actuarially cost-neutral service purchase, there would be no material positive or negative impact on the SWDB Plan. He reported that the CSNHPP will be impacted directly in two ways:

(1) Any difference between the liability being released from the CSNHPP and the service purchase cost in the SWDB Plan will flow directly into the Unfunded Actuarial Accrued Liability (UAAL).

(2) There would be a decrease in payroll for determining the contribution rate.

For the Police Component, the UAAL will decrease by $87,776 because the assets needed to purchase the service in the SWDB plan are slightly smaller than the amount of liability being released from the CSNHPP. In addition, since there are only 5 members transferring, the FY2012 payroll will only decrease by 1.3%. These two items combine to have a rather small impact on the CSNHPP and only increase the employer contribution by 0.12% of payroll. The estimated amount of employer contributions into the CSNHPP decreases by $87,000. When taking the 8% employer contribution into the SWDB on the payroll of the transferring members, the net employer contributions for FY2012 decrease approximately $52,000.

Mr. Newton reported the impact for the Fire Component is more material, as 44 members have shown interest to transfer. The UAAL will increase by $593,994 as additional assets are needed to purchase the service in the SWDB Plan. The FY2012 payroll will decrease by 16.7%. These two items combine to increase the employer contribution into the CSNHPP by 2.11% of payroll. The estimated amount of employer contributions into the CSNHPP decreases by $510,000. When taking the 8% employer contribution into the SWDB Plan on the payroll of the transferring members, the net employer contributions for FY2012 decrease approximately $238,000. Ms. McGrail stated that members in the CSNHPP would be electing to give up a benefit that may be more valuable than the one they are establishing in the SWDB plan, and the amount of money transferred to the SWDB plan is a cost-neutral purchase price. Ms. McGrail stated that members might be electing to move to another plan because it would be a benefit should they ever change employment and rehire with another city covered by the SWDB plan. She explained that the SWDB plan allows the member to designate anyone as a beneficiary, while the CSNHPP designation is limited to the spouse. Ms. McGrail stated that a survivor benefit reduction is built into the CSNHPP plan, whereas the SWDB plan has an actuarially reduced benefit at the member benefit level.

Ms. McGrail reported on the modified work plan that would narrow the scope of the project and reduce the amount of administrative staff time. She reported staff could effectively utilize web links and e-mail to further reduce communication costs. Mr. Slack reported that if all the members who expressed interest actually make the transfer, this would save the City about $290,000 a year in contributions into their retirement plan. He also reported that the City agreed to pay costs incurred with the request. The board suggested that staff track the total hours needed to administer the plan changes and pass this expense to the City. Ms. McGrail, Mr. Slack, Mr. Lindahl and Mr. Newton answered questions from the board.

Mr. Blumenthal moved to allow staff to work with the City of Colorado Springs (the City) on the voluntary transfer of active members from the CSNHPP to the SWDB plan on the condition that the City be responsible for the expense of staff time to administer the optional plan transfer. Mr. Johnson moved to amend the motion to provide that the transfer document contain language stating that this is an irrevocable choice. Mr. Blumenthal accepted the amendment to his motion. Mr. Miller seconded the motion as amended. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Ms. McGrail discussed the memorandum regarding a request by the City of Colorado Springs (the City) to approve a supplemental actuarial study to analyze the impact to the CSNHPP if the definition of "salary" is changed to include "acting pay" or similar pay when a member is appointed to "act" or serve in a position of higher rank for a period that is expected to last for six months or longer. Ms. McGrail reported that the City has requested that a rule change be pursued to permit acting or temporary pay to be included in a member's "salary" if the appointment to the higher rank or position is expected to last six months or longer. She reported that staff has concluded that, prior to a rule change, an actuarial study is needed, since the CSNHPP is a closed plan and the plan utilizes an 18-month final average salary calculation. Mr. Newton reported that there could be a cost related to this rule change if salary spiking were allowed to occur, and this expense would be borne by the City. Ms. McGrail reported there would be no budget impact to FPPA to perform the supplemental study. Ms. McGrail, Mr. Lindahl and Mr. Newton answered questions from the board.

Mr. Johnson made a motion to approve the supplemental actuarial study for the Colorado Springs New Hire Pension Plan, as presented. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Slack provided a list of potential strategic planning topics for discussion and requested additional educational presentation suggestions the board would like to include. Mr. Johnson suggested two additional topics: 1) implications to FPPA of the state's continuing deferral/reduction of contributions to select old hire plans; and 2) the actuarial implications of a second choice option for departments moving from partial entry to full entry. Mr. Blumenthal suggested that the board structure and its policies and procedures be reviewed.

Mr. Slack referred the board to new educational events in the board packet: the SkyBridge Alternatives (SALT) Conference, Market Makers and the NCPERS TEDS Seminar and Annual Conference. He reported that Mr. Lindahl will be speaking at NCPERS on fiduciary duties as related to the Dodd-Frank Act.

Mr. Slack reported on the implementation of a new process for expense voucher whereby POV mileage will be checked against Google Maps or a similar service for accuracy. Mr. Slack also suggested that FPPA's gift policy may need further review and refinement. He noted that this item will be considered by the board during the Governance Manual review at its annual strategic planning meeting.

Mr. Lindahl reported on House Bill 11-1211 that would require boards, commissions, and other government entities to limit reimbursement of travel costs to no more than twice the federal reimbursement rate per day. He reported that the new legislation will not permit reimbursement of any expenses for a spouse who travels with the member. Mr. Lindahl answered questions from the board.

Chairman's Report

There were no items for discussion in the Chairman's report.

At 10:33 a.m., Mr. Johnson made a motion to adjourn the meeting. Sue Eaton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.