

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
Education Session
November 17, 2011
Agenda**

<u>Time</u>	<u>Agenda item</u>
9:00 a.m.	Call to order <i>Kirk Miller, Chair</i>
9:00 a.m.	Fiduciary Liability Insurance and Risks Travelers <i>Mary Bescher, Managing Director Cindy Bruder, Claim Executive Mary Davis, Account Executive Officer Lisa Selby, Senior Account Underwriter</i>
10:00 a.m.	Hedge Fund Operational Due Diligence Albourne <i>Ryan Teal, ODD Analyst Lincoln Smith, Portfolio Analyst</i>
	Break
11:15 a.m.	FPPA Peer Organization Staffing Survey Pension Consulting Alliance <i>John Linder, Consultant</i>
12:00 p.m.	Adjourn & Lunch

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BOARD MEMBERS PRESENT: Chair Kirk Miller, Vice Chair Cliff Stanton, Tim Nash, Lyle Hesalroad, Jack Blumenthal, Sue Eaton, Pam Feely and Todd Bower.

BOARD MEMBERS ABSENT: Monica Cortez-Sangster (excused).

STAFF MEMBERS PRESENT: Dan Slack, Scott Simon, Kevin Lindahl, Kim Collins, Gina McGrail, Austin Cooley, Claud Cloete, Dale Martin, Sean Ross, Curt Huntsman and Janette Hester.

OTHERS PRESENT: John Linder, Pension Consulting Alliance; Karen Graham, A.J. Gallagher; Mary Bescher, Cindy Bruder, Mary Davis and Lisa Selby, Travelers Insurance; and Ryan Teal and Lincoln Smith, Albourne.

Notice of this meeting and a copy of the agenda were posted in the building lobby of FPPA offices at least twenty-four hours prior to the meeting.

At 9:05 a.m., Chair Kirk Miller called the Educational Session to order.

Fiduciary Liability Insurance and Risks – Travelers Insurance

Mr. Slack welcomed the representatives of Travelers Insurance. He introduced Ms. Graham with Arthur J. Gallagher Risk Management Services, who acts as FPPA's insurance broker. Ms. Graham introduced the team from Travelers, who have worked with FPPA for 15 years. Ms. Bescher began the presentation by reviewing the fiduciary liability insurance coverage, claims, and national issues that affect board members. Although FPPA is not directly governed by the Employee Retirement Income Security Act of 1974 (ERISA), Ms. Bescher discussed how ERISA has influenced the specialized field of fiduciary liability.

Ms. Bescher explained how fiduciaries can be held liable for errors or omissions in administering employee benefit pension plans and the costly court cases that can result from any breach in their fiduciary duties and responsibilities. She reviewed fiduciary functions and the requirement of prudent actions and decisions. She discussed common fiduciary exposures regarding disclosure issues, delinquent contributions, and investment strategy. Ms. Bescher reviewed the FPPA insurance policy features and coverage, how claims are defended, and certain policy exclusions. She discussed Travelers' governmental claim statistics, including claims for denial of benefits, miscalculation of benefits, imprudent investments, inadequacy of plan assets, improper investment, termination of a plan, and reduction of benefits. She reviewed current litigation involving assertions of excessive foreign currency fees and other cases involving assertions of actuarial negligence. Ms. Bruder reviewed how claims are handled and defended. Ms. Davis

noted that Travelers offers a website service free of charge and a 24-hour hotline for questions. Ms. Davis provided information relevant to fiduciaries in their handout packet. Ms. Bescher, Ms. Bruder and Ms. Davis answered questions from Mr. Slack, Mr. Lindahl, Mr. Blumenthal and Mr. Linder. The Travelers presentation concluded at 10:00 a.m. and the representatives left the meeting.

Albourne – Hedge Fund Operational Due Diligence

Mr. Simon introduced Mr. Teal and Mr. Smith from Albourne. Mr. Simon stated that Albourne was recently hired as FPPA's hedge fund consultant to assist with the implementation of the long/short equity within the global equity portfolio. They will continue to assist the transition of the hedge fund portfolio to staff. He reported that Albourne will assist in providing hedge fund operational due diligence, as well as assessing strategies and investment capabilities. Mr. Smith and Mr. Teal provided a handout giving the background of the firm, describing their wide range of clients, and explaining how the Albourne business model was constructed. Mr. Smith reviewed how Albourne conducts operational due diligence on hedge funds. Mr. Teal provided his background and areas of experience. He explained how the operational due diligence process is conducted at Albourne. Mr. Smith and Mr. Teal answered questions from Mr. Stanton, Mr. Blumenthal, Mr. Bower, Mr. Slack, Mr. Linder, and Mr. Cooley. The presentation concluded at 11:31 a.m. The meeting recessed for break until 11:49 a.m.

PCA Presentation: FPPA Peer Organization Staffing Survey

Mr. Linder presented the results of an FPPA peer organization survey conducted at the direction of the board. He reviewed plan data, staffing metrics and practices of relevant peer institutions to create context around FPPA's transition towards a higher concentration of alternative investments in its portfolio. He reported that sixteen selected organizations were contacted and interviews were conducted with thirteen of them. Ten institutions completed an online objective survey that PCA used to produce statistics. He reviewed the goals of the survey. He reported the main finding is that no consensus staffing model for an alternatives-focused portfolio was found. He reported there are many different models, there are different sized organizations than FPPA, and these institutions are at different stages of alternative allocations. He stated the commonalities are that hedge funds add complexity to the portfolio and they require a greater commitment to internal (staff, salary, support, legal) and external (advisors, fund of funds managers) resources to be successful. The expertise of in-house resources available to an organization can provide comfort to board or decision-makers. Mr. Linder reviewed the data from the survey, including the amount of assets of each organization, the comparison of investment allocations, the direct relations between the number of internal investment staff versus plan assets under management, the percentage allocation of alternatives relative to staffing, and the evidence of a positive correlation between hedge fund allocation and dedicated hedge fund staffing. Mr. Linder provided data on external professionals working on behalf of the investor, such as advisory (Albourne), discretionary (fund of funds managers),

mixed models, and investor direct investments with no intermediation (whole staff due diligence model). He explained the third party intermediation models (advisory, discretionary, and mixed models) and the example of fees paid on private equity versus hedge funds. Mr. Linder reviewed the data on peer internal staffing costs for average and median versus FPPA. He reviewed the organizational risks of in-house alternative investment management. Mr. Linder presented peer survey responses on areas of primary concern (i.e. retention of experienced staff, budget support, and attracting new staff). He presented data regarding base compensation, retention bonuses, and objective incentive compensation levels for alternative investments models. Mr. Linder stated that the main takeaway from the survey interviews was that private sector compensation could not be matched. However, if you can come close to the salary amount and provide interesting work and autonomy, investment staff retention may be less of an issue. Mr. Linder provided a copy of the survey report and referred the board to a data section containing peer comments and invited questions and discussion.

Mr. Slack noted that a Cost Effective Management (CEM) analysis was provided in the October board packet and this comparison is conducted annually by CEM. Mr. Simon reported that total performance and benchmark information is available in the monthly investment report. Mr. Simon noted that, when the private capital and hedge funds portfolio are in place, the monitoring tools may require a different skill set and that is when the compensation and retention issues become a risk that must be addressed. Mr. Linder noted that legal rights must be well-negotiated on the front end of investments. Mr. Linder summarized that the survey report indicates that the direction of the FPPA investment plan is reasonable and appropriate.

At 12:59 p.m., the education session concluded.