

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
October 27, 2011  
Revised Agenda**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	<b>Call to order</b> <i>Kirk Miller, Chair</i>
	<b>Approval of September 22, 2011, board meeting minutes</b> <b>Approval of September 22, 2011 executive session minutes (BNY Mellon)</b> <b>Approval of September 22, 2011 executive session minutes (Waters Consulting Group contract)</b>
	<b>Consent Calendar</b> <ol style="list-style-type: none"><li>1. Approval of Resolution for full entry in SWDB, Sheridan Police</li><li>2. Approval of Certification of Compliance, Buena Vista Police</li></ol>
7:35 a.m.	<b>Investment Risk Committee report</b> <i>Todd Bower, Chair</i>
7:40 a.m.	<b>Investment Report</b> <i>Scott Simon</i> <ol style="list-style-type: none"><li>1. Review of September 2011 performance</li><li>2. Review of managers</li><li>3. Other matters</li></ol>
8:10 a.m.	<b>J.P. Morgan – Global Emerging Markets</b> <i>Greg Mattiko, Portfolio Manager (via video)</i> <i>Tom Leventhorpe, Client Portfolio Manager</i> <i>Richard Smapson, Managing Director/Client Advisor</i>
8:55 a.m.	<b>BREAK</b>
9:10 a.m.	<b>Colorado Springs New Hire voluntary transfer</b> <i>Gina McGrail and Kim Collins</i>
9:25 a.m.	<b>3Q 2011 Strategic plan update</b> <i>Dan Slack</i>
9:40 a.m.	<b>2012 Budget discussion</b> <i>Dan Slack and Kim Collins</i>
11:10 a.m.	<b>BREAK</b>

11:25 a.m.

**Staff report**

1. CEO report  
*Dan Slack*
2. Legal report and legislative update  
*Kevin Lindahl*
3. Discussion of education topics  
*Dan Slack*
4. Other matters

11:40 a.m.

**Chair's report**

*Kirk Miller, Chair*

1. Approval of proposed 2012 board meeting schedule  
*Dan Slack*
2. Fiduciary insurance exculpatory provisions  
*Dan Slack*
3. Distribution of board self-evaluation forms  
*Kirk Miller*
4. Appointment of Audit Committee Member  
*Kirk Miller*
5. Other Matters

12:15 p.m.

**Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
October 27, 2011**

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

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

**Staff Members Present:** Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Austin Cooley, Claud Cloete, Jeff Kaszubowski, Sean Ross, Dale Martin, Diane Braaton (9:10), and Janette Hester.

**Guests Present:** John Linder, Pension Consulting Alliance (PCA); Greg Mattiko (via webcast), Tom Leventhorpe and Richard Sampson, J.P. Morgan.

*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 7:37 a.m., Chair Kirk Miller called the meeting to order and noted there was a quorum present. On behalf of the board, he offered congratulations to Tim Nash on his reappointment to the board. Chair Miller called for motions to approve the minutes and the consent calendar.

Mr. Bower moved to approve the minutes of the September 22<sup>nd</sup> board meeting. Mr. Nash seconded the motion. The motion carried.

Mr. Hesalroad moved to approve the executive session minutes (BNY Mellon) of September 22<sup>nd</sup> board meeting. Mr. Nash seconded the motion. The motion carried.

Mr. Bower moved to approve the executive session minutes (Waters Consulting Group contract) of September 22<sup>nd</sup> board meeting. Ms. Eaton seconded the motion. The motion carried.

Mr. Hesalroad moved to approve the Resolution for full entry in SWDB for Sheridan Police. Mr. Bower seconded the motion. The motion carried.

Mr. Hesalroad moved to approve the Certification of Compliance for Buena Vista Police. Mr. Bower seconded the motion. The motion carried.

**Investment Risk Committee Report**

Mr. Bower reported that the Investment Risk Committee (IRC) met on September 19, 2011, to discuss an investment in Scout Energy Partners, a fund focused on acquiring and operating upstream oil and gas properties. He reported on the due diligence and background research conducted by the investment staff and referred

the board to the summary of information regarding this investment, which will be part of FPPA's real assets portfolio.

### **Investment Report**

Scott Simon provided an economic and market summary for September, noting that this was the worst quarter for investment performance since Q4 2008. The continuing Eurozone crisis involving Greek sovereign debt has slowed global economic growth. The rally in October is the result of positive steps taken in Europe towards working out the Greek debt issue, as well as positive US economic news. Mr. Simon reported that the Total Fund performance was -4.49% in September and -3.09% YTD. The FPPA custom benchmark was -7.45% YTD. The primary driver of relative outperformance YTD continues to be from the private capital portfolio exceeding its public equity plus hurdle benchmark, FPPA's fixed income portfolio has exceeded benchmark returns YTD, and absolute return performance has generally exceeded comparable hedge fund indices.

#### State Street transition management update

Mr. Simon reported that State Street had reviewed the transition for a UK client and concluded that ethical standards had not been met. The client was charged a commission and an asset management fee without that being expressly communicated to the client. Personnel turnover resulted. Mr. Simon reported there would be no effect on FPPA. Staff believes that State Street dealt appropriately with this situation and continues to have confidence in the level of transparency and communication provided by State Street as FPPA's transition manager.

#### Alternative Investments

Mr. Simon commented that cash flow activity with the alternatives portfolio remained robust with capital calls of \$15.6 million and distributions of \$12.6 million. The Global Macro and Long Short strategies in the absolute return portfolio have exceeded comparable hedge fund indices YTD. The Commodity portfolio has underperformed its comparable hedge fund benchmark, but has significantly outperformed the passive commodity markets.

#### Scout Energy Partners

Mr. Simon reviewed the \$20 million investment within the Real Assets allocation and reported that this commitment is consistent with the investment pacing plan approved by the Board at the February meeting. He noted that supporting documents are available on the Board website.

#### Master Investment Policy Statement changes

Mr. Simon discussed a handout and a memo in the board packet regarding Master IPS changes for Global Long Short Equity. He noted that the Board approved a 20% allocation of the Global Public Equity portfolio to long/short equity managers. He summarized suggested revisions to accommodate the governance process for selection, monitoring and termination of these manager exposures in this portfolio.

Staff recommends the investment decision-making process be similar to the illiquid alternatives. The IRC would review and provide concurrence that the process utilized is in compliance with Board policies. The Board would continue to review and approve the portfolio construction during the investment class review. Mr. Simon answered questions from the board regarding Master IPS changes and requested board approval.

Mr. Bower moved to approve the changes to the Master Investment Policy Statement as recommended by the investment staff. Mr. Hesalroad seconded the motion. The motion carried.

#### CEM Benchmarking Survey

Mr. Simon discussed the results of a 2010 Cost Effectiveness Measurement (CEM) survey of the investment department. The survey is conducted annually and is designed to measure the costs of managing, administering and overseeing the management of assets relative to cost performance of other peers. Mr. Simon reported that the survey shows that FPPA is reasonable in its cost. Mr. Slack noted that the full survey reports are available for a fee, but the free, abbreviated report provides an in-depth analysis with detail that is sufficient for FPPA's purposes.

Mr. Slack stated that a copy of this report will be provided to the board each year going forward. Mr. Slack stated that the 2012 budget will reflect a recommendation for a similar CEM survey to be conducted with respect to the benefits and operations sides of the organization.

#### Investment department transition spreadsheet

Mr. Simon discussed a spreadsheet of the ongoing transition showing incremental costs and savings within a timeline of five years. Mr. Simon introduced Dale Martin, the newly-hired private equity investment officer who will oversee that investment portfolio. Mr. Martin has proceeded with the transition of the portfolio from Hamilton Lane. Mr. Simon reported that discussions have taken place with Hamilton Lane regarding the private capital portfolio and their possible maintenance of back office operations for the private capital portfolio. Mr. Simon reported that an agreement has been executed with Albourne for a hedge fund consulting relationship for long/short hedge funds within FPPA's global equity allocation. He reported that the allocation to that class is expected in Q1 2012. He further reported that the hiring of an investment accountant and additional IT support is on track for 2011. In capital expenditures, Mr. Simon reported that the projected costs are slightly above the initial estimated amount. He thanked the board for their support of the transition in the investments department.

#### Pension Consulting Alliance (PCA) contract

Mr. Simon reported that the three-year general consultant contract for Pension Consulting Alliance expires at the end of 2011. John Linder left the meeting during the discussion. Mr. Simon noted that PCA has been with FPPA since 1991 and the firm continues to offer outstanding services at reasonable cost. The last RFP was

conducted six years ago. Staff strongly recommends retaining PCA as the board general consultant. Mr. Simon stated a new three-year contract with PCA could be negotiated, probably at an increased fee to reflect the additional oversight and monitoring responsibilities of the alternative investments portfolio. Mr. Simon reported that if the board chose to conduct an RFP, PCA would effectively move their contract to month-to-month during an RFP process (about three – six months). Mr. Slack stated that he believed that FPPA would be best served by retaining PCA as its general consultant at this time. He noted that an RFP would generally be a healthy process to go through, but expressed concern for conducting an RFP during the current investment portfolio transition. He stated that consistency of the general investment consultant, serving as the eyes and ears of the board, during the transition period had merit. Mr. Blumenthal recommended the investment staff compile a list of potential providers and provide a spreadsheet with their strengths and weaknesses to the board for comparison purposes. Mr. Simon will prepare an informal list of potential providers to present to the board at the December meeting. This information will help the board evaluate whether or not to conduct a formal RFP. Mr. Simon concluded the investment report. Mr. Linder returned to the meeting.

Chair Miller welcomed Pamela M. Feely, a newly-appointed trustee, to the board. Ms. Feely is president of the CPA firm Feely & Associates, P.C., located in Lakewood. The board members and FPPA executives introduced themselves to Ms. Feely and welcomed her to the FPPA Board.

### **J.P. Morgan Presentation**

Mr. Simon stated that J.P. Morgan was a relatively new manager for FPPA, which is invested in its Global Emerging Markets (GEM) portfolio. Claud Cloete introduced Greg Mattiko (via webcast from London, England), Tom Leventhorpe and Richard Sampson, who presented an overview of the GEM Discovery Fund. Mr. Mattiko provided a review of Discovery strategy characteristics and portfolio performance. He reviewed the performance history of the portfolio, its stock selection process, and the investment outlook for emerging markets. He answered questions from the board and executive staff and concluded the presentation. The meeting recessed for break.

### **Colorado Springs New Hire Voluntary Transfer**

Gina McGrail presented her memorandum to the board regarding the second voluntary transition of members in the Colorado Springs New Hire Pension Plan (CSNH) to the Statewide Defined Benefit Plan (SWDB). She reviewed the request by the City of Colorado Springs to permit members a second opportunity to voluntarily transition to the SWDB plan and the education process provided for all CSNH active members. Ms. McGrail reported that from a total of 815 members, 57 police officers and 123 firefighters requested and received a personalized projection prepared by the plans actuary, Gabriel, Roeder, Smith and Company (GRS). Ultimately, 90 members (7 police officers and 83 firefighters) elected the

irrevocable transition, with the understanding that the transition must be approved by the City of Colorado Springs and finally by the FPPA Board of Directors.

Ms. McGrail reported that GRS conducted the study using the new actuarial factors recently approved by the FPPA Board. While the results of the study reflected that the transition would result in an actuarial gain for the SWDB plan, this transition would be viewed as an actuarially cost-neutral service purchase when considering future benefit adjustments. The study results were presented to the City Council by Mr. Slack on October 10, 2011.

Mr. Slack noted that the CSNH will be impacted in two ways: (1) any difference between the liability being released from the CSNH and the asset transfer to the SWDB will directly decrease the Unfunded Actuarial Accrued Liability; and (2) a decrease in payroll for determining the contribution rate will result. Mr. Slack reported that the total change in the expected contributions for the City of Colorado Springs for 2012 is a decrease of approximately \$84,569. Ms. McGrail noted that the City of Colorado Springs filed a resolution to permit the transition on October 11, 2011. Mr. Slack and Ms. McGrail answered questions from the board.

Mr. Bower moved to approve the resolution permitting 90 members to transition from the Colorado Springs New Hire Pension Plan to the Statewide Defined Benefit Plan, effective October 30, 2011. Mr. Nash seconded the motion. The motion carried.

### **Colorado Springs New Hire Pension Plan 2012 Contribution Rates**

Kim Collins presented a memorandum to the board regarding contribution rates for the Colorado Springs New Hire Pension Plan, based upon the results of the transfer study conducted by Gabriel Roeder Smith & Company (GRS). Mr. Slack noted that expressing the contribution rates as a percent of payroll, while an actuarial convention, did not serve as a very effective measure of the costs of a closed plan with declining membership, due to the effect of a shrinking denominator. He noted that he had also pointed this out to the City Council of Colorado Springs in presentations to it.

#### **1. Colorado Springs New Hire Pension Plan for Police Component Contribution Rate**

GRS reported the Police Component actuarial required contribution should be 28.656% of pay, effective January 1, 2012. The current actuarial required contribution is 28.906% of pay. The minimum contribution rate for the Plan is 16%. Staff recommends the Board establish a contribution rate of 28.656% for this Plan effective January 1, 2012. The split between employer and member will be 20.656% employer and 8.0% member.

Ms. Feely moved to change the Colorado Springs New Hire Pension Plan for Police Component contribution rate to 28.656% effective January 1, 2012, which will be

split as follows: an 8% member contribution rate and a 20.656% employer contribution rate. Mr. Bower seconded the motion. The motion carried.

## 2. Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate

GRS reported the Fire Component actuarial required contribution should be 30.248% of pay effective January 1, 2012. The current actuarial required contribution is 25.095% of pay. The minimum contribution rate for this Plan is 16%. Staff recommends the Board establish a contribution rate of 30.248% for the Plan effective January 1, 2012. The split between employer and member will be 20.248% employer and 10% member.

Ms. Feely moved to increase the Colorado Springs New Hire Pension Plan for Fire Component contribution rate to 30.248% effective January 1, 2012, which will be split as follows: a 10% member contribution rate and a 20.248% employer contribution rate. Mr. Nash seconded the motion. The motion carried.

### **3Q 2011 Strategic Plan Update**

Mr. Slack discussed the 2010-2012 Strategic Plan 3Q update in the board packet. He reviewed the status of each goal and answered questions from the board.

#### Goal #1

Staff continues to develop a script for a general FPPA video. Staff is working with Fidelity investments on a microsite that will be housed on the FPPA website. Staff is working with the appointed board members on the development of a task force to determine member sentiment on a vote to increase member contribution rates. Staff is working with GRS to implement the new actuarial assumptions for benefit calculation purposes by October 1, 2012. Staff is reviewing the requirements in place for participation in the self-directed brokerage window, BrokerageLink, to determine if they remain appropriate based on member needs, FPPA's ability to collect fees, and to ensure that the plans remain competitive. Staff has worked with Bidart and Ross to develop a new quarterly performance update to communicate information to members on fund performance, fees and investment terminology.

#### Goal #2

Mr. Slack noted the transition to the investment staff and away from consultants and fund-of-funds in private equity and hedge funds. Initial implementation of long/short strategies within global equity portfolio is ongoing.

#### Goal #3

Staff continues to work to improve the ASPEN technological processes, integrity of data, increased staff efficiency, and usability of the Member Account Portal benefit calculator. Staff continues to develop policies regarding security awareness, segregation of duties, and incident response. Staff is implementing a backup

solution to reduce the Recovery Point Objective to less than one hour. IT staff is obtaining a software solution for data security on personal devices.

#### Goal #4

Staff continues to work on records retention, management, and inventory. Staff will be working with the Colorado State Archivist next month regarding processes.

#### Goal #5

The 2012 legislative agenda has two bills that will result in plan simplification.

#### Goal #6

The FPPA video project showcasing how FPPA is "getting it right" has begun.

### **2012 Budget Discussion**

Mr. Slack presented his memorandum that discussed the two-step budget process. The draft budget is presented in October and the board offers feedback. Staff takes the feedback and develops a final proposed budget as an action item at the December meeting. Mr. Slack noted that staff has worked hard to create transparency using best practices in the budgeting process and to ensure the accuracy of the numbers presented. Mr. Slack reported that FPPA revenue has five components: investment earnings, state funding (currently volunteer plans only), employer contributions, employee contributions, and affiliations. He noted that when FPPA was created, only 31 years ago, the legislature was able to put safeguards in place that have successfully served to ensure the well-funded status of the organization. He noted that, while FPPA's budget is mindful of the current economic environment, FPPA is an organization that is continuing to grow and is providing meaningful security to public safety officers. Ms. Collins gave an overview of the proposed 2012 budget. She reviewed the budget categories and discussed planned expenses within each category. She noted the costs for projects related to FPPA's Strategic Plan. She also provided a 10-year analysis on FPPA's operating expense, plans administered, membership growth, and staff size. Mr. Slack discussed his memorandum regarding salaries and benefits and discussed the value of the FPPA staff. He answered questions from the board. Ms. McGrail presented her memorandum addressing a budget request for a full-time Retirement Coordinator position in the benefits department. She supported her request with the following factors: plan and membership growth; complexity of benefits and processing requirements; concern for appropriate staffing and back-up; and succession plan strategy. Mr. Slack, Ms. Collins, Ms. McGrail and Mr. Simon answered questions from the board. Mr. Slack stated that staff will apply the board guidance and comments received today, refine the budget numbers, and present a final budget at the December meeting.

## **Staff Report**

### CEO report

Mr. Slack gave the CEO report. He and Mr. Lindahl testified before the Pension Reform Commission (PRC) regarding FPPA investments and proposed 2012 legislation. Mr. Slack reported that staff surveyed options for the health insurance offered to employees and confirmed that FPPA cannot obtain more competitive rates than are available through PERACare. He reported on continued interest by multiple police and fire departments in FPPA affiliations and re-entry. Mr. Slack reviewed the 2011 budget reallocations and reported that he did not anticipate that any budget amendments would need to be sought for the 2011 budget.

### Litigation report

Mr. Lindahl gave the litigation report and updated the board on the Glenn D. Guyman case. He reported that the Court has issued an order on how to treat Mr. Guyman and his alternate payee (Ms. Sullivan). The Court concurred with FPPA that Ms. Sullivan should share in a portion of the disability benefit at the point at which Mr. Guyman would have been offered a vested retirement had he not taken a disability benefit.

### Legislative report

Mr. Lindahl gave the legislative report, stating that the Pension Reform Commission (PRC) had approved sponsorship in the 2012 legislative session for all three bills authorized by the board. He stated that the Social Security bill was approved without any concerns. The investment confidentiality bill was approved by the PRC after FPPA agreed to a language change requested by the Colorado Press Association. Some members of the PRC expressed concern regarding the plan administration bill that would increase the FPPA board's authority, but the bill was approved. Mr. Lindahl reported that Lombard & Clayton would be working to address the PRC members' concerns on this bill.

### Discussion of education topics

Mr. Slack reported that the November education session would include a PCA presentation on a comparison of other plans that are moving in the same investment direction as FPPA, as well as presentations by Travelers, FPPA's fiduciary liability insurance carrier, and Albourne, a hedge fund consultant.

## **Chair Report**

### 2<sup>nd</sup> draft of proposed 2012 board meeting schedule

Mr. Slack presented a 2<sup>nd</sup> draft proposal of 2012 board meeting dates for board consideration. He called attention to the suggestion to combine the May business meeting with the June off-site meeting. It was the consensus of the board to approve the 2012 meeting schedule as presented.

*Fiduciary insurance exculpatory provisions*

Mr. Slack provided a handout memorandum regarding fiduciary liability insurance with exculpatory provisions and explained that under ERISA, plan funds could not be used to pay the non-subrogation premium. He explained that board members could obtain protection from subrogation by the carrier by reimbursing \$25 to FPPA to pay for that aspect of the premium. Mr. Slack recommended that each board member purchase this additional protection.

*Board self-evaluation form*

Chair Miller referred the board to the self-evaluation form in the board packet. He requested that the forms be completed and returned to him at the November 17<sup>th</sup> education session. He will compile the data and provide it at the December board meeting.

*Audit committee appointment*

Chair Miller appointed Mr. Nash to serve on the Audit committee in place of Leo Johnson, who is no longer a board member.

*CEO evaluation form*

Mr. Slack stated that he will send his self-evaluation to board members within the next week. The CEO evaluation will be completed by the board at the December meeting. Mr. Slack will forward electronic copies of these evaluation forms to board members by email and hard copy by regular mail.

At 12:28 p.m., Mr. Hesalroad moved to adjourn the meeting. Mr. Nash seconded the motion. The motion carried.