

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
September 22, 2011
Agenda**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i>
	Approval of August 25, 2011, board meeting minutes Approval of July 14, 2011 executive session minutes
7:35 a.m.	Investment Report <i>Austin Cooley</i> <ol style="list-style-type: none">1. Review of August 2011 performance2. Review of managers3. Other matters
8:00 a.m.	Rule Making Hearing
8:40 a.m.	PRIVEST presentation <i>Albert Trank, CFA, Managing Director</i>
9:25 a.m.	Self-Directed Plans Committee report <i>Dan Slack</i>
9:30 a.m.	Break
9:45 a.m.	Total Compensation Survey report <i>Ruth Ann Eledge, Vice President & Senior Consultant, Waters Consulting Group, Inc.</i>
11:15 a.m.	Break
11:25 a.m.	Staff report <ol style="list-style-type: none">1. CEO report <i>Dan Slack</i>2. Actuarial benefit calculation policy and date of implementation <i>Dan Slack</i>3. Proposed 2012 board meeting schedule <i>Dan Slack</i>4. November educational session topics <i>Dan Slack</i>

5. Legal report and legislative update
Kevin Lindahl
6. Lombard & Clayton contract renewal
Kevin Lindahl
7. Other matters

12:10 p.m. **Chair's report**
Kirk Miller, Chair

12:25 p.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
September 22, 2011**

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

Board Members Present: Chair Kirk Miller, Tim Nash, Jack Blumenthal, Leo Johnson, Lyle Hesalroad, Todd Bower, Sue Eaton, and Monica Cortez-Sangster.

Board Members Absent: Vice Chair Cliff Stanton (excused).

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Austin Cooley, Jeff Kaszubowski, Sean Ross, Diane Braaton (9:30), Gina Witsell and Janette Hester.

Staff Members Absent: Scott Simon (excused).

Guests Present: John Linder, Pension Consulting Alliance (PCA); Holly Faddis, Court Reporter; Albert Trank, Managing Director, PRIVEST; Ruth Ann Eledge, Vice President, Waters Consulting Group; and Dana Woolsey, Gabriel Roeder Smith & Co (11:15).

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 7:33 a.m., Chair Kirk Miller called the meeting to order and noted there was a quorum present. Chair Miller called for motions to approve the minutes.

Leo Johnson moved to approve the minutes of the August 25th board meeting. Lyle Hesalroad seconded the motion. The motion carried.

Mr. Johnson moved to amend the previously approved executive session minutes of the July 14th board meeting to include the appropriate section of statute and the clarification of language. Todd Bower seconded the motion. The motion carried.

Investment Report

In the absence of Scott Simon, who was traveling out of the country, Austin Cooley provided an economic and market summary for August. Mr. Cooley reported on the extreme volatility in the markets that has negatively affected global equity. Other factors affecting risky assets were the politics and last minute compromise to raise the U.S. debt ceiling; the downgrading of long-term government debt from AAA to AA+; the slowing global economic growth; the increased possibility of a “double dip” recession in the US; and fears regarding the Eurozone’s sovereign debt crisis. In this difficult environment, investors sought Treasury securities and gold as safe havens. Mr. Cooley reported the Total Fund performance was -3.11% in August and +1.47% YTD.

Investment Department activities

The investment staff is currently evaluating investment options on passive and emerging markets equity. Hamilton Lane recommended a \$10 million commitment to Endeavor Capital Fund VI, L.P. Staff continued the search on long/short managers for the global equity portfolio. Work continues on the contract with Albourne, a hedge fund consultant approved by the board at the August 25th meeting. Mr. Cooley announced the hiring of Dale Martin as Investment Officer to oversee FPPA's private capital portfolio.

Review of managers

Mr. Cooley reported Cortina continues to outperform its benchmark YTD. PRIVEST has exceeded its benchmark in the fixed income portfolio. Absolute return performance in a very challenging environment has generally exceeded comparable hedge fund indices. He reported on the sub-asset class allocation. He reported that capital calls outpaced distributions in the month of August. Mr. Cooley noted that BNY Mellon announced the appointment of a new CEO. He noted this leadership change should have no impact on FPPA's custodial services and said that staff will monitor operational direction of the company, particularly in light of the upcoming custodial RFP.

FPPA Sudan Scrutinized Companies List Update

Mr. Cooley presented a memorandum regarding Sudan investment program and the list of scrutinized companies. He reported FPPA did not own any of the securities on the list and is in compliance with legislation.

PCA memo re continuation of fee reduction

John Linder presented a memorandum in the board packet from Allan Emkin, Founder and Managing Director of PCA. Mr. Linder reported that PCA would continue the retainer fee reduction policy currently in effect since October 2009, and stated that the retainer fee reduction policy would be reviewed again in September 2012.

Mr. Cooley referred the board to several articles in the board packet. He answered questions from the board and concluded the investment report.

Self-Directed Plans Committee Report

Dan Slack reported that the Self-Directed Plans Committee met on August 19, 2011, to discuss several issues with Bidart & Ross, the defined contribution consultant. Mr. Slack stated that the purpose of the Self-Directed Plans Committee was to establish a method to closely monitor the investment and operational activities of the self-directed plans administered by FPPA. He reported that the committee is currently comprised of executive staff of the organization; and it is anticipated that committee responsibilities will eventually move to a lower staff level.

Mr. Slack reported that one issue discussed was Fidelity's disclosure of the net expense ratios of the fund. Bidart & Ross currently provides a quarterly investment report. Ranges of fees and redemption fees can be added to this report. A separate report can be created to clearly communicate to FPPA participants the actual fees that members are paying for the funds, which is lower than the gross expense ratio. Gina McGrail will work with Bidart and Ross to prepare a quarterly performance report template to be used beginning with 3rd quarter 2011 returns. Mr. Slack reported that the committee also reviewed the July 31, 2011, flash report of funds available for members and gave an overview of several options. Mr. Slack reported that a second issue discussed in committee was whether Fidelity was overly marketing IRA products to participants. He noted that Fidelity is aware of this concern and will address the issue directly with representatives, if inappropriate conversations are discovered. The committee has requested documentation by Fidelity of the results of their findings. Mr. Slack reported that the committee discussed a procedural complaint by participants who wish to contribute directly to the self-directed brokerage account, BrokerageLink. He stated that there are still implementation issues regarding how FPPA draws its fees from Brokerage Link accounts. Ms. McGrail explained why FPPA has not permitted contributions to go directly to Brokerage Link. She stated that current practice requires salary deferral amounts to be made directly to the standard plan options so that fees can be properly assessed. Mr. Slack noted the committee is considering several suggestions to resolve the issue by determining the most efficient method for FPPA to collect administrative fees without excessive manual staff work, while also allowing members the option to move money efficiently in their Brokerage Link accounts. The next committee meeting will be on December 7, 2011

Rule-Making Hearing

Notice of the Proposed Rule-Making Hearing was advertised in the Denver Post on September 1, 2011. Notice was mailed to all municipalities and fire protection districts employing full-time police officers and firefighters and to any persons and entities who requested that they receive such notice. Notice was posted on the FPPA website at www.fppaco.org, in the building lobby of FPPA, and in the reception lobby of FPPA offices at least twenty-four hours prior to the meeting. A copy of the Proposed Rules for Public Review has been available through the legal department and the website.

Chair Miller convened the public Rule-Making Hearing to order at 8:00 a.m. to consider the proposed rules. Kevin Lindahl reported that FPPA had met the requirements of state law and FPPA Rule 702.01 to provide public notice of the hearing. Mr. Lindahl provided a copy of the draft rules and exhibits. Mr. Lindahl requested all rule-making notices and affidavits of publications be made part of the record.

Mr. Bower moved to approve that all rule-making notices and affidavits of publications be made part of today's record. Mr. Hesalroad seconded the motion. The motion carried.

Mr. Lindahl outlined the basis and purpose for the proposed clarification of language of the FPPA Rules in the Statewide Defined Benefit Plan. He reviewed the definitions and terminology additions made to each amendment since the date of Notice and since the draft of proposed FPPA Rules changes was presented at the August board meeting. Mr. Lindahl reviewed the amendment clarifications made to FPPA Rules in the Statewide Hybrid Plan. At 8:23 a.m., Mr. Lindahl concluded his review and requested a motion to adopt Resolution 2011-2, effective January 1, 2012. Mr. Lindahl, Ms. McGrail and Mr. Slack answered questions from the board.

Mr. Johnson moved to adopt Resolution 2011-2 with work change, which sets forth amendments to the FPPA Rules and Regulations, Statewide Hybrid Plan Rules and Regulations, and the Colorado Springs New Hire Pension Plan Rules and Regulations and which states the basis and purpose for each of the amendments. Mr. Bower seconded the motion. Mr. Johnson moved to withdraw the motion. Mr. Blumenthal seconded the motion to withdraw. The motion carried.

Mr. Johnson moved to amend the word change in Rule 402.04 from "cause" to "prevent." Tim Nash seconded the motion. The motion carried.

Mr. Johnson moved to amend the word change in Rule 516.04 from "that" to "than." Mr. Blumenthal seconded the motion. The motion carried.

Mr. Johnson moved to adopt Resolution 2011-2, which sets forth amendments to the FPPA Rules and Regulations, Statewide Hybrid Plan Rules and Regulations, and the Colorado Springs New Hire Pension Plan Rules and Regulations and which states the basis and purpose for each of the amendments with word amendments to Rule 402.04 and Rule 516.04. Mr. Blumenthal seconded the motion. The motion carried.

Mr. Johnson moved to close the rule-making hearing. Mr. Hesalroad seconded the motion. The motion carried.

Chair Miller declared the Rule-Making Hearing closed at 8:38 a.m.

PRIVEST Presentation

Mr. Cooley introduced Albert Trank, Managing Director for Prudential Capital Group's Asset Management unit. Mr. Trank presented an update of PRIVEST, a private placement fixed income strategy in FPPA's portfolio. PRIVEST lends directly to mid-size companies that do not access the public bond markets and desire longer term, fixed rate capital not provided by bank lenders. Private placements offer favorable spreads, better terms, favorable loss experience and diversification.

Mr. Trank stated that PRIVEST has consistently outperformed the U.S. Aggregate Index. He reviewed the performance of the PRIVEST portfolio since FPPA's initial investment on January 31, 2011. He noted that the portfolio remains very positive and well-positioned for the current market environment. Mr. Trank answered questions from Mr. Slack, Mr. Cooley, Mr. Blumenthal and John Linder and concluded his presentation. The meeting recessed for break until 9:45 a.m.

Total Compensation Survey Report

Mr. Slack stated that at the May meeting the board authorized a custom total compensation survey of 24 non-investment staff and management positions to determine the competitiveness of FPPA's base salaries and benefits with peer public and private sector organizations in the competitive market area. After issuing a Request For Proposals, the Waters Consulting Group (WCG) was selected for the project. Mr. Slack introduced Ms. Ruth Ann Eledge with WCG, who presented a summary of the work and the recommendations of WCG as a result of the study.

Ms. Eledge presented a report to board members, including benefits summary charts comparing FPPA benefits to survey participants. She reviewed the guidelines and methodologies used to conduct the survey. She listed similar organizations offering similar services to compare work structure by position and job description content. The weighted average base salary was used to compare FPPA's existing midpoint to competition. Mr. Eledge stated that data from Mountain States and responding comparable organizations and retirement systems were used in the benefits offerings analysis, including health, paid leave, wellness programs, retirement, 401(k), disability, flexible spending accounts, life insurance, deferred compensation and longevity incentives. She noted that data is broad because some recruitment goes to other geographical locations. She reviewed the key objectives of an effective compensation system and the method used to collect local competitive market data necessary to conduct an effective and valid analysis.

Ms. Eledge answered questions from the board regarding whether clear directions were provided prior to beginning work on the project. An objection was raised by Mr. Blumenthal regarding whether the survey work completed was compliant with goals of the RFP. Mr. Blumenthal questioned whether the collection of compensation and benefits data and analysis of competitive private and public sector comparables satisfied the direction given by the FPPA Board.

At 10:18 a.m., Mr. Bower moved to go into executive session to give direction to staff for further negotiation of the WCG contract. Tim Nash seconded the motion. The motion carried. Ms. Eledge, Diane Braaton and Mr. Linder left the meeting.

Mr. Bower moved to come out of executive session at 10:40 a.m. Mr. Johnson seconded the motion. The motion carried. Chair Miller stated that no final action, votes or motions were made or taken during the executive session.

Ms. Eledge and Ms. Braaton returned to the meeting. Ms. Eledge reported that the findings of the report indicate FPPA's benefits offerings are generally competitive and follow trends in the market area. Preliminary findings also indicate FPPA employee pay ranges are slightly leading market and incumbent average salaries are above market averages. The survey results showed total benefits cost as 29% of base salary, as compared to 32% in comparable organizations. Ms. Eledge reviewed proposed base pay and benefits structural recommendations for general positions to improve the overall effectiveness of attracting and retaining employees. She answered questions from the board and concluded her presentation of the total compensation survey final report.

The meeting recessed for break until 11:40 a.m.

Staff Report

CEO report

Mr. Slack gave the CEO report. He reported no issues of concern following an annual and due diligence meeting with Travelers, FPPA's fiduciary liability insurance carrier. He reported that staff continues to refine the 2012 budget, as well as amendments to the 2011 budget. Staff is preparing the office space for expansion to meet the Investment Department resource needs approved at the August meeting. Mr. Slack reported that a contract senior programmer, arranged through Sagitec is to begin in October. He reported on the restructuring in the accounting department, recruiting efforts for an investment accountant, and the hiring of an investment officer. Mr. Slack noted that interest in FPPA affiliations and full entry continues. He reported that there is a high level of interest from Colorado Springs members to transition to the SWDB Plan. After the final actuarial study is completed, the results will be presented by Mr. Slack to the City Council of Colorado Springs and then the matter will go to the FPPA Board for a final decision. Mr. Slack reported that Mr. Lindahl and Scott Simon will attend the Aurora Police "old hire" board meeting in October to discuss investments and legislative issues. He reported that two transcripts of FPPA member calls have been requested in order to address Brokerage Link marketing issues following a member complaint.

Actuarial benefits calculation policy and date of implementation

Mr. Slack referred the board to a memorandum in the board packet regarding an implementation strategy for the new actuarial factors adopted by the board at the July 14 meeting, related to calculation of benefits for the Defined Benefit System and the SWD&D Plan. Kim Collins presented a memorandum from Joe Newton and Dana Woolfrey setting forth a draft policy statement for actuarial factors. She explained a risk margin has been imbedded into the actuarial factors, and that margin accounts for adverse economic and mortality risks. Ms. Collins reported that staff will design, implement and test programming changes to FPPA's ASPEN pension system. She stated the implementation strategy will impact printed materials, FPPA plan rules, deferred retirement payments, visitation communications, website updates, calculators, etc. Considering the overall

workload for teams involved, staff recommended the most appropriate effective date of implementation for benefits calculations as October 1, 2012. Ms. Collins, Mr. Slack, Ms. McGrail and Ms. Woolfrey answered questions from the board.

Mr. Hesalroad moved to approve the policy statement for actuarial factors as recommended by GRS. Mr. Johnson seconded the motion. The motion carried.

Mr. Nash moved to approve October 1, 2012, as the effective date of implementation for benefits calculations. Mr. Johnson seconded the motion. The motion carried.

Proposed 2012 board meeting schedule

Mr. Slack presented a memorandum regarding a draft proposal for the 2012 board meeting schedule. The draft reduced the number of board meetings (including educational sessions) from twelve per year to six per year. He noted that a strategic planning retreat is scheduled as a 2½ day retreat. Mr. Slack reported that essential oversight functions were maintained and redistributed throughout the six meetings. He cited several advantages and disadvantages of the proposed reduction in the number of meetings. He answered questions from the board. It was the consensus of the board to continue conducting monthly board meetings. The board suggested reducing the monthly reports in each board packet to quarterly reports or reducing the content in the monthly report in order to improve staff efficiency.

November educational session topics

Mr. Slack reported that the education session would be held from 9:00 a.m. to noon on Thursday, November 17, 2011. He listed several possible topics for discussion:

- Fiduciary liability insurance and risks presentation by Travelers
- Presentation by Albourne, prospective FPPA Hedge Fund Consultant
- presentation by MOSERS or Utah - *What are our peers doing?*

Mr. Blumenthal suggested developing a risk measurement profile to review the new investment approach in eight years. The purpose of the review would be to assess the long term costs and expectations of today's portfolio decision as compared to the old investment strategy if it were retained. Mr. Bower and Sue Eaton left the meeting.

Legal report

Mr. Lindahl provided a litigation report in the board packet and reported that there had been no changes to any pending cases. He reported that FPPA has been served a complaint by Julie Zecchino (spouse of member Jeffrey Christ, deceased) claiming that FPPA abused its discretion in awarding survivor benefits to an eligible dependent not disclosed on Mr. Christ's Application for Disability benefits. Mr. Lindahl reported the answer to the complaint has been filed with the Court and the documents are being gathered for the certification of the record.

Mr. Lindahl reported on the pending class action legal case regarding currency traders at Bank of New York Mellon Corporation. The lawsuit alleges the custodial bank improperly charged institutional investors the most expensive price of the trading day, rather than the exchange rate at which it actually executed the transactions. The lawsuits are part of a growing number of legal cases being brought against BNY Mellon and State Street, Corp., relating to foreign exchange transactions alleging fraudulent activity involving government funds. Mr. Lindahl reported that BNY Mellon maintains a custodial relationship with FPPA. He stated BNY Mellon had addressed the board at the July 14, 2011, board meeting regarding the foreign exchange relationship FPPA has with BNY Mellon. At that time, BNY Mellon assured the FPPA Board that the allegations were false. Mr. Lindahl presented information to the board regarding the option of legal action, including jurisdiction, basis of claim, breach of fiduciary duty, and fraud.

At 12:47 p.m., Mr. Blumenthal moved to go into executive session to seek legal advice from general counsel. Mr. Johnson seconded the motion. The motion carried. Ms. Woolfrey left the meeting.

At 12:58 p.m., Mr. Johnson moved to come out of executive session. Monica Cortez-Sangster seconded the motion. The motion carried. Chair Miller stated that no final action, votes or motions were made or taken during the executive session.

Pension Reform Commission Hearing

Mr. Lindahl reported that the Pension Reform Commission would hold a hearing on October 4th at The Capitol at 9:00 a.m. Mr. Lindahl and Mr. Slack will present an overview of FPPA plans and their funding liabilities to the committee. Board members were invited to attend. Mr. Lindahl noted that FPPA will present three bills to the PRC for sponsorship during the 2012 legislative session.

1. Investment Confidentiality bill
2. Social Security cleanup bill
3. Plan Administration bill

Lombard & Clayton contract renewal

Mr. Lindahl presented a copy in the board packet of the proposed 2011-2012 contract with Lombard & Clayton, Inc. He reported that the fees for activities under the Agreement were the same as the preceding year. He answered questions from the board.

Mr. Nash moved to approve the 2011-2012 contract with Lombard & Clayton, Inc. Mr. Johnson seconded the motion. The motion carried.

Chair Report

Chair Miller presented an overview of the IMN Alternative Investment Summit he attended and answered questions. He reported that the conference provided a comprehensive overview of the latest trends in the alternatives community and how risk management has responded to changes in these asset classes. He stated that his evaluation form for the conference would be included in the October board packet. Chair Miller called for a motion to adjourn.

At 1:00 p.m., Mr. Johnson moved to adjourn the meeting. Mr. Blumenthal seconded the motion. The motion carried.