

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
April 26, 2012
Agenda**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i>
	Approval of March 29, 2012, board meeting minutes
7:35 a.m.	Audit Committee report <i>Jack Blumenthal, Chair</i> <ol style="list-style-type: none">1. Internal Audit2. External Audit
7:45 a.m.	Independent Auditor's Report <i>Bill Petri, CliftonLarsonAllen</i>
8:05 a.m.	Analysis of Zecchino decision <i>Kevin Lindahl</i>
8:35 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
8:40 a.m.	Investment report <i>Scott Simon</i> <ol style="list-style-type: none">1. Review of March 2012 performance2. Review of managers3. Fixed Income investment class review4. Other matters
9:40 a.m.	BREAK
9:55 a.m.	Review of Written Findings – Scott Markham
10:10 a.m.	Consideration of Hearing Officer Recommendation Regarding Paul A. Martinez

11:10 a.m. **Staff report**

1. CEO report
Dan Slack
2. 1Q 2012 Strategic Plan update
Dan Slack
3. Legal report and legislative update
Kevin Lindahl
4. Other matters

11:40 a.m. **Chairman's report**

Kirk Miller, Chair

1. Other matters

11:45 a.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
April 26, 2012**

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, Sue Eaton and Todd Bower.

Board Members Absent: Monica Cortez-Sangster (excused).

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Austin Cooley, Dale Martin, Sean Ross, Curt Huntsman, Ben Bronson, and Jacquette Tara.

Others Present: John Linder, Pension Consulting Alliance (PCA); Bill Petri, CliftonLarsonAllen (CLA) (7:45 a.m.); Natalie Sullivan, Pendleton Wilson Hennessey & Crow, P.C. (10:00 a.m.); Paul Martinez (10:00 a.m.); and Paul Hurcomb, Sparks Willson Borges Brandt & Johnson, P.C. (10:00 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 Kirk Miller called the meeting to order and noted there was a quorum present. Chair Miller called for a motion to approve the minutes of the March 29, 2012, board meeting. Pam Feely moved to approve the minutes. Clifford Stanton seconded the motion. The motion carried.

Audit Committee Report

Jack Blumenthal reviewed the activity of the Audit Committee. On April 19, 2012, the Internal Auditor (Tim O'Brien) reviewed his completed audit of payroll and operating expenditures with the Audit Committee. Mr. O'Brien's findings included lack of supporting documentation for expenditures over \$25 where no receipt was available. Mr. O'Brien also recommended that the board review and re-affirm or revise its policy on the use of corporate credit cards versus personal credit cards.

In addition, the committee reviewed the work of the Internal Auditor and determined they were satisfied with his performance of his duties.

With respect to the external audit, the committee reviewed the management letter. Mr. Blumenthal noted that prior audit comments have been addressed and management and staff should be commended for that. In a meeting of only Audit Committee members with the auditors, there were no problems uncovered and nothing to report.

The committee recommended to the Board that the audit be accepted.

Independent Auditor's Report

Bill Petri (CliftonLarsonAllen) provided a brief overview of their meeting with the Audit Committee last week. This meeting highlighted risk areas, concentrated on investments and related income processes, contributions, benefit payment process and financial close and reporting. They also obtained an understanding of controls, and tested the design and effectiveness of controls. All in all a very comprehensive look was taken, with CLA's opinion on page 73 of the board packet, giving FPPA a "clean opinion".

The Management Letter (page 113 of the board packet) contains a minor item relating to misclassification of an investment as cash. Mr. Petri noted that this was not a significant issue, and had been corrected by staff, but it was found as an audit adjustment so necessary to be reported to the Board. Kim Collins noted that particular issue has been corrected and is now resolved.

Mr. Blumenthal moved that the Audit Financial Statements be accepted by the Board. The motion was seconded by Tim Nash. The motion passed.

Mr. Petri and Mr. O'Brien left the room.

Mr. Blumenthal suggested adopting a new procedure in relation to the audit report. He noted that Colorado PERA has different procedures which include the review and approval of the Comprehensive Annual Financial Report (CAFR) by the Audit Committee and the Board before being released to the public. Mr. Nash was agreeable to board review, if the timing of the report wasn't affected. Dan Slack and Ms. Collins agreed to have a draft available at the next Board meeting.

At 7:55 a.m., Mr. Blumenthal moved that the Board go into executive session pursuant to section 24-6-402(4)(f), C.R.S., to discuss personnel matters. Upon second by Mr. Nash, the motion passed unanimously.

At 8:27 a.m., the Board left executive session and returned into open session.

Analysis of Zecchino Decision

Kevin Lindahl provided the board with an analysis of the recent court decision in the Zecchino case. He noted that this case was instructive to the board as to the standards applied by the court in reviewing the board's decision. He further noted that the court shows great deference to the decisions of the board so long as there is a rational basis for the decision and appropriate due process has been given to the party involved.

The board had some discussion as to whether the applicable statutory provisions underlying the Zecchino decision should be further reviewed.

Investment Risk Committee Report

Committee Chair Bower noted that the IRC is continuing to work with the investment staff on FPPA's investment portfolio. The committee met three times since the last Board meeting. The topics of those meetings will be covered later during this Board meeting.

Investment Report

Review of March 2012 performance

Scott Simon shared that the markets continued to do well in March. The MSCI ACWI is up 69 basis points for the month of March. Treasury yields hiked up a bit to 2.2%, but are now coming back towards that 2% level. The Barclays Capital Aggregate fixed income index returned -0.55% in March. April has been volatile, reflecting supporting comments by the Fed, continued low interest rates, economic growth. Total fund performance for the month of March was up 56 basis points, still a slight difference in benchmark being driven by private equity; alternative investments are fairly flat for the first quarter, but public equity is outperforming. Month to date in April has been up and down, the end of last month is pretty close to where we are today, +6.23% YTD.

Asset Allocation/Risk Exposure

Scott Simon presented the total fund's allocations relative to interim targets. An upcoming rebalancing within the Absolute Return portfolio will bring that allocation back in line.

Review of managers

Scott Simon reported on Staff's continuing diligence surrounding J.P. Morgan's transition of the portfolio manager on their emerging markets equity strategy. While Staff is initially comfortable with the new manager and restructuring, the manager will continue to be watched closely for any changes. Mr. Blumenthal asked how we evaluate that new person. Mr. Simon and Claude Cloete are researching the replacement portfolio manager and his track record. Going forward, we'll be evaluating and monitoring the new manager and how the investment strategy fits in our portfolio.

Investment matters

Scott Simon presented the results of FPPA's participation in the R.V. Kuhns investment survey. FPPA is not dissimilar from a lot of public plans in being 100% externally managed. FPPA has a slightly higher allocation to alternatives. FPPA classifies its public equity exposure as Global equity, whereas most plans still report separate allocations of U.S. and non-U.S. exposure. FPPA is outperforming its

peers on a one and ten year basis, but is underperforming on a five year basis. The primary driver of underperformance is from the public equity underperformance in 2008. Overall the survey results are within our expectations.

Mr. Blumenthal raised the question that along with the issues of headline risk, whether it is feasible to have an external review to ensure best practices. There's no issue if we vary from our peers so long as we can justify it. John Linder responded that the organization best positioned to do this work is CEM. They are able to compare FPPA's management and cost structure to other similar organizations.

Aetos and Albourne

Austin Cooley presented two recommendations, both of which were expected this year. The first recommendation is to terminate the management agreement of Aetos who oversees \$130 million of our absolute return allocation. The Aetos mandate overlaps with FPPA's direct hedge fund program. The investment staff has the capacity, knowledge, and skill set to implement the underlying hedge fund relationships.

The second recommendation is to increase the Albourne relationship, as a hedge fund advisor, to a level which will provide unlimited hedge fund coverage. The change to unlimited coverage will move the annual cost from \$240,000 to \$400,000. Moving to the unlimited mandate will allow the staff to assess and screen potential hedge funds more quickly and at a much earlier stage in the diligence process. The net cost benefit will be approximately \$815,000 in savings (\$975,000 reduction in Aetos fees and \$160,000 increase in Albourne expenses).

Chair Miller asked for approval of the recommendation to terminate Aetos. Mr. Bower move to terminate Aetos, transferring responsibility of the low beta long/short equity allocation to staff. Upon second by Ms. Feely, the motion passed.

Chair Miller asked for approval of the recommendation to transition Albourne to a higher level of service. Mr. Bower moved to transition the Albourne relationship from the 25-fund service level to the unlimited service tier. Upon second by Mr. Blumenthal, the motion passed.

The board had some discussion regarding the delegation of fiduciary responsibilities. Mr. Slack noted that the governance manual contains a chart showing the responsibilities of various parties. That chart will be updated as needed.

Fixed Income Investment class review

Mr. Cloete presented the annual Fixed Income Investment Class Review. Mr. Cloete provided an overview of FPPA's transition of external fixed income managers which occurred in early 2010:

- Terminated WAMCO (Core Plus)

- Terminated TCW (High Yield)
- Brought on CS McKee (Core)
- Maintained PIMCO (Core Plus)
- Brought on Privest (Middle Market)
- Brought on SSgA (Passive)

Some of the issues currently being considered by staff are: How much liquidity do we need within fixed income? What is the purpose or definition of "risk reducing" within fixed income? Mr. Linder also commented that a possible subject for future discussion is "how do you define risk reducer?" Does it mean something that is not volatile or does it mean something that acts differently from the rest of your portfolio?

9:45 a.m. Chair Miller requested a 15 minute break. Austin Cooley, Dale Martin, Sean Ross, Curt Huntsman and Ben Bronson left the meeting. At 10:00 a.m., the meeting reconvened.

Review of Draft Determination re Scott Markham

Mr. Lindahl presented the draft determination from the appellate review which took place at the last board meeting. At the conclusion of the hearing, the Board determined to adopt the recommendations of the hearing officer and requested Mr. Lindahl to prepare a draft written determination for its consideration.

Chair Miller called for a motion to adopt the determination.

Mr. Hesalroad moved to adopt the draft determination set forth at page 99 *et seq.* of the board packet. Ms. Eaton seconded the motion. The motion carried.

Paul Martinez Hearing

Chair Miller called the hearing to order and asked Mr. Lindahl to provide background information on this hearing, which he did. Mr. Martinez and his attorney, Mr. Hurcomb, presented argument to the board regarding the hearing officer's recommendation. Mr. Markham, Mr. Hurcomb, Mr. Lindahl and Ms. McGrail answered questions from the board regarding various aspects of the administrative proceeding.

Mr. Hesalroad moved that the Board adopt the Second Supplemental Findings, Conclusions, and Recommendation of the Hearing Officer. Ms. Feely seconded the motion. Further discussion ensued. The motion passed.

Staff Report

CEO Report

June Planning Meeting

Mr. Slack reminded the board that in lieu of a May meeting there will be a planning meeting in June designed with several educational sessions along with a strategic planning discussion. Mr. Slack noted that FPPA is not allowed to incur travel costs for spouses, family members or guests.

Employer Outreach

Representatives from the human resources department of the Town of Parker visited with Ms. McGrail and Ms. Collins. Staff is working to outreach to employers and to enhance the employer side of the business.

Strategic Plan

Mr. Slack reviewed the Strategic Plan report. The microsite has been launched and can be accessed from the FPPA website.

The next Task Force meeting is scheduled for May 3rd. The Task Force acknowledges a deficiency of police officer representation on the task force and recognizes this is not for lack of trying by staff, but is more due to the difficult work schedules for police officers. Chair Miller personally reached out to some individuals and we now have five new police representatives, of which three were able to attend the catch up meeting held on Monday. Bill Lombard and Tony Clayton attended the catch up meeting also.

Ms. Eaton asked how information is communicated to new potential members looking to join and learning that they might have a potential of higher contribution. Ms. McGrail responded that staff is telling members that the Task Force is looking into this and that while staff don't know what's going to happen there is a possibility of a higher contribution.

Legal Report and Legislative Update

Mr. Lindahl noted the dismissal of the G-1 Holdings case. Mr. Lindahl is continuing to monitor different bills under consideration in the legislature and their possible impact upon FPPA.

Other

Mr. Slack noted that the trial court decision, *Stapleton vs. Public Employees Retirement Association*, is in the articles section of the board packet. This trial court opinion is well written and contains a good discussion on what it means to be a fiduciary.

Chair Report

Mr. Simon and Chair Miller will be attending the SALT hedge fund conference on May 8-11.

At 11:44 a.m., Mr. Hesalroad moved to adjourn the meeting. Ms. Eaton seconded the motion. The motion carried and the meeting adjourned.