

**FIRE AND POLICE PENSION ASSOCIATION
MEETING OF BOARD OF DIRECTORS**

August 30, 2012

Agenda

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i>
	Approval of July 26, 2012, board meeting minutes
7:35 a.m.	Recommendation of SWDB Task Force on Member Contributions <i>Todd Bower & Kirk Miller, Co-Chairs</i>
8:20 a.m.	Proposed 2013 legislation <i>Kevin Lindahl</i>
8:50 a.m.	Break
9:00 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
9:05 a.m.	Investment report <i>Scott Simon</i> <ol style="list-style-type: none">1. Review of July 2012 performance2. Review of managers3. Absolute return annual review <i>Austin Cooley, Ben Bronson</i>4. Other matters
10:05 a.m.	2Q Portfolio and Capital Markets Review <i>John Linder, Pension Consulting Alliance</i>
10:35 a.m.	Break
10:45 a.m.	Educational Presentation <i>Mariko Boswell, Richard Fulford, Jared Gross, PIMCO</i>
11:45 a.m.	Lunch

12:15 p.m. **Staff report**

1. CEO report
Dan Slack
2. Legal report & litigation update
Kevin Lindahl, Gerald Dahl
3. Review & renewal of Lombard & Clayton contract
Kevin Lindahl
4. 2Q strategic plan update
Dan Slack
5. Other matters

1:15 p.m. **Break**

1:25 p.m. **Chairman's report**

Kirk Miller, Chair

1. Governance Manual review
Dan Slack
2. Committee appointments by incoming chair
Cliff Stanton
3. Conference Evaluation – Fiduciary College/NCTR
Pam Feely
4. Other matters

2:15 p.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
August 30, 2012**

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

Board Members Present: Chair Kirk Miller, Vice Chair Cliff Stanton, , Todd Bower, Jack Blumenthal, Lyle Hesalroad, Sue Eaton, and Pam Feely

Board Members Absent: Monica Cortez-Sangster (excused), Tim Nash (excused)

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Jacqueline Tara

Claude Cloete, Dale Martin, Austin Cooley, Ben Bronson, Jeff Kaszubowski, Sean Ross and Curt Huntsman (all joined at 8:37 a.m.) and Mike Sutherland (joined 12:45 p.m.)

Others Present: Richard Fulford, Mariko Boswell and Jared Gross, PIMCO (joined at 9:19 a.m.) Gerald Dahl, Murray Dahl Kuechenmeister & Renaud LLP (counsel for the Board – joined at 11:45 a.m.) and John Linder, Pension Consulting Alliance

Notice of this meeting and a copy of the agenda were posted outside the meeting room and on the FPPA website at least twenty-four hours prior to the meeting.

At 7:34 a.m., Chairman Kirk Miller called the meeting to order.

Chair Miller called for a motion to approve the minutes of the July 26, 2012, Board meeting. Mr. Bower moved to approve the minutes. Ms. Eaton seconded the motion. The motion carried.

Recommendation of SWDB Task Force on Member Contributions

Mr. Bower brought the Board up to date on the Task Force recommendation to move forward with the vote to have a 4% contribution increase taken in ½% increments over 8 years.

Ms. Eaton moved to accept the recommendation of the Task Force. Mr. Hesalroad seconded the motion. The motion passed.

Mr. Slack assured the Board that he will be attending meetings alongside Ms. McGrail's communications team, giving presence and support in communicating the message and educating the members on the election. An email notification will be sent to all Task Force and Board members once the website has been updated with the final white paper.

Proposed 2013 Legislation

Mr. Lindahl presented a draft of three legislative bills for the board's consideration.

1. SWDB and SWD&D PLANS – Limitation on liability bill

Mr. Blumenthal moved to approve this bill. Ms. Feely seconded the motion. The motion passed.

2. New Department Direct Entry Into SWMP

The FPPA staff does not currently recommend pursuing this bill at this time.

3. Re-entry Continuing Rate of Contribution Clarification and Authority to Adjust the Additional Rate of Contribution

The FPPA staff does not currently recommend pursuing this bill at this time per feedback from the member task force. This may be legislation the Board will want to consider in the future.

At 8:20 a.m., Chair Miller called for a break. Ms. Collins left the meeting. At 8:37 a.m., the meeting reconvened.

Investment Risk Committee Report

Mr. Bower reviewed the investment matters that have come before the IRC: Two meetings were held by the IRC: discussions included Kayne Anderson Energy Fund VI and Cogent Partners. The design of the Investment Risk Committee has proven to be beneficial and FPPA has benefited from the creation of this committee and its work. Mr. Bower commended the Investment staff for bringing a relevant body of information and intelligent discussion to the Committee.

Investment Report

Review of July 2012 performance

Mr. Simon provided the July economic recap and fund performance. While July continued in an upward momentum, GDP Growth slipped to 1.7% in the second quarter. Employment still remains flat and the market continues to hinge on policy-makers' actions. Large company stocks continue to outperform small cap stocks. U.S. Treasury rates once again hit record lows with the 10-year note briefly yielding 1.38% near the end of the month.

The Total Fund was up 0.81% in July resulting in a positive 5.71% performance YTD. Global equity slipped a bit from slightly outperforming to slightly underperforming its benchmark due to small cap exposure with Cortina. Fixed Income is above benchmark mainly due to PIMCO's contribution.

Asset Class Allocation is fairly well on target with Private Capital a bit above target. Combining Global Equity and Growth Debt together equals the Growth Class which is on target. John Linder added that Equity Long-short is included within Global Equity and may be represented by its own bar in the future, however they should be viewed together and are benchmarked against MSCI ACWI IMI.

Review of Managers

J.P. Morgan announced the elevation of Kim Adams and Ann Cole to assistant portfolio managers.

Cortina (Small Cap Equity) has been down the last few months, significantly lagging its benchmark. Staff remains comfortable with the manager's performance in this market environment.

Investment Matters

The Investment Staff recommended a \$10 million commitment to Kayne Anderson Energy Fund VI. The IRC recently discussed FPPA's overall energy exposure and details of the operational due diligence process in the hedge fund space.

Discussion on the recommendation to engage Cogent Partners as a secondary advisor was led by Mr. Martin. Cogent was very responsive with their willingness to work with FPPA. Final contract negotiations are underway and will move forward with the Board's approval.

Mr. Blumenthal moved to hire Cogent Partners as a secondary advisor subject to legal negotiations. Ms. Feely seconded the motion. The motion passed.

The custodian search process is proceeding. Mr. Simon reported there are no specialty consultants that handle custodian search RFPs, but instead a general consultant is often used in the evaluation process. With PCA as our general consultant, staff incorporated their comments into the RFP.

A discussion was held regarding the Board's request for further information regarding Walter Scott's "soft dollar" practices. Mr. Cloete reported that Walter Scott maintains a strict adherence to a best execution trading policy. Most all of FPPA's investment managers use some form of brokerage or research services in accordance with provisions of Section 28(e) of the Securities Exchange Act. Mr. Lindahl was asked to review the ADV from Walter Scott.

Molly Slofkiss has transferred over as administrative assistant to the Investment staff.

At 11:03 a.m., Mr. Huntsman left the meeting.

Educational Session

PIMCO presented on its unconstrained bond strategies and tail risk hedging. PIMCO discussed the issues of low yields within the current fixed income environment and how best to protect funded status at the plan level through the use of tail risk hedging.

At a high level, the unconstrained and total return strategies are similar in characteristics. Differences with the unconstrained strategy include: 1) it has a LIBOR benchmark; 2) it has broader investment guidelines, to go long and short; and 3) it has an absolute return orientation. Overall the unconstrained strategy is more tactical and flexible than the total return strategy.

Tail risk hedging aims to reduce the risk of loss from tail events and create liquidity during periods of market stress. It looks to stabilize portfolio volatility on a mark-to-market basis and to position portfolios for "offensive" risk management. It also aims to facilitate buying risky assets when prices are down and it can be a profitable strategy if actively managed.

At 11:23 a.m., Chair Miller called for a break.
Richard Fulford, Mariko Boswell and Jared Gross left the meeting.

At 11:30 a.m., the meeting reconvened.

Absolute Return

Mr. Cooley and Mr. Bronson presented the 2012 Absolute Return Investment Class Review.

The Absolute Return class was created in 2009 during the Asset Liability Study with implementation in early 2011. Since inception, while hedge fund performance has struggled, the Absolute Return portfolio has performed in line with the broad hedge fund market and the custom benchmark performance. While the Low Beta portfolio has outperformed its benchmarks and the Global Macro portfolio has tracked its benchmark almost perfectly, the Commodity portfolio has failed to meet expectations.

The program started with three discretionary advisors and has since added another resource with Albourne. FPPA recently expanded their contract to an unlimited service level and they act as fiduciary now. FPPA terminated Aetos as the discretionary manager of the Low Beta Equity Long/Short portfolio and moved ownership of that portfolio internally. FPPA transitioned the K2 mandate from discretionary to advisory. The two transitions of K2 and Aetos resulted in significant fee savings.

The Long Biased Long Short class was approved by the Board in 2011 with implementation beginning early in 2012 following the retention of Albourne as a hedge fund advisor. Early performance results are favorable.

At 11:45 a.m., Gerald Dahl joined the meeting.
At 11:51 a.m., Jeff Kaszubowski left the meeting.

2Q Portfolio and Capital Markets Review

John Linder presented the Investment Market Risk Metrics for August 2012. Interest rate risk remains extremely high in the markets, the highest it's been in 40 years.

Foreign equity markets still look a lot more cheaply priced than U.S. equity markets, it's not recommended to pull in global exposure. There is no indication of future inflation in either the TIPS market or Commodities.

The aggregate value of the FPPA portfolio on June 30, 2012 was \$3.2 billion. Over the latest 1-year period, the Total Fund outperformed its policy benchmark.

At 12:06 p.m., Chair Miller called for a break. Mr. Cloete, Mr. Cooley and Mr. Ross left the meeting.

At 12:45 p.m., the meeting reconvened. Mr. Sutherland joined the meeting.

Staff Report

Staff provided a resolution that grants authority to Dan M. Slack as CEO to handle investment transactions, and in his absence, grants authority to Scott Simon or Kevin Lindahl. Mr. Hesalroad moved to approve Resolution No. 2012-2, providing for signature authority. Mr. Bower seconded the motion. The motion passed.

Mr. Slack reported on his recent attendance at the World Pension Forum where he presented on the Canadian Pension Panel and shared his perspective on FPPA's governance. Among the topics of note was a discussion on how Canada's public pension funds are changing the deal-making landscape with in-house money management, among other innovations. One presenter challenged the thesis that globalization is an irreversible process, arguing that de-globalization could occur with negative effects for the world economy and noting how supply changes and disruption risk can upset the world economy.

An insightful keynote presentation was given on this year's leadership transition in China and its potential effect upon the investment climate and the global economy going forward. Dr. Cheng Li spoke on his scenarios for the future of China within the next ten years and the implications for the world economy.

CEO Report

There continues to be strong interest on re-entry in the Defined Benefit System. Due to the staffing and timing issues surrounding the election process, FPPA is currently, with some exceptions for processes already begun, deferring meetings at this point.

The RFP for actuarial services was sent out and has been posted to FPPA's website. The Board will make the final decision on the actuary for the pension plans.

Executive Session

At 12:50 p.m., Ms. Eaton moved to go into executive session for a conference with special counsel to the Board and appropriate staff under Section 24-6-402(4)(b), C.R.S., for the purpose of receiving legal advice concerning pending litigation in the Dolan matter. Mr. Hesalroad seconded the motion. The motion passed.

At 1:46 p.m., the Executive Session ended and the Board returned to the open meeting.

Mr. Hesalroad moved to retain Murray Dahl Kuechenmeister & Renaud LLP to represent all the defendants in the Dolan litigation. Mr. Blumenthal seconded the motion. The motion passed.

At 1:45 p.m., Mr. Sutherland and Mr. Dahl left the meeting.

Legal Report and Legislative Update

Mr. Hesalroad move to approve the Lombard & Clayton, Inc., contract for lobbying services for another year. Mr. Bower seconded the motion. The motion passed.

Strategic Plan Update

Mr. Slack highlighted the implementation of additional environmental and security monitoring in the computer room as of July 2012 and the benefit calculation actuarial tables into ASPEN as of July 2012 that will be effective October 2012. FPPA continues the campaign to collect email addresses from the membership to help reduce postage costs.

Chairman's Report

Governance Manual

The two main areas of the proposed changes are the travel policy and the ethics policy. In researching best practices regarding other pension fund policies, jurisdiction came in to play. Most policies are specific to the laws of the relevant state. Of foremost importance is that FPPA's board and staff remain in compliance with the applicable provisions of Colorado law.

Mr. Lindahl and Mr. Slack re-wrote the Ethics Policy in an effort to make it more readable and user-friendly. The definition of a "Person" was added.

Mr. Bower moved to adopt the Governance Manual, accepting the redline changes as discussed. Mr. Blumenthal seconded the motion. The motion passed.

Committee Appointments

Incoming Chair Stanton announced committee appointment.

Mr. Hesalroad requested not to be reappointed to the Audit Committee. Mr. Stanton appointed Mr. Blumenthal, Mr. Nash, and Ms. Feely to the Audit Committee, effective September 1.

Mr. Stanton appointed Mr. Bower and Mr. Miller to the Investment Risk Committee, effective September 1.

Ms. Feely shared her evaluation of the Fiduciary College at Stanford Law School. Ms. Feely found the program extremely beneficial and recommended it in the future to other board members.

At 2:37 p.m., Mr. Bower moved to adjourn the meeting. Mr. Blumenthal seconded the motion and the motion passed. The meeting adjourned.