

**FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
February 23, 2012
Agenda**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i>
	Approval of January 26, 2012, board meeting minutes
7:35 a.m.	Cogent Partners presentation <i>Brian Mooney, Managing Director</i> <i>Andy Nick, Vice President</i>
8:35 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
8:40 a.m.	FPPA Quarterly Investment Report (4Q 2011) Capital Markets review <i>John Linder, PCA</i>
9:25 a.m.	Break
9:40 a.m.	Investment Report <i>Scott Simon</i> <ol style="list-style-type: none">1. Review of December 2011 and January 2012 performance2. Review of managers3. Investment allocation review4. Other matters
10:40 a.m.	Break
10:55 a.m.	GRS Presentation – GASB changes & impact on FPPA <i>Dana Woolfrey, GRS</i>
11:25 a.m.	Staff report <ol style="list-style-type: none">1. CEO report <i>Dan Slack</i>2. Legal report and legislative update <i>Kevin Lindahl</i>3. Other matters
11:40 a.m.	Chairman's report <i>Kirk Miller, Chair</i> <ol style="list-style-type: none">1. Conference-evaluation <i>Tim Nash – Visions, Insights, Perspectives Conference</i>2. Other matters
11:55 a.m.	Adjourn to luncheon reception

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
February 23, 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 (7:38), 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 (10:40), Ben Bronson, and Janette Hester.

Guests Present: John Linder, Pension Consulting Alliance (PCA); Dana Woolfrey, Gabriel Roeder Smith and Company (GRS); Brian Mooney and Andy Nick, Cogent Partners; Leo Johnson (10:06).

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 7:35 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.

Todd Bower moved to approve the minutes of the January 26, 2012, board meeting. Sue Eaton seconded the motion. The motion carried.

Cogent Partners Presentation

Dale Martin provided background data on Cogent Partners, an investment banking firm that offers financial advisory services to the private equity sector. Mr. Martin explained that the 2012 investment allocation review includes a request to explore secondary market opportunities to enhance the private capital portfolio. Cogent Partners is considered a global leader in helping investors maximize their long-term, risk-adjusted returns by providing due diligence, fund and portfolio valuation, secondary sale structuring and execution, and private equity vehicles restructuring advisory services.

Making a presentation to the board were Brian Mooney and Andy Nick, who explained the secondary market and investment opportunities. Mr. Mooney stated the secondary market provides investors with a means to monetize illiquid private equity strategies prior to the investments' typical time horizon. He reported the private equity secondary market has grown dramatically in the past ten years. He provided historical background information. Mr. Mooney explained the mechanics of buying and selling secondary transactions and subsequent liabilities with the general partner. Secondary funds offer high quality assets at discounts to net asset

value, provide a more rapid cash-flow pattern than traditional private equity funds, and serve as a tool for portfolio management and managing allocation targets. Mr. Nick stated the secondary market saw increased volume in 2011 and shows no signs of slowing.

He provided an overview of growth and composition in the current market and historical pricing in the secondary pricing recovery. He provided a graph showing secondary market fundraising activity. Mr. Nick estimated there is currently at least \$30 billion of capital available for secondary buy-side and expects this figure to increase over the next 1½ years. He reviewed the supply and demand of secondary markets. Mr. Mooney explained the transaction process, including the timeline, structure, transfer restrictions and confidentiality agreements in place in the process. He explained how FPPA's involvement in a secondary transaction would work at key points throughout the process. Mr. Mooney explained that the secondary process fees and expenses consist of transaction advisory fees and legal counsel fees for both the seller and general partners. Transaction advisory fees vary depending on the size and complexity of the transaction. The seller and buyer typically split 50/50 any legal or transaction fees incurred by the general partners and fees directly correlate to the number of funds. Mr. Mooney and Mr. Nick answered questions from the board and staff and concluded their presentation at 8:43 a.m.

Investment Risk Committee Report

Chair Todd Bower reported that the Investment Risk Committee (IRC) conducted meetings on January 23rd and February 14th. Chair Bower noted there was a summary in the board packet of items discussed by the IRC. At these meetings, staff provided information on Coatue Qualified Partners, a long-short equity hedge fund specializing in technology, media and telecom sectors. The IRC also discussed the Annual Investment Allocation Review and RREEF American REIT II (core real estate) redemption. Chair Bower and Cliff Stanton answered questions from the board.

Pension Consulting Alliance, Inc. Presentation

FPPA Quarterly Investment Review

John Linder provided a performance summary for fourth quarter 2011. He reported a Total Fund aggregate value of \$3.1 billion as of December 31, 2011, a decrease over the latest one year by \$40.6 million. Mr. Linder reported the portfolio increased by \$108.7 million during the last quarter, as improving economic news and statistics supported the markets. European and U.S. fiscal problems, along with a still struggling housing sector, remained problematic. Mr. Linder discussed a comparison chart showing one-year, three-year and five-year Total Fund performance against the policy benchmark. He noted the decision to lag the private equity benchmark one quarter to coincide with performance reporting. He reported the Total Fund outperformed its policy benchmark over the latest one-year and

three-year periods, due primarily to relative outperformance in the fixed income class. Over the trailing five-year period, the Total Fund trailed both the policy benchmark and the Median Public Fund, due primarily to underperformance of the global equity asset class. Mr. Linder reported inflation year-over-year at 3.0% and noted that the unemployment rate was still high in the fourth quarter. PCA did not see the Fed raising interest rates until 2014. Mr. Linder reported that fixed income returns were driven by dropping interest rates. U.S. markets fared better than global markets. The asset allocation targets reflected interim policy targets adopted by the board on April 28, 2011. The Total Fund ended the latest quarter overweight private capital and underweight absolute return and opportunistic. Mr. Linder reported the three-year geometric returns were 11.2%, net of all outside fees. He reported that private equity had made a positive contribution to the Total Fund outperformance in the most recent quarter. He provided annualized performance comparison information by asset class. Mr. Linder answered questions from the board and concluded his presentation.

Investment Market Risk Metrics

Mr. Linder provided investment market risk metrics for January and February 2012. Mr. Linder reported that recent high levels of volatility in the capital markets had subsided somewhat. The equity market volatility fell below 20, credit spreads tightened and PCA thinks the spreads have further to go. Public equity and credit markets rallied and valuations were supportive for risk assets. The 10-year Treasury yield remained historically low and bonds remained at 30-year highs. Private market valuation metrics remained high, due to interest rate suppression. Mr. Linder provided graphs showing current credit spreads and reported commodity price inflation was under control. In January, the Fed indicated interest rates will remain at zero through 2014.

Capital Markets Assumptions

PCA expects inflation to be under control for the short term but to rise over a 10-year horizon. The anticipated higher inflation level is expected to be detrimental to fixed income returns, which are dominated by interest rate risk. PCA expects the inflation-adjusted cash flows of core real estate to offer attractive performance over the long term, relative to bonds. Domestic, international and global equity returns are expected to adjust upward over the next several years. Private equity market valuations should remain reasonable. PCA expects equity classes to be more volatile due to the zero interest rate policy. Mr. Linder stated PCA believes the actuarial rate of return of 7.5% for the current portfolio is sound under their current capital markets assumptions. Mr. Linder answered questions from the board and concluded his report.

The meeting recessed for break until 9:40 a.m.

Investment Report

Review of December 2011 and January 2012 performance

Scott Simon reported a strong market start for the first two months of 2012. He reported that the Total Fund return was 3.04% in January, compared to a benchmark performance of 4.71%. The long-term benchmark is lagged 3 months to better match the lagged reporting of private capital. Final December 2011 Total Fund performance was 0.73% compared to the custom benchmark of -0.69%.

Review of managers

Mr. Simon reported on a change in executive personnel within State Street Global Advisors' group, which oversees FPPA's passive fixed income portfolio. FPPA's portfolio manager did not change and staff will continue monitor this manager. Mr. Simon reported these changes are unlikely to affect the current portfolio.

Mr. Simon reported on changes at Prudential Real Estate Investors organization. He stated these changes are not expected to affect the FPPA portfolio.

Mr. Simon discussed the client letter from Pension Consulting Alliance, Inc., regarding a lawsuit filed on behalf of the People of the State of California against Northern Trust charging violations of California state statutes. Northern Trust managed the securities lending program for the Los Angeles City Employees Retirement Systems (LACERS), also a client of PCA. PCA believes their firm was named as a defendant to establish venue in California state court. PCA vigorously denies any wrongdoing and believes their firm will be vindicated.

Mr. Simon reported that Hamilton Lane, currently a back office solutions group for FPPA for private capital, is re-purchasing a significant percentage of Hamilton Lane shares from existing shareholders to increase employee ownership. He reported that these changes will not affect services to FPPA.

Mr. Simon reviewed the monthly manager commentary memo and the capital calls and distributions for January 2012. Mr. Simon stated that, at Dan Slack's request, a new format for reporting alternatives portfolio will be created for the next board packet. He reported the private capital portfolio will begin to reflect the lagged returns, as actual information becomes available. Mr. Slack asked whether PCA would adjust performance reporting at fiscal year-end to match the required accounting process of marking to market for the comprehensive annual financial report. Mr. Linder stated the PCA Quarterly Report will always have the lag performance value, in order to maintain consistent valuation reporting.

Other matters

Mr. Simon reported on IRC investment matters reviewed during meetings on January 23, 2012 and February 14, 2012. He provided a summary of staff's recommendation to the IRC for a \$34.5 million investment in Coatue Qualified Partners, L.P., the first long/short hedge fund within the Global Equity portfolio

specializing in technology, media, and telecom sectors. Mr. Simon reported that the investment staff recommended the full redemption of FPPA's exposure to RREEF America REIT II (core real estate). He provided an update on the decision to reduce this exposure. Notice was given to effectuate a March 31, 2012, redemption. Mr. Simon stated the IRC provided concurrence that these recommendations were in compliance with board policies. Mr. Simon stated the full investment recommendation and supporting diligence can be found on the board website.

Private capital portfolio transition update

Mr. Simon reported Hamilton Lane was transitioned from its discretionary investment mandate (\$600,000 annual fee) to providing back offices services for FPPA's private capital portfolio (\$100,000 annual fee). Mr. Simon reported the transition occurred four months ahead of the budget schedule.

Self-Directed Plan report

Mr. Simon provided a review the Self-Directed Plan allocations and performance, as of January 31, 2012. The next committee meeting is scheduled for March 28, 2012. The annual review of self-directed plans with updates from Fidelity and from FPPA's self-directed plan consultant will be provided at the next board meeting.

Annual investment allocation review

Mr. Simon noted that an asset liability study is required every three to five years by the Master Investment Policy Statement. Following the financial crisis of 2008, an annual review has been in place to review capital market assumptions and practical implementation issues in the portfolio.

Mr. Simon noted that the 7.5% return target remains appropriate under the current asset allocation and no changes are recommended to the interim target ranges. He reported there are other big projects and issues that need near-term review. An Asset Liability Study will be recommended for 2013. The last study was conducted in 2009.

Austin Cooley presented the staff memorandum regarding the annual investment allocation review and recommendations by staff and PCA. Mr. Cooley stated no changes to the interim allocation targets are recommended right now. However, staff and PCA believe the combination of reduced capital market assumptions, a lower actuarial rate of return, and the continued evolution of the portfolio warranted a full Asset Liability Study in 2013. Mr. Cooley reviewed the reasons for this recommendation:

- New interim investment class allocation targets, reflecting both risk considerations and movement towards long-term targets
- Changes to capital market assumptions
- Annual Commitment Pacing Plan for the Alternative Growth Investment class
- Issues supporting conducting an Asset Liability Study in 2013.

Mr. Cooley provided a list of the long-term targets and reviewed the 2009 long-term targets and 2011 interim targets of the opportunistic and global equity classes. He reviewed the 2012 Commitment Pacing budgets for the alternative investment classes, approved by the board at the January meeting. Mr. Cooley provided a table showing the proposed allocation and their current weights, stating that these classes will be volatile; they contain the appropriate ranges; and staff will manage them to seek to ensure targets are hit. He reviewed the rationales for the interim allocation and reported staff and PCA's proposed changes.

- Fixed Income – maintain underweight position. Staff proposed remaining under target due to concern regarding interest rate risk.
- Absolute Return – continue to allocate 1% from fixed income to absolute return. Rationale is to keep the fixed income underweight within the risk reducer class.
- Global Equity – interim allocation of 49% remains the same as 2011. The long term target allocation of 45% is impracticable until the incremental 4% allocation to alternative growth can be invested over time. Staff questions the feasibility and appropriateness of a 5% strategic weight to opportunistic.
- Opportunistic – Staff proposed maintaining the 2% interim target weight. Staff believes that the long term target to opportunistic should be revised to zero with a maximum weight of 5%. However, the reallocation of 5% would need to be approved via a full asset liability study.

Mr. Cooley presented Staff's rationale for conducting an asset liability study in 2013.

- Capital market expectations have changed since the last study and the expected return objective has been reduced.
- Staff supports changing the target weight for the opportunistic class to 0% with a maximum allocation of 5%. Reallocation of the 5% weight across other strategic allocation is beyond the scope of this annual allocation review exercise.
- Staff wishes to evaluate strategic hedging and tactical asset allocation.
- Staff continues to evaluate alternative approaches to the global equity class.
- Staff wishes to evaluate and better define the attributes of risk-reducing investments.
- There are increased inflation expectations.
- Staff wishes to evaluate liability driven investing on a per plan basis.
- Staff wishes to evaluate a currency hedging program.

Strategic allocation in light of 2012 capital market assumptions

Mr. Linder presented PCA's analysis regarding FPPA's current strategic investment allocation (interim target allocation), given the changes to PCA's capital market return and risk expectations between 2009 and 2012, and changes in class structure versus what was modeled in the 2009 asset liability study. He reviewed a synopsis of the findings.

PCA's conclusion was that the 2012 target allocation remained reasonable and appropriate. He reported that the greatest change was in fixed income, with a 2.4%

decline in expected return over the period. He reported that the expected portfolio compound return was 8.3% in 2009 and was 7.6% currently, a drop of 0.7%. Mr. Linder reported that PCA's capital market assumptions were driven by lower fixed income return expectations and higher inflation expectations. FPPA's customized classes of capital assumptions are based on PCA's adjustments of expectations to reflect the class structure updated to 2012 forward-looking assumptions.

Mr. Linder reviewed the mean-variance analytical framework used to determine the change in capital market assumptions. He stated several simplifying assumptions were used:

- Investment returns behave in a stable fashion.
- Investment returns exhibit normal behavior.
- Interrelationships among investments never change.

PCA's recommendation is that the board consider allocating a 0% strategic weight in the opportunistic class in the next asset liability study.

Mr. Linder provided comparisons of capital market assumptions year over year. He reviewed comparisons of the forward-looking returns under the different sets of assumptions. He reported the probable portfolio rate of return using the 2012 capital market assumptions and current class structure would yield about 7.6%. Mr. Linder provided charts showing alternate investment class assumptions for 2009 compared to current portfolio returns. He noted the decision to lower the actuarial assumed investment rate of return to 7.5% from 8.0% was prudent, given the current economic conditions. Mr. Linder answered questions from the board.

Mr. Simon stated the timeframe for conducting the asset liability study would be in early 2013. Therefore, some of the proposed projects would need to be started very soon, so details of these proposals will be presented to the board for approval in the near future. Mr. Slack noted the issues presented by Mr. Cooley would become agenda items at the June education and strategic planning session for discussion and further board guidance. The meeting recessed for break.

Gabriel Roeder Smith & Company Presentation

GASB changes and impact on FPPA

Chair Miller welcomed Dana Woolfrey with Gabriel Roeder Smith & Company. Ms. Woolfrey provided information on two exposure drafts issued by the Government Accounting Standards Board (GASB) regarding proposed changes to pension accounting and financial reporting standards for state and local governments. Ms. Woolfrey stated that the new standards disconnect accounting from pension funding and attempt to make pension obligations comparable in the debt market. The impact on employers who participate in multiple-employer cost-sharing plans will be that employers are now required to report a proportional share of unfunded liability in their financial and accounting statements. She noted that

the GASB decisions are tentative and the final statements are expected in June 2012. Mr. Woolfrey stated the expected effective dates could be as early as January 1, 2013, for funding and accounting reporting. She explained the current GASB standards for reporting contributions, liability and valuation methods and parameters for the old hire, volunteer, statewide benefit, statewide D&D and statewide hybrid plans and compared this with the changes in calculations if the proposed standards are approved. Kim Collins noted that much of the work will be performed by FPPA staff and GRS. She noted that additional staff or contract employees might be needed to complete the reporting. The net pension liability will show up on employers' accounting books as a liability. The annual pension expense for employers will experience greater volatility, with less smoothing and shorter amortization periods, and liability changes pertaining to retirees or plans would require immediate recognition. Ms. Woolfrey stated that staff and employer communication and education regarding the changes would be critically important and implementation costs would be considerable. Compliance is expected to be the responsibility of the employers, and having their own accountants and actuaries to evaluate and adjust the information could become necessary. Ms. Woolfrey stated that payment method for these additional costs had not been established and is under review by many organizations. She stated that actuarial funding valuations would remain unchanged and would be continue to be provided to the board in the same fashion as currently to assist in decisions regarding benefit adjustments, SRA contributions, etc.. Ms. Woolfrey answered questions and concluded the presentation at 11:29 a.m.

Staff Report

CEO report

Mr. Slack gave the CEO report. He reported that he and Kevin Lindahl participated in a conference call with the police chief, fire chief, city attorney and the mayor's chief of staff from the city of Colorado Springs to discuss the employer's contribution rate trends for the public safety retirement plans sponsored by the city. He stated that FPPA and GRS will work with the city to answer their specific questions regarding employer contributions. Mr. Slack reported increased interest and requests for meetings by departments regarding re-entry. Mr. Slack reported that the location search for the annual strategic planning session was proceeding and the bids are under consideration. It was the consensus of the board to allow staff to determine the location and proceed with making arrangements.

Litigation report

Mr. Lindahl provided the legal report in the board packet. He provided a litigation update in the matter of FPPA v. Glenn D. Guyman.

At 11:45 a.m., Mr. Bower moved to go into executive session to discuss the Association's position relative to negotiations, including the development of strategies and instructing negotiators, as allowed under Section 24-6-402(e), C.R.S. Lyle Hesalroad seconded the motion. The motion carried.

At 11:54 a.m., Mr. Hesalroad made a motion to come out of executive session. Mr. Bower seconded the motion. The motion carried.

Chair Miller stated that no final action, votes or motions were made or taken during the executive session. Jack Blumenthal moved to authorize the General Counsel to negotiate a settlement with Mr. Guyman consistent with what the General Counsel considers to be reasonable. Mr. Hesalroad seconded the motion. The motion carried.

Legislative report

Mr. Lindahl reported that three FPPA bills presented to the 2012 legislature passed in the House and all three were scheduled for presentation before the Senate Finance Committee on February 28, 2012. He stated that no issues or problems are expected. Mr. Lindahl reported there was PERA legislation which might impact FPPA that was being carefully monitored.

Mr. Lindahl reported on his attendance at the meeting of the National Conference on Public Employee Retirement Systems (NCPERS) in Washington, D.C. He reported there was pending federal legislation regarding normal retirement age. Mr. Lindahl reported that FPPA plans were in compliance and he did not expect any problems.

He reported that the second issue was discussion regarding the 10% penalty for early withdrawal of retirement benefits by public safety employees prior to age 55. Currently, there is an exception that allows public safety employees to withdraw funds as early as age 50 without penalty. This legislation will be monitored for any FPPA impact.

Mr. Lindahl reported there was a coalition proposing legislation called Secure Choice Pension. This legislation would create on a state-by-state basis a pension plan providing private sector employees an opportunity to participate in a defined benefit plan. He stated this is a creative method to provide defined benefit plans for smaller private sector employers.

Subsequently, Mr. Lindahl reported issues under review by the Securities and Exchange Commission (SEC). He provided details of the Morrison case, which prevented class action suits regarding fraud that related to the sale of securities of companies who do business in the U.S., but whose stock is not listed in the United States. The SEC is reviewing this issue and is being urged to recommend legislation to Congress that would reinstate the ability of institutional investors to pursue damages.

Mr. Lindahl reported that the Internal Revenue Service (IRS) had provided draft rules defining governmental plans. Mr. Lindahl stated the draft rule does not accurately address public pension plans and does not recognize multi-employer plans. Mr. Lindahl reported he was working with other NAPPA attorneys to prepare

comments on these rules and to provide guidance and understanding of how local and state pension plans work.

Mr. Lindahl reported on a class action suit filed against British Petroleum regarding safety protocols prior to and during the 2010 Gulf oil spill. He stated the court dismissed the suit for the shares of stock that FPPA owned, based on jurisdictional reasons. Mr. Lindahl reported the initial estimated loss on these stocks was between \$1.5 million and \$3.5 million. He explained, if FPPA decided to pursue these losses, FPPA may need to file a claim in state court. Mr. Lindahl will provide more details in this matter to the board at a future date. He concluded the legal report.

Chair Report

VIP Conference Evaluation

Tim Nash provided a brief update on the Visions Insights and Perspectives Conference, which offered extensive education in real estate investments.

At 12:11 p.m., Mr. Hesalroad moved to adjourn the meeting. Ms. Eaton seconded the motion. The motion carried and the meeting adjourned.