

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

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i> Approval of December 8, 2011, board meeting minutes Consent Calendar 1. Certification of Compliance for Department Reentry- Sheridan Police
7:35 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
7:40 a.m.	Investment Report <i>Scott Simon</i> 1. Review of November & <i>preliminary</i> December 2011 performance 2. Review of managers 3. Annual Proxy, brokerage, claims 4. Annual commitment pacing 5. Other matters
8:30 a.m.	Natural Gas Partners <i>Tony R. Weber, Managing Director and Chief Investment Coordinator</i> <i>Anas Alhajji, Phd., Economist</i>
9:30 a.m.	Break
9:45 a.m.	2012 Legislative session preview <i>Tony Lombard, Bill Clayton, Lombard & Clayton</i>
10:15 a.m.	Staff report 1. CEO report <i>Dan Slack</i> 2. 4Q2011 Strategic Plan Update <i>Dan Slack</i> 3. Legal report and legislative update <i>Kevin Lindahl</i> 4. Other matters
10:45 a.m.	Chairman's report <i>Kirk Miller, Chair</i> 1. Conference evaluation forms <i>Kirk Miller – Super Bowl of Indexing</i> 2. Conflict of Interest Form 3. Other matters
11:00 a.m.	Adjourn

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

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

Board Members Present: Chair Kirk Miller, Vice Chair Cliff Stanton, Jack Blumenthal, Pam Feely, Lyle Hesalroad, Monica Cortez-Sangster, Tim Nash, Sue Eaton and Todd Bower (8:39).

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Jeff Kaszubowski, Dale Martin, Sean Ross, Curt Huntsman, Ben Bronson, Mike Sutherland (9:57) and Janette Hester.

Guests Present: John Linder, Pension Consulting Alliance (PCA); Bill Clayton and Tony Lombard, Lombard & Clayton; Tony R. Weber, Anas Alhajji, and Christopher Ray, Natural Gas Partners Energy Capital Management.

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 and the consent calendar.

Pam Feely moved to approve the minutes of the December 8, 2011, board meeting. Sue Eaton seconded the motion. The motion carried.

Ms. Feely moved to approve the Certification of Compliance for Department Re-entry into the FPPA Defined Benefit System for the City of Sheridan Police Department. Lyle Hesalroad seconded the motion. The motion carried.

Investment Risk Committee Report

In the absence of Chair Todd Bower, Cliff Stanton reported that the Investment Risk Committee (IRC) had conducted six meetings since the December board meeting. At these meetings, staff provided an educational session on Collateralized Loan Obligations (CLOs) in anticipation of a forthcoming investment manager recommendation. The IRC also discussed long-biased long short portfolio construction, hedge fund portfolio construction, real estate, opportunistic and alternatives investments. Mr. Stanton noted that details of the recommendations would be presented in the investment report.

Investment Report

Review of November & preliminary December 2011 performance

Scott Simon introduced Ben Bronson, the newest member of the investment staff, who will be working on hedge fund allocations. Mr. Simon provided a December

market review, reporting nearly flat year-to-date preliminary performance. Although volatility and high correlations created an extremely difficult environment for active management across the board, final 2011 valuations are anticipated to push year-end performance into positive territory. Expectations are for a continued low return environment in 2012 to persist, as yields remain low and major imbalances in the U.S. and Europe have yet to be resolved. Mr. Simon noted that the global equity market was down -7.4% for 2011, while the bond index returned +7.8% for the year. Mr. Simon reported that "preliminary" Total Fund performance was 0.0% in December and -0.05% year to date, but that this number was expected to be revised upwards as roll forward valuations of the private capital portfolio took place. Mr. Slack noted that this compared favorably to a passive 70/30 investment portfolio which would have returned approximately -2.84% for the year.

Mr. Simon reported that the month of January was positive with equity markets up 5% and bonds slightly negative. Walter Scott and Cortina produced solid relative outperformance for the year and PRIVEST provided a positive contribution. Baillie Gifford slightly underperformed its benchmark for 2011. The Real Asset portfolio experienced slight positive performance in November and commodities markets continue to be a primary detractor.

Review of managers

Mr. Simon discussed the correspondence from RREEF America REIT II regarding developments related to the potential sale of RREEF and the composition of its Board. He discussed the memo from Prudential Capital Group regarding organizational changes. Mr. Simon reported that these changes will not affect the FPPA portfolio. He reviewed the monthly manager commentary memo and the capital calls and distributions for December 2011.

Other matters

Mr. Simon provided an update on three investment recommendations concurred by the IRC within the opportunistic portfolio.

- (1) Pauls Real Estate Opportunities (2012) - a \$50 million fund focused on real estate transactions with financial institutions holding REO assets. The Staff recommended a \$10 million commitment.
- (2) Babson Capital – a separate account structure that focuses on risk-adjusted returns with investment in CLOs. The Staff recommended a \$20 million allocation, pending final legal review and approval with particular attention to an appropriate fee structure for the strategy.
- (3) Rosemont Partners III – a \$150 million fund focused on making minority private equity investments in high quality investment management businesses looking to conduct a management buyout, recapitalization, generational transfer, or a franchise spinout. The Staff recommended a \$10 million commitment.

Mr. Simon noted that PCA provided a process concurrence memo in support of staff's recommendations and the IRC provided concurrence that the recommendations were in compliance with board policies. Mr. Simon stated the full investment recommendation and supporting diligence can be found on the board website. He expressed appreciation to the IRC and to PCA for their support of the IRC meetings and he answered questions from the board. Dan Slack requested that Mr. Simon provide a brief update of the January 23rd meeting of the IRC. Mr. Simon reported that the IRC discussed the first hedge fund manager for the long-biased long/short program within the global equity portfolio. The size of the investment will be approximately \$34.5 million. Mr. Slack noted that the executive summary of this meeting will be provided in the February board packet.

2011 Year-End Valuation Adjustments

Mr. Simon noted that the Master Statement of Investment Policy and Objectives (Master Statement) requires that a 2011 year-end valuation adjustment be provided for the Alternative Growth Investment Class (private capital, real assets, opportunistic). He discussed the memorandum that summarized the internal process of estimating values. He reported that Hamilton Lane conducted a similar process in the private capital component of the Alternative Growth Investment Class. As the actual year-end valuations for investments are received, individual investment values are posted and the market value adjustment account is adjusted accordingly. He noted this process has been used since 2008 and has been reviewed and approved by the IRC and PCA.

2012 Annual Commitment Pacing Plan

Mr. Simon discussed the Master Statement annual policy regarding portfolio construction of the Alternative Growth Investments Class. He explained that the CIO is tasked with recommending the levels of anticipated commitments in the alternatives classes. The Board of Directors is required to approve portfolio construction plans, including the annual commitment pacing plan. He described the internal model used to analyze the rates of contribution and distribution, as well as growth rates used to project a cash flow stream over the life of the investment. Historically, the commitment pacing scenarios generated from the internal model have not differed significantly from Hamilton Lane's. Going forward, staff will rely solely on the internal model. The CIO and staff recommended the following Annual Commitment Pacing Plan for 2012:

- \$110 million to Private Capital
- \$10 million to Real Assets
- \$75 million to Opportunistic

Mr. Simon answered questions from the board. He stated that the recommendation is in compliance with the Master Statement and the ranges are within the interim and Long-Term target allocations for the alternative classes. He reported concurrence by the IRC that the recommendations are in compliance with the Master Statement and board policies. Mr. Simon, Sean Ross, Kevin Lindahl,

Mr. Slack and John Linder answered questions from the board. Mr. Simon requested board approval.

Ms. Feely moved to approve the 2012 Annual Commitment Pacing Plan as presented. Tim Nash seconded the motion. The motion carried.

Mr. Simon reviewed the 2011 Proxy Voting Activity, 2011 Securities Litigation Report and the 2011 Brokerage Commission Report. He noted that the minutes from the December 7, 2011, Self-Directed Plans Committee Meeting were in the board packet. He answered questions from the board.

NGP Energy Capital Management

Mr. Simon stated that Natural Gas Partners (NGP) is a firm that makes direct equity investments in energy companies. NGP is being considered by staff as a potential manager for the FPPA real assets portfolio. He noted that today's presentation would be an educational overview of the crude oil and natural gas energy industry. Dale Martin introduced NGP representatives Tony Weber, Anas Alhajji and Christopher Ray.

Mr. Weber provided background information on the firm, the energy investments environment in North America, and NGP's unique sponsorship capabilities of energy companies. He explained that NGP provides owner-managers and entrepreneurs access to additional growth capital and strategic sponsorship. He stated that NGP's investments cover all major North American oil and gas producing regions, focusing on strategies with favorable risk/reward characteristics.

Mr. Alhajji stated that a supply bubble has re-emerged in shale gas production due to new drilling technologies, completion of transportation infrastructure, and improved gas recovery methods. Liquefying natural gas provides a means of moving it long distances where pipeline transport is not feasible. He predicted an increase in exports of liquid natural gas to Europe and India. Mr. Alhajji stated when the Xcel pipeline is extended to Houston, Texas, a big transportation problem in the U.S. will be solved and retail gasoline prices will probably reach international levels. He predicted that the natural gas bubble and low prices would persist in 2012 and 2013, until demand increases and prices rise above the costs and make production profitable. Mr. Alhajji predicted supply will not keep up with demand. He explained four cycles that support high oil prices:

- Economic growth cycle in the oil-producing countries
- Income diversification cycle in the oil-producing countries
- U.S. dollar cycle in the world
- Monetary and fiscal policies cycle in the oil-consuming countries

Mr. Weber explained the geo-political ramifications of increased oil production in North America. Shale gas activity is a bright spot in the domestic supply picture, and substantial reserves exist. While shale gas contributes a minority of U.S. oil

and gas production, shale gas transactions have increased dramatically in the last few years as new technology has allowed the industry to unlock vast quantities of the domestic fuel. Mr. Ray stated the number of natural gas rigs needed to maintain gas production today has decreased from five years ago. Mr. Weber explained the decline in natural gas rig count as the industry shifted to oil and liquids. Mr. Weber summarized the associated market buying opportunities that are created when public capital markets open and close. He reviewed government policy regarding taxes, environmental issues and regulatory permits/leases. Mr. Weber stated that NPG considered North America the best option for oil and gas investment opportunities. Mr. Weber and Mr. Alhajji answered questions from the board and staff.

The meeting recessed for break. Tony Lombard, Bill Clayton and Mike Sutherland joined the meeting.

2012 Legislative Session Preview

Chair Miller welcomed Tony Lombard and Bill Clayton, lobbyists for FPPA, who presented a 2012 legislative session preview to the board. Mr. Clayton provided a political update. Every ten years, the boundaries of congressional and state legislative districts are redrawn, based upon census results. The recent redistricting results have affected the 35 State Senate and 65 State House of Representatives election districts in the state of Colorado. He noted that 2012 is also a presidential election year and activity at the Capitol has increased. Mr. Clayton stated that the FPPA bills are supported by both Democratic and Republican legislators and he does not expect any problems. He reported strong support in the legislature for the FPPA organization and noted the widely held opinion that FPPA is a well-run public pension plan. In 2011, legislators were persuaded to put \$5 million into the budget to continue the state contribution towards the old hire unfunded liability, and a check for that amount should be coming in April 2012. The old hire pension plans can expect payments to the unfunded liability fund of \$10 million in 2013 and \$25 million in 2014. He reported the State will continue making annual payments until a final lump sum payment of \$50 million is made in 2019. Mr. Slack explained that these are payments the State is making to the old hire pension plans, not to FPPA. He clarified that these monies are received by FPPA as fiduciaries of the old hire pension plans that were closed in 1978 and that still have retirees in them.

Mr. Slack will be speaking to the Denver Retired Firefighters Association in February and will update the members regarding the status of the old hire plans.

Mr. Clayton reported that there are 3 bills before the legislature this year and Mr. Lindahl is scheduled to address the sponsors to answer any questions they might have. He noted that the confirmation hearing for board members Pam Feely and Tim Nash should be scheduled within the next two weeks and he would notify them of the date and time. Mr. Clayton stated there are six PERA bills in front of the legislature, which will affect FPPA employees if they pass. Mr. Clayton and

Mr. Lombard answered questions from the board and staff. Mr. Clayton reported that he, Mr. Lombard and Mr. Lindahl had attended a meeting in the summer of 2011 with the Department of Local Affairs (DOLA). An item on the agenda, at the request of Governor Hickenlooper, was to discuss ways to cut their budget by 5%. One option DOLA considered was to cut funding of the volunteer firefighters' pension plans. Mr. Lindahl explained that the administration of this program had been transferred to DOLA from FPPA because the volunteer members were not affiliated with FPPA. Mr. Lindahl and Kim Collins provided background information on the transfer and the administration process. Ms. Collins stated that legislation might solve difficulties with the collection of volunteer state funds, and she offered to provide information to Mr. Clayton and Mr. Lombard. Mr. Lombard and Mr. Clayton concluded their presentation and left the meeting.

Staff Report

CEO report

Mr. Slack asked Mr. Lindahl to introduce Mike Sutherland to the board. Mr. Lindahl reported that Mr. Sutherland was a past FPPA board member and had served for many years as a contract hearing officer on FPPA benefit matters. Because of his extensive knowledge of the FPPA plans and his experience in benefits hearings, Mr. Sutherland was recently hired as Benefits Counsel for FPPA. The board extended a warm welcome. Mr. Sutherland left the meeting.

Mr. Slack gave the CEO report. He reported that the Audit Committee had directed Mr. Slack to provide FPPA staff with a memo regarding FPPA's policy for staff to be able to freely access the FPPA internal auditor and the external auditors, CliftonLarsonAllen LLP. Mr. Slack noted that the board packet contained a copy of the memorandum which he gave to FPPA staff on December 9, 2011, noting this policy.

Mr. Slack stated that the 2012 budget included an allocation for a benchmarking study to measure the efficiencies within FPPA and to confirm that staff operations are efficient. Mr. Slack contacted CEM, a respected firm that conducts benchmarking studies for a flat fee. After conducting a meeting with staff and a representative from CEM, Mr. Slack learned that the study may not provide much comparable data because the FPPA staff operations are unique and complicated and not comparable to peer organizations maintained by CEM. He reported that the annual fee for the service was \$20,000 and that no contract with CEM has been signed. Mr. Slack will continue to explore other benchmarking options to measure efficiency within the organization and will keep the board updated. Mr. Slack, Ms. Collins and Mr. Lindahl answered questions from the board.

Mr. Slack reported an increase in retirement applications. Gina McGrail reported on activity relating to department re-entry into the FPPA Defined Benefit System from Buena Vista police, Sheridan police, and some recent interest from departments such as Arvada police, Grand Junction police and fire, Boulder police and fire, and

Aurora police. Mr. Slack stated that previously scheduled meetings will be honored and additional informational meetings may be deferred until actuarial factors are updated and the work of the task force regarding member contribution rates can be completed, so a consistent message can be provided at these meetings.

Mr. Slack reported the task force has met twice and a third meeting has been scheduled for February 24th. He reported a draft timeline for the task force had been developed and approved. The work of the task force is expected to be completed by the end of June 2012 and a recommendation is expected to be presented to the board at the August meeting.

Mr. Slack reported that staff announced in the October 2011 newsletter and on the FPPA website that the 'reduction in mailing' project regarding retirees deposit advices would become effect with the March 2012 payroll. Mr. Slack noted that there were several options for receiving deposit advice and there do not seem to be major obstacles for this cost-saving change.

Mr. Slack reported that FPPA has received the Government Finance Officers Association (GFOA) Award for excellence in financial reporting on the 2010 annual report. He commended Ms. Collins and her staff for their continued hard work in preparing the financial report. Mr. Slack reported the 2011 audit process has begun by external auditors, CliftonLarsonAllen LLP. He also stated that internal auditor Tim O'Brien is working on an internal audit regarding operational expenditures and staff payroll.

Strategic Plan Update

Mr. Slack reported there had been meetings of the Statewide Defined Benefit (SWDB) Task Force and the record retention policy is currently under legal review. He noted the strategic plan had been updated and was available in the board packet. He answered questions from the board.

Legal report

Mr. Lindahl reported he would be traveling in the next two weeks to Washington, D.C., to attend meetings regarding federal legislation and other activities of the Internal Revenue Service (IRS) and the Securities and Exchange Commission (SEC) that would impact pension plans and institutional investors. He will also attend meetings during the NAPPA conference, the public pension attorney's association that meets twice a year. Mr. Lindahl stated there are issues before the IRS regarding how they define governmental plans. The SEC is making recommendations to Congress regarding how to deal with claims by institutional investors against foreign corporations that trade in the United States then commit fraud against investors. Mr. Lindahl reported he is working with other institutional investors who want more legislative protection. He will report on these issues at the February board meeting.

Litigation report

Mr. Lindahl reported he will attend a mediation in a securities litigation case where FPPA is a named party advising a lead plaintiff on issues where there was fraud in the creation of a subsidiary that went bankrupt.

Legislative report

Mr. Lindahl provided a handout regarding 2012 Special District Association (SDA) Leadership Academy. He stated he participates in a legislative committee for SDA which monitors legislation that affects districts where there are a large contingency of fire departments, local government and political subdivisions, like FPPA. The SDA is initiating a Leadership Academy that will be staffed by University of Colorado professors and cover topics such as ethics, executive leadership development, and conflict resolution. Mr. Lindahl reported that the FPPA board members could participate in this program, if interested.

Other matters

Mr. Slack provided a revised 2012 board meeting schedule showing agenda items for each meeting, as indicated in the Governance Manual. He stated the meeting dates had not changed but the agenda items had been rearranged for more timely presentation of information.

Mr. Slack provided a draft resolution for Leo Johnson honoring his long service on the FPPA board. He requested approval by the board. Mr. Nash moved to approve the resolution for Leo Johnson. Mr. Bower seconded the motion. The motion carried.

Mr. Slack provided a copy of the Resolution No. 2012-1 Posting Notice of Meetings, which is required by statute to be approved at the first meeting of each year. Mr. Hesalroad moved to approve Resolution No. 2012-1 Posting Notice of Meetings. Mr. Bower seconded the motion. The motion carried.

Chair Report

Conflict of interest form

Mr. Slack provided a copy of the conflict of interest form and requested that all trustees sign and return their form.

At 11:22 a.m., Ms. Feely moved to adjourn the meeting. Mr. Bower seconded the motion. The motion carried.