

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

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	Call to order <i>Kirk Miller, Chair</i>
	Approval of June 13-15, 2012, board meeting minutes Approval of June 14-15 2012, strategic planning meeting minutes
7:35 a.m.	Investment Risk Committee report <i>Todd Bower, Chair</i>
7:40 a.m.	Investment report <i>Scott Simon</i> <ol style="list-style-type: none"> 1. Review of May & June 2012 performance 2. Review of managers 3. Private Capital – Active Portfolio Management and the Secondary Market <i>Dale Martin</i> 4. Global Equity investment class review <i>Claud Cloete</i> 5. DWS benchmark change – Self-Directed Plans 6. Other matters
8:40 a.m.	Break
8:55 a.m.	Legislative update <i>Clayton & Lombard</i> Discussion of potential 2013 legislation <i>Kevin Lindahl</i>
9:15 a.m.	Notice of Rulemaking Hearing <i>Kevin Lindahl</i>

9:25 a.m.	<p>Staff report</p> <ol style="list-style-type: none"> 1. CEO report <i>Dan Slack</i> 2. Legal report <i>Kevin Lindahl</i> 3. Statewide Defined Benefit Plan Asset Valuation Method <i>Dan Slack</i> 4. Colorado Springs New Hire Pension Plan – contribution rates, SRA, COLA <i>Kim Collins</i> 5. Other matters
10:25 a.m.	<p>Chairman’s report <i>Kirk Miller, Chair</i></p> <ol style="list-style-type: none"> 1. Election of Board officers 2. Other matters
10:40 a.m.	<p>Break</p>
10:55 a.m.	<p>Review of Hearing Officer Recommendation Regarding William Dolan</p>
11:55 a.m.	<p>Adjourn</p>

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

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

Board Members Present: Chair Kirk Miller, Vice Chair Cliff Stanton, Tim Nash, Todd Bower, Jack Blumenthal, Lyle Hesalroad, Sue Eaton, and Pam Feely (joined at 8:20 a.m.)

Board Members Absent: Monica Cortez-Sangster (excused)

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Claude Cloete, Sean Ross, Jeff Kaszubowski, Curt Huntsman, Jacqueline Tara, and Dale Martin (via teleconference)

Others Present: John Linder, Pension Consulting Alliance (PCA); Gerald Dahl, Murray Dahl Kuechenmeister & Renaud LLP (counsel for the Board); David Seserman and Michael Ley, Brosseau Bartlett Seserman LLC (counsel for William Dolan); William Dolan; Allan Dolan; Deb Hurley Brobst, High Timber Times; Mike Potter, Fairplay Flume

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 7:35 a.m., Chairman Kirk Miller called the meeting to order.

Chair Miller called for a motion to approve the minutes of the June 13, 2012, board meeting. Todd Bower moved to approve the minutes. Sue Eaton seconded the motion. Jack Blumenthal, Todd Bower and Lyle Hesalroad abstained. The motion carried.

Chair Miller called for a motion to approve the minutes from the June 14-15, 2012, strategic planning session. Todd moved to approve the minutes. Tim Nash seconded the motion. Lyle Hesalroad abstained. The motion carried.

Investment Risk Committee Report

Todd Bower reviewed the investment matters that have come before the IRC: Brigade Capital, AKO, Roark Capital and Private Capital Secondaries. Scott Simon and team are keeping the committee up to date with review of the actions they are taking.

Investment Report

Review of May and June 2012 performance

Scott Simon provided two months of economic recap and fund performance. While markets had a difficult month in May, there was some rebound in June. July continued with poor job creation in U.S. Market participants closely watched the actions of the Fed for their level and timing of economic support. The political environment continues to

significantly influence the markets. The Total Fund was down 3.33% in May and up 1.81% in June, resulting in a positive 4.87% performance YTD. Total Fund relative performance to the benchmark is negative due timing differences with the private capital benchmark. All other asset classes are above benchmark YTD. Managers with current negative relative performance are Driehaus (int'l. small cap) and Cortina (domestic small cap). Fixed income (Pimco) has positive relative performance. Each investment class is fairly well in balance relative to interim target allocations with a slight underweight in Public Equity and an overweight to Private Capital.

Review of Managers

BNY Mellon now offers its foreign exchange clients an alternative pricing method (Defined Spread) for standing instruction transactions. For FPPA's separate account relationships, FPPA will delegate the choice of the foreign exchange program to the respective investment manager. For all other foreign exchange activity where FPPA has discretion, FPPA has elected to participate in the Defined Spread program. BNY Mellon's overall foreign exchange services will be evaluated relative to other providers in the upcoming custodian search.

Walter Scott disclosed a shift to using full service commissions in exchange for services, a practice similar to "soft dollars". The Board interpreted it as charging a fee in excess of a fee that was initially negotiated. Staff shared that their discussions with Walter Scott have always been very transparent and open to disclosing information. Staff obligated itself to follow up with Walter Scott on options and additional transparency regarding its trading practices.

Investment Matters

With respect to alternative investments, the year to date cash flow activity remains robust. Year to date, \$64 million has gone out in capital calls and \$36 million has come back in distributions. Scott Simon discussed a few of the hedge fund managers' performance. Overall, the hedge fund allocation is performing to expectations despite the down month and wide performance dispersion.

Staff disclosed a recent \$30 million allocation to Brigade Capital, a long-biased credit fund. Prior to 2009 FPPA had a dedicated high yield mandate. The volatility of the strategy did not fit within FPPA's risk reducer class. This is FPPA's first allocation into the Growth Oriented Public Debt Allocation which is a sub-allocation within the Global Growth Portfolio.

Staff disclosed a recent \$36 million allocation to AKO Partners, a Europe-focused fundamental hedge fund manager and the sixth manager allocation within the long/short global equity allocation.

Staff disclosed a recent \$10 million commitment to Roark Capital Partners III, an existing private capital relationship of FPPA.

FPPA's current custodian contract (renewed five years ago) with BNY Mellon expires in

February 2013. It has been 10 years since FPPA has formally vetted a custodian via a full RFP process. FPPA will soon be issuing an RFP for custodial and other ancillary services. The Investment Staff, supported by the review of the Executive Team, drafted an RFP utilizing examples from peer searches. Staff will look into a recommendation to review the usefulness of involving a consultant to assist in the RFP process.

FPPA currently utilizes a commingled fund structure for its securities lending portfolio with BNY Mellon. Due to client demand, BNY Mellon has eliminated the commingled fund structure and will only offer clients a separate account structure. The guidelines, strategies and fees remain the same; although the monitoring and investment guideline oversight by the Investment Staff will increase.

Investment Hedge's June issue highlighted FPPA's investment team in their article "*Colorado Fire & Police transitions to direct investments*".

Global Equity Review

Claude Cloete reported on the Global Equity portfolio, excluding the long/short component, which will be addressed at the August Board meeting along with the absolute return portfolio. Since inception, the Global Equity portfolio produced an annualized return of 10.0% relative to FPPA's benchmark of 10.27%. For the recent 12 month period ending May 31, 2012, the global equity portfolio returned -10.23%, while the benchmark returned -12.15%. Although a negative year on an absolute basis, there was a 1.92% outperformance relative to the benchmark over the period. This is attributed to:

- All of FPPA's active managers (except Cortina) outperforming their benchmarks
- FPPA's portfolio had a marginal U.S. bias, while having an underweight to emerging markets
- Transition of the portfolio to long/short equity

Staff recommended a revision of the guidelines used to monitor FPPA's global equity portfolio, moving into a "risk" view and away from a "market capitalization" view. Staff will come back to the Board at a later stage with some proposed adjustments to those specific guidelines.

From an outlook perspective, there remain continuing concerns with Europe, an economic slowdown in China, and fiscal challenges within the U.S. Highlighting Cortina Asset management, they significantly underperformed in May and continue to have a rough time in July. Cortina is a long-term, growth focused manager and remains a "good performer" per FPPA's monitoring guidelines.

Private Capital

Mr. Simon introduced Dale Martin (via teleconference) to present "Active Portfolio Management and the Secondary Market". The presentation had been modified since being

presented to the IRC and varies slightly from the Board packet information. FPPA has a mature portfolio of limited partner interests. A common practice in the industry is for limited partners such as FPPA to utilize a secondary market to change and rebalance the portfolio. A market exists by which FPPA can buy and sell otherwise illiquid investments in limited partnerships prior to when they reach their natural end of their life cycle.

Mr. Martin reviewed the 2012 Investment Allocation Review which proposed the evaluation of a partial secondary sale within our private capital portfolio. The recommendation was driven by the fact that the market conditions are favorable for a sale and in line with our ongoing implementation of "best practices". Specific objectives include:

- Dispose of older tail-end positions
- Reduce the overall number of PE managers
- Reduce unfunded obligations
- Adjust allocation and exposure, etc.

Secondly, the intent would be to garner relationships and further expertise to prepare to become an active and opportunistic buyer when market conditions warrant. The secondary market has grown dramatically since 2001 with volume of \$25 billion in 2011 - a tenfold increase over a decade.

Staff recommended to the Board that FPPA engage an independent secondary advisor, to help further validate funds that go in to the potential sales portfolio and also general construction of a sales portfolio. An advisor would help refine and validate the extensive model Sean Ross is developing, that will help FPPA identify viable sale candidates. The investment team would continue to retain discretion on whether or not to transact, with IRC approval. While FPPA would assume its own legal counsel fees, it is customary to split the general partner's legal fees 50-50 with the prospective buyer.

Sue Eaton moved to authorize the Investment Team to search for an advisor and then bring a recommendation to the Board in August or September. Lyle Hesalroad seconded the motion. The motion passed.

At 9:35 a.m., Chair Miller called for a 10 minute break. Dale Martin disconnected from the telecom and Claude Cloete, Sean Ross, Jeff Kaszubowski, and Curt Huntsman left the meeting.

At 9:45 a.m., the meeting reconvened.

Legislative Update

Chair Miller introduced Tony Lombard of Clayton and Lombard. Mr. Lombard credited the efforts of Kevin Lindahl in reporting that all three of FPPA's bills before the legislature passed. Bill 10-18 passed 63-0 in the House; this bill allows modifications to affiliations for supplemental social security employers. House bill 10-31, allows plan amendments to the administration of benefits and passed the House 59-4. Lastly, House bill 10-77, concerning investment confidentiality provisions, passed almost unanimously. Mr.

Lombard noted that the terms of two directors expire as of September 1.

Mr. Lombard reported that he and Bill Clayton participated in some of the discussions of the SWDB Task Force on Member Contributions. Potential 2013 Legislation

Statewide Defined Benefit Plan

Dan Slack advised the board of the decision of the SWDB Task Force on Member Contributions, which will be brought to the board at its August meeting. After much thought and discussion, the Task Force has determined to recommend that the board authorize an election to increase the member's contribution rate by 4% of pay, phased in at ½% per year for 8 years.

Mr. Slack noted that when plans re-enter the SWDB Plan, they pay a 20% contribution rate (8%+8%+4%). For some re-entry members currently paying 12% (8% + 4%), taking on another 4% would leave them paying a 16% contribution rate. The biggest concern of the task force in making its recommendation is the impact a higher contribution rate may have on the re-entry members.

Mr. Slack suggested that the Board consider proposing legislation that would give the Board authority to make a downward adjustment of the additional contribution rate, if warranted based on the actuarial data. The downside to proposing legislation is that it would necessarily delay a member election and the effective date of any contribution increase that may be approved by the members and employers.

Mr. Slack suggested that Mr. Lindahl draft some appropriate language for the Board to consider at the August meeting. This legislation would only be an additional tool, and not bind the Board to take any action; it would give the Board authority to lower the additional contribution rate.

Other potential legislation

Mr. Lindahl recommended that the board consider proposing legislation that would protect FPPA from liability for paying any benefits for which contributions were not properly made.

Mr. Lindahl also discussed the pros and cons of potential legislation that would allow a newly affiliating department to choose to participate directly in the Statewide Money Purchase Plan, rather than first participating in the Statewide Defined Benefit Plan. This legislation would simplify and streamline a process that is already allowed. However, this could undermine support for the defined benefit program.

Mr. Lindahl will draft legislation for these matters and bring them to the Board at the August meeting.

At 10:35 a.m., Vice Chair Stanton left the meeting.

Mr. Lindahl continued with a presentation to the Board on proposed rule-making and plan

amendments. These rules and plan amendments are proposed pursuant to the Board's authority under CRS § 31-31-202(1)(j), as amended, CRS §§ 31-31-204(2.5), 31-31-502(5), and 31-31-815, the FPPA Rules & Regulations, the Statewide Hybrid Plan Document, the Statewide Money Purchase Plan Document and the Colorado Springs New Hire Pension Plan Documents for the Police Component and the Fire Component.

FPPA is not publishing this notice in a newspaper; it will be published on FPPA's website.

Chair Miller moved to approve the publication of the notice of rule-making and plan amendment. Tim Nash seconded the motion. The motion passed.

Staff Report

CEO Report

Mr. Slack reported that Moody's, a rating agency, has issued a request for comments on a proposal to revise how it makes adjustments to state and local pension data for purposes of issuing credit ratings for states and municipalities. The four principal adjustments that are proposed by Moody's are to:

1. Take a multiple employer cost-sharing plan (like the SWDB Plan) and allocate liabilities to the specific government employers based upon their total share of plan contributions. Hence, the liabilities would be attributed to the employer's financial statements.
2. Take accrued actuarial liabilities and adjust them based on a high grade-corporate bond index discount rate. This would essentially lower the discount rate for determining what the liabilities of states and municipalities would be.
3. Remove asset smoothing from their analysis and just do market or fair value as of the actuarial reporting date.
4. Suggest that the annual pension contributions that municipalities should be making would be adjusted to reflect these foregoing changes as well as using a shorter amortization period.

The release statement continued with "while we do not expect any state ratings to change based on these adjustments alone, we will take rating actions for those local governments whose adjusted liabilities are outsized relative to their rating categories".

Request for comments on this are due by August 31, 2012. Mr. Slack will prepare a draft letter for the Board to consider at the August Board meeting.

Mr. Slack noted the summarized evaluation report from the strategic planning session, which had overall positive results.

An action item out of the strategic planning session in June was to better manage short term risk in our portfolio in the investment of assets and in the valuation of assets. With respect to the valuation of assets, this would be accomplished by moving from an actuarial policy of recognizing one-third to recognizing one-fifth of the difference between the projected actuarial value of assets and the market value of assets as of the valuation date. This reduces the volatility of a single point in time valuation and provides a more appropriate longer term view of the valuation of assets. Mr. Blumenthal moved to approve the asset valuation method proposed by Gabriel Roeder Smith & Company. Todd Bower seconded the motion. The motion passed.

Kim Collins presented the following items to the Board, based on recent actuarial valuations.

1. Mr. Bower moved to change the Colorado Springs New Hire Pension Plan for Police Component annual required contribution to \$10,605,836, effective January 1, 2013. Of this amount, the members of the plan will contribute 8.0% of base salary and the employer will remit the remainder. The motion was seconded by Mr. Blumenthal. Motion passed.
2. Mr. Blumenthal moved to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Police Component at 0%, effective January 1, 2013, through December 31, 2013. The motion was seconded by Mr. Bower. Motion passed.
3. Ms. Feely moved to set the Colorado Springs New Hire Pension Plan for Fire Component contribution amount at \$4,685,823, effective January 1, 2013. Of this amount, the members of the plan will contribute 10% of base salary and the employer will remit the remainder. The motion was seconded by Mr. Bower. Motion passed.
4. Ms. Feely moved to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Fire Component at 0%, effective January 1, 2013, through December 31, 2013. The motion was seconded by Ms. Eaton. Motion passed.

Legal Report and Legislative Update

Kevin Lindahl gave a litigation update to the board. FPPA currently has one open case, brought by Mr. Glenn Guyman.

An open records act request from the Independence Institute has asked for the names and monthly pension benefit amounts for all the members in the old hire plans. Staff disclosed the information required by law. In conversation with the Independence Institute Mr. Lindahl learned that the organization has requested similar information from the state and is trying to identify individuals who may be receiving a pension from an old hire plan and working for state government.

Chairman's Report

Chair Miller conducted the process for the nomination of a new Vice Chair. Under the Board's Governance Manual, effective September 1, 2012, Vice Chair Cliff Stanton will replace Kirk Miller as Chair. At the August meeting Vice Chair Stanton will make Committee appointments (Investment Risk and Audit Committees).

Mr. Hesalroad nominated Sue Eaton as Vice Chair, effective September 1, 2012. Mr. Blumenthal seconded the nomination. The nomination passed unanimously.

At 11:05 a.m., Chair Miller called for a break.

At 11:15 a.m., the meeting reconvened with the Dolan hearing.

Hearing Officer Recommendation re William Dolan

At 11:15 a.m., Chair Miller called for a Review of the Hearing Officer Recommendation regarding William Dolan.

Mr. Dahl advised the Board that as Kevin Lindahl and Gina McGrail were witnesses at the evidentiary hearing before Officer Kanan, they may not supplement that testimony here and Board members should not direct any questions to either of them.

Gerald Dahl disclosed that both he and Mr. Seserman were attorneys at the Gorsuch Kirgis, LLC law firm from 1990-2005. No objections to Mr. Dahl's representation were made by Mr. Seserman or Mr. Sutherland.

Mr. Dahl inquired if any Board or staff members present had a personal relationship with Mr. Dolan or any witnesses of the hearing that would interfere with their ability to render an impartial decision on this matter. All present answered "no". Mr. Ley presented key points of his argument with the aid of a slide show. Mike Sutherland then presented the staff response. Mr. Ley then made a rebuttal argument to the Board.

Mr. Dahl asked Jack Blumenthal, as he had been absent from the room when the question was asked of the other Board members present, if he had a personal relationship with Mr. Dolan or any witnesses of the hearing that would interfere with his ability to render an impartial decision on this matter. Mr. Blumenthal replied "no".

At 12:00 p.m., Chair Miller announced the conclusion of the argument portion of the hearing.

Lyle Hesalroad moved that the Board of Directors affirm the written Corrected Findings, Conclusions, and Recommendation of Hearing Officer Thomas Kanan dated March 9, 2012, with respect to the FPPA's request for review of Member William P. Dolan's permanent occupational disability benefits and that the Board enter an order affirming the Hearing Officer's recommendation that: (1) the Member be disqualified from receiving permanent

occupational disability benefits as of May 10, 2010, (2) the Member be required to repay the overpayment of permanent occupational disability benefits he received after May 10, 2010, and (3) that the Member be found to not have fraudulently obtained benefits and therefore not be required to repay benefits received prior to May 10, 2010, based upon the Board's review of the entire record in the case, including the Hearing Officer's Corrected Findings, Conclusions and Recommendation, the written objections thereto filed by counsel on behalf of the Member, the Response thereto filed by counsel on behalf of FPPA, and the argument at the Board's July 26, 2012 hearing.

Sue Eaton seconded the motion. Chair Miller opened the hearing up for discussion.

After discussion, Chair Miller asked for a roll call vote on the motion. Votes were:

Lyle Hesalroad - aye
Sue Eaton - aye
Pam Feely - aye
Tim Nash - aye
Jack Blumenthal - aye
Chair Kirk Miller - no

Motion passed.

At 12:22 p.m., Lyle Hesalroad moved to adjourn the meeting. Sue Eaton seconded the motion and the motion passed. The meeting adjourned.