

**FIRE and POLICE PENSION ASSOCIATION**

Board of Directors

August 29, 2013

7:30 a.m.

**Call to order**

*Cliff Stanton*

Approval of July 25 board meeting minutes

**Consent Calendar**

1) Approval to disburse idle funds for the Firestone Old Hire Police Pension Plan

*Kim Collins*

2) Silverton-San Juan Fire and Rescue Authority Affiliation

*Gina McGrail*

7:40 a.m.

**Investment Report**

Review of July 2013 performance

Review of Managers

*Scott Simon*

Alternative approaches to asset management

*Dan Slack*

8:10 a.m.

Overlay Services Recommendation

*Scott Simon*

*Greg Nordquist - Director, Overlay Services, Russell Investments*

*Karl Sahlin, Senior Portfolio Manager, Russell Investments*

9:10 a.m.

**Break**

9:25 a.m.

**Proposed 2013 legislation**

*Kevin Lindahl*

10:00 a.m.

**Staff Report**

CEO Report

*Dan Slack*

Legal Report

*Kevin Lindahl*

Open Meetings Law

*Kevin Lindahl*

Review/renewal of Lombard & Clayton contract

*Kevin Lindahl*

2Q Strategic Plan Update

*Dan Slack*

Board Resolutions:

1) Member Contribution Task Force Recommendation

2) Authority of Chief Executive Officer

3) Lois Tochtrop

*Kevin Lindahl*

Other matters

**FIRE and POLICE PENSION ASSOCIATION**

Board of Directors

August 29, 2013

11:15 a.m. **Break**

11:30 a.m. **Chairman's Report**

*Cliff Stanton*

Election of Vice Chair

Appointment of Committees for upcoming year

*Sue Eaton*

Governance Manual review

12:00 p.m. **Lunch**

12:30 p.m. **What Could Possibly Go Wrong?**

*Dan Slack*

1:00 p.m. **Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
August 29, 2013**

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

**Board Members Present:** Chair Cliff Stanton, Vice Chair Sue Eaton, Todd Bower, Lyle Hesalroad, Dave Bomberger, Tyson Worrell, Manuel Esquibel, Jack Blumenthal and Pam Feely (via teleconference)

**Staff Members Present:** Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Elaine Gorton, Jacqueline Tara, Austin Cooley, Sean Ross, Jessica Hsu, Ben Bronson, Claud Cloete and Dale Martin

**Others Present:** John Linder, Pension Consulting Alliance; Greg Nordquist, Karl Sahlin and Mr. Cauble, Russell Investments

*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 7:33 a.m., Chair Stanton called the meeting to order.

Chair Stanton called for a motion to approve the minutes of the July 25, 2013, board meeting. Mr. Hesalroad moved to approve the minutes. Mr. Bower seconded the motion. The motion carried with Chair Stanton and Mr. Worrell abstaining.

Chair Stanton called for a motion to approve the minutes of the July 25, 2013, executive session meeting. Mr. Bower moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried with Chair Stanton and Mr. Worrell abstaining.

**Consent Calendar**

Chair Stanton called for a motion to approve the Consent calendar. Mr. Bower moved to approve the calendar. Ms. Hesalroad seconded the motion. The motion carried.

**Investment Report**

Mr. Simon congratulated Ben Bronson for passing his Level III CFA (Chartered Financial Analyst) exam. This high accreditation is a globally recognized standard for measuring the competence and integrity of financial analysts. Scott Simon, Sean Ross and Ben Bronson now all have CFA designations.

Mr. Simon continued with the economic recap and financial performance for July 2013. The market continues to focus on what the Federal Reserve is communicating in regards to monetary policy and possible pulling back of the Quantitative Easing currently in place. The market took a downturn in reaction to the potential tapering of the Federal Reserve monetary policy in June and interest rates rose quickly. July experienced a strong rebound in the markets with Total Fund performance (net of fees) of **+2.06% (7.14% YTD)**. Net Investible Assets for the Total Fund are estimated at **\$3.74 billion** as of July 31.

### Risk Exposures

The investment allocation of the Total Fund is shown relative to the interim policy targets of the asset allocation policy. The degree of the fixed income underweight is largely offset by the overweight to cash. The Absolute Return portfolio is now much closer to target given the recent funding of the AQR strategies in July.

### Investment Managers

- AQR's emerging markets fund underperformance is due to both geographic/sector exposures and security level factor exposures.
- U.S. Bancorp is buying the municipal bond trustee business of Deutsche Bank and should not have an effect on the securities lending unit which FPPA utilizes.

### Alternative Investments

Alternatives cash flows remain robust for 2013. YTD distributions of \$87.3 million have exceeded capital calls of \$58.9 million.

### IRC Update

The IRC meet twice during the month of July and concurred to:

- Proceed with the private equity secondary transaction which includes the use of the deferred payment structure.
- Utilize basic overlay services such as cash overlay and passive investment policy implementation (i.e. rebalancing).
- A full redemption of Cadian Fund LP, a long/short equity manager.
- Hedge Fund rebalancing recommendation of adding \$10 million to Tessera Fund (RK Capital).

Mr. Simon noted the inclusion of the 2012 *Illiquid Alternative Investments Annual Financial Statement Review* in the board packet that will be presented to the Audit committee in October.

## Alternative Approaches to Asset Management

Mr. Slack referenced an article from the New York Times entitled *Alternative approaches to asset management*. How can FPPA get the exposure that has been determined appropriate and approved by the Board and what are we paying to get the exposure? Whether smart beta exists or not, are there better and less expensive ways to get that same exposure? While some larger funds are banding together and eliminating Wall Street as the intermediary, this may not be achievable for an institutional investor the size of FPPA. What are low cost alternatives to achieve the same goals that FPPA has? Mr. Slack suggested further exploration of this issue and then following up with the Board on what the diligence reveals.

Concerned with bringing costs down and still achieving our goals, Mr. Blumenthal proposed the possibility of partnering with other (larger) pension funds in a more formal cost sharing collaboration. Mr. Simon emphasized the collaboration efforts the Investment team undertakes on a regular basis with other industry participants. Mr. Linder cautioned that success of the collaboration will fall primarily on FPPA's goals being in line with the other organization. He also suggested considering FPPA's efforts might be better spent focusing on getting better deals as opposed to reducing costs on deals that are able to be done. Mr. Bomberger commented that while insourcing can make economic sense, it can also introduce a lot of human resource management challenges.

Mr. Simon offered two broad options of reducing costs in certain areas and will have staff gather more knowledge on what the economics might look like:

- Internal management of cash, index money, currently being outsourced.
- In private equity, start to migrate into co-investments and take on the exposure that private equity funds would have anyways, only with no fees and no carry basis.

## **Overlay Services Recommendation**

Mr. Simon introduced staff's recommendation to engage Russell Investments for an overlay services mandate. Overlay services are tools for institutional investors to manage total fund exposures and risks by overlaying actual exposure with derivatives, i.e., futures, swap agreements, etc. While FPPA currently utilizes State Street Global Markets (SSgM) for overlay services on an ad hoc basis, the complexities of managing total fund risks and exposures have evolved where FPPA needs a more robust process on a daily basis. Primary goals of the overlay services are moving to tighter cash management around the programs and active rebalancing of FPPA's portfolio.

Factors supporting the recommendation for Russell Investments included their dedicated risk management and compliance resources and their support by a firm wide Global Risk Management (GRM) division.

At 8:35 a.m., Mr. Martin, Mr. Ross and Mr. Cloete left the meeting. Mr. Nordquist, Mr. Sahlin and Mr. Cauble (Russell Investments) entered the meeting.

Mr. Nordquist and Mr. Sahlin gave an overview of Russell's trading platform and services included, along with the overall benefits offered:

- Return Enhancement
  - Cash overlay/liquidity management
  - Avoidance of trading costs
  - Ability to be tactical and make reactions to market opportunities
- Risk Reduction
  - Passive rebalancing risk reduction
  - Use the overlay and asset allocation shifts
- New Return Sources/Diversification
  - Cut past the commodities exposure
  - Volatility management

Mr. Slack inquired about a recent headline referencing the potential cost impact to institutional investors from recent regulatory changes on derivatives trading. Mr. Nordquist noted that as Russell's program is primarily futures based, they don't anticipate a huge impact. Answering Mr. Linder's question on indemnification, Mr. Nordquist stated that Russell Investments is insured, although a claim has never been made to the insurer. In a few instances where there have been errors, those have been reconciled and the clients made whole.

At 9:18 a.m., Mr. Nordquist, Mr. Sahlin and Mr. Cauble left the meeting.

Mr. Bower moved to engage Russell Investments for an overlay services mandate. Mr. Hesalroad seconded the motion. The motion passed.

At 9:15 a.m., Chair Stanton called for a break. Austin Cooley, Ben Bronson and Jessica Hsu left the meeting.

At 9:35 a.m., the meeting reconvened.

### **Proposed 2013 Legislation**

Mr. Lindahl presented the proposed bills for 2014 legislation and led discussion of the Volunteer Firefighter Plans:

- Omit language in the statute relating to state assistance funds as the state's committed dollars to the Old Hire plans have been received in full.
- Pueblo Fire Plan and North Washington Fire Plan have not yet reached full funding and are required to contribute a level dollar amount based on the 1994 actuarial evaluation. The actuarial contribution that would be made is much higher than what the level dollar contribution is. The proposed legislation is to eliminate level-dollar funding in 2015

and move the plans that have not yet reached full funding into an ARC (Actuarial Required Contribution) rate, which would be higher than the current level-dollar contribution.

- o Clarify the responsibilities and costs for FPPA and the employer for affiliated plans affected by the upcoming requirements changes under Government Accounting Standards Board Statements (GASB) 67 and 68.
- o Update of language allowing for annuitization of plans that have a cost-of-living adjustment (COLA) built into them or for plans that don't have a COLA built in.

Current statute requires plans to grant a 3% permanent COLA before they can annuitize. Propose elimination of the COLA requirement as part of the statute.

As FPPA is a delegated fiduciary (not a primary fiduciary) we do not have a fiduciary responsibility or direct obligation to the beneficiaries of the Old Hire Plans. Ms. Collins noted that "if there are no assets, FPPA can't pay", as there are Old Hire Plans that choose not to pre-fund and proceed on a "pay as you go" basis. There is concern about a lack of awareness of the beneficiaries in some of the Old Hire Plans that are funded lower than the Statewide plans. Ms. Collins explained that the expanded reporting required under GASB 67 will assist with the needed transparency.

Mr. Lindahl continued with an explanation of the legislative process and how FPPA relates to it. The Firefighters and Police Officer's Pension Reform Commission (PRC), formed in the late 1970s, is composed of legislators from both the House and the Senate. The PRC created FPPA and all the statutes and revisions that relate to FPPA, and is responsible for legislative oversight of FPPA.

FPPA brings proposed legislation each year to the PRC. Once adopted, legislative sponsors are typically members of the PRC. The bills then go into the regular legislative process in January. These bills are presented as recommendations from the PRC and don't count against the limits of bills that individual members have.

Based on an actuarial study, in 1994 "level-dollar" funding was written into the statute stating how much each employer receiving state assistance had to contribute to the plan. In some cases, benefit increases have in excess than what the actuaries assumed it to be when the studies were undertaken. Thus, the cost of these plans has been in excess of projections.

Although the Pueblo Fire and North Washington Fire plans are meeting their statutory requirements, their contribution amount is not sufficient to bring them to fully funded status. Every year FPPA informs these plans of their actuarially required contribution, however.

The Board asked staff to review who has fiduciary responsibility related to any underfunded plans and to consider any steps that should be taken by FPPA.

Mr. Bower moved to approve the proposed legislation for the Old Hire Plans. Mr.

Blumenthal seconded the motion. The motion passed.

Mr. Hesalroad moved to approve the staff's recommendation that FPPA bring concerns relating to the Volunteer Firefighter Plans to the attention of the PRC, with a recommendation to study these issues and any others that are raised in the process. Mr. Bomberger seconded the motion. The motion passed.

## **Staff Report**

### *CEO Report*

Mr. Slack shared the focus and contents from the recent World Pension Forum *Risk Summit*. A very diverse gathering of trustees, staff, consultants, investment managers and others heard a challenge for more rigorous thinking about the issues faced administrating pension funds. One presentation suggested the use of optionality (options) to value the pension promises made to members and the cost to employers. The presenters suggested that this rigor would help more definitively answer the question whether a particular plan structure is good for the plan participant, employer, etc. Directly on point with FPPA's upcoming member election, it was reinforced that there is no substitute for adequate contributions into retirement plans.

Discussions also included the importance of appropriate and proper governance. One argument was in favor of a structure similar to that of FPPA, one that governs but does not operate, sets policy and holds the staff accountable for policy implementation and relies on professional staff to get the work done. Others felt it was appropriate for Boards to be more active and engaged on many levels.

Mr. Slack opened up discussion on ways to improve communication of upcoming opportunities and further education for board members. Among matters discussed were:

- Continuing education is necessary to keep up with the constant change
- Find the area of education most beneficial to individual
- Have commitment and responsibility
- In-house speaker/presentations
- Value different perspectives and existing commitments and work schedules
- Understand own strengths and weaknesses – individually responsible to approach CEO

### *Legal Report and Legislative Update*

Mr. Lindahl updated the Board on FPPA's legal matters. The Guyman case is settled and dismissed. A motion for summary judgment is pending on the Dolan case. A ruling from the judge is expected within the next 30 days. A ruling in the Countrywide derivative litigation case is expected by October 1<sup>st</sup>. Oral arguments are scheduled for September 18<sup>th</sup> in the Abiomed securities litigation case.

Other projects currently underway for the legal team include legislation for the upcoming PRC meeting and contract work for the Investment Department.

### Open Meetings Law

Mr. Lindahl discussed the Colorado Open Meeting laws found in Title 24, Article 6, Part 4 of the Colorado Revised Statutes (the Open Meetings Law) with regard to the requirements on the Fire and Police Pension Association. FPPA, as a political subdivision of the state, is considered to be a "local public body". Any committee which is formally constituted by the Board and to which a decision-making function has been delegated is a "local public body" and is therefore subject to the Open Meetings Law, in its own right. The recommended best practice regarding the Investment Risk Committee would be for it to meet after posting notices of meetings and hold meetings in open session. The IRC meeting would break into Executive Session as appropriate for confidential investment matters.

### Review/renewal of Lombard & Clayton contract

Mr. Bower moved to extend the lobbyist contract with Lombard & Clayton for one year. Mr. Bomberger seconded the motion. The motion passed.

### 2Q Strategic Plan Update

Mr. Slack and the Executive Team discussed additions/changes to the 2Q Strategic Plan Update.

#### Investments:

- Expansion of risk-based management and hiring of exposure manager
- Q4 defining and restructuring of Risk Reducer class

#### Benefits:

- Implementing communications plan developed for the SWDB Member Contribution Rate election
- Working on contract with third party vendor (VR Election) to conduct the election
- Developed a Mindmixer forum for soft roll-out August 19<sup>th</sup>
- Completing presentation for upcoming Employer's Seminar

#### Operations:

- Completed backup recovery objective to reduce the recovery point objective to one hour and implemented the direct backup to a co-location site.
- Installed new enterprise content management (ECM) system that went live in June.

Completed the conversion of the obsolete imaging system. Currently working to expand functionality in the new ECM system.

- Working with the State Controller's Office on the special funding requirements within the Government Accounting Standards Board

Statement 68 related to volunteer fire pensions.

#### Legal

- Follow up to Legislation passed in 2012 with rules to plan simplification and administration of different plans more consistent and similar
- Completing the goal to develop a model of Old Hire Plan and obtain IRS approval
- Starting the process of contacting each department that FPPA will file on their behalf for a determination letter during IRS Cycle C filings
- Upon Ice Miller's recommendation, we will submit our new rules allowing choice as part of Cycle C determination letter filing and wait for receipt of our determination before allowing the second choice election to occur

#### CEO

- Working with Human Resources Officer, Elaine Gorton, in providing formal training for middle level managers
- Creating a database of various educational levels and certifications that FPPA employees have, to help identify potential candidates to move up in the ranks of the organization
- Consolidation of FPPA's Human Resources systems
- Continued efforts in getting the message out about the GASB 67 and 68 compliance

#### Board Resolutions

Mr. Lindahl reviewed the Member Contribution Task Force Recommendation, Resolution 2013-2, that FPPA does hereby endorse a member contribution increase at the rate of 4% of salary, to be implemented incrementally over eight years. Mr. Bomberger moved to approve Resolution 2013-2. Ms. Blumenthal seconded the motion. The motion passed.

He then discussed Resolution 2013-3, resolving that Chief Investment Officer (Scott Simon) and General Counsel (Kevin Lindahl) be empowered to take any action authorized herein of the Chief Executive Officer in his absence. This resolution was last passed a year ago and is just a procedure to keep the file current. Mr. Hesalroad moved to approve Resolution 2013-3. Ms. Bomberger seconded the motion. The motion passed.

Mr. Lindahl presented the Resolution recognizing Senator Lois Tochtrop for her contribution she has made in supporting our legislation in the House and the Senate. Mr. Bower moved to approve the Resolution for Lois Tochtrop. Mr. Hesalroad seconded the motion. The motion passed.

At 11.47 a.m., Chair Stanton called for a break.

At 12:00 p.m., the meeting reconvened. Ms. Feely joined via telecom.

## **Chairman's Report**

Chair Stanton called for discussion of committee appointments and the appointment of a new Vice Chair.

Mr. Hesalroad moved to appoint Mr. Bower as Vice Chair, effective September 1, 2013, until August 31, 2014. Mr. Blumenthal seconded the motion. The motion passed.

### Governance Manual review

Mr. Slack discussed the redlined Governance Manual. Current practice calls for the manual to be reviewed annually. However, since we have begun to use Diligent Boardbooks, he is redesigning the Resource Center to be the "Governance Manual".

In-line with the required annual review, Mr. Slack discussed FPPA's Governance Manual and its new location in Diligent Boardbooks under the Resources tab. He also discussed subsequent changes to the manual, as provided in the Board packet for approval.

Mr. Blumenthal commented that he felt that it would be a best practice to the Board to go into executive session twice a year in the absence of any FPPA staff. This would provide a private forum in which board members could openly discuss any concerns or issues surrounding to FPPA, staff, management, etc. Mr. Lindahl stated that a recording of each board executive session is required along with a summary of the minutes of the session by a designated person from the board Chair. The minutes and recording can then be sealed and held for the appropriate period of time.

Mr. Esquibel suggested that a policy be developed regarding attendance by phone.

Mr. Bower moved to approve the Governance Manual changes as presented. Vice Chair Eaton seconded the motion. The motion passed.

Incoming Chair Eaton announced committee appointments:

Mr. Blumenthal, Mr. Hesalroad and Ms. Feely were appointed as members of the Audit Committee.

Mr. Bower, Mr. Bomberger and Mr. Stanton were appointed to the Investment Risk Committee.

Mr. Esquibel and Vice Chair Eaton were appointed to the Budget Committee.

On behalf of the Board members, Mr. Bower thanked Chair Stanton for his participation over the last year.

What Could Possibly Go Wrong?

Originally scheduled to be presented at this year's June Educational meeting, Mr. Slack reviewed some risks surrounding FPPA as brainstormed by the Executive Team and middle management. The risk presentation will be prioritized and placed into a working list and presented to the Board for future discussion. It was discussed that creating a Risk Committee at this stage would be premature.

At 12:45 p.m., Vice Chair Eaton left the meeting.

At 1:15 p.m., Chair Stanton moved to adjourn the Board meeting. Mr. Bower seconded the motion. The motion passed.