

FIRE and POLICE PENSION ASSOCIATION

Board of Directors

December 12, 2013

- 9:30 a.m. **Call to order**
Sue Eaton
- Approval of October 31, 2013 board meeting minutes
Approval of November 28, 2013 educational session minutes
- 9:45 a.m. **Investment Report**
Scott Simon
Review of October 2013 performance
Review of Managers
- 10:45 a.m. **Portfolio & Capital Markets Review - Q3**
John Linder, Pension Consulting Alliance
- 11:15 a.m. **Break (buffet lunch)**
- 11:45 a.m. **Illiquid Alternatives Portfolio Review**
Dale Martin, Claud Cloete, Sean Ross
- 12:45 p.m. **Prudential Real Estate**
Frank Garcia and Lester Lockwood, PREI
- 1:45 p.m. **Break**
- 2:00 p.m. **2014 Budget approval**
Dan Slack and Kim Collins
- 2:15 p.m. **Approval of "Board hire" contracts**
1. Internal Auditor
2. Medical Advisor
3. Hearing Officers
- 2:30 p.m. **Staff Report**
CEO Report
Dan Slack
Legal Report
Kevin Lindahl
CliftonLarsonAllen Proposals
Kim Collins
Other matters
- 3:00 p.m. **Chair's Report**
Sue Eaton
- 3:15 p.m. **Adjourn**
- 4:00 p.m. *Holiday Reception*

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
December 12, 2013**

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

Board Members Present: Chair Sue Eaton, Vice Chair Todd Bower, Jack Blumenthal, Dave Bomberger, Manuel Esquibel, Pam Feely, Nick Nuanes, and Tyson Worrell

Board Member Absent: Cliff Stanton

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

Others Present: John Linder, Pension Consulting Alliance; Lester Lockwood and Frank Garcia, Prudential Real Estate Investors; Martin Johnson, Harveston Securities; and Michael Sheldon, FPPA building tenant

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 9:31 a.m., Chair Eaton called the meeting to order.

Chair Eaton acknowledged guests Michael Sheldon, current tenant in the FPPA building and Martin Johnson, Harveston Securities. Mr. Sheldon shared his current lease situation with the Board.

At 9:38 a.m., Mr. Sheldon left the meeting. Mr. Bomberger moved that the Board go into executive session to seek legal advice from FPPA's Legal Counsel as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes regarding Mr. Sheldon's lease. Mr. Nuanes seconded the motion. The motion passed unanimously. Mr. Johnson was excused from the meeting.

At 9:53 a.m., the executive session ended and the Board returned to its regular meeting. No formal action was taken during the executive session.

At 9:55 a.m., Mr. Johnson rejoined the meeting.

Chair Eaton called for a motion to approve the minutes of the October 31, 2013, board meeting. Mr. Blumenthal moved to approve the minutes. Mr. Bower seconded

the motion. The motion carried with Dave Bomberger abstaining.

Chair Eaton called for a motion to approve the minutes of the November 28, 2013, educational session. Mr. Nuanes moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried.

Investment Report

Mr. Simon presented the economic recap and financial performance for October 2013. With the avoidance of the government debt default, markets climbed higher in October. Led by U.S. equities, large cap stocks have exceeded 25% returns and small cap stocks have exceeded 30% returns this year. November was also a very strong month for equity markets. Total Fund performance (net of fees) was **+2.10% (+11.88% YTD)** and Net Investible Assets for the Total Fund are estimated at **\$3.89 billion** as of October 31.

Risk Exposures

Mr. Simon discussed the current asset allocation. The degree of fixed-income underweight should reflect correctly once the near term restructuring of the fixed income portfolio and the implementation of the managed futures portfolio is completed.

Alternative Investments

Alternative cash flows remain strong for 2013. Total net YTD is **+\$44.8 million**, despite being in the midst of FPPA's secondary sale completion.

Investment Managers

Portfolio manager Chris Dialynas will be taking a sabbatical from PIMCO starting Q2 2014. Mr. Cooley anticipates meeting the new portfolio manager in early January and will keep the Board updated.

Staff recommends termination of C.S. McKee, one of FPPA's fixed income managers. Mr. Bomberger moved that FPPA terminate its investment management agreement with C.S. McKee and liquidate their core fixed income portfolio. Mr. Nuanes seconded the motion. The motion passed.

Staff recommends termination of the relationship with GAM International Management ("GAM"). Mr. Blumenthal moved that FPPA terminate its relationship with GAM, FPPA's discretionary advisor to its global macro allocation within the Absolute Return portfolio. Mr. Nuanes seconded the motion. The motion passed.

IRC Update

The IRC met four times this month and recommended:

- A \$15.0 million commitment to Technology Crossover Ventures VIII, a private equity fund
- A \$20.0 million allocation to Trient Global Macro Partners, LP, a discretionary global macro hedge fund
- Recommendation of a temporary increase in the fixed income target from 10% to 15% until the managed futures implementation can be completed.

Mr. Cooley highlighted the purpose and the diligence process of Managed Futures allocation.

Master Investment Policy Statement (IPS)

Mr. Simon discussed the draft material changes to the IPS. With final changes forthcoming, staff won't seek approval by the Board until the January meeting.

The Board discussed the responsibilities of the Investment Risk Committee (IRC). Board members of the IRC will bring recommendations regarding the IRC composition and responsibilities to the Board at the January meeting.

At 11:20 a.m., Mr. Bomberger left the meeting.

Mr. Bower moved to approve the recommendation granting staff the authority to sell individual securities, limited to \$10 million, which do not have manager oversight. Ms. Feely seconded the motion. The motion passed.

At 11:25 a.m., Chair Eaton called for a break. Mr. Kaszubowski and Ms. Hsu left the meeting.

At 11:47 a.m., the meeting reconvened.

Mr. Linder highlighted the risk budgeting framework and the implications of the proposed changes to FPPA's IPS as outlined by Mr. Simon.

At 12:25 p.m., Mr. Cooley and Mr. Bronson left the meeting. Mr. Lockwood and Mr. Garcia, PREI, entered the meeting.

Prudential Real Estate (PREI)

Mr. Lockwood and Mr. Garcia presented FPPA with a plaque of appreciation marking 30 years of a business relationship. Mr. Garcia discussed PREI's perspective on the current real estate markets, risk levels, and where FPPA stands with PREI.

At 1:07 p.m., Chair Eaton called for a break. Mr. Lockwood, Mr. Garcia and Mr. Johnson left the meeting.

At 1:18 p.m., the meeting reconvened. Mr. Kaszubowski joined the meeting.

Portfolio and Capital Market Review

Mr. Linder reviewed FPPA's third quarter portfolio and capital market review. The value of FPPA's plan as of September 30th 2013 was \$3.8 billion, a quarterly increase of \$150.9 million, and a \$483.0 million increase year over year. The Total Fund underperformed its policy benchmark over the most recent quarter, 1-, 3-, and 5-year periods, net of fees. Underperformance over the 5-year period is attributable primarily to prior underperformance of the Global Growth class.

Mr. Linder continued with highlights of the Risk Metrics report. The U.S. equity market valuations are in top decile territory. Private real estate is touching on top decile valuations and is susceptible to rises in interest rates. Although not quite to the levels experienced prior to 2008, risk spreads are increasing and will be continued to be watched.

Messrs. Martin, Cloete, and Ross joined the meeting.

Illiquid Strategies Annual Review

Mr. Martin's review of the 2013 Illiquid Strategies Annual Review and Secondary Sale update included:

- Class Objective
- Alternative Growth Investments (AGI)
- Detailed Guidelines
- Allocation Study, Targets and Pacing Ranges

The presentation continued with the Manager Performance Summary covering key metrics, net investment, net IRR, and average age of the portfolio to date.

At 1:42 p.m., Mr. Bomberger re-joined the meeting.

At 2:17 p.m., Messrs. Martin, Cloete, Ross, Kaszubowski, and Linder left the meeting.

2014 Budget Approval

Ms. Collins reviewed the changes made to the proposed 2014 budget as discussed at the October Board meeting.

Mr. Bower moved to accept the proposed 2014 Budget. Mr. Bomberger seconded the motion. The motion passed.

Approval of Board Hire Contracts

Mr. Bomberger moved to approve the contract for FPPA's Internal Auditor. Mr. Bower seconded the motion. The motion passed.

Mr. Bower moved to approve the contract for FPPA's Medical Advisor. Mr. Bomberger seconded the motion. The motion passed.

Mr. Bomberger moved to approve the contract for FPPA's Hearing Officers. Mr. Bower seconded the motion. The motion passed.

Staff Report

CEO Report

Mr. Slack shared feedback from the Pueblo and Colorado Springs Regional meetings and the Denver Police Protective Association meeting, where both he and Ms. McGrail presented to Statewide Defined Benefit Plan members.

The annual memo to FPPA staff regarding access to auditors has been posted.

The Board approved Mr. Slack's invitation to speak at a forum in Lima, Peru. The Board also agreed to move the Board meeting date of March 20th to March 21st, with a start time of 9:30 a.m.

At 2:32 p.m., Mr. Sutherland joined the meeting.

Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters. With the Old Hire funding from the State now completed, FPPA drafted legislation to change the employer funding requirement for all plans to the actuarially required contribution rate. This change would directly impact Pueblo and North Washington. North Washington has agreed to increase their contributions, while Pueblo remains concerned about submitting the larger contribution.

As administrator for the plan FPPA has a delegated fiduciary duty to invest the funds, administer the benefits, and provide actuarial services to the plan. FPPA's primary concern is that the cities and the beneficiaries of the plans understand the impacts of the city paying less than the actuarially required contribution rate.

At 2:50 p.m., Mr. Esquibel left the meeting.

Staff has compiled 52 applications along with 52 individual checks to turn into the IRS for project Cycle C, for IRS compliance on the Old Hire Plans.

Mr. Sutherland gave a status report on the Dolan matter. In February 2013 the court affirmed FPPA's decision to terminate Mr. Dolan's benefit. In August 2013 a second claim, for equitable estoppel, was dismissed. The remaining claim involves a promissory estoppel claim which is based on an alleged "promise" by FPPA that Mr. Dolan would have a lifetime benefit. That claim extends to FPPA as well as to Mr. Lindahl and Ms. McGrail. The other two remaining claims are individually against Mr. Lindahl and Ms. McGrail and are for negligent representation and false representation. Discovery dates for these claims are yet to be set. Mr. Dolan has also subpoenaed Mr. Lindahl, Ms. McGrail and Mr.

Sutherland to testify in a trial against the former attorney for the Elk Creek Fire Protection District on a malpractice claim occurring in January.

At 3:05 p.m., Mr. Bower moved that the Board go into executive session to seek legal advice from FPPA's Legal Counsel as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes regarding the Dolan case. Mr. Worrell seconded the motion. The motion passed. Mr. Linder was excused from the meeting.

At 3:10 p.m., the executive session ended and the Board returned to the regular meeting. No formal action was taken during the executive session.

Mr. Bower moved that the Board approve Mr. Lindahl's letter in opposition to legislative and corporate action regarding forced arbitration. Mr. Bomberger seconded the motion. The motion passed.

CLA Process

Mr. Slack and Ms. Collins discussed the two proposals from FPPA's current external auditors, CliftonLarsonAllen (CLA). The American Institute of Certified Public Accountants is recommending that under Government Accounting Standard's Board (GASB) Statements 67 & 68 a SOC 1 Type 2 audit be conducted for Agent Multiple Plans.

Mr. Blumenthal and Ms. Feely relayed that the Audit Committee was content with CLA's performance and in order to avoid competitive bidding, the Audit committee had agreed to extend CLA's contract and assign them the SOC 1 audit, so long as their realization rate paralleled past pricing.

Mr. Blumenthal moved to accept the financial audit proposal of CLA as provided and authorize Mr. Slack to negotiate with CLA regarding the SOC 1 audit. Mr. Bower seconded the motion. The motion passed.

Ms. Collins announced that FPPA's actuary, Gabriel, Roeder, Smith & Co (GRS), is scheduled to come in after February's Board meeting and offer training on reviewing actuarial studies.

Chairman's Report

Chair Eaton reported that the CEO and Board evaluation forms will be sent out to each member, due back to the board Chair for discussion at January's board meeting.

Mr. Slack highlighted the NCPERS Legislative Conference and the NCPERS Trustee Educational Session coming up in 2014.

At 3:34 p.m., Chair Eaton adjourned the Board meeting.