

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
February 28, 2013  
Agenda**

<b><u>Time</u></b>	<b><u>Agenda item</u></b>
7:30 a.m.	<b>Call to order</b> <i>Cliff Stanton, Chair</i>
	<b>Approval of January 31, 2013, board meeting minutes</b>
7:40 a.m.	<b>Consent Calendar</b> <ol style="list-style-type: none"><li>1. Approval to Amend the Fort Morgan Old Hire Police Pension Plan</li><li>2. Approval to Amend the Durango Old Hire Fire Pension Plan</li><li>3. Approval to disburse partial idle funds for the Sterling Old Hire Police Pension Plan</li></ol>
8:00 a.m.	<b>FPPA Quarterly Investment Report (4Q 2012) Risk Metrics Report</b> <i>John Linder, PCA</i>
8:30 a.m.	<b>Break</b>
8:45 a.m.	<b>Investment Report</b> <i>Scott Simon</i> <ol style="list-style-type: none"><li>1. Review of January 2013 performance</li><li>2. Review of managers</li><li>3. Other matters</li></ol>
9:15 a.m.	<b>Tail Risk Hedging (Educational Session)</b> <b>John Linder, PCA</b> <b>FPPA Staff</b>
	<b>Break</b>
10:15 a.m.	<b>Staff report</b> <ol style="list-style-type: none"><li>1. CEO report <i>Dan Slack</i></li><li>2. Legal report and legislative update <i>Kevin Lindahl</i></li><li>3. Statewide Defined Benefit Plan Member Contribution Election presentation of website information <i>Kim Collins, Gina McGrail</i></li><li>4. Other matters</li></ol>
10:45 a.m.	<b>Chairman's report</b> <i>Cliff Stanton, Chair</i>
11:30 a.m.	<b>Adjourn</b>

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
February 28, 2013**

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

**Board Members Present:** Chair Cliff Stanton, Vice Chair Sue Eaton, Lyle Hesalroad and Todd Bower

Board Members Absent: Jack Blumenthal, Tyson Worrell and Pam Feely

**Staff Members Present:** Dan Slack, Kevin Lindahl, Kim Collins, Scott Simon, Jacquette Tara, Mike Sutherland, Austin Cooley and Jessica Hsu

**Others Present:** John Linder, Pension Consulting Alliance, Dana Woolfrey, Gabriel Roeder Smith & Co., Joe Newton, Gabriel Roeder Smith & Co. via telecom

*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 7:32 a.m., Chairman Cliff Stanton called the meeting to order.

Chair Stanton called for a motion to approve the minutes of the January 31, 2013, Board meeting minutes. Mr. Bower moved to approve the minutes. Mr. Hesalroad seconded the motion. The motion carried.

**Consent Calendar**

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

At 7:37 a.m., Mr. Sutherland left the meeting.

**4Q 2012 Performance Summary Report**

John Linder provided the 4Q 2012 Portfolio & Capital Markets Review. As of year-end 2012 the Total Fund had an aggregate value of \$3.4 billion, for a year-over-year increase of **+11.9%**. However, performance is trailing the policy benchmark. Over the trailing three-year period Fixed Income has outperformed the policy benchmark and Global Growth has slightly underperformed the policy benchmark.

Mr. Linder discussed the Total Fund Risk/Return Analysis chart reflecting FPPA's pre

and post portfolio changes shifting to now being less volatile than the Median Public Fund.

Year-over-year, the biggest change in FPPA's Asset Allocation was instituting a significant component of long/short equity in the Global Growth Allocation in a move away from being 100% long-only equity.

Mr. Linder discussed the 5-year review of the Total Fund Performance. The year 2012 will be the last year to reflect the 2008 performance in a 5-year span.

FPPA's Asset Class Performance reflects Private Equity and Global Growth underperforming their benchmarks for the 1-year period. Fixed Income continues to outperform its benchmarks over all periods. Mr. Linder identified an error on the FPPA Asset Class Performance chart and noted that the footnote on the Absolute Return Custom Benchmark should read T-bills + 4% as the benchmark and not a roll-up of the individual strategy benchmarks.

Mr. Linder reviewed FPPA's strategic allocation relative to benchmarks over a 5-year period: Global Growth has been trailing; Fixed Income is above; the Absolute Return Portfolio is above since inception; and the Equity L/S Long Bias is also above since inception. The Absolute Return portfolio has not gone through a full market cycle, yet on an interim basis is effectively is doing what it is designed to do.

At 7:51 a.m., Austin Cooley entered the meeting

The Private Equity portfolio has a benchmark which reflects expectations from the asset class, but is not an effective benchmark of performance as such.

Staff is evaluating and addressing the disappointing performance of the long-only equity managers, Cortina and Driehaus.

#### Investment Market Risk Metrics

Mr. Linder presented the investment market risk metrics report for January 2013. The 10-year Treasury yield rose, ending January at 2.02%, and bonds remained at 30-year highs with real yields at near all-time lows. The Metrics charts show that sentiment is positive and valuations are reasonable, with no measures of great concern. However, inflation is being watched and interest rate risk has been rising for the last few years. Equity market volatility in January was low, indicating complacency in the global markets.

### **Investment Report**

Mr. Simon provided the economic recap and fund performance for January. Total Fund performance for January was **+2.30%** (net of fees) and the final year-end performance was **+11.92%**. For the 1-year period (ending 1/31/13), Total Fund performance was 11.1% compared to its composite benchmark +10.69%.

Staff will provide more detail at the next Board meeting on the final distribution for the MetWest TALF Fund, FPPA's first Opportunistic investment. This 2009 investment was led by staff and has garnered a favorable mid-11% return.

Mr. Slack highlighted discussions held at the February 26, 2013, Self-Directed Plans Committee (SDPC) meeting. An annual review of the self-directed plans will be presented at the March 21, 2013, Board meeting. Fidelity speaker Tom Peller has agreed to speak at the November 21<sup>st</sup> educational meeting on fiduciary matters.

Mr. Simon addressed a request from January's Board meeting questioning a performance discrepancy in the equity long-short portfolio and the process taken to correct it. Reporting was off due to incorrect funding dates and the original report of 9 ½% corrected out to a high 12% return for the portfolio.

### Investment Risk Committee Report

At the last IRC meeting, the committee engaged the Investment team with questions on their processes and capabilities with respect to hedge fund underwriting.

At 8:23 a.m., Chair Stanton called for a break

At 8:40 a.m., the meeting reconvened and Jessica Hsu entered the meeting.

### **Staff Report**

After rescheduling the June Board meeting to the 20<sup>th</sup> it was learned that Mr. Joe Newton had a conflict on that date. Mr. Slack surveyed the Board members and a new date of June 21<sup>st</sup> was agreed upon.

Mr. Slack shared the major takeaways from the presentation by Pyramis Global Advisors (the institutional asset management arm of Fidelity) on their 2012 survey of institutional investors:

- macro-economic environment
- the fade out of ultra long-term investing
- improving returns requires more flexibility, more risk and/or different kinds of risk
- how do you manage the changing risk management processes and techniques
- fixed income and LDI becoming a clearer path for many corporate plans
- growing appetite for exploring new asset allocations models

A call was held with the Chief Finance Officer and Chief of Staff of the City Colorado Springs in relation to the work of their "pension task force". The City would like the FPPA Board to approve a new voluntary transition period for members of the New Hire Plans to move to the Statewide Defined Benefit Plan.

In addition, the City is considering whether all public safety new hires could join FPPA's Hybrid Plan as opposed to FPPA's Statewide Defined Benefit Plan. The Board requested that FPPA staff obtain further information and details from the City of Colorado Springs.

At 9:07 a.m., Dana Woolfrey entered the meeting.

### Litigation Report

Mr. Lindahl updated the Board on FPPA's legal matters. The Court of Appeals issued a decision that the alternate payee of Mr. Guyman is entitled to a portion of his disability benefits beginning at age 55. The court also found that FPPA is liable to pay pre- and post-judgment interest. Because the judgment has not yet been issued, there is no post-judgment interest yet due, although there may be some pre-judgment interest due.

The District Court found that Mr. Dolan did not meet his burden of proof to demonstrate his eligibility for disability benefits and that there was sufficient competent evidence finding that FPPA Board of Directors had met its burden of proof demonstrating that Appellant was ineligible for benefits. A motion will be filed in early March with respect to the claims against FPPA for promissory estoppel and equitable estoppel and claims against Gina McGrail and Kevin Lindahl for negligent misrepresentation.

Mr. Lindahl updated the Board on the Countrywide Financial Corporation derivative litigation.

FPPA and the Austin Police Retirement System have been appointed lead plaintiff in the Abiomed securities litigation. FPPA is working to amend the complaint that was been filed. The first court activity is the status conference set for April.

FPPA has two bills of interest at the Legislature. Senate Bill 13-80 was recommended by the FPPA Board to the Pension Reform Commission last summer. This bill protects FPPA and its funds from liability when employers fail to properly enroll members. It has passed the Senate and is waiting for scheduling in the House. Senator Lois Tochrop has agreed to sponsor the Plan Amendment Election bill which was requested by the Member Contributions Task Force. The bill is being drafted and should be scheduled for Committee Hearing.

### 2013 Supplemental Actuarial Studies

Mr. Slack discussed additional supplemental studies that have been requested from Gabriel Roeder Smith & Company. These supplemental studies will be reviewed at the June 21, 2013, Board meeting in addition to the annual actuarial valuations.

## **Tail Risk Hedging**

Mr. Simon started the Tail Risk Hedging presentation and the potential tool of tail risk hedging, discussing how it works and the issues around Asset Liability studies.

Mr. Lindahl recapped the discussions from the June 2012 Board meeting regarding the statutory provisions of the Statewide Defined Benefit Plan. Mr. Lindahl reviewed the statutes governing the plan, the nature of ad hoc COLA funding, triggers for changing the retirement age, and the rollback plan modifications.

Ms. Woolfrey handed out and reviewed of the Actuarial Results chart with January 1, 2012, results rolled forward to January 1, 2013. Mr. Slack highlighted an example in the chart: a -6% return in 2013 and + 7.5% in the following 4 years, although a highly unlikely outcome, would leave FPPA at a 16% ARC over a 40-year period.

Mr. Linder continued with discussion emphasizing that the policy portfolio is designed to manage returns and not risk. He discussed the level of performance decline the SWDB plan could tolerate, what are the chances this outcome could happen, and what remedies could take place if the plan did experience a performance decline.

While "tails" refers to both the positive and negative returns, the presentation was focused on the frequency and severity of negative tails. Generally there are more severe negative events than positive events, pulling down the average. The larger the volatility of the portfolio, the more volatility penalty there is for compounding of the returns, hence the focus is on clipping the downside (negative returns) of the portfolio to a point that is tolerable by the institution.

Implementation against tail risk:

- Establish the plan's sensitivity and threshold level
- Determine appropriate hedging approach
- Determine budget (expected to spend)
- Establish and maintain reports on the hedges and hedge portfolio

Mr. Cooley added to the discussion highlighting:

- Why are we doing this?
- Why have we changed the Asset allocation process?
- Why are we changing the way they look at the portfolio?
- Why are we changing the way we look at the work from consultants and actuaries?
- Does the Board want tail risk hedging as another tool?

The Board expressed concern regarding the cost of the protection. The Board supported Staff continuing to look at tail risk hedging for Board consideration.

At 11:07 a.m., Chair Stanton called for a break. Joe Newton, Dana Woolfrey, and Jessica Hsu left the meeting.

At 11:17 a.m., the meeting reconvened.

### Election Calculator

Ms. Collins updated the Board on FPPA's member web site and the "Election Central" tab that will eventually also include updates to the white paper and member election calculator tool.

### **Chairman's Report**

Mr. Slack proposed reallocating funds from the Board Conferences and Seminars budget to a technology budget for Board members. The purpose of the technology allowance is to enable every board member to utilize an iPad, the most appropriate, data-secure and user-friendly technology for receipt and review and annotation of board packets and committee packets.

At 11:15 a.m., Mr. Hesalroad moved to adjourn the meeting. Ms. Eaton seconded the motion and the motion passed. The meeting adjourned.