

# **FIRE and POLICE PENSION ASSOCIATION**

Board of Directors

July 25, 2013

7:30 a.m.

## **Call to order**

*Cliff Stanton*

Approval of June 21 board meeting minutes  
Approval of June 21 executive session minutes

7:40 a.m.

## **Investment Report**

Review of June 2013 performance  
Review of Managers  
*Scott Simon*

8:00 a.m.

## **Notice of Rulemaking Hearing**

*Kevin Lindahl*

8:15 a.m.

## **Staff Report**

CEO Report

*Dan Slack*

Legal Report

*Kevin Lindahl*

GASB 67 & 68

Staff Report on Governmental Accounting

Standards Board Statements 67 & 68

*Kim Collins*

Colorado Springs New Hire Pension Plan - contribution rates, SRA, COLA

*Kim Collins*

Retiree payroll dates

*Kim Collins*

Election Timeline and process

*Gina McGrail*

Other matters

9:15 a.m.

## **Chairman's Report**

*Cliff Stanton*

9:30 a.m.

## **Break**

9:45 a.m.

## **Risk Review**

What Could Possibly Go Wrong?

*Dan Slack*

10:30 a.m.

## **Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
July 25, 2013**

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

**Board Members Present:** Vice Chair Sue Eaton, Todd Bower, Lyle Hesalroad, Pam Feely, Jack Blumenthal, Dave Bomberger and Manuel Esquibel

**Absent:** Chair Stanton and Tyson Worrell

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

**Others Present:** John Linder, Pension Consulting Alliance; and David Stieber, Stieber Campbell PC (via teleconference)

*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 7:34 a.m., Vice Chair Eaton called the meeting to order.

Vice Chair Eaton called for a motion to approve the minutes of the June 21, 2013, board meeting. Mr. Bower moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried with Mr. Hesalroad abstaining.

Vice Chair Eaton called for a motion to approve the minutes of the June 21, 2013, executive session meeting. Mr. Bower moved to approve the minutes. Mr. Blumenthal seconded the motion. The motion carried with Mr. Hesalroad abstaining.

**Investment Report**

Mr. Simon provided the economic recap and fund performance for June 2013. The market took a downturn in reaction to the potential tapering of the Federal Reserve monetary policy. A quick rise in interest rates hurt both the bond and equity markets. Total Fund (net of fees) was **-1.20% for month of June**, bringing the **YTD to +4.97%**. Net Investible Assets for the Total Fund are estimated at **\$3.67 billion** as of June 30.

### Risk Exposures

Continued underweight in both the Fixed Income and Absolute Return; however the latter does not reflect FPPA's recent AQR contribution to two funds which should bring it more in balance by the end of July. The personnel changes underway with State Street are not anticipated to have a significant effect on FPPA's mandates. The Investment Staff is comfortable with the changes underway with Commonfund and will conduct additional follow up on this issue when they are on-site later this month.

### Alternative Investments

Positive trending continues as incoming cash flows remains greater than cash going out. Currently a strong market for sales of portfolio companies with distributions going back into the portfolio.

### Investment Matters

- The termination of the Cortina portfolio has been completed and the portfolio has been transitioned to passive exposure at State Street.
- Funding from the State contribution has been utilized to fund two AQR portfolios.
- Transition to Deutsche Bank was finalized for securities lending mandate.
- Continued active efforts by FPPA's Liquid Strategies Team as they focus on implementing the unconstrained bond mandate for fixed income.

At 7:46 a.m., Manuel Esquibel joined the meeting.

### IRC Update

Four investments were reviewed and approved in June:

- EIG Energy XVI, L.P., an additional \$20 million commitment
- Nautic Partners VII
- High Road Capital Partners Fund II
- Centre Lane Partners III

Mr. Simon briefed the Board on the previously approved secondary transaction in the private equity portfolio. Customary in the industry, portfolios are reviewed around year six or seven, and can be sold on the secondary market and proceeds reinvested back into new private equity investments. At the end of 2012, FPPA hired and instructed advisor Cogent Partners, to construct and market the best saleable portfolio. With favorable timing in the market, FPPA's portfolio was one of the very few sizeable transactions offered in the market over the last several weeks.

FPPA will accept half of the purchase price now (the bulk of the portfolio), followed with half later, in two years. This deferred payment equates to an increase in purchase price, in turn, FPPA accepts the credit risk with the secondary purchaser.

The biggest concern surrounding this transaction is security, as FPPA won't have recourse to go back and reacquire the assets. Based solely on a credit analysis, FPPA needs to be comfortable with the secondary buyer.

Due to the uniqueness of the transaction, the size of the loan and to further educate the Board on the risks and protection involved, if any, a conference call was scheduled for 10:00 a.m. today with David Steinberg, FPPA's outside counsel overseeing the transaction.

Mr. Linder highlighted FPPA's quarterly performance. FPPA's objectives along with the structure put in place, low volatility equity and long short hedge funds, has paid off significantly as expected. A combination of selling right, being correctly structured and having the right manager selection has achieved a significant performance in the growth portfolio in a tough growth market.

### **Notice of Rulemaking Hearing**

Mr. Lindahl presented the proposed rule-making and plan amendments to the:

- Statewide Defined Benefit Plan
- Statewide Death & Disability Plan
- Statewide Hybrid Plan
- Statewide Money Purchase
- Colorado Springs New Hire Pension Plan- Police and Fire Components
- Old Hire Police and Fire Pension Plans

Mr. Bomberger moved to approve the Notice of Proposed Rule-Making and Plan Amendment as issued, in accordance with FPPA Rule 702.01. Mr. Hesalroad seconded the motion. The motion passed.

At 8:30 a.m., Vice Chair Eaton called for a break. Austin Cooley, Ben Bronson and Jessica Hsu left the meeting.

At 8:42 a.m., the meeting reconvened.

### **Staff Report**

#### *CEO Report*

Mr. Slack updated the Board with the primary activities of the Executive Team and staff:

- Task Force (member election issues)
- GASB 67 & 68
  - Potential alternatives for Volunteer and Old Hire Plans
  - Possible legislation and rule-making
  - Meetings with consulting firm for development of reporting
- Replacement of Perkins Mid-cap Value Fund in the Self-Directed Plans investment fund lineup
- Executive staff is working with John Nicoletti (threat assessment advisor) to

- put workplace safety policies in place
- Mr. Slack will be presenting to the Society of Actuaries Blue Ribbon Panel on Public Pension Funding
- The August Board meeting will include election of new a Vice Chair and incoming Chairman Eaton will be making committee appointments effective September 1<sup>st</sup>
  - Investment Risk Committee (2 members)
  - Audit Committee (3 members)
  - Budget Committee (2 members)
- Member request for occasional Board meetings held outside of the Denver metro area

### Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters.

- A hearing date is set for July 31<sup>st</sup> in the Guyman case
  - FPPA is working on the interest calculation in attempt to reach a resolution
- Motion for a summary judgment is pending on the Dolan case
- Countrywide derivative litigation on fraudulent transactions
  - The Court refused Countrywide's request to dismiss FPPA from the case, pending the outcome of the Delaware hearing.
  - FPPA has argued before the Delaware Supreme Court for expansion of the "standing" rule to increase protection for shareholders from fraud
- FPPA's opposition brief on the Abiomed Securities Litigation is due August 22<sup>nd</sup>

### GASB 67 & 68

Ms. Collins discussed the Governmental Accounting Standards Board (GASB) Statements No. 67 & No. 68 as approved in 2012 with the objective of improving financial reporting of public pension plans. The new Statements were designed to increase transparency and comparability among accounting for the pension plans.

Once implemented, the now required supplementary reporting will move to the balance sheets of all employer plans. GASB 67 impacts the FPPA 12/31/2014 audit. GASB 68 will impact the employer audits in 2015..

The two Statements differentiate between two categories of plans. The new reporting for cost-sharing multiple-employer pension plans include FPPA's Statewide Defined Benefit Plan and the Statewide Hybrid Plan DB component. While the reporting for the agent multiple-employer pension plans impacts FPPA's two Colorado Springs New Hire Plans, 50 old hire plans and 175 volunteer plans.

The year over year reporting in FPPA's audit will reflect fluctuation and volatility as the standard for reporting becomes based on market value and no longer from actuarial smoothing value of assets. The new Statements do not address how a

government should go about funding the plans.

Identified projects for implementation of the new reporting requirements::

- Educating staff on the new standards
- Sending out survey to each employer to determine their year-end financial date
- Determine the actuarial reporting requirements.
- Determine the educational needs of employers and audit firms
- Expansion of FPPA's employer website with information about GASB 67/68 reporting
- Meeting the AICPA requirements by setting up additional internal controls and writing a SOC 1 Type 2 audit report.
- Drafting the new footnotes and required supplementary information
- Determine how to allocate or invoice actuarial costs and SOC 1 expenses to employers
- Prepare information to help employers for the GASB 68 portion in 2015
- Proposal of staff expansion will be addressed at the October Budget meeting
- Since the State of Colorado gives funds to volunteer plans, we are researching to determine if the State will need to report a portion of the net pension liability from FPPA.
- As FPPA staff participates in Colorado PERA, a portion of that net pension liability will be reported on the FPPA audit.

#### Private Equity Secondary Transaction

At 9:45 a.m., Austin Cooley, Claud Cloete, Ben Bronson and Sean Ross entered the meeting.

At 9:58 a.m., Dale Martin and David Stieber (Stieber Campbell PC) joined the meeting via conference call.

Mr. Lindahl introduced Mr. Stieber, including his background in handling private equity transactions, as outside counsel to FPPA for the secondary private equity transactions.

At 10:04 a.m., Mr. Bower moved that the Board go into executive session to discuss the secondary transaction with Pomona as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes. Mr. Blumenthal seconded the motion. The motion passed unanimously.

At 10:57 a.m., Austin Cooley, Claud Cloete, Ben Bronson and Sean Ross left the meeting. The Board adjourned from Executive Session. No actions were taken in Executive Session.

Following the conference call, Mr. Simon discussed FPPA's trust and confidence in moving forward with the secondary transaction led by the well experienced and

well-resourced advisor Cogent Partners, legal advice from David Stieber, who has never experienced a failed secondary transaction, and an experienced private equity professional in Dale Martin.

Mr. Simon will prepare additional diligence and a presentation to the IRC on Pomona.

Vice Chair Eaton took a consensus of the Board to continue forward with the secondary transaction.

Ms. Feely answered: "yes"

Mr. Hesalroad answered: "yes"

Co-Chair Eaton answered: "yes"

Mr. Bomberger answered: "yes"

Mr. Blumenthal answered: "yes"

Mr. Esquibel answered: "yes"

Mr. Bower answered: "yes"

Ms. Collins reviewed the actuarial results for the Colorado Springs New Hire Pension Plans.

#### Colorado Springs New Hire Pension Plan

#### **Colorado Springs New Hire Pension Plan for Police Component Contribution Rate**

Ms. Feely moved to change the Colorado Springs New Hire Pension Plan for Police Component annual required contribution to \$10,136,718, effective January 1, 2014. Of this amount, the members of the plan will contribute 8.0% of base salary and the employer will remit the remainder. Mr. Bomberger seconded the motion. The motion passed.

#### **Colorado Springs New Hire Pension Plan for Police Component Stabilization Reserve Account Contribution Rate**

Ms. Feely 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, 2014, through December 31, 2014. Mr. Hesalroad seconded the motion. The motion passed.

#### **Cost-of-Living-Adjustment (COLA) for the Colorado Springs New Hire Pension Plan for Police Component**

The CPI-W as of December 31, 2012 was 2.1%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Police Component at 2.5%, effective October 1, 2013, through September 30, 2014. No Board action is required at this time.

#### **Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate**

Ms. Feely moved to set the Colorado Springs New Hire Pension Plan for Fire

Component contribution amount at \$4,627,045, effective January 1, 2014. Of this amount, the members of the plan will contribute 10% of base salary and the employer will remit the remainder. Mr. Hesalroad seconded the motion. The motion passed.

### **Colorado Springs New Hire Pension Plan for Fire Component Stabilization Reserve Account Contribution Rate**

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, 2014, through December 31, 2014. Mr. Hesalroad seconded the motion. The motion passed.

### **Cost-of-Living-Adjustment (COLA) for the Colorado Springs New Hire Pension Plan for Fire Component**

The CPI-W as of December 31, 2012 was 2.1%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Fire Component at 2.0%, effective October 1, 2013, through September 30, 2014. No Board action is required at this time.

### Retiree Payroll Date

Ms. Collins discussed a possible change to the payment date for retirees to pay the retiree on the 21<sup>st</sup> of the month the 21<sup>st</sup> falls on a weekend or bank holiday to pay on the first business date after the 21<sup>st</sup>. The current practice is to pay on the business day prior to the 21<sup>st</sup>. It was decided to hold off until October when the Board discusses staffing issues.

### Election Timeline and Process

Ms. McGrail reviewed the latest draft of the election timeline (for the election regarding the member contribution to the SWDB Plan) and discussed the primary focus and goals of the Communications team. She discussed the use of a third-party vendor to conduct the member election and noted that FPPA staff is expecting to conduct the employer election internally as has been done in the past.

Ms. McGrail asked the board for direction and a consensus on the timing of the member election and explained that knowing the date will help facilitate the planning process and will help staff address member's questions with respect to the timing.

She proposed that the member election be held April 2014 with the understanding the election materials will likely be mailed to members in late March 2014 and voting would be permitted to begin upon the member's receipt of the materials (even if received shortly before April 1). The third-party vendor has indicated that allowing voting upon receipt of materials and using approximately a 30 day window for the voting to take place is common practice when the election materials are mailed. (This proposed process is different than in previous elections where a 3-5 day window was used and ballots were handed out by the employer). The

employer election is projected to follow in May or June 2014. If the proposal should ultimately pass (by member and employer vote), this timeline should allow approximately six months for implementation using the January 1, 2015 effective date.

Vice Chair Eaton took a consensus of the Board to accept the proposed timeline and to hold the member election in the month of April 2014 with the understanding that the Board will officially adopt the resolution setting the election date at a future meeting.

Ms. Feely answered: "yes"

Mr. Hesalroad answered: "yes"

Co-Chair Eaton answered: "yes"

Mr. Bomberger answered: "yes"

Mr. Blumenthal answered: "yes"

Mr. Esquibel answered: "yes"

Mr. Bower answered: "yes"

### **Chairman's Report**

At 10:42 a.m., Ms. Hesalroad moved to adjourn. Mr. Bower seconded the motion. The meeting adjourned.