

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
June 21, 2013  
Agenda**

<u><b>Time</b></u>	<u><b>Agenda item</b></u>
7:30 a.m.	<b>Call to order</b> <i>Cliff Stanton, Chair</i>
	<b>Approval of April 25, 2013, board meeting minutes</b>
	<b>Consent Calendar</b> Cedaredge Old Hire Police Plan partial idle funds distribution
7:35 a.m.	<b>Audit Committee Report</b> <i>Jack Blumenthal</i>  Comprehensive Annual Financial Report (CAFR) review
7:45 a.m.	<b>Investment report</b> <i>Scott Simon</i>  1. Review of April 2013 performance 2. Review of managers 3. Self-Directed Plans Committee 4. Other matters
8:00 a.m.	<b>AQR Recommendation</b> <i>Ronen Israel, Principal</i> <i>William M. Latimer, Vice President</i> <i>Scott Metchick, Vice President</i>
9:00 a.m.	<b>Break</b>
9:15 a.m.	<b>1Q PCA portfolio and capital markets review</b> <i>John Linder &amp; Neil Rue, Pension Consulting Alliance</i>
9:30 a.m.	<b>2013 Legislative Session review</b> <i>Bill Clayton and Tony Lombard, Clayton &amp; Lombard</i>
9:45 a.m.	<b>Actuarial Valuation review</b> <i>Joe Newton &amp; Dana Woolfrey, Gabriel, Roeder, Smith &amp; Co.</i>  Determination of Benefit Adjustments, SRA, and contribution rates in the Statewide Plans <i>Kim Collins</i>
10:45 a.m.	<b>Break</b>
11:00 a.m.	<b>Staff report</b> 1. CEO report

- Dan Slack*
2. PEPTA legislation  
*Dan Slack & Kevin Lindahl*
  3. Legal report  
*Kevin Lindahl*
  4. SWDB Election update  
*Gina McGrail*
  5. Retiree payroll dates  
*Kim Collins*
  6. Center FPD Vol Affiliation - Resolution Withdrawn  
*Gina McGrail*
  7. Colorado Rescue Fire Rescue Authority (formerly Rifle FPD and Burning Mountain FPD)  
*Gina McGrail*
  8. Other matters

- 11:25 a.m. **Chairman's report**  
*Cliff Stanton, Chair*
1. Evaluation of NCPERS conference  
*Pam Feely*

11:30 a.m. **Lunch**

## **Risk Review**

- 12:00 p.m. **Risk Review introduction**  
*Dan Slack*
- 12:15 p.m. **Information Security Assessment**  
*Steve Fox, Security Pursuit*
- 1:30 p.m. **Break**
- 1:45 p.m. **Actuarial Risk**  
*Joe Newton & Dana Woolfrey, Gabriel, Roeder, Smith & Co.*
- 2:30 p.m. **Crisis, what crisis? (an investment risk scenario)**  
*FPPA staff, Neil Rue & John Linder, Pension Consulting Alliance*
- 3:30 p.m. **Break**
- 3:45 p.m. **What could possibly go wrong?**  
*FPPA staff*
- 5:00 p.m. **Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
June 21, 2013**

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

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

**Absent:** Lyle Hesalroad

**Staff Members Present:** Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Jacqueline Tara, Austin Cooley, Jeff Kaszubowski and Mark Gremmert

**Others Present:** John Linder, Pension Consulting Alliance; William Latimer, Scott Metchick and Ronen Israel (via telecom), AQR; Bill Clayton and Tony Lombard, Clayton & Lombard; Joe Newton and Dana Woolfrey, Gabriel Roeder Smith & Co.; Steve Fox, Security Pursuit

*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 7:37 a.m., Chairman Cliff Stanton called the meeting to order.

Chair Stanton welcomed FPPA's two new Board members; Dave Bomberger, CIO for Pinnacol Assurance and Manuel Esquibel, City Manager for the City of Brighton.

Chair Stanton called for a motion to approve the minutes of the April 25, 2013, board meeting minutes. Mr. Bower moved to approve the minutes. Ms. Feely seconded the motion. The motion carried with Mr. Bomberger and Mr. Esquibel abstaining.

**Consent Calendar**

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

**Audit Committee Report**

Mr. Blumenthal reported that the Audit Committee recently reviewed the Comprehensive Annual Financial Report (CAFR) and, aside from a few minor changes, the Audit Committee approved the report as presented. Mr. Slack noted

that the Audit Committee's changes had been made and that the CAFR is available for full viewing on the FPPA website.

## **Investment Report**

Mr. Simon provided the economic recap and fund performance for May 2013. Although quite volatile, May was still somewhat positive for the markets. Total Fund (net of fees) was **+0.24% in May**, bringing the **YTD to +6.25%**. Net Investible Assets for the Total Fund are estimated at **\$3.72 billion** as of May 31.

### Risk Exposures

Fixed Income and Absolute Return remain slightly underweight with an offset in the overweight cash position. FPPA received the \$132 million final payment for State assistance to Old Hire plans, which has yet to be reinvested.

The FPPA Investment Staff recommends termination of its investment in the Cortina Small Cap Growth strategy ("Cortina") and transition of assets to passive exposure through State Street.

Mr. Bomberger moved to accept staff's recommendation to terminate Cortina. Mr. Bower seconded the motion. The motion passed.

### Investment Risk Committee Report

Mr. Simon offered insight on the role of consultants, PCA and Albourne, as related to the IRC committee for the new Board members.

Mr. Simon highlighted the investment staff recommendations as reviewed by the IRC.

FPPA participates in two major surveys a year; R.V. Kuhns and CEM. These surveys aid in measuring peer performance, how FPPA is allocated and performing versus our peers including administrative and investment expenses.

At 8:45 a.m., Mr. Lindahl left the meeting.

### AQR

The FPPA Investment Staff recommends a \$50 million investment in the AQR Delta Fund II, L.P. (Delta) and a \$50 million investment in the AQR Style Premia Fund, L.P. (SPF). Mr. Cooley discussed the process the Investment Staff had taken to reach the recommendation to retain AQR.

At 8:50 a.m., William Latimer, Scott Metchick and Ronen Israel (via telecom), (AQR); entered the meeting and presented on the two AQR strategies.

At 9:07 a.m., Joe Newton and Dana Woolfrey (GRS) entered the meeting.

At 9:48 a.m., Mr. Lindahl rejoined the meeting.

At 10:13 a.m., Mr. Latimer and Mr. Metchick left the meeting and Mr. Israel disconnected from the call.

Mr. Blumenthal moved to approve the two recommended mandates for AQR. Mr. Bower seconded the motion. The motion passed.

At 10:22 a.m., Chair Stanton called for a break. Mr. Cooley and Mr. Kaszubowski left the meeting.

At 10:26 a.m., the meeting reconvened and Mr. Clayton and Mr. Lombard entered the meeting.

### **Quarterly Risk Metrics Report**

Mr. Linder (PCA) provided an update on the financial markets and discussed PCA's sentiment index.

Mr. Linder continued with the 1Q 2013 portfolio and capital markets review. FPPA assets were at \$3.5 billion, a quarterly increase of \$129.1 million and a \$247.1 million year over year increase (inclusive of all cash flows and investment results). The portfolio has experienced a reduction of 150 basis points of volatility points. With poor GDP growth, CPI and unemployment the Fed may be tapering, but cash and lending rates will not be going up anytime soon. The current allocation reflects a reduced risk profile. Global growth lagged generally; however, the equity long/short managers performed very well. Fixed Income managers also did very well, outperforming passive indices. The Absolute Return managers are meeting expectations and the Private Capital class is on target.

### **2013 Legislative Session Review**

Mr. Clayton and Mr. Lombard provided a legislative session update. Senate Bill 13-080, concerning limitations on liability, passed and Senate Bill 13-240, concerning the voting requirements for plan amendments, also passed. Also discussed was Senate Bill 13-234 put forth by the Joint Budget Committee to pay off the State's remaining obligation to the Old Hire Plans. This bill also passed and the funding has been received.

Mr. Lindahl advised the board that Senator Lambert has expressed concern regarding the impact of the upcoming GASB 67 & 68 requirements. Ms. Collins confirmed that staff was well aware of GASB 67 and 68 and is working diligently to prepare for implementation.

Mr. Clayton and Mr. Lombard alerted the board to the possibility that Colorado will see legislative or initiative efforts to move away from defined benefit plans in the public sector. They are keeping in touch with representatives from PERA regarding this possibility.

At 10:55 a.m., Mr. Clayton and Mr. Lombard left the meeting.

### **Actuarial Valuation Review**

Mr. Newton and Ms. Woolfrey (Gabriel Roeder Smith & Company) presented FPPA's January 1, 2013, actuarial valuation results. FPPA had a good year in dollar-weighted investment returns (+11.6%); however, investment gains and losses taken over a 5-year smoothing equates to a small loss on an actuarial value of assets basis.

- Statewide Defined Benefit, Statewide Hybrid and both Colorado Springs Plans are slightly improved due to positive demographic experiences.
- Although 2012 saw lower numbers of re-entries for the Statewide Defined Benefit Plan and Statewide Hybrid Plans, there were a lot of continued service credit purchase transactions.
- Recommending a 0% SRA contribution for Statewide Defined Benefit Plan and Colorado Springs New Hire Plans.
- While the Statewide Defined Benefit Plan is at a strong 97.9% funded ratio, this is measured only on the base benefits and does not include future benefit adjustments to retirees.

Ms. Collins reviewed the board action items from the results of the actuarial valuations.

### **Statewide Defined Benefit Plan Stabilization Reserve Account (SRA) Contribution Rate**

Ms. Feely moved to set the SRA contribution rate for the members of the Statewide Defined Benefit Plan at 0%, effective July 1, 2013, through June 30, 2014. Mr. Blumenthal seconded the motion. The motion passed.

### **Statewide Defined Benefit Plan Stabilization Reserve Account Contribution Rate for Members of Departments that have Re-entered the Plan**

Ms. Feely moved to set the SRA contribution rate for members who are subject to the 20% continuing rate of contribution with the Statewide Defined Benefit Plan at 3.50% plus 0% for the base SRA, effective July 1, 2013, through June 30, 2014. Ms. Eaton seconded the motion. The motion passed.

### **Statewide Defined Benefit Plan Stabilization Reserve Account Contribution Rate for Members of the Supplemental Social Security Plan**

Ms. Feely moved to set the SRA contribution rate for the members of the supplemental Social Security program within the Statewide Defined Benefit Plan at 0%, effective July 1, 2013, through June 30, 2014. Mr. Bower seconded the motion. The motion passed.

### **Benefit Adjustment for the Statewide Defined Benefit Plan (including Members of Departments that have Re-entered the Plan and Members of the Supplemental Social Security Plan)**

Ms. Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Defined Benefit Plan at 0.48%, effective October 1, 2013, through September 30, 2014. Mr. Bomberger seconded the motion. The motion passed.

**Statewide Hybrid Plan – Defined Benefit Component Contribution Rate**

Ms. Feely moved to decrease the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 12.6%, effective July 1, 2013, through June 30, 2014. Ms. Eaton seconded the motion. The motion passed.

**Benefit Adjustment for the Statewide Hybrid Plan – Defined Benefit Component**

Ms. Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Hybrid Plan – Defined Benefit Component at 2.95%, effective October 1, 2013, through September 30, 2014. Mr. Bomberger seconded the motion. The motion passed.

**Statewide Death & Disability Plan (including Members of the Supplemental Social Security Plan) Contribution Rate**

The contribution rate was set at 2.6% effective January 1, 2013, through December 31, 2014. No Board action is required at this time.

**Benefit Adjustment for the Statewide Death & Disability Plan (including Members of the Supplemental Social Security Plan)**

Ms. Feely moved to set the ad hoc benefit adjustment for the Statewide Death & Disability Plan for occupational disability retirees and their beneficiaries and to survivors of active members at 0.7%, effective October 1, 2013, through September 30, 2014. Mr. Worrell seconded the motion. The motion passed.

At 12:00 p.m., Chair Stanton called for a break.

At 12:16 p.m., the meeting reconvened.

**Staff Report**

*CEO Report*

Mr. Slack spoke of the meeting with Pam Feely and Mary Medley, CEO of the Colorado CPA Society, regarding the apparent position by the AICPA that pension fund organizations like FPPA will have to begin providing SOC 1, type 2, control reports to employers of our agent plans. Staff is researching plan design options in which our Old Hire plans and volunteer plans could eliminate the financial impact of GASB 67 & 68 reporting requirements.

An IRS issue has surfaced surrounding the ability to implement second choice for re-entry departments. Mr. Lindahl has asked our tax counsel to review FPPA's options.

The executive team continues with a series of meetings with John Nicoletti, who is assisting in assessing FPPA's workplace and protecting against risks of workplace violence.

Mr. Blumenthal moved to authorize a Board-approved letter to Colorado's Congressional delegation addressing concerns regarding the proposed Public Employee Pension Transparency Act (PEPTA). Ms. Feely seconded the motion. The motion passed.

### Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters. A hearing is set for July 3<sup>rd</sup> in Delaware, arguing for a corporate law exception for fraud in the circumstances of the Countrywide case. A court ruling in favor of FPPA granting exception would allow the Countrywide litigation to proceed and would set a significant precedent in corporate law.

The Dolan matter is proceeding with respect to FPPA's motion to dismiss the case. A hearing is set for July 31 on the issue of the pre-judgment and post-judgment interest on the Guyman case.

The executive team met with representatives from CML and the Special District Association to discuss alternative ways to manage money from Volunteer Plans and Old Hire Plans surrounding the anticipated increased costs that will be incurred in the implementation of GASB 67 & 68. Also discussed was a staff proposal to change the plan amendment voting process; specifically discussed was staff intent to use a third party election vendor and allow members to vote by paper ballot, phone, e-mail and internet while maintaining the integrity of the election process.

### Statewide Defined Benefit Election

Adopting suggestions from consulting firm SE2, staff has developed a communications plan and an awareness brochure that will be mailed to active members and used in educational meetings.

Ms. McGrail requested determination from the Board whether staff is tasked with "educating" the members, or "advocating" for a change in the member contribution rate. The Board consensus was that staff should be doing both. At the July meeting Mr. Lindahl will present more formal language for the Board to adopt in terms of their position.

A link to FPPA's Election Central now offers access to the projection calculator, allowing individuals to project how the proposal might impact them personally both in terms of cost and projected future benefit adjustments. Anticipated as a primary educational piece, this will assist members in determining their position on this proposal.



### Other Matters

The discussion on retiree payroll dates was deferred to the July board meeting.

The Center Fire Protection District withdrew their resolution to affiliate with FPPA based on too many unknown implications of the upcoming GASB 67 & 68 administration changes.

Mr. Bower moved to approve the documents associated with the recent Colorado River Fire Rescue Authority merger. Ms. Feely seconded the motion. The motion passed.

### **Chairman's Report**

Ms. Feely presented highlights from attendance at the NCPERS conference.

At 1:18 p.m., Chair Stanton called for a break.

At 1:35 p.m., the meeting reconvened. Mr. Gremmert and Mr. Fox entered the meeting.

Mr. Fox outlined his firm's background, along with the consulting services offered by Security Pursuit.

At 2:31 p.m., Ms. Feely moved that the Board go into executive session to discuss specialized security arrangements as allowed under Section 24-6-402(4)(d) of the Colorado Revised Statutes. Mr. Bomberger seconded the motion. The motion passed unanimously.

Joe Newton, Dana Woolfrey and John Linder were excused. Mr. Bower left the meeting.

At 3:20 p.m., the Board returned to its regular meeting. No formal action was taken during the executive session.

Joe Newton, Dana Woolfrey and John Linder reentered the meeting. Mr. Fox and Mr. Gremmert left the meeting.

### **Risk Review**

Mr. Slack led the Board in a risk review discussion, followed by Mr. Newton presenting an actuarial perspective on risks. Mr. Simon presented three scenarios surrounding possible investment risks.

At 4:56 p.m., Ms. Feely moved to adjourn. Mr. Bomberger seconded the motion. The meeting adjourned.