

FIRE and POLICE PENSION ASSOCIATION

Board of Directors

September 26, 2013

7:30 a.m.

Call to order

Todd Bower, Vice Chair

Approval of August 29 board meeting minutes

Hearing on Proposed Amendments to the Rules and Regulations for:

- 1) Statewide Defined Benefit Plan, Statewide Death and Disability Plan and Statewide Hybrid Plan
- 2) Colorado Springs New Hire Pension Plan

Hearing on Proposed Amendments to the Plan Documents for the:

- 1) Statewide Hybrid Plan
- 2) Statewide Money Purchase Plan
- 3) Memo re: Colorado Springs New Hire Pension Plan
Fire & Police Component

Resolution re 457 Plan

Kevin Lindahl, Michael Sutherland

8:15 a.m.

Investment Report

Review of August 2013 performance

Review of Managers

Scott Simon

Other

8:45 a.m.

2Q Portfolio and Capital Markets Review

John Linder, Pension Consulting Alliance

9:15 a.m.

Break

9:30 a.m.

Unconstrained Fixed Income Recommendation

Ben Bronson

Michael Goosay, Managing Director, Goldman Sachs

Stephanie Ivy, Investor Relations, Goldman Sachs

10:45 a.m.

Staff Report

CEO Report

Dan Slack

Legal Report

Kevin Lindahl

Election Procedure

Gina McGrail

Other Matters

11:15 a.m.

Chairman's Report

11:30 a.m.

Adjourn

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
September 26, 2013**

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

Board Members Present: Vice Chair Todd Bower, Cliff Stanton, Nick Nuanes, Dave Bomberger, Tyson Worrell, Manuel Esquibel, Jack Blumenthal and Pam Feely (via teleconference)

Absent: Chair Sue Eaton

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

Others Present: Holly Faddis, Avery Woods Reporting; John Linder, Pension Consulting Alliance; Stephanie Ivy and Michael Goosay, Goldman Sachs Asset Management

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., Vice Chair Bower called the meeting to order.

Vice Chair Bower 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 Ms. Feely and Mr. Nuanes abstaining.

At 7:45 a.m., Mr. Esquibel and Ms. Feely joined the meeting.

Hearing on Proposed Amendments

At 7:50 a.m., Vice Chair Bower began the Public hearing for the proposed rules.

At 8:15 a.m., Ms. Gorton left the meeting.

Mr. Lindahl introduced the rules process to the board, followed by Mr. Sutherland presenting the proposed:

Rules and Regulations for Resolution No.:

- 2013-4 (changes to the Statewide Defined Benefit Plan, Statewide Death and

- Disability Plan, and the Statewide Hybrid Plan)
- 2013-5 (changes to the Colorado Springs New Hire Pension Plan)

Adoption and Amendment to Plan Document Resolution No.:

- 2013-7 (changes to the Statewide Hybrid Plan)
- 2013-6 (changes to the Statewide Money Purchase Plan)
- 2013-8 (changes to the 457 Plan)

The Board discussed Resolution No. 2013-4, 310.10, *Unclaimed Accounts or Interests*. Mr. Lindahl summarized FPPA's ongoing 12 years of communications with the Colorado State Treasure office and his legal opinion that FPPA's assets are not subject to the unclaimed property act, a/k/a The Great Colorado Payback, because of the exclusive benefit rule that's incorporated into the Plan and is required by federal tax law to be in the plans that FPPA administers. Ten years ago, under pressure from the State Treasurer, the Board agreed to cooperate and handover these funds after five years, if a beneficiary of the funds couldn't be located. Most recently FPPA staff has reviewed that process and their status and is now proposing that FPPA no longer report unclaimed property pursuant to the rules of the State Treasure and that the Plan documents are clarified that those unclaimed balances are forfeited to the Plans themselves, as is interpreted to be consistent with state law and with FPPA's plans. PERA does participate in the Great Colorado Payback program, however, the statutes that authorize that program specifically require PERA to participate in the fashion that they do and there is no such requirement in the statute for FPPA. This requirement mandates that PERA participate notwithstanding the exclusive benefit rule. There is no such relief or provision that relates to FPPA's Plan documents.

Board discussion continued around the amendment of the plan, section 9.02, granting FPPA the authority to adopt rules to allow participants to have loans against their 457 account balance and also to establish Roth contribution options as part of the participant's account. This Plan Amendment will be giving the Board the "authority" to add Roth options and loan provisions by Rule, but not require this change. A subsequent discussion to approve or disapprove the loan provision may take place at a future Board meeting if the Self Directed Plans Committee brings this matter forward.

Mr. Lindahl walked the Board through the approvals of the Resolutions:

Ms. Feely moved to adopt Resolution 2013-4, which sets forth the Amendments to the FPPA Rules and Regulations and to Statewide Hybrid Plan Rules and Regulations and that this Resolution sets forth the basis and purpose of each of these Amendments. Mr. Blumenthal seconded the motion. The motion passed.

Ms. Feely moved to approve Resolution 2013-5 which sets forth the Amendments to the Colorado Springs New Hire Pension Plan and states the basis and purpose of each of the amendments. Mr. Blumenthal

seconded the motion. The motion passed.

Mr. Bomberger moved to approve Resolution 2013-7 which sets forth the Amendments to the Statewide Hybrid Plan Document and states the basis and purpose of each of the amendments being proposed. Ms. Feely seconded the motion. The motion passed.

Ms. Feely moved to approve Resolution 2013-6 regarding the Statewide Money Purchase Plan and which sets forth the amendments to the plan and states the basis and purpose for each of the amendments. Mr. Blumenthal seconded the motion. The motion passed.

Ms. Feely moved to adopt Resolution 2013-8 regarding the 457 Plan Document amendments and which states the basis and purpose for each of the amendments. Mr. Bomberger seconded the motion. The motion passed.

Mr. Lindahl addressed Mr. Blumenthal's question on state law versus the rules. Colorado Revised Statutes, Section 31-31-202(1)(j), is the authority under which the Board adopt rules for plans under its administration. Any rule that the Board adopts has to be within the scope of the statutory provision, as the statute provisions take precedent over rules that are adopted.

At 9:26 a.m., the Rule Making Hearing concluded and the Board returned to its regular meeting. Mr. Sutherland, Ms. Witsell and Ms. Faddis left the meeting.

At 9:30 a.m., Vice Chair Bower called for a break.

At 9:43 a.m., the meeting reconvened. Ben Bronson and Jessica Hsu joined the meeting.

Unconstrained Fixed Income

Mr. Simon updated the Board on the asset liability study conducted and approved by the Board earlier in the year; focusing on fixed income which was reduced down from 19% of the total fund to 12%. Types of strategies utilized in the past will change from benchmark core strategies to unconstrained strategies. Today's presentation by Goldman Sachs Asset Management is the first of potentially three managers to be recommended for the portfolio. Mr. Blumenthal shared his past experience and concerns surrounding Goldman Sachs. Mr. Simon and Mr. Bronson reassured the Board that staff has undergone a rigorous diligence process including a lengthy IRC process, in-depth discussion of fees and evaluation of conflicts of interests. The staff believes concerns have been addressed and Goldman Sachs remains a strong recommendation to the Board.

Mr. Bronson presented an unconstrained fixed income analysis and introduced high level points of portfolio construction and why FPPA is recommending Goldman Sachs for this particular strategy. Mr. Linder reminded the Board that this is an

issue many are facing; the traditional benchmark oriented fixed income is probably unable to meet the goals. Mr. Linder stated that staff's approach is similar to what other plans are doing to address the issue.

At 10:15 a.m., Ms. Ivy and Mr. Goosay (Goldman Sachs Asset Management) joined the meeting.

Mr. Goosay discussed Goldman Sachs' investment approach to unconstrained fixed income investing, how the strategy works and how they're positioned, including a recap of the changing market dynamics, their process and how they take advantage of the opportunity and performance.

At 11:02 a.m., Ms. Ivy and Mr. Goosay left the meeting.

Mr. Stanton asked about Goldman Sachs' future positioning and how much of their success hinges on their ability to forecast policy. Mr. Bronson explained that looking at their historical contribution from duration, which could be tied to policy making, it's been minimal. In order to allocate to subsectors they have to be strong in their forecasting and understanding how the Fed works.

Mr. Bomberger moved to allocate \$100 million to Goldman Sachs Asset Management for its unconstrained fixed income strategy, with funding coming from a partial redemption of C.S. McKee. Mr. Stanton seconded the motion. The motion passed.

Investment Report

Mr. Simon reviewed the economic recap and financial performance for August 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. Total Fund performance (net of fees) in August was **-0.48% (6.63% YTD)**. Net Investible Assets for the Total Fund are estimated at **\$3.72 billion** as of August 31.

Risk Exposures

A new bar chart has been added for the target allocations from the recently approved asset liability study.

Investment Managers

FPPA staff was well informed by manager Southpoint regarding a 2010 SEC inquiry of a trading error and staff believes Southpoint has taken appropriate steps to make certain this doesn't happen again.

Alternative Investments

Alternatives Investment cash flows remain strong for 2013 with FPPA receiving nearly \$25 million in distributions for August. The secondary transaction is anticipated to close at the end of September.

IRC Update

The IRC met twice during the month of September and the Investment Staff presented:

- An educational primer on potential unconstrained fixed income strategies
- A Global macro primer, a sub-strategy of hedge funds
- Change in Driehaus benchmark from the MSCI AC World USA Small Cap Index to the MSCI AC World Ex USA Small Growth Index

Sudan Divestment Compliance

Mr. Simon presented the semi-annual report detailing FPPA's compliance with the Sudan Divestment Legislation. Mr. Simon will follow up with Mr. Bomberger's inquiry of why Caterpillar showed up on the conflict risk list a year ago.

Q2 Portfolio and Capital Market Review

Mr. Linder reviewed FPPA's second quarter portfolio and capital market review. The value of FPPA's plan as of June 30th, 2013, was \$3.7 billion, an increase of \$144.7 million since the 1st quarter, a \$428.8 million increase year over year. The portfolio outperformed the policy over the one year period and in-line with peers on the 1-, 3- year periods on a gross basis. The last two years have been focused on changing the design in the portfolio to be less volatile and outperform in a down market and this was evident in the tough 2nd quarter where the portfolio significantly outperformed our peers.

Alternative growth is 20% of FPPA's portfolio; however, the breakdown of the classes has changed over the last quarter and that has not yet been reflected in the policy language. Mr. Simon and the Investment Staff will need to present these changes through a revised Investment Policy Statement, including benchmarks and allocations.

Mr. Linder continued by highlighting the Risk Metrics report. Rates are up significantly and rate risk has decreased relative to the past. Valuation in equity markets is much better outside the U.S. than inside, yet still within reasonable levels. The Market Sentiment is still quite strong and there may be short term hiccups imposed by the debt and fiscal debate, and could be a buying opportunity for risk assets. There was a revision of Capital Market assumption to the fact that interest rates rose significantly since the start of the year.

At 11:50 a.m., Mr. Bronson and Ms. Hsu left the meeting.

Staff Report

CEO Report

Mr. Slack explained the process of FPPA's 2014 Budget as presented to the Board. Aside from focusing on the budget, staff is spending a lot of time on GASB implementation and related issues, including proposed legislation, and a recommendation to the Pension Reform Commission (PRC) that it study the state of volunteer firefighter plans in the state of Colorado.

An Employer Seminar will be held at the Denver Police Protective Association offices with a large focus on the new GASB provisions. Focus is also on the Member Election of the Statewide Defined Benefit Plan which will take place in April 2014. The member Task Force continues to meet and strategize on election. Mr. Slack will also address the annual meeting of the Colorado Professional Fire Fighters, with a discussion of the state of FPPA and the upcoming election.

Due to overwhelming comments and feedback from FPPA and similar funds, the SEC has decided not to require registration of Board members as financial advisors.

A recent article alleged Detroit's municipal fund has been disbursing "extra" unauthorized payments. The article referenced actuaries Gabriel, Roeder, Smith, and Company (GRS). As they are also FPPA's actuarial firm, Joe Newton (GRS) is going to follow up with Mr. Slack on this matter. Mr. Blumenthal suggested taking steps to learn costs that may be encountered should GRS be found at fault and FPPA need to make a conversion of actuaries.

Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters. The Old Hire Plans compliance project to obtain letters of determination from the IRS is now focused on the individual departments with a January deadline to file. Departments have the right to opt out of the program, however they are considered "in" unless they opt out.

Legislation has been drafted and distributed to members of the Pension Reform Committee (PRC) and staff is preparing reports for the PRC hearing. As Mr. Slack mentioned, one recommendation to the PRC will be the study of the volunteer firefighter system in Colorado.

Chairman's Report

Election Procedure

Ms. McGrail presented a policy pertaining to any election for the modification of the Statewide Defined Benefit Plan as permitted by 31-31-408 C.R.S. as amended, and FPPA Rules under Section 704. Specifically, Rule 704.08 expands how the elections can be conducted by permitting the FPPA Board to prescribe an election procedure whereby the membership can vote using paper ballot, and/or the phone, internet or email.

Mr. Stanton moved to accept the Election Procedure. Mr. Bomberger seconded the motion. The motion passed.

Ms. McGrail shared that the field education is ongoing – with the goal to visit every SWDB fire department and police department in the state prior to the election, along with regional meetings and special request meetings, such as presenting at union meetings, etc. While reactions are mixed, more and more members are indicating that they see the value in and importance of increasing the contribution rate. As the education unfolds, more positive reactions are being heard. The election calculator was created and is housed on the website as a key tool in helping members understand their personal impact.

Ms. Collins discussed various communication tools including the member website housing the white paper, brochures, Q&A, video and a calculator that allows members to input their own criteria to project base amount, sample benefit adjustments and anticipated COLAs. The forum offers members the opportunity to share information on various topics. The current poll on the forum asking members who they trust to provide them with accurate and timely information of their pension has received strong votes in favor of FPPA's staff and the communications team along with the Board.

Mr. Slack outlined the possible speakers for the November 21st Educational Session:

- Fiduciary training from legal counsel at Fidelity
- Executive Director of the Council of Institutional Investors on the value of corporate governance
- Risk Metrics to discuss the proxy voting they are doing on FPPA's behalf
- A Money Manager to talk about corporate responsibility or Environmental Social Governance issues (ESG)

Mr. Esquibel suggested bringing in a speaker at some future educational session that delivers a broad perspective of trends in the workplace and how that affects FPPA and the market in general.

Ms. Feely has been accepted to speak about GASB 67 & 68 and our work with the auditors at the NCPERS conference in October.

Vice Chair Bower stated that the Audit Committee will stand with two Board members with possibility for expansion at a later date.

At 12:34 p.m., Mr. Worrell and Mr. Bomberger left the meeting.

Mr. Slack discussed an upcoming 2013 educational event - the Fiduciary Investment Symposium that will be held at the end of October. Topics include good governance, decision making practices, and how the design of your plan may influence your investment strategy.

At 12:43 p.m., Ms. Feely moved to adjourn the Board meeting. Mr. Stanton seconded the motion. The motion passed.