

FIRE and POLICE PENSION ASSOCIATION

Board of Directors

February 27, 2014

- 7:30 a.m. **Call to order**
Sue Eaton, Chair
- Approval of January 30 Board Meeting minutes
Sue Eaton, Chair
- Consent Calendar
Sue Eaton, Chair
- Evaluation of CEO
Sue Eaton, Chair
- 8:40 a.m. **Break**
- 8:45 a.m. **Self-Directed Plans Annual Review**
- Fidelity presentation
David Thompson, Suzanne Rogers
- Bidart & Ross presentation
Annette Bidart, Mike Fleiner
- 10:15 a.m. **Break**
- 10:30 a.m. **Investment Report**
- Investment Risk Committee report
Cliff Stanton, Chair
- Review of January 2014 performance
Scott Simon
- Review of Managers
Scott Simon
- Investment Policy Statement/Benchmarking
Scott Simon, Dan Slack
- 11:30 a.m. **Lunch**
- 12:00 p.m. **4Q 2013 Investment Report**
Risk Metrics Report
John Linder, PCA
- 12:30 p.m. **Staff Report**
- CEO Report
Dan Slack
- Legal Report
Kevin Lindahl
- 4Q Strategic Planning Update
Dan Slack

Board Resolutions:

- 1) Resolution in Support of an Increase of Member Contributions
- 2) Member Contributions to the Statewide Defined Benefit Plan

Kevin Lindahl

Resource Center review

Dan Slack

1:15 p.m.

Chair's Report

Sue Eaton, Chair

1:30 p.m.

Adjourn

1:30 p.m.

Educational Session: Understanding FPPA's Actuarial Results

Dana Woolfrey, Gabriel Roeder Smith & Co.

2:30 p.m.

Conclusion of Educational Session

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
February 27, 2014**

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

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

Board Members Absent: Manuel Esquibel and Tyson Worrell

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Scott Simon, Elaine Gorton, Jacquette Tara, Dale Martin, Ben Bronson, Austin Cooley, and Jessica Hsu

Others Present: John Linder of Pension Consulting Alliance; Suzanne Rogers, David Thompson, Brent Clark, and Sam Casad of Fidelity; Annette Bidart and Mike Fleiner of Bidart & Ross; Michael Moser, guest of Mr. Lindahl.

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 7:30 a.m., Chair Eaton called the meeting to order.

Chair Eaton called for a motion to approve the minutes of the January 30, 2014, board meeting. Mr. Bower moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried with Pam Feely and Nick Nuanes abstaining.

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

At 7:32 Mr. Bower moved that Board adjourn into Executive Session to discuss personnel matters allowed under Section 24-6-402 (f) of the Colorado Revised Statutes. Ms. Feely seconded the motion. The motion passed unanimously. FPPA staff and Mr. Linder were excused.

At 9:10 a.m., regular meeting reconvened. FPPA staff, Mr. Linder, Ms. Rogers, Mr. Thompson, Mr. Clark, Mr. Casad, Ms. Bidart and Mr. Fleiner joined the meeting

At 9:20 a.m., Mr. Moser entered the meeting.

Self-Directed Plans (SDPC) Annual Review

Dan recapped the discussion from the recent SDPC annual review. A lengthy report and discussion was held surrounding the ongoing projects and initiatives of FPPA staff jointly with Fidelity as record keeper for the self-directed plans (457 Deferred Comp, Statewide Money Purchase, Statewide Hybrid, DROP and SRA). A discussion of plan loans and Roth contributions will be presented today. Allocation of expenses among the investment choices, the various mutual fund options members have, will be addressed at a later date.

Fidelity

Mr. Clark, Mr. Thompson, Ms. Rogers of Fidelity discussed managed accounts and Portfolio Advisory Service at Work (PAS-w). Whereas Target Date Funds utilize only one piece of data, a member's birthdate, managed accounts require more information as an "action" (phone call, questionnaire, assets outside the plan, etc.). Hence, a more appropriate, custom strategy can be devised than with a birthdate alone.

Managed accounts have the advantage of utilizing the funds in FPPA's line-up. With multiple models available, portfolios are designed to accommodate the member's risk as they move closer to retirement. Members active in a managed account are contacted each year by Fidelity for updates and changes. Typically 5% of the members utilize a managed account service, and statistically the rate of return is higher than in a non-managed account.

Even with a break point fee of 50 basis points, a PAS-w can make more sense than a Self-Directed advisory account due to the core fund line-up offered.

As the market place sees more and more plans addressing the issue of inertia, FPPA will be working with Fidelity on a communications strategy to educate the members on this option available to them.

Mr. Clark shared the history behind Fidelity and its founders, highlighting recent growth changes within Colorado. From walk-ins and call-ins to a more robust interaction, Fidelity offers financial planning services and guidance to best position the member's investments with the intention that the assets last through their retirement.

At 10:00 a.m., Mr. Thompson left the meeting.

At 10:15 a.m., Ms. Rogers left the meeting.

At 10:25 a.m., Misters Bomberger, Casad and Clark left the meeting.

Ms. Rogers shared a summary of statistics of FPPA's plans as well as 2013 key accomplishments including strategic and fiduciary highlights.

Ms. Rogers and Ms. Bidart discussed FPPA's option in providing loans to their members. Across Fidelity's platform, well over 85% of total plans currently offer loans. Nearly 100% of Fidelity's plans the same size of FPPA's plans, offer loans. About 85% of plans in the non-profit space offer loans. While a high number of plans may offer loans, only about 18-23% of participants take advantage of those

loans, this equals about 2½ % of the total plan assets.

Staff spoke to the importance of offering loan options in the 457 Plans in order to be competitive with other 457 Plans. Although very restrictive, FPPA's 457 Plan does currently have an "unforeseen emergency" withdrawal provision in place for pre-retired members. An active member can withdraw from their plan, however the times and amounts allowed to withdraw are limited per IRS regulations. Qualifying unforeseen emergency withdrawals in the 457 Plan exclude college tuition or down payment on a home; amounts are limited to the emergency amount only and are disqualified if the individual has other assets (savings, insurance, etc.) available.

Should the Board agree to offer members loan options, an amendment to the plan document will likely be needed and if so, written up for Board approval around August/September of 2014. The Self-Directed Plans Committee will hold further discussion focusing on related specifics, such as loan default, limits of loan amounts, and other loan criteria.

Mr. Bower and Mr. Stanton agreed that FPPA should offer loans in both the 457 Deferred Compensation Plan and Money Purchase Plans. Chair Eaton, Ms. Feely, Mr. Nuanes, and Mr. Blumenthal agreed better loan provisions should only be offered in the 457 Deferred Compensation Plan.

Bidart & Ross

Ms. Bidart and Mr. Fleiner, Bidart & Ross, reviewed FPPA's assets in the Target Date Funds and the history behind the selection. Although January 2014 did encounter some volatility, early February saw that volatility subside and the markets bounced back. Even with a large cash flow in 2013, FPPA's Plan returned +18% in asset growth for the year.

Ms. Bidart addressed the change of key portfolio manager at Harbor International Fund, which is currently on the watch list. The DWS Alternative Asset Allocation Plus Fund is on guarded/watch status and Bidart & Ross recommends keeping both managers in place. The resignation of the CEO/co-CIO at PIMCO is a big loss to the firm and remains on the watch list. However, the changes to the management team and the structure in place, along with PIMCO's depth of managing and portfolio partners and low fee charge (43 basis points), Bidart & Ross recommends keeping them on as a manager for the Total Return Fund. If a daily valued comingled fund with a good manager could be found with a lower fee than PIMCO's, there may be a recommendation to replace them.

Discussion touched on revenue sharing costs and addressing a better way to equitize the way fees are coming out so no one plan is more heavily impacted than others.

At 10:50 a.m., Ms. Bidart and Mr. Fleiner left the meeting.

At 10:50 a.m. Chair Eaton called for a break.

At 11:10 a.m., the meeting reconvened. Mr. Cooley, Mr. Ross and Ms. Hsu entered the meeting.

Investment Committee (IC) Update

Mr. Stanton brought the Board up to date on the Investment Committee, which recently changed its name from Investment "Risk" Committee.

The committee met five times and concurred on four investment recommendations.

- \$10 million commitment to H.I.G. Middle Market LBO Fund II, L.P.
- \$10 million commitment to Pauls Real Estate Opportunities (2014), L.P.
- \$15 million commitment to Energy Capital Partners III, L.P.
- £10 million commitment to Alchemy Special Opportunities Fund III, L.P.

The Investment Policy Statement (IPS) changes will be reviewed by the Board today. The IRC has asked Ms. Gorton to prepare additional information for review on the possibility of adding an incentive compensation program around the investment staff's total compensation. Once the proposal is finalized, it will be presented to the Board.

Investment Report

Mr. Simon presented the economic recap and financial performance for January 2014. Stock markets retreated in January as investors feared the prospect of slowing growth in China. Emerging markets equities led the decline of most equity markets. Bond markets reacted positively with a 1.48% return. The yield on the 10-year Treasury declined 40 basis points during the month.

Most of FPPA's active long-only equity managers underperformed their benchmark. While a positive month, the Fixed Income Portfolio underperformed its benchmark, with negative contribution coming from GSAM and PIMCO. Private Equity continues to underperform its public equity +3% benchmark on a short-term basis.

Total Fund performance (net of fees) for the month was **-1.96% (+10.64% 1-year)** and Net Investible Assets for the Total Fund are estimated at **\$3.90 billion** as of January 31.

Mr. Simon, Mr. Slack and Mr. Linder discussed the final Investment Policy Statement (IPS) changes, highlighting modifications to the current benchmark policy. The proposed structure consists of three conceptual levels of benchmarking:

1. Reference Benchmark
 - a. Established by the risk tolerance of the Board
2. Policy Benchmark
 - a. Sets expectations, is aspirational, and is long-term
3. Implementation benchmark
 - a. Defines implementation decisions, over a relevant, shorter-term, time period

Ms. Feely moved to adopt Resolution No. 2014-2, adopting the Investment Policies Statement. Mr. Bower seconded the motion. The motion passed.

At 11: 55 a.m., Chair Eaton called for a break.

At 12:15 p.m., the meeting reconvened.

Risk Metrics

Mr. Linder reviewed the Investment Market Risk Metrics. After multi-year highs, the equity markets pulled back in January 2014. Bond prices moved 1½% in January and equity volatility rose significantly (+30%) to a level of 18 by month end; yet below the long-term average of 20. PCA's *Market Sentiment Indicator* chart continues to reflect a bullish trend.

4Q 2013 Report

Mr. Linder reported that the fund has performed in line with the policy benchmark (net of fees) and outperformed the median public fund (gross of fees). The direction of the fund has moved towards a less volatile portfolio while maintaining a similar level of return to our public market peers and outperforming the policy benchmark.

Staff Report

CEO Report

Mr. Slack spoke about the City of Brighton's interest in purchasing FPPA's old boardroom chairs. Mr. Lindahl confirmed it is not a conflict of interest for one of FPPA's employers to purchase surplus furniture from FPPA. The City of Brighton has agreed to pay the market price as obtained by an independent third party.

Mr. Nuanes moved to approve the sale of the chairs to the City of Brighton. Ms. Feely seconded the motion. The motion passed.

Mr. Slack and Ms. McGrail updated the Board on the member election in the Statewide Defined Benefit Plan, including an email to the members and employers, along with a revised calculator for both the 2% and a 4% increase.

Ms. Collins discussed a recent announcement from the American Institute of CPAs (AICPA) regarding implementation of Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for

Pensions, with regard to the cost-sharing multiple-employer pension plans. This announcement indicates that additional audit analysis will be required on what employers are contributing to FPPA. One of the options is to have the employer's auditor perform the audit. The Colorado Society of CPAs is waiting until the end of March, when the AICPA is scheduled to release the actual audit guidelines. The February 28 Government Finance Officer Association (GFOA) Board meeting has on the agenda to discuss whether they will recommend that GASB delay implementation until the audit requirements can be finalized. There are still many unknowns, and FPPA staff will keep the Board up to date.

Continuing with the agent multiple-employer pension plans, Ms. Collins will meet with FPPA's actuaries regarding the AICPA's recommendation of actuarial certification letters on each valuation for the Old Hire and Volunteer plans. In addition, she will discuss the AICPA's recommendations that actuarial assumptions need to be specific to the employer.

4Q Strategic Planning Update

Mr. Slack discussed the the Strategic Plan and updates that have been completed by staff. Significant efforts are being put forth on the Statewide Defined Benefit election and the Self Directed plans. Other areas of focus are unclaimed property, GASB 67 & 68, IT's efforts in support of the business functions of the organization, the implementation of the staff-driven structure of the investment program, and additional leadership training.

Mr. Slack provided the Board with an update on the Diligence Boardbooks Resource Center. The Board agreed the recurring annual Resolutions were not needed items in the Resource Center. It was also agreed for the sake of saving battery life and hard-drive space on e-devices, the Resource Center would only be available on-line.

Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters. The depositions of Mr. Slack, Ms. McGrail and Mr. Lindahl have been scheduled in the Dolan case. At the legislature, the Old Hire bill was amended to allow North Washington and Pueblo an additional year to increase their contributions from the historic level-dollar rate to the ARC; however, those employers would be required to go to the actuarial required contribution beginning in 2016 at the latest.

The IRS has confirmed receipt of the 47 applications FPPA filed regarding the Old Hire Plans under Cycle C to receive plan qualification letters. Action by the IRS could take a couple of years.

At 1:08 p.m., Dana Woolfrey, GRS, entered the meeting.

A discussion around alternative legal fees for investment transactions was begun. Mr. Lindahl explained that beginning in January 2013, Ballard Spar was used exclusively for this work. Later in the year a decision was made to engage in a

secondary sale, and a second attorney was brought in to assist with the legal work. Currently, FPPA is cycling the reviews of private equity and hedge funds between three firms. This current arrangement allows FPPA staff the opportunity to evaluate the quality and cost of the work. Later in the year, FPPA staff will decide if the right team is in place, if the focus should be on less than three firms, or if investment legal services should be taken out to an RFP.

Mr. Lindahl reviewed Resolution 2014-03, which acknowledges that the Board recommends an increase of SWDB member contributions of 4% over 8 years and furthermore, the Board also supports a 2% increase should the 4% increase fail. Mr. Bower moved that Resolution 2014-03 be adopted. Ms. Feely seconded the motion. The motion passed.

Mr. Lindahl reviewed Resolution 2014-04, which sets a 2% increase of the SWDB member contributions as a contingent proposal to be included on the election ballot and also sets the election date for the month of June 2014. Ms. Feely moved that Resolution 2014-94 be adopted. Mr. Bower seconded the motion. The motion passed.

At 1:22 p.m., Mr. Linder left the meeting.

At 1:30 p.m., Mr. Bower and Mr. Moser left the meeting.

Chairman's Report

Chair Eaton reminded the Board that the Board self-evaluation will be held at the March meeting.

At 1:41 p.m., Chair Eaton called for a motion to adjourn the Board meeting. Mr. Stanton moved to adjourn the meeting. Ms. Feely seconded the motion. The meeting adjourned.

At 1:45 p.m., Ms. Woolfrey presented an Educational Session on Understanding FPPA Actuarial Results.