

FIRE and POLICE PENSION ASSOCIATION

Board of Directors
Strategic Planning Retreat
June 11-13, 2014

Wednesday, June 11th

Cucina Restaurant

6:30 p.m. **Reception & Dinner**

Ice Miller presentation

Terry Mumford, Rob Gauss, Ice Miller

Keynote address

Roy Appelman, Goldman Sachs

FIRE and POLICE PENSION ASSOCIATION

Board of Directors
Strategic Planning Retreat
June 11-13, 2014

Thursday, June 12th

International Room A

- 7:00 a.m. **Breakfast**
- 8:00 a.m. **Welcome**
Dan Slack, Mark Loye
- 8:15 a.m. **Board self-evaluation**
Chair Sue Eaton
- 9:15 a.m. **Break**
- 9:30 a.m. **Actuarial valuation**
Joe Newton, Dana Woolfrey, Gabriel, Roeder, Smith & Co. (GRS)
- 10:00 a.m. **Drawdown risk - SWDB**
Joe Newton, Dana Woolfrey, GRS
- 10:30 a.m. **Break**
- 10:45 a.m. **Option analysis - SWDB**
Sorina Zahan, Core Capital Management
- 11:45 a.m. **Asset/Liability study**
*Staff, Joe Newton, Dana Woolfrey, GRS,
Neil Rue, John Linder, Pension Consulting Alliance (PCA)*
- 12:15 p.m. **Lunch**
- 1:30 p.m. **A few thoughts**
Dan Slack
- 2:00 p.m. **Board open discussion**
*(Strengths, problems, opportunities, threats, trends)
facilitated by Mark Loye*
- 3:15 p.m. **Break**
- 3:30 p.m. **Board open discussion (cont.)**
- 5:30 p.m. **Adjourn**
- 7:00 p.m. **Dinner - Sweet Basil Restaurant**

FIRE and POLICE PENSION ASSOCIATION

Board of Directors
Strategic Planning Retreat
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Friday, June 13th

International Room A

7:00 a.m. **Breakfast**

8:00 a.m. **Call to order**

Sue Eaton, Chair

Approval of April 25th minutes

Consent Calendar -

Chaffee County FPD Affiliation for Clerical Staff (revised)

8:05 a.m. **Audit Committee Report**

Jack Blumenthal, Chair

8:30 a.m. **Winton Global Equity Program**

Matthew Beddall, Jonathan Anayi, Winton Capital Management

9:10 a.m. **Investment Report**

Investment Committee Report

Cliff Stanton

Review of April performance and managers

Scott Simon

Swap policies and procedures

Austin Cooley

Self-Directed Plans Committee

Scott Simon

10:00 a.m. **Break**

10:15 a.m. **1Q PCA Portfolio and Capital Markets Review, Risk Metrics, and Risk Performance and Evaluation Framework**

John Linder, Neil Rue PCA

11:00 a.m. **Break**

11:15 a.m. **Actuarial valuation review (SWH, SWD&D, Colorado Springs)**

Joe Newton, Dana Woolfrey, GRS

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12:00 p.m. **Staff report**

CEO Report
Dan Slack
1Q 2014 Strategic Plan Update
Dan Slack
Resource Center review
Dan Slack
Legal Report
Kevin Lindahl
SWDB Election Update
Gina McGrail

1:00 p.m. **Chairman's report**

Chair's remarks
Sue Eaton, Chair
Evaluation of TEDS (NCPERS)
Nick Nuanes
Evaluation of NCPERS annual conference
Pam Feely
Evaluation of CFA
Cliff Stanton

1:15 p.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
June 11-13, 2014**

**The Lodge at Vail
174 Gore Creek Drive
Vail, CO 81657**

Board Members Present: Chair Sue Eaton, Cliff Stanton, Jack Blumenthal, Tyson Worrell, Pam Feely, Dave Bomberger and Nick Nuanes

Not Present: Vice Chair Todd Bower, Manuel Esquibel

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon, Elaine Gorton, Austin Cooley, and Jacquette Tara

Others Present: John Linder and Neil Rue, Pension Consulting Alliance; Joe Newton and Dana Woolfrey, Gabriel Roeder Smith & Co.

Other Attendees on Wednesday, June 11th: Terry Mumford, Rob Gauss, Ice Miller; Roy Appelman, Goldman Sachs

Other Attendees on Thursday, June 12th: Mark Loye, Mediation Works 2 LLC; Sorina Zahan, Core Capital Management

Other Attendees on Friday, June 13th: Matthew Beddall and Jonathan Anayl, Winton Capital Management (via teleconference and internet video)

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.

On Wednesday June 11, at 7:30 p.m., Terry Mumford, Rob Gauss (Ice Miller), gave a presentation highlighting Cycle C and C-2 filings for SWDB, Colorado Civil Unions Act, and Rollovers vs. Service Purchases.

At 8:30 p.m., Roy Appelman (Goldman Sachs) presented the 2014 Market Outlook highlighting:

- Economic and Market Outlook
 - Global Growth
 - Views on US and other countries
 - Equity and Current Market Performance
- Equity View
 - Valuation-Driven Forecast
- Fixed Income View
 - Economic and Market Outlook

On Thursday, June 12, at 8:00 a.m., Chair Eaton called the retreat meeting to order.

Mr. Slack presented Pam Feely with an NCPERS Certificate reflecting her membership in the organization's national council for 2014-2015. Mr. Slack introduced Mark Loye and Sorina Zahan. Mr. Loye reviewed twelve ground-rules with the Board for meeting facilitation purposes.

At 8:11 a.m., Chair Eaton asked staff and guests to leave the meeting in order to hold the Board self-evaluation. The Board then conducted its self-evaluation.

At 9:15 a.m., Chair Eaton called for a break.

At 9:25 a.m., the meeting reconvened.

Actuarial Valuation

Mr. Newton and Ms. Woolfrey presented the January 1, 2014, Valuation Results of the Statewide Defined Benefit Plan (SWDB). Highlights included:

- History and benefit design
- Valuation results
- Stabilization Reserve Account (SRA) results
- Benefit safeguards (drawdown risks)
- Impact of additional employee contributions at 2% implemented over 4 years and at 4% implemented over 8 years
- Mortality assumptions
- Longevity expectations

At 11:05 a.m., Chair Eaton called for a break.

At 11:15 a.m., the meeting reconvened.

Option Analysis

Ms. Zahan presented a Structural Analysis of the SWDB Plan detailing the complexity of the plan along with its optionality. Considerations included:

- Analysis framework
 - A look into uncertainty: valuation framework
 - A look into complexity: modeling framework
- Simplified Case: no COLA, SRA only
- Option 1: Increase in the contribution rate
- Option 2: Rollback to original benefits
- Option 3: Conditional inflation indexation

At 12:55 p.m., Chair Eaton called for a lunch break.

At 1:25 p.m., the meeting reconvened.

Asset Liability Study

Mr. Simon and Mr. Cooley discussed the purpose, process, and goals of the Asset Liability Study. The review included a discussion of portfolio results due to more alternative investments, higher implementation risk, and more peer risk. New strategies over recent years included absolute return, long/short, managed futures, unconstrained fixed income, and real assets. Mr. Simon discussed the modeling process along with details of the capital markets expectations utilized. With recognition of the funded status of the plans and the low return environment, the Investment Staff recommended no material changes to the asset allocation.

A few thoughts...

Mr. Slack presented a summary of risks faced by FPPA as collected by the Executive Team and management. These were categorized into a matrix of:

- High probability, high risk
- Low probability, high risk
- High probability, low risk
- Low probability, low risk

At 2:15 p.m., Mr. Loye facilitated the Board in an open discussion surrounding FPPA's:

- Strengths
- Problems
- Opportunities
- Threats
- Trends

At 3:20 p.m., Chair Eaton called for a break.

At 3:40 p.m., the meeting reconvened.

Mr. Slack asked for feedback on Board meetings, and materials and delivery of Board packets. There were mixed opinions. Some Board members would like to see an analysis of cost-effectiveness and member service quality. Some Board members would also like to have staff determine how to better use technology in communication and cost-effectiveness.

In addition, the Board would like to continue discussions on the empirical analysis of options within the SWDB plan, specifically related to the methodology of benefit adjustments and SRA and intergenerational equity.

Mr. Slack proposed holding regional Board meetings outside the Denver metro area, thus opening up opportunity for members to attend and to emphasize the state-wide nature of FPPA.

At 4:30 p.m., Chair Eaton adjourned the meeting.

On Friday, June 13, at 8:04 a.m., Chair Sue Eaton called the meeting to order.

Chair Eaton called for a motion to approve the minutes of the April 25, 2014, board meeting. Mr. Blumenthal moved to approve the minutes. Ms. Bomberger seconded the motion. The motion carried with Mr. Nuanes abstaining.

Consent Calendar

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

Investment Report

Investment Risk Committee Report

Mr. Stanton reviewed the last three meetings of the Investment Committee:

- Approved a full redemption of Moon Capital, within the absolute return portfolio.
- Approved an investment in ESG Domestic Opportunity Fund, a long-biased, emerging market-focused equity long/short hedge fund to be held in the long/short portfolio.
- Approved a rebalancing recommendation to accommodate funding of Manulife, and ESG, and to replenish cash to 1% of the total fund.
- Approved a commitment to Raine Partners II to be held in the private equity portfolio.
- Approved the elimination of the dedicated emerging markets equity overlay
- Reviewed the 2014 Asset Liability Study.
- Reviewed the SWAP procedures to accommodate the use of total return swaps to manage total fund strategic exposures.
- Approved an investment in the Winton Global Equity Program, an allocation to be held within the global equity portfolio.

Monthly Investment Report

Mr. Simon provided the economic recap and fund performance for April 2014. With the exception of U.S. small cap, April and May markets were marginally positive and falling Treasury yields continued to provide a modest tailwind to fixed income assets. Total Fund (net of fees) was **+0.39% in April**, bringing the **YTD to +1.3%**. Net Investible Assets for the Total Fund are estimated at **\$4.03 billion** as of May 31. The Investment staff has implemented a new performance report visually reflecting managers and their benchmarks.

The termination of PIMCO at the Defined Benefit level has been completed. Within the Self-Directed Plans, PIMCO is scheduled to be replaced with another core bond fund, the Dodge and Cox Income Fund.

Winton Capital Management

Mr. Cooley introduced Winton Capital Management and the company's long-only equity strategy. Offering an alternative to capitalization-weighted passive exposure; Winton aims to outperform the MSCI World Index through thoughtful portfolio construction, dynamic exposure to risk factor premia, and lower cost implementation. This relationship will make FPPA the first U.S. institutional investor in this strategy, and Winton would be FPPA's largest active manager exposure. At 8:26 a.m., Matthew Beddall and Jonathan Anayl, connected via teleconference and internet video.

Mr. Beddall and Mr. Anayl discussed the Winton's scientific systematic investment approach, investment process, and overview of Winton's programs.

At 9:03 a.m., Misters Beddall and Anayl disconnected from the teleconference and internet video.

Mr. Stanton moved that the Board approve Staff's recommendation for an investment of \$200 million in a separate account in the Winton Global Equity Program to be liquidated from the SSgA passive equity account, subject to review and approval of the terms by the Executive Director.

Mr. Bomberger seconded the motion. The motion passed.

SWAP Procedures

Mr. Simon discussed SWAP agreements as an efficient way to gain (longer term) exposure. FPPA has engaged Russell Investments (our current overlay manager) to oversee the SWAP implementation process which includes:

- Counterparty Risk Management
- Margin Requirements and Cash Movements
- Documentation (ISDA) and Compliance
- Monitoring and Reporting

Mr. Bomberger moved that the Board approve amendments to the Investment Policy Statement as contained in tab 16.3.9 of the Board book. Mr. Blumenthal seconded the motion. The motion passed.

Audit Committee Report

Mr. Blumenthal reported that FPPA's Audit Committee reviewed the Comprehensive Annual Financial Report (CAFR) and approved the CAFR with a few minor changes. A clean opinion was received from CliftonLarsonAllen (FPPA's external auditors) on the Financial Section of the CAFR.

The Audit Committee presented to the Board in lieu of a formal presentation by the auditors. The auditors did make a presentation to the Audit Committee. The Board agreed to continue with this procedure going forward.

The Audit Committee met with auditors separately from staff and the auditors were complimentary of the FPPA Operations staff, primarily in conjunction with the Government Accounting Standards Board (GASB) Statements 67 and 68 implementation. The Audit Committee agreed to retain external auditors, CliftonLarsonAllen, for the SSAE 16 SOC 1 Type 2 audit. CliftonLarsonAllen agreed to provide FPPA an update to management by mid-December to alert on any curable deficiencies.

Expenses due to GASB 68 will be specifically allocated to each Plan. With no express authority in place, the Audit Committee suggested seeking legislation authorizing FPPA to assess "settlor" or employer costs to employers, unless deemed "de minimis". Draft legislation will be presented to the Board later in the year.

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.

An evaluation on Internal Auditor Tim O'Brien was positive.

Mr. Simon discussed the current status of using the Code Red database system to maintain compliance with SOC 1. A testing of a recently created structure housing Investment's obligations of policies and procedures will be done after July 1st.

Ms. Feely moved that the Board accept the Comprehensive Annual Financial Report for the Fire and Police Pension Association for 2013. The motion passed.

At 10:00 a.m., Chair Eaton called for a break.

At 10:20 a.m., the meeting reconvened.

1Q Portfolio and Capital Market Review

Mr. Linder reviewed FPPA's 2014 first quarter portfolio and capital market review. The value of FPPA's plan as of March 31, was \$4.0 billion, a quarterly increase of \$24.2 million, and a \$491.0 million increase year over year. Following a very strong 2013 for U.S. equity returns, domestic stocks began 2014 with a widespread selloff in January. However, strong returns in February allowed most major indexes to still post modest gains for the quarter as the S&P 500 and Russell 3000 returned 1.8% and 2.0%, respectively. Underperformance is attributable primarily to private markets trailing a public market benchmark, a difficult benchmark to keep up with, and the Global Growth portfolio trails when the market is up significantly.

Mr. Linder's review continued with the major takeaways from the Risk Metrics report:

- Interest rates in May are back down. The 10-year Treasury yield ended May at 2.6%.
- Spreads are back to 2006/2007 models. While valuations may be high, there is a lot of positive sentiment in markets.
- The U.S. equity market valuations remain in top decile levels.

- Private real estate cap rates are at top decile levels.

At 11:40 a.m., Mr. Rue, PCA, left the meeting.

Actuarial Valuation Review

Ms. Woolfrey (Gabriel Roeder Smith & Company) presented highlights of FPPA's January 1, 2014, valuation results for the Statewide Death & Disability Plan, Statewide Hybrid Plan – DB Component, and the Colorado Springs New Hire Fire/Police Plans.

- Investment returns of 15.1%
- Salary gains for all plans
- Funded status improvement for all

Plan Consideration

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

Statewide Defined Benefit Plan (SWDB)

Stabilization Reserve Account Contribution Rate

Ms. Feely moved to set the SRA contribution rate for members of the Statewide Defined Benefit Plan at 0%, effective 7/1/2014 through 6/30/2015. Mr. Blumenthal seconded the motion. The motion passed.

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 the members who are subject to the 20% continuing rate of contribution with the Statewide Defined Benefit Plan at 3.6% plus 0% for the base SRA, effective 7/1/2014 through 6/30/2015. Mr. Bomberger seconded the motion. The motion passed.

Stabilization Reserve Account Contribution Rate for Members of the Supplemental Social Security Plan

Mr. Bomberger 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 7/1/2014 through 6/30/2015. Mr. Blumenthal seconded the motion. The motion passed.

Benefit Adjustment for the SWDB 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 0.61%, effective 10/1/2014 through 9/30/2015. Mr. Bomberger seconded the motion.

A suggestion was made to consider lowering the COLA to allow for an even stronger distribution to members in the future. Mr. Slack discussed the desirability of formalizing the process necessary to revisit COLAs and suggested keeping with GRS's recommendation of 0.61%, but then look at the granting of COLA process and further intergenerational issues in the future. It was suggested that the Board develop a policy on how to set COLAs in the future.

Board roll call vote on the original motion:

Mr. Bomberger - Yes

Mr. Blumenthal – No

Chair Eaton - Yes

Ms. Feely – Yes

Mr. Nuanes – No

Mr. Stanton - Yes

Mr. Worrell – No

The motion passed.

Statewide Hybrid Plan (SWH) – Defined Benefit Component

SWH Plan – DB Component Contribution Rate

Ms. Feely moved to decrease the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 12.5% effective 7/1/2014 through 6/30/2015. Mr. Nuanes seconded the motion. The motion passed.

Benefit Adjustment for the SWH Plan – DB Component

Ms. Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 3.0%, effective 10/1/2014 through 9/30/2015. Mr. Blumenthal seconded the motion. The motion passed.

Colorado Springs New Hire Pension Plans

Reports for the Colorado Springs New Hire Plans have not yet been provided to the employer and therefore the decision will be deferred till the July Board meeting.

Statewide Death & Disability Plan (SWD&D)

SWD&D Contribution Rate (including Members of the Supplemental Social Security Plan)

Ms. Feely moved to retain the Statewide Death & Disability Plan contribution rate of 2.6% effective 1/1/2015 through 12/31/2016. Mr. Blumenthal seconded the motion. The motion passed.

Benefit Adjustment for the SWD&D 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 0.86%, effective 10/1/2014 through 9/30/2015. Mr. Blumenthal seconded the motion. The motion passed.

Ms. Collins noted that the Colorado statutes require an annual 3.0% benefit adjustment for totally disabled retirees and their beneficiaries.

Staff Report

Executive Director Report

Mr. Slack discussed articles included in the Board packet, noting those that may be of special interest to Board members. FPPA has begun to offer internal training to staff with a new program called Leadership Dialogues, which encompasses a group discussion of a selected leadership book. The FPPA staff also completed a program called Crucial Conversations, which addresses the facilitation of dialogue between coworkers and between employees and others, including members.

Discussion continued with the 1Q 2014 Strategic Plan Updates. Mr. Slack asked for suggestions from the Board to make the CEO/Staff Report and Strategic Plan Update more informative and valuable, unless it is adequate as is.

The Board approved Dan's invitation to speak at the Chilean Investment Forum in Santiago, Chile, in August at no cost to FPPA.

Resource Center Review

In alignment with the statutory language, the title of Chief Executive Officer will be changed back to Executive Director.

The Board determined not to change the name of **Governance Manual** to **Resource Center** as noted under Tab 16.3.2 and 16.3.4 of the Boardbook.

Ms. Feely moved the Board approve the amendments to the Governance Manual regarding **Board Meeting Protocol** as contained in Tab 16.3.3 of the Board Book. Mr. Blumenthal seconded the motion. The motion passed.

Mr. Blumenthal moved the Board approve the amendments to the Governance Manual regarding **Board Self-Evaluation** as contained in Tab 16.3.5 of the Board Book. Mr. Bomberger seconded the motion. The motion passed.

Ms. Feely moved the Board approve the amendments to the Governance Manual regarding **Audit Committee** as contained in Tab 16.3.6 of the Board Book. Mr. Blumenthal seconded the motion. The motion passed.

Mr. Blumenthal moved the Board to approve the amendments to the Governance Manual regarding the **Investment Committee** as contained in Tab 16.3.7 of the Board Book. Mr. Bomberger seconded the motion. The motion passed.

Ms. Feely moved the Board approve the amendments to the Governance regarding **Budget Committee** as contained in Tab 16.3.8 of the Board Book. Mr. Blumenthal seconded the motion. The motion passed.

Legal Report and Legislative Update

Mr. Lindahl updated the Board on FPPA's legal matters. Another institutional investor in the Barrick Gold Corporation litigation has agreed to be lead plaintiff in this case. FPPA's claims will be covered by the class action.

FPPA's Lobbyists will provide a report at the July Board meeting covering the 2014 legislative session. Also in July, a motion will be recommended to instruct staff to publish a notice of rulemaking that will be take place in September.

Statewide Defined Benefit Election

Ms. McGrail gave an update on the SWDB Member Election and acknowledged Ms. Woolfrey and FPPA staff's work.

Depending on the results of the June SWDB Plan member election, a brief Board meeting may be called in early July to discuss the processes for, and take any necessary action regarding, the employer election.

Chairman's Report

Mr. Nuanes provided an evaluation of his attendance at the NCPERS Trustee Educational Seminar (TEDS).

Ms. Feely provided an evaluation of her attendance at the NCPERS Annual Conference.

Mr. Stanton provided an evaluation of his attendance at the CFA Conference.

At 1:10 p.m., Chair Eaton adjourned the meeting.