

FIRE and POLICE PENSION ASSOCIATION
Board of Directors

September 25, 2014

7:30 a.m.

Call to order

Todd Bower, Chair

Approval of August 28 board meeting minutes
Approval of August 28 executive session minutes

Consent calendar

Affiliation Resolution from the Town of Platteville
Gina McGrail

Amendment to the Springfield Old Hire Police Pension Plan
Michael Sutherland

7:35 a.m.

**Hearing Regarding Amendments to Rules and Regulations
to Plan Documents**

Michael Sutherland

FPPA Rules and Regulations and Statewide Hybrid Plan Regulations
Resolution No. 2014-07

Colorado Springs New Hire Pension Plan Rules and Regulations
Resolution No. 2014-08

Statewide Money Purchase Plan
Resolution No. 2014-09

Statewide Hybrid Plan Document
Resolution No. 2014-10

Model FPPA Deferred Compensation Plan Document
Resolution No. 2014-11

8:50 a.m.

Break

9:00 a.m.

Investment Report

Investment Committee Report

Cliff Stanton

Review of August 2014 performance

Scott Simon

Review of Managers

Scott Simon

Other

9:30 a.m.

Managed Futures & Absolute Return Annual Review

*Austin Cooley, Ben Bronson, Jessica Hsu
Lincoln Smith, Albourne*

10:30 a.m. **Break**

10:40 a.m. **Private Equity Monitoring and Reporting**
John Linder, Pension Consulting Alliance

11:00 a.m. **Determination of Overpayment to Angela Marriott**
Michael Sutherland

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

11:50 a.m. **Staff Report**
CEO Report
Dan Slack
Legal Report
Kevin Lindahl
Second choice
Dan Slack, Kevin Lindahl, Gina McGrail
Volunteer Fire Department affiliation moratorium
Gina McGrail, Kim Collins
Other Matters

12:35 p.m. **Chairman's Report**

12:50 p.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
September 25, 2014**

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

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

Staff Members Present: Dan Slack, Kevin Lindahl, Kim Collins, Gina McGrail, Scott Simon, Elaine Gorton, Jacquette Tara, Mike Sutherland, Gina Witsell, Dale Martin, Ben Bronson, Jeff Kaszubowski, Sean Ross, and Jessica Hsu

Others Present: John Linder, Ryan Lobdell, Pension Consulting Alliance; Lincoln Smith, Albourne; Holly Faddis, Avery Woods Reporting; Angela Marriott, member

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 Bower called the meeting to order.

Chair Bower called for a motion to approve the minutes of the August 28, 2014, board meeting. Ms. Feely moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried with Mr. Stanton abstaining.

Chair Bower called for a motion to approve the minutes of the August 28, 2014, executive session. Ms. Feely moved to approve the minutes. Mr. Bomberger seconded the motion. The motion carried with Mr. Stanton abstaining.

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

Hearing on Proposed Amendments

Mr. Lindahl walked the Board through the process taken on by FPPA staff throughout the year leading up to the final proposed rule changes and plan amendments.

Chair Bower began the Public hearing for the proposed rules.

Mr. Sutherland presented the proposed amendments to the rules and regulations and plan documents for the FPPA Plans:

Rules and Regulations for Resolution No.:

- 2014-07 Adoption and Amendment of FPPA Rules and Regulations and Statewide Hybrid Plan Regulations
- 2014-08 Adoption and Amendment of CSNHPP Rules and Regulations

Adoption and Amendment to Plan Document Resolution No.:

- 2014-09 Adoption and Amendment of Statewide Money Purchase Plan Document
- 2014-10 Adoption and Amendment of Statewide Hybrid Plan Document
- 2014-11 Amendment of the Model FPPA Deferred Compensation Plan Document

At 7:44 a.m., Ms. Gorton joined the meeting.

Chair Bower inquired whether there was a provision in place that allows the vested retired member to receive the benefit of every benefit adjustment granted. Ms. McGrail clarified the question - "Does a member who elected a vested retirement receive the benefit of any benefit adjustments (COLAs) that are granted by the Board prior to the member's pension start date?" and replied "no". Ms. McGrail explained that a supplemental actuarial study was done on this provision, referred to as "indexing", a few years back, but no change was pursued to include this feature.

Mr. Nuanes questioned if the deferred retirement allows for a member to defer retirement for a certain amount of years and continue being eligible for any benefit adjustments.

Ms. McGrail explained that a member who has elected a vested or normal retirement can defer receiving that benefit until as late as age 65, and receive the higher actuarial equivalent of the benefit.

Mr. Worrell asked for more details surrounding member disability and the option to elect to terminate disability benefits and receive a retirement pension from the retirement plan in which the Member is enrolled, not limited to the FPPA Defined Benefit System, if the Member has reached normal retirement age. Mr. Sutherland explained that if a member goes out on a temporary disability and reaches age and service during that time, the member can elect normal retirement upon reaching age and service requirements. A member would need to be very close to retirement. For example, if a member goes out on a temporary disability at age 52, they could be temporarily disabled up to five years, at which time age and service would be reached. During this time the full contributions to the pension for the period of temporary disability are made out of the death and disability plan. Mr. Slack added that in many pension plans the disability provisions are integrated into the retirement plan itself and are not a separate plan. Because FPPA has a separate death and disability plan, this provision accomplishes the same thing as if

the plans were integrated.

Mr. Blumenthal questioned the deletion of the reference to the statutory interest charge that shall be compounded on an annual basis. Mr. Lindahl answered that the new legislation will consolidate this and let the board adopt new rules to address this. The statute states that an interest charge of ½ of 1% per month shall be levied against any unpaid amount and added to the employer payments.

FPPA Rules and Regulations and Statewide Hybrid Plan Regulations

Ms. Feely moved to adopt Resolution 2014-07, which sets forth the amendments to the FPPA Rules and Regulations and Statewide Hybrid Plan Regulations. Mr. Stanton seconded the motion. The motion passed.

Colorado Springs New Hire Pension Plan Rules and Regulations

Mr. Bomberger moved that the Board adopt Resolution 2014-08 which sets forth amendments to the Colorado Springs New Hire Pension Plan Rules and Regulations. Mr. Nuanes seconded the motion. The motion passed.

Statewide Money Purchase Plan

Ms. Feely moved that the Board adopt Resolution 2014-09 which sets forth amendments to the Statewide Money Purchase Plan. Mr. Nuanes seconded the motion. The motion passed.

Statewide Hybrid Plan Document

Ms. Feely moved that the aboard adopt Resolution 2014-10 which sets forth amendments to the Statewide Hybrid Plan Document. Mr. Nuanes seconded the motion. The motion passed.

Model FPPA Deferred Compensation Plan Document

Ms. Feely moved that the Board adopt Resolution 2014-11 which sets forth amendments to the Model FPPA Deferred Compensation Plan. Mr. Bomberger seconded the motion. The motion passed.

Board recognized Mr. Sutherland, Ms. Witsell and FPPA staff in preparation of the changes to the rules and plan documents.

At 8:39 a.m., Chair Bower closed the Rules Hearing and called for a break. Mr. Sutherland, Ms. Witsell and Ms. Avery left the meeting.

At 8:52 the meeting reconvened. Misterys Cooley, Bronson, Martin, Huntsman, Kaszubowski, Ms. Hsu, and Mr. Smith from Albourne joined the meeting.

Investment Report

Investment Committee Update

Mr. Stanton reviewed the actions taken at the Investment Committee meetings held since the last Board meeting.

- A \$15 million commitment to Roark Capital Partners IV, a private equity firm with a focus on middle-market buyout and growth equity.
- A \$20 million commitment to O'Brien Staley, a private debt fund investing in commercial industrial loans for small and mid-market companies.
- A \$10 million commitment to Strategic Investors Fund VIII, LP, with fund of funds investing in venture capital managers with no more than 25% in managers whose primary focus is investing in companies organized outside the U.S.

Mr. Linder commended Mr. Martin and the Investment staff for their thoroughness in obtaining the "founders' fee" discount for the O'Brien Staley fund.

Monthly Investment Report

Mr. Simon presented the economic recap and financial performance for August 2014. August saw gains in the major asset classes, despite continued geopolitical events.

Total Fund performance (net of fees) for the month was **2.26% (+6.47% YTD)** and Net Investible Assets for the Total Fund are estimated at **\$4.20 billion** as of August 31, 2014. Equity Long/Short is still performing well relative to its benchmark YTD. Fixed Income had a positive month but still lags YTD due primarily to the short duration strategy of Goldman Sachs.

Mr. Simon presented the semi-annual report detailing FPPA's compliance with the Sudan Divestment Legislation.

SWAP Proposal

Mr. Simon highlighted details of a presentation regarding the opportunity to gain exposure to the Russell 2000 index (small cap equities) via the use of a total return SWAP agreement.

Mr. Stanton moved that the Board approve to delegate to staff the authority to negotiate amount, pricing, terms and execution of a swap agreement for Russell 2000 exposure in the amount of \$40 million to \$80 million. Mr. Bomberger seconded the motion. The motion passed.

Managed Futures & Absolute Return Annual Review

Mr. Simon introduced the next presentation on Managed Futures and Absolute Return as the continuation of the Investment staff's annual obligation to review each major class in the FPPA portfolio before the Board.

There have been notable headlines of CalPERS, the largest U.S. public pension fund, exiting investing in hedge funds. Mr. Simon discussed some of the reasons for CalPERS exit and why the class is still appropriate for FPPA. The presentation is intended to address the role of hedge funds in a portfolio, whether the class is meeting those expectations, and whether staff is effectively implementing the portfolio.

Misters Cooley, Bronson, Smith and Ms. Hsu presented the 2014 Liquid Strategies Review, including managed futures and absolute return. Discussion included the market and hedge fund performance landscape of both traditional strategies and hedge fund strategies with focus on the absolute return allocation, its history, and FPPA's transition plan with internal oversight and plans going forward.

Mr. Blumenthal asked for more detail on the Newedge Trend Index and the Barclay BTOP 50. Mr. Cooley responded that the BTOP 50 is an index of all of the large open, managed futures managers with about 70% trend-following. The Newedge Trend Index is another aggregation of trend followers, with only around 8-12 funds that are primarily trend-following in nature.

Mr. Cooley continued with a comment that the BTOP 50 is expected to have a smoother profile and a little less strong performance in a down equity market, yet potentially have a higher Sharpe ratio than a pure trend follower.

Mr. Tyson questioned where FPPA was at in relation to the benchmark for risk tolerance and volatility, asking where FPPA is at as far as return in relation to this asset class and whether FPPA is meeting benchmarks and staying within tolerance. Mr. Cooley confirmed the managed futures strategies this year have been running at a higher volatility because they are long equities. They are also long fixed income, so the combinations of fixed income trends and equity trends have been favorable.

Chair Bower asked if the public reaction to current world events could impact investment strategy in the trend following. Mr. Linder replied that geopolitical events are generally binary events that have no trends - whereas a trend follower typically follows the movements in capital markets.

Mr. Bronson reviewed the 2014 Absolute Return goals, highlighting the background, goals, guidelines, and performance and exposure. The main focus is to build a portfolio that can deliver an attractive rate of return without a lot of equity market exposure.

At 10:42 a.m., Misters Cooley, Bronson, Martin, Huntsman, Kaszubowski, Ms. Hsu, Mr. Linder and Mr. Smith left the meeting.

At 10:48 a.m., the meeting reconvened. Mr. Sutherland and Ms. Marriott joined the meeting.

Determination of Overpayment

Mr. Lindahl advised the Board of their authority and responsibilities with regard to determination of overpayment to Ms. Marriott and the request from staff to certify the overpayment of temporary occupational disability in the amount of \$15,959.92 to Ms. Marriott, so that FPPA staff may proceed with collection.

Mr. Sutherland summarized Ms. Marriott's case with the key facts and background, including the expiration of the benefit, determination of compliance with the treatment plan, change in disability status, and the collection process.

Ms. Marriott presented her request in urging the Board to not certify the potential overpayment and asking instead that the Board direct staff to communicate with her directly to try and resolve the issue. The Board asked questions of Ms. Marriott.

At 11:25 a.m., Mr. Esquibel moved to go into executive session to seek legal advice regarding the Marriott matter as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes. Mr. Bomberger seconded the motion. The motion passed. Mr. Worrell left the meeting. In response to the executive session, Ms. Marriott, Ms. McGrail, Ms. Collins, Mr. Simon, Mr. Sutherland, and Ms. Tara left the meeting.

At 11:47 a.m., Mr. Bomberger moved that the Board return to its regular meeting. Mr. Esquibel seconded the motion. The motion passed. Mr. Bower declared that no action was taken during the executive session. Ms. Marriott, Ms. McGrail, Ms. Collins, Mr. Simon, Mr. Sutherland, and Ms. Tara rejoined the meeting.

Chair Bower addressed Ms. Marriott in stating that the Ms. Marriott has been represented by counsel in the course of the events and understands that the hearing officer found that she is not entitled to long-term disability. The Board sympathizes with Ms. Marriott and FPPA would like to resolve this matter. The next step in resolving this is to make a determination today, beyond that she may be able to reach out to staff should she have an alternate payment proposed plan.

Ms. Feely moved that the Board adopt the Determination of Overpayment in the amount of \$15,959.92 for Angela Marriott. Mr. Bomberger seconded the motion. The motion passed.

Ms. Marriott asked for clarification that the Determination of Overpayment had not been approved. Chair Bower clarified that it had been approved, but that Ms. Marriott could contact Mr. Sutherland with any payment or settlement proposal.

At 11:49 a.m., Ms. Marriott left the meeting.

Investment Report (cont.)

At 11:55 a.m., the meeting reconvened. Misters Cooley, Bronson, Martin, Huntsman, Ms. Hsu and Mr. Linder joined the meeting.

Mr. Linder revisited the Board's earlier discussion on CalPERS' situation and offered PCA's perspective. Lessons to be learned from CalPERS are: 1) be very clear about your goals for the hedge fund portfolio; 2) make certain that the hedge fund portfolio has a meaningful impact vis-à-vis the rest of the rest of the plan elements; 3) minimize the cost of the program; and 4) when building something small into something larger, make sure it's scalable.

The Board agreed that Mr. Slack and Mr. Simon would handle future responses to financial press calls.

Private Equity Monitoring and Reporting

Mr. Linder reviewed the SEC scrutiny, private equity principles, and reporting implications and recommendations surrounding private equity portfolios. Mr. Martin added that FPPA already has already focused on identifying incremental language in and around the cost and expense language in the side letters. Staff has also asked for incremental disclosure on a full array of fees and expenses being charged. Mr. Simon clarified that management fees of both classes (private equity and hedge funds) are base management fees and are reported in FPPA's CAFR. Performance fees for hedge funds and or carried interest for private equity are not being captured in FPPA's CAFR. Although not reported, this layer of fees is still measured internally. Mr. Slack noted that this reporting has been approved by FPPA's auditors, as the performance fees are in the nature of profit sharing.

At 12:19 p.m., Mr. Bomberger left the meeting.

Mr. Blumenthal expressed concerned about the CAFR from an audit point of view and asked Ms. Collins to confer with Mr. Simon discuss in further detail and report back to the Audit Committee.

At 12:35 p.m., Misters Cooley, Bronson, Martin, Huntsman, and Ms. Hsu left the meeting.

Staff Report

Executive Director Report

Mr. Slack updated the Board on matters included under the Staff report in the Board packet.

While attending the recent Colorado Professional Fire Fighters annual meeting, several questions were asked about resumption of SRAs, protection on reentry SRAs, rumors of departmental mergers, and the impact of the member contribution election on the Statewide Defined Benefit Plan.

Mr. Slack gave an interim report on the Board's previous request for a method to determine the extent to which FPPA is meeting its Mission Statement, in particular in "providing superior, cost-effective service to our members". Three possible approaches are: 1) a quantitative peer measurement process; 2) a consultant-driven process; and 3) a performance excellence program which is internally driven, with external validation of what FPPA is doing. Staff will continue to keep the Board updated.

In response to a question from Mr. Slack, the Board agreed that the information provided in the monthly Board packet material is at an appropriate level of thoroughness, and is informative.

Legal Report and Legislative Update

Mr. Lindahl referenced the legal report as recorded in the Board packet and noted that much of the Legal staff work has been focused on investment deals.

Second Choice

Mr. Slack, Ms. McGrail, and Mr. Lindahl discussed Second Choice – an option proposed to allow re-entry members currently participating in the Statewide Hybrid Plan Money Purchase Component only (with no defined benefit component) a second choice to opt into the Statewide Defined Benefit Plan or the Statewide Hybrid Plan with both components. Discussion included the background and history of the issue, the challenges of having various career levels of people reentering into the plan, and the proposal to establish a six month window of opportunity.

Mr. Feely moved that the Board authorize departments with members participating in the Statewide Hybrid Plan Money Purchase Only component to allow such members, in the department's discretion, to elect participation in the Statewide Hybrid Plan Defined Benefit Component or the Statewide Defined Benefit Plan during the period of November 1, 2014, to April 30, 2015. Mr. Stanton seconded the motion. The motion passed.

Volunteer Fire Department affiliation moratorium

Ms. Collins addressed requests from volunteer plans to establish benefit provisions that are outside the statutory requirements. The Board agreed that FPPA will not administer Plans outside the statutory requirements.

Ms. McGrail introduced a proposal to put a moratorium on affiliating volunteer pension plans due to the unknown costs and other regulatory requirements associated with the Government Accounting Standards Board Statements 67 and

68 (GASB 67/68) implementation and on the proposed legislation to evaluate volunteer plans.

Ms. Feely moved that the Board approve a moratorium on further volunteer firefighter affiliations until such time as the Board decides to withdraw the moratorium. Ms. Eaton seconded the motion. The motion passed.

Chairman's Report

At 1:10 p.m., Mr. Stanton moved to adjourn the meeting. Mr. Nuanes seconded the motion. The meeting adjourned.