

FIRE and POLICE PENSION ASSOCIATION

Board of Directors

April 30, 2015

- 7:30 a.m. **Call to order**
 Todd Bower, Chair
- Approval of March 19 Board minutes
 Approval of March 19 executive session (Wood Creek)
 Approval of March 19 executive session (Exec. Dir. evaluation summary)
- Consent Calendar**
 Rocky Ford Old Hire Fire Idle Funds Distribution
- 7:35 a.m. **Disability Review re Jennifer Fortezzo-Draper**
 Jennifer Fortezzo-Draper, Richard Radabaugh
- 8:05 a.m. **Investment Report**
- Review of March 2015 performance
 Scott Simon
 Review of March Managers
 Scott Simon
 Asset Liability Study - Asset Class Assumptions
 Scott Simon, Austin Cooley, John Linder - PCA
 Currency Exposure - Educational Session
 Scott Bryant, John Linder - PCA
- 9:35 a.m. **break**
- 9:50 a.m. **Benefits in the Statewide Defined Benefit Plan**
- Intergenerational equity
 Joe Newton, Dana Woolfrey, GRS
 Proposal re SWDB Benefits Policy
 Dan Slack
- 10:50 a.m. **Audit Committee report**
 Jack Blumenthal, Chair

11:05 a.m. **break**

11:20 a.m. **Staff Report**

Executive Director Report

Dan Slack

Litigation Report

Kevin Lindahl

Administrative resolutions

Kevin Lindahl

11:35 a.m. **Chair's Report**

Todd Bower, Chair

11:50 a.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
April 30, 2015**

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

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

Staff Members present: Dan Slack, Kevin Lindahl, Kim Collins, Gina McGrail, Scott Simon, Mike Sutherland, Jacqueline Tara, Scott Bryant, Austin Cooley, Ben Bronson, and Dale Martin

Others present: John Linder, Ryan Lobdell, Pension Consulting Alliance; Joe Newton, Dana Woolfrey, and Krysti Kiesli, Gabriel, Roeder, Smith & Co. (GRS); Richard Radabaugh

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 7:32 a.m., Chair Bower called the meeting to order.

Chair Bower called for a motion to approve the minutes of the March 19, 2015, board meeting. Mr. Bomberger moved to approve the minutes. Ms. Feely seconded the motion. The motion passed with Mr. Nuanes and Mr. Worrell abstaining.

Mr. Esquibel asked for explanation regarding written minutes of executive sessions. Mr. Lindahl explained that the Board memorializes their actions as fiduciaries by first keeping a recording of executive sessions for 90 days and, for longer term, the minutes reflecting the matters discussed by the board. Mr. Slack offered to work with Mr. Lindahl in finding a solution to accomplish both objectives.

Chair Bower called for a motion to approve the minutes of the March 19, 2015, board executive session regarding Wood Creek. Ms. Feely moved to approve the minutes. Mr. Bomberger seconded the motion. The motion passed.

Chair Bower called for a motion to approve the minutes of the March 19, 2015, board executive session regarding the Executive Director's evaluation summary. Ms. Feely moved to approve the minutes. Mr. Nuanes seconded the motion. The motion passed.

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

Jennifer Fortezzo-Draper Appellate Review

At 7:38 a.m., Mr. Radabaugh, attorney for Jennifer Fortezzo-Draper, joined the meeting. Mr. Lindahl reviewed Ms. Fortezzo-Draper's occupational disability benefit case and her objection to the hearing officer's recommendation that the disability was not due to an on-duty cause.

Mr. Radabaugh presented his argument as to why he disagreed with the hearing officer's recommendation. The Board asked questions of Mr. Radabaugh.

Mr. Sutherland presented argument in support of the hearing officer's recommendation.

Mr. Lindahl explained the differences in the three categories of disability (Temporary Occupational, Permanent Occupational, and Total) that are offered by the Statewide Death and Disability Plan.

Ms. Feely moved that the Board confirm the written findings, conclusions and recommendations of Hearing Officer Kanan denying on-duty status for Ms. Fortezzo-Draper's disability. Mr. Nuanes seconded the motion. The motion passed with Mr. Worrell opposed.

At 8:21 a.m., Mr. Radabaugh left the meeting. Mistery Bronson, Cooley, Bryant, and Martin joined the meeting.

Investment Report

Monthly Investment Report

Mr. Simon presented an economic review and the financial performance through March 2015. Stocks reversed course in March amid subdued economic data, expectations of lower U.S. earnings growth, and ongoing geopolitical tensions. The S&P 500 finished the month down 1.6% amid weaker than expected GDP growth of 2.2% in the fourth quarter and a declining earnings forecast fueled by low oil prices and a stronger dollar.

The Total Fund performance (net of fees) for March was **-0.14%**, **+2.37% YTD**. Net Investible Assets for the Total Fund was **\$4.257 billion** as of March 31, 2015.

Mr. Simon highlighted the performance of the long/short equity portfolio which just hit its 3-year track record. The portfolio has outperformed its benchmark by an annualized 4.93%.

Mr. Simon highlighted the performance and attribution of FPPA's two emerging markets equity managers. Mr. Simon disclosed the need for additional capacity for this class.

Mr. Bomberger moved that the Board direct staff to conduct a manager search for an emerging markets equity mandate. Mr. Nuanes seconded the motion. The motion passed.

Mr. Cooley updated the Board on the implementation of the new cash management mandate with Payden & Rygel, which will begin on May 1.

At 8:36 a.m., Mr. Stanton joined the meeting.

Investment Committee Update

Mr. Bomberger reviewed the topics of the Investment Committee meetings held since the last Board meeting.

- a) Payden & Rygel (Cash Management) – a \$135 million allocation to Payden & Rygel to manage a cash management strategy for a portion of FPPA's cash portfolio.
- b) Blackstone (Real Estate) – a \$30 million commitment to Blackstone Real Estate Partners VIII, a \$15 billion global value-added real estate fund.
- c) HighBar (Private Equity) – a \$15 million commitment to HighBar Partners III, a \$250 million fund focused on making strategic growth investments in turnaround technology companies.
- d) Wood Creek (Real Assets) – a \$125 million commitment to Wood Creek Capital Management to create a diversified and custom portfolio of real assets strategies.
- e) Anchor Bolt (Long/Short) – a \$45 million allocation to Anchor Bolt Capital, a long/short equity firm specializing in Industrials, Materials, and Energy sectors.
- f) Fortress Macro (Absolute Return) – a change of the share class of FPPA's allocation to the Fortress Macro Fund.
- g) Asset Liability Study – a discussion of the asset class expectations and modeling assumptions that will be utilized in the upcoming asset liability study.
- h) Currency – an educational session on currency and potential options to manage currency risks.
- i) Longitude RE – an initial discussion on the return and risk attributes of a potential private equity investment.
- j) Rebalancing: At the end of March, in order to accommodate the Anchor Bolt investment, an additional \$25 million to HBK (approved at the 1/27/2015 IC Meeting) and a \$10 million initial capital call to Wood Creek, existing cash was combined with redemptions of \$20 million from Walter Scott and \$12 million from SSgA passive fixed income. At the end of April, in order to accommodate sufficient cash to support the Payden & Rygel cash management strategy related to the overlay program, Staff will redeem \$30 million from SSgA passive fixed income.

Pension Consulting Alliance (PCA)

Mr. Linder announced that PCA founder Allan Emkin has begun the process of granting shares of the company to his board of directors. PCA believes this is a positive step in moving PCA towards more broadly held ownership.

Asset Liability Study

Mr. Simon, Mr. Cooley and Mr. Linder presented the asset class expectations to be utilized in the upcoming asset liability study. Mr. Simon discussed the asset liability study history and the process utilized to determine asset class expectations. Mr. Linder discussed PCA's process in estimating return and risks for major asset classes. Mr. Cooley presented staff's recommendation of expectations to be used in this year's study. Mr. Cooley highlighted additional issues to be considered this year, including liquidity, cash weights and currency risk. Mr. Blumenthal asked about the effect of increased member contributions to the Statewide Defined Benefit Plan on the portfolio. Mr. Cooley explained that while the increased member contributions will take time to materially improve the funded status, there has been an immediate relief in the ability of the plan to withstand market drawdowns.

Currency Exposure

Mr. Linder and Mr. Bryant gave an educational presentation on currency risk management and the impact of currency on FPPA's investment portfolio. Mr. Linder provided an overview of the mechanics of currency trading and hedging. Mr. Linder outlined how institutions can manage currency risk. Mr. Bryant provided an overview of FPPA's current currency exposure and effect on recent performance.

At 9:24 a.m., Mr. Bronson left the meeting. Mr. Newton, Ms. Woolfrey and Ms. Kiesli joined the meeting.

Ms. Feely moved that the Board approve the development of a currency risk management policy for the Board's consideration and direct staff to identify an external manager to implement the policy. Mr. Bomberger seconded the motion. The motion passed.

At 10:16 a.m., Chair Bower called for a break. Mr. Cooley left the meeting.

At 10:21 a.m., the meeting reconvened and Mr. Bronson joined the meeting.

Benefits in the Statewide Defined Benefit Plan

Mr. Slack and Chair Bower reviewed the history of the Statewide Defined Benefit Plan (SWDB) and the Separate Retirement Account (SRA).

Mr. Newton and Ms. Woolfrey discussed the goals and objectives of a Defined Benefit Plan in contrast to Defined Contribution and the options of a granting a

benefit adjustment/cost-of-living adjustment (COLA) versus an allocation to the member's SRA.

Mr. Slack reviewed staff's recommendations for a Statewide Defined Benefit Plan Benefits Policy as outlined in a memo in the packet.

Mr. Bomberger moved that the Board direct staff to prepare a draft Statewide Defined Benefit Plan benefits policy, incorporating a priority on funding for benefit adjustments and the 100% funded status methodology for calculating benefit adjustments with a 0.60% floor, for further consideration by the Board at the June meeting. Ms. Feely seconded the motion. The motion passed.

At 11:27 a.m., Chair Bower called for a break. Misters Bronson, Bryant, Newton and Ms. Woolfrey left the meeting.

At 11:38 a.m., the meeting reconvened.

Audit Committee Report

Audit Chair Blumenthal reported that CliftonLarsonAllen provided a 'clean audit' opinion on the "Report on Controls at A Service Organization Relevant to User Entities' Internal Control over Financial Reporting" (SOC 1) Type II Audit. Audit Chair Blumenthal also reviewed the 2015 SOC 1 Audit Plan for the Board.

At 11:45 a.m., Ms. Feely moved to 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.

Mr. Linder and Mr. Lobdell were excused.

At 11:55 a.m., Ms. Feely moved that the Board return to its regular meeting. Mr. Nuanes seconded the motion. The motion passed. Chair Bower declared that no motions were made and no actions were taken during the executive session.

Mr. Linder and Mr. Lobdell rejoined the meeting.

Staff Report

Executive Director Report

Mr. Slack updated the Board on matters included under the staff report in the Board packet. Emphasis was placed on the significance of the upcoming June meeting as the Board will be reviewing ample material, including the actuarial study and its recommendations, additional information on currency hedging, the asset liability study, and the Statewide Defined Benefit Plan proposed benefits policy.

Affiliation Moratorium

Pursuant to direction from the March 2015 Board meeting, staff prepared a recommendation on when it might be appropriate to resume affiliation meetings for coverage under the FPPA Defined Benefit System, commonly called "re-entry". Ms. McGrail discussed the recommendation of different dates based on the type of the affiliation, as included within the memo in the Board packet. Staff recommended lifting the moratorium on affiliations for coverage under the Statewide Defined Benefit Social Security Supplemental Plan (SWDB-SS) only, effective May 2015 in order to permit staff to complete the work associated with recently enacted Senate Bill 15-028.

Ms. Feely moved to lift the moratorium for Statewide Defined Benefit Social Security Supplemental Plan affiliations only, effective May 2015. Mr. Bomberger seconded the motion. The motion passed.

Legal Report and Legislative Update

Mr. Lindahl referenced the legal report included in the Board packet and noted that much of the legal staff's work has been focused on investment deals.

FPPA's response to Dolan's Renewed Motion for Summary Judgment and Defendant's Response to Plaintiff's Motion for Determination of Question of Law were filed on March 23, 2015. Dolan's replies to Renewed Motion for Summary Judgment and Defendant's Response to Plaintiff's Motion for Determination of Question of Law were filed on April 6, 2015. FPPA received Dolan's Responses to FPPA's written Discovery. FPPA has not yet received the documents requested in written discovery. Mr. Dolan's deposition is set for May 27, 2015.

Resolutions

Mr. Bomberger moved the Board adopt Resolution 2015-01 establishing the place for giving notice of meetings of the Board and establishing a schedule for meetings. Ms. Feely seconded the motion. The motion passed.

Ms. Feely moved that the Board adopt Resolution 2015-02 granting authority to the Executive Director to execute documents on behalf of FPPA. Mr. Stanton seconded the motion. The motion passed.

Mr. Bomberger and Mr. Lindahl discussed a bill at the legislature authorizing Colorado Public Employees' Retirement Association (PERA) to issue pension obligation bonds, effectively securitizing contributions made by employees and employers, to improve the funding status.

Chairman's Report

Chair Bower approved the memo designating the meals at the June off-site meeting as specially designated meals.

Chair Bower reviewed his recent attendance at the Milken Institute conference.

Mr. Bomberger gave an evaluation of the Council of Intuitional Investors Spring Conference.

At 12:27 p.m., Ms. Feely moved to adjourn the meeting. Mr. Nuanes seconded the motion. The meeting adjourned.