

FIRE and POLICE PENSION ASSOCIATION

Board of Directors

August 27, 2015

- 7:30 a.m. **Call to order**
 Todd Bower
- Approval of July 30 board meeting minutes
- 7:35 a.m. **Actuarial reports on risk factors and on terminated vested benefits**
 Dana Woolfrey, Gabriel, Roeder, Smith & Co.
- 8:05 a.m. **Investment Report**
- Review of July 2015 performance
 Review of Managers
 Currency - Policy Hedge Ratio
 Scott Simon
- 8:35 a.m. **PCA Quarterly Report and Risk Metrics**
 John Linder
- 9:05 a.m. **Break**
- 9:15 a.m. **Staff Report**
- Executive Director's report
 Dan Slack
 Litigation Report
 Kevin Lindahl
 Review of Lombard & Clayton contract
 Kevin Lindahl
 Other matters
- 9:45 a.m. **Chair's Report**
- Chair's remarks
 Todd Bower
 Election of Chair and Vice Chair
 Todd Bower
 Committee appointments effective September 1
 Incoming Chair
 Other matters
- 10:15 a.m. **Adjourn**

**Fire and Police Pension Association
Minutes – Board of Directors Meeting
August 27, 2015**

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

Board Members present: Chair Todd Bower, Vice Chair Jack Blumenthal, Dave Bomberger, Pam Feely, Sue Morgan, Nick Nuanes, and Cliff Stanton

Board Member not present: Manuel Esquibel, Tyson Worrell

Staff Members present: Dan Slack, Kim Collins, Kevin Lindahl, Gina McGrail, Scott Simon, Elaine Gorton, Jacqueline Tara, Austin Cooley, Dale Martin, Jessica Hsu, and Scott Bryant

Others present: John Linder, Ryan Lobdell, Pension Consulting Alliance; Dana Woolfrey, Gabriel Roeder Smith & Co.

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., Chair Bower called the meeting to order.

Chair Bower called for a motion to approve the minutes of the July 30, 2015, board meeting. Mr. Bomberger moved to approve the minutes. Mr. Nuanes seconded the motion. The motion passed.

Actuarial reports on Risk Factors and Terminated Vested Benefits

Risk Factors

Ms. Woolfrey, Gabriel Roeder Smith & Co. (GRS), reviewed the risk factor policy adopted by FPPA in 2011 and GRS' current recommended updates to the risk margins in the Statewide Defined Benefit Plan, the Statewide Hybrid Plan, the Statewide Death & Disability Plan, and the Colorado Springs New Hire Plans.

FPPA has a target implementation date of October 1, 2016 for these revisions for benefit calculation purposes; however the newly adopted actuarial factors will be in effect for the January 1, 2016 actuarial studies.

Vice Chair Blumenthal questioned the adequacy of the proposed risk margin in protecting against future market returns combined with projected increased life expectancy. Mr. Slack noted that the current proposed risk margin would not be permanent or fixed as recommendation for revision may be proposed the next time

FPPA undergoes an experience study.

Mr. Stanton moved the Board adopt Resolution No. 2015-06 regarding Actuarial Factors To Be Used in Individual Member Calculations for the FPPA Defined Benefit System. Ms. Feely seconded the motion. The motion passed.

Terminated Vested Benefits

Per the Board's request, GRS presented an analysis on the impact of implementing indexation of terminated vested benefits. Under the proposal, members that separate from service with at least five years of service, but prior to normal or early retirement eligibility would have their deferred vested benefit adjusted by the same percentage benefit adjustments granted to Statewide Defined Benefit Plan (SWDB) retirees during the deferral period.

This provision was studied using the assumption that any such change would only be applied prospectively.

Mr. Slack discussed why staff recommends the board not adopt an indexation of terminated vested benefits. An indexation may be in conflict with the message to members in the recent election in the SWDB Plan relating to the purpose of raising contribution. The second concern staff has is that since the contribution rate is fixed an indexation of terminated vested benefits would provide more benefits to short term employees, and lesser benefits to long-term employees with the longer term employees paying the increased contributions to fund those benefits. However, if the board wishes to pursue an indexation of terminated vested benefits an appropriate method might be through the member election process.

Ms. Woolfrey explained that under the SWDB plan if a member works five years then quits the department prior to age 55 and continues working elsewhere, their benefit would be based on highest average salary at termination and would lose some value in terms of standard of living, between their termination date and their actual retirement payment date (age 55). The purpose behind the indexation of terminated vested benefit provision is increase the benefit that will ultimately be payable at the same rate as benefit adjustments are granted to those already in pay status.

Pursuant to a question from Chair Bower, Ms. Woolfrey responded that indexation of terminated vested benefits would effectively reduce benefit adjustments. If benefits are improved in one aspect, then benefits will need to be reduced elsewhere, since the contribution rate remains unchanged.

Ms. Collins added that the SWDB plan is one of FPPA's larger groups and anyone with 5 years of service can apply for a vested retirement benefit.

Mr. Slack advised the board that he and Mr. Lindahl have met with a group of SWDB plan members in the last few months and one of the issues raised was terminated vested benefits.

Ms. Collins noted that Colorado PERA had this benefit in their program at one time

and has since removed it due to cost issues to plan.

No action was taken by the board regarding indexation of terminated vested benefits.

At 8:10 a.m., Ms. Woolfrey left the meeting and Ms. Hsu and Misters Martin, Cooley and Bryant joined the meeting.

Investment Report

Monthly Investment Report

Mr. Simon presented the economic recap and fund performance for July 2015. Although the Greek debt crisis continued, it was slowing growth out of China—the world's second largest economy—that had the most pervasive impact on markets.

Declining currencies have compounded the underperformance in emerging markets so far this year, with the MSCI EM Local Index returning 1.0% and the MSCI EM Index down 4.2% on the year in US dollar terms.

Total Fund performance (net of fees) was + **0.99% in July**, bringing the **YTD to +3.73%**. FPPA's total fund implementation benchmark was +2.49% YTD. Net Investible Assets for the Total Fund are estimated at **\$4.3 billion** as of 7/31/2015.

Mr. Simon also offered an update through most of the month of August. China's turmoil continued as they devalued their currency in early August and experienced continued Chinese government intervention into the markets by easing bank reserve requirements and cutting interest rates. The long term issue in regard to China is perception vs. reality and how much is the economy really slowing, how much does it truly affect the global economy, do they have a potential credit bubble, and how that could affect FPPA. Concurrently there has also been a continued significant drop in oil prices.

Investment Committee Update

Mr. Stanton reviewed the topics of the Investment Committee meetings held since the last Board meeting. He noted that the committee had considered, the following:

- Currency Risk Management – the Investment Staff presented options for both passive and active currency management strategies and recommended a dynamic hedging overlay strategy. The committee agreed the full Board should a currency policy hedge ratio before proceeding.
- Global Public Equity – the Investment Staff presented a revised portfolio construction plan for the global public equity portfolio. Staff reviewed the recently approved policy which shifted the portfolio objective to now exceeding benchmark performance while maintaining similar risk level. Basic portfolio metrics (tracking error and information ratio) will be used to

monitor the portfolio. Staff highlighted the likely shift of one-third of the portfolio from passive cap-weighted exposure to systematic strategies.

Currency – Policy Hedge Ratio

Mr. Simon discussed unmanaged currency risk within FPPA's global public equity portfolio. With recent currency volatility and continued foreign central bank intervention in the currency markets, an unmanaged currency policy is not appropriate. Investment Staff recommends a 0% hedge ratio, with the utilization of an active currency manager to determine and dynamically manage hedge fund ratios for each currency.

Ms. Feely moved the Board approve Resolution 2015-07, regarding a Policy on Currency Hedge Ratio. Mr. Bomberger seconded the motion. The motion passed.

Mr. Simon led the board in congratulating Ms. Hsu in obtaining her Chartered Financial Analyst (CFA) designation.

Portfolio and Capital Market Review

Mr. Linder presented the 2Q Portfolio and Capital market review. As of the end of June, FPPA's pension fund had an aggregate value of \$4.3 billion, an increase of \$1 million over the quarter and \$104.7 million dollars year over year. He discussed the portfolio composition and performance with the board.

Risk Metrics

Mr. Linder continued with a review the Investment Market Risk Metrics.

At 9:03 a.m., Chair Bower called for a break. Ms. Hsu and Misters Martin, Cooley and Bryant left the meeting.

At 9:17 a.m., the meeting reconvened.

Staff Report

Executive Director Report

Mr. Slack updated the Board on matters included under the staff report in the board packet. Mr. Slack and Mr. Lindahl are reaching out to Mr. Dahl, Murray Dahl Kuechenmeister & Renaud LLP, for advice to the board in addressing Mr. Esquibel's concern regarding the handling of the executive session minutes. A review of this matter is expected to take place at the September board meeting.

Mr. Slack added that the RFP for internal auditor has been released and several responses have been received. The Board has delegated the authority to the Audit Committee to act upon the issue for a new internal auditor. Staff will be conducting interviews and following up with the Audit Committee at the September 30th meeting.

Ms. Collins noted that staff has been focused on pulling information together for Old Hire, Volunteer, and Statewide plans for GASB 68 reporting. Ms. McGrail mentioned the recent implementation of loans in the 457 Plan in mid-July and noted that 16 participants have opted to take advantage of this new feature.

Legal Report

Mr. Lindahl updated the Board on FPPA's legal matters. A recent settlement conference and further discussions with the plaintiff using the full settlement authority given by the board in the Dolan case was unsuccessful. The plaintiff confessed partial summary judgement as to claims against Mr. Lindahl and Ms. McGrail and those claims have been dismissed. The remaining claim is for promissory estoppel and that will proceed to trial on September 8th.

Regarding Mr. Blumenthal's question on insurance coverage, Mr. Lindahl answered that the remaining claim is an alleged contract claim between Mr. Dolan and FPPA it is not covered by insurance.

Review/renewal of Lombard & Clayton contract

Mr. Lindahl discussed the proposed contract for Lombard & Clayton. Mr. Slack noted this firm's credibility at the State Capitol and how pleased FPPA is with the work they do on our behalf.

Mr. Bomberger moved the Board approve a renewal of the contract with Lombard & Clayton for legislative services. Ms. Feely seconded the motion. The motion passed.

Chairman's Report

Mr. Slack reviewed the procedure for electing board officers per the board policy.

Chair Bomberger moved to confirm the succession of Mr. Blumenthal as Chair of the Board. Mr. Stanton seconded the motion. The motion passed.

Mr. Bower requested nominations for the position of Vice Chair for 2015-2016. Mr. Stanton nominated Ms. Feely as Vice Chair. Mr. Nuanes seconded the motion. The motion passed.

Mr. Blumenthal appointed Mr. Nuanes, Ms. Feely, and himself to continue as members of the Audit Committee and appointed Ms. Feely as Chair of the Audit Committee.

Mr. Blumenthal appointed Mr. Esquibel and Ms. Morgan as members of the Budget Committee. The Chair of the Budget Committee will be appointed at a later date.

Mr. Blumenthal appointed Mr. Bower, Mr. Bomberger, and Mr. Stanton to continue as members of the Investment Committee.

The Board thanked Chair Bower for his dedication and commitment as Board Chair over the past year.

At 9:50 a.m., Mr. Bomberger moved to adjourn the meeting. Mr. Stanton seconded the motion. The meeting adjourned.