

# **FIRE and POLICE PENSION ASSOCIATION**

Board of Directors

July 30, 2015

- 7:30 a.m.     **Call to order**  
                  *Todd Bower*
- Approval of June 10-12 Board meeting minutes
- 7:35 a.m.     **Board appellate review: Kristine Bryant**
- 8:35 a.m.     **Investment Report**
- Review of June 2015 performance  
                  *Scott Simon*  
                  Review Managers  
                  *Scott Simon*  
                  Global Public Equity - Portfolio Construction  
                  *Austin Cooley*
- 9:35 a.m.     **break**
- 9:50 a.m.     **Notice of Rulemaking Hearing**  
                  *Kevin Lindahl*
- 10:05 a.m.    **Legislative Update & Proposed 2016 Legislation**  
                  *Tony Lombard; Kevin Lindahl*
- 10:35 a.m.    **Staff Report**
- CEO Report  
                  *Dan Slack*  
                  Legal Report  
                  *Kevin Lindahl*  
                  Colorado Springs New Hire Pension Plan - contribution rates, SRA, COLA  
                  *Kim Collins*  
                  Other matters
- 11:05 a.m     **Break**
- 11:20 a.m.    **Chair's Report**
- Chair's remarks  
                  *Todd Bower*  
                  Review of Board retreat and surveys  
                  *Todd Bower*  
                  Other matters
- 11:35 a.m.    **Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
July 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, Sue Morgan, Nick Nuanes, Cliff Stanton, and Tyson Worrell

**Board Member not present:** Pam Feely

**Staff Members present:** Dan Slack, Kevin Lindahl, Kim Collins, Scott Simon, Jacqueline Tara, Austin Cooley, Ben Bronson, Sean Ross, Jessica Hsu, Scott Bryant, and Dale Martin

**Others present:** John Linder, Ryan Lobdell, Pension Consulting Alliance; Tony Lombard, Bill Clayton, Lombard & Clayton; Kristine Bryant and Mr. John Grant (via teleconference)

*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 and welcomed new trustee Sue Morgan to the Board of Directors.

Chair Bower called for a motion to approve the minutes of the July 10-12, 2015, board meeting. Mr. Bomberger moved to approve the minutes. Mr. Nuanes seconded the motion. The motion passed.

Chair Bower called for a motion to approve the minutes of the July 16, 2015, board and executive session. Mr. Worrell moved to approve the minutes. Mr. Nuanes seconded the motion. The motion passed.

**Kristine Bryant Appellate Review**

At 7:40 a.m., Mr. Lindahl reviewed Ms. Bryant's occupational disability benefit case and her objection to the hearing officer's recommendation.

Mr. Lindahl reminded the board of their responsibility to make a decision in the appellate review hearing to approve, modify, or reverse the hearing officer's decision. The evidence necessary to make this decision is based on the documents and findings from the hearing that the hearing officer held.

At 7:45 a.m., Ms. Morgan recused herself. Mr. Linder and Mr. Lobdell were excused. Ms. Bryant and her attorney, Mr. Grant, joined the meeting via teleconference.

Mr. Grant presented argument in disagreement with the hearing officer's recommendation. Mr. Lindahl asked Ms. Bryant to comment as to why she did not indicate to her employer that she was suffering from a disabling condition at the time she left employment. Ms. Bryant replied that she chose not to disclose that she was experiencing health issues for fear her employer would remove her from her position, and she wanted to leave on her own terms.

Mr. Sutherland addressed the member's objections to the hearing officer's recommendation and the argument presented by Mr. Grant.

After further discussion, Mr. Nuanes moved the Board of Directors to affirm the written Findings, Conclusions, and Recommendations of Hearing Officer Tarler denying the disability of Kristine Bryant. Mr. Bomberger seconded the motion.

The motion passed 4-2 with one abstention and one recusal.

At 8:06 a.m., Chair Bower concluded the hearing. Mr. Grant and Ms. Bryant disconnected via teleconference and Mr. Sutherland left the meeting.

At 8:13 a.m., Ms. Morgan and Ms. Hsu, Misters Cooley, Martin, Bryant, Bronson, Ross, Linder, Lobdell, and Clayton joined the meeting.

## **Investment Report**

### **Monthly Investment Report**

Mr. Simon presented the economic recap and fund performance for June 2015. June's positive performance for developed market equities reversed when Greece defaulted on payment to its creditors. Emerging market equities ended the month in the red, down 2.6% as extreme volatility in China's equity market rattled investors. Still, the MSCI Emerging Markets Index is up 2.95% for the year.

Total Fund performance (net of fees) was **-1.06% in June**, bringing the **YTD to +2.72%**. FPPA's total fund implementation benchmark was +1.99% YTD. Net Investible Assets for the Total Fund are estimated at **\$4.26 billion** as of 6/30/2015.

Mr. Simon continued with review of the new targets and rebalancing of the Asset Allocation as approved by the board at the June 2015 meeting.

### 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 concurred in investments in, or considered, the following:

- Raven Fund III (Private Debt) – a \$20 million commitment to the Raven Asset-Based Opportunity Fund III.
- OSP Value Fund (Private Debt) – an additional \$10 million commitment to OSP Value Fund. Mr. Simon noted that FPPA initially committed \$20 million to the fund in an earlier closing.
- Rebalancing Activity in the investment portfolio.
- SVB Capital (Venture Capital) – a \$15 million commitment to the SVB Capital Venture Overage Fund.
- Velocis Fund II (Real Estate) – a \$20 million commitment to the Velocis Fund II, LP.

The Investment Committee and investment staff have been focused on the review of foreign currency hedging. This matter will come back before the board at a subsequent meeting.

At 8:42 a.m., Mr. Lombard joined the meeting.

### Global Public Equity

Mr. Simon recapped the 2014 annual asset class review that highlighted the historical performance of Global Public Equity and noted that staff was presenting a revised plan with the goal of improving portfolio performance. The restructuring objective of moving from a lower risk profile portfolio to a higher risk profile is to increase the opportunity of exceeding the benchmark exposure.

Mr. Cooley reviewed the revised policy language as approved by the board in June, which clarifies the objective of increasing the potential and probability of achieving excess returns while employing active strategies.

Mr. Simon explained the allocation shift in the portfolio to approximately 1/3 capitalization weighted passive and up to 2/3 in active strategies. One-half of the active strategies will be in traditional, fundamental approaches and one-half in systematic approaches.

Mr. Cooley reviewed the objectives and potential value of moving towards systematic active strategies.

Mr. Bomberger moved the Board approve staff's recommendation for the Global Equity Portfolio Construction Plan. Mr. Stanton seconded the motion. The motion passed.

At 8:52 a.m., Mr. Cooley, Mr. Martin, Mr. Bryant, Mr. Bronson, Mr. Ross, and Ms. Hsu left the meeting.

### **Legislative Update & Proposed 2016 Legislation**

Mr. Lombard and Mr. Clayton, Lombard & Clayton, reviewed FPPA's five pieces of legislation that passed this year. Mr. Lindahl thanked Lombard & Clayton for their expertise in successfully getting the Volunteer Fire Study bill passed through the Senate and the House. Chair Bower added that Lombard & Clayton understands FPPA's uniqueness and their non-confrontational approach as our representatives makes them successful on our behalf.

Lombard & Clayton recognized Mr. Lindahl as an integral part of the team and the prominent face of FPPA at the Capitol.

#### **Recommended Legislation**

Mr. Lindahl reviewed staff's recommendations to the Board for proposed legislation in 2016 and the reminded the board that upon approval, proposed bills will be drafted and presented to the Pension Reform Commission, which is anticipated to meet in August or September 2015.

#### **Allow non-social security sheriff departments to affiliate with FPPA:**

Staff proposes revision to the statute to include non-social security counties to participate in FPPA.

#### **Revisions to the Statewide Death & Disability Plan (SWD&D):**

Staff proposes a revision to the SWD&D Plan that would extend the due date of completed health history forms to 30 days.

Staff also proposes an amendment revising the contributions for a member on temporary disability who is restored to active service or who satisfies the age and service requirements for a normal retirement from a flat rate contribution of 16% to a contribution rate equal to the contribution rate of the plan but not more than 16%.

#### **Benefit option payments:**

Under the Statewide Defined Benefit Plan (SWDB), staff proposes a revision that a member (who is single at the time of retirement and has not elected payment to a beneficiary) shall be limited to designate the new spouse as the beneficiary.

Under the SWD&D Plan, staff proposes a revision to clarify that a new spouse cannot be added to the benefit of a disabled member selecting Option 3 (family benefit) should the member lose a spouse either to death or divorce.

Chair Bower reminded the Board to bring forward other suggestions for plan enhancements to the August meeting.

Chair Bower suggested a review of a different benefit structure for members who terminate with a vested retirement benefit. Ms. Collins noted that a previous actuarial study offering indexation of terminated vested members revealed an actuarial impact to the plan and Ms. Collins will present the statistics from the study at the August meeting.

Mr. Clayton noted current proposed Federal legislation to eliminate the windfall elimination program for public safety employees.

Mr. Bomberger moved the Board to direct staff to draft legislation as recommended. Mr. Stanton seconded the motion. The motion passed.

At 9:31 a.m., Chair Bower called for a break. Mr. Lombard and Mr. Clayton left the meeting. At 9:47 a.m., the meeting reconvened.

#### Notice of Rulemaking Hearing

Mr. Lindahl reviewed the annual Notice of Proposed Rule-Making and Plan Amendment. The subjects and issues involved in the proposed amendments to the FPPA Rules and Rules and Regulations are for the Statewide Defined Benefit (SWDB) Plan, the Statewide Death & Disability (SWD&D) Plan, the Statewide Hybrid (SWH) Plan, the Colorado Springs New Hire Pension Plan (CSNHPP), and the Statewide Money Purchase (SWMP) Plan Document.

Mr. Stanton moved the Board direct staff to issue the Notice of Proposed Rulemaking. Mr. Bomberger seconded the motion. The motion passed.

### **Staff Report**

#### Executive Director Report

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

Mr. Slack informed the board of his recent meeting with the Denver Post reporter now covering pensions. The discussion covered pensions and background information on FPPA.

An article from the Durango Herald discusses some of the issues in having a volunteer fire department and the struggles they face recruiting volunteers. This widespread problem further supports the importance of FPPA's recent legislation and why the upcoming study by the State Auditor's office and DOLA is so essential. Mr. Slack, Mr. Lindahl, and Ms. Collins have met with the State Auditor's office regarding the initial process of preparing an RFP for professional services to assist with doing a study of volunteer firefighters in Colorado.

Answering Mr. Blumenthal's question regarding authorized media spokespersons, Mr. Slack recapped the board policy in the Governance Manual (located in Diligent Resource Center). The policy defines the Executive Director as the designated spokesperson for any media inquiries about FPPA, and also designates the Chief Investment Officer or General Counsel as spokesperson if the Executive Director is not available. The Executive Director also has the authority to approve others to speak directly to the media as deemed necessary.

FPPA is moving forward on the Baldrige Performance Excellence program. The next step will be an organizational profile which will be submitted to Rocky Mountain Performance Excellence for external feedback. The organizational profile is designed to help identify gaps in key information and focus on key performance requirements and results.

John Nicoletti spoke to management on threat management training and how to be proactive in situations whether facing a random act or otherwise.

Mr. O'Brien has officially submitted his resignation as FPPA's Internal Auditor. The RFP for this position was recently finalized and the timeline for replacement recommendations to the Audit Committee will be at the September 30<sup>th</sup> Audit meeting. It was noted that by consensus of the Board members present at the June 2015 Board meeting, Chair Bower delegated the Audit Committee authority to select the new internal auditor.

### Legal Report

Mr. Lindahl updated the Board on FPPA's legal matters. The Dolan case has not been settled and staff is preparing for trial in September. Mr. Bomberger asked to review the Dolan case and background with Mr. Lindahl or Mr. Slack at a later date and time.

Jennifer Fortezzo-Draper has filed a complaint for appellate review with regard that her disability benefit be granted On-Duty status. This case was before the Board at the April 30<sup>th</sup> meeting.

### Securities Litigation Monitoring

The RFPs for the Securities Litigation Monitoring Project was concluded with proposal reviews and interviews by Mr. Slack, Mr. Simon, and Mr. Lindahl. It was agreed to allow three additional firms to monitor FPPA's portfolio and provide reporting to FPPA (Grant & Eisenhofer; Kessler Topaz Meltzer & Check; Lief, Cabraser, Heimann & Bernstein). All these firms are very qualified and in selecting these firms, the focus was on what differentiated each firm from FPPA's existing providers and on identification and evaluation of foreign claims.

There is no monetary cost for these services. The only "cost" to FPPA is staff time to evaluate the information received and to maintain the relationships. It was also agreed to maintain the current relationships with Berman DeValerio and Bernstein, Litowitz, Berger & Grossman.

Mr. Lindahl spoke to the impact of recent decisions in U.S. courts restricting which class action suits can be filed in the United States. Due to this narrowing, class actions held in foreign countries are increasing and each country brings their own unique and diverse set of rules. Thus it has become increasingly important to be more active internationally and to work with firms that have an understanding of the innumerable rules which would be fortuitous for FPPA in recovery of funds in these foreign class actions.

Shareholder Action Involving Twitter, Inc.

Mr. Lindahl relayed that Bernstein Litowitz Berger & Grossman LLP (BLB&G), one of FPPA's outside monitoring counsel, has reported that the Twitter, Inc. Board of Directors may have breached its fiduciary duties to its stockholders by acquiring TellApart, Inc. – a company in which Twitter's CEO is an original investor. BLB&G recommends that FPPA conduct a pre-litigation investigation by issuing a books and records demand pursuant to Delaware law.

Mr. Bomberger moved the Board to authorize BLB&G to proceed with an investigation regarding Twitter, Inc. Mr. Nuanes seconded the motion. The motion passed.

Plan Consideration

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

Defined Benefit System: Colorado Springs New Hire Pension Plan

**Colorado Springs New Hire Pension Plan for Police Component Contribution Rate**

Mr. Stanton moved to change the Colorado Springs New Hire Pension Plan for Police Component annual required contribution to \$9,645,675, effective January 1, 2016. Of this amount, the members of the plan will contribute 8.0% of basic salary and the employer will remit the remainder. Mr. Bomberger seconded the motion. The motion passed.

**Colorado Springs New Hire Pension Plan for Police Component Stabilization Reserve Account Contribution Rate**

Mr. Stanton moved to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Police Component a 0%, effective January 1, 2016, through December 31, 2016. Mr. Nuanes seconded the motion. The motion passed.

**Cost-of-Living-Adjustment (COLA) for the Colorado Springs New Hire Pension Plan for Police Component**

The CPI-W as of December 31, 2014 was 1.5%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Police Component at 1.5%, effective October 1, 2015, through September 30,

2016. No Board action is required.

### **Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate**

Mr. Stanton moved to set the Colorado Springs New Hire Pension Plan for Fire Component contribution amount at \$4,522,810, effective January 1, 2016. Of this amount, the members of the plan will contribute 10% of basic salary and the employer will remit the remainder. Mr. Worrell seconded the motion. The motion passed.

### **Colorado Springs New Hire Pension Plan for Fire Component Stabilization Reserve Account Contribution Rate**

Mr. Stanton moved to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Fire Component at 0%, effective January 1, 2016, through December 31, 2016. Mr. Nuanes seconded the motion. The motion passed.

### **Cost-of-Living-Adjustment (COLA) for the Colorado Springs New Hire Pension Plan for Fire Component**

The CPI-W as of December 31, 2014 was 1.5%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Fire Component at 1.5%, effective October 1, 2015, through September 30, 2016. No Board action is required.

### Actuarial Audit

Ms. Collins discussed the Board's governance policy in regard to conducting an actuarial audit every five years. Based on the board's recent decision to make changes to the actuarial assumptions effective January 1, 2016, it may not be appropriate to complete the actuarial audit this year. Staff has identified two approaches in completing the audit. The first is to delay the audit until 2016 so that the audit can include the review of the valuations using the new actuarial assumption set. The second approach is to complete the audit in 2015 and have the audit firm review the results of the recent experience study which defined the new actuarial assumption set.

Mr. Slack noted that the actuarial audit would be a full-replication audit. This comprehensive audit would be performed by a separate actuarial firm with results being compared to those of Gabriel, Roeder, Smith & Co.

Ms. Collins confirmed that the industry's best practice for actuarial audit frequency is five years. Should the board decide to delay until 2016, Ms. Collins would prepare an RFP for release in early 2016 and the audit firm can begin as soon as the actuarial valuation is completed in June. Results should be ready for a Fall 2016 board meeting.

The consensus of the board was to delay the audit until 2016.

## **Chairman's Report**

Chair Bower and Mr. Slack advised the board members on Pam Feely's injury and recovery progress. Ms. Feely hopes to get released to "weight-bearing" status in time to attend the next board meeting.

Results from the board's June 2015 retreat survey were favorable with highlights being the board's process—taking the time to listen without interrupting, and the process of conducting a meeting while adhering to proper procedures.

Mr. Slack noted that election for a new Vice Chair will be held at the August meeting.

FPPA's 35<sup>th</sup> anniversary was recognized by the presentation to each board member of an engraved Jefferson Cup.

Mr. Esquibel questioned the necessity of adding executive session minutes to the board packet for review and approval. Mr. Slack discussed FPPA's rationale behind the memorializing of the executive session minutes. Mr. Esquibel believes the board is potentially opening itself up to a very difficult situation. Mr. Lindahl clarified that the executive session minutes are not public records. Chair Bower requested that Mr. Slack add this topic to a subsequent board meeting agenda and prepare appropriate information for further discussion.

At 10:46 a.m., Mr. Stanton moved to adjourn the meeting. Mr. Nuanes seconded the motion. The meeting adjourned.