

***Fire & Police Pension Association
Board of Directors Meeting Agenda***

July 26, 2018
7:30 a.m.

7:30 a.m. Call to Order. *Nick Nuanes, Chair*

7:30 a.m. Consent Calendar

- a) Approval of June 6-8, 2018, Board meeting minutes.
- b) City of Monte Vista Police Department Partial Entry Resolution.

7:35 a.m. Appellate Review Hearing — Matthew Kosak

8:15 a.m. Break

8:30 a.m. Experience Study Findings and Preliminary Recommendations. *Joe Newton, Gabriel, Roeder, Smith & Co.*

9:15 a.m. Underlying Plans Review update. *Staff*

10:00 a.m. Break

10:15 a.m. Legislative Update: End of Session Review. *Kevin Lindahl; Tony Lombard, Bill Clayton, Lombard & Clayton*

10:30 a.m. Notice of Rulemaking Hearing. *Kevin Lindahl*

10:45 a.m. Staff reports.

- a) Executive Director Report. *Dan Slack*
- b) Q2 Board Scorecard. *Dan Slack*
- c) General Counsel Report. *Kevin Lindahl*
- d) Colorado Springs New Hire Pension Plans – contribution rates, SRA, COLA. *Kim Collins*

11:15 a.m. Discussion of Deputy Executive Director and related positions (executive session). *Dan Slack, Kevin Lindahl*

11:45 p.m. Lunch

12:15 p.m. Investment report.

- a) Review of May and June performance and managers. *Scott Simon*
- b) Investment Committee report. *David Bomberger, Chair of Investment Committee*
- c) Investment Policy Statement (recommended changes). *Scott Simon*

12:45 p.m. Chair's report. *Nick Nuanes, Chair*

- a) Items for future discussion.

1:00 p.m. Adjournment

FIRE AND POLICE PENSION ASSOCIATION
Minutes – Board Meeting
July 26, 2018

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

Board Members Present: Chair Nick Nuanes, Vice Chair Dave Bomberger, Guy Torres, Karen Frame, Pam Feely, Sue Morgan, Tammy Hitchens, Todd Bower, and Tyson Worrell.

Staff Members Present: Dan Slack, Chip Weule, Kevin Lindahl, Kim Collins, Scott Simon, Elaine Gorton, Mike Sutherland, Ahni Smith, Ben Bronson, and Karen Moore.

Others Present: Brian M. McDonnell, Diana Gibson, and Stu Cameron, Cambridge Associates (CA); Joe Newton, Dana Woolfrey, and Bill Detweiler, GRS Retirement Consulting (GRS); Matthew Kosak and Sherri Guerro.

Notice of this meeting and a copy of the agenda were posted at 5290 DTC Parkway, Suite 100, Greenwood Village, CO 80111, and on the FPPA website, at least twenty-four hours prior to the meeting.

At 7:27 a.m., Chair Nuanes called the meeting to order.

Consent Calendar

Chair Nuanes called for a motion to approve the following Consent Calendar:

- Approval of June 6-8, 2018, Board meeting minutes
- City of Monte Vista Police Department Partial Entry Resolution.

Ms. Feely moved to approve the Consent Calendar. Ms. Morgan seconded the motion. The motion passed.

Appellate Review Hearing—Matthew Kosak

At 7:31 a.m., Mr. Lindahl reviewed Mr. Kosak's disability application case, provided the hearing officer's recommendation, and explained the procedures for the appellate review hearing. Ms. Hitchens recused herself from, and left, the hearing.

At 7:35 a.m., the hearing commenced. Mr. Kosak presented his argument, objecting to Hearing Officer Kanan's recommendation.

Mr. Sutherland provided rebuttal to Mr. Kosak's objections and defended the FPPA Hearing Officer's recommendation, providing the hearing officer's rationale for the recommendation.

Mr. Kosak provided rebuttal to Mr. Sutherland's arguments.

The Board and Staff discussed the decisions available and asked additional questions of Mr. Kosak.

At 8:20 a.m., Ms. Frame moved that the Board go into executive session to discuss and receive legal advice from our General Counsel regarding Mr. Kosak's appeal, as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes. Mr. Bomberger seconded the motion. The motion passed. In response to the executive session, Messrs. Sutherland and Kosak and Ms. Sherri Guerro left the meeting.

At 8:22 a.m., the Board convened into executive session.

At 8:32 a.m., Mr. Bomberger moved that the Board return to its regular meeting. Ms. Feely seconded the motion. The motion passed. The Board returned to its regular meeting. Chair Nuanes declared that no motions were made and no actions were taken during the executive session.

Messrs. Sutherland and Kosak and Ms. Sherri Guerro returned to the meeting. Mr. Kosak requested the Board subpoena the confidential settlement agreement between Mr. Kosak and the City of Westminster as it contained information that Mr. Kosak believed would help his case but that he was not legally able to provide.

At 8:36 a.m., Ms. Feely moved the Board to subpoena the City of Westminster for the confidential settlement agreement entered into between the City and Mr. Kosak and remand the matter to the Hearing Officer for review of this agreement for clarification regarding the last day of employment. Mr. Torres seconded the motion. The motion passed. This matter was remanded to the Hearing Officer.

Mr. Lindahl explained the process to Mr. Kosak. Mr. Kosak requested a 60-day extension to provide additional evidence.

Ms. Feely moved the Board to provide Mr. Kosak with 60 days to provide additional evidence. Mr. Torres seconded the motion. The motion passed.

At 8:42 a.m., the hearing was concluded. Chair Nuanes called for a break.

Experience Study Findings and Preliminary Recommendations.

At 8:52 a.m., the meeting commenced. Ms. Hitchens joined the meeting. Messrs. Simon, Newton, Detweiler, McDonnell, and Cameron and Ms. Gibson joined the meeting. Ms. Woolfrey joined the meeting via conference call.

Mr. Newton presented the Experience Study Findings and Preliminary Recommendations. Ms. Smith joined the meeting.

Based on their preliminary analysis, GRS made the following material preliminary

recommendations:

- Decrease nominal investment return assumption to no more than 7.25%
- Increase rates of disability for members in defined benefit programs

Based on their preliminary analysis, GRS made the following immaterial preliminary recommendations:

- Update longevity assumptions to latest tables, change from blue collar variant to normal form of tables
- Increase ultimate productivity, promotion, and merit component of individual salary scale from 1.50% to 1.75% above inflation (from 4.00% to 4.25% total rate)
 - However, lower step rates during early portion of career so that average increase over entire career is mostly unchanged

GRS will complete their analysis and present the final Experience Study report to the Board at their September meeting.

Underlying Plans Review update

At 9:42 a.m., Mr. Slack began his update to the Board on the underlying plans review and proposed a project plan. Mr. Bower joined the meeting via phone. Mr. Slack discussed the closed plans (Old Hire plans, Colorado Springs plan). A working group of staff, GRS, and CA have been considering the asset allocation and appropriate grouping(s) of these plans, to assist in maintaining their funded status. The Board had asked staff to consult with the employers of these plans. Staff notified the Old Hire plans via memo, distributed with the actuarial valuations, that the actuaries are performing an experience study that could result in assumption changes and impact asset allocation and contribution levels. Staff will be consulting further with the employers.

Mr. Slack briefly highlighted the issues of the Statewide Death & Disability Plan (SWD&D Plan), Statewide Hybrid Plan (SWH Plan), and Volunteer Plans.

Mr. Slack notified the Board that the Pension Review Commission is going to meet twice before the legislative session, which is new this year, to discuss 2019 legislation.

Mr. Slack briefly discussed staff's concept legislation and discussed staff's concerns on legislation that would place a mandate on employer contributions, notwithstanding that the contribution percentage is among the lowest in the country for a public safety plan. Additional contributions are not needed to fund or make more secure the base benefits in the plan. Staff also had concern about, and does not recommend, creating a new tier of lower benefits for new entrants into the Statewide Defined Benefit Plan (SWDB Plan). A flat 2% multiplier does not significantly increase Cost-of-Living-Adjustments (COLA) for current participants.

Staff's proposed concept legislation that incorporates an option for both different tiers and for employer contributions at the local level, without mandating anything. This acknowledges the importance of local choice, allows local departments to determine employer/employee contribution rates that work for them, is consistent with FPPA's historical messaging to our members and our employers, provides a way for members to build up accounts to protect themselves from inflation in retirement, and provides equitable treatment for members with SRA accounts.

At 9:59 a.m., Ms. Gibson and Mr. Cameron left the meeting. Mr. Lindahl reviewed staff's concept legislation which provides a tier but no mandate on employer contributions. The assets and liabilities of the SWDB and SWH Plans would be merged. An adjustment to SWH Plan members would be made to allow for one COLA for both plans going forward. This would prevent having to treat the SWH Plan from being administered like a closed plan.

Also, a SWDB Defined Contribution (DC) account would be available should members and employers determine they want additional contributions.

Separate Retirement Accounts (SRAs) would be terminated with balances transferred into a vested, self-directed money purchase account. Going forward, the Board could make allocations into a DC account, as it did to the SRA should there be a large excess of funds and could be vested as the member is vested in the SWDB.

Staff suggested looking further into additional options that could be utilized with a DC account.

Any legislation to be sponsored by the Pension Review Commission (PRC) will be proposed at the August 15 meeting. The Board and staff discussed the proposed legislation, other options, and the concerns of employers and employees.

Mr. Clayton provided an overview of the legislative process and opinion on effect of not having proposed legislation prepared before the PRC August meeting.

At 10:48 a.m., Ms. Feely moved the Board to direct staff to draft legislation to only realign benefit tiers, as proposed by staff. Mr. Bomberger seconded the motion. The motion passed.

The Board discussed whether increasing employer contribution should be proposed.

At 11:02 a.m., Mr. Bower moved the Board to direct staff to draft legislation to increase employer contributions by 4% over an 8-year timeline. Mr. Bomberger seconded the motion. The motion passed 6-3 with Mss. Feely, Hitchens, and Morgan voting against.

At 11:04 a.m., Chair Nuanes called for a break. Mr. Bower and Ms. Woolfrey disconnected from the conference line, and the conference line was disconnected. Messrs. Newton and Detweiler left the meeting.

Legislative Update: End of Session Review

At 11:14 a.m., Messrs. Lombard and Clayton updated the Board on the past legislative session and the two FPPA bills that were signed into law. SB 200, the PERA legislation, was a hot topic.

Mr. Lombard updated the Board on term-limits and a possible change in the majority and informed the Board of the positive feedback they have received on FPPA's performance.

Mr. Clayton provided an update on last year's Colorado PERA legislation and on the impact of FPPA and PERA under the same oversight committee.

Mr. Clayton provided an update on the Gallagher Amendment, which does not directly affect FPPA but could pose a problem to our employers.

Messrs. Lombard and Clayton left the meeting.

Notice of Rulemaking Hearing

At 11:36 a.m., Mr. Lindahl reviewed the requirements for authority to issue the notice of rulemaking hearing and explained the notification process. Mr. Sutherland provided clarification on the proposed amendments.

Ms. Feely moved the Board to direct the publication of the Notice of Rulemaking Hearing. Mr. Torres seconded the motion. The motion passed unanimously.

Ms. Gibson and Mr. Cameron rejoined the meeting.

Staff Report

Executive Director Report

At 11:40 a.m., Mr. Slack began the staff report and updated the Board on the Internal Investment Committee's (IIC) new pipeline report. Mr. Slack directed the Board to communication from various institutional investors and the National Fraternal Order of Police in opposition to the proposed Public Employee Pension Transparency Act and to Mr. Slack's letter to Congressman Perlmutter expressing opposition to draft legislation that would expand the SEC exemption from registration of venture capital firms. Ms. Feely also reached out to Congressman Perlmutter to express opposition to the draft legislation. These efforts appear to have been successful as amendments were drafted.

Mr. Slack reviewed the Board retreat survey results. Per the results, we will plan to return to The Pines Lodge for the 2019 retreat.

Q2 Board Scorecard

Mr. Slack directed the Board to the Scorecard. Depending on the results of the pending actuarial experience study, we may need to revise the targets.

The Board decided to combine the October Board meeting and the November Board education session to November 8th at 7:30 a.m.

Mr. Slack will be leaving the meeting prior to the discussion of the proposed Investment Policy Statement (IPS), but is in full support of the proposed changes included in the Board materials.

**Discussion of Deputy Executive Director and related positions
(executive session)**

At 11:48 a.m., Mr. Bomberger moved the Board to adjourn into Executive Session to discuss personnel matters related to the legal department as allowed under Section 24-6-402(4)(f) of the Colorado Revised Statutes. Ms. Feely seconded the motion. The motion passed.

CA and staff, except for Messrs. Slack and Lindahl and Ms. Gorton, left the meeting. The Board entered into executive session.

Mr. Bomberger moved the Board return to its regular meeting. Ms. Feely seconded the motion. The motion passed.

At 12:02 p.m., the Board returned to regular session. Chair Nuanes declared that no motions were made and no actions were taken. Staff and CA returned to the meeting.

Staff Report (continued)

We returned to the Staff Report. Mr. Weule highlighted statistics and trends of the SWD&D Plan, including the types of disabilities we are seeing. The Board discussed whether outreach to employers is needed when staff sees a pattern of seemingly avoidable disabilities. The Board and staff briefly discussed the SWD&D Plan funding. Staff is reviewing GRS' study and will conduct further research to gain a better understanding of the funding issues.

General Counsel Report

At 12:10 p.m., Mr. Slack left the meeting and Mr. Lindahl asked the Board for any questions on the litigation report. There were none.

Colorado Springs New Hire Pension Plans – contribution rates, SRA, COLA

At 12:11 p.m., Ms. Collins discussed the Colorado Springs New Hire Pension Plan for Police Component Contribution Rate. Ms. Feely moved the Board to set the Colorado Springs New Hire Pension Plan for Police Component annual required contribution at

\$8,037,168, effective January 1, 2019. Of this amount, the members of the plan will contribute 8.0% of basic salary and the employer will remit the remainder. Ms. Morgan seconded the motion. The motion passed.

Ms. Collins discussed the Colorado Springs New Hire Pension Plan for Police Component Stabilization Reserve Account Contribution Rate. Ms. Morgan moved the Board to set the SRA contribution rate for the members of the Colorado Springs New Hire Pension Plan for Police Component at 0%, effective January 1, 2019, through December 31, 2019. Mr. Torres seconded the motion. The motion passed.

Ms. Collins discussed the cost-of-living-adjustment (COLA) for the Colorado Springs New Hire Pension Plan for Police Component. The average annual CPI-W as of December 31, 2017, was 2.1%. FPPA will implement the COLA for certain retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Police Component at 2.5%, effective October 1, 2018, through September 30, 2019. No Board action is required.

Ms. Collins discussed the Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate. Ms. Feely moved the Board to set the Colorado Springs New Hire Pension Plan for Fire Component contribution at \$4,519,669 effective January 1, 2019. Of this amount, the members of the plan will contribute 10% of basic salary and the employer will remit the remainder. Mr. Bomberger seconded that motion. The motion passed.

Ms. Collins discussed the Colorado Springs New Hire Pension Plan for Fire Component Stabilization Reserve Account Contribution Rate. Ms. Hitches moved the Board 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, 2019, through December 31, 2019. Mr. Torres seconded the motion. The motion passed.

Ms. Collins discussed the COLA for the Colorado Springs New Hire Pension Plan for Fire Component. The average annual CPI-W as of December 31, 2017 was 2.1%. FPPA will implement the COLA for certain retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Fire Component at 2.0%, effective October 1, 2018, through September 30, 2019. No Board action is required.

At 12:15 p.m., Chair Nuanes called for a break for lunch.

Investment Report

At 12:27 p.m., Ben Bronson joined the meeting and Mr. McDonnell presented highlights from the Q2 2018 Market Update. Global equities were flat in Q2 as a strong US dollar weighed on returns; energy and real estate rebounded significantly. Strong outperformance of growth stocks has been driven by larger cap IT names. Earnings projections remain strong. Emerging market (EM) pressures are building. EM equities are in a correction and approaching a bear market, led by significant downward pressure in currency. Crude oil is surging in 2018. Oil has rebounded substantially, driven by lean supply. Energy outperformed the rest of commodity

complex. 2018 growth estimates continue to climb. Longer-term, the current expansion is weak compared to prior recoveries.

Review of May and June performance and managers

Mr. Simon began his presentation on June performance and managers.

Total Fund performance (net of fees) was **+0.10% in June** (+1.55% YTD). Performance of the Implementation Benchmark YTD was +0.72%. Net Investible Assets for the Total Fund was \$5.0 billion as of June 30, 2018.

Portfolio Update:

- Global Public Equity: While losing ground the few months, the portfolio is still outperforming its benchmark on a YTD basis. Positive relative contribution YTD is coming from Walter Scott (global equity) and Driehaus (non US small cap). Given the strengthening of the US dollar, the currency overlay program continues to add value.
- Long/Short Equity: The portfolio has rebounded over the last two months and performance now exceeds its benchmark YTD. Primary contributors YTD are AKO, Hitchwood and Palestra.
- Fixed Income: Although negative performance, the portfolio was ahead of its benchmark YTD with positive relative contribution coming from Prudential.
- Managed Futures: Although positive performance in June, the portfolio still lags its benchmark YTD. AHL and Graham are the largest detractors.
- Absolute Return: While the portfolio started the year strong, it has lost ground over the past three months and is now underperforming its benchmark YTD. Both AQR funds are the primary detractors. Mr. Bronson and Ms. Gibson indicated that the volatility is within expectations, but they are still watching this very closely and in routine dialogue with the manager regarding their models, actions to improve performance, and expectations.
- Private Markets: The portfolio has positive performance for the month and YTD. The ILPA implementation benchmarks are not yet available. The long term policy benchmark of public equity +200 bps has significantly outperformed the portfolio over the last year.

Mr. Simon updated the committee on asset allocation. Staff executed a minor rebalance in mid-June, utilizing futures to reduce equity exposure by \$35M.

Investment Committee

The Investment Committee (IC) met on June 6th to review and discuss the following topics: Private Markets Review, Long-Short Equity Review, Investment Policy

Statement (IPS), Benchmarks, and Risk Leverage Framework. The IC met again on July 9th to further review the recommended changes to the IPS.

Mr. Simon highlighted the following investment activity: \$20M commitment to Dyal Capital Partners IV, \$20M commitment to Locust Point Private Credit Fund, \$15M commitment to Scout Energy Partners IV, \$20M commitment to Warren Equity Partners Fund II, and \$130M core fixed income mandate with Garcia Hamilton & Associates.

Investment Policy Statement (recommended changes)

Staff annually reviews the IPS and present any recommended amendments to the Board for consideration. Recently CA completed a review of the IPS and made suggested changes with a specific focus on reevaluating FPPA's benchmark structure. Proposed changes, including changes to benchmarks, are outlined in Mr. Simon's memo.

At 12:55 p.m., Mr. Torres left the meeting.

At 12:57 p.m., Mr. Bomberger moved the Board to approve the recommended changes to the IPS as presented. Ms. Feely seconded the motion. The motion passed.

Chair's Report

Ms. Feely will be presenting at the NCPERS Public Safety conference as will Mr. Bower and Mr. Lindahl who will be presenting on the delegation of investment authority.

At 1:00 p.m., Chair Nuanes declared the meeting adjourned.