

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

The Pines Lodge
Beaver Creek

June 6-8, 2018

Wednesday, June 6

1:30 p.m. Investment Committee meeting

4:30 p.m. Adjournment

Thursday, June 7

9:00 a.m. Board self-evaluation

10:00 a.m. Break

10:15 a.m. Underlying plans review

- Introduction. *Dan Slack*
- Statewide Defined Benefit Plan actuarial valuation. *Joe Newton, Dana Woolfrey, Gabriel, Roeder, Smith & Co. (GRS)*
- Statewide Defined Benefit Plan review. *Staff, GRS, Cambridge Associates (CA)*

12:00 p.m. Lunch

1:00 p.m. Underlying plans review (cont.)

- Asset allocation of the Old Hire plans. *Staff, GRS, CA*
- Statewide Hybrid Plan actuarial valuation. *GRS*
- Statewide Hybrid Plan policy discussion. *Staff, GRS, CA*

3:30 p.m. Fiduciary aspects of ESG investing. *Kevin Lindahl*

4:30 p.m. Adjournment

Friday, June 8

9:00 a.m. Call to order. *Nick Nuanes, Chair*

Consent Calendar

- a) Approval of April 26, 2018, minutes
- b) Approval of Resolution 2018-03 – Authority of Executive Director
- c) Approval of Resolution 2018-04 – Honoring Dr. Clarence Henke

9:00 a.m. Q1 2018 portfolio review. *CA*

9:30 a.m. Investment report

- a) Review of April performance and managers. *Scott Simon*
- b) Investment Committee report. *David Bomberger, Chair of Investment Committee*
- c) Asset allocation review. *CA and Staff*

10:15 a.m. Break

- 10:30 a.m. Audit Committee report.** *Pam Feely, Chair of Audit Committee*
- a) Review and acceptance of Comprehensive Annual Financial Report for 2017
 - b) Approval of Audit Committee charter revisions
- 10:45 a.m. Statewide Death & Disability Plan and Colorado Springs New Hire Plans actuarial valuation presentations.** *Joe Newton, Dana Woolfrey, Gabriel, Roeder, Smith & Co.*
- 11:00 a.m. Approval of 2019 benefit adjustments.** *Kim Collins*
- 11:15 a.m. Break**
- 11:30 a.m. Recap of the underlying plans review.** *Dan Slack*
- Noon Staff report**
- a) Executive Director report. *Dan Slack*
 - b) General Counsel report. *Kevin Lindahl*
 - c) BHP opt-in securities litigation. **(Executive Session)** *Kevin Lindahl*
 - d) Asset-based fees budget amendment. *Scott Simon*
 - e) Employer and Member Survey Results. *Chip Weule*
- 12:30 p.m. Chair's report.** *Nick Nuanes, Chair*
- a) Evaluation of NCPERS. *Pam Feely and Karen Frame*
 - b) Election of 2018-2019 Vice Chair
 - c) Items for future discussion.
- 1:00 p.m. Adjournment**

FIRE AND POLICE PENSION ASSOCIATION
Minutes – Board Meeting
June 7-8, 2018

The Pines Lodge
141 Scott Hill Road
Beaver Creek, CO 81657

Board Members Present on Thursday or Friday:

Chair Nick Nuanes, Guy Torres, Karen Frame, Pam Feely, Sue Morgan, Tammy Hitchens, Todd Bower, and Tyson Worrell.

Staff Members Present on Thursday or Friday:

Dan Slack, Chip Weule, Kevin Lindahl, Kim Collins, Scott Simon, Elaine Gorton, Austin Cooley, Scott Bryan, Ahni Smith, and Karen Moore.

Others Present on Thursday or Friday:

Brian M. McDonnell, Diana Gibson, Alex Pekker, and Dwight Keysor, Cambridge Associates (CA); Joe Newton and Dana Woolfrey, GRS Retirement Consulting (GRS); and Deputy Brad Porter, Eagle County Sheriff's Office.

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.

Thursday, June 7

At 9:01 a.m., Chair Nuanes called the meeting to order.

Board self-evaluation

The Board proceeded to the self-evaluation. All staff and guests left the meeting.

At 9:45 a.m., Chair Nuanes called for a break.

Underlying Plans Review

At 9:59 a.m., the meeting reconvened. Mr. Slack presented his introduction to the underlying plans review, highlighting the current issues, tools under development, and deliverables for the Statewide Defined Benefit Plan (SWDB Plan), the Old Hire plans, and the Statewide Hybrid Plan (SWH Plan).

At 10:37 a.m., Mr. Slack reviewed current and possible SWDB policy objectives. Mr. Slack also reviewed the historical aspects of the SWDB, including assets and liabilities, SRAs, COLAs, historical benefit adjustments, assumed mortality, required

contributions and normal costs, and benefit and contribution changes.

The Board, staff, and consultants discussed historical market changes and the impact to the plan. Mr. Slack reviewed projected COLAs under the current benefit policy and reviewed what those projections would have been had the member election not passed.

Mr. Slack concluded that projected benefit adjustments will continue over the coming years and that member contribution increases greatly improve the plan outlook.

At 11:00 a.m., Chair Nuanes called for a break.

Statewide Defined Benefit Plan actuarial valuation

At 11:07 a.m., the meeting reconvened. Deputy Porter joined the meeting. Ms. Woolfrey began her presentation on the SWDB Plan January 1, 2018 valuation results. Investment returns were up 14.6%. 2017 performance offset prior deferred shortfalls, resulting in a 5-year smoothed value of 8.2% that produced an actuarial gain greater than the 7.5% assumption.

A higher number of disabilities occurred in 2017 than expected, resulting in a liability gain for the SWDB Plan. A significant amount of service was purchased during the year, typically tied to re-entering plans.

An experience study will be performed in 2019. The potential sources for change include mortality and the investment return assumption, as expectations continue to decline from most sources.

Ms. Woolfrey reviewed GRS' comparison of FPPA's contribution rates to those of other large public safety plans. About 70% of public safety plans have higher member contribution rates. FPPA has the lowest employer contribution rate of all plans compared.

The SWDB Plan's surplus grew from \$44 million to \$84 million, increasing the funded ratio from 101.4% to 103.7%.

Ms. Woolfrey reviewed historical COLAs, discussed the discretionary benefit adjustment, and future benefit adjustment projections. Ms. Woolfrey reviewed the reentry surcharge and explained the effect that the purchase of service credits has on reentry costs.

Ms. Woolfrey then reviewed the supplemental studies that considered what the plan would look like if the member election had not passed, the impact of additional contributions, the impact of a new tier of benefits, and with COLA variations: No COLA delay vs. 3-year COLA delay, simple COLA, and re-entry surcharge minimum.

At 12:02 p.m., Chair Nuanes called for a break for lunch.

Statewide Defined Benefit Plan review

At 12:35 p.m., the meeting reconvened. Ms. Gibson and Mr. Pekker left the meeting Ms. Woolfrey and Mr. Newton demonstrated their projection tool.

The Board, staff, and consultants discussed the SWDB Plan, including SRAs, COLAs, and contributions, and discussed comparisons to the plan's peers. The Board discussed the need for an experience study this year, rather than next year, to obtain the most accurate, current information.

At 1:44 p.m., Chair Nuanes called for a break.

Asset allocation of the Old Hire plans

At 1:55 p.m., the meeting reconvened. Ms. Gibson and Mr. Pekker rejoined the meeting. Messrs. Slack and Cooley provided history and analysis of the Old Hire and other closed plans. Staff, GRS, and CA are at the early stages of assessing the unique risk tolerances and objectives of these plans. This group of plans is very diverse across metrics that are meaningful to assessing risk tolerances. Staff and GRS are organizing information on each closed plan in advance of a detailed review unique to each plan's funding and investment policy.

Mr. Newton presented the Old Hire Plan Dynamic. The magnitude of assets and cash flows is significant to FPPA's overall funds. The magnitude of assets for individual departments may be significant to their annual budgets. The potential tradeoffs (most desirable vs. most undesirable) are likely different for each employer. GRS recommended a joint analysis (actuarial and investment) be performed prior to next year's asset allocation study to examine optimal funding and investment policy.

Statewide Hybrid Plan actuarial valuation

Mr. Slack presented his introduction into the SWH Plan review.

Mr. Newton presented the SWH Plan January 1, 2018, actuarial valuation results. The funded ratio for base benefits was 135.5%. Investment returns were up 14.6%. 2017 performance offset prior deferred shortfalls, resulting in a 5-year smoothed value of 8.2% that produced an actuarial gain greater than the 7.5% assumption. There were more disabilities in 2017 than expected, resulting in a liability gain. A significant amount of service was purchased during the year, typically tied to re-entering plans.

Statewide Hybrid Plan policy discussion

The plan is well funded but functions similarly to a closed plan since a majority of employers are not placing new hires into this plan. Mr. Newton discussed the future high leverage of this plan and possible solutions to lowering the leverage. The Board and staff discussed issues and possible solutions.

At 2:52 p.m., Chair Nuanes called for a break. Mr. Torres left the meeting.

Fiduciary aspects of ESG investing

Mr. Lindahl began his presentation on the fiduciary aspects of environmental, social and governance investing. Mr. Lindahl reviewed basic fiduciary rules, relationship to federal law, the selection and monitoring of investments, and social investing and economically targeted investments.

At 4:10 p.m., Chair Nuanes declared the meeting adjourned until tomorrow.

Friday, June 8, 2018

At 8:52 a.m., Chair Nuanes called to meeting to order.

Consent Calendar

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

- Approval of April 26, 2018, Board meeting minutes
- Approval of Resolution 2018-03
- Approval of Resolution 2018-04

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

Q1 2018 portfolio review

At 8:53 a.m., Ms. Gibson presented the 2018 Q1 performance. Stocks and bonds were down this quarter, but the portfolio held up with a slightly positive performance of 0.14%. The portfolio outperformed the implementation and reference benchmarks. The portfolio underperformed the policy benchmark. CA has recommended changes to the composition of the policy benchmark.

Ms. Gibson reviewed Long Only Equity returns. All three global equity managers outperformed the benchmark. Emerging markets equity also performed well. Kayne Anderson was a drag on performance for U.S. Equity; however, MLPs did bounce back in May.

Long/Short Equity was down 0.44%, but outperformed the benchmark. Anchor Bolt and Sachem Head underperformed.

Fixed Income was down 0.97%, but also outperformed the benchmark.

Managed Futures was down 2.94% -- the biggest detractor was Graham Tactical Trend. Large gains in January were given back in February and March.

Absolute Return was up 1.91%, outperforming the benchmark.

Private markets was up 1.31%. The policy benchmark has continued to outperform the portfolio the past year.

At 9:04 a.m., Mr. McDonnell presented the market update, providing global asset class performance as of April 2018. Global markets were flat in April and May, but U.S. markets were dynamic, outperforming emerging markets. Higher and flatter yields seem to be a U.S.-only phenomenon, for now. Global earnings are expected to be strong for the second straight year, led by nearly a 20% gain in the U.S.

Investment Report

Review of April performance and managers

At 9:20 a.m., Mr. Simon presented the Investment Report.

Total Fund performance (net of fees) was **+0.77% in April** (+0.91% YTD). Performance of the Implementation Benchmark YTD was -0.05%. Net Investible Assets for the Total Fund was \$4.9 billion as of April 30, 2018.

Portfolio Update:

- **Global Public Equity:** While losing a little ground in April, the portfolio is still outperforming its benchmark on a YTD basis. Positive relative contribution is coming from our global equity managers EDHEC and Walter Scott. U.S. equity performance rebounded given the dedicated exposure to MLPs. Driehaus (non-U.S. small cap) continues to perform well YTD. Given the strengthening of the U.S. dollar, the currency overlay program added significant value in April.
- **Long/Short Equity:** The portfolio rebounded in April but still lags its benchmark YTD. Primary detractors came from Anchor Bolt, Sachem Head and Tessera.
- **Fixed Income:** Although negative performance, the portfolio was ahead of its benchmark YTD with positive relative contribution coming from Prudential.
- **Managed Futures:** The portfolio rebounded in April although still lags its benchmark YTD. Key Trends is the only manager with positive performance for the year.
- **Absolute Return:** The portfolio is off to a good start for the year with strong performance relative to its benchmark. Strong performance from our global macro funds and Alphadyne Global Rates are the largest contributors.
- **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.

Investment Committee

At 9:22 a.m., Mr. Torres provided an updated from the Investment Committee (IC).

At the June 6th Committee meeting, Staff presented portfolio reviews of the private markets and long short equity portfolios. The committee reviewed a life settlements investment and active extension strategies. The committee will be reviewing the Investment Policy Statement for the Benefit Investment Fund and will have recommended benchmark updates for the Board's consideration in July.

Mr. Simon highlighted the Internal Investment Committee's (IIC) recent commitment approval of \$50 million to the WMQS Global Active Extension Onshore Fund.

Mr. Simon reviewed the RVK public fund peer survey and directed the Board to the Self-Directed Plans Committee (SDPC) materials that are available in the meeting materials.

Asset allocation review

At 9:44 a.m., Mr. Pekker presented CA's asset allocation review of the FPPA plans, which was a high-level review of the structure of the assets and liabilities. CA's analysis supports current policy targets. CA's analysis confirms that in aggregate the plans have the capacity to take on additional illiquidity as contemplated by the policy targets. While a single asset allocation across all plans remains practical, consideration of plan-by-plan objectives would be appropriate and could lead to alternative, plan-specific asset allocations. It will be appropriate to revisit asset allocations after the June retreat and the experience study.

The current target asset allocation is highly diversified compared to a stock/bond portfolio. CA's analysis confirms the importance of allocations to asset classes with higher potential returns and higher potential manager value-add to maintain funded status in the current environment. Under the current target asset allocation, the expected average annualized compound return is 7.8% over 30 years compared to the 7.5% long-term expected return. Over a 28-year period, under baseline liability assumptions, the aggregate projected funded status is expected to decline in the first 10 years (due to expected returns being below the long-term expected return of 7.5% which underlies liabilities and contributions) and then recover in subsequent 18 years.

At 9:58 a.m., Mr. Cooley reviewed staff's asset allocation review. Staff, GRS, and CA discussed these projections in comparison to CA's results. Staff's results were a 10-year forward expected return of 6.7%. This was down from last year's estimate of 7.2% but is still sufficient return to maintain funded status.

There will not be any changes to policy targets at this time.

At 10:10 a.m., Chair Nuanes called for a break.

Audit Committee report

At 10:27 a.m., Ms. Feely updated the Board on the activities of the Audit Committee.

Ms. Feely moved the Board to accept and approve the Comprehensive Annual Financial Report for 2017. Ms. Hitchens seconded the motion. The motion passed.

Ms. Feely moved the Board to adopt the amendments to the Audit Committee Charter as proposed by the Audit Committee. Ms. Morgan seconded the motion. The motion passed.

Statewide Death & Disability Plans and Colorado Springs New Hire Plans actuarial valuation presentations

At 10:33 a.m., Ms. Woolfrey presented the Statewide Death & Disability Plan (SWD&D Plan) January 1, 2018, actuarial valuation results. Investment returns were up 14.6%. 2017 performance offset prior deferred shortfalls, resulting in a 5-year smoothed value of 8.2% that produced an actuarial gain greater than the 7.5% assumption. There were more disabilities in 2017 than expected, resulting in a liability loss for the SWD&D Plan. Administrative expenses charged to the plan increased. Asset gains were \$2 million. The net impact is a decline to a \$1 million surplus.

Current SWD&D Plan contribution rates only cover base benefits. There is no margin for adverse deviation or provision for COLAs. GRS recommended contribution increases. The experience study will likely prompt further attention to this plan.

Ms. Woolfrey presented the January 1, 2018, actuarial valuation results of the Colorado Springs New Hire Plans. As the payroll for these plans diminish, the required contributions are also expected to diminish. Administrative expenses decreased. Several disabilities produced liability gains.

GRS provided their recommendations to the Board.

Approval of 2019 benefit adjustments

At 10:53 a.m., Ms. Collins reviewed GRS' recommendations to the Board for consideration.

Ms. Feely moved to set the SRA contribution rate for the members of the SWDB Plan at 0%, effective 7/1/2018 through 6/30/2019. Ms. Hitchens seconded the motion. The motion passed.

Ms. Morgan moved to set the Reentry SRA contribution rate for members of departments that have reentered the SWDB Plan at 3.7%, effective 7/1/2018 through 6/30/2019. Ms. Hitchens seconded the motion. The motion passed.

Ms. Feely moved to set the SRA contribution rate for the members of the

supplemental Social Security program within the SWDB Plan at 0%, effective 7/1/2018 through 6/30/2019. Mr. Torres seconded the motion. The motion passed.

Ms. Hitchens moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the SWDB Plan at 0.39%, effective 10/1/2018 through 9/30/2019. Ms. Feely seconded the motion. The motion passed.

Ms. Morgan moved to set the SWH Plan – Defined Benefit Component contribution rate at 13.4%, effective 7/1/2018 through 6/30/2019. Ms. Feely seconded the motion. The motion passed.

Ms. Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the SWH Plan – Defined Benefit Component at 3.0%, effective 10/1/2018 through 9/30/2019. Mr. Torres seconded the motion. The Board discussed the adjustment further. The motion passed.

Ms. Feely moved to set the SWD&D Plan contribution rate at 2.8%, effective 1/1/2019 through 12/31/2020. Ms. Hitchens seconded the motion. The motion passed.

Staff and the Board discussed GRS' recommended ad hoc benefit adjustment. Ms. Hitchens moved to set the ad hoc benefit adjustment for the SWD&D Plan for occupational disability retirees and their beneficiaries and to survivors of active members at 0%, effective 10/1/2017 through 9/30/2018. Ms. Feely seconded the motion. The motion passed.

Recap of the underlying plans review

At 11:06 a.m., Mr. Cooley presented a recap of the underlying plans review. The Board and staff discussed next steps. The Board directed staff to provide a project plan at the July Board meeting.

Mr. Slack presented a recap of the SWH Plan review. The Board agreed to defer action on a benefits policy for this plan until a new actuarial experience study has been completed. In the meantime, staff will continue to analyze and consider possible structural improvements.

Mr. Slack presented a recap of the SWDB Plan review. The Board directed staff to expedite the actuarial experience study for completion in 2018. Staff will provide draft conceptual legislation for the Board's consideration. The Board asked that FPPA develop a plan for outreach to employers and other stakeholders on any proposed legislation.

At 11:26 a.m., Mr. Bower moved to amend the budget to complete the actuarial experience study on an expedited basis in 2018, rather than 2019, for a cost up to \$55,000. Mr. Torres seconded the motion. The motion passed.

Chair Nuanes called for a break. Ms. Woolfrey and Messrs. Newton, McDonnell, and Cooley left the meeting.

Staff Report

Executive Director Report

At 11:41 a.m., the meeting reconvened. Mr. Slack proceeded with the Executive Director's report. Mr. Weule updated the Board on the educational videos produced by the Benefits team and posted on the FPPA website.

General Counsel Report

At 11:45 a.m., Mr. Lindahl presented the litigation report.

BHP opt-in securities litigation (Executive Session)

At 11:47 a.m., Ms. Feely moved that the Board adjourn into Executive Session to receive legal advice from our Legal Counsel regarding litigation against BHP Billiton Limited as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes. Mr. Torres seconded the motion. The motion passed.

Ms. Gibson and Messrs. McDonnell and Pekker left the meeting. The Board entered into executive session.

At 11:54 p.m., Ms. Feely moved to return to regular session. Ms. Morgan seconded the motion. That motion passed. The Board returned to its regular meeting. Chair Nuanes declared that no motions were made and no actions were taken during executive session. Ms. Gibson and Messrs. McDonnell and Pekker returned to the meeting.

At 11:55 a.m., Ms. Feely moved that the Board join the legal action against BHP Billiton Limited and certain of its executives as recommended by legal counsel. Ms. Hitchens seconded the motion. The motion passed.

At 11:56 a.m., Ms. Feely moved the Board to grant permission to Messrs. Slack and Lindahl to join FPPA in future opt-in foreign litigation as they deem acceptable without obtaining the Board's approval, but reporting any such actions to the board at its next meeting. Mr. Torres seconded the motion. The motion passed.

Asset-based fees budget amendment

Mr. Simon presented the proposed asset-based fees budget amendment.

Ms. Feely moved that the Board amend its asset-based fees budget by increasing the budget for computer software by \$75,000 in 2018 to accommodate additional necessary expenses related to private market back office expenses. Mr. Torres seconded that motion. The motion passed.

Employer and Member Survey Results

Mr. Weule provided highlights from the employer and member survey results. Mr. Weule reached out to employers to discuss their responses. A key takeaway is that employers want more information on the reentry process, including timelines.

At 12:11 p.m., Mr. McDonnell left the meeting. Mr. Weule briefed the Board on updates to the reentry process. Timelines and processes will be standardized, a payroll specialist will be assigned early on, and individual calculations will be automated. Automation of the service purchase process is currently being tested. Mr. Weule also discussed future surveys that will be provided to employers and employees on various retirement and disability processes.

Chair's Report

Evaluation of NCPERS

At 12:20 p.m., Ms. Frame provided her evaluation of the NCPERS Trustee Seminar and Annual Conference.

Ms. Feely provided her evaluation of the NCPERS Annual Conference.

Election of 2018-2019 Vice Chair

At 12:23 p.m., Ms. Hitchens moved that the Board elect Ms. Feely as Vice Chair. Mr. Torres moved that the Board elect Ms. Morgan as Vice Chair. Ms. Morgan respectfully declined. Ms. Frame seconded the motion to elect Ms. Feely as Vice Chair. The motion passed.

Items of future discussion

Chair Nuanes thanked the Board for their travel. Chair Nuanes will provide the Board with a recap of their self-evaluation discussions.

At 12:27 p.m., Ms. Feely moved to adjourn the meeting. Ms. Morgan seconded the motion. Chair Nuanes declared the meeting adjourned.