

Fire & Police Pension Association
Board of Directors Meeting Agenda

March 8, 2018
7:30 a.m.

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

- a) Conflicts disclosure

7:30 a.m. Consent Calendar. *Nick Nuanes, Chair*

- a) Approval of January 25, 2018, Board meeting minutes
- b) Broomfield Police Partial Entry Resolution, requesting coverage under the FPPA Defined Benefit System
- c) Grand Junction Fire and Police Partial Entry Resolution, requesting coverage under the FPPA Defined Benefit System

7:35 a.m. Appellate Review Hearing – Christy Hanby

8:15 a.m. Investment report

- a) Review of January performance and managers. *Scott Simon*
- b) Investment Committee Report. *David Bomberger, Chair of Investment Committee*

9:00 a.m. Break

9:10 a.m. Self-Directed Plans Annual Review. *Suzanne Rogers, John Merritt and Sam Casad, Fidelity; Annette Bidart and Mike Fleiner, AndCo*

10:40 a.m. Break

10:50 a.m. Update on underlying plans review. *Dan Slack and Austin Cooley.*

11:20 a.m. Staff report

- a) Executive Director Report. *Dan Slack*
- b) Cyrus Pinkerton letter to board. *Dan Slack*
- c) Q4 Board Scorecard. *Dan Slack*
- d) General Counsel Report. *Kevin Lindahl*
- e) Budget variance report. *Kim Collins*

12:00 p.m. Chair's report. *Nick Nuanes, Chair*

- a) Evaluation of NCPERS Legislative Conference. *Pam Feely*
- b) Succession planning. *Dan Slack*
- c) Items for future discussion.

12:45 p.m. Adjournment

FIRE AND POLICE PENSION ASSOCIATION
Minutes – Board Meeting
March 8, 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, Austin Cooley, Jessica Hsu, and Karen Moore.

Others Present: Brian M. McDonnell and Diana Gibson, Cambridge Associates; Annette Bidart and Mike Fleiner, AndCo Consulting; and Suzanne Rogers, John Merritt, and Sam Casad, Fidelity.

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 7:31 a.m., Chair Nuanes called the meeting to order.

Chair Nuanes called for any potential conflicts of interest for discussion.

Mr. Lindahl discussed the preference of having conflicts disclosed as they come up rather than at the beginning of meeting, so that the record shows the conflict disclosure at the relevant time in the minutes. Chair Nuanes agreed and asked that Mr. Lindahl assist the Chair to ensure that conflicts disclosures are requested accordingly.

Consent Calendar

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

- Approval of January 25, 2018, Special Board meeting minutes.
- Broomfield Police Partial Entry Resolution, requesting coverage under the FPPA Defined Benefit System.
- City of Grand Junction Fire and Police Departments Partial Entry Resolution, requesting coverage under the FPPA Defined Benefit System.

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

Ms. Hanby had not arrived for the scheduled hearing, so the Board moved down the agenda to the Investment Report.

At 7:35 a.m., Mr. Simon commenced his presentation of the Investment report.

Review of January performance and managers

Total Fund performance (net of fees) was **+2.73% in January** relative to +2.58% for the Implementation Benchmark. Final 2017 Total Fund performance (net of fees) was +14.95% relative to +13.65% for the Implementation Benchmark. Net Investible Assets for the Total Fund was \$5.1 billion as of January 31, 2018.

Portfolio Update:

- **Global Public Equity:** The portfolio started the year with solid outperformance although currency hedging brought the portfolio back in-line with its benchmark. Outperformance came primarily from Emerging Markets Equity and Non-US Equity.
- **Long/Short Equity:** Given the lower beta construct of the class, long/short equity lagged the performance of long-only public equity. The portfolio also lagged its benchmark with the primary detractor coming from Anchor Bolt.
- **Fixed Income:** Although negative performance, the portfolio was ahead of its benchmark for January with positive relative contribution coming from Manulife and Prudential.
- **Managed Futures:** The portfolio had strong performance in January. Trends from the prior year continued of long equity, long energy and short the USD. Gains were erased in February with the strong reversal of equities and increased volatility.
- **Absolute Return:** The portfolio slightly lagged its implementation benchmark for January. The primary detractors were Hutchin Hill and HBK.
- **Private Markets:** The portfolio had slight positive performance for the month, although performance should be flat for the next few months until the year-end valuation adjustment rolls off. We are starting to receive 4Q 2017 valuations. We have received and incorporated the 2017 ILPA performance into our implementation benchmarks. The overall portfolio lags on a longer term basis given the poor performance of the real assets portfolio. The long term policy benchmark of public equity +200 bps significantly outperformed the portfolio over the last year.

Mr. Simon highlighted the Internal Investment Committee's (IIC) recent commitment approvals: \$25 million commitment to Periscope Storage Fund II, £20 million commitment to Mayfair Equity Partners II, and \$20 million investment to KCL Capital.

Investment Committee

Mr. Bomberger updated the Board on the activities of the Investment Committee (IC). The IC met on January 25th to receive a market update, discuss the Cambridge onboarding progress, priorities of upcoming projects, and to review the investment staff incentive compensation plan. The next committee meeting will occur in April.

Mr. Slack discussed holding the IC meetings the day before a Board meeting or the same day of a Board meeting, on a quarterly basis. The Board decided that the IC will continue to meet on Thursdays following the Board meetings, except that the June IC meeting will be held on Wednesday prior to the Board Strategic Planning meeting. The next IC meeting will be scheduled for April 26 following the Board meeting.

Other Matters

Mr. Cooley joined the meeting. Mr. Simon reviewed and explained the implementation, policy, and reference benchmarks and the components that drive them. These benchmarks will be reviewed and considered at the June strategic planning meeting. FPPA engages our consultant to verify the construction and calculation of the implementation benchmark since it is a component of how staff is measured. For the annual period ending December 31, 2017, that benchmark was 13.65%.

At 8:09 a.m., Ms. Gibson, Cambridge Associates (CA), reviewed the implementation benchmark construction and calculation. CA believes that the implementation benchmark has been constructed reasonably and accurately. CA verified the performance calculated by BNY Mellon of 13.65% for 2017 and believes its use as a short-term measure of relative performance is prudent.

Ms. Gibson reviewed 2017 Q4 performance. Long/short equities did slightly underperform the benchmark, but performance for the year was strong, driven by long-only equities. Fixed Income performance met the benchmark for the quarter and the year. Illiquid alternatives met the benchmark for the quarter, but underperformed the benchmark for the year. Mr. McDonnell added that it is normal and expected for underperformance of Illiquid Alternatives after a year when public markets are up over 20%. Absolute Return did not meet the benchmark for this quarter, but did for the year. Ms. Gibson reviewed the asset allocation versus policy.

Mr. McDonnell delivered the January market update. All economies in the world are growing at the same time, stronger than expected economic growth has boosted equities. Mr. McDonnell highlighted that central banks are becoming much less accommodating, higher rates are not supporting the US Dollar, and fears over rising issuance and rate hikes weigh on US Treasuries.

Mr. Cooley left the meeting.

Appellate Review Hearing – Christy Hanby

Mr. Lindahl reviewed Ms. Hanby's permanent occupational disability benefit case, provided the hearing officer's recommendation of denial of on-duty status, and explained the procedures for the appellate review hearing.

Ms. Hanby was provided notice of today's hearing via certified mail, and FPPA received a signed receipt of the notice. However, Ms. Hanby did not appear for the hearing. She is not required to be present at the hearing.

At 8:49 a.m., the hearing commenced. Mr. Sutherland presented the FPPA Hearing Officer's recommendation, providing the hearing officer's rationale for the recommendation.

At 9:00 a.m., Mr. Bower joined the meeting.

The Board and Staff discussed the burden of proof and the treating physicians' reports.

At 9:10 a.m., Ms. Hitchens moved the Board of Directors to affirm the written Findings, Conclusions, and Recommendation of Hearing Officer Tarler regarding the matter of the Christy Hanby. Mr. Torres seconded the motion. The motion passed.

At 9:10 a.m., the Board took a break.

Self-Directed Plans Annual Review

At 9:21 a.m., the board reconvened. Ms. Hsu and Messrs. Cooley and Ross joined the meeting. Ms. Bidart and Mr. Fleiner, AndCo, and Ms. Rogers and Messrs. Merritt and Casad, Fidelity, joined the meeting.

Mr. Slack announced that Mr. Weule will take over as chair of the Self-Directed Plans Committee (SDPC).

Mr. Fleiner provided a brief overview of AndCo and the services it provides to FPPA. Mr. Fleiner highlighted 2017 accomplishments and reviewed the fiduciary checklist. AndCo completed a fee bench-marking study on record-keepers.

At 9:47 a.m., Ms. Bidart explained the information available in the monthly investment performance reports. Ms. Bidart then reviewed the January investment performance report. Ms. Bidart highlighted the replacement of the Harbor International fund (management fees of 0.79% with 0.10% revenue sharing) with Am Funds Europacific R 6 (management fees of 0.50%). The fund had been underperforming and its recent rankings were poor.

The Metropolitan West High Yield Bond fund is being replaced with the Mainstay

(MacKay Shields) fund, which will be FPPA's first commingled fund. The Metropolitan West High Yield Bond fund was not performing in comparison to its peers. The management fee for the MacKay Shields mutual fund is 0.58%, but FPPA was able to get into the commingled fund with lower fees of 0.35%.

AndCo recommended the Templeton Global Bond fund be replaced due to the underlying holdings, which are 90% emerging markets and currencies, not due to its performance. This fund will be replaced with the PIMCO Global Bond fund.

Ms. Bidart highlighted the U.S. Dollar International Index Attribution & Country Detail included in the 4Q 2017 performance review report. This provides the weightings of the MSCI ACWIxUS and EAFE indices.

Ms. Bidart also directed Board and staff to the Fund Compliance Checklist, and reviewed the weighting that AndCo utilizes to score the funds.

Mr. Merritt reviewed investment trends. We saw growth in the Statewide Hybrid plan; average account balances were much higher than our peers. We have a lower percentage of participants utilizing managed accounts but have very high participation in self-directed brokerage, in comparison to our peers.

In June, Fidelity will be rebranding the PAS-w to the Personalized Planning Advice Tool.

The Board asked whether members are provided with documentation stating that FPPA is released from any responsibility or liability related to a member's participation in a Self-Directed Brokerage Account. Ms. Rogers confirmed that such disclosure language is included in the Self-Directed Brokerage Account application. The Board also noted concern whether our members understood their investment options with Fidelity. Mr. Casad discussed how members using PAS-w are asked questions enabling Fidelity to gather information on all assets, prior to making the appropriate recommendation. Mr. Casad also confirmed that Fidelity clearly reviews all available options during onsite visits.

At 10:25 a.m., Ms. Rogers reviewed Fidelity's involvement in reentry and projects during 2017, and highlighted current plan assets and trends. Ms. Rogers provided an update on the Department of Labor (DOL) Fiduciary Rule, Fidelity is fully compliant with the rule.

Mr. Casad updated the Board on his interactions with our members. He has seen an increased interest from our firefighter members with their investment accounts. Mr. Casad participates in onsite quarterly visits at FPPA to meet with members that may have not been able to meet with him at the member's employer.

At 10:40 a.m., the Board took a break. AndCo, Fidelity, Ms. Hsu, and Mr. Ross left the meeting.

Update on underlying plans review

At 10:49 a.m., the meeting reconvened. Mr. Slack began his presentation on the underlying plans, reviewing the following issues in the Statewide Defined Benefit Plan: refining risk tolerances and objectives, COLAs, and maintaining the strength of the plan in adverse economic circumstances.

Mr. Slack reviewed the issues of the Statewide Hybrid Plan: low adoption rate by employers, COLA policy for the defined benefit component, and contribution split between the defined benefit and defined contribution components.

Mr. Slack also reviewed the issues of the closed plans: percentage of total fund assets, asset/liability, and liquidity considerations.

Mr. Cooley described the tools under development, which are an expanded asset/liability framework and an internal working group to evaluate underlying plan issues.

The deliverables for the June Strategic Planning meeting are as follows: for the Statewide Defined Benefit Plan, analysis of options that impact COLAs and adverse experience analysis; for the Statewide Hybrid Plan, draft Statewide Hybrid Plan benefits policy, with options; and for the closed plans, the review of investment and funding policy in light of closed status and shorter amortization periods. Asset allocation review will be deferred.

Mr. Bower requested that we have the actuary also provide a simulation of what the funding status would be if the member election did not pass (no 4% contribution increase), but including the new mortality rates. This information will be provided at the June meeting.

Staff Report

Executive Director Report

At 11:28 a.m., Mr. Slack notified the Board that former investment consultant John Linder has joined Ryan Labs Asset Management.

Mr. Slack updated the Board on staff's research on exposure FPPA had to firearm manufacturers. FPPA has indirect exposure through our derivative exposure in the Russell 2000 index. FPPA does not invest in this index but invests in the derivative that replicates the return of the index. This index does include gun manufacturers. Staff also reviewed SEC filings of our hedge funds for any exposure to firearm and ammunition manufacturers. As of 12/31, there was exposure of \$208,000. Part of our exposure was in a fund that is closing, so the exposure will be less.

The Board and staff discussed environmental, social, and governance (ESG) considerations in investing. Mr. Lindahl will present on ESG considerations at the June strategic session.

Any Board member planning to attend the NCPERS Annual Conference will need to notify Ms. Moore so that the member can be designated as a delegate.

Mr. Slack highlighted the Colorado Public Employee's Retirement Association (PERA) comparison of proposed legislation affecting it and noted that the proposed bill does include language that eliminates the current Police Officers' and Firefighters' Pension Reform Commission and creates another legislative committee that would oversee both PERA and FPPA. The current draft of the bill provides the State Treasurer with the power to appoint four members to the committee. These appointments would be in addition to elected senators and representatives.

Cyrus Pinkerton letter to the board

Mr. Slack highlighted the issues raised by Mr. Pinkerton's letter to the Board.

Q4 Board Scorecard

Mr. Slack highlighted the benefit adjustment expectations in the Statewide Defined Benefit Plan and the Statewide Death & Disability Plan and the 1- and 5-year investment returns.

General Counsel Report

Mr. Lindahl updated the Board on FPPA legislation. The reentry bill has been signed. The Statewide Death & Disability Plan bill was amended in the house and is now headed to the senate.

Mr. Lindahl is still reviewing the proposed PERA legislation that was just received. We may need to call a special meeting for direction on the proposed legislation.

Budget variance report

Ms. Collins highlighted items that were greater than 5% of the original budget on the budget variance report. Ms. Collins also highlighted the significant dollar savings (greater than \$25,000) from the original budget.

Chair's Report

Chair's remarks

The Chair did not have any remarks.

Evaluation of NCPERS Legislative Conference

Ms. Feely provided her evaluation of the conference and status of legislation.

Succession planning

At 12:05 p.m., Mr. Slack reviewed the draft succession plan.

Ms. Feely moved that the Board to adjourn into Executive Session to discuss succession planning for FPPA's executive staff as allowed under Section 24-6-402(4)(f) of the Colorado Revised Statutes. Ms. Morgan seconded the motion. The motion passed.

At 12:52 p.m., the Board returned to its regular meeting. Chair Nuanes declared that no motions were made and no actions were taken during the executive session.

Items for future discussion

Chair Nuanes announced that Ms. Frame will be joining the Investment Committee and Budget Committee.

At 12:53 p.m., Chair Nuanes declared the meeting adjourned.