

Fire & Police Pension Association
Board of Directors Meeting Agenda

November 8, 2018
7:30 a.m.

- 7:30 a.m.** Call to Order. *Dave Bomberger, Chair*
- 7:30 a.m.** Consent Calendar. *Dave Bomberger, Chair*
- a) Approval of September 27, 2018, Board meeting minutes
- 7:35 a.m.** Cambridge Market Update. *Brian McDonnell, Cambridge Associates*
- 8:00 a.m.** Investment report
- a) Review of September performance and managers. *Scott Simon*
 - b) Investment Committee Report. *Guy Torres, Chair of Investment Committee*
- 8:20 am.** Credit Investing. *Christine Farquhar, Managing Director, Global Investment Research, Cambridge Associates*
- 9:10 a.m.** Break
- 9:25 a.m.** Proposed 2019 budget
- a) Budget Committee report. *Karen Frame, Chair of Budget Committee*
 - b) Staff Presentation. *Dan Slack, Kim Collins, Elaine Gorton*
- 10:10 a.m.** Break
- 10:25 a.m.** Staff Educational presentations
- a) Follow the Money. *Kim Collins, Scott Simon*
 - b) Fiduciary and statutory duties to the Old Hire and other plans. *Kevin Lindahl*
 - c) New Benefits Department videos. *Chip Weule*

11:30 p.m. Lunch

12:00 p.m. Staff report

- a) Executive Staff Report. *Dan Slack*
 - o 3Q scorecard
- b) General Counsel Report. *Kevin Lindahl*
- c) Underlying plans review update. *Dan Slack, Austin Cooley*
- d) GASB 68 and payroll attestation. *Kim Collins*

1:30 p.m. Statewide Plans Task Force update. *Todd Bower & Pam Feely, Co-Chairs*

1:45 p.m. Chair's report. *Dave Bomberger, Chair*

- a) Evaluation of Cambridge Trustee Conference. *Karen Frame*
- b) Evaluation of the NCPERS Public Safety Conference. *Pam Feely*
- c) Other matters

2:00 p.m. Adjournment

FIRE AND POLICE PENSION ASSOCIATION
Minutes – Board Meeting
November 8, 2018

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

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

Staff Members Present: Dan Slack, Chip Weule, Kevin Lindahl, Kim Collins, Scott Simon, Elaine Gorton, Michael Sutherland, Austin Cooley, Dale Martin, Ahni Smith, Karen Moore, and Ben Bronson (via phone).

Others Present: Brian M. McDonnell and Christine Farquhar, Cambridge Associates (CA).

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.

Call to Order

At 7:30 a.m., Chair Bomberger called the meeting to order.

Consent Agenda

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

- Approval of September 27, 2018, Board meeting minutes.

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

Cambridge Market Update

Mr. McDonnell presented the Q3 market update. The conference call line was opened, and Mr. Bronson joined the call. Mr. McDonnell continued with the market update. The market had its best quarter since 2013, assets were mostly up across the board. October did see quick drawdowns, but rallied at the end of the month. The US is seeing a sharp deceleration of EPS growth. Much of this is due to the tax cut, which was a one-time boost to EPS, but does not help with year-over-year growth.

Mr. McDonnell highlighted the yield change of the three-month T-bill, the risk premium of equity over cash was at the lowest level in over a decade. Mr. McDonnell

also highlighted the cumulative wealth of MSCI EAFE, excluding Japan, versus MSCI US and discussed the importance of geographic diversification.

Investment Report

Review of September performance and managers

Mr. Simon provided the economic recap and fund performance for September 2018. Total Fund performance (net of fees) was **+.78% in September (+4.20% YTD)**. Performance of the Implementation Benchmark YTD was +2.86%. Net Investible Assets for the Total Fund was \$5.1 billion as of September 30, 2018.

Portfolio Update:

- Global Public Equity: The portfolio performance was in-line with its benchmark for the month and continues to be ahead YTD. US Equity continues to significantly outperform Non-US equity. Given the strengthening of the US dollar, the currency overlay program continues to add value.
- Long/Short Equity: The portfolio performance exceeded its benchmark for the month and continues to be ahead YTD. Anchor Bolt is the primary detractor of performance YTD.
- Fixed Income: The portfolio performance was slightly ahead of its benchmark for the month and YTD. Prudential is the primary contributor YTD.
- Managed Futures: The portfolio performance exceeded its benchmark for the month and YTD. Graham had an outsized return for the month.
- Absolute Return: The portfolio performance exceeded its benchmark for the month and YTD. Both AQR funds are the primary detractors YTD.
- Private Markets: The portfolio strategies (private capital, real assets and real estate) performed well for the quarter. 3Q implementation benchmarks have yet to be received, but are expected to close the gap of outperformance.

Investment commitments YTD are \$267 million. Capital call activity was particularly strong in Q3 with capital calls being nearly double the amount of distributions.

Investment Committee Report

At the September 27, 2018 Investment Committee (IC) meeting, the Committee voted to appoint Mr. Torres as the Committee Chair.

Mr. Torres updated the Board on the September IC meeting. The IC reviewed emerging markets, fixed income, and closed plans. The closed plans were a big topic of discussion. Cambridge and staff have been working to determine whether we should create alternative asset allocations into which we can map various closed

plans. The IC also discussed whether the new allocation would be mandatory. The IC requested Mr. Lindahl's legal opinion on the statutory and fiduciary requirements to the closed plans. The Board will need to consider Mr. Lindahl's opinion prior to any change in asset allocation taking place.

The IC will be briefly meet following today's Board meeting and again on December 13.

Mr. Simon discussed FPPA's active involvement with the Institutional Limited Partners Association ("ILPA") on the Investment Adviser Alignment Act which, due to the exponential growth of PE, seeks to promote increased transparency, certainty and accountability for the benefit of investors, to drive greater alignment between private equity managers and their investor partners, while preserving the best aspects of the private equity model that drive economic growth and job creation. Mr. Martin is actively working with the ILPA on this matter.

Credit Investing

At 7:58 a.m., Mr. McDonnell introduced Christine Farquhar, Managing Director, Global Investment Research at Cambridge Associates. Mr. Farquhar began her presentation on Credit Investing.

Messrs. Simon and Martin updated the Board on our current private credit exposure.

At 8:45 a.m., Chair Bomberger called for a break and Ms. Farquhar and Mr. Martin left the meeting.

Proposed 2019 budget presentation

Budget Committee report

At 9:00 a.m., the meeting reconvened. Ms. Frame presented the proposed 2019 budget for the Board's consideration and thanked staff for their work on the proposed budget. The Committee also recommended the Board approve the proposed change to the budget review process.

Staff Presentation

Mr. Slack reviewed the multi-step review process of the budget development and discussed a change to the process for 2019. Currently, the process requires budget estimates be presented in October to the Budget Committee. But due to the health insurance industry's rate setting process, only rate estimates are available at that time to provide to the Committee. The proposed budget review process would be as follows: the Budget Committee would meet once staff can confirm health insurance costs and then the proposed budget would be presented before the Board at the December meeting. The proposed process would enable the Budget Committee to receive and consider more accurate information. Ms. Frame is in support of the proposed two-step process, with the Budget Committee meeting in November. The

Board agreed to the budget process change beginning in 2019.

Mr. Slack reviewed the standard by which the budget is reviewed, as set forth in the Uniform Prudent Investor Act: "incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee", and under the direction the Board has given staff. Mr. Slack reviewed what is considered revenue under the guidance of the Governmental Accounting Standards Board.

Ms. Collins presented the Budget Committee's recommended amendment to the 2018 salaries budget to resolve an error.

Ms. Frame moved the Board to approve a budget amendment for the 2018 budget by increasing Operating Salaries by \$395,503 and by increasing Asset Based Fees Salaries by \$46,453. Ms. Morgan seconded the motion. The motion passed.

Ms. Collins presented the 2019 proposed budget, highlighting noteworthy points previously presented to the Budget Committee and summarizing the projects included in the budget. Ms. Gorton highlighted noteworthy points in the salary and benefits budget. Mr. Simon discussed the proposed asset based fees budget. The final budget presentation will come before the Board at the December meeting.

At 9:53 a.m., Mr. Bronson disconnected and the conference line was closed.

At 10:00 a.m., Chair Bomberger called for a break.

Staff Educational presentations

Follow the Money

At 10:16 a.m., the meeting reconvened. The Chair announced that the order of the Staff presentations will change from that listed on the agenda, followed by the Underlying Plans review update. Ms. Collins and Mr. Simon presented 'Follow the Money'.

New Benefits Department videos

Mr. Weule presented three new Benefits Department videos: 5 Things You Should Know: Statewide Defined Benefit Plan, 5 Things You Should Know: Statewide Hybrid Plans and 5 Things You Should Know: Statewide Death and Disability Plan.

Ms. Smith joined the meeting.

At 11:14 a.m., Chair Bomberger called for a break for lunch.

Fiduciary and statutory duties to the Old Hire and other plans

At 11:33 a.m., the meeting reconvened, and Mr. Lindahl gave a presentation on FPPA's fiduciary and statutory duties of the Old Hire and other affiliated plans.

Staff Report

Underlying plans review update

Messrs. Slack and Cooley provided an update on the Underlying Plans Review ("UPR").

The UPR Group (Staff, GRS, and Cambridge) is recommending the following:

- Divide the plans into three groups, each with a unique target return based on the tolerance, time horizon and liability structure. Group One will have the lowest risk tolerance and Group Three will have the highest risk tolerance. Group Three will also share the asset allocation and policy benchmarks with the statewide plans.
- Assign the plans into these groups:
 - Group One. This group consists of twenty-four plans. These plans all have less than five benefit recipients (and have no active employees). Collectively, the assets of the Group One plans are \$9.2 million, or approximately 0.2% of the total fund. Group One should be moved to a substantially de-risked asset allocation which has an expected annual rate of return of approximately 5%.
 - Group Two. This group consists of twenty-four plans. These plans range from five benefit participants to 1,009 benefit participants (and essentially have no active employees). Collectively, the assets of the Group Two plans are \$1,408 million, or approximately 28.2% of the total fund. Group Two should be moved to a de-risked asset allocation which has an expected annual rate of return of approximately 6% and set on an asset allocation glidepath to gradually de-risk over time.
 - Group Three. Assign the Colorado Springs New Hire Plan and the volunteer plans to Group Three for the immediate future. These plans will be further studied in 2019.

Asset allocation will be further discussed at the December IC meeting.

Mr. Cooley left the meeting.

Executive Director Report

Mr. Slack provided the staff report. An offer has been made to the new Investment Counsel. A recognition lunch was held to honor Dr. Clarence Henke, and he was presented the Board resolution honoring his eight years of service as FPPA's Medical Advisor.

Mr. Weule provided an update on the Benefits Department. The new field representative started with FPPA, Craig Baumfalk, a former Aurora police officer. And another new field representative, Anthony Baker, will be starting on Tuesday. Mr.

Weule provided reentry numbers: Fountain Police – 48 new members with a transfer of \$3.3 million, Montrose Police – 40 new members with a transfer of \$3.6 million, and Grand Junction Fire – 95 new members with a transfer \$15.2 million. Broomfield Police and Littleton Police reentries will also occur this year. Monte Vista Police reentry is scheduled for February 2019 and Poudre Fire reentry is scheduled for June 2019.

Mr. Slack reviewed the 3Q Board Scorecard, highlighting the challenge for SWDB and SWD&D COLAs. Investment returns have met their targets.

General Counsel Report

Mr. Lindahl asked if the Board had any questions on the litigation report. There were none.

At 12:52 p.m., Ms. Morgan moved the Board to adjourn into Executive Session to receive legal advice related to the Wells Fargo litigation as allowed under Section 24-6-402 (4)(b) of the Colorado Revised Statutes. Ms. Hitchens seconded the motion. The motion passed.

Mr. Torres recused himself and left the meeting. Mr. McDonnell also left the meeting. The Board entered into executive session.

Ms. Morgan moved that the Board to return to its regular meeting. Mr. Nuanes seconded the motion. The motion passed.

At 12:58 p.m., the Board returned to its regular meeting. Messrs. McDonnell and Torres returned to the meeting. Mr. Bomberger declared that no motions were made and no actions were taken during executive session.

GASB 68 and payroll attestation

At 12:59 p.m., Ms. Collins discussed the employer payroll attestation process required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), for the Statewide Defined Benefit (SWDB) and Statewide Hybrid - Defined Benefit Component (SWH-DB) plans. Employers currently pay the audit cost for the completion of the payroll attestation. A request was made by an employer to consider paying for the audit cost. Eide Bailly could complete the payroll attestation audits for \$25,000 for all required plans, which would then be charged proportionately to the SWDB and SWH-DB plans. Some employers may want to utilize their own auditors to complete this process; they could still do so at their own cost and with no reimbursement for those audit services from FPPA. The Board agreed to amend the 2019 proposed budget for this audit cost.

Statewide Plans Task Force update

Mr. Bower provided an update on the task force. Two separate meetings will be scheduled for an education session: November 19 and 26. A folder has been created

in Diligent Boards that will include task force meeting material for the Board to view.

Chair's Report

Ms. Frame provided her evaluation of the Cambridge Trustee Conference.

Mr. Lindahl provided an evaluation of the NCPERS Public Safety Conference in Ms. Feely's absence.

Mr. Slack directed the Board to articles of interest included in the materials.

At 1:19 p.m., Chair Bomberger declared the meeting adjourned.