Fire & Police Pension Association
Board of Directors Meeting Agenda

April 23, 2020
7:30 a.m.

7:30 a.m. Call to Order. Dave Bomberger, Chair

7:35 a.m. Consent Calendar. Dave Bomberger, Chair
   Approval of March 26, 2020, Board meeting minutes

7:35 a.m. Cambridge Market Update. Brian McDonnell, Cambridge Associates

8:00 a.m. Investment report. Scott Simon

8:30 a.m. Old Hire plans funding policy. Joe Newton, Dana Woolfrey, GRS Consulting

8:50 a.m. Break

9:00 a.m. Reentry surcharge. Joe Newton, Dana Woolfrey, GRS Consulting

9:15 a.m. Self-Directed Plans annual review. Chip Weule
   a) Investment Consultant report. Annette Bidart and Mike Fleiner, AndCo
   b) Recordkeeping report. Suzanne Rogers, Lori Smith, John Merritt, and Sam Casad, Fidelity

10:45 a.m. Break

11:00 a.m. Staff Report
   a) Executive Staff Report.
      i. Executive Director’s report. Dan Slack
      ii. Retiree healthcare -- 401(h) and VEBA. Kevin Lindahl
   b) General Counsel Report. Kevin Lindahl

11:30 a.m. Chair’s report. Dave Bomberger, Chair
   a) Electronic Participation Policy revisions
   b) June board meeting
   c) Items for future discussion

12:00 p.m. Adjournment

Please note this will be a Zoom (virtual) meeting. Details are below:

Join Zoom Meeting
https://fppaco.zoom.us/j/96209615984?pwd=Si9KNG5ncFNWahFRybFSUERFeT5Zz09

Meeting ID: 962 0961 5984
Password: 634803

One tap mobile
+13462487799,,96209615984#,634803# US (Houston)
+16699009128,,96209615984#,634803# US (San Jose)

Dial by your location
+1 346 248 7799 US (Houston)
+1 669 900 9128 US (San Jose)
+1 253 215 8782 US
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Meeting ID: 962 0961 5984
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Find your local number: https://fppaco.zoom.us/u/azgG88r1u
This meeting was held online as a Zoom virtual meeting.

**Board Members Present**: Chair Dave Bomberger, Guy Torres, Jason Mantas, Karen Frame, Mike Feeley, Patrick Phelan, Sue Morgan, Tammy Hitchens, and Tyson Worrell.

**Staff Members Present**: Dan Slack, Kevin Lindahl, Kim Collins, Scott Simon, Chip Weule, Elaine Gorton, Ahni Smith, Ben Bronson, Austin Cooley, Dale Martin, Steven Miller, Michael Sutherland, and Isabel Fernandez.


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

**Call to Order**

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

**Consent Calendar**

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

- Approval of March 26, 2020, board meeting minutes

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

**Cambridge Market Update**

Mr. McDonnell provided the market update and stated that while global markets had been up in February, they ended down 21% for the quarter. On a regional basis, the U.S. is outperforming and it is due in part to the dollar strengthening. China shares were down 10% for the quarter. While credit spreads widened during the 1st quarter, a significant drop in yields led to a 3.1% return for the aggregate bond index. Mr. McDonnell stated this has been the fastest bear market in history and it took only 16 days for the S&P 500 to fall 20%. Not surprisingly, volatility spiked with twenty-one
of the twenty-two trading days during March seeing movement up or down of more than 1%. Growth and quality and low beta stocks continue to work well. There is clearly a recession on the horizon for the global economy.

**Investment Report**

Mr. Simon stated that through March the year-to-date performance for the Long-Term Pool is down 9% and is slightly lagging the implementation benchmark of 8.3%, going on to note it's been a difficult time period for performance but the portfolio is working as constructed, such as the hedge fund strategies, which are moderating the equity markets decline.

Mr. Simon stated that excess cash reserves are being overlaid into the market. There have been two partial rebalances into the equity markets and they have been well-timed. Given the stronger U.S. dollar, the Long-Term Pool has benefitted from currency hedging. The Fixed Income class is underperforming due to its credit exposure and lower duration profile. The total fund is down about 6.9% year to date. The significant collapse in the price of oil and other commodities is going to hurt the Real Assets portfolio. We are still holding onto a very strong liquidity position with large amounts of cash in each of the pools.

Mr. Torres gave an overview of the Investment meeting on March 30th beginning with the Quarterly Risk Report, which he stated is very comprehensive and measures a lot of different variables.

The Asset Liability study has a focus on capital market expectations. At Mr. Torres’ request, Mr. McDonnell went over the differences between FPPA's and Cambridge's return and risk characteristics, focusing on the volatility of private markets. Mr. Torres stated all the return assumptions were very similar and the volatility assumptions were very similar, with the exception of private markets and real estate.

Mr. Torres provided an ESG update and noted that Mr. Simon was working on a document regarding how FPPA approaches ESG issues.

Mr. Torres went over FPPA’s Investment Staff Incentive program and how it is different from other programs and options being considered that will remedy the differences.

Mr. Simon suggested that the Asset Liability study should be postponed until volatility goes down. Mr. Torres agreed with the postponement.

In response to Ms. Hitchens’ question, Mr. Torres explained the purpose of reviewing the Investment Staff Incentive Program.

Mr. Simon went over investment activity that has occurred since the last Board meeting.

**Old Hire Funding Policy**
Mr. Newton of Gabriel Roeder Smith (GRS) introduced himself and provided a summary of the Old Hire Funding Policy, stating the board will need to approve the funding policy for the Old Hire plans that are part of the de-risking effort. The policy will be implemented in the Old Hire actuarial valuations that are currently in progress to establish the contribution requirements beginning in 2021. The investment return assumption has been set at 4.5% for the plans in the short-term pool and 6.5% for the glide-path pool. The policy strikes an appropriate balance between stabilization of the amount of the annual required contributions over time, keeping the funded ratio of the pension fund from declining, and reducing or eliminating contributions as may be prudent based on actuarial experience. Mr. Newton recommended the adoption of the Old Hire Funding Policy.

Ms. Frame stated that, based on the information presented, she moved the Board to adopt Resolution 2020-03 which sets forth the Old Hire Funding Policy for determining recommended employer contributions into the affiliated Old Hire pension plans. Ms. Hitchens seconded. The motion passed.

**Reentry Surcharge**

Ms. Woolfrey reviewed the additional contribution requirements needed for plans reentering or affiliating with FPPA. Members covered by departments that affiliated after the Plan was initially opened in 1980 have an additional contribution of 4% of pay. It is a local decision on who pays the additional 4% contribution, the employee or the employer or shared. This additional contribution is intended to cover the additional costs associated with the late entry into the plan. The average cost of benefits associated with this group is higher because the average age at entry into the plan is higher. The later entry means there is less time for investment returns to provide for the benefits and the same benefit accruals cost more. However, over the years the disparity in cost between this group and the overall group has dwindled as the reentry group has purchased service and as the average entry age of the group has gone down by attrition of the late entrants associated with some of the early reentry groups. Currently, the average cost of the reentry group is approximately 0.2% of pay. Up through this point, any excess from the 4% additional contribution has been contributed to the reentry member’s reentry SRA.

House Bill 20-1044 allows for departments that reentered prior to 2021 to reestablish, by resolution, the additional contribution requirement. These departments can reduce the continuing contribution from 4% to 0.2% of pay as of January 1, 2021.

For new plans reentering after 2020, the additional contribution needed is 1.9% of pay. This rate would be evaluated after member elections have been made and members have had time to purchase service. The rate may be reduced effective the January 1 after an employer's second anniversary of affiliation. The rate, based on department demographic data and service purchases, would be fixed at the time of evaluation and would apply to all future reentry payroll.
In response to questions, Ms. Woolfrey explained how surcharges for reentries would be evaluated, set and charged. Mr. Lindahl and Ms. Woolfrey explained how the surcharges for plans that had already reentered would be adjusted according to legislation. Mr. Lindahl confirmed that there was Board action needed regarding how service credit purchase is calculated.

Mr. Phelan moved the Board to direct the actuary to revise the service credit calculators to include the increases of cost due to the addition of the Rule of 80 at age 50 to the Statewide Defined Benefit plan. Ms. Morgan seconded. Motion passed.

**Self-Directed Plans Annual Review**

Mr. Weule introduced the AndCo and Fidelity teams.

Mr. Fleiner provided background on AndCo as a company, its services, and its history with working with FPPA. He went over AndCo's accomplishments during 2019, the annual and quarterly services provided to FPPA and what they're working on at the moment including staff presentations, reentry process, annual NAGDCA survey and their business continuity plan.

In response to a question, Mr. Fleiner explained how AndCo's fees are determined.

Mr. Fleiner went over Plan Governance and roles and responsibilities of the Board with regard to the Self Directed Plans.

Ms. Bidart went over the investment presentation, including the volatility in the market, stating that it's not unprecedented in magnitude but what is unprecedented is how quickly it occurred. The largest single fund holding chosen by participants is the Fidelity Growth fund, which has performed well year-to-date on a relative basis. The majority of the assets are in the target date funds. The majority of the funds are doing exceptionally well for the latest year and on a relative basis. The target glidepath is more aggressive than an average fund and was still in the top half of performance. Because interest rates went so low, short term stable value funds should continue to outperform money market funds. The worst-performing fund is the PIMCO Global Bond Fund. The underperformance has to do with the currency in that portfolio.

In response to inquiries, Ms. Bidart stated they are in the process of considering trimming down the number of funds in the lineup. Ms. Bidart confirmed that FPPA also offers a self-directed brokerage account. Ms. Rogers stated that there are plans to allow participants to distribute funds from their 401(a) accounts due to a COVID-19-related emergency.

The Fidelity team introduced themselves and provided their backgrounds.
Mr. Merritt provided information on the hybrid plan, stating it was the largest of FPPA’s self-directed plans and that it had $160 million dollars in assets. As the market came down so did the assets. Younger participants are using the target date funds, while the more seasoned participants tend to use either the self-directed brokerage accounts or the managed account service while the “do-it-yourselfers” are taking on the highest risk.

In response to a question, Mr. Merritt confirmed that the managed accounts are reported on a net of fees basis.

55% of investors on the Fidelity platform are 100% invested in a target date fund, with numbers for FPPA being a bit lower. 87% made no changes during the current market volatility. 7% increased contributions, 4% decreased contributions, and 2% stopped completely.

In response to an inquiry, Ms. Rogers confirmed that they have seen a trend that some employers are discontinuing the match in defined contribution plans.

Ms. Rogers went over business continuity and how things have been working during COVID-19, what they are doing to implement cybersecurity, protect members’ assets and increase employee engagement. She stated Fidelity has been working non-stop to implement the provisions defined in the CARES Act. Many plan sponsors feel that it's something they need to offer their participants. FPPA only had 2 members that took COVID-19 related distributions from their accounts. Fidelity will continue monitoring participant behavioral trends.

Mr. Casad shared that he’s been reaching out to departments for virtual meetings and will be moving to onsite meetings once he’s able to do so.

In response to a question, Ms. Rogers confirmed that they have seen a large increase in call volume and stated it has been about a 20% increase.

Ms. Rogers stated that total plan assets were down to $448.6M due to the market decline and that the younger participants are well-diversified. Only 6% of participants have an outstanding loan.

Ms. Smith went over employee engagement and stated FPPA has 36% of millennial engagement and that all generations prefer about the same amount of online presence. They are looking to do live webinars in the future to cultivate more of an online presence and increase participant engagement. Participants that are more engaged save more, have higher balances and are better prepared for retirement.

Ms. Morgan left the meeting.

**Staff Report**

Mr. Slack provided an update on FPPA's work from home status, which has been successful so far. The staff will be working from home for the near future. The
The executive team continues to discuss the business continuity and work processes of the organization and is looking at a cloud-based phone system for more functionality. There will eventually be a partial reopening of the office and to the executives are reviewing which employees are a priority to get back into the office first and what needs to be done for longer-term responses, such as sanitation supplies, personal protective equipment, and work station configuration. FPPA’s building is meeting CDC guidelines for the building regarding adequate outside air and appropriate ventilation in the HVAC system. The property manager states there is good air flow through our ventilation system but there is a concern that further increasing the force of air through the system could damage the duct work.

In response to questions, Ms. Smith stated that there have not been any issues in working with the auditors while working from home. Mr. Martin stated that overall interaction with investment managers has been good and the volume of the interaction has increased even though they haven’t been able to travel to do in-person diligence. The level of disclosure has been more candid with more humanizing conversations than in the past.

Mr. Simon noted that investment diligence meetings are more difficult virtually and this will need to be addressed.

Mr. Slack discussed removing benefit determination details from the Board packets in order to protect members' privacy and prevent fraud. The Board determined that the Resource Center was the appropriate repository for this information. The Board also confirmed to Mr. Weule that they would like the report done on a monthly basis.

**General Counsel Report**

*Litigation Report*

Mr. Lindahl shared that the court issued an order adopting the settlement in the Wells Fargo case and it's now considered final. The settlement also included a $25,000 payment to FPPA for his time in handling that matter. The court reduced the attorney’s fees for the plaintiffs’ attorneys.

Mr. Lindahl provided an update on the Boeing case, stating that he had attended a hearing via Zoom and that there would be another status hearing in May. The pleadings will be due in early June and he is working on the drafts.

In response to a question regarding the establishment of 401(h) plans to fund post-retirement health care costs, Mr. Lindahl noted that FPPA initiated such a plan in the 2000s, but the IRS would not issue a private letter ruling allowing tax deferral on member contributions. FPPA chose not to adopt the plan. A VEBA-style plan is not feasible because FPPA does not offer group health insurance to retirees.
Mr. Lindahl went over changes that are going to be made based on House Bill 20-1044. The memo outlines certain major issues to be implemented in the FPPA Rules & Regulations in September and to be effective January 1, 2021. Both the reentry SRA and the base SRA balances will be rolled over to Fidelity in mid-January 2021. The account balances will be based on the values as of the last day of 2020. It will take a few weeks to establish the value. The account balances will be credited with interest, based on the Treasury bill rate, between January 1 and the date the account is opened at Fidelity. The base SRAs will transfer to the SRA account at Fidelity. The reentry SRAs will transfer to the members’ hybrid money purchase accounts.

**Chair’s report**

Chair Bomberger asked Mr. Lindahl to provide information on the proposed changes regarding the Electronic Participation Policy for FPPA meetings. One change is that a roll call vote will no longer be required for votes taken. The other change is to allow a committee chairman to use the emergency meeting procedure to hold a virtual committee meeting.

Mr. Mantas moved the Board to approve the amended and revised Electronic Participant Policy. Ms. Hitchens seconded. The motion passed.

Chair Bomberger asked the Board what alternatives they wanted to discuss regarding the June Board strategic planning meeting. The Board agreed to cancel the June strategic planning meeting and have virtual meetings in its place. The Board agreed to hold the Investment Committee meeting June 9th and the Board meeting on June 10th.

At 11:43 a.m., Mr. Torres moved to adjourn the meeting. Mr. Feeley seconded the motion. The motion passed. The meeting adjourned.