

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

**June 17, 2021
7:30 a.m. via Zoom**

- 7:30 a.m. **Call to Order.** *Tammy Hitchens, Chair*
- 7:30 a.m. **Consent Calendar.** *Tammy Hitchens, Chair*
a) Approval of April 29, 2021, Board meeting minutes
- 7:35 a.m. **Cambridge Market Update.** *Brian McDonnell, Cambridge Associates*
- 7:50 a.m. **Investment report**
a) CIO report. *Scott Simon*
b) Investment Committee report. *Guy Torres, Chair*
c) RVK peer analysis review. *Scott Simon*
d) Risk Tolerance and Asset Allocation. *Investment Staff*
- 8:30 a.m. **Audit Committee report.** *Tammy Hitchens, Chair*
a) Review of auditor's report
b) Acceptance of Comprehensive Annual Financial Report
- 8:55 a.m. **Break**
- 9:05 a.m. **Actuarial valuation reports**
a) Valuations presentation. *Joe Newton, Dana Woolfrey, GRS Consulting*
b) Proposed revised Statewide Defined Benefit Plan Benefits Policy. *Dan Slack*
c) Proposed Statewide Death & Disability Plan Benefits Policy. *Dan Slack*
d) Approval of associated actions. *Chip Weule*
- 10:05 a.m. **Break**
- 10:15 a.m. **Proposed 2022 legislation**
a) Report from Statewide Hybrid Plan Task Force. *Jason Mantas, Tammy Hitchens, Co-Chairs*
b) Summary of educational activities. *Chip Weule, Beth Hemenway*
c) Review of proposed legislation. *Kevin Lindahl*
- 11:15 a.m. **Staff Reports**
a) Executive Staff report. *Dan Slack*
b) General Counsel report. *Kevin Lindahl*
c) Board Scorecard 1Q 2021. *Dan Slack*
d) Cybersecurity. *Mark Gremmert*
e) Self-Directed Plans Committee report. *Chip Weule*
f) Update on remote work policy and on office location. *Dan Slack, Kevin Lindahl, Elaine Gorton*
- 12:00 p.m. **Chair's report.** *Tammy Hitchens, Chair*
a) Update regarding Executive Director search
b) Other matters
- 12:15 p.m. **Adjournment**

<https://fppaco.zoom.us/j/95342397229?pwd=OEhiak80a0hBR3lhOFJQMzFhUzIzZ09>

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FIRE AND POLICE PENSION ASSOCIATION
Minutes – Board Meeting
June 17, 2021

This meeting was held online as a Zoom virtual meeting.

Board Members Present:

Chair Tammy Hitchens, Dave Bomberger, Mike Feeley, Karen Frame, Jason Mantas, Patrick Phelan, Guy Torres, Marisa Pacheco, and John Hoehler.

Staff Members Present:

Dan Slack, Chip Weule, Kevin Lindahl, Scott Simon, Dale Martin, Elaine Gorton, Austin Cooley, Steven Miller, Jane Freda, Mark Gremmert, Ahni Smith, Ben Bronson, Chris Crook, Scott Bryant, Rossy Burgin, Jessica Hsu, and Isabel Fernandez.

Others Present: Brian McDonnell and Stuart Cameron, Cambridge Associates; Dana Woolfrey and Joe Newton, GRS Consulting.

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 7:32 a.m., Chair Hitchens called the meeting to order.

Consent Calendar

Chair Hitchens called for a motion to approve the Consent Calendar:

- Approval of April 29, 2021, board meeting minutes.

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

Cambridge Market Update

Mr. McDonnell presented the market update, noting strong equity markets and a huge sell-off of bonds characterized the first quarter of 2021. Today, most markets are at an all-time high, up 12-13% year-to-date. Equity valuations are higher globally today than they were pre-pandemic and have outpaced earnings per share growth.

Mr. McDonnell stated that it is the general consensus that inflation will be noisy but not sustained and destructive. Fiscal stimulus, elevated household savings, and a wealth effect from rising asset prices should support consumption.

Investment Report

Mr. Simon presented the investment report. It has been a continued up market globally in most categories. Year-to-date through May 2021, the Long-Term Pool has achieved 7.12% performance. The Global Public Equity portfolio lost ground relative to its benchmark. A couple of FPPA's concentrated strategies have struggled year-to-date. While the Baillie Gifford Global Outliers strategy rebounded strongly in April, Baker Brothers has yet to recover. The Long/Short Equity portfolio has gained back relative performance, although still remains below benchmark stemming from January underperformance. The Fixed Income - Rates portfolio was positive for the month and year-to-date and is right on its benchmark. Performance is within expectations given the rise in interest rates and the steepening of the yield curve. The Fixed Income - Credit portfolio is slightly negative but ahead of its benchmark. The Absolute Return portfolio performance is positive but slightly lags its benchmark. There is a wide dispersion of performance among managers. Private Markets had a solid start to the year for the private capital portfolio. The real assets and real estate portfolio have increased relative to a flat start from the beginning of the year. The majority of valuations are in for 1Q 2021, but benchmark information has yet to be received for 4Q 2020.

Mr. Simon reviewed the investment activity. Staff approved a \$5 million commitment in Foundation Capital X and a \$5 million commitment in Foundation Capital Leadership Fund III. Fund X will continue the Firm's early-stage strategy and focus on being the first institutional investor in portfolio companies. The Leadership Fund III will invest in later growth-round financings of the Firm's most promising portfolio companies. These are FPPA's first commitments with Foundation. Staff approved an approximately \$18 million commitment in Systematic Growth III, an approximately \$180 million Nordic fund that will focus on opportunities to make multiple acquisitions of microcap businesses to build larger, attractive, institutionalized platform companies. This is FPPA's first commitment with Systematic. Staff approved a \$20 million commitment in Banner Ridge Secondary Fund IV and a \$5 million commitment in Banner Ridge Secondary Fund IV Co. Fund IV will continue the firm's secondary strategy with a focus on private credit strategies. Fund IV Co is an overflow co-investment vehicle. Banner Ridge is an existing relationship, with FPPA having committed to their previous secondary and current primary vehicles. Staff approved a \$15 million commitment in Wavecrest Growth Partners II, a growth equity firm focused on investing in and partnering with growing business-to-business ("B2B") software and technology enabled services companies. Wavecrest is an existing relationship, with FPPA having committed to their Fund I.

Investment Committee Report

Committee Chair Torres presented the Investment Committee Report. There was a timely, robust discussion regarding inflation. High inflation remains a tail risk but is the highest it's been in 30 years. There are no changes recommended to the portfolio at this time due to the costs of hedging what is still considered a tail risk.

FPPA is currently attempting to increase its allocation to Private Markets to raise it to a 30% target over time.

There was a good report presented on the performance of Liquid Strategies relative to their benchmarks and Committee Chair Torres encouraged the other board members to review the report.

It has been a difficult year for Fixed Income but it's in line with expectations. The Long/Short Equity portfolio shows underperformance in January 2021. Absolute Return had modest underperformance but is also in line with stated goals.

Mr. Bryant shared that staff is building a compliance program, including regular contact with managers to ensure they're in contract compliance. There has been new technology implemented to make this process faster and seamless.

RVK Peer Analysis Review

Mr. Simon presented the RVK Peer Analysis review. This is the only review FPPA participates in comparing itself to peers. In general, our underweight to equity is reflected in our overweight to alternatives with a combination of private market and hedge fund strategies. We have a slight underweight in fixed income relative to our peers. 2020 was a very good year, with performance well above median.

Risk Tolerance and Asset Allocation

Mr. Simon reviewed the Investment Policy Statement and the process timeline. Global equity beta is a key concept in establishing the target risk level for the Long-Term Pool. Beta is a statistical concept and a relative risk measure. The board sets the risk tolerance relative to the characteristics of each pool's liabilities and market expectations for return and volatility. Investment Staff recommends the target asset allocation for each pool based on the risk tolerance guidance received from the board. Specifically, Staff seeks to maximize return relative to risk and avoid unexpected losses, or losses that exceed the intended risk tolerance.

In 2019, FPPA implemented a unitization structure so that risk tolerance could be tailored based on the diverging needs of the underlying plans. Specifically, three pools were created with different equity beta targets, estimated volatility levels and, accordingly, equity factor contributions. For the Long-Term Pool, the choice of the global equity beta is the single largest decision factor the Board has in shaping long-term plan outcomes. The current target global equity beta seeks to balance goals

with risks. To determine the risk tolerance, the board will be presented with specific alternatives for each pool that target different levels of global equity beta. For each alternative, the board will receive an analysis of risks relative to potential returns. Risks will be described in terms of funded status volatility, drawdown risks, tail risks, and other key considerations for each pool. Staff identifies market opportunities within both traditional and alternative asset classes. Alternative assets may include fund investments that establish short positions, employ leverage, or have restrictions on liquidity. Alternative assets may have access to unique opportunities with higher expected risk-adjusted returns and lower correlation relative to traditional asset classes.

Audit Committee Report

Committee Chair Hitchens reviewed the Independent Auditor's report, stating the report provides an unmodified opinion. Committee Chair Hitchens reviewed the governance letter, explaining its purpose. The internal control letter states no issues or material weaknesses were discovered during the audit.

Ms. Smith presented the Annual Report. The Annual Report provides valuable insight into how FPPA manages its finances. The Annual Report is not audited, except for the Financial Section. Eide Bailly reviews the entire Annual Report as it relates to the audit. GRS reviewed the actuarial section and the actuarial required schedules in the financial section.

FPPA has applied for the Government Finance Officers Association certification of achievement award, and has received it for the past 26 years.

Ms. Smith went on to review the different sections of the report.

Committee Chair Hitchens stated the Audit Committee recommended that the board approve the Annual Financial Report. Ms. Frame moved the board to accept and approve the Annual Report for 2020. Mr. Phelan seconded the motion. The motion passed.

Actuarial Valuation Reports

Ms. Woolfrey presented the actuarial valuation results as of January 1, 2021, for the Statewide Defined Benefit Plan, the Statewide Hybrid Plan, the Colorado Springs New Hire Plan, and the Statewide Death and Disability Plan. All of the investments are in the Long-Term Pool and had approximately a 13% market return and 9% return on smoothed assets, leading to substantial gains for each of the plans. Ms. Woolfrey also noted that GRS completed 170 volunteer plan funding valuations and 200 GASB valuations for employers.

The funded ratio for the Statewide Defined Benefit Plan rose from 97.6%, as of January 1, 2020, to 100.0% as of January 1, 2021.

The benefits in the Statewide Death and Disability (SWDD) Plan do not accrue like

benefits in a retirement plan do. They are funded by employee and employer contributions. The funded ratio for the Statewide Death and Disability Plan rose from 74.6%, as of January 1, 2020, to 76.5%, as of January 1, 2021. GRS recommended an increase in the contribution rate to 3.2% in 2022 and will continue to recommend an increase every year in the near term until the contribution rate exceeds at least the ongoing cost of base benefits.

Ms. Woolfrey then reviewed the SWDD supplemental study requested by FPPA. Base benefits are projected to require maximum contributions of about 4.40% in the future. In an effort to keep projected long-term contributions under 5%, GRS focused on where they thought benefit adjustments were most needed -- for those members with sub-80% purchasing power level (recipients of disability benefits prior to 2002). The resulting study analyzed a 1% benefit adjustment for anyone that has been receiving a benefit for fifteen years or more.

The funded ratio for the Statewide Hybrid Plan increased from 126.9%, as of January 1, 2020, to 129.4% as of January 1, 2021. FPPA is currently drafting legislation to merge the assets and liabilities of the Statewide Hybrid plan with those of the Statewide Defined Benefit plan.

The Colorado Springs New Hire Plan, with police and fire components, was closed in 2006. The liability gains from benefit adjustments were less than expected. Net cash flow during 2020 was -2%. The funded ratio for the Colorado Springs New Hire Plan – Police Component increased from 83.1%, as of January 1, 2020, to 85.3% as of January 1, 2021. The funded ratio for the Colorado Springs New Hire Plan – Fire Component rose from 78.4%, as of January 1, 2020, to 80.5% as of January 1, 2021.

Mr. Slack presented the proposed Statewide Defined Benefit Plan Benefits Policy redline document, advising the board this policy was originally adopted in 2015. Mr. Slack reviewed the proposed changes in the policy versions. Mr. Bomberger moved for approval of Resolution No. 2021-04 to amend the Statewide Defined Benefit Plan Benefits Policy. Mr. Hoehler seconded the motion. The motion passed.

Mr. Slack presented the proposed Statewide Death & Disability Plan Benefits Policy. Currently the board doesn't have a policy regarding benefit adjustments to this plan. Mr. Slack reviewed the proposed policy. After discussion, Staff was asked to bring a revised version of the policy to the July board meeting. Vice Chair Torres moved to postpone the voting on Resolution No. 2021-05 until the July 29th board meeting. Mr. Feeley seconded the motion. The motion passed.

Mr. Weule walked the board through action items related to the valuations. The board has the responsibility for the benefits provided to the members and beneficiaries.

The board must determine whether to provide benefit adjustments to members who are receiving retirement benefits for payees in the Statewide Defined Benefit Plan. GRS reported that the current contribution rate under the then-current benefits policy would not support a benefit adjustment for 10/1/2021 as the plan is only 100.0%

funded. GRS has also presented the results of the supplemental study for the board's consideration this year. The average annual CPI-W for 2020, which helps determine the 2021 benefit adjustment, was 1.2%. The Social Security Administration granted an adjustment of 1.3% on 1/1/2021. Last year the board did not grant a benefit adjustment for the SWDB plan. The benefit adjustment would apply to benefits paid 10/1/2021 through 9/30/2022. Mr. Phelan moved the board to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Defined Benefit Plan at 0.50%, effective 10/1/2021 through 9/30/2022. Mr. Mantas seconded the motion. The motion passed.

Regarding the Statewide Hybrid Plan Defined Benefit Component Contribution Rate, the board, based on an annual actuarial valuation, shall determine the allocation of mandatory contributions between the Money Purchase Component and the Defined Benefit Component of the Statewide Hybrid Plan. Contributions in excess of the Defined Benefit Component are allocated to the Money Purchase Component. The current Defined Benefit Component rate is 13.80%. Mr. Bomberger moved the board to set the Statewide Hybrid Plan – Defined Benefit Component contribution rate at 14.1%, effective 7/1/2021 through 6/30/2022. Mr. Hoehler seconded the motion. The motion passed.

Per the Statewide Hybrid Plan Defined Benefit Component, on an annual basis, retirement benefits payable under the Defined Benefit Component may be increased by a percentage to be determined by the board, but not more than 3.0% of the prior year's benefit. In no event shall the benefit be decreased. Ms. Woolfrey noted that a 14.10% contribution rate would support a 2.53% permanent benefit adjustment. Last year the board granted a 2.34% benefit adjustment. The benefit adjustment increase would apply to benefits paid 10/1/2021 through 9/30/2022. Mr. Feeley moved the board to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Hybrid Plan Defined Benefit Component at 2.53%, effective 10/1/2021 through 9/30/2022. Mr. Bomberger seconded the motion. The motion passed.

The board will vote on the Colorado Springs matters at the 7/29/2021 board meeting, after the City has had an opportunity to review the results of the actuarial valuations. These benefit items will take effect 1/1/2022 per the plan documents. No action is required at this time.

The 2020 legislation for the Statewide Death and Disability Plan set the contribution rate at 3.0% for the period 1/1/2021 through 12/31/2021. Thereafter, the board, based on the results of an annual actuarial valuation, may adjust the Statewide Death & Disability Plan contribution rate every year for members hired on or after January 1, 1997, but in no event may the adjustment for any one-year period exceed two-tenths of one percent of the member's salary. Per the results of the 1/1/2021 actuarial valuation on the Statewide Death & Disability Plan, GRS recommends increasing the current contribution rate from 3.0% to 3.2%. Mr. Bomberger moved the board to set the Statewide Death & Disability Plan contribution rate at 3.2%, effective 1/1/2022 through 12/31/2022. Mr. Feeley seconded the motion. The motion passed.

Proposed 2022 Legislation

Mr. Weule presented a summary of Phase 1 of the communication plan for this proposed legislation. The first phase of the plan consisted of an introduction of the proposed changes, and the staff proactively reached out to the members and employers in the Statewide Hybrid Plan in order to be transparent and communicate the proposed changes. The second phase will take place during the legislative process. The feedback has been overwhelmingly positive. The members are in favor of having a Rule of 80 option in the plan. Members also like the idea of receiving the increased multiplier for years of service earned and purchased prior to the merger.

Chair Hitchens presented the Statewide Hybrid Plan Task Force meeting update. At the last board meeting, the board approved moving forward with the legislation. The task force concern was for the members and employers to understand the process and for there to be transparency. The task force is very pleased with the effort put forth in the communication.

Mr. Lindahl reviewed the proposed 2022 legislation. The creation of the Statewide Retirement Plan will merge the assets and liabilities of the Statewide Hybrid (SWH) and the Statewide Defined Benefit (SWDB) Plans into one plan on an actuarially-equivalent basis. It would adjust the funding status of the SWH to match the funding status of the SWDB and the excess funding for SWH would transfer to increase annuities for members with service credit in the SWH-DB Component. It would allow current and future SWH-DB component plan members to retire under the Rule of 80, it would increase minimum contribution rates to the Statewide Hybrid Plan (9% member/9% employer), benefit adjustments would be equal for all defined benefit component members in the merged plan, and it would allow SWDB departments to have a 401(a) defined contribution account.

Ms. Pacheco moved the board to direct staff to seek legislation in 2022 which would strengthen protection for member information disclosure under open record act requests. Mr. Phelan seconded the motion. The motion passed.

Mr. Bomberger moved the board to direct staff to seek additional funding from the State for the Statewide Death and Disability Plan if an opportunity exists to obtain funding. Mr. Hoehler seconded the motion. The motion passed.

Vice Chair Torres moved the board to direct staff to seek legislation which would extend the time frame to file for disability benefits from six months to 365 days. Ms. Frame seconded the motion. The motion passed.

Staff Reports

Mr. Slack presented the executive staff report. The executive staff participated in a table top IT recovery exercise that went well. The staff has also been working with the internal audit firm for a risk assessment of the organization based on the COSO framework. The results will be presented to the Audit Committee so it can decide

which audits need to be performed in 2022. The executive staff also began work on organizational health, working with The Table Group, seeking to strengthen the organization in leadership and collaboration.

In the interest of time, Mr. Slack did not present an oral report on the Q1 board scorecard, and asked the board to review it and reach out to him with any questions.

Mr. Slack reviewed the educational events memorandum. He advised the board that in person conferences with members regarding benefits were beginning to be held again and commented on the value they can provide in educational opportunities and learning from fellow board members at other retirement systems.

Mr. Slack asked the board if they would prefer to have an in-person meeting for the July 29th board meeting. The board agreed to hold the July 29th meeting at a nearby location where appropriate distancing can be maintained.

In the interest of time, Mr. Lindahl advised the board to contact him should they have any questions regarding the litigation report.

Mr. Gremmert advised that the meeting needed to go into executive session to review the cyber security overview. Vice Chair Torres moved the board to adjourn into executive session to discuss Specialized security arrangements as allowed under Section 24-6-402(4)(d) of the Colorado Revised Statutes. Ms. Frame seconded the motion. The motion passed. Upon return to the open session, Chair Hitchens announced that no formal action was taken during the executive session.

Mr. Weule presented the Self-Directed Plans Committee (SDPC) report. The changes to the fund lineup were completed and effective May 14, 2021. Ms. Smith presented the Statewide Money Purchase Plan and Statewide Hybrid Plan excess forfeiture analysis to the committee during the May 2021 SDPC meeting. She reviewed the distribution recommendations which the committee approved in May.

Ms. Gorton provided a review of FPPA's remote work policy and how it was created.

Mr. Lindahl provided the board with a detailed update on the process of moving offices. While some of the tasks have been completed, there are still many steps left and the process could take up to a year to accomplish.

Mr. Slack provided an update on his retirement date and touched on accomplishments during his tenure.

Ms. Pacheco provided an update on the Executive Director employment search.

Chair's Report

Mr. Bomberger nominated Tammy Hitchens to be the FPPA board Chair beginning September 1, 2021, to August 31, 2022. Vice Chair Torres seconded the motion. The motion passed.

Mr. Bomberger nominated Guy Torres to be the FPPA board Vice Chair beginning September 1, 2021, to August 31, 2022. Mr. Feeley seconded the motion. The motion passed.

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