

**Fire and Police Pension Association of Colorado**  
**Investment Committee**  
**February 13, 2019**

**Agenda**

- 7:30 Call to Order
- 7:30 Approval of Minutes
  - December 13, 2018
- 7:30 Closed Plans  
*FPPA Staff & Cambridge Associates*
- 8:30 Co-Investments  
*Andrea Auerbach, Cambridge Associates*
- 9:30 Private Markets Commitment Pacing and Portfolio Construction  
*Dale Martin*
- 9:45 Private Markets Year-End Alternatives Adjustment  
*Scott Simon*
- 10:00 Q4 Quarterly Report & Market Update  
*Cambridge Associates*
- 10:15 Adjourn

**Fire and Police Pension Association of Colorado  
Investment Committee  
February 13, 2019**

**FPPA Board Room  
5290 DTC Pkwy  
Greenwood Village, CO 80111**

**Investment Committee Members Present:** Chair Guy Torres, Dave Bomberger, Karen Frame, Todd Bower, and Tyson Worrell.

**Staff Members Present:** Dan Slack, Scott Simon, Kevin Lindahl, Kim Collins, Austin Cooley, Ahni Smith, Ben Bronson, Dale Martin, Scott Bryant, Jessica Hsu, Molly Goodman, Sean Ross, Steven Miller, and Karen Moore.

**Others Present:** Andrea Auerbach, Alex Pekker, and Diana Gibson, Cambridge Associates (CA).

*Notice of this meeting and a copy of the agenda were posted outside the meeting room and on the FPPA website at least twenty-four hours prior to the meeting.*

**Call to Order**

At 7:30 a.m., Mr. Torres called the meeting to order.

**Approval of Minutes**

Mr. Bomberger moved to approve the December 13, 2018, meeting minutes. Mr. Bower seconded the motion. The motion passed.

**Closed Plans**

At 7:30 a.m., Mr. Simon provide an introduction on the status of the closed plan asset allocation. Staff is targeting April 1 to move assets within the portfolio into the short-term pools and June to determine long-term asset allocation.

At 7:34 a.m., Mr. Lindahl and Miller joined the meeting.

Mr. Pekker reviewed the 10-year strategic class assumptions. Mr. Pekker noted that the assumptions prepared by Staff and Cambridge are very close. Messrs. Cooley and Pekker explained the reasoning for some variances.

Mr. Simon reviewed the three proposed underlying plan pools:

1. long-term pool - similar to the total fund, riskier than the other two pools;
2. glide-path pool - moving to less risky allocation from the long-term pool; and
3. short-term pool - smaller plans with funds closing down.

Messrs. Simon, Cooley, and Pekker presented and received feedback on the glide-path pool and short-term pool asset allocation considerations, options, and recommendations.

Mr. Simon also reviewed the private capital considerations and the runoff approach recommended by both Staff and Cambridge. The Board and Staff discussed the approaches and fiduciary obligations.

The Board and Staff discussed previous communication provided to the Old Hire Plans on the funding status of the plans. Staff explained that every two years each Old Hire plan receives its specific plan's actuarial study explaining the funding status of the plan and the amount of funds required to make the plan fully funded. Staff will send a letter to each Old Hire Plan department explaining the applicable reallocation plan and offering meetings with the departments.

Mr. Cooley then reviewed the impact on the Total Fund. Staff and Cambridge proposed a three-month reallocation period. The Committee agreed with the proposal.

Mr. Simon then proceeded to the Investment Policy Statement (IPS) proposed updates that would implement the investment objectives, benchmarks, and allocation targets and ranges of the proposed long-term, short-term, and glide-path pools. The proposed language would allow Staff, without Board approval, to update interim targets for these pools throughout the year. Chair Torres requested that any changes to the targets be reported quarterly to the Committee. Mr. Pekker also suggested adding ranges for the glide-path pool. The proposed changes were acceptable to the Committee. Mr. Simon will circulate the IPS with the proposed changes discussed. The IPS proposals will be brought before the Board at its March meeting.

Mr. Simon then reviewed proposed language to the IPS that would provide Staff with flexibility to utilize leverage (3% of total fund) if needed in rebalancing transactions via derivatives exposure. Mr. Bryant added that the proposal was acceptable from a risk perspective. Ms. Gibson recommended that a timeframe be included. The Committee agreed with the proposal with Ms. Gibson's recommendation.

At 8:55 a.m., Chair Torres called for a break. Mses. Collins and Smith left the meeting.

### **Co-Investments**

At 9:04 a.m., the meeting reconvened. Mr. Simon provided an introduction in strong support of co-investments. Ms. Auerbach began her presentation, opining that FPPA has the flexibility to pursue co-investments across the private markets portfolio with a suggested focus on the privates. Ms. Auerbach reviewed the benefits and challenges of co-investments and reviewed best practices. Mr. Martin voiced his full support of co-investments.

The Committee is in support of Staff creating a proposed process, safeguards, governance, and resources for the Committee's consideration.

### **Private Markets Commitment Pacing and Portfolio Construction**

At 9:39 a.m., Mr. Martin presented the 2019 Commitment Pacing and Portfolio Construction Recommendation, reviewing the annual process, analysis, and recommended \$190-290 million pacing plan.

There are no changes to the portfolio construction pending finalization of the Underlying Plan Review effort and the Asset Liability Study (estimated for June 2019).

### **Private Markets Year-End Alternatives Adjustment**

At 9:49 a.m., Mr. Simon directed the Committee to his February 13, 2019, memo on valuation adjustments. Per Audit requirements, FPPA is required to provide valuation adjustments for various investment classes as appropriate. Since private partnerships generally report valuations on a quarterly lagged basis, each year Staff determines a year-end valuation adjustment from public market proxies that occurred during 4Q. Once actual partnership valuation information is received the following year, the valuation adjustment is rolled off. The year-end valuation adjustment creates a temporary misrepresentation of relative performance of the Fund versus its benchmarks.

Staff recommends the practice of temporarily adjusting its benchmarks (policy and implementation) by the magnitude of the portfolio adjustment. The adjustment would similarly be temporary and rolled off once actual benchmark information is received the following year.

Ms. Gibson added that the current practice is not industry standard. It is more common to hold values at the previous quarter, adjusting for capital calls and distributions. Ms. Gibson also stated that it is logical to adjust the benchmark if you are going to adjust the returns.

The Committee will subsequently review the issue post Staff's discussion with FPPA's auditors and receipt of actual year-end valuations.

### **Q4 Quarterly Report & Market Update**

At 10:15 a.m., Ms. Gibson provided the market update. After a difficult Q4, the markets had a major rebound in January. January was the best month for risk assets since October 2011. ACWI had its best January in US dollars in its 30-year history. Global equities recovered nearly all of the 2018 losses. Fixed income also had a good month. Practically, we expect to see all the losses experienced in Q4 to a large extent reverse themselves.

Ms. Gibson reviewed the year-end portfolio summary. Ultimately, it was a negative year, but relative to the benchmark the total portfolio outperformed the policy and implementation benchmarks broadly.

### **Adjournment**

At 10:16 a.m., Mr. Bomberger moved to adjourn the meeting. Mr. Bower seconded the motion. The motion passed. Chair Torres declared the meeting adjourned.