

Fire and Police Pension Association of Colorado
Investment Committee
March 30, 2020

Agenda

- 1:00 Call to Order
- 1:00 Approval of Minutes
- December 12, 2019
- 1:00 Quarterly Risk Report
Scott Bryant
- 1:30 ESG Update
Scott Simon
- 1:50 Asset Liability Study Update
Capital Market Expectations - Cambridge Associates
Managed Futures – Ben Bronson
- 2:20 Fixed Income (Credit Benchmark, Current Research)
Verbal Update – No Materials
Ben Bronson
- 2:50 Investment Staff Incentive Program
Michael Oak - McLagan
- 3:30 Adjourn

Please note this will be a virtual Zoom meeting. See details below:

Join Zoom Meeting

<https://fppaco.zoom.us/j/623644498?pwd=TWpiOFJ0MVJMcHRzbEZVMnlhVXpXdz09>

Meeting ID: 623 644 498

Password: 694459

One tap mobile

+13462487799,,623644498# US (Houston)

+16699009128,,623644498# US (San Jose)

Dial by your location

+1 346 248 7799 US (Houston)

+1 669 900 9128 US (San Jose)

+1 312 626 6799 US (Chicago)

+1 646 558 8656 US (New York)

+1 253 215 8782 US

+1 301 715 8592 US

Meeting ID: 623 644 498

Find your local number: <https://fppaco.zoom.us/j/623644498>

**Fire and Police Pension Association of Colorado
Investment Committee
March 30, 2020**

This meeting was held as a virtual Zoom meeting.

Investment Committee Members Present: Chair Guy Torres, Dave Bomberger, Karen Frame, Mike Feeley, and Tyson Worrell.

Staff Members Present: Dan Slack, Scott Simon, Kevin Lindahl, Ben Bronson, Dale Martin, Jessica Hsu, Kyle Geordan, Sean Ross, Scott Bryant, Steven Miller, Austin Cooley, Elaine Gorton, and Isabel Fernandez

Others Present: Brian McDonnell, Stuart Cameron, Joe Marena, Alex Pekker (Cambridge Associates). Michael Oak (McLagan).

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 1 p.m., Mr. Torres called the meeting to order.

Approval of Minutes

Mr. Torres called for a motion to approve the December 12, 2019, meeting minutes. Mr. Bomberger moved to approve, Mr. Worrell seconded. Motion passed.

Quarterly Risk Report

Mr. Bryant provided an overview of the Quarterly Risk Report as of 12/31/2019. He stated that during the last quarter we were generally within all of the guardrails for all of the pools. The Glide-Path Pool is starting to hit the upper end of its leverage guardrail but is still within the margin. Adequate liquidity has been maintained for all the pools. For the cash portfolio, financial services exposures have been exchanged for purely government-related exposures because the returns didn't justify the risk. Due to the coronavirus, the credit spreads for bank exposures relative to government obligations have widened significantly and remain elevated. The securities lending program was paused because the risk of default in this environment was higher than originally was underwritten for the program. The foreign exchange overlay has done well this quarter due to the high demand for the dollar outside of the United States. A lot of progress has been made on CAISSA's infrastructure to move the risk system to more of an ad-hoc system to where the performance by pool can be reviewed at any time. Fixed income analytics and analytics with respect to credit spread risk have been greatly improved.

Mr. Geordan provided an explanation on credit risk and its impact on the FPPA portfolio. FPPA assumes both interest rate risk and credit spread risk in the fixed income portfolio. So far this year, yields on BBB securities have increased about 350 basis points relative to AAA securities. Risk management runs a single-factor stress analysis to determine the potential losses from credit spreads for the pools. The Glide-Path Pool has a higher sensitivity to credit spread risk.

Mr. Geordan went on to share the enhancements made to the fixed income portion of the risk report.

ESG Update

Mr. Simon presented an ESG update, stating that staff has continued its evaluation of ESG with research of other institutional investors and policy statements specific to ESG. Many institutional investors are still in the early stages of implementing ESG, but it is a trend in the investment industry that will likely continue to increase.

Mr. Simon stated that ESG would be one of many diligence considerations looked at when evaluating a manager. The entire staff will need to be informed on ESG issues when evaluating managers. Greenwashing, described as form over substance, is a real issue. The data on ESG is adequate at the moment, but getting better with more providers measuring ESG issues.

In response to questions, Mr. Simon confirmed he is drafting a ESG Policy. Mr. Simon stated that being a signer to the United Nations' Principles for Responsible Investment has its hurdles, including reporting, compliance, having 50% portfolio transparency, and having an appropriate policy. Mr. Simon stated that the opportunity for FPPA involves longer term risks that would need to be addressed with its managers.

Asset Liability Study Update

Mr. Simon explained that FPPA has been working with Cambridge in the first stage of the Asset Liability Study for the Long-Term Pool.

Mr. Pekker went over the process for developing capital market assumptions. Cambridge has collaborated with FPPA to develop capital market assumptions for both an intermediate horizon (10-20 years) and a longer term horizon (25-30 years). The intermediate term assumption for the Long-Term Pool with Cambridge assumptions is below 7%, which is reasonable. Mr. Pekker stated that the difference between the intermediate target and the long-term target is the allocation to private equity.

Cambridge and FPPA are in agreement with public asset classes, global equities, core bonds, credit and cash. On the fixed income side, assumptions are lower than last year because interest rates have come down. On the equity side, the Cambridge assumptions are higher. On the hedge fund side, the assumptions are

fairly similar between Cambridge and FPPA. On private equity and core real estate, the Cambridge assumption is lower.

In response to a question as to why the volatility numbers are different, Mr. Bryant explained that risk is being captured by stress testing and risk analytics and by mapping private markets to public markets.

Managed Futures Update

Mr. Bronson shared what his team has been working on in managed futures. Managed futures is the smallest of the three hedge fund strategies and profits from the class have been selectively taken, as it performed well in 2019 and the first part of this year. It is likely it will be combined with the absolute return portfolio and simplify the hedge fund allocation.

Mr. Bronson provided background on the initial conception of the portfolio in 2014. In 2017, changes were made in terms of the volatility target and the benchmark. Mr. Bronson stated this is not a portfolio intended to generate crisis risk alpha. There has been mixed performance since 2014. It has performed as an offset as expected. The recommendation for June will be the removal of managed futures as a strategic class and folding the exposure into the absolute return portfolio.

In response to a question about sizing within the absolute return portfolio, Mr. Marena stated he thinks volatility is the primary driver as to how much stress the portfolio will undertake.

Chair Torres stated that he is in favor of incorporating managed futures into the absolute return portfolio.

Fixed Income

Mr. Bronson explained how staff is thinking about fixed income, differentiating between a rates component and a credit component. This has become increasingly important particularly in managing the Glide-Path Pool. At the moment we have one fixed income portfolio with one benchmark.

Mr. Cameron stated that when you look at the spectrum of credit instruments available, some segments offer a very attractive and uncorrelated high Sharpe ratios. The team has been focused on finding the best way of structuring the program, benchmarking, and tracking the investments appropriately in a way that doesn't artificially constrain the portfolio.

Mr. Bronson stated the main takeaway is that there are a great many things from a liquidity spectrum that are accessible. There are areas that make sense for active management and persistent exposures that are complementary to the overall mix and can earn an attractive rate of return over the long term. Mr. Bronson went on to say that structured credit makes the most sense to pursue and that prioritization would be given to things that would have a strategic place in the portfolio.

Investment Staff Incentive Program

Ms. Gorton provided background on the Investment Staff Incentive Program and FPPA's work with McLagan to compare how the FPPA program looks in comparison to other public and private institutional investors.

Mr. Oak provided a review of his research of the Incentive Program. Program participation is limited to investment professionals (and the Executive Director participates in the quantitative portion). Participants must have a ranking of solid performer or higher in order to be eligible for any incentive.

In response to questions, Mr. Oak confirmed it's the practice of public fund peers to assign 25% or less to a qualitative weighting. Mr. Oak went on to say the most common public fund time measurement periods are 1-year and 3-year, but there has been a trend in the last few years to add longer measurement periods. The current deferral mechanism at FPPA is not usually seen at public funds, but may be seen at university endowments. Mr. Oak confirmed the 5-year period is compared to policy benchmark and is a longer term benchmark.

Mr. Simon stated that the FPPA Board does have the discretion to withhold payments in a negative year. In response to a question, Mr. Simon went over the parts of the program where the staff could see improvements.

In response to a question, Mr. Oak explained how the staff is compensated when there is an outside consultant.

Adjournment

At 3:10 p.m., Chair Torres asked for a motion to adjourn. Mr. Bomberger moved to adjourn. Ms. Frame seconded. The motion passed. The meeting was adjourned.