FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
Strategic Planning Meeting
June 13-15, 2012
Agenda

JUNE 13th Sun Down Room

Time	Agenda item
12:00 p.m.	**Arrival Luncheon (Restaurant 7 One 5)**
1:30 p.m.	**Call to order** *Kirk Miller, Chair* **Approval of April 26, 2012, board meeting minutes** **Approval of April 26, 2012, board executive session minutes**
1:35 p.m.	**Investment Risk Committee report** *Todd Bower, Chair*
1:40 p.m.	**Investment report** *Scott Simon* 1. Review of April 2012 performance 2. Review of managers 3. Other matters
1:55 p.m.	**1Q PCA portfolio and capital markets review** *John Linder, Neil Rue (PCA)*
2:25 p.m.	**Break – 10 minutes (Sun Up Room)**
2:35 p.m.	**Actuarial Valuation Review** *Joe Newton, Dana Woolfrey (GRS)* 1. Determination of Benefit Adjustments, SRA, contribution rates in the Statewide Plans *Kim Collins* 2. Approval of certification to Joint Budget Committee re Old Hire Employers receiving state assistance *Kim Collins*
3:40 p.m.	**Break – 10 minutes (Sun Up Room)**
3:50 p.m.	**Staff report** 1. CEO report *Dan Slack* 2. Legal report and legislative update *Kevin Lindahl* 3. Structure of member contribution rates *Kevin Lindahl* 4. Review of Comprehensive Annual Financial Report (CAFR) *Kim Collins* 5. Other matters
4:50 p.m.	**Chairman's report** *Kirk Miller, Chair* 1. Other matters
5:00 p.m.	**Adjourn**
6:30 p.m.	**Reception and Dinner (First Chair Café)**

JUNE 14th Sun Down Room

EDUCATIONAL SESSION

7:30 a.m. **Breakfast (Sun Up Room)**

8:30 a.m. **Economic Outlook**
William Dunkelberg, Chief Economist, National Federation of Independent Business

9:30 a.m. **Break – 10 minutes (Sun Up Room)**

9:40 a.m. **Behavioral Finance**
Michael Mauboussin, Legg Mason

10:40 a.m. **Break – 10 minutes (Sun Up Room)**

10:50 a.m. **Managing risk in the investment portfolio**
Neil Rue, John Linder, Pension Consulting Alliance
Joe Newton, Gabriel, Roeder, Smith & Co.
Dan Slack, Kevin Lindahl, Scott Simon, Austin Cooley

12:30 p.m. **Lunch (First Chair Café)**

1:30 p.m. **Review of Board Governance Manual**
Dan Slack

1. Travel policy
2. Ethics policy
3. Allocation of duties charts

2:30 p.m. **Break – 10 minutes (Refreshers – Sun Up Room)**

2:40 p.m. **STRATEGIC PLANNING**

5:40 p.m. **Adjourn**

7:00 p.m. **Reception and Dinner (Vail Chophouse)**

JUNE 15th Sun Down Room

7:30 a.m. **Breakfast (Sun Up Room)**

8:15 a.m. **STRATEGIC PLANNING**

12:15 p.m. **Adjourn**

12:30 p.m. **Lunch (Lower pool deck)**

Fire and Police Pension Association
Minutes – Board of Directors Meeting
June 13-15, 2012

Vail Marriott
715 Lionshead Circle
Vail, CO

Board Members Present: Chair Kirk Miller, Vice Chair Cliff Stanton, Tim Nash, Pam Feely and Sue Eaton.

Board Members Absent: Todd Bower (excused), Jack Blumenthal (excused), Monica Cortez-Sangster (excused), Lyle Hesalroad (excused).

Staff Members Present: Dan Slack, Kevin Lindahl, Gina McGrail, Kim Collins, Scott Simon and Jacquette Tara.

Others Present: John Linder, Pension Consulting Alliance (PCA), Joe Newton and Dana Woolfrey, Gabriel Roeder Smith & Company (GRS).

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.

At 1:15 p.m. Chairman Kirk Miller called the meeting to order.

Chair Miller called for a motion to approve the minutes of the April 26, 2012, board meeting. Pam Feely moved to approve the minutes. Tim Nash seconded the motion. The motion carried.

Chair Miller called for a motion to approve the minutes from the April 26, 2012, board executive session. Pam Feely moved to approve the minutes. Tim Nash seconded the motion. The motion carried.

Investment Risk Committee Report

Committee Chair Cliff Stanton noted the committee has met five times since the last board meeting and has three more meetings scheduled.

Investment Report

Review of April 2012 performance

Scott Simon provided an economic and market summary update. After a strong 1Q 2012, equity markets declined as investors re-evaluated global economic prospects amidst disappointing U.S. employment, first quarter GDP reports and slowing growth in China. Bond markets across the board posted positive returns during April as interest rates fell amidst perceived weakening growth prospects even as fundamental credit quality remained strong. The 10-year Treasury ended April with a yield of 1.91%, down 30 basis points from the previous month. The MSCI All Country World IMI equity index returned -1.04% in April (+11.10% YTD). The Barclays Capital Aggregate fixed income index returned +1.11% in April (+1.41% YTD). FPPA Total Fund performance was +0.31% in April (net of fees), +6.55% YTD. Net investible assets for the Total Fund were $3.29 billion at April 30, 2012. The investment allocation of the Total Fund was discussed relative to the interim policy targets of the asset allocation policy. Each investment class is fairly close to target with a slight overweight in Global Equity and Private Capital.

Review of Managers

Scott Simon provided an update on a few of FPPA's existing investment managers. Details were provided on EIG, an energy focused debt fund, and its indirect exposure to the issues of Chesapeake Energy Corp. Details were provided on MountainView, a residential whole loan fund, its current performance and plan to raise a subsequent fund. Details were provided on SVB, a venture capital focused fund-of-funds, and some recent personnel changes. Details were provided on the BNY Mellon securities lending portfolio and the status of recovery on its historical losses to Lehman. The alternatives and hedge fund portfolios were presented and discussed.

Investment Matters

Scott Simon provided an update on recent investment manager changes recommended by the investment staff and approved by the Investment Risk Committee: a partial redemption of $4 million from Astenbeck Commodities Fund II LP; a new allocation of $11 million to Brevan Howard Commodities Strategies Fund Limited; a new allocation of $8 million to Viridian Fund Ltd.; a $10 million commitment to Commonfund Capital Venture Partners X; a $10 million commitment to NGP Natural Resources X; a $10 million commitment to The Energy and Minerals Group Fund II; and a $30 million allocation to Pershing Square. An update was provided on two litigation matters related to PCA and an update on the Investment Department structure and personnel. An update was provided on the Self-Directed Plan and details from the most recent Self-Directed Plan Committee held on May 23, 2012.

Quarterly Risk Metrics Report

1Q PCA portfolio and capital markets review

Chair Miller introduced John Linder with Pension Consultants.

The Total Fund value of $3.3 billion is an increase of $200 million over year end. At the end of the 1Q, the Total Fund completed its transition to the new interim targets. The fund is overweight in Global Equity and Private Capital while underweight fixed Income, Absolute Return and Opportunistic.

Over the latest 1-year period all seven of FPPA's reporting global equity managers, either outperformed or closely tracked their respective benchmarks and three of the four fixed income managers outperformed their respective benchmarks.

PCA's conclusion is that the portfolio is starting to diverge from that of our peers. The portfolio is transitioning to protect capital in down markets.

We have had an interesting couple of months; interest rate risk remains high, while future interest rates are uncertain. Moving into the Market Metrics we see the slope of the yield curve is positive, (page 78), but the recent direction of the slope change is downward.

2:15 p.m. Chair Miller called for a 20 minute break

2:35 p.m. Meeting reconvened and Joe Newton and Dana Woolfrey (GRS) joined the meeting

Actuarial Valuation Review

Chair Miller welcomed Joe Newton and Dana Woolfrey with Gabriel Roeder Smith & Company (GRS). Joe Newton and Dana Woolfrey reported on the highlights of the statewide actuarial valuations.

The funded status was reduced for the Statewide Defined Benefit (SWDB) plan, Statewide Hybrid (SWH) plan, and the Colorado Springs New Hire (CSNH) plans. This was due to the assumption changes effective January 1, 2012, where the investment return was reduced from 8.0% to 7.5% and new generational mortality tables were implemented. Also impacting these plans were the poor investment returns for 2011, and more than expected salary increases for the SWDB plan. There were some funded status improvements for the SWDB and SWH plans from the re-entry of members into those plans as many made service purchases. Due to a large number of member transfers from the CSNH Fire plan into the SWDB plan, we saw a reduction in the funded status of the remaining benefits of the CSNH Fire plan. No SRA allocation is recommended for the SWDB and CSNH plans. The SWDB plan will need further recovery to provide future benefit adjustments at historical levels without a contribution increase. The breakeven benefit adjustment for the SWDB plan is 0.43%.

Based on the 2011 experience study, reduced disability rates and active member death rates, and the shift in active demographics with more members re-entering the Defined Benefit System, the actuarial report for the Statewide Death & Disability (SWDD) plan shows fewer benefits paid from this plan and the plan therefore looks better in terms of funding status. The SWDD breakeven benefit adjustment is 0.8%, up from 0.5% at prior valuation.

Reviewing the Market Value and Actuarial investment returns over the last ten years, the average compound rate since inception is 9.51%. 7.5% is our current long term investment return assumption, but we have seen a 5.1% average compound return over the last ten years.

Within the SWDB plan, the effect of reentry saw the active member count increasing from 5,314 in the prior valuation to 5,717 as of January 1, 2012. The annualized payroll went from $353 million to $385 million. Average service remained about the same, which is a good indication that those coming in to the plan were buying service. Just as expected, as the SWDB plan matures, benefit payments went up from $24.3 million to $28.3 million.

Looking at the SWDB plan's experience for the year (1/1/11 to 1/1/12), the expected growth, reentry and salary loss caused the liability grow from $1.11 million to $1.27 million. The actuarial value of assets went from $1.08 million to $1.23 million, due in part to contributions coming in from reentry with service purchase and partially offset by some losses on the market value of investments. The unfunded liability went from $33 million to $46 million and the funded ratio is at 96.4%. The actuarial required contribution rate for the SWDB plan with no future benefit adjustments is at 14.6%.

Analyzing the present value of future benefits, the SWDB plan can provide for a 0.43% benefit adjustment. The determination of the SRA contribution rate has historically been based on the cost of the plan if it currently included a 3% permanent benefit adjustment. Board practice has been to fund for a benefit adjustment and then fund for the SRA. The cost of providing a 3% permanent benefit adjustment increases the contribution rate to 24.47%, in excess of the current 16% contribution. Assuming the Board wants to continue to fund towards future benefit adjustments, GRS does not recommend granting an SRA contribution this year.

Newly affiliated departments contribute 20% contributions to the SWDB plan. The equalizing surcharge for reentry member is 0.46%. GRS recommends the SRA contribution for reentry members be set at 3.54%.

GRS reviewed the supplemental studies for the SWDB plan.

1) Increasing Member Contributions: An increase in member contributions increases the likelihood of projected granted benefit adjustments in the future. A chart of the projections is set forth in the actuarial valuation. Additional contributions also provide additional security to the base benefits and reduce the likelihood of engaging safeguards.

2) Indexing Terminated Vested Benefits: This type of benefit improvement improves the portability of the benefit but may not be the preferable way to spend the plan's dollars. The benefit favors short-term employees over career employees for benefit adjustments. Implementing this type of plan improvement would increase the plan cost and reduce the benefit adjustment from 0.43% to 0.40%.

The SWDD plan is 113.7% funded, based on no future benefit adjustment. Even though the current required contribution rate for the SWDD base benefit is 1.98% of pay, GRS recommends that FPPA retain the contribution rate at the current level of 2.6% to provide for future benefit adjustments and to counter adverse experiences that may arise. The SWDD plan can provide for a 0.8% benefit adjustment.

The Statewide Hybrid Plan has a surplus of $4.8 million and is 125.7% funded. With a total cost of Pension Benefits at 13.02%, GRS recommends the allocation to the defined benefit component to be 13.0%. The SWH plan can provide for a 2.72% benefit adjustment.

GRS reviewed the supplemental study for the SWH plan.

1) Indexing Terminated Vested Benefits: Implementing this type of plan improvement increases the normal cost for the plan from 12.5% to 12.79%, assuming 3% permanent benefit adjustment.

The Colorado Springs New Hire Fire Plan had a lot of transfers; active members went down from 264 to 165, 83 transferred to the SWDB plan. The funded status of the Fire Plan is 79.2% and the required contribution is $4.7 million. The funded status of the Police Plan is 80.2% and the required contribution is $10.6 million. GRS recommends an SRA of 0.00%.

3:40 p.m. Chair Miller requested a 10 minute break
3:50 p.m. meeting reconvened

Kim Collins presented the following items to the Board, based on the recent actuarial valuations:

1. Pam Feely moved to set the SRA contribution rate for the members of the Statewide Defined Benefit Plan at 0%, effective July 1, 2012, through June 30, 2013. Motion was seconded by Sue Eaton. Motion passed.

2. Pam Feely moved to set the SRA contribution rate for members who are subject to the 20% continuing rate of contribution with the Statewide Defined Benefit Plan at 3.54%, plus 0% for the base SRA, effective July 1, 2012, through June 30, 2013. Motion was seconded by Tim Nash. Motion passed.

3. Pam Feely moved to set the SRA contribution rate for the members of the supplemental Social Security program within the Statewide Defined Benefit Plan at 0%, effective July 1, 2012, through June 30, 2013. Motion was seconded by Tim Nash. Motion passed.

4. Pam Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Defined Benefit Plan at 0.43%, effective October 1, 2012, through September 30, 2013. Motion was seconded by Sue Eaton. Motion passed.

5. Pam Feely moved to increase the Statewide Hybrid Plan – Defined Benefit Component contribution rate to 13.0%, effective July 1, 2012, through June 30, 2013. Motion was seconded by Sue Eaton. Motion passed.

6. Pam Feely moved to set the ad hoc benefit adjustment for retirees and beneficiaries of the Statewide Hybrid Plan – Defined Benefit Component at 2.72%, effective October 1, 2012, through September 30, 2013. Motion was seconded by Tim Nash. Motion passed.

7. Pam Feely moved to retain the Statewide Death & Disability Plan contribution rate of 2.6%, effective January 1, 2013, through December 31, 2014. Motion was seconded by Tim Nash. Motion passed.

8. Pam Feely moved to set the ad hoc benefit adjustment for the Statewide Death & Disability Plan for occupational disability retirees and their beneficiaries and to survivors of active members at 0.8%, effective October 1, 2012, through September 30, 2013. Motion was seconded by Tim Nash. Motion passed.

9. Pam Feely moved to certify the Actuarial Review of Employers Having Accrued Unfunded Liability. Motion was seconded by Tim Nash. Motion passed.

The Board will vote on the Colorado Springs New Hire Pension Plan matters at the July 26, 2012, Board meeting after the City has had an opportunity to review the results of the actuarial studies. These benefit items will take effect January 1, 2013, per the plan documents.

Staff Report

CEO Report
Based upon the executive session discussion in April we are now showing pending as well as completed travel in various categories.

All departments have been heavily involved in the preparation of the Strategic Planning discussion to be conducted tomorrow (June 14-15, 2012).

One of the best presentations from recent Milken conference was the presentation by Frank Luntz, *"The Word Doctor Will See You Now".* The presentation was very informative on how you present information to your desired audience and avoid jargon and clearly get the message across. Also, a very sobering message was presented by Nouriel Roubini: *What Could Possibly Go Wrong?*

Legal Report and Legislative Update
Kevin Lindahl gave a litigation update: The G-1 Holdings case has been dismissed. We recently settled with the last defendant, Ernst and Young, in the Tronox case for $2 million and the litigation is now concluded. Ms. Zecchino has not appealed the

decision of District Court. The Guyman case has gone to the Court of Appeals and we will be briefing our side of that case in the next six weeks.

Neither the Martinez nor the Markham matter has been appealed to District Court.

We are seeking the Board's direction on the hiring of outside counsel to replace Tim Parsons, the Board's fiduciary counsel, who has taken medical leave. We anticipate the William Dolan case coming to the board in July. The Hearing Officer did find him ineligible to continue receiving disability benefits. Mr. Slack is reviewing and will be either issuing a remand of the matter to the Hearing Officer or referring it to the Board. Mr. Lindahl was a witness before the Hearing Officer and is therefore not able to advise the board at its review hearing.

Mr. Slack and Mr. Lindahl met with and recommend Gerald Dahl and his firm, Murray Dahl Kuechenmeister & Renaud LLP, as the immediate replacement for Mr. Parsons. After any short-term need is over, the Board can determine its next steps with respect to retaining fiduciary counsel.

Pam Feely moved that we enter into a contract with Mr. Dahl's firm to meet short term outside counsel needs. Sue Eaton seconded the motion. Motion passed.

Kevin Lindahl reported on a securities litigation case regarding British Petroleum ("BP"). FPPA owned shares in that corporation through ADRs or shares listed on a foreign exchange, and therefore have been excluded from the class action securities litigation case, in terms of making a claim for the losses there. Other entities with claims similar to FPPA's have joined forces and formed fee sharing arrangements to proceed with direct litigation. With the Board's approval, Mr. Slack and Mr. Lindahl will proceed with further analysis in determining if participating in this joint litigation is warranted. FPPA's potential losses are estimated at greater than $1 million and fees would be paid out of the recovery.

Pam Feely moved to approve moving forward with the litigation if Mr. Slack and Mr. Lindahl come to the conclusion that it is appropriate. Tim Nash seconded the motion. Motion passed.

Mr. Slack noted the granting to FPPA of a Cost Containment Certificate for its workers' compensation program, signifying compliance in an approved loss prevention and loss control program.

Contribution Rates

Mr. Lindahl reviewed his legal analysis of any increase in the member contribution rate, if approved by an election. After review of the relevant statutes, his recommendation is to apply the increase to the base rate of contribution paid by all members of the plan. Members entering the plan through the re-entry process, together with their employers, pay "a continuing uniform rate of contribution" (currently 20%) pursuant to C.R.S. Section 31-31-1103, which equals the base rate of contribution (currently 16%) plus the additional contribution rate (currently 4%).

Mr. Lindahl and the Board discussed the difficulties that arise if the Board were to consider reducing the additional contribution rate to offset any increase in the base rate of contribution.

Review of Comprehensive Annual Financial Report (CAFR)

Mr. Slack and Ms. Collins discussed a modification of Mr. Slack's letter of transmittal based on Jack Blumenthal's comment, placing more emphasis on how our actuarial assumptions are going to impact the funded status of the plans. CliftonLarsonAllen also reviewed the language and they did not have any additional comments or changes. In compliance with GFOA's requirements, the CAFR will be published on our website on the last week of June and we have also applied for the GFOA Certificate of Excellence.

Chairman's report
Chair Miller provided a positive report on his recent attendance at the SALT conference.

5:15 p.m. Sue Feely moved to adjourn. Tim Nash seconded the motion. Motion passed. Meeting adjourned.