

# **FIRE and POLICE PENSION ASSOCIATION**

Board of Directors

August 28, 2014

- 7:30 a.m.     **Call to order**  
                  *Sue Eaton*
- Approval of July 31 board meeting minutes
- 7:35 a.m.     **Consent Calendar**  
                  Consolidation of Burning Mountains Fire Protection District  
                  and Rifle Fire Protection District
- 7:40 a.m.     **Investment Report**  
                  Investment Committee Report  
                  *Cliff Stanton*  
                  Review of July 2014 performance  
                  *Scott Simon*  
                  Review of Managers  
                  *Scott Simon*
- Real Estate and Real Assets, Annual Review**
- 8:10 a.m.     JP Morgan  
                  *Chris Hawkins, John F. Faust, Bernard McNamara, J.P. Morgan*
- 8:55 a.m.     **Break**
- 9:05 a.m.     Wood Creek  
                  *Jonathan Rotolo, Alex Thomson, Wood Creek*
- 9:50 a.m.     Annual Review  
                  *Dale Martin, Claud Cloete, Sean Ross*
- 10:20 a.m.    **PCA Quarterly Report and Risk Metrics**  
                  John Linder
- 10:50 a.m.    **Break**
- 11:00 a.m.    **Staff Report**  
                  Executive Director's report  
                  *Dan Slack*  
                  Election update  
                  *Gina McGrail*  
                  Pension Consulting Alliance contract  
                  *Dan Slack*  
                  Second choice  
                  *Dan Slack, Kevin Lindahl, Gina McGrail*  
                  Other matters

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12:15 p.m.     **Lunch break**

12:40 p.m.     **Legal Report**

*Dolan update*

*Gerald Dahl and Pat Wilson, Murray, Dahl,  
Kuechenmeister & Reynaud*

Update on other legal matters

*Kevin Lindahl*

*Omnicare* amicus brief recommendation

*Kevin Lindahl*

Review of Lombard & Clayton contract

*Kevin Lindahl*

Securities Litigation Monitoring RFP

*Kevin Lindahl*

Board Resolution on Authority of Executive Director

*Kevin Lindahl*

2:15 p.m.     **Chair's Report**

*Sue Eaton*

Election of Chair and Vice Chair

*Sue Eaton*

Committee appointments effective September 1

*Incoming Chair*

Other matters

2:45 p.m.     **Adjourn**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
August 28, 2014**

**FPPA Office**  
**5290 DTC Parkway, Suite 100**  
**Greenwood Village, CO**

**Board Members Present:** Chair Sue Eaton, Vice Chair Todd Bower, Jack Blumenthal, Dave Bomberger, Manuel Esquibel, Pam Feely, Nick Nuanes, and Tyson Worrell

**Board Members Absent:** Cliff Stanton

**Staff Members Present:** Dan Slack, Kevin Lindahl, Gina McGrail, Scott Simon, Elaine Gorton, Jacquette Tara, Dale Martin, Claud Cloete, Ben Bronson, Sean Ross, and Jessica Hsu

**Others Present:** John Linder, Ryan Lobdell, Pension Consulting Alliance; Gerald Dahl, Patrick Wilson, Murray, Dahl, Kuechenmeister & Reynaud; Chris Hawkins, John Faust, and Bernard McNamara, J.P. Morgan; Jonathan Rotolo, Alex Thomson and George Martin, Wood Creek Capital Management

*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 7:38 a.m., Chair Eaton called the meeting to order.

Chair Eaton called for a motion to approve the minutes of the July 31, 2014, board meeting. Ms. Feely moved to approve the minutes. Mr. Nuanes seconded the motion. The motion carried with Mr. Worrell abstaining.

Chair Eaton called for a motion to approve the Consent Calendar. Ms. Feely moved to approve the Consent Calendar. Mr. Bower seconded the motion. The motion carried.

**Investment Report**

**Investment Committee Update**

Mr. Bomberger reported that the Investment Committee did not conduct any meetings since the last Board meeting.

### Monthly Investment Report

Mr. Simon presented the economic recap and financial performance for July 2014. Despite a steady start, the end of the month experienced volatility primarily due to geopolitical events.

Total Fund performance (net of fees) for the month was **-0.67% (+4.12% YTD)** and Net Investible Assets for the Total Fund are estimated at **\$4.12 billion** as of July 31, 2014.

Most of the relative negative performance seen in FPPA's portfolio was due to lagging managers in the public equity portfolio. An annual review of that equity portfolio will be reviewed at the October Board meeting.

Mr. Simon reviewed FPPA's three fully implemented benchmarks:

1. Total fund reference benchmark (risk): a simple, long-term, passive benchmark.
2. Total fund policy benchmark: also a long-term benchmark, and viewed as a benchmark on the Board's decisions in terms of setting the policy portfolio and determining the asset allocation.
3. Implementation benchmark: structured for a shorter-term look at the portfolio - identifies a benchmark for every single investment within the fund, is re-weighted monthly, and focused on manager selection.

Answering Vice-Chair Bower's question, Mr. Simon shared that late 2013 is the first time FPPA's pension fund was over \$4 billion in assets.

### Review of Managers

Mr. Simon reviewed a press article highlighting the SEC's inquiry of Pershing Square Capital Management's activist campaign to merge Valiant Pharmaceuticals with Allergan. Also reviewed was a detailed quarterly letter from Pershing Square describing their process as an activist investor and the acquisition in question. Investment staff's inquiries and discussions with Pershing Square have not turned up anything other than expected with this type of transaction. Staff will continue to stay abreast of developments as the SEC continues its review.

At 8:05 a.m., Misterys Hawkins, Faust, and McNamara of J.P. Morgan Asset Management joined the meeting.

### J.P. Morgan

Misterys Hawkins, Faust, and McNamara reviewed third party market updates framing the context of the current investment environment in the real estate world. Also discussed was an available platform that would allow FPPA to tap into institutional resources for portfolio construction analytics.

Mr. Esquibel questioned the impact of the internet sales to brick-and-mortar retail stores and the change in the amount of sales per square foot. Mr. McNamara

explained that the largest impact has been the power centers, where consumers are very price sensitive. Successful ownership in large super regional malls requires the understanding and maximizing of merchandising and tenant mix to provide an experience unlike that offered on the internet. The biggest effect hitting the industrial sector is expedient distribution and delivery offered by competitors.

Mr. McNamara continued the presentation with discussion of the Global Real Assets (GRA) Omni program, a platform for building diversified real assets portfolios. J.P Morgan can design custom allocations based on needs and objectives and is an administrative service, simplifying the execution through underlying strategies.

While investing in the GRA Omni program is limited to J.P. Morgan products, the program takes into account the total portfolio being held, as that information is fundamental in building out a complete solution.

Mr. Linder asked why more leverage is put on riskier assets. Mr. Hawkins responded that, opportunistically, leverage can provide more diversification.

At 9:03 a.m., Chair Eaton called for a break and Misters Hawkins, Faust, and McNamara left the meeting.

At 9:17 a.m., the meeting reconvened and Misters Rotolo, Thomson, and Martin of Wood Creek Capital Management joined the meeting.

#### Wood Creek

Misters Rotolo, Thomson and Martin, discussed why institutional investors are looking at real assets. They also focused on actual investment opportunities institutional investors are investing in and the challenges they face.

At 10:05 a.m., Misters Rotolo, Thomson, and Martin left the meeting.

#### Annual Review

Mr. Martin reviewed FPPA's 2014 portfolio of Illiquid Alternatives. As of March the portfolio is holding slightly below the approved target allocation of 18%. Mr. Martin continued with an historical perspective on FPPA's progression and evolution of investing in this space.

The recent performance of the real estate portfolio has benefitted from the recovery of real estate in general and in the overall economic growth. The effort going forward will be to design a very deliberate, fully vetted plan of action, to broaden and diversify the real asset exposure.

Mr. Slack questioned if the benchmarks or composition of benchmarks will need to be reviewed due to possible constraints put on investments. Mr. Simon agreed that if more investments continue to be made into these types of assets over time, it would be appropriate to revisit the benchmarks as well.

Mr. Blumenthal asked about reasonable expectations in terms of return going forward, given what the market conditions are. Mr. Linder advised against underwriting additional risky real estate, due to the low reward over time.

At 10:42 a.m., Misters Martin, Cloete, Bronson, Ross and Ms. Hsu left the meeting.

#### Portfolio and Capital Market Review

Mr. Linder reviewed FPPA's 2Q 2014 portfolio. As of the end of June, FPPA's pension fund had an aggregate value of \$4.2 billion, an increase of \$135.4 million over a quarter and close to \$500 million dollars in year-over-year.

Mr. Blumenthal asked for explanation of differences in the underperformance against the Median Public Fund for the one-year, three-year and five-year time periods. Mr. Linder noted that FPPA has moved to a lower risk allocation than its peer funds, with less equity-focus and more of a risk-balance focus.

Vice Chair Bower commended staff for achieving FPPA's current funding level and having reduced the risk level of the portfolio.

#### Risk Metrics

Mr. Linder continued with a review of the risk metrics.

Mr. Nuanes questioned why FPPA wouldn't change to a more risky policy in hopes of gaining better returns. Mr. Linder relayed that the strategic allocation is set to perform the function that the plan needs to perform and to maintain a balance of upside gain against the downside risk protection. Mr. Simon added that being at a better funded status now allows the Investment team to evaluate the possibility of taking on more risk in the equity portfolio. Vice Chair Bower also mentioned that the downside risk was significant in the past due to the potential for rollback.

At 11:20 a.m., Chair Eaton called for a break. Mr. Linder and Mr. Lobdell left the meeting.

At 11:30 a.m., the meeting reconvened.

### **Staff Report**

#### Executive Director Report

Mr. Slack updated the Board on matters included under the Staff report in the Board packet.

The World Pension Forum at the Aspen Institute was attended by Mr. Slack and Mr. Blumenthal. The conference was very provocative and engaging, offering opportunity for interactive discussion. Topics included were perspectives surrounding China and its economy, the rapidly changing nature of the investment

management world, and managing fees. Talks also included the changing nature of being a fiduciary or board member.

Mr. Slack announced that the Governor's office has nominated Ms. Eaton, Mr. Blumenthal and Mr. Bomberger for reappointments to the Board. The additional term nomination for Mr. Bomberger is for four years and three years for both Ms. Eaton and Mr. Blumenthal.

Mr. Blumenthal commented upon Mr. Lindahl's election as President of the National Association of Public Pension Attorneys.

### Election Update

Ms. McGrail recapped the effort that went into the Statewide Defined Benefit election. She reported that the Member Task Force met for several hours of the course of 14 meetings to educate itself on FPPA's pension situation, benefits, funding, structure, etc. Also in attendance at the meetings were FPPA staff and GRS, the actuaries for the plan. These task force meetings resulted in the primary proposal that was submitted to the board for approval.

Upon the Board's approval of the proposal, FPPA staff embarked on an extensive communications campaign over several months, using multiple communication channels in an effort to reach all members of the SWDB Plan. In addition, staff conducted a detailed research project and updated members' home and email addresses as needed to help ensure that the members would receive the election materials and the ballot mailing.

The task force recommended an additional proposal, a contingent option, to be voted on as a part of the election process. The addition of the contingent proposal was approved by the Board and the communication effort was expanded to include information on both proposals. Ultimately, the Member election was conducted in June 2014 and the membership voted in favor of the primary proposal. Upon certification of the election results for the primary proposal, staff prepared and executed the employer election. Since both the members and employers passed the primary proposal, staff is in the process of implementing the change to the member contribution rate. Ms. McGrail reminded the Board that the results were announced via the FPPA website and noted that the implementation matters will be discussed with employers at the upcoming Employer Summit on October 3, 2014.

### Pension Consulting Alliance contract

Mr. Slack opened the discussion of renewing PCA's current three-year contract. Mr. Simon noted that back in 2011 the Investment staff reached out to several other consultants and, based on the work needed from a general investment consultant, felt that PCA's fees were acceptable.

Based on his consulting RFP experience, Mr. Bomberger noted that PCA's fees compare favorably. Mr. Lindahl spoke to the fiduciary obligations of the Board when engaging professionals to advise the Board with regard to the portfolio.

PCA has agreed to be a fiduciary and to treat the relationship with FPPA as a fiduciary, which means any conflicts must be disclosed and when giving advice it must be to the best interest of the fund.

Mr. Blumenthal would like to see occasional visits to FPPA from PCA's founder, Allan Emkin.

Mr. Nuanes moved to instruct staff to negotiate and present to the board a proposal from PCA for continued general investment consultant services. Mr. Blumenthal seconded the motion. The motion passed.

### Second Choice

Mr. Slack, Ms. McGrail, and Mr. Lindahl discussed second choice – an option proposed to allow re-entry members currently participating in the Statewide Hybrid Plan- Money Purchase Component only (with no defined benefit component) a second choice to opt into the Statewide Defined Benefit Plan.

After much discussion, the board requested that further information on this be provided to it at the next board meeting.

Ms. McGrail highlighted the upcoming full day Annual Employer Summit to be held on Friday, October 3<sup>rd</sup> and reminded the Board Members that they are welcome to attend.

At 1:02 p.m., Chair Eaton called for a lunch break

At 1:16 p.m., the meeting reconvened. Misters Dahl and Wilson joined the meeting.

### Legal Report and Legislative Update

Mr. Lindahl introduced Misters Dahl and Wilson, attorneys representing FPPA, Mr. Lindahl, and Ms. McGrail in the litigation regarding the Dolan case.

At 1:18 p.m., Mr. Blumenthal moved to go into executive session to seek legal advice regarding the Dolan matter as allowed under Section 24-6-402(4)(b) of the Colorado Revised Statutes. Mr. Bomberger seconded the motion. The motion passed.

At 2:00 p.m., Mr. Nuanes left the meeting.

At 2:05 p.m., Ms. McGrail and Mr. Lindahl left the meeting.

At 2:10 p.m., Ms. Feely moved that the Board return to its regular meeting. Mr. Esquibel seconded the motion. The motion passed. Ms. Feely declared that no action was taken during the executive session.

At 2:11 p.m., Mr. Lindahl and Ms. McGrail re-joined the meeting.



Mr. Bower moved that the Board affirm the decision to provide indemnification and legal defense to Gina McGrail and Kevin Lindahl for the claims made by William Dolan. Ms. Feely seconded the motion. The motion passed.

At 2:11 p.m., Misters Dahl and Wilson left the meeting.

Mr. Lindahl continued reporting on legal matters. RFPs have been initiated by Mr. Lindahl for outside investment counsel under the board's delegation authority as contained in the Governance Manual. Currently three firms are in place providing legal services, and it's been five years since bids have been sought.

Bernstein Litowitz Berger & Grossman (BLB&G), one of FPPA's securities litigation monitoring law firms, has asked FPPA to consider supporting an amicus curiae ("friend of the court") brief in *Omnicare, Inc. v. Laborers District Council Construction Industry Pension Fund* ("Omnicare").

Mr. Bomberger moved that the Board support and endorse the amicus brief prepared by BLB&G in the *Omnicare* case before the U.S. Supreme Court. Mr. Blumenthal seconded the motion. The motion passed.

#### *Review/renewal of Lombard & Clayton contract*

Mr. Blumenthal inquired as to the volume of services expected from Lombard & Clayton for the upcoming year. Both Mr. Slack and Mr. Lindahl agree the services and representation expected from the lobbyists will match, if not increase, that of the prior year.

Mr. Bower moved to approve a one year contract for lobbying services with Lombard & Clayton. Mr. Blumenthal seconded the motion. The motion passed.

Mr. Lindahl asked the board if they wanted a request for proposals to solicit law firms for securities litigation monitoring. He noted that staff is satisfied with the work BLB&G and Berman DeValerio have provided. It has been approximately ten years since this matter was put out to bid.

Mr. Bower moved that the Board direct the General Counsel to solicit proposals for securities litigation monitoring services. Ms. Feely seconded the motion. The motion passed.

Mr. Bomberger moved that the Board adopt Resolution No. 2014-06 regarding the Executive Director's authority to execute investment contracts and take other actions. Mr. Blumenthal seconded the motion. The motion passed.

#### **Chairman's Report**

Ms. Feely moved to confirm the succession of Mr. Bower as Chairman of the Board. The motion was seconded and unanimously passed.

The Board thanked Chair Eaton for her dedication and commitment as Chair in the

past year.

Chair Eaton requested nominations for the position of Vice Chair. Ms. Feely nominated Mr. Blumenthal as Vice Chair. Mr. Esquibel seconded the motion. The motion passed.

Chair Bower appointed all current committee members to the committee that they are currently serving on.

Mr. Blumenthal was appointed as Chair of the Audit Committee.

Ms. Eaton was appointed as Chair of the Budget Committee.

As a member of the Investment Committee, Mr. Bomberger nominated Mr. Stanton as Chair of the Investment Committee. Mr. Bower, as a member of the Investment Committee, seconded the nomination and the nomination passed.

At 2:40 p.m., Mr. Bomberger moved to adjourn the meeting. Mr. Esquibel seconded the motion. The meeting adjourned.