FIRE AND POLICE PENSION ASSOCIATION
BOARD OF DIRECTORS
May 26, 2011
Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Agenda item</th>
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<tbody>
<tr>
<td>7:30 a.m.</td>
<td>Call to order</td>
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<td><em>Tim Nash, Chairman</em></td>
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<td><strong>Approval of April 28, 2011, board meeting minutes</strong></td>
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<td></td>
<td><strong>Consent calendar</strong></td>
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<td>Volunteer affiliation of Poudre Canyon Fire Protection District</td>
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<td>7:35 a.m.</td>
<td><strong>Investment Report</strong></td>
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<td><em>Scott Simon</em></td>
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<td>1. Review of April 2011 performance</td>
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<td>2. Review of managers</td>
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<td>3. Other matters</td>
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<td>8:05 a.m.</td>
<td><strong>PCA Risk Report</strong></td>
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<td><em>John Linder, PCA</em></td>
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<td>8:20 a.m.</td>
<td><strong>Cortina Asset Management presentation</strong></td>
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<td><em>Lori Hoch, Principal &amp; COO</em></td>
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<td><em>Steve Lilly, Portfolio Manager</em></td>
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<td>9:05 a.m.</td>
<td><strong>Break (15 minutes)</strong></td>
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<td>9:20 a.m.</td>
<td><strong>Staff report</strong></td>
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<td>1. CEO report</td>
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<td><em>Dan Slack</em></td>
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<td>2. Legal report and legislative update</td>
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<td><em>Dan Slack</em></td>
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<td>3. Compensation survey RFP responses</td>
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<td><em>Dan Slack, Diane Braaton</em></td>
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<td>4. Other matters</td>
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<td>9:50 a.m.</td>
<td><strong>Chairman’s report</strong></td>
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<td><em>Tim Nash, Chairman</em></td>
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<td>1. Chairman’s remarks</td>
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<td>2. SALT Conference 2011 Evaluation</td>
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<td><em>Kirk Miller</em></td>
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<td>3. Other matters</td>
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<td>10:15 a.m.</td>
<td><strong>Adjourn</strong></td>
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Fire and Police Pension Association  
Minutes – Board of Directors Meeting  
May 26, 2011

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

Board Members Present: Chairman Tim Nash, Vice Chairman Kirk Miller,  
Jack Blumenthal, Leo Johnson, Lyle Hesalroad, Sue Eaton, Monica Cortez-Sangster,  
Todd Bower and Cliff Stanton.

Staff Members Present: Dan Slack, Scott Simon, Gina McGrail, Austin Cooley,  
Claud Cloete, Jeff Kaszubowski, Sean Ross, Diane Braaton (9:30) and Janette  
Hester.

Staff Members Absent: Kevin Lindahl (excused) and Kim Collins (excused).

Guests: John Linder, Pension Consulting Alliance (PCA); Lori Hoch and Steve Lilly,  
Cortina Asset Management.

Notice of this meeting and a copy of the agenda were posted in the building lobby  
of the FPPA office and on the FPPA website at least twenty-four hours prior to the  
meeting.

At 7:33 a.m., Chairman Tim Nash called the meeting to order and noted there was  
a quorum present. Chairman Nash called for motions to approve the minutes and  
the consent calendar. Leo Johnson moved to approve the April 28, 2011, board  
meeting minutes. Lyle Hesalroad seconded the motion. MOTION CARRIED IN  
FAVOR UNANIMOUSLY.

Mr. Johnson moved to approve the Affiliation Resolution with FPPA of the Poudre  
Canyon Fire Protection District Pension Board, such affiliation to be effective on  
May 1, 2011. Todd Bower seconded the motion. MOTION CARRIED IN FAVOR  
UNANIMOUSLY.

Investment Report

Scott Simon reported that there had been no meetings of the Investment Risk  
Committee (IRC) since the April board meeting. Mr. Simon provided an economic  
and market summary. He reported global economic expansion and supportive  
monetary policy allowed risk assets to continue their appreciation in April. He  
reported the Fed announced it will continue to invest in maturing Treasury securities  
and asset purchases would be completed in June in support of finishing the planned  
QE2. Mr. Simon reported the European Central Bank delivered its first rate hike;  
broad-based dollar weakness caused U.S. markets to lag; European debt markets  
continued to struggle; falling home prices continued to weigh on consumer  
confidence; and U.S. employment continued to show improvement.
Mr. Simon reported the FPPA Total Fund net performance at +2.84% in April and +6.28% YTD. The FPPA custom benchmark was +7.23% for Q1 2011. He reported that FPPA’s equity and fixed income portfolios continue to perform well, relative to their benchmarks, and relative underperformance of the Total Fund is due primarily to the lagged and flat returns in private equity relative to the new public equity benchmark, which has seen significant positive performance. The Total Fund closed the month of March with $3.3 billion in net investible assets.

Mr. Simon noted that on April 28th the board approved the termination of ClariVest and TH&B, and authorized proceeds to additionally fund Cortina U.S. small cap and SSgM global passive equity. He reported the K2 Discretionary Commodity allocation was funded on May 1st and the remaining manager allocations will be funded over the next two months. While the trading and crossing of securities went smoothly, overall the cost of the transition was above expectations, given the Russell 2000 hedge that was implemented. He answered questions from the board. Mr. Simon reported that Baillie Gifford and Walter Scott underperformed their respective benchmarks, while BNY Mellon Securities Lending had a personnel departure. The alternatives portfolio continued to see strong cash flows with capital calls slightly exceeding distribution in April.

Mr. Simon reviewed an option being considered for the Gottex portfolio and stated a recommendation will be forthcoming for the $8 million exposure. He reported that Hamilton Lane recommended a $15 million commitment to TPG Growth II, L.P., a private equity fund focused on global growth equity and middle-market buyout. He stated the fund will likely have significant exposure to Asia. He reported that the Absolute Return portfolio continues to be actively implemented. Mr. Simon answered questions from the board.

At the request of the board at the April 28th meeting, John Linder provided historical comparison information depicting how the FPPA portfolio would have performed if the new benchmark had been in place during 2006-2010. Mr. Linder provided graphs and charts of pro forma policy portfolio versus historical policy portfolio and historical actual portfolio trailing returns ending March 31, 2011. The charts indicate there would have been similar risk behavior from the historical policy benchmark when compared to the new absolute return benchmark. Mr. Linder and Mr. Simon noted that the volatility and lack of liquidity during 2008 and early 2009 made it difficult to actively rebalance the portfolio during this time. Mr. Simon stated that the asset liability study changed the targets of the portfolio and the transition to this global strategy has taken a full year to implement. Jack Blumenthal stated that tracking the portfolio performance over time can be crucial to understanding the benefit of the investment program versus a passive strategy. Mr. Linder and Mr. Simon responded to questions from the board.
First Quarter 2011 Portfolio & Capital Market Review

Mr. Linder provided the First Quarter 2011 portfolio and capital market review. He reported that the Total Fund underperformed both its policy benchmark and the Median Public Fund over all time periods under observation. He reported that the Total Fund underperformed its policy benchmark primarily due to the selection effect in Global Equity. He reported on FPPA's actual allocation relative to target allocations. Mr. Linder provided the FPPA benchmark implementation schedule (2010-2011) and the actual strategic allocation comparison showing changes from March 31, 2010, to March 31, 2011. He stated that the transition to new interim policy targets should be completed by June 30, 2011, and that all investment classes should be on target by mid-May 2011. Mr. Linder reported that the Total Fund had an aggregate value of $3.2 billion on March 31, 2011. He provided a 6-month attribution (instead of 12-month) to better reflect the contribution of the asset classes relative to their respective benchmarks since the implementation of the new allocation structure approximately six months ago. He reported that the Total Fund outperformed its policy benchmark during the trailing 6-month period, due primarily to security selection from U.S. equity, fixed income, and cash. Mr. Linder reviewed the asset class changes implemented during 1Q and answered questions from the board. Chairman Nash and Mr. Blumenthal suggested that PCA provide an annual review on key take-a-ways. Mr. Linder concluded the quarterly performance report.

PCA Investment Market Risk Metrics Report

Mr. Linder provided the investment market risk metrics report. He reported a significant rise in breakeven inflation levels. If breakeven inflation continues to rise, this signals inflationary worries and may cause Fed action and/or dollar decline. Commodity prices continue to climb, most visibly oil, in 2011. He reported steep yield curve and high interest rate risk. The short-term rate (the one-year Treasury) remains at rock bottom levels. Mr. Linder noted if the 10-year Treasury yield rises by 100 basis points from today’s levels, the capital loss from the change in price is expected to be -8.3%. He reported that private real estate pricing is at ten-year highs and U.S. public equity pricing is nearing top decile level. He reported that private equity pricing has moderated and pricing of non-U.S. developed market equities is near long-term averages. He reported that current cap rates are low by historical standards (expensive) and declining, likely owing to the current low level of interest rates. He noted a rise in rates could hurt pricing. Mr. Linder stated that PCA does not see a rise in rates coming anytime soon. He reported that unemployment is at approximately 9%. Mr. Linder responded to comments and questions from the board.

Cortina Asset Management Presentation

Mr. Simon noted that at the April board meeting, the board approved the transfer of additional small cap exposure to Cortina Asset Management, a firm that manages
FPPA’s small cap portfolio. He reported strong small cap growth strategy earnings for Cortina that handily beat the 3.6% benchmark return for the month. Mr. Simon welcomed Lori Hoch and Steve Lilly with Cortina to the meeting. Mr. Lilly provided the firm’s investment philosophy of small cap growth strategy and described key characteristics of companies and products selected for a high quality portfolio. He reviewed the investment research process, thematic selections, and portfolio construction. He presented several case studies of innovative theme opportunities and explained the benefit of early identification and investment. Mr. Lilly explained the fundamental differences between small and large cap and stated that Cortina believes that small cap growth is not over-valued. He stated small caps have outperformed large cap in recent years and have shown the ability to expand and compete globally. Mr. Lilly presented a FPPA portfolio performance summary. Ms. Hoch reviewed new investment acquisitions. Mr. Lilley and Ms. Hoch answered questions from the board and Mr. Linder. At 9:18 a.m., the meeting recessed for break. Mr. Bower left the meeting.

**Staff Report**

**CEO Report**
Chairman Nash called for the CEO Report. Dan Slack called the board’s attention to two new educational events listed in his monthly memo and to a copy of the minutes of the April 18th Audit Committee meeting. He noted the audit minutes would be approved by the audit committee at the fall meeting.

**Legal and Legislative Report**
In the absence of FPPA General Counsel Kevin Lindahl, Mr. Slack presented the legal and legislative report. Mr. Slack reported that discovery is scheduled in the Tronox securities litigation case and that Mr. Lindahl’s deposition will be taken on June 14th. Mr. Slack stated that FPPA is representing a class of bond holders in that litigation. Mr. Slack reported FPPA has filed a Reply Brief in the Huber case, where the issue is whether the plaintiff is entitled to a permanent occupational disability benefit rather than a temporary occupational disability benefit. In the Guyman case, Mr. Slack reported that FPPA has filed a motion asking the judge to reconsider his sua sponte motion regarding the division of disability benefits under a domestic relations order and asked the judge how the ruling could be implemented, if the ruling stands. In the legislative report, Mr. Slack provided a memo from Mr. Lindahl regarding legislative issues:

1. **SB11-021 Old Hire Funding** – State assistance to OH plans for 2012 was reduced to $5,321,079 and will resume at $25,321,079 in 2013, with a final payment estimated to be $49,443,768 in 2019. The bill was signed by the Governor on May 5, 2011.

2. **SB11-076 Public Employees’ Retirement Association (PERA) Contributions** – The employer and member contribution rates for PERA are specified in statute. The employer contribution rate was reduced in the state and judicial
divisions by 2.5% and the member rate was increased by 2.5%. The bill extends these changes to the employer and member contribution rates for the 2011-2012 state fiscal year. This bill is on its way to the Governor. Mr. Slack noted that, because FPPA is not a part of the state’s budget, the FPPA board approved the 2011 budget to include funding so that FPPA employees continue to pay the “regular” contribution rate through 2011.

3. HB11-1211Travel Expenses – The bill prohibits any public entity from making travel-related expenditures for lodging, meals, and incidental expenses on behalf of a board member, officer, or employee in an amount that would exceed on a daily basis two times the maximum allowable federal per diem rate in the area in which the person is traveling. This bill is on the governor’s desk.

4. Mr. Slack reported that Senator Morse had contacted FPPA to discuss allowing a change of beneficiaries for domestic partners after the end of a relationship and to request assistance in drafting legislation on the issue. No legislation was introduced in the spring legislative session but continued interest in this legislation is expected. FPPA’s actuary is studying modifications to the plans that would allow members to change beneficiaries and FPPA staff will bring this issue to the board for discussion at the July 14th meeting in the context of rule-making and legislation.

RFP responses re Compensation Survey

Mr. Slack discussed his memorandum regarding total compensation survey for FPPA staff. He reported that, following board direction at the February board meeting, Diane Braaton, Human Resource Administrator, prepared a Request For Proposals (RFP) for a total compensation survey of the positions at FPPA not previously studied by McLagan. McLagan conducted a compensation survey in 2010 of all investment staff, the General Counsel, and the Chief Executive Officer. Six firms responded to the RFP. Mr. Slack and Ms. Braaton reviewed the six responses received and concluded Waters Consulting Group (WCG) best meets the needs of FPPA. A copy of the WCG proposal for a total compensation survey was provided in the board packet. Mr. Slack noted WCG provides the best combination of services to fees, has worked previously for public pension systems, and has experience in the Colorado market. In the December 2010 board packet, Mr. Slack provided a memo analyzing the cost of employee benefits at FPPA. He recapped the key points:

- Benefits budgeted for 2011 equal 22.65% of total compensation (29.29% of pay).
- Items that do not have a direct budget impact (vacation, sick leave) bring employee benefits to 29.58% of total compensation (42% of pay).
• The largest employee benefit cost is PERA, which is 7.58% of the total budget.

• The employee benefit cost for health insurance is 4.41% of the total budget.

Mr. Slack and Ms. Braaton recommended hiring the Waters Consulting Group, Inc., if the board approves the recommendation to amend the budget to conduct the survey. Mr. Slack presented a suggested timeline of next steps for the board’s consideration so that any board actions can be incorporated in the October budget planning process. It was the desire of the board to receive the survey results of the twenty-four positions in sufficient time to allow appropriate discussion and deliberations for 2012 budget decisions. It was the board’s direction that the survey results be presented to the board as a whole in August.

Mr. Blumenthal moved to increase the 2011 operating budget in an amount not to exceed $27,000 to complete the compensation study of all staff not previously studied by McLagan. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Other Matters

Mr. Johnson requested that research be conducted by Mr. Lindahl regarding offsets relating to workers’ compensation and disability. Mr. Slack noted that FPPA has no presumption as to on-duty in its statute, but there may be such a presumption in the workers’ compensation statute. Ms. McGrail stated that it was her understanding that the worker’s compensation carriers have the ability to offset based on the FPPA benefit award. Offsets by FPPA were discontinued following legislation enacted in 1989. Mr. Slack noted that this becomes a federal taxability issue for, not a liability issue to FPPA. Ms. Cortez-Sangster noted that new legislation may be needed to protect the member. Chairman Nash noted that Mr. Lindahl should be made aware of this issue upon his return.

Chairman’s Report

During the Chairman’s Report, Mr. Slack announced that the annual strategic planning session would be held at the FPPA offices. He said the meeting would be scheduled for one day only on June 9th beginning at 8:00 a.m., followed by an evening dinner. Chairman Nash requested that board members respond regarding dinner attendance.

SALT Conference update

Kirk Miller updated the board on his attendance at the SkyBridge Alternatives (SALT) Conference 2011 and reviewed the guest speaker line-up and the panel discussions on the agenda. He stated that the break-out sessions focused on political stability, economic growth and global debt and forecast. Mr. Miller noted the conference was
well-attended and urged board and staff to take advantage of early registration and waiver of registration fees for the 2012 conference. Mr. Miller responded to questions from the board regarding economic issues discussed at the conference.

Mr. Johnson referred the board to information in the board packet regarding 2012 Vision Insights & Perspectives (VIP) conference and recommended that board and staff take advantage of complimentary registration by the May 31st deadline. Chairman Nash stated he was interested in attending.

At 10:02 a.m., Mr. Miller moved to adjourn the meeting. Mr. Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.