POLICE & FIRE PENSION INVESTMENT BOARD

November 13, 2014

Summary Minutes

The information in these meeting minutes is intended to assist Police and Fire Pension members in understanding the activities of the Investment Board. The information is not intended to provide investment or financial advice to any individual or organization and should not be relied upon for that purpose. While we attempt to keep the content accurate we cannot guarantee that all information is current, accurate or complete.

Members present:	Doug McDaniel – Human Resources Director (Board Chairman)
	Mark Westphalen – Mayoral/Council Appointment
	Gerry Finnegan – Mayoral/Council Appointment
	Steve Niemeyer – Police Electee
	Jeremy Gegg – Fire Electee
	Steve Hubka – Finance Director
	Matt Franken – Police Electee
	Guy Pinkman – Fire Electee
	Becky Ferguson – Mayoral/Council Appointment
Members Absent:	none

A quorum is any five Board members.

Human Resources Staff:	Paul Lutomski – Police and Fire Pension Officer
Others present:	Dale Connors – Watershed Investment Consulting
	Gary Radliff - Watershed Investment Consulting

Unless otherwise noted, Watershed meeting materials were provided to Investment Board members in electronic format, or printed format, a few days preceding the meeting for their advance consideration. Printed copies of the materials were provided at the time of the meeting.

Watershed documents:
Kinder Morgan election
Investment Performance Evaluation Report
October performance report
Portfolio Structure Review
Hedge Fund Manager Search Report

Meeting minutes for:

a. November 26, 2013 (meeting was cancelled)
b. February 13, 2014
c. May 8, 2014
d. August 14, 2014
e. September 18, 2014

Doug McDaniel calls the meeting to order at 1 pm. He asks Mark Westphalen to lead the discussion on the Kinder Morgan vote.

Mr. Westphalen recommends and moves to approve option 1, to convert shares of Kinder Morgan Energy Partners to shares of Kinder Morgan.

Guy Pinkman seconds the motion.

All members vote in favor.

The Board is asked for a motion to approve or amend the November through September minutes.

Gerry Finnegan requests an edit to the May 2014 minutes. It is made. November through September minutes are approved unanimously.

Watershed Investment Consulting is asked to make their presentation.

Watershed passes out printed copies of the listed materials and states the presentation order will be:
Investment Performance Evaluation Report
October performance report
Portfolio Structure Review
Hedge Fund Manager Search Report

Gary Radliff refers to the Investment Evaluation Report for September 30, 2014. A Market Review showed 3Q2014 was down, with large cap domestic stocks up, non-US stocks down, and fixed income flat to down.

The Equity section of the report was contained detailed data on each of the pension's equity investments individually and in logical groupings including Domestic, Global, and International.

The Fixed Income section of the report contained detailed data on each of the pension's fixed income investments individually and in logical groupings.

The Alternative section of the report contained detailed data on each of the pension's investments individually and in logical groupings.

The Total Fund section of the report was presented and contained asset allocations, market values, and returns for various time periods. It contained a peer group performance comparison of governmental pension funds with less than $500M assets. Lincoln had a -1.25% return.

Regarding the October performance report; October's first half was extremely volatile. In last half of the month, stocks were up 9.5%. S&P 500 up 2.5%, small cap outperformed large, EAFE was down, bonds up. The Monthly Performance report contains a balance sheet with individual investment figures, actual allocations vs target allocation, returns by month and YTD, gross and net of fees. Watershed reviews the details of the report summarizing that October was an increasing month with approximately 1.5% net return.

There were no questions on the two reports.

Gary Radliff refers Board members to the Portfolio Structure Review document. Asset allocation is the biggest component of return. Asset allocation was approved in last meeting. The allocation objective is balance unless there is a strong fundamental reason to overweight an asset class. Watershed will also seek to lower fees, and therefore will seek index funds when appropriate. Active managers need to create alpha to justify their fees. Page 1 recaps recent asset allocation changes. The Review will seek to avoid investing in too many managers which ends up creating a portfolio that behaves like a high-cost index fund.

Dale Connors explains the different sources of information for different investment classes.

Gary Radliff states they do not emphasize filling in all style boxes as that places constraints on managers and may result in over-diversification. Page 3 shows allocations relative to world allocations. Currently the portfolio is overweight domestic stocks, this has been good. Overweight small and mid-cap stocks, which has been a detractor.

Gerry Finnegan states that rule of thumb is that US is 75% large cap and 12-13% each in mid and small cap. He states page 3 shows ACWI as only 1% small cap and would like an explanation.

Dale Connors explains that ACWI is 1% small cap, because small companies outside the US and Japan are mostly privately held. If privately held are included small cap might be 3-4%.

Gary Radliff summaries that the two big issues are overweight to US and overweight to small and mid cap. Page 4 and 5 show the existing portfolio holdings and the recommended changes. Implementing the new asset allocation requires changes and we are also recommending manager changes. The next few pages step back and look at asset class groupings. Recommendations for each asset class recommendations are presented to the Board. Board members ask specific questions and Watershed representatives answer. The recommendations are summarized below:

Flexible Mandate: eliminate this allocation and investing in hedge funds and real estate.

Domestic Equity: ten managers reviewed, five managers recommended for termination due to under performance and some changes are recommended to reduce weight in small and mid cap stocks. The proceeds are invested in remaining equity mangers, the S&P 500 index, to existing managers in under allocated real estate and fixed income classes.

International Equity: four managers reviewed, one recommended for termination due to underperformance, the proceeds re-invested with existing managers.

Global Equity: four managers reviewed, index recommended for termination because active managers outperform in this segment, proceeds moved to other under allocated asset classes.

The changes lower fees, increase pure beta, and focuses on managers that may be able to deliver more alpha. The portfolio should make 7.5% with less volatility. Bank loans tabled for now. We are recommending to sell the PreTSL note and put that money with existing fixed income managers. We are in the purchase cue for Reef (for $11.5 million).

The Board asks specific questions regarding expenses and how to implement the proposed changes. Watershed answers that they will work out the details with the objective of ignoring timing and just not being out of the market for any longer than needed. Everything can be implemented now, other than the hedge fund of funds investment that will have to wait until at least January 1.

Steve Neimeyer states if no one has any concerns not expressed yet, I make a motion to approve all recommendations as presented. Guy Pinkman makes friendly amendment to stay invested as much as possible while implementing the changes.

Dale Connors states the Vanguard Index will be the eventual source of funds for Private Equity and will stay invested until needed.

Doug McDaniel asks if there is a second to Steve's motion and the amendment.

Gerry Finnegan and Jeremy Gegg second the motion.

Doug McDaniel calls for discussion.

The Board discusses selling the Flexible Mandate and keeping the proceeds in cash until ready to invest in hedge funds and real estate. The Board agrees to let Watershed and pension administration decide when to implement the transactions with the objective of staying in the market, and to watch the flexible mandate funds for potential early sale.

Doug McDaniel calls for a vote.

All members vote in favor.

At 2:10 pm the Board takes a break and the meeting re-starts at 2:15.

Dale Connors refers Board members to the Hedge Fund Manager Search Report. Using the booklet he reviews characteristics in general and details on three Hedge Fund-of-funds managers. Firms under consideration were: Blackrock, Blackstone and Grosvenor. Specifics were given on each including Firm inception date, AUM and staffing; trailing return and risk metrics; Strategy and geographic allocation; Philosophy and perceived strengths. Current offering of each manager listed in booklet and discussed.

Board members then asked specific questions, and Watershed responded in detail, concerning the expenses, and strategies, of firms under consideration.

Becky Ferguson moves that the pension use Blackstone Partners for the Hedge Fund of Funds.

Jeremy Gegg seconds the motion.

Doug McDaniel asks if there is any discussion or questions. There being none he calls for a vote.

All members vote in favor.

Dale Connors thanks the Board for their work.

Guy Pinkman distributes information on securities litigation. (Securities litigation is a means for a shareholder to recover asset or investment losses caused by corporate fraud or malfeasance either individually or in a class action suite.) He recommends inviting several law firms for presentations and to select three to monitor pension assets. He has spoken to about ten firms. For the three he suggests a large, medium and a niche firm. There is no fee for their presentation or their services. They are paid if they collect. The Board discusses the idea and it is agreed to explore the idea further.

Doug McDaniel adjourns the meeting at approximately 3 pm.