

POLICE & FIRE PENSION INVESTMENT BOARD

May 14, 2015

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)
 Steve Hubka – Finance Director
 Mark Westphalen – Mayoral/Council Appointment
 Gerry Finnegan – Mayoral/Council Appointment
 Becky Ferguson – Mayoral/Council Appointment
 Steve Niemeyer – Police Electee
 Jeremy Gegg – Fire Electee
 Guy Pinkman – Fire Electee
 Matt Franken – Police Electee

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

Unless otherwise noted, 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.

Documents:

Watershed Quarterly Investment Analysis March 31, 2015

Meeting minutes for February 12, 2014

Draft of Investment Policy showing potential updates

Doug McDaniel calls the meeting to order at 2 pm. He asks those recently attending conferences to present.

Paul Lutomski states he attend the NCPERS conference in New Orleans. The investment presentations stated equities are fully valued, need to recognize assets may be more correlated that traditional believed, alternative investments are usually illiquid and need to strike a balance with future growth and expected liquidity needs. Investing with recognition of environmental factors and corporate governance is emerging. Presentation private equity program reinforced Watershed’s prior advice. Non-investment topics were that DB plans are a better value than DC plans, and actuarial mortality tables.

Steve Niemeyer presents on the Pension Bridge conference in San Francisco. Presentations addressed that the

economy is close to a tipping point that suggests a 10% stock decline, movement toward private equity to seek higher returns. Real estate getting inflated. Lots of foreign Real estate reinvesting. Many different types of investing and sectors were discussed. Rising rates will hurt emerging markets return in 2015. Expected returns are being lowered to about 7.5%. MLP discussion. The Pyramis.com\survey gives information of institutional investing.

The next item is the Investment Policy Standard of Prudence.

Paul Lutomski explains a recent review of the policy prompted consideration of an update brought to the Board in the February meeting. The update was to section **IV: Standards of Prudence**. The language proposed in the February meeting has now been changed so that an Investment Board member's standard of prudence matches language in Lincoln Municipal Code (LMC) chapter section 4.62.015(f) describing the Investment Board.

Gerry Finnegan states he was concerned with the language proposed in February, but is completely satisfied with the current proposal.

Doug McDaniel asks for a motion.

Guy Pinkman moves to approve.

Doug McDaniel asks if there is any discussion.

Don Taute suggested a minor language change.

There was no other discussion. Mr. Taute's language change was accepted and all members vote in favor.

Doug McDaniel asks Dale Connors to present.

Dale Connors distributes Watershed Quarterly Investment Analysis for March 31, 2015.

Market Review discussion that 1Q2015 US markets up 5%, non-US up double 9%. Real estate gateway markets like Boston, San Francisco, Los Angeles are a concern because foreign capital is coming in and willing to take a low return. Fixed income rates have been volatile with a downward rate trend that managers did not expect. The economic recovery has been long. Growth and small cap outperformed as expected at this point of the economic cycle. Hedge funds outperformed core stocks and bonds. MLPs and commodities are continuing down. For MLPs to raise in value, oil prices need to rise before transmission rates are negotiated again in a couple years.

Next section is the Total Fund. Current and target allocations were compared and discussed. Individual holdings listed. Many changes have been implemented since Watershed began advising including many less managers and reduced exposure to equity volatility. The fixed income allocation is 3% above and Real Estate is low as we wait for real estate funds to call for capital. JP Morgan Alternative Property Fund has one property left and then that investment will be concluded. The JP Morgan hedge fund is expected to be concluded before year end when the remaining holdings are sold.

Cash Flow shows investment beginning, withdrawals, contributions, and end values. Assets increased from \$209 to \$210 million.

Return Summary graph, for quarter, 1, 3, 5 and 10 years compared target return to Total fund return and Policy

Index return. Policy index consistently exceeded total fund actual returns.

Ranking relative to peers: For 1Q2015 Median return was 2.06%. Total Fund return was 1.52%. Policy index return was 2.33%.

Total Fund Risk/Return charts:

3 year risk return shows total fund risk greater and return lower than fund's index return, and shows risk equal and return greater than Universe median.

5 year risk return shows total fund risk greater and return lower than fund's index return, and shows risk higher and return equal to Universe median. Fund volatility has been reduced to be more inline with the Universe median.

Total Fund Performance for 3 months, YTD, 1,3,5, 10 years. Total Equity is behind for 1Q2015 at 1.5% compared to MSCI ACWI at 2.3% because we have a bias toward US equity. Neutral would be 50% US 50% non-US. Each managers return relative to its index was listed. Vanguard total stock fund return matched Russell 300 index return. Board Dividend portfolio below S&P 500. Dodge and Cox negative and below S&P 500. Dodge and Cox are a core manager with a value tilt. We will monitor them.

Flip briefly to Page 25 4-box chart of US equity managers. We are biased toward large cap value. Will come back next time and talk about balancing out large and small cap, growth and value. Baron Growth was a disappointment. They are in style given economic cycle so they need to keep up and they did not. Will look at alternatives and look at large cap growth managers.

Back to page 17. Tortoise. MLP's had rough quarter. Manager did well relative to benchmark.

Global Equity and International managers did very well.

US Fixed Income.

Overcommitted to spread products. Both US managers, Loomis and Pioneer are good and funds are short duration. We will look at other managers with more interest rate focus.

Global Fixed.

Templeton is very good, but non-US bonds was not the place to be.

Real Estate

Voya Global. Tough in non-US markets. Would like to show you a replacement that is US based.

RREEF America REIT. Limited partnerships are valued by appraisals. REITs trade at a value determined by the market and usually trade at a premium over appraised, but are now trading at a discount.

First phase of economic growth favors apartments, now in second phase which favors job growth and therefore retails and industrial. E-commerce requires industrial space.

PRISA III is a non-core properties that can be improved or rented more fully. That is a style that is in favor. Very good returns.

Hedge Funds.

No return data yet as it was just funded.

Next meeting

More diversified than Baron Growth in the small, mid-cap area

US oriented REITs vs. global REIT

Adding a large-cap growth fund.

We are moving to where we want to be.

We may talk about (venture capital) private equity in November because we would like to wait for the first (small buyout) private equity manager, FLAG, to call for capital before moving on to a pacing study.

Gerry Finnegan asks for clarification on the Total Equity MSCI ACWI makeup.

Dale Connors states emerging markets 50%, US 47%, other developed markets 3%.

The meeting is adjourned.