POLICE & FIRE PENSION INVESTMENT BOARD

August 14, 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)
Becky Ferguson – Mayoral/Council Appointment
Mark Westphalen – Mayoral/Council Appointment
Gerry Finnegan – Mayoral/Council Appointment
Matt Franken – Police Electee
Steve Niemeyer – Police Electee
Jeremy Gegg – Fire Electee
Guy Pinkman – Fire Electee
Steve Hubka – Finance Director

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.

A quorum is any five Board members.

Doug McDaniel calls the meeting to order at 1 pm, states Russ Fosler resigned his position as he is going to retire soon and welcomes Matthew Franken. Mr. Franken was elected to represent the Police Department. Watershed Investment Consulting is asked to make their presentation.

Dale Connors states the transfer of assets to US Bank was (mostly) completed July 31, 2014 and the process went smoothly.

Paul Lutomski states National Financial sold the fractional shares of mutual fund holdings so only an integer number of shares were transferred. The value of the fractional shares were transferred as cash.

Watershed meeting materials were provided to Investment Board members in electronic format in advance of the meeting and printed copies of the materials are provided at the time of the meeting.

Gary Radliff refers to the Investment Evaluation Report for June 30, 2014. A Market Review showed 2Q2014 was strong, with both stocks and bonds up well. Despite rising rate consensus yields fell 50-75 bp. Emerging markets outperformed US equity. In 2013 emerging market outperformed US by 30%. Value outperformed growth. Large caps outperform. Low volatility. High yields bond funds have high outflows. . Hedge fund returns average. The low volatility environment is not conducive for hedge fund returns . Funds flows into hedge funds are high.

The Total Fund section of the report was presented and contained asset allocations, market values, and returns for various time periods. In a peer group performance comparison, of governmental pension funds with less than $500M assets, Lincoln was in top 11% with 4.01% return. The 12 month return was top 17% with a 17.87% return.

The Equity section of the report was presented and 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 was presented and contained detailed data on each of the pension's fixed income investments individually and in logical groupings. It was noted that a recommendation for senior secured debt, or bank loans, will be forthcoming. The new CEO of Pioneer Strategic Income Fund has a marketing background potentially meaning the focus of the organization could be changing from asset management to asset gathering. Watershed may recommend selling this fund in the future.

The Alternative section of the report was presented and contained detailed data on each of the pension's investments individually and in logical groupings. These included flexible mandate, or tactical, funds. Generally Watershed does not use tactical strategy. We prefer to use best of chosen class. Watershed may recommend selling tactical funds in the future. The Ivy Fund had one of its two lead managers quit. Watershed may recommend selling tactical funds in the future

Gary Radliff hands out and discusses July asset allocation and returns. The return was about -1.5%. Almost all assets decreased.

Dale Connors refers to "Meeting Materials" booklet. The booklet contains prior Watershed recommendations, updates, and a preview of future matters, provide Private Equity education, Hedge Fund education and potential managers, and the results of a Master Limited Partnership Active Manager Search.

The recommendations, update, future matters:

- The current portfolio is highly allocated to equity. Lower volatility and retain return potential by adding more diversification with allocations to private equity and hedge funds.
- Replace MLP index with an active MLP manager for higher returns.

- Currently real yields are negative. Rates will have to go up. Rising interest will have a negative effect on traditional bond investments. To be ready, add a floating rate bond position of senior secured bank loans.
- Now that assets are at US Bank we will review equity structure and make manager recommendations. In aggregate current managers are reducing performance by performing lower than their benchmarks.
- Once those discussions occur and implementation of what the Board is comfortable with are completed or underway, we will review the Investment Policy and make recommendations for updates.

Gary Radliff refers to the booklet section on Private Equity Investing Education. He presents a lengthy and detailed analysis of Private Equity and Watershed's PE investment process. 23 pages. Major types of private equity are buy out and venture capital. PE partnerships end by 1) sell the company to another company , 2) public stock offering, 3) sell to another private equity manager. Standard is 10-12 years non-liquid investment period. The tradeoff for lack of liquidity is potential higher return than public equity.

Board members ask several specific questions, topics include risk, liquidity, how PE fits in with other pension investments, cashflows, market (in)efficiencies, contract provisions, manager expertise and retention, and the Watershed representatives respond in detail.

Guy Pinkman states he is interested in the Board learning more about PE and Watershed agrees to provide more information at a future meeting.

At approximately 2:45 p.m. the Board takes a 5-10 minute break.

When the meeting resumes Watershed provides printed material regarding Hedge Funds Investing. 21 pages. He provides a lengthy and detailed description of hedge fund investing and Watershed's investment process. Hedge fund of funds would be used to lower the portfolio volatility while maintaining the target return. Quarterly liquidity. The information includes a discussion of specific hedge fund of funds managers: Blackrock, Blackstone, and Grosvenor.

Board members ask several specific questions, topics include survivorship bias, correlation to other assets classes, why Watershed believes some managers can consistently outperform the average, due diligence, and the Watershed representatives respond in detail. The Board is not asked to vote now, but to consider an Hedge fund-of-funds with one of the managers discussed, as a future investment.

At approximately 3:30 p.m. Steve Hubka leaves to attend another meeting and the Board, still having a quorum, moves on to the next topic and Watershed passes out printed material regarding Master Limited Partnerships including detailed analysis and Watershed's investment process. The Manager Search Report includes details of Tortoise, Advisory Research, Harvest Fund Advisors, and the Alerian Index. 16 pages.

MLPs offer a tax advantaged way to invest in energy transmission. Initially private investors were majority holders of MLPs. In the last few years public pension funds have become the majority holders

of MLPS because they do not pay tax on UBTI. MLPs have longer term contracts to transport energy with prices escalators, are equity and have volatility similar to a stock, but a different times, so the correlation is lower.

The pension owns AMJ, an MLP index, and it has been a good investment, but active managers can provide MLP access more effectively than an index.

Board members ask several specific questions, clarifications, comparing the three managers and the Watershed representatives respond in detail. The Board is asked to retain the asset class allocation, but to change the access method to it.

Guy Pinkman makes a motion to sell the MLP index and invest up to 5% of the pension with Tortoise per Watershed's recommendation.

Steve Niemeyer seconds the motion.

Board members discuss the investment amount and Tortoise versus the other MLP managers.

Doug McDaniel calls for a vote and all members vote in favor of the motion.

The meeting is adjourned at 3:58 pm.

Note: Due to time constraints the following agenda items were not addressed.:

1) Conference summary by members who attended a conference since the May meeting
    a. Guy Pinkman reports on the Opal Financial Public Funds Conference July 2014 in Rhode Island
2) Approve or amend the minutes
    a. The minutes of the November 26, 2013 meeting (Meeting was cancelled)
    b. The minutes of the February 13, 2014 meeting are attached.
    c. The minutes of the May 8, 2014 meeting are attached.
3) New Business
    a. Take nominations and vote on Secretary position
    b. Guy Pinkman – Plaintiff's Attorneys