

## **POLICE & FIRE PENSION INVESTMENT BOARD**

**September 18, 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  
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: Gary Radliff - Watershed Investment Consulting

Members Absent: Matt Franken – Police Electee

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. Watershed Investment Consulting is asked to make their presentation.

Gary Radliff passes out printed copies the “Monthly Performance Report for August 2014”, “Meeting Materials September 2014” and states his presentation will be to review August performance, discuss the Watershed view on fixed income and specifically senior secured bank loans, provide more information on private equity include a pacing study.

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 August was a strong month with approximately 2.5% net return. Domestic, small and mid-cap equities outperformed. We will make replacement recommendations in a near future meeting.

Using the printed material as a basis (p2-3) Watershed discusses fixed income market fundamentals, that rates are low, that when rates rise bond value decrease. Rates driven by interest rates and credit quality. Rates expected to increase mid 2015, so Watershed wants to move away from values being interest rate driven to being credit driven. Discusses details on senior secured bank floating rate short duration loans (p4-10). Characteristics, comparison to other fixed income classes, risks, correlation benefits, annual loan volumes, leverage, spreads, and relative pricing. Bank loan rates are set as a spread above LIBORs. Currently, the spread is 400-500 bp above LIBOR. Since the rate floats, the loan value is mostly driven by credit quality. Default rates have averaged 3.5% with 80% recovery rate. That is why we prefer an active manager.

Board members ask several specific questions and express concerns to Watershed and among the Board. During a lengthy discussion, topics include loss of premium paid if called at par, underwriting discipline regarding leverage, recently increasing loan issuance volume, Watershed experience in this asset class, direct purchase rather than using a manager, principal loss (3.5% \* 20%) expectation over time, and Watershed responds in detail.

Watershed and the Board move on to the Senior Secured Loan Manager Search booklet. Gary Radliff presents an analysis of four firms. (36 pages). Board members ask specific questions and Mr. Radliff responds in detail concerning the questions about bank loans and managers.

At approximately 2:15 Doug McDaniel asks the Board if there is interest in moving forward, table, or decline, with a motion on a bank loan manager.

Mark Westphalen makes a motion to decline the strategy.

Doug McDaniel asks for a second.

There is no second.

Becky Ferguson moves to table the discussion until the next meeting.

Steve Niemeyer seconds the motion.

All members vote in favor.

Doug McDaniel asks Watershed to move to the next topic.

Gary Radliff refers to page 11 of the Meeting Materials booklet is used to describe a private equity pacing study. If a 5% PE allocation is the target to attain in five years, given expected cashflows,

approximately 2.26% of the portfolio would need to be committed annually. \$4.7 million would be the 2014 allocation.

Gary Radliff passes out private equity booklets titled Small Company Private Equity Fund-of-Funds Research Qualified Firms (13 pages) and Venture Capital Fund-of-Funds Research Qualified Firms (12 pages). Watershed recommends a PE allocation of 70% buyout/30% venture capital.

He refers to the first booklet and presents an analysis of Private Equity including an advantages, disadvantages, segments, historical returns. He recommends a fund-of-funds access method for diversification and presents firm, strategy, and return and other information on four managers.

Steve Niemeyer and Paul Lutomski ask questions regarding the managers and the Watershed representative responds in detail.

At approximately 2:45 p.m. Gary Radliff refers to the Venture Capital Fund-of-Funds Research Qualified Firms booklet and presents information on venture capital private equity including an advantages, concessions, quarterly investment amounts, historical returns. He recommends a fund-of-funds access method for diversification and presents information on three managers.

There are no questions from the Board.

Doug McDaniel asks if any members are opposed to hedge funds. No members state opposition. He adjourns the meeting at 2:55 p.m.

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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
  - b. Steve Hubka reports on the Opal Financial Investment Trends Conference September 2014 in Santa Barbara
- 2) Approve or amend the minutes
  - a. November 26, 2013 (meeting was cancelled)
  - b. February 13, 2014
  - c. May 8, 2014
  - d. August 14, 2014
- 3) New Business
  - a. Take nominations and vote on Secretary position
  - b. Guy Pinkman – Plaintiff's Attorneys