POLICE & FIRE PENSION INVESTMENT BOARD

February 11, 2016

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
Becky Ferguson – Mayoral/Council Appointment
Steve Niemeyer – Police Electee
Jeremy Gegg – Fire Electee
Guy Pinkman – Fire Electee
Matt Franken – Police Electee

Members Absent: Steve Hubka – Finance Director

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:
Meeting minutes for November 12, 2015
Watershed Quarterly Investment Analysis December 31, 2015
Economic and Capital Markets update for February 2016.

Doug McDaniel calls the meeting to order at 2 pm. He asks for a motion to approve or amend the minutes of the November 12, 2015 meeting.

Guy Pinkman moves to approve.

Gerry Finnegan seconds.

All members vote to approve.

Doug McDaniel informs members the Citizen Review Committee has discussed investments as they seek solutions to pension underfunding. He asks Guy Pinkman to report on his recent conference.

Guy Pinkman reports on the Opal Financial Alternative Investing Summit December 2015 in Dana Point ,CA and the Opal Financial Public Funds Summit January 2016 in Scottsdale, AZ. The alternative investments conference focused on niche marketing. The public funds summit looked at a world view of the markets. Oil is down and that hurts economies. Outlook for future is mixed. Not a lot of optimism, a lot of nervousness, or a hold pattern because of the US election. Presentations included DB plans returning better than DC plans and DB as more sustainable. There is very little equity investment from DC plans recently, so if/when they do start investing in equities there will be an up move. The average 401k/DC balance as January 2014 was $14,000.

Becky Ferguson asks if the balance number refers to only 401k account holders or to balances for everyone in the workforce.

Dale Connors states it is his understanding the balance is the average of account holders as reported by major 401k providers.

Dale refers to the Watershed Quarterly Investment Analysis December 31, 2015. The tab "Total Fund" includes a return summary, cash flows, returns of investments grouped by assets class. The best returning asset class was domestic large/mega cap growth. Overseas were mostly positive except emerging. Dollar strength hurt non-US. Hedge funds pretty flat. Fixed income, safer investments were better returning. Real assets mixed returns. Private real estate doing very well. Energy and commodities down. Graph of total fund vs. policy index shows fund on average performed lower than policy indexes.

When Watershed started and since then has been working to lower the portfolio's volatility to provide better risk adjusted performance. He eplains relationship that bond prices decrease when rates increase, but that risk of bond interest and principal return are also a factor in prices.

Intend to examine equity more closely in the May meeting.

Fixed income needs to be restructured. The Principal Multi-Strategy Fixed Income Trust is a new investment for the plan. For the May meeting a representative of Principal has asked to speak to the Investment Board.

Alternative Investments: Aberdeen (formerly FLAG), has already started to return some invested money. Discussed hedge fund returns.

Have to keep improving the efficiency of the portfolio relative to the policy index, as shown on the table of asset class returns. Every asset class underperformed its index for 2015 except hedge funds, real estate and private equity.

Referring to equity section: Value underperformed growth. First section is domestic equity. Information on each Investment in report. Vanguard Index is the total domestic market. Dodge and Cox is value oriented so they underperformed. MLP manager Tortoise did well on a relative basis but on an absolute did poorly. There is a disconnect between fundamentals and market prices. We will wait to re-balance MLP. Board managed fund has underperformed. Originally equal weighting 25 stocks of high dividend yielding stocks essentially left to run its course. Structure is includes approx. 25% industrial, 18% healthcare, 13% energy. Energy sector was down 9% in 2015. This portfolio is not actively managed and therefore creates some fiduciary questions. He recommends this portfolio be liquidated and the proceeds invested in the Vanguard total stock market index fund and in May, during the equity examination, to consider moving the money elsewhere.

Steve Niemeyer makes a motion to implement the recommendation.

Matt Franken seconds the motion.

Doug calls for further discussion.

Dale states we will have to investigate the best way to sell. States MLP's are thinly traded, but that we should be able to sell the share relatively quickly.

All members vote to approve.

The next section is international equity. EuroPacific invested in large/mega cap growth international, so they did well. Oakmark is more value oriented, more contrarian, did relatively well and works well in combination with EuroPacific. Oppenheimer's Developing Markets Fund is emerging markets and therefore leads to a review of the "Economic and Capital Markets update for February 2016" in terms of future expectations for the Oppenheimer fund.

Corporate credit: Conditions tightened for US corporations. Lending costs higher. High yield bonds spreads increasing. Most energy bonds are high yield. This weakness has spread across the high yield bond market.

Currencies: Wall Street does not like uncertainty. There is a big disparity between Fed and market rate expectation. China changed from comparing its currency to US dollar to a basket of currencies from 13 countries implies china currency to depreciate relative to US dollar.

Commodities: 2015 saw decrease of overall jobs related to commodities. China's consumption of raw materials is not indicating a decline.

Economic Activity- Purchasing Managers index graph shows activity trending lower in US and China, EuroZone more stable. Commodity oriented countries have weakest economic growth trends.

Valuations: Fixed income spreads are widening particularly in corporate sectors. High yield sector pricing implies significant increase in defaults going forward. Equity Price to Earnings ratio is close to long term average for the US and World EXcluding the US except for emerging markets which look cheaper than average. Expresses emerging markets may be worth less.

Oppenheimer is an emerging markets fund. EuroPacific and Oakmark also invest in emerging markets as they see fit. As emerging markets are commodity oriented he recommends the Board liquidate the Oppenheimer Developing Market fund and invest proceeds equally in EuroPacific and Oakmark and let their managers decide if they want to invest in emerging markets, which ones and how much. The Oppenheimer fund is causing the portfolio to be overweight in emerging markets.

Gerry Finnegan asks if the recommendation is because emerging markets have done poorly recently or if Dale has no reason to think it will improve?

Dale Connors answers that he has no reason to think they will improve in the near term given many emerging markets are dependent on natural resources. Also, it is not good to be overweight in emerging markets now.

Matt Franken asks for clarification how the proceeds will be reinvested.

Dale Connors explains that EuroPacific is growth and Oakmark is valued oriented and he cannot time which will be in favor, therefore he recommends investing so the holdings of EuroPacific and Oakmark become approximately equal.

Doug McDaniel calls for a vote.

Guy Pinkman moves to approve the recommendation.

Jeremy Gegg seconds the motion.

All members approve.

Dale Connors refers to the Fixed Income section. He states the portfolio's structure, and both Fixed Income managers, lends to a comparison with the US Universal Index - an index of all US bonds including high yield. Most pensions seek to compare to the US aggregate index. Both bond managers have about 30% in high yield. That is the reason for underperformance to the US aggregate. Shortly after 2008 was the time to be in high yield. When spreads were wide and beginning to narrow, now they are beginning to widen. Also, the Templeton Global Bond fund underperformed because it is not global enough in that it holds no US Treasuries, whereas the index holds 33% US Treasuries. He has been working on this and will present recommendations at a later meeting.

Gerry Finnegan asks if the plan should change its benchmark, or change its investments.

Dale Connors states other pensions compare to the US aggregate.

Referring to the Alternative Investments section, Blackstone's hedge funds did well. Rreef America REIT II is core real estate, outperforming the index. Watershed recommended and the Board approved an additional investment to it. PRISA III is value added, buying buildings and fixing them. It significantly outperformed the NCREIF index. The JPMorgan fund has one building left. Private equity. Tenaska has been owned since 2008 and should be in wind-down mode. Aberdeen (PE buyout strategy) got a line of credit and started investing before issuing a capital call.

Doug McDaniel, having no new business, adjourns the meeting.