POLICE & FIRE PENSION INVESTMENT BOARD

May 12, 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)
Steve Hubka – Finance Director
Mark Westphalen – Mayoral/Council Appointment
Gerry Finnegan – Mayoral/Council Appointment
Becky Ferguson – Mayoral/Council Appointment
Steve Niemeyer – Police Electee
Matt Franken – Police Electee

Members Absent: Jeremy Gegg – Fire Electee
Guy Pinkman – Fire Electee

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, 2016
Watershed Preliminary Monthly Performance April 30, 2016
Watershed Asset Allocation and Equity Review

Doug McDaniel calls the meeting to order at 2 pm.

Paul Lutomski apologizes for not sending the minutes of the February and April meetings out in advance.

Doug McDaniel states the Citizen Review Committee issued their final report, that it was emailed to the Board members, and offers to provide a printed copy.

Doug McDaniel and asks Dale Connors to present.

Dale refers to the Watershed Preliminary Monthly Performance for April 30, 2016 and to Quarterly Investment Report for March 31, 2016. Covers asset class returns, including fixed income was volatile in Q1. Zero rate interest policies cropping up in places such as Japan caused investment in U.S. U.S. stocks positive. Rally from growth to value helped sale proceeds of the Board managed dividend portfolio that occurred in early May. Hedge fund more stabilized in April. Real estate asset did very well. Increase in demand for U.S. real estate from global investors increased values.

Referring to Quarterly Investment Report for March 31, 2016. Returns up 0.9% for the quarter. FYTD up about 2%. Page 19 displays risk and return for last 3 years improved compared to the last five year values. Portfolio positioned better, outperforming the median governmental fund. Will continue working on increasing performance up to the policy index.

In April oil was still driving MLPs and they returned 11%. MLP's up 3% CYTD and S&P up about 2% CYTD. Market is moving toward defensive oriented stocks. World is searching for yield. Pension assets earned $2M in April for closing value of $206M. Equities are outperforming Russel index. Tortoise portfolio bounced back some. Hedge funds return slight positive in April. A Watershed private equity specialist attended the Tenaska annual meeting in Omaha last month. Controls 11% of power in US grid. TPF II is down to one investment that is a Private MLP spinout of another energy company, is carried at $53,000 and may be worth $10,000. Aberdeen (formerly FLAG) continues to make capital calls. Will look at another private equity investment in the venture capital area perhaps later this year. We are making progress.

Referring to the Asset Allocation and Equity Review document. Many markets sectors are at extremes of their long term valuation ranges. This creates a large divergence between short and longer term input sets. Took the unusual step of creating input sets for both a 10 and a 20 year analysis. The overall assumption set for 10 years is lower than 20 years, especially in fixed income. The lower volatility asset classes have much lower return expectations over the next 10 years, than 20 years. The mathematical model solves for the optimal portfolio. If not constrained the model will select just one asset class. The constraints are discussed and include core real estate 15% max, private equity 5%, hedge funds 5%. Results are graphed on an efficient frontier and numerically displayed;

Current mix for 10 years 7.16%
Current mix for 20 years 8.45%

New 10 year 7.5% mix for 10 years 7.59%

New 10 year 7.5% mix for 20 years, 6.14%

New 20 year 7.5% mix for 20 years, 7.55%
New 20 year 7.5% mix for 10 years, 8.75%

Gerry Finnegan asks if real return is the same given any inflation rate, why should our asset mix be affected?

Dale answers that to attain a 7.5% return, with a 2.5% inflation assumption, the plan needs a 5% real return. That the favorable impact of the equity risk premium is less when more fixed income is in the mix. The reality is that the plan needs fixed income to lower volatility as the opposite side of the risk dynamic.

We are trying to balance the 10 and 20 year expectations and to optimize return judiciously. Bottom line is that 5% of the portfolio needs to move from fixed income to real estate to optimize risk/return for a higher return with a reasonable increase in volatility. Within the asset classes we can adjust to strategically optimize. We have moved in that direction. We are close to exiting Loomis Sayles and replacing it with JP Morgan Core Bond Fund because of Loomis' credit risk. We did not add to Pioneer because of credit risk. Will recommend to hire another credit oriented investment grade core bond manager as rates go up and yields are low.

Mark Westphalen asks how a portfolio containing 15% fixed income versus one with 10% fixed income, would be impacted if another 2008 event occurred, and advocates for a 10% allocation to fixed income.

Becky Ferguson states a 85%, 15% portfolio is volatile, but not as volatile as a 90/10 portfolio and that equities have been going up and at some time will correct. She states it appears that by decreasing fixed income the board's risk tolerance has increased.

Dale discusses equities as volatile and that risk dampening tools, such as appraisal based investments like some real estate and private equity can be added to maintain return and dampen risk. He uses a whiteboard to illustrate an economic risk allocation method that he explains is also considered in addition to the efficient frontier modeling method when constructing asset allocation. He states accounting standards for GASB 67 and 68 require a measurement stating return and Standard Deviation.

If the recommended asset allocation is adopted the Investment Policy Appendix A will change as follows:

Asset Class	Min %	Max %	Target %	Benchmark
Fixed Income	**~~15~~ 10**	**~~30~~ 25**	**~~20~~ 15**	**Barclays ~~U.S. Universal Bond Index~~** **Capital Aggregate Bond Index**
Real Estate	**~~10~~ 15**	**~~20~~ 25**	**~~15~~ 20**	**NCREIF Property Index**

Mark Westphalen moves to accept the change to Appendix A.

Gerry Finnegan seconds.

Doug McDaniel calls for discussion.

Gerry asks for clarification on the fixed income benchmark.

Dale clarifies.

Doug McDaniel calls for a vote.

All members vote in favor of changing Investment Policy Appendix A as recommended.

Dale Connors continues with his presentation with the Equity Structure Review on page 7 forward. The conclusion and recommendations (pages 18-21)show where improvements can be made to streamline the structure by reducing growth and value exposures from five region specific managers to two global managers, and reduce expenses by eliminating two of the highest fee equity investments.

The Board discuss the recommendations.

Steve Hubka moves not to invest any more in Tortoise.

Matt Franken seconds.

The Board discusses this motion. They note that the restriction applies to new investments and does not mean that holding in Tortoise should be sold if its value rises above its current value.

Paul Lutomski offers that the additional investment in Tortoise could be revisited in the future even if the vote now is not to invest the recommended additional amount.

The vote is 4 in favor (Hubka, Franken, Ferguson, McDaniel) and 3 against (Finnegan, Niemeyer and Westphalen). This means no additional new investment in Tortoise will occur.

Doug McDaniel asks for an a recommendation on how to amend Watershed's recommended investment changes to exclude the purchase of additional shares in Tortoise.

Dale Connors suggests to vote on the percentages listed on page 22 with adjustments as follows: The Total Stock Market Index be 16.5% (previously recommended at 15%) and the Tortoise MLP Separate Account be 3.5% (previously recommended at 5%).

Asset Class	Min %	Max %	Target %	Benchmark Index
Global Equity	45%	60%	55%	MSCI ACWI
Vanguard Total Stock Market			~~15%~~ 16.5%	CRSP Total Stock Market
Vanguard Developed Markets			10%	FTSE Developed ex North America
Dodge & Cox Global			10%	MSCI ACWI
American Funds New			10%	MSCI ACWI
Tortoise MLP Separate Account			~~5%~~ 3..5%	Alerian MLP
Nuveen Global			5%	S&P Global Infrastructure
Private Equity	0%	10%	5%	Russell 3000 + 3%
Aberdeen U.S. Private Equity				
Private Equity Program				
Low Volatility Hedge Funds	0%	10%	5%	HFR Hedge Fund of Funds Composite
Blackstone Partners BPIF Non-				
Real Estate	15%	25%	20%	75% NCREIF ODCE/25% FTSE EPRA/NAREIT Developed
Principal Real Estate			5%	FTSE EPRA/NAREIT Developed
RREEF America REIT			10%	NCREIFODCE
PRISA III			5%	NCREIF Property Index
Fixed Income	10%	25%	15%	Barclays Capital Aggregate Bond
JPMorgan Core Bond			7.5%	Barclays Capital Aggregate Bond
New Core Credit			7.5%	Barclays Capital Aggregate Bond

Mark Westphalen moves to accept the recommendation.

Steve Niemeyer seconds the motion.

At the end of discussion Doug McDaniel calls for a vote.

All members vote approval.

Dale Connors announces that Watershed will be merging with J.H. Ellwood and Associates based in Chicago with expected completion May 31st. Both firms will remain employee owned. Both firms were seeking this situation. The merger will enhance client services. Watershed has $4 Billion of assets under advisement, Ellwood has $52 B and were started in 1977.

Doug asks if the Board has any new business. There being none the meeting is adjourned.