



**COLORADO
PERA**[®]
Record of Proceedings

**Colorado Public Employees' Retirement Association
Board Meeting Minutes**

1300 Logan Street
Denver, Colorado
November 19, 2004
9:00 a.m.

Trustees Present: James Casebolt, Board Chair, Mark Anderson, Board Vice Chair, Sara Alt, Donna Bottenberg, F. Elizabeth Friot, Joanne Hill (arrived 9:34 a.m.), Patricia Kelly, Richard Lansford, Tamela Long, Amy Nichols, Scott Noller, Marcus Pennell, Gloria Santistevan-Feedback, Ben Stein, David Williamson, Douglas Windes

Trustees Absent: None

Staff Present: Lana Calhoun, Rob Gray, Lisa Kamp, Katie Kaufmanis, David Maurek, Brenda Meidl, Kim Natale, Jennifer Paquette, Greg Smith, John Spielman, Meredith Williams

James Casebolt, Board Chair, called the meeting to order at 9:05 a.m.

Approval of Agenda

By motion of Amy Nichols and second by Scott Noller, that "*the Board Agenda be approved as published.*" The motion was approved.

Approval of October 15, 2004, Board Meeting Minutes

By motion of Patricia Kelly and second by Gloria Santistevan-Feedback, that "*the October 15, 2004, Board Meeting minutes be approved as published.*" The motion was approved.

Public Comment

Benjamin Dancer, PERA Member and Jefferson County teacher was invited to read a portion of his letter to the Board regarding his concern about PERA's Proxy Voting Policy. Mr. Dancer requested that the letter be an attachment to these Board minutes and Jim Casebolt, Board Chair, assured Mr. Dancer that it would be. Mr. Casebolt also stated that the letter would be forwarded to PERA's General Counsel for a response and that Mr. Dancer would be contacted if the Board were to discuss the Proxy Voting Policy in the future.



Public Comment (continued)

John Tingle representing the Jefferson County District Attorney's Office urged the Board to allow the DA's office an exception on the effective date of the increase in the cost to purchase service credit should they choose to affiliate with PERA. The Board agreed to take this item up under "Other Business" later in the meeting and asked staff to provide a cost analysis to the extent possible.

Frank Richards, PERA retiree, addressed the Board and requested a change in the manner that the annual increase is implemented so that it would be an average dollar amount to all retirees instead of a percentage of the benefit amount being received by each retiree. Mr. Casebolt explained to Mr. Richardson that the PERA Board is concerned about the mounting costs to retirees, but the annual increase cannot be changed without legislation and there would be constitutional implications to such a change. Mr. Casebolt indicated the Board was unable to act upon the request.

Monthly Report

Executive Committee Report

Mark Anderson, Board Vice Chair, reported that the Executive Committee met the day before and approved the October 14, 2004, Executive Committee minutes. They also reviewed the September 30, 2004, Unaudited Financial Statements and the October 31, 2004, Budget Reports. In addition, they reviewed the Board Election Calendar for 2005 and they discussed with Meredith Williams, Executive Director, the follow-up items from the Board Retreat this past July. Finally, Mr. Anderson reported that they reviewed the PERA Operational Report and that they discussed the agenda for today's meeting.

Trustee Employment Policy

David Maurek, Manager of Strategy and Innovation, reviewed the proposed revised Trustee Employment Policy distributed to the Board as Tab B of the meeting agenda.

By motion of Patricia Kelly and second by Sara Alt, that *"the modifications made to Tab 20 of the Governance Manual be approved."*

Discussion ensued regarding the changes. Richard Lansford requested an amendment to the motion to add verbiage to subsection 10 (a) "...a minimum of two and a maximum of five top candidates." Ben Stein recused himself from voting on this issue.

The motion was approved as amended.



Statement of Investment Policy

Patricia Kelly, Investment Committee Chair, reported that the Investment Committee had met the previous day and that there was extensive discussion about asset class structures and that there were a series of recommendations that were proposed by Ennis Knupp. Ms. Kelly then explained the proposed Statement of Investment Policy, as recommended by the Investment Committee, and responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that *“the Board approve the Statement of Investment Policy as distributed to the Board included as Tab C of today’s Board agenda. Adoption of this policy shall rescind and supersede any previously adopted investment policies, procedures, guidelines, or philosophies by the Board of Trustees and the newly adopted Statement of Investment Policy shall govern all investments and each division of the Investment Department until officially modified or rescinded by the Board of Trustees.”* The motion was approved.

Ms. Kelly, with the assistance of Jennifer Paquette, Deputy Executive Director of Investments, addressed a proposal for a change to the allowable range of asset percentages for each asset class under the Board’s asset allocation and responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that *“the Board approve the following proposed asset class ranges:*

Asset Class	Target	Current Range	Proposed Range
<i>Domestic Equity</i>	45%	39% to 51%	42% to 48%
<i>International Equity</i>	14%	11% to 17%	11% to 17%
<i>Fixed Income</i>	25%	20% to 30%	22% to 28%
<i>Real Estate</i>	7%	5% to 10%	4% to 10%
<i>Alternative Inv.</i>	8%	3% to 12%	5% to 11%
<i>Timberland</i>	1%	0% to 2%	0% to 2%
<i>Total</i>	100%”		

The motion was approved.

Ms. Paquette and Ms. Kelly then addressed a proposed rebalancing policy and responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that *“the Board approve the insertion of the rebalancing policy and the revised asset class*



ranges, as presented to the Investment Committee at its meeting on November 18, 2004, and which was transmitted to all Trustees as Tab C of the Investment Committee agenda, into the Statement of Investment Policy.” The motion was approved.

Ms. Paquette then reviewed a recommendation by the Investment Committee that at least 25 percent of the international equities allocation be moved to a passive portfolio. Discussion took place and Ms. Paquette responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that “*the Board approve allocating at least 25 percent of international equities allocation to a passive portfolio. Staff is hereby directed to select an external manager for an international EAFE index portfolio.*” The motion was approved.

Ms. Kelly next addressed a proposal for reduction of the international equity portfolio’s small capitalization weighting to no more than 5 percent to reduce “misfit” risk. Ms. Paquette and Mark Anderson, Vice Chair, responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that “*the Board approve the reduction of the international equity portfolio’s small capitalization weighting to no more than 5 percent to reduce misfit risk.*” The motion was approved.

Ms. Kelly then explained a proposal to increase the international equity portfolio’s emerging market allocation by 2.5 percent to reduce misfit risk. Ms. Paquette responded to questions.

Ms. Kelly moved the Investment Committee recommendation, that “*the Board approve the increase of the international equity portfolio’s emerging market allocation by 2.5 percent to reduce misfit risk.*” The motion was approved.

2005 Budget Approval

Richard Lansford, Compensation and Budget Committee Chair, moved the Compensation and Budget Committee recommendation, that “*the Board approve the 2005 operating budget in the amount of \$35,962,344.*”

This Budget Report was distributed to the Board during the October Meeting and re-transmitted to Trustees on Friday, November 12, and was included as Tab D in the current meeting materials.

Joanne Hill recommended that in the future the projected expenditure percentages for the Board expenses be lowered. Kim Natale, Deputy Executive Director of Support Services, explained the percentages and informed the Board that he will take into consideration Ms. Hill’s recommendation for future Board Budget projections. Mr. Casebolt requested that Mr. Natale provide an assessment of the budget expenditures in question to the Board at the March meeting.



2005 Budget Approval (continued)

Discussion ensued regarding the motion made by Mr. Lansford, and a motion to amend was made by Ben Stein and second by Doug Windes that *“the Investment Department compensation adjustments contained in the proposed 2005 Budget be removed.”* The motion failed.

The original motion passed with no amendments, with one vote against, cast by Ben Stein.

The Board recessed for a break at 10:18 a.m. and reconvened at 10:34 a.m.

Committee Reports

Benefits Committee Report

Gloria Santistevan-Feedback, Committee Chair, explained that the Committee had reviewed proposed modifications to the 401(k) Investment Policy.

Ms Santistevan-Feedback moved the Benefits Committee recommendation that, *“the Board approve the revisions to the 401(k) Investment Policy which were transmitted to all Trustees as Tab B of the Benefits Committee agenda, and which were amended and approved by the Committee on November 18, 2004, with the addition of the sentence: “Information relative to investment categories and their characteristics will be communicated to participants and potential participants” at the end of the first paragraph under the section titled Asset Allocation.”* The motion was approved.

Ms. Santistevan-Feedback reviewed the previous day’s committee meeting. The 401(k) Investment Advisory Committee, with the assistance of RV Kuhns Associates, asked for authorization to begin a search for a small cap or a small mid cap fund to be added to PERA’s 401(k) Plan. The Committee gave the authorization and the results of the search will be presented at the March 2005 Benefits Committee meeting. Ms. Santistevan-Feedback gave an overview of the Medicare Modernization Act Report given by Wendy Tenzyk, Director of the Insurance Division. Also, Ms. Santistevan-Feedback stated that all briefings on the new Defined Contribution Plan will be presented to the full Board starting in January. Finally, on behalf of the Chair and the Benefits Committee, Ms. Santistevan-Feedback thanked Lana Calhoun, Deputy Executive Director of Benefits, for all her expertise and efforts and wished her well in her upcoming retirement.



Committee Reports (continued)

Audit Committee Report

Joanne Hill, Committee Chair, reported that the Committee is continuing in its efforts to select an independent auditor and will advise the Board when a final decision has been made. Ms. Hill also addressed a report made to the Audit Committee regarding computer system security testing conducted by True Secure on PERA's systems. PERA received a good report and no vulnerabilities were found. In addition, Ms. Hill informed the Board that the Committee will review the Trustee Education Evaluation form and will recommend changes to streamline the form. Finally, Ms. Hill distributed copies of the Summary Report on Audit Committee Activities for the Board to review.

Scott Noller recognized John Spielman, Director of Internal Audit and Internal Audit staff on the positive feedback from a peer review that was completed.

Shareholder Responsibility Committee

Scott Noller, Shareholder Responsibility Committee Chair, reported that a proposal was approved for Legal staff to have the ability to object to excessive attorney fees in class action suits, and asked the Legal staff to report in March as to how the process is working. He also reported on the Council of Institutional Investors (CII) Focus List of Underperforming Companies. Mr. Noller reported that the Committee has been and will be monitoring the definition of independent director and executive compensation policy for CII.

Mr. Noller, with the assistance of Gregory Smith, General Counsel, explained that the Committee will continue use of Institutional Shareholder Services (ISS) to provide proxy recommendations on small and midsize companies, while Glass Lewis will be used for proxy vote recommendations on all larger S&P 500 holdings. The Committee will continue to evaluate ISS's performance.

Mr. Noller and Mr. Smith also stated that they are examining the relationship between the Investor Responsibility Research Center (IRRC) and the Conflict Security Advisory Group (CSAG). IRRC has stated that they have severed their relationship with CSAG, but it was a non-public announcement. The Committee will request that IRRC make a public announcement of this change. Mr. Noller and Mr. Smith responded to questions.



Committee Reports (continued)

Evaluation Subcommittee

James Casebolt, Chair, reported that the Committee met the day before and had reviewed the Executive Director evaluation criteria for 2005, and discussed a format to conduct the 2004 evaluation of the Executive Director. Mr. Casebolt stated that as a result of the meeting he will be integrating comments and suggestions for a more subjective Executive Director Evaluation for 2005.

Mr. Casebolt stated that the Board will receive the Executive Director evaluation for 2004 in electronic format and that the Board is asked to return the evaluation to John Spielman by January 1, 2005. The results will be presented at the January meeting.

Cash Flow Analysis – Past and Future

David Maurek, PERA Manager of Strategy and Innovation, and Karl Greve, PERA Director of Accounting, as requested by the Board, presented information about PERA's cash flow position and responded to questions.

2005 Election Calendar Approval

Kim Natale, PERA Deputy Executive Director of Support Services, reported that an election will be held for three seats in the School Category of the State and School Division, two of which are four-year term seats currently held by Scott Noller and Gloria Santistevan-Feeback, and one seat is a one-year term position, currently held by David Williamson. An election will be held for one four-year term seat in the State Category of the State and School Division, currently held by Doug Windes, and a Retiree seat for a four-year term, currently held by Richard Lansford. The retiree seat must be filled by a retiree from the School Category, or Judicial or Municipal Divisions. Mr. Natale reviewed the 2005 Election Calendar that was transmitted to Trustees on Friday, November 12, as Tab E of the materials.

Discussion ensued regarding the recount policy and language to be added for clarification on submission dates for items. Mr. Natale and Mr. Smith responded to questions.

A motion was made by Patricia Kelly and second by Scott Noller that *“the staff be directed to proceed with the proposed Tab E 2005 Board Election Calendar, as recommended by the Executive Committee.”*

Discussion followed regarding eliminating the permissive recount verbiage and thereby eliminating the deadline date. It was decided that the verbiage would remain on the calendar.

An amendment to the motion was discussed regarding removing the asterisks indicating the deadline date and instead include the language regarding the deadlines next to each item. As amended, the motion read that *“the staff be directed to proceed with the proposed 2005 Board Election Calendar, as*



recommended by the Executive Committee, as modified.” The motion was approved.

Monthly Reports

Executive Director’s Report

Meredith Williams, PERA Executive Director, reviewed the regular monthly information report. The presentation was transmitted to Trustees on Friday, November 12, and was included as Tab F. Mr. Williams reported on the defined contribution (DC) planning that has been in process and that the Board would receive a report in January. Mr. Williams reviewed the work that continues with regard to the Denver Public School Retirement System merger. A favorable IRS determination letter was received by PERA related to the DPSRS Merger Agreement,.

Mr. Williams informed the Board of upcoming items for the January 2005 Board meeting; DC Plan design, a hearing on proposed Rules changes discussion, and the Board self-evaluation, and he responded to questions.

The Board recessed for lunch at 12:15 p.m. and reconvened at 12:56 p.m.

Market and Portfolio Update

Jennifer Paquette, Deputy Executive Director of Investments, provided an update and highlights on market and portfolio performance as transmitted to Trustees on Friday, November 12, and included as Tab G. She then responded to questions. Finally, Ms. Paquette announced the upcoming retirement of Mellany Moyer in the Investment Equities Division on March 1, 2005.

Legislative Report

Rob Gray, PERA Director of Government Relations, with the assistance of Beth Minahan and Roberta Robinette, PERA lobbyists, provided a summary regarding state and federal legislative developments. Portions of this report were transmitted to Trustees on Friday, November 12, 2004, as Tab H. They responded to Trustee’s questions. Mr. Gray explained the possible change to SB 04-257 to provide for the Amortization Equalization Disbursement (AED) to be collected from employers on the salary paid to PERA retirees and responded to questions. Mr. Williams and Mr. Gray suggested that staff continue to analyze this issue and meet with Legislators regarding the feasibility of seeking legislation in 2005 to correct this technical point. Staff will advise the Board of their findings in January. Finally, Mr. Gray informed the Board that PERA staff will be meeting with the Joint Budget Committee on November 30.

Other Business

David Maurek, Manager of Strategy and Innovation, distributed copies of an estimated cost analysis of potential purchased service subsidy for Jefferson County DA’s Office pursuant to the request made by the Board earlier in the day. Also distributed was a packet of correspondence in regards to the request made by the Jefferson County DA’s Office that there be a waiver of the deadlines with respect to the increase in cost to purchase service credit



should they choose to affiliate with PERA. Mr. Maurek explained the analysis he had done and Mr. Maurek, Mr. Smith, and Ms. Calhoun responded to questions.

By motion of Richard Lansford and second by Gloria Santistevan-Feedback that *“the current timeframe of November 1, 2005, for increase in purchase service credit rates is maintained.”* The motion was approved.

Monthly Reports (continued)

General Counsel Report

Greg Smith, General Counsel, provided information to the Board regarding 401(k) loans under CitiStreet administration. There will be an IRS closing agreement in order to bring the issue to final conclusion. Mr. Smith reported about an Optional Retirement Plan administration matter with Colorado State University in Pueblo and responded to questions. Mr. Smith also informed the Board of a C.R.S. § 24-51-205(6) (b) administration correction.

Mr. Smith then requested the Board go into Executive Session to address pending and threatened litigation involving PERA. Pursuant to C.R.S. § 24-6-402(3) (a). James Casebolt, Board Chair, polled the Trustees in attendance and received the consent of all members present to go into Executive Session at 2:08 p.m. In addition to the Trustees and the General Counsel, the Executive Director, the three Deputy Executive Directors, the Director of Communications, the Director of Government Relations, the Manager of Strategy and Innovation, the Director of Internal Audit, Communications support staff, and the Legal Administrative Assistant remained present for the closed Executive Session.

The Executive Session concluded at 2:26 p.m.

"By my signature below, I certify that the only issues discussed by the members of the Board during the closed Executive Session were pending and threatened litigation involving PERA," Board Chair James Casebolt.

James Casebolt, Chair



2005 Board Meeting Dates

January 21, 2005
February 18, 2005
March (17) 18, 2005
April 15, 2005
June (16) 17, 2005
July 13-15, 2005 (Retreat)
September (15) 16, 2005
October 21, 2005
November (17) 18, 2005

Other Business (continued)

Jim Casebolt, Chair, informed the Board that Mr. Natale had distributed copies of the revised 2005 Trustee Election Calendar that included the revisions made earlier in the meeting.

Discussion with Executive Director

The Board and Executive Director met while all other staff left the room. The format of this portion of the meeting and the matters for discussion were at the discretion of the Chair.

With no further business to discuss, Chair James Casebolt adjourned the meeting at 4:36 p.m.

Respectfully submitted by
Brenda Meidl
Senior Administrative Assistant, Legal Services Division

James Casebolt, Chair

Meredith Williams, Executive Director