



Record of Proceedings

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

1300 Logan Street
Denver, Colorado
January 19, 2007
9:00 a.m.

Trustees Present: James Casebolt, Board Chair, Mark Anderson, Vice Chair, Sara Alt, F. Elizabeth Friot, Carol Hoglund arrived at 9:08 a.m., Patricia Kelly, Cary Kennedy, Tamela Long, Scott Murphy, Amy Nichols, Scott Noller, Marcus Pennell, Carole Wright

Trustees Absent: Susan Beeman, Maryann Motza

Staff Present: Katie Kaufmanis, David Maurek, Brenda Meidl, Jennifer Paquette, Karl Paulson, Gregory W. Smith, John Spielman, Meredith Williams

James Casebolt, Board Chair, called the meeting to order at 9:04 a.m.

Approval of Agenda

A motion was made by Amy Nichols and seconded by Sara Alt that "*the Agenda be approved as published.*" The motion was approved.

Approval of November 17, 2006, Board Meeting Minutes

A motion was made by Scott Noller and seconded by Patricia Kelly that "*the November 17, 2006, Board Meeting Minutes be approved as published.*" The motion was approved.

Public Comment

Mr. Casebolt introduced Scott Wisor, Senior National Field Organizer, Sudan Divestment Task Force. Mr. Wisor thanked the PERA staff for their time in discussing the Sudan proposed legislation the past few weeks. Mr. Wisor provided an overview of the proposed legislation that would be introduced. He informed the Board that he would be available during the Legislative Report scheduled later in the day's meeting to answer any questions that they may have. Mr. Wisor responded to questions.



Executive Committee Report

Mark Anderson, Vice Chair, reported that the Executive Committee had met in the morning, they reviewed the November 16, 2006, Executive Committee minutes and the November 30, 2006, and December 31, 2006, Budget Reports. The Committee referred information proposed by Prepaid Legal Service to the Benefits Committee. Finally, they reviewed the agenda for the day’s meeting.

Risk Budgeting

Marcus Pennell, Chair, Investment Committee, reviewed the Risk Budgeting information that was discussed at the November 17, 2006, Board Meeting which was transmitted to Trustees as Tab B on Friday, January 12, 2007.

The Investment Committee moved that *“the Board approve the following active risk maximums for each publicly traded asset class and for the total publicly traded securities portfolio:”*

Portfolio	Active Risk Maximum
Domestic Equity	150 basis points
Non – US Equity	225 basis points
Fixed Income	100 basis points
Total	125 basis points

The foregoing motion was approved.

The Investment Committee moved that *“the Board approve the following language to be added to the Statement of Investment Policy:”*

Active Risk

This policy applies to all marketable securities asset classes and for the total marketable securities asset class portfolio and requires Staff to measure and monitor the active risk incurred within each relevant portfolio. While the Board recognizes that its risk tolerance is captured, to a significant extent, through the asset allocation policy, it also recognizes that active risk needs to be measured, monitored and controlled. As such, it is the Board’s policy to incur no more active risk within the marketable securities asset classes and total marketable securities portfolios according to the following limits (to be measured over a three-year period):

Portfolio	Active Risk Maximum
Domestic Equity	150 basis points
Non – US Equity	225 basis points
Fixed Income	100 basis points
Total	125 basis points



The above limits are intended to be maximums, with the specific levels of active risk to be determined by Staff's outlook for investment opportunities.

The Board expects Staff to continually monitor the active risk of the various portfolios to ensure compliance with the above limits. Furthermore, a report from an independent third party regarding the active risk profile of the various portfolios will be provided annually. In this report, the Board expects trailing three-year active risk of each portfolio, along with forward-looking active risk estimates of each to be presented.

Mr. Pennell and Jennifer Paquette, Chief Investment Officer, responded to questions. The foregoing motion was approved.

Monthly Reports

Market & Portfolio Update

Jennifer Paquette, Chief Investment Officer, provided a market and portfolio update, which was transmitted to Trustees as Tab F on Friday, January 12, 2007. In addition, Ms. Paquette provided an update to the changes in the investment staff due to resignations and reassignments. Finally, Ms. Paquette reported on the successful year that the Investments Operations Division had in reconciling the trading activities at PERA.

Member Administrative Appeal

Mr. Anderson stated that in accordance with the Board Agenda, an administrative appeal by employees of the Boulder County Public Trustee's Office (BCPTO), who are members of PERA, would be heard. James Casebolt, Chair, recused himself from the proceeding and stepped out of the meeting. Meredith Williams, Executive Director, made the initial determination regarding the BCPTO request and also stepped out of the meeting.

An Administrative Appeal involves member information, which is deemed confidential by C.R.S. § 24-51-213. Sandy Hume, Boulder County Trustee, and Peter Walters, Esq., Smittkamp and Walters, LLC, legal counsel for the petitioner requested that the appeal be heard in Open Session.

In accordance with the requirements of due process and pursuant to PERA Rule 2.20, Trustees Sara Alt, Scott Murphy, and Tamela Long had previous involvement in the BCPTO's appeal and stepped out of the meeting. In addition, Cary Kennedy, Trustee, recused herself and stepped out of the meeting. Board members Susan Beeman and Maryann Motza were absent from the day's meeting.

The remaining Trustees introduced themselves. In addition, Gregory W. Smith, Counsel to the PERA Board, Adam Franklin, Staff Attorney, representing the PERA Administration, Mr. Hume and Mr. Walters introduced themselves.

Mr. Hume began his statement at 9:32 a.m. and concluded at 9:35 a.m.

Mr. Franklin began his statement at 9:35 a.m. and concluded at 9:40 a.m.

Mr. Franklin and Mr. Hume responded to questions.



Mr. Anderson polled the Trustees in attendance and received the consent of all members present to go into Closed Session for deliberation at 9:44 a.m. In addition to the Trustees, Gregory W. Smith, Counsel to the PERA Board of Trustees remained present for the Closed Session. The Closed Session concluded at 9:57 a.m.

"By my signature below, I certify that the only issues discussed by the members of the Board during the Closed Session were regarding the appeal of employees of the BCPTO, who are members of PERA."

Mark Anderson, Vice Chair

Administrative Review Appeal Motion

A motion was made by Scott Noller and seconded by Carole Wright that, *"the Board adopt and ratify the Findings of Fact, Conclusions of Law and Decision of the Administrative Review Panel to deny the BCPTO's request to change their PERA-affiliation date from March 1, 2005, to April 1, 2004."* The motion was approved.

Trustees Sara Alt, James Casebolt, Scott Murphy, Tamela Long, and Cary Kennedy did not participate in the vote.

The Board recessed for a break at 10:00 a.m. reconvened at 10:08 a.m.

Allen Sinai Presentation

Jennifer Paquette, Chief Investment Officer, introduced Allen Sinai, Chief Global Economist, President, Decision Economics, Inc. Mr. Sinai provided the Board with his economic outlook and market perspectives for the upcoming year. Mr. Sinai responded to questions.

The Board recessed for a break at 11:11 a.m. reconvened at 11:22 a.m.

F. Elizabeth Friot, Trustee, left the meeting at 11:11 a.m. and did not return.

Legislative Report

Meredith Williams, Executive Director, Gregory W. Smith, General Counsel, and Jennifer Paquette, Chief Investment Officer, with the assistance of Beth Minahan and Roberta Robinette, PERA Lobbyists, informed the Board on legislative issues and the proposed draft Sudan divestment legislation. Materials were transmitted to Trustees as tabs C & D on January 12, 2007. Extensive discussion ensued and Mr. Williams, Mr. Smith, and Ms. Paquette responded to questions.

A motion was made by James Casebolt and seconded by Patricia Kelly, Scott Noller, and Carole Wright that the following statement be published:

"We start from the premise that the occurrences documented by the United States government and various humanitarian groups are and should be intolerable in any civilized community. We strongly condemn the acts and omissions of the Government of Sudan, the Janjaweed, and the various other



militia-type groups that have perpetrated and continue to perpetrate genocide upon the population of that country. No right-thinking individual or organization could countenance or approve such practices, and Colorado PERA joins in voicing universal condemnation thereof.

It is commendable that the Colorado General Assembly would consider adding its voice to those striving to expose and attempting to remedy the situation in the Sudan. PERA cannot and does not quarrel with that body's laudable goal. However, in considering the issue of divestment, the General Assembly must also be cognizant of the following:

First, the money that is transferred to PERA immediately becomes part of a trust fund. This means that money transferred to PERA is no longer "public money." Such money is transferred pursuant to employment contracts and agreements between employers and employees and is considered earned at the time of transfer just as employees who invest in defined contribution retirement plans retain ownership over the funds they have invested. PERA receives employer contributions from 400 employers, including school districts, state government, local government entities, special districts, and others. Thus any divestment directive affects money that is not the property of the state or any other employer, and in the case of the employee's contribution, never was.

Second, ordering divestment comes with associated costs. Those costs include the cost to search for and certify those entities that may have contacts or ties with the Sudanese government; the transaction costs that will be incurred in selling or disposing of securities; the cost of researching and conducting due diligence for any replacement securities or funds; the lost opportunity cost; the cost of reduced investment return; and the cost of creating investment strategies that exclude such entities. PERA estimates the initial costs to be in seven figures with ongoing costs approaching seven figures on an annual basis.

Third, the trust fund money must be administered by the PERA trustees who have a fiduciary duty to the members and beneficiaries of the fund to invest and expend those funds for the sole and exclusive benefit of members and beneficiaries. The fiduciary responsibility of the trustee is placed at risk if trustees allow for financial decisions that could affect the actuarial solvency of the trust fund. In order to protect and preserve members' assets, legislators should consider the efficiency of indemnifying PERA for the initial and ongoing costs and potential losses of any mandated divestment effort with State dollars. Such an approach would spread the cost to all Colorado taxpayers, and would add the voice of the entire state's citizenry to the call for action. Moreover, the contribution would employ public funds, not simply those of public employees.

Fourth, a divestment directive mandates that an investor "vote with his feet" by exiting the investment. Such a sale or transfer will terminate any voice that the investor had to exercise its proxy to change company operations or policies, resulting in the loss of the voice for change.

The Board directs staff to communicate these concerns to the General Assembly and to continue to work with supporters of the divestment legislation to seek a cost effective approach to help end the suffering in Darfur."



Discussion ensued and the motion was approved.

The Board recessed for lunch at 12:40 p.m. and reconvened at 1:22 p.m.

Monthly Reports (Continued)

Executive Director Report

Meredith Williams, Executive Director, reviewed the monthly information report presentation, which was transmitted to Trustees as Tab E on January 12, 2007.

General Counsel Update

Gregory Smith, General Counsel, reminded the Board of the requirement to submit the Financial Disclosure forms to the Secretary of State, which were due January 10, 2007. In addition, Mr. Smith discussed the provisions of Amendment 41 and stated that he will continue to evaluate implications for PERA as well as consider these implications while working to finalize PERA's Gift Policy for presentation to the Audit Committee. Mr. Smith also discussed the building transition to relocate and consolidate the PERA operations to the Penn Center building. Finally, Mr. Smith provided a report pursuant to C.R.S. § 24-51-205(6)(b).

Mr. Smith then requested the Board go into Closed Executive Session to address pending or imminent litigation and legal advice on specific legal questions regarding PERA, pursuant to C.R.S. §§ 24-6-402(3)(a)(2) and 24-6-402(4)(b). James Casebolt, Chair, polled the Trustees in attendance and received the consent to go into Closed Executive Session at 2:02 p.m. In addition to the Trustees, and the General Counsel, the Executive Director, the Chief Investment Officer and Chief Operating Officer, the Directors of Internal Audit and Communications, and the Legal Executive Administrative Assistant remained present for the Closed Executive Session.

The Closed Executive Session concluded at 2:28 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 regarding pending and threatened litigation as well as legal advice related to specific questions involving PERA constituting attorney client communication."

James Casebolt, Board Chair

The Board recessed for a break at 2:28 p.m. reconvened at 2:40 p.m.



Board Officer Elections

Nominations were solicited for the positions of Chair and Vice Chair for the Board of Trustees. James Casebolt, Board Chair, opened the floor for nominations of a new chair.

A motion was made by Marcus Pennell and seconded by Scott Noller that *“Mark Anderson be nominated as Board Chair.”*

A motion was made by Sara Alt and seconded by Scott Noller that *“the nominations cease and that Mark Anderson be deemed elected by acclamation as Board Chair.”* The motions were approved.

Mark Anderson acknowledged his election as Board Chair.

Mr. Casebolt then opened the floor for nominations for Board Vice Chair.

A motion was made by Scott Murphy and seconded by Sara Alt that *“Scott Noller be nominated as Board Vice Chair.”*

A motion was made by Tamela Long and seconded by Carole Wright that *“Sara Alt be nominated as Board Vice Chair.”*

A motion was made by Pat Kelly and seconded by Marcus Pennell that *“the nominations cease.”* This motion was approved

John Spielman, Internal Audit Director, provided ballots for Trustees to cast their votes between the two nominated Trustees. Cary Kennedy recused herself from the vote. By majority vote Sara Alt was selected as the new Vice Chair.

Sara Alt acknowledged her election as Board Vice Chair.

Monthly Reports (Continued)

Benefits Update

David Maurek, Chief Operating Officer, provided a report of the 2006 statistics related to eligibility and participation in the Defined Contribution Plan. Mr. Maurek also reported on the activities of the Information Services, Insurance, Benefit Services, Customer Service, and Communications Divisions.

Governance Manual Update

David Maurek, Chief Operating Officer, explained proposed changes to update the Governance Manual. The red-lined version of the Governance Manual was transmitted to Trustees as Tab G on January 12, 2007. This item will be brought to the Board for consideration at the February Board meeting.

Cary Kennedy, Trustee, left the meeting at 3:00 p.m. and did not return.

Trustee Self Evaluation

David Maurek, Chief Operating Officer, informed the Board of the evaluation process that will be conducted via the Board Web site this year. This evaluation is in accordance with the Board Performance Evaluation Policy. An overall summary of Trustees' responses will be made available to the Evaluation Subcommittee in March and results will be discussed with the Board at the April meeting.



A motion was made by Carole Wright and seconded by Carol Hoglund that *“the Trustees submit their self-evaluations via the Board Web site by February 14, 2007.”* This motion was approved.

Other Business

With no further business to discuss, Mr. Casebolt adjourned the meeting at 3:20 p.m.

Board Meeting Dates

February 16, 2007
March (15) 16, 2007
April 20, 2007
June (14) 15, 2007
July 18-20, 2007 (Planning Session)
September (20) 21, 2007
October 19, 2007
November (15) 16, 2007

Respectfully submitted by
Brenda Meidl
Executive Administrative Assistant
Office of the General Counsel

James Casebolt, Board Chair

Meredith Williams, Executive Director