ADAMS COUNTY RETIREMENT BOARD MEETING

MINUTES - REGULAR MEETING
4430 SOUTH ADAMS COUNTY PARKWAY
RETIREMENT CONFERENCE ROOM, SUITE C3414
BRIGHTON, COLORADO 80601

JULY 2, 2013

BOARD MEMBERS PRESENT
Joe Pacyga – Chairman
Ben Dahlman – Vice-Chairman
Brigitte Grimm – Treasurer
Marlise Bruno

BOARD MEMBERS EXCUSED
Michael McIntosh – Secretary

ADMINISTRATIVE STAFF
Pamela Mathisen, Executive Director
Debbie Haines, Senior Benefits Manager (Corresponding Secretary)

ACTUARIAL STAFF
Gabriel Roeder Smith – Todd Kanaster
Gabriel Roeder Smith – Dana Woolfrey

LEGAL COUNSEL
Davis Graham & Stubbs, LLP – Cindy Birley
Davis Graham & Stubbs, LLP – Kevin Teng

INVESTMENT CONSULTANTS
Watershed Investment Consultants – Gary Ratliff
Watershed Investment Consultants – Ed Zablan

OTHER ATTENDEES
US Bank – Tina Seberg – Relationship Manager
Principal Real Estate Investors – Randall Mundt – Chief Investment Officer
Principal Real Estate Investors – Scott Smith – Portfolio Manager
Principal Global Investors – Michael Drysdale – Relationship Manager

Called to Order: 1:30 P.M.
SPECIAL PRESENTATION

Principal Real Estate Debt Fund

Mr. Drysdale began with introductions. He indicated that he has worked at Principal Global Investors for 17 years and is the Relationship Manager. Mr. Mundt has worked at Principal Real Estate Investors for 30 years and is the Chief Investment Officer and Mr. Smith has worked at Principal Real Estate Investors for 30 years and is the Portfolio Manager on the debt side. Mr. Drysdale thanked the Board for the additional $950,000 that was allocated to the US property account.

Mr. Mundt continued by giving an overview of the Principal Real Estate Debt Fund. He indicated that the fund objective and strategy are as follows:

- Objective – Seek to provide investors with current income and attractive long-term risk-adjusted returns relative to core real estate equity investments and high-yield corporate bonds.
- Seek to achieve the investment objective via the following:
  - Accumulate a diversified portfolio of defensively-positioned, higher-yielding debt investments
  - Targeted higher-yield debt investments include:
    - Subordinate Debt
      - Mezzanine Loans
      - B-notes
    - Bridge Loans
    - Higher LTV Senior Loans
  - Conservative use of leverage

Fund Strategy Attributes:
- Defensively Positioned Debt Investments
  - Borrower equity cushion buffers against potential downside in property values
  - Stable capable sponsorship – not distressed
- Attractive Current Return Potential
  - Property cash flows support the current pay rate
  - Contractual cash flow – not reliant upon appreciation, kickers, etc.
- Executable – Principal Real Estate Investors has:
  - Established track record
  - Access to transaction across multiple distribution channels
  - Current pipeline of eligible investments
  - Alignment of Manager/Investor interests

After a long discussion the Board thanked Principal for making the Real Estate Debt Fund presentation. Mr. Ratliff, Watershed commented that Watershed believes that the Real Estate Debt Fund is an appropriate fund to diversify the portfolio to optimize higher return levels. Watershed is very confident with Principal and feels that this would be a good addition to the portfolio. This is a closed-end fund and has a 7 year term.

Mr. Teng, Davis Graham & Stubbs indicated should the Board hire Principal for the Real Estate Debt fund a side letter agreement will need to be completed. Ms. Birley also stated that there could be some UBTI generated, as well.
Mr. Dahlman moved to shift part of the hedge fund allocation to the Real Estate Debt Fund thru Principal by reducing Grosvenor and GAM Hedge fund-of-fund exposure from 7.5% to 5% and investing 5% in Principal Real Estate Debt Fund. Ms. Bruno seconded the motion.

Discussion:

Ms. Grimm wanted clarification on the 7 year lock in period. Mr. Ratliff indicated that the fund has a 7 year term however the investment period is 3 years. He stated that Principal would make investments within the first 3 years. Mr. Ratliff indicated that loans typically have a 3 to 5 year maturity however if a loan is made in year 3 of the investment period it’s going to need another 3 to 5 years for maturity and that is why the fund term is generally 7 years.

Unanimously carried.

Watershed Investment Consultants – Ed Zablan
PIMCO Unconstrained Bond Fund Discussion

Mr. Zablan proceeded by giving an overview of the PIMCO Unconstrained Bond Fund. He indicated the following:

- The Unconstrained Bond fund invests in the same securities as Total Return fund.
  - Unconstrained Bond fund typically emphasizes non-traditional areas such as local currency emerging markets debt
  - Both Total Return and Unconstrained Bond funds US derivatives extensively
- By definition, mandate is not tied to a traditional benchmark such as the Barclays Aggregate index
  - The PIMCO Unconstrained Bond fund targets a Libor plus 3% return target
- Unconstrained Bond has the flexibility to adjust interest rate sensitivity beyond the traditional core total return mandate, i.e. -3 years to +8 years vs. +/-2 years relative to index duration
- Unconstrained Bond fund statistics can exhibit lower quality than Total Return
  - Manager will actively adjust credit, interest rate and currency exposures
- The expense ratio for Total Return is 0.46% and for Unconstrained Bond 0.91%

After some discussion the Board would like to hear more about the PIMCO Unconstrained Bond fund. Watershed will invite PIMCO to the August 2013 Board meeting to make a presentation on the Unconstrained Bond fund.

Watershed Investment Consultants – Ed Zablan
Senior Secured Debt Investment Discussion

Mr. Zablan indicated that Senior Secured debt loans are secured by a borrower’s assets. He provided three potential candidates:

Babson Capital – who is a subsidiary of the MassMutual family of companies and the lead investment advisor to the MassMutual General Investment Account. Babson’s strategy is to invest in a broadly diversified
portfolio composed primarily of top-tier, non-investment grade senior bank loans that exhibit the highest relative value within the asset class.

Sankaty – is a wholly owned subsidiary of Bain Capital, LLC and is its credit affiliate. Bain Capital is an employee-owned firm, owned by its 98 managing directors. Sankaty’s objective is to provide a broadly diversified portfolio of floating rate bank loans that maximize return and minimize default risk.

Shenkman Capital – is an independently owned investment advisory firm dedicating its investment services to the high yield sector. The investment philosophy is predicated on the basic tenet of bottom-up credit research process supplemented by quantitative analytical tools. Shenkman has an inherent approach to managing credit risk that is to always be conservative and defensive. Avoiding downgrades, defaults and mitigating credit risk is critical to perform well over the long-term, especially on a risk-adjusted basis and during downward trending markets.

Mr. Ratliff clarified for the Board that Watershed is trying to restructure a portion of the fixed income allocation to be less sensitive to a rising interest rate market. He stated that the current structure in the portfolio is a largely core exposure. Mr. Ratliff indicated that with this exposure the portfolio is left with minimal returns with a lot of interest rate exposure. He stated that the two funds that Watershed has recommended the PIMCO Unconstrained Bond Fund and the Senior Secured Debt Fund have higher yields. After some discussion the Board will proceed with the Senior Secured Debt Fund.

Ms. Bruno moved to hire Babson Capital as the Senior Secured loan manager moving 5% out of Denver Investment to fund the initial investment, effective August 30, 2013 subject to legal approval, as amended. Mr. Dahlman seconded the motion.

Discussion:

Mr. Dahlman asked what happens with these types of investments if the interest rate does not rise. Mr. Zablan stated that if they don’t rise then the interest will just compound over time.

Unanimously carried.

**EXECUTIVE SESSION**

None

**EMPLOYEE/RETIREE CORRESPONDENCE**

None
REGULAR BUSINESS SESSION

Ms. Haines commented that the June 2013 Board Meeting minutes were amended by Davis Graham & Stubbs. She indicated that there were a few grammatical corrections found by Ms. Birley and a copy of the corrected minutes were included in the Board packet. Ms. Haines stated that the original invoices from FTI Group from October 2012 were sent to the old address and never received or paid by the Retirement office. Also, the payment to Bo-Ka Jewelers was originally paid by the Retirement Plan however, Adams County reimbursed the Retirement Plan for this expenditure and it was reflected on the paid expenditures report.

Consent Agenda: Distributed by E-Mail

Approval of Board Meeting Minutes – June 4, 2013, As Amended
Approval of Termination Report – June 2013
Approval of Money Manager Fund Totals and US Bank Summary Reports – May 2013
Approval of Administrative Expenditures – July 2, 2013
Expenditures - $ 72,348.89
May Paid Expenditures $ 4,489.46
June Paid Expenditures $ 12.00

Moved by Board Member – Mr. Dahlman
Seconded by Board Member – Ms. Bruno

Unanimously carried

UNFINISHED BUSINESS

None

NEW BUSINESS

Davis Graham & Stubbs, LLP – Cindy Birley
Amendment No. Three to the Adams County Retirement Plan
(As Amended and Restated Effective January 1, 2011)

Ms. Birley stated that the State of Colorado has a constitutional provision which says that only a union of one man and one woman shall be valid or recognized as a marriage in this state. She indicated that is why the Civil Union Act was enacted to provide benefits and rights to same sex couples. Ms. Birley stated that civil union legislation will affect Domestic Relations Orders in pension plans. She stated that a defined benefit public pension plan is subject to division at the time the member retires or age 65, if earlier. Ms. Birley stated that the Adams County Retirement Plan cannot have a provision to pay a civil union partner who does not qualify as an alternate payee under Section 414(p) of the Internal Revenue Code prior to receipt by the member. She indicated that if this happened it could disqualify the Plan. Ms. Birley stated that Amendment No. Three is providing new language to the Adams County Retirement Plan regarding dissolution of a civil union.
Mr. Dahlman moved to approve Amendment No. Three to the Adams County Retirement Plan (As Amended and Restated Effective January 1, 2011) on July 2, 2013. Ms. Bruno seconded the motion and it unanimously carried.

STANDING REPORTS

Davis Graham & Stubbs, LLP
Legal Information Updates
None

Watershed Investment Consultants, Inc. – Gary Ratliff
Investment Updates – Performance Update

Mr. Ratliff indicated that thru May 2013 the Adams County Retirement Plan was up 6.29% net of fees.

Retirement Staff – Administrative Business
Administrative Updates
IFEBP – 59th Annual Employee Benefits Conference

Ms. Haines indicated that included in the Board packet was a copy of the IFEBP conference information which will be held in October 2013. She stated that if any Board member is interested in attending to let her know. Mr. Pacyga asked which Board members still needed to complete their four year commitment? Ms. Haines responded Ms. Grimm.

Recess at 4:34 P.M.
Reconvened at 4:40 P.M.

NEW BUSINESS - continued

Vendor Review
- CliftonLarsonAllen
- Davis Graham & Stubbs, LLC – Agreement to Perform Legal Services
- Gabriel Roeder Smith
- PensionGold
- Watershed Investment Consultants, Inc.
- US Bank
Ms. Mathisen indicated that each July the Board reviews the primary vendor contracts. She proceeded with the following overview of each vendor.

- Davis Graham & Stubbs (DGS) – Contract on an annual basis. The Board received a copy of DGS Agreement to Perform Legal Services for January 1, 2014 – December 31, 2014.

Ms. Bruno moved to approve Davis Graham & Stubbs Agreement to Perform Legal Services in Connection with the Adams County Retirement Plan effective January 1, 2014 – December 31, 2014. Ms. Grimm seconded the motion and it was unanimously carried.


Mr. Dahlman moved to issue an RFP for Investment Consultants Services for the Adams County Retirement Plan. Ms. Grimm seconded the motion.

Discussion:

Ms. Grimm commented that she believed the Board should go through the RFP process to make sure the Plan is getting the best results. Mr. Pacyga stated that he had been satisfied with the work Watershed has provided.

Roll Call Vote:

Mr. Dahlman – Yea
Ms. Grimm – Yea
Mr. Pacyga – Yea
Ms. Bruno – Abstained

Motion carried.

- US Bank – Contract Date: 1998 – Current. There has been no fee change. They are not only the Trustee for the Plan but also handle the operating and checking accounts.

Mr. Dahlman indicated that he would like to revisit doing an RFP for Trust services at a later date.
OTHER BUSINESS

The Regular Board Meeting adjourned at 5:15 p.m.

Respectfully submitted,

Debbie Haines, Senior Benefits Manager  
(Corresponding Secretary)

NEXT BOARD MEETING

TUESDAY, AUGUST 6, 2013  
REGULAR BOARD MEETING  
ADAMS COUNTY GOVERNMENT CENTER  
4430 SOUTH ADAMS COUNTY PARKWAY  
RETIREMENT CONFERENCE CENTER  
BRIGHTON, COLORADO 80601