Teacher Compensation Trust Board of Directors

MINUTES

April 4, 2007

MEMEBERS IN ATTENDANCE: Andree Hall, chair, Velma Rose, vice chair, Tom Buescher, Secretary, Brett Fuhrman, Jerry Graves, Mark Harmon, Mary Brauer. STAFF IN ATTENDANCE: Brad Jupp and Henry Roman

I. Review and Approve Agenda

Tom Buescher made the motion to approve the agenda. Mark Harmon seconded the motion. Motion carried.

II. Review and Approve Minutes for February 28, 2007 meeting

Tom Buescher made the motion to approve the minutes. Velma Rose seconded the motion. Motion carried.

III. February Financial Statements – *Information (Velma Rose)*

Velma Rose presented the February 2007 ProComp Trust Financial Report. The net revenue as of January 31, 2007 was $ 7,376,617.57.

IV. Investment Policy – *Information and Action (Velma Rose and Howard Biggs)*

a. Background

Velma Rose explained the structure of DPS Mill Levies. The Denver tax base drives Mill Levy collection and DPS can request up to 20% of the school finance formula from Denver voters (i.e. If DPS receives $500 million from the school finance formula, we can request up to $100 million). Currently this is more than DPS receives, but after adding up all the existing Mill Levies, DPS is receiving about 90% of the 20% limit.

b. Policy Development

Howard Biggs emphasized the importance of our long term viability. Even though ProComp is a unique project, it has many of the characteristics of a pension plan. He was in favor of a strategic allocation of assets, instead of tactical allocation of assets. His research and experience suggests that strategic allocation of assets works well in the long term. The Trustees reached consensus on this approach.

He also presented a multiyear forecast for his model. During the first five years, his model assumes inflationary expectations as well as a higher number of teachers opting into ProComp. One thing that might need to be included is political risk because DPS is an urban public entity and subject to scrutiny and political pressure by the public, DCTA and the press.

It was also mentioned that cash flow determines investment risk. Howard's model shows that the cash flow crossover point, the point where the ratio of expenditures exceeds revenues is around year 19. The model uses a return on investment assumption of 6% per year. With this assumption, the crossover point where annual expenditures exceed annual income is between year 25 and 35 (the chart was not carried out far enough to have a firm date). Given these assumptions, we might have moderate risk tolerance, because the ProComp trust is building reserves for a fair number of years.

He also presented an annualized chart of hypothetical risks and returns and five model portfolios with incremental growth components. His graphs showed more variability for one year and more stability for the five year and 30 year time horizons. His graphs showed return results net of fees.

The Trustees seemed to be comfortable with an asset allocation that may have a negative 3% return in a given year when looked at annually. Depending on where the assumed return rate places the crossover point, some trustee may be willing to have as much as a negative 5% return in a given year if the expected return over a longer period is what is needed to push the crossover point far enough into the future.

The trustees also recognized that there is the concept of "headline risk", meaning that if the fund loses money in a given year, there may be public pressure to modify investment strategies. This concept will factor into their eventual determination of an asset allocation plan.

The advisors will do new models with return assumptions at 6.5%, 7% and 7.5% that will show when the crossover point is reached in each. They will also give examples of additional asset allocation arrangements with risk and return projections. These will be sent to the trustees for consideration and will be used to discuss, and hopefully agree upon, an investment policy statement at the next meeting. The goal is to have the next meeting to discuss this matter the week of April 30.

Howard will also provide a customized template for our operating environment. This template will include:

- Meeting frequency (Quarterly)
- Asset allocation performance evaluation (Annually)
- Performance evaluation (Quarterly)
- Investment management selection

  This is the governance around hiring and terminating service providers. Velma mentioned that in DPSRS they look at three consecutive quarters of underperformance and the average for three years.
- Rebalancing asset allocation (Annually)

When the time comes to talk about investment process, the trustees will discuss the concept of "socially conscious investments."

V. Miscellaneous and Future Agenda Items

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a. Proposed Meeting schedule

1) May 23, August 29, September 26

2) We will need to be prepared for a special meeting in the event of a close timeline on a DPS/DCTA collective bargaining settlement.

b. Future May 23 Items:

1) Third Party Evaluation