

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

Auditor's Report and Financial Statements

August 31, 2018 and 2017



**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**August 31, 2018**

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## **Independent Auditor's Report on Financial Statements and Supplementary Information**

Board of Trustees  
El Paso City Employees' Pension Fund  
El Paso, Texas

We have audited the accompanying basic financial statements of City of El Paso Employees' Pension Fund (Fund), a component unit of the City of El Paso, Texas (City), which are comprised of the statements of fiduciary net position as of August 31, 2018 and 2017, and the statements of changes in fiduciary net position for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position restricted for pensions of the City of El Paso Employees' Pension Fund as of August 31, 2018 and 2017, and the changes in net position restricted for pensions for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The comparative summaries of revenues by source and expenses by type and administrative expenses and the schedule of investment manager expenses listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***BKD, LLP***

Dallas, Texas  
February 14, 2019

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Management's Discussion and Analysis**  
**Years Ended August 31, 2018 and 2017**

This discussion and analysis of the El Paso City Employees' Pension Fund (Fund) is for the fiscal years ended August 31, 2018 and 2017. This analysis provides a summary of the financial position of the Fund, including highlights and comparisons. For more detailed information regarding the Fund's financial activities, the reader should also review the actual financial statements, including notes and supplementary schedules.

**2018 Highlights**

Net position held in trust for pension benefits (net position) increased during the fiscal year 2018 by \$43.4 million.

The major reason for the increase in net assets was due to the performance of the capital markets, which resulted in net investment gain of \$65.4 million. Employer and plan member contributions totaled \$41.2 million, an increase of \$0.7 million over the previous fiscal year. The increase in contributions was primarily due to an increase in employee pay rates. The cash balance includes cash held by investment managers used for investments and cash at the fund's custodial bank used to pay for operation expenses.

Benefit payments made during fiscal year 2018 totaled \$58.1 million, an increase of \$0.1 million over fiscal year 2017 mainly due to an increase in number of retirees and larger benefit payments to the new retirees.

**2017 Highlights**

Net position held in trust for pension benefits (net position) increased during the fiscal year 2017 by \$53.3 million.

The major reason for the increase in net assets was due to the performance of the capital markets, which resulted in net investment gain of \$75.3 million. Employer and plan member contributions totaled \$40.5 million, an increase of \$2.2 million over the previous fiscal year. The increase in contributions was primarily due to an increase in employee pay rates. The cash balance includes cash held by investment managers used for investments and cash at the fund's custodial bank used to pay for operation expenses.

Benefit payments made during fiscal year 2017 totaled \$57.9 million, an increase of \$6.4 million over fiscal year 2016 mainly due to an increase in number of retirees and larger benefit payments to the new retirees as well as an \$800 cost of living adjustment per beneficiary. The cost of living adjustment led to a total payment increase of \$2.2 million.

## Financial Statements

The financial statements of the Fund include statements of fiduciary net position and changes in fiduciary net position available for benefits. The purpose of these statements is to present information about the Fund's present and future ability to pay benefits when they are due. These statements are presented using an economic resource measurement focus and the accrual basis of accounting. The financial statements also include notes that explain the history and purpose of the Fund, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the Fund.

## Summarized Financial Information

The following table displays the total assets, liabilities and net position of the Fund:

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Changes 2018 – 2017</b>	<b>Changes 2017 – 2016</b>
Assets	\$ 825,795,487	\$ 779,979,862	\$ 724,891,259	5.87%	7.60%
Liabilities	5,829,199	3,427,239	1,787,816	70.08%	91.70%
Net position	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>	<u>5.59%</u>	<u>7.39%</u>

Total net position increased by \$43,413,665, or 5.59%, during fiscal year 2018 to \$819,966,288. The increase in net position is primarily a result of the fair value of investment assets increasing due to positive performance of the capital markets during the current year. Total net position increased by \$53,449,180, or 7.39%, during fiscal year 2017 to \$776,552,623. The increase in net position was primarily a result of the fair value of investment assets increasing due to positive performance of the capital markets during the year.

The following table displays the changes in plan net position of the Fund:

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Changes 2018 – 2017</b>	<b>Changes 2017 – 2016</b>
Contributions	\$ 41,192,201	\$ 40,481,412	\$ 38,256,360	1.76%	5.82%
Net investment income	65,372,489	75,370,973	40,260,073	-13.27%	87.21%
Total additions	<u>106,564,690</u>	<u>115,852,385</u>	<u>78,516,433</u>	<u>-8.02%</u>	<u>47.55%</u>
Benefits paid to plan members	58,094,939	57,972,792	51,554,209	0.21%	12.45%
Refunds	2,889,443	3,104,773	2,829,420	-6.94%	9.73%
Prepaid COLA payments	130,000	-	-	0.00%	0.00%
Administrative expenses	2,036,643	1,325,640	1,417,530	53.63%	-6.48%
Total deductions	<u>63,151,025</u>	<u>62,403,205</u>	<u>55,801,159</u>	<u>1.20%</u>	<u>11.83%</u>
Changes in net position	<u>\$ 43,413,665</u>	<u>\$ 53,449,180</u>	<u>\$ 22,715,274</u>	<u>-18.78%</u>	<u>135.30%</u>

Contributions increased during fiscal years 2018 and 2017 primarily due to increases in employee pay rates. Benefits paid increased during fiscal year 2018 due to an increase in the number of retirees and larger benefit payments to new retirees.

Administrative expenses increased during fiscal year 2018 related to an increase in custodial fees, legal fees and other operating expenses. During fiscal year 2017, administrative expenses decreased due to a decrease in consulting and actuary fees.

### **Financial Contact**

Any questions regarding the financial statements of the Fund should be directed to the Fund Administrator, 1039 Chelsea Street, El Paso, Texas 79903 or by telephoning (915) 212-0112.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Statements of Fiduciary Net Position**  
**August 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Cash and Cash Equivalents</b>	<u>\$ 7,433,888</u>	<u>\$ 10,597,586</u>
<b>Receivables</b>		
Commission credits receivable	105,042	128,931
Due from brokers for securities sold	3,558,783	967,188
Employer contributions	1,047,510	947,003
Plan member contributions	667,228	596,022
Accrued interest and dividends	664,340	620,705
	1,584	-
Total receivables	<u>6,044,487</u>	<u>3,259,849</u>
<b>Prepaid Insurance</b>	<u>17,360</u>	<u>21,857</u>
<b>Investments, At Fair Value</b>		
U.S. government securities	32,086,839	27,104,666
Corporate bonds and notes	38,991,174	42,183,834
Absolute return investments	126,830,615	109,573,856
Corporate stocks	101,459,644	83,883,305
Bank collective investment funds	180,019,198	176,342,988
Commingled funds		
Fixed income	73,142,079	74,742,206
Corporate stocks	81,629,104	89,269,106
Private real estate	72,817,424	67,975,022
Private equity investments	62,394,830	57,103,830
Master limited partnerships	39,817,825	37,030,451
	809,188,732	765,209,264
Total investments at fair value	<u>809,188,732</u>	<u>765,209,264</u>
<b>Capital Assets, Net</b>	<u>3,111,020</u>	<u>891,306</u>
Total assets	<u>825,795,487</u>	<u>779,979,862</u>
<b>Liabilities</b>		
Due to brokers for securities purchased	4,777,992	1,715,974
Accrued expenses	946,165	726,570
Accrued drawdown	-	855,764
Unearned revenue – commission credits	105,042	128,931
	5,829,199	3,427,239
Total liabilities	<u>5,829,199</u>	<u>3,427,239</u>
<b>Net Position Restricted for Pensions</b>	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Statements of Changes in Fiduciary Net Position**  
**Years Ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Additions</b>		
Contributions		
Employer	\$ 25,651,488	\$ 25,327,071
Plan members	<u>15,540,713</u>	<u>15,154,341</u>
Total contributions	<u>41,192,201</u>	<u>40,481,412</u>
Investment Income		
Net appreciation in fair value of investments	64,832,061	74,716,005
Interest	3,915,267	3,808,906
Dividends	3,186,719	2,582,152
Securities lending income	6,801	68,169
Investment advisor fees	(6,578,777)	(5,783,774)
Securities lending fees	-	(22,691)
Miscellaneous income/(expense)	<u>10,418</u>	<u>2,206</u>
Net investment income	<u>65,372,489</u>	<u>75,370,973</u>
Total additions	<u>106,564,690</u>	<u>115,852,385</u>
<b>Deductions</b>		
Benefits paid to plan members	58,094,939	57,972,792
Refunds	2,889,443	3,104,773
Prepaid COLA payments	130,000	-
Administrative expenses	<u>2,036,643</u>	<u>1,325,640</u>
Total deductions	<u>63,151,025</u>	<u>62,403,205</u>
<b>Net Increase in Net Position</b>	43,413,665	53,449,180
<b>Net Position Restricted for Pensions, Beginning of Year</b>	<u>776,552,623</u>	<u>723,103,443</u>
<b>Net Position Restricted for Pensions, End of Year</b>	<u><u>\$ 819,966,288</u></u>	<u><u>\$ 776,552,623</u></u>

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

### Note 1: Reporting Entity and Summary of Significant Accounting Policies

The El Paso City Employees' Pension Fund (Fund or Plan) is a single-employer Public Employee Retirement System (PERS) defined benefit plan administered by the Board of Trustees (Board) of the Fund and was established in accordance with authority granted by Chapter 2.64 of the *El Paso City Code*. The Fund is a component unit (fiduciary fund type) of the City of El Paso, Texas (City).

#### ***Basis of Accounting***

The accounting policies of the Fund have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The Fund is accounted for on an economic resources measurement focus using the accrual basis of accounting.

#### ***Valuation of Investments***

Investments are stated at fair value in the accompanying statements of fiduciary net position. The fair value of marketable investments, including U.S. government securities, corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at statements of fiduciary net position dates. The fair value of investments in bank collective investment, commingled funds, real estate investment funds and private equity limited partnerships are determined by the investment managers based on the fair values of the underlying securities in the funds. In general, the fair value of the underlying securities held in the real estate investment funds are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. In general, the fair value of the underlying securities held in the private equity limited partnerships are based on ASC 820 – *Fair Value Measurements and Disclosures*, and limited partnership financial statements are audited by independent certified public accountants. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation in fair value of investments reflected in the accompanying statements of changes in fiduciary net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. The change in net unrealized gains or losses on investments represents the change in the difference between the cost and fair value of investments at the beginning versus the end of the fiscal year.

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements August 31, 2018 and 2017**

### ***Property and Equipment***

Property and equipment is composed of land, building and improvements, furniture and fixtures and capitalized software. Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. At August 31, 2018 and 2017, capitalized costs had not yet begun being amortized.

### ***Securities Lending Transactions***

The Fund enters into securities lending transactions with broker/dealers for which fees are paid to the Fund and are recognized as revenue during the periods in which they were loaned. The Board may legally and contractually authorize the use of the Fund's securities for lending transactions. The securities involved in the lending transactions continue to be recorded at fair value in the accompanying financial statements. Parameters are established by the Fund's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker/dealers and that securities lending transactions be collateralized using U.S. issuer securities at 102% and non-U.S. issuer securities at 105% of the fair value of the securities loaned. U.S. issuer securities used as collateral are marked to market on a daily basis to evaluate whether the collateralization requirements of the fair value of investments is always maintained. The Fund may not pledge or sell the collateral securities except on default of the borrower and therefore are not recorded as assets in the accompanying financial statements. Because of this, the Fund administration believes there is some minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the Fund by the investment managers or broker/dealers.

### ***Revenue and Expense Recognition***

Plan member and employer contributions are recognized (additions) in the period in which plan member services are performed. Benefits and refunds are recognized when paid in accordance with the terms of the Plan. Expenses (deductions) are recognized as incurred.

The Fund's brokers accumulate commission rebates that are restricted for use by the Fund under agreements with the brokers for capital expenditures, research and development and investment-related expenditures. Proposed expenditures of these funds go before the Board for approval. Brokers provide the Fund detailed statements on commission rebates with credits earned and requested payments. Knowing that direct brokerage commission rebates are available, investment managers use these brokers as directed by the Fund's *Investment Rules and Regulations*. The available credits are reported as unearned revenue until such time as qualifying expenditures are made, in which time the use of the credits is reported as a reduction in the appropriate expense categories in the accompanying statements of changes in fiduciary net position.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Fund's management to make estimates and assumptions that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities and the actuarial valuation of the Fund's benefits at the date of the financial statements, and the reported changes in fiduciary net position during the reporting period. Actual results may differ from those estimates.

### **Note 2: Description of the Retirement Plan**

Substantially all full-time employees of the City are eligible to participate in the Plan, except for uniformed firefighters and police officers who are covered under separate plans. Nonemployer contributions are limited to participating employees of the Fund.

The designated purpose of the Fund is to provide retirement, death and disability benefits to participants or their beneficiaries. The Fund is administered by the Board of Directors, which is comprised of two citizens, who are not officers or employees of the City, nominated by the mayor and approved by city council, four elected City employees, a retiree and two district representatives as designated by city council. The Board contracts with an independent pension custodian, investment managers, an investment consultant, an actuary and an attorneys to assist in managing the Fund.

The Fund's membership was as follows at August 31:

	2018	2017
Inactive plan members (or their beneficiaries)		
currently receiving benefits	3,174	3,011
Inactive plan members entitled to but not		
yet receiving benefits	181	83
Active plan members	4,345	4,217
Total plan members	7,700	7,311

Through August 31, 2018 and 2017, the City is the only contributing employer. The Fund pays direct administrative costs. The City provides indirect administrative support such as IT services. The Fund reimburses the City for various direct costs of processing pension checks, such as postage and supplies.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

Contribution rates for the Fund are based upon local statutes as enacted by the El Paso City Council and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over 30 years. As of the most recent actuarial valuation, the contribution rate was 23.00% of annual covered payroll.

Contributions were made as follows:

For the Years Ended August 31,	Employer Contributions		Employee Contributions		Total	
	Amount	Stated Percentage of Covered Payroll	Amount	Stated Percentage of Covered Payroll	Amount	Stated Percentage of Covered Payroll
2018	\$ 25,651,488	14.05%	\$ 15,540,713	8.95%	\$ 41,192,201	23.00%
2017	25,327,071	14.05%	15,154,341	8.95%	40,481,412	23.00%
2016	23,370,111	14.05%	14,886,249	8.95%	38,256,360	23.00%

The Fund is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For nonclassified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the Fund.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than 10 years of service may receive a refund of their contributions plus interest at 5.5% compounded annually.

# **El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)**

## **Notes to Financial Statements**

**August 31, 2018 and 2017**

Participants become fully vested after reaching 40 years of age and 10 years of service or 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 55 years of age with 10 years of service, (ii) 60 years of age with seven years of service or (iii) 30 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age.

Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5%, of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5%, of the monthly base salary pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service.

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the Plan before completion of seven years of service receive a refund of their contributions. Participants leaving the Plan with more than seven years but less than 10 years of service may receive a refund of their contributions plus interest at 3% compounded annually.

Participants become fully vested after reaching 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 60 years of age with seven years of service or (ii) 35 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three-year average final pay.

A pension benefit is available to surviving spouses and dependents. The Plan includes no automatic increase in retirement benefits. However, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad-hoc cost of living or other increases in retirement benefits.

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements  
August 31, 2018 and 2017**

**Note 3: Net Pension Liability**

The components of the net pension liability of the City at August 31, 2018, were as follows:

Total pension liability	\$ 1,024,379,167
Plan's fiduciary net pension	<u>819,966,288</u>
City's net pension liability	<u>\$ 204,412,879</u>
 Plan's fiduciary net position as a percentage of total pension liability	 80.05%

***Actuarial Assumptions***

The total pension liability as of August 31, 2018, was determined based on July data using the following actuarial assumptions:

Cost of living benefit increases	None
Inflation	3.0%
Salary increases	3.0% , average, including inflation
Investment rate of return	7.5%, compounded annually, net of expenses
Actuarial cost method	Entry-age - normal-level percentage of pay
Asset valuation method	Plan invested assets are reported at fair value

Mortality rates for non-disabled participants are based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 Tables for Disabled Lives.

The actuarial assumptions used in the September 1, 2018, valuation were based on the results of an actuarial experience study performed in 2018.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

The long-term expected rate of return on pension fund investments was determined using a building-block method in which best-estimate ranges of future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension fund's target asset allocation as of August 31, 2018, (see the discussion of the pension plan's investment policy) are summarized in the following table:

<b>Asset Class</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic equity	8.2%
International equity	6.9%
Fixed income	2.0%
Real estate	4.6%
Absolute return	3.8%
Private equity	11.7%
MLP	8.2%

### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the City will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension fund investments was applied to all periods of projected benefit payments to determine the total pension liability.

### ***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City's calculation using the discount rate of 7.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
City's net pension liability	\$ 322,643,310	\$ 204,412,879	\$ 104,487,936

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

### Note 4: Deposits, Cash Equivalents, Investments and Security Lending

The Fund's cash equivalents and investments are managed by various investment managers who have discretionary authority over the assets managed by them, within the investment guidelines established by the Board, under contracts with the Fund. The cash equivalents and investments are held by the Fund's custodian in the Fund's name. The cash equivalents and investments are uninsured and generally consist of short-term securities, U.S. and foreign government securities, domestic and foreign corporate debt and equity securities, real estate trusts and financial derivatives. Certain investment managers have invested in certain bank collective investment funds, which invest primarily in U.S. corporate stocks and government bonds. The bank collective funds may also invest in foreign exchange contracts, stock index futures and temporary collective investment funds and may enter into collateralized securities lending transactions. Certain investment managers also invest in private equity limited partnerships.

Through adherence to the Fund's Investment Rules and Regulations, management attempts to limit or mitigate certain risks. Certain of these requirements are listed below:

- **Large Cap Index Equity Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are S&P 500 Index commingled funds or exchange-traded funds (ETFs).
- **Large Cap Dynamic Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will actively allocate assets across the equity, fixed income and cash markets of the U.S. The assets of the portfolio may be invested in securities, derivatives and a combination of other collective funds. Long and short positions in financial futures, options on financial futures, index options, exchange-traded options and over-the-counter options, may be used.
- **Small/Mid Cap Equity Managers** – Under current policies, the portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations greater than \$500 million and under \$15 billion; the market capitalization of certain securities may be less than or greater than this range at times. The portfolio may invest in publicly traded stocks of U.S. corporations, American depositary receipts (ADRs), publicly traded stocks of foreign corporations listed on U.S. stock exchanges, ETFs and short-term investments, money market instruments or equivalent. The maximum position size in any one company will be 5% of the portfolio value at the time of purchase and shall not exceed a maximum appreciated position size of 8% of the portfolio value. Leverage, short sales and buying and selling on margin are not permitted.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **All Cap Equity Managers** – Under current policies, the portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations that span the broad equity market in a concentrated manner, generally with 20 – 80 holdings. The portfolio may invest in publicly traded stocks of U.S. corporations, ADRs, publicly traded stocks of foreign corporations, ETFs and short-term investments, money market instruments or equivalent. Leverage, short sales and buying and selling on margin are not permitted.
- **International Equity-Developed Country Index Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are MSCI EAFE Index commingled funds or ETFs.
- **International Equity-All Country Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will invest primarily in equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging markets weight is the MSCI ACWI ex-US IMI Index weight plus 15%.
- **International Equity-Emerging Markets Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will invest in equity and equity-related securities of at least 80% of its assets in issuers that are located in, or that do significant business in emerging market countries. The portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 20% in any one country.
- **International Equity-All Country Small Cap Managers** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will primarily invest in equity and equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging market weight is the MSCI ACWI ex-US Small Cap Index weight plus 15%.
- **Fixed Income Core Index Managers** – Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are Barclays Capital Aggregate Index commingled funds or ETFs.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **Fixed Income Core Plus Managers** – Under current policies, except for U.S. Treasury, its agencies, agency MBS and approved derivative products, the fixed income account shall not contain more than 5% of any issuer. The account will not invest more than 15% in cash and cash equivalents and will not invest in equity securities, with the exception of preferred and convertible preferred securities, in which no more than 10% will be invested. The account may invest up to 15% in illiquid securities. The account may invest up to 35% in non-investment grade bonds; defined as bonds that are rated non-investment grade by two of the three major ratings agencies. The dollar weighted credit quality of the account will generally be AA or less, with a minimum dollar weighted-average quality of BBB-. The effective duration of the account should range between +25%/-40% of the benchmark's duration. The account will not employ leverage.
- **Fixed Income Opportunistic Managers** – Under normal market conditions, the fund may invest up to 50% in bonds that are rated below investment grade (below BBB-/Baa3) by the various credit rating agencies or securities that are not rated. In addition, the fund may leverage its capital. In normal market conditions, the manager may borrow up to 35% of the fund for investment purposes. If the investment manager believes market conditions are unfavorable to participants, the manager may invest up to 100% of the fund in U.S. or non-U.S. currency denominated short-term investments, including cash or cash equivalents.
- **Real Estate Managers** – Real estate investments will be diversified to the extent possible by geographic location and property type. For real estate investment trusts (REITs), managers cannot invest in undeveloped, non-income producing property, cannot invest in funds where leverage is intended to exceed 30% of the fair value of the fund and cannot invest in non-U.S. real estate. For private real estate investments, managers should diversify the portfolio by property type and by various geographic regions of the U.S. Leverage is limited to no more than 30% of the fund. The quarterly standard deviation of returns for REITs and private real estate should be no greater than 150% of their respective benchmark indices.
- **Private Equity Managers** – As private equity fund-of-funds vehicles are commingled, closed-end, finite-life limited liability entities; the investment guidelines will be determined by the fund-of-funds legal documentation. The pooled/fund-of-funds vehicle should not represent more than 20% of the total fair value of the pooled/fund-of-funds. It is also preferred that this holds true for any other investor in the pooled/fund-of-funds. The manager of the fund-of-funds vehicle shall be a bank or a registered advisor under the *Investment Advisors Act of 1940*. If the fund-of-funds provides the option of receiving distributions in cash or securities, the trust will opt to receive cash.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements

August 31, 2018 and 2017

- **Master Limited Partnerships** – Investment objective is to achieve long-term growth of capital and out-perform the S&P MLP Index. Management of the portfolio will seek to achieve the investment objective through investments primarily in master limited partnerships (MLPs) and energy-related C-corporations. Security and sector selection, portfolio structure and timing of purchases and sales are delegated to the manager of the portfolio, subject to these guidelines: the portfolio will hold approximately 20 – 30 securities, no single security will exceed the greater of 10% of the portfolio's fair value, or 120%, of the security's weight within the benchmark, cash and cash equivalents will be no more than 10% of the portfolio's assets. Authorized investments include MLPs, securities of energy-related C-corporations and limited liability energy companies that trade on United States stock exchanges, as well as initial public offerings of these investments.
- **Absolute Return** – Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The assets may be invested in common stock, ADRs, global depositary receipts (GDRs), preferred stock, ETFs, participation notes, fixed income securities, futures, options, real estate (tradable securities), commodities (tradable securities) and cash and cash equivalents. Currency exposures may be obtained through currency spot, forward and swap contracts.

The following was the Board's adopted asset allocation policy as of August 31, 2018:

Asset Class	Target Allocation
Domestic equity	24%
International equity	16
Fixed income	19
Real estate	10
Absolute return	15
Private equity	10
Master limited partnerships	5
Cash	1
	100%

The preceding target allocation was amended in 2017. This was done to reflect a reduction in the previous allocation to international equity and fixed income and to increase the allocation to absolute return and private equity. The previous target allocation was 20% international equity, 25% fixed income, 23% domestic equity, 10% absolute return, 10% Real estate, 7% private equity and 5% master limited partnerships.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

### **Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Fund's investment policy does not specifically address custodial credit risk for deposits. As of August 31, 2018 and 2017, the Fund holds no deposits.

### **Investments**

Interest rate risk is the risk that the fair value of securities will fall due to changes in market interest rates. The Fund's policy is to minimize interest rate risk by structuring the investment portfolio so that the duration securities are held and the coupon rates of such are appropriately diversified.

As of August 31, 2018 and 2017, the Fund had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Weighted-Average Maturity (in Years)</u>	<u>Fair Value</u>	<u>Weighted-Average Maturity (in Years)</u>
Cash equivalents (money market funds)	\$ 5,191,686	1.22	\$ 9,853,245	0.15
Government fixed income	32,086,839	23.14	27,104,666	23.03
Corporate bonds and notes	38,110,325	6.83	42,183,835	8.56
Bank collective investment funds	37,121,867	12.97	37,533,947	8.19
Commingled funds	36,020,213	2.63	37,208,259	3.38
Total fair value	<u>\$ 148,530,930</u>		<u>\$ 153,883,952</u>	
Portfolio weighted-average maturity		<u>10.67</u>		<u>9.23</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Nationally-recognized statistical rating organizations assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

The Fund employs one core bond manager that primarily invests in U.S. fixed income and non-U.S. fixed income securities. The Fund also invests in two commingled funds, one passive core fixed income index fund and one opportunistic fixed income fund. The investment management agreement between the Fund and its core bond manager contains specific guidelines that identify permitted fixed income investments.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

Permitted securities and derivatives for the Fund's opportunistic income fund include fixed and floating-rate debt securities and debt obligations of governments and government-related or corporate issuers worldwide; foreign currencies or securities linked to assets or currencies of any nation; and derivatives on any of the previously mentioned securities. Of the total net assets in the opportunistic fixed income fund, 50% may be invested in bonds that are rated below investment grade (below BBB-) or securities that are not rated.

The Fund's investment policy indicates that the fixed income core plus manager may invest up to 35% of net assets in non-investment grade bonds, at time of purchase. The fixed income core plus portfolio obligations will generally have a dollar weighted average credit quality of generally AA or less, with a minimum dollar weighted average credit quality of BBB-.

The following table identifies the credit quality of the Fund's fixed income strategies based on portfolio holdings as of August 31, 2018 and 2017:

August 31, 2018						
S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates (a)	Government & Agency Obligations (b)
U.S. Treasuries	\$ 13,741,938	\$ -	\$ -	\$ -	\$ -	\$ 13,741,938
GNMA Securities	5,776,024	-	-	-	-	5,776,024
AAA	3,635,161	2,445,617	32,758	177,023	198,664	781,100
AA+	37,963,475	239,656	18,799,198	80,875	181,939	18,661,807
AA	4,840,019	338,072	-	-	193,645	4,308,302
AA-	1,268,486	-	-	-	1,144,911	123,575
A+	2,782,046	164,196	-	-	2,385,514	232,336
A	2,456,656	312,756	-	-	2,122,218	21,682
A-	9,706,769	-	-	128,889	2,089,068	7,488,811
BBB+	6,969,156	-	-	99,827	4,616,929	2,252,400
BBB	13,369,639	509,696	-	-	6,729,889	6,130,054
BBB-	9,333,833	1,289,193	-	139,602	7,858,942	46,096
BB+	2,729,453	765,132	-	45,588	1,918,733	-
BB	1,674,110	422,451	-	-	1,251,659	-
BB-	6,911,523	7,961	-	475,392	2,346,819	4,081,352
B+	918,512	457,310	-	35,720	261,005	164,478
B	4,112,213	288,648	-	-	406,014	3,417,551
B-	1,940,790	-	-	-	-	1,940,790
CCC	-	-	-	-	-	-
CCC-	-	-	-	-	-	-
D	-	-	-	-	-	-
NR	14,052,507	2,821,848	489,896	2,919,192	911,461	6,910,110
<b>Totals</b>	<b>\$ 144,182,310</b>	<b>\$ 10,062,536</b>	<b>\$ 19,321,852</b>	<b>\$ 4,102,108</b>	<b>\$ 34,617,410</b>	<b>\$ 76,078,406</b>

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

August 31, 2017						
S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates (a)	Government & Agency Obligations (b)
U.S. Treasuries	\$ 23,417,126	\$ -	\$ -	\$ -	\$ -	\$ 23,417,126
GNMA Securities	5,130,296	-	-	-	-	5,130,296
AAA	1,330,538	102,693	33,121	-	404,953	789,771
AA+	24,147,528	124,680	138,150	-	183,959	23,700,739
AA	6,909,096	-	-	-	195,795	6,713,301
AA-	1,422,912	-	-	-	1,297,965	124,947
A+	1,921,021	-	-	-	1,686,105	234,916
A	3,108,535	117,440	-	-	2,969,173	21,922
A-	7,809,807	-	-	-	4,114,679	3,695,128
BBB+	12,171,589	-	103,055	-	11,407,027	661,507
BBB	10,555,594	167,096	-	-	7,835,514	2,552,984
BBB-	17,593,261	-	-	-	12,919,565	4,673,696
BB+	2,107,252	-	82,604	-	2,024,648	-
BB	6,338,555	-	85,021	-	1,053,768	5,199,766
BB-	2,384,544	-	-	-	1,483,069	901,475
B+	1,109,502	-	54,546	-	897,430	157,526
B	265,849	-	86,984	-	178,865	-
B-	4,175,578	-	-	-	-	4,175,578
CCC+	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CCC-	-	-	-	-	-	-
D	-	-	-	-	-	-
NR	12,132,124	269,488	495,334	-	2,178,880	9,188,422
<b>Totals</b>	<b>\$ 144,030,707</b>	<b>\$ 781,397</b>	<b>\$ 1,078,815</b>	<b>\$ -</b>	<b>\$ 50,831,395</b>	<b>\$ 91,339,100</b>

(a) Corporate Bonds include convertible preferred stocks and convertible preferred bonds.

(b) Includes international and municipal holdings.

At August 31, 2018 and 2017, the Fund held various bond instruments in the aggregate fair value of \$144,182,309 and \$144,030,707, respectively. Fixed income core plus portfolios held bond instruments with ratings of BBB or better by Standard & Poor's. Approximately 5% of the portfolio was of non-investment grade bonds as of August 31, 2018.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's investment policy does not allow for the investment portfolio to hold more than 10% in any one company. The following table presents the fair value of investments that represents 5% or more of the Fund's net position at August 31, 2018 and 2017.

These investments were in bank collective investment and commingled funds, which consist of diversified portfolios of investments as described above, and none of these investments consist of any one company holding 5% or more of the total investment.

**El Paso City Employees' Pension Fund  
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**Notes to Financial Statements  
August 31, 2018 and 2017**

	<b>Shares/ Par Value</b>	<b>Fair Value</b>
<b>August 31, 2018</b>		
EB MCM Daily Valued International Specialized Investment Fund Mellon Capital Management Corporation	109,322	\$ 50,923,860
EB MCM Daily Valued Stock Index Fund Mellon Capital Management Corporation	17,607	66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund Mellon Capital Management Corporation	170,518	55,781,605
Allianz Structed Alpha 1000 Plus LLC Allianz Structed Alpha 1000 Plus LLC	62,930,825	62,930,825
<b>August 31, 2017</b>		
EB MCM Daily Valued International Specialized Investment Fund Mellon Capital Management Corporation	135,488	\$ 60,090,017
EB MCM Daily Valued Stock Index Fund Mellon Capital Management Corporation	18,955	66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund Mellon Capital Management Corporation	187,489	50,171,937
Allianz Structed Alpha 1000 Plus LLC Allianz Structed Alpha 1000 Plus LLC	57,584,830	57,584,830

**El Paso City Employees' Pension Fund  
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**Notes to Financial Statements  
August 31, 2018 and 2017**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund's investment policy allows 13% – 19% of equity securities be invested in foreign markets. The Fund's exposure to foreign currency risk at August 31, 2018 and 2017, was as follows:

Local Currency Name	2018			
	Equity	Fixed Income	Real Estate	Total
Argentine Peso	\$ -	\$ 3,440,996	\$ -	\$ 3,440,996
Australian Dollar	3,442,453	-	-	3,442,453
Brazilian Real	2,483,698	5,053,209	-	7,536,907
British Pound	14,123,543	-	-	14,123,543
Canadian Dollar	4,515,348	-	-	4,515,348
Columbian Peso	-	2,223,051	-	2,223,051
Danish Krone	1,557,382	-	-	1,557,382
Euro Currency Unit	28,580,082	-	-	28,580,082
Ghanaian Cedi	-	2,068,289	-	2,068,289
Hong Kong Dollar	11,846,429	-	-	11,846,429
Indian Rupee	1,982,640	4,432,964	-	6,415,604
Indonesian Rupiah	837,702	4,288,666	-	5,126,368
Japanese Yen	21,898,284	-	-	21,898,284
Mexican Peso	1,131,719	9,431,970	-	10,563,689
Philippine Peso	483,634	727,735	-	1,211,369
Singapore Dollar	1,042,046	-	-	1,042,046
South African Rand	2,511,773	1,446	-	2,513,219
South Korean Won	4,579,467	47,934	-	4,627,401
Swedish Krona	3,215,005	-	-	3,215,005
Swiss Franc	5,923,188	1,256	-	5,924,444
Taiwanese Dollar	4,367,203	-	-	4,367,203
Thai Baht	928,290	2,293,860	-	3,222,150
Other	3,745,666	991,913	-	4,737,579
Total	<u>\$ 119,195,552</u>	<u>\$ 35,003,289</u>	<u>\$ -</u>	<u>\$ 154,198,841</u>

**El Paso City Employees' Pension Fund  
(A Component Unit of the City of El Paso, Texas)**

**Notes to Financial Statements  
August 31, 2018 and 2017**

<b>Local Currency Name</b>	<b>2017</b>			
	<b>Equity</b>	<b>Fixed Income</b>	<b>Real Estate</b>	<b>Total</b>
Argentine Peso	\$ -	\$ 1,935,706	\$ -	\$ 1,935,706
Australian Dollar	4,266,391	-	-	4,266,391
Brazilian Real	1,554,956	5,199,766	-	6,754,722
British Pound	12,711,136	-	-	12,711,136
Canadian Dollar	2,137,561	-	-	2,137,561
Columbian Peso	-	1,730,797	-	1,730,797
Danish Krone	1,216,206	-	-	1,216,206
Euro Currency Unit	26,641,151	-	-	26,641,151
Ghanaian Cedi	-	2,097,208	-	2,097,208
Hong Kong Dollar	10,784,815	-	-	10,784,815
Indian Rupee	2,688,428	3,587,919	-	6,276,347
Indonesian Rupiah	24,192,027	3,821,392	-	28,013,419
Japanese Yen	26,157,746	-	-	26,157,746
Mexican Peso	1,035,441	8,015,799	-	9,051,240
Philippine Peso	478,253	628,442	-	1,106,695
South African Rand	1,797,254	806,855	-	2,604,109
South Korean Won	5,112,748	-	-	5,112,748
Swedish Krona	2,864,427	-	-	2,864,427
Swiss Franc	5,800,267	-	-	5,800,267
Taiwanese Dollar	4,181,711	-	-	4,181,711
Thai Baht	883,652	1,752,770	-	2,636,422
Other	4,120,609	636,745	-	4,757,354
<b>Total</b>	<b>\$ 138,624,779</b>	<b>\$ 30,213,399</b>	<b>\$ -</b>	<b>\$ 168,838,178</b>

**Security Lending Transactions**

State statutes and board of trustees' policies permit the Fund to lend its securities to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund currently participates in a security lending short duration lending pool. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. The relationship between the maturities of the investment pool and the system's loans is affected by the maturities of the securities loans made by other entities that can use the agent's pool, which the Fund cannot determine.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

Custodial credit risk for securities lending transactions is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For the years ended August 31, 2018 and 2017, the Fund had no credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund. Fair value of securities loaned by type of investment at August 31, was as follows:

	<u>2018</u>	<u>2017</u>
Corporate stocks	<u>\$ 27,090,494</u>	<u>\$ 18,206,098</u>

### **Rate of Return**

For the years ended August 31, 2018 and 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.74% and 10.29%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **Note 5: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

### Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of fiduciary net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2018 and 2017:

	2018			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	8/31/2018 (Level 1)	(Level 2)	(Level 3)	
<b>Investments by Fair Value Level</b>				
Debt securities				
U.S government securities	\$ 32,086,839	\$ -	\$ 32,086,839	\$ -
Corporate bonds and notes	38,991,174	-	38,991,174	-
Total debt securities	<u>71,078,013</u>	<u>-</u>	<u>71,078,013</u>	<u>-</u>
Corporate stocks				
All cap equity	33,488,943	33,488,943	-	-
Small/Mid cap equity	67,970,700	67,970,700	-	-
Total corporate stocks	<u>101,459,643</u>	<u>101,459,643</u>	<u>-</u>	<u>-</u>
Master limited partnerships	39,817,825	-	-	-
Total investments by fair value level	<u>212,355,481</u>	<u>\$ 141,277,468</u>	<u>\$ 71,078,013</u>	<u>\$ -</u>
<b>Investments Measured at the Net Asset Value (NAV) (a)</b>				
Absolute return investments	126,830,615			
Bank collective investment funds				
Large cap index	73,313,733			
Large cap dynamic	55,781,605			
International equity developed	50,923,860			
Total bank collective investment funds	<u>180,019,198</u>			
Commingled funds – fixed income				
Fixed income opportunistic	36,020,213			
Fixed Income core index	37,121,867			
Total commingled funds - fixed income	<u>73,142,080</u>			
Commingled funds – corporate stocks				
International equity – all country	27,220,866			
International equity – all country small cap	25,932,157			
International equity – emerging markets	28,476,081			
Total commingled funds – corporate stocks	<u>81,629,104</u>			
Real estate				
Private real estate	72,817,424			
Total real estate	<u>72,817,424</u>			
Private equity investments	62,394,830			
Total investments measured at the NAV	<u>596,833,251</u>			
Total investments measured at fair value	<u>\$ 809,188,732</u>			

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

	2017			
	Fair Value Measurements Using			
	8/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	8/31/2017	(Level 1)	(Level 2)	(Level 3)
<b>Investments by Fair Value Level</b>				
U.S government securities	\$ 27,104,666	\$ -	\$ 27,104,666	\$ -
Corporate bonds and notes	42,183,835	-	42,183,835	-
Total debt securities	<u>69,288,501</u>	<u>-</u>	<u>69,288,501</u>	<u>-</u>
Corporate stocks				
All cap equity	28,678,712	28,678,712	-	-
Small/Mid cap equity	55,204,592	55,204,592	-	-
Total corporate stocks	<u>83,883,304</u>	<u>83,883,304</u>	<u>-</u>	<u>-</u>
Master limited partnerships	37,030,451	37,030,451	-	-
Total investments by fair value level	<u>190,202,256</u>	<u>\$ 120,913,755</u>	<u>\$ 69,288,501</u>	<u>\$ -</u>
<b>Investments Measured at the Net Asset Value (NAV) (a)</b>				
Absolute return investments	109,573,856			
Bank collective investment funds				
Large cap index	66,081,007			
Large cap dynamic	50,171,964			
International equity developed	60,090,017			
Total bank collective investment funds	<u>176,342,988</u>			
Commingled funds – fixed income				
Fixed income opportunistic	37,208,259			
Fixed Income core index	37,533,947			
Total commingled funds - fixed income	<u>74,742,206</u>			
Commingled funds – corporate stocks				
International equity – all country	31,683,453			
International equity – all country small cap	28,027,381			
International equity – emerging markets	29,558,272			
Total commingled funds – corporate stocks	<u>89,269,106</u>			
Real estate				
Private real estate	67,975,022			
Total real estate	<u>67,975,022</u>			
Private equity investments	57,103,830			
Total investments measured at the NAV	<u>575,007,008</u>			
Total investments measured at fair value	<u>\$ 765,209,264</u>			

(a) Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of fiduciary net position.

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of fiduciary net position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2018.

### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

#### Investments Measured at the NAV

	Fair Value at 8/31/2018	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Absolute return investments	\$ 126,830,615		Daily	Daily to 30 days
Large cap index	73,313,733		Daily	1 day
Large cap dynamic	55,781,605		Daily	Daily
International equity – developed	50,923,860		Daily	2 days
Fixed income opportunistic	36,020,213		Daily	Daily
Fixed Income core index	37,121,867		Daily	2 days
International equity – all country	27,220,866		Daily	3 days
International equity – all country small cap	25,932,157		Daily	Daily
International equity – emerging markets (commingled)	28,476,081		Daily	30 days
Private real estate	72,817,424		Daily	90 days
Private equity investments	<u>62,394,830</u>	\$ 64,600,000	Daily	5 days
Total investments measured at the NAV	<u>\$ 596,833,251</u>			

# El Paso City Employees' Pension Fund (A Component Unit of the City of El Paso, Texas)

## Notes to Financial Statements August 31, 2018 and 2017

	Fair Value at 8/31/2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Large cap index	66,081,007		Daily	1 day
Large cap dynamic	50,171,964		Daily	Daily
International equity – developed	60,090,017		Daily	2 days
Fixed income opportunistic	37,208,259		Daily	Daily
Fixed Income core index	37,533,947		Daily	2 days
International equity – all country	31,683,453		Daily	3 days
International equity – all country small cap	28,027,381		Daily	Daily
International equity – emerging markets (commingled)	29,558,272		Daily	30 days
Private real estate	67,975,022		Daily	90 days
Real estate investment trust	-		Daily	Daily
Private equity investments	57,103,830	\$ 57,563,923	Daily	5 days
Total investments measured at the NAV	<u>\$ 575,007,008</u>			

See *Footnote 4* for descriptions of investments measured at the NAV

### Note 6: Fund Termination

Although not anticipated, should the Fund terminate at some future time, its net position generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated benefits will be paid depends on the priority of those benefits. Benefits under the Fund are not guaranteed by the Pension Benefit Guaranty Corporation.

### Note 7: Plan Tax Status and ERISA

The Fund is a PERS and is exempt from federal income taxes and the provisions of the *Employee Retirement Income Security Act of 1974* (ERISA). Additionally, the Plan obtained its latest determination letter on May 29, 2013, in which the Internal Revenue Service stated that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the *Internal Revenue Code* (IRC) and therefore not subject to tax. The Plan has been amended since receiving the determination letter. However, the plan administrator believes that the Plan and related trust are currently designed and being operated in compliance with the applicable requirements of the IRC.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Notes to Financial Statements**  
**August 31, 2018 and 2017**

**Note 8: Related Party Transactions**

An affiliate of the Fund's custodian is an investment manager for the Fund, which managed \$217,141,065 and \$213,876,935 of the Fund's investments at August 31, 2018 and 2017, respectively. As of August 31, 2018 and 2017, the Fund accrued investment management fees of \$39,000 and \$38,000, respectively, for the services of that investment manager. For the years ended August 31, 2018 and 2017, the Fund incurred \$236,121 and \$225,738, respectively, in management fees with this investment manager.

## **Required Supplementary Information**

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Changes in Net Pension Liability and Related Ratios**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>					
Service cost	\$ 20,418,111	\$ 20,418,111	\$ 23,021,764	\$ 22,243,250	\$ 20,691,396
Interest	72,439,238	70,199,486	66,845,529	64,244,529	61,812,817
Differences between expected and actual experience	16,640,620	-	(22,728,241)	115,295	4,691,256
Changes in assumptions	-	-	37,572,898	-	-
Benefit payments, including refunds of plan member contributions	<u>(61,114,382)</u>	<u>(60,394,115)</u>	<u>(54,383,629)</u>	<u>(50,788,937)</u>	<u>(52,592,834)</u>
<b>Net Change in Total Pension Liability</b>	48,383,587	30,223,482	50,328,321	35,814,137	34,602,635
<b>Total Pension Liability, Beginning of Year</b>	<u>975,995,580</u>	<u>945,772,098</u>	<u>895,443,777</u>	<u>859,629,640</u>	<u>825,027,005</u>
<b>Total Pension Liability, End of Year</b>	<u>\$ 1,024,379,167</u>	<u>\$ 975,995,580</u>	<u>\$ 945,772,098</u>	<u>\$ 895,443,777</u>	<u>\$ 859,629,640</u>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 25,651,488	\$ 25,327,071	\$ 23,370,111	\$ 22,916,913	\$ 21,830,044
Plan member contributions	15,540,713	15,154,341	14,886,249	14,595,935	14,039,600
Net investment income	65,372,489	75,370,973	40,260,073	(17,872,916)	107,723,189
Benefit payments, including refunds of plan member contributions	(61,114,382)	(61,077,565)	(54,383,629)	(50,788,937)	(52,592,834)
Administrative expense	<u>(2,036,643)</u>	<u>(1,325,640)</u>	<u>(1,417,530)</u>	<u>(1,355,351)</u>	<u>(1,143,272)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	43,413,665	53,449,180	22,715,274	(32,504,356)	89,856,727
<b>Plan Fiduciary Net Position, Beginning of Year</b>	<u>776,552,623</u>	<u>723,103,443</u>	<u>700,388,169</u>	<u>732,892,525</u>	<u>643,035,798</u>
<b>Plan Fiduciary Net Position, End of Year</b>	<u>\$ 819,966,288</u>	<u>\$ 776,552,623</u>	<u>\$ 723,103,443</u>	<u>\$ 700,388,169</u>	<u>\$ 732,892,525</u>
<b>City's Net Pension Liability, End of Year</b>	<u>\$ 204,412,879</u>	<u>\$ 199,442,957</u>	<u>\$ 222,668,655</u>	<u>\$ 195,055,608</u>	<u>\$ 126,737,115</u>
<b>Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	80.05%	79.57%	76.46%	78.22%	85.26%
<b>Covered – Employee Payroll</b>	\$ 161,026,109	\$ 161,026,109	\$ 156,336,028	\$ 158,990,084	\$ 153,613,308
<b>Plan's Net Pension Liability as a Percentage of Covered – Employee Payroll</b>	126.94%	123.86%	142.43%	122.68%	82.50%

**Note:** This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Investment Returns**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Annual money-weighted rate of return, net of investment expense	8.74%	10.29%	6.36%	-2.86%	17.22%

**Note:** This schedule is presented to illustrate the requirement to show 10 years of information. However, until a full 10-year trend is compiled, years for which the information is available will be presented.

## **Other Supplementary Information**

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Comparative Summary of Revenue by Source and Expenses by Type**

**Revenue by Source\***

Years Ended August 31,	Interest, Dividends and Net Securities Lending Income	Employer Contributions (a)	Plan Member Contributions (a)	Net Appreciation (Depreciation) in Fair Value of Investments	Total	Employer Contributions As a Percentage of Covered Payroll
2018	\$ 7,108,787	\$ 25,651,488	\$ 15,540,713	\$ 64,832,061	\$ 113,133,049	14.05%
2017	6,459,227	25,327,071	15,154,341	74,716,005	121,656,644	14.05%
2016	7,563,107	23,370,111	14,886,249	37,856,062	83,675,529	14.05%
2015	7,433,579	22,916,913	14,595,935	(21,734,515)	23,211,912	14.05%
2014	8,039,815	21,830,044	14,039,600	103,082,579	146,992,038	13.45%
2013	9,096,062	20,499,707	13,328,629	63,890,162	106,814,560	12.85%
2012	5,161,832	19,181,091	12,607,172	43,642,344	80,592,439	12.25%

\*Excludes increase (decrease) in commission credits receivable.

**Expenses by Type**

Years Ended August 31,	Benefits	Refunds	Investment Fees (b)	Administrative Expenses	Total
2018	\$ 58,094,939	\$ 2,889,443	\$ 6,578,777	\$ 2,036,643 (c)	\$ 69,599,802
2017	57,972,792	3,104,773	5,783,774	1,325,640 (c)	68,186,979
2016	51,554,209	2,829,420	5,104,720	1,417,530	60,905,879
2015	48,419,841	2,369,096	3,510,570	1,355,351	55,654,858
2014	49,375,280	3,217,554	3,336,994	1,143,272	57,073,100
2013	43,021,060	2,159,129	2,932,444	1,176,347	49,288,980

(a) Employee and employer contribution rates are based upon local statutes; contribution rates are not actuarially determined.

(b) Investment fees are made up entirely of investment manager fees.

(c) Detail listed on Comparative Summary of Administrative Expenses.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Comparative Summary of Administrative Expenses**  
**Years Ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Custodial fees	\$ 189,890	\$ 103,531
Consulting fees	288,158	279,135
Legal	151,251	28,956
Travel/education – trustee per diem (1)	-	2,206
Travel/education – employee	2,080	6,708
Audit/accounting	81,250	40,000
Actuary	24,352	64,403
Wages and benefits	693,830	647,099
Other operating expenses	201,397	82,684
Miscellaneous	324,810	-
Land expense	405	-
Liability insurance	79,220	70,918
Total administrative expenses	\$ 2,036,643	\$ 1,325,640

- (1) Other trustee travel expense in the amount of \$2,206 for the year ended August 31, 2017, were paid from directed brokerage commission credits and are noted with the increase in commission credits receivable in the statements of changes in fiduciary net position.

**El Paso City Employees' Pension Fund**  
**(A Component Unit of the City of El Paso, Texas)**  
**Schedule of Investment Manager Expenses**  
**For the Years Ended August 31, 2018 and 2017**

	2018		2017	
	Fair Value of Assets Under Management	Total Fees	Fair Value of Assets Under Management	Total Fees
Fixed Income Managers	\$ 71,078,013	\$ 176,067	\$ 69,288,500	\$ 185,338
Equity Managers	101,459,644	826,625	83,883,305	736,229
Bank Collective Investment Funds Managers	180,019,198	236,122	176,342,988	225,738
Commingled Fixed Income Funds Managers	81,629,104	527,697	89,269,106	373,145
Commingled Equity Funds Managers	73,142,079	465,638	74,742,206	437,549
Real Estate Investment Trust Managers	-	-	-	24,149
Private Real Estate Managers	72,817,424	668,778	67,975,022	649,344
Private Equity Managers	62,394,830	1,145,419	57,103,830	813,585
Absolute Value Managers	126,830,615	2,260,235	109,573,856	2,049,790
Master Limited Partnership Managers	39,817,825	272,196	37,030,451	288,907
<b>Total</b>	<b>\$ 809,188,732</b>	<b>\$ 6,578,777</b>	<b>\$ 765,209,264</b>	<b>\$ 5,783,774</b>