

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD WEDNESDAY AUGUST 20, 2014 AT 8:30 A.M.
CITY HALL, CITY COUNCIL CHAMBERS, 300 N. CAMPBELL**

Members in Attendance:

Rene Peña, Chairman
Presi Ortega
Christina Stokes
America Luna
Larry E. Romero, City Representative
Karl C. Rimkus

Members Absent:

Mario R. Hernandez, Vice Chair
Dr. Michiel Noe, City Representative
Cecilia A. Rios

Others in Attendance:

Eduardo Miranda, Attorney
Robert Ash, Pension Administrator
Patricia Hickman, Deputy Pension Administrator
David Garcia, Payroll/Accounts Payable Specialist
Karina Chavez, Retiree Coordinator/ Data Entry Clerk
Bill Howard, Callan Associates
Denise Grizzle, Interim Comptroller
Enrique Martinez, Interim Director of the City's IT Services
Richard Campos Jr., City's IT Dept.
Araceli Guerra, City's IT Dept.
Norberto Pelayo, City's IT Dept.
Edmundo Calderon, City's Internal Audit Dept.
Lyz Gonzalez, City's Internal Audit Dept.
Matthew L. Yacono
Laura Linneer

Item 1. Rene Pena, Chairman, called the meeting to order at 8:33 A.M.

NOTICE TO THE PUBLIC

All matters listed under the CONSENT AGENDA will be considered by the Pension Board to be routine and will be enacted by one motion in the form listed below. There will be no separate discussion of these items unless members of the Pension Board or persons in the audience request specific items be removed from the CONSENT AGENDA to the REGULAR AGENDA for discussion prior to the time the Pension Board votes on the motion to adopt the CONSENT AGENDA.

CONSENT AGENDA

Item 2. Approve the Minutes of the Regular Board meeting of July 16, 2014.

Item 3. Consideration and action on the following retirements:

	<u>NAME</u>	<u>DEPARTMENT</u>	<u>SERVICE TIME (EST)</u>	
A.	Age & Service Retirement:			
1	Barrera, Jose Luis	DOT	22 years 04 months	*
2	Gonzalez, Helen	PSB	21 years 01 months	
3	Holguin, Guadalupe	Muni. Court	23 years 08 months	*
4	Nava, Robert	Zoo	47 years 04 months	
5	Rodriguez, Martin	Env Svces	25 years 09 months	
6	Vasquez, Jose	PSB	30 years 04 months	*
7	Vislar, Abel	Airport	31 years 00 months	*
B.	Deferred:			
1	Martinez, Ricardo	Streets	10 years 11 months	

* The 3 year average was used to calculate the final pension benefit.

** The 12 month average was used to calculate the final pension benefit.

Item 4. Consideration and action on survivor benefit applications for:

- A. Salais, Maria T., survivor of Crispin Salais, retiree.
- B. Narro, Gloria, survivor of Robert Narro, employee.

Item 5. Consideration and action on invoices as follows:

	<u>COMPANY</u>	<u>DESCRIPTION OF SERVICE</u>	<u>PERIOD</u>	<u>FEE DUE \$\$</u>	
A.	AQR Emerging Equities Fund LP	Investment Fees	July 31, 2014	\$12,331.00	**
B.	BNY Mellon Asset Servicing	Custodian Fees	2 nd QTR 2014	\$30,404.45	
C.	Buck Consultants LLC	Actuarial Fees	July 31, 2014	\$7,241.00	
D.	Denver Investment Advisors	Investment Fees	June 30, 2014	\$9,358.00	**
E.	Denver Investment Advisors	Investment Fees	July 31, 2014	\$9,216.00	**
F.	Eduardo Miranda	Legal Fees	July 31, 2014	\$637.50	
G.	Gordon Davis Johnson & Shane PC	Legal Fees	June 30, 2014	\$1,358.31	
H.	Gordon Davis Johnson & Shane PC	Legal Fees	July 31, 2014	\$2,799.03	
I.	Invesco	Investment Fees	2 nd QTR 2014	\$36,141.01	**
J.	Janus Capital Group	Investment Fees	2 nd QTR 2014	\$77,520.16	
K.	Lazard Asset Management	Investment Fees	2 nd QTR 2014	\$63,318.52	**
L.	Robeco Investment Management	Investment Fees	2 nd QTR 2014	\$23,979.03	
M.	UBS Realty Investors	Investment Fees	2 nd QTR 2014	\$100,438.43	**
N.	Wedge Capital Management LLP	Investment Fees	2 nd QTR 2014	\$48,895.23	

* To be paid by Directed Brokerage credits.

** For Notation Only – to be withdrawn from commingled account.

*** Performance based fee.

Motion made by Larry Romero to accept the Consent Agenda with the following revisions:

ITEM 3: Revise average listed, used to calculate the final pension benefit, to a 3 year average for retirees listed under numbers: A1, A3 and A6.

Seconded by America Luna. Motion required polling:

Presi Ortega	aye
Christina Stokes	aye
America Luna	aye
Larry Romero	aye
Karl Rimkus	aye

Motion carried.

REGULAR AGENDA

Item 6. Discussion and action regarding the Treasurer's Reports for months ending July 31, 2014.

Denise Grizzle, Interim Comptroller, presented; the Treasurer's Report for the period ending July 31, 2014 was distributed.

The Board received and reviewed the Treasurer's Report for the period ending July 31, 2014. Total cash and investments decreased by approximately \$8 million from June to July due to a change in market value of investments. The increase seen from June to July in unrestricted receivables is due to the rebalancing. Contributions and benefits paid is on target and administrative costs remain under budget.

Motion made by Larry Romero to accept the Treasurer's Report for the month ending July 31, 2014 as presented; seconded by Christina Stokes. Motion carried (unanimous).

Item 7. Discussion and action regarding the receipt of a Purchasing Audit as performed by the City's Internal Audit Department.

Edmundo Calderon, Chief Internal Auditor, presented; Purchasing and Accounts Payable Audit Report was distributed. The Internal Audit Office performed a consulting engagement as requested by the Pension Office. The Board received and reviewed the Auditor's recommendations: establishing policies and procedures, low dollar expenditure approval levels, and purchasing thresholds. The consulting performed by the Internal Audit Office is a courtesy; Mr. Calderon commended Pension Staff for their complete cooperation.

Motion made by Larry Romero to accept the Purchasing Audit Report as presented by the Internal Audit Office; seconded by America Luna. Motion carried (unanimous).

Item 8. Discussion and action regarding possible approval of Purchasing and Accounts Payable Policies.

Robert Ash, Pension Administrator, presented; revised Purchasing and Accounts Payable Policies were distributed. These policies were revised as recommended by the Fund's Audit Committee. The Trustees discussed increasing the maximum amount for small purchases.

Discussion ensued.

Motion made by Presi Ortega to approve the Purchasing and Accounts Payable Policies with the following floor amendments: floor amendment to insert quantities under the

following Sections of the Purchasing Policy: 4a & 4a(i): \$500.00; 4b & 4b(i): “between \$500.00 and \$4,999.99”; and 4c & 4c(i): \$5,000.00; floor amendment to revise Section 9 Mileage Reimbursement of the Accounts Payable Policy adding the following disclosure: This policy is designed to comply with the Accountable reimbursement plan as prescribed by tax code; seconded by Larry Romero. Motion carried (unanimous).

- Item 9. Discussion and action regarding the monthly report from the City’s Department of Information Technology.

Enrique Martinez, Interim Director of the City’s Information Technology (IT) Department, spoke. The Board received a progress report on the pending issues with the Pension Module.

Mr. Martinez reported that the benefit statements had been finalized; a few statements were manually corrected. Currently the team is processing the April data for the evaluation report that is due Sept. 1st. Since the team was committed to the benefit statements, all data entered into the system is through December 2013; however, over the course of the month, IT has processed data through March. The report will be submitted by Sept 1st; questions regarding the evaluation report should be submitted by Sept. 15th and responses should be supplied by Sept. 30th.

With a finalized budget, Mr. Martinez will now address the PeopleSoft System with the City Manager; per the City Manager’s approval and direction, IT will be presenting a scope of work to Mayor and Council for approval.

The fit/gap analysis to be performed with the third party consultant is still pending in order to optimize performance of the system. The customized report (actuary data) will be saved in case PeopleSoft is not optimized.

No action required on this item.

- Item 10. Discussion and action regarding the approval of the annual operating budget for fiscal year 2014 – 2015.

Robert Ash, Pension Administrator, presented; proposed budget worksheets were distributed. The proposed budget has increased over the prior year’s budget. Based on the administrative workload, the Personnel Committee has recommended increasing the staffing table. The Fund proposes to eliminate the part-time intern position and in turn create a full-time clerk position starting January 2015. With the increase in the staffing table, health insurance will also increase.

There is a proposed COLA of 2% based on the CPI. If approved, the wage brackets will increase by 2% going forward.

The Fund will be making lease payments to the City for the entire year; there is a 2% increase in the parking space fee as part of that lease.

Amount budgeted for Trustee fiduciary education remains the same as last year at \$2,500 per Trustee.

Motion made by Presi Ortega to accept the proposed budget and the 2% COLA based on the CPI as presented; seconded by America Luna. Motion required polling:

Presi Ortega **aye**
Christina Stokes **aye**
America Luna **aye**
Larry Romero **aye**
Karl Rimkus **aye**

Motion carried.

- Item 11. Discussion and action regarding a budget amendment for FY 2013-2014 for refunds, interest, and retiree payments and a proposed budget for refunds, interest, and retiree payments for FY 2014-2015.

Robert Ash, Pension Administrator, presented; proposed budget and amendment worksheet was distributed. As requested by the City in FY 2013-2014, the Fund has created revenue accounts. For FY 2013-2014 approximately \$42,525,450 was designated for payments to retirees; the actual amount for benefits paid will be \$54,525,450. Subsequently, an amendment to increase the FY 2013-2014 budget by \$12 million for retiree payments and an increase of \$240,000 for contributions is necessary. These benefits must be paid by ordinance. For the FY 2014-2015 year estimated figures are: \$58 million for retiree payments, \$2.6 million for contribution refunds, and \$535,000 for interest.

Motion made by Christina Stokes to approve the budget amendment for FY 2013-2014 and the proposed budget for FY 2014-2015 as presented; seconded by Karl Rimkus. Motion required polling:

Christina Stokes **aye**
America Luna **aye**
Larry Romero **aye**
Karl Rimkus **aye**
Rene Peña **aye**

Motion carried.

- Item 12. Discussion and action regarding the receipt of a death verification analysis.

Robert Ash, Pension Administrator, presented; report was distributed. At the Board's request, the death verification analysis is conducted every other month. The report returned the usual names with recurring data issues; no action is required.

No action required on this item.

- Item 13. Discussion and action regarding proposed amendments to the Fund's investment policy to include the Fund's asset allocation as recommended by Callan Associates.

Bill Howard of Callan Associates presented; the amendment to the Fund's investment policy was distributed. In July, the Board approved an alternate asset allocation strategy which included an MLP component. The amendment incorporates language for that adopted asset allocation strategy.

The Board received a review of the amendment and proposed rebalancing. Funding of the MLP (\$36 million) will be divided into two phases: the first phase consists of \$17 million and the final funding will be presented to the Board in two months.

The Investment Committee had previously reviewed the amendment and advised that they are in agreement with the rebalancing and changes to the investment policy.

Motion made by Presi Ortega to approve the amendment to the Fund's Investment Policy Statement as presented and to authorize the Administrator and Consultant to transition these assets and sign all related documents; seconded by Larry Romero. Motion required polling:

Presi Ortega	aye
Christina Stokes	aye
America Luna	aye
Larry Romero	aye
Karl Rimkus	aye

Motion carried.

- Item 14. Discussion and action authorizing the Chairman or Administrator to sign an Investment Management Agreement for the management of a Master Limited Partnership investment portfolio.

Robert Ash, Pension Administrator, presented; the MLP Investment Management Agreement with Salient Capital Advising was distributed. The Fund's legal counsel had previously reviewed the agreement and negotiations were very successful.

Motion made by Larry Romero to authorize the Chairman or Administrator to sign an Investment Management Agreement for the management of a Master Limited Partnership investment portfolio with the floor amendment to revise the language in Exhibit A at the end of the first paragraph from "on or about October 1, 2014" to "on or about November 1, 2014."; seconded by Presi Ortega. Motion carried (unanimous).

- Item 15. Discussion and action regarding disposition of a loss in security lending from 2008.

Robert Ash, Pension Administrator, presented; report was distributed. The Fund participates in securities lending; it is a service offered by the Fund's custodian, whereby the securities that the Fund holds in the portfolio can be loaned to third parties. The Fund has been participating in securities lending for 20 years.

In 2008 when the market collapsed, the Fund had a security collateralized with Sigma, a AAA rated security at the time. Sigma failed to make a payment and was downgraded 10 different debt levels within 25 minutes. Consequently, the collateral failed because the security became worthless. The Fund is at a loss based on the collateral that must be recovered. The Fund's arrangement with the custodian bank held the Fund accountable. Negotiations with the bank endured, reaching the bank's Vice President.

After distributions and class action settlements the amount due is \$243,013.73. The custodian bank has conceded that Sigma securities lending loss be taken from securities lending revenue over time and until such time as the balance of the loss of \$243,013.73 is paid. The liability was reflected in the Fund's financial statements. No further class action settlements are pending.

Motion made by Presi Ortega to negate the securities lending revenue until the balance of Sigma securities lending loss is paid; seconded by Larry Romero. Motion required polling:

Presi Ortega	aye
Christina Stokes	aye
America Luna	aye
Larry Romero	aye
Karl Rimkus	aye

Motion carried.

Item 16. Discussion and action regarding a report from Callan Associates.

Bill Howard of Callan Associates presented; monthly “flash” report for the period ending July 31, 2014, the rebalancing sheet and the quarterly reports were distributed. The Board received a market update for the second quarter of 2014. The U.S. Economy bounced back after a dismal first quarter. The GDP is at 4% in the 2nd quarter driven by strong consumption, inventory growth, construction and exports. It appears that there will be a tax increase in the 1st Quarter of 2015.

The Board received and reviewed the quarterly performance report for the period ending June 30, 2014. The total Fund portfolio is up 19% which is 100 basis points better than the target return. Trustees questioned netted return versus high fees in active management in comparison to passive management.

Overall the Fund has good peer group rankings for short, intermediate, and long term periods. For the last year the Fund is in the top decile of all public funds in the Callan database (including non-client funds.)

The Board also received and reviewed the monthly “flash” report for the period ending July 31, 2014. The total fund was down 1.3% in July, which is about 30 basis points behind the index. Fiscal year to date, the Fund was up almost 15%; there is one month remaining in the fiscal year.

Motion made by Presi Ortega to approve report from Callan Associates; seconded by Larry Romero. Motion carried (unanimous).

Item 17. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- Committee attendance is important for Board functionality. Mr. Ash expressed his gratitude to all members that attend their meetings regularly.
- The target date for the actuarial abstract is September 1st.
- Benefit Statements released last month.
 - Pension Staff received few inquiries regarding data on the statements.
- The Administrator and Board Chairman have met with City Manager to review the Fund.
- Newsletter will go out in October.
 - Presi Ortega requested an article showing the economic impact that the Fund has on El Paso (54.5 million paid last year.)
- In response to Larry Romero, Mr. Ash advised that staff would meet with IT to request possible streaming of the Pension Board Meetings.
- The Fund is rebalancing in order to fund the new MLP.
- Board training will be held in September immediately following the Board Meeting.

No action required on this item.

Item 18. Discussion and action regarding the following Committee reports/assignments:

- A. Actuary Committee - Committee did not meet.
- B. Ad-Hoc Facilities Committee - Committee did not meet.
- C. Audit Committee - Committee did meet.
- D. Investment Committee - Committee did meet.

Presi Ortega read the Investment Committee minutes: The Investment Committee met on August 19, 2014. The Committee received a report from the Fund's investment consultant regarding the portfolio performance for the month of July 2014 and the quarter ended June 30, 2014.

The Committee then received a semi-annual portfolio performance report from ROBECO/Boston Partners. The Committee asked questions about the recent performance and noted that the long term performance was very good while recent performance was behind the benchmark.

The Committee also received an update concerning contract negotiations with Salient Capital Advisors for the management of a MLP portfolio. The Administrator reported that contract negotiations went well and were completed. The Administrator advised that an agenda item was placed on the August Board meeting agenda to approve the contract with Salient Capital Advisors.

The Fund's investment consultant reviewed some proposed changes to the Fund's asset allocation. The consultant advised that cash needed to be raised to fund the MLP manager and provide cash to pay monthly benefits to retirees and other expenses. Callan proposed decreasing the S&P 500 index portfolio by \$5 million and the EAFE index portfolio by \$10 million dollars. In addition Callan recommended that \$7 million dollars be taken from Touchstone international equities in order to rebalance the portfolio. In addition, the Committee recommended that the MLP manager be funded with \$17 million dollars on September 1, 2014 and \$18 million dollars on November 1, 2014.

The Committee reviewed proposed changes to the Fund's Investment Policy Statement which include a revised asset allocation and new guidelines for the investment of a MLP portfolio. The Committee recommended approval of the asset rebalancing and the proposed amendment to the Fund's Investment Policy.

Finally, the Committee reviewed the payment to BNY-Mellon due to a securities lending loss back in 2008. The Committee recommends that the Administrator be allowed to sign all necessary documents so that the Sigma securities lending loss be taken from securities lending revenue until such time as the balance of the loss of \$243,013.73 is paid.

The next scheduled meeting of the Investment Committee will be held on September 16, 2014.

No action required on this item.

- E. Personnel Committee – Not mentioned.
- F. Retiree Committee – Not mentioned.

Item 19. For Notation:

- A. Directed brokerage credit balance for month ended June 30, 2014: \$136,675.42
- B. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND
1	Apodaca, Annette	Health	\$4,728.91
2	Cannon, Cynthia	Human Resources	\$8,395.69
3	Cano, Humberto	General Services	\$14,243.59
4	Carrasco, Thomas H.	Env. Svces	\$1,168.07
5	Crain, William	Env. Svces	\$378.02
6	De Castro, Eduardo	Env. Svces	\$25,315.44
7	Downs, Elizabeth	Parks & Recreation	\$7,166.08
8	Figueroa, Francisco	Env. Svces	\$1,221.07
9	Fraire, Francisco	Zoo	\$173.16
10	Galarza, Virginia	Parks & Recreation	\$12,093.38
11	Garcia, Henry M.	EPWU	\$34,614.03
12	Gonzales, Anthony	Parks & Recreation	\$10,555.32
13	Hernandez, Annette	Municipal Clerk	\$4,039.11
14	Herrera, Marcos	DOT	\$10,560.23
15	Holmes, Georgia J.	Fire	\$31,648.89
16	Ibarra, Hector	EPWU	\$12,438.69
17	Kepple, Justin D.	Police	\$1,207.98
18	Martinez, Daniel C.	EPWU	\$106,206.45 *
19	McCoy, Willie	Env. Svces	\$1,987.40
20	Molina, Veronica	Fire	\$4,378.64
21	Morales, Ernest	EPWU	\$21,050.02
22	Morales, Javier	Mass Transit	\$19,187.95
23	Nevarez, Victoria	EPWU	\$2,005.48
24	Polk, Bryan	City Development	\$15,313.90
25	Prieto, Omar	General Services	\$9,393.93
26	Ramirez, Edmundo	Env. Svces	\$30,657.62
27	Saucedo, Lizette	Mayor & Council	\$2,380.96
28	Shamy, Christopher	General Services	\$11,316.74
29	Silva, Leticia	Airport	\$19,439.28
30	Soliz, Martin	DOT	\$2,834.83
31	Veik, Thomas M.	EPWU	\$2,310.12
32	Wilcox, Courtney Erin	Zoo	\$7,785.51
33	Witte, Melanie	EPWU	\$6,878.01
34	Zuloaga, Maria	Fire	\$7,714.19
	TOTAL		<u>450,788.69</u>

* Additional interest/contributions due

** Eligible for Early Retirement

For notation, no action required on this item.

Motion made by Karl Rimkus to go into Executive Session to discuss items under Section 551.071 and Section 551.078; seconded by America Luna. Motion carried @ 8:35 A.M. (unanimous.)

Motion made by Presi Ortega to reconvene from Executive Session; seconded by America Luna. Motion carried @ 9:19 A.M. (unanimous.)

Item20. The Board will retire into EXECUTIVE SESSION pursuant to the Texas Government Code, Sections 551.071-551.076 and Section 551.078 to discuss any of the following:

- Section 551.071 CONSULTATION WITH ATTORNEY**
- Section 551.072 DELIBERATION REGARDING REAL PROPERTY
- Section 551.074 PERSONNEL MATTERS
- Section 551.075 CONFERENCE WITH EMPLOYEES
- Section 551.076 DELIBERATION REGARDING SECURITY DEVICES
- Section 551.078 DELIBERATION REGARDING DISABILITY APPLICANT'S MEDICAL RECORDS**

A. **Section 551.071 and 551.078** Discussion and action regarding the disability retirement application of Matthew Yacono.

Motion made by Presi Ortega to approve the application for disability retirement for Matthew Yacono; seconded Larry Romero. Motion required polling:

Presi Ortega	aye
Christina Stokes	aye
Larry Romero	aye
Karl Rimkus	nay
America Luna	aye

Motion carried.

Item 21. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board meeting on August 20, 2014; seconded by Larry Romero. Motion carried @ 10:39 A.M. (unanimous).

Secretary

Chairman