

**THE EL PASO CITY EMPLOYEES' PENSION FUND  
BOARD MINUTES FOR THE REGULAR MEETING  
HELD WEDNESDAY DECEMBER 16, 2015 AT 8:30 A.M.  
CITY HALL, CITY COUNCIL CHAMBERS, 300 N. CAMPBELL**

---

---

**Members in Attendance:**

Rene Peña, Chairman  
Karl C. Rimkus, Vice Chair  
Presi Ortega  
Rebecca L. Torres  
Pat Aauto  
Christina Stokes

**Members Absent:**

America E. Luna  
Peter Svarzbein, City Representative

**Others in Attendance:**

Robert Ash, Pension Administrator  
Patricia Hickman, Deputy Pension Administrator  
Patricia Degman, Comptroller  
David Garcia, Payroll/Accounts Payable Specialist  
Karina Chavez, Retiree Coordinator/ Data Entry Clerk  
Bill Howard, Callan Associates  
Norberto Pelayo, City's IT Department  
Richard Campos, City's IT Enterprise Applications Administrator

- Item 1. Rene Peña, Chairman, called the meeting to order at 8:38 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 November 18, 2015.

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.	Luna, Jesus M.	EPWU	30 years 00 months *
2.	Martinez, Cesar Luis	Airport	10 years 04 months
3.	Ortiz, Raul E.	Streets	19 years 06 months *
4.	Ramirez, Juan H.	Mass Transit	14 years 06 months *
5.	Shadrick, Manuel	Intl. Bridges	16 years 10 months
6.	Simpson, John	Mass Transit	17 years 10 months *
B.	Early:		
1.	Fierro, Carlos	Health	25 years 11 months
2.	Rice, Christopher	Streets & Maintenance	22 years 01 month
C.	Deferred:		
1.	Flores, Antoinette	Police	16 years 02 months *
2.	LePage, Michelle	EPWU	16 years 00 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. Almanza, Elida survivor of Ramon L. Almanza, retiree.

Item 5. Consideration and action on invoices as follows:

	<u>COMP ANY</u>	<u>DESCRIPTION OF SERVICE</u>	<u>PERIOD</u>	<u>FEE DUE \$\$</u>
A.	BKD, LLP	Audit Fees	YE August 31, 2015	\$20,000.00
B.	Buck Consultants	Actuarial Fees	September 30, 2015	\$8,245.00
C.	Denver Investments	Investment Fees	November 30, 2015	\$8,058.00 **
D.	Eduardo Miranda	Legal Fees	November 30, 2015	737.50
E.	Franklin Templeton-CT910-75	Investment Fees	3 Mos. Ended 10/31/15	\$73,029.93 **
F.	Franklin Templeton-CT432-327	Investment Fees	3 Mos. Ended 10/31/15	\$24,196.10 **
G.	Mellon Capital Management	Investment Fees	3 <sup>rd</sup> Qtr. 2015	\$47,057.04 **
H.	Principal Global Investors	Investment Fees	November 30, 2015	\$4,235.26 **

\* To be paid by Directed Brokerage credits.

\*\* For Notation Only - to be withdrawn from commingled account.

\*\*\* Performance based fee.

**Motion made by Pat Adatao to accept the Consent Agenda with the following correction: Carlos Fierro is an early retirement; seconded by Christina Stokes. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>

**Motion carried.**

## **REGULAR AGENDA**

Item 6. Discussion and action regarding the Treasurer's Reports for months ending November 30, 2015.

Patricia Degman, Comptroller for the City of El Paso, presented; the Board received and reviewed the Treasurer's Report for the month ended November 30, 2015.

Degman reviewed the statement of net assets available for benefits, the statement of changes in net assets, and the quarterly statement of changes in net assets. At the end of November, total cash and investments were approximately 658 million dollars with about 8 million dollars in cash and the remaining balance in stocks, bonds and other investments. Receivables were about 51 million dollars with the largest portion in unrestricted. Degman noted that unrestricted receivables are investments that have not completed transactions by the end of the reporting period. Total assets for November were approximately 709 million dollars which is a decrease of approximately 3 million dollars from the prior month. Total liabilities were about 1.1 million dollars for routine transactions related to the purchase of securities, accrued expenses and commission credits. The ending fund balance is approximately 707.9 million dollars which is a net increase of about 8.7 million dollars from the beginning of the fiscal year. Degman reviewed the subcategories in additions and deductions. For the first quarter in the fiscal year, total additions were about 22.3 million dollars with approximately 9.4 million dollars in contributions; the net appreciation in fair value of investments was about 11.1 million dollars. Total deductions were about 13.5 million dollars; the largest deduction was in benefits that were paid to retirees of about 12.6 million dollars.

Degman noted the slight change in the reconciliation to Mellon statements from a cash to an accrual basis. Degman reviewed the adjustments; the conversion confirms that accounting for all the transactions in the general ledger are in agreement with the balance in the bank.

Degman reviewed the investment income analysis. The rate of return at 1.84 percent is down from October which was at 2.26 percent. Degman noted that the Fund continues to show recovery from August. Degman reviewed the chart for investment income and the chart for net assets available for benefits.

Degman reviewed the administration actual/budget comparison. The budget for the year is about 772 thousand dollars. Current utilization is about 151 thousand dollars, which is under 20 percent. Including the expenses paid directly by Mellon Trust, total administrative expenses are approximately 340 thousand dollars.

Trustee, Presi Ortega, commented on the economic impact of the Fund and discussed posting that information on the Pension website.

**No action required on this item.**

- Item 7. Discussion and action regarding the monthly report from the City's Department of Information Technology.

Richard Campos, Enterprise Applications Administrator of the City's Information Technology (IT) Department, spoke. Campos advised on the pending issues with the Pension Module.

Campos stated that the September periodic processing has been completed and the October periodic processing will begin by the end of December.

Campos reviewed the status of other pension processes. Changes to employee withdrawals are currently being reviewed by Pension Administration. Employee participation for pension statements is currently under review; the review of original hire dates is ongoing.

Campos noted that the benefits calculation program is running successfully. IT is currently reviewing the rules with Pension Administration to determine the accuracy of those calculations.

Campos advised that the main issue with the pension processes is resolving configuration issues that may have resulted from the reimplementation of PeopleSoft. He advised that IT had contacted the vendor to inquire about additional training for IT personnel and Pension Administration. The vendor, Oracle, had previously provided a quote for training; however, they recently advised that a trainer is not available. When prompted by Robert Ash, Pension Administrator, Campos advised that Oracle is available to provide technical assistance as needed. Campos noted that he is unsure if the proposed training will be technical.

**No action required on this item.**

- Item 8. Discussion and action regarding the receipt of a draft audit report prepared by the Fund's independent auditors BKD, LLP.

Rene Peña, Chairman, presented; the Board received and reviewed the draft audit report prepared by the Fund's independent auditors BKD, LLP.

Peña noted that the annual report is for the period ended August 2015. He reviewed the management's discussion and analysis. Pension Management, with the support of the auditors, identified some of the major changes in the fiscal year. The net position of the Fund decreased during fiscal year 2015 by 32.5 million dollars; the major reason for this decrease was the performance of the stock market. Peña noted that the net position remains ahead of the total for fiscal year 2013. Peña reviewed the changes in the net position from fiscal year 2013 to 2015. Benefit payments decreased by 0.95 million dollars in fiscal year 2015. Robert Ash, Pension Administrator, noted that the Board granted a 13<sup>th</sup> check in 2014.

Peña reviewed the discount rate used to measure the total pension liability. Peña noted that the Board established the rate of 7.5 percent. The Board discussed the capital market projections and effect on asset allocation, sensitivity of the discount rate, and the calculation of the discount rate.

Peña noted that the auditors stated that management is doing a good job; the financial statements are fairly presented and management is following GASB. Ash thanked staff and the Financial Services Department for their help.

Trustees discussed investment strategy, market performance, revenue and expenses beginning from 2010 to present.

**Motion made by Presi Ortega to approve the draft audit report as presented; seconded by Pat Aauto. Motion carried.**

Item 9. Discussion and action regarding hiring an additional absolute return investment manager and authorizing the Chairman or Administrator to sign related documents.

**Motion made by Presi Ortega to table Item 9; seconded by Pat Aauto. Motion carried.**

Item 10. Discussion and action authorizing the Administrator to rebalance the Fund's assets as recommended by the Fund's investment consultants.

Bill Howard of Callan Associates presented; the Board received and reviewed the asset rebalancing sheet.

Howard noted that the updated market value on the rebalancing sheet for each portfolio is through December 9<sup>th</sup>.

Howard reviewed the rebalancing sheet and the upcoming cash needs. The Fund needs to raise cash to pay benefits and for potential capital calls; the Fund has a cash outflow of approximately four million dollars every quarter. At the end of December the cash balance is approximately five million dollars. Callan is proposing to raise two million in cash which will bring the balance to seven million. Howard reviewed the proposed asset rebalancing of the domestic equity portfolio.

The Fund also needs to raise funds for real estate. Howard noted that several months ago the Board hired Heitman as the second private core real estate manager; at that time the Fund's commitment went into the firms queue. Heitman has indicated that they will call the remaining capital of about 25.7 million dollars in early January. Howard reviewed the proposed asset rebalancing of the real estate portfolio.

In reference to the proposed removal of Invesco from the Funds private equity portfolio, Trustee, Presi Ortega, requested that Callan continue to track Invesco's performance for the following one to three years. Howard advised that Callan will provide a comparison of Invesco and Principal to the Investment Committee. Ortega requested that Callan include Heitman in that comparison.

**Motion made by Karl Rimkus to approve; seconded by Rebecca L. Torres. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>

**Motion carried.**

Item 11. Discussion and action regarding a report from Callan Associates.

Bill Howard of Callan Associates presented; the Board received and reviewed the monthly “flash” report for the period ended November 30, 2015.

Howard provided a review of the projected rate increase. The Federal Reserve is meeting and Callan expects that they will raise the Fed funds target rate by 25 basis points; this would be the first increase since 2006. The Fed is encouraged by the drop in unemployment from 10 percent back in October 2009 to five percent today. Howard noted that the Fed’s other mandates for a rate increase are price stability and low inflation. Callan believes the increase will not have a huge reaction as the market has already priced-in the expected rate increase. The Board discussed the future outlook.

Howard reviewed market performance. In November, the markets were neutral. The Russell 3000 was positive 55 basis points. International stocks fell slightly; the ACWI ex-US IMI index, which is the broadest benchmark for international equities, was down around two percent. Fixed income was slightly negative.

Howard reviewed the “flash” report for the period ended November 30, 2015 and noted that all the returns shown are net of investment manager fees. Howard advised that he will review the “liquid” portfolios and will review private equity and private real estate at the end of the quarter.

Howard reviewed the performance of the Fund’s domestic equity active managers. Callan noted that the Investment Committee will try to streamline the US equity structure within the first months of the year closely reviewing the Boston Partners portfolio. Boston Partners is the Fund’s longest tenured manager; they have struggled as their value approach has underperformed growth. They were down 60 basis points for the month, down about 3.7 percent for the year, and behind by 25 basis points for the last five years. The Mellon portfolio was 13 basis points behind the index and about 50 basis points behind for the last year. Vulcan, a concentrated all cap value portfolio, has struggled recently; they were down 1.72 percent versus the benchmark in November and behind over 500 basis points for the year. Vulcan does not have a three year record. Wedge, a small cap value manager, was up about 2.4 percent but trailed the index. Wedge has added value over the last year and is up over 250 basis points over the index in the past three years. Wedge is the best manager in the private equity space. Riverbridge, the small cap growth manager, trailed for the month of November and is in line with the index for the last year. Riverbridge does not have a three year record.

Howard reviewed the performance of the Fund’s international equity active managers. Denver Investments, a manager that is on “watch”, recently presented to the Investment Committee. Denver outperformed the index by over 250 basis points for the month and outperformed by about 400 basis points for the fiscal year; however, they remain behind for the last year by about 400 basis points. Franklin Templeton, a small cap manager, trailed for the month of November but is ahead of the index for the year by over 100 basis points. Lazard, an all cap all country manager, is ahead of the index for the month by almost one percent but trailed the index by about 30 basis points for the last year. Touchstone is one of the two emerging managers for the Fund. Both emerging managers have struggled in the current macro orientated environment. Touchstone is on “watch” for performance. Callan’s research team along with the Investment Committee will review Touchstone in early 2016. AQR is the other emerging markets portfolio for the Fund. AQR underperformed for the month and is almost 300 basis points behind the index for the year.

Howard reviewed Janus' performance and provided an update on the firm. The Fund's largest active manager is Janus; they manage about a 100 million dollar core plus portfolio. Janus trailed the benchmark in November and for the last year; however, for the last three years they are ahead of the index by 51 basis points. Howard advised that on March 31, 2016 Gibson Smith, the head of the fundamental fixed income team, will be leaving Janus. As a result, two individuals have been promoted; Darrell Watters will be the head of US fundamental fixed income and will be in charge of the Fund's portfolio, and Chris Diaz will be the head of the global fundamental fixed income which has less impact on the Fund's portfolio. Callan will perform an onsite due diligence visit by early February and will report back to the Investment Committee at their February meeting. Callan recommends placing Janus on "watch". Howard noted that although a decision has not been made to replace Janus, the Investment Committee decided to start a search for a potential replacement.

Howard reviewed the performance of the Fund's fixed income and real estate active managers. Franklin Templeton manages a global, unconstrained portfolio. They were ahead of the index by over 300 basis for the month and ahead by over 360 basis points for the last three years. Howard noted that the Fund is removing the Invesco REIT portfolio. Principal, a global REIT manager, has three months of history with the Fund; over that time period they are ahead of the index by 25 basis points. Trustees discussed the cyclical real estate market, the Fund's exposure, and the underperformance of real estate highlighting UBS.

Howard reviewed the factors affecting MLPs and reviewed the performance of the Fund's MLP active manager, Salient. MLPs sold off in November. Howard noted that the Fund recently rebalanced and further funded MLPs toward target allocation with an additional four million dollars. Callan will review rebalancing MLPs in January. Salient outperformed the index for the month and over the last year.

The total fund was in line with the benchmark for the month and was trailed by over one percent for the year. However, the Fund has been up over eight percent compounded for the last five years, slightly trailing the benchmark.

Howard noted that the new Allianz portfolio was funded on December 1<sup>st</sup>; that transaction of approximately 35 million dollars will appear in the following month's report.

**Motion made by Presi Ortega to put Janus on "watch" due to future management change; seconded by Rebecca L. Torres. Motion carried.**

Item 12. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- Ash noted that the Fed will be announcing their decision on the Fed funds rate at 12:15 P.M.
- Ash thanked staff, Financial Services, and the Audit Committee for their work on the audit.
  - Pension Administration will work with the custodial bank regarding classification issues.
  - Rene Peña, Chairman, noted that the Board did not receive a management letter from the auditors which indicates the auditors' complete concurrence with management's: financial reporting capacity, internal control capacity, and compliance capacity.
- Ash advised that Pension Administration is currently working with the actuary and the GASB 67 reports have been provided to the City. The next step is the Fund's interim valuation, which will likely be completed in January. Ash noted that the interim report only

reviews market values. The Actuary Committee has discussed and expects that the years to amortize will increase.

- Ash congratulated Vice Chair, Karl Rimkus, for passing the Claritas Test. Rimkus advised that he received the Claritas Investment Certificate from the CFA Institute. He advised that the institute allows six months for exam preparation which includes economics, ethics, investment vehicles, etc. Rimkus noted that it accounts for 4.5 hours toward the education requirement and recommended that all Board Members obtain the certification. Ash advised the Board to contact David Garcia, Payroll/Accounts Payable Specialist, for additional information.
- Ash reviewed holiday hours and availability.
- Ash advised that beginning in January the Board Meetings will be paperless and entirely on BoardPaq. Ash noted that Board Members will be able to print documents from BoardPaq as needed.

**No action required on this item.**

Item 13. Discussion and action regarding the following Committee reports/assignments:

- A. Actuary Committee – Committee did not meet.
- B. Ad-Hoc Facilities Committee – Committee did meet.

Karl Rimkus read the Ad-Hoc Facilities Committee minutes:

The Ad Hoc Facilities Committee met on December 15, 2015. The Committee discussed procedures that may be used in soliciting design/build firms for the possible construction of a new pension facility. The Committee reviewed what processes the City uses for these types of solicitations. After discussion it was determined that additional research was needed and Committee members were requested to conduct some research before the next Committee meeting.

The Committee also discussed the processes which might be used if a broker was needed to sell real property. The Committee will continue to develop options for Board consideration should this need arise.

It is anticipated the Committee will meet in January at a date and time to be determined.

Karl Rimkus noted that the Committee anticipates a 12 month timeline for completion.

**No action required on this item.**

- C. Audit Committee – Committee did not meet.
- D. Investment Committee – Committee did meet.

Presi Ortega read the Investment Committee minutes:

The Investment Committee met on December 15, 2015. The Committee received a report from Callan Associates regarding management changes at Janus Capital Management. One of Janus' portfolio managers has announced that he will be stepping down at the end of the first quarter of next year. Callan indicated that they will be meeting with Janus early next year and will have a report for the Committee at that time. The Committee requested that Callan begin a search for another bond manager in case the Board would want to further diversify that bond allocation or terminate Janus due to the change in leadership.

The Committee also received a verbal update regarding the portfolio performance for the month of November 2015. The written report will be shared with the Board at their next meeting.

Next, the Committee received an investment portfolio performance report from Denver Investment Advisors. Denver is on "watch" and joined the Committee for their semi-annual performance report. The Committee members asked the portfolio manager questions regarding the holdings and return characteristics of the investment portfolio. Callan noted that the returns when compared against the benchmark have improved over recent measurement periods.

Finally, the Committee reviewed a proposed rebalancing plan. After discussion the Committee recommends approval of the rebalancing plan.

The next scheduled Investment Committee meeting will be held on January 19, 2016.

**No action required on this item**

E. Personnel Committee – Committee did meet.

Christina Stokes read the Personnel Committee minutes:

The Personnel Committee met on December 14, 2015. The Committee reviewed the annual performance evaluation for the Fund's Payroll/Accounts Payable Specialist. The Committee also reviewed the accomplished goals for the evaluation period and the proposed goals for the upcoming year. After discussion the Committee recommends approval of the evaluation.

The Committee also reviewed an evaluation of the Fund's Benefit Technician. The Committee discussed the evaluation with the Administrator and the Fund's Benefit/Budget Specialist. The Committee requested to speak with the employee and reviewed her proposed goals for the coming year. After discussion the Committee recommends that her probationary period be ended and that she be made a regular employee. In addition the Committee recommends approval of the performance evaluation.

Finally, the Committee discussed an employee's release to work and request for work modifications. No action was required of the Committee.

It is anticipated that the Committee will meet again in January at a time and place to be determined.

**No action required on this item**

F. Retiree Committee – Committee did not meet.

Item 14. For Notation:

A. Directed brokerage credit balance for month ended October 31, 2015: \$135,868.83

B. Refund of Contributions:

	<b>NAME</b>	<b>DEPARTMENT</b>	<b>TOTAL REFUND</b>
1.	Anchondo, Ennette	Fire	\$293.91
2.	Arizpe, Raymond	Planning & Inspections	\$23,014.94
3.	Bates, Joanne	Health	\$31,010.89
4.	Beck, Mitchell	Zoo	\$750.74
5.	Bilbo, Steven C.	QDRO	\$53,513.61
6.	Ceniceros, Nancy	Fire	\$9,802.45
7.	Garcia, Alex	Airport	\$991.42
8.	Gomez Jr., Jesus F.	Environmental Services	\$20,499.68
9.	Harper, David L.	Environmental Services	\$716.63
10.	Hash, Alvin L.	Mass Transit	\$705.37
11.	Jacquez, Nicolas	Tax Office	\$13,022.19
12.	Kriegel, Michelle	Zoo	\$863.26
13.	McGrew, Terry	Streets	\$1,377.83
14.	Nieto, Anthony	Mass Transit	\$4,436.12
15.	Puga, Michelle	Health	\$1,032.85
16.	Ramirez, Ricardo	Mass Transit	\$73,401.47 **
17.	Rodriguez, Ramon	EPWU	\$12,232.85
18.	Valdez, Irma M.	Airport	\$4,888.18
			<u>\$252,554.39</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 551.074; seconded by Christina Stokes. Motion carried @ 9:48 A.M.**

**Motion made by Christina Stokes to reconvene from Executive Session; seconded by Pat Adauto. Motion carried @ 10:09 A.M.**

Item 15. 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 551.074** Discussion and action regarding the annual performance evaluation of the Fund's Payroll/Accounts Payable Specialist.

**Motion made by Christina Stokes to approve the annual performance evaluation of the Fund's Payroll/Accounts Payable Specialist; seconded by Presi Ortega. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>

**Motion carried.**

B. **Section 551.071 and 551.074** Discussion and action regarding the annual performance evaluation of the Fund's Benefits Technician.

**Motion made by Christina Stokes to approve the annual performance evaluation of the Fund's Benefits Technician; seconded by Presi Ortega. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>

**Motion carried.**

Item 16. Adjournment

**Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board Meeting on December 16, 2015; seconded by Rebecca L. Torres. Motion carried @ 10:11 A.M.**