

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD THURSDAY, DECEMBER 15, 2016 AT 8:30 A.M.
CITY HALL, CITY COUNCIL CHAMBERS, 300 N. CAMPBELL**

Members in Attendance:

Karl C. Rimkus, Chairman
Rene Peña, Vice Chairman
Presi Ortega
Rep. Lily Limón
Rebecca L. Torres
Christina Stokes
Rep. Jim Tolbert
Mario R. Hernandez

Members Absent:

Ed Archuleta

Others in Attendance:

Eduardo Miranda, Attorney
Charles Lino, Assistant Comptroller
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
Richard Campos, City's DoIT Enterprise Applications Administrator
Enrique Martinez, City's DoIT
Frank Tonche, City Employee
Kevin Machiz of Callan
John Pirone of Callan
Robert Pridemore of USI

- Item 1. Karl Rimkus, Chairman, called the meeting to order at 8:37 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 16, 2016.

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	Gonzalez, Timoteo	EPWU	20 years 06 months
2	Hernandez, Rosalva	Airport	15 years 03 months*
3	Jimenez, Anna M.	Library	14 years 05 months
4	Ruedas, Vivian	Police	25 years 03 months
5	Short, James	Mass Transit	11 years 01 month*
6	Valles, Roberto E.	EPWU	07 years 02 months
7	Weiss, Geneva	Library	15 years 06 months
B.	Deferred:		
1	Quinonez Jr., Jose	Airport	27 years 07 months
2	Velazquez, Sylvia Olivas	Police	15 years 09 months
C.	PRP:		
1	Simien, Charles L.	EMS Fire	04 years 01 month

* 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. Medina, Catalina survivor of George Medina, retiree.
- B. Procell, Christina survivor of Jose Procell, retiree.
- C. Serrano, Bertha E. survivor of Thomas Serrano, retiree.

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	Investment Fees	October 31, 2016	\$10,659.00	**
B.	AQR Style Premia Fund	Investment Fees	October 31, 2016	\$18,353.00	**
C.	AQR Emerging Equities Fund	Investment Fees	November 30, 2016	\$10,356.00	**
D.	AQR Style Premia Fund	Investment Fees	November 30, 2016	\$18,149.00	**
E.	BKD LLP	Audit Fees	YE August 31, 2016	\$12,000.00	
F.	Buck Consultants	Actuarial Fees	October 31, 2016	\$8,798.00	
G.	Denver Investments	Investment Fees	October 31, 2016	\$8,609.00	**
H.	Denver Investments	Investment Fees	November 30, 2016	\$8,348.00	**
I.	Eduardo Miranda	Legal Fees	November 30, 2016	\$512.50	
J.	Franklin Templeton – CT432-327	Investment Fees	October 31, 2016	\$21,986.73	**
K.	Franklin Templeton – CT910-75	Investment Fees	October 31, 2016	\$56,753.77	**
L.	Mellon Capital Management	Investment Fees	3 rd Qtr. Ended 09/30/16	\$56,306.66	**
M.	Principal Global Investors	Investment Fees	November 30, 2016	\$4,702.08	**
N.	UBS Realty Investors	Investment Fees	3 rd Qtr. Ended 09/30/16	\$93,043.91	**

- * To be paid by Directed Brokerage credits.
- ** For Notation Only – to be withdrawn from the commingled account.
- *** Performance-based fee.

- Item 6. Consideration and action on the following Committee reports/assignments:
- A. Actuary Committee
 - B. Ad-Hoc Facilities Committee
 - C. Audit Committee
 - D. Investment Committee
 - E. Personnel Committee

Motion made by Presi Ortega to accept the Consent Agenda; seconded by Rene Peña. Motion approved. Motion made by Presi Ortega to reconsider the motion; seconded by Rep. Lily Limón. Motion approved. A poll was taken for the approval of the Consent Agenda:

Presi Ortega	aye
Rep. Lily Limón	aye
Rebecca L. Torres	aye
Christina Stokes	aye
Rene Peña	aye
Rep. Jim Tolbert	aye
Mario R. Hernandez	aye

Motion carried.

REGULAR AGENDA

- Item 7. Discussion and action regarding the Treasurer's Report for the month ended November 30, 2016.

Charles Lino, Assistant Comptroller for the City of El Paso, presented; the Board received and reviewed the Treasurer's Report for the month ended November 30, 2016.

Lino noted that the totals in the Treasurer's Report are preliminary.

Lino reviewed the statement of net assets available for benefits. The unaudited totals in the statement are for the month ended November 30, 2016. Lino reviewed assets. The recovery in investments is reflected in the total assets available for benefits which increased by approximately one million dollars from October.

Lino reviewed the statement of changes in net assets available for benefits. The unaudited totals in the statement are for the three month period ended November 30, 2016. Lino reviewed deductions. Between October and November, the net value of investments decreased by approximately 2.3 million dollars. Lino noted that the preliminary audit for FY16 was reviewed; after adjustments, the net position decreased by about 1.85 million dollars, dropping the ending fund balance to approximately 723.1 million dollars. However, the finalized numbers are still pending.

Lino reviewed the quarterly statement of changes in net assets available for benefits. The unaudited totals in the statement are for the first quarter. The net decrease for the quarter was

approximately 15 million dollars. Lino noted that the decrease will be adjusted once the audit is finalized.

Lino reviewed the investment income analysis. At the end of November, the investment earnings were at a deficit of about 10.9 million dollars. The rate of return is at approximately negative 1.5 percent; the target rate is 7.5 percent.

Lino reviewed the administration actual/budget comparison. At the end of the first quarter, the expected budget utilization is approximately 25 percent. Lino noted that majority of the categories are under budget; Lino noted the exceptions.

Lino reviewed the ten-year graph of net assets available for benefits and the ten-year graph for investment income. Lino noted the recovery in November.

No action was taken on this item.

- Item 8. Discussion and action regarding current IT issues and the potential involvement of ADP in resolving those issues.

Richard Campos, City's DoIT Enterprise Applications Administrator, reviewed the current IT issues. Campos listed the status for pending items:

1. The City Employer contributions clean-up is in progress as the actuarial group has completed their first round of questions.
2. The Federal EIN number changes that had been requested for 2017 reporting have been completed.
3. Campos noted that the actuary is reviewing demographic data; DoIT continues to assist Pension Staff with requests from the actuary.
4. Campos noted that the City has approved ADP as a vendor for HR and HR-related services. ADP has a tentative schedule to meet with various City departments beginning the week of January 9, 2017, to accomplish onsite data modeling, requirements gathering, and conversion into Vantage; 1099R processing is in their scope, which will require Plan documents and special processing information. Campos noted that any additional information regarding timelines will be forthcoming from the project team.

Robert Ash, Pension Administrator, expressed his concern regarding the historically low-priority given to the Pension Module and requested additional information regarding the scope of work for Pension. Enrique Martinez of DoIT responded. Martinez advised that DoIT has not received any indication that a Pension component will be excluded from the scope of work. When prompted by Karl Rimkus, Chairman, Martinez advised that there DoIT has not received a target implementation date.

Ash requested additional information regarding year-end processing including the status of Form 1099R. Campos advised that DoIT is progressing toward year-end processing; DoIT is presently completing the periodic processing.

Board Member, Rep. Lily Limón, recommended that Pension Staff formulate a statement to present to City Council on January 10, 2017, in order to address the Pension Board concerns regarding the ADP conversion. Ash confirmed he will formulate a statement.

Charlie Lino, City Assistant Comptroller, noted that Board Treasurer and City Comptroller, Pat Degman, has addressed with ADP and will continue to address the different entities under the Comptroller purview including the Pension Module.

No action was taken on this item.

- Item 9. Discussion and action regarding fiduciary liability and cyber security insurance (Robert Pridemore, USI.)

Robert Pridemore of USI presented; the Board received and reviewed fiduciary liability and cyber security insurance letter.

Pridemore reviewed the proposal for the renewal of the fiduciary liability policy. USI is recommending the primary 15 million dollar limit again be place through the National Conference of Public Employee Retirement Systems (NCPERS) program with the excess 10 million dollar limit through Zurich. Pridemore noted the increase in the premium with NCPERS; however, a reduction in the secondary offset the additional cost, dropping the increase to less than 0.5 percent from the previous year.

Based on the ever increasing threat of data breach and cyber liability, USI is also recommending two other coverages, cyber liability, and social engineering coverage. The net increase in premium to add the cyber liability coverage of two million dollars and social engineering coverage of one million dollars is \$3,062. Pridemore noted he has provided a presentation to Pension Staff regarding cyber security. Pridemore defined cyber liability and reviewed examples of historical data breach incidents. The Board discussed the necessity and scope of the proposed additional coverage. When prompted by the Board, Robert Ash, Pension Administrator, advised that he recommends the additional coverage.

Motion made by Rep. Lily Limón to approve; seconded by Rene Peña. The motion required polling:

Presi Ortega	abstain
Rep. Lily Limón	aye
Rebecca L. Torres	aye
Christina Stokes	aye
Rene Peña	aye
Rep. Jim Tolbert	aye
Mario R. Hernandez	aye

Motion carried.

- Item 10. Discussion and action regarding an “Asset Liability Study” as prepared by Callan Associates (John Prione, Callan.)

Bill Howard of Callan introduced presenter John Prione of Callan; the Board received and reviewed the asset-liability study. Howard noted that the study is performed every five years.

Prione reviewed the goal of the asset-liability study highlighting the necessity of diversification. The goal of an asset-liability study is to establish a long-term strategic asset allocation target. Prione noted that risk tolerance governs portfolio aggression. Prione reviewed the Callan asset allocation and liability process. Assets and liabilities are evaluated and tested separately, then integrated into a single model.

Prione reviewed the long-term market expectations over 10 years, the return forecast for stocks and bonds, the benefits of diversification, and reviewed correlations. Expected return, standard deviation and correlation determine the composition of efficient asset mixes, Callan's Efficient Frontier.

Prione reviewed the current target asset allocation. Prione reviewed expected inflation (about 2.3 percent) and real return (about 4.6 percent.) Total return is expected to be about 6.8 percent. Prione provided a peer comparison. Prione reviewed asset classes and assumptions highlighting risk mitigation.

Prione reviewed Callan's Efficient Frontier. The Fund's current policy is on the Efficient Frontier with an expected return of 6.8 percent return. Four candidate mixes are evaluated ranging from lowest risk (Mix 1) to highest risk (Mix 4.) Prione reviewed allocation and the 10 year annualized return for the mixes based on Callan's expected inflation of 2.25 percent. Prione reviewed the liability model. Prione noted Callan's conservative inflation projection of 2.25 percent compared to the actuarial inflation projection of 3.5 percent. Prione compared the final candidate assets mixes with the target. Candidate mixes have risk characteristics similar to Mix 3. Candidate mixes increase the private equity allocation from the current target of 7 percent to 10 percent, with an offsetting 3 percent reduction in public equity exposure. Callan recommends Mix 3A; Mix 3A reduces risk mitigating asset exposure by 5 percent and increases absolute return from 10 percent to 15 percent.

The Board discussed growth prospects, allocation, alternate mixes, and expected return. The Board discussed the effect of the inflation assumption on the target return rate. Howard noted that the Fund's Investment Committee recommended Mix 3A.

Motion made by Presi Ortega to accept the recommendation of the Fund's Investment Committee to accept Mix 3A for the Fund's investment strategy; seconded by Rep. Jim Tolbert. Motion carried.

- Item 11. Discussion and action regarding the receipt of investment training regarding Multi-Sector Credit (Kevin Machiz, Callan.)

Bill Howard of Callan introduced presenter Kevin Machiz of Callan; the Board received and reviewed training regarding multi-sector credit.

Machiz reviewed the three broad categories in fixed income alternative strategies highlighting the liquid sector of the market, including the high yield, bank loans, and multi-sector credit.

Machiz provided an overview of high yield and bank loans. Machiz defined high yield and reviewed expected and historical performance. Machiz reviewed bank loans. Machiz noted that bank loans are also called leveraged loans and defined the term; Machiz reviewed the historical and expected performance. Machiz reviewed the high yield and bank loans market; large markets that are commonly used by institutional investors. Machiz reviewed the default rate history and contributing factors including leverage and interest coverage. Bank loans typically experience fewer defaults relative to high yield bonds with the exception of the Global Financial Crisis period. Machiz provided a near-term outlook. If the country is headed into an economic recession the market would experience a higher default rate. Trustee, Presi Ortega, requested additional information. Machiz responded that two indicators affect the near-term outlook: credit standards and distressed fraction. Credit has become modestly tighter, while the market

has backed away from elevated default fears. Howard commented on the affect that President-elect Donald Trump will have on the market.

Machiz reviewed multi-sector credit strategies. These allow for dynamic allocation between credit sectors. Machiz described the benchmark and noted that there is no true index and noted that the strategies are relatively new. Callan recommends a benchmark composed of half bonds and half loans. Machiz reviewed the performance over the last five years. Machiz reviewed sector allocation, providing a comparison between four managers. Machiz reviewed the Callan's key due diligence considerations. Machiz provided a summary of pros and cons.

When prompted by Board, Robert Ash, Pension Administrator, noted that the presentation did not meet the criteria for the State Pension Review Board; the Board will not receive credit for this training. Karl Rimkus, Chairman, noted that the training is intended to provide the Board with information on alternate strategies that are discussed during the Fund's Investment Committee Meetings.

No action was taken on this item.

Item 12. Discussion and action regarding a report from Callan Associates (Bill Howard, Callan.)

Bill Howard of Callan Associates presented; the Board received and reviewed the market update.

Howard reviewed investment manager, Denver Investment Advisors. Denver presented to the Investment Committee on December 14, 2016. Denver has been on "watch" since 2015. The firm's performance has improved significantly; the firm's portfolio outperformed the index by about 100 basis points in the last six months and over 600 basis points in the last year. Assets in the firm's portfolio have stabilized. Callan recommends removing Denver Investment Advisor from "watch". When prompted, Howard noted that Denver has not completely recovered the loss their portfolio experienced in 2014.

Motion made by Presi Ortega to remove Denver Investment Advisors from the "watch-list" for performance issues; seconded Rep. Lily Limón. Motion carried.

Howard reviewed investment manager, Janus. Janus presented to the Investment Committee on December 14, 2016. Howard noted that managers who are on "watch" present to the Investment Committee twice a year. Janus was placed on "watch" at the end of 2015 for team changes. The team has been stable with no additional departures. Performance has improved; the firm's portfolio is up about 90 basis points for the last six months, year-to-date the portfolio outperformed the index by about 70 basis points. Howard noted that Janus is in the process of merging with another investment manager out of the U.K., Henderson.

The Board discussed the status of the "flash" report. Howard stated that since the Board Meeting was held earlier than usual, the "flash" report for this month was unavailable.

Motion made by Presi Ortega to bring Janus off of "watch" for management; seconded by Rep. Lily Limón. Motion carried.

Howard advised that based on the new asset allocation, Callan will revise the Investment Policy Statement (IPS.) Callan will present their recommendation to the Board in January, including the redlined IPS. Howard noted that implementation will be completed over several months.

Howard reviewed the market reaction to President-elect and the expected performance. The markets are expecting stronger growth, friendlier business policies with the Trump Administration and the Republican controlled House and Senate, deregulation, increased spending particularly on infrastructure, and higher inflation and deficit spending. Howard reviewed asset class performance for the month of November. US equities have moved higher. MLPs have performed well. The price of oil has rallied. With the expectation of higher inflation, bond yields have increased as their prices have declined. In November, the Russell 3000 was up about 4.5 percent. With higher inflation and interest rates, the dollar has strengthened which affected international markets. The ACWI ex US had fallen about 2.4 percent.

Howard provided year-to-date totals through December 14, 2016. The Russell 3000 is now up 2.5 percent from November. International stocks have rallied; they are up about 3.2 percent. Bonds continue to fall; the Barclays Aggregate is negative 0.6 percent. As the price of oil declined, MLPs down about 1.3 percent. Howard estimated that the total fund target to be up about 1.4 percent in December and about 0.6 percent in November.

The Board discussed market expectations. In December the Fed raised rates by 25 basis points and forecasted three additional rate hikes in 2017. Howard reviewed fixed income yields, which increased about 100 basis points in a short time period.

No further action was taken on this item.

Item 13. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- The audit is ongoing pending the actuarial report. The Fund's actuarial account was recently transitioned to Phoenix; the account remains with the same firm. That transition has caused delays. Pension Staff has responded to questions from the actuary and has provided draft financials. Ash noted that the Fund has one additional interim evaluation on contract with the actuary. Ash expects to receive the audit and actuarial report in January. The Fund's Actuary Committee will meet to review the reports and additionally review the PRP issue as delegated by the Board.
- The Board Chairman and Ash recently met with the Mayor to review the proposed amendments to the ordinance. Subsequently, they met with personnel from the City Manager's Office. The amendments have been forwarded to the City's Legal Department. Ash worked with the Fund's attorney, Eduardo Miranda, to complete the draft amendment. Ash and the Board Chairman will meet with the City Representatives before presenting the amendments to City Council.

Board Chairman, Karl Rimkus, offered condolences on behalf of the Board to Eduardo Miranda for the recent passing of his father. Miranda thanked the Board.

No action was taken on this item.

Item 14. For Notation:

A. Directed brokerage credit balance for month ended October 31, 2016: \$128,930.68

B. Property Development Cost:

1. Stephan Schmitz	November Construction Consultant Fees	\$2,083.33
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C. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Abbud, Ana	Mass Transit	\$1,329.68	
2	Aguilera, Jose Manuel	EPWU	\$20,109.95	
3	Alcantar, Jesus A.	Environmental Services	\$4,330.77	
4	Alcon, Nidia	EPWU	\$13,085.22	
5	Anchondo, Valerie	Animal Services	\$1,324.59	
6	Brian, Cain	Mass Transit	\$925.56	
7	Carmona, Iliana	Health	\$930.89	
8	De Santos- Jordan, Maria	Health	\$16,278.83	
9	Dominguez, Rosalie	Health	\$26,567.65	
10	Duran, Alberto A.	Mayor & Council	\$1,445.76	
11	Escandon, Roxanna	Health	\$1,150.57	
12	Gutierrez, Nancy	Zoo	\$2,387.91	
13	Hernandez, Estephani	Streets & Maintenance	\$2,476.50	
14	Lopez, Alberto	Parks & Recreation	\$6,893.19	
15	Manquero, Suzanne	EPWU	\$26,247.53	**
16	McCray II, Timothy M.	Streets & Maintenance	\$19,089.72	
17	Medina, Christopher I., Beneficiary of Mary Lou Camacho	Environmental Services	\$62,518.85	**
18	Medina, Enrique	Comptrollers	\$12,766.83	
19	Mejia, Jesus	Animal Services	\$7,012.29	
20	Mergil, Victor	EPWU	\$22,490.48	
21	Molina, Esty	Animal Services	\$652.66	
22	Nevarez, Aaron	Airport	\$990.15	
23	Parada, Jacqueline	Health	\$3,166.54	
24	Parker, Meshawn	EPWU	\$30,238.37	
25	Romero, Ernest R.	Airport	\$5,805.33	
26	Serrano, Arturo	Fire	\$2,979.90	
27	Trevino, John	Environmental Services	\$12,973.19	
28	Valdez, Armando	Fire	\$12,782.94	
29	Vargas-Jimenez, Jesus A.	Environmental Services	\$6,724.35	
30	Wardleigh, Robert	EPWU	\$345.76	
	TOTALS		\$326,021.96	

* Additional interest/contributions due

** Eligible for Early Retirement

For notation, no action required on this item.

Motion made by Presi Ortega to go into Executive Session to discuss items under Sections 551.071-551.076 and Section 551.078; seconded by Rene Peña. Motion carried at 9:04 A.M.

Motion made by Rep. Lily Limón to reconvene from Executive Session; seconded by Mario R. Hernandez. Motion carried.

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

Motion made by Mario R. Hernandez to accept the annual performance evaluations for the Fund's Pension Payroll/Accounts Payable Specialist and the Fund's Benefits Technician per the Pension Board; seconded by Rep. Lily Limón. Motion carried.

- C. **Section 551.071 and 551.078** Discussion and action regarding the job-related disability application of Mr. Frank Tonche.

Motion made by Rep. Lily Limón to deny the request for a job-related disability for Mr. Frank Tonche; seconded by Rebecca L. Torres. The motion required polling:

Presi Ortega	aye
Rep. Lily Limón	aye
Rebecca L. Torres	aye
Christina Stokes	aye
Rep. Jim Tolbert	aye
Mario R. Hernandez	aye

Motion carried.

Motion made by Rep. Lily Limón to grant a non-job-related disability to Mr. Frank Tonche; seconded by Presi Ortega. The motion required polling:

Presi Ortega	aye
Rep. Lily Limón	aye
Rebecca L. Torres	aye
Christina Stokes	aye
Rep. Jim Tolbert	aye
Mario R. Hernandez	nay

Motion carried.

Item 16. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board Meeting on December 15, 2016; seconded by Rep. Lily Limón. Motion carried at 11:28 A.M.