

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD WEDNESDAY, FEBRUARY 15, 2017, 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
Ed Archuleta
Christina Stokes
Mario R. Hernandez

Members Absent:

Rep. Jim Tolbert

Others in Attendance:

Eduardo Miranda, Attorney
Luis Mier, Treasury Services Coordinator for the City of El Paso
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
David Kershner, Conduent
Janie Shaw, Conduent
John Carr, Wedge Capital Management
David Coleman, BKD
Maria A. Murguia
Jose L. Murguia Jr.
John M. Murguia
Frank Muela
Don James, Fire Department
Divenus Parker, Fire Department

- Item 1. Karl Rimkus, 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 January 18, 2017.

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	Baldonado, Greg	Capital Improvement	27 years 07 months
2	Bethea, Leticia	Health	32 years 04 months *
3	Canada, Leslie	EPPD	27 years 00 months
4	Carrillo, Luz D.	Planning & Inspect.	18 years 02 months *
5	Cruz, Josefina	EPPD	15 years 06 months
6	Flores, Martha B.	Parks & Rec	19 years 00 months
7	Forsyth, Thomas	Airport	07 years 05 months
8	Garcia, Jesus J.	MCAD	09 years 04 months *
9	Hernandez, Jorge	Sun Metro	21 years 06 months
10	Jimenez, Maria S.	Purchasing	15 years 07 months
11	Lara, Daniel	Fire	27 years 09 months *
12	Lozano, Rosa	Municipal Clerk	29 years 04 months *
13	Mendez, Jaime	Fire	23 years 01 month
14	Miller, Phillip Charles	EPWU	21 years 10 months
15	Moreno, Teodoro	Streets & Maint	10 years 01 months
16	Saenz, Patricia	Human Resources	18 years 01 month *
17	Soria, Jose Rodolfo	EPWU	16 years 01 month *
18	Spencer, Mary	Information Technol.	13 years 03 months
19	Stockard, Thomas E.	EPWU	39 years 09 months
20	Toro, Israel C.	Streets & Maint	22 years 10 months
B.	Early:		
1	Alvarez, Celso	ESD	27 years 00 months
2	Pitts, Kevin Scott	Community Develop	26 years 04 months
C.	Deferred:		
1	Aceves, Maria	Mass Transit	11 years 03 months
D.	PRP:		
1	Trevizo, Erick	Muni Court	1 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. Gonzalez, Lilia C. survivor of Rodolfo E. Gonzalez, retiree.
- B. Hernandez, Maria T. survivor of Lorenzo Hernandez, retiree.
- C. Lerma, Irma survivor of Ernesto Lerma, retiree.
- D. Lujan, Amada Carrera de survivor of Alberto A. Lujan, retiree.
- E. Trujillo, Elena V. survivor of Richard Trujillo, 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. Allianz Global Investors	Investment Fees	Qtr. Ended 12/31/16	\$459,350.33	**
B. BKD, LLP	Audit Fees	YE August 31, 2016	\$8,000.00	
C. Buck Consultants, LLC	Actuarial Fees	December 31, 2016	\$15,280.00	
D. Eduardo Miranda	Legal Fees	January 31, 2017	\$112.50	
E. Heitman America RE Trust	Investment Fees	Qtr. Ended 12/31/16	\$82,479.00	**
F. Janus Capital Group	Investment Fees	Qtr. Ended 12/31/16	\$50,482.82	
G. Lazard Asset Management	Investment Fees	Qtr. Ended 12/31/16	\$52,518.19	
H. Principal Global Investors	Investment Fees	January 31, 2017	\$4,247.80	**
I. Riverbridge Partners	Investment Fees	Qtr. Ended 12/31/16	\$56,620.24	
J. Salient	Investment Fees	Qtr. Ended 12/31/16	\$72,930.81	
K. Wedge Capital Management	Investment Fees	Qtr. Ended 12/31/16	\$57,301.47	

* 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 and amended by Presi Ortega to accept the Consent Agenda; seconded by Rene Peña. The motion required polling:

Presi Ortega	aye
Rep. Lily Limón	aye
Ed Archuleta	aye
Rene Peña	aye
Mario R. Hernandez	aye

Motion carried.

REGULAR AGENDA

Item 7. Discussion and action regarding the Treasurer's Report for the month ended January 31, 2017.

Luis Mier, Treasury Services Coordinator for the City of El Paso, presented; the Board received and reviewed the Treasurer's Report for the month ended January 31, 2017.

Mier reviewed the statement of net assets available for benefits. The unaudited totals in the statement are for the month ended January 31, 2017. Mier reviewed assets. Net assets available for benefits increased by approximately 6.3 million dollars. Receivables increased by about 13.3 million dollars. Cash declined by about 6.3 million dollars. Mier reviewed liabilities. Total

liabilities increased by about 717 thousand dollars including an increase of approximately 911 thousand dollars for securities purchased.

Mier reviewed the statement of changes in net assets available for benefits. The unaudited totals are for the five months ended January 31, 2017. Mier reviewed additions. Total contributions were about 17 million dollars, an average of about 3.4 million dollars per month. Interest and dividends were just under three million dollars. The net change in fair value of investments increased by about 12 million dollars in January and increased by about 17 million dollars for the fiscal year. Mier reviewed deductions. Mier noted that the benefits paid to retirees represent reimbursements made to the City of El Paso for payroll. The amount reflects an additional payment that was owed to the City. Administrative expenses increased by approximately 264 thousand dollars due to cost paid directly by Mellon Trust. The ending fund balance increased by 6.3 million dollars over the prior month and increased by 8.2 million dollars for the fiscal year.

Mier reviewed the quarterly statement of changes in net assets available for benefits. The unaudited totals in the statement are for two months in the second quarter. Mier noted the amounts in the other columns reflect a complete quarter as indicated. Mier reviewed additions. Contributions were trending consistently. Mier attributed the net increase in the second quarter to the increase in fair value of investments.

Mier reviewed the investment income analysis. Mier advised that significant portions of dividends are recorded quarterly as reflected in the total for January, the prior quarterly month was in October. Mier noted the continued increase in unrealized gains.

Mier reviewed the ten-year graph of net assets available for benefits and the ten-year graph for investment income. From March 2015 to March 2016, the fund had a declining trend, but since then the fund has continued on an upward path.

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. In the testing environment, DoIT has tested a solution for PSB adjustments to contributions for provisional appointments. Pending the results, DoIT will move the solution into the production system.
2. Due to the ADP implementation, DoIT has postponed the withdrawal clean-up. Campos expects that DoIT will continue with withdrawal clean-up scripts after completion of the PSB adjustments.
3. Campos provided an update on ADP. An independent group, associated with ADP, is performing a study regarding the pension module. Campos noted that DoIT has not received any updates on that study.

Robert Ash, Pension Administrator, requested an update on benefit statements, noting that the City has completed periodic processing through December. Campos responded that DoIT will provide applicable reports upon request. Campos noted that other processing issues may limit DoIT availability.

The Board expressed their concerns regarding the transition to ADP and possible repercussions concerning data processing delays; discussion ensued. Campos noted that the data migration and process configuration is expected to be completed between six months to one year. Enrique Martinez of DoIT advised that ADP has identified a third party to assist with department modules including the Pension Module. Martinez advised that all components, including the Pension Module, will be incorporated into the new system and affirmed that the system will not go “live” if a component is missing. Martinez noted that he will speak with ADP regarding the Board’s concerns. Board Members discussed communication with ADP and made several recommendations including that ADP present to the Board. Rep. Lily Limón recommended that communication be sent to Dr. Sutter requesting that the Fund have a seat at the table for planning sessions with ADP.

Motion by Rep. Lily Limón to request a seat at the table for planning sessions with ADP through the City’s Chief Financial Officer, Dr. Mark Sutter; seconded by Ed Archuleta. Motion carried.

- Item 9. Discussion and action regarding the receipt of an actuarial valuation as prepared by Conduent (David Kershner and Janie Shaw, Conduent.)

David Kershner and Janie Shaw of Conduent presented; the Board received and reviewed an actuarial valuation as prepared by Conduent.

Kershner provided an overview of the firm. Kershner noted the name change from Buck Consultants to Conduent. Kershner explained that Buck Consultants was part of the Xerox Corporation, which in 2016 split into two publically traded companies: technology and services. The services component was renamed Conduent as of January 1, 2017. Kershner noted that he and Shaw joined the team with the departure of the lead actuary, David Kent.

Kershner reviewed the purpose of the actuarial valuation. Conduent performs a full valuation for the Fund every two years and a “roll forward” valuation in the interim. The valuations determine the funding adequacy of the City contribution rate, assess the current financial condition, and analyze changes since the last valuation. Kershner noted that the last full valuation was completed in 2014. Kershner reviewed the actuarial valuation process. Conduent collects updated participant and asset data, determines actuarial liabilities for current plan members, and calculates contribution rates.

Shaw reviewed the valuation results. Shaw noted that since the last valuation in 2014, an experience study was performed. Shaw reviewed the adjustments to the assumptions. Shaw and Kershner compared the actuarial and market value of assets. Kershner noted that the actuarial value drives the contribution rates. Shaw reviewed the actuarial value of assets noting that deferred losses will be recognized in future valuations which will negatively impact the funded ratio. Shaw reviewed contributions and membership counts. Rene Peña, Board Vice Chairman, requested additional information on data collection and assumptions. Shaw and Kershner reviewed the assumptions including the mortality assumption. Shaw reviewed the GASB 67 results noting the assumption change which resulted in an increased liability.

No action was taken on this item.

- Item 10. Discussion and action regarding the receipt of an audit report as prepared by BKD, LLP (David Coleman, BKD.)

Robert Ash, Pension Administrator, provided an overview of the audit process noting that the audit was delayed due to a delay with the actuarial valuation. The Audit Committee has

reviewed the preliminary results of the audit. Rene Peña, Board Vice Chairman and Chairman of the Audit Committee, advised the Audit Committee had agreed with the position of the auditor and recommended the acceptance of the audit report.

David Coleman of BKD presented; the Board received an audit report as prepared by BKD. Coleman stated that he raised a concern regarding the transition to ADP, highlighting the deadline for the City.

Coleman reviewed the audit scope and results. BKD will be issuing an unmodified opinion dated February 14, 2017. No significant deficiencies or material weaknesses were reported. The Fund's significant accounting policies are described in "Note 1" of the audited financial statements.

Coleman reviewed reclassifications. Ash reviewed the audit adjustment resulted from the data submitted by the Fund's custodial bank, BNY Mellon, and reviewed the custodian's corrective action. Coleman noted the net assets, net position, and pension liability.

Motion made by Rene Peña to accept the recommendation of the Audit Committee; seconded by Rep. Lily Limón. Motion carried.

- Item 11. Discussion and action regarding the receipt of an investment manager report from Wedge Capital Management (Martin Robinson and John Carr, Wedge Capital Management.)

John Carr, Executive Vice President Wedge Capital Management, presented; the Board received and reviewed the investment manager report from Wedge Capital Management. (In this item the firm will be referred to as Wedge.)

Carr reviewed the firm. Wedge has managed a US SMID cap equity portfolio for the Fund since 2011. Carr noted that the firm's legal structure remains constant. One partner was promoted as of January 1, 2017, and effective March 31, 2017, the firm will have one retirement. Carr reviewed assets under management. Public pension funds represent 16 percent of the firm's total business, roughly two billion dollars. Carr provided an overview of the investment process, noting that it remains constant.

Carr reviewed the performance of the Fund's portfolio. The portfolio was funded in 2011 with approximately 35 million dollars. As of December 31, 2016, the portfolio was valued at about 27 million dollars including 38 million dollars in withdrawals since inception. Carr noted that the market continues to perform well, advising that the market value increased by 1.1 million dollars through February 14, 2017. Carr reviewed market performance and contributing factors including the market performance post-election, noting the positive trend. Carr reviewed performance attribution and reviewed characteristics including weightings and holdings, noting that the portfolio outperformed the index over various periods.

Carr provided a market projection. Wedge believes there are continued catalyst for growth within US domicile businesses. The Board discussed the market outlook and requested additional information. Trustee, Presi Ortega, requested additional information on profits and the firm's policy on trim and sell. Carr reviewed the firm's investment philosophy. Robert Ash, Pension Administrator, requested a comparison of the firm's portfolio with the index in reference to movement and beta and requested information on energy exposure. Carr and Bill Howard of Callan responded. The beta is usually in line with the beta of the market. Carr reviewed the oil service component noting the lag relative to the commodity price and provided a projection.

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 presented; the Board received and reviewed the quarterly report and the market update. Howard noted that there was an issue with the data feed from BNY Mellon which delayed the monthly “flash” report.

Howard reviewed market performance for the fourth quarter of 2016. Howard reviewed the domestic and international economy and asset class performance. Howard reviewed market performance for 2017. All equity markets have moved higher in 2017; emerging markets have lead the way with improving growth prospects and valuation. Howard provided values through February 14, 2017: Russel 3000 is up 4.7 percent, EAFE is up 3.3 percent, Emerging Markets are up 8.4 percent, MLPs are up 7.5 percent, and Bonds remain at 0.2 percent. Howard reviewed equity valuation metrics. Rene Peña, Vice Chairman, commented on historic market behavior. Howard noted that the current 8-year bull market is the second largest in history.

Howard reviewed the quarterly report. Howard reviewed asset allocation. Howard reviewed performance attribution for the quarter noting the positive manager effect, especially in fixed income. Howard reviewed the cumulative performance over 10 years. Howard reviewed the peer comparison rankings, asset class ratings, and market value. Howard commented on the managers on “watch”: Vulcan, Franklin International Small Cap, and Templeton Bond Fund advising that Callan recommends they remain on “watch”.

No 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:

- 1099R forms have been mailed out.
- The custodial bank will present to Board in March and will provide a short training on custody.
- The Fund will reapply to be an accredited sponsor of Core and Continuing Education MET activities.
- TEXPERS is having a conference in Austin in April.
 - Trustees should contact David Garcia, Pension Payroll/Accounts Payable Specialist, for additional information.
 - 2017 Training list for public plans posted in BoardPaq.
 - Ash noted that the training year begins and ends in February.
 - For the 1st year, seven hours of training are required; thereafter, within two years, four none-core hours are required.
- Ash commented on the Texas Bills pertaining to pension.
 - 12 Bills were identified by TEXPERS
 - Pension Staff has identified a bill that calls for additional municipal control.

No action was taken on this item

Item 14. For Notation:

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

B. Property Development Cost:

1. Stephan Schmitz 01/2017 Construction Consultant Fees \$2,083.33

C. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Aguilar, Daniel	EPWU	\$13,318.09	
2	Allen, Lloyd	Mass Transit	\$791.14	
3	Barr, David W.	Legal	\$6,411.28	
4	Beltran, Dave E.	EPWU	\$3,460.38	
5	Canady, Theresa C.	Police	\$7,502.99	
6	Castaneda, Luis E.	Mass Transit	\$1,331.29	
7	Cristan, Cassandra L.	EPWU	\$608.88	
8	Deucher, Abraham	EPWU	\$30,512.22	
9	Escobar, Robert	Mass Transit	\$1,798.50	
10	Fernandez, Rocio A.	Zoo	\$2,398.98	
11	Garzon, Victor	Capital Improvement	\$29,440.13	
12	Kodis, Kristilee	Zoo	\$1,248.57	
13	Lara, Saul	Mass Transit	\$1,925.20	
14	Lechuga, George	EPWU	\$3,014.10	
15	Medina, Zabdi	Animal Services	\$9,290.82	
16	Monteros, Misty Benefit. of Joseph Candelaria	Mass Transit	\$44,936.33	**
17	Perez, Xavier	Police	\$34,461.19	**
18	Sanchez, Alfonso	Mass Transit	\$14,035.39	
19	Tealer, Sean	EPWU	\$582.32	
20	Vasquez, Arturo	Police	\$12,201.18	
21	Vilchez, Maria	SAM	\$1,035.79	
22	Yaunke, Elena	Zoo	\$3,620.41	
	TOTALS		<u>\$223,925.18</u>	

* 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 Rep. Lily Limón. Motion carried at 8:56 A.M.

Motion made by Mario R. Hernandez to reconvene from Executive Session; seconded by Rep. Lily Limón. Motion carried at 10:04 A.M.

Motion made by Rebecca L. Torres to go into Executive Session to discuss items under Sections 551.071-551.076 and Section 551.078; seconded by Rep. Lily Limón. Motion carried at 11:13 A.M.

Motion made by Rene Peña to reconvene from Executive Session; seconded by Ed Archuleta. Motion carried at 11:19 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 Pension Administrator/Legal Advisor.

Motion made by Christina Stokes to approve the annual performance evaluation of the Pension Administrator/Legal Advisor with a three percent merit increase and two percent increase to his 401(a) effective on his anniversary date; seconded by Rep. Lily Limón. The motion required polling:

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

Motion carried.

- B. **Section 551.071 and 551.078** Discussion and action regarding the disability/survivor benefit application of Jose Murguia Jr.

Motion made by Rene Pena to approve the disability/survivor benefit application of Jose Murguia Jr.; seconded by Rep. Lily Limón. Trustee, Christina Stokes, abstained from the vote. Motion carried.

- C. **Section 551.071** Discussion and action regarding the request of Frank Muela to reform his retirement election from PRP to a deferred retirement - Claim #001-2016.

Motion made by Mario R. Hernandez to deny the request of Frank Muela to reform his retirement election from PRP to a deferred retirement; seconded by Ed Archuleta. Trustee, Christina Stokes, abstained from the vote. Motion carried.

- D. **Section 551.071 and 551.072** Discussion and action regarding real property located at 1039 Chelsea.

Motion made by Rene Peña to direct the Ad-Hoc Facilities Committee to proceed with the request for proposals on the site development, one at 100 percent and one at 90 percent of estimated proposal; seconded by Rep. Lily Limón. Motion carried.

Item 16. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board Meeting on February 15, 2017; seconded by Rep. Lily Limón. Motion carried at 11:21 A.M.