

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

Members in Attendance:

Rene Peña, Chairman
Mario R. Hernandez, Vice Chair
Presi Ortega
Christina Stokes
Larry E. Romero, City Representative
Karl C. Rimkus

Members Absent:

Dr. Michiel Noe, City Representative
Robert Andron
Cecilia A. Rios

Others in Attendance:

Eduardo Miranda, Attorney
Dr. Mark Sutter, 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
Jeremy Troxell, City of El Paso IT Department
Luis Ortiz, Office of Comptroller
John Carr, Wedge Capital
Martin Robinson, Wedge Capital

Item 1. Rene Peña, Chairman, called the meeting to order at 8:36 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 December 18, 2013.

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	Betancourt, Gloria	PSB	15 years 6 months *
2	Chacon, Felipe	DOT	10 years 10 months *
3	Gonzalez, Richard R.	Sun Metro	10 years 4 months
4	Gurrola, Miguel	DOT	16 years 2 months *
5	Johnson, Claude L.	Police	12 years 8 months
6	Leos, Antonio	EPWU	26 years 4 months
7	Lopez, Rodolfo	DOT	15 years 2 months *
8	Madrid, Ana M.	Airport	10 years 9 months *
9	Maldonado, Maria	Tax	20 years 6 months
10	Navarro, Peter	Sun Metro	24 years 0 months *
11	Owens, Robert	Parks	9 years 9 months *
12	Quijano, Ana	Parks	32 years 2 months
13	Ramos, Jorge	General Services	23 years 10 months *
14	Sanchez, Carlos J	Airport	27 years 5 months *
15	Serrano, Pedro	PSB	7 years 3 months
B.	Early:		
1	Natividad, Sandra	Fire	25 years 9 months *
C.	Deferred:		
1	Avila, Daniel	PSB	15 years 0 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. Aguilar, Rosa M., survivor of Mariano Aguilar, retiree
- B. Delgado, Mercedes, survivor of Ismael Delgado, retiree
- C. Lopez, Graciela, survivor of Victor Lopez, retiree
- D. Mascarena, Beatriz, survivor of Raul R. Mascarenas, 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.	BKD, LLP	Audit	Final bill-YE 8/31/13	\$11,250.00
B.	Buck Consultants	Consulting Svcs	Sept 1-Nov 30, 2013	\$8,940.00
C.	Callan Associates Inc.	Investment	Qtr Ending 12/31/13	\$66,041.00
D.	Denver Investments	Investment	November 30, 2013	\$8,344.00 **
E.	Eduardo Miranda	Legal	December 31, 2013	\$675.00

- * 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 Consent Agenda as presented; seconded by Karl Rimkus. Motion required polling:

Presi Ortega	aye
Christina Stokes	aye
Larry E. Romero	aye
Karl Rimkus	aye

Motion carried.

Mario Hernandez in after Consent Agenda.

REGULAR AGENDA

Item 6. Discussion and action regarding the Treasurer's Reports for months ending December 31, 2013.

Dr. Mark Sutter, Comptroller, presented; Monthly Treasurer's Report for the period ending December 31, 2013 was distributed. The Board received a review of the December Treasurer's Report. Dr. Sutter introduced Luis Ortiz of the City Comptroller's Office to the Board. Mr. Ortiz prepares the monthly Treasurer's Report and will present to the Board in the absence of Dr. Sutter. Mellon has not provided final statements for December; therefore Dr. Sutter requested that the Board not approve the December Treasures' Report (he will provide a revised report next month for approval.) The Fund's fiscal year net investment income to date, 8.95% (4 month accumulative), exceeds the target rate for the entire year of 7.50%.

When prompted by Larry Romero, Dr. Sutter advised that all typos in the December Treasurer's report will be corrected.

No action taken on this item.

Item 7. Discussion and action regarding the receipt of a website presentation by the City's IT Department and the pension staff.

Jeremy Troxell, City of El Paso IT Department, presented. The Board received an overview of the Fund's updated website. The website was designed by Pension Staff and approved by the Fund's Retiree Committee. Site traffic was categorized by Pension Staff into: Managers/general public, participants and retirees. Subsequent pages were organized into those respective categories. Each submenu was personalized to encompass any of that user's needs. The Participants page contains a link to the Online Benefits Calculator, FAQ's pertaining only to Participants, and Retirement Checklist. The Retirees page includes a link to Pension Forms, FAQ's pertaining only to Retirees, and benefit payment schedule. The Retiree's page also has a new feature that allows retiree's to submit a photo of their first day of retirement. The Fund Overview includes a link to the Financials page, Board Meeting Agendas and provides general information pertaining to the Fund. One of the new features is the News page where columns can be updated individually as needed; Pension staff will have to submit a ticket (change request) to the City's IT department and the site will be updated within 24-48 hours. Eventually, Pension Staff will be able edit

content directly on the site through a content management system which is currently being rolled out citywide. In the footer of every page, there is the Newsletter Sign Up Button, which tracks requests made by employees and retirees.

When prompted by Karl Rimkus, Mr. Troxell advised that the link to the Fund's website will be added the El Paso City's Homepage.

Presi Ortega suggested that employee pictures also be posted in an effort to drive traffic to the site.

Robert Ash, Pension Administrator, compared the Fund's old site to the new design. Previously the Fund's website was static with a monotone color scheme. The target of the new design was to personalize the user's experience.

In response to Karl Rimkus, Mr. Ash explained that the online benefits calculator is a planning tool for participants; participants can also request an estimate of their retirement benefit from the Pension Office at any time.

New agendas will be posted monthly as well as any applicable financial statements. The site has the capability to expand to include additional content such as a checkbook (as previously discussed with the Retiree Committee.)

No action required on this item.

- Item 8. Discussion and action regarding the receipt of an interim valuation report as prepared by Buck Consultants.

Robert Ash, Pension Administrator, presented; interim valuation report was distributed. The Board received a review of the Fund's estimated valuation results as of September 1, 2013 as prepared by Buck Consultants. Buck Consultants, as requested by the Fund, has updated the Fund's actuarial valuation based on asset value alone (demographics, mean retirement age, and life expectancy will be considered once the actuarial evaluation is completed this year.) The difference reflected in market to actuarial value of assets is due to the 5 year smoothing process in actuarial value. Because the Fund had returns greater than the target rate of 7.5%, the funding period was reduced to 17 years (as opposed to the expected 20 years.) The State Pension Review Board determines if the Fund is actuarially sound using the funding period. The State Pension Review Board prefers a 25 year (or better) amortization period (GASB only prefers a 30 year amortization period.) The GASB ratio does not reflect the market value, therefore the percentage shown does not necessarily indicate the percentage funded.

Discussion ensued.

Mario Hernandez questioned if the Board is going to consider a COLA for retirees. Rene Peña responded that the Actuary Committee will meet to discuss.

Motion made by Larry Romero to accept interim valuation report as prepared by Buck Consultants; seconded by Christina Stokes. Motion carried (unanimous.)

- Item 9. Discussion and action regarding a follow up report pertaining to an actuarial audit performed for the City of El Paso by Rudd and Wisdom.

Robert Ash, Pension Administrator, presented; actuarial audit report was distributed. El Paso City Council received a report from Rudd and Wisdom last week; Mr. Ash was present. As discussed in prior meetings, Rudd and Wisdom contends that the mortality table, which Rudd and Wisdom approve of, used by the Fund is inappropriately supplemented with actual experience. Buck Consultants, the Fund's actuary, disagrees with that assumption. Additionally, Rudd and Wisdom stated that the Fund's actuary was not forthcoming in providing information. Subsequently, the City Manager submitted a letter to the Fund yesterday requesting that the Board implement the changes as suggested by Rudd and Wisdom before the next experience study, as indicated by the Fund's actuary. Mr. Ash recommended that when the evaluation is completed at the end of this year, the Board consider changing the mortality table as suggested by the City. It is at the Board's discretion to change the mortality table. Changing the mortality table, which Buck Consultants does not object to, will increase the Fund's amortization period by two years and increase the unfunded liability by \$13 million. Although the proposed mortality table is more conservative, Mr. Ash does not have any objections to that change. The Fund's Actuary and Actuary Committee will meet after this fiscal year before the next actuarial evaluation to discuss further. There are no other major findings; for majority of the other findings, such as with disclosures and presentation of actuary report, Buck Consultants has agreed to implement. During the El Paso City Council meeting, Trustee Dr. Michael Noe, City Representative, advised Council that the Board has done well in the past and recommended that Council not intervene any further.

Discussion ensued.

In response to Presi Ortega, Mr. Ash explained that there are several varieties of mortality tables which factor in medical improvements and changes in life expectancy. The Fund has used approximately three to four different mortality tables in 16 years. The actuary advises which mortality table is appropriate for the Fund.

Mr. Ortega commented that the resistance from the Fund's actuary to release information may be due to the fact that the two actuaries (Rudd and Wisdom and Buck Consultants) are competitors. Mr. Ash advised that Buck Consultants commented to Rudd and Wisdom that they will not supply the requested information Rudd and Wisdom asked of them. Mr. Ash further explained that he intervened during the first draft of the actuarial audit which would have included a scope limitation. Buck did thereafter supply some of the information requested by Rudd and Wisdom. This actuarial audit is conducted every 5 years by the City as required by law (which was enacted only 10 years ago.) Rudd and Wisdom was selected by the City Manager's Office.

The Fund entered into a 5-year agreement with its actuary. Last year, the Actuary Committee decided to obtain a quote, which is reviewed at the end of every contract period, from the Fund's existing actuary instead of submitting a request for various quotations. The Board decided to accept the fees proposed by Buck Consultants which extended Buck's contract for 5-years.

No action required on this item.

- Item 10. Discussion and action regarding the receipt of an annual investment manager report from Wedge Capital.

Martin Robinson and John Carr of Wedge Capital presented; report was distributed. Mr. Robinson gave an update on the firm as presented on pages 1-2 of the investment manager

report. Mr. Carr provided a performance update as presented on pages 4 and 7 of the investment manager report.

Discussion Ensued.

Rene Peña stated that due to the possible impact that government regulation may have on banks, is the portfolio underweight on banks? Mr. Carr responded that Wedge is underweight on banks and concurred that banks would struggle if rates continued to rise but believes that rates will hold at the current levels. Small regional banks could come under near-term profit margin compression. Mr. Robinson added that the banks in the small cap portfolio are less impacted by the regulatory regime. Mr. Robinson summarized that the Volcker Rule is designed to keep larger financial institutions away from certain types of proprietary trading that would bring undue risk to the balance sheet of those financial institutions.

Robert Ash, Pension Administrator, questioned if an increase in interest rates and compression on P/E's would affect the small cap environment more than the large cap? Mr. Carr responded that the small cap market appears to be fairly valued from a P/E standpoint. Wedge tries to find companies that are undervalued with lower P/E's. At the company specific level, Wedge believes that there are still upside opportunities in further P/E expansion.

Bill Howard, when prompted by Presi Ortega, advised that the asset allocation is approximately 2.6% totaling \$18.5 million based on the Fund's asset allocation target (amounts will be adjusted accordingly if Wedge becomes underweight.)

Motion made by Larry Romero to accept the annual investment manager report as prepared by Wedge; seconded by Karl Rimkus. Motion carried (unanimous.)

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

Bill Howard of Callan Associates presented; report was distributed. Mr. Howard explained that the Investment Committee reviewed the recently completed transition in US equity as handled by Northern Trust. The overall cost of the transition was well within the one standard deviation. The Pension Administrator was pleased with their performance. During the transition, the Wedge portfolio was reduced, the Winslow large cap growth portfolio was eliminated, the Robeco large cap value portfolio was significantly trimmed back, new manager, Vulcan Value, a US all cap portfolio was funded, and new Mellon tangent added strategy was funded. As approved by the Board last month, Northern Trust has assisted with the rebalancing of assets using ETFs as a temporary measure. The Board received a review of the monthly "flash" investment performance report for the month of December 2013. The discrepancy in reporting from Wedge versus the custodial numbers will be investigated by the performance analysts (discrepancy with reported return and market value.) Since the Touchstone international portfolio which is on watch continues to struggle, a search has been proceeded to find an additional or replacement manager; next month the Investment Committee will be reviewing semifinalists for that space. The return reflected for Denver on the "flash" report is inaccurate since there has been a delay in receiving the final statement; Denver has provided a composite return (December positive 5.3% vs. index at 1.75%; fiscal year to date is more than 400 basis points better than the index.) Report will be revised accordingly once final numbers are received from Denver. The Fund has reached a milestone of \$700 million.

Rene Peña added that the Fund is rebalancing the portfolio to reduce risk and protect the portfolio while maintaining a good return.

Motion made by Larry Romero to accept the report as prepared by Callan; seconded by Karl Rimkus. Motion carried (unanimous.)

Presi Ortega addressed the Board to publically thank and acknowledge the accomplishments of the Pension Administrator, Robert Ash.

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

Robert Ash, Pension Administrator, reported on the following:

- Retiree and Actuary Committee to meet.
 - After every actuarial evaluation the Board can grant a COLA to the retirees.
 - Retiree and Actuary Committees to discuss possible COLA.
- Personnel Committee may meet.
- Regarding benefit statements, there is still an issue with periodic processing (the process used by the City's Financial Services Department to close a month by balancing the employee accounts.)
 - The lingering conversion issue is regarding the PSB numbers.
 - Troubleshooting is ongoing; benefit statements will be released by April if not sooner.
- Mr. Ash recently spoke with Paul Braden, Chair of the State Pension Review Board. In conversation with Mr. Ash, Mr. Braden advised that from an actuarial perspective the Fund is in good standing and the majority of other plans across the state are improving. He explained that the standing committee is currently reviewing the training mandated by state law and will hopefully release information by the end of 2014 to all state pension plans. Mr. Braden confirmed that there will be an online training component developed by the State Pension Review Board accessible online.
- The pension office will be closed in observance of Martin Luther King Day along with the City offices.

Motion made by Larry Romero to accept the Pension Administrator's report; seconded by Karl Rimkus. Motion carried (unanimous.)

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 not meet.
- 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 January 14, 2014. The Committee received a semiannual investment performance report from Wedge Capital Management. Wedge indicated that returns were very high for calendar year 2013 and probably will not be repeated in 2014. However, they were positive on expected market performance for 2014. No material exceptions were noted in their report.

The monthly "flash" report for December was delayed and may be available for the Board meeting.

The Administrator and Investment Consultant gave the Committee a report regarding the recent domestic equity transition and portfolio rebalancing. The Administrator and

Investment Consultant decided that it would be very cost effective to combine the transition and the rebalancing of investments. The transition and rebalancing was expected to be completed this week. The costs for the transition work was reasonably close to as anticipated according to the post trade analysis which was distributed and reviewed by the Committee. The Administrator reported that he was pleased with the transition work performed by Northern Trust.

Finally the Committee held a discussion regarding a possible future investment in the multi-asset class strategy. The Committee requested that Callan provide modeled asset allocations which would include MLP's and Multi-Asset class allocations at the next Investment Committee meeting. The Consultant reviewed the work plan for the next several months with the Committee.

The next scheduled meeting of the Investment Committee will be on February 18, 2014.

No action required on this item.

- E. Personnel Committee - Committee did meet, but quorum was not met.
- F. Retiree Committee - Committee did not meet.

Item 14. For Notation:

A. Directed brokerage credit balance for month ended November 30, 2013: \$137,676.65

B. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Avitia, Erika	Financial Services	\$4,942.99	
2	Balli-Berlange, Rafael	Environmental Services	\$2,484.65	
3	Forti, Mark	Museum	\$13,320.76	
4	Hagar, Andrew	Municipal Clerk	\$3,147.35	
5	Kemp, Megan	Health	\$834.21	
6	Lopez, Rafael	Parks & Recreation	\$14,342.20	
7	Luna, Pedro	Environmental Services	\$28,052.97	
8	Magallanez, Arthur Jr.	Museum	\$13,679.04	
9	Nunez, Fidel	Environmental Services	\$7,373.64	
10	Ortiz, Juan C.	Mass Transit	\$4,353.52	
11	Ramirez, Victor Noe	Environmental Services	\$32,673.86	**
12	Salinas, Manuel A.	El Paso Water Utilities	\$8,300.02	
			<u>\$133,505.21</u>	

* Additional interest/contributions due

** Eligible for Early Retirement

No discussion. **No action required on this item.**

Motion made by Larry Romero to go into Executive Session to discuss items under Section 551.071 and Section 551.074; seconded by Karl Rimkus. Motion carried @ 9:50 A.M. (unanimous.)

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 Section 551.074** – Discussion and action regarding staff performance evaluation of the Pension Administrator.

Motion made by Mario Hernandez to approve the evaluation of the Pension Administrator and grant him a merit increase based on his evaluation rating and provided administrative direction to perform a salary survey of public fund Pension Administrators in order to begin discussion of renegotiating the Administrator’s contract; seconded by Christina Stokes. Motion required polling:

Presi Ortega	aye
Mario Hernandez	aye
Christina Stokes	aye
Larry E. Romero	aye
Karl Rimkus	aye

Motion carried.

Item 16. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee’s Pension Fund Board meeting on January 15, 2014; seconded by Larry Romero. Motion carried @ 10:07 A.M. (unanimous).

Secretary

Chairman