

**THE EL PASO CITY EMPLOYEES' PENSION FUND  
BOARD MINUTES FOR THE REGULAR MEETING  
HELD WEDNESDAY JANUARY 21, 2015 AT 8:30 A.M.  
CITY HALL, CITY COUNCIL CHAMBERS, 300 N. CAMPBELL**

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**Members in Attendance:**

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

**Members Absent:**

Dr. Michiel Noe, City Representative

**Others in Attendance:**

Eduardo Miranda, Attorney  
Robert Ash, Pension Administrator  
Patricia Hickman, Deputy Pension Administrator  
David Garcia, Payroll/Accounts Payable Specialist  
Karina Chavez, Retiree Coordinator/ Data Entry Clerk  
Bill Howard, Callan Associates  
Charlie Lino, Financial Reporting Coordinator  
Alma Duenas, Benefits/Budget Specialist  
Richard Campos, City's IT Enterprise Applications Administrator  
David Kent of Buck Consultants  
Donald Ewalt of BKD  
John M. Carr, Executive Vice President, Wedge Capital Management  
Martin Robinson, CFA, General Partner, Wedge Capital Management  
John Fenley, Director of Research, Portfolio Manager of Denver Investment Advisors

- Item 1. Rene Pena, Chairman, called the meeting to order at 8:32 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 17, 2014.

Item 3. Consideration and action on the following retirements:

	<u>NAME</u>	<u>DEPARTMENT</u>	<u>SERVICE TIME (EST)</u>
A.	Age & Service Retirement:		
1	Aguilar, Gilbert	EPWU	11 years 10 months *
2	Alonso, Francisco	EPWU	23 years 06 months *
3	Arias, Antonio	Libraries	20 years 06 months
4	Carrillo, Robert	Aviation	20 years 07 months
5	Ceniceros, Pablo	Dept. of Transportation	25 years 00 months *
6	Cuellar, Jose L.	Zoo	24 years 05 months
7	Enriquez, Roberto	Mass Transit	34 years 02 months *
8	Esparza, Ernesto	EPWU	24 years 05 months *
9	Gamboa, Tomas	EPWU	07 years 02 months
10	Harper, James	Mass Transit	24 years 00 months
11	Limas, Jorge	Fire	13 years 06 months
12	Mendoza, Francisca	Dept. of Information Technology Services	18 years 00 months
13	Valdivia, Maria	Community & Human Development	17 years 03 months
14	Wilson, Donald	Fire	15 years 01 month *
B.	Deferred:		
1	Glidden, Lisa	Env. Scvs. & Code Enforc.	07 years 02 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. Munoz, Maria N. survivor or Benjamin Munoz, retiree
- B. Leyva, Elda survivor of Augustin R. Leyva, retiree
- C. Monsisvais, Lilia B. survivor of Romulo G. Monsisvais, 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 LP	Investment Fees	December 31, 2014	\$ 12,216.00	**
B.	Buck Consultants, LLC	Consulting Fees	November 30, 2014	\$ 16,423.00	
C.	Buck Consultants, LLC	Consulting Fees	December 31, 2014	\$ 3,419.00	
D.	Callan Associates Inc	Consulting Fees	Qtr Ended Dec. 31, 2014	\$ 68,022.23	
E.	Denver Investment Advisors	Investment Fees	December 31, 2014	\$ 7,963.00	**
F.	Eduardo Miranda	Legal Fees	December 31, 2014	\$ 662.50	
G.	Gordon Davis, Johnson & Shane PC	Legal Fees	November 30, 2014	\$ 360.50	
H.	Vulcan Value Partners, LLC	Investment Fees	Qtr Ended Dec. 31, 2014	\$ 80,773.32	

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

**Motion made by Karl Rimkus to accept the Consent Agenda; seconded by Christina Stokes. Motion required polling:**

<b>Presi Ortega</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>
<b>America Luna</b>	<b>aye</b>

**Motion carried.**

**REGULAR AGENDA**

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

Charlie Lino, Financial Reporting Coordinator, of the City Comptroller's Office presented; the Board received and reviewed the Treasurer's Report for months ending December 31, 2014.

The 2014 fiscal year-end numbers have been updated with the receipt of the draft auditors report. However the change was minimal, the total net assets available for benefits changed by approximately \$61,000.

For the month of December, the total cash and investments decreased by \$6.6 million and net assets available for benefits decreased by \$5.4 million. The statement of changes reflects the expected deficit between contributions received and benefits paid. The summary of quarterly statement for net changes remains relatively equal to prior months with the exception of net appreciation of fair value of investments which decreased by \$4.6 million in December.

From an investment market analysis year-to-date, the Fund has had a net investment loss of \$1.0 million, which represents an earnings rate of -0.14%.

In the Pension Administration actual/budget comparison, the percentage utilized for three categories are over budget due to annual payout: Workers Compensation, outside contracts, and professional licenses and membership.

The Board Members asked questions to the presenter.

**Motion made by Pat Aauto to accept the Treasurer's Report for the month ended December 31, 2014 as presented; seconded by Karl Rimkus. Motion carried (unanimous.)**

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. The Board received a progress report on the pending issues with the Pension Module.

Periodic processing has been completed through December; reconciliation of the periodic processing is an action item for the consultant (the consultant project is still under review by management.) The 1099R Forms for retirees are being reviewed by Pension staff and any issues are being addressed by IT. The Pension Benefit Statements comparison report will be ready for Pension review in February.

The Board Members asked questions to the presenter.

**No action required on this item.**

- Item 8. Discussion and action regarding the receipt of a death verification analysis.

Robert Ash, Pension Administrator, presented; report was distributed. The death verification analysis is conducted every other month as recommended by the Fund's auditors. The report did not identify any new names; no action is required by the Board.

**No action required on this item.**

- Item 9. Discussion and action regarding the receipt of the annual financial audit for the fiscal year ended August 31, 2014 as prepared by BKD, LLP.

Donald Ewalt of BKD presented; the draft auditor's report and financial statement was distributed. The financial statement has been reviewed extensively by the Fund's Audit Committee.

The auditors implemented GASB 67, changed terminology and added information for the Board's consideration. The auditors had a clean, unqualified opinion; the Fund had a good year. The net position increased by approximately \$90 million over the past year.

Trustees discussed the summary of net appreciation and they complemented Pension management on the receipt of a clean compliance review and GFOA recognition for financial reporting.

The Board Members asked questions to the auditor.

**Motion by Larry Romero to approve and accept the audit report as presented by BKD; seconded by Mario Hernandez. Motion carried (unanimous.)**

- Item 10. Discussion and action regarding the receipt of a biennial actuarial valuation as prepared by Buck Consultants.

David Kent of Buck Consultants presented; the Board received and reviewed the 2014 actuarial valuation and mortality impact report.

The Board reviewed the major findings of the valuation; valuation results regarding members, assets, funded status, contributions; and GASB 67 results. Prior to this year funding and expenses were tied together; however with the implementation of GASB 67 the accounting valuation is separate from the funding valuation.

Major findings were based on the same assumptions as the prior valuation (the increase in contributions for 2014 had already been accounted.) An increase in the funded ratio (82.82% per GASB 67 which assesses market value) and the decrease in years to fund (11 years) is

attributed to excess asset returns. The number of members remains below the 2010 rate due to a hiring freeze. Trustees discussed the effects of an increasing retiree population coupled with stagnant growth in active members.

The Trustees also discussed updating the mortality table; Pension staff recommended changing the mortality table to the one the City identified from the actuarial audit. Trustees directed that no change be made until completion of the upcoming experience study (to be performed in 2016.)

The Board Members asked questions regarding the valuation.

**Motion made by Larry Romero to maintain the experience study that was previously accepted by the Board and not make any changes; seconded by Karl Rimkus. Motion carried (unanimous.)**

Item 11. Discussion and action regarding a Board policy regarding attendance.

The Board discussed establishing an attendance transparency policy for City Employee Trustees of the Board. Trustees discussed different avenues for posting Trustee attendance records for consideration by City Employees including the Pension Matters Newsletter, employee biographies, annual benefit statements and the Pension website. The Board also discussed expanding the policy to all Trustees.

**Motion made by Karl Rimkus to authorize Pension staff to create an attendance transparency policy for all Trustees with the following provisions: publication of Trustee attendance for Board Meetings and assigned Committee Meetings in the Pension Fund newsletter and the requirement for Trustees seeking re-election to disclose attendance records for Board and Committee Meetings; seconded by Mario Hernandez. Motion carried (unanimous.)**

Item 12. Discussion and action regarding the receipt of an investment manager report from WEDGE Capital.

John M. Carr, Executive Vice President, and Martin Robinson, CFA, General Partner, of Wedge Capital Management presented. The Board received and reviewed the investment manager report from Wedge Capital.

Wedge Capital manages a US small cap value portfolio for the Fund. There has been an addition to the resources of that portfolio, at the end of 2014 a new head of research was added to the team. There haven't been any changes to the investment process as a result of that addition. The total assets managed by the firm in the domestic small cap strategy are \$1.9 billion; this strategy will be closed to new investors once the threshold of \$2.2 billion is met. The total portfolio return for the calendar year was up 8.7%. The Fund's portfolio managed by Wedge transitioned from a small/mid cap value in 2011 to a small cap value by the end of 2013.

The Board reviewed the firms performance and asset allocation versus the benchmark; for the calendar year Wedge outperformed the benchmark by over 400 basis points.

The presenting firm provided a market outlook: Domestic markets are outperforming global as the dollar continues to strengthen. Unless the US regresses from a 3+ GDP growth rate, the small cap market will continue to see opportunities. No major changes predicted in the portfolio.

The Board Members asked questions to the presenting manager firm.

**No action required on this item.**

- Item 13. Discussion and action regarding the receipt of an investment manager report from Denver Investment Advisors.

John Fenley, Director of Research, Portfolio Manager of Denver Investment Advisors. The Board received and reviewed the investment manager report from Denver Investment Advisors.

Denver manages an international small cap portfolio for the Fund. The Board received an overview of the firm; the firm has 25 years of experience in managing international small cap. Denver is 100% employee owned and there have not been any manager changes to ownership. However, Jessica Bond, Manager of Client Service, is transitioning out of the company; there will be a new contact.

There is roughly \$2 billion under management in the small cap strategy; it is a focused portfolio with only 40 companies with a long-term time horizon. Although the index has over 1000 companies, the firm feels their portfolio is sufficiently diversified across end demand exposures.

The Board received an overview of the firm's performance. The portfolio was down close to 17% in 2014; that was the first year in seven years that the portfolio had underperformed the index. The firm attributed their underperformance to several factors including the poor performance of stocks, detraction of operational performance and compression of valuation; however the firm remains confident in their stock selection.

In general the volatility of the firm's operations is very low; Denver's strong valuation discipline keeps the beta below 1. In response to the underperformance, the firm will not change their strategy. Consequently, the firm invested in another grassroots analyst expanding that group in order to generate more output in market sensitivity analysis.

Trustees discussed the firm's underperformance, and the Board Members asked questions to the presenting firm. Due to the portfolio underperformance, Callan recommended that the firm be placed on watch.

**No action required on this item.**

- Item 14. 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 December 31, 2014 was distributed.

The Board received a market update. December was not the best month in the equity markets: the Russell 3000 was flat and large cap stocks were slightly negative; international stocks were sold off; the dollar continues to strengthen which is eroding the returns in the international equity market; and emerging markets were down 4.5%. There has been a flight to quality; investors have sought the US market.

The Board reviewed investment manager excess returns in the portfolio. In domestic equity, in December the Mellon tangent added portfolio outperformed the index by 32 basis points and by 600 basis points over the past year. Vulcan an all cap portfolio had a good month in December, but trailed the index by 1.5% in the last year. Robeco and Wedge have had good long term

performance. Riverbridge trailed in December, but has had a strong fiscal year-to-date performance.

In international equity, Denver was the worst performing manager in the portfolio. Franklin Templeton has outperformed in December. Lazard has been the best international manager. In emerging markets, Callan recommended that Touchstone/AGF remain on watch as their performance remains behind the benchmark over the past three years. AQR the newest manager was funded to diversify emerging markets exposure. AQR trailed in December, but outperformed for the fiscal year-to-date.

There were excellent returns in fixed income. Excellent returns from the index; the Barclays Aggregate was up 6% in 2014. Consequently as a majority of active management is underweight in treasuries, it has been a tough month for active managers such as Janus an active core plus. Franklin Templeton trailed in December but has outperformed for fiscal year-to-date.

Invesco a US REIT manager has been in line with the index for December; however long term the portfolio is trailing the index. The Fund's private real estate portfolio managed by UBS had a good month and fiscal year-to-date.

MLP's the newest asset class in the portfolio with 5% allocation is managed by Salient. Salient has outperformed the index.

Overall, the total fund outperformed the benchmark by 16 basis points.

Although the actual versus target asset allocation remains relatively close, Callan has a recommended reallocation in order to raise \$5 million in cash. Callan proposes to take funds from the overweight US equities.

The Board Members had the opportunity to and asked questions to the presenter.

Trustees discussed replacing the US REIT portfolio with a new Global REIT Manager. Invesco currently manages a US REIT portfolio, which could be transitioned to a Global REIT for additional diversification. The Board referred the issue to the Fund's Investment Committee.

**Motion made by Larry Romero to authorize the rebalancing and authorize the Administrator to sign any related documents to transitioning the assets; seconded by America Luna. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Mario Hernandez</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Larry Romero</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>
<b>America Luna</b>	<b>aye</b>

**Motion carried.**

**Motion made by Presi Ortega to place Denver Investment Advisors on watch; seconded by Larry Romero. Motion carried (unanimous.)**

**Motion made by Presi Ortega to refer the issue of hiring a Global REIT Manager to the Investment Committee; seconded by Larry Romero. Motion carried (unanimous.)**

Item 15. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- Upcoming Committee Meetings
  - Personnel Committee will meet on February 2<sup>nd</sup>
  - Actuary Committee will meet in February.
- Pension staff has been working on the 1099R forms.
- Pension staff will send the finalized audit and actuary reports to the State Pension Review Board (PRB).
- The Fund provides payment to the City for back office support, that contract has expired; negotiations with the City are in progress.
- Training
  - Actuary will provide PRB approved core training.
  - Trustees will receive credit toward fulfilling the state requirement.

**No action required on this item.**

Item 16. Discussion and action regarding the following Committee reports/assignments:

A. Actuary Committee – Committee did meet. Joint meeting with the Audit Committee.

Rene Pena read the Joint Actuary and Audit Committee minutes: A joint meeting of the Actuary and Audit Committees was held on January 8, 2015. The Fund’s auditors, BKD, and actuary from Buck Consultants joined the meeting by conference call.

The auditors went over the draft audit report and the Committee asked questions.

The actuary went over the draft actuarial valuation report and the Committee had an opportunity to ask questions. The Committee discussed changes in the mortality table.

The Committee discussed granting an Ad Hoc COLA for retirees and will consider if after the Actuarial Valuation is finalized.

The Committee heard from staff that the City had requested consideration of granting pension service credit for prior military service. The Committee will consider the item after additional information is received from Human Resources. If allowed, the Committee would recommend that the City pay up front any cost associated with granting the service.

The Committee considered a request by an individual to allow older participants to by pension service to reduce vesting time. The Committee recommends denying the request.

**Motion made by Larry Romero to approve the decisions made in Committee; seconded by Christina Stokes. Motion carried (unanimous.)**

B. Ad-Hoc Facilities Committee – Committee did not meet. Property will be discussed in executive session.

C. Audit Committee – Committee did meet. Joint meeting with the Actuary Committee.

Minutes reviewed in Item 16 A.

**No action required on this item.**

D. Investment Committee – Committee did meet.

Presi Ortega read the Investment Committee minutes: The Investment Committee met on January 20, 2015. The Committee reviewed the monthly portfolio performance report for

the month ended December 2014. The Consultant recommended rebalancing and raising cash for operations by taking \$2 million from the S&P 500 and \$1.5 million from the S&P 400 index fund as well as \$1.5 million from ROBECO. Total amount of cash recommended to be raised is \$5 Million dollars.

The Committee received semiannual investment portfolio performance reports from Wedge Capital Management, AGF and Denver Investment Advisors. The Committee had the opportunity to ask questions of the reporting firms. The Committee noted that Denver Investment Advisors has been challenged to exceed their benchmark over recent months. The Committee recommends that Denver be placed on “watch” due to performance.

The next regularly scheduled meeting of the Investment Committee is scheduled for February 17, 2015.

**No action required on this item.**

- E. Personnel Committee – Committee did meet.
- F. Retiree Committee – Committee did meet.

Item 17. For Notation:

A. Directed brokerage credit balance for month ended November 30, 2014: \$137,037.06

B. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Aguilar, Alfonso	Museums	\$24,050.87	
2	Carreon, Alejandrina	Municipal Clerk	\$18,781.66	
3	Chavez, Craig	Fire Dept.	\$456.68	
4	Gonzalez, Ricardo E.	Museums	\$2,086.75	
5	Machuga, Laura	Zoo	\$2,879.01	
6	Martinez, Leopoldo	El Paso Water Utilities	\$1,086.51	
7	Perez, Marina	Police Dept.	\$3,277.58	
8	Piñon, Maria	Public Health	\$18,523.87	**
9	Teran, Ivan	El Paso Water Utilities	\$3,874.37	
10	Ventura, Gustavo	Fire Dept.	\$5,244.17	
11	Ybarra, Jesus	Environmental Services	\$5,144.50	
<b>TOTALS</b>			<b>\$85,405.97</b>	

\* Additional interest/contributions due

\*\* Eligible for Early Retirement

**For notation, no action required on this item.**

**Motion made by Mario Hernandez to go into Executive Session to discuss items under Section 551.071 and Section 551.074; seconded by Christina Stokes. Motion carried @ 10:59 A.M. (unanimous.)**

**Motion made by Larry Romero to reconvene from Executive Session; seconded by Christina Stokes. Motion carried @ 11:18 A.M. (unanimous.)**

Item 18. 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. **Sections 551.071 and 551.072** Discussion and action regarding the possible purchase of real property.

**Motion made by Larry Romero to authorize the Ad-Hoc Facilities Committee and staff to continue further negotiations; seconded by Karl Rimkus. Motion required polling:**

<b>Presi Ortega</b>	<b>aye</b>
<b>Mario Hernandez</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Larry Romero</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>

**Motion carried.**

Item 19. Discussion and action regarding training related to actuarial methodology.

David Kent of Buck Consultants presented; the Board received and reviewed the presentation on principles of actuary science.

The Board reviewed the actuarial valuation process and actuarial terminology. An actuarial valuation is a mathematical model of the financial future of the system. The objectives of an actuarial valuation are to determine adequacy of current contribution rates, assess the progress and security of promised benefits, and measure net actuarial gain or loss.

The Board also compared the market value versus actuarial value of assets and the benefits of utilizing the actuarial value including dampening volatility. The Board reviewed the actuarial assumptions which are estimates of future events used to project current member data and assets into an estimate of future benefits. The estimates encompass economic, investment return, demographic, retirement, termination and disability assumptions. An experience study is performed every six years to test reasonability of those assumptions.

Additionally, the Board reviewed the actuarial cost method and goals: full reserve at retirement; allocate reserve over members' working lifetime; normal cost (level annual contributions to retirement to fund benefits); and accrued liability (value of benefits at retirement minus value of future normal costs.)

The Board Members asked questions of the presenter.

**No action required on this item.**

Item 20. Adjournment

**Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board meeting on January 21, 2015; seconded by Larry Romero. Motion carried @ 11:56 A.M. (unanimous).**

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Secretary

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Chairman