

**THE EL PASO CITY EMPLOYEES' PENSION FUND  
BOARD MINUTES FOR THE REGULAR MEETING  
HELD WEDNESDAY JUNE 17, 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  
Rebecca L. Torres  
Pat Aauto  
Christina Stokes  
Larry E. Romero, City Representative  
America E. Luna

**Members Absent:**

Dr. Michiel Noe, City Representative  
Presi Ortega

**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  
Richard Campos, City's IT Enterprise Applications Administrator  
Norberto Pelayo, City's IT Department  
Tony Ramos, City's IT Department  
Mark Sutter, CFO City of El Paso  
John Brandt, Janus Client Relations Manager  
Bob Griffin, Janus Global Client Portfolio Manager

- Item 1. Rene Pena, Chairman, called the meeting to order at 8:35 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 May 20, 2015.

Item 3. Consideration and action on the following retirements:

	<u>NAME</u>	<u>DEPARTMENT</u>	<u>SERVICE TIME (EST)</u>
A.	Age & Service Retirement:		
1	Anderson, Terrence	EPWU	10 years 04 months *
2	Bettendorf, Jerry L.	Airport	15 years 06 months
3	Brown, Debbie J.	Legal	21 years 05 months
4	Enriquez, Maria E.	Financial Services	16 years 11 months
5	Fonte, Paul V.	EPWU	23 years 06 months
6	Garcia Jr., Francisco	Community Develop.	10 years 05 months
7	Gonzalez, Vicente E.	Fire-EMS	15 years 10 months * PRP
8	Madrid, Jesus E.	EPWU	14 years 01 month
9	Nava, Jesus	Facility Maint.	07 years 09 months
10	Navarro, Manuel	DOT	22 years 02 months
11	Olivas, Maria D.	Mass Transit	31 years 03 months *
12	Perez, Carlos	Environmental Services	21 years 06 months *
13	Reynolds, James L.	Police	14 years 01 month
14	Sida, Jose M.	Mass Transit	19 years 00 months *
B.	Early:		
1	Padilla, Armando	Library	10 years 04 months
C.	Deferred:		
1	Villa, Josefina	Planning & Inspect.	07 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. Chavez, Peggy survivor of Ramon T. Chavez, retiree.
- B. De La Cruz, Guadalupe survivor of Filomeno De La Cruz, retiree.
- C. Lujan, Mary Jo survivor of Luis Lujan, retiree.
- D. Aguinaga, Adelaida survivor of Alfredo Aguinaga, retiree.
- E. Serrano, Cecilia survivor of Alfonso V. 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 L.P.	Investment Fees	May 31, 2015	\$11,930.00	**
B.	BNY Mellon Asset Servicing	Custodial Fees	1 <sup>st</sup> QTR 2015	\$35,766.33	
C.	Buck Consultants, LLC	Consulting Fees	May 31, 2015	\$980.00	
D.	Denver Investment Advisors	Investment Fees	May 31, 2015	\$8,515.00	**
E.	Eduardo Miranda	Legal Fees	May 31, 2015	\$475.00	
F.	Franklin Templeton – CT910-75	Investment Fees	3 Mos. Ended 04/30/15	\$76,928.95	**
G.	Franklin Templeton – CT432-327	Investment Fees	3 Mos. Ended 04/30/15	\$24,794.53	**
H.	Robeco Investment Management	Investment Fees	1 <sup>st</sup> QTR 2015	\$22,086.27	

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

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

<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>
<b>Rep. Larry E. Romero</b>	<b>aye</b>

**Motion carried.**

### **REGULAR AGENDA**

Item 6. Discussion and action regarding the presentation of service awards for service as Fund Treasurer.

The Board presented the service awards for service as Fund Treasurer to Dr. Mark Sutter and Denise Grizzle. Dr. Sutter was present to accept his award and also accepted the service award on behalf of Grizzle as she was not present.

**No action required on this item.**

Item 7. Discussion and action regarding the Treasurer's Reports for month ended May 31, 2015.

Tony Ramos, Treasury Services Coordinator, presented; the Board received and reviewed the Treasurer's Report for month ended May 31, 2015.

Ramos reviewed the statements of net assets available for benefits and the corresponding chart, the statement of changes in net assets, and the quarterly statement of changes in net assets,. The increase in unrestricted receivables, previously at \$6.1 million, and the offset in the amount due to brokers for securities purchased, previously at \$4.9 million, resulted from a late investment purchase; both amounts have cleared this month. The net assets available for the period decreased slightly by about \$500,000. However year to date, the Fund is up about \$9 million. The typical adjustment from cash basis to accrual basis is approximately \$688,000. The contributions year to date are slightly over \$28 million and benefits paid to retirees are at about \$36 million, a gap of approximately \$7.8 million. The gap is as expected because the Fund pays out more, about \$1 million per month, than is received in contributions. Contributions for the third quarter are a little over \$9.6 million dollars, an average of \$3.1 million per month. Benefits paid to retirees are at \$12.1 million, an average of over \$4 million per month.

Trustee, Rebecca L. Torres, requested clarification on the deficit between contributions received and benefits paid. Discussion ensued. Ramos and Dr. Mark Sutter, CFO City of El Paso, advised that the gap is covered by the investment gains of the portfolio; the Fund performs as it is designed to subsidize the gap and also to grow funding for future payments. Sutter listed the net appreciation in fair value of investments for the years 2014 (\$103 million dollars) and 2013 (\$62 million.) Rene Pena, Chairman, highlighted the fund's net increase of \$10 million through this period.

Ramos reviewed the investment income analysis and the corresponding chart. The net investment income is almost \$23 million. Fiscal year to date the net investment income is at 3.14% trailing the target rate of 7.5%. The Fund's performance mirrors the markets' underperformance. To close that gap, the net investment income would have to increase by approximately \$32 million in the fourth quarter in order to meet the target return of \$54 million. The investment income graph needs to be updated. The updated graph will be submitted to the Board.

Ramos reviewed the administration actual/budget comparison. At nine months utilization is expected to be at 75% of the budget. The total in-house administrative expenses are slightly under budget at about 68.2%.

**Motion made by Rep. Larry E. Romero to accept the Treasurer's Report for month ended May 31, 2015; seconded by Karl Rimkus. Motion carried (unanimous.)**

- Item 8. 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.

Campos reviewed periodic processing. Processing for February and March has been reviewed and completed. Periodic processing will continue for employees this coming week beginning with the month of April.

Campos discussed the pension processes that are currently being reviewed to improve the services in the Pension Module. IT has reviewed the custom archive. The withdrawal process has been tested and reviewed; however, additional testing will be required. Robert Ash, Pension Administrator, requested additional information on the status of the withdrawal accounts. Campos was not able to provide a completion date.

Campos discussed the benefits calculations' program. The program is not working properly and is currently being reviewed. Rene Pena, Chairman, requested additional information. Discussion ensued. Campos advised that the benefits calculations' program is a tool that allows employees to calculate an unofficial estimate of what their pension benefit might be upon retirement. The program provides an outline of different options and amounts. Pension staff manually verify those calculations. Campos advised that the problem has been an issue since September of 2012; he was not able to provide a completion date.

**No action required on this item.**

- Item 9. Discussion and action regarding establishing a policy for election of Board Officers.

Rene Pena, Chairman, spoke. The Board discussed establishing a policy for the election of Board Officers. Pena advised that historically elections of Board Officers are held with the introduction of new Trustees to the Board. Karl Rimkus, Vice Chair, recommended that the Board establish a policy in order to hold regular elections and favored annual elections to be held every September. Trustees discussed establishing a term for Board Officers; they made several suggestions including annual or biennial elections.

**Motion made by Karl Rimkus to adopt a policy to hold annual elections for Board Chairman and Vice-Chair during each September Board Meeting; seconded by Pat Aداuto. Motion carried (unanimous.)**

- Item 10. Discussion and action regarding an amendment to the Fund’s investment rules to change the meeting requirements for investment managers, the addition of global REITs.

Rene Pena, Chairman, discussed postponing item 10 for one month.

**Motion made by Pat Aداuto to table Item 10 for one month; seconded by Karl Rimkus. Motion carried (unanimous.)**

- Item 11. Discussion and action regarding recent proposed state legislation related to pension funds.

Robert Ash, Pension Administrator, presented. The Board received and reviewed H.B. No. 3310.

Ash advised that H.B. 3310 has passed the Legislature and has been approved; TEXPERS was not opposed to the bill. H.B. 3310 indicates that if the pension fund is underfunded outside GASB guidelines for amortization of their unfunded liability on two (2) consecutive actuarial evaluations, the City and pension fund must develop an action plan to bring pension funds in compliance with an amortization period as dictated by the GASB within a ten year period.

Rene Pena, Chairman, advised that our Fund is currently within the 30 year amortization period as established by GASB guidelines. Ash advised that our Fund’s actuarial evaluations are posted on the Pension website.

**No action required on this item.**

- Item 12. Discussion and action authorizing the Chairman to sign an employment contract between the Fund and Esmeralda Aguirre for the position of Benefit Technician.

Robert Ash, Pension Administrator, addressed the Board. Ash thanked the Personnel Committee for working with Pension Staff throughout the recruitment process. The current intern position transitioned into a fulltime position. The Fund budgeted for the position. There were 27 applicants which were narrowed down to three. Administration has chosen candidate, Esmeralda Aguirre, from the three. The Board received and reviewed the employment contract between the Fund and Esmeralda Aguirre for the position of Benefit Technician.

Aguirre was present and addressed the Board. Aguirre has interned with the Fund for almost four years and she thanked the Board for the opportunity to continue working with the Fund.

**Motion made by Rep. Larry E. Romero to approve the employment contract between the Fund and Esmeralda Aguirre for the position of Benefit Technician; seconded by Christina Stokes. Motion required polling:**

<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aداuto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>
<b>Rep. Larry E. Romero</b>	<b>aye</b>

**Motion carried.**

Item 13. Discussion and action regarding the receipt of an investment manager report from Janus Capital Management.

John Brandt, Client Relations Manager, and Bob Griffin, Global Client Portfolio Manager, of Janus presented; the Board received and reviewed the investment manager report from Janus Capital Management.

Brandt provided an overview of the firm. The firm, portfolio managers, structure and approach are unchanged. Janus has had continued growth in assets; consequently they have hired additional traders and analyst. Janus manages a core plus fixed income mandate for the Fund. The portfolio is managed in a fundamental “bottom-up” basis, by building one security at a time.

Griffin reviewed the portfolio’s risk management. Janus’ client promise to the Fund is to preserve capital and produce good, risk-adjusted returns. Janus started “de-risking” the portfolio last year as the firm was concerned with the market’s credit cycle with the potential of rising interest rates. Janus reduced duration in the portfolio and reduced aggregate exposure to credit within the portfolio. This time last year the portfolio was at about 65% credit in the strategy, today the portfolio is at about 35% credit.

Griffin reviewed the firm’s performance. As result of early “de-risking” and shorter duration, the firm underperformed versus their peers on the one year number. However, as of June 15<sup>th</sup> the portfolio was outperforming the benchmark by almost one percent and has positive total return, where many of the firm’s peers are currently showing negative return.

Griffin reviewed the firm’s current strategy. Today the firm continues to “de-risk” within U.S. treasuries using a dual approach to treasury allocation.

Griffin reviewed the firm’s market concerns. The potential rise in interest rates will have an effect on fixed income, equity and international markets. Janus expects that the rise in interest rates will be non-cyclical and will be raised by 25 basis points in September with short term volatility. Another concern is liquidity; consequently, Janus has added a larger cash position in their portfolio.

Rene Pena, Chairman, discussed international quantitative easing and requested additional information on the firm’s strategy. Griffin advised that Janus is going underweight US credit and overweight European credit. Discussion ensued.

**No action required on this item.**

Item 14. Discussion and action regarding asset rebalancing as recommended by Callan Associates.

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

Howard advised that the portfolio is rebalanced about four times a year to raise cash to pay benefits. This proposed rebalancing is about a month earlier than usual because of a capital call that will be paid (\$1.2 million) on June 18<sup>th</sup>. The assets represented on the rebalancing sheet are through May 31<sup>st</sup>; cash is about \$2.1 million which reflects the reduction of \$1.2 million for the capital call. The Fund generally needs about \$4.0 million every quarter to meet cash needs. Callan recommends raising \$4.0 million in cash from the overweight US equities; \$2 million to be taken from both Mellon TAS and Vulcan.

**Motion made by Rep. Larry E. Romero to rebalance as proposed; seconded by Pat Aauto.  
Motion required polling:**

<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>
<b>Rep. Larry E. Romero</b>	<b>aye</b>
<b>America Luna</b>	<b>aye</b>

**Motion carried.**

Item 15. Discussion and action regarding an additional private equity commitment.

Bill Howard of Callan Associates presented; the Board received and reviewed the El Paso City Employees' Commitment Pacing and PAPEF VIII Reinvestment Review Memo as prepared by Callan.

Howard advised that Callan recommends making another commitment to the Fund's existing private equity manager, Portfolio Advisors. The Fund's allocation in private equity is at 4.2% with a long-term target of 7.0%. The Fund initially invested \$60 million in private equity in 2012. Thirty-five million dollars was earmarked for Portfolio Advisors' primary fund, PAPEF VII, which invests in diversified partnerships, and \$25 million was committed to a secondary fund with Portfolio Advisors. Portfolio Advisors is back in the market raising another primary fund called PAPEF VIII. Callan recommends allocating \$25 million to PAPEF VIII.

Karl Rimkus, Vice Chair, requested clarification on the differences between PAPEF VII and VIII. Howard advised that PAPEF VII and VIII employ the same strategy but will ultimately have different investments.

Howard summarized the performance of the PAPEF VII portfolio. Less than half of the total allocation has been paid-in. The internal rate of return has been 11.6% and total value of paid-in ratio 1.16%.

Howard reviewed the El Paso Commitment Projection and Funded Level projection tables. With continued investment, the Fund is expected to reach target allocation by 2020.

**Motion made by Pat Aauto to approve an additional \$25 million to private equity funds to reach our 7% target and that [the funds] be allocated to the strategy pools as recommended by Callan; seconded by Rep. Larry E. Romero. Motion required polling:**

<b>Rebecca L. Torres</b>	<b>aye</b>
<b>Pat Aauto</b>	<b>aye</b>
<b>Christina Stokes</b>	<b>aye</b>
<b>Karl Rimkus</b>	<b>aye</b>
<b>Rep. Larry E. Romero</b>	<b>aye</b>
<b>America Luna</b>	<b>aye</b>

**Motion carried.**

Item 16. 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 May 31, 2015.

Howard reviewed performance of the markets for May. May was a decent month for US equities. The broad Russell 3000 Index was up 1.4%. There were declines in international equities; the EAFE Index was down 51 basis points. Emerging markets sold off, down 4% in May. Bonds were also negative; the Barclays Aggregate Index was down 24 basis points in May as rates moved higher.

Howard reviewed the performance of the Fund’s domestic equity active managers. Mellon tangent added trailed in May by 23 basis points but is over 300 basis points ahead of the index for the last year. Overall Callan is very pleased with the Mellon tangent added portfolio. Vulcan, an all cap manager, also performed well; over 200 basis points better than the index for the last year. Boston Partners, the longest tenured manager, outperformed in May by 50 basis points, but trailed the index fiscal year to date and over the last year. Wedge, the small value manager, has been trailing the broad market; however, for the last three years Wedge is ahead by almost 200 basis points. Riverbridge, a high quality growth manager, has trailed the broad Russell 2000.

Howard reviewed the performance of the Fund’s international equity active managers. The Fund has two international small cap managers, Denver and Templeton. Denver is on “watch” for performance. Denver has a concentrated portfolio of about 30 stocks; they have been trailing the index. Templeton has a diversified portfolio with a value orientation. Templeton trailed in May but is up over 300 basis points for the last year. Lazard is about 75 basis points ahead of the index for the last year. Touchstone is another manager that is on “watch” for performance. Touchstone is one of two emerging markets managers. Touchstone protected capital in May but continue to have a deficit in terms of return versus the index. Touchstone remains on “watch”. AQR, a newer manager funded in May of last year, trailed the index in May but are ahead of the index by about 75 basis points for the last year.

Rene Pena, Chairman, requested additional information on Denver. Howard advised that Denver has not changed their strategy.

Howard reviewed the performance of the Fund’s fixed income active managers. Franklin Templeton is a global portfolio that has added value for the month and the last year versus their benchmark. The Invesco REIT portfolio was in line with the index for May and ahead of the index by about 20 basis points for the last year; however Invesco trails the index over the past three and five years. Callan is currently reviewing REIT’s and will provide a final recommendation to the Board.

Howard reviewed the performance of the Fund’s MLP active manager, Salient. The index was down by about 3% in May, however Salient outperformed the index in May and fiscal year to date. MLPs have been affected by oil which impacted the negative absolute returns.

Overall, fiscal year to date the fund outperformed the target rate. The rate of return is at 3.2%; it is unlikely that the Fund will reach the target rate of return of 7.5% for the fiscal year. However, for the last three and five years the Fund has done well above the 7.5% compounded annually.

**Motion made by Rebecca L. Torres to accept the report as presented by Callan; seconded by Karl Rimkus. Motion carried (unanimous.)**

Item 17. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- TEXPERS is offering the Basic Trustee Training Class August 15<sup>th</sup> in San Antonio. This training will fulfill the minimum educational training requirement.
- The Fund's custodial bank, BNY Mellon, will provide training to the Board in June; this training will not fulfill the minimum educational training requirement.
- Karl Rimkus, Vice Chair, and Ash spoke with City Council Members and the Mayor with the exception of Rep. Courtney Niland who was unavailable. They addressed Pension relocation and the real estate opportunities which were generally well received. Rimkus stated that they advised the City Manager of the additional property of 40,000 sq. ft. and requested that the City respond to the Board by July. If the City is not interested than the additional property will be advertised in the open market. It is Rimkus' recommendation that construction begin only after the excess property is sold.
- Informal meeting held June 16<sup>th</sup>. Janus and Wedge were present; no material exceptions were noted. Rebalancing was also discussed during the meeting. Ash advised that since the minimum quorum was not met, no action could be taken.
- Ash advised that he executed a budget amendment of \$2,800 pursuant to the Board rules that allow for budget changes by administration under \$5,000 and not increasing overall total.
  - The budget variances seen in the Treasurers' report should be resolved within the next few months as the amendment involved small rebalancing within the budget.
- Administrative forms are in place for the lump sum QDRO payments that were approved by the Board and budgeted for in May.

**No action required on this item.**

Item 18. 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 not meet. Discussion only.
- E. Personnel Committee – Committee did not meet.
- F. Retiree Committee– Committee did not meet.

Rene Pena, Chairman, advised that he will be reviewing assignments for the committees. Karl Rimkus, Vice Chair, requested that Pena assign an alternate for the Investment Committee. The Fund's attorney has already reviewed Rimkus' request.

Robert Ash, Pension Administrator, advised that the City's Internal Auditor's Office will audit the Pension Department as customary. An Audit Committee Meeting will be scheduled once the Auditor's Office advises staff of what work they will be completing.

**No action required on this item.**

Item 19. For Notation:

- A. Directed brokerage credit balance for month ended April 30, 2015: \$136,485.83
- B. Refund of Contributions:

NAME	DEPARTMENT	TOTAL REFUND
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1	Andujo, Jose Gilberto	Engineering	\$14,991.82
2	Aranda, Ofelia L.	Fire	\$13,481.60
3	Ayub, Diana	Municipal Clerk	\$4,133.38
4	Blanco, Gerardo	Financial Svces	\$1,680.74
5	Cienfuegos, John	Environmental Svces	\$14,488.71
6	Grijalva, Raul	Mass Transit	\$2,897.82
7	Mendoza, Erin	Health	\$11,880.70
8	Natividad, Francisco	EPWU	\$3,966.51
9	Nava, Melissa	Health	\$2,428.40
10	Nunez, Deborah	Information Technology	\$4,737.82
11	Ortiz, Raquel	Museum	\$9,235.63
12	Payan, William	Environmental Svces	\$6,949.43
13	Silva, Joe R.	Mass Transit	\$24,344.01
14	Soriano, Guillermo	Parks	\$3,065.40
15	Viscarra, Denise	Health	\$4,548.69
<b>TOTALS</b>			<b><u>\$122,830.66</u></b>

\* Additional interest/contributions due

\*\* Eligible for Early Retirement

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

Item 20. 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

Item 21. Adjournment

**Motion made by Pat Adauto to adjourn the El Paso City Employee's Pension Fund Board meeting on June 17, 2015; seconded by Christina Stokes. Motion carried @ 9:45 A.M. (unanimous).**