

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD WEDNESDAY MARCH 19 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
Dr. Michiel Noe, City Representative
Robert Andron
Cecilia A. Rios

Members Absent:

Christina Stokes
Larry E. Romero, City Representative
Karl C. Rimkus

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
Luis Ortiz, Accounting Manager, City Comptrollers' Office
Paul Erlendson, Callan Associates
Cassidy Burns, Riverbridge Partners
Adam McGrane, Riverbridge Partners

Item 1. Rene Peña, Chairman, called the meeting to order at 8:37 A.M.

NOTICE TO THE PUBLIC

All matters listed under the CONSENT AGENDA will be considered by the Pension Board to be routine and will be enacted by one motion in the form listed below. There will be no separate discussion of these items unless members of the Pension Board or persons in the audience request specific items be removed from the CONSENT AGENDA to the REGULAR AGENDA for discussion prior to the time the Pension Board votes on the motion to adopt the CONSENT AGENDA.

CONSENT AGENDA

Item 2. Approve the Minutes of the Regular Board meeting of February 19, 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 | Lozada, Dorothy G. | Legal | 19 years 02 months |
| 2 | Munoz, Baltazar | Mass Transit | 13 years 10 months* |
| 3 | Pinales, Juan | EPWU | 26 years 05 months* |
| 4 | Pitts, Daniel | Mass Transit | 18 years 01 month |
| 5 | Tamez, Rafael | Police | 23 years 02 months |
| 6 | Young, Crandall | Engineering | 11 years 01 month |

B. Early:

| | | | |
|---|------------------|-------------|---------------------|
| 1 | Campos, Georgina | Police | 25 years 01 month |
| 2 | Urena, Jose A. | Solid Waste | 16 years 09 months* |

C. Deferred:

| | | | |
|---|-------------------|--------|--------------------|
| 1 | Gallegos, Mary H. | Police | 10 years 10 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 invoices as follows:

| <u>COMPANY</u> | <u>DESCRIPTION OF SERVICE</u> | <u>PERIOD</u> | <u>FEE DUE \$\$</u> | |
|----------------------------------|-----------------------------------|----------------------|-------------------------|----|
| A. BNY Mellon Asset Servicing | Custodial | Oct 1 – Dec 31, 2013 | \$34,032.27 | |
| B. Buck Consultants, LLC | Actuarial | Dec 2013 – Jan 2014 | \$13,000.00 | |
| C. Denver Investment Advisors | Investment | January 31, 2014 | \$9,278.00 | ** |
| D. Eduardo Miranda | Legal Fees | February 28, 2014 | \$1,050.00 | |
| E. Franklin Temp Inv - CT432-327 | Investment | Nov 2013 – Jan 2014 | \$23,861.20 | ** |
| F. Franklin Temp Inv – CT910-75 | Investment | Nov 2013 – Jan 2014 | \$57,505.80 | ** |
| G. Invesco Trust Company | Investment | Oct 1 – Dec 31, 2013 | \$32,521.75 | ** |
| H. Denver Investment Advisors | Investment | February 28, 2014 | \$9,399.00 | ** |

* To be paid by Directed Brokerage credits.

** For Notation Only – to be withdrawn from commingled account.

*** Performance based fee.

Motion made by Presi Ortega to accept Consent Agenda with the following correction; seconded by Dr. Michiel Noe.

ITEM 3A: Revise average used to calculate the final pension benefit to 3yrs for the retiree listed under number 3.

Motion required polling:

| | |
|------------------------|------------|
| Presi Ortega | aye |
| Dr. Michiel Noe | aye |
| Robert Andron | aye |
| Cecilia A. Rios | aye |

Motion carried.

REGULAR AGENDA

- Item 5. Discussion and action regarding the Treasurer's Reports for months ending February 28, 2014.

Luis Ortiz, Accounting Manager of City Comptroller's Office, presented; Monthly Treasurer's Report for the period ending February 28, 2014 was distributed. The Board received a review of the February Treasurer's Report. The net assets available for benefits has increased by \$62.5 million in six months (the Fund recovered \$10 million in cash and investments in February.) The actual rate of return, 11.04%, exceeds the target rate for the entire fiscal year, 7.50%. The net assets available has hit a new milestone above \$700 million.

Motion made by Dr. Michiel Noe to accept the Treasurer's Report for the month ending February 28, 2014; seconded by Robert Andron. Motion carried (unanimous).

- Item 6. Discussion and action regarding an amendment to the Fund's Personnel Rules and Regulations.

Robert Ash, Pension Administrator, spoke. The Fund's Attorney, Eddie Miranda, has reviewed the Fund's Personnel Rules and Regulations and generated an amendment that encompasses the updates from the past year. The amendment to the Fund's Personnel Rules and Regulations has been reviewed by the Personnel Committee. The Personnel Committee has recommended that the amendment be approved.

Eddie Miranda, Attorney, addressed the Board. The amendment consists of an address update and "clerical and grammatical revisions."

Motion made by Mario Hernandez to approve the amendment as reviewed by the Fund's legal counsel and the Personnel Committee; seconded by Robert Andron. Motion carried (unanimous).

- Item 7. Discussion and action regarding review of the content for the next Pension Matters Newsletter.

David Garcia, Pension Payroll/Accounts Payable Specialist, and Karina Chavez, Retiree Coordinator/Data Entry Clerk, presented. The Board received an overview of the content and publishing cost for the April Pension Matters Newsletter. The Trustees discussed different options to distributing the newsletter to employees. A PDF of the newsletter will be posted on the April edition of the monthly City Newsletter – The Employee Connection. Karina Chavez advised that the City did not allow a link to the Pension Matters Newsletter be placed on the weekly City Beat Newsletter. The Trustees suggested adding a link on other City webpages. Trustees, Robert Andron and Rep. Dr. Michiel Noe, volunteered to place a link to the Pension Matters Newsletter on their respective electronic communications to employees. The Board directed Pension Staff to make the request for e-enrollment prominent on the first page of the newsletter.

Robert Ash, Pension Administrator, advised that Pension Staff will amend the budget internally to cover printing cost (a portion of the allotted budget was used to print additional Summary Plan Description pamphlets as requested by the City). No change in the overall budget is required thus the Board does not need to approve a budget amendment.

Motion made by Mario Hernandez to approve the content of the Pension Matters Newsletter and to authorize staff to post the newsletter on the Pension website and distribute the newsletter to retirees and city departments; seconded by Robert Andron. Motion carried (unanimous).

- Item 8. Discussion and action regarding the receipt of an annual investment portfolio report from Riverbridge Partners.

Cassidy Burns and Adam McGrane of Riverbridge Partners presented; report was distributed. The Fund received an overview of the firm (growth, personnel and investment strategy) as presented on the report. Mr. McGrane explained that recent underperformance is due to the position of the portfolio as lower quality names have outperformed higher quality names (with the majority of the firm's investments being higher quality.)

No action taken on this item.

- Item 9. Discussion and action regarding a report from Callan Associates.

Paul Erlendson of Callan Associates presented; report was distributed. Mr. Erlendson commended the Fund's impressive investment returns (only 11% of public funds had higher returns over the past five years ending December 31st.) The past five years have been a period of recovery; the total fund has appreciated over 14% per year.

Mr. Erlendson reviewed the monthly "flash" investment performance report for the month of February 2014. Touchstone, emerging market manager, remains on watch. The Investment Committee has received presentations from other potential emerging market managers. In accordance with the target asset allocation, Mr. Erlendson recommended realizing some gains in the overweight, high-risk assets and reallocating the funds into underweight, lower risk assets in the portfolio as discussed with the Investment Committee.

No action taken on this item.

- Item 10. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- Board Elections
 - Will take place at the end of April
 - Trustees, Karl Rimkus and Robert Andron, are up for reelection.
 - Candidates must place their name on the ballot by April 10th.
- Newsletter, which advises of the Board elections, will be mailed out in the first week of April.
- Internal Audit will review and help establish the purchasing procedures for the Fund
 - Preliminary meeting with Pension Staff will be on March 24th.
- CherryRoad as part of the PeopleSoft Implementation will be at the Pension Office for several weeks working on the ongoing issues with the Pension Module.
 - Ongoing issues are related to the actuarial abstract, employee accounts and closing pension payroll.
- Audit Committee to meet regarding proposal received from BKD.
- NCPERS will have annual meeting in Chicago, April 26th – May 1st.

No action taken on this item.

- Item 11. Discussion and action regarding the following Committee reports/assignments:

- A. Actuary Committee - Committee did not meet.
- B. Ad-Hoc Continuing Education Committee - Committee did meet.

Rene Peña read the Ad-Hoc Continuing Education Committee minutes: The Ad Hoc Committee on Continuing Education met on March 3, 2014. The Committee had an opportunity to review the State law regarding mandatory training. The Committee also reviewed the minutes from the State Pension Review Board subcommittee regarding training for Administrators and Board members.

After reviewing the documents the Committee members discussed how continuing education should be implemented with our pension fund. The Committee requested that the Administrator draft some guidelines for review by the Committee. The Committee will meet once the draft guidelines have been drafted.

No action taken on this item.

- C. Ad-Hoc Facilities Committee - Committee did not meet.
- D. Audit Committee - Committee did not meet.
- E. Investment Committee - Committee did meet.

Presi Ortega read the Investment Committee minutes: The Investment Committee met on March 18, 2014. The Committee received the monthly investment portfolio performance report for the month ending February 2014.

The Committee received semiannual investment manager portfolio performance reports from UBS real estate advisors and Riverbridge Partners. There were not material exceptions noted in their reports to the Committee.

The Committee also received finalist presentations for the possible management of an international equity portfolio. The finalists were AQR Capital Management, Delaware Investments and Eaton Vance Management. After reviewing the presentation materials from Callan Associates and the presenting firms and being able to ask questions of the competing firms the Committee recommends that AQR Capital Management be hired as an international equity manager to manage approximately \$18 million dollars.

The Committee also reviewed the fee structure for ROBECO. The current fee structure is a performance based fee. Since ROBECO has consistently exceeded their benchmark return Callan reported that the Fund has paid more in performance based fees then we would have paid using a tiered fee structure based upon assets under management. Callan Associates recommended that the ROBECO fee be restructured to a tiered fee based upon assets under management which would result, based upon the Fund's current investment in a fee of 55 basis points. The Committee recommends restructuring the fee to a fee based upon assets under management and authorize the Chairman to sign a contract amendment to allow this change to take effect.

The Committee reviewed the current asset allocation. Callan noted that domestic equities were slightly overweight and bonds were slightly underweight. Callan recommended reducing \$10m from the Mellon S&P 500 index and increasing the Mellon BC Aggregate index by \$10 million dollars. The Administrator raised concerns regarding the Fund's cash account and the need to raise funds to pay for the COLA authorized by the Board at the last Board meeting. Callan recommended redeeming units worth \$4 million dollars from the S&P 500 index to pay for the COLA. The Committee recommends that the Administrator be authorized to redeem units worth \$14 million dollars from the S&P 500 index managed by Mellon Capital and that \$10 million dollars of the proceeds be used to fund an additional contribution to the Mellon BC Aggregate Index and that \$4 million be deposited into the Fund's cash account to pay for the COLA for retirees.

Finally, Callan Associates provided information on the risk/return effects of including a Master Limited Partnership, "MLP", allocation in the Fund's asset allocation. After reviewing the information provided by Callan the Committee recommends adding a MLP allocation of 5-7% of the portfolio. The addition of the MLP allocation is not expected to increase investment returns but may reduce the volatility of the investment portfolio. The Committee requested that Callan conduct a search for an MLP manager using a limited partnership or separate account focused in the energy sector.

The next regularly scheduled Investment Committee meeting is scheduled for April 15, 2014.

Motion made by Presi Ortega to hire AQR Capital Management as an international equity manager to manage approximately \$18 million dollars and to authorize the Investment Consultant and Administrator to negotiate a contract for that purpose; seconded by Cecilia Rios. Motion carried (unanimous).

Motion made by Presi Ortega that the ROBECO fee be restructured to a tiered fee based upon assets under management and to authorize the Chairman or the Administrator to sign a contract amendment to allow that effective change; seconded by Robert Andron. Motion carried (unanimous).

Motion made by Presi Ortega that the Administrator be authorized to redeem units worth \$14 million dollars from the S&P 500 index managed by Mellon Capital and that \$10 million dollars of the proceeds be used to fund an additional contribution to the Mellon BC Aggregate Index and that \$4 million be deposited into the Fund's cash account to pay for the 13th check for retirees; seconded by Mario Hernandez. Motion carried (unanimous).

Motion made by Presi Ortega to request that Callan conduct a search for an MLP manager using a limited partnership or separate account focused in the energy sector; seconded by Robert Andron. Motion carried (unanimous).

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

Mr. Ash advised that the 13th check will be distributed mid-May.

Item 12. For Notation:

A. Directed brokerage credit balance for month ended January 31, 2014: \$137,180.05

B. Refund of Contributions:

| NAME | DEPARTMENT | TOTAL REFUND |
|----------------------|--------------------|--------------|
| Armendariz, Ramon | Mass Transit | \$800.44 |
| Bernal, Saul | PSB | \$12,653.24 |
| Berroyer, Amanda | Zoo | \$4,128.07 |
| Castañeda, Francisco | PSB | \$2,601.11 |
| Dugan, Wendy | Engineering | \$19,156.30 |
| Gamboa, Patricia | Parks & Recreation | \$811.54 |

| | | | |
|----------------------|--------------------|---------------------|----|
| Gonzalez, Erika | General Services | \$8,803.02 | |
| Medrano-Cruz, Hector | PSB | \$4,097.10 | |
| Morin, Lorenzo II | Fire | \$18,202.93 | |
| Paz, Crystal M. | Parks & Recreation | \$2,524.06 | |
| Provencio, Alexa | PSB | \$16,124.74 | |
| Ramirez, Pablo | PSB | \$1,040.25 | |
| Sivertsen, Michael | Mass Transit | \$10,026.26 | |
| Torres, Abel A. | DOT | \$20,576.69 | |
| Torrez, Raul | PSB | \$12,570.80 | |
| Unzueta, Yesenia | Human Resources | \$1,403.83 | |
| Villanueva, Claudia | Parks & Recreation | \$2,725.91 | |
| Vizcaino, Amalia | Police | \$64,552.40 | ** |
| Totals | | \$202,798.69 | |

- * Additional interest/contributions due
- ** Eligible for Early Retirement

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

Item 13. 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 14. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board meeting on March 19, 2014; seconded by Mario Hernandez. Motion carried @ 9:49 A.M. (unanimous).