

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD WEDNESDAY MAY 18, 2016 AT 8:30 A.M.
CITY HALL, CITY COUNCIL CHAMBERS, 300 N. CAMPBELL**

Members in Attendance:

Rene Peña, Chairman
Karl C. Rimkus, Vice Chairman
Presi Ortega
Mario R. Hernandez
Pat Aauto
Christina Stokes
Peter Svarzbein, City Representative

Members Absent:

Rebecca L. Torres

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
Alma R. Duenas, Benefits/Budget Specialist
Paul Erlendson, Callan Associates
Charlie Lino, Assistant Comptroller
Enrique Martinez, Director, City's IT Department
Richard Campos, City's IT Enterprise Applications Administrator
Norberto Pelayo, City's IT Department
Frank Sposato, Director, Lazard Asset Management
Robert Failla, Director / Client Portfolio Manager, Lazard Asset Management
Guest (*Name Illegible*), C.R. Stapler

- Item 1. Rene Peña, 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 April 20, 2016.

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	Bocanegra, Alejandro	Env Svces	23 years 03 months *
2	Canada, John R.	Airport	23 years 05 months *
3	Chavez, Lorenzo	Mass Transit	26 years 07 months
4	Chavez, Lucinda	Zoo	23 years 06 months
5	Fuentes, Daniel	El Paso Police Dept.	41 years 09 months
6	Holstead, Martha I.	EPWU	12 years 09 months
7	McPeters, Cynthia	Library	23 years 07 months *
8	Quinn Jr., William F.	EPWU	30 years 11 months
9	Scarola, James P.	Mass Transit	17 years 08 months *
10	White, Patricia Ann	Comm & Human Dev	19 years 09 months
11	Guerrero, Alfonso	Financial Svces	10 years 11 months *
B.	Early:		
1	Alvarado, Antonia	Zoo	08 years 06 months
2	Chavez, Narciso	Street	17 years 07 months
3	Contreras, Armando	Library	24 years 00 months
4	Estrada, Felix	Env Svces	22 years 04 months
5	Willie, Jose	Mass Transit	12 years 00 months *
C.	Deferred:		
1	Robison, Isela	Comm & Human Dev	11 years 04 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. Marshall, Beatrice survivor of Frederick Marshall, retiree.
- B. Perez, Adela survivor of Ricardo Ruedas, retiree.
- C. Rodriguez, Josefina survivor of Juan M. Rodriguez, retiree.
- D. Willie, Alicia R. survivor of Jose Willie, employee.

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.	BNY Mellon Asset Services	Custodial Fees	Qtr. Ending 03/31/16	\$40,439.41
B.	Boston Partners	Investment Fees	Qtr. Ending 03/31/16	\$32,766.15
C.	Buck Consultants LLC	Actuarial Fees	April 30, 2016	\$6,472.00
D.	Denver Investments	Investment Fees	April 30, 2016	\$8,412.00 **
E.	Eduardo Miranda	Legal Fees	April 30, 2016	\$587.50
F.	Gordon Davis Johnson & Shane PC	Legal Fees	April 30, 2016	\$206.00
G.	Janus Capital	Investment Fees	Qtr. Ending 03/31/16	\$61,892.84
H.	Lazard Asset Management	Investment Fees	Qtr. Ending 03/31/16	\$57,260.16 **

I. Principal Global Investors	Investment Fees	April 30, 2016	\$4,942.98	**
J. Salient Capital Advisors LLC	Investment Fees	Qtr. Ending 03/31/16	\$44,814.72	
K. Wedge Capital Management	Investment Fees	Qtr. Ending 03/31/16	\$43,817.68	

* To be paid by Directed Brokerage credits.

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

*** Performance based fee.

Motion made by Karl C. Rimkus to accept the Consent Agenda; seconded by Pat Adauto.

Motion required polling:

Presi Ortega	aye
Pat Adauto	aye
Christina Stokes	aye
Karl C. Rimkus	aye

Motion carried.

REGULAR AGENDA

Item 6. Discussion and action regarding the presentation of a Board Service Award.

Karl Rimkus, Vice Chairman, presented the Board Service Award Certificate and pin to Rene Peña in recognition of his more than six terms as Trustee. Peña expressed his gratitude to the Board and Pension Staff.

No action required on this item.

Item 7. Discussion and action regarding the Treasurer's Report for month ended April 30, 2016.

Charlie Lino, Assistant Comptroller for the City of El Paso, presented; the Board received and reviewed the Treasurer's Report for the month ended April 30, 2016.

Lino reviewed the statement of net assets available for benefits. The unaudited totals in the statement are for the month ended April 30, 2016. Lino reviewed assets. In April, the net assets increased by about 6.9 million dollars from March; this increase is attributed to stock performance and allocation.

Lino reviewed the statement of changes in net assets available for benefits. The unaudited totals in the statement are for the eight month period ended April 30, 2016. Lino reviewed additions. In April, the net change in the fair value of investments increased by about 7.8 million dollars from March. Lino noted the moderate increase in the all investment accounts. The total net investment income increased by approximately 8.4 million dollars. Lino reviewed deductions. The benefits paid to retirees increased. The ending fund balance available for benefits increased from approximately 701 million dollars to about 708 million dollars in April.

Lino reviewed the quarterly statement of changes in net assets available for benefits. The unaudited totals in the statement are for the third quarter. Lino noted the majority of the 31 million dollar decrease for the second quarter has been recovered in the third quarter. The net investment income has increased by approximately eight million dollars from last fiscal year.

Lino reviewed the investment income analysis. The rate of return has increased to approximately 3.05 percent. Lino noted that the March totals in the investment income analysis are final.

Lino reviewed the administration actual/budget comparison. Through eight months, the expected budget utilization is approximately 75 percent. Total administrative expenses were under 60 percent which reflects good budget control. Lino noted that the expenditures for outside contracts, other services, and professional licenses were above 75 percent.

Lino reviewed the ten-year graph of net assets available for benefits and the ten-year graph for investment income.

No action required on this item.

- Item 8. Discussion and action regarding the monthly report from the City's Department of Information Technology.

Enrique Martinez, City's IT Director, and Richard Campos, City's IT Enterprise Applications Administrator, reviewed the pending issues with the Pension Module.

Campos reviewed the opportunities for improvement in the Pension Module. Campos reviewed the issues that must be address in order to reduce the processing time for releasing pension benefit statements. A review of the Pension Administration rules is necessary including a review of the rules for periodic processing, service credit, and retirement benefit calculations. Additionally, a review of the impact of the pension administration effective dates to job original hire dates that were customized in the reimplementation. Campos reviewed the pending issues with the configuration of financials. IRS limits must be set-up and configured for personnel that reached the IRS defined limits. IT needs to ensure that the buy-back process is working properly. Campos reviewed the pending issues in special processing. There is an overlap in withdrawals that needs to be corrected. Missing buy-backs need to be identified and corrected. The El Paso Water Utility (EPWU) transfer process needs to be defined. Additionally, EPWU contributions need to be captured to verify the data integrity of those contributions. Campos noted that presently EPWU perform the special processing and deliver that data to the City. Campos reviewed pending issues with reports. The actuarial evaluation report needs to be reviewed and configured. Campos noted that the actuarial evaluation is a delivered report from PeopleSoft. There is an enhanced, custom withdrawal report that is missing data elements which are needed for clarity during review. Additionally, there is a reconciliation requirement for the operators that run the periodic processing to ensure data integrity. Campos reviewed the pending issues with data cleanup. Employer contributions that are offset by original hire date need to be corrected.

Martinez reviewed the action plan. Martinez noted that as previously requested by the Board IT met with Pension Staff to identify pending issues. Martinez advised that additional resources with expertise in the Pension Module are needed. IT plans to engage a third party consultant. The potential consultant, whom IT has already contacted, has a team that recently delivered a Pension PeopleSoft Configuration. Martinez noted that IT has received a preliminary quote and will present a budgetary estimate to the Board. When prompted by Board Chairman, Rene Peña, Martinez noted that financial responsibility has not been determined. Martinez advised that in order to develop a scope of work additional departmental review, to include the City's HR and Financial Services Departments, and business process review is necessary in order to identify issues, define timelines, and identify scope of responsibilities. Martinez noted that the transfer of responsibility to Pension Staff regarding report and data validation resulted from the upgrade of the PeopleSoft System. Martinez reviewed data variances that must be addressed

and provided several examples including the data variance that occurs when an employee transitions from part-time to full-time employment.

Trustees requested a timeline. After conferring with Campos, Martinez advised that the consultant is proposing approximately 2000 hours distributed over several resources. Martinez noted that IT will determine and present the timeline in unit of months. Martinez advised that IT will present a budgetary estimate to the Board in June and initiate the conversation regarding funding capacity. Karl Rimkus, Vice Chairman, discussed the bidding and solicitation process and delays that may result. Martinez advised that a cooperative contract with the vendor may streamline the award process. The Board discussed with the Pension Administrator, Robert Ash, time constraints and the limited availability of Pension resources.

No action required on this item.

- Item 9. Discussion and action regarding the receipt of Board training on Fiduciary Matters from the Board's legal counsel. ***Tabled March and April 2016.***

Eduardo Miranda, Attorney, provided Board training on Fiduciary Matters; the Board received and reviewed the training presentation. Miranda noted that the training has been divided into two sessions as requested by the Board.

Miranda reviewed the presentation. In his presentation: Miranda defined the term Fiduciary according to Employee Retirement Income Security Act (ERISA) and Texas law referencing common law of Trusts; outlined the duties of a Fiduciary in accordance with common-law and ERISA; reviewed the Texas Common Law Prudent Person Standard noting the trend toward a higher standard; reviewed the Texas government code and Trustee liability regarding the selection of investment managers; reviewed liability of professional Fiduciaries and the applicable Fiduciary liability of professional consultants; reviewed the plan document for the Fund; reviewed disability pensions; and reviewed liability insurance and indemnification.

The Board discussed the trend toward a higher standard. Miranda noted that a rise in standard correlates with increased liability; however, the term expert has not been applied to Fiduciary. The Board discussed Fiduciary liability. Miranda noted that the Board has a liability insurance policy in place and advised that the primary interest of a Trustee is not that of a political body that would change society; the Fiduciary must primarily exercise due diligence.

Miranda advised that Trustees will receive a half hour training credit. Rene Peña, Chairman, noted that the Board Members will complete the required survey.

No action required on this item.

- Item 10. Discussion and action regarding the receipt of a death verification audit.

Robert Ash, Pension Administrator, presented; the Board received and reviewed the death verification audit. Ash advised that the report is completed every other month. There were no new names that appeared. Ash noted that recent federal legislation has reduced the accuracy of the report.

No action required on this item.

- Item 11. Discussion and action regarding the receipt of an investment manager report from Lazard Asset Management.

Frank Sposato and Robert Failla of Lazard Asset Management presented; the Board received and reviewed an investment manager report from Lazard Asset Management. (In this Item, the firm will be referred to as Lazard.)

Sposato provided an overview of the firm. Lazard is a global firm. As of March 31, 2016, the firm had about 172 billion dollars of assets under management over multiple strategies. Sposato reviewed assets by client type and investment mandate. Sposato reviewed the Global/International Equity Assets.

Failla presented. Failla noted that there has not been any changes to the team in over a decade. Failla reviewed the firm's investment philosophy. Lazard manages an all cap portfolio. The firm invests in international companies that exhibit relative value. The firm adds value through stock selection and portfolio management. Failla provided a summary of recent market performance. The markets have been volatile over the past 18 to 24 months. Failla reviewed several factors that affected market performance including Central Bank Policy and global growth concerns. Failla advised that value outperformed growth in the past two quarters; however growth has outperformed value in the first three quarters of last year as reflected in the volatile performance of the ACWI ex-US benchmark. The ACWI ex-US benchmark was down about 38 basis points for the first quarter of 2016. The Fund's portfolio outperformed the benchmark by about 100 basis points for the first quarter. Failla provided a market outlook. Failla reviewed performance by sector and country providing a comparison of performance in the first quarter of 2016 to the performance for the last year highlighting the under performance in emerging markets.

Presi Ortega, Trustee and Chairman of the Investment Committee, requested that Lazard provide net totals in future presentations. Sposato confirmed they would comply with that directive.

When prompted by Ortega, Paul Erlendson of Callan discussed the appropriateness of the MSCI ACWI ex-US Index as a benchmark for the Fund's portfolio with Lazard. Failla reviewed the sector and regional active weights in the portfolio versus the benchmark. Failla reviewed the MSCI regions. The Board discussed Lazard's performance. Failla provided a market forecast. Failla expects that low interest rates and low growth in the global markets will continue. Sposato advised that when the "artificial" environment in currency as created by the Central Banks and the Fed moderates, stock selection will matter.

No action required on this item.

Item 12. Discussion and action regarding a report from Callan Associates.

Paul Erlendson of Callan presented; the Board received and reviewed the monthly "flash" report for the period ended April 30, 2016 and the quarterly report.

Erlendson reviewed historical public fund asset allocation and returns. Erlendson reviewed the rolling five year returns by public funds and asset allocation beginning in 1975. Erlendson noted the trend in increased diversification. In 1985, the average asset allocation for public funds was approximately 49 percent in domestic equity and about 52 percent in domestic fixed income. Presently, pension funds are using more alternative strategies. Erlendson noted the declining rate of return. Erlendson provided a comparison of return rates before and after the recent financial crisis. The average five year return pre-March 2009 was approximately 10.3 percent; the average five year return post-March 2009 is under 6 percent. Erlendson reviewed the rolling 10 year returns by public funds and asset allocation beginning in 1975. The Board discussed the declining trend in performance and the correlation with allocation.

Erlendson provided a market update for the first quarter of 2016. Erlendson defined the term Gross Domestic Product (GDP). The GDP is the growth in the economy minus the inflation rate. Erlendson reviewed the quarterly real GDP growth over 20 years as of 1995 and the rolling four quarter returns for 42.5 years ended March 31, 2016. Erlendson reviewed the global GDP forecast and recent projection updates. Erlendson reviewed asset class performance highlighting the performance of MLPs and reviewed U.S. equity returns. The best performing sectors were telecommunications and utilities which illustrates a change in the market environment where value is now outperforming growth. Erlendson noted that sector performance in the global market was similar to the sector performance in the domestic market. Erlendson reviewed the production, consumption, and inventories in the oil markets. Erlendson reviewed the U.S. Equity Style Returns. Trustee, Presi Ortega, requested a comparison of performance of a dedicated manager versus an all cap manager, such as Lazard. Erlendson responded that a larger mandate can be problematic in a short time period; however, all cap managers are expected to outperform over longer periods of time.

Erlendson reviewed the monthly “flash” report for the period ended April 30, 2016. The total fund return for the quarter was approximately 1.19 percent on a net of fee basis. The benchmark was about 1.7 percent; the fund underperformed the benchmark by about 50 basis points. Erlendson noted that a portion of the underperformance can be attributed to the delayed valuation of the private equity portfolio. Erlendson explained that private equity is not valued on a monthly basis because valuations are not available. Erlendson advised that over the fiscal year, last year, and five year periods the Fund has underperformed the benchmark net of fees; the underperformance for those periods can be attributed to the underperformance of the domestic equity portfolio in comparison to the index. Additionally, the fixed income portfolio has underperformed the benchmark over the last five years. In fixed income, Franklin Templeton has significantly underperformed the benchmark. Franklin Templeton has an interest rate sensitivity that is less than one year in comparison to their benchmark which has a duration figure of approximately five to six years. Erlendson advised that Franklin Templeton believes that the Fed will have to raise interest rates and are positioned according to that belief. Erlendson noted that there are two managers on “watch”: Denver Investment Advisors and Janus.

Erlendson reviewed asset allocation. Erlendson noted that recent rebalancing activity has brought allocation closer to the target rate in equities. Erlendson reviewed liquidity demands for the Fund and provided a peer comparison. Trustee, Mario Hernandez, requested additional information on outflows. Erlendson advised that funds were transferred between accounts including funding to the absolute return manager.

No action required on this item.

Item 13. Discussion and action regarding a report from the Pension Administrator.

Robert Ash, Pension Administrator, reported on the following:

- Ash thanked Eduardo Miranda, Attorney, for the training presentation.
 - Ash reminded the Board to complete the survey regarding the training and requested that they add their name to the sign-in sheet in order to receive credit for today’s training.
- TEXPERS will be have a training seminar in August in San Antonio. Ash requested that Trustees that are interested in attending contact the Pension Office.
- Benefit statements have been released. Ash thanked the Deputy Pension Administrator, Patricia Hickman, and all departments and staff that assisted with the benefit statements.

- Ash advised that instructions were submitted to the Department Directors regarding discrepancies on benefit statements.
- The transition as approved by the Board in April is expected to be completed by the end of the month. Ash noted contract amendments were necessary to accommodate new mandates. Additionally, the Fund hired transition manager, Northern Trust.
- The City's Internal Audit Department will be performing audit work in the Pension Office. As of yet, the work has not been specified.
- Ash provide an overview of the Committees. The Ad-Hoc Committee will meet regarding potential ordinance amendments. The Investment Committee holds monthly meetings. The Personnel Committee has met.

No action required on this item.

- Item 14. Discussion and action regarding the following Committee reports/assignments:
- A. Actuary Committee – Committee did not meet.
 - B. Ad-Hoc Facilities Committee – Will be discussed in Executive Session.
 - C. Ad-Hoc Ordinance Committee – Committee did not meet.
 - D. Audit Committee – Committee did not meet.
 - E. Investment Committee – Committee did not meet. The Committee did not have a quorum.
 - F. Personnel Committee – Committee did meet.

Christina Stokes, Chairman of the Personnel Committee, read the Personnel Committee minutes:

The Personnel Committee met on May 3, 2016. The Committee discussed the annual performance evaluation of the Fund's Retiree Coordinator/Data Entry Clerk. The Committee reviewed the evaluation with the Benefit/Budget Specialist and the Administrator. The Committee also discussed the evaluation with the Retiree Coordinator/Data Entry Clerk. After discussion the Committee recommends acceptance of the evaluation.

Next the Committee discussed an annual performance evaluation of one of the Fund's Benefit Technicians. The Committee discussed the evaluation and suggested that future evaluations weigh two evaluation criteria to a higher degree. The Committee was concerned about some aspects of the evaluation and recommended that an interim evaluation be completed in three months. After considerable discussion, the Committee recommended acceptance of the evaluation.

Then Committee discussed possible new FLSA overtime rules as proposed by the Department of Labor. The Committee discussed the possible budget effect of the proposed rules if they are enacted. The Committee will discuss this topic again if any changes are finally approved.

The Committee discussed the wage brackets as they may apply to employees who have reached their maximum salary and have become "red lined." The Committee discussed options regarding how these employees may be recognized for performance once they become "red lined." The Committee requested that the Administrator conduct additional research and report back to the Committee.

The Committee discussed future Board service awards. The Committee approved two staff service awards to be presented at future Board meetings.

Finally, the Committee tabled a discussion regarding proposed plan amendments.

When prompted by Trustee, Mario R. Hernandez, Stokes advised that the evaluation of one of the employees was delayed due to the employee's extended leave of absence.

No action required on this item.

G. Retiree Committee – Committee did not meet.

Item 15. For Notation:

A. Directed brokerage credit balance for month ended March 31, 2016: \$131,036.46

B. Property Development Cost:

Company	Description	Amount
1. Jonsco	Lettering changes to Signs	\$125.00

C. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Andrade, Andres	EPWU	\$1,246.41	
2	Arizpe, Grisel E.	EPWU	\$22,955.91	
3	Braziel, Sharell	Fire	\$2,894.43	
4	Chacon, Gabriel	Library	\$1,097.21	
5	Chacon, Martin	Parks & Recreation	\$67,276.91	**
6	Childs, David	City Manager	\$27,888.87	
7	Espino, Joseph L.	Environmental Svcs	\$95.13	
8	Frias, Rolando	EPWU	\$19,377.64	
9	Garcia, Herlinda V.	Parks & Recreation	\$4,943.63	
10	Goerner, Sabrina	Health	\$5,552.91	
11	Gonzalez, Alberto	Streets	\$16,581.47	**
12	Jimenez, Pedro	Mass Transit	\$1,639.79	
13	Jones, Joseph	Streets & Maintenance	\$1,474.48	
14	Lopez, Timothy A.	Environmental Svcs	\$1,028.59	
15	Ochoa, Norbert	EPWU	\$26,162.25	
16	Pavia, Patricia	Fire	\$19,052.56	
17	Priego, Joshua A.	EPWU	\$14,602.95	
18	Santillan, Christina	Health	\$4,423.64	
19	Segovia Rodriguez, Gerardo M.	EPWU	\$12,945.16	
TOTALS			\$251,239.94	

* Additional interest/contributions due

** Eligible for Early Retirement

For notation, no action required on this item.

Motion made by Karl C. Rimkus to go into Executive Session to discuss items under Section 551.071, 551.072 and 551.074; seconded by Pat Aauto. Motion carried at 10:31 A.M.

Motion made by Mario R. Hernandez to reconvene from Executive Session; seconded by Pat Aduato. Motion carried at 11:02 A.M.

Item 16. 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 551.074** Discussion and action regarding the annual performance evaluation of the Fund's Retiree Coordinator/ Data Entry Clerk.

Motion made by Christina Stokes to accept the annual performance evaluation of the Fund's Retiree Coordinator/ Data Entry Clerk; seconded by Pat Aduato. Motion carried.

B. **Sections 551.071 and 551.074** Discussion and action regarding the annual performance evaluation of the Fund's Benefits Technician.

Motion made by Christina Stokes to accept the annual performance evaluation of the Fund's Benefits Technician; seconded by Mario R. Hernandez. Motion carried.

C. **Sections 551.071 and 551.072** Discussion and action regarding real property.

No action required on this item.

Item 17. Adjournment.

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board Meeting on May 18, 2016; seconded by Mario R. Hernandez. Motion carried at 11:03 A.M.