

**THE EL PASO CITY EMPLOYEES' PENSION FUND
BOARD MINUTES FOR THE REGULAR MEETING
HELD WEDNESDAY SEPTEMBER 17TH 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
Christina Stokes
America Luna
Larry E. Romero, City Representative
Karl C. Rimkus

Members Absent:

Cecilia A. Rios

Others in Attendance:

Eduardo Miranda, Attorney
Robert Ash, Pension Administrator
David Garcia, Payroll/Accounts Payable Specialist
Karina Chavez, Retiree Coordinator/ Data Entry Clerk
Bill Howard, Callan Associates
Denise Grizzle, Interim Comptroller
Richard Campos Jr., City's IT Dept.
Norberto Pelayo, City's IT Dept.
Brooks Monroe, Invesco
David Lawson, UBS Executive Director
John Collier, Vulcan
Jeff Sheran, Allianz Global Investors
Taylor Carrington, Allianz Global Investors
Jon Ritz, Newton
Suzanne Hutchins, Newton

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

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 August 20, 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, Eduardo	EPWU	29 years 11 months *
2	Aguilar, Raul	EPWU	34 years 03 months *
3	Velez, Veronica	Police	07 years 00 months
4	Dahlberg, Arthur	Airport	11 years 03 months
5	Gonzalez, Victor M	Street	17 years 05 months
6	Lara, Oscar	Mass Transit	19 years 07 months
7	Lopez, Maria Delia	IT	14 years 03 months
8	Lucero, Maria A.	Library	24 years 10 months
9	Olivares, Ana	Health	22 years 01 month
10	Portillo, Isabel	DOT	25 years 01 month
11	Rivera, Pedro	EPWU	29 years 02 months
B.	Early:		
1	Vaquera, Alejandro B.	Mass Transit	11years 01 month
C.	Deferred:		
1	Arrieta-Candelaria, Carmen	Financial Svces	10 years 08 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, Socorro, survivor of Robert Chavez, retiree.
- B. Kennedy, Sun Yo, survivor of Donald Kennedy, retiree.
- C. Montes, Alba M., survivor of Ramon Montes, Jr., retiree.
- D. Rodriguez, Maria de Jesus, survivor of Victor Rodriguez, 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.	Denver Investments	Investment Fees	August 31, 2014	\$9,364.00	**
B.	Eduardo Miranda	Legal Fees	August 31, 2014	\$812.50	
C.	Franklin Templeton-CT432-327	Investment Fees	3 mos. Ended 07/31/14	\$25,316.28	**
D.	Franklin Templeton-CT910-75	Investment Fees	3 mos. Ended 07/31/14	\$59,447.55	**
E.	Mellon Capital Management	Investment Fees	Qtr. Ending 06/30/14	\$54,220.94	**

* To be paid by Directed Brokerage credits.

** For Notation Only – to be withdrawn from commingled account.

*** Performance based fee.

**Motion made by Larry Romero to accept the Consent Agenda; seconded by America Luna.
Motion required polling:**

Presi Ortega	aye
America Luna	aye
Larry Romero	aye
Karl Rimkus	aye

Motion carried.

REGULAR AGENDA

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

Denise Grizzle, Interim Comptroller, presented; the Board received the Treasurer's Report for the period ending August 31, 2014. Beginning in October the Board will receive a PowerPoint of the Treasurer's Report.

The Board received and reviewed the Treasurer's Report for the period ending August 31, 2014: The unrestricted receivables are leveling out following last month's investment realignment; the difference between cash basis to accrual basis seen in the reconciliation to Mellon Statements is negligible; the sum of net assets for FY 2014 is approximately \$80.5 million; additionally, the rate of return, 15.6%, is double the target rate for the entire fiscal year.

Contributions and benefits paid are on target and administrative costs remain under budget. Robert Ash, Pension Administrator, advised that the printing cost for the semiannual Newsletter and new stationary attributed to the overage in the printing services budget.

The report is preliminary and subject to change.

Motion made by Larry Romero to accept the Treasurer's Report for the month ending August 31, 2014 as presented; seconded by Presi Ortega. Motion carried (unanimous).

Item 7. Discussion and action regarding the monthly report from the City's Department of Information Technology.

Rick Campos, PeopleSoft Administrator, spoke. The Board received a progress report on the pending issues with the Pension Module.

Mr. Campos advised that the actuarial evaluation report was delivered to the Fund's Actuary on schedule. The periodic processing, that captures all the data for the actuarial evaluation, has been completed for July; the data for August is currently being processed and should be completed by the end of the week of September 15th.

Robert Ash, Pension Administrator, expressed his gratitude and confirmed that the actuarial evaluation was submitted on the last day of the deadline. He stressed the importance of maintaining the periodic processing up to date as several administrative functions rely on that data.

Trustees questioned if data issues with the Pension module have been resolved.

Mr. Campos responded that the Pension Module has not been optimized. IT has not presented to City Council, which has delayed the consultant, Sierra Systems, from assisting with the Pension module. IT is scheduled to present to City Council on September 23rd. IT has itemized approximately 10 action items for the consultant to complete once approved by City Council.

No action required on this item.

Item 8. Discussion and action regarding the production and distribution of the next pension newsletter.

David Garcia, Payroll/Accounts Payable Specialist and Karina Chavez, Retiree Coordinator/Data Entry Clerk, presented; the Board received and reviewed a revised copy of the Pension Matters Newsletter.

The Board received an overview of the content and publishing cost for the October Pension Matters Newsletter. The newsletter is mailed to non-uniform retirees, approximately 2600, and distributed to city departments. As a result of the newly established purchasing policy, the Fund will save on printing cost.

Trustees discussed contact information. The Board provided direction to eliminate the Board of Trustees from the newsletter and to add pertinent contact information for administrative staff.

No action required on this item.

Item 9. Discussion and action regarding the receipt of an investment manager report from Invesco.

Brooks Monroe of Invesco presented; the Board received and reviewed the Invesco investment manager report.

Mr. Monroe provided an overview of the firm, portfolio performance and market outlook. The firm has added four positions since last meeting with the Board; however the portfolio team remains the same.

Mr. Monroe attributed Invesco's sometimes turbulent performance over the past five years to the outperformance of high-leverage companies during the global financial crisis; however he theorized that markets are once again fundamentally driven and the current outlook for US fundamentals is very strong; Invesco will continue to add resources to enhance investments. Additionally, Mr. Monroe advised that Invesco met their objective for the Fund's portfolio in average market risk, consistent earnings growth, lower leverage, better dividend coverage, and better liquidity.

Over the last year the Fund's portfolio with Invesco has had strong, absolute performance. The current market value is \$20 million; the net contribution made by the Fund is just under \$14 million.

Trustees questioned Invesco's asset balance given Invesco's beliefs that prices are above average. Mr. Monroe advised that Invesco is focused on asset selection and does not plan a significant shift in asset balance, but they continuously evaluate the market.

No action required on this item.

Item 10. Discussion and action regarding the receipt of an investment manager report from UBS.

David Lawson, UBS Executive Director, presented; the Board received and reviewed the UBS investment manager report.

Mr. Lawson reviewed the UBS structure and minor internal staffing changes, asset diversification, and strategy.

The Fund is invested in the Trumbull Property Fund (TPF) which encompasses 72% of UBS' domestic strategy. The Fund's initial investment with UBS in 2012 of \$30 million has netted a return of 9.1%; the market value of that investment has grown to approximately \$36 million. (An additional deposit of \$3 million made by the Fund on July 1st is not reflected in this report.)

The 10% growth in the TPF over the past year can be attributed to both appreciation of the fund's assets and new investments.

Mr. Lawson advised that changes to asset allocation by property type and geographic distribution result from an annual analysis performed by UBS of the "investable universe".

Trustees requested UBS' outlook on the portfolios diversification and leverage. Mr. Lawson expects an increase in retail allocation, continued reduction in office allocation, and a fixed apartment allocation. Additionally, he expects the current leverage of approximately 12% to increase over the next 12-18 months to approximately 15-16%.

No action required on this item.

- Item 11. Discussion and action regarding the receipt of an investment manager report from Vulcan Value Partners.

John Collier of Vulcan presented; the Board received and reviewed the Vulcan Value Partners investment manager report.

Mr. Collier provided a summary of Vulcan's performance. Vulcan has managed an all cap equity portfolio for the Fund since December of 2013. The portfolio's year to date net composite is over 5.5%, substantially trailing the index currently at 8.6%. Mr. Collier attributed the portfolio's under performance to the outperformance of lower quality stocks.

Mr. Collier also reviewed Vulcan's investment philosophy. Vulcan looks for a margin of safety in regards to value over price which they believe will provide long term results. Based on their belief that small cap companies are fairly or over-valued, the holdings in the firm are primarily large cap, only 11 of the 31 names are either mid to small cap. When compared to the R3000V, the portfolio is weighted in information technology including payment processors (the firm owns MasterCard and Visa) and little, peripheral allocation in energy (as the value of capital intensive business tends to be unstable.)

Trustees questioned what guidelines and thresholds are in place for asset allocation including divesting. Mr. Collier responded that Vulcan does not have established guidelines but constantly assesses the qualitative strength of their investments; therefore Vulcan has the freedom to seize the biggest discounts within all caps. Vulcan will divest if: a company is no longer able to compete; if the company meets fair value; if there is a comparable business with a larger margin of safety; or if the value of a company erodes.

No action required on this item.

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

Bill Howard of Callan Associates presented; monthly “flash” report for the period ending August 31, 2014 was distributed. The Board received and reviewed the August “flash” report. August was a good month for US equities (Russell 3000 Index, which tracks the broad US equities market, was up 4.2 % for the month of August); International equities were flat; emerging markets were positive, up by over 2%; and private equity is up 17.3% for the fiscal year; the long term target allocation for private equity is 7%, current allocation is 3%. In summation, the total fund was up 2.2% in August, and 17.2% for the fiscal year, which is above the index.

Mr. Howard also reviewed the performance of the investment managers. The best performing manager for the fiscal year was Wedge; they outperformed the index by over 650 basis points. All international equity managers outperformed the index. Touchstone one of the emerging markets managers is still trailing and remains on watch. The Fund’s portfolio has been diversified by adding another emerging markets manager, AQR; AQR has outperformed the index for the last three months.

A difference in asset allocation will be reflected in the following months report. There was significant rebalancing to fund the MLP on September 1st; funds were taken from equities (which was advantageous for the Fund since equities have been down in September.)

Mr. Howard summarized the education on the absolute return strategy. The education is a continuation on the initial training (instruction on investing in a tactical way and multi-asset class investing) completed by the Board in December of 2013. Mr. Howard reviewed the roles of asset classes/strategies. The focus of the absolute return strategy is to diversify exposure in order to reduce the equity correlation.

If the Board was to go forward sometime in the future with the absolute return strategy, Callan recommends a liquid- type strategy with 5-10% allocation, funding to be taken from a combination of equity and fixed income.

Mr. Howard advised that the training will be provided by two expert firms in the absolute return strategy, Allianz and Newton. The two managers approach the absolute return strategy with different tactics: Allianz utilizes equity options and Newton applies a classic multi-asset class approach.

Taylor Carrington and Jeff Sheran of Allianz Global Investors addressed the Board. The Board received a review of Allianz’s strategy in absolute return, a structured alpha strategy. The structured alpha strategy pursues absolute return in the US equities index options market regardless of market direction or market volatility.

Allianz provided an overview of the option’s characteristics and market. An option is a contract that gives the holder the right to buy or sell (call or put options) an underlying asset at a specific price on a certain date. Options are versatile and allow for tailoring of risk return, which can generate more return per unit of risk. Options are considered easy to implement and transparent. The Board Members were able to ask questions of the presenting manager firm.

Jon Ritz and Suzanne Hutchins of Newton addressed the Board. The Board received a review of Newton’s strategy, global real return. This strategy has been used as an alternative, diversifier to protect assets through the use of insurance. Newton summarized their market perspective

and portfolio structure. The Board Members were able to ask questions of the presenting manager firm.

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:
- Auditors will be in the Pension Office in late September, early October.
 - Audit Committee must meet.
 - Actuary is reviewing lump sum payments for QDRO payments, as approved by the Board. Preliminary analysis of cash flow needs to support lump sum payments is tentatively \$300,000 per month.
 - Administration is currently answering questions from the Actuary regarding the actuarial abstract.
 - Cecilia Rios effectively resigned from the Board; administration has contacted the Mayor's Office.

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 - Committee did not meet.

Rene Pena, Chairman, reviewed the formal assignment for the Ad-Hoc Facilities Committee: Karl Rimkus, Committee Chair; America Luna, Committee Member; and Presi Ortega, Committee Member.

No action required on this item.

- C. Audit Committee - Committee did not meet.
- D. Investment Committee - Committee did meet.

Presi Ortega read the Investment Committee minutes: The Investment Committee met on September 16, 2014. The Committee reviewed the monthly "flash" portfolio performance report for the month of August 2014 as prepared by Callan Associates.

A semi-annual investment performance report was presented by INVESCO. There were no material exceptions noted in their report. Callan Associates then discussed the possibility of using a global REIT mandate instead of just a US REIT mandate. Callan suggested that more diversification may exist in using the global mandate. Callan recommended that the Fund consider the global mandate. The Committee requested that Callan begin to research firms for a global REIT manager (Invesco will be considered.) However, based upon the research results the Committee reserves the right to maintain the current only US REIT allocation.

The Committee next received semiannual investment portfolio performance reports from UBS real estate, Vulcan Value Partners and Riverbridge Partners. The Committee members were able to ask questions of the presenting manager firms. No material exceptions were noted in the reports from the presenting manager firms.

The next scheduled meeting of the Investment Committee will be held on October 14, 2014 at 1 PM.

No action required on this item.

E. Personnel Committee - Committee did meet.

Mario Hernandez read the Personnel Committee minutes: The Personnel Committee met on September 9, 2014. The Committee reviewed the annual performance evaluation for the Deputy Pension Administrator for the past year. Members of the Personnel Committee had the opportunity to ask questions of the Administrator and the Deputy Pension Administrator. The Committee also reviewed the performance goals for the Deputy Pension Administrator for the upcoming year. The Committee recommends approval of the performance evaluation and related goals for the next year. In addition, the Committee recommends that she be recognized at a later date for her many years of dedicated service to the Fund.

The next regularly scheduled meeting of the Personnel Committee will take place on October 1st at 3:30 PM.

No action required on this item.

F. Retiree Committee - Committee did not meet.

Item15. For Notation:

A. Directed brokerage credit balance for month ended July 31, 2014: \$137,037.06

B. Refund of Contributions:

	NAME	DEPARTMENT	TOTAL REFUND	
1	Acosta, Fermin	Mayor & Council	\$3,541.04	
2	Acosta, Gethsemane	Parks & Recreation	\$8,028.02	
3	Acosta, Jorge	Engineering	\$47,897.21	**
4	Aguilera, Jesus	International Bridges	\$11,395.30	
5	Alfaro, Victoria	Fire	\$979.13	
6	Araiza, Jesus	Environmental Services	\$1,219.11	
7	Avila, Jessica	Development Center	\$5,801.64	
8	Bailon, Jesus	EPWU	\$16,663.16	
9	Beltran, Michael	Environmental Services	\$6,585.40	
10	Bernstein, Jennifer	Fire	\$969.80	
11	Betancourt Jr., Alfonso F.	Health	\$2,985.80	
12	Bracknell, Norma	Mass Transit	\$11,995.35	
13	Cervantes III., Alfredo	Mass Transit	\$340.88	
14	Contreras, Samantha	Parks & Recreation	\$5,878.54	
15	De La Rosa, Beatriz	Human Resources	\$8,976.79	
16	Diaz, Iliana	Engineering	\$3,071.33	
17	Dominguez, David	Environmental Services	\$7,420.86	
18	Duran, Gustavo	EPWU	\$1,709.53	
19	Estrada, Victor H.	Environmental Services	\$3,913.76	
20	Fierro, Frank	Health	\$503.28	

21	Flores-Yanez, Lorenzo	Airport	\$662.38
22	Gamino, Miguel A.	Information Technology	\$23,484.94
23	Gonzalez, Sonia	EPWU	\$13,542.99
24	Guida, Marilyn Rose	MCAD	\$22,983.71
25	Gutierrez, David	Parks & Recreation	\$3,754.38
26	Hernandez, Amy	Mayor & Council	\$8,405.15
27	Hernandez, Anthony J.	General Services	\$6,037.77
28	Licerio, Miguel	EPWU	\$3,308.89
29	Maguregui, Mark	Mass Transit	\$908.96
30	McNeal III., Alex William	Parks & Recreation	\$3,324.31
31	Padilla, Norberto	Environmental Services	\$743.85
32	Perez, Michael	Information Technology	\$12,324.75
33	Rivera, David William	EPWU	\$947.19
34	Sawrey, Brittany	Zoo	\$2,424.19
35	Vacio, Esmeralda	EPWU	\$2,350.08
			\$255,079.47

* Additional interest/contributions due

** Eligible for Early Retirement

For notation, no action required on this item.

Motion made by Presi Ortega to go into Executive Session to discuss items under Section 551.071 and Section 551.074; seconded by Dr. Michiel Noe. Motion carried @ 10:03 A.M. (unanimous.)

Motion made by Christina Stokes to reconvene from Executive Session; seconded by America Luna. Motion carried @ 10:23 A.M. (unanimous.)

Item16. 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 Deputy Pension Administrator.

Motion made by Mario Hernandez to approve the performance evaluation of the Deputy Pension Administrator as presented to the Board; seconded by Christina Stokes. Motion required polling:

Presi Ortega	aye
Mario Hernandez	aye
Dr. Michiel Noe	aye

Christina Stokes **aye**
America Luna **aye**

Motion carried.

Item 17. Adjournment

Motion made by Presi Ortega to adjourn the El Paso City Employee's Pension Fund Board meeting on September, 2014; seconded by Mario Hernandez. Motion carried @ 11:56 A.M. (unanimous).

Secretary

Chairman