



***Investment Practices and Performance Evaluations***

April 19, 2023



2018 2019 2020 2021 2022

**We are proud to announce that ACG has again been named a Greenwich Quality Leader – recognized as one of the top consultants in the industry.**

**Methodology and Disclosure:** Between February and November of 2022, Coalition Greenwich (previously known as Greenwich Associates), conducted in-person and phone interviews and online surveys with 727 professionals at 590 of the largest tax-exempt funds in the United States, including corporate and union funds, public funds, endowments and foundations, insurance general accounts, and healthcare organizations, with either pension or investment pool assets greater than \$150 million. Study participants were asked to provide quantitative and qualitative evaluations of their asset managers and investment consultants, including qualitative assessments of those firms soliciting their business and detailed information on important market trends. ACG is one of four firms recognized in the mid-size investment consultant category. The ratings may not be representative of any one client's experience with ACG; rather they are representative of those clients that chose to participate in the survey. The results are not indicative of ACG's future performance. ACG does not pay to have its clients participate in the study.

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## **Executive Summary**

Asset Consulting Group was retained by the City of El Paso Employees Retirement Trust to complete a review of the Trust's investment practices in response to section 802.109 of the Texas Government Code. This review incorporates performance data provided by Callan, communication with The City of El Paso Employees Retirement Trust, and several ACG proprietary resources and data providers. This review focused on five main areas:

### **Statement of Investment Policy**

We reviewed the Investment Policy Statement (IPS) to ensure that it included all the critical elements to be effective and thorough. We also reviewed for compliance with the IPS by surveying the Trust's investment managers, reviewing documents and reports produced on behalf of the Trust as well as meeting minutes.

### **Asset Allocation**

We reviewed the process for determining target allocations that included examining the most recent asset/liability study, meeting minutes supporting the decision and the IPS. We also reviewed the expected risk and expected return by asset class by comparing Callan's capital market assumptions to ACG's capital markets assumptions. Cash flow and liquidity needs were confirmed by discussions with Staff as well as the actuary's projection of benefit payments and contributions for future years. We also analyzed the daily liquidity available from investments in the fund and targeted cash.

### **Investment Fee and Commission Review**

We reviewed individual investment manager fees compared to relevant peer groups and assessed the total portfolio's overall blended fee rate for reasonableness. Fees paid to the Trust's investment consultant and custodian were also compared to industry data for reasonableness. The Trust does not pay commissions directly because all investment manager vehicles are commingled funds.

### **Governance Processes**

We reviewed the governance processes related to investment activities, including investment decision making, delegation of investment authority and board education. We compared the process to the responsibilities outlined in the IPS. We confirmed that investment-related policy statements were easily accessible by the plan members and the public. We assessed the board composition and obtained documentation from staff that included education requirements for Trustees and Administrators and compared that to the education requirements.

### **Investment Manager Search & Monitoring**

In this portion of the report, we reviewed the process for the selection of a new investment manager. We obtained the investment manager search materials from the Trust's investment consultant, and reviewed the process for selecting investment managers as outlined in the IPS and corresponding meeting minutes. We also reviewed the process for monitoring the investment managers according to the performance standards within the IPS. We asked all the investment managers if they presented to the Board annually or semi-annually if they were on watch as documented within the IPS. We reviewed manager performance and watch list guidelines to determine whether the watch list is up to date.

### **Summary of Key Takeaways**

Overall, the investment practices appear appropriate, adequate and effective. The processes for determining asset allocation, making investment decisions and selecting/monitoring investment managers appear to properly follow the steps outlined in the IPS and are prudent. Investment fees paid to the Trust's investment managers, consultant and custodian appear in-line with industry fee rates. Governance processes related to investment activities appear effective and properly follow documented procedures.

The Board can strengthen its compliance with the IPS by performing a thorough annual review of those required processes and establish procedures to ensure requirements are fulfilled. The Board should also consider adding language to the IPS that includes comparing performance of the total fund and individual investment managers (where applicable) to risk adjusted returns for peers and index benchmarks, a comparison that is already being performed, but not documented. The Board should also review the IPS for consistency throughout the entire document so goals and objectives are clear.

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## **Statement of Investment Policy**

### Scope

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- The IPS was reviewed for completeness and to ensure all the key elements were included. The key elements include:
  - Purpose Statement
  - Investment Goals and Objectives
  - Roles and Responsibilities
  - Asset Allocation Targets/Ranges
  - Rebalancing Policy
  - Investment Guidelines
  - Performance Benchmarks
  - Risk Tolerance
  - Administration
- The IPS was also reviewed for compliance. This entailed collecting documentation to support that procedures were being followed to fulfill the requirements outlined according to the IPS.

### Observations

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- The IPS is written thoroughly and all nine major key elements are included. In order to enhance the performance standards, we recommend the Board consider documenting a process within the IPS for the comparison of the total portfolio and the investment managers' **risk adjusted returns** to both peers and the benchmark index.
- We recommend the Board consider adding a total portfolio performance objective to earn a rate of return after all expenses that equals or exceeds the actuarial rate of return assumption, which is currently 7.25%, net of expenses.
- We recommend the Board consider increasing the min/max asset class ranges. This allows for more flexibility when making rebalancing decisions.
- We recommend reviewing performance objectives for consistency within the IPS so the appropriate evaluation can occur for the Trust.
- We recommend listing all IPS' revision dates in the Appendix of the IPS. Records of past IPS' should be retained.
- Overall, compliance with the IPS is adequate. The Board appears to review the IPS at least annually.

## Investment Policy “Report Card”

Category	Assessment*			Observations
	1	2	3	
Purpose Statement (page 1)	✓			The purpose of the investment program is clearly stated.
Investment Goals and Objectives (page 4)	✓			Return, risk, liquidity and time horizon are all mentioned.
Roles and Responsibilities (page 5)	✓			Roles and responsibilities of the Board of Trustees, Investment Committee, Pension Fund Administrator and Staff, Investment Consultant, Investment Managers, Custodian, Actuary and Legal Counsel are clearly defined.
Asset Allocation Targets/Ranges (page 14)	✓			Targets and ranges for all sub-asset classes have been established.
Rebalancing Policy (page 15)	✓			The rebalancing process and considerations are thoroughly outlined.
Investment Guidelines (page 17)		✓		Certain objectives within the guidelines do not consistently match the performance measurement section. For example, the Large Cap Dynamic volatility objective on p. 19 and p. 35. <b>Consider adding an investment objective to Fixed Income Core Index (p.23)</b>
Performance Measurement (page 33)		✓		Performance objectives for the total fund as well as each asset class and a detailed description of the benchmark and relevant metrics are documented. <b>Consider documenting the evaluation of risk adjusted returns for the total fund and investment managers relative to relevant peer groups and the benchmark index.</b>
Risk Tolerances (pages 34-37)	✓			Acceptable volatility ranges are set for each asset class.
Administration (page 38)	✓			Investment manager and custodian selection procedures are detailed. Board responsibilities regarding ongoing IPS review is outlined.

\*1 = Included; no significant changes necessary; 2 = Included; consider enhancements; 3 = Not included; should be addressed.



- **Assets invested so that liabilities can be funded.** During late 2019, the Trust's investment consultant prepared an asset/liability study and evaluated several different asset allocation mixes with the Investment Committee. A strategic asset allocation was selected so that assets could be invested in a manner that considers return and risk and to fund future liabilities. The Trust's investment consultant is preparing an asset/liability study scheduled to be completed in spring 2023. The timing between the two studies is reasonable and the process for selecting a strategic target asset allocation appears appropriate.
- **Maintain liquidity to pay current benefits.** The portfolio has a 1% strategic allocation to cash and an estimated 71% of the portfolio has daily liquidity based on the actual asset allocation as of December 2022. Annual cash flow needs are estimated to be approximately 4% of the value of the portfolio based on actuarial projections of annual benefit payments (8%) net of contributions (4%). The portfolio appears to be in a reasonable position to provide for future cash flow needs.
- **Diversify to earn a reasonable return with acceptable risk of capital loss.** The portfolio is well diversified with allocations to all major asset classes. The strategic target consists of 52% domestic and international equity, 13% private equity, 24% fixed income, 10% real assets and 1% cash. The expected return over the next 10 years appears reasonable to achieve the actuarial rate of return assumption that is currently 7.25%, net of expenses.
- **Comply with performance standards within the IPS.** The Investment Consultant provides an overview of performance on a monthly basis. Performance standards are discussed and the investment managers that fall short of standards appear to be appropriately put on watch.
- **Each manager will meet annually with the Board and Investment Committee.** We requested from the investment managers the most recent date that they presented to the Board and Investment Committee. All of the Investment Managers had presented within the last year.
- **Investment managers on watch, will meet semi-annually with the Investment Committee.** We requested that the investment managers on watch inform us if they had presented to the Investment Committee on a semi-annual basis. UBS is the only manager currently on watch and has been meeting with the Investment Committee on a semi-annual basis.
- **Investment managers with separate accounts shall forward to the Board annually a summarization of all proxy voting and rationale.** Currently the Trust does not utilize any separate accounts.

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## Asset Allocation

- The current portfolio is **well-diversified** with allocations to all major asset classes.
- The selected strategic target consists of **31% domestic equity, 21% international equity, 13% private equity, 24% fixed income, 10% real estate and 1% cash.**
- Using ACG's capital market assumptions, the strategic asset allocation target has an estimated **median expected return of 8.1% per year** over the next ten years. This compares to Callan's projections for the strategic target asset allocation, a **median expected return of 7.3% per year.**
- The **equity** portfolio is **globally diversified** with exposures across sectors and market capitalization.
- The **fixed income** portfolio is **diversified** across a variety of fixed income sectors (Credit, MBS, Treasuries, etc.). Consider expanding the fixed income allocation to provide access to the full fixed income universe (i.e. non US fixed income and/or high yield).
- The portfolio has exposure to **real assets.**
- The Trust may invest in US Treasury issued securities with the intention of holding them until maturity in an effort to reduce the duration of the core fixed income portfolio. This decision was made as a result of the inverted yield curve.

## Asset Allocation Review

Requirement	Assessment*		Observations
	Yes	No	
The portfolio is invested in a manner such that future assets are available to fund liabilities.	✓		The portfolio is diversified across equity, fixed income and real assets. The FY22 funded status of 81% on an actuarial value of assets basis compares to a national average <sup>1</sup> of 75%. The median return expectation of the portfolio is expected to meet the actuarial rate of return assumption of 7.25%, net of expenses.
The portfolio maintains sufficient liquidity to pay current benefits when due.	✓		The portfolio has a 1% strategic allocation to cash and an estimated 71% of the portfolio has daily liquidity based on the current asset allocation. Annual cash flow needs are estimated to be 4% of the value of the portfolio based on projected annual benefit payments net of annual contributions. The portfolio appears to be in a reasonable position to provide for future cash flow needs.
The portfolio is invested according to the asset allocation guidelines detailed in the IPS.	✓		The portfolio is invested within the strategic allocation outlined in the IPS and all portfolio managers are adhering to their investment mandates.
Each manager category is at least 3% of the total fund.	✓		The MLP allocation (Salient) is in liquidation. Only cash remains.
Asset class weights are within the strategic target allowable range.	✓		On the 3 <sup>rd</sup> quarter 2022 report, international equity was outside of its target range. The following quarter, market movements brought the asset class back within the allowable range. <b>Consider wider asset allocation ranges</b> to allow for more flexibility regarding rebalancing decisions. Private Equity has been outside its range for much of 2022 due to the drawdown in public markets.
All assets are properly diversified to reduce the potential of a single security or sector from having a disproportionate impact on the portfolio.	✓		All managers adhere to the guidelines of the fund strategy.

<sup>1</sup> Source: Public Plans Database and PENDAT. Funded status as of 2021.

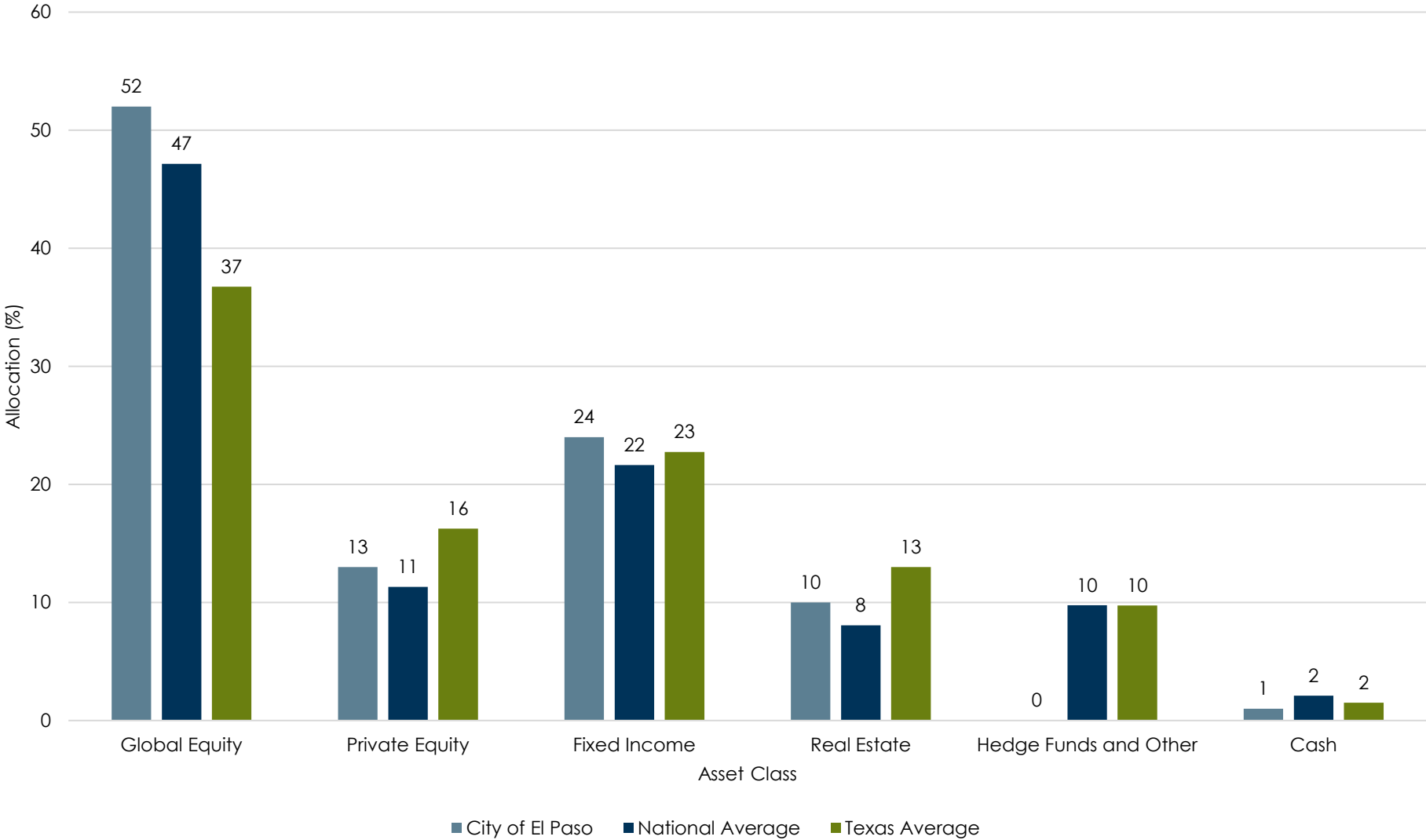
## 2023 Capital Market Assumptions Comparison

Callan Asset Class	Expected Return		Expected Risk		ACG Asset Class
	Callan <sup>1</sup> (%)	ACG <sup>1</sup> (%)	Callan <sup>2</sup> (%)	ACG <sup>2</sup> (%)	
Cash					Cash
Cash	2.75	2.22	0.90	1.93	Cash
Fixed Income					Fixed Income
Short Duration	3.75	2.72	2.30	2.89	Short Govt/Credit
Core U.S. Fixed	4.25	4.62	4.10	4.58	Core Bonds
Long Credit	5.75	5.35	11.75	9.22	Long Credit
TIPS	4.10	3.69	5.30	4.83	TIPS
High Yield	6.75	7.38	11.75	11.84	High Yield
Non-US Fixed	2.70	2.56	9.80	8.93	Non-US Developed Bonds
Emerging Market Debt	6.25	7.20	10.65	11.09	Emerging Market Debt
Equity					Equity
Broad Domestic Equity	8.75	8.80	18.05	18.45	All Cap US Equity
US Large Cap Equity	8.60	8.46	17.75	17.99	US Large Cap Equity
US Small/Mid Cap Equity	9.60	10.86 / 10.48	22.15	20.77 / 19.26	US Small Cap & US Mid Cap Equity
Global ex-US Equity	9.45	9.20	21.25	18.38	Global Equity
International Developed Equity	9.00	10.38	20.15	19.70	International Developed Equity
Emerging Market Equity	10.45	11.71	25.70	28.56	Emerging Market Equity
Private Equity	11.95	12.54	27.60	18.39	Private Equity
Other					Real Assets
Real Estate	6.60	6.37	14.20	10.39	Core Real Estate
Commodities	5.05	4.20	18.00	19.25	Commodities
Inflation	2.50	2.38	1.60	2.83	Inflation

<sup>1</sup> Expected return is the arithmetic average return assumption for any given year over the next 10 years.

<sup>2</sup> Standard deviation is used to measure the expected risk.

City of El Paso Asset Allocation vs. Peers

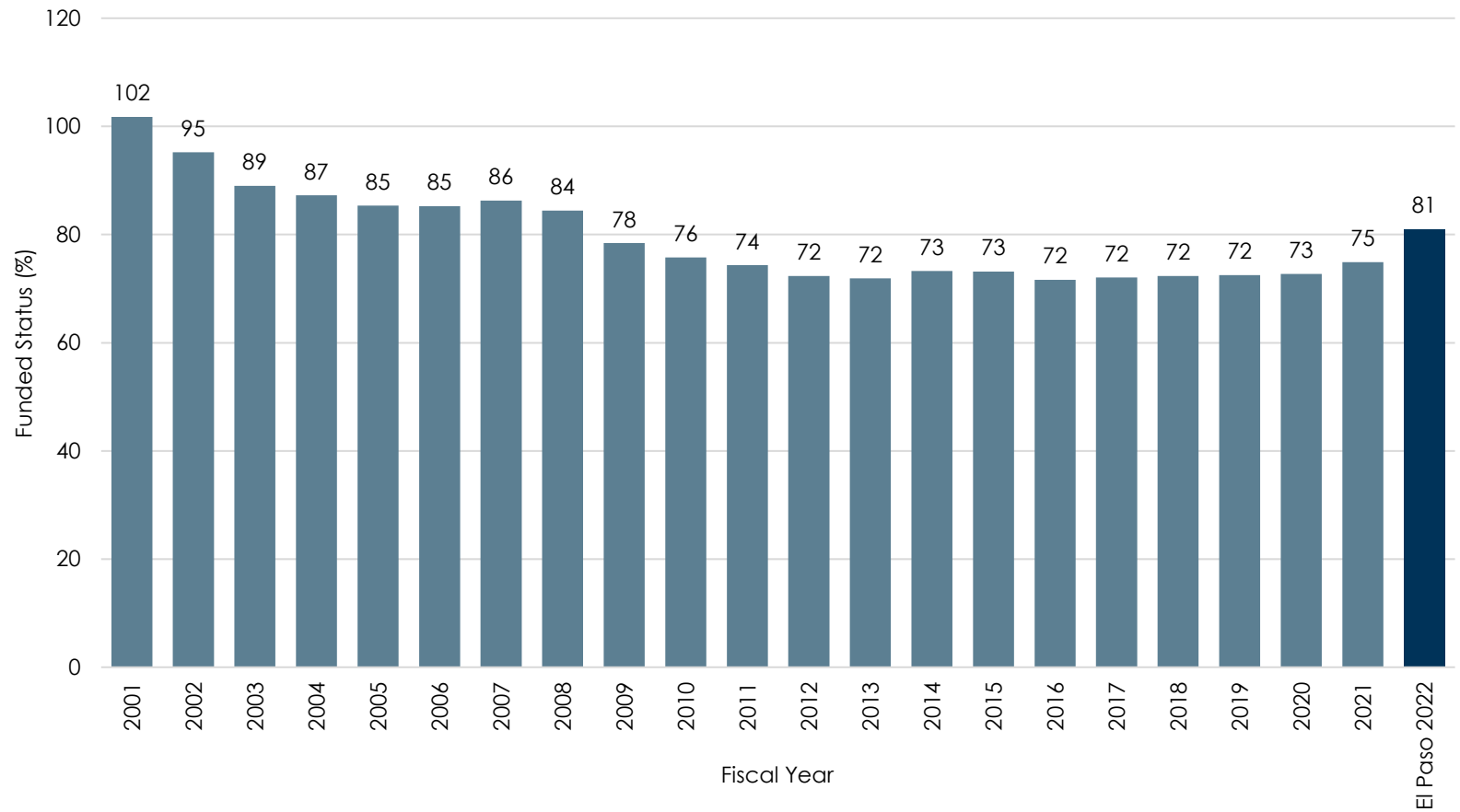


Source: Greenwich Associates US Investors 2021 Market Trends

Note: US Public Funds includes surveyed US Public Funds dollar weighted asset mix. Includes public funds with assets between \$501 million and \$1 billion

\* Texas Average consists of the "Big 4" Texas plans: Texas' Teachers Retirement System, Employees Retirement System of Texas, Texas County and District Retirement System and Texas Municipal Retirement System

### National Average Funded Status



Source: Public Plans Database and PENDAT. 2022 data not yet available.

## Asset Allocation Review

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- We assessed the current strategic asset allocation using ACG's capital markets assumptions and modeled a portfolio mix to illustrate a way to improve the risk-adjusted return and downside risk for the total portfolio.
- **Mix 1**- introduce Multi-Sector Fixed Income and reduce public equities. Relative to target, the standard deviation decreases, Sharpe ratio and 1<sup>st</sup> percentile return improves.



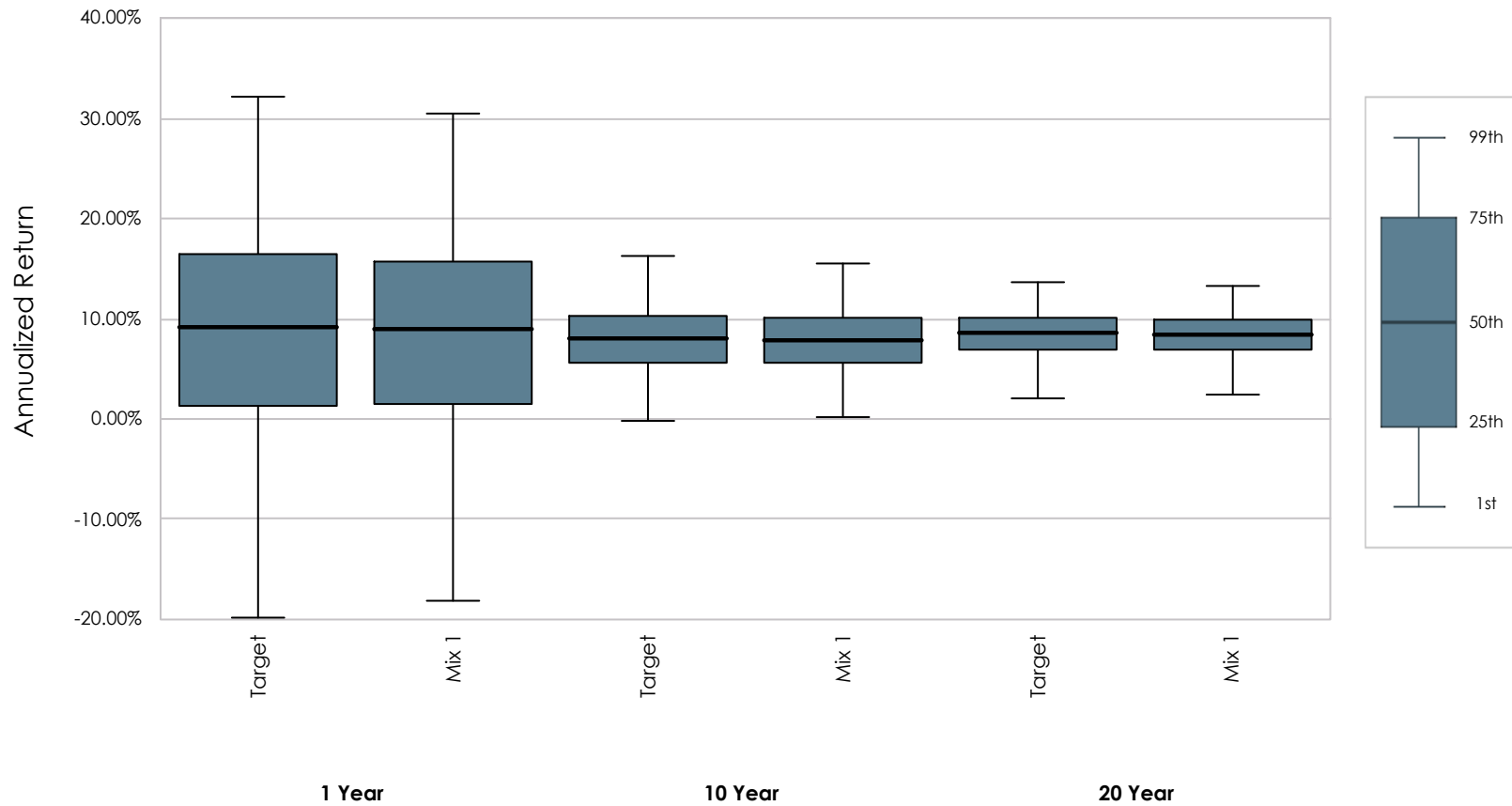
## Portfolio Mixes

	Liquidity	Target	Mix 1
<b>Total</b>		<b>100.00</b>	<b>100.00</b>
<b>Cash</b>		<b>1.00</b>	<b>1.00</b>
Cash	1	1.00	1.00
<b>Equity</b>		<b>65.00</b>	<b>60.00</b>
US Large Cap Equity	1	20.15	18.15
US Small Cap Equity	1	10.85	9.85
Non-US Equity	1	21.00	19.00
Private Equity	3	13.00	13.00
<b>Fixed Income</b>		<b>24.00</b>	<b>29.00</b>
Core Bonds	1	12.00	12.00
Core Plus	1	12.00	12.00
Multi-Sector	1	0.00	5.00
<b>Real Assets</b>		<b>10.00</b>	<b>10.00</b>
Core Real Estate	2	10.00	10.00
<b>Simulated Intermediate-Term Statistics</b>			
10-Year Median Return		8.11 %	7.94 %
Standard Deviation		11.26 %	10.46 %
Sharpe Ratio		0.56	0.58
1st Percentile Return		-19.92 %	-18.06 %
<b>Simulated Portfolio Statistics</b>			
20-Year Median Return		8.52 %	8.37 %
Standard Deviation		11.26 %	10.46 %
Sharpe Ratio		0.55	0.57
1st Percentile Return		-19.92 %	-18.06 %
<b>Liquidity Breakdown</b>			
1 - High Liquidity (weekly)		77.00 %	77.00 %
2 - Medium Liquidity (1-2 year lock-up)		10.00 %	10.00 %
3 - Illiquidity (5-10 year lock-up)		13.00 %	13.00 %
<b>Weighted Average Liquidity</b>		<b>1.36</b>	<b>1.36</b>

## Total Return Percentiles

The chart and table below illustrate the simulated distribution of annualized returns for each asset mix over multiple time periods. Simulated statistics reflect intermediate-term assumptions for the first 10 years and long-term assumptions for all additional years.

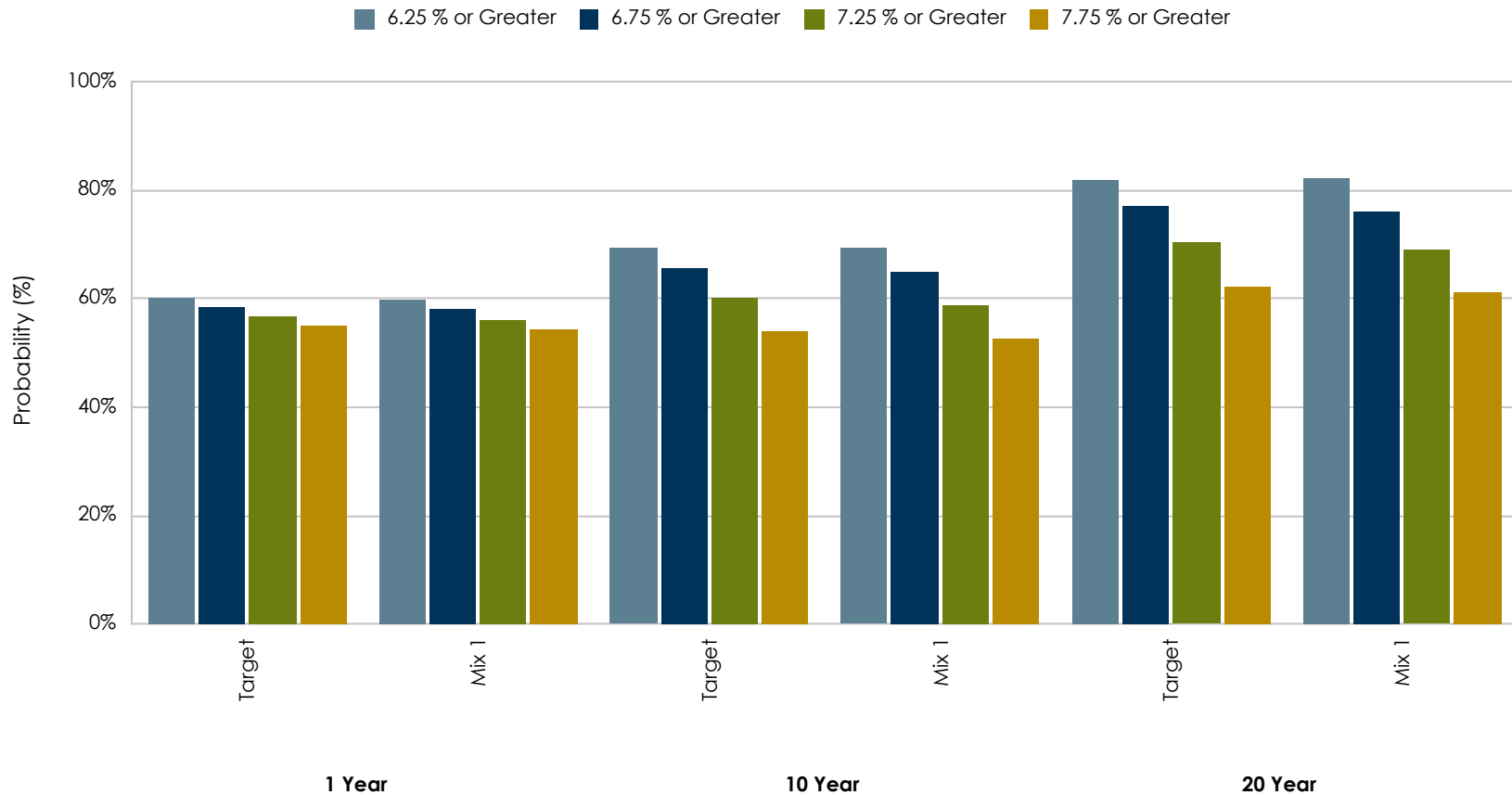
Percentile	1 Year (%)		10 Year (%)		20 Year (%)	
	Target	Mix 1	Target	Mix 1	Target	Mix 1
99th	32.19	30.46	16.31	15.47	13.72	13.30
75th	16.47	15.66	10.37	10.08	10.13	9.83
50th	9.22	8.95	8.11	7.94	8.52	8.37
25th	1.31	1.58	5.62	5.66	6.99	6.90
1st	-19.92	-18.06	-0.16	0.24	2.00	2.40



## Return Probabilities

The chart and table below illustrate the probability of achieving annualized returns of 6.25 %, 6.75 %, 7.25 % and 7.75 % or greater over multiple time periods for each asset mix based on simulated returns. Simulated statistics reflect intermediate-term assumptions for the first 10 years and long-term assumptions for all additional years.

Hurdle	1 Year (%)		10 Year (%)		20 Year (%)	
	Target	Mix 1	Target	Mix 1	Target	Mix 1
6.25%	60.09	59.78	69.35	69.20	81.90	82.30
6.75%	58.52	58.06	65.45	64.80	77.20	76.30
7.25%	56.65	56.14	60.15	58.85	70.20	69.10
7.75%	54.95	54.33	54.00	52.45	62.30	61.20



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## **Investment Fee and Commission Review**

## Investment Fee and Commission Review

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### El Paso Investment Portfolio

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- The estimated total **weighted average investment management fee** using ending Dec 2022 market values for the City of El Paso portfolio is **0.50%** (50 basis points). This includes all traditional and non-traditional strategies, but does not include performance-based fee structures or underlying FoF manager fees.
- The estimated weighted average investment management fee of 50 basis points is in-line with the least expensive quartile when compared to a similarly structured hypothetical portfolio.
- Fees to be paid to Callan in 2023 are \$330,000. Callan's fees totaled \$314,143 in 2022. The mean fee paid for Investment Consultant in the 2021 Greenwich Associates Study<sup>1</sup> for Municipal Public Funds was \$355,000.
- Fees paid to Bank of New York Mellon in 2022 were \$196,471. The mean fee paid for Trust and Custody on the 2021 Greenwich Associates study for Municipal Public Funds was \$227,000.

### Individual Investment Managers

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- We have included an analysis of each underlying investment manager's fee relative to its broad peer universe from eVestment (this does not include private equity as there is no readily available peer universe for comparison purposes).
- Most of the underlying investment managers' fees are in-line or less expensive than the median manager in their respective eVestment universe.
- **Four manager's fees rank above median** against their peer eVestment universe:
  - **Mellon Equity Index** was 1 bp above the median fee. On April 1, 2023 fees were reduced to 2 bps, below the least expensive quartile.
  - **Wellington SMID** is 2 bps above the median fee, but below the most expensive quartile.
  - **Arrowstreet ACWI ex-US IMI** is 5 bps above the median fee, but below the most expensive quartile.
  - **Lazard International Equity** is 3 bps above the median fee, but below the most expensive quartile.

<sup>1</sup>2022 Greenwich Study has not been released.

Investment Fee and Commission Review – Allocation as of December 31, 2022

Manager	Asset Class	Market Value 12/31/2022	Blended Fee (bps) <sup>1</sup>	Least Expensive Quartile	Median	Most Expensive Quartile	Comparison Universe <sup>2</sup>
<b>Weighted Avg Fee for Plans With Similar Structure (bps)</b>		<b>\$833,027,605</b>	<b>50</b>	<b>50</b>	<b>56</b>	<b>61</b>	
Mellon Equity Index <sup>3</sup>	Large Cap US Equity Index	\$89,654,695	5	3	4	6	eA US Passive S&P 500 Equity
Newton Dynamic US Equity	Large Cap US Equity	\$77,394,396	30	40	50	60	eA US Large Cap Equity
Wellington SMID	SMID Cap US Equity	\$45,898,394	80	65	78	85	eA US Small-Mid Cap Equity
Alliance Bernstein	SMID Cap US Equity	\$46,982,536	70	65	78	85	eA US Small-Mid Cap Equity
Mellon ACWI ex-US IMI	International Equity Index	\$67,003,103	7	8	9	10	eA ACWI ex-US Passive Equity
Arrowstreet ACWI ex-US IMI <sup>4</sup>	International Equity	\$53,638,696	75	50	70	84	eA ACWI ex-US All Cap Core Equity
Lazard International Equity	International Equity	\$50,649,021	73	50	70	84	eA ACWI ex-US All Cap Core Equity
Portfolio Advisors Combined <sup>5</sup>	Private Equity	\$136,047,502	97	97	97	97	--
Mellon Aggregate Index	Core Bonds Index	\$60,350,030	5	4	5	6	eA US Passive Core Fixed Income
BlackRock	Core Plus U.S. Fixed Income	\$50,883,419	19	28	31	35	eA US Core Plus Fixed Income
Wellington	Core Plus U.S. Fixed Income	\$51,069,252	16	28	31	35	eA US Core Plus Fixed Income
UBS Trumbull Fund <sup>6</sup>	Core Real Estate	\$42,735,425	64	96	100	110	NFI ODCE Index
Heitman	Core Real Estate	\$60,721,136	94	96	100	110	NFI ODCE Index

Source: eVestment universes. Real estate universe fees reflect members of the NFI ODCE index. All fees expressed in basis points. Excludes cash, laddered bonds and Salient.

<sup>1</sup> Blended fees based on current market values and fee tiers. Figures are in basis points.

<sup>2</sup> eVestment universes and NFI ODCE index. All comparisons are to commingled fund vehicles.

<sup>3</sup> Revised Fees for 2023: US Eq: 2 bps; Int'l Eq: 6 bps; Fixed Income: 3 bps

<sup>4</sup> Management fee of 75 bps and estimated operating expenses of 8 bps, subject to 20 bps cap.

<sup>5</sup> Private equity is ranked against itself to calculate quartile ranks because there is not a meaningful peer group comparison.

<sup>6</sup> El Paso is enrolled in a 4-year loyalty program providing a 25% fee discount.

Fees may vary based on changes in market values or investment results.

<b>City of El Paso - Fee Comparison</b>	<b>Fees</b>
<b>The weighted average investment management fee for the City of El Paso<sup>1</sup></b>	<b>50 bps</b>
<i>Median fee paid for plans with similar structure per eVestment Universes</i>	<i>56 bps</i>
<b>Total fees paid to BNY Mellon for custody services in 2022</b>	<b>\$196,471</b>
<i>Mean fee for Trust and Custody in 2021 Greenwich Associates Fee Study for Municipal Public Funds</i>	<i>\$227,000</i>
<b>Total fees paid to Callan in 2022</b>	<b>\$314,143</b>
<i>Mean fee for Investment Consulting services in 2021 Greenwich Associates Fee Study for Municipal Public Funds<sup>2</sup></i>	<i>\$355,000</i>
<b>City of El Paso Total Cost of Managing Investment Program<sup>3</sup></b>	<b>56 bps</b>

<sup>1</sup> Based on actual asset allocation and total fund value of \$833 million. Excludes cash, laddered bonds and Salient.

<sup>2</sup> 2022 Greenwich Associates Study is not available.

<sup>3</sup> Total cost of managing the investment program consists of the weighted average manager fee using strategic targets (50 bps), custody fees (2.2 bps) and investment consultant fee (3.8 bps). Custody and IC fee based on total fund value of \$876 million.

## Investment Fee and Commission Review

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### Commission Review

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- From the IPS, investment managers of separately managed accounts are required to provide broker commission reports.
- The City of El Paso replaced many of their managers in 2021. There are no longer any separately managed accounts in the portfolio.



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## **Governance Process**

## Governance Review

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### Scope

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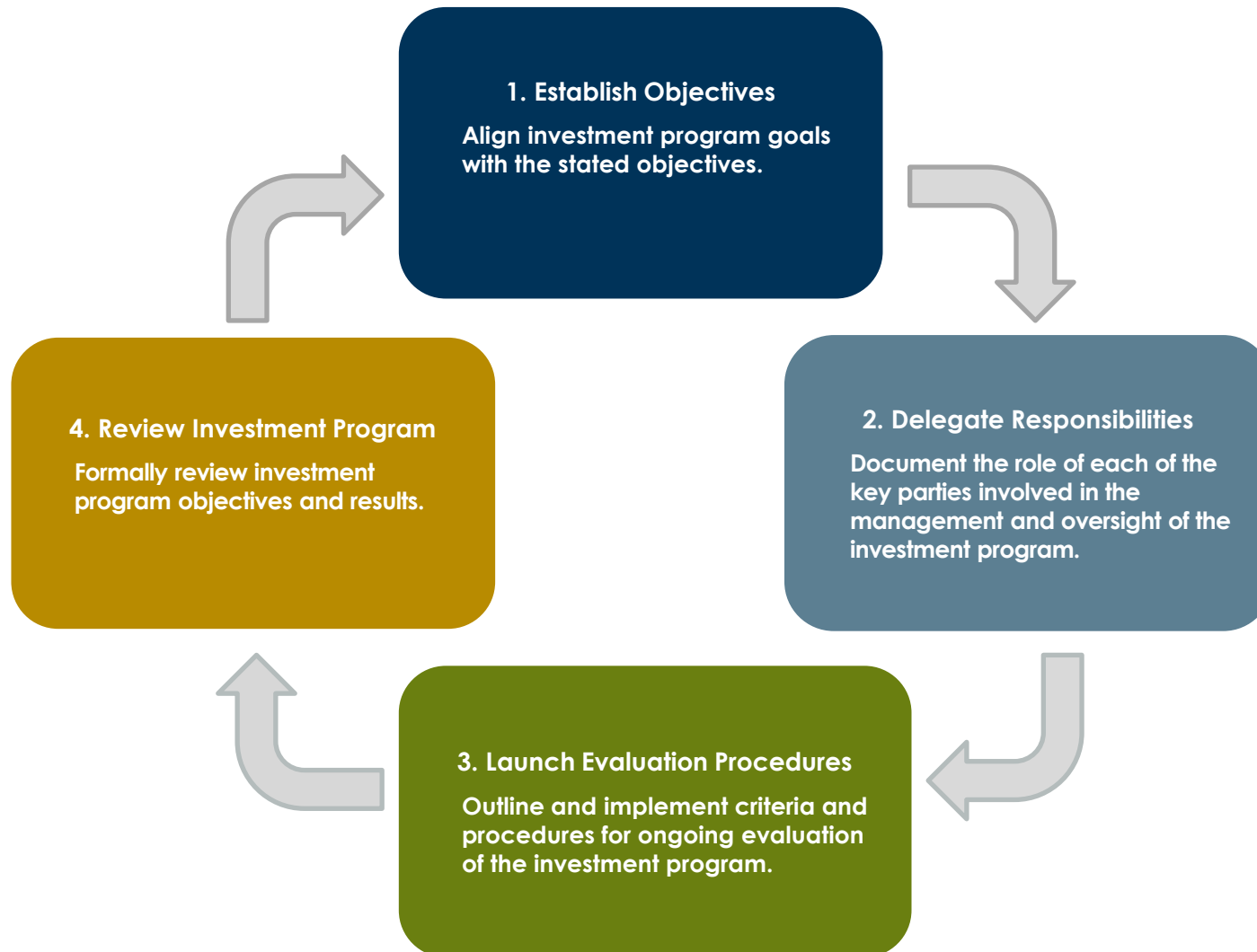
- The governance structure for the City of El Paso Employees Retirement Trust was reviewed by examining recent meeting notes, audits, the IPS and additional documents provided by the Staff and Investment Consultant.
- This review included all parties affiliated with the Trust and looked into proper alignment of investment, financial and general obligations, documented responsibilities and the ongoing evaluation structure.
- Documentation for appropriate Trustee education as required in addition to compliance with the El Paso Municipal code were also reviewed.

### Observations

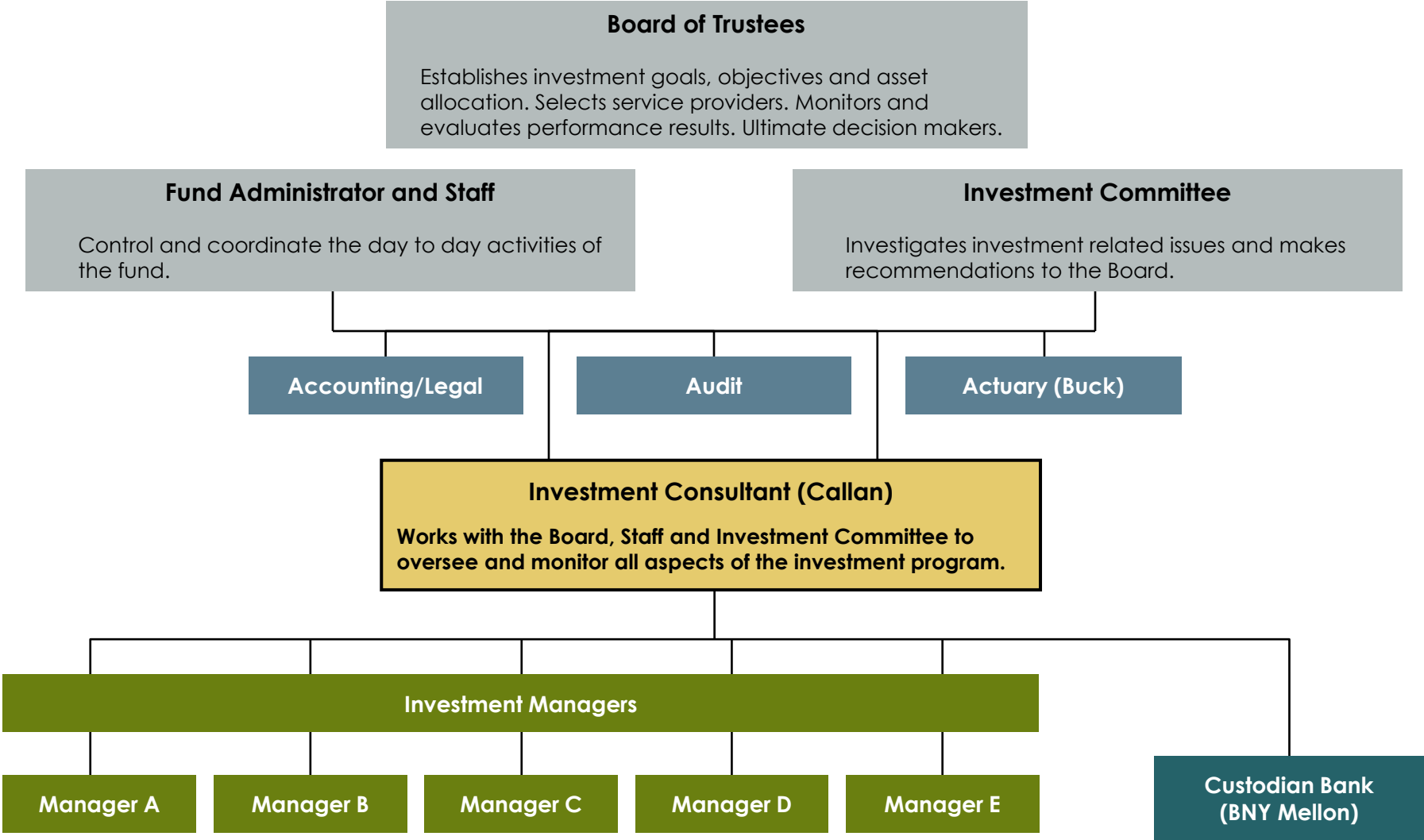
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- The IPS clearly outlines the responsibilities and duties of the Trust as well as each party of interest. The IPS, recent meeting minutes, and full length video recordings of each Board meeting are easily accessible by the plan members and the public with a link to the Trust's website. <https://www.eppension.org/fund-overview.php>
- The Board of Trustees delegates to an Investment Committee that considers issues related to the investment of Fund assets, and which makes recommendations to the Board. The Investment Committee is charged with investigating investment related issues, and reports its findings and recommendations to the Board of Trustees. The investment decision making process and delegation of investment authority are appropriately documented within the IPS. The Board meets monthly, while the Investment Committee meets the day before the regular Board meeting in odd-numbered months.
- The Board of Trustees is composed of two members of city council, two citizens of the city who are not officers or employees of the city, four city employees who are qualified to participate in the fund, and one retired city employee receiving benefits from the fund. The Board construction appears reasonable.
- The Board voted to adopt the State Pension Review Board's minimum educational training requirements for both Trustees and System Administrators. New Trustees are required to complete seven credit hours of education in core content within the first year of service. Continuing Trustees and Administrators are required to complete at least four hours of continuing education in either core or non-core content areas within each two-year period after the first year of service. Trustees appear to have reasonable access to educational resources through self-paced training as well as other resources circulated. Appropriate documentation tracking the progress of the Trustees and the Administrator was also provided. **Education requirements appear adequate for the Board and Administrators.**
- Plan and financial audits are up to date and have been conducted by outside firms.
- BNY Mellon is the Custodian and Investment Manager to several strategies funded by the City of El Paso. The strategies run by BNY Mellon are mostly passive and have reasonable fees. In addition, Callan provides oversight to ensure investment objectives are being met.
- Performance and investment objectives are reviewed by an independent third party.
- Overall, the current governance structure and review process in place appear to be **in line with industry standards.**

## Effective Governance is Ongoing



City of El Paso Governance Structure



**2.64 El Paso Municipal Code**

All of the current portfolio managers were contacted and asked to confirm compliance with the below excerpts from the El Paso Municipal Code 2.64.180 Investments.

**El Paso Municipal Code “Report Card”**

Category	Assessment		Observations
	Yes	No	
All managers have acknowledged their fiduciary responsibility in writing.	✓		Every manager confirmed they had provided their fiduciary responsibility in writing. Commingled fund managers have a fiduciary responsibility to their fund.
All investments are made in the name of the fund or equivalent designation belonging to the fund.	✓		Each portfolio manager verified the investments executed were in the name of the Trust or equivalent designation belonging to the Trust.
Each manager is registered with the Investment Advisors Act of 1940.	✓		All of the managers are registered with the Investment Advisors Act of 1940.
Each manager has presented to the Board and Investment Committee within the last year.	✓		Each manager confirmed they have presented to the Board and Investment Committee in the past year. In addition, many managers have upcoming meetings scheduled.
Assets are evaluated in the context of the plan's portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the plan.	✓		The strategic asset allocation is determined as a result of the Board of Trustees conducting an asset liability study that evaluates the return, risk and correlations of each asset class to construct a diversified portfolio.

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## **Investment Manager Search & Monitoring**

### Scope

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- The Board, through its Investment Committee hires investment managers from time-to-time in order to carry out its duties to diversify the Trust's investment portfolio. The Board has granted authority to the Investment Committee to review possible manager candidates and make recommendations to the Board.
- The most recent manager search for a Private Equity FoF manager conducted in November 2021 was reviewed for compliance with the process as documented within the IPS (pages 38-39).
- Investment manager guidelines, performance objectives, requirements and constraints must be continuously monitored. Performance objectives are outlined on pages 33-37 of the IPS, and a review of the performance monitoring process was conducted using quarterly performance reports provided by the investment consultant.

### Observations

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- In November 2021, the Trust's Investment Consultant prepared an investment manager search for a new private equity fund of funds manager.
- The search process was documented and **met all of the guidelines** outlined in the IPS.
- The investment mandates for each manager and their asset class are properly detailed in the IPS. Appropriate benchmarks and universes are used, and there is a watch list process outlined in the IPS (pages 33-34).
- Performance goals and benchmarks for the total fund and investment managers are monitored by Callan, the Investment Committee and the Board.
- Private Equity has different performance benchmarking than what is documented in the IPS (Russell 3000 + 3%). In addition, passive Mellon vehicles are ranked against peer universes in the quarterly performance reports, but the IPS states a universe is "not applicable". **Consider using the Russell 3000 + 3% in the performance reports for consistency. Consider adding universes for the passive Mellon strategies in the Performance Measurement Standards section of the IPS.**
- Managers are **meeting their expectations** and **investing within the constraints** outlined in the IPS. Managers with performance concerns are undergoing periodic reviews and the **watch list is actively monitored**.

**Manager Monitoring “Report Card”**

Category	Assessment*			Observations
	1	2	3	
<b>Manager Search</b>				
The manager search and selection process is fully documented and retained for the Board's records.	✓			The most recent manager search was completed in 2021 for a new Private Equity FoF manager. Manager specific factors were evaluated along with the appropriateness of fit with the current Private Equity portfolio.
The Investment Consultant identified qualified candidates from the manager search database.	✓			Callan began with a broad universe of candidates and used 12 evaluation criteria, which consisted of quantitative and qualitative screening, to narrow the search to three finalists.
The analysis of qualified candidates included quantitative, qualitative and organizational factors.	✓			Callan reviewed each manager extensively ranging from performance of past funds to financial viability of the firm.
<b>Monitoring Checklist</b>				
Managers in the portfolio are investing within their investment guidelines outlined in the IPS.	✓			Fund managers have a fiduciary responsibility to the fund, and invest in accordance with fund guidelines.
Managers are meeting their investment objective outlined in the IPS. Managers in question are being monitored on the watch list.	✓			Performance goals and benchmarks are documented. The watch list is actively updated and currently includes UBS Trumbull Fund.
Managers are investing based on the investment strategy recorded in the IPS.	✓			Investing approach regarding geography, asset class, holding concentration, security types, and characteristics are being followed by each manager. Fund managers have a fiduciary responsibility to their fund, and invest in accordance with fund guidelines.
Manager performance is compared against the most appropriate peer group and benchmark stated in the IPS.		✓		The Private Equity benchmark on the performance report differs from what is documented in the IPS (Russell 3000 Index vs. Russell 3000 Index +3%). Consider using the Russell 3000 + 3% in the performance reports for consistency. In addition, passive Mellon vehicles are ranked against peer universes in the QR reports, but the IPS states a universe is "not applicable". Consider adding universe language to IPS for Mellon.
Annual trading cost analysis is provided to the Board for applicable managers.		n/a		There are no longer any separately managed accounts in the portfolio.
Managers forward all proxy voting and rationale to the Board.		n/a		There are no longer any separately managed accounts in the portfolio.
Each manager has presented to the Board and Investment Committee within the last year.	✓			Each manager confirmed they have presented to the Board and IC in the past year. In addition, many managers have upcoming meetings scheduled.

\*1 = Included; no significant changes necessary; 2 = Included; consider enhancements; 3 = Not included; should be addressed.  
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## Performance Discussion

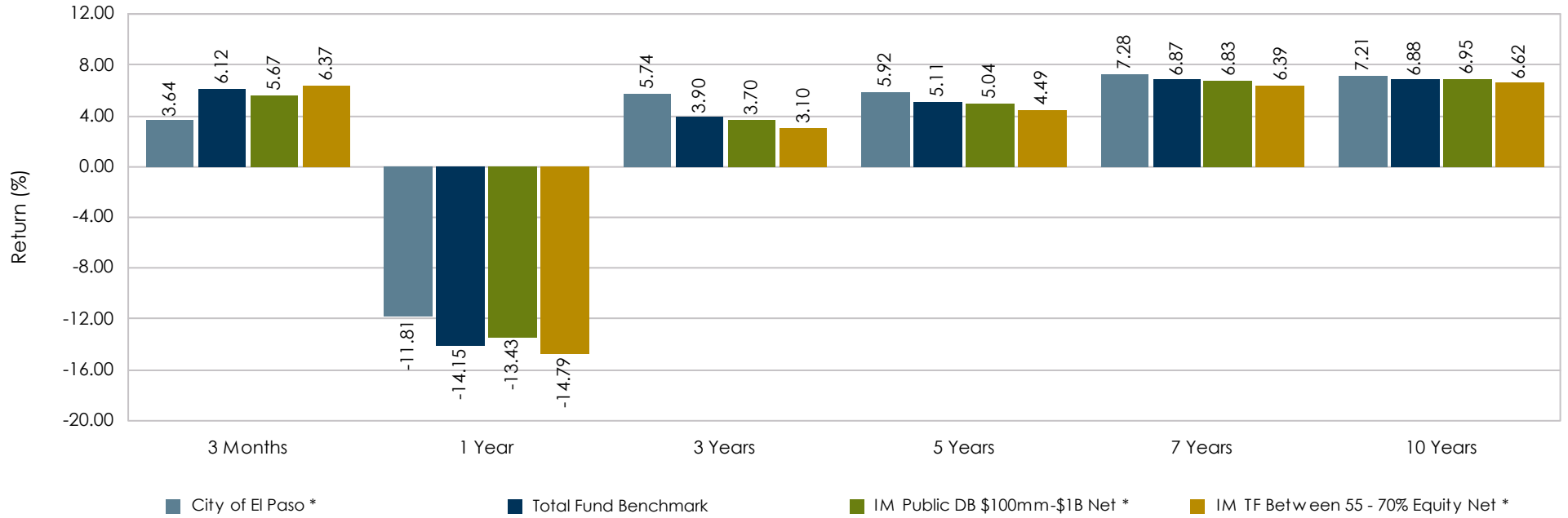
## Performance Discussion

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- We reviewed trailing net performance for the total fund per the most recent quarterly investment report, and compared the performance to peers within the Investment Metrics Public DB Funds universe with assets between \$100 million and \$1 billion. We also compared to a broader universe of peers with a similar equity allocation (55%-70%).
- Over the trailing 1-year, 3-year, 5-year, 7-year and 10-year time periods, the plan ranks in the 28<sup>th</sup>, 7<sup>th</sup>, 17<sup>th</sup>, 26<sup>th</sup> and 41<sup>st</sup> percentiles in the universe of DB peers, respectively.
- Net of fees, the total fund performance is ahead of the policy index and the peer group (Investment Metrics Public Funds with asset between \$100 million and \$1 billion) over the 1-year, 3-year, 5-year, 7-year and 10-year time periods.

## City of El Paso

For the Periods Ending December 31, 2022



	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Ranking	95 / 99	28 / 11	7 / 2	17 / 8	26 / 15	41 / 25
5th Percentile	7.41 / 8.16	-8.91 / -11.18	6.02 / 5.21	6.54 / 6.18	8.04 / 7.80	8.25 / 8.21
25th Percentile	6.32 / 7.06	-11.74 / -13.20	4.68 / 3.99	5.60 / 5.20	7.28 / 6.96	7.58 / 7.20
50th Percentile	5.67 / 6.37	-13.43 / -14.79	3.70 / 3.10	5.04 / 4.49	6.83 / 6.39	6.95 / 6.62
75th Percentile	4.96 / 5.70	-15.13 / -16.23	2.77 / 2.30	4.25 / 3.74	6.08 / 5.77	6.35 / 5.97
95th Percentile	3.59 / 4.53	-17.07 / -18.52	1.79 / 0.58	3.21 / 2.52	5.37 / 4.78	5.36 / 4.59
Observations	170 / 1049	170 / 1037	167 / 988	163 / 930	155 / 861	138 / 714

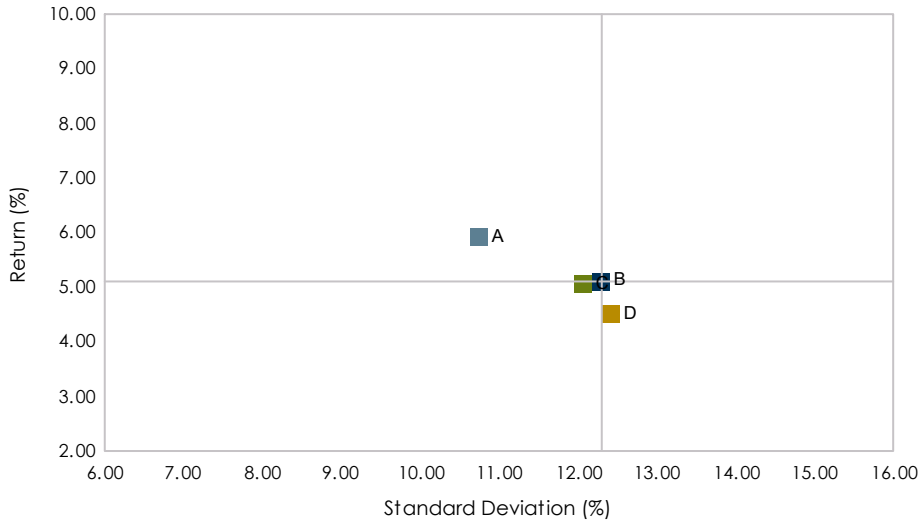
The rankings represent the portfolio's returns versus a peer universe. The rankings are on a scale of 1 to 100 with 1 being the best.  
 Source: Investment Metrics Net Universe. El Paso and benchmark returns from Callan.

\* Performance is calculated using net of fee returns.

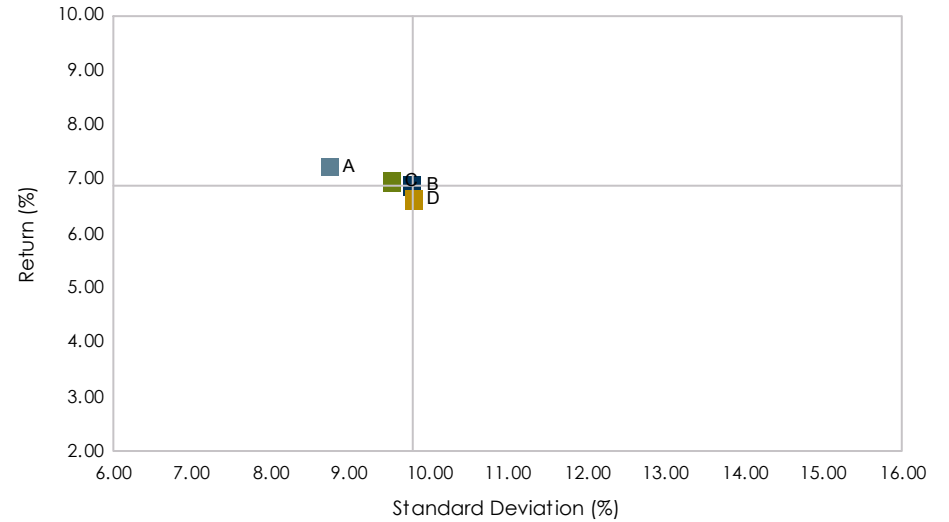
# City of El Paso

For the Periods Ending December 31, 2022

5 Year Risk / Return



10 Year Risk / Return



		Return (%)	Standard Deviation (%)	Sharpe Ratio
■ A	City of El Paso *	5.92	10.73	0.44
■ B	Total Fund Benchmark	5.11	12.29	0.32
■ C	IM Public DB \$100mm-\$1B Net *	5.04	12.06	0.31
■ D	IM TF Between 55 - 70% Equity Net *	4.49	12.40	0.27

		Return (%)	Standard Deviation (%)	Sharpe Ratio
■ A	City of El Paso *	7.21	8.74	0.74
■ B	Total Fund Benchmark	6.88	9.78	0.63
■ C	IM Public DB \$100mm-\$1B Net *	6.95	9.53	0.64
■ D	IM TF Between 55 - 70% Equity Net *	6.62	9.80	0.60

\* Performance is calculated using net of fee returns.

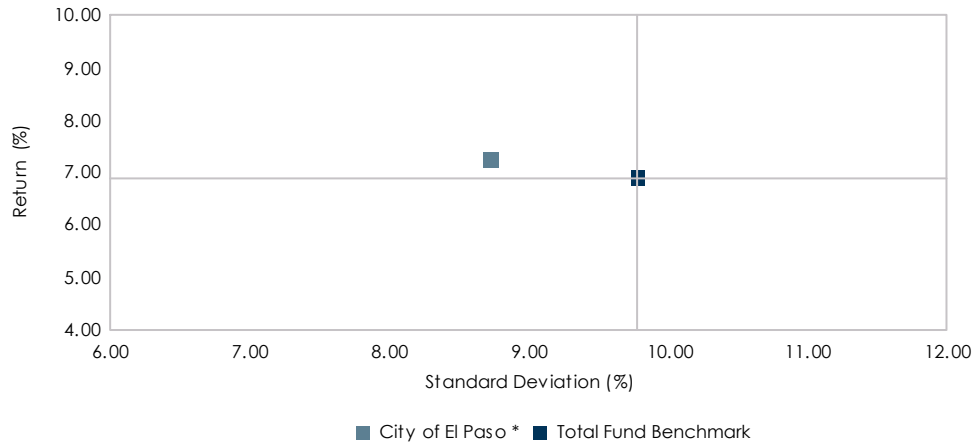
Statistics are calculated using monthly return data.

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# City of El Paso

For the Periods Ending December 31, 2022

## 10 Year Risk / Return



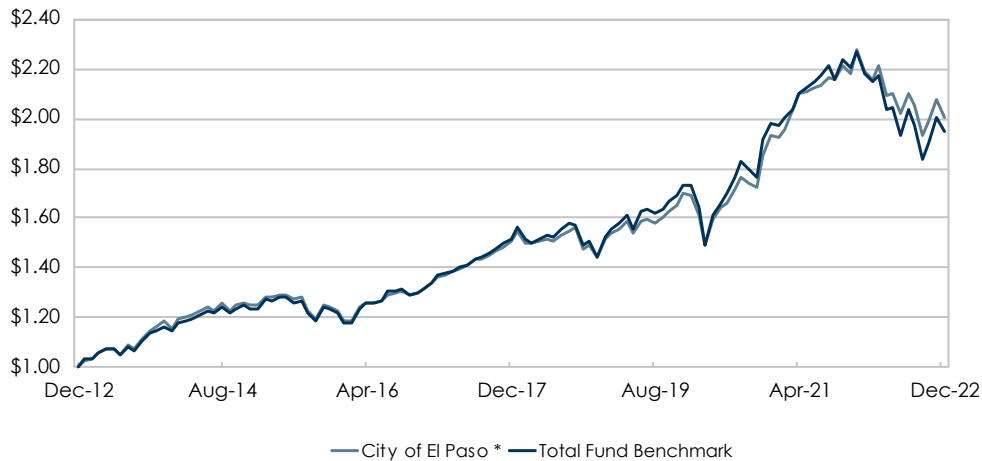
## 10 Year Portfolio Statistics

	City of El Paso *	Total Fund Benchmark
Return (%)	7.21	6.88
Standard Deviation (%)	8.74	9.78
Sharpe Ratio	0.74	0.63

## Benchmark Relative Statistics

Beta	0.87
R Squared (%)	95.08
Alpha (%)	1.15
Tracking Error (%)	2.31
Batting Average (%)	42.50
Up Capture (%)	92.48
Down Capture (%)	87.41

## 10 Year Growth of a Dollar



## 10 Year Return Analysis

	City of El Paso *	Total Fund Benchmark
Number of Months	120	120
Highest Monthly Return (%)	7.53	8.46
Lowest Monthly Return (%)	-7.77	-9.34
Number of Positive Months	81	81
Number of Negative Months	39	39
% of Positive Months	67.50	67.50

\* Performance is calculated using net of fee returns.

Statistics are calculated using monthly return data.

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## Appendix

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Summary of Findings

## Summary of Findings

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### IPS

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- Consider documenting the evaluation of risk adjusted returns for the total fund and investment managers.
- Consider adding a total portfolio performance objective to earn a rate of return after all expenses that equals or exceeds the actuarial rate of return assumption.
- Consider increasing the min/max asset class ranges.
- Review performance objectives for consistency within the IPS and Callan QR reports.
- List all IPS' revision dates in the Appendix of the IPS.

### Asset Allocation

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- Consider expanding the fixed income allocation to provide access to the full fixed income universe (i.e. non US fixed income and/or high yield).

### Investment Fees

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- Fees appear reasonable for investment management, custody and consulting services.

### Governance

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- Governance structure, procedures and documentation is thorough and in line with industry standards.

### Investment Manager Search & Monitoring

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- The investment manager search process conducted by Callan is thorough and meets IPS guidelines and industry standards.
- Performance goals and benchmarks for the Total Fund and investment managers are documented and adequate. Review for consistency the Private Equity benchmark within the IPS relative to the performance report and Mellon universes documented on the performance report with the IPS.



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Reviewed Documents and Disclosure

## Reviewed Documents

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- We obtained and reviewed the following documentation in order to complete this review:
  - Statement of Investment Policy
  - 2019 Asset Liability Study
  - Monthly meeting minutes for calendar years 2020 - 2022
  - Q4 performance reports for the last three years and all 2022 quarter reports
  - Total Fund and manager return streams from Callan
  - 2021 Private Equity Search Report
  - Continuing Education Requirements
  - Documentation supporting the tracking of continuing education
  - Questionnaire responses from all of the investment managers
  - 2022 Annual Financial Report
  - 2022 Actuarial Valuation

## Independent Firm Disclosure

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- ACG provides institutional investment consulting services to taxable and tax-exempt investors such as trusts, endowments, foundations and other non-profit corporations, insurance company reserves, and corporate, public, Taft-Hartley employee benefit plans and high net worth individuals and family offices. ACG has provided investment consulting and investment research services since 1989.
- ACG meets the experience requirements for completing the investment practices and performance evaluation.
- No existing relationship exists between CERT and ACG other than the investment practices and performance evaluation review.
- ACG is not involved, directly or indirectly, in managing investments of CERT.
- No conflict of interest or appearance of a conflict of interest exists between ACG and CERT that would impact the analysis of this review.
- ACG receives no remuneration from sources other than CERT for services provided to CERT.
- ACG has included within this report recommendations to CERT to enhance the evaluated matters.

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Investment Manager Performance

## Fund Performance Net of Fees

As of 12/31/2022

	City of El Paso (%)	Benchmark (%)	Objective Met?
The total return of each portfolio should exceed the return of the respective benchmark over a market cycle (approximately 3-5 years).			
<b>Mellon Equity Index (S&amp;P 500 Index)</b>			
3 Years	7.70	7.66	Yes
5 Years	9.41	9.42	No
<b>Newton Dynamic US Equity (S&amp;P 500 Index)</b>			
3 Years	6.89	7.66	No
5 Years	9.55	9.42	Yes
<b>Wellington SMID (Russell 2500 Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>AllianceBernstein (Russell 2500 Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>Mellon ACWI ex-US IMI (MSCI ACWI ex-US IMI Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>Arrowstreet ACWI ex-US IMI (MSCI ACWI ex-US IMI Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>Lazard Intl Equity (MSCI ACWI ex-US IMI Index)</b>			
3 Years	-1.36	0.20	No
5 Years	0.81	0.85	No
<b>Portfolio Advisors Composite (Russell 3000 Index + 3%)</b>			
3 Years	27.73	7.07	Yes
5 Years	23.6	8.79	Yes

## Fund Performance Net of Fees (Continued)

As of 12/31/2022

	City of El Paso (%)	Benchmark (%)	Objective Met?
<b>Mellon Aggregate Index (Blmbg Aggregate Index)</b>			
3 Years	-2.73	-2.71	No
5 Years	-0.09	0.02	No
<b>BlackRock (Blmbg Aggregate Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>Wellington (Blmbg Aggregate Index)</b>			
3 Years	--	--	N/A
5 Years	--	--	N/A
<b>UBS Trumbull Fund (NFI-ODCE Equal Weight Net)</b>			
3 Years	5.03	9.72	No
5 Years	3.59	8.31	No
<b>Heitman (NFI-ODCE Equal Weight Net)</b>			
3 Years	10.48	9.72	Yes
5 Years	7.76	8.31	No
<b>Total Fund (Total Fund Benchmark<sup>1</sup>)</b>			
3 Years	5.74	3.90	Yes
5 Years	5.92	5.11	Yes

Source: Callan, Q4 2022 El Paso City Employees' Pension Fund Performance Report

<sup>1</sup> Current Quarter Target = 31.0% Russell 3000 Index, 24.0% Blmbg Aggregate, 21.0% MSCI ACWI xUS IMI, 13.0% Russell 3000 Index, 10.0% NCREIF NFI-ODCE Eq Wt Net and 1.0% 3-month Treasury Bill.

**Manager Questionnaire**

Question	Mellon	Newton	Wellington	Alliance Bernstein	Arrowstreet	Lazard
What was the most recent date of an in-person presentation to the Board and IC?	Sep 21, 2022	Nov 16, 2022	Nov 16, 2022	Jan 14, 2023	June 15th, 2022	June 14, 2022
If you are currently on the Watch List are you presenting semi-annually to the Investment Committee?	n/a	n/a	n/a	n/a	n/a	n/a
Do you provide the Board an annual trading cost analysis?	n/a	n/a	n/a	n/a	n/a	n/a
Do you forward a summary of all proxy voting and the rationale for each vote?	n/a	n/a	n/a	n/a	n/a	n/a
Have you acknowledged in writing your fiduciary responsibility?	Yes	Yes	Yes	Yes	Yes	Yes
Are investments made in the name of the Trust or equivalent designation belonging to the Trust?	Yes	Yes	Yes	Yes	Yes	Yes
Are you registered with the Investment Advisors Act of 1940?	Yes	Yes	Yes	Yes	Yes	Yes
What are your liquidity terms?	Daily (All funds)	Daily	Daily	Daily (5 days notice)	Daily	Daily (3 days notice)

Green = Indicates manager is in compliance with instructions documented in the IPS  
 Orange = Indicates needs review.

## Manager Questionnaire (Continued)

Question	Portfolio Advisors	Adams Street	BlackRock	UBS	Heitman
What was the most recent date of an in-person presentation to the Board and IC?	July 20th, 2022	Jan 18th, 2023	Feb 19, 2023	Sep 20, 2022	April 20, 2022
If you are currently on the Watch List are you presenting semi-annually to the Investment Committee?	n/a	n/a	n/a	Yes	n/a
Do you provide the Board an annual trading cost analysis?	n/a	n/a	n/a	n/a	n/a
Do you forward a summary of all proxy voting and the rationale for each vote?	n/a	n/a	n/a	n/a	n/a
Have you acknowledged in writing your fiduciary responsibility?	Yes	Yes	Yes	Yes	Yes
Are investments made in the name of the Trust or equivalent designation belonging to the Trust?	Yes	Yes	Yes	Yes	Yes
Are you registered with the Investment Advisors Act of 1940?	Yes	Yes	Yes	Yes	Yes
What are your liquidity terms?	Illiquid	Illiquid	Daily	Quarterly (60 days written notice)	Quarterly (90 days written notice)

Green = Indicates manager is in compliance with instructions documented in the IPS

Orange = Indicates needs review.



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## Review and Comments

**On April 18, 2023, the Board's Investment Committee reviewed an Investment Practices and Performance Evaluation conducted by Asset Consulting Group "ACG".** The Trust's investment consultant, Callan LLC, was requested to comment on the results and observations made in the review. Callan did not object to including some of the observations in future reporting formats. However, they recommended that discussions regarding the asset allocation be postponed until after the results of an asset liability study are finalized. The Trust's Investment Committee made a recommendation to approve the review. Some observations will be implemented by Callan but others will require the approval of an amendment to the Trust's Investment Policy Statement that will be considered at a future meeting of the Board of Trustees. On April 19, 2023, the Board of Trustees received a presentation by ACG regarding their work. The Board of Trustees discussed then approved the report. The Board thanked ACG for their work.

## Disclosures and Legal Notice

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