

EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING HELD
Wednesday, June 19, 2013 at 1:00 PM
El Paso Firemen and Policemen's Pension Fund Office
Chase Tower, Suite 1616
201 East Main Drive, El Paso, Texas 79901

MINUTES

TRUSTEE MEMBERS PRESENT

Fire Division:

Chief Jerry Villanueva
Chief Ricci Carson

Police Division:

Lieutenant Tyler Grossman
Commander Mark Austin
Detective JD Cotham

Mayoral Appointments:

Dr. Robert Tollen
Mr. Presi Ortega
Ms. Carmen Arrieta-Candelaria

City Manager Appointments:

Mr. William F. Studer

OTHERS PRESENT

Mr. Robert J. Stanton - Secretary
Ms. Yolanda Carreon - Assistant Secretary
Ms. Laura Gordon - City of El Paso
Mr. Scott Eliason - Moss Adams LLP
Ms. Janna Skinner - Moss Adams LLP
Mr. Steve Starnes - Mondrian Investment Group
Mr. Russell J. Mackie - Mondrian Investment Group

TRUSTEE MEMBERS ABSENT:

Ms. Terri Garcia

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1. Establishment of Quorum

Chair Grossman established a Quorum is present. The Regular Meeting of the El Paso Firemen & Policemen's Pension Fund Board of Trustees was called to order at 1:00 p.m.

2. Reading and approval of the Minutes of May 22, 2013, and Special Meeting of May 28, 2013.

Dr. Tollen moved to approve the minutes of the previous Board Meeting held on May 22, 2013 with a correction to Item 3 under New Business, and the Special Meeting of May 28, 2013, seconded by Mr. Cotham and passed by the Board.

Consent Agenda

Mr. Villanueva moved to approve the Consent Agenda, seconded by Dr. Tollen and passed by the Board.

Unfinished Business

1. Discussion and action on Buck Consultants providing GASB Estimates for the City of El Paso, tabled April 17, 2013, and May 22, 2013.

Ms. Arrieta-Candelaria informed the Board that in June, 2012 the Governmental Accounting Standards Board (GASB) approved two related statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans on how to measure pension liabilities.

She noted that Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later). Statement No.68 will take effect for employers and governmental non employer contributing entities in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later). However, the GASB encourages plans and governments to implement the new standards earlier. In order to stay proactive she recommends that the upcoming actuarial valuation be reported under the new standards.

After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to incorporate the impact of Statements No. 67 and No. 68 in our next Actuarial Valuation of January 1, 2014, seconded by Dr. Tollen and passed by the Board.

Reports and recommendations of Committees

A. Audit and Risk Management Committee - Did not meet.

B. Investment Committee – Reporting for the Investment Committee, Dr. Tollen stated that the committee met earlier today. A large portion of their discussion will be discussed under New Business, Item 4. He added that Mr. Ralph provided the Committee with an educational session on Risk Parity and Private Debt as part of the Fund's overall investment strategy.

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- C. Benefits Committee - Did not meet.
- D. Management Development and Review Committee – Did meet and will be discussed under New Business, Item 9.
- E. Ad-Hoc Committee for Office Space - Did not meet. Mr. Austin informed the Board that the committee is awaiting the results of the asbestos testing.
- F. Budget & Finance Committee - Did not meet.
- G. Ad-Hoc Committee on Legislative Review – Did not meet.

New Business

1. Investment Performance Review for period ended December 31, 2012 and update as presented by Mr. Steve Starnes of Mondrian Investment Group.

Mr. Starnes and Mr. Mackie reemphasized that the firm was founded in 1990, having 20 years of stable consistent leadership with over US\$68 billion under management. The firm is an independent, employee owner company with equity ownership plan designed to attract, retain and motivate highly skilled people. Approximately 85 employees are owners, up from 60 in 2004. The Firm has a highly experienced team of 54 professionals in the London office. The firm's investment methodology utilizes a value approach which emphasizes yield and future growth in dividends. Consistent dividend discount methodology which compares value across all securities, markets and sectors. In-depth worldwide fundamental research with an emphasis on company visits, and a long term purchasing power parity approach to currency analysis. Seek to produce meaningful high real returns, aim to preserve capital during global market declines and returns that typical have shown lower volatility than the index and most other managers. Focused on portfolios with strong characteristics and a long term focus resulting in low turnover and reduced transaction costs. Since inception, June 1, 2009 the Fund had a return of 9.4% compared to 9.8% for MSCI EAFE benchmark. For the one year period the Fund returned 28.3% compared to the benchmark of 31.6%, and for the three year period, the Fund returned 11.1% compared to 17.0% for the benchmark.

2. Presentation and review of First Quarter 2013 Investment Performance, as presented by Mr. Eric Ralph of Summit Strategies Group.

The following commentary was provided by Mr. Ralph reference the first quarter performance of 2013. Risk assets performed well as central banks remain accommodative. Economic growth remains subdued but was more resilient than expected as the fiscal cliff and sequestration impacts have thus far been fairly muted. All eyes remain on economic woes in Europe and the pace of growth in China, but the new reflationary policies in Japan are gaining attention as the yen has depreciated by approximately 25% since last fall.

Equities do not appear cheap relative to various earnings measure, but they are attractive compared to interest rates and credit spreads. US small cap outperformed large cap (Russell

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1000) by 140 bps for the quarter as small cap (Russell 2000) gained 12.4%. Developed international equity (MSCI EAFE), posted a gain of 5.1%, underperforming the S&P 500 by 5.5%. Emerging markets fell 1.6% for the quarter, trailing the developed international markets by 670 bps.

Bond market pricing and forward curves reflect expectations of continued low interest rates, muted inflation and low credit defaults. The Fed left the overnight lending rate unchanged (0-0.25%) as of its March meeting, where they stated they'll continue to closely monitor the economic and financial situation in the coming months, along with maintaining QE3. Yields were up across all but the short end of the curve during the quarter. The spread between 2-year and 30-year Treasuries widened by 16 bps to 286 bps in the first quarter.

3. Educational session on Bank Loans by Mr. Eric Ralph of Summit Strategies Group.

Mr. Ralph stated that bank loans are now much more prevalent in the institutional market places. Bank loan instruments, i.e. leveraged loans, high yield loans, are floating-rate loans issued mainly to non-investment grade commercial borrowers by a bank, which are then broadly syndicated to a diverse group of institutional investors. The size of the U.S. bank loan market is currently \$700 billion, down from a high of approximately \$850 billion in 2008. The primary differentiators of bank loans to other credit instruments are their seniority in the capital structure, floating-rate coupons, secured nature and shorter duration. Historically, bank loans have exhibited stable pricing, usually pricing between \$90 and \$110. The financial market crisis in 2008 saw prices drop precipitously to an average of approximately \$60-\$70 as levered buyers of loans sold in mass quantities to meet margins, while banks unloaded loans still awaiting syndication. Since then, prices have risen to an average of about \$98.

4. Discussion and action on the commitment of \$4,000,000 to Sentinel V a small-/middle-market buyout fund as recommended by Meketa Investment Group and approved by the Investment Committee.

After careful discussion, due consideration, and at the recommendation of the Investment Committee, Dr. Tollen moved to approve the commitment of \$4.0 million to Sentinel V conditional on acceptable review by legal counsel, seconded by Mr. Calderazzo and passed by the Board.

5. Discussion and action on approval of the December 31, 2012 Audited Financial Statements as presented by Mr. Scott Eliason of Moss Adams, LLP.

A draft copy of the December 31, 2012 Audited Financial Statements was provided to the Board. Mr. Eliason stated that the final report will be made available to the fund in approximately ten days.

Ms. Arrieta-Candelaria moved to table the approval of the December 31, 2012 Audited Financial Statements to the July meeting, seconded by Dr. Tollen and passed by the Board.

Mr. JD Cotham left at 3:15 p.m.

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6. Discussion and action on approving the extension of Moss Adams contract as the Fund's Independent Auditors, for a period of 3 years.

After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to accept the proposed audit fees from Moss-Adams LLP for two years with an option of a third year at the stated price, seconded by Dr. Tollen and passed by the Board.

7. Discussion and action on Board Resolution authorizing the Ad-Hoc Committee to oversee the renovation and construction improvements at the property know as 909 East San Antonio, El Paso, Texas.

After a lengthy discussion, Mr. Austin stated that the Ad-Hoc Committee for Office Space will meet to discuss the hiring of a Construction Project Manager to oversee the renovation of the property at 909 E. San Antonio. The committee will work on a Request For Quotation (RFQ) for this project.

No action.

8. Discussion on hiring a Chief Financial Officer or the blending of a Chief Financial Officer/Chief Investment Officer.

Mr. Stanton recommended to the Board to start thinking about hiring a CFO or CFO/CIO in order to monitor the complexity of the Fund's Investments.

9. Discussion and action on compensation merit increase for the Executive Director as recommended and approved by the Management Development and Review Committee, and related matters.

Mr. Villanueva made a motion to move into Executive Session for the purpose of discussing Item 9. Mr. Austin seconded. Motion carried.

The El Paso Firemen & Policemen's Pension Fund Board of Trustees retired into Executive Session at 3:46 p.m. and returned to regular session at 5:10 p.m.

Dr. Tollen moved to refer the \$25,000 payment to the Executive Director in March, 2012 to our Texas Attorney for a legal opinion on its' legality and to approve the recommendation of the Management and Review Committee to approve a 3% merit raise to the Executive Director for the 2012 evaluation, seconded by Mr. Villanueva and passed by the Board.

Dr. Tollen moved to divide the question with the first part being to refer the \$25,000 payment to the Executive Director to our Texas Attorney for legality, seconded by Mr. Villanueva and passed by the Board.

On the second part, Mr. Carson moved to approve the recommendation of the Management and Review Committee to approve a 3% merit raise to the Executive Director for the 2012 evaluation, seconded by Mr. Villanueva. Mr. Carson, Mr. Villanueva, Dr. Tollen, Mr. Austin, and Mr. Grossman voted in favor. Mr. Studer, Ms. Arrieta-Candelaria and Mr. Ortega opposed. Motion carried.

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10. Discussion and action on approval/denial of full-time Student Request Application in accordance with Section 3.18 "Qualified Child" of the Plan Document.

After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to approve the Student Request Application, seconded by Mr. Villanueva and passed by the Board.

11. Opportunity for Statements from Members/Retired Members/Public.

None.

12. Report of Executive Director.

Mr. Stanton provided the Board with a written report. He stated that most of the activity continues to be in the private equity arena.

13. For Notation:

Informational Material For Review. No Action Required.

- A. Service Retirement
- B. Early Retirement
- C. Service/BackDrop Retirement
- D. Death Benefits
- E. Cost of Living Adjustments
- F. Death of member(s)

14. Adjournment.

Dr. Tollen moved to adjourn, seconded by Mr. Ortega and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 5:24 p.m.


Chairperson


Secretary