

EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING HELD
Wednesday, August 21, 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
FST Paul Thompson

Police Division:

Lieutenant Tyler Grossman
Commander Mark Austin
Detective JD Cotham

Mayoral Appointments:

Dr. Robert Tollen
Ms. Carmen Arrieta-Candelaria

City Manager Appointments:

Ms. Terri Garcia
Mr. William F. Studer

OTHERS PRESENT

Mr. Robert J. Stanton - Secretary
Ms. Christina Ramirez - Benefits Manager
Mr. Eric Ralph - Summit Strategies Group
Attorney Alan Cleveland via teleconference

TRUSTEE MEMBERS ABSENT:

Mr. Presi Ortega

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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 1:01 p.m.

2. Reading and approval of the Minutes of July 17, 2013.

Dr. Tollen moved to approve the minutes of the previous Board Meeting held on July 17, 2013, seconded by Mr. Villanueva and passed by the Board.

Consent Agenda

Ms. Arrieta-Candelaria requested to move Items 1 and 2 from the Consent Agenda to New Business for further discussion. Ms. Arrieta-Candelaria requested to move Item 4-A from the Consent Agenda to New Business for further discussion.

Mr. Villanueva moved to approve the Consent Agenda with the preceding requests, seconded by Mr. Cotham and passed by the Board.

1. Internal Financial Statements for month ending June 30, 2013.

Northern Trust Financial Statements for month ending July 31, 2013.

2. Expense Reports for the month ending July 31, 2013.

3. Approve Pension Payrolls:

Fire	\$2,171,483.29
Police	\$2,846,254.99

4. Payments to Service Providers

A.	Baillie Gifford - 2 nd Q 2013	\$132,658.81
B.	Brown Advisory - 2 nd Q 2013	\$33,382.68
C.	Cooke & Bieler - 2 nd Q 2013	\$43,476.07
D.	INTECH - 2 nd Q 2013	\$28,630.41
E.	Lord Abbett - 2 nd Q 2013	\$141,540.87
F.	Northern Trust Co. - 2 nd Q 2013	\$34,225.04
G.	PIMCO - 2 nd Q 2013	\$137,400.67
H.	Pyramis Global Advisors - 2 nd Q 2013	\$113,814.08
I.	William Blair - 2 nd Q 2013	\$89,934.00
J.	Mondrian Investment Group - 2 nd Q 2013	\$146,622.32
K.	Meketa - 1 st Q 2013	\$42,271.79
L.	Meketa - 2 nd Q 2013	\$42,049.72
M.	Summit Strategies Group - 2 nd Q 2013	\$56,509.00
N.	Strasburger & Price - 06/30/13	\$7,125.00
O.	Sheehan Phinney Bass + Green - 06/30/13	\$6,754.50

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Unfinished Business

I. Discussion and action on compensation payment to the Executive Director.

Mr. Villanueva made a motion to move into Executive Session for the purpose of discussing Item 2. Mr. Cotham seconded. Motion carried.

The El Paso Firemen & Policemen's Pension Fund Board of Trustees retired into Executive Session at 1:06 p.m. and returned to regular session at 1:33 p.m.

Mr. Austin wanted it on record that legal counsel had determined that the \$25,000 payment made to Mr. Stanton was legal.

Dr. Tollen moved to accept the compensation payment made to the Executive Director, seconded by Mr. Carson. Mr. Villanueva, Mr. Thompson, Dr. Tollen, Mr. Cotham, Mr. Austin, Mr. Carson and Mr. Grossman voted in favor. Mr. Studer, Ms. Arrieta-Candelaria and Ms. Garcia voted against. Motion carried.

Reports and recommendations of Committees

- A. Audit and Risk Management Committee – Did not meet.
- B. Investment Committee - Reporting for the Investment Committee, Dr. Tollen briefly discussed the due diligence visit to Mondrian and Baillie Gifford. Both Mondrian and Baillie Gifford are performing adequately and for the immediate future there are no further issues that need to be addressed. He also mentioned that Summit had brought to the committee's attention some concerns with Lord Abbett. This is the Fund's small cap manager. Gerard Heffernan left the firm in June. Robert Fetch will take over management of the strategy during the interim. Another key figure, Gregory Macosko, will retire in September. Therefore, it is Summit's opinion that the Fund look at five managers to investigate the Fund's alternatives: Cooke and Bieler, Integrity, Pzena, Wedge and William Blair.
- C. Benefits Committee – Did not meet.
- D. Management Development and Review Committee – Per Jerry Villanueva, did not meet; however a meeting will be scheduled for next week.
- E. Ad-Hoc Committee for Office Space – Reporting for the Ad-Hoc Committee on Office Space, Mr. Austin explained that the space would be leased to the American Cancer Society for another month thru the end of October. Mr. Stanton has been tasked with getting an RFQ for an architectural firm that can handle the project management of the Fund's new property. It should be a one-stop shop to handle all aspects of construction and the move.
- F. Budget & Finance Committee – Did not meet.

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G. Ad-Hoc Committee on Legislative Review – Did not meet.

New Business

The two items removed from the Consent Agenda were heard. Ms. Arrieta Candelaria asked for the detail of administrative expenses that are listed on the financial statement from Bixler. Bixler lists the administrative expenses at \$658,575 for the period ending June 30, 2013. The year-to-date expenses listed in CA-2 (the operating budget) are \$327,178.09 thru month ending July 2013. She would like to see a reconciliation of these two figures. She would also like to see more detailed information on the credit card. She would like to see a copy of the entire credit card statement.

Ms. Garcia also commented on the reports. She wanted to know what comprised operating expenses on the Disbursement Report. She stated that amounts on the budget and Disbursement report were not footing to one another. She would like to see reports that make more sense.

Dr. Tollen moved to approve Items 1 and 2 removed from the Consent Agenda subject to Ms. Arrieta-Candelaria receiving a response to her concerns, seconded by Mr. Villanueva and passed by the Board

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

Mr. Eric Ralph of Summit Strategies Group presented the Board with the results of the second quarter performance. The US economy continued to recover in the second quarter of 2013, headlined by rising consumer confidence and a strengthening housing market. Nonfarm payrolls increased by an average of 181,000 per month throughout the quarter, yet the unemployment rate remains at 7.6% (was 7.6% in March) as more workers entered the labor force. Global economic stress and uncertainty regarding the Federal Reserve's stimulus triggered rising interest rates and declining equity markets in the latter half of the quarter, negatively impacting investors.

Equities do not appear cheap relative to various earnings measures, but they are attractive compared to yields and credit spreads. US small cap outperformed large cap (Russell 1000) by 40 bps for the quarter as small cap (Russell 2000) gained 3.1%. Developed international equity (MSCI EAFE) posted a loss of 1.0%, underperforming domestic equities (S&P 500) by 3.9%. Emerging markets were hurt the most this quarter (-8.1%), trailing the developed international markets by 710 bps.

The Fed left the overnight lending rate unchanged (0-0.25%) as of its June 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 the entirety of the curve during the quarter. The spread between 2-year and 30-year Treasuries widened by 28 bps to 314 bps in the second quarter.

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2. Securities Lending Program Educational Session, as presented by Mr. Eric Ralph of Summit Strategies.

Mr. Eric Ralph provided the Board of Trustees with an overview of the Securities Lending program. He stated that securities lending is a temporary loan of a security from an institutional investor's portfolio to a broker/dealer to support the borrower's trading activities. In exchange for the loaned securities, the lender receives collateral and a "fee" for the use of the security. The borrower agrees to return the security or its equivalent under terms negotiated at loan inception. The custodian lends the security and requires collateral which is marked to market daily – 102% for U.S. stocks and bonds, 105% for international securities. The lender loses ownership (title), but retains the benefits of ownership (e.g. dividends, interest, etc.) except for voting proxies. The El Paso Firemen & Policemen's Pension Fund year to date net earnings are \$161,277.08.

Ms. Arrieta-Candelaria and Mr. Studer departed at 2:15 pm and returned at 3:11 pm.

3. Acceptance of Due Diligence Report of International Value and Emerging Markets.

Dr. Tollen stated that the report provided was created in a joint effort by Eric Ralph and Robert Stanton. The intent is to have more of these types of reports in the future on all due diligence trips. He further stated that the meeting with Mondrian was informative and amicable. The current numbers are improving and should normalize in the coming months. In the meeting with Baillie Gifford, Baillie Gifford was attacked with more rigor on why they were underperforming. Baillie Gifford remains focused on their program. They have consistently played the same model for the past 105 years.

Ms. Garcia stated that maybe there is a need to incorporate some change or tweak the model.

Dr. Tollen stated that the Board would be patient with them for awhile, two years.

Ms. Arrieta-Candelaria stated that the cost of the due diligence trip should be included as part of the due diligence report in the future.

Dr. Tollen moved to accept the due diligence report of International Value and Emerging Markets, seconded by Mr. Villamueva and passed by the Board.

4. Discussion of the preliminary draft of the independent actuarial audit report by Mr. Mark Fenlaw of Rudd & Wisdom in accordance with Section 802.1012(g)(1) of the Texas Government Code, via conference call.

Mr. Stanton attempted to contact Mr. Mark Fenlaw on both his office phone and cellular phone but was unable to make contact. Chairperson Grossman stated that the Board would move to Item 5 and come back to Item 4.

Item 4 was discussed after Item 5. Mr. Stanton stated that he would have actuary, Steve Prullage, respond to the concerns raised in the actuarial audit report submitted by Rudd & Wisdom. If needed a special board meeting would be convened.

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Mr. Thompson moved to table Item 4 not to exceed thirty days from August 13, 2013, seconded by Mr. Villanueva and passed by the Board.

5. Discussion and action on response to City Manager Joyce Wilson's June 6, 2013 letter to the Board of Trustees at the request of Mr. William Studer.

Mr. Studer stated that it had been a couple of months since the Board had received the letter from City Manager, Joyce Wilson. He felt that the Board should provide a response to Ms. Wilson.

Mr. Villanueva made a motion to move into Executive Session for the purpose of discussing Item 5. Dr. Tollen seconded. Motion carried.

The El Paso Firemen & Policemen's Pension Fund Board of Trustees retired into Executive Session at 3:17 p.m. and returned to regular session at 4:25 p.m.

No formal action was taken. It was understood that Chair Grossman will meet with the City Manager to discuss this issue.

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

None.

7. Report of Executive Director.

Mr. Stanton stated that in September he will have the final draft for a RFI for legal services as well as an RFQ for the new building. He would also have a response for the Board on the comments made on the financial audit.

8. For Notation:

Informational Material For Review. No Action Required.

- A. Service Retirement (s)
- B. Service/BackDrop Retirement
- C. Proportionate (PRP) Retirement
- D. Survivor Benefits
- E. Cost of Living Adjustments
- F. Death of member(s)
- G. Refund of Contributions

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9. Adjournment.

Mr. Studer moved to adjourn, seconded by Dr. Tollen and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 4:30 p.m.

Chairperson

Secretary