

EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING HELD
Wednesday, February 18, 2015 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
FST Paul Thompson
Chief Ricci Carson

Police Division:

Lieutenant Tyler Grossman
Detective JD Cotham

Mayoral Appointments:

Mr. Presi Ortega
Ms. Carmen Arrieta-Candelaria

City Manager Appointments:

Ms. Judy A. Balmer
Ms. Terri Garcia

OTHERS PRESENT

Mr. Robert J. Stanton - Secretary
Mr. Mark Austin - Assistant Secretary
Ms. Lena H. Ellis - CFO
Mr. Eric Ralph - Summit Strategies
Mr. Greg Caron - Brown Advisory
Mr. Kevin Osten - Brown Advisory
Mr. Don Anderson - Northern Trust Securities Lending
Mr. Jason Pasquinelli - Northern Trust Investment Relationship Manager

TRUSTEE MEMBERS ABSENT:

Sergeant John Schneider
Dr. Robert Tollen

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1. Establishment of Quorum.

Chairman 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 the previous Board Meeting held January 21, 2015

Mr. Thompson moved to approve the minutes of the Regular Board Meeting held January 21, 2015, seconded by Mr. Cotham and unanimously passed by the Board.

Consent Agenda

Ms Garcia wanted Consent Agenda item 2, 4a and 4c moved to regular agenda.

Mr. Villanueva moved to approve the Consent Agenda with the following revisions: move item 2, 4a and 4c to regular agenda, seconded by Dr. Tollen and passed by the Board.

1. Internal Financial Statements for month ending December 31, 2014.

Northern Trust Financial Statements for month ending January 31, 2015.

2. Expense Reports for the month ending January 31, 2015.

3. Approve Pension Payrolls:

Fire	\$2,444,907.45
Police	\$3,257,613.81

4. Payments to Service Providers

A.	Pension Planning Consultants	\$6,500.00
B.	Sheehan, Phinney, Bass + Green December 2014	\$4,003.28
C.	Legislative Consultant Services Jan/Feb '15	\$16,000.00
D.	Powers Media Jan/Feb '15	\$3,328.00
E.	Intech 4 th Qtr	\$64,598.85
F.	Cooke & Bieler 4 th Qtr.	\$49,210.14
G.	William Blair 3 rd & 4 th Qtr.	\$175,317.00

Reports and recommendations of Committees (Will be taken up under New Business)

1. Investment Committee.
2. Benefits Committee.
3. Ad-Hoc Committee for Office Space

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New Business

Items 2, 4a and 4c removed from the Consent Agenda were heard. Ms Garcia had questions reference the monthly budget and the formatting of it. There was a mistake on the date of the budget, which may have caused some confusion on the monthly expense. It showed December 2015 and it should have been January 2015.

Ms Garcia also questioned the two invoices for the funds Legislative Consultants. There were two invoices per consultant which were dated January 2015 and February 2015. She was advised that the bill came in a little late but is normally paid at the beginning of the month and therefore it showed two payments for February. Invoices were attached to the board packets for review. Ms Garcia was advised that during Legislation that the consultants receive \$4,000.00 each for consulting services.

After careful discussion and due consideration Mr. Villanueva approved Consent Agenda items 2, 4a and 4c, seconded by Ms. Garcia and passed unanimously by the Board.

Chairman Grossman requested moving item #8 before item #1 due to the applicant standing by for the decision. Without any objections from the Board item 8 was presented.

8. Discussion and action on Service-Connected Disability Retirement Application, Fire Department, as approved and recommended by the Benefits Committee.

After careful discussion, due consideration, and at the recommendation of the Benefits Committee, Mr. Cotham moved to approve this Service-Connected disability retirement application, seconded by Mr. Villanueva and passed by the Board.

1. Investment Performance Review for period ended December 31, 2014 and update as presented by Ms. Nicole Nesbitt and Mr. Kevin Osten of Brown Advisory.

Ms. Nicole Nesbitt was unable to make the meeting; therefore Mr. Greg Caron and Mr. Kevin Osten provide the Board with a Relationship Overview. It was stated by Mr. Osten that the fund made a positive return but unfortunately trailed the benchmark. The fund has had Brown investments since March 15, 2012. During that time the portfolio has grown from \$65,733,698 to \$72,772,799 returning about 12.4%. One concern of the board was the return as compared to the benchmark. Russell 1000 Growth is the index that Brown is compared to. Since inception Brown has returned 12.23% net of fees as compared to the index of 16.34%. During the trailing 2 years Browns has returned 17.84% as compared to the index of 22.84%. Currently Brown Advisory has over \$51 billion in assets under management.

As stated by Brown there was three performance challenges in 2014. The first was that prolonged period of low interest rates have created strong demand for yield-oriented equities even within growth stock. Since Brown's business model has no component of yield they have struggled. The second challenge was that Whole foods investment rallied towards the end of the year and Discovery investment lost. It was noted that Whole Foods is a quality proposition that caters more toward middle to upper markets while their competitor Sprouts cater to middle and

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lower markets. Even though Brown advisory felt that these two investments catered towards different consumers there was definitely an overlap which may have caused issues. In reference to Discovery Communications Brown advised that they sold their position to purchase Amazon which is up 20% year-to-date. The third challenge was the collapse in oil prices, which hit the oil stocks hard. Brown has a large overweight in energy as compared to the benchmark. Brown is trimming the overweight but is still slightly overweight in energy compared to the benchmark. Brown did advise that their return is close to benchmark year-to-date. Two swaps of investments were highlighted for 2014, which included the addition of Trip Advisor and the Deletion of Fossil Group. Brown was able to sell Fossil before the stock dropped 20%. Trip advisor was up 13% year-to-date. The last item that Brown discussed was higher momentum markets. They feel that during some short-term periods of pronounced momentum investing Brown has underperformed but they have outperformed nearly 100% of the rolling five-and seven-year periods since inception. They look for High Quality businesses that can grow 14%. Once the presentation was complete several members of the board made it known that the performance was not acceptable and that the fund will be monitoring Brown very closely.

3. Presentation update on the Fund's Securities Lending Program by Mr. Don Anderson of Northern Trust Security Lending.

Don Anderson from Northern Trust began his presentation with some background on securities lending. Lending is done by Long-Term, institutional investors who use securities lending as an investment tool to enhance portfolio returns and to offset or eliminate costs of custody and administrative cost.

Typical borrowers are "A" rated and there is 102% cash collateral on the securities. Whenever the security is a sought after or valuable security the bank will negotiate by phone the cost. The borrowers that are below "A" are monitored daily with quarterly updates and annual reviews. Northern has 58 approved borrowers and the top 10% represent 76% of loan volume. These 10 names are: Goldman Sachs, Morgan Stanley, Citigroup, JP Morgan Chase, Bank of America, The Royal Bank of Scotland, Credit Suisse Group, Barclays PLC, HSBC Holdings, and Deutsche Bank AG.

One of the risk management instruments that Northern has with cash collateral is that there are client approved investment guidelines, there is a dedicated team of fixed income research analysts and daily automated monitoring of portfolio guidelines and compliance.

One of the key regulatory developments that may impact securities lending is the Dodd-Frank Volcker Rule -619, which the final regulation does not exclude securities lending cash collateral pools from the scope of the Volcker Rule and therefore may curtail agent lenders' sponsorship of unregistered cash collateral pools. In reference to this rule the board approved the change from Core USA Securities Lending Program to a SL Core STIF (Collective) cash collateral investment fund on November 18, 2014.

3. Investment Performance Review for period ending December 31, 2014 and updated as presented by Mr. Jason Pasquinelli of Northern Asset Management.

Jason Pasquinelli began his presentation with a Relationship Overview on Investment Performance. Northern total assets under management are \$934.1 billion as of December 31, 2014 and there has been no change with the investment management team. The performance and

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market value of the fund's holdings since December 31, 2014 are \$108,075,380.23 with a return of 4.87 % gross of fees. This return is since inception of 12/1/2006. Comparing this to the index, Barclays Capital Aggregate Bond Index, the return was 4.92%.

4. Presentation and review of 2014 Year End Investment Performance, as presented by Mr. Eric Ralph of Summit Strategies Group.

Mr. Ralph provided the following economic and capital market highlights for 2014: The US continued to show improvement to the other major economies. The Barclays Long Term Treasury bond was up 30.1% and the S&P 500 was up 13.7%. Summit believes for 2015 that equities will have a difficult time along with the dollar rising as compared to other currencies. The oil prices dropped 45% during 2014 and the local currency international equity performance was positive but the rallying dollar detracted almost 3% from the returns. The total composite of the fund returned 1.3% for 4th quarter 2014, which was lower than the policy index by 23bps and ranked in the bottom quartile of the peer universe. The main issues were the international equity and fixed income composite.

A current highlight on the economy was that the Federal Reserve decided to conclude its asset purchase program during the fourth quarter of 2014. The Federal Open Market Committee felt that due to the improving labor market and consumer base were signs of the US economy strengthening and that Quantitative Easing (QE) was no longer needed. The total fund composite return for 2014 was 4.30% net of fees as compared to the total fund policy index of 5.13%. Mr. Ralph from summit will have the investment committee meet reference two managers who have underperformed to see if their strategy still is within the funds vision. The first is Brown Advisory group which the fund has been with since April 2002. Since inception they have underperformed their benchmark (Russell 1000 Growth Index) by 4.04% Net of Fees and the second is Pyramis who have either modestly beat the benchmark or returned less than the benchmark. The fund has invested in Pyramis since November 2002.

5. Presentation by Mr. John Reidy of Pension Technology Group (PTG) regarding their pension administration system capabilities.

Mr. John Reidy gave a presentation on the Pension administration system that Pension Technology Group developed around 1992. This system can be a stand-alone or a conversion for the funds current system. He advised the board that his company has done several conversions from the older Tyler/TACs Pera Series which currently has no support and the software, Microsoft's Visual FoxPro9, will no longer be supported. He gave an overview of the successes and organizations that currently utilize the system.

Since it was a discussion item, Chairman Grossman directed the Executive Director to conduct due diligence on the organizations that currently utilize PTG's system. After the due diligence the item will be brought back to the Board so that they can make a decision on the next step of either going out for a RFP or selecting a company.

6. Discussion and action on the commitment of \$8,000,000 to Insight Venture Partners Growth-Buyout Co-investment Fund, as recommended by Meketa Investment Group, and as approved and recommended by the Investment Committee.

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After careful discussion, due consideration, and at the recommendation of the Investment Committee, Mr. Cotham moved to approve the commitment of \$8,000,000 to Insight Venture Partners Growth-Buyout Co-investment Fund, pending legal review, seconded by Mr. Villanueva and passed unanimously by the Board.

7. Discussion and action on the commitment of \$8,000,000 to Ridgewood Energy Oil & Gas Fund III, L.P., as recommended by Meketa Investment Group, and as approved and recommended by the Investment Committee.

After careful discussion and at the recommendation of the Investment Committee no action was taken. The fund is open till May 2015 and still needs to be completely vetted by Meketa before any action can be taken by the committee or board.

9. Discussion and action on hiring a third party consultant regarding construction review at 909 E. San Antonio as approved and recommended by the Ad-Hoc Committee for Office Space.

This item did not need to be placed on the agenda since the Board had already given approval for the Ad-Hoc Office Space committee to make these decisions. The committee had approved the hiring of a third party consultant and allowed the chairman to select the lowest bid from the three architects. The selected individual was Mr. Guillermo Barajas.

No action

10. Discussion and action on the approval of policies for Fixed Assets and Construction-In-Progress as presented by Lena Ellis CFO.

After careful discussion and due consideration Ms. Arrieta-Candelaria approved the policies for Fixed Assets and Construction-In-Progress as presented by Lena Ellis CFO, seconded by Mr. Ortega and passed unanimously by the Board.

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

None

12. Report of Executive Director. Submitted Written Report.

Report submitted and no further questions

13. Report of Chief Financial Officer. Submitted Written Report

Report submitted which consisted of item 10 and also an update on the hiring of a senior accountant. The filing period for the accountant will end March 21, 2015. The resumes will then be reviewed along with interviews to make a final choice.

14. For Notation:

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Informational Material For Review. No Action Required.

- A. Service Retirement(s)
- B. Service/ Back Drop Retirement
- C. Proportionate Retirement (PRP)
- D. Cost of Living Adjustments
- E. Death of Member(s)
- F. Refund of Contributions

15. Adjournment.

Mr. Ortega moved to adjourn seconded by Mr. Villanueva and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 4:04 p.m.


Chairperson


Secretary