

EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING HELD
Wednesday, February 24, 2016 at 1:00 PM
Pension Fund Office
909 E. San Antonio Avenue
El Paso, Texas 79901-2523

MINUTES

TRUSTEE MEMBERS PRESENT

Fire Division:

Chief Jerry Villanueva
FST Paul Thompson
Chief Ricci Carson

Police Division:

Sergeant John Schneider
Detective JD Cotham
Officer Sean Shelton

Mayoral Appointments:

Dr. Robert Tollen
Ms. Carmen Arrieta-Candelaria

City Manager Appointments:

Ms. Judy A. Balmer
Ms. Terri Garcia

OTHERS PRESENT

Mr. Tyler Grossman – Executive Director
Mr. Mark Austin – Deputy Executive Director
Lena Ellis - CFO

TRUSTEE MEMBERS ABSENT:

Mr. Presi Ortega

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1. Establishment of Quorum.

Chairman Villanueva established that a Quorum was 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. Certification of the Trustee Election(s) results to the Board of Trustees in accordance with Section 2 (C) of the Fund's Voting Procedures.

Police Division

Whereas we received only one eligible nomination form prior to the specified deadline and in accordance with Section 2(C), of the Fund's Voting Procedures, Mr. Sean Shelton shall be deemed elected as an unopposed member of the Board of Trustees.

3. Reading and approval of the Minutes of the previous Board Meetings held January 20, 2016.

Dr. Tollen moved to approve the minutes of the Regular Board Meeting held January 20, 2016, seconded by Mr. Cotham and unanimously passed by the board.

Consent Agenda

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

1. Internal Financial Statements for month ending January 31, 2016.

Northern Trust Financial Statements for month ending January 31, 2016.

2. Expense Reports for the month ending January 31, 2016.

3. Approve Pension Payrolls:

Fire	\$2,987,699.21
Police	\$3,619,309.19

4. Payments to Service Providers

A. Baillie Gifford 4 th Qtr.	\$134,065.06
B. Brown Advisory 4 th Qtr.	\$39,479.65
C. Ice Miller (Dec. 2015)	\$1,271.91
D. Meketa	\$68,750.00
E. Northern Trust 3 rd Qtr.	\$31,480.57
F. Northern Trust 4 th Qtr.	\$31,649.19
G. Pyramis 3 rd Qtr	\$114,058.40
H. Fidelity 4 th Qtr.	\$114,212.67
I. Sheehan Phinney Bass + Green Thru Dec 31, 2015	\$12,631.80
J. Xerox (Buck) 4 th Qtr	\$17,783.00

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Reports and recommendations of Committees

None

Unfinished Business

1. Discussion and action on Strategic Planning for 2016, tabled January 20, 2016.

Chairman Villanueva advised the board that he met with the Director and CFO on February 12, 2016 to compile some goals and objectives for a strategic planning session. The Chairman wanted to meet with the board and get a consensus on the date. The Director will send out potential dates but currently a tentative date will be Saturday April 16, 2016. The Chairman advised that the session should only take the morning hours. The Chairman advised that the board, Director and the CFO should attend.

2. Discussion and action for an exception to participate in the Staff Defined Benefit Plan, tabled January 20, 2016.

Mr. Lawson and Mr. Fields were on teleconference to talk about item UB-2. This item was reference Ms Matthews, funds benefits specialist. Ms Matthews wanted to join the staff plan even though she had not signed up when it initially began in 2015. There were issues that arose out of the request. The first issue was to allow her to buy back the prior year of credited service or have her start paying into the plan going forward. Mr. Lawson drafted a resolution that allowed Mrs. Matthews to begin contributions on April 1, 2016. This seemed to be the best solution for the fund and staff member. The second issue was reference taxes. Chairman Grossman spoke with Ice Miller the tax attorneys who stated that there is no issue with taxes.

Mr. Lawson advised the board that the plan document allows the trustee to change the plan. This would be done through a resolution. The attached resolution would amend the plan and everyone full time would be required to go into the plan.

The Director asked the question about having a resolution number added on the form and the attorneys advised that no number is needed but can be placed by the staff to track this item and any other items going forward.

After careful discussion, due consideration, and in consultation with the Fund's attorneys Dr. Tollen moved to approve the resolution that members who currently are not in the staff plan will required to begin contributions starting April 1, 2016 and have Ice Miller amend the staff plan so that IRS can review for the favorable determination letter, seconded by Ms Carmen Arrieta-Candelaria and passed unanimously by the Board.

New Business

1. Discussion and action on dissolving Lomaland West.

Mr. Lawson and Mr. Fields were on teleconference to talk about item NB-1.

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Director Grossman began the presentation giving some history about Lomaland West. This entity was created in 2006 and was created when the fund purchased property on Lomaland for a building. This building was going to not only house the fund but tenants; therefore a LLC was formed to protect the fund. Due to the sale of the property, tax implications and other extra work the Director wanted to see if the LLC was needed since the property had been sold and the current building only houses the fund. Mr. Lawson believes that if we dissolve Lomaland West LLC we should be able to avoid local property tax since we would be a governmental entity.

Ms Garcia asked why the fund would be considered a governmental entity. Mr. Lawson advised that there is case law and an opinion from the Texas Attorney General that all governmental pension funds and pension funds like the El Paso Firemen and Policemen's Pension fund are governmental entities. The El Paso fund is conducting the element of business by collecting funds from the employer and members and providing an employee benefit for persons who are employed by a governmental entity. A second question about tax liability from the sale of the property was also asked by Ms. Garcia. Mr. Lawson stated that Lomaland was a pass-through entity and since The El Paso Firemen and Policemen's pension fund is not taxable there is no liability and also that it was a onetime incident.

After careful discussion, due consideration, and in consultation with the Funds attorney Ms Balmer moved to dissolve Lomaland West and increase the liability insurance policy to a \$5m aggregate, seconded by Mr. Cotham and passed unanimously by the Board.

2. Discussion and action on the certification of the election results regarding the Forward Drop (Deferred Retirement Option Program) presented to the Fire Division of the El Paso Firemen and Policemen's Pension Fund, in accordance with Section 4(I) of the Election Policy.

VR Elections conducted the Forward Drop election on the Fire side and the results were:
593 voted yes (67.54%); 108 voted no (12.30%) a total of valid voters 701
Total eligible voters were 878.

After careful discussion and due consideration, Mr. Carson moved to accept the certification of the election results regarding the Forward Drop (Deferred Retirement Option Program) presented to the Fire Division, seconded by Mr. Schneider and passed unanimously by the Board.

3. Discussion and action on the certification of the election results regarding the Forward Drop (Deferred Retirement Option Program) presented to the Police Division of the El Paso Firemen and Policemen's Pension Fund, in accordance with Section 4(I) of the Election Policy.

VR Elections conducted the Forward Drop election on the Police side and the results were:
740 voted yes (73.56%); 93 voted no (9.24%) a total of valid voters 833
Total eligible voters were 1006.

After careful discussion and due consideration, Mr. Schneider moved to accept the certification of the election results regarding the Forward Drop (Deferred Retirement Option Program) presented to the Police Division, seconded by Mr. Cotham and passed unanimously by the Board.

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4. Discussion and action on revisions to the Election Policy (Voting Procedures).

Director Grossman advised the board that this revision was more administrative. Mr. Grossman wanted to add the e-ballot/email since this is a new procedure and change the use of social security numbers for kronus numbers for election participation.

After careful discussion and due consideration, Dr. Tollen moved to accept the revisions to the Election Policy (Voting Procedures) adding the change from first person to third person under paragraph 4c1 and 4d1, seconded by Mr. Schneider and passed unanimously by the Board.

5. Discussion and action on proposed renewal of Summit Strategies Investment Consulting Contract, as recommended and approved by the Investment Committee.

Ms Arrieta-Candelaria had issues with the five year contract due to the length of time it's been since the fund has done an RFQ on our Investment Consultant. There were recommendations for 1 yr and 3 yr contracts.

After careful discussion, due consideration, and at the recommendation of the Investment Committee, Dr. Tollen moved to approve the extension of Summit Strategies Investment Consulting Contract for 5 yrs, seconded by Mr. Schneider. Dr. Tollen, Mr. Schneider and Mr. Carson voted yes and Ms Balmer, Ms Arrieta-Candelaria, Ms Garcia, Mr. Thompson, Mr. Cotham, Mr. Shelton voted no therefore the motion failed.

Mr. Cotham made a motion to approve the extension of Summit Strategies Investment Consulting Contract for 3 yrs, seconded by Dr. Tollen and passed unanimously by the Board.

6. Discussion and action on presentation of timeline of pension administration system implementation by Pension Technology Group as presented by John Reidy.

Mr. Reidy gave a marketing overview of what PTG can do for the fund. Mr. Reidy stated that they have been the only company that has done a PERA conversion successfully. Director Grossman wanted the okay to continue developing the scope and bring a contract to the board for the March meeting. There was no formal vote on any other item related to PTG

Chairman Villanueva requested to move item 13 before item #7, with no objections the item was moved

13. Discussion and action on the current professional advisors and contract expirations.

Director Grossman presented a spreadsheet with all current vendor contracts and advised that two will be going out for RFP this year. The first is Buck consultants and the other is Moss Adams. The spreadsheet will be given to the board on a monthly basis and updates will be provided with any changes.

No action

Mr. Thompson and Ms Arrieta-Candelaria depart at 3:33 pm

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7. Discussion and action on presentation of building a new website to allow education of members, social media, and replace obsolete platform as presented by Erin Powers.

Director Grossman advised the board the need to be more proactive to the members including the retirees and active members. This would be done through the website but since the current fund's website is not supported and out of date a new site would need to be designed. To build a new website it would cost \$6,000.00 and to add a quarterly newsletter to the members would add an additional \$380-\$475 a quarter. If the current website was kept and we sent out the newsletters quarterly the cost would be around \$2400. Therefore getting a website and placing the newsletter on the website would be cheaper than keeping the old website and sending the quarterly newsletters.

After careful discussion and due consideration, Mr. Schneider moved to approve building a new website to allow education of members, social media, and replace obsolete platform, seconded by Mr. Cotham and passed unanimously by the Board.

8. Investment Performance Review for period ending December 31, 2015 and updated as presented by Ms. Melissa Anne Galla of Northern Asset Management

Ms Melissa Anne Galla, the fund's new relationship manager began her presentation by reviewing an update of the organization. Northern Trust is a multi-asset class investment manager with over \$875.3 billion under management. Northern has about .5% of assets in the index strategies, which the fund is currently invested in. There is \$68.3 billion in the US fixed income business. There is no change in the team or philosophy at Northern.

The total portfolio is over \$100m. We have been in the fund since 1989 and the fund has returned 6.3% versus index at 6.27%. The 1989 date goes back when the Fire and Police were separate. The aggregate bond index fund has been positive over the past 10 years except for 2013.

9. Discussion and action on Borrowers approved for participation in Northern Trust's Global Securities Lending program

After careful discussion, due consideration, and at the recommendation of the Investment Committee, Dr. Tollen moved to approve the current list of borrowers in Northern Trust's Global Securities Lending program, seconded by Mr. Cotham and passed unanimously by the Board.

10. Investment Performance Review for period ended December 31, 2015 and update as presented by Ms Mary Gregory and Mr. Kevin Osten of Brown Advisory.

Ms Mary Gregory began the presentation stating that 2015 was a good year, which is a change from 2013 and 2014. Mr. Osten advised that growth has had a good year as compared to value. The fund has been invested with Brown since 2012 beginning with \$65,733,698 and after gain/loss, interest/dividends and contributions/withdrawals the ending portfolio value is \$78,419,081.

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Brown has ½ institution and ½ private clients and the large cap growth strategy asset is over \$15.6 billion. This strategy is closed to new clients and has been for over a year. The team is very stable and the newest analyst is Adi Padva who handles the Industrial & Basic Materials. Brown tries to add one or two people to the team each year.

Brown's strategy has not changed, they believe in a concentrated portfolio of companies (less than 40 names). The strategy has companies with sound, sustainable business models which have the potential to deliver attractive risk-adjusted returns over time. These are growth companies that can sustain earnings growth rate of 14% or greater over a full market cycle.

The portfolio's performance as of YTD is 7.55% net of fees as compared to the benchmark at 7.32 %, however since inception Brown has returned 10.98 net of fees as compared to the benchmark of 13.43%.

11. Investment Performance Review for period ended December 31, 2015 and update as presented by Dr. Robert Tollen regarding Metropolitan Real Estate Global III and Global V Funds.

Dr. Tollen gave the board the update for Metropolitan.

They have been in business for 13 years and have around \$3b in capital commitments. They focus on small niche type managers in the value add opportunistic space. Two years ago Metropolitan sold to Carlyle Group. Carlyle has \$188b under management and Metropolitan is a very small part of it at \$3b. Initially there were three subsidiaries under Carlyle but in the past several weeks DGAM was closed due to losing clients and had no progress. There is \$40b in real estate divided into two subsidiaries.

Metropolitan has a team of 14 people, of which 7 have voting rights. The only departure was Bob Burk, one of the founders, who retired. Metropolitan then brought in Sarah Schwarzschild. Their philosophy is to invest at or below long-term replacement cost. Focus on strategies that can create income growth by renovating, repositioning and re-leasing properties and they have a high focus on property performance. Some of the investment themes and strategies are post-correction balance sheet issues that are still being resolved, product changes due to shifting demand characteristics and accommodation of capital market inefficiencies.

Global III portfolio has 86% of the capital called and it's invested in 34 different funds. The current performance is at 1.3x multiple and a 10.1% IRR. Metropolitan expects it to rise to a 1.5x multiple and 10.5% IRR. The portfolio is divided 30% rental apartments, 17% office, 28% Mezzanine, and 12% industrial with little in retail. Approximately 70% is invested in the US and 30% in International.

Global V portfolio has a split of 60-40 Domestic vs. International investments. There is 76% in equity type strategies and 24% in Debt strategies. There has been 70% of the funds called and 33% of the El Paso Firemen and Policemen's Pension Fund investment has been returned. Currently there is a 1.2x multiple along with a 10.1% IRR. They believe it should reach 1.6x multiple with an IRR of 13%.

12. Presentation and review of 2015 Year End Investment Performance, as presented by Dr. Tollen.

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Dr. Tollen gave the board the update and review of 2015 Year End Investment Performance. The first half of the year, International stocks and Emerging markets were doing better than US stocks, however there was currency depreciation due to concerns of slowing growth in China. The second half of the year the International markets and EM sold off which was driven by currency devaluation. The Brazilian Real was down 45%. Summit continues to underwrite the case for Emerging Markets. The El Paso Firemen and Policemen's Pension fund has an Emerging Market weight which has cost the fund on returns for the past 3 to 5 years. Currently the Emerging markets PE's are at 10 and 11. It's lower than it was during the global financial crisis in 2008 and 2009. Historically when it's at this level the subsequent returns are typically greater than 15% over the next couple of year periods.

An area that currently does not affect the fund is MLP's. However, some of the members of the investment committee will be going on a due diligence trip to possibly add this as a new investment. MLP's were down 30-35% in 2015. The cause was due to the concern of leverage and the ability of the MLP to service the debt. The second was that future growth was priced at 0. Summit believes that future growth, after looking at announced future projects will be 3% to 4%. This data is compiled from announced projects through the major MLP's.

MLP's are down 12% year-to-date. This is due to a fear of bankruptcy or renegotiation of the current contractually based revenue streams. Historically the only time you can renegotiate the contract is when you go through bankruptcy.

The best place to be in 2015 was large cap growth stocks. There were 5 companies that drove 50% returns for the total volume return of the index. Small Cap Value did not work in 2015 and Small Cap Growth outperformed value by 13%. International growth outperformed value by 10%. When growth outperforms value the fund does not perform as well since it has a value bias. It should be noted that value has outperformed growth over the long period of time.

Mondrian underperformed in 2015 but has shown improvement December 2015 and January 2016 by outperforming their benchmark which shows value beginning to work in 2016.

The current asset allocation has an overweight in Large Cap US equities and fixed income which offsets the underweight in our exposure to private equity and private real assets.

The total return for the fund was 57 bps for 2015, almost 50bps more than our benchmark. This value came from the managers. The fund was still in the top 3rd of public funds during 2015. Even though we did not make our assumption return the fund was still better than 2/3 of the public fund universe.

Summit feels that the funds US Equity composite are well positioned but Brown will be monitored for performance returns.

Under International Equity, Mondrian and DFA underperformed. DFA underperformed by 5.6% as compared to the benchmark in 2015. DFA has underperformed due to their value bias. DFA has not outperformed their benchmark since inception and will be monitored and addressed in the early part of 2016.

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Fixed income was down and WAMCO was the greatest detractor at -3.2% as compared to the benchmark.

2015 was a good year for private equity at 5.46% and the real asset was returned 11%. Private equity may be off a little do the lag in evaluation.

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

None

15. Report of Executive Director.

Submitted Written Report

Director Grossman advised the board on the Forward Drop and since it has been passed by the members the Director will bring it in front of the City Council on March 22, 2016. Director Grossman feels that all council members are on board and feel this is good for the fund and city.

16. For Notation:

Informational Material For Review. No Action Required.

A. Service Retirement(s)

17. Adjournment.

Dr. Tollen moved to adjourn seconded by Mr. Cotham and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 5:12 p.m.



Chairperson



Secretary