

**EL PASO FIREMEN & POLICEMEN'S PENSION FUND**  
**REGULAR MEETING**  
**Wednesday, July 20, 2016 at 1:00 PM**  
**El Paso Firemen and Policemen's Pension Fund Office**  
**909 East San Antonio Avenue, El Paso, Texas 79901**

**MINUTES**

---

**TRUSTEE MEMBERS PRESENT**

**Fire Division:**

Chief Ricci Carson  
Lieutenant Paul Thompson  
Chief Jerry Villanueva

**Police Division:**

Lieutenant John Schneider  
Sergeant JD Cotham

**Mayoral Appointments:**

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

**City Manager Appointments:**

Ms. Terri Garcia

**OTHERS PRESENT**

Mr. Tyler Grossman – Executive Director  
Ms. Christina Ramirez – Deputy Executive Director  
Ms. Lena Ellis – CFO  
Mr. Chris Steward – Pyramis (Fidelity Institutional Asset Management)  
Mr. Warren DeKinder – INTECH Investment Management  
Mr. Kory Hoggan – Moss Adams  
Mr. Aaron Hamilton – Moss Adams  
Mr. David Kent – Buck Consultants  
Mr. Robert Goss – Ice Miller (via teleconference)

**TRUSTEE MEMBERS ABSENT:**

Sergeant Sean Shelton  
Ms. Judy A. Balmer

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
July 20, 2016 - 1:00 P.M.

2

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. Reading and approval of the Minutes from the previous Regular Board Meeting held June 22, 2016.

*Dr. Tollen moved to approve the minutes of the Regular Board Meeting held June 22, 2016, seconded by Mr. Carson and unanimously passed by the Board.*

Consent Agenda

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

1. Internal Financial Statements for month ending June 30, 2016.

Northern Trust Financial Statements for month ending June 30, 2016.

2. Expense Reports for the month ending June 30, 2016.

3. Approve Pension Payrolls:

Fire	\$2,686,287.53
Police	\$3,759,742.99

4. Payments to Service Providers

A. Salena Karam Ayoub – thru 5/31/2016	\$941.62
B. Cooke & Bieler (Small Cap) – 1 <sup>st</sup> Q2016	\$23,531.85
C. Cooke & Bieler (Large Cap) – 1 <sup>st</sup> Q2016	\$88,730.36
D. Ice Miller – April 2016	\$176.40
E. Legislative Consultants – June 2016	\$5,000.00
F. Mondrian – 1 <sup>st</sup> Q2016	\$153,397.65
G. Moss Adams – Progress Billing 2015 Audit	\$24,800.00
H. The Northern Trust Company – 1 <sup>st</sup> Q2016 (Quantitative)	\$9,867.44
I. Sheehan Phinney – Thru April 30, 2016	\$15,136.50
J. Strasburger & Price, LLP – April 2016	\$8,175.00
K. William Blair – 1 <sup>st</sup> Q2016 (Sml Cap Growth)	\$64,392.52
L. William Blair – 1 <sup>st</sup> Q2016 (Sml Cap Value)	\$105,839.96

---

Reports and recommendations of Committees

1. Discussion and action on the commitment of \$9,000,000 to Gamut Investment Fund, as approved and recommended by Investment Committee.

Speaking on behalf of the Investment Committee, Dr. Tollen explained that the Committee did not accept the Gamut investment; therefore they have no recommendation to bring to the Board.

Unfinished Business

1. Discussion and action on El Paso Firemen & Policemen's Pension Fund credit card and internet accounts.

Mr. Grossman explained that after researching corporate credit cards as previously requested by the Board, he found that they require more spending than the Fund currently does on a monthly basis. Therefore Mr. Grossman recommended the following procedure change to the Board: the reward points earned on the current business credit card will be used to purchase trustee airline flight travel first prior to charging a flight to the business credit card. An update of rewards points and credit card purchases will be given to the Board each month. The rewards points will only be used for trustee travel. Also although the business credit card is linked to Mr. Grossman's social security number, it does not affect his credit.

*After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to keep the current business credit card and use the procedure explained by Mr. Grossman to use the reward points to pay for Trustee travel, seconded by Dr. Tollen and passed unanimously by the Board.*

New Business

1. Investment Performance Review for period ended December 31, 2015 and update as presented by Chris Steward from Pyramis (Fidelity Institutional Asset Management).

Mr. Steward began by thanking the Board for their 14 year relationship with Pyramis. He said that there was very little change with the team. They did however change their name from Pyramis to Fidelity. The process has not changed. Fundamental research is the core of the process. Stock selection is the key. We look for a long-term time horizon with an average holding period of a little under two years. With portfolio construction, time is spent on figuring out where the risks are in the portfolio and what we want to hold. Top down asset allocation is used. We have remained relatively neutral in the top three major areas Japan, Europe, and the Pac Basin. These areas have been very volatile with macro trends driving relative returns. One year performance was very negative. Relative return was positive. At end of June 2016, total net assets totaled \$97M. If invested against benchmark, that would have yielded \$82M. Since the global financial crisis, the US has outperformed most international markets. Over time, the international markets will outperform or come back in line with a longer term performance.

There was some discussion from the Board on the Fund's asset allocation. They feel that the Fund should look into moving out or lowering the International Growth component of the Fund's Asset Allocation.

2. Investment Performance Review for period ended December 31, 2015 and update as presented by Warren DeKinder from INTECH Investment Management.

Mr. DeKinder thanked the Board for their ten year relationship with INTECH. He told the Board that although INTECH has performed well in the past ten years, he feels that they can do better. Ten years ago, the Fund gave INTECH \$64M to manage. The Fund has contributed a more than \$41M over that time period. \$67.4M has been pulled out. The account has appreciated by \$106M and today has roughly over \$144M. If this amount had been invested passively in the index, the Fund would have \$7.7M less.

INTECH's U.S. Enhanced Plus takes the S&P 500 and reweights it to their liking. INTECH looks at how stocks move relative to each other. Then those stocks are reweighted to gain a more efficient portfolio. INTECH has over 317 securities in its portfolio. This process gravitates to the smaller names within the benchmark that are demonstrating uncorrelated volatility. Each week when the portfolio is rebalanced, the profit in the stock that went up that week is reinvested into the stock that went down. A net trading gain is realized. Tracking error is used to control the risk relative to the benchmark.

The forecast is slow growth and mediocre equity returns. The equity market is carrying too much debt both in the US economy and globally. Global economies are slowing.

3. Discussion and action on amending El Paso Firemen & Policemen's Staff Plan and Trust, Section 9.03, to show reference to Code 415 provisions.

Mr. Grossman explained that the Fund did receive its favorable determination letter for the Staff plan; however the caveat is that the attached Resolution must be adopted. The Resolution will not change the plan. It is an IRS mandate that is required to be in the plan. The attached Resolution will replace Section 9.03.

*After careful discussion and due consideration, Mr. Ortega moved to approve the Resolution drafted by Ice Miller regarding Section 9.03 to show reference to Code 415 provisions, seconded by Ms. Arrieta-Candelaria and passed unanimously by the Board.*

4. Discussion and action on Financial Statements as presented by Kory Hoggan from Moss Adams and approved by the Audit and Risk Management Committee.

Mr. Hoggan began by explaining that he is the engagement reviewer or senior manager on the job. Aaron Hamilton is the audit senior on the job. He is the one that does the audit test work and field work directing the testing. Both will be presenting the results of the 2015 audit and financial statements. Audit field work was completed in early May. Last month the draft financial statements were reviewed with the Audit Committee in great detail. The audit report will be issued as an unmodified opinion for the financial statements. This is a clean opinion.

Mr. Hamilton then went over the key areas of the audit approach to get to this conclusion. The areas of audit emphasis include: Internal controls, management estimates, investments, contributions, participant data, benefit payments, actuarial assumptions and methods, and financial statement footnotes and Management Discussion and Action. After this review, the audit opinion is derived.

Mr. Hoggan went over the various required communications that need to be presented to the Board. He also summarized some of the financial highlights. Benefit payments are increasing year after year. This should be compared to contributions coming into the Fund. Contributions have remained pretty consistent. Investments did decline in 2015 compared to previous years. These factors led to the negative net change in financial position. There is a new accounting pronouncement, GASB No. 72, which is effective December 31, 2016. It relates to the reporting of the Fund's investments and their Fair Value. Each investment will have to be evaluated and categorized as to how they are valued.

*After careful discussion and due consideration, Dr. Tollen moved to approve the Financial Statements as presented by Kory Hoggan of Moss Adams, seconded by Mr. Schneider and passed unanimously by the Board.*

Ms. Arrieta-Candelaria absented herself at 2:51 p.m.

5. Discussion and action on the El Paso Firemen & Policemen's Pension Fund five (5) year experience study, mandated by the State of Texas, as performed and presented by Buck Consultants, David Kent.

Every five years the state requires an Experience study from the Fund. The following metrics are required: Actuarial Value of Assets, Actuarial Accrued Liability, Net Actuarial Gain or Loss, Funded Ratio and Funding Period. The Actuarial Accrued Liability is the present value of all the benefits you expect to pay in the future. For retirees, this is an easy calculation. We need an assumption that estimates when retirees are going to die as well as an assumption for how long the assets that will be used to pay those benefits will last as well as what interest those assets will earn. For actives, these assumptions are more in-depth. The following assumptions are evaluated: Demographic Assumptions which include Mortality, Service Retirement, Disability, and Termination and Economic Assumptions which include Rate of Return, Inflation, and Pay increases. Actual experience is compared to expected experience as well as long-term trends or estimates of what we think are going to happen in the future to recommend changes to assumptions as needed. These new assumptions are then implemented into the January 1, 2016 Actuarial Valuation.

The Mortality Assumption Recommendation will be based on the new RP-2014 with Blue Collar adjustment. The impact for this recommendation will increase liability. For disabled members, the recommendation is to use the RP-2014 table for disabled lives. For active members, the recommendation is to use RP-2014 employee tables with Blue Collar adjustment. The recommendation for mortality improvement is to use Scale BB for healthy mortality. This will increase liability.

Retirement rates are increasing. People are working longer. Both Tier I and Tier II rates will be extended to match experience. This will decrease liability. The disability assumption will be brought down slightly to reflect experience.

Terminations are those members who terminate before retirement. In public safety, there are not a large number of people who do terminate because it is normally a career path. For both Police and Fire, the assumptions recommendation is to reduce the rates based on experience.

For economic assumptions a best-estimate standard is utilized. Inflation is at historic lows. The proposed rate of inflation will go from 3.5% to 3%. Nominal and real rates are based on Compound (Geometric) Returns over projected periods. The 7.75% investment return assumption can be maintained. The real rate of return will go from 4.25% to 4.75%. Salary increases will be lowered based on experience. This will decrease liability. The Overtime assumption will remain the same for Fire at 4%. The overtime for police will increase from 8% to 10% based on experience.

*After careful discussion and due consideration, Mr. Ortega moved to approve the experience study and updated assumptions as presented by David Kent of Buck Consultants, seconded by Mr. Cotham and passed unanimously by the Board.*

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

None.

7. Report of Executive Director.

See submitted Written Report

8. For Notation:

Informational Material For Review. No Action Required.

- A. Service Retirement(s)
- B. Early Retirement
- C. Death of member(s)
- D. Cost of Living Adjustments
- E. Refund of Contributions

9. Adjournment.

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
July 20, 2016 - 1:00 P.M.

---

*Mr. Ortega moved to adjourn seconded by Mr. Schneider and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 3:45 p.m.*

\_\_\_\_\_  
Chairperson

\_\_\_\_\_  
Secretary