

**EL PASO FIREMEN & POLICEMEN'S PENSION FUND**  
**REGULAR MEETING**  
**Wednesday, October 19, 2016 at 1:00 PM**  
**El Paso Firemen and Policemen's Pension Fund Office**  
**909 East San Antonio Avenue, El Paso, Texas 79901**

**MINUTES**

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**TRUSTEE MEMBERS PRESENT**

**Fire Division:**

Chief Ricci Carson  
Chief Jerry Villanueva

**Police Division:**

Lieutenant John Schneider  
Sergeant JD Cotham  
Sergeant Sean Shelton

**Mayoral Appointments:**

Ms. Carmen Arrieta-Candelaria  
Dr. Robert Tollen

**City Manager Appointments:**

Ms. Terri Garcia

**OTHERS PRESENT**

Mr. Tyler Grossman – Executive Director  
Ms. Christina Ramirez – Deputy Executive Director  
Ms. Lena Ellis – CFO  
Ms. Suzanna Sanchez – Invesco  
Mr. De'Juan Collins – Invesco  
Mr. Steve Moen – Partners Group

**TRUSTEE MEMBERS ABSENT:**

Lieutenant Paul Thompson  
Mr. Presi Ortega  
Ms. Judy A. Balmer

A quorum was not present at 1:00 pm; therefore Item 1 under New Business was presented prior to the establishment of a quorum (no action was required for this item).

Ms. Arrieta-Candelaria arrived at 1:08 pm.

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 1:24 p.m.

2. Reading and approval of the Minutes from the previous Regular Board Meeting held September 21, 2016.

*Dr. Tollen moved to approve the minutes of the Regular Board Meeting held September 21, 2016, seconded by Mr. Schneider and unanimously passed by the Board.*

Consent Agenda

*Ms. Arrieta-Candelaria moved to approve the Consent Agenda seconded by Dr. Tollen and passed by the Board.*

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

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

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

3. Approve Pension Payrolls:

|        |                |
|--------|----------------|
| Fire   | \$2,855,770.64 |
| Police | \$3,566,834.89 |

4. Payments to Service Providers

|   |              |
|---|--------------|
| A. Arthur J. Gallagher – Fiduciary Insurance (annual premium) | \$26,822.00  |
| B. Haynesboone - thru 07/31/2016                              | \$773.73     |
| C. Ice Miller – thru 07/31/2016                               | \$1,368.54   |
| D. Legislative Consultants – September 2016                   | \$5,000.00   |
| E. Sheehan Phinney – thru 08/31/2016                          | \$6,010.00   |
| F. William Blair (Small Cap Value) – 2 <sup>nd</sup> Q2016    | \$109,552.84 |
| G. William Blair (Small Cap Growth) – 2 <sup>nd</sup> Q2016   | \$68,464.43  |

Reports and recommendations of Committees

Unfinished Business

New Business

1. Investment Performance Review for period ended December 31, 2015 and update as presented by Mr. Brooks Monroe of INVESCO Real Estate.

Ms. Suzanna Sanchez and Mr. De'Juan Collins presented for Invesco. Mr. Brooks Monroe was not present. The total assets under management to date under Invesco Real Estate are \$71.3B. There have been no changes in the Invesco Real Estate team as a whole as well as on the portfolio management side. As of the second quarter of 2016, the gross assets of the fund are \$11.1B with a net asset value of just over \$8B. The fund is greatly diversified across markets, asset classes, and assets in particular. The overall portfolio is 92.4% leased to date with the core portfolio at 95.5% leased. The leverage levels of the fund are at 25.9% Loan-to-Value. This puts the fund in a great position to defend against market cycles or valuation fluctuations. The weighted average lease term of the fund is just over six years. This is contractual leases with investment grade tenants. There is less than 10% of rollover exposure in any given year throughout 2022. This means you have contractual income and also income that carries rent increases backed by investment grade tenants. These strong fundamentals of the fund make way for Net Operating Income (NOI) of just over 8% during 2016. This is the third consecutive year of 8% growth. Over the long-term, NOI growth for commercial real estate is between 3 and 4%. A reversion back to the long-term average NOI growth is expected at some point in time. Since inception, Invesco Core Real Estate Fund has delivered 7.51% total return versus 6.78% over the ODCE index. Going forward and especially in 2016, valuations for commercial real estate are expected to remain relatively flat. With the implied cap rate of 4% coupled with NOI of 8%, an 11% to 12% return for 2016 is expected.

Ms. Garcia arrived at 1:28 p.m.

2. Investment Performance Review for period ended December 31, 2015 and update as presented by Mr. Steve Moen of Partners Group.

The latest addition to the firm was the opening of the office in downtown Denver. Employees in the US were previously located in New York and San Francisco. A campus facility will be built between Boulder and Denver. This was done to build a long-term culture for the firm's employees. The firm has grown to over 900 employees in order to properly execute investments. Over \$10B has been invested over the past year across asset classes: private equity, real estate, infrastructure and debt. About 55% of that is invested in a direct basis, 25% is invested in a secondary basis, and the remaining 20% is invested in other funds. The market overall is continuing to see a low interest rate environment. This is attracting investors looking for yield whether in real estate, infrastructure or other assets. This is keeping cap rates at a lower level. Risk tolerance has decreased which has decreased transaction volume. This has created an attractive buying opportunity on the secondary side. The residential market in Europe has offered stable rent growth. The shift in traditional brick and mortar retail to on-line retail has driven logistic assets as the new retail. Despite this, there is a gap in the cap rates you can achieve from logistics assets versus a traditional retail store. In the real estate secondary markets there are more people looking to sell assets than there are dedicated pools of capital looking to buy assets. It is also a growing market. It is less mature than private equity. Real Estate Secondary's, with a sizeable tail-end liquidity opportunity, are a strategic focus of the firm. The

2011 and 2014 programs are continuing on track with investment and distribution pace. The 2011 program has distributed close to 40% and the 2014 program is just wrapping up getting invested. The 2008 program has had slower distribution and is currently at about 62%. There has been strong performance in Europe and North America. Asia and Latin America has experienced a performance lag. In 2016, cash flows across the three funds will net \$10M going out. In 2017, that will shift with \$4.4M coming into the Fund. The net return since inception for all three funds is 8.7%.

3. Discussion and action on amending Vernon's Texas Civil Statute 6243b.

This pertains to the argument that City Charter trumps State Law. This added "not-withstanding clause" will allow the City to go above the 18% contribution rate only in this case. This would only apply if the Fund were to go over the 40-year amortization period in unfunded accrued liability. This allows the City to increase contributions in the future if it becomes necessary.

*After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to approve the proposed changes outlined to Sections 14a and 14b of Vernon's Texas Civil Statute 6243b and removing the specific GASB statement number and changing it to read "current Governmental Accounting Standards", seconded by Dr. Tollen and passed unanimously by the Board.*

*Proposed:* "Sec. 14A. CONTRIBUTION INCREASES. (a) Not withstanding any other provisions of law, municipal charter, or ordinance to the contrary. If at any time a qualified actuary that meets the requirements of Subdivision (1), Subsection (b), Section 10A of this Act, determines that the total contribution rate, expressed as a percentage of wages, is insufficient to amortize the unfunded actuarial accrued liability, as defined under the Governmental Accounting Standards Board Statement No. 67 25, over a 40-year period:"

Sec. 14B. CONTRIBUTION DECREASES. (a) If at any time a qualified actuary that meets the requirements of Section 10A(b)(1) of this Act determines that the total contribution rate, expressed as a percentage of wages, is sufficient to amortize the unfunded actuarial accrued liability, as defined under the Governmental Accounting Standards Board Statement 67 25, over a 25-year period:

*Approved:* "Sec. 14A. CONTRIBUTION INCREASES. (a) Not withstanding any other provisions of law, municipal charter, or ordinance to the contrary, if at any time a qualified actuary that meets the requirements of Subdivision (1), Subsection (b), Section 10A of this Act, determines that the total contribution rate, expressed as a percentage of wages, is insufficient to amortize the unfunded actuarial accrued liability, as defined under the current Governmental Accounting Standards Board Statement No. 67, over a 40-year period:"

Sec. 14B. CONTRIBUTION DECREASES. (a) If at any time a qualified actuary that meets the requirements of Section 10A(b)(1) of this Act determines that the total contribution rate, expressed as a percentage of wages, is sufficient to amortize the unfunded actuarial accrued liability, as defined under the current Governmental Accounting Standards Board Statement 67, over a 25-year period:

4. Discussion and action on approval of due diligence trip for Baillie Gifford.

Mr. Grossman explained that a due diligence trip to visit Fidelity International Growth was necessary because of Investment Policy and to compare their performance with the industry. In the process, the team will also visit Baillie Gifford International Growth to compare the funds and perhaps switch managers if any concerns arise. While the team is visiting Baillie Gifford they will also perform due diligence on the Fund's emerging market portfolio as well. December 4 – 8, 2016, has been picked for this trip to visit Fidelity in Rhode Island and Baillie Gifford in Scotland. This trip will go over the \$3,500 per person limitation outlined in the travel policy and will require out of the country travel which both require board approval. The Fund would also like to upgrade the tickets from Coach to Business class for the segment of travel to and from Boston and Scotland. This change is requested because of the length of the flight and the ability to be rested for the meeting being held. The cost increases about \$1,000 per person for this change. The team will consist of Dr. Tollen, Mr. Thompson, Mr. Ortega, Mr. Grossman and Mr. Ralph.

*After careful discussion and due consideration, Mr. Schneider moved to approve the due diligence trip to Baillie Gifford with the upgraded cost, seconded by Ms. Arrieta-Candelaria and passed unanimously by the Board.*

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

None.

6. Report of Executive Director.

See submitted Written Report

7. For Notation:

Informational Material For Review. No Action Required.

A. Service/BackDROP Retirement

B. Deferred Retirement

C. Death of member(s)

D. Cost of Living Adjustments

E. Refund of Contributions

8. Adjournment.

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
October 19, 2016 - 1:00 P.M.

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*Mr. Schneider moved to adjourn seconded by Ms. Arrieta-Candelaria and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 2:28 p.m.*



Chairperson



Secretary