

**EL PASO FIREMEN & POLICEMEN'S PENSION FUND**  
**REGULAR MEETING**  
**Wednesday, January 18, 2017 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  
Lieutenant Paul Thompson

**Police Division:**

Lieutenant John Schneider  
Sergeant JD Cotham  
Sergeant Sean Shelton

**Mayoral Appointments:**

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

**City Manager Appointments:**

Ms. Terri Garcia  
Ms. Judy A. Balmer

**OTHERS PRESENT**

Mr. Tyler Grossman – Executive Director  
Ms. Christina Ramirez – Deputy Executive Director  
Ms. Lena Ellis – CFO

**TRUSTEE MEMBERS ABSENT:**

None

EL PASO FIREMEN & POLICEMEN'S PENSION FUND

January 18, 2017 - 1:00 P.M.

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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. Reading and approval of the Minutes from the previous Regular Board Meeting held December 14, 2016.

*Dr. Tollen moved to approve the minutes of the Regular Board Meeting held December 14, 2016, seconded by Mr. Carson and unanimously passed by the Board.*

Consent Agenda

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

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

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

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

3. Approve Pension Payrolls:

Fire	\$2,616,705.75
Police	\$3,620,026.23

4. Payments to Service Providers

A. Salena Karam Ayoub – thru 11/30/2016	\$507.50
B. Legislative Consultants – December 2016	\$5,000.00
C. Mondrian – 3 <sup>rd</sup> Q 2016	\$157,877.06
D. Powers Mediaworks, LLC thru 11/30/2016	\$6,000.50
E. Sheehan Phinney – thru 10/31/2016	\$7,061.06
F. Strasburger & Price, LLP thru 08/31/2016	\$431.25
G. Strasburger & Price, LLP thru 11/30/2016	\$2,156.25

Reports and recommendations of Committees

Unfinished Business

New Business

1. Investment Performance Review for the period July 1, 2016 to September 30, 2016 and update as presented by Eric Ralph from Summit Strategy.

Mr. Ralph began his discussion with the Investment Performance Review of the Fund ending September 30, 2016. He explained that he would be touching on only a few managers particularly those that have been underperforming. Then he will switch to how the year ended and also the forward looking expectations.

After the election the market was very positive; however there are some bigger issues to deal with as a country. The US will see its population shift from one in seven people being over 65 today to one in five in 2030, a substantial increase. Other countries and China will also be affected. This aging population could become an issue. Government debt has increased since the Global Financial Crisis. US equities have seen a PE multiple expansion but no growth. This means that return expectations are modest for US equities. International equities have the ability to perform well for the Fund going forward. As of September 30, 2016 the total fund returned 6.67% and the Fund is about 30bps ahead of the benchmark. The managers that are adding value are small cap, developed international and emerging market managers, real estate, and real asset managers. Those managers not adding value are the domestic large cap managers. Intech underperformed over the one year period. There was a large change in the market and their quantitative process missed this large shift. This should reverse itself out over time. Brown has also struggled as an active manager. The Fund should review their investment process and make sure that there is still a level of confidence with Brown.

The Fund has a 7.19% (preliminary) return for the calendar year of 2016. On a five year basis the Fund is at 8.22% return. The Funds Small Cap managers in aggregate outperformed the benchmark by 5%. Internationally the Fund is ahead about 1%. Bank loans have dramatically helped the Fund in fixed income. The Fund is up 4.66% in Fixed Income and 2% ahead of the benchmark.

In 2016, the total return for US large equities is 12.1%, small cap were at 21.3%, International developed were at 1%, and emerging markets were at 11.2%. Small caps are up 30% in their PE basis. Earnings are down. Earnings are flat to down and prices are going up. Value investing has not worked for the past five years but that changed in about March of 2016. Real Assets (MLPs) were up 18.3% for the whole year. There is a potential for 7 to 10% return over the next several years. Real estate rates were up 8.6% and commodities were up 11%. Overall 2017 will be a good year for equity returns. Growth is going up. Developed International and Emerging Markets are better than the US. Oil will remain the same and the dollar will continue to strengthen. Policy shifts are currently being reflected in markets. We need to see how this will play out. Growth continues to be a focus given policy changes and uncertainty.

Mr. Shelton absented himself at 1:30 p.m.

Ms. Garcia arrived at 1:34 p.m.

2. Discussion and action on the commitment to International Growth as approved and recommended by the Investment Committee.

Dr. Tollen explained that the Investment Committee met and their primary item on the agenda was whether the Fund should stay with their \$70M commitment in International Growth with Fidelity or move to Baillie Gifford. The committee all came to a consensus to move the Fund's investment in International Growth to Baillie Gifford. Baillie Gifford has a better track record of outperforming their benchmark with no additional risk. The due diligence committee felt Fidelity had a really good shop but in the end Baillie Gifford was a better fit.

*After careful discussion and due consideration and at the recommendation of the Investment Committee, Mr. Ortega moved to approve moving the Fund's commitment in International Growth from Fidelity to Baillie Gifford's standard EAFE product contingent on successful vetting by legal counsel, seconded by Mr. Schneider and passed unanimously by the Board.*

Dr. Tollen also noted that because the Fund already has an investment in emerging markets with Baillie Gifford, Baillie Gifford will give the Fund a discount on management fees with this move to International Growth.

3. Discussion and action on Communication of Internal Control Related Matters, Communication with those charged with Governance, and Communication on FY 2016 Audit as presented by Kory Hoggan from Moss Adams LLP.

Mr. Hoggan discussed the required communications for the upcoming audit of 2016. He also provided his contact information to the Board if they have any questions or comments regarding the audit. The Auditors responsibilities include: reporting on Financial Statements, review of internal controls and processes, and staff is interviewed. Any material weakness in control structure will be brought to the Board's attention. Management must establish the internal controls and prepare the financial statements. Three separate reports will be provided at the end of the audit: Report of Independent Auditors on financial statements, Report to Those Charge with Governance (report to Board on findings and how audit went), and a Report on Internal Controls. The key audit areas are: internal controls, investments especially alternative investments, a review of the actuarial valuation and total pension liability, testing of census data and member eligibility, and recalculation of benefit payments. Auditors will perform tests on revenues and expenses. They will request independent confirmations from Investment managers on the valuations of investments and earnings. They will also consider fraud and the risk of fraud. Effective this year, the audit will also include GASB 72. New standard disclosures will be added related to investments and the fair market value of these investments. Investment holdings will categorized in three different input levels.

4. Discussion and action on clarification of disability language in the Plan Document reference Section 11.

This issue came up because we questioned whether or not we were labeling our disability retirement's correctly on the member's tax form. Attorney Cleveland explained that the Fund's

procedure will not be changing; however the plan document should be made clear to match our procedure. Attorney Cleveland recommended Option 3 as the correct Plan Document language as it does not change the Funds benefit structure but merely explains in detail how the process is completed.

*After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to approve the proposed changes under Option 3 to Section 11 of the Plan Document clarifying the disability language, seconded by Ms. Balmer and passed unanimously by the Board.*

5. Discussion and action on Disability Pension Recall Procedure.

The Benefits committee met earlier today regarding the Disability Pension Recall Procedure; however it was not finalized. The committee will meet again at a later date. No Action Taken.

6. Discussion and action on Executive Director's 2016 performance review.

*Mr. Cotham made a motion to enter into Executive Session for the purpose of discussing Item 6, Personnel Matters under Texas Government Code, Section 551.074, seconded by Ms. Garcia. Motion carried.*

*The El Paso Firemen & Policemen's Pension Fund Board of Trustees retired into Executive Session at 2:31 p.m. and returned to regular session at 2:38 p.m.*

No action taken.

7. Discussion and action on Executive Director authorizing emergency expenditures up to \$50,000 as defined in the Funds Purchasing Policy Section V(D)(1).

Mr. Grossman explained that there should be a contingency plan in place in case of a true emergency. This would allow the Executive Director to make a fix right away instead of having to wait to go before the Board. As is stated in the policy it is not to circumvent or to go around the policy it is purely in the meaning of a true emergency. Ms. Arrieta-Candelaria added that if a temporary fix was done, the fix should be ratified by the Board at the next meeting. Mr. Cotham would also like for the Board chairman to be notified of the emergency immediately. Ms. Arrieta-Candelaria recommended adding the following two sentences to the Purchasing policy at the end of paragraph V. Financial Policy D. Authorized Approvals 1.: The Executive Director shall notify the President of the Board to advise of emergency action. The Executive Director will place this item on the next available regularly scheduled board meeting for ratification.

*After careful discussion and due consideration, Ms. Arrieta-Candelaria moved to approve authorizing the Executive Director to make emergency expenditures up to \$50,000 with the two changes noted above, seconded by Dr. Tollen and passed unanimously by the Board.*

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

None.

9. Report of Executive Director.

See submitted Written Report

Mr. Cotham stated that he would be resigning as the Chair of the Management Development and Review Committee after the next committee meeting. He stated that he would keep his position as Chair of the Benefits Committee.


10. For Notation:

Informational Material For Review. No Action Required.

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

11. Adjournment.

*Mr. Ortega moved to adjourn seconded by Mr. Thompson and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 2:50 p.m.*

  
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Chairperson

  
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Secretary