

EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING
Wednesday, May 24, 2017 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 Jerry Villanueva
Lieutenant Paul Thompson
Chief Ricci Carson

Police Division:

Lieutenant John Schneider

Mayoral Appointments:

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

City Manager Appointments:

OTHERS PRESENT

Mr. Tyler Grossman – Executive Director
Ms. Christina Ramirez – Deputy Executive Director
Mr. Eric Ralph – Summit Strategies
Ms. Jessica Walton – Dimensional Fund Advisors
Mr. John Hertzner – Dimensional Fund Advisors
Mr. Jess Downer – Meketa Investment Group
Mr. Gerald Chew – Meketa Investment Group

TRUSTEE MEMBERS ABSENT:

Ms. Judy A. Balmer
Ms. Terri Garcia
Sergeant Sean Shelton
Sergeant JD Cotham

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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 1:01 p.m.

2. Reading and approval of the Minutes from the previous Regular Board Meeting held April 19, 2017.

Dr. Tollen moved to approve the minutes of the Regular Board Meeting held April 19, 2017, seconded by Ms. Arrieta-Candelaria 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 April 30, 2017.

Northern Trust Financial Statements for month ending April 30, 2017.

2. Expense Reports for the month ending April 30, 2017.

3. Approve Pension Payrolls:

Fire	\$2,731,910.93
Police	\$3,860,601.89

4. Payments to Service Providers

A. Salena Karam Ayoub – thru 03/31/2017	\$105.00
B. Fisher Broyles, LLC – thru 03/31/2017 (PIA)	\$630.00
C. Fisher Broyles, LLC – thru 03/31/2017 (General)	\$1,395.00
D. Legislative Consultants – April 2017	\$8,000.00
E. Moss Adams – Audit 12/31/2016 – progress billing	\$3,500.00
F. Meketa – January thru March 31, 2017	\$68,750.00
G. The Northern Trust Company – 1 st Qtr 2017 (Quantitative)	\$8,688.45
H. Powers Mediaworks, LLC – April 2017	\$1,664.00
I. Sheehan Phinney – thru 02/28/2017	\$7,144.00
J. Summit Strategies Group – 1 st Qtr 2017	\$58,335.00

Reports and recommendations of Committees

1. Discussion and action on the commitment of \$8,500,000 to Altaris Health Partners IV and Altaris Constellation Partners IV, as recommended by the Investment Committee.

Dr. Tollen spoke on behalf of the Investment Committee and explained that Altaris Health Partners IV is the main Fund Manager and Altaris Constellation Partners IV is a sort of side Fund. It holds money that has been committed to it. The Fund's total commitment would be allocated in a 4:1 ratio. Altaris Health Partners IV would receive 80% of the amount committed and Altaris Constellation Partners IV would receive the remaining 20% of that commitment. This overage fund will enable Constellation IV to hold a more concentrated portfolio and is expected to enable Altaris to access larger transaction without the need for third-party capital. This is a medical focused partnership investing in pharmaceuticals, medical devices, diagnostics insurance, and etc. In total there would be 12 to 14 companies that would be invested in over the life of the Fund.

After careful discussion and due consideration and at the recommendation of the Investment Committee, Dr. Tollen moved to approve the commitment of \$8,500,000 to Altaris Health Partners IV and Altaris Constellation Partners IV subject to the successful vetting by legal counsel, seconded by Mr. Ortega and passed by the Board.

2. Discussion and action on the commitment of \$8,500,000 to Vitruvian Investment Partnership III, as recommended by the Investment Committee.

Dr. Tollen again spoke on behalf of the Investment Committee and explained that Vitruvian Investment Partnership III is a follow on with two previous funds. Vitruvian II has a very solid internal rate of return. They invest in mid-sized European and British corporations. It is largely invested in the UK, and the Nordic areas (central and east central Europe and going North). This might be a good time for this investment in this area because Europe is on more solid footing than they were a couple of years ago. There are three options to choose in terms of fee structure and the carry: US Waterfall option, European Waterfall option, and a 50/50 Waterfall option. Meketa has recommended the US Waterfall based option. The fee structure is then a little fewer than 2% or 1.95 and the carry is 18.75%. This is less than some of the others we have invested in the past. The denomination of this investment will be in Euros.

After careful discussion and due consideration and at the recommendation of the Investment Committee, Dr. Tollen moved to approve the commitment of \$8,500,000 or its equivalent in Euros as of May 24, 2017 to Vitruvian Investment Partnership III utilizing the US Waterfall based fee structure option subject to the successful vetting by legal counsel, seconded by Mr. Ortega and passed by the Board.

Unfinished Business

New Business

1. Investment Performance Review for the period of January 1, 2017 to March 31, 2017 and update as presented by Eric Ralph from Summit Strategy.

Mr. Eric Ralph hi-lighted that in the trailing one-year returns Growth oriented assets had a very good year. In Fixed income type assets, leverage loans were the strong performer with a 9.7% return. Core Real Estate also did very well with a 7.4% return. Short-term growth prospects have picked up for the balance of this year with record levels of uncertainty due to central bank, political and economic influences. The market has exhibited low volatility. Equity Markets remain elevated. Emerging markets are the cheapest equity asset class. In fixed income there is still a low return environment. Credit spreads have compressed. Clients should reduce credit exposure. Inflation could be a potential impact going forward. Credit has had a great run. The Sharpe ratio for these asset classes has ranged from 1.4 to 1.8. Historically the average for these Sharpe ratios is 0.25. The Fund has received 5 times more return than should be expected for this given level of risk. This is now a good time to pare the Fund's credit exposure. Despite headlines suggesting that international markets would suffer under the Trump administration, economic data suggests that conditions have improved in all regions of the world.

On an attribution calendar thru the first quarter of 2017, the Fund returned 5.21% gross of fees. The benchmark was up 4.27% making the total valued added 0.94%. This came from manager Value added (0.85%) broadly across a number of asset classes. In the public fund universe, the Fund was at the eleventh percentile with a 5.21 return in the first quarter. In the trailing one year, the Fund is in the top third with an 11.67 return. The five year is back to median at a 7.69 return.

2. Investment Performance Review for period ended December 31, 2016 and update as presented by Ms. Jessica Walton and Mr. John Hertzler from Dimensional Fund Advisors.

Ms. Jessica Walton stated that the basics of Dimensional have not changed. DFA's focus is on thoughtful positioning of portfolios towards sources of higher expected returns and careful implementation keeping costs low with the goal of beating the markets over the long-term. Dimensional was founded in 1981. At the end of the first quarter, the Fund was at \$497B in global AUM. There has been one change of note. Co-founder David Booth for the last nine years has been Co-CEO with the understanding that at one point he would be stepping back. He is now Executive Chairman and Dave Butler has been promoted as Co-CEO. There is no change in philosophy. A 15-year study of US Mutual Funds showed that there were 2,758 mutual funds in existence. Only 43% of those mutual funds have survived with 17% outperforming their benchmark. With the Dimensional Fund, there have been 22 funds at the beginning of this 15 year period. All of these funds have survived with 86% outperforming their benchmarks.

Mr. Hertzler explained that this portfolio targets across 22 developed markets outside the US within the small value oriented segment of each of those markets. It is a highly diversified strategy with over 2,200 names in the portfolio and it has been around for a little over 20 years. It is structured based on systematic expected premiums: Market – Equity premium, Company Size – Small cap premium, Relative Price – Value premium, and Profitability high versus low profitability companies. The focus is on value securities within the small cap universe. Companies with the lowest profitability and higher relative price are excluded. Momentum is

incorporated into making buy and sell decisions. If a stock drops in price very quickly, the stock will not be bought until the momentum dissipates then it will become a candidate to buy in the portfolio. Dimensional efficiently balances expected premiums with the costs of turnover on a daily basis.

In 2016, the portfolio was up about 8% versus the index at 4.32%. Value had a very good year last year. Year to date as of April 30th, the return is at 10.46% and the index is at 11.42%.

3. Investment Performance Review for period ended December 31, 2016 and update as presented by Mr. Jess Downer and Mr. Gerald Chew from Meketa Investment Group.

Mr. Downer described the headline performance as of the 4th Quarter of 2016, \$180M total committed to date. \$91M has been drawn down for investments and fees. \$97M is outstanding in unfunded commitments that could be called down in future periods. \$36M has been distributed back which leaves an outstanding total fair value of \$77M. That translates to 11.6% net IRR since inception and a 1.2 times cash on cash multiple on a net basis.

4. Discussion and action on strategic planning session in 2017.

Chairman Villanueva explained that he would like to see if the Board would like to start the formal process to produce a 5 or 7 year strategic plan.

After careful discussion and due consideration, Mr. Ortega moved to start the process and find out the costs to begin a strategic planning session in order to produce a 1, 5, and 7 year Strategic Plan for the Fund, seconded by Mr. Schneider and passed unanimously by the Board.

Ms. Arrieta-Candelaria absented herself at 2:24 p.m.

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 Retirement(s)
- B. Service/Forward DROP Retirement
- C. Service/Back DROP Retirement

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- D. Proportionate Retirement (PRP)
- E. Death of member(s)
- F. Cost of Living Adjustments
- G. Refund of Contributions

8. Adjournment.

Mr. Ortega moved to adjourn seconded by Mr. Carson and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 2:43 p.m.



Chairperson



Secretary