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2019 ANNUAL REPORT

El Paso Firemen & Policemen's Pension Fund

Dear Members and Retirees:

The El Paso Firemen & Policemen's Pension Fund focused on investments in 2019. Many fronts happened when it comes to your Fund's investments and how the Board handles them. The Fund hired a new investment consultant, improved its investment policy, and began a more robust monitoring process. Investments are the life line of your Fund and their role of importance is immeasurable. This is why your Board of Trustees' focus so much of their time and effort assuring your investments are secure.

The first step in keeping your Fund secure was completing an extensive 6-month RFP process in order to hire an investment consultant. A special committee was formed to go through this process. The Fund has made many huge technology-driven decisions and this process was just a continuation of that train of thought. Using a new web-based platform the Fund was able to send out over 40 investment consultant invites, numerically grade the top 11 submittals, and narrow the search to the top 5. Those top 5 consulting firms gave presentations to the committee who then narrowed the search to the top 3 firms. On site visits were then made spanning 3 states over 4 days. It was an exhausting process but worth the effort knowing how important the role of the Fund's investment consultant. In the end, AndCo, was chosen to serve over the next 5 years as the Fund's investment consultant. The process the Board of Trustees used to hire AndCo was memorialized in the Fund's Investment Policy.

The Investment Policy now holds the due diligence process in which the Fund went through in order to hire AndCo. This due diligence has been part of the Funds tradition for over 25 years. This process has led to many long-term hires of investment managers. These managers helped the Fund achieve the number 1 ranking in the state of Texas for having the best investment returns over the last 20 years. By memorializing this process in the Investment Policy, the Board has ensured future generations of Trustees have the winning formula in performing their fiduciary responsibility to the Fund. Due diligence of potential manager hires and the Fund's current investment managers is a key ingredient to the Fund's investment success.

Proper due diligence leads to a more robust monitoring process which helps provide a level of confidence that the Board of Trustees has done everything they possibly can to ensure your money is invested wisely and in safe hands. Fund managers must give yearly Board presentations to the Board of Trustees. Quarterly report monitoring of all investment performance is reviewed by Investment Consultant, Executive Director, and Board of Trustees. The Executive Director and Trustees attend annual meetings and/or make on-site visits once every 1 to 5 years for existing managers. This due diligence program allows staff and Trustees to be engaged and familiar with all aspects of the Funds portfolio. This level of activism has always occurred and is now formalized in policy. Trustees and staff take this due diligence very seriously as part of its fiduciary responsibility.

2019 was a very good year for its investments returning over 21 percent. Making sure the Fund is maximizing it's returns but protecting them at the same time was the motto of 2019. The El Paso Firemen & Policemen's Pension Fund provides retirement security for over 4000 retired and active members. Investment returns plays a major part in the success of providing that lifelong retirement income. This is why your Board went to great lengths to ensure current and future investments are done and monitored prudently throughout the relationship. On behalf of the Fund Board of Trustees and staff, we continue to strengthen and protect your Fund in 2019 and beyond.

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Tyler Grossman
Executive Director

Sean Shelton
Chair, Board of Trustees

Greetings:

Well, the Fiscal Year 2019 (FY2019) ended on a high note, but it has been a roller-coaster ride ever since. From a financial highlights perspective, the El Paso Firemen & Policemen's Pension Fund (EPFPPF) investment return was up 21.65%, ranking in the 9th percentile of public pension funds for the fiscal year ending December 31, 2019. The assets of the Fund exceeded its liabilities by \$1,580,885,582, which resulted from an increase of \$230,928,139 in income (i.e. contributions and investment income) over expenses (i.e. benefits paid and administrative expenses). The estimation for funding status as of the end of the year was 79.7% for Fire and 80.55% for Police. This means that for every dollar of benefits due, the fund had about \$.80 of assets to cover such benefit promises. This was a much-improved position in comparison to the year ending December 31, 2018. Additionally, as is the norm, the related external independent audit resulted in a clean and unqualified opinion.

The outlook has become very volatile since the end of FY2019 primarily from the pandemic, but also due to domestic and foreign political uncertainty, unemployment and other factors. The change in the way we live, work and play has affected the various investment sectors in varying ways. When some sectors are coming out ahead, others are potentially losing ground. The global economy looks to be rebounding, however, from the shortest and deepest economic shock in history says some economists. While economists agree that markets are largely through the worst of the coronavirus-induced recession, they are still trying to determine what this recovery looks like as we move forward in the year 2020.

This is the main reason why your Board of Trustees maintains a diversified portfolio that includes public equities, bonds issued by the U.S. and foreign governments and corporations, as well as real estate, private equities and other classes of assets. Diversification involves the spreading of investments around so that exposure to any one type of asset is limited. This practice is designed to help reduce the volatility of your portfolio over time, especially in times like the present.



So, your investment portfolio is *healthy* and your Board of Trustees' and executive staff's decision-making is *effective*.

Diversification, along with other portfolio management strategies, is working. This is evidenced by the investment consultant's December 31, 2019 report, which indicates a composite fund return rate of 10.86% for 3 years, 7.99% for five years and 8.30% for 10 years. This performance is compared to the desired return over time of 7.75%. So, your investment portfolio is healthy and your Board of Trustees' and executive staff's decision-making is effective.

Overall fiscal year 2019 was a successful year. The El Paso Firemen & Policemen's Fund is in a solid position to preserve the promise of benefits for members and their beneficiaries. We cannot predict the future but management will be sticking to its current strategic momentum, and will continue to ensure financial security through sound investment decisions.

As always, thank you for allowing me to serve you. You deserve the very best because you are the very best. Stay healthy! Stay safe!

Lena H. Ellis, CPA
Chief Financial Officer



Statement of Fiduciary Net Position

For the years ended December 31, 2019 & 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 27,482,270	\$ 29,143,892
Receivables		
Employer contributions	858,424	1,486,608
Employee contributions	756,972	618,028
Other	171	171
Total receivables	<u>1,615,567</u>	<u>2,104,807</u>
Investments, At Fair Value		
Fixed income securities	371,380,361	339,404,892
Domestic equities	487,833,133	388,066,227
International equities	438,766,836	369,914,784
Private equities	170,334,171	131,805,211
Real estate	123,482,561	115,402,273
Securities lending collateral	48,907,743	58,463,819
Total investments	<u>1,640,704,805</u>	<u>1,403,057,206</u>
Property And Equipment		
Building	1,663,939	1,663,256
Furniture and fixtures	97,500	102,020
Computer equipment	61,145	49,568
Pension administration system software	887,500	843,500
Total property and equipment	2,710,084	2,658,344
Less: Accumulated depreciation	(650,865)	(494,468)
Net property and equipment	<u>2,059,219</u>	<u>2,163,876</u>
Total assets	<u>\$ 1,671,861,861</u>	<u>\$ 1,436,469,781</u>
Liabilities		
Accrued expenses and other liabilities	1,787,539	1,197,024
DROP Payable	40,225,549	26,703,286
Securities lending obligation	48,963,191	58,612,028
Total liabilities	<u>90,976,279</u>	<u>86,512,338</u>
Net Position Restricted For Pension Benefits	<u>\$ 1,580,885,582</u>	<u>\$ 1,349,957,443</u>

SOURCE:
Statement of Changes in Fiduciary Net Position for the years ended December 31, 2019 and 2018.
(Audited by the external independent auditors.)

Statement of Changes in Fiduciary Net Position

For the years ended December 31, 2019 & 2018

	2019	2018
Additions		
Contributions		
Employer	\$ 30,476,769	\$ 28,377,713
Employee	<u>25,320,935</u>	<u>22,795,823</u>
Total contributions	<u>55,797,704*</u>	<u>51,173,536*</u>
Investments Income (Loss)		
Net change in fair value of investments	254,164,333	(100,975,287)
Interest	10,860,954	9,446,937
Dividends	19,502,193	20,331,425
Securities lending income (loss)	294,853	(217,070)
Less: Investment expenses	<u>(5,847,669)</u>	<u>(5,654,884)</u>
Net investment gain (loss)	<u>278,974,664</u>	<u>(77,068,879)</u>
Total additions (deductions)	<u>334,772,368</u>	<u>(25,895,343)</u>
Deductions		
Benefits paid to participants	97,874,558	92,815,990
Refunds of employee contributions	4,129,708	2,521,075
Administrative expenses	1,681,248	1,524,330
Depreciation expense	<u>158,715</u>	<u>154,890</u>
Total deductions	<u>103,844,229</u>	<u>97,016,285</u>
Net Change	<u>230,928,139</u>	<u>(122,911,628)</u>
Net Asset Held In Trust For Pension Benefits		
Beginning of year	<u>1,349,957,443</u>	<u>1,472,869,071</u>
End of year	<u>1,580,885,582</u>	<u>\$1,349,957,443</u>



SOURCE:
Statement of Changes in Fiduciary Net Position for the years ended December 31, 2019 and 2018.
(Audited by the external independent auditors.)

Fiscal Year 2019 Financial Highlights

SOURCE (Unless otherwise indicated): Audited Financial Statements as of December 31, 2019.

The Fund's investment return was up 22%, ranking in the 9th percentile, and down 5%, ranking in the 71st percentile of public pension funds, for the years ended December 31, 2019 and 2018, respectively.

The assets of the Fund exceeded its liabilities at the close of the fiscal years 2019 and 2018 by \$1,580,885,582 and \$1,349,957,443, respectively.

The Fund's total net position decreased by \$230,928,139 and \$122,911,628 during fiscal 2019 and 2018, respectively.

Fund Finances

Fund Operations: Plan expenses for the period ending December 31, 2019 were \$103,844,229. This total includes \$1,681,248 in administrative expenses, \$158,715 in depreciation expense, \$4,129,708 in refund of employee contributions and \$97,874,558 in benefits paid to retired members and beneficiaries. A total of 3,948 fire and police personnel or their beneficiaries were participants.

For the year ended December 31, 2019 and 2018, the value of plan assets, after subtracting liabilities was \$1,580,885,582 and \$1,349,957,443, respectively. The Fund experienced an increase in its net assets totaling \$230,928,139 for fiscal year 2019 and decreased by \$122,911,628 during fiscal year 2018.

Fund Expenses

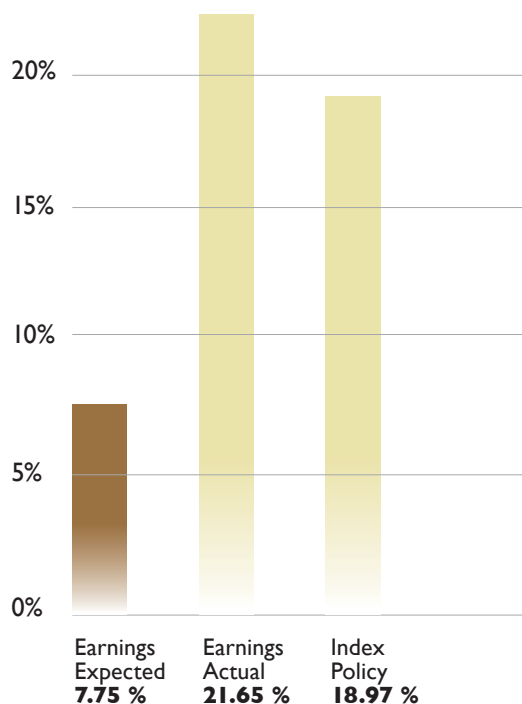
Administrative	\$	1,681,248
Refund of Contributions	\$	4,129,708
Benefits Paid	\$	97,874,558
Depreciation	\$	158,715
Total Deductions	\$	103,844,229

SOURCE: Management Discussion and Analysis.
Audited Financial Statements as of December 31, 2019

Rates of Return

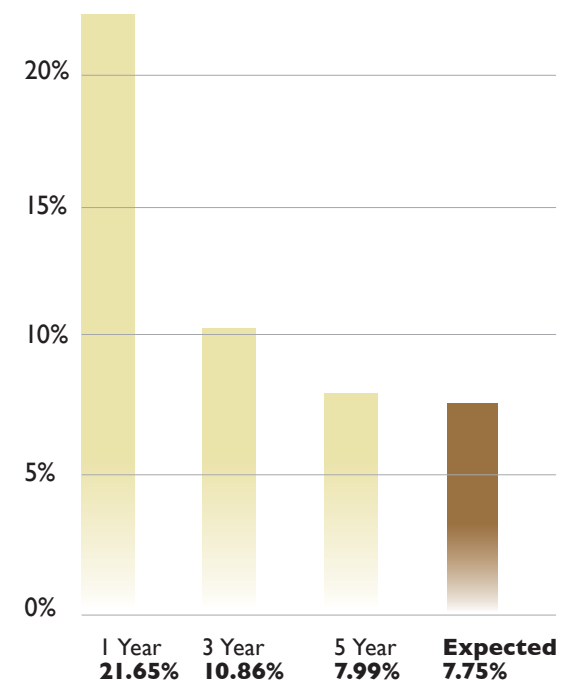
For the plan year ended December 31, 2019, the Fund's rate of return for the one year period far exceeds the assumed rate of return of 7.75%. The rate of return over the longer horizon also exceeds this expected return.

Total Fund Earnings



SOURCE: AndCo Consulting Dec. (4th Quarter) report

Rates of Return



SOURCE: AndCo Consulting Dec. (4th Quarter) report

Key Results of the Actuarial Valuation



	January 1, 2020	January 1, 2018
1. Actuarial present value of future benefits		
a. Those now receiving benefits or former members entitled to receive benefits	\$ 504,289,279	\$ 470,799,949
b. Firefighters who have entered Forward DROP ¹	\$ 100,402,916	\$ 69,254,885
c. Firefighters not in Forward DROP	\$ 298,412,221	\$ 314,296,454
d. Total	\$ 903,104,416	\$ 854,351,288
2. Actuarial present value of future normal cost contributions	\$ 98,155,276	\$ 106,785,206
3. Actuarial accrued liability (Item 1d – Item 2)	\$ 804,949,140	\$ 747,566,082
4. Actuarial value of assets	\$ 615,418,214	\$ 581,448,450
5. Unfunded actuarial accrued liability (UAAL) (Item 3 - Item 4)	\$ 189,530,926	\$ 166,117,632
6. Contributions (percent of pay)		
a. Member	18.00%	18.00%
b. City of El Paso	18.50%	18.50%
c. Total	36.50%	36.50%
7. Normal cost (percent of payroll)	19.25%	22.17%
8. Percent of payroll available to amortize the UAAL (Item 6c - Item 7)	17.25%	14.33%
9. Annualized covered payroll	\$ 67,407,294	\$ 62,646,375
10. Years to amortize the UAAL ²	26.6 years	28 years
11. Funded ratio (Item 4 ÷ Item 3) ³	76.50%	77.80%



	January 1, 2020	January 1, 2018
1. Actuarial present value of future benefits		
a. Those now receiving benefits or former members entitled to receive benefits	\$ 725,877,127	\$ 678,976,703
b. Police who have entered Forward DROP ¹	\$ 198,777,826	\$ 160,993,369
c. Police not in Forward DROP	\$ 389,840,082	\$ 386,248,291
d. Total	\$ 1,314,495,035	\$ 1,226,218,363
2. Actuarial present value of future normal cost contributions	\$ 150,059,195	\$ 148,314,120
3. Actuarial accrued liability (Item 1d – Item 2)	\$ 1,164,435,840	\$ 1,077,904,243
4. Actuarial value of assets	\$ 888,936,511	\$ 843,996,894
5. Unfunded actuarial accrued liability (UAAL) (Item 3 - Item 4)	\$ 275,499,329	\$ 233,907,349
6. Contributions (percent of pay)		
a. Member	18.00%	18.00%
b. City of El Paso	18.25%	18.25%
c. Total	36.25%	36.25%
7. Normal cost (percent of payroll)	19.04%	21.23%
8. Percent of payroll available to amortize the UAAL (Item 6c - Item 7)	17.21%	15.02%
9. Annualized covered payroll	\$ 92,308,589	\$ 82,226,724
10. Years to amortize the UAAL ²	29.9 years	30.5 years
11. Funded ratio (Item 4 ÷ Item 3) ³	76.30%	78.30%

SOURCE: Valuation Report as of January 1, 2018 and January 1, 2020

1. The Forward DROP account balances are excluded from the Fund's net assets in the audited financial report; so they are also excluded from the actuarial present value of future benefits.

2. The amortization period is actuarially determined using the normal cost of the Second-Tier Plan members for all members. (The normal cost in item 7 is the average normal cost for both the Base Plan and the Second Tier Plan members.) The determination reflects that phasing into the ultimate member contribution rate of 18%.

3. The funded ratio is not appropriate for assessing either the need for or the amount of future contributions or the adequacy of the assumed contribution rates. Using the market value of assets instead of the actuarial value of assets for Item 11 would have resulted in funded ratio of 80.5% for Fire and 80.8% for Police as of January 1, 2018 and 79.9% for Fire and 80.1% for Police as of January 1, 2020.

The best indicator of the Fund's health is Item 10.

Contributions Were Made as Follows During the Years Ended December 31, 2019 and 2018



	2019		2018	
	Amount	Stated % of Covered Payroll	Amount	Stated % of Covered Payroll
Employer contributions	\$ 12,789,438	18.50%	\$ 12,271,270	18.50%
Employee contributions	<u>11,000,590</u>	18.00%	<u>10,128,623</u>	18.00%
Total contributions	<u>\$ 23,790,028</u>	<u>36.50%</u>	<u>\$ 22,399,893</u>	<u>36.50%</u>



	2019		2018	
	Amount	Stated % of Covered Payroll	Amount	Stated % of Covered Payroll
Employer contributions	\$ 17,627,625	18.25%	\$ 16,051,567	18.25%
Employee contributions	<u>14,280,541</u>	18.00%	<u>12,630,482</u>	18.00%
Total contributions	<u>\$ 31,908,166</u>	<u>36.25%</u>	<u>\$ 28,682,049</u>	<u>36.25%</u>



	2019		2018	
	Amount	Stated % of Covered Payroll	Amount	Stated % of Covered Payroll
DIVISION COMBINED				
Employer contributions	\$ 30,417,063*	N/A	\$ 28,322,837*	N/A
Employee contributions	<u>25,281,131</u>	N/A	<u>22,759,105</u>	N/A
Total contributions	<u>\$ 55,698,194*</u>	<u>N/A</u>	<u>\$ 51,081,942</u>	<u>N/A</u>

* Difference between the "Statement of Changes in Fiduciary Net Position" and the Contributions' Schedule is the Employer and Employee Contributions for the Staff Plan.

SOURCE: Statement of Changes in Fiduciary Net Position for years ended December 31, 2019 and 2018.
(Audited by the external independent auditors.)



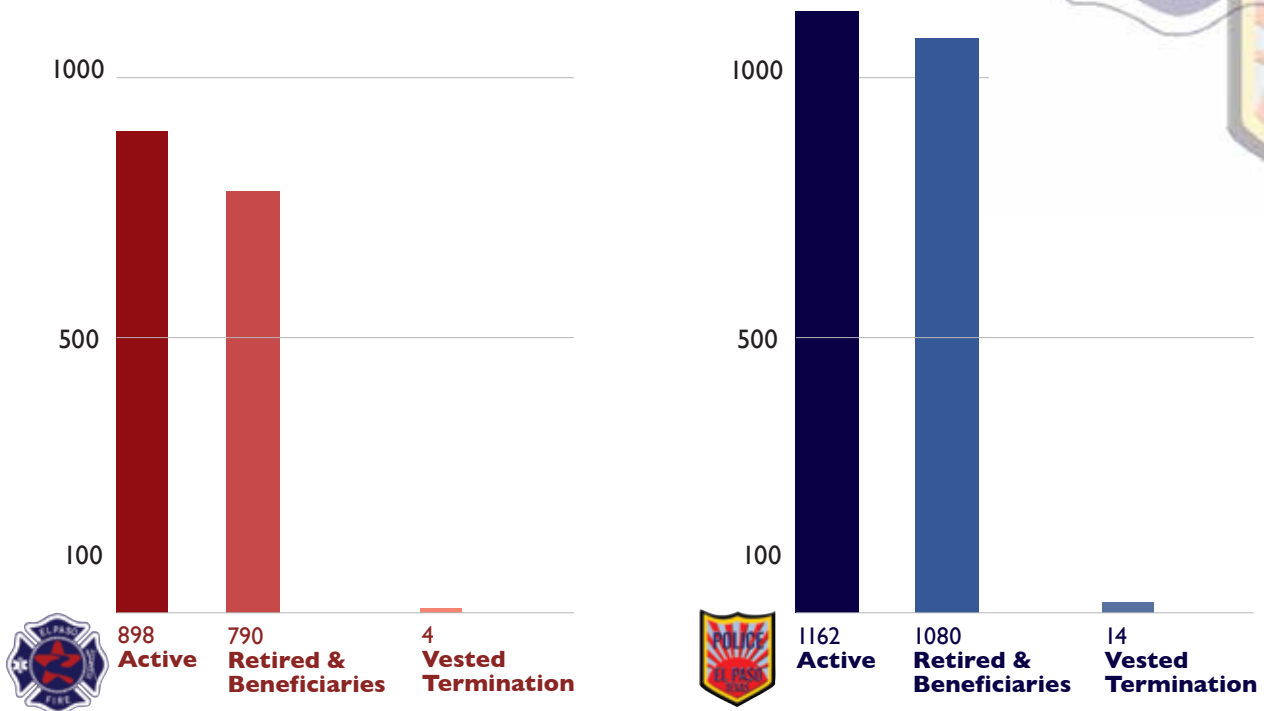
Investments

Investment Managers have discretionary investment powers within guidelines developed by the Board of Trustees. The Fund's investments are held by a custodial bank. The following represents the fair market values of the Fund's investments and the net realized appreciation in fair market value at December 31, 2019 and 2018.

Year Ending December 31	2019	2018
Fixed Income -		
Corporate, Government and		
Municipal/Provincial Bonds (Fixed Income Securities)	\$ 371,380,361	\$ 339,404,892
Domestic Equities	\$ 487,833,133	\$ 388,066,227
International Equities	\$ 438,766,836	\$ 369,914,784
Private Equities	\$ 170,334,171	\$ 131,805,211
Limited Partnerships (Real Estate)	\$ 123,482,561	\$ 115,402,273
Investments Before Securities Lending Collateral	\$ 1,591,797,062	\$ 1,344,593,387
Invested Securities Lending Collateral	48,907,743	58,463,819
Total Investments	\$ 1,640,704,805	\$ 1,403,057,206

SOURCE: Statement of Fiduciary Net Position for years ended December 31, 2019 and 2018. (Audited by the external independent auditors.)

Membership data as of December 31, 2019



SOURCE: Statement of Fiduciary Net Position for years ended December 31, 2019. (Audited by the external independent auditors.)

Management Analysis and Discussion

The Fund's analysis and discussion of the El Paso Firemen & Policemen's Pension Fund financial performance provides an overview of the Fund's financial activity and health for the year ended December 31, 2019.

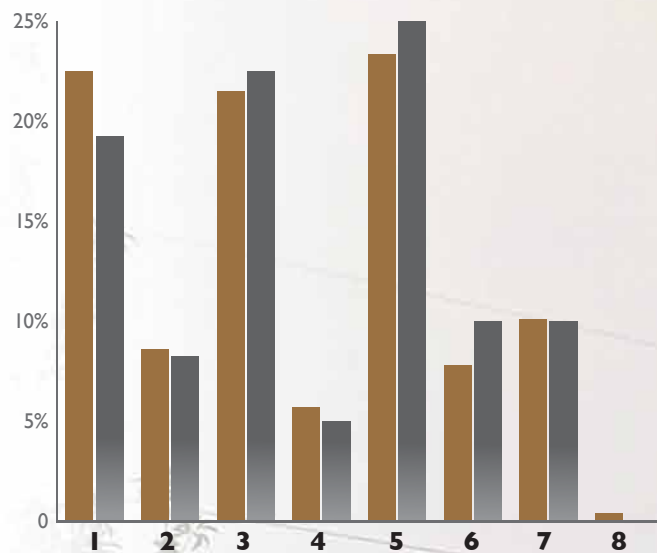
Investment Policy

The Board's Statement of Investment Policy permits the Fund to invest its assets in U.S. and non-U.S. equities, U.S. Fixed Income, Real Estate and Alternative Investments.

The Board recognizes that the asset allocation decision will be the single most important factor in determining the long-term performance of the Fund. The Board of Trustees therefore retains complete discretion with respect to the asset allocation decision. The investment mix is designed to participate in rising markets, with defensive action expected to a greater degree in declining markets.

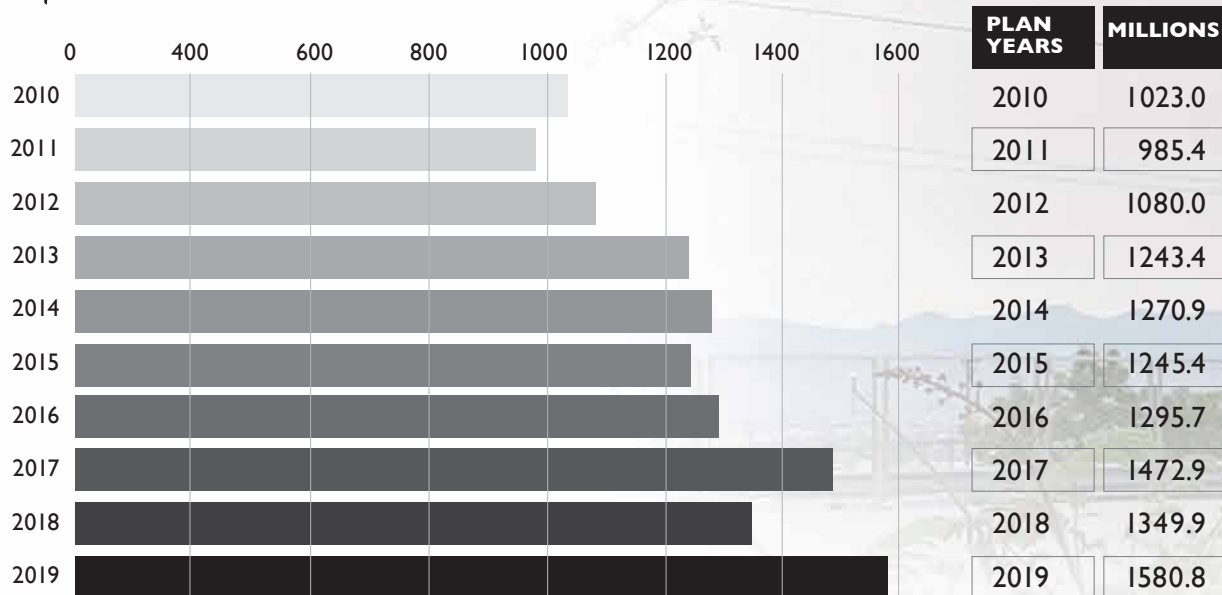
Asset Allocation

	Allocation	Target
1 Large Cap Equity	22.48 %	19.25 %
2 Small Cap Equity	8.61 %	8.25 %
3 International Equity	21.50 %	22.50 %
4 Emerging Markets Equity	5.72 %	5.00 %
5 Fixed Income	23.34 %	25.00 %
6 Real Estate	7.80 %	10.00 %
7 Private Equity	10.12 %	10.00 %
8 Cash Equivalents	0.43 %	0.00 %
	100.00 %	100.00 %



SOURCE: AndCo Consulting Dec. 2019 (4th Quarter) report

Ten Year Asset Values As of December 31, 2018



SOURCE: Audited Statement of Fiduciary. Net Position for year indicated

*P*ortfolio Advisors, Managers, and Service Providers

Investment Advisors:

AndCo Consulting
Meketa Investment Group, Inc.
Summit Strategies Group

Portfolio Managers:

Domestic Equity Funds

Brown Investment Advisory
Cooke & Bieler, L.P.
Investment Counsel (Small Cap Growth)
Cooke & Bieler, L.P.
Investment Counsel (Small Cap Value)
INTECH
William Blair & Company, LLC
(Small Cap Growth)
William Blair & Company, LLC
(Small Cap Value)

International Equity Funds

Altrinsic Global Advisor
Baillie Gifford (Growth)
Dimensional Fund Advisors, L.P.
Mondrian International Equity Fund, L.P.

Emerging Market Fund

Baillie Gifford

Fixed Income

Northern Trust Quantitative Advisors
Pacific Income Management Company
(PIMCO)
PineBridge Investments

Limited Partnerships/Private Equity

Altaris Health Partnerships
Altaris Constellation Fund IV, L.P.
American Securities Partners VI, L.P.
Audax Private Equity Fund IV, L.P.
Bernard Capital Partners Fund II
Blackstone/GSO Capital Solutions Fund, L.P.
Blackstone/GSO Capital Solutions Fund III, L.P.
Capital International Private Equity Fund VI, L.P.
Centerbridge Capital Partner II, L.P.
Centerbridge Capital Partner III, L.P.
Charlesbank Equity Fund VIII, L.P.
Charlesbank Equity Fund IX, L.P.
EnCap Energy Capital Fund VIII, L.P.
EnCap Energy Capital Fund IX, L.P.
EnCap Energy Capital Fund XI, L.P.
FS Equity Partners VIII, L.P.
Global Infrastructure Partners II-A, L.P.
Global Infrastructure Partners III, L.P.
Global Infrastructure Partners IV, L.P.
GSO Capital Solutions III, L.P.
Hancock Capital Partners V, L.P.
Hancock Capital Partners VI, L.P.
Insight Venture Partners IX, L.P.
KPS Special Situation III Supplemental, L.P.

KPS Special Situation IV, L.P.
Lexington Capital Partners VII, L.P.
Linden Capital Partners III, L.P.
Newstone Capital Partners II, L.P.
Newstone Capital Partners III, L.P.
Oaktree Opportunity Fund Xb, L.P.
Paine Schwartz Partners V, L.P.
Patria-Brazilian Private Equity Fund V, L.P.
Ridgemont Equity Partners II, L.P.
Ridgemont Equity Partners III, L.P.
Riverside Europe Fund IV, L.P.
Riverside Partners Fund V, L.P.
Riverside Micro Cap Fund III, L.P.
Sentinel Capital Partners V, L.P.
Southern Cross Latin America
Private Equity Fund V L.P.
Trilantic Capital Partners V, L.P.
Trilantic Capital Partners VI, L.P.
Vector Capital V, L.P.
Veritas Capital Fund IV, L.P.
Veritas Capital Fund V, L.P.
Veritas Capital Fund VI, L.P.
Vista Equity Partners V, L.P.
Vitruvian Investment Partners Fund III, L.P.
Waud Capital Partners QP III, L.P.
Waud Capital Partners QP IV, L.P.
Waud Capital Partners QP V, L.P.

Real Estate/Real Assets

Harvest Fund Advisors MLP
INVESCO Core Real Estate
Metropolitan Real Estate Partners Global III
Metropolitan Real Estate Partners Global V
Partners Global Real Estate 2008
Partners Global Real Estate 2011
Partners Global Real Estate 2013
Partners Global Real Estate 2017
Principal Real Estate Fund

Other Advisors/ Service Providers:

Actuarial Consultants

Rudd and Wisdom, Inc.

Custodian

The Northern Trust Company

Independent Auditor

Moss Adams, LLP

Legal Advisors

DLAPiper
Lawson Attorneys PLLC
Salena Ayoub, Esq.

Security Litigation

Cohen Milstein Sellers & Toll
Labaton Sucherow
Robbins Geller Rudman & Dowd

Legislative Consultants

Patrick B. Haggerty
Lisa Hughes

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STRONG



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